



To: Mayor and City Council
From: Rhonda Dunn, Finance Director
Date: September 18, 2024
Subject: Consider adoption of 2025 Operating Budget

BACKGROUND

In preparation for the City's 2025 budget, an organization-wide review of revenue, service operations, capital projects, and outside agency requests was conducted. This extensive review process included input from the City Council and all City departments.

The 2025 budget marks a milestone with the elimination of the Fire Fund and a new arrangement with Johnson County to provide fire services to all Spring Hill residents through the County's mill levy. The impact to the residents in the old Fire District is minimal and the residents in the non-Fire district have no change to their levy for fire services from this change. Due to the timing of motor vehicle taxes, the Fire Fund will continue to receive tax revenue through 2025 in the estimated amount of \$71,483. The cash balance in the Fire Fund as of 12/31/24 is estimated to be \$58,554.

The operating budget now consists of three major funds or levied funds that receive property tax revenues to support service and operational expenditures: General Fund, Debt Service Fund, and Cemetery Fund. Revenues are derived from property tax, sales tax, franchise fees, sales and services, development fees, special assessments, and transfers from enterprise and capital project funds.

PUBLIC PARTICIPATION

Efforts were made to ensure that the public was given ample opportunity to participate in the budget process. Over the course of the budget development process from April through September, the budget was discussed in open session including two work sessions and a RNR hearing in which the public had an opportunity to ask questions or provide comments on the proposed budgets. All budget materials were posted on the city website.

2024 ASSESSED VALUATION (FOR 2025 TAX COLLECTIONS)

Miami County total assessed valuation is \$51,153,382, an increase of \$2,995,384 or 6.2% over the 2023 valuation.

Johnson County total assessed valuation is \$135,279,122, an increase of \$16,053,645 or 13.5% over the 2023 valuation.

An adjustment was made to the assessed value to compensate for adjustments Johnson County will make to account for the assessed value of IRB properties. Johnson County provided an amount of \$1,270,300 for this adjustment. This change was made to minimize the adjustment of the mill levy after the budget is set by the City and certified by the County.

Total valuation for calculating the 2025 ad valorem tax for the 2025 budget is \$186,432,504, or a 11.4% increase over 2023. One mill calculated at this rate would be \$186,433.

ESTIMATED MILL LEVY IMPACT

The 2025 operating budget is proposed at an ad valorem tax level equal to the mill levy rate for 2024. Staff has proposed an increase in the mill levy in the Debt Service Fund to complete the expansion of 199th Street from Ridgeview to Renner. This project will require debt funding and the Council has given direction to utilize some cash reserves to reduce the debt and the burden to the taxpayers. The mill levy increase of 2.912 mills includes the use of \$1.4 million of cash for the

project. Staff continues to negotiate with other partners for contributions to the 199th project to further reduce the burden.

The increase in the Debt Service mill levy will also fund future projects such as the traffic signal light at 191st & 169 Highway and eventually the expansion of 207th Street. Staff was conservative in the estimates of the impact of the increased mill regarding growth of assessed valuation. Future debt could be added as older debt is retired. This increased mill levy allows the City to have a clear path forward for development of the area from Woodland to Renner from 199th Street to 207th Street where several projects are currently under consideration.

Since the proposed budget has been published, and a public hearing held, the City Council can approve the 2025 budget at the published amount of ad valorem tax or a lower amount but cannot increase the amount of ad valorem tax without republishing a public notice and holding another public hearing.

At the August 22nd meeting, Council voted not to exceed the Revenue Neutral Rate as provided by Johnson County. The proposed budget proposes a mill levy of 25.876 compared to the RNR rate of 26.026. The mill levy will be set by Johnson County before the tax billing is sent out in November.

The following is a snapshot of the proposed published budget.

| FUND | Prior Year Actual for 2023 | | Current Year Estimate for 2024 | | Proposed Budget for 2025 | | |
|-------------------------------|----------------------------|-------------------|--------------------------------|-------------------|-----------------------------------|-------------------------------|------------------------------|
| | Expenditures | Actual Tax Rate * | Expenditures | Actual Tax Rate * | Budget Authority for Expenditures | Amount of 2024 Ad Valorem Tax | Proposed Estimated Tax Rate* |
| General | 7,907,444 | 21.349 | 8,782,423 | 21.598 | 12,118,846 | 4,021,688 | 21.426 |
| Debt Service | 2,824,696 | 1.315 | 3,281,551 | 1.315 | 4,164,591 | 793,335 | 4.227 |
| Library | | | | | | | |
| Fire | 990,000 | 13.106 | 1,116,384 | 13.106 | 180,260 | 0 | 0.000 |
| Cemetery Fund | 34,676 | 0.223 | 57,500 | 0.223 | 44,500 | 41,863 | 0.223 |
| | | | | | | | |
| Special Highway | 689,515 | | 470,000 | | 270,000 | | |
| Special Parks | 298,104 | | 311,103 | | 140,000 | | |
| Sales Tax - City | 609,300 | | 713,050 | | 1,051,550 | | |
| Sales Tax - County | 100,000 | | 100,000 | | 200,000 | | |
| Excise Tax | 101,400 | | 101,400 | | 1,100,850 | | |
| Special Alcohol Tax | 2,695 | | 42,500 | | 42,500 | | |
| Water | 2,344,621 | | 1,877,280 | | 2,190,826 | | |
| Wastewater | 2,618,415 | | 3,046,335 | | 10,594,951 | | |
| Fighting Addiction | | | 20,000 | | 20,000 | | |
| Transient Guest Tax | | | 1,500 | | 2,500 | | |
| Stormwater | | | | | 812,000 | | |
| | | | | | | | |
| Non-Budgeted Funds-A | 1,615,862 | | | | | | |
| Non-Budgeted Funds-B | 4,178,509 | | | | | | |
| Non-Budgeted Funds-C | 3,261,267 | | | | | | |
| | | | | | | | |
| Totals | 27,576,503 | 35.993 | 19,921,026 | 36.242 | 32,933,374 | 4,856,887 | 25.876 |
| <i>Revenue Neutral Rate**</i> | | | | | | | <i>26.026</i> |

In the snapshot above, six areas have been highlighted to emphasize the mill levy impact of the 2025 proposed budget. First, the increase in Debt Service is explained above. Second, the Fire Fund mill levy was eliminated from the City mill levy in 2025. Lastly, the total mill levy for the City is reduced 10.366 mill from 2024 to 2025.

It is important to note that the setup of this state form records the actual expenditures from 2023, projected expenditures for 2024, and the proposed expenditures for 2025. The budget authority for 2025 appears to increase by \$13 million from 2024 projections; however, the budget authority includes cash reserve amounts for each fund that are not intended to be spent but this budget will give the Governing Body authority to spend cash reserves if needed.

The final result of the 2025 proposed budget including General Fund, Debt Fund, and Cemetery Fund is a total mill levy of 25.876 compared to a Revenue Neutral Rate of 26.026. The total Mill Levy for 2024 was 36.242.

2025 OPERATING BUDGET HIGHLIGHTS

REVENUE

The budget snapshot for 2025 Revenue is as follows:

| 2025 Budget - Revenue Sources | | |
|--------------------------------------|---------------------|-------|
| Ad Valorem Tax | \$ 5,200,935 | 27.4% |
| Sales & Use Tax | \$ 4,483,922 | 23.7% |
| Utility Fees | \$ 4,060,112 | 21.4% |
| Fees/Services/Rent | \$ 1,457,377 | 7.7% |
| Development Fees | \$ 1,250,000 | 6.6% |
| Special Assessments | \$ 1,190,502 | 6.3% |
| Franchise Fees | \$ 810,340 | 4.3% |
| Other Taxes/Collections | \$ 364,303 | 1.9% |
| Interest | \$ 131,847 | 0.7% |
| Total Revenue | \$18,949,338 | |
| Beginning Fund Bal | \$14,738,352 | |
| Transfers | \$ 1,781,550 | |
| Total Funds Available | \$35,469,240 | |
| Ending Cash Balance 12/31/25 | \$ 2,535,866 | |
| Total Revenue 2025 Budget | \$32,933,374 | |

The General Fund represents most of the revenue for the City and will see an estimated increase of 16% from \$8.8 million to \$10.2 million in 2025. This is driven by the following:

- Increasing ad valorem tax due to increased assessed valuation
- Increase in estimated sales tax revenue of 7% to follow the 2024 trend
- Adding new revenue of \$200,000 for project inspections
- Increasing estimated building permit revenue to 2024 levels.

Revenue increases in the general fund are partially offset by reduction of revenue with the potential sale of the Water Utility in 2025. Revenue for Wastewater services will increase by 12.9% from increased households as well as a planned 4% increase in rates to cover increasing costs.

A Stormwater utility was established by Council in 2024 which will also add \$843,202 in revenue in 2025 through special assessments.

EXPENDITURES

The 2025 operating budget illustrates the City's ability to do more within the same mill levy. In summary, the budget for all expenses is as follows:

| 2025 Expense Budget by Fund | |
|-----------------------------|----------------------|
| General | \$ 12,118,846 |
| Debt Service | \$ 4,164,591 |
| Fire | \$ 180,260 |
| Cemetery | \$ 44,500 |
| Water | \$ 2,190,826 |
| Wastewater | \$ 10,594,951 |
| Other Budgeted | \$ 3,639,400 |
| | \$ 32,933,374 |

| 2025 General Fund Expense Budget by Department | | | |
|------------------------------------------------|-----------|-------------------|-------|
| Police Department | \$ | 2,877,111 | 28.4% |
| Administration | \$ | 2,052,643 | 20.2% |
| Public Works | \$ | 2,036,102 | 20.1% |
| General Obligation | \$ | 1,513,138 | 14.9% |
| Community Development | \$ | 795,756 | 7.8% |
| Spring Hill Aquatic Center | \$ | 582,560 | 5.7% |
| Municipal Court | \$ | 157,650 | 1.6% |
| Economic Development | \$ | 130,666 | 1.3% |
| TOTAL | \$ | 10,145,626 | |
| Cash Reserve Budget Authority | \$ | 1,973,220 | |
| Total General Fund Budget | \$ | 12,118,846 | |

The budget includes a 4% increase in expenses overall based on the CPI.

Adjustments made to employee compensation over the last two years have stabilized the workforce and reduced turnover. The 2025 budget includes salary adjustments not yet approved by Council.

Various cities in the metro area continue to increase starting pay for police officers which puts pressure on Spring Hill to keep pace or risk losing experienced officers to other jurisdictions. The 2025 budget includes an increase to the starting minimum pay which raises the City near the average pay for police officers. To accomplish this increase within the current mill levy, one police officer position was eliminated from the 2025 budget making the total employee count for PD 17 instead of 18.

With the addition of the City Engineer in 2024, this budget includes the addition of a Construction Inspector to the engineering group which is offset by fees generated by this position. Two other positions were added or added back from previous cuts. An additional Building Inspector was previously eliminated but added back to this budget due to the heavy workload of existing staff. A City Planner position was added to accommodate other workloads.

Council approved an agreement for Economic Development Services which was included in the 2025 in the General Fund. The budgets for Public Work and Facilities were analyzed and a detailed budget by line item prepared for 2025. The facilities budget will focus on maintenance on each City facility and includes plans for improvements over the next several years.

The elimination of the Water utility transfers some shared expenses from the Water Fund to other funds primarily to the Wastewater Fund and the General Fund. The 2025 budget includes option of the Water Utility until 6/30/25 and transferring appropriate costs to other funds for the remainder of 2025.

RECOMMENDATION

Staff recommends that the City Council adopt the 2025 budget at an amount of ad valorem tax of \$4,856,447.

Exhibits

1. Public Hearing Notice
2. State budget form
3. Certificate

MOTION

Move to approve the 2025 Operating budget as proposed with a budget authority for expenditures of \$32,933,374.