



FINANCIAL PLANNING

Impact of Projected Future Development on
Tax Levy and Tax Rate

City Council Workshop Meeting
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Tammy Omdal, Northland Public Finance



Focus of project

- Estimate taxable market value of projected future development within the city
- Analyze estimated impact of new construction on the city's total tax capacity
- Project future annual city net tax capacity rates under different scenarios

Project steps

- City staff reviewed comprehensive plan and zoning
- City staff estimated future SF of commercial development, multi-family housing units, and residential homestead units that may be constructed by estimated year of construction
- Northland used the city estimates as input to model future projected city tax capacity and tax rates under different scenarios

Important terms to understand

- Taxable market value (TMV)
- Net tax capacity (NTC)
- Net tax capacity rate (Tax Rate)
- Fiscal disparities contribution and distribution

What is taxable market value?

- Taxable market value (TMV) is the price that a property would likely sell for on the open market and is the value that is subject to property taxes, with some exclusions
- For most homestead property, market value minus the homestead market value exclusion equals the taxable market value of the property

What is net tax capacity?

- Net tax capacity (NTC) is derived by multiplying class rates of different property types by taxable market value of property and is the tax base used for levies other than most referendum levies
- Example of class rates:

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
3	Commercial/Industrial/Public Utility			
3a	Commercial/Industrial/Public Utility			
	Up to \$150,000	1.50	Yes*	Yes
	Over \$150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
4	Other residential			
4a	Apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	Up to \$500,000	1.00	No	Yes
	Over \$500,000	1.25	No	Yes

What is net tax capacity rate?

- Net tax capacity rate is computed by dividing net tax levy (spread levy) by net tax capacity
- For purposes of the net tax capacity rate calculation:
 - "levy" is after deducting the fiscal disparity contribution levy; and
 - "net tax capacity" is after subtracting TIF captured net tax capacity and fiscal disparities contribution from the city's total tax capacity
- Represents the net tax capacity rate of taxation on all property within the city
- Project focused on city tax rate and not other taxing jurisdictions

What is fiscal disparities (FD)?

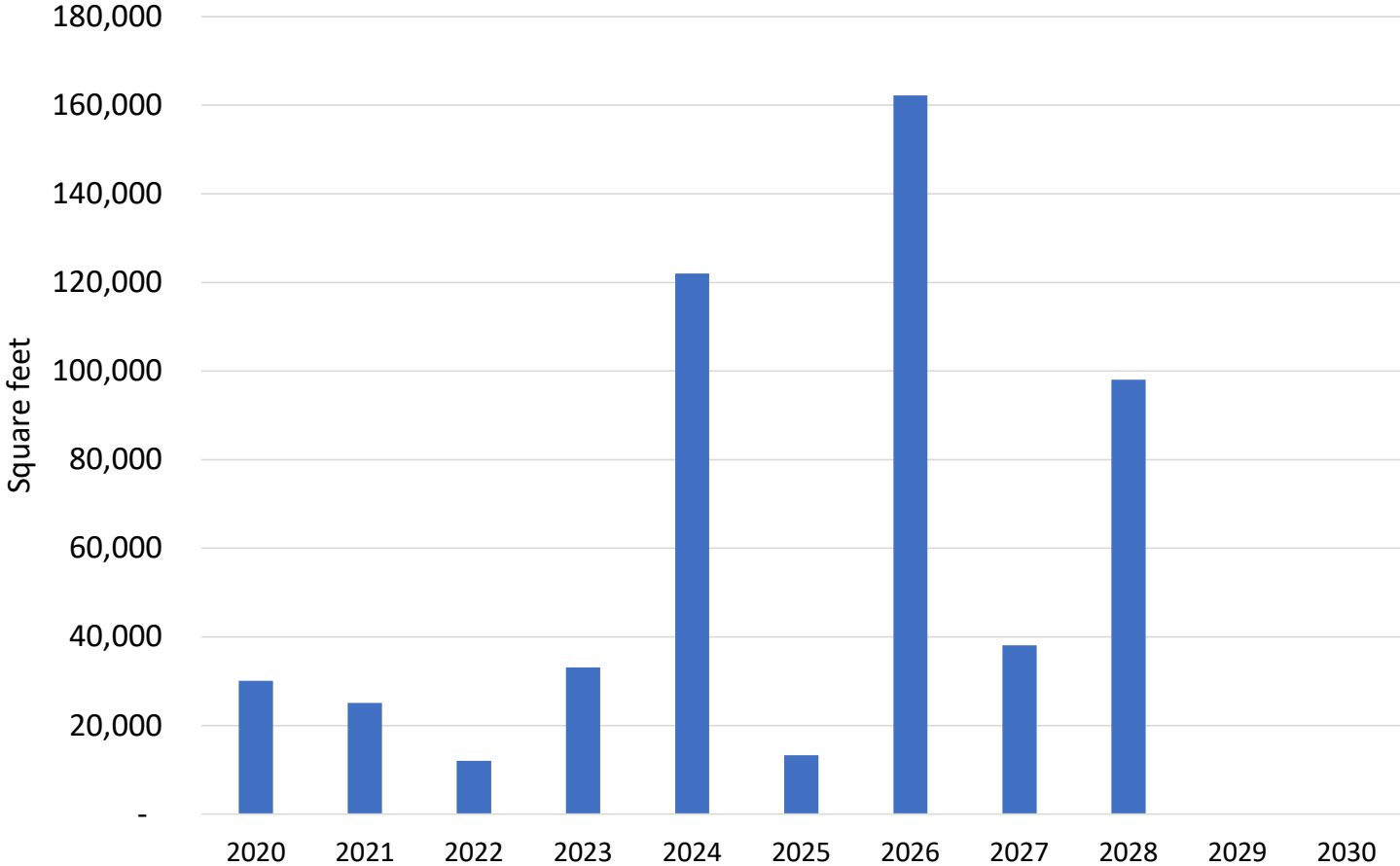
- FD is a revenue-sharing program that applies to cities in the Twin Cities metro area
- FD applies to CI property only
- FD contribution means the contribution of net tax capacity to the FD pool - reduces the TC of the city for spreading city levy
- FD distribution means the return of funds from FD pool to the city - reduces the city levy spread over NTC

City tax rate increased from 2020 to 2021

	2020 Certified	2021 Certified	% Change
City Tax Levy	3,316,586	3,481,804	5.0%
Less Fiscal Disparities (FD) Distribution	227,081	215,995	-4.9%
Net Tax Levy (Spread Levy)	3,089,505	3,265,809	5.7%
Total Tax Capacity	7,200,293	7,480,104	3.9%
Less TIF Captured TC	6,076	83,588	1275.7%
Less FD Captured TC	610,278	632,120	3.6%
Net Tax Capacity	6,583,939	6,764,396	2.7%
Net Tax Capacity Rate	0.4692	0.4828	2.9%

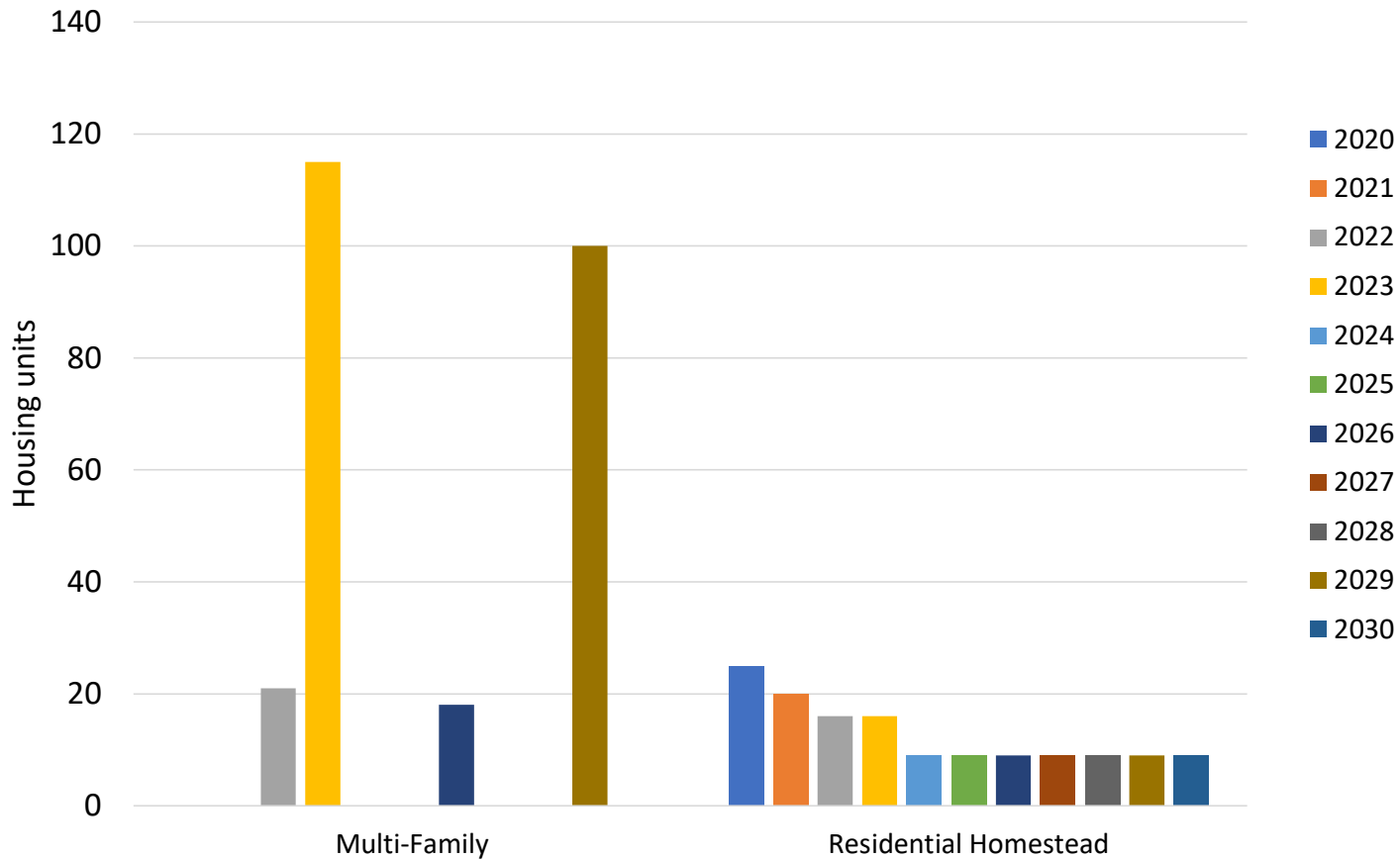
Development projections

Construction of new commercial-industrial building space is projected to average approximately 59,000 SF annually



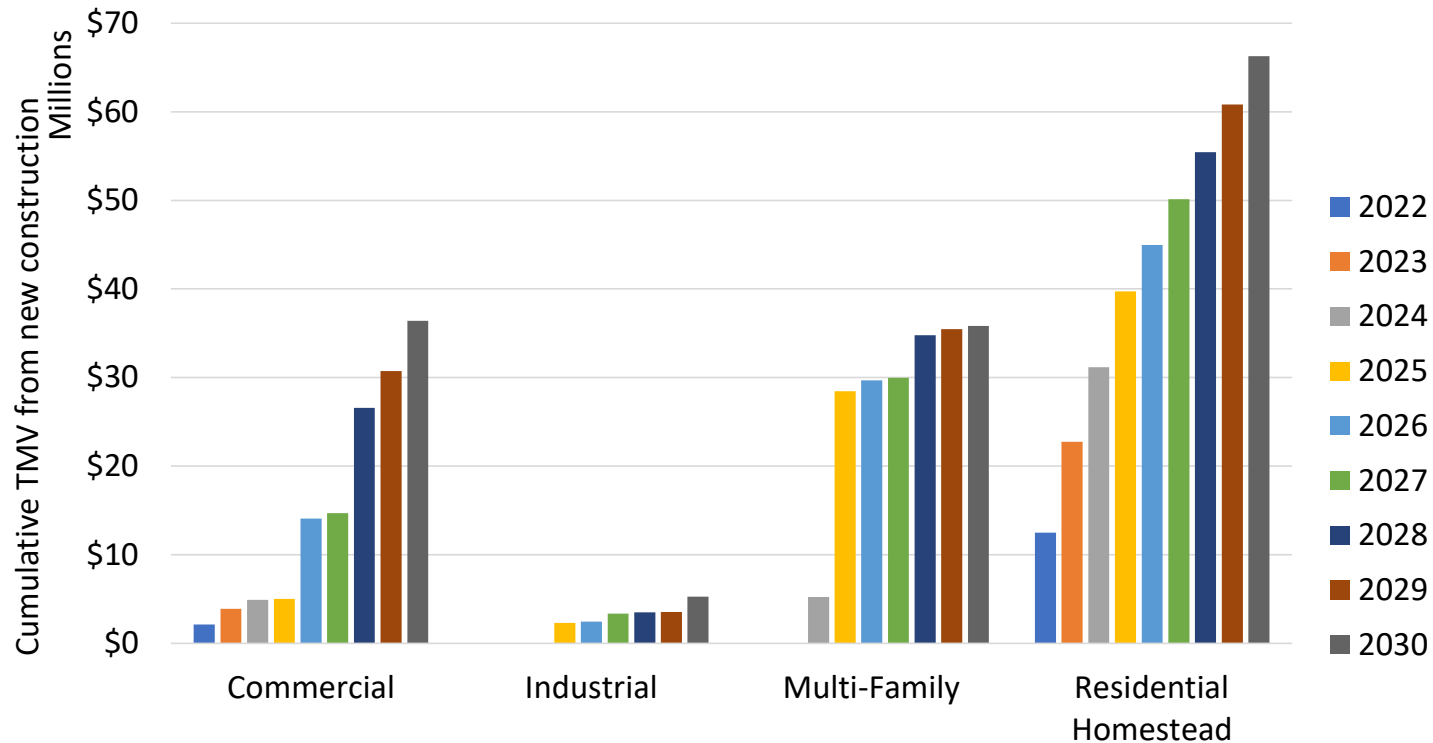
Development projections

Construction of new residential (single-family) units is projected to average 12 units per year and total multi-family (apartment) units to be added is 254 units



Taxable market value (TMV)

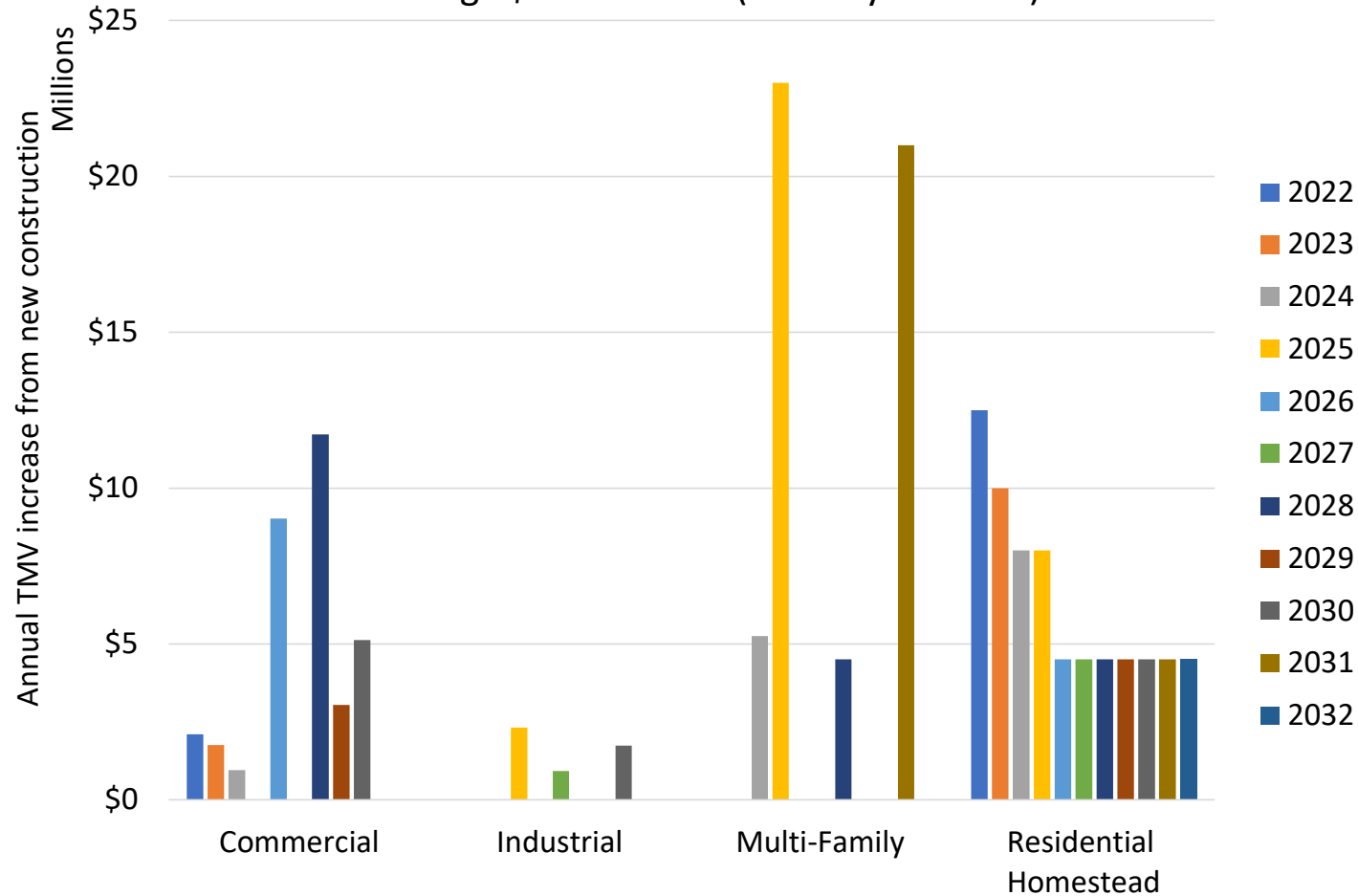
TMV of the city is projected to increase by \$210.4 million between 2021-2030 driven by projected construction



Note: The city's taxable market value for tax collection year 2020 is \$636,643,897. Pay 2021 taxable market valuation information is not yet available from Anoka County. Property valuation is projected to increase by 1.0% annually.

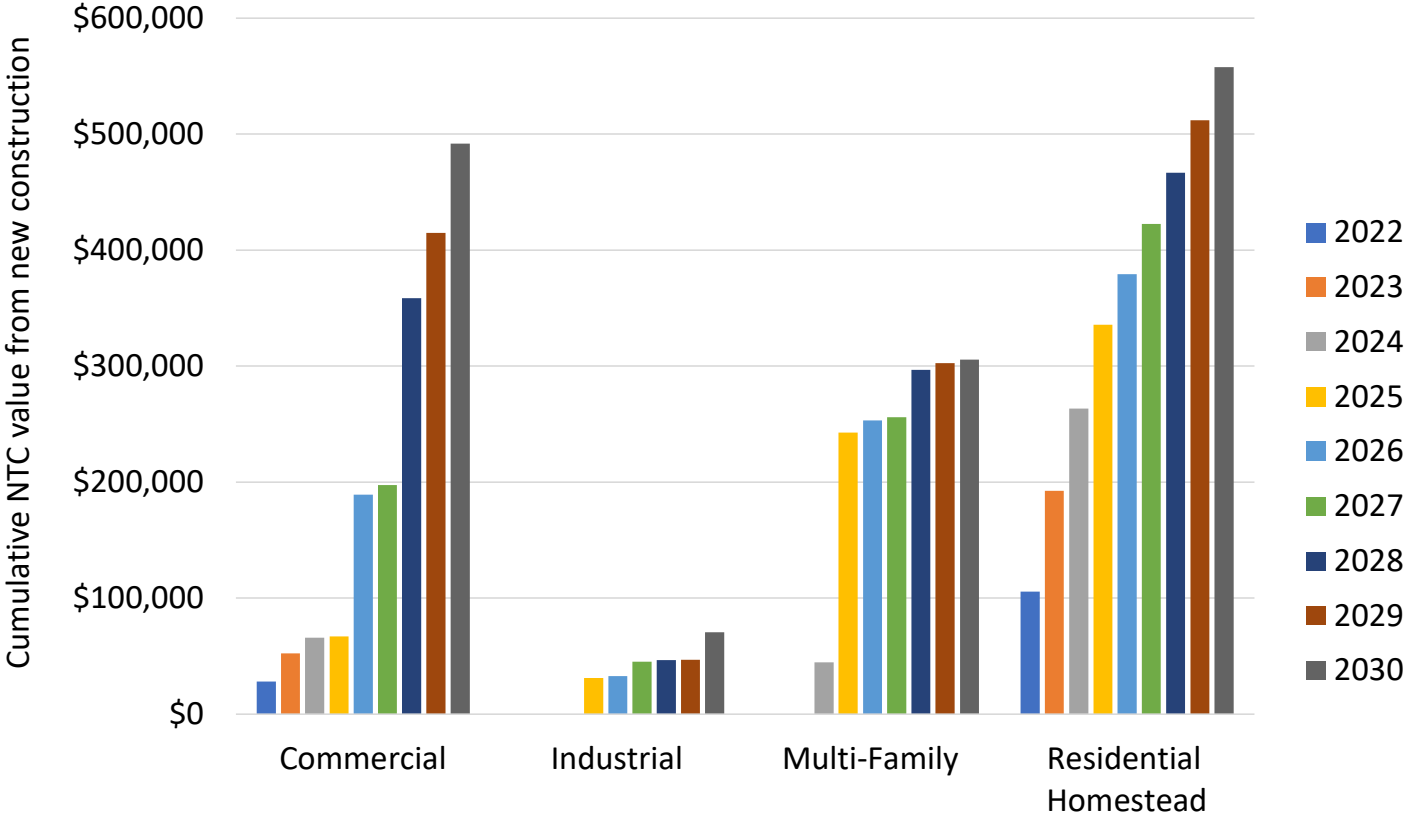
Taxable market value (TMV)

Annual increase in TMV from new construction is projected to average \$14.7 million (in today's dollars)



Net tax capacity (NTC)

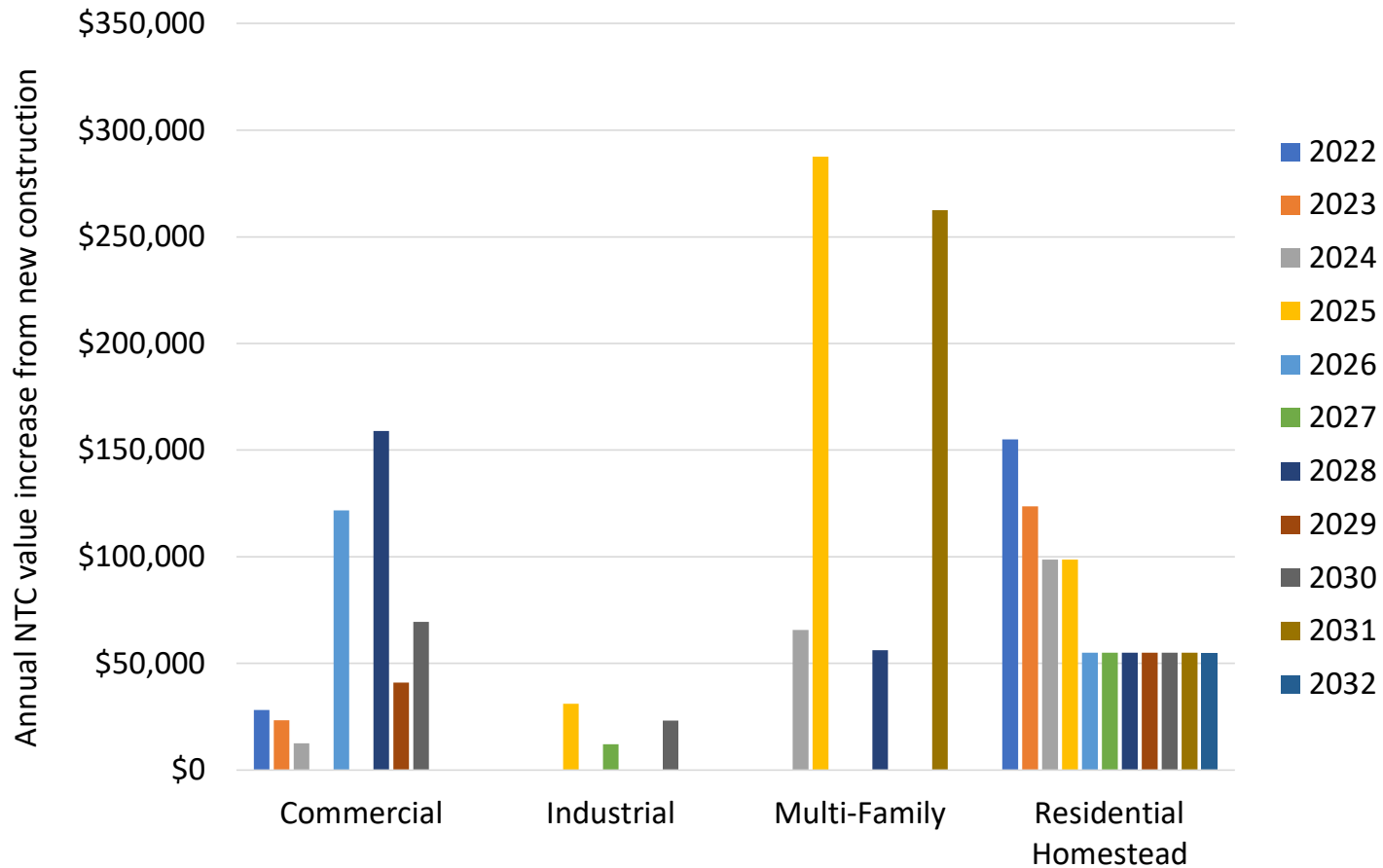
NTC is projected to increase by \$2.1 million between 2021-2030 driven by projected new construction



Note: Net tax capacity is net of fiscal disparities contribution of valuation for commercial-industrial property. The city's total certified net tax capacity for tax year 2021 is \$6,764,396.

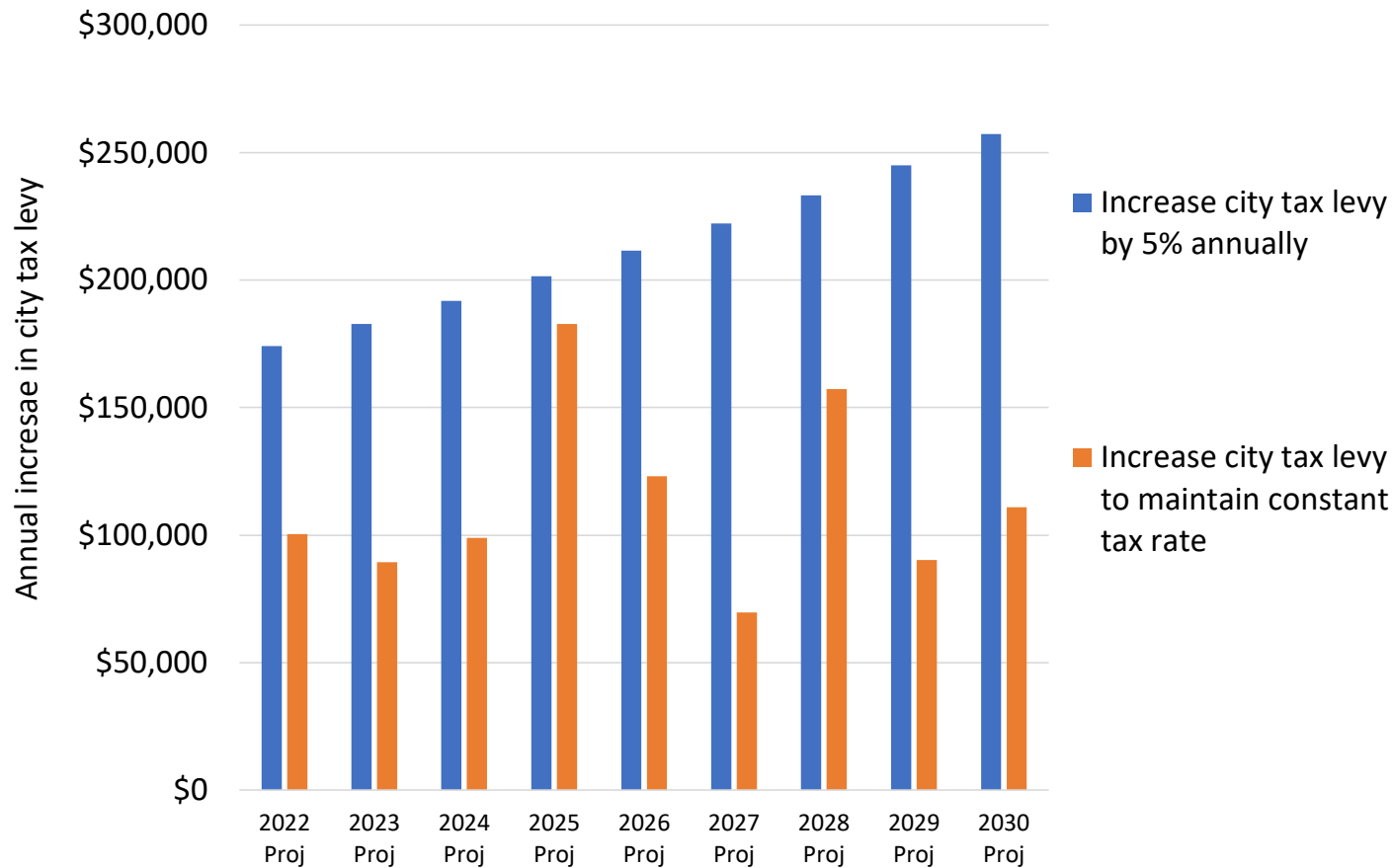
Net tax capacity (NTC)

Annual increase in NTC from new construction is projected to average \$186,000 (in today's dollars)



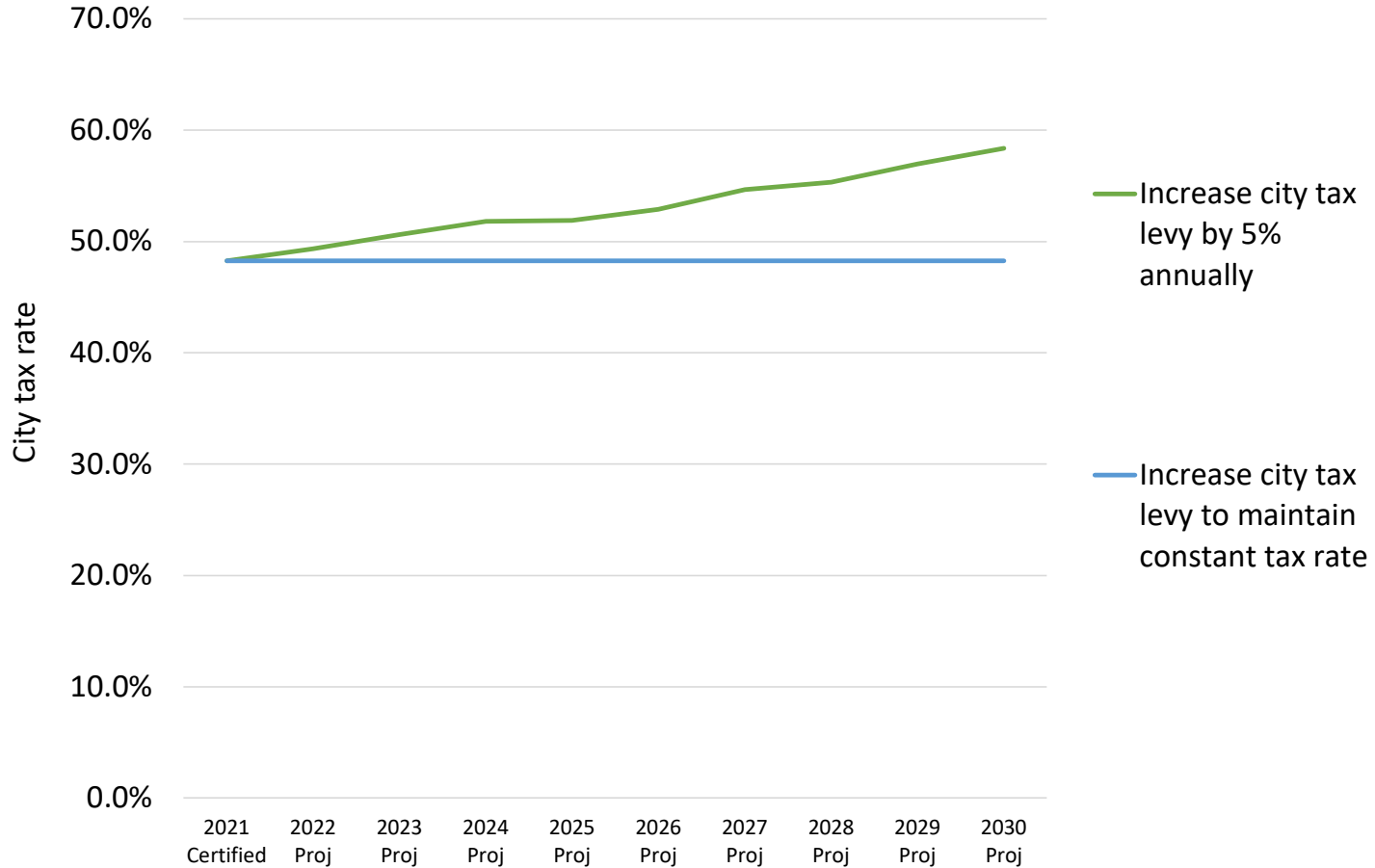
City tax levy

Annual increase in city tax levy will need to average \$118,000 to maintain a constant tax rate (equal to 2021 tax rate) compared to \$208,000 average based on 5% annual levy increase



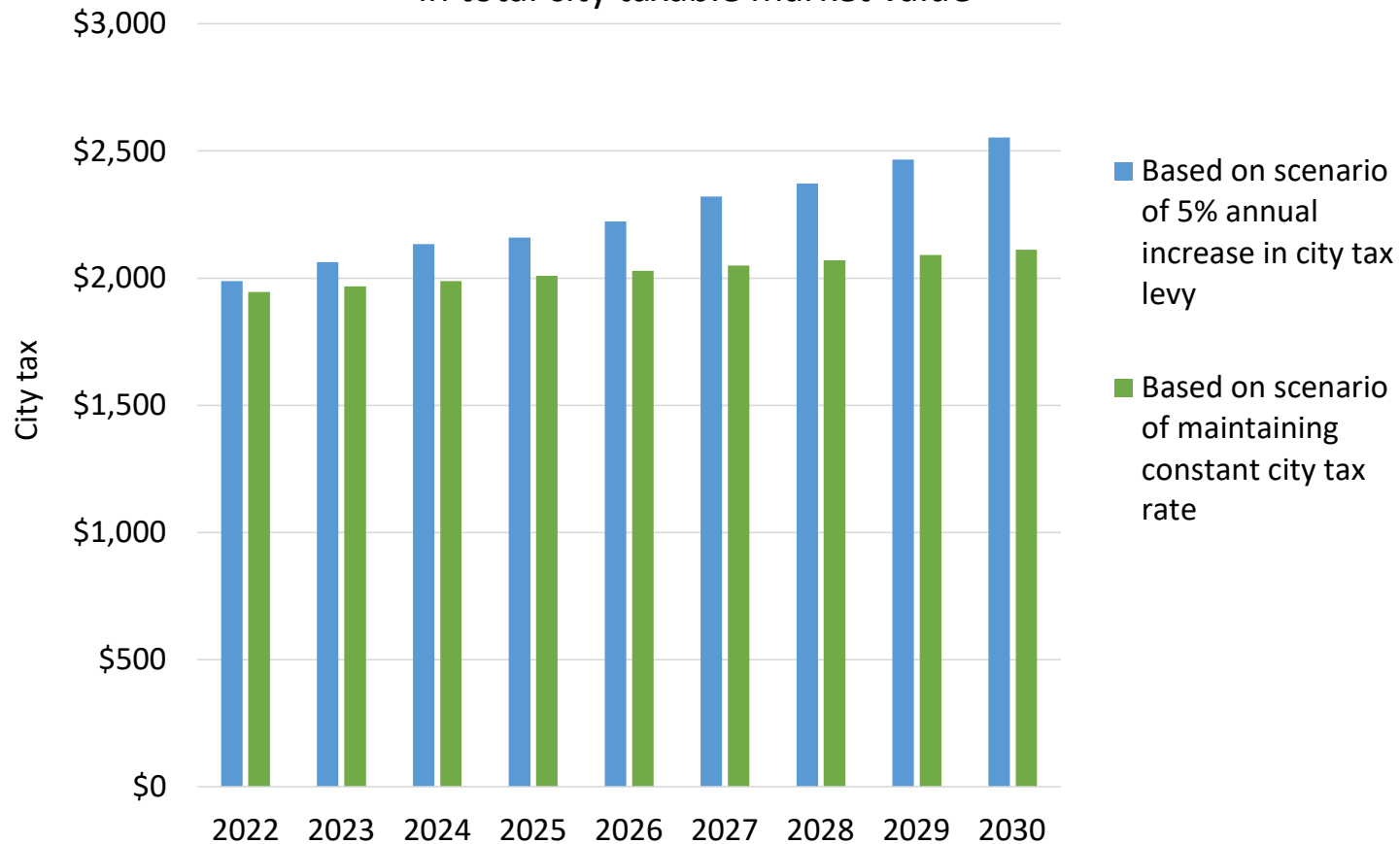
City tax rate

Annual increase in city tax levy will need to average less than 3.0% to maintain a constant tax rate (equal to 2021 tax rate)



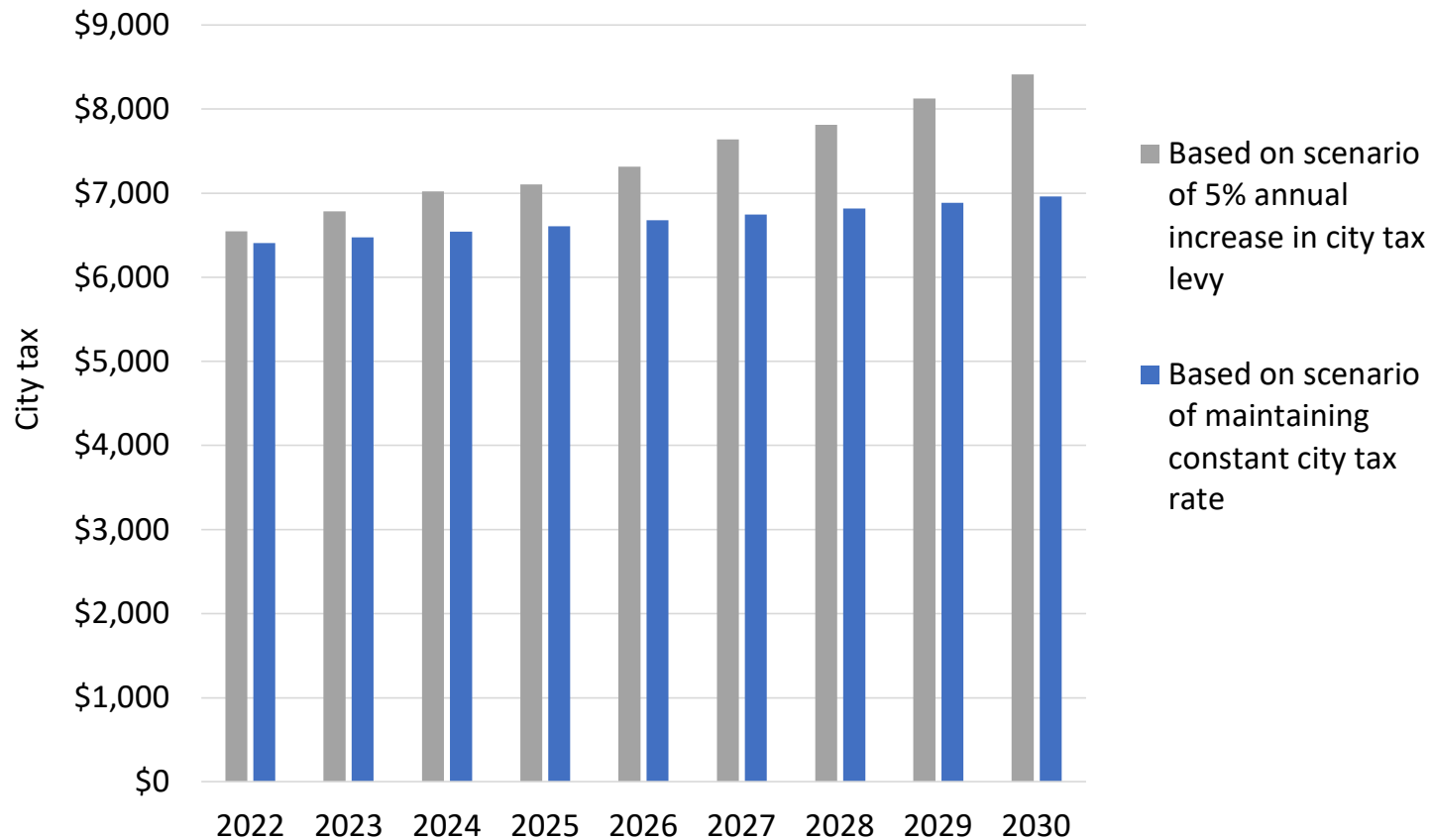
City taxes residential property

City property taxes for example \$400,000 residential (homestead) property based on scenarios for city tax levy and assumed growth in total city taxable market value



City taxes CI property

City property taxes payable for example \$1.0M commercial property based on scenarios for city tax levy and assumed growth in total city taxable market value



Summary

- Projected new residential and commercial-industrial construction will increase the city's total taxable market value and net tax capacity
 - Impact of fiscal disparities program was included as part of the analysis
- Change in the city's tax rate from new construction (and impact on taxpayers) will depend on the city tax levy needed to support demand for municipal services, among other factors

Next steps (City staff)

- Update model annually to inform the City's long-term financial planning
- Consider tax policy for budgeting (annual tax levy and tax rate)
- Consider EDA goals – reactive versus proactive in supporting development

Thank you

Tammy Omdal
612-851-4964
tomdal@northlandsecurities.com

Northland Public Finance
The public finance group of
Northland Securities, Inc.
150 South Fifth Street, Suite 3300
Minneapolis, Minnesota 55402
800-851-2920
www.northlandsecurities.com/public_finance

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