City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: June 16, 2009

SUBJECT: Fiscal Year FY10 through FY12 Proposed Capital Budget and 10 Year Capital Improvement Plan

Report in Brief

On June 2, 2009, staff presented City Council with a proposed preliminary three-year capital budget and ten-year Capital Improvement Plan (CIP). Council was supportive of the proposal with some minor comments and indicated they would like to receive additional information regarding debt service, internal loans, flood mitigation and requested some minor project changes.

Staff recommends that the City Council review the ten-year CIP, including capital projects, revenue assumptions and anticipated financing, and authorize expenditures for the three year period beginning in FY09/10 and ending in FY11/12.

Background

On December 11, 2007, City Council discussed the City Manager's Implementation of Policy, Leadership and Management Initiatives which included a commitment to creating a balanced and sustainable ten-year financial plan. Consistent with that commitment, staff presented Council with a ten-year CIP on June 2, 2009 that addressed maintenance of existing City facilities, affordability of future operating impacts, and significant reductions in available development related revenues.

Due to the multi-year implementation period of most capital projects, staff is recommending appropriations for the three-year period beginning in FY10 and ending in FY12. The proposed appropriations are based on respective project phasing and anticipated annual cash requirements.

Discussion

Preparation of the CIP has been a time intensive and comprehensive effort involving all City departments. The CIP contains close to 200 projects, with total expenditures over the ten-year period nearing $232 million. Revenues were projected using currently approved development fees and conservative development assumptions. Utility user fees for sewer are based upon the currently adopted rates; however the water user fees require significant increases throughout the CIP to address funding of necessary capital improvements, implementation of residential metered billing and commencement of the Davis-Woodland Water Supply Project. Measure E revenues are consistent with the spending plan adopted by Council in 2008. Bond financing of $9 million in water enterprise and $11 million in sewer enterprise has been assumed in FY10. Additional bond financing of $16.9 million has been assumed during the first three years of the plan to assist with funding the Davis-Woodland Water Supply Project. Capital projects were submitted consistent with the various Council adopted Master Plans, MPFP and Measure E plans. Future anticipated operating impacts were evaluated as part of the capital budgeting process, and any projects the City cannot currently afford to operate are considered unfunded in the current CIP.

On June 2, 2009, Council approved the proposed CIP and Capital Budget with some minor comments and requested staff to provide additional information regarding the items described below:

External Debt Service

Funding of capital improvements through debt issuance (bonds) is a commonly used financing mechanism that can provide many benefits. The primary benefit of bond financing is that it spreads the cost of an improvement over a longer period of time that more appropriately reflects the useful life of an asset. Bonds also spread the cost of an asset to those who require and use it, rather than placing the entire burden on current fee/rate payers.

The City completed four bond issuances between 2002 and 2007 to fund construction of the Community Senior Center, Sports Park, Fire Station 1 and expansion of the Wastewater Treatment Plant. When bonds are issued, the City must pledge a dedicated source of revenue to repay the debt; the source of repayment for these bonds is primarily development impact fees. Aggregate annual debt service payments for these bonds total $5.39 million, of which $4.1 million is required to be paid by development fees and the remaining $1.2 million is an obligation of either Measure E or the sewer enterprise fund.

Pledging development impact fees as the primary source of repayment for these bonds has proven problematic because, by nature, these types of revenues can be unpredictable and sporadic. Conversely, annual debt service payments are predetermined amounts and payment of these amounts is not contingent upon collection of the revenues. Therefore, the City must pay the annual debt service regardless of whether or not sufficient development impact fees are collected to cover the payments.

Even with relatively moderate development activity, meeting current debt service requirements will be challenging. Given the adopted reduction in development fees combined with the reduced level of development activity, the Park, Fire and Sewer Development Funds will not generate sufficient revenue from residential development to meet minimum debt service requirements. Depending upon the level of non-residential development that may occur the City will likely need to rely on pooled cash borrowing to make the annual payments. Staff is currently working with the City's financial advisor to explore long-term options that may provide some relief from current debt service obligations; however, no final recommendations have been determined at this time.

Internal Loans

Because the City implemented and expended money on various capital projects in advance of collecting the related development fees, and opted not to pursue additional bond financing, several development fee funds reflect negative fund balances. These deficits have been funded by borrowing money accumulated in other City funds, commonly referred to as pooled cash. Several funds have borrowed significant amounts from pooled cash, which has presented a considerable challenge to fund other projects within the constraints of available resources. The more significant internal borrowing balances anticipated at June 30, 2009 is reflected below:

Sewer Development:	$(10,288,731)
Police Development:	$ (4,258,571)
Storm Drain Development:	$ (1,052,403)
Road Development:	$ (4,378,978)
Total	$(19,978,683)

In order to begin recovering from these substantial deficits, staff prepared internal loan repayment schedules. These schedules are similar to a debt service schedule that would be provided for external borrowings, except that the payments are never made to parties outside the City. Although they are referred to as loan repayment schedules and are shown in summary reports as an expenditure of each fund, the actual function of the annual payment is to restrict future development fees collected in each respective fund from being spent on new projects prior to reducing the accumulated deficit. Amortization schedules for these loans will be reviewed annually and updated based on revised revenue projections and capital project needs.

Council has expressed concern surrounding the practice of pooled cash borrowing. Staff shares this concern and desires to minimize internal borrowing; however, given these large beginning deficits, substantial slowdown in development, and the magnitude of reduced development fee revenues, the City is not able to fund necessary projects without some level of continued pooled cash borrowing, primarily because of external debt service commitments discussed herein.

At the end of the ten-year plan, internal borrowing balances are anticipated to be as follows:

Sewer Development:	$ (5,794,765)
Police Development:	$ (2,118,686)
Fire Development:	$ (1,308,041)
Storm Drain Development:	$(12,385,174)
Park Development:	$(10,619,977)
Total	$(32,226,643)

Deficit balances can be rectified primarily through increased revenues or reduced expenditures. For development fee funds, additional revenues can only be generated through increased impact fees and/or increased development activity. Expenditures from these funds primarily include debt service and project implementation costs. Staff has evaluated these options for all funds in the CIP and those funds listed herein with ending deficit balances present a challenge for various reasons. Below is a brief discussion of the situation of each deficit fund:

<u>Sewer Development</u>: This deficit originated more than ten years ago as a result of work done on the Wastewater Treatment Plant Phase I expansion project and various wastewater improvement projects where development paid a portion of the cost. The most recent multi-million dollar expansion project was funded through a combination of internal borrowing and bond financing. Over the ten-year period, the deficit improves by ~$4.5 million. The recovery is slow due primarily to external debt service requirements that are, for at least the first four years of the plan, in excess of anticipated revenues. Debt service will continue in this fund until 2035, and total project expenditures for the 10-year plan are less than $200k.

<u>Police Development</u>: This deficit originated in 2005 as a result of construction of the new police station. Over the ten-year period, the deficit improves by over $2.1 million. Because of the deficit position of this fund, a number of projects have been placed in an unfunded status and other critical projects totaling $1.25 million have been included in the funding plan. Staff expects this fund to continue to improve, but with revenues of less than $300k per year, the recovery is slow.

<u>Fire Development</u>: This fund develops a deficit as a result of annual debt service requirements related to the construction of Fire Station 1. This fund has only one capital project over the ten-year period (Spring Lake Fire Station); however, annual revenues of approximately $500k and annual debt service of nearly $300k lead to a slow recovery.

<u>Storm Drain Development</u>: This deficit increases dramatically through the course of the CIP. Residential development in Spring Lake does not pay a citywide Storm Drain impact fee; because nearly all the residential development in the CIP is related to Spring Lake, expected revenues in this fund are minimal. Staff has included revenues from some expected development in the industrial area of the City, but additional commercial, industrial or non-Spring Lake residential development, or removal of flooding and drainage related projects, are necessary to reduce the deficit.

<u>Park Development</u>: This fund develops a substantial deficit through the course of the CIP related almost entirely to debt service. The annual debt service requirement of the Park Development fund is ~$2.2 million. Non-residential development does not pay a Park impact fee, and based on the current residential development impact fee for Spring Lake, the City would need to issue 670 permits each year to just break even; this level of development is not achieved at any point in the CIP, which creates a structural deficit that grows every year. Debt service requirements will continue through 2035; recovery from this deficit will likely be slow and prolonged without a fee increase or completion of other large residential development projects.

In summary, staff needs to further study this trend in growing internal debt and develop alternatives for the Council's consideration. This situation was generated by years of internal borrowing, exacerbated by the current recessionary economy and further impacted by the decision to reduce development impact fees. It will require a long range, programmed and disciplined approach in order to be resolved.

Flood Mitigation

The Council asked staff to clarify whether or not there are projects included in the 10-year CIP that will mitigate flood impacts associated with a Lower Cache Creek event. In fact, over $7.3 million in specific projects is included throughout the CIP that could be applied to a "no regrets" regional solution because the projects would no longer be necessary. The projects that could be reallocated include:

- South Canal Pumping Plant and Yolo Bypass Outlet Design - $486,000
- Flood Proof Pumping Plants - $398,700
- Outfall Bridge and Yolo Bypass Improvements - $1,324,667
- Outfall Channel Improvements - $5,146,237

If a "no regrets" solution is identified, accepted by Woodland and rural Yolo County residents that could be affected by its implementation and approved by federal and state authorities, the four projects would not be necessary and the resources could be used to support development and construction of the flood mitigation improvements. However, it is important to note that these improvements are funded by the Storm Drain development fund which is a significant factor in the internal deficits described herein. While it is feasible to apply these funds based on the currently balanced 10-year CIP, the more responsible fiscal strategy would be to identify other regional funds or a plan to generate Woodland's potential share for the solution from some other source and save the $7.3 million for application to the internal debt.

Project Changes

As requested by Council, a new project has been added for frontage improvements on W. Main Street between Ashley and Cottonwood. Until a viable funding source can be identified, this project has been placed in the unfunded category. The other project change included adding $55k of additional economic stimulus CDBG money approved on June 2, 2009 to the 2009 ADA improvement project.

Fiscal Impact

If approved, the Capital Budget would appropriate approximately $26.8 million in FY09/10, $22.8 million in FY10/11 and $28.7 million in FY11/12 for capital expenditures on projects identified in the attached schedules.

Public Contact

Posting of the City Council agenda.

Commission Recommendation

The ten-year CIP and Capital Budget were presented to the Planning Commission on May 21, 2009. The documents were found to be in conformance with the City's General Plan, per Government Code Section 65401.

Recommendation for Action

Staff recommends that the City Council review the ten-year CIP, including capital projects, revenue assumptions and anticipated financing, and authorize expenditures for the three year period beginning in FY09/10 and ending in FY11/12.

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