

Executive summary

Title: 2020 budget

Recommended action: No formal action required. This item is intended to be a check-in/follow-up to the May 13 budget discussion.

Policy consideration:

- Based on the May 13 budget discussion, can staff still assume the council is willing to consider setting a preliminary property tax levy increase in the range of 4 to 6 percent due to various factors anticipated to impact the city's budget in 2020? (These factors relate to staffing costs associated with program support items noted in this report, growth in the demand for services, and debt service, among other items)
- Does the 2020 budget process and timeline and direction meet council expectations?
- Is there other information that council would like to review during the upcoming process including any other service delivery change considerations?

Summary: Staff is actively working on preparing budget recommendations for 2020. As listed above, staff would like the council to reaffirm the levy considerations and any major changes, programs, or policy considerations that should be deliberated as part of preparing the 2020 budget.

Financial or budget considerations: Details regarding financials are provided in this report.

Strategic priority consideration: All areas of the adopted strategic priorities are impacted by the city's budget.

Supporting documents: Discussion

Prepared by: Tim Simon, Chief Financial Officer

Reviewed by: Nancy Deno, Deputy City Manager/HR Director

Approved by: Tom Harmening, City Manager

Discussion

Background: The purpose of the discussion is to make sure staff and council have a plan in place based on our budget discussion on May 13, 2019 and the “systems thinking” approach. Staff is planning to continue to use the newly adopted strategic priorities as well as vision and the key organizational cultural behaviors of *collaboration*, *quality* and *responsiveness* when developing the budget. This study session discussion is intended to be at the higher level and, based on the direction provided, will allow staff to then prepare more detailed budgetary information for council which will assist in setting property tax levies, fees and utility rates for 2020.

2020 budget preparation: City staff is currently preparing the operating and capital budgets for 2020 and beyond. In upcoming sessions, the city council will be provided with more detail on budget recommendations, with time allowed for review of materials and questions. Directors or their designees will also be present for questions or sharing information as needed or requested. All budgets, capital improvement plan (CIP), long range financial management plan (LRFMP), debt model, fee schedules, utility rates and relevant information will be included in future materials.

Budget Communication: Staff plans to repeat many of the same outreach steps that were taken for the 2019 budget, including;

- Park Perspective, the city’s quarterly newsletter, will include a variety of articles about the 2020 budget. An example from the February 2019 Park Perspective is at <https://www.stlouispark.org/home/showdocument?id=13054>
- Various social media posts (Facebook, Twitter, Nextdoor) on budget related matters including a Facebook Live presentation this fall.
- All budget materials and staff reports are posted and additional materials if presented at a meeting are also posted shortly after meeting to allow residents to follow the budget process. <https://www.stlouispark.org/government/departments-divisions/finance/city-budget>
- A budget email address: budget@stlouispark.org is monitored year round for questions, and responses can be sent or data gathered and can be shared.

New this year, the following communication tools will also be available:

- A financial transparency tool so interested parties can review and look at financial and budget data. We plan to start with the General fund and work our way to the enterprise funds as time allows. You can see an example of this tool at: www.cleargov.com
- We are also researching relevant content for a short video to produce on the budget/tax process. Our goal is to have this done before the TNT hearing.
- This fall for the TNT notices we plan to put an insert in the mailing with some interesting facts to learn about the proposed 2020 budget for our city in an appealing and easy-to-understand format.

Legislative directives:

- There are no levy limits in place for 2020.
- Local Government Aid has not been certified yet, but early Minnesota House Research estimates show St. Louis Park will receive \$267,271 in 2020, which is same as 2019. These dollars go into the Capital Replacement Fund and not the General Fund budget. As you may recall, just two years ago we received \$566,591.

Staffing costs/wages: Being an organization that delivers services, programs and projects etc., funds for staffing are the largest expenditure of the City's operating budget. In building the 2020 budget recommendations, a wage adjustment of 3% is being used as an assumption. Contracts for Local 49ers and sergeants are settled through December 31, 2020 (3% basic adjustment for 2019-20). In the fall of this year we will start negotiations with police, fire, and dispatch for their contracts that open year end.

PERA coordinated plan: Employee contribution of 6.50% of salary and employer contribution of 7.50% of salary in 2019 will remain the same at this point in 2020.

PERA police and fire: Employee contribution of 11.3% and employer contribution of 16.95% in 2019 will increase to 11.8% employee contribution and 17.70% employer contribution in 2020.

Benefits: For 2019, we solicited bids for health insurance as required by state statute and received a very favorable bid from our current health insurance provider (HealthPartners) for an aggregate decrease in premiums of 5%. This resulted in a lower employer contribution in 2019 based on the funding philosophy. We were also pleased to receive a rate guarantee for 2020 and 2021 not to exceed a 9% increase in premiums each year. This 3 year contract provides stability in rates and gives the city the ability to plan and budget for future years with more accuracy. With this, we have active claims experience and anticipate a 9% increase for 2020. We will need to obtain a bid for dental as we are finishing the second year of our two year contract, and recommend to continue keep the same amount for those that qualify for the wellness benefit at \$40 per employee per month (same level since 2014). These estimates are incorporated into the 2020 budget.

Operational costs: Staff is being asked to look at how operational costs have been changing and take into consideration market conditions, as well as planning ahead for operational needs. The focus areas relate to the strategic priorities and include, but are not limited to: environment, climate action plan work, rank choice voting, race equity and inclusion, trails and sidewalks, housing and business programs, transportation, ongoing redevelopment. Support and outreach activities continue in public safety, fire prevention, neighborhoods and housing. Energy costs will continue to be monitored closely given the potential for volatility in this sector of the economy and also monitoring use as we continue to incorporate improvements in energy saving in our operations.

Program support:

SWLRT: Staff resources have been reallocated to meet increased demand for work and planning related to SWLRT. Community development along with engineering are closely working with other agencies and will incorporate changes as needed. Increases in consultant

costs from SWLRT have been and will continue to be paid from the Development Fund when appropriate.

Vision/comprehensive plan update/strategic priorities: The vision process and comprehensive plan were completed in 2018 and work continues to align these plans with our strategic priorities. Work to support strategic priorities are part of the budget analysis and planning and is being conducted by departments for 2020 funding recommendations.

Race equity and inclusion: We have learned through last year's baseline data and measures our biggest area of growth for racial equity and inclusion within the city is our personnel profile. Our 2020 year will be spent on recruiting, hiring and retaining staff of color, especially within leadership rolls and this includes representation on boards and commissions and other groups. We will continue working on normalizing the conversation of race, especially within areas where the conversation is not at the forefront. Expansion in the area of outreach will continue happening with connections within departments and with historically underrepresented communities. Research and strategic planning will focus on how to best engage youth within our city in order to create a sustainable model of engagement. Continued planning and working with other agencies will happen as well as further work on action plans with staff and council to make this part of the fabric of what we do in our city.

Elections: In 2020 we will be responsible for administering three separate election cycles, including the brand new statewide Presidential Nomination Primary. Each cycle will require administration of absentee voting for 46 days, recruitment and training of election judges, programming and deployment of equipment, preparation of supplies and precinct materials, ballot design, and extensive voter outreach and education. Voters in St. Louis Park will need to be educated on the technical details and timing of the Presidential Nomination Primary system, why and how the Primary in March is different than the Primary in August, and the switch back to plurality voting from the most recent ranked-choice election. The November, 2020 election will likely see a historic number of people registering to vote, voting early at city hall and at the polls on Election Day. Additional temporary staff and election judges will be needed to adequately meet the needs of voters in St. Louis Park, maintain expected service levels, and address areas of need to increase voter engagement amongst traditionally underrepresented populations in the community. In addition to running three election cycles, staff will concurrently be reviewing and evaluating the 2019 ranked-choice election to address any potential changes or updates that may be needed to the system prior to 2021 and preparing for the city to go through the 2021 redistricting cycle. The redistricting process in particular will need to have an extensive public engagement and outreach process as we consider potential changes to precinct boundaries and polling places to ensure that we are adapting to the changing demographics and voter needs in St. Louis Park.

Environment/climate action plan (CAP): Based on recent council discussions, some organizational changes are being made to provide more focus, resources and connections in this area. Issues revolving around sustainability and the environment are of extreme importance to our community and a very high priority of the city council. The city's Climate Action Plan (CAP), adopted by the city council over a year ago, is a very strong reflection of that.

This plan has extremely ambitious goals, most notably that the community as a whole will achieve carbon neutrality by the year 2040.

In order to move ahead with support and programs in this area that helps meet council expectations, we will be creating a *Division of Sustainability* and its activities will move from Administration and become part of the Inspections Department. You may ask - why Inspections?

- The CAP focus is on energy usage and related greenhouse gas emissions and some of the largest contributors are structures in the community (residential, commercial, and industrial). The Inspections Department has connections with all types of properties in the community and their expertise can be utilized to support CAP programs, incentives and activities.
- Inspections staff are well versed in energy efficient design and construction systems, and meet with designers and contractors early in the construction process.
- Synergy of services can be achieved by weaving CAP goals into the fabric of the current programs and services of the department. For example, our current business licensing program can be expanded as new programs, such as energy benchmarking, are considered.
- Facilities is located in Inspections and can provide support and initiatives that fit with CAP and the city's buildings and facilities.
- Along with Inspections, there are many connections that Community Development has when dealing with economic development and business support. The synergies that can be made between the two departments will continue to help support the CAP initiatives and the goal of carbon neutrality by 2040.

As we did in growing and supporting other important council priorities such as race equity and inclusion, curbside organics, ranked choice voting, etc., more resources will be needed to develop and support this initiative. Along with the existing Environment and Sustainability Coordinator we are recommending two additional positions: Sustainability Manager to lead the division and Sustainability Specialist to focus on outreach and education. We are also looking at changing the name of the Inspections Dept. to align it more closely with the services it provides. Changes are already taking place, funding is under research to continue to move ahead in 2019 and 2020. Given the magnitude of this undertaking long term, consideration should be given to creating a dedicated funding source.

Utility funds: All utility funds will be presented during the budget process as in previous years. In 2018, we did a rate study and came away with a number of goals:

- Assuring our rates are promoting water conservation in alignment with our climate action plan.
- Assuring adequate revenue to pay capital needs for our infrastructure.
- Fairness/Equity (are certain users paying more or less than they should).
- Fixed costs are covered by the base fee.
- Try to build upon and achieve "pay as you throw"
- Encourage less water and more recycling.
- Assure operations and capital are funded short and long term.

We are in the first part of the implementation and will review in greater detail in August on any recommended changes/adjustments.

Franchise fees: In 2019, council increased the franchise fee for all the related pavement management infrastructure in the 10 year capital improvement plan. We typically have only changed the amount every two year so in 2020 the amounts are anticipated to remain the same with a 2021 possible adjustment. The current monthly amount is \$5.50 per utility (Gas and Electric).

Fees, charges and other revenues: Staff will continue to review current fee data based on cost analyses and other communities before making recommendations for the 2020 fee schedules.

LRFMP (long range financial management plan): This document will be presented at future meetings with council to assist in setting property tax levies, debt management, fees, utility rates and budgets.

CIP (capital improvement plan): Staff has completed the first round work on the CIP (2020-2029). This information has been programmed into the LRFMP and finance is analyzing the results in an effort to create long-term sustainability in funds and also looking at where changes in funding or expenditures/expenses need to occur for the city council and city manager to consider. The council will see a draft of the plan in August and again in the fall.

Trends in valuations and possible property tax implications:

For the 2019 assessment, St. Louis Park's taxable market value increased by 8.5% with all of the dominant property types increasing in value. Composition of the change is summarized as +7.4% for single-family homes, +6.5% for condos, +9.5% for townhomes, +11.4% for apartments, and the commercial-industrial sectors at +9.5%. As can be surmised by the above figures, there will be a slight shift of the property tax burden to commercial, condos, and apartment properties for the payable 2020 tax period. This shift will be mitigated somewhat when considering all taxing jurisdictions that make up the typical property tax bill. The board of equalization was held in April 2019 which is where values are discussed and considered.

City property tax levy: As a point of reference, the city's 10 year average property tax levy increase is 4.57%. As the year progresses, and more firm information becomes available, staff will bring property tax levy recommendations and the potential impact on property owners for council to consider. Before this occurs though, and in preparation to bring budget and property tax levy recommendations to the council, staff would like to have council consider the following question:

- At the May budget meeting staff heard that a majority of the council would be willing to consider a budget and related property tax levy increase in the range of 4 to 6 percent due to various factors anticipated to impact the city's budget in 2020. These factors relate to staffing costs associated with program support items noted in this report, growth in the demand for services, and debt service, among other items. Can staff still assume the council is willing to consider setting a preliminary property tax levy increase in the range of 4 to 6 percent?

HRA property tax levy: Based on current and future infrastructure needs, the HRA levy is recommended to be set at the maximum allowed of 0.0185% of estimated market value, which

is consistent with previous years. This levy has been committed to pay back a loan from the development fund that helped cash flow the city's obligation for Highway 7 and Louisiana Avenue and is expected to be paid off in 2019. A future policy discussion regarding the use of the levy will be presented at the August budget study session.

City and HRA tax levies: The council and EDA will meet to adopt preliminary 2019 levies on September 16. After adoption of the preliminary property tax levies, the levies may be reduced, but not increased. The preliminary property tax levies that are adopted will then be used to determine the preliminary property taxes on the statements that Hennepin County mails out in November to all property owners.

Next steps: The following preliminary timeline has been developed for council:

July 22	Review and discussion of 2020 budget. Also added to this discussion based on council request is an overview of Police and Fire operations. (Also note, a follow up on Connect the Park initiative will be added as a discussion item by Engineering in the future.)
August 12	Review and discussion of 2020 budget and draft 2020-2029 CIP. Department Directors or their designees will also be in attendance.
September 3 (Tues)	High level 2020 Budget, CIP, fees, utility rates discussion. This meeting will be more of a proposed preliminary levy discussion with direction provided to staff to prepare information for the September 16 th meeting adopting preliminary levies.
September 16	Council establishes 2019 preliminary property tax levy and HRA levy. (Levies can be reduced, but not increased for final property tax levies.)
October 7	Review and discussion of 2020 budget, CIP, utility rates and LRFMP. Directors or their designees in attendance as needed.
October 21	Public Hearing - 1 st Reading of Fees, and adoption of 2020 Utility Rates
November 4	(If necessary) Budget and CIP discussion prior to Truth in Taxation Public Hearing and budget presentation. 2 nd Reading of Fee on Consent.
November	Live Facebook chat on 2020 budget and CIP.
December 2	Truth in Taxation Public Hearing and budget presentation
December 16	Council adopts 2019 Revised Budget, 2020 Budgets, final tax levies (City and HRA), and 2020 - 2029 CIP.