

CAPITAL BUDGET

Introduction

The FY10 Capital Budget, which follows, is based on the City's long-range Capital Improvement Program (CIP) – a five-year outlook of the City's planned physical improvements. The CIP includes cost estimates and projected financing for maintaining, improving, or adding to the City's estimated \$639,000,000 investment in fixed assets. These fixed assets include streets, sidewalks, traffic signs and signals, sanitary sewer and drainage systems, and buildings. The City's actual commitment to expend public funds occurs in the annual City budget process, with the CIP acting as a guide for the capital improvement portion of the budget.

Each year City staff review cash flow projections, organizes and summarizes new projects along with unfunded projects from prior years, and develops a proposed allocation of project funding and a draft Capital Budget. This draft is reviewed by the City Manager, the Budget Committee, and the City Council before adoption of the final budget. In addition, the Capital Budget includes projects proposed for the Regional Sanitary Sewer Collection and Treatment Systems. These projects are included based on the recommendations of the Metropolitan Wastewater Management Commission (MWMC), the Regional Wastewater authority.

Major funding sources include state and local gas taxes, grants, assessments, loans, revenue bonds, sewer and drainage user fees, and, as appropriate, revenues from systems development charges previously collected. Additionally, the American Recovery and Reinvestment Act of 2009, which provides stimulus funding to States, may become a source of funding for some projects and the City is working on proposals for obtaining a share of the federal stimulus funding. If successful, the Council will have an opportunity to obligate these funds to projects that are ready for construction but not currently funded to meet the timing restrictions for the Federal stimulus funding. This approach would then allow the City Council to reprogram funds that are not yet budgeted to other projects listed in the CIP. Because of limited revenues, many projects cannot be funded during the next five years. These projects are shown in the CIP; however this is for informational purposes only.

The FY10 capital budget is down from the level it was at in FY09. This is reflective of the Justice Center Project being completed. Also, MWMC has completed several projects construction projects over the past year. Another aspect of the capital budget is the projected lack of funding for street preservation projects. The main reason for this is the well documented loss of annual funding the City has received from the County as part of the Secure Rural Schools Act. Also, revenues generated from the local motor fuel tax are not projected to provide sufficient funding to adequately fund the City's current street preservation program. As a result, the only projects projected to be funded through the Street Fund are those which the City has an obligation to fund. Currently no funds are programmed for street preservation projects.

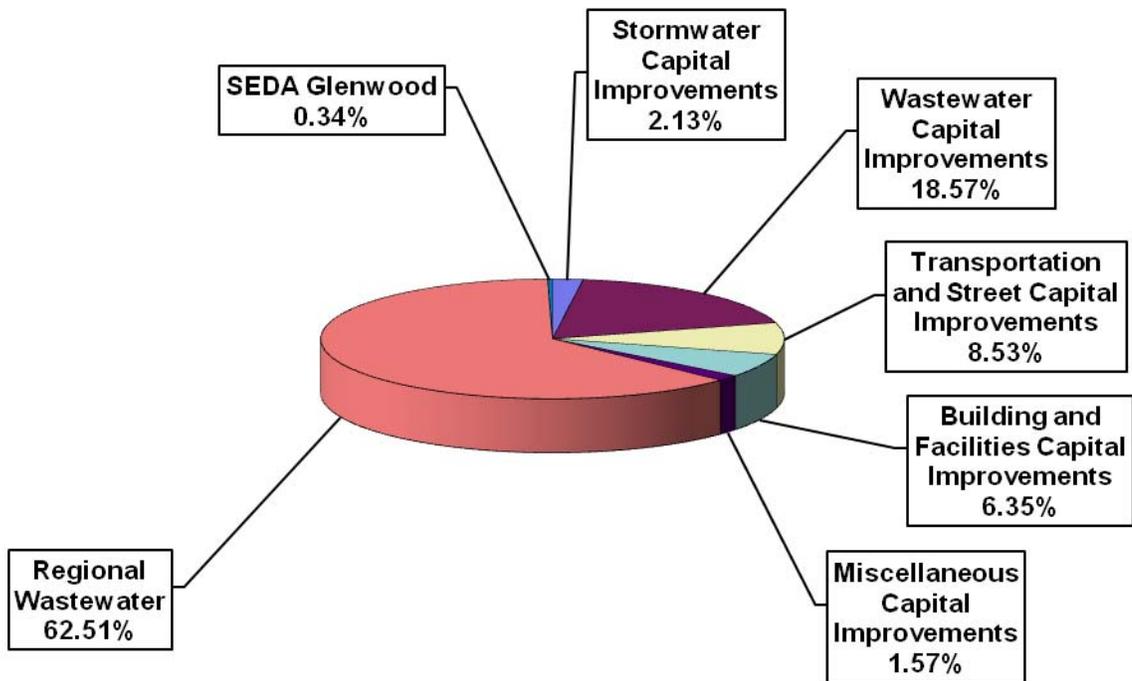
Major Projects

Among the major capital projects included in the Capital Budget are the following:

- ◆ A local contribution for sanitary sewer replacement and repair of \$6,391,000 is included in accordance with the regional Wet Weather Flow Management Plan. This has been an ongoing program with the goal of rehabilitating the sanitary sewer collection system to control infiltration and inflow (I/I) of rain and ground water. This funding is spread over nine different projects that will that rehabilitate approximately 40,000 linear feet of sanitary sewer before January 1, 2010 as required through a compliance order issued by the Environmental Protection Agency (EPA).
- ◆ The first phase of the Justice Center Facility was completed in FY09 and the jail portion of the project is currently under construction and scheduled to be completed by January 2010 with \$5,712,100 budgeted in the FY10 budget. This four-year project includes construction of replacement facilities for the Police Department, Municipal Court and City Prosecutor's Office. The facility will also include approximately 100 jail beds.
- ◆ Funding for the Jasper Road Trunk Sewer has been secured with the sale of \$23.1 million in wastewater bonds in FY09. Design of the trunk line was started in FY09 with construction planned to begin in FY10. The total cost of the project is currently estimated at \$11.2 million and will provide sanitary sewer service to the Jasper/Natron area and will ultimately allow the decommissioning of three existing pump stations. Providing sewer service will open this area up to development.
- ◆ The Gateway/Beltline Intersection project will add lanes to the intersection to alleviate congestion. This is phase 1 of the full Gateway/Beltline Intersection projects as approved in the 2003 Revised Environmental Agreement (REA). The project is currently in the final design phase and is scheduled for construction to begin in FY10. The City has an agreement with ODOT to bid and construct the project in conjunction with ODOT's unit 2 construction of the I-5/Beltline interchange.

The Capital Improvement Program identifies capital projects by categories of improvements to demonstrate the various uses for the capital funds. The following table shows the proposed Capital Budget funding by the various categories.

Capital Projects By Category	
Stormwater Capital Improvements	\$ 2,210,901
Wastewater Capital Improvements	19,315,526
Transportation and Street Capital Improvements	8,872,043
Building and Facilities Capital Improvements	6,607,100
Miscellaneous Capital Improvements	1,636,604
Regional Wastewater	65,016,782
SEDA Glenwood	<u>350,000</u>
Total	\$ 104,008,956



Funding for the City's Capital Budget comes from a number of the City's accounting funds, depending upon the nature of the project. The table on the following page shows spending in the proposed Capital Budget by fund.

Capital Projects by Fund	
Type	Amount
Community Development Fund	\$ 540,108
Local Wastewater Capital Fund	19,435,526
Development Projects Fund	6,715,116
Drainage Capital Fund	1,350,675
Police Building Bond Fund	5,473,013
Regional Wastewater Capital Bond Fund	64,654,782
Regional Wastewater Capital Fund	362,000
Street Capital Fund	113,580
SEDA-Glenwood	350,000
SDC Local Storm Improvement Fund	1,056,726
SDC Local Wastewater Reimbursement Fund	190,000
SDC Local Wastewater Improvement Fund	45,000
SDC Regional Wastewater Reimbursement Fund	0
SDC Regional Wastewater Improvement Fund	0
SDC Transportation Reimbursement Fund	652,743
SDC Transportation Improvement Fund	2,564,687
Booth-Kelly Fund	<u>505,000</u>
Total	<u>\$104,008,956</u>

The City's financial management policies require that the City's operating budget reflect the effect of projects in the Capital Budget.

Many of the capital projects, particularly those that are classified as preservation, are targeted to constrain the growth of operating and maintenance expenditures by preserving and extending the useful life of the City's infrastructure. Long-term financial plans prepared for the City's operating funds consider the impact of these improvements on efficiency when forecasting growth in operating expenditures for the next several years.

Other capital improvement projects, including those that involve development of new facilities or new and expanded infrastructure, may result in additional operating costs or savings in future years. For example, while construction of a new fire station will result in additional costs for staffing and operations, repaving a street, or bringing it to full City standards, may result in reduced need for maintenance. Those costs or savings are not included in the capital budget estimates, but rather are incorporated in the operating budget, beginning in the year that the facility is anticipated to become operational. An important element of the CIP process is consideration of any future increases in operating costs, which will result from capital activity, so that estimates of those costs can be incorporated in the appropriate long term financial plans for the affected funds.

As projects move from the CIP into the Capital Budget, this process is reviewed so that there is a discreet analysis of each project, which evaluates the impact on the appropriate fund's operating budget. An analysis of these operational impacts for the current projects follows.

Operating Impact of the Capital Budget

A complete capital budget requires evaluation of the impact of capital activity on the operating budget. Increased municipal infrastructure commonly results in increased expenses for maintenance, which will be reflected in increasing expenditures in the portion of the operating budget devoted to maintenance. Conversely, capital investment in labor saving or productivity improving equipment can produce savings in the appropriate operating budget. In addition, in a governmental setting, these operating impacts often occur in funds other than those in which the capital expenditure is recorded.

Analysis of the FY10 Capital Budget indicates that a large number of projects do not have a measurable operating impact. In many cases these projects are planning activities, which do not result in additional infrastructure or equipment. For example, there are projected expenditures for participation in a regional waterways study, planning for Franklin Boulevard, and HUD grant projects, which will not result in any impact on the City's operational budget. In this case, as with other planning projects, it is possible that further capital projects will be identified in the planning process. These projects may result in operating budget changes, but do not, themselves, create the need for either operational or capital spending. The capital budget includes about \$409,231 in this category of projects that appear to have no significant operational impact.

A second category of capital projects that are not estimated to have operating impacts are those where the capital expenditure is designed to replace or upgrade existing systems. In many cases, there may be operating efficiencies or avoidance of future costs that result from the improvements, but these impacts are not presently quantifiable and are believed to be marginal. Examples of this category of projects are implementation of the preservation projects for streets, drainage and sanitary sewers, where the only operating impact is potential avoidance of future costs that might occur if repairs or replacement do not occur on a timely basis. Approximately \$8.7 million is budgeted for such projects. Projects like the \$6,391,000 budgeted for Sanitary Sewer Wet Weather Flow Abatement may have little or no operational impact, but will likely result in avoidance of large amounts of capital spending that might be otherwise required to increase the handling capacity of the sanitary system.

Another category of projects not presently estimated to have any impact on the operating budget includes those where the scope of the project is not sufficiently well defined to permit estimation of any impact on the operating budget. An example of this category of projects, where definition is inadequate to permit calculation of operation impact, is the \$370,000 budgeted for City participation in private projects. These expenditures will be used to support a variety of capital improvements such as streets and sewers that are constructed by private developers (the City funds go to pay for portions of those capital expenditures which are principally for the benefit of the general public, not the particular development). While ultimately there may be some operating impact to the City after these projects are completed and the infrastructure is donated to the City, maintenance impact of these donated facilities does not generally exceed \$1 per lineal foot and, therefore, is believed to be insignificant on an individual project basis.

In dollar terms, the capital projects that are expected to result in increased operating expenditures, excluding the projects for MPMC, total over \$21 million. The increased operating spending that will result is estimated to be about \$360,000 annually. The majority of this cost is for projects that will result in an increase in staffing in future years. However, in FY10, additional staffing will be needed for operations and maintenance of the jail. The Police Department has included a request for this funding with its FY10 operating budget. Aside from the Justice Center, it is typical that not all projects are constructed in the same year they are funded. Therefore, the project and operating values will be less than stated above.