CITY OF
OWATONNA

CITY COUNCIL MEETING
Tuesday, April 14, 2026 at 10:00 AM

At 10:00 a.m. until 3 p.m. Council will meet in a Work Session in Chambers, Charles S. Crandall Center at City Hall, 540 West Hills Circle.

1. **ITEMS OF DISCUSSION:** Call to Order, Roll Call, and Pledge of Allegiance

    Introduction

    DISC Update

    Follow up on April 7th Study Session Questions

    Break

    Financial Management Plan (FMP)

    Lunch

    Special Assessment Alternative Funding Options

    Park Funding Options

    Vehicle Replacement Fund

    Break

    FMP Next Steps

    2027 Strategic Plan Next Steps

    Council Questions and Closing Comments

2. **ADJOURN**

Financial Process Evaluation and Modernization Update

Jenna Tuma, City Administrator

April 7, 2026

Why We're Here Today

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

1. To support our City's long-term modernization and reliability, we initiated an independent evaluation of our financial systems.

2. The independent evaluation established a clear baseline, identifying what's working and what needs improvement.

3. By modernizing these systems, we are improving how the City manages public dollars and ensuring operations meet current and future expectations.

The City's Financial System

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

The City of Owatonna's financial operations are complex, including:

- City departments: **10**
- City 2025 General Fund Budget: **~$29M**
- Distinct sources of revenue: **11**, primary sources are property taxes and Local Government Aid (LGA)
- Financial transactions processed annually: **~31,000 per year**

Why This Was the Right Time for an Evaluation

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

- A leadership transition and financial system upgrade created an opportunity to assess current practices
- Day-to-day financial work identified areas for modernization
- Staff raised concerns about lack of training, documentation and outdated or redundant processes
- Reliance on manual processes and institutional knowledge, not systems
- Leadership determined an independent review was needed to fully understand the gaps and solutions

The Team Working On This

✓ **Jenna Tuma, City Administrator, and Emily Thamert, Assistant City Administrator**

- Provided executive leadership for the independent review and implementation of recommended improvements, including day-to-day coordination with departments and external partners.

✓ **Finance Staff and Department Leads**

- Supported the evaluation by providing information, participating in interviews, and assisting with process improvements and training.

✓ **Mark Walbran – City Attorney**

- Provided legal guidance and review to ensure appropriate governance, compliance, and procedural integrity.

✓ **Abdo – Independent Third-Party Evaluator**

- Abdo is a full-service accounting, audit and advisory firm that works with local governments, nonprofits and businesses to strengthen financial systems, governance and accountability.
- Conducted an objective financial process evaluation and provided best-practice recommendations for strengthening systems and controls.

Building Strong, Modern Financial Practices

- Protects taxpayer dollars through **stronger controls** and **oversight**
- Supports **reliable City services** by ensuring bills, payroll, and operations are consistently funded
- Improves **transparency** and **accountability** for the Council and the public
- Enables better planning and decision-making with **clear, timely financial information**
- Positions the City to make **strategic, sustainable investments** over time
- **Reduces risk** and **strengthens resilience** as the City grows and takes on new initiatives

How We Assessed

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

Phase	Who Was Involved	What They Did	Timing
Initiation	City Administrator	Identified need for review; engaged independent third party	July 2025
Information Gathering	Abdo + City Departments	Conducted cross-department interviews and discussions	August 2025
Process Evaluation	Abdo	Reviewed financial functions, processes, and responsibilities	August 2025
Controls Review	Abdo	Evaluated internal controls and oversight practices	2025
Analysis	Abdo	Mapped workflows; identified risks, gaps, and improvement areas	Late 2025
Recommendations	Abdo	Developed best-practice recommendations	Ongoing through Spring 2026
Implementation	City Staff	Began implementing controls, training, and system improvements	2025–2026

What the Review Confirmed

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

City has met obligations (utilities, maintenance, operations)

- City services and vendor payments continued without disruption throughout the review period.

Cash and accounts are intact

- Cash receipting, reconciliations, and financial reporting showed funds were present and functioning.

Evaluation focused on processes

- Independent review identified process gaps through assessing internal controls and procedures.

Where the Review Identified Gaps

Inconsistent Processes: Similar tasks (such as receipting, reconciliations, or approvals) were handled differently across departments, making it harder to manage resources consistently and efficiently across City services.

Incomplete Documentation: Some financial processes relied on informal or incomplete documentation, which required extra follow-up and made it more difficult to efficiently confirm how funds were managed.

Outdated Systems: Routine financial work relied heavily on manual processes and spreadsheets instead of modern, integrated systems making timely information harder to provide.

Reporting Gaps: Reporting processes varied in format and consistency, reducing clarity and comparability over time, even when underlying information was accurate.

Inconsistent Processes & Incomplete Documentation

- Documentation practices **varied across departments**
- Financial records were maintained in **multiple locations** rather than a single standardized system
- Reliance on **institutional knowledge** instead of consistently documented procedures
- Some processes lacked **formal or complete documentation**
- **Standardized workflows** were not consistently applied across financial activities

WHY THIS MATTERS:

When documentation isn’t consistent, it becomes harder to verify information quickly and confidently—even when funds are intact

Outdated Systems & Reporting Gaps

- Reliance on **manual processes** rather than modern, integrated financial systems
- **Limited automation** for routine financial tasks
- Project and financial reporting **varied in format and structure**
- **Inconsistent reporting** made information less comparable across time and departments
- Systems that required time-consuming **workarounds** to complete everyday financial work

WHY THIS MATTERS:

Outdated bookkeeping and inconsistent reporting increase the risk of error and inefficiency, even when staff are acting appropriately

Key Takeaways

Purpose	Context	Assessment Process	**Findings**	Actions Underway	Accountability	Path Forward

1. The independent evaluation identified system and process gaps
2. Outdated bookkeeping and inconsistent record-keeping created avoidable risk
3. We took clear, decisive steps and are implementing a detailed plan of action to strengthen systems, controls and oversight

Creating a Modern Financial System

Purpose	Context	Assessment Process	Findings	**Actions Underway**	Accountability	Path Forward

Inconsistent Processes	- Implement standardized workflows for key financial functions - Clarify roles and responsibilities across departments - Reduce reliance on informal, department-specific practices
Incomplete Documentation	- Update written procedures for core financial processes - Centralize documentation to improve accessibility and consistency - Standardize records and supporting materials citywide
Outdated Systems	- Add immediate internal controls to reduce reliance on manual oversight - Strengthen review and approval steps for key transactions - Reinforce segregation of duties where appropriate
Reporting Gaps	- Conduct staff training on updated procedures and controls - Provide guidance to support consistent application of new processes - Continue support during implementation

Phased Approach

Finance Department Structure Evaluation

(Completed)

Process Evaluation

Eval Report:
(End of Nov)
Implementation:
(6 months)

Assistance in Functional Areas

Through fall 2026

Training, Documentation, & Support

(Varies – 6 months)
Through Dec 2026

An Investment in Getting it Right

- **Total cost:** $71,000 for a comprehensive third-party financial systems analysis
  - Structure Evaluation: $5,000
  - Process Evaluation: $35,000
  - Training & Documentation: $31,000
- Provided an **independent, citywide evaluation** of financial practices
- Delivered **specific recommendations** now being implemented
- Represents a proactive step to **strengthen financial oversight and governance**

What This Process Means for Residents

Purpose	Context	Assessment Process	Findings	Actions Underway	**Accountability**	Path Forward

- ✓ Consistent, reliable documentation that's easier for taxpayers to access
- ✓ Faster, clearer financial reporting
- ✓ Strong internal controls to protect public dollars
- ✓ Stable, dependable city financial services
- ✓ More informed budgeting and long-term planning
- ✓ Staff cross-training to reduce operational risk
- ✓ Smoother and more effective staff transitions
- ✓ Long-term increased confidence for residents and council

Progress & Next Steps

Purpose	Context	Assessment Process	Findings	Actions Underway	Accountability	Path Forward

What's been done

- Completed key compliance and process updates
- Began strengthening documentation and internal controls

Next steps

- Implementation of the Financial Management Plan April 14, 2026
- Complete annual audit by July 2026
- Implementation update at Council Study Session fall 2026
- Finalize documentation, training and system refinements by December 31, 2026
- Maintain ongoing monitoring and internal review

WHY THIS MATTERS:

- Improving efficiency and reducing staff time spent on workarounds
- Strengthening transparency and accountability
- Ensuring reliable, consistent financial practices residents can trust

What We Need From Council

Affirm Direction

- Confirm support for the financial management improvements already underway
- Reinforce the City's commitment to strong, transparent practices

Support Continued Implementation

- Ensure staff have the tools, systems, and resources needed to sustain improvements
- Allow ongoing work to move forward without disruption

Maintain Oversight

- Receive regular updates on progress and performance
- Continue providing governance and accountability

Summary

1. Identified system weaknesses and addressed them directly
2. Engaged an independent, third-party expert for objective review
3. Implemented new controls, processes and staff training
4. Modernized financial systems to strengthen transparency and accountability
5. Moving forward with a stronger, more resilient financial foundation

Protecting taxpayer dollars is the priority — and the systems we're implementing strengthen accountability now and reduce risk going forward

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City of Owatonna, Minnesota

Financial Management Plan

April 14, 2026

What is a Financial Management Plan?

- A multi-year, fiscal plan for all property tax supported funds by activity or fund
- Integrates & analyzes:
  - ✓ Previous actions of the governing body
  - ✓ Existing & future operating costs
  - ✓ Capital improvement & equipment plans
  - ✓ Existing & future debt
  - ✓ Tax base changes
- Determines if capital & operating costs are sustainable over time under certain assumptions

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What Are The Benefits?

- Translates Vision into Action
- Identifies Funding Sources for Priorities
- Manages Community Expectations
- Identifies Assets & Appropriate Fund Balances
- Reduces Stress in the Budgeting Process
- Communicates Long-Term Plans to External Parties
- Reduces Reactivity in Unpredictable Situations

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Financial Management Plan Funds

General	EDA Funds	Capital Projects Funds	Building Fund
Sales Tax Fund	Storm Water Fund	Vehicle Replacement Fund	Debt Service Funds

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Fund Accounting: What is it?

Method of segregating financial resources into categories

- Identifies both the source & use of funds
- Emphasizes accountability versus profitability

Revenues & expenditures tracked in separate funds

- Governmental funds
- Proprietary funds
- Fiduciary funds

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Fund Accounting: Fund Types

Governmental Funds	Proprietary Funds	Fiduciary Funds
• General • Special revenue ✓EDA • Debt service • Capital project • Permanent	• Enterprise ✓Wastewater • Internal Services ✓Vehicle Replacement	• Trust Funds ✓OPEB • Custodial Funds

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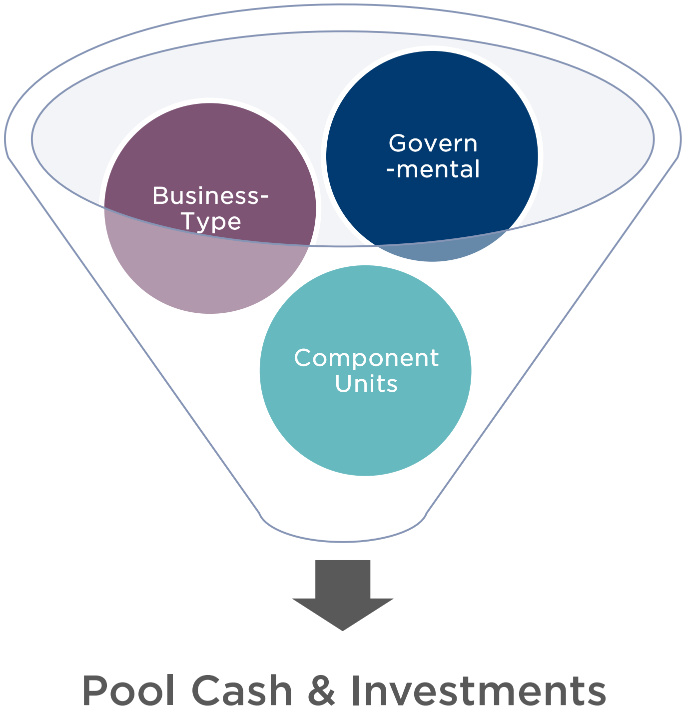
Where Do We Get Fund Balances?

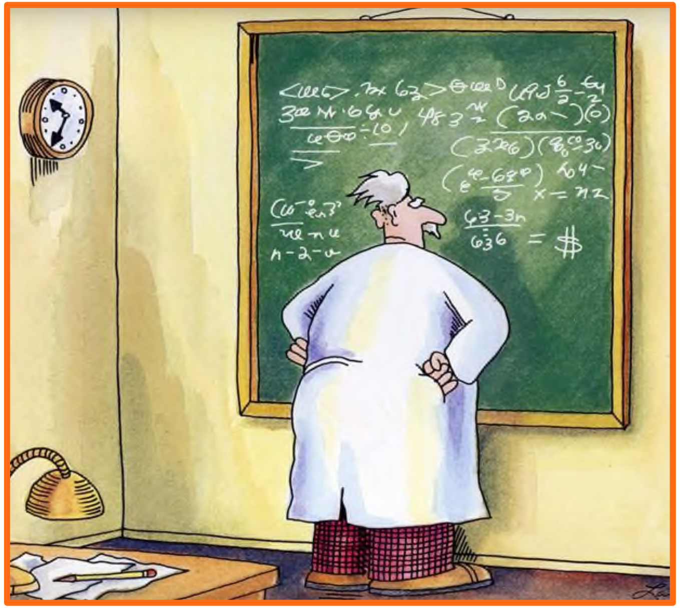
The total savings of the City since the beginning of time!

- For accounting purposes, the City divides its activities into different funds
- The City then pools the cash & investments into common accounts to…
  - ✓ Maximize investment income
  - ✓ Reduce administrative burden
  - ✓ Manage liquidity & safety



Why Do We Need Fund Balances?

- Sustain operations between property tax settlements
  - ✓ Operating costs
  - ✓ GFOA recommends 35% to 50% of next year's General Fund expenditures
- Cover unanticipated costs
  - ✓ Unforeseen circumstances
  - ✓ Emergencies
- Support long-term financial planning & expenditures



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Assumptions & Other Factors

1. Inflationary & Other Adjustments
   - ✓ 3% non-property tax revenue
   - ✓ 4% expenditures
   - ✓ 5%-7% for capital projects
   - ✓ 3% interest earnings
2. Growth: 255 single-family homes, 18 multi-family homes, 9 apartment, 9 commercial & 9 industrial buildings
   - ✓ 50% of commercial & industrial incentivized by tax increment financing (TIF)
   - ✓ $685M in new market value (non-TIF)
   - ✓ $11.6M in additional tax capacity
3. Existing tax base increases 2% annually

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Assumptions & Other Factors, continued…

4. Maintain an unrestricted General Fund balance at or above 45% of expenditures
5. Includes an updated Capital Improvement Plan (CIP)
   - ✓ City costs only, excluded external funding & associated expenses
   - ✓ $244M in projects over next 10 years
   - ✓ Street projects assessed according to existing City policy
   - ✓ $181M in bonding needed to fund the projects
   - ✓ Future bonds issued at 10- and 20-year terms & 4.0% to 4.5% rate
6. Uses 2025 budget until audited actuals become available

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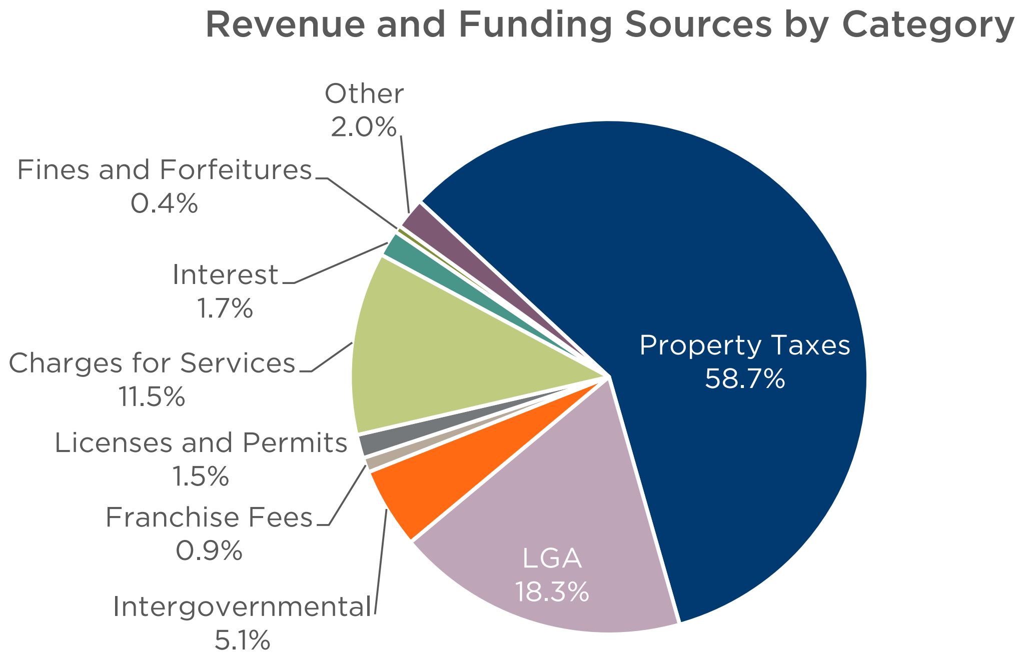
General Fund – 2026 Budget



Total
$31,433,248

Property Taxes
$18,427,728

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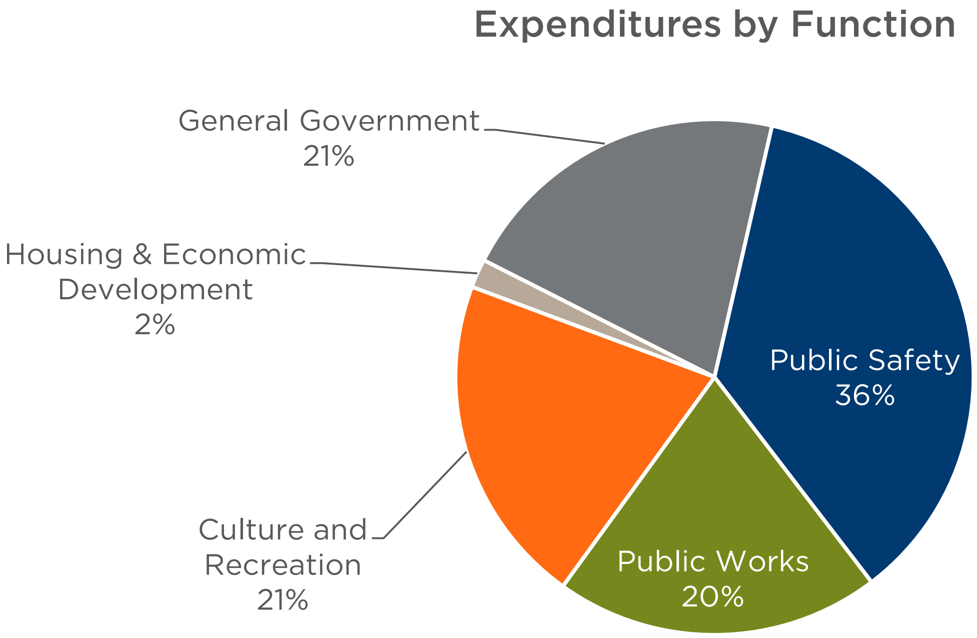
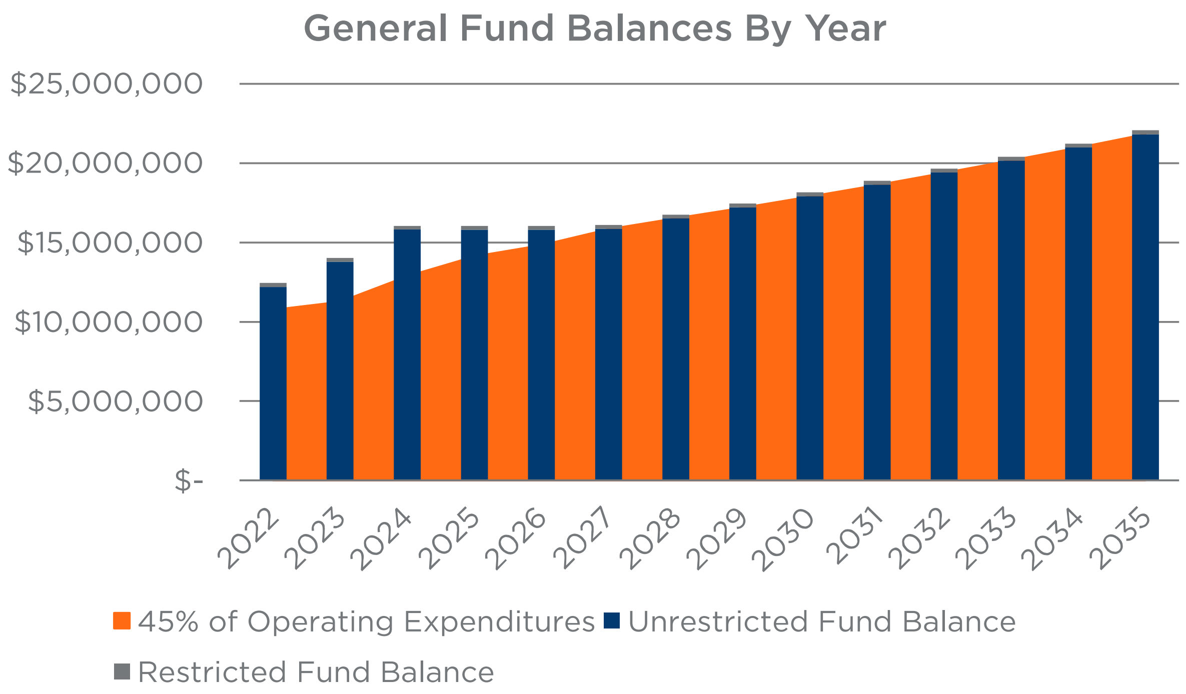
General Fund – 2026 Budget



Total
$31,383,248

General Fund Balances



- Excess fund balance used to offset increasing expenses
- Contingency
  - ✓ 2027 - $50k
  - ✓ 2028 - $675k
  - ✓ 2029-2030 $700k annually
  - ✓ 2031 - $725k
  - ✓ 2032 - $750k
  - ✓ 2033 - $775k
  - ✓ 2034-2035 $825k annually

Other Special Tax and Debt Levies

- Capital Projects, EDA & HRA Special Levies
  - ✓ Totaled $719k in 2026
  - ✓ Planning to increase the capital projects & building maintenance levy in 2027 to respond to cost & debt pressures
- Debt Service Levies
  - ✓ Currently 12 outstanding debt service levies, totaling about $2.4M in 2026
  - ✓ Projecting levies based on cash flows
  - ✓ $3M in uncommitted reserves
    - ➢ $2.1M closed debt fund + $1.3M inactive debt funds - $400k debt fund deficit

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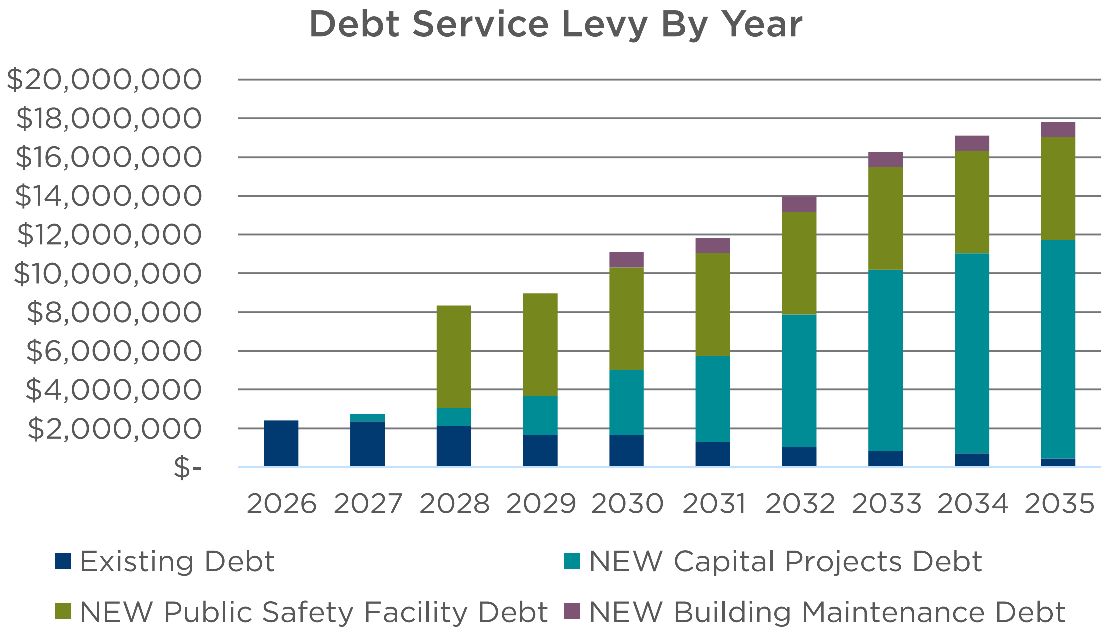
Debt Service Funds

- Anticipated Bonding
  - ✓ 2027: $65 million, Public Safety Facilities
  - ✓ 2030: $6 million, City Hall Improvements
  - ✓ 2031: $12.5 million, Maintenance Facility
- New debt levy of $375k in 2027, increasing to $17.4M by 2035
  - ✓ $181.5M in debt issued from 2026-2035



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Upcoming Major Capital Costs (City Cost)

Fund	Description	Cost	Year
Capital Projects	River Springs Interior Pool Surface	$1,425,000	2026
Capital Projects	Includes Main, Broadway, & 18th Streets	$3,356,000	2026
Storm Water	Includes Main, Broadway & 18th Streets	$3,061,000	2026
Capital Projects	Public Safety Facility	$68,250,000*	2027
Capital Projects	Streets	$3,788,000	2027
Vehicle Replacement	Fire Engine 9702 Replacement	$1,498,000	2027
Vehicle Replacement	Various	$2,631,000	2027
Storm Water	For Street Projects	$1,683,000	2027

* Adjusted for estimated annual inflation; pending a reverse referendum

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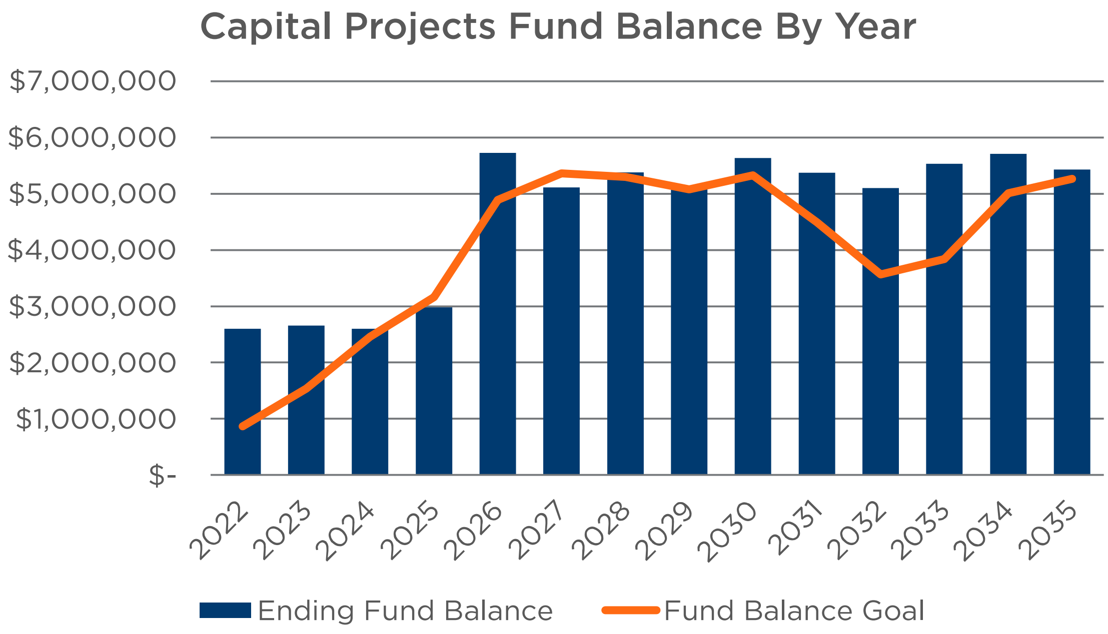
Capital Projects Fund

- $186M in capital projects
  - ✓ $18.6M average annual cost
  - ✓ $176M in bond issuances
- Property Tax Levy
  - ✓ $600k in 2027 increasing annually to $1M in 2035
- Fund Balance
  - ✓ Goal = 35% of five-year average
  - ✓ Excludes large projects (e.g., public safety facility)



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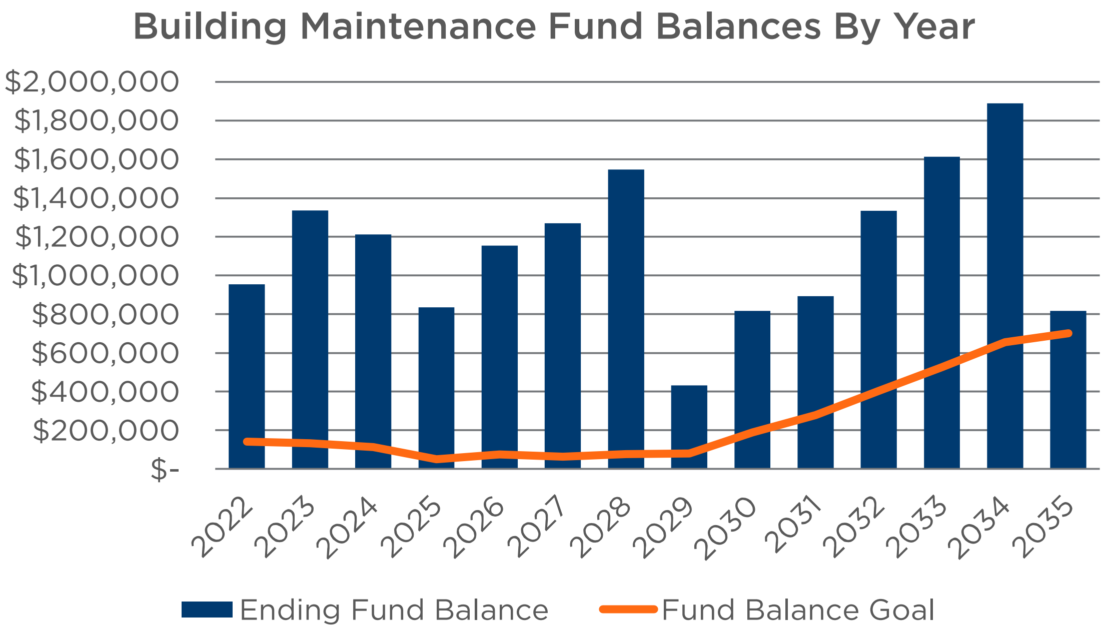
Building Maintenance Fund

- $10.3M in capital projects
  - ✓ $1M avg. annual cost
  - ✓ $5.5M in bond issuances
- Fund Balance
  - ✓ Goal = 35% of five-year rolling average excluding outliers
- Operating Levy
  - ✓ $300k in 2027 increasing $50k annually through 2031
  - ✓ $500k levy in 2031 going forward



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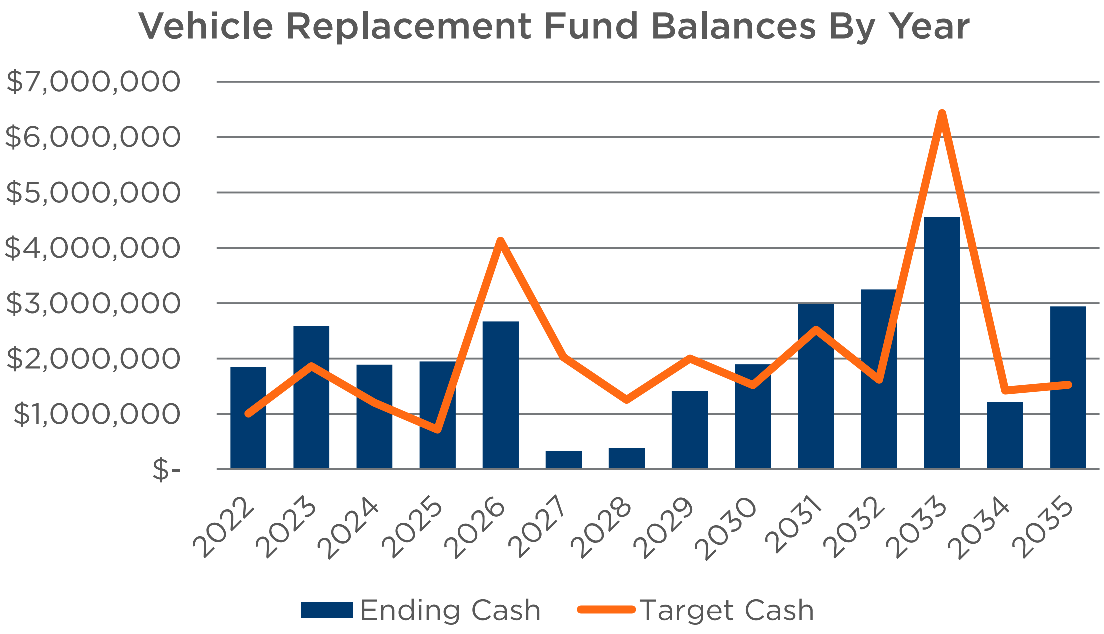
Vehicle Replacement Fund

- $23.6M in capital costs
  - ✓ $2.4M avg. annual cost
  - ✓ No debt planned at this time
- Internally Funded
  - ✓ 25%, 20%, 10% & 7.5% increases in services fees over the next four years
  - ✓ 5% annually thereafter
- Maintain Cash
  - ✓ Goal = 50% of operating expenses excluding depreciation + next years capital



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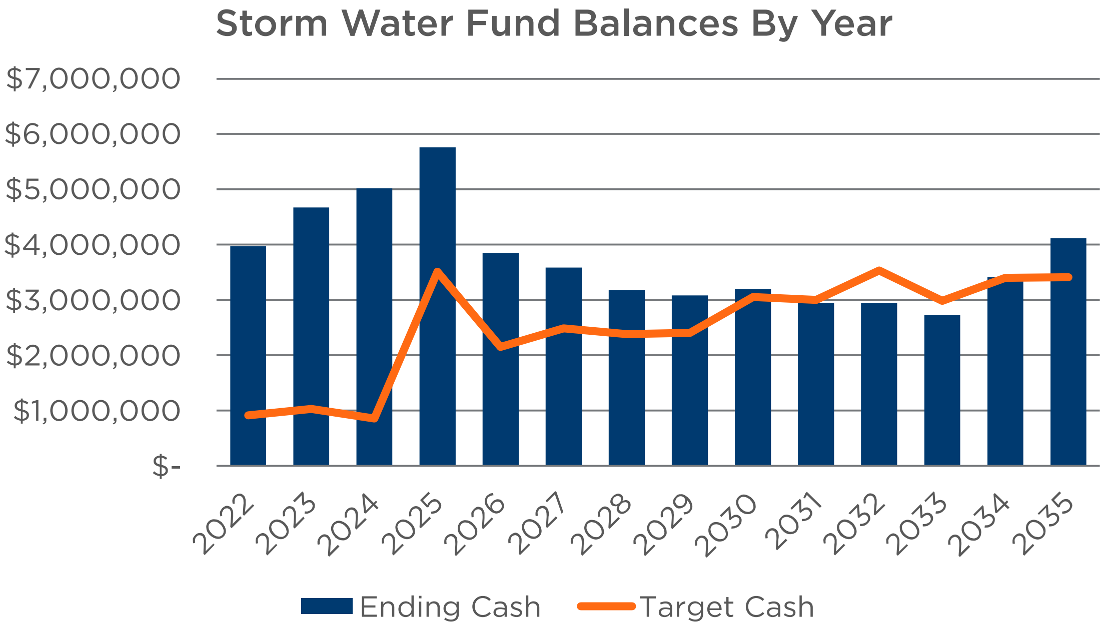
Storm Water Fund

- $24.3M in capital costs
  - ✓ Supports operating & capital needs
  - ✓ $2.4M average annual cost
- User Fee Funded
  - ✓ 10.5% annual increases thru 2035
  - ✓ $1.8M budgeted in 2026, $4.4M in 2035
- Maintain Cash
  - ✓ Goal = 50% operating expenses excluding depreciation + next years capital



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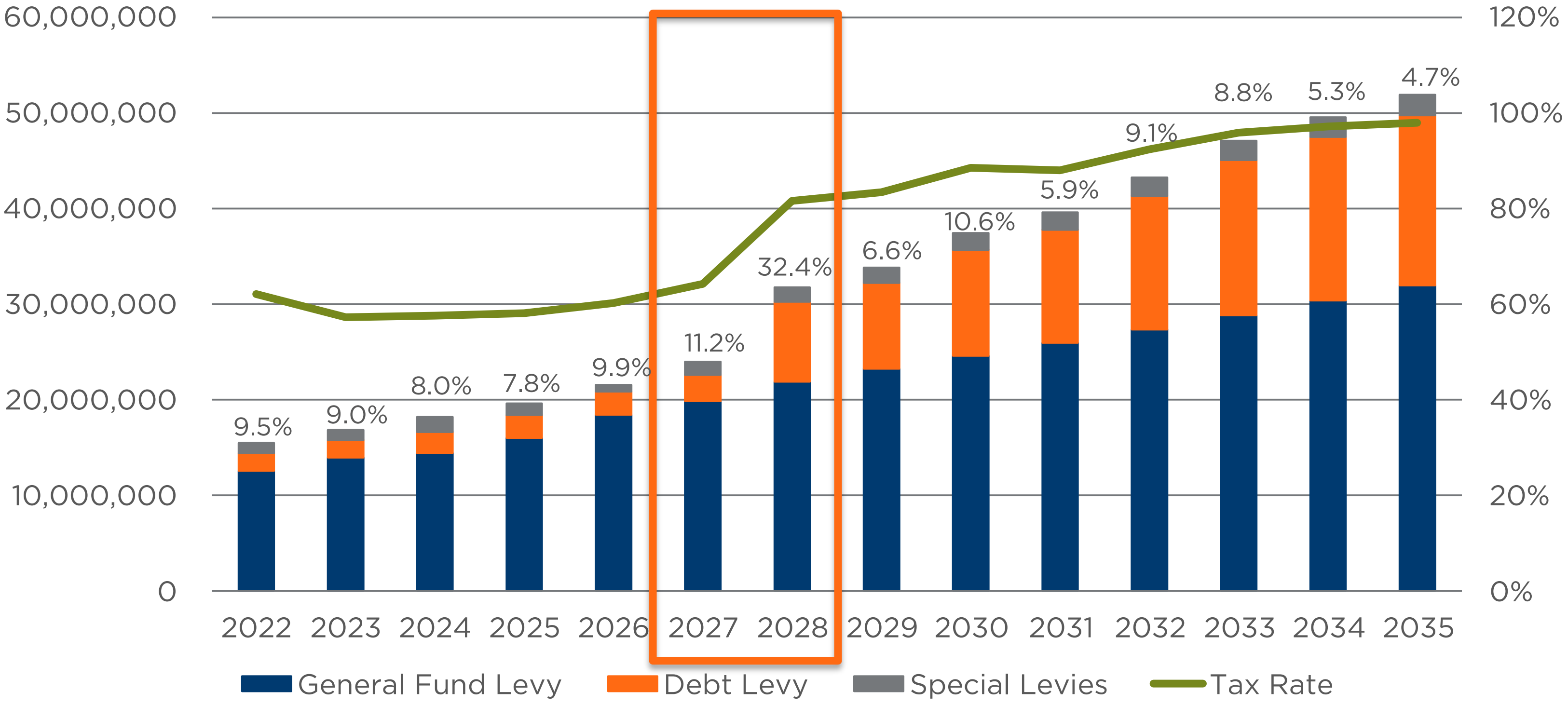
Property Tax Levy and Rate Projections



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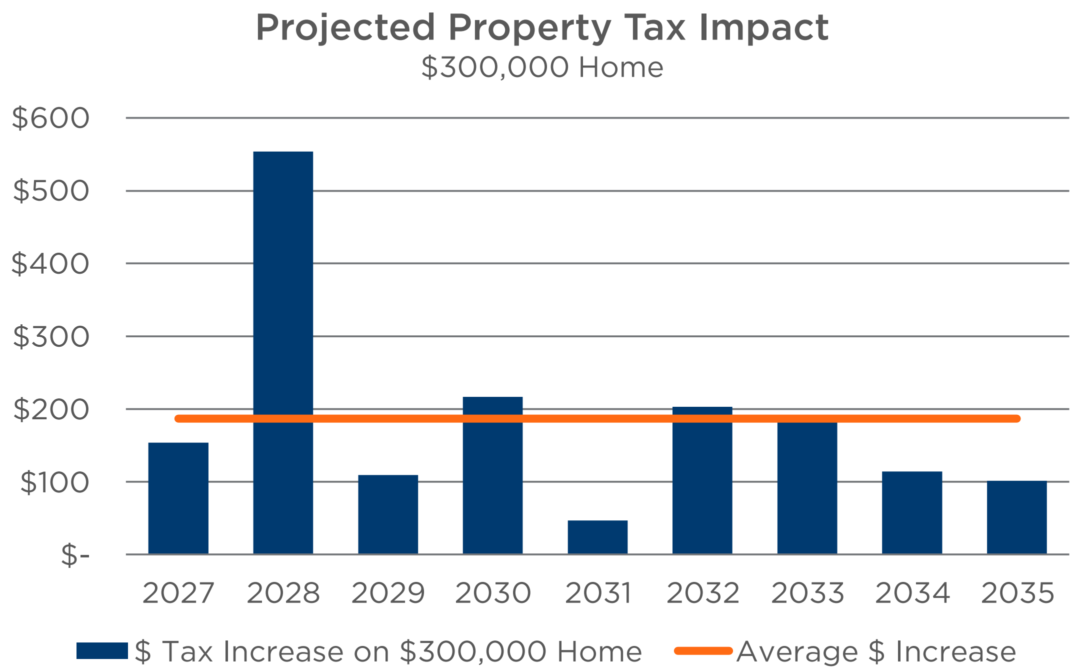
Property Tax Levy Impact



2027–2029

3-Year Average: $272 per year

Next 10 Years

- 2027: $154 per year
- 2028: $554 per year
- 2029: $109 per year
- 2030-2035: $144 average per year

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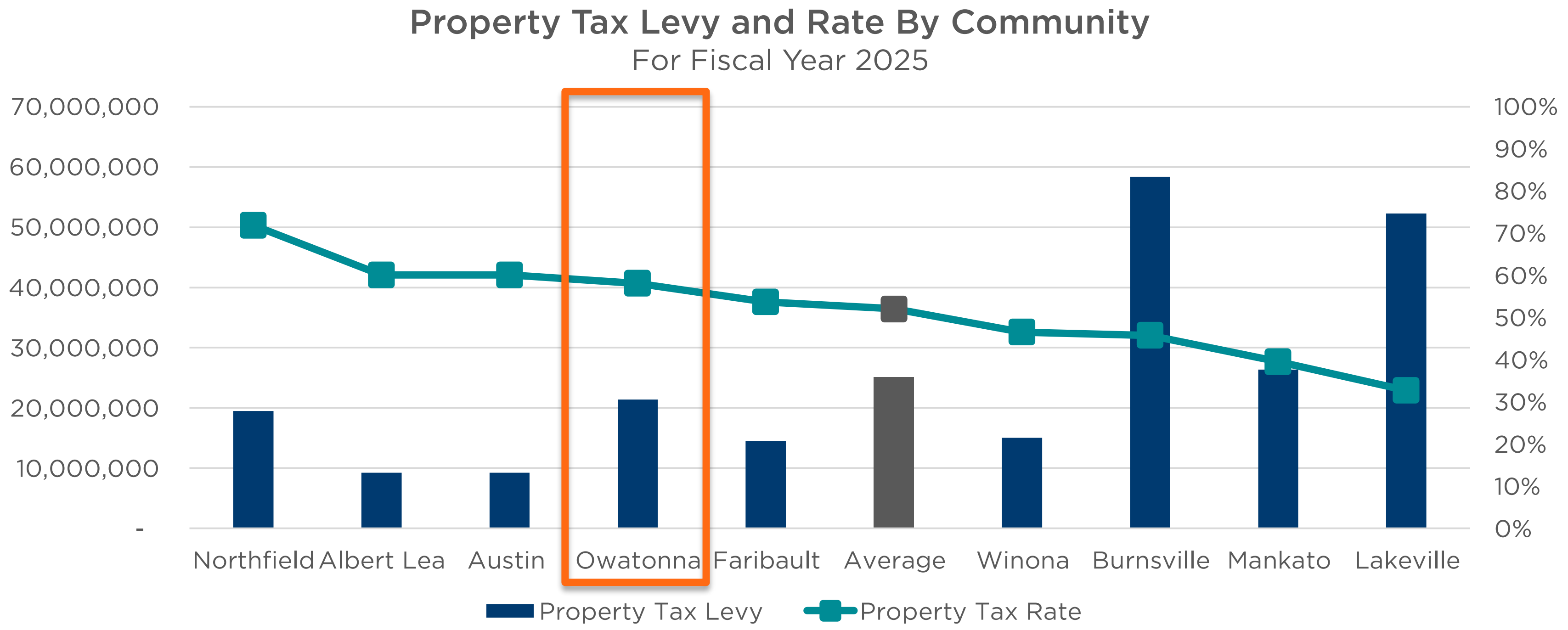
Property Tax Levy Comparison



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Staffing Analysis

City Staff Meetings	Compiled Staffing Analysis	Comparative Analysis	Discussion & Review
• Held eight interview with various department staff • Discussed service level expectations, available staff & current versus future needs	• Included 24.8 FTEs, with requests from each department • Reflected several current or upgraded positions	• Collected data on eight comparative communities • Included population, tax levy, tax rate, staffing complement by department	• Reviewed the information with administrative staff • Adjusted the staffing analysis to reflect City feedback, for total of 19.2 FTEs

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Staffing Plan Summary

Year	FTEs	Total
2027	6.70	$838,300
2028	2.00	269,600
2029	3.50	663,200
2030	4.50	951,900
2031	1.50	193,800
2032	1.00	169,900
2033	-	-
2034	-	-
2035	-	-
Total	19.20	$3,086,700

- All General Fund Supported
  - ✓ 9 Departments
  - ✓ Personnel costs inflated 4% annually
  - ✓ One-time cost of additional vehicle included if applicable
  - ✓ $1.7M more in contingency required to maintain fund balance requirement across the model
- Partial FTEs
  - Addition of part-time position or conversion of part-time to full-time position

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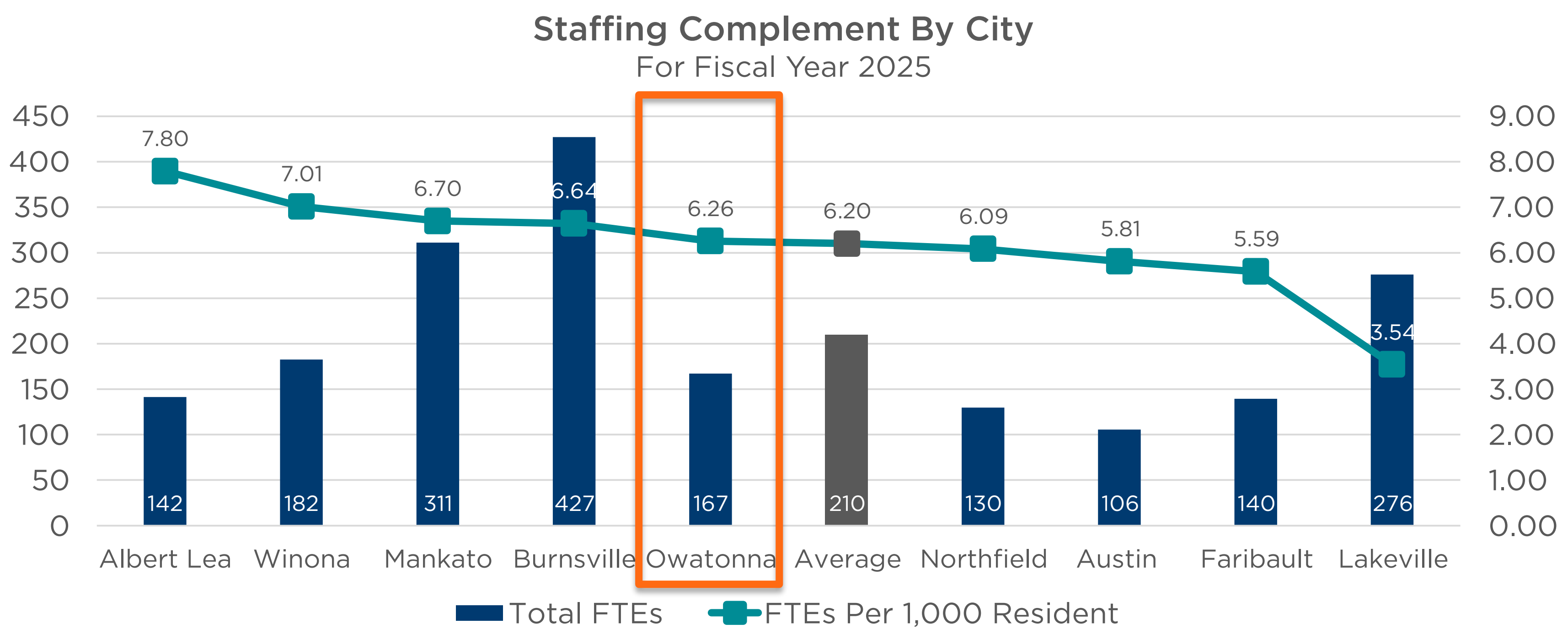
Staffing Analysis, Comparative & Area Peers



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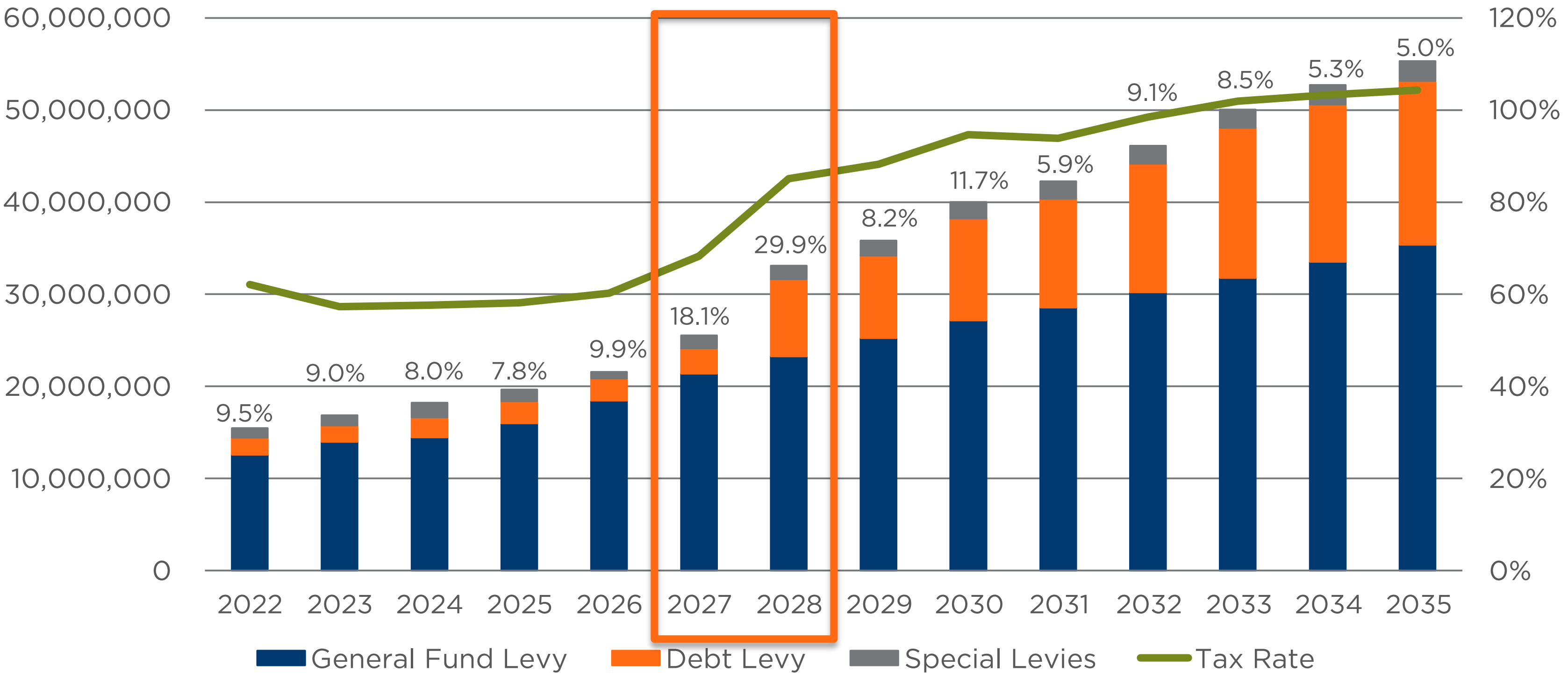
Property Tax Levy & Rate Projections, Staffing Included



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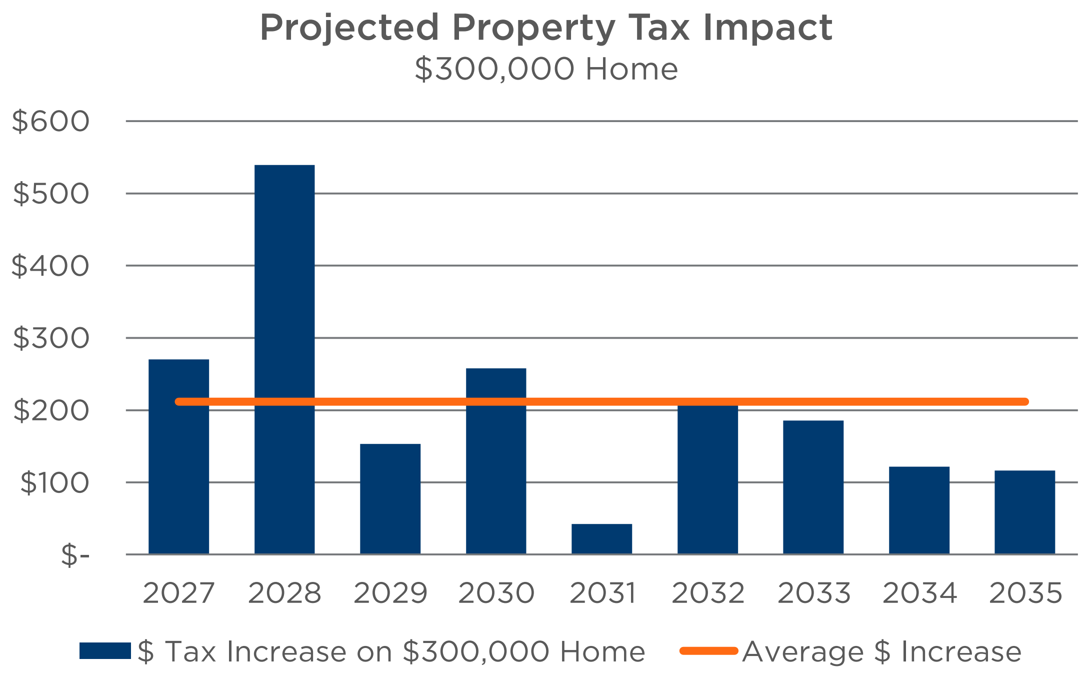
Property Tax Levy Impact, Staffing Included



2027–2029

3-Year Average: $320 per year

Next 10 Years

- 2027: $268 per year
- 2028: $539 per year
- 2029: $153 per year
- 2030-2035: $158 average per year

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FMP Next Steps

Refine Financial Management Plan

- Include City Council feedback
- Staffing plan decisions
- Review changes at a future work session

Finalize Financial Management Plan

Review & Update Annually

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Let's Talk!

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