CITY OF
BLOOMINGTON
MINNESOTA

DATE: November 30, 2020

TO: Mayor and City Council

FROM: Jamie Verbrugge, City Manager

RE: City Manager Recommendation for 2021 General Fund Budget

Introduction
The year 2020 may well be remembered as the most challenging in Bloomington's modern history. The social, financial, and economic impacts of the novel coronavirus COVID-19 have been felt across the community. And those impacts will continue to be felt in 2021 and beyond.

The most pressing challenge for the City of Bloomington is the adjustment to an economy that has dramatically reduced the tax revenues flowing to the City's General Fund in the form of Admissions Tax and Lodging Tax. Business closures, reduction in business and leisure travel, and operating adjustments necessitated by social distancing have significantly reduced revenues in 2020. Admissions Tax is forecasted to yield only 31% of what was budgeted in 2020, a loss of $1.04M, and Lodging Tax is forecasted to be only 33% of what was budgeted, a loss of $5.93M; for an estimated total loss in those two revenue categories of just under $7M or 9% of the 2020 budgeted revenues.

Based on forecasting that factors in state and national economic data, pandemic and vaccine data, and local conditions, City staff is utilizing a slow/long recovery model to conservatively estimate future Admissions and Lodging tax revenues. For 2021, those estimates translate into a 61% reduction in budgeted revenues for Admissions and a 51% reduction in budgeted revenues for Lodging. That represents a shortfall of roughly $5.3M for the approved budget of 2020.

The shortfall meant that City operations and services would need to be reduced to avoid a dramatic increase in property taxes. Recognizing this potential in May 2020, the City established a Community Budget Advisory Committee (CBAC) to work with City Council and City Staff to make recommendations for the 2021 budget that reflected the voice of the community in the process.

CBAC met from June to October. They spent many hours reviewing City budgeting and capital planning documents, understanding City operations, and evaluating the tax levy impacts to a homeowners, renters, and businesses. Ultimately, CBAC presented three options to the City Council in early November that bundled reductions in City operations in three tiers corresponding to various tax levy scenarios in 2021; a group of reductions necessary for a 5% tax levy increase, additional reductions to get to a 3% tax levy, and even further reductions to keep the levy flat.

After reviewing CBAC recommendations and understanding the tax levy impacts to the taxpayer, the City Council directed the City Manager to return with a budget in the range of a 2.5-3% levy increase. Below is the City Manager's recommendation.

City Manager Recommendation

The following recommendations have four core values:

- Honor the work of the Community Budget Advisory Committee and the perspective of residents impacted by these decisions;
- Limit the impact of property tax increases to the greatest extent possible during a year that is going to financially challenge many tax payers in the community;
- Minimize the impact of City service reductions to the greatest extent possible, recognizing that many people in the community rely on these services as necessary to quality of life, health, and safety; and,
- Consider the implications and impacts on future budget years, for both the taxpayer and the organization

The City Manager recommends:

- General Fund property tax levy increase of 2.75% for 2021;
- Majority of reductions to City services included in CBAC Scenario "A" be incorporated into the budget (alterations to the scenario are discussed below);
- Creation of a Tax Levy Stabilization line in the Strategic Priorities Fund as a balancing strategy to buffer tax levy increases; and,
- A preliminary 2022 General Fund property tax levy increase of 0%.

Recommendation # 1 – Tax Levy Increase of 2.75%

The recommended tax levy is a reduction of 2.25% from the 5% Preliminary Tax Levy set in September. For the Median Value Home, that represents a $1.37/month increase for City taxes. Hennepin County has adopted a 0% preliminary levy and the Bloomington School District has adopted a 2.8% preliminary levy increase. In the context of all taxing jurisdictions, a 2.75% increase by the City *results in an overall reduction of $4.23/month* for the Median Value Home.

> ** - Note:* We have consistently also analyzed the effect of a tax levy increase to a "median value apartment" this year so we are aware of the potential impact to renters. Due to a market value increase of 7.3% for Pay 2021, the share of the property tax levy to a renter is estimated to be an increase of $6.58/month.

Recommendation #2 – CBAC Service Reductions Scenario "A"

The spreadsheet of CBAC recommended reductions, with City Manager recommended adjustments, is part of the presentation slides attached in the agenda packet. The adjustments are briefly summarized here:

- Net increase in recommended reductions of $238,887; *total reductions in Scenario "A" of $1.833M.*
- Most notable additions to Scenario "A" are:
  - Elimination of a position in Community Development, due to a recent staff departure and proposed reassignment of duties
  - Elimination of the Fire Department Fleet Repair Technician, which is not necessary after fleet composition changes effected as a result of the Fire Service Assessments
  - Elimination of a part-time position in Human Resources

- Fee increases related to Parks & Recreation (approved at the November 23rd City Council meeting)
- Most notable deletions from Scenario "A" are:
  - Reduction of Cultural Arts Grants
  - Incremental increase of Bloomington Ice Garden rates
  - Elimination of a Parks Maintenance position
  - Elimination of an administrative support Administration Department position

Recommendation #3 – Tax Levy Stabilization

The Strategic Priorities Fund has regularly been used over the past decade to smooth out the impact of various budget impacts such as costs associated with the Fire Relief Association pension obligations and implementation of the Information Technology Department's strategic plan.

Staff is proposing a three-year use of the Strategic Priorities Fund to mitigate the impact of tax levy increases and avoid further reductions of service to the community.

The Strategic Priorities Fund is financially sound and the Fund Balance is well positioned to manage this transition over several years. At the December 7th City Council meeting, staff will ask the City Council to transfer the 2019 Positive Budget Variance into the Fund (as is done every year). The amount of the 2019 variance is roughly $1.8M, which will result in a 2020 Year End Fund Balance of approximately $6M. Staff is also projecting a 2020 Positive Budget Variance of roughly $3M and a contribution to Strategic Priorities of $1.5M from the Facilities Fund due to the FAC pool vessel replacement no longer necessary in the near term.

The proposed Tax Levy Stabilization in 2021 is roughly $1.1M and for 2022 it is projected to be $1.2M. It is too early to estimate an amount for FY2023 due to the uncertainty of market value changes and future budgeting needs, but an amount similar to 2021 and 2022 is a reasonable expectation.

Recommendation #4 – 2022 Preliminary Levy of 0%

Staff anticipates to maintain an operating and service level in 2022 similar to 2021. Variations in revenue forecasting and changing operational priorities may impact the 2022 General Fund budget. However, at this time, it looks reasonable to forecast a budget than can be effectively met with no change or minimal change to the tax levy. The market value adjustments for Pay 2022 are expected to see a roughly 6% increase for the Median Value Home and as much as a 10% decline for Commercial/Industrial properties. This will result in a tax base shift placing a greater burden on single-family homeowners. Setting the expectation of little or no levy change in 2022 will ease the minds of property tax payers who may still be experiencing financial and economic hardship due to the pandemic.

Decision Points

Based on discussion by the City Council on November 16 and November 23, there seem to be three primary discussion topics:

- Tax Levy Strategy and CBAC/City Manager Reductions
  - *Is the City Council comfortable with the combination of operating reductions and modest levy increase to achieve the goals of minimizing financial impact to taxpayers and minimizing the impact of service reductions to the community?*

- Motor Vehicle
  - *Does the City Council wish to relinquish the Deputy Registrar authority? Staff believes it is likely that private interests would seek a Deputy Registrar approval to continue serving the City of Bloomington should the City abandon it, and has discussed this with other Deputy Registrar entities within the 10-mile radius.*
    - *Total is $225,000*

- Fee Increases
  - *Does the City Council wish to amend changes in the City's fee schedule adopted on November 23rd that exceed the fee structures recommended by CBAC. Staff believes these fee adjustments are appropriate based on market comparisons?*
    - New Athletic Field Utilization Fee - $80,000
    - Increase BFAC child and senior pass rates - $10,000
    - Increase fees for playground and summer programs - $24,000
    - Increase greens fees at Dwan by $3/round - $71,358
    - *Total - $185,358*

Other Options

Council Member Baloga proposed reallocation of Franchise Fees as a potential option to manage budget challenges in 2021 and perhaps beyond. Staff suggests that consideration of this option at this point in the budget process is not necessary because it appears that most of the City Council's desired outcomes, as understood by staff, can be accomplished without incorporating this option.

However, staff has included the Franchise Fees and PMP/Trails Funding model as a separate PDF. A rate increase will be necessary in the next couple years based on the forecast. Discussion of the Franchise Fees and funding for future roads/trails reinvestment should occur during 2021.