

2015

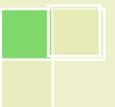
Capital Improvement Bond Projects

Budget and Five Year Plan 2015-2019

City of Duluth, Minnesota



Public Hearing – December 8, 2014



INTRODUCTION

Annually the City prepares a Capital Improvement Budget and Five Year Plan. This plan is comprehensive and outlines capital improvements citywide, as well as identifies funding sources for all projects. One important funding source is general obligation bonds, allowable under Minnesota State Statutes, Section 475.521. Following the requirements in that law, the City may only fund certain types of improvements and must also follow a defined process including holding a public hearing to receive input from interested citizens.

This handout outlines the criteria established in state law, provides information on the city's debt and capital policies, and finally describes the proposed projects and estimated costs.

The proposed Capital Improvement Bond Projects 2015 Budget and Five Year Plan represents the tenth year of this program and is offered for public input at tonight's public hearing, as well as for Council review and approval.

CAPITAL IMPROVEMENT BOND PROJECTS REQUIREMENTS

The list of projects included in the Capital Improvement Bond Projects budget and Five Year Plan meets the established requirements for issuing bonds under state law. Those requirements are summarized below.

Eligible Improvements - the City may only issue capital improvement bonds for certain types of improvements. They would include the acquisition or betterment of public land, buildings, or other improvements for the purpose of a city hall, a public safety facility, a library, or a public works (maintenance operations) facility. The City may not issue capital improvement bonds for light rail transit; parks; roads, bridges, or administrative buildings other than city hall. The improvements must have an expected useful life of at least five years.

Debt Limit - the City may incur only a limited amount of capital improvement bond debt. Specifically, the City may not issue capital improvement bonds if the maximum amount of principal and interest, due in any year on all outstanding capital improvement bonds, including the bonds to be issued, would equal or exceed 0.16 percent of the taxable market value of the property in the City. Based on the Assessor's market value for taxes payable in 2015, the maximum would be \$8.343 million.

Capital Improvement Plan - In order to issue capital improvement bonds for a specific improvement, the City Council must first adopt a capital improvement plan. The plan must cover a five year period. It must contain the following

information for each project included in the plan: the estimated schedule, timing and details of the improvement; the estimated cost; the need for the improvement; and the sources of revenue to pay for the improvement. The City Council must consider all of the criteria listed above in the Introduction section of this document. The Council must hold a public hearing on the plan, and must, in resolution format, approve the plan and any amendments to the plan.

Issuing Capital Improvement Bonds - After the Council has adopted the capital improvement bond projects plan, the City may issue capital improvement bonds without the election requirements of Minnesota Statutes, Chapter 475. When issuing bonds, the City must publish a notice of intent to sell bonds, hold another public hearing, and adopt a resolution declaring the City's intent to issue. A referendum process may be authorized through the petition process. If no petition is filed, the City Council may approve the sale of the bonds.

PROPOSED PROJECTS FOR BOND FINANCING

A total of three improvement projects are identified in the plan over the five year period at a total anticipated cost of \$9.663 million. A portion of each of these three improvement projects are set to be financed through bonds in 2015 at an estimated cost of \$1,603,000. The proposed term of the debt issue will be ten years, with an anticipated annual debt expense of \$193,800. The specific projects follow this section.

OVERLAPPING DEBT

The City's proportionate shares of general obligation debt and general obligation revenue debt at December 31, 2013, of all governmental entities which provide services in the City's borders, and which must be borne by properties in the City is summarized below.

Unit	General Obligation Debt	Percent	Amount Chargeable to City
Independent School Dist. 709	\$60,375,000	88.4%	53,371,500
Independent School Dist. 704	18,720,000	6.0%	1,123,200
St. Louis County	54,925,000	36.0%	<u>19,773,000</u>
			<u>\$ 74,267,700</u>

Capital Budget Policy

The objective of the capital improvement budget policy is to ensure maintenance and replacement of public infrastructure and equipment in the most cost-efficient manner. The City will make all capital improvements in accordance with the adopted capital improvement and capital equipment budgets.

Capital Improvement Program - The City will develop a five-year Capital Improvement Program (CIP) with the annual operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts. All construction projects will include a contingency for unexpected costs.

Capital Equipment Program – The City will prepare a Capital Equipment Program budget each year. Capital equipment includes rolling stock, technology projects including software and hardware, and other equipment that has a life expectancy of three years or more.

Operating Budget Impact - The City will project its equipment replacement and maintenance needs on a multi-year basis, and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and submitted for administrative review.

Operating expenditures/savings of each capital project request are included in the cost of implementing the project and reflect estimates of all personnel expenses and other operating costs attributable to the capital outlays. Departments receiving capital funds must account for the increased operating costs resulting from capital projects.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval. The City will determine the least costly financing method for all new projects.

Repair and Replacement - The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the maintenance, repair and replacement of capital plant and equipment from current revenues. The City will gather useful information pertaining to the condition of capital assets, use the data accumulated to identify capital and maintenance needs, and maintain current and accurate asset inventories.

Funding/Financing – The City will determine the least costly method of funding for all new City projects. The City will use inter-governmental assistance to finance only those capital improvements that are consistent with City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

Debt Management Policy

The objective of the Debt Management Policy is to provide a framework for managing the City's capital financing and economic development activities in a way that preserves the public trust and balances costs to current and future taxpayers without endangering essential City services.

Authority and Oversight - Management responsibility for the City's debt program is delegated to the Chief Financial Officer. The Debt Management Committee advises the CFO on the use of debt financing and debt management activities. The Debt Management Committee meets periodically at the call of the CFO and includes the following persons:

- Chief Financial Officer
- City Auditor
- City Treasurer
- Chief Administrative Officer
- Independent Financial Advisor as needed
- Independent Bond Counsel as needed

Method of Sale - The three primary methods of selling bonds include competitive sale, negotiated sale and private placement. The City uses the competitive sale method for general obligation bond sales unless factors such as structure, size or market conditions compel the use of a negotiated sale. The City may use the negotiated sale method on economic development related projects when the characteristics of the transaction require a more specific marketing plan and/or the issue lacks an investment grade rating due to complex security provisions or other factors.

Selection of Independent Advisors - The City uses competitive processes to select all service providers involved in the bond issuance process.

Short-term Debt - The City limits issuance of short-term debt for cash flow purposes, generally using cash reserves and investment practices to ensure that adequate liquidity exists to pay for expenditures during the year.

- General – In addition, the following policy items apply:
- The City will retire any Tax/Aid Anticipation Certificates on Indebtedness within the year for which they were issued;
- The City will maintain a sound relationship with bond rating agencies, and will keep them informed about current financial conditions;
- The City will continue the practice of full disclosure, as it pertains to all financial reports and bond prospectus;
- The City will confine long-term borrowing to capital improvements, equipment or projects that are not appropriately financed from current revenues; and
- The City will strive to achieve and maintain an Aa2 rating from Moody's.

Bond Specifics:

General Obligation Bonds, Property Tax Supported - General obligation property tax supported bonds finance only those capital improvements and long-term assets that have been determined to be essential to the maintenance or development of the City.

General Obligation Revenue Bonds - The City issues general obligation revenue bonds to finance assets associated with its primary enterprise businesses including storm water and sanitary sewers, water and gas utilities, golf, street lighting and parking ramps. Financial feasibility of capital projects is reviewed each year, including a review of the cash basis pro formas for these funds. Five-year business plans detailing projected operating costs and prior debt obligations are reviewed as well as revenue performance and rate setting analysis to ensure that adequate bond coverage ratios are achieved.

Tax Increment Bonds - The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of citywide property tax revenues and where maximum allowable guarantees are obtained.

The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, subject to the terms and conditions of a development agreement with the City.

Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, or with tax abatement are preferable to bond financing and are to be considered and used when appropriate.

Conduit Debt Obligations - These obligations include industrial revenue bonds for which the City incurs no financial or moral obligation and are issued only if the associated development project can be shown to be financially feasible and will contribute substantially to the welfare and/or economic development of the City and its inhabitants.

Bond Term - The City shall issue bonds with terms no longer than the economic useful life of the project, and endeavor to keep the maturity at or below 20 years. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility - The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

Capital Improvement Program Summary

The Capital Improvement Program is the principal funding program the City uses to make large, planned improvements and corrections to its building inventory and infrastructure. It traditionally consists of issuing general obligation bonds for city hall, public safety facilities, libraries and public works facilities. The City maintains 150 structures with an average age of over 40 years. These structures require continued accessibility, system upgrade, system replacement, asset integrity and code compliance efforts.

The City previously issued \$1,870,000 General Obligation Capital Improvement Bonds, Series 2011A. Up to \$300,200 of the proceeds from the Series 2011 bonds shall be rallocated to improvements to City Hall, including generator replacement.

Projects	2015	2016	2017	2018	2019	Total
Buildings City-Wide	878,000	1,365,000	800,000	850,000	675,000	4,568,000
Maintenance Operations Bldgs	60,000	600,000	225,000	500,000	350,000	1,735,000
Fire	665,000	560,000	1,150,000	370,000	615,000	3,360,000
Total	1,603,000	2,525,000	2,175,000	1,720,000	1,640,000	9,663,000

Funding	2015	2016	2017	2018	2019	Total
Capital Improvement Bond	1,603,000	2,525,000	2,175,000	1,720,000	1,640,000	9,663,000

Buildings City-Wide

Description:

It is important to manage City facility assets with an eye toward the current and future state of each facility as it relates to currently critical and projected life cycle needs along with consideration of the manner in which each facility serves the City's mission. Currently, the City of Duluth's asset management system has identified a \$23,000,000 + backlog of currently critical facility upgrade needs. 64% of the CIP eligible facilities in the asset management system have core building systems in place that are currently classified as being beyond their useful life cycle. Additionally, Property and Facilities Management has identified specific facility needs relating to energy upgrades (19%), facility integrity issues (6%), ADA accessibility modifications (3%), facility modernization - functional improvements - security and building code upgrades (8%), and air and water quality issues (1%). The total combined current capital improvement backlog and projected 5-year capital improvement needs for CIP eligible facilities is currently estimated at more than \$33,292,774, and as the implementation of the City's asset management system continues, it is anticipated that this number will grow significantly. CIP funding for specific and targeted facility upgrade needs is prioritized by considering a 5-year window of facility system life cycle information rated as critical, potentially critical, required, and necessary. These priorities drive the identification of facility requirements that need to be addressed to manage a facility's condition and life cycle in the short and long term. A commitment to on-going and measured investment in facility upgrades is paramount to maintaining the integrity and viability of these City Assets. This funding category is directly tied to specific and prioritized facility needs and will be used to develop or supplement existing projects in areas such as ADA, security, energy upgrades, boiler and furnace replacements, windows, tuckpointing, ventilation and the like to support Property and Facilities Management's efforts to systematically move the City from a reactive asset management approach toward a more proactive planned facility asset investment strategy.

Project	2015	2016	2017	2018	2019	Total
CIP eligible building improvements	553,000	875,000	450,000	700,000	675,000	3,253,000
CCW Police/Library upgrades	200,000	220,000	350,000	150,000		920,000
Main Library renovations	25,000					25,000
Police Multimodal Substation	100,000					100,000
Animal Shelter Improvements		270,000				270,000
Total	878,000	1,365,000	800,000	850,000	675,000	4,568,000

Funding	2015	2016	2017	2018	2019	Total
Capital Improvement Bond	878,000	1,365,000	800,000	850,000	675,000	4,568,000

Maintenance Operations

Description:

As a group of CIP eligible facilities, the Maintenance buildings that support the activities of Property and Facilities Management and Maintenance Operations represent some of the most rapidly deteriorating CIP eligible facilities that the City currently owns. Each of these facilities have significant capital needs that are extremely critical to maintain facility integrity and to continue operations as viable assets housing core City services. The group of maintenance facilities represents many challenges and some opportunities. As part of a longer term strategy for this element of the portfolio, the reality that most of these facilities have capital improvement needs in excess of 50% of their replacement value has driven Property and Facilities Management to consider investments that are primarily aimed at maintaining the facility integrity and ensuring the safety and comfort of City staff working out of these facilities while not significantly improving the assets. As assets, this group of buildings have significant value for potential resale, as most are located on prime real estate, and should a longer term solution aimed at a total consolidation of maintenance activities into one newly constructed facility come to fruition, the focus of this part of the capital plan is on - primarily - maintaining the status quo in a manner that sufficiently meets the operational needs and protects the assets from significant deterioration over the next 5 years.

Project	2015	2016	2017	2018	2019	Total
Mtce Ops Consolidation Study	60,000					60,000
42nd Tool House		250,000			100,000	350,000
Lund Tool House		50,000		500,000	250,000	800,000
Tree Farm		150,000	100,000			250,000
Fleet Building		150,000	125,000			275,000
Total	<u>60,000</u>	<u>600,000</u>	<u>225,000</u>	<u>500,000</u>	<u>350,000</u>	<u>1,735,000</u>

Funding	2015	2016	2017	2018	2019	Total
Capital Improvement Bond	60,000	600,000	225,000	500,000	350,000	1,735,000

Fire Department

Description:

Over the next five years, the City is proposing to invest \$3.36 million in capital maintenance projects at firehalls throughout the City. There are remodeling projects to accommodate staff reorganizations as part of the Fire Department consolidation plan. Energy improvements consist of installing new windows and overhead doors, and replacing furnaces and roofs. Repair and maintenance projects consist of masonry and brick repair, as well as resolving drainage issues and replacing driveways.

Project	2015	2016	2017	2018	2019	Total
Firehall #1 Upgrades	115,000	150,000	275,000	-	175,000	715,000
Firehall #2 Upgrades	90,000	235,000	25,000	-	-	350,000
Firehall #4 Upgrades	255,000	25,000	-	370,000	-	650,000
Firehall #6 Upgrades	180,000					180,000
Firehall #7 Upgrades	5,000	25,000	350,000		40,000	420,000
Firehall #8 Upgrades	5,000	75,000				80,000
Firehall #10 Upgrades	5,000		400,000			405,000
Firehall #11 Upgrades	10,000	50,000	100,000		400,000	560,000
Total	665,000	560,000	1,150,000	370,000	615,000	3,360,000

Funding	2015	2016	2017	2018	2019	Total
Capital Improvement Bond	665,000	560,000	1,150,000	370,000	615,000	3,360,000