

Capital Budgeting Task Force Annual Report

Including 2017 Capital Budget and
2017-2021 Capital Improvement Program Recommendations

to the
Hennepin County Board of Commissioners

October 20, 2016



Office of Budget and Finance

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October 20, 2016

Board of County Commissioners
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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 2017-2021 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 legal limits pertaining to county bonding over the 2017-2021 period. In my remarks to the Budget and Capital Investment 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', with a large, stylized flourish at the end.

Susan Carlson Weinberg
CBTF Chair

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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 an average of once a month. 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 the capital program of the county for the next five years. 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 receiving the CBTF's recommendations, the County Board reviews the capital improvements program and adopts a capital budget for the ensuing year.

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 2017-2021 recommendations.

II. CAPITAL BUDGETING TASK FORCE MEMBERSHIP

| <u>District</u> | <u>Member</u> | <u>Appointed by</u> | <u>Date Appointed</u> | <u>Expires</u> |
|-----------------|------------------------|-------------------------------|-----------------------|----------------|
| 1 st | Susan Carlson Weinberg | Commissioner Mike Opat | December 2001 | N/A |
| 2 nd | Alexis Pennie | Commissioner Linda Higgins | February 2013 | N/A |
| 3 rd | Tom Trisko | Commissioner Marion Greene | May 2014 | N/A |
| | | Commissioner Gail Dorfman | April 1999 | N/A |
| | | Commissioner Mark Andrew | April 1993 | N/A |
| 4 th | Earl Netwal | Commissioner Peter McLaughlin | August 2005 | N/A |
| 5 th | William Wilen | Commissioner Randy Johnson | April 2004 | N/A |
| 6 th | William Henney | Commissioner Jan Callison | March 2014 | N/A |
| 7 th | Michael Vekich | Commissioner Jeff Johnson | March 2015 | N/A |
| At Large | Nancy Tyra Lukens | County Board | February 2010 | December 2017 |
| At Large | Cliff Buikema | County Board | April 2014 | December 2017 |
| At Large | Larry Blackstad | County Board | March 2016 | December 2020 |
| At Large | Ying Vu | County Board | March 2016 | December 2020 |

III. SUMMARY OF CBTF ACTIVITIES FOR 2016

| Meeting Date | Agenda |
|---------------------------|---|
| <i>December 15, 2015*</i> | Hennepin County Board of Commissioners adopted the 2016 Capital Budget and 2016-2020 Capital Improvement Program. |
| June 6 | Introductions, discussion of 2015 financial results and 2017 operating budget assumptions, discussion of County bonded indebtedness, update on projects and issues of interest, discuss CBTF principles. Tour of the Family Justice Center. |
| June 20 | Project/facility tours: Juvenile Justice and Juvenile Detention Centers, Health Services Building, Medical Examiner's Office, Sheriff's Crime Lab. |
| July 11 | Project tours: Brooklyn Park Library, Sheriff's Enforcement Services Division Headquarters, NorthPoint Health and Wellness Center. |
| July 25 | Public Works projects, Public Safety and Judiciary projects (excluding District Court). |
| August 8 | Health, Human Services and District Court projects. |
| August 22 | Operations projects (including Facility Services) and County Administrator's 2017-2021 CIP recommendations. |
| August 29 | CBTF Deliberations. |
| September 12 | Finalization of CBTF Recommendations. |
| <i>September 13*</i> | County Administrator presents proposed budget. |
| <i>September 20*</i> | County Board adopts 2017 maximum property tax levy. |
| <i>October 20*</i> | Presentation of CBTF Recommendations to the County Board. |
| <i>December 13, 2016*</i> | Hennepin County Board of Commissioners approves 2017 budget and levy at regularly scheduled board Meeting. |

**Included for informational purposes only. Not a CBTF meeting date.*

IV. GENERAL APPROACH TO CAPITAL IMPROVEMENTS (As of September 12, 2016)

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 in order 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), Housing & Redevelopment Authority (HRA) or Counties Transit Improvement Board (CTIB)], but does review the projects of Hennepin Healthcare Systems, Inc. (HHS/Medical Center), although projects that are funded entirely by Medical Center revenues 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.

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 even with the authority to issue debt for capital improvements discussed below, the county still needs to maintain a minimum level of property tax support for capital improvements in order to prudently fund those 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 take into account 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 feels 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.

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 federal and state revenues available for financing of county transportation projects. The CBTF feels that:

The county should maximize utilization of all federal and state revenue sources for capital improvements.

While these dedicated revenues carry with them numerous constraints, the CBTF feels that any prioritization of capital projects within the capital improvement program, must take these constraints into account. Further, the CBTF feels that the use of such non-county revenue sources should be maximized even if, in so doing, projects must be accelerated or delayed in order to secure such funds. In addition, the CBTF feels that the county should have contingency plans, especially in times of recession, to make use of any additional federal or state 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 federal or state funds.

Bonded Indebtedness

Prior to 1988, Hennepin County financed a great majority of its capital projects on a pay-as-you-go basis and made heavy use of federal revenue sharing funds for capital projects. The 1988 Minnesota Legislature gave the county 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 feels it is important that the county use prudence in the issuance of debt for capital projects. The CBTF feels 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 and current property taxes for capital so as to spread out the tax burden.

The county should always reserve sufficient countywide bonding authority remaining after approval of each five-year capital program in order 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 somewhat while addressing current significant capital needs. However, the task force feels 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 maintains 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 feels 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.

Sale/Lease of Surplus Real Properties

The CBTF believes that the county should exercise proper caution in disposing of valuable properties in order 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 feels 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:

Revenues derived from the sale and lease of surplus county real properties should be dedicated to the Capital Improvement Program and programmed after receipt by the county.

The CBTF feels 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.

Enterprise Fund Revenues and Issues

Some county departments generate revenue in the course of providing services and conducting business. These include Metropolitan Health Plan, Solid Waste activities, the Energy Center, 800 Mhz Radio Fund, Central Services, etc. 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 practicable¹.

¹The County's enterprise operations include Solid Waste activities, the Energy Center, Central Services, and other enterprise operations that County Administration may designate as enterprise operations. Hennepin Healthcare System capital project requests and bonding requests are reviewed outside the enterprise fund process.

Hennepin Healthcare System (HHS)

As of January 1, 2007, the Hennepin Healthcare Systems (HHS) corporation board began overseeing the operations of the Hennepin County Medical Center (HCMC). The operating and capital budgets for HHS must be reviewed and approved by the County Board. In addition, the debt issued to finance capital improvements for the hospital will continue to be issued by Hennepin County. As a result, the Capital Budgeting Task Force continues to review the medical center's proposed capital projects that include bonding, and approved projects will be 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 that debt supported by enterprise revenues of the hospital.

Alternative Revenue Sources

In addition to increased authority to issue debt, and using the proceeds from the sale of surplus real property, the CBTF feels 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, and foundation grants.

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 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 feels 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 feels that to maximize utilization of all county facilities, present facilities must be adequately maintained in order to ensure continued usage for which ever 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 feels 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 have a tendency 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 many others may actually 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 feels 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 feels 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 feels 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:

Resources for County Highway Facilities

Since its inception, the CBTF has felt that the county role in constructing and maintaining freeway standard highways places the county in a quasi-duplicative role with the Minnesota Department of Transportation. The Task Force feels that there should be only one governmental agency responsible for freeway standard highways in Hennepin County. Therefore, the CBTF feels 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.

Further, the CBTF feels that transportation funding by county debt or property taxes should be limited. Nevertheless, the county has increased funding for its highways in part because state highway funding has not kept pace. However, the county, through its Regional Railroad Authority and Community Works program has also supported transit and other transportation related programs in addition to highways. Along these lines, the CBTF encourages the county and its Regional Railroad

Authority to consider county sponsored construction of park-and-ride lots and parking facilities and other programs that encourage transit usage. In addition, the CBTF encourages the county to utilize hybrid vehicles where it is cost effective to do so.

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 feels 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. In determining the level and extent of funding for energy conservation projects, however, the CBTF feels that priorities must be established and realistic pay-back periods realized. 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 such measures for which the pay-back period exceeds expected life of the installed energy system.

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 the 2016-2020 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 under served 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. The CBTF is cognizant of the timing and consequences of such obligations and feels the honoring of such legal obligations to be of high priority under normal circumstances. The CBTF considers such obligations to be valid only if they are executed by the end of the current calendar year for which they are designed.

- 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?
- Are there any options open to the County to delay or terminate the contract and if so, what are the financial consequences?

V. 2017-2021 CAPITAL IMPROVEMENT PROGRAM RECOMMENDATIONS

A. OVERVIEW OF RECOMMENDATIONS

CBTF Recommendations compared to: 2017 Department Requests

The Capital Budgeting Task Force received over 150 capital project requests for the 2017-2021 period. The Task Force is recommending a 2017 Capital Budget of \$276,181,163 that requires \$5,795,218 in property taxes and \$173,410,000 in new bonded indebtedness. This equates to a 24% reduction in the required property tax amount and a 23% reduction in bonded indebtedness over the department requested amounts.

| <u>Totals</u> | <u>2017</u> | <u>2017-2021</u> |
|-------------------------------|--------------------|--------------------|
| Department Requests | \$356,900,000 | \$1,081,500,000 |
| <u>CBTF Recommendation</u> | <u>276,200,000</u> | <u>924,900,000</u> |
| Reduction: | (80,700,000) | (156,600,000) |
| | | |
| <u>Property Tax Component</u> | <u>2017</u> | <u>2017-2021</u> |
| Department Requests | \$ 7,600,000 | \$ 26,100,000 |
| <u>CBTF Recommendation</u> | <u>5,800,000</u> | <u>23,300,000</u> |
| Reduction: | (1,800,000) | (2,800,000) |
| | | |
| <u>Bonded Indebtedness</u> | <u>2017</u> | <u>2017-2021</u> |
| Department Requests | \$224,300,000 | \$724,300,000 |
| <u>CBTF Recommendation</u> | <u>173,400,000</u> | <u>612,600,000</u> |
| Reduction: | (50,900,000) | (111,700,000) |

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

The recommended 2017 capital budget is a decrease of \$18.1 million, or 6%, over the Board adjusted 2016 capital budget of \$294.3 million with the Property Tax and Bonding components also down \$100,000 and \$13.4 million respectively. The Recommended 2017-2021 Capital Improvement Program is also \$98.1 million less than the 2016-2020 Board Approved CIP, as shown the table below.

| <u>Totals</u> | <u>Capital Budget</u> | <u>Five Year CIP</u> |
|---------------------------------|-----------------------|----------------------|
| Board Adjusted 2016 | \$294,300,000 | \$1,023,000,000 |
| <u>2017 CBTF Recommendation</u> | <u>276,200,000</u> | <u>924,900,000</u> |
| Variance: | (18,100,000) | (98,100,000) |
| | | |
| <u>Property Tax Component</u> | <u>Capital Budget</u> | <u>Five Year CIP</u> |
| Board Adjusted 2016 | \$ 5,900,000 | \$ 25,600,000 |
| <u>2017 CBTF Recommendation</u> | <u>5,800,000</u> | <u>23,300,000</u> |
| Variance: | (100,000) | (2,300,000) |
| | | |
| <u>Bonded Indebtedness</u> | <u>Capital Budget</u> | <u>Five Year CIP</u> |
| Board Adjusted 2016 | \$186,800,000 | \$656,500,000 |
| <u>2017 CBTF Recommendation</u> | <u>173,400,000</u> | <u>612,600,000</u> |
| Variance: | (13,400,000) | (43,900,000) |

Funding the Capital Improvement Program

Property Taxes

The CBTF believes that the property tax is an important aspect of funding the capital program. Aside from dedicated sources of funds such as enterprise revenues and Federal and State highway aids, the two major funding sources for the capital improvement program are current property taxes and bonded indebtedness. Both of these funding sources have certain constraints. In the case of property taxes, the main constraint is that property taxes represent the major discretionary source of funding for both the capital budget and the operating budget, and are the major source of funding for servicing general obligation bonded debt.

The CBTF believes that the County needs to maintain a minimum level of property tax support for capital improvements in order to prudently fund those capital improvements which are not logical candidates for bond financing. The CBTF feels that a reasonable level of pay-as-you-go property tax support for the capital program is necessary each year in order to preserve the value of the County's investment in real property. For the value of this investment to be preserved, the County must devote a certain amount of its budget to the repair and maintenance of its assets, as well as keeping them in compliance with updated codes and other safety requirements.

The CBTF would like to see the amount of property tax, or pay as-you-go financing, in the capital budget gradually

increased; decreasing the reliance on bonding over time. The task force does not have a target metric for the ratio of budgeted property tax to bonding, and doesn't support creating one at this time, but intends to continue monitoring it each year.

Bonded Indebtedness

In developing our recommended budget and capital improvement program, we considered the Board's debt guidelines. The recommended budget and capital improvement program is within 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 tax load somewhat while addressing current significant capital needs. The chart shows the total general obligation bonding as recommended for the 2017-2021 capital improvement program, broken down by bonds that will be serviced with general property tax collections and bonds that are programmed to be serviced with revenue collected by a county enterprise.

Recommended General Obligation Bonding (000's):

| <u>Year</u> | <u>Prop. Tax</u> | <u>Enterprise</u> | <u>Total</u> |
|-------------|------------------|-------------------|--------------|
| 2017 | \$101,098 | \$72,312 | \$173,410 |
| 2018 | 158,674 | 46,740 | 205,414 |
| 2019 | 88,378 | 26,770 | 115,148 |
| 2020 | 47,023 | 19,880 | 66,903 |
| 2021 | 46,093 | 5,600 | 51,693 |

Bonds that are issued as a general obligation of the County, but are internally recognized as funded with enterprise revenues, remain a general obligation of the county and are required to be serviced with property taxes, should the enterprise revenues fail to materialize as projected.

The Capital Budgeting Task Force has carefully considered the County's current bonding limits and is recommending a 2017 Capital budget and 2017-2021 Capital Improvement Program that is within the legal debt levy authority of the County.

Shared Investments with Other Counties

The CBTF strongly supports the concept of working with nearby metro counties, with the goal of improving services while reducing operating costs, but only when Hennepin County's financial burden is consistent with the county's proportionate share. For the 2017-2021 capital improvement program, two projects will result in shared facilities: the *Hennepin-Ramsey Joint Juvenile Corrections Facility* and the *Medical Examiner's New Regional Facility*.

B. PROJECT RECOMMENDATIONS

PUBLIC WORKS

The Capital Budgeting Task Force is recommending \$128.1 million for 2017 and \$396.0 million for the 2017-2021 period for Public Works projects. This represents 46.4% of the recommended 2017 Capital Budget and 42.8% of the 2017-2021 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 2017 capital budget of \$116.3 million, funded with:

- 57.7 million in state revenues – comprised of:
 - \$43.8 million state aid, and
 - \$13.9 million turn-back funds
- \$2.4 million in property tax requirement
- \$12.1 million in federal revenues
- \$18.7 million in county bonds, and
- \$25.4 million in municipalities and other revenues

38 major transportation projects are recommended in the 2017-2021 capital improvement program. Projects with recommended 2017 funding greater than \$3,000,000 are detailed on the next page:

| <u>Projects with recommended 2017 funding greater than \$3,000,000</u> | <u>2017 Budget</u> | <u>Total Project</u> |
|---|--------------------|----------------------|
| 2986402 CSAH 3 – Construct Lake Street ramps at I-35W | \$24,695,000 | 38,696,000 |
| 2150800 CSAH 3 – Reconstruct Lake Street from Blaisdell to 1 st and 3 rd to 5th | 3,917,000 | 4,692,000 |
| 2142600 CSAH 20 - Reconstruct Blake Road from TH 7 to Excelsior Blvd | 12,380,000 | 14,456,000 |
| 2961701 CSAH 24 - Reconstruct Road from CSAH 101 to 0.4 miles east | 3,340,000 | 7,071,000 |
| 2101100 CSAH 53 - Reconstruct 66th St. from Xerxes Ave S to Cedar Ave S | 13,870,945 | 63,791,891 |
| 2090400 CSAH 61 - Reconstruct Flying Cloud Dr from County Line to Charlson | 12,531,000 | 70,950,000 |
| 2100700 CSAH 102 - Reconstruct Douglas Dr N from TH 55 to CSAH 70 | 7,540,000 | 17,426,914 |
| 2091101 CSAH 112 - Reconstruct Road from Willow to Wolf Point Trail | 8,000,000 | 18,363,067 |
| 2091800 CSAH 115 & CR 116 - Reconstruct fr TH 55 to Clydesdale | 3,370,000 | 4,619,000 |

Included in the \$116.3 million 2017 capital budget, we are recommending \$3.7 million for a *new Advanced Traffic Management Systems* initiative which will enhance the county’s traffic signal communications infrastructure to improve system efficiency and safety. In addition, we are recommending \$4.2 million for line item projects which give staff flexibility to quickly and efficiently respond to issues and opportunities that may arise throughout the year.

Because of the uncertainty, and limits to, future federal and state funding, Transportation has excluded \$367.6 million of projects from its 2017-2021 capital improvement program request. This represents 28 projects that are included instead, as “provisional projects” that will be added to the program if federal or state funding becomes available for them, or if federal funding becomes available for a project that is included in the program with state funding. If that should occur, then state funding could be shifted to fund a provisional project. The largest of these “provisional projects” include:

| <u>Unfunded Provisional Projects with Total Project Costs over \$15,000,000</u> | <u>Total Cost</u> |
|--|-------------------|
| 2843500 CSAH 8 - Reconstruct from CSAH 9 to Fairview Ave | 17,070,000 |
| 2110800 CSAH 8 - Reconstruct from CSAH 10 to CSAH 81 | 30,240,000 |
| 2874000 CSAH 12 - Reconstruct from CSAH 13 to CSAH 144 | 30,570,000 |
| 2012100 CSAH 21 - Reconstruct 50th St from France to Lyndale | 20,370,000 |
| 2984500 CSAH 23 - Reconstruct Marshall St from 1 st Ave NE to Lowry Ave | 17,480,000 |
| 2932400 CSAH 30 - Reconstruct from E of CR 202 to W of TH 169 | 20,110,000 |
| 2120700 CSAH 32 - Reconstruct from 75th Street to TH 62 | 21,010,000 |
| 2120800 CSAH 52 - Reconstruct from I-494 to 62nd Street | 24,280,000 |
| 2923200 CSAH 73 - Reconstruct from No of Cedar Lake Rd to S of I-394 | 15,650,000 |

Community Works

For Community Works projects, we are recommending funding of \$4.7 million in 2017 and programming \$36.0 million for the 2017-2021 Capital Improvement Program.

The 2017 recommendation is comprised of:

- \$3.0 million in additional funding to continue the \$15.2 million Penn Avenue Community Works project, and
- \$1.7 million in additional funding to continue the \$16.6 million Southwest LRT Community Works project.

Environment & Energy

For 2017, the CBTF is recommending \$6.7 million in additional investments to the *Hennepin Energy Recovery Center* and \$250,000 toward *Transfer Station Preservation*. The funding for the Hennepin Energy Recovery Center is general obligation bonding supported by enterprise revenues, whereas budgets prior to 2016 did not include a bonding component. This recommendation to budget bonding, based on future enterprise revenue forecasts, is consistent with the County Administrator's recommendation and is supported by Budget & Finance staff; however, the CBTF anticipates that in the medium term, Environment and Energy investments will return to a cash based financing approach.

PUBLIC SAFETY AND JUDICIARY

The Capital Budgeting Task Force is recommending \$8.8 million for 2017 and \$63.0 million for the 2017-

2021 period for Public Safety and Judiciary projects. This represents 3.2% of the recommended 2017 Capital Budget and 6.8% of the 2017-2021 Capital Improvement Program.

Public Safety Administration & Integration

The CBTF is recommending \$1,000,000 in 2017 to fund the *Emergency Communications ARMER System Upgrade*. Funding for this effort will continue through 2020.

County Attorney

For the County Attorney's Office, we are recommending \$700,000 in 2017 toward three office space and furniture modification projects; two of which will study options to improve the efficiency of the *Domestic Abuse Service Center* and the *County Attorney's general office space*.

District Court

The CBTF is recommending \$2.0 million in 2017 including the final \$822,000 to complete the *Family Justice Center Administrative Space Relocation*. In addition, we are recommending \$500,000 toward the newly requested *Hennepin County Government Center Counsel Table Technology* project. The CBTF typically does not recommend funding for new project requests, however this initial investment will allow District Court to implement changes to the highest priority courtrooms and prioritize the rest for possible future investments.

Community Corrections & Rehabilitation

The CBTF is recommending a total 2017 budget of \$2.7 million, which is a substantial decrease compared to our 2016 recommendation of \$22.6 million. The largest change is that we are programming \$18.7 million split between 2018 and 2019 for the *Hennepin-Ramsey Joint Juvenile Corrections Facility*. In the 2016-2020 CIP, this funding was programmed for 2017, however, the aggressive funding schedule was based on the county's desire to secure state bonding which did not materialize this year. State bonding should still be perused and it is our understanding that project planning with Ramsey County continues and is going well. The \$2.7 million that is recommended for 2017, is mostly for the buildout of leased space for an expanded *Brooklyn Crossing Office* for Adult Field Services staff.

Public Defender's Office

This is the first year in many that we have reviewed a project request from the Public Defender's Office. The Public Defender is requesting to relocate and consolidate the Alternate Defender Team / Conflict Team to the 701 building. We tend to not recommend projects the first year they are requested, as sometimes the scope and implications are not yet fully known, however we are recommending this \$700,000 project for 2017 as it will improve staff efficiency and suitable office space is available.

Sheriff's Office

With respect to the Sheriff's Office, we are recommending \$1.7 million toward three projects:

- \$1.2 million to replace the existing *Jail Management Software* system,

- \$90,000 to start the planning for the \$1.2 million *Sheriff's Video Vision Replacement* project, and
- \$360,000 to replace and upgrade select kitchen equipment in the 15 year-old Public Safety Facility.

HEALTH

The Capital Budgeting Task Force is recommending \$83.2 million for 2017 and \$248.9 million for the 2017-2021 period for Health projects. This represents 30.1% of the recommended 2017 Capital Budget and 26.9% of the 2017-2021 Capital Improvement Program.

NorthPoint Health & Wellness

The CBTF toured the *NorthPoint Health & Wellness Center* this summer. We are pleased to hear that this important project is now proceeding and are recommending \$9.1 million in continued funding toward that \$67.7 million effort.

Medical Examiner

With respect to the Medical Examiner's New Regional Facility, similar to the *Hennepin-Ramsey Joint Juvenile Corrections Facility*, the prior year CIP programmed state and county bond funding in 2017, which we continue to program for this regional resource. However we have adjusted the funding schedule to better reflect the likely implementation plan.

Medical Center

With respect to the Medical Center, we are recommending a 2017 capital budget of \$74.1 million. This amount includes:

- \$64.6 million to finish the funding toward the new *HCMC Ambulatory Outpatient Specialty Center*

- \$1.0 million, in general obligation bonds supported by enterprise revenues, toward the \$39.2 million *Surgery Center Expansion and Relocation* project that will backfill space vacated by clinics moving to the new *Ambulatory Outpatient Specialty Center*,
- \$8.0 million of general obligation bonds toward Medical Center Facility Preservation, and
- \$500,000 of enterprise income, to study and plan for a future HCMC Center for Psychiatric Care. It is the intent that the study should be completed in concert with planning efforts occurring in the county's Human Services and Public Health areas with respect to mental health needs.

Finally, we are programming a \$36.6 million *In-patient Bed Consolidation* to start in 2018, which will also backfill vacated space related to the new *Ambulatory Outpatient Specialty Center*.

HUMAN SERVICES & PUBLIC HEALTH

The Capital Budgeting Task Force is recommending \$4.7 million for 2017 and \$29.9 million for the 2017-2021 period for Human Services & Public Health projects. This represents 1.7% of the recommended 2017 Capital Budget and 3.2% of the 2017-2021 Capital Improvement Program.

The CBTF is recommending \$4.7 million in the 2017 budget. \$4.6 million of this is toward the *HSPHD Office Space Reconfiguration* project which will continue to increase the efficiency and capacity of office space in the Government Center and Health Services Buildings. The remaining \$100,000 budgeted for 2017 will allow staff to proceed with a study of the HSPHD Mental Health Center space needs, within the larger context of all county

mental health service needs, before proceeding with project implementation, possibly in 2018.

OPERATIONS AND LIBRARIES

The Capital Budgeting Task Force is recommending \$51.4 million for 2017 and \$187.1 million for the 2017-2021 period for Operations and Libraries projects.

This represents 18.6% of the recommended 2017 Capital Budget and 20.2% of the 2017-2021 Capital Improvement Program.

Libraries

The CBTF is recommending \$ 6.3 million toward eight Library projects in 2017. The largest of which is the final \$4.2 million toward the \$7.6 million *Ridgedale Library Refurbishment* project. Remaining 2017 funding will go toward system-wide equipment needs and preliminary planning for remodeling and refurbishments at the following libraries:

- Southeast,
- Eden Prairie,
- Oxboro,
- Hosmer,
- Brookdale, and the
- North Regional Library.

Information Technology

For 2017, we are recommending five projects for a total of \$8.9 million:

- \$4.0 million for the final funding toward the \$13.7 million *IT Data Center Upgrades* project,
- \$1.0 million to *Centralize the County's Imaging Units*,

- \$1.5 million toward the ongoing *Community Connectivity Initiative*,
- \$400,000 to complete the funding of the \$8.7 million *IT Furniture and Space Efficiency Modifications* effort, and
- \$2.0 million toward Information Technology's future space needs from additional centralization efforts and general staff growth.

Facility Services

The CBTF is recommending \$31.9 million in investment for 2017. A few of the larger 2017 project allocations are:

- \$6.0 million toward the \$38.8 million *Government Center Rehabilitation* project,
- \$3.0 million toward general *Facility Preservation*,
- \$8.2 million toward the \$11.8 million *Ridgedale Regional Center Preservation* project,
- \$3.5 million toward the \$4.9 million *1800 Chicago Infrastructure Replacement* project,
- \$2.0 million toward the \$15.1 million *Countywide Security Systems & Equipment* project, and
- \$3.3 million toward the \$6.7 million *701 Building Tenant Space Repurposing*, which will backfill spaces as they are vacated by private sector tenants.

Municipal Building Commission

For 2017, we are recommending \$4.3 toward five projects that will continue to maintain and preserve the historic City Hall / Courthouse building.

C. CONCLUSION

Each year we review our CBTF principles, comprising the first half of this report, which guide our decision making process. This year, we have updated our Sustainability

and Energy Efficiency principles to acknowledge the county's "Cool County Initiative" with the goal of reducing greenhouse emissions by 80% by 2050. We have updated our principles to include the following language:

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

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.

In addition, it should be noted that 2017 is the only year for which a capital budget will be set at this time. The remaining years of the proposed 2017-2021 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.