

City of Minneapolis
2014 – 2018 Capital Program
Capital Budget Narrative Overview

CAPITAL IMPROVEMENT BUDGET DEVELOPMENT

The City adopts a five-year capital improvement program (CIP) that is updated annually. Each year, City departments & independent boards and commissions prepare new and/or modify existing capital budget requests (CBRs). The CBRs are then reviewed by the Capital Long-Range Improvement Committee (CLIC) which is a citizen advisory committee to the Mayor and City Council. The CLIC process is facilitated by Finance & Property Services staff.

CLIC is comprised of 33 appointed members, including two members per Council Ward and seven at-large members appointed by the Mayor. The overall committee elects a Chair and Vice Chair. The committee functions with two programmatic task forces of approximately the same number of members. Each task force, “Transportation” and “Human Development”, 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 task force members receive and review all CBRs for their program areas as submitted by the various City departments, independent boards and commissions.

During several half-day or full-day meetings, departments and boards formally present their requests and offer explanations. Task force members then rate all proposals using a rating system with specific criteria and create a numerical ranking for each project. Highest-ranking projects are then balanced against proposed available resources by year to arrive at a five-year capital improvement program recommendation to the Mayor and City Council.

For this five-year plan covering years 2014 - 2018, there were 99 CBRs reviewed and rated. The total requested capital budget for the five years was \$611.29 million.

CLIC’s recommendations serve as the starting point 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, although appropriation is only adopted for the first year.

HIGHLIGHTS OF THE 2014-2018 CAPITAL IMPROVEMENT PROGRAM

Five-Year Capital Program Totals: For 2014 – 2018, the five-year capital program for City departments, independent boards and commissions totals \$592.72 million including all funding sources. The 2014 portion of this program is \$120.48 million. This budget continues to fund accelerated improvements to the City’s infrastructure by increasing the net debt bond program by \$16.35 million over the five-year plan from \$137.75 million to \$154.10 million.

The table below provides a high level summary of the recommended five-year capital program including all funding sources:

Submitting Agency Infrastructure Category		2014	2015	2016	2017	2018	Total	Percent of Total
Budget in Thousands								
PARK BOARD	NEIGHBORHOOD PARKS	6,011	5,650	5,650	5,350	4,150	26,811	4.52%
PUBLIC WORKS	TRANSPORTATION INFRASTRUCTURE	57,923	65,270	44,210	36,410	38,545	242,358	40.89%
	UTILITY FEE BASED ENTERPRISES	47,750	59,893	55,480	49,700	58,500	271,323	45.78%
	Public Works Department Totals	105,673	125,163	99,690	86,110	97,045	513,681	86.67%
OTHER AGENCIES	CITY HALL, PUBLIC BLDGS, IT, MISC.	8,795	12,105	9,380	12,335	9,610	52,225	8.81%
COUNCIL ADOPTED FIVE-YEAR CAPITAL PROGRAM		120,479	142,918	114,720	103,795	110,805	592,717	100.00%

Property Tax Supported Net Debt Bond Program:

The Net Debt Bond (NDB) program is funded by property tax revenue. As a result of increasing the NDB program by \$16.35 million over the previously adopted plan, the bond redemption levy was increased by \$1.45 million in 2014 and will be increased for 2015 through 2020 to support the additional debt service costs. These increases are possible due to fewer tax resources required for internal service fund subsidies and lower overall debt service due to prepayments of debt, most notably the retirement of all pension bonds in 2012. Decisions and actions taken over the past several years have provided financial capacity to continue the expanded net debt bond program. These property tax supported bonds help to leverage many other funding sources in the five-year plan. Below are highlights of certain NDB totals (in millions) – individual project funding details are presented later in this document.

Expanded NDB Resources for Capital Improvements: The base NDB funding levels were increased in the 2012 – 2016 capital program by \$56.57 million from \$93.43 million to \$150.00 million. For 2014 – 2018, the NDB program is again increased by \$16.35 million to a new five-year total of \$154.10 million. The intent is to maintain a higher level of NDB funding to continue the Infrastructure Acceleration Program which concluded in 2013. This capital infusion will improve all classes of City infrastructure with a greater emphasis on paving projects, pedestrian and bikeway connections, safety and lighting improvements, traffic safety and signage improvements, a new bridge ramp into downtown off I-94 and economic development projects that enhance the property tax base. These additional resources are combined with municipal state aid, special assessments and grant funds. Total funding for individual projects can be found in the “Capital Budget Detail for Funded Projects” report later in this document.

\$ millions	2014	2015	2016	2017	2018	TOTAL
NDB funding totals	\$31.72	\$36.57	\$26.90	\$28.10	\$30.81	\$154.10

Public Works – NDB funding: The 2014 capital budget includes \$20.62 million in NDB funding for Public Works projects. The five-year plan includes \$5.2 million for infrastructure related to economic development to enhance the property tax base. These economic development projects will be managed by the Community Planning and Economic Development Department in cooperation with Public Works as part of the Street Paving section of the capital program. Below is a summary of the 2014 - 2018 NDB allocation for Public Works infrastructure programs.

\$ millions	2014	2015	2016	2017	2018	TOTAL
NDB – Public Works	\$20.62	\$21.97	\$15.02	\$13.27	\$19.70	\$90.58

Neighborhood Parks NDB and other funding sources: The 2014 capital budget includes \$5.71 million for Park improvements including \$2.5 million of net debt bonds, and \$3.21 million of Park capital levy. Below is a summary of the total 2014 – 2018 funding for neighborhood parks capital improvements, excluding the Diseased Tree Program.

\$ millions	2014	2015	2016	2017	2018	TOTAL
NDB – Park Board	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 1.50	\$11.50
Park Capital Levy	\$ 3.21	\$ 2.85	\$ 2.85	\$ 2.55	\$ 2.35	\$13.81
Total Neighborhood Parks	\$ 5.71	\$ 5.35	\$ 5.35	\$ 5.05	\$ 3.85	\$25.31

In addition to the neighborhood parks funding mentioned above, the Park Board also allocated additional Park Capital Levy funding for parkway paving and parkway street lighting of \$3.42 million and \$4.86 million, respectively, in this five-year capital plan. These projects will be managed by the Public Works Department and will also utilize additional funding sources including net debt bonds, special assessments and other local government funding.

NDB funding for Municipal Building Commission (MBC), Information Technology, Public Grounds & Facilities, and Miscellaneous Projects: The 2014 capital budget includes \$8.59 million in NDB funding for these categories. Projects include public art, technology related improvements and physical building, office space and security improvements for Police, Fire and other City buildings, including City Hall. These categories comprise 33.8% of the available NDB resources in the five-year plan. Below is a summary of the 2014 - 2018 NDB funding for MBC, Information Technology, Public Grounds & Facilities, and Miscellaneous projects.

\$ millions	2014	2015	2016	2017	2018	TOTAL
NDB - Other	\$ 8.59	\$ 12.11	\$ 9.38	\$ 12.33	\$ 9.61	\$52.02

Utility Fee/Rate Supported Capital: The 2014 - 2018 capital budget includes funding for sanitary and storm sewers, water and parking related infrastructure improvements which are supported by utility rates and parking fees. Long-term financial plans are used to determine utility fees and parking rates required to support operations and infrastructure costs. The table below does not include utility fund contributions of \$5.3 million over the five-year period for utility work performed as part of certain paving projects. Individual project funding details can be found in the “Capital Budget Detail for Funded Projects” report and proposed utility rates can be found in the “Council Adopted Utility Rates” sheet in this Capital Program section. Below is a summary of the capital program amounts for these enterprises:

Submitting Agency Infrastructure Category	2014	2015	2016	2017	2018	Total	Percent of Total
Budget in Thousands							
PUBLIC WORKS Utility Fee/Rate Based Enterprises							
SANITARY SEWERS	8,000	8,000	7,250	7,250	7,250	37,750	13.91%
STORM SEWERS	15,950	26,993	22,730	16,850	16,150	98,673	36.37%
WATER INFRASTRUCTURE	22,100	23,200	23,800	23,900	33,400	126,400	46.59%
PARKING RAMPS	1,700	1,700	1,700	1,700	1,700	8,500	3.13%
Public Works Utility Fee Based Totals	47,750	59,893	55,480	49,700	58,500	271,323	100.00%

Relationship between the Capital and Operating Budgets: As part of each capital budget request, submitting agencies identify whether the capital request will result in an increase or decrease in annual operating costs. Departments are instructed to manage operating cost increases or decreases within existing operating budget funding levels.

CITY DEBT

Minneapolis' total general obligation debt decreased from \$768 million at 12/31/2012 to \$732 million at 12/31/2013.

2013 Bond Sales and Refunding Transactions

In 2013, the City of Minneapolis issued bonds & notes totaling \$76.905 million. Of this amount, \$18.430 million was issued to refund existing debt. Below are details of the 2013 debt issuances.

In November 2013, the City issued \$37.68 million of General Obligation Various Purpose Bonds, Series 2013. The bonds were issued to fund a variety of capital infrastructure improvements for the public works department, parks system, municipal building commission and technology department. The bonds were issued in fixed rate mode and had interest rates ranging from .50% to 2.00% and a final maturity date of December 1, 2020.

In November 2013, the City also issued \$17.93 million of General Obligation Library Referendum Refunding Bonds, Series 2013. The City received net proceeds of \$18.583 million including a net premium of \$.653 million. These proceeds were used on December 20, 2013 along with \$2.225 million of funds on hand to redeem \$20.725 million of General Obligation Library Referendum Bonds, Series 2005. The net premium allowed the City to reduce the size of the refunding bond issue by \$.57 million. The refunding bonds were issued in fixed rate mode and had interest rates ranging from 1.00% to 2.00% and a final maturity date of December 1, 2018. This refunding resulted in aggregate debt service savings of \$5.833 million and an economic gain of \$4.837 million or 18.83% net present value savings on the refunded bonds debt service.

In November 2013, the City also issued \$13.035 million of General Obligation Improvement Bonds, Series 2013. These bonds were issued for a variety of special assessment projects related to street reconstruction and resurfacing, street lighting, sanitary sewer and areaway removal projects. The bonds were issued in fixed rate mode and had interest rates ranging from 2.00% to 3.75% and a final maturity date of December 1, 2033. This bond series included \$.50 million of refunding bonds. The refunding bond proceeds were used in conjunction with \$1.50 million of cash on hand to redeem the remaining \$2.00 million of General Obligation Improvement Bonds, Series 2005 on December 20, 2013. This refunding resulted in aggregate debt service savings of \$.510 million and an economic gain of \$.226 million or 10.17% net present value savings on the refunded bonds debt service.

In November 2013, the City also issued \$7.00 million of Taxable General Obligation Various Purpose Park Bonds, Series 2013. The bonds were issued to finance the rehabilitation of the Parade Ice Garden and energy upgrades at various facilities with the Minneapolis Park System. The bonds were issued in fixed rate mode and had interest rates ranging from 2.00% to 3.80% and a final maturity date of December 1, 2026.

In November 2013, the City also issued \$1.26 million of Taxable General Obligation Housing Improvement Area Bonds, Series 2013. The bonds were issued to finance repairs and improvements to housing units in the Calhoun Place Housing Improvement Area. Debt service for the bonds will be paid for by homeowner improvement area fees assessed against the individual units in the condominium complex. The bonds were issued in fixed rate mode and had interest rates ranging from 3.00% to 4.30% and a final maturity date of December 1, 2032.

2013 Notes Issued

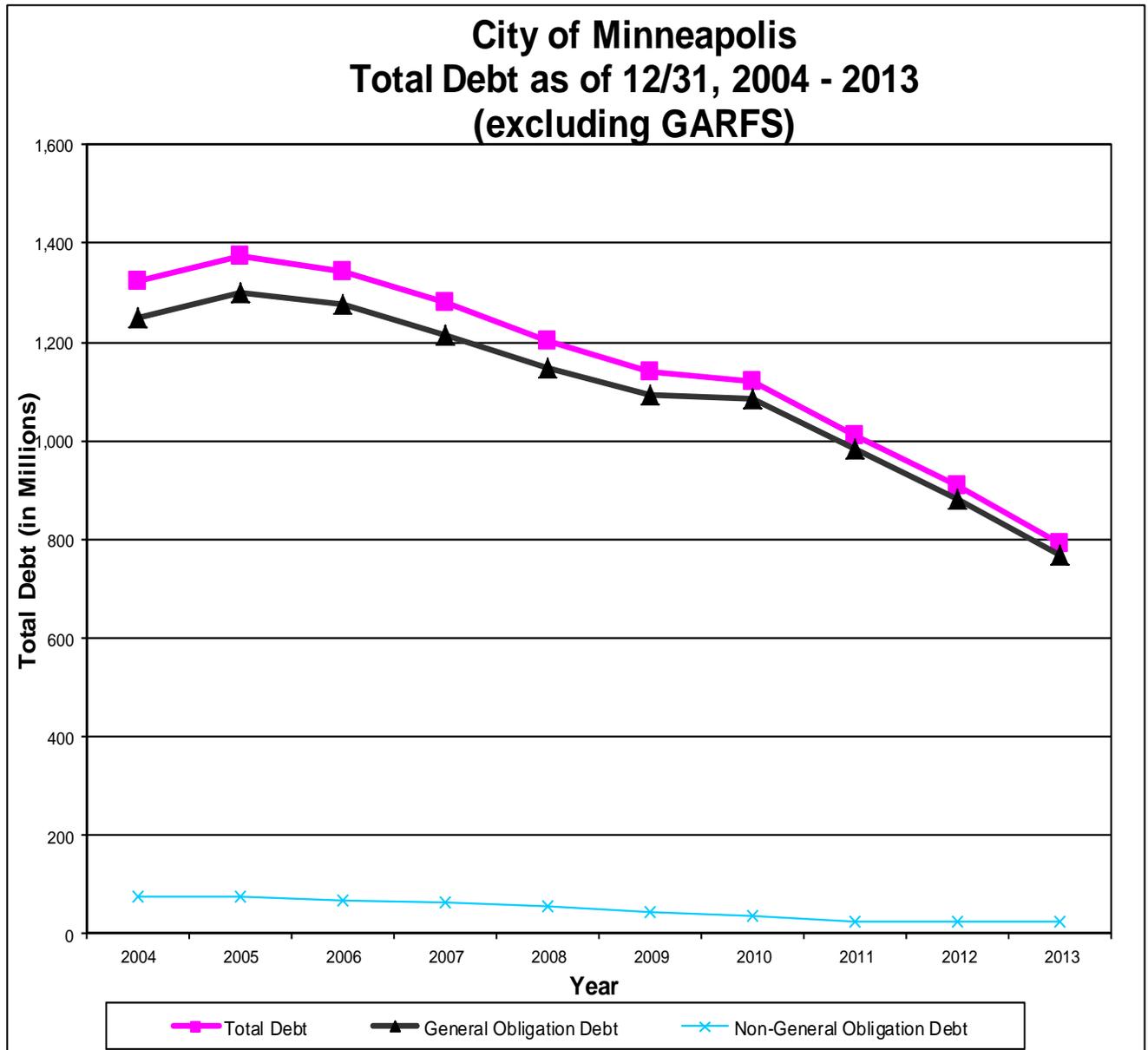
The City entered into six general obligation notes with the Minnesota Public Facilities Authority (PFA) to finance the City's drinking water ultra-filtration projects and new filter presses project. The notes are part of a federally sponsored below market financing program related to the Safe Drinking Water Act and the City saves 1.5% on interest costs by participating in the program. The City received proceeds totaling \$104.19 million over the years and at December 31, 2013, the outstanding debt balance of the six notes in this program is \$84.075 million.

In July 2012, the City entered into a general obligation note with the PFA for \$.59 million to finance a portion of the 37th Ave N Storm Sewer project. This note is part of the Clean Water Revolving Fund and has provisions similar to the Water notes mentioned above. The City received \$.553 million of note proceeds by the end of 2013. The interest rate on this note is at 1.0% with a final maturity date of August 20, 2013. During 2013, the City received additional proceeds of \$.101 million and paid off the balance of .263 million on August 20, 2013.

DEBT TRENDS

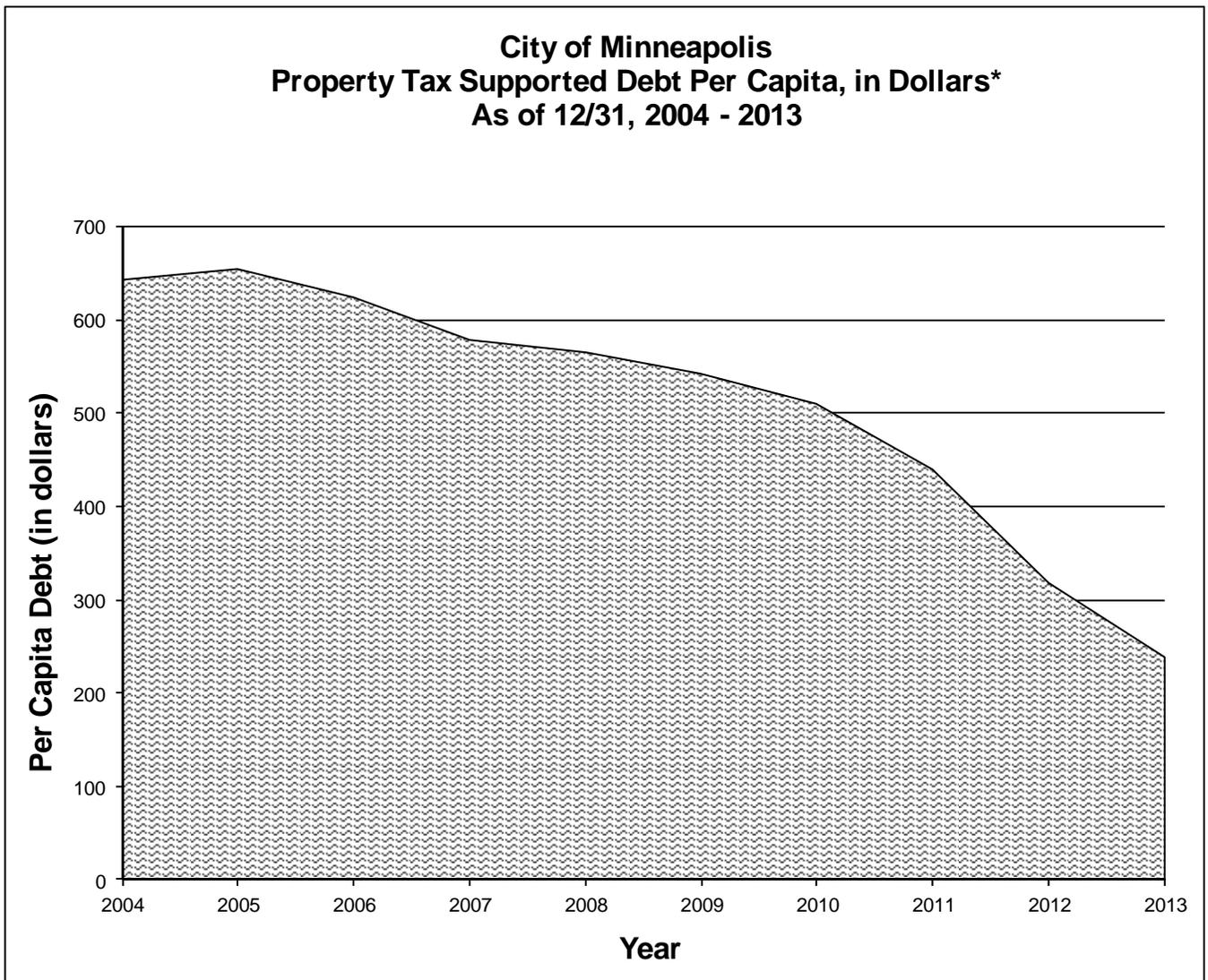
Management of the City's debt involves consideration not only of the absolute amount of debt, but also attention to yearly trends in the relationship of the debt to other financial measures. For purposes of the charts below, \$94.1 million of General Agency Reserve Fund System (GARFS or common bond fund) bonds are not included as City Debt.

The accompanying chart shows a ten-year history of the total City debt level for years 2004 – 2013. The total includes general obligation debt, backed by the full faith and credit of the City, and non-general obligation debt, which includes tax increment backed revenue bonds and notes.



PER CAPITA DEBT

The chart below shows changes in general obligation debt per capita over the past decade for the portion of the City's debt paid for with property taxes. From 2004 - 2005, the City issued significant property tax supported debt to fund the Library Referendum capital program and to pay unfunded pension obligations for the City's three closed pension funds - the Minneapolis Police Relief Association (MPRA), Minneapolis Fire Relief Association (MFRA) and Minneapolis Employee Retirement Fund (MERF) resulting in a spike in the debt per capita. The reductions from 2006 to 2013 are partially due to the City using one-time resources to accelerate the pay down of all categories of property tax supported debt including infrastructure, library referendum and pension bonds. All pension bonds were paid off in 2012.

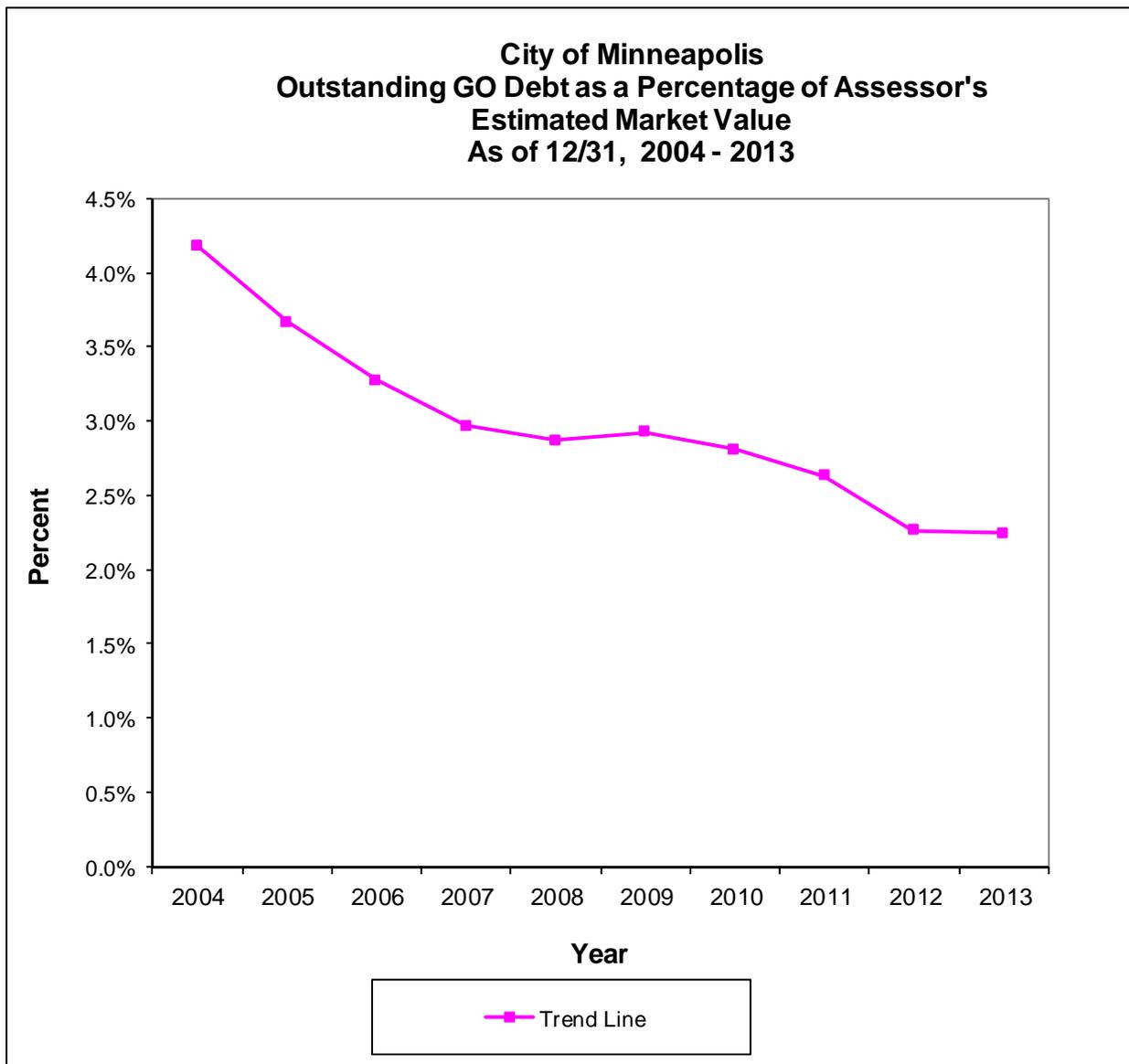


* Figures shown are adjusted indebtedness, which represents the total general obligation indebtedness of the City less that indebtedness supported by revenues other than general property taxes. Funding from self-supporting enterprises of the City offset a portion of the property tax supported pension related debt included above. Population figures used in this graph come from the official census in 2010 or from data provided by the Metropolitan Council for the other years.

DEBT CAPACITY – TOTAL DEBT

A primary goal of the City's debt management effort is to maintain the ability to incur debt at low interest rates without endangering the ability to finance essential City services.

One key management ratio used in monitoring the City's debt is total general obligation (GO) debt outstanding as a percent of estimated market value of Minneapolis' taxable property. The ratio of outstanding GO debt to the taxable market value equaled less than three percent from 2007 through 2013. While property values experienced a decline of over \$6 billion during this timeframe, the trend line benefitted by a reduction of \$414 million in Total Debt applicable to the calculation.



COMPUTATION OF THE CITY'S LEGAL DEBT MARGIN

The following is the computation of the estimated legal debt margin as of December 31, 2013. This calculation determines the maximum statutory limit of general obligation debt that can be issued by the City and be funded by property taxes.

Real Property (2013 Market Value)	\$	32,161,776
Personal Property (2013 Market Value)		407,338
Adjustment for Exempt Personal Property (1966 Market Value)		298,030
Adjustment for Net Fiscal Disparities (Contribution)/Distribution		202,736
Total Assessed Value		33,069,880
Debt Limit (3-1/3% of Market Value Applicable to Debt Limit)	\$	1,102,329
General Obligation Bonds Subject to Debt Limit:		
Supported by Property Tax Levy		111,878
Supported by Special Assessments:		
Park Diseased Trees		420
Self-Supporting (Supported by Internal User Charges):		
Park Board - Land for athletic fields & energy efficiency		14,120
Public Works Fleet and Equipment		17,635
Property Fund		4,045
Total General Obligation Bonds Subject to Debt Limit		148,098
Less: Estimated Assets in Debt Service Fund at 12/31/13		(19,187)
Total Debt Applicable to Debt Limit		128,911
Legal Margin for New Bonds Subject to Debt Limit	\$	973,418

SUMMARY OF OUTSTANDING CITY DEBT

Long-term liabilities (in thousands) at December 31, 2013 are detailed below.

	Balance 1/1/2013	Additions	Retirements	Balance 12/31/2013	Amounts Due Within One Year
Governmental activities:					
<u>Bonds and Notes</u>					
Property Tax Supported GO Bonds*	\$ 137,475	\$ 42,140	\$ 43,085	\$ 136,530	\$ 37,075
Self-Supporting GO Bonds	167,830	9,800	13,010	164,620	14,755
GO Improvement Bonds	49,140	14,295	9,661	53,774	8,701
Tax Increment GO Bonds	107,100	-	9,555	97,545	5,955
Tax Increment GO Notes	4,820	-	370	4,450	390
Revenue Bonds	25,210	-	825	24,385	885
Revenue Notes	14,695	-	310	14,385	330
Internal Service Fund Related GO Bonds	29,180	965	6,340	23,805	4,400
Total Governmental Bonds and Notes	535,450	67,200	83,156	519,494	72,491
Business-type activities:					
<u>Bonds and Notes</u>					
Stormwater Fund GO Bonds	14,621	-	6,650	7,971	3,235
Stormwater Fund GO Note	162	101	263	0	-
Sanitary Sewer Fund GO Bonds	11,550	7,050	4,150	14,450	5,150
Water Fund GO Bonds	24,271	-	2,201	22,070	2,301
Water Fund GO Note	87,856	-	3,781	84,075	3,845
Municipal Parking Fund GO Bonds	95,680	2,655	14,629	83,706	10,884
Municipal Parking Fund GO Notes	38,650	-	-	38,650	-
CPED Related Non GO Fund					
General Agency Reserve Fund System	85,255	12,595	3,750	94,100	3,805
Revenue Notes	157	-	117	40	40
Total Bonds and Notes	358,202	22,401	35,541	345,062	29,260
Grand Total Bonds & Notes	\$ 893,652	\$ 89,601	\$ 118,697	\$ 864,556	\$ 101,751

* This category includes debt issued for the City's general infrastructure capital program and library referendum improvements. A portion of the library bonds will be paid for with State of Minnesota funds beginning in 2017.

AMORTIZATION OF OUTSTANDING GOVERNMENTAL CITY DEBT

As of December 31, 2013, annual debt service requirements for Governmental activities* (in thousands) to maturity follows:

Year Ending	Governmental Activities			
	Bonds		Notes	
Dec 31:	Principal	Interest	Principal	Interest
2014	\$ 67,371	\$ 14,712	\$ 720	\$ 483
2015	58,836	13,161	770	444
2016	44,556	11,340	820	407
2017	49,581	10,206	870	365
2018	56,326	8,840	925	321
2019 – 2023	148,595	22,715	4,900	837
2024 – 2028	44,854	5,244	630	24
2029 – 2033	6,735	503	9,200	-
	<u>\$ 476,854</u>	<u>\$ 86,721</u>	<u>\$ 18,835</u>	<u>\$ 2,881</u>

Year Ending	Internal Service Fund Bonds		Total Governmental Activity Bonds & Notes	
	Principal	Interest	Principal	Interest
Dec 31:	Principal	Interest	Principal	Interest
2014	4,400	699	72,491	15,894
2015	3,400	583	63,006	14,188
2016	3,035	474	48,411	12,221
2017	3,160	386	53,611	10,957
2018	9,810	294	67,061	9,455
2019 – 2023	-	-	153,495	23,552
2024 – 2028	-	-	45,484	5,268
2029 – 2033	-	-	15,935	503
	<u>\$ 23,805</u>	<u>\$ 2,436</u>	<u>\$ 519,494</u>	<u>\$92,038</u>

* Governmental activities include the basic infrastructure assets required to provide services to the residents such as parks, libraries, streets, roads, bridges, traffic signals, street lighting, police and fire stations, public buildings, technology platforms, fleet equipment, etc. Governmental activities are supported by property taxes, other governmental aids and general revenues.

AMORTIZATION OF OUTSTANDING BUSINESS TYPE CITY DEBT

As of December 31, 2013, annual debt service requirements for Business-type activities* (in thousands) to maturity follows:

Year Ending	Bonds		Notes		Total		Total					
	Dec 31:	Principal	Interest	Principal	Interest	Principal	Interest					
2014	\$	25,375	\$	12,063	\$	3,885	\$	4,130	\$	29,260	\$	16,193
2015		18,200		10,301		4,465		4,026		22,665		14,327
2016		17,254		7,978		5,725		3,914		22,979		11,892
2017		12,034		7,372		8,005		3,741		20,039		11,113
2018		10,744		6,876		9,550		3,505		20,294		10,381
2019 – 2023		57,445		27,807		43,275		13,304		100,720		41,111
2024 – 2028		43,360		15,815		33,680		7,547		77,040		23,362
2029 – 2033		16,450		9,393		14,180		2,201		30,630		11,594
2034 – 2038		16,240		4,039		-		-		16,240		4,039
2039 – 2040		5,195		371		-		-		5,195		371
Total	\$	222,297	\$	102,015	\$	122,765	\$	42,368	\$	345,062	\$	144,383

* Business-type activities include those City functions that operate similar to a private business such as Water, Stormwater and Sanitary Sewer Services, Solid Waste Collection and Parking Ramps. Business-type activities are supported by user fees charged for services provided. Business activities also include some economic development activities that help spur private development, the debt of which is paid for by the private businesses benefited.