

# STAFF REPORT



**Date:** July 21, 2021

**To:** Mayor and City Council

**From:** Chad A. Millner, P.E., Director of Engineering  
Don Uram, Finance Director

**Subject:** Approve Assessment Policy and Street Funding Revisions

## Executive Summary:

Approve revision to the Assessment Policy to fund street reconstruction for both local and Municipal State Aid-designated streets with 100% taxes with a transition over 16 years.

## Information / Background:

On April 6, 2021, the City Council revised the assessment policy to align with the recommendations of the Street Funding Task Force. Those revisions removed subcuts and public retaining walls immediately from street reconstruction assessments for 2021 projects. At the June 1, 2021 City Council Work Session, staff heard Council members support street reconstruction funded from 100% taxes with a transition over 16 years.

Staff reinforced that a decision is required on a permanent funding solution this summer or else we would be accepting a lower level of service, more risk, and higher future cost of replacement. Noted in the table below are the recent dates where street funding was discussed:

<u>Dates of Recent Street Funding Discussions</u>	
May 2020	Street Funding Task Force Appointed
November 2020	Council Work Session with Task Force
January 2021	Community Engagement on Task Force Recommendations
March 2, 2021	Council Accepts Task Force Final Report & Recommendations
March 13, 2021	Council Retreat to Discuss Street Funding
April 6, 2021	Council Revised Assessment Policy to remove subcuts and public retaining walls

June 1, 2021	Council Work Session to Discuss Street Funding
July 21, 2021	<i>Council Considers Revision to Assessment Policy and Street Reconstruction Funding</i>

### Financial Analysis:

Option #2 in the table below is an original recommendation from the Task Force. The table shows estimated impacts to assessments, the tax levy and taxes on the median value house.

Table 1. ESTIMATED Funding Option Impacts to Assessments, Levy & Taxes

	Impact to City Tax Levy				Impact to Taxes Paid by Median Value House	
	% Reduction in Special Assessments by Year	Annual \$\$\$ Increase in Levy (3)	Annual % Increase in Levy (3)		Annual \$\$\$ Tax Increase to Median Value House (1)(3)	Annual % Tax Increase to Median Value House (1)(3)
<b>Option # 2: Task Force recommendation - 100% Tax Levy Dollars transition over 16-years</b>						
Year 1	21.1%	\$950k (2)	2.3%		\$37.90	2.46%
Year 2 - 16	5.3%	\$260K-\$510K (4)	0.6%		\$10.49	0.67%
Cumulative Tax Impacts over 16-years					\$1,865 (3)	

(1) Increase on City portion of property tax levy only. Median Value Home = \$551,300

(2) \$950,000 is an estimated subcut amount for Year 1.

(3) All values are estimates with a 2% annual inflation factor. Estimated impacts are related to the future market value of the city. Increases or decreases in market value will impact the values shown in the table.

(4) The ranges reflect the estimated impact of the decrease in assessments and impacts of inflation during the transition period. Typically, the levy increases gradually during the transition period to account for these forces.

### City of Edina Street Reconstruction Background:

In the last 24 years, 83 of the 164 miles of local streets (or ~51%) have been reconstructed and funded by special assessments. If this pace continues, all local streets will be reconstructed in a period of 50 years. Although many of these streets were initially constructed in the 1950s and 1960s, many have surpassed their intended design life of 30 years. Our goal with the street reconstruction program is to level out annual street reconstruction needs to better align with an industry-standard 50-year design life.

In the last 19 years, 14 of 42 miles of Municipal State Aid (MSA) designated streets (or ~33%) have been reconstructed and funded by a combination of MSA and special assessments. Current funding allows 0.5 mile of MSA reconstruction every year. At this pace, it will take 56 years to reconstruct the remaining 28 miles of MSA designated streets. This is a concern.

A graphic of completed street reconstruction is attached.

During the funding transition, 56 miles of local and 8 miles of MSA will be constructed if the current reconstruction pace of 3.5 miles of local streets and 0.5 miles of MSA streets per year continues, leaving approximately 8 years or 25 miles of local streets remaining and 40 years or 20 miles of MSA streets at the end of the funding change transition period.

### Communication Plan:

Council noted the importance of a plan to communicate this major change in how street reconstruction is funded. A successful communication plan details the audience (who), communicator (from whom), message (what/why), schedule (when or how often), and delivery method (how).

#### Goals / Audience / Communicator

The goal of the plan is to address questions and concerns from previously assessed properties, properties currently within a street reconstruction project and future street reconstruction projects. The audience is property owners and residents of Edina. The communicators will be staff and City Council with the communication channels, schedule, delivery method, responsibilities, and messaging detailed below.

Communication Channels	Schedule	Delivery Method	Responsibility
Press Release	Immediately	Press Release and Social Media	Staff
Friday Report	Immediately	Email	Staff
Edition: Edina	First Available	Monthly Newsletter Printed and Posted Online	Staff
Agenda: Edina	First Available	Monthly TV Episode	Staff

Town Talk Style Event	Within first 6-months of change	In-Person Presentation with Q&A	Staff
Individual Communications with Residents from Phone Calls, Emails, or other.	As needed	Phone Calls, Emails, In-Person Meetings	Staff and Council
Street Reconstruction Information on City of Edina Website	Yearly	Website	Staff
Current Year Street Reconstruction Area Public Hearings	Yearly	Mailings, Engineering Reports, Public Hearing	Staff and Council
Current Year Street Reconstruction Project Area Meetings	Yearly	Mailings, Videos, In-Person Meetings or Hybrid Virtual / In-Person Meetings	Staff
2-3 Year Future Street Reconstruction Area Meetings	Yearly	Mailings, Videos, In-Person Meetings or Hybrid Virtual / In-Person Meetings	Staff
Current and Future Street Reconstruction Area Information on BetterTogetherEdina Website	Yearly	Website	Staff

### Messaging - What / Why

Special assessments for roadway reconstruction costs in Edina began in late 1990s and early 2000s. From the beginning, residents of all property classes and values have expressed concerns with assessments. During the public hearing for a scheduled 2020 street reconstruction project, it became apparent that the City's ability to justify the benefit of a projected \$32,000 assessment to each property owner, as required by Chapter 429 of Minnesota State Statutes, would likely lose a legal challenge. Further, due to the numerous cost variables imbedded in the current assessment policy, it was evident that a reevaluation of the City's street reconstruction funding policy was necessary.

The Street Funding Task Force was created by the City Manager in response to concerns regarding assessments. This initiative is not related to only high value properties, it is a concern for all properties. Over the course of ten months and sixteen meetings, the Task Force gathered data and participated in discussions with area experts regarding:

- I) Historical reconstruction costs by neighborhood.

- 2) Composition of specific costs included or excluded in prior special assessments.
- 3) Funding alternatives used by other Twin City metro communities, including special assessments, tax levies, and franchise fees.
- 4) Legal and financial obstacles to changing the policy with respect to both residents previously assessed and properties that have not yet been assessed.
- 5) The concept of equity, should the Task Force conclude that a change needed to be made.
- 6) Edina's use of a 100% assessment strategy was clearly an outlier.
- 7) State statute chapter 429 which requires assessments financially benefit those assessed and again clearly realized the current 100% assessment strategy was no longer legally and financially sustainable.

The Task Force received almost 300 feedback forms and phone calls during the public engagement portion of their work. This change is difficult and unfair if you have paid or are still paying for an assessment. The old policy that assesses 100% of the cost of the pavement, was adopted in the early 2000s. That policy worked for most of those years, but it is not legally and financially sustainable.

Ultimately, the Task Force concluded that a change in policy needed to be made. When considering a change in taxation policy, "equity" or "fairness" is an issue that must be addressed. In this case, fairness to those who have experienced a special assessment but also fairness in terms of future taxation policy. To that end, the Task Force recognized that the previous method of street assessments is both fair and unfair at the same time. It is fair in that all residents are subject to the same rules. It is unfair in that a resident may pay significantly more or less based on A) the density of their particular neighborhood project, as defined by the City, B) the quality of the street's sub-soil ("subcut") and/or C) the possibility of retaining wall replacement on City owned boulevard. It is also unfair that some people may live many years in Edina and never experience a special assessment, while others may relocate within the City and experience more than one special assessment.

The Task Force believed their recommendations were fairer than the current system, though they realize either will seem unfair to those residents who currently reside in Edina and have previously experienced a special assessment. The Task Force sought advice from legal counsel on what could be done to lessen the financial impact on those residents. Unfortunately, there is no legal method to refund or apply different tax rates to those previously assessed. In an attempt to lessen this burden on current residents who have had special assessments, the Task Force recommended a 16-year transition period.

### **Frequency Asked Questions**

#### **How was street reconstruction funded and what is the new method or the change?**

The City's Utility Funds covers the cost of curb and gutter, sanitary sewer, domestic water and stormwater utility improvements in a neighborhood reconstruction project. Under the City's previous Special Assessment Policy, residents are assessed the rest of the project cost, (major costs include road base and pavement) or 100% of the cost for the street reconstruction portion of the project. The new policy will transition from 100% assessment to 100% taxes with a transition period of 16-years.

**Why did the City's Special Assessment Policy change?**

The old policy is not financially or legally sustainable. Recent estimates for special assessments in neighborhoods with homes of all sizes have climbed as high as \$32,000, a figure that is not sustainable. Under State Statutes, the City can assess properties for public improvements, but the benefit to property values must be equal to or greater than the assessment. As assessments climb, it may be difficult for the City to prove the market benefit.

**How would the City phase in the new policy?**

The cost of subcuts and retaining walls will be removed from special assessments in the first year or 2021 construction projects. After the first year, assessments would be reduced each year until it reaches no assessment at Year 16. Sample assessment amounts by year are provided in the appendix of the assessment policy.

**The street by my house was recently reconstructed and I paid a special assessment. Will I be impacted by a change in the policy?**

Yes. All taxpayers will begin paying taxes to the city for street reconstruction each year.

In the first year, City taxes on the median-valued home would increase by approximately \$40 for funding street reconstruction. In the remaining 15 years of the transition of either option, City taxes on the median-valued single-family home would increase by \$11 per year for funding street reconstruction. Over the 16-years, the cumulative amount paid to the city from a median-valued single-family home is estimated at \$1,865. Note that higher-valued homes would pay more in City taxes and lesser valued homes would pay less.

**I paid a special assessment. How will I benefit by a change in the policy?**

The policy change benefits all taxpayers by creating a sustainable funding source to ensure high quality streets. The streets provide the traveling public pathways to key destinations. These trips occur 24 hours a day, 7 days a week, in a variety of modes for a variety of reasons. Residents, businesses, emergency services, and others expect a high level of service to ensure disruptions do not occur.

**Can the City refund residents who have been previously assessed for street reconstruction?**

No; the State Statute that allows the City to assess for public improvements is very clear on this matter. If the special assessments were validly levied and collected, there is no way for the City to refund previously paid special assessments.

**Can residents who are still paying off a previous special assessment be taxed differently?**

Minnesota's power of taxation is found in Article X of the Constitution of the State of Minnesota. The article states that taxes will be uniform. The City cannot tax properties of the same class differently based on the fact that they were previously subject to a special assessment. All single-family residential properties must have the same tax rate.

**What happens with a special assessment that has been levied on a property when it is sold?**

Typically during the sale of a home, the buyer and seller negotiate paying off the assessment into price of the home.

**What is the current interest rate for special assessments not paid in full?**

The City borrows money to fund street reconstruction. The interest rate applied to unpaid portions of the special assessments is 1 percent above the rate at which the City borrows. Historically, that rate was typically between 3 and 4 percent.

**Approximately what percentage of single-family homes have paid for a street reconstruction project under the current Special Assessment Policy?**

The City has reconstructed approximately half of the local streets. Therefore, approximately half of the properties have paid an assessment. Approximately 4% of properties change owners per year. If they moved into a neighborhood after street construction, some property owners within a recently constructed street may not have paid for an assessment. We anticipate it will take approximately 25 years to complete reconstruction of the remaining local streets at which point the cycle starts over.

**How are street reconstruction areas prioritized for reconstruction?**

Data is collected on the condition of the pavement, watermain, sanitary sewer, storm sewer, and lighting systems. The condition of the systems are compared to the remaining life in those systems to determine if now is the right time to maintain the systems or reconstruct the systems. Once reconstruction is determined the right plan of action, street reconstruction areas are compared to planning documents such as the Pedestrian and Bicycle Master Plan to determine additional needs. After all the needs are identified, staff tries to prioritize based on need with consideration of impacts to residents in an area over multiple years.

**Can the city delay the street reconstruction project in my neighborhood so my neighborhood can have a smaller assessment?**

It is not recommended to delay a street reconstruction project after staff has determined the systems need replacement. The street and utility systems are vital pieces of infrastructure. Delaying reconstruction increases the risk of outages to customers. Staff has considered many factors in prioritizing street reconstruction neighborhoods to keep up with the needs of the community.