

December, 2009

Dear Mayor William Hargis and Members of the City Council:

In accordance with the obligations set forth in Section 2-45 (a) (5) of the City of Woodbury Code of Ordinances, I am pleased to transmit a fiscal year 2010 Budget for the City of Woodbury and accompanying long-term financial projections. These annual documents contain financial information on the City's General, Capital Project, Enterprise, Debt Service and Special Revenue funds for your review and consideration. This is my sixth budget that I have submitted to you as City Administrator, and it reflects the commitment that City staff and I share with the City Council to operate an effective and efficient city government dedicated to providing quality services at an affordable cost. This ideal is most eloquently stated in the mission statement of the City of Woodbury, adopted in 2007:

Our purpose is to cultivate a world-class city.

This is accomplished through a unified vision of a sustainable, well-planned community driven by innovative approaches, ethical practices and responsible resource management.

We are PASSIONATE about our helpful, effective, looking ahead and professional (We HELP) service culture.

I. BUDGETING ENVIRONMENT

For fiscal year 2010, the financial planning horizon projects similar revenue results compared to the revised 2009 estimates. Despite a budgeted decline in interest and building permit revenues for fiscal year 2009 compared to 2008, the actual revenue declines have been more precipitous than projected. Combined with an anticipated 98% net property tax collection rate (100% was budgeted), the loss of all the State of Minnesota's Market Value Homestead Credit and our inability to utilize planned General Fund revenues over expenditures for capital purchases, approximately **\$2 million of expected, budgeted revenues will be unavailable in 2009, continuing into 2010.**

With the worst economic recession since World War II, like most communities Woodbury has seen a decline of property values sparked by the impact of distressed home sales along with the bearish commercial sector and rising unemployment. A more direct outcome of the market changes on the budget is the decline of property values impacting the tax rate on property, combined with inflation in benefits and commodities expenses and a significant decline of non-property tax revenues such as building permits and investment revenues. This places pressure on the property tax as our principal revenue source to bear more of the burden of funding municipal operations. Moreover, the ability to locally manage the property tax is limited by levy limits by the state legislature for a three-year period. Thus management of the 2009 budget and preparation of the 2010 budget has involved a careful evaluation of all revenue and expenditures to identify ways to restrain rising expenses and possible cost reductions.

The Minnesota state economy, which in previous years was stronger than the nation's, now mirrors national averages. Presently, inflation seems to be in check, although there are some projections for inflation to rise in 2011. It is anticipated that the current recessionary economic conditions will complete its decline in 2009 and begin a slow process of gradual improvement through 2010, although it is premature to expect any revenue benefits from a slightly improving economy.

The most concerning economic trend is with regard to the drop in net tax capacity¹. Over this decade, Woodbury has experienced outstanding value growth, averaging approximately 12.5% per year. However, **tax capacity's estimated change for fiscal year 2010 is -5%**, compared to last year's 2.3% increase. We expect this decline in value to continue for fiscal year 2010 and hopefully values will flatten in 2011 (fiscal year 2012). Beyond this point, it is hard to determine the direction of the market. Living within levy limits with declining non-tax revenues and property values will significantly restrict future budgets until economic activity and property value growth return.

Most Minnesota cities are dependent on aids or reimbursements from the State of Minnesota. Due to the financial stress of the state in the early 2000's and the City of Woodbury's relatively strong economic condition, Local Government Aid (LGA) as a revenue source was eliminated years ago. However, the City does depend on the state's reimbursement of the **Market Value Homestead Credit (MVHC)**². From 2003 to 2006 we were not provided this reimbursement; and while this reimbursement did return in 2007, the uncertainty of our financial partnership with the state led us to budget this reimbursement in the Capital Improvement Fund despite the credit placement in the General Fund, which can better withstand the ebbs and tides of state funding. Ultimately, the state provided only 50% of the 2008 MVHC reimbursement and eliminated all of our \$691,251 MVHC for 2009. No MVHC is projected for the 2010 budget to offset the \$695,831 reduction of our property tax collections. While state funding formerly totaled over \$1 million in our General Fund and the loss of this funding source has put more pressure on the property tax, we are less vulnerable to changes in our revenue stream with its elimination and thus our year-to-year operating revenue projections are more stable as a result.

Residential and commercial construction within the city is currently below historic averages and is not anticipated to pick up in 2010. Moreover, commercial, industrial, agriculture and apartment property values are now also declining with retail more dramatically compared to other non-residential values. Given the location of the City of Woodbury in the Twin Cities metro area, the availability of raw land to develop and the strong business sector, the City still retains good prospects for growth and the financial fundamentals to weather the storm and continue a strong bond rating.

The last major budget influence is the current levy limits by the State of Minnesota legislature. After four years of no such limits, new limits for fiscal years 2009 - 2011 were enacted in the last hours of the 2008 legislative session. The levy limits, which do provide some flexibility for expenses falling within "special levies", will limit the City's financial options going into the budget process. The City Council annually establishes its own levy parameters to guide the budget development process; however, the limits enacted by the State have usurped this process. As it turned out, the economic and taxpayer affordability dictates had a much greater impact than the levy limit law, and the **City utilized only 29% of its statutory levy limit**.

Woodbury's financial strength continues through a diverse local economy and a strong financial foundation evidenced by our upgrade in 2009 from Aa1 **bond rating to AAA**, the highest available rating. This is the third bond rating upgrade we have received in the last five years. The Standards and Poor's credit rating report cited the City's participation in the deep and diverse Twin Cities metropolitan area economy, very strong income and extremely strong wealth levels, solid financial operations with very strong reserve levels, and moderate overall debt burden as a percent of market value.

Looking forward, the primary financial challenges of the City will be managing a budget impacted by low development growth, flat non-property tax sources of revenues (now that we have reduced budget expectations substantially), continued declining property values and a taxing environment that is very resistant to property tax growth. Despite these challenges, this budget preserves existing municipal services levels, meets our contractual obligations, complies with increasing regulatory and legal requirements, responds to a stagnant and in some cases declining revenues, funds market-based costs of employee compensation and pension benefits as required by law and is within the parameters established by the state legislature. In summary, our present and future is still positive despite the immediate downturn in the economy, and the employees of the City look forward to continuing to meet the mission of the City of Woodbury within the resources dedicated to us.

¹ Net Tax capacity is derived from an aggregation of the gross tax capacity for each parcel according to the class rates multiplied by the parcel's taxable market value.

² The MVHC program is a property tax relief program devised by the State government to give local property tax payers relief from the burden of local property taxes. Basically the State requires local governments to provide a reduction in property taxes to the taxpayer. The State determines how much the reduction should be and who qualifies. The credit applies to each homestead property. For a homestead with a taxable market value of \$76,000 or less, the credit is 0.4 percent of the taxable market value. For a homestead with a taxable market value over \$76,000, the credit is \$304 minus 0.09 percent of the value over \$76,000. Under this formula, homesteads valued over \$414,000 receive no market value homestead credit. For taxes payable in 2003 to 2006, half of 2008, 2009 and 2010 the state did not compensate local governments for the credit computed on each taxpayer's tax statement due to state budget shortfalls. Our 2010 lost reimbursement from the state is \$695,831. The taxpayers still receive the credit.

II. FINANCIAL PLANNING PRACTICES

To guide the budget development process toward a fiscally sustainable plan that meets the needs of the City's customers while applying a tax level that is within our statutory requirements, the City's management team continues to focus on best practice budget techniques when designing City services, programs and proposals. Below are the tools used by City officials in management to create a responsive, high performance organization that can live within its means and adjust to changing service requirements:

1. Target-based preliminary budget submittal – In years when the State does not impose a levy limit, the City Council has set a preliminary budget levy target for the General Fund. With the deep recession, levy limits within state law are less significant than actual market and political realities which drives our process. **The City Council's property tax target for 2010 of no levy increase for the average value home has been met in this budget.**
2. Limit use of fund balance (reserves) for recurring, annual expenses – Uses of reserves in the past have been restricted to the Capital Improvement Fund for projects that are more one-time in nature, and could be curtailed if there were insufficient funds. The typical uses of fund balance have included: City facilities, additional signal lights, new additions to equipment fleet, studies, roadway landscaping and small equipment. However, two large departures from past history are a part of the 2010 budget. First, the annual transfer from the General Fund to the Capital Improvement Fund (\$500,000 - \$1,000,000) has been eliminated due to declining revenues and higher utilization of appropriations. Projected capital expenditures have been reduced as a result. Second, with the rise of uncollected property taxes, **a structural budget deficit of \$312,925, requiring a use of fund balance of this amount to balance the budget, is anticipated.** A longer-term strategy on how to address uncollected property taxes will be an important part of the City Council's budget discussions. Third, \$50,000 of reserves within the Fire Relief Fund are being utilized to offset the \$200,000 increase in the municipal contribution to the paid on call firefighter's pension. Lastly, the transfers-in line items in the General Fund relate to utilizing \$400,000 of the Administration Fee Fund, which supports a portion of the Engineering Division activities paid for by developer fees. These funds are segregated separately from the General Fund so as to maintain a steady income stream into the General Fund that takes out the rise and fall of development activities.
3. Maintain the General Fund cash flow designation at no less than 20% and no more than 30% of the annual expenditure levels – This fund balance guideline is a common one in the Minnesota public sector and insures that the City has sufficient funds for operations during the first six months of the fiscal year. Monies in the General Fund above the ceiling are "swept" into the Capital Improvement Fund for the uses described above. Despite the \$312,925 uncollected property taxes draw on reserves, it is still anticipated that the fund balances amounts remain within policy.
4. Annual debt plan that estimates the future debt levels and identifies opportunities for pay-as-you-go capital work – The goal of this process is to create a stable principal and interest payment schedule, explore what capital projects we can afford to avoid using debt and plan when the best time to issue debt is. For fiscal year 2010, the actual property tax debt expenses are held the same as last year, but are expected to rise in fiscal year 2011 with the Public Safety remodel and expansion project.
5. Require that all funds be balanced – This is a basic requirement, but of highest importance for a financially strong organization. The budget meets this objective, however, there is a use of fund balance (savings) described above. Despite the use of reserves, our **total fund balance of 36%** is still just above the 35% minimum called for by policy.
6. Provide for equipment and infrastructure replacement – Funding for capital equipment approximates the depreciation expense for vehicles, except for new additions to the fleet. For the second year in a row, funding for vehicles is stagnant with no increase projected in the near term.
7. Annually evaluate adequacy and equity of fees to reduce reliance on the property tax – Staff performs regular surveying and assesses what we believe the market can bear in terms of our fees and charges to make sure we are only placing on the tax levy those expenses that are unsupported by fees, charges and other forms of revenue.

8. Performance measurement – Outcomes, workloads and effectiveness of efforts are contained within the budget document to show the results of the funds entrusted to the City by taxpayers. Many of our measures are contained within the budget document, but a more complete performance measurement report is produced each year separate of the budget.

III. STRATEGIC INITIATIVES

It has been the practice of the City Council to biennially hold a strategic planning session. At these planning sessions, the Council typically identifies specific strategic initiatives it wishes to pursue over the next two- to four-year period. These strategic initiatives are to flow out of our seven critical success factors, the trend results of the performance data and the community survey results.

At the Council meeting of June 20, 2007, the following strategic initiatives were adopted by the City Council for the next two-year period. Furthermore, Council approved the City's first mission statement. These strategic initiatives cover the 2008 and 2009 budgeting period, and final reports were issued in 2009. A summary of the conclusion of each initiative is outlined below:

1. **2030 Comprehensive Plan Update** – The update has been completed and the City is awaiting the final comments of the Metropolitan Council later this year before final adoption. The City Council appointed a citizen advisory task force to assist with the updating of the 2030 Comprehensive Plan, which consists of members of the Planning Commission, Economic Development Commission, Economic Development Authority, Park and Recreation Commission, Environmental Advisory Commission, Sustainability Committee, Woodbury Chamber of Commerce as well as several residents at large. The update has been in process since 2006 beginning with a review of our commercial areas and then dovetailing this work with the update of the complete plan which began in 2007.

The Comprehensive Plan identifies the general areas in the community where commercial, residential, industrial and open space land uses will be allowed and provides plans, objectives and policies indicating how the growth areas will be provided with City services including roads, sewer and water utilities, and parks and open spaces. The plan will update our vision and provide an approach for the future growth and development of the City's parks and public spaces. The new plan will include traditional comprehensive plan elements such as policies, goals and calculations with special focus on the following areas:

- Sustainability including land, energy and water conservation.
 - Growth management and infrastructure phasing.
 - Transportation system impacts on land use, the environment and community livability.
 - Healthy aging and senior-friendly elements.
 - Redevelopment opportunities.
 - Additional locations for neighborhood convenience retail and medium- and high-density residential areas.
 - Affordable housing opportunities.
2. **Water Management** – This strategic issue is comprised of four elements: Surface Water Management and Water Quality, October 2005 Storm Event Activities, Potable Water Quality and Potable Water Quantity. Staff has reported back to the City Council on surface water quality initiatives on several occasions on our study on how to protect Powers Lake from water quality degradation. A comprehensive storm water system review was performed following the storm and floods of October 2005 and a variety of system improvements are underway. A complimentary activity has been the creation of a flood proofing program for areas of flooding concern where major capital investments do not make cost / benefit sense. The program has been in development over the previous year and the first application of the new policy was approved by the City Council earlier this year. The discovery of Perfluorochemicals (PFCs) in drinking water tests in Woodbury's 16 water wells in 2007 by the Minnesota Department of Health (MDH) has been resolved. Additionally, the 3M Company which produced a number of commercial products which resulted in the formation of PFCs and deposited waste in numerous landfills including locations in Oakdale, Lake Elmo and Woodbury is working with the Minnesota Pollution Control Agency (MPCA) to remove the sources of this chemical from the landfills. Water conservation methods continue to be examined

through enforcement and rate structure. Meanwhile, additional water system capacity has been expanded with the Lake / Manning Road water tower and the 17th water well added off of Steeple View Road.

3. **Organization Management & Structure Plan** - Currently, the Public Safety Department has completed three Assessment-Planning-Action loops, the Public Works and Engineering Department and the Administration Department completed their second loop, and the Information Technology and Parks and Recreation Departments are working through the first loop of their process. Community Development and Finance are starting their processes. Each department beginning the Organizational Study Process plans and completes a department retreat. The retreat analysis and deliverables include the following:

- Assessment of all current team members and their fit on the management team
- Development of common vision, objectives and goals for management team and department
- Development of a common leadership language and framework to assess and guide the department
- Understanding the statutory, regulatory and customary functions and responsibilities of the department; Analysis of “Mission Critical” – “High Impact” deliverables for management team and each Division
- Analysis of what each division and department needs to start, keep and stop doing in terms of Mission Critical – High Impact deliverables
- Orientation to the vision of the management team and the department
- Development of a Department Mission Statement
- Development of a strong team culture, alignment and focus
- Map and definition of functional relationships of internal and external stakeholders, what promises and deliverables are being made to those stakeholders, and how the Department is accomplishing these promises and deliverables
- Draft of 9-18 month high-level strategic plan, action plans, long-term strategies
- Development of standards and performance measures to match the identified “Mission Critical – High Impact” department items

All completed action plan items are to be thought through in regard to the use of various technologies, partnership opportunities, employee training and development, cost and benefit analysis as well as the responsible financing of initiatives. As changes are identified, they are either implemented or brought to Council as needed and/or required. At the end of each department process, a final report is written and provided to the City Council.

4. **Emergency Preparedness** – The overall goal of this strategic initiative is to create a unified command structure that will support a coordinated response before, during and after an emergency event that will facilitate all City departments working together, sharing a common mission in order to mitigate the effects of a major incident or disaster. To achieve this goal, we will review our existing emergency preparedness procedures, complete our Infectious Disease Operations Plan (IDOP) and establish a volunteer citizen corps to provide additional support in times of emergency. We are also facilitating the National Incident Management System (NIMS) training of City employees and supervisors to ensure that employees understand their roles and are able to activate our Emergency Operations Plan. Staff has been updating the City Council on this initiative semi-annually.
5. **Future Transportation Needs** – This Comprehensive Plan element evaluated the short-term and long-term transportation needs to ensure mobility and safety are maintained without surrendering other important values such as pedestrian safety and comfort, noise mitigation, preserving neighborhood character and fulfillment of sustainability principles. The review included the City’s roadway system, the regional roadway systems that impact Woodbury, and the public transportation system including bus and future commuter railways. It will review design assumptions, principles and parameters; the social and economic functions of our roadway system and will seek to best balance the interests of the driving and residing public in the context of our sustainability goals. Work on this project is part of the transportation system review required for the Comprehensive Plan update and has been completed. A separate report on design principles guidelines was approved by the City Council in 2009.

A new set of strategic initiatives were identified by the Council for the next two-year period and are in the process of being finalized for adoption this fall.

IV. 2008/2009 YEAR IN REVIEW

This period of time has been one of the most economically challenging times in Woodbury's short 42-year history. As one of the most rapidly growing cities in Minnesota over the last two decades, the development fall-off has been particularly pronounced. While we have been completing a revised plan for our future in the 2030 comprehensive planning process, problems associated with the recession's economic repercussions have also occupied our time. Nevertheless, staff has spent significant time brainstorming ways to manage our cost and become more efficient. For the first time in memory, 2009's revenues will not out-perform our expenditures and thus mid-year budget changes are necessary. 2010's revenue performance is expected to mirror 2009's, and we are holding most capital and operating budgets flat as a result.

The following highlights the recent significant accomplishments of the organization over the last year as they relate to each Council critical success factor.

***Safety** - Woodbury residents feel safe in their person and their property. The City provides high quality, visible, protective services and works with other agencies serving our citizens to provide similarly high quality services.*

- National Incident Management System (NIMS) training for remainder of staff that had not had training
- Continued improvement in the fire response times to 85% of a five-member response within 9 minutes
- Completed implementation of Washington County 800 MHz communication
- Police services to St. Paul for Republican National Convention
- Work with the Minnesota Pollution Control Agency on the Lake Elmo, Oakdale and Woodbury hazardous waste sites remediation plans
- Continued development and commencement of emergency management strategic initiative
- Performed final report of organization study for Public Safety department
- Work with FEMA on flood mapping and opportunity for flood insurance by residents

***Quality of Life** - Woodbury maintains a high quality living environment characterized by: open space, quality parks, and attractive neighborhoods with a variety of life cycle housing options, convenient access to a wide range of private sector services (e.g. health care), and convenient access to high quality discretionary public services (e.g. recreation). The City directly implements those aspects of the physical and service environment for which it is responsible and promotes provision of desired services by other private and governmental agencies in areas outside its own responsibility.*

- Completion of reconstruction of Radio Drive from Pioneer Road to Bailey Road, and I-94 Frontage Road (4th leg)
- Purchase of another open space site next to the Dale Road Open Space
- Completing construction of Bielenberg Sports Center expansion with East Ridge High School project
- Update to parks master plan
- Completion of the Kargel Park improvements
- October 2005 storm water related capital improvements and implementation of the flood proofing program
- Century / Valley Creek reconstruction project with Washington and Ramsey County
- Final street improvements in many newer subdivisions utilizing escrows and letters of credit redemptions
- Tobacco restrictions instituted in city parks
- Approval of Roadway Designs Principles & Landscaping Guidelines for roadway projects
- Rehabilitated Well No. 11 and completed Well No. 17 to ensure adequate availability of potable water to meet stakeholder needs, including fire protection
- In coordination with Washington County, reprogrammed traffic signals on Valley Creek Road to improve traffic flow and safety and reduce emissions and fuel use

Positive Economy - Woodbury has a progressive, customer-oriented business community and a range of employment opportunities. The City monitors this area and provides leadership to promote achievement and bring together other parties as necessary to continue success.

- Commencement of the marketing study for Woodbury including the medical campus district around Woodwinds Hospital
- Completion of the northeast business park AUAR (Alternative Urban Area Wide Review)
- Analysis of the Phase II and northeast business park development and financing plan
- Revised letter of credit and development agreement procedures, and address developments in default
- Review of EDA and EDC structure and reorganization considerations

Education - Schools serving Woodbury residents achieve, and are perceived as achieving, outstanding results. The City supports school districts with their building needs and with the maintenance of a safe, positive environment for learning in the school buildings within Woodbury.

- Cooperation with ISD 833 on new East Ridge High School project in concert with Bielenberg Sports Center expansion and storm water pond
- Monthly meeting with ISD 833

Community - All residents in Woodbury feel a sense of ownership in the community as shown by participation in many active organizations meeting the social and spiritual needs of the people living within Woodbury's boundaries. The City is one means for citizens to meet the community's needs but the City's role is to be a partner with other organizations, promoting and supporting their efforts, not being the primary builder of community.

- Formalizing the operation of the Housing and Redevelopment Authority (HRA) and implementation of the Housing Action Plan
- Completion of 2030 Comprehensive Plan update
- Agreement and partnership with Lions Club and American Legion on Veteran's Memorial at City Hall

City Services - The City emphasizes the use of appropriate technology, equipment and infrastructure to provide services at a high level relative to other communities and at a cost perceived by residents as giving excellent value for taxes paid. The City not only implements those systems for which it has responsibility but promotes maintenance of an adequate level of service by other governmental and private entities serving our population.

- Development of citizen service improvement plans through department-by-department organization studies
- New departmental mission statements for IT and Parks & Recreation Departments
- Bond rating upgrade to AAA which will lower debt interest rates for future bond issues
- 2008 Comprehensive Annual Financial report received the Governmental Finance Officers Association award for financial reporting
- Biennial citizen survey showing continued strong public support for City Council, staff and community direction, and update of strategic plan
- Replacement of all city computer systems
- Addition of intranet for internal communications
- Established first Facebook page for recreational activities
- Implemented electronic communications policy with City Council
- Contracted for new utility billing software, to be implemented the first quarter of 2010
- 100% of snow plowing activities completed within eight-hour service standard

Sustainability - Woodbury strives to be a sustainable community that promotes community health and wellness through the protection of the environment. The City assesses and improves its development practices, City and community energy use, and use of its natural resources in order to not use resources at the expense of future generations. The City's role is to establish and implement policies, guidelines, goals and strategic actions to protect air and water quality, preserve natural areas, conserve energy, and reduce waste.

- Approval of the Washington County Hazardous Waste facility
- Removed milfoil from Powers Lake per the surface water management plan
- NPDES storm water permit development and implementation
- Development of proposed "Green Building" program and Alternative Energy ordinance
- Geo-thermal / HVAC improvements to BSC

- Recycle 90% of the spring street sweeping material (215 tons) collected from city streets
- Recovered and recycled 100% of the sweepings from the 2009 Street Seal Coat program
- Recycled 100% of the asphalt removed as part of the 2009 Street Rehabilitation program (7,800 tons)
- Repaired 1075 feet of sanitary sewer and storm sewer by relining the pipes rather than digging them up and replacing them
- Incorporated variable speed drive and high efficiency motors into new well construction
- Amended peak period electrical contract with Xcel Energy to reduce energy cost for the water supply wells

V. 2010 BUDGET OVERVIEW

The primary theme for the fiscal year 2010 budget is: “**Holding our own**”.

The overriding issue impacting the 2010 budget is the recessionary state of the local, state, national and international economy. The retraction of the private sector has had a big impact on our revenue collections and has forestalled growth and expansion plans. Despite many difficulties and challenges in the marketplace, the City of Woodbury is *holding our own*. Our finances as independently reviewed by our auditors had “*no findings of noncompliance*”, and the bond rating service Standard & Poor’s **upgraded our bond rating to AAA**. These outside reviews of our finances affirm that we still retain a strong financial foundation. Through a freeze in hiring the last couple of years, we have avoided dramatic employment reductions and service cutbacks. Meanwhile, the organization study strategic initiative that is now occurring in all departments is sharpening our focus on what is “mission critical and high impact”, and we are actively seeking to reduce or eliminate processes or programs that do not meet those two tests. We have also been careful not to expand in areas that will add financial or staffing obligations on the City of Woodbury; and as a result of our organization study and worsening economics conditions, the services and expenses of the City have gone through extensive scrutiny and most operating budgets have little to no increase. Fortunately, we are able to keep our core services and service level intact. The proposed 2010 budget does in fact return to the budget funding for the four police officers and a public service worker – streets eliminated as part of the 2009 budget adjustments to balance revenue shortfalls. Even with returning these positions, our net personnel change is a 1.24 FTE decrease.

In the preparation of the 2010 budget, the City remains committed to an open public process that allows citizens to view and comment on the public discussions of the City. The opportunity for the public to view and weigh in on our financial stewardship is as follows:

5/20/09	Capital Improvement Plan/Long-Term Debt Analysis
6/28/09	Adoption of Capital Improvement Plan
7/15/09	2010 Budget Targets
8/19/09	City Council Budget Workshop and review of long-term financial projections
9/9/09	Adoption of the Proposed Levy and set Truth-in-Taxation Public Hearing Dates
10/21/09	Continued review of 2010 budget
11/10/09	Continued review of 2010 budget
12/09/09	Truth-in-Taxation Public Hearing and Adoption of the Final Levy and Budget

From a macro perspective, the following chart represents a high-level 2010 budget at-a-glance that gives an overview of the document. However, it remains very important to also learn of the more detailed aspects of the budget described within this document.

Budget at a Glance	2009	2010	Percent Change
Budget Expenditures:			
General Fund	25,915,225	25,972,624	0.2%
Special Revenue Funds	924,305	977,986	5.8%
Capital Project Funds	6,627,626	15,488,090	133.7%
Enterprise Funds	14,525,629	15,148,133	4.3%
Debt Service Funds	11,518,285	17,541,461	52.3%
EDA	77,900	77,475	-0.5%
HRA	853,588	863,113	1.1%
	60,442,558	76,068,882	25.9%
Property Tax Levies:			
General Fund	19,099,446	19,727,954	3.3%
Fire Relief Pension	-	150,000	n/a
Capital Improvements	1,725,102	1,725,102	0.0%
Street Maintenance	1,638,995	1,638,995	0.0%
Tax Abatement	787,979	787,979	0.0%
Debt Service	3,112,960	3,112,960	0.0%
HRA	350,000	350,000	0.0%
	26,714,482	27,492,990	2.9%
Amount of Property Tax Increase	997,822	778,508	-22.0%
Property Tax Statistics:			
Net Tax Capacity	80,149,577	76,175,417	-5.0%
Average Home Taxable Value	303,600	283,100	-6.8%
Average Home City Tax	913	913	0.0%
Tax Rate	28.47%	30.81%	8.2%
User Fees for Typical Resident:			
Water	\$0.88/1,000 gal.	\$0.88/1,000 gal.	0.0%
Sanitary Sewer	\$2.31/1,000 gal.	\$2.47/1,000 gal.	6.9%
Storm Water	\$17.30/Quarter	\$17.30/Quarter	0.0%
Street Lighting	\$6.10/Quarter	\$6.60/Quarter	8.2%
EMS Ambulance Rates	\$1,185 ALS 1	\$1,327 ALS 1	12.0%

With the decline of non-property tax revenues over the years, **the property tax is the primary revenue source for the City**, and therefore of greatest interest by the taxpayer. Accordingly, the state levy limit mechanism and how it translates into the proposed property tax rate is important to outline. The state statute calls for cities with populations over 2,500 to be subject to levy limits for the three years, fiscal years 2009 to 2011. The levy limit will permit up to an inflationary increase based on each city's previous year's levy. The limits will also allow for growth equal to one-half of the percent increase in households within each city and one-half of the percent increase in taxable market value as a result of new construction of commercial and industrial property within each city. The bill also allowed a total of 22 defined special levies, which adds to the complexity of defining what our levy should be under law. Here is how we estimate the maximum levy allowed by law.

Factors

Staff Estimate

Inflationary increase of 3.9%, or the "Implicit Price Deflator" Index, whichever is <u>less</u> . The LMC estimates the current IPD government service inflation factor to be .83%.	Levy limits statutes allow for only a maximum .83% base levy increase.
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50% of the percentage increase in households from 2007 to 2008	The household information will be available after July 15 when Met Council provides the data to Department of Revenue (DOR). Staff estimates the factor to be .87% . The estimate is based on preliminary Met Council information.
50% of the percentage increase in commercial/industrial construction from 2007 to 2008	Information is to be provided by the DOR. Staff estimates the factor will be almost zero.

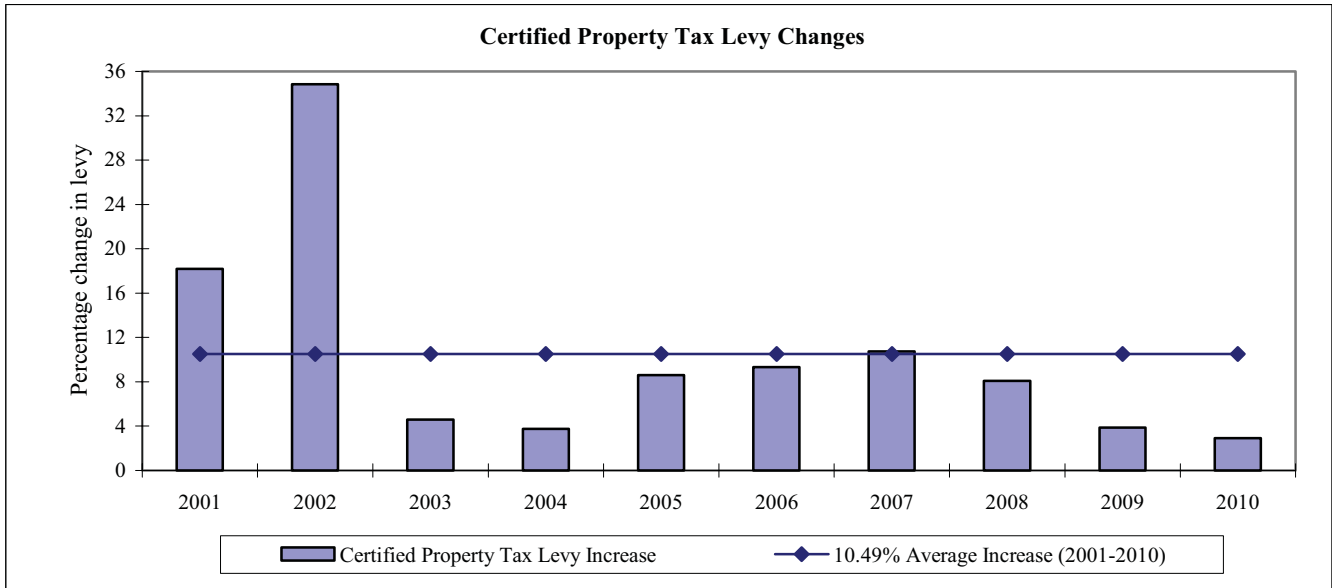
Special Levies Available to Woodbury

Staff Estimate

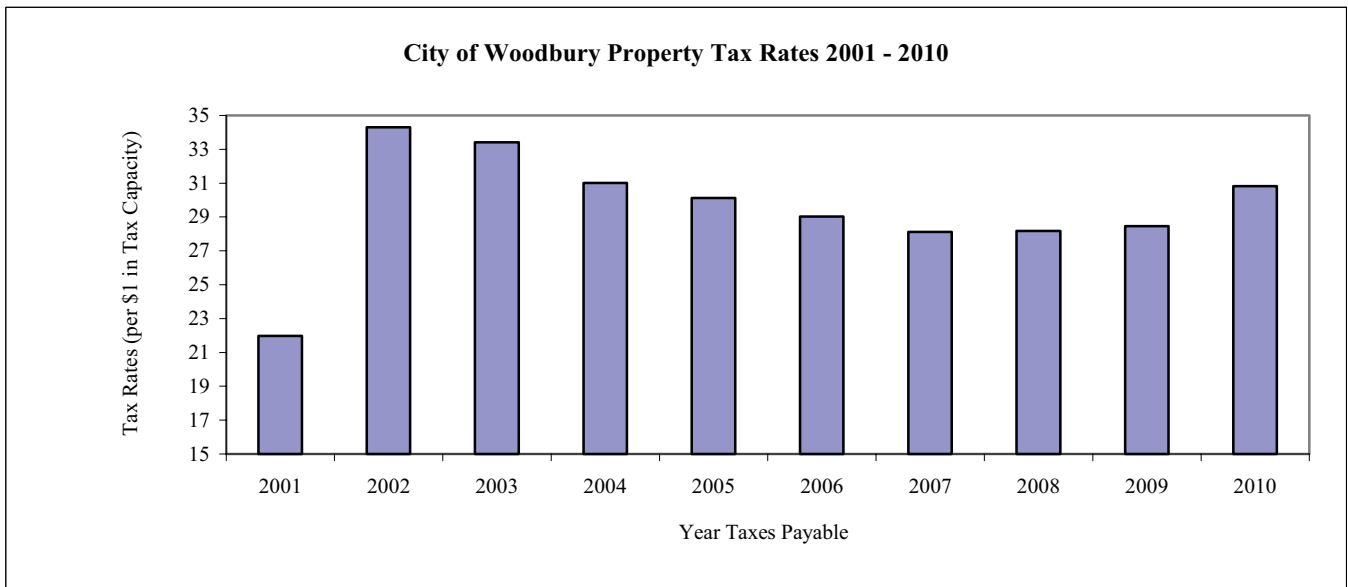
Debt Service Levies	Levies have been calculated based on a zero dollar increase for 2010.
Referendum Debt Levies	Levies have been calculated based on a zero dollar increase for 2010.
Property Tax Abatement Levies	Levies have been calculated based on a zero dollar increase for 2010.
Levy increases in PERA employer contributions	The impact of the employer contribution increases will be calculated and included in the estimate.
Levies related to foreclosure costs	This special levy will not be available to Woodbury. In order to qualify, 2007 foreclosures needed to have been greater than 1.4% of total households. The 2007 amount was 1.1%. This levy limit statute was not updated to account for a recalculation using 2008 data.
Levies for increased police and fire wage and benefit costs	Levies have been calculated based on prior year DOR instructions.
Levy for unallotment of LGA or MVHC	The Governor unallotted 50% of our MVHC, \$344,837, and 100% of our 2009 MVHC, \$691,251. This levy does not carry over from year-to-year, and is only available for FY 2010. Therefore, the plan would be to utilize this entire special levy in FY 2010 and carry-over the traditional levy limit for FY 2011.

With the addition of special levies, the **total available levy increase within the levy limit law is 9.9%**. The proposed 2010 total levy (including the HRA levy) is \$27,492,990, or 2.91% higher than last year, which is significantly below our ten-year historic average of 10.5%. Under the state's levy parameter, only **29% of the total levy limit would be utilized in 2010**, with the allowable balance carrying over to fiscal year 2011, the last year of the current levy limit law.

The dollar amount of the levy increase is \$778,508; less than the MVHC unallotment (\$691,251) plus the additional levy necessary for the paid-on-call firefighter pension (\$150,000), and 22% lower than 2009's level increase. From a historical sense, the following chart illustrates how the 2010 property tax compares to other fiscal years.

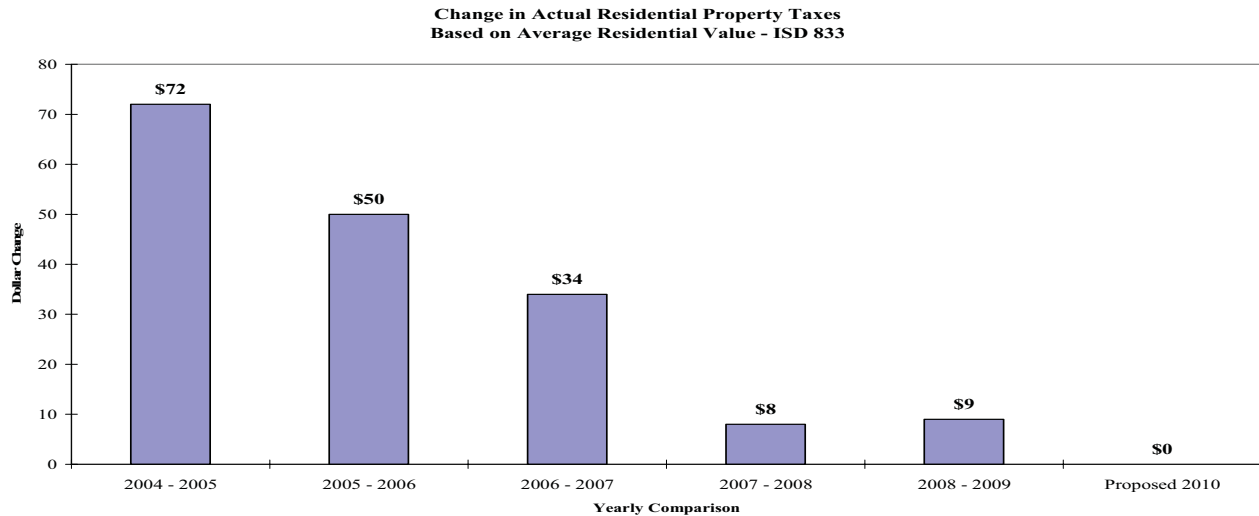


For year-to-year, or city-to-city comparison purposes, a more comparable measure is the tax rate. The 2009 total taxable market value for pay 2010 is estimated at \$7.3 billion, 3.9% less than last year. This equates to a net tax capacity of \$76,175,417-- 5% less than pay 2009. Based on the proposed tax levy and tax capacity, the **proposed tax rate is 30.81% of tax capacity, or 8.2% above last year**. The following graph illustrates the changes in the tax rate over the past ten years ³.



A rising tax rate identifies that the growth in the tax levy has exceeded the growth in the net tax capacity. While the rising tax rate is significant, the rate impact must be factored against changes in property values to determine the net effect on the property tax payer. The following graph demonstrates this net impact, and that **the 2010 levy will result in no impact on the average value home; the amount of which has been declining the last five years**.

³ 2002's sharp increase is due to changes in the property tax formula by the state legislature.



VI. SPECIFIC FUNDS OVERVIEW (excluding Special Revenue and Internal Service Funds)

A. General Fund:

EXPENDITURES: The 2009 total General Fund Budget equals \$25,972,624; which is **0.2% more than last year**. The following are some of the significant changes in the General Fund budget.

Personnel – With the tight fiscal environment, we have been taking a hard look at our personnel expenses and specifically holding off filling many vacant positions and restricting the addition of new positions. The following existing positions, deleted in the revised 2009 budget (but included in the original 2009 adopted budget), totaling 5.0 FTE are proposed to be returned to the budget (change in FTE in parentheses).

- *Police Officer (4.0)*
- *Public Service Worker – Streets (1.0)*

The following positions totaling 1.5 FTE were added to the 2010 budget.

- *Police Community Service Officer (1.5)*

The following positions totaling 2.74 FTE in the adopted 2009 budget are proposed to be deleted from the 2010 budget.

- *Building Inspector (1.4)*
- *Secretary – Inspections (.50)*
- *Secretary – Engineering (.25)*
- *Secretary – Recreation (.35)*
- *Escrow Technician – Inspection – (.24)*

Lastly, the following positions in previous budgets were accounted for in the Storm Water Utility Fund, and now in the 2010 budget are accounted in the General Fund for clearer activity presentation. This change does artificially add to the General Fund increase percentage; and without this change, the General Fund would be less in 2010 compared to 2009.

- *Environmental Specialist (1.0)*
- *Property Enforcement Officer (.50)*

Employee Wage & Benefit Changes – No cost of living increase is proposed in the 2010 budget on top of the 2009 wage and benefit changes, which included: discontinuing pay adjustment for employees in the Excelled Performer part of the non-represented pay range and Public Works and Parks employee wage movement in the professional development steps 5 – 7, elimination of the tuition reimbursement and employee wellness programs.

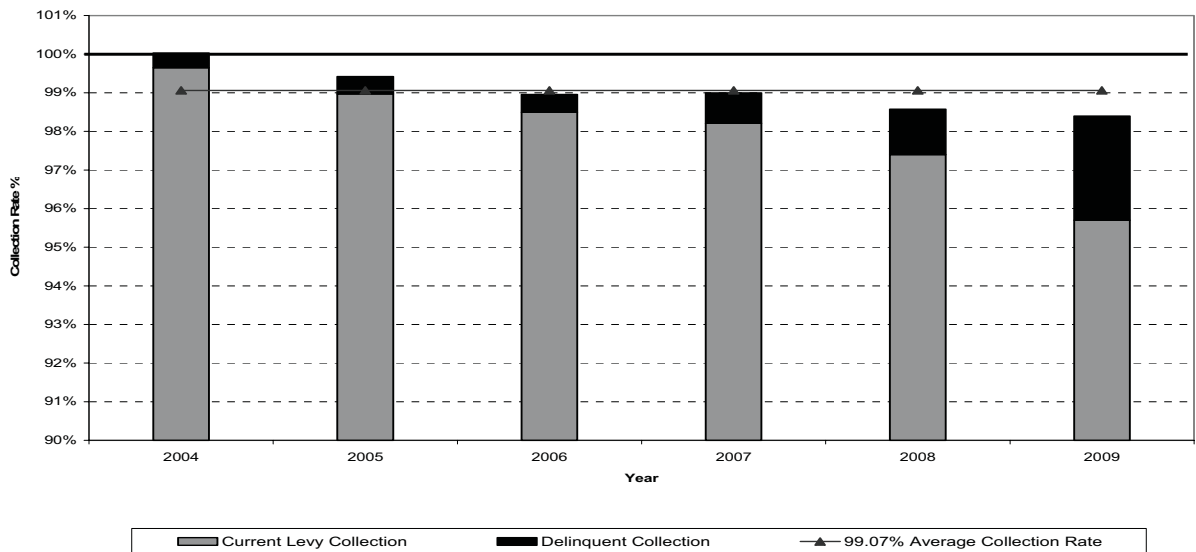
Operating Expenses (non-personnel) – The 2010 budget instruction asked that non-personnel expense to be kept to virtually no increase, with some targeted decrease areas. This has largely been achieved with the exception of salt / calcium chloride increasing \$32,000 and Community Development’s Environmental Division which consolidates the Environmental Planner (previously in the Planning and Economic Development budget) with the Environmental Specialist (Storm Water Utility Fund) and Sustainability Specialist (Administration’s Environmental program).

REVENUES: The General Fund anticipates total revenues of \$25,972,624; which is **0.2% more than last year**, to support General Fund operations. Below is a reporting of the major revenue source categories. Approximately 30% of the General Fund, our largest fund, is supported by non-property tax revenues. Comparing to ten years ago, non-property tax forms of revenue made up 50% of the General Fund revenues. The following are some of the major revenue changes for 2010.

Gross Tax Levy – The most significant revenue source is the tax levy, which makes up **70%** of General Fund revenues. The General Fund net tax levy support for 2010 is decreasing 0.2% compared to last year.

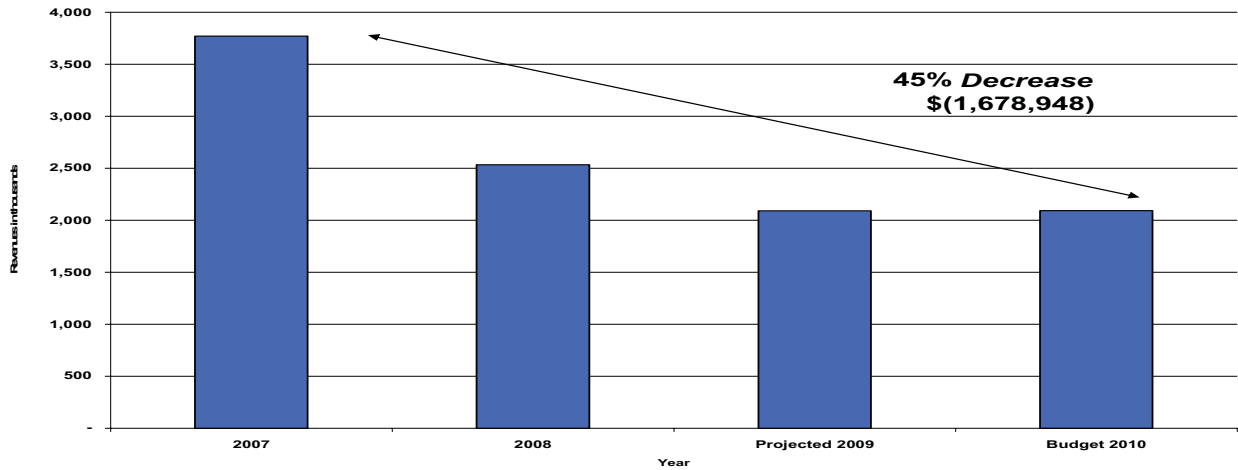
Property Tax Collections – A .9 % (\$234,975) uncollected property tax revenue allowance was added this year despite an expected 2% property tax non-collections. Any uncollected property taxes over the budget (budgeted at 1.1% or \$312,925) will be supported by the General Fund reserves. The following is a chart of our property tax collection history.

**Property Tax Collection Rate History
 Percent Collected of Property Tax Levy
 2004 - 2009**



Licenses and Permits – The City of Woodbury, like most cities across the United States, have felt a dramatic downturn in building permits. New home construction has fallen each of the last four years and is expected to remain low for fiscal year 2010. Therefore, the budget reduces building permit revenue by \$351,636, or by 16.7%, virtually the same amount as reduced from the 2009 budget compared to 2008.

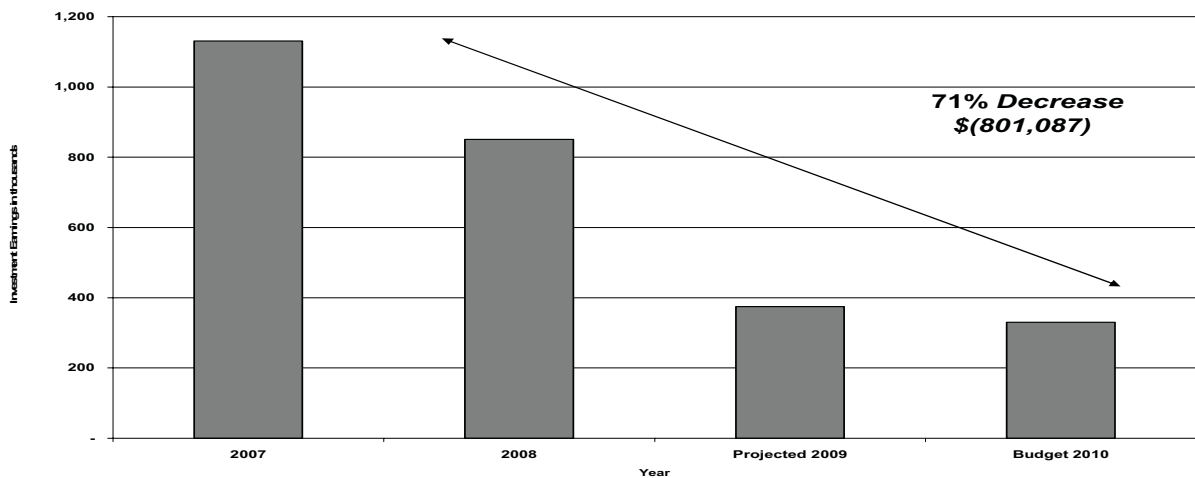
License & Permit Revenues



Municipal State Aid Street System (MSAS) – Funds come from the State of Minnesota and the constitutionally guaranteed 9% percent of 95% of the highway user tax distribution fund from motor fuel and motor vehicles and a statutorily dedicated portion of revenue from the state motor vehicle sales tax. These funds are intended to be a mechanism to fund the collector and arterial streets located within Woodbury. MSA rules allow use of up to 25% of our MSA allotment for street maintenance efforts. For fiscal year 2009 we have only utilized 10% (\$51,150) of the MSA funds for this purpose. It is proposed to increase this to \$374,291, redirecting revenue from the MSA Roadway Construction Fund to the General Fund.

Interest Income – The bursting of the sub-prime mortgage bubble and the poor performance of the stock market has led investors to seek more secure, safe investments which municipalities typically invest in. This has driven down the interest rates of these investment vehicles such that the base interest rate assumption for 2010 has been dropped to 2%, down from 3.5%. In addition, the reserve levels in the Capital Improvement Fund have decreased approximately \$2.8 million due to the Bielenberg Sports Center expansion project. Investment earnings from the Capital Improvement Fund are allocated to the General Fund. These factors lower our investment revenue expectation by \$275,000, or 45.5%.

General Fund Investment Earnings

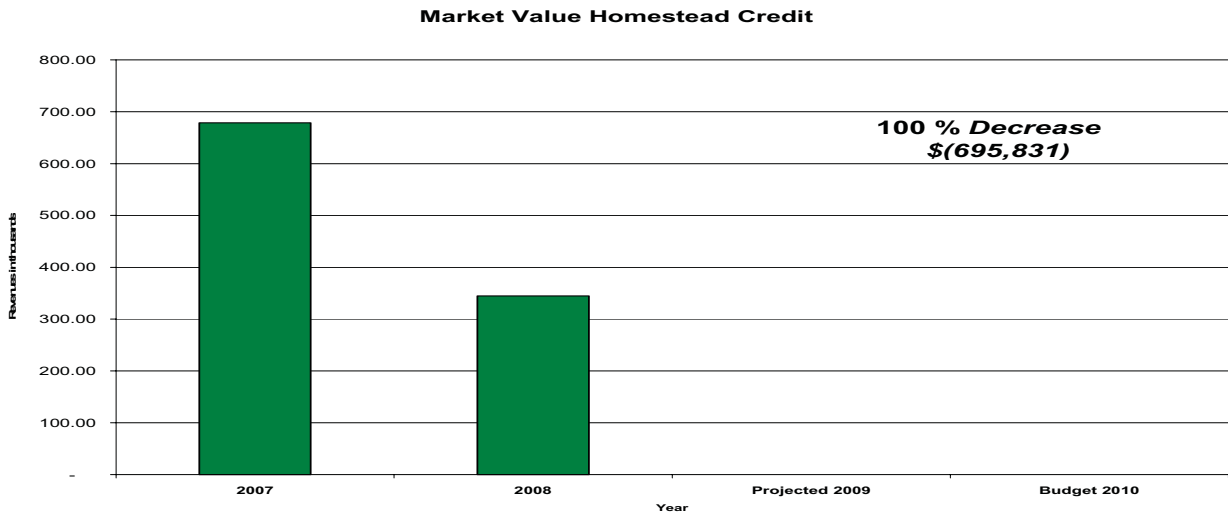


Administration Fee – In fiscal year 2010, the transfer to the General Fund to pay for engineering services from development-related activity was dropped another \$100,000 reducing the transfer to \$400,000 from \$800,000 just three years ago, reflecting slowing economic conditions.

Fund Balance – Due to the budgeting a 99.1% property collection rate with a 2% non-collecting deduction, the 1.1% property tax difference is budgeted to come from the General Fund reserves - \$312,925. The tax collection rate is anticipated to be dropped to 99% in 2011, the City’s long-term historical collection rate.

B. Capital Project Funds – The primary capital funds are described below:

Capital Improvement Fund – The **\$9.3 million total 2010 Capital Improvement Fund** expenditures is \$7 million above last year’s amount. The largest project is the \$8 million Public Safety building remodeling and expansion project funded fully by an anticipated debt issuance in 2010. The property tax support for the Capital Improvement Fund is unchanged from 2009 at \$1,725,102. Capital expenses outside the major Public Safety project have been reduced slightly over \$1 million to reflect the aforementioned lost revenue sources. The change in the capital fund balance is from a high of \$10.2 million in 2006 to \$6.5 million in 2010. Other Capital Improvement Fund revenues such as the \$695,831 MVHC revenues from the state (shown below) and \$500,000 General Fund transfer will not be realized due to state cutbacks and reduced revenue.



Street Reconstruction/Maintenance Fund (a.k.a Roadway Major Maintenance) – Similar to 2009, the tax levy will not increase due to levy constraints and will remain at the current level of \$1,638,995. The two-year cumulative shortfall in funding compared to the 2004 recommendations of the Street Major Maintenance Task Force stands at over a half-a-million. The Task Force determined that increasing investment in the street maintenance program has long-term financial benefits to the City by reducing the accrual of deferred maintenance while improving the quality of life for the driving public. The recommendations were first implemented in the 2005 budget and are carried forward each year per the long-term funding plan up to 2009 when the levy amount was frozen. Federal stimulus dollars, special assessment revenues, use of fund balance and investment earnings with the levy support will fund a total of \$6.16 million of projects.

C. Enterprise Funds – The Enterprise Fund Budget includes the Water and Sewer Division operating budgets, Storm Water Utility, Street Light Fund, Emergency Medical Services Fund, Bielenberg Sports Center Fund, and Eagle Valley Golf Course Fund described below.

Water & Sewer Utility – The City adopted a unique, progressive water rate schedule in 2007 to encourage greater water conservation during the lawn watering season. For the fourth year in a row, no water rate change is recommended. The Metropolitan Council Environmental Services flow charge increased 10.4%, and because this charge represents approximately 69% of our sanitary sewer operating expenses, this additional cost necessarily has been passed on in the form of a 6.9% rate increase. Utility fees and no property taxes support these enterprises.

Stormwater Utility – Although a 5% storm water rate increase was planned largely to support the \$1.5 million of October 2005 stormwater system improvements and the flood proofing program, expenses have come in more reasonable than expected and therefore **no rate increase** is proposed.

Street Lighting Utility – This fund accounts for the cost for the residential street lighting program. The primary cost is payments to Xcel Energy, which have increased approximately 8% for 2009. Therefore, an average 8% rate increase is proposed to pass through this additional expense. This activity is being closely watched with the possibility that Xcel will get out of the street lighting business which would have an impact on how we handle this utility in the future.

Emergency Medical Services – With the reimbursement restrictions that health care insurance, Medicare and Medicaid place on emergency medical services costs and the addition of fire/paramedic personnel that are funded 25% by this fund, there is continued pressure to be self-supporting. However, call volume is rising in the lower reimbursement areas, and thus a 12% increase is proposed for the expected call and reimbursement level expected for 2010.

Bielenberg Sports Center Fund (BSC) – The operating expenditures and revenues are in line with last year. The rate schedule for 2009 is included in the budget. Operating expenses are decreasing 8%, largely due to lower utility expenses through the geo-thermal/HVAC renewal project.

Eagle Valley Golf Course Fund (EVGC) – The operating expenses are again virtually unchanged from 2009.

- D. Debt Service Fund** – The City debt property tax levy is budgeted to remain unchanged for 2010. However, the total debt service expenditures are up significantly due to two bond issues being retired in 2010 through refundings that occurred in 2009.
- E. Special Revenue Funds** – These funds include the Park Dedication Fee Fund and the Administration Fee Fund. The Administration Fee Fund transfer to the General Fund was lowered \$100,000 to \$400,000 to reflect decreased development activity.
- F. Economic Development Authority (EDA)** – This minor fund expenditure levels is budgeted to decline slightly from 2009.
- G. Housing and Redevelopment Authority (HRA)** – The 2010 budget proposes no change to the \$350,000 property tax levy that would fund various programs and a Housing Specialist.

VII. ACKNOWLEDGEMENTS

This budget document would not have been possible without the effort, energy, talent and dedication of a number of employees. In the preparation of this proposal, I am indebted to the Division and Department Heads for their detailed budget submittals and their support staffs which gave important assistance. In particular, Finance Director Tim Johnson, Executive Secretary Carol Ammermann and Accountant II Lynn Haseleu performed the complex work of pulling the budget together, processing and analyzing the proposals and providing key recommendations through the process. Without the efforts of the City of Woodbury staff team, presentation of this document would not have been possible. Finally, I would like to thank the City Council for your leadership, support and commitment to excellence as a community and municipal operation.

Respectfully submitted,



Clinton P. Gridley
City Administrator