

**City Council Agenda Item 3.B
Meeting of May 11, 2026**



Title: 2027 budget kick-off

Report from: Darin Nelson, Finance Director

Submitted through: Erik Nilsson, City Attorney
Moranda Dammann, Assistant City Manager
Mike Funk, City Manager

Presenter: Mike Funk, City Manager & Darin Nelson, Finance Director

Action Requested: Provide staff with 2027 budget priorities and levy direction.

Summary Statement

This study session is the official kick-off to the 2027 budget season. The budget kick-off presentation will provide a high-level overview of the budget preparation process, factors affecting the budget including facility improvement updates, forecasted levy estimates and an overview of Priority Based Budgeting.

Strategic Plan Relatability
Financial Strength

The annual budget relates to desired outcome 1.1 "high level creditworthiness" by ensuring the city's continued strong fiscal management.

Background

The development of the annual budget is a multifaceted project that occurs almost year-round and is guided by the city's strategic plan.

Historically, the council reviews the draft Capital Improvement Program (CIP) in early summer, followed by another study session in August to review the operating budget, then adopts the official preliminary budget and levy in September, and finalizes the CIP. A final study session is held in November to review the draft operating budget, followed by a public meeting and council adoption in December.

A few years ago, an additional budget kick-off meeting was added to the calendar to gather council feedback and input on budget priorities and expectations as the budget began to be developed. In addition, this study session provides a high-level overview of the process and factors influencing the 2027 tax levy and budget.

The council will review the 2027-2031 CIP at the June 15 study session. Staff have been reviewing projects and updating long-term projections to ensure the sustainability of the various capital and enterprise funds involved with capital outlay projects. As in the last few years, a recurring theme among directors and project managers is the continued increase in the cost of goods and services. Inflation has moderated from the highs seen earlier this decade, but market uncertainty remains, particularly amid the rapid rise in oil prices and the ongoing tariff impacts.

As with capital projects, staff anticipate that this market uncertainty will again put pressure on the operating budget. During the development of the current 2026 budget, staff forecast a 9 percent levy increase in 2027. At the time, the projected increase included:

- Implementing year four of a multi-year public safety master plan, which was projected at that time
 - 6 full-time firefighters - \$1.1 million
 - Additional operator to cover extended hours in the real-time operational center - \$140,000
 - Year 2 of a 10-year lease with Axon for Drones as First Responders. Year one was funded through the CIP, and years 2 through 10 are planned to be funded from the General Fund at \$300,000 annually.
- Continuing with the restoration of the Capital Improvement Program (CIP) levy - \$1 million

The General Fund ended 2025 with a positive budget variance of approximately \$3.0 million. This surplus was a direct result of expenditures being \$1.2 million below budget, while building permit revenue and investment earnings were \$2.2 million above anticipated. This surplus will now help supplant future capital funding by reducing projected capital levy requests by \$2.5 million over the next 5 years. The combination of reserves buying down the levy, refined operational forecasts and other programmatic changes has reduced the 2027 projected levy from 9 percent to approximately 7 percent, including 2.1 percent dedicated to implementing the public safety plan. This levy estimate is still very preliminary, and several factors can increase or decrease the levy from now until the August study session.

In addition to the above items under consideration for 2027, other items of interest will need to be considered in developing the budget. Most notable are the two facility studies for fire and recreational building improvements. The sales tax option is still working its way through the legislature. Staff will provide a status update at the study session. The community center and Williston Fitness Center are not part of the local sales tax financing options. As you may recall, the council approved a small, dedicated levy in 2026 that could potentially fund Fire Station #2 and/or one or both of the recreation facilities.

For taxes payable in 2027, residential property owners will likely continue to experience a shift in the property tax burden as residential property values outpace commercial valuations. Apartment valuations rebounded this past year after declining the previous year. Commercial valuations have remained stable, with only a slight increase this past year. Staff is awaiting final tax rate calculations from Hennepin County to estimate the impact on residential property owners. This tax rate information typically becomes available mid-summer.

This report is intended to provide high-level insight into the challenges and opportunities in developing the 2026 budget. Staff would also appreciate the council's feedback on budget priorities, including but not limited to operations, programming and capital projects. The annual community survey results may trigger additional budget considerations.

Lastly, the levy is impacted by the budget decisions made during the development process. This budget kick-off is an opportunity for staff to hear the council's direction and desires, allowing staff sufficient time to work on the preliminary budget before the August study session and preliminary levy approval in September.

This report includes the 2027 Financial Management Plan. Staff will provide a detailed overview during the study session. As mentioned earlier, staff will also review financing options for building improvements.

Governments across the country are moving away from traditional, incremental budgeting toward strategic, community-focused budgeting that aligns resources with long-term goals and public priorities. This Rethinking Budgeting Initiative identifies key principles for local governments, including:

- Balancing revenues with expenses to avoid deficits,

- Align budgets with strategic goals and community needs,
- Adapt to change rather than rigidly follow past patterns,
- Avoid passing costs to future generations,
- Use budgeting as a policy and communication tool, not just an accounting document.

The city's strategic plan is an integral part of the city's budget process and drives budget decisions and outcomes. To ensure resources target priorities, the city is beginning the Rethinking Budgeting process through both the strategic plan and program budgeting, using a Priority-Based Budgeting (PBB) application.

The premise of program budgeting is to group spending by program outcomes rather than by line items. By identifying programs and associated costs, and their relevance to the strategic plan and the community served, the city can focus on providing a high level of service on the highest priorities rather than spreading resources across programs that may not align with current priorities. PBB has allowed the city to identify programs, assign costs to these programs and finally score the programs in a relatively short period of time.

Preliminary results from this first run were received last week. Staff is analyzing the results but still has a tremendous amount of data to review. Staff will review an internal dashboard with the council during the study session.

Discussion Questions

1. Does the council have priorities to be considered for 2027, including but not limited to operations, programming and capital projects?
2. Regarding facility improvements, are there specific projects the city should consider as the highest priority?
 - If yes, are there preferred financing methods, timeframes or other prioritizations that should be considered?
 - Is there support to consider improvements to the community center for 2027?

ATTACHMENTS:

[Financial Management Plan](#)