



4646 Dakota Street SE
Prior Lake, MN 55372

CITY COUNCIL AGENDA REPORT

MEETING DATE: SEPTEMBER 26, 2016
AGENDA # 9C
PREPARED BY: FRANK BOYLES, CITY MANAGER
DON URAM, FINANCE DIRECTOR
CATHY ERICKSON, ACCOUNTING MANAGER
PRESENTED BY: FRANK AND DON
AGENDA ITEM: CONSIDER APPROVAL OF A RESOLUTION APPROVING PROPOSED 2017 CITY BUDGETS AND CERTIFYING PRELIMINARY 2017 CITY OF PRIOR LAKE PROPERTY TAX LEVY TO SCOTT COUNTY DEPARTMENT OF TAXATION

DISCUSSION: Introduction

State statutes require that each taxing authority adopt a preliminary budget and certify a preliminary tax levy for payable 2017 to the County on or before September 30, 2016. The preliminary tax levy establishes the maximum that the City can levy against properties in 2017. The City's tax levy is used (together with the preliminary levies of other taxing entities) to assemble the parcel-specific truth in taxation notices for distribution prior to the public budget meeting in November.

At the meeting at which the City Council adopts a proposed budget and tax levy (September 26), the Council must announce the time and place of the council meeting at which the 2017 budget and levy will be discussed and which allows for citizen input.

That meeting is scheduled for November 28 at 7 p.m. in the Prior Lake City Council Chambers. This information must also be included in the meeting minutes.

History

The development of the 2017 budget began in April when Staff presented to the Council a summary of the 2015 financial results and an update on what to expect for 2017. A follow-up meeting was held in June when staff presented an overview of the preliminary 2017 budget and projected tax impacts. The overall tax levy (including the general fund) increase has been part of the Capital Improvements Program discussions that started in July. The CIP and associated plans were approved on August 22 and have been incorporated into the appropriate budgets.

The budgets have been prepared taking into consideration Council comments as well as the City Manager's direction. A budget workshop was held on August 22 to review the proposed 2017 budgets including potential new revenue sources. No budget revisions have been made since that meeting. A final budget workshop will be held on November 14. The focus

of that meeting will be on any final expenditure adjustments (i.e health care premiums) and potential new revenue sources.

Current

Overview

A budget overview has been attached to this agenda report. It reflects preliminary figures for the 2017 budget for the following funds:

- General Fund
- Debt Service Funds –includes all debt
- Cable Fund
- Capital Park Fund
- Revolving Equipment Fund
- Revolving Park Equipment Fund
- Facilities Management Fund
- Economic Development Authority
- Water Fund
- Sewer Fund
- Water Quality Fund

The second page shows tax levy and budgetary comparisons from the 2016 adopted budget to the preliminary 2017 figures.

Estimated Tax Levy

The 2017 preliminary budget presents some funding constraints due in part to prior actions to keep property tax adjustments low (despite inflationary pressures and growth of the community) up to 2014. The following chart shows the total tax levy for the period 2012 to preliminary 2017:

	2012	2013	2014	2015	2016	Prelim 2017
Total Tax Levy	\$ 9,414,124	\$ 9,414,124	\$ 9,448,918	\$ 10,394,086	\$ 11,078,361	\$ 11,646,918
Change from prior year (\$)	(700,000)	-	34,794	945,168	684,275	568,557
Change from prior year (%)	-6.92%	0.00%	0.37%	10.00%	6.58%	5.13%
CPI - U (M SP)	2.3%	1.9%	1.4%	-0.6%	1% est	1% est

Approximately 2.5% of the 6.92% reduction in 2012 was due to the legislative change from a market value homestead credit aid program to a market value exclusion program. The net change from 2011 to 2012 was (4.42%).

The following chart shows the detailed change in the property tax levy for 2017 based on the preliminary budgets presented to the Council on August 22:

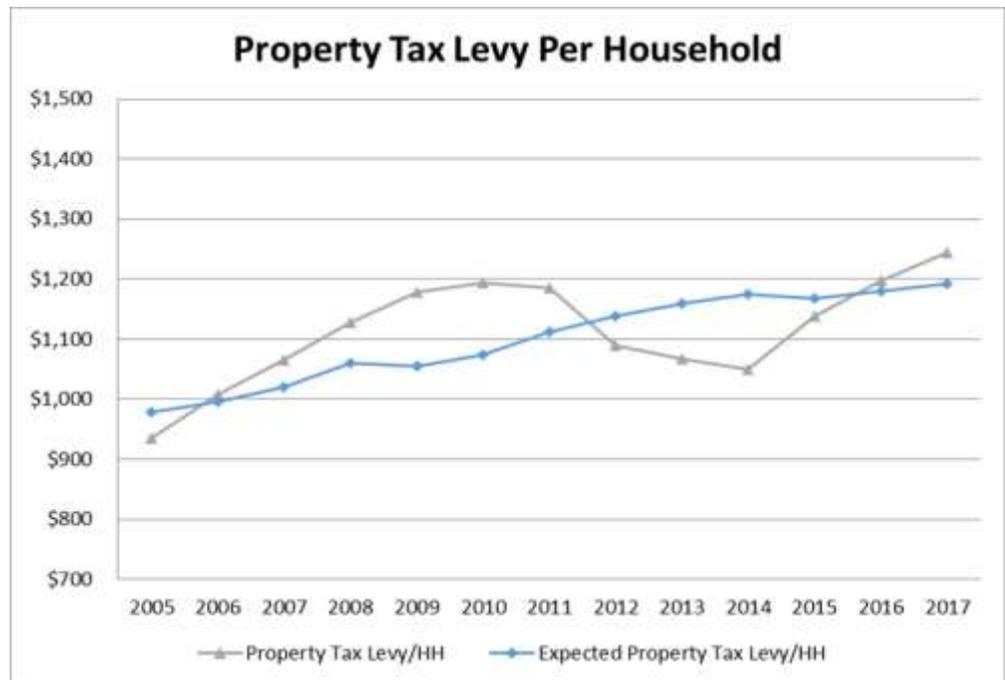
2017 Property Tax Levy Comparison

Property Taxes	2016	2017	Change 15 - 16	
			Amount	Percent
Ley - Tax Capacity				
General Fund - Operating	\$ 7,172,792	\$ 7,271,555	\$ 98,763	1.38%
Debt Service Funds	2,340,850	2,628,937	288,087	12.31%
Revolving Equipment Fund	325,000	375,000	50,000	15.38%
Revolving Park Equipment Fund	-	213,406	213,406	n/a
Facilities Management Fund	-	-	-	n/a
	\$ 9,838,642	\$ 10,488,898	\$ 650,256	6.61%
Ley - Market Value - General Fund	1,084,719	1,018,019	(66,700)	-6.15%
Ley - Economic Dev Authority	155,000	140,000	(15,000)	-9.68%
Total Levy	\$ 11,078,361	\$ 11,646,917	\$ 568,556	5.13%

Combined General Fund & Revolving Park Equipment Fund	\$ 7,172,792	\$ 7,484,961	\$ 312,169	4.35%
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One of the key metrics the City Council targets during the budget process is to “Maintain a level of property taxes on a per household basis which takes into account the cost of inflation and community growth.”

The following chart illustrates the total property tax levy on a per household basis.



As reflected in the chart, the preliminary 2017 total tax levy/household is slightly higher than the level which reflects the cost of inflation and growth.

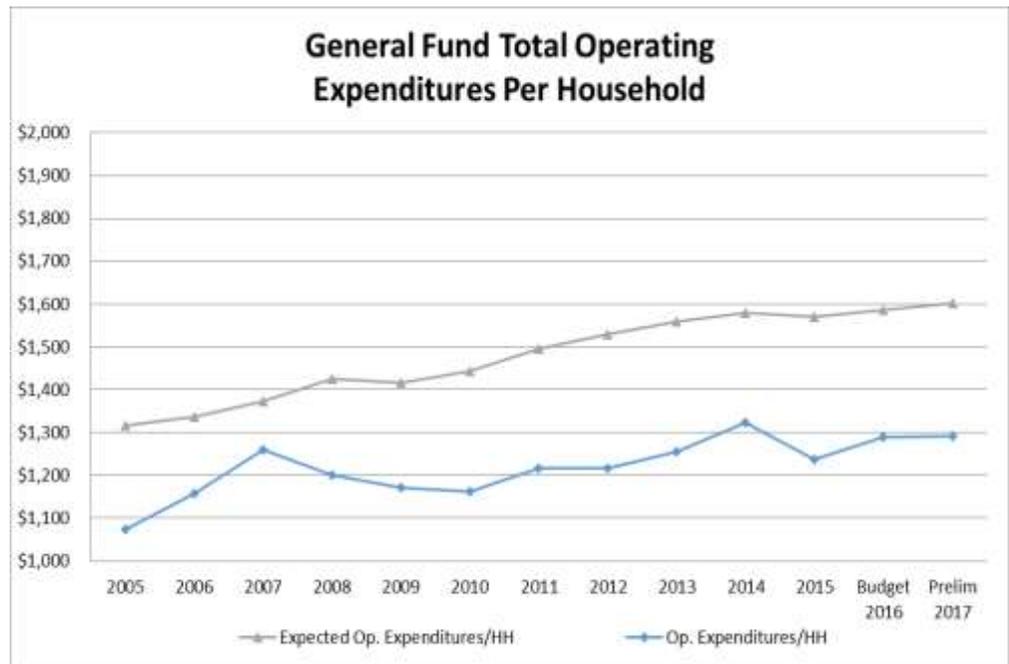
General Fund

The proposed 2017 budget is less than 1% higher than the amended 2016 budget. The majority of that increase is personnel related: wages and

benefits. The preliminary budget includes \$50,000 for a temporary contract building official to help with inspections in 2017 due to the number of projects being constructed. Funding for this position is proposed to come out of reserves. There are other small increases in operations due primarily to the increased costs of goods and services as shown below:

Expenditures			Totals
Personnel:			188,167
Wage	71,572		
Overtime	54,523		
Health Insurance	30,488		
Other (PERA, FICA, MC, etc)	31,584		
Current:			209,988
Operating Supplies	(49,304)		
Professional Services	81,749		
Maintainence Agreements	57,488		
Utilities	33,272		
Small Equipment - Technology	18,270		
Other	68,513		
Capital Outlay			(242,276)
Debt Transfers			(66,700)
Contingency			
Total			89,179

The following chart illustrates General Fund operating expenditures on a per household basis from 2005 to the preliminary 2017 budget:



Includes 2016 Amended Budget and 2017 Preliminary Budget

Another key metric the City Council targets is to “Maintain a level of General Fund operational expenditures on a per household basis which takes into account the cost of inflation and community growth.”

As reflected in the chart, the preliminary 2017 operating expenditures per household continues to be less than the level which reflects the cost of inflation and growth.

Debt Service Fund

The City Council acknowledges that the most responsible course of action with infrastructure repair, replacement and new construction is to financially plan for development and incorporate it into the Capital Improvement Program (CIP). During this year's CIP process, the Council emphasized the importance of maintaining the City's current infrastructure and directed staff to focus their efforts here rather than on "new" projects.

Even so, maintaining the City's infrastructure is expensive as evidenced by the City's approved Transportation Plan which has over \$31.9 million in projects planned over the next 5 years. Approximately half of the funding will come from a property tax levy. As a result of the City's commitment to maintain infrastructure, annual debt service costs have increased. For 2017, the overall debt service levy to pay our existing debt (including debt issued in 2016) requires a debt levy increase of 6.5%. The debt service levy is the total for debt issued in previous years as well as 2016.

Revolving Equipment Fund

The Revolving Equipment Fund is scheduled to receive a \$50,000 increase from \$325,000 to \$375,000 in 2017. Additional increases are planned in 2018 and 2019 at which point the City plans to levy annually \$600,000. This amount is necessary based upon staff's projections for the replacement and/or refurbishment of existing equipment and the purchase of new equipment. Even with this increased level of contribution, issuing some form of debt will be necessary to finance large equipment purchases (i.e. fire trucks).

Revolving Park Equipment Fund

Historically, parks capital improvements were planned and budgeted for in the Parks Department (General Fund), the Revolving Park Equipment Fund, and in the Capital Park Fund. To provide a clear distinction between operating and capital expenditures in the General Fund, the Parks plan has been updated to incorporate the capital expenditures currently in the General Fund. The associated tax levy for these expenditures will now be in Revolving Park Equipment Fund rather than the General Fund. This change has no impact on the overall tax levy. Eliminating these capital expenditures from the general fund is consistent with what was done with the Equipment Revolving Fund.

EDA

On August 15, the EDA met to discuss their proposed 2017 budget and associated tax levy. The EDA approved recommending to the City Council a 2017 budget of \$160,825 and a levy of \$140,000. As a result, the proposed EDA levy is decreasing by \$15,000. This is due to a reduction in the level of required rent subsidies payable by the City and the use of fund balance to help offset expenditures.

FINANCIAL IMPACT:

Fee Schedule Revisions

Staff is proposing a number of increases to the fees listed in the Fee Schedule plus some new fees that were discussed at the August 22 meeting. Modest fee increases are proposed for Planning and Zoning, some Park

programs and for liquor licenses. If approved, the total increased revenues would amount to about \$22,000. New fees would include a daily admission fee for parking at Sand Point Beach and a per player field use fee. The daily admission fee is projected to generate about \$11,000 and would be used to help offset the cost of our seasonal park patrol. The per player field use is projected to generate about \$58,400 and would cover about 30% of our field maintenance costs. Another fee that has been discussed is the opportunity for seasonal boat slip rentals at Sand Point and at Watzl's beach. Each location has 17 slips. If we rented 4 slips at each location, 13 slips would remain for daily use. Assuming we charge the same as private companies on the lake (\$3,500 per season), projected annual gross revenue is \$28,000.

Other fee revisions of 10% are included for trunk and connection charges for a second year to make up for increased inflationary costs which have not been reflected in our development fees. These fees are commonly adjusted on an annual basis.

A detailed revenue analysis and staff recommendation will be presented to the Council at a workshop on November 12.

ISSUES:

Service Delivery Challenges

Staff has had ongoing discussions about service delivery challenges. These challenges are triggered by:

- City growth (i.e. increased street miles, parks, utility customers, etc.),
- Level of activity (i.e. building permits, plats, projects, etc.); or
- Other factors such as vacancies from employee illness, accidents, or turnover.

Staff prepared a Personnel Plan that was presented to the Council at a work session in April. The intent of the plan was to address these triggering events mentioned above as well as succession planning. Council input from the meeting is being addressed in a plan amendment which will be brought back for further discussion at a later date.

With the exception of a contract building inspector, the 2017 proposed budget does not include any additional staff positions. Adding this temporary position is in response to the 168 unit Grainwood project presently under construction, the 58,000 square foot Versatile Vehicle Building, coupled with single family building permits which are generally the same volume as last year and an anticipated building inspector retirement in April 2017. Funding will come out of 2017 fund balance from un-programmed building permit revenue (fund balance) received in 2016.

ALTERNATIVES:

1. Approve resolution adopting preliminary budgets and setting maximum levies as set forth in the resolution.
2. Approve the resolution modified to delete certain expenditures and the programs they support.
3. Take no action and establish last year's levy as this year's maximum.

RECOMMENDED MOTION:

Alternative #1