

PLEASE NOTE START TIME

AGENDA
MAPLEWOOD CITY COUNCIL
MANAGER WORKSHOP
6:00 P.M. Monday, August 11, 2014
City Hall, Council Chambers

A. CALL TO ORDER

B. ROLL CALL

C. APPROVAL OF AGENDA

D. UNFINISHED BUSINESS
None

E. NEW BUSINESS
1. 2015 Budget Preview

F. ADJOURNMENT

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MEMORANDUM

TO: City Council

FROM: Melinda Coleman, Interim City Manager
Gayle Bauman, Finance Director

DATE: August 6, 2014

SUBJECT: 2015 Budget Preview

Introduction

The maximum tax levy for 2015 needs to be adopted and filed with the County by the end of September 2014. The City Manager, Finance staff, and department heads have been actively engaged in planning and preparing the 2015 budget, which funds all City operations and functions. Like most units of local government, Maplewood is facing very challenging budget circumstances. Some may wonder why budgets would be tight now given the generally positive economic recovery overall. Maplewood, like many largely developed communities, faces some unique circumstances. Maplewood has very few areas within its boundaries that offer tax generating development opportunities. In fact, the City's emphasis on economic development is really an effort at redevelopment.

The City's Budget

The budget is composed of a number of different funds, the largest of which is the General Fund. The General Fund is the primary operating fund of the City and includes services such as police, fire, public works, parks maintenance, community development, citizen services and administration. The overall budget for the City of Maplewood's General Fund in 2014 is \$18.6 million dollars. Between 2009 and 2014, the City's General Fund budget went from \$16.9 million in 2009 to \$18.6 million in 2014, an increase of \$1.7 million dollars. The biggest growth in expenditures during this period came from personnel costs (\$1.3 million dollars). There are essentially two sources of revenue that fund the General Fund budget – the property tax levy and revenues from other sources, such as fees, licenses, permits, fines, charges for services, etc.

Trend Data – revenue from sources other than property taxes

A review of some basic economic trend data demonstrates the impact of stagnant or little growth in city revenue. The following represents a snap shot of City revenues OTHER THAN property taxes (fees, licenses, permits, fines, charges for services, etc.):

2009 - \$5.8 million
2010 - \$5.9 million
2011 - \$6.2 million
2012 - \$6.4 million
2013 - \$6.4 million
2014 - \$6.0 million (Budgeted)

2015 - \$5.8 million (Projected)

As you can see, revenues generated for sources other than the City's property tax levy are generally flat. It can be quickly realized from this trend data that non-tax revenues from other sources are not increasing commensurate with increases in City expenditures. This shows that our General Fund is reliant on property tax increases to fund any growth in the operating budget which limits the amount of tax revenue available for debt and capital projects.

Bonding Debt

As part of the City's effort toward redevelopment and the desire to maintain infrastructure, such as roads, and sewer systems, Maplewood invested heavily in bonded improvement projects over the past 7 years. This was a strategic decision to buy needed infrastructure improvements during a time of economic downturn, when the City could benefit from getting more for the investment because of the competitive environment in construction.

In addition, because Maplewood has an excellent bond rating, the City has been able to borrow money at very favorable interest rates. At present, Maplewood has bonded debt of slightly more than \$80 million, an increase of about \$20 million since 2006. A current priority is the reduction of debt over the next 5 years, but in the meantime, the annual property tax levy needed to pay annual debt service costs has increased from \$3.1 million in 2007 to \$4.6 million in 2014.

Tax Levy

The property tax levy for the City has increased by \$3.0 million since 2007, from \$15.5 million in 2007 to \$18.5 million in 2014. This is a 19.2% increase over 7 years or about 2.7% per year. Half of that increase has been dedicated to debt service costs while only \$1.0 million has been applied to General Fund operations. Tax levy increases have not been able to keep up with the growth in operational costs due to the need for infrastructure improvements and redevelopment. Based on requests made during the preparation of our Capital Improvement Plan, we continue to have a need for capital projects such as street improvements, parks, redevelopment and investment in city facilities.

Fund Balance/Reserves

In keeping with City Council established priorities, Maplewood has a healthy fund balance of 40% or approximately \$7.5 million. This level of a fund balance is crucial to the economic health and viability of local units of government. A City's bond rating is, in part, based on the fund balance or reserves. The fund balance also helps a City manage cash flow and emergency needs.

Budget Planning

Based on the above data, Department Heads, along with the City Manager and Finance Director have been focused on the following:

- The need to control and/or reduce costs
- Assessment and consideration of new sources of revenue
- Review of all existing City services for possible service delivery changes
- Analysis of inter-departmental and inter-governmental service and/or resource sharing
- Identification of critical needs in City-owned buildings and facilities

The City Manager has directed Department Heads to prepare and refine both operational and capital budgets in a balanced manner using the philosophy of:

1. Responsible stewardship of the public's resources
2. Providing services and programs that will reflect a commitment to excellence; and
3. Recognizing and valuing the high quality of service and innovation of city employees through fair and equitable compensation.

Department Heads are looking at methods of addressing structural budget challenges in a way that is sustainable and makes increases in the City property tax levy based upon need and responsible decision-making.

The tax levy increase needed to fund initial departmental requests was between 9%-10%. Staff is still actively engaged in the budget planning process and has already agreed on some reductions in operating expenditures, changes to capital requests, and further deferment of building maintenance issues. As we continue to look for program efficiencies prior to the adoption of the final budget in December, input is needed on what the ultimate objective of the council is. Do we fund based on business case or set the lowest possible levy with the potential need for significant cuts in services?

Governmental units of all sizes and circumstances face serious challenges, but for largely developed and established communities like Maplewood, the challenges are somewhat unique. Maplewood is in a solid economic position overall, but to ensure the future will require bold leadership to face the on-going challenges. We believe innovation presents opportunity.

Recommendation

It is recommended that the City Council support and direct that City staff at every level become engaged in an effort to make the City of Maplewood a local and regional center for innovation in government service delivery and effective stewardship of public resources.

It is further recommended that the City Council direct the establishment of a series of mechanisms and opportunities for members of the public with questions about the City's budget and/or services to get questions answered or provide input, feedback, or suggestions. Information received from Maplewood residents, business owners, and staff shall be summarized and provided to the Council for the purposes of guiding and informing the City's budget development now and into the immediate future.

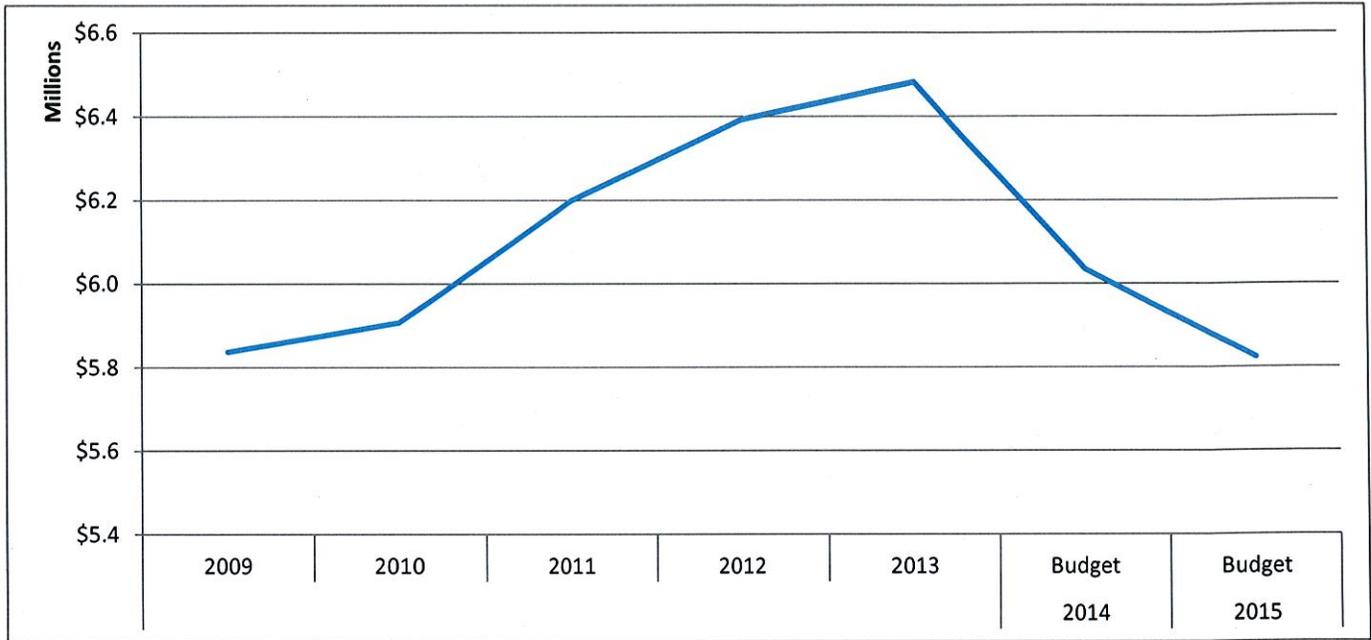
To that end, the new email address budget.ideas@ci.maplewood.mn.us is now available and will be regularly monitored.

Finally, staff seeks Council guidance around priorities and considerations for the "maximum tax levy" for 2015. In full recognition of the range of implications, department heads will continue final preparation of a "maximum levy" recommendation based on the framework or guidance as provided by the Council. With some budget cuts and deferrals already identified, the final staff recommendation will be based upon feedback from the Council. Staff will continue to work with Council to present a "maximum levy" recommendation and implications assessment for your consideration and adoption on September 22, 2014.

2015 Budget Preview

- Introduction
- The City Budget Overview
- Trend Data
- Bonding Debt
- Tax Levy
- Budget Planning
- Balanced Approach
- Steps in this Process

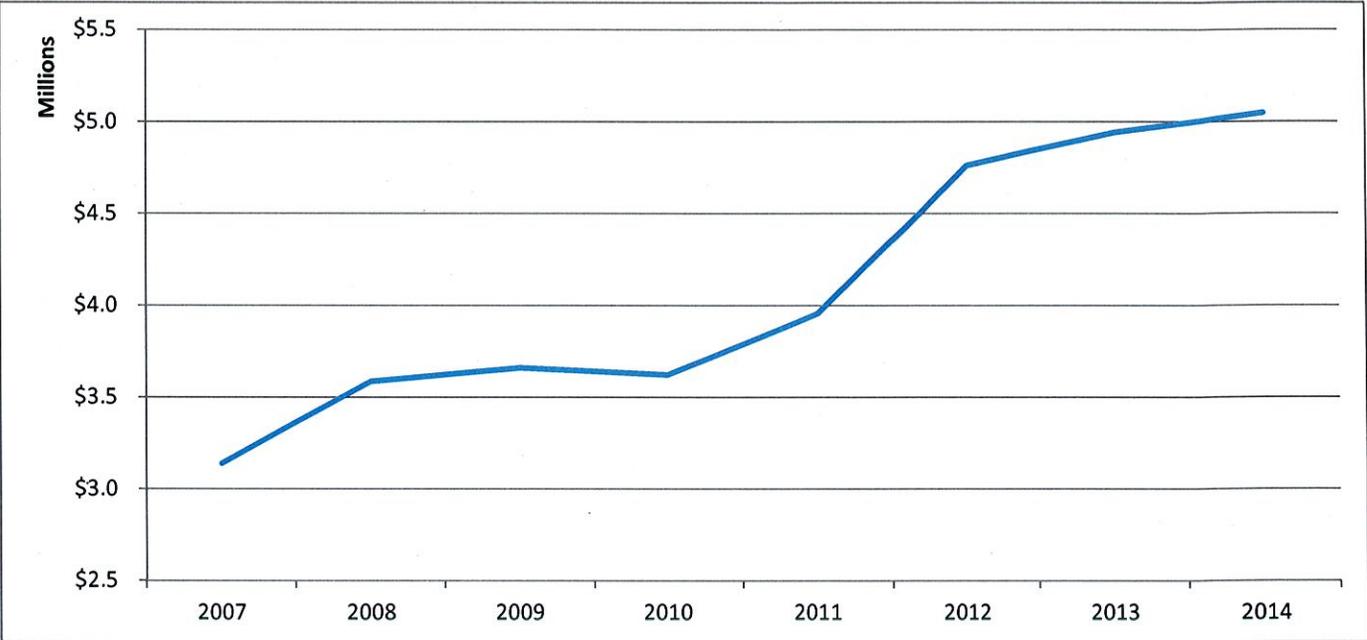
Revenue other than Taxes and Special Assessments - General Fund



Major City Projects since 2007

	(millions)
Brookview Area Streets	\$ 2.6
Ferndale/Geranium Area Streets	\$ 2.4
Lark/Prosperity Area Streets	\$ 3.3
Myrtle/Idaho Area Streets	\$ 1.1
Kohlman Lane Area Streets	\$ 2.3
Priory Public Improvements	\$ 1.0
Hazelwood Street, Frost to Cope	\$ 1.9
Beam Avenue, White Bear to Bellaire	\$ 2.1
Upper Afton Road, McKnight to Century	\$ 0.8
Carsgrove Meadows Streets	\$ 2.5
Castle Avenue Improvements	\$ 1.3
White Bear Ave, Radatz to Co Rd D	\$ 4.3
County Road D Streets	\$ 1.1
Stillwater Road Improvements	\$ 2.2
English/TH36 Interchange	\$ 24.8
Holloway/Stanich Area Streets	\$ 2.6
Hills & Dales Streets	\$ 7.1
Fish Creek purchase	\$ 2.2
Western Hills/Larpenteur Area Streets	\$ 6.9
Bartelmy/Meyer Area Streets	\$ 4.0
Mill & Overlay project	\$ 2.9
MCC upgrades	\$ 0.8
Police Dept expansion	\$ 4.3
East Metro Training Facility	\$ 4.3
Fire Station at 3M campus	\$ 4.4
Legacy Park	\$ 0.6
Lions Park	\$ 0.6
Gethsemane Park	\$ 0.4
Joy Park	\$ 0.3
2011 storm cleanup	\$ 0.6
Organized trash & carts	\$ 0.5
	\$ 96.2

Debt & Capital Tax Levy



CITY TAX LEVY HISTORY

<u>YEAR</u>	<u>OPERATIONS</u>	<u>CAPITAL</u>	<u>DEBT</u>	<u>TOTAL LEVY</u>	<u>% CHANGE</u>
2007	12,405,650	0	3,140,800	15,546,450	
2008	12,124,525	0	3,421,925	15,546,450	0.0%
2009	12,564,580	0	3,311,655	15,876,235	2.1%
2010	13,045,344	0	3,624,702	16,670,046	5.0%
2011	13,545,351	0	3,958,103	17,503,454	5.0%
2012	13,250,420	395,000	4,208,103	17,853,523	2.0%
2013	13,585,600	629,270	4,313,530	18,528,400	3.8%
2014	13,480,530	389,270	4,658,600	18,528,400	0.0%

Average per year 2.7%

2014 LEVY	18,528,400
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Increases for:

Debt Service	134,220
Police vehicles and equipment	114,560
Projected decrease of other revenue sources	273,300
General Fund expenditure increases	284,660
Fund street project deficits	250,000

Decreases for:

Reduce MCC levy	(25,000)
Reduce Ambulance Service levy	(50,000)
Reduce Recreation Program levy	(15,000)
Remove Fire Truck Fund levy	(50,000)
Remove Park Development Fund levy	(30,000)
Remove Redevelopment Fund levy	(40,000)
Reduce CIP Fund levy	(15,000)

Current position	19,360,140
	4.5%

The annual impact of different levels of the city levy increase to a median value home in Maplewood.

Based on information received from Ramsey County on 08-07-14.

LEVY CHANGE	<u>HOME VALUE</u>		<u>CITY TAX</u>		\$	%
	2014	2015	2014	2015	CHANGE	CHANGE
0%	\$ 157,000	\$ 187,300	\$ 679	\$ 767	\$ 88	13.0%
1%				\$ 776	\$ 97	14.3%
2%				\$ 785	\$ 106	15.6%
3%				\$ 793	\$ 114	16.9%
4%				\$ 802	\$ 123	18.2%
5%				\$ 811	\$ 132	19.5%

WITH 3% LEVY INCREASE BASED ON CURRENT INFORMATION

ESTIMATED 2015 CITY PROPERTY TAX CHANGES			
TAX RATE CHANGES			
	<u>Payable 2014 Local Tax Rate</u>	<u>Estimated Payable 2015 Local Tax Rate</u>	<u>Percent Change</u>
Tax rate on tax capacity	48.378%	46.558%	-3.8%

EFFECT ON A MEDIAN VALUE HOME					
Pay Year	Median Value Home	Annual City Taxes	\$ Change	Cummulative	% Change
2007	220,000	689			
2008	222,600	674	(15)	(15)	-2.2%
2009	209,600	651	(23)	(38)	-3.4%
2010	205,400	711	60	22	9.2%
2011	195,100	743	32	54	4.5%
2012	182,900	752	9	63	1.2%
2013	160,700	707	(45)	18	-6.0%
2014	157,000	679	(28)	(10)	-4.0%
2015	187,300	793	114	104	16.8%

Budget Planning

- Senior Management Team focused on:
 - The need to control and/or reduce costs
 - Assessment and consideration of new sources of revenue
 - Review of all existing City Services for possible service delivery changes
 - Analysis of inter-departmental inter-governmental service and/or resource sharing
 - Identification of critical needs in City-owned buildings and facilities

A Balanced Approach

We are prepared to evaluate and refine both operational and capitol budgets in a balanced manner using this approach:

1. Responsible stewardship of the public's resources
2. Providing services and programs that will reflect a commitment to excellence; and
3. Recognizing and valuing the high quality service and innovation of city employees through fair and equitable compensation

Steps in this Process

- Initial Department Requests called for over 9% tax levy increase
- Cuts made to date – down to 4.5% increase
- Innovation Approach
- Community Engagement
- Council Sets Preliminary/Maximum Levy
- Budget Adopted in December