



MEMORANDUM

DATE: July 17, 2023
TO: Honorable Mayor and City Councilmembers
 Dave Perrault, City Administrator
FROM: Gayle Bauman, Finance Director
SUBJECT: 2024 – 2028 Capital Improvement Plan (CIP)

Budgeted Amount:	Actual Amount:	Funding Source:
N/A	N/A	Various

Council Should Consider

Provide feedback to staff on Preliminary 2024 – 2028 CIP Plan.

Background

Annually, the City prepares a five (5) year Capital Improvement Plan for budgeting and forecasting. The focus of the CIP is on the maintenance and protection of the City’s existing assets, redevelopment, and investment in new initiatives. The CIP is part of the budget process, but it is not a budget, it is a plan, and one that changes often. The CIP does not commit the council to the proposed projects, nor implement the assumptions made during the preparation; however, this is the basis for the 2024 Budget as we continue with its preparation.

The city has a finite amount of resources, so prioritizing and then being able to finance projects is crucial for ensuring the city’s long-term sustainability and being responsible stewards of the city’s investments. Staff has been working on completing a comprehensive study of the City’s current and future needs for infrastructure projects to better estimate project costs and ensure more accurate forecasting of available fund balances.

Discussion

A preliminary plan has been prepared and is attached which includes a summary of projects, detailed project sheets, sources of funds, and estimated fund balances (since the operating budgets have not yet been completed, these fund balances are estimated operating costs). Information is included on street and park projects going out ten (10) years even though our CIP is only for five years. Please note that project timelines are subject to change and that the current timeline is City Staff’s best estimate.

The 2023-2027 CIP was a \$17.4 Million plan, while the proposed 2024-2028 CIP is listed for \$27.5 Million in expenditures. This is a 58.2% increase from the previous year’s program or \$10,129,750. The biggest increases are in Parks, Street Projects and Equipment purchases while the biggest

decrease is found in Surface Water as a majority of these projects were absorbed into the Street Projects.

PIR Fund

- The city has about \$60 million of streets and trails (based on 29.42 miles of city streets). Estimating the useful life of these assets at 40 years would require an investment of about \$1.5 million annually. The current funding sources of the tax levy, Municipal State Aid and special assessments account for about \$920,000 on average per year for 2024-2028. This gap in the CIP fluctuates from year-to-year, but will need to be addressed over time.
- A property tax levy of \$250,000 is being proposed for 2024, which is unchanged from 2023. Based on potential projects, this amount should be increased.
- The city has been able to self-finance the special assessment portion thus far. However, with the cost of these projects increasing, we may need to eventually look at bonding for the special assessment portion of street projects. Current projections do not include any prepayments of special assessments.
- There are not sufficient MSA funds to cover the projects included in the CIP for the next 10 years. Based on current projections, our MSA fund will be short by \$2.57 million at the end of 2033 and won't be positive again until 2042.
- The Lake Johanna Blvd trail project and 2028 PMP were added to the CIP.
- There is a definite need to stay on top of street improvement projects to ensure streets reach their useful lives and don't require costly premature full reconstructions. Several areas of the city are reaching those crucial ages that significant outlay is needed to ensure the long-term vitality of the streets.
- Projects were programmed to try and get the City on a schedule of completing a major street reconstruction project every other year.
- The 3 types of street improvement projects being considered based on condition are:
 - Resurfacing is the milling of the top 1.5 to 2 inch surface layer of street pavement and overlaying the street with a new bituminous surface layer.
 - Full Depth Reclamation involves spot repair of existing curb, milling or reclaiming the full depth of existing bituminous pavement, blending milled material with underlying aggregate material and installing a new bituminous pavement section.
 - Reconstruction involves removal and replacement of larger quantities of existing curb, installing underlying subgrade correction materials, new aggregate base and a new bituminous pavement section.
- Future PMP projects included in the CIP (2025 and beyond) assume Full Depth Reclamation will be required. Costs will decrease if Resurfacing is required and increase if Reconstruction is required.

Public Safety Capital Equipment Fund

- The fund is currently being used to account for capital expenditures made by the Lake Johanna Fire Department.
- The assumption being used for this CIP is that debt service on the new fire station will begin in 2026 at \$140,300 and increase to \$280,600 in 2027 per year.
- Engine/ladder truck replacements are scheduled for 2024, 2027 and 2029.
- The current \$220,000 tax levy does not support the needs of this fund. Could possibly apply a portion of the one-time Public Safety Aid being allocated to the City to assist with the fund deficit.

Equipment & Building Replacement Fund

- The current plan includes replacing the City Hall roof in 2025 and replacing the City Hall air handlers in 2028.
- PW staff has been working on the long-term asset replacement plan for equipment. Because of this, \$683,500 of new or replacement equipment was added to the plan through 2027 and \$174,000 was added for 2028.
- The current \$50,000 tax levy does not support the needs of this fund.

Utility Funds

- Public Works staff continues to evaluate the condition of City utilities throughout the community. The majority of street projects currently include a minimum amount for isolated utility repairs but these amounts could increase as locations are identified where broader water, sanitary sewer and drainage replacement is needed.
- For the Sewer Fund, no I&I grant funds have been included in the plan as the amounts are unpredictable.
- Rate increase assumptions are as follows:
 - Water – 2024-2033 (0%) – possibly look at rate reduction in a future year
 - Sewer – 2024-2026 (2%); 2027-2033 (0%)
 - Storm – 2024-2033 (1%)

Council Direction

Staff is seeking direction from the City Council regarding the following items:

2024 projects

As we review the 2024 projects, does the Council have any questions, comments or concerns about including them during budget preparation?

2024 property tax levy

The levies for the EDA (\$100,000), Equipment/Building Replacement (\$50,000), Public Safety Capital (\$220,000) and PIR (\$250,000) are currently proposed to remain at the same amount as was levied in 2023 in this plan. Levy increases are needed for the Equipment/Building Replacement and Public Safety Capital funds. **What increases, if any, should staff assume?**

2023 General Fund transfer

There is \$253,640 available to transfer from the General Fund to capital funds in 2023. This total represents the amount at 12/31/2022 that was in excess of the 50% fund balance reserve goal stated in the City's financial policies less the amount needed to be reserved due to additional costs being incurred for the Communications Coordinator position and the NYFS contract. There are some one time operational expenditures included in the 2024 Budget (\$40,000 for ordinance updates and \$17,500 for a comp study). A portion of these funds could be used to cover those costs so they are not included when calculating the needed levy increase. The 2023 Street Maintenance budget will also need additional funds due to overages in the salt/sand and overtime line items due to winter plowing. **Does the Council have a preference on where the funds should go?**

2024 Local Government Aid (LGA)

The omnibus tax bill includes an \$80 million annual increase in local government aid. Arden Hills is not currently a recipient of LGA Funds. This increase would mean Arden Hills will

receive \$121,471 of LGA in 2024. Staff recommends that these funds are not used for general operations (the state has unallotted LGA in the past) but instead direct them toward capital projects. They are included in the PIR Fund in this plan. **Does the Council have a preference on where the funds should go?**

Public Safety Aid

The City is being allocated one-time Public Safety Aid in the amount of \$433,084. These funds can only be used to cover police and fire expenditures. **How does the Council want to allocate these funds?**

Additional Funding Mechanisms

There are additional funding mechanisms available to cities to take some of the burden off of the property tax levy. Options such as Franchise Fees and Local Sales Taxes can bring in monies from exempt properties and non-property owners. During the 2023 legislative session, a moratorium was placed on local sales tax authorizations through the 2025 legislative session. **Does the Council want staff to begin exploring additional funding mechanisms such as Franchise Fees or Local Sales Tax?**

Budget Impact

The Council should review the estimated fund balances and funding sources with special attention given to the Equipment/Building Replacement and Public Safety Capital Funds.

When considering what tax levy increases are needed to support the capital funds, it should be noted that preliminary results of department submissions and other assumptions have the General Fund expenditures increasing by \$693,840, which would equate to a 14.7% levy increase. This is without taking into account any changes to the revenue budget from 2023. Attachment C gives a preliminary snapshot of the increases being considered for the General Fund.

Attachments

Attachment A: PowerPoint Overview of Capital Improvement Plan

Attachment B: Capital Improvement Plan

Attachment C: Preliminary expenditure increases for 2024 General Fund Budget