Capital Budgeting Task Force
Annual Report

Including 2018 Capital Budget and
2018-2022 Capital Improvement Program Recommendations

to the
Hennepin County Board of Commissioners

November 2, 2017

Office of Budget and Finance

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November 2, 2017

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 2018-2022 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 2018-2022 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,

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 2018-2022 recommendations.

II. CAPITAL BUDGETING TASK FORCE MEMBERSHIP

District	Member	Appointed by	Date Appointed	Expires
1st	Susan Carlson Weinberg	Commission Mike Opat	December 2001	N/A
2nd	Alexis Pennie	Commissioner Linda Higgins	February 2013	N/A
3rd	Tom Trisko	Commission Marion Green Commissioner Gail Dorfman Commissioner Mark Andrews	May 2014 April 1999 April 1993	N/A
4th	Earl Netwal	Commissioner Peter McLaughlin	August 2005	N/A
5th	Jill Joseph	Commissioner Debbie Goettel	May 2017	N/A
6th	William Henney	Commissioner Jan Callison	March 2014	N/A
7th	Vacant	Commissioner Jeff Johnson		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 2017

MEETING DATE	AGENDA
December 13, 2016	County Board of Commissioners adopted the 2017 Capital Budget and 2017-2021 Capital Improvement Program.
May 22, 2017	Introductions, discussion of County 2016 financial results and 2018 operating budget assumptions, discussion of County bonded indebtedness, update on projects and issues of interest, and discuss CBTF principles. Tour new Webber Park Library.
June 19, 2017	Project/facility tours: Southeast Library, South Minneapolis Service Center, CSAH 3: Lake Street at 35W project, 1800 Chicago**.** Bus tour.
July 10, 2017	Project presentations: Library and Facility Services projects; tour Ridgedale Center.
July 24, 2017	Public Works projects; tour the Medina Public Works Facility.
August 7, 2017	Public Safety projects; tour new Jury Assembly and Law Library.
August 14, 2017	Health and Human Services, Information Technology, and Municipal Building Commission projects. Administrator's 2018-2022 CIP recommendations.
August 21, 2017	CBTF Deliberations
August 28, 2017	CBTF Deliberations - finalization of recommendations.
September 12, 2017	County Administration presents Proposed Budget
September 26, 2017	County Board adopts maximum property tax levy.
November 2, 2017	Presentation of CBTF Recommendations to the county board.

IV. GENERAL APPROACH TO CAPITAL IMPROVEMENTS
(As of August 28, 2017)

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) or Housing & Redevelopment Authority (HRA), but does review the projects of Hennepin Healthcare System, Inc. (HHS/Medical Center), although projects that are directly funded through the HHS/Medical Center Operating Budget are not reviewed by the CBTF. Over the years, it has become apparent to CBTF members that capital improvements as defined and requested by county departments exceed the County's ability to finance them within the time period desired. In addition, the ongoing operating implications of capital projects are often not fully defined or known by departments. As a result, there is a continuing need to establish capital improvement priorities within the context of long-range revenue and expenditure considerations as well as other factors which affect the long-term needs and plans of the county. The following principles have guided the CBTF's review of capital improvements over the years:

1. <u>Revenues</u>

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.

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

The CBTF believes that the county needs to maintain a minimum level of property tax support 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:

- The overall calculated general obligation debt service levy should not exceed 15% of the total annual property tax levy of the County.
- The total amount of outstanding general obligation debt should not exceed $800 per capita (2009 figure, adjusted for inflation thereafter).
- 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 and Internal Fund Revenues

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

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

Hennepin Healthcare System (HHS)

As of January 1, 2007, the Hennepin Healthcare System (HHS) corporation board 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 and general obligation debt required for capital projects to a minimum over the long run. Stabilize the property tax levy requirements as much as possible, including the requirements for debt service of county obligation bonds. The CBTF 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 whichever department or service may need to utilize that asset now or in the future. This approach reduces the need to commit the county to new construction or major renovation of other facilities. The present capital assets of the county are very valuable, but increase in value only if they are well maintained throughout their useful life. The replacement cost of most of the county's assets is very high. As a result, preservation of the county's assets protects the county's investment and saves money in the long run for the county. However, the county should guard against committing resources to assets that have exceeded their useful life.

Flexibility for the Future

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

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

Because of state, federal and judicial mandates, programmatic and regulatory guidelines, reorganization plans and other factors, Hennepin County government will continue to change in the future. While the county will probably not experience the growth in programs or employees that it has seen in the past, the CBTF 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 and is recommending the Capital Improvement Program which is presented in Section V of this Report.

B. CAPITAL PROJECT EVALUATION CRITERIA

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

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

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

3. **Project Cost** – relation of cost to similar projects or building types and to other responsibilities of program provision:
   - Does the cost appear reasonable as compared to projects of a similar nature?
   - Are site acquisition costs adequately reflected?
   - Have auxiliary costs been considered – such as site development utilities, parking?
   - How does the request compare to potential alternatives – including lease, turnkey contract for sale, and purchase of service?
   - What alternatives have been explored and what are the cost and effectiveness of these alternatives compared with the requested solution?

4. **Operational Cost** – long range commitment to maintain the facility and program:
   - What costs are associated with the project for maintenance, staffing patterns, energy utilization and accessibility?
   - Have the identified operating costs been included in the project request?
   - How do these costs compare to existing program operation?
   - How do these costs compare to total departmental operational costs?
   - Are cost/benefit factors applicable?
   - What does the benefit imply?

5. **Time Frame** – scheduled initiation and completion to meet policy and program objectives:
   - Is start-time realistic in view of project status and magnitude?
   - Is time frame essential to interface with other committed projects?
   - Are these projects approved for execution?
   - Do they represent a joint or cooperative effort with other service delivery agencies?
   - Do these projects involve public and/or private developments?

6. **Economic, Cultural and Environmental** – consideration of economies in timing, resource conservation, impact on area development and cultural and physical environment:
   - Would the project aid the general economic condition of the area?
   - Would it serve to generate vicinity upgrading or renewal?
   - Would this activity be private as well as public?
   - To what extent could the project also benefit from a favorable bidding climate?
   - Are costs for any unique structural or equipment requirement expected to rise faster than normally expected inflation?
   - Does the project possess particular recreational, historical or social value?

7. **Life – Safety/Code Compliance** – relation to the protection of life and property:

- Does the project meet all appropriate building, housing, fire prevention and zoning codes?
- Is the project proposed to alleviate unsafe conditions for existing highways/facilities?
- Does the project properly take into account the safety and security of employees and visitors?
- Is it prompted by legal requirements for safety standards (fire prevention, building codes, OSHA)?
- Will the project help the county to comply with the Americans with Disabilities Act?

8. **Intergovernmental Relations** – cooperation with other service delivery agencies:

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

9. **Project Support** - Is there specific support for or opposition to the project:

- Is it from community organizations, special interest groups, individuals?
- Does it come officially from an affected unit of government?
- Is reaction to the project genuine?
- Is it representative of the general public?

10. **Legal Obligations** – A legal obligation is understood to mean a valid written agreement or contract to perform a service for the County.

- Has the County entered into a binding legal contract or agreement for construction of the project?
- Is it likely the County will enter into a binding legal contract for construction of the project by the end of the current year which will obligate future year budget authority?
- Are there any options open to the County to delay or terminate the contract and if so, what are the financial consequences?

V. 2018-2022 CAPITAL IMPROVEMENT PROGRAM RECOMMENDATIONS

A. OVERVIEW OF RECOMMENDATIONS

CBTF Recommendations compared to: 2018 Department Requests

The Capital Budgeting Task Force received over 160 capital project requests for the 2018-2022 period. The Task Force is recommending a 2018 Capital Budget of $282,964,566 that requires $7,015,218 in property taxes and $210,725,000 in new bonded indebtedness. This equates to a 46% increase in the required property tax amount and a 2% reduction in bonded indebtedness over the department requested amounts.

Totals	2018	2018-2022
Department Requests	$300,500,000	$951,600,000
CBTF Recommendation	283,000,000	984,600,000
Variance:	(17,500,000)	33,000,000

Property Tax Component	2018	2018-2022
Department Requests	$4,800,000	$25,100,000
CBTF Recommendation	7,000,000	35,700,000
Variance:	2,200,000	10,800,000

Bonded Indebtedness	2018	2018-2022
Department Requests	$214,800,000	$724,300,000
CBTF Recommendation	210,700,000	725,000,000
Variance:	(4,100,000)	700,000

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

The recommended 2018 capital budget is a decrease of $51.3 million, or 15%, over the Board adjusted 2017 capital budget of $334.3 million with the recommended Property Tax and Bonding components increasing $1.1 million and $33.3 million respectively. The Recommended 2018-2022 Capital Improvement Program is $42.1 million more than the 2017-2021 Board Approved CIP, as shown in the table below.

Totals	Capital Budget	Five Year CIP
Board Adjusted 2017	$334,300,000	$942,500,000
2018 CBTF Recommendation	283,000,000	984,600,000
Variance:	(51,300,000)	42,100,000

Property Tax Component	Capital Budget	Five Year CIP
Board Adjusted 2017	$5,900,000	$23,500,000
2018 CBTF Recommendation	7,000,000	35,700,000
Variance:	1,100,000	12,200,000

Bonded Indebtedness	Capital Budget	Five Year CIP
Board Adjusted 2017	$177,400,000	$621,000,000
2018 CBTF Recommendation	210,700,000	725,000,000
Variance:	33,300,000	104,000,000

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 meets all debt guidelines, which were developed to conserve debt capacity for unforeseen future needs, yet allows for timely capital investments to enhance and maintain county assets.

The issuance of bonds allows the County to even out the property tax load somewhat while addressing current significant capital needs. The chart shows the total general obligation bonding as recommended for the 2018-2022 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 from other revenue sources such as a county enterprise or sales taxes.

Recommended General Obligation Bonding (000's):

Year	Prop. Tax	Other Revenue	Total
2018	$206,800	$3,900	$210,700
2019	191,800	9,200	201,000
2020	144,400	9,100	153,500
2021	95,800	5,700	101,500
2022	53,100	5,200	58,300

Bonds that are issued as a general obligation of the County, but are internally recognized as funded with enterprise or other revenues, remain a general obligation of the county and are required to be serviced with 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 2018 Capital budget and 2018-2022 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 counties and agencies, 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 2018-2022 capital improvement program, one project will ultimately result in a shared facility: the *Medical Examiner's New Regional Facility.*

B. PROJECT RECOMMENDATIONS

PUBLIC WORKS

The Capital Budgeting Task Force is recommending $92.7 million for 2018 and $336.4 million for the 2018-2022 period for Public Works projects. This represents 32.8% of the recommended 2018 Capital Budget and 34.2% of the 2018-2022 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 2018 capital budget of $74.1 million, funded with:

- $49.5 million in state revenues- comprised of:
  - $25.1 million state aid, and
  - $24.4 million turn-back funds
- $1.4 million in federal revenues
- $2.4 million in property tax requirement
- $7.2 million in county bonds, and
- $13.7 million from municipalities and other revenues

35 major transportation projects are recommended in the 2018-2022 capital improvement program. Road or bridge projects with recommended 2018 funding greater than $3,000,000 are detailed below:

Road/Bridge projects with recommended 2018 funding greater than $3,000,000	2018 Budget	Total Project
2141200 CSAH 28 – Participate in MnDot I-494 Ramp reconstruction	$3,900,000	8,500,000
2101100 CSAH 53 - Reconstruct 66th St from Xerxes Ave S to Cedar Ave S	13,110,000	63,792,222
2090400 CSAH 61 - Reconstruct Flying Cloud Dr from County Line to Charlson	19,529,000	69,000,000
2092200 CSAH 81 - Reconstruct Bottineau Blvd from CSAH 8 to TH 169	3,000,000	29,270,000
2091101 CSAH 112 - Reconstruct Road from Willow to Wolf Pointe Trail	5,258,348	19,051,415
2091102 CSAH 112 - Reconstruct Road from Wolf Pointe Trail to Wayzata Blvd	8,480,000	12,350,000
2151900 CSAH 152 - Reconstruct Road from 49th Ave N to Bass Lake Road	3,500,000	4,309,000

Included in the $74.1 million 2018 capital budget, we are recommending two new initiatives: $1.4 million toward *Transportation Asset Preservation*, and $1.0 million toward *Transportation Safety; funded with bond proceeds*. We are also recommending an additional $3.0 million in bond proceeds toward the *Advanced Traffic Management Systems (ATMS)* initiative which, starting in 2017, will enhance the county's traffic signal communications infrastructure to improve system efficiency and safety. In addition, we are recommending $4.9 million for other 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, the Transportation Roads and Bridges section excludes $236.6 million of projects from its 2018-2022 capital improvement program request. This represents 18 projects that are included instead, as "provisional projects" that will be added to the program if federal or state funding becomes available, 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:

Unfunded Provisional Projects with Total Project Costs over $15,000,000		Total Cost
2140600	*CSAH 2 - Reconstruct Penn Ave N from Glenwood Ave N to W Broadway*	$19,360,000
2165300	*CSAH 9 - Rockford Rd interchange at I-494 in Plymouth*	16,000,000
2984500	*CSAH 23 - Reconstruct Marshall St from 3rd Ave NE to Lowry Ave*	16,472,000
2142200	*CSAH 32 - Reconstruct Penn Ave S from 88th St to 79th St*	15,660,000
2143100	*CSAH 52 - Reconstruct Nicollet Ave S from 98th St to I-494*	27,405,000
2120800	*CSAH 52 - Reconstruct Nicollet Ave S from I-494 to 62nd St*	24,795,000
2986200	*CSAH 130 - Elm Creek/Brooklyn Blvd interchange at TH 169*	16,000,000
2140900	*CSAH 153 Lowry Ave - Reconstruct from Washington St NE to Johnson*	15,776,000
2142400	*CSAH 156 Winnetka Ave - Reconstruct from TH 55 to Medicine Lake Rd*	20,435,000

Transportation Facilities

For Transportation Facilities related projects, we are recommending $3.0 million in 2018 toward the $5.0 million *PW Medina Communications Consolidation* project and $300,000 in 2018 toward the related $6.1 million *PW Medina Office Remodeling* project. These two projects will remodel significant portions of the Medina facility to increase staff capacity and improve overall efficiency.

Community Works

For Community Works projects, we are recommending funding of $6.6 million in 2018 and programming $33.4 million for the 2018-2022 Capital Improvement Program.

The 2018 recommendation is comprised of:

- $3.7 million in additional funding to continue the $15.1 million *Penn Avenue Community Works* project,
- $1.2 million in additional funding toward the $14.2 million *Bottineau LRT Community Works* project, and
- $1.8 million in additional funding to continue the $16.6 million *Southwest LRT Community Works* project.

Environment & Energy

For 2018, the CBTF is recommending $6.5 million in additional investments to the *Hennepin Energy Recovery Center* and $1.5 million toward *Energy Center Improvements*. The funding for both projects is general obligation bonding supported by enterprise revenues. In addition, we are recommending $770,000 toward the *Lake Minnetonka Hendrickson Channel Seawall Replacement* project. However, for this project we are recommending general obligation bonds paid with property taxes, as we do not believe the project should be funded with enterprise revenues.

PUBLIC SAFETY AND JUDICIARY

The Capital Budgeting Task Force is recommending $10.9 million for 2018 and $63.5 million for the 2018-2022 period for Public Safety and Judiciary projects. This represents 3.9% of the recommended 2018 Capital Budget and 6.4% of the 2018-2022 Capital Improvement Program.

Public Safety Administration & Integration

The CBTF is recommending $996,000 in 2018 in continued funding toward 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 2018 to complete the *County Attorney Office Space & Furniture Modifications* project. Two other project requests were deferred until space solutions can be found.

District Court

The CBTF is recommending $3.3 million in 2018 including the $2.0 million for the *Conciliation Court Relocation* project. The remaining $1.3 million will support the *HCGC Courtroom Jury Reconfiguration* effort and *Courtroom Communications System Refurbishments*.

Community Corrections & Rehabilitation

The CBTF is recommending a total 2017 budget of $2.6 million, in support of three critical projects at the Adult Detention Facility: $1.0 million to start construction on the *DOCCR Detention Lockset System Replacements*, $700,000 for the *ACF Segregation & Isolation Unit Remodel*, and $949,000, about half the total cost, toward the *ACF Men's Steel Bunk Replacement* project. The latter two projects are new requests this year. Although the CBTF does not tend to fund new project requests in their first year, both projects are key to maintaining safety and security of occupants and staff.

Sheriff's Office

With respect to the Sheriff's Office, the CBTF is recommending $3.3 million toward two projects: $1.7 million to finish the *Sheriff's Holding Area Security Modifications* project and $1.6 million to implement the *Sheriff's Video Visitation* project. Of significance, we are not recommending the requested $750,000 toward the *Sheriff's Enforcement Services Division Headquarters Facility Modifications* project. We toured this facility in 2016 and feel that continued investment beyond emergency repairs is not a good use of funds and recommend, consistent with the Administrator, that a new gun range and headquarters should be considered.

HEALTH

The Capital Budgeting Task Force is recommending $45.9 million for 2018 and $224.2 million for the 2018-2022 period for Health projects. This represents 16.2% of the recommended 2018 Capital Budget and 22.8% of the 2018-2022 Capital Improvement Program.

NorthPoint Health & Wellness

The CBTF toured the *NorthPoint Health & Wellness Center* in 2016 and are pleased to see construction proceeding on the early phases of this project. We are recommending $18.4 million in continued funding toward that $67.6 million effort.

Medical Examiner

With respect to the *Medical Examiner's New Regional Facility*, the prior budget years programmed state and county bond funding at a 50/50 match. We continue to program the remaining funds assuming a 50/50 state match although the outcome of all state resources is not yet known. We are recommending the remaining funding for 2019 to better reflect the likely implementation schedule.

Medical Center

With respect to the Medical Center, we are recommending a 2018 capital budget of $27.5 million which is down significantly from last year's $74.1 million recommendation. The 2018 amount includes:

- $9.5 million toward *HCMC Asset Preservation*,
- $15.0 million toward the $54.8 million *Surgery Center Expansion and Relocation* project that will backfill space vacated by clinics moving to the

new *Ambulatory Outpatient Specialty Center* scheduled to open in Spring 2018, and

- $3.0 million toward the $54.0 million *HCMC In-Patient Bed Consolidation*.

Of note, the Medical Center's requested funding source, traditionally general obligation bonds supported with enterprise revenues for projects other than asset preservation, is now recommended as bonds supported with property tax. Given this change, the CBTF asks that the County Board review and consider this change carefully, as it is outside the charge of the CBTF to review budget strategies, which is a critical factor when recommending a capital plan and related funding sources for the Medical Center.

HUMAN SERVICES & PUBLIC HEALTH

The Capital Budgeting Task Force is recommending $1.5 million for 2018 and $15.9 million for the 2018-2022 period for Human Services & Public Health projects. This represents 0.5% of the recommended 2018 Capital Budget and 1.6% of the 2018-2022 Capital Improvement Program.

The funding will support two new projects: $500,000 to begin planning and design for a new $7.6 million *1800 Chicago Intake and Triage Center* and $990,000 toward urgent needs at the *1801 Nicollet Mental Health* facility. We are not recommending additional funding for the relocation of the 1801 Nicollet Mental Health facility at this time as not enough information is known about shared services with partner organizations including HCMC- or potential locations.

OPERATIONS AND LIBRARIES

The Capital Budgeting Task Force is recommending $132.0 million for 2018 and $344.6 million for the 2018-2022 period for Operations and Libraries projects. This represents 46.6% of the recommended 2018 Capital Budget and 35.0% of the 2018-2022 Capital Improvement Program.

Libraries

The CBTF is recommending $24.9 million toward seven Library projects in 2018. The largest three are the final $7.6 million toward the $12.0 million *Southeast Library Renovation*, the final $6.6 million toward the $6.7 million *Oxboro Library Refurbishment*, and the final $4.2 million toward the $4.4 million *Hosmer Library Refurbishment*. The CBTF understands that library staff is working on an updated long-range Strategic Plan at this time. The results of the plan will likely impact the Library's capital project requests starting in 2019 and therefore, some of the 2018-2022 recommendations may be significantly modified next year.

Information Technology

For 2018, we are recommending an additional $1.5 million toward the ongoing *Community Connectivity Initiative,* which installs fiber optic lines across the county to support the county's high speed broadband needs.

Facility Services

The CBTF is recommending $102.4 million in investment for 2018, which is a significant increase over the $31.9 million recommended in 2017.

The increase is due to the $75.0 million included for the

Downtown Office Space Expansion project, which includes the potential purchase of the Thrivent Building. The CBTF was briefed but did not have adequate time or information to fully vet the project request, but does recognize the need for additional space and potential efficiencies. At the time of CBTF deliberations, the Board had not yet considered a building purchase; therefore a number of the CBTF recommendations would be impacted by that Board decision.

Other projects with a recommended 2018 allocation over $2.0 million include:

- $5.0 million toward the $32.9 million *Government Center Rehabilitation* project,
- $3.7 million toward the $13.6 million *HCGC Elevator & Escalator Modernization* project, which was spun out of the larger *Government Center Rehabilitation* project,
- $2.0 million toward a new *Countywide Energy Conservation* initiative that will consolidate a number of energy related projects into one effort,
- $2.0 million toward general *Facility Preservation*,
- $3.5 million toward the $9.0 million *1800 Chicago Infrastructure Replacement* project,
- $2.7 million toward the $15.7 million *Southdale Courts Relocation* project,
- $2.4 million toward the *Penn & Plymouth Fourth Floor Buildout* project, and
- $3.5 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 2018, we are recommending $3.2 million toward three projects that will continue to maintain and preserve the historic City Hall / Courthouse building.

C. CONCLUSION

It should be noted that 2018 is the only year for which a capital budget will be set at this time. The remaining years of the proposed 2018-2022 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.