



MEMORANDUM

TO: Mayor Burch and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Street Funding Alternatives

DATE: April 4, 2014

Attached below you will find a copy of a July 3, 2013 memorandum that included a draft of recommendations from the Advisory Committee on Street Funding Alternatives. This draft report was subsequently adopted by the Committee as its final report.

The options proposed by the Committee in the "Recommendations" section of this report were all developed with the goal of generating \$500,000 annually for street reconstruction. In this memorandum, I would like to address in further detail two of the three options discussed: a dedicated millage and a bond issue.

A dedicated millage is a fairly straightforward concept. The proposal seeking voter approval for the millage would describe the specific purpose to which millage revenues would be dedicated. In order to generate the minimum \$500,000 proposed, a levy of 2.35 mills would be required.

A bond issue is only slightly more complicated. While there are other alternatives, a general obligation bond issue is the preferred method of financing since it allows for levying an additional millage specifically to pay off the debt. General obligation bonds must be approved by voters. As with a dedicated millage, the purpose for which the bonds are to be sold must be stated in the proposal placed on the ballot.

We solicited information from our bond consultant Stauder, Barch & Associates regarding payment schedules associated with \$2.5 million bond

issues that would be sold at regular intervals of five years. The company responded with two different alternatives. One involved paying off each bond issue over ten years; the second would pay off bonds over twenty years. Both schedules are attached but I recommend consideration only of the ten-year schedule due to the reduced interest expense over the life of the bond and the greater assurance that the improvements would last as long as the bond repayments.

You will see that the repayment schedule was structured so as to result in fairly consistent year-to-year debt service and, as a result, fairly consistent millage levies. The additional millage required to service the debt falls in a narrow range between approximately 2.00 and 2.15 mills. The accompanying tables appear to show that millage would decrease after 2035. This is the case only if the City should discontinue selling bonds for street improvements.

It is important in evaluating the relative merits of the two approaches to financing street improvements to avoid comparing only the annual millage rates. At first glance it would appear that the bond issue approach is the lower cost method. The second table, however, shows that for the entire 20 year period, bonds would require a total levy of 48.76 mills as compare to 47 mills for the pay-as-you-go approach.

Similarly, there are differences in the total costs of the two proposals. Over five years, each generates \$2.5 million in funds available for street improvements. That is also the total cost of the pay-as-you-go approach. The interest expense associated with the bond issues, however, results in a total cost of nearly \$3 million.

In addition, there are risks associated with the bond financing method that must be taken into account. The forecast millage levy is based on the assumption that bonds will be sold for the same 4.25% interest rate over the entire period. If interest rates increase, the millage levy must increase as well. Further, it is assumed that taxable value will increase at an annual rate of 2% beginning in 2018. If the increase is below that amount, millage rates would need to be higher as well.

It should also be recognized that inflation is likely to have an impact on how far the money would go over time. It is likely that over time it would be necessary to consider larger bond issues in order to achieve the same impact as levying a consistent 2.35 mills over the same period.

Despite these risks and uncertainties, there is a good reason to consider selling bonds as opposed to levying a millage: it would generate more money at the outset of any given five-year cycle that would enable undertaking larger projects.

I have not addressed in this memorandum the third alternative proposed by the committee. This would involve imposing a special assessment for public safety costs and diverting money currently used for that purpose to streets. This proposal can be undertaken without a vote. I believe that Council should consider this only after having exhausted other alternative courses of action because it suffers from the same defects as the income tax: It is complex, difficult to explain and there is no way to assure that millage money freed up in the general fund would actually be dedicated to streets.

Table 1a 10 Year Bond Terms

\$10,000,000
CITY OF CHARLOTTE
COUNTY OF EATON, STATE OF MICHIGAN
PROPOSED 2015, 2020, 2025 & 2030 ROAD BONDS
(GENERAL OBLIGATION - UNLIMITED TAX)

	Series 2015	Series 2020	Series 2025	Series 2030
Amount:	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
NIC:	4.25%	4.25%	4.25%	4.25%
Dated:	Apr 1, 15	May 1, 20	May 1, 25	May 1, 30
Delivered:	Apr 1, 15	May 1, 20	May 1, 25	May 1, 30
1:5 Ratio:	TRUE	TRUE	TRUE	TRUE
Debt/(TV+IFT-Captures):	1.19%	1.61%	1.68%	1.69%
Bond Term:	10 yrs., 1 mos.	10 yrs., 0 mos.	10 yrs., 0 mos.	10 yrs., 0 mos.
Capitalized Int.	\$0.00	\$0.00	\$0.00	\$0.00

120% of Project Useful Life > Avg. Life of Bond Term	120% Project Useful Life	Average Life
Series 2015	TBD	4.40
Series 2020	TBD	5.34
Series 2025	TBD	6.23
Series 2030	TBD	7.06

Taxable Value Growth History			July Levy: 100%	
2008	\$227,609,491	Proposed Lev	2.16	
2009	238,879,799	Current Levy	0.00	
2010	230,174,961	Net Increase	2.16	
2011	225,448,961			
2012	221,059,736			
2013	213,228,195			
Average Growth Rate:			-1.25%	

Schedule of Estimated Millage Needed to Retire Bonded Debt

F/Y		Existing Debt	Series 2015					Series 2020		Series 2025		Series 2030		Total Proposed Debt	Total Existing & Proposed Debt	(Use) of Funds on Hand		Mills			
Tax Year	End 6-30,	\$0	Interest Due Nov 1	Interest Due May 1	Interest Rate	Principal Due May 1	Series 2015 Total P&I	Principal Due May 1	Series 2020 Total P&I	Principal Due May 1	Series 2025 Total P&I	Principal Due May 1	Series 2030 Total P&I			\$0	Net Existing Proposed Debt	Projected Total Value [3]	Growth Rate	ALL SERIES Avg 1.95	Mills Needed All Debt
2013	2014	\$0	\$0	\$0	4.250%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$214,154,666	-3.54%		0.00
2014	2015	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	210,885,380	-1.62%		0.00
2015	2016	0	61,979 [1]	53,125	4.250%	330,000	445,104	0	0	0	0	0	0	445,104	445,104	3,340	448,444	208,578,526	-1.00%	2.15	2.15
2016	2017	0	46,113	46,113	4.250%	355,000	447,225	0	0	0	0	0	0	447,225	447,225	1,219	448,444	208,578,526	0.00%	2.15	2.15
2017	2018	0	38,569	38,569	4.250%	380,000	457,138	0	0	0	0	0	0	457,138	457,138	(4,209)	452,928	210,664,311	1.00%	2.15	2.15
2018	2019	0	30,494	30,494	4.250%	400,000	460,988	0	0	0	0	0	0	460,988	460,988	999	461,987	214,877,597	2.00%	2.15	2.15
2019	2020	0	21,994	21,994	4.250%	425,000	468,988	0	0	0	0	0	0	468,988	468,988	(1,349)	467,639	219,175,149	2.00%	2.13	2.13
2020	2021	0	12,963	12,963	4.250%	120,000	145,925	230,000	336,250	0	0	0	0	482,175	482,175	0	482,175	223,558,652	2.00%	2.16	2.16
2021	2022	0	10,413	10,413	4.250%	120,000	140,825	250,000	346,475	0	0	0	0	487,300	487,300	0	487,300	228,029,625	2.00%	2.14	2.14
2022	2023	0	7,863	7,863	4.250%	120,000	135,725	275,000	360,850	0	0	0	0	496,575	496,575	0	496,575	232,590,422	2.00%	2.13	2.13
2023	2024	0	5,313	5,313	4.250%	125,000	135,625	300,000	374,163	0	0	0	0	509,788	509,788	0	509,788	237,242,230	2.00%	2.15	2.15
2024	2025	0	2,656	2,656	4.250%	125,000	130,313	325,000	386,413	0	0	0	0	516,725	516,725	0	516,725	241,987,075	2.00%	2.14	2.14
2025	2026	0	0	0	4.250%	0	0	220,000	267,500	155,000	261,250	0	0	528,850	528,850	0	528,850	246,826,816	2.00%	2.14	2.14
2026	2027	0	0	0	4.250%	0	0	225,000	263,250	170,000	269,663	0	0	532,913	532,913	0	532,913	251,763,353	2.00%	2.12	2.12
2027	2028	0	0	0	4.250%	0	0	225,000	253,688	185,000	277,438	0	0	531,125	531,125	0	531,125	256,798,620	2.00%	2.07	2.07
2028	2029	0	0	0	4.250%	0	0	225,000	244,125	205,000	289,575	0	0	533,700	533,700	0	533,700	261,934,592	2.00%	2.04	2.04
2029	2030	0	0	0	4.250%	0	0	225,000	234,563	220,000	295,863	0	0	530,425	530,425	0	530,425	267,173,284	2.00%	1.99	1.99
2030	2031	0	0	0	4.250%	0	0	0	0	295,000	361,513	85,000	191,250	552,763	552,763	0	552,763	272,516,750	2.00%	2.03	2.03
2031	2032	0	0	0	4.250%	0	0	0	0	305,000	358,975	90,000	192,638	551,613	551,613	0	551,613	277,967,085	2.00%	1.98	1.98
2032	2033	0	0	0	4.250%	0	0	0	0	315,000	366,013	100,000	198,813	554,825	554,825	0	554,825	283,526,426	2.00%	1.96	1.96
2033	2034	0	0	0	4.250%	0	0	0	0	325,000	352,625	105,000	199,563	552,188	552,188	0	552,188	289,196,955	2.00%	1.91	1.91
2034	2035	0	0	0	4.250%	0	0	0	0	325,000	338,813	125,000	215,100	553,913	553,913	0	553,913	294,980,894	2.00%	1.88	1.88
2035	2036	0	0	0	4.250%	0	0	0	0	380,000	464,788	0	0	464,788	464,788	0	464,788	300,880,512	2.00%	1.54	1.54
2036	2037	0	0	0	4.250%	0	0	0	0	390,000	458,638	0	0	458,638	458,638	0	458,638	306,898,122	2.00%	1.49	1.49
2037	2038	0	0	0	4.250%	0	0	0	0	400,000	452,063	0	0	452,063	452,063	0	452,063	313,036,084	2.00%	1.44	1.44
2038	2039	0	0	0	4.250%	0	0	0	0	410,000	445,063	0	0	445,063	445,063	0	445,063	319,296,806	2.00%	1.39	1.39
2039	2040	0	0	0	4.250%	0	0	0	0	415,000	432,638	0	0	432,638	432,638	0	432,638	325,682,742	2.00%	1.33	1.33
2040	2041	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	332,196,397	2.00%	0.00	0.00
2041	2042	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	338,840,325	2.00%	0.00	0.00
2042	2043	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	345,617,132	2.00%	0.00	0.00
2043	2044	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	352,529,474	2.00%	0.00	0.00
2044	2045	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	359,580,064	2.00%	0.00	0.00
2045	2046	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	366,771,665	2.00%	0.00	0.00
2046	2047	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	374,107,098	2.00%	0.00	0.00
2047	2048	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	381,589,240	2.00%	0.00	0.00
2048	2049	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	389,221,025	2.00%	0.00	0.00
2049	2050	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	397,005,445	2.00%	0.00	0.00
2050	2051	0	0	0	4.250%	0	0	0	0	0	0	0	0	0	0	0	0	404,945,554	2.00%	0.00	0.00
		\$0	\$238,354	\$229,500		\$2,500,000	\$2,967,854	\$2,500,000	\$3,067,375	\$2,500,000	\$3,161,725	\$2,500,000	\$3,250,950	\$12,447,504	\$12,447,504	\$0	\$12,447,504				

[1] 7 mos interest.

[2] Includes \$0 of Existing LTNQ Debt and \$0 of Existing UT Debt as of Dated Date.

[3] Includes \$3,090,018 of Equivalent IFT Valuations and Less DDA/TIFA Debt Captures of \$2,163,527

kcg

Street Funding Alternatives

						Annual Cost to Resident ⁽¹⁾		
Year	Bond Amount	Millage Rate	Total Annual Millage Rate	Designated Ad Valorem Millage Rate	Difference	Bonds	Designated Millage ⁽²⁾	
1	\$ 2,500,000	2.15	2.15	2.35	-0.20	\$ 90	\$ 99	
2		2.15	2.15	2.35	-0.20	\$ 92	\$ 101	
3		2.15	2.15	2.35	-0.20	\$ 94	\$ 103	
4		2.15	2.15	2.35	-0.20	\$ 96	\$ 105	
5		2.13	2.13	2.35	-0.22	\$ 97	\$ 107	
6	\$ 2,500,000	2.16	2.16	2.35	-0.19	\$ 100	\$ 109	
7		2.14	2.14	2.35	-0.21	\$ 101	\$ 111	
8		2.13	2.13	2.35	-0.22	\$ 103	\$ 113	
9		2.15	2.15	2.35	-0.20	\$ 106	\$ 116	
10		2.14	2.14	2.35	-0.21	\$ 107	\$ 118	
11	\$ 2,500,000	2.14	2.14	2.35	-0.21	\$ 109	\$ 120	
12		2.12	2.12	2.35	-0.23	\$ 111	\$ 123	
13		2.07	2.07	2.35	-0.28	\$ 110	\$ 125	
14		2.04	2.04	2.35	-0.31	\$ 111	\$ 128	
15		1.99	1.99	2.35	-0.36	\$ 110	\$ 130	
16	\$ 2,500,000	2.03	2.03	2.35	-0.32	\$ 115	\$ 133	
17		1.98	1.98	2.35	-0.37	\$ 114	\$ 135	
18		1.96	1.96	2.35	-0.39	\$ 115	\$ 138	
19		1.91	1.91	2.35	-0.44	\$ 114	\$ 141	
20		1.88	1.88	2.35	-0.47	\$ 115	\$ 144	
21			1.54	-	1.54	\$ 96	\$ -	
22			1.49	-	1.49	\$ 95	\$ -	
23			1.44	-	1.44	\$ 93	\$ -	
24			1.39	-	1.39	\$ 92	\$ -	
25			1.33	-	1.33	\$ 90	\$ -	
			48.76	47.00	1.76	\$ 2,575	\$ 2,396	

1 Mill = \$214,000

2.35 Mills = \$500,000

⁽¹⁾ Based on the average residential taxable value of \$42,000

⁽²⁾ Annually adjusted for a 2% increase in taxable value

Table 1b 20 Year Bond Terms

\$10,000,000
CITY OF CHARLOTTE
COUNTY OF EATON, STATE OF MICHIGAN
PROPOSED 2015, 2020, 2025 & 2030 ROAD BONDS
(GENERAL OBLIGATION - UNLIMITED TAX)

Schedule of Estimated Millage Needed to Retire Bonded Debt

	Series 2015	Series 2020	Series 2025	Series 2030
Amount:	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
NIC:	5.00%	5.00%	5.00%	5.00%
Dated:	Apr 1, 15	May 1, 20	May 1, 25	May 1, 30
Delivered:	Apr 1, 15	May 1, 20	May 1, 25	May 1, 30
1:5 Ratio:	TRUE	TRUE	TRUE	TRUE
Debt/(TV+IFT-Captures):	1.19%	1.71%	1.81%	2.09%
Bond Term:	20 yrs., 1 mos.	20 yrs., 0 mos.	20 yrs., 0 mos.	20 yrs., 0 mos.
Capitalized Int:	\$0.00	\$0.00	\$0.00	\$0.00

120% of Project Useful Life > Avg. Life of Bond Term		
120% Project Useful Life		
Series	2015	Average Life
Series 2015	TBD	6.71
Series 2020	TBD	7.76
Series 2025	TBD	9.79
Series 2030	TBD	12.63

Taxable Value Growth History				July Levy: 100%
2008	\$227,609,491		Proposed Lev	2.00
2009	238,879,799	4.95%	Current Levy	0.00
2010	230,174,961	-3.64%	Net Increase	2.00
2011	225,448,961	-2.05%		
2012	221,059,736	-1.95%		
2013	213,228,195	-3.54%		
Average Growth Rate:				-1.25%

		Series 2015						Series 2020		Series 2025		Series 2030		Total		(Use) of		Mills		
Tax Year	FY End 6-30	Existing Debt	Interest Due Nov 1	Interest Due May 1	Principal Due May 1	Series 2015 Total P&I	Principal Due May 1	Series 2020 Total P&I	Principal Due May 1	Series 2025 Total P&I	Principal Due May 1	Series 2030 Total P&I	Total Proposed Debt	Existing & Proposed Debt	Funds on Hand	Net Existing Debt	Projected Debt Value [3]	Growth Rate	ALL SERIES Avg 1.54	Mills Needed All Debt
2013	2014	\$0	\$0	\$0	5.000%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$214,154,686	-3.54%		0.00
2014	2015	0	0	0	5.000%	0	0	0	0	0	0	0	0	0	0	0	210,985,380	-1.62%		0.00
2015	2016	0	72,917 [1]	62,500	5.000%	280,000	415,417	0	0	0	0	0	415,417	415,417	1,740	417,157	208,578,526	-1.00%	2.00	2.00
2016	2017	0	55,500	55,500	5.000%	305,000	416,000	0	0	0	0	0	416,000	416,000	1,157	417,157	208,578,526	0.90%	2.00	2.00
2017	2018	0	47,875	47,875	5.000%	325,000	420,750	0	0	0	0	0	420,750	420,750	579	421,329	210,654,311	1.00%	2.00	2.00
2018	2019	0	39,750	39,750	5.000%	350,000	429,500	0	0	0	0	0	429,500	429,500	(3,476)	426,024	214,877,597	2.00%	1.98	1.98
2019	2020	0	31,000	31,000	5.000%	375,000	437,000	0	0	0	0	0	437,000	437,000	0	437,000	219,175,149	2.00%	1.99	1.99
2020	2021	0	21,625	21,625	5.000%	55,000	98,250	220,000	346,000	0	0	0	443,250	443,250	0	443,250	223,558,652	2.00%	1.98	1.98
2021	2022	0	20,250	20,250	5.000%	55,000	95,500	245,000	359,000	0	0	0	454,500	454,500	0	454,500	228,029,825	2.00%	1.99	1.99
2022	2023	0	18,875	18,875	5.000%	55,000	92,750	270,000	371,750	0	0	0	464,500	464,500	0	464,500	232,590,422	2.00%	2.00	2.00
2023	2024	0	17,500	17,500	5.000%	55,000	90,000	295,000	383,250	0	0	0	473,250	473,250	0	473,250	237,242,230	2.00%	1.99	1.99
2024	2025	0	16,125	16,125	5.000%	55,000	87,250	320,000	393,500	0	0	0	480,750	480,750	0	480,750	241,987,075	2.00%	1.99	1.99
2025	2026	0	14,750	14,750	5.000%	55,000	84,500	75,000	132,500	145,000	270,000	0	487,000	487,000	0	487,000	246,826,816	2.00%	1.97	1.97
2026	2027	0	13,375	13,375	5.000%	55,000	81,750	75,000	128,750	155,000	272,750	0	483,250	483,250	0	483,250	251,763,353	2.00%	1.92	1.92
2027	2028	0	12,000	12,000	5.000%	55,000	79,000	75,000	125,000	165,000	275,000	0	479,000	479,000	0	479,000	256,798,620	2.00%	1.87	1.87
2028	2029	0	10,625	10,625	5.000%	60,000	81,250	75,000	121,250	175,000	276,750	0	479,250	479,250	0	479,250	261,934,592	2.00%	1.83	1.83
2029	2030	0	9,125	9,125	5.000%	60,000	78,250	75,000	117,500	185,000	278,000	0	473,750	473,750	0	473,750	267,173,284	2.00%	1.77	1.77
2030	2031	0	7,625	7,625	5.000%	60,000	75,250	75,000	113,750	193,750	280,000	125,000	607,750	607,750	0	607,750	272,516,750	2.00%	1.86	1.86
2031	2032	0	6,125	6,125	5.000%	60,000	72,250	75,000	110,000	198,250	282,500	30,000	525,500	525,500	0	525,500	277,967,085	2.00%	1.89	1.89
2032	2033	0	4,625	4,625	5.000%	60,000	69,250	75,000	106,250	192,750	284,000	45,000	526,750	526,750	0	526,750	283,526,426	2.00%	1.86	1.86
2033	2034	0	3,125	3,125	5.000%	60,000	66,250	75,000	102,500	187,250	285,000	60,000	527,250	527,250	0	527,250	289,196,955	2.00%	1.82	1.82
2034	2035	0	1,625	1,625	5.000%	65,000	68,250	75,000	98,750	180,750	286,000	70,000	527,000	527,000	0	527,000	294,980,894	2.00%	1.79	1.79
2035	2036	0	0	0	5.000%	0	0	75,000	95,000	110,000	166,250	120,000	496,000	496,000	0	496,000	300,880,512	2.00%	1.65	1.65
2036	2037	0	0	0	5.000%	0	0	80,000	96,250	110,000	160,750	130,000	495,750	495,750	0	495,750	306,898,122	2.00%	1.62	1.62
2037	2038	0	0	0	5.000%	0	0	80,000	92,250	110,000	155,250	135,000	484,750	484,750	0	484,750	313,036,084	2.00%	1.55	1.55
2038	2039	0	0	0	5.000%	0	0	80,000	88,250	110,000	149,750	140,000	473,500	473,500	0	473,500	319,296,806	2.00%	1.48	1.48
2039	2040	0	0	0	5.000%	0	0	85,000	89,250	110,000	144,250	145,000	467,000	467,000	0	467,000	325,882,742	2.00%	1.43	1.43
2040	2041	0	0	0	5.000%	0	0	0	0	115,000	143,750	150,000	375,000	375,000	0	375,000	332,196,397	2.00%	1.13	1.13
2041	2042	0	0	0	5.000%	0	0	0	0	115,000	138,000	155,000	366,750	366,750	0	366,750	338,840,325	2.00%	1.08	1.08
2042	2043	0	0	0	5.000%	0	0	0	0	115,000	132,250	160,000	358,250	358,250	0	358,250	345,617,132	2.00%	1.04	1.04
2043	2044	0	0	0	5.000%	0	0	0	0	115,000	126,500	160,000	344,500	344,500	0	344,500	352,529,474	2.00%	0.98	0.98
2044	2045	0	0	0	5.000%	0	0	0	0	115,000	120,750	160,000	330,750	330,750	0	330,750	359,580,064	2.00%	0.92	0.92
2045	2046	0	0	0	5.000%	0	0	0	0	0	0	207,000	207,000	207,000	0	207,000	366,771,685	2.00%	0.56	0.56
2046	2047	0	0	0	5.000%	0	0	0	0	0	0	165,000	198,750	198,750	0	198,750	374,107,098	2.00%	0.53	0.53
2047	2048	0	0	0	5.000%	0	0	0	0	0	0	195,500	195,500	195,500	0	195,500	381,589,240	2.00%	0.51	0.51
2048	2049	0	0	0	5.000%	0	0	0	0	0	0	170,000	187,000	187,000	0	187,000	389,221,025	2.00%	0.48	0.48
2049	2050	0	0	0	5.000%	0	0	0	0	0	0	170,000	178,500	178,500	0	178,500	397,005,445	2.00%	0.45	0.45
2050	2051	0	0	0	5.000%	0	0	0	0	0	0	0	0	0	0	0	404,945,554	2.00%		0.00
		\$0	\$424,417	\$414,000		\$2,500,000	\$3,336,417		\$2,500,000	\$3,469,750		\$2,500,000	\$4,078,500		\$14,610,417					

[1] 7 mos interest.

[2] Includes \$0 of Existing LTNQ Debt and \$0 of Existing UT Debt as of Dated Date.

[3] Includes \$3,090,018 of Equivalent IFT Valuations and Less DDA/TIFA Debt Captures of \$2,163,527

kcg

Street Funding Alternatives

						Annual Cost to Resident ⁽¹⁾		
Year	Bond Amount	Millage Rate	Total Annual Millage Rate	Designated Ad Valorem Millage Rate	Difference	Bonds	Designated Millage ⁽²⁾	
1	\$ 2,500,000	2.00	2.00	2.35	-0.35	\$ 84	\$ 99	
2		2.00	2.00	2.35	-0.35	\$ 86	\$ 101	
3		2.00	2.00	2.35	-0.35	\$ 87	\$ 103	
4		1.98	1.98	2.35	-0.37	\$ 88	\$ 105	
5		1.99	1.99	2.35	-0.36	\$ 90	\$ 107	
6	\$ 2,500,000	1.98	1.98	2.35	-0.37	\$ 92	\$ 109	
7		1.99	1.99	2.35	-0.36	\$ 94	\$ 111	
8		2.00	2.00	2.35	-0.35	\$ 96	\$ 113	
9		1.99	1.99	2.35	-0.36	\$ 98	\$ 116	
10		1.99	1.99	2.35	-0.36	\$ 100	\$ 118	
11	\$ 2,500,000	1.97	1.97	2.35	-0.38	\$ 101	\$ 120	
12		1.92	1.92	2.35	-0.43	\$ 100	\$ 123	
13		1.87	1.87	2.35	-0.48	\$ 100	\$ 125	
14		1.83	1.83	2.35	-0.52	\$ 99	\$ 128	
15		1.77	1.77	2.35	-0.58	\$ 98	\$ 130	
16	\$ 2,500,000	1.86	1.86	2.35	-0.49	\$ 105	\$ 133	
17		1.89	1.89	2.35	-0.46	\$ 109	\$ 135	
18		1.86	1.86	2.35	-0.49	\$ 109	\$ 138	
19		1.82	1.82	2.35	-0.53	\$ 109	\$ 141	
20		1.79	1.79	2.35	-0.56	\$ 109	\$ 144	
21		1.65	1.65	-	1.65	\$ 103	\$ -	
22		1.62	1.62	-	1.62	\$ 103	\$ -	
23		1.55	1.55	-	1.55	\$ 100	\$ -	
24		1.48	1.48	-	1.48	\$ 98	\$ -	
25		1.43	1.43	-	1.43	\$ 96	\$ -	
26		1.13	1.13	-	1.13	\$ 78	\$ -	
27		1.08	1.08	-	1.08	\$ 76	\$ -	
28		1.04	1.04	-	1.04	\$ 74	\$ -	
29		0.98	0.98	-	0.98	\$ 72	\$ -	
30		0.92	0.92	-	0.92	\$ 68	\$ -	
31		0.56	0.56	-	0.56	\$ 42	\$ -	
32		0.53	0.53	-	0.53	\$ 41	\$ -	
33		0.51	0.51	-	0.51	\$ 40	\$ -	
34		0.48	0.48	-	0.48	\$ 39	\$ -	
35		0.45	0.45	-	0.45	\$ 37	\$ -	
			53.91	47.00	6.91	\$ 3,022	\$ 2,396	

1 Mill = \$214,000

2.35 Mills = \$500,000

⁽¹⁾ Based on the average residential taxable value of \$42,000

⁽²⁾ Annually adjusted for a 2% increase in taxable value



MEMORANDUM

TO: Mayor Smith and City Council

FROM: Gregg Guetschow, City Manager

SUBJECT: Report of Advisory Committee on Street Improvements Funding

DATE: July 3, 2012

You will find below the draft report of the Advisory Committee on Street Improvements Funding. The committee has been meeting over the last two months. It has received information from staff about street conditions, current finances and available alternatives. Its report summarizes its findings and makes recommendations to Council.

Please be advised that the report that I have attached should be considered a draft and not necessarily the final report. The committee took action at its last meeting to finalize its recommendation but did not have a draft of the report available for review. That review process is underway and comments are being solicited via email before a final report is completed. It is possible, then, that the final report will be slightly different from the attached report.

Advisory Committee on Street Improvements Funding
Report to the Charlotte City Council
(June 29, 2012 Draft)

Findings:

- Despite investments made in recent years, the overall condition of the City's street system continues to decline with the condition of 63.3% of streets classified as poor, 22.1% classified as fair and 14.6% classified as good in the 2012 PASER rating survey.
- A program of funding street improvements should contemplate employing a "mix of fixes" in order to optimize the use of limited financial resources in upgrading the condition of streets from "fair" and "poor" to "good."
- Funding from current sources appears adequate to support routine maintenance functions such as snow removal, street sweeping, crack sealing and the like but is insufficient to pay for those investments necessary to prevent further deterioration of streets and to rehabilitate those streets that are currently classified as fair and poor.
- The City's current fiscal condition reflects decreases in revenues from taxes due to declining taxable values, decreases in revenues received from State revenue sharing and stable to declining revenues allocated from gas and weight taxes collected by the state. This fiscal condition is expected to remain relatively constant for the foreseeable future with negative implications in terms of the City's ability to finance street improvements from existing revenue sources.
- Few sources of alternative revenues are available to the City to supplement those currently in use. Some communities in Michigan levy an income tax and use the revenues to fund investments in streets. The tax is attractive in part because it is levied on non-residents employed in the City as well as residents. The income tax is more expensive to collect than the property tax and would necessitate the hiring of additional staff. Moreover, it is believed that it would be difficult to convince citizens to support it.

- The City is permitted to levy an ad valorem special assessment to finance public safety expenditures. If levied, the special assessment would free up property tax dollars that could be used for street improvements. The primary disadvantage of financing street improvements in this manner is that there is no assurance that future Councils would not use the newly-available property tax dollars for purposes other than street improvements.
- Any effort to impose additional taxes on residents will be unsuccessful unless preceded by an extensive effort to educate the public.

Recommendations:

- That City Council take steps to raise additional revenues by employing one of the following options, listed in order from most preferred to least preferred:
 - The imposition of an additional property tax specifically dedicated to street improvements, the amount of which would be sufficient to generate \$500,000 annually, currently estimated to require 2.27 mills. The proposal to levy such a tax should be for a five-year period with the expectation that voter approval for renewal of the tax would be sought at the end of the initial and subsequent terms.
 - The imposition of an ad valorem special assessment sufficient to generate \$500,000 for public safety activities and the transfer of an equivalent sum to the major and local street funds to finance street improvements.
 - The sale of general obligation tax bonds in the amount of \$2.5 million which would finance approximately 5 years of street improvements. Additional bonds in similar amounts would be sold in future years to finance additional street improvements.
- That City Council take no action to place before voters the imposition of additional property taxes prior to 2013 and only then following a sustained program of public education.