

ALTERNATIVE REVENUES

BEYOND BREAD AND BUTTER



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Alternative Revenues—Beyond Bread and Butter

Introduction

With intergovernmental aid flat or declining and levy limits a resurrected blight on the municipal soul, what's a cash-strapped city to do? While reducing expenses and having efficient city operations are always important, this memorandum will focus on alternative ways for cities to increase the revenue side of the budget equation.

City revenues generally fall into one of three main categories:

- Taxes
- Assessments
- Fees and charges

This paper will look at ways that cities can enhance the revenue producing potential in each of these broad categories.

Taxes

General property tax levies

Political and legal considerations often place limits on the ability of cities to raise revenue through general property tax levies. Beginning with taxes payable in 2009, cities with populations of over 2500 are subject to three years of imposed levy limits. The levy limit allows for up to a 3.9% increase in local property tax levy. Each city's previous year levy plus local government aid, form the base for computing the 3.9% allowable increase. The limit also permits a .5% increase if a city experiences an increase in households and an additional .5% increase if a city experiences an increase in commercial/industrial property. A city may also exceed its levy limit by an amount approved by the majority of those voting on the question at a general or special election.

Special levies

State law allows a variety of special levies to meet specified city needs. Permitted special levies include:

- A levy to cover the costs incurred for securing, maintaining, or demolishing foreclosed or abandoned residential properties as allowed by the Department of Revenue. A city must have either a foreclosure rate of at least 1.4% of households in 2007 or a foreclosure rate in 2007 in the city or in a zip code area of the city that is at least 50% higher than the average foreclosure rate in the metropolitan area to use this special levy.
- A levy to pay costs attributable to wages and benefits for sheriff, police, and fire personnel. (If a city did not include this special levy in the previous year's levy limit

base, reduce that base number by the amount equal to the previous year's levy for these costs, thus allowing a slightly higher levy.) These payments include contributions to police and fire pensions that are not made through the Public Employees Retirement Association (PERA).

- Other special levies as identified in Minn. Stat. § 275.70.

Other levy authority

Local lodging tax

A city may pass an ordinance to impose up to a 3% tax on the gross receipts of lodging at a hotel, motel, rooming house, tourist court, resort, or city campground. The law requires that 95% of the gross proceeds from the tax be used to fund a local convention or tourism bureau for marketing and promoting the city. (Minn. Stat. § 469.190).

Gambling tax

Cities may impose up to a 3% local gambling tax on licensed gambling organizations in order to cover the cost of regulating lawful gambling. A city may not use these tax revenues for any other purpose. This tax may not be imposed if the city charges a local investigation fee.

In addition, a city may require organizations conducting lawful gambling to contribute 10% of their net profits derived from lawful gambling to a city-administered fund to be disbursed for lawful purposes. Such funds cannot be used for the benefit of a pension or retirement fund. (Minn. Stat. § 349.213)

Special district taxing authority

The legislature has authorized the establishment of several different special taxing districts, including:

- Storm sewer improvement districts – Minn. Stat. § 444.16
- Sidewalk improvement districts – Minn. Stat. § 435.44
- Urban and rural service districts – Minn. Stat. § 272.67
- Special service districts – Minn. Stat. § 428.02
- Housing improvement districts – Minn. Stat. § 428A.13
- Fire service districts – Minn. Stat. § 368.85 via Minn. Stat. § 415.01

Payments in lieu of taxes

Some of the heaviest users of city services are churches, colleges, Indian casinos and other tax-exempt entities. These entities will often have a strong interest in seeing that city services, facilities and finances remain strong and are willing to voluntarily pay something for the services they use. Many cities have successfully negotiated payments in lieu of taxes from these entities.

Assessments

In addition to authority to impose property taxes, state statute also permits cities to assess individual property owners for improvements or services that uniquely benefit them. Most of that authority is found in Minnesota Statute Chapter 429. The main advantage of using Chapter 429 is that it allows for the imposition of “tax like” charges only on benefited properties; and allows a charge on properties that might otherwise be exempt from general property taxes. The most challenging aspect of Chapter 429 charges is that a city will need to be able to show that the value to the property meets or exceeds the amount of the assessment. Chapter 429 provides two unique tools for cities to recoup the amount of services or improvement provided to property owners.

Local Improvements

First, Minn. Stat. § 429.021 provides a list of 20 or more “local improvements” for which cities may assess property. They include costs incurred:

- (1) To acquire, open, and widen any street, and to improve the same by constructing, reconstructing, and maintaining sidewalks, pavement, gutters, curbs, and vehicle parking strips of any material, or by grading, graveling, oiling, or otherwise improving the same, including the beautification thereof and including storm sewers or other street drainage and connections from sewer, water, or similar mains to curb lines.
- (2) To acquire, develop, construct, reconstruct, extend, and maintain storm and sanitary sewers and systems, including outlets, holding areas and ponds, treatment plants, pumps, lift stations, service connections, and other appurtenances of a sewer system, within and without the corporate limits.
- (3) To construct, reconstruct, extend, and maintain steam heating mains.
- (4) To install, replace, extend, and maintain street lights and street lighting systems and special lighting systems.
- (5) To acquire, improve, construct, reconstruct, extend, and maintain water works systems, including mains, valves, hydrants, service connections, wells, pumps, reservoirs, tanks, treatment plants, and other appurtenances of a water works system, within and without the corporate limits.
- (6) To acquire, improve and equip parks, open space areas, playgrounds, and recreational facilities within or without the corporate limits.
- (7) To plant trees on streets and provide for their trimming, care, and removal.
- (8) To abate nuisances and to drain swamps, marshes, and ponds on public or private property and to fill the same.
- (9) To construct, reconstruct, extend, and maintain dikes and other flood control works.
- (10) To construct, reconstruct, extend, and maintain retaining walls and area walls.
- (11) To acquire, construct, reconstruct, improve, alter, extend, operate, maintain, and promote a pedestrian skyway system.
- (12) To acquire, construct, reconstruct, extend, operate, maintain, and promote underground pedestrian concourses.
- (13) To acquire, construct, improve, alter, extend, operate, maintain, and promote public malls, plazas or courtyards.
- (14) To construct, reconstruct, extend, and maintain district heating systems.

- (15) To construct, reconstruct, alter, extend, operate, maintain, and promote fire protection systems in existing buildings.
- (16) To acquire, construct, reconstruct, improve, alter, extend, and maintain highway sound barriers.
- (17) To improve, construct, reconstruct, extend, and maintain gas and electric distribution facilities owned by a municipal gas or electric utility.
- (18) To purchase, install, and maintain signs, posts, and other markers for addressing, related to the operation of enhanced 911 telephone service.
- (19) To improve, construct, extend, and maintain facilities for Internet access and other communications purposes, if the council finds that:
 - (i) the facilities are necessary to make available Internet access or other communications services that are not and will not be available through other providers or the private market in the reasonably foreseeable future; and
 - (ii) the service to be provided by the facilities will not compete with service provided by private entities.
- (20) To assess affected property owners for all or a portion of the costs agreed to with an electric utility, telecommunications carrier, or cable system operator to bury or alter a new or existing distribution system within the public right-of-way that exceeds the utility's design and construction standards, or those set by law, tariff, or franchise.

The list of permissible improvements for which cities may levy special assessment goes well beyond the traditional items such as sewer, water, curb, gutter and street repaving. Take a close list and consider whether your city might be able to levy special assessments for some of these services and improvements.

Current Services

The second category of services for which cities may levy assessments includes:

- (1) Snow, ice, or rubbish removal from sidewalks;
- (2) Weed elimination from streets or private property;
- (3) Removal or elimination of public health or safety hazards from private property;
- (4) Installation or repair of water service lines, street sprinkling or other dust treatment of streets;
- (5) The trimming and care of trees and the removal of unsound trees from any street;
- (6) The treatment and removal of insect infested or diseased trees on private property, the repair of sidewalks and alleys;
- (7) The operation of a street lighting system;
- (8) The operation and maintenance of a fire protection or a pedestrian skyway system;
- (9) Reinspections which find noncompliance after the due date for compliance with an order to correct a municipal housing maintenance code violation;
- (10) The recovery of any disbursements under Minn. Stat. § [504B.445, subd. 4](#).

If a city incurs expenses with respect to any of the above, it is certainly appropriate for the city to assess those charges to the property benefited rather than have all tax-payers subsidize the services

provided to the single property owner. In these times when vacant properties and foreclosures are prevalent, consider charging and assessing for city costs associated with property inspection and maintenance.

Charges and fees

Charges

One of the easiest things a city can do to generate new revenue is to take full advantage of its assets and impose a reasonable charge for their use. Consider the assets that many cities have and think about whether your city is generating enough revenue from their use.

<u>Asset</u>	<u>Charge</u>
Money	Interest on checking account/maximizing return
Investments	Policy that responsibly balances returns and risk
Community room	Appropriate rental charges
Water tower	Renting to cellular operations
Golf course, swimming pool, etc.	Is charge sufficient to cover all operational costs?
Sewer and water	Do rates cover all costs?
Park shelters	Charging for use
Streets	Utility franchise fees
City signs and scoreboards	Selling advertising

Fees

Another underutilized opportunity to generate revenue requires a city to evaluate and study the true cost of city services and charge a fee that covers those costs. Often cities don't include all of their costs in arriving at fees. For example, many cities do not adequately calculate overhead charges in arriving at fees. For instance, are costs such as insurance, utility, the fair value of space, technology, employee benefits, supplies, fuel and other costs adequately captured when deciding how much to charge for city services? Similarly, often cities don't calculate police costs in calculating fees. In short, don't undervalue the true costs of city services when deciding how much direct users of those services should pay.

Some examples:

<u>Service</u>	<u>Fee</u>
Building inspections	Should cover all overhead costs
Liquor licenses	Include police oversight
Gambling licenses	Include costs to process
Zoning fees	Include city council costs
Business licenses	Inspection costs

A word about the expense side of the equation

Obviously tight budget times call for a close evaluation of both the revenue and expense side of the budget equation. This document focuses mostly on the revenue side, but it is absolutely true that governmental units everywhere need to study ways of reducing cost and improving efficiency. Examples of city efforts aimed at reducing expenses include:

- More shared services and facilities with other governmental units
- Reduced hours or days of operation – city hall hours, library hours, etc.
- Reduced energy consumption
- Car pooling
- Refinancing bonds
- Adopt a park or street programs
- Other ideas

Conclusion

Tough budget times call for strong, courageous and creative leadership.