

August 29, 2025

Leaha,

The purpose of this email is to summarize the main discussion points from yesterday's work session. Please share this email (and attachment) with your City Council and anyone else you'd like.

- In prior years, Council has informally targeted tax rates between 45% and 50%. While preliminary budgeting appears to indicate that this target is achievable once again for 2026, the Council should consider adjusting their strategy. Based on future projects and purchases, it appears that at some point tax rates will fall between 50% and 55%. If Council adjusted its expectations for a slightly higher rate now, the City could approve a "surplus" budget to generate additional cash reserves for a few years prior to reallocating that additional levy to future debt payments. Please note, the attached does not show the implementation of that strategy.
- The City needs to stay up on our previously planned utility rate increases. Water rates should all be raised 1% per year, and 2% for sewer rates. Because the utility funds perform fairly well, we are targeting those future revenues (as opposed to taxes) to cover future public improvements, such as certain road reconstructions, etc. The only exception to this strategy is the purchase of Fire vehicles, which will be supported by taxes.
- Speaking of the Fire Fund, it appears that current tax support is not sufficient to cover all upcoming purchases of capital equipment and vehicles. Specifically, the two pumper trucks will likely need to be financed with increased tax support. When that happens, the City's tax rate will bump up about 5 basis points. As noted in the first bullet point above, the Council might want to set the levy NOW with a small surplus which will generate cash early on, but then those revenues can be reallocated to the vehicle debt later on.
- It is possible that the Liquor Store will continue its profitability. In which case, we may be able to lean on those revenues slightly to assist with the Fire purchases noted above. So the City must stay vigilant in its pricing.
- However, the liquor store itself is in need of improvements (approximately \$700K). The plan indicates those could be paid for with cash reserves.
- On a final note, we've pretty much figured out that a large road and utility reconstruction project (which could occur in the next couple of years) should be limited to about \$3 million (present value). Anything larger than that would require increased utility rate adjustments or tax levies. That would push our impacts higher than our informal target of approximately 4% increased cost of city services on a typical household (long term). It would also push our debt levels into the "moderately high" category. So let's stay disciplined here and communicate this well to our City Engineer.

I believe that captured all the salient points from yesterday's meeting. If you have any questions or concerns, please reach out to me directly. It continues to be a pleasure to serve the City of Hinckley!

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