



Request for City Council Committee Action from the Department of Public Works

Date: June 9, 2015

To: Honorable Kevin Reich, Chair Transportation & Public Works Committee

Referral to: Honorable John Quincy, Chair Ways and Means/Budget Committee

Subject: Public Improvement Special Assessment Interest Rate

Recommendation:

- A. Adopt a revised policy for setting assessment interest rates.
- B. Setting the interest rates for 2015 assessments at:

	1 Year	5 Year	7 Year	10 Year	15 Year	20 Year
Final Rates for Assessment Levies Certified in 2015 for 2016 Collections	2.10	3.50	3.90	4.20	4.40	4.70

Previous Directives:

Not Applicable

Department Information

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Approved by: _____
Steven A. Kotke, P.E., Director of Public Works

Kevin Carpenter, Chief Financial Officer, Finance and Property Services

Presenters in Committee: Brette Hjelle, Director, Business Administration
Sandy Christensen, Deputy CFO

Financial Impact

Action is within the approved 2015 budget.

Community Impact

City Goals: Great Places: Natural and built spaces work together and our environment is protected.

Supporting Information

The City of Minneapolis assesses benefited properties for a number of public improvements including but not limited to street paving and sidewalk replacement. Property owners may pay the assessment in a lump sum or have the amount assessed against their property for a defined term. When a property owner chooses to have the amount assessed against their property, an interest rate is applied to the assessment.

The current method of determining the interest rate to be charged on special assessments is to apply the coupon rate of the bonds issued for the projects. This policy delays determination of interest on special assessments to the end of the year when bonds are issued in November. This potentially results in issuing earlier than necessary in order to determine a rate for assessments. The Finance and Property Services Department and the Public Works Department propose a new methodology for setting the interest rate on public improvement special assessments.

The proposed new methodology determines the interest rate to be applied to the special assessment at the beginning of the year at the same time the uniform assessment rate is determined. The methodology includes selecting an easily-identified bond market index and adding 200 basis points (2.0%) to the relevant rate associated with the number of years of the special assessment.

The benefits of the new methodology include:

- Identification of interest rates at the beginning of the year allows information to be distributed with each public hearing notice and proposed assessment.
- Allows assessments to be certified throughout the year rather than being contingent on a November bond sale and rushing to meet the November 30th Hennepin County certification deadline date.
- Provides a longer period during which prepayments may be made (from date of certification through end of year).
- Allows the City to issue the correct amount of bonds (taking into account prepayments) and only when absolutely necessary to reimburse construction costs.
- Provides better ability to maintain debt service coverage when assessments are not paid or when prepaid.

The new methodology uses the rates from the "Daily Treasury Yield Curve Rates" from December 1 (or the next business day if it falls on a weekend) of the year preceding the year in which assessments will be certified. These rates corresponding to the term of the assessment period are rounded to the nearest 1/10th percent. This rate is then supplemented by 200 basis points (2.0%) to account for interim interest carrying costs as well as debt service coverage risk due to prepayments. Because the index provides rates at ten and twenty years, the 15-year assessment rates are calculated as the average of the 10 and 20-year rates and then applying the methodology noted above.

Based on this methodology, the rates for assessments to be certified in 2015 for collection year starting 2016 are as follows:

City of Minneapolis Assessment Rates for 2015						
For Use on 2015 Assessments Certified for 2016						
	1 Year	5 Year	7 Year	10 Year	15 Year	20 Year
Final Rates for Levies Certified in 2015 for 2016 Collections	2.10	3.50	3.90	4.20	4.40	4.70