Preliminary Levy Workshop – August 29, 2017

Background

Each year the City must prepare a budget and property tax levy for the following year. Staff has been analyzing revenues, expenditure information and initiatives in order to prepare a preliminary budget and levy for your consideration.

For the second consecutive year, staff is proposing a budget with minimal impact to residents (approximately $20 per household) absent increases in their property valuation. The proposed budget actually decreases our current tax rate, lowering it from 38.521 percent to 37.455 percent. Even with splitting out an economic development authority levy, the rate falls to 38.212.

More importantly, we are focusing on right-sizing our organization in several key areas to fit our growing city of over 41,000. We are asking to add two police officers to concentrate on keeping our streets safe, an Assistant Fire Chief responsible for training our fire forces, a Code Compliance Officer who will monitor our community's health and safety, and two full-time lifeguards to ensure our new aquatic facilities remain safe for our children. We also seek to add a junior planner to ensure our growth is properly mapped for the future.

Our 2018 Budget should be the final one of a three-year transformative budget process, and will set the stage to achieve the Council's ultimate goals of low taxes, financial stability and a stable tax rate. The foundation established by this process will keep those goals in play for the foreseeable future absent a major recessionary period.

Upon City Administrator Reynolds arrival, he explained the need to retool our budget and budget process over a three-year period in order:

1) to establish true fiscal transparency (which included defining our revenues), and

2) to ensure that our budgets accurately reflect how we spend tax dollars (including the reduction of variances).

Some of those changes have been budgetary "inside baseball" to a degree, but all have had an impact upon our financial future.

The last few years has been more than just a time of change in our budget process. During the first two years of this budgetary transformation, we have had to address multiple challenges that in and of themselves could be considered noteworthy. This included successfully inculcating the Community Center debt bond payment, establishment of a franchise fee, realignment of our liability insurance premiums and separation of our insurance from SPUC, creation of a fund to pave the way for future self-insurance, and adjustment of internal service fund rent shortfalls.

Staff also reviewed with City Council this past spring the long-term financial position of the Sanitary Sewer and Surface Water enterprise funds. This review was done to determine appropriate cash balances for each respective fund and to ensure rate are maintained at a satisfactory level to ensure long-term viability.

Through all of this change and challenge we still had our bond rating upgraded – a remarkable achievement as well.

After last year's challenging budget, staff produced and the City Council approved a tax rate that had 0% impact to residents at the average home value (absent home valuation increases).

2017 was our first year really tightening the budgets at the department level to offset the previous philosophy of never coming before council to request adjustments. As Administrator Reynolds stated last year, not wanting to come before council had the effect of encouraging a padding of the budget at the departmental level. It is important that we budget as best we can based upon actual revenue and expense estimates.

Again, as a reminder, staff does not have a crystal ball to fully determine what will be needed in all cases. Snowfall greater than average is a perfect case in point. If we do miss a projection, we bring that to council and explain the situation and then request a budget amendment. All of which is publicly documented (again transparency). Council also needs to remember that this change in budgeting philosophy is not a failure on staff's part. There will be unforeseen contingencies.

We are in year three of our transition, and we have several challenges that if successfully addressed will cement our future financial stability. This third year will have some more internal changes, but more importantly it allows us the opportunity to "right-size" the organization for growth.

We continue to have a lot to be thankful for. Our efforts renegotiating the Jackson Township Orderly Annexation Agreement were successful which ensures we have land available for growth. In addition, we have adjusted our community center revenue projections (in a positive way!) based upon our initial 2017 numbers.

Our challenges compared to last year seem minimal. We do need to include the 2nd installment of the internal service fund adjustment which was carved out of last year's budget due to Council's concerns. There will continue to be spillover from the school district's issues by residents who don't realize we are separate entities. And we will need to prepare for the results of our compensation plan study. But in reality, those are challenges that can be met with little difficulty.

In this budget, we continue our efforts with transparency by breaking the economic development levy out of our general fund and establishing it as a stand-alone levy. We did the same last year with abatements and the Capital Improvement Fund to make them easily identifiable and to ensure greater transparency.

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After last year's challenging budget, it is great to see that we have some stability in year three of our budget change process.

Administrator Reynolds remains confident that at the end of it, we will be a better organization with great transparency and greater fiscal controls. And in the end, we will continue to be one of the lowest taxed communities in the metro area.

Schedule for budget and property tax levy development

Date	Who	What
July 18, 2017	Council/Staff	Review Preliminary Capital Improvement Plan (CIP)
August 29, 2017	Council/Staff	Review Maximum Levy, review initiatives and requests
September 19, 2017	Council	Adopt proposed maximum tax levy for City and EDA. Adopt final 2018-2022 CIP
October 2, 2017	Staff	Certify maximum tax levy to the County which will be used for proposed property tax notices
November	County	Proposed tax notices sent to owners
November	Council/Staff	Work session to review budget document
December 5, 2017	Council	Hold public meeting to discuss levy and budget. Review and approve utility rates for 2018.
December 19, 2017	Council	Adopt final tax levy and budget
December 29, 2017	Staff	Certify final tax levy and budget to County and State

Budget Impact Issues

Wages and benefits

Two of our three union contracts went into effect on January 1, 2017. Both contracts negotiated three percent cost of living adjustments for 2017, 2018 and 2019. The third contract would be expected to fall into a similar range. The preliminary budget has been built with an assumption of a 3 percent increase in wages. The General Fund impact of a 3 percent COLA is approximately $411,000.

Health insurance has been budgeted at a 15 percent increase. Actual renewal rates will be known later this fall. The city did experience a ten percent increase in health insurance for the current year. The City is experiencing a higher number of claims year to date compared the previous couple year. A fifteen percent increase in health insurance is approximately $179,300.

Administration undertook a class and compensation study earlier this year that is anticipated to have a financial impact. The actual impact is expected to be received in late September or early October. As a budget placeholder, staff is including an additional $100,000.

No other benefit changes are anticipated or legislated for the upcoming year.

Seven full-time staff positions are being requested for 2018 along with additional part-time staffing. The Fire Department is requesting an assistant fire chief, the Police Department is requesting two police officers and a code compliance officer, Planning and Development is requesting an additional planner and Recreation is requesting two lifeguards. Recreation is requesting an additional $133,200 for part-time salaries related specifically to staffing needs at the community center pool. Department directors will be available at the budget work session to discuss their requests in further detail. Below is breakdown of the budget impact for 2018.

Dept.	Title	Estimated Start Date	Total 2018 Wages and Benefits
Fire	Assistant Chief	1/1/2018	$ 125,600
Police	Code Compliance Officer	1/1/2018	70,500
Police	Police Officer	10/1/2018	22,100
Police	Police Officer	10/1/2018	22,100
Planning	Planner	1/1/2018	83,900
Recreation	FT Lifeguard	1/1/2018	55,700
Recreation	FT Lifeguard	1/1/2018	55,700
			$ 435,600

Internal Charges

Part of the budget process for 2017 was restoring internal service charges/rents that were reduced by 20 percent in 2014. The restoration of rents is needed to ensure long-term sustainability and replacement of city assets including equipment, park assets and city buildings. Last year the Council directed staff to restore rent funding over a two-year span rather than recovering all the rent charges in one year. The one caveat was that park assets would be restored to 100 percent funding in 2017.

The impact to restore the second half of internal charges to the 2018 budget is approximately $150,000. Total rent increases for 2018, which includes both the restoration of rent charges and the replacement cost of equipment and facilities is approximately $265,700.

The community center and ice arena are being depreciated at 35% of the book value as of December 31, 2016. The rationale behind the 35 percent was that the rent charge would be sufficient to cover any facility needs that may occur in the next 10 to 20 years, but would lessen the tax burden of current tax payers that are also paying the current debt service on the facilities. When the debt service is fully retired, community center and ice arena rents would be expected to increase to full funding.

Other Services & Charges

A few other line items in the 2018 budget outside of personnel and rent are requiring additional funding for 2018. First, natural gas and electricity for the community center and ice arena are being increased by $103,500. Cleaning services for the police department and public works facilities is increasing by approximately $68,000. This increase is being offset by a reduction in custodial staff. Overall this change is budget neutral, but there will be a shift in expenditures from the Personnel category to the Other Services & Charges category. The City's annual service payments to LOGIS for various applications is increasing by about $19,000. This is mainly related to the new permitting and accounts payable applications implemented in 2017. All other line items within each department's Other Services & Charges category are being held to a zero percent increase for 2018.

Revenues

Typically, governmental revenues such as grants, charges for service and fees & permits are constant with not a lot of dramatic fluctuations from one year to the next. Obviously, the economy is typically the biggest factor in revenue fluctuations. The City's building permits have been strong over the past couple years with the influx of commercial development. Those strong permits are expected to continue with the recent housing developments beginning to take shape. Building permits are anticipated to grow by 10 percent or $161,600 in 2018.

The community center and ice arena revenues for 2018 are expected to increase substantially. Staff has worked diligently on estimating membership renewals for 2018 and are anticipating an additional $300,000 in revenue compared to 2017. Overall, recreation is anticipating an additional revenue of $430,000 in combined charges for services for 2018. These additional revenues aid in offsetting increased operational costs.

Economic Development Authority

Part of the budget discussions last year involved the implementation of a dedicated EDA levy which would be separate from the City's general levy. EDA's have the statutory authority to levy a small percentage (up to 0.01813%) of the city's estimated market value, which for 2018 would be a maximum of approximately $768,500. The levy cap is a maximum levy, the EDA and City Council can set the levy at any amount up to this cap.

The EDA levy should be considered a budget neutral change. In prior years, a transfer was made from the General Fund to the EDA to cover EDA operational costs, façade loan funds, and other development related activities. This EDA levy will eliminate that transfer from the General Fund, thus reducing the City's general levy.

The advantage of the EDA market value levy is that is applies to all taxable properties within the city including properties that are currently part of a tax abatement or TIF plan. The EDA levy is also identified on property tax statements as a separate local tax outside of the city's general property tax. Staff is recommending an EDA levy of $350,000 for 2018. A home valued at $229,100 for taxes payable 2017 would pay approximately $20 towards this EDA levy.

Debt Service

The community center/ice arena tax abatement bonds had a substantial impact on the levy for 2017. Now that the debt service levy is in place, staff is anticipating that the City's total debt service payments to remain stable at approximately $2.2 million annually. In addition, due to available fund balances in existing debt service funds and the structuring of the tax abatement bonds staff will need the Council to approve debt service reduction resolutions on September 19th. A breakdown and comparison of the individual debt levies can be viewed on the next page.

Levy Request & Impact

Staff is recommending a preliminary levy increase of 2.58% or $488,883 for the City levy and a preliminary EDA levy of $350,000. The EDA levy will be a separate levy on property tax statement. The preliminary levy is the maximum the City can levy, the final levy may be less than the preliminary levy, but may not be more. Ensuring we are levying sufficiently to cover certain unknowns at this point in the budget process is prudent.

The City experienced 8 ½ percent growth in tax capacity for taxes payable 2018. This is on top of eight percent growth from the previous year. New construction accounts for about $1.1 million of additional tax capacity, which equates to about 25% of the growth in tax capacity. In terms of levy dollars, the new construction tax capacity allows for the city to increase the levy by $488,883 or 2.58 percent without having a tax impact on existing properties, outside of changes in valuation. So if all values stayed the same from last year to this year, tax payers would pay exactly the same as the prior year with the 2.58 percent increase in the levy.

The breakdown and comparison of the proposed 2018 levy is as follows:

City of Shakopee
Preliminary Levy Analysis
August 23, 2017

	2016 Final	2017 Final	2018 Proposed	Increase/ (Decrease)	% Change
City Levy					
General Fund	$ 16,825,900	$ 16,175,900	$ 16,849,176	$ 673,276	4.16%
Abatements		174,915	182,400	7,485	4.28%
Capital Improvement Levy		385,000	200,000	(185,000)	-48.05%
Debt Service					
2004 B	238,027	-	-		
2006 B	315,390	-	-		
2007 B Improve	94,992	92,471	-		
2008 A Improve	-	148,800	135,448		
2010 A Improve	88,500	107,145	105,940		
2012 A Refunding	47,386	-	-		
2016 Abatement	-	1,842,110	1,942,260		
Total Debt Service	784,295	2,190,526	2,183,648	(6,878)	-0.31%
Total City Levy	$ 17,610,195	$ 18,926,341	$ 19,415,224	$ 488,883	2.58%
EDA Market Value Levy	$ -	$ -	$ 350,000	$ 350,000	100.00%
Total City and EDA Levies	$ 17,610,195	$ 18,926,341	$ 19,765,224	$ 838,883	4.43%

Items to note with the 2018 preliminary levy include:

- The Capital Improvement Fund levy is reduced by $185,000 for 2018. The City will be receiving additional Municipal State Aid (MSA) dollars in 2018 along with a small shift of MSA dollars from maintenance to construction allows for the levy to be decreased in the Capital Improvement Fund.
- Abatement levies continued to be isolated. This practice was started in 2017. In prior years, private development abatements have been included in the General Fund levy. Isolating these abatements provides for increased transparency.

Scott County has provided staff with tax impact estimates for residential homestead properties. Residential property values held virtually steady from January 1, 2015 to January 1, 2016 for taxes payable 2017. The value of an average market value home in Shakopee decreased slightly from $229,700 to $229,100. Residential values are increasing for taxes payable 2018. The average valued home has now risen from $229,100 to 243,100. In addition, approximately 80 percent of the City’s residential properties experienced a 5 to 10 percent increase from January 1, 2016 to January 1, 2017. Taxes payable 2017 saw a shift in tax burden as the commercial values rose and residential properties were stagnant. Taxes payable 2018 will see a slight shift in tax burden as residential properties appreciate.

The chart below provides the average percentage change in value for residential properties from taxes payable 2017 to taxes payable 2018. These percentage changes are strictly the averages within each value range. Individual properties valuations will likely be more or less than the averages.

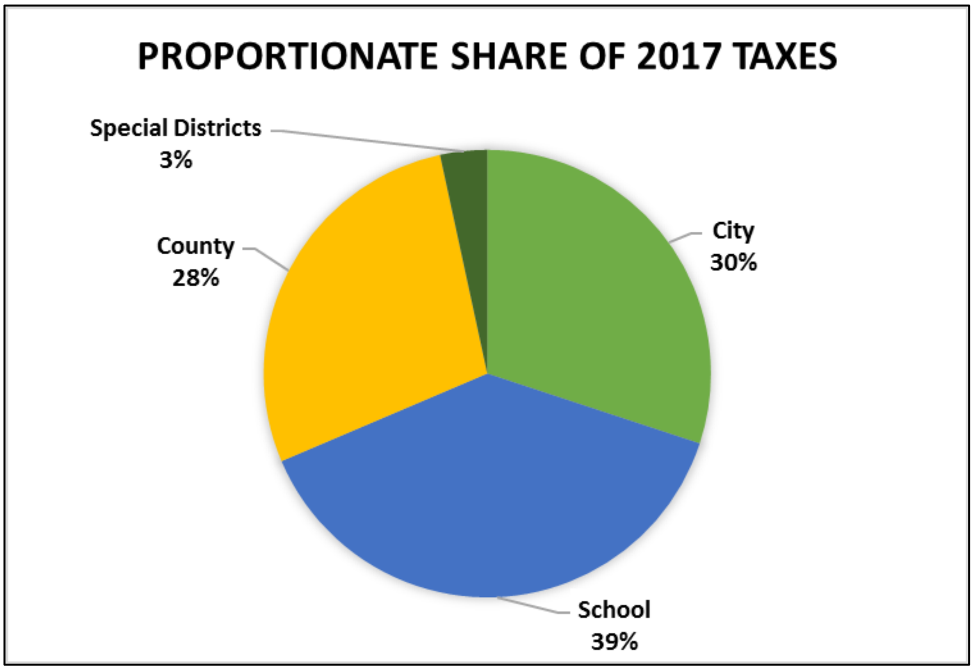
Payable 2017 Value	Properties in Category	Average of Net % Change for pay 2018
<$100,000	116	8.5%
100000-149999	2,135	7.8%
150000-199999	3,232	6.4%
200000-249999	2,395	6.1%
250000-299999	1,595	5.7%
300000-399999	1,853	3.6%
400000-499999	471	1.9%
500000-699999	125	1.6%
700000-999999	6	2.6%
>$999,999	2	1.3%
Grand Total	**11,930**	**5.8%**

The chart below provides a comparison of the 2017 levy and the proposed 2018 levy for three different valued homes including the average valued home of $243,100.

The proposed tax levy will drop the city's tax rate from 38.521 percent to 37.455 percent, a decrease of 1.07 percent.

Staff is still working on receiving preliminary levy estimates from our comparable cities. Staff will have this information available at the council meeting on September 19th.

Lastly, it is always interesting to see the breakdown of a property tax statement and how tax dollars are distributed. Below is chart, based on an average valued home for taxes payable in 2017 within the Shakopee School District. A good rule of thumb is that the city, county and school typically account for about a third of the total tax bill. For homes within the Shakopee School District that rule doesn't necessarily hold true for 2017. Taxing districts included in the "Other" section include Scott County CDA, Mosquito Control, Metro Transit, Met Council, Watersheds, etc.



Summary

Attached is a preliminary General Fund Summary Budget that includes all the items discussed above, including a tax levy of 2.58 percent. Again, the preliminary levy is the maximum levy that can be levied. The final levy can be reduced but cannot be increased. Between the preliminary levy and the final levy staff will be working on fine tuning the current unknowns.