Council Recommended Capital Budget Information

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City of Minneapolis

2004 – 2008 Capital Program

Capital Budget Narrative Overview

Capital Improvement Budget Development

The City has a five-year capital improvement plan (CIP). Annually, city departments & independent boards and commissions prepare and modify capital improvement proposals. The Finance Department, the Planning Division of the Community Planning & Economic Development Department (CPED) and the Capital Long-Range Improvement Committee (CLIC) review capital improvement proposals.

The Capital Long-Range Improvement Committee is a citizen advisory committee to the Mayor and City Council. The committee is authorized to have 33 appointed members, composed of two members per Council Ward and seven at-large members appointed by the Mayor. The committee elects a Chair and Vice Chair and breaks itself into two programmatic task forces of approximately the same number of members. Each task force elects a Chair and Vice Chair. Collectively, these six elected members form the Executive Committee and represent CLIC in meetings with the Mayor and City Council.

The two task forces are currently titled “Transportation and Property Services” and “Government Management, Health and Safety and Human Development”. The task forces receive and review all Capital Budget Requests (CBR’s) for their program areas as submitted by the various City departments, independent boards and commissions.

During two all day meetings, departments and boards who prepared the CBR’s formally present their needs and offer explanations for their requests. Task force members then rate all proposals using a rating system with several specific criteria and create a numerical ranking for each project. Highest-ranking priorities are then balanced against available resources by year to arrive at a cohesive five-year capital improvements program recommendation to the Mayor and City Council.

For this five-year plan covering years 2004 - 2008, there were 120 CBR’s reviewed and rated and six items not rated. The total requested capital budget for the five years was $827.5 million.

CLIC’S recommendations serve as the basis from which the Mayor and City Council’s decisions are made. The Mayor makes recommendations on the capital budget as well as the operating budget. The Council adopts the five-year capital plan simultaneously with the operating budget.

Highlights of the 2004-2008 Capital Improvement Plan

Property Tax Supported – Public Works: The 2004 budget includes $13.2 million in property tax supported funding for Public Works capital. Below is a summary of the 2004-2008 Property tax supported funding for the Public Works infrastructure program.

Adopted Property Tax Supported Capital for Public Works (in millions)

	2004	2005	2006	2007	2008
Base Capital Funding	$13.2	$15.4	$15.7	$11.9	$15.9

Property Tax Supported - Park Board: The 2004 budget includes $3.1 million in funding for Park Board capital. The Mayor supports a future funding plan for the Park Board that closes the previously identified funding gaps for park infrastructure. To achieve this goal, $215,000 of additional property tax levy will be added annually to the Park Board levy, for a total of $1.5 million in additional annual funding by 2009.

Adopted Property Tax Supported Capital for Park Board (in millions)

	2004	2005	2006	2007	2008
Base Capital Funding	$2.7	$1.8	$1.4	$1.8	$1.4
"Gap" Levy Funding	$0.4	$0.6	$0.9	$1.1	$1.3
Total Capital Funding	$3.1	$2.4	$2.3	$2.9	$2.7

Property tax funding to support the capital program was reduced by approximately $12 million in January 2003 for years 2004 – 2008 in response to the State Aid reductions. This will result in slowing down the City's ability to close the Public Works and Park Board infrastructure gap.

Utility Fee Supported Capital: The 2004 – 2008 budget includes funding for additional water and sewer related infrastructure expenditures "gap closure" as planned. The rate of gap closure and deferred maintenance expenditures has been slowed down slightly to provide for smaller sewer and water rate increases. This budget continues the City's commitment to closing the infrastructure "gap" for water and sewer services. The water and sewer 5-year utility rate schedule approved as part of this budget reflects this planned investment.

Relationship between the Capital and Operating Budgets: As part of each Capital Budget Request, Departments and Independent Boards are required to identify whether the capital request will result in an increase or decrease in operating costs. As part of the 2004-2008 capital submittals, operating costs were given a higher priority by the CLIC ranking process than in prior years. A summary of operating cost implications has been provided for the proposals funded in the 2004 – 2008 Capital Program later on in this Capital section.

City Debt

Minneapolis' total general obligation debt increased from $1.119 billion at 12/31/2002 to $1.250 billion at 12/31/2003.

In 2003, the City of Minneapolis issued bonds totaling $252,705,000. Of this amount, $42,335,000 was issued to refund existing debt. The following information provides details of Year 2003 Bond Sales:

January
In January, the City issued $26,350,000 of General Obligation Tax Increment Refunding Bonds, Series 2003 (Laurel Village). These bonds refunded $26,165,000 of General Obligation Laurel Village Refunding Bonds, Series 1992 dated September 1, 1992 on the optional call date of March 1, 2003. Final maturities of both bond series were March 1, 2016. The refunding resulted in debt service savings of approximately $3,853,000 on a present value basis.

June
In June, the City issued $1,725,000 of General Obligation Tax Increment Bonds, Series 2003A (West Side Milling) and $6,900,000 of General Obligation Tax Increment Bonds, Series 2003B (Heritage Park) to fund two ongoing redevelopment projects. Also issued were $36,000,000 of Taxable General Obligation Pension Bonds (MERF) to fund pension obligations for the Municipal Employees Retirement Fund and $68,615,000 of General Obligation Various Purpose Bonds, Series 2003 supporting the five year capital plan.

The various purpose bonds supporting the capital plan were as follows:

500,000	Diseased Tree Removals
8,590,000	Flood Mitigation & Combined Sewer Overflow Projects
8,350,000	Water Works Projects
9,630,000	Fleet Equipment Purchases
14,215,000	Public Safety Capital Initiative Projects
100,000	Library Improvements
661,500	Municipal Building Commission Projects
1,920,000	Park Improvements
24,648,500	Various Public Works Infrastructure Projects

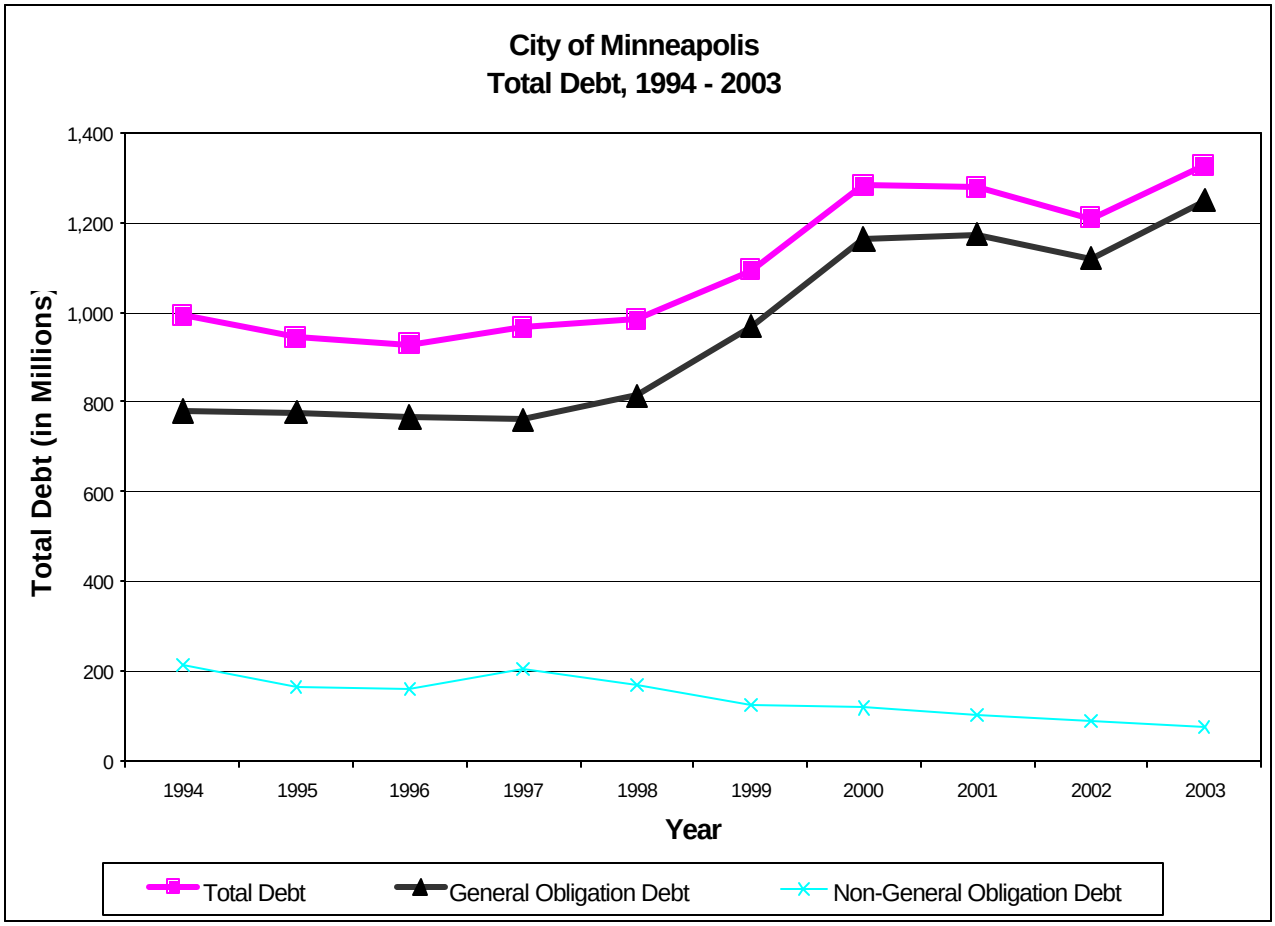
October
In October, the City issued $6,130,000 of General Obligation Improvement Bonds, Series 2003 for various special assessment projects. Also issued were $15,985,000 of General Obligation Various Purpose Refunding Bonds, Series 2003 and $57,000,000 of General Obligation Library Bonds, Series 2003 for construction of Central and Community Library system projects. Finally, $17,900,000 of Taxable General Obligation Pension Bonds (MPRA), Series 2003 were issued for pension obligations for the Minneapolis Police Relief Association.

December
In December, the City issued $16,100,000 of General Obligation Guthrie Parking Ramp Bonds, Series 2003 for design and construction of a new parking ramp to serve the new Guthrie Theater.

Management of the City's debt involves consideration not only of the absolute amount of debt, but also attention to yearly trends in the relationship of the debt to other financial measures. For purposes of this presentation, Mortgage Revenue bonds and General Agency Reserve Fund System bonds of the Community Planning & Economic Development Department (formerly Minneapolis Community Development Agency) are not included as City Debt.

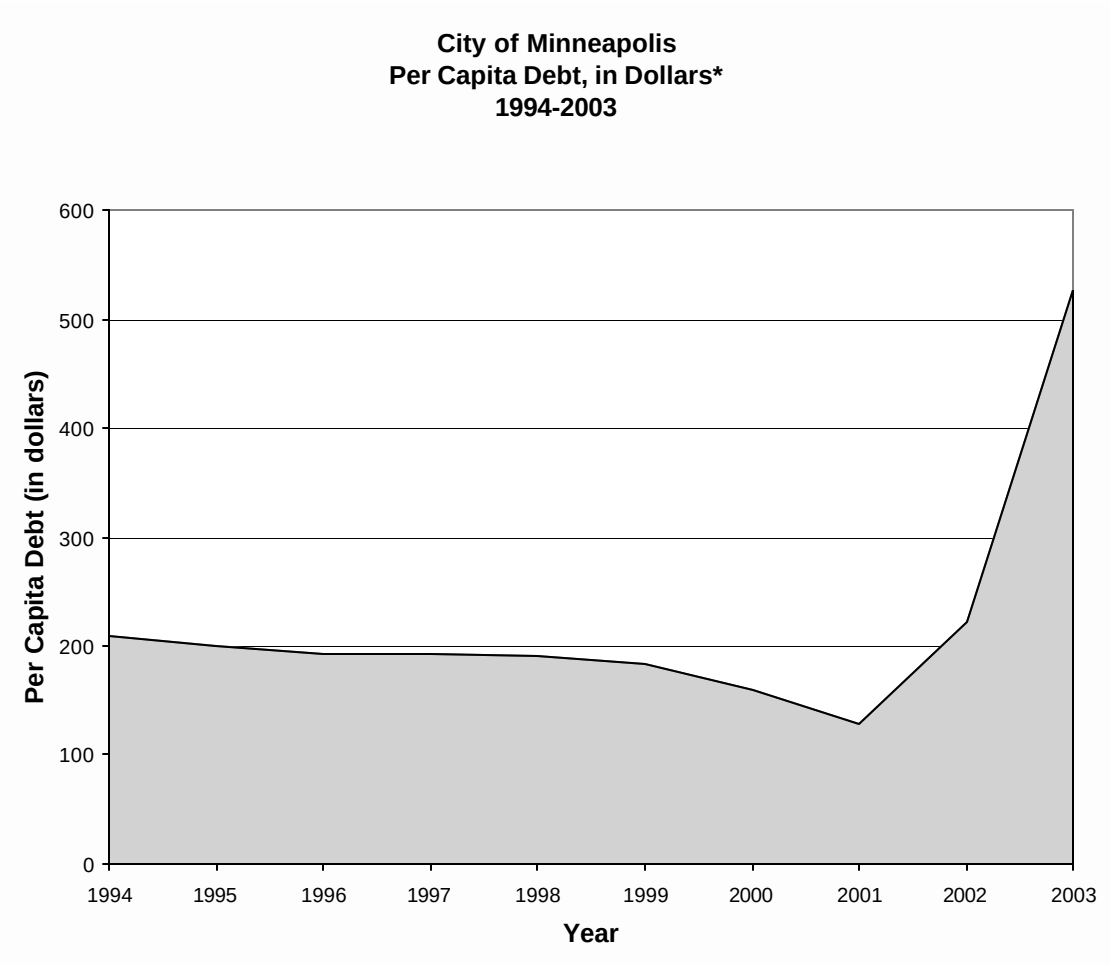
Debt Trends

The accompanying chart shows a ten-year history of the total City debt level for years 1994 - 2003. The total includes general obligation debt, backed by the full faith and credit of the City, and non-general obligation debt, which currently includes only tax increment revenue bonds.



Per Capita Debt

The chart below showing general obligation debt per capita suggests that on a per-person basis, the general obligation debt supported by property taxes peaked in 1994 and decreased until 2001. Part of the reduction in 2000 and 2001 is due to the revision in the reported population from 368,383 to 382,618. In 2002 and 2003, the City incurred tax supported debt to fund Minneapolis Police Relief Association (MPRA) and Minneapolis Employee Retirement Fund (MERF) pension obligations resulting in a spike in the debt per capita. This upward trend will continue to occur for several more years while the unfunded pension liabilities are paid.



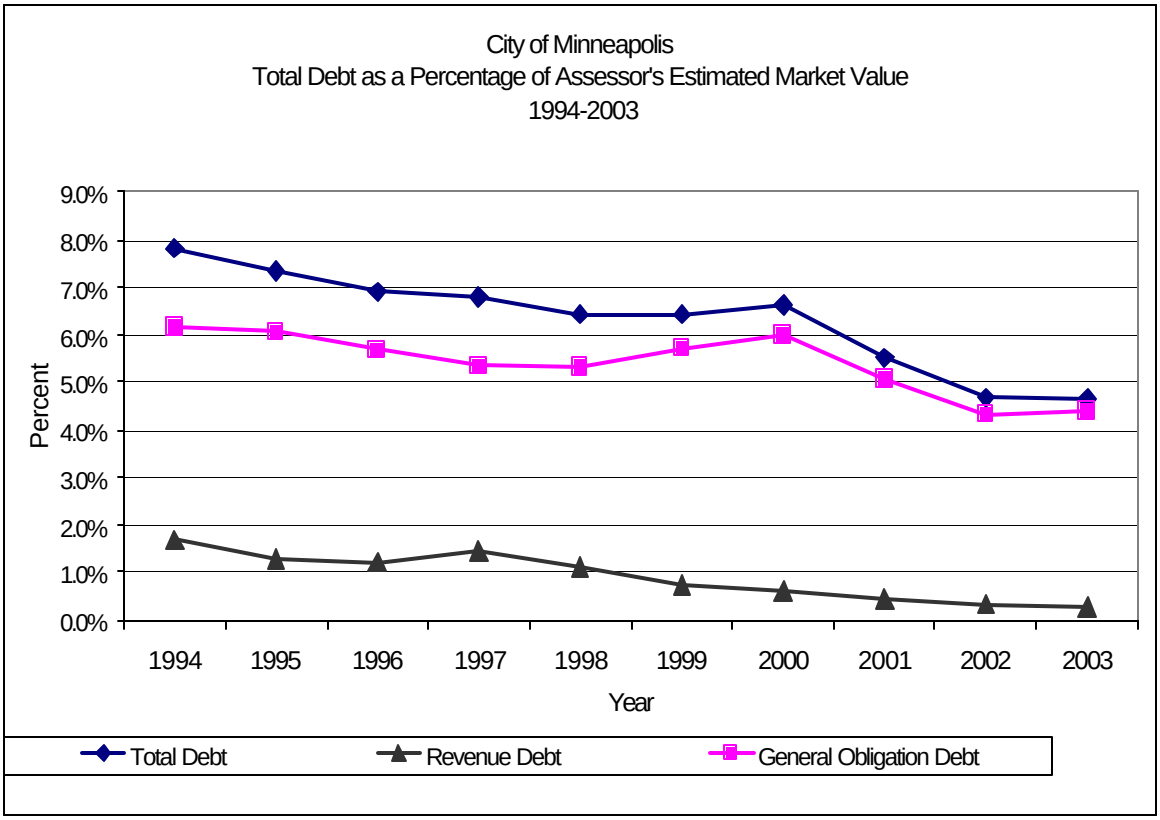
* Figures shown are adjusted indebtedness, which represents the total general obligation indebtedness of the City less that indebtedness supported by revenues other than general property taxes. Funding from self-supporting enterprises of the City will offset some of the increase in 2003 but the extent of this amount was not fully known at the time of this publication.

Debt Capacity – Total Debt

The primary goal of the City's debt management effort is to maintain the ability to incur debt at minimal interest rates without endangering the City's ability to finance essential City services. The policy focuses on a revenue/debt ratio approach and calls for the City to closely monitor the absolute amounts and year-to-year trends of key financial ratios. The policy states that the City should limit the issuance of new bonded debt so as to make improvements in the key financial ratios over time.

The key management ratio used in monitoring total debt is total debt outstanding as a percent of estimated full market value of Minneapolis' taxable property. *The ratio of total outstanding debt to the Minneapolis City Assessor's market value of taxable property remained at an estimated 4.7 percent in 2003, the same as the previous year, even though Total Debt applicable to this calculation rose by over $117 million during this timeframe.*

The chart below shows 1994 as the highest total debt/market ratio even though total debt was decreasing. This was due to declining market valuations experienced in the early 1990's. From 1994 - 1999, the ratio's favorable downward trend reflects a recovery in property valuations at the same time the total debt level was stable to slightly increasing. Total Debt levels increased in 2000 and 2001, declined in 2002 and rose again in 2003 but the impact of these higher debt levels have been more than offset by a continuing increase in the market value of the City's taxable property.



Computation of the City's Legal Debt Margin

The following is the computation of the legal debt margin to be reported in the City's Comprehensive Annual Financial Report for December 31, 2003.

		Dollars in Thousands
Real Property (2003 Market Value)	$	28,169,479
Personal Property (2003 Market Value)		354,892
		28,524,371
Adjustment for Exempt Personal Property (1966 Market Value)		298,030
Adjustment for Net Fiscal Disparities (Contribution)/Distribution		193,892
Total Market Value Applicable to Debt Limit		29,016,293
Debt Limit (3-1/3% of Market Value Applicable to Debt Limit)	$	967,210
General Obligation Bonds Subject to Debt Limit:		
Supported by Property Tax Levy		222,390
Supported by Special Assessments:		
Park Diseased Trees		1,390
Lyn-Lake Municipal/Commercial Parking		1,712
Self-Supporting (Supported by Internal User Charges):		
Management Information Systems		44,600
Park Board - Land acquisitions & athletic field development		12,560
Public Works Fleet and Equipment		40,160
Property Fund		10,710
Self-Insurance Fund		7,145
Total General Obligation Bonds Subject to Debt Limit		340,667
Less: Assets in Debt Service Fund		(20,887)
Total Debt Applicable to Debt Limit		319,780
Legal Margin for New Bonds Subject to Debt Limit	$	647,430

Summary of Outstanding City Debt

Long-term liabilities at December 31, 2002 (in thousands) are detailed below. At the time of this publication, final figures for 2003 were not yet available.

Governmental activities:	Balance 1/1/02	Additions	Retirements	Balance 12/31/02	Amounts Due Within One Year
Bonds and Notes					
Property Tax Supported GO Bonds	$ 68,705	$ 66,845	$ 32,305	$ 103,245	$ 25,610
Self Supporting GO Bonds	363,550	150,280	230,295	283,535	9,305
Special Assessment GO Bonds	40,545	6,390	4,616	42,319	4,695
Tax Increment GO Bonds	233,815	-	17,190	216,625	11,370
Revenue Bonds	103,726	-	13,083	90,643	13,541
Revenue Notes	32,488	17,415	812	49,091	677
Internal Service Fund Related GO Bonds	83,255	12,525	3,125	92,655	5,130
Total Bonds and Notes	926,084	253,455	301,426	878,113	70,328
Other Long-term Liabilities					
Operating Leases Payable	614	8	64	558	726
Capital Leases Payable	30		22	8	8
Contracts Payable	274		25	249	27
Unamortized Premium (Discount)	739	6,104	280	6,563	
Compensated Absences	21,671		1,388	20,283	
Total Other Long-Term Liabilities	23,328	6,112	1,779	27,661	761
Total Long-term Liabilities Governmental	$ 949,412	$ 259,567	$ 303,205	$ 905,774	$ 71,089
Business-type activities:					
Bonds and Notes					
Sewer Fund GO Bonds	$ 50,626	$ -	$ 7,605	$ 43,021	$ 7,250
Water Fund GO Bonds	57,036	4,330	13,192	48,174	11,008
Water Fund GO Note	-	3,718	-	3,718	400
Municipal Parking Fund GO Bonds	267,780	43,620	32,059	279,341	10,129
Community Development GO Bonds	8,860	-	2,470	6,390	125
Community Development Agency Fund					
General Agency Reserve Fund System	77,115	2,750	3,505	76,360	3,430
Mortgage Revenue Bonds	22,155	-	6,630	15,525	115
Revenue Notes	9,021	-	5,520	3,501	2,253
Total Bonds and Notes	492,593	54,418	70,981	476,030	34,710
Other Long-term Liabilities					
Unamortized Premium (Discount)	(5,288)	45	(332)	(4,911)	
Compensated Absences	1,859	55		1,914	
Total Other Long-term Liabilities	(3,429)	100	(332)	(2,997)	-
Total Long-term Liabilities Business-type	$ 489,164	$ 54,518	$ 70,649	$ 473,033	$ 34,710
Total Long-term Liabilities	$ 1,438,576	$ 314,085	$ 373,854	$ 1,378,807	$ 105,799

Amortization of Outstanding Governmental City Debt

As of December 31, 2002, annual debt service requirements for governmental activities to maturity (in thousands) are as follows:

	Governmental Activities - Non-Proprietary			
Year ending	Bonds		Notes	
Dec 31:	Principal	Interest	Principal	Interest
2003	$ 64,521	$ 53,294	$ 677	$ 2,436
2004	47,637	54,231	2,872	2,243
2005	42,728	53,193	837	2,215
2006	37,740	52,236	10,803	2,045
2007	35,906	51,705	12,127	1,336
2008 - 2012	165,694	162,488	6,156	1,942
2013 - 2017	156,320	71,492	2,149	804
2018 - 2022	129,691	31,489	1,635	604
2023 - 2027	54,670	7,436	1,285	212
2028 - 2032	1,460	60	10,550	69
	$ 736,367	$ 537,624	$ 49,091	$ 13,906

	Internal Service Fund Bonds		Total Governmental Activity Bonds & Notes	
	Principal	Interest	Principal	Interest
2003	$ 5,130	$ 4,426	$ 70,328	$ 60,156
2004	6,965	4,183	57,474	60,657
2005	9,935	3,834	53,500	59,242
2006	10,665	3,335	59,208	57,616
2007	4,870	2,852	52,903	55,893
2008 - 2012	36,515	10,445	208,365	174,875
2013 - 2017	8,810	3,770	167,279	76,066
2018 - 2022	9,765	1,229	141,091	33,322
2023 - 2027			55,955	7,648
2028 - 2032			12,010	129
	$ 92,655	$ 34,074	$ 878,113	$ 585,604

Amortization of Outstanding Business Type City Debt

As of December 31, 2002, annual debt service requirements for business type activities to maturity (in thousands) are as follows:

Business-type Activities

Year ending	Bonds		Notes		Total	Total
Dec 31:	Principal	Interest	Principal	Interest	Principal	Interest
2003	32,057	24,915	2,653	368	34,710	25,283
2004	30,266	23,870	3,411	76	33,677	23,946
2005	27,799	22,823	99	69	27,898	22,892
2006	34,465	22,055	106	63	34,571	22,118
2007	26,427	20,769	113	56	26,540	20,825
2008 - 2012	118,207	80,767	680	192	118,887	80,959
2013 - 2017	86,451	49,436	157		86,608	49,436
2018 - 2022	45,959	25,975			45,959	25,975
2023 - 2027	47,285	12,110			47,285	12,110
2028 - 2032	19,895	1,940			19,895	1,940
Totals	$ 468,811	$ 284,660	$ 7,219	$ 824	$ 476,030	$ 285,484