

MEMORANDUM



TO: VICTOR CARDENAS, CITY MANAGER
FROM: JEFFREY HERCZEG, DIRECTOR OF PUBLIC WORKS
CARL JOHNSON, FINANCE DIRECTOR/TREASURER
SUBJECT: ROAD BOND RECOMMENDATION
DATE: MARCH 14, 2024

Mayor and Council –

Following up on the conversations and presentation during the Early Input Budget session as it pertains to bonding for Road Construction activities.
- Victor

On January 6, 2024, the City Council held an Early Input Budget Session to provide staff input on their goals and objectives for the **Budget, Capital Improvement Program (CIP)**, and several **Transformative Projects**. During the meeting the idea of a **road bond** to complete major road projects was discussed (attached) and supported by the City Council. The following memo provides an update and recommendation to execute the bond process.

The Early Input Session memo *Major Road Projects Update and Funding* (dated December 13, 2023) details the three major road projects recommended for a road bond.

- **12 Mile Road (Beck Road to Novi Road) 4 Lane Boulevard**
 - Road Commission for Oakland County (RCOC) project
 - City share ~\$3.5M (~\$10.5M advance construct funding required in FY 2026, ~\$7M payback by FY 2028)
 - The City has already committed contractually to do this project but due to significant cost increases since the initial approval, the street funds do not have sufficient funds to advance fund the County's \$7M and would need to use other funds cash for this loan without bond proceeds.
- **Beck Road (11 Mile to Grand River) 5 Lane Section**
 - ~\$4.7M in federal funding must be obligated by September 2025
 - ~\$10M total project costs
- **Crescent Boulevard connection to Lee BeGole Drive/ 11 Mile RAB or Grand River**
 - ~\$7M connection to 11 Mile Road or ~\$10M connection to Grand River (updated estimates attached)
 - Enhances Ring-Road concept; movement of traffic around one of the busiest intersections (Grand River & Novi)
 - Facilitates site development for either resale or future Public Safety facility needs

These projects have a total estimated cost of **~\$22 - \$25M**. Issuing a bond makes sense to meet the timelines of the 12 Mile Road project and Beck Road segment (which have federal obligation windows). The addition of the Crescent connection aligns with future considerations and allows construction to start now, which means the project will cost less (today's dollars). Staff anticipate that the Crescent connection (just to 11 Mile Road) will

require a minimum of two years to initiate given current design, permitting, and lead times. Having the all the funding available also allows flexibility in bidding to achieve economies of scale.

Furthermore, executing projects of this magnitude within the next five years without additional funding would have a ripple effect on existing CIP road projects, some of which are tied to obligated federal funds. Per the *Road Report Refresh* memo (dated February 29, 2024), road funding is already stretched and falling short in relation to network conditions. Road funding is not going as far as in 2012 when the road millage was originally passed, which has been further exasperated by the last few years of inflation.

For example, the Beck Road (11 Mile to Grand River) segment is currently in year one (2024-25) of the proposed Budget for \$3.5M (plus the \$4.7M federal funding). When staff assigned the projects in the queue nine months ago, the estimate was still reasonable. Since then, other projects, including 13 Mile Road (Meadowbrook to M5, assumed from GLWA), 9 Mile Road (Meadowbrook to Haggerty), and Meadowbrook Road (10 Mile Road to 11 Mile Road), are all projected to bid out over budget. Additionally, the RCOC 12 Mile project has more city cost share for right-of-way, design, and construction than originally budgeted. The Beck Road segment will likely not be constructed until 2025-26; therefore, the **\$3.5M in 2024-25 can be used to offset project overages if bond dollars become available**. All existing projects in the CIP can remain in their fiscal year (or obligation year) by redirecting the dollars assigned to Beck Road and using bond funds.

Therefore, staff presents **revised Road Bonding Options** from the *Major Road Projects Update and Funding* memo (the debt service estimates can vary depending on actual interest rates at the time of issuance and are assumed to be 3.5% as the worst-case scenario for the estimate below):

1. Issue the **\$25M** in bonds and **do not** use the **\$6.908M** in grant repayments (from RCOC 12 Mile Road Project) to repay the debt, which would result in an estimated **annual debt service payment of \$2.17M** and be part of the annual roads budgets moving forward.
2. Issue the **\$23M** in bonds and **do not** use the **\$6.908M** in grant repayments (from RCOC 12 Mile Road Project) to repay the debt, which would result in an estimated annual debt service payment of **\$2M** and be part of the annual roads budgets moving forward. **The reduction of \$2 million would be a result of the mayor and city council suspending the 10% fund balance minimum requirement for the street funds, reducing the debt service by approximately \$170k annually or \$3.4M over the life of the bonds.**

The bond funds will be directed at the sum of the three bullet point projects above:
~\$5M Beck (11-GR) + ~\$10M 12 Mile (Beck to Novi) + ~\$10M Crescent Connection = ~\$25M

The **~\$7M** repayments from the RCOC (see schedule in Dec. 13 memo) would come in FY 2027 and 2028. Those funds could be used to address existing local road projects, the Neighborhood Roads Program, or the condition of Beck Road south of 11 Mile Road (given

widening is abandoned) as discussed in the March 7, 2024, administrative memo Beck Road CIP Recommendations:

- *The projected costs for widening projects on the 9 Mile to 10 Mile and 10 Mile to 11 Mile segments currently in the CIP are ~\$10M and ~\$13M, respectively. **Based on current unit prices project for rehabilitation projects (Wixom Road ~\$5M for two miles), the two miles of Beck Road would be in the ~\$5-6M range (today's dollars),** which could be additionally offset with FAC funds (around 50/50 based on similar projects) if successfully obtained. In a "best case scenario," the rehab projects would cost the City ~\$3M*

While the bond solves some immediate funding needs, **it does create a 20-year debt service of \$2M**. If the expectation is a consistent increase in overall network ranking, the roads are already ~\$2 - \$3M underfunded (Road Report Refresh). Further consideration by the City Council should be given to increasing the road millage to offset the new debt service and address the current road funding shortfall.

Staff can provide additional information on request.