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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR

SUBJECT: ITEMS TO DISCUSS AT BUDGET MEETING #2 (AUGUST 31, 2026)

DATE: AUGUST 26, 2026

Continuing the trend over recent years, I'd like to take a more wholistic approach to the budget. This means 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, from compensation and the CIP to the goals of the budget and visions for the future.

At this first budget meeting, I would like to discuss four main points: the goals of this year's budget, the wage/salary scale adjustment, insurance benefits, and the CIP. Below are the four discussion points, and some questions I feel are relevant to the discussion of each.

<u>Items to Note and Discussion</u>

1) Long Term-Financial Plan Presentation
    a. Abdo has been working on a draft of the City's long-term financial plan since they were hired a couple months ago. Through this process, they have met with the City Council to discuss some high level ideas, and worked with staff on more detailed budgeting numbers. The Abdo team will be presenting current draft of the plan with the Council.

2) Wage/Salary Scale Adjustment
    a. How does the City Council want to approach a potential wage/salary adjustment this year?

       At the previous meeting, it was discussed as to why a 4% wage scale adjustment was included in the 2027 budget. This adjustment would be based on a combination of inflation, competitiveness with other cities, and other factors, such as rising insurance costs.

       There was discussion about various ways to handle adjustments to the wage scale, such as adjusting the wage scale on a percentage basis vs. adjusting by a flat dollar amount. I would like to provide a brief discussion on this topic and my thoughts and recommendations.

       When evaluating how to update wage scales, organizations must weigh the structural trade-offs between a percentage-based raise and a flat-dollar adjustment. Applying a percentage increase keeps the existing pay scale in proper balance. Because our wage structure is designed to reflect different levels of responsibility, required training, and supervision, a percentage raise keeps the relative distance between job levels the same. For example, a 3% raise means an entry-level worker and a department head both receive an increase proportional to their current pay. This protects internal fairness, ensures senior and specialized staff are rewarded for their added responsibility, and keeps higher-level salaries competitive with the outside job market so we can retain experienced leaders.

By contrast, giving every employee the exact same flat-dollar raise alters the overall wage structure. While a flat-dollar increase gives a much larger percentage boost to lower-wage positions, which helps entry-level staff keep up with immediate cost-of-living pressures, it creates a problem called wage compression over time. Under a flat-dollar approach, lower pay grades catch up to higher ones, shrinking the financial gap between ranks. Over several years, this reduces the financial incentive for staff to take on supervisory roles or pursue advanced certifications, while making senior positions less competitive against other employers. During the last compensation study, Autosolve continually checked their models for wage compression, to ensure that these incentives remained in place to make New Prague's pay structure one that could compete in the market place. Therefore, while flat dollar amounts provide short-term relief at the bottom of the pay scale, percentage-based adjustments protect the long-term health, fairness, and competitiveness of the organization's entire compensation system.

It is because of this, that I would recommend that organization wide adjustments continue to take place on a percentage basis.

b. I have updated the wage adjustment information from the City's last budget meeting. June and July inflation numbers have been released, and estimates for the Social Security COLA have been updated.

   Inflation numbers did cool a little in June and July, providing some relief to everyone. Estimates for the Social Security COLA dropped from 3.7% to 3.6% with those recent inflation releases as well. The Social Security COLA is finalized in October of each year.

   Anecdotally, staff around the State have begun sharing where they are landing for wage scale adjustments. To this point, adjustments that I have seen from surrounding communities are ranging from 3% to 5%. Thus far, keeping a 4% adjustment in place would keep New Prague competitive. It also would set a ceiling for the adjustment as budgets continue to be discussed towards the end of the year.

3) Preliminary Levy

   a. As it stands, the projected levy amount is $6,027,624, which is a 7.56% increase over the 2026 levy, with an average residential impact of 4.27% above 2026 City taxes. It is staff's recommendation that this amount be used as the Preliminary Not to Exceed Levy amount for 2026. As the police station project finishes up, that'll allow further refinement of the debt service levy. Adjustments may also come as insurance numbers for 2027 are available.

      My recommendation is to set the preliminary levy at $6,027,624.