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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR
SUBJECT: ITEMS TO DISCUSS AT BUDGET MEETING #2 (SEPT 3, 2024)
DATE: AUGUST 26, 2024

This year, I'd like to take a more systematic approach to the budget. This means that, I want to bring specific questions to each budget meeting, with the meetings building upon themselves as preliminary decisions are made that advance the budget towards December, where we will formally approve the budget. By that time, the budget should have been discussed, compensation and the CIP to the goals of the budget and visions for the future.

Taking discussion from the first meeting, I have prepared the agenda for this second budgeting meeting. This second meeting will look to take a slightly more focused approach, with the main goal of the meeting being to arrive at a preliminary levy amount for approval at the September 16th City Council meeting. As a reminder, this would be setting a "Not to Exceed" amount, not the final levy. Over the last few years, we have tried to set the preliminary levy a little high so that we have a small cushion should something present itself during the final month of the year that needs serious consideration for being added to the budget.

Items to Discuss

1) Visioning Document

The first draft of the 2025 Visioning Document has been included for your review. Some of the highlights for 2025, which have been included in the 2025 budget, are

- Long-term Financial Plan: With increased projects and workloads, this has been one project that has not gotten done. I anticipate working with our Financial Consultant in 2025 to help us complete this project.
- Sidewalk Expansion/Maintenance: The City was awarded a grant to construct a sidewalk along 12th Avenue SE near Settler's Park. This will be a huge addition to the neighborhood and will use about \$43k of previously allocated ARPA funding as the City-match.
- Orderly Annexation Agreement Updates: With the Comprehensive Plan being completed in the next couple months, one of the biproducts will be updating the annexation agreements with Helena and Lanesburg Townships. This will ensure that as the City looks to grow in the future, the process will be as seamless as possible for the landowner, for the townships, and for the City.
- Zoning Ordinance Update: Another biproduct of finishing the Comprehensive Plan, this will ensure that our ordinances and codes are compliant with State laws, that they match what our Comprehensive Plan states as the desired outcomes for the City, and that they are modernized for the 21st Century. This is being funded through a tax levy in 2024 and ARPA funding.

- Strategic Plan: Common practice in many medium- to large-sized businesses, a Strategic Plan will ensure that the City Council’s vision for the next five to ten years is focused and that the City Council, staff, and citizens of New Prague are working towards common, focused goals by being able to answer the question “What is important to the City? What is it trying to achieve?”
- Compensation Study: The last compensation study was conducted in 2020 and implemented in early 2021. The plan would be to conduct another compensation study in early- to mid-2025 so that it is able to be implemented in 2026.

These are certainly not the only items that are included in the Visioning Document. All items in the Visioning Document for 2025 are included in the proposed 2025 budget. Of note, there are no new items in 2025 that have not been previously discussed. Some of the items did appear in 2024, such as the Long-Term Financial Plan and the City Hall Hours Review. Since those items were not completed, they were moved back to 2025.

Also, some items were removed from 2025 to later years. A few of these include resurfacing 10th Avenue SE, adding an additional Wastewater employee, and protective gear for the police department. These were all items that had been listed in 2025 under previous versions of the Visioning Document but were moved due to various reasons.

I have also added a major item beginning in 2027 which I believe warrants discussion. This item is classified in the document as the Tri-Creek Park and Trail System. In short, this is a long-term vision, starting in 2027, to set aside a small amount of funds annually to work towards obtaining property along both sides of the three major creeks in and around New Prague (Philips Creek, Sand Creek, and Raven Stream). This would allow the construction of a future trail/park system that preserves these natural areas, both for enjoyment by the public and for management of stormwater systems that are becoming increasingly more stringent from the State and Feds. By working with a long-term vision of the system, small amounts of funding can be set aside each year to use in the future as land becomes available, and eventually, when building a trail or doing waterway improvements becomes feasible.

2) *Health/Dental Insurance*

Last week (8/27), Robin Pikal and I met with our agents from Gallagher to discuss renewal options for 2025. As I stated in the previous meeting, we had shared with Gallagher that the City wanted to see what other plan options may look like and what those costs would be.

Our meeting with Gallagher was productive, and further revealed some of the information that I have shared with you already. Namely, that 2024 has been a rough year for claims by City employees and that it is likely the City is going to have a 15% increase to renew our current coverage. Numbers continue to be high for 2024 and the rate increase for the current plan to continue in 2025 would be 14.9%. With this plan, Sourcewell is willing to offer the City a 19% cap for stay in the pool in 2026.

- Rates over the last five years:
 - 2020: 10.5%
 - 2021: 0%
 - 2022: 6%
 - 2023: -12%
 - 2024: 6.25%

- **Plan Options:** Three other similar style plans were also shared and how those plans would affect the rates. The details of Options 1, 2, and 3 have been included. The biggest difference between these plans and our current plan is that A) the options are embedded plans instead of aggregate and B), the deductible/out-of-pocket maxes for the plans are higher than the current plan.

The City has had the same deductible/out-of-pocket max for a few years now. As healthcare costs increase for everyone, it may be time to increase the deductible/out-of-pocket max on the plans the City provides. That being said, I believe Option 3 is a serious option to consider. Option 3 would save the City about \$80,000 over renewing its current plan (an increase of 4.7% for 2025 instead of 14.9%) and employees about \$20,000 total. For employees on the single plan, it saves each about \$240 in premiums over renewing the current plan. The plan does have a small increase (\$1,050 for single, \$2,100 for family) to potential out-of-pocket costs.

Gallagher stated that providing two plans may be an option, but that they would have to check with Sourcewell on enrollment minimums. Sometimes, providing multiple plans increases the costs of plans. They will check into that for us. They do not recommend offering two plans that are too similar, as it wouldn't necessarily encourage employees to move to the less expensive plan. Gallagher also stated that they have seen Option 3 as one of the more popular plans in the Sourcewell Pool.

- **HSA Contribution:** With the savings from the change in the plans I believe the City has the ability to potentially give a better benefit to employees while still reducing the assumed cost of 15%. Currently, the City contributes \$500 to the HSA of employees on the single plan and \$1,000 to the HSA of employees on the family plan. My recommendation would be to increase the HSA contributions to \$1,000 and \$2,000, respectively. This would come at an estimated cost of \$45,000 to the City, but would still allow the City to save \$35,000 compared to its expected insurance costs, while reducing the total out-of-pocket maximum change for employees. For those employees who don't use it, those increased HSA dollars would be able to be saved for future years when they may need to be accessed.

Dental insurance was also shared. Gallagher put out our dental insurance for bid and received back four quotes, included Delta Dental, our current provider. All of the plans were similar in nature, with Health Partners have a few programs that would be considered enhancements. The breakdown of the plans is attached.

At the writing of this report, I do not have a recommendation. Met Life, Guardian, and Health Partners are all proposing a 10%+ decrease for 2025 (with Guardian proposing no increase for 2026) while Delta Dental is proposing an 8% increase for 2025. I am having Gallagher collect information on which local providers carry the various dental plans, as it would not do the City any good to offer a benefit that is potentially unusable by City employees. I hope to have that information available for our budget discussion on Tuesday (9/3).

3) *CIP*

As part of the directive from Council to find a way to reduce the levy increase for 2025, I asked the department directors to look at their CIP requests and to see if there was any more flexibility. Understanding that they may not be any, since much was moved around prior to the first Council meeting, they got to work.

The second draft of the CIP is similar to the proposal the Council reviewed at the 8/19 meeting, with a few changes to match the proposed changes to the budget. These include:

- Reducing the amount spent in the Community Development department for desks, chairs, and privacy panels from \$35,000 to \$25,000;
- Delaying the purchasing of radios for the Fire Department for a year. This reduces the capital outlay of the Fire Department from \$25,000 to \$0;
- Removing the \$100,000 of savings for Government Facilities for 2025;
- Reducing the funds for a new vehicle for the Community Development Department from \$35,000 to \$20,000

4) *Preliminary Levy*

At the first budget meeting, the levy increase as presented would have been a total of 15.75% higher than 2024. As we discussed, the proposed increase is due to a few reasons, with a large reason being that the City had a 0% increase in 2024. At the meeting, the City Council expressed that while it understood the increase, it wanted to see a number closer to 10%. So staff went back to the drawing board on its proposal.

The second draft of the budget, included in this packet, has an increase of 11.24%. This does take out a number of recommended items, as well as adjusts revenues to get to this decrease. While I still recommend leaving these items in the budget, I understand the need to balance the tax impact to residents. This does not include the recommended insurance changes, as any changes would constitute a decrease in the overall numbers.

The changes that were made to the budget to obtain a 11.24% increase are:

- Removing \$100,000 from Government Buildings that was planned to go for future maintenance/renovations (101-4-4194-500);
- Decrease part-time Fire Department wages by \$5,000 to \$45,000. The Chief has initially planned on asking for a training pay increase from \$6.50 to \$14.00, but instead proposes an increase to \$11.00. The on-call pay is also proposed to increase from \$13.00 to \$14.00 (101-4-4220-103);
- Delay the purchase of radios for the Fire Department by one year, which removes \$25,000 from the Fire Capital Outlay (101-4-4220-500);
- Reduce office equipment purchase for the Community Development department by \$10,000 to \$25,000. The department is still working with desks and make-shift dividers that were not updated in 2020 when the Finance Department was fully refreshed with new desks and dividers (101-4-4240-500);
- Increase Community Development Permit revenue by \$10,000 to \$195,000. With year over year permit revenues continuing to increase even after the hailstorm revenues have passed, I am slightly more comfortable planning for an increase in 2025 (101-3-410-32210);
- Increase Use of Fund Balance by \$67,681 to \$190,808. This increase is coming from ARPA funds. As we approach the end of 2024, we continue to get updated numbers for what is remaining in the City's ARPA funds. I would recommend the City contract to purchase some of the equipment intended for 2025 in December of 2024 so that the funds are officially allocated in 2024, as required. The City would then pay the funds in 2025, which is allowed as long as they are allocated (101-3-000-36500).

All of these adjustments allows for the General Fund Property Levy to reduce to \$4,291,715. This is an increase in General Fund Levy of 14.46%, which translates to a Total City Tax Levy increase of 11.24%

With this number, I recommend Preliminary Tax Levy to be set at \$5,451,830, which is 13% over the 2024 tax levy. This will allow for some changes in the Tax Levy should something arise in the final months of 2024.

5) *Golf Club Management Contract*

As we discussed back in July when discussing a schedule for the budget discussions, I have received the proposed Golf Manager contract for 2025. In the contract, the only material change is the compensation paid to the Golf Manager.

In 2024, the City is set to pay the Golf Manager \$100,170. The proposed contract, which was approved by the Golf Board, would pay the Golf Manager \$105,168 in 2025. While I understand that inflation has driven up the cost of living and that the golf course continues to do much better than a few years ago, I disagree with the amount of this increase.

As I have shared with the Council, the City Finance staff does a fair amount of back-end work for the Golf Department, including double-checking and correcting reports, dealing with vendors, and correcting time-cards. Ultimately, this consumes Finance staff time that I don't believe it should be spending so that the City's finances are in order as much as possible.

Management has been informed of these discrepancies and I hope for an improvement in 2025. But because of these issues I believe need to be resolved, I am recommending to the City Council that the pay for 2025 include only a 2% increase, to \$102,173.40.