

Memorandum

Date: September 10, 2012

To: Roseville Residents and Businesses, Fellow City Councilmembers, and City Staff

From: Mayor Dan Roe, City Councilmember Jeff Johnson, City Manager Bill Malinen, and Finance Director Chris Miller

Subject: Phase II of Recommendations from the CIP Subcommittee

The Purpose of the Subcommittee

As noted in 2011, this subcommittee was established by the City Council as the result of the Council/Staff work plan discussions held earlier that year. The subcommittee was made up of Mayor Roe, Councilmember Johnson, City Manager Malinen, and Finance Director Chris Miller. The purpose of the subcommittee was to determine a path to a sustainable capital funding plan for the City in light of the ongoing under-funding of capital replacement needs, and to propose a plan for consideration by the community and the City Council.

The Problem – A Reminder

As a refresher of information contained in the 2011 proposals, in total, the capital needs for the City for the next 20 years have been estimated to amount to around \$218 million. Of that total, about \$148 million (68% - over two thirds) were un-funded by then-current sources as projected over the next 20 years. A graphic example of that situation follows:

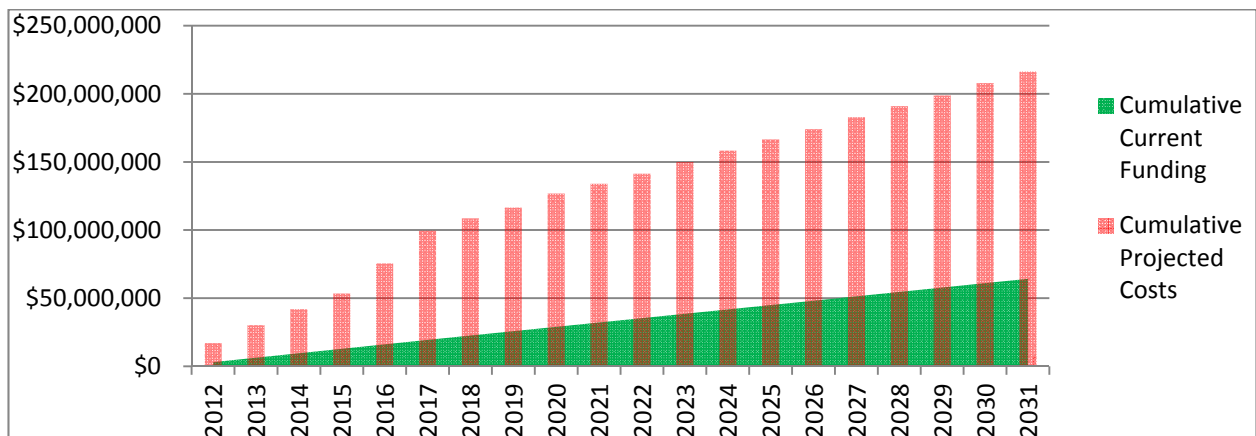


Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2012 dollars.

The 2011 Recommendations – A Reminder of What Has Been Done

Tax-Supported Capital Needs.

Background. The tax-supported capital areas (other than Fire Station or Parks and Pathways needs) are Vehicles, Equipment, and Facilities. Vehicles represent City “rolling stock,” from police squad cars to fire trucks to snow plows to utility pick-up trucks. Equipment represents such things as firefighter turn-out gear, police firearms, office furnishings, and the like. Facilities capital needs generally do not include whole buildings, but rather major building systems, such as roof replacements or heating and air conditioning systems. These capital items are the “nuts and bolts” of doing City business on the tax-supported side of the ledger.

Over \$16 million (57%) of the \$28 million in general Vehicle, Equipment, and Facility needs was un-funded as of 2011, using then-current funding levels and projected costs over the next 20 years.

Recommendation. The subcommittee recommended, and the City Council implemented, a long-term solution for Vehicles, Equipment, and Facilities that is a combination of shifting funding from operational costs to capital costs, re-purposing existing levy funding, and adding revenues. This recommended solution addressed 100% of the \$16 million identified shortfall over the next 20 years, and left the associated fund balances and annual funding at sustainable levels beyond that time.

The first part of the implemented recommendation was to shift approximately \$300,000 (about 2.0% of the then-current \$14.7 million levy) from current operating budget funding to capital funding in 2012, and to maintain that shift permanently going forward. Approximately \$115,000 of that amount goes annually be dedicated to Vehicle funding, approximately \$115,000 to Equipment funding, and the remaining approximately \$70,000 goes to Facility funding.

The second part of the implemented recommendation was to re-purpose for capital needs half of the \$475,000 ongoing property tax levy that was “over-levy” to account for the loss of Market Value Homestead Credit reimbursement from the State, and to maintain that re-purposing permanently going forward. Approximately \$95,000 of that amount would annually be dedicated to Vehicle funding, approximately \$95,000 to Equipment funding, and the remaining approximately \$47,000 would be dedicated to Facility funding.

The third part of the implemented recommendation was to increase the annual property tax levy by \$256,000 (1.8% of the current \$14.7 million levy) in 2012, and to maintain that increase permanently going forward. Approximately \$103,000 of that amount would annually be dedicated to Vehicle funding, approximately \$103,000 to Equipment funding, and the remaining approximately \$50,000 would be dedicated to Facility funding.

These implemented actions totaled an ongoing annual increased capital funding for Vehicles, Equipment, and Facilities of \$800,000, creating a sustainable funding mechanism for at least the next 20 years. Approximately 40% of the increased funding came from permanent operating spending cuts and 32% from increased property taxes (the rest was from re-purposing of existing levy funding.

Utility Needs.

Background. The fee-supported Utilities in the City with significant un-funded capital needs are the Water Utility, the Sanitary Sewer Utility, and the Stormwater Utility. These utilities all consist largely of underground piping systems that were installed over a period from the 1940's to the 1970's as the City developed. In addition, the Water Utility includes the City's water tower, and the Stormwater Utility includes a number of City-maintained stormwater management ponds. This capital infrastructure is provided by the City to deliver safe drinking water to the homes and businesses in the City, to take away sanitary sewer wastewater to the Metropolitan Council's sewer system and treatment facility for safe treatment, and to safely collect stormwater run-off, treat it, and deliver it to the environment via the streams, lakes, and other waterways of the area.

Much of the piping in these systems is approaching 50-60 years of age, and was made of materials that have been found to not last much longer than that, if even that long. The cast iron of the water mains is brittle and subject to leaking and breaks as the result of ground shifting, tree roots, etc. The clay tile of the sanitary sewer lines is similarly subject to leaks and breaking. Since the City pays St. Paul for drinking water, each leak or break in a line costs the City's residents and businesses in higher rates to account for that un-used water we purchase. Leaks of raw sewage into the ground pose a danger to the environment.

In an effort to keep current and future costs down, the City is using new materials and technologies to replace or repair existing water and sewer mains. Where City streets are being completely replaced, the water and sewer lines are being replaced (as needed) with more durable materials. Where streets are not programmed for replacement for many years, the City is using re-lining technology that puts a new plastic pipe inside the existing pipe, and does not require excavation of the street.

The capital infrastructure funding gap over the next 20 years in these Utility funds was about \$47 million out of total projected costs of \$65 million in 2011. In other words, 72% of the projected costs were then un-funded.

Recommendation. The subcommittee recommended, and the City Council implemented, a long-term solution for funding the significant capital replacement needs of these Utilities that was based on additional revenues.

The recommendation was to increase the annual utility base fees by a total of \$1.1 million in 2012 and an additional \$1.1 million in 2013, and to maintain the total \$2.2 million increase permanently going forward. Approximately \$850,000 of that amount was dedicated to Water Utility capital funding, approximately \$830,000 to Sanitary Sewer Utility capital funding, and the remaining approximately \$500,000 was dedicated to Stormwater Utility capital funding.

Total Impact of the 2011 Implementation Actions.

The implemented subcommittee recommendations from 2011 are graphically represented, superimposed on the earlier graph of the problem (Figure 1 above), as follows:

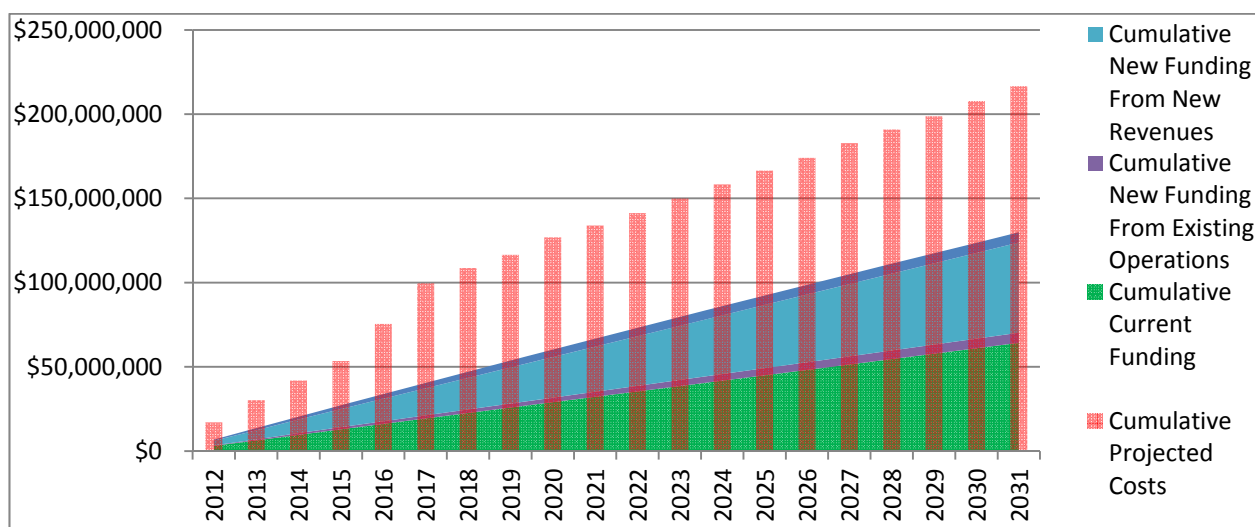


Figure 2. With 2011 Recommended Solutions - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. The light blue area represents cumulative projected new funding from new revenues. The narrow purple area between the green and light blue areas represents cumulative new funding from operational budget cuts. All figures are in 2012 dollars.

As can be seen, even with implementation of the subcommittee recommendations in 2011, significant work remains – primarily in the Parks, Pathways, Streets, and IT capital funding areas, which were not addressed by the 2011 actions.

The Rest of the Problem – A 2012 Update

The primary areas of unfinished business from 2011 include Parks, Pathways, Streets, IT, Central Services, and Admin. capital funding. All of these areas, with the exception of Streets, are funded largely with property tax dollars. (Streets are funded primarily with State MSA money and interest from the approximately \$13 million Street Replacement Fund.)

These areas of unfinished capital funding represent an additional approximately \$93 million in costs, out of the original \$218 million identified in 2011. Of that, about \$41 million, or about 44%, is unfunded based on current funding sources in 2012.

The pieces of the remaining unfunded amount are:

- About \$17 million of a total of \$47 million in costs for the Street Pavement Management Program (Street PMP). [37% unfunded]
- About \$9.4 million of a total \$28.5 million in costs for Park Facilities and PIP items [33% unfunded]
- About \$7 million of Skating Center Facility needs [100% unfunded]
- About \$4.6 million of a total \$5.7 million in Information Technology, Central Services, and Admin Equipment costs [81% unfunded]
- About \$1.2 million of \$4.2 million in costs for the Pathway & Parking Lot Pavement Management Program (PPPMP) [29% unfunded]
- About \$355,000 of Street Lighting replacement costs [100% unfunded]

It is worth repeating here that these funding levels are based on optimized replacement schedules and lists of ongoing capital replacement needs, as reflected in the 2012-2031 Capital Improvement Plan.

The Rest of the Solution – 2012 Subcommittee Recommendations

Part of the Solution: The Park Renewal Plan

In terms of Pathways and Park Facilities, a significant part of the solution is already being implemented through the Park Renewal Plan. The next four years of the Park Facility CIP needs and Park Improvement Plan needs, as well as about \$2 million in new pathway construction, are included in the Park Renewal Plan projects.

The Rest of the Solution: 8 Years of Proposed Actions

Generally, the proposals that follow will fund capital needs through either or both of 2 means: Repurposing existing property tax levy funds that are now collected for other purposes, and additional property tax levy funding.

Street PMP. The Street PMP program is the annual scheduled repairs, refurbishment, or replacement of City streets in order to maintain a Pavement Condition Index of 80 or greater, which optimizes the life of the pavement. The Street PMP program is currently funded by between \$1 million and \$2 million per year in State MSA (gas tax) funds, and about \$300,000 to \$500,000 per year in interest earnings on the \$13 million Street Replacement endowment fund. Without changes to the funding, the program begins to spend down the endowment fund significantly starting in about 2016, running the fund below a zero balance by about 2028.

Without the State making changes to the MSA funding for the City, the City must supplement the annual costs for Street PMP projects with property taxes or property assessments, or other funding. The Subcommittee recommends using a combination of funding sources to address the shortfall, as follows:

- In 2015, repurpose for Street PMP the current \$160,000 ongoing annual levy that goes to debt service on existing street bond #25 when that bond is retired.
- In 2016, repurpose for Street PMP the current \$150,000 ongoing annual levy that goes to debt service on existing street bond #23 when that bond is retired.
- In 2017, add an additional \$160,000 of ongoing property tax levy funding for the Street PMP
- In 2018, add another \$160,000 of ongoing property tax levy funding for the Street PMP
- In 2019, add another \$200,000 of ongoing property tax levy funding for the Street PMP, totaling an additional \$520,000 of ongoing property tax levy for Street PMP going forward

Of the \$830,000 total increase in annual ongoing funding for Street PMP over that 5-year period, about 63% comes from additional property tax levy funding and about 37% comes from repurposing existing property tax levy funds.

Park Facilities and PIP. Park Facilities are generally repaired, refurbished, or replaced through Park Facilities capital funding and the PIP (Park Improvement Program). Currently (as of the 2012/13 biennial budget plan), \$0 each year goes toward Park Facilities and \$40,000 per year goes toward the PIP. As noted above, the Park Renewal Plan addresses a backlog of near-term Park Facilities Costs. However, without additional funding, the next 20 years of Park Facility capital needs will be unfunded by about \$9.4 million.

The Subcommittee recommends using a combination of funding sources to address the shortfall, as follows:

- In 2016, add an additional \$160,000 of ongoing property tax levy funding for Park Facilities and PIP capital needs.
- In 2020, repurpose about \$650,000 of the \$825,000 total ongoing annual levy that goes to debt service on existing city hall and public works facility bond #27 when that bond is retired. (This leaves \$175,000 of that ongoing debt service levy to either apply to levy reduction or other needs that may become apparent by 2020.)

Of the \$810,000 total increase in annual funding for Park Facilities and PIP over that 5-year period, about 20% is from additional property tax levy funding and about 80% is from repurposing existing property tax levy funds.

Skating Center Facilities. Skating Center Facilities had been generally repaired, refurbished, or replaced through Park Facilities capital funding. However, due to the multi-purpose nature of the Skating Center, its funding is recommended to come from the Building Replacement Fund, which was otherwise addressed by the Facilities funding recommendations implemented in 2011. Currently (as of the 2012/13 biennial budget plan), \$0 each year goes toward Skating Center Facilities. Clearly, additional Facility funding for the Skating Center is required to meet its capital replacement needs. (As a note, the identified capital Facilities needs discussed here for the Skating Center are largely outside of the scope of the State bonding bill projects and the funding from the Guidant grant.)

The Subcommittee recommends using a combination of funding sources to address the shortfall, as follows:

- In 2014, add an additional \$200,000 of ongoing property tax levy funding for Skating Center Facility capital needs.
- In 2018, repurpose the \$335,000 ongoing annual levy that goes to debt service on existing skating center geothermal project equipment certificates when they are retired.

Of the \$535,000 total increase in annual funding for Skating Center Facilities capital needs over that 5-year period, about 37% is from additional property tax levy funding and about 63% is from repurposing existing property tax levy funds.

IT, Central Services, & Administration. These are additional areas of Equipment replacement needs that were not addressed by the actions implemented in 2011. IT equipment needs are those of the City and exclude those related to the provision of IT services to our Joint Powers partners. Central Services equipment needs are related to the several copiers the City owns or leases for various City facilities. Administration equipment needs come from the replacement of voting machines, which the City continues to own even with the contract with Ramsey County to administer our elections. Currently (as of the 2012/13 biennial budget plan), \$50,000 of property tax funding each year goes toward IT equipment needs (computers, routers, etc.) for the City of Roseville, and about \$5,000 goes toward Central Services or Administration equipment needs. Without additional funding, the fund balances in both IT and Central Services will disappear within 1-2 years.

The Subcommittee recommends using property tax levy funding to address the shortfalls, as follows:

- In 2013, add an additional \$160,000 of ongoing property tax levy funding for IT, Central Services, and Admin. capital needs.
- In 2014, add an additional \$75,000 of ongoing property tax levy funding, making the ongoing total additional funding level \$235,000 (100% of which comes from new property tax levy funding).

Pathways & Parking Lots PMP. The Pathways & Parking Lots PMP program is the annual scheduled repairs, refurbishment, or replacement of those City facilities in order to maintain a Pavement Condition Index of 75 or greater, which optimizes the life of the pavement. The PPPMP program is currently funded by an annual property tax levy amount of \$150,000. However, there is virtually no fund balance in this fund, and annual costs, with added pathways in the system as well as increased materials costs, etc., are expected to outpace the \$150,000 annual funding.

The Subcommittee recommends using additional property tax levy funding to address the shortfall, as follows:

- In 2015, add an additional \$80,000 of ongoing property tax levy funding for PPPMP needs.

Street Light Replacement. The City owns some street lights along our roadway system (although Xcel Energy owns most of them). The City has no fund balance or annual funding for replacement of the streetlights that we own, so a stable, dependable funding source would eliminate the ongoing use of General Fund reserves for that purpose.

The Subcommittee recommends using additional property tax levy funding to address the shortfall, as follows:

- In 2013, add an additional \$25,000 of ongoing property tax levy funding for Street Light replacement needs.

Total Impact of the 2012 CIP Subcommittee Recommendations

The table below illustrates the annual levy impacts of the proposed changes (independent of any other levy changes that may be required).

Biennium	Year	Total CIP Funding Increase	Funded by Cuts	Funded by Re-Purposed Existing Levy	Net Levy Increase Required	Approx. % Change to Levy for CIP Funding
2012/13	2012	\$800,000	\$306,500	\$237,500	\$256,000	1.8%
	2013	\$185,000	\$0	\$0	\$185,000	1.3%
2014/15	2014	\$200,000	\$0	\$0	\$200,000	1.2%
	2015	\$315,000	\$0	\$160,000	\$155,000	0.9%
2016/17	2016	\$310,000	\$0	\$150,000	\$160,000	0.9%
	2017	\$160,000	\$0	\$0	\$160,000	0.9%
2018/19	2018	\$495,000	\$0	\$335,000	\$160,000	0.9%
	2019	\$200,000	\$0	\$0	\$200,000	1.1%
2020/21	2020	\$650,000	\$0	\$650,000	\$0	-
	2021	\$0	\$0	\$0	\$0	-
Total of Changes:		\$3,315,000	\$306,500	\$1,532,500	\$1,476,000	~10%
% of Total Change:			9%	46%	45%	

Table 1. Annual Levy Impacts of 9-Year CIP Implementation. All figures are in 2012 dollars. Levy change percentages do not account for other types of levy impacts, such as operating cost increases.

Additional Recommendations

The CIP Subcommittee recommends strongly that the City Council adopt this plan by resolution, making it the policy of the City, inciting future City decision makers to follow through on these critical funding plans.

Further, the Subcommittee recommends adopting a change to the existing Capital Replacement Policy to require biennial reviews of the capital fund balance projections based on the latest 20-Year Capital Improvement Plan in order to be sure that the funding of capital needs keeps pace with changes in the plan as well as updates to costs based on inflation. The objective of the policy should be to make sure that sustainable positive fund balances can be projected in each fund over the coming 20 years, and that capital funding amounts in the tax levy and utility fees are adjusted to keep up with those requirements.

Additional Topic: New Pathway Construction

Not included in the above recommendations is a proposal to address new pathway construction. It is estimated that between \$300,000 and \$400,000 annually over the next 30 years would completely build out the current un-built Pathway Master Plan. Over the next 20 years, that totals about \$6.5 million in unfunded new pathway construction.

About \$2 million of new pathways are anticipated to be constructed in the next 4 years as part of the Park Renewal Plan that is underway. That makes a notable dent in the unfunded backlog.

The City Council may want to consider implementing in about 2016 an annual levy (currently estimated at about \$265,000) for the purpose of continuing to build out the Pathway Master Plan.