

Long-Term Street Maintenance Program Costs & Funding Options

August 27, 2013
City Council Workshop



LT SMP Costs & Funding Options

2009 Estimated Costs -

- Costs were estimated to maintain a Pavement Surface Evaluation and Rating (PASER) system rating of 7 or better on all 141.82 miles of non-Municipal State Aid city streets (excludes 32.28 miles MSA streets).
- Costs included all costs required to maintain and reconstruct all non-MSA streets assuming a 40-year life span, excluding initial construction costs.
- Costs included 4 crackseal/sealcoats, 1 overlay + 1 reconstruction.
- Costs included 18% overhead.
- \$3,200,000 = Annual cost to fund the SMP over 40 years (2011-2050).
- \$9,588,203 = Total five year (2011-2015) cost to maintain all non-MSA streets (= \$1,917,640.60 annually).
- \$72,401,106 = Total ten year (2011-2020) cost to maintain all non-MSA streets (= \$7,240,110.60 annually).



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2013 Estimated Costs -

- Estimated costs were updated to maintain a Pavement Surface Evaluation and Rating (PASER) of 7 or better on all 174.1 miles of city streets, including MSA streets.
- Costs included all costs required to maintain and reconstruct all streets assuming a 60-year life span due to our sandy subgrade soils, excluding initial construction costs.
- Costs include 9 crackseals, 6 sealcoats, 2 overlays + 1 reconstruction.
- Costs include 18% indirect costs.
- \$4,368,000 = Annual cost to fund our SMP over 60 years (2014-2073).
- \$11,011,879 = Total five year (2014-2018) cost to maintain all city streets (= \$2,202,376 annually).
- \$25,247,367 = Total ten year (2014-2023) cost to maintain all city streets (= \$2,524,737 annually).
- See Figure 1 attached to case for additional information.



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FIGURE 1

Last Updated 8-22-13

City of Ramsey Street Maintenance Program Cost Projections Based on Current Paser Ratings

Total City Street Data			
PASER Rating	Total Miles	Total Sq.Yd.	Total Sq.Ft.
0	1.61	22,378.75	201,408.72
1	0.40	7,213.96	64,922.00
2	0.00	0.00	0.00
3	4.93	82,233.19	740,098.67
4	9.48	159,195.84	1,432,762.60
5	11.31	192,478.79	1,732,309.11
6	13.12	226,405.34	2,037,648.09
7	26.81	480,853.48	4,327,681.31
8	50.97	841,270.74	7,571,436.69
9	32.64	530,700.68	4,776,306.13
10	22.83	455,709.98	4,101,388.85
Total	174.10	2,988,440.36	28,886,883.17

2013 Bid Prices per Sq. Yd. (6)		
Bid Item	Avg. Bid	Note
Crackseal (CS)	\$0.70	
Sealcoat (S/C)	\$1.80	
Overlay w/ Edge Mill - Urban	\$13.50	Incl. 10% C&G m/multip.
Overlay w/ Edge Mill - Rural	\$11.00	
Reclaim & Repave - Urban	\$22.00	Incl. 10% C&G m/multip.
Reclaim & Repave - Rural	\$20.00	
Reconstruct - Urban	\$60.00	
Reconstruct - Rural	\$38.00	

(6) Bid prices include 18% indirect costs.

Projected 6 & 10 Year Street Maintenance Program Costs					
Program Period	Recon Cost (1)	CS/S/C Cost (2)	O&EM Cost (3)	Total Cost	Avg. Annual Cost
2014 - 2018	\$4,249,368.54	\$4,526,678.98	\$2,235,831.65	\$11,011,879.17	\$2,202,375.83
2019 - 2023	\$6,792,770.27	\$4,604,956.82	\$2,837,760.80	\$14,235,487.89	\$2,847,097.58
2014 - 2023	\$11,042,138.80	\$9,131,635.81	\$5,073,592.44	\$25,247,367.06	\$2,624,738.71

- (1) Streets w/ PR = 0, 1, 2 and 3 reconstructed 2014-2018. Streets w/ PR = 4 reconstructed 2019 - 2023. If reclaim and repave can be applied in place of reconstructions, costs will be less.
 (2) Assumes all streets receive CS/S/C treatments every 7 years, except at time of M&O.
 (3) Assumes all streets receive M&O treatments after 20 years and 40 years.

Urban City Street Data			
PASER Rating	Total Miles	Total Sq.Yd.	Total Sq.Ft.
0	0.00	0.00	0.00
1	0.00	0.00	0.00
2	0.00	0.00	0.00
3	0.00	0.00	0.00
4	1.89	33,787.64	304,088.80
5	2.39	47,425.98	426,833.85
6	7.54	138,920.81	1,250,287.27
7	10.82	222,764.81	2,004,883.27
8	13.09	247,065.23	2,223,587.03
9	7.10	141,527.97	1,273,751.77
10	14.42	312,862.61	2,815,763.48
Total	67.26	1,144,366.06	10,298,186.47

Projected 60 Year SMP Costs (4)				
	Recon Cost	CS/S/C Cost	O&EM Cost	Total Cost
60 Year Total Cost	\$139,116,544.53	\$51,273,330.02	\$71,687,463.01	\$262,077,337.57
Avg. Annual Cost	\$2,318,609.08	\$854,555.50	\$1,194,791.05	\$4,367,955.63

- (4) Cost includes: 8 crackseals, 8 sealcoats, 2 overlays w/ edge mill, and 1 reconstruction. If reclaim and repave can be applied in place of reconstructions, costs will be less.

Rural City Street Data			
PASER Rating	Total Miles	Total Sq.Yd.	Total Sq.Ft.
0	1.61	22,378.75	201,408.72
1	0.40	7,213.96	64,922.00
2	0.00	0.00	0.00
3	4.93	82,233.19	740,098.67
4	7.59	125,408.20	1,128,673.80
5	8.92	145,052.81	1,305,475.26
6	5.58	87,484.54	787,360.82
7	15.99	258,088.67	2,322,798.04
8	37.88	594,205.52	5,347,849.66
9	25.54	389,172.71	3,502,554.36
10	8.41	142,847.37	1,285,626.37
Total	118.86	1,854,086.30	18,888,787.70

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Traditional Funding Options for Street Maintenance Programs –

- The most traditional funding options for street maintenance programs have typically included:
 - Annual general levy budgeting
 - Purchasing General Obligation (GO) bonds on a project-by-project basis
 - Annual Municipal State Aid (MSA) allotments (construction and maintenance) distributed through MnDOT
 - Special assessments per MN Statute Chapter 429.

Unfortunately, these options are becoming less and less effective and favorable as a means of providing dedicated, renewable and secure funding over the long term since local agencies are receiving fewer dollars each year from state and federal agencies, and since local levies continue to shrink.



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MSA Funding –

The city of Ramsey receives annual Municipal State Aid System allocations for our use in funding construction and maintenance expenses on our State Aid System. The amounts allocated in 2013 were:

- \$576,844 construction allocation.
- \$443,377 maintenance allocation.
- The majority of MSA fund allocations in the foreseeable future will continue to be applied towards debt from previous projects and as such the MSA allocations can not be counted on to help pay for new projects for many years yet.



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Alternative Funding Options –

- Alternative funding options available to cities include:
 - Borrowing against or leveraging revenues including the use of toll charges and public-private partnerships (PPPs). A number of State Statutes have recently been adopted to allow cities to use such financing options due to their ability to provide more stable, long-term funding sources.
 - A general (special) tax levy can be applied against all properties in the city upon determining how much revenue is needed to pay for our expected SMP shortfall . The highest valued properties then end up paying the largest share of the costs, and properties utilizing tax abatement or located in TIF Districts would not contribute to program funding, nor would benefitting properties exempt from property taxes such as churches, schools and non-profits. All revenues collected could be a line item budget such as Street Maintenance Program.



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Alternative Funding Options –

- Ideal funding sources should be dedicated, renewable and secure, and should be viewed by taxpayers as being reasonably beneficial, equitable and transparent.
- Many cities are therefore exploring other funding options for long-term street maintenance programs including:
 - Grants
 - Franchise fees
 - Special legislation
- Of these options, only franchise fees offer a dedicated, renewable and secure funding source to help fund cities long-term street maintenance programs. This funding source is therefore rapidly gaining traction and is being adopted by more and more cities.



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Franchise Fees –

- Franchise fees are simply fees charged to private utilities that derive benefit from using public right-of-ways to conduct their business.
- The utility company typically passes the franchise fee along to the consumer via the utility companies invoice, which would likely include a note stating that the fee is being imposed by the city as a means to fund the street maintenance program.
- Franchise fees do provide a dedicated, renewable and secure funding stream for long-term street maintenance programs.
- Based on the results of a survey completed by the city of Ramsey in 2011, a majority of our residents responded that they would prefer to make small monthly payments through a franchise fee versus being assessed larger sums of money over a term of several years.



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Franchise Fees –

- State law provides cities the ability to impose franchise fees to utilities operating within their public right-of-way.
- Franchise fees can be dedicated solely to help pay for the maintenance of existing city streets.
- If authorized by Council, staff can begin preparing draft franchise fee ordinances to allow the city to collect fees from electric and gas utilities.
- Staff recommends charging equal percentages to the electric and gas utilities since there are approximately the same number of gas and electric customers city-wide.
- By using franchise fee revenues, available MSA allocations, \$500,000 budgeted annually through the general fund, and GO bonding for SMP projects, the city can fund our long term SMP for all city streets over the next 5 to 10 years without using special assessments.



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Anoka County Cities Funding Sources Survey –

In April, staff emailed a questionnaire to 7 other Anoka County cities asking for information on their current street maintenance program funding practices. Four cities responded as follows.

- Blaine - Uses special assessments on overlay and street reconstruction projects, as well as bonding, general levy funds, and MSA funds.
- Champlin - Uses special assessments on overlay and street reconstruction projects, as well as bonding, general levy funds, MSA funds, and franchise fees in the amount of \$2.50 per month per each of their 4 utilities.
- Elk River - No longer uses special assessments since adopting franchise fees this spring for their electric and gas utilities. Fees vary by property classification. MSA funds are also used as available.
- Ham Lake - Funded from their Revolving Street Fund which is supported by the general levy. Ham Lake has not assessed benefitting parcels for rehabilitation projects for 10 years.



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Long-Term Street Maintenance and Reconstruction Program Funding Source Pros & Cons

<u>Funding Source</u>	<u>Pros</u>	<u>Cons</u>
General Obligation (GO) Bonds	Dependable, but only as long as city maintains a good rating. Tax write-off.	Increased tax capacity rate. Counts against debt limit.
Franchise Fees	Constant, dependable and renewable funding source. Provides taxpayer transparency. Payment not reflective of residency, tax status, or ownership status. Small monthly payments easier for taxpayers than one large assessment. Reduces levy impacts due to bond interest.	Requires public outreach effort.
Special Assessments (State Statute Ch. 429)	Provides taxpayer transparency (cost versus benefit). Accepted process. Tax write-off.	Petitions easily delay or derail projects. Proving benefit can be difficult and add to project costs. Large assessments are hard to pay.
General Levy (MSA Fund)	City directly controls funds.	Not a constant, dependable or renewable funding source. Not transparent to taxpayers. Levy limit dependent.
MnDOT Municipal State Aid Annual Apportionment		Declining due to waning fuel tax revenues due to erosion by inflation, fewer vehicle miles driven per capita, and use of more fuel-efficient and alternate-fuel vehicles.
Tax Abatement Districts	Taxpayer transparency (cost versus benefit). Most benefitted properties pay.	\$200,000 annual limit. Proving benefit can be difficult and can add to project costs. New TAD created for each project.
Tax Increment Financing		Existing TIF's are soon expiring.
Special Legislation	Unknown...TBD	Unknown...TBD

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Funding Option Pros and Cons –

- Based on the pros and cons, franchise fees provide the greatest benefit with the least down-side due to their:
 - Ability to provide a constant, dependable and renewable funding stream
 - Transparency which allows taxpayers to understand exactly what they are paying and what it is being used for.
 - Ability to be collected from property renters as well as owners
 - Ability to be collected from properties regardless of tax status
 - Ease of implementation



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Estimated SMP Funding Shortfall –

- We estimate an annual \$1,700,000 shortfall for funding our SMP over the next 5 years, assuming we continue to budget \$500,000 annually through our general levy.
- The two most sustainable long-term alternative funding options include a general tax increase and/or implementation of franchise fees. If both options are implemented, we could quit using special assessments. While these are still widely used, special assessments have been contested by taxpayers more vigorously in recent years, resulting in significant project delays and/or cancellations which negatively impact the effectiveness of long-term street maintenance programs. And due to our Charter, the city of Ramsey faces extra hardships in applying special assessments due to the ability of taxpayers to more easily petition against street improvement projects.

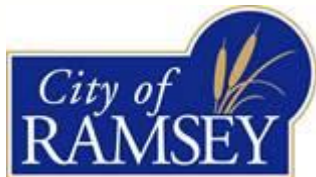


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Franchise Fee Rates –

- **Figure 3** in the next slide shows the number of electric and gas customers throughout the city in 2011/2012 versus the revenues that can be collected based on varying monthly franchise fee amounts. A monthly franchise fee of \$5 per utility for residential properties, which equals \$10 per month, would collect \$1,000,000 in annual revenues. To collect \$1,500,000 in franchise fees annually, the monthly fee would need to be over \$7, or \$14 per month per residential property. This assumes businesses would be charged the same amount based on the past argument that businesses tend to operate along County and State highways and therefore do not impact residential streets to the degree that residential properties do. However, many cities charge their businesses significantly higher fees through their franchise fee ordinances which helps to raise revenue and could keep residential rates lower.



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FIGURE 3

Franchise Fee Calculations

Based on Customer Data supplied by agencies

(Total Year of Collections)

	LMONT-27	FRANCHISE	481	498	498	498	498	498
Monthly Fee-Residential (Fee On DASH Gas & District)	\$ 2.00	\$ 2.00	\$ 2.00	\$ 4.00	\$ 5.00	\$ 6.00	\$ 7.00	\$ 8.00
Monthly Fee-Commercial (Fee On DASH Gas & District)	\$ 8.00	\$ 2.00	\$ 2.00	\$ 4.00	\$ 5.00	\$ 6.00	\$ 7.00	\$ 8.00
Total Monthly Fee	\$ 2.75	\$ 4.00	\$ 6.00	\$ 8.00	\$ 10.00	\$ 12.00	\$ 14.00	\$ 16.00
Centerpoint Energy - Based on March 2013 - February 2012 Data from Centerpoint								
Customers Residential 807	\$ 96,461	\$ 193,320	\$ 289,981	\$ 386,716	\$ 483,420	\$ 580,104	\$ 676,788	\$ 773,472
Commercial 507	\$ 6,084	\$ 12,138	\$ 18,204	\$ 24,256	\$ 30,308	\$ 36,360	\$ 42,412	\$ 48,464
Totals 1,314	\$ 102,545	\$ 205,458	\$ 308,185	\$ 410,972	\$ 513,728	\$ 616,464	\$ 719,200	\$ 821,936
Consensus Energy								
Customers Residential 702	\$ 95,790	\$ 191,580	\$ 287,370	\$ 383,160	\$ 478,950	\$ 574,740	\$ 670,530	\$ 766,320
Commercial 408	\$ 4,904	\$ 9,808	\$ 14,712	\$ 19,616	\$ 24,520	\$ 29,424	\$ 34,328	\$ 39,232
Totals 1,110	\$ 100,694	\$ 201,388	\$ 302,082	\$ 402,776	\$ 503,470	\$ 604,164	\$ 704,858	\$ 805,552
Anata Electric								
Customers Residential 774	\$ 2,426	\$ 4,852	\$ 7,278	\$ 9,704	\$ 12,130	\$ 14,556	\$ 16,982	\$ 19,408
Commercial 81	\$ 810	\$ 1,620	\$ 2,430	\$ 3,240	\$ 4,050	\$ 4,860	\$ 5,670	\$ 6,480
Totals 855	\$ 3,236	\$ 6,472	\$ 9,708	\$ 12,944	\$ 16,180	\$ 19,416	\$ 22,652	\$ 25,888
Grand Total	\$ 306,880	\$ 613,760	\$ 920,640	\$ 1,227,520	\$ 1,534,400	\$ 1,841,280	\$ 2,148,160	\$ 2,455,040

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Franchise Fee Rebate Program –

- Some property owners are still paying special assessments on previous street improvement projects so staff recommends adopting a simple rebate program to ensure that these property owners are not asked to pay twice to fund our SMP. For example, while all properties with gas and electric service in the city would be charged a franchise fee on their bills, property owners still paying on a street assessment could receive an annual rebate of any franchise fees paid that year. Other rebate program options are discussed in the case.



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Franchise Fee Adoption Process –

If Council wishes to adopt franchise fees, staff would meet with utility company representatives from Anoka Electric, CenterPoint Energy, and Connexus Energy while drafting franchise fee ordinances for each utility. Once draft ordinances are complete, Council must then hold a Public Hearing prior to adopting the ordinances, after which a waiting period of at least 90 days is required per PUC rules. Assuming a Public Hearing could be held in late September, the soonest invoicing and the collection of revenues could begin would be January of 2014.

Staff also recommends communicating with the public early and often to ensure that the implementation process is successful. This would include communicating to our residents what the franchise fee is and why it is being imposed on the utility companies. This message could then be mailed with our utility billings and posted on our web site.

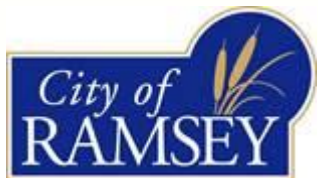


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Staff Recommendations –

- Staff recommends adopting franchise fees to help fund the city's long-term street maintenance program. While there has been some discussion that these are essentially taxes and should therefore be called such, the term “franchise fee” follows state statute language so staff recommends using the same language to avoid any confusion by the public.
- Staff recommends moving away from the use of special assessments as a funding source for our long-term street maintenance program.
- Franchise fees can be used to supplement available MSA funds, general obligation debt, and general fund revenues to help fund our long-term street maintenance program well into the future.



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Requested Council Direction –

Staff requests Council direction regarding preferred funding options to help pay for our long-term street maintenance program. If franchise fees are to be pursued, staff requests Council direction on the fees to be charged to each utility, direction on fee amounts for residential versus commercial properties, and proposed sunset dates for the ordinances. Most franchise fee ordinances have a 20 year sunset date, but in this case it might make sense to apply a 5 or 10 year sunset date to the ordinances to better align with our CIP.



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