

# Coordinating Committee Meeting

Tuesday, May 21, 2013

## 2014 OPERATING BUDGET

### Preliminary Considerations



Prepared By – Chief Bryan Litsey

# South Lake Minnetonka POLICE DEPARTMENT



BRYAN LITSEY  
CHIEF OF POLICE

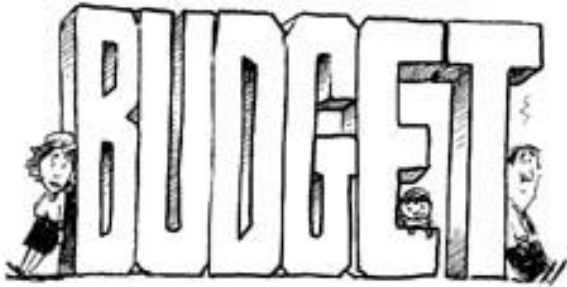
JAHRAUS



*"The achievements  
of an organization  
are the results  
of the combined effort  
of each individual."*

*~ Vince Lombardi*





# 2014 BUDGET PROCESS

## Tentative Timetable

- Anticipated schedule that the Coordinating Committee will be following for the 2014 budget process.
  - **May 21, 2013 (Tuesday) – 5:30 p.m.**  
Quarterly Meeting – Preliminary Budget Considerations
  - **June 19, 2013 (Wednesday) – 5:30 p.m.**  
*Note: Rescheduled for June 26, 2013 (Wednesday) – 5:30 P.M.*  
Budget Work Session – Staff Budget Presentation, Discussion and Feedback
  - **July 10, 2013 (Wednesday) – 5:30 p.m.**  
Quarterly Meeting – Budget Recommendation/Forward to Member City Councils
- Member City Councils have until **September 1, 2013** to approve the recommended budget.
- Once again, interested parties will be able to track the budget process on the SLMPD web site at **[www.southlakepd.com](http://www.southlakepd.com)**.



# The Good

## 2014 OPERATING BUDGET Preliminary Considerations



- **The good news** is that the SLMPD enters the 2014 budget process in a fiscally sound position due, in part, to the following past and current practices:
  - Adopting annual operating budgets that are able to sustain current operations and build financial support for future needs.
  - Applying unanticipated operating budget surpluses to capital needs to shore up special revenue funds with declining balances.
  - Effectively managing labor costs without shortchanging employees and applying any savings realized after the budget has been adopted to other underfunded line item expenses.
  - Having in place sound fiscal practices overseen by a team of professionals with years of experience working for a joint powers organization.

# The Bad

## 2014 OPERATING BUDGET Preliminary Considerations



- State peace officer aid is the largest revenue source for the SLMPD other than member city contributions.
- 2012 marked the fifth consecutive year in which there has been a shortfall in police officer aid due to a lack of funding at the state level.
- **The bad news** is that this trend is expected to continue in 2013 and possibly beyond.
- To counter this shortfall, the SLMPD has been reducing its reliance on this revenue source to support operations at the expense of the member cities.
- This practice has incrementally closed the gap between actual and budget amounts, although parity has yet to be achieved.



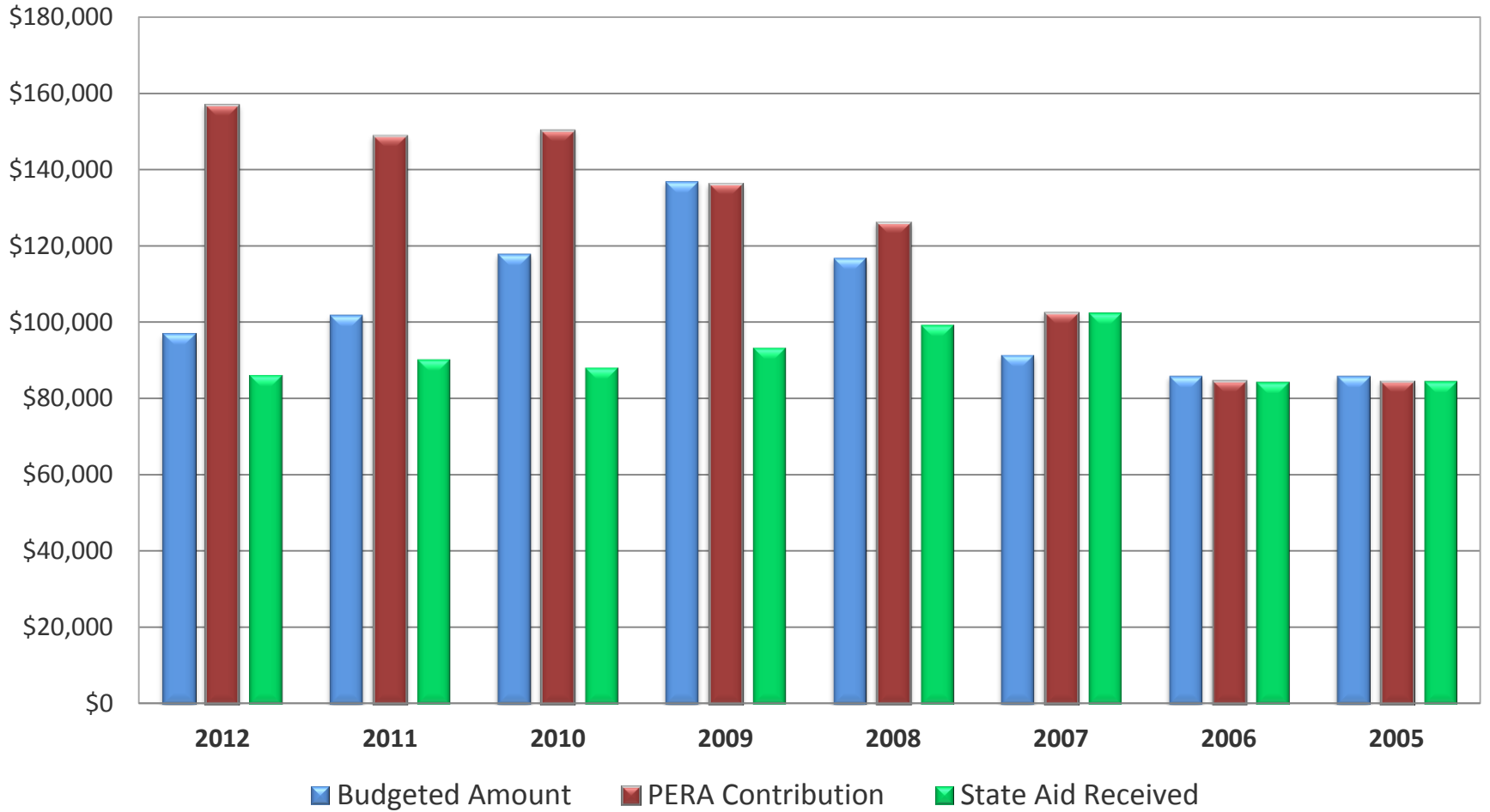
State Peace Officer Aid helps subsidize pension costs for local governments

**SOUTH LAKE MINNETONKA POLICE DEPARTMENT**

**State Peace Officer Aid - Revenue Line Item 42100**

Calendar Year	Payment Received	Budgeted Amount	Payment vs. Budgeted		Base Year	Actual PERA Paid	Payment vs. PERA Paid	
			\$	%			\$	%
2013	Pending	\$93,000	Pending	Pending	2012	Pending	Pending	Pending
2012	\$86,300	\$97,000	(\$10,700)	-11.0%	2011	\$156,993	(\$70,693)	-45.0%
2011	\$90,358	\$102,000	(\$11,642)	-11.4%	2010	\$148,923	(\$58,565)	-39.3%
2010	\$88,245	\$118,000	(\$29,755)	-25.2%	2009	\$150,268	(\$62,023)	-41.3%
2009	\$93,391	\$137,000	(\$43,609)	-31.8%	2008	\$136,323	(\$42,932)	-31.5%
2008	\$99,355	\$117,000	(\$17,645)	-15.1%	2007	\$126,197	(\$26,842)	-21.3%
2007	\$102,522	\$91,500	\$11,022	12.0%	2006	\$102,522	\$0	0.0%
2006	\$84,373	\$86,000	(\$1,627)	-1.9%	2005	\$84,704	(\$331)	-0.4%
2005	\$84,606	\$86,000	(\$1,394)	-1.6%	2004	\$84,606	\$0	0.0%

## South Lake Minnetonka Police Department State Peace Officer Aid







# LMC Cities Bulletin

May 20, 2013

## Omnibus Pension Bill on Way to Governor



The bill contains measures that would place the Public Employees Retirement Plan Police and Fire Fund on firmer financial footing.

The conference committee report on the omnibus pension bill, SF 489 (Sen. Sandra Pappas, DFL-St. Paul, and Rep. Mary Murphy, DFL-Hermantown), was passed by the Senate on a vote of 38-27 on May 17. The measure was passed on May 18 by the full House on a vote of 77-53. The next stop for the package is Gov. Dayton's desk.

Legislation that would have implemented a \$5 surcharge on auto and homeowner insurance policies to help fund public safety pension funds in the state stalled in the tax conference committee. As of May 18, the tax conference committee has included a \$15.5 million general fund appropriation for this purpose.

The bill is expected to reach the governor's desk in the coming days, and he is expected to sign the measure into law.

### Bill Incorporates the Following Changes

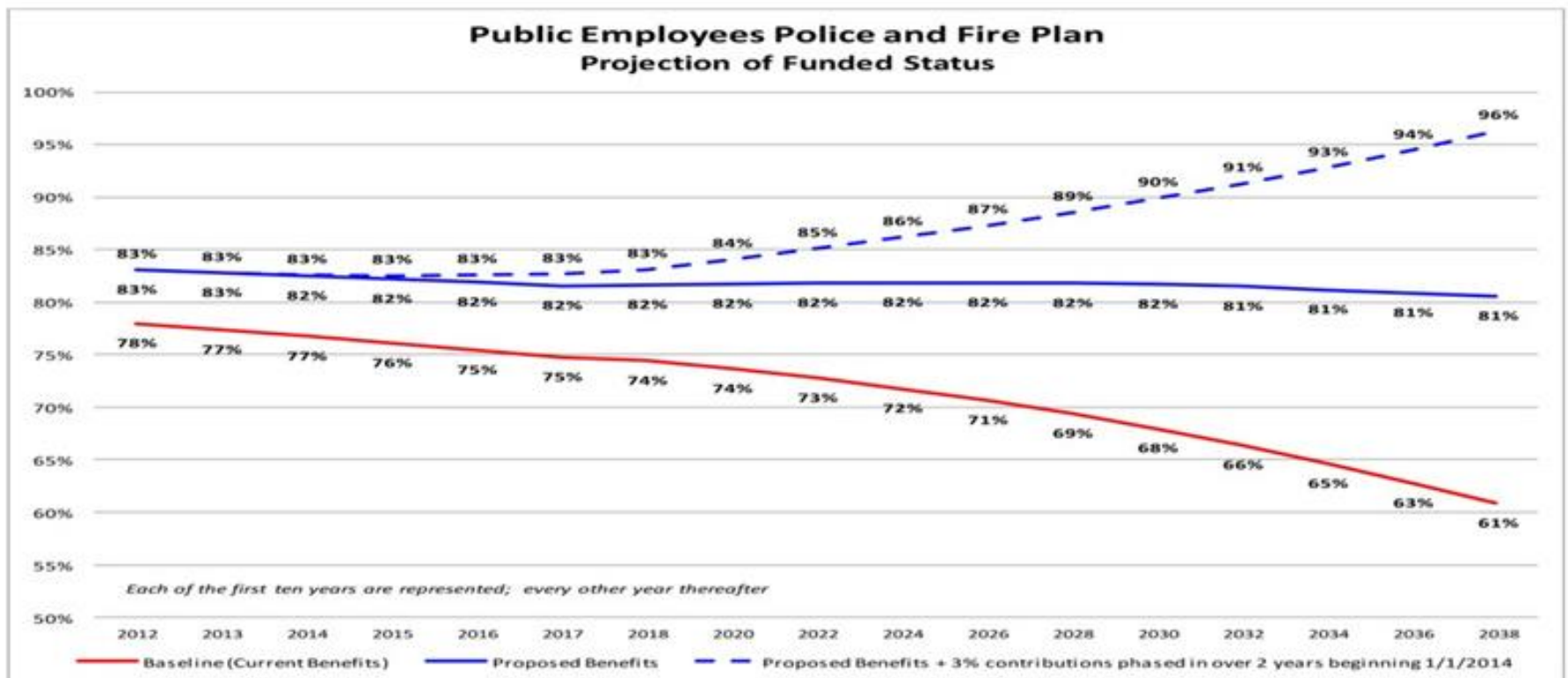
Source: League of Minnesota Cities

## Omnibus Pension Bill Provisions

- Increases active members' contributions by a total of 1.2 percent of salary, phased in over two years beginning in 2014. Thus, the current contribution rate of 9.6 percent would increase to 10.2 percent in 2014, and 10.8 percent in 2015.
- Concurrently, increases employer contribution rates by 1.8 percent, phased in over the same two-year period. That would take employer contributions from the present 14.4 percent of salary to 16.2 percent.
- Caps initial retirement benefits at 99 percent of average salary (equivalent to 33 years of service) for individuals first enrolling in the plan after June 30, 2014.
- Increases vesting for members enrolled in the plan after June 2014 to 50 percent after 10 years of service, and increases 5 percent each year thereafter to fully vested after 20 years of service.
- Changes the early retirement reduction factor from 1.2 percent per year (2.4 percent for post-June 2007 members) to 5 percent per year. This would be phased in over 5 years starting July 1, 2014.
- Sets benefit recipients' annual increases at 1 percent until the plan is back to 90 percent funded.
- Delays the first retirement increase paid to new retirees for three years (two years beyond current law).

# Omnibus Pension Bill Provisions

The chart below illustrates the long-term impact of the proposed changes on the plan. The red line shows the current projection of plan funding if nothing is done. The solid blue line shows the projection of plan funding with only the changes in benefits, while the dotted blue line shows the result of both the benefit changes and the contribution increases. They put the plan close to 100 percent funding by 2038 (the date set in statute for full funding).





# Public Employees Retirement Association Police and Fire Plan – Contribution Rates

## Historical Chart – 2005 to 2015

Date of Increase	Employee	Employer	Total Rate
January 1, 2005	6.20%	9.30%	15.50%
January 1, 2006	7.00%	10.50%	17.50%
January 1, 2007	7.80%	11.70%	19.50%
January 1, 2008	8.60%	12.90%	21.50%
January 1, 2009	9.40%	14.10%	23.50%
January 1, 2010	9.40%	14.10%	23.50%
January 1, 2011	9.60%	14.40%	24.00%
January 1, 2012	9.60%	14.40%	24.00%
January 1, 2013	9.60%	14.40%	24.00%
January 1, 2014	10.20%	15.30%	25.50%
January 1, 2015	10.80%	16.20%	27.00%

# The Ugly

## 2014 OPERATING BUDGET Preliminary Considerations

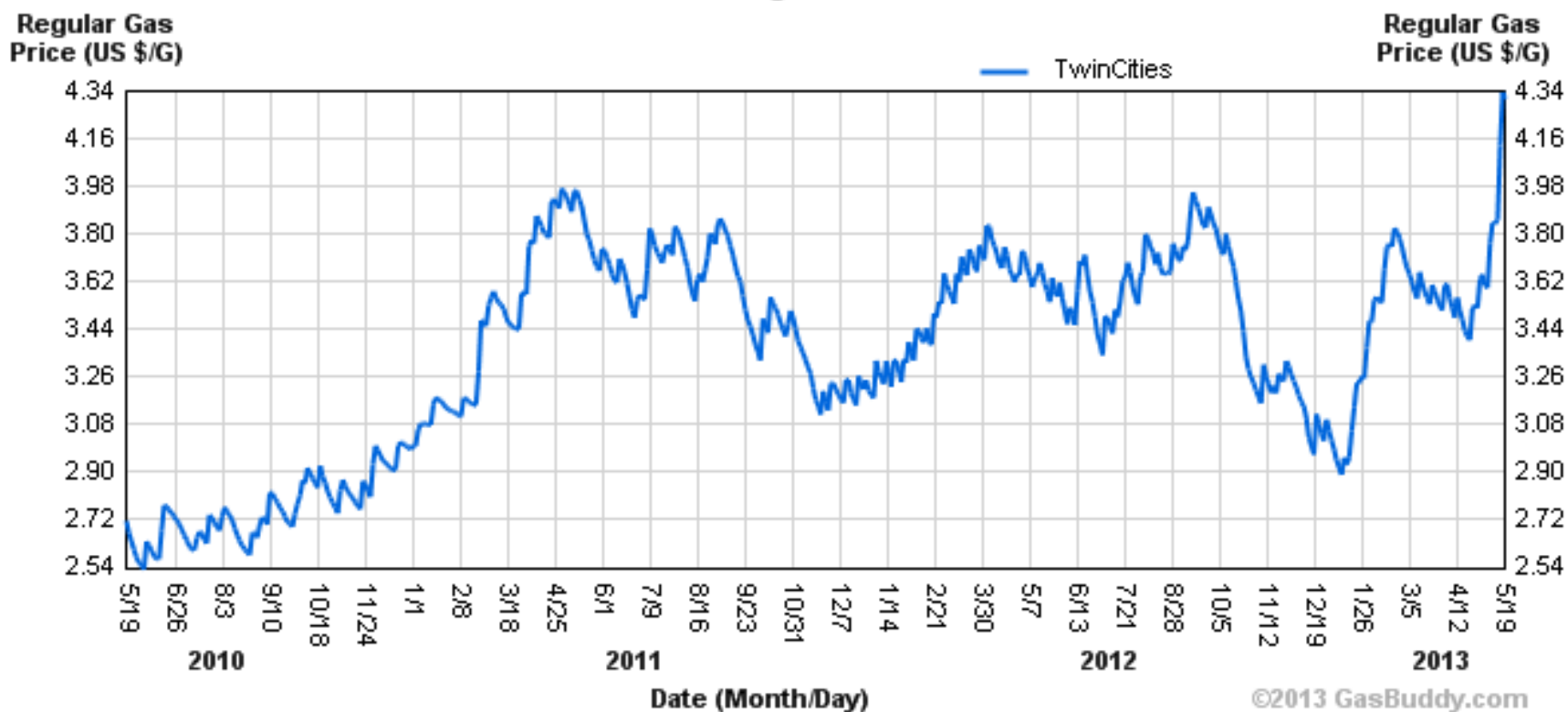


- The volatility of energy costs in a global market continues to present budget challenges.
- Most significant is the price of gasoline, which just this month surged to near record-highs.
- This suggests the outlook **could be ugly** in terms of where gasoline prices are heading.
- The SLMPD vehicle fleet normally consumes between 12,000 and 13,000 gallons of gasoline annually.
- Budget increases for this expense item over the past several years have helped mitigate this impact.
- Nevertheless, consideration should be given to further increasing this line item expense as a hedge against gasoline prices remaining above \$4.00 per gallon for an extended period of time.

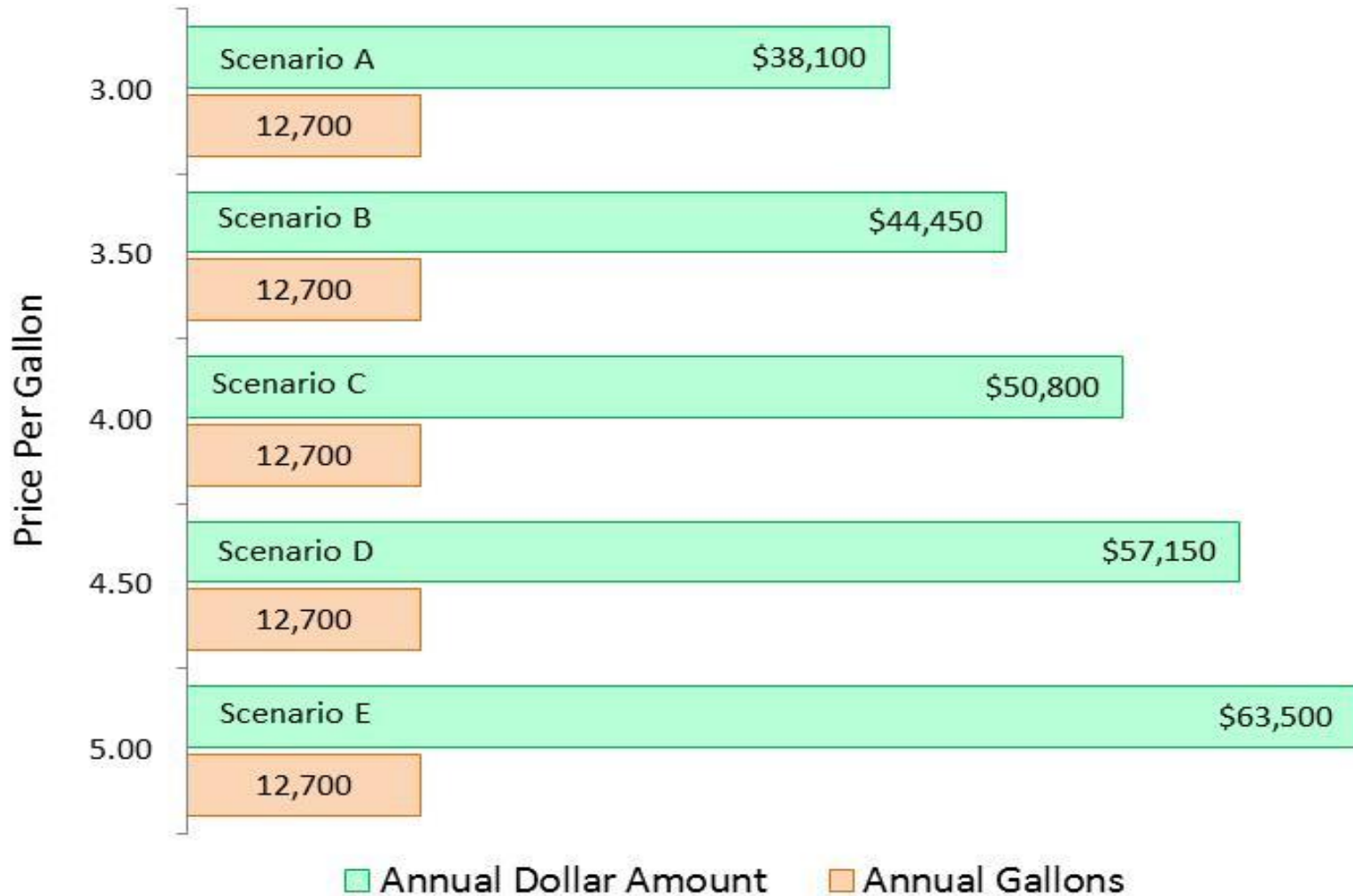




### 36 Month Average Retail Price Chart



# SOUTH LAKE MINNETONKA POLICE DEPARTMENT VEHICLE FLEET - FUEL COSTS





# 2014 OPERATING BUDGET

## Other Factors to Consider





# PERSONNEL EXPENSES

## Salary Considerations

- ❑ Not unlike most law enforcement agencies in Minnesota, the majority of police officers employed by the South Lake Minnetonka Police Department (SLMPD) are represented by a labor union.
- ❑ The SLMPD union membership, comprised of patrol officer, detective and sergeant job classifications, are represented by Teamsters Local 320.
- ❑ The current two-year labor agreement between the SLMPD and Teamsters Local 320 extends through December 31, 2013.
- ❑ Negotiations have yet to commence on a new labor agreement for 2014.
- ❑ It is unlikely that a settlement will be reached on a new labor agreement before the SLMPD operating budget needs to be finalized for 2014.
- ❑ Therefore, the amount factored into the 2014 operating budget for these pending expenses will be based on past practices, known settlements reached with other police labor unions and an analysis of current trends.



# PERSONNEL EXPENSES

## Salary Considerations

- ❑ The **Coordinating Committee Negotiation Team** for upcoming labor talks will consist of the following individuals:
  - **Negotiators**
    - Bryan Litsey, Chief of Police
    - Joe Kohlmann, Tonka Bay City Administrator
  - **Coordinating Committee Liaison**
    - Deb Kind, Greenwood Mayor
- ❑ Once a settlement is reached, the same percentage increase in union wages is normally extended to non-union personnel as well.
- ❑ It is important to note that since police officers are classified in Minnesota as essential employees, binding arbitration replaces their right to strike if no settlement can be reached.





# PERSONNEL EXPENSES

## Health Insurance Considerations

- ❑ The SLMPD is part of a consortium of local governmental agencies that collectively negotiate with health insurance providers to obtain good coverage at competitive rates.
- ❑ This alliance is called the LOGIS Health Care Group, which is managed by Gallagher Benefit Services, Inc.
- ❑ There are currently 40 member groups with over 4,000 employees and a total of over 7,800 participants.
- ❑ One proactive way the group has been trying to lower costs is educating employees on the potential cost savings that can be derived when switching from a traditional plan to a high deductible plan with a companion health savings account (HSA).
- ❑ The SLMPD has been in the forefront of this effort, both in educating employees and negotiating with the union to make the HSA plan more appealing in the labor agreement.



# PERSONNEL EXPENSES

## Health Insurance Considerations

- ❑ The previous contract with HealthPartners expired at the end of 2011 and went out for bids in the spring of that year.
- ❑ After an extensive bidding and screening process, Blue Cross and Blue Shield of Minnesota was selected as the new insurance carrier for the LOGIS Health Care Group.
- ❑ The new contract reversed years of premium increases by offering a premium decrease in 2012 of between 17 and 20 percent depending on the plan selected.
- ❑ Additionally, the contract did not lock the LOGIS group in to a specific number of years and included a cap on future premium increases.

2013 – 8.5%

2014 – 9.5%

2015 – 10.5%

2016 – 11.5%

- ❑ These factors played a key role in being able to negotiate a labor agreement with union employees for 2012-2013 in which the employer contribution toward health insurance remained status quo. This also applied to non-union employees receiving the same health insurance benefit.

# PERSONNEL EXPENSES

## Health Insurance Considerations

### Accordable Care Act Implications



- Key provisions of the Accordable Care Act take effect in 2014.
- The impact on LOGIS members will differ depending on whether the size of their group is considered large or small.
- Large groups constitute more than 50 full time employees and small groups constitute 50 or less full time employees.
- The South Lake Minnetonka Police Department (SLMPD) is considered a small group.
- Federal taxes will increase the 2014 rate cap from 9.5% to 13.3% for large groups only.
- This increase to the large group rate cap does not take into account any taxes that the state might impose.



# PERSONNEL EXPENSES

## Health Insurance Considerations Accordable Care Act Implications



- Small groups will be rated based on the state exchange guidelines.
- Small groups will no longer have rate caps going forward.
- Blue Cross believes that they will still be able to set premiums for small groups on a composite basis rather than age rated for each of these small groups.
- However, small groups will be rated separately from the large groups and will likely see an increase in 2014 beyond the previous rate cap of 9.5 percent.
- The hope is that the increase for 2014 will not exceed the 13.3 percent imposed on large groups.



# STAFFING CONSIDERATIONS

## 2008 Strategic Planning Group Conclusions

- ❑ The economic downturn over the last few years has put a damper on addressing the need for more police officers, which was one of the critical needs identified through the strategic planning process that took place in 2008.
- ❑ This process involved the formation of a Strategic Planning Group which met regularly between January and April 2008.
- ❑ The Strategic Action Plan developed by the group is posted on the SLMPD web site at [www.southlakepd.com](http://www.southlakepd.com).
- ❑ The Strategic Planning Group spent a considerable amount of time discussing staffing issues.
- ❑ It was recognized that the SLMPD continues to be significantly understaffed with its current complement of police officers.
- ❑ The patrol division was identified as having the most critical need for additional personnel and there was group support for hiring more police officers to address this deficiency.
- ❑ This conclusion was reached after validating that the redeployment of existing personnel was not a viable option; that there was clear and convincing data to support adding more police officers; and that officer safety was being compromised at present staffing levels.





# STAFFING CONSIDERATIONS

## 2008 Strategic Planning Group Conclusions

- ❑ One member of the group summed it up best, “We need to protect those who protect us.”
- ❑ Since there is no “one-size-fits-all” approach for determining staffing levels, a multitude of factors were taken into account by the Strategic Planning Group which included:
  - ❑ Safety of police officers and the public
  - ❑ Policing philosophy and priorities
  - ❑ Demand for service
  - ❑ Population size and density
  - ❑ Demographics
  - ❑ Municipal resources
- ❑ Now that the economy has started to improve, the timing is right to revisit this critical need through the budget process.

# FULL-TIME POLICE OFFICERS

## POLICE DEPARTMENTS IN LAKE MINNETONKA AREA

Chart Prepared by Chief Bryan Litsey - South Lake Minnetonka Police Department  
(February 2013)

Police Department <i>(Highest to Lowest Ratio)</i>	Authorized (1) Full-Time Officers	Population (2) Served	Residents Per Officer	Officers Per 1,000 Residents
<b>Wayzata Police Department</b> <i>Also Serving Long Lake</i>	12	5,495	458	2.18
<b>West Hennepin Public Safety Department</b> <i>Serving Independence and Maple Plain</i>	10	5,339	534	1.87
<b>Medina Police Department</b> <i>Also Serving Loretto</i>	10	5,568	557	1.80
<b>Deephaven Police Department</b> <i>Also Serving Woodland</i>	7	4,080	583	1.72
<b>Orono Police Department</b> <i>Also Serving Minnetonka Beach, Mound &amp; Spring Park</i>	27	18,752	695	1.44
<b>Minnetrista Police Department</b> <i>Also Serving St. Bonifacius</i>	11	8,737	794	1.26
<b>South Lake Minnetonka Police Department</b> <i>Serving Excelsior, Greenwood, Shorewood &amp; Tonka Bay</i>	14	11,680	834	1.20
<b>Cumulative Average</b>	<b>91</b>	<b>59,651</b>	<b>656</b>	<b>1.53</b>

(1) Full-Time Officer Data - Provided by Police Departments Listed

(2) 2011 Population Estimates - Metropolitan Council



# TECHNOLOGY CONSIDERATIONS

- ❑ During the aforementioned strategic planning process, one of the goals identified by the Strategic Planning Group was maintaining a sufficient fund balance to keep pace with changes in technology.
- ❑ The SLMPD has been able to address some of its technology needs through operating budget transfers, outside sources of funding and transfers of surplus revenues.
- ❑ However, the need for funding is ever-increasing as the role of technology in law enforcement becomes more and more relevant in daily operations.
- ❑ Relying on transfers of surplus revenues is not a viable long-term strategy and a more sustainable approach should be considered and developed.
- ❑ Until such a plan is fully developed, the SLMPD will need to continue its practice of using surplus revenues when available to supplement the Technology Fund.
- ❑ Such an opportunity exists now that the 2012 audit has been completed and the general fund reflects an unassigned balance of \$42,960 (*Page 13 in the 2012 Audit Report*).
- ❑ It is not a prudent financial practice to apply the unassigned fund balance towards future operating expenses, being this is not sustainable over time and will adversely impact future budget years when this amount is depleted and needs to be replenished.



## **BUDGET WORK SESSION**

**June 19, 2013 (Wednesday) – 5:30 p.m.**

**Note: Rescheduled for June 26, 2013 (Wednesday) – 5:30 P.M.**