

WHAT IS AN LID?

A Local Improvement District (LID) is a method of financing capital improvements constructed by the city that provide a special benefit to the properties within the boundary of the LID. The LID formation process leads to the sale of bonds and the retirement of those bonds via annual payments paid by the property owners within the district. The LID assessments become liens on the benefitted properties.

WHAT IS A SPECIAL BENEFIT?

The “special benefit” a property gains from a capital improvement (road or utility) is the difference between the fair market value of the property before and immediately after the project is completed. “Fair market value” is the amount of money a purchaser willing, but not obligated, to buy would pay an owner willing, but not obligated, to sell. Fair market value also takes into consideration the current and future land uses that might reasonably be applied to the property. An assessment to a property cannot exceed the special benefit to that parcel: It must be proportionate to the special benefit received in relation to other properties in the LID and cannot include general or public benefits of the project.

ESTABLISHING AN LID

LIDs can be created in two ways – in response to property owner petition or initiated by Council through a resolution. This memo will outline only the steps related to the Council directed process.

Local Improvement Districts are a construct of state law (Revised Code of Washington Chapter 35.43 details the formation of LIDs by Cities and Local Governments) and therefore, the City of Bellevue has limited policy-making authority. The City’s procedures for carrying out the state statute are detailed in Chapter 15.04 of the Bellevue City Code.

STEP 1: Feasibility Analysis

A feasibility analysis takes a broad look at categories of properties within a proposed LID boundary to determine the likelihood of special benefit to those categories and the degree of assessments that could be supported if an LID were to be formed. This analysis is usually completed by an appraiser and serves as a first decision point for Council to proceed.

STEP 2: Formation Analysis

A formation analysis is a property by property appraisal of the market value of a parcel before and after the completion of the improvement. This analysis determines the special benefit each property receives and is used to set the boundary of the LID and the proposed assessments for all property owners within the LID. The City may use any reasonable method to allocate costs among the various assessed properties. Common methods are square footage of property, front footage on the improvements, or “zone and termini.” The formation analysis will help determine the most appropriate and defensible methodology for the proposed LID. (This work would be initiated if Council decides to include LIDs in the overall funding strategy.)

STEP 3: Resolution of Intent

Council adopts a resolution declaring its intent to form the LID and sets a hearing date. Notice of the hearing and an estimate of each property's assessment is mailed to all property owners and published at least 15 days before the hearing.

STEP 4: Formation Hearing

The purpose of the formation hearing is to hear objections to the formation of the LID. Testimony is allowed on the improvements to be constructed, what properties should be included in the LID, and whether it is appropriate to form an LID. The assessment methodology or amount of assessments are ordinarily not appropriate subjects for testimony, unless the City elects to use an alternative method (defined by the RCW) and provides notice of that method to the property owners prior to the formation hearing. Following the hearing, the Hearing Examiner will make a recommendation on the resolution to the City Council.

STEP 5: Formation Ordinance

Assuming no changes were made to the boundaries or the scope of the improvements to be funded based on the formation hearing, Council adopts an ordinance creating the LID and orders the construction of the improvements. If changes are made, a new hearing must be held.

STEP 6: 30-Day Protest Period.

The LID may be stopped if protests by property owners representing 60 percent or more of the estimated assessments are received within 30 days after the adoption of the formation ordinance. All lawsuits challenging the creation of the LID must be filed within 30 days from the end of the protest period. A successful protest does not bar the City from seeking to form the LID at a future date.

STEP 7: Project Development

The City and its competitively-selected contractors design, complete environmental documentation, and acquire right of way for the project and the advertisement for construction bids is issued.

STEP 8: Bond Anticipation Notes

Issue once the construction bid is awarded and construction begins.

STEP 9: Final Assessment Roll

Once construction is complete and all costs are known, the appraiser compiles the final assessment roll – maintaining the proportionality of costs to property benefits. The appraiser re-evaluates each property and makes any needed adjustments in the preliminary roll based on changes in use, new zoning, etc.

STEP 10: Final Assessment Resolution

Council adopts a resolution to set a date for the hearing on the final assessment roll. Notice of the hearing is published and mailed to all property owners at least 15 days before the hearing.

STEP 11: Final Assessment Roll Hearing

Hearing Examiner considers objections from property owners regarding their individual assessments. Only those property owners who have filed written objections at or prior to the hearing are allowed to speak at the hearing. The Hearing Examiner will consider the objections made and will make a recommendation to the Council to overrule objections or modify the final assessment roll based on the objections. If assessments are raised or reallocated based on Council's subsequent action, a new hearing must be held.

STEP 12: Council Adopts Ordinance to Confirm Final Assessments

STEP 13: Appeal Period

Property owners have 10 days from the effective date of the confirming ordinance to appeal assessments.

STEP 14: Notice to Property Owners

Notice is mailed to property owners indicating the assessments may be paid without interest within an identified 30 day period or in annual installments (up to 20 years) with interest based on the interest rate set on the LID bonds to be sold by the City. First annual payment is due one year after the end of the 30 day pre-payment period.

STEP 15: City Sells Bonds

After the prepayment period ends, City sells bonds in the amount of the outstanding assessments.

The LID formation process is clearly defined in state law and city code. Following all the steps to establish an LID takes time, however. Steps 1 – 6 outlined above require at least 6-9 months to implement, depending on the size and complexity of the proposed LID.

(Information used to support the information provided above was drawn from the Washington State Local Improvement District Manual – Fifth Edition, Chapter 35.43 RCW, Chapter 15.04 Bellevue City Code, and “City Local Improvement Districts” summary provided by Preston/Gates/Ellis LLP.)