



DATE: November 22, 2011
TO: Mayor, City Council Members, and Readers
THRU: Crystal Prentice, City Manager
FROM: Nathan Reinhardt, Finance Director
RE: 2012 Recommended Budget

I. Executive Summary

It is my pleasure to present the City of Waseca's recommended annual budget for fiscal year 2012. The budget to be adopted by the City Council on December 6, 2011 will ensure that we continue to meet the needs of our residents while balancing the City's budget. The City Council and staff are continuously searching for ways to improve City services while keeping costs affordable. The 2012 budget contains revenue projections and expense estimates that represent little margin for error. The entire City staff has done a wonderful job maximizing every dollar that we receive and every dollar that we spend. The recommendations included in this document reflect continued difficult economic times being experienced locally in Waseca, as well as nationally and internationally.

The budget, in financial terms, sets forth the action plan of the City. The priorities for staff, infrastructure improvement, and service response are reflected in the allocation of resources made in the budget. This document provides a broad overview of historical budget trends and significant 2012 components.

Budget policy implemented in this budget relates to the following objectives:

1. Maintenance and improvement of continuing service levels
2. Planning and study of activities, procedures, and staffing to achieve greater efficiencies
3. Infrastructure maintenance and planning

4. Coordination of Council policy and implementation of community goals
5. Review of revenue sources that will lessen the burden on taxpayers including pursuit of grant and outside funding options
6. Maintenance and replacement planning of equipment
7. Maintenance of a stable and sufficient cash and fund balance position
8. Maintenance of a reasonable and manageable debt burden

The recommended budget for the City of Waseca sets the 2012 property tax levy at \$3,436,866 which is a “zero” increase for the second consecutive year and a 1.5 percent decrease from the 2009 levy. The 2012 Economic Development Authority levy is set at \$80,260 which is a \$1,340 decrease compared to 2011.

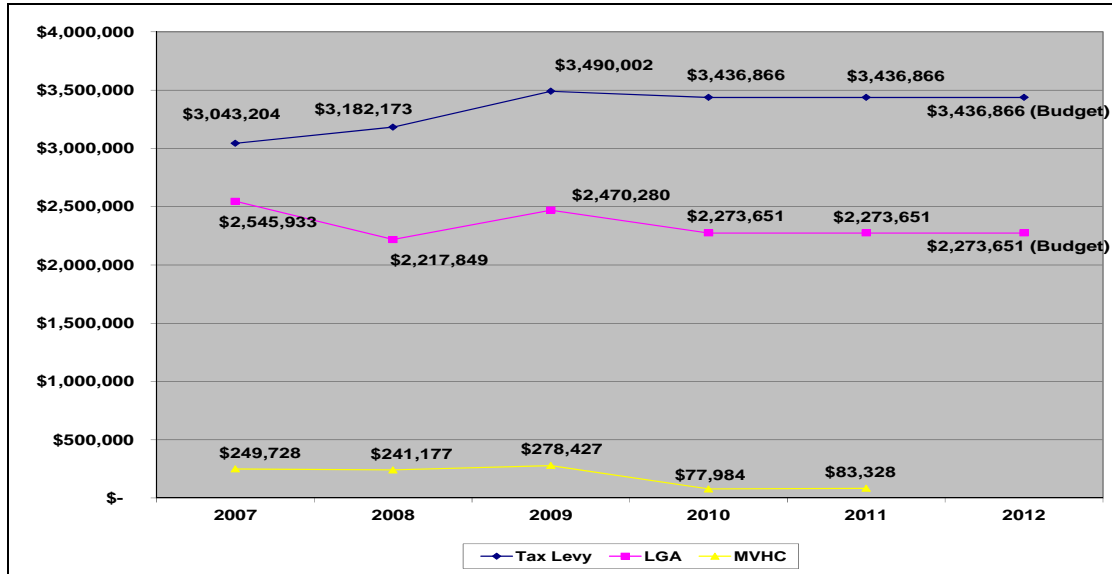
It is helpful to review past trends as we prepare our annual budget. Throughout this budget message I have included key historical trend information which was used for the foundation of the 2012 budget. The budget, as presented in this document, includes budget summaries for all funds: General, Special Revenue, Debt Service, Capital Projects, and Internal Service Funds. The Enterprise funds will be presented at a separate work session.

The hard work staff members provided in assisting with the preparation of this budget should be acknowledged. In particular, recognition and appreciation for the presentation of this document is extended to department managers and finance staff.

II. Revenue Overview

A. Property Taxation

Chart #1: State Property Tax Aid



Through 2011 the City received State Property Tax Aid in two different forms. The biggest of which is Local Government Aid (LGA) that is paid to the City to be used at the City's discretion. The Market Value Homestead Credit (MVHC) is considered a property tax credit to the homeowner. Qualified homeowners received on their property tax statements the City property tax amount less the MVHC. The State was then responsible for reimbursing the City the gap between what is owed for the property tax and what the homeowner actually pays (although the State did not pay the City the full reimbursement in 2010 and 2011). In 2011, the City should have received a reimbursement of \$287,239, but the State cut that reimbursement in July by \$203,911.

On July 20, 2011 the Minnesota Legislature passed a tax bill, which Governor Dayton signed into law. The tax bill did not contain levy limit extensions for local governments, however it did contain reductions in the 2011 Certified Local Government Aid (LGA) and Market Value Homestead Credits (MVHC). In 2011, the City budgeted to receive the Certified LGA in the amount of \$2,682,216, this amount was cut \$408,665 to \$2,272,651. The State then froze that amount for the City's 2012 budget. This initially left the City

with a \$408,565 hole to cover in the 2012 budget. If the City had chosen to pass on the LGA cut to the taxpayers of Waseca, the levy would have needed an 11.9% increase.

The 2012 budget also poses some additional challenges. To help balance the State's budget, the Legislature repealed the MVHC. Beginning with taxes payable in 2012, in place of the MVHC program, homeowners will receive an exclusion of a portion of the market value of their home. For homes valued at less than \$76,000, the exclusion is equal to 40 percent of the home's market value. For homes valued between \$76,000 and \$413,800, the exclusion is \$30,400, minus 9 percent of the value over \$76,000. The new market value exclusion for homes will mean that beginning in 2012, each city's tax base will be reduced and the city's tax rate will rise to obtain the same property tax levy. Although the homestead credit exclusion is computed in a mathematically similar manner to the repealed MVHC, the new system will shift taxes among properties within each community, especially to commercial, industrial, apartment and other properties that will not benefit from the exclusion. The impacts of those changes on properties located within the City limits are illustrated below:

Effect of MVHC Law Changes of Tax Burdens on Hypothetical Properties

(Based on 2011 Market Values and includes County, City, School District and Special Districts)

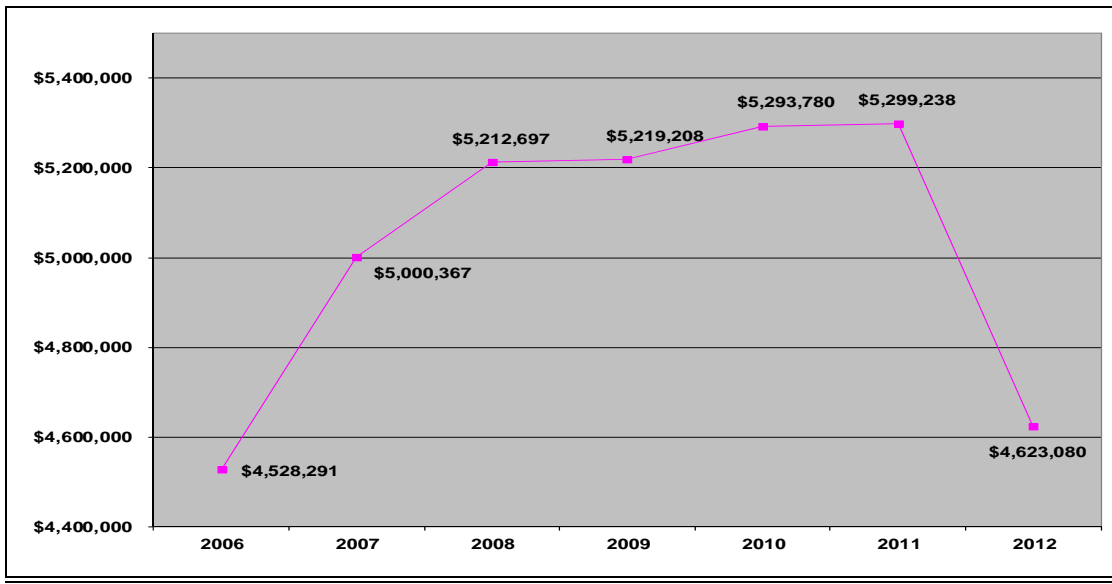
Description	Taxable Market Value	Net Tax		Change	% Change
		Old	New		
Residential	\$ 82,700	\$ 864	\$ 834	\$ (30)	-3.4%
Residential	123,900	1,480	1,526	46	3.1%
Residential	165,200	2,097	2,219	122	5.8%
Residential	247,800	3,331	3,606	275	8.2%
Apartment	300,000	5,225	5,751	526	10.1%
Commercial/Industrial	150,000	4,216	4,532	316	7.5%
Commercial/Industrial	300,000	9,810	10,546	736	7.5%
Commercial/Industrial	1,000,000	35,911	38,611	2,700	7.5%

In the latest State Economic Forecast in February 2011, the State projected a \$5.028 billion deficit for the upcoming 2012-2013 biennial budget. This is down \$1.16 billion from the projected deficit of \$6.188 billion forecasted in November 2010. City LGA for 2011 and 2012 are paid from the states 2012-2013 budget. Although the 2011 Legislature cut City LGA appropriations for 2012 prior to certification, it is possible reductions in state spending may include additional cuts to cities. The State's long-term outlook improved from the November 2010 forecasted estimates, but a \$4.4 billion

structural deficit remains for fiscal years 2014-15. In absence of corrective action the State of Minnesota will have a budget gap of nearly \$2.2 billion per year for both fiscal year 2014 and 2015.

The certified LGA budgeted to be received by the City in 2012 is \$2,273,651; this represents 32.2% of General fund revenues. In comparison, in 2009 State property tax aid represented 42% of General fund revenues. If the City levied an additional amount equivalent to the LGA budgeted in 2012, the property tax levy would have to increase 66.2%.

Chart #2: Tax Capacity



The City levies a flat dollar amount for taxes which is spread against all taxable properties in proportion to their percentage of the total tax capacity of the City. In 2012, the total tax capacity of the City is estimated by the County Assessor at \$4,623,080 in comparison to \$5,299,238 in 2011. Total tax capacity decreased by \$676,158 (12.8%). The 2012 total taxable market value, prior to the market value exclusion is estimated at \$442,988,375 in comparison to \$453,391,500 in 2011. This represents a decrease of \$10,403,125 (2.3%). The market value exclusion for 2012 is equal to \$57,815,775 (13%) of market value, the taxable market value after the exclusion is \$385,172,600. The decrease in both tax capacity and market value over the past year reverses the trend of steadily increasing market values over the past few years.

Chart #3: Breakdown of Taxable Market Value

As mentioned earlier in this document the City’s total taxable market value is estimated at \$442,988,375 prior to the market value exclusion. This is made up of Residential 77%, Commercial 13%, Industrial 5% and Apartment 5%. Under the new law changes 13% of Residential market value will be excluded from taxable market value as illustrated in the chart below:

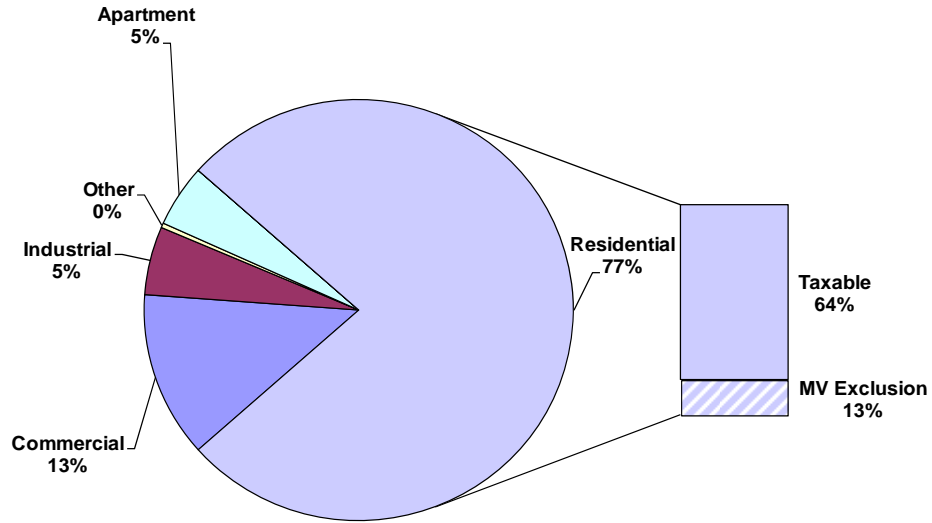
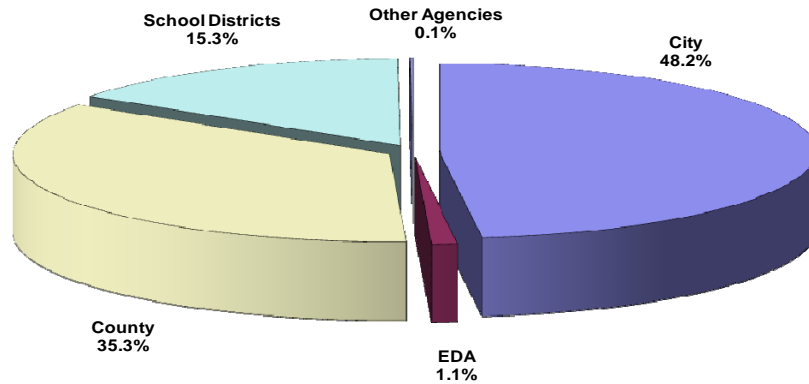


Chart #4: Average Value Comparison

2011-2012 Average Value Comparison		
Residential		
2011	2012	% Change
\$ 119,100	\$ 114,600	-3.78%
Commercial		
2011	2012	% Change
\$ 187,300	\$ 185,300	-1.07%
Industrial		
2011	2012	% Change
\$ 1,277,600	\$ 1,210,389	-5.26%

The estimated average value home in the City is approximately \$114,600 compared to an average value home of \$119,100 in the prior year. That average value home will pay approximately \$726 in City property taxes in 2012 compared to \$691 for 2011.

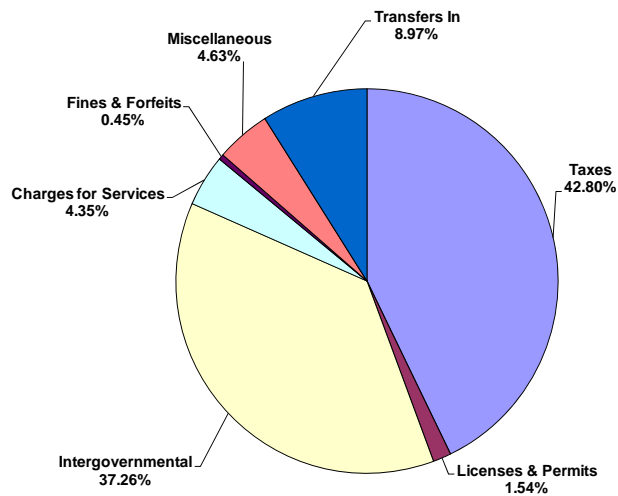
Chart #5: Breakdown of Homeowner Property Taxes



City taxes account for less than one-half (48.2%) of property taxes paid by homeowners living in Waseca (based on 2011 property tax levies), the remainder is comprised of taxes for the School District (15.3%), the County (35.3%) and the EDA (1.1%).

B. 2012 Governmental Revenue Summary

Chart #6: 2012 Budgeted City Governmental Revenue Sources



The 2012 Governmental budgeted revenues total \$8,752,397. Taxes and intergovernmental revenue combine for 80 percent of the governmental fund budget. See Attachment A: 2012 Budget Summary for a complete City revenue summary.

III. Expenditure Overview

A: Reductions in City Spending

In the past four years, through the unallotment process and legislative action, Waseca has seen an overall reduction in State aid and credits of \$1,729,539. While City staff has made every effort to maximize the use of the resources and minimize impact on services, the reductions have had a significant impact on our ability to provide City services. In response, we have reduced the City workforce; implemented a two-year wage freeze; deferred road and sewer infrastructure and maintenance improvements; deferred building maintenance; reduced funding of recreation services; reduced funding of library services; postponed park improvements and necessary capital equipment purchases; reduced funding to the Historical Society and the Senior Center; reduced funding of the senior transportation services; reduced the City's monthly newsletter to quarterly; and eliminated the Police Canine Unit and the annual community Spring Cleanup.

On August 1, 2011 the City Council responded to the \$612,476 in State aid cuts by approving mid-year budget adjustments with a net impact of \$632,096. Summarized impact of the mid-year reductions as follows:

Capital	(\$116,006)
Services & Charges	(75,309)
Personnel	(230,479)
Total Reductions	<u>(\$421,794)</u>
Revenues	210,302
Reductions & Revenues	<u>\$632,096</u>

Approximately 70 percent, \$440,672 of those reductions were on-going and carried forward to the 2012 Budget.

Chart #7: 2012 Budgeted Changes

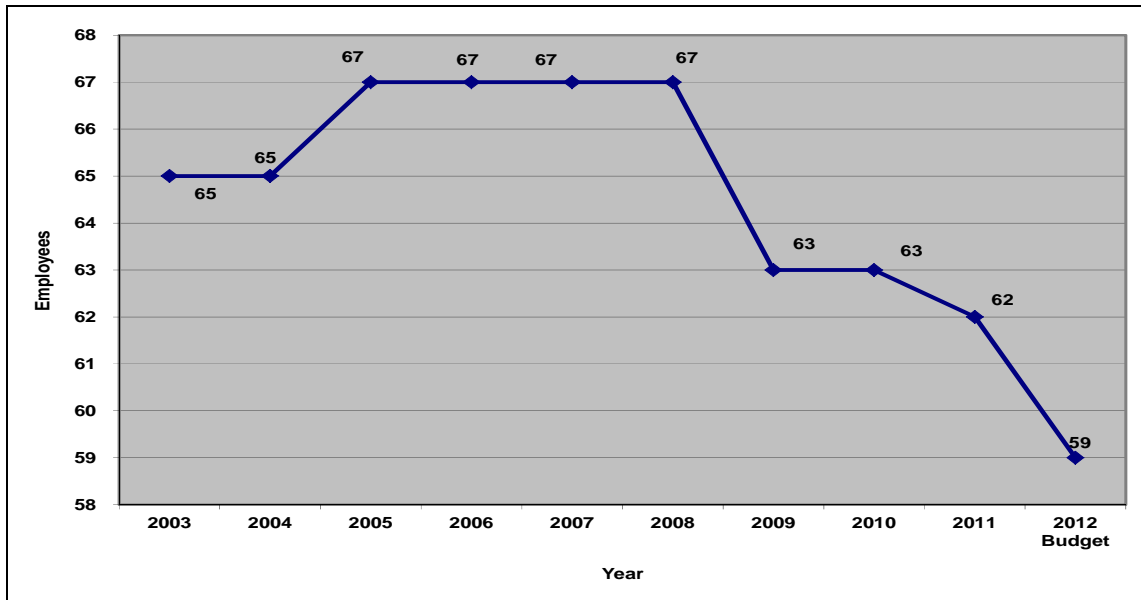
The changes that impacted the 2012 Levy are summarized as follows:

2012 Changes	Impact on Levy
LGA Revenue (decrease)	\$408,565
Elections	20,150
Engineering	50,000
Equipment Replacement Transfer	101,559
CIP Transfer	53,235
2011 Mid-Year On-going Reductions	(440,672)
Health Insurance	(18,397)
Water Park Transfer	(25,000)
Fire Relief Transfer	(15,843)
Surface Water Mgmt. Professional Services	(45,000)
Insurance	(35,565)
Non-departmental (2011 One-time Expenses)	(27,400)
Net Misc. Revenue/Other	(25,632)
Net Impact	(0)
2012 Levy	\$3,436,866

Increases in the property tax levy for items such as the loss in LGA revenue, increased expenses for elections, engineering, and equipment replacement/CIP transfers were offset by the reductions in health insurance, water park/ fire relief transfers, surface water, insurance, non-departmental and sustained 2011 mid-year reductions.

A: Personnel

Chart #8: Full Time Employees



The 2012 Budget has 59 full-time employees (FTE's), which is a reduction of eight FTE's from 2008 and six less from the staffing level of ten years ago. Future employment trends will be driven by State and Federal mandates, reductions in LGA, changes to defined core services, and coordination of projects with other private and public units. The detail of the work force per departmental assignment is illustrated in the organizational chart, which will be published within the final budget document.

The 2012 personnel budget reflects the elimination of the receptionist, part-time utility billing clerk, part-time patrol officer, reduction in hours for the police records clerks, contracting for building inspections, reductions in overtime, health insurance and worker's compensation insurance. Total personnel expenses have been reduced by \$263,305 from the 2011 adopted budget. The 2012 budget for personnel wages does not include a Cost of Living Adjustment (COLA).

Health Insurance: In 2012 the City's health insurance will decrease by 5%. This compares favorably to the increases in the prior two years of 22.2% and 36.1%. The City adopted a strategy in 2009 to minimize the annual health insurance increase by moving employees away from a legacy, high-cost health insurance plan to less expensive consumer-driven health insurance plans. Effective January 1, 2010, the City implemented an even higher deductible insurance option as a means of saving money. The City is beginning to realize cost savings from these changes, our claims experience for the 12 months leading up to the calculation of our renewal rates were less than half of the claims in the previous 12 month period.

B: General Fund Unreserved Fund Balance

Chart #9: General Fund Unreserved Fund Balance

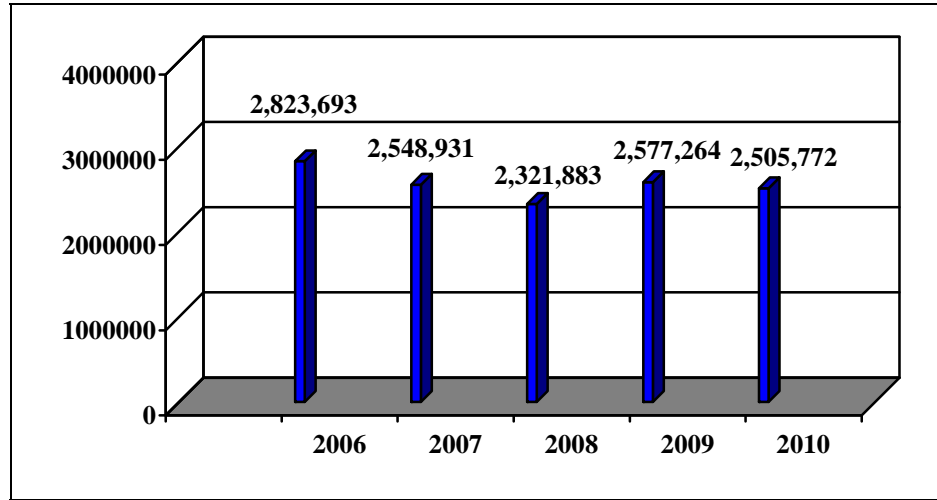
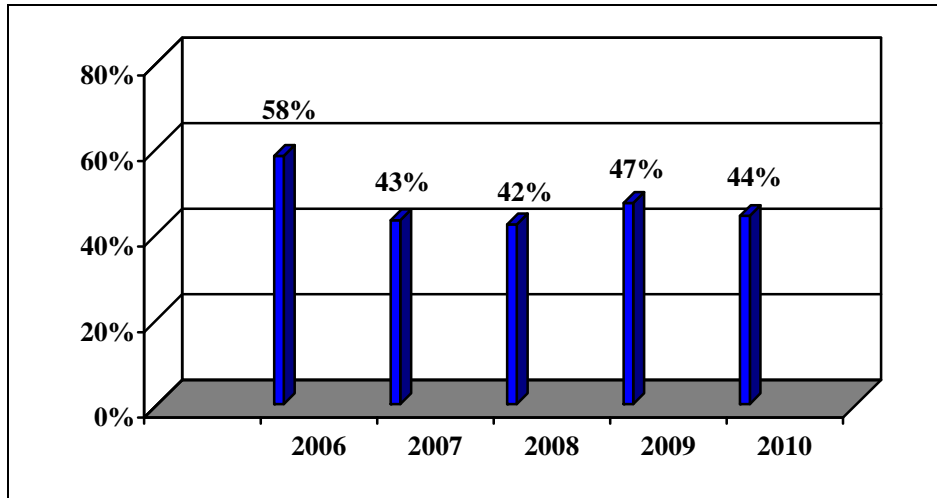


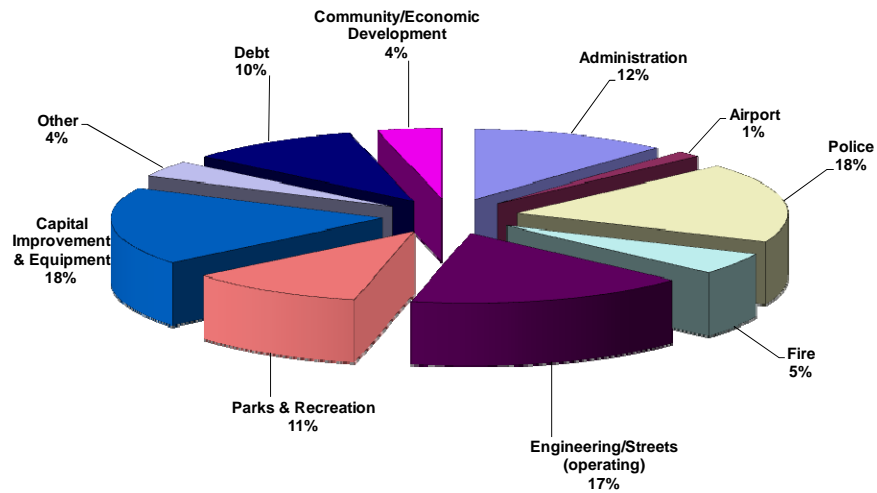
Chart #10: General Fund Unreserved Fund Balance to General Fund Expenditures



A common measure of a City's financial position is the level of their General Fund Unreserved Fund Balance in comparison to General Fund expenditures. The Office of the State Auditor recommends that at year-end, local governments maintain an Unreserved Fund Balance in their General Fund or approximately 35 to 50 percent of operating expenditures. As of the last fiscal year ended 12/31/2010 the City had a General Fund Unreserved Fund Balance of \$2,505,772 or 44 percent of General Fund expenditures. The City did not budget to utilize any General Fund Unreserved Fund Balance in the 2012 operating budget.

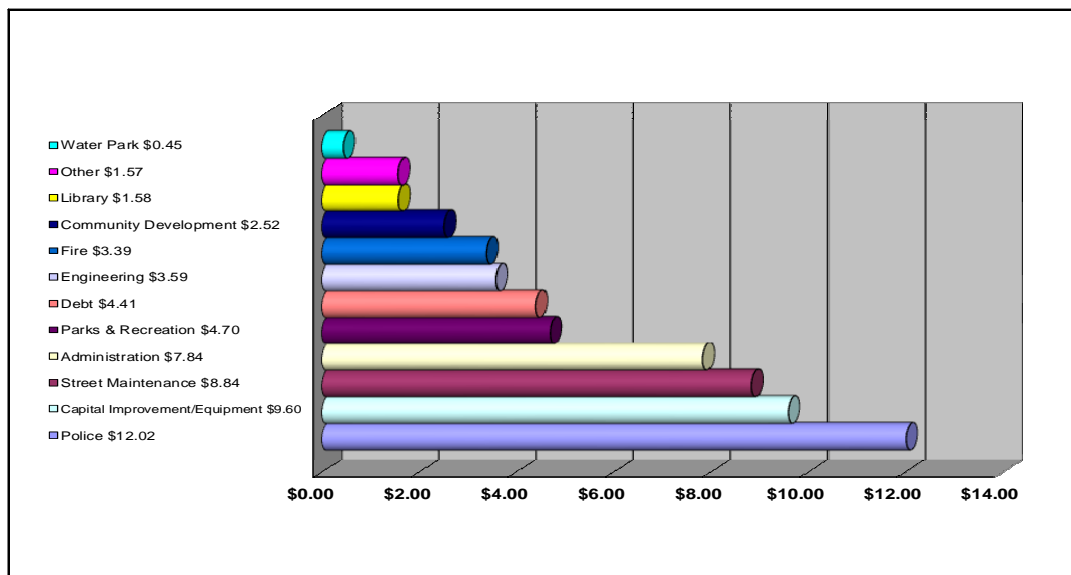
C: 2012 Governmental Expenditure Summary

Chart #11: Expenditure Breakdown



Total 2012 City Governmental budgeted expenditures total \$8,788,998, which is a decrease of \$709,980 (8.1%) from 2011. The 2012 Budget shows 85.6 percent of the City of Waseca's expenditures are for Police (\$1,643,724), Capital Outlay (\$1,468,171), Street Maintenance (\$1,501,345), Administration (\$1,055,018), Parks & Recreation (\$943,359) and Debt (\$912,290). See Attachment A: 2012 Budget Summary for City expenditures by category.

Chart #12: Approximate Monthly City Taxes for 2012



As estimated in the property taxation section of this budget message, the estimated average value home in the City of Waseca according to the Waseca County Assessor is approximately \$114,600. For 2012, the City and EDA portion of property tax on this average value home will be approximately \$726 a year or \$60 per month. This chart excludes expenditures funded by non-levy sources. For example a portion of street capital outlay will be paid for by State Municipal Street Aid and Water Park expenditures are offset by user fees. In addition, it is important to note that a large amount of levy funded equipment and levy funded capital improvements, are street improvement projects. The average value home owner in 2012 will pay approximately \$12.02 a month for police, \$9.60 for capital improvements and equipment, \$8.84 for street maintenance, and \$7.84 for administration. In 2011, the average value home paid approximately \$691 in City property taxes.

D: 2012 Capital Equipment & Capital Improvements

The Capital Improvement Plan (CIP) fund is funded through an annual General Fund transfer. The 2012 budget reflects a transfer from the General Fund in the amount of \$557,356 and utilization of \$184,315 of CIP fund balance.

The City compiles a ten year rolling equipment replacement schedule, included as part of the Internal Services – Equipment Replacement fund. For 2012, the City has budgeted for a General Fund transfer of \$515,530 for equipment replacement.

See Attachment B: Capital Equipment & Capital Improvements for a detailed list of capital equipment and capital improvements.

Respectfully submitted,

Nathan Reinhardt, CPA
Finance Director

Attachment A: 2011-12 Budget Summary

Governmental Funds (Includes EDA)		
	2011	2012
Revenues	Budget	Budget
Taxes	\$ 3,750,954	\$ 3,746,114
Licenses & Permits	146,600	134,600
Intergovernmental Revenues	3,679,990	3,261,249
Charges for Services	378,159	380,519
Fines & Forfeits	32,000	39,500
Miscellaneous Revenue	611,747	405,760
Transfers In	632,918	789,275
Total Revenues - Governmental Funds	\$ 9,232,368	\$ 8,757,017
Expenditures		
Personnel	\$ 4,099,259	\$ 3,777,045
Supplies	750,946	720,263
Services & Charges	1,248,657	1,163,477
Charges	623,313	690,252
Debt Service	830,300	729,196
Capital Outlay	1,759,440	1,525,671
Transfers Out	187,063	183,094
Total Expenditures - Governmental Funds	\$ 9,498,978	\$ 8,788,998 *

* The 2012 Budget utilizes \$184,315 in Capital Improvement fund balance. Governmental funds include the EDA. Totals have been adjusted for internal activity between governmental funds.

Attachment B: Capital Equipment and Capital Improvements**Capital Equipment - Governmental Funds**

Department	Description	2012 Budget
Police		
	Police Vehicles	\$ 37,600
Administration & Finance		
	Microsoft Office Upgrade	25,300
	FM Radio & Repeater Upgrade	3,800
Engineering & Streets		
	Engineering GPS Equipment	5,000
	1 Ton Truck	33,000
	3/4 Ton Truck	33,000
	Snow Blower	135,000
	Vac Tron	47,000
	Asphalt Zipper Side Shift	12,800
Parks		
	Mower (Snow Blower)	7,000
Total Capital Equipment - Governmental Funds		\$ 339,500

Capital Improvements - Governmental Funds

Department	Description	2012 Budget
Engineering & Streets		
	Sidewalks	\$ 10,000
	City Portion CIP Streets	707,356
	Walkway	8,000
	Water Resource Center	21,315
Total Capital Improvements - Governmental Funds		\$ 746,671