

To: Captown Mayor and City Council
From: Zoe Li, Cole Mullis, Emil Nieves, and Loran Posey
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Subject: Proposed Captown CIP

MEMORANDUM

Introduction

The process of crafting a Capital Improvement Plan (CIP) for the City of Captown produced 12 project proposals. The Mayor and City Council have recognized that the completion of some or all of these projects is dependent on the creation of new revenue streams for Captown. As detailed in the attached CIP, it is recommended that the Mayor and City Council pursue seven projects by raising property taxes, issuing a bond, and utilizing project benefits and cost savings.

Background

Captown is a town of approximately 13,000 people, comprising about 16% of the total Wayne County population. Captown, which is in a rich agricultural region, has experienced modest growth over the last half decade. The region's economy is relatively diversified in the manufacturing sector. Primary industries are textile, auto and truck parts, and electrical appliances. Overall, the economic outlook for the next five years is positive. The per capita income for Captown has kept up with the overall state per capita income, and the unemployment rate recently fell to 6.2%, a 1.2-point drop from two years ago. Captown's economic development program has also been very active. It has recruited two new electronics manufacturing plants to the city and there are plans for two new apartment buildings to be built downtown.

Financial Policies

Captown is currently \$12.6 million in debt, which requires \$560,000 annually in debt service payments. There is a desire for Captown to enhance its credit rating, which is currently single A. Captown has developed the following policies related to debt capacity and financing:

- Will not exceed \$14 million in total debt
- No more than \$2.8 million new debt in any given 5-year period
- Reduce debt by 25% over the next 10 years
- Establish and grow a Rainy Day fund using 5% of revenues annually

Project Criteria

The Finance Department has worked collaboratively with other units in the city government to develop a set of weighted criteria to rank the proposed projects. These criteria included: negative impacts from not investing, economic development, public health and safety, operating budget impact, and sources of financing. Given the

weighted ranking and the financial possibilities for Captown, seven projects are recommended to the Mayor and City Council for funding.

Revenue Sourcing

We recommend that Captown issue a general obligation bond and increase the property tax millage rate in order to provide the required funding needed for capital improvements. This approach provides a balanced blend of the “pay-as-you-use” and “pay-as-you-go” models for capital financing.

Property Tax Increase. We recommend an increase in the property tax millage rate from 9 mills to 10 mills, which will generate nearly \$2.3 million over the course of five years. This funding will help offset potential annual operating expenditure increases and provide funding for recommended capital projects.

General Obligation Bond. We also recommend the city to issue a \$1.2 million general obligation bond. The funds generated from this bond will be deposited into the General Fund in FY 2020. This bond has a 10-year maturity rate with a 6% interest rate and annual debt service of \$72,000 (two periods per year with \$36,000 coupon payments). It will directly fund three projects and smooth revenue flows into the remaining projects.

Description of Projects

1. Fire Station. The fire station is the first priority for funding, as failure to construct it will cause public safety risks to citizens, higher costs to citizens in the form of higher insurance payments, and a reduced likelihood of investment in our city. Thus, construction of the fire station is in line with all our goals. The project will cost \$1,680,960 and will be started and completed in FY 2020.

2. Shell Building. The shell building is a priority project because it aligns with the city’s goal of economic development. It would increase the town’s property tax base, allowing more funds in the future and making revenue sourcing more stable by spreading it out. If the allocated space were to be used for business or industries not connected to the town’s primary manufacturing industries, then it would allow for economic diversification and would mitigate revenue vulnerability. It will cost \$865,200 and will be started in FY 2020, completed in FY 2021.

3. 2 Garbage Trucks. The city will purchase two new garbage trucks to save on the maintenance costs that would be required to continue usage of the old ones. It will cost \$272,950 and be completed in FY 2020.

4. Law Enforcement Complex. Captown needs a new law enforcement complex to comply with federal mandates. It will be started and completed in FY 2022. It will cost \$1,824,744.82.

5. New Police Communications. The E-911 police communications system will be implemented in Captown for \$397,837.50 in FY 2021. It will make our police force more effective and thus will improve public safety.

6. Finance Department Computer. The computer system in the finance department needs to be replaced for \$68,958.50 in FY 2021. It will save \$30,000 per year after it is completed.

7. North End Park. The North End Park will be started and completed in FY 2023. It will enhance public health and safety for Captown. It will cost \$795,959.83.

Capital Improvement Plan

FY 2020 - 2024

City of Captown

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Framework

Background

Prior to the development of this Capital Improvement Plan (CIP), Captown's total debt stood at \$12.6 million.

These obligations require at least \$560,000 annually in debt service payments. The city has a stated desire to improve its credit rating, which is currently a single A.

Twelve proposals were submitted to the Mayor and City Council for inclusion in the new CIP for Captown. Given the city's current financial situation and high capital need, the Finance Department developed several new policies related to debt financing before undertaking this CIP (see below).

Debt Financing Policies and Goals

In an effort to limit borrowing for this CIP and improve the city's credit rating, the following policies and goals were developed to decrease the city's debt obligations and enhance its ability to navigate through sudden decreases in revenues.

Debt Capacity. Captown set its debt capacity at \$14 million, meaning that it is currently at 90% utilization. This proposal adheres to this policy, allowing Captown's debt to only reach \$13.8 million.

Limit on New Debt. In addition, Captown will not take out more than \$2.8 million (20% of its capacity) in new debt over any 5-year period. This CIP adheres to this policy, as Captown only takes out an additional \$1.2 million in debt.

Debt Reduction Goal. Captown will reduce debt by 25% over the next 10 years. This proposal lays out a plan for Captown to put \$3,160,000 toward debt service over 5 years.

Rainy Day Fund Goal. Captown will establish and grow a Rainy Day fund using 5% of revenues annually. This proposal meets this goal by putting aside \$277,500 annually for a Rainy Day fund. By the end of the 5 years, the Rainy Day fund will have a projected balance of \$1,387,500.

The implications of the above policies and goals are that Captown will not be able to issue a bond greater than \$1.4 million as part of this CIP. In addition, a significant amount of money must be dedicated to debt service payments and Rainy Day fund transfers in order to accomplish the stated goals. These limitations heavily influenced the revenue sourcing proposals below. However, as mentioned above, this CIP charts a course that allows Captown to successfully adhere to its policies, meet its goals, and fund a majority of the proposed projects.

Projects

Proposals

Twelve capital projects were identified during the Capital Needs Inventory Process. All of the projects reflect either significant need in the community or high economic potential.

New Fire Station

Elevated fire fighting abilities are required of Captown due to the construction of a new electronic plant and a new six-story apartment complex. If Captown does not acquire a 100-foot aerial platform fire truck, its fire rating will increase by one point, causing insurance rates for residents and business to increase by 20%. The current fire station is too small to house the truck. Its current property is also being proposed for the new law enforcement complex (described below). As a result, the city must acquire new land, construct a new fire station and purchase the new truck before the new plant and apartment building are completed. **Total Price: \$1,632,000.**

Shell Building for Industrial Park

In order to successfully recruit two new manufacturing firms to the city, Captown must construct a new shell building in the industrial park and connect water and sewer lines to it. If both firms relocate to the city, it will result in a \$5 million addition to the property tax base and 95 new jobs. **Total Price: \$825,000.**

Industrial Park Expansion

If the two firms (see above) move to the industrial park, there will be limited land available for additional companies. Adjacent land could be easily connected to the roads and utilities of the current park and serve as room for future growth. However, the land offer is only available until December 1, 2019. **Total Price: \$245,000.**

Library

A philanthropist has offered downtown property to the city for no charge if it is used for a new library. He has also offered to match the construction costs by 50% if construction begins within two years. **Total Price: \$1,785,000.**

North End Park

There is a need for more park facilities on the north end of town. The City Council has discussed this issue on many occasions. **Total Price: \$847,200.**

Finance Department Computers

The computer system for the Finance Department is aging and in need of replacing. If replaced, the new system will save \$30,000 per year. **Total Price: \$65,000.**

Maintenance Garage

Currently, the city contracts out maintenance on its vehicles. If fleet service and maintenance were conducted by the city in one central location, it would generate \$100,000 in savings annually due to reduced labor and fuel costs. **Total Price: \$1,082,500.**

City Hall Remodeling

City Hall is in need of renovations, including a new heating and cooling system. The savings from the new utilities would equal \$20,000 a year. **Total Price: \$2,235,000.**

2 Garbage Trucks

Captown has deferred the replacement of two aging garbage trucks over the last three years. Maintenance on the current trucks is \$25,000 over the next three years and will then increase by \$5,500 each following year. **Total Price: \$265,000.**

Law Enforcement Complex

Due to increasing service levels and new requirements relating to evidence storage, prisoner cells, and communications facilities, a new law enforcement facility is needed in the near future. Federal dollar-for-dollar matching grants are available for the next three years. **Total Price: \$1,669,900.**

New Police Communications System

The Park Ridge police substation does not have the enhanced E-911 system yet. A federal grant for \$200,000 is available for municipalities to acquire the new system within two years. **Total Price: \$375,000.**

New Stadium

Construction of a stadium has been recommended by the Chamber of Commerce and Mayor's Task Force. The stadium would serve the community college and provide a venue for other community activities and concerts. It is estimated that the stadium would increase sales taxes by \$43,500 annually and lead to an increase to the

property tax base of \$1,200,000 as restaurants and other businesses are attracted to the area. An alumna of the community college has offered a \$2,020,020 donation if the stadium is completed by 2021. **Total Price:** **\$10,002,000.**

Selection

Criteria

The Finance Department worked collaboratively with other units in the city government to develop a set of criteria to rank the proposed projects. These five criteria were then weighted in the below order from most weighty to least, and assigned values for each as determined by the ranking coalition.

1. Negative impacts from not investing

Negative impacts from not investing refers to the detrimental impacts the city will incur due to failure to invest in a particular project, including increased insurance rates and issues of urgency, such as those related to financing deadlines.

2. Economic development

Economic development is potential for revenue growth from jobs, business, etc.

3. Public health and safety

Public health and safety encompasses the physical health of residents, law enforcement capacity of Captown, and opportunities for education and recreation.

4. Operating budget impact

Operating budget impacts refers to the predicted positive or negative (or neutral) impact of the project on the city's operating budget.

5. Financing

Financing accounts for the availability of external sources of funding for each project, including grants and donors.

Rankings

The twelve projects were ranked according to the number value assigned to them by the weighted criteria. The highest possible score was 3. Below are the rankings:

- 1. New Fire Station (2.2)**
2. New Stadium (2)
- 3. New Police Communications (1.75)**
- 4. Shell Building (1.6)**
5. City Hall Remodeling (1.55)
- 6. Law Enforcement Complex (1.55)**
- 7. 2 Garbage Trucks (1.45)**
- 8. Finance Department Computers (1.35)**
9. Industrial Park Expansion (1.2)
- 10. North End Park (1.2)**
11. Library (1.1)
12. Maintenance Garage (1)

***Bold** denotes projects that are recommended for funding

Recommended Projects

Given the weighted ranking and the financial possibilities for Captown, the following projects are recommended for the Mayor and City Council's consideration: (1) Fire Station, (2) Shell Building, (3) 2 Garbage Trucks, (4) Law Enforcement Complex , (5) New Police Communications, (6) Finance Department Computers, and (7) North End Park.

The Finance Department team opted not to fund the New Stadium and the City Hall remodeling, despite their high rankings. This is because these projects required too great a concentration of funds compared to other top projects. Not funding those two projects allows Captown to achieve a higher number of projects through this CIP, as well as projects that affect more urgent community needs. The Library and Maintenance Garage were simply too low on the list to accomplish given the limited funds available. The North End Park was chosen over the Industrial Park Expansion due to the more concrete need for the park on the north end of town versus the hypothetical need for the industrial park expansion which anticipated the arrival of more companies. The expansion is a great project to consider in the future after the Shell Building has been completed and the two firms locate to the industrial park.

Below is a rationale for each recommended project as well as an anticipated timeline for funding and completion.

Fire Station

The fire station received a score of 2.2 out of 3, because it had a high negative impact of not investing, due to the combination of increased insurance rates for residents, higher fire safety risk, and condensed timeline due to

the new electronic plant that is set to open in 18 months, requiring elevated fire fighting capabilities. It also received a moderate economic development score and high public safety score, which offset the negative operating budget impact to make it the highest scoring and most urgently recommended project. It is our recommendation that the fire station be the first project undertaken after securing the municipal bond in FY 2020. The carry forward from FY 2019, plus the bond, should be sufficient to finance the entire project.

Shell Building

The Shell Building had the highest potential for economic development out of all 12 proposed projects. This was primarily why it received a score of 1.6 out of 3 despite its relatively low contribution to public health/safety and lack of external funding. Because earlier completion of this project will yield returns in the form of jobs and tax revenue, we recommend that construction begin on the shell building in FY 2020 with completion in FY 2021.

2 Garbage Trucks

The replacement of 2 garbage trucks has been deferred for three years and these trucks are subject to mounting maintenance costs. For these reasons, this project received a 1.45 out of 3 and we recommend it be considered for the associated cost savings potential. The required investment is relatively small, so we recommend that it be financed along with the other projects in FY 2020.

Law Enforcement Complex

The law enforcement complex received a score of 1.55 out of 3 for its moderate benefit to public safety and the significant sum of external funding available in the form of a matching grant from the Department of Homeland Security. This grant will only be available for the next three years, so we recommend that construction begin on

this project in the third year, FY 2022, in order for the city to receive over \$900,000 in matching funds from DHS.

The project will also be completed in FY 2022.

New Police Communications

The E-911 system received a score of 1.75 out of 3 due to the semi-urgent timeline associated with the Homeland Security grant, which also translated to a high external funding opportunity. The project also had a high positive impact on public safety. This made it the third highest project in the rankings, despite its neutral operating budget impact and low economic development scores. We recommend that the new police communications system be fully financed in FY 2021.

Finance Department Computers

The finance department computer system replacement earned a score of 1.35 out of 3 due to the “dire need of replacement” that has been demonstrated, as well as the cost savings the project will allow. We recommend that this project be completed in FY 2021.

North End Park

This park received a score of 1.2 out of 3. Its high potential benefit to public health in the form of recreation and outdoor activity leads us to recommend it for investment. Our projections include it as part of the capital plan for FY 2023 as it does not produce urgent pressures related to funding or construction.

Revenue Sourcing

We recommend the City of Captown issue a general obligation bond and increase the property tax millage rate as means of funding our recommended capital improvement. We find that utilizing both funding options will provide an equitable mixture of "pay-as-you-use" and "pay-as-you-go" approaches to capital financing. We anticipate slight growth of 3% in expenditure costs due to the City's increasing economies of scale allowing for citizens to be provided services at less cost than market rates, for which the property tax millage rate increase will help offset. We have chosen not to recommend any additional funding for capital improvements through sales tax revenues. In addition, we have chosen not to change our annual projection of around \$700,000 for sales tax revenue. As sales tax revenues are highly variable, we have chosen to be conservative and predictable with this projected annual revenue as it follows the average pattern of the past decade.

Property Tax Increase

We recommend that the City approve a property tax millage rate increase from 9 mills to 10 mills. In addition to conducting a new assessment of all property values in the City in FY 2020, we project that this minimal increase in the millage rate will result in nearly \$2.3 million in additional property tax revenue over the five-year period. These additional funds will fund a portion of the capital improvement projects in FY 2020 and fully fund the rest of the capital improvement projects in FY 2021 through FY 2024. Additionally, these funds will help implement the shell building project at the industrial park, which is projected to add \$5 million to the property tax base once completed. We recommend this property tax millage rate increase as it pursues a "pay-as-you-go" financing model. This model does not spread out costs equally across generations, but it raises substantial revenue for the

city's general fund in a way that avoids raising the debt obligation for the city while still spreading out the costs over several years.

General Obligation Bond

We recommend that the City issue a \$1.2 million general obligation bond. The funds generated through this bond will be deposited into the General Fund in FY 2020. This bond has a 10-year maturity rate with a 6% interest rate and annual debt service of \$72,000. Municipal bonds have two interest periods a year so the coupon payment equals \$36,000 twice a year, which is how the \$72,000 annual debt service was calculated. We recommend this general revenue bond as it pursues a "pay-as-you-use" financing model. This model considers that most of these capital improvements will benefit the City's citizens for decades, so the cost will be equitably spread out over many years across both current and future citizens than to only burden current citizens with the entire capital improvement costs. We project that the project costs in FY 2020 will be mostly covered by the bond.

Future Projects

The trajectory set by this CIP should establish a solid basis allowing for further economic development in the future. After FY 2024, the city can begin to consider the construction of a new stadium that will provide service-based jobs and will allow the property tax base to be less dependent on manufacturing. Economic development and diversification can be provided with the construction of the industrial park expansion. Also, a central maintenance garage will be constructed to allow for more efficient and cheaper transportation servicing

for the city. Finally, the second library could be constructed to encourage education and mental well-being for citizens, if favorable options still exist. The City Hall remodeling can also be considered in the next CIP.

Appendices

Appendix I: Weighted Criteria

Lo = 1

Med = 2

High = 3

Criteria	Negative impact of NOT investing	Economic development	Public health/safety	Operating budget impact	Financing	Total
Weight	35%	30%	20%	10%	5%	100%
Project	Lo/Med/Hi	Lo/Med/Hi	Lo/Med/Hi	+/-	Lo/Med/Hi	<u>_ / 3</u>

Appendix II: Property Tax Increase

Property Taxes	Current			Projected		
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
PROPERTY TAX BASE	\$350,000,000.00	\$432,600,00.00	\$445,578,000.00	\$458,945,340.00	\$472,713,700.20	\$486,895,111.21
CURRENT MILLAGE RATE REVENUE	\$3,150,000.00	\$3,893,400.00	\$4,010,202.00	\$4,130,508.06	\$4,254,423.30	\$4,382,056.00
NEW MILLAGE RATE REVENUE	\$3,150,000.00	\$4,326,000.00	\$4,455,780.00	\$4,589,453.40	\$4,727,137.00	\$4,868,951.11
ADDITIONAL REVENUE FROM RATE INCREASE	\$432,600.00	\$445,578.00	\$458,945.34	\$472,713.70	\$486,895.11	

Appendix III: General Fund Budget Forecast

General Fund	Current		Projected			
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
REVENUE						
PROPERTY TAX REVENUE	\$3,150,000.00	\$4,326,000.00	\$4,455,780.00	\$4,589,453.40	\$4,727,137.00	\$4,868,951.11
ADD. PROPERTY TAX REVENUE (SHELL BUILDING)				\$51,500.00	\$51,500.00	\$51,500.00
OTHER REVENUES	\$1,350,000.00	\$1,390,500.00	\$1,432,215.00	\$1,475,18.,45	\$1,519,436.89	\$1,565,020.00
HSA GRANT FOR E-911			\$200,000.00			
HSA GRANT FOR LAW ENFORCEME NT COMPLEX				\$912,372.41		
LOCAL SALES TAX	\$700,000.00	\$700,000.00	\$700,000.00	\$700,000.00	\$700,000.00	\$700,000.00
CARRY FORWARD	\$350,000.00	\$350,000.00		\$147,813.00	\$141,822.16	\$282,075.35
SEWER-WATE R FUND TRANSFER		\$150,000.00				
NEW GO BOND ISSUE		\$1,200,000.00				

TOTAL REVENUE	\$5,550,000.00	\$8,116,500.00	\$6,787,995.00	\$7,876,320.26	\$7,139,896.06	\$7,467,546.46
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EXPENDITURES

OPERATING EXPENDITURES						
	\$(\$4,640,000.00)	\$(\$4,779,200.00)	\$(\$4,922,576.00)	\$(\$5,070,253.28)	\$(\$5,222,360.88)	\$(\$5,379,031.70)
DEBT SERVICE						
	\$(\$560,000.00)	\$(\$560,000.00)	\$(\$560,000.00)	\$(\$560,000.00)	\$(\$560,000.00)	\$(\$560,000.00)
NEW GO DEBT SERVICE						
		\$(\$72,000.00)	\$(\$72,000.00)	\$(\$72,000.00)	\$(\$72,000.00)	\$(\$72,000.00)
FUND TRANSFER - RAINY DAY						
		\$(\$277,500.00)	\$(\$277,500.00)	\$(\$277,500.00)	\$(\$277,500.00)	\$(\$277,500.00)
TOTAL EXPENDITURES	\$(\$5,200,000.00)	\$(\$5,688,700.00)	\$(\$5,832,076.00)	\$(\$5,979,753.28)	\$(\$6,131,860.88)	\$(\$6,288,531.70)

COST SAVINGS

GARBAGE TRUCKS			\$50,000.00	\$50,000.00	\$50,000.00	\$61,000.00
FINANCE COMPUTER SYSTEM				\$20,000.00	\$20,000.00	\$20,000.00
TOTAL COST SAVINGS			\$50,000.00	\$70,000.00	\$70,000.00	\$81,000.00

TOTAL GENERAL FUND	\$350,000.00	\$2,427,800.00	\$1,005,919.00	\$1,966,566.98	\$1,078,035.18	\$1,260,014.75
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Appendix IV: Rainy Day Fund Forecast

Rainy Day Fund	Projected				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
FUND TRANSFER - GENERAL FUND	\$277,500.00	\$277,500.00	\$277,500.00	\$277,500.00	\$277,500.00
CARRY FORWARD		\$277,500.00	\$555,000.00	\$832,500.00	\$1,110,000.00
FUND BALANCE	\$277,500.00	\$555,000.00	\$832,500.00	\$1,110,000.00	\$1,387,500.00

Appendix V: Project Timeline

	Current		Projected			
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Fire Station		\$1,680,960.00				
Shell Building		\$473,890.00	\$391,310.00			
2 Garbage Trucks		\$272,950.00				
Law Enforcement Facility				\$1,824,744.82		
New Police Communications System			\$397,837.50			
Finance Department Computers			\$68,958.50			
North End Park					\$795,959.83	
Total Project Costs	\$0.00	\$2,427,800.00	\$858,106.00	\$1,824,744.82	\$795,959.83	\$0.00
Balance	\$350,000.00	\$0.00	\$147,813.00	\$141,822.16	\$282,075.35	\$1,260,014.76