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Memo

TO: Mayor Collins and Town Council Members

FROM: Kevin Burke, Town Manager
Dawn Marie Buckland, Director of Administration & Government Affairs

DATE: March 9, 2017

DEPARTMENT: Administration and Government Affairs Department

Dawn Marie Buckland, 480.348.3555

AGENDA TITLE:
FY 2018 Budget Overview and Capital Improvement Program

Council Goals

Develop a long term sustainable budget; Address police pension funding requirements; Ensure financial health without compromising Town values; Identify a funding mechanism for CIP

SUMMARY STATEMENT:

In local government, the budget is not only a financial plan, but also an operations guide, a communications device, and a policy document. As such, it is an integral part of policy discussions with Council throughout the year.

The March 9 study session will provide an overview of economic forecasts, local conditions, and the Town's organizational goals that provide the basis for the budget and long range financial plan. The bulk of the study session will focus on the Town's capital improvement program.

The Capital Improvement Plan (CIP) is a multi-year plan which identifies and prioritizes the Town's anticipated capital needs. The CIP identifies which projects will be constructed over the next five years, their impact to the community and quality of life, and how they will be funded. It is adopted as a part of the budget resolution and presented as a separate section of the budget document. Attached please find a DRAFT CIP for the next five years. This Study Session will review projects with Mayor & Council to determine continued interest, appropriate scope, desired timing, and cost considerations.

The Town decides the cost threshold and types of projects. At this time, staff recommends projects greater than \$100,000 and a useful life of at least two years (excluding vehicles and other rolling stock) which would result in the following types of projects:

- Renewal and Replacement of Existing Infrastructure
- Facility Improvements
- Streets/Sidewalks/Paths (Pedestrian and Bicycle)
- Electric Utility Undergrounding
- Stormwater/Drainage
- Technology
- Sustainability
- Wastewater Utility

Projects are identified, scoped, and ranked using an annual 4 step process:

1. Identify Needs/Projects.
2. Determine Costs
3. Prioritize Projects
4. Develop Financing Strategies

STEP 1: Identify Needs/Projects

The objective of this step is to compile a "laundry list" of all possible projects that will later be prioritized. The projects come from many sources of information including:

- Citizens
- Town Council
- Strategic Plan
- General Plan
- Master Plans
- Staff

STEP 2: Determine Costs

For each project identified in Step #1, detailed information about the project will be gathered and will include:

- Purpose/Objective
- A description of the project
- Its relationship to the General Plan (e.g. sustainability)
- Timeline
- Operating Impacts (Cost or Savings)
- Map/Location of Project
- Project Scope broken down into land, design, construction, and contingency

STEP 3: Prioritize Projects

The Capital Improvement program is based on this prioritization process. Projects are prioritized based on the Town's critical objectives and strategies, the Town's 2012 General Plan, special studies and reports, Town Council and department priorities, and anticipated funding sources. This evaluation process is very much an iterative process using a numeric rating system based on the following evaluation criteria. Projects are then evaluated on the following project prioritization matrix.

Town's Critical Objectives - 40% - (2012 General Plan) If a capital project directly addresses a Town's critical objective or includes health-related environmental impacts like reductions in traffic accidents, injuries, deaths, or health hazards due to poor water quality, the relative attractiveness of that project increases.

- Increase in public health
- Increase in public safety
- Identified in General Plan
- Consistent with vision statement
- Consistent with annual work plan
- Specific request of the Town Council

Costs - 30% - This represents the annual total costs, including future year capital costs. Also to be considered is whether the proposed project will reduce future capital costs, for example, a rehabilitation project that averts a more expensive, subsequent replacement, and the extent of such savings. Also to be considered is changes in revenues or funding from outside participants, such as grants or cost sharing, which may be affected by a project. Deferring capital projects is tempting for hard-pressed governments, but an estimate of the possible effects, such as higher future costs and inconvenience to the public, provides valuable guidance in proposal assessment.

- Cost sharing / grant / outside funding
- Source of higher revenue
- Maintain, replace or expand an existing asset
- Lower operating cost
- Lower future capital cost
- Implication of deferring the project

Community/Citizen Benefits, Environmental and aesthetics - 20% - Economic impacts such as property values, the future tax base, and the stabilization (or revitalization) of neighborhoods. A criterion for other significant quality-of-life related impacts; this includes community appearance, noise, air and water pollution effects, damage to home, etc. Such impacts may apply more to capital projects related to new development than to infrastructure maintenance though deteriorating structures can adversely affect the community.

- Stabilize or Improve neighborhood(s)
- Improve quality of life for residents
- Improves community appearance
- Improves recreational/cultural opportunities
- Improve environmental protection effort
- Assists in elimination of slum and blight conditions

Distributional Effects - 10% - Estimates of the number and type of persons likely to be affected by the project and nature of the impact - for instance, explicit examination of project impact on various

geographical areas. Equity issues are central here - who pays, who benefits. Has the Town made a significant investment in this project within the last five years?

- Town wide improvement
- Benefits large portion of Town
- Investment made by the Town in the last five years
- Investment made by the Town to meet legal obligation
- Project that has the support of another community or agency
- Inter-jurisdictional benefit will be achieved

After all proposed projects are prioritized using these four criteria and 24 factors, the list will be reviewed from two more viewpoints: 1) does the list stand an “intuitive check”? Do projects fall in the priority order that was “anticipated”? And (2) are there any linkages between projects? Are any projects related to each other geographically, or otherwise, such that having them accomplished concurrently would be advantageous? What about sequencing or timing? Are any projects dependent on the completion of other projects? Adjustments to the priority list may be necessary dependent on this final review.

STEP 4: Develop Funding Strategies

As there are always more needs than resources, funding strategies will determine the final list of recommended projects. This step involves policy input from the Town Council and may result in modifying or creating new financial policies when it makes sense to do so. Because the CIP is primarily funded from the Operating Budget, two key questions must be addressed:

1. How should existing operating revenues be allocated?
2. Are existing operating revenues enough?

Staff will discuss the capital improvement project requests at the March 9, 2017 study session, and will follow up with operating budget discussions on April 14, 2017.

ATTACHMENT(S):

Presentation including CIP project listing
10-Year operating forecast