Assessments: When & How Most Effective?

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Overview of Presentation

1. Definitions
2. When & Why to Use Assessments?
3. Technical Components
4. Policy & Legal Approach
Definitions
General Legal Framework

- Legal authority needed varies by mechanism
- Taxes require constitutional or statutory authority
- Fees, Rates & Assessments can be levied under home rule or statutory authority
- Must be for a valid public purpose & not expressly prohibited by charter, statute or constitution
“Definitions”

- User Fee – charged in exchange for a particular gov’t service with benefit to payor different from general public; may not be arbitrary, unreasonable or discriminatory

- Special Assessment – charged for “special benefit” to property; cost allocation must be reasonable & not arbitrary

- Tax – charged under specific authority; rate typically tied to a value; no benefit requirement
User Fees/Rates

Pros:

• Proportionate to the benefit
• No voter approval is required
• Do not factor into the rolled-back calculations
• May be bondable (utility rates/fees)

Cons:

• Tend to have a narrow/specific scope
• Revenues must be spent for specific services
• Need to demonstrate the fees and rates are reasonable and related to actual costs
Impact Fees

Pros:
• Proportionate to the benefit
• No voter approval is required
• Does not factor into the rolled-back calculations

Cons:
• Can only be used for capital addition projects
• Revenues must be spent for specific capital facilities
• Need to demonstrate that fee is related to costs of facilities and demand generated by development
• Revenues fluctuate with development activity
Proportionate Share Calculations

Pros:
- Proportionate to the impact
- No voter approval is required
- Does not factor into the rolled-back calculations
- Addresses deficiencies related to certain projects

Cons:
- Revenues must be spent for specific capital facilities
- Need to demonstrate that fee is related to costs of facilities and demand generated by the proposed development
- Difficult to project revenues
Special Assessments

Pros:
- Proportionate to the benefit
- Flexibility in spending – capital and services
- Special benefit to property required
- No voter approval is required
- Does not factor into the rolled-back calculations
- Created using home rule or charter authority, cities may also use Chap. 170, F.S.

Cons:
- Tend to have a narrow-specific scope
- Revenues must be spent within the area of special benefit
- Tourists do not contribute
- Significant administrative and legal effort in implementing
Special Districts

- **Dependent Districts**
  - MSTU: ad valorem tax
  - MSBU: fee or non-ad valorem assessment
  - SAD: non-ad valorem assessment

- **Independent Districts**
  - CDD: taxes and/or assessments
  - Independent Special District: charter defines levies
MSBU

Pros:
• May levy fees and/or assessments
• May be used for capital facilities and some services
• No voter approval is required
• Do not factor into the rolled-back calculations
• May be bondable revenue, no referendum req’d

Cons:
• Authority limited by statute to counties only
• Tend to have a narrow/specific scope – limited by statute
• Special benefit to property required for special assessments
• Revenues must be spent to benefit assessed properties
• Tourists do not contribute
• Significant administrative and legal effort in implementing
CDD

Pros:
• Stable revenue
• Flexibility in spending
• Does not factor into the rolled-back calculations
• Bondable revenue, referendum req’d if tax revenue pledged

Cons:
• Requires 100% of landowners’ agreement
• Revenues must be spent within the geographic area
• Tourists do not contribute
• Significant administrative and legal effort in creation
Why & When Assessments?
Why Assessments?

- Equity
- Stability
Equitable Distribution of Costs
Local Example:

Distribution of Incidents
- Residential: 53%
- Other: 47%

Distribution of Tax Base
- Residential: 76%
- Other: 24%
Equity

- Home valued at $100,000 vs. $1 million:
  - √ Payment is 10 times under tax
  - √ Not as different under assessment
Stability

Volatile Ad Valorem Tax Revenues

State of Florida - % Change in Taxable Value

- Tax Value
- Assessment


-10.0% -5.0% 0.0% 5.0% 10.0% 15.0% 20.0% 25.0% 30.0%
When Assessments?

- Able to show the benefit to community:
  - Better service
  - Lower taxes
When Assessments?

• Better service:

  ✓ Improve ISO rating/lower insurance rates
  ✓ Improve overall service quality
Improve Service

Response Times Show Problem Areas

- 11-15 Minutes
- >15 Minutes

Longer Response Areas Correspond to Hard to Reach Areas
Improve Service

Frequency Distribution of Response Times
(Fire Emergency Incidents)

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<th>Min</th>
<th>Frequency</th>
<th>Cumulative %</th>
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<td>96</td>
<td>3.15%</td>
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<tr>
<td>1</td>
<td>96</td>
<td>6.30%</td>
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<td>100.00%</td>
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<td>AVG</td>
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Improve Service

Improve Level of Service:

Ex) Station 47 – Above average incident count during peak hours
Improve Service

Average Annual Response Time by Hour

Longest Response Time
Fire/EMS service early morning & afternoon
Technical Components

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Fire & Street Lighting
2 Basic Components:

1) Proportionality & Benefit:
   √ Prove Relationship

2) Consider Legal Rulings
   √ BLS not ALS (Fire Scenario)
Proportionality & Benefit Relationship

- Primary Methods:
  - Incident Frequency vs. Intensity of Resource Use
Proportionality & Benefit Relationship

Distribution of Incidents by Property Use:

Small % of Retail/Office
Smaller % of Industrial
Proportionality & Benefit Relationship

Intensity of Resources Used by Property Use:

Incident Duration by Property Use

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<thead>
<tr>
<th>Property Use</th>
<th>Average Duration (Man Minutes)</th>
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<tr>
<td>None</td>
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<tr>
<td>Industrial</td>
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<td>Other</td>
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<td>Commercial</td>
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Proportionality & Benefit Relationship

Common Fee Units:

• Parcels
  • Simple & relates to use

• Frontage footage
  • Sensitive to benefit by size
  • Complicated to administer

• Millage/Tax
  • Not an assessment
Proportionality & Benefit Relationship

Demand / Rates

√ Reasonableness Tests

• Distribution of incidents vs. square footage
• NFIRS Property Use vs. address/Appraiser
  Land Use
• Comparison to other jurisdictions
Credibility

• Incorporate All Available Data:
  √ Best Study Backup = Actual Data
  √ Fire Incident Data (NFIRS)
  √ EMS Incident Data (EMSTARS)
  √ Property Appraiser Parcel Data
Credibility

Issues:

Cost / Budget

✓ Direct & indirect costs
  • Replacement of vehicles/other equipment
  • Cost allocation to fire services

✓ Response time goal

✓ Fire vs. BLS vs. ALS resources – Court ruling
Credibility

Issues:

Demand / Rates

- √ Multiple years of incident data
- √ Stable estimates by land use
  - Property Appraiser vs. incident data
- √ Fire vs. BLS vs. ALS
- √ Analytical tools
- √ Demand / resources
Common Procedural Issues: Street Lighting

- Parcel splits
- Ownership changes
- Expense vs. revenue by district
- Several separate databases
Technical Components

• Proportionality & Benefit:
  √ Parcel vs. Frontage (fire & street lighting)
  √ Frequency vs. Resource Use Intensity

• Credibility:
  √ Sample size
  √ No ALS costs (fire)

• Procedural:
  √ Evaluate procedures written into ordinance
Policy & Legal Approach
Selection of Funding Sources

• Use multiple revenue sources for major projects
  • Reduces burden on single portion of community
  • Allows recognition of differing benefits & burdens inside and outside of the community

• Look for existing revenue that may be reallocated to new needs, create new revenue to replace reallocated funds

• Identify existing revenue mechanisms that are not used to maximum potential
Selection of Funding Sources

• Mechanism must be legally feasible:
  • Specific constitutional or statutory authority
  • Home rule & Charter authority
  • Established case law
  • Novel mechanisms or established mechanisms used in a novel way invite legal challenges
  • Even use of established mechanisms may be challenged
Selection of Funding Sources

- Mechanism must be administratively feasible:
  - Ease or difficulty of imposing and collecting funds
  - Costs of implementing and maintaining system
  - Creation and maintenance of data base
  - Level of community acceptance can affect costs of administration
Selection of Funding Sources

- Mechanism must be financially feasible:
  - Revenue must be generated at times and in amounts necessary
  - Up-front costs and long-term costs should be considered
  - Different revenue sources may be needed for construction vs. operations
Selection of Funding Sources

• Mechanism must be politically feasible:
  • Finding a balance between perceived needs, benefits and burdens
  • Cooperation with state and other local governments
  • Strong support by elected officials can reduce likelihood of legal attack
  • Benefits to community-at-large may need to overcome localized opposition
Selection of Funding Options

Finding a Balance

- Sales or Excise Tax
- Ad Valorem Tax
- City-wide Assessments
- Utility Rates/Fees
- Impact Fees
- Local Assessments

Weaker - Larger
Nexus with demand or benefit
Population sharing costs
Stronger - Smaller

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