

# MME 2023 Summer Workshop



Michigan  
Municipal  
Executives

## **Road Funding 101 – Direct and Indirect Options**

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# Overview

- **Current funding issues**
- **Options for current and future funding**
  - No vote of electorate – direct options
  - With vote of electorate – direct options
  - No vote of electorate – indirect options
  - With vote of electorate – indirect options
- **Brainstorming of options relating to funding and lowering expenses**

# Addressing Current Road Issues

- **Backlog from years of underfunding and rising costs**
  - Delayed capital improvement and maintenance programs from recession
- **Headlee and Proposal A double whammy**
- **Revenue sharing deficiencies from the State**
- **Failed gas tax increase during Governor Whitmer's first term**
- **Is State ever going to address funding issues?**

# No Vote of Electorate – Direct Options

- **Cash**
- **Grants**
  - Michigan Department of Transportation (MDOT)
  - American Rescue Plan Act (ARPA)
- **Act 51 Monies**
- **Special assessments**
- **Raising millage inside Headlee limit**
- **General Fund/Street Funds/Tax Increment Financing (TIF) Fund**
  - Bond Options

# Special Assessments

- **No new taxes**
- **Property owner vs. board/council initiated**
  - 30/50 rule
- **SAD Bonds**
  - 12% of SEV in total and 3% of SEV each calendar year debt limits
- **City/Village share bonds**
- **Community example**

# Raising Operating Millage Inside Headlee Maximum

- How to read an L-4029 report

County(ies) Where the Local Government Unit Levies Taxes <b>Ingham</b>	2022 Taxable Value of ALL Properties in the Unit as of 5-23-2022 <b>260,019,393</b>
Local Government Unit Requesting Millage Levy <b>City of Mason</b>	For LOCAL School Districts: 2022 Taxable Value excluding Principal Residence, Qualified Agricultural, Qualified Forest, Industrial Personal and Commercial Personal Properties.

This form must be completed for each unit of government for which a property tax is levied. Penalty for non-filing is provided under MCL Sec 211.119. The following tax rates have been authorized for levy on the 2022 tax roll.

(1) Source	(2) Purpose of Millage	(3) Date of Election	(4) Original Millage Authorized by Election Charter, etc.	(5) ** 2021 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	(6) 2022 Current Year "Headlee" Millage Reduction Fraction	(7) 2022 Millage Rate Permanently Reduced by MCL 211.34d "Headlee"	(8) Sec. 211.34 Truth in Assessing or Equalization Millage Rollback Fraction	(9) Maximum Allowable Millage Levy *	(10) Millage Requested to be Levied July 1	(11) Millage Requested to be Levied Dec. 1	(12) Expiration Date of Millage Authorized
Charter	Operating		20.0000	18.0250 ✓	.9947 ✓	17.9294 ✓	1.0000	17.9294	15.25		
Voted	Park & Trail	11/2021	1.0000	1.0000 ✓	.9947 ✓	.9947 ✓	1.0000	.9947	.9947		11/2026

- Can a cash flow be built to address road needs with these funds?

# Michigan Transportation Fund (MTF) Bonds

- **Act 51 of 1951**
- **50% of Act 51 revenues pledged for security (not necessarily payment) vs. maximum annual debt service**
- **Bond attorneys differ on what road type these bond funds can be used for (major vs. local)**

# **Tax Increment Financing (TIF) Funding/Bonds**

- **Bonds subject to overall 10% of SEV General Obligation debt limit (with add ons for cities)**
- **Road improvement must be inside TIF district**



# Capital Improvement Bonds

- Subject to 5% of SEV debt limit (also subject to overall 10% of SEV General Obligation debt limit)
- The “catch all” for bonding

# **With Vote of Electorate – Direct Options**

- **Voted millage**
- **Voted bond issue**

# Voted Millages

- **Charter amendment**

- Perpetual duration (generally)

- **Headlee override**

- Perpetual duration (generally)

- **Extra-voted millage (historically mostly used by Townships)**

- Cities and Villages have used this
- Stated time period

# Voted Millages – Pros and Cons

- **Pros**

- Funds can be used for capital improvements, maintenance, road operations and/or debt payments

- **Cons**

- Subject to Headlee rollbacks
- Millage maxed out based on voted amount (cannot be increased no matter what happens to taxable value)
  - Yearly funding could be impacted by recession or downward taxable value movement
- Included in 20 mill cap for cities and villages

# Voted Bond Issue

- Subject to overall 10% of SEV General Obligation debt limit
- Separate debt millage not included in allowable maximum per charter/law
- Series bonds

# Voted Bond Issue Series - Example

Fiscal Year	Bond Issue #1			Bond Issue #2				Bond Issue #3				Bond Issue #4				Annual Debt Service	Tax Levy July 1	Taxable Value [6]	Millage Required [7]	
	Interest Payment [1]	Principal Payment [1]	Interest Payment [1]	Interest Rate	Interest Payment [2]	Principal Payment [2]	Interest Payment [2]	Interest Rate	Interest Payment [3]	Principal Payment [3]	Interest Payment [3]	Interest Rate	Interest Payment [4]	Principal Payment [4]	Interest Payment [4]					Interest Rate
	November 1	November 1	May 1	Rate	November 1	November 1	May 1	Rate	November 1	November 1	May 1	Rate	November 1	November 1	May 1					Rate
2021/22	\$11,886	\$45,000	\$11,080	3.580%	\$29,234	\$55,000	\$28,615	2.25%	\$15,434	\$50,000	\$21,125	3.000%					267,373	2021	66,046,828	4.0482
2022/23	11,080	45,000	10,275	3.580%	28,615	60,000	27,925	2.30%	21,125	50,000	20,375	3.000%	30,650	50,000	29,400	5.000%	384,445	2022	66,707,296	5.7632
2023/24	10,275	44,000	9,487	3.580%	27,925	65,000	27,161	2.35%	20,375	55,000	19,550	3.000%	29,400	50,000	28,150	5.000%	386,323	2023	67,374,369	5.7340
2024/25	9,487	49,000	8,610	3.580%	27,161	70,000	26,321	2.40%	19,550	50,000	18,800	3.000%	28,150	55,000	26,775	5.000%	388,854	2024	68,048,113	5.7144
2025/26	8,610	50,000	7,715	3.580%	26,321	70,000	25,464	2.45%	18,800	60,000	17,900	3.000%	26,775	60,000	25,275	5.000%	396,860	2025	68,728,594	5.7743
2026/27	7,715	56,000	6,713	3.580%	25,464	70,000	24,589	2.50%	17,900	60,000	17,000	3.000%	25,275	65,000	23,650	5.000%	399,305	2026	69,415,880	5.7524
2027/28	6,713	58,000	5,674	3.580%	24,589	75,000	23,633	2.55%	17,000	60,000	16,100	3.000%	23,650	70,000	21,900	5.000%	402,258	2027	70,110,039	5.7375
2028/29	5,674	61,000	4,582	3.580%	23,633	75,000	22,658	2.60%	16,100	70,000	15,050	3.000%	21,900	75,000	20,025	5.000%	410,622	2028	70,811,139	5.7988
2029/30	4,582	64,000	3,437	3.580%	22,658	80,000	21,598	2.65%	15,050	70,000	14,000	3.000%	20,025	80,000	18,025	5.000%	413,374	2029	71,519,251	5.7799
2030/31	3,437	58,000	2,399	3.580%	21,598	90,000	20,383	2.70%	14,000	75,000	12,875	3.000%	18,025	85,000	15,900	5.000%	416,615	2030	72,234,443	5.7675
2031/32	2,399	69,000	1,164	3.580%	20,383	90,000	19,145	2.75%	12,875	75,000	11,750	3.000%	15,900	90,000	13,650	5.000%	421,265	2031	72,956,788	5.7742
2032/33	1,164	65,000		3.580%	19,145	100,000	17,745	2.80%	11,750	80,000	10,950	2.000%	13,650	95,000	11,275	5.000%	425,679	2032	73,686,355	5.7769
2033/34					17,745	175,000	15,251	2.85%	10,950	75,000	10,200	2.000%	11,275	105,000	8,650	5.000%	429,071	2033	74,423,219	5.7653
2034/35					15,251	185,000	12,569	2.90%	10,200	75,000	9,450	2.000%	8,650	110,000	5,900	5.000%	432,020	2034	75,167,451	5.7474
2035/36					12,569	190,000	9,766	2.95%	9,450	80,000	8,650	2.000%	5,900	115,000	3,025	5.000%	434,360	2035	75,919,126	5.7214
2036/37					9,766	200,000	6,766	3.00%	8,650	80,000	7,850	2.000%	3,025	121,000		5.000%	437,058	2036	76,678,317	5.6999
2037/38					6,766	215,000	3,488	3.05%	7,850	80,000	7,050	2.000%					320,154	2037	77,445,100	4.1339
2038/39					3,488	225,000		3.10%	7,050	80,000	6,250	2.000%					321,788	2038	78,219,551	4.1139
2039/40									6,250	310,000	3,150	2.000%					319,400	2039	79,001,747	4.0429
2040/41									3,150	315,000		2.000%					318,150	2040	79,791,764	3.9873
	\$83,020	\$664,000	\$71,135		\$362,309	\$2,090,000	\$333,075		\$263,509	\$1,850,000	\$248,075		\$282,250	\$1,226,000	\$251,600		\$7,724,973			

# Voted Bond Issue – Pros and Cons

- **Pros**

- No concern about taxable value increases or decreases as the millage levied each year is calculated on most recent taxable value
  - Not subject to Headlee rollbacks
- Can be issued in one or more series of bonds over any period of time

- **Cons**

- Funds can only be used for capital improvements (not maintenance or operations)

# **No Vote of Electorate – Indirect Options**

- **Water/Sewer Project**
- **Garbage Tax**
- **Free Public Library Tax**
- **Downtown Development Authority (DDA) Tax**
- **Public Safety – Special Assessment District**



# Water/Sewer Project

- Generally, restoration above utility replacement is allowed to be included
- “V” cut, 1 lane generally per utility
- Roadway vs. greenway
- Grant funding for water and sewer through SRF or USDA can help with costs here
- Water/sewer rates can help with costs
- Road replacement/extensive repairs every 10-20 years, water/sewer every 50-100 years (hopefully)

# Garbage Tax

- **Act 298 of 1917**
- **Cities and Villages**
- **Up to 3 mills**
- **Millage is an addition to allowable maximum per charter/law**

# Free Public Library Tax

- **Act 164 of 1877**
- **Cities, Villages and Townships**
- **Up to 1 mill without vote of electors, additional 1 mill allowed with vote of electors**
- **Millage is an addition to allowable maximum per charter/law**

# **Downtown Development Authority (DDA) Tax**

- **Act 57 of 2018**
- **Up to 2 mills**
- **No vote of electors required**
  - Approval of municipal governing body needed

# Public Safety – Special Assessment District

- **Act 33 of 1951**
- **Townships, Villages and Cities with population of less than 15,500 can establish without vote**
  - Can voluntarily establish by vote of electorate
  - Cities with population of 15,500 or more can establish with vote
- **Getting through first public hearing without petition is key to avoid vote of electorate**

# **With Vote of Electorate – Indirect Options**

- **Older Adult Services – Voted Millage**
- **Police/Fire Pension – Voted Millage**
- **Public Safety – Voted Millage**
- **Income Tax**

# **Older Adult Services – Voted Millage**

- **Act 39 of 1976**
- **Up to 1 mill**
- **Cities, Villages and Townships**
- **Millage is an addition to allowable maximum per charter/law**

# Police/Fire Pension – Voted Millage

- Act 345 of 1937
- Cities, Villages and Townships
- Millage is an addition to allowable maximum per charter/law
- Gets expenses out of the General Fund to free up funds for roads



# Public Safety – Voted Millage

- Thought to be easier to pass than other millages
- Millage is not an addition to allowable maximum per charter/law
- Gets expenses out of the General Fund to free up funds for roads

# Income Tax

- **Cities only**
- **24 cities currently have this in place**
- **Cons**
  - Need ability to collect and account for liabilities/refunds
  - Does this create a disincentive for people to live and/or work in city?

# Brainstorming

- **How can we address road funding issues without raising user rates, taxes, special assessments, etc.?**
  - First step is to build out a cash flow forecast to see what is needed and the available options to fund
    - Add in capital improvement, maintenance and operations forecast for road system
    - Add in known revenue sources each year
    - Analyze grant funding opportunities to fill gaps
    - Analyze possible expense and capital improvement efficiencies possible
    - If needed, analyze other direct and indirect options available to fill the rest of the gaps

# Regionalization

- **County millages**
  - 30 of 83 counties levied extra-voted road millage in 2022
- **County Road Commission**
- **Shared tax burden county wide for everyone using the roads (i.e. City tax but Township people using services too)**

# Sharing of Services

- **Technology and communication have allowed for us to be more efficient**
- **Staffing concerns and aging workforce in trades**
- **Stuck in taxing models and limitations from late 1800's-1990's**

# Better Maintenance and Upkeep

- **Maintenance, repair and small improvements on current system**
- **Maintenance program**
  - Crack sealing
  - Slurry seal
  - Micro-surfacing
  - Chip seal
  - Rubber cape seal
  - Overlay
  - Fog seal

# Education to Taxpayers

- **Dollar sign poster**
- **Graph showing construction price index vs. taxable value of community**
- **Brochures, graphics, website, door to door**
  - Rules and regulations to follow with these

# Important Takeaways

- **There are options to fund roads out there**
  - Better maintenance and lowering of expenses should be explored
- **No “one size fits all” solution**
- **Holistic capital improvement planning**
  - Cash vs. debt
  - Debt limits
- **Trusted advisors (engineer, financial advisor, bond attorney) involvement early**





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