ROSEVILLE

REQUEST FOR COUNCIL ACTION

Date: 11/19/12
Item No.: 12.g

Department Approval

City Manager Approval

Item Description: Consider Accepting the Capital Improvement Plan (CIP) Subcommittee Reports and Recommendations

BACKGROUND

On September 10, 2012, the City Council received a memo from the Capital Improvement Plan (CIP) Subcommittee detailing the funding recommendations for 2013 and beyond. This was preceded by memos presented to the Council at the June 13th and June 20th, 2011 City Council meetings; which outlined funding recommendations for 2012 as well as general guidance for 2013 and beyond.

Copies of these memos are included in *Attachments A, B, and C*.

The Council is now asked to formally accept, by resolution, the CIP Subcommittee's recommendations to signify the Council's intent and to memorialize the funding plan necessary to ensure a sustainable infrastructure replacement program.

POLICY OBJECTIVE

Establishing long-term financial plans is consistent with industry best practices as well as the goals and strategies outlined in the Imagine Roseville 2025 process.

FINANCIAL IMPACTS

See attachedments.

STAFF RECOMMENDATION

Staff recommends the Council accept, by resolution, the recommendations set forth by the CIP Subcommittee.

REQUESTED COUNCIL ACTION

Motion to approve the attached resolution formally accepting the CIP Subcommittee's recommendations.

Prepared by: Chris Miller, Finance Director
Attachments:
A: Copy of Resolution
B: Memo dated September 10, 2012 from the CIP Subcommittee.
C: Memo dated June 20, 2011 from the CIP Subcommittee.
D: Memo dated, June 13, 2011 from the CIP Subcommittee

EXTRACT OF MINUTES OF MEETING OF THE CITY COUNCIL OF THE CITY OF ROSEVILLE

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Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 19th day of November, 2012 at 6:00 p.m.

The following members were present:
, and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION _______

RESOLUTION ACCEPTING THE RECOMMENDATIONS SET FORTH BY THE CAPITAL IMPROVEMENT PLAN SUBCOMMITTEE CONCERNING THE CITY'S CAPITAL REPLACEMENT PROGRAMS

WHEREAS, the City Council is committed to the long-term financial sustainability of the City's programs and services; and

WHEREAS, the City Council has adopted a Performance Management Program which represents a comprehensive approach to improving results through systematic processes and continuous evaluation; and

WHEREAS, the City Council recognizes the critical role that capital assets and infrastructure serve in providing programs and services; and

WHEREAS, in 2011 the City Council established the Capital Improvement Plan (CIP) Subcommittee to assess the City's long-term capital replacement needs and issue funding recommendations necessary to sustain the City's capital assets and infrastructure; and

WHEREAS, the CIP Subcommittee has submitted reports and recommendations on June 13, 2011, June 20, 2011 and September 10, 2012; and

WHEREAS, the City Council desires to formally accept the CIP Subcommittee's recommendations in an effort to memorialize a new policy direction, to set community expectations, and to ensure proper consideration by future City Councilmembers.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, that The City Council hereby accepts the reports and recommendations set forth by the CIP Subcommittee; and will commit to fulfilling the goals and objectives contained therein.

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

WHEREUPON, said resolution was declared duly passed and adopted.

I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular meeting of said City Council held on the 19th day of November, 2012, with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 19th day of November, 2012.

____

William J. Malinen
City Manager

Seal

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

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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:

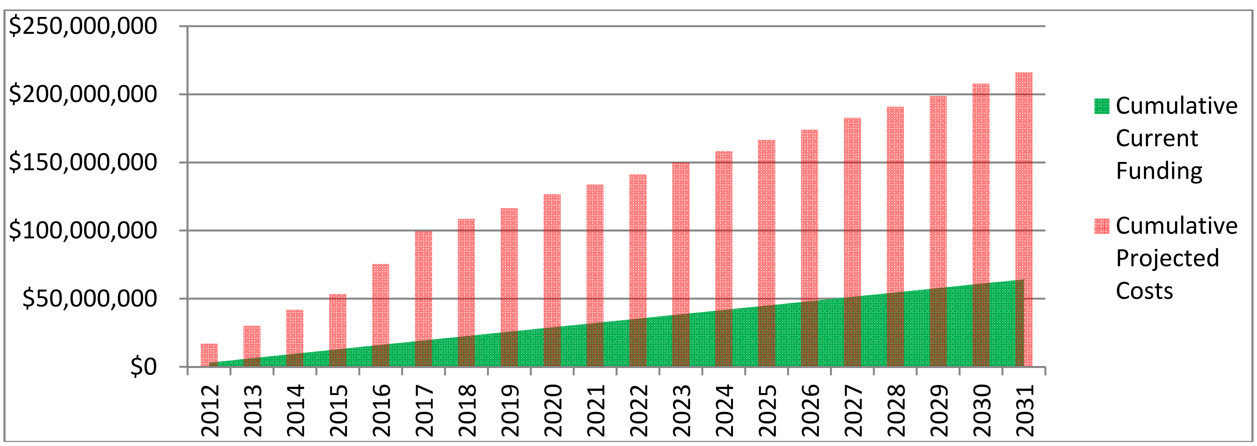

Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2012 dollars.

The 2011 Recommendations – A Reminder of What Has Been Done

Tax-Supported Capital Needs.

<u>Background</u>. 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.

<u>Recommendation</u>. 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 Uitility. 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 Uitilty 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:

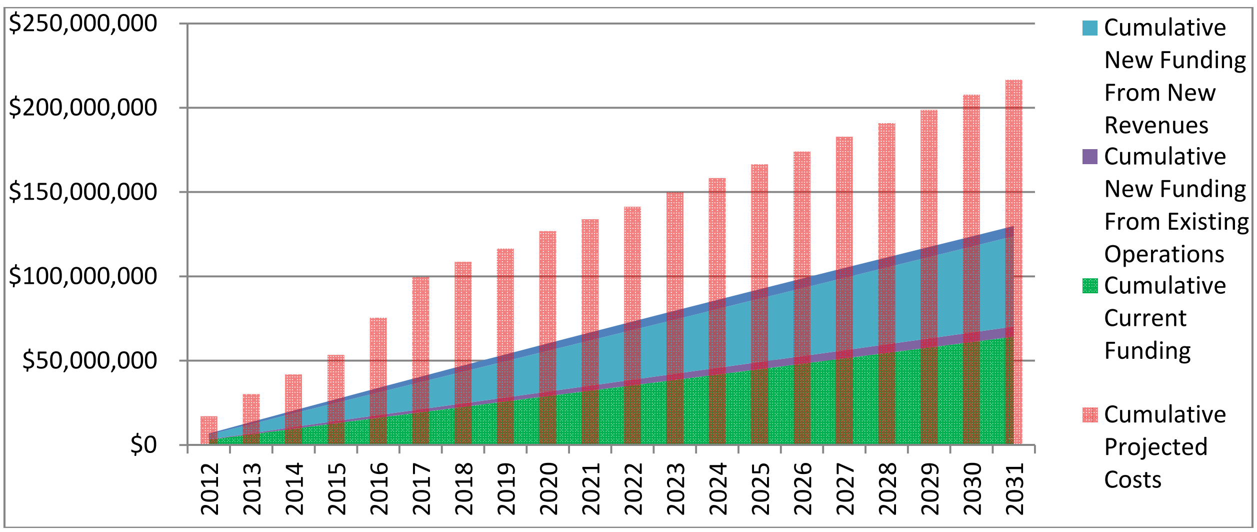

Figure 2. With 2011 Recommended Solutions - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. The light blue area represents cumulative projected new funding from new revenues. The narrow purple 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 Steet 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).

<u>Pathways & Parking Lots PMP</u>. 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.

<u>Street Light Replacement</u>. 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, incenting 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.

Memorandum

Date: June 20, 2011

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: Second Part of Capital Funding Plan and Preliminary Subcommittee Report

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The Purpose of the Subcommittee

As stated in the June 13 subcommittee preliminary report memo, this subcommittee was established by the City Council as the result of the Council/Staff work plan discussions held earlier this 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 propose a plan for consideration by the community and the City Council.

The Problem – A Reminder

As a refresher of information contained in the June 13 memo, 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) is un-funded by current sources as projected over the next 20 years. A graphic example of the current situation follows:

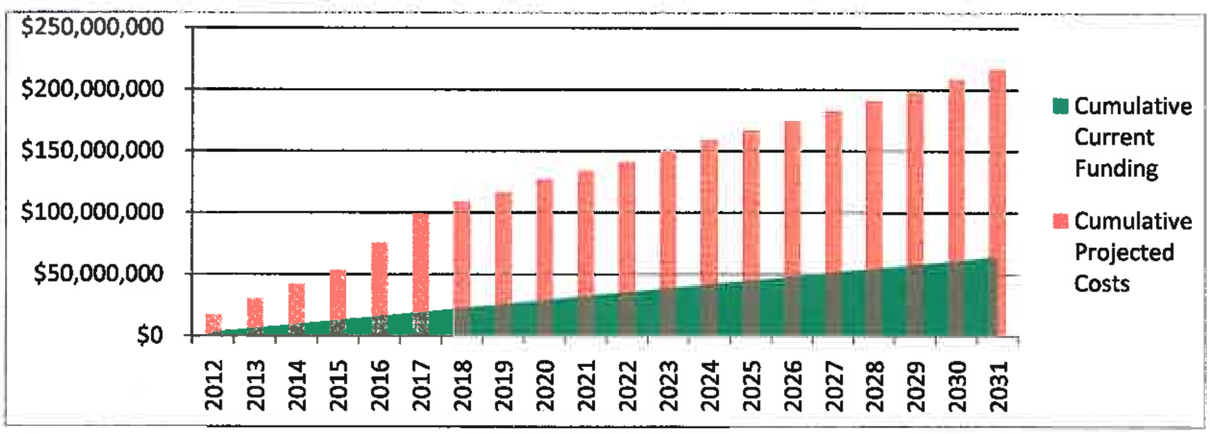

Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2011 dollars.

The Second Part of the Recommendation

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 Uitility. 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 Uitilty 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 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 is about $47 million out of total projected costs of $65 million. In other words, 72% of the projected costs are currently un-funded.

Recommendation. The subcommittee recommends a long-term solution for funding the significant capital replacement needs of these Utilities that is a combination of adding revenues and transferring existing funds.

The first part of the recommendation is to increase the annual utility base fees by a total of $2.2 million in 2012, and to maintain that increase permanently going forward. Approximately $850,000 of that amount would be dedicated to Water Utility capital funding, approximately $830,000 to Sanitary Sewer Utility capital funding, and the remaining approximately $500,000 would be dedicated to Stormwater Utility capital funding.

The second part of the recommendation is to transfer $600,000 from the Storm water Fund to the Water Fund (which currently has a $0 balance) in 2012, creating a sustainable fund balance in that fund.

The subcommittee recognizes that this recommendation represents a very significant year-one increase in the utility base fees, but for cash flow reasons prefers that to incremental increases, which delay projects and increase out-year costs, including maintenance costs for older infrastructure.

For reference, with implementation of these recommendations, the typical residential household would see their total utility base fee payment per quarter go up by $44.28 in 2012. (Utility usage fees would not be impacted.)

The subcommittee believes that it is appropriate to refer these proposed rate changes to the Public Works, Environment, and Transportation Commission for their review and comment.

Total Impact of Recommendations.

The proposed subcommittee recommendations contained in the June 13 and June 20 memos are graphically represented, superimposed on the earlier graph of the problem (Figure 1 above), as follows:

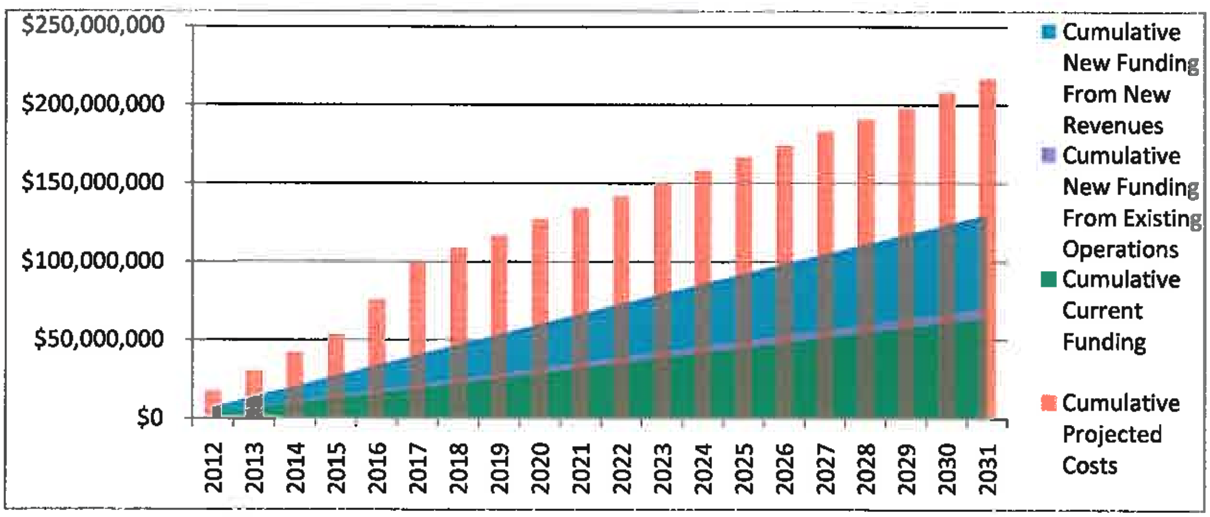

Figure 2. With Recommended Solutions - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. The light blue area represents cumulative projected new funding from new revenues. The narrow purple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

As can be seen, even with the subcommittee recommendations of both the June 13 and June 20 memos, significant work remains – primarily in the Parks and Streets capital funding areas, which are not addressed by these recommendations.

Attachment D
Date: 6/13/11
Item: 13.a

Memorandum

Date: June 13, 2011

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: Partial Capital Funding Plan and Preliminary Subcommittee Report

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The Purpose of the Subcommittee

This subcommittee was established by the City Council as the result of the Council/Staff work plan discussions held earlier this 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 propose a plan for consideration by the community and the City Council.

The Problem

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) is un-funded by current sources as projected over the next 20 years. A graphic example of the current situation follows:

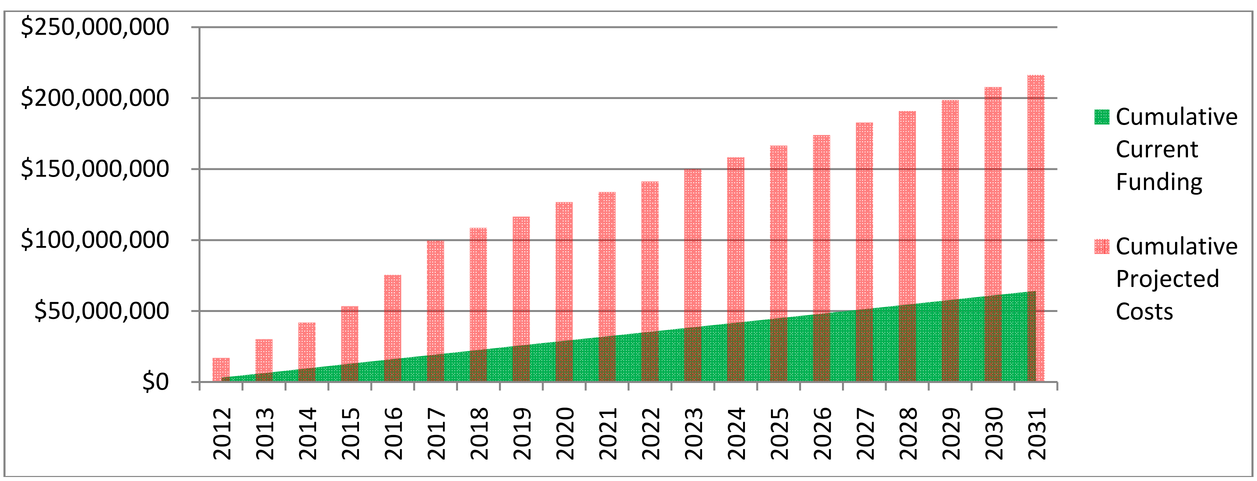

Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2011 dollars.

The Partial Recommendation

Tax-Supported Capital Needs. 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 is un-funded using current funding levels and projected costs over the next 20 years.

The subcommittee recommends a long-term solution for Vehicles, Equipment, and Facilities that is a combination of shifting funding from operational costs to capital costs, adding revenues, and transferring existing funds. This recommended solution addresses 100% of the $16 million shortfall over the next 20 years, and leaves the associated fund balances and annual funding at sustainable levels beyond that time.

The first part of the recommendation is to shift approximately $300,000 (about 2.0% of the 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 would annually be dedicated to Vehicle funding, approximately $115,000 to Equipment funding, and the remaining approximately $70,000 would be dedicated to Facility funding.

The second part of the recommendation is to increase the annual property tax levy by $500,000 (3.4% of the current $14.7 million levy) in 2012, and to maintain that increase permanently going forward. Approximately $192,000 of that amount would annually be dedicated to Vehicle funding, approximately $192,000 to Equipment funding, and the remaining approximately $116,000 would be dedicated to Facility funding.

The third part of the recommendation is to transfer $750,000 from the General Fund to the Equipment Replacement Fund (which currently has a $0 balance) in 2012, creating a sustainable fund balance in that fund.

These recommended actions would total an ongoing annual increase in 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 comes from operating spending cuts and 60% from increased property taxes.

The subcommittee notes that, when anticipated inflationary type cost increases of approximately $140,000 for 2012 are factored into the equation, assuming no increase in the levy to cover those cost increases, the operational budget cut totals $440,000, or about 3.0% of the current $14.7 million levy, bringing the ratio of cuts to new revenues closer to one-to-one ($440,000 and $500,000 respectively).

For reference, with implementation of these recommendations, the current City property tax for the median residential property in Roseville would increase from approximately $588 to $608, or by $20 per year. (This estimate is based on a taxable value decrease of 3.7% (from $214,200 to $206,300), a tax capacity decrease of 3.7%, and the proposed 3.4% levy increase for capital funding purposes.)

Utility (Water, Sanitary Sewer, and Storm Sewer) Needs. (The subcommittee is still working on a recommendation with respect to the Utility Funds, which is expected to be made at the June 20, 2011, council meeting.)

Fire Station. The subcommittee did not make a specific recommendation as to funding a new fire station, which has no currently programmed funding source. That is because the planning for a new station is an ongoing process, and the likely primary funding source is borrowing (bonding). The subcommittee notes for reference that the annual cost to repay a bond issue of approximately $7 million over 15 years (assuming that bond amount and term, and assuming a 4% rate) is about $580,000 per year of additional tax levy and/or program reductions.

As an aside, the subcommittee notes that the Equipment and Facilities capital needs identified in this report *do not* include capital funding for maintaining the use of any of the existing fire stations. (In other words, there is not any “double-counting” in the area of fire station capital funding.)

Parks & Pathways Capital Needs. Another very significant area of under-funding is the area of Parks and Pathways. This has been the case for the last several years at least, and is projected to be so into the future, especially as the new Parks & Recreation System Master Plan implementation is begun. As stated earlier, because the review of the implementation of the Master Plan is currently underway, the subcommittee did not make any specific recommendations related to funding of Park and Pathway capital needs. (The subcommittee has included pathway funding with park capital funding, citing the links between those areas that were noted in the Master Plan.)

Until the Master Plan implementation process is complete, at a minimum the subcommittee recommends maintaining the Parks Improvement Program (PIP) funding at its current tax-supported level of $185,000 per year.

Additionally, the subcommittee recommends that the Master Plan implementation process take into account the timing of the retirement (pay-off) of current City bond debt for the City Hall and Public Works Building project, which is scheduled to occur in 2018. The retirement of that debt will reduce the annual levy requirement for debt service by approximately $900,000 per year from that time forward, potentially providing that amount of levy capacity for new borrowing at that time for park needs.

The subcommittee notes that the annual capital cost estimates for the Parks and Pathways areas as they are represented in this report do not yet reflect the recommendations of the Master Plan implementation process, but are rather best staff estimates at this point, although the totals involved represent the needs outlined in the Master Plan, and associated cost estimates.

Street Repair/Replacement and Street Lighting Capital Needs. While there is a significant funding shortfall projected for Streets and Street Lighting capital needs, the subcommittee does not recommend taking a specific action for at least 3 years to correct those shortfalls. This is at least partly because the primary source of funding is State MSA (Municipal State Aid – i.e. gas tax) money, which has been decreasing recently due to changes in driving habits, and which may be re-configured by the legislature in the coming years. In addition, the Street Maintenance Fund balance, which is typically maintained at about $11 million in order to support the interest earnings that are applied to annual street projects, has grown to about $13 million at this time, which allows for some time to consider a plan of action for street funding once any potential State funding changes are better known.

The subcommittee does recommend the following near-term actions related to Streets and Street Lighting capital funding: 1) Monitor any changes to MSA funding at the State level; 2) Consider revising the current policy with respect to Pavement Condition Index (PCI) standards for replacing City streets; and 3) Consider reviewing the ability to adjust the City assessment policy to provide some additional funding for street projects to make up for decreased MSA funding. All of these topics would be appropriate to charge to the Public Works, Environment, and Transportation Commission for study.

Other Recommendations. The subcommittee further recommends that, if the State follows through on a plan to re-work the Market Value Homestead Credit program for 2012 and beyond in such a manner that the City's approximately $450,000 in current annual excess levy is no longer required to cover the lack of MVHC reimbursement from the State, that excess levy capacity be applied toward tax-supported capital funding needs – either to reduce the impacts of the recommendations in this report, or to fund other capital needs.