



To: Mayor and Council Members
From: Nate Reinhardt, Finance Director
Cc: Bill Reynolds, City Administrator
Date: September 21, 2021
Re: Preliminary Levy

Background

Each year the city must prepare a budget and property tax levy for the following year. Staff has been analyzing revenues, expenditure information and initiatives to prepare a preliminary budget and levy for your consideration.

From providing fun recreation programs and beautiful parks to ensuring safe neighborhoods, providing high-quality services enhance and protects people's lives. Responsible fiscal management also builds the foundation for the City to run smoothly and provide effective, innovative programs and services while keeping in mind ways to evolve to meet future expectations and demands. Decisions are made with the future in mind to ensure the city's ongoing ability to provide quality services at a reasonable price.

In February 2020, the City Council adopted its 2020-24 strategic plan, which lays out the City Council's strategic priorities while serving as a broad, guiding document for city staff to do its work. The strategic priorities of Financial Stability, Enhanced Community Strengths, Effective Public Services and Communication are key considerations of the 2022 budget.

Staff has proposed budgets with minimal or no impact to residents in recent years. However, the city is experiencing budget pressures, most notably from increasing personnel costs, as well as infrastructure construction and maintenance costs, neither of which are unique to Shakopee nor other local governments.

The COVID-19 pandemic has impacted operations and city recreational programming and revenues during the past two years, the 2022 budget assumes that there will be no significant impact to operations and revenues. The city is expected to receive a second installment of Federal Coronavirus Local Fiscal Recovery Funds allocated to the city under the American Rescue Plan Act. The allocation of \$2.2 million will be received in July of 2022. These funds are not accounted for within the proposed budget. When received, staff will ask for City Council to amend the budget to include the revenue and intended use of the funds.

The City's estimated market value for taxes payable 2022 increased \$464.2 million (7.1 percent) to \$7.0 billion. New construction accounts for \$162 million (34.9 percent) of this increase. New construction allows the tax levy to be spread across a larger tax base, which reduces tax burden of existing taxpayers.

This past year total residential taxable market value increased 7.9 percent (including new construction) according to data from Scott County. Over 88 percent of the homes are seeing an increase between 0 and 10 percent. As outlined in this memo, staff recommends increasing the

city's preliminary levy 6.99 percent. For the median value home whose property value increased by 6.7 percent, from \$266,800 to \$284,700, this equates to an increase of \$65 or (7.9 percent) annually in property taxes. Absent any change in value from the previous year, homeowners can expect a tax increase of \$2 or about 0.2 percent. The proposed tax levy will increase the city's tax rate from 32.106 percent to 32.174 percent, an increase of 0.068 percent

Development is expected to continue due in part to an annexation agreement with Jackson Township and other redevelopment projects just getting underway. The city continues to see a large influx in residential development projects, including additional single family homes as part of the Windermere, Summerland, Stagecoach at Southbridge, Valley Crest, Countryside, Whispering Waters and Ridge Creek neighborhoods. Townhome and apartment projects include the Arasan Apartments, DECO, Shakopee Flats, Core Crossings, Triple Crown and a town home community at Canterbury Crossing. Commercial and industrial development include the West Shakopee Gateway (Cherne Manufacturing headquarters) and Hentges Industrial Park.

Wages and benefits

The City has three unions (Patrol, Sergeants, Public Works), all three union contracts have been settled through December 31, 2023. The contracts include market adjustments and annual 2.5 percent cost of living adjustments. The preliminary 2022 budget has been built with the assumption that non-union wages will see an equivalent 2.5 percent cost of living adjustment. Across all employee groups the cost of living adjustment amounts to approximately \$589,500.

The city is anticipating health insurance rates will be increasing 4.5 percent for 2022 following a 3 percent increase in 2021. The 2022 budget assumes the increase will be shared equally between the employer and employee, which amounts to a budget increase of \$44,500.

The City is a member of the League of Minnesota Cities Insurance Trust (LMCIT) for property, liability, auto, and workers' compensation coverage. The most recent data from the LMCIT is showing a significant increase in workers compensation claims statewide, driven in large part by the rapid increase in PTSD claim costs. As a result, we have anticipated a 20% increase in premiums for public safety personnel and a 10 percent premium increase for all other personnel, which amounts to \$105,600.

2022 is a state and local election year which will require the hiring of election judges. The city is required to host absentee and early balloting. The estimated additional cost of election judges is \$64,900.

During 2021, the City Council approved changes to personnel that were not accounted for within the 2021 budget. The budget impact of these changes will be first realized with the proposed 2022 budget. These changes include an additional building inspector, engineering technician, communication specialist, recreation specialist (previously part-time), ice arena specialist (previously part-time) and a two percent cost of living adjustment for 2021. The total impact to the preliminary 2022 budget amounts to \$745,000.

The city is not proposing any staffing increases within the 2022 budget process. The net general fund impact of all personnel changes in comparison to the 2021 budget is \$1,620,000.

Internal Rent Charges

The city established internal service funds years ago to account for equipment, buildings, park assets, and information technology infrastructure and equipment. The philosophy behind these funds is they take out the large swings in the tax levy by charging level rents on annual basis. When replacement equipment or infrastructure is needed the appropriate internal service fund makes the purchase from accumulated reserves. Having this system in place and established is fiscally responsible and sets the city up for long-term financial sustainability.

In 2018, staff took an in-depth analysis of the equipment fund after purchasing two fire engines. These fire engines were purchased 20-some years ago for about \$350,000. Over that 20-year timeframe, the fire department was charged a flat annual fee of \$17,500 for each fire engine. Unfortunately, replacement fire engines today cost more than \$600,000. This left a large gap between accumulated rents and the new purchase price. This large difference between the original purchase and the future replacement is common on equipment that lasts for 10 to 20 years due to inflation and other factors.

To ensure the long-term sustainability of the equipment fund staff began charging rent for vehicles that have replacement lives of 10 to 20 years on the estimated future replacement cost rather than the original purchase price. This transition comes with a cost due to higher annual rent charges. In order to minimize the impact, staff is stepping into the full funding of replacement costs over four years. 2022 will be the fourth and final year and adds an additional \$103,600 to the 2022 budget. Increases in replacement costs and new equipment resulted in an additional \$72,800 increase to equipment rent charges.

Staff has also analyzed building replacement charges. For 2022, we have separated out improvements that have less than the full 50 year building life and will begin charging replacement costs for those improvements over a 30 year life to ensure sufficient funding for those improvements. Primarily as a result of this change, an additional \$112,500 has been included for building rent charges.

Other Services & Charges

The 2022 preliminary budget request provides a net increase in other services and charges of \$434,000. This includes a \$96,000 allocated for the spending of tribal contributions, \$50,000 for Emerald Ash Borer mitigation, \$34,000 for recreational software, \$30,000 for fleet vehicle tracking software, \$26,500 for County prosecution costs, and \$25,000 for a salary study. The remaining increases to services and charges were primarily related to material or contractual service increases as opposed to the purchase of additional products or services.

Revenues

The city's building permits have been strong over the past few years with an influx of commercial and residential development. Development and the coinciding building permits are expected to continue, albeit at a more moderate level than what we have seen the last two to three years.

The city is forecasting a \$663,000 increase in budgeted building permit revenue for 2022, as a result of forecasted development and stabilization of the local economy from mid-pandemic times.

Recreational revenues (community center, ice arena, Sand Venture, recreation programs) are estimated to increase by \$76,000. Ice arena revenues have been significantly enhanced as a result of the Shakopee Skate School agreement and programming.

The budget also includes an increase in the transfers from the city's sewer and surface water funds to the general fund of \$75,000 for each fund. The amount has not changed since 2015. The transfer represents a contribution towards administrative costs not directly charged to the fund, such as administration, finance, human resources, information technology.

Overall, the city is anticipating a net increase in non-property tax revenue sources of \$1,138,300.

Economic Development Authority

In 2018, the City Council/EDA Commission approved a standalone EDA Levy. This levy was implemented to increase transparency and was considered a budget neutral change. Prior to 2018, annual transfers were made from the General Fund to the EDA to cover EDA operational costs, façade loan funds and other development related activities.

The Shakopee EDA has the statutory authority to levy a small percentage (up to 0.0185%) of the city's taxable market value, which for 2022 would be a maximum of \$1,024,959. The EDA and City Council can set the levy at any amount up to this cap.

The EDA levy is identified on property tax statements as a separate local tax outside of the city's general property tax. The EDA levy has been the same amount since 2018, for 2022 Staff is recommending an increase in the EDA levy of \$150,000 from \$350,000 to \$500,000. The additional funding would provide for increasing operations costs (primarily personnel), additional professional services, and flexibility for economic development activities. The EDA levy is specifically designated for economic development activities and any funds unspent from year to year will remain in this fund for this purpose.

For the median value home, the annual property taxes would amount to approximately \$22 annually, which would be a \$7 increase.

Debt Service

Staff is anticipating the city's total debt service payments to remain stable at approximately \$2.2 million annually. Staff will need the council to approve a debt service reduction resolution on September 21 due to available fund balance in the existing 2016A debt service fund. A breakdown and comparison of the individual debt levies is provided in the levy analysis chart of the next page.

Capital Project Funds

During the Capital Improvement Plan work session on July 20, staff and city council reviewed the 2022-2026 CIP and projects programmed for 2022. The CIP has subsequently been updated and will be presented to the City Council on September 21 for approval. The CIP identifies \$41.6 million in projects for 2022. As part of that review staff discussed future funding deficiencies in the capital improvement and park development funds. A capital improvement bond issue of approximately \$4 million was included in the plan for 2021 to provide a funding source for projects in the capital improvement fund. As a result of larger projects being moved to 2022 and a year-end transfer of general fund balance, the debt issue was delayed to 2022. A

debt issue of approximately \$5 million (depending on the projects Council would like to see included) is assumed for 2022 and is included in the capital improvement fund budget.

The proposed bond would be repaid with a combination of property tax dollars and special assessments. If approved, the additional required debt levy of approximately \$400,000 would first occur in 2023. Any debt issue would require subsequent Council approval outside the budget adoption.

Levy Request & Impact

Staff is recommending a preliminary city levy of \$22,486,000, which is an increase of \$1,468,200 or 6.99 percent over last year, and a preliminary EDA levy of \$500,000, which is an increase of \$150,000 from last year. The preliminary levy is the maximum the city can levy; the final levy may be less than the preliminary levy but may not be more.

The city experienced 7.4 percent growth in tax capacity for taxes payable 2022. This is on top of 9.7 and 9.9 percent growth in 2021 and 2020, respectively. New construction accounts for about \$1.42 million (34.9 percent) of additional tax capacity.

In terms of levy dollars, the new construction tax capacity allows for the city to increase the levy by approximately \$456,000 (2.2 percent) without having a tax impact on existing properties.

The breakdown and comparison of the proposed preliminary 2022 levy is as follows:

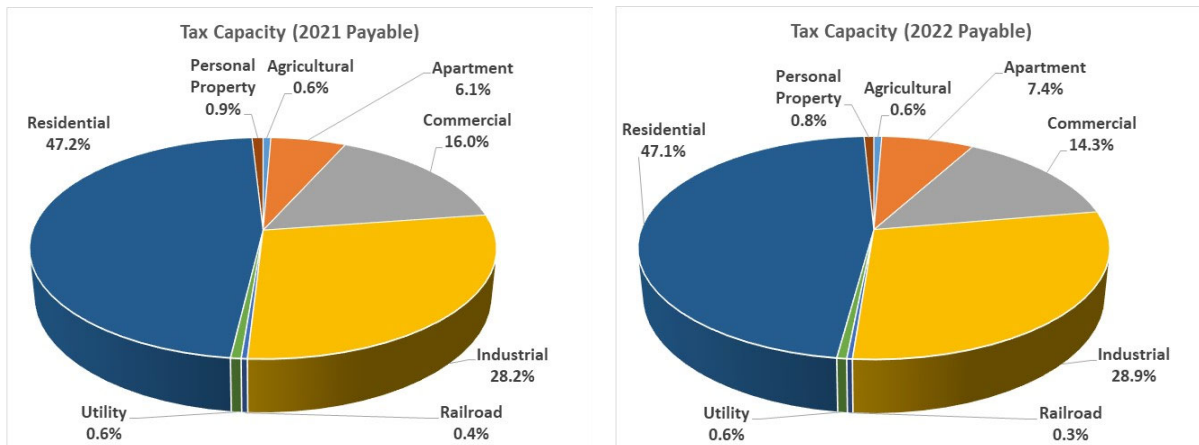
City of Shakopee Levy Analysis August 30, 2021				
	2021 Final	2022 Preliminary	Increase/ (Decrease)	% Change
City Levy				
General Fund	\$ 17,934,600	\$ 19,381,000	\$ 1,446,400	8.06%
Abatements	194,600	216,000	21,400	11.00%
Capital Improvement Levy	700,000	700,000	-	0.00%
Park Development Levy	-	-	-	0.00%
Debt Service				
2016 Abatement	2,188,600	2,189,000	400	0.02%
Total Debt Service	2,188,600	2,189,000	400	0.02%
Total City Levy	\$ 21,017,800	\$ 22,486,000	\$ 1,468,200	6.99%
Shakopee EDA Special Levy	\$ 350,000	\$ 500,000	\$ 150,000	42.86%
Total City and EDA Levies	\$ 21,367,800	\$ 22,986,000	\$ 1,618,200	7.57%

Estimated Market Value

Class	Payable 2021	Payable 2022	Change (%)
Agricultural	\$104,479,000	\$105,865,500	1.3%
Apartment	379,573,200	493,449,300	30.0%
Commercial	593,119,100	573,305,400	-3.3%
Industrial	1,032,049,600	1,144,920,900	10.9%
Railroad	13,078,900	12,922,100	-1.2%
Public Utility	22,650,200	22,650,200	- %
Residential	3,570,040,700	3,816,832,200	6.9%
Exempt	802,467,400	813,379,900	1.4%
Personal Property	32,791,300	31,162,800	-5.0%
Totals	\$6,550,249,400	\$7,014,488,300	7.1%

The city's estimated market value is at \$7.01 billion, which is an increase of \$464.2 million (7.1%) from last year. Apartment market value grew at the fastest rate, with new growth making up \$85.3 of the \$113.9 million increase. The city did experience a decrease of \$19.8 million decrease in commercial market value, as a result of the pandemic impacting values of lodging, fitness, smaller retail stores, sit-down restaurants and movie theatres. Since 2018, spurred by growth the city has seen estimated market value increase by about \$1.9 billion (36.6%).

Net Tax Capacity



The city levies a flat dollar for taxes which is spread amongst all taxable properties in proportion to their percentage of the total tax capacity of the city. Residential represents 47.2% of the city's tax capacity. The comparison of this chart to last year shows that residential properties will pay approximately the same share of total city property taxes in 2022.

Net Tax Capacity

Class	Payable 2021	Payable 2022	Change (%)
Agricultural	\$456,615	\$498,051	9.1%
Apartment	4,429,342	5,843,911	31.9%
Commercial	11,610,901	11,219,049	-3.4%
Industrial	20,512,566	22,769,905	11.0%
Railroad	260,828	257,692	-1.2%
Public Utility	453,004	453,004	- %
Residential	34,326,941	37,071,986	8.0%
Personal Property	<u>648,762</u>	<u>615,442</u>	<u>-5.1%</u>
Gross Tax Capacity	\$72,698,959	\$78,729,040	8.3%
Adjustments:			
Tax Increment	(\$2,554,354)	(\$2,956,553)	15.7%
Fiscal Disparity Contribution	(11,562,126)	(13,206,977)	14.2%
Net Tax Capacity	\$58,582,478	\$62,565,510	6.7%
Fiscal Disparity Distribution	(\$6,459,482)	(\$6,922,606)	7.2%

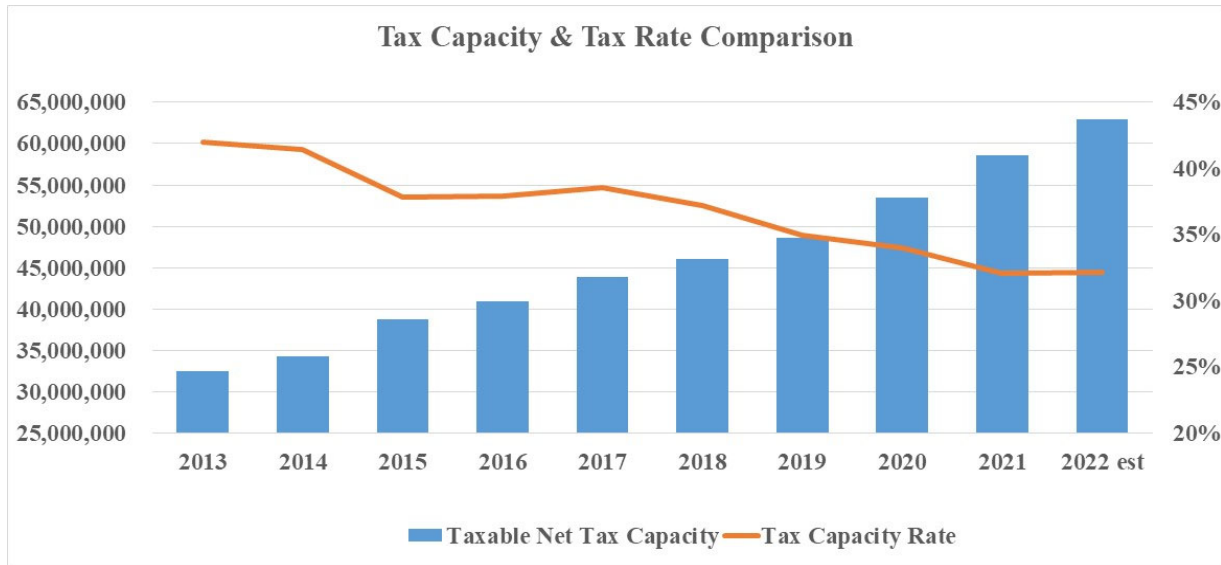
The total net tax capacity of the city is estimated at \$62,565,510 compared to \$58,582,478 in 2021, which is an increase of \$3,983,032 (7.0%).

The gross tax capacity is adjusted for the increase in tax capacity of properties within tax increment financing districts. The tax increment adjustment of \$2.96 million represents 3.8 percent of gross tax capacity. The net increase is primarily related to a portion of Canterbury Commons being added. It is important to note that these developments would not have occurred without the use of tax increment financing. The value and tax capacity of these districts are added to the city's tax role upon the decertification of these districts.

The gross tax capacity is also adjusted for the fiscal disparities program which is unique to the seven-county metro area and is further explained in the diagram below:

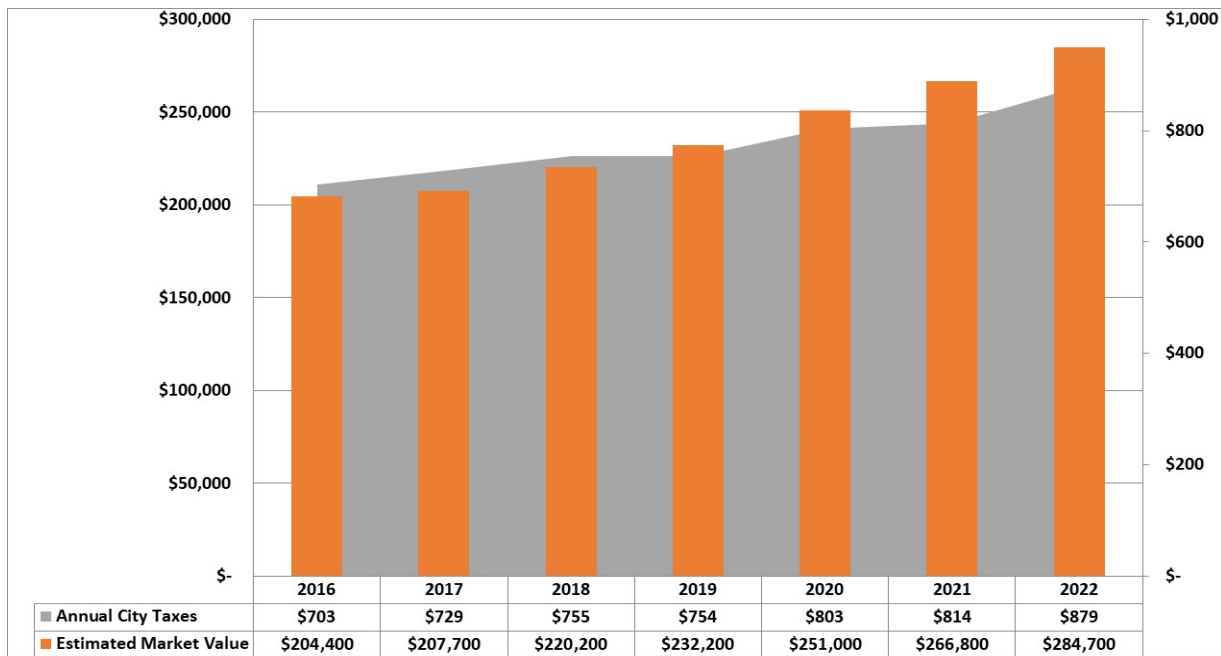


The city's tax capacity contribution to the program is \$13.2 million, and the distribution is estimated at \$6.9 million. The city of Shakopee continues to be one of the top net contributors to the program, estimated for 2022 at \$6.3 million (8.0%) of tax capacity.



Based on preliminary assessment value data, the proposed tax levy will increase the city's tax rate from 32.106 percent to 32.174 percent, an increase of 0.068 percent. This is the first tax rate increase in five years. Above is a chart comparing the city's tax capacity and tax rate over the past 10 years, including the 2022 preliminary levy.

Median Value Home



The value of the median value home has increased from \$266,800 to \$284,700 over the past year. This is an increase of \$17,900 (6.7%). The chart above provides information on the median value home and city property taxes paid since 2016. The orange bar and amounts on the left axis represent the median value home. The grey shaded area and the amounts on the right axis is the property tax amount paid on the median value home. Since 2016 the median

value home has increased in value by 39.3 percent compared to just a 24.9 percent increase in property taxes paid by that home.

For the median value home increasing by 6.7 percent from \$266,800 to \$284,700, this equates to an increase of \$65 or (7.9 percent) annually in property taxes. Absent any change in value from the previous year, homeowners can expect a tax increase of \$2 or about 0.2 percent.

For reference a 1% increase/decrease in the city's 2022 levy amounts to approximately \$9 annually on the median value home.

General Fund Preliminary Budget

Below is the 2022 preliminary General Fund budget. The budget incorporates the General Fund portion of the preliminary tax levy along with the budget impact items noted above.

The past few years we have seen record building permit volume. With larger projects we may see revenues collected in one year but incur inspections costs for that project in the following year. Last year the City Council formally committed \$1,104,000 to be used in future years that included \$500,000 in the adopted 2021 budget to offset related operation costs. The preliminary budget utilizes \$250,000 of those committed revenues for the 2022 budget, which is a reduction in the budgeted use of \$250,000.

The preliminary levy is the maximum levy that can be levied. The final levy can be reduced but it cannot be increased.

2022 Annual Budget GENERAL FUND SUMMARY				
	Actual 2019	Actual 2020	Original Budget 2021	Requested Budget 2022
TAXES	16,794,801.18	17,277,737.95	18,368,600.00	19,724,500.00
SPECIAL ASSESSMENTS	6,483.68	(17,705.65)	7,000.00	4,000.00
LICENSES AND PERMITS	4,656,994.54	3,577,062.61	2,139,100.00	2,786,200.00
INTERGOVERNMENTAL	1,573,434.61	4,707,146.53	1,441,200.00	1,444,200.00
CHARGES FOR SERVICES	7,084,697.22	5,242,149.68	6,929,500.00	7,384,800.00
FINES AND FORFEITURES	8,138.00	7,061.63	1,700.00	1,700.00
MISCELLANEOUS	581,819.17	619,835.77	235,000.00	233,200.00
TOTAL REVENUES	30,706,368.40	31,413,288.52	29,122,100.00	31,578,600.00
GENERAL GOVERNMENT	(4,705,860.79)	(4,981,703.45)	(4,817,500.00)	(5,230,200.00)
PUBLIC SAFETY	(12,731,159.55)	(13,538,331.95)	(13,895,700.00)	(14,830,600.00)
PUBLIC WORKS	(5,955,457.05)	(6,551,230.44)	(6,849,300.00)	(7,522,300.00)
RECREATION	(3,863,476.17)	(3,537,763.26)	(4,156,300.00)	(4,474,160.00)
UNALLOCATED	(25,250.92)	(25,625.00)	(131,200.00)	(130,600.00)
DEBT SERVICE	(22,140.00)	(22,140.00)	(22,100.00)	(40,740.00)
CAPITAL OUTLAY	(93,702.71)	(226,730.14)	0.00	0.00
TOTAL EXPENDITURES	(27,397,047.19)	(28,883,524.24)	(29,872,100.00)	(32,228,600.00)
TRANSFERS IN	250,000.00	250,000.00	250,000.00	400,000.00
PROCEEDS FROM SALE OF ASSETS	577.62	10,284.00	0.00	0.00
BOND PROCEEDS	0.00	0.00	0.00	0.00
TRANSFERS OUT	0.00	(2,535,510.00)	0.00	0.00
TOTAL OTHER FINANCING	250,577.62	(2,275,226.00)	250,000.00	400,000.00
COMMITTED FUNDS - BUILDING INSPECTIONS	0.00	795,000.00	500,000.00	250,000.00
NET	3,559,898.83	1,049,538.28	0.00	0.00

Enterprise Funds

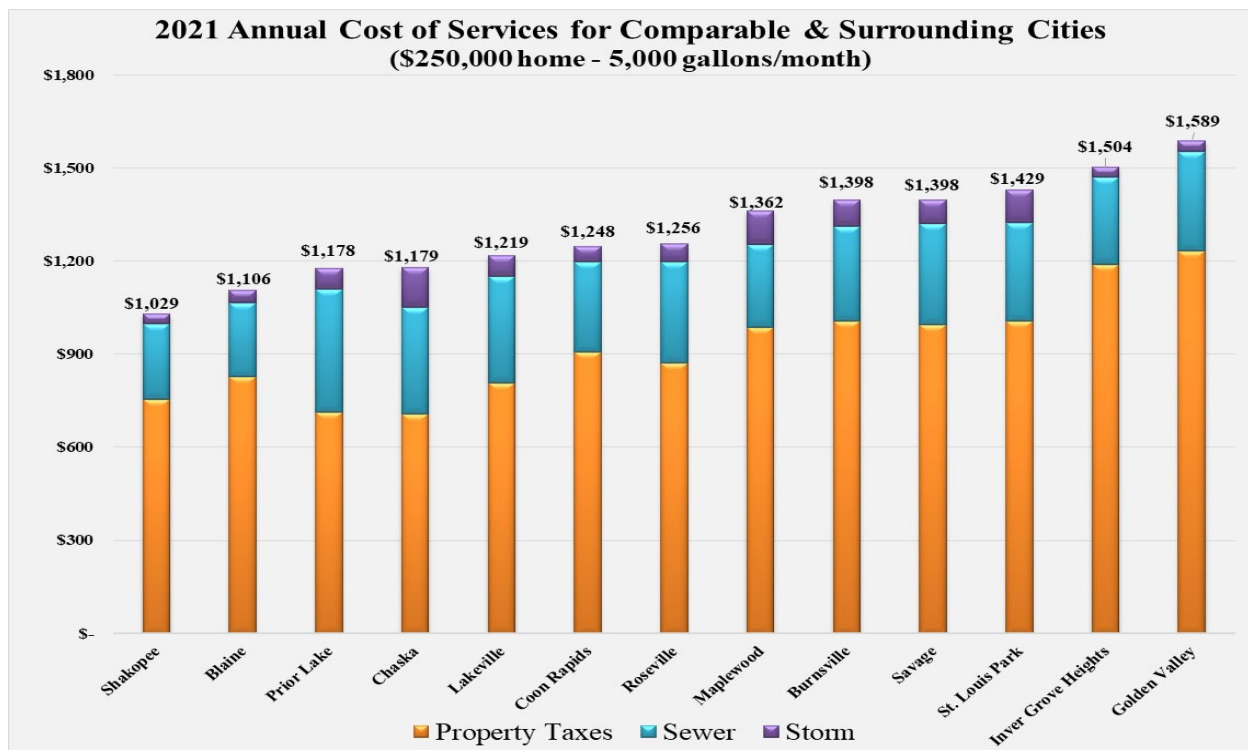
The city operates two public utility funds Sewer and Surface Water. These funds operate on their own ability to generate revenues and receive no property tax support. The Sewer fund provides for the collection and conveyance of wastewater through a system of mains and lift stations. Sewage is treated by the Metropolitan Council Environmental Services, whose contracted services account for approximately 80 percent of the fund's operating expenditures. The Surface Water fund maintains the surface water system for the city, which includes 140 miles of storm sewer and 224 ponds.

The City's sewer billings include a city usage rate, a city fixed rate, and Metropolitan Council disposal rate. The Metropolitan Council rate is calculated based on their allocated city charge divided by the average gallons disposed over the previous three years. This formula requires the 2022 rate to increase from \$2.60 per 1,000 gallons to \$2.73 per 1,000 gallons. Staff is also preliminarily proposing an increase in the city's usage rate of \$0.85 to \$0.90 and the city's fixed rate from \$2.90 to \$3.25 per month. For a typical user with an average of 5,000 gallons of usage per month, this equates to an annual increase of \$15.00 (6.2%).

Staff is currently not proposing any utility rate increase for the Surface Water funds for 2022.

The city has hired a consultant to perform a utility rate review for both utilities, these results will be presented to the City Council in November and may have an impact on proposed rates for 2022 and beyond.

Shakopee is below comparable and surrounding cities when it comes to a cost comparison of city property taxes, sanitary sewer and storm water charges. The following chart provides the 2021 annual cost of services for a \$250,000 value home (slightly below the median value home in Shakopee) and 5,000 gallons of water usage a month.



Schedule for budget and property tax levy development

Date	Who	What
July 7, 2021	Public/Staff	Budget Listening Session
July 20, 2021	Council/Staff	Review Preliminary Capital Improvement Plan (CIP)
August 17, 2021	Council/Staff	Review proposed levy, initiatives and requests
September 21, 2021	Council	Adopt proposed maximum tax levy for City and EDA. Adopt final 2022-2026 CIP
September 30, 2021	Staff	Certify maximum tax levy to the County which will be used for proposed property tax notices
Mid-November	County	Proposed tax notices sent to owners
December 7, 2021	Council/Public	Hold public meeting to discuss levy and budget. Review and approve utility rates for 2022.
December 21, 2021	Council	Adopt final tax levy and budget
December 30, 2021	Staff	Certify final tax levy and budget to County and State