

PROPOSED 2023 BUDGET

CITY MANAGER'S RECOMMENDATION

SEPTEMBER 26, 2022



OVERVIEW

- Introduction
- Economic Expectations and General Assumptions
- Proposed 2023 General Fund Budget
- Property Tax Levy Analysis
- Next Steps

BUDGET GOALS AND OBJECTIVES

- The Proposed 2023 Budget builds upon previous efforts to provide excellent public services at a fiscally responsible cost
- Under this general goal, the City relies upon a series of guidelines to inform the development of the annual budget:
 - To stabilize ongoing revenues and expenditures, and eliminate unanticipated variances
 - To maintain structural balance and appropriate cash or fund balance levels
 - To increase accountability and transparency throughout the budget process
 - To make greater use of existing City resources
 - To ensure a financially competitive organization while maintaining exceptional service levels

FRIDLEY'S FINANCIAL STRENGTH

- Aa2 credit rating
- Strong Financial Position (healthy fund balance and cash balance)
- Growing tax base located favorably in the Twin Cities metropolitan area
- Strong financial policies & practices
 - Conservative budgetary approach
 - Multi-year operating and capital budget forecasting

ECONOMIC EXPECTATIONS

- Growth is expected to decelerate towards year-end 2022 and into 2023 as monetary policy trends away from accommodative to more restrictive
 - The Federal Reserve has increased the Federal Funds Rate from 0.25% at the end of 2021 to current target of 3.00-3.25%, with further increases anticipated
- Multi-decade high inflation continues to have a profound impact
 - August 2022 inflation rate slowed to 8.3%

ECONOMIC EXPECTATIONS – GDP, FEDERAL FUNDS RATE & INFLATION

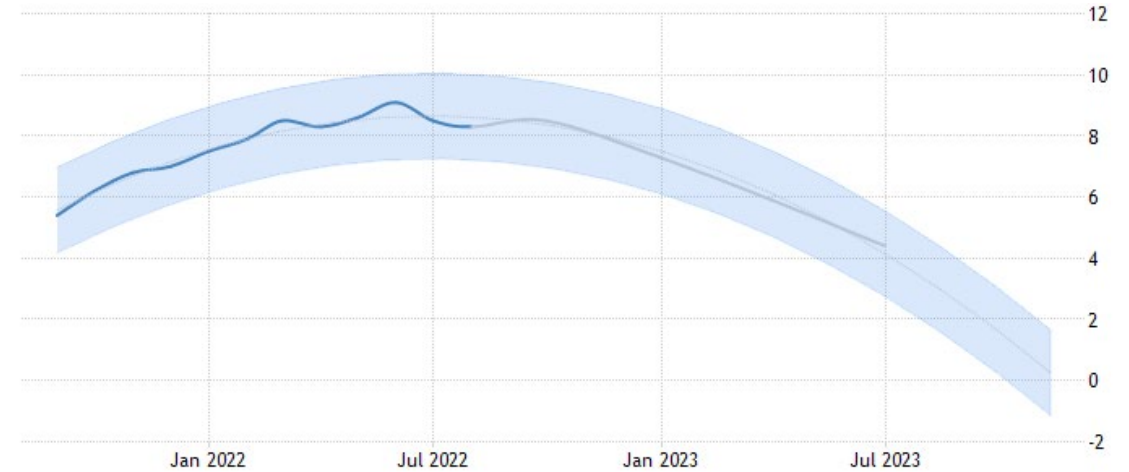
Economic & Financial Forecasts

	2022F	2023F	2024F
Real GDP (annual % change)			
World	2.8	2.2	3.0
U.S.	1.6	0.7	1.2
U.S. Rates (%)			
Fed Funds Target Rate	4.00	4.00	2.50

F: Forecast by TD Economics as at September 2022; Forecasts for exchange rate and yields are end-of-period.
 Source: Bloomberg, U.S. Federal Reserve.



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GENERAL ASSUMPTIONS

- 1st Year of Levy for General Obligation (GO) Tax Abatement Bonds for Park System Improvement Plan (PSIP)
- Use of fund balance to offset initial impact of PSIP bonds
- Addition of Public Service Worker – Park Maintenance
- Conservative budgetary approach

Major Budget Assumptions, Expenditures (Selected)	
Category	Adjustment
Health Insurance	10.6%
Worker's Compensation Insurance	15.0%
Fuel	25.0%
Salaries and Wages	3.0%

GENERAL ASSUMPTIONS, CONTINUED

Major Budget Assumptions, Revenues (Selected)	
Category	Adjustment
Property Taxes (Current, Delinquent, Penalties/Interest)	1.81%
Licenses and Permits	-7.03%
Intergovernmental	5.49%
Charges for Service	23.03%
Miscellaneous	74.65%
Other Financing Sources*	253.67%
* Use of Fund Balance	\$350,000



GENERAL FUND

PROPOSED 2023 BUDGET

GENERAL FUND REVENUES

- Property Taxes
 - The Proposed 2023 Budget assumes property tax revenues of \$13,883,600 or \$246,200 (1.81%) more than 2022.
- Licenses and Permits
 - Per recent trend and average redevelopment activity, the Proposed 2023 Budget decreases by about \$83,200, or 7.03%, compared to the previous fiscal year
- Charges for Services
 - Assumes an increase of about \$513,300 or 23.03%, primarily due to security services provided by Public Safety and interfund chargebacks
- Miscellaneous
 - Assumes an increase of about \$118,700, or 74.65%, primarily due to an increase interest revenue on the investment of City funds

GENERAL FUND REVENUES, CONTINUED

- Use of Fund Balance
 - Anticipates use of \$350,000 in Fund Balance that otherwise would be transferred to Community Investment Fund
 - Assists with estimated impact of GO Tax Abatement Bonds related to PSIP

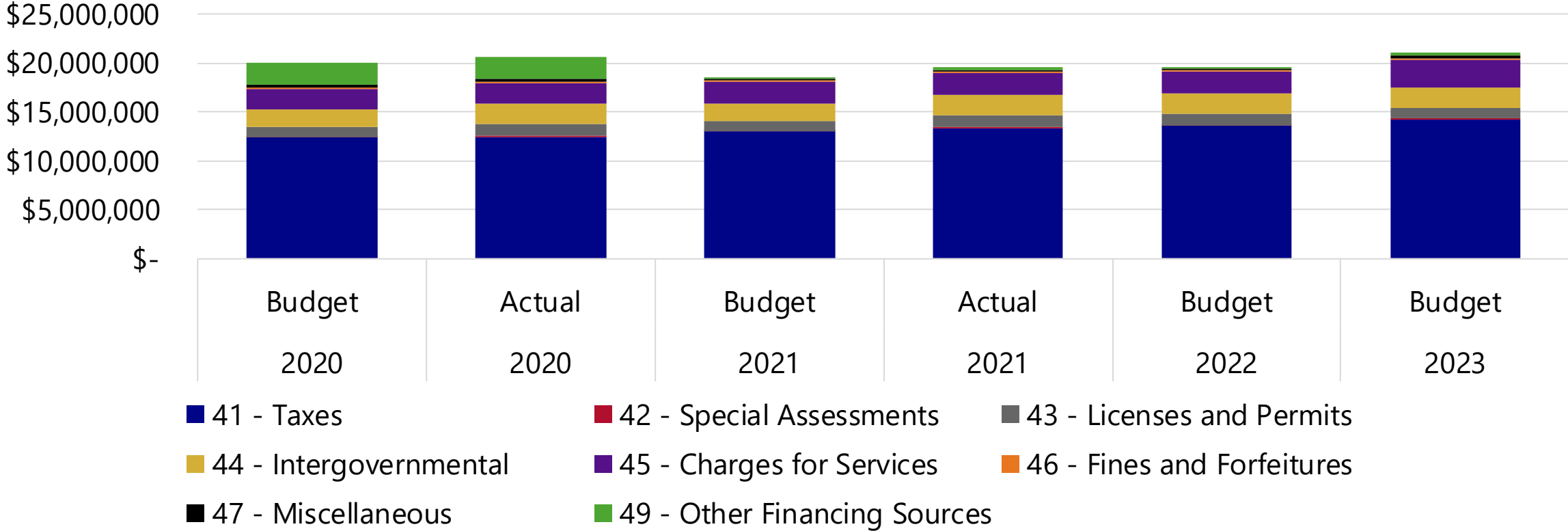
- Intergovernmental Grants and Aids
 - Assumes an increase of about \$112,600, or 5.49%, primarily for Police Aid, Fire Aid(pass through) and Local Government Aid(LGA)
 - The Proposed 2023 Budget adds \$36,100 of LGA to the General Fund

Intergovernmental Aid, as a Percentage of the General Fund			
Revenue Source	2021	2022	2023
LGA	3.97%	3.37%	3.32%
All Intergovernmental Aid	10.34%	10.44%	10.28%



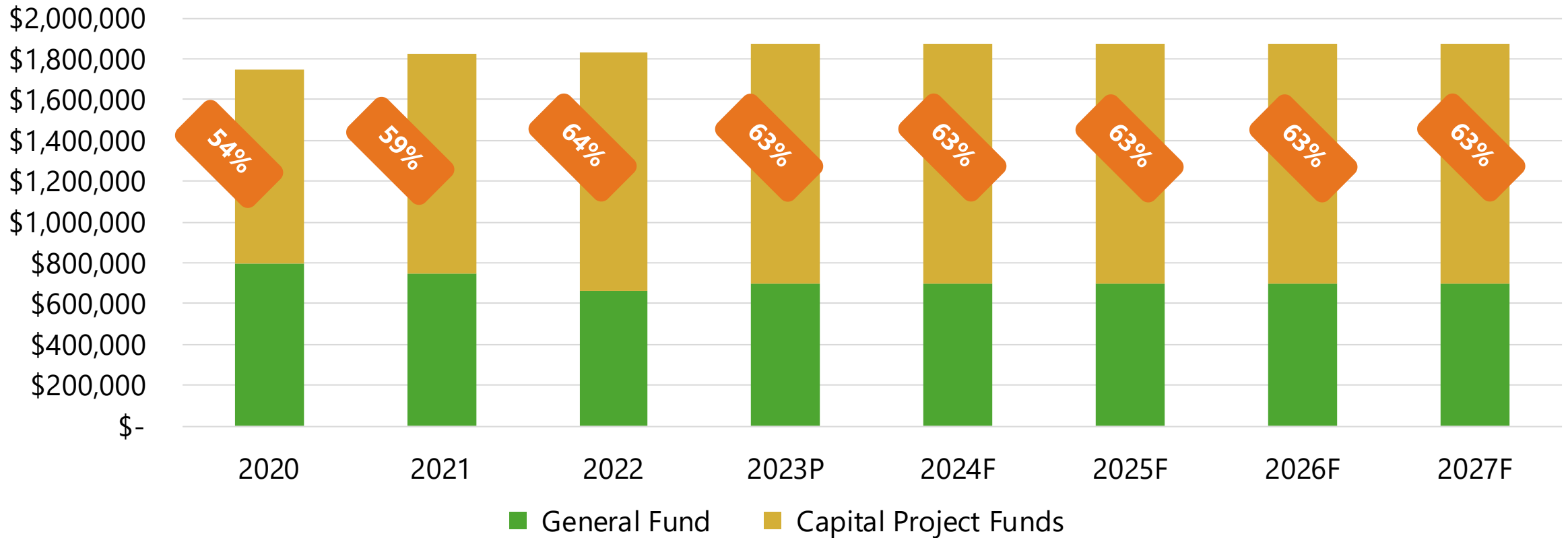
GENERAL FUND REVENUES, CONTINUED

General Fund, Revenue Summary



LOCAL GOVERNMENT AID

Local Government Aid Allocation, 2020–2027

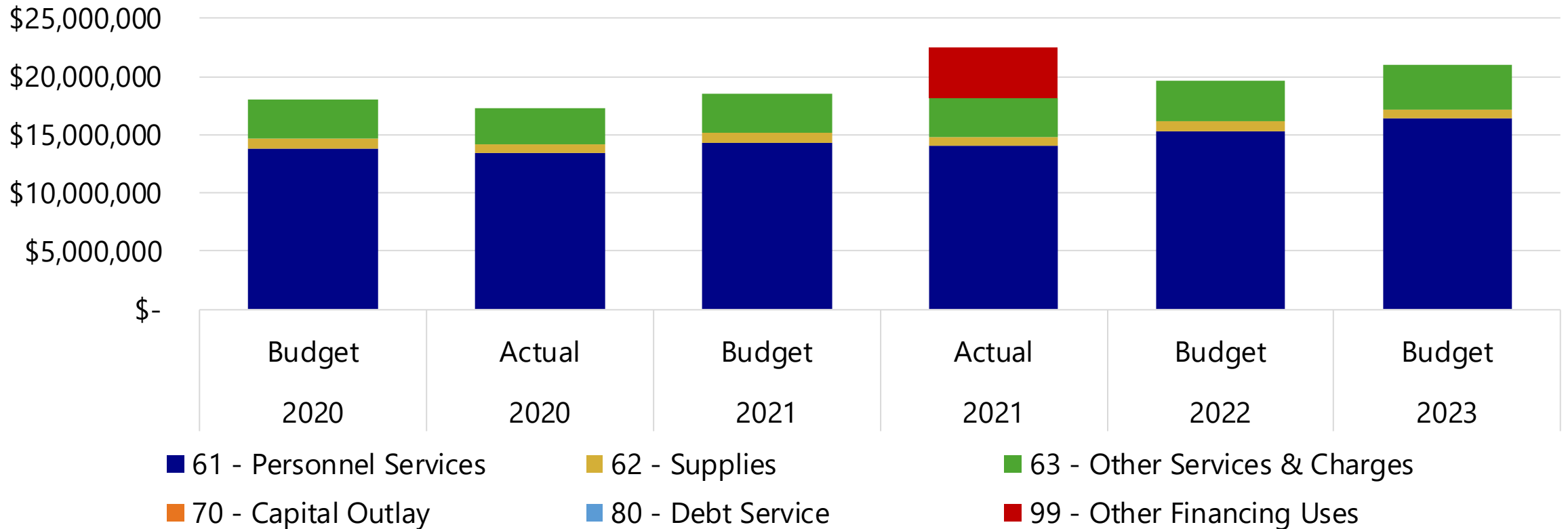


GENERAL FUND EXPENDITURES

- Personnel Services
 - Comparable to previous fiscal years, Personnel Services comprises 77.65% of all General Fund expenditures
 - For the Proposed 2023 Budget, Personnel Services increased approximately \$1,011,200, or 6.60%, compared to Adopted 2022 Budget
- Supplies
 - Assumes an increase of about \$35,900, or 4.35%, compared to the previous fiscal year
- Other Services and Charges
 - Assumes an increase of about \$352,500, or 10.11%, compared to the previous fiscal year, primarily for inflationary cost increases for utilities and fuel

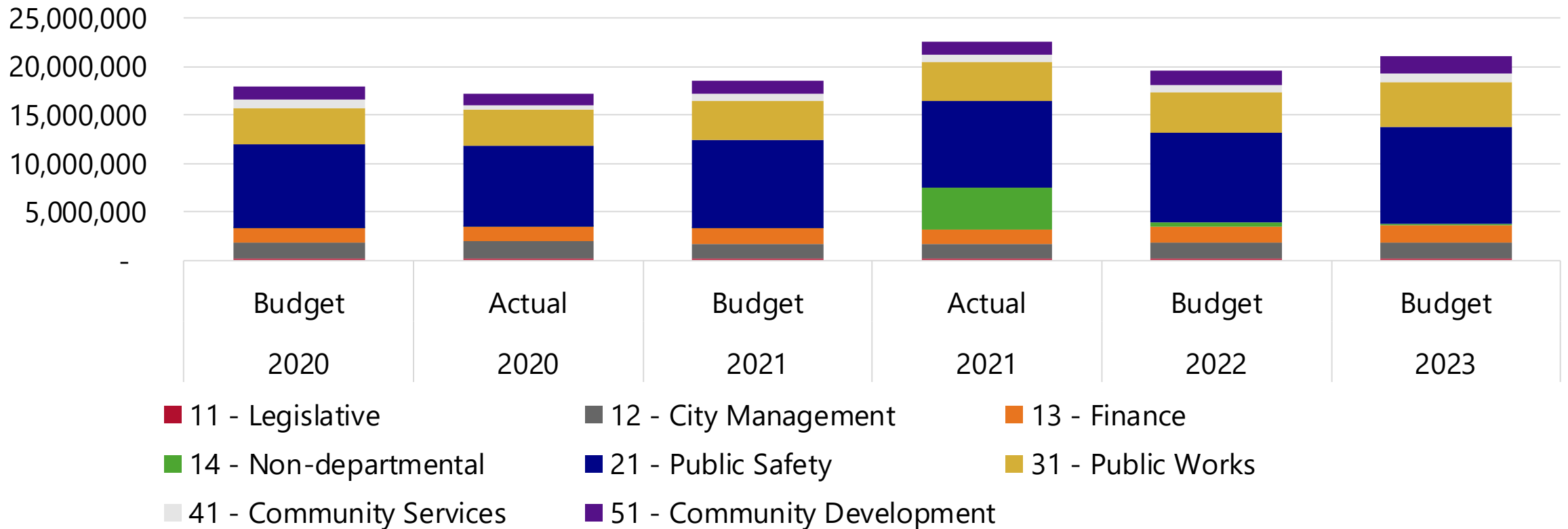
GENERAL FUND EXPENDITURES, CONTINUED

General Fund, Expenditure Summary



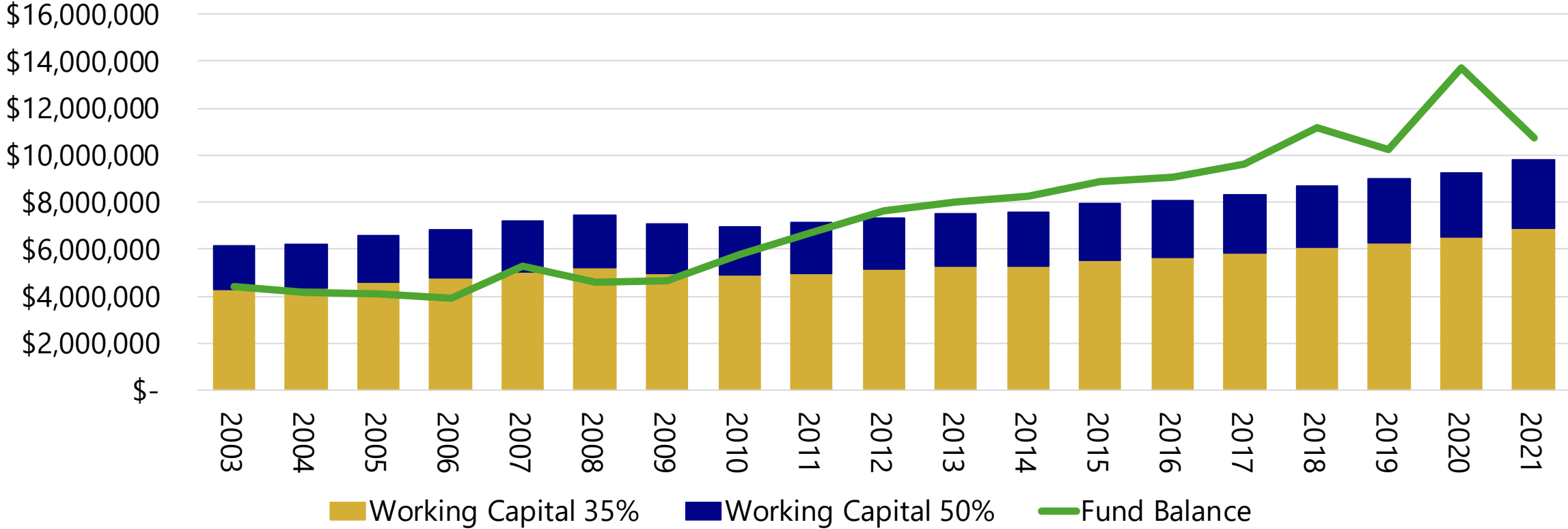
GENERAL FUND EXPENDITURES, CONTINUED

General Fund Expenditures by Department



GENERAL FUND, BALANCE HISTORY

General Fund Balance History, 2003–2021



PROPERTY TAX LEVY

PROPOSED 2023 BUDGET

CITY PROPERTY TAX LEVY

- The Proposed 2023 Budget assumes an overall property tax levy increase of about 12.82%. Generally, this changes supports:
 - 1st Year of Levy for GO Tax Abatement Bonds (PSIP)
 - Cost pressures on various City activities; and the
 - Long-term financial plans for both the Springbrook Nature Center and IT Capital Projects Fund

PROPERTY TAX LEVY, CONTINUED

Property Tax Levy History and Detail						
Levy Component	2020	2021	2022	2023P	Change %	Change \$
General Fund	12,458,025	13,220,201	13,682,908	14,235,000	4.03%	552,092
IT Capital Projects Fund	58,708	63,405	68,477	73,955	8.00%	5,478
SNC Fund	411,807	427,249	461,429	498,343	8.00%	36,914
Debt Service Funds	3,181,017	3,179,229	3,179,256	3,135,549	-1.37%	(43,707)
PSIP Bonds	-	-	-	1,678,023	-	1,678,023
Totals	16,109,557	16,890,084	17,392,070	19,620,870	12.82%	2,228,800

Levy Component	2020	2021	2022	2023P	Change %	Change \$
GF, IT, SNC, DS	16,109,557	16,890,084	17,392,070	17,942,847	3.17%	550,777
PSIP Bonds	-	-	-	1,678,023	-	1,678,023
Totals	16,109,557	16,890,084	17,392,070	19,620,870	12.82%	2,228,800

Note: Per the bond covenant, the City is required to levy the full amount (105%) of the 1st year's principal & interest, or \$2,028,023, for the PSIP bonds. The use of \$350,000 in fund balance would need to be reflected in the General Fund levy, i.e., \$350,000 less. For illustrative purposes, we're showing the use of fund balance lowering the PSIP levy as the intention is to lessen the impact of the PSIP Bonds portion of the property tax levy.

PROPERTY TAX LEVY, CONTINUED

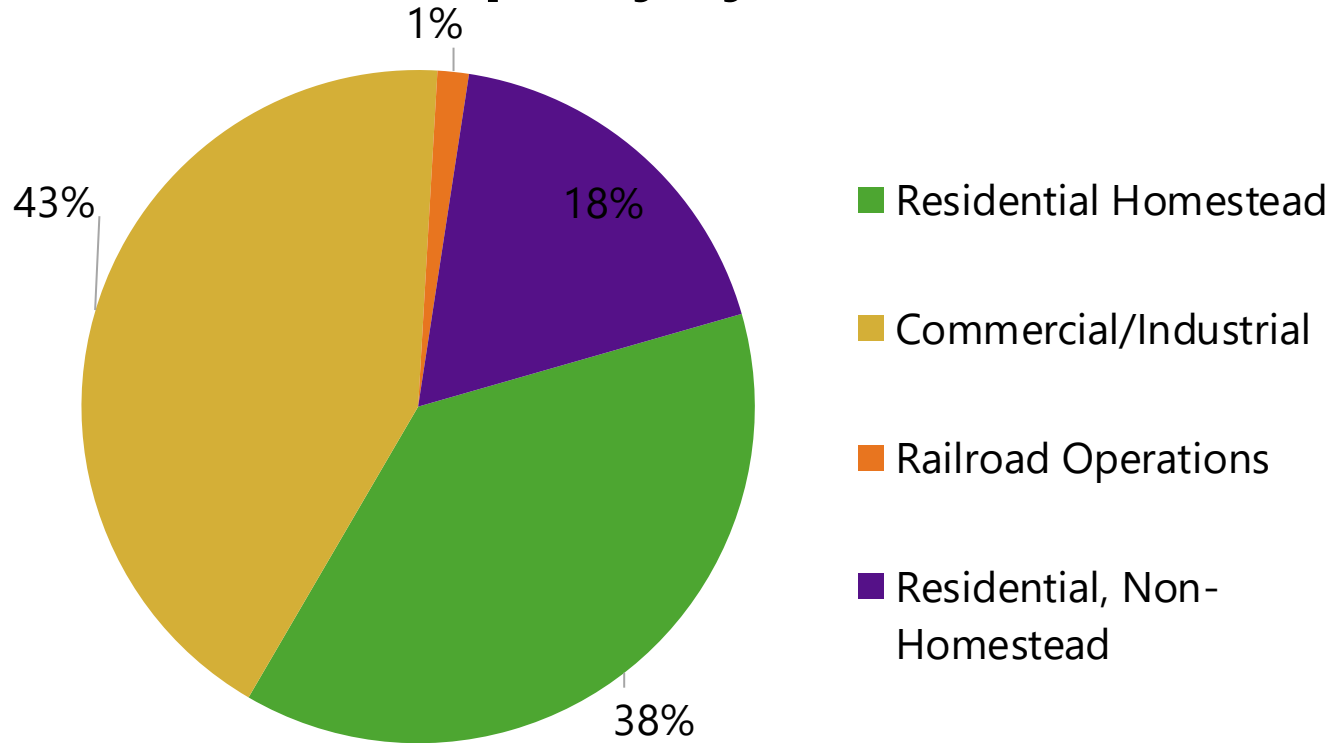
City Property Taxes Payable (Residential Homestead)					
Payable Year	Levy Change	Median Value	Est. City Taxes	Change (\$) vs. PY Change	
2019	4.64%	202,900	886	37	
2020	3.97%	217,200	954	68	
2021	4.85%	234,000	1,014	60	
2022	2.97%	247,200	1,051	37	
2023	12.82%	288,300	1,220	169	

Levy Component	Est. City Taxes 2022	Est. City Taxes 2023	Change (\$) vs. PY
GF, IT, SNC, DS	1,051	1,100	49
PSIP Bonds	-	120	120
Totals	1,051	1,220	169

- Between 2021 and 2022, the median-valued residential homestead increased about 16.6%, compared to 5.6% the previous year
- Assuming the proposed property tax levy change, a property owner with a \$288,300 residential homestead would pay an estimated \$14 more per month.
- Had the median value from the prior year (\$247,200) held constant, the owner would pay \$28 less than last year.

PROPERTY TAX LEVY, NET TAX CAPACITY

Net Tax Capacity by Classification

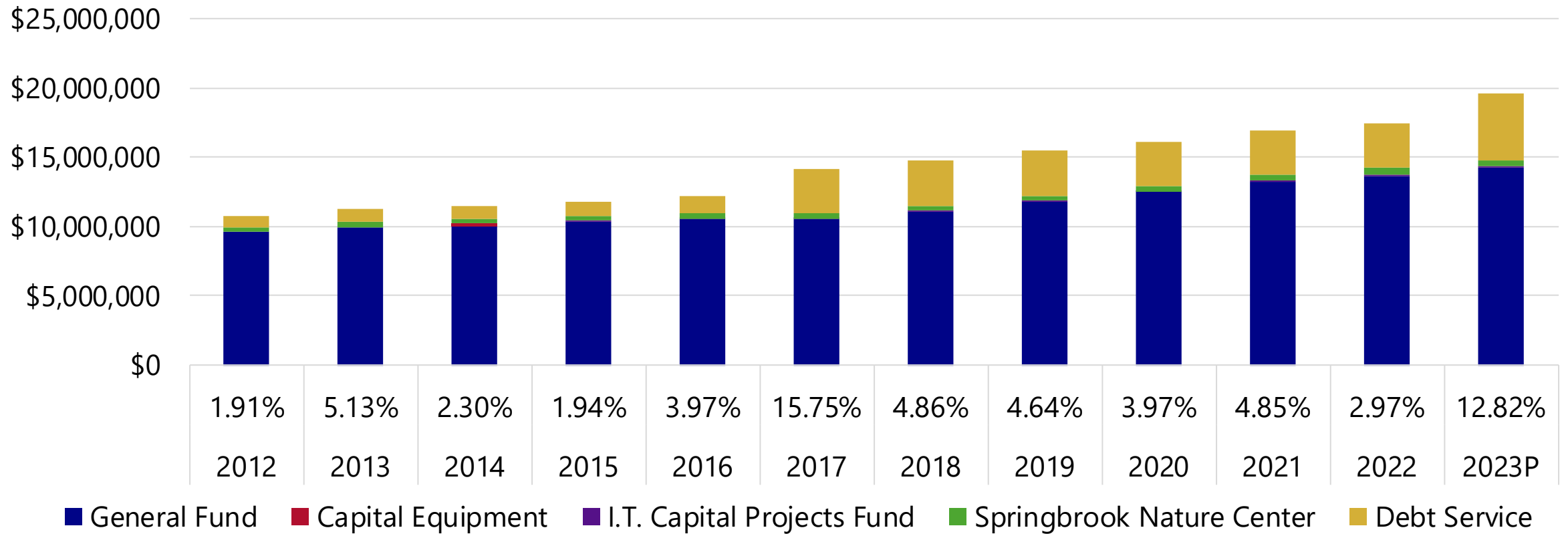


Property Taxes Payable for 2023

- Median Residential Homestead, \$288,300

PROPERTY TAX LEVY, CONTINUED

Property Tax Levy, 2012–2023P



2023 PRELIMINARY LEVY COMPARISON

City	2023P Change (%)
Fridley - Net of PSIP Bonds	3.17%
New Hope	4.51%
Minneapolis	6.50%
Richfield	6.60%
Roseville	7.00%
Coon Rapids	7.50%
St. Louis Park	7.50%
Columbia Heights	8.10%
Shoreview	9.09%
Crystal	9.50%
New Brighton	9.88%
Savage	11.40%
St. Francis	12.60%
Fridley	12.82%
Burnsville	14.53%
Rogers	15.00%
St. Paul	15.30%
Oak Grove	19.41%
Lexington	20.00%

Average = 10.96%



NEXT STEPS

PROPOSED 2023 BUDGET

PROPOSED 2023 BUDGET CALENDAR

- September 26 Adopt Proposed 2022 Budget and Property Tax Levy
- September 26 Adopt Final Housing and Redevelopment Authority Property Tax Levy

Skipping ahead...

- November 28 Conduct Truth-in-Taxation Public Hearing
- December 12 Adopt Final 2023 Budget, Levy and 2023-2027 CIP



RECOMMENDATION

- **Based on the process to date, staff recommend the Council adopt:**
 - Resolution No. 2022-105, approving the Proposed Property Tax Levy for 2022, collectible in 2023, for the City of Fridley
 - Resolution No. 2022-106, approving the Proposed 2023 General Fund Budget for the City of Fridley
- **Assuming the Council adopts the resolutions, staff will transmit them to Anoka County on or before September 30**
- **The Proposed 2023 Budget documents may be found on the City website under “City Financials”**

THANK YOU! QUESTIONS?

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