



REPORT/RECOMMENDATION

To: MAYOR AND COUNCIL	Agenda Item <u>VIII. D.</u>
From: Scott Neal City Manager	<input checked="" type="checkbox"/> Action <input type="checkbox"/> Discussion <input type="checkbox"/> Information
Date: August 6, 2012	
Subject: Special Assessment Policy Revision	

ACTION REQUESTED:

Approve proposed revision to the Special Assessment Policy

INFORMATION/BACKGROUND:

At the 2012 Council Retreat in February, the Council expressed support for a study of the City’s special assessment policy and practices in order to make the policy less burdensome on property owners.

City staff engaged the public finance consulting firm Northland Securities to study our special assessment policy and to develop alternative special assessment financing models. Representatives from Northland and City staff presented the Council with the results of the study and the alternative financing models at the June 5 City Council Work Session. After considerable discussion, Council directed staff to prepare a revision to the City’s special assessment policy which included the following changes:

1. Extend repayment period for special assessments from 10 to 15 years.
2. Restructure the payments from a declining principal formula to a level payments formula.
3. Decrease the spread between the interest rate of the City’s project financing and what is added to the special assessments that are financed by the City from 2% to 1%.

4. Exclude sidewalk, trail and lighting costs from Project Costs subject to the cost share formula. These costs would be paid from a new revenue source: utility franchise fees.
5. Evaluate the potential impact on utility rates of shifting the cost share burden from the property owner to the City for the costs of replacing the sanitary sewer lateral from the home to the main.

The attached policy revision incorporates all of the policy directives suggested by the City Council except the directive 5. Staff have evaluated the concept of shifting the cost burden of all underground utility repair and replacement to the City. The estimated cost of that proposal, however, was excessive and would require an increase in our utility rates of more than 50%. In lieu of that proposal, staff have proposed the inclusion of underground utilities, including the ability to special assess sump pump removal or redirection, into the proposed policy revision with a repayment period proposed of 15 years.

The policy changes in directives 1, 2 and 3 are beneficial to property owners at a modest impact to the City. Taken together, the extension of the repayment period; the restructuring of the payment formula; and the reduction of the interest rate spread will have the effect of reducing the annual payment on a \$10,000 special assessment from \$1,375 per year for ten years to \$868 per year for 15 years. The total repayment under the current policy in this scenario is \$13,750. Under the proposed revised policy, the total repayment in this scenario is \$13,020.

Finally, the creation of the Pedestrian and Cyclist Safety Fund with new utility franchise fees will provide the City with the ability to remove the costs of new sidewalks and other pedestrian improvements from special assessment projects, but also enables the Council to realize an important goal of expanding and improving the City's non-motorized transportation facilities and infrastructure all over the City.

RECOMMENDATION:

Any City's special assessment policy can be a lightning rod for negative attention. But, the City could not make necessary infrastructure improvements to the City and keep its competitively low property tax rate without a special assessment program. I believe the proposed policy revision will allow the City to continue its infrastructure improvement program and provide a moderated impact to impacted property owners in the future. I recommend the Council approve the proposed revision.

ATTACHMENT:

Proposed Revision to the City of Edina's Special Assessment Policy

PROPOSED REVISION TO THE CITY OF EDINA'S SPECIAL ASSESSMENT POLICY

EDINA CITY COUNCIL POLICY

POLICY: Special Assessment Policy

DATE CURRENT POLICY APPROVED BY COUNCIL: September 7, 2010

DATE CURRENT POLICY REVISED BY COUNCIL: August 6, 2012

POLICY PURPOSE:

Establish an assessment policy for typical assessments that include local roadways, sidewalks, alleys, decorative street lighting, sound walls, water utility lines, sanitary sewer utility lines, sump pump removal or redirection, garbage and debris removal, aquatic weeds, weed mowing, tree removals, and maintenance districts.

POLICY:

1. ~~Cost of Non-State Aid Residential Street Curb and Gutter will be financed by the Storm Water Utility Fund.~~ >>> *Allocated Costs: The cost of curbs and gutter for a Non-State Aid Residential Street Reconstruction Project will be paid from the City's Storm Water Utility Fund. The cost of replacing and repairing the publicly-owned portions of underground water and sanitary sewer utility lines will be paid from the City's Utility Fund. The cost of sidewalks, trails, lighting and pedestrian/cyclist related street markings will be paid from the City's Pedestrian and Cyclist Safety Fund.*

2. ~~Street Reconstruction Cost (excluding curb and gutter) should be assessed at 100% of the cost.~~ >>> *Assessable Costs: 100% of the costs incurred for the reconstruction of a Non-State Aid Residential Street, excluding allocated costs, shall be assessed to the directly benefitting properties of the project, pursuant to a formula based on a Residential Equivalent Unit (REU). Assessable costs include the following: mobilization, direct construction costs, construction finance costs, City and contracted engineering costs, scientific and technical consulting costs, printing and mailing, legal and other project related costs. Construction finance costs are the cost of funds used to finance the project construction until the adoption of the resolution imposing the special assessment.*

3. ~~Unit of Assessment: The assessable unit for non-state aid residential street projects will should be the residential equivalent unit (REU). rather than the front footage of the lot. An REU shall be one residential lot, regardless of lot size or amount of street frontage. For publicly owned or undeveloped parcels with developable residential potential, the number of REU's shall be computed based upon the maximum residential development potential of the parcel based upon the density allowed under the applicable Zoning Code and Comprehensive Land Use Plan.~~

4. ~~Corner Lots: If a corner lot is subject to multiple street reconstruction assessments, the total assessable cost should be the equivalent to 1 residential equivalent unit. The address of the lot shall determine if the corner lot is assessed at 1, 1/3, 2/3, or 0 REU's for that project:~~
 - If the address of the lot is on the roadway being reconstructed and no previous roadway assessments have been levied for that lot, the REU shall be 1 REU.
 - If the address of the lot is on the roadway being constructed and a roadway assessment has been levied previously for that lot, the REU shall be 2/3 REU.
 - If the address of the lot is not on the roadway being constructed, but the side or rear yard is and no previous roadway assessment has been levied for that lot, the REU shall be 1/3 REU.

- If the address of the lot is not on the roadway being constructed, but the side or rear yard is and a roadway assessment has previously been levied for that lot of 1 REU, the REU shall be 0 REU.

5. *Multiple Assessments:* Lots subject to multiple assessments cannot be treated differently than lots subject to a single assessment.

6. ~~Capitalized interest, engineering costs, and other project related costs shall reflect the costs that have been incurred for that particular special assessment. All engineering costs and other project related costs shall be directly related to that particular special assessment. Capitalized interest is the cost of funds used to finance the project construction until the adoption of the resolution imposing the special assessment.~~

7. ~~Payback of special assessments:~~ *Repayment Periods: Repayment periods for special assessments levied by the City of Edina vary depending on the purpose for which the assessment was levied. Repayment periods and terms are as follows:*

a. ~~The term of special assessments are as follows:~~ *Maximum Repayment Periods:*

- i. ~~Local roadway reconstruction - 10 years.~~ *15 years.*
- ii. ~~Sidewalks (stand-alone project) - 3 years.~~
- iii. ~~Decorative street lighting (stand-alone project) - 3 years.~~
- iv. ~~Sound walls - 15 years.~~
- v. ~~Garbage and debris removal, aquatic weeds, weed mowing, and, and maintenance districts - 1 year.~~
- vi. ~~Tree removals - 1 year if under \$500, 2 years if \$500 to \$1000, and 3 years if over \$1000.~~
- vii. ~~underground utility line replacements - 15 years~~
- viii. ~~sewer pump removal or redirection - 5 years~~

b. ~~Assessment Interest Rate - The interest rate for a special assessment shall be 2% 1% higher than the estimated true interest "net interest" rate of the bonds that have been to be issued for the project. If a bond is not issued for a project, the interest rate shall be 2% 1% higher than the true interest rate of the most recent bonds sold by the City prior to ordering the public improvement. The interest rates for 7.a.v., 7.a.vi., 7.a.vii and 7.a.vii above shall be 6.5%.~~

c. ~~The City will accept both partial pre-payments and full pre-payments on assessments before certifying the assessment to the County. For ease of administration, a minimum of 25% of the assessable cost must be applied for a partial payment.~~

d. ~~The City shall inform all property owners of properties receiving a special assessment of the City's Senior Deferral Program. will be accepted as a repayment.~~

e. ~~Payments shall be amortized using a level principal declining total annual payment schedule.~~

8. ~~The new policy will not be retroactive to projects that have already been assessed. Special assessment policy revisions approved on August 6, 2012 shall become effective for projects with final assessment hearings after January 1, 2013.~~