2018 MPRB BUDGET ISSUES

Issues to consider impacting the financial condition of the MPRB

Annual operating budget considerations

- **Major Enterprise-wide Technology Support and Operating Needs**
  These two enterprise software systems, ActiveNet and Asset Management, each need dedicated staff to coordinate, implement and update them on a daily basis.
- **Temporary, part-time and seasonal workforce**
  Changes to MPRB policies and practices for hiring temporary, part-time and seasonal staff are expected to be fully implemented by the end of 2019. The process will be completed in two phases, with estimated June 2018 completion date for Phase I and an estimated completion date of June 2019 for Phase II. These changes will likely result in additional costs and increased workloads for HR department.
- **Recreation Centers and Programs and Youth Development services**
  Operational efficiencies have been implemented to improve service delivery over the past four years and outdoor supervision has been expanded in each of the past two years; however, funding levels for recreation services continues to be a challenge for the delivery of quality recreation services. Indoor supervision at recreation centers, particularly the gymnasiums, remains an ongoing problem that isn't fully solved by StreetReach because staff is largely dedicated to outdoor spaces. Adequate supervision at all recreation centers is critical, especially so at heavily used sites.
- **Development of an enterprise operating model for the Minneapolis Sculpture Garden**
  The Minneapolis Sculpture Garden reopens to the public on June 3, 2017 after closing for reconstruction supported by state bonding and a grant from the MWMO. The MPRB has been strategizing methods to offset the costs of operations, some of which are resolved by the reconstruction itself and others through a service delivery and programming model that will provide additional revenues to offset operating and long-term asset replacement costs.
- **Phillips Community Center Pool**
  The Phillips Community Center Pool is scheduled to open during the first quarter of 2018. Pool operations will require staffing, furnishings, materials and utilities. Revenue will offset a portion of the costs, with an estimated net annual operating cost of $315,766.
- **Management of Open Spaces and Natural Areas**
  Phase I of the Vegetation Management Plan will be completed in 2017 will provide an assessment and analysis of MPRB open space and natural areas. Phase II of the Vegetation Management Plan will be completed later in 2017 and will assess and classify the natural areas providing clarity and a framework for management of open spaces and natural areas. Upon completion of Phase I and II, staff will develop recommendations for management and investments in MPRB open spaces and natural areas which will likely require investments for additional staffing and other resources.

Capital funding considerations

- **Parkway paving and parkway lighting**
  An analysis of parkway road surface and lighting conditions was completed in 2012 and provides a guide for investment level decisions. Adequate funding is necessary to improve pavement and lighting conditions. With the 20 year Street Plan, new funding is available for the City of Minneapolis to address the needs of the city's streets, including the parkway system. Since 1995, City of Minneapolis funding levels for parkway paving and lighting has remained at $700,000 and $300,000, respectively. This level of funding fails to account for inflation and fails to recognize the needs for the parkways. Because parkways are part of the city's street system and are consistently used as a means of moving through the city for purposes other than recreation, appropriate funding from the city's 20-Year Street Plan should be used to augment the existing city funds for parkway paving and lighting so that funding levels account for the needs of the parkway system and account for inflation since 1995.
- **RiverFirst**
  Sufficient funding for all of the projects anticipated as a part of RiverFirst remains in doubt. Regional park funding, the most likely source for most of the work, remains a question, as it has been in both the 2014 and 2016 legislative sessions. The most immediate RiverFirst project issues:
  - Scherer Bros. Site and Hall's Island - Plans for the re-establishment of Hall's Island are nearing completion and construction is expected to begin in winter 2017-2018. Funding is not sufficient to address the costs for the initially conceived island, but **staff and consultants have reduced the size of the island and reconfigured its** location, moving it nearer to the east bank, to save more than $1,000,000 in construction costs. The development of the park at the Scherer site is likely to occur concurrent with development of Parcel 'D,' which is now being framed with the MPRB in the position of master developer.
  - There continue to be opportunities for the MPRB to acquire land within the Above the Falls Regional Park Boundary. Non-MPRB funding sources typically used to support these acquisitions are becoming far more competitive, limiting the ability to reasonably acquire those opportunities that are presented to the MPRB. Without additional funding, those parcels will be lost as parkland for at least a generation. Other evolutions in land use within and near the Above the Falls Regional Park boundary might also suggest action by the MPRB, but are unattainable due to lack of funds. In particular, a potential evolution of the use of the Northern Metals sites—a parcel of more than 11 acres with approximately 1,200 feet of riverbank—needs to be considered.
- **Graco Easement**
  While the MPRB acquired control of the easement area through its condemnation of a portion of the Graco property, the value of the property remains a question. The property value is being determined through the quick-take condemnation process with hearings before a three-commissioner panel in April and additional hearings to be held during the fourth quarter of 2017. The value of the easement as appraised by Graco's consultants far exceeds the value suggested by the MPRB's appraisers as well as the funds that were deposited with the District Court when the court approved the condemnation. As a result of the quick take process, there is no backing away from the acquisition and no immediate remedies should the condemnation commissioners agree with the Graco appraisal other than an appeal in District Court for determinations made by the judge prior to the start of the hearings.

- **Reinvesting in operation facilities**
  Many of our operations facilities provide poor working conditions, inadequate space for equipment storage, and inadequate work space. A rehabilitation fund has been established to invest in MPRB operations facilities and headquarters. While other potential solutions have been explored and pursued, they have proven to be very expensive, and the operational needs of the MPRB have been unclear. As a result, a staff-and-consultant team has initiated an assessment of the facilities and operations, working with MPRB staff at all levels to understand system needs, gaps, and opportunities, including ways to make day-to-day activities more efficient. The assessment of facilities and operations will lead to a master plan for operations facilities, where the costs of creating suitable facilities aligned with efficient practices will be more fully framed. The process of updating operations and improving those facilities for the benefit of MPRB employees will require funds in excess those currently allocated for those purposes.
- **Infrastructure and Utilities**
  Utility infrastructure is aging throughout the system. In regional parks, storm sewers are generally 40 to 50 years old and are at or near the end of their service life. While the MPRB is only responsible for the replacement and repair of storm sewer facilities that only drain park land, failures should be anticipated and eventual replacement should be planned. In neighborhood parks, older water and sanitary sewer facilities serve buildings throughout the system. While records exist on age and location of these facilities, extremes in weather (which are not predictable) can result in failure. Because of the 20 Year Neighborhood Park Plan, a rehabilitation fund has been established for below grade infrastructure in neighborhood parks. A complete assessment is necessary to more precisely identify the needs and next steps to properly address infrastructure and utilities.
- **Enterprise Fund Capital Investment Needs**
  Historically, the Enterprise Fund has financed its capital improvement program with profits generated in the current year. If profits generated in a particular year were not sufficient to cover the costs of all scheduled projects the projects would be deferred or cancelled based on prioritized need. This financing model along with the decline in the golf industry, annual subsidies to the General Fund, and debt obligations associated with the Neiman Sports Complex resulted in Enterprise Fund capital improvement project deferments that have reached a critical stage. Although improvements have been made, the level of deferments and the critical capital needs within the Enterprise Fund has resulted in major concerns for the long-term viability of this fund. As capital improvements become necessary and reserves are not available, debt is being utilized as a financing source which is more costly to the MPRB and accentuates the problem. Identification of annual set asides that are required in order to establish proper reserves for repair and replacement of specific asset types within the Fund, condition assessments of Enterprise Fund assets, and the establishment of a capital long-range improvement program are essential to improve the financial condition of this Fund.

Organization-wide Initiatives

- **Continuing to address issues associated with workforce injuries and the safety audit findings**
  Over the past five years the MPRB has worked to improve workplace safety by implementing new tree pruning practices, purchasing new equipment to reduce injuries, and mobilizing a new waste collection system. To help identify additional areas of focus, MPRB staff requested the City Internal Audit Department conduct an audit of the MPRB's

safety program. The completed safety audit identified 10 areas for improvement including development of a centralized Safety and Health Management System, completion of job hazard analyses for every MPRB job, and a review and revision of policies. Funding may be needed in 2018 to complete the next phase of this important safety work.

- **Racial Equity Action Plan Implementation**
  This plan will guide the organization in operationalizing racial equity. The plan includes organization strategies, as well as department-specific strategies which ensure the MPRB is an effective and inclusive organization that engages community and is responsive to its needs. In addition the MPRB is engaging with racial equity consultants to help support staff and create organizational change. Additional funding may be needed, +/- $75,000, to implement the action plan and assist with organizational development in 2018.

Specialized Funding Initiatives

- **Land Acquisition Fund**
  The MPRB land purchase reserve fund was established in the Special Revenue Fund to account for monies received from land designated as surplus and sold. Dollars from the sale of land can only be used for future land purchases. The 2016 and 2017 Annual Budgets included a General Fund transfer of $300,000 and $400,000 respectively into this Special Revenue Fund to assist with the future land purchases. With the transfers complete, the current fund balance is $1,079,732 and unless additional resources are added, as more parcels become available for purchase this fund will be depleted without a funding mechanism to replenish this fund. Additionally, the sources typically used by the MPRB to offset the costs of parkland acquisition for regional parks - the Metropolitan Council's Park Acquisition Opportunity (PAO) Fund and grants from the MWMO - are becoming far more competitive and the funds, particularly the PAO Fund, cannot support all requests. Without the sources of funding to complement the MPRB's own resources, opportunities for acquisition necessary to complete key initiatives in the upper river risk being lost for at least a generation of non-park uses.
- **Sustainability Fund**
  The Sustainability Fund was established with the adoption of the 2011 Annual Budget to finance capital investments and activities that promote MPRB sustainability efforts. The budget provided for 25% of the FY2010 excess fund balance of the General Fund to be directed to the Sustainability Fund. The fund was established with an initial allocation of $395,162. The balance remaining in the fund is $188,034. This fund was established with one time monies and no financing mechanism was adopted to replenish this fund.

Managing Impacts on Operating Costs

- **State Reduced Funding**
  There are currently three proposals for City of Minneapolis Local Government Aid (LGA) funding. The Governor's proposal would give the Park Board an additional $329,000 annually in LGA. The Senate proposal would reduce Park Board LGA by $3.4 million, and the House proposal would leave LGA unchanged.
- **Federal Funding Uncertainty**
  Changes in laws and regulations at the Federal level can have impacts on MPRB funding streams and/or accountability and mandates. In this current political climate, changes are being monitored and may have impacts in 2018.

- **Health care**

  Given the changes at the Federal level, the implications of the below mentioned federal requirements may change dramatically. As any changes are adopted, staff will assess and communicate impacts on the MPRB.

  - The City of Minneapolis is investigating self-funding the city medical plan. The positives to self-funding are: potential cost saving (state and federal taxes, administrative fees), greater flexibility and ability to impact cost of care, control of benefit plan design, greater control of benefit plan design, greater control over annual increases, replicating employers of similar size, greater access to data about our claims. The risks are: financial liability related to unknown costs future health costs, uneven cash flow due to claims fluctuations, and there would be greater analysis, planning and legal obligations to administer and manage funds. Labor unions are generally supportive of self-funding and the City's Benefits Labor Management Committee (BLMC) has a team studying and managing the process. The dental plan is currently self-insured and has been for many years. In addition, stop loss insurance could be purchased to protect the employer from the financial impact of catastrophically large claims or an unexpected high volume of claims. All discussions still have MPRB as part of the City of Minneapolis health and dental plans. In 2018, the MPRB would continue to use Medica. While the change to self-funding would not start until 2019, there may be startup costs in 2018.
  - In 2015 employers that employ at least 50 full-time employees became subject to the shared responsibility requirements of the Patient Protection and Affordable Care Act. The MPRB is continuing to assess policies and practices to capture both the cost implications and potential changes that need to be made in how the MPRB approaches health care and hiring of staff working 30+ hours on average (definition of full-time employee under Affordable Care Act).
  - In 2018, the Patient Protection and Affordable Care Act is the Cadillac Tax to take effect. It is an annual excise tax on employers that provide high-cost benefits through an employer sponsored group health plan. The tax is 40% of the cost of plans that exceed predetermined threshold amounts. This impact is still unknown to the City and Park Board. The cost will be shared (proportionally) between the City and Park Board – not a separate cost.
- **State Minimum wage**

  Since 2014 the state minimum wage has increased from $7.25 per hour to $9.50 per hour and beginning in 2018 the minimum wage will increase with inflation capped at 2.5% per year. This has impacted the Park Board General and Enterprise Funds, as the minimum wage has increased annually. The Park Board annually budgets inflationary increases to part-time salaries, so the impact of the inflationary increase will be minimal. However, such increases may exert pressure on collective bargaining wages especially for low wage earners.
- **City of Minneapolis Minimum wage**

  MPRB staff continues to monitor and evaluate the impact of a potential a $15/hour minimum wage in the city of Minneapolis. Minimum wage has the greatest impact in the Park Board seasonal/temporary workforce. At non-peak season there are approximately 311 employees at minimum wage and 374 above minimum wage but below $15.00. During peak summer season there are approximately 509 employees at minimum wage and 795 above minimum wage but below $15.00. Increasing the minimum wage to $15.00 per hour has a significant annual impact to the MPRB operating budgets, approximately $2.1 million for the General Fund and $430,000 for the Enterprise Fund. Also, such increases may exert pressure on collective bargaining wages especially for low wage earners.

2018 MPRB BUDGET STRATEGIES

Strategies to consider to address the financial needs facing the MPRB

- **Determine appropriate property tax levy in consideration of minimum wage changes, addition of Phillips Aquatic Facility, and increased investment in operations facilities**
  Even with the 20 Year Neighborhood Park Plan, there is a need to increase property tax revenue to meet current service level cost increases. Additional minimum wage increases related to a $15 minimum wage, bringing the Phillips Aquatic Facility on line, and the critical operations facility needs should be funded with either operational cuts and/or new property tax levy dollars given that they are above and beyond current service levels. A one percent property tax levy increase would generate $591,476 additional revenue. A home valued at $225,500 (assessed median value in Minneapolis) would experience a property tax increase of approximately $2.40 if the MPRB levy is increased by one (1) percent.

- **Continue Organizational Performance and Efficiency Work (measuring performance, business planning, and streamlining work)**
  The MPRB has made great strides in improving business practices and achieving efficiencies in operations. The focus of 2018 and 2019 will be to institutionalize NPP20 and furthering the improvements of business practices and work efficiencies. Work will continue in the development of criteria based systems for prioritization of work that ensures distribution of funds based on racial and economic equity, improved coordination among divisions and departments, refinement of staffing levels and alignment in the organization to meet service demands, and assisting employees in managing their workload.

- **Continue developing alternative revenue sources including partnerships, sponsorships, grants, donations, and tax revenues to stabilize and enhance service delivery.**
  - **Cooperate with other agencies to secure consistent funding for regional trail maintenance**
    With the potential dissolution of the Counties Transportation Improvement Board, Hennepin County is considering replacement of the CTIB tax with a county tax matching the ¼ percent CTIB tax and adding another ¼ percent tax. It is estimated the replacement tax will generate approximately $135 million annually that would be directed to transit projects. With Three Rivers Park District, the MPRB is assessing the potential to request that Hennepin County direct ten percent of the replacement tax toward the maintenance of regional trails and bicycle facilities supporting commuting. The MPRB has determined that approximately $1.5 million is needed on an annual basis to reasonably maintain its existing regional trail network. In comparison, Three Rivers requires about three times that amount for its more than 100 miles of regional trails. Other Hennepin County entities that provide regional trails and bicycle commuting facilities would be approached to become part of a coalition of providers, each of which would support a request to the county to direct a portion of the replacement tax to support maintenance of regional trail and bicycle facilities.

- **Successful Partnerships**
  Partnerships offer the MPRB the ability to stabilize and enhance revenue streams. Concession agreements with Sea Salt, Tin Fish, Bread & Pickle and Sandcastle are examples of this type of partnership. Partnerships also offer the MPRB the ability to enhance service delivery. The Twins Cities Mobile Jazz Project, Minneapolis Institute of Arts – Art in the Park Programs and the Loppet Foundation are examples of this type of partnership. Recreation Center Park Leadership Funds have allowed for creative partnership programs including Archery, Family Zumba, neighborhood festivals, and cultural-specific programs at parks. We have established a partnership with People for Parks for Swimming Lesson Scholarships at our aquatic facilities. Work will continue on expanding partnerships that enhance revenue streams and service delivery. Specifically, the MPRB and the Walker Art Center are pursuing a vendor relationship to provide food and beverage service and events management at the Minneapolis Sculpture Garden. This relationship aims to offset the costs associated with operations and long-term replacement related to the reconstructed Garden.
- **Grants and Donations**
  The grants and donations committee provides structure and support for the MPRB grant and donation processes. This committee allows for effective tracking and monitoring of grant applications by internal staff and external partners. This is resulting in ensuring applications meet the goals of the organization. The committee is having focused conversations around donations and is exploring different options to enhance this process and make the MPRB more donor friendly.

- **Build innovation and sustainability into capital infrastructure and site investments.**
  - **Build buildings and site development to LEED and B-3 standards to reduce operating costs**
    MPRB builds facilities that the organization will operate for decades. Incorporating LEED and B-3 standards for lower energy consumption, low-impact materials, and sustainable design techniques will increase construction costs but will provide a positive return on investment and reduce organizational operating expenses.
  - **Invest in facility energy efficiency/rehabilitation to improve facility operations**
    MPRB buildings constructed over 30 years ago lack energy efficient insulation, heating, cooling, windows, doors, lighting, airlock entry systems and centralized controls. Investments in new technology would have a return on investment time frames ranging from 5 to 15 years.
  - **Implement stormwater best practices to reduce pollution and utility fees**
    The stormwater fee for the City of Minneapolis provides credits for improvements that reduce stormwater runoff. Capital projects will incorporate best practices that clean stormwater and reduce runoff. Partnering with adjacent development to accept, infiltrate and reuse clean stormwater could result in new revenue streams.
  - **Analyze resource consumption to understand where to improve**
    Energy and water consumption are being continually measured in most Park Board buildings. The data can be used to inform capital and rehabilitation projects to reduce consumption and maximize return on investment.

- **Continue to strengthen processes for delivering park improvements following park procurement procedures and typical contract requirements**
  Factors impacting park delivery within prescribed budgets include lack of contractor conformance with civil rights contracting requirements and continued increases in construction costs.
  - Staff will work with contractors prior to submittal of bids to ensure civil rights contracting requirements are well understood and considered early in the preparation of bids.
  - Staff will establish and maintain proper contingencies related to project development (a design contingency) and implementation (a construction contingency).

- Staff will include as appropriate, liquidated damages as a part of the contract for construction of park improvements.

- **Develop methods of prudent application of accumulated park dedication fees**
  With significant funds accumulating for some neighborhoods, the MPRB will be expected to begin using those funds as investments are made in neighborhood parks.
  - While procedures are generally in place and have been used by staff to direct accumulated park dedication fees to some projects to date, staff is formalizing that process so that it is available and well-understood by park constituents seeking to access those funds.
  - The use of park dedication funds will continue to be proposed through the CIP so that the appropriate use of those funds can be confirmed by the Board of Commissioners.

- **Establish a Sound Enterprise Fund Reserve to Fund Necessary Enterprise Fund Capital Improvements**
  An Enterprise Fund is established to account for government activities that provide goods or services to the public on a consumer charge basis. Most government business-type activities are accounted for and reported in enterprise funds, and this is true for the MPRB. Enterprise activities are meant to be self-supporting including operations, capital improvements and debt service. Over the past 5 years, clean-up of the Enterprise Fund activities has been completed and work is now beginning to establish appropriate fund reserves for a back log of needed capital improvements in enterprise fund facilities.

- **Develop strategies to reduce Health Insurance costs (aside from increased costs due to Affordable Care Act)**
  Continue to work in partnership with the City of Minneapolis to develop strategies to reduce health care costs including wellness programs, plan design options, increased employee education, incentives to use low cost health providers for routine tests or procedures, and vendor management/negotiations. On April 28, 2017, the City Council adopted Council Action 17-00567 authorizing the implementation of single-employer, self-insured medical plan effective January 1, 2018. Benefits will not be reduced as a result of this change. With self-insurance, premiums are paid to the City and Medica administers the plan which includes reviewing and paying claims. Employees will not experience any change in how they use or access their Medica medical benefits and they will continue to have Medica as their medical insurance provider. This move to self-insurance helps the City and MPRB control future health care costs and although the full budget impact is unknown, a 2.5% premium cost savings is anticipated for 2018 and the potential for future cost savings exist. The MPRB five-year projections reflect a 5% premium increase for the next five years instead of a 7.5% increase had the City not approved the move to self-insured.

- **Properly align and allocate temporary, part-time, seasonal work force**
  Human Resources continues working with the Recreation Division, where the largest volume of temporary staffing occurs, to ensure that staffing for part-time and seasonal work is in compliance with all applicable laws and policies.