# PAVEMENT MANAGEMENT FUNDING
# FREQUENTLY ASKED QUESTIONS

**1. What is a Pavement Management Program (PMP)?**

The street system in the City of Baxter is one of the most valuable and costly assets owned by the City. Extending the life of this asset through regular maintenance will provide the lowest possible cost to the City and the stakeholders. A pavement management program uses actual condition data to estimate the best time to complete maintenance activities. It is proven that extending the life of streets through regular maintenance will lower the overall cost of the street investment. The majority of the City streets were constructed within a twenty year period during a time of rapid development. These streets are now reaching an age and condition where providing preventive maintenance will extend their life and lower their overall long term ownership cost. This program serves as a guide in projecting maintenance and rehabilitation activities along with estimated costs that can be used for planning and budgeting for these purposes.

**2. What options were considered to pay for the PMP?**

The City Council considered the following options to fund the PMP:

- Tax levy: residents and businesses would see an increase in their property taxes.
- Assessments: property owners would be assessed to pay 100% of the cost to replace or resurface existing streets. Assessments would be certified to Crow Wing County and property owners would pay these assessments with their property taxes.
- Franchise fees: property owners would pay a small monthly charge on their gas and electric bills. The fees would be set aside in a dedicated fund used solely for expenditures related to the PMP.

**3. How long will the Pavement Management Program be in place?**

The City intends to have a continuous program for the maintenance and rehabilitation of City streets. The program will complete a number of rehabilitation projects every year to keep the overall condition of all City streets at an acceptable level and will spread out the cost of preventive maintenance over a longer period of time.

**4. Why hasn't the City saved money for this work?**

Pavement management had not been considered necessary in the past due to the relatively new age of City streets. However, as City streets have aged and pavement management activities have come to be better understood, pavement management has now become a standard infrastructure practice.

The City did fund minor maintenance projects and crack sealing activities over the past years through the normal budget process utilizing the annual tax levy. In 2013, the City Council determined that a defined pavement management program and stable funding source equitable for all users had become necessary.

# PAVEMENT MANAGEMENT FUNDING
# FREQUENTLY ASKED QUESTIONS

**5. Why not just use property taxes to pay for these activities?**

There are very few cities that use property taxes as the method to pay for street maintenance or rehabilitation activities. Tax rates are very competitive for attracting business and using property taxes puts an undue burden on moderate to higher-valued businesses and homes to pay for a street system that serves the entire City.

Increasing the property tax levy to cover the cost of preventive pavement maintenance or rehabilitation projects is generally not always a viable option:

- Property taxes exempt most renters, non-profits, schools, and other entities that use the public infrastructure.
- The property tax option would change annually based on values of homes and businesses.
- The State Legislature may impose levy restrictions limiting needed funding.
- PMP annual levies may not be construed as a permanent dedicated funding source by future Councils.

Special assessments are a common way to fund street rehabilitation activities as the City can spread project costs to property owners over a period of time. However, their use is not without controversy:

- Minnesota State Statutes have rules on how special assessments can be levied to property owners and there are limitations to the amounts that can be assessed.
- Assessments are often unanticipated by property owners and project need can become controversial. At times it can be difficult to gain support for project approval and enact assessments to obtain the necessary funding to pay for improvements.
- Cities that use special assessments often find that their projects have difficulty in moving forward until a street is in complete failure, increasing the cost of the repair.

Franchise fees are a method that spreads costs to everyone over a longer period of time and provides a dedicated fee to ensure local control of the revenue and that preventive maintenance stay on schedule as detailed in the Pavement Management Plan.

**6. I thought my property taxes were for street improvements. Why would you add special assessments or franchise fees for the same thing?**

The City has not and does not collect property taxes for street improvement projects. The City's annual property tax levy includes dollars for minor routine street maintenance and snow removal. The City uses special assessments as their chosen method to fund rehabilitation activities. These costs can be spread to property owners over a long period of time.

- *Full Depth Reclamation Street Improvement Projects* – these are assessed at 100% of the total project cost for roadways less than or equal to 26 feet in width in R-1 and RS zoned areas. The City pays for the extra costs associated with any street widening beyond 26 feet in width or pavement strengthening they feel may be needed. In Commercially zoned areas, 100% of the total project cost for roadways less than or equal to 44 feet in width are assessed. The City pays for the extra costs associated with any street widening beyond 44 feet in width that they feel may be needed. The City also pays for portions of frontage road street improvements abutting Trunk Highways 210 and 371.

# PAVEMENT MANAGEMENT FUNDING
# FREQUENTLY ASKED QUESTIONS

- *Street Resurfacing Projects* - street resurfacing projects, commonly known as overlays, are assessed in Residential R-1 and RS areas at 100% of the total project cost, up to 26 feet in roadway width. The City pays all project costs for the portion of a roadway width in excess of 26 feet and for the portions of frontage road street improvements abutting Trunk Highways 210 and 371. In Commercially zoned areas, 100% of the total project cost, up to 44 feet in roadway width, is assessed. The City pays all project costs for the portion of a roadway width in excess of 44 feet and for the portions of frontage road street improvements abutting Trunk Highways 210 and 371.

- *Assessment Particulars*
    - Terms - special assessments are collected in equal annual installments over a period of years as follows:
        - Mill and Overlay Projects – 7 years
        - Reconstruction and Full Depth Reclamation Projects – 12 years
        - Terms may be reduced to less than the above when annual installments are estimated to be less than $200 per year
    - Interest charges - interest rates charged on assessments for these projects is 1.5% greater than the True Interest Cost (TIC) rate of the bond issue
    - Payments - the following options are available to property owners:
        - Tax payment - the installment will appear annually on the individual's property tax statement for the duration of the assessment term
        - Full payment - no interest is charged if the entire assessment is paid off within 30 days from the date of adoption of the assessment roll
        - Partial payment - owners have a one-time opportunity to make a partial payment in any amount against their assessment within 30 days from the date of adoption of the assessment roll
        - Prepayment - owners may choose, after the initial assessment year, to pay the remaining assessment balance at any time - interest charges may apply
        - Hardship deferments - assessments may be deferred for the elderly, disabled, or in the active military where hardships are determined
            - Individuals meeting age, disability and military active duty requirements based upon qualifying income may be eligible to request a deferment of their special assessment.
            - Deferment criteria, application and documentation requirement and procedures are specified in the City of Baxter Assessment Policy for Public Initiated Improvements & Specials Assessments of the City of Baxter Code.
            - The annual deadline to apply is August 31 of each year with the deadline for first payment in 2019 being August 31, 2018.

Franchise fees are now being utilized to fund the increased costs associated with annual preventive maintenance activities.

# PAVEMENT MANAGEMENT FUNDING
# FREQUENTLY ASKED QUESTIONS

**7. Aren’t franchise fees just another tax?**

While not considered a tax, this is a new dedicated revenue source for the City of Baxter. It is it is a method of collecting funds from utility companies which use City rights of way. These funds are typically passed directly through to all businesses/residents that use the street system. These fees are charged in lieu of property taxes and assessments.

**8. What are franchise fees utilized for?**

Franchise fees are set aside in a dedicated fund and are used solely for maintenance expenditures related to the PMP (crack sealing, patching, sealcoating, etc.). New construction and street rehabilitation activities are paid for by other funds - the current practice is generally 100% assessments to property owners.

**9. What is the City's authority to charge a franchise fee?**

Minnesota State Statutes allow for a city to impose a fee on a utility company for its use of publicly owned right-of-way (MN Statute 216.36).

**10. How much are the Franchise Fees?**

During June 2016 the City Council set monthly Franchise Fees for residential properties for the pavement management program at $2.00 on electric bills and $2.00 on gas bills. Commercial/Industrial properties are charged monthly at the schedules below. These rates have been developed to generate $394,188 annually for the pavement management program.

- Electric:
  Small Commercial - $7.00
  Commercial (Demand) - $41.00
  Large Commercial - $120.00
- Gas
  Small Commercial (Non-Demand) - $7.00
  Large Commercial (Non-Demand) - $22.00
  Commercial (Demand / Interruptible) - $65.00

**11. I live in an apartment or town home. Will I be charged a franchise fee?**

Yes, the fees are charged on electric and gas accounts and you will pay the standard residential fee on each account you have. The fee pays for your use and maintenance of the public City streets.

**12. I have multiple bills or two or more meters on my property. Do I have to pay the fee more than once?**

The fees are collected per utility account, not per meter. However, the fee will be based upon the largest meter on the account. The City works with the utility companies to define the classification of their accounts.

# PAVEMENT MANAGEMENT FUNDING
# FREQUENTLY ASKED QUESTIONS

**13. I live on a private street. Will the money I pay be used for maintenance of private streets? If not, why would I pay it?**

Private streets typically are constructed to a condition that is less than the standard City street. Because these streets are not constructed to City standards, the City does not currently contribute to any of their maintenance. There is no future plan to participate in maintenance on private streets in the City. The PMP not only pays for the maintenance of City owned streets in front of homes/business, but also pays for the collector streets that connect all parts of the City, which everyone needs to contribute to.

**14. How often will the City review the franchise fee for consideration of changing the Franchise Fees?**

The City is planning to review the fee every few years to determine the need to adjust. It is not anticipated that the fee will need to be changed in the near term.

**15. Why doesn't the City simply charge a fee to each property for street maintenance? Why go through a third party for collection?**

State law does not allow the City to charge a direct fee for maintenance of our system. State law does allow for the collection of a franchise fee from utility service providers for their use of the right-of-way. That is why we are proposing to charge this fee to the utility companies and then dedicate its use to maintain the City street system.

**16. Why are franchise fees more efficient than other funding options?**

- Reduced expenses: this option does not involve assessments for maintenance activities. Assessments add administrative costs related to preparing/executing and managing assessments. In addition, there is no need for benefit appraisals or legal expenses associated with justifying assessments.
- Financing savings: this option eliminates the need for bonding for maintenance activities. Financing/bonding includes issuance costs and annual interest payments to the City.
- Reliable funding: this method provides predictable funding that allows the City to be efficient with planning and bidding at opportune times. This reliability allows the City to complete the proper maintenance projects at a time that will minimize cost and maximize the life of the streets. Many times completing an assessment process can be unpredictable and sometimes does not allow projects to be completed when necessary.
- Early planning/bidding: Reliable funding allows the City to complete planning, design and bidding at the most opportune time. Lower and more competitive bidding reduce costs.
- Regular maintenance: While the PMP will outline a timeline for improvements, there are times when a street experiences unusual deterioration. Being able to adjust the program to address the need without following an assessment process will allow for addressing the needs to preserve the street system.