

2021 Budget Philosophy

- Use the budget as a strategic planning tool
- Incorporate budgeting best practices
 - MN model chart of accounts
 - City Council goals
 - Fund consolidation – 40% fewer line items; elimination of 15 funds
 - Including some financial planning and fund income statements



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Budget Process

- Reviewed 2019 budget and actuals with department heads
- Incorporated council goals
- Went line by line to review 2019 and 2020 actuals
- Created budget from scratch in new chart of accounts using historical data when possible



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Chart of Accounts

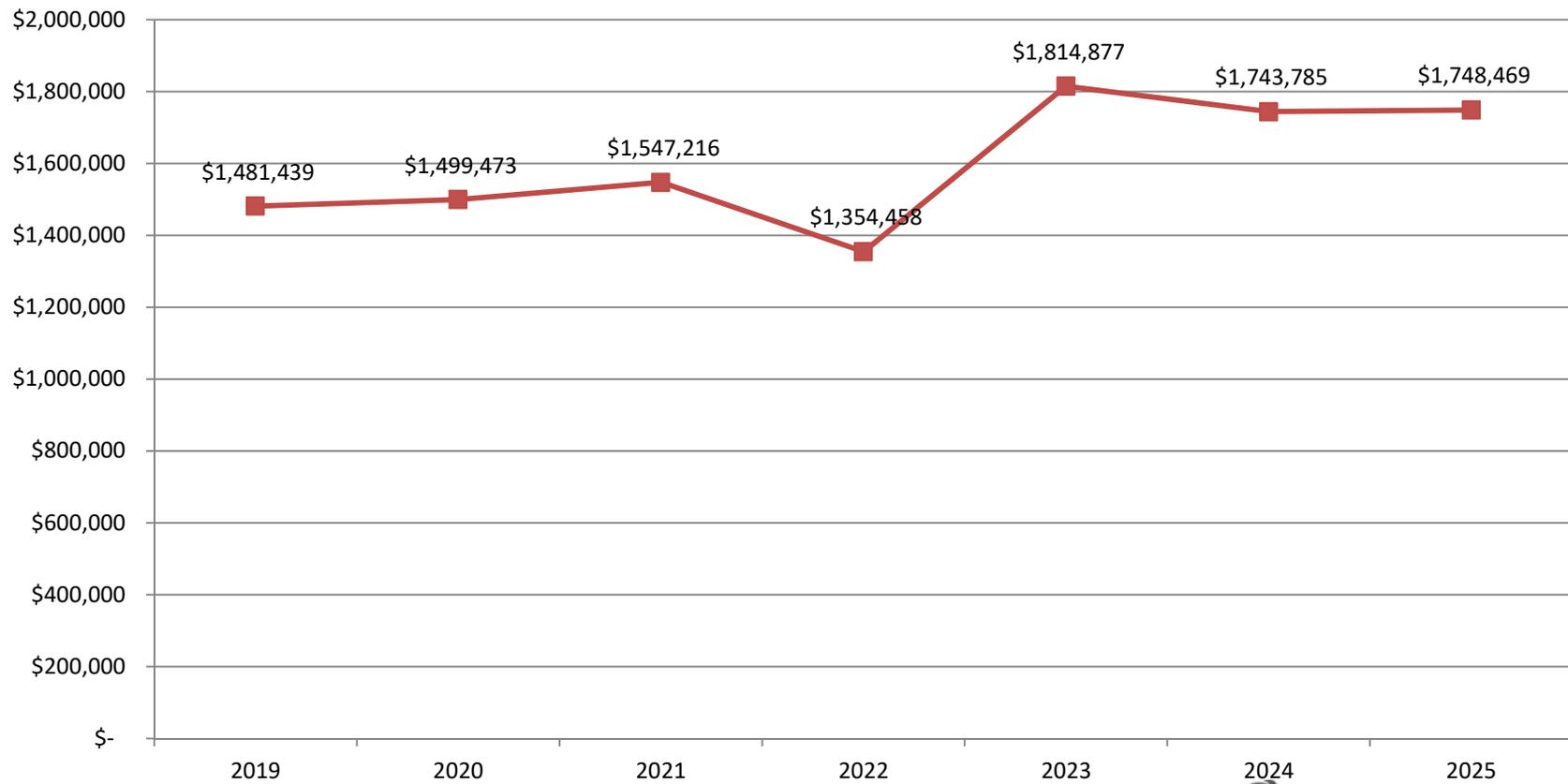
- Minnesota state chart of accounts
- Fund-Account-Object 100-43160-380
 - 100: general fund
 - 43160: street lighting
 - 380: utility services
- Main difference with current chart of accounts is fewer funds, better use of account codes for tracking, and more detailed object codes



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Debt Service

Total Debt Service



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Debt Service

- Long-term debt is increasing in 2021 with the addition of the 2019C and 2019D bonds for Phase I and Phase II of the street project.
- Debt service will decline in 2022 with the retirement of the 2016B bonds.
- A significant increase in debt service is projected between 2022 and 2023 due to refinancing of the 2019 temporary bond for the Phase III-A street project into a long-term USDA bond of \$8.4 million.
- The 2019 rate study shows the need for a 3% annual increase in water and sewer fees to manage this debt schedule.



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Debt Service Strategies

- Time the Phase IIIB street project long-term debt to coincide with the retirement of the 2015A debt in 2028 to increase payment capacity.
- Use proceeds from O'Brien Court sale to reduce debt, particularly the short-term loans to the League of Minnesota Cities and DEED.
- Work with Rural Development to reevaluate affordability criteria to get more grants into the Phase III street project rather than long-term RD loans.
- Add a debt service fee to utility billing for the water and sewer funds.
- Increase the mill levy beyond historic 3% annual increase.
- Sell Orchard Lane development to retire 2016A bonds.
- Increase water and sewer rates more than the 3% suggested and use extra for debt reduction.



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Capital Improvements

| Fixed Assets | | | | |
|--------------------------------|--------------------------|-------------|---------------------|----------------------|
| <u>Project</u> | <u>Department</u> | <u>Year</u> | <u>Use of Funds</u> | <u>Cost Estimate</u> |
| 3A-2 & 3A-4 street project | water/sewer/public works | 2021 | Bonds/Grants | \$ 4,175,450 |
| Turnout Gear | Fire Dept | 2021 | Tax Levy | \$ 15,000 |
| Replace Snow Hauling Truck | Public Works | 2021 | Tax Levy | \$ 20,000 |
| Site Work Hangers Engineering | Airport | 2021 | Grants/Fund balance | \$ 70,000 |
| Site Work Hangers Construction | Airport | 2021 | Grants/Fund balance | \$ 335,000 |
| AWOS System Engineering | Airport | 2021 | Grants/Fund balance | \$ 10,000 |
| AWOS System construction | Airport | 2021 | Grants/Fund balance | \$ 30,000 |
| Books | Library | 2021 | Tax Levy | \$ 7,000 |

| Maintenance | | | | |
|----------------------------------|-------------------|-------------|-------------------------|----------------------|
| <u>Project</u> | <u>Department</u> | <u>Year</u> | <u>Use of Funds</u> | <u>Cost Estimate</u> |
| Street maintenance | Public Works | 2021 | Sewer Fund Balance | \$ 362,017 |
| parking/paving engineering | Airport | 2021 | grants/25% fund balance | \$ 79,000 |
| parking/paving construction | Airport | 2021 | grants/25% fund balance | \$ 360,000 |
| Liquor building Maintenance/sign | Liquor Store | 2021 | Liquor Revenues | \$ 3,000 |
| Replace Lap Pool Boiler | Aquatic Center | 2021 | Tax Levy | \$ 20,000 |



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Capital Improvements

- Current capital improvement funds have been depleted to pay for new fire trucks due to damage from the 2018 flood with a combined fund balance of only \$16,267.
- The 5-year capital plan needs exceed the current resources of the city, particularly when considering the increase in debt obligations beginning in 2023.
- A 2020 analysis by Abdo Eick & Meyers LLP suggested to pay for the capital improvement plan that a 25% increase in the tax levy for capital improvements be implemented in 2022.
- Given that a 25% increase in the levy is not realistic, the city will need to delay some capital projects, pursue grants for others, and sell equipment to replenish the capital improvement fund.



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Consolidated Income Statement

| Revenues | |
|-------------------------------|-----------------------|
| General Taxes | \$ 1,289,082 |
| Special Assessments | \$ 137,874 |
| Licenses & Permits | \$ 18,420 |
| Intergovernmental | \$ 3,236,189 |
| Charges for Services | \$ 3,211,527 |
| Fines & Forfeits | \$ 8,043 |
| Miscellaneous | \$ 250,707 |
| Total | \$ 8,151,842 |
| Expenses | |
| Personal Services | \$ 2,133,628 |
| Supplies | \$ 937,353 |
| Services and Charges | \$ 2,651,376 |
| Capital Outlay | \$ 5,202,362 |
| Debt Service | \$ 1,580,750 |
| Total | \$ 12,505,468 |
| Revenues Less Expenses | \$ (4,353,626) |
| Other Financing Sources | \$ 4,053,146 |
| Other Financing Uses | \$ 4,726,337 |
| Change in Net Position | \$ (5,026,817) |

- Total net position will decrease due to the use of \$362,017 in unrestricted fund balance from the sewer fund for street maintenance, \$354,356 in fund balance for airport capital projects carried over from a grant received in 2020, and Phase IIIA-2 and Phase IIIA-4 street projects starting in 2021 with an estimated cost of \$4,175,450 from 2019 bond proceeds.
- Property tax levy of \$1,247,558, a 3% increase over the 2020 tax levy.
- Fee increases include a 3% increase in water, sewer and solid waste utility fees and an increase from \$.25 to \$1 monthly of the solid waste management fee. All other fees and charges will remain flat.



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Historical Revenues/Expenditures

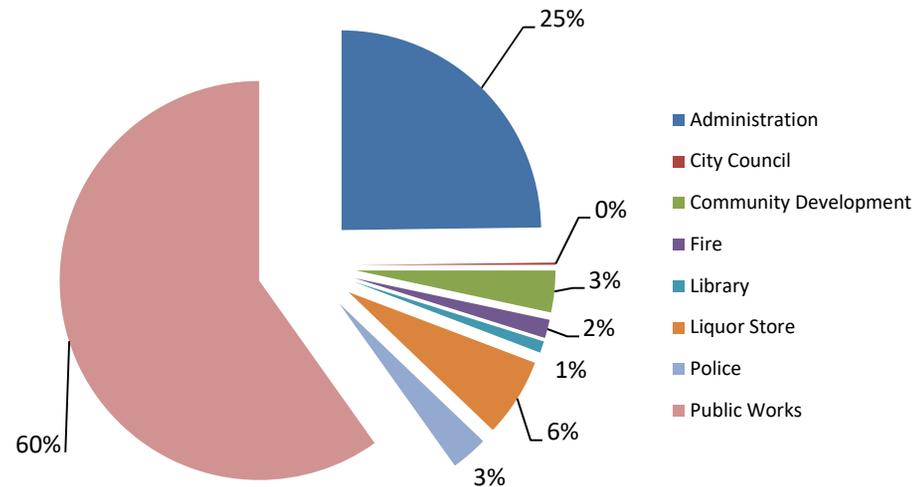
| | 2018 | 2019 | 2020 budget | 2020 estimated | 2021 budget |
|--------------|--|--------------|--------------|----------------|---------------|
| revenues | \$ 5,987,414 | \$ 7,868,786 | \$ 6,996,300 | \$ 6,948,818 | \$ 8,151,842 |
| Notes | *takes out transfers and bond sales | | | | |
| | **2021 includes estimated \$1.6 million in grants for Phase III street project | | | | |
| | | | | | |
| | | | | | |
| | 2018 | 2019 | 2020 budget | 2020 estimated | 2021 budget |
| expenditures | \$ 5,587,445 | \$ 7,078,101 | \$ 6,997,412 | \$ 8,768,243 | \$ 12,505,468 |
| Notes | * \$2.7 million of the Phase III street project was not budgeted | | | | |



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Expenditures by Department

| Expenditures by Department | |
|----------------------------|---------------|
| Administration | \$ 3,101,582 |
| City Council | \$ 23,301 |
| Community Development | \$ 421,738 |
| Fire | \$ 184,950 |
| Library | \$ 117,871 |
| Liquor Store | \$ 797,254 |
| Police | \$ 375,578 |
| Public Works | \$ 7,483,196 |
| | \$ 12,505,468 |



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Council Goals

- Strong financial strategy
 - Budget process changes
 - New software
 - New position of finance director
- Housing
 - Comprehensive plan update
 - Sell broad acres lots, O'Brien Ct and investigate selling Orchard Lane
 - CDBG loans



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Council Goals

- Marketing
 - \$40K for marketing and revamp of website
 - Will pursue a CARES grant
- Infrastructure
 - \$4M Phase IIIA-4 and IIIA-2 in 2021
 - \$362K in street maintenance



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General Fund

| Revenues | |
|-------------------------------|---------------------|
| General Taxes | \$ 1,289,082 |
| Special Assessments | \$ 89,602 |
| Licenses & Permits | \$ 18,420 |
| Intergovernmental | \$ 1,023,070 |
| Charges for Services | \$ 186,040 |
| Fines & Forfeits | \$ 8,043 |
| Miscellaneous | \$ 67,909 |
| Total | \$ 2,682,166 |
| Expenses | |
| Personal Services | \$ 1,558,320 |
| Supplies | \$ 209,466 |
| Services and Charges | \$ 788,136 |
| Capital Outlay | \$ 42,000 |
| <u>Debt Service</u> | <u>\$ 587,311</u> |
| Total | \$ 3,185,232 |
| Revenues Less Expenses | \$ (503,066) |
| Other Financing Sources | \$ 524,448 |
| Other Financing Uses | \$ - |
| Change in Net Position | \$ 21,382 |

- Includes general fund, general obligation debt service funds, and capital projects fund.
- The 2021 general fund combines five funds from 2020: the general fund, multipurpose center, aquatics center operations, code enforcement and storm water.
- Debt service payments include principal and interest for the 2014 GO bond, 2015 GO refunding bond, 2016B GO refunding bond, 2016D GO bond, and 2019E GO bond.
- The capital projects fund combines the permanent improvement, park, police equipment replacement, equipment replacement, fire department replacement and infrastructure reserve replacement funds.
- Includes transfers from the sewer fund and the solid waste fund for costs and transfers for profits from the deputy registrar and liquor store.



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Sewer Utility

| | |
|-------------------------|--------------|
| Revenues | |
| General Taxes | \$ - |
| Special Assessments | \$ 30,152 |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ - |
| Charges for Services | \$ 479,877 |
| Fines & Forfeits | \$ - |
| Miscellaneous | \$ - |
| Total | \$ 510,029 |
| Expenses | |
| Personal Services | \$ 135,738 |
| Supplies | \$ 25,600 |
| Services and Charges | \$ 34,154 |
| Capital Outlay | \$ - |
| Debt Service | \$ 321,046 |
| Total | \$ 516,538 |
| Revenues Less Expenses | \$ (6,508) |
| Other Financing Sources | \$ - |
| Other Financing Uses | \$ 363,017 |
| Change in Net Position | \$ (369,525) |

- Three percent increase in sewer fees to cover new debt service.
- Debt service increase of \$101,791 from 2019C and 2019D bonds for phase I and Phase II street projects.
- Transfer of \$362,017 to general fund for street maintenance from unrestricted fund balance.
- Fund can currently handle debt service and has a healthy unrestricted fund balance of \$1.6 million, but long-term when debt payments increase we will need to discuss fees and charges.



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Water Utility

| Revenues | |
|-------------------------|-------------------|
| General Taxes | \$ - |
| Special Assessments | \$ 18,120 |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ - |
| Charges for Services | \$ 546,478 |
| Fines & Forfeits | \$ - |
| Miscellaneous | \$ 1,680 |
| Total | \$ 566,278 |
| Expenses | |
| Personal Services | \$ 211,781 |
| Supplies | \$ 69,400 |
| Services and Charges | \$ 64,408 |
| Capital Outlay | \$ - |
| <u>Debt Service</u> | <u>\$ 272,952</u> |
| Total | \$ 618,542 |
| Revenues Less Expenses | \$ (52,264) |
| Other Financing Sources | \$ - |
| Other Financing Uses | \$ 1,000 |
| Change in Net Position | \$ (53,264) |

- Three percent increase in water rates to cover debt service.
- Debt service increase of \$125,400 from 2019C and 2019D bonds for phase I and Phase II street projects.
- Use of \$53,264 in fund balance to cover debt service
- Use of fund balance for debt service is not sustainable and will cause projected end of year fund balance to dip to \$583,569, below the needed 1 year expense reserve.
 - Operating budget is already cut \$25K compared to 2020 budget.
 - Fund has been sustained by using fund balance for debt payments.
 - Options to close this gap are increases in rates or additional fees ... don't recommend using general taxes.



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Liquor Store

| Revenues | |
|-------------------------|------------------|
| General Taxes | \$ - |
| Special Assessments | \$ - |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ - |
| Charges for Services | \$ 816,689 |
| Fines & Forfeits | \$ - |
| <u>Miscellaneous</u> | <u>\$ -</u> |
| Total | \$ 816,689 |
| Expenses | |
| Personal Services | \$ 133,646 |
| Supplies | \$ 602,029 |
| Services and Charges | \$ 33,046 |
| Capital Outlay | \$ - |
| <u>Debt Service</u> | <u>\$ 28,534</u> |
| Total | \$ 797,254 |
| Revenues Less Expenses | \$ 19,435 |
| Other Financing Sources | \$ - |
| Other Financing Uses | \$ 18,935 |
| Change in Net Position | \$ 500 |

- Projecting a 20% increase in sales over 2019 due to move to highway and increases seen in 2020 due to COVID.
- Added allocation for personal cost for services from Administration & Finance.
- Payment of Inter-fund Loan for new building and profits are transferred to general fund.



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Airport

| Revenues | |
|-------------------------------|---------------------|
| General Taxes | \$ - |
| Special Assessments | \$ - |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ 547,826 |
| Charges for Services | \$ 12,326 |
| Fines & Forfeits | \$ - |
| Miscellaneous | \$ 24,858 |
| Total | \$ 585,011 |
| Expenses | |
| Personal Services | \$ 8,163 |
| Supplies | \$ 18,000 |
| Services and Charges | \$ 578,190 |
| Capital Outlay | \$ 335,000 |
| Debt Service | \$ - |
| Total | \$ 939,354 |
| Revenues Less Expenses | \$ (354,343) |
| Other Financing Sources | \$ - |
| Other Financing Uses | \$ - |
| Change in Net Position | \$ (354,343) |

- The new airport fund combines the airport improvement fund with operational expenses formerly in the general fund.
- The airport fund is heavily subsidized by the FAA and MNDOT.
- Carry-over fund balance from 2020 is estimated to be \$759,963 with a projected end of 2021 fund balance of \$405,620.
- Capital projects in 2021 include site work for new hangers, parking lot and road maintenance, and relocation of the AWOS system.
- New hanger construction is scheduled for 2022. The city will have to put general fund money into this project or scale it down.



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Public Housing

| Revenues | |
|-------------------------|-------------------|
| General Taxes | \$ - |
| Special Assessments | \$ - |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ - |
| Charges for Services | \$ - |
| Fines & Forfeits | \$ - |
| Miscellaneous | \$ <u>130,600</u> |
| Total | \$ 130,600 |
| Expenses | |
| Personal Services | \$ - |
| Supplies | \$ 7,759 |
| Services and Charges | \$ 16,312 |
| Capital Outlay | \$ - |
| Debt Service | \$ 72,450 |
| Total | \$ <u>96,521</u> |
| Revenues Less Expenses | \$ 34,079 |
| Other Financing Sources | \$ - |
| Other Financing Uses | \$ 16,973 |
| Change in Net Position | \$ 17,106 |

- This new fund in 2021 consolidates O'Brien Court and Orchard Lane into one fund.
- Consolidation of these funds eliminates estimated negative fund balance of \$274,761 in the Orchard Lane fund by using fund balance of \$740,679 in O'Brien Court to cover the deficit.
- Rent increases in March 2021 of \$50 a month per unit at Orchard Lane.
- Rent of \$45,000 remains flat at O'Brien Court per contract.
- Transfers \$16,973 to the EDA fund for administrative support.



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EDA

| Revenues | |
|-------------------------|-------------------|
| General Taxes | \$ - |
| Special Assessments | \$ - |
| Licenses & Permits | \$ - |
| Intergovernmental | \$ - |
| Charges for Services | \$ - |
| Fines & Forfeits | \$ - |
| Miscellaneous | \$ 25,660 |
| Total | \$ 25,660 |
| Expenses | |
| Personal Services | \$ 85,980 |
| Supplies | \$ 100 |
| Services and Charges | \$ 85,348 |
| Capital Outlay | \$ - |
| Debt Service | \$ - |
| Total | \$ 171,428 |
| Revenues Less Expenses | \$ (145,768) |
| Other Financing Sources | \$ 66,973 |
| Other Financing Uses | \$ - |
| Change in Net Position | \$ (78,795) |

- Revenues from the sale of lots at Broad Acres and small business loan repayments.
- Anticipated \$24,000 in business loans and \$10,000 in business grants in 2021.
- \$46,298 in tax abatements – new budget item in 2021
- Public Housing fund subsidizes costs of operations for Jeff's time with balance of activities coming from EDA fund balance.



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