

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: July 19, 2021
Item No.: 7.c

Department Approval

City Manager Approval




Item Description: Review 2022 Changes in Property Tax Base, Legislative Changes and discussion on City Council 2022 Budget Goals

BACKGROUND

At the April 12, 2021 City Council meeting, the Council established a general timeline for the 2022 budget process including the following key dates:

2022 Budget Process Timeline	Date
Discussion on 2021-2022 City Council Priorities	3/8/2021
Discussion on <i>Preliminary</i> Cash Reserve Levels	3/22/2021
Establish 2022 Budget Process Calendar	4/12/2021
Presentation of the 2022-2041 Capital Improvement Plan	7/19/2021
Discussion on City Council Budgetary Goals	7/19/2021
EDA Budget & Tax Levy Discussion	7/19/2021
Receive the 2022 City Manager Recommended Budget	8/23/2021
Receive Budget Recommendations from the Finance Commission	9/20/2021
Adopt Preliminary 2022 Budget, Tax Levy, & EDA Levy	9/27/2021
Review 2022 Proposed Utility Rates	11/8/2021
Review 2022 Fee Schedule	11/8/2021
Final Budget Hearing (Truth-in-Taxation Hearing)	11/29/2021
Adopt Final 2022 EDA Tax Levy	12/6/2021
Adopt Final 2022 Budget, Tax Levy, Utility Rates, & Fee Schedule	12/6/2021

The next step in the 2022 Budget Process is to review the general budgetary impacts resulting from changes in the City’s property values, the 2021 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 2021. It is an interactive website and they are no longer issuing a printable report. Excerpts of data from the website are included as *Attachment A*. Highlights of the Report include:

- Roseville’s overall market value (tax base) is projected to increase 5.0%
- The median-valued, single-family home is projected to increase 5.7%; from \$280,500 to \$296,500

In the aggregate, the market value for the median single-family home rose slightly faster (5.7%) than all

20 other property types combined 5.0%). This means that holding all other factors constant, there may be a
21 slight shift in the overall tax burden to single-family homeowners in 2022. In 2021 the tax burden shifted
22 in the opposite direction as there was a larger increase in overall market valuation (7.6%) and only a 2.9%
23 increase in the median single-family residential property values.

24
25 For example, a 2022 tax levy increase of 5.25% will result in an estimated 6.44% tax increase on the
26 median-valued single-family home valued at \$296,500 or about \$72 per year.

27 28 Budgetary Impacts from the 2020 Legislative Session

29 The 2021 Legislative Session ended after the conclusion of the Regular Session on May 17, 2021
30 accompanied by a first special session that just recently ended. At this time, the League of MN Cities
31 has not released the 2021 Law Summaries which provides a re-cap of laws impacting cities. At this time
32 we are not aware of any significant legislative actions that would have impacts on the 2022 Budget.

33 34 Budgetary Impacts from Other Considerations

35 In prior years, we have used this opportunity to provide a summary of the *potential* financial impacts of
36 maintaining programs and services. This includes impacts associated with employee COLA's and wage
37 steps, contractual obligations & professional services, and general inflationary costs.

38
39 Based on current projections, we expect nearly \$1 million in added expenditures in our property tax-
40 supported programs. This includes employee COLA's, healthcare increases, and other inflationary-type
41 factors but excludes the removal of Metro-INET. Metro-INET will be spun off as a separate entity in
42 2022 which results in a reduction of \$2.6 million in expenses and \$2.8 million in revenues.

43
44 These impacts would result in a tax levy increase of approximately \$1.2 million or 5.25%. This increase
45 includes some limited new expenditures proposed as part of the 2022 budget for Capital Infrastructure,
46 equity initiatives and a few other minor new requests. The preliminary budget is projected to increase
47 taxes by \$5.98 per month for the typical single-family home.

48
49 In addition to the tax levy impacts depicted above, continued emphasis on our water, sanitary sewer, and
50 storm sewer infrastructure replacement programs is expected to drive utility rate increases for 2022 as
51 well. More specific information regarding budgetary impacts will be addressed with the release of the
52 2022 City Manager Recommended Budget on August 23, 2021.

53
54 The City Council is asked to provide its goals & objectives for the 2022 Budget and Tax Levy. This is a
55 critical step in the budget process as it will be used to guide the City Manager Recommended Budget,
56 and will ensure more clear and timely communications with citizens and other property taxpayers.

57
58 While these goals and objectives can be fairly broad in scope and still remain purposeful, greater impact
59 will be created if the Council establishes more defined goals in three key areas:

- 60
61 1) **The desire for changes in programs or service levels** (i.e. are the condition of city streets
62 or public safety-related services acceptable?)
63 2) **The need to establish new programs or initiatives** (i.e. are there any unmet needs that
64 should be addressed?)
65 3) **The acceptable level of property tax and fee impacts on homeowners** (i.e. given the
66 programs and services we aspire to, is the associated burden on homeowners acceptable?)
67

68 Finally, Staff will remind the Council of the status of the *unrestricted* cash reserve levels in the City's

69 discretionary operating funds as of 12/31/20 including the transfers of ‘excess cash’ into the newly-
 70 established Cash Reserve Fund.
 71

Cash Reserve Levels: Unrestricted Operating Funds				
				12/31/2020
	12/31/2020	Less	Available	12/31/2020
	Cash	From	Cash	Reserve
<u>Operating Fund</u>	<u>Reserves</u>	<u>Donations</u>	<u>Reserves</u>	<u>Level</u>
(1) General: Primary	\$ 7,982,338	\$ (60,445)	\$ 7,921,893	44%
(2) General: Cash Reserve Fund	266,054	-	266,054	
Parks & Recreation	1,613,761	(311,654)	1,302,107	25%
Communications	125,072	-	125,072	28%
Information Technology	501,376	-	501,376	15%
License Center	179,275	-	179,275	10%
(1) Unrestricted cash only				
(2) Balance after 2020 transfers				
Cash Reserve Target Levels				
	Target	Target		
<u>Operating Fund</u>	<u>Low</u>	<u>High</u>		
General (unrestricted portion)	35%	45%		
Parks & Recreation	25%	25%		
Communications	10%	30%		
Information Technology	10%	15%		
License Center	10%	15%		

72
 73
 74 The Council is reminded that the cash reserve levels depicted above represent a snapshot in time and
 75 are fluctuating on a daily basis. They are not an indication of what our reserve levels will be at year-
 76 end. With regard to the monies held in Cash Reserve Fund, the City Council can determine whether
 77 they want to redeploy the funds for budgetary purposes or retain for other priorities and service
 78 delivery.

79 **POLICY OBJECTIVE**

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

83 **FINANCIAL IMPACTS**

84 Not applicable.

85 **STAFF RECOMMENDATION**

86 Not applicable.

87 **REQUESTED COUNCIL ACTION**

88 Staff is seeking comment and guidance on the preparation of the 2022 budget including City Council
 89 goals and objectives for the 2022 Budget & Tax Levy.
 90

Prepared by: Michelle Pietrick, Finance Director
 Attachments: A: Ramsey County Assessor Property Valuation Changes-excerpts from Website

Market Summary

The residential market in 2020 proved to be incredibly resilient. Home sales and prices were higher than 2019 across all residential market segments. Ramsey County experienced steady growth in the 2020 residential real estate market. According to Northstar MLS, the median sale price for residential property in Ramsey County was \$262,900 at the end of 2020, up from \$245,300 at year-end 2019.

The pandemic has clearly widened the disparity gap on who can afford to buy a home and who cannot, with largest unemployment numbers in the service industries. In Ramsey County, foreclosures and short sales continue to fall. In 2020, Ramsey County had 94 foreclosure sales, which was down from 265 foreclosures in 2019.

The assessor's office continues to actively track all market activity and even though foreclosures are currently a small segment of the market, this is most likely the result of the moratorium on foreclosures. This moratorium may be masking the reality of how many residents are suffering and behind on their mortgages. The moratorium is scheduled to end by June 2021.

New Construction

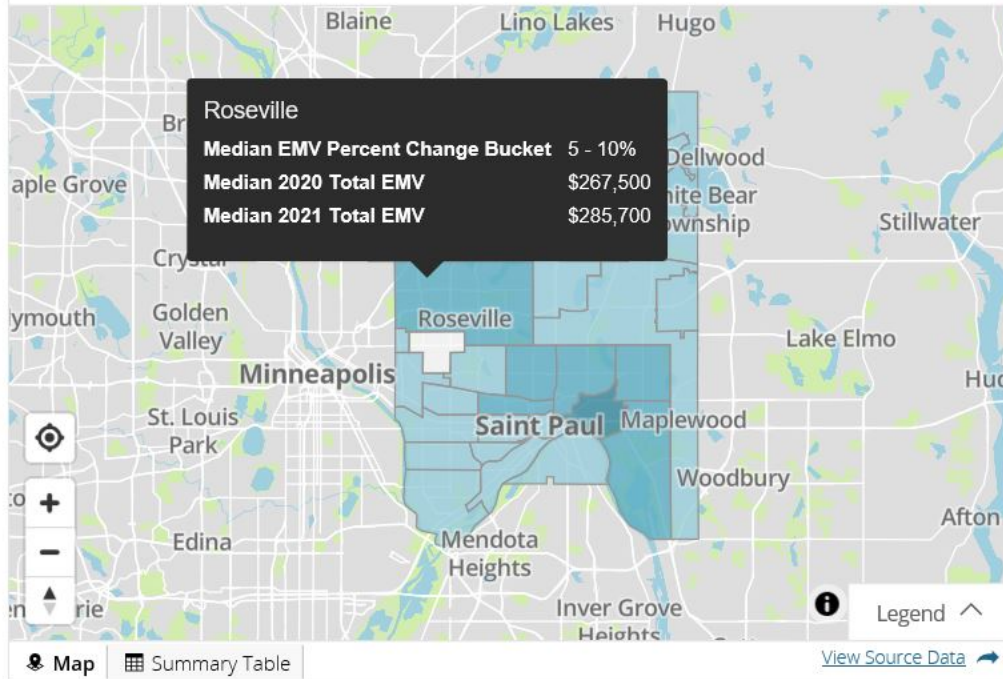
In 2020, new home construction in Ramsey County was strong once again. Notable developments included the Whistler Pines in Shoreview, Midtown Village in New Brighton and Gateway at McKnight in North St Paul.

We are waiting for development of the Ford Plant with the Highland Bridge development. The first townhome in that development will start in 2021. The 35 single-family lots will hit the market in March of 2021.



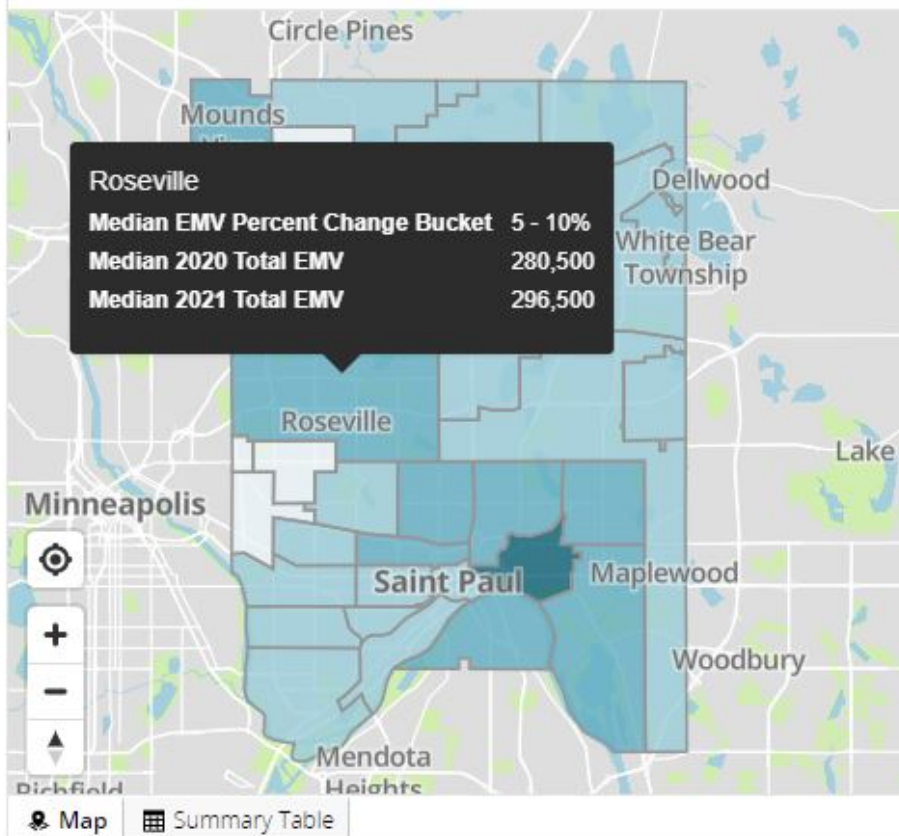
Median Value Change - Residential

2020 vs 2021 estimated market value percent change.



Median Value Change - Single Family

2020 vs 2021 estimated market value percent change.



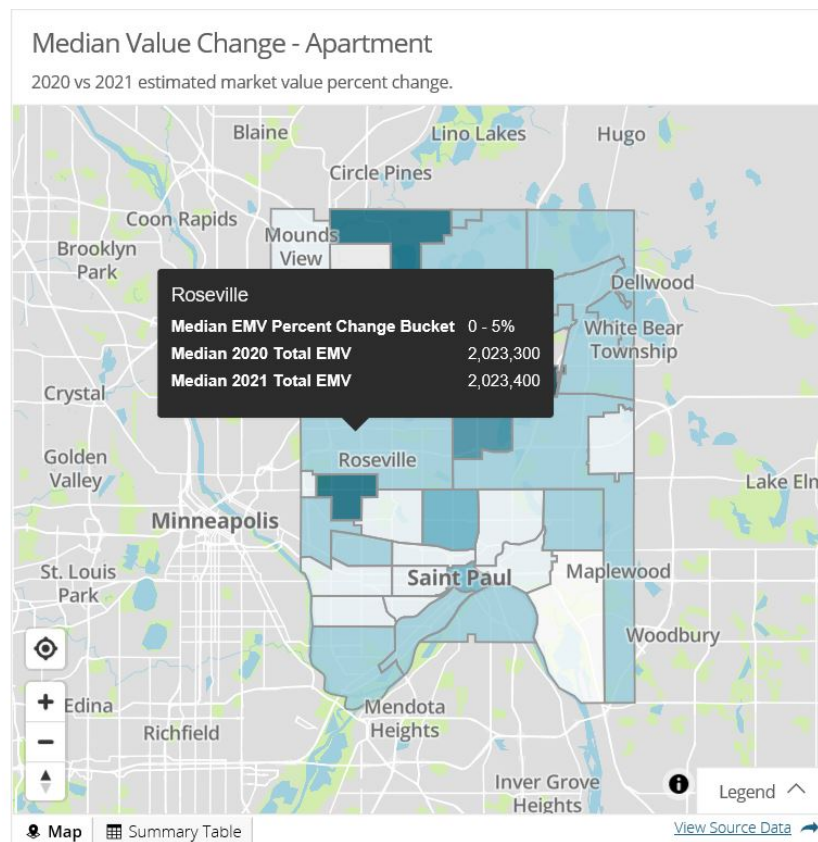
Market Summary

Ramsey County's apartment market remains solid. However, there are some signs of softening due to the pandemic with some areas experiencing rising vacancy rates. Although still low at 5.5%, Saint Paul's vacancy rate has increased 2.4% since the 4th quarter of 2019, while average rents have actually increased 4.7% over the same period.

Development

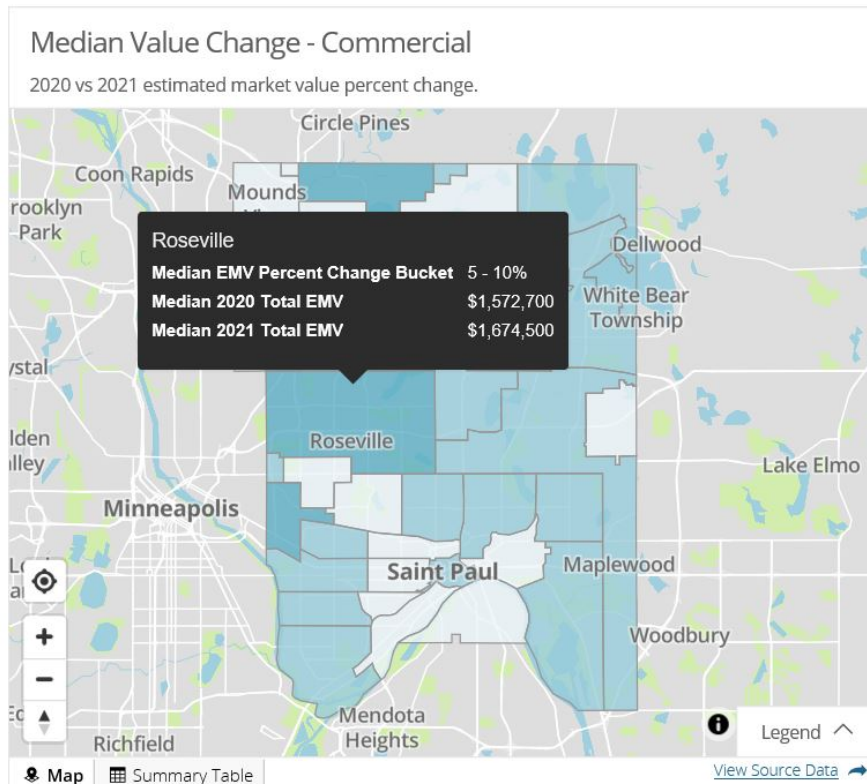
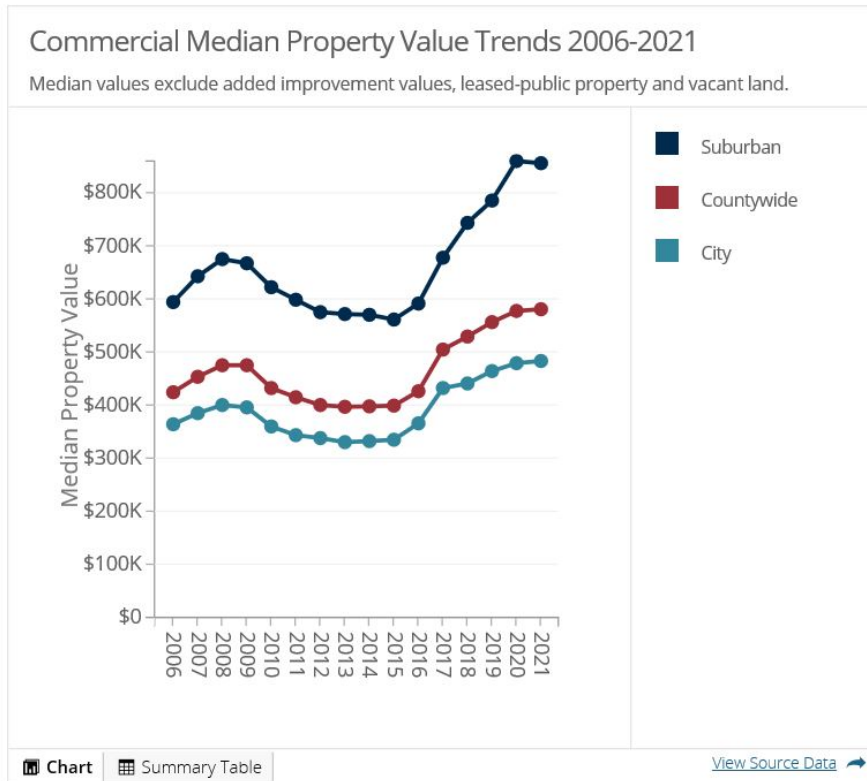
New apartment development continues to occur throughout Ramsey County. In the suburbs, projects underway include Oasis at Twin Lakes, a 200-unit affordable housing project in Roseville, and a nearly 500-unit Doran Companies market-rate project under construction in Saint Anthony.

In Saint Paul, several projects are underway, including the 192-unit Alvera Apartments, which is thought to be the largest modular construction project yet in the Twin Cities. Also in Saint Paul, the 41-unit affordable project named Rice Street Flats is expected to be completed in mid-2021.



Market Summary

The Ramsey County commercial real estate market continues to fare well, despite the challenges brought on by the pandemic. The underlying strength of the local economy will allow this market to fully rebound quickly once the economy completely reopens and vaccines become widely available.



Market Summary

Industrial is the strongest market segment going into 2021. While the industrial market was strong prior to the pandemic, it continues to show considerable strength. Much of this market's success is due to the continued growth of e-commerce and the need for warehouse distribution space.

Any large-scale retailer who hopes to succeed in the coming years knows that a robust e-commerce operation is necessary. This bodes well for industrial, and the pandemic has further strengthened this development.

In Ramsey County, these market dynamics have produced low vacancy rates and record high sale prices for industrial properties. Increasing construction costs and a lack of functional properties for sale continues to result in strong value appreciation. This is true for old and new properties alike, since the demand for these properties greatly exceeds the supply.



Median Value Change – Industrial

2020 vs 2021 estimated market value percent change.

