Financial Health Review Team

Infrastructure Group

Doug Jester, Jeff Hicks, Tricia Foster Jill Rhode,
Ray Vlasin, Michael Moquin.
Adjunct Member Sue Haka
East Lansing Financial Health Team

Appointed Members

Background & Scope

The Group met eleven times in public session to address these matters and formulate the Group recommendations. The Group approved these Recommendations on December 5, 2016, and the Financial Review Team's approval was given on December 12, 2016.

Guiding Principles

In making the Five Recommendations below, the Group, and the FHT in approving them, have been guided by principles of infrastructure development, maintenance, and renewal. These principles flow from Citizen input, community service, personal observations, professional expertise and academic commentary. The order in which the following principles appear is intentional, and deliberate.

1. Community infrastructure is one of the primary functions of local government.

2. Physical wear and aging of public infrastructure is an ongoing cost, which must eventually be paid either through repair and replacement, or loss of services. Failure to budget for repair and replacement does not avoid this cost, just defers it. We must be proactive about our repairs and replacements to infrastructure because to act when items fail substantially increases their total cost of replacement--the cost of the emergency service and the cost of materials to be replaced. Failure to be intentionally proactive means that current citizens are enjoying the use of these assets but expecting future citizens (or their future selves) to pay for higher cost of replacement or suffer loss of service.

3. Benefits of new or replaced assets accrue to citizens after the assets are created, making it natural to incur debt to pay for an asset and repay the debt over the expected life of the asset.

4. For a category of assets that is extensive and either need not or cannot be entirely built or replaced all at once, annual replacement of a portion of the assets at a rate corresponding to the expected life of the assets in the category is a natural

Infrastructure Group
Doug Jester, Jeff Hicks, Tricia Foster Jill Rhode,
Ray Vlasin, Michael Moquin.
Adjunct Member Sue Haka
East Lansing Financial Health Team

policy that asks each generation of citizens to pay a fair amount for their current use of the assets. Thus, for example, if streets must be repaved once every 20 years, current citizens paying to repave 1/20th of current streets each year is equitable in relation to future citizens.

5. When the community is in arrears of its obligation to maintain community assets and needs to catch up on this obligation, there are two basis strategies available:
   a. Begin financing asset replacement at the long-term cyclic rate, while suffering a reduced level of service until the catching-up process is completed after a full cycle. For example, repaving 1/20th of street miles per year for 20 years will eventually achieve the level of service that is supported by a 20-year life cycle.
   b. Borrow funds to catch up in the short term, repaying that debt over a period of 20 years. This approach rapidly restores the desired level of service but incurs the financing cost of debt in addition to repayment of principal equivalent to cyclic replacement of assets as a current outlay.
6. Financing infrastructure with debt imposes a discipline of repayment on the community, while use of general revenue to periodically replace infrastructure invites deferral until asset condition is critical. Deferral is especially attractive during recessions, but recessions are also the time when construction and asset purchases are cheapest and when debt financing terms are most favorable, if financing is available.
7. Given the debt limits of the City of East Lansing (presently, about $50 million), and other potential demands on the City's finances, we do not believe that a debt-based infrastructure finance strategy is viable or desirable.
8. To better inform City Council and the community of the status of asset reinvestment, the City's annual budget should report both the current year deficit or excess of asset replacement compared to target rates of replacement and the accumulated deficit or excess of asset replacement. These should be reported both in physical terms (miles of streets that should be repaved and are behind replacement schedule) and in terms of current year cost to stay on replacement schedule and to catch up with replacement schedule.
9. Asset replacement schedules should be initially established as follows with implied annual replacement budgets:
   a. Water and Sewer Infrastructure funded through utility rate increases.
   b. Streets and sidewalks: state funding is insufficient, about $1.5 million annually from general fund of City to supplement state funds. Sidewalk expense partially offset by special assessment on landowner. Need for dedicated fund.
   c. Parks and Recreation facilities, and capital improvements, largely from City general fund: Necessary repairs for existing parks and facilities. Need for dedicated fund.
   d. Governmental buildings: Necessary repairs. General fund, or ballot proposal.

10. As a means of establishing a discipline that current citizens pay for replacement of current wear and aging of public assets, we recommend the City seek to finance asset repair and replacement with dedicated funding not usable for other purposes. This funding should be calibrated to the City's required long-term cyclic rate of asset replacement, but funds should be annually allocated and expended based on asset condition and importance so that service levels are restored as expeditiously as possible within the available funding.

11. Since the replacement of some future assets is uncertain, provision should be made for some accumulation of reserves for future asset replacement and for short-term borrowing to be repaid from the available dedicated revenues. The capacity to manage and the timing of cash-flow, however, should not be used to add to the City's asset inventory and replacement obligations unless a corresponding increase in asset management revenue is provided or expected within the same fiscal year.

Recommendations for Infrastructure, and Parks and Recreation

1. **Water and Sewer: We recommend that all necessary work and projects be financed by**
   - **State Revolving Fund bonds for sewers, waste water recovery facilities, and water system improvements, and**
   - **Increases in water and sewer rates.**

We endorse the November 21, 2016 Memorandum from the Director of Public Works, (Attachment 1, p 3) projecting water and sewer rate increases over 8 years, to finance completion of the required projects within 24 years.

2. **For Streets and Sidewalks: We recommend creation of a dedicated fund, with Voter approval. Dedicated revenue sources are not dependent on the City's General Fund on which there are multiple competing demands.** A dedicated fund is essential for a disciplined and sustainable continuous schedule of street and sidewalk replacement, maintenance, repair and upkeep. We endorse Attachment 1, p 3, to finance street and sidewalk work on a 24-year cycle: with dedicated funding, annual (and variable) general fund financing of $1.8 million to $2.1 million projected over 8 years will not be required.

3. **Parks and Recreation (including Hannah Community Center): We recommend creation of a dedicated fund, with voter approval. Dedicated revenue sources are not dependent on the City's General Fund on which there are multiple competing demands.** A dedicated fund is essential for a disciplined and sustainable continuous schedule of ongoing necessary repairs to Parks and Recreation facilities. We endorse the November 22, 2016 Memorandum from Timothy McCaffrey, Director of Parks & Recreation, detailing Capital Reinvestment "Necessary" Needs for Facilities on a recommended 15-year cycle, and "Necessary" capital improvements replacement schedule on a the recommended 25-year cycle.

Infrastructure Group
Doug Jester, Jeff Hicks, Tricia Foster Jill Rhode,
Ray Vlasin, Michael Moquin.
Adjunct Member Sue Haka
East Lansing Financial Health Team

4. **Dedicated funds to implement Recommendations 2 and 3 could be created as a component of a Headlee Rollback re-instating the City's 20 mill charter authority (from the present 17.5891 mills), with millage revenues generated by 2.4109 mills spread on an annual basis into separate funds:**
   - **Infrastructure Fund, 1.6876 mills (about $1.8 million), and**
   - **Parks and Recreation Fund, 0.7233 mills (about $633,000).**

   This recommendation might mean that each year, transfer of about $267,000 from the general fund would be needed (difference between dedicated amounts in Recommendations 4 and 5), after it has been determined that project efficiencies or other sources of funds are not available. This details Revenue Recommendation #2.

5. **Dedicated funds to implement Recommendations 2 and 3 could be created as a component of a voter-approved City Income Tax (with, or without, a residential property tax millage reduction), with income tax revenues of $2.7 million spread on an annual basis into separate dedicated funds:**
   - **Infrastructure Fund $1.9 million, and**
   - **Parks and Recreation Fund, $800,000.**

This details Revenue Recommendation #1.

Attachments

1. Memorandum to FHT from Scott House, Director of Public Works, Infrastructure Needs – Water, Sewer, Streets and Sidewalk and Rate Impacts (November 21, 2016).
2. Memorandum spreadsheet to FHT from Timothy McCaffrey, Director, Parks & Recreation (November, 2016).