

City of Austin
500 Fourth Avenue NE
Austin, Minnesota 55912-3773



Phone: 507-437-9940
Fax: 507-434-7197
www.ci.austin.mn.us

December 6, 2016

Honorable Thomas Stiehm, Mayor
Council Member-at-Large Janet Anderson
Council Member Jeff Austin
Council Member Michael Jordal
Council Member Steve King
Council Member David Hagen
Council Member Judy Enright
Council Member Jeremy Carolan

RE: 2017 Budget and Tax Levy
U:\Word\2016\2017 Budget\2017 Payable TNT cover letter.doc

Ladies and Gentlemen:

We are pleased to present for your review and approval the city budgets and tax levy for the year 2017. This annual process allows for citizens, staff, and elected officials to examine the services and facilities that the City of Austin currently provides and to plan for appropriate changes in the forthcoming year. Months of effort and input occurs on the way to arriving at an annual city budget that is adopted in December, and effective January 1 to December 31 of the next year.

In arriving at final choices for the provision of services and facilities of the city government, the Mayor and Council have listened to many proposals, deliberated the pro's and con's, and then arrived at final choices and consensus that allows for the adoption of our annual operational budgets, which total \$31,252,900 for 2017. These operational budgets are as follows:

	<u>Amount</u>
General Fund	\$ 15,923,859
Recreation Programs Fund	\$ 109,200
Library Fund	\$ 1,152,081
Police PERA Fund	\$ 60,000
Fire PERA Fund	\$ 35,000
Economic Development Fund	\$ 46
Special Assessment Debt Service	\$ 95,497
Tax Increment Debt Service	\$ 141,690
Capital Improvements Fund	\$ 1,907,500
Sewer User Fund	\$ 5,756,332
Waste Transfer Fund	\$ 83,924
Storm Water Management District	\$ 883,419
Port Authority Funds	\$ 148,960
Central Garage Fund	\$ 2,038,782
MIS Replacement Fund	\$ 230,854

Fire Equipment Fund	\$ 150,000
Risk Management Fund	<u>\$ 2,535,756</u>
Total All Funds	<u>\$ 31,252,900</u>

The City has a sound financial history and plan for the future. Budgets are balanced. Maintenance of adequate reserve balances has contributed to an Aa2 credit rating. A well planned five-year capital improvement plan which ties projects to revenue sources is adopted annually. The City's budget process encourages careful consideration of the long-term impacts of financial decisions. Both Moody's Investors Services and Standard & Poor's Ratings Services commented on the solid financial operations, prudent budgeting, and available financial flexible/liquidity in our recent reviews by the rating agencies. This opinion has been reaffirmed by our external auditors over the years as well.

Revenues – 2017

For Austin city government, the single largest source of annual operational revenue is the State of Minnesota. Each year the City receives millions of dollars from the state government with the largest share from Local Government Aid (LGA). The following is a ten-year history of LGA to Austin:

	<u>Amount</u>	
2017 Certified (1)	\$ 7,996,510	
2016 Certified (1)	\$ 7,984,340	
2015 Actual	\$ 7,958,149	
2014 Actual	\$ 7,878,853	
2013 Actual	\$ 7,122,450	
2012 Actual	\$ 7,122,450	Net of un-allotment
2011 Actual	\$ 7,122,450	Net of un-allotment
2010 Actual	\$ 7,122,450	Net of un-allotment
2009 Actual	\$ 7,386,151	Net of un-allotment
2008 Actual	\$ 7,168,865	

(1) Amount has not yet been received.

Local Government Aid provides 50.22% of our annual General Fund operational budgeted revenue (\$7,996,510 of \$15,923,859 total General Fund budget).

Property Tax Revenue

The following chart lists the City of Austin property tax amounts levied by year to the property owners in Austin.

	<u>Amount</u>
2017 Proposed	\$ 5,341,000
2016 Actual	\$ 4,900,000
2015 Actual	\$ 4,325,000
2014 Actual	\$ 4,120,000
2013 Actual	\$ 4,160,000
2012 Actual	\$ 3,975,000
2011 Actual	\$ 4,134,000
2010 Actual	\$ 3,900,000
2009 Actual	\$ 3,705,000
2008 Actual	\$ 3,460,000

The 2017 proposed tax levy is a 9% increase over the tax levy for 2016. Historically, 2-3% of this tax levy has been covered by new growth within the city. New growth includes new homes and commercial buildings that have been built and will now be added to the tax rolls for the first time. The new Austin Housing Initiative that abates taxes back for those homes that apply will reduce this growth percentage in probably the payable 2018/2019 year (depending on the status of completion at year-end), so we will not be able to count on as much growth in future years.

Expenditures – 2017

The largest portion of city expenditures in our tax-supported funds each year is the cost of wages and benefits. In 1980 the city had 184.96 FTE's (full-time equivalents). For 2017, the budget is set to increase staffing levels to 142.75 FTE's (an increase of .5). Through the budgeting process the Council authorized an additional 20 hours to the Administrative Assistant at the fire station.

City improvements and re-building of public infrastructure is an ongoing annual effort to maintain the property values and enhance Austin. This effort is partially funded by a portion of the annual city tax levy which pays for part of the bond principal and interest annual costs. In 2017 the \$5,341,000 tax levy includes the allocation of \$95,729 toward these improvement projects' bond payments, plus another \$1,163,400 to cover improvements to streets and trails. The other two sources of funds for infrastructure improvement projects is the state gas tax funds (the city receives approximately \$900,000) and property owner payment of assessments against property deemed to be benefited by the improvement.

Wastewater Treatment Plant

The City of Austin has a very large wastewater treatment plant facility consisting of the domestic side and the industrial side. The entire cost of operations of the industrial side are paid for by the Hormel Foods Corporation. The domestic side is paid for by the other customers within the City of Austin. Included in the 2017 rate structure is \$550,000 of funds to be set-aside for the continual improvement of the domestic facility.

The industrial user is expected to be billed \$2,039,421 in 2017 for system operations, with the domestic users contributing an additional \$3,481,911 in user fees. In addition to the \$2,039,421 of industrial user fees, Hormel Foods Corporation will be paying a monthly amount to fund the debt service on the industrial plant improvements that have been made in the past years and financed with debt.

Credit Rating

It is important for the City to maintain a strong credit rating to be able to realize low interest rates for borrowing needs. Currently the City has an Aa2 credit rating from Moody's Investor Services. It was awarded in 2010 due to strong financial management and adequate fund balances. The State of Minnesota's reduction in Local Government Aid/Market Value Aid did not adversely affect our credit rating in 2003, 2010 or 2011. However, sticking to the budget plan as proposed should alleviate any rating agency's concern for our financial future. If significant fund balances are used for operations, it will negatively impact our credit rating. Certain fund balances are required due to federal and state requirements and cannot be used for the daily operations of the City.

Annually, we strive to maintain 42% to 48% of the next year's expenses of the General Fund in unassigned fund balance. This allows room to meet cash flow needs and any unanticipated costs. At the end of 2015 there was a 54% fund balance level. However, during 2016 we completed a planned transfer of some of this fund balance to aid in the Health Insurance Fund deficit, plus some additional funding for the city hall partial remodel. In the past, if council has gotten close to the 50% level they have made

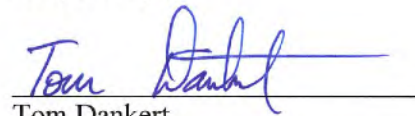
appropriations of the General Fund fund balance for capital projects or retirement of debt service. The 2016 operations are going strong so we anticipate a strong fund balance position again at year-end. However, after the transfers noted above we stand at a fund balance level of 45% based on 2015 expenditures.

Conclusion

For 2017, the policy choices made by the Mayor and Council in arriving at a budget of \$31,252,900 maintain the quality services and facilities expected by the citizens of Austin. The proposed tax levy of \$5,341,000 will allow Austin to continue its long tradition of good financial management. We want to emphasize any changes in the LGA formula or reductions in the funding of the LGA program will have a direct effect on how Austin does business in the 2017 and future years, and may cause amendments to the 2017 budget next year. However, the State of Minnesota appears to be having another strong year and we do not anticipate any funding reductions for 2017.

Finally, it is important that the five remaining unsettled labor contracts, as of this time, provide for a 3.0% increase in pay and benefit costs for 2017. Any variations from this budgeted plan will require adjustments to other areas of the budget.

Respectfully,



Tom Dankert
Director of Administrative Services

RESOLUTION NO.

APPROVING TAX LEVY FOR THE YEAR 2017

BE IT RESOLVED, by the Common Council of the City of Austin that there is hereby levied upon all taxable property in the City of Austin a direct ad valorem tax in the year 2016, payable in 2017, for the following purposes and in the following amounts:

<u>PURPOSE</u>	
GENERAL	\$3,120,420
LIBRARY	923,061
DEBT SERVICE	94,119
PORT AUTHORITY	40,000
CAPITAL IMPROVEMENTS	<u>1,163,400</u>
	<u>\$4,900,000</u>

A certified copy of this resolution shall be transmitted to the County Auditor.

Passed by a vote of Yeas and Nays this 19th day of December, 2016.

YEAS

NAYS

ATTEST:

APPROVED:

City Recorder

Mayor

13-1

**RESOLUTION NO.
ADOPTING A BUDGET FOR THE YEAR 2017**

BE IT RESOLVED, by the Common Council of the City of Austin that the budget for the year 2017 is hereby approved and adopted with appropriations for each of the purposes to be as follows:

General Government Services	
General Administration	\$2,122,734
Public Safety	6,431,982
Highways and Streets	3,693,059
Park and Recreation	2,235,522
Arenas	487,812
Business Development	206,500
Other General	746,250
Debt Service	95,497
Recreation Programs	109,200
Library	1,152,081
Police PERA Refund	60,000
Fire PERA Refund	35,000
Economic Development Revolv.	46
Capital Projects Funds	<u>1,907,500</u>
Total General Government Services	19,283,183
Tax Increment Revenue Pool	141,690
Enterprise Funds	
Sewer User	5,756,332
Waste Transfer Station	83,924
Storm Water Management Dist.	883,419
Port Authority Operations	<u>148,960</u>
Total Enterprise Funds	6,872,635
Internal Service Funds	
Equipment Garage	2,038,782
Management Information System	230,854
Fire Equipment Services	150,000
Risk Management	<u>2,535,756</u>
Total Internal Service Funds	<u>4,955,392</u>
Total Budgets	<u>\$31,252,900</u>

13-2
1/2

SECTION 2. The estimated gross revenues of the City of Austin for all sources, including ad valorem tax levies as hereinafter set forth for the year 2017, as the same are more fully detailed in the official copy of the 2017 budget, are hereby found and determined as follows:

Revenues and Sources for all Funds:

Current Local Property Taxes	\$5,341,000
Intergovernmental Revenues	9,095,135
Charges for Services	460,834
Licenses and Permits	440,110
Miscellaneous	3,167,904
Other taxes	574,000
Fines and Forfeits	<u>204,200</u>
Total for General Government Funds	19,283,183
Tax Increment Funds	141,690
Enterprise Funds	6,872,635
Internal Service Funds	<u>4,955,392</u>
Total Budgets	<u>\$31,252,900</u>

Provisions have also been made in General Fund revenues for receipt of State Local Government Aid.

SECTION 3. A certified copy of this resolution shall be transmitted to the County Auditor.

Passed by a vote of Yeas and Nays this 19th day of December, 2016.

YEAS

NAYS

ATTEST:

APPROVED:

City Recorder

Mayor

13-2
2/2

RESOLUTION NO.

**RESOLUTION AUTHORIZING CANCELLATION OF
CERTAIN AD VALOREM TAX LEVIES**

WHEREAS, certain resolutions of the City Council of Austin and Austin Port Authority provide for Ad Valorem Tax Levies to be made for the retirement of principal and interest on bond issues; and

WHEREAS, it appears desirable to cancel or to reduce such Ad Valorem Tax Levies to be levied in 2016 because there is sufficient fund balance available in these debt service funds to pay all or some of the principal and interest on these bonds due in 2017.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of Austin, Minnesota that tax levies authorized to be made in 2016, collectible in 2017, are hereby canceled by the amounts indicated below:

<u>Resolution #</u>	<u>Issue</u>	<u>Cancellation Amount</u>
13875	G.O. Utility Revenue Bonds Of 2010A	\$247,176
14976	G.O. Capital Improvement Bonds of 2015A	\$1,280,751

BE IT FURTHER RESOLVED, that a certified copy of this resolution shall be promptly given to the Mower County Auditor.

Passed by a vote of Yeas and Nays this 19th day of December, 2016.

YEAS

NAYS

ATTEST:

APPROVED:

City Recorder

Mayor

13-3

Property Tax 101: Property Tax Variation by Property Type

What causes property taxes to vary by type of property?

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more *class rates*. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, technically called its *net tax capacity*.

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. (All voter-approved levies are levied on referendum market value, except school district levies for bonded debt and other units' debt levies approved by voters after 6/30/08; those levies are levied on the net tax capacity of all types of property.)

Class Rate Schedule for Taxes Payable in 2017

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
1	Homestead			
1a	Residential homestead: Up to \$500,000 Over \$500,000	1.00% 1.25	No No	Yes Yes
2	Agricultural			
2a	Agricultural homestead: House, garage & 1 acre – same as residential homestead Agricultural land & buildings: Up to \$2,050,000 Over \$2,050,000	0.50 1.00	No No	No No
2a	Agricultural nonhomestead	1.00	No	No
2b	Nonhomestead rural vacant land	1.00	No	No
3	Commercial/Industrial/Public Utility			
3a	Commercial/Industrial/Public Utility: Up to \$150,000 Over \$150,000 Electric generation attached machinery	1.50 2.00 2.00	Yes* Yes* No	Yes Yes Yes
4	Other residential			
4a	Market-rate apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit: Up to \$500,000 Over \$500,000	1.00 1.25	No No	Yes Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial): Up to \$500,000 Over \$500,000	1.00 1.25	Yes** Yes**	No No
4d	Low-income apartments: Up to \$115,000 per unit Over \$115,000 per unit	0.75 0.25	No No	Yes Yes

* Subject to state general tax at commercial-industrial rate.

** Subject to state general tax at seasonal recreational rate.

15-1