



MEMORANDUM

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**DATE:** July 18, 2022  
**TO:** Honorable Mayor and City Councilmembers  
 Dave Perrault, City Administrator  
**FROM:** Gayle Bauman, Finance Director  
**SUBJECT:** 2023 – 2027 Capital Improvement Plan (CIP)

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

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**Council Should Consider**

Provide feedback to staff on Preliminary 2023 – 2027 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 2023 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 2022-2026 CIP was a \$16.4 Million plan, while the proposed 2023-2027 CIP is listed for \$16.9 Million in expenditures. This is a 2.9% increase from the previous year’s program or \$474,770. The biggest increases are in Parks and Sewer while the biggest decrease is found in 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 \$940,000 on average per year. 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 2023, which is unchanged from 2022.
- 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 sufficient MSA funds to cover the projects included in the CIP for the next 10 years. MSA funds can only be used on Municipal State Aid Streets.
- 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 Mounds View High School trail project, Hazelnut parking lot and Perry Park parking lot were added to the CIP.
- 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.

### 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 2025 at \$195,000 per year and continuing for 15 years. This could be decreased to \$155,000 if we were to bond for 20 years. Property tax levy increases are proposed for the years 2021-2025 with a final total levy increase of \$225,000.
- 2023 budget information has not yet been received from LJFD. Equipment purchases are based on information received last year and are subject to change.

### Equipment & Building Replacement Fund

- The current plan includes replacing the City Hall roof in 2025 and replacing the City Hall air handlers in 2028.
- The long-term asset management plan for equipment has not yet been completed so purchases are only scheduled out for 5 years.

### 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.
- Rate increase assumptions are as follows:
  - Water – 2023-2024 (3.5%); 2025-2026 (0%); 2027-2028 (1%); 2029-2032 (0%)
  - Sewer – 2023 (3.5%); 2024 (3%); 2025-2026 (0%); 2027-2028 (2%); 2029-2031 (1%); 2032 (0%)
  - Storm – 2023-2032 (0%)

### Council Direction

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

#### 2023 projects

**As we review the 2023 projects, does the Council have any questions, comments or concerns about including them during budget preparation?**

#### 2023 property tax levy

The levies for the EDA (\$100,000), Equipment/Building Replacement (\$50,000) and PIR (\$250,000) are currently proposed to remain at the same amount as was levied in 2022 in this plan. The plan reflects a \$50,000 increase in the levy for the Public Safety Capital Fund, going from \$170,000 to \$220,000. It is assumed that levy increases will be needed each year from 2022-2025 to ensure the City has sufficient cash on hand to make its debt service payments once the new fire station is built. **Should staff continue forward with this assumption?**

#### 2022 General Fund transfer

There is \$279,820 available to transfer from the General Fund to capital funds in 2022. This total represents the amount at 12/31/2021 that was in excess of the 50% fund balance reserve goal stated in the City's financial policies. \$177,280 of this amount will remain in the General Fund to cover additional costs being incurred for the 2022 Street Maintenance Program. The plan will be to transfer the remaining \$102,540 to the Capital Improvement (PIR) Fund. **Does the Council have a preference on where the funds should go?**

### Budget Impact

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

### Attachments

- Attachment A: PowerPoint Overview of Capital Improvement Plan
- Attachment B: Capital Improvement Plan