

# CAPITAL BUDGET

## Introduction

The FY11 Capital Budget, which follows, is based on the City's long-range Capital Improvement Program (CIP), A Community Reinvestment Plan, – 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 increasing investment in fixed assets. These estimates, in turn, are derived from long term facilities master plans designed to anticipate City needs over a 20 year horizon. 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 first year of 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 Wastewater Collection and Treatment Systems. These projects are included based on the actions of the Metropolitan Wastewater Management Commission (MWMC), which owns and oversees the Regional Wastewater Facilities serving the Eugene-Springfield metropolitan area.

Major funding sources include State and local gas taxes, grants, assessments, loans, revenue bonds, sewer and drainage user fees, and, as appropriate, revenues from System Development Charges (SDCs) previously collected. Additionally, the American Recovery and Reinvestment Act of 2009, which provides stimulus funding to states, became a source of funding for some projects for the City, including street preservation, lighting upgrades to improve energy efficiency, and construction at the regional wastewater treatment plant. Because of limited revenues, many other projects cannot be funded during the next five years. These projects are shown in the CIP; however this is for informational purposes only.

The proposed FY11 Capital Budget of \$57.5 million is substantially less than the proposed FY10 Capital Budget of \$104 million. This is due in large part to completion of the Justice Center Project. Also, MWMC completed several construction projects at the Regional Water Pollution Control Facility and the City completed rehabilitation of aging wastewater collection systems in nine regions throughout the City.

Another notable aspect of the FY11 Capital Budget is the continued lack of funding for street preservation projects. The reasons for this include the well documented loss of annual funding the City had previously received from the County (a response to the County's potential loss of funding from the Secure Rural Schools Act) as well as deterioration in revenues generated from the local motor fuel tax and from the State Highway Trust Fund (which includes the State fuel tax). As a result, the only projects projected to be funded through the Street Fund are those which the City has an obligation to fund and has alternate sources available. Currently no Street Fund revenues are programmed for street preservation projects.

## Major Projects

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

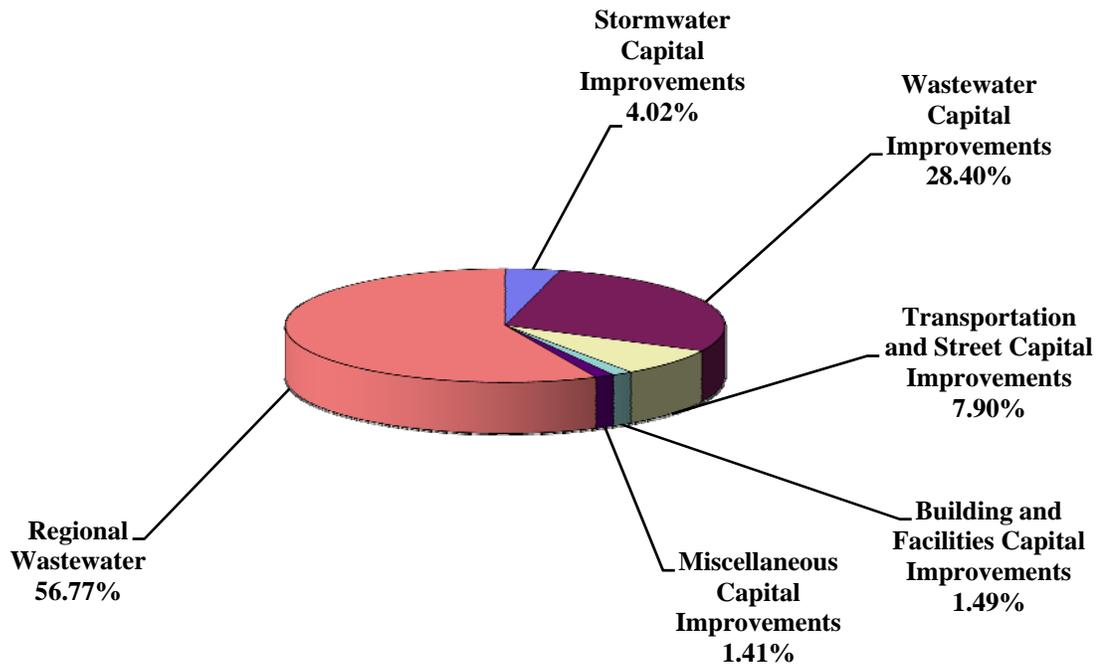
- ◆ A local contribution for wastewater system replacement, repair and new construction of \$12,080,000 is included in accordance with the City's Wastewater Master Plan. Funding for these projects was secured with the sale of \$22.8 million in wastewater bonds in FY09. These projects are part of an ongoing program with the goal of rehabilitating the wastewater collection system to control infiltration and inflow (I/I) of rain and ground water, as well as providing additional system capacity to handle high wet-weather flows. This funding is spread over three different projects that will that replace/rehabilitate approximately 13,500 linear feet of wastewater pipes and construct approximately 10,600 of new wastewater pipes.
- ◆ Funding for the Jasper Road Trunk Sewer was also secured with the wastewater bond sale in FY09. However, the City Council has elected to defer construction of this project until FY13 in favor of the rehabilitation projects discussed above. Design of the Trunk Sewer was started in FY09. The design will be completed and easements and permits acquired in FY11 so that the project can proceed to construction FY13. It is likely that an additional bond sale will be needed to fund the construction. The total construction cost of the project is currently estimated at \$9.3 million and will provide wastewater service to the Jasper/Natron area and will ultimately allow the decommissioning of three existing pump stations. Providing wastewater service will open this area up to development.
- ◆ The Gateway/Beltline Intersection project will add lanes to the intersection to alleviate congestion. This is Phase 1 of the full Gateway/Beltline Intersection projects as approved in the 2003 Revised Environmental Agreement (REA). The project is currently being bid and is scheduled for construction to begin in FY10 and be completed in FY11. The City has an agreement with ODOT to bid and construct the project in conjunction with ODOT's Unit 2 construction of the I-5/Beltline interchange.

The CIP identifies capital projects by major systems and/or 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.

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## Capital Projects By Category

Stormwater Capital Improvements	\$ 2,294,279
Wastewater Capital Improvements	16,189,190
Transportation and Street Capital Improvements	4,501,755
Building and Facilities Capital Improvements	852,000
Miscellaneous Capital Improvements	803,637
Regional Wastewater	32,364,768
<b>Subtotal</b>	<u>\$57,005,629</u>
SEDA Glenwood	350,000
<b>Total</b>	<u><b>\$57,355,629</b></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 City Council established a new Stormwater Reimbursement Systems Development Charge in FY10, and a new fund was created to track the revenues and expenditures associated with this new component of the Stormwater SDC. For FY11, one expenditure in this new fund has been proposed: the creation of a reserve. Additionally, for the upcoming year Community Development Fund projects have been removed from the Capital Budget and put into the operating budget. The following table shows spending in the proposed Capital Budget by fund.

## **Capital Projects by Fund**

<i>Type</i>	<b>Amount</b>
Community Development Fund	\$ 0
Local Wastewater Capital Fund	\$ 16,043,190
Development Projects Fund	\$ 1,314,637
Drainage Capital Fund	\$ 964,880
Police Building Bond Fund	\$ 0
Regional Wastewater Capital Bond Fund	\$ 20,488,282
Regional Wastewater Capital Fund	\$ 11,876,486
Street Capital Fund	\$ 34,000
SDC Local Storm Improvement Fund	\$ 1,425,638
SDC Local Storm Reimbursement Fund	\$ 21,000
SDC Local Wastewater Reimbursement Fund	\$ 254,000
SDC Local Wastewater Improvement Fund	\$ 85,000
SDC Regional Wastewater Reimbursement Fund	\$ 0
SDC Regional Wastewater Improvement Fund	\$ 0
SDC Transportation Reimbursement Fund	\$ 556,743
SDC Transportation Improvement Fund	\$ 3,497,773
Booth-Kelly Fund	\$ 444,000
<b>Subtotal</b>	<b>\$ 57,005,629</b>
SEDA-Glenwood	\$ 350,000
<b>Total</b>	<b>\$ 57,355,629</b>

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 the 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. In a governmental setting, these operating impacts often occur in funds other than those in which the capital expenditure is recorded.

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

Analysis of the FY11 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 approximately \$944,000 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. Approximately \$16.8 million is budgeted for such projects. Projects like the \$7,563,190 budgeted for Sanitary Sewer Wet Weather Flow Abatement and rehabilitation of pipes in Sanitary Sewer Basin 22 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 an impact on the operating budget includes those where the scope of the project is not sufficiently well defined to develop an estimate. 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 over \$14 million. The increased operating spending that will result is estimated to be about \$100,000 annually. The majority of this cost is for projects that will result in an increase in staffing in future years. However, 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.

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