

# City of Hastings

**To: Mayor Hicks and City Council**  
**From: Melanie Mesko Lee, City Administrator**  
**Date: November 27, 2013**  
**Item: 2014 Budget Transmittal Memorandum**

### **Council Action Requested:**

Conduct public hearing in accordance with Truth in Taxation guidelines. The information in this memo is context for the recommended 2014 budget. Formal action on the 2014 budget, levy, and HRA levy will occur at the December 16, 2013 Council meeting.

### **Background Information**

In accordance with the Hastings City Charter, I present a recommended 2014 annual budget which is the result of several months of work led by the Finance Committee of the Council (Schultz (chair), Alongi, Nelson). The 2014 budget includes the General Fund, Special Revenue Funds, Enterprise Funds, Debt Service Funds, and Capital Improvement Projects. The 2014 recommended budget includes total appropriations of \$28,144,674. The tax levy to support the budget is \$11,610,920, which is a reduction from the 2013 tax levy by 3.1%.

The 2013 Minnesota Legislature provided for some financial resources to local government. For 2014, the City of Hastings will receive \$510,000 in Local Government Aid (LGA). Due to the volatility of this funding source, the 2014 budget uses this allocation for one-time capital investments. Additionally, a sales tax exemption for cities and counties for purchases made on or after January 1, 2014 also contributed positively to the 2014 budget.

Less positive news came in the form of a further overall reduction in the taxable market value in Hastings for 2014. The City's overall taxable market value decreased from \$15,522,582 in 2013 to an estimated \$15,417,915 in 2014, an overall decline of 1%.

### **Budget at a Glance**

|            | tax levy<br>(\$) | tax rate<br>(%) | total budget<br>(\$) | Local Government Aid<br>(LGA) |
|------------|------------------|-----------------|----------------------|-------------------------------|
| 2013       | \$11,980,920     | 68.919%         | \$26,333,433         | \$0                           |
| 2014       | \$11,610,920     | 65.855%         | \$28,144,674         | \$510,000                     |
| Difference | (\$370,000)      | (3.1%)          | \$1,809,241          | \$510,000                     |

December 2, 2013 has been advertised as the City's Truth in Taxation Hearing for the 2014 budget. During this meeting, staff will provide a recap of the 2014 budget preparation process. The information contained in this memo has been put together to provide additional background and context for the 2014 budget.

**Purpose of the Budget**

The annual budget represents the financial plan and priorities of the City of Hastings. It is intended to clearly communicate the City’s priorities and how resources are allocated in an easy to understand manner. As the City is continually evolving so is the process in which the budget is created. Priorities and goals are established and funded in alignment with Council directives and our CORE values: Communication, Respect for Resources, Service, and Enthusiasm. This budget represents a culmination of many hours of hard work by elected officials and City staff dedicated to serving the citizens in an efficient and responsive manner.

**Budget Directives & Timeline**

- *April-June*—preparation of projections from current year budget into next year budget for preliminary planning purposes
- *June-July*—department preparation of budget information for next budget
- *July-August*—presentation to the Finance Committee of the Council preliminary information, establishment of next year tax levy objectives, and review of organization priorities and needs. These meetings were conducted on July 31 and August 12, 2013. A preliminary update of the budget was presented to the full Council on August 19, 2013.
- *September 3, 2013*—adoption of 2014 preliminary tax levy, preliminary budget and HEDRA/HRA special tax levy.
- *September-November*—review of department requests, available funding, outstanding needs, and establishment of a final budget for review by Finance Committee. The Finance Committee met on November 18 to provide final comment and review of 2014 proposed budget.
- **December 2**—Truth in Taxation hearing and budget information provided to the full City Council.
- **December 16, 2013**—Council review and adoption of next year levy, budget, capital planning document

**Tax Rate Philosophy**

Over the last several months, the Finance Committee directed staff to develop a 2014 budget with a targeted tax rate of 66.250%, which was a rate equal to the 2012 tax rate. As a result of this directive, a preliminary 2014 tax levy of \$11,610,920 was calculated. Based on the preliminary levy amount set by the Council in September, the 2014 targeted tax rate was recalculated at 65.855%. For reference, the 2013 tax levy was set at \$11,980,920 with a rate of 68.402%; that amount is the 2014 maximum levy the City could have adopted.

|                           |                     |         |
|---------------------------|---------------------|---------|
| <b>Tax Levy Rate Goal</b> | 2012’s rate         | 66.25%  |
| <b>Currently</b>          | 2013 tax levy rate  | 68.402% |
| <b>Future</b>             | 2014 final tax rate | 65.855% |

At the September 3 Council meeting, the Council adopted the preliminary levy of \$11,610,920. Once the preliminary levy was set it could not go any higher.

**Recommended Budget**

Within the recommended budget, we would like to highlight the following items:

Hastings will receive \$510,000 in **Local Government Aid (LGA)** in 2014; this is a reversal of a trend over the last several years which eliminated this funding source completely. Accordingly, we made an intentional decision to allocate these funds for one-time equipment needs:

- Front End Loader
- Hudson Clean Up
- Dog Park (partial)

**Equipment Revolving Fund (ERF) \$308,000**

These funds are a way to save for planned future needs. Sometimes, those needs change and ERF dollars have been allocated for which the original purpose no longer exists. By reviewing our existing ERF balances, we were able to reallocate some of those funds to support current needs:

- Computer Replacements
- Medical Training Equipment
- HFAC equipment replacements
- Ambulance Remount
- Misc. office equipment replacement

We have also made the decision to fund and create some new ERF’s to recognize ongoing and future replacement needs. That investment in 2014 is \$104,000.

- Public Safety 800 MHz Radios
- Storm siren
- Fire, pool & general facilities equipment

**Equipment Certificates \$199,550**

Historically, the City has issued equipment certificates every other year. Over the last several years, as budgets have been challenging, we have relied more on issuing debt in the form of equipment certificates to purchase equipment ranging in total from \$300,000 - \$500,000. For 2014, the following items are currently identified to be funded through equipment certificates.

- Snow Blower
- Patrol Vehicle
- Skid Loader
- Toro 5910 Mower
- HFAC Pool Heater

**Fund Balance \$1,228,825**

The City has a governmental fund balance policy that establishes a goal of maintaining 30-40% of the subsequent year’s budgeted expenditures; this policy ensures that there are sufficient resources available to fund basic City functions between property tax settlements. Over the last few years, our general fund balance at times dipped below our policy guidelines. Currently, we are in compliance with our policy with a general fund balance at 39%. Other special revenue funds (i.e. P&R, HFAC, Civic Arena) are also generally within those policy guidelines.

*Other funds*—enterprise (i.e. water, wastewater) funds do not currently have a fund balance policy. We are currently developing strategies to help us guide those fund balance decisions.

The 2014 recommended budget includes use of fund balance for certain projects:

- Emergency generator at lift station
- Water tower repainting
- Rehab of Well #6
- Sandblasting of catwalk
- Lift station pumps
- Hudson clean up
- Dehumidification unit at arena
- Ice edger

**Levy**

It is recommended that some capital costs and initiatives are funded through levy dollars:

- Handheld ticket writer units
- Tasers
- 800 MHz radios
- Auto Chest Compression Device
- Fence repairs
- Warming house roof repairs
- Roof replacement at HFAC
- Community Survey
- Reinstatement of Lifeworks
- Duct Cleaning at CH & PD
- Spring Clean Up Day
- Dog park (partial)

**Dedicated Funds**—Finally, there are dedicated funds for certain 2014 initiatives:

- *Ward Cash* Dog Park (partial)
- *Trust* LeDuc Kitchen
- *Grants* Hudson Clean Up

### **Personnel**

Employee costs are another significant part of our budget. Our staff works diligently to effectively provide responsive and creative services to the public. Over the last several years, difficult personnel decisions have been made as we have faced challenging economic realities. It is our goal to continue to create a staffing complement based on the needs of the services we provide. Additionally, investment in strategically planning for aligning our staffing with needs as well as creating an organization of choice is included for 2014. The following personnel recommendations are being made for 2014:

- Overall compensation adjustment for all regular, full and part-time staff;
- Additional hours for code enforcement, building inspections, administrative support;
- New Community Development classification for economic development needs;
- Overall compensation adjustment for seasonal staff and step changes;
- Additional seasonal staff;
- Reclassifications in Parks & Recreation Department to better align with changing needs;
- Comprehensive study for Fire Department operations;
- Consultant to assist with benefits analysis;

In 2014, the recommended budget includes personnel costs which account for 38% of the total budget. The personnel costs in adopted 2013 budget included comprised 41% of the budget.

### **Summary**

In closing, the budget process continues to be an evolution as we balance needs with resources. I wish to thank the many City staff members for preparing their portions of the budget. It is through collaboration and communication that we have been able to bring forward a balanced budget for Council consideration. I am thankful to our fine staff and their understanding as I brought forward my perspective to budget development in my first year leading this important process.

I would also like to thank the Finance Committee for their thoughtful consideration, guidance, and leadership throughout the last several months –their professionalism is symbolic of the culture of the entire City Council.

We recognize budget information can be challenging to understand. I look forward to continuing to strive to communicate information to the public in a clear, easy to understand and concise manner. We are working to improve our annual budget information to achieve that goal.

Should you have any questions, please feel free to contact me. Thank you for your time on this significant matter.