Watchdog group warns of shaky future for St. Paul's finances

Says city must act to reverse shrinking tax base, deferred maintenance, overuse of TIF

By Jane McClure

An array of concerns about the city of Saint Paul's property tax base, finances and spending is outlined in a report issued by In$ight Saint Paul. Members of the citizen watchdog group will present their findings at the Saint Paul City Council's truth-in-taxation hearing at 6 p.m. Monday, December 2, at City Hall.

The report was submitted recently to the City Council and Mayor Melvin Carter. One of its major points is that Saint Paul has the highest sales tax rate of any municipality in the state at 9.875 percent as well as the highest property tax for median-value homes at 1.39 percent of the homes' estimated market value.

According to the report, the property tax picture for homeowners is not expected to get much better with the expected decline of the downtown tax base and the resulting shift of the tax burden to neighborhoods throughout the city.

Another potential source of property tax increases is the city's increasing debt load. Saint Paul's bond rating is currently as high as it can be at AAA. The debt load could lower the rating, making borrowing more expensive for the city and shifting more costs to property taxpayers, according to the report.

Among the recommendations in the 18-page main report and several related reports are freezing spending on major projects, adopting a more conservative use of tax increment financing (TIF) and addressing the complex issues affecting the value of property downtown.

The occupancy rate in downtown office buildings has not recovered from the COVID-19 pandemic of 2020 and 2021. Some companies have left downtown, others are planning to leave and still others are scaling back operations. Several properties owned by Madison Equities went on the market earlier this year after the company's owner died.

Another recommendation in the report is to bring back a proposal for a voluntary payment in lieu of taxes (PILOT) program for the many properties in Saint Paul owned by tax-exempt nonprofit organizations. PILOT was studied in 2017 by the Citizens League and a community-based committee but never acted upon. In$ight Saint Paul is calling for a new committee to revive the effort to institute a PILOT program.

"We've got some big problems, and it just doesn't seem to get better," said In$ight Saint Paul member John Mannillo, a longtime real estate broker and developer from Highland Park. "The city is in a position where revenues are decreasing and expenses are increasing."

Much of the work on the report was done by Greg Blees, the city's budget director under former Mayor George Latimer and the City Council's budget analyst for several years after that. A group of about 30 people reviewed the main report and more than 20 smaller reports.

Blees and Mannillo pointed to how the city uses TIF, a financing tool that is meant to support economic development and housing development that would not occur without the assistance. TIF draws on the increased property taxes or "tax increments" generated by a new development to help finance that development.

Another red flag for the citizens group is the amount of money the city has been investing in parks and recreation projects. Dozens of such projects are underway or on the drawing board.

Mannillo calls TIF the "elephant in the room," and the In$ight Saint Paul report cautions against its overuse. According to the report, Saint Paul uses more TIF than any local government in the state. In the past nine years, total TIF spending in the city increased by 40 percent, from $31.6 million in 2015 to $44.3 million in 2024. The report also notes that Minneapolis, which ranks second in the state in terms of TIF use, has decreased its TIF obligations.

In$ight Saint Paul recommends that the city be more transparent in its use of TIF by reporting annually how much of the city's tax base is tied up in TIF districts.

Another red flag for the citizens group is the amount of money the city has been investing in parks and recreation projects. Dozens of such projects are underway or on the drawing board, including the Mississippi River Learning Center at Crosby Farm Park, the downtown river balcony, an East Side multi-sports complex and numerous playground projects. Many of these projects are being financed through the city's new 1 percent sales tax that voters approved last November and went into effect on April 1.

However, these projects are moving forward when many of the city's existing parks and recreation facilities are in need of basic maintenance, the report stated.

Blees questioned the aggressive expansion of parks with such a backlog of deferred parks and playground maintenance. He said that was one of the biggest issues for members of In$ight Saint Paul.

The group is calling for city officials to desist from funding the design or construction of any parks and recreation facilities that do not currently exist during the remainder of this year and for all of 2025. That would sideline projects as large as the river balcony and as small as the splash pads proposed at some recreation centers.

The group also recommends not approving any sales tax bond issues until the city's Office of Financial Services can prepare a comprehensive report on bonding and debt service.

According to Mayor Carter's spokesperson Jennifor Lor, the city's Office of Financial Services had offered to discuss what it views as inaccuracies and inconsistencies in the In$ight Saint Paul report before it was released, but did not hear back. "We invite the group to share their perspective at the City Council's public hearing on the 2025 city budget later this fall."

One point of debate between the Carter administration and In$ight Saint Paul is the growth in the city's property tax levy. The report criticized city leadership for not helping property taxpayers when the certified levy increased from $105.6 million to $208.5 million, or 97.4 percent, between 2015 and 2024.

In$ight leaders have admitted that some of the increase can be attributed to the court decision that in 2018 forced the city to quit assessing property owners for many of its right-of-way maintenance costs and instead pay those costs through the property tax. The shift in street maintenance costs was responsible for much of the city's 23.9 percent tax levy increase that year.