

To: Delano City Council

From: Phil Kern, City Administrator

Date: July 15, 2010

RE: July 20, 2010, Assessment Policy discussion

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On Tuesday, the Council will revisit the Assessment Policy at its regular meeting. Since the last public hearing on June 7, staff has continued to receive public questions and comments with respect to the policy and the Street Reconstruction Plan. Primarily, Vince Vandertop, Luke Fischer, and I have contributed information and responses to this memo. This memo outlines some of the issues that have been presented, along with the information staff has been able to assemble.

**1. “Dollars and sense, what are we talking about in terms of a per day impact of both policies.”**

Previous presentations have shown the long-term impact of the different policies in summary dollar amounts. A resident has asked to put that into a “per day” perspective. Putting road reconstruction on the property tax system would raise today’s property taxes in Delano by around 13%. Involving the draft Assessment Policy, staff projects typical assessments to range from \$4,500 to \$6,000 for residential properties and \$100 per foot for commercial. It is important to understand that these are **estimates** based off two sample project and could vary depending on policy changes and different project scopes.

Staff has prepared a calculator that can estimate the impact of both polices, which is available on the City’s website. Staff has also prepared some summary sheets on select properties which are attached to this report. In summary, here’s the outcome of some example properties

	<b>Cost/Savings Per Day over 30 years*</b>
\$175,000 Single Family Home	100% Tax Plan would save \$0.12 per day
\$225,000 Single Family Home	100% Tax Plan would save \$0.02 per day
\$300,000 Single Family Home	Assessment Plan would save \$0.02 per day
\$375,000 Single Family Home	Assessment Plan would save \$0.10 per day
\$250,000 Downtown Business (Dave’s TC)	Assessment Plan would save \$0.15 per day
\$550,000 Highway 12 Business (Dairy Queen)	Assessment Plan would save \$2.36 per day
\$985,000 Highway 12 Business (Flippin Bills)	Assessment Plan would save \$4.73 per day
\$2,100,000 Highway 12 Business (Star West)	Assessment Plan would save \$10.30 per day
\$1,800,000 Industrial Property (Arctic Fox)	Assessment Plan would save \$3.78 per day

*\*Assumptions contained on attached spreadsheets showing more detailed calculations of impacts. Single-Family Home, Downtown Business, and Industrial Property all assume an assessment at some point in 30 years. All calculations use value of 2010 dollar and 2010 construction costs held constant. The calculation includes estimated income tax deduction benefit received by property tax payments, but not state property tax refund for eligible senior citizens. Calculations for 15-year period available on the attached spreadsheet and vary depending on whether or not a property is in a street reconstruction zone.*

**2. “Is \$5,400 really an accurate number for a residential impact of an assessment?”**

This number was created by looking on a preliminary basis at the planned 2014 street reconstruction project. Since the June 7 meeting, staff has prepared a preliminary assessment run on the planned 2011 street reconstruction project as well. That project would result in a preliminary assessment of \$4,670 for residential properties if the Assessment Policy were adopted as drafted today. Obviously, changes to the policy in any given area would impact this amount. With these two runs, staff believes its likely that this assessment policy would result in typical residential assessments in the \$4,500 to \$6,000 range, depending upon the project.

**3. “Let’s just keep doing street projects the way we have always done them, why switch policies now?”**

The City has historically relied on both assessments and the property tax system for funding street reconstruction. Presently, the City is subject to levy limits and bonding limits which would allow the plan to begin, but not be completely finished. If the property tax system is the desired outcome of this public review process, the City would likely have to creatively structure a system of bonding and property tax increases (in years absent a levy limit) in order to accomplish the plan. The Assessment Policy offers a tool which allows the full, long-term implementation of the street reconstruction plan without impacting levy limits and bonding limits.

**4. “Many of the street reconstruction zones are located in the central part of the community. Many of these homes are older and in need of rehab. Having potential pending assessments against these properties will reduce the investment property owners can make in their properties because they’ll be paying assessments instead.”**

Many reconstruction streets before 2025 are in areas with homes 50 years old or older. Staff would agree that reinvestment in these properties over the next 15 years will be important and the City should continue to look for strategies that can help fund this reinvestment process. In the short-term, the assessment can be imposing on the property.

**5. “Assessments would be an additional tax and this is an effort by the City just to get more money. If the Assessment Policy gets approved, it’s an added revenue stream to the City.”**

The City has 30 miles of public streets. Assuming streets can be well-maintained and reach a 40-year lifespan, in the long run the City will need to reconstruct 30 miles in 40 years, or  $\frac{3}{4}$  mile per year. A street reconstruction project typically costs around \$1 Million per mile. Therefore, looking long-term, the City has a \$750,000 responsibility to plan for annually to keep its roads in reasonable condition. This amount is in addition to the typical maintenance and operations costs of roads.

The City has annually budgeted for roadway maintenance, and those funds have been protected in the recent years of budget cuts. The City has budgeted in past years smaller amounts to try and keep some contribution for street reconstruction, but the Capital Improvement Fund has been one of the hardest hit funds by the loss of over \$500,000 in state aids and levy limits since 2003.

The City presently has focused on two options long-term to support the costs of reconstruction: a partnership of assessments and property taxes, or solely property taxes. Either option over the long-term cycle will need to generate revenues annually to meet the needs of replacing the City's streets.

**6. "How are other communities funding reconstruction?"**

The City sampled 24 area communities when developing the assessment policy. Of the 24 communities that responded to the City's requests for information, 19 have assessment policies and/or typically practice assessments for reconstructs. Five of the responding communities do not have formal policies and are using forms of property tax levies.

**7. "A 50/50 split of costs between assessments and City property tax is not fair and does not represent others use of my road."**

The 50/50 split of assessments and public costs was derived as an average of neighboring communities sampled during the City's research process. The range of typical assessments in other communities goes from 30/70 assessment to public costs in some communities to 100 assessment and 0 public costs in others. State Statutes do not require a specific ratio and it's up to local communities to determine that cost split if it wants to pursue assessments. In order for bonds to be exempt from debt limits, however, the overall project must have at least 20% of its costs assessed.

**8. "Residents from other subdivisions are driving on my street, and now I'm being asked to pay for the replacement of the street?"**

It's a reasonable inference that members of the community drive on many different streets, including ones they don't live on. Some local streets receive more traffic than others. Additionally, some local streets have been constructed to different standards as a result. Examples of differing standards are roadway width, pavement thickness, and depth of road base.

The presence of community traffic on local streets is the basis for most communities not assessing all of the costs of street reconstruction to properties abutting the street. The current policy places a community responsibility at 50% for residential streets, with the general tax levy picking up that portion of the street cost. Additionally, extra costs associated with construction standards beyond a typical local street (extra width, roadway base, etc.) would be 100% community responsibility.

**9. "Corner lots will essentially have to pay twice, once for each street front when it's reconstructed."**

Not true. The draft Assessment Policy states each residential unit is responsible for only one assessment. The assessment would be levied at the time in which street the property addresses off of is reconstructed. Therefore, corner lots would only be assessed for one street frontage.

**10. "Why don't we assess everyone in the community equally?"**

One proposal suggests simply placing a monthly fee on the City's utility bill, which would be the same amount for all residents, to collect the street reconstruction obligation. Unfortunately, this is not a legal option to be considered. The state has strict regulations on "utility" functions and street reconstruction

is not currently eligible. The League of Minnesota Cities and other lobbying groups have attempted to gain this authority over many years, but there has been little traction at the State level to grant local governments this authority. State Statutes allow municipalities to have “utilities” in areas like water, sanitary sewer, storm sewer, and street lighting, but not in the case of streets.

The draft Assessment Policy attempts to gain equality within projects, but not across the community through several different projects. The policy establishes that the assessable portion of a street project is divided equally amongst all the residential properties and each housing unit would pay the same amount within that project (and commercial properties based on front footage). Each year the City would complete a street reconstruction project, the assessment would be recalculated for each new project. Most cities sampled follow this type of assessment process. A few cities simply set a standard lump sum assessment that is applied the same for every project and not basing the assessment amount on a 50/50 type percentage basis.

**11. “Wouldn’t the property tax system more fairly distribute the costs across the entire community?”**

The answer to this question would entirely depend on one’s definition of fair and view of the property tax system. The street reconstruction financing obligation, if levied with property taxes, would be the entire community’s responsibility, every year. Property taxes are levied based on value of property and type of use. The greater the property value, the greater the share of the property tax responsibility. Additionally, for example, commercial/industrial properties are responsible for almost twice as much tax burden as an equally valued residential property.

**12. “Can the City change the policy in the future? Can the current Council lock in the policy so when I pay my assessment now, I would be guaranteed others will have the same obligation in the future?”**

No policy decision made can be guaranteed in the future, and the concerns some have expressed in this fashion are legitimate. At the same time, it is important to consider long-term implications and viability of the City financially. It would be a failure of any system to place the City with more risk and less stability long-term. While there can be no guarantees about the policy’s long range viability, the City would hope to adopt a formal policy that would be used long into the future. No matter what policy decision the City chooses to take, it will hopefully be well articulated and documented as part of the long-term financial plan of the City.

**13. “The policy isn’t fair regarding Elm Avenue, as the school creates a lot of wear and tear on my street and wouldn’t adequately be assessed.”**

Staff agreed with this concern and recommends some changes to the policy prior to its consideration. The policy places all non-residential uses in the commercial category. Front footage was deemed to be fair method to calculate assessments for commercial properties. However, in the case of High School/Middle School properties, front footage is not an accurate judgment of impact. The School property on Elm Avenue is a flag lot, which is defined as a property with narrow frontage but a much larger width that is setback from the street. As the policy currently reads, the school would have a

property assessment less than Madden Dental and McDermott Orthodontics, also on Elm Avenue. Clearly, the School is a much greater contributor to traffic and benefits more significantly from Elm Avenue.

If adoption of the policy is considered, staff recommends that the City Engineer be engaged to calculate a method of measuring flag lot traffic impacts and adding that into the policy.

**14. “Why assess tax-exempt properties, such as the school facilities, doesn’t that just fall back on the taxpayers anyway?”**

Simply stated, the City taxpayers are only a portion of the School District. At a recent School Board meeting it was stated that 7 out of 12 students who attend Delano Public Schools do not live within the City of Delano. A number of streets, such as Elm Avenue and Tiger Drive, are heavily used by the school district and presumably, many residents outside of the City.

Using an example, hypothesize that the School share of Tiger Drive near the Elementary School would be \$300,000. If the City’s property tax system picked up this entire tab, the taxpayers of 5/12 of the district’s enrollment would pay for 100% of the school’s share. The School District, as a tax-exempt property, would not be responsible for any of the cost. If the Assessment Policy would be applied, the \$300,000 amount would be assessed to the School District. The District would then have to levy this amount over the entire School District. In that scenario, City of Delano would pay only the portion of the assessment related to its share of the total district tax capacity.

**15. “This program would cost churches more money.”**

The Assessment Program would cost churches additional money, compared to the property tax model. As with the school’s situation, however, many of Delano’s church goers live in the township and in neighboring communities. With an Assessment Program, the residents of Delano no longer bear sole responsibility for street reconstruction for church access.

**16. “No one else has had to pay for their street.”**

All streets in new developments have been 100% assessed to the property owners. A few other reconstructions in recent years have not been assessed, such as Rockford Avenue and parts of 4<sup>th</sup> Street. As a result, both conditions exist in town – those who have recently paid for their street construction and those who’ve benefitted from the property tax system paying for the entire project. The intent of either the Assessment Policy or long-term property tax levy increases is to chart the long-term course going forward to consistently treat all streets the same.

As the lifecycle of each street in the community is nearing the end, the City will have to have a financially planned and fiscally responsible model for reconstructing this vital infrastructure.

**17. “TH12 construction created an extra burden on my street.”**

All of the pavement rankings considered in the reconstruction plan were established in 2003, long before TH12 reconstruction. All of the streets in the reconstruction zones were planned for reconstruction through 2025 before any impacts of Highway 12 Construction took place. The

construction may have worsened the condition of some of the streets, but those in the reconstruct plan today were scheduled for replacement prior to the Highway 12 project.

**18. “The Assessment Policy is going to be too much for seniors on a fixed income.”**

Seniors and permanently disabled veterans are provided an opportunity for deferment of an assessment. The assessment would not go away, but seniors and permanently disabled veterans would have the ability to pay over time or not pay until the time of the sale of the property.

Property tax increases also place a burden on seniors on fixed incomes, as they are unavoidable and ineligible for deferment. Property tax increases, however, would be tax deductible, whereas assessments are not. Seniors are also eligible for targeted property tax rebates from the State of Minnesota. Assessments would not be eligible for the property tax rebate program for those who are eligible.

**19. “The street reconstruction does not improve the value of my home.”**

While that may be argued either way, the improved public street in most cases increases the value of the property. Generally speaking, raw land value increases significantly with the installation of public improvements. Those public improvements and their continued quality maintain that increased value of land. In almost all cases in the community, the implementation of the Street Reconstruction will involve the reconstruction of streets and utilities, which provided the initial increase in property value beyond the raw land. Without reconstruction, eventually these improvements would deteriorate and not provide the same value improvement to the property.

**20. “The assessment process is easier than the using the tax levy.”**

The assessment process will involve more public meetings and notices. The cost of these notices and additional work, however, will be negligible in the overall costs of the project. Also, the increased citizen engagement and accountability could likely lead to innovations and creative measures in the plan development process that may yield a net savings in the project. Additionally, it is possible for property owners to appeal the assessment process, which also would add costs to the process. This is a right that property owners maintain with the Assessment Program that does not exist when considering the Property Tax method of funding.

**21. “Property owners can’t itemize assessments as a deduction on their federal income tax return.**

This is a true statement.

**22. Why hasn’t the city budgeted for improvements.**

The City has budgeted for roadway maintenance and general street repair. In fact, the City has completed its sixth consecutive year of sealcoating streets in Delano, adding life and delaying the reconstruction process for the majority of its roadway network where sealcoating is cost effective. To budget for street reconstruction, however, would mean adding approximately \$750,000 (on average) to the City’s tax levy.

In 2003, in conjunction with the Pavement Management Plan, the City discussed this very topic. At that time, the City Council passed a resolution and joined in the efforts of the League of Minnesota Cities to gain Street Utility authority. Unfortunately, this effort has not been fruitful. The City, because of levy limits in the past, was not able to fully levy the reconstruction amount and therefore many projects were not completed as planned with the 2003 Pavement Management Plan. Now, again in 2010, the City is having this discussion to plan for street reconstruction in the future without falling further behind.

**23. “Why does the draft Assessment Policy only guarantee I won’t be assessed for 20 years when the street I live on should have a 30+ year lifespan?”**

The draft Assessment Policy matches the guarantee not to be assessed with the anticipate payoff period of the bond for the street project. Most bonds issues for major public improvements extend 20 years.