

Capital Budgeting Task Force Annual Report

Including 2020 Capital Budget and
2020-2024 Capital Improvement Program Recommendations

to the
Hennepin County Board of Commissioners

Thursday, October 24, 2019

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October 24, 2019

Board of County Commissioners
Hennepin County Government Center
Minneapolis, Minnesota 55487

Honorable Board Members:

It is my pleasure to submit to you the Annual Report of the Capital Budgeting Task Force (CBTF) containing the activities, principles, and recommendations of the CBTF concerning the 2020-2024 Capital Improvement Program for Hennepin County.

The Capital Budgeting Task Force devoted a considerable amount of time to its extensive review of the capital projects requested by county departments. The CBTF endeavored in its deliberations to recommend a property tax level for capital improvements and debt service which is within county guidelines and limits pertaining to county bonding over the 2020-2024 period. In my remarks to the Administration, Libraries and Budget Committee, I will provide the rationale behind these recommendations.

On behalf of the Capital Budgeting Task Force, I would like to thank the County Board for the ongoing support extended to our Task Force during the past several years. It is a distinct pleasure for the CBTF membership to be of assistance to the County Board in this significant aspect of county government.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Susan Carlson Weinberg'. The signature is fluid and cursive, with a large loop at the end.

Susan Carlson Weinberg
CBTF Chair

I. CAPITAL BUDGETING TASK FORCE

ROLE AND RESPONSIBILITY IN THE CAPITAL BUDGET PROCESS

The Capital Budgeting Task Force was established by County Board Resolution in 1973. It has the responsibility of reviewing county departments' capital project requests and making recommendations concerning those requests to the County Board of Commissioners. The Task Force, known as the CBTF, consists of eleven citizens who reside in various communities within Hennepin County. Each of the seven county commissioners appoints one member. The remaining four members are appointed by a majority of the commissioners and serve at-large for four-year terms.

The task force meets about 10 times annually concentrated mostly between May and September. Its activities include reviewing departments' capital project requests, touring county facilities, and prioritizing the various capital project requests. The final product is a set of recommendations to the County Board regarding an annual capital budget and a five-year capital improvement program. The CBTF's orientation is primarily toward the long-range implications of capital projects. They evaluate the county's capital needs with a goal of maintaining a minimum, but sufficient capital program which does not exceed the amount of revenues which will be available to fund capital projects.

Capital budget instructions are sent to Hennepin County departments and agencies in February. The departments' capital project requests are first reviewed by County Administration and Facility Services staff for content and programmatic value.

The project requests are then submitted to the Capital Budgeting Task Force, which reviews them to arrive at its recommendations to the County Board of Commissioners. After reviewing the CBTF's recommendations, the County Board adopts a capital budget for the ensuing year and a five-year capital program for long-range planning purposes.

This report includes the CBTF membership, activities and recommendations for the County's five-year capital improvement program, together with the principles that have guided the Task Force's current recommendations.

II. CAPITAL BUDGETING TASK FORCE MEMBERSHIP

District	Member	Appointed by	Date Appointed	Expires
1 st	Susan Carlson Weinberg	Commission Mike Opat	December 2001	N/A
2 nd	Nestor Garcia Olague	Commissioner Irene Fernando	May 2019	N/A
3 rd	Tom Trisko	Commissioner Marion Greene Commissioner Gail Dorfman Commissioner Mark Andrew	May 2014 April 1999 April 1993	N/A
4 th	Vacant	Commissioner Angela Conley	N/A	N/A
5 th	Jill Joseph	Commissioner Debbie Goettel	May 2017	N/A
6 th	William Henney	Commissioner Jan Callison	March 2014	N/A
7 th	James Schultz	Commissioner Jeff Johnson	August 2019	N/A
At Large	Greg Sticha	County Board	February 2018	December 2021
At Large	Heidi Hamilton	County Board	February 2018	December 2021
At Large	Larry Blackstad	County Board	March 2016	December 2019
At Large	Ying Vu	County Board	March 2016	December 2019

III. SUMMARY OF CBTF ACTIVITIES FOR 2020

MEETING DATE	AGENDA
June 3rd	Introductions, discuss CBTF principles, overview of County 2018 financial results and 2020 operating budget assumptions, discussion of County bonded indebtedness, update on projects and issues of interest. Tour 701 Building; 625 Building infrastructure.
June 17th	Public Safety and Judiciary project requests. Tour Courts Tower.
July 8th	Libraries, Transportation Sales Tax Development, Environment & Energy, and Community Works project requests. Debt Forecast.
July 15th	Information Technology, Municipal Building Commission and Facility Services project requests. Downtown Master Plan
July 29th	Health, Transportation Facilities and Transportation Roads & Bridges project requests.
August 19th	Administration presentation to CBTF; Deliberations. 12:30 – 4:30 meeting at the Government Center
August 26th	CBTF Deliberations; finalize recommendations. 12:30 – 4:30 meeting at the Government Center
September 17th*	County Administrator presents Proposed Budget
September 24th*	County Board adopts maximum property tax levy
October 24th	Presentation of CBTF Recommendations to the County Board. Government Center; A-24 County Board Room.
December 12th*	County Board of Commissioners adopts the 2019 Capital Budget and 2019-2023 Capital Improvement Program

***CBTF members do not attend these county board meetings, but are important to CBTF activities.**

IV. GENERAL APPROACH TO CAPITAL IMPROVEMENTS (As of August 26, 2019)

Since its beginning in 1973, the Capital Budgeting Task Force has established a number of principles and evaluation criteria which have served as a basis for recommendations to the Hennepin County Board of Commissioners concerning capital improvements. These principles and criteria, as updated each year, are presented below:

A. CBTF PRINCIPLES

Given competing demands for funds, the primary budgetary responsibility of the Hennepin County Board of Commissioners is to establish expenditure priorities to carry out the various program and service responsibilities of Hennepin County. Acting as an advisory committee, the primary responsibility of the Capital Budgeting Task Force is to make recommendations to the County Board regarding priorities for capital improvement projects. As determined by the County Board, the CBTF reviews all capital projects relating to all county departments. Currently, the CBTF does not review the projects overseen and fully funded by other governmental entities [e.g. the Regional Railroad Authority (RRA) or Housing & Redevelopment Authority (HRA)], but does review the projects of Hennepin Healthcare System, Inc. (HHS/Medical Center), although projects that are directly funded through the HHS/Medical Center Operating Budget are not reviewed by the CBTF. Over the years, it has become apparent to CBTF members that capital improvements as defined and requested by county departments exceed the County's ability to finance them within the time period desired. In addition, the ongoing operating implications of capital projects are often not fully defined or known by departments. As a result, there is a

continuing need to establish capital improvement priorities within the context of long-range revenue and expenditure considerations as well as other factors which affect the long-term needs and plans of the county. The following principles have guided the CBTF's review of capital improvements over the years:

1. Revenues

Hennepin County utilizes various types of revenues to finance its capital improvement program: (a) property taxes, (b) dedicated funds, (c) bonded indebtedness, (d) revenues from the sale of real properties, and (e) enterprise fund revenues. The CBTF also has evaluated (f) alternative revenue sources to finance the capital program.

(a) Property Taxes

The Capital Budgeting Task Force considers the property tax to be an important determinant of the scope and size of the county's capital improvement program. Property taxes may be used to finance a project totally or may be used in concert with dedicated revenues. Regardless of which projects are funded with property taxes, the amount of property taxes levied or to be levied is considered by the CBTF to be a significant factor influencing the establishment of the capital improvement program.

The CBTF believes that the county needs to maintain a minimum level of property tax support to prudently fund capital projects which are not logical candidates for bond financing.

The CBTF has adopted the following specific principles regarding property taxes:

That the property tax levy for capital improvements should be maintained at a relatively consistent level from year to year. If movement of the levy either upward or downward becomes necessary, it should be done gradually.

A relatively stable property tax levy for capital improvements will not necessarily result in a stable annual expenditure level for capital improvements. As noted below, the availability of other revenues, many of which are dedicated to specific types or groups of projects, will determine the total expenditure level for the annual capital program. It is because of this fluctuation in non-property tax revenues that the CBTF believes a relatively stable property tax approach is preferable to a stable expenditure approach:

When considering a consistent capital improvement property tax levy, the county should consider the property tax requirements for debt retirement as well as for capital projects.

The property taxes for the County's total capital improvement program should also consider the property taxes required to finance the debt service on general obligation bonds previously issued for capital projects, as well as for those projects in the current program that are proposed to be funded by general obligation bonds. Only in this manner is the total property tax requirement for capital improvements accurately reflected.

The Capital Budgeting Task Force believes that continuing

the property tax levy for capital improvements at a minimum, yet relatively stable level, will aid in planning capital improvements in subsequent years. This approach will also help to avoid a natural tendency to ignore the long-range capital needs of the county in order to gain short-term benefits of lower property taxes for one year. Not only is such an approach disruptive to long-range planning, but it is short-sighted in terms of fulfilling the county's obligations to its citizens in the future.

(b) Dedicated Revenues

It is important to note that, of the revenues available for capital improvements, certain types of revenue have a significant impact on the nature and type of capital improvements the county undertakes. A substantial portion of the revenue available for capital improvement projects is dedicated to a specific type of project or group of projects. Of greatest significance in this regard are revenues available for financing county transportation projects including: federal, state, transportation sales & use tax and wheelage taxes. The CBTF believes that:

The county should maximize utilization of all revenue sources dedicated for capital improvements including: federal, state, transportation sales & use tax and wheelage taxes before programming general revenue sources.

While these dedicated revenues carry with them numerous constraints, the CBTF believes that any prioritization of capital projects within the capital improvement program, must take these constraints into account. Further, the CBTF believes that the use of such revenue sources should be maximized even if, in so doing, projects must be accelerated or delayed to secure such

funds. In addition, the CBTF believes that the county should have contingency plans, especially in times of recession, to make use of any additional federal, state or other funds which may become available as a result of new programs. The CBTF does not believe, however, that new capital projects should be developed merely to take advantage of such funds.

(c) Bonded Indebtedness

The county has authority to issue debt for general capital purposes subject to certain conditions and limitations. The county's capital improvement program must include consideration of many of the same factors that make up the CBTF's principles and evaluation criteria.

The CBTF believes it is important that the county use prudence in the issuance of debt for capital projects. The CBTF believes the County should issue debt in accordance with the following principles:

The county should issue debt only for major capital projects and not try to finance the entire capital program with debt.

- Bonds should not be used to fund operations. In general, projects costing \$150,000 or less should be funded from operations and not submitted to the CBTF for consideration in the capital program.
- Bonds should not be used to fund any project whose expected life does not exceed the maturity on the bonds.

The county should balance debt issuance;

considering current and future property tax impacts, bond interest rates and capital needs.

The county should always reserve sufficient countywide bonding authority remaining after approval of each five-year capital program to always be in a position to address contingencies and unforeseen additions to the capital program.

The CBTF has consistently recommended that the county's total tax burden for capital (including debt service) be as level as possible. Issuance of bonds allows the county to even out the property tax load while addressing current significant capital needs. However, the task force believes that the county should balance debt issuance with current property taxes to address capital needs in a manner which best serves future property taxpayers as well as current property taxpayers. Debt issuance has future property tax implications which must be factored into the capital financing equation. As discussed above, the CBTF's property tax principles include consideration of increases and decreases in the county debt service requirements in an attempt to level out the property tax for capital improvements.

The county should maintain its debt management planning which includes a strong financial framework and preserves the county's triple A bond rating.

The CBTF is confident the county can accommodate some debt and still retain its high credit rating. However, the Task Force believes this high credit rating is of such importance that it should be maintained at all costs. Prudent debt management planning developed around the

key variables used by the major rating agencies should be utilized by the county to preserve the county's credit rating.

In particular, the county should consider the total debt of the county as well as that of overlapping taxing districts.

The county should approve capital improvement plans and issue debt consistent with the following guidelines:

- o The overall calculated general obligation debt service levy should not exceed 15% of the total annual property tax levy of the County.
- o The total amount of outstanding general obligation debt should not exceed \$800 per capita (2009 figure, adjusted for inflation thereafter).
- o The total amount of outstanding general obligation debt supported by property tax should not exceed .65% of the Estimated Market Value of the county.

(d) Sale/Lease of Surplus Real Properties

The CBTF believes that the county should exercise proper caution in disposing of valuable properties to ensure that future county needs are taken into account. The CBTF is also concerned that the county not be forced to sell property at inopportune times merely to balance the current year's operating budget. The CBTF believes that if properties are to be sold or leased, the proceeds from such sales and leases should be dedicated for capital projects because the properties being sold or leased were originally purchased from the county's capital funds:

Generally, revenues derived from the sale or lease of county real properties should be dedicated to the Capital Improvement Program and programmed after receipt by the county.

The CBTF believes that conservative inclusion of property sale revenues as part of the five-year capital program increases the flexibility of the county regarding when the properties are to be sold or leased while supplying a needed non-property tax revenue source to support the capital program.

(e) Enterprise and Internal Fund Revenues

Some county departments generate revenue in the course of providing services and conducting business. Although some front-end financing may be prudent, the CBTF believes that, to the extent feasible and practicable, these enterprises should finance their capital needs, including initial construction, additions and renovations, with program generated revenue.

The CBTF recommendations included in this Capital Budget and Capital Improvement Program are predicated on the condition that the county's enterprise operations will generate sufficient revenue to finance their own projects to the extent feasible and practicable.

Hennepin Healthcare System (HHS)

As of January 1, 2007, the Hennepin Healthcare System (HHS) corporation board oversees the operations of the medical center. The operating and capital budgets for HHS are reviewed and approved by the County Board. In addition, the debt issued to finance capital improvements for the

hospital is issued by Hennepin County. As a result, the Capital Budgeting Task Force reviews the medical center's proposed capital projects that include bonding, and approved projects are included in the county's five-year capital improvement program.

Given the uncertainties in funding streams and other adverse changes in hospital revenues, the CBTF assumes that all bonds issued to finance medical center projects will be general obligation debt of the county, even if that debt is supported by enterprise revenues of the hospital.

(f) Alternative Revenue Sources

In addition to increased authority to issue debt and using the proceeds from the sale of surplus real property, the CBTF believes the county should investigate other non-property tax revenues as they become available. These alternatives may include public/private partnerships, alternative debt instruments in-so-far-as they are prudent, grants and other various donations.

The county should use alternative financing mechanisms only if it can be clearly shown that they are in the best interests of the county.

In summary, the Capital Budgeting Task Force's approach to revenues can be expressed as follows: maximize all non-county revenue sources and utilize whatever revenue sources are available to reduce the property taxes and general obligation debt required for capital projects to a minimum over the long run. Stabilize the property tax levy requirements as much as possible, including the requirements for debt service of county obligation bonds. The CBTF believes this approach will provide a minimum but sufficient amount of revenues to finance the county's

capital improvement program in the long run.

2. Expenditures

Since it is not feasible to develop a capital improvement program which addresses all project requirements of county departments, the Capital Budgeting Task Force has established evaluation criteria to assist in assessing capital projects. These criteria are presented in detail in Section IV-B of this report. It should be noted that the criteria as established are not intended to be used as an absolute system to determine the ranking of projects, but rather are used as a guideline to assure that all relevant factors are considered in the development of any recommendations. In addition to establishment of evaluation criteria, the CBTF has developed the following general principles regarding capital improvement expenditures:

Existing Asset Utilization and Maintenance

The Capital Budgeting Task Force believes that existing county infrastructure should be utilized to the fullest extent possible. For the CBTF, this implies a heavy emphasis on maintaining roads and facilities so that they continue to be serviceable throughout their useful life. **The CBTF cautions the county against reducing maintenance budgets in order to redirect resources to operating programs and services.** Whether the projects are of sufficient magnitude for CBTF involvement or not, the Task Force believes that maintenance is a high priority and is absolutely essential to ensuring full utilization of county assets now and in the future:

The county should maximize utilization of existing assets, including giving a higher

priority to maintaining existing assets, over new construction where reasonable.

The CBTF does not believe there should be any “natural rights” of county departments or programs to any assets or portions thereof. For example, the CBTF believes that to maximize utilization of all county facilities, present facilities must be adequately maintained in order to ensure continued usage for whichever department or service may need to utilize that asset now or in the future. This approach reduces the need to commit the county to new construction or major renovation of other facilities. The present capital assets of the county are very valuable, but increase in value only if they are well maintained throughout their useful life. The replacement cost of most of the county’s assets is very high. As a result, preservation of the county’s assets protects the county’s investment and saves money in the long run for the county. However, the county should guard against committing resources to assets that have exceeded their useful life.

Flexibility for the Future

The long-range full utilization of county assets can be enhanced if the investment is completed with as much flexibility for the future as possible. The CBTF believes that:

In order to increase the long-run utilization of county assets, as much flexibility as is consistent with operating efficiency should be planned into all new or renovation projects that the County undertakes.

Because of state, federal and judicial mandates,

programmatic and regulatory guidelines, reorganization plans and other factors, Hennepin County government will continue to change in the future. While the county will probably not experience the growth in programs or employees that it has seen in the past, the CBTF believes that the county’s assets should be constructed and maintained in such a manner that future growth and change can be accommodated.

In addition, the task force has specifically noted the increased costs for leasing space and otherwise accommodating temporary moves while office space is remodeled and recommends that sufficient space in the Government Center or elsewhere be reserved for temporary space relocations and staging. Absent significant space saving through telecommuting and office space requirements, particularly downtown, are the direct result of growth in county personnel. Because departments tend to request staffing additions without identifying the associated space and equipment requirements, the CBTF urges that:

Detailed information in the form of a staff accommodations plan relating to the cost of housing and equipping new staff must accompany any request for additional staffing made by county departments for Board consideration.

Operating Cost Implications

With integrated operating and capital budget preparation cycles, the CBTF expects that future operating cost implications of capital projects be delineated:

The operating cost implications of all capital projects must be identified by county

departments and the priority given to those which will result in a reduction in operating costs where feasible.

Many capital improvements proposed by county departments will require additional operating expenditures, while others may reduce operating costs. The CBTF believes that sound financial planning demands that operating cost implications be considered prior to approval of any capital improvement program.

Inflation and Capital Cost Control

During the years the CBTF has been in existence, inflation has been a consideration in terms of its impact on capital projects. Because the capital improvement program of the county projects expenditures and revenues up to five years into the future, the CBTF has found it useful to estimate inflation rates for highway and other capital projects. Although the inflation estimates used in the capital improvement program will probably not prove correct, it is nevertheless important that the impact of inflation be explicitly recognized. As the inflationary experience changes, the inflation estimates can be revised on an annual basis. The CBTF believes that:

Inflation factors for all projects in the capital program should be considered each year and appropriate adjustments made to all project estimates.

Whether caused by inflation, poor cost estimating practices or changes in project scope, capital project budgets have, on occasion, experienced significant cost overruns. The CBTF believes that project budgets, once established, should be closely adhered to and only revised

after careful consideration of alternatives.

The extent to which capital project costs can be accurately estimated is dependent upon a given department's ability to clearly and comprehensively describe the requested project's scope and program requirements. The CBTF is very supportive of the capital planning process and encourages taking the time required to conduct the necessary preliminary planning activities for capital projects. As such, the CBTF supports early identification of capital projects and believes that:

Except in extenuating circumstances, the CBTF will not generally recommend implementation of a project in the first year of the five-year program during which it is requested.

This approach will permit a preliminary concept review of proposed capital projects by the CBTF with subsequent opportunity for further project planning activities to be carried out prior to final CBTF consideration of project implementation. It is felt that reviewing and recommending approval of capital projects in this manner will increase the likelihood of obtaining reliable cost figures.

In summary, the general approach of the CBTF to capital project expenditures is to evaluate the project's impact on the department's operating costs as well as the extent to which the investment contributes to full utilization of county assets not only at the present time, but also in the future. The CBTF is concerned about the impact of inflation on capital projects and programming and believes that proper inclusion of inflation factors will help eliminate project cost overruns. Additional information is presented in the project evaluation criteria in Section IV-B.

3. Other Factors

In addition to the CBTF principles regarding revenues and expenditures, there are also other areas which the Task Force has examined over the years and developed positions as follows:

Transportation and Transit

The CBTF believes that: the construction and maintenance of freeway roads are more appropriately the state's responsibility and the county should continue the policy that all future freeway construction be the responsibility of the State of Minnesota. In addition, the CBTF encourages the county to investigate turning back certain county roads to municipalities where feasible and traffic volumes do not justify county involvement.

With respect to mass transit, the CBTF strongly supports continued efforts and investment but encourages the county to carefully evaluate the considerable risks involved with such large investments and work closely with partnering agencies to mitigate and manage that risk. Further, the CBTF believes that transportation and transit funding by county debt or property taxes should be limited. Nevertheless, the county has increased funding for transportation and transit in part because state and federal highway funding has not kept pace. Along these lines, the CBTF encourages the county and its Regional Railroad Authority to consider county sponsored construction of transit supportive infrastructure; such as Light Rail Transit and Bus Rapid Transit investments.

Sustainability and Energy Efficiency

The CBTF recognizes that considerable operating cost savings can be realized through the application of energy conservation efforts to new projects and existing County

facilities. The CBTF acknowledges the County's "Cool County Initiative," with the goal to reduce greenhouse emissions 80% by 2050. The CBTF also recognizes that, within the estimated life of capital investments, the current cost of various energy sources may not reflect long-term costs to be experienced, and that installed energy systems will likely need future upgrading or replacement.

Therefore, the CBTF strongly supports the expenditure of capital funds to conserve energy and reduce emissions in the design of new assets and recommissioning of existing capital assets. In determining the level and extent of such funding, the CBTF believes that priorities must be established, and realistic pay-back periods realized. As such, the CBTF strongly supports the expenditure of capital funds to carry out such measures. Therefore, the CBTF has established the following guidelines for the funding of energy conservation and emission reduction efforts:

The County should pursue opportunities to conserve energy and reduce greenhouse gas emissions; however, the County should not make capital expenditures for which the pay-back period exceeds expected life of the asset.

Requested projects shall include an explanation of how the proposed project will reduce future operating costs, conserve energy and reduce greenhouse gas emissions, in support of the County's "Cool County Initiative," including projected payback for such measures.

The CBTF will be reviewing energy related projects on an

annual basis and favorably consider funding those projects which are consistent with these guidelines.

Consultant Costs

In recent years, the Capital Budgeting Task Force has seen an increase in requests for studies of various types including consultant studies related to programmatic issues. Consultant studies that are included in the capital program should be related to specific capital project requests involving space or architectural and engineering issues and be undertaken only when there is a reasonable likelihood that the capital project to which it is related will be initiated within close time-proximity to the completion of the study.

The county should include in the capital program only those consultant studies that relate to capital projects and space issues likely to be initiated or addressed within close time-proximity to the completion of the study.

Based on these principles and the evaluation criteria presented below, the Capital Budgeting Task Force reviewed and is recommending the Capital Improvement Program which is presented in Section V of this Report.

B. CAPITAL PROJECT EVALUATION CRITERIA

The following criteria have been used by the Capital Budgeting Task Force over the years to evaluate capital projects. The criteria are not used by the CBTF as an absolute grading system to determine the ranking of projects but rather as a guideline to ensure that the relevant factors to be considered are addressed in any recommendation on capital projects.

1. **Policy and Program Objectives** – relating to county policy generally and to the objective of the major program, sub-program and activity as stated in the annual Hennepin County budget:
 - Is the project considerate of other county functions, particularly in terms of co-locational factors?
 - Are there non-capital alternatives to the project that would also assure program continuity?
 - Is it possible to defer the project to a later date without adversely affecting the program?
 - Will the project contribute significantly to program objectives?
 - Is the project an integral part of an overall plan to accomplish program objectives?
 - Will the project enhance clientele accessibility, comfort and convenience?
 - Will it increase the availability of service to populations currently underserved or unserved?

2. **Financing** – funding sources and financing methods:
 - What are the proposed funding sources?
 - Is the funding source secure?
 - Have aid monies been applied for?
 - Are they subject to adjustment or cancellation?
 - Is the project a candidate for bonding, consistent with CBTF principles?

3. **Project Cost** – relation of cost to similar projects or building types and to other responsibilities of program provision:
 - Does the cost appear reasonable as compared to projects of a similar nature?
 - Are site acquisition costs adequately reflected?

- Have auxiliary costs been considered – such as site development utilities, parking?
 - How does the request compare to potential alternatives – including lease, turnkey contract for sale, and purchase of service?
 - What alternatives have been explored and what are the cost and effectiveness of these alternatives compared with the requested solution?
4. **Operational Cost** – long range commitment to maintain the facility and program:
- What costs are associated with the project for maintenance, staffing patterns, energy utilization and accessibility?
 - Have the identified operating costs been included in the project request?
 - How do these costs compare to existing program operation?
 - How do these costs compare to total departmental operational costs?
 - Are cost/benefit factors applicable?
 - What does the benefit imply?
5. **Time Frame** – scheduled initiation and completion to meet policy and program objectives:
- Is start-time realistic in view of project status and magnitude?
 - Is time frame essential to interface with other committed projects?
 - Are these projects approved for execution?
 - Do they represent a joint or cooperative effort with other service delivery agencies?
 - Do these projects involve public and/or private developments?
6. **Economic, Cultural and Environmental** – consideration of economies in timing, resource conservation, impact on area development and cultural and physical environment:
- Would the project aid the general economic condition of the area?
 - Would it serve to generate vicinity upgrading or renewal?
 - Would this activity be private as well as public?
 - To what extent could the project also benefit from a favorable bidding climate?
 - Are costs for any unique structural or equipment requirement expected to rise faster than normally expected inflation?
 - Does the project possess particular recreational, historical or social value?
7. **Life – Safety/Code Compliance** – relation to the protection of life and property:
- Does the project meet all appropriate building, housing, fire prevention and zoning codes?
 - Is the project proposed to alleviate unsafe conditions for existing highways/facilities?
 - Does the project properly take into account the safety and security of employees and visitors?
 - Is it prompted by legal requirements for safety standards (fire prevention, building codes, OSHA)?
 - Will the project help the county to comply with the Americans with Disabilities Act?

8. **Intergovernmental Relations** – cooperation with other service delivery agencies:
 - Is the project in harmony with development and service delivery policies of the municipality, Metropolitan Council and State of Minnesota?
 - Does the project contribute to local government cooperation and mutual support?
 - Are there any possibilities for joint usage or cooperating with other counties, municipalities or other units of government?

9. **Project Support** - Is there specific support for or opposition to the project:
 - Is it from community organizations, special interest groups, individuals?
 - Does it come officially from an affected unit of government?
 - Is reaction to the project genuine?
 - Is it representative of the general public?

10. **Legal Obligations** – A legal obligation is understood to mean a valid written agreement or contract to perform a service for the County.
 - Has the County entered into a binding legal contract or agreement for construction of the project?
 - Is it likely the County will enter into a binding legal contract for construction of the project by the end of the current year which will obligate future year budget authority?
 - Are there any options open to the County to delay or terminate the contract and if so, what are the financial consequences?

V. 2020-2024 CAPITAL IMPROVEMENT PROGRAM RECOMMENDATIONS

A. OVERVIEW OF RECOMMENDATIONS

CBTF Recommendations compared to: Department Requests for 2020 Budget and CIP

The Capital Budgeting Task Force received over 150 capital project requests for the 2020-2024 period. The Task Force is recommending a 2020 Capital Budget of \$476,736,164 that requires \$2,845,000 in property taxes, \$288,409,000 in general obligation (GO) bonding supported by various taxes and other revenues, \$123,615,664 transportation sales taxes, and \$61,866,500 in other revenues.

<u>Totals</u>	<u>2020</u>	<u>2020-2024</u>
Department Requests	\$507,600,000	\$1,654,700,000
<u>CBTF Recommendation</u>	<u>476,700,000</u>	<u>1,595,500,000</u>
Variance:	(30,900,000)	(59,200,000)

<u>Property Tax</u>		
Department Requests	\$5,200,000	\$18,200,000
<u>CBTF Recommendation</u>	<u>2,800,000</u>	<u>16,500,000</u>
Variance:	(2,400,000)	(1,700,000)

<u>General Obligation Bonding – Property Tax Supported</u>		
Department Requests	\$153,200,000	\$651,600,000
<u>CBTF Recommendation</u>	<u>120,500,000</u>	<u>582,600,000</u>
Variance:	(32,700,000)	(69,000,000)

<u>General Obligation Bonding – Transpo Sales Tax Supported</u>		
Department Requests	\$160,900,000	\$401,700,000
<u>CBTF Recommendation</u>	<u>160,900,000</u>	<u>401,700,000</u>
Variance:	0	0

<u>Transportation Sales Tax (Transfer from other funds)</u>		
Department Requests	\$123,600,000	\$289,800,000
<u>CBTF Recommendation</u>	<u>123,600,000</u>	<u>289,800,000</u>
Variance:	0	0

CBTF Recommendations compared to: Prior Year Board Approved 2019 Budget and CIP

The recommended 2020 capital budget is an increase of \$6.1 million, or 1%, over the approved 2019 capital budget of \$470.6 million and the Recommended 2020-2024 Capital Improvement Program is \$255.4 million less than the 2019-2023 Board Approved CIP, mostly due to Transportation & Sales Tax Development project updates.

<u>Totals</u>	<u>Capital Budget</u>	<u>Five Year CIP</u>
2020 CBTF Recommendation	\$476,700,000	\$1,654,700,000
<u>Board Approved 2019</u>	<u>470,600,000</u>	<u>1,850,900,000</u>
Variance:	6,100,000	(196,200,000)

<u>Property Tax</u>		
2020 CBTF Recommendation	\$2,800,000	\$16,500,000
<u>Board Approved 2019</u>	<u>3,900,000</u>	<u>17,600,000</u>
Variance:	(1,100,000)	(1,100,000)

<u>General Obligation Bonding – Property Tax Supported</u>		
2020 CBTF Recommendation	\$120,500,000	\$582,600,000
<u>Board Approved 2019</u>	<u>136,000,000</u>	<u>564,700,000</u>
Variance:	(15,500,000)	17,900,000

<u>General Obligation Bonding – Transpo Sales Tax Supported</u>		
2020 CBTF Recommendation	\$160,900,000	\$401,700,000
<u>Board Approved 2019</u>	<u>152,100,000</u>	<u>681,800,000</u>
Variance:	8,800,000	(280,100,000)

<u>Transportation Sales Tax (Transfer from other funds)</u>		
2020 CBTF Recommendation	\$123,600,000	\$289,800,000
<u>Board Approved 2019</u>	<u>100,000,000</u>	<u>316,200,000</u>
Variance:	23,600,000	(26,400,000)

Funding the Capital Improvement Program

Property Taxes

The CBTF is recommending property tax funding of \$2,845,000 for the 2020 capital budget. This revenue is programmed for those capital improvements which are not logical candidates for any other revenue source.

General Obligation Bonding

In developing our recommended budget and capital improvement program, we considered the Board's debt guidelines. The recommended budget and capital improvement program meets all debt guidelines, which were developed to conserve debt capacity for unforeseen future needs, yet allows for timely capital investments to enhance and maintain county assets.

The issuance of bonds allows the county to even out the property and transportation sales tax requirements somewhat while addressing current significant capital needs. The table shows the total general obligation bonding as recommended for the 2020-2024 capital improvement program, broken down by bonds that will be serviced with general property taxes, transportation sales & use taxes and enterprise revenues. Bonds that are issued as a general obligation of the County, but are internally recognized as funded with enterprise or other revenues, remain a general obligation of the county and are required to be serviced with other revenues (e.g. property taxes), should the respective revenues fail to materialize as projected.

Recommended General Obligation Bonding (000's):

<u>Year</u>	<u>Prop. Tax</u>	<u>Sales Tax</u>	<u>Enterprise</u>	<u>Total</u>
2020	\$120,500	\$160,900	\$7,000	\$288,400
2021	175,600	0	8,100	183,600
2022	152,100	27,000	5,800	184,800
2023	76,900	70,000	6,000	152,900
2024	<u>57,600</u>	<u>143,800</u>	<u>6,000</u>	<u>207,400</u>
	\$582,600	\$401,700	\$32,800	\$1,017,200

Transportation Sales and Use Taxes

On October 1, 2017, the County Board began collecting a 0.5% transportation sales and use tax as allowed by MN Statute 297A.993. Currently, the revenue may be utilized for construction of Green Line Light Rail Transit Extension (Southwest LRT), Blue Line Light Rail Transit Extension (Bottineau LRT), Riverview Corridor, or Orange Line Bus Rapid Transit; debt service on bonds issued for construction of those projects; operating costs of the listed transit lines; or other transportation capital costs as designated via a future public hearing and County Board authorization.

The CBTF is recommending \$123.6 million in 2020 and \$289.8 million over the five-year CIP toward Southwest Light Rail Transit and Bottineau Light Rail Transit. All collected transportation sales and use taxes are accounted for in a Special Revenue Fund of the County and transferred into the respective capital projects. Therefore, the revenue source as listed for individual projects, is noted as "Transfer from Other Funds."

B. PROJECT RECOMMENDATIONS

PUBLIC WORKS

The Capital Budgeting Task Force is recommending \$366.9 million for 2020 and \$1.1 billion for the 2020-2024 period for Public Works projects. This represents 77% of the recommended 2020 Capital Budget and 67% of the 2020-2024 Capital Improvement Program. The CBTF recommendations regarding Public Works projects are as follows:

Transportation Roads & Bridges

For Transportation Roads and Bridges investments, the CBTF is recommending a 2020 capital budget of \$70.9 million, funded with:

- \$28.9 million in state revenues
- \$20.2 million in federal revenues,
- \$13.7 million in county bonds,
- \$6.5 million from municipalities, and
- \$1.6 million in property taxes

Included in the \$70.9 million 2020 capital budget, the CBTF is recommending \$17.1 million toward multiple transportation supplemental capital activities which address transportation infrastructure across the county. These include: *Safety & Asset Management, Cost Participation & Partnerships, Project Delivery, Advanced Traffic Management Systems and Pedestrian Crossing Improvements.*

Because of the uncertainty and limits to future federal and state funding, the Transportation Roads and Bridges section excludes a number of projects estimated at \$162.4 million from its 2020-2024 capital improvement program request. These “provisional projects” will be added to the program if federal or state funding becomes available.

Regarding the whole of the 2020-2024 capital improvement program, the road or bridge projects noted below have recommended 2020 funding greater than \$3,000,000 and total project costs greater than \$10.0 million:

29 road or bridge projects are budgeted for 2020 funding.

<u>Road/Bridge projects over \$3m in 2020 and over \$10m in total</u>	<u>2020 Budget</u>	<u>Total Project</u>
2092200 CSAH 81 - Reconstruct Bottineau Blvd from CSAH 8 to TH 169	10,238,000	29,270,000
2167600 CSAH 81 – Replace Bridges #27007 and #27008 at Lowry Ave	9,000,000	17,085,000
2111000 CSAH 152 – Reconstruct Road from CSAH 2 (Penn) to 41 st Ave N	10,208,000	19,758,000

Transportation Facilities

For Transportation Facilities related projects, we are recommending \$2.9 million in 2020 toward the \$6.1 million PW Medina Office Remodeling project and \$475,000 to fully fund the PW Medina Welding Shop Modifications project.

Transportation Sales Tax & Development

The Transportation Sales Tax & Development area contains the investments in light rail and bus rapid transit, funded with the county's transportation sales and use tax which began on October 1, 2017. A mix of cash receipts as well as bonds financed with sales tax proceeds are utilized. Similar to past practice, for 2020, the CBTF is recommending budgets consistent with the schedules and financial plans as prepared by the Metropolitan Council. We are recommending \$277.5 million for HC Southwest Light Rail Transit and \$7.0 million for HC Bottineau Light Rail Transit. The HC Bus Rapid Transit Orange Line Construction project is fully funded in prior years.

Community Works

For 2020 Community Works projects, we are recommending \$500,000 toward the *Southwest LRT Community Works* project and \$700,000 toward the *Penn Avenue Community Works* project. In addition, we are recommending a \$430,000 transfer out of the Lowry Avenue NE Community Works project to the *CSAH 153 Reconstruct Lowry Ave from Washington St NE to Johnson* project within the Roads and Bridges section to better align the budget with the updated project plan.

Finally, note that the *Community Works Corridor Planning* and *Business District Initiatives* projects have been removed from the capital program and will be budgeted within the county's Operating Budget starting in 2020.

Environment & Energy

We are recommending funding of \$7.4 million in 2020 and programming \$34.8 million for the 2020-2024 Capital Improvement Program. Funding for all Environment and Energy projects, is enterprise cash or general obligation bonding supported by enterprise revenues.

The 2020 recommendation is comprised of:

- \$5.0 million in additional funding to continue facility preservation work at the *Hennepin Energy Recovery Center*,
- \$400,000 toward *Transfer Station Facility Preservation*, and
- \$2.0 million toward the \$4.0 million *Organics Tipping and Loading Expansion*.

PUBLIC SAFETY AND JUDICIARY

The Capital Budgeting Task Force is recommending \$13.9 million for 2020 and \$71.4 million for the 2020-2024 period for Public Safety and Judiciary projects. This represents 31% of the recommended 2020 Capital Budget and 5% of the 2020-2024 CIP.

Public Safety Administration & Integration

The CBTF is recommending \$996,000 in 2020 in continued funding toward the *Emergency Communications ARMER System Upgrade*. Funding for this effort is now requested through 2021 with an additional investment of \$900,000 planned in 2021 for add-on component upgrades.

Programmed for 2021, an upgrade to the *Emergency Management Outdoor Warning Sirens* is anticipated, however additional details around the information technology components are yet to be determined.

District Court

The CBTF is recommending \$3.2 million in 2020 including \$850,000 in final funding toward the *Courtroom Communications System Refurbishments* project; the final \$1.6 million toward the \$3.1 million *Government Center C-3 Courtroom Remodel* project and \$750,000 in continued funding toward the \$18.0 million *District Court Digital Evidence Technology* project. Note that roughly half of the Digital Evident Technology project cost is planned to be funded by the state of Minnesota District Court System (equipment), with the other half funded by the county (infrastructure).

Community Corrections & Rehabilitation

The CBTF is recommending a total 2020 budget of \$7.1 million, in support of four projects: \$4.0 million toward *Adult Corrections Facility Asset Protection*; \$1.8 million toward *County Home School Asset Protection*; \$970,000 for Juvenile Office Safety Upgrades; and the final \$300,000 for Office Safety Audit Modifications.

Sheriff's Office

With respect to the Sheriff's Office, the CBTF is recommending \$2.6 million toward two projects in 2020: \$1.8 million to fund the *City Hall / Courthouse Office Space Modifications* and \$810,000 to begin a \$1.8 million effort to *Sheriff's Furniture Upgrades*.

However, the CBTF recognizes that there are other significant needs related to Sheriff's Office facilities. We have recognized for a number of years that the existing Enforcement Services Division Headquarters is in very poor condition. We understand that there is a desire for a new facility and have programmed \$200,000 in 2021 to move forward with a planning effort. We also understand that there is a need for additional gun range and training facilities- which would be county owned or a shared facility- potentially with the City of Maple Grove is to be determined.

The CBTF recommends that all options should be carefully and fully considered by the Board before proceeding. Therefore, we are not recommending any 2020 funding toward implementation of a new facility or a separate gun range, because not enough information was available during our review to make a recommendation. Similarly, we are deferring for one year, the requested modifications to the existing Enforcement Services Headquarters until more is known about potential replacement options.

Regarding the potential *Sheriff's Crime Lab Expansion / Remodeling* project request, we are not recommending any funding at this time until a utilization plan for the soon to be vacated Medical Examiner's suite is complete.

HEALTH

The Capital Budgeting Task Force is recommending \$20.0 million for 2020 and \$129.0 million for the 2020-2024 period for Health projects. This represents 4% of the recommended 2020 Capital Budget and 8% of the 2020-2024 Capital Improvement Program.

NorthPoint Health & Wellness

The preliminary phases of the *North Minneapolis Community Wellness Center* project are now complete, however bids came in high for the main construction phase resulting in a project delay, significant value engineering, and higher costs. We are recommending \$4.0 million in continued funding toward this project which is now estimated to cost \$81.2 million.

Medical Examiner

With respect to the *Medical Examiner's New Regional Facility*, to be shared with Dakota and Scott counties, the CBTF is recommending continued funding of \$4.7 million toward this \$52.8 million project. Additional funding is programmed through 2022.

Medical Center

The CBTF toured the medical center in 2018 and recognize the need for substantial infrastructure investment across the campus- including the possibility that the Green and Blue buildings may not be viable in the long-term. The medical center team is currently reevaluating their past master planning efforts. This reevaluation is not yet complete and has not been fully vetted or finalized by medical center administration. The CBTF fully supports the medical center's evaluation

efforts, but did not have adequate information during our project review to fund 2020 requested initiatives.

The CBTF does support on-going investments in *Asset Preservation* and is recommending \$10.1 million in 2020. Also, the CBTF supports the medical center relocating some back office functions to the 625 Building and is including an initial \$800,000 toward that \$12.0 million effort.

HUMAN SERVICES & PUBLIC HEALTH

No capital project requests were received or evaluated for the 2020-2024 capital improvement program time period.

OPERATIONS AND LIBRARIES

The Capital Budgeting Task Force is recommending \$76.0 million for 2020 and \$330.3 million for the 2020-2024 period for Operations and Libraries projects.

This represents 16% of the recommended 2020 Capital Budget and 21% of the 2020-2024 Capital Improvement Program.

Libraries

The CBTF is recommending \$15.1 million toward four on-going library projects in 2020. However, we have deferred a number of project requests that are not yet underway to allow for a comprehensive study of library services and locations.

Information Technology

For 2020, we are recommending an additional \$1.5 million toward the ongoing *Community Connectivity Initiative*, which installs fiber optic lines across the county to support the county's high-speed broadband needs.

Facility Services

The CBTF is recommending \$56.3 million in investment for 2020. This includes a number of significant countywide investments in *Facility Preservation, Environmental Health & Safety, Energy Conservation*, and similar projects.

Of note, the CBTF is recommending \$26.0 million in 2020 toward five projects related to the implementation of the downtown courts and office space consolidation and efficiency plan. In total, these five projects are estimated to cost \$92.0 million; although a number of the components had been previously programmed for implementation but were consolidated into this larger effort. The five projects are:

- 625 Bldg Occupancy Preparation & Rehabilitation
- 625 Bldg Office Remodeling
- Government Center Office Relocation & Remodel
- Government Center Court Relocations from FJC
- HSB Clinic & Office Remodeling

Municipal Building Commission

For 2020, we are recommending \$3.1 million toward six projects that will continue to maintain and preserve the historic City Hall / Courthouse building.

We are recommending \$550,000 of continued funding toward *Safety Improvements- Non Stagework Areas*; \$120,000 in continued funding toward *Mechanical Systems Upgrades*; \$2.2 million toward *Exterior Improvements* and \$175,000 toward the *4th Street Reconstruction project*.

Additionally, we are recommending funding to start two projects that are fully funded by the county: \$55,000 for the *ADC Electric Locks Upgrade* and \$50,000 for the *Electrical Upgrades project*.

C. CONCLUSION

It should be noted that 2020 is the only year for which a capital budget will be set at this time. The remaining years of the proposed 2020-2024 Capital Improvement Program are important from the perspective of long-range financial planning and they are required under the provisions of Minnesota Statutes 373.40, the law governing the County's general bonding authority. Nevertheless, the projects scheduled beyond the upcoming year can be adjusted annually as additional revenues become available or programmatic requirements change.