

**SANDSTONE CITY COUNCIL
SPECIAL MEETING - WORK SESSION
August 26, 2021**

CALL TO ORDER: 4:30 p.m.

ROLL CALL: Pete Spartz, Val Palmer, Cassie Gaede, Randy Riley, Julena Rahier

Members absent: None

Staff present: Administrator Kathy George

Others present: None

SPECIAL ITEMS OF BUSINESS:

2022 Budget Work Session

Council and Administrator George reviewed the 2022 Proposed Budget and Levy.

Administrator George reviewed various proposed changes with the Council, as follows:

- General Fund revenues increased in the following areas: Property Taxes (85,986); Local Government Aid (20,084); Building Permits (5,000); and Plan Check Fees (1,500).
- General Fund revenues decreased in Rents & Royalties as these revenues will be received in Fund 401 going forward.
- General Fund expenses were changed as follows:
 - Personnel expenses were increased generally by 5% across the board
 - Executive-Personnel increased 80,743 due to the new Community Service Partner position
 - Executive-Professional decreased 2,000
 - Finance-Personnel decreased 8,500 due to the switch from Finance Officer to Deputy Clerk/Finance
 - Street Personnel increased 16,003, which includes the 5% across the board increase; but also includes an increase to accommodate changing the Streets & Parks Supervisor job to Public Works Director
 - Workers' Comp Insurance, Property Insurance, Vehicle Insurance, and General Liability Insurance were changed in several areas due to an internal audit of how these expenses are coded
 - Street Operating Supplies was increased 5,000 due to the addition of crack sealing equipment
 - Electric Utilities was decreased 1,500 for the Street Department
 - Repairs & Maintenance/Alleys was increased 5,000
 - Improvements Other than Buildings was added for the Street Department 2,000
 - Repairs & Maintenance/Equipment was increased 5,000
 - Planning & Zoning-Professional Services decreased 2,500
 - Library Operating was increased 12,500 to accommodate anticipated expenses when the library moves to the PHASE building
 - Law Enforcement increased 4,491 due to the 3% contract increase
 - Building Inspections decreased 15,000 which was the Rental Inspection portion, now covered by the Community Service Partner position
 - Bldg & Grnds-Repair & Maintenance Supplies increased 2,500

- Bldg & Grnds-Electric Utilities decreased 5,000
- Bldg & Grnds-Gas-increased 5,000
- Bldg & Grnds-Storm Water increased 1,300 for the JW Building
- Bldg & Grnds-Improvements other than Buildings increased 3,000 for downtown lights/banners/flags
- A loan payment of 120,000 was added to pay back Fund 401 for the JW Building redevelopment project
- Fire Fund changes were as follows
 - The City's contribution was increased 46,842, partially due to Kroschel deciding to contract with Hinckley (7,515) and the uncertainty regarding Sandstone Township (20,044)
 - Professional Services was reduced 3,000 as the Department no longer pays for cleaning services
 - R&M Mach & Equip increased 5,000
 - Depreciation/savings increased 5,750
 - Bond Payment increased 15,062
- Capital Improvement Fund changes were as follows
 - Local Government Aid decreased 40,288
 - Rents & Royalties increased 23,688 as this budget item was moved from Fund 101 and is used to pay the City Hall portion of the improvement bond for the boiler project
 - JW Loan Payment of 120,000 was added as revenue
 - Street Overlays decreased 72,000 to offset the 2020 Street Imp Proj Bond payment
 - Debt Service for the City Hall boiler project is 25,400
- EDA levy revenue increased 1,098 to reflect the maximum amount allowed by statutes
- Gateway Abatement Levy was reduced 13,200 which is in line with taxes that are actually paid on the property
- Water Fund changes were as follows
 - Other Rev Late Fees was reduced 2,000
 - Prof Svc-People Service increased 3,500 per contract
 - Electric increased 3,000
 - Dues increased 1,300 due to the MN Dept of Health fee increase
 - PFA loan payment increased 10,255
- Sewer Fund changes were as follows
 - Interest earnings were reduced 20,000
 - Volume revenue increased 8,000
 - Prof Svc-People Service increased 3,500 per contract
 - Electric increased 2,000
 - Dues increased 1,500 due to the MN Dept of Health fee increase
 - Replacement Reserve decreased 13,928
- Storm Sewer changes were as follows
 - Replacement projects was reduced 2,210
 - Rain Garden was added at 2,500

The Council discussed the Water Fund. With the addition of the PFA loan payment, the fund will be running at a deficit of 35,351. Additionally, the City has not been able to account for

depreciation (saving for the future) for the past several years. The 2022 payment for the PFA Loan is \$62,255. The total project loan amount is \$1,052,726. The Council discussed off-setting the loan with the American Recovery Plan Act funds. The City received \$139,625 of ARPA funds in 2021 and will receive another \$139,625 in 2022. If this \$279,250 is used to off-set the PFA loan, the loan would be reduced to 773,476. The City could also apply the \$52,000 that was levied in 2021 for debt service in anticipation of the PFA loan. This would bring the loan amount down to \$721,476. The loan payment would then be reduced to \$40,000. If these off-sets are done, the fund will still be \$13,096 in the red. Administrator George reported that a \$6 increase to the fixed water rate would yield about \$32,256. This would cover the budget deficit and also allow for some savings/depreciation to start building up. Discussion will continue regarding a water rate increase and a public hearing will be required.

The Council discussed the John Wright Building redevelopment expenses. To date, these expenses total \$1,900,000, and were coded to the Capital Improvement Fund, leaving that fund balance in a deficit. Administrator George proposed a 20-year interfund loan at 2% interest from Fund 101 to Fund 401. The annual payment would be \$120,000. However, she stated, if the City decides to use some undesignated fund balance from the General Fund (250,000) and from the EDA Fund (250,000), the loan could be reduced to \$1,400,000 and the loan payment would be reduced to \$86,000.

As it stands right now, the proposed 2022 Levy would increase 23.39%. Tax Capacity for the City is projected to increase about \$80,000. Therefore, a 23.39% levy increase results in an increase of 7.76% to the City tax rate, which would be 81.5755%. A residential property valued at \$117,400 would see an \$80 increase in their City taxes. A commercial property valued at \$150,000 would see a \$126 increase.

If the John Wright Building loan were reduced to \$1,400,000, the levy could be decreased by \$34,000. And, if Sandstone Township commits to contracting with the City for Fire Service, the levy could be decreased by another \$20,044. These decreases would bring the levy increase down to 12.67%, which would result in an increase of 0.6635% to the City tax rate, which would then be 74.4834%. A residential property valued at \$117,400 would see a reduction of \$4. A commercial property valued at \$150,000 would see a reduction of \$34.

The City must adopt a preliminary budget and levy by September 30th. The Final budget and levy will be adopted in December. The final cannot be more than the preliminary. Council Members recognized that 23.39% is too much of a levy increase. George will continue to work on the budget and levy in preparation for the final budget/levy adoption in December.

The Preliminary Budget and Levy will be presented and adopted at the September 15th Council Meeting.

ADJOURN

Motion Riley, second Palmer to adjourn at 6:45 p.m. Motion carried 5-0.

Peter Spartz, Mayor

Kathy George, City Administrator