City of
CHARLOTTE

MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Draft Street Improvements Plan

DATE: July 21, 2016

During your special meetings on June 20 and July 18, you provided staff valuable input regarding your preferences for street reconstruction and your tolerance for debt financing as a means of achieving your goals. I have worked with Amy Gilson and Christine Mossner to put together a street improvements plan that incorporates both reconstruction projects and other forms of rehabilitation, including heavy and light maintenance.

You will find below a projected cash flow for the Major Street Fund that shows the impact of investments that the City might make in streets over the next six years. My objective in preparing this table was to achieve overall improvement in street quality in a manner that was fiscally responsible and provided an approach that was sustainable over the long term.

One consideration that is addressed in the plan is the need to accumulate sufficient funds to provide the match for granted-funded projects included in the regional Transportation Improvement Plan (TIP). We have assumed that a TIP projected will be funded every three years. These projects are expected to occur in 2019 and 2022.

Council's reluctance to assume significant debt means that major non-TIP reconstruction projects must be scheduled over a longer period of time. We believe this to be a low-risk approach that recognizes uncertainty about revenues from the increased gas and weight taxes and allows us to make adjustments in the plan as better information becomes available.

Council expressed a consensus favoring debt service of $100,000 to $125,000 annually. If we assume a 15-year bond at 4% interest, that would yield total available funds of $1 million. Over the life of the loan, we would expect to pay more than $300,000 in interest.

The low level of debt service Council is willing to accept and the costs associated with it caused us to look at interfund loans as an alternative source of funding. In the past, we have turned to the Local Development Financing Authority as a source. While this might be a viable option, our plan proposes to utilize the

Owens-Brockway funds as a source instead. The reason for this is fairly simple: we would expect to earn less in investment income on those funds than we would pay in interest on debt even if we were to borrow from the LDFA. We are better off, then, borrowing from ourselves at zero interest as every dollar incurred in financing projects would be invested in the projects themselves. The plan contemplates using the entire $800,000 in 2021-22 with repayment to begin the following year at the rate of $100,000 annually. If Council accepts this approach, it enables us to invest the Owens-Brockway monies for a five-year period which should yield a more favorable rate of return.

While undertaking major reconstruction projects with primary reliance on existing revenue sources, including the County road millage, we would continue to invest in rehabilitation projects – mill-and-fill and the like – at about the same level as this year: $250,000. Ms. Gilson will be attempting to model the proposed investments in reconstruction and rehabilitation projects to insure that we are achieving the overall net improvement in street conditions that we desire. We are reasonably confident that the combination of projects planned moves us in a positive direction.

The investment in reconstruction and rehabilitation projects over the six-year duration of the plan is just under $6 million. This is well in excess of our past target of $500,000 per year and, therefore, constitutes a significant jump-start to our overall efforts at improving street quality. We do not believe that investing at the rate of $1 million annually is sustainable over longer periods and would expect to see that number decline to the range of $700,000 to $800,000 annually depending upon the reliability of gas and weight tax revenues and the continuation of the County road millage or an equivalent replacement.

The reconstruction projects included in the plan are the following: Lincoln Street from Lawrence Avenue to Seminary Street in 2017; the 100 block of East Lovett Street in 2018; West Lovett Street from Cochran Street to Sheldon Street in 2019; State Street from Seminary Street to Shepherd Street in 2021; and Harris Street from Cochran Street to Sheldon Street in 2022. The order of these projects is not arbitrary. We could undertake State Street in 2018 and push East Lovett out a couple of years but that would leave us more vulnerable to the impact of revenue uncertainties. Leaving our largest project until later allows us to make adjustments if our projections of cash-on-hand prove to be inaccurate.

There are some areas of concern with the draft plan that warrant a cautious approach. In the past, we have had to transfer funds from the Major Street Fund to the Local Street Fund to balance the latter. We have not made any allowance for this possibility in the six-year plan. We believe that lack of debt service after the current fiscal year combined with the projected increase in gas and weight tax revenues should come very close to balancing revenues and expenditures in that fund. It should be noted, of course, that transfers will occur when reconstruction or rehabilitation projects affecting local streets occur.

The second area of concern is cash-on-hand of just $100,000 projected for June 30, 2021. This would the lowest level of cash-on-hand for the Major Street Fund since at least 2004 and would need some attention if it appears likely that it would actually occur. I am not especially concerned as there are other revenues in the Major Street Fund that are not factored in to this plan. In addition, we would have the option of reducing or eliminating the $250,000 appropriation for rehabilitation projects in 2021 in order to assure that we maintain a reasonable fund balance. As with any plan of this duration, we would expect to update it annually as new information becomes available.

A third area of concern is that we did not incorporate an inflation factor. This can be expected to affect the cost side of the equation but should also affect the amount of revenue derived from the County road millage. As with cash-on-hand projections, we would expect to make these adjustments as we update the plan each year.

As you review the plan, you should be aware that it assumes that all the costs for any given major street reconstruction project fall in the fiscal year in which it commences. This is not true. As you can tell from the current Sheldon Street project, work will typically commence in one fiscal year but end in the next. This is ignored for planning purposes as I felt that more accurately depicting cash flows would needlessly complicate the plan.

There are two key matters that Council will wish to consider as it evaluates the draft plan. First, is the order of reconstruction projects acceptable to you? Second, is it agreeable to you to utilize the Owens-Brockway monies for an interfund loan? We will discuss these issues on Monday.

MAJOR STREET FUND CASH FLOW

Cash-on-Hand 6/30/17			**$1,200,000**
	2017-18 Revenues:		
	Act 51	$534,000	
	County Millage	310,000	
	Total Revenues		844,000
	2017-18 Expenditures:		
	Routine Maint.	(350,000)	
	Lincoln Street (2017)	(970,000)	
	Rehab. Projects	(250,000)	
	Total Expenditures		(1,570,000)
Cash-on-Hand 6/30/18			**$474,000**
	2018-19 Revenues:		
	Act 51	570,000	
	County Millage	310,000	
	Total Revenues		880,000
	2018-19 Expenditures:		
	Routine Maint.	(350,000)	
	E. Lovett (2018)	(340,000)	
	Rehab. Projects	(250,000)	
	Total Expenditures		(940,000)
Cash-on-Hand 6/30/19			**$414,000**
	2019-20 Revenues:		
	Act 51	612,000	
	County Millage	310,000	
	TIP – W. Lovett	375,000	
	Total Revenues		1,297,000
	2019-20 Expenditures:		
	Routine Maint.	(350,000)	
	W. Lovett (2019)	(585,000)	
	Rehab. Projects	(250,000)	
	Total Expenditures		(1,185,000)
Cash-on-Hand 6/30/20			**$526,000**
	2020-21 Revenues:		
	Act 51	677,000	
	County Millage	310,000	
	Total Revenues		987,000
	2020-21 Expenditures:		
	Routine Maint.	(350,000)	
	Rehab. Projects	(250,000)	
	Total Expenditures		(600,000)
Cash-on-Hand 6/30/21			**$913,000**

MAJOR STREET FUND CASH FLOW (cont.)

Cash-on-Hand 6/30/21			**$913,000**
	2021-22 Revenues:		
	Act 51	$677,000	
	County Millage	310,000	
	Interfund Loan	800,000	
	Total Revenues		1,787,000
	2021-22 Expenditures:		
	Routine Maint.	(350,000)	
	State St. (2021)	(2,000,000)	
	Rehab. Projects	(250,000)	
	Total Expenditures		(2,600,000)
Cash-on-Hand 6/30/22			**$100,000**
	2022-23 Revenues:		
	Act 51	677,000	
	County Millage	310,000	
	TIP—W. Harris	375,000	
	Total Revenues		1,362,000
	2018-19 Expenditures:		
	Routine Maint.	(350,000)	
	W. Harris (2022)	(580,000)	
	Rehab. Projects	(250,000)	
	Interfund Loan Repay.	(100,000)	
	Total Expenditures		(1,280,000)
Cash-on-Hand 6/30/23			**$182,000**