



To: Mayor and Council Members
From: Nate Reinhardt, Finance Director
Cc: Bill Reynolds, City Administrator
Date: September 15, 2020
Re: Preliminary Levy

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 to prepare a preliminary budget and levy for your consideration.

From providing fun recreation programs and beautiful parks to ensuring safe neighborhoods, providing high-quality services enhance and protects people's lives. Responsible fiscal management also builds the foundation for the City to run smoothly and provide effective, innovative programs and services while keeping in mind ways to evolve to meet future expectations and demands. Decisions are made with the future in mind to ensure the city's ongoing ability to provide quality services at a reasonable price.

In February 2020, the City Council adopted its 2020-24 strategic plan, which lays out the City Council's strategic priorities while serving as a broad, guiding document for city staff to do its work. The strategic priorities of Financial Stability, Enhanced Community Strengths, Effective Public Services and Communication are key considerations of the 2021 budget.

Staff has proposed budgets with minimal or no impact to residents in recent years. However, the city is experiencing budget pressures, most notably from increasing infrastructure construction and maintenance costs, as well as general personnel costs, neither of which are unique to Shakopee nor other local governments. Additionally, the COVID-19 pandemic has impacted city recreational programming and revenues during the current year and leaves unknowns about longer lasting impacts to future revenue collections, market values, and resident and business finances.

The City's estimated market value for taxes payable 2021 increased \$521 million (8.6 percent) to \$6.6 billion. New construction accounts for \$116 million (22.2 percent) of this increase. New construction allows the tax levy to be spread across a larger tax base, which reduces tax burden of existing taxpayers.

This past year total residential taxable market value increased 7.0 percent (including new construction) according to data from Scott County. Over 80 percent of the homes are seeing an increase between 0 and 10 percent. As outlined in this memo, staff recommends increasing the city's preliminary levy 3.13 percent. For the median value home whose property value increased by 6.3 percent, from \$251,000 to \$266,800, this equates to a increase of \$5 or (0.6 percent) annually in property taxes. Absent any change in value, homeowners can expect a tax decrease of (\$50) or about (6.2 percent). The proposed tax levy will drop the city's tax rate from 33.965 percent to 31.851 percent, a decrease of 2.114 percent

Development is expected to continue due in part to an annexation agreement with Jackson Township and other redevelopment projects just getting underway. However, the pace of development is uncertain, and national economic factors have started to affect local economies. Fortunately, Shakopee has a diversified mix of existing industry that will help weather a potential economic downturn. However, it is anticipated the city is not likely to sustain the growth it has for the last few years.

Enhanced Fire Department Staffing Model

In August, the City Council was provided an update on a fire department staffing model that was implemented as a result of COVID-19. This included staffing with four part-time firefighters Monday through Friday from 3pm to 7am and the full day on Saturday and Sunday. This modification has resulted in a decrease in the average response time from 6:30 to 1:30 (in minutes). The shorter response time is essential for medicals and allows the responders to reach a fire prior to the flashover point, resulting in safer conditions and increased property preservation. The scheduled shifts have been well received by part-time firefighters, who can better plan their home life, which will ultimately improve recruitment and retention.

The city intends to continue this staffing model, increasing the 2021 fire department personnel cost by \$266,173. However, staff is recommending to not replace the Rescue 2 Fire Truck, which is scheduled to be replaced in 2026 for \$450,000. Through a combination of a reduction in equipment rent charges, operational adjustments, and the proportionate share allocated to the townships, the net impact for 2021 has been reduced to \$175,000.

It is important to note, the last several years the city's capital improvement plan included the design and construction of a third fire station in the southeast region of the city, at an estimated price tag of \$5.5 million. The cost did not include the additional equipping and vehicles that would be necessary to operate an additional fire station. Service levels in this area have vastly improved through this model, and as a result the addition of a third fire station is no longer being considered.

Park Development Fund

A property tax levy of \$200,000 annually was approved last year for the Park Development fund. Traditionally, this fund is primarily supported by park dedication fees. Park dedication fees will remain the primary source, but there are also projects that need additional funding beyond park dedication fees as identified during the parks master planning process.

As an additional budget offset, the park development levy has been removed from 2021. This allows the city to reduce the total levy and subsequent impact on taxpayers. Planned timing and scope of future park development projects will be revised as necessary to accommodate the \$200,000 park development levy reduction.

Wages and benefits

All three union contracts expire on December 31, 2020. Initial negotiations have begun with the patrol and sergeant unions. At this point, it is uncertain as to whether the contracts will be settled by year end. Current union contracts included annual 3 percent cost of living adjustments. The preliminary 2021 budget has been built with the assumption that union and non-union wages will not receive a cost of living adjustment for 2021.

The city's health insurance rates will be increasing about 3-percent for 2021 or \$62,800 following a 5-percent increase in 2020. This is a reduction from the estimated 8%, \$122,600 increased estimated for the September 1st budget presentation.

As a reminder, the city set aside \$600,000 at the end of the 2017 to aid in transitioning toward self-insurance funding for health insurance. Current market conditions do not warrant a move to self-insurance. However, having dedicated funds set aside will provide the flexibility to react quickly when market conditions necessitate a move.

In August, the city filled an open Human Resource specialist position with an Administrative Assistant. As part of that process, it was determined that duties of the Administrative Assistant position could be re-distributed and completed by current staff. The 2021 budget proposes the elimination of the Administrative Assistant position, resulting in a net savings of \$94,700.

Step increases for existing employees, workers compensation premium increases, and pension expense result in an additional \$383,000 budget allocation for 2021. The net impact of all personnel changes, excluding the fire department staffing model, is \$371,300.

Internal Rent Charges

The city established internal service funds years ago to account for equipment, buildings, park assets, and information technology infrastructure and equipment. The philosophy behind these funds is they take out the large swings in the tax levy by charging level rents on annual basis. When replacement equipment or infrastructure is needed the appropriate internal service fund makes the purchase from accumulated reserves. Having this system in place and established is fiscally responsible and sets the city up for long-term financial sustainability.

In 2018, staff took an in-depth analysis of the equipment fund after purchasing two fire engines. These fire engines were purchased 20-some years ago for about \$350,000. Over that 20-year timeframe, the fire department was charged a flat annual fee of \$17,500 for each fire engine. Unfortunately, replacement fire engines today cost more than \$600,000. This left a large gap between accumulated rents and the new purchase price. This large difference between the original purchase and the future replacement is common on equipment that lasts for 10 to 20 years due to inflation and other factors.

To ensure the long-term sustainability of the equipment fund staff began charging rent for vehicles that have replacement lives of 10 to 20 years on the estimated future replacement cost rather than the original purchase price. This transition comes with a cost due to higher annual rent charges. In order to minimize the impact, staff is stepping into the full funding of replacement costs over four years. 2021 will be the third of four years and adds an additional \$67,200 to the 2021 budget. Increases in replacement costs resulted in an additional \$41,400 increase to equipment rent charges. These increases are partially offset by a \$46,000 reduction in the fire department rents for previously mentioned fire department staffing changes.

Other Services & Charges

The 2021 preliminary budget request provides a net reduction in other services and charges of \$159,800. The reductions included \$90,500 in the Community Center related to advertising, training and contractual cleaning services. The 2020 budget also included a one-time expense for Tyler building permit software that did not carry forward to 2021. The remainder of other services and charges remains relatively flat. Departments are seeing increasing service costs in

this area but are requested to work within their given budget allotment to maintain a reasonable tax increase for 2021.

Revenues

The city's building permits have been strong over the past few years with an influx of commercial and residential development. Development and the coinciding building permits are expected to continue, albeit at a more moderate level than what we have seen the last two to three years. The city is forecasting a \$259,000 (14 percent) decline in budgeted building permit revenue for 2021, as a result of a decrease in available developable property within the city limits and a more uncertain economy.

The community center and ice arena revenues saw an increase in revenues from 2018 to 2019 and revenues were looking like they were going to continue to expand in 2020 before COVID-19 facility closures. The 2021 budget projections used the 2019 actual revenues as the baseline for the forecasted budgeted amounts. This resulted in a budgeted increase of \$172,200 (7.4 percent).

Overall the city is anticipating a net increase in non-tax revenue sources of \$53,500.

Economic Development Authority

In 2018, the City Council/EDA Commission approved a standalone EDA Levy. This levy was implemented to increase transparency and was considered a budget neutral change. Prior to 2018, annual transfers were made from the General Fund to the EDA to cover EDA operational costs, façade loan funds and other development related activities. This EDA levy eliminates this transfer from the General Fund, thus reducing the city's general levy.

The Shakopee EDA has the statutory authority to levy a small percentage (up to 0.0185%) of the city's taxable market value, which for 2021 would be a maximum of approximately \$936,750. The EDA and City Council can set the levy at any amount up to this cap. The EDA levy is 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 2021, which is the same levy amount since 2018.

Debt Service

Staff is anticipating the city's total debt service payments to remain stable at approximately \$2.2 million annually. Staff will need the council to approve debt service reduction resolutions on September 15 due to available fund balances in existing debt service funds. The city's 2010A Improvement bonds will be paid off and will no longer require a debt levy moving forward. A breakdown and comparison of the individual debt levies is provided in the levy analysis chart.

Capital Project Funds

During the Capital Improvement Plan work session on July 24, staff and city council reviewed the 2021-2025 CIP and projects programmed for 2021. The CIP identifies \$50 million in projects for 2021, including projects contingent upon successful outside funding. As part of that review staff discussed future funding deficiencies in the capital improvement and park development funds. A capital improvement bond issue of approximately \$4 million is included in the plan for 2021 to provide a funding source for projects in the capital improvement fund. The proposed bond would be repaid with a combination of property tax dollars and special

assessments. If approved, the additional required debt levy of approximately \$200,000 would first occur in 2022.

Enterprise Funds

The city operates two public utility funds Sewer and Surface Water. These funds operate on their own ability to generate revenues and receive no property tax support. The Sewer fund provides for the collection and conveyance of wastewater through a system of mains and lift stations. Sewage is treated by the Metropolitan Council Environmental Services, whose contracted services account for approximately 80 percent of the fund's operating expenditures. The Surface Water fund maintains the surface water system for the city, which includes 140 miles of storm sewer and 221 ponds. Staff will not be proposing any utility rate increases for these funds for 2021.

Levy Request & Impact

Staff is recommending a preliminary city levy of \$21,017,800, which is an increase of \$637,300 or 3.13 percent over last year, and a preliminary EDA levy of \$350,000, which is identical to last year. 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.

The city experienced 10.6 percent growth in tax capacity for taxes payable 2021. This is on top of 9.9 and 5.5 percent growth in 2020 and 2019, respectively. New construction accounts for about \$1.26 million (22 percent) of additional tax capacity.

In terms of levy dollars, the new construction tax capacity allows for the city to increase the levy by approximately \$420,000 (2.1 percent) without having a tax impact on existing properties.

The breakdown and comparison of the proposed preliminary 2021 levy is as follows:

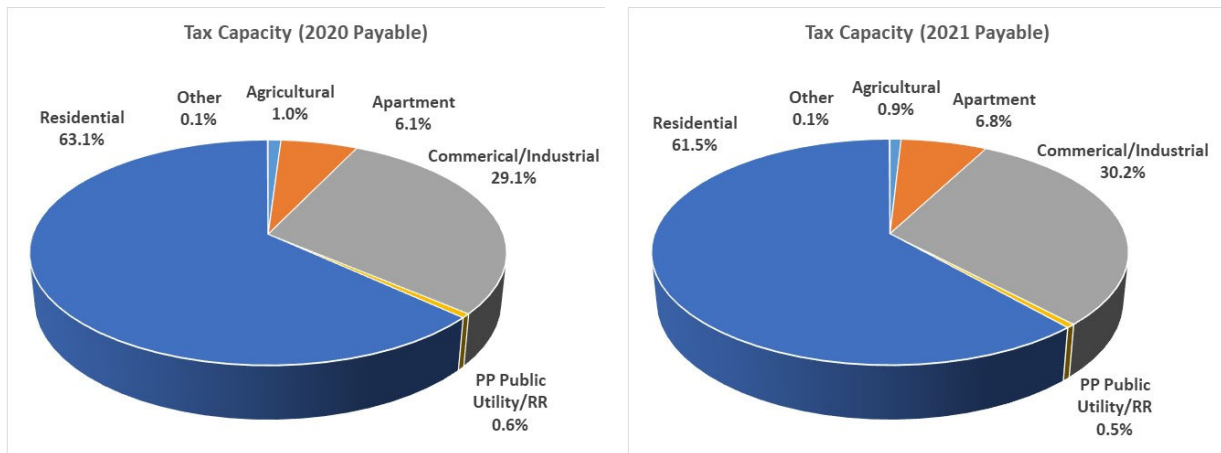
City of Shakopee Levy Analysis September 15, 2020				
	2020 Final	2021 Preliminary	Increase/ (Decrease)	% Change
City Levy				
General Fund	\$ 17,136,900	\$ 17,934,600	\$ 797,700	4.65%
Abatements	155,700	194,600	38,900	24.98%
Capital Improvement Levy	700,000	700,000	-	0.00%
Park Development Levy	200,000	-	(200,000)	-100.00%
Debt Service				
2010A Improvement	69,900	-	(69,900)	-100.00%
2016 Abatement	2,118,000	2,188,600	70,600	3.33%
Total Debt Service	<u>2,187,900</u>	<u>2,188,600</u>	<u>700</u>	<u>0.03%</u>
Total City Levy	<u>\$ 20,380,500</u>	<u>\$ 21,017,800</u>	<u>\$ 637,300</u>	<u>3.13%</u>
Shakopee EDA Special Levy	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>0.00%</u>
Total City and EDA Levies	<u>\$ 20,730,500</u>	<u>\$ 21,367,800</u>	<u>\$ 637,300</u>	<u>3.07%</u>

Estimated Market Value

Class	Payable 2020	Payable 2021	Change (%)
Agricultural	\$103,793,600	\$104,479,000	0.7%
Apartment	308,852,300	380,988,200	23.4%
Commercial/Industrial	1,471,217,600	1,682,420,000	14.4%
Public Utility/Railroad	29,725,500	29,725,500	0.0%
Residential	3,357,848,000	3,570,136,800	6.3%
Exempt	778,460,100	802,534,200	3.1%
Other	<u>2,652,700</u>	<u>3,009,900</u>	<u>13.5%</u>
Totals	\$6,052,549,800	\$6,573,293,600	8.6%

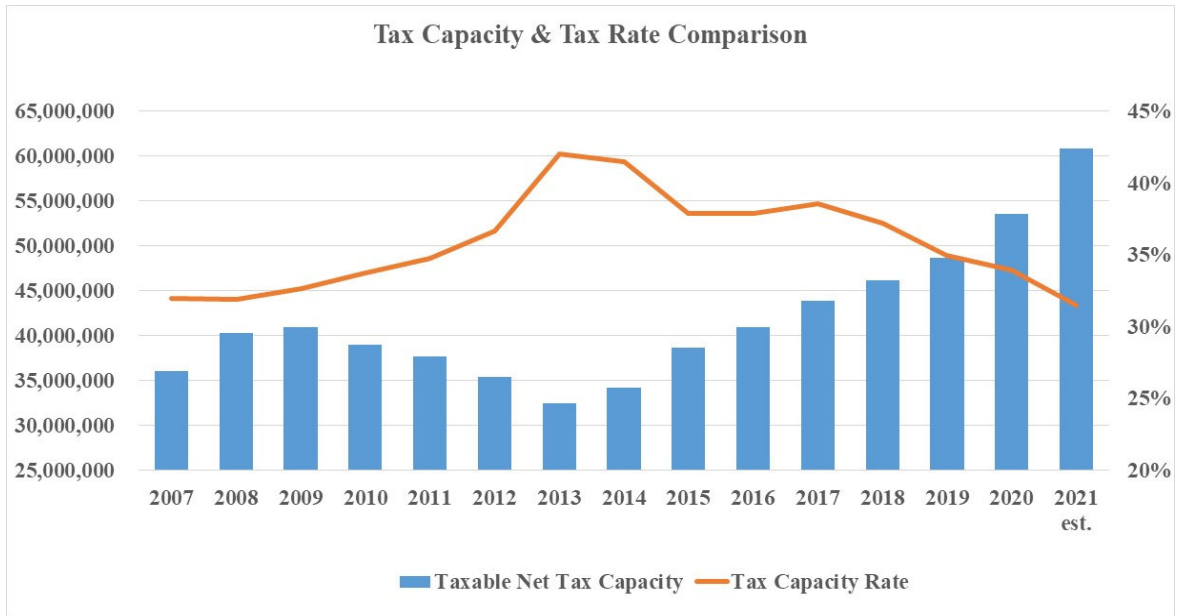
The city's estimated market value is at \$6.57 billion, which is an increase of \$520.7 million (8.6%) from last year. Apartment market value grew at the fastest rate, with double digit increases related to new growth as well as existing market values. Since 2018, spurred by growth the city has seen estimated market value increase by over \$1.4 billion (28.0%).

Taxable Capacity



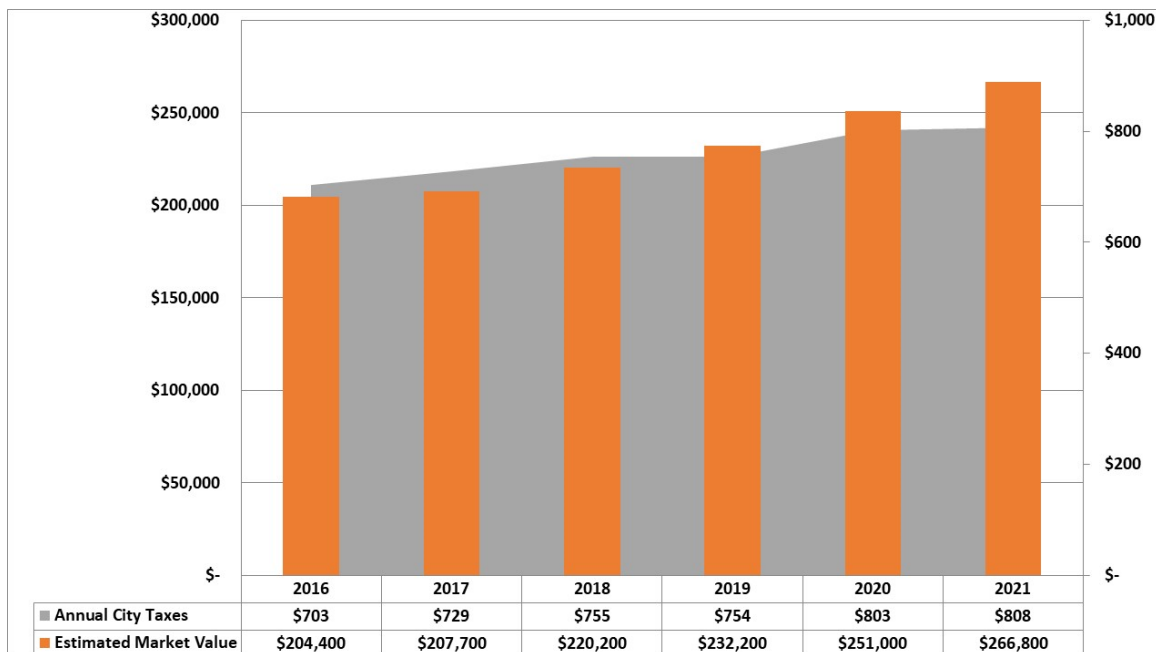
The city levies a flat dollar for taxes which is spread amongst all taxable properties in proportion to their percentage of the total tax capacity of the city. Residential represents 61.5% of the city's tax capacity. The comparison of this chart to last year shows that residential properties will pay 1.6% less of the share of total city property taxes in 2021, with apartment and commercial properties paying a proportionate percentage more.

The total tax capacity of the city is estimated at \$59,106,628 compared to \$53,424,462 in 2020, which is an increase of \$5,443,101 (10.6%).



The proposed tax levy will drop the city's tax rate from 33.965 percent to 31.851 percent, a decrease of 2.114 percent. This is the 4th consecutive year of a tax rate decrease. Below is a chart comparing the city's tax capacity and tax rate over the past 15 years, including the 2021 preliminary levy.

Median Value Home



The chart above provides information on the median value home and city property taxes paid since 2016. The orange bar and amounts on the left axis represent the median value home. The grey shaded area and the amounts on the right axis is the property tax amount paid on the median value home. The value of the median value home has increased \$15,800 (6.3%) from \$251,000 to \$266,800 over the past year. This equates to an increase of \$5 of (0.6 percent)

annually in property taxes. Absent any change in value, homeowners can expect a tax decrease of (\$50) or about (6.2 percent). Since 2016 the median value home has increased in value by 30.5 percent compared to just a 14.9 percent increase in property taxes paid by that home.

For reference a 1% increase/decrease in the city's 2021 levy amounts to approximately \$9 annually on the median value home.

General Fund Preliminary Budget

Below is the 2021 preliminary General Fund budget. The budget incorporates the General Fund portion of the preliminary tax levy along with the budget impact items noted above.

The past few years we have seen record building permit volume. With larger projects we may see revenues collected in one year but incur inspections costs for that project in the following year. Last year the City Council formally committed \$1,588,000 to be used in future years that included \$795,000 in the adopted 2020 budget to offset related operations costs. The preliminary budget utilizes \$500,000 of those committed revenues for the 2021 budget, which is a reduction of \$295,000.

The preliminary levy is the maximum levy that can be levied. The final levy can be reduced but it cannot be increased. Between the preliminary levy and the final levy staff will be working on fine tuning the current unknowns.

2021 Annual Budget GENERAL FUND SUMMARY				
	Actual 2018	Actual 2019	Original Budget 2020	Requested Budget 2021
TAXES	16,981,069.68	16,794,801.18	17,584,900.00	18,368,600.00
SPECIAL ASSESSMENTS	7,416.10	6,483.68	7,000.00	7,000.00
LICENSES AND PERMITS	2,606,017.99	4,656,994.54	2,191,100.00	1,934,100.00
INTERGOVERNMENTAL	1,460,417.32	1,573,434.61	1,326,600.00	1,376,200.00
CHARGES FOR SERVICES	6,782,395.19	7,084,697.22	6,778,500.00	7,012,600.00
FINES AND FORFEITURES	1,814.97	8,138.00	1,700.00	1,700.00
MISCELLANEOUS	268,081.22	581,819.17	208,200.00	235,000.00
TOTAL REVENUES	28,107,212.47	30,706,368.40	28,098,000.00	28,935,200.00
GENERAL GOVERNMENT	(4,628,230.83)	(4,705,860.79)	(4,880,700.00)	(4,816,300.00)
PUBLIC SAFETY	(11,626,545.73)	(12,731,159.55)	(13,264,200.00)	(13,740,500.00)
PUBLIC WORKS	(5,671,323.36)	(5,955,457.05)	(6,651,400.00)	(6,819,400.00)
RECREATION	(3,576,444.33)	(3,863,476.17)	(4,188,300.00)	(4,172,300.00)
UNALLOCATED	(39,823.69)	(25,250.92)	(130,300.00)	(131,200.00)
DEBT SERVICE	(22,140.00)	(22,140.00)	(22,100.00)	(5,500.00)
CAPITAL OUTLAY	(276,781.02)	(93,702.71)	(6,000.00)	0.00
TOTAL EXPENDITURES	(25,841,288.96)	(27,397,047.19)	(29,143,000.00)	(29,685,200.00)
TRANSFERS IN	262,525.99	250,000.00	250,000.00	250,000.00
PROCEEDS FROM SALE OF ASSETS	0.00	577.62	0.00	0.00
BOND PROCEEDS	0.00	0.00	0.00	0.00
TRANSFERS OUT	(2,187,000.00)	0.00	0.00	0.00
TOTAL OTHER FINANCING	(1,924,474.01)	250,577.62	250,000.00	250,000.00
COMMITTED FUNDS - BUILDING INSPECTIONS	0.00	0.00	795,000.00	500,000.00
NET	341,449.50	3,559,898.83	0.00	0.00

Schedule for budget and property tax levy development

Date	Who	What
July 14, 2020	Council/Staff	Review Preliminary Capital Improvement Plan (CIP)
September 1, 2020	Council/Staff	Review proposed levy, initiatives and requests
September 15, 2020	Council	Adopt proposed maximum tax levy for City and EDA. Adopt final 2021-2025 CIP
September 30, 2020	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 1, 2020	Council	Hold public meeting to discuss levy and budget. Review and approve utility rates for 2021.
December 15, 2020	Council	Adopt final tax levy and budget
December 30, 2020	Staff	Certify final tax levy and budget to County and State