

City of Austin  
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November 10, 2022

Honorable Stephen M. King, Mayor  
Council Member-at-Large Jeff Austin  
Council Member Rebecca Waller  
Council Member Geoff Baker  
Council Member Jason Baskin  
Council Member Mike Postma  
Council Member Joyce Poshusta  
Council Member Paul Fischer

RE: 2023 Budget and Tax Levy  
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Ladies and Gentlemen:

We are pleased to present for your review and approval the city budgets and tax levy for the year 2023. 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. Several 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 given staff direction to formulate the 2023 budget in a process that started seven months ago. The elected officials grappled with the continued implementation of the Comp and Class study, the usage of services by the citizenry, and the requirement of having a “functional” city to arrive at the enclosed budget. These operational budgets for 2023 are as follows:

	<u>Amount</u>
General Fund	\$ 20,065,846
Recreation Programs Fund	\$ 133,186
Library Fund	\$ 1,366,048
Fire PERA Fund	\$ 33,000
Tax Increment Debt Service	\$ 405,184
Capital Improvements Fund	\$ 2,356,000
Sewer User Fund	\$ 8,041,733
Waste Transfer Fund	\$ 72,066
Storm Water Mgmt. District	\$ 1,046,250

Port Authority Funds	\$ 1,039,005
Central Garage Fund	\$ 2,429,901
MIS Replacement Fund	\$ 238,764
Fire Equipment Fund	\$ 221,500
Risk Management Fund	<u>\$ 2,363,409</u>
Total All Funds	<u>\$ 39,811,892</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 – 2023

For Austin city government, the single largest source of annual operational revenue is the State of Minnesota. Each year the City of Austin 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>
2023 Certified	\$ 8,882,778
2022 Actual	\$ 8,755,992
2021 Actual	\$ 8,661,967
2020 Actual	\$ 8,500,584
2019 Actual	\$ 8,162,155
2018 Actual	\$ 8,151,133
2017 Actual	\$ 7,996,484
2016 Actual	\$ 7,984,340
2015 Actual	\$ 7,958,149
2014 Actual	\$ 7,878,853

Local Government Aid provides 44.27% of our annual General Fund operational budgeted revenue (\$8,882,778 of \$20,065,846 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>
2023 Proposed	\$ 8,283,000
2022 Actual	\$ 7,940,000
2021 Actual	\$ 7,436,000
2020 Actual	\$ 7,150,000
2019 Actual	\$ 6,873,000
2018 Actual	\$ 5,941,000
2017 Actual	\$ 5,341,000
2016 Actual	\$ 4,900,000
2015 Actual	\$ 4,325,000
2014 Actual	\$ 4,120,000

The 2023 proposed tax levy is a 4.32% increase over the tax levy for 2022. 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 Austin Housing Initiative that abates taxes back for those homes that apply will reduce this growth percentage so we will not be able to count on as much growth in future years.

## Expenditures – 2023

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 2023, the budget is set to increase staffing levels from 143.25 FTE's to 144.25 FTE's. The 1.00 FTE increase is contingent upon the receipt of a \$50,000 grant to help cover most of the cost related to a Technology Coordinator at the Library.

None of the bargaining unit contracts are settled for 2023 or beyond as of the date of this memo. Funds have been set aside for estimated labor contract settlements in the General Fund. All other funds will need to use fund balance to settle contracts for 2023. Additionally, \$100,000 is set aside in Contingency for those unknown/unbudgeted items that come up during the year. This amount is approximately \$50,000 lower than it is usually set at, but reductions were mandated in order to reduce the tax increase.

City improvements and re-building of public infrastructure is an ongoing annual effort to maintain the property values and enhance Austin. In 2023 the \$8,283,000 tax levy includes the allocation of \$1,446,000 to cover improvements to streets and trails. The other two sources of funds for infrastructure improvement projects are the state gas tax funds (the city receives approximately \$1,000,000) and property owner payment of assessments against property deemed to be benefited by the improvement. Capital outlay also includes another \$686,600 in tax supported funds going towards police cars, park equipment, and other community needs.

## 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 2023 rate structure is the accumulation of fund balance that will be needed to start paying the debt service on the facility after the improvements have been completed.

The industrial user is expected to be billed \$2,255,733 in 2023 for system operations, with the domestic users contributing an additional \$5,680,000 in user fees. Hormel will additionally pay their approximate 50% share of the \$105 million treatment plant construction. We will be seeing significant cash going out the door for the massive overhaul of the wastewater treatment plant in 2023.

## 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 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 2021 there was a 60% fund balance level. The fund balance is expected to remain at that same 60% level at the end of 2021, as another tranche of ARPA funding was received in 2022. However, the City moved about \$1.4 million of fund balance to the CIP Revolving Fund to pay for our share of costs of additional infrastructure in the Creekside Business Park.

## Conclusion

For 2023, the policy choices made by the Mayor and Council in arriving at a budget of \$39,811,892 will continue to provide our citizens with quality services and facilities. The proposed tax levy of \$8,283,000 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 2023 and future years, and may cause amendments to the 2023 budget next year.

Respectfully,



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Tom Dankert

Director of Administrative Services