

10/20/20

Report to the Northfield City Council

RE: Special Service Districts and the NDDC



Introduction:

The Northfield Downtown Development Corporation (NDDC), a 501(c)(3) nonprofit organization, is proud to partner with the City of Northfield on a variety of initiatives to sustain our vibrant downtown community. One such potential initiative is a Special Service District (SSD), a tool that has been implemented by many other municipalities in Minnesota over the years. Pursuant to the current consultant service contract ("Contract") between the City and NDDC,¹ we have compiled this report to begin a conversation on whether an SSD is appropriate for downtown Northfield, to consider what one might look like given current conditions and our collective goals, and to suggest possible next steps based on the information provided in this report.

What is a Special Service District?

Before getting into specific examples of SSDs in Minnesota or what one might look like in Northfield, it will be helpful to understand the general purpose of SSDs and the legal process required in order to create one. Per Minnesota statute 428A² and as described in our current Contract, an SSD creates a mechanism to provide "services that are not ordinarily provided throughout the city or are provided at an increased level than the rest of the City." If enacted, businesses and/or properties within the district pay an annual service charge to the City that is proportionate to the services provided based on either the land area or tax capacity of the affected businesses/properties.

To outline the process, the following section is reproduced from the informative report "City Special Service Districts" (2014) provided by the MN House of Representatives Research Department.³

¹ Section 1.A. under Scope of Services reads: "Complete a comprehensive report on Special Service Districts as a potential model for long term financial sustainability for the administration services of the Northfield Downtown Development Corporation and services that are not ordinarily provided throughout the city or are provided at an increased level than the rest of the City, in accordance with Minnesota Statute 428A, or applicable law, which authorizes the City to establish Special Service Districts and impose annual service charges on eligible properties within the District."

² The full statute is relatively straightforward and available at the following link for more details:
<https://www.revisor.mn.gov/statutes/cite/428A.02>

³ "City Special Service Districts" (2014), MN House of Representatives Research Department, accessible here:
<https://www.house.leg.state.mn.us/hrd/pubs/cityssd.pdf>

An SSD may be established only if a petition by a certain percentage of potentially affected property owners is filed and the city adopts an ordinance to establish it. An SSD may be established by petition by the owners of 25 percent or more of the land area that would be subject to the charges and either (i) owners of 25 percent or more of the net tax capacity of property that would be subject to the charges, or (ii) owners, individuals, and business organizations that would be subject to 25 percent or more of a proposed charge.

If a petition is filed, the city may prepare an ordinance that describes the specific area and lists the services to be provided. The city must notify all business owners in the area prior to the hearing, with information on the nature of the proposed services, an estimated cost of improvements, and the amount of the proposed service charges. The effective date must be at least 45 days after the city adopts the ordinance. The city must hold a public hearing on the proposed ordinance. An existing district may be enlarged following the notice and public hearing requirements for establishing a new district.

Potentially affected property owners may testify at the hearing. They may also object in writing, and if the city agrees, the property may be excluded or the ordinance itself may be delayed. If the city does not agree, the property owner has 30 days to appeal to district court, which may affirm, modify, or cancel the city's determination. The proposal can be effectively vetoed if owners of 35 percent or more of the land area that would be subject to the charges or owners, individuals, or business organizations subject to 35 percent or more of the charges file an objection to establishing the district before its effective date.

The city council may create an advisory board for each special service district in the city to advise the governing body in connection with the construction, maintenance, and operation of improvements, and the furnishing of special services in a district.

In summary, an SSD can only be created at the request of businesses and property owners who seek additional or higher levels of service than the city already provides. Individual properties or businesses may object to the SSD, and if there are enough objections then the ordinance is vetoed before going into effect.

Special Service Districts across Minnesota

Services provided through an SSD can be tailored to fit the specific needs of the district, regardless of its size or location within a community. A brief review of SSDs that have been created across Minnesota illustrates the diversity of uses for which they have been employed:⁴

- Chaska – marketing, events, and special projects such as beautification, signage, etc. (2015)
- Crookston – downtown storefront improvements (1991) and citywide flood control (1997)

⁴ For a more comprehensive list, please see: Bergman, Sasha; Grewell, Andrew; Walls, Jacob. (2011). *Feasibility Study of a Special Service District in Cedar Riverside*. Hubert H. Humphrey School of Public Affairs. Retrieved from the University of Minnesota Digital Conservancy, <http://hdl.handle.net/11299/107526>

- Duluth – safety, cleanliness, and economic vitality of the downtown waterfront (2005)
- Lakeville – flowerpots, marketing, festivals and events, cleaning, signage, and public art (1998)
- Mankato – free parking facilities for customers of businesses within the district (1998)
- Rochester – marketing, physical enhancements, special events (2005)
- St. Louis Park – snow removal, landscaping, lighting, banners, waste removal (2014)
- West Broadway (Minneapolis) – ambassador crew for cleaning and wayfinding assistance, seasonal decorations, general marketing (2015)

Given the wide range of communities and purposes for which SSDs have been enacted, it is not surprising that their corresponding budgets have varied as well. Consequently, assessing the differing needs, opportunities, and costs across these communities is challenging and not necessarily relevant for Northfield. For reasons that will be outlined below, it became clear that St. Louis Park offers the best point of comparison for us, both in terms of the potential services provided and relative costs.

A Potential SSD for Downtown Northfield

Assessing the need and/or desire for an SSD in Northfield is difficult for a few important reasons: 1) there has never been an SSD in Northfield, so knowledge is limited about how they are created, how they operate, and how they could benefit the district; 2) properties and businesses are already subject to significant taxation and regulations and it is not always clear where those dollars go or why additional services cannot be provided with existing resources ; and 3) surveying individual businesses and property owners is time-intensive and may not yield representative results, depending on who is willing to participate and who might be willing to learn more to have an opinion about a slightly wonky method of municipal finance.

Despite these challenges, we took a few initial steps toward understanding the potential for a downtown Northfield SSD. The primary method used for gathering information was an online survey for which over fifty property owners and businesses along Division Street were invited to participate.⁵ Following emails, letters, and direct personal contacts, we received 21 responses, for a roughly 38% response rate.⁶

Respondents were prompted to consider examples of additional services that an SSD could provide, based on the experience of the other communities listed above. In the end, roughly three quarters of respondents favored paying for the collective snow removal and salting of sidewalks in front of their buildings, which is currently the responsibility of the individual owner or business. About half felt the same about collective trash removal, while much smaller percentages would be willing to pay for

⁵ The geographic boundaries for this survey were admittedly somewhat arbitrary. Exactly what is included in “Downtown Northfield” is open for interpretation depending on the question being asked. Public perception tends to be general boundaries of the Historic Preservation District; there is also the C1 zoning district, which includes land on either side of Highway 3 that does not necessarily look or feel connected to the historic district but is nevertheless considered “downtown” for economic development purposes. The boundaries of any potential SSD in Northfield will have to weigh the costs and benefits of extending additional or enhanced services to these areas, in addition to the owners’ willingness to pay for those services.

⁶ Please see the full survey and responses attached to the end of this report.

improved infrastructure (such as benches, wayfinding signage, or lighting), additional parking options, or increased marketing. Based on this preliminary data, it seems clear that A) property and business owners are open to the idea of an SSD in Northfield, and B) it seems most prudent for Northfield to consider a more limited SSD focused on concrete, bottom-line issues for properties and businesses, as compared to some of the more expansive SSDs found in some communities.

Costs and Examples

Per the current NDDC/City contract, an SSD could potentially serve two functions: 1) as a “funding option for other priority projects in the downtown”; and 2) as a means of supporting the NDDC’s organizational/financial “sustainability.” Both of these functions raise important questions about costs that must be answered before deciding to move forward with an SSD.

As we saw in the last section, the first function was desirable among survey respondents, especially to address the issue of snow removal. However, this was in response to a generic statement about the issue and not tied to any specific cost estimates or geographic boundaries. NDDC staff made numerous attempts to secure such an estimate from local snow removal contractors, but none of these contractors followed through. This could have possibly been due to the speculative nature of the SSD and the currently nebulous role of the NDDC in terms of ownership/management of the project, giving contractors less confidence that their time spent preparing an estimate would be worthwhile. Should the downtown business community desire to move forward with an SSD for snow removal, it may be beneficial for the City itself to advertise an RFP or similar bidding process to elicit sufficient responses.

Aside from the cost of providing the services themselves, a foundational element of any SSD is the administrative time spent organizing and implementing the program and how that time is valued. In some communities, an SSD truly does provide “organizational sustainability” by incorporating a substantial percentage of the overall service charges toward staff salaries, office space and supplies, marketing materials, and other administrative costs. In others, it remains closer to a fee-for-service model, in which administrative costs are covered but not usually to the level necessary to support independent staff positions or other program-specific needs.

To reiterate, these costs vary widely depending on the community, the nature of the SSD, and how they prioritize the program’s needs. In order to understand how we might best organize an SSD in Northfield, we focused additional research on three communities in particular – Chaska, St. Louis Park, and West Broadway – for three main reasons: 1) their SSDs were recently created or expanded within the past decade; 2) data about their programs was either publicly available or provided in a timely manner by the corresponding staff in each community, and 3) the size and scope of their SSDs are more realistic to what we might create in Northfield, as compared to a much larger district such as downtown Minneapolis or Rochester.

In looking at Chaska’s SSD, we find that it funds a variety of initiatives and devotes a substantial portion (roughly 33%) of their budget to administration. It functions similarly in many ways as the NDDC does in Northfield, but is funded through the SSD rather than the combination of contracts, grants, and

donations that the NDDC relies on. There does not, however, appear to be an appetite among survey respondents to fund the NDDC's administrative costs through an SSD, at least at this time, so the Chaska example may not be the most useful for us.

West Broadway's SSD funds its own unique combination of services, including an "ambassador" program that helps welcome visitors to the district and keep it tidy. Its administrative costs are a relatively smaller proportion of the budget (about 12%) but with a budget that is roughly twice that of Chaska's, including two full-time staff positions compared to Chaska's lone part-time position. For that reason it is also not the best fit for thinking about an SSD in Northfield.

Turning to St. Louis Park, we get a better look at how an SSD in Northfield might be structured based on the surveys and research done to date. As of now St. Louis Park actually has six SSDs throughout the city, and the lion's share of their costs go toward items such as snow removal and landscaping services. The SSDs are also managed internally by City staff, and the percent of the budget associated with administrative costs (roughly 5%) is much lower than either Chaska's or West Broadway's. We assume that this is because the SSDs are highly focused on the provision of specific services, rather than broader functions such as marketing or events.

Based on this research, if an SSD were to move forward in Northfield for the purposes of collective snow removal (for example), it would seem most appropriate for an administrative fee of 5-10% of the overall service charges to be included in the assessment that is collected from properties and businesses. While this would certainly help compensate an organization such as the NDDC for organizing and implementing the appropriate services, it would not really get us to "organizational sustainability" based on the dollar amounts involved.

Taking St. Louis Park as a very rough example, we may spend \$30,000 annually on snow removal for downtown Northfield and receive a few thousand back in administrative fees, which would be a small portion of the NDDC's overall budget (roughly \$75,000 in 2020). All of this is *not* to say that pursuing an SSD is not a worthy project for the NDDC; on the contrary, it could be an effective way to provide a service that is clearly lacking and desired by the downtown business community while adding additional income to diversify the NDDC's revenue stream. We must, however, be realistic about the scope and structure of the SSD given local conditions and understand that an SSD will not (at least at this time) be the end-all-be-all of the NDDC's "organizational sustainability" as it is framed in the current Contract.

Conclusion: Next Steps and the Role of the NDDC

All of the foregoing assumes that the NDDC will serve as the primary advocate, organizer, and (if it succeeds in being created) manager of an SSD in downtown Northfield. The City-designated "advisory board" for the SSD, as outlined in Minnesota Statute 428.A, could very well be the NDDC board of directors if the City so desired. We certainly do not take any of this as given at this time, but should the Northfield City Council receive this report favorably and desire further action on the part of the NDDC, we might propose a few possible next steps to take place over the coming year:

- 1) Following up on the positive response to our initial survey, implementing a more in-depth outreach and education strategy in order to more accurately gauge the interest in and potential scope of a downtown Northfield SSD.
- 2) If there is significant energy and momentum behind the idea following this outreach, work to secure the necessary 25% of business/property owners for a formal petition as described above.
- 3) Continue outreach and education throughout the process of creating the SSD, which requires several specific periods of time for noticing, review, and collecting potential objections between the stages of petition, adoption, and going into effect.
- 4) If an SSD ordinance is adopted by the Council and there is requisite support among the downtown business community, work with the City as desired to administer the SSD on an ongoing basis.

Finally, to summarize the main findings of this report: we believe that SSDs are a useful tool that communities across Minnesota have successfully implemented to accomplish a variety of goals. Our initial research indicates that there is an appetite for a limited SSD in downtown Northfield to provide for collective snow removal and potentially trash collection and/or recycling services. There remain a few big questions unanswered about the cost of these services and the geographic boundaries of a downtown Northfield SSD, but these must and would be answered in the course of additional outreach and planning.

We hope this report has been informative and useful for you as we all seek to improve the downtown that continues to be the heart and soul of our community. We welcome all comments, ideas, questions, and concerns and look forward to working with you on this and many other initiatives in the future.

Compiled by Greg Siems, Executive Director

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Appendix: Downtown business/property owner survey and results:

Link to original survey: <https://forms.gle/gUYUHJFzGg3Y6bLK9>

Table of main results:

	SSDs can be as limited or expansive as the affected area desires. Which of the following collective services do you believe would benefit downtown Northfield?	%	Which of the following services would you be willing to pay for as part of an SSD? (Reasons for selecting might include: because they could reduce an existing cost for your business, or because you believe the collective benefit would be worth your individual investment)	%
Consistent snow removal / salting of sidewalks during winter	16	76%	15	71%
Regular trash removal (dumpsters and/or trash cans) throughout the year	12	57%	10	48%
More/better signage, benches, lighting, landscaping, public art, and other physical improvements	7	33%	2	10%
Increased marketing and events for downtown to draw residents/visitors to support local businesses	8	38%	0	0%
Additional parking options, either on-street or a dedicated facility	8	38%	2	10%
Other/none	1	5%	4	19%
		21 total responses		