

**CITY OF SHOREVIEW
AGENDA
CITY COUNCIL WORKSHOP
NOVEMBER 14, 2011
5:30 P.M.**

1. ROLL CALL
2. REVIEW OF THE PROPOSED 2012/2013 BUDGET AND TAX
LEVY
3. OTHER ITEMS
4. ADJOURNMENT



City of Shoreview, Minnesota

Proposed Operating Budget 2012-2013 and Capital Improvement Plan 2012-2016

To be considered for adoption on December 19, 2011

Principal City Officials

City Council	Name	Term Expires
Mayor	Sandy Martin	December 31, 2012
Council member	Blake Huffman	December 31, 2012
Council member	Terry Quigley	December 31, 2014
Council member	Ady Wickstrom	December 31, 2012
Council member	Ben Withhart	December 31, 2014

Administrative Staff	Name	Date of Hire
City Manager	Terry Schwerm	June 16, 1993
Assistant City Manager/ Community Development Director	Thomas C. Simonson	February 19, 1985
Finance Director/Treasurer	Jeanne A. Haapala	September 26, 1988
Public Works Director	Mark J. Maloney	September 6, 1994
Parks and Recreation Director	Gerald R. Haffeman	April 10, 1972

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City of Shoreview, Minnesota – 2012 Budget

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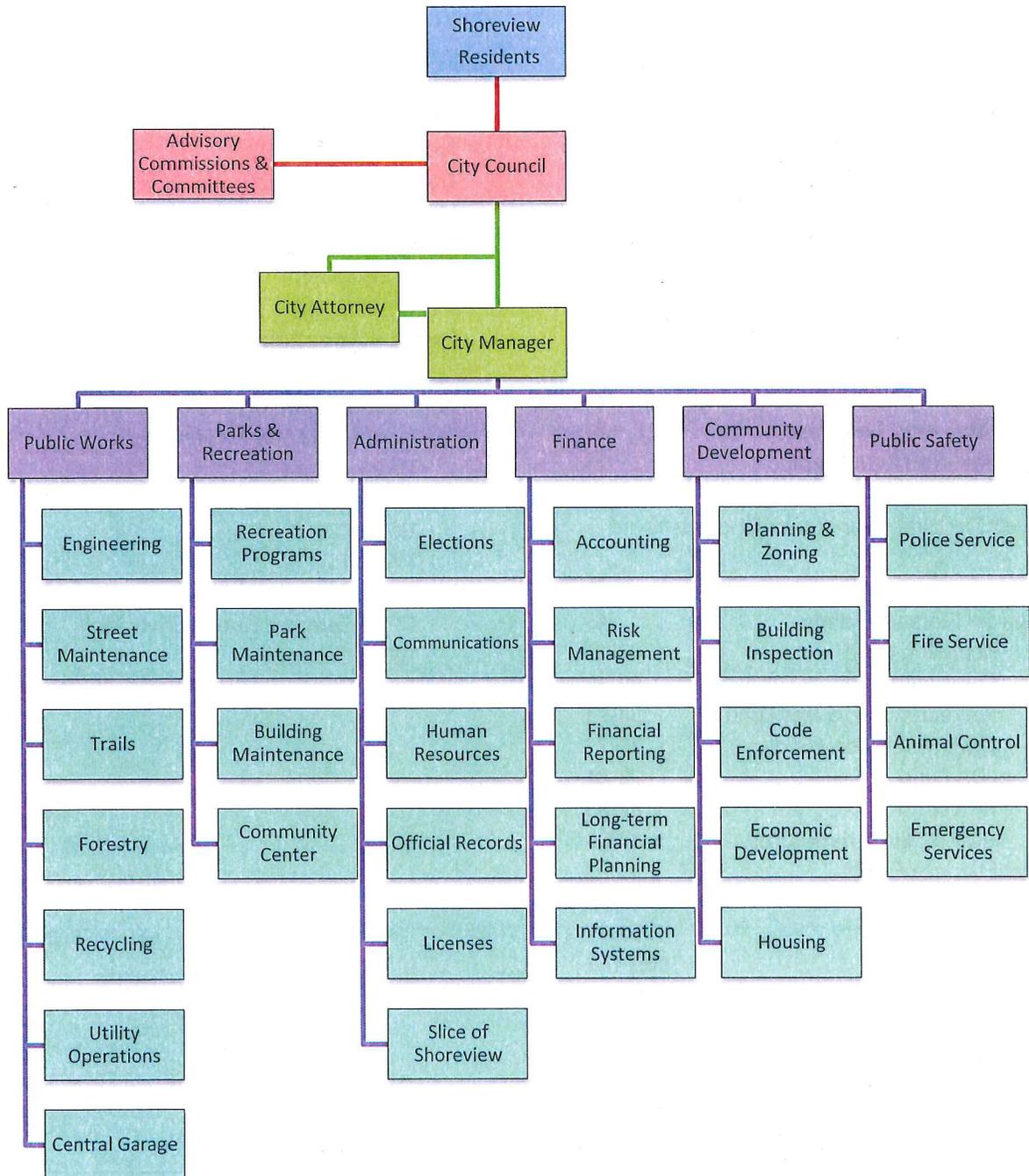
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Organization Structure

Shoreview operates under the Minnesota Statutory Plan B (Council – Manager) form of government. Policy-making and legislative authority are vested in a City Council consisting of the mayor and four council members, all elected on a non-partisan basis. The City Council appoints the City Manager, who in turn appoints directors of the various departments. Council members serve four-year terms, with two members elected every two years. The mayor is elected for a two-year term. Functional areas of city operations are shown in the organizational chart below.



Mayor and City Council and Citizens of Shoreview

New for 2012

Shoreview's Operating Budget and Capital Improvement Plan (CIP) are presented in a new format this year due to a budget system redesign that started in 2010 and will be completed in 2012. Five objectives guided the budget system redesign, including:

1. **Integration** – The new system reduces duplication of effort and re-entry of data used by multiple long-term financial planning efforts including the Budget, CIP, Five-Year Operating Plan (FYOP) and Comprehensive Infrastructure Replacement Plan (CHIRP).
2. **Simplification** – Many budget activities were combined to simplify coding complexity for payroll and accounts payable, and to establish more meaningful budget levels.
3. **Content** – A significant amount of new information has been added to each budget activity, including activity measures, community survey results, a discussion of budget impacts and recent achievements.
4. **Presentation** – The Budget and CIP have been combined into one document due to format changes that have significantly shortened the length of the budget through consolidation of activities and a multi-year presentation of projects.
5. **Efficiency** – The budget has been expanded to accommodate adoption of a two-year budget.

We hope the Citizens of Shoreview and the City Council find the new format more informative and comprehensive, that it serves to support the budget process and Council budget discussions, and that it provides a new framework for management level budget evaluation and performance discussions.

Budget Process

Preparation of the budget begins in May and continues through adoption in December. City departments prepare and submit 6-year operating projections which form the basis for the two-year budget and the Five-Year Operating Plan (FYOP). These documents determine funding strategies for City services and provide guidance for the City's tax levy, utility rates and user fees. The Finance Department coordinates budget preparation, provides analytical support to City Administration, evaluates budget requests in relation to resource limitations, and analyzes any new program or service level changes along with any corresponding impact on revenue sources.

The City Manager meets with Department Directors over a number of formal and informal meetings, during the summer and fall, to discuss issues impacting budget requests and potential budget revisions. Changes resulting from department meetings are incorporated into the budget prior to City Council review.

Council work sessions begin in late summer and continue until the budget hearing in December. State law requires the adoption and certification of a preliminary tax levy by September 15, and requires certification of the final tax levy and budget by December 28. Shoreview's budget hearing is routinely held at the first regular Council meeting in December.

Budget Objectives

The primary objectives in developing the City budget are to provide an operational plan for the effective delivery of City services to residents and businesses, and to ensure protection of the City's financial strength and flexibility through a revenue structure and long-term planning efforts that are consistent with financial policies, Council goals, and the working capital targets established in the City's FYOP. Specific goals guiding budget development include: maintain existing services and programs; protect and maintain parks, lakes and open space areas; improve communications with residents and businesses; encourage maintenance and reinvestment in neighborhoods; explore targeted development and redevelopment to ensure a diverse tax base, quality housing, jobs, and a good mix of commercial services for residents; provide for future housing and capital improvement initiatives; and address economic challenges including declining property values.

Service delivery results are measured through a combination of activity measures and periodic community surveys. Activity measures include operating indicators that are relevant to each service or program. Community surveys, performed by Decision Resources, gather statistically valid information through a telephone survey of Shoreview residents (selected through random sampling). Staff and Council members use the survey results to evaluate and report resident satisfaction, and to assist in budget discussions. From a city-wide perspective, the 2010 survey reported the following results:

- 96 percent of residents rated the quality of life in Shoreview as excellent or good (the 55 percent excellent rating is one of the highest in the metropolitan area).
- 84 percent of residents indicated that the City is headed in the right direction.
- 80 percent of residents indicated that the quality of city services in relation to city property taxes is excellent or good.

Service efficiency is measured by comparing Shoreview's taxing levels, revenue by source, and expense by function, to cities of similar size. Data obtained from the Office of State Auditor and the League of Minnesota Cities is used to prepare the benchmark comparisons for 28 metro-area cities closest to Shoreview in population (selecting 14 larger and 14 smaller). The most recent revenue and expense data available from the Office of State Auditor (for the year 2009) and the most recent property tax data (for the year 2011) show that Shoreview's:

- City share of the property tax bill (on a median valued home value of \$249,350) is 5th lowest among comparison cities (\$765 in Shoreview compared to \$980 on average).
- City tax rate is 6th lowest among comparison cities (25 percent below average).
- Special assessment revenue per capita is 2nd lowest of comparison cities, due to Shoreview's capital policy which limits the use of special assessments to the cost of new improvements.
- Charges for service revenues are 4th highest per capita, due to memberships and daily admission revenue for the community center as well as recreation program fees.
- Public safety spending per capita is the lowest among comparison cities (half of the average) due to efficiencies gained through contracts with other local governments.
- Total spending per capita is 24 percent below average (8th lowest among comparison cities).

Funding strategies balance revenue from diversified sources such as taxes, utility rates and user fees, as well as the use of current resources versus debt issuance. The overall revenue structure is established with a long-term view, and is designed to protect service delivery, ensure adequate resources in support of operations, protect asset function and condition by providing sufficient funding for repair and replacement costs when needed, and provide long-term stability and sustainability.

Over the next 5 years, replacement costs are projected to have an average impact of 1.5 percent per year on the property tax levy, followed by an average annual impact of less than 1 percent after 5 years.

Financial planning and the policies that support planning and decision-making are critical to achieving and sustaining financial strength and flexibility. These efforts provide short and long-term operating and capital projections, as well as integrated financial strategies for the future. The City’s financial policies for fund equity levels, infrastructure replacement, and debt issuance; financial planning efforts through the budget, CIP, FYOP and CHIRP; and the fund goals and targets as established in the FYOP, support one another to protect the financial health of the City and ensure:

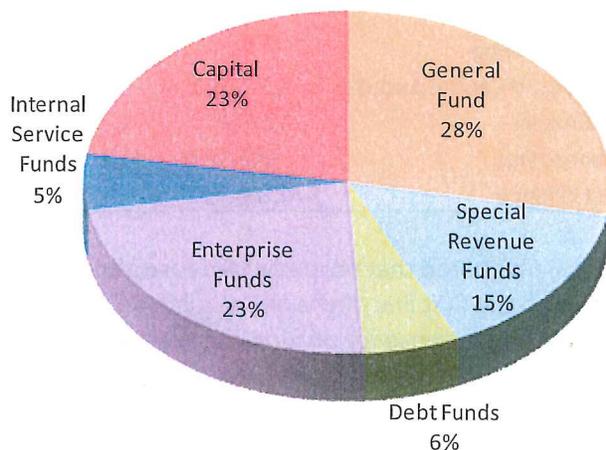
- Decision-making considers a long-term view of community needs
- Practices prevent the use of one-time revenues to support ongoing operating expenses.
- Analysis considers long-term maintenance and operating costs when planning and evaluating capital projects.
- Commitment to balanced operations where revenues support operating costs.

Financial strength and flexibility is measured by how well the City is able to adapt to changing conditions, avoid temporary solutions that cannot be sustained, respond to unanticipated events and challenges, support operations with limited new development, ensure continuation of essential services, protect asset condition, navigate economic cycles, secure and maintain a high bond rating (reducing borrowing costs), prepare for the future, moderate changes in tax levies, utility rates and user fees whenever possible, and avoid short-term borrowing to support operations.

As discussed later in this document, over the last 2 years Shoreview’s bond rating has been upgraded twice, due in part to the City’s commitment to sustainable long-term financial practices and long-term planning. In November of 2010 Standard and Poor’s assigned an AAA bond rating to Shoreview, the highest bond rating awarded.

Budget Overview

Municipalities account for operations through the use of separate “funds” that account for services and associated revenue sources. Each fund can be thought of as a separate business entity that is created for a specific purpose. Not only does each fund have its own purpose, but each fund has different constraints on its resources.



Total Operating Budget – The total proposed 2012 and 2013 budget for operating funds is summarized in the table below (excluding planned capital projects). Budgeted expense in 2012 is \$23,079,351, an increase of \$1,135,557 over the 2011 budget (5.2 percent). The majority of the increase (\$538,423) is due to debt payment restructuring through an advance refunding. Total expense in 2013 is \$23,661,918, a 2.5 percent increase over 2012.

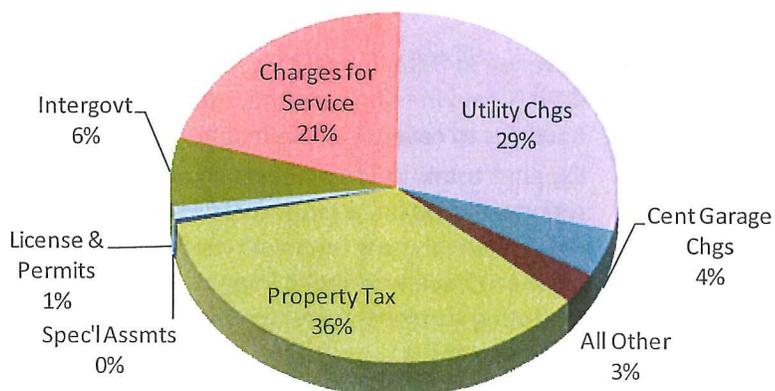
	2009 Actual	2010 Actual	2011 Budget	2011 Estimate	2012 Proposed	2013 Proposed
Revenue						
Property Taxes	\$ 6,511,151	\$ 6,777,040	\$ 7,055,734	\$ 7,055,734	\$ 7,250,086	\$ 7,537,037
Special Assessments	210,597	201,614	144,311	132,222	115,865	107,971
Licenses and Permits	368,878	501,198	281,150	307,010	292,750	279,750
Intergovernmental	240,869	342,426	235,602	280,122	400,247	367,832
Charges for Services	5,137,372	5,305,833	5,271,261	5,361,635	5,473,175	5,625,135
Fines and Forfeits	55,582	32,813	42,500	61,480	62,000	62,500
Utility Charges	6,501,275	6,487,924	7,177,300	6,964,709	7,540,762	7,864,601
Central Garage Charges	939,716	1,043,775	1,109,816	1,109,080	1,137,680	1,153,020
Interest Earnings	208,450	160,710	232,550	193,500	208,550	220,350
Other Revenues	104,214	146,587	72,942	86,280	81,860	82,300
Total Revenue	\$ 20,278,104	\$ 20,999,920	\$ 21,623,166	\$ 21,551,772	\$ 22,562,975	\$ 23,300,496
Expense						
General Government	\$ 1,961,459	\$ 2,077,391	\$ 2,139,609	\$ 2,108,527	\$ 2,307,905	\$ 2,317,773
Public Safety	2,383,720	2,448,406	2,573,947	2,579,250	2,721,227	2,884,628
Public Works	1,719,828	1,714,051	1,819,210	1,779,738	1,889,483	1,965,317
Parks and Recreation	4,886,627	5,076,848	5,251,084	5,229,808	5,294,174	5,452,163
Community Development	587,167	621,455	625,265	627,813	637,832	659,859
Enterprise Operations	5,041,186	5,110,193	5,328,684	5,373,536	5,409,730	5,559,989
Central Garage	569,884	502,790	562,782	546,685	576,564	590,407
Miscellaneous	98,214	79,834	38,000	48,000	48,000	40,000
Debt Service	1,925,191	2,172,791	1,795,013	2,125,505	2,333,436	2,277,782
Depreciation	1,284,632	1,397,175	1,810,200	1,804,000	1,861,000	1,914,000
Total Expense	\$ 20,457,908	\$ 21,200,934	\$ 21,943,794	\$ 22,222,862	\$ 23,079,351	\$ 23,661,918
Other Sources (Uses)						
Sale of Asset-Gain	60,749	29,473	30,000	47,000	20,000	41,000
Debt Proceeds	2,819	-	-	4,620,000	-	20,000
Debt Refunding	-	-	-	(4,705,990)	-	-
Contributed Capital Assets	1,255,021	107,585	-	-	-	-
Transfers In	1,561,872	1,992,463	1,929,061	1,942,301	2,056,090	2,359,186
Transfers Out	(805,214)	(1,211,030)	(1,301,161)	(1,259,529)	(1,149,840)	(1,338,400)
Net Change	\$ 1,895,443	\$ 717,477	\$ 337,272	\$ (27,308)	\$ 409,874	\$ 720,364

It should be noted that property taxes are also levied for capital funds therefore the property taxes shown on the first line of the above table do not reflect the total adopted City tax levy. A summary of revenue and expense for all funds is presented on the next page, and a discussion of the total property tax levy is presented later in this document.

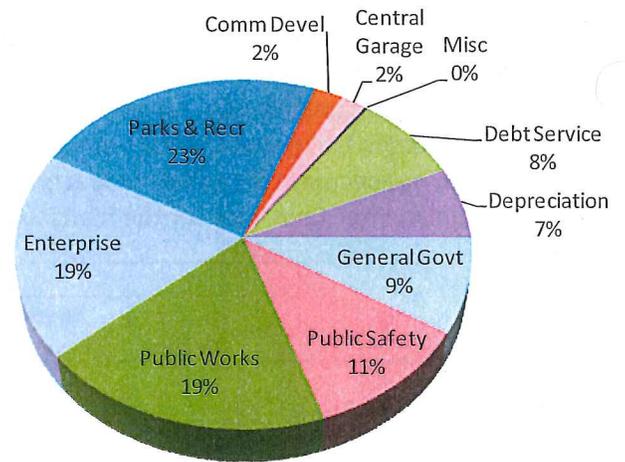
Combined Revenue and Expense for all funds in 2012 is provided in the table below (by type of fund). Total estimated expense is \$28,187,041 for the year (\$23,079,351 in operating funds plus \$5,107,690 in capital funds). An additional \$1,581,500 of capital project costs will be capitalized and depreciated in Utility and Central Garage funds (for a combined 2012 CIP estimate of \$6,689,190). The planned net decrease in capital funds is primarily due to the use of existing tax increment funds (TIF), through an inter-fund loan, for the realignment of Owasso Street (\$1,619,000 TIF share).

	Operating Funds					Capital Funds	Total All Funds
	General	Special Revenue	Debt	Utility	Internal Service		
Revenue							
Property Taxes	\$6,467,060	\$ 125,000	\$ 442,026	\$ -	\$ 216,000	\$ 2,110,000	\$ 9,360,086
Special Assessments	-	-	115,865	-	-	13,433	129,298
Licenses and Permits	292,750	-	-	-	-	-	292,750
Intergovernmental	183,002	69,000	-	27,530	120,715	1,252,445	1,652,692
Charges for Services	1,164,450	4,301,025	-	200	7,500	-	5,473,175
Fines and Forfeits	62,000	-	-	-	-	-	62,000
Utility Charges	-	-	-	7,540,762	-	-	7,540,762
Central Garage Charges	-	-	-	-	1,137,680	-	1,137,680
Interest Earnings	45,000	14,400	17,850	106,500	24,800	49,600	258,150
Other Revenues	35,160	26,200	-	500	20,000	361,700	443,560
Total Revenue	8,249,422	4,535,625	575,741	7,675,492	1,526,695	3,787,178	26,350,153
Expense							
General Government	2,085,610	222,295	-	-	-	157,250	2,465,155
Public Safety	2,721,227	-	-	-	-	381,640	3,102,867
Public Works	1,400,009	489,474	-	-	-	3,485,400	5,374,883
Parks and Recreation	1,588,453	3,705,721	-	-	-	1,083,400	6,377,574
Community Development	534,323	103,509	-	-	-	-	637,832
Enterprise Operations	-	-	-	5,409,730	-	-	5,409,730
Central Garage	-	-	-	-	576,564	-	576,564
Miscellaneous	-	-	-	-	48,000	-	48,000
Debt Service	-	-	1,743,547	342,732	247,157	-	2,333,436
Depreciation	-	-	-	1,188,000	673,000	-	1,861,000
Total Expense	8,329,622	4,520,999	1,743,547	6,940,462	1,544,721	5,107,690	28,187,041
Other Sources (Uses)							
Sale of Asset-Gain	-	-	-	-	20,000	-	20,000
Transfers In	481,000	375,000	1,019,490	-	180,600	2,359,750	4,415,840
Transfers Out	(400,800)	(196,950)	(1,490)	(550,600)	-	(3,266,000)	(4,415,840)
Net Change	\$ -	\$ 192,676	\$ (149,806)	\$ 184,430	\$ 182,574	\$(2,226,762)	\$(1,816,888)

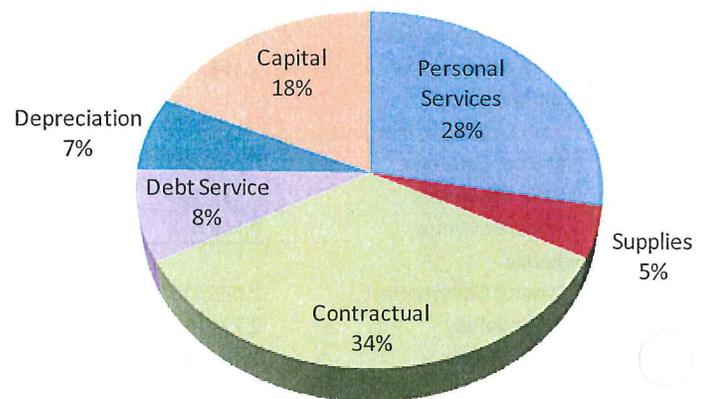
Revenue by Source – Revenue (for combined operating and capital funds) is derived from a combination of sources including: property tax, utility charges, charges for service, intergovernmental revenue, central garage charges, license and permit revenue and other miscellaneous sources. More information is provided on property tax levies and utility rates later in this document.



Total Expense by Function – Public works accounts for 38 percent, including 19 percent for engineering, street and trail maintenance, and forestry; and 19 percent for enterprise (utility) operations. Parks and recreation operations account for 23 percent. Public safety accounts for 11 percent (police, fire, animal control, and emergency services). General government accounts for 9 percent, followed by debt service at 8 percent, and depreciation at 7 percent (for utility system and central garage assets). Community development and central garage operations each account for 2 percent of total spending.



Total Expense by Class – Contractual costs account for the largest share of total spending (34 percent), and include: sewage treatment; contracted police, fire and recycling; inter-fund charges; and repair and maintenance. Personal services accounts for 28 percent, and includes: wages, health insurance, required contributions to social security, medicare and PERA, and workers compensation insurance. Capital costs account for 18 percent of total spending, followed by 8 percent for debt payments, and 7 percent for depreciation expense (for the depreciation of utility system and central garage assets). Supplies account for the smallest share of the budget at 5 percent.



In recent years the City has held the cost of health insurance premiums down through use of a high-deductible plan. Premiums are significantly lower than the Ramsey County plan (the City’s former health insurance provider). For instance, family coverage in the County plan is more than double Shoreview’s current rates. Over the last 5 years staff estimates that the City and employees combined have saved nearly \$1.8 million in premiums through the City’s high-deductible plan.

Net Change – The General Fund budget, as shown on the previous page, is designed to balance each year because all revenue received during the budget year is available to support expense. Budgets in other funds are designed to accomplish a variety of long-term objectives and therefore the net difference between revenue and expense may result in an increase or a decrease in fund equity during any given budget year. For instance:

- Revenue in Debt Funds is legally restricted to debt payment and must be held until the related debt is paid in full. Therefore, the 2012 budget assumes spending a portion of accumulated fund balances to cover debt payments.
- Expense totals in Utility Funds do not include planned capital costs because these funds must be reported using full accrual accounting (recording depreciation of assets over their useful life). For a relatively new fund with modest cash balances, such as the Street Lighting Fund, capital costs can have a dramatic impact on cash balances and cash flow, which means that an operating surplus (where revenue is greater than expense) is necessary to support planned capital costs.

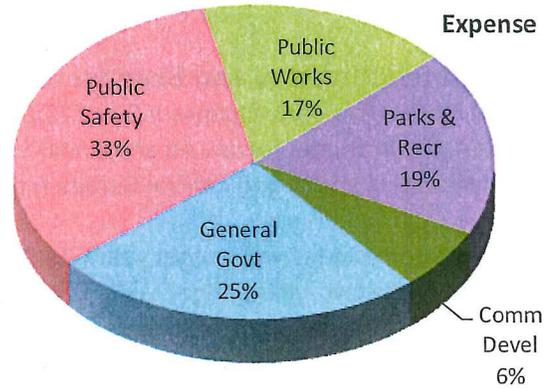
Combined Revenue and Expense for all funds in 2013 is provided in the table below (by type of fund). Total estimated expense is \$29,726,288 for the year (\$23,661,918 in operating funds plus \$6,064,370 in capital funds). An additional \$1,280,400 of capital project costs will be capitalized and depreciated in Utility and Central Garage funds (for a combined 2013 CIP estimate of \$7,344,770).

Presentation of a second budget year (2013 budget summary) is new this year due to the City's transition to a two-year budget cycle. Even though a budget is adopted for each year, the City will continue to hold a budget hearing during 2012 (for the 2013 budget), and will adopt both a preliminary and final tax levy for 2013 budget (as is required by State law). Any necessary modifications to 2013 revenue or expense will be handled through a budget amendment in December of 2012, after the normal budget hearing.

	Operating Funds					Capital Funds	Total All Funds
	General	Special Revenue	Debt	Utility Funds	Internal Service		
Revenue							
Property Taxes	\$ 6,717,037	\$ 135,000	\$ 501,000	\$ -	\$ 184,000	\$ 2,220,000	\$ 9,757,037
Special Assessments	-	-	107,971	-	-	12,821	120,792
Licenses and Permits	279,750	-	-	-	-	-	279,750
Intergovernmental	184,302	70,000	-	27,000	86,530	983,645	1,351,477
Charges for Services	1,205,680	4,411,755	-	200	7,500	-	5,625,135
Fines and Forfeits	62,500	-	-	-	-	-	62,500
Utility Charges	-	-	-	7,864,601	-	-	7,864,601
Central Garage Charges	-	-	-	-	1,153,020	-	1,153,020
Interest Earnings	45,000	15,600	19,050	115,700	25,000	47,400	267,750
Other Revenues	25,600	26,200	-	500	30,000	262,900	345,200
Total Revenue	8,519,869	4,658,555	628,021	8,008,001	1,486,050	3,526,766	26,827,262
Expense							
General Government	2,107,075	210,698	-	-	-	170,000	2,487,773
Public Safety	2,884,628	-	-	-	-	439,645	3,324,273
Public Works	1,461,077	504,240	-	-	-	4,861,725	6,827,042
Parks and Recreation	1,625,645	3,826,518	-	-	-	593,000	6,045,163
Community Development	547,944	111,915	-	-	-	-	659,859
Enterprise Operations	-	-	-	5,559,989	-	-	5,559,989
Central Garage	-	-	-	-	590,407	-	590,407
Miscellaneous	-	-	-	-	40,000	-	40,000
Debt Service	-	-	1,718,741	315,913	243,128	-	2,277,782
Depreciation	-	-	-	1,218,000	696,000	-	1,914,000
Total Expense	8,626,369	4,653,371	1,718,741	7,093,902	1,569,535	6,064,370	29,726,288
Other Sources (Uses)							
Sale of Asset-Gain	-	-	-	-	41,000	-	41,000
Debt Proceeds	-	-	20,000	-	-	2,790,000	2,810,000
Transfers In	519,000	392,000	1,247,286	-	200,900	1,513,525	3,872,711
Transfers Out	(412,500)	(195,000)	(126,000)	(604,900)	-	(2,534,311)	(3,872,711)
Net Change	\$ -	\$ 202,184	\$ 50,566	\$ 309,199	\$ 158,415	\$ (768,390)	\$ (48,026)

A discussion of each operating fund budget is presented on the next several pages.

General Fund – The General Fund includes revenue and expense associated with a wide range of services, accounts for the largest share of the budget, and receives the largest share of the property tax levy. Major functions include general government, public safety, public works, parks and recreation and community development.



General Government includes activities related to City Council and Commissions, elections, legal, administration, human resources, finance, information systems, and communications. Changes in general government for 2012 include an administrative staff position converting to part-time, a new Communications Specialist, the cost of a general election, a one percent wage adjustment for regular staff, and a \$50 per month increase in the City’s share of health insurance. In addition, communication costs have been consolidated in the General Fund and are partially supported through a transfer from the Cable Television Fund in the amount of \$111,000. After consideration of the transfer, general government expense is expected to rise 1.8 percent in 2012 and 1 percent in 2013.

Public Safety includes contract costs associated with police, fire, and animal control as well as operation of the City’s warning sirens. Shoreview achieves a significant savings in public safety costs through contracts with Ramsey County for police service, and Lake Johanna Fire Department for fire service. Changes in public safety include higher costs for dispatch, a 1.5 percent increase in policing costs, higher initial costs for transferring animal control services from a private contractor to the Sheriff’s department, continued expansion of the fire duty crew program (for paid on-call firefighters working different shifts at fire stations), and a one-dollar per hour increase in duty crew pay (to bring pay closer to the market average). Overall, public safety costs are expected to increase 5.7 percent for 2012 and 6 percent for 2013.

Public Works includes administration and engineering, street and trail maintenance, and forestry. Changes in 2012 include reclassification of the Assistant City Engineer position (due to redistribution of responsibilities), higher asphalt prices, increased sign replacement costs due to new federal regulations regarding sign reflectivity, and potentially higher forestry expenses due to the Emerald Ash Borer response. Public works costs increase 1.7 percent for 2012 and 4.4 percent for 2013.

Parks and Recreation includes park administration, building operation/maintenance and park maintenance. Total parks and recreation costs are projected to drop 5.5 percent in 2012 due to the elimination of a position through retirement and restructuring of the department. Even though parks costs will increase 2.3 percent for 2013, the total expense will remain lower than 2010 or 2011 expense.

Community Development includes planning and zoning administration, and building inspection. Over the next 6 years the EDA and HRA funds will pay an increasing share of the Community Development Director position, until the total charged to the two funds reaches 40 percent of the position. Other changes include increased continuing education and certification requirements for the Building Official and higher contracted inspector costs. Overall, community development costs will increase 1.4 percent for 2012 and 2.5 percent for 2013.

Special Revenue Funds are used to account for revenue that is dedicated by State statute, local ordinance, resolution, or practice to support specific operations or expenses. Establishment of these funds enables the City to closely monitor both revenue and expense associated with a given program.

Recycling Fund – Accounts for the operation and promotion of the City’s curbside recycling program through a joint powers agreement with Ramsey County. The program also provides two clean-up day events (in the spring and fall) in conjunction with the City of Arden Hills. Revenue is derived from grant funding and user fees.

Community Center Fund – Accounts for revenue and expense associated with the operation and maintenance of the fitness center and studios, the Tropics Indoor Water Park, Tropical Adventure indoor play area, banquet and meeting rooms, birthday party rooms, gymnasium, locker facilities, picnic pavilion and the Wave Café. Because the facility was designed to serve as a community gathering place, room space is provided to community-oriented groups at reduced rates or free. The General Fund provides a contribution (through an inter-fund transfer) equal to \$225,000 for 2012, and \$232,000 for 2013, to offset discounted room rentals (covering approximately 9 percent of operating costs). The Recreation Program Fund provides a 2012 inter-fund transfer equal to \$75,000, and a 2013 inter-fund transfer equal to \$80,000 for use of the facility throughout the year. All remaining revenue is from memberships, daily admissions, room rentals, concessions and interest earnings.

Recreation Programs Fund – Accounts for a variety of recreational and social programs offered on a fee basis. Revenue is generated through user fees and an inter-fund transfer from the General Fund to assist in supporting programs that provide overall community benefit (drop-in child care, preschool, youth/teen and community programs). The General Fund provides \$65,000 of support in 2012 and \$70,000 in 2013.

Cable Television Fund – Accounts for the receipt of cable franchise fees (from the cable provider) designated for communications and cable television uses. Costs supported by the fund include operation and promotion of cable communications via North Suburban Communications Commission, staff costs for communication activities, partial support for publication and distribution of the *ShoreViews* city newsletter, and funding for operating and capital costs associated with broadcasting public meetings.

Economic Development Authority Fund – Accounts for revenue dedicated to support activities of the EDA, including retention and expansion of local business, targeted redevelopment areas, providing employment opportunities and to strengthen and diversify the City’s tax base.

Housing and Redevelopment Authority Fund – Accounts for revenue dedicated to support the housing-related activities of Shoreview’s EDA, including the development of affordable housing, protection of property values and neighborhoods by promoting reinvestment and home improvements.

Slice of Shoreview Fund – Accounts for revenue and expense associated with a three-day community festival held in July at Island Lake Park. Revenue is derived from donations, event charges, and a \$10,000 inter-fund transfer from the General Fund.

Debt Funds account for payment of all debt obligations, except for Enterprise (utility) or Internal Service (central garage) fund debt. A separate Debt Service fund is maintained for each debt issue because tax levies and special assessment collections are legally restricted to the payment of specific debt issues.

Debt Issuance planned over the next 5 years is shown in the table below. G.O. Improvement Bonds support the assessment portion of street, utility and surface water projects, and generally represent the cost of new improvements. G.O. Street Improvement Bonds finance street rehabilitation throughout the community through full-depth reclamation or other street rehabilitation strategies. G.O. Water, Sewer and Surface Water Bonds finance the Enterprise Fund share of capital projects, as well as the addition of a \$9 million water treatment plant in 2015. Water rates will be adjusted starting in 2014 to cover debt service associated with the new water treatment plant.

Description	2012	2013	2014	2015	2016
GO Improvement Bonds (assmts)	\$ -	\$ 310,000	\$ -	\$ 320,000	\$ 480,000
GO Street Improvement Bonds	-	2,500,000	-	-	-
GO Water Bonds	-	790,000	-	9,780,000	480,000
GO Sewer Bonds	-	-	-	720,000	200,000
GO Surface Water Bonds	-	510,000	-	810,000	840,000
Estimated Total Debt Issued	\$ -	\$ 4,110,000	\$ -	\$ 11,630,000	\$ 2,000,000

Debt Repayment – Over the next 5 years approximately 40 percent of the City’s current outstanding debt will be retired, and 72 percent will be retired within 10 years. This is considered a very favorable indicator by bond rating agencies.

- **General Obligation Debt** is retired at a slightly faster rate with 57 percent paid over the next 5 years and 90 percent paid within 10 years.
- **Enterprise and Internal Service** debt is retired over a slightly longer period due to the long-term nature of utility systems, and debt issued in 2010 for maintenance center improvements. Approximately 45 percent of debt will be retired within 5 years and 78 percent within 10 years.

Debt Limit – Minnesota statutes limit the amount of general obligation debt and certificates of participation debt to 3 percent of total market value. As of December 31, 2010 Shoreview’s legal debt limit is \$90.4 million. Shoreview’s current debt levels are approximately 14 percent of the statutory debt limit, leaving 86 percent available.

Debt Levies – The debt portion of the tax levy is managed with the goal of providing a predictable and gradual change in the debt levy. In 2010 the City set aside \$378,064 of General Fund surplus to mitigate changes in future debt levies. As a result, the annual change in the debt levy is limited to an average of \$28,000 per year, including levies for proposed street improvement bonds in the year 2013.

Description	2012	2013	2014	2015	2016
Existing Debt-Central Garage	\$ 216,000	\$ 184,000	\$ 184,000	\$ 208,000	\$ 208,000
Existing Debt-Debt funds	442,026	375,000	375,000	375,000	375,000
Future Debt-Debt funds	0	126,000	156,000	162,000	182,000
Total Debt Levies	\$ 658,026	\$ 685,000	\$ 715,000	\$ 745,000	\$ 765,000
Change in Debt Levy	\$ 33,026	\$ 26,974	\$ 30,000	\$ 30,000	\$ 20,000

Bond Rating – Shoreview receives favorable interest rates on debt relative to the marketplace due to its AAA credit rating. The rating was awarded by Standard & Poor's in November of 2010 in recognition of the City's financial position and condition. Excerpts from Standard & Poor's rationale and outlook sections of the rating summary stated:

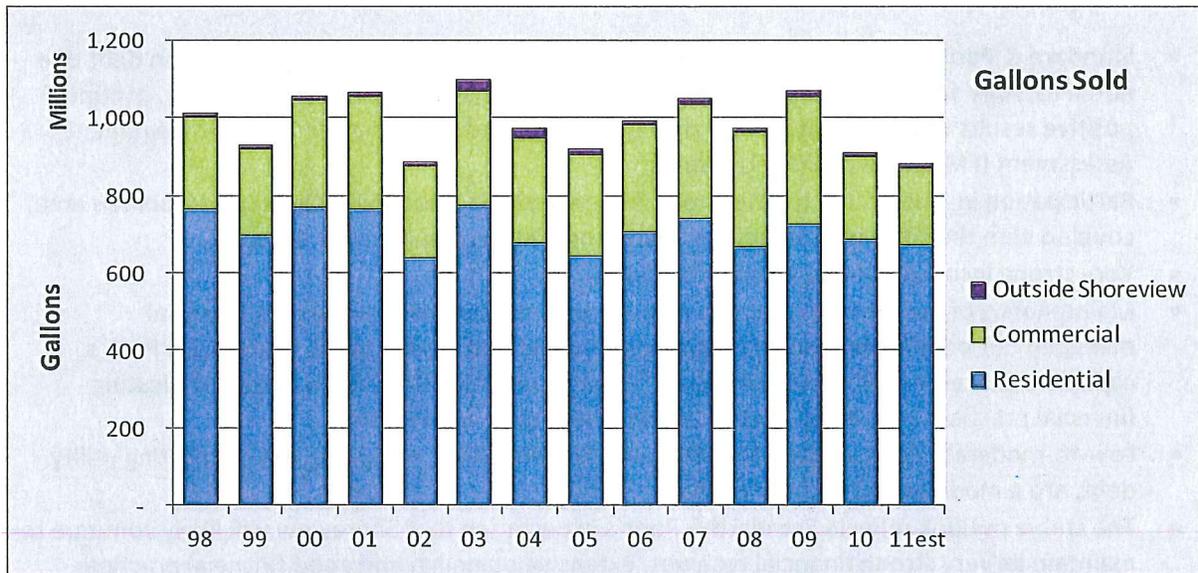
- Standard & Poor's Ratings Service raised its rating on Shoreview's general obligation debt one notch to 'AAA' from 'AA+' based on its view of the city's stable financial operations, continual positive results that have led to very strong reserves, and a "strong" Financial Management Assessment (FMA). The outlook is stable.
- Participation in, and access to, the strong Minneapolis-St. Paul (Twin Cities) metropolitan area, coupled with the city's own steadily growing and diverse employment base.
- Very strong income and wealth characteristics.
- Maintenance of very strong reserves, coupled with conservative and strong financial management policies that include long-range budget and capital plans. Standard & Poor's considers Shoreview's financial practices "strong" under its FMA methodology, indicating financial practices are strong, well imbedded, and likely sustainable.
- Low-to-moderate debt burden. The city's overall debt ratios, excluding self-supporting utility debt, are a moderate \$2,895 per capita.
- The stable outlook reflects Standard & Poor's expectation that Shoreview will likely continue to maintain its very strong financial reserves, extensive planning, and good financial practices.
- We also expect city officials to take the necessary steps to manage operations adequately given the forecast market value declines that might have an effect on budgets in the future. Any significant declines in the city's financial reserves could pressure the rating.

Enterprise Funds are used to account for self-supporting utility operations that are managed similar to private business enterprises. Charges for service, which are billed to customers, provide the sole support for operating costs, capital needs and debt service payments. Debt issued to finance utility infrastructure is accounted for within these funds.

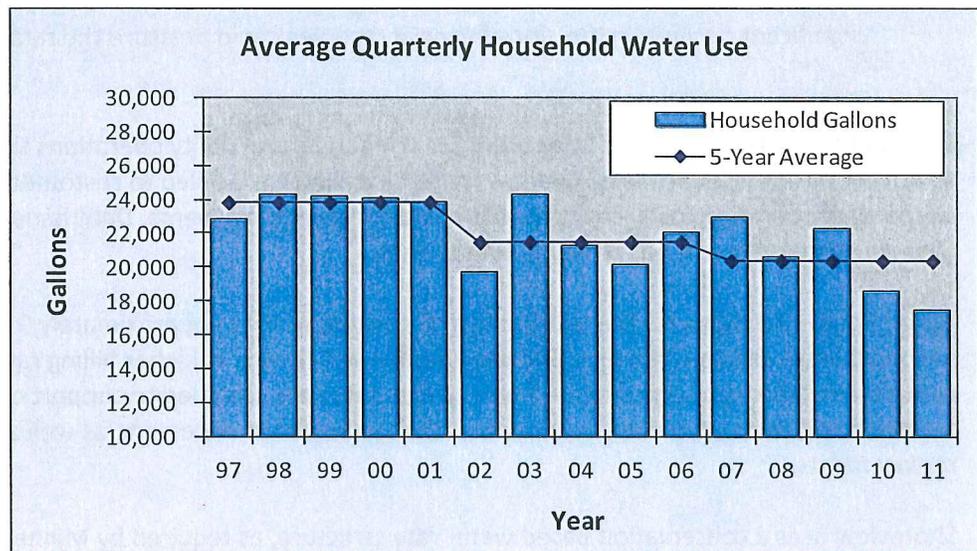
Water Fund – Accounts for the distribution of drinking water to approximately 9 thousand residences and businesses within City limits, and provides limited service at higher billing rates to neighboring communities through service agreements. Utility rates are designed to support operations and maintenance, debt payments, expansion of the system when necessary, as well as water system replacements.

Shoreview uses a conservation based water rate structure, as required by Minnesota law, with graduated rates that increase as customer water use increases. The rate structure is designed to protect the City's ability to deliver consistent and reliable water service to all properties at current water storage and delivery capacity. The City's water system (wells, water towers, underground water reservoir, distribution lines, valves and fire hydrants) is sufficient to deliver water service to all properties in Shoreview for the future. A water treatment plant is planned for the year 2015 to address concerns about iron and manganese levels in the water supply.

Water use over the last 14 years is shown in the table below. Fluctuations in water consumption are expected from year to year, and are due primarily to weather patterns each growing season. Frequent rainfall during summer months can lead to lower water consumption just as periods of drought can lead to higher water consumption.



Other factors that reduce household water use include water conservation efforts, an aging population, more efficient plumbing fixtures, an increase in landscape sprinkler systems, and fewer people per household. The graph at right shows the change in average quarterly household water consumption over the last 15 years.



As water consumption drops, water rates must be revised to generate sufficient income necessary to support operating, maintenance, debt service and replacement costs. For 2012, water rates are proposed to increase 15 percent to close the gap between revenue and expense. Fortunately, the City is able to avoid a sewer rate increase for 2012 because both sewage treatment and sewer operating costs will decrease slightly for 2012. Holding sewer rates constant will help mitigate the impact of higher water rates on customers.

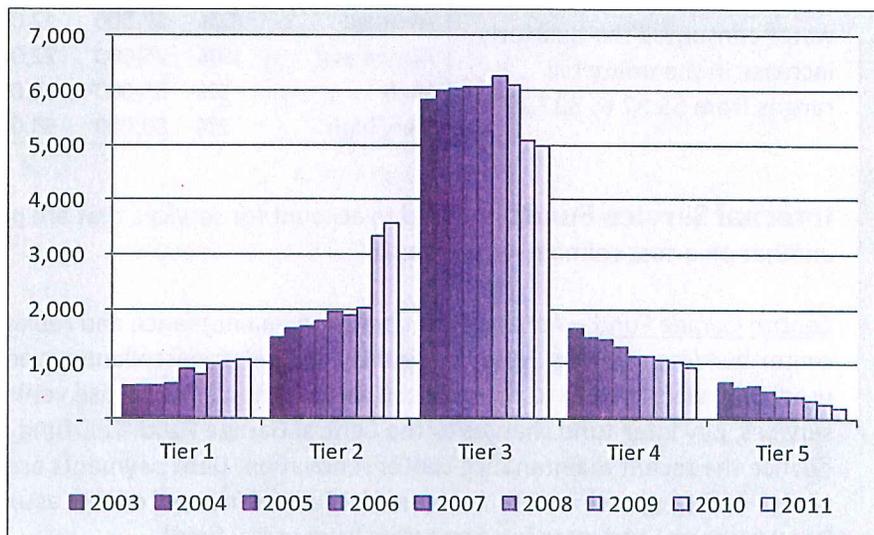
Sewer Fund – Accounts for the collection and treatment of wastewater (sewage) from residences and businesses throughout Shoreview. Sewage is routed to facilities owned and operated by Metropolitan Council Environmental Services (MCES), and Shoreview is billed for its prorated share of overall sewage flow. Sewage treatment costs account for 51 percent of Sewer Fund expense in 2012. Operating, maintenance and replacement costs are supported entirely by user charges.

Sewer rates are designed to charge high volume customers more because they contribute more flow to the system than low volume customers. In recent years the City completed a city-wide inspection program to eliminate the discharge of storm water (from roof systems or ground water) into the City’s sewer system. This effort is an important part of keeping sewage treatment costs down by reducing sewage flow and by removing an \$86,100 surcharge on the City’s sewage treatment bill.

Two factors have caused a shift in residential sewer billings: first, beginning in 2010 Minnesota statutes required that cities charge apartment and condominium units according to the same rates as single-family homes; second, declining water use shifts sewer customers into lower sewer tiers. Two graphs provided below illustrate a pronounced shift in customers from tier 3 into lower tiers in 2010 and 2011.



Even though residential sewer bills are based on winter water consumption (which excludes summer watering) the shift in customers to lower tiers will require careful monitoring in the future. Fortunately (as stated earlier) recent efforts to reduce sewage flow will allow sewer operating costs to remain relatively constant over the next two years.



Surface Water Fund – Accounts for operation, maintenance, replacement and improvement of the City’s storm water system. The surface water management program is designed to preserve and use natural water storage and retention systems as much as is practical to reduce the amount of public capital expense necessary to control excessive volumes and runoff rates, improve water quality, prevent flooding and erosion from surface water flows, promote ground water recharge, and protect and enhance fish and wildlife habitat and water recreational facilities (lakes etc.). Surface water charges are established by property type and the amount of impervious surface area.

Operating and capital costs are projected to increase in the next few years due to planned street reconstruction projects and the addition of storm water facilities (primarily pretreatment ponds). As a result, residential surface water rates will increase \$1.60 per quarter for 2012, an increase of 10 percent. Even with the rate increase, cash balances are projected to drop temporarily in 2012 due to the timing of capital costs and debt issuance.

Street Lighting Fund – Accounts for the operation, maintenance and replacement of the street lighting system throughout the community, in support of safe vehicle and pedestrian traffic. The City’s street light system includes lighting owned by the City as well as lights leased from Xcel Energy. Street light replacement costs over the next two years address a growing trend of street light outages. Lights will be replaced on a neighborhood basis as repairs become less effective.

Impact on Utility Bill – The quarterly utility bill for an average home (quarterly water use of 22 thousand gallons, and winter water use of 12 thousand gallons) is expected to increase \$8.89 per quarter. The largest share of the increase is for water service. As discussed earlier in this document, the increase in water rates is designed to offset the trend of declining water use, and close the gap between revenue and expense.

Average User			
	2011	2012	Change
Water	\$ 36.48	\$ 41.95	\$ 5.47
Sewer	75.66	75.66	-
Surface water	15.97	17.57	1.60
Street lighting	7.29	9.11	1.82
State fee	1.59	1.59	-
Total	\$ 136.99	\$ 145.88	\$ 8.89

The table at right provides the estimated change in the utility bill at 6 different usage levels. Depending on the amount of water consumed the quarterly increase in the utility bill ranges from \$5.82 to \$37.27.

Use Level	% of Homes	Water Gallons	Sewer Gallons	Total Utility Bill		Change in Quarterly Bill
				2011	2012	
Very low	10%	5,000	4,000	\$ 91.77	\$ 97.59	\$ 5.82
Low	22%	10,000	8,000	\$ 107.73	\$ 114.30	\$ 6.57
Average	42%	17,500	12,000	\$ 136.99	\$ 145.88	\$ 8.89
Above avg	19%	25,000	22,000	\$ 166.72	\$ 177.94	\$ 11.22
High	5%	55,000	26,000	\$ 258.22	\$ 283.24	\$ 25.02
Very high	2%	80,000	34,000	\$ 355.71	\$ 392.98	\$ 37.27

Internal Service Funds are used to account for services that are provided by one department to another on a cost-reimbursement basis.

Central Garage Fund – Accounts for operation, maintenance and replacement of the maintenance center building, vehicles, heavy equipment and other miscellaneous equipment owned by the fund and used in service delivery to the public. Operating funds, which use vehicles and equipment to provide services, pay inter-fund charges to the Central Garage Fund. This fund also accounts for debt issued to finance the recent maintenance center renovation. Debt payments are supported by a combination of tax levies, intergovernmental revenue (for federal interest credits associated with the Build America Bond program) and inter-fund transfers from utility funds.

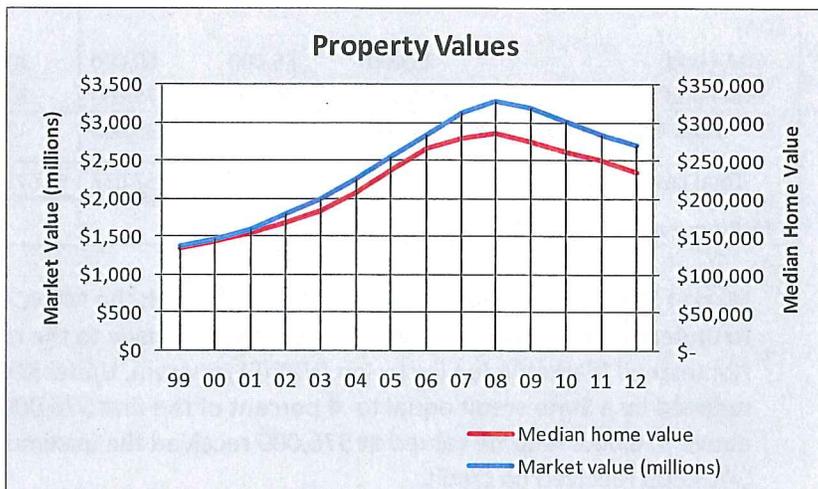
Short-term Disability Fund – Accounts for premiums paid by regular employees (through payroll deduction) and disability payments to employees on a self-insured basis. Annual losses are monitored closely for the purpose of establishing appropriate disability premiums and retaining sufficient fund balances.

Liability Claims Fund – Accounts for losses below the City’s insurance deductible and the receipt of annual dividends from the League of Minnesota Cities Insurance Trust (the City’s insurance provider). The fund is monitored closely to preserve two to three years of average annual loss coverage. Periodic insurance surcharges are assessed to operating funds to restore fund balances when necessary.

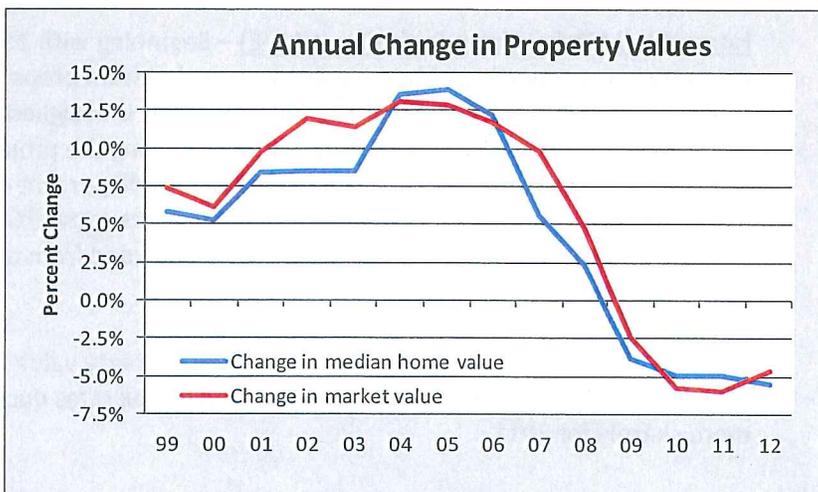
Economy – Although the City can influence property value growth through new development approvals and economic development efforts, the City has limited ability to offset the effects of the real estate market correction because less than 5 percent of property in Shoreview is considered undeveloped. As Shoreview continues to near full development, opportunities for tax base growth from new construction diminish. This means that existing property must support operating cost changes because little if any new value is available to offset a portion of rising costs. Despite the dramatic decline in new development throughout the metro area, Shoreview has had some recent success in achieving new development and redevelopment through retention of PaR Systems, relocation of Cummins Power Generation into Shoreview and expansion of the Wells Fargo data center.

Because the City has budgeted conservatively for permit revenue, the decline in building permit activity is having little effect on the City’s budget or tax levy. Shoreview has anticipated and planned for a decline in permit revenue for a decade or more.

Market Value – Total market value is expected to drop 4.6 percent for 2012 taxes. Shoreview’s values grew an average of 9.9 percent per year from 1999 to 2008, followed by an average decline of 4.6 per year since 2008. Total market values and median home values are shown in the first table at right. The second table shows the percent change in total market value and median home value over the same period.



Median Home Value – According to the Ramsey County Assessor, Shoreview’s median home value will decrease from \$249,350 in 2011 to \$235,700 in 2012, a decrease of 5.5 percent before the effect of the new Homestead Market Value Exclusion (HMVE) program. Once the HMVE is applied the median home value drops to \$219,673 (a total value decrease of 11.9 from 2011).



Property Taxes – The preliminary 2012 property tax levy, as shown in the table below, is .5 percent lower than the adopted 2011 levy. The reduction is possible due to the elimination of the market value homestead credit program (MVHC), which began in 2002 and ended in 2011. The program was originally designed to buy down property taxes on lower valued homes through a credit that shifted a portion of the tax levy obligation to the State. Unfortunately, state budget challenges and the resulting cuts led to the suspension of Shoreview’s MVHC payments beginning in 2003. The State briefly resumed payment of Shoreview’s credits in 2007 and half of 2008, only to cut them again in 2009. Since the program began, the City collected about one-fourth of the MVHC credits provided by the program. Current tax levy projections for the second budget, 2013, reflect a 4.2 percent increase.

Property Tax Levy	2011	2012	2013	Dollar Change		Percent Change		Percent Impact on Total Levy	
	Adopted **	Proposed	Proposed	2012	2013	2012	2013	2012	2013
	General Fund	\$ 6,695,734	\$ 6,467,060	\$ 6,717,037	\$(228,674)	\$ 249,977	-3.42%	3.87%	-2.43%
Debt									
Debt Funds	527,000	442,026	501,000	(84,974)	58,974	-16.12%	13.34%	-0.90%	0.63%
Central Garage Fund	98,000	216,000	184,000	118,000	(32,000)	120.41%	-14.81%	1.25%	-0.34%
Total Debt Funds	625,000	658,026	685,000	33,026	26,974	5.28%	4.10%	0.35%	0.29%
Capital Costs									
Street Renewal Fund	750,000	800,000	850,000	50,000	50,000	6.67%	6.25%	0.53%	0.53%
General Fixed Asset Fund	1,150,000	1,200,000	1,250,000	50,000	50,000	4.35%	4.17%	0.53%	0.53%
Capital Impr. Fund	100,000	110,000	120,000	10,000	10,000	10.00%	9.09%	0.11%	0.11%
Total Capital Funds	2,000,000	2,110,000	2,220,000	110,000	110,000	5.50%	5.21%	1.17%	1.18%
EDA									
EDA Fund	25,000	55,000	60,000	30,000	5,000	120.00%	9.09%	0.32%	0.05%
HRA Fund	60,000	70,000	75,000	10,000	5,000	16.67%	7.14%	0.11%	0.05%
Total EDA Funds	85,000	125,000	135,000	40,000	10,000	47.06%	8.00%	0.43%	0.11%
Total Levy	\$ 9,405,734	\$ 9,360,086	\$ 9,757,037	\$ (45,648)	\$ 396,951	-0.49%	4.24%	-0.49%	4.24%
** Without adjusting lost MVHC for 2011.									

Market Value Homestead Credit (MVHC) – Although the MVHC program ended in 2011, it is important to understand how the program worked in comparison to the replacement program called the Homestead Market Value Exclusion (HMVE) program. Under MVHC, property taxes on homes were reduced by a State credit equal to .4 percent of the first \$76,000 in home value, less .9 percent of value above \$76,000. A home valued at \$76,000 received the maximum credit of \$304, and a home valued at \$413,800 received no credit.

Homestead Market Value Exclusion (HMVE) – Beginning with 2012 property taxes, a portion of home value is excluded from property taxes, for homes valued below \$413,800. This credit is designed to work in a similar manner to the MVHC program, by reducing the property value used to calculate taxes. The formula excludes 40 percent of the first \$76,000 in home value less 9 percent of the value over \$76,000 (sample homes values and the portion of value excluded from taxes is provided in the table at right).

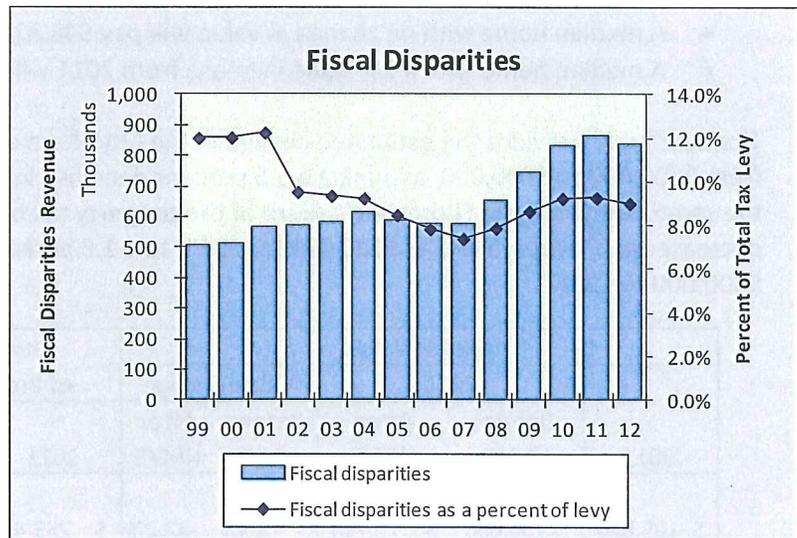
Because the new program excludes a portion of property value for tax purposes, the total taxable value used to compute tax rates declines more sharply for 2012.

Home Value	Excluded Value	Percent of Value Excluded
\$ 76,000	\$ 30,400	40.0%
\$ 100,000	\$ 28,240	28.2%
\$ 150,000	\$ 23,740	15.8%
\$ 200,000	\$ 19,240	9.6%
\$ 235,700	\$ 16,027	6.8%
\$ 250,000	\$ 14,740	5.9%
\$ 300,000	\$ 10,240	3.4%
\$ 350,000	\$ 5,740	1.6%
\$ 400,000	\$ 1,240	0.3%
\$ 413,800	\$ -	0.0%

Tax Rates – Even though the City’s tax levy decreases .5 percent for 2012, declining property values result in an increase in the City’s tax rate (from 30.671 in 2011 to an estimated 33.259 in 2012). Property values are declining due to a combination of falling home values and the new HMVE program, designed to replace the MVHC program. The table below provides a comparison of preliminary 2012 tax rates to three previous years. Shoreview accounts for about 22 percent of the total tax bill once market value based taxes are included (for voter approved school district levies).

	Tax Rates				Percent Change		
	Payable 2009	Payable 2010	Payable 2011	Payable 2012	Payable 2010	Payable 2011	Payable 2012
Tax Rates							
City of Shoreview	25.129%	27.569%	30.671%	33.259%	9.7%	11.3%	8.4%
Shoreview HRA	0.000%	0.169%	0.198%	0.254%		17.2%	28.3%
Ramsey County	46.546%	50.248%	54.678%	61.051%	8.0%	8.8%	11.7%
School district 621	22.937%	24.560%	25.573%	29.070%	7.1%	4.1%	13.7%
School district 623	10.624%	13.065%	14.566%	16.944%	23.0%	11.5%	16.3%
All other [1]	7.637%	7.953%	8.355%	9.941%	4.1%	5.1%	19.0%
Total-621 Schools	102.249%	110.499%	119.475%	133.575%	8.1%	8.1%	11.8%
Total-623 Schools	89.936%	99.004%	108.468%	121.449%	10.1%	9.6%	12.0%
[1] Regional rail, Met Council, Mosquito Control and Rice Creek Watershed combined.							
Market Value Rates							
School district 621	0.18685%	0.18882%	0.19536%	0.21228%	1.1%	3.5%	8.7%
School district 623	0.20390%	0.20374%	0.19715%	0.19508%	-0.1%	-3.2%	-1.0%

Fiscal disparities – The fiscal disparities program is a mechanism established by the State to provide a sharing of property tax revenues generated by commercial and industrial (C/I) growth since 1971. The program pools 40 percent of C/I value since the program began and redistributes the value to each community based on a formula. The result is either a net gain or a net loss in tax dollars from the pool.



Tax on Median Home – The estimated change in property tax for a median valued home (using preliminary tax rates for each jurisdiction as provided by Ramsey County), is shown in the table at right. Shoreview’s share of the tax bill will increase an estimated .5 percent (\$3.81 per year), and the combined tax for all other taxing jurisdictions will increase an estimated 2.3 percent (\$60.27 per year), for a total increase of 2 percent.

Mounds View Schools	Payable 2011	Payable 2012	Dollar Change	Percent Change
Home value	\$ 249,350	\$ 235,700	\$ (13,650)	-5.5%
HMVE home value	\$ 249,350	\$ 219,673	\$ (29,677)	-11.9%
Taxable value	\$ 2,494	\$ 2,197	\$ (297)	-11.9%
Property Tax				
City	\$ 726.79	\$ 730.60	\$ 3.81	0.5%
HRA	4.69	5.58	0.89	19.0%
All other jurisdictions	2,586.79	2,647.06	60.27	2.3%
Total Property Tax	\$ 3,318.27	\$ 3,383.24	\$ 64.97	2.0%

Since the change in home value will vary from property to property, and the change in value impacts the change in property tax (even if preliminary levies remain the same); the estimated change in the City portion of property taxes is presented in the table below using 7 different assumptions about value changes. The City share of the tax bill for a median home value of \$235,700 under each assumption is described after the table, and ranges from a 1.3 percent decrease to a 9.6 percent increase because of how state statutes allocate property taxes based on value.

2011	Market Value				City Portion of Property Tax		Change in City Property Tax	
	2012		Value Change		2011	2012	Dollars	Percent
	Before HMVE	After HMVE	Before HMVE	After HMVE				
\$ 253,440	\$ 235,700	\$ 219,673	-7.0%	-13.3%	\$ 740.15	\$ 730.60	\$ (9.55)	-1.3%
\$ 249,350	\$ 235,700	\$ 219,673	-5.5%	-11.9%	\$ 726.79	\$ 730.60	\$ 3.81	0.5%
\$ 244,800	\$ 235,700	\$ 219,673	-3.7%	-10.3%	\$ 711.79	\$ 730.60	\$ 18.81	2.6%
\$ 242,900	\$ 235,700	\$ 219,673	-3.0%	-9.6%	\$ 705.52	\$ 730.60	\$ 25.08	3.6%
\$ 240,500	\$ 235,700	\$ 219,673	-2.0%	-8.7%	\$ 697.61	\$ 730.60	\$ 32.99	4.7%
\$ 235,700	\$ 235,700	\$ 219,673	0.0%	-6.8%	\$ 681.78	\$ 730.60	\$ 48.82	7.2%
\$ 231,100	\$ 235,700	\$ 219,673	2.0%	-4.9%	\$ 666.60	\$ 730.60	\$ 64.00	9.6%

- A median home with a 7% value decrease will pay \$9.55 less City tax for the year.
- A median home with a 5.5% value decrease will pay \$3.81 more City tax for the year.
- A median home with a 3.7% value decrease will pay \$18.81 more City tax for the year.
- A median home with a 3% value decrease will pay \$25.08 more City tax for the year.
- A median home with a 2% value decrease will pay \$32.99 more City tax for the year.
- A median home with no change in value will pay \$48.82 more City tax for the year.
- A median home with a 2% value increase from 2011 will pay \$64 more for the year.

The next table provides the estimated change in the City share of the tax bill for home values ranging from \$100,000 to \$900,000, assuming a 5.5 percent decrease in value. Even if everything else remains the same, the change in Shoreview’s share of the property tax bill varies dramatically from a 5.8 percent decrease for a home valued at \$100,000 for 2012, to a 1.8 percent increase for a home valued at \$900,000 for 2012.

2011	Market Value				City Portion of Property Tax		Change in City Property Tax	
	2012		Value Change		2011	2012	Dollars	Percent
	Before HMVE	After HMVE	Before HMVE	After HMVE				
\$ 105,820	\$ 100,000	\$ 71,760	-5.5%	-32.2%	\$ 253.41	\$ 238.66	\$ (14.75)	-5.8%
\$ 158,730	\$ 150,000	\$ 126,260	-5.5%	-20.5%	\$ 427.91	\$ 419.92	\$ (7.99)	-1.9%
\$ 211,640	\$ 200,000	\$ 180,760	-5.5%	-14.6%	\$ 602.42	\$ 601.18	\$ (1.24)	-0.2%
\$ 249,350	\$ 235,700	\$ 219,673	-5.5%	-11.9%	\$ 726.79	\$ 730.60	\$ 3.81	0.5%
\$ 264,550	\$ 250,000	\$ 235,260	-5.5%	-11.1%	\$ 776.92	\$ 782.44	\$ 5.52	0.7%
\$ 317,460	\$ 300,000	\$ 289,760	-5.5%	-8.7%	\$ 951.43	\$ 963.70	\$ 12.27	1.3%
\$ 370,370	\$ 350,000	\$ 344,260	-5.5%	-7.0%	\$1,125.93	\$1,144.96	\$ 19.03	1.7%
\$ 529,101	\$ 500,000	\$ 500,000	-5.5%	-5.5%	\$1,645.12	\$1,662.94	\$ 17.82	1.1%
\$ 740,741	\$ 700,000	\$ 700,000	-5.5%	-5.5%	\$2,456.52	\$2,494.40	\$ 37.88	1.5%
\$ 952,381	\$ 900,000	\$ 900,000	-5.5%	-5.5%	\$3,267.92	\$3,325.87	\$ 57.95	1.8%

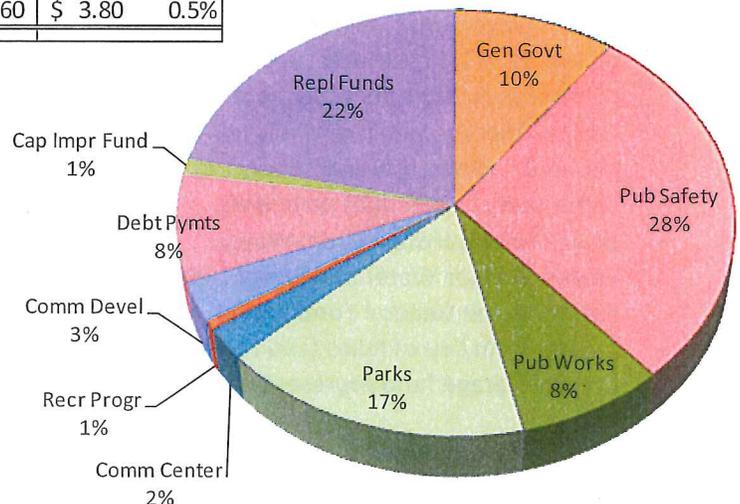
The table below provides the estimated change in the City share of the tax bill for home values ranging from \$100,000 to \$900,000, assuming a 2 percent decrease in value. Even if everything else remains the same, the change in Shoreview's share of the property tax bill varies from a 1 percent decrease for a home valued at \$100,000 in 2012, to a 6 percent increase for a home valued at \$900,000 in 2012.

2011	Market Value				City Portion of Property Tax		Change in City Property Tax	
	2012		Value Change		2011	2012	Dollars	Percent
	Before HMVE	After HMVE	Before HMVE	After HMVE				
\$ 102,041	\$ 100,000	\$ 71,760	-2.0%	-29.7%	\$ 240.95	\$ 238.66	\$ (2.29)	-1.0%
\$ 153,061	\$ 150,000	\$ 126,260	-2.0%	-17.5%	\$ 409.21	\$ 419.92	\$ 10.71	2.6%
\$ 204,082	\$ 200,000	\$ 180,760	-2.0%	-11.4%	\$ 577.49	\$ 601.18	\$ 23.69	4.1%
\$ 240,500	\$ 235,700	\$ 219,673	-2.0%	-8.7%	\$ 697.61	\$ 730.60	\$ 32.99	4.7%
\$ 255,102	\$ 250,000	\$ 235,260	-2.0%	-7.8%	\$ 745.76	\$ 782.44	\$ 36.68	4.9%
\$ 306,122	\$ 300,000	\$ 289,760	-2.0%	-5.3%	\$ 914.04	\$ 963.70	\$ 49.66	5.4%
\$ 357,143	\$ 350,000	\$ 344,260	-2.0%	-3.6%	\$1,082.31	\$1,144.96	\$ 62.65	5.8%
\$ 510,204	\$ 500,000	\$ 500,000	-2.0%	-2.0%	\$1,572.67	\$1,662.94	\$ 90.27	5.7%
\$ 714,286	\$ 700,000	\$ 700,000	-2.0%	-2.0%	\$2,355.09	\$2,494.40	\$139.31	5.9%
\$ 918,367	\$ 900,000	\$ 900,000	-2.0%	-2.0%	\$3,137.52	\$3,325.87	\$188.35	6.0%

median

Program	2011	2012	Change	
	City Tax \$249,350 Home	City Tax \$219,673 Home	\$	%
General Government	\$ 66.50	\$ 73.72	\$ 7.22	
Public Safety	201.98	206.69	4.71	
Public Works	58.22	58.01	(0.21)	
Parks and Recreation:				
Park Admin and Maint	132.78	122.01	(10.77)	
Community Center Operation	18.32	17.68	(0.64)	
Recreation Programs	5.23	5.11	(0.12)	
Community Development	23.62	21.84	(1.78)	
Debt Service	58.58	59.62	1.04	
Capital Improvement Fund	8.07	8.62	0.55	
Replacement Funds	153.50	157.30	3.80	
Total City Taxes	\$ 726.80	\$ 730.60	\$ 3.80	0.5%

Property Taxes per Function – As discussed previously in this document, Shoreview's annual share of the property tax bill on a median home (after HMVE) is \$730.60. To illustrate how property taxes support a variety of City programs and services, the table to the left and the graph below show the breakdown of property tax by program.



Inter-fund Transfers – Transfers between funds are used when resources are accumulated in one fund and will be used to support costs in another fund. Planned transfers for the year 2012 are shown in the table below.

- General Fund transfers to the Community Center Fund offset the room rental subsidy for community-oriented use of the building, to the Recreation Programs Fund cover a portion of playground and general program costs, to the Slice of Shoreview Fund support event costs, to the Refunding COP debt fund assist in paying community center debt payments, and to the Capital Acquisition Fund cover a portion of computer acquisition costs.
- Recreation Program transfers to the Community Center Fund pay for use of the community center facility.
- Cable TV transfers to the General Fund support a portion of communication costs, and to the Capital Acquisition Fund cover computer acquisition costs.
- Closed Bond Fund transfers to debt funds provide funding for debt payments in an effort to reduce the portion of the tax levy dedicated to debt payment.
- TIF #2 transfers cover tax increment debt payments and the TIF #1 transfer covers costs for realignment of Owasso Street.
- 2001 G.O. Improvement Bond transfers return the estimated remaining balance in the fund to the Closed Debt Fund after final debt payments occur.
- MSA transfers cover planned capital costs for collector street improvements.
- Street Renewal transfers cover planned street rehabilitation costs.
- GFA Replacement transfers cover planned capital costs and support for community center debt payments.
- Capital Improvement transfers cover planned capital costs and support for community center debt payments.
- Utility Fund transfers (from Water, Sewer, Surface Water and Street Lighting Funds) to the General Fund are for payments in lieu of taxes (and represent no more than one percent of asset value), and to the Central Garage fund represent a prorated share of debt payments (maintenance center renovation).

From Fund	To Fund	2012 Transfers	2013 Transfers
General Fund	Community Center	\$ 225,000	\$ 232,000
General Fund	Recreation Programs	65,000	70,000
General Fund	Slice of Shoreview	10,000	10,000
General Fund	Refunding COPs (debt)	100,000	100,000
General Fund	Capital Acquisition	800	500
Recreation Programs	Community Center	75,000	80,000
Cable TV	General Fund	111,000	115,000
Cable TV	Capital Acquisition	10,950	-
Closed Bond	2013 G.O. Street Bonds	-	116,000
Closed Bond	1995 G.O. Impr. Bonds	316	-
Closed Bond	2006 G.O. Impr. Bonds	-	10,000
TIF #2	2004 G.O. TIF Bonds	389,000	378,286
TIF #2	2007 G.O. TIF Bonds	184,000	298,000
TIF #1	TIF#7	1,619,000	-
2001 G.O. Impr. Bonds	Closed Bond	1,174	-
MSA Fund	2013 Street Rehab.	-	500,000
MSA Fund	C Rd D & Cottage Pl	-	612,000
MSA Fund	Hwy 49 & Hodgson	-	200,000
Street Renewal	C Rd F, Demar, Floral	707,000	-
Street Renewal	C Rd D & Cottage Pl	-	111,025
GFA Replacement	C Rd F, Demar, Floral	22,000	-
GFA Replacement	Refunding COPs (debt)	180,000	180,000
Capital Improvement	Refunding COPs (debt)	165,000	165,000
Capital Improvement	Hwy 49 & Hodgson	-	90,000
Water	General Fund	175,000	190,000
Water	Central Garage	65,000	72,500
Sewer	General Fund	123,000	124,000
Sewer	Central Garage	65,000	72,500
Surface Water	General Fund	60,000	75,000
Surface Water	Central Garage	47,000	51,900
Street Lighting	General Fund	12,000	15,000
Street Lighting	Central Garage	3,600	4,000
Total Transfers		\$4,415,840	\$3,872,711
From Operating Funds		\$1,149,840	\$1,338,400
From Capital Funds		3,266,000	2,534,311
Total Transfers		4,415,840	3,872,711
To Operating Funds		\$2,056,090	\$2,359,186
To Capital Funds		2,359,750	1,513,525
Total Transfers		\$4,415,840	\$3,872,711

Full-time Equivalents (FTE) for all staff positions, including temporary staff, are shown in the table below.

Description	2009 Budget	2010 Budget	2011 Budget	2011 Estimate	2012 Proposed	2013 Projected
Full-time						
General Fund						
General Government	10.70	11.15	12.30	11.30	12.30	12.30
Public Works	10.53	10.01	10.01	9.54	9.98	9.98
Parks and Recreation	14.20	14.20	13.20	13.20	12.20	12.20
Community Development	5.60	5.46	5.30	5.00	5.29	5.27
Recycling	0.35	0.35	0.35	0.12	0.35	0.35
Community Center Operations	12.05	13.05	13.05	12.59	14.05	14.05
Recreation Programs	3.75	3.75	3.75	3.64	3.75	3.75
Cable Television	1.25	1.25	0.25	0.25	0.25	0.25
Economic Development Authority	-	-	0.16	0.16	0.15	0.15
HRA Programs of EDA	-	0.14	0.14	0.14	0.16	0.18
Water Enterprise Fund	7.81	7.70	7.75	7.75	7.75	7.75
Sewer Enterprise Fund	6.60	6.70	6.75	6.76	6.76	6.76
Surface Water Mgmt Utility	3.24	3.39	3.39	3.41	3.41	3.41
Street Light Utility	0.20	0.20	0.20	0.20	0.20	0.20
Central Garage	2.40	2.40	2.40	2.40	2.40	2.40
Total Full-time	78.68	79.75	79.00	76.46	79.00	79.00
Part-time						
General Fund						
General Government	-	-	-	0.85	0.80	0.80
Recreation Programs	0.75	0.75	0.75	0.52	0.75	0.75
Total Part-time	0.75	0.75	0.75	1.37	1.55	1.55
Associate						
General Fund						
General Government	-	1.35	0.01	0.01	1.24	0.01
Public Safety	0.16	0.08	0.08	0.08	0.07	0.08
Public Works	0.52	0.52	0.52	0.49	0.54	0.54
Parks and Recreation	1.60	1.51	1.51	1.52	1.75	1.75
Community Development	0.17	0.22	0.22	0.62	0.24	0.24
Community Center Operations	25.24	22.98	23.63	23.53	22.39	22.56
Recreation Programs	21.91	21.58	24.04	24.41	24.63	24.63
Cable Television	0.10	0.10	0.10	0.10	0.10	0.10
HRA Programs of EDA	-	-	-	0.40	-	-
Water Enterprise Fund	0.62	0.63	0.60	0.67	0.65	0.64
Sewer Enterprise Fund	0.62	0.64	0.60	0.67	0.65	0.64
Surface Water Mgmt Utility	0.13	0.13	0.13	0.20	0.14	0.14
Total Associate	51.07	49.74	51.44	52.70	52.40	51.33
Total FTEs	130.50	130.24	131.19	130.53	132.95	131.88

Even though total FTEs for full-time staff remain the same for 2012 and 2013, several changes are incorporated beginning in 2012. Within the General Fund a position is eliminated through a retirement in the parks and recreation department, the Assistant to the City Manager position is reclassified from full-time to part-time (at a .80 FTE), a Communications Specialist is added in administration, and a Manager on Duty position is added for the Community Center Fund.

The remaining portion of this document provides greater detail on city programs and services, funding sources and planned capital projects. We sincerely hope that regular users and other interested parties will find this document to be an interesting and useful resource for evaluating the City's programs and services.

We express our appreciation to all City staff for their contributions to the budget, and to the City Council for the guidance and direction provided during the budget process. It is an honor to service the citizens of Shoreview.

Respectfully submitted,

Terry Schwerm, City Manager

Jeanne A. Haapala, Finance Director

TO: Mayor and City Council

FROM: Terry C. Schwerm, City Manager
Jeanne A. Haapala, Finance Director

DATE: November 8, 2011

RE: 2012-2013 Budget and Tax Levy Estimates

Introduction

This memo serves as a supplement to the new **Executive Budget Summary**, in the Introduction section of the enclosed budget materials. To avoid discussing the same information twice, this memo will only address topics that are not already covered in the **Executive Budget Summary**.

Replacement pages are enclosed for one section of the preliminary budget workbook and a new Introduction section is also provided. These new documents contain improvements, new material, as well as some corrections to the previous copies (an unfortunate consequence of preparing a budget while writing a new budget system).

Two-Year Budget

As discussed at the last Council workshop, the proposed budget is formatted to give the City Council the option to adopt a two-year budget. Under this approach the City Council would formally adopt the budget for 2012 and 2013, and would consider any modifications to the 2013 budget next year as a budget amendment. The City will continue to follow requirements in State statutes by adopting a preliminary 2013 tax levy in September of next year, and by holding a budget hearing in December of 2012.

In addition to streamlining the budget process for both council and staff, the two-year budget is consistent with the City's focus on long-range financial planning. Other benefits of a two-year budget include:

- Reduced staff time for the preparation of annual budget documents
- Providing departments an opportunity in alternate years to focus on Council and management goals and strategic initiatives that are difficult to address due to time constraints
- Lower printing/copying costs for the budgets
- Improved relationship between the budget and the City Council's goals (established at a biannual goal setting)

Tax Levy Changes

As shown on page number 1-20 (section 1 page 20) of the **Executive Budget Summary** the City's tax levy for 2012 is decreasing from \$9,405,734 to \$9,360,086 (a .5% reduction) as a result of not having to levy for the anticipated loss of MVHC revenue. Actual tax collections will increase \$304,352 for 2012 (including levies for the HRA and EDA). Items impacting the tax levy over the next two years are summarized on the next two pages.

2012 Levy – The first section of the table at right outlines changes in General Fund revenue. The most significant change is due to the elimination of MVHC cuts (\$350,000). This means the City will collect the full 2012 levy (less normal delinquent taxes), rather than adopting a levy that includes an estimate of MVHC cuts. Changes in General Fund revenue account for a 4.56% reduction in the tax levy.

The second section of the table outlines changes in General Fund expense. These items account for a 2.13% increase in the tax levy, and include the \$202,000 in budget reductions that were incorporated into the preliminary tax levy (through elimination of a position due to a retirement, reduction in the Street Renewal levy, reduction in the transfer to the Community Center Fund, and elimination of Access Shoreview articles in newspapers). Major expense changes include:

- Increased police costs for patrol, investigations, dispatch and animal control (handled by the Sheriff's department beginning in 2012)
- Increased fire costs for continued implementation of the duty-crew program (adding 2 hours to weekday evening shifts as well as Saturday daytime hours)
- Personnel changes include elimination of a position (Park and Recreation Director) due to retirement, reclassification of the Assistant to the City Manager position from full-time to part-time (.8 FTE), reclassification of the Assistant City Engineer to City Engineer, and creation of a Communications Specialist position.
- Pay plan adjustment of 1% and a \$50 increase in the City's monthly health insurance contribution (covering less than half of the increase in family premiums).
- The cost of an election in 2012.

The combined impact of General Fund revenue and expense changes is a 2.43% decrease in the tax levy.

The last section of the table contains a list of tax levy changes for all other funds. These funds combined account for a 1.94% increase in the 2012 tax levy. Major increases are for the Street Renewal and General Fixed Asset Funds, EDA/HRA levies, and debt service levies (including maintenance center debt), as well as a small increase for the Capital Improvement Fund.

Note: (brackets) indicate a decrease	2012 Change	
	Amount	% Impact on Total
General Fund Revenue Changes		
Market value homestead credit loss	\$ 350,000	
Heating, electrical, plumbing permits	6,000	
Rental licensing	5,000	
MSA maintenance	7,700	
Plan check fee	10,000	
Tree sales	(10,000)	
Administrative charges-operating	19,510	
Administrative charges-capital project	10,000	
Other park & recreation charges	1,500	
Fines & forfeits	19,500	
Reimbursement (copier)	9,760	
General Fund Revenue Changes	\$ 428,970	-4.56%
General Fund Expense Changes		
Police	82,472	
Fire	64,500	
Wage adjustment (1%)	25,808	
Step & other increases	15,621	
Eliminate position/thru retirement	(137,237)	
Communications Specialist	63,841	
Admin position reclass to part-time	(14,692)	
Assist City Engineer position reclass	4,020	
Health insurance (\$50/mo)	24,133	
PERA/FICA	14,383	
Information systems maint/lic fees	28,180	
Elections	31,353	
Central garage charges	7,771	
Overtime (park maintenance)	1,150	
Associate (park maintenance)	5,080	
Associate (all others combined)	1,699	
Office machines (copiers/see refund)	18,053	
Communications budget	2,000	
All other costs	371	
Legal	(7,000)	
Transfers out	(31,210)	
General Fund Expense Changes	\$ 200,296	2.13%
Total General Fund Changes	\$ (228,674)	-2.43%
Levy Changes in All Other Funds		
EDA levy	30,000	
HRA Levy	10,000	
Debt (Debt & Central Garage funds)	33,026	
Street Renewal fund	50,000	
General Fixed Asset fund	50,000	
Capital Improvement fund	10,000	
Levy Changes in All Other Funds	\$ 183,026	1.94%
Total Change in Tax Levy	\$ (45,648)	-0.49%

2013 Levy –The first section of the table at right outlines changes in General Fund revenue. Development related revenue is expected to show a slight decrease in 2013 while engineering and administrative charges, and transfers in are expected to increase modestly. The net impact of these changes accounts for a .63% reduction in the tax levy.

The second section of the table outlines changes in General Fund expense. These items account for a 3.30% increase in the tax levy. Major changes include:

- Continued increases in contracted public safety costs
- Anticipated 2% wage adjustment and a \$50 per month increase in the insurance contribution
- Modest increases to central garage charges and forestry costs

The combined impact of General Fund revenue and expense changes is a 2.67% increase in the tax levy.

The last section of the table contains a list of tax levy changes for all other funds. These funds combined account for a 1.57% increase in the 2013 tax levy. Major increases are for Street Renewal and General Fixed Asset Funds and a slight increase in the debt levy.

The final impact of all changes is a 4.24% increase in the 2013 tax levy.

	2013 Change	
	Dollars	% Impact on Total
Note: (brackets) indicate a decrease		
General Fund Revenue Changes		
Building permits	\$ (10,000)	
Heating, electrical, plumbing permits	(3,000)	
MSA maintenance	1,300	
Plan check fee	(10,000)	
Administrative charges-operating	31,230	
Engineering charges	20,000	
Fines & forfeits	500	
Reimbursement (copier)	(9,560)	
Transfers in	38,000	
General Fund Revenue Changes	\$ 58,470	-0.63%
General Fund Expense Changes		
Police	89,526	
Fire	73,500	
Wage adjustment (2%)	56,500	
Step & other increases	9,570	
Health insurance (\$50/mo)	25,518	
PERA/FICA	11,245	
Elections	(31,153)	
Community survey	20,000	
Insurance (liability & work comp)	9,380	
Forestry contractual	10,000	
Central garage charges	13,710	
Overtime (public works)	2,750	
Overtime (park maintenance)	1,000	
Associate (all others combined)	867	
Supplies (ice & snow, heating)	3,400	
Council (contributions, memberships)	2,250	
Audit contract, training, systems supp	6,380	
Contractual (street & trail)	3,600	
Contractual (park maint)	3,210	
Contractual & training (com devel)	3,650	
Office machines (copiers/see refund)	(14,000)	
Communications budget	2,500	
All other costs	(656)	
Legal	(6,000)	
Transfers out	11,700	
General Fund Expense Changes	\$ 308,447	3.30%
Total General Fund Changes	\$ 249,977	2.67%
Levy Changes in All Other Funds		
EDA levy	5,000	
HRA Levy	5,000	
Debt (Debt & Central Garage funds)	26,974	
Street Renewal fund	50,000	
General Fixed Asset fund	50,000	
Capital Improvement fund	10,000	
Levy Changes in All Other Funds	\$ 146,974	1.57%
Total Change in Tax Levy	\$ 396,951	4.24%

Property Tax Impacts

As discussed at previous budget workshops, the elimination of the Market Value Homestead Credit (MVHC) program and the creation of the Homestead Market Value Exclusion (HMVE) program have made it more difficult to predict the change in residential property taxes. Although staff can calculate the change for any given property under a set of value assumptions, one of the challenges for the budget hearing is that changes in taxes will vary greatly because of the shift in tax burden resulting from the replacement HMVE program.

The Executive Budget Summary contains estimates for residential property taxes (on pages numbered 1-20 through 1-23); therefore staff will use these pages to review the impact of the preliminary levy and the new HMVE program on residential taxes (to avoid duplication of the same material in this memo).

Benchmarks Booklet

Attached is a copy of the newly updated *Community Benchmarks* booklet which contains 2011 property tax comparisons and 2009 per capita revenue and expense comparisons. Some of the highlights include:

- Page 3 – Shoreview ranks 5th lowest for the City portion of the property tax bill on a home valued at \$249,350 (22% below the average for comparison cities)
- Page 4 – Shoreview's tax levy rank has dropped one position over the last 10 years, and the total levy (before MVHC cuts) is 23.8% below the average for comparison cities
- Page 6 – Shoreview's tax rate rank has dropped one position over the last 10 years, and the tax rate is 20.3% below the average for comparison cities
- Page 7 through 9 – Shoreview ranks 8th lowest for annual spending per capita, and is \$338 lower than the average for comparison cities (24% below average)
- Page 10 – Shoreview has the lowest assessment revenue per capita among comparison cities
- Page 13 – Strong market values place Shoreview within 2.7% of the MLC average of market value per capita
- Page 13 – Shoreview ranks 3rd lowest among MLC cities for the City portion of the property tax bill on a home valued at \$249,350
- Page 14 and 15 – Once school, county and special district property taxes are included, Shoreview ranks 5th highest in total property tax among MLC cities

Summary

The proposed budget is consistent with Council direction received prior to adoption of the preliminary tax levy. Staff is seeking any feedback on the new budget content.

In preparation for the budget hearing on December 5th, staff is in the process of updating the Budget Summary and Utility Operations handouts.