

CAPITAL BUDGET

Introduction

The FY06 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 \$625,000,000 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 reviews 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.

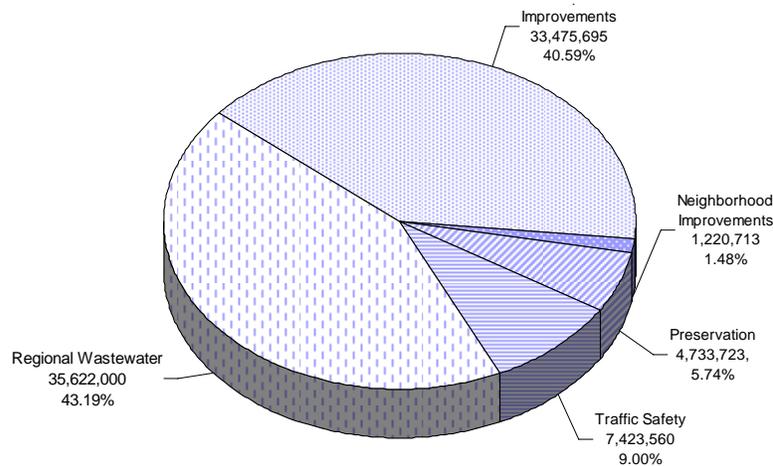
Major funding sources include state and local gas taxes, grants, assessments, loans, revenue bonds, sewer and drainage user fees, and, as appropriate, revenues from systems development charges previously collected.

Major Projects

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

- ◆ Street seal and overlay projects throughout the city have an FY06 proposed budget of \$945,000. Major projects being completed this year through this program are the 5th Street overlay and the Centennial Boulevard overlay.
- ◆ The Vera Street and 19th Street sanitary sewer pump station will be constructed to provide North Springfield with sanitary sewer service. Total project cost is budgeted at \$350,000, including land acquisition.
- ◆ Construction on the Harlow Road sanitary sewer pump station will begin with \$2,000,000 budgeted. This project will replace the undersized existing pump station at Harlow Road and Hartman Lane.
- ◆ A local contribution for sanitary sewer replacement and repair (\$300,000) is included in accordance with the regional Wet Weather Flow Management Plan.
- ◆ Design and construction of the Justice Center Facility will begin this year, with a total project budget of \$26,480,000. 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.
- ◆ A \$200,000 budget has been established for channel improvements to relieve flooding in Gray Creek and to provide capacity for anticipated flows from future development. This is the first year of this two-year project.
- ◆ The City-wide Stormwater Facility Master Plan will be completed to address conveyance, and stormwater quantity and quality management throughout the City and urbanizable area. \$150,000 is budgeted to complete the project.
- ◆ Storm system upgrades are planned for the area of 8th and Northridge Streets to increase capacity and relieve flooding during large storm events. This drainage line was identified as undersized in the SCS Channel No. 6 Report. A project budget of \$100,000 has been established.

Capital Projects by Type	
Type	Amount
Development Improvements	\$ 33,475,695
Neighborhood Improvements	\$ 1,220,713
Preservation	\$ 4,733,723
Traffic Safety	\$ 7,423,560
Regional Wastewater	<u>\$35,622,000</u>
Total	<u>\$82,475,691</u>



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 chart below shows spending in the proposed Capital Budget by fund.

Capital Projects by Fund	
Type	Amount
Street Capital	\$ 3,987,402
Local Wastewater Capital Fund	3,846,000
Drainage Capital Fund	706,005
Community Development Fund	1,220,713
Police Building Bond Capital Fund	26,480,000
G.O. Bond Capital Projects fund	99,102
Development Projects Fund	5,961,080
Regional Wastewater Capital Fund	31,647,000
SDC Local Storm Improvement Fund	950,766
Booth-Kelly Fund	30,000
SDC Local Wastewater Reimbursement Fund	150,000
SDC Local Wastewater Improvement Fund	1,160,557
SDC Regional Wastewater Reimbursement Fund	3,325,000
SDC Regional Wastewater Improvement Fund	650,000
SDC Transportation Reimbursement Fund	160,700
SDC Transportation Improvement Fund	<u>2,101,366</u>
Total Capital Projects by Fund	<u>\$82,475,691</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 FY05 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, updating the City's Drainage and Sanitary Sewer Master Plans, 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 \$1.2 million in this category of projects which 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. Over \$6,100,000 is budgeted for such projects. Projects like the \$1,200,000 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 \$270,000 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.

In dollar terms, the capital projects that are expected to result in increased operating expenditures, total about \$6 million. The increased operating spending that will result is estimated to be about \$102,700 annually. None of the projects results in any increase in staffing. Typically, not all projects get constructed in the same year they are funded. Therefore, the project and operating values will be less than stated above.