



INFORMATION MEMO

Budget Guide for Cities

Learn about new and current state and federal laws that significantly affect city budget decisions for 2020, including annual financial figures for minimum wage, cost-of-living adjustments, local government aid (LGA), and more. Find the taxation notification procedure and links to fuel excise tax forms, a model resolution adopting a levy, and other budget worksheets.

RELEVANT LINKS:

Handbook, [Budgeting](#).

See State Auditor's [Accounting Manual for Small Cities and Towns](#).

Handbook, [Property Tax Levy](#).

[LMC 2019 Law Summaries](#).

Minnesota House Research Department: [State Aids](#).

[LMC 2019 Law Summaries](#).

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 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 chapter 21 gives more background information on taxes and taxation notification law. For information on the new laws affecting cities, see the League's *2019 Law Summaries*.

II. Local government aid (LGA)

The House Research Department has updated estimates of 2020 LGA and a wealth of other related data. City officials should keep in mind that the amounts displayed in the revenue document are estimates only at this point. Aid amounts for 2020 will be certified in July 2019.

III. Legislative changes for 2019

Every year, the League offers the Law Summaries, a comprehensive guide to changes and proposed changes from the last legislative session(s). Budget-related highlights from this most recent legislative season include the following.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

[2019 Minn. Laws 1st Spec. Sess. Ch. 5, Art. 2, § 11 amending Minn. Stat. 403.03.](#)

[2019 Minn. Laws 1st Spec. Sess. Ch. 6, Art. 6, § 2 to be codified as Minn. Stat. § 297A.99, subd. 1a.](#)

[2019 Minn. Laws 1st Spec. Sess. Ch. 7, Art. 9, § 1 amending Minn. Stat. § 15.72.](#)

[2019 Minn. Laws 1st Spec. Sess. Ch. 8, Art. 2, § 2 to be codified as Minn. Stat. § 353.014.](#)

911 Centers to include CPR. Previously, any governmental agency providing a 911 call center had to provide police, firefighting, and emergency medical and ambulance services. Any other 911 services were discretionary. Effective July 1, 2021, these call centers must maintain a telephone cardiopulmonary resuscitation program. This requires having available a “911 Communicator” trained in CPR or the ability to transfer the caller to such a person at another public safety answering point. The minimum training requirements include being able to walk callers through an approved script in instruction of CPR and continuing education. For centers where a caller must be transferred—which may be the case for many cities—the new law provides requirements, including costs, to the transferring 911 call center.

New restriction on use of local sale tax dollars. Legislators added to the statutory requirements upon use of any local sales tax. According to this new provision, “Local sales taxes are to be used instead of traditional local revenues only for construction and rehabilitation of capital projects when a clear regional benefit beyond the taxing jurisdiction can be demonstrated.” The law goes on to say that using state-granted local sales taxes for purely local endeavors benefits property owners unequally and contributes to fiscal inequities. This provision is effective May 31, 2019.

Retainage payouts dictated. Cities may already withhold up to 5% from any progress payment to the contractor on an improvement contract. Now, effective for all improvement agreements entered on or after Aug. 1, 2019, the city must release all retainage to the contractor no later than 60 days after “substantial completion” as defined by the statute. Upon substantial completion, cities may withhold no more than 1) 250% of the cost to correct or complete work known at the time of substantial completion, and 2) 1% of the value of the contract or \$500, whichever is greater, pending completion of all “final paperwork” by the contractor or subcontractor. These amounts retained must be released within 60 days after completion of the work or submission of all final paperwork, whichever situation applies. The new law creates new notices for cities to give contractors and subcontractors, as well.

Purchased Public Employees Retirement Association (PERA) credit for military service. Effective July 1, 2019, most individuals who were absent from city employment due to military service and who return to the city job following discharge are eligible to purchase PERA service credits. If the employee purchases the service credit, the city must pay PERA what it would have paid for its employer contribution for the given period, in addition to any applicable equivalent employer contribution. The law states the employer payments must be made from funds available to the employer, “using the employer and additional employer contribution rate or rates in effect at the time that the uniformed service was performed, applied to the same annual salary rate or rates used to compute the equivalent employee contribution.”

RELEVANT LINKS:

[2019 Minn. Laws 1st Spec. Sess. Ch. 8, Art. 2, § 3 to be codified as Minn. Stat. § 353.0141.](#)

[Minn. Stat. § 275.065, subd. 1.](#)

[Minn. Stat. § 275.066.](#)

[Minn. Stat. § 275.065, subd. 1.](#)

Department of Revenue:
[Truth in Taxation](#)
See [Adopting Final Property Tax Levy](#), LMC model Resolution.
[Minn. Stat. § 275.065, subd. 3, paragraphs \(c\), \(i\).](#)

According to the law, city employers may appropriate money for those payments, and the employer must pay interest on all employee and employer contribution amounts payable for the service member to purchase the service credit.

Additionally, up to five years of service credit may be purchased by individuals with at least three years of “allowable service” credit who served in uniformed services before their public employment or the service was not previously considered “allowable service.”

IV. Taxation notification procedure

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.

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, 2019.

RELEVANT LINKS:

| Taxation Notification Summary Chart for Taxes Payable 2020 | |
|---|---|
| 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 | <p>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.</p> <p>Cities over 500 population must provide the county auditor with the following information:</p> <ul style="list-style-type: none"> • 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.) |

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| 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. 30 | Cities must also file the certificate of compliance (Form TNT) with the Department of Revenue by Dec. 30, 2019. |

[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. 30, 2019 (five working days after Dec. 20). If this deadline is missed, the final levy 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 Employer Manual,
Ch. 3.
Minn. Stat. § 353.01, subd.
2b\(a\)\(3\).](#)

[IRS Standard Mileage Rates.](#)

[PERA.](#)

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 2019, 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 2020 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. 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 2019 is 58 cents per mile for business miles driven, up from 54.5 cents for 2018.

The IRS normally updates the mileage rates once a year in the fall for the next calendar year. *At the time of publication, 2020 rates are not yet available.*

B. 2020 PERA contribution rates

The 2019 legislative session resulted in no changes to employer or employee contributions to either the defined benefit or defined contribution plans.

RELEVANT LINKS:

A scheduled increase to the Police and Fire plan does take effect, however, resulting in a minor increase in employee and employer contributions as shown below.

| EMPLOYEE CONTRIBUTIONS | | |
|--|--|--|
| Defined Benefit Plan (DBP) | Calendar year 2019 | Calendar year 2020 |
| Basic | 9.10% | 9.10% |
| Coordinated | 6.50% | 6.50% |
| Police and Fire | 11.3% | 11.8%* |
| Defined Contribution Plan (DCP) | Calendar year 2019 | Calendar year 2020 |
| Elected Officials | 5.00% | 5.00% |
| Physicians | 5.00% | 5.00% |
| City Managers/Administrators | 6.25% | 6.25% |
| Ambulance/Rescue Squad Personnel | Rate set by employer | 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. | 7.5% or more made either solely from compensation paid to the firefighter or through a combination of member and employer contributions. |

[Minn. Stat. § 353.65, subd. 2.](#)

*This 2020 increase was scheduled by legislation passed in 2018.

RELEVANT LINKS:

[Minn. Stat. § 273.1385.](#)

[PERA: About Legislation.](#)

[Minnesota Deferred Compensation Plan.](#)

| EMPLOYER CONTRIBUTIONS | | |
|--|---|---|
| Defined Benefit Plan (DBP) | Calendar year 2019 | Calendar year 2020 |
| Basic | 11.78% ¹ | 11.78% |
| Coordinated | 7.50% ² | 7.50% |
| Police and Fire | 16.95% | 17.7% ³ |
| Defined Contribution Plan (DCP) | Calendar year 2019 | Calendar year 2020 |
| Elected Officials/Physicians | 5.00% | 5.00% |
| City Managers/Administrators | 6.5% | 6.5% |
| Ambulance or Rescue Squad Personnel | Rate set by employer | 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 | 7.5% or more made either solely from compensation paid to the firefighter or through a combination of member and employer contributions |
| <p>1 This represents the employer match of the Basic Plan employee deduction (9.10%) and an employer additional amount at 2.68%.</p> <p>2 This rate represents the employer match of the Coordinated Plan employee deduction (6.50%) and an employer additional amount of 1.00%.</p> <p>3 This rate increased by Minn. Stat. § 353.65, subd. 3..</p> | | |

PLEASE NOTE: In 1997, the Legislature authorized annual aid to public employers to offset a PERA employer contribution rate increase. This statutory authorization is currently set to end on June 30, 2020, and, therefore, its final payments will occur in July and December of 2019.

According to PERA, June 2020 was expected to be the time when the plan would be fully funded. However, at its April 2019 meeting, the PERA Board of Trustees voted to support legislative extension of the 1997 aid.

C. Employee contributions to deferred compensation

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, 2020 information is not available.*

RELEVANT LINKS:

[See IRS Circular E, Employers' Tax Guide \(IRS Publication 15\).](#)

[2019 Social Security and Medicare Tax Rates.](#)

[Unemployment Insurance Minnesota.](#)

[Patient Protection and Affordable Care Act Cases.](#)

[Cadillac Tax \(Cancel or close the pop-up login box.\)](#)

2019 Annual Maximum Contribution Limits*

| Participant age | Contribution Limits |
|------------------------|----------------------------|
| Under age 50 | \$19,000 |
| Age 50 and over | \$25,000 |
| Catch up provision | \$38,000 |

*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

The 2020 Social Security and Medicare withholding amounts are not available at the time of this publication.

In 2019, for employers:

- The Social Security tax rate is 6.2%.
- The Medicare tax rate is 1.45%.

This combined rate of 7.65% is unchanged from 2018.

E. Unemployment costs

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 \$717 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

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.

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.

RELEVANT LINKS:

[Cash in Lieu of Benefits](#)

[IRS FAQs on ACA.](#)

[DOL FAQs on ACA.](#)

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.

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

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.
- Since 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.

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.

RELEVANT LINKS:

Health Care Reform, [LMC Web site](#).

[Gallagher guidance on 6055 and 6056 Reporting. \(Cancel or close pop-up login box.\)](#)

[Minnesota Economy at a Glance](#) from the BLS Midwest Information Office.

See the BLS [Consumer Price Index, Midwest Region, April 2019](#).

LMC information memos, [Reducing LMCIT Premium Costs and Comparing Coverage Quotes](#).

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 2020 renewal.

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

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 1.5% from April 2018 to April 2019. 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

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*.

RELEVANT LINKS:

[LMC information memo, Experience Rating in LMCIT's Liability and Work Compensation Premiums.](#)

LMCIT members' 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. The adjacent link discusses LMCIT experience rating formulas, but generally the formulas compare expected losses for individual members within a recent three-year period to the actual losses during the same period, and if losses are greater (or less) than expected a premium debit (or credit) is applied.

Following are LMCIT's very early estimates for premium rates, which would take effect for property/casualty coverages renewing on or after Nov. 15, 2019, and workers' compensation coverages renewing on or after Jan. 1, 2020. 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 2019-2020. Cities can check with LMCIT starting in October for an updated outlook on premiums.

Workers' compensation. Data as of the end of 2018 shows total incurred costs for claims occurring in 2018 were relatively high, which could put some pressure on rates. There were some changes to Minnesota workers' compensation statutes in 2018, including a presumption for post-traumatic stress disorder (PTSD) claims for public safety employees that went into effect in January 2019. There is still some uncertainty behind how these changes will impact LMCIT's future claim expenses, and by extension, premium rates.

LMCIT suggests cities allow for a workers' compensation premium rate increase in the 1% to 5% range.

Property. Property losses in 2017 and 2018 were less favorable than recent prior years, with several high-dollar fire and storm occurrences. Both LMCIT and our reinsurers will need to factor in the recent adverse experience when projecting for future costs. There could be some additional pressure on property premium rates since reinsurance costs are a significant part of LMCIT's expense for property coverage.

For budgeting purposes, cities may want to allow for a 2% to 4% increase for property coverage rates.

Liability. Loss costs in 2018 for municipal liability claims were average overall, but patterns for specific types of liability claims continue to evolve. E.g. police liability, sewer backup liability, employment practices, and land use litigation.

RELEVANT LINKS:

LMCIT suggests cities allow for possible rate increases in the range of 1% to 5%. We hope we're able to hold rates flat overall, but there's a chance we'll need to adjust some specific liability rates.

Auto. LMCIT introduced a revised pricing structure for auto physical damage in 2018 and a revised structure for auto liability in 2019. We're also planning to introduce an auto experience rating component next year. Because members are still transitioning to the new rating method, and because there will likely be a new experience rating component, which impacts members differently, it's hard to project generally which way premiums are headed in 2020; it depends on the specific member.

Overall, LMCIT expects overall 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 three to four years.

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, 2020, cities should complete the following three steps:

1. Estimate the city's population for 2018.
2. Use the estimated population from step 1 with the table below to compute the estimated dues payable Sept. 1, 2019.
3. Take the amount calculated in step 2 and increase it by 3.0% to estimate the dues payable Sept. 1, 2020.

League dues for the upcoming fiscal year (2020) are billed on Sept. 1, 2019, and cover membership from September 2019-August 2020. The estimated dues payable on Sept. 1, 2019 are computed based on the maximum dues schedule below:

| Population | Amount | Per capita rate |
|-------------------|---------------|------------------------|
| 249 OR LESS | \$408 | 0 |
| 250 - 4,999 | \$142 | 1.0770 |
| 5,000 - 9,999 | \$1,124 | 0.8804 |
| 10,000 - 19,999 | \$2,437 | 0.7490 |
| 20,000 - 49,999 | \$8,316 | 0.4551 |
| 50,000 - 299,999 | \$24,617 | 0.1291 |
| 300,000 AND OVER | \$41,459 | 0.0730 |

RELEVANT LINKS:

Contact Milton Ferris at the League at mferris@lmc.org or (651) 215-4023 or (800) 925-1122.

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

Example: If your city’s estimated 2018 population is 6,251 residents, your estimated dues payable on Sept. 1, 2019, would be \$6,627 ($\$1,124 + 6,251 * 0.8804$). Based on that calculation, your estimated dues payable on Sept. 1, 2020, would be \$6,826 ($\$6,627 * 1.03$).

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

VIII. Excise taxes on motor 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.