

CITY OF HOWELL STREET PROGRAM

PURPOSE: The condition of the infrastructure (streets, roads, water & sewer lines) is an important element that can significantly impact the long-term economic strength of a city and the value of residential and commercial properties. The Howell City Council and City staff have completed an extensive review of the City's infrastructure and have developed a three year infrastructure improvement program that when completed will: enhance service to our residents; improve our citizens' health, safety and welfare; positively impact the value and aesthetics of residential and commercial properties; and enhance the economic vitality of our community.

THE PROJECT: The Howell City Council has approved a three-year program that will reconstruct approximately 10.805 miles of the City's 36 miles of streets beginning in July 2009 (see attached map for streets included). The project includes not only reconstructing the roads, but also replacing aging sewer and water lines and making storm sewer improvements. The streets within the program are a mixture of local and major streets that have not undergone any significant rehabilitation within the last twenty years. City staff and engineers have also identified corresponding underground water and sanitary sewer work with the intent of providing a twenty year fix.

- **Streets & Roads:** The program includes a mixture of major and local streets. Classification as a major or local street is primarily based on use and traffic volume. A major street experiences high traffic volume and is used as a thoroughfare for destinations throughout the community. Construction methods for major streets were designed to withstand high traffic volume and generally include full curb & gutter. An example of a major street would be Clinton Street. Local streets are those typically found in residential neighborhoods and generally have lower traffic volumes. In developing cost estimates staff utilized MDOT's rehabilitation process. Major Street Level work is estimated at a cost of \$2 million per mile and includes full curb & gutter and storm sewer. The Local Street Level work carries a cost estimate of \$725,000 per mile and includes wing curb with limited curb and gutter and localized storm drainage.
- **Water System Improvements:** The City has identified approximately \$3.5 million of Water Treatment improvements that are needed over the next three years. These projects include rehabilitation of the City water tower for a cost of \$293,800, water plant improvements for a cost of \$902,800 and new raw water line at a cost of \$2,308,600. These improvements combined with the street program equals \$24 million worth of investment.

- **Costs:** The total cost of the program is estimated at \$20.5 million¹ and can be broken down as follows:

Streets:	\$11,593,015
Water	\$5,300,751
Sewer	\$3,541,725
Total	\$20,435,491

The project would last three to four years and would require the City to issue bonds for \$19.5 million over a twenty year period.

FINANCING

The City will need to finance about \$24 million through different financing resources. The three sources are General Obligation Bonds, Drinking Water Revolving Funds and Sewer Revenue Bonds. Each debt issuance would be for a 20 year period.

GO Bonds	\$8.8 million
DWRF	\$12.3 Million
Sewer Bonds	\$2.8 million
Total	\$23.9 Million

- **DWRF:** The State of Michigan's Department of Environmental Quality administers the Drinking Water Revolving Fund (DWRF). The DWRF is a low interest loan program for municipal water systems. DWRF is a competitive program that ranks project plans on the type of work being proposed. Communities can submit project plans once every five years and the funding is only guaranteed for the first three years.

The interest rate for the DWRF loan program is 2.5% which compares to normal tax free municipal bond rates between 5.0% - 5.5%. By using the DWRF financing for a portion of this project, the City will save \$200,000 - \$250,000 annually in debt service, and \$4 - \$5 million for the life of the debt. This level of debt equates to \$1.40 per 1,000 gallons for water users, or about \$7/month for the average residential user. Actual rate impacts will be determined once the debt is issued over a three year period, but we anticipate this to be about a 30% increase

- **GO BONDS:** The City will need to issue \$8.7 million in General Obligation Bonds for the project. Annual debt service will be on average of \$715,000 over the life of the bonds (assuming 5.25% interest rate). These bonds would be paid by General Fund Revenues.

¹ Overall numbers for the Street Program have been updated removing Sibley Street mileage and costs.

- **SEWER BOND REVENUE BONDS:** Approximately \$2.8 million in sewer revenue bonds would be needed for the sewer portion of the project. Annual average debt service would be \$238,000 over the life of the bonds. These bonds would be paid for by sewer revenues and equal approximately \$0.40/1000 gallon charge. An average residential sewer customer would pay \$1.63/month for the debt. The sewer bonds do not include any road work.

Financial Impact

Every year the City develops a five year financial forecast that trends the City's revenues and expenditures. The January 2008 forecast reflected the 7% devaluation of the residential market for the 2008/2009 fiscal year and showed a stabilization of the market in 2009/2010. Based on updated sales numbers and various economic indicators the forecast shows that the residential sector will not stabilize until the 2010/2011 fiscal year.

This analysis is key as we try to predict what impact the street debt will have on the General Fund. During the development of the project, the Mayor & City Council set a benchmark that the street program will not negatively affect any of the services currently provided to our residents.

Based on these assumptions, City Council will consider a 1 mill property tax increase on July 1, 2009 and potentially up to an additional mill on July 1, 2010. These millage increases are dependent upon several factors such as actual interest rates of the General Obligation Debt, actual construction costs, the amount of the program covered by DWRP, the state of the economy and the value of the City's residential tax base.

OPTIONS: Recognizing the impact to our residents of increasing taxes during tough economic times, the City Council continues to consider a number of different options for paying for the program.

1. **MILLAGE OPTIONS:** Currently the City levies 14.9443 mills, 1.07 mills under the allowable limit. This additional millage capacity would be used to fund the street reconstruction program. Additionally, the City authorized a garbage millage of up to three mills or to a level that covers the City's costs. The City currently spends about \$485,000 for trash services (including staff time) and 75% of our residents rent curb carts for \$5/month. One funding option under consideration is to increase the property tax millage rate by the allowable 1.07 mills. The City may need to levy the additional garbage millage up to an additional mill and at the same time eliminate the rental fee for curb carts and provide free curb carts to all residents.

2. **SEWER REVENUE:** The City could lower the amount of General Fund debt by financing some of the road costs through sewer revenue bonds. Applying the same approach as with the DWRP financing, the City may be able to finance up to \$2.4 million of streets through sewer bonds. This would reduce the General Fund debt load by 27.5% lessening the potential for a second mill to be levied. For the average residential consumer, this would result in an increase in sewer charges assessed on the water bill of approximately \$30 per year. The downside is that revenue bonds carry a slightly higher interest rate compared to General Obligation debt (5.5% vs. 5.25%).
3. **STAGING THE DEBT:** The City would have three separate debt issuances for the three year program allowing for implementation of any utility rate increase to be staged over the same time period. The City Council could extend the life of the program by deferring streets that have no water improvements. There are about 2 miles of the program that have no water work. The challenge is that these streets are not easily separated and as the program continues to push beyond three years construction costs are likely to increase.
4. **GRANT ELIGIBLE ROADS:** Not fully accounted for in the program are potential opportunities for federal grants. The Sibley Street program is being paid for in part by a \$1 million federal grant. Our next window of opportunity for federal funding is likely to be 2011 or 2012 and there is a strong probability that some of the streets would be eligible for that level of funding.

