



What's a Special Service District and How Does It Work?



Mark Ruff
Ehlers & Associates, Inc.
January 31, 2008

Overview

- ◆ What is it?
- ◆ How does it work?
- ◆ How does it apply to Eden Prairie?



What is it?

- ◆ Special taxing district for commercial areas
- ◆ Tool for enhanced public improvements and enhanced services
- ◆ Secure means of raising revenues
 - Less likelihood of delinquency
- ◆ Authority to issue bonds

Uses

- ◆ Defined by city ordinance
 - Not specifically limited by statute
- ◆ Services are those not typically provided or an enhanced level of services already provided
- ◆ Capital improvements

Applications

- ◆ Public improvements not suited to special assessments
 - Parking
 - Streetscape (plantings/trees/enhanced street lights, benches)
 - Common areas
- ◆ Maintenance of streetscape and enhanced public improvements
- ◆ Shared services

Service Examples

- ◆ Snow removal
- ◆ Rubbish removal
- ◆ Banners and decorations
- ◆ Planting and landscape maintenance
- ◆ Signage
- ◆ Common promotion



Statutory Authority

- ◆ Began as special legislation
- ◆ Now available to all cities
 - Minnesota Statutes, Section 428A.01-10
- ◆ Sunsets June 30, 2009
 - Likely to be renewed as has in the past

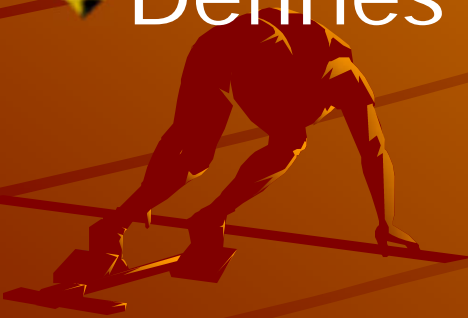


The District

- ◆ The district defines:
 - Who receives services
 - Who pays
- ◆ District can contain any type of property
- ◆ Only commercial property required to pay charges and levies
 - Property tax classification
 - Vacant, but zoned or in comp plan as commercial

The Ordinance

- ◆ Special service districts are created by ordinance
- ◆ Defines boundaries
- ◆ Defines services to be provided



Uptown
Special Service District



Process

- ◆ Grass roots process
 - City Council cannot initiate process
 - Consensus is essential
- ◆ Processes for both district and charges
- ◆ Steps
 - Petition
 - Hearing
 - Veto

The Petition

- ◆ Process cannot be initiated by the City
 - Landowners petition
- ◆ Petition requesting hearing needed for both district and service charge
- ◆ Desirable to combine into common petition

District Petition

- ◆ Petitioned by property owners subject to service charge
- ◆ Represent minimum of 25% of land area and 25% of net tax capacity



Charge Petition

- ◆ Charge based on net tax capacity
 - 25% area and 25% NTC of property subject to service charge

Or

- ◆ Charge based on other factors
 - 25% of the individual or business organizations subject to the charge
 - Statute does not define “individual or business organizations”

Hearing

- ◆ Applies to BOTH district ordinance and charge resolution
- ◆ Ordinance
 - Publish twice
 - Mailed to property owners



Hearing

◆ Charge Resolution

- Same publication as ordinance
- Mail to any individual or business organization subject to a service charge
- Specific content requirements

◆ Must mail “summary” within five days of adoption

Veto

- ◆ Council actions (ordinance and resolution) are subject to veto
- ◆ Ordinance/resolution set effective date
 - Not less than 45 days after adoption
- ◆ Objection must be filed before effective date

Veto – District

- ◆ Property owners
 - ◆ 35%+ of land area
- OR
- ◆ 35%+ of net tax capacity



Veto – Charges

- ◆ Tax capacity based charge
 - Owners of 35%+ of land area OR net tax capacity
- ◆ Other charge
 - 35%+ of individuals or business organizations subject to the service charge



Setting the Charge

- ◆ How much?
- ◆ Who pays?
- ◆ How long?



How Much?

- ◆ Depends on costs to finance
- ◆ Improvements/bonds lend to fixed costs
- ◆ Service costs vary over time
 - Service costs typically controlled by board consisting of property owners
 - Board can also bid out services
 - ◆ Maintenance
 - ◆ Plowing of sidewalks, etc.

Who Pays?

- ◆ Lots of flexibility in designing charges
 - ◆ Potential methods
 - Property value
 - Lot area
 - Building area
 - Front footage
 - Distance from improvement
- 

Who Pays?

- ◆ Lack of statutory authority for non-commercial participants
- ◆ In St. Louis Park:
 - City is major property owner and participant in District 1
 - Residential properties are voluntary participants in District 3



Who Pays?

- ▶ Can use property tax system to collect
 - Gain enforcement powers
 - Appearance of property tax
 - Use caution about representations of “tax” and income tax system
- ▶ Other collection methods described in ordinance

Multi-Year Charge

- ◆ Can impose charge for more than one year
- ◆ Multi-year charge not subject to petition and veto in future years



Bonds

- ◆ Finance cost of improvements
- ◆ Project contracted or ordered
- ◆ G.O. (general obligation) allowed without referendum
- ◆ Flexibility of pledged revenues
- ◆ Not subject to debt limit
- ◆ Bonds can be taxable (with higher interest rates) or tax-exempt depending upon use of proceeds

Some Keys

- ◆ Support for long-term vision
- ◆ Understanding of need
- ◆ One or more “leaders”
- ◆ Willingness to test options and alternatives
 - Find the right answer
- ◆ Get good advice