



Request for City Council Committee Action From the Department of Finance

Date: January 20, 2005

To: Council Member Scott Benson
Chair, Intergovernmental Relations Committee

Referral to Ways and Means

Subject: Evaluation of Alternative Revenue Sources

Recommendation

Previous Directives

The City Council adopted a staff direction on January 14, 2005 to the finance department to evaluate alternative revenue sources for consideration of the Council for dedication to public safety.

Prepared or Submitted by: Tara Barenok, Budget Coordinator, 673-3221

Approved by

Patrick P. Born
Finance Officer

John Moir
City Coordinator

Presenters in Committee (name, title) Tara Barenok, Budget Coordinator

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.

(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain): evaluation of potential revenue sources

n/a Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information:

WHAT LEVEL OF REDUCTIONS ARE ANTICIPATED FOR PUBLIC SAFETY SERVICES?

The City's five year financial direction anticipates the costs of the City's commitments for debt repayment and cost of providing current services, within the maximum 8% tax policy. The financial direction includes \$29 million in reductions from general fund departments. These reductions are after growth related within the 2% salary policy and anticipated growth in health insurance of 19%. Of the total \$29 million, \$14 million (or 48%) in reductions are anticipated to come from Public Safety services as outlined below:

Planned Reductions in Spending (Dollars in Millions)						
	2006	2007	2008	2009	2010	Total
Police	2.52	3.91	1.33	1.33	1.33	10.42
Fire	0.71	0.71	0.21	0.21	0.21	2.05
Emergency Communications	0.16	0.16	0.16	0.16	0.16	0.80
City Attorney - Criminal	0.15	0.15	0.10	0.10	0.10	0.60
Total Public Safety	3.54	4.93	1.80	1.80	1.80	13.87

These departments comprise \$153 million of the total general fund of \$275 million, or 56%.

These estimates assume no further reduction in state aid, no additional pension obligations or state relief, and no new revenue sources for general fund services.

WHAT REVENUE OPTIONS WAS FINANCE ASKED TO EVALUATE? WHAT INFORMATION DO WE HAVE ABOUT THESE OPTIONS TO DATE?

An Additional Sales Tax

Currently, the City has a half percent sales tax City-wide. This tax is in addition to the State's 6.5%, leading to a total sales tax for purchases in Minneapolis of 7%. Assuming no degradation of the City's revenue stream (as a result of a higher sales tax in Minneapolis as compared to the rest of the state), potential revenues from this tax are:

(Dollars in Millions)

Additional Rate	2004 Estimate*	2005	2006	2007	2008	2009	2010	Total 2006-2010
0.25%	13.3	13.6	13.9	14.3	14.6	15.0	15.4	73.2
0.50%	26.5	27.2	27.8	28.5	29.3	30.0	30.7	146.3

*Based on financial results as of third quarter 2004
2005-2010 based upon 2.5% annual increase in revenue

In addition, realizing the additional revenues would necessitate that these amounts would not negatively impact the calculations of the City's levy limit or local government aid (LGA) allocation.

Tax incidence has been an issue raised in regards to an additional sales tax. Specifically, questions of what income groups would pay the sales tax have been raised. The City has relatively limited information on sales taxes. The data on the Minneapolis sales tax provided by the State Department of Revenue only address characteristics of what establishment, not the individuals who pay the sales tax.

The State of Minnesota has conducted some research on the sales tax incidence of the Minnesota sales tax. If the City assumes that sales tax incidence in Minneapolis mirrors that of the state, the effective consumer sales tax rate in 2005 for the bottom decile of income earners is 4.9%, compared to the rate for the top decile of 1.1 percent. Effective tax rates for the second through ninth deciles, representing 80 percent of all taxpayers, ranged from 2.8 to 1.8 percent.

A Parking Tax or Surcharge

The City currently collects the 0.5% sales tax on parking charges. This analysis assumes that the revenues generated from a parking tax or surcharge would be in addition to those collections. Further, the imposition of such a tax or surcharge would not impact the overall City revenues from either the sales tax or parking charges.

With these factors taken into consideration, revenues generated on a 5% and 10% parking tax would be as follows:

Number of stalls City-wide (compiled by Traffic and Parking Services - see footnote)

Downtown	58,500
University of Minnesota	17,000
Other paid parking (hospitals, colleges, parks)(estimate)	14,000
Total number of stalls City-wide	89,500

Average annual revenue per stall 1,620

Revenue Scenarios

Revenue with 5% tax	7,249,500
Revenue with 10% tax	14,499,000
Revenue with \$10 annual surcharge	895,000

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¹ The estimate of the number of City-wide stalls is based on existing sources of information from within Traffic and Parking Services information gathered for business planning and current operations. Further research on the number of stalls outside of downtown would need to be conducted or the tax/surcharge would need to be applied to the area with the most accurate, existing data – Downtown. It should be noted that of the 58,500 spaces listed downtown that the Municipal Parking Ramps comprise approximately 24,000.

This analysis assumes that privately owned, residential stalls and parking provided by businesses would not be subject to parking tax or surcharge. Minneapolis residents are not assumed to be exempt from the charge on non-residential stalls.

Several cities nation-wide have parking taxes and surcharges. The following table summarizes the research conducted by Seattle when considering their own parking tax:

City	Structure of surcharge/tax
Baltimore, MD	<p>\$15 flat rate for monthly parking 12% for daily and weekly parking</p> <p>No additional taxes or fees collected</p> <p>(as of July 2003)</p>
Chicago, IL	<p>Daily: \$0-\$2.00 based on price of parking Weekly: \$3.75-\$10 based on price of parking Monthly: \$15-\$40 on contracts over \$40 dollars</p> <p>Chicago also charges an employers expense tax of \$4 per employee per month on parking operators with more than fifty employees. Cook County charges additional taxes of up to \$1 for daily parking, \$5 for weekly parking, and \$20 for monthly parking.</p> <p>(as of September 2002)</p>
Los Angeles, CA	<p>10% of revenues</p> <p>In addition, 0.591% (minimum payment \$177) of revenue is also charged as a City business tax</p> <p>(as of September 2002)</p>
Miami, FL	<p>20% of revenues</p> <p>In addition, 6.5% is charged for state and county sales taxes</p> <p>(as of September 2002)</p>
New Orleans, LA	<p>3% of revenues</p> <p>In addition, 4% state parking tax and 5% City sales tax are also charged</p> <p>(as of September 2002)</p>
Pittsburgh, PA	<p>50% of revenues</p> <p>No additional taxes or fees</p> <p>(as of December 2004)</p>

San Francisco, CA	10% of revenues In addition, a \$25-150 registration fee is charged; a 1.5% payroll tax is also charged if total payroll is greater than \$167,000 (as of September 2002)
Santa Monica, CA	10% of revenues No additional taxes or fees (as of September 2002)

Legislative authorization to dedicate excess sales tax related revenue from the Convention Center Fund for public safety reasons

Under current law, the City is required to dedicate all sales tax revenues (including the downtown restaurant, downtown liquor, and City-wide lodging taxes) to convention-related purposes. If the combination of operating revenue from the Convention Center and revenue from sales taxes less the convention-related operating expenses and debt service were to result in a positive net income in the fund, these amounts would need to stay in the Convention Center/Sales Tax fund. In recent years, these amounts have been small to non-existent, due to changes in the economy.

<i>Sales Tax History (dollars in Millions)</i>					
	2000	2001	2002	2003	2004 est
City-wide sales	27.4	27.4	25.3	25.6	26.5
Downtown restaurant	8.1	7.6	7.6	7.9	7.7
Downtown liquor	2.8	2.7	2.9	3.1	3.3
City-wide lodging*	3.0	3.0	4.2	4.6	4.5
Total	41.3	40.7	40.0	41.2	42.0
 Convention Center/Sales Tax Fund Net Income	 0.9	 4.1	 (0.2)	 0.2	 2.7
 Convention Center/Sales Tax Fund Balance/Retained Earnings (ending)	 20.4	 24.5	 24.2	 24.4	 27.1

*Rate increased at beginning of 2002

Future projections for the sales tax fund assume very modest 2.5% increases in sales tax. Projections for debt service assume 5% interest rates – recent history has been closer to 1%, helping the fund's bottom line. As interest rates increase, this help will be more limited.

Sales Tax Projections
(dollars in Millions)

	2005 budget	2006 forecast	2007 forecast	2008 forecast	2009 forecast	2010 forecast
City-wide sales	26.7	27.8	28.5	29.3	30.0	30.7
Downtown restaurant	7.9	8.1	8.3	8.5	8.7	8.9
Downtown liquor	2.9	3.5	3.6	3.6	3.7	3.8
City-wide lodging	4.7	4.7	4.8	5.0	5.1	5.2
Total	42.2	44.1	45.2	46.4	47.5	48.7
Convention Center/Sales Tax Fund Net Income	(3.4)	(0.1)	0.8	1.9	0.9	0.9
Convention Center/Sales Tax Fund Balance/Retained Earnings (ending)	23.7	23.6	24.4	26.3	27.2	28.1