



City of Kalispell

Post Office Box 1997 - Kalispell, Montana 59903
Telephone: (406) 758-7701 Fax: (406) 758-7758

February 10, 2011

Mayor Fisher and City Council

Re: Special Retail Assessment Project

Background. The City of Kalispell is the commerce center for the northwest region of the state. While the residential population is in the low to mid 20,000's, the daytime population rises close to 100,000. In the summer months, this population shift skyrockets more with the influx of tourists. As per state law, Kalispell uses a property assessment process to fund its street maintenance program. The ability of 9,000+/- property owners to pay for the maintenance and repair of the city street infrastructure worn and torn by 100's of thousands of people is impossible. Needless to say, the street maintenance program is severely underfunded and our ability to increase revenues using the current methodology is next to impossible.

The state legislature has repeatedly turned down requests to provide statutory authority for local option sales tax. There is statutory authority to impose impact fees, but this is only for new construction caused by growth. The possibility of raising gas tax exists, but is under the purview of the county commissioners and does not appear to be a likely option at any time in the near future.

The concept of a special retail assessment fee first came to my attention at a CDFA training session. A community in the Commonwealth of Virginia used this type of assessment in a shopping mall/TIF development. Since then, I have become aware that Colorado communities have used this methodology as well. The concept appealed to me immediately as a way to tap into the infrastructure users that do not own property within the corporate limits. After a great deal of fits and starts, we have finally settled on a concept to use special retail assessment fees as a part of a special street maintenance improvement district (SID).

SID Concept. Special Improvement Districts (SIDs) serve two primary functions. The first is the creation of some form of infrastructure, such as sewer lines or roads. The second is for the maintenance of some facility or service the City provides, such as street lighting or street maintenance.

SIDs are created by action of the City Council. First, a resolution of intent is passed and advertised in the newspaper. This notifies the people who will be affected by the SID. Citizens have the opportunity to protest and make public comments. If the protest hasn't been sufficient to cancel the project, a final resolution may be passed.

The boundaries of the district are defined to include the properties that are specially benefitted by the improvement or maintenance of the improvements. The district defined may include a portion of the city or may include the entire city.

The costs of the district are distributed across the properties benefiting from the infrastructure or maintenance (the district). State law allows the distribution to be done on a number of bases including, for instance, the area of each parcel in the district, the assessed value of each parcel, number of parcels, front footage of each parcel bordering a street, or a combination of the allowable methods.

The Concept of Combining Districts and Assessment Methods. A special improvement district (SID) could be developed to take the place of the current street maintenance district. The SID boundaries would be the same as the corporate boundaries and every parcel in the city would be charged an assessment. The residential properties would be assessed a set fee for each SF dwelling unit. The business and commercial properties would be charged a set fee, but would include a sliding scale for these fees based on property size (maybe 3 or 4 categories). The commercial retail businesses would be charged a retail transaction fee. The revenue from these sources would flow into an enterprise account for street maintenance and improvements which would replace the current street maintenance assessment program.

The current assessment budget creates \$1.75 million in revenue. The needs for this budget, at a base level, are approximately \$4 million dollars. This estimated number includes our current maintenance program; capital equipment replacement needs; capital project needs such as rebuilding infrastructure; and an improved snow removal operation. Staff is also exploring the potential for this assessment to replace the transportation impact fees, however, the enabling legislation is fairly restrictive about how monies in street maintenance funds may be used. We will continue to work on this option.

Redistribution of Financial Burden. The development of a street maintenance SID and the incorporation of transaction fees with this SID would provide city council with the opportunity to accomplish the following:

1. Place the costs of street maintenance with the users of the public right-of-way infrastructure.
2. Reduce the current street maintenance assessment burden on Kalispell property owners.
3. Provide adequate funding for the maintenance and upkeep of our right-of-way infrastructure.

Example (proposed fees are estimates and may be modified as detailed analysis is completed). Current residential street maintenance assessment of a medium size residential unit is \$180.00. The proposed flat rate for single family units is \$50.00.

Current bank assessment is \$1250. The proposed rate is between \$100 and \$200 based on size of business.

Current food store assessment is \$1425. The proposed rate for the property owner is between \$100 and \$200 based on size.

Proposed retail transaction fees of selected retail/commercial types based on estimated transaction fee of \$.10 and using trip generation model to estimate number of transactions:

Major box store transaction fee estimate is \$150,000 to \$200,000.

Grocery store transaction fee estimate is \$100,000 to \$150,000.

Hotel transaction fee estimate is \$10,000 to \$30,000.

Restaurant transaction fee estimate is \$10,000 to \$25,000.

The process of collecting transaction fees would be a combination of self-reporting; verified by annual random audits, and assessments using trip generation numbers if a retail establishment fails to report/remit their transaction fee and information. It should be noted that I am not proposing to base the transaction costs on trip generation, however, I am using that data as a method of estimating the numbers of transactions per type of retail use. Trip generation would also be used to estimate and lien a commercial business should they violate the proposed assessment program.