INFORMATION MEMO

Budget Guide for Cities

Learn about new state and federal laws that significantly affect city budget decisions for 2019, including annual financial figures for minimum wage, cost-of-living adjustments, local government aid (LGA), and more. This memo discusses the taxation notification procedure and links to fuel excise tax forms, a model resolution adopting a levy, and other budget worksheets.

RELEVANT LINKS:

I. Basic budget information

This guide presents recent legislative and administrative changes, as of its revision date, which might be considerations in developing a budget for the coming year. Basic budgeting for cities, such as how to compose an annual budget and the legal timeline for budgeting, are not in this guide. Please see chapters 20 and 21 of the *Handbook for Minnesota Cities* for this information.

Handbook, *Budgeting*.

See State Auditor's Accounting Manual for Small Cities and Towns.

Handbook chapter 20 describes what a budget is, and how to use it to communicate to the public. It describes what revenues and expenditures a city must examine as a necessary part of budgeting, other factors that may affect the city's budget, and where to find more information on the budgeting process.

Handbook, *Property Tax Levy*.

LMC 2018 Law Summaries.

Handbook chapter 21 gives more background information on taxes and taxation notification law. For information on the new laws affecting cities, see the League's *2018 Law Summaries*.

II. Local government aid (LGA)

Minnesota House Research Department: Estimated City LGA Amounts for 2019 based on current law. More data.

The House Research Department has prepared estimates of 2019 LGA amounts for cities based on the law as of April 6, 2018. City officials should keep in mind that the amounts displayed in the revenue document are estimates only at this point. Aid amounts for 2019 will be certified in July 2018.

III. General government

2018 Minn. Laws ch. 107 §§ 1-2 *amending* Minn. Stat. § 471.345, subd. 3 and 4.

Competitive Bidding. The competitive bidding threshold has been raised from $100,000 to $175,000. As a result, cities must solicit competitive bids for any agreement covered by the law if the agreement is estimated to exceed $175,000. This change applies to any agreement entered into on or after August 1, 2018.

RELEVANT LINKS:

2018 Minn. Laws ch. 139 *to be codified as* Minn. Stat. § 197.988.

Purple Heart Cities. Effective May 14, 2018, any city may by resolution designate itself as a “Purple Heart City” to honor United States military personnel who have received the Purple Heart. A Purple Heart City may designate a prominent parking space at city hall as a "Reserved for a Purple Heart Recipient" parking space. A Purple Heart City may accept donations to pay for a sign that states that the city is a Purple Heart City, and to pay for a plaque to be displayed on public property. A Purple Heart City may honor Purple Heart recipients by resolution proclaiming August 7 as Purple Heart Day.

2018 Minn. Laws ch. 148 *to be codified as* Minn. Stat. § 115.455.

Effluent Limitation Compliance. To the extent allowable under federal law, for a municipality that constructs a publicly owned treatment works to comply with a new or modified effluent limitation, compliance with any new or modified effluent limitation adopted after construction begins that would require additional capital investment is required no sooner than 16 years after the date the facility begins operating. This law is effective retroactively as of August 1, 2017.

2018 Minn. Laws ch. 124 § 1 *amending* Minn. Stat. 471.345, subd. 5b.

Water Tank Competitive Bidding Exemption Narrowed. Multi-year contracts for water tower tank maintenance work used to be an exception to competitive bidding such that professional water tank services could be negotiated on the open market. Effective for agreements entered into on or after September 1, 2018, the portion of any water tank maintenance work that includes “sale or purchase of supplies, materials, equipment or the rental thereof, or the construction, alteration, repair, or maintenance of real or personal property” must go through competitive bidding or best value contracting.

IV. Taxation notification procedure

Minn. Stat. § 275.065, subd. 1.

Minn. Stat. § 275.066.

Minn. Stat. § 275.065, subd. 1.

The table below outlines the annual taxation notification procedure and deadlines (sometimes called “truth in taxation” or “TNT”). The deadline for cities to adopt the preliminary tax levy and certify it to the county auditor is Sept. 30. The deadline for “special taxing districts,” such as economic development authorities (EDAs), housing and redevelopment authorities (HRAs), port authorities, and others, is also Sept. 30.

See *Adopting Final Property Tax Levy,* LMC model Resolution.
Minn. Stat. § 275.065, subd. 3, paragraphs (c), (i).

According to the Department of Revenue, cities with populations of 500 or less and all special taxing districts (except the Metropolitan Council, the Metropolitan Airports Commission, and the Metropolitan Mosquito Control Commission) are exempt from the requirement to hold a meeting with public input prior to adoption of the final levy. All cities, including cities with populations of 500 or less, and special taxing districts must still certify proposed property tax levies to the county auditor on or before Sept. 30, 2018.

RELEVANT LINKS:

Taxation Notification Summary Chart for Taxes Payable 2019	
Date	**Action**
On or before Sept. 30	All cities and special taxing districts must adopt any proposed property tax levy and certify the proposed levy to the county auditor.
On or before Sept. 30	At one meeting, in cities of population greater than 500, the city council adopts the proposed property tax levy and announces the time and place of a future city council meeting at which the budget and levy will be discussed and public input allowed, prior to final budget and levy determination. This public input meeting must occur after Nov. 24 and must start at or after 6 p.m. The time and place of the public input meeting must be included in the minutes but newspaper publication of the minutes is not required.

Date	Action
On or before Sept. 30	Cities over 500 population must provide the county auditor with the following information: • The time and place of the meeting at which the budget and levy will be discussed and public input allowed. (Again, meeting must occur after Nov. 24, and must not start before 6 p.m.) • A phone number that city tax payers may call if they have questions related to the auditor's property tax notice; this does not require listing a private phone number. • An address where comments will be received by mail; this does not require listing a private address.
Nov. 11 to Nov. 24	County auditor prepares and sends parcels specific notices.
Nov. 25 to Dec. 28	Cities of population greater than 500 hold meeting (at 6 p.m. or later) to discuss the budget and property tax levy and, before a final determination, allows public input.
On or before Dec. 28	Cities must also file the certificate of compliance (Form TNT) with the Department of Revenue by Dec. 28, 2018.

Minn. Stat. § 275.07, subd. 1.

All cities and special taxing districts must certify the final property tax levy to the county auditor on or before Dec. 28, 2018 (five working days after Dec. 20). If this deadline is missed, the final levy for 2018 will stay the same as it was in the preceding year.

RELEVANT LINKS:

26 U.S.C.A. § 3121. (b)(B)(7)(F) (iv). Circular E Employers' Tax Guide (IRS Publication 15).

Social Security Administration, Election Workers (Defined). Election Officials and Workers.

Internal Revenue Service, *Election Workers: Reporting and Withholding*.

PERA Election Judges.

IRS Standard Mileage Rates for 2018.

PERA Contribution rates.

V. Election judge wages and withholding

Income tax withholding. Election judges' pay is exempt from state and federal income tax withholding. Election judges are responsible for declaring the wages as personal income and may have to pay income tax depending on the judge's personal situation—but the city need not withhold income taxes.

Federal and/or state tax withholding, including withholding for Social Security and Medicare. If an election judge is paid less than $1,800 in 2018, no Social Security or Medicare taxes are withheld. So cities do not need to issue W-4s for judges earning less than $1,800. At the time of publication, the threshold for 2019 had not been established.

Issuing W-2s. If an election judge earns $600 or more in a year, cities must issue that person a W-2. According to IRS contacts, W-2s may be issued to judges earning less than $600 for software and bookkeeping purposes.

PERA withholding. According to the Public Employees Retirement Association (PERA), election judges are local governmental employees, but the wages earned in these positions are not subject to PERA withholding. For example, if a city employee is also employed by the city as an election judge, the wages earned as a city employee are subject to PERA withholding (assuming the earnings threshold is met).

However, any wages paid for the election judge services must be subtracted from the gross wages prior to calculating the PERA contributions, as the earnings as an election judge are excluded from PERA withholding.

Payroll. The federal government classifies election judges as employees. Therefore, it seems reasonable to pay them through the payroll system, rather than other accounts, to ensure accurate tracking of wages paid to each judge. However, this is offered as a practical tip, not as a requirement in law or rule.

VI. Employment-related changes

A. Optional standard IRS mileage rate

IRS Standard Mileage Rate for 2018 is 54.5 cents per mile for business miles driven, up from 53.5 cents for 2017.

The IRS normally updates the mileage rates once a year in the fall for the next calendar year. *At the time of publication, 2019 rates are not yet available.*

B. 2019 PERA contribution rates

The 2018 legislative session saw an increase to employer and employee contributions to the police and fire defined benefit plan.

RELEVANT LINKS:

All other contribution levels remained the same.

EMPLOYEE CONTRIBUTIONS 2019	
Defined Benefit Plan (DBP)	**Calendar year 2019**
Basic	9.10%
Coordinated	6.50%
Police and Fire	11.3%*
Defined Contribution Plan (DCP)	
Elected Officials	5.00%
Physicians	5.00%
City Managers/Administrators	6.25%
Ambulance/Rescue Squad Personnel	Rate set by employer
Certain volunteer or on-call firefighters not covered for that service by the PERA Police and Fire Plan or by a relief association under chapter 424A.	7.5% or more made either solely from compensation paid to the firefighter or through a combination of member and employer contributions.

* The 11.3% rate for Police and Fire is already set to increase to 11.8% in 2020.

EMPLOYER CONTRIBUTION RATES 2019 DEFINED BENEFIT PLAN	
Plan	**Rate**
Basic	11.78%[1]
Coordinated	7.50%[2]
Police and Fire	16.95%[3]

1 This represents the employer match of the Basic Plan employee deduction (9.10%) and an employer additional amount at 2.68%.

2 This rate represents the employer match of the Coordinated Plan employee deduction (6.50%) and an employer additional amount of 1.00%.

3 This rate is set to increase to 17.7% in 2020.

EMPLOYER CONTRIBUTION RATES – 2019 DEFINED CONTRIBUTION PLAN	
Plan	**Rate**
Elected Officials/Physicians	5.00%
City Managers/Administrators	6.5%
Ambulance or Rescue Squad Personnel	Rate set by employer
Volunteer or On-call Firefighters not covered for that service by the PERA Police and Fire Plan or by a relief association under chapter 424A.	7.5% or more made either solely from compensation paid to the firefighter or through a combination of member and employer contributions

RELEVANT LINKS:

C. Employee contributions to deferred compensation

Minnesota Deferred Compensation Plan.

Deferred compensation. Please note: Each calendar year in the fall, the IRS updates the annual contribution limits, based on cost-of-living adjustments (COLA). *At the time of publication, 2019 information is not available.*

2018 Annual Maximum Contribution Limits*

Participant age	Contribution Limits
Under age 50	$18,500
Age 50 and over	$24,500
Catch up provision	$37,000

*The maximum deferral amounts change each year due to changes in the COLA, if any. Although the employee contributions to a deferred compensation plan reduce the individual's taxable income, the city will still need to budget for the employer's share of Social Security and Medicare to the same extent that these withholdings would be required on the employee's regular earnings.

D. Social Security and Medicare withholding

See IRS Circular E, Employers' Tax Guide (IRS Publication 15).

2018 Social Security and Medicare Tax Rates.

The 2019 Social Security and Medicare withholding amounts are not available at the time of this publication.

- In 2018, for employers, the Social Security tax rate is 6.2 percent.
- The Medicare tax rate is 1.45 percent.

These numbers are unchanged from 2017.

E. Unemployment costs

Unemployment Insurance Minnesota.

A conservative estimate of the amount of unemployment benefits a city may pay a laid off employee is approximately half the employee's average weekly wage, up to the maximum of $693 per week. Most cities are classified as "reimbursing employers." This means the city reimburses the state for unemployment benefits paid out to a former employee.

F. Health and dental insurance costs

Patient Protection and Affordable Care Act Cases.

Cities need to make sure they are complying with the federal Affordable Care Act (ACA). On Feb. 10, 2014, the IRS released the final regulations implementing the employer shared responsibility mandate which affects many cities.

RELEVANT LINKS:

Congress passed and President Obama signed the omnibus bill in December 2015 which included a two-year moratorium on the so-called “Cadillac Plan Tax”. Subsequent legislation has delayed the effective date of this new tax which is currently scheduled to be effective for taxable years beginning January 1, 2022.

The Cadillac Plan Tax is an excise tax (40%), enacted as part of the Patient Protection and Affordable Care Act (“PPACA”) that applies to the cost of employer-sponsored health coverage that exceeds certain threshold limits – $10,200 for self-only coverage and $27,500 for family coverage – increased each year after the effective date.

The Cadillac Plan Tax effective dates and thresholds are based upon current guidance, and as with many other PPACA regulation could change with future legislation. If this tax is implemented, it could have a large impact on cities budgets. The League will keep cities apprised of any further guidance from Congress.

The U.S. Department of Labor (DOL) released guidance in 2014 pertaining to employers reimbursing employees for individual health insurance plans, on either a pre-tax or after-tax basis. This guidance primarily affects cities that do not meet the definition of “large employer” under the ACA because large employers typically do not offer this type of arrangement.

IRS FAQs on ACA.

Employers are permitted to disregard seasonal employees when determining employer size if the employer’s workforce exceeds 50 full-time equivalent (FTE) employees for no more than 120 consecutive days and the number of employees exceeding 50 during that time were seasonal employees, based upon the prior years’ average number.

Provisions Unique to Small Employers.

While most health care reform provisions apply to employers uniformly, regardless of size, there are a few provisions that may specifically benefit small cities that qualify as small employers. The benefits to small employers include:

- Exemption from penalties since they need not offer coverage.
- Availability of coverage through state exchanges effective Jan. 1, 2014.
- Exemption from reporting health care costs on W-2s.
- The ability to use a SIMPLE Cafeteria Plan.
- Beginning on January 1, 2017, small employers can provide a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) that reimburses employees for the medical care expenses of the employee, the employee’s spouse, and the employee’s dependent children, including individual health insurance policies purchased on the individual market. Certain requirements must be met before a city offers a QSEHRA.

RELEVANT LINKS:

There are other provisions and compliance issues associated with health care reform for all employers such as requirements for coverage of preventive care, prohibitions against pre-existing exclusions, essential benefits, break times for nursing mothers, and other employee protections.

Health Care Reform, LMC Web site.

The Department of Labor and the IRS continue issuing critical guidance regarding implementation details for health care reform. We recommend you visit the League website for the most up-to-date information and guidance on federal health care reform legislation and pending regulations.

Due to the uncertainty of the ACA and President Trump's efforts to repeal and replace it, it is unknown at this time how any potential legislation might impact 2019 renewal.

Gallagher guidance on 6055 and 6056 Reporting.

The ACA has reporting requirements for providers of health insurance and applicable large employers which must be sent to covered individuals and the IRS which started the beginning of 2016. Cities are encouraged to plan ahead each year to meet the reporting deadlines as they will occur each year and continue with the reporting requirements until further notice.

G. Cost-of-living adjustment information

Minnesota Economy at a Glance from the BLS Midwest Information Office.

The CPI for Minneapolis-St. Paul is published semiannually.

See the BLS' Consumer Price Index, Midwest Region, April 2018.

Cities often look at cost-of-living adjustments when setting salaries for the coming year. One measure is the consumer price index (CPI), published by the Bureau of Labor Statistics, U.S. Department of Labor. The CPI is a measure of the average change over time in prices paid by consumers for goods and services.

The Consumer Price Index (CPI) for the Midwest urban region went up 1.8 percent from April 2017 to April 2018. Other methods of adjusting salaries for inflation may also exist, depending upon the particular city, and these may be used instead of the CPI.

VII. Coverage and dues

A. LMCIT Coverage

LMC information memos, Reducing LMCIT Premium Costs and Comparing Coverage Quotes.

Most Minnesota cities are members of the League of Minnesota Cities Insurance Trust (LMCIT) for property, liability, auto, and workers' compensation coverage. Cities purchasing insurance from a private company should ask their provider about insurance coverage options, claim trends, and costs. Cities looking for possible ways to reduce their premiums can reference the memo *Reducing LMCIT Premium Costs* for various option.

RELEVANT LINKS:

LMC information memo, Experience Rating in LMCIT's Liability and Work Compensation Premiums.

LMCIT's annual premium costs are affected by rates, exposures, and experience. In addition to rates, which are set by LMCIT in the fall, cities' costs can fluctuate if there are changes in exposures, such as payrolls, city expenditures, or property values, or changes in experience rating for workers' compensation, municipal liability, or auto liability.

Following are LMCIT's very early estimates for premium rates, which would take effect for property/casualty coverages renewing on or after November 15, 2018 and workers' compensation coverages renewing on or after January 1, 2019. LMCIT stresses that these are not guarantees. Annual actuarial reviews, other rate development work, and reinsurance costs will be calculated this fall, at which time LMCIT will be able to give a definite answer on premium rates for 2018-19. Cities can check with LMCIT starting in October for an updated outlook on premiums.

Workers' compensation. Data as of the end of 2017 shows that total incurred costs for claims occurring in 2017 were relatively high, and development on old claims was also a bit higher, which could put some pressure on rates. There are a couple bills that passed in the MN State Legislature related to benefit levels required under MN worker's comp statutes, but, at this point (as of May 21), it's not clear how these changes will impact LMCIT's future claim expenses. LMCIT suggests cities allow for a workers' compensation premium rate increase in the 4 to 8 percent range. Additionally, this year LMCIT will review and adjust the relative levels of each payroll class rate, which is done every three years. As a result, the mix of each city's payroll class exposures will also affect premiums in different ways.

Property. Property losses in 2017 were less favorable than recent prior years, with several high-dollar fire and storm occurrences. Nevertheless, despite several catastrophic global events in 2017, LMCIT's reinsurance partners were able to avoid adverse pricing pressure on LMCIT. However, if the reinsurance market changes in 2018, that could affect premium rates since reinsurance costs are a significant part of LMCIT's expense for property coverage. At this point LMCIT hopes to hold rates relatively flat for next year, but for budgeting purposes cities may want to allow for a 2 to 4 percent increase.

Auto physical damage and auto liability. LMCIT introduced a revised pricing structure for auto physical damage in 2018. Specifically, rates for police vehicles increased and rates for fire vehicles decreased. Some members are seeing, or will see, premium increases or decreases as a result, depending on the mix of vehicle types. This coming year might also see changes in auto premiums depending on each city's mix of vehicle types, as LMCIT evaluates systemic pricing rebalancing for both auto physical damage and auto liability coverages. For auto physical damage, LMCIT will potentially introduce an experience rating component. For auto liability, LMCIT will revisit the relative rate levels for individual vehicle types.

RELEVANT LINKS:

Overall, LMCIT expects auto rates to remain relatively stable, but individual cities' premiums may change depending on their mix of vehicle types and auto claim experience within the most recent 3 to 4 years.

Municipal liability. Loss costs in 2017 for municipal liability claims were average, but there was some notable development on older claims. In particular, there could be some rate pressure on police liability and employment practices liability. LMCIT suggests cities allow for possible rate increases in the range of 2 to 6 percent - toward the upper end of that range for cities that have police and toward the lower end for cities that don't.

Note that some standalone police department and police task force members could see higher liability premium increases that are even higher because several of these members are still transitioning to the new liability rating system, which began in 2013. LMCIT has separately contacted these members to provide a sense of how liability premiums will behave over the next few years, but if members have questions about their specific situation, LMCIT underwriters can provide guidance.

B. League Dues

Many factors influence the LMC Board's decision when setting dues, including cities' financial situations, inflation, strategic plan initiatives, non-dues revenue sources, and various other factors.

To estimate dues payable Sept. 1, 2019, cities should complete the following three steps:

1. Estimate the city's population for 2017.
2. Use the estimated population from step 1 with the table below to compute the estimated dues payable Sept. 1, 2018.
3. Take the amount calculated in step 2 and increase it by 3.0 percent to estimate the dues payable Sept. 1, 2019.

League dues for the upcoming fiscal year (2019) are billed on Sept. 1, 2018, and cover membership from September 2018-August 2019. The estimated dues payable on Sept. 1, 2018 are computed based on the maximum dues schedule below:

Population	Amount	Per capita rate
249 OR LESS	$396	0
250 - 4,999	$138	1.0456
5,000 - 9,999	$1,091	0.8548
10,000 - 19,999	$2,366	0.7272
20,000 - 49,999	$8,074	0.4418
50,000 - 299,999	$23,900	0.1254
300,000 AND OVER	$40,251	0.0709

RELEVANT LINKS:

Example: If your city's estimated 2017 population is 6,251 residents, your estimated dues payable on Sept. 1, 2018, would be $6,434 ($1,091 + 6,251*0.8548). Based on that calculation, your estimated dues payable on Sept. 1, 2019, would be $6,627 ($6,434*1.03).

Contact Marky Engler at the League at mengler@lmc.org or (651) 215-4021 or (800) 925-1122.

If you need assistance estimating population or dues, call the League's finance director.

VIII. Excise taxes on motor fuel

IRS Publication 510. Publication 510 Appendix for Model Certificates:
M - Ultimate Purchaser;
P - Diesel Fuel Tax Exemption; and
R – Buyer of Taxable Fuel.

Cities are exempt from federal excise tax on diesel fuel and gasoline under various sections of the Internal Revenue Code. Cities may make tax-exempt purchases or apply for a refund of taxes paid upon filing certain certificates.