



**COUNCIL WORK SESSION
MINUTES
6 P.M., TUESDAY, AUGUST 15, 2023
CITY HALL 2nd FLOOR BOARD ROOM**

Mayor Louismet opened the meeting at 6:05 p.m. Councilmembers in attendance included: Kevin Edberg, Steven Engstran, Heidi Hughes and Bill Walsh. Councilmember Dan Jones was absent. Staff members in attendance included: City Manager Lindy Crawford, Assistant City Manager Rick Juba, Finance Director Kerri Kindsvater and Assistant Finance Director Jessica Saari.

1. 2024 Preliminary Budget

City Manager Crawford and Finance Director Kindsvater gave an overview of the draft preliminary 2024 budget for the City's General Fund. In order to reduce a General Fund tax levy increase, the preliminary budget proposes use of \$583,079 of unrestricted surplus fund balance to make up for a proposed deficit between revenues and expenditures. Staff emphasized to Council that utilizing fund balance to subsidize the budget is not ideal nor sustainable, and that the Council will need to decide to either increase taxes further or reduce services to support a balanced budget as soon as the 2025 budget. For reference, the 2023 budget anticipated utilizing unrestricted surplus fund balance to subsidize the budget; however, due to unanticipated permit revenues and a reduction in expenditures, utilizing the funds is not necessary.

Staff recapped the description of fund balance analysis tools used to evaluate the appropriate balances. The first analysis is a recommendation from the state auditor for cities to keep a minimum of five month's operation costs (42%) on hand and accessible to cover unanticipated costs. The fund balance projected for December 31, 2023 covers 40.27% of the 2024 expenditures. Although the percentage is just below the state auditor's recommended amount, it complies with the Council policy requiring the fund balance to be 35-50% of expenditures anticipated for the following year. The second analysis ensures funds are available to pay claims in the first half of each year since the City receives the first payments of its largest revenue sources in June or July. The city's fund balance is 62.98% of the projected tax and intergovernmental revenue.

Staff highlighted significant revenue changes including continued reduction of the Local Government Aid (LGA) assigned to the General Fund to reduce the reliance on this funding source for operations. Council has supported this strategy in recent budgets as the State Legislature reduced the City's LGA allocation each year. This practice allocates the LGA funds to Capital Project funds and reduces the need to support those fund operations with a tax levy. The 2024 budget continued that reduction process based on Council feedback and support at the April 2023 work session.

Significant changes to expenditures in 2024 include salary adjustments per the City's Classification and Compensation plan adopted in 2022 as well as settled union contracts, addition of two full-time firefighter/paramedics, addition of a facility maintenance position, Emerald Ash Borer tree removal

charges, Zoning Ordinance update project, operating technology cost, and facility maintenance charges.

A significant change to both revenues and expenditures is moving the Ambulance Fund operations to the 2024 General Fund Budget as a stand-alone department. This move is based on staff recommendation and Council consensus at the April 2023 work session. The revenues include a 3% rate increase. Expenditures are operating expenditures only; the Equipment Acquisition Fund will account for ambulance capital expenditures similar to all other General Fund departments. The General Fund will receive a transfer of the Ambulance Fund Balance in the beginning of 2024 to close the fund.

During the 2023 State legislative session, the Legislature allocated a one-time payment of Public Safety LGA to White Bear Lake. The funding is restricted for use on recruitment, retention and equipment expenditures for Police and Fire Departments. Staff shared a recommendation of potential expenditures created by the Police and Fire Chiefs and the City Manager. The proposed uses includes both operating and capital expenditures. Staff stated that if this proposal were to move forward as presented, the aid would reduce the amount of unrestricted surplus fund balance needed to support the 2024 budget from \$583,079 to \$313,579. Staff reminded Council that using the Public Safety LGA funds to offset operating expenditures in the 2024 budget does reduce the deficit in the 2024 budget; however, the 2025 budget will need to include those expenditures resulting in an increase to the tax levy needed to support future budgets.

The Mayor and Councilmembers discussed the following topics included in the proposed 2024 budget that they have either formally adopted or supported at work session meetings:

- With Council's adoption of the City's Classification and Compensation Plan in 2022, staff wages are set for 2024 with the exception of the non-bargaining staff cost of living adjustment.
- Approval of the Public Safety Facility project obligates the City to make debt service payments to pay the construction costs.
- Recognition of the need to move the Ambulance Fund from an Enterprise Fund to the General Fund to support operations as they continue to add Firefighter/Paramedic staff to respond to calls for service.

Council provided further discussion and feedback on the following topics:

- Retaining some or all of the \$248,000 of LGA in the General Fund budget instead of transferring the aid to the Equipment Acquisition or Municipal Building Funds to support capital projects and expenditures. Council shared that they do not consider capital expenditures fixed costs that the City is obligated to pay and suggests holding the LGA revenue amount in the General Fund for 2024 will reduce the budget deficit and the use of unrestricted surplus fund balance to support the budget.
- A reflection on the effect of allocating some General Fund staff costs to the Enterprise Funds have over time.
- The need and timing of adding various staff positions.
- The use of Public Safety LGA to fund staff positions and operating expenditures in the Police and Fire Departments.

- An interest in holding the property tax levy as low as possible in 2024, with the understanding that future tax levy increases could have a more significant impact on property owners as operating expenditures paid for by government aid in the current year have tax support in future years.

Staff will continue to work on the draft preliminary budget and tax levy for presentation at the September 12 regular City Council meeting. The preliminary tax levy must be set no later than the September 26 regular City Council meeting.

The meeting adjourned at 9:05 PM.