



STAFF REPORT

Meeting Type: City Council
Meeting Date: February 5th, 2024
From: Jennifer Coker, Public Works Director
AJ Thorne, Assistant Public Works Director
Subject: Creation of an Advanced Financing Reimbursement District for 362nd and Bell Street Improvements

DECISION TO BE MADE:

Whether to direct staff to pursue establishment of an Advanced Financing Reimbursement District (AFRD) to recoup City Utility funds invested to build the 362nd and Bell Streets Extension Improvements Project.

BACKGROUND / CONTEXT:

The extension and connection of 362nd and Bell Street has been nearly a 30-year goal of the City. The project accomplished three objectives:

1. Relief of chronic traffic congestion;
2. Emergency access connecting Hwy 26 to the High School and Bluff Road; and
3. Economic Development opportunities for the last remaining large parcels of land.

Advanced Financing of Public Improvements

[Section 12.14 of the Sandy Municipal Code](#) provides a method for a developer (in this case the City) to apply for reimbursement of some or all the eligible cost of public improvements (streets, water lines, sewer lines, etc) that may directly or indirectly benefit other property owners at the time they develop or redevelop their property and connect to the advanced financed utility improvements.

When a developer or public agency invests in public improvements that have the potential to spur development of adjacent or intervening properties it is reasonable to allow for recovery of some or all of the eligible costs from the benefitting property(ies). By doing so, the value of the benefitting properties can be significantly increased since developers often net out the cost of entitlements or public improvements from their land purchase offers. Public improvements can enable development of property that might otherwise not be feasible to develop without access to street or utility improvements.

Impact to Property

If a property owner has no interest in developing or redeveloping property subject to reimbursement

during the term of the reimbursement obligation, then they incur no costs. The reimbursement obligation is only collectable upon development or redevelopment of the benefitting property and does not become a lien on the property. The property can be sold or conveyed without satisfaction of the reimbursement obligation, which is only collected upon “*connection to an advance financed water, sanitary sewer or storm sewer system or the connection and use of advance financed street and sidewalk improvements*”.

History of AFRD Use in Sandy

Advanced Financed Public Improvement reimbursements are fairly common, although a City acting as a developer for a public improvement is unusual. The City Council has approved about a dozen AFRDs since Section 12.14 of the Municipal Code was adopted in 1993. Most recently the Council approved a private development Advance Financed Public Improvement reimbursement for the Viewpoint Subdivision in November, 2021.

KEY CONSIDERATIONS / ANALYSIS:

If the Council wishes to establish an AFRD, several policy choices must be made regarding the new district: (1) interest rate and term; (2) apportionment methodology; and (3) reimbursement value.

Interest Rate and Term

The code cites an interest rate of 9% per annum using simple interest, but gives Council discretion in setting interest rate terms and duration.

Recommendation

Staff recommends using a 5% simple interest rate, as this is the rate of return Sandy receives on City resources and will preserve the purchasing power of the dollars invested. Had the project cost been in line with initial estimates, and had the City not spent excess funds on 362nd and Bell, the fund would be receiving 5% interest.

Staff recommends a term of 20 years for the AFRD.

Apportionment Methodology

The AFRD would include six properties, encompassing nearly 96 acres of developable land. Staff reviewed two options for apportioning the reimbursement amount among the benefitting properties.

- 1) Method 1 divides the reimbursement amount by the Total Street Frontage of all the parcels adjacent to the new extensions of Bell St. and 362nd Ave. This method is straightforward, but does not fully account for the developable land, and does not account for shape of parcels, and does not correlate well with development potential.
- 2) Method 2 divides the reimbursement amount by Developable Area per property. This method only considers developable land and excludes easements and FSH overlays. This approach correlates better with the benefit each lot receives from access to the new street and utilities.

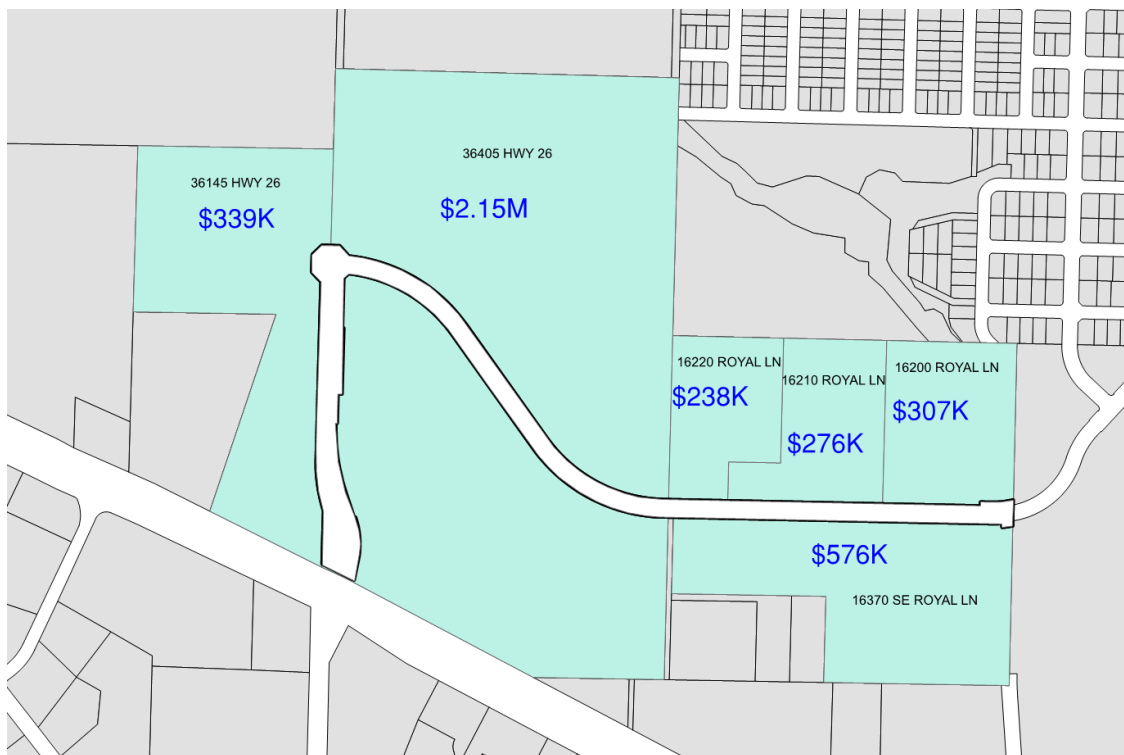
Table 1 indicates which method produces the highest AFRD impact per property. Three properties would pay proportionally more based on the frontage method and two properties would pay

proportionally more based on the area method. One square shaped property is not affected much by either method. The property with the largest developable area is affected most by the area method.

Table 1: Method that produces highest AFRD impact per Parcel

Parcel	Site Address	Method
1	16370 Royal Ln.	Frontage
2	16200 Royal Ln.	N/A
3	16210 Royal Ln.	Frontage
4	16220 Royal Ln.	Area
5	36405 Hwy 26	Area
6	36145 Hwy 26	Frontage

Figure 1 – Example AFRD allocation using Area Method – 30% Total Project Cost



Recommendation

It is recommended that the AFRD be developed using the area method. This appears to offer the best chance of reimbursement and does not unfairly burden smaller properties with long street frontages.

Reimbursement Value

The project cost the City **\$12.94 Million to complete**. The City bonded against vehicle registration fees, which contributed \$5,483,898 to the funding total. The remainder was taken from fund balances in the Street Operations and Street Capital Funds, contributions from the Water and Sewer Fund, and a late transfer of \$600,000 from the General Fund.

As a result, the City's Street Fund; including key operations funds used for the pavement management program, traffic calming, street sweeping, and other obligations (such as ADA ramps, desired improvements to HWY 211, and the TSP); will take significant time to replenish. This timeline can be accelerated if additional funding sources are obtained from taxes or street fees, grant funds, and/or recouping some of the project costs through an AFRD.

Staff proposes two possibilities for the reimbursement value of the AFRD. Both options are lower than the total project cost. **Option A** includes the balance of funds from Street, General Fund, Water and Sewer along with the Bond used to complete the project reduced by the cost of Right of Way acquisition. This is approximately 46% of the total project cost. If this option too high, a lower **Option B** is also presented, which is 30% of total project cost. Alternatively, Council may direct staff to include set the AFRD at whatever alternative dollar or percentage they consider appropriate.

Option A: \$5,941,924 – 46% Reimbursement (project cost less the vehicle registration bond and Right of Way acquisition costs)

Option B: \$3,882,000 – 30% Reimbursement (30% of Project Cost)

OR: Other amount as directed by Council

Recommendation

Due to the multiple goals of the project, staff recommends a balanced approach that will recoup some funds invested while keeping economic development attractive. **Option B** recoups a portion of funds while not placing overly burdensome costs of economic development: \$3,882,000 or 30% of the total project cost.

BUDGET IMPACT:

Creation of an AFRD will have a positive impact on the Street, Sewer and Water Funds, and will cost little to administer, although it is uncertain which properties will develop and on what timeline.

RECOMMENDATION:

Staff recommends creation of an AFRD as a tool for recouping some of the investment in 362nd and Bell Street Extension for the street, water and sewer investments. Staff also recommends that no more than 30% or \$3,882,000 of the total project cost be included in the AFRD (Option B) due to the pledge of Vehicle Registration Fees to pay the bond for the improvements, and the need to balance recouping of investments while keeping economic development viable. Staff recommends a simple interest rate of 5%, a duration of 20 years, and the area method for apportioning the reimbursement amount of the benefitting properties.

SUGGESTED MOTION LANGUAGE:

"I move to direct the City Manager to prepare a Resolution for the creation of an Advance Financing Reimbursement District for the improvements of 362nd and Bell streets, for consideration at a City Council public hearing. The District is to be valued at \$_____(\$3,882,000), and is to use the _____ (Area) apportionment methodology. The District is to expire after ____ (20) years and use a simple interest rate of _____(5) %."

LIST OF ATTACHMENTS / EXHIBITS:

- AFRD presentation slides