City Council Meeting
APPROVED MINUTES

Study Meeting
Monday, September 08, 2014
Bloomington Civic Plaza
1800 West Old Shakopee Road
Bloomington, Minnesota 55431-3027

1	**Call to Order - 5:30 PM**	Mayor Winstead called the study meeting to order at 5:34 p.m.
2	**INTRODUCTORY**	Present: Councilmembers C. Abrams, J. Baloga, T. Busse, J. Carlson, D. Lowman, and J. Oleson.
3	**CONSENT BUSINESS**	None.
4	**PUBLIC COMMENT PERIOD**	None.
5	**HEARINGS/PUBLIC INPUT**	None.
6	**ORGANIZATIONAL BUSINESS**	

6.1 2015 Preliminary Property Tax Levy and General Fund Budget

Chief Financial Officer Lori Economy-Scholler presented a slide presentation on the 2015 Preliminary Property Tax Levy and General Fund Budget. She announced the Truth in Taxation notices will go out in November. She began her presentation by explaining the property tax burden has shifted from commercial to residential. She then asked Council to consider setting the preliminary tax levy at 3.49% (Option A), 4% (Option B), or 5% (Option C). She reminded Council the preliminary levy cannot go higher between now and final adoption in December but it can be lowered.

City Assessor Matt Gersemehl explained how the Market Value Exclusion works. He said as a residential home value increases the amount of homestead benefit decreases. As valuations increase, the share homeowners pay on actually increases a little bit based on that property tax law.

Economy-Scholler reviewed the budget and valuation impacts. She said the City levies a dollar; not a percentage. She presented the Fund 420 Strategic Priorities which were modeled using levy increases of 3.49%, 4% and 5%.

City Manager Mark Bernhardson asked the Council what items they wanted staff to drill down on – wages, benefits, materials, supplies, etc. With regard to unfilled positions, he said a certain number of them were budgeted during the downturn, which is reflected in the Estimated Unspent. He said Bloomington's cost for providing services to the median value home is at the low end in Hennepin County. He said Bloomington is one of the more cost-efficient providers of service in the County.

Winstead said when comparing residential, Bloomington is different than any other community because of the hotel tax. He said those factors need to be considered when trying to make an apples to apples comparison.

Baloga talked about the rate of inflation running at 2.1% and the proposed budget numbers Council is being asked to consider that are in excess of the rate of inflation. He requested staff to rationalize why. He was interested in looking at the General Fund Budget line item by line item. He was interested in knowing what constitutes the increase if the budget exceeds the rate of inflation by $500,000.

Bernhardson explained staff looks at operations and estimates revenue on the conservative side. If revenues are higher, there is more money for strategic priorities in future years.

Winstead asked for a definition of future growth and Bernhardson explained it's new buildings added to the community that require City services.

Baloga questioned how many miles of additional streets has the city grown, as the addition of a new building doesn't add any additional service. He was looking for an analysis to show what is driving up the levy increase; a list of 6, 10 or 20 items to explain what causes the levy to be higher than inflation.

Bernhardson said a fair levy increase for next year includes a 2.5% general salary increase and 3% for step increases.

Baloga expressed his frustration that he hasn't been able to look at the budget globally.

Bernhardson explained Council will see a line item budget for 2015 to compare to 2014. He said looking at a snapshot of the budget from year to year gives Council the ability to reduce the budget, the levy, the head count, or the Pavement Management Program (PMP). He added staff will provide Council with a breakdown by line item.

Economy-Scholler restated the revenue estimates are conservative.

Winstead said the City needs to cover the inflationary cost and asked if the things outside the inflationary numbers could be highlighted for the Council. He inquired as to what items deviate from year to year -- wages, healthcare costs, PMP, etc. He asked staff to list the things for which Council will want to levy above 2.1%.

Baloga suggested a condensed list of about 15 items should be sufficient.

Bernhardson said they will be in the range of $500,000.

Baloga said if the Council is asking its citizens to come up with more tax money in order to run the City, it needs to be able to explain why. He asked if headcounts make of two-thirds of the General Fund Budget, is there a way to cut back on middle level management while still providing the necessary services. He said with the right data, Council can determine what services it wants to decrease, have remain as is, or increase.

Winstead requested staff highlight for Council what services have increased in cost.

Busse said Council was asked in July and August what services should be decreased, maintained, or increased and to do that exercise now would be a disservice to staff.

Bernhardson said in May, staff asked the Council for guidance on setting an acceptable tax levy. He said staff then provided Council with the cost to provide many individual services and asked Council if they wanted to change the current level of service on any of them. He said Council didn't want to change anything but there was a laundry list of items they wanted to fund in future years. He said staff came back with a budget of 3.5% that would deliver services but with no additional money going towards strategic priorities. Also provided to Council at that time was a list of the primary budget drivers. He again asked the Council to set a number for the tax levy that is within their comfort zone so staff can provide all of the analysis to help Council decide if they want to cut services or not. He reminded them there would be no money going into strategic priorities. He said a half percent on the levy is equivalent to $500,000.

Winstead agreed it's prudent at times to get a little more in-depth analysis of how budget items change from an inflationary standpoint.

Baloga acknowledged the City does a great job of providing services but said the revenues reported in the financial summary through July 2014 are $36 million; a $1.6 million increase over 2013. He said the City's cost for delivering services hasn't really changed and yet the City's costs through July 2013 was $33,400,000 and through July 2014 is $33,600,000; a difference of $200,000.

Bernhardson explained the financial reports through a certain period of time are a function of when things happen. It assumes a full head count but then a certain amount of Working Capital balance is needed for the next year.

Budget Manager Cindy Rollins commented construction started late this year.

Baloga said he needs the data on the big outliers to have as a basis for this discussion.

Carlson said the 3.5%, 4% and 5% levy increases allow for full services as was provided to the Council earlier this past summer, but the 3.5% increase doesn't allocate any additional funds for strategic priorities. He said all City departments are funded based on Council's previous direction. He said that leaves finding ways to pay for some major obligations, one of which is the fire pension. He said as a result of some additional revenues coming on line in the future and some decommissioned TIF districts, for example, maybe the fire pension and others could be brought into the General Fund, which would eliminate a lot of problems regarding the future funding for strategic priorities. He said there are limited dollars to spend on some key project areas. He said with all three levy options, there will be positive funding for strategic priorities through 2018. He said there are things coming down the line that have been funded by strategic priorities but there is time to pull them out and fund them with a more realistic, sustainable funding source. He said with those left over dollars, Council could start at the top, figure out what it wants to do, and then determine an appropriate levy amount. He said if the Council agrees it wants to maintain the same level of services, this is what it has to deal with and it isn't much.

Lowman agreed with Carlson but requested a one-page summary. He also mentioned the City needs to be prepared for the Bloomington Fire Relief Association in the future.

Bernhardson said staff will bring back a breakdown on the budgets at the September 15th study meeting.

Winstead said there were items on the bottom of the table he desired go forward so wanted them funded and levied for so a 5% levy increase is not out of whack. His desire was to set the preliminary levy at 5%.

Abrams asked how often has legislative action or other market variations forced an immediate 2% uptick, as Council is seeing this year before it takes action on the levy and budget. In other words, how often is the residential property tax affected before the Council is able to act.

Bernhardson said it's the downside of the benefit the City has had the last five years of being flat. He explained because residential property values were falling in relation to the commercial/industrial properties, the City was essentially flat for five years. He said now to catch up, because values have shifted back the other way, the levy jumps up. He said that will happen for another year and then the Mall comes out of TIF so there will be a break.

Gersemehl talked about the residential market run up that occurred in the late 90s and early 2000s. He said there was a shift from commercial to residential in 2002 and 2003. The 2001 Tax Reform started the State general tax and shifted a lot of the tax base from local municipalities to the State. He reported the City lost about $30 million in tax capacity that one year. Then the residential market cooled in 2004, 2005 and 2006 at the time the commercial market started taking off. And then the downturn started in 2008. He said there was a huge shift from residential to commercial during that time period. Then came 2010 and the City lost residential value for approximately four years in a row until it started to come back in 2013. He said in that time period there was legislative action regarding the Market Value Homestead Exclusion and a credit whereby about 4.5% of the City's residential tax base was wiped away. He said that was a big shift to commercial. Now the residential market has come back to 9-10% and commercial has stalled. He said going forward, commercial might increase 5-6% and residential 6-7% to offer some stability going forward depending on what the Legislature does in 2015. He said it's a combination of market value and legislative actions that can create shifts.

Abrams said Council needs to articulate what residents are getting as a result of these significant changes in their taxes. She said it's helpful for Council to be refreshed on the savings that were realized by the City and some of the improvements that have been accomplished all while the levy has held steady. She sees the project expenditures as obligations with tails and believes they should be inserted into a larger budget that is assumed. She said if it ties Council's hands to the point it can't embark on new things, then Council has to know where those tails exist heading into the future.

Bernhardson agreed some of this was new but it was staff's attempt to educate the Council on what is involved in budgeting. He said it makes sense to work those obligations into the regular budget after 2017.

Winstead said Council needs to give staff direction on the preliminary tax levy and a budget to work from. He asked Council to determine the number at which it's willing to set the preliminary levy so that staff can try and work it down from there.

Baloga said he sees the golf budgets and the "dirty dozen" as being budget drivers. He said taking those things out of a 4.9% levy would make it flat.

Bernhardson explained those are items funded from current money in strategic priorities.

Abrams supported setting the preliminary tax levy at 5% with every hope and intention that it will be lowered by year's end.

Busse said after the last discussion on the levy, he changed his mind about a 5% levy because it didn't sit well with him. He said strategic priorities are nice to have but Bloomington's levy shouldn't be twice that of Minneapolis and St. Paul. He now advocates for a 3.49% levy increase (Option A) with direction to staff to keep squeezing it.

Carlson supported starting with a 4% levy (Option B) but said until the strategic priorities (which he sees as mostly obligations) get figured out, staff should work to get the levy below 3.49% by December.

Baloga said if Council doesn't spend those project expenditure items, it would have money at Council's discretion to use for other things including a tax reduction. He said a lot of things could be done for this community without the $800,000 golf budgets; especially when golf is diminishing. He agreed with Busse and supported a 3.49% levy increase (Option A.)

Lowman supported a 5% levy increase (Option C) to help permanently fund the fire pension.

Winstead asked staff to keep working on a 5% levy but try to clarify some things. He said Council will need to set the preliminary levy on September 22nd and it will probably be set at 4% (Option B).

7 ADJOURN Mayor Winstead adjourned the study meeting at 6:51 p.m.

Barbara Clawson
Council Secretary