Road Funding Mechanisms for Small Suburban Cities in the Twin Cities Metro Area

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Resilient Communities Project
University of Minnesota
Building community-university partnerships for sustainability

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Humphrey School of Public Affairs
Resilient Communities Project
The City of Ramsey

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ABSTRACT

The City of Ramsey is currently wearing down their roads faster than they are able to fund their maintenance and construction. The current funding structure involves special assessments of the roughly 178 miles of road in the City of Ramsey, 142 miles of road are outside of the Municipal State-Aid Street system (MSAS) designation, and therefore are ineligible for certain state aid funds and rely solely on city funding for their upkeep.

In light of this, the City of Ramsey is investigating ways to sustainably fund road reconstruction and maintenance projects and has partnered with the University of Minnesota's Resilient Communities Project to advance this investigation. This report examines how other comparable cities are funding their road maintenance programs and presents recommendations, comparisons, for the City of Ramsey to apply in their own road funding context.

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INTRODUCTION

State of Road Financing in Minnesota

State and local governments fund almost all of the costs associated with their road construction and maintenance projects, totaling $128 billion in 2016, 73% at all levels of government (Urban Institute, 2011). According to the Minnesota State Highway Investment Plan (MnSHIP), there are concerns over the next 20 years on funding shortfalls for road infrastructure within the state (American Society of Civil Engineers, 2018). MnSHIP estimates that these compounding factors will cause a $17.7 billion gap in underfunded roads throughout the state without new public investment (American Society of Civil Engineers, 2018).

There are many benefits to establishing a proactive approach to road maintenance and reconstruction. Estimates suggest that for every $1 spent on road maintenance, $7 can be saved on repairs increasing the cost effectiveness of tax-payer dollars (League of Minnesota Cities, 2020). This is in part due to preventative maintenance routines reducing the need for expense repairs and reconstruction projects, prolonging street lifespans by 25-30 years. A proactive approach to road maintenance also has the potential to reduce user costs such as wear and tear on vehicles and traffic congestion delays (City of Ramsey, 2013b).

To help local governments cover the high costs of maintaining roads, Minnesota uses the *Municipal State-Aid Street* (MSAS) system to distribute transportation-related taxes to cities with populations of at least 5,000 (Minnesota House Research). Eligible cities may receive funding for up to 20 percent of their streets that have higher traffic volume, connect major points of interest, and provide an integrated and coordinated highway and street system (Minnesota Department of Transportation, 2020). On average, eligible cities receive $1.3 million ($48.6 per capita) from this fund annually (Minnesota Department of Transportation, 2020).

Municipalities are on the hook for the remaining cost - nearly 84% - of street maintenance and reconstruction in Minnesota which they largely pay through property taxes and special assessments. While widely used, these two funding tools are not without their downsides. First, special assessments can be a burden on property owners and can be hard to implement and administer in some cities. And second, property taxes are not always reliable. When revenues are low and budgets need to be stretched, funding roads may not always make the priority list when considering other services that cities need to pay for through their general fund (ex: education, public health, public safety, and public works) (League of Minnesota Cities, 2020).

General Mechanisms to Fund Municipal Roads

There are two types of funds that cities can use to pay for general street improvements: *general revenue*s and *special revenues*. *Special revenues* are funds that have been earmarked for a specific program or service, while *general revenues* can be used for unspecified purposes. Typically, cities fund their street maintenance and construction through their general revenues fund (Zhao, 2010).

For most cities, *property taxes* make up the most significant portion of their general fund; however, there are other sources such as *special assessments*, *franchise fees, local option sales tax,* and *capital improvement bonds* (Table 1). *Property taxes* and *special assessments* are the largest and most common revenue sources in Minnesota (Zhao, 2010; League of Minnesota Cities, 2020).

While *property taxes* are generated based on each property's assessed value, *special assessments* are a method for having the property owners who more directly benefit from the development pay for a larger portion of the construction. This process is generally familiar to property owners. However, there are high costs associated with the administration of *special assessments*, such as initial design engineering and the ability of public petition to stop progress and create sunk costs (Zhao, 2010). *Franchise fees*, which charge utility companies for use of roads have become increasingly popular in Minnesota cities, with approval in 43 municipalities as of September 2013 (City of Ramsey, 2013). *Local option sales tax* is an increasingly popular funding mechanism; however, this may not be feasible for cities without the ability to generate enough revenue (Zhao, 2010). *Capital improvement bonds* are a form of debt where the city can borrow money by selling bonds, which is then repaid with interest to the lender (Zhao, 2010).

State of Road Financing in the City of Ramsey

The City of Ramsey, situated in Minnesota's Twin Cities' seven-county metro is currently wearing down its roads faster than it is able to fund its maintenance and construction[1] (City of Ramsey, 2013b and Ulrich, 2020). Of the roughly 178 miles of road in the City of Ramsey, 142 miles of road are outside of the MSAS designation, and therefore are ineligible for certain state aid funds and rely solely on city funding for their upkeep (City of Ramsey & WSB, 2019). The city estimates costs of $3.06 million per year, assuming the roads will last a total of 40 years, and assuming that sealcoats and overlays were routinely conducted over the road's lifespan[2] (Riemer, 2013).

The city's existing funding structure for road maintenance and reconstruction activities assesses property owners for up to 25% of the cost of the roads, while the remaining 75% is funded by the general tax levy in the form of property taxes and debt service payments to general obligation bonds or annual state aid payments[3] (Resilient Communities Project & City of Ramsey, 2020 and City of Ramsey, 2013b). The city's assessment rates for benefiting properties range from $1,400 to $6,636 for residential properties and $6,500 to $33,364 for commercial or industrial properties which are then added to the property tax over a ten-year period (City of Ramsey & WSB, 2019a). Once properties are assessed and sent the assessment bill, owners are able to appeal to the city and contest whether the benefit to their property exceeds the cost of the project (League of Minnesota Cities, 2019 and Ulrich, 2020). The nature of state law governing special assessments and protecting property owners, means that cities can face costly legal processes when residents appeal assessments as well as delays in construction (Ulrich, 2020 and City of Ramsey, 2013b).

Given a number of factors, such as the City's experiences with administering special assessments, the desire to keep the burden on individual property owners low, the increasing annual debt service amount, and the current inadequacy of funding to cover long-term estimated costs, the City has also investigated alternative funding pathways to supplement road related revenue. Specifically, Ramsey has considered implementing a franchise fee, however it was voted down by the City Council in August 2019 (Cummiskey, 2019). To further research road funding mechanisms, the City of Ramsey partnered with the Resilient Communities Project and the Humphrey School of

[1] See Table 2 for explanation of road maintenance and construction

[2] See Table 2 for description of road maintenance types.

[3] See Table 1 for description of funding methods.

Public Affairs to survey road funding mechanisms in cities comparable to Ramsey, focusing on ways cities sustainably fund roads into the future[4].

STUDY OBJECTIVES

While the literature offers extensive review of the types of funding methods available to cities, further research needs to be done on the mechanisms that are currently being adopted by suburban cities in the seven-county metro of the Twin Cities. Further research also needs to be done that compares the funding mechanisms between suburban cities and identifies themes to explain those differences. Our study focuses on two questions:

1.) How are comparable cities funding their roads?
2.) What road funding options would make the most sense for the City of Ramsey?

Given the urgency and novelty of this research, our report aims to provide the city with examples of how comparable cities fund road maintenance and reconstruction projects as well as provide them recommendations for which funding strategies may be best suited in the context of Ramsey.

Objective 1: Survey and interview city managers and engineers to document the range and nature (e.g. franchise fees, property taxes, general revenue, special revenues, political feasibility, and community engagement efforts) of sustainable road funding mechanisms in suburban cities in the Twin-Cities Metro Region.

Objective 2: Understand why cities fund the way they do to better assess how various options may fit into the context of Ramsey.

METHODOLOGY

Data Sources

This research comes from a collection of data sources: government memos and reports provided to us by the City of Ramsey detailing their planning efforts in regards to local road maintenance and reconstruction from 2013 and 2019; budget reports obtained from the Minnesota State Auditor's office summarizing city road maintenance and reconstruction budgets; informal interviews with experts in local road funding practices in Minnesota from the Humphrey School of Public Affairs and the League of Minnesota Cities; informal interviews and conversations with the City Administrator of the City of Ramsey; and, semi-structured interviews with City Administrators, Managers, or Engineers from eight comparable cities in Minnesota. From the documents, we gained an understanding of the current trends in local road funding. The documents also gave us important data to consider each cities' local road expenditures. While the documents gave us some road funding information, the interviews filled in the gaps for funding sources not

[4] For a funding stream to be sustainable it means that it will responsibly and adequately cover the costs associated with the upcoming years of maintenance and road construction projects (Table 2).

included in documents and provided additional insight for why certain funding mechanisms were employed in each city.

Procedure for Constructing the Sample of Cities

A purposeful sampling procedure was used to select the comparable cities for the interviews with City Administrators, Managers, or Engineers. Comparable cities were identified using a set of inclusion and exclusion criteria that were developed, in part, with the input of the City of Ramsey. These criteria include population size between 15,000 and 100,000, location in the seven-county metro region, and per capita spending on roads between $50-$150. Each of the criteria used to bound the sample in this study were purposefully chosen. The study used population size because a similar amount of traffic will produce a similar amount of wear and tear on the roads. The study limited the sample to cities within the seven-county metro region because cities within this region will have comparable weather patterns and traffic conditions, both of which also impact the rate at which roads sustain wear and tear. Finally, the study used per capita spending on roads to restrict the sample to cities that closely resemble the City of Ramsey's current road funding levels.

The sample for our first wave of recruitment consisted of two cities from each of the seven counties in the metro region with the exception of Carver[5]. The study initially used the criteria of two cities per county because the research aims to provide a balanced look at cities across the metro, and to control for any differences in road fiscal policy between counties. Due to a low response rate from our first wave, we broadened our sample to a second wave of cities, dispersed throughout each of the counties with comparable cities. The cities were identified using State Auditor data from 2017 (the latest year available) to confirm population size, location in the seven-county metro region, and road spending per capita.[6]

Experimental Design

The study followed the conceptual framework found in Appendix A and took place over the course of roughly three months from February through April 2020. We began by conducting background research and a literature review at the Humphrey School of Public Affairs. The research team next conducted an informal background interview with our client, the City Administrator of the City of Ramsey, to better understand the unique social, economic, and political context in Ramsey. We then arranged an informal informational interview with a local transportation expert to gain a better background and understanding of the different road funding techniques and options available to local governments in Minnesota. From these interviews and conversations, we developed the sample's inclusion and exclusion criteria, the interview protocol seen in Appendix B, and the potential criteria cities use to assess different local road funding techniques (equity, efficiency, adequacy, and feasibility).

We gathered information from the Administrators, Managers, or Engineers from a total of eight comparable cities. Cities were recruited to participate in the research with the help of the City Administrator in Ramsey. The research team developed scripts that the Ramsey City Administrator used to make an introduction to the first wave of interviewees. Of the thirteen cities contacted in

[5] Only one city from Carver County fit within the bounds of our other inclusion and exclusion criteria so only one city was included.

[6] Minnesota Office of the State Auditor's comparison tool https://www.auditor.state.mn.us/default.aspx?page=ComparisonTools

the first wave, we successfully completed interviews with two of them. These interviews took place on the phone and Google Hangouts and were semi-structured. Given the low response rate, we developed a list of wave 2 cities, bringing the total number of attempted cities to thirty. The City Administrator from the City of Ramsey sent an updated recruitment letter, designed to reflect the chaos of the COVID-19 demands. After the recruitment letter was sent, our research team followed up with the option to schedule a phone or video conference with us or complete a slightly paired down survey on Google Forms (Appendix C). This second wave of recruitment yielded one video interview over Zoom and three survey responses. In addition to the introductory email from the City of Ramsey's Administrator, this second wave of recruitment included cold calls to four cities, which yielded an additional video interview on Zoom. The interviews were recorded and stored on the secure T-Drive available to master's students at the Humphrey School of Public Affairs. From the interviews the research team determined the combination of revenue sources each city used to fund their roads and their rationale for choosing these alternatives. The research team also interviewed a representative at the League of Minnesota Cities who is knowledgeable about current legislative items that may influence how Minnesota cities fund their roads. This interview provided more data on new road funding options that may become available to the City of Ramsey in the near future. This interviewee also introduced us to an additional city that we were able to video interview over Zoom.

Once the interview and survey data were collected, the research team members who attended the interview or downloaded the survey response developed contact notes summarizing the information. The research team then used ATLAS.ti 8 software to code the contact notes with each member of the team coding every contact note to ensure consistency and to triangulate our results. Using the data we collected and analyzed from the literature review and interviews, we present the City of Ramsey with information about how comparable cities in Minnesota fund their roads and why. We also provide recommendations to the City based on our research to suggest alternatives that could fit within Ramsey's context to more sustainably fund their roads into the future.

Ethical Considerations

The projected risk in undertaking this project is low for researchers and participants. This is primarily assessed through the nature of the risk being at the interpersonal level. This mainly stems through potential negative interaction with City Officials/Administrators, which may then lead to less access for further research. Another possible point of risk may be upcoming elections at the municipal level. With upcoming elections and certain city officials campaigning to keep their positions, there may be limited strength in some of the data we collect through these respondents. This could ultimately weaken our research and skew data results and recommendations; however, keeping names of cities and officials confidential allows us to capture more comprehensive information.

To minimize the risk of breaching ethical standards, this study paid close attention to our preparatory work for introduction with our participants. We provided them with the scope of our research and the interview protocol prior to the interview to allow them the opportunity to understand its intent and assess if they would like to participate. We explained to them that nothing they said would be associated with their name, yet we explained that we cannot guarantee their anonymity. Finally, we guided them through an oral informed consent script just prior to the

interview taking place, reiterating the aims of the research and informing them that they can opt out of any question, or the interview, at any time.

The subjects of our research can also benefit from this research. The first opportunity would be substantive research into financial means of road infrastructure. The City of Ramsey is at a crossroads between what road funding methods it wants to pursue in order to meet their infrastructure needs (property tax, special assessment, franchise fee), and they are likely not the only municipality struggling with this issue. Our published results may be beneficial to the State of Minnesota by coming up with recommendations for infrastructure needs for similar communities, benefiting a state as opposed to just one city.

Another policy yield may take the form of greater cooperation and interaction of cities in addressing road infrastructure needs. Our research highlights that the State of Minnesota, specifically the Minnesota State Highway Investment Plan (MnSHIP), is concerned with costs being too high and funding levels being too low for future road infrastructure over the next 20 years. Through our results and recommendations, we may jump-start cooperation and coalitions from other municipal actors in the state to work together in addressing this ongoing issue and create courses of action to mitigate it.

RESULTS

Based on the interviews and surveys collected from eight cities in the seven-county metro region the research team was able to document road funding techniques used in each municipality as well as the rationale for their current funding structures. Profiles depicting each of the city's funding structures are presented below followed by an examination of stated rationales corresponding to the two research objectives.

Objective 1: **Survey and interview city managers and engineers to document the range and nature (e.g. franchise fees, property taxes, general revenue, special revenues, political feasibility, and community engagement efforts) of sustainable road funding mechanisms in suburban cities in the Twin-Cities Metro Region.**

City 1

City 1 uses a combination of special assessments, MSAS funds, and bonding to fund their roads. Their plan for using special assessments was developed in 1997 and aimed to assess 50% of the street surface cost to benefitting properties. The formula was tied to the Construction Cost Index so that assessments would increase as the cost of construction materials increased; however, over time the percentage that properties are assessed has dipped to between 20-30% of project costs as the cost of labor and other associated costs outpaced the Construction Cost Index. Out of the 220 miles of road in City 1, 40 miles are covered under the MSAS system and the city receives roughly $2.2 million from state transportation funds for maintenance along these routes. The city still assesses the properties adjacent to these routes, but at a lower rate. The city also uses bonds to cover road maintenance and reconstruction costs. Interviewees mentioned that due to the City's good bond rating, and their aggressive approach to maintaining their roads, they believe the City can sustainably manage its debt despite annual debt service increases.

City 2

Upon talking with officials from City 2, little funding towards road maintenance and infrastructure came from their general fund, only accounting for 3%. Capital improvement bonds and competing for national and international grants added another 10% for funding towards roads. Special revenues and franchise fees, in particular, were identified as the main funding mechanisms for the road infrastructure, attributing for 85% of these efforts. The attractiveness of franchise fees for City 2 began in 2016 after an 18-month public outreach campaign. The city council and administration initiated this in order to discover new ways for moving forward in funding the road infrastructure efforts. Special assessments were used prior but not favored by the local population, so a type of "pay as you go" approach where equal fees were paid by all residents was desired; which franchise fees were able to achieve. With a balanced political spectrum, there have been no issues with franchise fees and City 2 views that they will continue to use this method for road funding needs in the foreseeable future.

City 3

City 3 uses special assessments, general revenue, franchise fees, MSAS funds, and other special revenues to fund its roads. Of the approximately $7 million spent annually on roads, $1.75 million comes from property taxes, $1 million comes from their franchise fees, $500 thousand comes from a special landfill revenue, and the remaining $3.75 million comes from special assessments and MSAS. City 3 started developing their pavement management plan in 2006 when they saw their roads rapidly declining and budgeting would not keep up with the ongoing costs to repair. The city previously assessed property owners for around 70% of the costs for road repairs; however, given the financial strains on community members, this was becoming increasingly unpopular. Franchise fees, and another special revenue source, appeared as a potential opportunity to raise revenue from everyone who uses the roads at an equal rate. Now, City 3 funds their roads with about 30% special assessments and 70% other sources, reducing the overall burden on their residents.

City 4

City 4 uses a combination of general fund revenue, franchise fees, and MSAS funds to cover costs associated with street maintenance and reconstruction. General fund revenue, specifically from the street maintenance budget, covers small and routine maintenance such as annual crack seals, while more involved maintenance and reconstruction projects are funded by franchise fees and MSAS funds. The city's franchise fees are flat rate and added to electric and gas utility bills ($5 to residential electric; $4 to residential gas; and other unknown rates for commercial and other zoned properties based on utility classification). On average, the franchise fee revenues total roughly $1.5 million. In special and rare cases, the city also uses special assessments though this only occurs when properties along a gravel road have requested pavement. The current road funding structure has been in place since 2013 when the city council passed the franchise fee system. Their prior funding structure was based on special assessments which are ending in the next couple of years. Properties who have paid assessments since the franchise fee system was implemented have been reimbursed franchise fees for the life of their assessment.

City 5

City 5 has a more balanced approach to how they fund their road infrastructure efforts where assessments (20-30%), capital improvement bonds (30-70%), municipal state aid (if eligible 0-50%), and other sources (5%) all contribute. City 5 has taken the route of using bonds as their

new/experimental funding mechanism, which started in 2018. Criteria the city was looking for when changing to a new model was primarily equity, but also benefit tests. However, this particular form of funding is still fresh, and the City Council is still reacting and examining the changes. In addition to the criteria of equity, the city's political makeup favors keeping costs and taxes low for residents, which is seen as a constraint in finding new funding mechanisms. Public engagement has been limited in City 5, but they continue to follow proposed legislation in order to find new and innovative ways to fund road infrastructure.

City 6

City 6 uses a combination of property tax, franchise fee and MSAS for streets. The City does special assess tax exempt properties, however; other property owners are not assessed for the cost of street projects as a street levy and franchise fee revenues support the pavement management plan. Several years ago, the City completed a 10-year pavement management plan which helped to balance out the annual project cost in an attempt to even out the utilization of resources, while also ensuring the City's Pavement Management Index remains favorable. The City implemented a street infrastructure levy many years ago and recently increased franchise fees to provide additional revenue for streets. The pavement management plan was increased from a five to ten-year plan just a few years ago. The City had a very open process when raising the franchise fees several years back. In addition, they provide several publications and public announcements that highlight the City's street infrastructure levy and how the City's tax rate may differ from other communities that chose to special assess.

City 7

City 7 uses a number of funding tools to cover the costs of their road maintenance and reconstruction activities including general revenues generated from property taxes, special assessments, and MSAS funds. The city's property tax revenue generates roughly $2.55 million annually for street improvement projects covering about 45% of project costs (1.05% effective property tax rate). The city's special assessment revenue generates roughly 37% of project costs, and has a sliding rate depending on property type (residential = 50%; high density residential = 75%; and commercial/industrial = 100%). The city also accesses MSAS funds amounting to an average of $3.14 million per year. The current funding structure has been in effect for 30 years.

City 8

While it varies from year to year, special assessments are the largest portion of City 8's road infrastructure projects, attributing for 70%. The remaining funding towards these efforts come in the form of municipal state aid, government bonds, and general taxes. This funding model has existed for 25 years and the approach has met the city's goals of funding these particular needs by offering equity, feasibility, and adequacy. Additionally, over the past 25 years there has been no public engagement in either measuring the popularity of the current road funding model or gauging the public in alternative methods that may provide more efficiency. City 8 has looked into street improvement districts as an innovative approach to funding road maintenance for their municipality.

Objective 2: **Understand why cities fund the way they do to better assess how various options may fit into the context of Ramsey.**

Throughout the interviews and surveys, respondents discussed a variety of reasons for their City's current road funding structures. Below are a number of key themes that highlight how the cities in our sample rationalize their funding structures:

City 1
City 1 expressed wanting to keep the assessment rate reasonable so that property owners are not surprised with large bills. It creates less "sticker shock". While assessment rates increase on average by 3% per year (tied to the Construction Cost Index), the city council pushes back on additional assessment increases. Interviewees also mentioned that once a special assessment framework is established it is hard to make changes since residents may feel the process is not fair.

City 2
City 2 had used special assessments for a long period of time, but city officials identified that it was not popular among the local population. Utilizing a public outreach method in 2016, they identified that citizens were looking for something more relatable to a "pay as you go" system, or equity for everyone in road usage. Franchise fees were the best way in order to meet these needs and have been positively received.

City 3
City 3 started developing their pavement management plan in 2006 when they saw their roads rapidly declining and budgeting would not keep up with the ongoing costs to repair. The city previously assessed property owners for around 70% of the costs for road repairs; however, given the financial strains on community members, this was becoming increasingly unpopular. Franchise fees, and another special revenue source, appeared as a potential opportunity to raise revenue from everyone who uses the roads at an equal rate.

City 4
City 4 stated that their street funding structure made financial sense. Their franchise fee system was projected to be the most cost-efficient funding tool compared to special assessments, capital bonds, and other funding sources. Their fee rate was set so that the city can adequately cover costs associated with a 60-year road. And, the city considered how feasible its plan would be bringing it to the public. They settled on franchise fees because the tool spread out the financial burden across city residents instead of burdening some residents a lot through assessments and all residents through debt service.

City 5
City 5 leaned forward with using bonds as their new funding model in 2018 for road infrastructure. This is likely due to the political makeup of the city, which is very sensitive to tax increases and why little to no consideration is given to new funding mechanisms. Since using bonds as the primary funding source is new, it is too early to determine whether or not it's an effective funding model as the City Council is still evaluating the results.

City 6
City 6 stated that equity, where all taxpayers contribute to the pavement management program while also avoiding a significant burden that may come from a special assessment for a major road project, was an important factor in their decision making. Also, the City values long-term sustainability-focused approaches to capital planning and resource management which has served them very well in ensuring they have current resources to fund the pavement management program and can avoid further issuance of debt for road projects.

City 7
City 7 stated that their funding structure exists in its current form because they believe in the importance of maintaining pavement infrastructure. The city's approach is based on the idea that benefiting properties should be assessed construction costs. In other words, residents who receive the benefit pay the cost. The city mentioned that the plan was created while considering its efficiency, adequacy, and feasibility.

City 8
City 8 has used special assessments for 25 years for road funding needs, while also tapping into state aid, taxes, and bonds. In addition to the length of time for special assessments, City 8 has done no public outreach to gauge whether the public needs or even wants a new funding mechanism. While it did mention they were keeping an eye on street improvement districts as an innovative approach to road funding, City 8 shows no sign in changing their funding method as the current model continues to meet their needs.

DISCUSSION

Funding Techniques

Overall the cities involved in this study seemed to be satisfied with their current funding structures with a number of the cities having updated their road funding policies in the past decade. Each of the cities used the funding techniques at their disposal in unique ways and summarized in the below tables. While general funds, supported by property tax levies and special assessments, seemed to be the most common funding techniques in our sample aligning with the report's background research findings, franchise fees seem to be increasing in importance and popularity as cities search for new ways to raise dedicated road improvement funds. Below is a short summary of our findings for usage of each technique and their respective pros and cons.

Technique	Usage Summary
Franchise Fees	Multiple cities reported that franchise fees are used to adequately address local road funding needs.
Special Assessments	Assessments were a common way for cities in our sample to allocate costs of road funding to the properties that directly benefit from the improvements. The majority of cities in our sample are limiting the extent to which they use special assessments, so as not to overly burden property owners. On the other hand, two

	cities (Cities 7 and 8) use special assessments more aggressively and have comparatively high assessment rates.
Property Tax	Most cities within our sample use property taxes as a way to fund their road projects. It is easily accessible although is inadequate to cover all road funding costs, unless it is accessed at a high rate.
Bonds	Bonds are a popular method to fund road infrastructure projects in our city pool. Most cities used bonds as a supplemental, not primary, income source.
Other sources	The most common other source that cities in our sample used were MSAS funds. All of the cities in our sample were eligible to designate up to 20% of their roads for MSAS funds. Other funding sources also included national grants, the Local Road Improvement Fund, and Host Community Funds (fees for using a city's street to access a landfill).

Funding Technique Pros and Cons:

Technique	**Pros**	**Cons**
Franchise Fees	Everyone, including tax exempt organizations, pay for the roads	Considered regressive because everyone pays the same amount, regardless of income
	Stable and sustainable revenue source	Political feasibility can be difficult given the political makeup of the council and community
	Because of the large tax base (renters, homeowners, nonprofits, schools, etc.), the franchise fee is often adequate to cover road costs	
	The fee is predictable and can be kept low for residents	
Special Assessment	Benefitting properties pay for larger share of road costs	Hard change to the special assessment formula from one year to the next because people feel like it is not fair
		Expensive for those assessed
		Incurs interest debt
		Burden placed on the city to prove that the benefits of the project outweigh the costs; leads to a costly legal process for cities
Property Tax	Reliable, major revenue source	Tax amount bears little to no correlation to road usage
	Taxes can be levied at people's ability to pay, creating an equitable tax (equity defined as those with higher income pay more and vice versa)	Property tax flows to general fund and general fund used to pay for roads; if property tax is inadequate, other general fund money is needed
		Property tax rate can shift dramatically over a short period, making it unreliable

Bonds	Secure investments, easy to sell	Lower rate of return as there is less risk involved in the bond defaulting
	Money earmarked for specific projects	Bonds must be paid back with interest
	Most government bonds are tax exempt, saving you a good portion of money on the project you are trying to accomplish	Periods of recession could cause defaulting of bonds due to slumping tax revenues
Other Sources	MSAS funds allows cities to access funds from the state gasoline tax to supplement local funding streams	Other than MSAS, substantial funds generated from other sources are rare and unreliable

Innovative funding techniques

Interviewees also discussed a number of innovative funding techniques that they are interested in seeing added to Minnesota municipalities road funding toolbox. The policies - street improvement districts and a city wheelage tax - would help to expand the ability of cities to raise dedicated road maintenance revenue. Street improvement districts would grant cities the authority to collect fees from property owners within established districts to fund road maintenance projects, similar to the State's storm sewer improvement districts. Legislation for the funding tool passed the Minnesota House in February 2020 (HF 1095) but its companion has not yet been scheduled for a hearing in the Minnesota Senate (SF 1271) (League of Minnesota Cities, 2020). The wheel tax policy would allow Minnesota cities to receive wheelage tax revenue. Currently, the wheelage tax authority lies with Minnesota counties, but the proposed legislation would enable a $10 surcharge on license tab and title transfers to be applied back to cities. The legislation has been introduced in both the Minnesota House and Senate however to this date no further actions have been taken.

Importance of public opinion

Many of the cities that were interviewed and surveyed discussed the particular methods they used to engage the public and secure support for road improvement funding mechanisms. Considering the previous unsuccessful attempt to pass franchise fees in Ramsey in 2019, the city may find public engagement techniques used in other cities to be particularly useful. For example, one city created an online forum to provide a space for the city to answer the public's questions while also allowing citizens to engage with each other regarding the different alternatives. Another city used a combination of public meetings, written correspondence, website information, and a mailed newsletter. And, while it is difficult to determine how successful the outreach efforts have been, the city mentioned that the mailed newsletter has been rated as the resident's favorite source of road improvement information. A third city found success in implementing franchise fees through a series of structured meetings designed to collect community feedback and provide small group presentations to the community making the case for franchise fees (Narvaez, 2017). Finally, one city provides several publications and public announcements that highlight its street infrastructure levy and how it compares to other communities.

Varying definitions of equity

Our conversations with cities highlighted three distinct definitions of equity that factored into evaluating road funding criteria. These equity definitions could be described as: 1.) Ability to pay principle, 2.) Benefits received principle, and 3.) Equal payment principle. Cities that utilized the

ability to pay principle talked about raising revenues in ways that would correspond with how much residents are able to afford it. This came up in conversation with the League of Minnesota Cities, when discussing that franchise fees were somewhat regressive; however, there weren't many other options available. Another definition of equity is based on the benefits received principle. Some cities referenced this principle in regard to special assessments, while others referred to this in the ability to charge tax exempt residents (such as through franchise fees). The last, and most commonly utilized definition of equity can be considered the equal payment principle. Cities that referenced equity in this manner spoke about how each resident is responsible for paying equal parts of local roads and not face a significant burden.

CONCLUSION

This study had two key objectives. First, to survey and interview city administrators, managers, or engineers to document the range and nature of sustainable road funding mechanisms in suburban cities in the Twin-Cities Metro Region. Second, to understand why cities fund the way they do to better assess how various options may fit into the context of Ramsey. Based on the interviews and surveys collected from eight cities in the seven-county metro region the research team was able to document road funding techniques used in each municipality as well as the rationale for their current funding structures. Overall the cities involved in this study seemed to be satisfied with their current funding structures with a number of the cities having updated their road funding policies in the past decade. Key criteria such as equity, defined in numerous ways, led city leaders to make these road financing decisions. While general funds, supported by property tax levies and special assessments, seemed to be the most common funding techniques in our sample, franchise fees seem to be increasing in importance and popularity as cities search for new ways to raise dedicated road improvement funds. As the City of Ramsey is concerned with the future of their road financing, franchise fees could be a good resource that allows the city to collect a reliable stream of revenue from a broad base at a rate that is reasonable and predictable for residents.

Given the COVID-19 crisis and the impact it had on collecting comprehensive data, we recommend the City of Ramsey continue to survey cities throughout the state and continue developing ideas and best practices. Should the City of Ramsey decide to move forward with implementation of franchise fees, we recommended extensive public engagement, such examples of which are provided above, to collect feedback and move forward in a way that reflects the City's residents' interests.

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Table 1: Current and Potential Road Funding Mechanisms for the City of Ramsey

* Indicates the City of Ramsey is currently using this funding mechanism

Mechanism	**Description**
Special Assessments*	City imposed levies on property owners as a percentage of a public project cost that benefits the charged properties. In Ramsey adjacent properties are assessed 25% of total project costs.
Property Tax Levy*	The city tax authority sets a percentage rate for additional tax to cover road costs, which is then calculated against the assessed value of each homeowner's property.
MSAS	Eligible cities (population of greater than 5,000) are able to access assistance from the Municipal State-Aid Street System funded by the State's transportation related taxes.
Franchise Fee	The city taxes local utilities for the utilities' use of public roads to ply their services. The tax is either a flat rate per customer, a percentage of the utility's gross revenue, or a percentage rate of each customer's utility usage. Utilities pass the cost of the tax onto consumers, raising everyone's utility bill.
Sales Tax	The city applies a local sales tax to local business transactions
Capital Improvement Bonds*	Cities can raise money to pay for capital improvements by selling bonds, which guarantee full repayment plus interest to the lender.

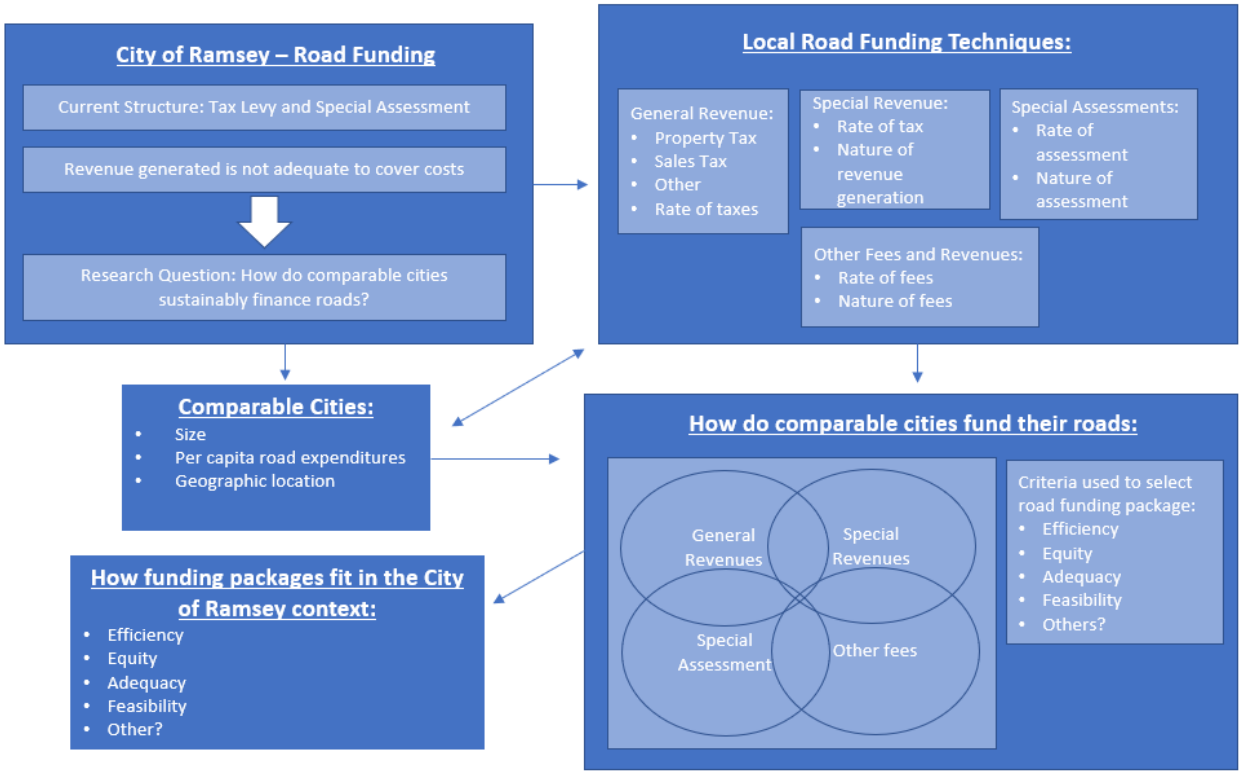
Source: Zhao, Z.J., Das, K.V., & Becker, C.E. (2010). Funding Surface Transportation in Minnesota: Past, Present, and Prospects.; City of Ramsey and WSB. (2019). Pavement Management One-Pager.; City of Ramsey. (2013) Joint Meeting on Long-term Options for Street Maintenance.; City of Ramsey and WSB. (2019). Ramsey Pavement Management Funding Commission Meeting Presentation.

Table 2: Road Lifecycle Maintenance Types and Costs

Type of Maintenance	Purpose	Frequency	Cost
Bituminous Road Construction	Create new roads from ground surface of raw land	Once, at the beginning of the life cycle	None given
Purchase Updated Asset Management System	Track road condition and previous maintenance to prioritize road projects	Every 5 years	None given
Sealant	Seal cracks in road, which naturally occur from freeze/thaw cycle	Annually	Together with Top Coating - $500,000 for 13-23 miles of roads
Top Coating	Seals entire road surface to help prevent cracking from freeze/thaw cycle	Every 7 years	Together with Sealant - $500,000 for 13-23 miles of roads
Overlay	Removal and replacement of the top three inches of the road surface	Every 20 years; at road age 20 and road age 40	None given
Reconstruction	Completely rebuild road; involves complete removal of previous road, regrading, subsurface replacement, and pavement replacement	Every 60 years	None given

Table Sources: City of Ramsey and WSB. (March 2019). Pavement Management Funding Presentation and City of Ramsey and WSB. (January 2019). Pavement Management Funding Presentation.

Appendix A: Conceptual framework



Appendix B: Interview Guide

Qualitative Review of Minnesota's Local Road Funding Strategies
The City of Ramsey and The Resilient Communities Project
Humphrey School of Public Affairs Team: Molly Sir, Sean Crawford, Steven Kutz, and David Ambuel

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Final Interview Protocol

Objective: Survey quantitatively and qualitatively the range and nature (e.g. franchise fees, property taxes, general revenue, special revenues, political feasibility, and community engagement efforts) of sustainable road funding mechanisms in suburban cities in the Twin-Cities Metro Region.

1) (Main Question) What is your city's perspective on long term planning for road maintenance and reconstruction?
    a) (Probe) Is there political bias within the city as it relates to road infrastructure? (e.g. conservative voter base, pro or against tax increases)
    b) (Probe) Are there other political actors at play outside of city administrators influencing this perspective in any particular direction? (e.g. City Council, Charter Commission, State Representatives, etc.)

2) (Main Question) What funding mechanisms does the city use to fund road maintenance and reconstruction activities?
    a) (Follow Up Question) What portion of the city's road maintenance and reconstruction budget comes from general revenues?
        i) (Probe) Do the general revenues consist of more than just a property tax?
        ii) (Probe) What are general revenue tax rates?
    b) (Follow Up Question) What portion of the city's road maintenance and reconstruction budget comes from special revenues?
        i) (Probe) What are the special revenue mechanisms that you use?
        ii) (Probe) What are the special revenue rates that you use?
    c) (Follow Up Question) What portion of the city's road and maintenance and reconstruction budget comes from special assessments?
        i) (Probe) What is the nature of these special assessments?
        ii) (Probe)What is the special assessment rate that you use?
    d) (Follow Up Question) What portion of the city's road and maintenance and reconstruction budget comes from capital improvement bonds?
        i) (Probe) What percent of funding comes from capital improvement bonds?

e) (Follow Up Question) What other fees or charges do you use to fund local road maintenance and reconstruction?
    i) (Probe) What is the nature of these fees?
    ii) (Probe) What is the rate of the fee and does it differ with zoning or something else
    iii) (Probe) Is it earmarked?
    iv) (Probe) Is there a sunset provision with your fees?
    v) (Probe) Is there a cap on how much is collected (individually and aggregate)?

3) (Main Question) Are there any innovative funding models for local road maintenance and reconstruction that your city is considering?

a) (Follow Up Question based on Yes or No response to Main Question) If yes, where did you reach out to learn of these methods.
    i) (Probe) Do you see these innovative methods being implemented in the near future?
b) (Follow Up Question based on Yes or No response to Main Question) If no, why have you not looked into new methods to help your road infrastructure's future?
    i) (Probe) Do you intend to look for new methods in the near future?

Objective: Understand why cities fund the way they do to better assess how various options may fit into the context of Ramsey.

4) (Main Question) How long has your current funding structure for local road maintenance and reconstruction existed and can you describe the decision making process?

a) (Follow Up Question) What was the city's rationale for enacting the current funding structure?
b) (Follow Up Question) What criteria did the city consider when implementing their current local road funding plan?
    i) (Probe) When the city developed its local road funding plan, did it consider how the plan would affect the equity of its citizens? What was the nature of this consideration?
    ii) (Probe) Was efficiency considered?
    iii) (Probe) Was adequacy considered?
    iv) (Probe) Was feasibility considered?

5) (Main Question) Tell me about the political makeup of your district and how that plays out in the feasibility of passing local tax increases?

a) (Follow Up if answer is Yes) What do attribute to that funding mechanism being unfavorable?

6) (Main Question) What public engagement, if any, has your city conducted in order to increase public understanding and support of certain funding mechanisms?

a) (Follow Up Question based on Yes or No response to Main Question) If yes, what types of public engagements were conducted and how would you rate its success?
b) (Follow Up Question based on Yes or No response to Main Question) If no, why did you forfeit the opportunity to use public engagement methods?

Objective: Demographic/Close-out Questions

7) (Main Question) Tell me your current position and in which city you currently serve as it relates to road infrastructure.

a) If the respondent is uncomfortable answering position or which location they work in omit this line of questioning.

8) (Main Question) Are you willing to give a little information on your background to include age, where you received your education, and how long you've been a part of policy work at the local, state, and/or federal level?

a) Government positions, and how long for each

Appendix C: Survey Questions

1. What city do you work for and what is your current position title?
2. What road funding mechanisms does your city use to fund road maintenance and reconstruction activities? (ex. general/special revenues, special assessments, capital improvement bonds, other fees/charges?) And, how are the rates structured? What portion of the costs does each mechanism cover?
3. How long has your current funding structure for local road maintenance and reconstruction existed and can you describe the decision-making process?
4. What criteria has your city considered when coming up with funding structure?