



STAFF REPORT

DATE: August 28, 2018

TO: Honorable Mayor and City Council
FROM: Sue Iverson – Finance Director
AGENDA ITEM: 2019 Budget Information – General Fund, Utility Funds, EDA and Tax Levy
REVIEWED BY: Kristina Handt – City Administrator

INTRODUCTION:

In preparation for adoption of the preliminary tax levy in September, this memo addresses the following information: discussion on preliminary levy, assumptions being used to prepare the preliminary budget, tax levy, and a discussion on capital improvement funding. The Finance Committee has met both in July and August and has reviewed this information.

ISSUE BEFORE THE COUNCIL:

- 1) What changes, if any, should be made to the draft budgets?
- 2) What Preliminary Property Tax Levy would the City Council like to set for certification in September?

PRELIMINARY LEVY

At the July 17, 2018 Finance Committee meeting, staff presented the draft 2019 budget and the 10 year Financial Management Plan projections. Previously, the committee had expressed setting the budget at no change in the tax rate or a change equal to inflation, however at the July meeting the committee asked staff to look at scenarios using a 1%, 2% and 3% increase in the tax rate to better control the fluctuations of the rate in the 10 year plan. Staff has prepared a budget that would keep the tax rate at the same level as 2018. While the information used in this assumption is preliminary, Washington County has provided staff with the estimates which are needed to project the tax capacity and fiscal disparities components.

On the next page is an estimate of these numbers. As you can see from the table on the next page, the Pay 2018 rate was 22.4442% with an overall levy of \$3,596,601. To achieve this same tax rate for Pay 2019, using the estimated taxable value of \$17,429,500 the overall levy would increase by \$514,181 to \$4,110,782.

*****PLEASE NOTE THESE ARE ESTIMATES USING NUMBERS FROM THE COUNTY*****

Item		Actual Pay 2018 (A)	Proposed Pay 2019 (B)	% Change (C)
1. Levy before reduction for state aids		\$3,596,601	\$4,110,782	14.3%
2. State Aids	-	\$0	\$0	0.0%
3. Certified Property Tax Levy	=	\$3,596,601	\$4,110,782	14.3%
4. Fiscal Disparity Portion of Levy	-	\$149,615	\$199,200	33.1%
5. Local Portion of Levy	=	\$3,446,986	\$3,911,582	13.5%
6. Local Taxable Value	÷	15,359,350	17,429,500	13.5%
7. Local Tax Rate	=	22.442%	22.442%	0.0%
8. Market Value Referenda Levy		\$0	\$0	0.0%
9. Fiscal Disparity Portion of Levy (SDs only)	-	\$0	\$0	0.0%
10. Local Levy	=	\$0	\$0	0.0%
11. Referenda Market Value	÷	1,452,554,500	1,649,748,600	13.6%
12. Market Value Referenda Rate	=	0.00000%	0.00000%	0.0%

Below shows the impact to the average valued home of \$382,800. Please note there is not an impact to the annual taxes as a result of the levy increase since the tax rate has remained the same. The increase is due to the estimated increase in market value of 1.5% and Fiscal Disparities.

Taxable Market Value B/4 Credit	Homestead Exclusion Credit	Taxable Market Value	Tax Capacity		Taxing District Net Tax		
Proposed Pay 2019							
Pay 2019 MV X 0.988	76,000 @ .40% rem up to 413799 @ .09	(D - E)	500,000 @ 1.0% rem @ 1.25%		(B7 x G) + (B12 x D)	Total Change	
Estimated Tax District rate as % of total rate:						Annual Increase	Monthly incr.
150,000	23,740	126,260	1,263		\$283.44	\$5.38	\$ 0.45
382,800	2,788	380,012	3,800		\$852.80	\$13.92	\$ 1.16
350,000	5,740	344,260	3,443		\$772.68	\$12.79	\$ 1.07
500,000	-	500,000	5,000		\$1,122.10	\$16.61	\$ 1.38
750,000	-	750,000	8,125		\$1,823.41	\$31.19	\$ 2.60

	2018	2019
GO 2009B	\$50,911	\$43,580
GO 2010A	61,206	59,356
GO 2010B	204,519	205,989
GO 2011A	73,254	76,719
GO 2012A		
GO 2012B	61,141	65,275
GO 2013A		
GO 2014A	203,045	203,885
GO 2015A	28,683	25,113
GO 2016A	189,419	189,419
GO 2017A	341,610	346,598
Total Debt Levies	\$1,213,788	\$1,215,932
General Fund	\$2,382,813	\$2,894,850
Total Levy	\$3,596,601	\$4,110,782

The overall City levy is made up of the General Fund Operating Levy and the Debt Levies. The table to the left shows the Actual 2018 levy and the Proposed 2019 levy if the tax rate were to remain the same.

OPERATING BUDGETS

Attachment #1 includes the entire General Fund Operating Budget, the Utility Operating Budgets, and the EDA Budget.

Salary and Benefits

The 2019 preliminary budget is currently being prepared assuming a 2.5% wage adjustment for non-union staff and 3.0% for union staff. Medical benefits are estimated to increase by 6%, but a contingency of \$54,892 has been built into the budget for increases that might occur due to Federal legislation which are unknown at this time. These could have a significant increase on our insurance rates.

General Fund

Revenues are largely increased due to the proposed operating levy for the General Fund. Since the City is in an expansion phase we have projected a conservative estimate for building permits, planning, and zoning fees. Cable franchise revenues are increasing as the City builds out. State Fire Aid and Municipal State Aids (MSA) for road maintenance are based on the current estimates done this year. Tower Rent has increased as we have two additional leases and current lease increases. More detailed information is found in the attached budget.

General Fund Revenues

Property Tax Levy	\$692,152
Fiscal Disparities	49,585
Building/Mechanical Permits	77,000
State Fire Aid	13,000
MSA Maintenance	16,166
Planning & Zoning Fees	15,005
Cable Franchise Revenue	17,000
Tower Rent	55,148
Miscellaneous	<u>-13,857</u>
	\$921,199

Staff worked on budgets to more accurately reflect costs in the proper departments and services, so the attached budget sheets reflect several allocation changes which are noted. The Mayor and Council budget remains fairly flat with the exception of some IT expenses and the addition of Family Means for \$30,000. The Finance Committee was split on whether or not to fund the Family Means request through the General Fund. Two members were ultimately opposed while one member was supportive of the request. Communications shows a reduction of which \$33,700 is expenditures for IT that are reallocated throughout the budget to the proper departments.

Finance shows changes between categories and line items, but overall is a 14.41% decrease as a result of hiring a full-time Finance Director as opposed to contracting with a consultant, and elimination of the one-time software costs in 2018 for the software conversion. The most notable change in Planning & Zoning is the decrease of \$31,000 as the result of completing the Comprehensive Plan.

Keats Ave Turn Lane has been added in Engineering. The Sheriff's contract increased 5.58%.

Building Inspections had an additional Inspector in the 2018 budget, but since that position has not

General Fund Expenditures

Family Means	\$30,000
Assessing Services	28,150
Elections	-8,500
Finance Director	103,677
Finance Consultant	-105,150
Finance software costs	-16,682
Comprehensive Plan	-31,000
Keats Ave Turn Lane	70,000
Sheriff's contract	37,093
Building Inspector change	-20,604
Sealcoating & Crack Sealing	165,000
Sunfish Management	10,000
Mowing Contracts	58,000
Snow removal sidewalks	10,000
Fund balance to Vehicle Fund	100,000
Budget transfer to Vehicle Fund	75,000
Additional transfer to Vehicle Fund	326,000
Contingency	54,892
Miscellaneous	<u>-34,677</u>
	\$851,199

been filled, staff has reevaluated and changed this for 2019 to reflect a part-time position. A new vehicle for Building Inspections had previously been budgeted for 2018 and has been moved to 2019.

Public Works is comprised of Streets (General Fund), Parks (General Fund), Water, Sewer, and Storm Water. An additional employee has been added to the budget consistent with the consultant recommendation from 2016, but has been spread across all funds. Staff reevaluated the Public Works employees' time cards and has changed the allocation of salaries and benefits to more accurately reflect costs in the proper departments. \$10,000 has been budgeted for Sunfish Management and \$58,000 has been budgeted for mowing contracts.

At the June 19, 2018 meeting, the Finance Committee recommended that a Vehicle

Replacement Fund be established with \$100,000 from the General Fund Balance and \$75,000 be transferred from Fire, Streets, and Parks & Recreation. Staff would recommend that any additional funds available from the tax levy not needed for the operating budget be placed into this fund, thus reducing the need to bond for equipment in the future. With these preliminary estimates, \$326,000 has been placed into the budget at this time. If the Council supports the Finance Committee's recommendation of increasing the tax rate by 3%, an additional \$122,500 will be transferred to the fund in 2019 (or about \$1.5 million more over the next five years).

FINANCIAL MANAGEMENT PLAN

Per direction from the committee, staff has prepared the forecasts requested looking at keeping the City's Tax Rate flat (0%), 1% increase, 2% increase, and 3% increase. The committee was concerned with the fluctuating rate in the 10 year projections, especially in year 2023 when the new City Hall/Fire Station costs/debt would be added to the tax rolls. Staff was asked to run various scenarios to stabilize the increases much like you would do with utility rates.

In looking at the various scenarios (lines 75-79) of the attached Financial Management Plans, you will see that the 3% Tax Rate increase seems to be the best overall option for several reasons:

1. The rate increase is a steady increase of 3% or about \$40-\$48 a year on the median valued home.
2. The plan shows that existing homeowners would be paying for the normal increases in the budget and costs due to inflation (as the City is estimating expenses increasing by 4% per year) while new development would be paying for the increased costs in services and equipment due to development as these have been worked into the plan as well as current expenses.
3. The costs of the new City Hall and Fire Station are minimized to current residents as the impact would be about 5.27% increase or \$74 on the median valued home in 2024 (previously the increase was in 2023).

4. Additional reserves would be accumulating to assist with future equipment expenses, thus eliminating the need to borrow or bond, thus growing our fund balances to maintain reserve levels to achieve favorable bond ratings. (The fund balance reserve is calculated using the percent of the current year's operating budget less transfers, so as the budget grows so will the required reserves to meet this level. The reserves can be an accumulation of all governmental funds excluding the enterprise funds, it is not just the general fund reserves.) So placing funds in the Vehicle Replacement Fund rather than leaving them in the Undesignated General Fund Balance does not hurt our chances for a favorable bond rating.
5. In looking at the tax rate in 2014 of 27.761% the forecast shows that the tax rate in 2024 even with a 3% increase each year and the City Hall/Fire Station will still not be at the 2014 level. The City continues to compare favorably to other cities and taxing jurisdictions in Washington County when looking at 2018 tax rates.
6. As these forecasts are high level indications of what is planned at this point, they will constantly be monitored and changes based on decisions and economic factors as they occur. They are meant to provide a look into the future to better assist in making decisions and policy based on our long-range plans. Out years after 2024 will need refining to help build reserve funds to pay for maintaining infrastructure and repairs and minimize the need for bonding as once development slows, the City will need to have reserves for these purposes.

Washington County Tax Rates

<u>Rank</u>	<u>Taxing Authority</u>	<u>2018</u>
1	Landfall	80.743
2	Hastings	60.964
3	Newport	58.736
4	Marine	55.060
5	Oak Park Heights	54.462
6	Stillwater	53.790
7	Willernie	49.748
8	Lake St. Croix Beach	47.497
9	St. Paul Park	42.591
10	Forest Lake	41.871
11	Cottage Grove	40.583
12	Oakdale	38.544
13	Lakeland	36.540
14	Hugo	36.330
15	Bayport	36.017
16	Scandia	35.058
17	Mahtomedi	33.972
18	Woodbury	33.670
19	Afton	32.255
20	Birchwood	24.904
21	Lakeland Shores	24.653
22	St. Mary's Point	22.517
23	Lake Elmo	22.442
24	Grey Cloud Island	21.834
25	Stillwater Township	21.759
26	White Bear Lake	19.058
27	Dellwood	14.614
28	Grant	13.907
29	Baytown Township	13.730
30	Denmark Township	11.063
31	May Township	10.832
32	Pine Springs	8.730
33	West Lakeland Township	8.157

Finance Committee Recommendations:

The Finance Committee unanimously recommended the approval of the 2019 General Fund (except for Family Means), Utility and EDA budgets at their last meeting. Also, at their August 21st meeting by a vote of 2-1, the Finance Committee recommended a 3% increase in the tax rate in order to even out the increases related to the city hall and put more funds in the vehicle replacement fund thereby reducing borrowing.

Process for This Evening:

For this evening, staff will answer any questions on the 2019 Proposed Budgets. In addition, discussion on the 2019 Preliminary Property Tax Levy will ensue, with staff also available to answer any questions.

Options:

- If Council wishes to see any changes to the proposed budget or levy at the September meeting, please provide that direction to staff so the documents can be updated before adoption of the preliminary levy.

ATTACHMENTS:

- 1) 2019 Proposed Master Budget Worksheet – All Budgets
- 2) Draft Long-Range Financial Management Plans