



STAFF REPORT

DATE: August 27, 2019

TO: Honorable Mayor and City Council
FROM: Sue Iverson – Finance Director
AGENDA ITEM: 2020 Budget Information – General Fund, Utility Funds, EDA and Tax Levy

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 met in July and reviewed the budgets. The Finance committee will be meeting on Monday, August 26, 2019 to review the Financial Management Plan as data was not available until Thursday, August 22, 2019 from Washington County to complete the Plan. Staff will bring the Finance Committee's recommendations from that meeting and verbally update the City Council.

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

Last year the staff created a financial forecasting model with the knowledge that it would be refined over time. The Finance Committee reviewed the model and recommended various scenarios which it used to determine its recommendation of the budget and levy to the City Council. The City Council ultimately directed staff to use a model which used an increase of 2% on the tax rate. Currently staff has prepared a budget that would keep the tax rate at 2% above the 2019 rate. Washington County has provided staff with the estimates which are needed to project the tax capacity and fiscal disparities components on August 22, 2019.

On the next page is an estimate of these numbers. As you can see from the table on the next page, the Pay 2019 rate was 22.927% with an overall levy of \$4,179,839. To achieve a 2% increase in the tax rate for Pay 2020, using the estimated taxable value of \$20,091,583 the overall levy would increase by \$769,984 to \$4,949,823.

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

Item		Actual Pay 2019 (A)	Proposed Pay 2020 (B)	% Change (C)
1. Levy before reduction for state aids		\$4,179,839	\$4,949,823	18.4%
2. State Aids	-	\$0	\$0	0.0%
3. Certified Property Tax Levy	=	\$4,179,839	\$4,949,823	18.4%
4. Fiscal Disparity Portion of Levy	-	\$199,221	\$249,327	25.2%
5. Local Portion of Levy	=	\$3,980,618	\$4,700,496	18.1%
6. Local Taxable Value	÷	17,361,919	20,091,583	15.7%
7. Local Tax Rate	=	22.927%	23.395%	2.0%
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	÷	0	0	0.0%
12. Market Value Referenda Rate	=	0.00000%	0.00000%	0.0%

Below shows the impact to the average valued home of \$416,812. Please note there is an impact to the annual taxes as a result of the levy increase and due to the estimated increase in market value of 5% and increased Fiscal Disparities.

(D)	(E)	(F)	(G)	(H)	(I)			
Taxable Market Value B/4 Credit	Homestead Market Value Exclusion	Taxable Market Value	Tax Capacity		Taxing District Net Tax			
Proposed Pay 2020								
Pay 2020 MV X 1.05	76,000@.40% rem up to 413799 @.09	(D - E)	500,000@1.0% rem @ 1.25%		(B7 x G) + (B12 x D)			
Estimated Tax District rate as % of total rate:						Total Change	Impact from Market Shifts and Fiscal Disparities	Impact from Levy Incr
						Annual Increase	Annual Increase	Annual Increase
						Monthly incr.	Monthly incr.	Monthly incr.
150,000	23,700	126,300	1,263		\$295.48	\$23.80	\$ (24.60)	\$48.40
416,812	0	416,812	4,168		\$975.10	\$68.34	\$ (91.37)	\$159.71
350,000	5,700	344,300	3,443		\$805.49	\$57.84	\$ (74.10)	\$131.94
500,000	0	500,000	5,000		\$1,169.75	\$77.97	\$ (113.63)	\$191.60
750,000	0	750,000	8,125		\$1,900.84	\$140.28	\$ (171.07)	\$311.35

PLEASE NOTE THESE ARE PRELIMINARY ESTIMATES

	2019	2020
GO 2009B	\$ 43,580	\$ -
GO 2010A	59,356	57,151
GO 2010B	205,989	206,908
GO 2011A	76,719	74,828
GO 2012A		
GO 2012B	65,275	63,669
GO 2013A		
GO 2014A	203,885	199,370
GO 2015A	25,113	21,543
GO 2016A	189,419	194,564
GO 2017A	346,598	340,691
GO 2018A Equip Cert		128,996
2019A Bond Est	-	299,400
Total Debt Levies	\$ 1,215,932	\$ 1,587,120
General Fund	\$ 2,963,905	\$ 3,362,703
Total Levy	\$ 4,179,837	\$ 4,949,823

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 2019 levy and the Proposed 2020 levy.

2019A Bond Est. is for the 2018 and 2019 projects.

OPERATING BUDGETS

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

Salary and Benefits

The 2020 preliminary budget is currently being prepared assuming a 2.75% wage adjustment for staff. Medical benefits are estimated to increase by 10%.

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. More detailed information is found in the attached budget.

General Fund Revenues

Property Tax Levy	\$ 398,798
Building/Mechanical Permits	(5,525)
State Fire Aid	4,000
MSA Maintenance	6,755
Planning & Zoning Fees	4,350
Investment Earnings	40,000
Cable Franchise Revenue	23,183
Miscellaneous	54,346
	<u>\$ 525,907</u>

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. Elections show an increase as there was no election in 2019.

General Fund Expenditures

Assessing Services	\$ 7,250
2020 Election	8,340
Comprehensive Plan	(5,000)
Keats Ave Turn Lane	(35,000)
Sheriff Contract	71,487
Fire Dept Dryer Replacement	11,500
Fulltime Bldg Inspector	51,583
MnSPECT	5,000
Inspection Vehicle	(24,000)
Road Maint Materials	25,000
Salt and Sand	73,363
Lake Elmo Phase 3 Project	25,000
Keats/Hudson Acceleration Lane	107,000
Transfers to Vehicle Replacement Fund	95,063
Elimination of the transfer for Debt Service	(67,859)
Other Miscellaneous changes	<u>53,180</u>
	<u>\$ 401,907</u>

Finance and Communication budgets are relatively flat. Engineering reflects a decrease as the Keats Ave Turn Lane was in the 2019 Budget. The Sheriff's contract assumes an 8% increase and an additional officer for part of the year. The Fire Department contains the replacement of a Dryer as two units have failed.

For 2019 Building Inspections budgeted for a part-time Inspector, but since that position not been filled, staff has reevaluated and changed this for 2020 to reflect a full-time position. \$5,000 has been budgeted for MnSPECT to assist in Building Inspections. A new vehicle for Building Inspections was budgeted in 2019.

Public Works is comprised of Streets (General Fund), Parks (General Fund), Water, Sewer, and Storm Water. An additional \$25,000 has been added to the budget for Street Maintenance Materials and an additional \$73,363 has been added for Salt and Sand as prices have increased.

Transfers have been added for Capital projects for Lake Elmo Ave Phase 3 of \$25,000 and

Keats/Hudson Acceleration Lane of \$107,000.

As discussed last year, Transfers to the vehicle replacement fund have risen from \$75,000 to \$100,000 for a total increase of \$25,000 and the remaining funds from the 2% increase in the tax rate provide an additional transfer of \$665,139. These additional funds help reduce the need to bond for equipment in the future.

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.

The Water Fund remains fairly flat with the exception of reduced Legal Fees as the 3M Litigation is now completed. The remaining items relate to Capital Improvement Projects and Bond/Interest payments. We are proposing that there be no increase in Water Rate for 2020.

The Sewer Fund operating fund is increased by \$25,000 for Bioxide chemicals at the Lisbon Lift Station, \$6,000 additional costs for the SCDA agreement, and \$60,528 for Metropolitan Council Wastewater charges (which is an increase of 35.74%). Capital Improvement Projects for 2020 have decreased \$135,000 and Bond/Interest payments have decreased due to a bond being paid off.

The Storm Water Fund is also relatively flat showing a reduction in engineering expenses of \$10,000 based on history and a reduction of \$40,000 for the Storm Water Comp Plan that was budgeted in 2019.

EDA/Brookfield Building Fund

The EDA Fund shows a reduction in revenues as some of the tenants have moved out. Expenses remain relatively flat except for principal payments on the bond.

FINANCIAL MANAGEMENT PLAN

Per direction from the committee, staff has prepared the forecasts keeping the City's Tax Rate at a 2% increase.

Finance Committee Recommendations:

The Finance Committee will be meeting on Monday, August 26, 2019. Staff will bring their recommendation to the meeting.

Process for This Evening:

For this evening, staff will discuss the 2020 Proposed Budget, outlining key points and answering 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) 2020 Proposed Master Budget Worksheet – All Budgets
- 2) Draft Long-Range Financial Management Plans
- 3) 2020 Tax Impact Sheet