

TO: MAYOR AND CITY COUNCIL

FROM: JON RADERMACHER, City Administrator

SUBJECT: RESOLUTION ADOPTING THE 2026 PRELIMINARY LEVY

MEETING DATE: September 16, 2025

BACKGROUND

The Preliminary Levy Resolution and establishing date for Public Hearing of the Final Levy Cities is required to be completed by September 30th each year. The date for the Public Hearing will be December 16th at 6:30pm, and the preliminary levy resolution is included in this packet.

The City Council has had multiple meetings with staff and the City Administrator to discuss the upcoming budget, and at this time the Preliminary Levy is proposed for \$3,972,000, which is a 10.8% increase from the previous year's final levy. Importantly, the Preliminary Levy establishes the ceiling for the total levy for the upcoming budget, once it is set, it cannot increase, but it can be decreased. Prior to the final budget, additional meeting with the Council will take place to discuss the budget amounts for the Final Levy, and it is expected that the preliminary levy will be decreased. There are a lot of uncertainties between now and December that could lead to increases in the estimated expenses at the time of the Preliminary Levy.

STAFF RECOMMENDATION

Establish December 16, 2025 at 6:30pm for the Final Levy Public Hearing, and approved the Preliminary Levy Resolution for a total Levy of \$3,972,000, which includes the following components of the total:

General Fund Levy - \$3,022,600
Library Levy - \$463,500
Fire Levy - \$241,700
EDA Levy - \$100,000
Bond Levy - \$241,700
Tax Abatement - \$2,500

REQUESTED COUNCIL ACTION

Approve Resolution 2826 Adopting the Preliminary Tax Levy and Budget Collectible in 2026, and Setting a Public Meeting Date, for the Total Levy of \$3,972,000 and the Public Hearing date of December 16, 2025 at 6:30pm in the City Hall Council Chambers.

2026 Preliminary Budget

Current Financial Status

- ▶ The City of Cannon Falls is in a strong financial position throughout most of the funds within the operations.
- ▶ Cash and Investments are over \$14,000,000, and many funds have more than adequate reserve balances based on our fund balance policies.
- ▶ Existing debt is also in an excellent position. The current outstanding principal of all debt is \$5.4M, which is down from a peak of almost \$30M around 20 years ago. We will also have paid cash for the 2023/2024 and 72nd Ave Way infrastructure projects.
- ▶ While current funds are strong, the upcoming future needs, especially in capital equipment, are going to be costly. Projections for large equipment like fire trucks, ambulances, snowplows, are still struggling with long lead times, rising costs and concerns around economic uncertainty.
- ▶ In the review of the financial status, and the planning for future needs, staff and I have worked together to present budget requests that start to address for long term replacements and asset management for the vehicles and equipment. We are reserving space for facility considerations; however, we do not have costs, estimates, or direction to prepare for the replacement of facilities at this time.
- ▶ In my philosophy around budgeting this is the work that we do together, to prioritize and plan for these “big ticket” items, while managing the operational budgets to achieve any goals and levels of service that you as a Council expect for the community.

Areas of Uncertainty

- ▶ Ambulance funding: Due in large part to the limitations of payments from Medicare and Medicaid, our Ambulance Fund is going to continue to struggle with revenues that cannot cover the true costs of the service. There was a program at the State to help fund rural ambulances system if they suffer shortfalls, but the exact process and procedure of that program are not fully clear to me at this time.
- ▶ Facility maintenance, replacement, renovations: The Wastewater treatment plant is almost 25 years old (typical life span is 30 years), and will need planned improvements and replacements throughout the entire facility. This will be in the tens of millions of dollars in expense, and while there are funding aids from the State, those programs are competitive and mostly made up of loans.
 - ▶ City Hall - The City Hall building is also showing signs of needing major investment. The air conditioning system is obsolete, and cannot be retrofit, and once it has a major failure it would need to be replaced. We did receive an estimate for this work and is over \$400,000 for a complete replacement of the system and controls within the building. Additionally, City Hall is a very underutilized space. We have more space than we need, which operating the building efficiently and challenge.
 - ▶ Public Safety Building - the PSB is around 20 years old are starting to show sign of needed maintenance to the structure, like cracks in the exterior walls, increased roof maintenance, and potentially need to consider the impacts of vehicle equipment changes and how they fit within the structure.
 - ▶ Pool - the pool had a major patch and recoating 5 years ago, it is holding up pretty well, but more cracking is appearing, and some of the equipment items like heaters are going to need replacement. Pools are a loved community asset, but very costly to operate with no means to recover revenue to offset expenses.
 - ▶ City owned trails - We have areas of concern with trails that are owned only by the City, link the interconnection between the Cannon Valley Trails and Mill Towns Trail. There is a segment near the river and Hannah's Bend Park that is poor condition and getting closer to the river the bank erosion continues. The CVT managed through the Joint Powers Agreement has it own challenges and need capital investment, they have more resources in terms of staff time to support seeking funds from additional sources like grants.
 - ▶ Fire equipment - the inflationary costs of Fire Equipment, and all heavy equipment, in recent years has far exceeded the already high inflation. Replacement of the biggest items is only going to be more difficult and the lead times between order and delivery are now any where from 2-4 years out.
 - ▶ North Water Storage Reservoir - The water distribution report, and previous assessments have made us aware that the 500,000 in ground water reservoir on the north side of town will need attention. While no estimate is available at this time, considering the size of the asset it is not unreasonable to a \$500,000 investment to extend its useful life. While the City has been in conversations with Tract about the construction of a new water tower if the project is approved, that is far from certain, and potential many years away.
 - ▶ Streets and underground infrastructure - The City has completed the 10 year street improvement plan, and it is past due to start planning for another long range street and infrastructure plan. This is another area that saw rising costs and long delays for equipment and material delivery post pandemic. The material delivery times have improved, but the costs are still high, making replacement planning difficult especially as the percentage of the cost of the project that can be assessed gets smaller.

Preliminary Budget

- ▶ Statutorily - Minnesota Cities have to set a preliminary budgeted levy and date of their final budget levy by September 30th each year
- ▶ Preliminary Levies once set, become the ceiling for a City's levy for the next year. The levy can do down from the Preliminary, but it cannot go up.
 - ▶ The intent is to preserve the ability for the City to respond to unforeseen changing in between the Preliminary Levy and Final Levy in December.
 - ▶ Clear communication and consistent messaging is beneficial in responding to concerns from taxpayers, and knowing that the various decisions that will be available to the Council at the final levy will help give you all certainty that the levy can be lowered.

Funds

- ▶ The Budget is made up of three core funds, General, Special Revenue and Enterprise.
- ▶ General Fund includes all the Council, Admin, Finance, Planning & Zoning, Police, Streets, Parks, Recreation, Cannon Valley Trail, and Miscellaneous contributions to the partner agencies like the Chamber, Historical, etc. and transfers for capital improvements.
- ▶ Special Revenue includes the Library, Recycling, EDA, Fire Department, Cable TV, and TIF, Project, Debt Service and Capital Improvement Funds.
- ▶ Enterprise Funds include the Water, Wastewater, Storm Water and Ambulance funds.
- ▶ While there are a lot of other areas of financial movement, these are there budgeted funds that guide the operations of the City for the upcoming year.

General Fund - Revenue

- ▶ Revenues - Primarily come from a few sources that are paid once or twice a year.
 - ▶ For the 2026 preliminary they are Property Taxes (identified as Current Ad Valorem Tax), Invenergy Payment in Lieu of Taxes, and Local Government Aid.
 - ▶ These three sources account for 88% of the total general fund revenues.
 - ▶ Invenergy is set through an agreement that rises by the great of 2% or the CPI inflation of June (which was 2.7%).
 - ▶ Local Government Aid is established through the State biennium budget, and was under consideration for cuts in that last session. It is still a vital resource for many communities, but is becoming a lower percentage of overall budgets as it has not kept up with inflation.
 - ▶ Ad Valorem (according to value), is the Property Tax. Property Taxes in Minnesota a far more complicated than many other states, because Minnesota sets different taxable values for different uses of property and for different valuation of property. A \$200,000 home and a \$200,000 business will pay different amounts of property taxes even though once set the City's Tax rate is the same for every taxable parcel.

Special Revenue Fund - Revenues

- ▶ For Special Revenue Funds their revenues by and large come from property taxes as well, but they also have additional sources like contracts for service as in the Fire Department, and County Tax contribution for the Library, fees for Recycling and Cable TV, or land sales for the EDA's Hardwood Estates project.
- ▶ Intragovernmental Transfers are also a big component of revenue to the Capital and Debt Service funds.

Enterprise Funds - Revenue

- ▶ Enterprise Funds are budgeted differently because their main revenues come from fees, like utility rates and fees for services.
- ▶ This budget year, we're not proposing much for changes to the rates, for either increases or decreases, but there are a few measures that will be coming forward for future budget considerations as they effect the rates, especially for utilities and our large sewer and water users.
- ▶ Enterprise Funds are also looked at more like a business operation because we're taking in funds monthly and providing goods like water, and services like sewer treatment.

General Fund - Expenses

- ▶ The primary expense in almost any city government is staffing, and that is the case in Cannon Falls is no exception, over 50% of the cost of the General Fund is related to staff. I would say it is not uncommon to see that number as high as 70%.
- ▶ The major departments in the General Fund are: Police, Administration, Streets, Public Works, and Parks.
- ▶ In the Preliminary Levy the proposed/requested Operational Budgets are:
 - ▶ Police - \$1.40M
 - ▶ Administration (including finance and planning) - \$755K
 - ▶ Public Works, Streets, Parks, and Recreation (not including the CVT) - \$1.48M
 - ▶ Total General Fund Budget - \$5.2M

Special Revenue Funds - Expenses

- ▶ The Special Revenue fund expenses, can be quite diverse, but I do want to call out the certain funds that will have larger impacts on the preliminary levy, both for increase and decreases.
- ▶ Fire Operations - I would consider moving the Fire Department Capital transfer to Fund 232. Previous years it was included in the General Fund 100. I would change the historical numbers of the Fund 232, but it doesn't have an impact on the Levy as a whole.
 - ▶ Additionally for Fire, the past budgets have under budgeted the wage costs, and big factor of the wages is that Goodhue County pages out all emergency calls to all emergency responders. Firefighters are dispatched to medical calls that they provide no service, but get they paid for that call. Staff are working on ways to improve this situation, but it would not be completed in time to affect the 2026 budget. I believe in transparency, and knowing the cost and seeing the trends, the Fire Chief and I have increased the wage numbers to more accurately reflect those costs.
- ▶ EDA - The City has the ability to establish a levy for Economic Development, which is subject to a cap of the total Taxable Market Value of the City. Based on my calculations that levy has been set well below the cap, and I project that \$100,000 levy will still be below the cap.
- ▶ EDA - Hardwood Estates 3rd Addition and 2nd Phase will be under construction in 2026 and lots will be sold, but this will not have an impact on the tax levy. It will increase the tax capacity of the City as lots are constructed, but the general expectation is that takes about two years after completion for the total value to be accounted for.
- ▶ Capital Funds - we will go into more discussion about this separately, but the staff and I worked to establish a new means to build out equipment replacement, which tries to level out future increases, and take advantage of trade in values before increased maintenance costs set in, which is more cost effective over the long run.
- ▶ Debt Service - I'm pleased to present a plan to reduce the ongoing financial commitments for Debt Service Obligations, by evaluating the current fund balances, and utilizing excess cash and anticipated assessment payments reduce the amount of funds from the Levy and Utility Funds.
 - ▶ When Debt is issued City are given a debt service scheduled that states what contributions need to be made in order to pay the annual debt service. Over time and with refinancing, the debt service schedules have stayed the same; however, with prepaid assessments, increases interest earnings, consolidation of old debt funds, and programmed excess coverage in the debt service schedule, they have more cash than was originally planned for in the repayment of the bond, and we can use that to reduce the ongoing amounts.

Enterprise Fund - Expenses

▶ Ambulance Fund

- ▶ The Ambulance Fund is difficult to evaluate in real time, expenses come in monthly and are paid accordingly, but revenues from the collection company can lag months behind as they navigate insurance companies and Medicare and Medicaid.
- ▶ The actual collections as stated earlier as often less than what it billed, up to 50% less in cases with Medicare payments.
- ▶ The equipment in the Ambulance Fund is also very expensive and is due for replacements, not just the vehicles.
- ▶ Stryker is the supplier for the major life saving equipment that is used with the ambulances, and all most all of it is past the standard useful life. Staff met with Stryker to review a proposal to lease equipment for a 5 year provide which includes a full coverage service plan (no cost maintenance work, device replacement if it fails, etc.), and it also includes a trade-in program that gives us excellent return on our old equipment. The estimated savings per year in adopting this model is \$18,000 to \$30,000 per year, and there are buy-out options at the end of the lease if we want to keep the equipment that are as low as a \$1.
- ▶ Ambulance remount - quick update, the remount work at MacQueen was completed; however, when running the final tests they found an electrical issue caused by an update requirement from the electrical supplier. Unfortunately, the electrical supplier does not allow anyone unauthorized to complete these updates, and it has delayed the return of the Ambulance from MacQueen. We are told that the two companies are trying to work out a plan to get the update completed and get the ambulance back to us.
 - ▶ The connection between the equipment and ambulances is important, historically we've replaced the equipment at the same time as the ambulance replacement. That model is no longer viable, as we've tried to get more useful life out of the ambulance and now engaged in remounts, the equipment replacement and ambulance replacement are out of sync. Thus, adopting a lease plan is useful to ensure the life saving equipment is fully functional and reliable when it is needed. Also, that equipment is not integrated into an ambulance, it is all portable and can be moved between ambulances if needed.

Enterprise Fund - Expenses cont.

- ▶ Water, Sewer, Storm - all these operational budgets are pretty close to the previous years.
- ▶ The Capital improvement plans for these funds are taking a similar approach to the other funds, and potentially have access to additional reserve resources like accumulated depreciation to fund major repairs. Equipment and vehicles are on a replacement schedule similar to all other plans.

Capital Improvement Plan

- ▶ In the past, capital improvement plans (CIP), typically had the price of the equipment that was proposed to purchase in the budget year and funds would be allocated to pay for it. Our revised approach is to consider the annual ownership cost of the equipment, consider the trade-in or sale value when it is sold stretch out the cycle of annual contributions that are much more consistent year-to-year.
- ▶ This avoids a rollercoaster effect on budgets, like when you need to buy a \$500,000 fire truck or street sweeper. It also makes it easier to apply additional resources like grants, reserves, or donations to plan for the equipment replacement.
- ▶ It also helps us target an annual contribution and fit the equipment replacement schedule to align with that annual amount, versus the struggle of trying to determine if ordering a \$350,000 dump truck today, not receiving and paying for it for 3-4 years fits within the budget.

Requested Levy

- ▶ This Levy is based in the requests of staff, know cost increases for 2026, anticipated cost increases, and other proposals like funding the Comprehensive Plan, additional tree removal, and staffing modifications.
- ▶ Staffing
 - ▶ One addition FT admin staff position
 - ▶ Transition PT to FT in the Police Department
 - ▶ Modifying Fire Department Officer pay rates
- ▶ Comp Plan - estimating \$40,000
- ▶ Tree Removal - \$50,000
- ▶ Municipal Reserves - \$500,000
 - ▶ This is a key item to address, is the priority to continue paying cash for infrastructure projects, or blend them with a combination of bonds and cash?

Levy

Preliminary Levy Resolution	Budget 2025	2026	
General Fund Levy	\$ 3,144,110.00	\$ 3,727,800.00	
General Fund Operating	\$ 2,524,350.00	\$ 3,022,600.00	
Library	\$ 425,455.00	\$ 463,500.00	
Fire	\$ 110,422.00	\$ 241,700.00	
EDA	\$ 83,883.00	\$ 100,000.00	
Total	\$ 3,144,110.00	\$ 3,727,800.00	
2016A GO - West Side II	\$ 78,000.00	\$ 59,800.00	
2018A GO - East Side II	\$ 146,500.00	\$ 95,300.00	
2018B GO - Equip Cert	\$ 47,180.00	\$ 47,600.00	
2020A GO Refund	\$ 127,000.00	\$ 39,000.00	
Bond Levy Total	\$ 398,680.00	\$ 241,700.00	
Tax Abatement			
Alexander Court	\$ 39,600.00	\$ -	
Keith Myers Abatement	\$ 1,700.00	\$ 2,500.00	
Tax Abatement Total	\$ 41,300.00	\$ 2,500.00	
			Levy Increase
Total Levy	\$ 3,584,090	\$ 3,972,000	10.8%

**CITY OF CANNON FALLS
GOODHUE COUNTY, MINNESOTA**

RESOLUTION NUMBER 2826

**A RESOLUTION ADOPTING THE PRELIMINARY TAX LEVY AND BUDGET
COLLECTIBLE IN 2026 AND SETTING A PUBLIC MEETING DATE**

WHEREAS, City Staff has prepared a preliminary budget for City Council review, and

WHEREAS, the City Council and City Staff will continue to review and refine the preliminary budget, and

WHEREAS, the City Council recognizes that the preliminary levy must be certified to Goodhue County no later than September 30 of each year; and

WHEREAS, the City Council further recognizes that once the preliminary levy is certified it may not be increased, but may be decreased; and

WHEREAS, the City Council will hold a public meeting as required by the Charter and other laws to consider the final levy and budget.

**NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF
CANNON FALLS, COUNTY OF GOODHUE, MINNESOTA:**

1. That the preliminary budget is approved and the following sums of money may be levied for collection in 2026 upon the taxable property in the City of Cannon Falls, for the following purposes:

General Levy	\$ 3,727,800
Bond Levy	\$ 241,700
Tax Abatement Levy	\$ 2,500
 Total Levy	 \$ 3,972,000

2. That the City Council will hold a public hearing to consider and adopt the final budget and levy on Tuesday, December 16, 2025 at 6:30 p.m. The public will be allowed to speak at this meeting before the final budget and levy is adopted.

3. That the City Administrator be hereby instructed to transmit a certified copy of this resolution to the County Auditor of Goodhue County, Minnesota.

Adopted by the Council this 16th day of September, 2025.

BY: _____
Matt Montgomery, Mayor

ATTEST: _____
Jon Radermacher, City Administrator

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Total	\$ 41,300.00	\$ 2,500.00

			Levy Increase
Total Levy	\$ 3,584,090	\$ 3,972,000	10.8%