CITY OF BLOOMINGTON MINNESOTA

City Council Meeting
APPROVED MINUTES

Study Meeting
Monday, August 24, 2015
Bloomington Civic Plaza
1800 West Old Shakopee Road
Bloomington, Minnesota 55431-3027

1 Call to Order - 6:00 PM

Mayor Winstead called the study meeting to order at 5:30 p.m.

Present: Councilmembers C. Abrams, J. Baloga, T. Busse, A. Carlson, J. Oleson and D. Lowman.

2 INTRODUCTORY

None.

3 CONSENT BUSINESS

None.

4 PUBLIC COMMENT PERIOD

None.

5 HEARINGS/PUBLIC INPUT

None.

6 ORGANIZATIONAL BUSINESS

6.1 2016 Preliminary Levy and General Fund Budget Discussion

Requested Action: Staff presentation. No formal action required.

Chief Financial Officer Lori Economy-Scholler and Budget Manager Cindy Rollins continued the 2016 Preliminary Levy analysis that began at the August 17, 2015, Council study session.

Economy-Scholler stated a memo was provided to the Council regarding the questions they posed at the previous study meeting. She explained the tax levy was set at 4.0% for 2015, the Conceptual 2016 levy at 6.69%, and the 2016 levy is currently proposed at 7% for the preliminary levy. The net change to the General Fund is $461,000 at this point. Staff will continue to work it down. She summarized the General Fund Budget Analysis 2015-2016 table Summary by Category. She commented staff is slowly trying to build up the reserves in the Internal Service Charges Fund. She provided the following information in response to Council's previous questions:

- What makes up the 7% increase in the General Fund Budget? Additional staff, placing the City Manager and Assistant City Manager positions strictly in the General Fund, an increase in operational costs, and Internal Service Charges to fund critical park facilities.

- 2016 Levy Options and Homeowner Impact: Median value home is at $219,700. A chart was provided showing the monthly impact to homeowners based on levy rates ranging from 4.0% to 8.0%. The levy amount that most closely aligns with last year's 4.0% is a levy rate of 6.50%. A graph was shown comparing the monthly cost of City services to the CPI increase over the same time period.

- Looking ahead to 2017 and Conceptual 2018 General Fund Budget projections, 6.50 - 7% levy range, the monthly cost would be approximately $76.00/month. In 2016, there will be a slight decrease for residential properties because the Mall of America will come off for pay 2017.
- Strategic Priorities and Positive Performance: The 2016 Budget projection anticipates $0 for Strategic Priorities and levying for Strategic Priorities in future years.
- Local Government Aid (LGA): Will not be put into Operations, as the State can take it away. The City anticipates receiving LGA in 2016 so that amount was modeled for several years.
- Strategic Priorities' Payments: Fire Pension Fund. $225,000 of loss for Hyland Greens might need to be funded out of Strategic Priorities. Approximately $500,000 has been set aside for projects in 2016. The City likes to keep a reserve of $1.5 - $2 million in Strategic Priorities each year because it serves as a savings account for the City. The Council uses this fund at its discretion for emergency services.
- Review of Median Value to Property Tax: In 2015, the median value home was $206,900, up 10% and City's property tax was up 5%; a decrease of 5%. For commercial, value was up 1% and City's property tax was up 5%; a positive change in value of 4%. The median value for 2016 is $219,700; up 6% so the City's property tax would be up about 5% or about 1% less. For commercial, if value is up 14.5%, the property tax will be up approximately 14.5%. That was modeled at a 6% levy.

Staff requested direction from Council.

Baloga asked if the proposal to add five police officers in 2016 will be paid for by the South Loop Development Fund. Staff confirmed it will. He said $1,071,850 in proposed 2016 wages and benefits minus the South Loop Development Fund (SLDF) items leaves $261,000. He said there is approximately $450,000 of the $730,156 in unaccounted increases.

Winstead explained staff is going to pay the wages and salaries out of the General Fund but some revenue will be taken from the SLDP to pay those salaries. There is still approximately a $225,000 gap in what the City is going to be paying for wages and benefits that are unaccounted for.

Baloga said $260,000 in changes has been identified but there is $730,000 in changes listed.

Finance Manager Cindy Rollins said a 2.5% wage increase would result in $700,000 in costs.

Economy-Scholler said all of the proposed changes in expenditures total $730,156; which includes all of the positions including the South Loop District position.

Baloga said staff discussed franchise fees, Pavement Management Program (PMP) right-of-way for trails, and Fire Pension reserve at the last meeting.

Verbrugge said $500,000 was modeled in 2015 for Strategic Priorities but no dollars were levied for Fire Pension, as the direction from Council was to develop a plan to ensure Fire Pension is fully accounted for on a regular basis as it's an ongoing obligation. He said the 2016 levy for Fire Pension is the first year of the plan to do that for five years and it replaces Strategic Priorities in the levy. There is the potential to reduce or eliminate the PMP funding if Council considers franchise fees. As that decision still needs to be made by Council, the funding for ROW trails remains in the levy. The tax abatement number increased and the debt service decreased from the projection. The change in the levy detail primarily is the swapping out of Fire Pension for Strategic Priorities and increases to the tax abatement in the General Fund. The biggest driver in the General Fund is the Internal Service Fund charges rather than salaries/wages and operating costs.

Economy-Scholler said the net change from Conceptual to the Preliminary levy of 7% is $461,000; the debt service went down and the tax abatement went down slightly.

Winstead said PMP funding is still in there and it should be. He said adjustments can be made after the Council decides on franchise fees. He said $225,000 might need to be funded for losses at the golf course. The right-of-way trail issue needs to be addressed and there is a cost to it. He said these are add-ons that will need to be included if Council determines they should be. He asked if Council is comfortable with the base levy.

Carlson said he's not completely comfortable with a 7% levy but doesn't know what a 6% levy would look like either. He'd like to see the 7% levy come down.

Verbrugge said the items that are new in the budget are not new initiatives. The position requested in the City Clerk's area is being driven by service demands related to data practices. The additional charge for critical park buildings is the City needs to keep delivering its services well but there is legacy infrastructure that needs attention. The critical park buildings are to do just that. That wasn't in the budget before but some of the City's assets need to be addressed quickly. The initial request has already been pared down quite a bit; only the critical items are in there. What should be done isn't. The inventory of all Park facilities was in there but it too has been dialed back to only a portion that can be accomplished in 2016. Staff is trying to focus on what absolutely needs to be done while pushing off some of the things that should be done to the next year or later. What's in the budget is essentially the maintenance of basic services and a factoring in of Council's direction to staff.

Oleson said it would be beneficial to the taxpayer if staff could pull out some of the numbers that are paid for by other sources. Only include the things that are going into the General Fund and the tax levy that aren't being paid for by other sources. He tends to look at big picture things. He said it makes sense to look at the impacts the recession had on certain City services because cutbacks were made so as not to add tax increases when the revenues were down. He said those graphs are helpful in understanding the big picture. Show the increases related to the levy that don't have other funding sources. He said the City is now doing some catch-up following the recession in addition to adding in Fire Pension. He said the City cut back on PMP during the recession but now it's playing catch-up and increasing the miles to be done. It's 71% in terms of staffing but that's the nature of service organizations.

Abrams said she is fine with the 7% levy as it's been presented and indicated her interest in continuing the discussion regarding franchise fees. She doesn't sense drama in the numbers that have been presented. She said Bloomington is still a responsibly run city and it's starting to see some payoff in some of the intangible investments; the work staff has been doing over the past few years to identify further cost savings. She said as a municipality, the City will always need to be a highly attractive employer in order to hire talented staff that looks at visionary ways to deliver services. She said there are no easy cuts to be made nor do the residents want them to be made according to the latest citizen survey. She said Bloomington is an attractive employer and the citizenry is generally happy. They want the City to invest in asphalt, which costs money.

Winstead agreed with Abrams and Oleson and said it boils down to approximately $40-$50 a year on the median value home in order to provide the things the Council is talking about providing. He's been comfortable with the 7% preliminary levy amount but still wants staff to continue sharpening their pencils. He questioned why a $1.5 - $2 million fund balance is needed annually for working capital in Strategic Priorities when Strategic Priorities is to be used for things the Council would like to see and do and should only be funded for if and when. He asked if that's an extra reserve for an organization that already has contingency funds built into the General Fund Budget that has reserves it wants to build onto. He asked staff to explain why they're looking for that kind of fund balance. He said the Strategic Priorities Fund should have a $0 balance.

Verbrugge said that is a reasonable viewpoint and said it could be retitled to an Opportunity Balance. If there's something that comes up during the year that Council determines has a higher value, it could be funded. He said while the $500,000 allocated for projects is less than the $800,000 in initiatives the Council recently discussed, most of it would be coming out of Strategic Priorities. He said staff could look at that if the Council desires to see that maintained at a lower level.

Winstead did say the way the City budgets and holds things off line for the "want" list has contributed to the City's three triple AAA bond ratings. He said another factor recognized by the bond rating agencies is the City's resiliency to do things with its tax levy, as it could be levying more. He'd like staff to figure out if these dollars are accessible to do things the Council might otherwise be leaning on the levy for if they could be worked in to mitigate some of the levy increase.

Busse said there are wants and needs with any budget. He said the City is committed to the debt service and tax abatement. He said the City has a moral obligation to fund the Fire Pension and the PMP. He said as responsible stewards, it makes more sense for the Council to pay for it now as opposed to whatever percentage in the future. He said that leaves Council with the Strategic Priorities, the recreational facilities, the aquatic facilities, the Art Center, etc. to fund. He can agree to a 7% preliminary levy but will be curious to see how residents respond to that. It's a big increase and it's justified in a lot of ways, but he'll be curious to see how it's received by the public.

Baloga said he has a lot of issues with how the potential revenue sources for PMP are displayed. He said the numbers indicate the City is going to spend $1,053,000 for street overlay, which is currently included in the levy. He said $500,000 is proposed in the levy for ROW trails. Those two items total $1.5 million and the City is proposing to collect $2.65 million in franchise fees.

Baloga said that doesn't leave a fund balance of $1,095,000. He said $1.05 million plus $2.6 million equals $4.1 million and the City is going to spend $1 million of that; not the $500,000, which is a reserve balance that can be spent in future years. He said the fund balance should be approximately $3.1 million, as the franchise fee hasn't yet been incorporated into the levy. He said the Council said the City has to increase the spending on road maintenance, which it will with the street overlay funds. He said the trails are in total disrepair and no one disagrees with that. He said with the amount in the proposed levy for ROW trails over the next ten years, only the trails that are in poor condition will be addressed. The trails in fair condition will continue to slide into the poor category.

City Engineer Shelly Pederson said on most of the ROW trails the City needs to work on, some permanent easements will be needed along with some temporary construction easements. She said ROW acquisition in the form of different types of easements will be needed. It's significant in some of the stretches. She reported there will be ROW costs on just about every project.

Baloga said the City is hoping to collect $2.6 million that isn't accounted for in the General Fund or in some other fund. He's uncomfortable moving forward with a franchise fee and not including it in the Budget. He's not seeing a levy reduction offset by franchise fees in the budget.

Economy-Scholler said this is only a model – only the $1,053,000 is currently in the tax levy. The $500,000 is not.

Verbrugge said a 7% levy will allow the City to do the street overlay PMP, but it doesn't allow levy money for the PMP for park and right-of-way trails. A different revenue source will be needed to do that.

Winstead said staff can't put forth a budget that assumes franchise fees because there is a long way to go before they're implemented. He said franchise fees are not a done deal so the $1 million of street overlay needs to be in next year's budget.

Baloga perceives there is a large level of Council support for franchise fees so believes it should be included along with the levy.

Abrams asked staff for a conservative timeline on franchise fees.

Verbrugge said staff will have to bring it to the Council by mid-November. He said staff still has some work to do with the utilities in terms of negotiating language that will take a couple of months. He believes it's optimistic and achievable.

Economy-Scholler said if franchise fees were adopted, the $1,053,000 would be put in a Capital Project Fund vs. the General Fund so it wouldn't be part of the General Fund Budget.

Busse said it's fiscally irresponsible to develop a budget on speculation with numbers this size.

Baloga wants to have the conversation that the opportunity of implementing franchise fees is out there to make an impact to the final levy in 2017. He said if the franchise fees are treated as a reserve fund to use strictly for the current year expenditures, they will have a different impact to the levy than if they were to go into the General Fund. He wants Council to have a discussion on how the franchise fees will be taken in.

Winstead said most cities that have implemented franchise fees are utilizing them for their street maintenance/construction funds.

Carlson asked where the “Estimated Unspent” is reflected.

Verbrugge said in the 2016 Request column, there is a red parenthetical number of $2.12 million, which is the offset for Estimated Unspent. He said the City builds into its appropriations a deduction for vacancies and other materials and supplies the City doesn’t end up purchasing. He said that number was bolstered over the last couple of years as a downturn strategy to try and manage through vacancy and attrition rather than through layoffs. He asked what number staff is driving to for the “Ending Fund Balance.”

Economy-Scholler said that is determined by the City Council but it’s staff’s recommendation that it be between $1.5 - $2 million. She said staff is trying to build up to having a 40% fund balance for cash flow.

Carlson said shaving off some of the ending fund balance would be one way to reduce the proposed 7% levy.

Busse recommended the Preliminary Tax Levy be set at 6.85%, assuming staff will be able to shave off another .15% from its proposed 7% to get it down there, and to continue working to get it lower than that.

Council concurred with setting the Preliminary Tax Levy at 6.85%.

7 ADJOURN

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

Barbara Clawson
Council Secretary