

**TO:** Mayor and City Council  
**FROM:** Kate Thunstrom, City Administrator  
Darcy Mulvihill, Finance Director  
**SUBJECT:** Early Budget Discussion  
**DATE:** April 20, 2026

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**OVERVIEW:**

As it is too early to set figures, through this discussion we look to set goals for 2027. Attached are several sheets of budget data for fiscal year 2025 and 2026. It is too early to place figures in the 2027 budget due to there being limited data available, as identified in the process outlined below. Staff are providing these pages to be used to review the overall understanding of the operational budget and work to set goals for the upcoming process.

**Budget Process:**

- May/June – staff review department budgets against past two years for next years projections and projects.
- June – staff identify changes from State legislation
- July – council reviews and approves Capital Improvement Plan
- August – Anoka County provides financials and State numbers are finalized.
- September – council sets maximum levy
- December – council sets levy and budget.

Items discussed tonight on the budget impact the levy, however, this discussion does not include the CIP. This discussion also does not include enterprise funds as they do not impact the levy.

**Where 2025 ended**

The General Fund for 2025 is ending at approximately a negative \$213,000. Take note – this may still change as the final audit report is not completed. Several reasons for this include:

- Building permit revenue is down from previous years.
- Crossing calendar years – Vista Prairie paid for their permit in 2024. However, we paid out for inspections in 2025 as the project progressed. That was approximately \$135,000

- The City did a mid-year \$40,000 contract with LGN to lobby the State Legislature
- Fire Department overran their budget by \$136,085.32.

As 2024 ended the year with a positive budget of \$421,771 those funds are then used to offset the negative amount in 2025.

This is why budgets proposed for the annual operating year include inflationary rates. Even with inflation considerations, numbers fluctuate and are influenced by other policy decisions, such as the cost of fuel, cost of materials, tariffs, etc. in addition to dependency on permit revenue and state allocations. Staff monitor these changes throughout the year and adjust.

One example of an item being monitored is the amount set aside for fuel that may fall short under what is proposed. Based on the 2025 fuel amounts purchased along with the increased fuel costs in 2026, the City could see an estimated \$15,000 increase in fuel cost over last year. Like our residents, the city fuel budget will be directly impacted with that higher expense.

### **A look at 2026**

Attached are sheets that break apart the city budget by department and compare the 2025 final costs to the proposed budget amounts for 2026.

#### **Points to keep in mind:**

- This is one city budget with various billing codes. Breaking it down with department codes allows us to understand what each area costs and the expenses tied to it. Departments do not have a separate budget - it is one budget, one account – different codes.
- 2025 items had “proposed” budgeted amounts in December 2024 like what you will see for 2026. The numbers reflected on the attached sheets are the actual costs at the end of the fiscal year.
- 2026 is a “proposed” number. These numbers are set by staff based on knowledge we have of when creating the budget, accounting for known changes and reviewing past year’s expenses.
- Fire has changed from a department with individual codes in 2025 to a contract in 2026. The contract also includes what was being set aside in the city CIP. This is now one total, not two.
- If a single account code or department was to run over what it projected, it would be covered by the overall budget. This is one budget broken down by account codes for the various departments or duties for tracking.

**The attached sheets identify the following to help Council understand how the budget is broken down within each department through codes. The information is as follows:**

1. Department/Fund.
2. Expense Categories.
  - a. Expenses have been categorized and explained so they are clear in their purpose.
    - i. Salaries and Personnel. These are set by the wage scale, insurance costs, training requirements, etc. These are the costs of having staff
    - ii. Contracts. Each department has different contract needs. For example, Community Development contracts include planning while Public works have a contract for gravel. These are the day-to-day contracts we use for third party services.
    - iii. Automobile Expenses. This is the cost to run city vehicles for fuel, maintenance, outfitting, etc.
    - iv. Facility Costs. This is the city cost of space. City facility costs include the utilities, network needs, etc. Each department shows a contribution.
    - v. Supplies. These are day-to-day supplies including copy paper, copier toner, etc. Each department contributes.
    - vi. Operations. These costs are related to legal notices, the city newsletter and postage.
    - vii. Department Specific. This is area that not all departments will share. These costs can range from unique items like medical supplies to sidewalk repair.
    - viii. Miscellaneous. These are items that do not fall within one of the above anticipated and projected costs for that department. If a department has a one-time cost, or a cost that is unique, it would be coded in this area. Not all departments have exactly the same line-item codes.

**Understanding Vista Prairie and the levy impact:**

At meetings, there is a continued misunderstanding about how the tax abatement for Vista Prairie is paid and affecting the levy.

1. Residents do not pay the abatement taxes for the facility.
2. The City increases its levy to ensure we are collecting the full amount of tax that Vista is abating.
3. Then Vista pays their property taxes in full
4. The city then refunds the portion of city paid taxes back to Vista
5. The rebate amount is based on the actual city taxes paid

If the City did nothing to account for the abatement in its budget and levy, the City's general fund would effectively be short the amount refunded. The City adjusts its levy so it collects the total amount needed to make the refund payment.

As we are not generating taxes into the City to help pay for services (police/fire/roads), residents are not paying for Vista's tax abatement dollars that are refunded to them. For 2027, the City must increase the levy to account for the refund payment we will make to Vista Prairie, or we will end up subsidizing the abatement.

### **Early Year Assumptions**

Again, we are early in the discussions for 2027. What staff is watching.

- Anoka County and AC cities are currently ranging from 5-10% in 2027 preliminary increase estimates.
- 2027 operating costs will be waiting for updates related to insurance, software costs, print costs, inflation on fuels and supplies, etc.
- Legislation and financial implications of new or updated laws, including LGA
- Federal impacts on fuel, operating supplies and equipment.

### **COUNCIL DISCUSSION FOR TONIGHT:**

1. Is there something council would like to consider changing for 2027?
2. What COLA will be set for 2027 non-union employees?
3. Is there a levy % that Council would like to set as a maximum goal?
4. Other goals or comments that staff should consider when preparing the 2027 budget?

Attachments:

- 2025 Final – 2026 Projected Budget Data sheets