



# **Facing Our Financial Future, Part II**

Protecting Resources, Planning Ahead

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# Recap of Part I

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Increasing costs of providing municipal services and public infrastructure



Ensuring self-supporting enterprise funds with no tax levy subsidy



Importance of comprehensive financial planning to encompass operating & capital budget challenges



Reduce property tax levy pressures by exploring revenue alternatives & identifying options in your community

# Local Government Responses

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In many situations, local governments adjusted property tax levies to respond to market pressures.

<b>Proposed 2026 Property Tax Levies</b>		
<b>Political Subdivision</b>	<b>Total Change (\$)</b>	<b>Total Change (%)</b>
Cities	\$322M	8.7%
Counties	\$342M	8.1%
Townships	\$19M	5.6%
Schools	\$242M	5.8%
Special	\$24M	4.6%
<b>Total</b>	<b>\$948M</b>	<b>7.3%</b>

# What Is a Financial Management Plan?

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- A multi-year, fiscal plan for tax-supported funds that integrates:
  - ✓ Previous actions of the governing body
  - ✓ Existing & future operating costs
  - ✓ Capital improvement & equipment plans
  - ✓ Existing & potential debt
  - ✓ Property tax & fee schedule changes
- Determines if capital & operating costs are sustainable over time under certain assumptions



# Financial Planning Benefits

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Translates  
Vision into  
Action

Identifies  
Funding  
Sources for  
Priorities

Manages  
Community  
Expectations

Identifies Assets  
& Appropriate  
Fund Balances

Reduces Stress  
in the Budgeting  
Process

Communicates  
Long-Term  
Plans to  
External Parties

Reduces  
Reactivity in  
Unpredictable  
Situations

# Annual Budget Calendar: General

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# Goal Setting & Budget Direction

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## 1. Identify Participants & Stakeholders

- Elected officials and City Staff

## 2. Identify Projects & Anticipated Costs

- Review priorities
- Consult experts & stakeholders

## 3. Prioritize Major Projects & Programs

- Legal requirements, public safety concerns, cost & benefit considerations & more

# Staff Preparation & Review

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4. Analyze data
  - ✓ Review financial position of each fund
  - ✓ Identify budget impacts
  - ✓ Refine capital project costs estimates
5. Identify existing & new funding sources
6. Prepare the model
  - ✓ Use at least five-years of projections

- **Local**

- ✓ Special assessments
- ✓ Fund balances
- ✓ Property taxes
- ✓ Sales taxes
- ✓ Bond proceeds
- ✓ TIF or tax abatement
- ✓ Service revenues & charges

- **Non-Local**

- ✓ Grants
- ✓ Federal aid & grants
- ✓ State aid & grants
- ✓ Private partnerships
- ✓ Joint Powers Agreements

# What Does it Look Like?

Fund No. 409	2023	2024	2025	2026	2027	Total
Funding Sources	Budget	Projection	Projection	Projection	Projection	
Property Taxes	\$ 74,000	\$ 79,900	\$ 86,300	\$ 93,200	\$ 100,700	\$ 434,100
Local Government Aid	250,000	250,000	250,000	200,000	200,000	1,150,000
Interest on Investments	4,000	4,000	4,000	4,000	4,000	20,000
<b>Total Funding Sources</b>	<b>\$ 328,000</b>	<b>\$ 333,900</b>	<b>\$ 340,300</b>	<b>\$ 297,200</b>	<b>\$ 304,700</b>	<b>\$ 1,604,100</b>
<b>Capital Plan Expenditures</b>						
<b>Total Expenditures</b>	<b>\$ 475,000</b>	<b>\$ 377,000</b>	<b>\$ 465,000</b>	<b>\$ 170,000</b>	<b>\$ 160,000</b>	<b>\$ 1,647,000</b>
Surplus (deficiency) of funding sources over (under) expenditures	\$ (147,000)	\$ (43,100)	\$ (124,700)	\$ 127,200	\$ 144,700	\$ (42,900)
<i>Estimated Beginning Fund Balance</i>	<i>325,200</i>	<i>214,700</i>	<i>171,600</i>	<i>46,900</i>	<i>174,100</i>	<i>932,500</i>
Projects Carried Forward from Prior Years	36,500					36,500
<b>Estimated Ending Fund Balance</b>	<b>\$ 214,700</b>	<b>\$ 171,600</b>	<b>\$ 46,900</b>	<b>\$ 174,100</b>	<b>\$ 318,800</b>	<b>\$ 926,100</b>
Fund Balance Requirement (35% of Average)	\$ 115,290	\$ 115,290	\$ 115,290	\$ 115,290	\$ 115,290	\$ 576,450
Difference (\$)	99,410	56,310	(68,390)	58,810	203,510	349,650

# City Council Work Sessions

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## 7. Analyze Options

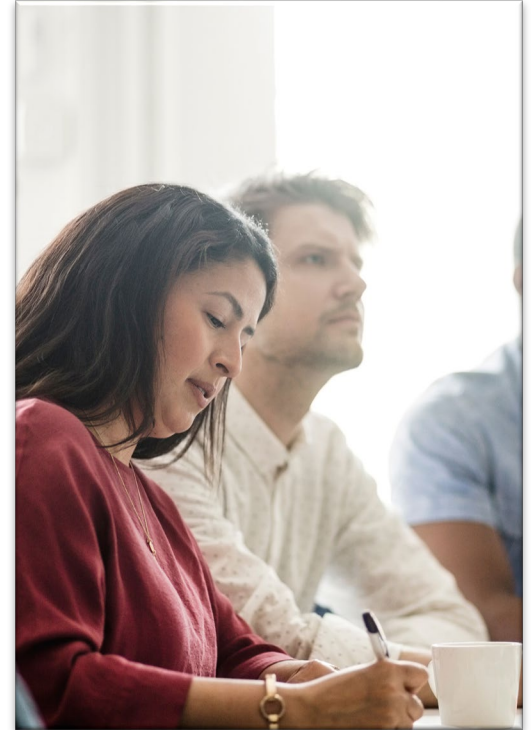
- ✓ Impact of operating changes & capital projects
- ✓ Affordability, phasing & use of debt
- ✓ Consider bonding options, timing & political will

## 8. Discussion & Revision

- ✓ Provide thoughtful recommendations
- ✓ Timing of projects
- ✓ Multiple scenarios

## 9. Adopt / Accept the Plan

- ✓ With or without formal action



# Always Remember... Developing the FMP

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- Start with strategic priorities & plans
  - ✓ Use reasonably conservative assumptions
- Be honest, simple & relatable when communicating budget impacts
  - ✓ The FMP tends to be a “pay now or pay later” proposition
  - ✓ Every organization pays for things differently
- Be transparent: Do not build the FMP in a vacuum



# In Case You Were Wondering...

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# Consider Alternative Revenue Sources

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## More Common Options

- Public utility franchises
- Local option sales taxes
- Debt

## Less Common Options

- Internal & TIF management practices
- Other political subdivisions
- Public utilities
- Special districts

# Benefits of Revenue Diversification

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- Mitigate levy pressures with new or expanded non-tax revenue sources:
  - ✓ Funds for identified services & projects can shift burden away from property taxes
  - ✓ Move certain cost categories away from taxes altogether
- Some options will demand significant governing body consideration while other opportunities are more administrative in nature
- No “free lunch.” Shifting the burden of fiscal impact across community & constituents

# Public Utility Franchises: What Are They?

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Under Minnesota Statutes, Section 216B.36, cities may require public utilities to obtain a franchise to operate on public property

Generally applicable to electric & gas utility providers

Public property includes parks, streets & other rights-of-way

Cities may require other terms & conditions, including obligations to pay municipal or franchise fees

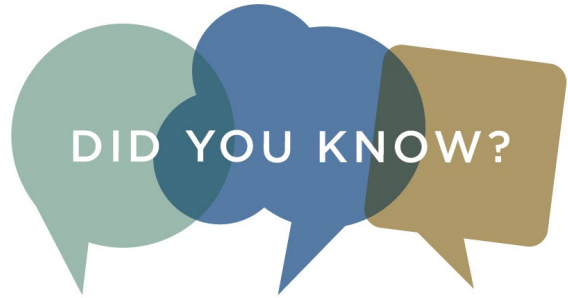
May be used “to raise revenue or defray increased municipal costs accruing as a result of utility operations, or both”

Franchises typically negotiated as contracts, then adopted by municipality via ordinance

# What Else?

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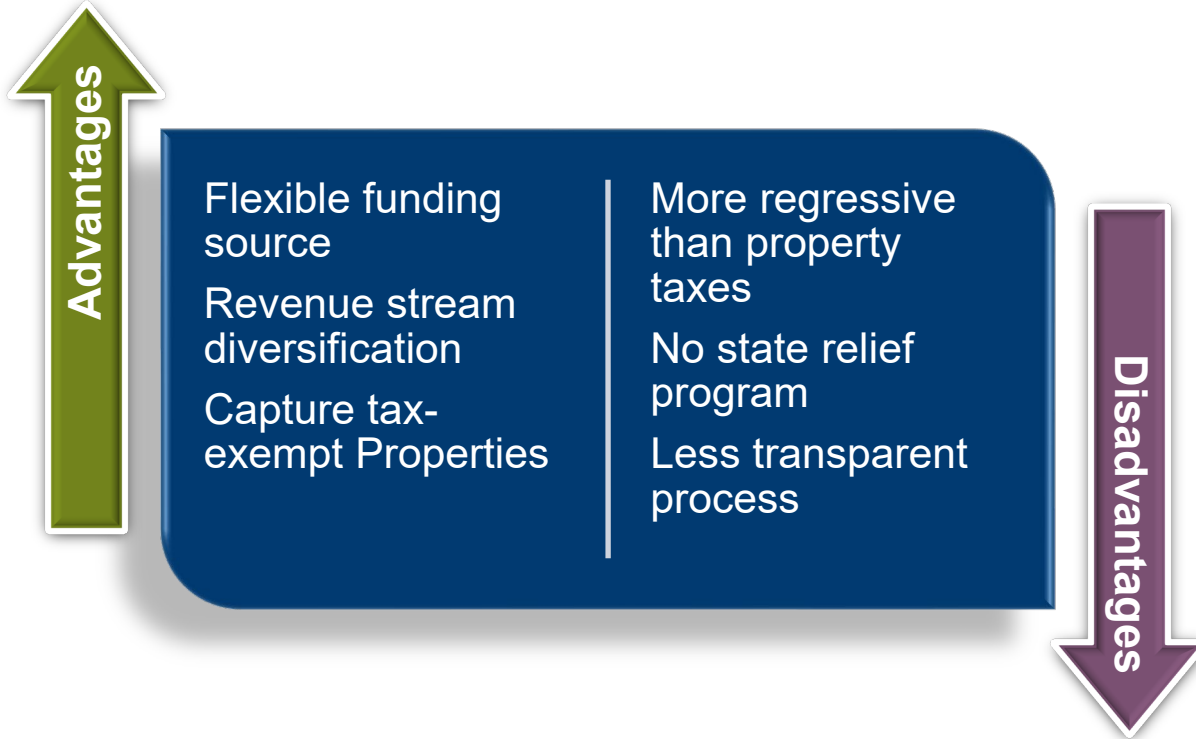
- Municipalities may use franchise fees for any public purpose, most commonly:
  - ✓ Streets & sidewalks
  - ✓ Parks & sustainability
  - ✓ Building & public facilities
- Public utilities pass franchise fees though to ratepayers, usually labeled “City Fee” on bills



More than 350 cities in  
Minnesota collect  
Franchise Fees!

# Franchise Fees: The Pros & Cons

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# Local Option Sales Tax (LOST): What Is It?

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**Tax imposed by  
a local  
government  
upon the sale of  
applicable goods  
& services**

- Cities may levy sales taxes to support certain activities, known as a Local Option Sales Tax
- Paid by the buyer, collected by the seller & remitted to the Minnesota Department of Revenue
- Remitted to the city at least quarterly

# LOST: Allowable Uses

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- Per Minnesota Statute § 297A.99, cities may impose up to 0.5%
- Cities may only expend LOST proceeds on up to five projects of “regional significance,” specifically:
  - ✓ A single building or structure, including associated infrastructure needed to safely access or use it
  - ✓ Improvements within a single park or named recreation area
  - ✓ A contiguous trail
- Six-step process required



# Storm Water Utility Fund

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## Authorized under Minnesota Statutes, Chapter 444

- Requires adoption of Watershed Plan or Water Management Plan

## Helps municipalities:

- Shift costs from property tax levy to enterprise activity
- Respond to municipal storm water requirements

## Designed so properties with higher storm water needs pay higher fee

- Costs must be just and equitable, usually based on storm water run-off
- Capture tax-exempt properties

# Street Lighting Utility Fund

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- Authorized by Minnesota Statutes, Chapter 429
- Helps municipalities:
  - ✓ Shift costs from property tax levy to enterprise activity
  - ✓ Respond to demand for additional lighting
- Designed so properties with higher lighting needs pay higher fee
  - ✓ Costs must be assessed to benefiting properties
  - ✓ Capture tax-exempt properties



# Internal Management Opportunities

- Maximize investment earnings on:
  - ✓ Unspent bond proceeds
  - ✓ Existing fund balances & reserves
- Transfer closed bond funds & other obsolete accounts
- Review fee schedules to ensure they are equal to direct, indirect costs of services & are comparable to those of other communities



# Tax Increment Financing (TIF) Management

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- Modify TIF Plan(s) for additional 10% for Affordable Housing
- Pooling dollars
  - ✓ Limit PAYGO Notes to 75% or 80% of TIF
  - ✓ Spend outside of TIF boundaries, but inside Project Area
    - Project Area coterminous with city boundaries
  - ✓ Eligible projects limited by type of TIF District
- Maximize 10% for administrative costs
  - ✓ Must be documented! Cannot take 10% “off the top”

# Tax Increment Financing (TIF) Management

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- Charge interest on interfund loans whenever possible
  - ✓ Current interest rate of 4% tied to State
  - ✓ Resolution required
- Pre-1990 Districts
  - ✓ Fewer restrictions than current Districts
- Excess increment
  - ✓ 3 types; all are **NOT** TIF
- Decertified Districts increase tax base & reduce tax rate
  - ✓ Fund can remain open after decertification

# When In Doubt... Borrow!

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## Short-Term

- Grant & Tax Anticipation
- Temporary Financing

## Medium-Term

- Equipment Certificates & Leases
- Interfund Loans

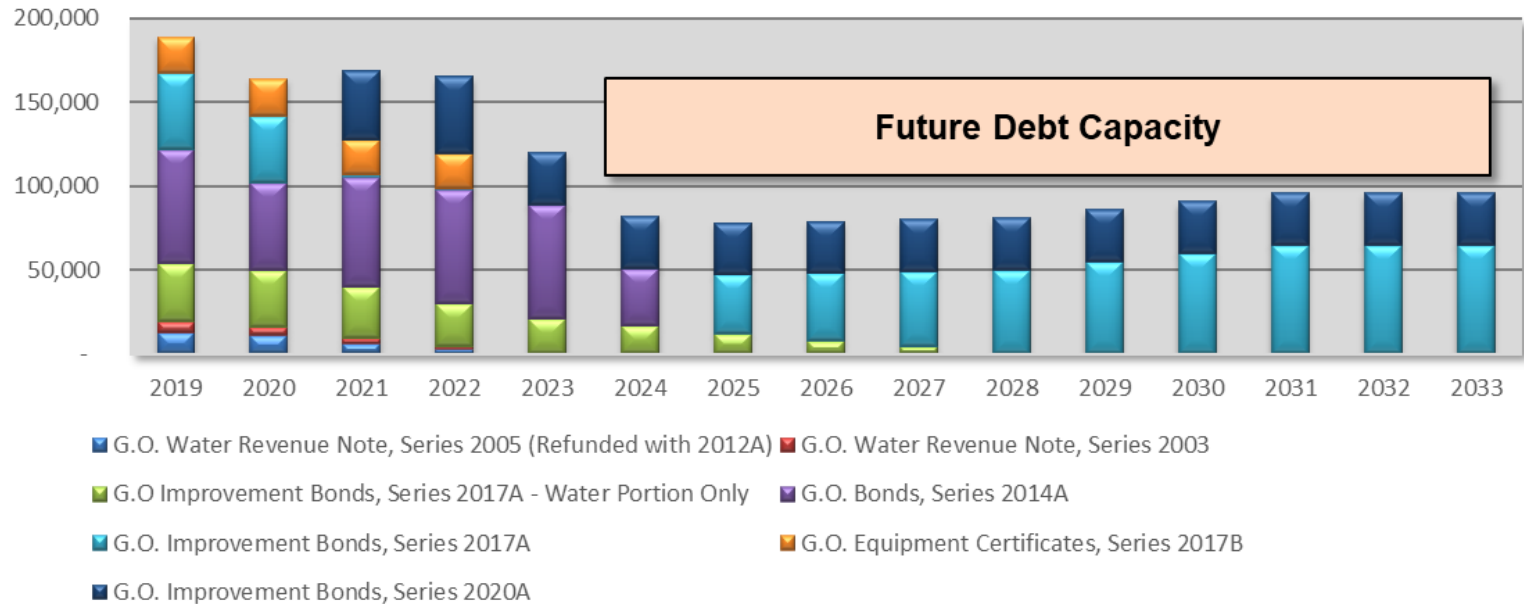
## Long-Term

- Bonds
- Certificates of Participation & Leases

**Debt Helps Smooth Out Tax- or Rate Payer Impacts**

# Planning & Authorization: Debt Wrapping

## Existing Debt Levies



# What About Grants?

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## Federal

- Congressionally Directed Spending
- HUD
- USDA
- US DOT
- US EDA

## State

- DEED
- DNR
- IRRRB
- Legislature
- Metropolitan Council
- Mn/DOT

## Other

- County Governments
- Individual Donations
- Private Foundations
- Watershed Districts

# Other Political Subdivisions

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## Economic Development Authorities

- Promote commercial & industrial growth
- May levy property taxes up to 0.01813% of EMV
- May issue debt

## Housing & Redevelopment Authorities

- Promote housing & redevelop blighted areas
- May levy property taxes up to 0.0185% of EMV
- May issue debt

## Port Authorities

- Promote port district commerce & welfare
- May levy property taxes up to 0.01813% of EMV
- May issue debt

# Some Other Options...

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## Special Service Districts

- For atypical or enhanced services
- Applies to commercial & multi-family properties

## Storm Sewer Improvement Districts

- For constructing & maintaining storm sewer systems
- Applies to all taxable property within the district

# Options Other Than Raising Revenues?

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Auditing &  
Program  
Reviews

Debt  
Refundings

“Plan Spending  
& Spend Like  
Planned”

Personnel  
Allocation

Process &  
Technology  
Improvements

Service  
Delivery  
Consolidation

Sustainability  
Efforts

# Final Thoughts...

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- Turns out, there's no "free lunch"
  - ✓ Many options for local governments
  - ✓ Diverse funding sources always helpful
  - ✓ Don't leave money on the table
- Be prepared to think creatively
  - ✓ Consider fairness
  - ✓ Think about who benefits from service



# Download the Presentation

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# Your Presenters

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