



CITY COUNCIL STAFF REPORT

TO: MAYOR AND CITY COUNCILMEMBERS

FROM: JOEL A. ERICKSON, CITY ADMINISTRATOR

DATE: DECEMBER 8, 2022

SUBJECT: AGENDA ITEMS 10A & 10B - DISCUSSION AND PUBLIC COMMENT ON THE CITY'S PROPOSED FINAL 2023 BUDGET AND PROPERTY TAX LEVY AND CONSIDER APPROVAL OF RESOLUTION 2022-53, A RESOLUTION SETTING THE FISCAL YEAR 2023 FINAL CITY BUDGET AND FINAL PROPERTY TAX LEVY

Guiding Principle: *Fiscal management of the City's finances, while at the same time, continuing to provide at least the same level of services/amenities to residents.*

Action Requested: *Allow discussion and public comment on the City's proposed final 2023 budget and property tax levy and motion to approve Resolution 2022-53.*

Introduction/Background/Justification:

The City Council held seven meetings on the City's 2023 budget and property tax levy. In the past, the City was required to hold a Truth-N-Taxation (TNT) public hearing. That requirement was changed and now, the City has to have an item on an agenda between the end of November and December "discussion and public comment on the City's proposed final budget and property tax levy". This agenda item satisfies this requirement even though all previous meetings were open to the public. In addition, information pertaining to the City's proposed 2023 budget and property tax levy will be posted on the City's website.

- **Property Tax Levy:**
 - The tax levy is proposed to be \$2,875,000, an increase of \$430,000 or 17.59%
 - Based on updated property valuations from Rice County, the tax rate will decrease by 3.40%, from 56.400 to 55.480
 - Between 2017 and 2023, the:
 - Estimated Market Value has increased 75.10%
 - Taxable Market Value has increased 84.25%
 - Total Tax Capacity has increased 79.12%
 - Tax Increment has increased 20.14%

- Net Tax Capacity has increased 80.35%
 - Tax Levy has increased 38.66% or 5.52% per year
 - Tax Rate has decreased (23.12%)
 - Based on valuation increases and associated decreases in Market Value Exclusion Credits of the properties the City tracks, 2022 taxes will increase between \$2.28 and \$301.79
 - Although most businesses saw a decrease in their taxes since 2016, most businesses will see an increase in their City taxes
- **Wages/Insurance:**
 - It was approved to remove the first two steps (to keep wages competitive), add two steps to the top end, increase the overall pay scale by 3.50% and keep employees at their current step
 - Inflation increased 8.20% (Upper Midwest CPI- Urban) between October 2021/2022
 - Inflation is forecasted to increase by 2.60% between October 2022/2026
 - Social Security is increasing 8.70% for 2023
 - The majority of wages are proposed to increase by 5.30%
 - Wages are proposed at \$1,763,024, an increase of \$155,832
- **City Council:**
 - Based on wages for the Mayor of \$400.00 per month and City Council members of \$300.00 per month
 - \$500 for audio equipment
 - \$350 for Mayor Association dues and attendance at the Chamber's Annual Dinner
- **Administration:**
 - Revenues and expenses are similar to 2022
 - Professional Services include:
 - Mosquito control
 - Required financial reporting
 - IT
 - Shredding
 - Rice County fees:
 - TNT
 - Special Assessment processing
 - Flex Spending Account Administration
 - Fire extinguishers
 - MCMA conference
 - Association dues

- **Planning & Zoning:**
 - Building Permit revenue is anticipated to decrease due to less building expected
 - Professional Services includes:
 - City Code on the website
 - recording of documents
 - O365
 - Engineering includes:
 - building permit review
 - \$5,000 for Highway 19 (CSAH 2 and 8th Ave NE) coordination with MnDoT Hwy 19 Mill & Overlay project in 2028 and County Road 2 roundabout project in 2025
 - Inspections is anticipated to decrease due to less building expected
 - Dues and Subscriptions increased to account for:
 - DataLink (WSB GIS)
 - ERSI (City GIS account)
 - Adobe (through LMC agreement)
 - Refunds/Reimbursements account for returned Land Use Application escrows

- **Police:**
 - Budget is as basic as it gets
 - 6 full time Officers, 2 part time Officers and 1 Office Administration staff
 - Professional Services:
 - Network connections
 - Rice County:
 - K-9
 - Drug task force
 - IT
 - Copier
 - Service contracts
 - Legal based on the 2-year agreement with the Rice County Attorney's Office that ends 12/31/23 and some civil legal expenses
 - Utilities based on the new facility
 - Uniforms are based on the CBA and part time officers
 - Dues & Subscriptions:
 - MN Chiefs of Police Association
 - Gun Range/NRA
 - Archive social (social media back up)
 - Budgeted \$25,000 in 2023 to purchase a new squad in 2024
 - Capital Outlay:
 - AED
 - 3 – encrypted 800 mHz radios

- **American Rescue Plan:**
 - The City received all of the funds in 2022/23, so no revenues will be received in 2023
 - Expenses proposed to be funded with these funds include:
 - \$125,000 - City Hall parking lot
 - \$40,000 – City Hall windows
 - \$15,000 – City Hall furnace/AC
 - \$56,200 - new accounting software
 - \$100,000 – skate park
 - \$30,000 – RRFB for CSAH 4 cost share

- **Economic Development Authority (EDA):**
 - 2023 Focus will be:
 - Implementing initiatives that came from the BR&E program
 - Marketing
 - Small Cities Development Program Grant (SCDP) for owner-occupied housing rehabilitation project:
 - Pre-application is due in January
 - the request is for \$422,625 to rehabilitate 15 homes
 - If awarded, the soonest a project would start, would be late summer
 - Revenues consist of:
 - \$40,000 property tax levy (1st time since 2019)
 - Principle and interest for revolving loan fund payments by The Pet Stop Veterinary Clinic (will be paid off in September of 2026)
 - Expenses are consistent with 2022 and include:
 - Wages/benefits
 - Attendance at the LACC annual dinner
 - Grant administration (if awarded)
 - Advertising:
 - Digital advertising (display ads and pre-roll) through June
 - Remainder of marketing is TBD
 - Sponsorships with the LACC and the Southern MN Initiative Foundation
 - BR&E initiatives

- **Library:**
 - City’s “Minimum Local Support Requirement” for 2023 is \$74,180 per the MN Dept. of Education:
 - This amount represents the equivalent of 90% of the official 2012 state-certified level of library support
 - \$22,250 of grant funding from Rice County
 - No fines have been budgeted for based on the Library Board’s decision to not charge late fees
 - Contributions from the Friends of the Library
 - Training/Educations:
 - Safe Assure
 - Attendance at the MN Library Association conference

- Professional Services:
 - Cleaning, copier, Villages of Lonsdale
- Dues & Subscriptions:
 - ALA membership, newspaper subscriptions, Computer leases, Achieve Social
- Capital Outlay is consistent with prior years
- **Debt Services:**
 - Property tax levy amounts are sufficient to cover debt service payments with special assessments and existing fund balances
 - It was discussed during the budget process to not levy the required 105% because most debt service funds have a fund balance, which is due to prepayment of special assessments for street projects
 - New debt service for 2023 is the 2022 street project
 - The next debt service payment to be paid off is the 2012 SIP (2nd/3rd Ave NW) in 2028
- **Park & Recreation:**
 - Revenues consist of:
 - Property taxes, SnoWizards DNR Grant, LGA, franchise fees and cell tower rent
 - \$50,000 transfer is proposed from the Liquor Fund to fund DRS improvements
 - \$167,000 transfer is proposed from the Road & Bridge Fund:
 - to fund trail improvements
 - these funds have been budgeted for a new plow truck but during the budget process, the City Council agreed to issue bonds to purchase the plow truck to free up cash
 - The only project planned for 2023 is the stake park
 - Repairs/maintenance:
 - \$34,000 for general repairs/maintenance, fishing pier maintenance and field paint
 - Landscaping:
 - \$5,000 general and \$1,000 for Main St. planters
 - Professional Services:
 - \$14,000 for compost site expenses
 - \$8,000 for tree removal
 - Copier/O365
 - Rentals:
 - \$14,000 for porta-potties
 - \$2,000 for equipment rental
 - Bike Trails:
 - \$400,000 for trail maintenance (8th Ave NE and 15th Ave SE trail)
 - Capital Outlay Equipment:
 - \$33,000 for annual lease payment for new WAM and zero turn mower
 - Capital Outlay Structure:
 - \$50,000 for DRS improvements (transfer from Lonsdale Liquor)
 - \$11,250 for proposed cold storage building

- \$5,300 for SnoWizards DNR grant (City is pass through pay agent)
- \$6,000 for Summer Recreation programming with TCU
- Seasonal Employees budgeted for 2,500 total hours
- **Water:**
 - Revenues generally consistent with historical data
 - WAC Fee is based on 15 new homes (half of budgeted 2022)
 - \$10,000 grant for sealing Well No. 3
 - Refunds/Reimbursements is from insurance claim reimbursements
 - Water Sales is budgeted at \$700,000, which is based on historical and 2022 YTD data
 - Late Fees historically are 2.5% of sales
 - No rate increase is proposed for 2023
 - Current water rates are:
 - Base fee: \$14.00/month
 - 0-3,000 gallons: \$3.25/1,000 gallons
 - 3,001 – 6,000: \$4.25/1,000 gallons
 - 6,001 – 9,000: \$4.75/1,000 gallons
 - 9,000+: \$5.25/1,000 gallons
 - 50% of water meter sales
 - Wages are based on current staffing levels
 - Training/Education:
 - Safe Assure
 - Water classes
 - \$25,650 for treatment plant chemicals and turf treatments
 - Repairs/supplies includes:
 - \$30,000 - general repairs
 - \$15,000 - water main breaks
 - \$2,500 - hydrant powder coating
 - \$80,000 – sealing Well No. 3
 - Professional Services:
 - Finance
 - Copier
 - Flow meter/RPZ testing
 - O3665
 - uniforms
 - Audit – 15% of \$31,500
 - Electrical increase based on historical and 2022 YTD
 - \$235,000 – depreciation
 - \$2,500 – dues and subscriptions
 - Capital Outlay Equipment consists of water meters (new and replacement)
 - Debt Service accounts for principle, interest and transfers to pay for the WTP, Well No. 5 and water improvements associated with street reconstruction projects
 - The Water Fund is projected to operate at a deficit

- **Sewer:**

- Revenues are generally consistent with 2022
- SAC fees are based on 15 new homes
- Charges for Services:
 - utility inspections
- Refunds and reimbursements (essentially insurance claims, if any)
- Sewer Sales and later fees are based on historical and 2022 YTD
- Wages/benefits are based on current staffing levels
- Training/Education:
 - Safe Assure
 - Waste water classes
- Chemical:
 - accounts for the WWTP and grounds
- Repairs/maintenance includes:
 - \$20,000 - general maintenance
 - \$20,000 - manhole sealing
- Professional Services includes:
 - \$42,500 - bio-solids/"rent"
 - \$50,000 - jetting and televising
 - PSN, gopher one, etc.
- Audit – 15% of \$31,500
- Engineering includes:
 - General
 - updates to DataLink mapping
- Electrical is consistent with prior years
- Depreciation of \$192,000 (budgeted but not paid out)
- Capital Outlay includes 50% of new meters from new homes and replacement plan
- Debt Service accounts for principle, interest and transfers to make payments on the WWTP and sewer improvements associated with street reconstruction projects
 - 2023 is the last year of the WWTP debt service payment of approx. \$400,000
- The sewer fund is projected to operate at a deficit

- **Liquor:**

- Margins are very important and will need to be closely watched and adjusted as needed because expenses continue to increase but Lonsdale Liquor still has to be competitive in the market:

- Comparison of 2022 margin goals vs. actual YTD:

<u>Product</u>	<u>Goal</u>	<u>YTD</u>
• Beer	23.08%	21.76%
• Liquor	27.01%	28.02%
• Wine	33.33%	32.91%

- Other revenues consist of other merchandise and lottery sales
- Beer, liquor and wine expenses are based on historical data

- Lottery is being accounted for both as a revenue and expense
 - Professional Services are slightly up and include:
 - Security
 - seasonal pest control
 - rugs
 - floor cleaning
 - HVAC service agreement
 - Auditing:
 - 10% of \$31,500
 - Dues/Subscriptions include:
 - MMBA membership
 - IT
 - LACC
 - social media archiving
 - Donations are for porta-potties for Community Days 2023
 - Association fees are based on historical data
 - While accounting for a \$50,000 transfer, the store is projected to run a deficit
 - If not accounted for, the store would generate a profit of \$20,031
- **Road & Bridge:**
 - Revenues essentially consist of:
 - Property tax levy
 - Local Government Aid
 - Snow removal
 - \$147,500 for Street Maintenance:
 - \$125,000 – 5th Ave NE, Elm St NE and 6th Ave NE
 - \$0 - Crackfill
 - \$7,500 - CB Repair
 - \$2,000 - Crosswalks
 - \$3,000 - Sidewalks
 - \$10,000 – Patching
 - Professional Services:
 - DOT inspections
 - Uniforms
 - Copier
 - IT
 - Engineering:
 - General, datalink updates and general surveying
 - Capital Outlay Equipment:
 - Payment(s) on equipment
 - Capital Outlay Structure:
 - Portion of proposed cold storage building
 - Transfer of \$167,000:
 - These funds were saved over the last two years for a plow truck, which the City Council decided to issue equipment certificates to free up cash to pay for trail maintenance

Fiscal Impact:

All decisions pertaining to the City's Final 2023 budget will have a fiscal impact.

Alternatives:

1. Allow for public comments, discuss any/all comments received and consider postponing approval of the 2023 final budget and property tax levy. If a decision is postponed, the levy needs to be approved and certified before December 28th, which would require a special meeting.

Attachments:

1. TNT Presentation
2. Final 2023 City of Lonsdale Budget
3. Resolution 2022-53
4. Final 2023 Property Tax Levy and Impact – 54.480
5. 2022 YTD financial summary of Lonsdale Liquor
6. City of Lonsdale – Proposed 2023 Tax Change By Parcel
7. Rice County Proposed 2023 Tax Change By Parcel
8. Rice County – 2023 TNT Total Rates
9. Rice County – 2023 TNT Individual Tax Extension Rates