

Pursuant to due call and notice thereof, a Council Work Session of the North Mankato City Council was held at the Police Annex at 1001 Belgrade Avenue on August 26, 2019. Mayor Dehen called the meeting to order at 12:00 p.m. The following were present for roll call: Mayor Dehen, Council Members Whitlock, Steiner, Norland, and Oachs, City Administrator Harrenstein, and City Clerk Van Genderen. Absent: Council Member Whitlock.

**Discuss Draft Private Activity Revenue Bond (Conduit Debt) Policy**

City Administrator Harrenstein reported the City has issued conduit debt, the last issuance to Monarch Meadows. It is a vehicle for businesses to use the City's tax-exempt status to issue debt, the City receives a percentage of the issuance fee and an application fee of \$1,000. He noted the plan would be for the Port to consider issuing conduit debt as an additional source of income. City Administrator Harrenstein introduced Daniel Burns from Briggs and Morgan who reviewed the proposed policy. Mr. Burns noted that many cities have similar policies in place. The requirements allow certain entities to request conduit bonding and the bond company will ensure that all state and federal regulations are followed. He reported the issuance of a conduit bond requires a specific set of meetings and the bond counsel would ensure all necessary meetings were held to issue the conduit bond. Bond Counsel fees would be paid by the borrower. Entities outside of the jurisdiction could request a conduit bond as long as the host jurisdiction agrees to allow the conduit bond. Mayor Dehen requested clarification on what would happen if the borrower defaulted. Mr. Burns reported the City or the Port would not be held liable if the borrower defaulted. City Administrator Harrenstein reported the Conduit Bond Policy would be presented at the next Port Authority Meeting.

**Discuss City of North Mankato Taxable Market Value, Tax Capacity, Property Tax Levy and Tax Rate**

Finance Director McCann stated the City conducted a study of the last 10-years to help understand resident taxes. He reviewed the impact of increases in market valuations, the Market Value Homestead Exclusion Act, the impact of other taxing jurisdictions tax levy and referendums, and the impact of increases to North Mankato's property tax levy. Finance Director McCann reported the study used a sampling of 30 residential homes with 15 under \$199,999, 10 between \$200,000-\$299,999 and 5 over \$300,000, 20 commercial properties with 11 under \$500,000 and 9 over \$500,000 and 15 industrial properties with 7 under \$3,000,000 and 8 over \$3,000,000. A review of the tax history of these properties concluded that taxes have increased across all categories and the taxes have exceeded inflation except commercial under \$500,000 and industrial over \$3 million. A review of the valuations showed the taxable market value increases were greatest in residential over \$300,000, commercial over \$500,000 and industrial under \$3,000,000. In 2011 the Legislation eliminated the credit on property tax and created an exclusion to the proportion of property value. Finance Director McCann reviewed the impact to the market, noting that before the change the Taxable Market Value and the Estimated Market Value was nearly a 100% match. Now the Total Market Value is 92% of the Estimated Market Value. The Minnesota Department of Revenue estimated statewide average tax rates would go up 4.83%. A review of North Mankato showed that the estimated Total Market Value without the Legislative change over the 10 years would have increased 49.94% while the Total Market Value after the change showed only a 41.26% increase. Finance Director McCann concluded the valuation decreases during the great recession had the greatest impact on tax rates. Finance Director McCann reported a residents property tax bill includes County, City School District Property and Referendums, Region 9, Multicounty HRA and the School District Referendum. He reviewed the impact of the City, County and School district on North Mankato residents. It was concluded that the school district tax had the biggest increase over the 10-years. He reported North Mankato's tax levy

has increased, but other taxing jurisdiction levies have also increased. Mayor Dehen noted that increasing property values means a properties taxes also increase. Finance Director McCann reviewed the tax rate calculation the City follows to set the tax levy. The City prepares a proposed budget and includes all non-tax levy revenue sources and what is left is what the City needs to set for the tax levy. Finance Director McCann reviewed the tax rate calculation. He compared the Tax Levy to Tax Capacity increases from 2010-2019 which included a Tax Capacity increase of 26.74% and a Tax Levy increase of 38.84% while a comparison of 2013-2019 revealed a Tax Capacity increase of 36.21% and a Tax Levy increase of 24.15%. Finance Director McCann's final conclusion is that ultimately what a property owner pays is largely based on what happens to the value of their individual property.

Mayor Dehen commented that Minneapolis is considering a 7% tax rate increase and St. Paul is considering a 10% rate increase. City Administrator Harrenstein noted that many items drive individual property tax rates and the City is one of many. He stated the City strives to manage the levy and minimize impact while fulfilling the strategic goals of the City and catching up on capital and equipment needs that were delayed during the great recession and the City's recovery. He reported the purpose of the study was to help understand where people are at concerning taxes before heading into the budget season.

### **2020 Proposed Levy**

Finance Director McCann reported Nicollet County prepared an assessment to determine the total growth in North Mankato estimated Market value for taxes payable in 2020, and it is estimated to have grown \$37,507,300 or 3.1%. Nicollet County has also confirmed \$20,638,000 in new growth related to new construction, new additions, or remodels. While these estimates may change they are good indicators of the trend in North Mankato for 2019.

Finance Director McCann reported the staff prepared three levy options for the Council's consideration. A flat levy where the estimated tax rate would drop from 50.950% to 49.491%. The flat levy would require significant cuts to the general fund and cash levels would decrease 2% over the 5-year forecast going from 42% in 2020 to 40% in 2024. The second option would set the levy based on new growth. The tax rate would decrease from 50.950% to 50.311% and would generate \$111,000 in additional spending. Staff has developed the proposed budget on this model. The draft allows staff pay increases, health insurance costs, and continuing with the current capital set-asides as identified in previous planning documents. Cash levels are projected to increase 2% over the 5-year forecast going from 42% in 2020 to 44% in 2024. The third option is based on total growth, and the tax rate is estimated to remain flat at 50.950%. The option generates \$197,000 in additional spending. Option three would allow for all items covered in option two and additional funds to be allocated toward capital set-asides to be identified by the Council. Cash levels are projected to increase 6% over the 5-year forecast going from 43% in 2020 to 49% in 2024. City Administrator Harrenstein reported City staff is recommending option two capturing new growth. Mayor Dehen clarified the staff is including the cushion of the increased Local Government Aid (LGA). Finance Director McCann reported the Council would need to set the max levy by September 30, 2019, and reported the budget that will be presented includes Department Head requests. City staff requests Council direction on what to include and/or exclude. Discussion was held concerning future projects, consideration of the tax levy and caution concerning future budgets to remain cognizant of a possible recession.

### **Discuss Food and Beverage Tax and Lodging Tax**

City Administrator Harrenstein reported the Lodging Tax was adopted in 1983 and is a 3% tax on the gross rent charged by an operator providing lodging to any person. The tax is collected by the operator and submitted monthly to the City. Since 1993 the City of North Mankato has one hotel which was the Holiday Inn/Best Western and is now the Norwood Inn. Collections have gone from \$36,039 in 1993 to a peak of \$55,209 in 2015 and were down to \$38,782 in 2018. It is suspected the cause of the decrease is increased competition, change in ownership at the end of 2016 and the closing of amenities at the hotel. Five percent of the lodging tax may go toward administration, and the remaining 95% must be used to fund local convention or visitor's bureau for the purpose of marketing and to promote the city or town. Last year the budget had \$42,000 in lodging tax for the promotion of Caswell Regional Sporting Complex, at the end of July a total of \$10,800 has been collected with a total estimate of only \$18,000 projected for the year. City staff has been working to resolve the issue and believe a new lodging venue should be in the City within the next 24 months. The new facility is estimated to bring in \$60,000 in revenue.

In 2016, North Mankato voters approved the extension of the local sales and use tax with a specific additional use of funding "indoor recreational facilities." Since that time, the City of North Mankato requested and received approval from the Minnesota State Legislature to implement up to a 1% food and beverage tax. Staff recommends the tax be implemented at 0.5% to maintain a level tax structure between North Mankato and Mankato. Discussion was held that Mankato recently approved increasing the food and beverage tax to the full 1%. The food and beverage tax includes on-sale intoxicating liquor and fermented malt beverages. The tax is designated for financing the operation, maintenance, and capital expenses for Caswell Park Regional Sporting Complex and costs related to regional tourism events. Staff estimates approximately \$50,000 in revenue from the tax each year. It is important to recognize the flexibility of the new tax to be used to fund operations, maintenance, and capital expenditures, unlike the lodging tax. The use of the tax will further reduce the impact to property taxpayers by reducing annual contributions to Caswell from the general fund levy, spreading the costs of the facility to visitors utilizing them, and assist the users' ability to the facility. Staff recommends the documents necessary for implementing the food and beverage tax at the 0.5% level. Council Member Oachs requested a review of the history of why council is considering the food and beverage tax. She indicated the implementation of the tax would be difficult for the locally run small establishments, and there was concern about pricing themselves out of business. City Administrator Harrenstein reviewed the history of Caswell Sports indicating steps have been taken to improve the operations of the facility, continue establishing it as a regional asset, and increase revenue. He reported the City began discussing an indoor recreational facility in 2008 and a renewed interest occurred in 2014 and 2015, and Council and staff have pursued the facility. The food and beverage tax is one revenue stream the would help operate the facility.

Council Member Norland moved, seconded by Council Member Oachs to close the Council Work Session at 1:20 p.m.

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Mayor

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City Clerk