

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: June 20, 2023
Item No.: 7.e

Department Approval



City Manager Approval



Item Description: Review 2024 Changes in Property Tax Base, Legislative Changes and discussion on City Council 2024 Budget Goals

BACKGROUND

At the May 8, 2023 City Council meeting, the Council established a general timeline for the 2024 budget process including the following key dates:

2024 Budget Process Timeline	Date
Discussion on <i>Preliminary</i> Cash Reserve Levels	3/13/2023
Establish 2024 Budget Process Calendar	5/8/2023
Discussion on 2024 Legislative Impacts & City Council Priorities	6/20/2023
Presentation of the 2024-2043 Capital Improvement Plan	7/17/2023
EDA Budget & Tax Levy Discussion	7/17/2023
Receive the 2024 City Manager Recommended Budget to include- Tax Base Changes	8/21/2023
Receive Budget Recommendations from the Finance Commission	9/18/2023
Adopt Preliminary 2024 Budget, Tax Levy, & EDA Levy	9/25/2023
Review 2024 Proposed Utility Rates	11/6/2023
Review 2024 Fee Schedule	11/6/2023
Final Budget Hearing (Truth-in-Taxation Hearing)	11/27/2023
Adopt Final 2024 EDA Tax Levy	12/4/2023
Adopt Final 2024 Budget, Tax Levy, Utility Rates, & Fee Schedule	12/4/2023

The next step in the 2024 Budget Process is to review the general budgetary impacts resulting from changes in the City's property values, the 2023 Legislative Session, and other contributing factors. They are discussed in separate sections below.

Impacts Due to Changes in Property Values & Tax Base

The Ramsey County Assessor's Office posted its annual Report on Assessed Market Valuations to their website in April 2023. It is an interactive website and they are no longer issuing a printable report. Highlights of the Report are shown in the following chart:

City of Roseville - Extracts from County Assessor Reports				
Overall Market Value increase in 2023 is 6.65% versus 12.99% in 2022				
	%Increase		2023 EMV	2022 EMV
Single Family	4.35%		\$349,900	\$335,400
Townhomes	1.03%		\$293,100	\$290,100
Res 2-3 units	1.50%		\$398,000	\$392,300
Condo/Coop	6.18%		\$144,300	\$135,900
Apartments	2.07%		\$2,780,400	\$2,723,900
Commerical -				
Office	42.49%		\$1,085,900	\$762,100
Retail	4.51%		\$2,171,900	\$2,078,200
Industrial	12.82%		\$4,722,850	\$4,186,100

In the aggregate, the market value for the median single-family home rose less (4.35%) than all other property types combined (6.65%). The Commercial and Industrial market values increased by more than the combined increase so there will likely be a shift in the overall tax burden to this sector, depending on the proration of property value to the overall property valuations.

More data is provided by Ramsey County in late August so we will have a better estimate of impact from the market value and from increases in the preliminary budget which will be presented in August.

Budgetary Impacts from the 2023 Legislative Session

The 2023 Legislative Session ended after the conclusion of the Regular Session on May 22, 2023 and there were several bills passed that will impact the City. The League of MN Cities will post the 2022 Law Summaries which provides a re-cap of laws impacting cities by the end of June due to the number of bills passed. Below is a brief recap of some of the bills that may impact Roseville.

Public Safety Duty Disability – full state funding for continued health insurance benefits, mental injury prevention training required (pre-service and in-service), 24 weeks of treatment required, State pays for time off and some expenses for mental injury treatment. This change in law is expected to reduce city costs.

Paid Family and Medical Leave – creates a state-administered paid family and medical leave insurance program, effective January 1, 2026. There will be a .7% payroll tax for all employees, half can be charged back to employees. Wage reporting requirement begin July 1, 2024. This change in law may increase city costs.

Earned Sick and Safe Time – requires employers to provide employees with one hour of paid sick and safe time for every 30 hours worked, up to 48 hours a year and 80 ongoing. This applies to seasonal and part time employees. This change in law will increase city costs.

Adult-Use Cannabis – creates a statewide regulatory framework where state will license and the city issues registrations for the sale of adult-use cannabis. The city may collect registration fees and will be provided a portion of the tax revenue from the sale of cannabis. The State of Minnesota has indicated that they don't expect to allow the sale of adult-use cannabis until January 1, 2025. It is expected the city will receive tax revenue from the sale of adult-use cannabis (no estimates have been given yet) but at this

time, it is unknown what the costs will be to enforce the law

Aid to Cities – one-time public safety aid, based on population (Roseville share is \$1.594 million), ongoing increase in the homestead credit refund for those currently eligible; one time increase in renters credit, homestead credit refund and targeted property tax refund. Homestead market value exclusion increased from \$417,000 value homes to \$517,000 value homes. Reduction in 4d low income rental housing property tax classification rate and 2-year aid to help transition for cities impacted by the shift. The public safety aid will help reduce the city’s capital and operational costs for a short period. The other tax changes will most likely shift the tax burden to different tax classifications.

Local Sales Tax – 31 cities had local sales taxes approved, including Roseville 0.5% local sales tax. Next step is for the city to have the city’s voters decide whether to implement the local sales tax through a referendum in 2024. If the local sales tax is passed, it will reduce the cost to Roseville property tax payers.

Housing – significant increases in one-time funding for existing and new programs. A .25% Metro Sales Tax was approved to provide funding and will be distributed to metro cities with populations greater than 10,000. This change in law will result in the city receiving additional dollars to spend on housing projects.

Transportation – increased funding for various state programs including MSA, increased license tab fees, the motor vehicle sales tax and the gas tax. Increased metro area sales tax by $\frac{3}{4}$ percent for transit and county roads. This change in law will provide the city more funding opportunities for transportation projects. This change in law will also provide an increase in revenues at the License Center.

Environment – increased funding for Releaf urban forestry program (EAB), all cities required to allow “managed natural landscape” on all parcels, Recycling SCORE grants increased. This change in law will provide the city more grant funding opportunities.

Energy – city climate resiliency funding available. This change in law will provide the city more grant funding opportunities.

State Bonding - The city did not receive funding to complete the OVAL improvements. Staff will be submitting a request for funding as part of the 2024 Bonding Bill.

Budgetary Impacts from Other Considerations

In prior years, we have used this opportunity to provide a summary of the *potential* financial impacts of maintaining programs and services. This includes impacts associated with employee COLA’s and wage steps, healthcare increases, contractual obligations & professional services, and general inflationary costs. Additional tax levy support for capital improvement funds will also be included in the 2024 budget. It is also expected that implementation of the current compensation and classification study will be included in the 2024 budget.

The City Manager is meeting with each department to review their specific budget needs and will be focusing on refining those requests into his proposed budget which will be presented to the City Council on August 21, 2023.

In addition to tax levy impacts noted above, continued emphasis on our water, sanitary sewer, and storm sewer infrastructure replacement programs is expected to drive utility rate increases for 2024 as well. We will be using the rate increases as noted in the utility rate prepared by Ehlers in 2022. More specific information regarding budgetary impacts will be addressed with the release of the 2024 City Manager Recommended Budget in August and the utility rates later this fall.

The City Council is asked to provide its goals & objectives for the 2024 Budget and Tax Levy. This is a critical step in the budget process as it will be used to guide the City Manager Recommended Budget, and will ensure more clear and timely communications with citizens and other property taxpayers.

While these goals and objectives can be fairly broad in scope and still remain purposeful, the following factors may help the City Council establish more defined direction:

- 1) **The desire for changes in programs or service levels** (e.g.. are the condition of city streets or public safety-related services acceptable?)
- 2) **The need to establish new programs or initiatives** (e.g. are there any unmet needs that should be addressed?)
- 3) **The acceptable level of property tax and fee impacts on homeowners** (e.g. given the programs and services we aspire to, is the associated burden on homeowners acceptable?)

Finally, Staff will remind the Council of the status of the *unrestricted* cash reserve levels in the City's discretionary operating funds as of 12/31/22 *including* the transfers of 'excess cash' into the established Cash Reserve Fund.

	Audited		12/31/2022					
	12/31/2022	Less	Available	12/31/2022	Dedicated			
	Cash	From	Cash	Reserve	Use from	Target	Target	
<u>Operating Fund</u>	<u>Reserves</u>	<u>Donations</u>	<u>Reserves</u>	<u>Level</u>	<u>2023 Budget</u>	<u>Low</u>	<u>High</u>	
General: Primary	\$ 7,579,560	\$ (80,708)	\$ 7,498,852	36%		35%	50%	
General: Cash Reserve Fund	647,312	-	647,312		(306,000)			
Parks & Recreation	2,042,694	(328,085)	1,714,609	30%		20%	30%	
Communications	26,103	-	26,103	5%		10%	30%	
(1) Information Technology	3,375	-	3,375	0.39%		10%	15%	
License Center	248,211	-	248,211	11%		10%	15%	
(1) This fund will be folded into the Administration department within the General Fund								
so no transfer from the cash reserve fund is recommended at this time.								

The Council is reminded that the cash reserve levels depicted above represent a snapshot in time and are fluctuating on a daily basis. They are not an indication of what our reserve levels will be at year-end. With regard to the monies held in Cash Reserve Fund, the City Council can determine whether they want to redeploy the funds for budgetary purposes or retain for other priorities and service delivery.

POLICY OBJECTIVE

Establishing City Council budgetary goals fosters greater community awareness and understanding of the financial commitments necessary to provide programs and services. It also lays the foundation for the creation of a City Manager Recommended Budget.

FINANCIAL IMPACTS

Not applicable.

RACIAL EQUITY IMPACT SUMMARY

Generally speaking, the city's budget will have a large racial equity impact in the community and these impacts will be discussed in the future as the 2024 budget is presented. For the information contained in this case, numerous law changes mentioned were adopted partially to address racial equity inequities. These include, paid family and medical leave, earned sick and safe time, legalizing adult-use cannabis, and additional funding for housing, transportation, and climate resiliency projects

131 **STAFF RECOMMENDATION**

132 Not applicable.

133 **REQUESTED COUNCIL ACTION**

134 Staff is seeking comment and guidance on the preparation of the 2024 budget including City Council
135 goals and objectives for the 2024 Budget & Tax Levy.

136

Prepared by: Michelle Pietrick, Finance Director

Attachment: A: League of Minnesota Cities 2023 Legislative Session Overview



2023 Legislative Session Overview

The 2023 Legislative Session will be remembered for its brisk pace driven by the Democratic-Farmer-Labor (DFL) Party's single-party control, and for the consequential policy, spending, and taxing measures passed.

Throughout the session, the League advocated for city priorities and interests in numerous ways — by testifying at committee hearings, meeting with legislators, working closely with other stakeholders, writing letters, engaging with the media, and more. LMC members were also very engaged this session, with many city leaders coming to St. Paul to lobby or testify on behalf of their communities and cities across the state.

As effective dates of new laws approach, the League is here to analyze the implications for cities. Detailed information about new laws will be provided in the annual law summaries, available on the LMC website at lmc.org/lawsummaries2023. City-by-city runs of revenues for local government aid, public safety aid, housing, and transportation will be made available on the LMC website as we receive them.

2023 SESSION BY THE NUMBERS

- **\$17.5B** general fund surplus at the start of session
- **6,705** bills introduced (a record!)
- **211** LMC members attended City Day on the Hill to lobby on behalf of city issues
- **163** times LMC Intergovernmental Relations (IGR) staff testified in legislative committees
- **67** news stories about legislative issues that quoted LMC staff or mentioned LMC
- **\$2.6B** capital investment package passed
- **75** new chapters of law adopted
- **1** bill vetoed (Gov. Walz's first since taking office in 2018)



Key Outcomes for Cities (in alphabetical order by topic)

BONDING: \$1.5B BONDING/\$850M CASH

- **Economic Development: \$443M, including:**
 - \$10M for the Business Development Public Infrastructure (BDPI) grant program (additional money for BDPI was also included in the jobs bill)
 - \$1.5M for the Innovative Business Development Infrastructure program
 - \$189M earmarked for local projects
 - \$224M earmarked for grants to non-profits
- **Environment: \$59.7M, including:**
 - \$10M for local tree planting
 - \$49.7M for flood hazard mitigation
- **Housing: \$75M, including:**
 - \$41.9M bond/\$30.1M cash for rehab to preserve public housing stock
 - \$3M for Greater Minnesota Housing Infrastructure
- **Transportation: \$402M, including:**
 - \$85M for the Local Road Improvement Program
 - \$67M for the Local Bridge Replacement Program
 - \$12M for the Local Road Wetland Replacement Program
- **Water/Wastewater: \$513.5M, including:**
 - \$41M to leverage federal revolving loan funds
 - \$87.2M for Water Infrastructure Grants (\$32.5M drinking water/\$52M clean water)
 - \$80M for Point Source Implementation Grants
 - \$12M for metro-area inflow/infiltration
 - \$293M earmarked for local/regional projects

CANNABIS

- **Legalizes and regulates:** The adult-use cannabis law legalizes and decriminalizes cannabis and establishes a regulatory framework for seed to sale oversight.
- **Local regulation:** The law requires cities to register certain cannabis retail businesses, conduct compliance checks, and temporarily suspend registrations if needed.
- **Zoning authority:** The law provides local zoning authority for cannabis businesses, including the authority to limit the number of retailers to one per every 12,500 population.
- **Local revenue:** 20% of the gross receipts tax revenue from cannabis products is dedicated to local governments, to be shared equally between cities and counties.

COMPENSATION CAP REPEAL

- The local government compensation cap was fully repealed effective May 25, 2023. Under the cap, salaries of local government employees of cities, counties, towns, metropolitan and regional agencies, and other (but not all, such as school districts) political subdivisions were not permitted to be greater than 110% of the salary of the governor.

EARNED SICK AND SAFE TIME

- The new law requires employers provide employees with one hour of paid sick and safe time for every 30 hours worked for up to 48 hours the first year and 80 hours in ongoing years.
- The law applies to all employees, including part-time and seasonal employees, and has no impact on existing paid leave policies that meet or exceed these requirements.

ECONOMIC DEVELOPMENT

- **Local Economic Support:**
 - \$10M in one-time funding for Local Community Child Care Grants
 - \$10M for Community Energy Transition Grants
- **Business and Workforce Development:**
 - \$2.287M in FY 24 and FY 25 for the Business Development Public Infrastructure grant program (in addition to the \$10M included in the bonding bill)
 - \$4.246M in FY 24 and FY 25 for the Redevelopment Program and \$2.246M in FY 26 and each year after
 - Creation of \$400M Minnesota Forward Fund to create and retain permanent private-sector jobs, increase local tax base, improve economic opportunity, and provide grants to local units of government for infrastructure to support local economic growth.
 - \$8M for the Minnesota Investment Fund
 - \$12.37M for the Minnesota Job Creation Fund

ELECTIONS

- **Early voting:** The state and local government omnibus bill establishes early voting for the 18 days leading up to Election Day, replacing the current in-person absentee ballot, or “direct balloting,” process.
- **Automatic Voter Registration:** A new law creates a process where eligible voters will automatically be registered to vote when applying for a driver’s license or other government documents.
- **Elections administration updates:** The state and local governments bill contains many elections administration provisions, including updates to mail voting, sample ballot publication, write-in votes, annual funding for cities and counties for administration, and more.

HOUSING

The omnibus housing bill includes \$1 billion to support construction, acquisition, and preservation of housing, including nearly \$300M in direct appropriations to cities and new and existing grant opportunities for cities to support local housing efforts, including:

- **Workforce Housing:**
 - \$95M one-time increase to the Economic Development & Challenge Fund Grant Program (for a total of \$120.85M for FY 24-25)
 - \$35M one-time increase to the Greater Minnesota Workforce Housing Development Program
 - Additional \$20M for the Workforce Homeownership Program (in addition to \$40M for the program authorized in the omnibus tax bill, for a total of \$60.25M)
- **Preservation and Rehabilitation:**
 - \$50M for public housing rehabilitation
 - \$90M in community stabilization funding for naturally occurring affordable housing
- **Direct Local Housing Aid:**
 - 0.25% metro sales tax to be distributed via formula to metro-area cities over 10,000 in population
 - \$4.5M formula housing aid distribution to greater Minnesota cities authorized in omnibus tax bill

INFRASTRUCTURE INVESTMENT AND JOBS ACT (IIJA)

- The transportation bill provides \$216 million for matching grants and creates a program within the Minnesota Department of Transportation for technical assistance grants for local units of government.
- Establishment of \$115M state competitiveness fund for federal matching funds, grant development assistance, and technical assistance for IIJA/IRA-funded energy projects.
- \$240M to replace private and public lead service line drinking water connections.
- Passage of required matching funds for state access to IIJA federal resources supporting roads and bridges, transit, water, cybersecurity, energy, and transportation.

JUNETEENTH

- Juneteenth was officially added as a state holiday to recognize the date on which slavery was ended in the United States.
- On June 19, 2023, and on June 19 each year after, public business cannot be conducted in observance of the holiday.

LOCAL GOVERNMENT AID (LGA)

- \$80M annual increase
- Formula updates will help make more cities eligible for LGA and replaces antiquated variables with more intuitive factors.

OPEN MEETING LAW

- The state and local government bill authorizes officials to participate in a meeting via interactive technology from a nonpublic location up to three times a year if advised by a health care professional against being in a public place for personal or family medical reasons.

PAID FAMILY & MEDICAL LEAVE

- The new law creates a state-administered paid family and medical leave insurance program beginning Jan. 1, 2026 that all employers will be required to participate in.
- All employers will pay into an insurance program established under DEED, in which employees can apply for up to 12 weeks of paid medical or family leave, or up to 20 weeks combined, annually.

PENSIONS

- \$170M in one-time direct state aid to the PERA General Employees Retirement Plan
- \$19.4M to the PERA Police and Fire Retirement Plan

PUBLIC SAFETY

- \$210M in one-time public safety aid to all cities. The aid can be spent on fire, police, emergency medical, or other public safety needs.
- The public safety duty disability bill contains mental injury prevention and treatment measures and provides \$104 million to pay for related costs. The bill also provides full reimbursement to employers for the continued health insurance requirement for disabled employees.
- A new law imposes criminal penalties for possession of a used catalytic converter that is not attached to a vehicle and prohibits a scrap metal dealer from purchasing a catalytic converter that is not attached to a vehicle unless the seller can document proof of ownership.
- The omnibus public safety bill contains provisions pertaining to youth intervention, carjacking, body camera footage release, police accountability, and law enforcement job recruitment.

TAXES

- Two-year moratorium on local sales taxes, with a task force slated to report to the Legislature in January 2024 with recommendations for possible changes to the approval process.
- 20% one-time increase to property tax refunds for both homeowners and renters.
- Conversion of the renters credit from a separate property tax refund to an income tax credit.
- Establishes an electric generation transition aid for cities that lose tax base when an electric generation plant retires.
- Eight-year extension of the Historic Structure Rehabilitation Tax Credit.

TRANSPORTATION

- The transportation bill provides ongoing funding for the Small Cities Assistance Account and establishes and funds the Larger Cities Assistance Account. Both are funded by a new 50-cent retail delivery fee on purchases over \$100 and dedication of the sales tax on auto repair parts.
- \$18 million for the Local Road Improvement Program.
- \$18 million for the Local Bridge Replacement Program.
- Increases in license tab fees, the motor vehicle sales tax, and the gas tax (indexed for inflation), which will fund the Highway User Tax Distribution Fund resulting in a \$40 million increase to Municipal State Aid over the previous biennium.
- Three-fourths of a percent increase in the sales tax in the metro area for transit and county roads.

FURTHER READING/RESOURCES

Webinars, including a full 2023 legislative recap, are available to members through the LMC website:

- lmc.org/webinars

Members can find a full breakdown of bills passed into law with the League's 2023 Law Summaries and Focus on New Laws, which will be updated throughout the summer:

- lmc.org/lawsummaries2023
- lmc.org/fonl

For bi-weekly updates outside of legislative session and weekly updates during session, subscribe to the LMC Cities Bulletin e-newsletter:

- lmc.org/citiesbulletin

Interested in getting involved in legislative issues? Sign up for League's Policy Committees and Task Forces. Starting in July, join fellow city officials in working on issues that impact cities across Minnesota. Read more and sign up for policy committees here:

- lmc.org/policy-committees