




TO: Mayor Olson and City Council  
City Administrator Chapulis

FROM: Jeremy Vacinek, Finance Director 

DATE: July 11, 2025

RE: 2026 Budget Council Work Session – Goals and Priorities July 15, 2025

Below is the agenda for Tuesday's kickoff meeting of the 2026 Budget. Similar to prior years, the primary purpose of the initial meeting is to have a preliminary discussion on the council goals and priorities that should be incorporated into the 2026 Budget as departments assemble their respective budgets for council consideration. At the work session some of the factors that will impact the 2026 Budget will be outlined with additional impacts discussed as they are analyzed and become known.

Preliminary property valuations, new construction figures, and the city's tax capacity from Crow Wing County along with other economic indicators will be reviewed at the work session. A summary of the city's budgeted funds is attached for reference.

More detailed information and discussion, including property tax data, will be held in the coming weeks at the scheduled budget work sessions and as information becomes available.

Should you have any questions, please feel free to contact me.



**City of Baxter**  
**2026 Budget Council Work Session – Goals and Priorities**  
**July 15, 2025**

1. Update on Factors Impacting 2026 Budget and Beyond
2. Property Valuations, Tax Increment, and Other Economic Indicators to be Presented
3. Council Comments, Suggestions, Priorities, and Goals for 2026 Operating Budget
4. Information: Budget Calendar for 2026 Budget Process
5. Adjourn – Next Scheduled Council Budget Work Session to Review and Discuss 2026 Governmental Funds Budgets and Proposed Property Tax Levy Slated for Tuesday, August 26, 2025 at 6:00 p.m.

City of Baxter 2026 Budget Council Work Session Discussion, 07.15.25  
Factors Potentially Impacting 2026 Budget and Beyond

Minnesota Legislature Budget Impacts and Considerations

Changes in state aids or taxes

Legislative changes from the 2025 session and impacts still be being analyzed; however, no significant changes given the special session Levy Limits are NOT in place for 2026  
No changes to Local Government Aid (LGA) formula; 2025 Baxter portion was \$202,988  
No changes to the Homestead Market Value Exclusion (HMVE); was expanded for Payable to 2025 with an extended phase-out to homes up to \$517,000 from the 2024 \$413,800 (first change since program implemented in 2012)  
Payable 2024 changed Class 4d property tax rate modifications by lowering the property tax class rate for all low-income rental properties from 0.75% of the first \$100,000 of value to 0.25%, causing a property tax shift and implications for future TIF Housing

Other Impacts - Current and Future

Moratorium on local option sales tax expired  
Transportation Funding implemented in 2024 - motor fuel tax indexed to inflation, new \$0.50 delivery fee on \$100 or more deliveries, and motor vehicle sales tax increase 0.375% to 6.875%; anticipate potential additional MSA funding in future, including 15% of delivery fee to Transportation Advancement Account  
Adult-use cannabis local regulation and revenue sharing from 2023 session was rescinded  
(10% tax on gross receipts was increased to 15%; prior 20% of revenues allocated to local government cannabis aid account eliminated

Other Items to be Factored into 2026 Budget

Property Valuations and New Construction

Figures on the city's new construction and change in estimated market value, along with other indicators to be provided  
Will continue to analyze and provide more information when it becomes available

Personnel Costs

Unknown health insurance rates for 2026 (renewal late August)  
City typically includes a 12% increase, until the actual, based upon claims experience & pooling, is known  
No PERA Police and Fire (P&F) nor Coordinated Plan retirement contribution rate increases for 2026, 17.7% and 7.5%, respectively  
Employee labor contracts in place through end of 2025; adjustments for anniversary step increases and COLAs  
LMCIT workers' compensation premium estimated increases not yet available; prior recommendations budgeting for a 10-15% increase  
Paid Family & Medical Leave state-administered insurance program begins 01/01/26, requiring city and employee contributions  
State-run program estimated at 0.88% payroll tax that can be paid 50%/50% by employers and employees, can implement private plan at a reduced rate (currently exploring option)  
Administering other unfunded mandates including tracking overtime exempt from federal income taxes, state ESST and PFML programs

Fire Contract with Brainerd

Fire Service amount is projected to increase \$16,450 due to a \$46,837 increase in overall budget and slight increase in contribution rate.  
Last year, Baxter's contribution increased \$8,855 from 2024, due to a slightly lower contribution rate offset by the budget increase.  
Baxter's contribution rate increased slightly from 26.23% to 26.52% for 2026, due to a slightly lower proportion of the five-year average number of runs (weighted at 30%) offset by higher building values (30%) factors used in the funding formula. The population (30%) and tax exempt building (10%) factors were unchanged in the funding formula.  
The total fire operations budget is projected to increase from \$1,383,093 to \$1,429,930, a \$46,837 or 3.4% increase.  
The increase is attributable to a 3.7% increase in the operating budget and a 5% increase in the capital equipment funding, offset by lower debt service on existing equipment.

		Annual Change	
2026 Proposed	\$379,258	\$16,450	4.53%
2025 Budgeted	\$362,808		

Outside Funding Requests

Organization	2026 Budget Request Rec'd	2025 Budget Funding
Community Action 4th of July Senior Center		\$8,000
Central MN Initiative Foundation	\$5,330	\$20,800
Brainerd Lakes Area Econ Dev Corp		\$5,330
		\$39,000

Other Costs

Property, Liability, and Auto Insurance Coverage estimated budget increases not yet available from LMCIT  
Prior recommendations budget for a 10% increase in property coverage and about 5% for Liability and Auto based upon reinsurance cost. City has had a number of more property claims within the past two years.

Other Items?

Elections in 2026  
Other?

## **City of Baxter Budgeted Funds Summary**

General Fund – The general fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund. The major funding source for the fund is the annual property tax levy. Departments within the General Fund include: General Government, City Council, Administration, Finance, Legal, Information Systems, Public Works Administration, Police, Fire Protection, Streets and Street Lighting, Parks, Trails, and Ground Maintenance, and Recreation Programs. The fund's budget also includes transfers out to other city special revenue and capital project funds.

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes and are a primary funding source for the departments within those funds.

Cemetery Fund - This fund is used to account for the activities of the City-owned and operated Baxter Cemetery. A portion of plot sales are committed for capital outlay and perpetual care of the cemetery.

Community Development Fund - This fund is used to account for funds committed to the operation of the City's Community Development department. Operations include building inspection and community planning. Building permit and planning and zoning fees fund much of the fund's operations.

Capital Park Fund - This fund is used to account for donations, developer fees, and other revenues legally restricted or committed for capital expenditures related to the City's parks.

Economic Development Fund – The economic development special revenue fund is used to account for the financial activity of the City's Economic Development Authority (EDA). Funding from a general fund transfer and land sales finance this fund.

Lodging Tax Administration Fund - This fund is used to account for the collection of lodging tax revenues and the promotion of tourism for the City.

Tax Increment Financing (TIF) Funds – The City's TIF districts are budgeted collectively. Currently there are nine active TIF districts. Tax increment revenues are the primary funding source of the districts. Expenditures include pay-as-you-go TIF note payments for developer reimbursements. Debt service principal and interest payments related to city infrastructure is another primary expenditure for TIF District 12 Isle/Falcon Drive and TIF District 14 Excelsior/Edgewood.

Sales Tax Collections Fund – The sales tax collections special revenue fund is used to account for financial resources financed by sales tax collections. These revenues are legally restricted for the funding of infrastructure projects. Primary revenues are the local option sales tax and motor vehicle excise tax. Expenditures include sales-tax based general obligation notes for the city's share of the wastewater treatment plant capacity with the City of Brainerd. Other budgeted expenditures include transfers to capital project funds for eligible capital projects.

Budgeted Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital infrastructure, improvements, and equipment.

Capital Equipment Fund – The fund provides a sinking fund for future capital equipment replacement purchases. Steady funding attempts to smooth annual capital outlay expenditures for systematic replacement of capital equipment, including squad cars, public works vehicles, parks vehicles, and information technology equipment. Funding is primarily by transfers from benefiting departments.

Collector Street Fund – The fund provides a sinking fund for future collector street construction on a pay-as-you-go basis. The fund helps minimize the need to issue debt and levy for debt service for the city's share of project costs such as additional street width, lanes, and curb and gutter. The fund provides another revenue source to leverage the city's municipal state aid for city collector streets.

Street Replacement Fund – The fund provides a sinking fund for future street maintenance, including sealcoating, on a pay-as-you-go basis. The primary funding source is from the gas and electricity franchise fees collected by the city.

Trail Construction and Maintenance Fund – Similar to the Street Replacement Fund, the Trail Construction and Maintenance Fund provides a sinking fund for future trail maintenance and reconstruction. Funding is primarily from the gas and electricity franchise fees.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds. Revenues for the fund include the annual property tax levy for debt service, special assessments, and transfers from the enterprise funds and sales tax fund.

The City budgets for three enterprise funds: water, sewer, and storm water.

Water Fund – The water fund accounts for the activities of the City's water wells, water treatment plant, and distribution system. Revenues for the fund primarily are the monthly water fees charged to customers. Water availability charges (WAC) charged on new construction and connections is another primary source for financing capital asset needs. The city's debt service related to the water treatment plant is also included in the water fund budget.

Sewer Fund – Similar to the water fund, the sewer fund accounts for the activities of the City's sanitary sewer system. Revenues are primarily the monthly sewer fees paid by customers with sewer availability charges (SAC) financing sewer capital assets.

Storm Water Fund – The storm water fund accounts for the activities of the City's storm water infrastructure system. The main funding source for the storm water fund is the monthly and annual storm water fees charged to properties within the city.



## 2026 Proposed Budget Calendar

Wednesday, June 25, 2025	Budget Packets Distributed to Departments
<b>Tuesday, July 15, 2025</b> (prior to council meeting)	Council Budget Work Session to Discuss 2026 Goals and Priorities
Wednesday, July 30, 2025	Completed Department Budget Packets Returned to Finance
July 31 to August 25, 2025	<ul style="list-style-type: none"> <li>– Finance Preliminary Assembly and Review of Initial Departmental Submittals</li> <li>– Finance/Administration Initial Meeting with Departments to discuss Proposed Budget</li> <li>– Determine Initial 2026 Spending Targets and Preliminary Operating Levy &amp; Debt Service Levy (the levies may not be increased after September 30<sup>th</sup>)</li> </ul>
<b>Tuesday, August 26, 2025</b> 6:00 p.m.	City Council Budget Work Session to Review and Discuss 2026 Governmental Funds Budgets and Proposed Property Tax Levy
August 27 to August 29, 2025	Finance/Administration Continued Review and Refinement of Proposed Budget Meet with Department Heads to Formulate Proposed Budget
<b>Tuesday, September 2, 2025</b> 5:30 p.m. (prior to Council meeting)	City Council Budget Work Session to Review and Discuss 2026 Governmental Fund Budget ( <i>Continuation Meeting, if necessary; additional meetings may be scheduled</i> )
Friday, September 12, 2025	Preliminary Governmental Funds Budget and Proposed Property Tax Levy Distributed to the City Council for Consideration
<b>Tuesday, September 16, 2025</b> 7:00 p.m.	City Council Meeting <ul style="list-style-type: none"> <li>– Council Approval of Preliminary Governmental Funds Budget and Levy (Levy can be decreased after this point, but not increased)</li> <li>– Special Meeting(s) can be set for September 18th and/or 22nd, if needed</li> <li>– Preliminary Levy must be certified to Crow Wing County and Minnesota by September 30th</li> </ul>
September 17 to November 11, 2025	<ul style="list-style-type: none"> <li>– Administration and Finance Continued Review and Refinement of Proposed Budget</li> <li>– Additional Budget Work Sessions for the Governmental Funds Budget and Levy, if necessary</li> <li>– Meet with Department Heads to Formulate Proposed Budget</li> <li>– Finance Department Prepares Final Draft of Proposed Budget</li> </ul>
<b>Wednesday, November 12, 2025</b> 6:00 p.m.	Council Budget Work Session to Review Proposed Budget, including Introduction of Enterprise Funds Budgets
<b>Tuesday, November 18, 2025</b> 5:30 p.m. (prior to Council meeting)	Council Budget Work Session to Review Proposed Budget, continued, if necessary ( <i>additional meetings may be scheduled, if necessary</i> )
Wednesday, November 26, 2025	Final Budget Document Submitted to City Council
<b>Monday, December 1, 2025</b> 6:00 p.m.	Informational Meeting to Review the 2026 Budget and Property Tax Levy with Public Testimony
<b>Tuesday, December 2, 2025</b> 7:00 p.m. or shortly thereafter	Council Adoption of 2026 Final Budget and Levy

Highlighted dates represent proposed City Council meetings and/or work sessions to be held at Baxter City Hall, 13190 Memorywood Drive. Other meetings may be scheduled as determined necessary during the budget process.