



CITY COUNCIL AGENDA REPORT

TO: Kate Thunstrom, City Administrator
FROM: Darcy Mulvihill, Finance
SUBJECT: 2026 Levy and Water/Sewer Rates
DATE: 07-28-2025

OVERVIEW:

City staff have been working on the 2026 budget for several months. This includes the 2026 tax levy and water and sewer rates. The preliminary tax levy needs to be set and sent to the county by September 30th. The levy then can not be increased except for extenuating circumstances when the final levy is set in December. The water and sewer rates will be included in the fee schedule changes which should occur in November at the regular city council meetings.

Tax Levy

The tax levy history from 2017 to Proposed 2026 is as follows:

Property Tax Levy by Purpose										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 Proposed
General Levy										
General Operating (101)	\$ 2,980,053	\$ 2,777,051	\$ 3,015,000	\$ 3,136,000	\$ 3,130,000	\$ 3,271,000	\$ 3,250,000	\$ 3,230,000	\$ 3,900,000	\$ 4,300,000
Tax Abatement (Vista Prairie)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000
Capital Equipment (402)	\$ 223,150	\$ 223,150	\$ 230,000	\$ 240,000	\$ 250,000	\$ 260,000	\$ 280,000	\$ 320,000	\$ 360,000	\$ 410,000
Parks (226)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 200,000	\$ 250,000
Building Improvement(404)	\$ -	\$ 60,000	\$ 60,000	\$ 60,000	\$ 246,000	\$ 470,000	\$ 870,000	\$ 50,000	\$ 25,000	\$ 50,000
Stormwater (603)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,000
Street Improvement (405)	\$ -	\$ 60,000	\$ 120,000	\$ 180,000	\$ 240,000	\$ 300,000	\$ 360,000	\$ 480,000	\$ 600,000	\$ 720,000
Total General Levy	\$ 3,203,203	\$ 3,120,201	\$ 3,425,000	\$ 3,616,000	\$ 3,866,000	\$ 4,301,000	\$ 4,760,000	\$ 4,430,000	\$ 5,085,000	\$ 6,080,000
Debt Service Levies										
2013 Refunding (311)	\$ 20,900	\$ 20,900	\$ 20,900	\$ 20,900	\$ 20,900	\$ 20,900	\$ -	\$ -	\$ -	\$ -
2015 GO (327)	\$ 20,470	\$ 20,470	\$ 20,470	\$ 20,470	\$ 20,470	\$ 20,470	\$ 20,470	\$ 20,470	\$ -	\$ -
2017 Capital Improvement (#330)	\$ -	\$ 327,220	\$ 327,220	\$ 327,220	\$ 327,220	\$ 327,220	\$ 327,220	\$ 327,220	\$ 310,000	\$ 310,000
2023 Capital Improvement (#335)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 820,505	\$ 790,000	\$ 790,000
Total Debt Service Levies	\$ 41,370	\$ 368,590	\$ 368,590	\$ 368,590	\$ 368,590	\$ 368,590	\$ 347,690	\$ 1,168,195	\$ 1,100,000	\$ 1,100,000
Total Levy	\$ 3,244,573	\$ 3,488,791	\$ 3,793,590	\$ 3,984,590	\$ 4,234,590	\$ 4,669,590	\$ 5,107,690	\$ 5,598,195	\$ 6,185,000	\$ 7,180,000
Tax Levy Increase	\$ -	\$ 244,218	\$ 304,799	\$ 191,000	\$ 441,000	\$ 435,000	\$ 438,100	\$ 490,505	\$ 586,805	\$ 995,000
% increase		7.53%	9.39%	5.47%	11.62%	10.27%	9.38%	9.60%	10.48%	16.09%
Net Tax Levy, Net Tax Capacity and City Property Tax Rate										
	2017	2018	2019	2020	2021	2022	2023	2024	2025 Proposed	2026 Proposed
Total Levy	\$ 3,244,573	\$ 3,488,791	\$ 3,793,590	\$ 3,984,590	\$ 4,234,590	\$ 4,669,590	\$ 5,107,690	\$ 5,598,195	\$ 6,185,000	\$ 7,180,000
Less Fiscal Disparities	\$ 854,681	\$ 823,625	\$ 883,676	\$ 938,646	\$ 936,853	\$ 993,475	\$ 967,230	\$ 847,511	\$ 1,097,015	\$ 1,100,000
Spreadable Levy	\$ 2,389,892	\$ 2,665,166	\$ 2,909,914	\$ 3,045,944	\$ 3,297,737	\$ 3,676,115	\$ 4,140,460	\$ 4,750,684	\$ 5,087,985	\$ 6,080,000
Tax Capacity	\$ 4,673,608	\$ 5,202,315	\$ 5,753,848	\$ 6,326,443	\$ 6,824,801	\$ 7,519,595	\$ 9,577,860	\$ 9,862,410	\$ 9,828,072	\$ 9,886,767
Changes to Tax Capacity										
TIF	\$ -	\$ -	\$ -	\$ 2,032.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions To	\$ 263,268	\$ 276,717	\$ 291,792	\$ 307,139	\$ 315,965	\$ 343,146	\$ 331,771	\$ 387,112	\$ 403,311	\$ 403,311
Joint value (Addition)	\$ 5,866	\$ 10,260	\$ 10,226	\$ 9,184	\$ 9,804	\$ 10,975	\$ 12,953	\$ 13,878	\$ 15,081	\$ 13,878
Net Tax Capacity	\$ 4,416,206	\$ 4,935,858	\$ 5,472,282	\$ 6,026,456	\$ 6,518,640	\$ 7,187,424	\$ 9,259,042	\$ 9,489,176	\$ 9,439,842	\$ 9,477,334
Tax Rate	54.116%	53.996%	53.176%	50.543%	50.589%	51.146%	44.718%	50.064%	53.899%	64.153%

The levy the council sets each year has two components. They are the general levy and the debt service levies. The general levy includes the general operating (General Fund), Capital Equipment, Parks, Buildings, Street, Tax Abatement-Vista Prairie (new) and Storm Water (new). This portion of the levy is subject to levy limits if the state would impose those on us again. For 2026, there are no levy limits placed on the city.

The council gave staff direction at the April 28th, 2025 work session to move the stormwater from a fee-based amount to a levied amount. This adds \$300,000 to the levy for 2026, but on the other hand, the taxpayers will not receive an individual bill for storm water fees moving forward. The amount on each parcel will vary based on the value of the property.

Another new levy amount in the general levy is the Tax Abatement-Vista Prairie. Starting in 2026, Vista Prairie will receive a refund of their 2026 city property taxes as the city approved a tax abatement for them. This first year is lower as the building is not complete so the value will increase upon completion of the building which means the abatement amount will go up in 2027. This abatement was approved at the February 5th, 2024 council meeting. The max abatement is \$200,000/year or \$1,975,000 over the 10 years.

The city did lower the General Operating levy for 2023 and 2024 years by using ARPA funds to cover some of police salaries. These funds are now gone so this amount was put on the levy again in 2025. The amount in 2023 was \$275,000 and for 2024 it was \$425,000.

Please also note that the county has yet to send the fiscal disparities amounts, tax capacity amounts and the joint value amounts so those are all estimates in the calculation of the tax rate.

The remaining portions of the levy are allocated to capital improvement funds. Those are Capital Equipment, Building, Streets and Parks funds. These funds and corresponding levies were reviewed with the CIP at the July 21st council meeting/public hearing. Each one of these levy amounts goes into the fund for the projects listed in the CIP.

The 2026 Proposed General Fund budget with 2025 budget comparison is on the next page.

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance For Budget Year 2026

	2024	2025	2026
	Actual	Budget	Budget
Revenues			
Property Taxes	\$3,300,517	\$3,891,400	\$4,421,400
Franchise Fees	27,500	27,700	27,700
Licenses and permits	379,632	236,100	244,950
Intergovernmental	1,381,693	832,200	841,090
Charges for services	489,404	419,300	470,100
Fines and forfeits	38,850	33,300	33,000
Interest	92,990	50,000	50,000
Miscellaneous	250,200	196,000	195,000
Total revenues	5,960,786	5,686,000	6,283,240
Expenditures			
General Government	1,160,881	1,175,500	1,354,790
Public Safety	2,908,346	2,967,000	3,166,400
Public Works	653,485	688,000	738,900
Culture and Recreation	376,582	407,700	458,100
Community Development	504,721	502,800	583,840
Miscellaneous	-	10,000	51,210
Total expenditures	5,604,015	5,751,000	6,353,240
Excess (deficit) of revenues over expenditures	356,771	(65,000)	(70,000)
Other financing sources (uses):			
Transfers in			
Liquor	65,000	65,000	70,000
Total other financing sources (uses)	65,000	65,000	70,000
Net change in fund balance	421,771	-	-
Fund balance - January 1	3,496,151	3,917,922	3,917,922
Fund balance - December 31	<u>\$3,917,922</u>	<u>\$3,917,922</u>	<u>\$3,917,922</u>
Fund balance/expenditures	69.9%	68.1%	61.7%

Here are the expenditure budgets broken down by department:

Expenditures

		2025 Budget	2026 Proposed Budget
General Government			
41110	CITY COUNCIL CHARTER	41,700.00	47,990.00
41120	COMMISSION	100.00	0.00
41400	ADMINISTRATION	547,000.00	631,300.00
41410	ELECTIONS	2,300.00	26,500.00
41500	FINANCE	268,100.00	299,700.00
41540	AUDITING & ACCOUNTING	25,000.00	28,000.00
41550	ASSESSING	37,000.00	38,000.00
41600	LEGAL	155,800.00	165,800.00
41940	BUILDINGS	98,500.00	117,500.00
Total General Government		1,175,500.00	1,354,790.00
Public Safety			
42110	POLICE	2,369,800.00	2,512,700.00
42210	FIRE	596,200.00	653,700.00
42700	ANIMAL CONTROL	1,000.00	0.00
Total Public Safety		2,967,000.00	3,166,400.00
Public Works			
43100	STREETS	610,400.00	654,700.00
43210	RECYCLING	77,600.00	84,200.00
Total Public Works		688,000.00	738,900.00
Culture and Recreation			
45000	COMMUNITY CENTER	0.00	8,500.00
45200	PARKS	392,400.00	424,300.00
45230	PIONEER DAYS	15,300.00	25,300.00
Total Culture and Recreation		407,700.00	458,100.00
Community Development			
41910	COMMUNITY DEVELOPMENT BUILDING	333,300.00	398,340.00
42400	INSPECTIONS	169,500.00	185,500.00
Total Community Development		502,800.00	583,840.00
Miscellaneous			
49200	UNALLOCATED	10,000.00	51,210.00
Total Miscellaneous		10,000.00	51,210.00
Total General Fund		5,751,000.00	6,353,240.00

The General Fund is proposed to be \$6,353,240 for revenues and expenditures making this a balanced budget. This is an increase of \$602,240 over 2025 expenditures/revenues. This is an increase of 10% over the total expenditures for 2025. Some of the changes in the expenditure budget are as follows:

- Personnel costs-\$345,590. This includes salaries, overtime, insurance, social security, medicare, PERA. The city employs 39 full-time employees of which 31 are paid for mostly by the General fund. There was a compensation study done in 2024 which adjusted salaries to current market rates. This plan is being followed for employee rates going forward. The city also has three unions. The police officer's union which was negotiated for 2025 to 2027. The police sergeant's union which was also negotiated for 2025-2027. The last union, public works, is in the process of being negotiated now for 2026-2028. Estimates have been used for those employees.
- Tax abatement for Vista Prairie-\$50,000 on the revenue/expenditure side.
- Elections-\$26,500. 2026 will be an election year again so this affects the expenditures every other year.
- The remaining amount is increased costs, which are about 3% over last year.

Debt Service Levies

The debt service levies are set up by the bond documents when sold. The city can adjust these levies if they want based on the cash flow needs of the fund. The city has two debt service levies on record right now. The 2017 Capital Improvement bond which is proposed at \$310,000. This is for the payments on the Police/Public Works Building and then the 2023 Capital Improvement Bonds of \$790,000. This pays the debt service on the City Hall/Fire Station. The 2017 Bonds are paid off in 2035 while the 2023 Bonds are extended out to 2048. All other debt that the city has is covered by the Water and Sewer funds and don't have a levy attached to them, rather they are paid by revenues collected by the water and sewer funds.

Water/Sewer Rates

Water and Sewer Rates were last adjusted at the beginning of 2024. After reviewing the sales and estimated costs including capital improvements for the funds, rates need to be increased again for 2026 and 2027. City staff have tried to incorporate costs to keep the two plants up to date along with any water/sewer infrastructure needed in the city. The proposed rate increases are as follows:

		Utility Rates-2026			Utility Rates-2027		
		Water Base Change	25.0%			15%	
		Water Usage Change	25.0%			15%	
		Sewer Base Change	5.0%			20%	
		Sewer Usage Change	5.0%			20%	
		WAC Change	0%			0%	
		SAC Change	0%			0%	
Rates	Current	2026 Proposed			2027 Proposed		
Monthly base fee	\$ 16.04		\$ 20.05			\$ 23.06	
Water usage per 1,000 gallons / equivalent connection:							
Tier 1: 0-14,999 gallons	\$ 4.97		\$ 6.21			\$ 7.14	
Tier 2: 15,000-29,999 gallons	\$ 5.21		\$ 6.51			\$ 7.49	
Tier 3: 30,000-44,999 gallons	\$ 6.10		\$ 7.63			\$ 8.77	
Tier 4: >45,000 gallons	\$ 7.18		\$ 8.98			\$ 10.33	
Sanitary Sewer Service Rates							
Monthly base fee	\$ 21.66		\$ 22.74			\$ 27.29	
Charge per 1,000 gal used/equivalent connection	\$ 8.49		\$ 8.91			\$ 10.69	
Water Test Fee (Set by State)	\$ 0.81		\$ 0.81			\$ 0.81	
Bill Summary		Monthly Billing					
	Current	2026 Proposed			2027 Proposed		
1000	\$ 51.97	1000	\$ 58.72	13%		\$ 68.99	17%
2000	\$ 65.43	2000	\$ 73.84	13%		\$ 86.82	18%
3000	\$ 78.89	3000	\$ 88.96	13%		\$ 104.65	18%
4000	\$ 92.35	4000	\$ 104.08	13%		\$ 122.48	18%
5000	\$ 105.81	5000	\$ 119.20	13%		\$ 140.31	18%
6000	\$ 119.27	6000	\$ 134.32	13%		\$ 158.14	18%

The proposed water rates including the base rate would be increased 25% in 2026 and 15% in 2027. Proposed sewer rates would increase 5% in 2026 and 20% in 2027. The bottom section shows what these rates will do to the overall bill based on the usage from 1,000 gallons to 6,000 gallons. The overall 2026 bills will go up 13% while the 2027 bills will go up 18%.

The following page shows the cash balance for the two funds compared to the recommended balances to make sure the funds cash flow the expenses, debt and capital improvements.



Water Cash Flow		2025	2026	2027	2028	2029	2030
		Budget	Estimated	Estimated	Estimated	Estimated	Estimated
Revenues		\$ 1,614,600.00	\$ 1,910,600.00	\$ 2,395,359.32	\$ 2,514,449.82	\$ 2,589,883.31	\$ 2,667,579.81
Expense		\$ (1,211,800.00)	\$ (1,245,700.00)	\$ (1,266,524.00)	\$ (1,287,857.78)	\$ (1,309,714.33)	\$ (1,302,107.00)
Other Income/Expenses		\$ (79,344.00)	\$ (33,542.59)	\$ (21,785.28)	\$ (99,469.63)	\$ (95,804.38)	\$ (99,361.50)
Net Income		\$ 323,456.00	\$ 631,357.41	\$ 1,107,050.04	\$ 1,127,122.41	\$ 1,184,364.60	\$ 1,266,111.31
Check		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Balance		\$ 2,254,747.34	\$ 2,070,554.75	\$ 2,385,241.79	\$ 2,238,714.20	\$ 3,022,692.80	\$ 4,235,196.11
Recommended Cash Balance		\$ 1,726,172.59	\$ 1,689,515.88	\$ 2,257,020.74	\$ 1,388,834.11	\$ 1,007,570.30	\$ 1,458,792.79
Water Fund Cash		2025	2026	2027	2028	2029	2030
Next Year Debt		\$ 877,892.59	\$ 875,343.28	\$ 476,877.63	\$ 385,962.38	\$ 335,719.50	\$ 615,273.00
Next Year Expense		\$ 498,280.00	\$ 506,609.60	\$ 515,143.11	\$ 523,885.73	\$ 520,842.80	\$ 530,019.79
Next Year Capital		\$ 350,000.00	\$ 307,563.00	\$ 1,265,000.00	\$ 478,986.00	\$ 151,008.00	\$ 313,500.00
Total		\$ 1,726,172.59	\$ 1,689,515.88	\$ 2,257,020.74	\$ 1,388,834.11	\$ 1,007,570.30	\$ 1,458,792.79
Sewer Cash Flow		2025	2026	2027	2028	2029	2030
		Budget	Estimated	Estimated	Estimated	Estimated	Estimated
Revenues		\$ 1,935,000.00	\$ 2,119,000.00	\$ 2,639,334.76	\$ 3,163,426.00	\$ 3,258,328.78	\$ 3,356,078.64
Expense		\$ (1,949,300.00)	\$ (2,008,300.00)	\$ (2,034,576.00)	\$ (2,061,470.82)	\$ (2,088,999.64)	\$ (2,117,178.01)
Other Income/Expenses		\$ (291,653.50)	\$ (200,788.00)	\$ (186,807.50)	\$ (272,431.00)	\$ (259,208.75)	\$ (253,148.50)
Net Income		\$ (305,953.50)	\$ (90,088.00)	\$ 417,951.26	\$ 829,524.18	\$ 910,120.39	\$ 985,752.13
Check		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Balance		\$ 3,536,346.77	\$ 3,352,808.77	\$ 3,530,306.03	\$ 3,827,480.21	\$ 3,807,375.60	\$ 4,775,780.74
Recommended Cash Balance		\$ 1,931,137.25	\$ 2,074,713.90	\$ 2,462,991.33	\$ 2,858,655.60	\$ 1,945,988.70	\$ 2,732,088.26
Sewer Fund Cash		2025	2026	2027	2028	2029	2030
Next Year Debt		\$ 992,817.25	\$ 997,629.50	\$ 1,407,403.00	\$ 1,317,430.75	\$ 1,336,170.50	\$ 1,602,474.50
Next Year Expense		\$ 803,320.00	\$ 813,830.40	\$ 824,588.33	\$ 835,599.85	\$ 846,871.20	\$ 858,408.76
Next Year Capital		\$ 135,000.00	\$ 263,254.00	\$ 231,000.00	\$ 705,625.00	\$ (237,053.00)	\$ 271,205.00
Total		\$ 1,931,137.25	\$ 2,074,713.90	\$ 2,462,991.33	\$ 2,858,655.60	\$ 1,945,988.70	\$ 2,732,088.26

For comparison, if the rates are not adjusted at all the cash balances would fall below recommended levels as the graphs show here:



ACTION TO BE CONSIDERED:

Direction from Council on setting the 2026 Preliminary levy. This amount would be approved in September to be certified to the county and generate the proposed tax notices (truth in taxation) that property owners receive in November.

Direction from Council on including the two-step rate increase on the fee schedule changes coming up in November.