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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR

SUBJECT: ITEMS TO DISCUSS AT BUDGET MEETING #1 (JULY 20, 2026)

DATE: JULY 9, 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) Debt Service
   a. Finance Director Robin Pikal and I have reviewed the debt service fund balances and expected future levy amounts. Adjustments have been made to the levy amounts so that the City does not have high balances in the debt service funds once they are paid off.

      As has been discussed since the 2026 budget was completed, staff have been reviewing the debt service funds and have been adjusting future levy amounts where possible to ensure that the funds will not close with high balances. High fund balances may happen in these accounts if there are remaining construction funds once a project is completed. Those remaining construction funds are then transferred to the debt service funds for payment of the bonds. If the predicted levy amounts are not trued up after construction is complete, those construction funds become the primary driver in a debt service having a high fund balance.

      There were two funds that were showing high fund balances. First, the 2020A bond has an audited fund balance that will fully fund the remaining debt payments. This bond was a refund of four other bonds (2010A, 2012A, 2012B, and 2013A) from past infrastructure projects. This means the 2020A bond no longer needs to be levied for through the remainder of the payments. The other bond that was able to have the levy adjusted was the 2013B bond, which was also a refunding bond (2005B, 2007B, 2007C, and 2008A). Within this refund in 2013, 2007C was the bond that funded the Fire Station. For 2013C, the amount needed to be levied is able to be reduced by about $160,000 this year compared to the original schedule. In total, these two adjustments accounted for a levy reduction of $243,503 within the debt service funds.

The second debt service note is with the 2025C bond, which is the lease revenue bond used for the police station. The revenue needed for 2027 with this bond is $683,491. As we discussed at the prior meeting, staff are working through the final stages of securing the $1m in community grant funding from the federal government, secured for the City by Rep. Angie Craig, Sen. Tina Smith, and Sen. Amy Klobuchar at the end of 2025.

As I considered how to use this funding, there are three primary ways the City could use this funding.

1) The first option would be to exhaust the funding as soon as possible, which would basically use the funding over two budget cycles. This would leave the City with a partial levy for the 2025C debt in 2028 with a full levy in 2029. This first year, the City would use the grant to fully fund the 2027 bond payments. In 2028, the City would use the remainder of the grant and any construction funds remaining to fund the bond payment. Any remainder would be levied for. Then, in 2029 and beyond, the full amount of the bond payment would be levied.

2) The second option would be to spread the funding out over a full-length of the bond repayment, which is 30 years. The idea behind this would be to take the $1m grant funding, as well as any remaining construction fund balance, and split it by 30. For the grant, this would be $33,333 per year would be used to pay the debt service payments, with potentially slightly more from the construction balance. The number would also likely be a little higher as interest is gained on the fund over 30 years.

3) The third option would be to phase the funding year, starting with a larger amount in 2027 and decreasing the amount year-over-year until the grant fund is depleted. Idea behind this is that the grant funding would have the most impact in the first year, and a lessening impact each year after until is gone and the City is levying for the full payment. In the 2027, the City may use $250,000 towards the debt service. In 2028, $225,000. Use of the grant funds, and any remaining construction funds, would continue to decrease by $25,000 every year until the funds are exhausted and the payment is being levied for.

As I considered these options, I landed on a recommendation of using option three. Within this option, the grant funding serves to try to smooth out the impact as much as possible. It would eliminate any levy spikes to the best degree possible, with the large bump being the first year, in 2027. Option three also allows for flexibility, that if other levy fluctuations happen, up or down, the amount of funding used in a given year is also able to adjust to help with large fluctuations. The budget before you shows this recommendation, with $250,000 being used to reduce the overall levy for 2027 for 2025C to $433,491.

With the reduction in levied amounts for 2020A and 2013C, the reduction in levy amount for 2025C, and the added debt levy for 2025B (the 2025 infrastructure project), the total levy for debt service increases by $384,692 over the 2026 debt service levy.

Would the Council prefer to use the federal grant funding in a different manner than I have presented?

2) Wage/Salary Scale Adjustment

   a. How does the City Council want to approach a potential wage/salary adjustment this year?

      Approved in 2025, the City began using a new compensation study in 2026. This study placed all full-time employees on a grid based on their position and employees could then move laterally across the grid based on experience/ability. This grid also has been adjusted annually to account for inflation or other factors the Council deemed appropriate.

      Continuing this, I have proposed a 4% increase to the 2026 payscale for the proposed 2027 payscale. I have done this for a couple reasons:

      1) As I look to recommend a market adjustment for the payscale, one of the factors I use is trying to track inflation. According to US Bureau of Labor Statistics data (current through May 2026), the CPI has raised nationally about 3.00% and about 3.40% regionally through the first five months. Anecdotally, we have already seen the inflation fall a little in June but nothing seems to have gone backwards. It is not out of the question that inflation may hit 4% year-over-year by the end of 2026. With inflation uncertainty for the remainder of the year, I feel 4.00% is a solid estimate if using the CPI as a guide.

         Each year, I also include Social Security data, which is adjusted annually by the Social Security Administration. As of July 2026, estimates for the 2026 adjustment range anyway from 3.7% to 4.5%, according to the Senior Citizens League and others.

         As I have in the past, I have included the data I was able to collect and graphed that data over the last ten years and since the last compensation study was conducted. As can be seen, over the last ten years, the City has tracked similarly to inflation and social security growth, though slightly behind overall due to the uptick in 2020 and 2021. With the compensation study taking affect in 2026, there is not yet any data that can compare since the City last adjusted for market demands.

      2) The second reason for the 4% being included in the proposed budget is that I am tracking what other communities may be doing, knowing that it'll affect the City both in its capacity to hire as well as when a new compensation study is conducted, would affect how the City compares. If the City tracks too far ahead or behind its peers, large adjustments may come and so when recommending adjustments, I try to do so in a way that would avoid large single year adjustments

         To this point, adjustments that I have seen from surrounding communities are ranging from 3% to 5%. Putting 4% in as a discussion point put New Prague in the middle of that, with the ability to adjust in the coming months as the budget is discussed.

3) CIP

   The final discussion I would like to have is around the CIP. As staff worked on the 2027 CIP, they did so with the knowledge that this may be a difficult year for making purchases, especially as we attempt to lessen the a spike in the levy due to increased debt service. With that in mind, for the first time I also included a comparison of the recommended equipment purchases in 2027 from what 2027 looked like in the 2026 CIP.

   With this document, it can be seen that in 2026, the City was projecting needs as high as $1.13m in equipment purchases. Many of those had been pushed back from previous years and the cost savings to maintain instead of replace diminishes with each passing year. That being said, staff took a hard look at what could and couldn't be done and was able to reduce the equipment requests down to $391,000. These equipment needs are covered by a combination of levy and fund balance in the equipment fund.

In relation to that, since I have been here, the City has levied into an Equipment Fund. The purpose of this fund is to have a rolling fund that'll help pay for current equipment needs and to level out levy changes in future years when equipment needs are higher, such as replacing fire trucks. Thus far, the equipment fund has mostly covered equipment needs and last year, the City was able to save some into that fund. This year, there will be a planned excess of about $25,000, which would remain in the equipment fund for future purchases in years when equipment needs may outpace the amount to be levied for.