

Ramsey Road Funding

Open House Questions, 3/20/2019-3/21/2019

Decision-Making Process

- Q: How do cities make this decision about how to fund road maintenance?
- A: We go through a process where we have these types of forums, people talk about it like we're talking, and the City Council will have to debate it.

- Q: Didn't this issue get to council a few years ago?
- A: It came to council and we came to a point of decision. We decided to give the assessment plan five years and then have another discussion, and we're at that place now.

- Q: How will we know what the decisions are?
- A: Good question – this is part of a process. We're going to have these discussions, get back together with the council and run the numbers, and investigate what the situation would be for people who've already paid assessments, among other questions. Our goal is to have a decision by the end of the year.

- Q: Will it be a public vote?
- A: It eventually could be.

- Q: When does this get voted on?
- A: Right now, we're just looking at the information and having conversations with the community, so that hasn't been considered yet.

City Finances

- Q: What are the interest rates like on the City's bonds?
- A: For four road debts issued, interest rates ranged from 1.75% to 3.22%. Add two basis points when assessed (interest rates 3.75% to 5.22%).

- Q: You mentioned we are paying interest on those bonds. What are we paying in Ramsey for the interest?
- A: Total principal issued for four years = \$4,925,000; total interest on 4 issues: \$671,056.

- Q: The money that is bonded for – does it go into a general slush fund?
- A: No, it needs to be used for road funding specifically.

- Q: Where does the money for seal coating come from?
- A: It comes from the City's general maintenance fund – so you pay through your taxes but not individually.

- Q: How did we pay for this in the 1980s and 90s? Didn't we set aside money for this?

- A: No, and it's unusual for a City to set aside money for road funding.
- Q: Is there an average price the City has in administrative fees for each assessment?
- A: Those fees add at least 5% to the cost, and that's a conservative figure.
- Q: How much in interest is the City paying on its bonds?
- A: Around \$600,000/year.
- Q: Since 2014, has the City done anything proactive to accumulate money?
- A: They've increased the levy.

Road Construction

- Q: The \$500,000 in annual maintenance— does that include construction *and* maintenance?
- A: It only includes maintenance and does not include mill and overlay or reconstruction.
- Q: How does this affect dirt roads?
- A: It typically doesn't have any effect on gravel roads. A typical policy is that you only pay once and then the city takes it over from the maintenance side.
- Q: Is there a way to know when my street will be redone?
- A: We have a map of the projects that we'll put on our website soon.
- Q: When we went through this 5 years ago, projections were based on how the streets were used at the time, whereas the traffic on those streets may be different now.
- A: Good point, that's why the PASER system is so important. Sometimes roads deteriorate faster than we anticipated or last longer than expected.
- Q: I live on a road without sewer and water. If the franchise fee comes in, would I pay for that?
- A: In that situation, if they needed to bring in sewer and water, they'd typically wait until the road needs to be redone and then put it in at that time.
- Q: If you decline to have your road fixed to the point where it needs to be reconstructed, isn't that far more expensive?
- A: Yes

Tax Levy

- Q: What is the amount levied to property taxes in 2019 for road debts issued?
- A: \$473,000
- Q: So the county disbanded the wheelage tax. Does the City have that option?
- A: No, only counties have that option.

- Q: Does the transit tax that Anoka County started only affect county roads?
- A: Anoka County's tax funds transit systems but not roads.
- Q: Right now, we're being taxed to service \$500,000 for the maintenance side. How much are we being taxed to service the debt?
- A: You're being taxed on close to \$5 million and a little over \$1.25 million would be assessed.
- Q: Would it work for us right now to do a combination of tax levies and assessments?
- A: By year ten, you'll basically have ten road debt levies. If things remained constant in terms of growth, the tax levy would go up.

Assessments

- Q: Does the assessment cost vary based on the size of the house?
- A: In Ramsey's projects, usually lots in the assessed area are very similar and thus receiving a similar benefit – so their assessment would be similar.
- Q: What's the most popular funding option among cities?
- A: Assessments are the most popular. But even Edina, for instance, is running into the same problem we are and they're looking at options.
- Q: Is the 75% the city pays toward assessments based on property value?
- A: Yes.
- Q: Tax or fee is the same thing – you're going to assess it on a bill. But with property taxes, you can write it off. You can't write off a franchise fee, whereas raising property taxes would allow people to write it off.
- A: It's important to note that you can't write off a special assessment. Property taxes that provide specific benefits that increase the value of the property (which includes road improvements) may not be deducted. Under federal income tax guidelines, you cannot deduct assessments that are for local benefits. The interest portion of an assessment could be deducted if broken out separately on the tax bill, which is normally not itemized via principal and interest.
- Q: Are you saying that your street assessment would be the same whether you have a large or a small lot?
- A: Within the same neighborhood/assessment area, if it's smaller, it would be the same – a lower cost. But larger neighborhoods would pay a larger cost.
- Q: How are these assessments fair? How do they justify it?
- A: We understand the frustration – there are things built into a system that raise the cost of projects, such as the fact that we need to account for people fighting assessments.

Franchise Fee Logistics

- Q: So, the 100% tax levy and franchise fee are the same and it just depends on how you pay it?
- A: Yes and no. A commercial property pays a larger share of a tax levy than a residential property. The franchise fees are a little more even. Someone in an apartment would pay the same as someone in a house. Exempt properties also don't pay tax levy, but they would pay the franchise fee.
- Q: Did you participate in the Brooklyn Park franchise fees implementation? They tiered their payment system.
- A: From the Brooklyn Park from website: *Residents will be charged \$7 on their Xcel Energy electric bill and \$7 on their CenterPoint Energy gas bill every month. Commercial properties will be charged between \$14 and \$320 per month depending on the classification of the business or entity, which is based on consumption levels of electricity and natural gas.*
- Q: Our road was reconstructed a few years ago. It was \$8,000 for the assessment. If we did franchise fees, do we get credit for the fact that we've already been assessed so we're not double-paying?
- A: Sometimes cities have the system set up so that you'd get credit for those payments and for some period of time you wouldn't be paying the franchise fees. The City has not yet looked into this.
- Q: If we instituted franchise fees does that mean that purchasing bonds goes away?
- A: Purchasing of new debt will most likely go away, but we still have 4 current road debt issues that have debt service to be paid. The last year of debt levy related to these bonds would be 2028.
- Q: I have a question about capital. If you have \$3 million in projects to do, can a franchise fee accumulate enough capital to get that done?
- A: It would take some time to get franchise fees in place, if the City Council wanted to do this. So it might not be this year that we'd start collecting. We haven't run any calculations.
- Q: Another problem with the franchise fee is that it's in conflict with the City charter. Are you suggesting we amend the charter?
- A: It is the opinion of the City attorney that it is not in conflict with the City charter.
- Q: If we implemented franchise fees, would paying on those debts go away?
- A: This has not been decided. We still have the four years of road debt whose debt service doesn't go away.
- Q: How do we know on the bill that the franchise fee is for roads and not other things?
- A: The City Council would put language in place to ensure it goes to that purpose.
- Q: What if someone lives on a county road?
- A: They'd still pay a franchise fee.
- Q: We have a lot of new apartments. How are they figured into this?
- A: All new apartments have independent gas and electric meters, so they can be treated like a single-family home and would pay a franchise fee.

- Q: So, under franchise fees, the apartments would increase the tax base for road funding?
- A: Yes, because right now apartment complexes are treated more like commercial properties, and under franchise fees, they'd pay the same fee as other residential properties.

- Q: If you have a property and you have an out building, how do the meters work?
- A: You usually have just one meter per property. If, for example, a farmer has another meter, sometimes a city will work it out where they're not paying for the other meter.

- Q: Does the franchise fee money go into a dedicated fund?
- A: Yes, they go into a specific use fund.

- Q: Can you speak to how franchise fees affect other institutions in our city?
- A: Under a franchise fee system, everyone pays – churches, non-profits, etc.

- Q: Why do they want to put the fee on both gas and electric? A lot of people don't have gas.
- A: If you only put it on electric, the gas company will often claim unfairness.

- Q: Are the utilities allowed to tack on a fee for administration of the franchise fee?
- A: Generally, no. They pay the city on a quarterly basis, so they have a chance to accrue some interest.

- Q: You indicate the levy is less competitive, so you must acknowledge that the franchise fee has the same issue.
- A: For a business it can be much less costly, and the business community likes the consistency, so we do not find franchise fees to be an issue for competitiveness.

- Q: Is it possible to have a franchise fee where the expensive houses pay more than the smaller ones?
- A: No, because the electric and gas companies will only keep track of it based on the meter size.

- Q: If this franchise fee went in today, would tomorrow every assessment be done?
- A: Typically, you'd pay the franchise fee but there would be a rebate process for current assessments. We would still have to work out those details.

- Q: Under the franchise fee, churches are included?
- A: Yes, since they have meters.

- Q: If the apartment buildings have meters, every tenant pays the same as someone on a big lot?
- A: Yes.

- Q: If the franchise fee were put in place, how is the transition handled while the money starts to pool up?

- A: The staff would have to figure out how to address that if the City goes with franchise fees.
- Q: Assuming we do the franchise fee option, for how many years is that fee locked in?
- A: Generally, it's set for five years and then the city would evaluate current needs.

Franchise Fee Amounts

- Q: Is the franchise fee based on usage?
- A: No, it's a fixed amount for residential properties. For commercial, it's based on meter size.
- Q: As our city grows, could we expect the franchise fee to increase?
- A: It depends but not necessarily. If you're growing the number of users in the system, the fund also grows. In 2015, franchise fees were implemented in another city and they haven't had to raise the rates yet.
- Q: Comment from former mayor of Ramsey: Several years ago, we had a franchise fee in Ramsey. We sunset it, which was probably a mistake. If we'd kept it, we might not have the road problems we do. People got used to it and they knew what fee to expect. And growth took care of the money. If we'd kept it, you'd be paying \$6/month.
- A: The City had a franchise fee in 2003 for period of nine months and then sunset. Ramsey used franchise fees to make up from shortfall of LGA & MVHC cuts. We collected the shortfall after 9 months and the City Council ended the fee. The fee was \$3 each utility for both residential and commercial properties. We had proposed a % fee, but there was too much opposition from commercial businesses.
- Q: Elk River's franchise fee is \$9.50. What is Rogers' fee?
- A: It's \$9 in Rogers.
- Q: How much will the franchise fee go up?
- A: Usually cities set it for 5 years and then evaluate needs at that time.
- Q: Do cities typically keep the fee at the same amount?
- A: Yes, most cities have not increased it, and growth helps allow that.
- Q: If we paid \$120/year in franchise fees, do we know the total amount the City would bring in?
- A: That would be one of the City Council's next steps if they go forward with investigating franchise fees – to work with the utilities and analyze the numbers.
- Q: So under a franchise fee system, all I pay is around \$100-\$200/year and I'd never pay for an assessment?
- A: Yes, that's right.
- Q: What's realistic in terms of a monthly franchise fee? \$10? \$20?
- A: It would likely not be \$20. Rogers is \$9, Brooklyn Park is \$14. We need to run those numbers.