

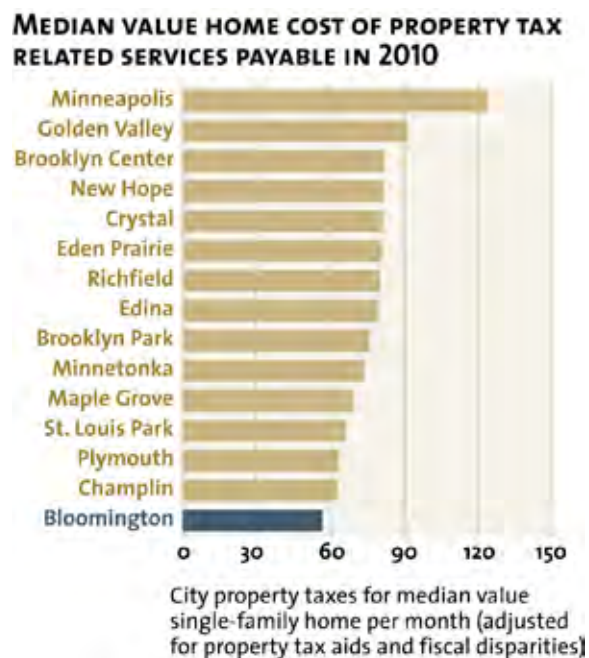
City Manager Budget Message



The following pages present the City of Bloomington’s Annual Budget for Fiscal Year 2011. The budget is formulated by using the City’s vision Imagine Bloomington 2025 and Organizational Mission to connect priorities and financial planning with community needs and expectations. Additional guiding principles employed during the budget process are designed to ensure that the City continues to meet the needs of residents while balancing the City’s budget. The primary long-term objectives for the budget include:

Meeting Demands for Quality City Services

The City is continuing to meet the needs of its residents while finding ways to improve the quality of service, keep costs affordable and retain its cost competitiveness advantages. In a 2010 comparison of 15 communities in Hennepin County with more than 20,000 residents, the average monthly single-family cost of services in terms of property taxes and property tax aids (when adjusted for Fiscal Disparities) showed Bloomington ranking the lowest. See *graph below*.



Economic Sustainability

As part of our strategy to be a more economically sustainable community, the City Council reviews and prioritizes all City services. *See page 26*. The most critical services, such as public safety and infrastructure, consume 68 percent of the City’s total expenditures, followed by community safety, planning and maintenance services. Quality of life services, such as arts and recreation programs constitute 16 percent of a homeowner’s monthly tax dollar. Many arts and recreation services generate significant user revenue. In addition, these services help reduce public safety costs and add to the quality of life of Bloomington residents.

Renewing Community

The City’s budget is aligned with ongoing efforts of strategic land use in three key growth areas to provide higher density and transit oriented housing alternatives for 2011.

In 2010, Bloomington saw a number of new businesses, hotels, restaurants, residential housing and academic institutions planned for or constructed. The

City continues to see growth in development as evidenced by the number of new building permits drawn and inspections conducted in 2010. Despite the downturn in the economy, inspection activity was 93 percent of the five-year average number of inspections.

The following projects, most helping to meet the City's strategic directive of renewal, were approved and are currently in the planning or implementation stages:

- Radisson Blu, a 12-story, 500-room hotel adjacent to the Mall of America is slated to begin construction in 2011. The hotel will be constructed on the south side of the Mall and will connect to the Mall via a sky bridge.
- The Penn-American District Plan, now in its final stages, will create a livable retail, office and residential neighborhood adjacent to the I-494 and I-35W interchange.
- The South Loop District Plan continues in its development. The plan will establish a mixed-use area that takes advantage of South Loop's unique location adjacent to the 12th-busiest airport in the United States and a National Wildlife Refuge. The plan encourages mixed-use living and working neighborhoods close to transit. Large city blocks will be divided into smaller, more pedestrian- and bicycle-friendly blocks with improved access to major destinations in the area.
- Senior housing projects that are near completion include:
 - Wealshire of Bloomington, 10601 Lyndale Avenue South;
 - Founders Ridge on the Bethany Fellowship campus on Auto Club Road;
 - Southtown Baptist Church, West 82nd Street;
 - Penelope 35 Apartments Phase II on Beard Avenue; and
 - Village on 9 Mile Creek final addition on Old Shakopee Road.
- Normandale Community College:
 - Is building a 7,000-square-foot, second-story addition to its existing activities building on the northwest corner of the campus. The addition will house classrooms and activity areas. The activities center will be renovated using recycled construction products where feasible and energy-efficient mechanical systems.
 - Is adding a 76,000-square-foot, three-story academic building, The Academic Partnership Center, just northwest of the Kopp Student Center.
- Covington Apartments on Green Valley Drive, just north of Normandale Lake Boulevard, is the proposed site of 250 luxury rental apartment units.
- Construction was completed on Cowboy Jack's Saloon, 2801 Southtown Drive.
- Richfield Bloomington Credit Union completed a two-story development on Lyndale Avenue and West 96th Street.

Retaining Excellent Financial Integrity

The City continues to make efforts to stabilize taxes through long-term strategic budgeting, systematic replacement of assets and establishing transitional reserves that allow for refinements to temper unexpected circumstances, as necessary. Strong financial management through such planning has resulted in numerous acclamations from our external auditors and financial advisors. Bloomington is one of only 31 cities nationwide to obtain three triple-A bond ratings. The City maintains triple-A ratings from Moody, Standard & Poor and Fitch Ratings, the highest bond ratings awarded by those agencies. According to the agencies, Bloomington's triple-A status reflects the City's healthy economic growth, conservative fiscal management and manageable debt burden.

Local Outlook

During the 1990s, Bloomington began modeling the economic cycles traditionally found in market economies and developed strategies to deal with economic downturns. The City now creates a five-year General Fund financial model and 10- to 15-year models for other funds. This type of modeling allows the City to see which longer-term reinvestments and renewals are needed and what level and manner of services to provide over the long term. Modeling also allows the City to react in the shorter-term and make the necessary changes to deal with economic cycles.

These strategies, particularly improving quality while remaining cost competitive and effective, are not only used during downturns, but during good times as well. The City's strong financial position, coupled with long-term budgeting strategies, help us manage in good and bad economic times. This allows the City to take advantage of the lower commodity prices in the downturn, which contributes to Bloomington being cost competitive in comparison to similar cities in Hennepin County.

Key Budget Challenges

Market Value Credit

In setting the City's property tax levy for 2011, the City anticipated that it may again lose all of its Market Value Homestead Credit (State aid funding) and therefore did not budget to receive that money for its operations. The State has a projected budget deficit of \$6.2 billion and has not paid the Credit to Bloomington for several years, so any reserve will aid in overall positive financial performance. If received, the Market Value Credit will be directed to assist the community's overall renewal.

Fire Pension

Given the significant decline in investment performance, the fire pension which was well above 100 percent funded experienced a decline starting in 2008 that paralleled the vast majority of pension funds. Long-term planning is allowing the City to completely fund its 2011 fire pension obligation for volunteer firefighters. Debt was issued for the first time in 2010 to pay that year's pension obligation. As soon as the City saw the indications in late 2008/early 2009 of the need for debt in 2010, planning started to address future funding to avoid issuing more debt or relying on increased property taxes to fund the pension in 2012 through 2016.

Health Insurance

The City's Insured Benefits Fund, which is modeled out ten years, having two consecutive years of 12 to 13 percent increases (2008 and 2009), has the City budgeted for a 15 percent increase from HealthPartners in 2010. Through negotiations in late 2009 the City was granted a 6 percent increase in premium for both 2010 and 2011. In 2011, the City will be requesting proposals from multiple health insurance providers for 2012 and beyond.

Pavement Management Program

In 2010, the City's Pavement Management Program (PMP), which started in 1992, increased its local resources by about \$1.3 million to stay abreast of infrastructure investment in its surface transportation asset. In 2011, the City levied just over \$1 million for the PMP. The City will utilize accumulated fund balances to support the planned number of overlay miles.

Budget Analysis

The 2011 Budget Analysis of key organizational budget issues is as follows:

Bloomington Housing Market

Overall, Bloomington's housing market has shown some growth over the past decade. Even with the recent downturn, a look at the 10-year trend shows that Bloomington's median home value has gained 32 percent since 2001, despite declines the past three years. A strong development cycle for office and hotel properties in 2008 and 2009 helped to offset some of the current weakness in the residential market. In 2011, the City expects commercial and industrial property value to begin stabilizing, while the residential market may be a further behind in the recovery process.

Property Tax Changes and Impact

In an effort to maintain an affordable price for City services, the City Council adopted a property tax levy for 2011 of \$44,552 753, a decrease of .12 percent from 2010.

Based on this tax levy, the City's portion of 2011 total residential property taxes paid to all taxing jurisdictions is approximately 29 percent. The Council's 2011 Budget objective was that the owner of a median value home,

which for 2011 is \$212,800, pays \$67.82 per month in 2011 in property taxes – the same amount they paid in 2010.

Home sales in 2009 reflect the housing downturn and are the basis for the 2010 assessment for taxes payable in 2011. Home sales in 2010 will be the basis for 2012 taxes. Total market value for all Bloomington properties was at \$11.8 billion for taxes payable in 2009, dropped to \$11.2 billion for 2010 and to \$10.3 billion for 2011.

General Fund Support through Property Tax

The City set a goal to remain under 60 percent property tax support of the General Fund if the Market Value Credit is received from the state. This measure will be exceeded in economically difficult years when reduction in other revenues shift to a greater dependence on property taxes. For the 2011 budget proposal, the goal is 65 percent given Market Value Credit decreases, as well as a reflection of years when it has not been received.

2011 Budget Service Priorities

Bloomington has strengthened itself as an employer of choice for top quality people. The City's financial strength and long-term strategy of staffing at levels it can carry through a normal economic downturn allows the City to continue to maintain its current service levels. A strategy initiated again in 2011 was holding open positions. Once the 2011 Budget was approved, filling additional positions will be done as a function of 2011 economic and budget performances. The 2011 Budget was balanced by providing that approximately 20 positions in the General Fund remain open.

Mall of America Phase II

Bloomington continues to work with the Mall of America to help them define additional development on property located north of Lindau Lane. The City and Port Authority's development contract with the Mall of America Corporation (May 1988) sets out the terms for development of Phase II, including use of tax increment financing and public funding of infrastructure.

Strategic Direction

The City of Bloomington continues to move forward with its goals and objectives with regard to land use, housing, transportation, parks, environmental resources and other elements. The City's organizational strength is evidenced in the quality and affordability of services, financial strength and productivity of its operations. These strengths are behind much of the successes Bloomington achieved in 2010. Examples of this success can be seen throughout the city and include:

Organizational Strength - OS

- A balance of commercial and residential property values, resulting in one of the lowest property tax rates in Hennepin County.
- One-third of the city set aside for parks and open spaces, including several parks of significance to the metro area.
- Reconstruction of Bush Lake Parks trail system.
- Implementation of social media sites to allow for two-way communication between the City and its residents.
- Continued success of E-Subscribe services, as evidenced by more than 5,000 subscribers in 2010.

- Continuing to enhance our overall emergency management capabilities.

Transportation – T

- Continued development of a unique Alternative Transportation Plan.
- An efficient and cost-effective street system, providing easy access to regional highways and sewer and water systems.
- The Reconfiguration of Hwy. 169 and the I-494 interchange to relieve congestion and improve safety.
- Improvement of 86th Street, making it safer and more bicycle and pedestrian friendly.

Utilities - U

- Preservation of natural drainage systems and wetlands in the Nine Mile Creek and Minnesota River watersheds.
- Achieving the Audubon Society's Cooperative Sanctuary Certification for Dwan Golf Club.

Housing – H

- A mix of owner-occupied and rental housing, which includes a wide variety of housing options for growing families, as well as older adults.

Land Use – LU

- Implementation of the South Loop District Plan to advance the area's transformation beyond the Mall of America. The plan includes extending Lindau Lane to connect the Mall of America to Bloomington Central Station.
- Penn American District improvements.

Council 2011 Budget Policy Decision

While early modeling showed a preliminary levy in excess of community growth plus inflation, work during the budget process, based on Council direction and improving economically sensitive revenues, resulted in the levy increase being decreased to 3.54 percent with a reduction in the Pavement Management Program levy and a freeze on internal service fund charges. No additional staff was added for 2011 and approximately 20 currently vacant positions will be held open in the General Fund. With a reduction in debt service and some reorganization of program areas, the preliminary proposed levy increase was reduced to a 0.12 percent decrease. The levy anticipated again not receiving state aid of \$1.3 million in 2011 Market Value Homestead Credit from the State.

2011 Property Tax Levy and Budget Recommendation

At a September meeting, the City Council approved a preliminary general operating fund budget of \$54,436,064 that was a 0.5 percent decrease from the 2010 budget of \$54,710,503. The City Council also approved a preliminary levy of \$44,552,753 for 2011, a 0.12 percent decrease from 2010. The levy decrease anticipated revenue losses from state market value homestead credits, interest earnings on investments as the level of unpaid property taxes remained relatively constant at less than one percent.

Adopted Budget

On December 20, 2010, the City Council approved the 2011 General Fund Budget of \$54,436,064 and adopted a final property tax levy for 2011 of \$44,552,573, the same as the preliminary budget and levy. Other fund budgets, including Enterprise, Internal Service and Special Revenue funds, were approved by the City Council in October 2010 through December 2010.

Conclusion

The Budget for fiscal year 2011 is a strong financial plan that continues to move Bloomington toward its long-term goals. Efforts to connect to residents through their preferred method of communication, housing alternatives, providing quality services at an affordable price, and revitalizing commercial areas with sustainability in mind continue to be the strategic priorities for 2011 and beyond. The City's goal is to protect and enhance Bloomington's environmental, economic and social assets for ourselves and future generations. And as we move toward a more sustainable Bloomington, our commitment to excellence and a strong strategic plan will continue to direct the City of Bloomington's course.

A handwritten signature in black ink, appearing to read 'Mark Bernhardson', with a long horizontal flourish extending to the right.

Mark Bernhardson
City Manager