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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 7, 2025

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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.

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.

### 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?

A conversation that should take place every year is the goals the City Council has for the upcoming budget, which generally fit into a much larger direction the City Council has been pursuing. The City has used the Visioning Document as a guide each year for projects to get done, but outside of specific projects, does the City Council have any goals?

One item to consider is the pending increase in the 2027 budget for the police station debt. While the exact number will not be known until the debt is sold and the 2027 budget formulated, it is known that there will most likely be an increase. Does the City Council want to do a partial increase in 2026 to offset the increase in 2027? If so, I would recommend taking that increase and applying it to the police station debt service, which would lower future levy increases, if even marginally, while also transitioning the City.

Of note, following last year's discovery that some of the debt service funds had a higher balance than anticipated, Robin Pikal and I have been working through existing debt funds to see if there are efficiencies that would allow for adjusted levy rates. Previously, this work had been done by our former financial consultants. While findings are not yet ready to bring forward, our hope is that we are able to further reduce debt levy needs so that the police station debt is better able to be absorbed in 2027. Due to the complexity of debt service funds and their revenue sources, I may be coming back to you in the near future to request working with Ehler's to re-evaluate all of the City's debt to come up with a new plan for how to efficiently levy for

existing debt so as not to over-levy while also ensuring there are adequate funds to cover payment requirements.

2) Wage/Salary Scale Adjustment

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

Since 2021, the City has been working with the most recently approved comprehensive study. This study placed all full-time employees in 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 2025 payscale for the proposed 2026 payscale. I have done this for a couple reasons:

- 1) As I look to recommend a COLA, I am trying to track with inflation differences from January 2025 to January 2026. According to US Bureau of Labor Statistics data (current through June 2026), the CPI has raised nationally about 2.10% and about 2.30% regionally through the first half of the year. If the rates of inflation would remain the same for the second half of the year, that would put inflation at about 4.20% nationally and 4.60% regionally. Of note, January and June saw the highest month-to-month inflation jumps. With inflation uncertainty for the remainder of the year, plus the City predicting under what happened to be final inflation numbers in 2025 (3.00% and 3.40%, respectively), I feel 4.00% is a solid estimate if using the CPI as a guide.

I have also included Social Security data, which is adjusted annually by the Social Security Administration. As of January 2025, the estimate for COLA for 2026 was 2.1%. I have read a number of sources that have moved that estimate to around 2.6% recently as inflation numbers have ticked up this summer.

As I have the last couple years, 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 similar to regional inflation and social security growth. The City has been slightly behind national inflation data. This is as of 2025. Since the last compensation study in 2021, the City has tracked behind all three indicators. This I believe is a more relevant data set since, theoretically, the last compensation study would have reset wages where they belonged according to the market and the region. In the four years since, the City has lagged behind social security, national inflation, and regional inflation.

- 2) The second reason for the 4% being included in the proposed budget, along with additional funding currently being placed in the contingency fund, is that the City is currently having a compensation study conducted and I am not sure where it will land or how the Council will want to use the data. As you know, the City has to set a preliminary, not-to-exceed levy in late September. Once this is set, the City is able to lower its levy, but is unable to raise it. Because of this, and to leave the City Council flexibility, I have included both a 4% adjustment for the wage/salary scale as well as additional funding in the contingency line that can be adjusted as needed. The consultant is predicting the wage/salary study to conclude in the fall so that the City Council can future decisions at that point.

### 3) Insurance Benefits

#### a. Basic Life Insurance, Short-term Disability, and Long-term Disability

As part of the City's overall benefit package, it provides basic life insurance for its employees as well as short-term disability insurance. These benefits are provided at no cost to the employee. The City also provides optional long-term disability insurance to employees for those who wish. Long-term disability insurance is covered 100% by the employee.

The current contract for basic life and short-term disability contract is expiring, and Gallagher has collected bids from various providers. The current plan through Hartford is \$3,095 and \$11,332 annually for basic life insurance and short-term disability. Hartford also covers the City's employees who opt for long-term disability insurance, to a cost of \$7,311 annually. Below is a cost comparison of quoted rates for these three coverages:

	Current	MetLife	Mutual of Omaha	The Standard	Guardian	State of Minnesota
Life	\$3,095	\$4,507	\$3,095	\$2,545	\$3,095	-
STD	\$11,332	\$5,880	\$6,317	\$3,742	\$10,156	-
PFML	-	\$41,071	\$43,546	\$61,904	-	\$43,546
LTD	\$7,311	\$5,341	\$7,401	\$7,140	\$4,345	-
Total (City)	\$14,427	\$51,458	\$52,958	\$68,191	\$13,251	\$43,546

Additionally in 2026, the State requires all employers and employees to pay into a Paid Family Medical Leave pool to be accessed by employees when medical leave is necessary. Unlike short-term disability, which has a 14-day waiting period, this will pay out immediately. The required rate quoted by the State for New Prague in 2026 would be \$43,456.16, with employers able to have employees pay up to half of that cost. We were also able to receive quotes from the private sector to cover this requirement from a few of the providers who responded to our other bids.

With all this considered, I am recommending a benefits provider change for Basic Life Insurance, Short-term Disability, and Long-term Disability to MetLife. I also recommend that the City utilizes MetLife to provide the mandatory PFML to employees. A combination of savings from the Basic Life, Short-term Disability, and PFML and being able to utilize a single carrier makes MetLife very competitive with the other offerings.

#### b. Accident, Hospital, and Critical Illness Insurance

As an employer, the City can offer voluntary insurances to employees that are completely employee paid but provide benefits to the employees. There are several carriers that provide these benefits and Gallagher has provided staff with quotes for accident insurance, hospital insurance, and critical illness insurance.

As a short description, accident insurance pays out if an employee has an accident, such as a broken arm. Hospital insurance will pay out if an employee is hospitalized, such as a serious case of pneumonia. Critical illness will pay out in the event of a major illness, such as contracting cancer. Some of the carriers provide for a wellness benefit payout every year, which drastically reduces the cost to employees to carry these insurances if they are utilized.

Without going into the weeds on each of these plans, looking through them, Hartford provides each of them for the lowest rate or near lowest rate, and is consistently the only carrier that does not require minimum levels of participation. They do this while being very competitive with their offerings. Because of this, I would recommend contracting Hartford in 2026 to provide voluntary accident, hospital, and critical illness insurance.

4) CIP

- a. Will the City look at bonding for the equipment or levy?
- b. Will the City continue to levy \$1m between the debt service funds and the equipment fund?

The final questions I feel need to be answered as staff continues to work on the budget involve the CIP and the equipment that is scheduled to be replaced. As staff put together the 2026 budget, it also reviewed the CIP lists. Each department, after reviewing the CIP from 2025, moved items around based on the need of their department as well as considering budgetary needs. This led to the current recommendation for the 2026-2035 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 levy for all the equipment.

In relation to that, since I have been here, the City has levied into an Equipment Fund the difference of \$1,000,000 and the debt levy for the given year. The purpose of this fund is to one day create 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. 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.