

2025 Operating Budget Recommendations

July 15, 2024

Amelia Cruver, Finance Director

Action requested + policy considerations

Recommended action: There is no action being requested.

Policy considerations:

1. Does council support the recommended general fund budget and associated levy increase of \$669,052 as presented, understanding that a) it is a portion of the overall levy increases needed and b) staff will continue to work toward lowering the levy increases?
2. Does council support a flat Housing Redevelopment Authority levy in 2025 of \$1.74 million before salaries and associated levy are moved to the general fund, with the understanding that additional external revenues are going to the Affordable Housing Trust Fund to support programs?
3. Does council support an Economic Development Authority levy of \$187,000 in 2025 and \$375,000 in 2026 to cover non-personnel programming funded out of the development fund and stop the spend down of that fund?

Agenda

- Budget Process
- Recommended budget proposals
- Levy impact
- Next Steps

Budget Process and Calendar

Date	Agenda Item	Topics
July 8	Council report and discussion: Base budget and fee update	<ul style="list-style-type: none">• Learnings from 2023• Base Budget spending and revenues and levy impact• 2025 economic conditions
July 15	Council report and discussion: Operating budget Public Hearing: Fee update	<ul style="list-style-type: none">• Proposed new operating budget spending items in the 2025 budget and levy impact
Aug. 12	Council report and discussion: Capital budget and levy recommendation	<ul style="list-style-type: none">• Proposed capital projects for 2025 and levy impact• Proposed 5 year Capital Improvement Plan (CIP)• Preliminary 2025 levy
Sept. 16	Council report, discussion and vote: Approve maximum levy	<ul style="list-style-type: none">• Revisions, if any, to the proposed capital and operating budgets and associated levies• Adoption of maximum 2025 levy

Budget Process and Calendar, cont.

Date	Agenda Item	Topics
October TBD	Council report and discussion: TIF Management Report and discussion	<ul style="list-style-type: none"> • TIF district performance • TIF district recommended transfers and decertification, if any.
Mid November	<i>Truth in taxation property tax notices sent out by the county</i>	<i>Residents receive an estimate of their 2025 tax bill and information on the public hearing in December</i>
Nov. 18	Council report and discussion: Revised budget	<ul style="list-style-type: none"> • Revisions to the budget and adjustments to the levy, as needed. In November the levy can only go down from the maximum set in September
Dec. 2	Council report and public hearing: Truth in Taxation	<ul style="list-style-type: none"> • Residents share feedback on the proposed 2025 budget
Dec. 16	Council report, discussion and vote: Budget adoption	<ul style="list-style-type: none"> • Council adopts the 2025 budget and CIP

Internal Budget Process

- Review 2023 budget to actual data
- Review and update personnel rosters
- Enter and review the base budget, update fees
- Draft new budget proposals
 - Rationale, leveraging of other funds, racial equity analysis, alignment with strategic priorities
- Decision making

2025 Must-do Proposals

- These proposals are essential for maintaining the current service level for residents or are proposals that council has given staff direction to fund in future budgets.
- Would add an ongoing \$530,000 to the property tax levy, increasing the preliminary levy increase estimate to 6.66%. The 2025 Operating Proposals and Levy Impact handout includes the year-over-year comparison.
- *Details on handout*

Ongoing general fund recommendations

- These proposals are recommended by the city manager
- These proposals would add an ongoing \$209,052 to the budget and property tax levy, increasing the preliminary levy increase estimate to 7.15%
- *Details on handout*

One-time general fund recommendations

- These proposals are recommended by the city manager
- These proposals can be funded with excess fund balance in the general fund. Increasing the use of fund balance by \$160,000 will keep us in compliance with our fund balance targets of 40-50 percent of the current year's budgeted expenses.
- *Details on handout*

Affordable Housing Trust Fund and HRA levy

Funds programs for home purchase support, rental assistance, and larger housing projects

Budget virtually flat from 2024 to 2025, spending driven by economic conditions and other factors outside of the city's control.

New revenue expected to start in 2024 from the state. Local Affordable Housing Aid is estimated at \$330,000 annually.

Levy Recommendation: Maintain 2024 levy amount, \$1,744,133 before moving out revenue to cover personnel costs.

Development fund and EDA levy



Economic development activities, programs and initiatives, along with small business assistance within the city



Fund balance has been spent down over the last two decades without an ongoing revenue source. EDA levy established in 2022 at \$500,000 and was increased to \$877,000 in 2024 to cover all staffing costs.

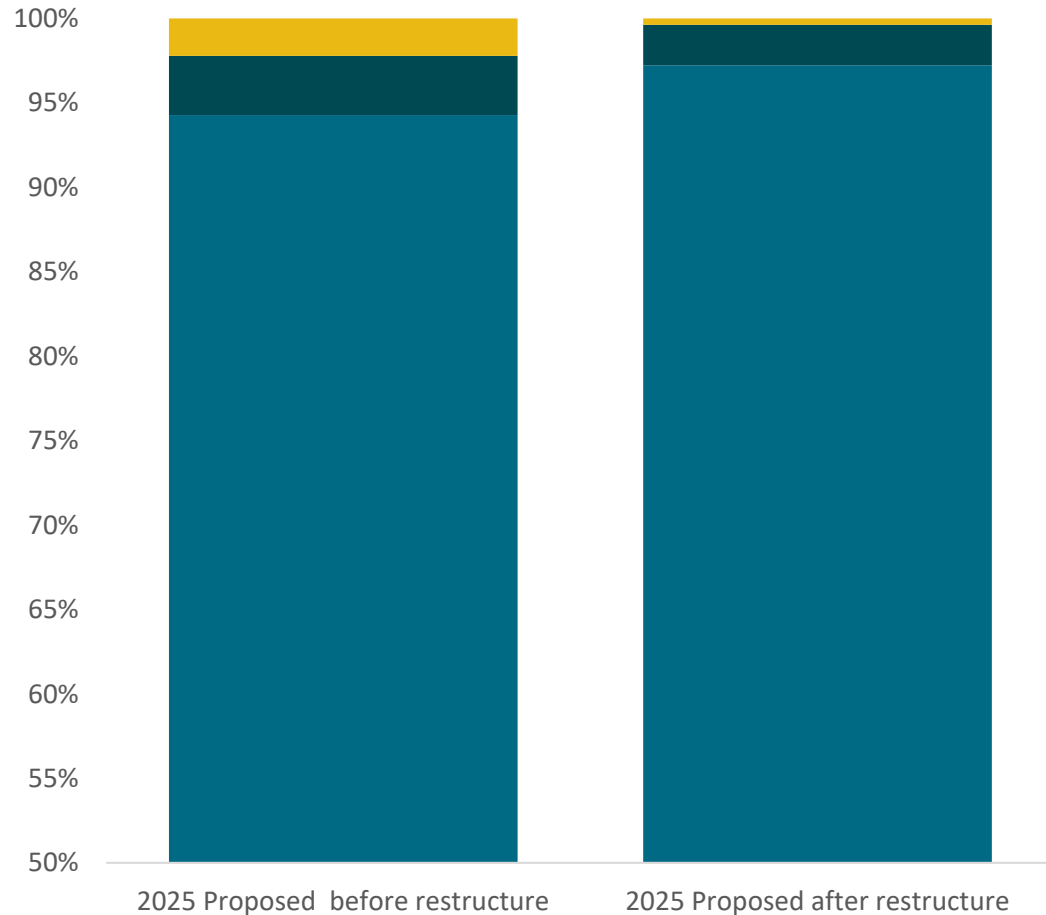


Recommendations:

- Move \$177,000 of expenses from the Development Fund to the General Fund.
- Move all staff costs to the general fund along with the existing EDA levy revenue to support it.
- Set the EDA levy at \$187,000 in 2025 and \$375,000 in 2026 to cover the cost of land maintenance, non-loan business development supports, and the cost of zoning analysis and outreach related to land sales.

Levy Recommendations

Fund	2024 Adopted	2025 Projected	2025 Must Do	2025 Proposed Change	2025 Proposed Total <i>before restructure</i>
General Fund	\$34,147,654	\$36,264,298	\$530,000	\$209,052	\$37,003,350
Capital Replacement Fund	\$2,177,793	\$2,420,496			\$2,420,496
Park Improvement Fund	\$860,000	\$860,000			\$860,000
Employee Benefits Fund	\$200,000	\$150,000			\$150,000
Subtotal General Levies	\$37,385,447	\$39,694,795			\$40,433,847
Debt Service Levy	\$6,362,813	\$6,681,785	-\$158,000		\$6,523,785
General and Debt Service Levies	\$43,748,260	\$46,376,580			\$46,957,632
Housing Redevelopment Authority Levy	\$1,744,133	\$1,914,244		-\$170,111	\$1,744,133
Economic Development Authority Levy	\$877,000	\$916,465		\$187,000	\$1,103,465
Total Property Tax Levy	\$46,483,749	\$49,207,288	\$49,579,288	\$49,805,229	\$49,805,229
Levy Growth	7.74%	5.86%	6.66%	7.15%	7.15%



■ Economic Development Authority Levy
 ■ Housing Redevelopment Authority Levy
 ■ General and Debt Service Levies

Levy Restructure

- Chart assumes recommended levy amounts in 2025
- Moves more revenue into the general fund to support more personnel costs moving to the general fund
- Remaining EDA and HRA levies will support economic development programs and purchases and Affordable Housing programs and purchases, staff and overhead stay in the general fund.

Overall levy impact

Note: All general levies include general fund, capital replacement fund, park improvement fund, and employee benefits fund. The final three in this group will be discussed with council in August.

Fund	2024 adopted	2025 projected			<i>restructure</i>	<i>restructure</i>
	Levies adopted by council in 2023 for 2024 spending	Projected levy from long range financial plan presented during 2024 budget discussions	Changes to the levy in the Must Do list of proposals	Changes to the levy in the recommended list of proposals	Combined levy proposal for operating funds. Recs for additional levies forthcoming	
General Levies*	\$37,385,447	\$39,694,795			\$40,433,847	\$41,900,312
Debt Service Levy	\$6,362,813	\$6,681,785	-\$158,000		\$6,523,785	\$6,523,785
General and Debt Service Levies	\$43,748,260	\$46,376,580			\$46,957,632	\$48,424,097
Housing Redevelopment Authority Levy	\$1,744,133	\$1,914,244		-\$170,111	\$1,744,133	\$1,194,133
Economic Development Authority Levy	\$877,000	\$916,465		\$187,000	\$1,103,465	\$187,000
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Levy Growth	7.74%	5.86%	6.66%	7.15%	7.15%	7.15%

Next Steps

Action	Dates
Council Report: Base budget and fee update	July 8 – study session
Council Report: Operating budget	July 15 – s. study session
Public Hearing: Fee update	July 15 – council meeting
Council Report: Capital Budget and levy recommendation	August 12 – study session
Council Report: Approve maximum levy	September 16 – council meeting
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Council Report: Budget Adoption	December 16 – council meeting

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Recommended action: There is no action being requested.

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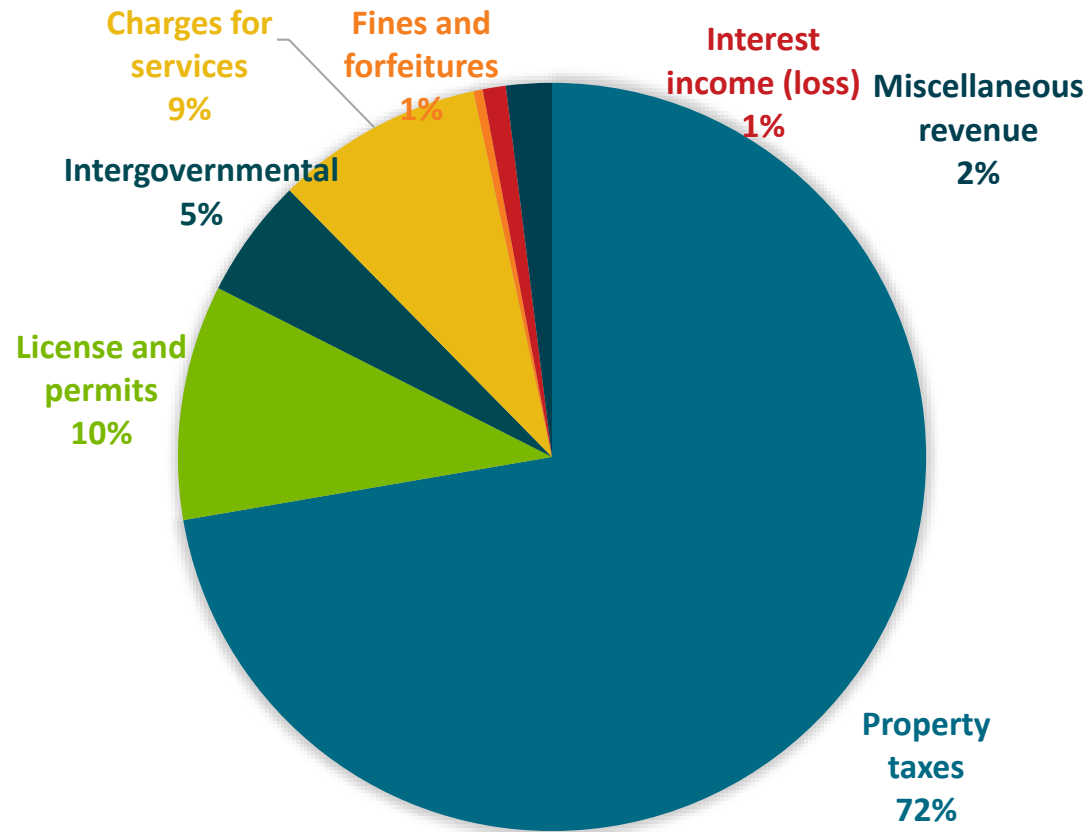
Questions?

2024 Budget and levy impact

- Long range financial plans included a 4.5% growth in personnel and other base budget spending in addition to the impacts from 3 new FTEs.
- The 5.86% increase projected in last year's budget discussions **does not take into account any new spending in 2025.**

Fund	2024 Adopted	2025 Projected
General Fund	\$ 34,147,654	\$ 36,264,298
Capital Replacement Fund	\$ 2,177,793	\$ 2,420,496
Park Improvement Fund	\$ 860,000	\$ 860,000
Employee Benefits Fund	\$ 200,000	\$ 150,000
Subtotal General Levies	\$ 37,385,447	\$ 39,694,795
Debt Service Levy	\$ 6,362,813	\$ 6,681,785
General and Debt Service Levies	\$ 43,748,260	\$ 46,376,580
Housing Redevelopment Authority Levy	\$ 1,858,489	\$ 1,914,244
Economic Development Authority Levy	\$ 877,000	\$ 916,465
Total Property Tax Levy	\$ 46,483,749	\$ 49,207,288
Levy Growth	7.74%	5.86%

2025 Base Budget: Revenues



2024 Budgeted General Fund Revenues

- Property Taxes are the largest source of revenue for the city
- Charges for services and License and Permit revenues are generated from Fees set by Council and city leaders each year

2025 Base Budget: License and permit fees

2024 revenue

Non Owner-Occupied	\$559,905
Other Licensing/permitting	\$276,953
Point of Sale	\$200,000
Total Revenue	\$1,036,858

2025 revenue w/fee increase

Non Owner-Occupied	\$829,605
Other Licensing/permitting	\$310,390
Point of Sale	\$280,000
Total Revenue	\$1,419,995

2025 Base Budget: Utility rates

- No change from multi-year plan approved last year.
- Median User would see a 5.1% increase or a \$21.24 quarterly increase in 2025.

2025 Proposed Utility Rates						
Percent Change in Utility Rates						
Water						
Actual 2022	Actual 2023	Budget 2024	Proposed 2025	Projected Increase		
4.50%	4.50%	4.50%	4.50%	2026	2027	2028
				4.50%	4.50%	4.50%
Sanitary Sewer						
Actual 2022	Actual 2023	Budget 2024	Proposed 2025	Projected Increase		
3.50%	3.50%	5.50%	5.50%	2026	2027	2028
				5.50%	5.50%	5.50%
Storm Sewer						
Actual 2022	Actual 2023	Budget 2024	Proposed 2025	Projected Increase		
6.00%	6.00%	4.50%	4.50%	2026	2027	2028
				4.50%	4.50%	4.50%
Solid Waste						
Actual 2022	Actual 2023	Budget 2024	Proposed 2025	Projected Increase		
5.25%	5.25%	45.00%	5.75%	2026	2027	2028
				5.75%	5.75%	5.75%

2025 Base Budget Spending

- Around 70% of spending in our General Fund is personnel costs
- Base budget assumes no changes in FTE counts, a typical salary increase to accommodate step increases and an average general salary increase, and a mid range assumption for all currently vacant positions.
- Benefits are assumed to increase by 11% which is the maximum increase for health insurance according to our contracts.

2025 Base budget: Debt Service

- The Debt service will increase by \$160,000 in 2025, and \$400,000 in 2026 to finance 2024 infrastructure projects that are now underway. **This is around \$158,000 less than forecast in 2025, but right at forecast in 2026.**
- No debt will be retired in 2025
- The next time we will retire debt and lower our debt service payments will be:
 - 2026 will lower payments by \$550,000
 - 2027 will lower payments by \$1.14 M

2025 Recommended Levy Restructure

Fund	2025 Projected	Re-structure	NEW 2025 Projected	Result
General Fund	\$36,264,298	\$1,466,465	\$37,730,763	<i>Personnel costs are also increased by \$1.4M in the general fund</i>
Capital Replacement Fund	\$2,420,496		\$2,420,496	
Park Improvement Fund	\$860,000		\$860,000	
Employee Benefits Fund	\$150,000		\$150,000	
Subtotal General Levies	\$39,694,795		\$39,694,795	
Debt Service Levy	\$6,681,785		\$6,681,785	
General & Debt Service	\$46,376,580		\$46,376,580	
HRA Levy	\$1,914,244	-\$550,000	\$1,364,244	<i>Levy is lowered but 100% of remainder goes to AH projects, not staff</i>
EDA Levy	\$916,465	-\$916,465	\$0	<i>Policy decision needed around building up Development fund</i>
Total Property Tax Levy	\$49,207,288		\$49,207,288	

2025 Market Value Change

Assessed Market Value Change for Dominant Sectors (Comparing 2024 to 2023 Assessment)

Single-Family Residential	+ 1.0% Market Basis	versus	+ 1.5% with Improvements
Condominium	- 1.8% Market Basis	versus	- 1.8% with Improvements
Townhomes	- 0.8% Market Basis	versus	- 0.7% with Improvements
Apartments	- 0.7% Market Basis	versus	+ 7.5% with Improvements
Commercial	+ 1.2% Market Basis	versus	+ 1.8% with Improvements
Industrial	+ 5.2% Market Basis	versus	+ 5.4% with Improvements
St. Louis Park Total	+ 0.7% Market Basis	versus	+ 2.5% Gross Change

Source: St. Louis Park Assessing Office. The “total” line is subject to slight refinement (0.3% to 0.5% generally) as the state assessed rail and utility values are assumed and not available at report writing.

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