

**City Council Agenda Item #14D(1&2)
Meeting of September 12, 2011**

Brief Description: Items for the 2012 Preliminary Tax Levy:

- 1) Resolution setting preliminary 2012 tax levy
- 2) Resolution setting preliminary 2012 tax levy for the Bassett Creek Watershed Management Tax District

Recommended Action: Adopt the resolutions

State law requires cities to certify preliminary tax levies by September 15, 2011. This is the maximum amount the city can levy for 2012. Counties then report these preliminary levies to all property owners in November. When the budget is adopted in December, the final levy may be less than the preliminary amount, but cannot be greater.

The city of Minnetonka always encourages public budget input, and will hold a public hearing on Monday, December 5, 2011, during the regular city council meeting beginning at 6:30 pm in the City Hall Council Chambers. In addition, residents and businesses have an ongoing opportunity to provide feedback at the city's website: eminnetonka.com. Comments will be shared with council as budget options are considered prior to adoption of the 2012 budget on December 19, 2011.

Responsible Cost Management

The city of Minnetonka takes a responsible, long-term perspective with financial planning and management. Decisions are made with the future in mind to ensure the city's ongoing ability to provide quality services at a reasonable price.

Recognizing the implications of the "new normal," the city of Minnetonka enacted in 2009 a long-term budget strategy designed to restructure the way city services are provided. This *permanent budget restructuring continues to save over \$1 million every year*, thereby preserving the city's capacity to continue to provide the quality services our residents and businesses have come to expect, both now and well into the future.

Strategies involved new ways of doing business: cooperative service agreements with other agencies, productivity investments that help deliver core services more efficiently, and reorganizations that reposition the city to better serve its constituents. Because the city is a service business, changes were needed to permanently reduce personnel-related costs. The city's *work force was permanently reduced by six percent*, similar to nationwide contractions in the private sector. Additionally, employment contracts *limit future wage increases to one percent annually*, with an allowance for market adjustments, when warranted, to remain competitive.

State MVHC Program Changes

Recent legislative changes to the state's Market Value Homestead Credit (MVHC) program will significantly impact 2012 property tax levies throughout the state. The former system used a property tax *credit* based upon home value, and when the state refused to fund the program in selected cities for seven of the last ten years, the city of Minnetonka was required to raise taxes on all properties to make up the difference.

The new Homestead Market Value *Exclusion* program makes adjustments within the tax formulas to provide the same tax relief, and takes cities out of the middle. As a result, a one-time adjustment in Minnetonka's levy is possible, since those cities that previously lost state funding no longer need to levy to make up the state's shortage.

2012 Preliminary Property Tax Levy

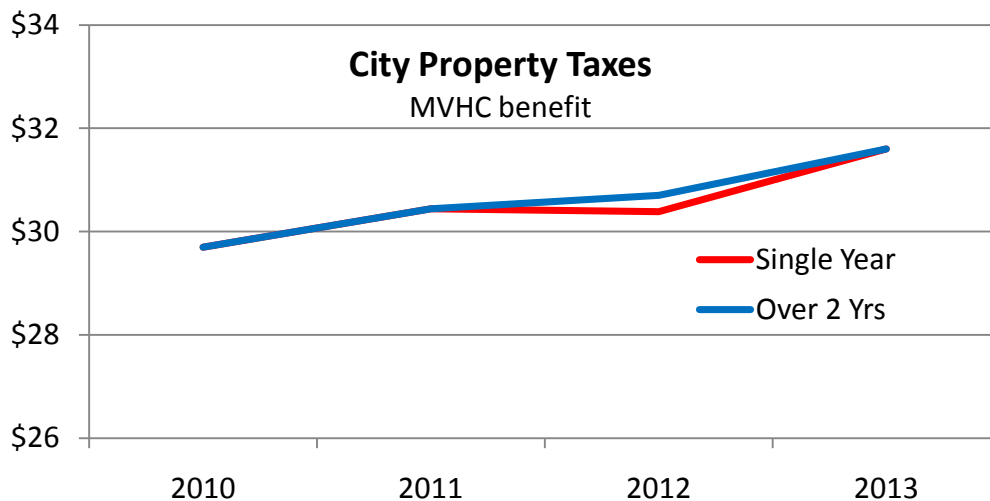
City levy. 2012 budget continues property tax levy restraint, and also reflects the first portion of the one-time MVHC adjustment. The recommended 2012 preliminary city tax levy is only 0.9 percent higher than last year:

Property Taxes (thousands)	2011	2012	Increase
Operating & Capital Levies	\$29,137	\$29,416	
Park Bond Referendum	1,129	1,134	
Total City Levy	\$30,266	\$30,550	0.9%
EDA HRA Levy	175	175	--

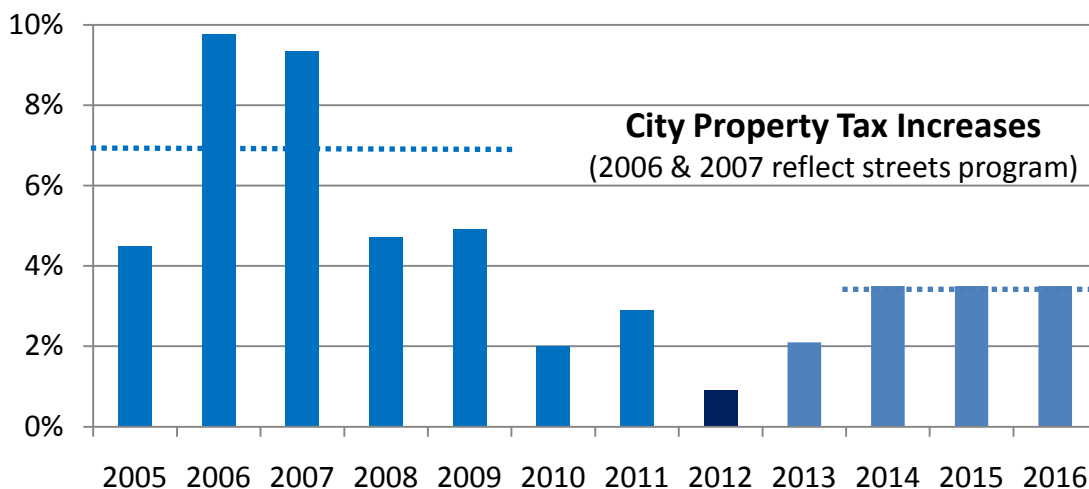
HRA levy. In other action tonight, the council will convene as the city's Economic Development Authority (EDA) to set a preliminary Housing and Redevelopment Authority (HRA) levy. The Economic Development Advisory Committee (EDAC) recommends no change in the 2012 HRA levy, which would remain at \$175,000, with \$80,000 for village center studies and \$95,000 for housing programs.

Spreading the MVHC benefit over two years. Unlike other cities that fluctuate between tax freezes/decreases, followed by catch-up increases, the city of Minnetonka has adopted an ongoing program of modest, sustainable, tax revenue growth that continues to support the provision of quality services at a reasonable price.

Consistent with this long-term management philosophy, staff recommends that the benefit to city taxpayers from the MVHC adjustment be *spread over two years*, rather than used only for 2012. This would result in a **0.9 percent levy increase for 2012, followed by a 2.1 percent increase in 2013.**

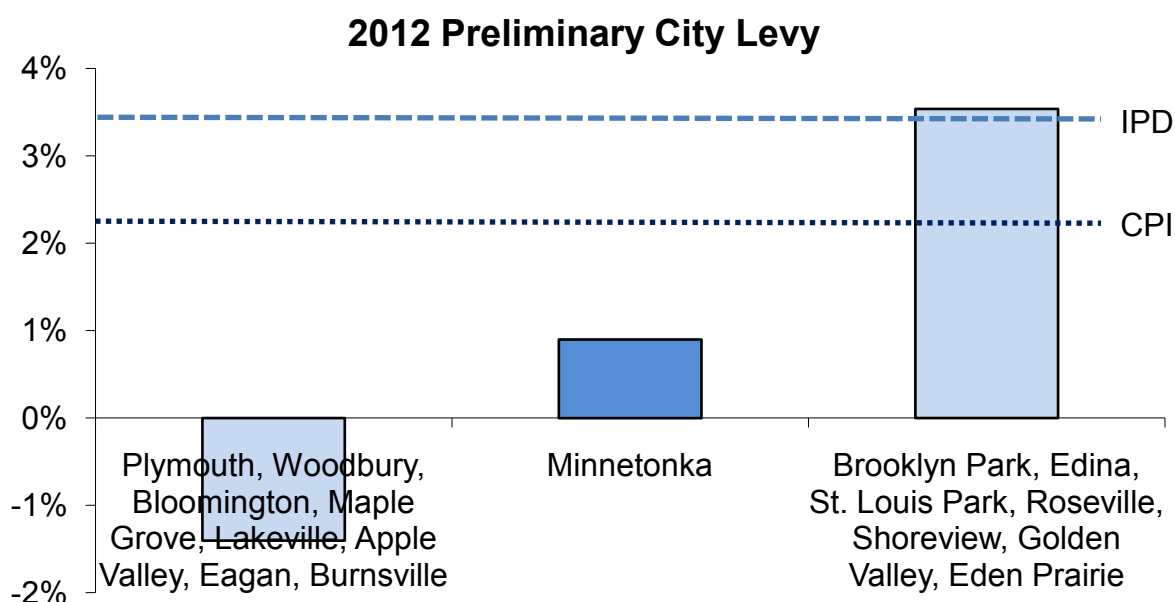


City property tax trends. The recommended 2012 tax increase of 0.9 percent is *substantially below recent years*, and by smoothing the MVHC adjustment over two years, *2013 will also remain well lower.*



Comparisons with other cities. The proposed 2012 city levy increase is *well below* the 2.2 percent Consumer Price Index (CPI) and 3.4 percent official State of Minnesota Implicit Price Deflator (IPD). The recommended levy also remains among the lower increases of comparable cities, even with the two year smoothing.

By taking this longer-term approach, Minnetonka's 2013 levy will be *significantly below* those cities that take the entire one-time savings in 2012. Additionally, unlike many other cities, no special assessments or extraordinary fee hikes are proposed to supplement this minor tax increase.



Homeowner impacts. The net effect of a 0.9 percent city tax revenue increase on individual homeowners is uncertain, since there are so many interactions within the system, including market value fluctuations, and HMVC changes that impact not only the city, but also school district and county levies.

Staff estimates that the median valued Minnetonka home (\$287,300 in 2011), which qualifies for the new MVHC exclusion program, would likely *only experience a 0.4% city tax increase*. However, homes valued higher than \$414,000 and commercial properties would likely see higher tax increases as a result of the new state MVHC formulas, especially related to school and county levy adjustments.

Summary

Responsible long-term financial planning has continued to effectively position the city of Minnetonka to accommodate the slow economic recovery, as well as federal and state political uncertainties. The major restructuring that took place in 2009 has permanently reduced the city's operating costs, and ongoing cost management continues.

Staff recommends adoption of the resolutions with a preliminary city tax levy limited to an increase of only 0.9 percent for 2012. This increase remains among the lower of comparable cities, even after smoothing the benefit of the state MVHC adjustment over two years.

As always, the city of Minnetonka will continue to provide the excellent services our residents and businesses have come to expect, and at a reasonable price, both in 2012 and well into the future.

Originated by:

John Gunyou, City Manager
Geraldyn Barone, Assistant City Manager
Merrill King, Finance Director

RESOLUTION NO. 2011-

RESOLUTION SETTING A PRELIMINARY 2011 TAX LEVY AND 2012 BUDGET

BE IT RESOLVED by the City Council of the City of Minnetonka, Minnesota, as follows:

Section 1. Background.

- 1.01. As required by state legislation under M.S. 275.065, municipalities are required to adopt a preliminary budget and tax levy by September 15, 2011.
- 1.02. The law also requires that the City Council hold a public hearing regarding its preliminary budget and tax levy in November or December.
- 1.03. The law further requires the final levy be adopted after the public hearing and the final tax levy may not exceed the preliminary tax levy.

Section 2. Findings.

- 2.01. The City Manager's preliminary 2012 budget of \$42,456,208 appears reasonable and sufficient to fund the desired general fund municipal services, general fund debt service, and capital needs.
- 2.02. A preliminary tax levy of \$30,525,480 for levy in 2011, collectible in 2012, will fund the City Manager's preliminary budget.

Section 3. Authorization.

- 3.01. The preliminary budget and tax levy is hereby approved.
- 3.02. The City Clerk is hereby directed and ordered to transmit a certified copy of this resolution to the Hennepin County Director of Property Tax and Public Records.

Adopted by the City Council of the City of Minnetonka, Minnesota, on this 12th day of September 2011.

Terry Schneider, Mayor

ATTEST:

David E. Maeda, City Clerk

ACTION ON THIS RESOLUTION:

Motion for adoption:

Seconded by:

Voted in favor of:

Voted against:

Abstained:

Absent:

Resolution adopted.

I hereby certify that the foregoing is a true and correct copy of a resolution adopted by the City Council of the City of Minnetonka, Minnesota, at a duly authorized meeting held on the 12th day of September 2011.

David E. Maeda, City Clerk

RESOLUTION NO. 2011-

**RESOLUTION SETTING A PRELIMINARY 2011 TAX LEVY FOR THE
BASSETT CREEK WATERSHED MANAGEMENT TAX DISTRICT**

BE IT RESOLVED by the City Council of the City of Minnetonka, Minnesota, as follows:

Section 1. Background.

- 1.01. Minnesota state law requires municipalities to adopt a preliminary budget and tax levy by September 15 of each year.
- 1.02. The law further requires the City Council hold a public hearing regarding its preliminary budget and tax levy in November or December.
- 1.03. The law requires a final levy be adopted after that public hearing and the final tax levy may not exceed the preliminary tax levy.

Section 2. Findings.

- 2.01. A preliminary tax levy of \$24,920 for the Bassett Creek Watershed Management District for levy in 2011, collectible in 2012, will fund the City's expenses for that tax district.

Section 3. Authorization.

- 3.01. The preliminary tax levy of \$24,920 the Bassett Creek Watershed Management District is hereby approved.
- 3.02. The City Clerk is hereby directed and ordered to transmit a certified copy of this resolution to the Hennepin County Director of Property Tax and Public Records.

Adopted by the City Council of the City of Minnetonka, Minnesota, on this 12th day of September 2011.

Terry Schneider, Mayor

ATTEST:

David E. Maeda, City Clerk

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David E. Maeda, City Clerk