Updates to In$ight St. Paul's 10-29-2024 Report

On October 29 **In$ight St. Paul** released its report to St. Paul citizens and elected officials regarding St. Paul's High Stress Fiscal Environment. We are a grass-roots, volunteer citizens committee that would like to share budget and development perspectives with the policy makers charged with taking care of our residents and tax base. Because we want to work cooperatively, our original report will be refined over time as we gain more knowledge about the complex and challenging issues facing local governments that serve the St. Paul stakeholders. **The revised report dated Nov. 12, 2024 follows this page.** This page is listing the most recent changes being made to our original report.

1) Some former residents and business owners no longer living in St. Paul participated in authoring this report. (page 2)

2) There is an acknowledgment that part of the reason for a large increase in property taxes the past decade is because there was a Minnesota Supreme Court Order eliminating St. Paul's Street Maintenance Assessment financing source. (page 5)

3) Removal of comments regarding a proposed dedicated property tax levy for low income daycare and early learning, as St. Paul voters opposed the referendum.

4) The committee thought the 2025 East Side Community Center capital improvement proposed for 2025 was meant to be a brand new facility; when in fact it is meant to be the replacement of an existing recreation center. Thus In$ight St. Paul is not opposed to implementing the replacement recreation center after all related operating costs are disclosed before starting the design process.

Understand Today's Reality for the City of St. Paul

Join us to protect the financial future of our City

In$ight St. Paul's Report, Updated 11-12-24

We are St. Paul residents and property taxpayers who truly love our City.
We own our homes in St. Paul where we have raised our families and educated our children. Some of us are renters, and some of us own business properties in our City. We all deeply care about the well-being of our neighbors and our communities. Some of us are former St. Paul residents who still care deeply about the Capital of Minnesota.

We are both stakeholders and constituents who want a financially stable and affordable future for our City. We are **In$ight St. Paul,** a grassroots, citizen organization whose mission is to advocate for a sustainable financial future for our City.

Our team of authors was guided by the **Effective Community Activism "E" Goals**:

1) **ENLIGHTEN** residents, organizations, nonprofits, policymakers and all elected officials representing St. Paul about our City's financial situation.
2) **ENGAGE** residents and organizations to advocate for responsible change.
3) **ENACT** budget and policy changes working with the St. Paul City Council to secure a sustainable financial future for City services.

We have prepared this document to educate St. Paul residents and business owners about the City's high-stress fiscal environment. We want you to join us as we ask our elected officials to make needed budget changes that will provide for a more financially affordable and stable future with high-quality, responsive essential services. **Please give us your suggestions for additional fiscal issues you would like to see identified in future reports**.

This working document is divided into three major sections:

1) **Defines today's high-stress fiscal environment for St. Paul's citizens, property owners, businesses and nonprofits.**

2) **Identifies items in the City's Proposed 2025 Budget that don't make sound long-term financial sense.**

3) **Action requests In$ight St. Paul would like the St. Paul City Council to support as it adopts city budgets and approves projects and programs for the next few years.**

Before you read this report, please know this:

Attracting private investment is critical for the healthy future of any city. Recently, at least two significant downtown employers have decided to leave St. Paul - - - a real disinvestment.

Growth of St. Paul's tax base and population are both lagging. Deferred maintenance of basic infrastructure, rising property taxes, highest sales tax, increasing crime and challenging social issues create an environment that some people want to leave. High taxes are a particular burden to lower-income taxpayers and renters, who must absorb increases that are passed on to them.

Reversing these trends requires a sense of urgency by St. Paul's elected officials. This is a complicated situation, one that requires a deeper appreciation and understanding of a stew of interacting factors including local government aid, payments in lieu of taxes, fiscal disparities provisions, tax increment financing, licensing, rent control, service fees and a whole lot more. All within the context of an increasing demand for city services. Affordability has to be at the top of the list.

This report marks the first step in what will be a continuing effort by **In$ight St. Paul** to help the City and its leaders become more aware of, and sensitive to the sobering fiscal challenges facing St. Paul.

Our report is **"Fact Based".** Our effort to highlight St. Paul's financially stressed situation is based on analytical data prepared by five independent governmental units: Minnesota Department of Revenue, Minnesota House Research, Minnesota State Demographer, Metropolitan Council and Ramsey County Taxation. Their annual reports provide factual information to the Minnesota Legislature to develop and refine state laws regarding financing methods for local units of government. They are objective.

The concerning facts in this report are presented on pages 3 to 9.
Items in the Proposed 2025 City Budgets we think don't make sense are presented on pages 10 to 15.
Request for changes we want the City Council to implement for 2025 and beyond are identified on pages 16 to 17.

St. Paul Faces a High-Stress Fiscal Environment

PROPERTY TAX ANALYSIS

Minnesota House Research annually prepares a report regarding property tax burden for Homestead Properties in Minnesota. The report identifies data for the Median Value Homestead in all Minnesota cities. The Minnesota Legislature uses that information to adjust various state income-tax funded aid programs that are used to provide property tax relief to lower income families.

The **July 2024 Voss Report,** which uses payable 2022 property tax data, reveals these three negative findings related to the St. Paul taxpayer: The info below is from the summary data that was highlighted in the report.

1) **The Median Value Homestead in St. Paul has an effective tax rate of 1.39%.** The effective tax rate measures the amount of net property tax (gross tax on annual statement less any state paid homestead credit at income tax time) as a percent of the property's estimated market value (EMV).

In 2022, St. Paul's median value homestead had an EMV of $236,000. For all homesteads in Minnesota for taxes payable 2022, the median value homestead had an EMV of $257,400, with an effective tax rate of 1.08%. **St. Paul's 2022 effective tax rate of 1.39% was 29% greater than the State's average of 1.08%.** Minneapolis's median value homestead had an EMV of $299,000, with an effective tax rate of 1.28%.

2) **In 2022, the owner of the median value homestead in St. Paul had an average income of $88,876. The net property tax burden of $2,875 (after state paid homestead credits) was equal to 3.0% of the average income for the median value homestead. This net tax burden of 3.0% of income was the second highest tax burden rate identified in the report**.

For all of Minnesota for taxes payable in 2022, the average homestead income was $98,272, with an average net tax burden of 2.6%. St. Paul's average homestead income of $88,876 was 9.6% below the state average. And St. Paul's net tax burden of 3.0% was 15% greater than the State average net tax burden of 2.6%.

3) The Voss Report also measures if a **homesteader's net property tax burden** (after state paid homestead credit) **is equal to or greater than 5% of the homeowner's taxable income**. State legislators consider a net property tax greater than 5% of taxable income to be extremely regressive.

St. Paul homesteaders with lower incomes in 2022 did poorly, as a large number had a net property tax (after state credits) greater than 5% of their income:

a) In the income range of $10,000 to $45,000, **St. Paul had 44.5%** of its homestead owners in this income range paying net taxes equal to or more than 5% of their income. **The state average for this income range was 29.8%.**

b) In the income range of $45,001 to $90,000, **St. Paul had 15.3%** of its homestead owners in this income range paying net taxes equal to or more than 5% of their income. **The state average for this income range was 8.8%.**

c) In the income range of $90,001 or more, **St. Paul had 7.0%** of its homestead owners in this income range paying net taxes equal to or more than 5% of their income. **The state average for this income range was 2.7%.**

d) **For all income ranges combined**, **St. Paul had 17.1% of its homestead owners paying net taxes equal to or more than 5% of their taxable income. By comparison, 9.2% of all homesteaded properties in the entire state had a net tax burden greater than 5% of homeowners' taxable income. St. Paul's net property tax burden rate of 17.1% was almost double the State average of 9.2%.**

City leaders did not help their constituents financially from 2016 to 2024, when the certified property tax levies increased 97.4%, from $105,606,000 to $208,466,000. St. Paul's nine-year average annual tax levy growth was 9.1%, while the Consumer Price Index-W's annual average growth rate is estimated to be 3.4%.

A significant portion of the property tax increase in 2018 and 2019 was caused by the fact that a Minnesota Court ruled that the City of St. Paul could no longer use **Street Maintenance Assessments** to finance the systematic maintenance of residential streets. While the St. Paul taxpayers had an increase in property taxes, they also had their annual street maintenance assessments eliminated.

The **Minnesota Revenue** Department's annual reports reveal the following data for the entire tax base for both St. Paul and Minneapolis, comparing actual certified property tax levies and TIF levies for 2015 to actual levies certified for 2024:

1) City levies: **St. Paul rose 101.2%**, while Minneapolis rose **64.1%**
2) School levies: **I.S.D. 625 rose 50.0%**, while Minneapolis rose **39.0%**
3) County levies: **Ramsey rose 39.8%**, while Hennepin rose **47.3%**
4) Special Dist. levies: **St. Paul rose 113.9%**, while Minneapolis rose **40.3%**
5) T.I.F. Dist. levies: **St. Paul rose 40.1%**, while Minneapolis fell **52.1%**
6) **Total Levies**: **St. Paul rose 62.8%**, while Minneapolis rose **44.6%**

TAX INCREMENT FINANCING ANALYSIS

Tax Increment Financing is a method a Minnesota city can use to provide direct financial assistance to a private developer to facilitate taxable development on blighted real estate, which would not otherwise be feasible without a public subsidy. For the underdeveloped area proposed to have new development, the City determines the existing Taxable Value for the project area, which is then designated as a Tax Increment Financing (TIF) district. Then the City issues general obligation bonds to provide the private developer with a public subsidy, pay bond sale expenses and provide money for the City to pay debt service on the bonds for the first three years, until new property taxes begin coming in.

Once the development project is completed and the property owners within the TIF District start paying property taxes, the county taxation department subtracts the original taxable value (when the TIF district was created) from the new, current taxable value. This captured taxable value then has the current tax rate applied to it, and all the new incremental taxes collected go to pay for debt service for the bonds issued to subsidize the new development. This amount is the district's captured taxes.
After the bonds are paid off with the tax increments collected in future years, the TIF district is supposed to shut down, and all taxes collected that are no longer needed for debt service become a part of the general tax base used by all local taxing units.

In theory, TIF districts have facilitated new development that has been deemed beneficial, and the districts have closed ahead of the schedule that was estimated at the time the bonds were issued. While those projects appear favorable, one must remember that all the new development requires costly city services that are not paid for by the properties inside the TIF districts. Those property owners don't pay for the services they receive until all the outstanding bond issues are paid off. **To cover the cost of government services inside a TIF district, the rest of the tax base then has to pay more taxes**.

And for some TIF districts, the new anticipated development did not fully materialize, resulting in a shortage of estimated property tax collections. To solve this dilemma, policymakers have pooled excess tax increments from successful TIF districts to use for debt service on unsuccessful TIF districts. **When this happens, the city taxpayers outside TIF districts must continue to pay higher property taxes for the services being provided to properties inside of TIF districts**.

Minnesota Department of Revenue's statistics for TIF districts reveal that the **St. Paul's tax levies for TIF districts from 2015 to 2024 INCREASED 40.1%** from $31,603,964 to $44,274,052. During that same ten-year period, the Minneapolis's tax levies for TIF districts **DECREASED 52.1%** from $50,105,971 to $24,013,786.

The **Metropolitan Council** recently released its Fiscal Disparities Report for Property Taxes Payable in 2024. That report also provides information about the use of **Tax Increment Financing for the metro area**. The **City of St. Paul had $34,601,887 of taxable valuation captured in TIF districts, and that was the largest capture of any city in Minnesota**. This taxable value represents about $500 million in Estimated Market Valuation. Minneapolis is the second largest user of TIF in Minnesota, and it has only **$21,471,921** of Taxable Value captured in TIF districts.

St. Paul's total taxable value outside of TIF districts was **$420,500,432**. Minneapolis' total taxable value outside of TIF districts was **$848,580,723**, more than twice St. Paul's. **Yet St. Paul's use of TIF is 61% greater than in Minneapolis.**

FISCAL DISPARITIES METROPOLITAN TAX BASE SHARING

Metropolitan Council's Fiscal Disparities Report for Property Taxes Payable in 2024 reveals that **St. Paul is the BIGGEST WINNER of this commercial and industrial tax base sharing program for the metropolitan area**. All metro cities contribute a portion of their business properties' taxable valuation into a common pool; then some amount of taxable valuation is distributed back to each city based on a formula that measures tax base burden. This means that business properties in the metro area were helping to pay for 2024 property taxes levied against the St. Paul tax base.

The fact that St. Paul is and has been the Biggest Winner means that St. Paul has the highest stressed property tax base in the metro.

St. Paul Contributed Taxable Value of $35,142,796 into the pool, and received back $76,067,183; for a Net Taxable Value GAIN of $40,924,387.
Minneapolis contributed taxable value of $89,481,251 and received back $78,560,842; for a **Net Taxable LOSS of $10,920,409.**

While St. Paul has been the biggest winner of the Fiscal Disparities Tax Base Sharing Program, there is no assurance that net gains in taxable valuations throughout the metro area will generate future net gains for St. Paul as much as in the past. Much depends on what happens to the valuation of the business property tax bases in the region. Currently, plunging office valuations in both downtown Minneapolis and St. Paul are putting downward pressure on overall metro area business property valuations that are the basis for the Fiscal Disparities Program.

TAXABLE ESTIMATED MARKET VALUATIONS ANALYSIS

The **Minnesota Department of Revenue** reported the **estimated market values of taxable property in both St. Paul and Minneapolis for taxes payable 2024.** The percentages below represent the share of each city's Total 2024 Estimated Market Valuations for various property classes:

Residential Homesteads:	St. Paul 51.4%	Minneapolis 45.3%
Residential Non-homestead:	St. Paul 11.6%	Minneapolis 13.6%
Apartments:	St. Paul 20.3%	Minneapolis 21.1%
Commercial:	St. Paul 10.2%	Minneapolis 16.1%
Industrial:	St. Paul 5.0%	Minneapolis 2.8%

In the past 10 years **St. Paul's Residential Homestead EMV increased 70.1% to $18.299 billion,** while Minneapolis **increased 71.9% to $30.722 billion.**

In the past 10 years **St. Paul's Non-residential Homestead EMV increased 73.0% to $4.120 billion,** while Minneapolis **increased 62.5% to $9.199 billion.**

In the past 10 years **St. Paul's Apartment EMV increased 179.0% to $7.212 billion,** while Minneapolis **increased 203.5% to $14.313 billion.**

In the past 10 years **St. Paul's Commercial EMV increased 28.2% to $3.63 billion,** while Minneapolis **increased 66.7% to $10.905 billion.**

In the past 10 years **St. Paul's Industrial EMV increased 196.8% to $1.783 billion,** while Minneapolis **increased 78.2% to $1.875 billion.**

St. Paul's Residential Homestead EMV of $18.299 billion accounts for 51.4% of the City's total taxable EMV of $35.605 billion. Minneapolis's Residential Homestead EMV of **$30.722 billion** accounts for **45.3%** of its total taxable EMV of **$67.844 billion**

St. Paul's EMV for all housing increased 88.4% to $29.631 billion, while its combined commercial & industrial EMV increased only 57.7% to $5.419 billion.

The St. Paul Port Authority is doing a great job at facilitating industrial development within our City. The Port Authority is a seven-member board, with five private sector members and two City Council members. The City Council certifies the Port's annual property tax levies for general obligation bonding used to purchase land. The Port then uses revenue bonds to finance private taxable development. The business pays rent to the Port, which is used to pay the debt service for the revenue bonds. The business can buy the land and building from the Port after all revenue bond debt service is paid in full.

TAX-EXEMPT ESTIMATED MARKET VALUATIONS ANALYSIS

St. Paul has an extremely large amount of **tax-exempt property** that requires City services be paid for by the City's taxable property. The Ramsey County Assessor's 2023 total estimated market value for all property in **St. Paul is $43,390,913,200**, with **$8,102,106,500 (18.7%) being tax-exempt EMV.** By comparison, **suburban Ramsey County** has a 2023 total estimated market value of $**43,896,514,600; with tax-exempt EMV at $4,972,717,100 (11.3%).**

When evaluating the property taxpayers' burden for supporting tax-exempt properties, it is not enough to look at the value of the property alone. What is more important is the amount of city services required for the property and the daily impact on the city's infrastructure. Thousands of people come every day from the metro area and outstate to use or visit major tax-exempt facilities located in St. Paul.

St. Paul has a much higher service delivery obligation to tax-exempt properties than other Minnesota cities. Below are some of the facilities that benefit thousands of people daily not living in St. Paul.

1) Federal facilities: District Court, Social Security and Mississippi River Park
2) State of Minnesota: 33 major buildings for state operations.
3) Metro Government: 9 buildings for planning, transit, mosquito, waste water.
4) Ramsey County: 13 buildings for courts, detention, human services & more.
5) Regional hospitals: 10 buildings, not counting health clinics.
6) Major colleges: 10 campuses, private & public.
7) Regional transportation: Downtown Airport, Train Depot, & Bus Depot.
8) Metro regional parks: Como Zoo & Conservatory and 8 other popular sites
9) Historic museums: 10 major attractions that draw people daily.
10) Major sports facilities: Minnesota Wild Hockey, Minnesota United Soccer, and St. Paul Saints Baseball.

CITY SALES TAX ANALYSIS

The City of St. Paul's 9.875% sales tax rate is the highest in Minnesota. High sales tax rates have a negative impact on business and can ultimately lead to some businesses moving out of St. Paul. When businesses leave, the City's taxable valuations are reduced; meaning residential property will have to pay more property taxes for services.

Minnesota does not collect sales taxes on essential purchases (food, clothing and medicine). The sales tax rates that apply to purchases in St. Paul are:

1) State of Minnesota **6.875%.**
2) Metro area transportation **0.75%.**
3) Metro area housing **0.25%.**
4) Ramsey county transit **0.50%.**

5) St. Paul voter-approved **0.50%** (for Rivercentre at **40%** of revenues, for Neighborhood Development at **50%** of revenues, and for Cultural Programs at **10%** of revenues).
6) New St. Paul voter-approved **1.00%** for reconstructing city arterial streets and bridges and for Parks and Recreation Facilities.

POPULATION AND HOUSEHOLD ANALYSIS

The **Minnesota State Demographer** recently identified population estimates for the U.S. Census year 2020, and for year 2023. The data reported for the five largest cities in Minnesota estimates the following population changes between 2020 and 2023:

Minneapolis' population **increased 0.9%,** to 433,633.
St. Paul's population DECREASED 0.2%, to 310,997.
Rochester's population **increased 1.3%,** to 122,969.
Bloomington's population **increased 1.7%,** to 91,537.
Duluth's population **increased 0.1%,** to 86,788.

In the last three years, St. Paul was the only large Minnesota city to have a population decrease, while the population for the state increased **1.6%.**

During the last three years the total number of households in the state increased 3.3%. **St. Paul's household count increased 2.4% to 123,504,** while Minneapolis's household count increased **4.1%** to 195,280.

In 2023, the average persons per household in St. Paul was 2.52 people, while in Minneapolis it was **2.22** people.

On average, a St. Paul household has a larger family than Minneapolis, with less gross income and a higher property tax and sales tax burden. Not a good situation if you own or rent in St. Paul.

In conclusion, In$ight St. Paul declares:

St. Paul property and sales taxpayers pay excessively high taxes. Our City is fiscally stressed.

We need to address the complex challenges now before us. Our focus has to be on long-term financial security.

Some Elements of the City's Proposed 2025 Budget Do Not Make Sound Long-term Financial Sense

In 2023, the St. Paul voters passed a referendum allowing the City to implement a new 1% Sales Tax to be used over 20 years to finance reconstruction of arterial streets and bridges and to address deferred maintenance of Parks and Recreation facilities along with construction of some new facilities. The authorizing state law specifies that up to $738 million can be spent on public works projects and up to $246 million can be spent on park projects and recreation facilities. This 1% sales tax went into effect April 1, 2024, and the law allows the City to issue bonds to get a fast start on catching up with deferred maintenance. The annual sales tax revenue collected can be used to pay debt service on the new 1% sales tax bonds and can also be used to directly finance projects in any given year.

At the October 2 City Council Budget Committee meeting, staff from the Office of Financial Services notified the Council that Standard & Poor's has lowered the City's debt contingent liability rating from adequate to weak. The City is in a high debt situation that could lead the bond rating agencies to lower the city's AAA Rating. A reduced bond rating could cost the City millions of extra dollars in debt service payments for future bond issues.

During that meeting it was stated that the City's Proposed $24,710,000 Property Tax Levy for General Obligation Bonds accounts for 11% of the Total Tax Levy of $224,969,000. That statement is true, but misleading. What was not disclosed in the city budget summary is that fact that there is a Tax Increment Financing Levy of approximately $45 million which is for TIF Bonds issued by the City and by the Housing and Redevelopment Authority. An objective accounting of 2025 property taxes being collected for debt service obligations would be City G.O. Debt of $24,710,000 and Port Authority G.O. Debt of $2,902,00 and TIF District Bonds of $45,000,000. These three property tax obligations for debt service total **$72,612,000. That means that tax levies for G.O. debt service amounts to 26.9%** of the a Full Disclosure Total Property Tax Levy of $269,969,000.

There is no policy document on the City's website that gives a comprehensive, forward looking perspective of all of the City's debt outstanding (general obligation bonds, parking revenue bonds, tax increment bonds, short term notes, bond refunding, etc,). There is nothing about the dedicated financing sources for each bond issue, nor the length of the bonds. And there is nothing about the overlapping general obligation debt for the entire St. Paul tax base. Taxpayers have to pay for all debt that comes from the City, the Port Authority, St. Paul Schools and overlapping units like Ramsey County and Watershed Districts.

We know there is some bonding information in various tables in the Comprehensive Annual Financial Reports for the City and for the Housing and Redevelopment Authority. But that actual data is always three years behind the proposed budget being prepared. The City Council should adopt forward looking debt policies to guide city departments as they plan for future capital improvements. We know this policy direction is extremely important as major bonding plans are being considered for the 1% Sales Tax and for the upgrading of the Rivercentre at the same time the City's bond rating could possibly be lowered.

In$ight St. Paul strongly believes that no 0.5% and 1.0% sales tax bonds should be issued in 2025 for new development activity and for Parks and Recreation Projects until after a Comprehensive Bonding and Debt Service Policy Report is prepared by the City's staff with the assistance of the City's bonding advisor.

The Proposed 2025 Capital Improvement Budget (CIB) identifies specific projects approved for 2024 and proposed for 2025.

The budget for **Public Works** **identifies $21,888,000 in arterial street reconstruction projects that were approved to be financed with 2024 sales tax revenues. And for 2025, another $34,500,000 is proposed for arterial street reconstruction, with financing from 2025 sales tax revenue.** No bond money was identified for the systematic repairing of arterials and bridges.

In$ight St. Paul supports these 2025 Public Works projects to upgrade arterial streets and bridges because they take care of what exists today.

The budget **for** **Parks and Recreation** **identifies $7,296,000 in projects approved to be financed with 2024 sales tax revenues. And for 2025, a total of $11,500,000 is proposed for projects to be financed with 2025 sales tax revenue, and another $36,759,625 in projects is proposed to be financed with a 2025 1% sales tax bond issue**.

The 2017 Management and Feasibility Study by the national municipal consultancy Ameresco found that St. Paul's budget for Parks and Recreational facilities was short about $8.5 million dollars a year for a systematic maintenance program, just for existing recreation buildings and park facilities.

The new 1% sales tax program will help Parks and Recreation address deferred facility maintenance, but provides nothing for staffing operations, running programs and doing routine maintenance.

The proposed 2025 operating budget for Parks & Recreation does not have sufficient funding to carry out existing duties, as noted by the director in his budget presentation to the City Council's Budget Committee on Sept. 4, 2024**.**

Half of the justification for needing a new 1% Sales Tax was that the City was not able to finance the systematic maintenance of our existing Parks & Recreation facilities for the past couple of decades. Then why build five or more additional facilities that could easily add another couple of million dollars of annual operating costs to the already stressed Parks & Recreation budgets? Why make a bad situation worse?

The Trust For Public Lands Park Score Index has ranked St. Paul's parks and recreation system second in the nation for every year since 2016, except for third in 2020.

In$ight St. Paul declares there is no common sense need to expand our parks and recreation facilities. Rather, many St. Paul residents desire more programming at existing recreation centers. Do not add more facilities that may also be understaffed, undermaintained and underutilized.

In$ight St. Paul recommends not funding these four projects proposed to be financed in 2025, because they are NEW facilities that do not now exist:

1) **Mississippi River Balcony - design cost $1,200,000.**
2) **River Learning Center at Crosby Park - design cost $2,700,000.**
3) **Multi-purpose regional athletic complex - design cost $1,200,000.**
4) **Revitalize water features and add new ones - $6,800,000.**

The proposed 2025 Capital Improvement Budget estimates the 1% sales tax revenues for 2025 to be **$46,000,000** with all of it going to projects, plus a 2025 1% sales tax bond issue of **$36,759,625**. **Meanwhile, the proposed budget for 2025 debt service does NOT identify any revenue or cost estimates for issuing a 1% sales tax bond issue for next year.** When you add in the cost of issuing bonds, the 2025 bond issue would be about $36.9 million. Thus the 2025 debt service budget should have at least $3 million budgeted for both spending and financing if the City decides to issue 19 year bonds at 5% average interest rate.. Again, **In$ight St. Paul opposes** this bond issue until a **Comprehensive Bonding and Debt Service Report** is completed.

In$ight St. Paul says: Budget required 2025 debt service if bonds are to be issued.

St. Paul collected $26,700,000 from its 0.5% sales tax in 2023. If you assume a 1% sales tax would have been double that amount, a full year's collection would generate $53,400,000. With inflation increasing in 2024, one might conservatively estimate the new 1% sales tax revenues to be $54,000,000 for 2025. That would be $8,000,000 more than the $46,000,000 1% sale tax revenue estimate in the proposed 2025 Capital Improvement Budget. And eight months of collections for 2024 would be about $34.6 million, which would be about $5 million more than the adopted 2024 budget estimate of $29,184,000.

In$ight St. Paul says: We support conservative revenue estimates, but City budget staff might want to revisit both their 2024 and 2025 revenue estimates for the new 1% sales tax. Instead of issuing 1% Sales Tax bonds in 2025, the extra $13 million in revenues estimated above could be used to finance high priority improvements at existing Parks and Recreation facilities. By high priority we mean projects that fix mechanical equipment that reduces energy consumption and eliminates dangerous hazards in buildings and on park lands.

The proposed 2025 Capital Improvement Budget double counts 1% sales tax revenues in both financing plans and spending plans. The totals for both plans are overstated by $46,000,000. The CIB budget summary identifies projects totaling $164,307,625 that are being financed. In reality. there is only enough money to finance $118,307,625 worth of projects.

The Proposed 2025 CIB **financing plan** counts 1% sales tax money dedicated for projects of $46 million, and identifies sales tax bonding of $33,759,625 and then also identifies 1% sales tax revenues of $46 million. **The financing plan overstates revenues by $46 million.**

The Proposed 2025 CIB **spending plan** identifies the costs for each project proposed to be financed ($46,000,000 sales tax money funded projects and $33,759,625 sales tax bonding projects); and then includes sales tax revenues of $46,000,000. **It is wrong to put a revenue estimate into a spending plan.**

Government Finance Officers Association (GFOA) and Generally Accepted Accounting Principles (GAAP) defined budgets as follows:

Spending plan: authorized spending and proposed transfers to another fund.
Financing plan: estimated revenues, estimated transfers-in from other funds, and the use of available fund balance.

To adopt the 2025 CIB budget as proposed would cause a serious problem with the Minnesota State Auditor's Office and could jeopardize St. Paul's AAA bond rating. A reduced bond rating could cost the City hundreds of thousands of extra dollars annually for added interest expense.

In$ight St. Paul says: Correct the double counting of 1.0% sales tax revenues in the spending plans and financing plans in the 2025 Capital Improvement Budget.

The 2025 proposed Capital Improvement Budget also has the use of the 0.5% Sales Tax Bonding to finance the lease or purchase of vehicles for Fire at $1,300,000 and Police at $1,100,000. Minnesota state law prohibits the use of bonding on equipment that does not have a life expectancy equal to or greater than the length of the bonds being issued. We guess that police vehicles get turned over every four years, thus long-term bond financing for a short-lived vehicle would be wrong!

In$ight St. Paul says: Don't use long-term bonding to finance Police and Fire vehicles that will not outlive the length of the bond issue. Don't jeopardize St. Paul's AAA bond rating and cause a non-compliance issue with the State Auditor.

Tax Increment Financing (TIF) has been a heavily used financing method to help induce new development projects in St. Paul. And at the same time, the use of TIF districts results in the citywide taxpayers having to subsidize the cost-of-service delivery to properties inside a TIF district.

We know that not all TIF Districts have been successful. That has forced the City to pool TIF district captured taxes. This strategy of having successful TIF districts help TIF districts that are not generating their anticipated taxes causes a greater citywide taxpayer subsidy, because TIF districts will last for a longer number of years.

Rent stabilization requirements and **high crime** in some TIF districts can result in anticipated development not being realized. This means unsuccessful districts will exist for a longer time, requiring an even greater burden for the general tax base to support city services inside a TIF district.

2025 property tax levies for TIF districts will be approximately **$44.3 million**. This amount is **in addition** to the Proposed 2025 city levies of **$225,000,000**. TIF district tax levies are highly significant and are an important redevelopment financing tool, yet they are **NOT** disclosed in the City's Budget Summaries.

In$ight St. Paul says for TIF Districts:

1) **Disclose TIF property tax levies when preparing the City budget,** so people can understand the high magnitude of total property taxation and subsidies for new developments.

2) **Address crime issues** that deter new development and cause property values to decrease.

3) Understand that rent control artificially caps property values which may jeopardize both new and existing developments.

4) Know that the EMV of properties within a subsidized TIF district may increase over time, but often nearby properties outside of the TIF district may suffer valuation loss when land use development demand is lacking because of the new TIF development. Thus, the TIF project may ultimately produce no net gain in taxable property valuation.

City Staffing Priorities: The City's **total full-time equivalent (FTE) staffing for all budgets between 2016 and 2025 is increasing 285 FTEs** from 2,924 to 3,209. The major changes are:

City Attorney increased **36** FTEs, from 66 to 102.
Parks and Recreation increased **87** FTEs, from 555 to 642.
Fire and Safety Services increased **42** FTEs, from 479 to 521.
Public Works increased **31** FTEs, from 385 to 416.
Police increased **13** FTEs, from 771 to 781.

In$ight St. Paul believes addressing crime is a higher priority than expanding the St. Paul's Parks and Recreation system. So, if you don't want to lose population and business, find ways to increase Police staffing.

The American Rescue Plan. In 2021, St. Paul was awarded $167 million through the State and Local Fiscal Recovery Fund to respond to the negative consequences of Covid 19. Many important programs were implemented with this one-time federal grant. The grant dollars will soon be gone, but the demand for some of the temporary programs will remain. This situation could create future pressure to raise additional property taxes o continue some programs. **Insight St. Paul believes the City should not raise property taxes to continue programs that were intended to be temporary.**

In$ight St. Paul Requests the St. Paul City Council Take These Actions as It Adopts City Budgets and Approves Projects and Programs for the Near Future

1) Do not approve any 0.5% or 1.0 % Sales Tax Bond Issues in 2025 until after the Office of Financial Services prepares a Comprehensive Bonding and Debt Service Report that the City Council can use to determine sound, affordable bond issuance policies.

2) Do not approve design or construction funding in 2024 or 2025 for any Parks and Recreation facility or park that does not now exist. This includes:

a) Mississippi River Balcony - design cost $1,200,000.
b) River Learning Center at Crosby Park - design cost $2,700,000
c) Multi-purpose regional athletic complex - design cost $1,200,000
d) Revitalize water features and add new ones - $6,800,000

3) Direct Parks and Recreation to provide the City Council by January 30 of next year A Fiscal Note of Full Disclosure for each proposed project which will identify:

a) An estimate of the total cost of any given project with cost estimates specifically for preliminary conceptual design, final design, land acquisition, facility construction, specialized energy saving equipment and landscaping.
b) An estimate of staffing, programming, operations and maintenance costs, along with the planned hours and days of operation.
c) If taxable property is being acquired to develop a new project, identify the amount of property taxes being lost.

4) Direct the Long-Range Capital Improvement Budget Committee to identify new operating and maintenance costs when it recommends funding priorities to the Mayor and City Council. And the CIB Committee should also identify a total cost estimate for any project that is financed over more than one year.

5) Approve a 2025 Adopted Budget that includes a debt service spending plan and a debt service financing plan for any 2025 1% sales tax bond issue. It is estimated that an additional $3,000,000 in revenues will have to be found for financing the debt service if the budget includes $36,900,000 for 1% Sales Tax Bonding.

6) Approve a 2025 adopted budget that does not double count 2025 1% sales tax revenue estimates in the financing plan and the spending plan for the Capital Improvement Budget. The proposed 2025 CIB has $46,000,000 in 1% sales tax revenues counted twice.

7) Prepare a summary for the 2025 Adopted Budget that discloses the amount of property taxes being collected for each Tax Increment Financing district. And when preparing a summary of the tax levies the City Council is approving for City operations, City debt service, Library operations and Port Authority debt service, also include an approximate estimate for TIF levies being collected. The total TIF levy is about $45 million and is the result of many projects approved by past City Councils. We are disappointed that this secret tax levy is not disclosed in any summary.

8) Require the Planning & Economic Development Department to include on its website relevant information about each existing TIF district. Information should include: the date established, a description of the development project as originally proposed, the developer's name and subsidy amount, the term of bonds issued, the original estimate of property taxes to be captured annually, the original estimated close-out date, the current estimated close-out date, and a project success determination. And lastly, if the TIF district is deemed successful but is contributing captured tax increments to a shared pool to support unsuccessful TIF districts, identify how much has been contributed. Minneapolis annually discloses data for each one of its TIF Districts. The City of St. Paul should have the same public transparency.

9) Evaluate how rent control discourages investment in housing and how high crime rates seriously lessen the likelihood of success for current or future Development.

10) Follow generally accepted accounting practices and do not use bonding to finance the purchase of Police and Fire vehicles that will not last 10 years.

11) Establish a 2025 PILOT Committee to develop an implementation plan for a St. Paul Payments In Lieu of Taxes Program. The City should initiate discussion with owners of tax-exempt properties in St. Paul to see if they will voluntarily contribute money to pay for the services they receive from the City.

12) Work with the Ramsey County Delegation to pass a state law that would give our City special annual state aid for City services provided to all state-owned buildings in St. Paul.

The **In$ight St. Paul Committee** thanks all the interested stakeholders and all the elected officials for taking the time to read our comprehensive **"We Care"** report.

If the findings in this report concern you, please feel free to share the report with your neighbors and local organizations and businesses, and assertively communicate your concerns to elected officials.

In$ight St. Paul respectfully communicates that we want St. Paul's financial future to be affordable while essential services are provided to residents and property owners.

We want St. Paul to continue to be a **Great Place** to live, raise a family, go to school, work, shop, be entertained, enjoy sports, enjoy nature, and be a welcoming, supportive community. And, we want to be **a Fiscally Healthy Capital City of Minnesota.**

Respectfully Transmitted,

Jane Prince, Committee Co-Chairs
Gary R. Todd, Committee Co-Chairs

Dave Beal, Steering Committee Member
Gregory N. Blees, Steering Committee Member
Julian Loscalzo, Steering Committee Member
John Mannillo, Steering Committee Member
Carl Michaud, Steering Committee Member
Donna Swanson, Steering Committee Member

In the near future, our citizens committee will have a website with our name, In$ight St. Paul, where you will be able to view:

1) **Guiding Principles for In$ight St. Paul.**
2) **List of Members of the In$ight St. Paul Committee.**
3) **Executive Summary for this 18 page report.**
4) **22 Research Papers prepared to gather the facts used to develop this report.**
5) **7 page Summary of Key Findings from the 22 research reports.**
6) **Glossary defining technical terms used in our reports.**
7) **Calendar of Events for upcoming meetings**

If you want to get involved with our mission, or if you have any questions before our website is up and running, you can contact the committee by sending an e-mail to: insight.st.paul@gmail.com

We are a volunteer organization without any staff, so please understand it may take a few days before someone can respond. Thank You.

In$ight St. Paul, Nov. 12, 2024