City of
CHARLOTTE

MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Debt Financing for Street Reconstruction

DATE: July 8, 2016

This memorandum is intended to provide some additional background information regarding funds that could be available for major street reconstruction projects by utilizing debt financing.

As you know, we anticipate an increase in funds available to us through the state gas and weight tax allocations. Current projections show that amount increasing in the first year by $136,000 over FY2015 amounts and reaching an additional $390,000 by FY2021. After that, the increases are fully implemented and expected to level out.

These funds could be used to pay the cost of bonded debt to finance street reconstruction in addition to already planned street improvements such as mill-and-fill and other resurfacing projects. Council identified several streets as its top choices for major reconstruction. Amy Gilson has estimated that these projects would cost $3.6 million. The question we wish to address is whether the additional funds we would receive would cover debt payments if we were to bond for the entire $3.6 million.

To address this question, I have used an online calculator available from municapital.com. Based on a 4% interest rate for a 20 year term, the annual payments would equal approximately $300,000.At a 3.5% interest rate for a 15 year term, the annual payment would be $360,000.

Both of these compare favorably to the expected $390,000 annual increase in 2021 and beyond. I urge some caution, however, with regard to pledging the entire amount. First, I think it is wise to apply the age-old wisdom of not counting one's chickens before they hatch. Until the money actually starts flowing to us, it is wise to be conservative. Those revenues could be affected by various political and economic factors. Second, a recent article in the Lansing State Journal indicated that Governor Snyder is calling on the legislature to open discussion about road funding formulas. It is not known where those discussions might lead but they could affect our receipts from these taxes.

Financing $3.6 million over 20 years at 4% would utilize slightly more than 75% of the additional forecast receipts in 2021 and beyond. It might be reasonable to take this risk.

A second consideration should be kept in mind when considering obligating these future receipts for major projects. The County road millage was authorized for a twelve-year period. That period will end well before bonded debt would be retired. If the County road millage is not renewed or replaced with an equivalent revenue source such as a locally voted millage, the City would be without a source of funds to pay for other mill-and-fill and resurfacing projects.

This is a very high-level view of this issue. Should Council wish to consider bonding for street reconstruction, additional work would need to be done with our bond consultant to consider issues such as the actual structure of payments, issuing bonds in a series, the type of debt to be issued, etc.

The initial conclusion of this analysis, however, is that with the acceptance of a moderate level of risk, it appears feasible to address Council's top priorities for major street reconstruction through the issuance of bonds.