Road Replacement Fund: Transportation Utility Fee Vs. General Fund Transfer

From Mike Scott

Corrected: April 27, 2025

I reported partial data on road costs and the annual reserve needed. We have approximately $90 million of roads, trails, sidewalks, curb/gutter that should be funded through a reserve account. If these were all new today, we would need to set aside more than $800,000 a year for future replacement.

Since most of our roads are not new, and we have a $0 reserve fund balance, we have some catching up to do. Plus, most of our road miles are not eligible for federal grants. So, we're mostly on our own.

In the past I recommended we create a road replacement reserve, funded annually by the General Fund. Alternatively, we can charge a Transportation Utility Fee. To do that, we need to conduct a study to set an appropriate fee, hold a public hearing, and adopt an ordinance to charge the fee.

Note: Provo charges single-family homes $3.68/mo., multifamily units $2.21, and commercial properties are assessed based on estimated trip generation, with fees ranging from $9.98 to $236.78 per month.

General Fund Transfer

- **PRO - Equity and Fairness:** Our property tax system is somewhat progressive. Primary residences are taxed at 55% of value, while second homes and commercial properties pay 100%. As a result, full-time residents with modest homes pay less than residents with larger, more expensive homes, while tourists, second-home owners, and businesses contribute even more.
- **CON - Less Protection:** Funds set aside in a General Fund reserve can be redirected by future councils. It lacks the legal protection of an enterprise fund.

Transportation Utility Fee (TUF)

- **PRO - Legally Dedicated Funding:** TUF revenue goes into a restricted-use enterprise fund, providing long-term protection from reallocation.
- **CON - Regressivity:** A flat monthly fee is simple but hits lower-income and low-use households harder unless tiered or offset with exemptions. There are ways to improve fairness, but are they realistic (structure fees by property type, parcel size, or estimated traffic impact)?

Note: *Even residents who don't drive still rely on roads for deliveries, public transit, rideshares, and emergency services. So, both approaches assume that all residents benefit from streets, even indirectly.*

Why Act Now?

We should decide on which approach to use before we adopt the FY2026 budget. Even if we delay funding the road reserve until FY2027, the General Fund option will impact how much property tax we need to raise this year and beyond. Without a plan now, we risk underestimating future General Fund impacts and locking ourselves into a budget that doesn't reflect the reality ahead.

1. Staff input on both options & recommendation (TUF or General Fund). – April/May 2025
2. City Council selects option prior to budget decision. – June 2025
3. Hire a consultant to conduct the fee study. Include cost in budget. – June/December 2025
4. If we select the TUF option: Public outreach, public hearing, setup. – January/June 2026
5. Implementation for either the TUF option of General Fund option – July 2026