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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR

SUBJECT: 2024 BUDGET

DATE: DECEMBER 6, 2023

The budget that I am presenting to you for a recommendation will be largely similar to what has been seen and discussed since August 2023. There are some small changes that have taken place since then and with a reduction in levy revenue of $223,070, the revenue structure for 2024 is proposed to be different than a normal year to accommodate that reduction. With that in mind, my recommendation for how to proceed into 2024 is vastly similar to what it has been. My recommendation looks to not only keep taxes low, but also look to the future of New Prague as a growing City and the needs that growing cities have. I cannot ethically, when taking my professional duty as a recommending voice for the City Council seriously, focus solely on keeping the tax burden low. I also feel it is my duty to help build the City into what it could be and put it in a position that will allow it to compete with cities across the southwest metro area for new residents, new businesses, and talented employees.

With this memo, I intend to speak to the Proposed General Fund Budget & Levy Changes Overview (*Attachment #1*) and give more detail into my thinking and recommendations for you to consider prior the meeting. This summary of the changes was first seen at the August 28th, 2023, budget. The first summary's information is in black. Since then, when numbers were updated after receiving guidance from Council or do to changes in information staff received, the updates change to blue, then green, and now purple. Some of the explanation language when updated remained in black (ie. "This would empty the Equipment Fund in 2024") to keep the document more readable.

A full copy of the General, EDA, and Equipment Fund budgets are available in *Attachments #2.1 and #2.2*.

<u>Revenue</u>

Due to the decrease in our potential tax levy, revenue is the area of the budget that has required some sources I would not traditionally recommend for an operating budget. Throughout our budget conversations, the direction I have received from the Council landed us on a General Fund levy of $3,972,698, which was $244,570 more than the General Fund levied in 2023. The Debt Service levy is scheduled to levy $861,725 ($40,442 more than 2023), the EDA $75,000 (equal to 2023), and the Equipment Fund $138,275 ($61,942 less than 2023). In total, the difference was an increase of $223,070 for an overall tax levy of $5,047,698. With the City's intention to not certify a tax levy in 2024, which according to State Statute 275.07 means that the levy shall be the amount levied in the preceding year, the tax levy would now be scheduled to be a total of $4,824,628.

I do have one change recommended in expenditures since our last budget workshop and have adjusted the revenues accordingly. There was extended discussion involving compensation by the Council last Monday (12/4) and I believe the fairest, most comprehensive way to address the compensation of employees would be to hire a firm to do a full compensation study. No one on staff has the expertise or the time to be able to do the project justice. With the last study, only wages were considered. There were no job description updates to match what work was being done and there does not seem to have been a discussion of benefits as a piece of total compensation. If the Council is serious about reviewing wages and benefits, I would recommend that we allocate ($40,000) to have a full study done, starting in the process in January so that we are prepared for the 2025 budget. With that change in recommended expenditures, an additional $263,070 in revenues would be needed above the planned revenues.

The budget I have recommended in the past remains mostly the same, and so with this latest iteration, I am recommending the primary revenue sources to reflect as follows:

1) Tax Levy – this property tax levy will remain as it was in 2023. This means an additional $263,070 still needs to be adjusted for. Without being able to raise the levy in 2024, it does leave open the possibility of a larger levy increase in 2025 to adjust back to standard had New Prague been able to levy its intended amount in 2024. *Attachment #3* shows a summary of the proposed tax levy. *Attachment #3.1* shows the estimated tax impact on residential owners based on the valuations change of their property. ($263,070 deficit)

2) LGA – with legislation passed in 2023, the City's LGA increased $197,719 to $1,183,527. Since this was included in the budget in August, this does not change the final balance ($263,070 deficit)

3) Interest Income – Interest income is an area seeing a large adjustment in my new proposed 2024. As I have stated in past meetings and earlier in this document, I do not recommend using interest income as a revenue source for the operating budget in traditional years. Interest income can be volatile year-to-year and when it is used as a source of income for the operating budget, which tends to be more stable from year-to-year, a really good year followed by a really bad year could mean having to find potentially $100s of thousands in revenue to maintain levels of service. In normal years, I would suggest that all interest income be redirected to capital accounts, be it for Facilities, Equipment, or Infrastructure. This would mean that when projects are undertaken, cash is paid from the accounts and the remainder would be borrowed for. Swings in interest rates would not affect year-to-year budgets since all that would be affected would be how much is placed into the capital accounts. But this year is different.

   The General Fund is set to receive interest payments of about $125,000 from investments. To offset the levy at the Council's wishes, $50,000 of that interest had already been worked into operating revenue. That means that there is an additional $75,000 available to use. This is a one-time measure I do not recommending continuing once the City is able to again levy in the future and would recommend returning the budgeted interest income to $10,000 in 2025, which was the level through 2023. ($188,070 deficit)

4) Fund Balance – As 2023 ends, I have done an analysis of where the City stands with less than a month to go. By my estimates, the City will conservatively realize about a $95,000 surplus for 2023. This surplus stems from being short police officers all year. While we continue to seek officers to keep our streets rated as one of the safest in Minnesota, and our officers from burning out, it does allow for the City to use the $95,000 in 2024. Like the interest, I would not normally recommend immediately using surplus from a previous year to reduce a tax levy as again, it fluctuates from year-to-year. Under a normal year, I would recommend the surplus be assigned to a capital fund to reduce future borrowing.

But, like interest this year, I would recommend a short-term, one-time use to bridge the gap. ($93,070 deficit)

5) Public Works County Road Maintenance – after the preliminary budget was set in September 2023, staff learned that the aid the City traditional receives from the Scott County would be reduced by $3,300. This reduction came due to the City taking over Columbus Avenue N. When the City took it over, we no longer received a small stipend for plowing from Scott County. ($93,070 deficit)

Expenses

With the short-term reduction in tax levy capability, expenditures are the obvious place to make reductions. I would caution against thinking that anything reduced out of the proposed budget is permanent. As New Prague grows, these are expenses that are needed, in my professional opinion. The City went through many years where the tax levy was kept incredibly low. As seen in *Attachment #4*, taken from a budget packet in August 2021, from 2012 to 2021, the City did not increase its total tax levy by more than 2.95%. While the City Council can certainly be commended for keeping taxes as low as possible, this meant that while the City was realizing commercial and residential growth, it wasn't taking advantage of that growth to complete projects. In that time, the tax rate dropped from 74.53% to 51.38% (*Attachment #5*).

In the last couple years, the tax levy has seen increases higher than the City had seen in the last decade (*Attachment #6*). As I have shown using tax impact worksheets from Scott County, this does not mean homeowners' taxes increased by the overall levy amount. New homes and businesses made up some of the increase, and commercial/industrial generally absorb a larger percentage of increases than residential does. To be able to fund parks and trails, business retention and attraction through the EDA projects and updating of regulations and guiding documents, and infrastructure growth, the City does need a supply of revenue and with growth of the City, the supply of revenue will naturally need to grow as well. And as you look at cities across the country, it is these growth projects that all cities face as they grow and seek to attract further growth. The Council stated when I was hired that it wanted to increase economic development to shift some of the tax burden away from residents. To attract businesses, the City needs to invest in projects that both draw businesses and workers to the community. I believe the budget presented thus far this year does a good job of continuing to lay a solid foundation of that. It is with this premise that the expenses I have recommended since August remain similar to what we have discussed, with the addition of the Full Compensation Study.

1) Personnel (Wages and Benefits) – Proposed increase of $269,153, or 6.6%
    a. Wages – Within the proposed budget in August, I included a Cost-of-Living Adjustment (COLA) of 4% to all city positions. I did this for a couple reasons. Looking at (*Attachment #7*), it became evident that over the last couple years, inflation has taken off. It has been stated in past budget meetings that the City saw COLAs of 2%-3% for a number of years when inflation was not moving. In 2020, the City Council commissioned a compensation study to look at wages (*Attachment #8*). Working with the consultant, the City Council picked who it wanted to be compared to and how it wanted to measure against those communities. When approved by the Council in the spring of 2021, that study reset the bar for where the wages should be. Regardless of what the COLAs had been prior, the latest study is arguably the new bench to start when speaking about COLAs. Since 2021, the City has certainly been outpaced by inflation across the US and Midwest, and has also been outpaced by Social Security. A 4% adjustment this year, while not completely making up the ground, does bring the positions closer to inflation adjusted wages. With YTD inflation through September sitting at 3.7% across the Midwest, a 4% COLA is tracking pretty close to that inflation rate.

       In addition to keeping up with historic inflation, I am recommending a 4% increase in COLA to help keep New Prague competitive. Since I started two and a half years ago, the City has lost seven employees to employment opportunities around us, with wage being the leading factor of why they are leaving. Communities around New Prague have been doing compensation studies and adjusting salaries top to bottom for the last couple years to keep competitive and not lose good people. I am not asking the City to increase every position's hourly rate by $9/hour (which has happened for some positions in cities in the area). I am asking for a 4% bump. For each 1% adjustment, the General Fund realizes an increase of about $32,000. So a COLA of 4% equates to roughly $128,000 increase in General Fund expenditures.

In addition to COLAs, another wage item to consider is that the City is paying for 65% of the cost of the School Resources Officer in 2024 through an agreement with the school district. To cover this cost, I am recommending the City uses a portion of the Public Safety funds received from the State in 2023. In 2023, the City received a total of $359,753 in Public Safety funding from the State of Minnesota. While the money is not able to be spent until 2024, and staff will be bringing full recommendations to the City Council in early 2024 for discussion, I am recommending $44,930 be used to offset the additional expense for the year so that the City is only levying for the 25% it would pay in a normal year. The remainder of the Public Safety funds will be discussed with Council in early 2024.

b. Health Insurance – The City is currently in the second year of a two-year agreement for health insurance. The first year of the agreement saw our health insurance rates drop by 11.08% in total. This saved the City $83,472. This second year, the City's rates have risen 6.5%, or $12,982 for the General Fund, over 2024. Even with the increase in 2024, there is still a savings from the 2021 rates. As we were reviewing health insurance this year, the City Council asked that staff run a few hypotheticals past Sourcewell (our current pool) to see how it would move the needle. After discussing the possible changes, the Council decided to keep health insurance where it was at for 2024. Using that information, employees and their families made their elections for 2024.

   As we discussed at a Council meeting in mid-November, SCALE is now looking into the possibility of creating a county-wide pool across Scott County and using a self-insured model, similar to what Scott County currently uses, to attempt to control costs better. As that study unfolds, I will be sure to keep the Council updated and we discuss whether it would make sense to work through this pool if it is formed.

c. Dental Insurance – This year, the City saw an increase of 8.07% in dental insurance, which resulted in a $3,610 increase in total dental insurance costs for the General Fund. As we did with health insurance, the City staff has directed Gallagher to take dental insurance out for bid in 2024 to ensure that the plans are competitive.

d. Life Insurance and Short-term Disability – In late 2022, the City committed to a three-year agreement for Life Insurance and Short-term Disability starting in 2023 with Hartford. Under that agreement, there is no rate change through 2025.

2) <u>Operations, Maintenance, & Capital</u>
   a. Council – Early in the budget process, I had recommended that the City put $5,000 into the budget to get City Councilmember laptops on a rotation that keeps them under warranty while also not having five laptops come due every four years. After this initial early purchase, laptops would then cycle every four years after an election, allowing potentially new Councilmembers to come in with a fresh laptop. The Council asked that the $5,000 for those laptops be removed.

b. Property and Liability Insurance – the City saw its property and liability insurance increase by 7% for 2024.

c. Fire - An adjustment was made to the fire department to increase motor fuels used by $2,000. ($95,070 deficit)

d. Fitness & Aquatic Center – For 2024, the school district is projecting a loss of $231,904 for the Fitness and Aquatic Center. With the City paying for half of any losses per the Joint Power Agreement, the City would pay $115,952 in 2024, which is decrease $14,275. Of note, the City has set aside $40,000 in Fitness & Aquatic Center contingency funds for years that the facility does not do as well as project. These funds are part of the General Fund, and have been considered "assigned," which means that they may be spent on other items/projects if the Council wishes.

e. Capital & Special Projects
    i. Government Buildings – Within Government Buildings, I am recommending adding in the Capital Outlay line-item to set $100,000 aside for EITHER future City Hall maintenance or to be used towards a new facility. During our facility study, Wold Architects toured our existing facilities and made notes about maintenance needs of the building. I have included notes that were presented to the Council in October 2022 detailing the needs of City Hall (*Attachment #9*). The items need include a roof, tuck pointing the exterior, replacing HVAC, replacing windows, and replacing carpeting. Obviously, if the City opts to move out of the building, it would not want to complete these improvements. This is why I am recommending to set aside $100,000 for City Hall maintenance/replacement to be used in the future. The City Council was made aware of the needs of the building in 2005 through a facility study and little was set aside at that point for future needs or maintenance or growth. We know that, as a City, we have a future expense to make. Now would be the time to start planning so that whichever option is chosen, money has already been set aside to begin the process and reduce the future need to borrow. Ideally, the City could get to a point where all departments would be fully funding depreciation of their assets in this way.

    ii. Fire – Similar to using Public Safety funding for the SRO costs, I am recommending $25,000 of the funding be used to start replacing Fire Department radios. The radios in the Fire Department are over twenty years old and in dire need of replacement. This will ultimately be a multi-year project to replace all the radios, but $25,000 in 2024 would be a good start.

    iii. Police – with the constant wear and tear on the squad cars, and to minimize budget fluctuations, all of the squad cars are kept on a rotation that has one replaced each year. The 2024 reflects the purchase of one squad car.

    iv. Building Inspector – In 2020, the City updated the Finance Department offices, reconfiguring the space, painting, replacing carpet, and buying office furniture for employees. When that was done, work was not done on the Community Development Department side of City Hall due to the space constraints of the department and new furniture not making sense. The last time work was done in the Community Development Department was in 2004, when the rooms were painted and the carpet replaced. All of the furniture predates that time, meaning it is at least 20 years old. With the reconfiguration of that space in late 2022, I am now recommending putting $10,000 into the budget for updating the desks, chairs, and other furniture that is needed in the

Community Development Department. This number would not allow a full refresh of the space, but at this time, without knowing whether City Hall will continue to be used in the short-term, I do not recommend putting money into paint/carpet.

v. Streets/Parks/Golf – With the number of trees the City will be removing over the next 10 years, a large number of stumps will be left behind. As City staff works to transition City property by removing old trees and planting new trees, grinding stumps after tree removal allows for a much faster transition as well as creating a safer environment for visitors to City property. I am recommending splitting the cost of the stump grinder, $36,000, between the Streets, Parks, and Golf Departments since all of them will be using the grinder extensively.

vi. Park Board – In 2023, the City allocated $130,000 to the Park Board to be used in expanding sidewalks and trails throughout the City. Through the process, City staff recommended using the funding for connecting a sidewalk gap along 12th Avenue SE near Settler's Park as well as towards expanded sidewalk on Lexington Avenue from Main Street to Northside Park. Following Council direction to proceed, staff sought grant funding to help with the total cost of both segments. Both grant applications were unsuccessful at the time, but the City did receive good comments on how to make our applications more competitive in the future. Staff is recommending to carry the $130,000 forward to 2024 as we look to secure the grant funding again to get these two segments of walk completed.

3) <u>Professional Services</u>

a. IT – As technology becomes more engrained in everything that we do as a City, the cost to replace equipment as it ages is high. All of the City's laptops and desktops were purchased in 2020 using CARES Act funding. While it provided the City with a refresh of all its equipment and provided the means for some employees to be able to work remotely when needed, it meant that all of our computer equipment was purchased at the same time, making it susceptible to needing to be replaced all at once.

This fall, staff started working with CTS to put together a five-year equipment replacement plan for IT equipment. I have attached the latest draft (*Attachment #10*). With this plan, we attempted to spread out the equipment needs to work within warrantees for equipment while also getting the equipment onto a replacement schedule so that it wouldn't all come due at one time. If followed, this plan will see some computers replaced earlier than normally scheduled and some replaced later than originally scheduled. When computers are replaced, they'll be kept as back-ups should others that are later on the schedule need to be replaced early. The plan would also call for upgrades to server equipment that would make our information more secure and accessible. In 2024, we'd be looking to spend an estimated $42,000 on IT equipment.

b. Planning – The City is looking to wrap up its full rewrite of the Comprehensive Plan in Q1 2024. With this rewrite, the City will be in a position to grow into the future as it looks to work with developers. The next step in the process after updating a Comprehensive Plan is to look at the City's Zoning Ordinance. A Comprehensive Plan and Zoning Ordinance should work hand-in-hand to guide development in a manner that fits the communities vision for its growth, as one guides the larger picture and the other guides specific development. While small, piecemeal updates have been made to the Zoning Ordinance, the ordinance as a whole has not been updated since it was adopted in the 1970s. This piecemeal way of updating the ordinance can create an ordinance that at times can be difficult to read/interpret without getting help from staff, does not always address site development in a way that the City may currently wish (as expressed through the Comprehensive Plan), and may inadvertently be missing key pieces of code the City wishes to see.

Due to this, I am recommending budgeting $40,000 for a Zoning Ordinance rewrite in 2024. According to MSA (the consultant working on the Comprehensive Plan), this would cover about half of a full update and would put the City in a position to be able to budget for the remaining $40,000 in 2025 and have the rewrite take place.

c. Police – Leased equipment within the department is showing an increase of $32,400 in 2024 due to a sharp increase in body camera equipment. When the City originally purchased the body camera equipment, the City opted to pay for the equipment in full, up front. With a projected the large spike in cost, City staff asked about a five-year payment plan for the equipment to level out the budget implications. When comparing the two quotes, there is not additional cost to pay for the equipment over a five-year period compared to up front. Because of that, staff recommends paying for the equipment with a payment plan.

d. Full Compensation Study – Mentioned above in 1a, I am now recommending the City go through a full Compensation Study for all employees. This would include not only wages, which was all that was done in the 2020 study, but also updating job descriptions and benefits to ensure that employees are being compensated appropriately. In my time with the City, there has been increased discussion and interest in how employees are compensated, both with wages and benefits, and bringing in a unbiased, third-party to work with the City Council to formulate a plan to me seems like the best option. I do not recommend having internal staff perform this study, as none of us has this expertise and having a third-party review information and make a recommendation may assuage fears that staff is determining their own worth. Speaking with surrounding cities, all who have done compensation studies in the last few years, most have performed a wage only study for about $15,000 to $20,000. From what I am being told, when adding in benefits and job descriptions, it increases the overall cost significantly. I would recommend setting aside $40,000 to perform this study and for us to begin immediately in 2024 so that any results are ready for the 2025 budget discussions.

4) <u>Debt Service</u>

a. For 2024, the debt service levy is increasing to $861,726. This is due primarily the addition of the 2023a bond. I have attached the debt levy schedule for the next few years for your information (*Attachment #11*). Please keep in mind that there are still two future planned years (2024 and 2025) of full reconstruction projects that will add to the debt service levy.

5) <u>Other Notables</u>

a. In the past, the City has only budgeted for elections during election years. In 2024, there is a Presidential election so we are budgeting for election judges. The State is requiring staffed early voting and Scott County is having the cities staff the early elections. The budget reflects this need for staffed election judges for all three elections (March primary, August primary, November general). Going forward, staff will be proposing to budget for elections each year, to limit fluctuations in the budget every other year.

6) <u>Operating Transfers Out</u>

a. 2024 was planned to be the first year of ten years that will transition the Golf Club away from a yearly, planned transfer from the General Fund. This doesn't mean that the City isn't responsible for the Golf Club if they have a number of bad years. What it means is that tax revenue will not be sent automatically to the Golf Club from the General Fund unless there is a verified need that the Golf Club is unable to support itself. After reviewing the budget, the budget was adjusted to drop this year's contribution by 20% to $97,016 instead of the intended 10%. With the current situation of making up for lost revenue, I now recommending suspending the Golf Transfer for 2024. The Golf Club Fund will conservatively end 2023 with a fund balance of $620,000. This fund balance should be sufficient for a single year to support itself. The plan would be to reexamine the status of the Golf Club and Golf Fund during the 2025 budget cycle to determine how much of the transfer should resume. ($1,946 surplus)

Summary

In summary, my recommendations are largely unchanged for how to proceed with 2024, with the addition of a Compensation Study, especially with our ability to temporarily cashflow revenues with interest income and prior year surpluses. There are many projects that the Council has expressed a desire to complete and those projects are within this recommended budget. As I have stated, I expect 2025 to potentially see a larger than normal increase to account for the reduced levy this year. Investing in the growth of the City costs money and I don't want to see New Prague at a competitive disadvantage to surrounding communities who are putting in the investments.