

CAPITAL BUDGET

Introduction

The FY09 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 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.

As in FY08, this year's Capital Budget remains significantly larger than in prior years, largely due to the on-going Justice Center Project and the work being done by MWMC at the regional wastewater treatment plant. In addition, construction costs have been rapidly rising, which has also resulted in increasing the Capital Budget.

Major Projects

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

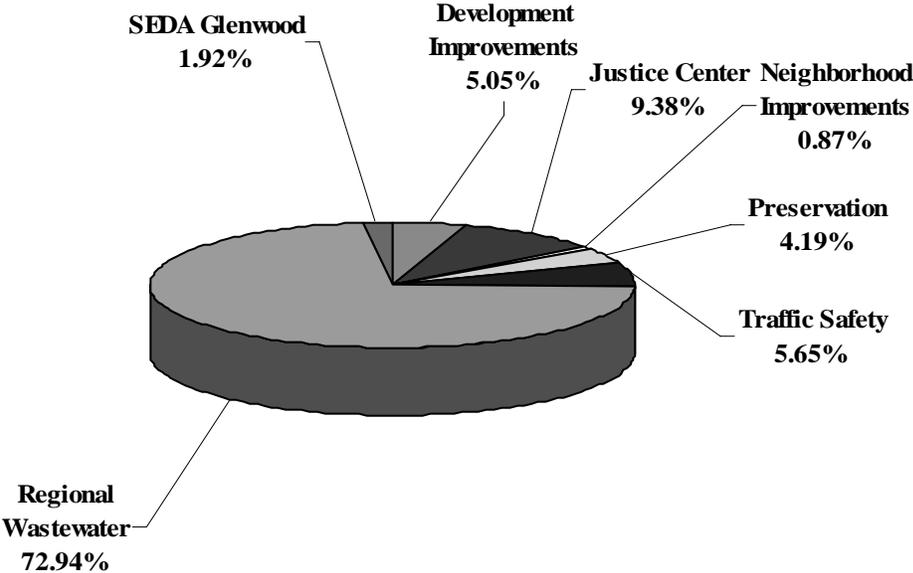
- ◆ Street seal and overlay projects throughout the city have an FY09 proposed budget of \$616,118. The major project being completed this year through this program is the overlay of 5th Street from Main Street to G Street.
- ◆ A local contribution for sanitary sewer replacement and repair of \$1,450,910 is included in accordance with the regional Wet Weather Flow Management Plan.
- ◆ Construction of the Justice Center Facility is underway, with the first phase to be completed in October 2008 and the jail portion to be completed by January 2010, with a capital project budget of \$28,980,469, with \$11,326,381 included in the FY'09 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.

- ◆ The City-wide Stormwater Facility Master Plan will be completed in Summer 2008. This Plan addresses conveyance, and stormwater quantity and quality management throughout the City and urbanizable area.
- ◆ The City-wide Wastewater Master Plan will be completed in Summer 2008. This Plan addresses wastewater conveyance and system rehabilitation needs throughout the City and urbanizable area.
- ◆ Lane County began construction of the next phase of the Bob Straub Parkway (formerly known as the Jasper Road Extension) in Summer 2007, with completion scheduled for Fall 2008. 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 \$1,003,300, with \$152,700 of this total being added in FY'09.
- ◆ Reconstruction of Fire Station 16, located on Main Street at South 69th Place, will begin in Summer 2008 and should be completed this year. The total budget for this project is \$2,696,861.
- ◆ Construction of an addition to Fire Station 3, located on 28th Street at Centennial Boulevard, will commence in Spring 2008. This project will add six sleeping rooms and additional restrooms to the existing fire station, with a current project budget of \$320,234. However, the bids received for the project are more than the available funds. Staff is preparing recommendations for City Council consideration in Spring 2008.
- ◆ Reconstruction of 69th Street from B Street to Thurston Road is to go under construction in the Summer 2008, with completion in Fall 2008. The City's share of the funding for this project is about \$484,000, with another \$931,000 planned to come from ODOT-Surface Transportation Program (STP) funds.
- ◆ The Pioneer Parkway overlay from Q Street to Hayden Bridge Way has been deferred until after Lane Transit District completes their construction of the new EmX facilities in Pioneer Parkway. As currently planned, the City and Lane County will enter into an Intergovernmental Agreement (IGA) to have Lane County design the project in FY'09 and construct it in FY'10. This approach is being proposed so that Lane County can coordinate the Pioneer Parkway construction with their project to overlay Hayden Bridge Way from Pioneer Parkway to 19th Street. The City's portion of the project is estimated to cost \$500,000, with an additional \$400,000 being provided from ODOT-Surface Transportation Program (STP) funds.

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	
Type	Amount
Development Improvements	\$ 7,032,347
Justice Center	\$ 12,232,390
Neighborhood Improvements	\$ 1,135,658
Preservation	\$ 5,021,551
Traffic Safety	\$ 7,368,795
Regional Wastewater	\$ 95,144,404
SEDA-Glenwood	\$ 2,502,000
Total	<u>\$ 130,437,145</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 adopted Capital Budget by fund.

Capital Projects by Fund	
<i>Type</i>	Amount
Community Development Fund	\$ 565,658
Local Wastewater Capital Fund	\$ 2,008,513
Development Projects Fund	\$ 10,233,293
Drainage Capital Fund	\$ 1,786,601
Police Building Bond Fund	\$ 12,232,390
Regional Wastewater Capital Fund	\$ 67,644,404
Street Capital Fund	\$ 913,911
SEDA-Glenwood	\$ 2,502,000
SDC Local Storm Improvement Fund	\$ 1,379,514
SDC Local Wastewater Reimbursement Fund	\$ 215,000
SDC Local Wastewater Improvement Fund	\$ 95,000
SDC Regional Wastewater Reimbursement Fund	\$ 2,000,000
SDC Regional Wastewater Improvement Fund	\$ 5,000,000
SDC Transportation Reimbursement Fund	\$ 618,889
SDC Transportation Improvement Fund	\$ 2,586,972
Booth-Kelly Fund	\$ 155,000
Total	<u>\$130,437,145</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 FY09 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 \$1,256,000 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. Over \$14.4 million is budgeted for such projects. Projects like the \$1,450,910 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 \$600,000 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 \$19 million. The increased operating spending that will result is estimated to be about \$323,000 annually. The majority of this cost is for projects that will result in an increase in staffing in future years. However, in FY09, additional staffing will be needed for operations and maintenance of the first phase of the Justice Center. The Police Department has included a request for this funding with its FY09 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.