



## STAFF REPORT

TO: Mayor Fischer and Members of City Council

FROM: Chris Heineman, City Administrator  
Sam Magureanu, Finance Director

DATE: August 23, 2023 City Council

RE: Proposed 2024 Budget and Levy not to exceed 10%

### **REQUESTED ACTION:**

This is a discussion item only, and no action is required. The Council is asked to provide additional feedback on the revised preliminary levy of 9.90% as presented below.

### **BACKGROUND:**

The City Council reviewed the preliminary budget and operating levy for 2024 at the budget workshop held on August 9<sup>th</sup>, 2023. At the workshop, staff presented a proposed increase to the operating levy of \$296,291 which represents an increase of 7.06% over the adopted 2023 budget. The primary impacts for the proposed levy increase can be attributed to contracted police services with the Ramsey County Sheriff's Office (RCSO) and personnel services as noted below.

- **Police Services:** The City of Falcon Heights will be withdrawing from the RCSO contract at the end of 2023, which creates an additional strain on the remaining six contract cities. The City of Little Canada's share of the RCSO contract will increase from 15.5% in 2023 to 17.68% in 2024. The City of Little Canada's portion of the contract is increasing a net of 12.84% or \$219,133.47 when considering the net contract (expenditures less revenues). This 12.84% increase for contracted police services is the largest year-over-year increase over the last several years.
- **Personnel Services:** The net increase for all other staffing needs in the City of Little Canada will have a \$254,079 impact on the levy. This includes approximately \$106,000 for two new positions that were hired in 2023 but not included in this year's budget. For example, 70% of the Community Relations Manager position is allocated to the General Fund which creates a budgetary impact of \$89,471 for 2024. In addition, 25% of the Public Works Apprentice position is funded through the General Fund which creates a budgetary impact of \$16,700. The net increase in Personnel Services also includes cost-of-living (COLA) adjustments and annual step increases for all other city staff members.

All other budgetary increases for contracted services such as permitting software, audit services, CDL training, communications and newsletter printing are relatively minor and total \$56,000.

Given the budgetary impacts for essential services listed above, a preliminary operating levy increase of \$296,291 leaves little capacity for additional initiatives and proactive planning efforts. One of the primary strategic initiatives included in the 2022 Strategic Plan is Maximizing our Assets to Catalyze Development. The City Council has expressed a strong interest to continuously keep the community vital and a great place to live. Efforts in development, redevelopment, housing, and additional amenities help keep the City economically healthy and attractive. Ongoing strategic initiatives include replacing blight with development, increasing housing opportunities, and adding public amenities.

In order to further these proactive planning efforts, the Council directed staff to bring forward a preliminary levy not to exceed a 10% increase from prior year. After considering several options, staff is recommending an increase of \$100,000 to the operating levy to be allocated to the General Capital Improvement Fund (Fund 400). This additional funding could be designated exclusively towards the planning, construction, or future debt service related to a public amenity such as a future community gathering space. An increase of \$100,000 to the operating levy would increase the preliminary levy to a 9.90% increase over the 2023 adopted levy.

A new public gathering space for the residents of Little Canada has been a topic that current and previous City Council have explored for several years. The 2022 Strategic Plan includes a strategic goal of acquiring the property at 2884 Centerville Road as a potential location for this facility, and staff has included \$2.5 million as the estimated construction cost for a new community building in the 2024 Capital Improvement Plan. A dedicated source of funding will be needed if we are to continue to make progress toward this potential project.

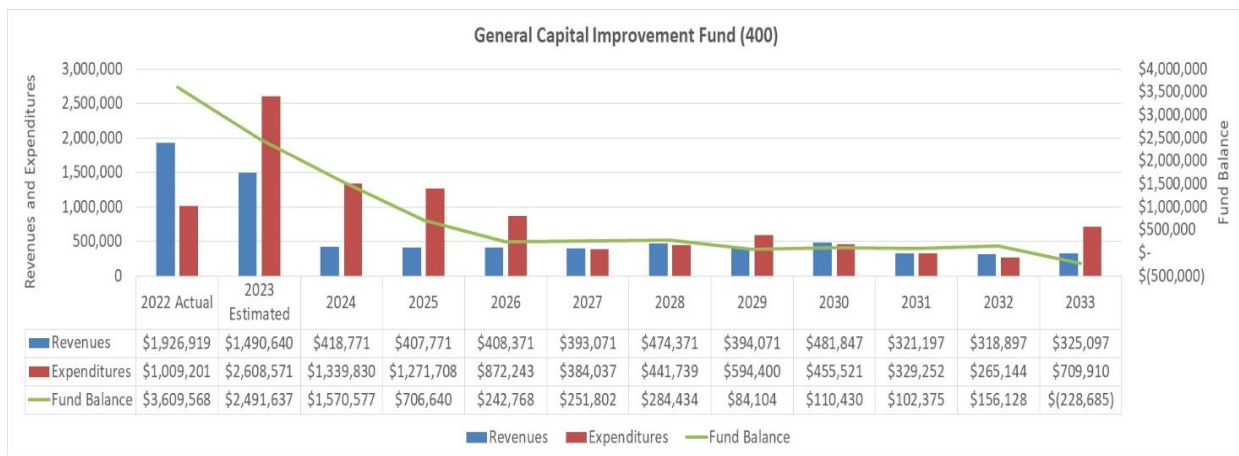
Based on the estimated project cost of \$2.5 million, staff has obtained three debt service scenarios for a future issuance of bonds. The table below represents three different bond terms with a debt service levy as low as \$200,114 for a 20-year repayment schedule and as high as \$327,977 for a 10-year repayment schedule. Please note that total interest paid on the bonds differs based on repayment terms. The longer the City takes to repay the loan, the more total interest will be paid. Even though the \$100,000 is not sufficient to fund a possible future debt service payment, it estimated to be approximately 42% of a 15-year debt service levy for a 2.5 Million debt issuance.

Scenario	Term of Bonds	Par Amount	Project Costs	Total Interest Life of Bonds	Cost of Issuance/ Rounding	Average Annual Debt Service Levy
Scenario A	10	2,590,000	2,500,000	533,588	90,000	327,977
Scenario B	15	2,595,000	2,500,000	862,765	95,000	242,044
Scenario C	20	2,595,000	2,500,000	1,216,693	95,000	200,114

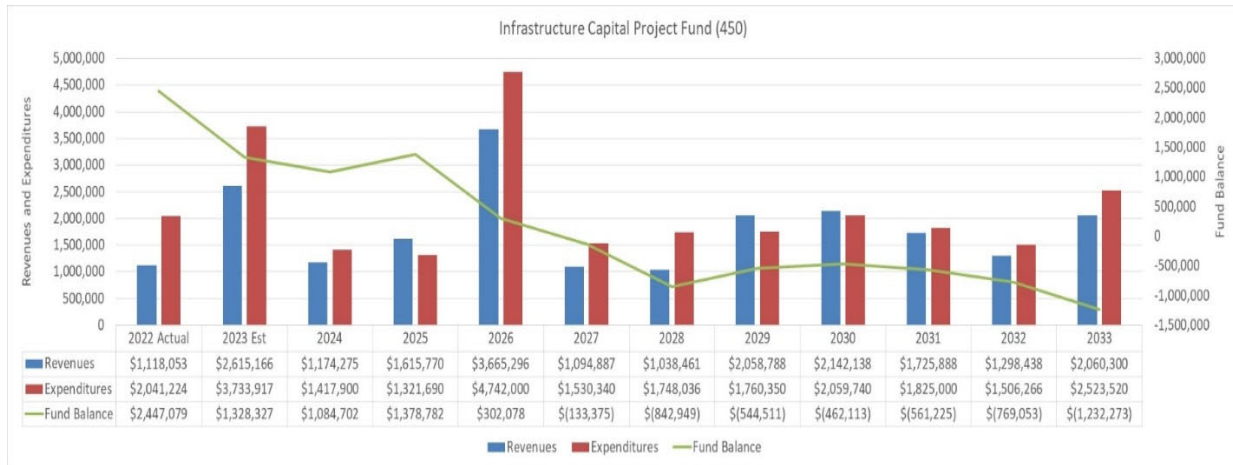
If the City Council decides to increase the preliminary levy by \$100,000 in 2024, these funds can be used to decrease the total project cost. This would ultimately reduce the loan amount which will in turn reduce future annual debt levy service payment and interest payments, as well as reducing the burden of implementing a debt levy service payment all at once.

An increase of the preliminary levy to 9.90% will have a minimal impact to residents. Base on a 5% increase in property market valuation, the impact to a median home valued at \$341,250 in 2024 is approximately 3.47% or total increase of \$28.75 over the prior year (2023). In comparison, the preliminary proposed levy increase of 7.06% would have a total impact of approximately 0.45% or \$3.74 to a median value home owner.

Alternatively, an increase to the preliminary levy in the amount of \$100,000 could be designated towards the General Capital Improvement Fund (Fund 400). The City utilizes Fund 400 for park projects, public works equipment, computers, and other building and infrastructure improvements. The fund is typically funded by Local Government Aid (LGA) and periodic transfers from the General Fund. The Fund balance is projected to stay positive through 2032, however it currently has a declining balance and new revenue sources will be needed in the future in order to fund all of the capital expenditures currently identified in the Capital Improvement Fund from 2024-2033.



A third alternative for use of the additional \$100,000 funds would be to increase the current \$160,000 levy for the Capital Improvements Infrastructure Fund (Fund 450) to a \$260,000 levy. Fund 450 currently receives \$160,000 of the property tax levy as well electric franchise fees and special assessments from street projects. Expenditures from this fund are related to street projects. As noted in the graph below, Fund 450 also has a declining fund balance is currently projected to go negative beginning in 2027. Additional revenue sources will be needed in the near future in order to fund all of the 2024-2033 currently identified capital expenditures within the fund.



**Tax Rate Analysis:**

As noted in the budget workshop on August 9<sup>th</sup>, the tax rate is an important factor used to calculate the city portion of a resident’s property tax bill. The basic formula for calculation is as follows:

$$\text{Tax Rate} \times \text{Home Market Value} = \text{City Tax}$$

As noted below, the City of Little Canada had the 4th lowest tax rate in Ramsey County in 2023. Based on either levy increase 7.06% or 9.90% it is estimated the City position will not change by much and will continue to trend toward the lower end of the spectrum. An increase of 7.06% will reduce the tax rate by 4.33% from the 2023 tax rate, and a levy increase of 9.90% or additional \$100,000 will reduce the rate by 1.46% from the 2023 tax rate.

**Ramsey County City Tax Rates Payable 2023**

