
MEMORANDUM

To: Mayor Walsh and Orono City Council
From: Ron Olson, Finance Director
Subject: 2023 Budget
Date: June 26, 2023

Attachments: 2024 Budget

Work on the 2024 budget has begun. Individual departments are currently preparing their budget requests. The City Administrator and Finance Director have begun to meet with the General Fund departments to discuss and refine the department budget requests.

This will be the second year of utilizing the budget committee in the budget process. A chart illustrating the budget process is attached to this memo. In brief, department heads provide their budget requests to the Finance Department. These requests are reviewed and adjusted during meetings between the Department Heads, the City Administrator, and the Finance Director. The budget committee is meeting once per month to review and provide guidance to the development of the Preliminary Budget and Tax Levy. The full Council will be updated at monthly work sessions. The Preliminary Budget and Levy will be publicly presented at the first council meeting of September. Adoption of the Preliminary Budget and Tax Levy will be at the second meeting in September. Major expenditures that are driving increases include:

- Inflation has slowed from the previous year but continues to be a factor in building the 2024 budget. The current annual (May to May) CPI-U is 4.0%. The CPI includes a wide variety of items in its calculation so it does not mean all budget lines are equally impacted. For example, energy has decreased by 11.7% over the same time frame.
- Wages and benefits. The city has four labor unions that cover most of the city's employees. Their contract all have a 3% increase for 2024. Wages and Benefits make up approximately 65% of General Fund expenditures; it is expected that this expenditure category will have the greatest impact on the budget. It is expected that health insurance premiums will increase by approximately 10% for next year.
- Insurance – Liability and Workers' Comp. Information provided by the League of Minnesota Insurance Trust (LMCIT), suggests that the upward pressure on rates is lessening. Recent charges made by the 2023 legislature should reduce the increase in Worker's Compensation due to PTSD retirements among Public Safety Personnel.
- Tax Levy/Tax Capacity Rate. The City's property tax base continued to increase during the 2023 assessment period. While the County numbers are not final, the tax base has increased to \$4,912,740,729, this is an increase of \$579,292,385 (13.37%). The attached

charts include possible levy amounts and their impact on the property tax rate. They are for illustrative purposes only and reflect the Council's expressed goals of fully funding the City's pavement infrastructure, increase spending on parks infrastructure, and adequately funding fire operations and capital needs.

- Creation of the Orono fire department will increase fire expenditures significantly next year. Funding the spike in 2024 costs is discussed below. At the end of the contract (12/31/2025) the amount budgeted for Long Lake fire will be eliminated. It is possible that in the future we will have some contracts with neighboring cities that will offset the costs. If not, the costs will have been able to be absorbed into the General Fund operating budget..

Based on the budget Committee's guidance, the tax information provided with this memo is based on a levy increase of \$1,000,000 (12%) and a slight decrease in the rate from 16.53% to 16.52%. Aside from the current operating needs of the General Fund, funding for fire equipment and city facilities are the greatest current need for increases. Current projections indicate that the annual levy for the Facilities fund should be \$500,000 and for Fire Capital \$560,000. In order to meet these needs, without increasing the overall levy, we will use a combination of transfers and grant money.

As part of the recently passed state budget, we will be receiving a Public Safety Grant in the amount of \$371,000. It is proposed to use this grant for the purchase of fire equipment. The combination of the \$275,000 levy and \$371,000 grant exceed the needed annual amount by \$85,000 while phasing in the needed levy over the 2024 and 2025 budget years. Staff is also recommending reducing the 2024 levy for the 2014 Debt Service Fund to \$60,000 for 2024. The fund has the required level of cash to pay the next year's debt service. This is a one-year reduction that purpose is to spread the levy needs for the Fire operating budget over a longer time period.

In the near future, the city will see some relief in the pressure on the levy as two need levy amounts will be eliminated. The need for the levy portion paying for LL Fire will be eliminated in the 2026 levy. The final payment of the 2014 GO Improvement Bonds is eliminated from the levy in 2029. This will allow reduce pressure on the levy and is good justification to use some one-time funds in order to phase in the other levy increases.

Overall, the 2024 budget process has some challenges, with phasing in the levy increases needed to properly fund the capital and operating need of the fire department. The City's strong financial reserves and long-term funding identified for the city's capital plan has the City in a good position to navigate the current situation without increasing the tax rate.

MEMORANDUM

To: Mayor Walsh and Orono City Council
From: Ron Olson, Finance Director
Subject: 2023 Budget
Date: July 24, 2023

Attachments: 2024 General Fund Budget and Tax Levy

Work is continuing on the 2024 budget and tax levy. Individual departments requests have been entered into our accounting software, and department heads have discussed their requests with the City Administrator and Finance Director. Tax levy required to fund the General Fund, Capital Funds, and Debt Service Funds has been calculated and is sufficient to fund all of the needs without an increase in the Tax Capacity Rate. Summary budget information and levy requirements are included with this memo. Staff continues to meet with the Budget Committee and this information is being provided as an update of the budget process to the rest of the council.

There are a couple of variables that could still impact the budget and the tax base.

- Health Insurance – The budget has been created with an assumption that the city contribution for employee health insurance will increase by \$100 per month. We will not the actual amount of any rate increase until the end of September.
- Property Values – The final property values will not be received from the Hennepin County Assessor until December. The tax rate calculations are based on the most recent numbers available and generally do not change significantly in either direction between now and the final.

There were additional changes made to the General Fund structure that you should be aware of when reviewing the budgeted numbers.

- Golf Course – The accounting for the Golf Course was removed from the General Fund and moved back to an Enterprise Fund. This change was approved by the Council last year and is the preferred method of accounting for a golf course.
- Communications Department – This is a newly created department within the General Fund. This will allow for better tracking of expenditures related to newsletters, social media, and other communication related costs.

- Minutes and Agenda Management Costs – These costs are being budgeted in the departments that have public meetings (Council, Planning, Parks) This is part of a plan to remove department specific costs from the Central Services department to the responsible departments

As discussed at a work session in June, some one-time money is being utilized to allow needed levy increases to be phased while the overall tax rate is held steady. A copy of the June 26th work session memo is attached highlighting the levy amounts were set .

Attachments

- 1) 2024 Draft Tax Levy
- 2) 2024 Draft Tax Rate Calculation
- 3) 2024 Draft GF Revenue Summary
- 4) 2024 Draft Summary Department Exp
- 5) 2024 Draft Expenditures by Category
- 6) June 26th Work Session Memo

City of Orono
2024 Annual Budget

Local Levy

| | <u>2023</u> | <u>2024</u> | <u>2023 Over / Under 2022</u> | |
|-----------------------------|---------------------------|---------------------------|-------------------------------|----------------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| <u>TAX LEVIES</u> | | | | |
| General Fund | \$5,641,000 | \$6,545,100 | \$904,100 | 16.03% |
| Facilities Fund | 375,000 | 375,000 | 0 | 0.00% |
| Fire Capital Fund | 0 | 275,000 | 275,000 | N/A |
| Pavement Management | 1,000,000 | 1,000,000 | 0 | 0.00% |
| Parks | 150,000 | 200,000 | 50,000 | 33.33% |
| Community Investment | 219,000 | 200,000 | -19,000 | -8.68% |
| GO Improvement 2014 | 242,000 | 60,000 | -182,000 | -75.21% |
| GO Improvement 2021 | 760,000 | 760,000 | 0 | 0.00% |
| Total Local Tax Levy | <u>\$8,387,000</u> | <u>\$9,415,100</u> | <u>\$1,028,100</u> | <u>12.26%</u> |

City of Orono

Tax Rate

| | Actual 2023 | Estimated 2024 | 2024 Over / Under 2023 | |
|---|----------------------|----------------------|------------------------|---------------|
| | | | Amount | Percent |
| <u>TAX CAPACITY</u> | | | | |
| Net Tax Capacity (Adj Net Tax Capacity) | <u>\$50,742,986</u> | <u>\$57,000,000</u> | <u>\$6,257,014</u> | <u>12.33%</u> |
| <u>LOCAL LEVY</u> | | | | |
| Total levy all funds | <u>\$8,387,000</u> | <u>\$9,415,100</u> | <u>\$1,028,100</u> | <u>12.26%</u> |
| <u>TAX CAPACITY RATES</u> | | | | |
| General Fund | 11.12% | 11.48% | 0.37 | |
| Facilities Fund | 0.74% | 0.66% | -0.08 | |
| Fire Capital Fund | 0.00% | 0.48% | 0.48 | |
| Pavement Management | 1.97% | 1.75% | -0.22 | |
| Parks | 0.30% | 0.35% | 0.06 | |
| Community Investment | 0.43% | 0.35% | -0.08 | |
| GO Improvement 2014 | 0.48% | 0.11% | -0.37 | |
| GO Improvement 2021 | 1.50% | 1.33% | -0.16 | |
| Orono Fire Department | 0.00% | 0.00% | 0.00 | |
| Total Local Tax Capacity Rate | <u>16.53%</u> | <u>16.52%</u> | <u>-0.01</u> | |

**City of Orono
2024 Revenue Budget Summary**

| <u>Revenue Source</u> | <u>2022 Actual</u> | <u>Y-T-D Jun 30,2023</u> | <u>2023 Budget</u> | <u>2024 Budget</u> | <u>Increase (Decrease)</u> | <u>Percentage Increase (Decrease)</u> |
|--|--------------------------|------------------------------|--------------------------|--------------------------|--------------------------------|---|
| Property Taxes | 4,971,707 | 2,840,769 | 5,664,500 | 6,568,600 | 904,100 | 16.0% |
| Total Licenses | 15,020 | 3,339 | 18,700 | 18,700 | 0 | 0.0% |
| Total Permits | 746,882 | 316,947 | 566,500 | 566,500 | 0 | 0.0% |
| Total Intergovernmental | 493,370 | 135,675 | 403,000 | 290,000 | -113,000 | -28.0% |
| Total Gen Govt Service Charges | 976,893 | 298,416 | 798,100 | 859,900 | 61,800 | 7.7% |
| Total Public Safety Service Charges | 2,687,737 | 2,365,469 | 2,875,980 | 2,850,670 | -25,310 | -0.9% |
| Total Fines and Forfeits | 66,570 | 30,273 | 80,000 | 85,000 | 5,000 | 6.3% |
| Total Investment Revenue | 100,692 | 152 | 160,900 | 160,900 | 0 | 0.0% |
| Total Golf Course Receipts | 382,324 | 194,857 | 377,000 | 0 | -377,000 | -100.0% |
| Total Miscellaneous Revenue | 29,677 | 11,445 | 48,590 | 46,590 | -2,000 | -4.1% |
| Total Revenue | <u>10,470,872</u> | <u>6,197,343</u> | <u>10,993,270</u> | <u>11,446,860</u> | <u>453,590</u> | <u>4.1%</u> |

City of Orono
2024 General Fund Budget
Departmental Budgets

| | <u>2022</u> <u>Actual</u> | <u>Y-T-D</u> <u>Jun 30, 2023</u> | <u>2023</u> <u>Budget</u> | <u>2024</u> <u>Dept</u> <u>Request</u> | <u>Dollar</u> <u>Increase</u> <u>(Decrease)</u> | <u>%</u> <u>Increase</u> <u>(Decrease)</u> |
|--|------------------------------|-------------------------------------|------------------------------|--|---|--|
| Mayor & Council | 47,735 | 25,488 | 42,750 | 60,400 | 17,650 | 41.29% |
| Administration | 383,060 | 236,051 | 493,600 | 521,250 | 27,650 | 5.60% |
| Elections | 62,277 | 15,847 | 38,800 | 80,400 | 41,600 | 107.22% |
| Communications | - | - | - | 49,300 | 49,300 | N/A |
| Assessing | 234,000 | 127,000 | 260,000 | 270,000 | 10,000 | 3.85% |
| Finance | 303,516 | 189,721 | 334,000 | 335,300 | 1,300 | 0.39% |
| Law/Legal Services | 132,017 | 100,890 | 125,000 | 128,000 | 3,000 | 2.40% |
| Central Services | 300,064 | 102,255 | 317,200 | 354,400 | 37,200 | 11.73% |
| Human Services | - | 9,500 | 12,400 | 12,000 | (400) | -3.23% |
| Police | 4,995,992 | 2,469,325 | 5,592,400 | 5,802,710 | 210,310 | 3.76% |
| Fire Protection Services - LL | 471,462 | 317,992 | 544,000 | 665,641 | 121,641 | 22.36% |
| Fire Protection Services - OR | 1,335 | 80,770 | 174,800 | 681,900 | 507,100 | 290.10% |
| Building & Zoning | 748,156 | 385,263 | 820,970 | 885,200 | 64,230 | 7.82% |
| Engineering | 33,633 | 39,434 | 20,000 | 25,000 | 5,000 | 25.00% |
| Street Maintenance | 654,817 | 246,230 | 609,500 | 673,550 | 64,050 | 10.51% |
| Public Works - Spring Park | 85,227 | 65,563 | 98,500 | 100,800 | 2,300 | 2.34% |
| Brush Site | 40,190 | 10,678 | 43,300 | 45,675 | 2,375 | 5.48% |
| Parks | 324,389 | 143,277 | 419,950 | 421,150 | 1,200 | 0.29% |
| Golf Course | 363,089 | 158,633 | 364,800 | - | (364,800) | -100.00% |
| Special Services | 266,170 | 149,186 | 251,300 | 101,200 | (150,100) | -59.73% |
| General Fund - Special Projects-Contin | 14,256 | - | 30,000 | 30,000 | - | 0.00% |
| Transfers to Other Funds | 400,000 | - | 400,000 | 200,000 | (200,000) | -50.00% |
| Total General Fund Expenditures | 9,861,385 | 4,873,101 | 10,993,270 | 11,443,876 | 450,606 | 4.10% |

**City of Orono
2024 General Fund Budget
Major Expenditure Categories**

| | <u>2022</u> <u>Actual</u> | <u>2023</u> <u>Budget</u> | <u>2024</u> <u>Draft Budget</u> | Dollar Increase (Decrease) | % Increase (Decrease) |
|--------------------------|------------------------------|------------------------------|------------------------------------|---|--|
| Personal Services | 6,277,385 | 7,182,400 | 7,646,000 | 463,600 | 6.45% |
| Supplies & Maintenance | 648,241 | 726,270 | 791,700 | 65,430 | 9.01% |
| Insurances | 178,660 | 188,600 | 182,900 | (5,700) | -3.02% |
| Professional Services | 1,534,131 | 1,650,500 | 1,903,701 | 253,201 | 15.34% |
| Other Expenses | 593,131 | 561,100 | 468,075 | (93,025) | -16.58% |
| Capital Outlay | 191,140 | 241,000 | 221,500 | (19,500) | -8.09% |
| Transfers to Other Funds | 404,250 | 400,000 | 200,000 | (200,000) | -50.00% |
| Contingencies | 14,256 | 30,000 | 30,000 | - | 0% |
| Purchases for Resale | 20,962 | 13,400 | - | (13,400) | -100.00% |
| Total | 9,862,156 | 10,993,270 | 11,443,876 | 450,606 | 4.10% |