
City of Northfield, Minnesota City Council Workshop

Alternatives to Special Assessments
Part 1 of 2 presentations.

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INTRODUCTION

About Baker Tilly

Advisory, accounting and tax

With more than 3,150 team members and 310 partners, we have grown over the years to one of the 15 largest firms in the U.S. by broadening our service offerings and expanding our geographic presence to meet the evolving needs of clients.

- Headquartered in Chicago, IL with more than 30 U.S. office locations coast to coast serving all 50 states
- International footprint with offices located globally
- Ranked within the top 15 largest accounting and advisory firms in the U.S. by *Accounting Today's* 2018 list of "Top 100 Firms"
- 2018 Great Place to Work by *Best Workplaces*
- Largest member firm of Baker Tilly International, the world's 10th largest network of accounting firms

Baker Tilly U.S. office locations





Overview of Presentation

- Special Assessments
 - Advantages and Disadvantages
 - Annual revenue
- Approaches to funding street improvement projects
- Current Trend: Utility Franchise Fees
 - Advantages and Disadvantages
 - Authority and implementation options
- Bonding options for street and utility repair and replacement projects
 - General Obligation Improvement Bonds
 - General Obligation Street Reconstruction Plan Bonds



Special Assessments

Advantages:

- Common tool to fund and finance infrastructure improvements.
- Relationship between value received / cost of service and amount paid.
- Tax-exempt properties pay for improvements they benefit from.
- Reduces overall property tax rate.
- Can be used to cash flow projects, i.e. reduce size of bond issues.

Disadvantages:

- Process is complex, long and expensive
- LMC Guide to Special Assessments is over 100 pages.
- No perfect method for assessing property.
- Special Benefits Test is difficult to prove at times.
- Time consuming to administer.
- Multiple deferral options can make revenue projections difficult.

Special Assessment Revenue

- \$1.4 million outstanding as of 12/31/2018
- Annual assessment revenue is approximately \$500,000.
- Replacing special assessment revenue with property tax levy results in 5% levy increase.

Assessment Principal Outstanding		
Bond Issue	Final Payment	Principal Outstanding
2009	2019	\$17,258
2010	2020	\$35,823
2011	2021	\$81,717
2012	2022	\$133,781
2013	2023	\$81,081
2014	2024	\$261,742
2015	2025	\$209,539
2016	2026	\$92,843
2017	2027	\$263,260
2018	2028	\$189,834
Total:		\$1,366,878

**As of 12/31/2018*

Annual Assessment Revenue		
2015	\$	394,368
2016	\$	531,487
2017	\$	531,687
2018	\$	416,685

Property Tax Levy Impact

Pay 2019 City-Wide Levy	\$	9,357,257
Replace Special Assessments	\$	500,000
Percent Increase		5.3%



How do other cities fund street improvement projects?

- Special Assessments
 - Percent ranges from 0% (Minnetonka) to 100% (Edina)
 - No one method is the same
- Annual Levy for Mill and Overlay
 - Only bond for full street reconstruction projects
- Infrastructure Replacement Reserve Fund (M.S. 471.572)
 - Commonly referred to as a Permanent Improvement Replacement (PIR) fund
 - Provides additional flexibility by pooling funds
 - Can be used to cash flow projects prior to bonding
- Assessment Funds
 - Similar to a PIR Fund
 - Monies used to pay cash for street projects, reducing borrowing amount
 - Future assessments replenish the fund

Current Trend: Franchise Fees

Under Minnesota Statute (216B.36), cities can impose a fee on utility companies that use the public rights-of-way to deliver service.

Advantages:

- Franchise fees are paid by all properties within the City that utilize streets, including tax-exempt properties.
- Diversifies the City's revenue sources, potentially reducing reliance on property taxes, local government aid and assessments.
- Provides a reliable source of revenue.
- Easy for the City to administer and no administrative costs are charged by the utility companies.

Disadvantages:

- A flat-rate franchise fee is the same for all residential homes, regardless of the value of their property or utility usage.
- Depending on various circumstances (type of business, utility usage, amount of fee, etc.), franchise fees can be a financial hardship on commercial businesses.
- Like property taxes, franchise fees may make a city less desirable than surrounding communities that do not impose franchise fees.



Franchise Fee Implementation Options

Four Implementation Options

1. Flat fee per utility account
 - *Example: \$4 per month*
2. Percentage of consumption used by each utility account
 - *Example: \$0.0050 per KWh for electric and \$0.040 per therm for gas)*
3. Percent of Revenue
 - *Example: 3.0% of monthly bill*
4. Hybrid of flat fee and percent of usage or revenue
 - *Example: Flat fee for residential and percentage of usage or revenue for commercial and industrial)*

Implementation Considerations

- *Xcel Energy's policy is to only implement a flat fee structure.*
- Flat rate structure provides stable revenue stream, rather than one based on consumption or revenue.
- Percentage fee structure provides a more equitable fee across all users as it ensures the largest users pay a proportionally higher fee.
- An increasing flat fee for the various customer classes mitigates the inequities.
- Financial impact on companies and institutions within the City.

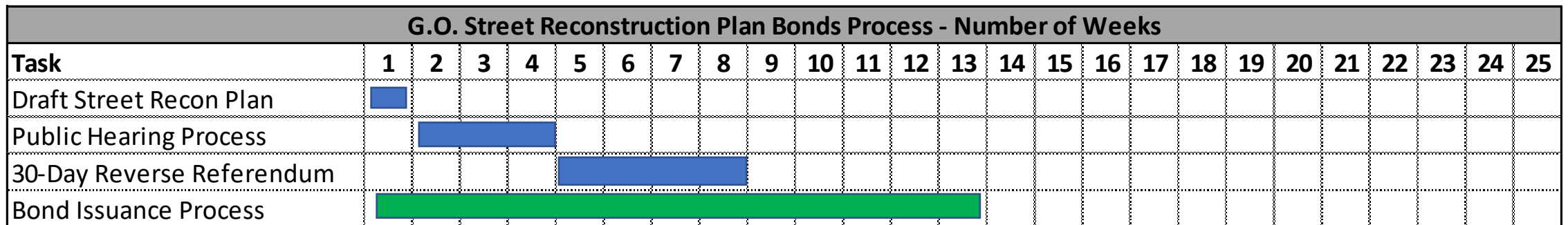
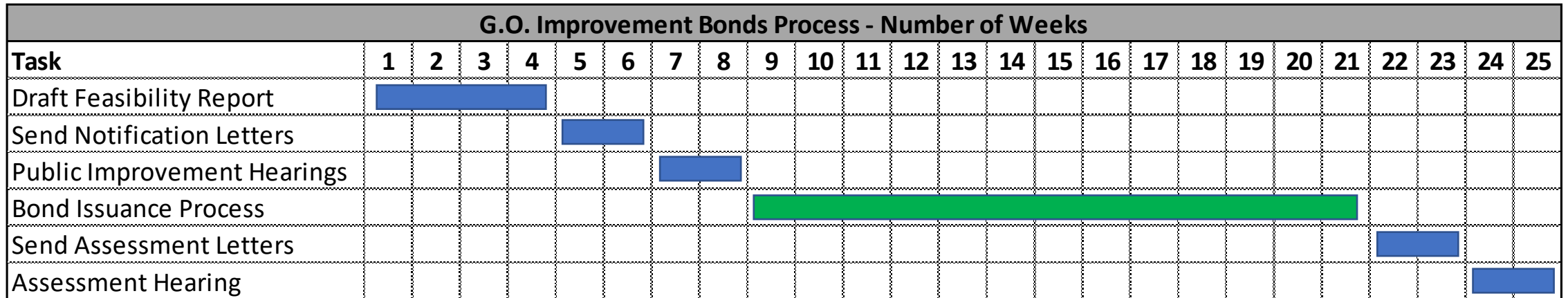
Bonding Options

- City has historically used General Obligation Improvement Bonds
- Requires 20% of total project paid for with assessments
- G.O. Street Reconstruction Plan Bonds provides another authority to finance street and utility improvements

	G.O. Improvement Bonds	G.O. Street Reconstruction Plan Bonds
Authorized Uses		
Repair & Replace Utilities*		
Water Lines	●	●
Sanitary Sewer Lines	●	●
Storm and Gutters	●	●
Repair & Replace Streets		
Reconstruct and Overlays	●	●
Adding Turn Lanes	●	●
Widening Streets	●	
Installing New Streets	●	
Installing New Curbs and Gutters	●	
Improving Sidewalks	●	
<i>Exception: Public Safety Function</i>		●
Payment & Process		
Payment Source	Min 20% Assess	Any
Council Approval	Majority	Two-Thirds
Subject to Reverse Referendum	No	Yes
Number of Public Hearings	2	1
Subject to Debt Limit	No	Yes
Timing of Process	Min 6 months	Approx 3 mo
Cost of Process	1% of constr.	None

*Cities can repair and replace utilities under the Street Reconstruction Plan authority if it is in conjunction with a street project.

Comparison of Bond Issuance Process



Examples of Existing Electric and Gas Franchise Fees

- Does not include all franchise fees in the state.
- Only includes flat monthly rates.
- Statutes does not limit amount.
- Vast majority of cities impose higher fees for larger users.
- See Appendix A of report for full list of fees.

		Small C&I	Small C&I		Public Street
Electric Fees	Residential	Non-Demand	Demand	Large C&I	Lighting
Number of Cities*	78	78	78	77	35
Mean	\$2.43	\$3.89	\$15.05	\$76.03	\$6.95
Median	\$2.30	\$3.00	\$11.95	\$50.00	\$4.00
Minimum	\$0.50	\$0.50	\$0.50	\$0.50	\$1.00
Maximum	\$7.00	\$12.50	\$45.00	\$335.00	\$25.00
*69 cities served by Xcel Energy, 7 by Minnesota Power and 3 by Ottertail Power.					

		Commercial	Commercial	Small	Med & Large
Gas Fees	Residential	Non-Demand	Demand	Interruptible	Interruptible
Number of Cities*	25	25	22	22	21
Mean	\$1.95	\$5.99	\$31.48	\$35.79	\$63.51
Median	\$1.75	\$5.00	\$20.00	\$16.75	\$24.75
Minimum	\$0.50	\$1.00	\$1.00	\$1.00	\$1.00
Maximum	\$4.00	\$12.00	\$112.00	\$100.00	\$335.00
*All cities served by Xcel Energy.					

Franchise Fee Implementation Steps

Activity
City determines the amount of franchise fees.
City negotiates the fees with Xcel Energy
City updates existing franchise fee agreements to include fees.
City passes Ordinance updating franchise agreements.
City sends approved ordinance to Xcel.
Xcel implements franchise fee into payment systems.





ATTENTION

DISCLAIMER

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