

City Special Service Districts

One way for a city to provide an increased level of service or infrastructure to its commercial or industrial areas is to create “special service districts.”¹ Special service districts (SSDs) are established at the request of the persons who will pay for the increased level of service. Since the early 1980s, individual cities have been authorized to set up these districts. Since 1996, cities have had general law authority to create SSDs. Cities are required to report on the districts they’ve established but have not done so; therefore, information on the use of SSDs is from limited survey work. This information brief describes the history of the law authorizing special service districts, the requirements of the law, and results of the survey on the use of SSDs.

What are special service districts?

A special service district is “a defined area within the city where special services are rendered and the costs of the special services are paid from revenues collected from service charges imposed within that area.”² An SSD may be established anywhere in a city but only business property (i.e., commercial, industrial, utility, or land zoned for commercial or industrial use) will be subject to the service charge. SSDs are commonly used in areas with a concentration of retail stores.

¹ Towns and counties may also do this by establishing “subordinate service districts” under Minnesota Statutes, chapters 365A and 375B. While very similar to city special service districts, subordinate service districts are not discussed in this information brief.

² Minn. Stat. § 428A.01, subd. 4.

In 1983, Bloomington became the first city authorized to establish an SSD.³ Bloomington's special law became the basis for later special laws and then the general law. In 1988, the elements of the special laws were codified as Minnesota Statutes, chapter 428A. However, a city still needed special legislation to authorize it to use chapter 428A. In all, 26 cities have been authorized to establish SSDs by special legislation, and in some cases, more than once. Not all cities authorized to establish SSDs have done so.

In 1996, the statute was amended to permit any statutory or home rule charter city to establish an SSD by ordinance, without requiring special legislation. This authority originally expired in 2001, was extended to 2005, and was extended again to 2009 by the 2005 Legislature. After June 30, 2009, cities will have to get special legislation to establish SSDs.⁴

What kinds of services may be provided in an SSD?

The city ordinance establishing the SSD specifies what services may be provided. In general, the services are those

- not ordinarily provided throughout the city from general fund revenues of the city, or
- provided at an increased level than for the rest of the city.⁵

Special services authorized in some city ordinances have included street and sidewalk cleaning, snow and ice removal, lighting, signage, parking, parking enforcement, marketing and promotion, landscaping, and security. They may also include capital improvements authorized in the special assessment statute.

How is an SSD established?

Petition. An SSD may be established by petition by the owners of 25 percent or more of the land area that would be subject to the charges *and* owners of 25 percent or more of the net tax capacity of property that would be subject to the charges.⁶

Ordinance. If a petition is filed, the city may prepare an ordinance that describes the specific area and lists the services to be provided. The city must notify all business owners in the area prior to the hearing, with information on the nature of the proposed services, an estimated cost of improvements, and the amount of the proposed service charges.⁷ The effective date must be at least 45 days after the city adopts the ordinance.⁸ The city must hold a public hearing on the

³ Laws 1983, ch. 361, §§ 2-12.

⁴ Minn. Stat. 2005 Supp. § 428A.101.

⁵ Minn. Stat. § 428A.01, subd. 2.

⁶ Minn. Stat. § 428A.08.

⁷ Minn. Stat. § 428A.02.

⁸ Minn. Stat. § 428A.09, subd. 1.

proposed ordinance.⁹ An existing district may be enlarged following the notice and public hearing requirements for establishing a new district.¹⁰

Objections. Potentially affected property owners may testify at the hearing. They may also object in writing, and if the city agrees, the property may be excluded or the ordinance itself may be delayed. If the city does not agree, the property owner has 30 days to appeal to district court which may affirm, modify, or cancel the city's determination.¹¹ The proposal can be effectively vetoed if owners of 35 percent or more of the land area that would be subject to the charges *or* owners of 35 percent or more of the net tax capacity of property that would be subject to the charges file an objection to establishing the district before its effective date.¹²

Advisory board. The city council may create an advisory board for each special service district in the city to advise the governing body in connection with the construction, maintenance, and operation of improvements, and the furnishing of special services in a district.¹³

How are the services financed?

Businesses in the district pay for the increased level of services through service charges.¹⁴ The charges must be proportionate to the costs of the services and may be collected through the property tax collection system or through other means if so provided by the ordinance. If the service charge is based on net tax capacity, exempt property is exempt from the service charge. Service charges are not included in calculating levies for purposes of any other law related to levies. The fees may be used to pay off general obligation bonds issued by the city for the capital improvements made in the service district under the ordinance. Bonds issued for service district purposes do not require an election.¹⁵

How many cities have established SSDs, and how much is collected in fees?

Since 1996, each city with an SSD is required to submit the SSD ordinance to the Commissioner of Revenue.¹⁶ However, no cities have reported. In addition, the fees are not identified separately in any financial report to the state. With no effective statewide reporting, it is difficult

⁹ Minn. Stat. § 428A.03, subd. 1.

¹⁰ Minn. Stat. § 428A.04.

¹¹ Minn. Stat. § 428A.02, subd. 5.

¹² Minn. Stat. § 428A.09.

¹³ Minn. Stat. § 428A.07.

¹⁴ Minn. Stat. §§ 428A.02, subd. 3; 428A.05.

¹⁵ Minn. Stat. § 428A.06.

¹⁶ Minn. Stat. § 428A.02, subd. 1 (“...Within 30 days after adoption of the ordinance under this subdivision, the governing body shall send a copy of the ordinance to the commissioner of revenue.”), added by Laws 1996, ch. 471, art. 8, § 5.

to know how many SSDs have been established or how much money is collected for SSD purposes statewide.

Not all cities that were given authority under special legislation to establish an SSD used their authority. Of the 26 cities granted authority by special law, a telephone survey in early 2005 revealed that less than half of that number currently maintain SSDs. In certain cases, implementation was delayed or cancelled, in others the SSD no longer exists. There are at least two cities with SSDs established by ordinance after 1996. The table below lists the cities known to have SSDs (based on telephone survey or city web sites) and provides examples of how SSDs are being used.

| City (# of Districts) Date of First Ordinance | Services |
|--|---|
| Bloomington (1) 1984 | Provide street furniture, sidewalks, plowing, sweeping, irrigation, and plants |
| Crookston (2) 1991, 1997 | Fund downtown storefront improvements (1991) and citywide flood control (1997) |
| Duluth (1) 2004 | Provide services related to safety, cleanliness, marketing, and physical enhancements to the downtown waterfront district |
| Eagan (1) 1994 | Provide signage, landscaping, public parking facilities, and promotion of Cedarvale Mall |
| Lakeville (1) 1998 | Provide flowerpots, marketing, programs, festivals and events, cleaning, maintenance, signage, and public art |
| Little Falls (1) 2003 | Fund multi-purpose facility for a farmer's market and retail promotion |
| Mankato (1) 1998 | Provide and maintain free parking facilities for customers of businesses in district |
| Mendota Heights (1) 1986 | Operate and maintain additional streetlights |
| Minneapolis (12) 1985 | Provide additional decorative lighting, banners, security, cleaning, snow and ice removal, and landscaping (varies by district) |
| New Ulm (1) 1985 | Provide free on-street and off-street parking |
| Roseville (1) 1995 | Fund parking lot improvements, driveway relocation, curb installation, landscaping, sprinkler systems, lighting replacement, and improvements |
| Saint Louis Park (3) 1996 | Provide general upkeep, snow removal, landscaping, lighting, banners, and waste removal |
| White Bear Lake (1) 1992 | Promote and manage district as a shopping or trade area; may employ professional marketing director |

SSDs provide cities with flexibility to support commercial areas by providing a higher level of service if commercial property owners request it, while having those who benefit from the added level of service, pay for it. However, due to the method of imposing those charges and the lack of reporting to the state, these dollars are not included in analyses of overall tax burdens.

For more information about special districts, visit the local government area of our web site, www.house.mn/hrd/issinfo/gv_local.htm.