



118 Central Avenue North, New Prague, MN 56071
phone: 952-758-4401 fax: 952-758-1149

MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR
SUBJECT: ITEMS TO DISCUSS AT 2026 BUDGET MEETING #2
DATE: AUGUST 21, 2025

Similar to last year, 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.

This second meeting will continue to keep some of the items on the table that are still being discussed, while also including a discussion at where to set the preliminary levy.

Items to Discuss

1) Goals of the 2026 Budget

- a. What are some of the goals that would like to be accomplished with the 2026 budget?

At the last meeting, I brought up the possibility of over-levying in 2026 to help transition to a higher levy amount in 2027 when the police station debt is realized. The Council did not have much discussion one way or the other about this. It was briefly brought up that reducing the spike or hump would be preferred, and this would be one way to do that. Increasing the levy this year by more than needed would mean that the increase year-over-year would be less next year.

It was also brought up that a goal should be to keep the levy as low as possible. While I certainly agree that the Council should be responsible and efficient with taxpayer dollars, I also caution against having a primary goal of keeping taxes as low as possible. If the number one goal is to keep the tax levy low, it may hinder future investment in the community that makes New Prague a great place to live. Maintaining City facilities and parks so that they do not fall into disrepair, protecting natural resources for the enjoyment of the community, and expanding housing and economic development all take investment. These are all items that are mentioned in the recently approved Comprehensive Plan as implementation goals to continue making New Prague an attractive place to live and relocate a business to. Without continued investment, these initiatives can become more costly in the future.

2) Wage/Salary Scale Adjustment

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

At the first Council meeting, I shared my reasoning for using a 4% Cost of Living Adjustment (COLA) as my base. I believe 4% tracks closely with inflation, which in past years the City Council has expressed a desire to peg COLAs to instead of using it has an adjustment to track what other Cities are considering adjusting. In my opinion, a COLA is used to keep the buying power of a wage generally equal to what it was the year before. With our current data, I believe a 4% COLA would accomplish that for 2026.

I also recommended a 4% COLA because I believe that with uncertainty in the Compensation Study, 4% in this early budget stage (plus some additional funds in the Contingency) would give the City flexibility in its implantation for 2026. If the City were to work with a budget that is using a lower COLA, it would lower the Preliminary, Not-to-Exceed Levy, which may in turn leave it unable to act on the Compensation Study.

As we discussed, a 1% change in the COLA amounts to roughly \$20,000 change in the tax levy, or about 0.40%.

My recommendation would be to keep the 4% COLA in the budget, at least for now. It can always be lowered later if the City Council feels 3% is a better representation of how the cost of living has changed from one year to the next, but if it is lowered now, it is much more difficult to raise later if that is the desire.

3) Equipment and Facilities Funds

- a. Does the City want to over-levy with the intent to build reserve for future spending?

During the first meeting, I brought up that there was an additional \$25,000 levied in the equipment fund beyond 2026's equipment needs. This is due to the practice the City Council has done the last few years in levying funds into the Equipment Fund with the intention of those funds helping to level out future levy spikes by accumulating funds in that account year-to-year. This is the first year there is a planned excess into that fund. I would highly caution against cutting that because it is finally accomplishing what we have talked about that fund accomplishing for three years now. That fund will now have a positive balance that can be used to offset future equipment needs when particularly expensive equipment is needed. My hope would be that this would continue into the future and the City would see a more steady levy change in the future without sacrificing other projects residents may find important.

Along those same lines, I would highly caution against removing the planned \$100,000 levy in the Government Buildings fund. As we discussed a couple years ago then this began, we know that City Hall is again and is in need of many maintenance issues. The Facility study that we had done estimates over \$1m is work could be done as the roof, HVAC, windows, and exterior all need maintenance/replacing. Admittedly, the Council has not decided if City Hall will be used long-term or if another option should be pursued. But similar to personal budgeting at home, I don't believe we should wait until bricks are falling off the building or the roof starts leaking to begin planning for the future. Setting aside funds now to use for either maintenance or new construction is the fiscally responsible thing to do, in my opinion. Once a direction is decided, those funds will then be used accordingly.

Levying funds with the intent to increase reserves to be used towards future projects in my mind is a the fiscally responsible thing to do, which is why I recommending keeping those in place.

4) Economic Development Authority

- a. As the EDA wraps up its industrial park, should the City continue levying towards the EDA at the rate it currently is?

At present, the City levies \$75,000 per year for the EDA. This was increased a few years ago from \$50,000. The EDA's two primary tenants are to grow job availability in New Prague and to increase the City's tax base. Both of these tasks likely require funding in some aspect as the EDA looks to the future.

Right now, the EDA is going through a strategic planning process to give it a more formal direction for the next few years. It is through this process that the next ventures for the EDA will materialize. I believe it is important that the EDA has funds available so that it is able to accomplish its goals. Similar to Equipment and Facilities Funds, allowing the EDA to grow its reserves so that it is able to move on future projects is imperative in my opinion. There will be years those funds aren't used. But when the time comes that they are needed, the EDA will be able to make moves to attract growth to New Prague instead of having to sit on the sidelines because it doesn't have the funds.

I understand the temptation to cut the EDAs funds to help lower the tax burden on the residents. I believe, if anything, the City Council should be looking to increase the EDAs funds so that it is able to do more work on attracting jobs and increasing future tax base. The EDA will never make money year-over-year on its projects. But that is not its intent. The EDA, in my opinion, is in place to foster future business growth, which in turn pays dividends years down the road when the tax base has grown and jobs are available for residents. In today's cut throat world of economic development, the EDA isn't in a position to attract growth, that growth will go elsewhere.

5) Preliminary, Not-to-Exceed Levy

- a. Where would the City Council like to set the preliminary, not-to-exceed levy?

In my professional opinion, the budget presented will help to advance the City. This budget pays the required debt service, it replaces needed equipment, adds an additional public works maintenance worker to help with streets and parks, and it plans for increased reserves to help offset future equipment and facility expenses.

As the Council considered its desired Preliminary, Not-to-Exceed levy, I would recommend a levy amount of \$5,735,000. This amount is 7.93% higher than the 2025 levy, and would create an average residential tax impact of a 6.63% increase to the City share of a resident's taxes. While setting this amount, keeping the levy increase at this amount would not be the intent of the City. But working to lower a levy significantly prior to the Preliminary, Not-to-Exceed deadline may only hamstring the City if something arises that is needed over the find four months of the year.