



STAFF REPORT

DATE: August 25, 2020

TO: Mayor and City Council
FROM: Kristina Handt, City Administrator
AGENDA ITEM: 2021 Budget Information – General Fund, EDA, Utility Funds and Tax Levy

BACKGROUND:

In preparation for adoption of the preliminary tax levy in September, this memo addresses the following information: discussion on preliminary levy, and assumptions being used to prepare the preliminary budget.

The Finance Committee met on August 18, 2020 and are recommending the proposed general fund levy of \$3,769,624 but noted concerns about the growth of the tax rate over time as we enter uncertain economic times. Since the Finance Committee meeting I received fiscal disparities information from Washington County so I updated that amount to \$271,597 from the \$250,000 estimate that had been in the Finance Committee draft. In order to present a balanced budget to the council I increased the transfer to the vehicle replacement fund by that \$21k for the time being.

Since the Finance Committee meeting, I have discovered that the city certified the incorrect levy for 2019 and 2020 which left revenues short just over \$200k in 2019 and likely near \$275k in 2020. It appears that only the amount as shown on the first line of the budget was submitted to the county rather than the total tax amount. In processing fiscal disparities, the county subtracts the fiscal disparities amount from the certified levy but the city had already subtracted that amount before certification so in essence it was subtracted twice and resulted in less than expected revenue. Had the correct amount been submitted for the 2020 levy it would have resulted in an 8.1% increase in the tax rate as opposed to the 2% we thought it was. That translates to another \$58 of city taxes on a median valued home. As a result of this error, the city not only lost out on revenue it expected in 2019 and 2020 but it is adding a layer of difficulty in preparing a 2021 that would keep the tax rate the same. Washington County staff has indicated their tax impact worksheet will be available the week of August 25. I am no longer comfortable using the long range financial plan document used in previous years so that is not included in this packet. If the tax impact worksheet is available before our work session it will be provided as part of the presentation. At this time, I'm estimating the council would need to cut \$302,097 from the proposed 2021 budget or consider an increase in the tax rate.

ISSUE BEFORE THE COUNCIL:

- 1) What changes, if any, should be made to the draft budgets?

OPERATING BUDGETS

Attachment #1 includes the entire General Fund Operating Budget, Utility Operating Budgets and EDA Budget. Also new this year are the Park Dedication budgets and Vehicle Replacement budget. For the latter this may help the council tie together the funds levied in the general fund and transferred as revenue and the purchases in the CIP in one snap shot for the year.

Salary and Benefits

The 2021 preliminary budget is currently being prepared assuming a 2.5%-3% wage adjustment.

Medical benefits are estimated to increase by 10%.

General Fund

Revenues are largely increased due to the proposed operating levy for the General Fund. Most other revenues (licenses and permits, charges for services, investments) are proposed to remain relatively the same or slightly decrease for 2021 given the current economic state. It is anticipated that decreases will be seen first in the planning department and then more in the building department the following year. More detailed information is found in the attached budget.

Staff again worked on budgets to more accurately reflect costs in the proper departments and services as reflected in the attached budget sheets. The Administration budget remains fairly flat with the exception of an increase in the Assessing Services from the county and IT costs. Elections is decreased due to no election planned in 2021. Communications is relatively flat; small increases are planned for the biannual newsletter as the number of homes increase in Lake Elmo. Finance budget is increased due to a reallocation of the accountant given the new utility billing clerk position. Planning and Zoning is seeing an increase to allow for an operational audit of the department. Engineering is flat.

The Sheriff's contract assumes a 19% increase due to the addition of another deputy position for the entire year. The Fire Department is seeing an increase of 24% to allow for the hiring of an FTE, the increase in equipment maintenance costs is offset from the operational audit cost.

For 2021 Building Inspections is seeing a 64% due to budgeting for MNSPECT and an operational audit. The amount budgeted for MNSPECT could also be used to hire the equivalent of 3 FTEs. This brings expenses more in line with revenues for the building department.

Public Works is comprised of Streets (General Fund), Parks (General Fund), Water, Sewer, and Storm Water. For the last couple of years, public works hourly staff have submitted their timecards and identified which of the above departments they worked in each day. This has given us historical data to use in projecting where they will spend time in the future. Allocation changes for public works staff across all departments has been adjusted for 2021 based off of 2019 and 2020 YTD actual data. This resulted in more personnel expenses in Streets and Water and less in Parks, Sewer and Storm Water. In 2021 less salt is expected to be purchased since our sheds are full at the moment. Increased costs from IT and computer replacement and the purchase of the asphalt hot box are proposed.

Transfers include the \$30,000 to the EDA for the city staff space in Brookfield as well as the transfers to the vehicle replacement fund. These additional funds help reduce the need to bond for equipment in the future.

Debt Service

The tax levy is comprised of the operating levy as well as the debt levy. The city did not issue any new debt in 2020. The 2021 payments for existing debt are as follows:

	2020	2021
GO 2010A	57,151	
GO 2010B	206,908	207,338
GO 2011A	74,828	
GO 2012A		
GO 2012B	63,669	67,313
GO 2013A		
GO 2014A	199,370	205,354
GO 2015A	21,543	13,143

GO 2016A		194,564	188,999
GO 2017A		340,691	339,904
GO 2018A Equip Cert		128,996	123,848
GO 2019A		124,786	293,148
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Total Existing Debt Payments	-	1,414,524	1,439,046

When I discovered the levy error, I reached out to our financial advisor to see if any debt could be refunded. While the city may be able to refund debt and save some money, that impact won't be realized until the 2022 budget.

Utility Funds

Overall we have been conservative in our estimates for revenue as we have anticipated a slight slowdown in construction, but will revise these after we complete the Utility Financial Management Plan update. The utility management plan is proposed to be presented to the Finance Committee at their November meeting. At that time they will also make recommendations regarding rates for 2021.

The Water Fund is proposed to see decreasing revenues as growth begins to slow. Expenses are seeing a slight increase due to staffing reallocation as discussed above and CIP items such as oversizing that are due to developers when the infrastructure is turned over to the city. We are proposing that there be no increase in Water Rate for 2021.

The Sewer Fund is similarly seeing a decrease in revenues due to growth slowing down. This assumes a 1% increase in sewer rates for 2021. However, this will be re-examined at the November meeting when the updated utility pro forma is complete. Expenditures are increased in the charges for services and capital outlay categories.

The Storm Water Fund is projecting increased revenues based upon a \$10 fee increase. Expenditures are down due to the reallocation of staff as previously discussed.

EDA/Brookfield Building Fund

The EDA Fund shows a slight increase in revenues due to a new tenant for part of the year. Expenses remain relatively flat.

Tax Impact:

If no changes are made to the budget my current estimate is that the median values home at \$421,000 would see an increase of about \$75 in their city taxes in 2021. About \$14 of this is due to increase in their property value (existing Lake Elmo homes on average are seeing a 1% increase in value) and the remainder is due to the previous levy error.

Possible areas to look for cuts:

- Vehicle Replacement Fund Transfer-\$302,097

If this amount is cut estimates are that the fund would be in a negative balance for a couple years but recover by 2030 as shown below:

Year	Revenue	Expense	Balance
2021	\$129,441	\$810,000	\$585,313
2022	\$150,000	\$417,500	\$317,813
2023	\$175,000	\$469,000	\$23,813
2024	\$200,000	\$239,000	-\$15,187
2025	\$200,000	\$55,000	\$129,813
2026	\$200,000	\$65,000	\$264,813
2027	\$366,000	\$1,103,000	-\$472,187
2028	\$650,000	\$0	\$177,813
2029	\$200,000	\$295,000	\$82,813
2030	\$510,000	\$55,000	\$537,813

- Operational Audit for Planning and Building-\$30,000 the concern with cutting this is that as the city grows there are more requests from residents staff may take longer to respond. We have begun to see this happen already. We also have challenges with staffing in the building dept. so an audit may present a solution we have not thought of.
- 5th St Median replantings-\$20,000, the concern with cutting this item is the city has already received numerous complaints about the condition of the medians on 5th St. Previous council direction was to include this cost in the 2021 budget.
- Asphalt Hot Box-\$50,000, this could be pushed back a year but then will need to be purchased in 2022 as it is important to continue the pot hole filling program. It's not expected that the budget situation would improve in 2022.
- Sunfish Lake Park Management-\$10,000, these funds were intended to be used to continue the prairie maintenance program as identified in the Sunfish Lake Park Management Plan. The prairie was last treated in 2018 and follow up treatments are recommended by landscaper.
- Tree Giveaway-\$550, while this has been a program that many in the community look forward to, given that it is not a required function of government, council may consider canceling it for 2021.
- Lake Grants-\$15,000, while the three Lake Associations have participated in the past, this is not a required function of government so council may consider canceling this grant program for 2021.

Process for This Evening:

For this evening, staff will discuss the 2021 Proposed Budget, outlining key points and answering any questions. We are seeking feedback on changes to make before the Council certifies a preliminary levy at the September 15th meeting.

ATTACHMENTS:

- 1) 2021 Proposed Master Budget Worksheet – All Budgets