

Memo

To: Denmark Township, Minnesota
From: Bruce Kimmel, Senior Municipal Advisor & Chris Mickelson, Municipal Advisor
Date: July 27, 2020
Subject: **Road Project Funding Analysis**

With assistance from Township Staff and Focus Engineering, Ehlers has developed two road project funding scenarios for discussion with the Town Board on July 28, 2020. This memo provides a brief introduction to the key points included in this analysis, and we look forward to discussing these with you in greater detail tomorrow.

Both scenarios start with the Township's 2018 and 2019 actual expenditures and 2020 budget projections, and then extend 10 additional years through 2030. As the focus of this analysis is on future road project funding, emphasis has been given to the Road & Bridge fund and the estimated property tax impacts of potential road project decisions. The General Fund has been included mainly to reflect 2019 and 2020 transfers from the General Fund to the Road & Bridge fund.

- Scenario 1 assumes a total of \$7.9 million (2020 estimate) in road reclaim and overlay projects spread evenly between 2021, 2024, and 2027. With 3% annual inflation, actual project costs in 2021-27 would total \$8.9 million (see Line 21).
- For the 2021 projects, \$400,000 of Road & Bridge fund balance is used to reduce the 2021 bond amount (Line 26), and thereby, future debt service (Line 17).
- For the 2024 projects, another \$250,000 of Road & Bridge fund balance is used to reduce the 2024 bond amount (Line 26) and future debt service (Line 18).
- No cash reduction is assumed for the 2027 projects and/or bond issue.
- Sealcoat / crack seal projects totaling \$300,000 (2020 estimate) are spread evenly across the 10-year planning period, beginning with \$30,000 in 2021 (Line 14). We assume these projects will be paid with levy, Gravel, and Fuel Tax revenues consistent with past practice. Project costs inflate by 3% annually.
- Road & Bridge Fund property tax levies are projected at levels adequate to fund the estimated operating and capital expenses, including new debt service.
- Our goal here was to achieve a relatively moderate pattern of tax levy increases, and to maintain ending fund balances above \$100,000 in all years (Line 33). That said, other levy inputs in 2021-30 could achieve the same end result.

- Scenario 2 assumes Road & Bridge Fund levies increase by approximately 3% annually, and then solves for how much in reclaim / overlay projects the Town can complete in 2021-27 while keeping fund balances above \$100,000.
- With this approach, we assume a total of \$5.7 million (2020 estimate) in reclaim and overlay projects in 2021, 2024, and 2027 – roughly 72% of the \$7.9 million total in Scenario 1. With 3% annual inflation, actual Scenario 2 project costs in 2021-27 would total \$6.4 million (see Line 21).
- Scenario 2 uses \$400,000 to reduce the 2021 bond amount, and another \$400,000 to reduce the 2024 bond amount.
- As in Scenario 1, sealcoat / crack seal projects totaling \$300,000 are spread evenly across the 10-year planning period.
- The Summary worksheet (Page 2) included for both scenarios provides an overall view of all other Township property tax levies and the net impact of projected future levies on a home of median value in Denmark Township.
- It is important to stress that these “bottom line” tax impacts are solely the function of the several assumptions made in Scenarios 1 and 2 regarding future operating and capital costs, future inflation rates, and the Township’s use of debt financing (vs. current year levy dollars and/or fund balances carried over from previous years) to pay for capital outlays.
- The estimated tax impacts will change as model assumptions change, and as alternative scenarios are considered – perhaps testing different capital funding mixes and/or various other assumptions related to future Township revenues and expenditures.

Please feel free to contact us at (651) 697-8572 or (651) 697-8556 with any questions about this memo and thank you for the opportunity to be of assistance to Denmark Township. We look forward to discussing this information further on July 28th.