

An Alternative to Funding Local Transportation Needs

A Trip-Based Transportation User Charge System Case Study

August 30, 2012 (updated)

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*Beyond Surveying
and Engineering*

Trip-generation based user charge funding for transportation needs offers cost equity among users, reliable and dedicated funding, with greater accountability.

This discussion covers these primary topic areas...

- Background, definitions and authority...
- Development and calculations – Village of North Fond du Lac case study...
- Impacts, considerations and questions.

How are local transportation costs funded in Wisconsin?

- Generally by a combination of several sources:
 - Local property tax / general fund
 - Federal / state funding
 - Special assessments / impact fees
 - Developer contribution (private development)
 - Tax incremental financing (renewal, new public development)
- And Rarely...
 - Wheel tax

What about wheel taxes in Wisconsin?

- Beloit wheel tax supplements street program funding...
 - Cost is \$10 per car, collected by WI-DMV with annual registration
 - Generates about \$270,000 per year
 - 19,500 properties; 36,000 population
- Sheboygan wheel tax began in about 1992; was phased out in 2006 by council action
 - Initially \$10 per passenger car per year, now \$6
 - At \$10/yr, raised \$300-\$330k annually based on about 35,000 passenger cars (population was about 51,000)
 - First \$250k used for street program costs; balance used for bridge maintenance

What other kinds of revenue sources fund local street programs outside Wisconsin?

In some other states, monies from...

- Franchise fees
- Serial levies
- Local/ County fuel taxes
- Utility taxes, and
- Transportation user charges...

First, what is a “user charge” per Wisconsin Public Service Commission?

- Charges are for the **services and facilities provided** to customers
- The basis for the charge must be reasonably **related to the cost** of the service or product
- Charges must be **just and reasonable**
- Different **classes of users** may be charged different rates if the different rates can be justified
- Charges may **not** be unjustly **discriminatory**, as between rate payers

What is the basis for individual customer charges?

- Charges for existing utilities are based on a **reasonably accurate** determination of benefit or consumption
 - **Metered** consumption – water, electrical power, natural gas...
 - **Estimated** consumption – wastewater, most often based on metered water consumption
 - **Allocated** impact – individual share of total impervious area for storm water user charges
- Transportation user fees – share of trips generated by individual properties, sometimes also accounting for heavy truck impacts



How does this differ from property taxes?

➤ Property taxes are

■ “**Ad valorem**”

- Based on ownership of the property
 - Assessed regardless of whether the property is used or not
 - Assessed whether the property or owner benefits from the service or not
-
- Calculated on a **fixed proportion of the value** of the property with respect to the total value of properties against which the tax is assessed
 - **Not assessed on properties that are exempt** from taxation, regardless of whether or not the exempted property uses or benefits from the service

What authority exists for establishment of transportation user fee structures?

In Wisconsin, **home rule authority**, on the basis that municipal governments have the power to act for the...

- ...good order of the city
- ...municipality's commercial benefit
- ...health, safety and welfare of the public

...And have the authority to carry out its power by appropriation and other necessary and convenient means

Home rule authority – as the basis for transportation user charges – has not been tested in Wisconsin. It was, however, the basis for the original stormwater user charges before specific enabling legislation was created.



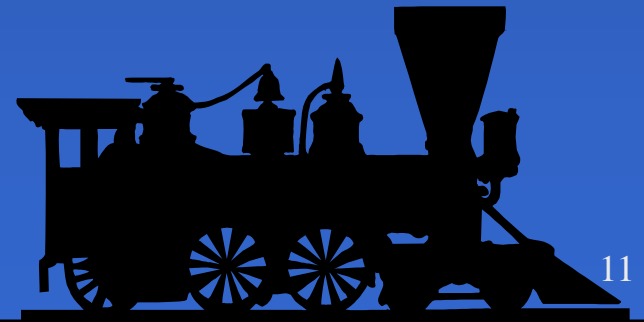
Example? The Village of North Fond du Lac...

- Is a typical Wisconsin village, incorporated in 1903
 - Economic base was historically centered on a major **railroad yard** maintenance facility (>500 employees)
 - Slow, steady growth over >100 years, resulting in **aged infrastructure**, requiring significant reconstruction
- Has these current funding characteristics...
 - Special assessments once for upgrade to “improved” street condition only
 - New infrastructure is contributed by developer or tax-incremental financing
 - Some State funding, at less than 25% of costs (Anticipated to decline)
 - All other costs funded by property taxes



Why did North Fond du Lac consider alternative funding?

- Village has the same funding issues as most Wisconsin communities:
 - Public unhappy with **variable tax impact** of street reconstruction costs, particularly with major projects
 - No intention to increase street budget; strong desire to **avoid or reduce borrowing**
 - Public requested **funding options** to stabilize costs and spread payment throughout year
- And believes **ALL** property owners benefit equally from streets, so **NO** special assessments for maintenance or reconstruction



Some key elements considered in development of the user charge model...

- Targeted revenue needs are based on **NET** transportation cost, excluding **new** construction
- Village **5-year CIP** and annual **operating budget** formed basis for projected revenue needs
- Large trip and heavy truck traffic generator is **tax exempt** and does not pay for use of transportation infrastructure
- Intent to change funding method, not increase budget – **no additional money** into the program

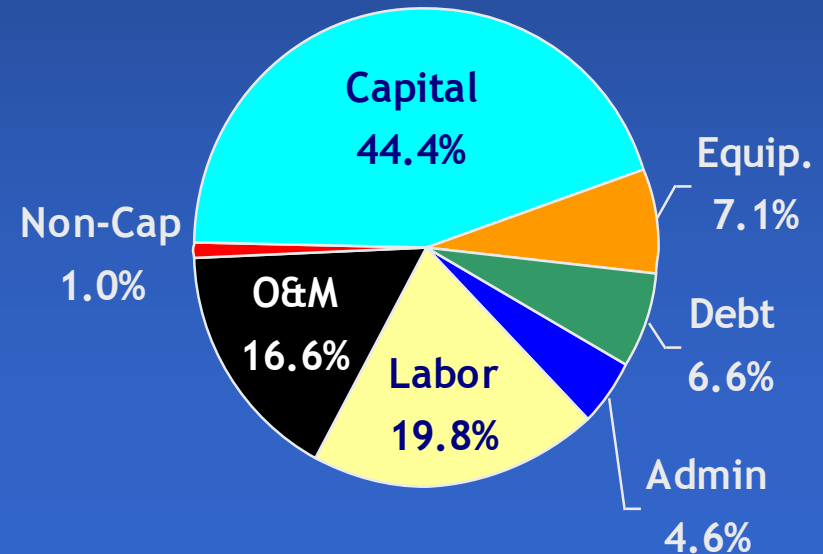
Every TU \$1 offsets \$1 Tax



Which transportation system costs could be included in the user charge system?

- Administrative expenses
- Personnel (Labor)
 - Administrative labor
 - Street and terrace maintenance
 - Facility/ equipment maintenance
- Operations and maintenance expenses
 - Streets and terraces
 - Facilities, vehicles and equipment
- Vehicle/ equipment replacement

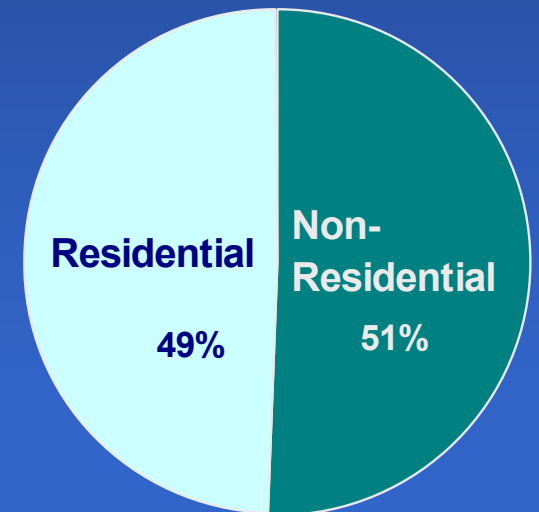
- Capital Improvements
 - Slurry seal and resurfacing
 - Sidewalk program
 - Reconstruction (**NOT** new construction)
- Debt Repayment



How were user charges calculated?

- Consistent with methods used in existing transportation user charge systems, dating back over 16 years...
 - Establish **revenue needs** as target budget
 - Use *ITE trip generation rates* and volume factor to determine **total number of trips** and residential / non-residential split
 - Include heavy **truck factor** in non-residential cost allocation (optional)
 - Apply appropriate credits and exemptions to **calibrate the model**
- Define customer classes for residential and non-residential

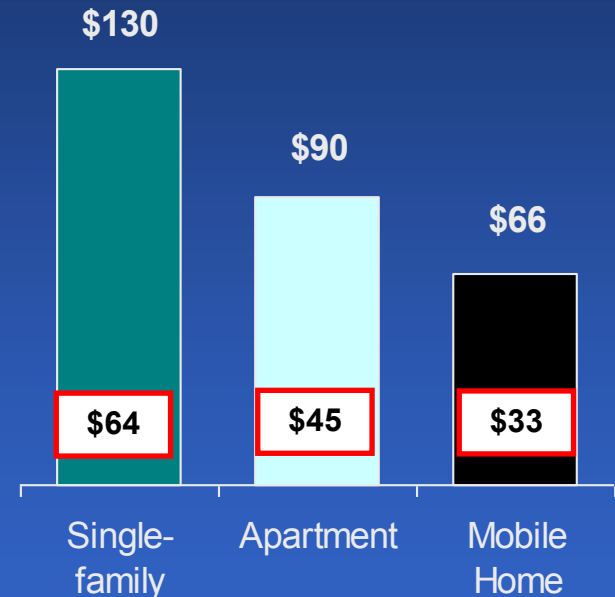
North Fond du Lac
Trips by Category



How would it relate to residential properties in North Fond du Lac?

- North Fond du Lac's residential properties include approximately...
 - 1,300 single family homes, 9.57 trips/day
 - 190 dwelling units in multi-family properties, 6.63 trips/day
 - 435 mobile home units, 4.81 trips/day
- Compute unit cost and rates
- Charge quarterly on current utility bill; not tax-deductible for residential property

Fixed Annual Charge for Residential Properties



Fee for **FULL** funding of transportation system

Fee for funding **ONLY** street reconstruction costs.

What's the projected bottom line for a single family home assessed at \$80,000?

Current Tax Funding System

Owner pays \$728 total property tax payment, of which \$262 is for transportation system costs, all paid in December

\$262 for transportation - OR — \$130 for transportation



Total annual cost is \$728

Transportation Utility Funding

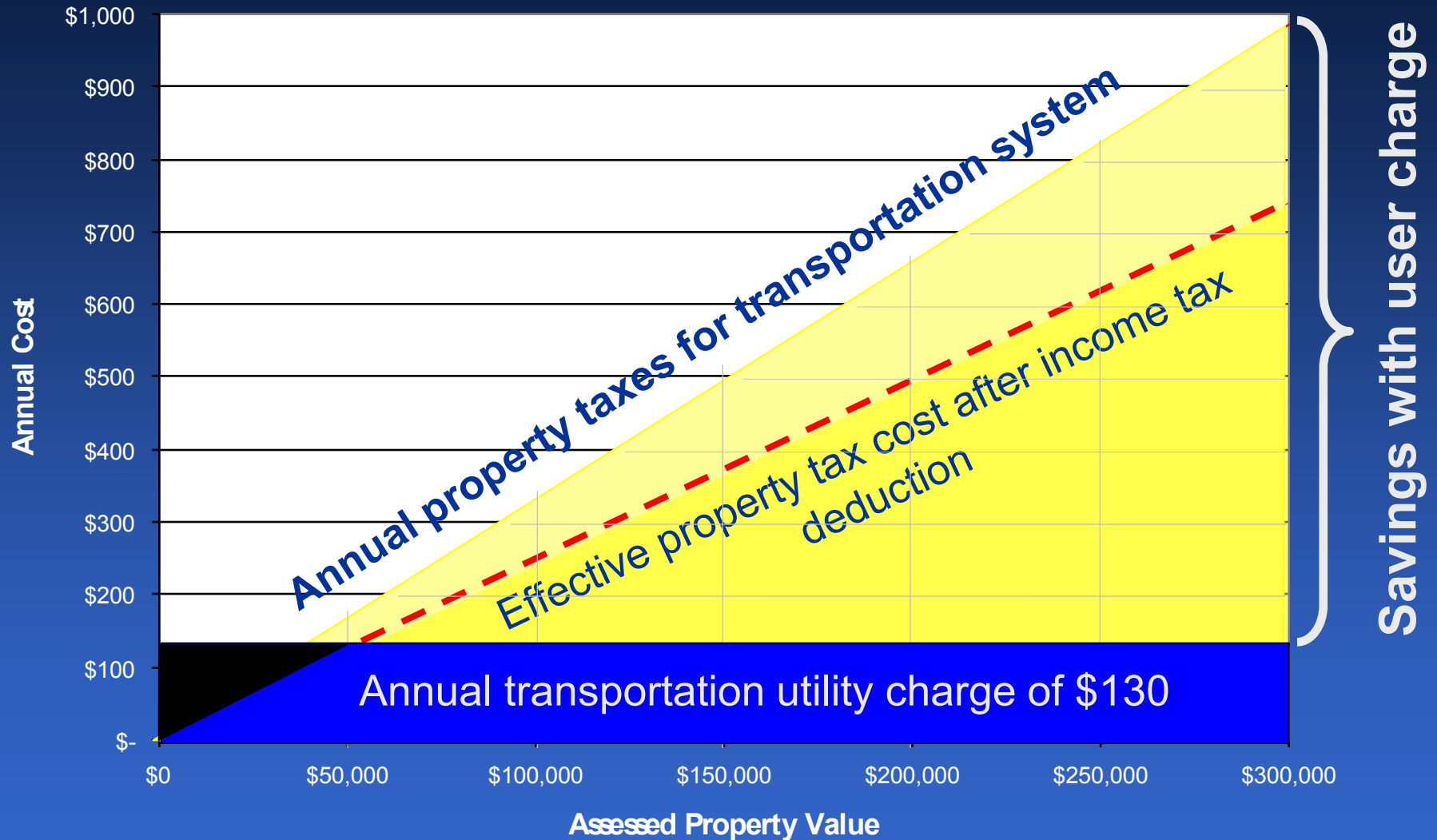
Owner pays \$466 total property tax in December, plus a user charge for transportation of \$130 annually, or \$32.50 quarterly



**Total annual cost is \$596;
savings of \$132**



Residential property cost comparison: Property Tax vs. User Charge



Estimate based on 2003 tax rate; \$410,000 annual transportation utility budget

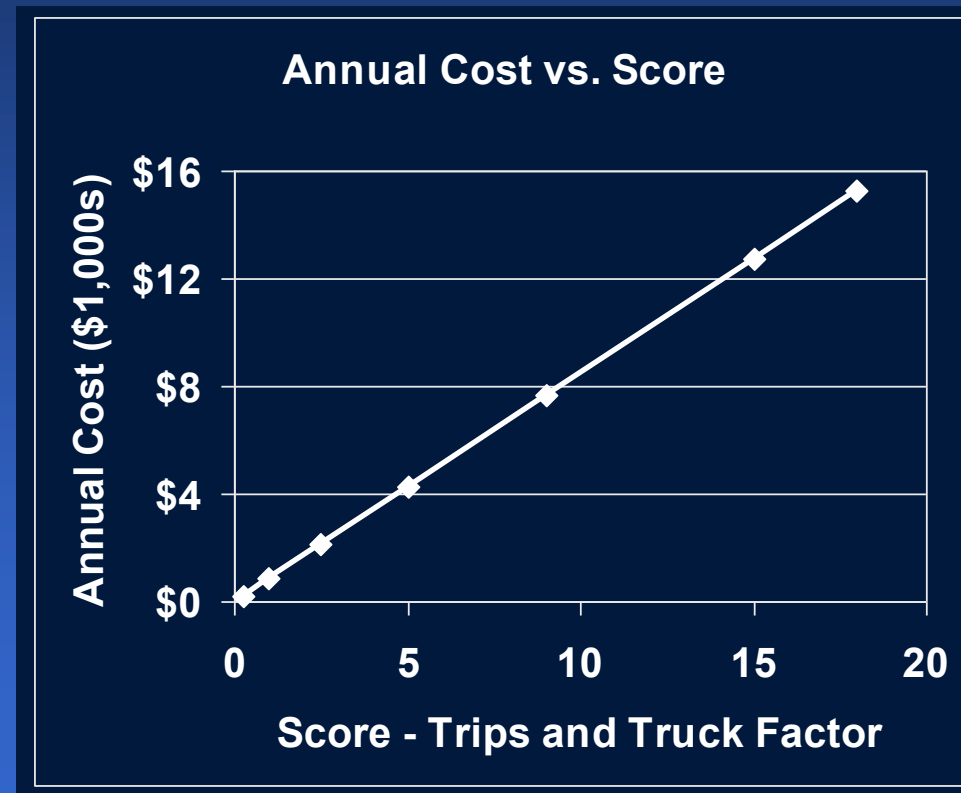


The Village of
North Fond du Lac
...A Great Place to Live, Work & Play



How is the user charge calculated for non-residential customers?

- Start with the revenue requirement for non-residential property and total trips per property
- Estimate heavy truck trips (optional)
- Apply credits (owner input where necessary)
- Compute score and develop rates within categories
- Resolve appeals



How would this apply to non-residential properties?

ITE Land Use: 630 – Clinic

- Compute user charge
 - Trip generation rate is 31.45 trips per 1,000 sf, @ 12,500 sf, = 393.13 trips / average weekday
 - No heavy trucks; score = 3.00
 - Annual user charge = **\$2,540**
- Compute property tax reduction
 - @ **\$2,500,000** assessment, equivalent payment for transportation = **\$8,200**
- Net annual cost is **SAVINGS** of **\$5,660**

ITE Land Use: 845 – Gas station/ convenience store

- Compute user charge
 - Trip generation rate is 162.78trips per fueling position; @ 6 = 976.68 trips / average weekday
 - With 1 – 9 heavy trucks per day; score = 7.5
 - Annual user charge = **\$6,400**
- Compute property tax reduction
 - @ **\$350,000** assessment, equivalent payment for transportation = **\$1,150**
- Net annual **COST INCREASE** is **\$5,250** (~ 3¢ / customer)



Would any properties be exempt from the user charge?

Not on the basis of ownership or tax status, but...

- Yes, on basis of fundamental user charge concept
 - **Undeveloped** properties – no trips generated
 - **Vacant** properties – no trips generated
 - Properties that themselves are **part of the transportation infrastructure**
 - Municipal street garage (but not other municipal facilities)
 - Mass transit system facilities (?)
 - Possible exemption from charges during periods of **temporary vacancy**

Appropriate exemptions are important to calibrate – and validate – the model.



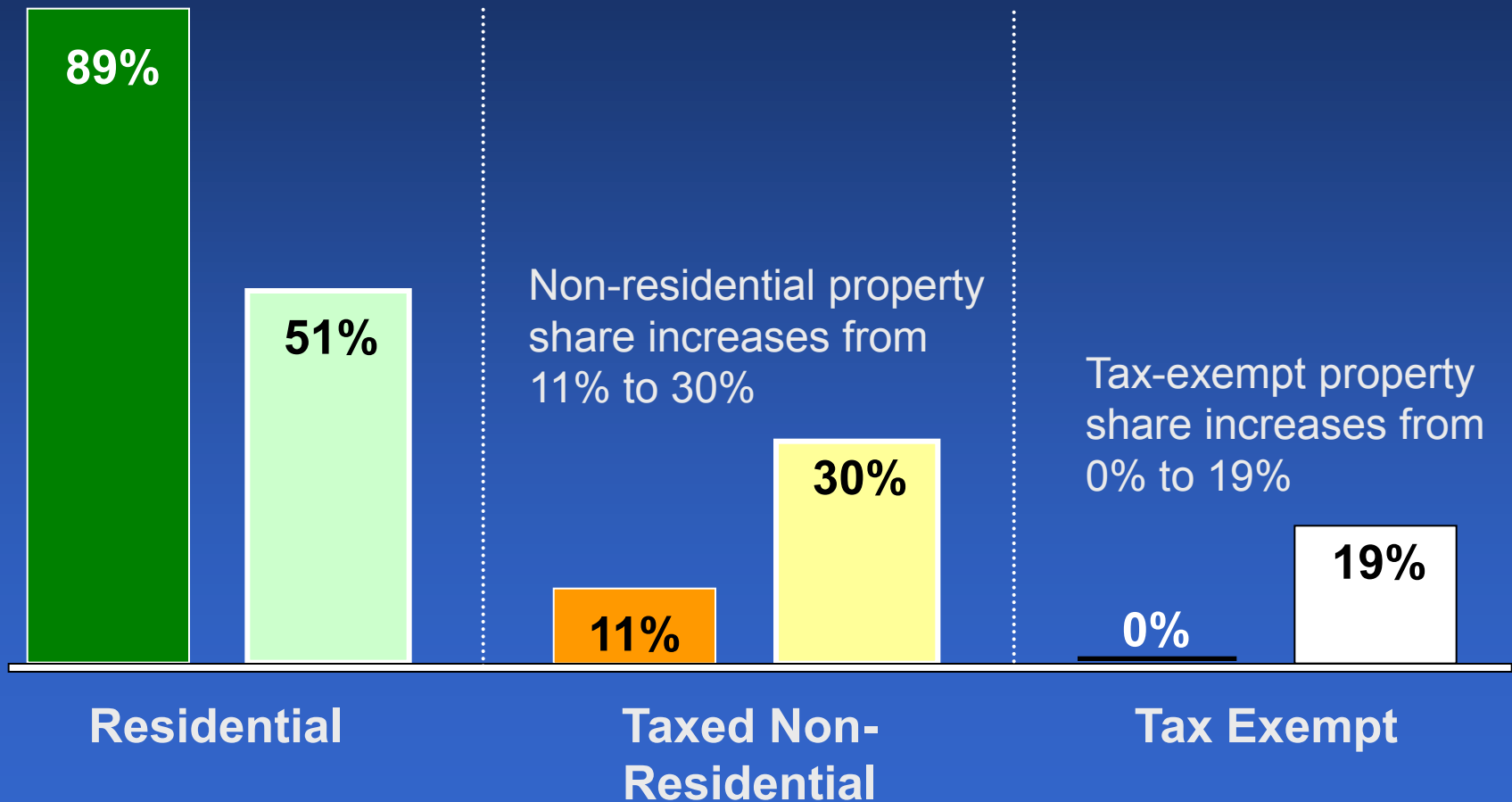
What are the net effects of this funding option?

- Street program costs are **reallocated**...
 - Residential property owners pay less on basis of trip generation than on property value, as...
 - Tax-exempt properties pay their share
 - **School districts** – all school district “customers” inside and outside the municipality
 - **Exempted** private utilities, government facilities, churches and non-profits face new costs
 - And non-residential taxed properties, generally...
 - **Pay more**, if they have low property value and generate high traffic loads
 - **Pay less**, if they have high property value and low traffic loads

How does this reallocation apply to property types?

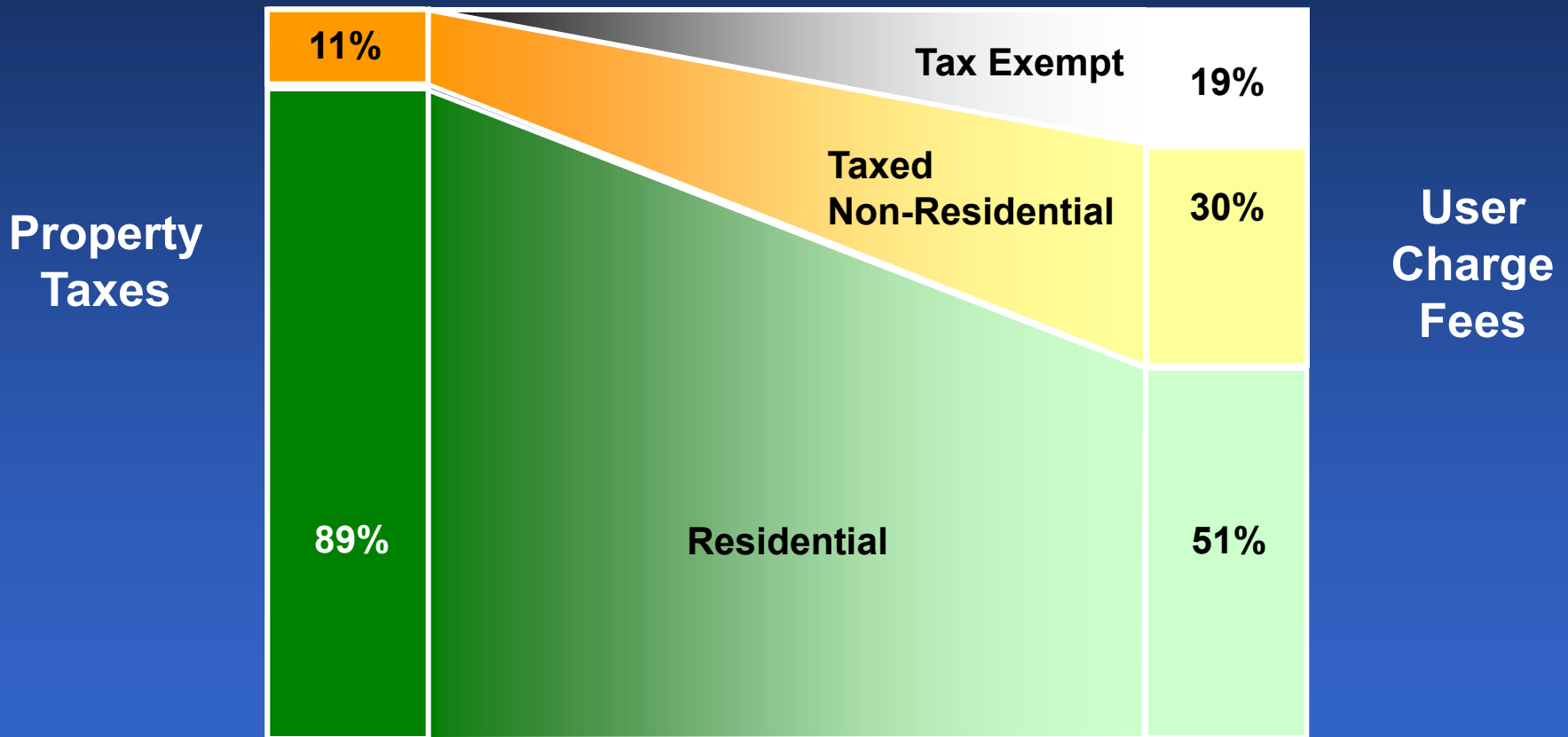
Residential property share drops from 89% to 51%

Example is based on North Fond du Lac model; actual numbers are unique per community!



Net Funding Shift – From Property Taxes to User Charges

Share of Transportation System Costs by Property Type



Which properties, or types, are tax exempt? How much is their share? Who pays it?

Total Tax Exempt Property Share ~ 18.9%

- 9.8% Railroad – RR company customers
- 3.8% N Fdlc School District - ~50% Village residents
- 2.6% Village of N Fdlc – Taxes, water/ wastewater user fees
- 1.4% Church School – Student tuition
- 0.5% Churches – Congregation
- 0.4% Fdlc County Housing Authority – County taxes
- 0.1% Alliant Energy – Power utility customers
- 0.1% SBC Communications – SBC customers

Notes: (1) Percentages shown are of TOTAL user fee budget
(2) Assessed value of tax-exempt property is approximately 16.9% of assessed value of taxed property.

Are there disadvantages?

- **Change is Hard!** – New concepts in public works funding take time to understand and adopt!
- **Higher Costs For Some** – Some **NON**-residential property owners pay more, on a net cost basis, than before
- **Initial Effort** – Getting started requires time to develop and explain the rate structure and to develop trip generation base data, all similar to efforts required for initiating a storm water user charge system
- **New Charges** for Tax-Exempt Property Owners

What are the advantages of utility funding?

- **Revenue stability** – Reliable funding base with potential to improve bond rating when borrowing is required and develop fund balance
- **Equitability** – Allocation of cost to all property owners is according to their use and impact
- **Accountability** – User charge funds are dedicated to only transportation system costs
- **Property Tax Reduction** – Potential to significantly **reduce** mill rate if “1 for 1” concept applies (< 30% reduction in N Fond du Lac)
- **Simple Administration** – User charge billing can be incorporated into existing utility bills; property charge updates tied to existing permit process and utility ownership update procedures

Are trip-based transportation user charges right for your community?

Maybe, if...

- A strong concentration of **major trip generating operations** are located inside your community
- **Heavy truck traffic generators** are located inside your community and use local streets
- You have a high percentage of **tax-exempt properties**
 - Non-profit organizations
 - Government facilities
 - Exempted utilities

What kinds of concerns might arise with this new type of funding method?

➤ Tax vs. User Charge?

- Key distinction is link between property owner actions or behavior and resulting charges

➤ Legal basis of formation?

- Current option in WI is home rule authority
- Similar to storm water utility formation prior to enabling statute

➤ Tax payer amendment (TPA) restrictions

- Option for user charge revenue in lieu of equivalent general revenue

➤ Current political climate

- Education of the need for public works funding options is critical to making effective, responsible informed decisions



Questions?

Comments?



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