

City of Ann Arbor, Michigan FY2008-2013 Capital Improvements Plan

Section I

Capital Improvements Programming

INTRODUCTION

The challenges to retain and/or expand City services in the midst of shrinking resources and increasing costs has put pressure on City government to make its limited capital resources work more efficiently. City administration, elected and appointed officials, and staff have taken several steps to make its capital expenditures more closely reflect its long-range objectives.

One such step is the connection between the City's capital planning efforts with its budgeting process. The Ann Arbor Capital Improvements Plan (CIP) is a six-year plan of programmed projects for the rehabilitation, replacement and expansion of the City's municipal infrastructure systems. The first two years of this plan form the basis for the City's two-year Capital Projects Budget. Approval of this budget allocates the funds to undertake the projects in this first two-year period in the plan, thus beginning the implementation of the CIP.

CAPITAL IMPROVEMENTS PROJECTS

Projects considered to be capital improvements are large, expensive and relatively permanent in nature. They often place a continuing financial burden on the City (maintenance, operations, energy requirements, legal responsibilities, etc.). It is important to note that the capital improvements plan does not address all of the capital expenditures for the City. Instead, it represents only the major projects in the foreseeable future. Items such as vehicle purchases, small paving jobs, minor sewer extensions, playground equipment, and items and services defined as operational budget items, which are financed out of current revenues, are examined on a yearly basis according to general operating budget procedures.

Definitions

Allocation - Official City Council action that authorizes a department to spend money on a project.

Capital Improvement - New or expanded facilities that are relatively large in size, expensive, and permanent.

Capital Projects Budget (CPB) - Capital improvement projects that are programmed for the next two fiscal years.

Capital Improvements Plan (CIP) - A document that schedules projects for a period of six years into the future based on studies of available fiscal and staffing resources, and project justifications, benefits and priorities.

Capital Improvements Program - Multi-year scheduling of public physical improvements based on the City's long-range master plan. Includes CPB and CIP.

Capital Improvements Plan Review Subcommittee - A group consisting of council members, planning commissioners and city staff who review and prioritize proposed projects for the draft CIP.

Fiscal Year - From July 1 of any year until the following June 30.

Infrastructure - Basic facilities, services, and installations needed for the functioning of the community. These include the transportation systems, sanitary and water lines, parks, public buildings, etc., and the land affiliated with those facilities.

Master Plan - A guide for making decisions regarding the future physical development of the City and the implementation of plans, policies, and programs. The master plan is made up of planning documents, or elements, that provide recommendations for major geographic areas and essential citywide facilities.

OVERVIEW

The CIP is the planning document that serves to initiate projects based upon findings of other City master planning efforts, staff identification of needs, and citizen requests. The CIP provides a methodology for turning these items into projects by outlining anticipated funding sources and schedules for the study, design and/or construction of the solutions to these needs.

The City's Capital Improvements Plan is a document that initiates and tracks high expenditure capital projects, purchases and programs:

- Replacements/Improvements Greater than or Equal to (GTE) \$100,000
- A "program" of projects whose total is GTE \$100,000, comprising of components of an infrastructure or capital system (e.g., Neighborhood Parks; Annual Street Resurfacing Programs, etc.)
- Equipment Purchases GTE \$100,000 and service life GTE 10 years
- Contingency/Unspecified Projects GTE \$100,000
- Large component replacement parts GTE \$100,000

The Capital Improvements Plan (CIP) outlines a schedule of public expenditures over the ensuing six-year period. The CIP does not address all of the capital expenditures for the City, but provides for large, physical improvements that are permanent in nature, including the basic facilities, services, and installations needed for the functioning of the community. These include transportation systems, parks, utilities, municipal facilities and other miscellaneous projects. The CIP provides a list of high value capital budget items or projects for inclusion in the proposed Capital Budget of the City's Annual Budget Document.

To qualify for inclusion in the CIP, a single project or a program of projects comprised of components of a common infrastructure or capital system (e.g., neighborhood parks system; Annual Street Resurfacing Program, etc.) must meet the following standards:

The project must:

- Be consistent with an adopted or anticipated component of the City master plan, or a state or federal requirement, or a City Council approved policy; and
- Constitute permanent, physical or system improvements in excess of \$100,000; or significant equipment purchases in excess of \$100,000 with a useful life of at least 10 years; or a study of at least \$100,000 that will lead to such projects; and
- Add to the value or capacity of the infrastructure of the City.

The Annual City Budget Document includes an Operations and Maintenance Budget and a Capital Projects budget. Projects that are considered operational, maintenance or recurring are excluded from the CIP but are captured in the O & M Budget portion of the Annual City Budget

Document. Capital expenditures not meeting the CIP criteria are included in the annual budget as capital expenditures, however they are not included in the CIP.

The Annual Capital Projects Budget is the approval/appropriation document for capitalized costs greater than, or equal to \$2,500, including:

- CIP Items greater than \$100,000 (minus general infrastructure studies)
- Capital Items greater than, or equal to, \$2,500 but less than \$100,000
- Infrastructure Contingency/Unspecified Projects greater than, or equal to, \$2,500 but less than \$100,000
- Component replacement program greater than, or equal to, \$2,500
- Project Pre-design Study greater than, or equal to, \$2,500

The Annual Operations and Maintenance Budget is the approval/appropriation document for non-capitalized costs, such as:

- Operational Costs
- Maintenance Costs
- General Infrastructure Studies
- Capital Equipment less than \$2,500
- Infrastructure Contingency/Unspecified Projects less than \$2,500
- Component Replacements less than \$2,500

Approval of the CIP by the City Council does not mean that the Council grants final approval of all the projects contained in the plan. Rather, by approving the CIP Council acknowledges that they agree that these projects represent a reasonable interpretation of the upcoming needs for the City, with the projects contained in the first two years of the plan being the basis for the City's next Capital Projects Budget. The City's Capital Improvements Program process is described in the Program Summary section of this document.

LEGAL BASIS FOR THE CAPITAL IMPROVEMENTS PLAN

The State of Michigan provides for the development and use of a capital improvements plan in the Municipal Planning Act (Section 9, Act 285 of the Public Acts of 1931).

For the purpose of furthering the desirable future development of the municipality under the master plan, the city planning commission, after the commission shall have adopted a master plan, shall prepare coordinated and comprehensive programs of public structures and improvements. The commission shall annually prepare such a program for the ensuing 6 years, which program shall show those public structures and improvements, in the general order of their priority, which in the commission's judgment will be needed or desirable and can be undertaken within the 6-year period. The above comprehensive coordinated programs shall be based upon the requirements of the community for all types of public improvements, and, to that end, each agency or department of such municipality concerned with such improvements shall upon request furnish the commission with lists, plans and estimates of time and cost of public structures and improvements within the purview of such department.

In addition, the Ann Arbor City Code (Chapter 8, Section 1:185) reinforces this responsibility.

For the purpose of furthering the desirable future development of the city, the planning commission shall annually prepare a program of public structures and improvements for the ensuing 6 years, which program shall show those public structures and improvements, in the general order of their priority, which in the commission's judgment will be needed or desirable within the 6-year period.

RELATIONSHIP BETWEEN THE CAPITAL IMPROVEMENTS PLAN AND THE CITY'S ANNUAL BUDGET

The City's Annual Budget itemizes and appropriates the funds needed for all municipal purposes during the next two fiscal years, and is comprised of two separate budgets - - the Operating Budget and the Capital Projects Budget. The Operating Budget includes the day-to-day operational expenses of the City, such as salaries, supplies and expenses for programmatic activities. The Capital Projects Budget includes the anticipated capital project costs for the next two fiscal years. The first two years of projects contained in the Capital Improvements Plan become the basis for formulating the Capital Projects Budget.

RELATIONSHIP BETWEEN THE CAPITAL IMPROVEMENTS PLAN AND THE CITY'S PLANNING PROCESS

Comprehensive physical planning influences the programming of capital improvements. As noted above, state law reinforces that link by requiring that the planning commission annually prepare a capital improvements plan to implement the community's master plan.

The City provides a strengthened connection with its comprehensive planning in the form of shorter-range implementation strategies. The *Park, Recreation and Open Space Plan*, the *Downtown Plan*, the *Transportation Plan*, the *Central Area Plan* and the *West Area Plan* all provide implementation recommendations that link the future vision of the community to relatively short-term actions.

The first recommended program policy in the CIP recognizes the importance of the link between the Capital Improvements Plan and implementation of the master plan. In bringing most, if not all, of the decision makers together into the planning process, and by using the Capital Improvements Program process to reinforce the desired future land use patterns, the City's physical future can be better shaped.

THE BENEFITS OF CAPITAL IMPROVEMENTS PROGRAMMING

With time, public facilities need major repair, replacement or expansion. Maintaining and upgrading a community's capital stock requires significant financial investment. This investment must be weighed against other community needs and analyzed in light of community goals. The City of Ann Arbor, like many cities, is under pressure to make efficient use of capital resources and must make difficult choices. There are more needs than can be satisfied at once, and the selection of one investment over another may shape the development of the City for years to come.

Capital improvements programming is a valuable tool to ensure that choices are made wisely. The City's development goals are implemented, in part, by the careful provision of capital facilities. The benefits of this systematic approach to planning capital projects include the following:

- ***Focuses attention on community goals, needs, and capabilities.***

Through capital improvements programming, capital projects can be brought into line with the City's long-range plans by balancing identified needs with financial capacities. Considered individually, a new park, water system improvements, and street widening may be great ideas. But each project may look quite different when, in the course of the Capital Improvements Program process, it is forced to compete directly with other projects for limited funds.

- ***Optimizes use of the taxpayer's dollar.***

The capital improvements program helps the City Council and City Administrator make sound annual budget decisions. Careful planning of capital improvements help prevent costly mistakes. In addition, capital planning allows the City to save money in several other ways. For example, investors in municipal bonds tend to look more favorably on communities that have a Capital Improvements Program; if bond financing is selected for a capital improvement project, the City may realize significant savings on interest.

- ***Guides future growth and development.***

The location and capacity of capital improvements shape the growth and redevelopment of the City. City decision makers can use the Capital Improvements Program to develop well thought-out policies to guide future land use and economic development.

- ***Encourages efficient government.***

Interdepartmental coordination of capital improvements programming can reduce scheduling conflicts and ensure that no single function receives more than its fair share of resources. In addition, the Capital Improvements Program can be used to promote innovative management techniques and improve governmental efficiency and effectiveness.

- ***Improves the basis for intergovernmental and regional cooperation.***

Capital improvements programming offers public officials of all governmental units (City of Ann Arbor, Washtenaw County, Ann Arbor Public School District, Ann Arbor Transportation Authority, Downtown Development Authority, etc.) an opportunity to plan the location, timing, and financing of improvements in the interest of the community as a whole.

- ***Maintains a sound and stable financial program.***

Having to make large or frequent unplanned expenditures can endanger the financial well-being of the City. Sharp changes in the tax structure or bonded indebtedness may be avoided when construction projects are planned in advance and scheduled at intervals over a number of years. When there is ample time for planning, the most economical means of financing each project can be selected in advance. Furthermore, a Capital Improvements Program can help the City avoid commitments and debts that would prevent the initiation of other important projects at a later date.

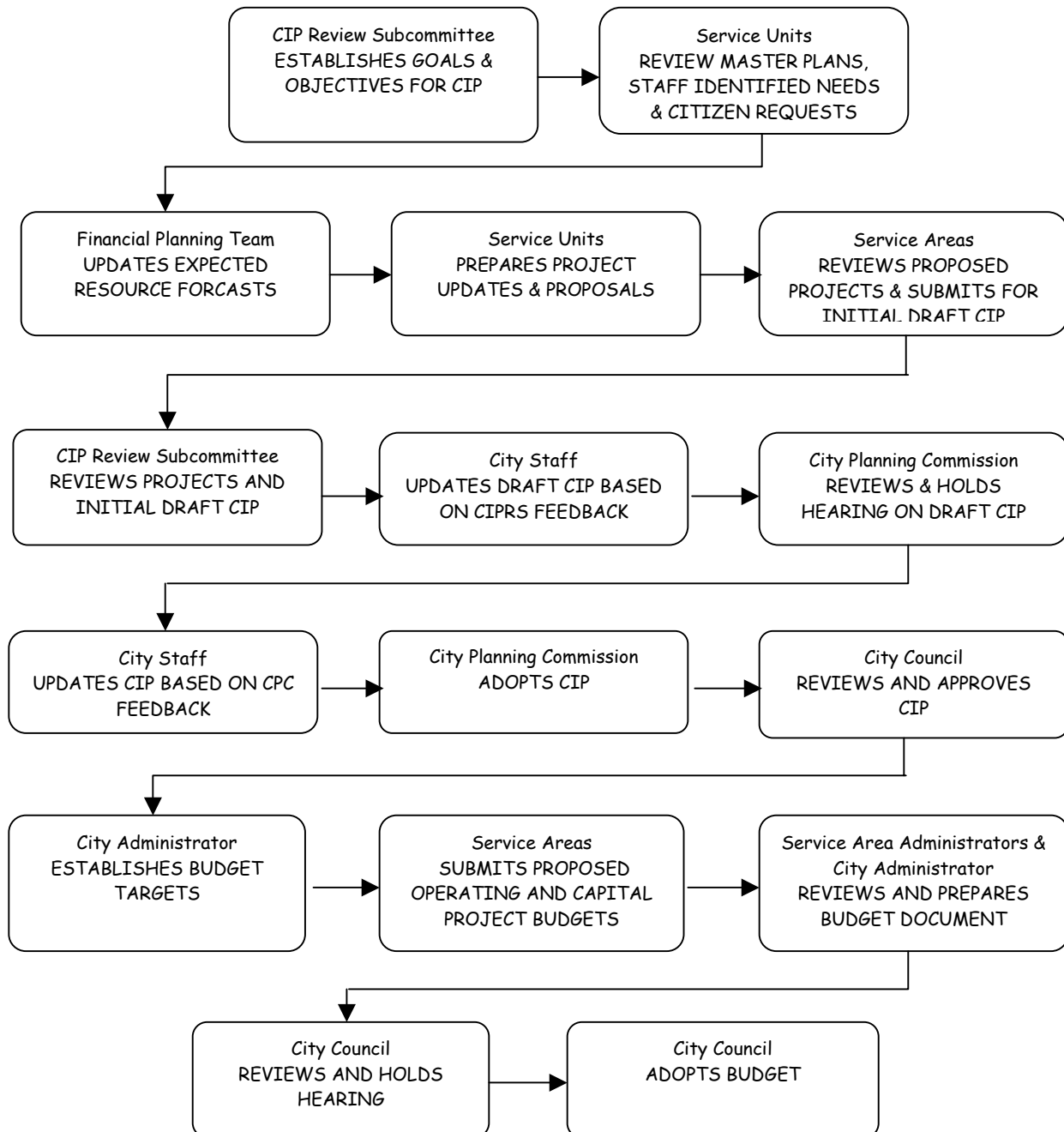
- ***Enhances opportunities for participation in federal or state grant programs.***

Preparing a CIP improves the City's chance of obtaining aid through federal and state programs that provide funds for planning, construction and financing of capital improvements. The CIP is considered a "public works shelf" that contains projects that can be started quickly by having construction, or bid, documents ready should any grants become available.

PROGRAM SUMMARY

THE CAPITAL IMPROVEMENTS PROGRAM PROCESS

The capital improvements program is a distinct element of the annual budget process that flows through City government in separate, but linked channels. The CIP process occurs earlier than the budget process, as the CIP will be used in developing the capital projects portion of the annual budget.



The City of Ann Arbor uses a traditional needs-driven approach to its capital improvements programming process, including the development of its CIP. The process for developing the CIP generally involved the following steps.

Step 1: Organize the Process

The Capital Improvements Review Subcommittee (CIPRS) established the administrative and policy framework within which the CIP process operated. Before this first step, staff members from the Public Services and Financial Services Areas were established as the CIP process implementation staff. These staff members meet with the service area administrators and other city staff members who influence the project selection process to gather their input regarding the process. The implementation staff utilizes a CIP database, and its capacity of linking to the City's financial system allowing consistent application of funding information in the CIP. A detailed *Capital Improvements Plan (CIP) Preparation Manual* is used to assist the staff in their updating and submittal of new projects for the CIP.

Step 2: Identify Needs

The staff of the City service units identifies their capital needs by reviewing the findings of the City's various master plans, maintenance records and experiences of staff, and citizen requests submitted since the last CIP process. Based on this review a list of needed capital projects is developed with estimated costs and scheduling requirements. Recommended funding sources for the projects are also established.

Step 3: Develop Project Requests

Next, the city staff submits proposed capital improvements projects utilizing the CIP database. The database's project request form is a particularly useful tool for ensuring that proposed projects are well thought out, are based on a realistic appraisal of need and are submitted in a consistent manner by all staff members.

The service areas submitting project proposals ranked their projects, suggesting their priorities to the CIPRS. Priority rankings do not necessarily correspond to funding sequence. For example, a road widening project ranked lower than a park acquisition project may be funded before the park project because the road project has access to a restricted revenue source, whereas the park project may have to compete for funding from within a different revenue source. In other words, a project's desirability depends on a number of factors – not only on what it is, but also on how it's done, where it's located, how much it costs, and its funding source.

Step 4: Review Departmental Project Requests

Following the submission of project proposals, a meeting was held with the CIP implementation staff and the CIP Review Subcommittee to discuss the project proposals. The objective at this juncture is to assemble a CIP that is sensitive to city plans and policies.

In addition, the coordination of projects was reviewed at this meeting. This could be done as the schematic limits of the submitted projects had been mapped utilizing the City's Geographic Information System (GIS). This allowed for the review of project influence areas by project type and proposed year of construction.

There are several ongoing departmental functions that occur throughout the year, which lead to the project proposals:

a) Demand Forecast

Forecasts of population, land use, and other demand factors are used by staff to help determine needs for capital facilities. These forecasts usually are prepared by the city staff, and typically are made for a period that exceeds that covered by the CIP. Service areas use these forecasts, along with existing facility inventories, to pinpoint areas where future development may create demand for additional capital facilities.

b) Existing Facility Inventory and Maintenance

Service areas keep a current inventory of existing facilities for two reasons. First, existing facilities may need maintenance, repair, rehabilitation, or replacement to continue providing the desired levels of service. The inventory identifies those that need replacement. That information is then used to develop a cost-effective strategy for protecting capital stock. Second, the number and condition of existing facilities determine current levels of service, and those levels are benchmarks for evaluating proposed standards for future service levels. If existing facilities in their current condition are unable to meet future demand, the deficiency must be corrected through capital improvements. Thus, the inventory becomes the basis for specific capital improvement project requests.

Major repair or replacement of capital stock is an expensive proposition. Therefore, service areas ease the financial burden by using a facility maintenance plan to target both capital and operating budget financial resources to the upkeep of public facilities. Routine preventive maintenance or rehabilitation reduces the need for more expensive steps, such as replacement, in the future. Furthermore, maintenance limits the economic disruption, inconvenience, and danger to health and safety that may result when a capital item must be replaced unexpectedly.

c) Level of Service Standards

Service areas are increasingly identifying the levels of service they currently provide and the levels of service the City will need in the future, and comparing them with developed level of service standards. These standards help the service areas determine what projects or programs should be proposed for funding. Examples of levels of service standards include: average fire and rescue response time, acres of parkland per a certain population, ratio of actual traffic volume to street design capacity, gallons of water per day per customer, etc.

Step 5: Screen, Evaluate and Prioritize Projects

The key task for the CIP Review Subcommittee was to evaluate and prioritize the many projects submitted for approval. This is a critical component of the CIP process. Project selection must correspond to the amount of money anticipated to be available for capital spending. Within the limited budget, is a new street paving, an addition to the water treatment plant, or a park rehabilitation of greater importance? Shrinking funds and rising costs incurred in maintaining and rehabilitating deteriorating infrastructure make the process of selecting the most vital capital

projects even more crucial and difficult. The merits of each project must be judged against the policies and criteria of the CIP process and the goals of each component of the master plan. Does the project conform in terms of location, size, service provided, and relation to its service area, effect on land use patterns, and relation to public policy and community goals? More than merely a technical process, prioritization involves value preferences, policy choices and political actions. Throughout the examination of the proposed projects, the Subcommittee attempts to overcome some inherent problems in the CIP process:

- a) Government projects are difficult to evaluate because of their diversity and the fact that many, essentially, are not comparable. Individual CIP project requests reflect the need to serve different constituencies and diverse community values. The Subcommittee must attempt to reconcile and balance conflicting community values and judgments.
- b) The Subcommittee must continually approach the decisions required in this process rationally and analytically regardless of the political forces. While conflicting interests within the political process are acknowledged, the Subcommittee must attempt to develop a program that provides the most benefit to the entire community.
- c) It is inevitable that the number of projects requested exceeds available funding. In the endeavor to provide better service to the community, service areas at times propose capital projects which, unfortunately, are unfunded or are moved to a later date when funding is available. This process should not discourage service areas from continuing to submit proposals, but should develop into a mechanism to help in the effort to uncover alternate sources of funding and see that higher-priority projects get implemented.

The initial review (evaluation of project impact) took place without regard to funding availability and focuses on policies and the objectivity and judgement of the Subcommittee, based on input from City staff. The following classification system is used to prioritize proposed projects:

- **PRIORITY 1 - URGENT**

Urgent, high-priority projects that should be done if at all possible. These include projects that are required to comply with a federal or state requirement; projects that would address an emergency, or remedy a condition dangerous to public health, welfare, and safety; projects that would provide facilities for a critically needed community program; projects needed to correct an inequitable distribution of public improvements in the past; and projects vital to the economic stability of the City. A special effort is made to find sufficient funding for all of the projects in this group.

- **PRIORITY 2 - IMPORTANT**

High-priority projects that should be done as funding becomes available. These include projects that would benefit the community; and projects whose validity of planning and validity of timing have been established.

- **PRIORITY 3 - DESIRABLE**

Worthwhile projects to be considered if funding is available. These are projects that are adequately planned, but not absolutely required, and should be deferred to a subsequent year if budget reductions are necessary.

In addition, projects may have been eliminated from consideration if it was determined that they pose a serious question of community need, adequate planning, or proper timing. This step was also conducted without consideration of project cost of funding.

Step 6: Select Projects

As with the measurement of project impacts in Step 5, placing projects in priority groupings relies on the judgment of the Subcommittee, and is not a completely objective process. The criteria used, after all, are not subject to precise measurement. The judgment is, however, not arbitrary and is done within the context of the plans, policies and the goals of the master plan. Thus, a secondary role of the CIP process is to point out the implications of alternative projects to the City Council.

The City Council ultimately approves the assumptions, criteria, policies, and recommendations of the Subcommittee and City Planning Commission by approving the CIP. Depending on the policy orientation, modifications are expected throughout the process. This is considered an essential part of the procedure, placing the burden on those who dissent to assess the policies underlying the recommendations and to advocate their differences, resulting in the necessary evolution of the entire capital planning process.

Step 7: Prepare, Adopt and Approve the CIP

As the process continues, and increasingly detailed information emerges, projects may be added, altered, or abandoned. Eventually, the Subcommittee arrived at a final list of projects that was submitted to the City Planning Commission for review.

The Planning Commission evaluates the CIP package in light of additional information, holds a public hearing, and makes final programming decisions before adopting the CIP and sending it on to City Council. Council approves the CIP after its review. Approval is not a commitment to finance the approved projects, but is a statement of policy regarding the City's approach to meeting its future capital needs. However, the first two years of the CIP do form the initial basis for the Capital Projects Budget portion of the City's Annual Budget.

On March 19, 2001, City Council adopted a CIP schedule and process designed to have City Council adopt the CIP just prior to the operating departments beginning work on their budget submittals. The process called for the creation of a subcommittee of the newly formed Budget/Finance Advisory Committee to take on the role previously filled by the Planning Commission's Capital Improvements Review Committee, with the goal of more closely aligning funding of all costs—not just capital costs—of capital improvement projects.

PROGRAM GOALS AND POLICIES

Goals and policies are necessary to guide capital programming because: 1) they provide a better understanding of the basis for a CIP; 2) they raise issues that should be discussed; and 3) they provide more specific guidance to the City Administrator as well as to the operating service areas that propose capital improvements. They are intended to be the basis for deliberation and debate and will change over time as new components of the master plan are adopted.

Capital Planning

- Goal A Identify capital projects that reflect capital need as demonstrated in master plans, studies, City Council resolutions, federal or state laws or through public request.
- Policy A.1 All City service areas shall participate in the master planning process, so that plan components more consistently contain objectives and policies for capital improvements.
- Policy A.2 Capital projects that encourage private economic investment in the City shall be considered in components of the master plan.

Project Funding

- Goal B Continue to identify and develop sources of revenue to pay for capital expenditures that do not use, or compete for, resources from the General Fund.
- Policy B.1 The City shall continue to seek private contributions to help pay for new public improvements that serve and benefit private development.
- Policy B.2 Continue the use of non-recurring grants for capital purchases and one-time programs, such as *Safe Accountable Flexible Efficient Transportation Equity Act Legacy for Users* (SAFETEA-LU) and *Congestion Mitigation/Air Quality* (CMAQ) grants and low-interest State Revolving Loans (SRL), shall continue to be encouraged.
- Policy B.3 Where feasible, the City will explore inter-jurisdictional grant proposals, such as SAFETEA-LU, CMAQ and SRL, for City projects that have the potential for regional improvements (e.g. transportation, open space, water quality).

Project Prioritization

- Goal C Prioritize capital projects that provide substantial public benefit and implement the primary goals and objectives of adopted plans and policies.
- Policy C.1 Projects that are necessary to protect against a clear and immediate risk to public health or safety or are mandated by state or federal law shall be given highest priority.
- Policy C.2 Projects that can demonstrate a net savings in operation and maintenance costs normally will be supported over other projects of similar ranking and funding need.
- Policy C.3 Projects that provide the most benefit to the entire community normally will be supported over other projects of similar ranking and funding need.
- Policy C.4 Projects that maintain or improve existing infrastructure normally will take precedence over projects that create or expand facilities.
- Policy C.5 Projects that reduce impacts on or improve the environment, or that reduce energy consumption will receive higher consideration than those projects of similar ranking that do not accomplish these environmental goals.
- Policy C.6 Projects first will be evaluated in relation to each other before consideration is given to available financing.

Inter-Jurisdictional Coordination

- Goal D Provide leadership in inter-jurisdictional planning to formulate coherent infrastructure policies and to avoid service delivery fragmentation among the City, townships, special districts, and the private sector.
- Policy D.1 The City shall coordinate projects with other jurisdictions that may be impacted to help establish efficient scheduling, avoid service interruptions and reduce project costs.

Public Participation

- Goal E Provide opportunities, in addition to public hearings, to involve the community in the CIP process to help ensure that their concerns, preferences, and priorities are considered.
- Policy E.1 A draft of the CIP shall be made available for public review prior to the first public hearing. The draft shall be located at the Ann Arbor District Library and its branches, City Hall and on the City website.
- Policy E.2 City service areas shall explore opportunities for public input for those projects that currently do not provide them.
- Policy E.3 City service areas shall include a discussion of related capital improvement projects when holding a public meeting to discuss or update a City master plan.

PROGRAM FUNDING

Because capital improvement projects involve the outlay of substantial funds, numerous sources are necessary to provide financing over the life of the project. Most capital funding sources are earmarked for specific purposes and cannot be transferred from one capital program to another. For instance, funds raised by the City by the Park Maintenance and Repair millage must be used for the purposes that were stated when the voters approved the millage. The CIP has to be prepared with some projections as to the amount of money to be available. The following is a summary of the funding sources for projects included in the capital improvements program.

ENTERPRISE (RESERVE) FUNDS

In enterprise financing, funds are accumulated in advance for capital requirements. Enterprise funds not only pay for capital improvements, but also for the day-to-day operations of city services and the debt payment on revenue bonds. The City can set levels for capital projects; however, increases in capital expenditures for water mains, for example, could result in increased rates. Enterprise fund dollars can only be used on projects related to the fund.

BONDS

When the City sells bonds, purchasers are, in effect, lending the City money. The money is repaid, with interest, from taxes or fees over the years. The logic behind issuing bonds (or “floating a bond issue”) for capital projects is that the citizens who benefit from the capital improvements over a period of time should help the City pay for them. The City issues bonds in two forms:

General Obligation (G.O.) Bonds

Perhaps the most flexible of all capital funding sources, G.O. bonds can be used for the design or construction of any capital project. These bonds are financed through property taxes. In financing through this method, the taxing power of the City is pledged to pay interest and principal to retire the debt. Voter approval is required if the city wants to increase the taxes that it levies and the amount is included in the City’s state-imposed debt limits. To minimize the need for property tax increases, the City makes every effort to coordinate new bond issues with the retirement of previous bonds. G.O. Bonds are authorized by a variety of state statutes.

Revenue Bonds

Revenue bonds are sold for projects that produce revenues, such as water and sewer system projects. Revenue bonds depend on user charges and other project-related income to cover their costs. Unlike G.O. bonds, revenue bonds are not included in the City’s state-imposed debt limits because the full faith and credit of the City back them. Revenue bonds are authorized by Public Act of 1933, the Revenue Bond Act.

WEIGHT AND GAS TAX

Based on a formula set by the State of Michigan, the City of Ann Arbor receives a portion of the tax placed on motor fuel and highway usage in the state. The restrictions placed on the expenditure of these funds insure that they will be spent on transportation-related projects or services.

TAX INCREMENT FINANCING (TIF)

TIF is a municipal financing tool that can be used to renovate or redevelop declining areas while improving their tax base. TIF applies the increase in various state and local taxes that result from a redevelopment project to pay for project-related public improvements. For purposes of financing activities within the Ann Arbor downtown district, the Downtown Development Authority adopted a 30-year TIF plan in 1982. Public Act 281 of 1986, the Local Development Finance Authority Act and Public Act 450 of 1980, the Tax Increment Financing Act authorizes TIF. With the passage of Proposal A in 1994 limiting the capacity to capture certain taxes, the ability to utilize this financing tool has been severely restricted.

MILLAGES

The property tax is one of the most important sources of City revenue. The property tax rate is stated in mills (one dollar per \$1,000 of valuation). This rate is applied to a property's net value, following the application of all exemptions and a 50% equalization ratio. Millages are voter-approved taxes that are specifically earmarked for a particular purpose. The City is authorized to utilize millages under Public Act 279 of 1909, the Home Rule Cities Act.

FEDERAL FUNDS

The federal government makes funds available to cities through numerous grants and programs. Some federal funds are tied directly to a specific program. The City has discretion (within certain guidelines) over the expenditure of others. For the most part, the City has no direct control over the amount of money received under these programs. Due to a significant change in federal policy during the 1980's, federal funds have been declining. While recreation, transportation, and housing programs have continued to be funded, the amounts are likely to be greatly curtailed.

SPECIAL ASSESSMENTS

Capital improvements that benefit particular properties, rather than the community as a whole, may be financed more equitably by special assessment: that is, by those who directly benefit. Local improvements often financed by this method include new street improvements (including pavement, curb and gutter, sidewalks, etc.), sanitary and storm sewers, and water mains.

DEVELOPER CONTRIBUTIONS

Sometimes capital improvements are required to serve new development. Where funding is not available for the City to construct the improvements, developers may agree to voluntarily contribute their share or to install the facilities themselves so the development can go ahead.