

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
SEPTEMBER 8, 2020, 5:00 PM
PARK RAPIDS CITY COUNCIL CHAMBERS
Park Rapids, Minnesota**

1. CALL TO ORDER: The September 8th, 2020, Workshop of the Park Rapids City Council was called to order at 5:00 p.m. by Mayor Ryan Leckner.

2. ROLL CALL: Present: Mayor Ryan Leckner, Councilmembers Tom Conway, Erika Randall, and Robert Wills. Absent: Councilmember Liz Stone. Staff Present: Administrator Ryan Mathisrud, Treasurer Jeremy Jude, Planner Andrew Mack, and Clerk Margie Vik. Others Present: Robin Fish from the Park Rapids Enterprise.

2. DISCUSSION:

A. 2021 General Budget and Property Tax Levy: Administrator Mathisrud stated before you are the spreadsheets for the proposed 2021 budget. The general fund budget is made up of revenues which come from several different sources, like local government aid (LGA), fees for services, franchise fees, permit fees, various lease payments that we have from water towers, etc, investment income, and grants. The remainder of the revenues that we receive generally come from property taxes. We estimate our total expenses, some come in higher, some come in lower than expected, but generally those can be estimated and tend to be fairly predictable. Property taxes are used to fill the gap, we set our levy and that's what sets what our levy is going to be. This has been an unusual year. We had turnover in the finance department. We did hire a new treasurer who started in May. We have been behind in the process. To top it off, with COVID-19 all of our auditors are working remotely. It's been a challenge to get to a good spot. This year we should be in a good position in the next couple of weeks.

Mathisrud stated this year we're starting with a baseline of what our estimated revenues and expenses will be based on our major contracts that we have. For example, personnel. We have various contracts for labor rates with the unions. Over 70% of our expenses are wages and benefits. We also have other fairly sizeable bills like insurance that we won't receive a final estimate on what those expenses will be until later in the year. We've used some estimates to set our preliminary budget for this year.

Jeremy Jude stated we had to make some assumptions going into this. On the revenue side we took the 2020 budget amounts and carried them over to 2021. We don't anticipate any major changes on the revenue side. One major change would be the increase in local government aid. That went up by \$36,860.00 from what they certified. We're very conservative on the revenue side. We're seeing a trend from 2019 to 2020 where the property tax collection is a little bit slower and lower than expected. In June of 2019 the county collected almost 71% of the levied taxes for the City of Park Rapids. In

June of 2020 they are at just over 65%. We anticipate levied amounts will probably be about 5% lower than previous years, which might dip into your capital reserve amounts if collections continue on that trend.

Jude stated on the expense side we annualized the 2020 amounts, and the year to date amounts, from the majority of the expenses we kept a zero percent increase year over year, with the except of labor, because it's a contractually obligated expense, and the insurance costs. Once you dig into the budget, you'll see that in the 2020 budget you budgeted for a 3% increase for insurance. It looks like this year those insurance rates went up between 23% to 30%. It looks like a majority was workman's compensation, property insurance, and vehicle insurance. The worker's comp increase was due to some claims, and your experience rating was changed. For the property insurance, I believe there were some properties added to the covered list that weren't in prior years when they updated their insurance rolls, and the same with the vehicles. So, on the insurance side, we took the actual costs for 2020 and added 3% to that cost. So, we did not work off the prior year's budget. That is how we came up with the preliminary budget.

Randall questioned we projected a 3% increase in insurance last year, and it was 25 to 30%? Jude stated yes. The increase was 25 to 30% depending on what it was. Vehicles went from between 12% to 34% increase. Workmen's comp was 23% to 35%, and property insurance was 23% to 35% as well. Randall stated I understand the worker's comp but I don't know how we couldn't have seen that we added properties and vehicles. You're saying additional properties and vehicles were added. Jude stated as best as I can determine. You have to remember I'm only ninety days in. Randall stated that's what I'm concerned about, if it's not a direct result of that, then I don't know. Jude stated I did discuss it with Mathisrud and that's what we came up with. You have a fleet insurance policy, so if you miss a vehicle, and then they add two vehicles that would affect your rating quite a bit. I believe the worker's comp is claim history, the properties, there were two properties added to the list. Mathisrud stated we can give you additional detail on what it was. During the time that we were setting last year's budget we were still in the process of reviewing our insurance so that wasn't finalized until the first of January of 2020. That's when we received our bill.

Conway stated I'm not understanding. Did we own the property and we didn't list it on the insurance or was it properties that we added? Randall questioned how is that possible? Mathisrud stated let's get you additional information on that. We have to make sure that is accurate. Randall stated we have to make sure that doesn't happen again and that we have better checks and balances, and I know that Mathisrud is working hard to make sure we do. I really want to make sure that it's a direct result of adding buildings if they weren't insured and adding vehicles. We need to talk to our insurance carrier. Worker's comp aside, but our vehicle and property insurance should not be going up that much or we need to take a look at shopping around here.

Mathisrud stated last year was the first year in a number of years we have taken a look at all of our assets and updated our insurance. I don't know all of the details of what was changed but we can give you a schedule of why that changed so significantly. Jude stated I don't want you to get scared tripping over the percentages. For example, the insurance expense for the police, it's just the general insurance for the property, it went up \$900.00. That is substantial but it's 26% of the budget.

Conway stated my fear is that we had property that we didn't have insured. It's not the price of the insurance. Randall questioned what vehicles did we add? Conway stated I'd say I appreciate the fact, I do think there are probably things in the budget that need to be fixed. At some point we just have to suck it up and tough it out. I appreciate you guys are putting the effort into fixing it. Any comments I make aren't directed at the two of you as much as at how the budget itself is working out.

Mathisrud stated our total levy was \$2,808,755.00 last year for 2020. The general fund levy was \$2,086,428.00 for 2020. This year our projected levy for 2021 is \$2,211,205.81 for the general levy. The preliminary total levy for 2021 is \$2,946,394.81. The general fund increase is 5.98%. The levy for the general obligation bonds will increase 1.78%, going from \$722,327.00 in 2020, to \$735,189.00 in 2021. That is driven by the bond schedules within each one of those bonds. Those are fixed. We have very little control over that. The overall increase in the levy is \$137,639.81, which is a 4.90% overall increase. That's approximately what the taxpayers would absorb.

Mathisrud stated all of our department heads have been directed to look at their individual budgets and identify areas that they can make cuts in if at all possible. When I look through this budget there are a couple of items that are probably not real practical for next year, such as conferences, travel, mileage, things that we are likely not going to be able to utilize. We didn't use them this year, and that will likely offset next year's budget as well. We are going into this year's budget process with a very conservative approach. Still this is a preliminary levy process, we'd like to set it high and then reduce it going forward. Our recommended preliminary levy this year is 5.9%, with the expectation that will likely be cut over time as we get close to that December 8th deadline for setting the final budget.

Mathisrud stated Jude spoke to the shortfall potential. We have collected approximately 95% of the revenues that were projected for the May property tax payment this year. At this time last year, we collected 99% of the property tax revenue. People have delayed making that property tax with the uncertainty of COVID-19. That isn't necessarily as scary as it looks. We'll generally collect all of those property tax revenues over time. What that does to our current budget is it makes it so that we will have a shortfall but that generally would go to the capital reserve in the first year to absorb that missing revenue. We are projecting at this time a shortfall of \$147,319.74 based on what we are going to collect. That will reduce our corresponding capital reserve.

Randall questioned the department head comments on the preliminary budget. Jude stated those are all last year's comments. We have not updated that yet because we are going to go line by line. It's a starting point to see where we were at last year. Randall stated when the department heads go through this, hopefully, they will be making their own comments for 2020, and have them ready for the Finance Committee. Mathisrud stated that is our intent, to make sure all of these are updated. Many of these are outdated by several years. We'll get a cleaner worksheet going forward.

Mathisrud stated going forward Jude and I will be sitting down with the department heads. We'll look at their budgets individually with them in preparation for sitting down with the Finance Committee. We'll set that for the first week in October and will present our recommended budget at that time. Once it goes through the Finance Committee and we'll bring it back to the Council for another workshop. At that time, you'll see the first round of the recommended budget. It may go back to the Finance Committee at that point to take another hard look at it as we get our invoices for 2021. It will then come back to the City

Council on December 8th for final budget approval. If for some reason there is a hiccup, we can set a special meeting a few days after that, but we'll try to avoid that if at all possible. December 8th will be our last meeting of the year.

Leckner questioned you are recommending a 5.9% increase? Mathisrud stated that is our recommendation for setting the preliminary levy. We are going to do our best to trim that down. I feel there is some ability to do that. We felt it was prudent to leave it at that number so that we had some wiggle room in case there's some major changes associated with COVID-19 or anything else that might come along. You can only reduce it after the preliminary is set, you cannot increase it, except under limited circumstances.

Leckner stated we'll do our best at the Finance Committee level to try to lower that with whatever options we have. Can we also lower the levy by using our reserves? Jude stated the reserve would be for any shortfalls. Randall stated whatever unspent money there is from the prior year could be used. Jude stated the issue we are running into is the audit isn't done. If you had the audit done, you'd have adjustments from the prior year entered in, and then you'd have a clean starting point for the fiscal year. We just don't have that. We're in the final stage of the audit, but that's another reason for the conservativeness. I don't foresee any audit adjustments at this time, but I have not been through a whole audit.

Leckner stated we talked about a way to lower the levy if there was unspent money from the prior budget. Conway stated that would be temporary. At some point you are going to run out of your reserves. Jude stated once you have your audit done, they give you your statement of financial position, which tells you what the municipality's profit was. Leckner questioned that money wouldn't necessarily be the reserves would it? Mathisrud stated if we come in underbudget this year, that should be able to help us out with next year's budget. Conway stated if you come in underbudget this year, then that money would go into the reserves. Jude stated that would be an unspent fund balance.

Conway stated but it would be part of the reserve funds you're talking about using for your shortfall. You don't want to build it into your budget because sooner or later you're going to run out of reserves and then you'd have to raise your levy not only to meet inflation but to also cover whatever the reserves were covering. Mathisrud stated our target is to keep the reserve fund balance at six months. Last year we were at that six months, so if we come underbudget this year that's going to increase our reserve balance. Then we can set a budget to back down to that six-month reserve balance and that will ultimately lower our budget for what we request for next year. Conway stated depending upon where you are spending the reserve funds, for example on something you were planning on spending on in the future, then you can take it out of next year's budget. Then, yes, I would agree with your statement. A general statement that my reserve funds lower my budget would be a false statement. Mathisrud stated that's not what we're trying to pass. Leckner stated we have to keep our reserves at a certain place. We were talking year after year if there was a huge overbudget and we were levying people for that money that we are not using; we don't need it for reserves.

Conway questioned other than the increase for insurance, was there anything that drew your attention as a large increase? Jude stated we haven't dedicated a lot of time to this. I looked for big jumps. Insurance was the only one that jumped out at me. The labor is actually trending lower. We're not all the way through the year yet. We still have year-end payouts. The insurance was the big one, percentagewise and dollar wise. There were

some repair expenses that were off, but we didn't budget for that, like a truck lost an engine last year, that was \$8,000.00. You're not going to budget for that every year, so we used the prior year's budget. The insurance was the big item.

Conway stated to me, if everything stays relatively consistent, other than those items like insurance that we know we don't have a lot of control over, then I'm okay with it. If there was something in here that was significantly higher than what we would normally budget for or someone asked for something to be added, but in the face of it, there's nothing in here that raises a flag.

Randall stated because of COVID and this audit we really haven't had that discussion with our department heads about the big asks yet. This is really an unusual year, so this is an unusual preliminary budget meeting because it's all just a projection based on last year's numbers. I think it's been messaged pretty clearly by Mathisrud to the department heads that there shouldn't be any really big asks coming in this year. We haven't seen what any of the asks are from the department heads. We'll be working on that next month and we'll bring that to a Council meeting. We just had to get over this hurdle so they can start working on it. Normally we would have put a little more work into it at this stage but given a lot of factors this is in line with what our preliminary budget was last year. Mathisrud stated this is consistent with previous years. It's generally around that 6% increase.

Leckner questioned if there were any more comments. There were none.

3. ADJOURNMENT: A motion was made by Conway, seconded by Wills, and unanimously carried to adjourn the meeting at 5:28 p.m.

[seal]

Mayor Ryan Leckner

ATTEST:

Margie M. Vik
City Clerk