## Executive Summary

City Council Workshop

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| **AGENDA ITEM:** | 2027 General Fund Budget Mtg #1 |
| **PREPARED BY:** | Jacob Schillander, City Administrator |
| **RECOMMENDED ACTION: Discussion** | |


**Summary:**

Staff reviewed the proposed 2027 Budget, including General Fund operations, debt service obligations, capital funding needs, and projected revenues.

Key conclusions include:

- The proposed levy increase is approximately 15%.
- Public safety costs remain the single largest budget expenditure.
- Newly issued debt obligations are a significant contributor to the levy increase.
- Several expenditures were reclassified to the Capital Transfer Fund to avoid double budgeting and improve transparency.
- Revenue projections remain conservative despite anticipated development activity.
- Most expenditure increases are driven by contractual obligations, debt service, or essential service needs rather than discretionary spending.

# Major Drivers of the Levy Increase

## Public Safety

Police and fire services continue to represent the largest component of the City's operating budget.
Approximately 52% of the budget is attributable to public safety costs. These expenditures are largely contractual in nature and offer limited flexibility for reductions without affecting service levels.

## Debt Service

The City recently issued the 2026A and 2026B bonds. The debt levy associated with those obligations represents approximately 32% of the overall levy.
Combined, public safety and debt service account for approximately 84% of all budgeted expenditures. As a result, only a relatively small portion of the budget remains available for discretionary adjustments.

# Capital Funding Adjustments

During budget review, several items were shifted from operating expenditures to capital funding in order to more accurately reflect their purpose and eliminate duplicate budgeting.

### BS&A Software Implementation

- Approximately $65,000
- Budgeted through the Capital Transfer Fund

### Sweeper Bucket

- Approximately $9,000
- Budgeted through the Capital Transfer Fund

### Playground Wood Chips

- Approximately $19,000
- Included as a capital-funded park improvement if grant funding is not received

These adjustments reduced pressure on departmental operating budgets while maintaining funding for planned projects.

# Public Works and Street Operations

Budget increases within Public Works are largely attributable to:

- Realistic snow removal budgeting
- Equipment and machinery needs
- Facility maintenance and painting
- Contracted operational services

Staff also reviewed service contract allocations to ensure costs were assigned to the appropriate funds and departments.

# Capital Improvement Planning

Staff discussed long-term park and recreation improvements, including playground infrastructure and related park improvements.
A review of identified projects demonstrated that future capital needs will likely require a dedicated financing strategy rather than relying solely on annual operating budgets.
The budget maintains funding flexibility while preserving the City's ability to move forward with future capital planning initiatives.

# Revenue Assumptions

Revenue projections remain intentionally conservative.

## Cannabis Licensing Revenue

The budget incorporates recurring cannabis-related licensing and registration revenues. Staff utilized a conservative estimate of approximately $20,000 annually while recognizing actual revenues could exceed that amount as the industry continues to develop.

## Other Revenues

Conservative assumptions were maintained for:

- Building permits
- Alcohol licensing
- Excavation permits
- Rental licensing

- Court fines
- Franchise fees
- County grants
- Rental income

Although significant development activity is anticipated, staff elected not to overestimate revenues from one-time projects.

# Enterprise Funds and Debt Payments

Staff reviewed the treatment of debt payments within enterprise funds.
Utility debt obligations are incorporated into utility rate calculations through the City's rate studies. Principal payments are reflected through liability accounts rather than budgeted as operating expenses.
This accounting treatment provides a more accurate representation of enterprise fund operations while ensuring user fees adequately support long-term debt obligations.

# Key Budget Observations

Council should be aware of the following:

1. Approximately 52% of the budget is attributable to public safety services.
2. Approximately 32% of the budget is attributable to debt service obligations.
3. Combined, roughly 84% of the budget is dedicated to public safety and debt service.
4. Most remaining expenditures support core operations, maintenance, infrastructure, and capital replacement needs.
5. Significant reductions would likely require service-level impacts or postponement of planned capital investments.

# Conclusion

The proposed 2027 Budget reflects a balance between maintaining essential services, funding capital needs, meeting debt obligations, and preserving the City's long-term financial stability.

While the levy increase is significant, the budget analysis demonstrates that the primary drivers are public safety costs and debt service obligations, both of which are largely outside the City's direct control. Staff has worked to minimize discretionary increases, remove duplicate budgeting, maintain conservative revenue assumptions, and position the City for continued financial stability.