

*"In the Spirit of Town Government"*

## **AGENDA MEMORANDUM**

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**To:** Honorable Town Chairperson and Town Supervisors  
**From:** Tony Brown, Administrator  
**Date:** August 21, 2018  
**RE:** **CIP Project Financing Approach – Modified Special Assessment Policy for Town Capital Projects**

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**SUMMARY:** In February 2018 the Board discussed the Town's multi-pronged approach to financing capital projects. Currently, the Town uses three (3) revenue sources:

- 1.) Pay-Go Financing – This is a direct payment for capital project costs utilizing general fund revenues, reserves and fund balance. Up until recently this revenue source has been the traditional financing approach for the Town. As has been noted in previous discussions, there are many benefits (e.g., lower, or no, debt load, decreased project cost, no interest payments, etc.), however there is a major drawback – the availability of funds to complete needed projects;
- 2.) Debt Financing – In the past few years the Town has made a regular practice of using debt to finance capital projects. Due to the development of the Town in a short period of time and using a singular capital budget financing option for a sustained period of time deferred maintenance has become an identified issue, along with drainage. To address these concerns General Obligation (GO) bonding has been utilized. Like Pay-Go, debt financing has pros and cons. The most significant con is the debt burden created and the potential impacts it has on an organizations financial condition. On the opposite end it has allowed the Town to increase the pace of addressing deferred maintenance and drainage; and
- 3.) Road Maintenance Levy – In November of 2014 Town electors passed a referendum to increase the levy by \$350,000. This was for the exclusive purpose of paying for road paving and maintenance public improvement projects in the Town of Buchanan.

In these discussions it has been established that the existing financing approach will not sufficiently address the road and stormwater conditions, and, at its current funding rate and mix, will cause a violation of the Town's Debt Policy in the near future.

The funding level not being adequate was identified by how much the Town would have to invest annually to maintain the current infrastructure with the same specifications. Over the past five years (2013-2017), on an annual basis, the Town has on average spent approximately \$1,200,000 on capital projects. The Annual Capital Projects Maintenance Investment benchmark (the amount the Town would have to spend to properly maintain the road system) is approximately \$2,000,000. Put another way, the Town would not get on pace to a state of good repair unless some actions were taken to annually allocate the amount of funds mentioned.

**Figure 1. State of Good Repair**

Item	Estimated Quantity	Units	Unit Cost*	Item Cost	Replacement Interval (Years)	Annual Replacement Cost
Road	46	Miles	\$ 494,023	\$ 22,725,067	25	\$ 909,003
Ditch	46	Miles	\$ 355,423	\$ 16,349,467	25	\$ 653,978.69
Driveway and Culvert Pipe Replacement	85500	LF	\$ 117	\$ 10,026,132	25	\$ 401,045.29
<b>TOTAL ANNUAL CAPITAL PROJECTS MAINTENANCE INVESTMENT</b>						<b>\$ 1,964,027</b>

\*Unit Cost was based on the existing Town Road Specification Policy.

For the latter piece about future borrowing for capital projects, there is benchmarks set in the Town of Buchanan Debt Policy. Under 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 future debt service as a percentage of operating revenues using the 2018-2022 Capital Improvement Plan (CIP) it 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 project spending and rely on pay-go financing and the Road Maintenance Levy to decrease debt as a percent of operating revenues.

With these facts the Board made a decision to explore other revenue options to address an identified issue and not pass it onto a future Town Board. After exploring many options (maintaining the status quo, modifying the Debt Policy, decreasing the level of projects in the CIP, going to the Electors with a referendum, and establishing a vehicle registration fee) it was determined that the only viable and sustainable option to address deferred roadway maintenance, drainage problems and maintain compliance with the Debt Policy was to partner with residents to share the cost of capital projects.


**Road Infrastructure Conditions in the Town of Buchanan**

Last year the Town Engineer (Cedar Corporation) conducted a pavement surface evaluation. Using a simplified PASER rating system (See PASER Rating System attachment) data was collected to assess different road characteristics: roughness (ride), surface distress (condition), surface skid characteristics, and structure (pavement strength and deflection). This information was utilized in conjunction with inventory data (width, length, shoulder, pavement type, etc.) from the WisDOT local roads inventory (WISLR) to provide a condition assessment to identify the road infrastructure needs of the Town and the financial capacity to attend to those needs.

As you will see in Figure 2, the Town’s roads present a challenge due to the condition and the amount of miles in the system. Approximately 22.44 miles of the 46 mile road system are rated as good or better. However, the remaining 23.66 miles are fair to very poor. Of those miles, 92%, or 21.68 miles are fair. This means the road might be showing signs of surface, or significant aging, but the structural condition is sound. To treat these conditions a preservation treatment (sealcoating), or a structural improvement and leveling (overlay or recycling) may be necessary. With a higher volume of roads at an advanced pavement age the Town will likely see an increase in deterioration based on the environment, traffic loading conditions, the quality of construction and maintenance techniques used.

**Figure 2. Condition of Town Roads**

**Town of Buchanan Roads**



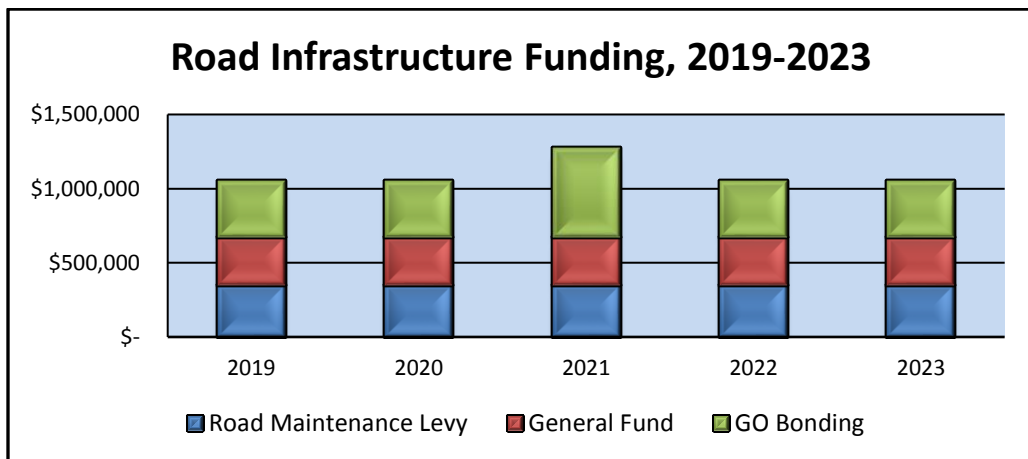
The Town’s PASER ratings system shows that 49% of the 46.10 miles of Town roads are in “good” condition or better, while 47% are rated “fair” and 4% are rated “poor.”

**Financial Capacity to Address Road Infrastructure Needs**

The Town has a large amount of physical assets that have been maintained using the revenue sources mentioned earlier. One of those sources, borrowing funds, has been a significant tool to complete capital road projects and repay them over the course of multiple years. The logic is that today’s and tomorrow’s taxpayers are paying for infrastructure each are likely to benefit from. However, the Town has adopted a policy goal limiting the amount of borrowing. One of these restrictions, debt service not exceeding 25% of operating revenue, is on pace to be violated. The violated provision cannot just be modified to maintain the status quo. If this were the chosen path it has the potential to threaten the resources needed for other important operational needs.

Town Staff has made a significant effort to be as efficient as possible to maximize the amount of funding available for capital projects, but due to the sheer size of the capital outlay needed to maintain 46 miles of roads and ditches the current funding approach is not adequate. Also, there are extensive capital needs and a drainage problem, which hinders the ability to address the infrastructure needs. As an example, the Town has over \$850,000 of parks work identified in the Comprehensive Outdoor Recreation Plan. In other words, there are competing needs for limited resources.

To assess the financial capacity of the Town to address the road infrastructure challenges, a number of variables were utilized to determine the annual cost to reconstruct the entire road system. Using the proposed road specifications for urban (west of STH 55) and rural (east of STH 55) roads it would cost approximately \$89,000,000 over the course of 35 years. In each of those years the Town would have to secure \$2,500,000 to support the road needs. In the chart below is the forecasted amount of funds available to support road projects. These amounts may change based on budgetary conditions.



The difference in the funding available versus the funding needed is significant. The cost spread is approximately \$1,450,000 per year.

### **Special Assessment Policy**

Due to the limited funding capacity, potential violation of the Town Debt Policy, drainage problems and deferred maintenance, Staff reviewed the existing Special Assessment Policy to determine how it could be modified to assist in public improvements. The purpose of this Policy Document, which is attached, is to describe the policies and procedures which provide a fair and equitable sharing of the costs for public improvements or special services for those properties specially benefiting from the public improvements or services in accordance with statutory provisions and Town of Buchanan Ordinances.

In general, the policy adheres to the idea that benefiting parcels are only special assessed. Put another way, the cost of a public improvement will be reasonably spread among the “benefiting” real property in proportion to the benefit each parcel receives from the project. A benefit may include grading, paving, resurfacing, rebuilding, installation of storm sewers, ditch modifications, landscaping, or other improvements. Following is how different facilities would be special assessed.

For road construction, the Town would pay 100%, up to the maximum width of the current road specifications. When a street is upgraded from its current design the portion of the public improvement above and beyond the Town Road Specs., (such as widening, or the addition of curb and gutter) shall be 100% assessed to the benefiting parcels. The assessable cost will be levied by a per lot method, i.e., the assessable cost is spread out evenly amongst the lots in the public improvement area.

For stormwater conveyance systems (ditches and storm sewer), the property owners would pay 100%. When a stormwater conveyance facility is upgraded beyond a 24” storm sewer the portion of the public improvement above and beyond will be a Town cost. Similar to road construction, a per lot method will be used for assessable costs.

For the useful life of facilities there has been a replacement age assigned. This allows the Town to create a replacement schedule for the assets. There are professional accepted standards for the useful life of these items, but available funding is going to guide what is feasible. Unfortunately, the level of spending does not allow the Town to replace facilities in the preferred amount of time. Staff will continue to investigate ways to increase the funding to decrease the year in the replacement schedule.

Figure 3 highlights the assessment arrangements, the impacts available Town funding has on the amount of road projects that can be completed and what it would take to increase the pace of addressing these road infrastructure needs. In the figure there are two options. The option that allows the Town to address the most amount of road work and almost meet the 35 year benchmark for reconstruction is Option #2.

By no means is the Town’s road infrastructure in a state of crisis or disrepair. However, with the conditions of the roadways and the financial capacity limitations if the needs go unmet in the near-term they will expand causing additional long-term pressures. For these reasons, the Town should adopt a sustainable funding regimen to act as a guide to reconstruct the road system and ameliorate the drainage problem.

**Figure 3. Fiscal Outlook for Road Infrastructure Needs Based on Different Funding and Time Schedules**

**A. The Town anticipates needing an average of \$2.5 million per year for 35 years\* to maintain the road system, which exceeds current spending levels. Flat funding will not be sufficient to meet repair/reconstruction needs.**

**Town of Buchanan Roads, Option #1**



In Option #1, the Town pays for Roadway Construction, Curb & Gutter, SWMP Facilities, and Landscape Restoration & Property Owners pay for Storm Sewers. 77% of the anticipated funding needed would be available.

**Town of Buchanan Roads, Option #2**

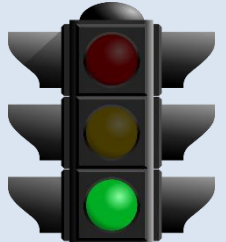


In Option #2, the Town pays for Roadway Construction, SWMP Facilities, and Landscape Restoration & Property Owners pay for Storm Sewers and Curb and Gutter. 91% of the anticipated funding needed would be available.

\*Benchmark: Useful life of an asphalt road is 35 years.

**B. The Town anticipates needing an average of \$1.6 million per year for 59 years (54% increase in years from A) to maintain the road system, which exceeds current spending levels. Flat funding will not be sufficient to meet repair/reconstruction needs.**

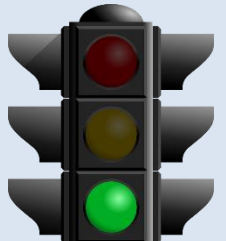
**Town of Buchanan Roads, Option #1**



In Option #1, where the Town pays for Roadway Construction, Curb & Gutter, SWMP Facilities, and Landscape Restoration & Property Owners pay for Storm Sewers, the Town would meet 100% of the anticipated funding needed.

**C. The Town anticipates needing an average of \$2.1 million per year for 42 years (20% increase in years from A) to maintain the road system, which exceeds current spending levels. Flat funding will not be sufficient to meet repair/reconstruction needs.**

**Town of Buchanan Roads, Option #2**



In Option #2, where the Town pays for Roadway Construction, SWMP Facilities, and Landscape Restoration & Property Owners pay for Storm Sewers and Curb and Gutter, the Town would meet 100% of the anticipated funding needed.

**POLICY/PLAN REFERENCE(S):**

**FISCAL IMPACT:**

Is there a fiscal impact? Yes  
Is it currently budgeted or planned? No  
Amount: Approximately \$90,000,000

**RECOMMENDED ACTION:** Below are a few policy questions the Board should consider.

- A. Should the road construction and stormwater facilities be assessed on a per lot basis?  
Given the assessment methods this appears to be a fair and equitable way to split the benefit amongst parcels in the public improvement area.
- B. Should the Town or the benefiting parcels pay for curb and gutter?  
If the Board would like to decrease the time it takes to reconstruct the road system the benefiting parcels would pay these costs.
- C. Should the Town or benefiting parcels pay for driveway aprons?  
See B.
- D. Should the Town pay for stormwater management facilities (ponds)?  
Since these ponds will have a regional impact it would be appropriate for the Town to cover the cost to construct them.

**“Motion to approve the Special Assessment Policy for implementation beginning in 2019 with the following conditions:**

- **The benefiting parcels pay for the curb and gutter;**
- **The benefiting parcels pay for the driveway apron cost; and**
- **The Town pay for stormwater management facilities.”**

AWB

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**Attachments:**

**Special Assessment Policy, Town of Buchanan, V5, DRAFT  
PASER Rating System**

**Roadway Reconstruction Assessment Allocation Options, August 1, 2018**

**Roadway Reconstruction Assessment Allocation Options Funding Level Impacts, August 13, 2018**