



To: Mayor and Council Members
From: Nate Reinhardt, Finance Director
Cc: Bill Reynolds, City Administrator
Date: September 3, 2024
Re: 2025 Preliminary Levy

Background

Each year the city must prepare a budget and property tax levy for the following year. Staff has analyzed revenues, expenditure information and initiatives to prepare a preliminary budget and levy for your consideration.

From providing fun recreation programs and beautiful parks to ensuring safe neighborhoods, providing high-quality services enhance and protects people's lives. Responsible fiscal management also builds the foundation for the City to run smoothly and provide effective, innovative programs and services while keeping in mind ways to evolve to meet future expectations and demands. Decisions are made with the future in mind to ensure the city's ongoing ability to provide quality services at a reasonable price.

Shakopee continues to remain in an extremely strong financial position. The city's AA+ long term credit rating reflects the rapidly growing local economy, strong reserves, manageable debt burden and strong financial management practices and policies. The city maintains a very diverse tax base across all sectors, entertainment, industrial, commercial and a range of housing options. An emphasis on long term financial planning included a long-term financial plan, a 15-year capital improvement plan, establishment of internal service funds, and financial projections of our various funds.

Levy Request & Impact

The proposed preliminary city levy is \$26,744,050, which is an increase of \$1,271,050 or 4.99 percent over last year, and a preliminary EDA levy of \$500,000, which is no change from last year. The preliminary levy is the maximum the city can levy; the final levy may be less than the preliminary levy but may not be more. For the median value home, whose property value increased from \$338,400 to \$350,700 (3.63 percent), this equates to an increase of \$17 or (1.88 percent) annually in city property taxes.

The breakdown and comparison of the proposed preliminary 2025 levy is as follows:

City of Shakopee Levy Analysis September 3, 2024				
	2024 Final	2025 Preliminary	Increase/ (Decrease)	% Change
City Levy				
General Fund	\$ 22,336,500	\$ 23,235,050	\$ 898,550	4.02%
Abatements	126,000	120,000	(6,000)	-4.76%
Capital Improvement Levy	700,000	1,200,000	500,000	71.43%
Debt Service				
2016 Abatement	2,189,000	2,189,000	-	0.00%
2022A Improvement	121,500	-	(121,500)	-100.00%
Total Debt Service	2,310,500	2,189,000	(121,500)	-5.26%
Total City Levy	\$ 25,473,000	\$ 26,744,050	\$ 1,271,050	4.99%
Shakopee EDA Special Levy	\$ 500,000	\$ 500,000	\$ -	0.00%
Total City and EDA Levies	\$ 25,973,000	\$ 27,244,050	\$ 1,271,050	4.89%

Summary of Levy Changes – 2025 Preliminary Budget

A summary of changes, in comparison to 2024, impacting the levy are as follows with detailed information on each section following the summary. The amount shown in red parentheses represents decreases in the property tax levy, as an example an increase in fee revenues would result in less property tax needed to fund those services.

Description	Levy Impact
Revenues (increase)	\$ (1,663,750)
Transfers from other funds (increase)	(264,640)
Expenditures:	
Wages & benefits	1,969,200
Operating expenses	581,090
Internal rent changes	155,200
One-time adjustments	(84,550)
Fund balance	200,000
Capital Improvement Levy	500,000
Debt Service	(121,500)
Change in property tax levy	\$1,271,050

Revenues

The city is projecting an overall net increase of \$1,663,650 in non-property tax revenues for the 2025 budget a summary of revenue changes are as follows with explanations below:

Description	Change
Shakopee Public Utilities PILOT	\$330,000
Court Fines (pass through)	325,000
Building permit revenues	303,000
SandVenture	181,000
Contracted police services (offset by overtime)	175,000
Interest income (General fund)	150,000
Other (net adjustments)	199,750
Change in Revenues	\$1,663,750

The budget includes a payment in lieu of taxes (PILOT) contribution from the Shakopee Public Utilities. The city and the commission agreement requires a contribution to the city based on a percentage of revenues. The 2025 budget estimates an increase of \$330,000 in general fund revenue.

The city has a joint powers agreement with Scott County to provide prosecution services. That agreement requires the city to pass through court fine revenues to the County to offset the cost of the services being provided. In the past, the city did not show the revenue separately. Per recommendation of the state auditor's office, the city is now showing the full revenue (\$325,000) and an offsetting expenditure. There is no net impact on this change in reporting, and the corresponding expense is now shown in the police department.

The city's building permits have been strong over the past few years with an influx of commercial and residential development. Development and the coinciding building permits are expected to continue, albeit at a more moderate level than what we have seen over the recent years. The city's 2025 forecast for building permit revenue is less conservative than previous years and includes a \$303,000 increase in budgeted building permit revenue. In total, the City has budgeted \$3.4 million in building permit related revenues.

SandVenture will be open for a full year in 2025. As a result of proposed fee schedule increases along with additional demand related to the updated and enhanced amenities, the forecasted revenues have been increases by \$181,000.

Several organizations contract with the Shakopee police department to provide services during the year. With the addition of concerts at the amphitheater we have increased contracted revenue by \$175,000. This revenue is offset by increases in staffing overtime to fulfill these agreements,

Based on current investment holdings and interest rates, budget projections for interest income has been increase by \$150,000 from 2024.

Transfers to the General Fund

Transfers from other city funds to the General Fund help pay for operating costs.

Description	Amount	Change
2024 Transfer from public safety fund (Cost of two patrol officers)	\$211,360	
2025 Transfer from public safety fund (Cost of 50% of two patrol officers)	126,000	
Net change in transfer from public safety fund		(85,360)
Transfer from self-insurance fund		350,000
Change in transfers		\$264,640

The city received \$1.99 million in one-time public safety aid in 2023 which was placed in a separate Public Safety Aid special revenue fund. Funding was provided in 2024 to pay the cost of two additional officers and is proposed to support half that cost in 2025, which results in a reduction in the budgeted transfer amount of \$85,360.

Staff is recommending utilizing \$350,000 of fund balance from the city’s self-insurance fund to offset any costs associated with a potential implementation of a Scott County health insurance pool and increase in health insurance premiums. Funding of \$600,000 was set-aside initially in 2017 as the city explored their own self-insurance options.

Expenditures

A number of factors will impact the cost of operations in next year’s budget.

The preliminary General Fund expenditures are estimated to increase in total by \$2,620,940. The expenditures have been categorized in this section as wages and benefits, operational (on-going) expenditures, rent (equipment and capital replacement) and one-time adjustments.

Wages and benefits

Description	Change
Cost of living adjustment – 3%	\$601,000
2024 Fire Staffing Changes	421,000
Health Insurance – 16.7%	375,000
2024 Union Agreement Adjustments	198,000
Police OT (offset by contracted revenue)	175,000
Building Official (partially grant supported)	114,000
Fire Part-time/Overtime	88,000
Full-time Fire Inspection (July 1 start date)	63,000
Other (net adjustments)	182,200
Non-election year	(109,000)
Engineering Technician staff reduction	(139,000)
Change in wages & benefits	\$1,969,200

Wages and benefits account for nearly 70% of the City’s General Fund costs. The City has three unions (Patrol, Sergeants, Public Works), all three union contracts were revised during 2024 and cover a three year period (2024-2026). The preliminary 2025 budget has been built with the assumption that union and non-union wages will see an equivalent 3.0 percent cost of living adjustment. Across all employee groups the cost of living adjustment amounts to

approximately \$601,000. Impacts of market adjustments to union contracts not included in the 2024 budget net to \$198,000.

The 2024 budget for the Fire department included a deputy chief, assistant fire chief, fire captain – administration, and three battalion chiefs (six positions), which were reorganized into two deputy chiefs, three fire captains, office assistant and two firefighters (eight positions). Additionally, paid-on call fire fighters (fire relief association) were converted into part-time firefighters. The net cost of these staffing changes, including part-time and over-time is \$509,000. This increase is partially offset by the city retaining the state aid payment, reflected in the operational changes of \$345,000, which previously provided funding to the fire relief association.

The 2025 budget currently includes an increase in health insurance premiums of 16.7 percent. This calculates to an increase of \$375,000 following an increase of 20.9 percent in 2024. Data shows a significant increase in utilization over the past 24 months which has impacted rates. The city is currently exploring a health insurance pool with Scott County and cities of Scott County. To offset the increase the city is proposing to utilize \$350,000 of fund balance previously set aside for potentially moving to self-insured health insurance, which is identified in the transfers section of the memo.

The City was a recipient of a state grant to pay for the cost of a new building official in 2024. The grant coverage period ended at the end of 2024, but the city is applying for additional grant funding to cover a portion of the 2nd year of the position. This position has been included in the 2025 budget for a cost of \$114,000.

The city is proposing one new position, an additional Fire Inspector position with a start date of July 1, 2025. This was identified as a position recommended for 2025 by the City Gate master fire study for both succession planning and additional preventative safety inspection purposes. The cost of wages and benefits for half the year is \$63,000.

2025 will be a non-election year, not requiring the hiring of election judges. The removal of the elections judges from last year's budget results in a savings of \$109,000.

The engineering division has transitioned from in-house development inspection services to hiring an outside engineering firm to complete the required inspections. As a result, the engineering department has reduced their personnel count by one engineering position. The contracted inspection services are billed back to the developer. This results in personnel cost savings of \$139,000.

Operational Expenditure Changes

Adjustments to operating budgets that are anticipated to continue into future years are shown below. These include contractual and utility increases.

Description	Change
County prosecution costs	\$342,500
Utilities (electric/water/gas)	99,500
Software	135,900
Misc. other adjustments	348,190
Fire state aid payment (retained by city)	(\$345,000)
Change in operational expenses	\$581,090

Operational adjustments include inflationary costs to utilities (electric, gas, water, etc.), which were based on actual costs over the last two year period. Software costs have also been adjusted to reflect increases in software costs and any new software or add-on in 2024/2025.

County prosecution costs now reflect the full cost of contracted services, which includes an additional \$325,000 (offset with court fine revenues) and an increase of \$17,500.

As a result of the dissolution of the fire relief. The state fire aid payment, which was previously used towards fire relief pension costs, is now retained by the city to pay for pension related costs. This results in a reduction of operating expenses of \$345,000.

Rent Changes

The city utilizes internal services funds to accumulate funds for the purchase or replacement of city equipment and facilities. The funding sources are annual rents (internal charges) to the appropriate departments.

Description	Change
Equipment Rent	\$120,000
Building Rent	25,000
Park Facilities Rent	10,000
Information Technology Rent	200
Change in internal rent charges	\$155,200

The equipment rent increase is both a result of new equipment being added to the schedule as well as increases in year over year costs of vehicles and equipment. A 20-year equipment replacement schedule is included in the 5-year Capital Improvement Plan that identifies all equipment, useful lives, replacement years and costs.

The annual cost for the various internal service funds have been calculated based on estimated useful life or scheduled replacement dates. The amounts for 2025 have been further adjusted based on current balances. As an example, in 2024 fire vehicles were sold and proceeds of the sale were deposited in the equipment fund, which was taken into account with the budget request for 2025.

One-time Adjustments

The General Fund up and down swings are typically moderated through the use of internal rent charges. However, a couple of one-time adjustments have been included in this budget. These costs will not be recurring in future budgets.

Description	Change
Fire Inspector vehicle (offset by permit revenue)	\$75,000
Building Inspector Ford Lightning (offset by permit revenue)	68,000
Police side-by-side (offset by tribal funds)	25,000
ERP Software Implementation Cost (2024 budget)	(252,550)
Change in one-time costs	(\$84,550)

Three new vehicle purchases are being proposed for 2025. A police side-by-side which would be used during large entertainment events, such as concerts at the amphitheater. The side-by-side would be purchases using tribal funds. New vehicles are also proposed for a building inspector and the proposed new fire inspector position. These are being offset in the budget by an increase in forecasted building permit revenues.

In the 2024 budget, the one-time implementation cost was included for Oracle Cloud ERP software, which has been removed from the 2025 budget. Although implementation will not occur as planned in 2024, these funds have been transferred and set aside in the technology fund for that implementation.

Fund Balance Assignments

In 2024, the City had set aside \$200,000 of fund balance within the General Fund to help offset operating costs for Sand Venture in 2024. The funding ultimately lowered the impact on the 2024 tax levy. This was removed from the 2025 budget and City is not proposing the use of any General Fund reserves. In financial terms, the City is proposing a balanced budget.

Debt Service

In last year’s budget, to offset the increase in the debt service levy, city council approved setting aside \$226,000 of year-end fund balance to defray the debt levy increase on the 2022A Improvement Bonds. The council approved the use of an additional \$349k earlier this year to effectively eliminate the need for the debt service levy for these bonds in 2025.

Staff will need the council to approve a debt service reduction resolution prior to September 30th, for both the available fund balance in the existing 2016A debt service fund and the 2022A debt service. If approved, this will result in a net levy reduction of \$121,500.

Capital Project Funds/Capital Improvements Levy

During the Capital Improvement Plan (CIP) work session on August 7, staff and city council reviewed the 2025-2029 CIP and projects programmed for 2025. The CIP identifies \$42.8 million in projects for 2025. The creation and update of a multi-year capital plan allows the city to plan for its current and long-term needs. Project areas within the CIP include buildings, equipment replacement, information technology, parks, street, sanitary sewer and storm drainage. The CIP will be published as a separate document and include appendixes for a 15-year CIP, 20-year equipment replacement schedule and a long-term financial plan.

Costs of maintaining existing city streets have increased significantly over the past decade. The annual costs of overlays and reconstruction projects in the 2020-2024 CIP were \$3.7 million. That cost has doubled in the 2025-2029 CIP to an annual cost of \$7.9 million. Funding sources (capital improvement levy, special assessments, municipal state aid and franchise fees) have remained relatively flat in comparison. A proposed increase of \$500,000 to the capital improvement levy has been included to prevent the annual gap from increasing further. The City has utilized one-time transfers from the General Fund and bond proceeds in the past to support these projects and anticipate to continue to do so in the future as needed.

	Capital Improvement Fund					
Revenues	2024 Projected	2025 Budget	2026 Projected	2027 Projected	2028 Projected	2029 Projected
CIF - Levy	700,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Franchise Fees	900,000	950,000	950,000	950,000	950,000	950,000
Special Assessments	350,000	350,000	350,000	350,000	350,000	350,000
Municipal State Aid	711,141	1,989,800	2,075,600	2,127,000	2,127,000	2,127,000
Other	2,024,044	3,058,800	4,442,289	649,089	513,714	692,339
Total Revenues	4,685,185	7,548,600	9,017,889	5,276,089	5,140,714	5,319,339
Expenses						
Annual (overlay/recon.)	4,843,396	9,375,400	7,607,500	7,202,500	7,142,000	8,637,000
Other Project Costs	2,880,367	4,883,000	8,863,300	3,483,000	-	-
Total Expenses	7,723,763	14,258,400	16,470,800	10,685,500	7,142,000	8,637,000
Net	(3,038,578)	(6,709,801)	(7,452,911)	(5,409,411)	(2,001,286)	(3,317,661)

Economic Development Authority

The Shakopee EDA has the statutory authority to levy a small percentage (up to 0.0185%) of the city's taxable market value, which for 2025 would be a maximum of \$1,439,083. The EDA and City Council can set the levy at any amount up to this cap.

The EDA levy is identified on property tax statements as a separate local tax outside of the city's general property tax. Staff is recommending no change in the EDA levy, which is currently at \$500,000. Additional funding is provided through a contribution of ½ percent of revenues from the Shakopee Public Utilities Commission. The 2025 budget anticipates the contribution to be \$330,000.

The EDA serves as the landlord for the main level business tenants at River City Centre. The EDA currently owns the land and the CDA owns the building. The activity (lease revenue and expenditures) is accounted for in a separate fund of the EDA.

Taxable Market Value

The city's taxable market value is at \$8.44 billion, which is an increase of \$660 million (8.5%) from last year. Apartment, commercial and industrial market value outpaced the growth in market value of residential. New construction accounted for \$250.2 million of the increase in taxable market value.

Class	Payable 2024	Payable 2025	Change (%)
Agricultural	\$65,302,703	\$170,996,310	161.9%
Apartment	713,349,600	775,437,500	8.7%
Commercial	702,496,200	757,419,500	7.8%
Industrial	1,571,476,000	1,762,431,500	12.2%
Public Utility/Railroad	31,337,200	41,592,700	32.7%
Residential	4,692,583,394	4,927,465,807	5.0%
Other	2,279,600	3,849,500	68.9%
Totals	\$7,778,824,697	\$8,439,192,817	8.5%

For the city of Shakopee, the total residential taxable market value increased 5.0 percent, the majority of homes (70%) are seeing their values increase by less than the 5.0 percent. A breakdown of the value changes are shown:

The State Legislature increased the Homestead Market Value Exclusion from \$417,000 to \$517,000, which will shift the property tax burden from residential homes under \$517,000 to other property types.

Residential Impacts - Shakopee		
Estimated Market Value Range	Number of Residential Properties	Percentage of Total
+15.01+%	411	3%
+10.01-15.00%	579	4%
+5.01-10.00%	2,210	17%
+0.01-5.00%	9,120	70%
No Change	17	0%
-0.01-5.00%	505	4%
-5.01 - 10.00%	63	0%
-10.00 - 15.00%	35	0%
-15.01% +	6	0%
	12,946	100%

Net Tax Capacity

Class	Payable 2024	Payable 2025	Change (%)
Agricultural	\$594,336	\$1,664,241	180.0%
Apartment	8,195,728	8,737,325	6.6%
Commercial	13,817,865	14,915,026	7.9%
Industrial	31,293,404	35,113,160	12.2%
Public Utility/Railroad	618,006	823,899	33.3%
Residential	47,568,899	50,127,913	5.4%
Other	23,401	39,220	67.6%
Adj. to match county report	-32,893	-1,047,681	
Gross Tax Capacity	\$102,144,532	\$110,373,103	8.1%
Adjustments:			
Tax Increment	(\$2,862,355)	(\$3,886,499)	35.8%
Fiscal Disparity Contribution	(14,638,831)	(17,906,224)	22.3%
Net Tax Capacity	\$84,643,346	\$88,580,380	4.7%
Fiscal Disparity Distribution	(\$7,973,789)	(\$8,458,436)	6.1%

The total net tax capacity of the city is estimated at \$88,580,380 compared to \$84,643,346 in 2024, which is an increase of \$3,937,034 (4.7%).

The gross tax capacity is adjusted for the increase in tax capacity of properties within tax increment financing districts. The tax increment adjustment of \$3.9 million represents 3.5 percent of gross tax capacity. The net increase is primarily related to a portion of Shakopee Flats and Canterbury Commons being added. It is important to note that these developments would not have occurred without the use of tax increment financing. The value and tax capacity of these districts are added to the city's tax roll upon the decertification of these districts.

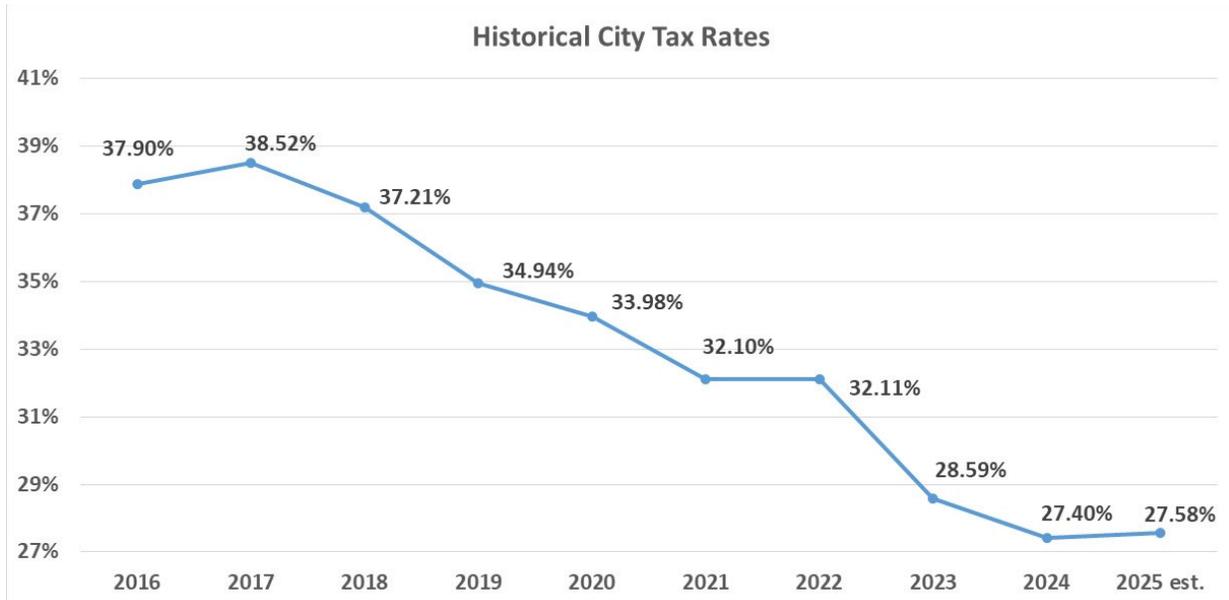
The gross tax capacity is also adjusted for the fiscal disparities program which is unique to the seven-county metro area and is further explained in the diagram below:



The city's estimated contribution to the program is \$17.9 million in tax capacity, and the distribution is estimated at \$8.5 million for a net contributed amount of \$9.5 million. This is an increase of \$2.8 million (41.8%) from 2024. The city of Shakopee continues to be one of the top ten net contributors to the program, estimated for 2025 at \$9.5 million (8.6%) of tax capacity.

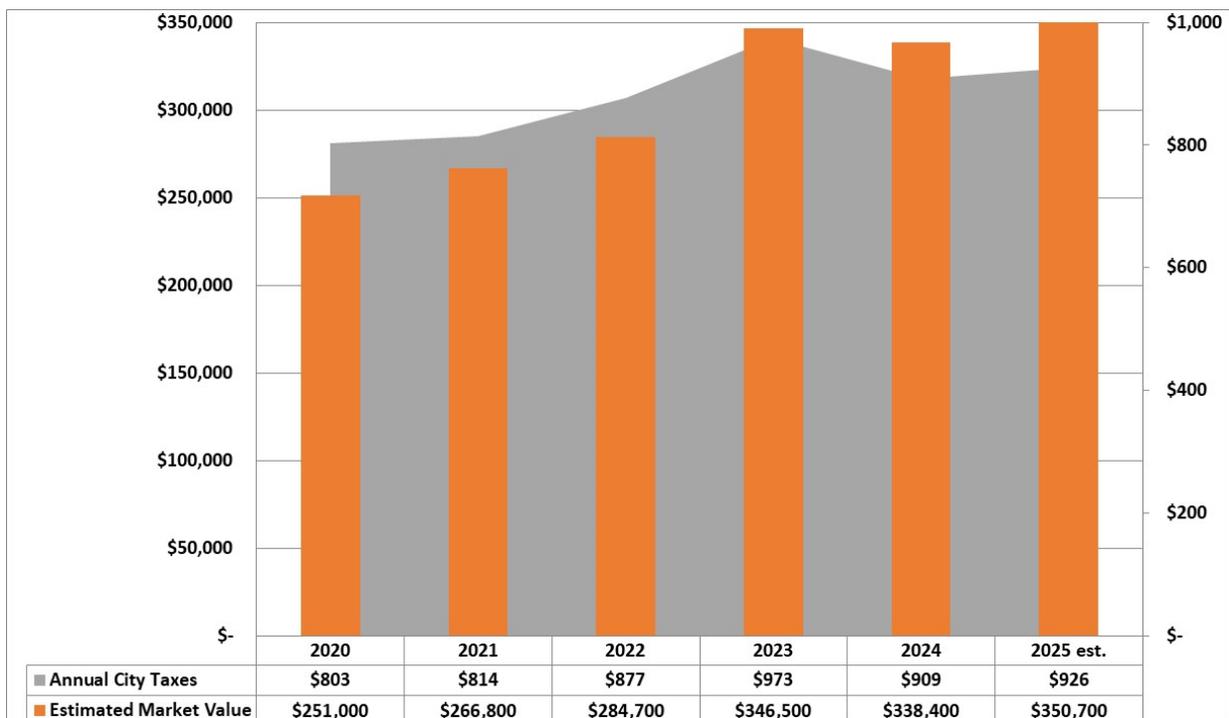
City Tax Rates

The proposed tax levy and market value estimates will have a minimal impact on the city's tax rate, slightly increasing from 27.402 percent to 27.575 percent.



Median Value Home

The value of the median value home has increased from \$338,400 to \$350,700 over the past year. This is an increase of \$12,300 (3.6%). The chart on the next page provides information on the median value home and city property taxes paid since 2020. The orange bar and amounts on the left axis represent the median value home.



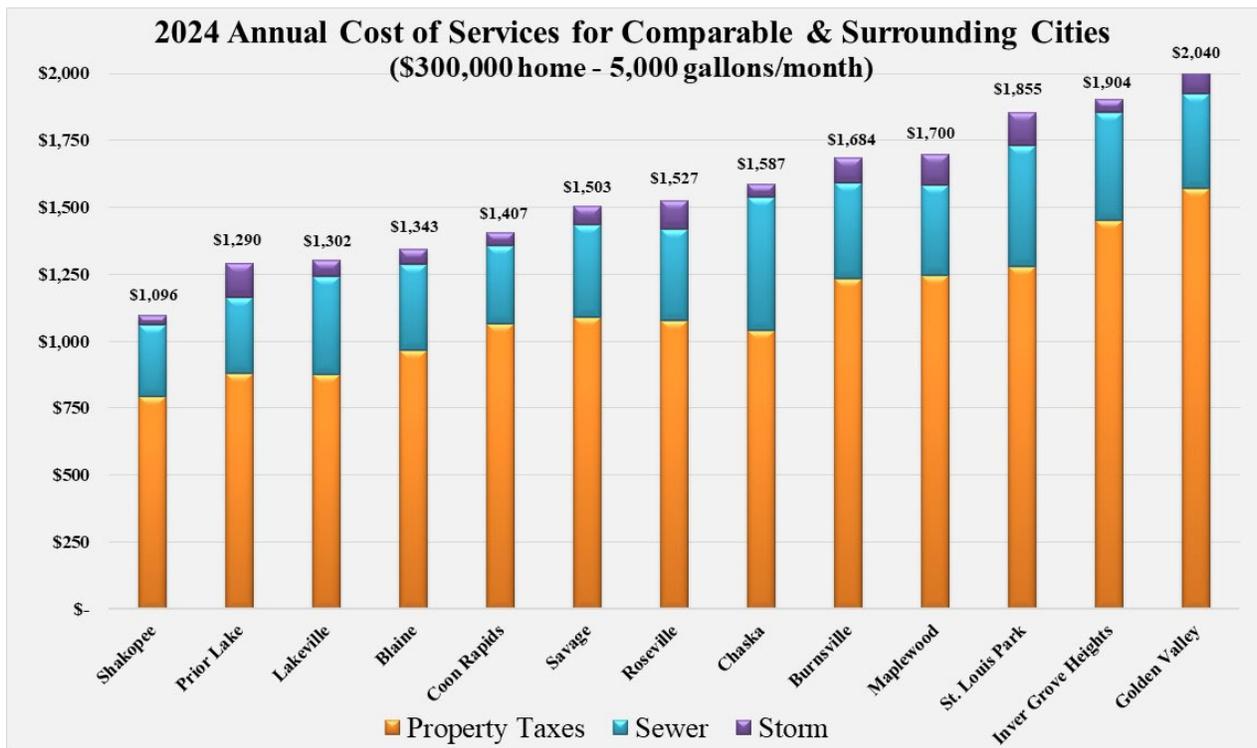
For the median value home this equates to an increase of \$17 or (1.9 percent) annually in property taxes. Absent any change in value, homeowners can expect a tax decrease of \$20 or about 2.1 percent (taking into consideration the preliminary tax rate and changes to the homestead market value exclusion).

Enterprise Funds

The city operates two public utility funds Sewer and Surface Water. These funds operate on their own ability to generate revenues and receive no property tax support. The Sewer fund provides for the collection and conveyance of wastewater through a system of mains and lift stations. Sewage is treated by the Metropolitan Council Environmental Services, whose contracted services account for approximately 80 percent of the fund’s operating expenditures. The disposal charge for 2025 will increase from \$2.63 million to \$3.17 million, an increase of 20.6%. The Surface Water fund maintains the surface water system for the city, which includes 140 miles of storm sewer and 224 ponds.

The City’s sewer billings include a city usage rate, a city fixed rate, and Metropolitan Council disposal rate. The surface water charge is based on acreage with residential paying a monthly charge equivalent to 1/3 of an acre. Staff anticipates proposing rate increases for each fund to keep pace with operational costs and maintain the current balances of those funds. The rate increase will be in the range of one to three percent. For a typical residential user, this would amount to approximately \$11 annually for sewer charges and \$2 in surface water charges.

Shakopee is below comparable and surrounding cities when it comes to a cost comparison of city property taxes, sanitary sewer and storm water charges. The following chart provides the 2024 annual cost of services for a \$300,000 value home (slightly below the median value home in Shakopee) and 5,000 gallons of water usage a month.



Schedule for budget and property tax levy development

Date	Who	What
May 7, 2024	Council/Staff	Review Long-term Financial Plan
July 10, 2024	Staff/Public	Public Input Meeting
August 7, 2024	Council/Staff	Review Preliminary Capital Improvement Plan (CIP)/ 2025 Budget Overview
September 3, 2024	Council/Staff	Review proposed levy, initiatives, and requests
September 17, 2024	Council	Adopt proposed maximum tax levy for City and EDA.
September 30, 2024	Staff	Certify maximum tax levy to the County which will be used for proposed property tax notices
October-November	Council	Adopt final 2025-2029 CIP
Mid-November	County	Proposed tax notices sent to owners
December 3, 2024	Council	Hold public meeting to discuss levy and budget. Review and approve utility rates for 2025.
December 17, 2024	Council	Adopt final tax levy and budget
December 31, 2024	Staff	Certify final tax levy and budget to County and State