



CITY COUNCIL WORK SESSION MEMORANDUM

TO: City Council

FROM: Matthew R. Schmitz, MPA – City Manager

DATE OF MEETING: February 5, 2024

ITEM TITLE: FY2025 Budget & Proposed Property Tax Levy Update

DISCUSSION:

First, I want to commend the City's Department Heads for their amazing job of working with me to trim the Budget for FY2025 back to an amount that we can support. We started this process with a budget for FY2025 that had everything the Department Heads and I felt we should do or needed to do for the City to continue our growth and trajectory. The initial budget had an impact on the General Fund of a deficit of \$1.6 million. After many meetings, discussions, and work between the Department Heads, the City Clerk/Treasurer, and I, we have trimmed the budget down to now have a deficit of \$391,230. While this still isn't where we would like to be, as it continues to draw on reserves, we believe it's as sound a budget as we can prepare without significant changes in staffing levels.

Part of the reduction was achieved by reducing from budgeting 5% raises to 3%. If the Council approves this level of funding for raises, I do not believe that there is enough there to do merit-based raises, so that effectively means that everyone who receives a satisfactory or higher rating would receive the 3% increase. Union negotiations are still underway for the Police Department. For reference, each percentage point of raise for City Personnel (changing from 3% to 4% for example) has a cost to the City of \$23,232.07 this year.

As you can see in the table below, the General Fund (GF) End of Year (EOY) balance continues to decrease. We have done a good job of slowing down the reduction, but for FY2026 we will need to continue to work to slow the reduction, and possibly start depositing back into the General Fund to correct this course.

| | FY2023 | FY2024 | FY2025 |
|------------------|-------------|-----------|-----------|
| GF Balance (EOY) | \$2,013,993 | \$971,807 | \$574,601 |

Noteworthy items that have changed or been modified in the budget:

- Previously we had planned to use funding from Automated Traffic Enforcement Cameras (ATEC) to pay for the debt service for the Police Department remodel that we recently did. The funds for that loan have now been moved to the Debt Service and are planned to be levied, to help shore up the General Fund by leaving the ATEC funds in the General Fund to help pay for Police Department operational costs.
- Additional Local Option Sales Tax (LOST) funds are being transferred to the General Fund to help cover expenses rather than being transferred to the Capital Improvement Plan (CIP). The LOST funding that is in the CIP is for Police and Fire to cover some of their CIP items. In the past, we have used LOST funding to reduce needed debt levy, but that has been reduced as well to help keep funds in the General Fund as much as possible. This results in the Debt Levy being increased.

Attached you will find several documents:

- **Department Budgets** – You will see paging through them that we have changed revenue line items to align with our prior years' examples more closely, and we have reduced expense line items as much as possible while attempting to strike a balance to be able to continue serving citizens as efficiently and effectively as possible.
- **General Fund, Library Fund, and Transfer Information** – This sheet shows a breakdown of the impact on the General Fund from each department. It also shows information for the Library as well as planned Transfers out of the General Fund to other funds.
- **Proposed Property Tax Levy** – With the changes made by the State Legislature related to the Consolidated General Fund Levy (Combining General Levy, Civic Center Levy, and the Emergency Levy and limiting that growth) and the Residential Rollback, we have had to raise the levy from the previous year as follows:

| Levy Name | FY2024 | FY2025 | Difference |
|-------------------------|-----------------|-----------------|---------------|
| CGFL | 8.505 | 8.33823 | -0.16677 |
| FICA & IPERS | 1.97737 | 1.99227 | 0.0149 |
| Other Employee Benefits | 3.05414 | 3.67795 | 0.62381 |
| Liability Ins. | 0.63714 | 0.91287 | 0.27573 |
| Debt Service | 3.08531 | 4.61944 | 1.53413 |
| Total Levy | 17.25896 | 19.54076 | 2.2818 |

It is important to note that even with the increase in the levy rate, due to the reduction in the Residential Rollback, residents will still see a decrease in taxes of 3.92%. For example, taxes on a \$100,000 property will reduce from \$943 to \$906.

- **Residential Rollback** – The document attached shows the Residential Rollback from FY2019 through the current FY2025 Budget cycle. Of note, the rollback has decreased from 54.6501 last year to 46.3428 this year. This has resulted in tax savings for our citizens, but a severe reduction in tax revenue for the City.

Overall, Staff will continue to work to reduce the outlay of funds and be as frugal and prudent as possible with the City's funds. Department Heads and I have had conversations about ensuring that we are not spending funds on new items, if possible, but we still must maintain what we have. Throughout the remainder of FY2024, we will continue to practice frugality and attempt to end the year in a more positive situation than has been budgeted, thereby reducing the reduction shown in the General Fund.

RECOMMENDATION:

Staff recommends discussion of this topic. No action is needed at this meeting, as any decision items needed would be brought forward to a City Council meeting for approval.