



Council Committee Memorandum

TO: Joint Council Committee
THROUGH: Tim Murray, City Administrator
FROM: Mark DuChene, City Engineer
MEETING DATE: March 4, 2020
SUBJECT: Proposed Legislation Affecting Municipal Street Funding

Discussion:

With the 2020 MN Legislature now in session there are a number of bills that have been introduced that could impact current and future funding for City streets. Staff would like to have a discussion of each of the three bills identified below to see if there is council consensus on issuing supporting resolutions for/against each bill.

Infrastructure Accountability Bill (HF2296/SF2442 and HF2297/SF2443)

Issue

Recently the Minnesota Supreme Court found in *Harstad v. City of Woodbury* that cities do not have the statutory authority necessary to impose a fee for future street improvements when approving development. For example, a case where a large traffic generating development comes in and, due to the increase in traffic, a road or intersection not part of or adjacent to the actual development needs improvements (such as a signal system, turn lanes, etc.). The League of Minnesota Cities (LMC) is seeking City's to submit supporting resolutions for the passage of an infrastructure accountability bill that would specifically grant Cities the option to implement street impact fees for generating revenue from development to help pay for offsite street improvements. (More information can be found here: <https://www.lmc.org/news-publications/news/all/infrastructure-accountability-resolution/>)

Staff Recommendation

Staff recommends Council support this bill as it simply provides another tool for the street improvement funding toolbox but does not require a city to use such fees.

Street Improvement Districts (HF1095/SF1271)

Issue

The LMC and the City Engineer's Association of Minnesota (CEAM) have been trying for a number of years to get legislation passed to allow Cities to collect a street improvement fee (similar to a utility fee) for the maintenance and improvement of City Streets. (More information can be found here: <https://www.lmc.org/news-publications/news/all/street-improvement-district-bill/>)

Staff Recommendation

Staff again recommends Council support the proposed street improvement district legislation as it again provides another tool for the street improvement tool box. Staff has discussed that if street improvement fees were allowed, they could replace the need for special assessments and provide a more stable and predictable funding source for City street improvement projects and budgeting.

Proposed Constitutional Amendment to Eliminate Population Threshold for State Aid Cities (HF3019/SF2981)

Issue

Currently, the Minnesota Constitution dedicates the Highway Users Tax Distribution Fund (HUTDF <http://www.dot.state.mn.us/stateaid/admin/sa-hutdf.pdf>) which gets its revenues from the gas tax, license fees and motor vehicle sales tax plus interest and other accounts to the State (MnDOT) and Cities and Counties based on set criteria and formula. Cities that receive funding from this HUTDF must be State Aid qualified Cities of which one of the requirements is to have a population of 5,000 or more. The proposed constitution amendment would eliminate the 5,000 population threshold potentially making all Cities eligible for state aid funding thereby reducing the amount each current state aid City gets. The City of Faribault's 2020 state aid allocation was nearly \$1.4M.

Staff Recommendation

Staff is against any proposed changes to the state aid system funding allotment that would reduce the City's share of the HUTDF funding and would not recommend support for eliminating the population threshold unless an equitable increase in the funding is also included.

Attachments:

- LMC Infrastructure Accountability Fact Sheet
- Draft Resolution Supporting Infrastructure Accountability Bill

CITY ISSUE FACT SHEET

Infrastructure fees support development and taxpayer fairness

If not addressed, existing taxpayers will foot the bill for streets that are only needed because of proposed residential development.



PROBLEM:

When a new subdivision proposal is presented to a city by a developer, city officials consider how that development will connect with the rest of the community through new city streets, or how the added capacity will impact existing city streets.

Many cities plan street work years in advance, and new development creates additional demand.

However, legal interpretation of current law does not allow for cities to collect fees from developers to help pay for these future investments.

LEAGUE-SUPPORTED SOLUTION:

The League supports **HF2296 / SF2442 and HF2297 / SF2443** (Rep. Brad Tabke, Sen. Eric Pratt), providing the necessary statutory authority for cities to be able to charge developers fees that cover the infrastructure improvements that are needed because of the new residential development.

DID YOU KNOW?

Without legislative action, cities who want to grow must rely on property taxes to pay for development-related infrastructure. If these cities don't have the tax capacity to absorb these costs, they may be forced to forego new development entirely.

BACKGROUND:

The Minnesota Supreme Court found in *Harstad v. City of Woodbury* that cities do not have the statutory authority necessary to impose a fee for future street improvements when approving residential development. Cities need a clear and lawful path forward to support development while protecting the interests of current taxpayers.

For more information:

Irene Kao, Intergovernmental Relations Counsel

Phone: (651) 281-1260

Email: ikao@lmc.org

www.lmc.org/builditright



CITY OF FARIBAULT

RESOLUTION #2020-xxx

SUPPORTING INFRASTRUCTURE ACCOUNTABILITY LEGISLATION

WHEREAS, populations in Minnesota cities are growing statewide; and

WHEREAS, the development and construction associated with that growth are driving the need for road improvements, street oversizing, street redesign, and street reconstruction; and

WHEREAS, municipal authority does not exist for infrastructure development fees; and

WHEREAS, city streets are one of the four major types of infrastructure local government is responsible to provide and to protect public safety and health, and city streets represent a separate but integral piece of the network of roads supporting movement of people and goods; and

WHEREAS, existing funding mechanisms, such as Municipal State Aid (MSA), property taxes, and special assessments have limited applications, leaving cities under-equipped to address growing needs; and

WHEREAS, neighborhood streets are constructed according to city standards by developers; and

WHEREAS, funding sources for larger streets and intersections to support new developments have historically come from infrastructure development fees; and

WHEREAS, the Minnesota Supreme Court found in *Harstad v. City of Woodbury* that no statutory authority existed for these infrastructure development fees; and

WHEREAS, cities should not be forced to make current residents and businesses pay for costs of growth through local taxes but rather by those that are responsible for the growth; and

WHEREAS, cities are finding it difficult to develop adequate funding systems to support needed infrastructure development related to growth

while complying with existing state statutes; and

WHEREAS, cities need flexible policies and greater resources in order to meet growing demands for street improvements.

NOW, THEREFORE BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FARIBAULT, that this Council supports legislation that would authorize cities to collect infrastructure development fees to fund municipal street improvements as a necessary component of growth.

Date Adopted: March 10, 2020

Faribault City Council

Kevin F. Voracek, Mayor

ATTEST:

Timothy C. Murray, City Administrator