

**Approved by Council 8/16/05**

**Special Assessment Policy Proposal  
August 16, 2005**

- 1. Cost of Non-State Aid Residential Street Curb and Gutter will be financed by the Stormwater Utility Fund. For the 2004-2005 assessment projects, this will require an increase in Storm water rates of approximately \$2.00 per household per quarter.**

**Rationale** – The curb and gutter system is an above-the-ground water drainage system that controls storm water within the City. Staff feels very strongly about the addition of curb and gutter in the City where it does not exist today. It is very important in areas of poor soil condition, steep grade changes or very flat conditions. It also decreases the degradation of the residential roadway system, reduces fall and spring street maintenance and aids in street cleaning and snow plowing.

Projects to be reimbursed by proposed change (to be assessed Oct. 2005):

Halifax & Grimes - \$137,000 (approx 24% of street costs)

Shannon Dr. - \$18,000 (100% of assessable costs)

Sunnyslope - \$40,000 (6% of assessable costs)

Bridge Lane - \$10,000 (9% of assessable costs)

Schaefer Circle - \$14,000 (petition requesting C&G only if policy is approved)

Total \$ 219,000

Curb and Gutter Cost Projections for Future Year Assessment Projects:

Estimated cost for 2006 - \$441,000 (+2.14 per household per quarter)

Estimated cost for 2007 - \$621,000 (+1.56/per household per quarter)

Attachment: Survey of Stormwater Utility Rates 2005

**Note:** Stormwater rates will need approximately a \$1.50 - \$2.00 per quarter increase to cover the cost of projects occurring independent of this policy. If adopted, staff will be proposing a \$4.00 per household per quarter increase this fall.

- 2. Street Reconstruction Cost (excluding curb and gutter) should be assessed at 100% of the cost.**

**Rationale** - Based on an appraisal study conducted by the Valuation Group, the consultants indicated that the market value benefit of the street improvements equates to the cost of the improvements being done. Assuming Council agrees with the financing of curb and gutter improvements, the risk of losing an assessment challenge by a resident or neighborhood is diminished due to the extensive study that was conducted and the subsidy of the curb and

gutter cost. In most projects, the street reconstruction cost represents only a percentage of the entire project costs. Most projects include other storm water improvements as well as sanitary sewer and water system improvements. The table below shows the total and assessable costs of projects that will be assessed this fall or next year depending on construction completion.

<b>Project</b>	<b>Cost of All Improvements</b>	<b>Curb &amp; Gutter</b>	<b>Assessable Cost</b>	<b>% Assessable</b>
Halifax & Grimes	\$ 888,900	\$ 137,000	\$ 420,000	47%
So. Harriet Park	\$ 1,029,872	\$ -	\$ 588,000	57%
Sunnyslope	\$ 1,028,218	\$ 40,000	\$ 663,000	64%
Schaefer Rd.	\$ 264,290	\$ -	\$ 195,000	74%
Shannon Dr.	\$ 168,719	\$ 18,000	\$ -	0%
Bridge Lane	\$ 106,601	\$ 9,975	\$ 97,000	91%

**3. The assessable unit for non-state aid residential street projects should be the residential equivalent unit (Lot) rather than the front footage of the lot.**

**Rationale** – Trips generated for residential lots are the same regardless of the size of the lot. A resident on a corner lot, cul-de-sac or circular street does not use the roads differently than a mid-block resident on the same street.

**4. If a corner lot is subject to multiple street reconstruction assessments over a period of years, the total assessable cost should be the equivalent to 1 residential equivalent unit.**

**Rationale** – Current policy allows the assessment of the front of a corner lot to be assessed at one R.E.U. and the side lot for another assessment project to be assessed at 1/3 of an R.E.U. Staff believes that the total of both assessments should not exceed one R.E.U. so that lots are equitably assessed over the City. A corner lot does not generate more trips onto the residential roadway system than a non-corner lot.

**5. Multiple Assessments cannot be treated differently than areas with one assessment being incurred.**

**Rationale** – Assessments must be equitable to all homes that are being assessed. This issue was driven by the potential of a portion of the Country Club being assessed for sound walls and residential road reconstruction. If and when the Country Club area gets assessed for street improvements, you have the option to re-assess the sound wall improvement to a longer term. By re-assessing, the Council opens the assessment up to a potential challenge. If a challenge was raised, you could leave the sound wall assessment at the current term of 15 years and decide not to re-assess.

**6. The term of residential roadway reconstruction assessments should stay at 10 years.**

**Rationale** – There was some discussion of extending the term of residential roadway reconstruction to 15 years. While this would be legal, rating agencies prefer the term for residential assessments to match the term of the bonds. This would also increase the interest cost to the homeowner

**7. Assessment Interest Rate – The interest rate of the assessment should be pegged to the assessment bonds that have been issued in the past 12 months or the 10 year Aaa bond rate plus 2%.**

**Rationale** – The City’s assessments of the past number of years have been charged a fixed rate of 6.5%. The number and dollar amount of improvement projects have allowed the City to internally finance the capital cost of the improvements. With the amount of improvements occurring this year and in future years, the City has incorporated a public debt component to the special assessment process. The bonds are General Obligation (G.O.) debt that is used to pay the construction costs and are supported by the stream of assessment payments over the term of the bonds (10 years).

Because the City is using G.O. public improvement bonds to finance the improvements, **State law requires that the amount of assessments (or taxes) that come in each year must equal 105% of the debt service payment on the bonds for each year.** In order to achieve the necessary 105%, the assessment interest rate needs to be pegged at the bond’s interest rate plus 2% or approximately 5.9%. Some cities have a lower rate than this because they have taxes supporting the bonds or they internally finance their public improvements. Of the cities we studied, only one had a lower interest rate than the one staff is proposing.

City	Calculation	Index	Assessment Rate
Edina	Bond Rate + 2%	3.92%	5.92%
Bloomington	Bond Rate + 1%	3.92%	4.92%
Plymouth	Prime Rate +.5%	6.25%	6.75%
Fridley	None		6.50%
Maple Grove	None		6.00%

The excess dollars generated by the statutory 105% requirement is used to make up for cost of bond issuance, delinquencies and underpayments.

**8. The City will accept both partial pre-payments and full pre-payments on assessments before going to the County for tax rolls. For ease of administration, a minimum of 25% of the assessable cost must be applied for a partial payment.**

**Rationale** – City past practice allowed only 100% pre-payment on assessments. Many residents have inquired in the past about partial pre-payments to reduce their annual tax bill. This will create some extra calculations, but this is a good public relations move with a minor increase in workload. The full and partial pre-payments can only occur after the assessment

hearing and before the certification to the County. This gives the resident approximately 30 days to make the payment. Staff will make sure extra information is provided to the residents when they get their formal assessment notice information before the hearings.

**9. Payment Schedule – Currently, assessments are calculated on a level principal payment schedule. This results in a declining payment schedule which is cheaper than a traditional amortized schedule which would have equal payments over the life of the assessment. Staff recommends that the declining balance schedule continue to be used because of the lower total cost.**

**Rationale** – See Level Principal Payments vs. Amortized Level Total Payments below:

**Level Principal Payments**

Levy: \$12,000

Interest Rate: 6%

Term: 10 years

Year	Principal	Interest	Total Payment	Balance
1	\$ 1,200	\$ 720	\$ 1,920	\$ 10,800
2	\$ 1,200	\$ 648	\$ 1,848	\$ 9,600
3	\$ 1,200	\$ 576	\$ 1,776	\$ 8,400
4	\$ 1,200	\$ 504	\$ 1,704	\$ 7,200
5	\$ 1,200	\$ 432	\$ 1,632	\$ 6,000
6	\$ 1,200	\$ 360	\$ 1,560	\$ 4,800
7	\$ 1,200	\$ 288	\$ 1,488	\$ 3,600
8	\$ 1,200	\$ 216	\$ 1,416	\$ 2,400
9	\$ 1,200	\$ 144	\$ 1,344	\$ 1,200
10	\$ 1,200	\$ 72	\$ 1,272	\$ -

Total Cost: \$15,960

**Amortized Level Total Payment**

Levy: \$12,000

Interest Rate: 6%

Term: 10 years

Year	Principal	Interest	Total Payment	Balance
1	\$910.42	\$ 720	\$1,630.42	11,089.58
2	\$965.04	\$ 665.38	\$1,630.42	10,124.54
3	\$1,022.94	\$ 607.47	\$1,630.42	9,101.60
4	\$1,084.32	\$ 546.10	\$1,630.42	8,017.28
5	\$1,149.38	\$ 481.04	\$1,630.42	6,867.90
6	\$1,218.34	\$ 412.07	\$1,630.42	5,649.56
7	\$1,291.44	\$ 338.97	\$1,630.42	4,358.12
8	\$1,368.93	\$ 261.49	\$1,630.42	2,989.19
9	\$1,451.06	\$ 179.35	\$1,630.42	1,538.13
10	\$1,538.13	\$ 92.29	\$1,630.42	0.00

Total Cost: \$16,304.15

Council could provide an option on more expensive projects to select an amortized level payment schedule, but this needs to be selected for the entire project. The amount of time provided to staff to certify the assessments to the County doesn't allow for mixing and matching of payment schedules for each assessment project.

**10. The new policy will not be retroactive to projects that have already been assessed.**

**Rationale:** It would be very difficult to determine how many years to go back and re-assess projects that have been completed and already assessed. Looking back at projects that were assessed since 1999, most of the projects were assessed at a cost per lot of around \$2,000 - \$4,000 per lot. The 2004 Maple Rd./White Oaks assessment cost \$5,941 per lot. This year's projects have taken a substantial jump in total cost due to the need to reconstruct vs. reclaim the street pavement. Estimates for this year's project range from \$7,200/lot for So. Harriet Park to \$11,000/lot for Sunnyslope. As we forecast future street projects, our estimates indicate most will be in the \$8,000 - \$12,000 per lot range.

Our research with other City's policies indicates that all cities made a clean break when beginning their new programs.

**A couple of elements of the Senior Deferral Program should change for equity and fairness.**

**Rationale:**

- a. The current interest rate for the deferral program is one percentage point higher than the standard assessment rate. This should be changed to reflect the new interest rate adopted in this policy (bond rate plus 2%)
- b. The current deferral policy requires that both spouses live in the residence. This should be changed to reflect situations that have one of the spouses residing in a facility that accommodates health care situations (i.e. assisted living centers, etc.)

Some other administrative changes (application dates, etc.) would be made to the policy.

If Council agrees with the changes to the Senior Deferral Program, Staff would prepare the appropriate resolution to bring back to Council for approval in September.