

*"In the Spirit of Town Government"*

AGENDA MEMORANDUM

To: Honorable Town Chairperson and Town Supervisors
From: Tony Brown, Administrator
Date: February 5, 2018
RE: **Capital Improvement Program (CIP) Update**

SUMMARY: On Thursday, January 18, 2018, a public information meeting with residents was held at Town Hall about the full reconstruction of Van Handel Drive from Hillside Drive to Hank Drive. The 2018 CIP project is approximately 1,637 LF and is estimated to cost \$260,587, or \$153.29 per one (1) centerline foot section.

At this 30% design information meeting it became very apparent that the typical 22' Town rural road section was not going to fully address the drainage concerns identified by staff, and more importantly Town residents. Most, if not all, attendees expressed apprehension about the roadway and ditching design and its ability to ensure there is a conveyance system that does not continue to hold high levels of storm and sump pump water. As an example, in January 2018, the ditch at N176 Van Handel Drive completely filled due to a frozen culvert and the water level would have risen over the property owners driveway if the Town didn't have the County Highway Department come with a backhoe to remove and unclog the content in the culvert pipe and ditch.

After this meeting, Mr. Majkowski, Mr. Keen and I had a number of discussions about options. In the end, we concluded that it would be appropriate to postpone the project to thoroughly investigate the drainage basin, specifically in this area, in 2018 to determine what type of stormwater facilities and road section would alleviate these continuous problems. Then, complete the project in 2019 with Board approval.



Figure 1. N178 Van Handel Drive (Ditch Full, Culvert Pipe Not Visible)

In lieu of the Van Handel project, we are recommending a full reconstruction of Tamarack Drive and the adjacent cul-de-sac's from Ridgewood Court to Oakridge Drive as identified in the CIP to be completed in 2018. This project is scheduled for 2021, but it is the only one in the current CIP (2018-2022) with similar characteristics. It is approximately 159 feet longer than the Van Handel job and has a comparable cost at approximately \$283,750. Another component bearing some consideration is that there is not likely going to be a lot of ditching work. The drainage system functions at a reasonable level as to not cause similar problems as Van Handel Drive. Cedar Corp. proposes to review the drainage and hold a PIM with the property owners to secure input.

Road Specifications

To assist Cedar Corp. and Mr. Majkowski in putting together a scope of services for the Van Handel planning work it is important to discuss the road specifications for this project, and, generally, residential road specifications for future projects. Currently, Cedar has been designing all projects with a road right-of-way no less than 66 feet in width with the following:

- 22'-24' asphalt road section without curb and gutter;
- 2' aggregate shoulders on all residential roadways and 3' paved or aggregate shoulders on collectors and arterial roadways; and
- A ditch on each side of the road with a minimum 2' depth from the edge of the pavement to the ditch centerline with side slopes at a maximum of 4:1, and a longitudinal slope of 1.00%, where possible.

These specifications have created challenges in alleviating or resolving identified drainage problems. In the case of Van Handel Drive if the Town moved forward with the project in its current iteration with the Town standard there would continue to be significant pooling in ditches. With these facts in mind, and knowing drainage has been the Town's number one priority to address, Staff would like to explore alternative road specifications as options for Van Handel Drive and future projects. These options could include:

- 1) storm sewer with curb and gutter and sump pump connections; and
- 2) storm sewer with the Town rural road section – 2' foot ditch and catch basins in the ditch line including sump pump connections.

Financing CIP Projects

The financing of CIP projects is a natural transitional topic to discuss after the design. Currently, the Town uses a multi-pronged approach to finance capital projects. This diverges from the Town's traditional approach of utilizing pay-as-you-go (pay-go) financing, where general fund revenues, reserves and/or fund balance were used to pay for all capital improvement activities. There are many benefits to this approach:

- 1) a lower debt load
- 2) financial flexibility in the event of an emergency or reduced revenues
- 3) interest earned on savings
- 4) no interest payments
- 5) a decreased total project cost

However, the obvious drawback is a municipality may not have the cash on hand to pay for capital improvements, and saving money could take a considerable amount of time. For the latter reason, it may not be feasible to entirely rely on pay-go financing for capital projects.

Due to the development of the Town in a short period of time many assets are degrading at the same time, which makes it impractical to have a sole source of funding if there is a desire to maintain facilities throughout the Town. This form of financing is still used for road maintenance and improvement projects, but is now supplemented by other methods.

As you all are aware, Town electors passed a 2014 Town referendum dedicating \$350,000 annually to a road maintenance/improvement levy. These funds are used exclusively for road maintenance and improvement projects every year.

In addition, the Town has made a regular practice of using debt financing for projects as well. This has provided the financial resources to be able to address deferred maintenance at a quicker pace. It has also decreased the lead time necessary to complete projects. Another positive of debt financing is intergenerational equity. Basically, it is stating that each generation should pay for the benefits they receive. The argument for debt financing is that debt payments are made in the future and current

residents are not going to benefit from the life of the asset so they should not be burdened with the increased taxes and fees. On the other side, proponents of pay-go argue debt financing violates the principle because the benefits are realized immediately but are paid for by future taxpayers via increased taxes and fees.

These financial streams can only increase at a certain rate before it starts to diminish the Town’s financial position and detracts from services provided to residents. To give an overview of what the Town would have to invest annually to maintain the current infrastructure see below.

State of Good Repair

Item	Estimated Quantity	Units	Unit Cost	Item Cost	Replacement Interval (Years)	Annual Replacement Cost
Road	45.97	Miles	\$ 494,023	\$22,710,247	25	\$ 908,410
Ditch	45.97	Miles	\$ 355,423	\$16,338,805	25	\$ 653,552
Driveway and Culvert Pipe Replacement	85500	LF	\$ 117	\$10,026,132	25	\$ 401,045
TOTAL ANNUAL CAPITAL PROJECTS MAINTENANCE INVESTMENT						\$ 1,963,007

Over the past five years (2013-2017), the Town has on average spent approximately \$1.2M annually on capital projects. The Annual Capital Projects Maintenance Investment benchmark is approximately \$2M. Put another way, the Town would not get to a state of good repair unless some actions were taken to annually allocate the amount of funds identified.

As a component of the Town’s financial planning there are benchmarks set in the Town of Buchanan Debt Policy. Under the General Guidelines, Section No. Four (4) it states, “Total annual debt service payments on tax-supported debt of the Town will not exceed 25% of total general government operating revenues.” Reviewing debt service as a percentage of operating revenues using the 2018-2022 CIP shows the Town will not be in compliance with this provision in 2022 and would not be again until 2026. This is assuming the Town does not take out any debt after 2022, i.e., the Town would have to significantly cut back on capital spending and rely on pay-go financing and the road maintenance/improvement levy to decrease debt as a percent of operating revenues.

Taking the spending deficiency and the Debt Policy implications of the current and near term spending into consideration it would be prudent for the Town to proactively address these issues while there is a number of options available. Some options are outlined below:

1. Maintain the Status Quo –
If the existing CIP (2018-2022) is not modified, this policy decision would lead to the Town being in violation of its own Debt Policy in 2022. To get into compliance approximately \$765,000 worth of project costs in 2019-2021 would have to be cut, or delayed, to have a debt payment as a percent of operating revenue that is at 25%, or slightly above, in 2022-2025. This assumes no additional debt is issued in the out years as well. While this is an attainable target it would exasperate the spending deficiency for infrastructure and slowly create a backlog of deferred maintenance, i.e., roads with low PASER Ratings and continued drainage problem areas.

2. Modify the Debt Policy –
 General Guideline No. 4 could be modified. This would put the Town in compliance with the Policy for some period of time dependent on what the 25% benchmark is reset at. The benefit to this step is that it gives the Town additional time to determine what approach to take with the CIP Program (road-based, drainage-based or a mix) and how these projects are funded. The drawback is that it delays an identified issue and consumes more of the general fund, possibly impacting services.

Debt Service as a Percentage of Operating Revenues

Budget Year	Annual Debt Payment (P&I)	Debt % of Operating Revenues
2008	\$195,733	10%
2009	\$196,817	11%
2010	\$191,371	11%
2011	\$185,953	10%
2012	\$185,478	11%
2013	\$189,820	12%
2014	\$188,798	11%
2015 *	\$182,593	8%
2016	\$181,388	8%
2017	\$263,790	10%
2018 (est)	\$263,790	9%
2019 (est)	\$401,808	14%
2020 (est)	\$534,773	18%
2021 (est)	\$667,738	23%
2022 (est)	\$848,571	28%
2023 (est)	\$905,730	29%
2024 (est)	\$905,730	29%
2025 (est)	\$896,628	28%
2026 (est)	\$641,941	20%
2027 (est)	\$637,273	19%
2028 (est)	\$499,117	15%
2029 (est)	\$366,151	10%
2030 (est)	\$231,456	6%

3. Decrease the Level of Projects in the CIP –
 As mentioned in Option 1, this is a viable option, however there are drawbacks. The target set, \$765,000, would be the equivalent of delaying a Van Handel Drive sized project every year from 2019-2021 and likely continuing to do that through at least 2025. One of the impacts of decreasing spending is that the roads close to the end of life would not be improved until a later date and the condition would continue to degrade. On the flip side, it puts the Town in a better financial position and maintains current services. Also, it puts the organization in compliance with the Debt Policy.

* \$2 M dollar State Trust Fund Loan (est. 3.25%)
 2018 - \$1.05 M State Trust Fund Loan (est. 3.50%)
 2019 - \$1.00 M State Trust Fund Loan (est. 3.75%)
 2020- \$1.00 M State Trust Fund Loan (est. 3.75%)
 2021 - \$1.36 M State Trust Fund Loan (est. 3.75%)
 2022 - \$400 K M State Trust Fund Loan (4.00%)

4. Go to the Electors with a Referendum to Increase the Road Maintenance/Improvement Levy –
 This option is largely dependent on the political climate and whether or not there is an appetite to explore this option and at what level of funding.

5. Establish an Annual Vehicle Registration Fee
 An annual vehicle registration fee is an annual payment in addition to the regular registration fee paid for a vehicle. The fee amount can be set by the Town and it applies to automobiles and trucks (8,000 lbs. or less). Dependent on the size of the fee this option has the potential to raise a significant amount of money for projects.

6. Partner with Residents to Share the Cost of Capital Projects –
 Right now, the Town pays for the entire cost of road projects – road construction, ditch work and culvert replacement. Given the scale of capital projects in the coming CIP years and the interest of the Board to get to a state of good repair, it is not feasible to continue funding 100% of the projects and maintain compliance with the Debt Policy and funding levels for services in the operating fund.

Another financing stream for road projects the Town could consider is partnering with property owners and implementing the existing adopted Special Assessment Policy. Within this Policy there are multiple assessment types and methods of payment, e.g., ten year equal installment payment option. In addition, there are exceptions for “Exclusive Agriculture” zoned properties, wetlands and environmentally sensitive areas and non-benefiting properties. There are deferrals as well for property owners with incomes at or below the federal standard for very low income in the Appleton MSA.

The assessments as outlined in the Policy are for storm sewer, street, street lightning, sidewalk and curb and gutter improvements. The two major ones to touch on are storm sewer and streets. For storm sewers the general application for residential areas is storm sewer pipes 18 inches or less in diameter are 100% assessed. Anything larger is assessed on a graduated scale. For streets, the Town would pay 100% for the replacement, repair, and maintenance of an existing street. Any upgrades above the original cross section would be assessed.

There are a number of pros to special assessments, see below:

- Special assessments are generally a dependable source of revenue.
- Special assessments are a means of raising money outside Town debt and general property taxes.
- Special assessments provide a means of levying charges for public services against property otherwise exempt from taxation.

There are also cons to special assessments, see below:

- The administration of special assessments.
- The public’s reaction to a proposed special assessment will likely be strong.

POLICY/PLAN REFERENCE(S):

1. Town of Buchanan Comprehensive Special Assessment Policy, January 15, 2008
2. Town of Buchanan Budget and Financial Policies, March 16, 2010
3. Town of Buchanan Road Standard Specifications Policy, January 12, 2015
4. Town of Buchanan Capital Improvement Plan 2018-2022.

FISCAL IMPACT:

Is there a fiscal impact? Yes

Is it currently budgeted or planned? Yes, FY2018 (CIP)

Amount:

RECOMMENDED ACTION:

Staff recommends the following actions:

- 1) Postpone the 2018 CIP Van Handel Drive project until 2019
- 2) Complete the 2021 CIP Tamarack Drive project in 2018
- 3) Define a scope of work for Cedar to investigate the Van Handel Drive drainage area in 2018
- 4) Determine what road cross sections are acceptable for Van Handel Drive and future CIP projects to resolve drainage issues
- 5) Determine what financing option(s) is preferred and direct staff investigate and develop a draft implementation plan, or policy modification, for future consideration and CIP’s

AWB

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Attachments:

1. Van Handel PIM Sign-In Sheet and Comments, January 18, 2018
2. Town of Buchanan Road Standard Specifications Policy, January 12, 2015
3. Town of Buchanan Budget and Financial Policies, March 16, 2010
4. Town of Buchanan Comprehensive Special Assessment Policy, January 15, 2008