BAXTER

"A Growing Community"

CITY COUNCIL WORK SESSION AGENDA

Tuesday, July 05, 2022 at 6:30 PM

Baxter City Hall, 13190 Memorywood Drive, Baxter, MN

CALL TO ORDER

ROLL CALL

BUSINESS ITEMS

1. 2023 Budget Work Session

ADJOURN

BAXTER
"A Growing Community"

TO: Mayor Olson and City Council
City Administrator Chapulis

FROM: Jeremy Vacinek, Finance Director

DATE: July 1, 2022

RE: 2023 Budget Council Work Session – Goals and Priorities July 5, 2022

Below is the agenda for Tuesday's kickoff meeting of the 2023 Budget. Similar to prior years, the initial meeting is held to have a preliminary discussion on the council goals and priorities that should be incorporated into the 2023 Budget as departments assemble their respective budgets for council consideration. Outlined are some of the factors that will impact the 2023 Budget. Additional impacts will be discussed as they are analyzed and become known.

Preliminary property valuations and new construction figures from Crow Wing County are in the process of being assembled. If available, they will be presented at the work session. Attached is a comparison of the city's tax capacity over the past ten years with the portion assigned to tax increment. A summary of the city's budgeted funds is also included.

More detailed information and discussion, including property tax data, will be held in the coming weeks at the scheduled budget work sessions and as information begins available.

Should you have any questions, please feel free to contact me.

BAXTER "A Growing Community"

City of Baxter
2023 Budget Council Work Session – Goals and Priorities
July 5, 2022 6:30 p.m.

1. Update on Factors Impacting 2023 Budget and Beyond
2. Property Valuations, Tax Increment, and Other Economic Indicators
3. Council Comments, Suggestions, Priorities, and Goals for 2023 Operating Budget
4. Information: Budget Calendar for 2023 Budget Process
5. Adjourn – Next Scheduled Council Budget Work Session to Review and Discuss 2023 Governmental Funds Budgets and Proposed Property Tax Levy Slated for Tuesday, August 30, 2022 at 6:00 p.m.

City of Baxter 2023 Budget Council Work Session Discussion, 07.05.22
Factors Potentially Impacting 2023 Budget and Beyond

Minnesota Legislature Budget Impacts and Considerations

No significant changes in state aids or taxes

Levy Limits are NOT in place for 2023
City continues to not be eligible for Local Government Aid (LGA)
No changes in the Market Value Homestead Exclusion program implemented in 2012

Bills that did not become law, but may have future implications

An expansion of the program to increase the exclusion from $76,000 to $80,300 in the Senate and $95,000 in the House with an extended phase-out to homes up to $437,100 and $517,200, respectively, from the current $413,800 did NOT become law.
Class 4d property tax rate modifications that did NOT become law would have set class rate for all low-income rental properties at 0.25%; current rate is 0.75% on first $100,000 of value and 0.25% on value above $100,000 - implications for future TIF Housing

Other Items to be Factored into 2023 Budget

Property Valuations and New Construction

In the process of obtaining figures on the city's new construction and change in estimated market value
Will analyze further and provide more information when it becomes available

Personnel Costs

Unknown health insurance rates for 2022 (renewal late August)
City typically includes a 12% increase, until the actual increase, based upon claims experience and pooling, is known; Sourcewell has a 12% cap in place currently
No PERA Police and Fire (P&F) nor Coordinated Plan retirement contribution rate increases for 2023, 17.7% and 7.5%, respectively
Employee labor contracts expire at the end of 2022; market study currently underway
Workers' compensation premium estimated increases not yet available from LMCIT; prior recommendations budgeting for a 10-15% increase due to Covid-19 and PTSD claim costs

Fire Contract with Brainerd

Fire Service amount is projected to increase $1,721.73 due to a slight increase in Baxter's contribution rate.
Last year, Baxter's contribution decreased $2,435 from 2021, due to a lower contribution rate.
Baxter's contribution rate increases slightly from 26.60% to 26.68% for 2023, due to an increase in the five-year average number of runs (weighted at 30%), with partial offsets for lower factors in population and building valuations of other jurisdictions (both weighted at 30% each) outpacing Baxter's increases. Tax exempt building valuations (weighted at 10%) remained unchanged.
The total budget is projected to increase from $1,329,313 to $1,332,045, a $2,732 or 0.2% increase. The increase is attributable mainly to a 5% increase in the capital equipment funding, offset by slightly lower operating and debt service on existing equipment.

		Annual Change	
2023 Proposed	$355,375	$1,722	0.49%
2022 Budgeted	$353,653		

Outside Funding Requests

Organization	2022 Budget Request Rec'd	2022 Budget Funding	
Community Action 4th of July		$8,000	
Senior Center		$19,000	
Central MN Initiative Foundation	$5,330	$5,330	0.00%
Brainerd Lakes Area Econ Dev Corp		$36,000	

Other Costs

Property, Liability, and Auto Insurance Coverage estimated budget increases not yet available from LMCIT
Prior recommendations budget for a 10% increase in property coverage and a 3-7% for Liability and Auto based upon reinsurance cost. Impact of storm losses?

Ongoing Covid-19 Pandemic Related Costs, Inflation and Supply Chain Challenges?

Other Items?

No elections in 2023

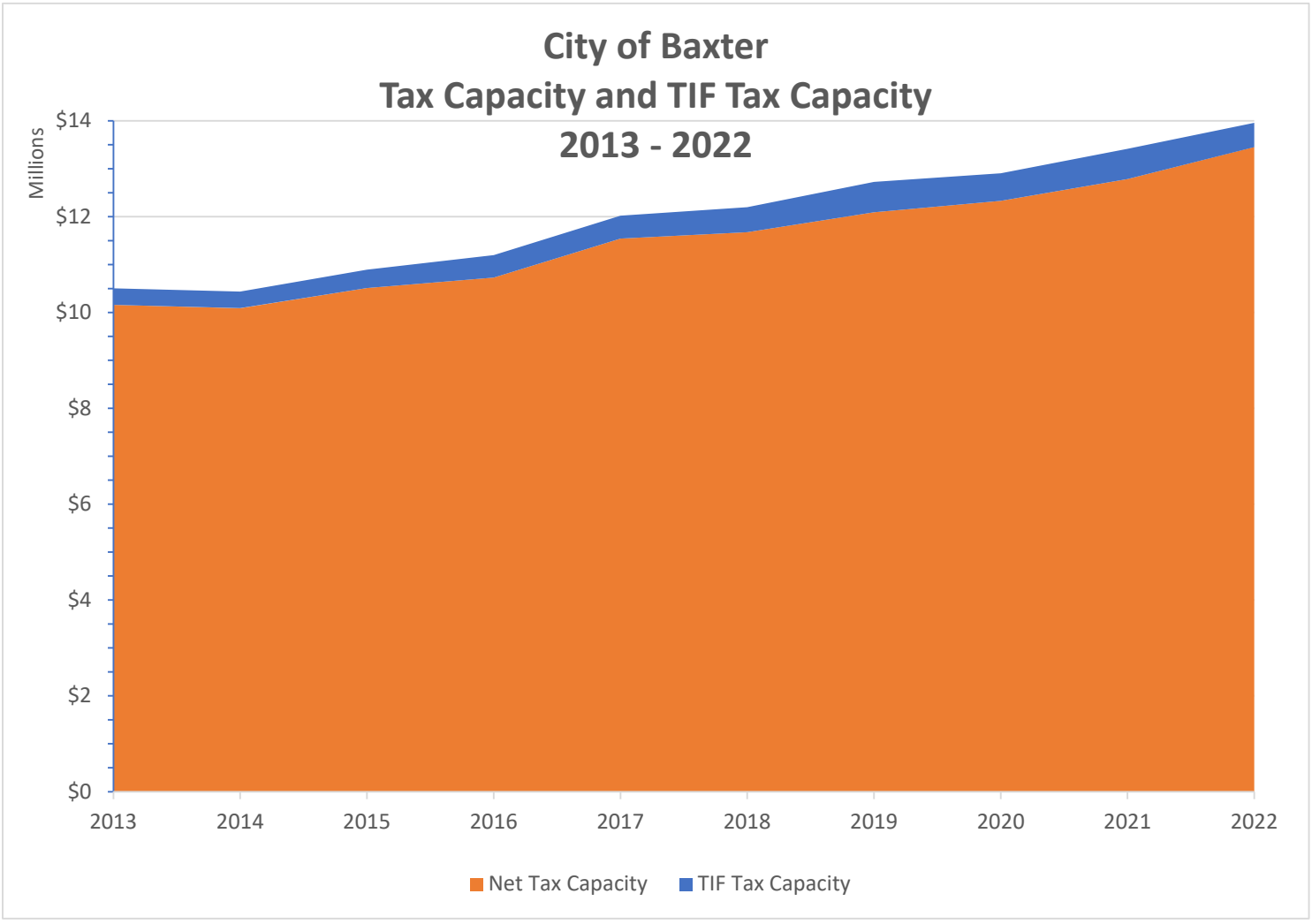
City of Baxter
Ten Year Comparison of Tax Capacity to Tax Increment (TIF) Tax Capacity
with Composition of TIF Tax Capacity
2012 to 2021

Tax Pay	Full Tax Capacity*	TIF Tax Capacity	Net Tax Capacity	TIF Portion of Overall Tax Capacity	Composition of TIF Tax Capacity**					
					Developer Housing		Developer Comm/Ind		City Infrastructure	
2013	10,506,016	344,987	10,161,029	3.3%	218,539	63.3%	-	0.0%	126,447	36.7%
2014	10,438,771	348,479	10,090,292	3.3%	217,325	62.4%	-	0.0%	131,153	37.6%
2015	10,895,277	385,003	10,510,274	3.5%	248,232	64.5%	-	0.0%	136,772	35.5%
2016	11,198,067	468,037	10,730,030	4.2%	272,324	58.2%	-	0.0%	195,715	41.8%
2017	12,020,928	479,155	11,541,773	4.0%	272,694	56.9%	10,848	2.3%	195,613	40.8%
2018	12,196,649	521,962	11,674,687	4.3%	271,746	52.1%	55,504	10.6%	194,714	37.3%
2019	12,725,418	632,770	12,092,648	5.0%	270,745	42.8%	56,744	9.0%	305,282	48.2%
2020	12,905,652	573,799	12,331,853	4.4%	187,152	32.6%	55,506	9.7%	331,141	57.7%
2021	13,414,635	628,721	12,785,914	4.7%	194,659	30.9%	58,812	9.4%	375,260	59.7%
2022	13,957,879	505,416	13,452,463	3.6%	229,041	38.4%	64,998	12.9%	211,373	41.8%

*Tax Capacity Figures net of JOBZ portion in effect through 2016

** Includes TIF Districts 5 through 15; TIF District 6 and 10 final tax capacities in 2019 and 2021, respectively.

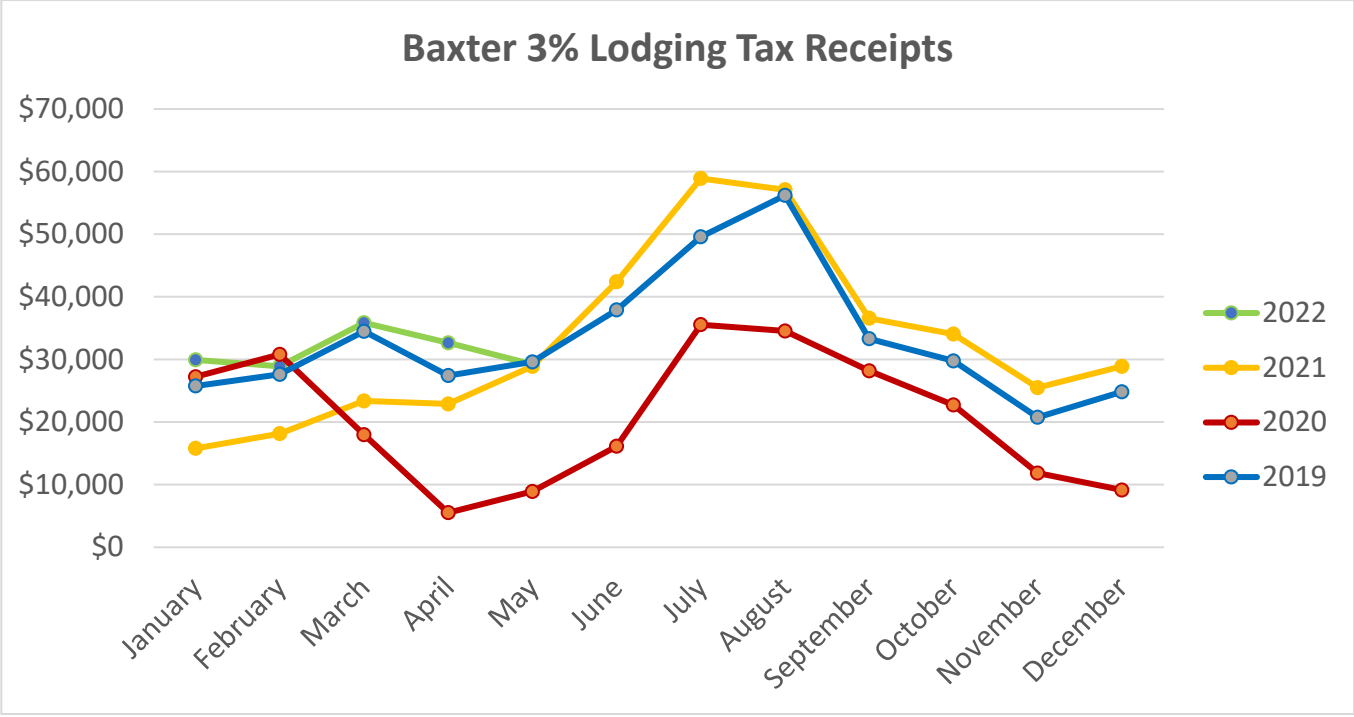
Total TIF Tax Capacity figure may not equal to Composition of TIF Tax Capacity subtotal figures due to rounding.



Current Economic Indicators: 2022 YTD Lodging Tax Receipts Comparison

Baxter Lodging Tax Receipts
Comparison of 2022 and 2021 YTD with 2020 and 2019

	2022	2021	Prior Year Change		2020	2019
January	29,924	15,794	14,131	51.9%	27,220	25,758
February	28,907	18,142	10,766	35.0%	30,793	27,606
March	35,862	23,368	12,494	69.5%	17,981	34,485
April	32,637	22,877	9,760	176.9%	5,516	27,415
May	29,200	28,887	313	3.5%	8,900	29,596
June		42,388			16,125	37,887
July		58,907			35,556	49,572
August		57,081			34,530	56,188
September		36,566			28,164	33,287
October		34,030			22,713	29,749
November		25,486			11,837	20,753
December		28,879			9,130	24,823
Total		**392,406**			**248,466**	**397,118**
May YTD	**156,531**	**109,068**	**47,463**	**43.5%**	**90,410**	**144,859**



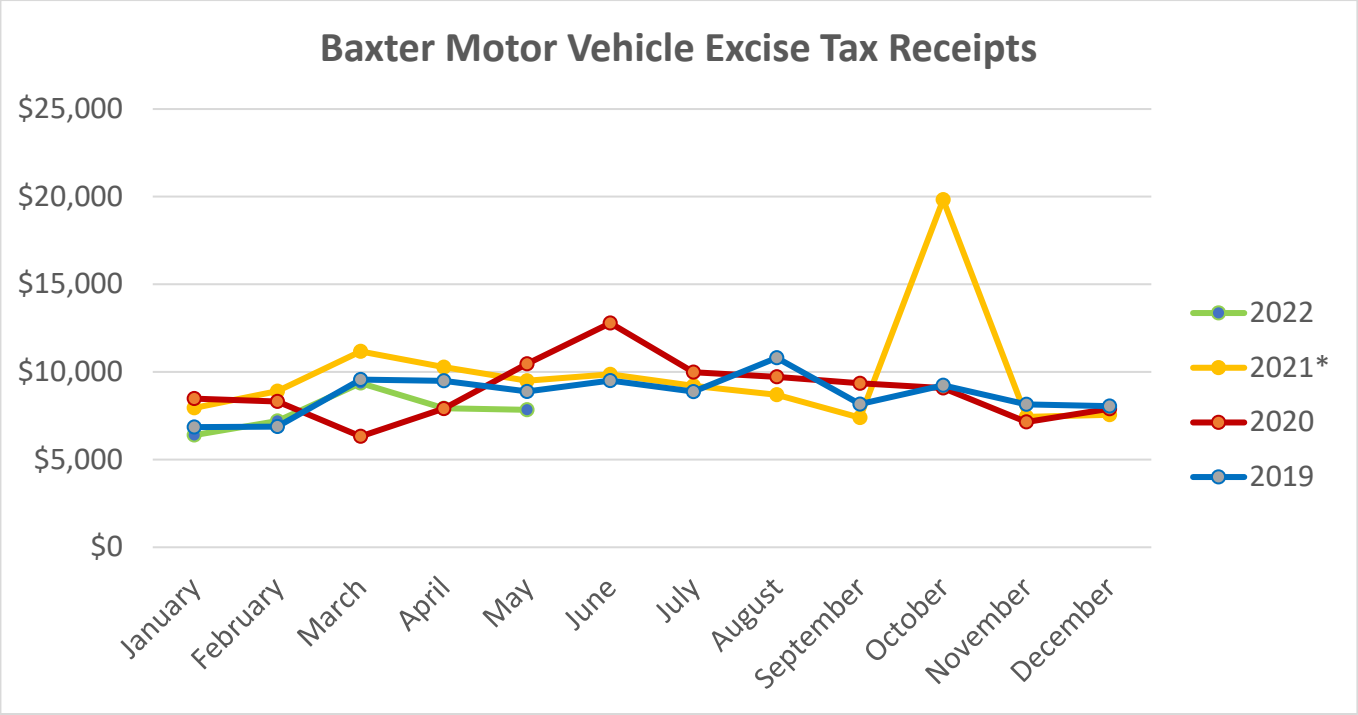
Prepared by City of Baxter Department of Finance

Lodging Tax Receipts are up through the first five months of the year. As of May YTD, they are 43.5% higher than the same time period in 2021. During the past 13 months (May 2021 to May 2022) receipts are paralleling collections from 2019 (prior to the start of the pandemic). Of the 3% lodging tax remitted to the city, 95% of the proceeds are used for marketing purposes. The city retains the remaining 5% for administrative purposes.

Current Economic Indicators: 2022 YTD MVET Receipts Comparison

Baxter Motor Vehicle Excise Tax Receipts
Comparison of 2022 and 2021 YTD with 2020 and 2019

	2022	2021*	Prior Year Change		2020	2019	
January	6,395	7,947	(1,552)	-18.3%	8,477	6,857	
February	7,199	8,904	(1,705)	-20.5%	8,311	6,882	
March	9,364	11,171	(1,807)	-28.6%	6,323	9,562	
April	7,926	10,272	(2,347)	-29.7%	7,907	9,488	
May	7,838	9,496	(1,658)	-15.8%	10,463	8,885	
June		9,859			12,785	9,506	
July		9,203			9,982	8,875	
August		8,696			9,720	10,803	
September		7,395			9,351	8,163	
October		19,823			9,081	9,236	
November		7,435			7,144	8,149	
December		7,556			7,898	8,046	
Total		**117,757**			**107,440**	**104,453**	
May YTD	**38,721**	**47,790**	**(9,069)**	**-19.0%**	**41,481**	**41,675**	**-7.1%**



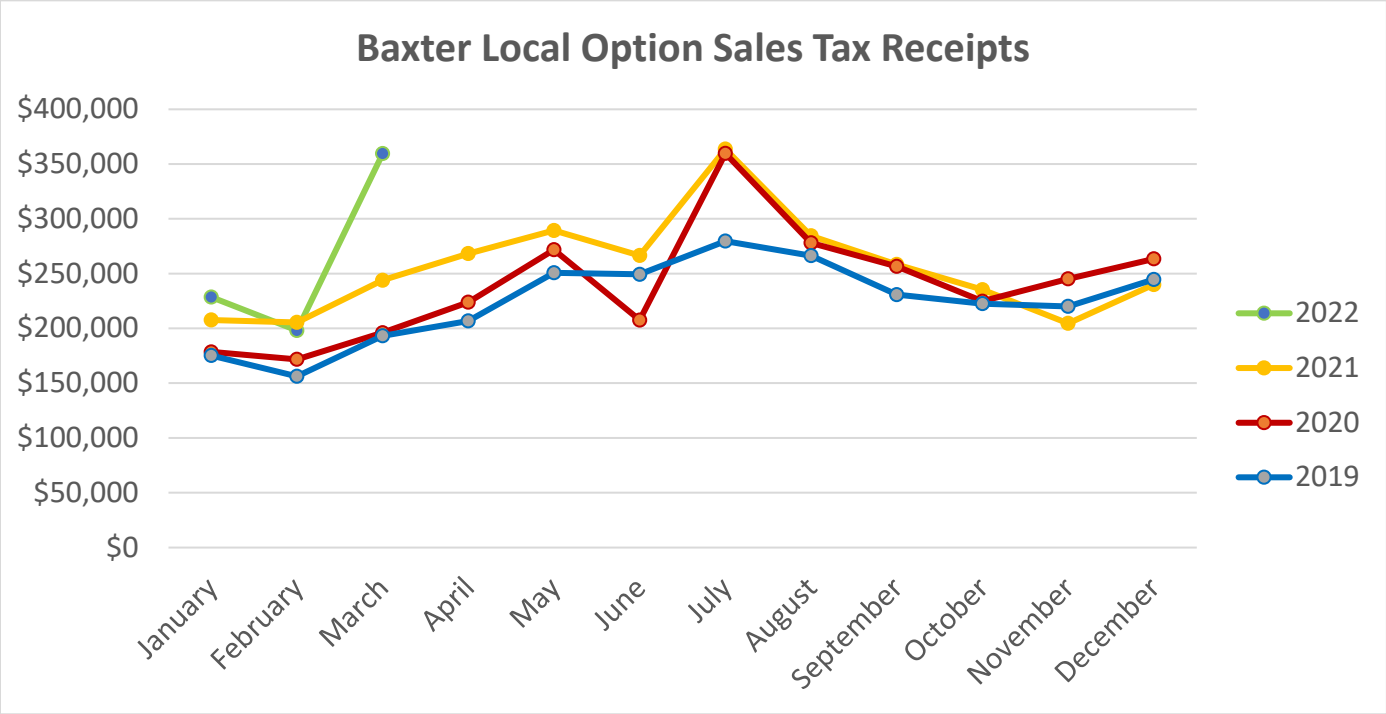
Prepared by City of Baxter Department of Finance

Motor vehicle excise taxes (MVET) are down 19% for the first five months of the year compared to 2021 and are running lower than most of the same months of the prior three years. May 2022 YTD is about 7.1% lower than May 2019, the same period prior to the pandemic.
*October 2021 spike is a result a dealer correction for a portion of 2018 through 2019.

Current Economic Indicators: 2022 YTD Local Option Sales Tax Receipts Comparison

Baxter Local Option Sales Tax Receipts
Comparison of 2022 and 2021 YTD with 2020 and 2019

	2022	2021	Prior Year Change		2020	2019	
January	228,470	207,634	20,837	11.7%	178,511	175,241	
February	198,090	205,465	(7,375)	-4.3%	171,779	156,234	
March	359,504	243,911	115,593	59.0%	196,016	193,131	
April		268,215			223,861	206,750	
May		289,330			271,705	250,729	
June		266,491			207,573	249,285	
July		363,628			359,583	279,649	
August		284,439			277,968	266,301	
September		258,308			256,559	230,787	
October		235,256			224,796	222,549	
November		204,613			245,117	219,996	
December		239,946			263,408	244,628	
Total		**3,067,236**			**2,876,877**	**2,695,280**	
Annual Change		**6.6%**			**6.7%**		
March YTD	**786,065**	**657,009**	**129,055**	**23.6%**	**546,306**	**524,607**	**49.8%**



Prepared by City of Baxter Department of Finance

Local option sales tax receipts for the first three months of 2022 are 23.6% higher than 2021. YTD comparison to 2019, 2022 collections are 49.8% higher through March. The March 2022 large collection may be an anomaly; through February receipts are up 2.5% for the year. Overall, annual sales tax receipts were up 6.6% in 2021 and 6.7% in 2020 over the preceding year. There is approximately a two-month lag of when the tax is collected, reported and remitted to the state, and received by the city.

City of Baxter Budgeted Funds Summary

General Fund – The general fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund. The major funding source for the fund is the annual property tax levy. Departments within the General Fund include: General Government, City Council, Administration, Finance, Legal, Information Systems, Public Works Administration, Police, Fire Protection, Streets and Street Lighting, Parks, Trails, and Ground Maintenance, and Recreation Programs. The fund's budget also includes transfers out to other city special revenue and capital project funds.

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes and are a primary funding source for the departments within those funds.

Cemetery Fund - This fund is used to account for the activities of the City-owned and operated Baxter Cemetery. A portion of plot sales are committed for capital outlay and perpetual care of the cemetery.

Community Development Fund - This fund is used to account for funds committed to the operation of the City's Community Development department. Operations include building inspection and community planning. Building permit and planning and zoning fees fund much of the fund's operations.

Capital Park Fund - This fund is used to account for donations, developer fees, and other revenues legally restricted or committed for capital expenditures related to the City's parks.

Economic Development Fund – The economic development special revenue fund is used to account for the financial activity of the City's Economic Development Authority (EDA). Funding from a general fund transfer and land sales finance this fund.

Lodging Tax Administration Fund - This fund is used to account for the collection of lodging tax revenues and the promotion of tourism for the City.

Tax Increment Financing (TIF) Funds – The City's TIF districts are budgeted collectively. Currently there are nine active TIF districts. Tax increment revenues are the primary funding source of the districts. Expenditures include pay-as-you-go TIF note payments for developer reimbursements. Debt service principal and interest payments related to city infrastructure is another primary expenditure for TIF District 10 Isle Drive, TIF District 12 Isle/Falcon Drive, and TIF District 14 Excelsior/Edgewood.

Sales Tax Collections Fund – The sales tax collections special revenue fund is used to account for financial resources financed by sales tax collections. These revenues are legally restricted for the funding of infrastructure projects. Primary revenues are the local option sales tax and motor vehicle excise tax. Expenditures include sales-tax based general obligation bonds and notes for the water treatment plant and the city's share of the wastewater treatment plant capacity with the City of Brainerd, respectively. Other budgeted expenditures include transfers to capital project funds for eligible capital projects.

Budgeted Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital infrastructure, improvements, and equipment.

Capital Equipment Fund – The fund provides a sinking fund for future capital equipment replacement purchases. Steady funding attempts to smooth annual capital outlay expenditures for systematic replacement of capital equipment, including squad cars, public works vehicles , parks vehicles, and information technology equipment. Funding is primarily by transfers from benefiting departments.

Collector Street Fund – The fund provides a sinking fund for future collector street construction on a pay-as-you-go basis. The fund helps minimize the need to issue debt and levy for debt service for the city's share of project costs such as additional street width, lanes, and curb and gutter. The fund provides another revenue source to leverage the city's municipal state aid for city collector streets.

Street Replacement Fund – The fund provides a sinking fund for future street maintenance, including sealcoating, on a pay-as-you-go basis. The primary funding source is from the gas and electricity franchise fees collected by the city.

Trail Construction and Maintenance Fund – Similar to the Street Replacement Fund, the Trail Construction and Maintenance Fund provides a sinking fund for future trail maintenance and reconstruction. Funding is primarily from the gas and electricity franchise fees.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds. Revenues for the fund include the annual property tax levy for debt service, special assessments, and transfers from the enterprise funds and sales tax fund.

The City budgets for three enterprise funds: water, sewer, and storm water.

Water Fund – The water fund accounts for the activities of the City's water wells, water treatment plant, and distribution system. Revenues for the fund primarily are the monthly water fees charged to customers. Water availability charges (WAC) charged on new construction and connections is another primary source for financing capital asset needs. The city's debt service related to the water treatment plant is also included in the water fund budget.

Sewer Fund – Similar to the water fund, the sewer fund accounts for the activities of the City's sanitary sewer system. Revenues are primarily the monthly sewer fees paid by customers with sewer availability charges (SAC) financing sewer capital assets.

Storm Water Fund – The storm water fund accounts for the activities of the City's storm water infrastructure system. The main funding source for the storm water fund is the monthly and annual storm water fees charged to properties within the city.

2023 Adopted Budget Calendar

Friday, July 1, 2022	Budget Packets Distributed to Departments
Tuesday, July 5, 2022 6:00 p.m. (prior to council meeting)	Council Budget Work Session to Discuss 2023 Goals and Priorities
Tuesday, July 26, 2022	Completed Department Budget Packets Returned to Finance
July 27 to August 26, 2022	– Finance Preliminary Assembly and Review of Initial Departmental Submittals – Finance/Administration Initial Meeting with Departments to discuss Proposed Budget – Determine Initial 2023 Spending Targets and Preliminary Operating Levy & Debt Service Levy (the levies may not be increased after September 30th)
Tuesday, August 30, 2022 6:00 p.m.	City Council Budget Work Session to Review and Discuss 2023 Governmental Funds Budgets and Proposed Property Tax Levy
August 31 to September 2, 2022	Finance/Administration Continued Review and Refinement of Proposed Budget Meet with Department Heads to Formulate Proposed Budget
Tuesday, September 6, 2022 5:30 p.m. (prior to Council meeting)	City Council Budget Work Session to Review and Discuss 2023 Governmental Fund Budget *(Continuation Meeting, if necessary; additional meetings may be scheduled)*
Friday, September 16, 2022	Preliminary Governmental Funds Budget and Proposed Property Tax Levy Distributed to the City Council for Consideration
Tuesday, September 20, 2022 7:00 p.m.	City Council Meeting – Council Approval of Preliminary Governmental Funds Budget and Levy (Levy can be decreased after this point, but not increased) – Special Meeting(s) can be set for September 22 and/or 26, if needed – Preliminary Levy must be certified to Crow Wing County and Minnesota by September 30th
September 21 to November 8, 2022	– Administration and Finance Continued Review and Refinement of Proposed Budget and CIP – Additional Budget Work Sessions for the Governmental Funds Budget and Levy, if necessary – Meet with Department Heads to Formulate Proposed Budget – Finance Department Prepares Final Draft of Proposed Budget
Wednesday, November 9, 2022 6:00 p.m.	Council Budget Work Session to Review Proposed Budget and CIP, including Introduction of Enterprise Funds Budgets
Tuesday, November 15, 2022 5:30 p.m. (prior to Council meeting)	Council Budget Work Session to Review Proposed Budget, continued, if necessary *(additional meetings may be scheduled, if necessary)*
Friday, December 2, 2022	Final Budget Document Submitted to City Council
Monday, December 5, 2022 6:00 p.m.	Informational Meeting to Review the 2023 Budget and Property Tax Levy with Public Testimony
Tuesday, December 6, 2022 7:00 p.m. or shortly thereafter	Council Adoption of 2023 Final Budget, Levy, and Capital Improvement Plan

Highlighted dates represent proposed City Council meetings and/or work sessions to be held at Baxter City Hall, 13190 Memorywood Drive. Other meetings may be scheduled as determined necessary during the budget process.