



STAFF REPORT

DATE: August 22, 2017

REGULAR

ITEM #1

TO: City Council
FROM: Brian A. Swanson – Finance Director
AGENDA ITEM: 2018 Budget Information – General Fund and Tax Levy
REVIEWED BY: Kristina Handt – City Administrator

BACKGROUND:

At the July 13th and July 27th Finance Committee meetings, discussions occurred regarding the 2018 Proposed Budget for the General Fund and Utility Funds. Based on these meetings, staff updated the respective budgets in preparation for the joint meeting with the City Council and Finance Committee held on August 10, 2017. This meeting discussed the 2017 Adopted Budget, 2017 Projected, and 2018 Proposed Budget, as well as a brief discussion on the 2018 Preliminary Property Tax Levy. Since the joint meeting, staff has gone back and made further revisions to the proposed 2017 budget based upon updated information and reduced expenses in 2018.

QUESTIONS BEFORE THE CITY COUNCIL:

- 1) What questions does the City Council have regarding the attached 2018 Proposed Budget?
- 2) Are there any service delivery changes the City Council would like to consider?
- 3) Are there any questions on the attached 2017 Final and 2018 Preliminary Property Tax Levy worksheet?
- 4) What property tax levy adjustment is the City Council comfortable with for the 2018 Preliminary Property Tax Levy, which is set for certification in September? If it is less than the amount presented, what areas would the City Council like to explore to reduce the 2018 Preliminary Property Tax Levy?
- 5) Is there any other information the City Council would like to review in more detail?

DISCUSSION:

Attachment #1 includes the entire General Fund Budget. The following is a brief narrative of the 2018 Proposed General Fund Budget highlighting key items:

Revenues:

- 1) **Property taxes for the General Fund** – For the 2018 Proposed General Fund Budget, property taxes will increase from \$1,818,847 for the 2017 Adopted Budget to \$2,477,300 for the 2018 Proposed Budget, which is an increase of \$658,453, or 36.20%. This increase is attributed to lesser increases in other revenue sources of \$155,382, or 3.53%, while expenditures increased by \$813,835, or 20.60%.
- 2) **Licenses and Permits** – These are based on staff estimates for related activities within the City, with most line items remaining reasonably consistent compared to the 2017 Adopted Budget. A few key items of note are:
 - a. **Building Permits** – Revenue of \$800,000, which is approximately \$8,000, or 1% less than the 2017 Adopted Budget. This is based on 250 new residential units being constructed in 2018, which is consistent with 2017.
 - b. **Heating and Plumbing Permits** – Both of these are proposed to increase by

approximately \$15,000 based on a fee charged for a fireplace, and sewer and water permit, both of which are \$60.00.

- c. **Fire Sprinkler Alarm Fees** – This fee was instituted in 2017, based on history and estimates were reduced by \$5,000 in total, or 33.33%. This fee was also split into two object codes, Fire Sprinkler Alarm and Fire Alarm Fees.
- 3) **Intergovernmental** – Municipal State Aid – Maintenance is projected to increase by approximately \$4,700 or 3.61% based on information from MNDOT.
- 4) **Charges for Services** – These are based from staff estimates and historical information. Two key items of note are :
 - a. **Zoning and Subdivision Fees** – These were increased by \$32,000, or 139.13%, based on new construction fees and staff estimates for planning and zoning activities.
 - b. **Plan Check Fees** – This line item is proposed to increase by approximately \$12,000 or 2.34%, based on more detailed analyses on the building permits that require plan check review to occur.
- 5) **Fines are Forfeits** – This line item is proposed to increase by \$2,500, or 5.38% based on historical averages.
- 6) **Miscellaneous** – Key line items of change compared to the 2017 Adopted Budget are:
 - a. **Cable Franchise Revenue** – This is proposed to decline by \$4,000 or 5.56% based on a city discontinuing to participate in the franchise resulting in lower total revenues to be allocated among the remaining cities.
 - b. **Miscellaneous Revenue** – This increase of \$25,900, or 647.50%, pertains to tax forfeit receipts, miscellaneous accounts receivable items and development fees.
 - c. **Tower Rent** – This proposed increase of \$7,000, or 15.22% is based on existing contracts.
 - d. **Use of Fund Balance** – The proposed increase of \$44,000, or 29.33%, from \$150,000 to \$194,000, is based on a change in philosophy from 2017 to 2018. In 2017, Fund Balance was used to balance the budget from an operational standpoint. For 2018, based on meetings with the Finance Committee, the use of fund balance is being allocated for capital purchases in the General Fund for items less than \$75,000. Based on this, the proposed purchases are a vehicle for Inspections of \$24,000, a 1 Ton Truck for \$70,000, Vac Trailer for \$45,000, an asphalt roller for \$30,000 and a Cushman Utility Vehicle for \$25,000.

Expenditures:

- 1) **Expenditure themes in the General Fund From the 2017 Adopted to 2018 Proposed -**
 - a. **Staffing** – For 2018, no new staffing positions are proposed in the budget. The one key item of note is that the Assistant City Administrator position that was approved in 2017, which reflects approximately three and half months of expenditures in 2017 and then a full year in 2018. This position will be allocated 50% to Administration and 50% to Communications. In addition, new staffing approved for the Fire Department in 2017 is shown for a full year in 2018.
 - b. **Salaries** – Extensive work and a compensation study occurred to determine budgeted salary proposals for the budget. Based upon this, staff is recommending salary adjustments to bring staff to at least the market average of its peer cities group with an inflationary adjustment of two percent. Based upon this, and personnel cost allocations, which allocated a budgeted position across departments/cost centers, and/or funds, variances will be seen in all General Fund budgets for Personnel except the Mayor and Council budget. As such, they will not be discussed separately for each department, or cost center in item #2 below, except for Administration, Finance and Fire.
 - c. **Benefits** – For health and dental insurance, staff is estimating a 10% increase in those costs for 2018. Renewal figures should become available in early September, and at such time, budget adjustments, if required, will be made with information provided

to the City Council. For other benefits, such as FICA, Medicare, PERA, etc., many of these correlate to salaries on a percentage basis, so as salaries are adjusted, so are these benefits.

- d. **Capital Outlay** – As outlined in the Revenues section above, Capital Outlay within the General Fund for items under \$75,000 will be proposed to be paid with Fund Balance for the 2018 Proposed Budget.

2) **Key Expenditure Changes by Dept./Cost Center from 2017 Adopted to 2018 Proposed–**

a. **Administration** –

- i. **Personnel** - Increased by approximately \$88,600, or 43%, which is attributed to the Assistant City Administrator salaries and benefits, and other wage adjustments outlined in item #1 above.
- ii. **Materials and Supplies** – Legal Services is proposed to decrease by \$70,000, or 41.18% based on shifting litigation costs related to 3M to the Water Fund.
- iii. **Charges and Services** – Assessing services is proposed to increase by \$15,350, or 40.39%, based on 250 new parcels and the Washington County charge. Contract Services, IT, and Software Programs, are proposed to increase by \$11,250, for Shred It, a new website and computer and existing software licensing. Legal Publishing is proposed to increase by approximately \$6,000 or 83% for legal codification updates and other publishing requirements. Cable Operation Expense will decline entirely from \$31,400 related to a one-time capital expenditure.

- b. **Elections** – This is proposed to increase by \$9,000 for the 2018 Election cycle.

- c. **Communications** – This budget is proposed to increase by approximately \$25,000, or 38%, for Personnel Costs related to the Assistant City Administrator of approximately \$41,000, quarterly newsletters for \$11,000 including postage, \$1,000 for cable operations to cover increased meeting and a reduction of approximately \$28,000 for IT/Web costs being proposed for allocation between the General Fund and Utility Funds.

d. **Finance** –

- i. **Personnel** – Proposed to decrease by approximately \$58,000, or 63% based on contracting for Finance Director services and increasing the part-time accountant to full-time as part of the department reorganization in 2017 after the 2017 Adopted Budget was approved.
- ii. **Charges and Services** – Audit services will increase approximately \$3,000, or 3% based on the contract. Contract services is proposed to increase by approximately \$108,000 based on Finance Director Services being provided by an external firm. Software services is proposed to increase by approximately \$19,000 for support for financial related software and the General Funds share of new financial related software.

- e. **Planning and Zoning – Charges and Services** – This section is proposed to decrease by approximately \$62,000 with the vast majority of the decrease attributed to the Comprehensive Plan update being split into 2017 and 2018 budget cycles based on the timing of the costs.

- f. **City Hall – Charges and Services** – Repair/Maint. Contractual Equipment is to increase by approximately \$2,500, or 16% based on the a new copier lease.

- g. **Police – Charges and Services** – Contract with Washington County proposed to increase by approximately \$46,300 or 7.49%. This reflects having the sergeant position filled for the whole year.

h. **Fire** –

- i. **Personnel** – Based on City Council action earlier this year, staff was directed to proceed with a revised staffing model that includes career, part-time and paid on call firefighters. As such, this section increased by approximately \$188,000, or 85%. Major changes in this section are the increase in part-

time salaries of approximately \$127,000 for 144 hours of service coverage per week and the associated benefits of approximately \$34,000 for this change. The remaining amount of the increase was related to the paid-on-call and personnel changes.

- ii. **Materials and Supplies** – This section increased by approximately \$24,000, or 71%, based on a proposed increase for small tools and supplies of approximately \$31,000, most of which is attributed to the hiring of 6 new part-time staff and the purchase of confined space equipment. Other line items were reduced by a total of approximately \$7,000 based on anticipated need and odd year costs for EMS supplies.
- iii. **Charges and Services** – This section increased by approximately \$24,000, or 22%, which is mostly related to physicals and uniforms for the 6 new part-time hires of approximately \$18,000. The remaining \$6,000 pertains to increased training and repairs on equipment.

i. Building Inspection –

- i. **Charges and Services** - This section increased by approximately \$3,000, or 19%. This is based on I-pads and telephone service for fieldwork of approximately \$8,000 and a reduction of \$5,000 for engineering services that can be handled by the current Building Official.
- ii. **Capital Outlay** – Vehicle purchase of \$24,000 approximately to be paid from Fund Balance.

j. Emergency Communications – Contract Services – decrease of \$3,615, or 67% for pole replacement project done in 2017.

k. Public Works –

- i. **Personnel** – On call pay was added for \$4,000 for the year and a safety clothing allowance is being allocated that total \$175 per employee that is split among Public Works, Parks and the three Utility Funds.
- ii. **Material and Supplies** – Increased by approximately \$16,000, or 2.86%, which is related to sand/salt increase of \$10,000, small tools and minor equipment increase of \$5,000 for a pallet rack and net increase of \$1,000 across various accounts.
- iii. **Charges and Services** – This section is projected to increase by approximately \$65,000, or 41%. This is based on approximately \$24,000 for 7 new 800mhz radios and annual cost. Repairs and maintenance is proposed to increase by approximately \$31,000 in total, which includes purchases of fan and locks for \$10,000 and \$1,000 respectively as well as increased estimates for equipment maintenance. Equipment rental is projected to increase by \$2,000, uniforms by \$2,500, Clean-up Days by approximately \$6,800 and the remaining line items resulting in a net reduction of approximately \$1,300.
- iv. **Capital Outlay** – This line item is project to increase by \$145,000 for the purchase of a 1-Ton Truck for \$70,000, Vac Trailer for \$45,000, an asphalt roller for \$30,000. This is to be paid from Fund Balance.

l. Parks and Recreation –

- i. **Material and Supplies** – This section is proposed to increase by approximately \$2,800, or 25%, which includes \$1,000 for operating supplies, \$1,000 for Repair/Maint. Supplies and a net increase of \$800 across the remaining line items.
- ii. **Charges and Services** – The net impact on this section is a decrease of approximately \$1,600, based on a decrease of \$20,000 for the lakes matching grant, as proposed by the Finance Committee. Also an increase in contract services of \$13,000 this includes turf treatments for \$8,000 and Sunfish Lake Management cost of \$5,000. Repairs and maintenance increased by approximately \$3,000, and the remaining line items resulted in a net increase

of approximately \$2,400.

- iii. **Capital Outlay** – This line item includes the proposed purchase of a Cushman Utility vehicle for \$25,000, which in accordance with the other capital purchases, will be paid from Fund Balance.
- m. **Compensation Adjustment** - This section decreased by \$35,000, as now all salary and benefit adjustments are being incorporated into the Departmental or cost center budgets.

2018 Preliminary Property Tax Levy, Tax Capacity and Tax Rate:

Attachment #2 of the packet includes a detailed breakdown of the City's overall Property Tax Levies for the 2017 Final Levy and 2018 Proposed Levy. In addition, it outlines the City's Tax Capacity, Tax Levy, and subsequent Tax Rate from 2013 -2017 Final and the 2018 Proposed Property Tax Levy. Based on upon the document, here are some key points:

- 1) The City's overall 2018 Proposed Property Tax Levy is proposed to be \$3,691,088, which is an increase of \$740,662, or approximately 25.10% when compared to the 2017 Final Property Tax Levy. This net increase is attributed to the General Fund proposed request of \$658,453, Debt Service increases of \$339,166 and a decrease is Library Levy of \$256,957.
- 2) The 2018 Proposed Property Tax Rate is 22.76%, compared to 20.02% for the 2017 Final Property Tax Levy, which is an increase of approximately 13.7%. This lesser increase compared to the property levy, is a result of increased tax capacity within the City.
- 3) Preliminary Tax Capacity within the City increased from approximately \$14.74 million in 2017 to \$16.2 million in 2018, which is an increase of approximately 10.0%. This increase in tax capacity spreads the property tax levy across the larger tax base resulting in a lesser impact to the property owners.
- 4) From 2013 Final to 2018 Proposed, tax capacity has increased from approximately \$11.4 million to \$16.2 million or approximately 42.1%. During that same time, the tax rate has declined from 27.8% to the proposed rate of 22.8%, or a decrease of approximately 18.0%.

The 2018 tax capacity and tax rate will experience minor fluctuations as Washington County refines its Pay 2018 taxing information throughout the year, and will not become final until early 2018 in preparation for property tax statements to go out.

2018 Property Tax Levy Impact on a Median Value Homesteaded Property City Share of Taxes

For a median valued home of \$372,800 that experiences no change in valuation, the estimated City share of property taxes for the Proposed 2018 Property Tax Levy would be \$847.47, which is an increase from \$745.40 for the 2017 Final Property Tax Levy, which is an increase of \$102.07, or 13.7%. This information is contingent upon changes in overall valuation, tax capacity, fiscal disparities and the City's 2018 Property Tax Levy.

Process for This Evening:

For this evening, staff will discuss the 2018 Proposed Budget, outlining key points and answering any questions. In addition, discussion on the 2018 Preliminary Property Tax Levy will ensue, with staff also available to answer any questions.

Next Steps:

Based on the outcome of the conversation this evening, and City Council direction, staff would propose the following schedule:

- 1) **August 22** – City Council direction on any additional information they would like to receive, and to gauge on what they would like the 2018 Preliminary Property Tax Levy to be certified.
- 2) **September 12** – (If necessary) Follow-up discussion on the 2018 Budget, Proposed Property Tax Levy with direction on what to set the 2018 Preliminary Property Tax Levy for the

September 19th meeting.

- 3) **September 19** – City Council adopts the 2018 Proposed Budget, 2018 Preliminary Property Tax Levy, and sets the date and time for the Public Hearing for the Truth in Taxation meeting in December. After the adoption of the 2018 Preliminary Property Tax Levy, the City Council may decrease the levy, but cannot increase it.

FISCAL IMPACT:

The proposed budgets and tax levy will help support necessary city services to be provided in 2018. In addition, consideration of the impact of the decisions made today will help the City plan for the future with the goal of sound fiscal management.

RECOMMENDATION:

- 1) Does the City Council agree with the 2018 Proposed Budgets presented for the General Fund, and 2018 Preliminary Property Tax Levy?

ATTACHMENTS:

- 1) 2018 Proposed Master Budget Worksheet – All Budgets
- 2) Property Tax Levy – FY 2018
- 3) Property Tax Levy Impact Worksheet
- 4) Budget to Actual Comparisons with Debt – 2014-2018 Proposed
- 5) Comparisons of Cities with Capital Replacement Funds – 8-22-17