



# South St. Paul

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## **WORKSESSION AGENDA**

SSP City Hall  
125 3<sup>rd</sup> Avenue North  
Training room

Monday, August 28, 2023

Immediately following Special EDA & City Council Meeting

### AGENDA:

1. SRO Impacts of 2023 Legislative Session Laws – No Attachments
2. EDA Funds Discussion
3. 2024 Preliminary Budget Discussion
4. Council Comments & Questions



**CITY COUNCIL/EDA WORKSESSION AGENDA REPORT**

**DATE: August 28, 2023**

**DEPARTMENT: ADMINISTRATION, FINANCE**

**Prepared by: Ryan Garcia & Clara Hilger**

**ADMINISTRATOR: RG**

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**Agenda item: EDA Funds Discussion**

**Desired Meeting Outcomes:**

- Provide EDA/Council with a summary of various funds administered by the Economic Development Authority.
- Facilitate discussion about various funding sources and fund administration options.
- Arrive at consensus, potentially based upon staff recommendations, for Programs.
- Receive direction as related to 2024 EDA and HRA Levies and Budgets.

**Overview:**

The South St. Paul Economic Development Authority (EDA) was established in 2015 as a special purpose unit of government empowered by Minnesota Statutes §469.001 through §469.047 and §469.090 through §469.1082 for the purpose of facilitating development and redevelopment in the City. Since its establishment, the EDA has served an important role in the continued advancement of the City's vision and goals for job creation, increase of the commercial and industrial property tax base, and reclamation and revitalization of blighted or otherwise underutilized property within the City. Per its enabling resolution and the powers vested in it through the aforementioned statutes, the EDA has levied annual property taxes to support its statutory purpose. In addition, the EDA has assumed the functional role of the City's Housing and Redevelopment Authority (HRA) for all matters besides public housing. Among these are several "legacy" programs and funding sources to support business development, redevelopment, and reinvestment in the City's housing stock.

The City's Economic Development Strategy, most recently updated in 2021, lists among one of its five central goals to "leverage and expand the City's redevelopment toolbox". Strategic actions identified under this goal point squarely at the importance of dynamic funding programs and policies to address the challenges that are inherent with redevelopment. To this end, Staff have endeavored to examine the EDA's current funding tools holistically, and is prepared to discuss with the EDA/Council how to strategically align and begin deploying these tools to meet the City's most pressing redevelopment needs. An outline for discussion is presented as an attachment to this memo, and is intended to guide Monday's worksession discussion as well as the preliminary 2024 EDA and HRA levies and budgets.

**Economic Development / Redevelopment Programs**  
**Funds Overview – August 2023**

**Summary of Recommendations:**

1. Allocate \$625,522 in HRA Levy from 2020 – 2023 to Fund 20284, the EDA’s existing “Development” fund. Originally, these levy dollars were generally levied for “MHS Implementation”. Through other sources, it appears that there is sufficient funding to support MHS Implementation.
2. Allocate \$325,175 in 2024 HRA Levy to Fund 20284.
3. Allocate \$50,000 in EDA Levy from 2023 to Fund 20284. In the 2023 budget, these funds were levied to support the Business/Development Loan Fund (20283). The existing loan fund appears to have sufficient funding to support current demand in the program.
4. Allocate \$111,262 in 2024 EDA Levy to Fund 20284.
5. Write Off Business Loan (\$9,991.14) to Sasse Nails/Kristine Koenker, which has been delinquent for almost five years as the proprietor/business has ceased operations.
6. Transfer \$196,082.36 in cash balance from Fund 20287 (Bond Fees) to Fund 20284 (Development) and close Fund 20287 as it has seen no activity in at least 10 years and appears to be a remnant of previous HRA conduit debt fees.
7. Transfer \$5,046.46 in cash balance from Fund 20292 (Rediscover) to Fund 20284 and close Fund 20292 as it has seen no activity in more than five years and the program was terminated by resolution of the HRA/EDA/City Council in 2017.
8. Establish a Housing Reinvestment Fund, transferring all cash (\$625,050.55 est.) and receivables (\$644,208.07 est.) from existing Funds 20293 and 20294, which are legacy HRA loan funds which provided rehab loans to low- and moderate-income households. The Low/Mod home rehab loan program is now administered by Dakota County CDA.
9. Following transfers as recommended in Recommendations 1, 2, 3, 4, 6, and 7 above, leverage a total estimated \$2,000,000 in the Development Fund (20284) for strategic and targeted redevelopment purposes as identified in the City’s Economic Development Strategy (Hardman Triangle).
10. Call 2015A Series Tax Increment Note (est \$380,000) in Fall 2023.
11. Leverage unobligated cash and increment (12/31/2024 est. \$3,438,862) in Fund 40490 (Concord TIF) towards strategic and targeted redevelopment purposes in the Concord Street Redevelopment Project Area, with a focus on the Hardman Triangle.

**Summary of Economic Development Funds**

- ***Fund 20260 (Housing)***
  - From 2020 – 2023, annual budgets have cumulatively levied \$625,522 for Operating Transfers, for “Master Housing Strategy Implementation”
  - Council has indicated a desire/support for offering low-interest loans as an implementation tool of MHS.
  - Staff recommendation is to transfer the \$625,522 in previously levied Operating Transfers to Fund 20284 (below) for redevelopment purposes

- Staff recommendation is that for 2024 budget, transfer \$325,175 to Fund 20284 for redevelopment purposes (as part of maximum HRA levy after all other budgeted expenditures)
- **Fund 20280 (Economic Development)**
  - In 2023 annual budget, an operating transfer of \$50,000 was proposed to support the Business/Development Loan fund (20283)
  - Details below, but 20283 shows a current cash balance of \$775,514.81
  - Staff recommendation is to transfer the \$50,000 in 2023 levied Operating Transfers to Fund 20284 (below) for redevelopment purposes
  - Staff recommendation is that for 2024 budget, transfer \$111,262 to Fund 20284 for redevelopment purposes (as part of maximum EDA levy after all other budgeted expenditures)
- **Fund 20283 (Business Loans)**
  - This fund has \$775,514.81 in cash balance
  - There are currently two outstanding loans, with a total receivable of \$35,701.71
    - Quik Serv License Center (Lewis) with a remaining balance of \$25,710.57 and a term date of 12/1/2026
    - Salon Sa Se with an outstanding balance of \$9,991.14. No payment has been received on this loan since 2018 and the Borrower has not responded to repeated communication efforts to reconcile.
  - There is currently one approved loan (Watson Trading) for \$125,000. This is a potentially forgivable loan, generally:
    - Interest-only payments due monthly (\$468.75) for 60 months following project completion
    - 1/5 of principal is forgiven on completion date and annually on anniversary of project completion for four years thereafter if certain development milestones are achieved and retained.
  - Staff recommends:
    - Write off the Salon Sa Se Loan of \$9,991.14
    - No EDA (or other) Levy Support from 2023 and 2024 budget; continue to market program to increase participation in the program; possibly support through levy in future budget years
- **Fund 20284 (Development)**
  - This fund has \$740,736.97 in cash
  - Fund 20284's only outstanding liability is a Development Agreement escrow with Linn Companies (for the Holiday development on Southview) of \$47,625. This escrow will pay for erosion control inspections (\$2,100) and the remainder will be returned to Linn.
  - Staff Recommendation is to dedicate fund 20284 towards strategic priorities for redevelopment purposes (Hardman Triangle), which may include acquisitions, demolitions, site preparation/remediation, etc.

- **Fund 20287 (Bond Fees)**
  - This fund has \$196,082.36 in cash
  - Fund does not appear to have any discernible liabilities/obligations
  - Staff recommendation is to transfer the \$196,082.36 in cash balance to Fund 20284 and close this fund.
  
- **Fund 20292 (Rediscover Housing)**
  - This fund has \$5,046.46 in cash and no discernible liabilities/obligations
  - Staff recommendation is to transfer the cash balance to Fund 20284 and close this fund.
  
- **Fund 20293/20294 (Rehab Loans – Small Cities)**
  - Funds 20293 and 20294 collectively have accumulated just over \$625,000 in cash balance and would appear that they could be designated towards MHS implementation
  - Funds 20293 and 20294 collectively have \$398,769.41 in loans receivable
  - Funds 20293 and 20294 collectively have \$245,438.66 in interest receivable
  - Total “potential” funds available to revolve between these two funds is \$1,269,258.62
  - Staff recommendation would be to transfer current cash balance (\$625,050.55) from these funds to MHS Loan Pool
  - Staff would recommend that as loans in 20293 and 20294 are paid off, proceeds be transferred to new MHS Loan Pool (or assign loans/interest receivable to new MHS Loan Pool?)
  - Staff has previously discussed (internally) whether offering an “interest amnesty” to these borrowers would be desirable. This could potentially result in some portion of the loans receivable being recovered more quickly, however as the name suggests the “downside” would be the forfeit of some portion of interest receivable. Basically, this approach could be a way to get additional funds back into the revolving pool more quickly at the expense of future interest proceeds.
  
- **Fund 40490**
  - Fund 40490 has a cash balance of more than \$3.875 million and uncommitted funds can be utilized for eligible public redevelopment costs in the redevelopment project area as defined in the 2009 TIF Plan for “The Concord Street Tax Increment Financing District No.2” and statutory TIF law for Redevelopment Districts. Eligible costs include:
    - Land/Building Acquisition
    - Demolition
    - Site improvements, site preparation, and site remediation
    - Public Utilities
    - Parking Facilities
    - Rehabilitation/Improvement Loans and Grants
    - Streets/Sidewalks
    - Administrative Costs

- Fund 40490 has the following obligations:
  - Per a Development Agreement with DRS Investment VI for the Drover project, a modified 5-year PAYGO note totaling no more than \$1,000,000 has payments twice each year through 2024 (2023 has been paid). Total remaining obligation on this note is estimated at \$200,000, payable in February and August 2024 at which time the note is satisfied.
  - Per the 2009 TIF Plan, the EDA is required to pay (from tax increment generated in the district) Dakota County annually “an amount equal to the tax that would have been payable to the county on the captured tax capacity of the district had the district not been created” through 2024. In 2023 that amount was about \$326,671. Historically, this payment has amounted to about 15-17% of total TIF each year.
  - Fund 40490 pays the principal and interest on a \$1.305 million Tax Increment Bond, which is callable. Just over \$400,000 in total principal and interest payment remains due on this bond through February 2025.
  - Fund 40490 is responsible for payment numerous special assessments for EDA/HRA owned properties located in the Concord Street Redevelopment Project Area. The total of all special assessments due for Fund 40490 includes \$103,425 for the just approved Concord Street assessment, in addition to other assessments of \$97,001.76 plus interest. These other assessments require payment through 2027, but can be prepaid at any time to Dakota County.
  - The 2023 – 2027 CIP commits Fund 40490 to the payment of \$1,984,400 for the reconstruction of Concord Exchange (roadway, sidewalk, streetlights/streetscape, utilities ) in 2024.
- Fund 40490 receives revenue primarily from annual property tax receipts. In 2022, total tax increments amounted to just under \$1.7 million. Tax Increments received so far in 2023 amount to just over \$1.35 million, with the rest of 2<sup>nd</sup> half settlement due just before the end of the year (\$847K last year).
- Speculatively, Fund 40490 is expected to receive approximately another \$2 million in tax increments between now and decertification 12/31/2024.
- The following table provides a “rough estimate” of the funding picture for Fund 40490:

<b>Concord TIF</b>	
Cash	\$ 3,878,262.00
2015A Call (est.)	\$ (405,000.00)
DRS Payment (2024)	\$ (200,000.00)
Dakota Co Payment 2024 (est)	\$ (350,000.00)
Concord Exchange CIP Item (2024)	\$ (1,984,400.00)
Special Assessments	\$ (200,000.00)
<i>Remaining After Obligations</i>	\$ 738,862.00
2024 Increment (est)	\$ 2,000,000.00
<b>Net Funds Available</b>	<b>\$ 2,738,862.00</b>



**Agenda item: Preliminary 2024 Property Tax Levy and Budget Follow-Up**

**Desired Meeting Outcomes:**

- Discuss refinements in approach to Preliminary 2023 Property Tax Levy and Budget following Council feedback received at August 14 worksession, as well as updated information from other government agencies.
- Generate Council consensus around Preliminary 2024 Property Tax Levy and Budget in anticipation of late-September approval.

**Overview:**

As discussed at the August 14, 2023 worksession, the City's management team worked throughout the summer to prepare a 2024 Budget reflecting the Council's priorities and the need to maintain of a high level of public service. As shared on 8/14, these efforts led us to arrive at a preliminary proposed Property Tax Levy for 2024 of **\$15,820,370**. This represented an increase of **\$162,600 – 1.04%** - over the Revised 2023 Budget.

Generally speaking, Council's feedback on the 2024 Levy and Budget as proposed on 8/14 was positive, with Council's consensus being that Staff should return on August 28 with final revisions based upon the discussion that evening. As discussed, the only significant revision anticipated involved a reduction to charges to departments from the Central Garage Fund by utilizing excess 2022 fund balance to "cushion" the one-year blow to said budgets in 2024. In addition to this revision, Staff has also received updated numbers on LGA that result in further changes to the 2024 Levy and Budget.

Attached is an updated Summary of 2024 Property Tax Levy and Budget. The following changes are notable:

- LGA certified by the State of MN was lower than the estimate from the League, resulting in \$223,139 less than presented in the August 14 materials, to a total of \$3,749,065. In spite of this lower than estimated figure, this results in an LGA increase over 2023 of \$894,086, or 31.32%.
- Fiscal Disparities estimates from Dakota County are now available. South St. Paul's will reduce by \$57,393. This will not affect the City's tax levy but will affect the tax rate to the properties.
- General Fund spending reductions related to the Central Garage charges are proposed as follows:
  - A reduction of \$65,000 is proposed in the 2024 Police Protection budget. The new proposed Police Protection Budget shows \$8,263,184 in expenditures for 2024.
  - A reduction of \$110,000 is proposed in the 2024 Public Works (Streets) budget. The new proposed Public Works (Streets) Budget shows \$2,282,487 in expenditures for 2024.
  - A reduction of \$25,000 is proposed in the 2024 Parks Facilities and Maintenance budget. The new proposed Parks Facilities and Maintenance Budget shows \$1,376,503 in expenditures for 2024.

In aggregate, the impacts of the above-noted changes since August 14 result in a Proposed 2024 Levy of **\$15,843,509**. This represents an increase in the levy of \$185,739 over the 2023 Levy, or 1.19%. Total General Fund Expenditures for 2024 are proposed at **\$21,225,186**, which represents an increase of \$2,117,338 over 2023 or an increase of 11.08%.

Staff believes that the Proposed 2024 Property Tax Levy and Budget represent a meaningful and responsible commitment of City resources towards the City Council's identified goals, opportunities and challenges. While every budget year is unique in its own way, the 2024 budget process provided opportunities to re-focus resources with the elimination of the Library levy and budget, and our Departments answered the call. We look forward to Council's feedback on Monday, and look forward to certifying a preliminary levy and budget at a regular business meeting in September.



**SPENDING AND TAXES  
ALL TAX LEVY SUPPORTED FUNDS**

	Revised Budget 2022	Revised Budget 2023	Proposed Budget 2024	23 TO 24 CHANGE	
				\$	%
<b><u>TAXES</u></b>					
General Fund	\$11,587,750	\$12,691,168	\$13,320,065	\$628,897	
Library	848,517	821,312	0	(821,312)	
Doug Woog Arena	322,954	323,000	323,000	0	
Capital/Infrastructure Program	350,000	350,000	725,000	375,000	
Debt Service	1,511,385	1,472,290	1,475,444	3,154	
<b>TOTAL</b>	<b>\$14,620,606</b>	<b>\$15,657,770</b>	<b>\$15,843,509</b>	<b>\$185,739</b>	<b>1.19%</b>
<b><u>SPENDING</u></b>					
General Fund	\$17,922,496	\$19,107,848	\$21,225,186	\$2,117,338	11.08%
Library	860,517	828,312	0	(828,312)	-100.00%
Doug Woog Arena	974,917	1,062,077	1,551,767	489,690	46.11%
Capital/Infrastructure Program	1,224,491	1,268,129	1,268,129	0	0.00%
Debt Service	1,511,385	1,472,290	1,475,444	3,154	0.21%
<b>TOTAL</b>	<b>\$22,493,806</b>	<b>\$23,738,656</b>	<b>\$25,520,526</b>	<b>\$1,781,870</b>	<b>7.51%</b>
Increased Taxes for:					
Operations					-1.22%
Infrastructure Replacement					2.39%
Debt Service					0.02%
					<hr/> 1.19%

2024 BUDGET SUMMARY									
ALL LEVY SUPPORTED FUNDS									
	2024 Proposed						<i>Revised</i>	2023 to 2024 Change	
	General	Library	Doug Woog Arena	Capital Programs	Debt	Total Budget	2023 Budget		
<b>REVENUES</b>									
Property Tax Levy:									
Property Taxes	13,320,065	-	323,000	725,000	1,475,444	15,843,509	15,657,770	185,739	1.19%
Total Property Taxes	13,320,065	-	323,000	725,000	1,475,444	15,843,509	15,657,770	185,739	1.19%
Tax Rate off TIF Parcels	-	-	-	-	-	-	245,000	(245,000)	-100.00%
Local Government Aid (LGA)	2,480,936	-	-	1,268,129	-	3,749,065	2,854,979	894,086	31.32%
Fees and Fines	2,160,455	-	-	-	-	2,160,455	1,823,835	336,620	18.46%
Intergovernmental	957,914	-	-	-	-	957,914	808,038	149,876	18.55%
Charges for Services	2,023,816	-	862,500	-	-	2,886,316	2,434,957	451,359	18.54%
Miscellaneous	92,000	-	30,000	-	-	122,000	91,500	30,500	33.33%
Transfers In	190,000	-	-	-	-	190,000	190,000	-	0.00%
<b>TOTAL REVENUES</b>	<b>21,225,186</b>	<b>-</b>	<b>1,215,500</b>	<b>1,993,129</b>	<b>1,475,444</b>	<b>25,909,259</b>	<b>24,106,079</b>	<b>1,803,180</b>	<b>7.48%</b>
<b>APPROPRIATIONS</b>									
General Government	3,093,439	-	-	-	-	3,093,439	2,919,923	173,516	5.94%
Public Safety	11,035,366	-	-	-	-	11,035,366	8,255,259	2,780,107	33.68%
Public Works	4,752,283	-	-	-	-	4,752,283	4,263,562	488,721	11.46%
Community Development	789,236	-	-	-	-	789,236	721,762	67,474	9.35%
Recreation and Library	754,862	-	1,551,767	-	-	2,306,629	2,597,421	(290,792)	-11.20%
Contingency	800,000	-	-	-	-	800,000	33,322	766,678	2,300.82%
Debt Service (external)	-	-	-	-	1,475,444	1,475,444	1,472,290	3,154	0.21%
Capital Improvements	-	-	-	1,268,129	-	1,268,129	1,268,129	-	0.00%
Transfers Out	-	-	-	-	-	-	2,206,988	(2,206,988)	-100.00%
<b>TOTAL APPROPRIATIONS</b>	<b>21,225,186</b>	<b>-</b>	<b>1,551,767</b>	<b>1,268,129</b>	<b>1,475,444</b>	<b>25,520,526</b>	<b>23,738,656</b>	<b>1,781,870</b>	<b>7.51%</b>

GENERAL FUND SUMMARY OF REVENUE								
Description	2021 Actual	2022 Actual	2023		2024		Proposed 2023 vs 2024	
			Original	Revised	Requested	Final	\$	%
PROPERTY TAXES								
Property Taxes	10,789,693	11,664,311	12,703,118	12,691,168	13,320,065	-	628,897	4.96%
OTHER TAXES								
Tax Rate generated off TIF parcels	570,672	584,329	245,000	245,000	-	-	(245,000)	-100.00%
FEES AND FINES								
Franchise Fees	1,343,647	1,650,588	1,255,000	1,255,000	1,550,000	-	295,000	23.51%
Fines and Forfeits	141,819	121,207	109,900	109,900	111,000	-	1,100	1.00%
License and Permits - Business	135,555	132,936	120,685	120,685	113,755	-	(6,930)	-5.74%
License and Permits - Non-business	570,518	551,488	335,750	335,750	385,700	-	49,950	14.88%
TOTAL FEES AND FINES	2,191,539	2,456,219	1,821,335	1,821,335	2,160,455	-	339,120	18.62%
INTERGOVERNMENTAL REVENUE								
Federal Grants and Aids	-	-	-	40,000	166,500	-	126,500	0.00%
State Grants and Aid (includes LGA)	2,124,412	2,196,210	2,142,210	2,142,210	3,057,296	-	915,086	42.72%
County Grants and Payments	111,215	81,539	79,500	79,500	79,500	-	-	0.00%
Local Grants and Payments	117,124	150,099	133,178	133,178	135,554	-	2,376	1.78%
TOTAL INTERGOVERNMENTAL	2,352,751	2,427,848	2,354,888	2,394,888	3,438,850	-	1,043,962	43.59%

GENERAL FUND SUMMARY OF REVENUE								
Description	2021 Actual	2022 Actual	2023		2024		Proposed 2023 vs 2024	
			Original	Revised	Requested	Final	\$	%
CHARGES FOR SERVICES								
Administration Charge	721,754	729,805	827,302	827,302	887,589	-	60,287	7.29%
Internal Service Charge	20,657	10,000	10,000	10,000	10,000	-	-	0.00%
PILOT (Payment in Lieu of tax)	45,694	50,679	40,000	40,000	50,000	-	10,000	25.00%
Engineering Project Fees	-	-	100,000	100,000	350,000	-	250,000	250.00%
Parks and Recreation	110,518	149,259	161,300	161,300	167,100	-	5,800	3.60%
Rents	50,000	50,000	50,000	50,000	50,000	-	-	0.00%
Planning & Code Enforcement	138,584	139,729	66,500	66,500	89,500	-	23,000	34.59%
Public Safety	2,531	1,788	1,600	1,600	1,600	-	-	0.00%
Public Works - Streets	2,399	4,452	4,000	4,000	4,000	-	-	0.00%
Antenna and Other Charges	242,651	217,321	235,000	235,000	195,000	-	(40,000)	-17.02%
Barge Terminal & Mooring Fees	171,189	174,613	178,105	178,105	181,667	-	3,562	2.00%
Other	66,289	99,040	34,650	34,650	37,360	-	2,710	7.82%
TOTAL CHARGES FOR SERVICE	1,572,266	1,626,686	1,708,457	1,708,457	2,023,816	-	315,359	18.46%
MISCELLANEOUS								
Interest on Investments	45,862	57,228	40,000	40,000	75,000	-	35,000	87.50%
Year-end adjust to Fair Value	(67,941)	(179,316)	-	-	-	-	-	0.00%
Other Revenue	67,159	40,657	17,000	17,000	17,000	-	-	0.00%
TOTAL MISCELLANEOUS	45,080	(81,431)	57,000	57,000	92,000	-	35,000	61.40%

GENERAL FUND SUMMARY OF REVENUE								
Description	2021 Actual	2022 Actual	2023		2024		Proposed 2023 vs 2024	
			Original	Revised	Requested	Final	\$	%
			TRANSFERS IN					
Transfers in Storm Water Fee	40,000	40,000	40,000	40,000	40,000	-	-	0.00%
Transfers in Water/Sewer	100,000	100,000	100,000	100,000	100,000	-	-	0.00%
Transfers In Street Light Utility	20,000	20,000	20,000	20,000	20,000	-	-	0.00%
Transfer from HRA/EDA/Library	47,026	57,150	30,000	30,000	30,000	-	-	0.00%
TOTAL TRANSFERS IN	207,026	217,150	190,000	190,000	190,000	-	-	0.00%
TOTAL REVENUES	17,729,027	18,895,112	19,079,798	19,107,848	21,225,186	-	2,117,338	11.08%
Surplus/(Deficit)	(149,281)	1,393,151	-	-	-	-		
<b><u>DETAIL OF TAX LEVY</u></b>								
Current and Delinquent	8,044,941	8,521,226	9,682,347	9,670,397	10,356,687	-	686,290	4.96%
Fiscal Disparities	2,744,752	3,143,085	3,020,771	3,020,771	2,963,378	-	(57,393)	
General Fund Levy	10,789,693	11,664,311	12,703,118	12,691,168	13,320,065	-	628,897	



