Manager Schmaltz Budget Q&A
Q = Manager Schmaltz's questions
A = staff's responses

1. **Q**: We have $2.2 mm in grant revenue in the budget. P 12 shows that $765 k has been awarded so the balance may represent a risk on whether we gain it. Can you explain how we manage this difficult area of grants...and if for some reason we don't receive the grant $$, then the project may be postponed.

   A: Correct, the majority of grant revenue expected in 2023 is unconfirmed, and we won't be able to confirm it until after the budget cycle. In the past, the board has budgeted $0 for such projects and added dollars back into the budget with an amendment later, once the grant is confirmed. Staff recommends the opposite approach in 2023 – include placeholder dollar amounts for grants we think we'll get. If we end up not getting those grants, we can amend the budget accordingly. But having a non-zero amount in the budget will allow staff to begin work on those projects sooner once the grant is awarded.

2. **Q**: Mike, 3004C (Ag program) is flat or actually down from 2022. With a full-time effort in that area, I would expect our funding would increase as opportunities are created?

   A: With a focus on non-structural practices, this budget amount should be appropriate. Unlike structural projects that have a large dollar amount one year, then nothing the next year, non-structural practices necessitate a steady budget over multiple years to account for multi-year contract incentive payments. The District could possibly tap into the Lower St. Croix Watershed Based Implementation Funding grant for this work. Staff can revise the draft budget to indicate a placeholder grant award amount for this line item, if desired.

3. **Q**: Floodplain funding is down vs 2022. I have the impression that our greenway effort would be led, initially, by starting our floodplain analysis, to see what lands would be considered for acquisition. The city supports that direction, and then we could look at piecing in other greenspace opportunities? Do we need more $$ here and or Board clarification on direction /timing?

   A: Staff recommends that the dollar amounts indicated are sufficient to fund some assistance from EOR on both the volume control facility (5120A) and greenway corridor (5120B) efforts. We agree with the idea of leading the greenway effort with the floodplain vulnerability analysis. We are not expecting any capital expenses under floodplain in 2023, so this budget should be sufficient.

4. **Q**: In the past we have modified our budget format based on adaptive mgt...as a new issue came up such as managing grant $ and later tracking loan $$. Funding a new office building /property is a new big financial challenge. How will we handle tracking the finances in our budget sheets..what format changes? Perhaps Redpath or our auditor can provide advice?

   A: Line item 1-002-4210 is for the office space. It is currently just for rent, but in future years it will be for acquisition/construction. This line item may need to be revised for 2023 once we have a clearer office space vision as an outcome of our ongoing work with ISG. Perhaps additional detail, whether it is a new line item or new budget appendix, may be added as more information from ISG comes out and as directed by the Board.

5. **Q**: p15, Levy breakout by category reflects our plan to increase the levy 10%/yr. I am not sure the public will accept that. Perhaps we should consider adding another option right below the current one, where we allow the levy to increase based on estimated increases in property values (or lower) so the impact on homeowners is not as dramatic. If we can't find a property vale increase forecast, perhaps we use a lower # like 3%, to see what the financial impact is. This exercise can be done later in the budget cycle, when the new Mgrs are more up to speed on the 2023 #s.

   A: This was a carryover from last year's budget. Last year the Board had directed staff to prepare a levy outlook scenario assuming 10% increases each year. Staff agrees the Board should re-consider this outlook. Over the last 5 years, the District's total net tax capacity (NTC) has increased by an average of 6% per year. Staff will come to the 6/23/22 meeting prepared to revise or add additional scenarios to the levy breakout projection page as directed by the Board. As a side note, we have just received the 2022 net tax capacity from the State and can share that information and its historical context as well.

6. **Q**: Finally, looking to July/Aug, we want to update our long term financial outlook by updating P20 of the 8/19/2021 Budget version on Revenue -Expense Projection Scenarios 2022-2028. We currently have loan repayments that will spike in 2024 ($500k) and 2028 ($700k) along with the 10 yr plan funding of Greenway/Floodplain and now potentially having to fund our new office building. When all these new $$ hit, we may find our Project budget reduced drastically. In any event, we need to forecast the outlook to see the impact on our Reserve and potential need to raise income or cut back our spending appetite. Again, this will be important in end of July or Aug. Let's not encumber our new mgrs until then?

   A: I think the bottom line with any expense-revenue scenario is that it's going to come down to continuing to win grants. If we don't win a grant, we won't be able to do the big projects or big land acquisitions that the WMP calls for.

The WMP outlines several big-ticket items such as:

- 3-012-A Land Acquisition: recurring ~$300K/yr
- 5-120-A Volume Control Facility: recurring ~$80K/yr
- 5200 series lake-focused projects: almost $1M in 2024 as we wrap up the biggest lake improvement capital projects, then drops down to about $100K-$200K in the following years
- 5400 series wetland-focused projects: up to $800K in some years in anticipation of big wetland bank and wetland enhancement projects (beyond our currently slated water quality-focused wetland restoration projects)

It may be possible to do all of these things, but we just have to make sure we acquire the outside funding to make it happen, because the levy is likely going to be mostly spent up between Administration and Programs alone.