

CITY ISSUE FACT SHEET

Street improvement district authority for preserving infrastructure



DID YOU KNOW?

For every \$1 spent on maintenance, a road authority saves \$7 in repairs. Preventative maintenance projects can prolong the lifecycle of streets to 50 to 60 years. Without ongoing maintenance, the average life expectancy of local streets is approximately 25 to 30 years.

PROBLEM:

Existing funding mechanisms for city street maintenance and reconstruction are inadequate. The bulk of city streets are not eligible for Municipal State Aid (MSA). Nearly 84 percent of city streets are funded only with property taxes and special assessments. Special assessments can be onerous to property owners and difficult to implement.

Just as the state has fallen behind in making transportation investments, some cities faced with budget challenges have made the difficult decision to divert volatile property tax revenue to urgent needs such as public safety, water quality, and cost participation in state and county highway projects. Unfortunately, deferring maintenance results in more expensive projects later.

LEAGUE-SUPPORTED SOLUTION:

- **HF 1565 (Elkins)** would authorize cities to establish street improvement districts within their boundaries to fund municipal street maintenance, construction, reconstruction, and facility upgrades.
- The bill is modeled after Minnesota Statutes 434.44, which allows cities to establish sidewalk improvement districts if they choose.
- This authority would provide a funding mechanism that is fair. It establishes a clear relationship between who pays fees and where projects occur.
- It does not prohibit cities from collecting fees from tax exempt properties within a district.
- This tool would allow property owners to fund expensive projects by paying relatively small fees over time. The tool could be used to mitigate or eliminate the need for special assessments.



For more information:

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www.lmc.org/citystreetfacts



March 1, 2021

Representative Sandra Masin, Chair, House Local Government Division
543 State Office Building
St. Paul, MN 55155

Dear Chair Masin and Members of the House Local Government Division:

Metro Cities, representing the collective interests of cities in the metropolitan area, supports HF 1565 (Elkins) which is being heard in the House Local Government Committee on Wednesday.

Funding sources for local transportation projects are limited to the use of Municipal State Aid (MSA), property taxes and special assessments. In addition, cities under 5,000 in population are not eligible for MSA. With increasing pressures on city budgets and limited tools and resources, maintaining aging streets has become increasingly difficult.

In the absence of other reliable dedicated funding sources, street improvement districts allow cities in developed and developing areas to make necessary improvements to their local streets.

Thank you for your consideration of this letter. Please contact me if you have any questions.

Sincerely,

Michael Lund
Government Relations Specialist
Metro Cities

STREET IMPROVEMENT DISTRICT AUTHORIZATION



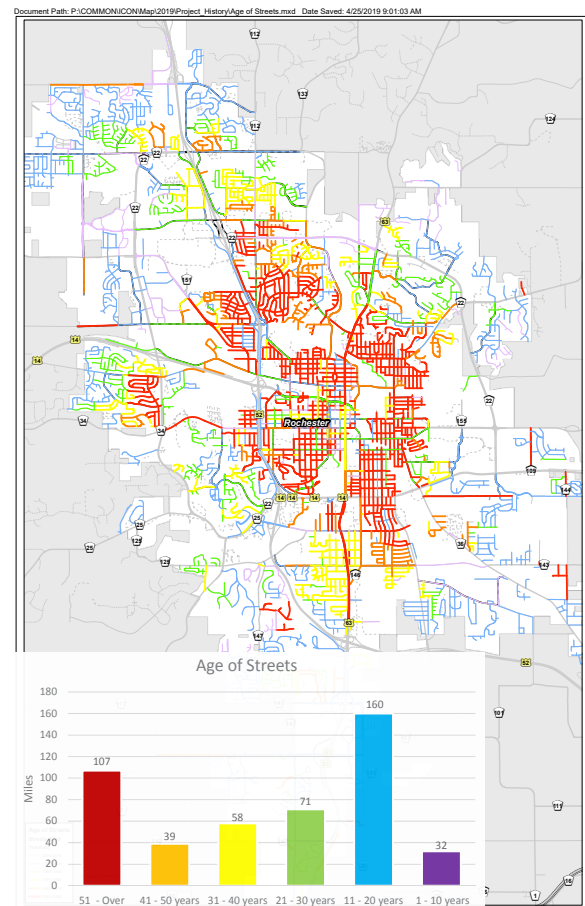
Issue

Similar to other cities in Minnesota, Rochester will face major financial constraints in the future due to the cost of maintaining and repairing the city's network of streets. Currently, there are over 100 miles of streets that are at least 51 years or older. This presents a looming financial challenge for the city of Rochester. There is currently \$9 million of annual funding for preserving, rehabilitating, and construction/reconstruction. However, Rochester is still facing an annual shortfall of \$23 million to adequately address current and future needs for the city for the next 50 years.

Problem

Utilizing traditional methods such as the tax levy would place a heavy burden on the citizens of Rochester. Including the \$14 million in the city's levy, would result in a 18% increase in the tax levy. Adding an additional \$1 million every year would, in time, increase taxes for property owners by 1.3% in addition to the normal operating levy increases, but take 14 years to get to needed street funding levels. The City needs to diversify its revenue sources with an alternative method to defray the costs of street improvements.

Utilizing traditional methods such as the tax levy would place a heavy burden on the citizens of Rochester. Including the \$23 million would result in a 40% increase in the tax levy. Growing to this \$23 million over time by adding an additional \$1 million every year would, in time, increase the city levy by 1.8% for residential properties and 1.75% for commercial. The City needs to diversify its revenue sources with an alternative method to defray the costs of street improvements.



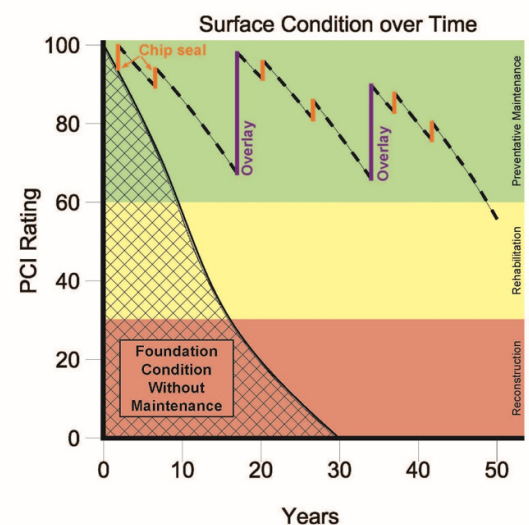
Solutions

A bill is enacted to create a street improvement district specifically for the City of Rochester, cities of the First Class, or all cities in Minnesota. In general, the goal of the legislation would be to:

- Create a fee that is collected on all parcels at a monthly rate and on a uniform basis.
- Place revenues in a separate account and only use funds for street maintenance projects, for reconstruction or to provide preventative maintenance to extend the road's life cycle.
- Allow the City to transition away from assessments that can inequitably impact a property owner based on the timing of property ownership. In addition, the greatest street reconstruction needs in residential areas are often going to be in areas that will have the greatest challenge in paying the assessment. For businesses, assessments represent a significant financial commitment while they are simultaneously navigating impacts from construction.

Impact

Enacting a street improvement district will allow the City to have a long term financial plan which addresses the growing infrastructure needs, lowers the financial investment needed over time and begins to address a significant unfunded future liability.





March 1, 2021

Dear House Local Government Division Members:

On behalf of the members of the Minnesota Transportation Alliance, I am writing to urge support for HF1565, authorizing cities to establish a street improvement district.

Alliance members are concerned about the lack of adequate, dedicated funding for roads and bridges throughout the state. Prior to the pandemic, Minnesota faced a huge funding shortfall to meet the need just to maintain our current roads and bridges. With the drop in traffic volumes due to the pandemic, fuel tax revenue dropped in 2020 compared to 2019 and compared to what had been anticipated and planned, adding to the backlog of projects and needs. Counties and cities are facing a cut of approximately 9% or more in county state aid and municipal state aid for 2021 versus the 2020 allocations. We face a long list of deficient local bridges, aging roadways and growing demands for freight shipments that all start and end on a local road.

The Minnesota Transportation Alliance has long supported permissive language for cities to establish a street improvement district as one of a number of tools available to local governments as they struggle to maintain the thousands of miles of roadway under their jurisdiction in the face of inadequate state roadway funding. The legislature has recognized the need for local governments to have options for raising funds locally for transportation purposes including authorizing wheelage taxes, aggregate taxes and local option sales taxes. Just as some local governments currently use these options and some do not, legislative authorization for a street improvement district would allow cities that choose to use this option another tool for addressing critical street repair needs.

The members of the Transportation Alliance which includes local governments, the transportation industry, labor, business, transit systems and representatives of all modes have been advocating for a comprehensive transportation funding package that includes increases in constitutionally-dedicated user fees collected by the state, but with little movement this session toward passage of such a funding package, we believe that the state should at least allow local governments options for meeting the need to take care of the roadways under their jurisdiction.

Sincerely,

Margaret Donahoe

Margaret Donahoe
Executive Director

Since 1893

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March 3, 2021

Chair Masin and Committee on Local Government

On behalf of the Minnesota Association of Small Cities, we support HF1565 allowing for street improvement districts. This legislation gives our cities authorization to establish street improvements districts and apportion street improvement fees. HF1565 would give our rural cities an additional tool to build and maintain our city streets. The MAOSC supports the legislation because it is good for our cities and provides a needed tool in dealing with deteriorating infrastructure.

Minnesota cities with populations under 5000 are not eligible for MSAS funding for their streets. As a result, our transportation infrastructure needs are significant when local sources of funding are not available, street improvement projects are delayed. Without a dedicated funding source for small cities roads, we support alternative methods that allow cities to find resources to keep up with local road needs. This legislation will provide the necessary help that small cities need to keep their cities vital.

The Minnesota Association of Small Cities represents cities with populations of 5000 and under across Minnesota. Our organization values the Minnesota way of life and is dedicated to providing a network of member cities that communicates and advocates for enhancing the quality of life that will keep our small cities thriving.

Our small cities thank you for providing this opportunity for our cities to maintain their city streets.

Cap O'Rourke
MAOSC Executive Director