

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

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:

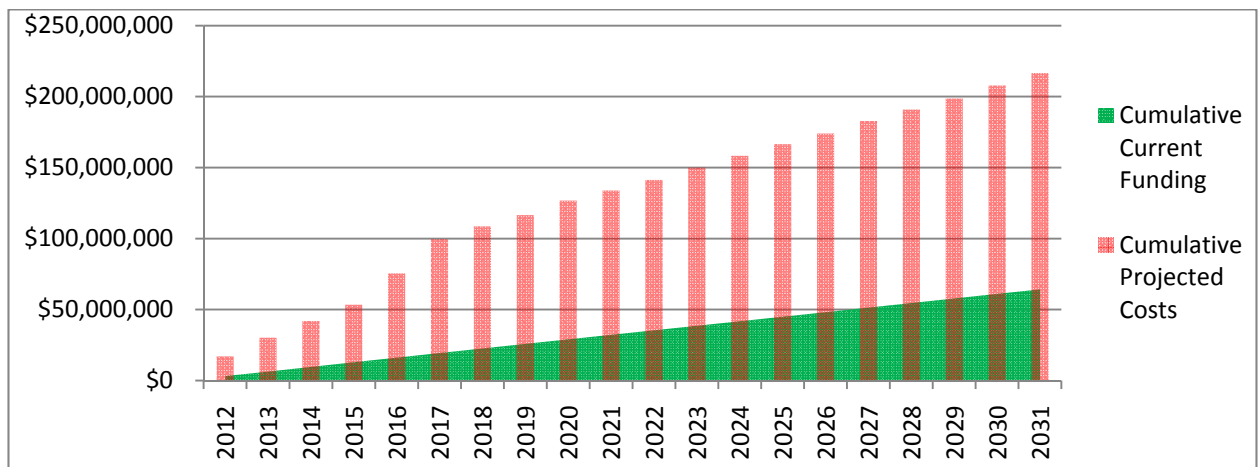


Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2011 dollars.

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.