



STAFF REPORT

TO: Mayor Keis and Members of City Council

FROM: Sam Magureanu, Finance Director

REVIEWED BY: Chris Heineman, City Administrator

DATE: August 24, 2022 City Council Workshop

RE: Discussion on 2023 General Fund Operating Budget and Levy

BACKGROUND:

The purpose of this budget workshop discussion is to review the preliminary General Fund Operating Budget and preliminary Property Tax Levy for 2023. At the regular City Council meeting on August 10, 2022 staff presented a preliminary budget based on the three of the primary areas of the General Fund Budget. These include Personnel Services, contracted Police Services through the Ramsey County Sheriff's Department, and contracted Fire Services through the Little Canada Fire Department. This memo includes a more detailed look at the proposed General Fund Operating Budget and Levy for 2023.

The budget document is a planning and management tool for implementing the community's vision as identified in the Comprehensive Plan and the City Council's Strategic Plan in order to ensure the ongoing provision of consistent and cost-effective public services. While the primary purpose of this workshop will be to focus on the General Fund as the city's chief operating budget, we will also be highlighting some of the larger capital projects that are currently included in the 2023-2032 Capital Improvement Plan (CIP).

OPERATING LEVY AND TAX RATE

Since personnel services (salaries & benefits) represent one of the primary expenditures in the proposed budget, staff is providing three different Cost of Living Adjustments (COLA's) and calculated three different options/scenarios for the operating levy and tax rate:

1. 2.50% COLA – This rate was used as the lowest rate starting point
2. 3.38% COLA – This rate was calculated by using the averages rate from Cities Survey. The Survey included 16 cities with rates varying COLA's ranging between 2.75% and 5%.
3. **4.70% COLA – Calculated by using the approach that has been used in the last several years:**
 - a. 75% weight of COLA's (Average of 3.38%) in survey of Cities
 - b. 25% weighting of Consumer Price Index (CPI) increase (8.7%) from May 2021 to May 2022

Note: The 2023 COLA is in addition to step increases of 3.25% based on the approved wage scale

OPERATING TAX LEVY

2023 Proposed Gross Levy Compared with 2022

Fund	2022 Certified Levy	2.5% COLA			3.38% COLA			4.70% COLA		
		2023 Levy	\$ Change	% Change	2023 Levy	\$ Change	% Change	2023 Levy	\$ Change	% Change
General Fund	\$3,479,210	\$3,890,711	\$411,501	11.83%	\$3,900,617	\$421,407	12.11%	\$3,915,724	\$436,514	12.55%
Fire Equipment	160,000	160,000	\$0	0.00%	160,000	\$0	0.00%	160,000	\$0	0.00%
Infrastructure Fund	122,200	160,000	\$37,800	30.93%	160,000	\$37,800	30.93%	160,000	\$37,800	30.93%
Total	\$3,761,410	\$4,210,711	\$449,301	11.95%	\$4,220,617	\$459,207	12.21%	\$4,235,724	\$474,314	12.61%

The 2022 Certified levy was an increase of 5% from 2021. As noted above a COLA of 2.5% would result in an 11.95% levy increase, a COLA of 3.38% will result in an 12.21% levy increase and a COLA of 4.70% will result in an 12.61% levy increase. Please note that the levy for the Infrastructure Fund (Fund 400) has been increased from \$122,200 in 2022 to \$160,000 in 2023. This proposed increase would match levy for the Fire Equipment Fund (Fund 457) and begin to address future capital expenditure needs.

For your information, to change the levy by approximately 1%, a change in the operating budget will need to be made in the amount of approximately \$40,000.

TAX CAPACITY RATES

2023 Proposed Tax Capacity Rates Compared with 2022

Fund	2022 Rate	2.5% COLA			3.38% COLA			4.70% COLA		
		2023 Rate	\$ Change	% Change	2023 Rate	\$ Change	% Change	2023 Rate	\$ Change	% Change
General Fund	23.634	23.546	(0.09)	-0.37%	23.614	(0.02)	-0.08%	23.718	0.08	0.36%
Fire Equipment	1.087	0.968	(0.12)	-10.91%	0.969	(0.12)	-10.88%	0.969	(0.12)	-10.83%
Infrastructure Fund	0.830	0.968	0.14	16.65%	0.969	0.14	16.69%	0.969	0.14	16.75%
Total	25.551	25.483	(0.07)	-0.27%	25.551	0.00	0.00%	25.656	0.11	0.41%

The 2022 Tax Rate was a 6.54% increase from 2021.

The Ramsey County Finance Division provided preliminary values for Tax Capacity and Fiscal Disparities on Friday, August 18. These numbers were used to calculate the Tax Capacity Rates noted in the above table. Additional information including the valuation of Little Canada's Tax Increment Finance (TIF) districts is expected to be finalized and provided by the end of August or early September. City staff does not expect large differences from the information presented above once the final values are provided.

LEVY CHANGES EXPENDITURES:

- **Personnel Services** have the larger levy impact on the levy and are attributable to the following factors:
 - Proposed COLA: Three scenarios for a proposed COLA are included in the table below.

	2022 Budget	2023 Budget	\$ Change	% Change
			2.50 % COLA	
Total Personnel Services	1,334,005.00	1,464,517	\$ 130,512	9.78%
			3.38 % COLA	
Total Personnel Services	1,334,005.00	1,474,175	\$ 140,170	10.51%
			4.70 % COLA	
Total Personnel Services	1,334,005.00	1,488,905	\$ 154,900	11.61%

- Code Enforcement/Rental Housing Coordinator. The City staff is proposing an increase from 20 hours a week to a maximum of 32 hours of week. This increase will be more in line with the actual time spent. The 2022 budget was estimated since it was a newly created position in 2021. Estimated Budget impact \$21,000 to \$23,000.
 - Finance Intern. The Finance department is looking at utilizing an intern for the following tasks:
 - Help Finance Department during the budget season with clerical and data entry work (Roll forward the budget documents)
 - Help transition the department to electronic files for AP and Cash Receipts
 - Other Miscellaneous projects that would free up City Staff to focus their time on department growth (Possibly implementing electronic time sheets entries for all City employees). This would have a total budget impact of \$5,000.
 - Public Work Apprentice promoted to PW Maintenance I. Budget impact \$6,500 to \$7,000.
- **Police Contacted Services.** Although the Ramsey County Sheriff’s Department Contract for all contract cities is anticipated to increase 8.20%, the City of Little Canada’s portion is increasing a net of 5.70% or \$92,085 when considering the net contract (expenditures less revenues). A copy of the actual Budget Draft is included with the packet.

	2019	2020	2021	2022	2023
Expenditures	1,589,396.00	1,611,433.00	1,680,892.00	1,697,946.00	1,788,199.00
Revenues	88,164.00	97,955.00	90,983.00	83,767.00	81,935.00
Net	<u>1,501,232.00</u>	<u>1,513,478.00</u>	<u>1,589,909.00</u>	<u>1,614,179.00</u>	<u>1,706,264.00</u>
\$ Change		\$ 12,246.00	\$ 76,431.00	\$ 24,270.00	\$ 92,085.00
% Change		0.82%	5.05%	1.53%	5.70%

- **Fire Department Contracted Services.** Overall there is approximately an 12.49% increase under contractual services for the Little Canada Fire Department for the 2023 budget. Overall the department will see a \$49,655 increase or 10.36% in expenditures. As noted in the attached contract request, the following expenditures have some of the largest increases compared with prior year’s budget:
 - Building – 21.3%. Includes Electric/Gas Utilities
 - Special Activities – 48.6%

- Vehicle Expense – 141.4%. Includes Fuel
- Operations – 29.8%

Expenditure Type	2022 Budget	2023 Recommended	\$ Change	% Change
Fire Contractual	384,925	433,000	48,075	12.49%
Total	384,925	433,000	48,075	12.49%

- **Other Contracted Services:** Overall \$147,632 increase or 190.22 %. The 2023 Budget includes place holders of \$135,000.
 - **\$35,000** – Department audit/gap analysis for Administration and contracted services for the proposed administration/communications FTE position as part of the Strategic Plan
 - **\$100,000** – Local Police transition contracted services for implementation plan

Expenditure Type	2022 Budget	2023 Recommended	\$ Change	% Change
Contracted Services	77,610	225,242	147,632	190.22%
Total	77,610	225,242	147,632	190.22%

- **Motor Fuels & Lubricants:** Due to rising costs in gasoline prices the 2023 budget includes a 32.15% increase or \$5,565. The increase was estimated based on current year projections.

Expenditure Type	2022 Budget	2023 Recommended	\$ Change	% Change
Motor Fuels & Lubricants	17,310	22,875	5,565	32.15%
Total	17,310	22,875	5,565	32.15%

- **Electric & Gas Utilities:** Due to rising costs for gas and electricity the 2023 budget includes a 23.67% increase or \$29,300. The increase was estimated based on current year projections.

Expenditure Type	2022 Budget	2023 Recommended	\$ Change	% Change
Electric & Gas Utilities	123,790	153,090	29,300	23.67%
Total	123,790	153,090	29,300	23.67%

- **Worker’s Compensation Insurance:** Increase due to increased Post-traumatic stress disorder (PTSD) claims in 2022. The 2022 Premium was \$51,722 vs \$39,922 in 2021. The budget includes a 52.77% increase or \$6,770.

Expenditure Type	2022 Budget	2023 Recommended	\$ Change	% Change
Worker's compensation	12,830	19,600	6,770	52.77%
Total	12,830	19,600	6,770	52.77%

LEVY CHANGES REVENUES: Excluding Tax Levy revenues, in total revenues are a net increase of 4.05% or \$40,831.58.

Revenue Type	2022 Budget	2023 Recommended	\$ Change	% Change
	1,008,560	1,049,392	\$ 40,831.58	4.05%

- Licenses are at estimated at \$102,042. This is 8.03% or \$8,913 decrease from last year’s budget. The main reason for the decrease relates to one license collection for Lincoln Pawn for \$8,300 that will no longer be collected since the business has closed.
- Permits are estimated at \$287,846. This is a 35.65% or \$75,646 increase from last year’s budget. The main reason for the increase relates to new developments (Lennar 178 Town Homes). Only 1/3 of these revenues were budgeted to be collected in 2023. Projected revenues relating to the Gervais Woods (15 Units Development) and Villas of Gervais Lake have not yet been included.
- Charges for Services are estimated to be comparable with prior year at \$89,319, with a slight decrease of 1.11% or \$1,001. The decrease relates primarily to revenues generated from park reservations that were budgeted more in line with prior year’s actuals and current year’s projections.
- Fines & Forfeits are estimated at \$40,000. This is a 9.09% or \$4,000 decrease from last year’s budget primarily relating to a decrease in budget for fines & forfeits that were budgeted more in line with prior year’s actuals and current year’s projections.
- Intergovernmental Revenues are estimated at \$272,195. This is a 5.33% decrease or \$15,323 from last year’s budget. The main reason for this decrease relates to a 49.20% decrease in Local Government Aid. The decrease is due to the loss of a one-time, “hold-harmless” supplemental aid increase approved by the Legislature in 2021. The Legislature debated to extend the supplemental hold-harmless bill for a second year, however the Legislature failed to pass the extension. Had it passed it would have prevented a loss of LGA to at least 150 cities in 2023.

Additionally, during the 2022 legislative session, the Legislature debated but did not pass a bill developed by the League of Minnesota Cities, Metro Cities, the Coalition of Greater Minnesota Cities,

and the Minnesota Association of Small Cities that would have updated the nearly decade-old LGA formula that would have increased the LGA appropriations.

- Miscellaneous revenues are expected to be consistent with prior year's budget

2023 MAJOR CAPITAL PROJECTS

City staff are currently working at finalizing the 2023-2032 Capital Improvement Plan (CIP). The CIP will be presented in draft at the October 12th workshop and is scheduled for final review and adoption at the November 16th council meeting.

2023 CIP Budget Highlights by Department

- **Administration:** The proposed budget includes \$35,000 for implementation of a new software for the Building department. Currently the City uses a manual process for issuing and tracking building permits. Further, the funds will be used for the implementation of an electronic work flow solution for Accounts Payable/Vendor payments processing, and electronic filing.
- **Buildings:**
 - Approximately \$300,000 for the City Hall remodeling. The initial needs for the remodel were identified by a study conducted by Kraus Anderson in 2021.
- **Parks and Recreation:**
 - **Pioneer Park** – Improvements (See attachment to the staff report for details)
- **Public Works - Street Improvement Project Includes:**
 - Sunset Court - \$238,700 – 50% Special Assessments of the street cost only
 - Sunrise Drive - \$99,700 – 50% Special Assessments of the street cost only
 - Twin Lake Blvd - \$ 1,426,000 (The project funding includes 50% Special Assessments of the street cost only, MSA State Aid (Approximately \$552,700), CDBG grant for approximately \$506,000 and Vadnais Heights contribution for approximately \$607,000.
 - Spruce Street - \$241,900 – 100% Assessed

Documents Included with the Packet:

- 1) General Fund Summary – Revenues
- 2) General Fund Summary – Expenditures
- 3) General Fund Summary – Expenditures by Department
- 4) Contract Request – Fire
- 5) Budget Draft – Police
- 6) Pioneer Park CIP Summary
- 7) Fiscal Disparities Summary
- 8) Cost-of-Living (COLA) Summary
- 9) Public Employers and the COLA Conundrum article