

Memo

To: Roseville Finance Commission
From: Chris Miller, Finance Director
Date: August 13, 2019
Re: Item #7: Receive an Historical Financial Review of the City’s Property Tax Levy & Budget

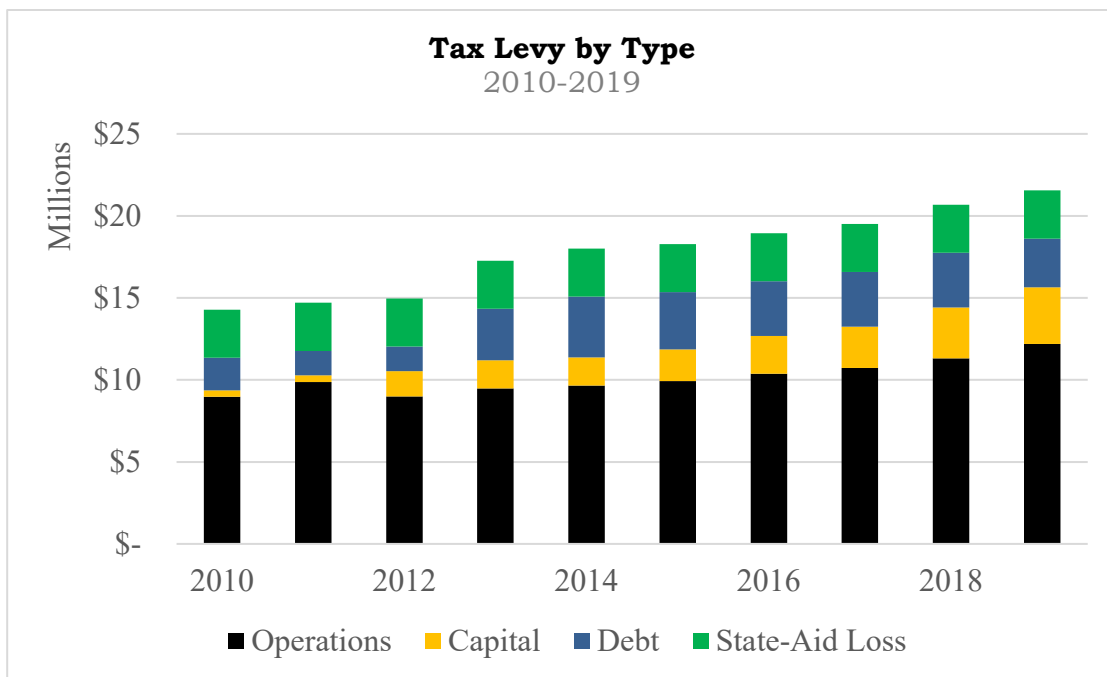
Background

In the interest of providing the Finance Commission with a more comprehensive picture of the City’s financial condition and to add context for future tax levy and budgetary discussions, Staff has compiled some selected historical financial information.

The information is segregated by property tax information and revenue/expenditure information for selected operating funds.

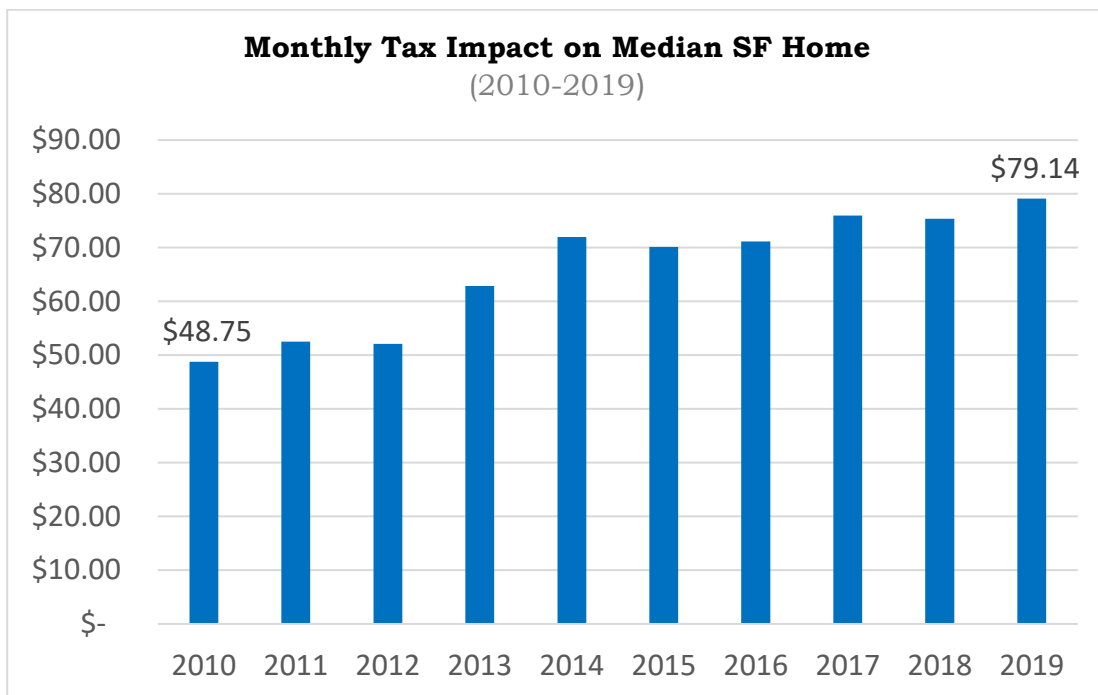
Property Tax Levy: 2010-2019

Similar to most municipalities, the property tax levy remains the single largest funding source for city programs and services. For 2019, the levy was \$21,551,650 which represents 40% of all projected revenues. The following chart provides a summary of the city property tax levy (excluding the EDA levy) over the last 10 years.



As shown in the chart, the overall tax levy has increased from \$14.3 million in 2010 to \$21.5 million today; an increase of 5.7% per year. A significant portion of this increase was attributable to the added investment (capital + debt levy) in the replacement of aging capital infrastructure including streets, park buildings and amenities, and general facilities. The tax levy for *operational* purposes increased at a lower rate of 4.0% per year. Both categories however outpaced local inflation during this period which increased at approximately 2% per year.

The next chart depicts the associated impact on taxpayers based on the levy decisions made during the past decade. The impacts will vary greatly depending on the property type, assessed market value, and the overall growth of the City’s tax base. Typically, the City tracks the impact on a median-valued single-family home to gauge the general impact being felt by residents. The following chart provides a summary of the city property tax levy impact on residents over the last 10 years.



As shown in the chart, the monthly impact for a typical single-family home has risen from \$48.75 per month in 2010 to \$79.14 per month today; an increase of 6.9% per year. The rate of change is somewhat higher than the change in tax levy due to the fact that single-family home values have appreciated at a faster rate than other property types – effectively creating an implicit shift in the tax burden to homeowners during this period.

It’s worth noting that the rate of change has slowed to only 2.0% per year since 2014.

It was noted earlier that the charts above do not reflect the dedicated tax levy used to support the City’s Economic Development Authority (EDA) activities. Although the burden for this levy is also borne by Roseville taxpayers, its impact is relatively small. For 2019, the impact from the EDA Levy on a typical single-family home was \$1.95 per month.

Revenues & Expenditures: 2014-2018

In presenting its financial statements, municipalities separate financial activity into both aggregate and individual fund categories. The aggregates fund types are intended to depict the city’s *overall* financial condition. This aggregation however, tends to mask the performance of individual funds which are managed separately and can be affected differently by economic factors. As a result, this report will focus on some of the City’s key operating funds.

The following table provides a summary of the city’s **General Fund** over the last five years. This includes the day-to-day operations (excluding capital) for Police & fire, streets, administration & finance (General Government), and others.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Funding Sources					
Property Taxes	\$10,173,073	\$10,236,716	\$11,919,681	\$12,032,298	\$11,523,078
Intergovernmental	991,970	1,031,110	1,213,476	1,107,228	1,208,340
Licenses & Permits	416,659	396,247	484,004	544,957	496,416
Charges for Services	221,728	212,120	535,975	285,867	284,886
Fines & Forfeits	204,799	135,479	107,229	90,045	97,415
Interest Earnings	338,364	74,431	(38,581)	86,208	32,006
Other Revenue	96,735	83,548	73,599	98,256	99,864
Total Sources	12,443,328	12,169,651	14,295,383	14,244,859	13,742,005
Funding Uses					
General Government	2,193,314	2,323,882	2,560,587	2,624,414	2,633,548
Police	6,701,924	6,863,442	7,080,726	7,330,515	7,833,310
Fire	1,661,020	1,826,477	1,927,282	2,040,329	2,297,345
Fire Relief	341,617	220,012	221,324	222,882	229,050
Public Works	2,397,213	2,211,904	2,238,271	2,402,973	2,477,806
Total Uses	13,295,088	13,445,717	14,028,190	14,621,113	15,471,059
Other Funding Sources (Uses)					
Transfer In (Out)	926,471	962,148	934,000	(586,143)	1,746,332
Other	-	-	3,351	-	-
Total Other Sources (Uses)	926,471	962,148	937,351	(586,143)	1,746,332
Excess of Funding Sources Over (Under) Funding Uses	74,711	(313,918)	1,204,544	(962,397)	17,278
Fund Balance - Jan 1st	6,207,893	6,282,604	5,968,686	7,173,230	6,210,833
Fund Balance - Dec 31st	\$ 6,282,604	\$ 5,968,686	\$ 7,173,230	\$ 6,210,833	\$ 6,228,111

As indicated in the table, the General Fund balance (i.e. net available financial resources) has remained virtually unchanged during the past five years. While expenditures have steadily climbed by an average of 4% per year, revenues have fluctuated widely due to the capture of *one-time* monies such as excess tax increment (2016, 2017) and the receipt of excess cash from other operating funds (2018). The General Fund will require greater emphasis on financially-sustainable budget practices moving forward.

The following table provides a summary of the city’s **Parks & Recreation Operating Fund**. This includes the day-to-day operations for parks & recreation programs and parks maintenance. It excludes capital-related purchases as well as the golf course operation which are tracked separately.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Funding Sources					
Property Taxes	\$1,978,856	\$2,136,995	\$2,438,555	\$2,513,387	\$2,588,457
Charges for Services	1,771,633	1,908,640	2,033,709	2,050,264	2,080,299
Rentals	59,625	52,796	59,250	70,998	72,330
Donations	119,900	166,416	100,317	68,590	51,309
Interest Earnings	52,769	17,535	(3,727)	16,751	3,850
Other Revenue	74,550	54,002	43,422	40,409	51,773
Total Sources	4,057,333	4,336,384	4,671,526	4,760,399	4,848,018
Funding Uses					
Personnel	2,608,189	2,664,519	2,815,370	2,925,904	3,027,899
Supplies & Materials	305,730	297,316	282,377	284,341	288,728
Other Services & Charges	1,120,742	1,179,001	1,220,905	1,240,272	1,305,149
Minor Equipment	34,822	9,698	-	-	-
Total Uses	4,069,483	4,150,534	4,318,652	4,450,517	4,621,776
Other Funding Sources (Uses)					
Transfer In (Out)	-	-	-	(570)	(636,827)
Other	-	-	-	-	-
Total Other Sources (Uses)	-	-	-	(570)	(636,827)
Excess of Funding Sources Over (Under) Funding Uses					
	(12,150)	185,850	352,874	309,312	(410,585)
Fund Balance - Jan 1st	1,111,161	1,099,011	1,284,861	1,637,735	1,947,047
Fund Balance - Dec 31st	\$1,099,011	\$1,284,861	\$1,637,735	\$1,947,047	\$1,536,462

As shown above, the Parks & Recreation Operating Fund balance had been steadily increasing up until 2018 when over \$600,000 in excess cash was transferred to the Cash Reserve Fund. This strong operating result stems from steadily increasing revenues coupled with lower-than-expected expenditures. During the past five years, overall revenues increased by an average of 4.9% annually while expenditures increased more modestly at only 3.4%.

Recreation program revenues (charges for services) remain strong, increasing at an average rate of 4.4%, while facility rentals grew by an average of 5.3% per year. These two revenue sources represent 45% of total revenues, while property taxes comprises about half.

The next table provides a summary of the city’s **Communications Operating Fund**. This includes the activities associated with the city’s communications function including the audio/video broadcasting capability used for City Council and Advisory Commission meetings. This Fund also supports the City’s share of local public access television and remote broadcasting facilities used by the nine-member North Suburban Communications Commission.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Funding Sources					
Cable Franchise Fees	\$ 448,088	\$ 436,851	\$ 449,920	\$ 452,123	\$ 403,224
Interest Earnings	25,077	4,852	(891)	5,092	3,355
Other Revenue	56	-	-	-	-
Total Sources	473,221	441,703	449,029	457,215	406,579
Funding Uses					
Personnel	199,178	220,992	234,895	235,479	241,604
Supplies & Materials	1,283	1,706	4,937	1,789	6,904
Other Services & Charges	208,621	220,400	224,934	207,955	227,623
Minor Equipment	1,052	148,984	-	-	-
Total Uses	410,134	592,082	464,766	445,223	476,131
Other Funding Sources (Uses)					
Transfer In (Out)	(14,000)	(14,000)	(17,000)	(17,000)	(17,000)
Other	-	-	-	-	-
Total Other Sources (Uses)	(14,000)	(14,000)	(17,000)	(17,000)	(17,000)
Excess of Funding Sources Over (Under) Funding Uses	49,087	(164,379)	(32,737)	(5,008)	(86,552)
Fund Balance - Jan 1st	584,645	633,732	469,353	436,616	431,608
Fund Balance - Dec 31st	\$ 633,732	\$ 469,353	\$ 436,616	\$ 431,608	\$ 345,056

As indicated in the table, the Communications Fund balance had been steadily decreasing over the past five years; declining by an average of 11.4% per year. The decrease is the result of two primary factors.

The first is stagnant or declining cable franchise fees which dropped by over 10% in the past year alone. During this same period, personnel-related costs increased by an average of over 5% annually. Moving forward, a portion of these personnel costs will need to be funded using other revenue sources.

The ‘transfer out’ of cash represents the Communications Fund’s proportionate share of internal administrative fees. These fees are designed to recoup services provided to the Fund by levy-supported personnel in lieu of allocating those same costs directly. The internal charge-back method is more simple and cost-effective than the direct method.

The following table provides a summary of the city’s **Information Technology Fund**. This includes the activities associated with the city’s information technology function which not only supports Roseville’s information systems, but also many other governmental agencies – an entrepreneurial effort that reduces Roseville’s overall costs while also advancing the depth and breadth of employee skillsets we possess.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Funding Sources					
Property Taxes	\$ 190,713	\$ 237,407	\$ 257,021	\$ 198,086	\$ 197,271
Charges for Services	1,035,357	1,180,741	1,465,222	1,913,104	2,596,347
Interest Earnings	21,217	11,551	(3,429)	9,901	2,195
Tower Leases / Other	413,706	522,195	478,631	451,936	446,557
Total Sources	1,660,993	1,951,894	2,197,445	2,573,027	3,242,370
Funding Uses					
Personnel	1,100,010	1,228,497	1,531,212	1,745,496	1,847,779
Supplies & Materials	25,673	55,027	26,567	11,184	9,051
Other Services & Charges	49,864	290,249	505,327	629,726	900,961
Minor Equipment	240,892	187,488	62,639	229,984	36,270
Total Uses	1,416,439	1,761,261	2,125,745	2,616,390	2,794,061
Other Funding Sources (Uses)					
Transfer In (Out)	50,000	-	125,000	127,862	(39,163)
Other	-	-	-	-	-
Total Other Sources (Uses)	50,000	-	125,000	127,862	(39,163)
Excess of Funding Sources Over (Under) Funding Uses					
	294,554	190,633	196,700	84,499	409,146
Fund Balance - Jan 1st	359,115	653,669	844,302	1,041,002	1,125,501
Fund Balance - Dec 31st	\$ 653,669	\$ 844,302	\$1,041,002	\$1,125,501	\$1,534,647

As shown here, the Information Technology Fund balance has been steadily rising over the past five years increasing at an average of nearly 34% per year. This strong performance reflects a continuous effort to create greater economies of scale, efficiency, and new innovation through our collaboration with other agencies. This collaboration has allowed us to reduce the amount of property tax support needed for the IT function in recent years.

For financial reporting purposes, the Fund Balance figures reflects the total amounts reporting in both the IT Operating & Capital Replacement Funds. However, they are tracked separately in the City’s financial software system.

Finally, we will depict a summary of the city’s **License Center Fund**. This includes the day-to-day operations for both the passport and motor vehicle functions. Motor vehicle-related functions includes drivers’ licenses, vehicle titles & tabs, hunting & fishing licenses, and more.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Funding Sources					
Charges for Services	\$1,469,774	\$1,621,751	\$1,700,073	\$1,692,014	\$1,785,836
Interest Earnings	46,901	16,321	(4,966)	16,178	4,736
Other Revenues	139	-	-	-	-
Total Sources	1,516,814	1,638,072	1,695,107	1,708,192	1,790,572
Funding Uses					
Personnel	1,034,920	1,066,715	1,189,040	1,290,558	1,346,690
Supplies & Materials	13,595	13,742	16,781	19,501	25,865
Other Services & Charges	124,137	125,958	138,263	272,377	128,195
Minor Equipment	5,335	-	-	-	56,575
Total Uses	1,177,987	1,206,415	1,344,084	1,582,436	1,557,325
Other Funding Sources (Uses)					
Transfer In (Out)	(110,000)	(342,148)	(422,000)	(322,190)	(759,875)
Other	-	-	-	-	-
Total Other Sources (Uses)	(110,000)	(342,148)	(422,000)	(322,190)	(759,875)
Excess of Funding Sources Over (Under) Funding Uses					
	228,827	89,509	(70,977)	(196,434)	(526,628)
Fund Balance - Jan 1st	925,567	1,154,394	1,243,903	1,172,926	976,492
Fund Balance - Dec 31st	\$1,154,394	\$1,243,903	\$1,172,926	\$ 976,492	\$ 449,864

As indicated here, the License Center Fund balance had been steadily increasing up until recent years when cash reserves were increasingly used to support other city functions. This practice was accelerated in 2018 when over \$700,000 in excess cash was transferred to the Cash Reserve Fund and to help pay for the acquisition of the Lexington Shoppes building.

Overall revenues remain strong growing by an average of 4.5% per year. Expenditures have historically been fairly steady but have increased more substantially in the past two years due to changes in the State’s vehicle registration system used by all deputy registrar locations. Prior to the new system rollout in mid-2017, a significant portion of the customer’s information was entered after the point of sale by *State* employees. Under the new system, all customer information is now entered at the point of sale by *Roseville* employees; significantly increasing our labor costs. The City expects to receive some reimbursement for the excess labor costs via a one-time payment as well as higher transaction fees in the future.

Despite the strong financial results noted above, the License Center remains vulnerable to changing economic conditions and demographics which can have an impact on transaction levels moving forward.

Staff Recommendation

Not applicable.

Requested Commission Action

For review and discussion purposes only. No formal Commission action is necessary.

Prepared by: Chris Miller, Finance Director
Attachments: A: N/A