



CITY OF ANN ARBOR, MICHIGAN

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MEMORANDUM

DATE: October 6, 2014
TO: Steven D. Powers, City Administrator
FROM: Craig Hupy, Public Services Administrator
RE: Alternatives to Increase Street Funding

In May 2014, Council directed the City Administrator to study alternatives to increase street funding (see attachment).

The City is completing a pavement condition assessment. The thorough, comprehensive assessment will be completed by January 2015. The information will be helpful to City Council's consideration of street maintenance needs within the priorities for the FY 2016 and FY 2017 budget. If any of the funding alternatives are of interest to City Council, additional detail and analysis can be prepared for a City Council budget work session.

Funding Alternatives With Existing Resources

- County millage – On October 1, 2014 the Washtenaw County Board of Commissioners approved a one-half mill levy for county road improvements in 2015. Ann Arbor's portion of the revenue is \$2.4 million. A map of the projects is attached. Annually, a board of commissioners may levy up to one mill for county road projects recommended by the board of road commissioners.
- Revise Fund Balance Policy for Street Millage Fund- Change the policy requiring fund balance equal to one year of revenue. A policy of 1/3 of annual revenues equals a one-time release of approximately \$6.3 million. Assuming typical resurfacing costs, the \$6M would resurface approximately five miles of local streets. The work should be done over two or three years. This would provide flexibility in coordinating conflicting/concurrent street work. Also, resurfacing an additional five miles in one season could strain project management and external contractor availability.

- City income tax – Portion allocated to streets. The city’s general operating millage would be eliminated per City Charter. Income tax is more volatile than property tax as a source of funding
- General Fund - Re-prioritize General Fund services to increase funding for streets. General Fund includes Safety Services, Community Services, Financial and Administrative Services, City Administration, City Attorney, 15th District Court

While not specified in City Council’s resolution, alternatives outside of existing resources are included for information. The alternatives are from current regional initiatives or from other Michigan cities. Many would require enabling state legislation.

Funding Alternatives With New Resources

- County Special Millage - A county board of commissioners can place a road funding millage on a ballot. The Washtenaw County Board of Commissioners is studying the need and feasibility of a road millage ballot proposal.
- Headlee override on City’s general operating millage – Voter approval required
- Special assessment – Used for new construction
- County-wide vehicle registration fee - Requires State enabling legislation and a County-wide vote
- Local vehicle registration fee - Requires State enabling legislation and a city-wide vote
- Parking surcharge fees – Requires State enabling legislation
- Road utility fee – Requires State enabling legislation
- Surcharge on ticket sales/entertainment – Requires State enabling legislation
- Toll roads/bridges – Requires State enabling legislation
- Local sales tax – Requires amendment to Michigan Constitution

Michigan

Ten similar-sized communities within Michigan were contacted. Of the seven communities that responded, three currently have millages and two are working to pass new millages. The other two communities utilize special assessment districts to fund road improvements. Warren has a 5 year 2.1 mills for roads levy. Livonia currently levies 0.89 mills for 10 years. Sterling Heights uses 0.8 mills of their larger (2.5 mills) 5 year local levy. Grand Rapids and Farmington Hills are currently considering passing local road millages.

Ann Arbor currently has a 5 year, 2.125 mills millage (0.125 is the sidewalk portion of the levy)

The City of Grand Rapids has researched alternative funding for roads (<https://www.facebook.com/SustainableStreetsGR>) and is keeping these three options for future consideration:

- Miles Travelled Fee*
- New Property Tax of 2.25 mills
- Continuation of current income tax - 2 mills for five years, with the earmark changed from city organization transformation to roads

* Vehicle Miles Traveled (VMT) fee systems utilize an automatic vehicle mileage reporting system; the controlling organization then charge drivers directly for each mile traveled.

International

A sampling of European fuel taxes was reviewed. In general, European fuel taxes alone are greater than the current pump price being paid locally. Stated another way, the per gallon price at the pump would have to approximately double to fund local roads at the rate that is generally done in Europe.

Attached are the City Council directive and a summary of the research conducted by staff. Other documents supporting this research are also available.

Research on this topic was done by the Project Management Unit of Public Services and Finance Unit.

Council Directive Regarding Alternative Funding Options for Street Repair

Whereas, The current condition of Ann Arbor streets is poor and is a major source of dissatisfaction for current residents and taxpayers. The poor condition also sends a negative message about our community to individuals and businesses who consider relocating and/or investing here;

Whereas, The problem is not unique to Ann Arbor and is a state-wide issue largely caused by the lack of funding;

Whereas, The current funding for Ann Arbor street repair is approximately \$20 million annually with about half from the State and half from the City's Street Repair Millage (2.1250 mills generates approximately \$10 million annually). No General Fund dollars are currently allocated for street repair;

Whereas, The State is investigating alternatives to increase road funding and the County is investigating a possible new street millage, but neither are definitive and the impacts on Ann Arbor are not known;

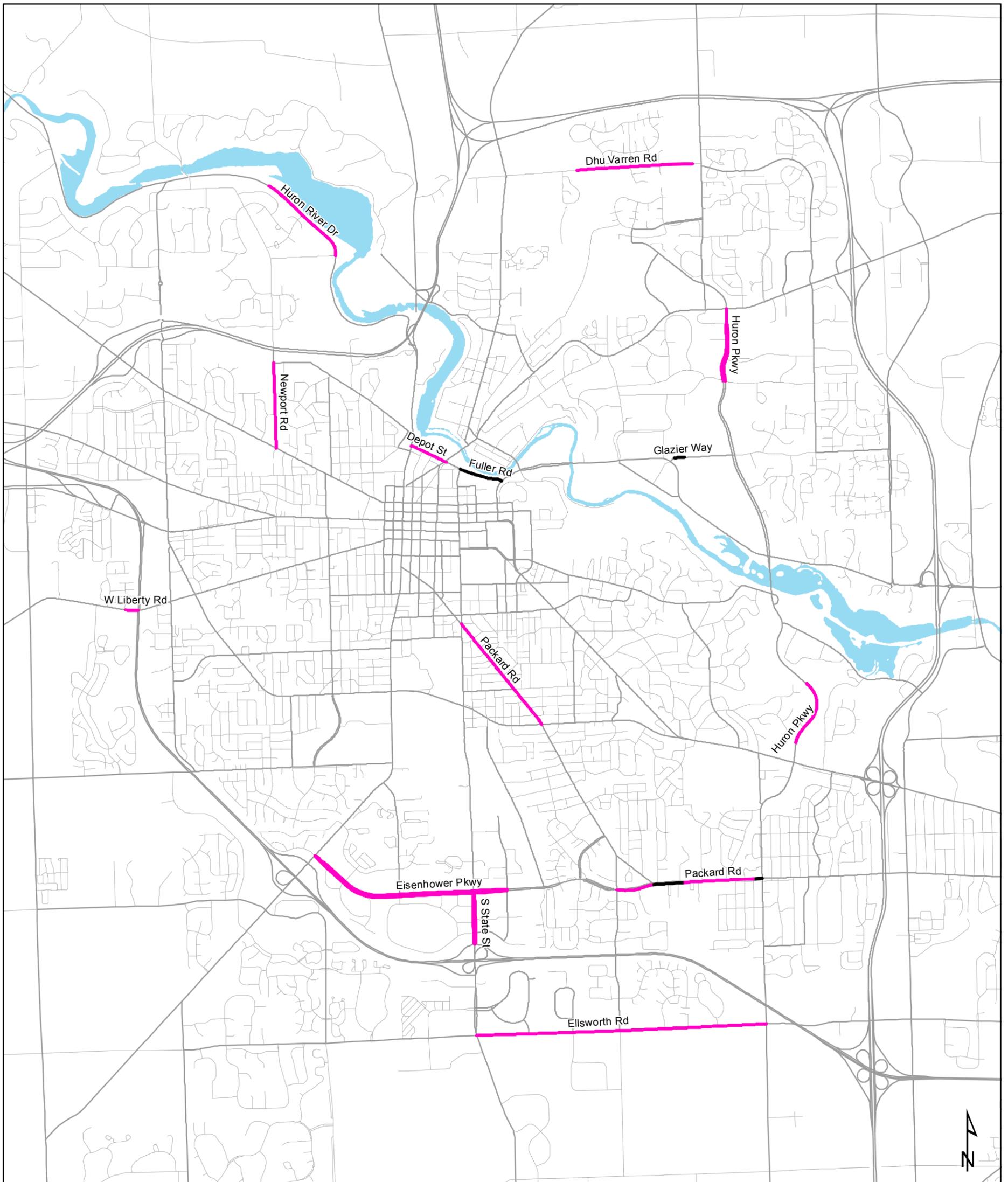
Whereas, Increasing local taxes to generate funding is not a recommended option given Ann Arbor's already high and increasing tax burden; and

Whereas, The magnitude of the problem is sufficient to warrant considering all other alternatives to increase funding for street repair (both one-time and recurring) including but not limited to one-time expenditures, re-purposing existing city millages, re-purposing other city-related tax revenues (e.g., DDA, LDFA), allocations of current general fund dollars;

RESOLVED, City Council directs the City Administrator to work within existing resources to study alternatives to increase street funding and present to Council by September 30, 2014 a report outlining options, their financial impact, and the pros and cons of each.

Sponsors: Lumm, Eaton, Kailasapathy, Anglin

Proposed Road Work



Proposed Locations by Year

- 2014
- 2015

Michigan Peer Cities - Funding Overview

- Contacted ten Michigan Cities of comparable population, seven responded. (Ann Arbor, Pop: 114K, all populations per 2010 Census)
 - Grand Rapids, Pop: 188k
 - Warren, Pop: 134k
 - Sterling Heights, Pop: 129k
 - Dearborn, Pop: 98K
 - Livonia, Pop: 97K
 - Westland, Pop: 84K
 - Farmington Hills, Pop: 79K
 - Lansing (114K), Kalamazoo (74K) and Battle Creek (52K) did not return messages
- Warren (*2.1 mills for 5 years*), Sterling Heights (*2.5 mills for 5 years, only 0.8 to roads*) and Livonia (*0.89 mills for 10 years*) currently have millages providing road funding
- Grand Rapids and Farmington Hills are trying to pass millages
- Farmington Hills and Westland have used Special Assessment Districts, currently and in the past, respectively
- Grand Rapids has done research on alternative funding (Grand Rapids Sustainable Streets Task Force Report 08.13.13 - PDF available)
 - Options for future consideration
 - Miles Traveled Fee – Drivers charged directly for each mile travelled.
 - New Property Tax of 2.25 mills
 - Continuation of current income tax - 2 mills for five years, with the earmark changed from city organization transformation to roads
 - Rejected Options (and why they were rejected)
 - County-wide vehicle registration fee (requires State authorizing legislation and a County-wide vote)
 - Local vehicle registration fee (requires State authorizing legislation and a city-wide vote)
 - Local sales tax (not currently permitted by the Michigan Constitution)
 - Parking surcharge fees (not currently enabled by Michigan law)
 - Road utility fee (not currently enabled by Michigan law)
 - Special assessment (most applicable for new construction, not reconstruction or maintenance)
 - Surcharge on ticket sales/entertainment (not currently enabled by Michigan law)
 - Toll roads/bridges (not currently enabled by Michigan law)

Farmington Hills Road Funding

DPS Road Funding Budgets						
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
<i>Dedicated Revenue</i>						
Act 51 (Gas & Weight Tax) Total	\$4,803,310	\$4,749,000	\$4,985,224	\$5,023,223	\$5,226,536	\$5,620,780
Other (Metro Act, Build MI)	\$380,000	\$380,000	\$380,000	\$380,000	\$380,000	\$380,000
<i>Outside Funding</i>						
Federal/State Grants	\$1,270,000	\$1,707,000	\$1,297,000	\$4,944,107	\$1,848,678	\$3,328,941
Special Assessment Districts	\$2,465,300	\$0	\$1,827,100	\$1,595,000	\$1,172,600	\$2,678,584
<i>Reserve Funds</i>						
Use of Reserves (Majors & Locals)	(\$559,502)	\$897,448	\$15,660	\$334,637	(\$680,956)	(\$2,529,745)
Fund Balance (Majors & Locals)	\$2,427,327	\$3,324,775	\$3,340,435	\$3,675,072	\$2,994,116	\$464,371

City of Ann Arbor Road Funding

<i>Dedicated Revenue</i>	FY2012	FY2013	FY2014	FY2015
Act 51 (Gas & Weight Tax) Total	\$ 7,201,700	\$ 7,282,234	\$ 7,506,410	\$ 7,228,402
Other (Metro Act, etc.)	\$ 1,136,877	\$ 1,154,947	\$ 1,623,758	\$ 1,186,916
Street Millage	\$ 8,917,409	\$ 9,037,579	\$ 9,297,001	\$ 9,605,092
<i>Outside Funding</i>				
Federal/State Grants	\$ 3,775,247	\$ 4,023,908	\$ 1,873,452	\$ 1,203,440

International Funding Overview

- Researched seven countries' road funding mechanisms. (USA is #18 of 148 by WEF*)
 - France (#2 WEF)
 - Contributions from the state, fees paid by highway concessionaires, a special tax paid by highway concessionaires, 40% of fines resulting from automatic control and penalty systems, income from investments, loans
 - Germany (#11 WEF)
 - Truck tolls, gas taxes (Approx. 8.10 USD/US Gallon), vehicle registration fees. Looking at highway tolls on foreign cars for more funding in the future.
 - China (#14 WEF)
 - Toll financing has been used widely, only a small share of funding has been provided by central government budgetary revenue. According to the Ministry of Transport, in the year 2012, a total of RMB1112.490 billion (about US\$183.93 billion) was invested in highway construction nationwide. 1.8% of the overall funding came from central government budgetary revenue, and 17% from vehicle purchase tax (VPT) revenue. Local government self-financing counted for 33%, domestic loans 36.4%, and foreign investment 0.4%.
 - Canada (#19 WEF)
 - Federal bilateral cost-sharing agreements with local municipalities.
 - Part of the federal gas tax revenue is earmarked for municipal infrastructure projects. The total gas tax is variable by location and ranges from 0.56 USD/US Gallon in the Yukon, to 1.05 USD/US Gallon in Vancouver.
 - Becoming a leader in Public- Private Partnerships.
 - Sweden (#20 WEF)
 - Road infrastructure projects are determined collaboratively between state and municipal agencies. Taxation of motor vehicles and fuels (Approx. 3.67 USD/US Gallon), congestion fees in the two largest cities, and two international toll bridges fund projects
 - England (#28 WEF)
 - Two taxes are a means of raising "general revenue." Vehicle excise duty (VED) tied to the carbon dioxide emissions of vehicles built after 2001, which is a tax on vehicle ownership. Fuel excise duty of \$3.59 USD/ gallon, a tax on the use of cars.
 - Congestion charge in downtown London
 - Australia (#40 WEF)

- Federal level: fuel excise tax (Approx. 1.29 USD/US Gallon), Goods and Services Tax on fuel and vehicle sales, luxury car tax, and a road user charge that applies to heavy vehicles based on fuel consumption, goes to general fund and is apportioned during the budget process.
- State governments collect vehicle registration fees and vehicle stamp duties.
- Some Private Sector funding, generally in the form of toll roads.
- Local roads funded by allocation of state and federal funds by the state grants commission.

**WEF – World Economic Forum Global Competitiveness Report 2013-14 – Quality of Roads Data Table*

Other Research

- Washtenaw County
 - Act 283 of 1909 – Washtenaw County looking to pass a county wide millage using this act.
 - Special Assessment Districts – Scio Township has used special assessment districts to pass a township wide millage that excluded Dexter, since Dexter has its own road millage.
- Oregon Fee for Use program (Vehicle Miles Traveled Fee)
 - Oregon is moving forward with a mileage collection system starting July 1, 2015, for five thousand volunteer motorists; the state plans to assess a charge of 1.5 cents per mile and issue a gasoline tax refund to participants.
- World Bank – Road Financing and Road Funds
 - Developing a Road Finance Plan
 - Getting better use out of existing resources by, for example, contracting out more design and implementation work to the private sector (or exposing in-house work to competition from outside contractors);
 - increasing revenue mobilization by simplifying road user taxes and charges, restructuring them and improving revenue administration to reduce avoidance, evasion and leakage
 - Allocating additional revenues from the government's consolidated budget, the financing plan needs to identify where the additional revenues might come from and at what cost whether by taking funds away from other sectors and/or raising clearly identified taxes and charges.
 - Fee-For-Service Basis
 - Commercially Managed Road Fund
- Other
 - Naming Rights
 - Toll Revenues