

City of Austin
500 Fourth Avenue N.E.
Austin, Minnesota 55912-3773



Phone: 507-437-9940

www.ci.austin.mn.us

November 14, 2023

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

RE: 2024 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 2024. 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.

As noted, this process takes several months to come to fruition. The elected officials debate the merit of new and existing services, and then give staff direction as to their expectations for the upcoming budget and tax levy. With the direction staff have been given, the attached budget accomplishes those expectations. The proposed budget is as follows (by fund):

	<u>Amount</u>
General Fund	\$ 21,877,477
Recreation Programs Fund	\$ 144,793
Library Fund	\$ 1,511,260
Fire PERA Fund	\$ 35,000
Tax Increment Debt Service	\$ 433,502
Capital Improvements Fund	\$ 2,061,000
Sewer User Fund	\$ 9,391,712
Waste Transfer Fund	\$ 54,553
Storm Water Mgmt. District	\$ 1,402,782
Port Authority Funds	\$ 909,473
Central Garage Fund	\$ 2,954,516

MIS Replacement Fund	\$ 300,000
Fire Equipment Fund	\$ 1,778,000
Risk Management Fund	<u>\$ 3,148,461</u>
Total All Funds	<u>\$ 46,002,529</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 – 2024

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>
2024 Certified	\$ 9,793,547
2023 Actual	\$ 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

Local Government Aid provides 44.76% of our annual General Fund operational budgeted revenue (\$9,793,547 of \$21,877,477 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	\$ 8,752,000
2023 Actual	\$ 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

The 2024 proposed tax levy is a **5.66%** increase over the tax levy for 2023. 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 – 2024

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 2024, the budget is set to increase staffing levels at 146.38 FTE's. The 2.00 FTE increase was actually approved in 2023 for the immediate hiring of two new police officers, so 2024 will be the first time we budget for those positions.

All bargaining unit contracts have been settled for 2024, including wage increases and a 75% Employer/25% Employee cost split for health insurance costs for 2024. Additionally, \$95,000 is set aside in Contingency for those unknown/unbudgeted items that come up during the year.

City improvements and re-building of public infrastructure is an ongoing annual effort to maintain the property values and enhance Austin. In 2024 the \$8,752,000 tax levy includes the allocation of \$1,571,000 to cover improvements to streets and hazardous building removals. 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 \$1,102,890 in tax/grant supported funds going towards police cars, municipal pool, 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 2024 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.

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 2022 there was a 57% fund balance level. The fund balance is expected to remain around this same level for 2023, allowing Council to make some decisions in 2024 for new initiatives or continued maintenance of existing facilities.

Conclusion

For 2024, the policy choices made by the Mayor and Council in arriving at a budget of \$46,002,529 will continue to provide our citizens with quality services and facilities. The proposed tax levy of \$8,752,000 will allow Austin to continue its long tradition of good financial management.

Respectfully,



Tom Dankert

Director of Administrative Services