

ITEM: Discuss 5-year Capital Improvements Plan

MEETING DATE: November 16, 2017

TO: City of De Soto City Council & Mayor

FROM: Mike Brungardt, P.E., City Administrator

CC: City Staff via Electronic Packet Distribution

EXHIBITS: Exhibit A: Updated 5-Year CIP Spreadsheet
Exhibit B: Budget and Financial Policy Language

Summary: At the November 2nd Council meeting we discussed incorporating a few “honorable mention” projects into the 5-year spreadsheet to see how they might impact the overall funding picture. I have the results of that analysis to present, and we have new language from Columbia Capital to insert into the financial policy section of the CIP report.

Exhibit A contains the updated CIP spreadsheet, which now includes the following projects:

Project Name	Description	Total	City Shar	Non-City Funding	Non-City Source
Huhtamaki Entrance reconstruction	Reconfigure the entrance to Huhtamaki on Commerce Drive from triangular arrangement to tee intersection	\$ 55,400	\$ 36,933	\$ 18,467	Huhtamaki
K-10 Offramp Signal Mods.	Install left turn arrows, and reprogram phasing	\$ 60,000	\$ 60,000		
Traffic Signal @ 91st and Lexington	Install traffic signal at 91st and Lexington	\$ 180,000	\$ 90,000	\$ 90,000	Benefit District
Riverfest Restrooms	Prefabricated structures. Water	\$ 142,000	\$ 142,000		Possible KDWPT

The added projects total \$437,400

I have shown the changes to Exhibit A with red boxes. In addition to the projects and associated expenses under the “Appropriations” section, there are corresponding revenue sources added to the spreadsheet including the following:

- \$18,467 from Huhtamaki in 2019 for 1/3 of the cost of the new entrance on Commerce Drive.
- \$90,000 from a traffic signal benefit district in 2020 for ½ the cost of the 91st & Lexington signal
- An additional \$300,000 in bond financing in 2022 aimed to keep the year ending fund balance at the end of the program above zero. The added bond funding could be attributed to elements of the yearly road maintenance program, or the Ottawa Street culvert replacement project.

Adding these projects to the 5-year plan increases the scope of the plan from \$10.6 Million to \$11.0 Million, and increases the amount we will need to borrow to support the plan from \$3.4 Million to \$3.8 Million.

Exhibit B contains the added language provided by Columbia Capital relating to the financial policy section of the CIP report. There is a recommendation to adopt a formal debt management policy that incorporates the recommendations outlined in the CIP. Columbia Capital has provided me with a draft of the policy, which would replace a policy we already have in place. We will take that issue up at a later date.

As we discussed on November 2nd, I plan to schedule one or two public meetings the last week of November to get input on the plan. I will have exact dates and times to report at the Council meeting on November 16.

End of Report
Exhibits to Follow



De Soto 5-Year Capital Improvements Plan 2018 - 2022

11/8/2017

CAPITAL IMPROVEMENT FUND		2017 Budget	2017 Projection	2018 Budget	2019 Projected	2020 Projected	2021 Projected	2022 Projected	5-Year Total
Beginning Balance		\$ 1,754,048	\$ 1,754,048	\$ 915,744	\$ 72,560	\$ 643,707	\$ 1,276,514	\$ 68,149	
Source #	Revenues								
1	Pending Projects Prior Years	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Transfer from Gen. Fund Prop. Taxes	\$ 292,609	\$ 292,609	\$ 300,000	\$ 310,800	\$ 321,989	\$ 335,029	\$ 348,598	\$ 1,616,416
3	Transfer from Gen. Fund, Street Budget	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 20,000
4	Federal Fund Exchange (from KDOT)	\$ 60,000	\$ 59,270	\$ 65,000	\$ 66,000	\$ 66,000	\$ 66,000	\$ 66,000	\$ 329,000
5	Aquatic Center Paint Sinking Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	MISC Grant Monies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Transfer from CDBG	\$ 100,000	\$ 100,000	\$ 75,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 475,000
8	Transfer from Special Parks	\$ 23,000	\$ 23,000	\$ 25,000	\$ 25,400	\$ 25,806	\$ 26,271	\$ 26,744	\$ 129,221
9	Transfer from Special Highway	\$ 130,000	\$ 130,000	\$ 125,000	\$ 127,000	\$ 129,032	\$ 131,355	\$ 133,719	\$ 646,106
10	Transfer from Electric Utility	\$ 20,000	\$ 20,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 60,000
11	Transfer from Water Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Transfer from Capital Projects	\$ -	\$ -	\$ 127,433	\$ -	\$ -	\$ -	\$ -	\$ 127,433
13	JoCo CARS				\$ 750,000				\$ 750,000
14	Federal STP						\$ 1,500,000	\$ -	\$ 1,500,000
15	JoCo SMAC						\$ 150,000		\$ 150,000
16	Future Bond Proceeds				\$ 900,000	\$ 511,000		\$ 2,300,000	\$ 3,711,000
17	Sewer Benefit District					\$ 500,000			
18	Excise Tax			\$ 35,000	\$ 40,000	\$ 45,000	\$ 50,000	\$ 50,000	\$ 220,000
19	Courthouse Sales Tax Transfer From GF Admin			\$ -	\$ 110,980	\$ 105,980	\$ 128,980	\$ 128,980	\$ 474,920
20	Contribution from Huhtamaki				\$ 18,467				
21	Traffic Signal Benefit District					\$ 90,000			
	TOTAL REVENUES	\$ 625,609	\$ 625,609	\$ 792,433	\$ 2,458,647	\$ 1,904,807	\$ 2,347,635	\$ 3,314,041	\$ 10,817,563
Project #	Appropriations								
1	Sunflower WTP Improvements		\$ 700,000	\$ 655,975					\$ 655,975
	2017 CIP Program		\$ 763,913						\$ -
	Project / Initiative								
2	Yearly Road Maintenance Program	I		\$ 437,000	\$ 250,000	\$ 250,000	\$ 425,000	\$ 425,000	\$ 1,787,000
3	91st Street Westward Extension Design	II		\$ 150,000					\$ 150,000
3	91st Street Westward Extension Construction	II			\$ 1,500,000				\$ 1,500,000
4	Sunflower Road	III					\$ 35,000		\$ 35,000
5	83rd Street RR Bridge Replacement Design	II				\$ 250,000			\$ 250,000
5	83rd Street RR Bridge Replacement Construction	II					\$ 2,000,000		\$ 2,000,000
22	Huhtamaki Entrance	I			\$ 55,000				\$ 55,000
23	K-10 Offramp - Signal Modificaitons	I				\$ 60,000			\$ 60,000
24	Traffic Signal at 91st & Lexington	II				\$ 180,000			\$ 180,000
6	Gym Floor	I			\$ 27,500				\$ 27,500
7	Paint Pool	I		\$ 55,000				\$ 55,000	\$ 110,000
8	AV Upgrades for Council Room	II		\$ 7,500					\$ 7,500
9	ADA Access to Greatlife			\$ 40,000					\$ 40,000
10	New Public Works Facility							\$ 2,000,000	\$ 2,000,000
11	Ottawa Street Culverts Design	II					\$ 50,000		\$ 50,000
11	Ottawa Street Culverts Const	II						\$ 300,000	\$ 300,000
12	Miller Park Drainage Design					\$ 85,000			\$ 85,000
12	Miller Park Drainage Const						\$ 426,000		\$ 426,000
13	Annual Sidewalk Program	I		\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 100,000
14	Arbor Ridge Sidewalk	II				\$ 100,000			\$ 100,000
15	Parks & Rec. Master Plan	I							\$ -
16	Soccer Fields - Phase I	I		\$ 146,142					\$ 146,142
17	Soccer Fields - Phase II	II					\$ 500,000		\$ 500,000
25	Riverfest Restrooms	II				\$ 142,000			\$ 142,000
18	Demolition of Old Water Plant	I		\$ 25,000					\$ 25,000
19	Spring Drive Waterline	I		\$ 75,000					\$ 75,000
20	Lexington Avenue Sewer Service	I		\$ 24,000					\$ 24,000
21	95th Street Sewer Extension Design	II				\$ 150,000			\$ 150,000
21	95th Street Sewer Extension Construction	II					\$ 600,000		\$ 600,000
	Transfer to Debt Service (Excise Tax)				\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 140,000
59	Total Appropriations		\$ 625,609	\$ 1,463,913	\$ 979,642	\$ 1,887,500	\$ 1,272,000	\$ 3,556,000	\$ 3,370,000
60	Ending Balance		\$ 1,754,048	\$ 915,744	\$ 72,560	\$ 643,707	\$ 1,276,514	\$ 68,149	\$ 12,190

CAPITAL IMPROVEMENT PLAN, BUDGET, AND FINANCIAL POLICY

I. PREPARATION OF THE CAPITAL IMPROVEMENT PLAN (CIP):

- A. The purpose of the capital improvement plan (CIP) is to forecast and match projected revenues and major capital needs over a five (5)-year period. Long-range capital planning is an important management tool, which strengthens the linkages between community infrastructure needs and the financial capacity of the City, and the Strategic Plan.
- B. If at all possible, proposals for capital investment should go through the capital planning process.
- C. Definition of appropriate capital items for inclusion on the CIP:
 1. Definition of a CIP capital expenditure – Expenditure of major value that recurs irregularly, results in the acquisition of a fixed asset, and has a useful life greater than one (1) year.
 2. As a rule of thumb, items to be included in the CIP include those which:
 - (a) Involve the acquisition, renovation, and/or construction of a single fixed asset greater than \$50,000
 - (b) involve capital road maintenance or construction greater than \$50,000 – excluding recurring or routine maintenance projects
- D. Difference between departmental capital outlay items (in operating budget) and capital project outlay items (in CIP):
 1. Departmental capital items shall not be submitted as part of the CIP. Departmental capital items include:
 - (a) equipment/tools, furniture, office equipment such as computers and fax machines, minor remodeling, or other construction projects below \$50,000 (such items should be outlined in the “Capital Outlay” section of the operating budget request).
 - (b) all vehicles/rolling stock/machinery below \$20,000
 2. Any upcoming, or 1st year costs associated with a CIP project will be made part of the budgeting process for the following year.

II. ORGANIZATIONAL ISSUES:

- A. Departments are responsible for identifying, documenting, and justifying CIP requests. Departments are also responsible for obtaining project cost estimates and identifying appropriate revenue sources for the project.
- B. The City Administrator, in conjunction with Department Heads and the Finance Director, shall be responsible for coordinating the CIP process and submission of the CIP to the Mayor and City Council.
- C. A capital project selection will be carried out by the City Council, with the assistance of the City Administrator and department heads, as appropriate. This will occur in the first quarter of each year, in conjunction with the review of the City’s Strategic Plan.
- D. Council review, recommendation, and adoption of CIP:
 1. The results of the Council’s deliberations on the CIP will be carried forward into the beginning stages of the annual budget process. **NOTE:** Governing Body recommendation of the CIP does not authorize money for any of the projects in the plan, but the recommendation by the Governing Body shall provide the City

Administrator direction to proceed with formulating the annual CIP and inclusion of first year CIP items in the City Budget.

2. The City Council will formally adopt the 5-year CIP in the form of a resolution.

III. EVALUATION OF PROJECT MERIT:

- A. Proposed CIP items will be evaluated and ranked according to merit by requesting departments.
- B. Projects should generally be foreseen ahead of the time (preferably 2+ years) of need to allow time for planning long-term financing strategies or financing methods.

IV. FUNDING SOURCES:

- A. Pay-as-you-go: Whenever possible, pay-as-you-go (“operating revenue” or “Transfer from --- Fund”) funding is the preferred method of funding CIP projects.
- B. Grant Funds: The City continues to aggressively pursue state and federal grant funding and has been successful in many of these efforts.
- C. Debt will be considered for capital projects under the following circumstances:
 1. The capital item is a long-living (useful life greater than five (5) years) asset.
 2. The asset has a useful life expectancy that equals or exceeds the length of the debt financing period. IRS rules regarding useful life of the underlying assets and the duration of the financings will be followed.
- D. The following types or combination of financings may be considered under the following circumstances:
 1. *Debt methods:*
 - (a) *General Obligation Bonds (G.O. Bonds)* – The capital item is used for a public facility or equipment that is a general public good (e.g. streets and municipal buildings or structures). Generally, G.O. Bonds are only used for major General Fund projects. It is expected the G.O. Bonds will be the City’s predominant type of debt used for its CIP.
 - (b) *Revenue Bonds* – This type of financing security may be considered when revenues associated with a municipal utility or other type of revenue producing system or project make the creation of a revenue credit economically viable. It is not expected that revenue bonds will be used at this time.
 - (c) *Special Obligation Bonds (S.O. Bonds)* – S.O. Bonds, which do not carry a general obligation pledge but rather a promise to appropriate for debt service each year may be considered when the issuance of G.O. Bonds are not possible or undesirable. It is not expected that S.O. bonds will be used at this time.
 - (d) *Special Assessments* – The capital item benefits only immediately adjacent property. Adjacent property owners pay the special assessments after the improvement is completed and its cost is known. Therefore, special assessments are not a method of capital financing, but rather a method of eventually paying for the improvements for which they are levied.
 2. *Non-debt methods (Also referred to as Pay-as-you-go, or Pay-Go)*
 - (a) *Current revenues* – The capital item can be acquired through existing revenues.
 - (b) *Capital reserves* – The capital item can be funded from City Council designated taxes or revenue streams that are set aside in a separate fund.
 - (c) *Capital recovery, facility, or impact fees* – Capital items may be financed from charges to benefiting property owners for major infrastructure or

facilities that benefit that property. Charges can be levied and collected before infrastructure is built.

- (d) *Fund Balance* – The capital item can be funded with unassigned operating fund balances.
- (e) *Grants* – Funding of the capital item was secured upon application of a governmental grant (examples might include CDBG or HOME grants, law enforcement grants, or EPA water quality grants.)
- (f) *Gifts* – The capital item may be purchased or acquired with restricted or non- restricted donations by citizens or corporations.

V. DEBT LIMITS:

- A. Because debt financing is a permitted source of fund, it is important reasonable limits be placed on the City's use of this funding source and that other credit protection measures be put in place so that the City preserves its credit profile and credit rating.
- B. The City's financial advisor has recommended that the City adopt a formal debt management policy that incorporates the key parameters listed below. Note the last parameter would apply to the City's reserve policy.
 - 1. Total outstanding principal as a percentage of total market value should not exceed 4.00%. Because the City amortizes principal each year and has experienced growth in market values, it is projected that this ratio will improve over time even while issuing new debt.
 - 2. Debt service as a percentage of total governmental fund expenditures should not exceed 30%. This constraint can be managed by strategically amortizing new debt around existing obligations. The City will work with its financial advisor to accomplish this goal.
 - 3. Available fund balances to support general operating expenditures should equal at least 30% of annual expenditures. Current balances are significantly over 30% and though this is not a debt metric, this constraint is a key to maintaining the City's underlying credit strength, especially in consideration of further debt issuance.

CITY DEBT SERVICE

