MEMORANDUM

Legislative Reference Bureau

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To: Members of the Capital Improvements Committee

From: Kathleen Brengosz, Fiscal Planning Specialist, x3926

Date: March 19, 2013

Subject: Alley Special Assessment Rates

This memorandum provides information relative to agenda item #3 for the March 20th Capital Improvements Committee meeting. It contains a summary of the alley system and information on the City's past policy and current practice to provide context for the committee's discussion. Statistical information relative to the alley program is attached.

Inventory

The City's alley network is comprised of approximately 4,000 alleys totaling 414 miles in length. The majority of the alleys are paved with concrete. DPW generally considers the useful life of an alley to be 50 years. Using that standard, DPW has asserted that approximately 125 miles (30%) of the alley system are past their useful lives. Between 2000 and 2005, based on funds budgeted for the alley program, approximately 2 miles of alleys were replaced each year resulting in a replacement cycle of nearly 200 years. Average funding between 2006 and 2009 decreased by over 70%. Funding levels have recovered significantly since 2009. *(See attachment B)*

Estimated Budgets

Estimates for the amount of funding required to maintain an adequate replacement cycle are generally calculated by considering the cost per mile for alley construction or the average cost per alley. Both methods have their limitations due to the variability of both the length of alleys and their cost. The cost of alleys is not always a function of its length. Alley configurations that contain internal crossings are more complex to construct and will generally have higher costs than alleys of similar length with no internal crossings. Dividing the total mileage of the alley system by the number of miles required to maintain a 50 year replacement cycle (414 miles / 50 years) and using an average cost per mile of $800,000; approximately $6.6 million would be required annually. Dividing the number of alleys in the system by the number of alleys required each year to maintain a 50 year replacement cycle (4,028 alleys / 50 years) and using an average cost per alley of $68,400; approximately $5.5 million would be required annually. Changing the replacement cycle to 75 years for each of the two previous scenarios would change the annual funding requirements to $4.4 million and $3.6 million respectively. These estimated funding amounts do not take into consideration the backlog of alleys that are already well past their useful life.

Financing

Until 2009, the cost of paving alleys was recovered from abutting property owners through a special assessment at a rate of 90%. In practice the City does not recover 90% of its costs because certain portions of the alley may be deemed non-assessable, for example internal crossings which do not directly abut a property or some portions of an alley that abut a single property on more than one side. The actual percentage recovered in any given year will vary depending on the configuration of the alleys that appear on the program. Between 2004 and 2007 when the recovery rate was set at 90%, the percentage of the total cost that was actually recovered by special assessment varied between 39% and 66%. With the passage of the Motor Vehicle Registration Fee (CC file # 080034) in 2008, the recovery rate was reduced to 60%. Actual recovery rates for 2009, 2010 and 2011 were 34%, 36% and 43% respectively. Actual recovery information is not available for 2012 when the special assessment recovery rate was reduced to 30%. The City portion of the alley paving program is financed through general obligation borrowing. There may also be additional borrowing required to finance the special assessment portion over the six year payment period.

Policy Considerations

Policy decisions regarding the appropriate level of funding and cost recovery must take into consideration, property owner expectations, fiscal constraints, the relative importance of other capital projects and programs, and the extent to which alleys facilitate the delivery of City services such as garbage collection.

Disinvestment in alleys can lead to an overall decline in the appearance of a neighborhood and adversely affect property values. Investment in alley improvements can increase the perception of safety and accessibility. This may in turn encourage other neighborhood investments and improvements. This could be especially beneficial in neighborhoods struggling with high numbers of vacant and foreclosed homes.

It is important to note that alleys do not form the same type of transportation network that streets do, their benefit is much more localized in nature with abutting property owners receiving significantly more benefit than the general public. This localized benefit raises the questions of how aggressively to maintain the alley system and to what extent, if any, the abutting property owners should share in the costs of alley reconstruction.

Raising the special assessment rate will allow the City to reconstruct more alleys with a given level of funding. However, if the assessment rate is perceived as too high, property owners will be more likely to oppose projects resulting in a decline in overall condition and quality of the alley system.

The current assessment rate of $19 per frontage foot is close to the nominal assessment rates of the early 1990s. However, it is significantly lower than the inflation-adjusted rates. The average nominal assessment rate for the period from 2000 through 2008 was $51.35.

Managing the program

Property owner objections to paving projects began to increase after 2000 when a policy change dramatically increased the assessment rate per frontage foot. *(see Attachment A)* From 2000 to 2001 the assessment rate increased by 51%. The following year the rate increased another 25%. For that two year period the cost to the typical property owner increased from $1,166 to $2,200.

At the same time, funding began to trend downward. The combination of increased property owner opposition and decreased funding caused the number of alleys constructed between 2000 and 2006 to decline sharply. Construction remained at an extremely low level through 2011, with the department averaging less than 10 alley projects per year.

Although the number of alley projects deleted at public hearing did decline after the recovery rate was reduced to 60% early in 2008, it did not return to pre-2000 levels. Property owner resistance may have been held artificially high by the downturn in the economy. As the economy improves it would seem reasonable to expect property owner support for alley projects to improve.

In an effort to maximize the number of alleys that could be paved each year, DPW began sending a postcard survey to property owners prior to the design phase of a proposed alley. If there is not sufficient property owner support, the project will not move forward. Property owners may still object after the design is complete and the project moves through the public hearing process. Since instituting this practice, deletions at public hearing for alley projects have been reduced to virtually zero.

Other Municipalities

The Legislative Reference Bureau did a survey of the paving program practices often Milwaukee based communities in 2005. Of the seven communities that had alleys, four did not charge abutting property owners for improvements to the alley. The three communities which assess alley costs are Greenfield, Wauwatosa and West Allis. Greenfield paves its alleys with concrete and recovers less than 100% of the cost. Wauwatosa uses some asphalt resurfacing if the condition of the concrete base allows it. They recover 100% of the cost if the property has direct alley access and 50% if it does not. West Allis also uses some asphalt resurfacing but believes that its residents prefer concrete. Assessment rates for concrete reconstruction vary between 40% and 50%. The resurfacing recovery rate is 70%. The full report is available to the committee.

A recent survey of the City of Madison showed that their alley program is driven by property owner requests. If enough of the owners agree to the project, the city will facilitate the paving and assess the abutting owners for 100% of the cost. The City of Green Bay, which has approximately 22.7 miles of alleys, resurfaces about 0.65 miles of asphalt alleys per year. There is no assessment to abutting property owners.

If you have questions or comments regarding this information please contact me.

Attachment A

	Public Hearing							
Year	**Heard**	**Approved**	**Deleted**	**Constructed**	**Budgeted[1] Funding**	**Recovery Ratio**	**Assessment Rate**	**Typical Cost[1] (40' Lot)**
1990				68			$18.00	$720
1991				34			$22.00	$880
1992				62			$22.00	$880
1993				65			$20.00	$800
1994				44			$21.50	$860
1995				34			$22.00	$880
1996				41			$22.50	$900
1997				12			$24.75	$990
1998				26			$26.00	$1,040
1999				37			$27.50	$1,100
2000	42	40	2	43	$2,000,000	90%	$29.15	$1,166
2001	20	17	3	25	$2,249,000	90%	$44.00	$1,760
2002	29	19	10	20	$1,479,000	90%	$55.00	$2,200
2003	46	32	14	15	$2,489,000	90%	$55.00	$2,200
2004	34	20	14	37	$1,000,000	90%	$55.00	$2,200
2005	52	26	26	25	$1,325,000	90%	$55.00	$2,200
2006	11	7	4	7	$875,000	90%	$55.00	$2,200
2007	9	4	5	13	$500,000	90%	$57.00	$2,280
2008	10	7	3	9	$250,000	90%/60%	$57.00	$2,280
2009	7	6	1	6	$300,000	60%	$38.00	$1,520
2010	10	9	1	12	$1,000,000	60%	$38.00	$1,520
2011	8	8	0	5	$1,000,000	60%	$38.00	$1,520
2012	38	34	4	39	$3,000,000	30%	$19.00	$760
2013*				32*	$2,500,000	30%	$19.00	$760
**projected*								
[1] *Dollar amounts have not been adjusted for inflation*								

Attachment B