

2017 Preliminary Budget Pressures

City Council Study Session

June 14, 2016

2017 Budget Process

Meeting Dates	Discussion Topics
June 14	Financial Management Plan Review Budget Pressures
August 8	Council Gives Direction to Staff to Prepare Maximum Tax Levy
September 6	Council Adopts Maximum Tax Levy
October 20	Virtual Open House Video Release
October 25	Department Budget Presentations at Worksession
November 15	Council Worksessions on the Budget: General Fund & Other Property Tax Supported Funds
November 29	Capital Projects, CIP, & Enterprise Funds
December 6	Council Adopts Tax Levies and Budget

Agenda

Property tax preliminary projections

Financial Plan Funding Levels as planned
Service Level Pressures or Changes

Council Policy direction for 2017 Budget Preparation

Financial Management Plan

Sound budgeting practices and multi-year financial planning

No changes to the plan proposed

Financial Condition of the City

AAA Bond rating – strong financial management mentioned as a plus

Sound budgeting practices and multi-year financial planning

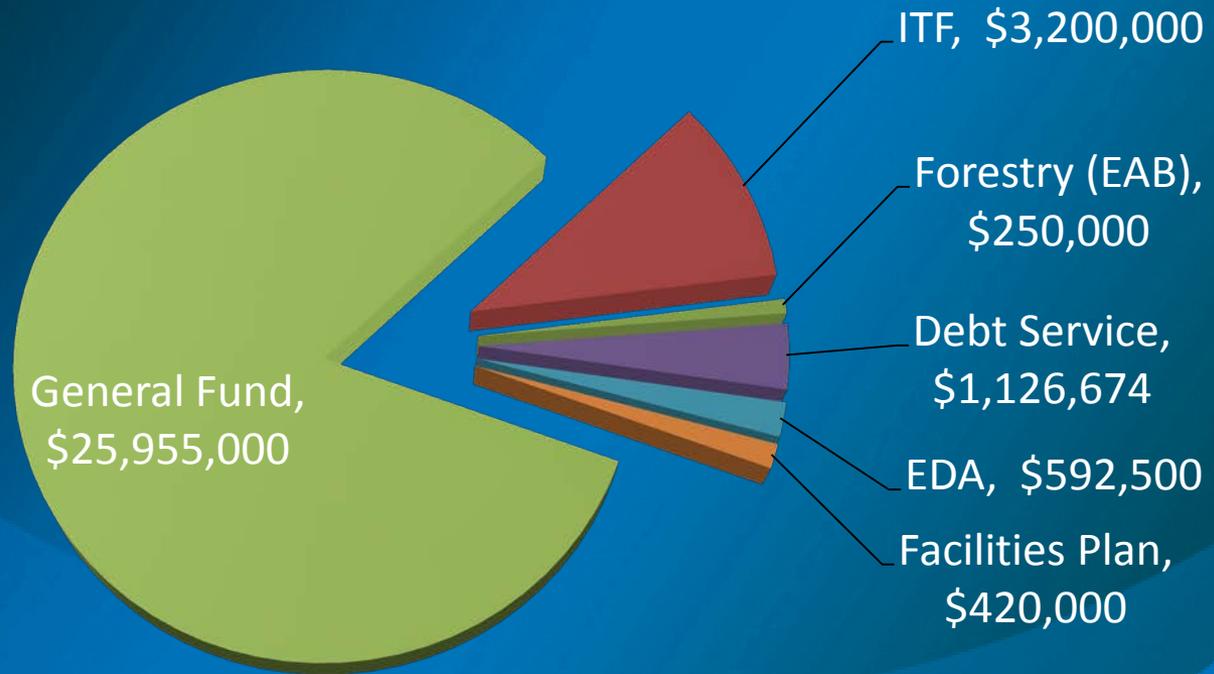
Stable fund balance and cash position

Property tax funds

- General Fund
- Parks Capital
- IT Capital
- Equipment & Vehicles
- EDA
- Forestry EAB
- Facilities Plan
- ITF

2016 Adopted Tax Levy

\$31.5 M



City's tax levy does not increase unless the Council acts to certify an increase

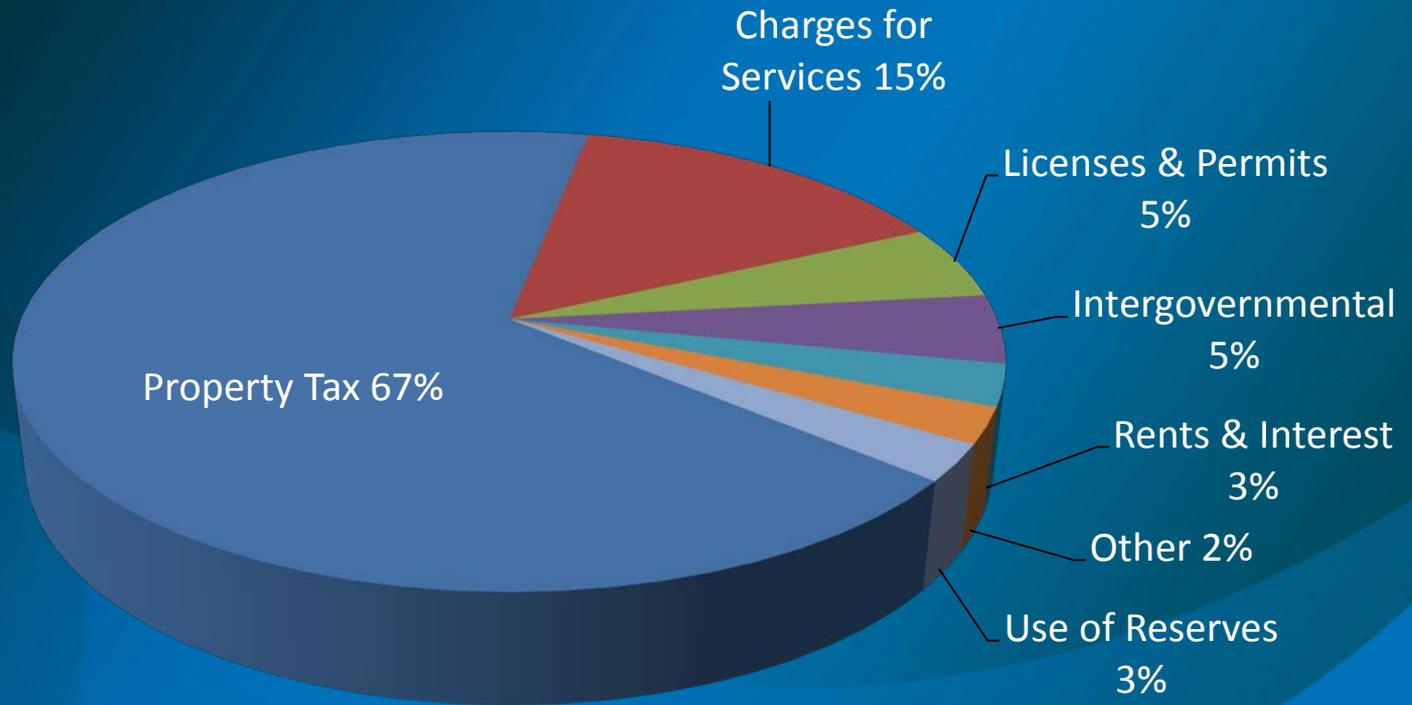
Impact of Legislative Session & Other Governmental Action on City's Budget

No levy limits at this time

Final impacts of minimum wage

General Fund Source of Funds \$38.8 million

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Revenues & Fees

Criteria for Adjusting Fees

Market comparison

Fees set at upper quartile of the market

Maximum set by external source

Fees set by legislation or International Building Code

Entrepreneurial approach

Fees set at the top of the market

Recover the cost of service

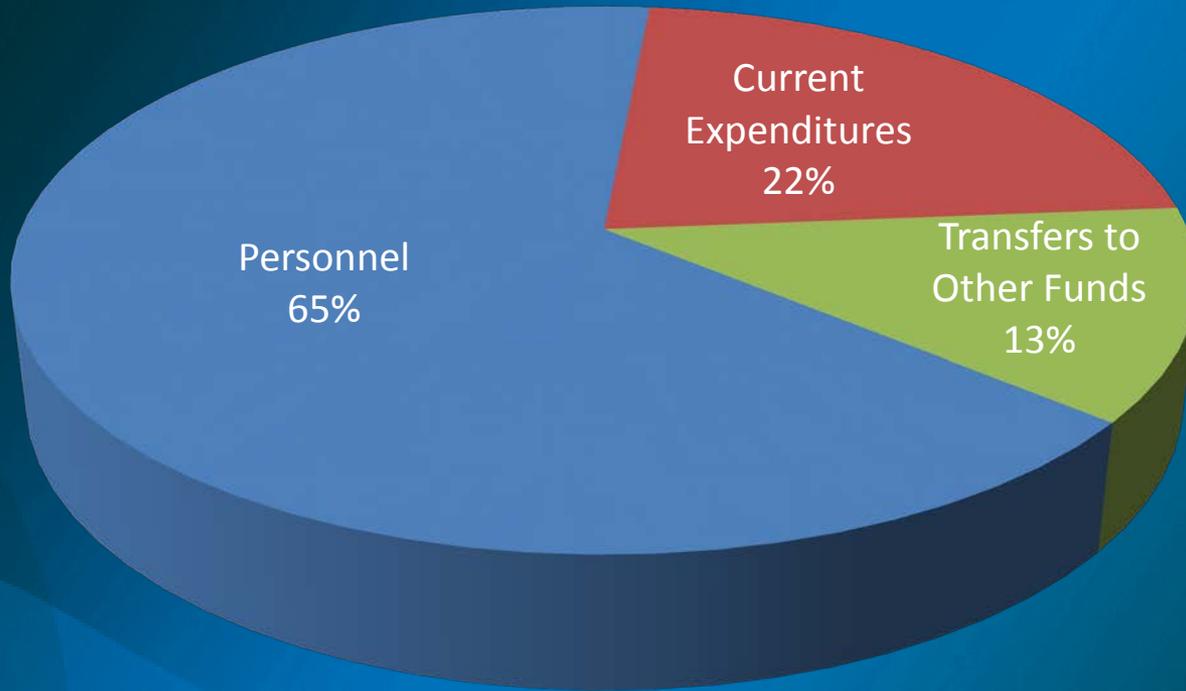
Fees for the programs will be self-supporting where possible

Utility fees

Fees based on annual rate study

General Fund Use of Funds - \$38.8 million

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Current expense includes contractual services/professional services, materials and supplies.

Preliminary Budget Projections: Property Tax Levy

Current projections indicate a 3.7% increase

First estimate - approximately \$1,198,000

- Current service levels - \$853,000 (2.7%)
- Adopted plans - \$336,000 (1.0%)

This is down from the preliminary projection of 5.7% made during the prior budget process

What are the Cost Pressures?

<u>Fund Current Level of Services:</u>		
Employee services (wages and benefits)	\$ 708,000	2.2%
Health Insurance Increase	130,000	0.4%
Minimum Wage	25,000	0.1%
Current expenditures	200,000	0.8%
Transfer for PAC Debt/Ops	40,000	0.1%
Net increase in non-tax revenues & decrease in use of reserves	<u>(250,000)</u>	<u>-0.8%</u>
Total Current Services	853,000	2.7%
<u>Funding for Adopted Plans:</u>		
Debt levy	-	-
Parks Capital Fund (Restoration)	100,000	0.3%
Equip/Veh/Facilities & IT Capital Funds	98,000	0.3%
Infrastructure Trust Fund – Streets	50,000	0.1%
Emerald Ash Borer Fund	50,000	0.1%
EDA Operations	25,000	0.1%
Street Revolving Fund – Maintenance	<u>13,000</u>	<u>0.1%</u>
Total Adopted Plans	336,000	1.0%
Total Combined Increase in Estimated Tax Levy	<u>\$1,189,000</u>	<u>3.7%</u>

Projected 2017 Levy

	2016 Levy	Projected 2017 Levy	Planned Increase	
EDA	\$ 592,500	\$ 617,500	\$ 25,000	0.1%
Debt Service	1,126,674	1,126,674	0	0.0%
Facility Plan (change to Debt Levy in 2017)	420,000	420,000	0	0%
ITF	3,200,000	3,250,000	50,000	0.1%
Forestry EAB	250,000	300,000	50,000	0.1%
General Fund	25,955,000	27,019,000	1,064,000	3.4%
Total Levy	31,544,174	32,733,174	1,189,000	3.7%

Facilities Improvement Plan

There is no additional increase in the levy included in the previous tables for the facilities improvement plan. The funding plan and bonding options for the facilities improvement plan will be presented in August.

The existing facilities levy and the new franchise fees revenues will be used as funding sources for this plan. An increase in the total levy is not proposed at this time for this plan.

Updated Projections



Five-Year Financial Projections



What's Driving the Need for Additional Tax Levy Revenue in Future Years?

Personnel Cost Increases

- COLA & steps

- Health Insurance 5% premium increase

- Phased in minimum wage increase \$25,000

The cost of maintaining general government services police, fire, parks operation, and street maintenance

- Tax levy funded

- Increases in non-tax revenue will not be sufficient to cover

What's Driving the Need for Additional Tax Levy Revenue in Future Years?

Parks capital funding increase \$100,000

Continued restoration of tax levy support

Future years planned increase \$25,000 annually

Forestry – Emerald Ash Borer Plan increase \$50,000

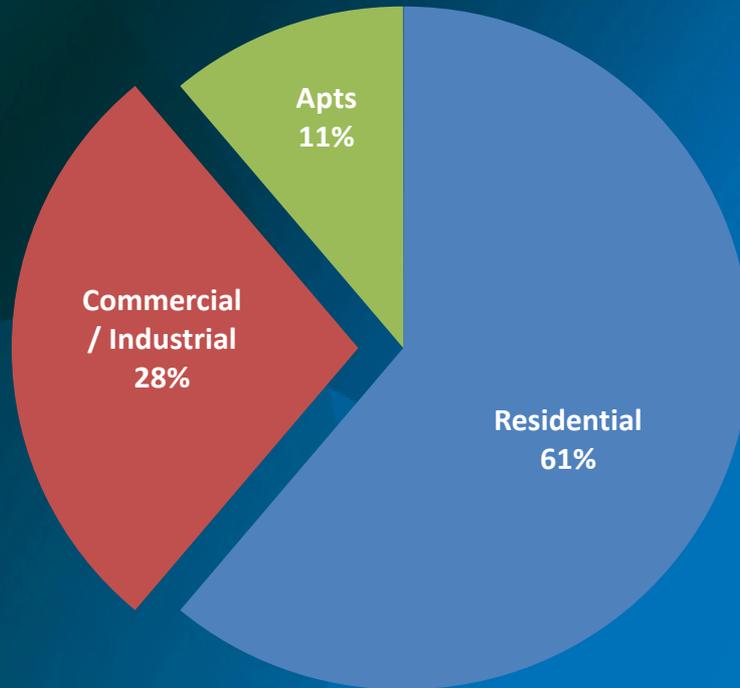
ITF levy annual increase \$50,000

Capital Equipment Funding – \$98,000

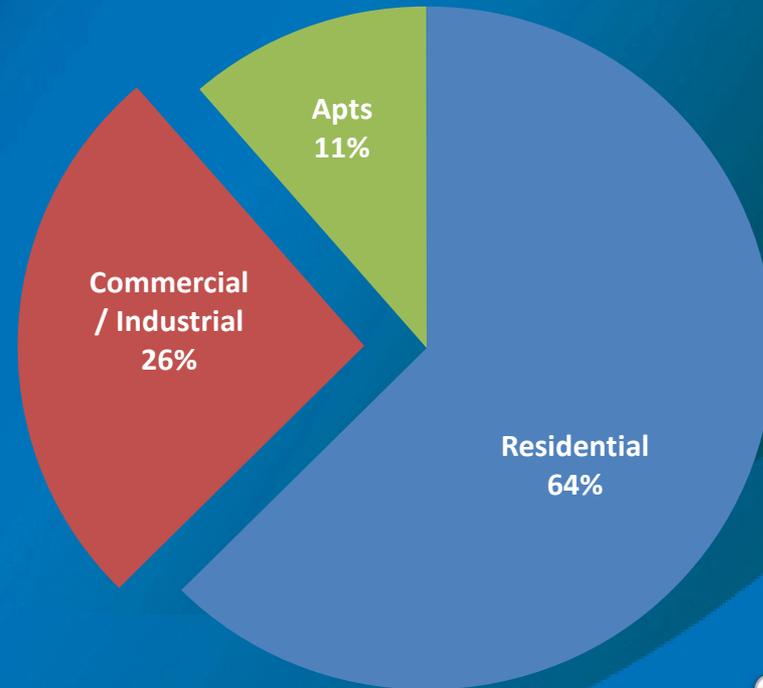
- Restoration of funding for replacement of equipment, vehicles, and improvements to facilities (deferred maintenance)
- IT Capital fund

Residential Values Increasing Faster than Commercial & Industrial

2016 \$5.5 billion

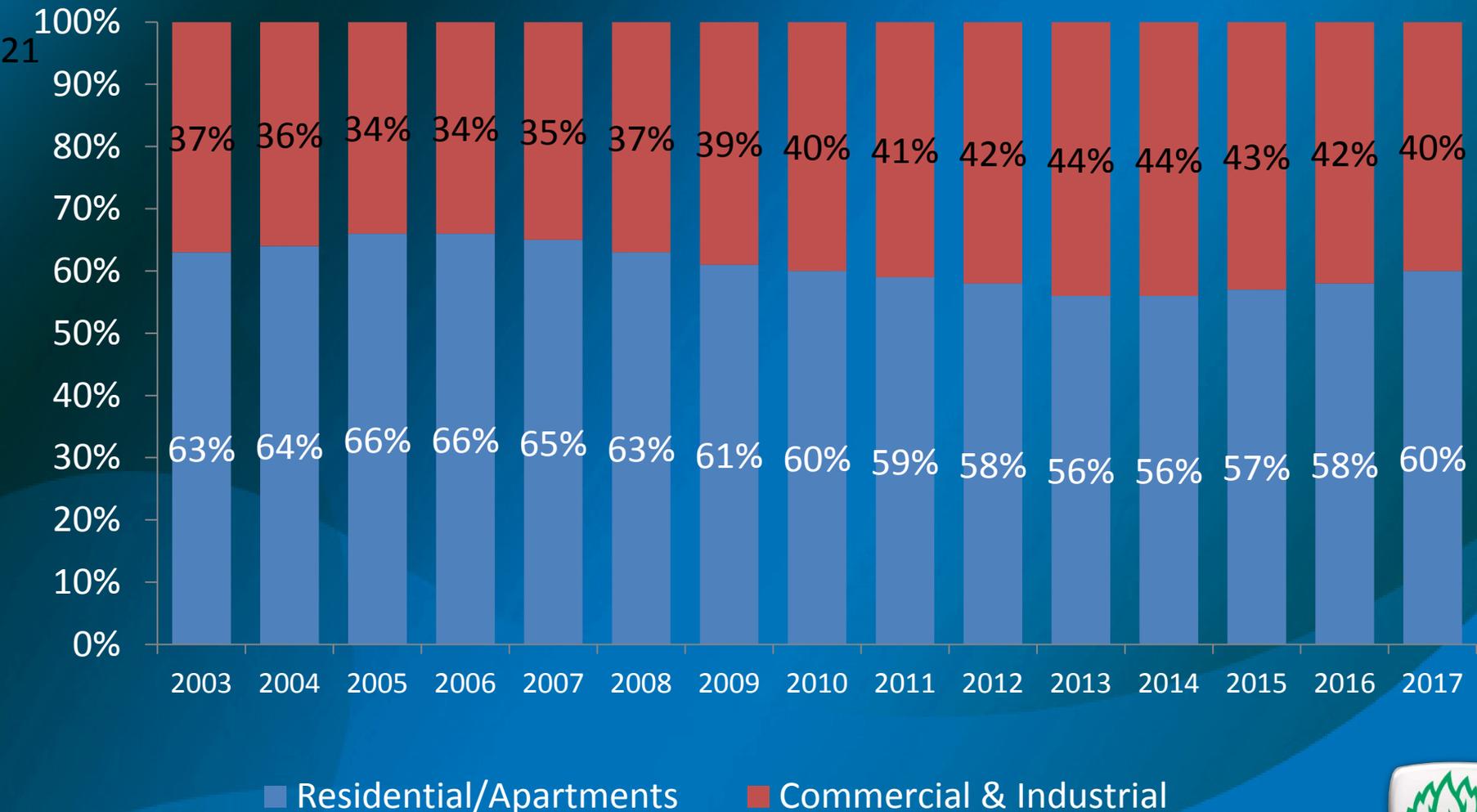


2017 \$5.7 billion



Gross Tax Capacity by Property Type

Residential/Apartments Versus Commercial/Industrial

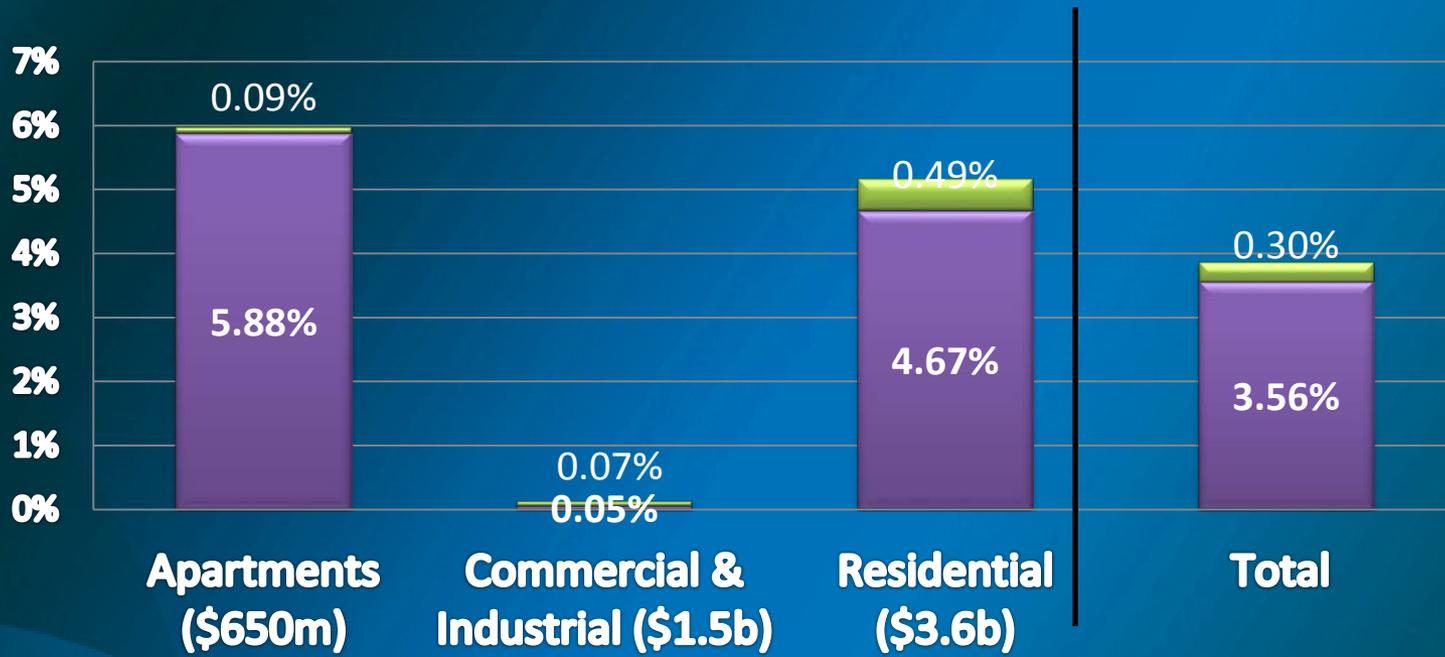


New Tax Base Support

Total Tax Levy Increase	\$1,189,000	3.7%
New Construction	\$50,000	0.1%
Existing Tax Base	\$1,139,000	3.6%



2017 Change in Estimated Value by Property Type



■ Value Increase ■ New Construction

Proposed Levy and Impact on Taxpayers

Preliminary the combined City and EDA tax rate

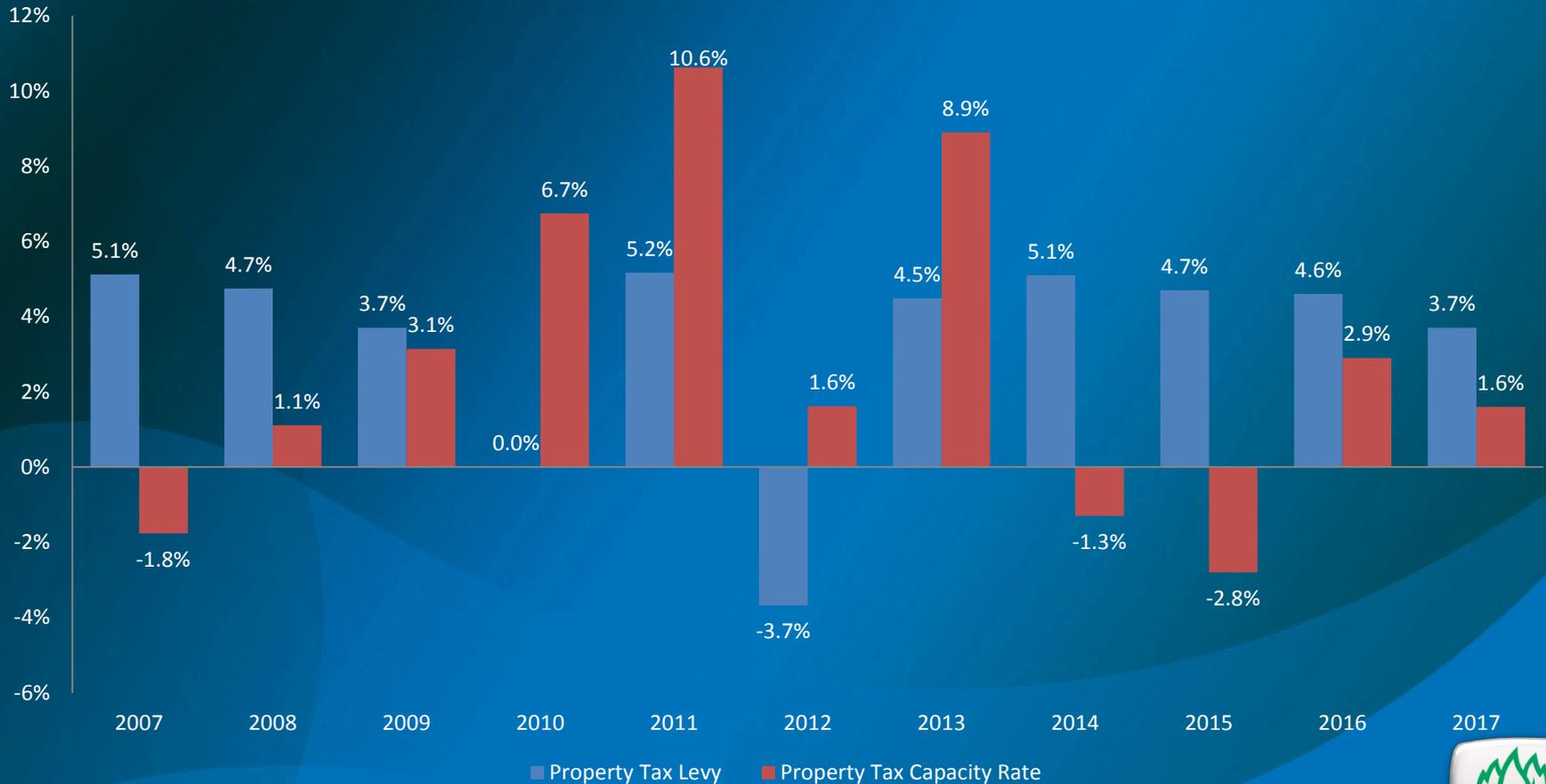
2016	2017 est.
46.960	47.734

Increase or decrease to individual property taxpayers will depend on the individual change in their property's value

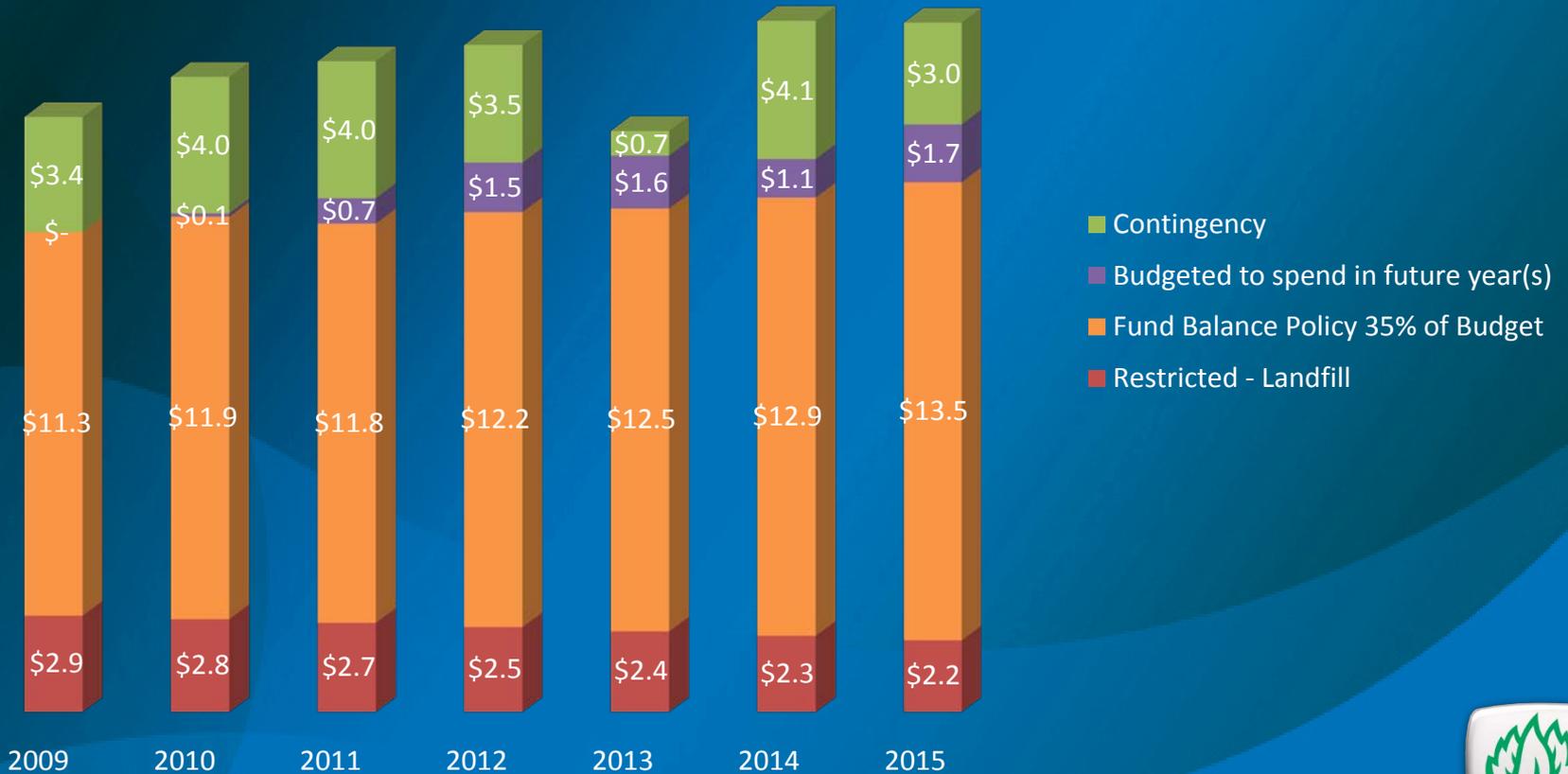
Focus is on budget increase because the City's decisions directly impact that amount

Updated information from Dakota County – Feb 2016

History of Annual % Chg in Levy Compared to Tax Capacity Rate



Fund Balance



Use of General Fund Balance

Preliminary 2017 budget projections include:

- Ice Center debt transfer \$140,000 (year 5/10)
- Sustainability – use of restricted fund balance \$141,293
- Comprehensive Plan Update \$200,000 2nd year

Other potential uses to be reviewed during budget process include:

- Capital or other one-time expenditures
- Carry forward use of one-time revenues from 2015

Options to Reduce the Tax Levy

- **Reduce/Postpone planned funding restorations for 2017:**

Infrastructure Trust Fund – (\$50k)

Emerald Ash Borer (EAB) – (\$50k)

EDA operations – (\$25k)

Parks Capital - (\$100k)

Equipment/Vehicles/Facilities & IT Fund Capital - (\$77k)

Street Maintenance Capital Fund (\$12k)

- **Reduce services - TBD**

Potential Transfer from General Fund Balance to EDA

- Council has a policy in the Financial Management Plan to annually review a transfer of unassigned General Fund balance to the EDA Fund.
- No Transfer planned for 2016 or 2017

Enterprise Funds

- Fees
 - Water/sanitary sewer - increase of 4.5%
 - Storm water - increase 1.0%
 - Street light - increase 1.0%
 - Consider increase in base fees
- Capital
 - Water & Sewer Fund – Meter replacement project continues
 - Storm water – No large projects
 - Ames Center finance plan includes a 5-year capital plan, major capital replacement is not funded at this time

S& P Rating Agency Criteria Weighted

- 30% Economy
- 20% Management, financial policies and practices
- 10% Budgetary performance
- 10% Budgetary flexibility (fund balance)
- 10% Liquidity
- 10% Debt and contingent liability position
- 10% Institutional framework

Maintaining Aaa

- **Improve property values & local economy**
 - Property maintenance program
 - Maintain streets & infrastructure
 - Development activities
- **Outside of control**
 - Wealth indices
 - Broader economy and impacts on property values

Council Discussion

- The preliminary budget projection includes the following uses of fund balance:

Use of Fund Balance	2017
Annual debt service for Ice Center improvements	140,000
Planned draw-down of restricted tipping fees	141,293
Comprehensive Plan Update (2 years)	200,000
TOTAL	\$414,119

Does the Council support these uses of Fund Balance?

Council Discussion

Financial Plan Funding Levels

Is there Council direction to maintain planned increases to these adopted financial plans?

Infrastructure Trust Fund – (\$50k)

Emerald Ash Borer (EAB) – (\$50k)

EDA operations – (\$25k)

Parks Capital - (\$100k)

Equipment/Vehicles/Facilities & IT Fund Capital - (\$77k)

Street Maintenance Capital Fund (\$12k)

Council Discussion

Is there Council direction to cut services to reduce the current levy or future levies?

What additional information would be helpful to the Council's policy decision-making?

Council Discussion

Are there other revenue sources Council would like to consider?

Future Discussions

Next Council Budget Discussions

August 8 6:30 p.m. - Max Tax Discussion

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