

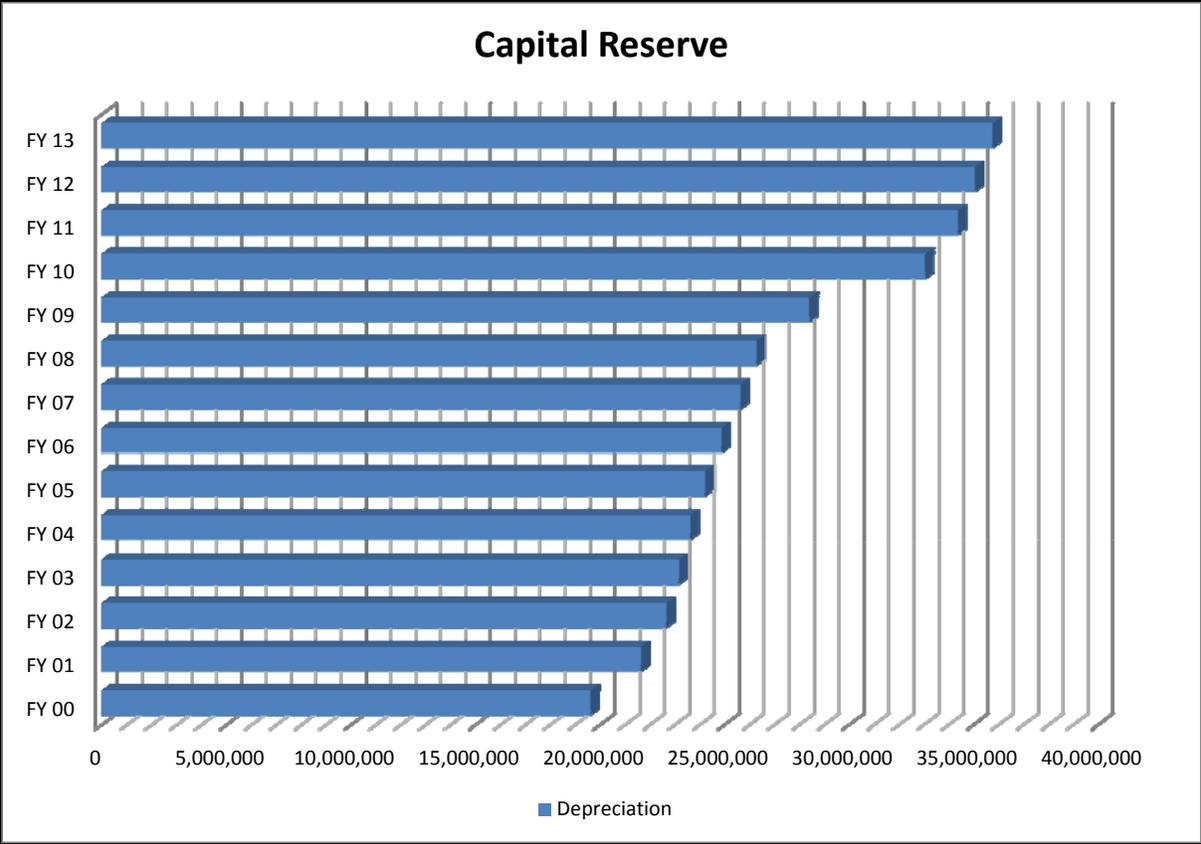


Date: November 19, 2012
To: Bruce D. Glasscock, City Manager
From: Karen Rhodes-Whitley, Budget & Research Director
Janette Weedon, Budget Consultant
Subject: Revised Capital Reserve Fund Policy

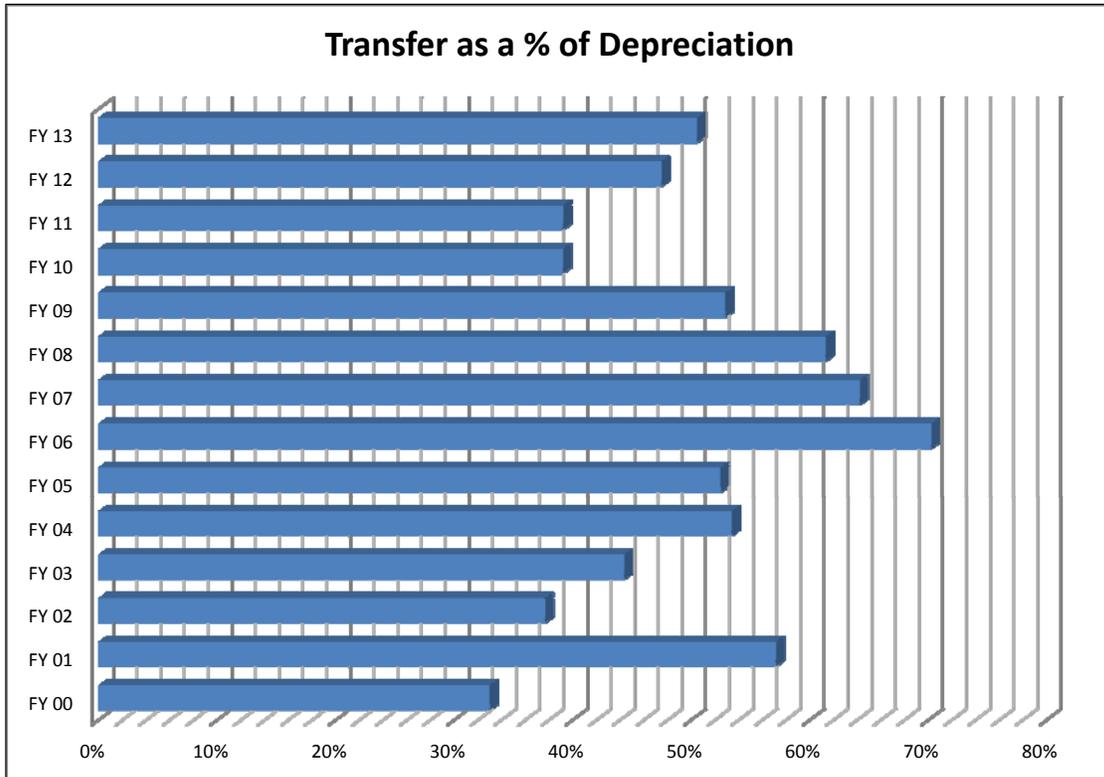
The Capital Reserve Fund was established in 1985-86 with a \$1 million transfer from the General Fund. The fund was created to provide resources to fund maintenance related projects which are not funded within the annual operating budget or within the Community Investment Program. The fund was designed to reduce the impact upon the operating budget due to increased expenditures required to maintain the on-going infrastructure. This approach is considered a Government Finance Officers Association "best practice" and the City's best defense to sustain assets and avoid the potentially enormous costs of replacement.

The current Capital Reserve Fund policy states that a minimum of 75% of the annual depreciation of the total general assets shall be transferred into the Capital Reserve Fund from the General Fund and other sources. The City uses the straight-line depreciation method for all property, plant and equipment based on a useful life of 20 years for buildings and 45 years for improvements other than buildings in the calculation of the total annual depreciation amount. Although buildings will typically last for more than 20 years, the City uses this useful life due to the issuance of 20 year bonds.

Since 2000, the value of depreciation has increased on average by approximately 6% annually. Currently, the City has approximately \$1.61 billion in existing infrastructure that must be maintained in order to provide effective services to Plano's citizens. The chart below reflects the increase in the depreciative value of the city's infrastructure from \$19.6 million in 2000 to \$35.8 million in 2013.



Contributions to the Capital Reserve Fund are made from the General Fund, Water & Sewer Fund, rollback taxes, developer revenue and any reimbursement revenue from Collin County for projects included in the County’s Thoroughfare Plan. Annual transfers have been made subject to availability of revenues as well as the anticipated demands on the Capital Reserve Fund. Historically, the City has struggled to meet the contribution minimum of 75% of the annual depreciation of the total general assets of the City. The chart below reflects the City’s contributions as a % of depreciation since 2000.



The demands on the Capital Reserve Fund will continue to infinity and each year staff closely monitors the increase in total assets, revenue transfers and projected expenditures. To ensure adequate funding in future years, staff recommends a phased-in approach to increase the revenue transfer % of depreciation from 51% in FY 13 to 75% by FY 18.

Contributions	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
General Fund	\$12,875,000	\$15,000,000	\$17,200,000	\$19,500,000	\$22,000,000	\$24,500,000
Water & Sewer	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Other Revenue	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000
Total	\$18,075,000	\$20,200,000	\$22,400,000	\$24,700,000	\$27,200,000	\$29,700,000
Transfer as % of Depreciation	51%	55%	60%	65%	70%	75%

The increased General Fund contribution could come from the healthy rebound of sales tax collections. The 2008 City Council policy caps the sales tax projection at \$57 million and the projected excess sales tax revenues could be used for the General Fund transfer to the Capital Reserve Fund. In 2012, based on continued rebounding of sales tax collections, the City Council revised its policy to increase the cap to \$59 million. This amount is based on an average of the most recent 3 years of sales tax collections. Due to positive trends, sales tax collections are expected to end FY 12 at \$69.8 million.

As before, any amount received over the existing cap could be used for a transfer to the Capital Reserve Fund. This effort supports the fund's policy that the City will strive to maintain an annual contribution to the Capital Reserve Fund equal to a minimum of 75% of the annual depreciation of the total general assets of the City. In addition, this approach supports one of the goals of the Strategic Plan to invest in maintaining city infrastructure and facilities. Sales tax collections are a volatile revenue source and

commitment to this recommendation may limit future General Fund pay-as-you go revenues that may be used for operating expenditures.

This fall, the Facilities Planning Committee proposed the following changes to the Capital Reserve Fund policy:

- Annual review & priority ranking of capital reserve projects by the City's Facilities Planning Committee;
- Expansion of the definition of infrastructure to include signals and underground utilities;
- Add definitions of water, sewer and miscellaneous projects;
- Add Collin County reimbursement as a source of funding;
- Remove language that states "annual expenditures should not exceed the annual depreciation amount of net fixed assets"; and
- Remove language that states "the fund balance should not exceed the annual depreciation expense in any year".

Staff will continue to monitor and communicate progress towards the stated goal and the overall condition of its capital assets. We look forward to discussing the revised Capital Reserve Fund policy at the November 26, 2012 City Council meeting.

CAPITAL RESERVE FUND POLICY

STATEMENT OF PURPOSE AND POLICY

The City of Plano recognizes the need for a pro-active approach to safeguarding the city's sizable investment in capital improvements. The purpose of the Capital Reserve Fund is to provide resources to fund maintenance related projects, **with an expected minimum life of ten years**, not funded within the annual operating budget or within the Community Investment Program (CIP). The fund was created to build a reserve in order to develop a pro-active approach to safeguarding the City's sizeable investment in capital improvements. It is the City's intention that this fund be used to maintain and preserve the City's existing infrastructure. This approach can be interpreted as the City's best defense against potentially enormous costs of replacement.

AUTHORITY

The Budget and Research Department will monitor the financial integrity of the Fund. The priority ranking of projects will be reviewed annually by the Facilities Planning Committee and presented to the City Manager during annual departmental budget review meetings. The City Manager will decide which projects will be included in the annual allocation presented to Council in the Proposed Community Investment Program. The City Council will provide final authority at the Annual Budget and CIP Worksessions.

DEFINITIONS

- A. Infrastructure – For the purpose of the Capital Reserve Fund, infrastructure includes buildings, parks, park improvements, streets, street improvements, signals and underground utilities. (See Expenditure Section B, Item 3)
- B. General Fixed Assets – The general fixed assets of the City are funded through general obligation bonds and are used in the performance of general governmental functions and exclude the fixed assets of Enterprise and Internal Service funds. General Obligation Bond Fund – General Obligation Improvements are funded by a portion of the ad valorem tax rate. The projects include Municipal Facilities, Park Improvements, and Street Improvements.
- C. Enterprise Funds – The Enterprise Funds account for operations that are financed and operated in a manner similar to private business (i.e. Water & Sewer Funds) – where the intent of the City is that costs of providing the goods or services to the general public on a continuing basis will be financed or recovered through user charges.

PROCEDURES

A. Funding

1. The City will strive to maintain an annual contribution to the Capital Reserve Fund equal **to a minimum of 75%** of the annual depreciation of the total general assets of the City. The annual contributions to the Capital Reserve Fund will be made from the General Fund, and the Water & Sewer Fund. The minimum amount also includes funding from Items #2, #3 and 4 of this section.
2. Any revenue received from rollback taxes shall be included in the Capital Reserve Fund.
3. Developer revenue for screening walls and fund interest earnings will also be included the Capital Reserve Fund.
4. Any reimbursement revenue from Collin County for projects included in the County's Thoroughfare Plan.

B. Expenditures

1. As a general guide, routine annual maintenance and basic upkeep will not qualify as Capital Reserve activities.
2. Major renovations, restorations or repairs should be considered as candidates for future bond programs and omitted from Capital Reserve requests. A major project or renovation will be classified as such if the replacement cost exceeds ten percent (10%) of the prorated replacement cost of an asset in any given year. As a guideline, no project or combined projects shall exceed forty five percent (45%) of the prorated replacement costs of an asset during any five-year Community Investment Program.

Example of 10%: The value of a section of road must be 10% of the total value of the road. Total value of the road is \$100,000, cost to replace a section \$10,000. The value must be of the specific asset, in this case the road only.

Example of 45%: The road has several sections that must be replaced over a 5 year period. Each section costs \$10,000 and the overall value of the road is \$100,000. The total of all the sectional projects over the 5 year period is more than 45%, \$50,000 = 50%. Therefore, the project would not be funded using capital reserve funds.

3. Capital Reserve projects will fall under one of the following categories:
 - Streets** – Includes such projects as street repairs, alleys, screening walls, sidewalk repairs, bridge repairs, signals, etc.
 - Parks** – Includes such projects as playground replacements, lighting systems, trail replacements, irrigation, pavilions, parking lots, park buildings, restrooms, bleachers and picnic tables, dredging of ponds and lakes, fencing around athletic fields.
 - Facilities** – Includes such projects as HVAC scheduled replacements, incinerators, roof replacements, major remodeling, technology upgrades associated with the replacements, sustainability associated with replacements and major remodels.
 - Water & Sewer** – Includes such projects as pump station rehabilitation, design standards for water projects and sewer line rehabilitation.
 - Miscellaneous** – Includes such projects as living screening walls, landscape replacement and maintenance related projects not defined above.

4. Projects may be prioritized by departments using the following guidelines:
 - a. Safety and security
 - b. High maintenance costs
 - c. Excessive down time
 - d. Difficulty or inability to obtain repair parts or materials
 - e. Energy inefficiencies
 - f. Space limitations and overcrowding
 - g. Technological innovations
 - h. Aesthetics and general appearance
 - i. Sustainability

All projects are subject to the annual budget review process by the City Manager and the City Council.

CAPITAL RESERVE FUND GENERAL FIXED ASSETS - PHASED IN APPROACH TO 75% FUNDING

	Assumes 2% Growth												
	Actual 9-30-08	Actual 9-30-09	Actual 9-30-10	Actual 9-30-11	Re-Est 9-30-12	Budget 9-30-13	Projected 9-30-14	Projected 9-30-15	Projected 9-30-16	Projected 9-30-17	Projected 9-30-18	Projected 9-30-19	Projected 9-30-20
Land	106,928,486	107,064,055	122,637,203	126,826,738	129,363,273	131,950,538	134,589,549	137,281,340	140,026,967	142,827,506	145,684,056	148,597,737	151,569,692
Buildings	96,054,185	124,645,356	155,386,785	163,866,714	167,144,048	170,486,929	173,896,668	177,374,601	180,922,093	184,540,535	188,231,346	191,995,973	195,835,892
Improvements other than bldgs.	966,775,868	998,705,215	1,138,788,459	1,178,337,934	1,201,904,693	1,225,942,787	1,250,461,642	1,275,470,875	1,300,980,293	1,326,999,898	1,353,539,896	1,380,610,694	1,408,222,908
Equipment	79,626,177	87,634,414	88,948,181	93,348,603	95,215,575	97,119,887	99,062,284	101,043,530	103,064,401	105,125,689	107,228,202	109,372,766	111,560,222
Construction in progress	180,710,351	175,665,557	54,820,418	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918	47,052,918
Total	1,430,095,067	1,493,714,597	1,560,581,046	1,609,432,907	1,640,680,507	1,672,553,059	1,705,063,061	1,738,223,264	1,772,046,671	1,806,546,546	1,841,736,419	1,877,630,089	1,914,241,632
Less Construction in progress	-180,710,351	-175,665,557	-54,820,418	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918	-47,052,918
	1,249,384,716	1,318,049,040	1,505,760,628	1,562,379,989	1,593,627,589	1,625,500,141	1,658,010,143	1,691,170,346	1,724,993,753	1,759,493,628	1,794,683,501	1,830,577,171	1,867,188,714
Depreciation													
Buildings (20 Yrs)	4,802,709	6,232,268	7,769,339	8,193,336	8,357,202	8,524,346	8,694,833	8,868,730	9,046,105	9,227,027	9,411,567	9,599,799	9,791,795
Improve. (45 Yrs)	21,483,908	22,193,449	25,306,410	26,185,287	26,708,993	27,243,173	27,788,036	28,343,797	28,910,673	29,488,887	30,078,664	30,680,238	31,293,842
Total	26,286,617	28,425,717	33,075,749	34,378,623	35,066,196	35,767,519	36,482,870	37,212,527	37,956,778	38,715,913	39,490,232	40,280,036	41,085,637
% Increase from Previous Year	2.53%	8.14%	16.36%	3.94%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capital Reserve Transfer													
from General Fund	11,634,487	10,763,577	10,563,296	11,086,318	10,500,000	12,875,000	15,000,000	17,200,000	19,500,000	22,000,000	24,500,000	25,200,000	25,700,000
from Water & Sewer Fund	3,000,000	1,200,000	1,200,000	1,200,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
All Other Revenue	1,503,178	3,088,945	1,199,063	1,191,147	3,158,320	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Total Transfer	16,137,665	15,052,522	12,962,359	13,477,465	16,658,320	18,075,000	20,200,000	22,400,000	24,700,000	27,200,000	29,700,000	30,400,000	30,900,000
% Increase from Previous Year	-2.04%	-6.72%	-13.89%	3.97%	23.60%	8.50%	11.76%	10.89%	10.27%	10.12%	9.19%	2.36%	1.64%
Difference (Transfer - Depreciation)	-10,148,952	-13,373,195	-20,113,390	-20,901,158	-18,407,876	-17,692,519	-16,282,870	-14,812,527	-13,256,778	-11,515,913	-9,790,232	-9,880,036	-10,185,637
Transfer as a % of Depreciation	61%	53%	39%	39%	48%	51%	55%	60%	65%	70%	75%	75%	75%
Difference (Expense - Depreciation)	4,079,956	3,670,014	3,900,686	3,970,081	4,049,483	4,130,472	4,213,082	4,297,343	4,383,290	4,470,956	4,560,375	4,651,583	4,744,614
Expense as a % of Depreciation	115.52%	112.91%	111.79%	111.55%	111.55%	111.55%	111.55%	111.55%	111.55%	111.55%	111.55%	111.55%	111.55%
Expenditures:													
Street Projects ⁽¹⁾	7,647,338	6,674,778	5,454,835	8,948,926	20,710,000	10,100,000	9,870,000	10,363,500	10,881,675	11,425,759	11,997,047	12,596,899	13,226,744
Park Projects ⁽¹⁾	3,504,114	3,157,492	1,401,717	2,275,421	6,796,000	6,455,000	4,515,000	4,740,750	4,977,788	5,226,677	5,488,011	5,762,411	6,050,532
Municipal Facilities Projects ⁽²⁾	3,032,896	3,530,144	1,683,809	2,000,426	7,260,915	2,671,000	2,804,550	2,944,778	3,092,016	3,246,617	3,408,948	3,579,395	3,758,365
Water & Sewer Projects ⁽²⁾	0	0	170,076	90,782	3,825,000	451,000	473,550	497,228	522,089	548,193	575,603	604,383	634,602
Miscellaneous ⁽¹⁾	2,095	228,325	59,810	-189,170	0	0	0	0	0	0	0	0	0
	14,186,443	13,590,739	8,770,247	13,126,385	38,591,915	19,677,000	17,663,100	18,546,255	19,473,568	20,447,246	21,469,608	22,543,089	23,670,243