



STAFF REPORT

DATE: August 23, 2022

TO: Mayor and City Council
FROM: Kristina Handt, City Administrator
AGENDA ITEM: 2023 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.

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 (including a place holder for the EDA) and Utility Operating Budgets.

Salary and Benefits

The 2023 preliminary budget is currently being prepared with assumptions of moving staff to the next step of the new pay plan on January 1, 2023. For new or vacant positions, they are budgeted at the midpoint of the range. Medical benefits are budgeted to increase by 10% as we won't get final numbers until late Sept/early Oct so a contingency has been included at this point. Staff would expect the contingency may be reduced or removed by the time of final adoption in December.

General Fund

Revenue increases are proposed across all categories (except Fines and Investments) with Licenses and Charges for Services seeing the largest increases at nearly 20%. This is due to staff aligning budget projections for building permits, zoning permits and plan reviews more closely to past actuals. We've still only budgeted for residential since commercial projects are less certain but have now reflected the increase in values we've been experiencing. Total taxes for the operating budget are planned to increase just over 4% compared to over 31% this year.

All general government expense budgets are proposed to increase mainly due to staffing changes (new/reclassified positions, class and comp implementation 1/1/23, etc.). The administration department increases are due to the new administrative services director position, increase in assessing fees from the county due to growth in number and values of properties, and training and IT needs. The city council budget is up slightly because of new computer reimbursements following an election year and increased membership and training costs. Elections is down due to there being no planned election in 2023. Communications is up due to the new administrative services director position and growth in households and postage costs for the newsletters. The finance department increase is due to the new finance coordinator position as well as a significant increase in the finance director compensation. The planning department increases are due to the addition of a new senior planner position as recommended in last year's department audit. The position would not be filled until quarter three when staff is in the new city center. Also at that

time, it's proposed to move to a community development director to replace the planning director position. The community development director would oversee both divisions-planning and building- in order to bring a more cohesive approach and eliminate some uncertainties about where to go in the development process. The community development director would also be the main staff contact for the EDA as it is in cities of similar size such as Hugo thereby relieving the city administrator of those operational duties to focus on more organizational strategic initiatives as discussed at the August work session. Planning department increases then also include the associated IT, software and training needs of the growing department as well as an increase in fuel costs for the code enforcement official. Lastly, we've planned for increases in the new city center building that are largely unknown at this time with a new building.

The sheriff's contract is increasing almost 11% next year. Per the Sheriff's Office these rates reflect bargaining agreement settlements in relation to salary and benefits package, to include the following increases:

- COLA: 2.5%
- Range: 3.5%
- Retention: 6.0%
- Medical insurance: 3.2%
- Flex credits: \$0.40/hour added to base pay for deputies, \$0.43/hour added to base pay for sergeants in lieu of receiving flex benefit credits
- Uniform allowance: \$395 for deputies, \$310 for sergeants

The rising cost of fuel has also impacted the fleet budget, with an increase of \$1.40/gallon, or 56%. This has a direct impact on the mileage rate calculation, with an increase of \$0.126/mile, or 22.5%. These calculations are evaluated in detail each year to arrive at a cost figure that the Sheriff's Office believes to be reflective of the true cost to provide police services to the city.

The fire department is seeing an increase of about 40% to allow for the hiring of four new fulltime firefighters beginning in quarter 2 of 2023. This budget also plans for 53 hour work weeks for all 6 full time firefighters. Under FLSA laws, firefighters are allowed to work up to 212 hours in a 28 day period (53 hours a week) before being eligible for overtime. Paid on call firefighters would serve as the third person on the crew. Once the full time positions are established, the city would eliminate the part time firefighter positions. The fire department is also planning for the increased fuel costs and software costs for the new station. There is a one-time CIP cost of \$205,000 for new radios.

The building inspections department is projecting a reduction in overall expenses in 2023 due to the addition of an in house plan reviewer and investment in mobile technology to improve efficiencies in service delivery. There is also a proposed increase for fuel and a shared fuel tracking system at the public works facility. Currently, we have no system in place to track fuel usage except for the honor system on a hand written sheet. As more people, and more departments, are making use of the bulk fuel at public works it is important, and a good practice, to invest in a system to track and bill the usage properly.

Public Works is comprised of Streets (General Fund), Parks (General Fund), Water, Sewer, and Storm Water. For the last few 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 2023 based off of 2021 actual data. This resulted in more personnel expenses in Parks rather than Streets. The increases in Water and Sewer personnel expenses are largely related to the new/reclassified staff positions mentioned in other departments above who have some of their time allocated to utilities. Materials and supplies subcategory is up due to fuel and a new fuel tracking system as mentioned previously.

Charges for services is down due to a decrease in seal coating and crack filling from 2022 when the city played catch up. Going forward staff is proposing to create a local street improvement fund. Much like the vehicle replacement fund, the city could levy a set amount each year and have those funds restricted for road projects. This will allow us to better manage the ups and downs by keeping a fairly consistent contribution from the tax levy but allow the flexibility to tackle road seal coating, mill and overlays, crack filling as needed. As you know, mill and overlays are significantly more expensive so those years that include a mill and overlay would need to see a significant increase in the tax levy if we didn't average it out over a few years. Over the next five years, engineering estimates we need about \$500,000 on average each year to maintain our streets. Ideally, we'd like to work toward a ten year average. I've increased the 2023 budget for street maintenance to \$600,000 from this estimate since it only looks at the next 5 years and in order to cover any remaining costs to the county for CSAH 15/TH36 which they don't expect to have final billed to us before the end of this year.

**CITY OF LAKE ELMO
2023 STREET MAINTENANCE PROGRAM**

MAINTENANCE ITEM	BUDGET	2023-2027	
		TOTAL	AVERAGE
SEAL COAT AND CRACK SEAL	\$ 159,185	\$ 1,208,000	\$ 241,600
ENGINEERING	\$ 31,800	\$ 241,500	\$ 48,300
STRIPING CONTRACT	\$ 8,000	\$ 60,400	\$ 12,080
ENGINEERING			
MILL AND OVERLAY	\$ -	\$ 784,000	\$ 156,800
ENGINEERING	\$ -	\$ 196,000	\$ 39,200
TOTAL - 2023 STREET MAINTENANCE	\$ 198,985	\$ 2,489,900	\$ 497,980

If council didn't want to follow the proposal to average the costs and create a local street improvement fund, then you can see from the chart below how the costs would fluctuate and greatly increase in the years a mill and overlay is needed.

		2023	2024	2025	2026	2027	TOTAL	AVERAGE
Seal Coat + Crack Seal		\$ 159,184.53	\$ 232,592.55	\$ 304,865.37	\$ 185,618.92	\$ 325,302.17	\$ 1,207,563.54	\$ 241,512.71
Engineering	20%	\$ 31,800.00	\$ 46,500.00	\$ 61,000.00	\$ 37,100.00	\$ 65,100.00	\$ 241,500.00	
Striping	5%	\$ 8,000.00	\$ 11,600.00	\$ 15,200.00	\$ 9,300.00	\$ 16,300.00	\$ 60,400.00	
LF							\$ 1,509,463.54	\$ 301,892.71
Mill and Overlay	2000		\$ 294,000.00		\$ 322,000.00	\$ 168,000.00	\$ 784,000.00	
Engineering	25%	\$ -	\$ 73,500.00	\$ -	\$ 80,500.00	\$ 42,000.00	\$ 196,000.00	
		\$ 198,984.53	\$ 658,192.55	\$ 381,065.37	\$ 634,518.92	\$ 616,702.17	\$ 2,489,463.54	\$ 497,892.71

The parks department is proposing an increase due to more staff time spent in parks, increased fuel costs, more weed control, more porta potties, and the \$15,000 contribution to the Friends of Sunfish Lake Park for their DNR grant.

Transfers include a request by the EDA for \$85,000 to hire a consultant to staff the EDA, community development and promoting activities in the city. They began brainstorming other items for an RFP at their

August 16th meeting which might include the creation of a marketing piece, branding or EDA specific webpage. Staff did not support this request when discussed at the EDA in May. Hiring a community development director (at a cost of only about \$20,000 more than a planning director) helps with the EDA items and also addresses other areas of need in the development process. If council decided to fund the request for a consultant, the contract would be managed by the Planning/Community Development Director.

There is also an additional transfer of \$250,000 to the vehicle replacement fund in order to address the anticipated deficit in the fund in 2027. See more details in 2023-2027 CIP. This is in addition to the \$175,000 already proposed from the building, fire, streets and parks departments.

Lastly, as mentioned above the preliminary budget draft does include a contingency of \$35,000 to cover some of the HR related items that have not yet been finalized but are expected to be by the time the final budget is adopted in December. Remember when setting the preliminary levy in September, you may reduce that amount in December but cannot increase it.

Summary of Changes by Category and Function

Changes by Category

Personnel	641,444
Materials and Supplies	83,764
Charges and Services	-428,442
Capital Outlay	-93,636
Miscellaneous	14,032
Transfers	317,746
Contingency Reserve	<u>35,000</u>
TOTALS:	569,908

Changes by Function

General Government	285,128
Public Safety	332,407
Public Works	-369,865
Culture & Recreation	63,127
Capital Outlay	-93,636
Contingency	35,000
<u>Transfers</u>	<u>317,746</u>
Total	569,908

As you can see from the above the biggest change is in the personnel category. This is largely due to the addition of the following new staff positions in 2023:

Finance Coordinator for \$67,448 (salary, benefits and taxes for Q3 start) (80% in General fund, 20% in utilities)

4 Full Time Firefighters for \$95,583 each (salary, benefits and taxes for Q2 start)

Senior Planner for \$67,448 (salary, benefits and taxes for Q3 start)

Plan Reviewer for \$57,435 (salary, benefits and taxes for Q3 start)

Debt Service

The total tax levy is comprised of the operating levy as well as the debt levy. The city issued new debt in 2022 which we will begin paying on in 2023. The 2023 payments for existing debt are as follows:

	2022	2023
GO 2010A	\$207,076	\$206,656
GO 2012B	\$65,417	
GO 2014A	\$200,394	\$200,091
GO 2015A	\$14,508	
GO 2016A	\$193,934	193,409
GO 2017A	\$344,104	342,660
GO 2018A Equip Cert	\$126,404	123,569
GO 2019A	\$295,301	297,138
GO 2021A	\$1,008,036	\$1,025,930
GO 2022A		\$287,685
Total Existing Debt Levy	\$2,455,174	\$2,677,138

The combined increase in the tax levy (for operations in the general fund and debt service) is proposed at 5.72% for 2023.

Utility Funds

Our last utility long range study was updated in November 2020. The projected revenues come from that study and therefore would also rely on the increases proposed at that time which are 1% increase for water and sewer and a \$10 increase in the annual storm water fee (\$2.50 per quarter for those on the quarterly billing).

Overall water fund expenses show a decrease but that's mainly due to the 2022 proposal to pay cash for the water tower and main extension. Since that was bonded for instead you see the increase in the bonding categories. Charges for services are up due to contracted services including a utility proforma update, increased fees to the state for water connections based upon the increased number of water connections occurring and a few other minor areas.

The sewer fund is seeing increased expenses in all categories. Personnel is up due to new/reclassified staff. Materials and supplies are up for the fuel tracker and skid steer trailer. Charges for services are up due to the Met Council fees. While the met Council raised their rates 5% we are seeing a bigger increase as we have also added users. Capital outlay is up for anticipated oversizing costs to developers and the start of the I94 lift station upgrade. Lastly, bonding costs are up due to bonding for Old Village Phases 5 and 6 and the Tapestry sewer extension.

The Storm Water Fund is projecting a slight increase in expenses mainly due to minor increases in charges for services such as the utility proforma, credit card fees, postage for quarterly bills, etc.

Tax Impact:

As of the writing of this report, the county has not released the tax impact worksheets so we can see the impact on the average home. These may be available by the time of the meeting on August 23rd in which case staff will include in the presentation. If not available by then, they will available before the preliminary levy is certified in September.

Lake Elmo remains in the bottom half for tax rate compared to other Washington County communities for tax rates set in 2022.

<u>Rank</u>	<u>Taxing Authority</u>	<u>2022</u>
1	Marine on St. Croix	59.002
2	Hastings	58.807
3	Landfall	57.567
4	Newport	55.852
5	Stillwater	52.152
6	Oak Park Height	51.753
7	Willernie	49.194
8	Forest Lake	40.991
9	Lake St. Croix Beach	39.902
10	St. Paul Park	39.726
11	Oakdale	39.533
12	Hugo	39.403
13	Mahtomedi	39.119
14	Cottage Grove	37.251
15	Bayport	33.463
16	Woodbury	32.217
17	Afton	32.007
18	Scandia	30.945
19	Lake Elmo	30.546
20	Lakeland	29.525
21	Birchwood	28.692
22	Lakeland Shores	23.224
23	White Bear Lake	22.271
24	St. Mary's Point	22.034
25	Grey Cloud Island	21.214
26	Stillwater Township	20.105
27	Dellwood	19.248
28	Baytown Township	16.443
29	Denmark Township	14.65
30	Grant	13.426
31	May Township	12.426
32	West Lakeland Twp	12.017
33	Pine Springs	9.427

Preliminary estimates this spring were that the city's taxable market value increased by 29%. If the final numbers stay consistent with that and the proposed budget, Lake Elmo's tax rate would drop below 25%.

Process for This Evening:

For this evening, staff will discuss the 2023 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 20th meeting.

ATTACHMENTS:

- 1) 2023 Proposed Master Budget Worksheet – All Budgets