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## MEMORANDUM

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**TO:** HONORABLE MAYOR AND CITY COUNCIL  
**FROM:** JOSHUA TETZLAFF, CITY ADMINISTRATOR  
**SUBJECT:** ITEMS TO DISCUSS AT BUDGET MEETING #1 (AUG. 19, 2024)  
**DATE:** AUGUST 5, 2024

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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.

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

### Items to Discuss

#### 1) Overall Budget approach

- a. How does the City Council want to approach this year's budget? With the City having a zero percent increase to the levy for 2024, are we playing "catch-up" in 2025? Or are we trying to cut a year of increased costs out of the budget?

There are certainly budget items that need to be considered as we have this discussion. Some of the considerations I have thought of include:

- The natural inflationary increases for the cost of doing business;
- The labor/benefit increases that are built into the Cities current compensation system;
- The capital/equipment needs of the City and how they are obtained and paid for;
- Whether a larger increase should be applied to prepare for a police facility increase so that the jump isn't as drastic in the year which the bond payments begin.

While the thought is easy to say that levy increases shouldn't be over X.X%, that statement doesn't take into account the services the City provides and the cost of providing those services. With the levy increases being kept low for many years prior to my arrival, there were many cuts in the budget from year-to-year. Studies, plans, projects, and savings were cut or delayed. Equipment, supplies, and general maintenance were cut or delay. This means that the City has cut out most of the "cuttable" parts of budget for the services it currently provides. The Streets and Parks crews run pretty skeleton crews, and the equipment and supplies they use are stretched to the very ends of their lives. City Hall employees are cross-trained many times over to cover for each other and year-to-year maintenance on facilities hasn't been done. This is why at the conclusion of facilities study, Wold Architects mentioned that even if nothing else is done, over \$1.86m in maintenance would be needed on City Hall.

My recommendation is that a serious consideration of the proposed budget should take place. This budget includes continuing to add money to the facilities budget for future facility needs, whether it is maintenance, remodeling, or new build. Similar to personal finances, it is putting money aside because you know that projects are going to happen. On a personal level, you may not know whether your roof, siding, or furnace are going to need to be replaced, but you know that it is wise to have money set aside for when it is needed. The City had \$1.5m set aside for many years from the disbanding of its Ambulance Department, but there wasn't a plan in place to grow or replenish those funds. Some of those funds got spent on the new Parks facility. In 2024, we have \$100,000 set aside for that fund. While it would be easy to cut that out for 2025 to lower the levy increase, it is moving back to the days of looking at next year instead of ten to twenty years from now.

The budget also includes plans and studies discussed in prior years and on the Visioning Document to help guide the Council and staff as the City moves forward. It is those plans that give purpose and direction to the City, from people who are experts in each of those specific areas the plan/study is addressing. Council and staff can then take the finished products and use them to keep New Prague as a leader in the region. Cities around New Prague are certainly making moves for the future and I would hate to fall behind.

Under the proposed budget, the year-to-year average increase over the last five years is just over 5%. A year-to-year increase of 5% would be welcomed by many communities who have seen much larger increases than that in recent years.

I have included in your packet the most recent "Tax Impact to Residents" from Scott County. As can be seen, a 15% total tax levy increase does not necessarily increase a resident's taxes by 15%. Using this tool, Scott County residents who have an increase of 5% on their property values will receive around a 5% increase in their taxes, if the City is to increase the tax levy as proposed.

## 2) Wage/Salary Scale Adjustment

- a. In 2021, the City Council approved the City's most recent comprehensive study. Is this the study that the Council intends to continue using in 2025 as it discusses wage compensation for employees?

Each year that I have been with the City, how employee wages are adjusted has been a hot topic of conversation. I would like to have the conversation early in the budget process so that we are able to settle on if the wage/salary scale will receive an adjustment from 2024.

I know that there are mixed opinions on this adjustment and its purpose. My, personal, intended purpose of this adjustment, commonly known as the COLA (Cost of Living Adjustment), is just that, an adjustment to the wage scale so that the buying power of a person's wage is the same from one year to the next. I cannot change how salaries were adjusted in the past, but I have had influence since joining the City in 2021. This was also the year that the wage scale was "reset" to the market. Since that time, the City has not kept pace with inflation, as evident in the COLA History document that I have provide. While employees have had increase along the scale by way of steps, those steps should be paid to employees who experience and knowledge on the job has made their time more valuable to the City. If the COLA does not keep the buying power a wage consistent, then increasing an employee's compensation for their increased experience and knowledge via a step is lessened.

Within the proposed budget, I am proposing a 2.8% COLA to the existing wage scale. In their Budget Guide to Cities, the League mentions that CPI from April 2023 to April 2024 has increased 2.8% in the Midwest. When I look at year-to-date data from 2024, the increase from January to July seems to be about 2.3%. It is using this information that I feel, preliminarily, that a 2.8% increase in the wage scale would be a fair adjustment to maintain the buying power of each employee's current wage in 2025.

- b. In 2024, the City Council had a full compensation study added to the Visioning document for the 2025 budget, with a 2026 implementation. I have included this in the 2025 budget, with \$20,803 being added to the General Fund and the remaining portion being added to the enterprise funds. The split is based on the overall labor costs of the City. Unlike the compensation study approved in 2021, which only looked at wages of existing job titles/descriptions of full-time employees, I would envision this study encompassing all employees, full-time and part-time. It would look at job titles and descriptions and would encompass benefits so that the City Council has a better understanding of where the City compares with non-wage/salary compensation, such as health and retirement, as it considers holistically how City employees are compensated so that it can make informed decisions when retaining existing talent and attracting new talent.

### 3) Health Insurance

- a. Are we looking to explore other plans options?

Another re-occurring conversation that has taken place over the last few years during the budget meetings is the health insurance plan that is offered to employees. For the last few years, the City has maintained a high-deductible insurance plan for employees. This plan generally includes:

- Single Deductible..... \$2,250
- Family Deductible..... \$4,500
- Single Out-of-Pocket Max.....\$2,250
- Family Out-of-Pocket Max.....\$4,500
- Single HSA Contribution..... \$500
- Family HSA Contribution..... \$1,000
- City Contribution..... 80%
- Employee Contribution..... 20%

As if writing this memo, the City will not yet have access to the renewal options for 2025 for a few weeks, though we have been told we have a 15% rate cap on our plan for 2025. This was the main driver behind the decision to not explore the market for the coming year. With the abnormally high claims in 2024, it is the professional opinion of Gallagher that exploring the market could result in much higher rates than 15% and that we would lose the 15% cap.

Robin and I have spoken with Gallegher, our insurance agent, and told them we'd like to see a range of options through Sourcewell. While the 15% rate cap is through Sourcewell, it will allow us to potentially vary the plan, or plans, we offer to employees through Sourcewell.

Is the City Council interested in seeing other plans? It is my feeling that employees like the high-deductible plans instead of co-pay plans because it allows them to save to an HSA. But the City does have the ability to offer multiple plans to employees, and that seems to be a growing trend among employers. This would allow employees the ability to pick a plan that works better for their situation. These plans generally come at a variety of rates.

b. Adjust HSA contributions?

Another discussion around health insurance involves the HSAs themselves. Since the City implemented an HSA style plan for its employees, it has contributed \$500 to employees who have single coverage and \$1,000 for employees who have family coverage. Is this amount still adequate in the Council's eyes? I would expect that during the compensation study, this is one item that will be addressed so that the City Council has a better understanding of where its peers and competitors stand.

4) CIP

a. Will we look at bonding for the equipment or levy?

The final question I feel needs to be answered as staff continues to work on the budget involves the CIP and the equipment that is scheduled to be replaced. As staff put together the 2025 budget, it also reviewed the CIP lists. Each department, after reviewing the CIP from 2024, moved items around based on the need of their department as well as considering budgetary needs. This led to the current recommendation for the 2025-2034 CIP.

The City has handled CIP spending a few different ways in the past. At times, the City has levied for all of the CIP items. At other times, it has bonded with 5 year certificates for the items. In the proposed budget, I am proposing to bond for the \$265,000 truck for the Streets Department over 5 years and to levy for the remainder for the equipment on the CIP. This does keep the levy increase for 2024 higher than it would be if all of the equipment is bonded for, but it also lowers the increase about 5%, which would be the increase to add the dump truck by itself.