3-Cent Gas Tax White Paper

Bottom Line Up Front: Madison should consider raising its current local gasoline tax from 2-cents to 5-cents to fund a dedicated collector road maintenance program. This paper discusses the rationale for such a proposal.

Background.

The City of Madison is responsible for the care and up keep of 210 miles of neighborhood streets and 74 miles of collector roadways. Until 2013, there was not a defined, resourced repaving program for our infrastructure. In 2013, the City Council began to turn this around for neighborhoods by allocating 25% of the sales tax increase toward a neighborhood-only repaving program.

Madison now has a very modest program targeted to repaving neighborhoods. We still, however, do not have a dedicated revenue stream that focuses on our collector roadways. Collector roads are streets like Palmer, Hughes, etc. They are the City's internal arteries that flow traffic to & from neighborhoods and shopping, recreation and work destinations.

We have used dollars from any place we can acquire them to "crisis manage" collector roads. Dollars can come from our General Fund, Federal, State or County, but often strings are attached. One only has to drive the streets of Madison to realize that, however we are resourcing roads, repaving isn't happening in a controlled manner. It is difficult to define a steady state program oriented on a class of road. Our growth keeps us reacting to road problems, not managing them.

Maintaining these key roads, the associated signals and streetlights, as well as rights-of-way (ROW) should be a normal cost of operating our City. Currently, we spend over a million dollars maintaining our collector road network annually. Our current 2-cent gas tax pays for approximately one-third of that.
By necessity, we often defer collector road maintenance until we have a crisis, or a funding opportunity lands in our lap. Frequently we pay the bill out of our CIP bond money which is borrowed dollars.

Madison needs to get to the point where CIP is used for Capital projects; Federal and State highway funds are used for major projects and the City funds routine collector road upkeep just as we are doing with neighborhood roads. The need is obvious, but the question of "HOW" is not.

Available Funding Mechanisms.

There are three road-funding mechanisms: Borrowed money (Bond, loan, etc); Federal or State dollars, and City revenue.

Bond money has a positive feature – it allows the City to commit significant dollars

on a project up front and pay it back over time. The negative is that it typically takes 20 years to pay a bond off and the total outlay is significantly more than the amount borrowed. The key question is what is the service life of the funded project?

For example, if a million dollars from our last bond purchase were used to repave a collector road, our payback would be $1,411,896 over 20 years. Sadly, the new road would require repaving once again at the 10 to 15 year point and we would continue to pay on the bond out to year 20! Not smart.

If Federal or State dollars are used on a road project, ALDOT oversight management comes into play. The good part is larger projects can be undertaken than is normally possible using City General Fund dollars, and there is a cost split (maybe 50-50, or 80-20). But if you think about it, the money the Feds / State pass back to the City are dollars acquired from taxes in the first place. So in a sense, we are getting some of our money back.

ALDOT's supervision typically adds 25%-35% to the cost of a project compared to a City-run project; it also adds time because several layers of review and approvals are involved and the City is not in control. Servicing our smaller collector road projects with Federal or State dollars is a waste of taxpayer money unless we are getting a great cost-share split, or we simply don't have another funding option.

The most cost-effective collector road project is one the City funds and controls. The engineering standards are exactly the same, but time and cost is significantly less because everything is controlled in-house. The engineering design, cost estimate, contracting, supervision and inspections are all managed by the City Engineering Department. The million-dollar project used as an example earlier would only cost $740,740 to $800,000 if funded by the city with budgeted dollars. Excluding roads like Hughes and Madison Blvd, most of our collector roads can be resurfaced and improved for dollars less than those.

Gas Taxes:

Currently, a gallon of gas in Madison has 18 cents added in the form of State and City taxes. But only 2 cents of the 18 is remitted to the City directly. Sixteen cents is remitted to the State (~$5.76M). Some of that finds its way back to Madison, but it is a small percentage.

The City's 2-cent local gas tax generates about $360K locally. It is used for ROW mowing, traffic signals & streetlights and general road repair. The tax only covers about one-third of what we allocated for these items in the adopted 2016 budget.

Madison has no revenue targeted for routine maintenance of collector streets like Madison Blvd, Hughes Rd, Palmer, Gillespie, Brownsferry, Hardiman, Burgreen, Segers, etc. The City no longer has MU dollars coming in via the old forbearance agreement. If MU provides Madison road dollars in the future, it will be modest and

targeted to repairing street cuts. Our Public Works and Madison Utilities now have an excellent working relationship. We need to keep that.

The Alabama legislature has two bills under consideration (SB180 & HB394) that are likely to result in a Statewide gasoline and diesel tax increase. The final amount being discussed is not known, but 6 cents is the number discussed most often; however, one can find 12 cents in news reports as well.

Across the State, a one-cent increase generates approximately $24M from gasoline and $8M from diesel sales for a total of $32M. SB180's language outlines the planned distribution of these dollars. ALDOT retains $32M off the top and 65.9% of any additional revenue. The counties are apportioned the remaining 34.1%. Roughly 45.45% of the money going to Alabama counties is equally divided among all 67 counties and the remainder is apportioned based on population. SB180 targets 10% of the Counties' dollars to municipalities. Hence, Madison should see "some" of these dollars, but it is next to impossible to calculate how much.

There is nothing in SB180 that addresses how cities must report projects that may cross County lines. SB180 also provides no guidance in computing municipal road fund allocation when municipal boundaries include multiple counties. As we have seen with county-level property tax allocations levied for schools, Alabama could see municipalities in courts suing over road dollars.

It is obvious SB180 has received a lot of thought and analytical effort, but it is "top-down" legislation; it requires significant accounting and reporting and predicting municipal revenue allocation is very uncertain.

Controlling Our Collector Road Program:

Madison is maturing into a medium sized City, but much of its infrastructure is built on old county farm roads. It is time to focus our CIP (capital improvement programs) on major projects and not perform collector road maintenance on borrowed dollars. We have initiated a basic neighborhood-repaving program that is resourced. We now need a similar funding stream for our collector roads. With a 3-cent increase in gas taxes focused on our collector road network, we can begin to control & execute a plan that is aligned with our needs and our growth priorities.

A local gas tax increase keeps the money working IN MADISON and focused on a recognized need – collector roads. Local dollars go much further too as we control the engineering, inspections, and contracts. While any money passed down from the State is good, we cannot depend on that for planning. Our priorities may or may not be the MPO's or County's.

Your feedback to the Mayor and Council is appreciated. A 3-cent gas tax ordinance could have a first reading as early as 11 April 2016. A public involvement meeting will be scheduled prior to that date.