

INTEROFFICE MEMORANDUM

June 6, 2011

MEMO TO: J. Russell Allen
City Manager

FROM: Stephen Bentley, Capital Improvement Program Manager
David Scarborough, Budget and Management Analyst

SUBJECT: Budget Note 1 – Capital Improvement Program Summary

Overview of the Capital Improvement Program

The 10-year Capital Improvement Program (CIP) for the City of Raleigh, spanning fiscal years 2011-12 through 2020-21, is a separate budget from the operating budget, but combined they equal the total city budget. The CIP provides the city with a 10-year financial plan which is dedicated to the city's highest priority capital needs.

The Phase I program, encompassing the first five years of the CIP, includes projects approved by Council in previous editions of the CIP as well as additional projects as a result of various planning and review processes. The Phase II program, spanning the second five year period, includes projects and capital maintenance needs necessary for the continuation of services to the citizens of the City.

The proposed CIP represents an \$876 million investment to address capital needs for the City of Raleigh over the five year Phase I period. As the economy slowly recovers there still remains a distinct funding gap between revenue sources and expenditures. This CIP attempts to address our City's most critical capital needs, but also reduces and defers several FY12 CIP project requests as a result of decreased available project funding.

There are multiple factors that are influencing the revenues to support the proposed FY12 CIP including a reduction in interest income, General Fund and Public Utilities pay-go capital, decreased facility fee revenues and Powell Bill funding and uncertainties in the financial markets. In order to meet the existing debt model requirements through the transfer of facility fee revenues to debt service, a majority of facility fee revenues collected in FY12 will go to our debt service. This significantly lessens the support that facility fee revenues provide to Parks and Recreation and Transportation projects, both for current and future years.

Revenue Sources – Phase I: FY 2011-15

The capital program continues to be primarily financed by the use of debt instruments. Future Transportation and Housing projects rely on proposed bond funding totaling \$52 million, to be pursued with a bond referendum in Fiscal Year 2012.

Appropriations from the current phased issuance of General Obligation bonds approved in referendum for Parks and Recreation (2007) are anticipated to end this fiscal year. Given Parks and Recreation reliance on bond funding, it will be essential that a new bond program be considered within the next two fiscal years.

Public Utilities continues its capital investment program with projects spread throughout all service areas. In Phase I of the CIP transfers from Revenue Bonds of approximately \$230.5 million will serve to finance the water, wastewater, and reuse water projects necessary to ensure efficient and effective services to the fully-merged service area.

The Stormwater Utility fee program continues to fund projects related to water quality and quantity in accordance with state and federal standards. These funds will be paired with future revenue bonds to provide significant improvements to the city's stormwater system.

- Phase 1 Capital Financing: Funding for capital projects and acquisitions raised through the issuance of debt
 - Certificates of Participation
 - General Public Improvements – \$209,975,642 is needed in anticipated COPS funding to support Phase I projects.
 - General Obligation (GO) Bonds
 - Transportation – \$37,000,000 in proposed bond referendum anticipated
 - Parks and Recreation – \$99,536,500
 - Housing – \$15,000,000
 - Revenue Bonds
 - Public Utilities - \$226,148,000
- Phase 1 Pay-As-You-Go: Funding for capital projects and acquisitions raised through continuous sources other than debt
 - Facility/Impact Fees:
 - Parks: \$1,500,000 (a one-time transfer from residual funds)
 - Streets: \$1,355,766
 - General Fund (from sales tax) – \$26,300,000
 - Powell Bill – \$20,924,000
 - Interest, and Assessments – \$10,410,000
 - Capital and Other Reserves – \$605,050
 - Other Fund (Parking, Tech, Street, Sidewalk, Revolving) – \$9,883,370
 - Inter-local Agreement – \$2,200,000
 - Rents – \$2,156,708
 - Program Income – \$1,875,000
- Phase 1 Public and Stormwater Utility Pay-As-You-Go Revenue
 - Public Utility – \$142,000,000
 - Stormwater – \$27,172,500

CIP Phase I Highlights

The need to address pressing capital maintenance needs and projects necessary for the continuation of services to the citizens of the City are addressed in this CIP; however, a number of project requests were reduced or deferred as a result of limited project funding. Continuation of existing projects and the initiation of other new projects include:

- Transportation: Total Phase I funding for the transportation program is \$70.1 million. This includes proposed bond funding totaling \$37,000,000, to be pursued with a bond referendum in the fall of 2011. Revenues from this proposed Multimodal Transportation Bond would be used to fund street resurfacing projects, street improvement projects and studies, sidewalk installation and repairs, greenway projects, and transit facility

improvements. If a proposed bond referendum is not approved, it will require the review and delay of these proposed projects.

- **Public Utilities:** The utilities capital program continues to execute an extensive number of investment projects, as well as initiatives to improve water and wastewater operations throughout the Raleigh service area which now includes providing service and capital investment to infrastructure located within the municipalities of Garner, Knightdale, Wake Forest, Rolesville, Wendell and Zebulon. A total investment program of \$372.4 million is proposed over Phase I of the capital program.
- **Parks and Recreation:** Phase I of the Parks and Recreation capital program earmarks \$650,000 for property acquisition, \$14 million for development projects, \$7.7 million for phased expenditures from the 2007 Parks Bonds and approximately \$92 million in newly proposed 2012 Park Bonds. The Parks capital program has been affected the most by the reduction in facility fees, as current projections indicate there will be no facility fee revenues available for Parks pay-go projects over the course of the next five years, with the exception of a one-time transfer of \$1,500,000 in eligible residual funds. It is anticipated that bond funding will need to be addressed within the next fiscal year.
- **Stormwater Utility and Neuse Basin Environmental Program:** This year's CIP proposes a program of \$72.9 million in Phase I financed through operating transfers, also known as pay-go funding, anticipated capital reserves and proposed revenue bond funds. Stormwater projects are associated with stormwater runoff, pollution control and water quality, drainage improvements, the alleviation of flooding, and improvements to watercourses that require erosion control and streambed remediation throughout the city's jurisdiction.
- **Housing:** The Phase 1 CIP for the Housing program includes \$15.6 million in project funds. Funding for Phase I of the housing program includes \$15,000,000 from a proposed Bond Referendum in the fall of 2011 as well as other program incomes.
- **General Public Improvement:** A total of \$228.8 million in general improvement projects make up this investment proposal for the Phase I program, representing a commitment to maintain and improve existing infrastructure as well as addresses the need for major new facilities and economic projects throughout the city. Major project areas within the GPI portion of the CIP include bond-funded facilities and major renovation construction projects, the continued development and construction of Remote Operations facilities, public safety construction and upgrades, technology projects, and economic development initiatives that target areas of the City that will accommodate and promote economic growth. Besides proposed general obligation bonds there are no identified funding sources for the construction costs associated with these new projects.

Summary of Capital Improvement Program

The FY2012 CIP represents a commitment to maintain and improve existing infrastructure as well as fund the construction of major new city facilities and economic development projects deserving of our first class city. While attempting to address these commitments, it focuses on the need to be fiscally responsible yet optimistically foresighted in our future programmatic goals as the City continues to grow even during our slow economic recovery.