

CAPITAL BUDGET

Introduction

The FY08 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 \$630,000,000 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 (MWWMC), 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.

As in FY07, this year's Capital Budget remains significantly larger than in prior years, largely due to the Justice Center Project gearing up and an increase in work to be done by MWWMC. In addition, construction costs have been rapidly rising, which has also resulted in increasing the Capital Budget. Staff is reviewing the methods used for estimating project costs, as well as other internal procedures, to ensure that projects are delivered in a cost efficient manner.

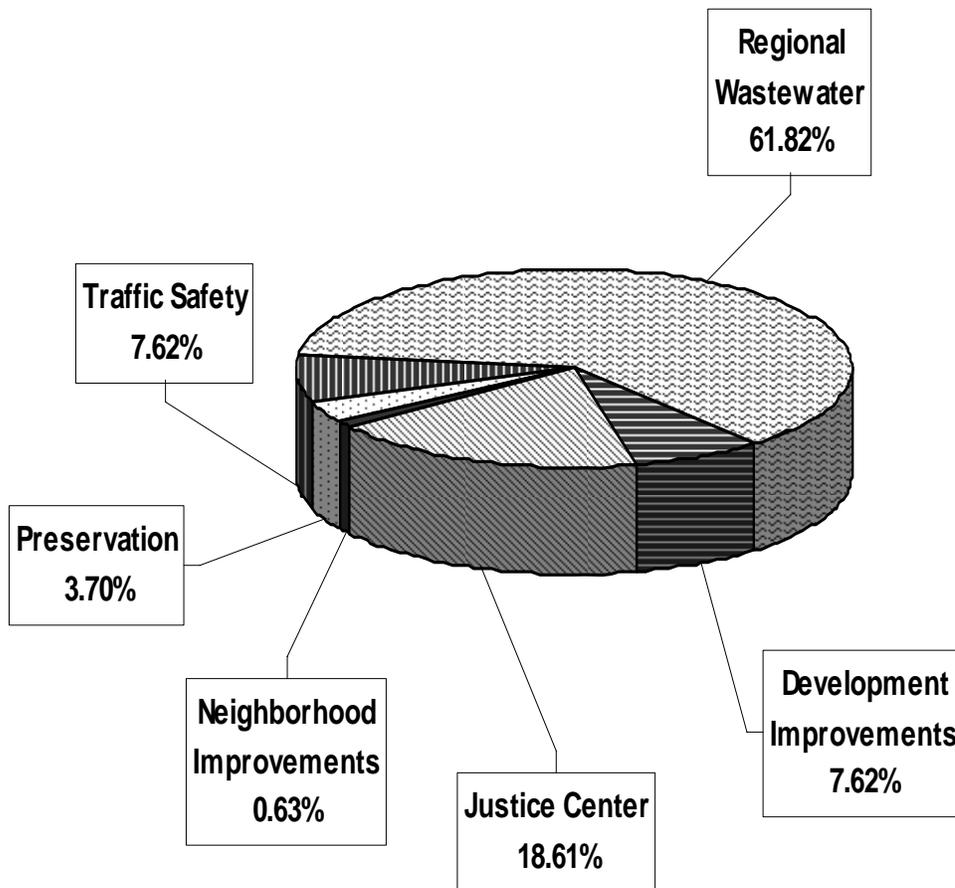
Major Projects

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

- Street seal and overlay projects throughout the city have an FY08 adopted budget of \$837,700. The major project being completed this year through this program is the overlay of 5th Street from B Street to Centennial Boulevard.
- Construction of the Vera Street and 19th Street sanitary sewer pump station will continue, thereby providing sanitary sewer service to a portion of North Springfield. The bids for this project were significantly higher than the \$325,000 that was included in the FY07 budget. Additional funding was added to the project, via Supplemental Budget approval, by transferring \$212,259.73 from the Jasper Road Trunk Sewer project. Construction will commence in the spring of 2007 and be completed in FY08.

- Construction on the Harlow Road sanitary sewer pump station had \$2,516,654 budgeted for FY07. This project will replace the undersized existing pump station at Harlow Road and Hartman Lane. However, bids for this project came in approximately \$1,700,000 more than the budgeted funds. Staff is preparing a plan to present to the City Council that will fund the construction of this project by temporarily transferring available funds from other capital projects, then replacing the borrowed funds with a loan from the State Revolving Fund (SRF).
- A local contribution for sanitary sewer replacement and repair of \$1,055,000 is included in accordance with the regional Wet Weather Flow Management Plan.
- Design of the Justice Center Facility is underway this year and construction is expected to start in Spring 2007, with a total project budget of \$28,249,650. 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.
- 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. The plan is scheduled to be completed by Summer 2007.
- Lane County plans to begin construction of the next phase of the Bob Straub Parkway (formerly known as the Jasper Road Extension) in Summer 2007. The City and the County have negotiated Intergovernmental Agreements for sharing the estimated \$5,700,000 construction cost of this project. The City's share of the construction cost is currently estimated at \$767,700. A portion of the construction funds is included in the FY07 budget, with the remainder in the budget for FY08. In addition, the City Council will be asked to provide about \$404,000 for right-of-way purchases via an upcoming Supplemental Budget action.
- Reconstruction of South 42nd Street, from Main St. to Mt Vernon Road will begin in Spring 2007 and should be completed this year. However, the bids for this project came in significantly higher than the \$1,287,573 budget for this year. Staff bid the project with two construction alternatives for the street, portland cement concrete (PCC) or asphalt cement concrete. The PCC alternative came in with the lowest bid price, as well as providing the advantage for substantially less maintenance cost over the life of the pavement. An additional \$500,838 was added to the project by Supplemental Budget approval. Included in this approval was a transfer of \$306,695 from the maintenance reserve that was established for this street when the City took over jurisdiction from the state. The maintenance reserve is now about \$400,000. The remaining funds that were added to the project came from sanitary and storm drainage funds to cover expenses for these systems that were incurred during the construction of the first phase of the South 42nd Street Reconstruction project.
- Reconstruction of 69th Street from B Street to Thurston Road is currently under design and is planned to go under construction in the Fall of 2007, with completion in 2008. The City's share of the funding for this project is about \$484,000, with another \$431,000 planned to come from ODOT-Surface Transportation Program (STP) funds.
- The Pioneer Parkway overlay from Q Street to Hayden Bridge Way will be designed and constructed in 2008. This project is estimated to cost \$500,000 and will be coordinated with the planned construction of the next phase of the EmX system by Lane Transit District. In addition, the FY08 budget includes \$50,000 towards the future installation of street lights in this section of Pioneer Parkway.

Capital Projects by Type	
Type	Amount
Development Improvements	\$ 9,400,521
Justice Center	22,940,876
Neighborhood Improvements	780,836
Preservation	4,556,396
Traffic Safety	9,396,585
Regional Wastewater	<u>76,226,346</u>
Total	<u>\$ 123,301,560</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 table on the following page shows spending in the proposed Capital Budget by fund.

Capital Projects by Fund	
Type	Amount
Community Development Fund	\$ 603,836
Local Wastewater Capital Fund	1,860,000
Regional Wastewater Rev. Bond Capital Projects Fund	76,226,346
Development Projects Fund	14,541,949
Drainage Capital Fund	1,409,025
Police Building Bond Capital Fund	22,217,359
Street Capital Fund	1,391,997
SDC Local Storm Improvement Fund	961,620
SDC Local Wastewater Reimbursement Fund	205,000
SDC Local Wastewater Improvement Fund	110,000
SDC Transportation Reimbursement Fund	362,700
SDC Transportation Improvement Fund	2,922,730
Booth-Kelly Fund	<u>155,000</u>
Total	<u>\$ 123,301,560</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 FY08 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 about \$700,000 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 \$4.6 million is budgeted for such projects. Projects like the \$1,055,000 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 \$300,000 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 MWMC, total about \$36 million. The increased operating spending that will result is estimated to be about \$612,000 annually. None of the projects results in an increase in staffing for FY08, but additional staffing will be needed for projects such as the Justice Center in future years. 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.