

# **Capital Budgeting Task Force Annual Report**

Including 2019 Capital Budget and  
2019-2023 Capital Improvement Program Recommendations

to the  
Hennepin County Board of Commissioners

**November 1, 2018**



## Office of Budget and Finance

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November 1, 2018

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 2019-2023 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 limits pertaining to county bonding over the 2019-2023 period. In my remarks to the County Administration 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,

A handwritten signature in blue ink, appearing to read 'Susan Carlson Weinberg', written over a large, circular blue ink scribble.

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 2019-2023 recommendations.

## II. CAPITAL BUDGETING TASK FORCE MEMBERSHIP

<b>District</b>	<b>Member</b>	<b>Appointed by</b>	<b>Date Appointed</b>	<b>Expires</b>
1 <sup>st</sup>	Susan Carlson Weinberg	Commission Mike Opat	December 2001	N/A
2 <sup>nd</sup>	Alexis Pennie	Commissioner Linda Higgins	February 2013	N/A
3 <sup>rd</sup>	Tom Trisko	Commissioner Marion Green Commissioner Gail Dorfman Commissioner Mark Andrews	May 2014 April 1999 April 1993	N/A
4 <sup>th</sup>	Earl Netwal	Commissioner Peter McLaughlin	August 2005	N/A
5 <sup>th</sup>	Jill Joseph	Commissioner Debbie Goettel	May 2017	N/A
6 <sup>th</sup>	William Henney	Commissioner Jan Callison	March 2014	N/A
7 <sup>th</sup>	Zavier Bicott	Commissioner Jeff Johnson	May 2018	N/A
At Large	Greg Sticha	County Board	February 2018	December 2021
At Large	Heidi Hamilton	County Board	February 2018	December 2021
At Large	Larry Blackstad	County Board	March 2016	December 2019
At Large	Ying Vu	County Board	March 2016	December 2019

### III. SUMMARY OF CBTF ACTIVITIES FOR 2018

Meeting Date	AGENDA
May 21, 2018	Introductions, discussion of County 2017 financial results and 2019 operating budget assumptions, discussion of County bonded indebtedness, update on projects and issues of interest, and discuss CBTF principles
June 4, 2018	Project/facility tours: Hennepin Healthcare Clinic and Specialty Center, HCMC campus
July 18, 2018	Project presentations: Public Works
July 9, 2018	Project presentations: Public Safety
July 23, 2018	Project presentations: Health and Human Services, Municipal Building Commission
August 8, 2018	Project presentations: Library, IT, Transportation Roads and Bridges
August 20, 2018	CBTF Deliberations. County Administration presentation.
August 27, 2018	CBTF Deliberations. Finalization of recommendations.
September 18, 2018*	County Administration presents Proposed Budget
September 25, 2018*	County Board adopts maximum property tax levy
November 1, 2018	Presentation of CBTF Recommendations to the County Board
December 11, 2018*	County Board of Commissioners adopts the 2019 Capital Budget and 2019-2023 Capital Improvement Program

**\*CBTF members do not attend these county board meetings, but are important to CBTF activities.**

## IV. GENERAL APPROACH TO CAPITAL IMPROVEMENTS (As of August 27, 2018)

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 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. Revenues

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.

##### Property Taxes

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 to prudently fund 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 consider 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 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 to spread out the tax burden.**

#### **The county should always reserve sufficient countywide bonding authority remaining after approval of each five-year capital program 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 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 tend 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 others may 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. 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 which the pay-back period exceeds expected life of the asset.**

**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?
  
5. **Time Frame** – scheduled initiation and completion to meet policy and program objectives:
  - Are cost/benefit factors applicable?
  - What does the benefit imply?
  - 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. 2019-2023 CAPITAL IMPROVEMENT PROGRAM RECOMMENDATIONS

### A. OVERVIEW OF RECOMMENDATIONS

#### CBTF Recommendations compared to: Department Requests for 2019 Budget and CIP

The Capital Budgeting Task Force received over 140 capital project requests for the 2019-2023 period. The Task Force is recommending a 2019 Capital Budget of \$486,059,353 that requires \$4,065,000 in property taxes, \$163,091,953 in general obligation bonding, \$100,000,000 in transportation sales taxes, \$152,076,000 in transportation sales tax revenue bonding and \$66,826,400 in other revenues.

<u>Totals</u>	<u>2019</u>	<u>2019-2023</u>
Department Requests	\$517,700,000	\$1,911,400,000
<u>CBTF Recommendation</u>	<u>486,100,000</u>	<u>1,887,300,000</u>
Variance:	(31,600,000)	(24,100,000)
<u>Property Tax</u>		
Department Requests	\$5,800,000	\$20,000,000
<u>CBTF Recommendation</u>	<u>4,100,000</u>	<u>17,800,000</u>
Variance:	(1,700,000)	(2,200,000)
<u>General Obligation Bonding</u>		
Department Requests	\$192,500,000	\$653,000,000
<u>CBTF Recommendation</u>	<u>163,100,000</u>	<u>634,500,000</u>
Variance:	(29,400,000)	(18,500,000)
<u>Transportation Sales Tax</u>		
Department Requests	\$90,000,000	\$306,200,000
<u>CBTF Recommendation</u>	<u>100,000,000</u>	<u>316,200,000</u>
Variance:	10,000,000	10,000,000
<u>Transpo Tax Revenue Bonding</u>		
Department Requests	\$162,100,000	\$691,800,000
<u>CBTF Recommendation</u>	<u>152,100,000</u>	<u>681,800,000</u>
Variance:	(10,000,000)	(10,000,000)

#### CBTF Recommendations compared to: Prior Year Board Approved 2018 Budget and CIP

The recommended 2019 capital budget is an increase of \$52.7 million, or 12%, over the approved 2018 capital budget of \$433.4 million and the Recommended 2019-2023 Capital Improvement Program is \$836.2 million more than the 2018-2022 Board Approved CIP, mostly due to the addition of transportation sales tax projects.

<u>Totals</u>	<u>Capital Budget</u>	<u>Five Year CIP</u>
2019 CBTF Recommendation	\$486,100,000	\$1,887,300,000
<u>Board Approved 2018</u>	<u>433,400,000</u>	<u>1,051,100,000</u>
Variance:	52,700,000	836,200,000
<u>Property Tax</u>		
2019 CBTF Recommendation	\$4,100,000	\$17,800,000
<u>Board Approved 2018</u>	<u>4,900,000</u>	<u>25,500,000</u>
Variance:	(800,000)	(7,700,000)
<u>General Obligation Bonding</u>		
2019 CBTF Recommendation	\$163,100,000	\$634,500,000
<u>Board Approved 2018</u>	<u>210,300,000</u>	<u>648,800,000</u>
Variance:	(47,200,000)	14,300,000
<u>Transportation Sales Tax</u>		
2019 CBTF Recommendation	\$100,000,000	\$316,200,000
<u>Board Approved 2018</u>	<u>0</u>	<u>0</u>
Variance:	100,000,000	316,200,000
<u>Transpo Tax Revenue Bonding</u>		
2019 CBTF Recommendation	\$152,100,000	\$681,800,000
<u>Board Approved 2018</u>	<u>150,000,000</u>	<u>150,000,000</u>
Variance:	2,100,000	531,800,000

## Funding the Capital Improvement Program

### Property Taxes

The CBTF is recommending property tax funding of \$4,100,000 for the 2019 capital budget. This revenue is programmed for those capital improvements which are not logical candidates for any other revenue source.

### General Obligation Bonding

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 2019-2029 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. 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.

### Recommended General Obligation Bonding (000's):

<u>Year</u>	<u>Prop. Tax</u>	<u>Other Revenue</u>	<u>Total</u>
2019	\$151,400	\$11,700	\$163,100
2020	164,200	8,700	272,900
2021	128,400	7,000	135,400
2022	105,200	5,000	110,200
2023	48,000	5,000	53,000

### Transportation Sales and Use Taxes

Starting October 1, 2017, the County Board began collecting a 0.5% transportation sales and use tax as allowed by MN Statute 297A.993. The revenue may currently be utilized toward construction of Green Line Light Rail Transit Extension (Southwest), Blue Line Light Rail Transit Extension (Bottineau), Riverview Corridor, or Orange Line Bus Rapid Transit; operating costs of the prior listed transit lines; or other transportation capital costs as designated via a future public hearing and County Board authorization.

For 2019, the CBTF is programming \$100 million in 2019 and \$316.2 million over the five-year CIP toward Southwest Light Rail Transit, Bottineau Light Rail Transit and Orange Line Bus Rapid Transit. No transportation sales and use taxes were budgeted in the 2018 capital budget or 2018-2022 CIP.

### Transportation Sales & Use Tax Revenue Bonding

The CBTF is programming the issuance of revenue bonds which will be funded with transportation sales and use tax collections. \$152.1 million is budgeted for 2019 with a total of \$681.8 million over the five-year CIP.

## B. PROJECT RECOMMENDATIONS

### PUBLIC WORKS

**The Capital Budgeting Task Force is recommending \$341.6 million for 2019 and \$1.3 billion for the 2019-2023 period for Public Works projects.** This represents 70.2% of both the recommended 2019 Capital Budget and the 2019-2023 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 2019 capital budget of \$71.4 million, funded with:

- \$38.7 million in state revenues- comprised of:
  - \$33.4 million state aid, and
  - \$5.3 million turn-back funds
- \$9.9 million in federal revenues,
- \$11.6 million in county bonds,
- \$9.8 million from municipalities, and
- \$1.3 million in property taxes

29 road or bridge projects are budgeted for 2019 funding. Included in the \$74.1 million 2019 capital budget, the CBTF supports the staff request to simplify what has been traditionally called line item projects into three main projects of: *Safety & Asset Management*, *Cost Participation & Partnerships* and *Project Delivery*.

Because of the uncertainty and limits to future federal and state funding, the Transportation Roads and Bridges section excludes a number of projects estimated at \$205.2 million from its 2019-2023 capital improvement program request. These “provisional projects” will be added to the program if federal or state funding becomes available.

Regarding the whole of the 2019-2023 capital improvement program, the road or bridge projects noted below have recommended 2019 funding greater than \$3,000,000 and total project costs greater than \$10.0 million:

<u>Road/Bridge projects over \$3m in 2019 and over \$10m in total</u>	<u>2019 Budget</u>	<u>Total Project</u>
2101100 CSAH 53 - Reconstruct 66 <sup>th</sup> St from Xerxes Ave S to Cedar Ave S	6,287,000	63,792,222
2090400 CSAH 61 - Reconstruct Flying Cloud Dr from County Line to Charlson	5,751,000	69,100,000
2092200 CSAH 81 - Reconstruct Bottineau Blvd from CSAH 8 to TH 169	11,312,000	29,270,000
2161100 CSAH 92 – Participate in MnDOT’s CSAH 92 Reconstruction at TH12	4,000,000	10,300,000
2923900 CSAH 103 - Reconstruct W Broadway fr 85 <sup>th</sup> Ave N to 93 <sup>rd</sup> Ave N	6,500,000	36,340,000

### Transportation Facilities

For Transportation Facilities related projects, we are recommending \$2.0 million in 2019 toward the \$5.0 million PW Medina Communications Consolidation project and \$2.9 million in 2019 toward the related \$6.1 million PW Medina Office Remodeling project. The final transportation facilities investment is \$230,000 for fuel tank upgrades at various sites across the county.

### Transportation Sales Tax & Development

The Transportation Sales Tax & Development area contains the investments in light rail and bus rapid transit, funded with the county's transportation sales and use tax which began on October 1, 2017. A mix of cash receipts as well as bonds financed with sales tax proceeds are utilized. For 2019, the CBTF is recommending budgets consistent with the schedules and financial plans as prepared by the Metropolitan Council. We are recommending \$213.8 million for HC Southwest Light Rail Transit, \$35.0 million for HC Bottineau Light Rail Transit, and \$3.2 million toward HC Bus Rapid Transit Orange Line Construction.

### Community Works

For Community Works projects, we are recommending funding of only \$850,000 in 2019 which is a significant reduction from previous years, and programming \$24.1 million for the 2019-2023 Capital Improvement Program.

The 2019 recommendation is comprised of: \$600,000 in additional funding to continue the \$8.1 million Penn Avenue Community Works project, and \$250,000 in additional funding to continue work on the \$16.6 million Southwest LRT Community Works project.

### Environment & Energy

We are recommending funding of \$12.2 million in 2019 and programming \$40.0 million for the 2019-2023 Capital Improvement Program. Funding for all Environment and Energy projects, is enterprise cash or general obligation bonding supported by enterprise revenues; except the Lake Minnetonka Hendrickson Seawall Channel Replacement, which is funded with general obligation bonds.

The 2019 recommendation is comprised of:

- \$10.0 million in additional funding to continue facility preservation work at the *Hennepin Energy Recovery Center*,
- \$1.7 million in additional funding to continue facility preservation work at the *Energy Center*,
- \$351,000 to complete the \$1.1 million *Lake Minnetonka Hendrickson Seawall Channel Replacement*, and
- \$150,000 in additional funding to continue facility preservation work at the *Transfer Stations*.

## **PUBLIC SAFETY AND JUDICIARY**

**The Capital Budgeting Task Force is recommending \$19.9 million for 2019 and \$114.3 million for the 2019-2023 period for Public Safety and Judiciary projects.**

This represents 4.1% of the recommended 2019 Capital Budget and 6.1% of the 2019-2023 Capital Improvement Program.

### **Public Safety Administration & Integration**

The CBTF is recommending \$996,000 in 2019 in continued funding toward the *Emergency Communications ARMER System Upgrade*. Funding for this effort will continue through 2020.

### **District Court**

The CBTF is recommending \$5.7 million in 2019 including the \$850,000 in continued funding toward the *Courtroom Communications System Refurbishments* project. Two new projects are funded in 2019: \$3.3 million to start investments in the potentially \$20.0 million *District Court Digital Evidence Technology*, and \$1.6 million toward the \$3.1 million *Government Center C-3 Courtroom Remodel* project.

### **Community Corrections & Rehabilitation**

The CBTF is recommending a total 2019 budget of \$9.8 million, in support of four critical projects: \$3.6 million to finish work on the *DOCCR Detention Lockset System Replacements* project; \$859,000, to finish the second half of the *ACF Men's Steel Bunk Replacement* project; \$4.0 million toward *Adult Corrections Facility Asset Protection*; and \$1.4 million toward *County Home School Asset Protection*.

### **Sheriff's Office**

With respect to the Sheriff's Office, the CBTF is recommending \$3.4 million toward four projects:

- \$1.0 million to finish the *Jail Management System Replacement* project,
- \$1.2 million toward the *Sheriff's Enforcement Services Division Headquarters Facility Modifications* project,
- \$1.0 million to fully fund the *Water Patrol Facility Modifications* project, and
- \$200,000 to begin preliminary study of a *New Enforcement Services Division Headquarters* project.

## **HEALTH**

**The Capital Budgeting Task Force is recommending \$48.5 million for 2019 and \$201.0 million for the 2019-2023 period for Health projects.** This represents 10.0% of the recommended 2019 Capital Budget and 10.7% of the 2019-2023 Capital Improvement Program.

### **NorthPoint Health & Wellness**

The CBTF is pleased to see construction proceeding on the first phases of this long running project. We are recommending \$10.0 million in continued funding toward that \$67.6 million effort.

### **Medical Examiner**

With respect to the *Medical Examiner's New Regional Facility*, the CBTF is not recommending any 2019

funding due to the delay in the project schedule and adequate prior funding of \$26.3 million, but is pleased to see progress on this important effort. Remaining funding is programmed for 2020 and 2021 consistent with the likely construction schedule.

### Medical Center

The CBTF toured the new *Ambulatory Outpatient Specialty Center*, now renamed the *Clinic & Specialty Center*, and were very impressed with the facility. We also toured the remainder of the campus including the Green and Blue buildings and are concerned with the amount of deferred maintenance and acknowledge that the long-term viability of the buildings need to be carefully evaluated.

With respect to the future Medical Center projects, we are recommending a 2019 capital budget of \$38.5 million toward:

- \$10.0 million toward *Asset Preservation*,
- \$25.0 million toward the \$59.0 million *Surgery Center Expansion and Relocation* project which is backfilling space vacated by clinics that moved to the new *Clinic & Specialty Center*,
- \$3.0 million toward the \$67.0 million *In-Patient Bed Consolidation* and
- \$500,000 toward preliminary study of the *Center for Psychiatric Care*.

Of note, the Medical Center requested that funding for the *Center for Psychiatric Care* begin in 2020, however, the CBTF advises that the medical center and the County Board consider proceeding with research around

mental health investments sooner, and therefore, is recommending study money in 2019.

### **HUMAN SERVICES & PUBLIC HEALTH**

**The Capital Budgeting Task Force is recommending \$20.3 million for 2019 and no out-year funding in the 2019-2023 period for Human Services & Public Health projects.** This represents 4.2% of the recommended 2019 Capital Budget and 1.1% of the 2019-2023 Capital Improvement Program.

The 2019 funding will support two relatively new projects which received preliminary planning money previously: \$7.5 million for the *1800 Chicago Intake and Triage Center* and \$12.8 million toward the *Mental Health Stabilization Center*. We are pleased to see investment in the mental health area, recalling that last year, we did not fund the relocation of the *1801 Nicollet Mental Health Facility* as not enough information was known about shared services with partner organizations including the medical center- or potential locations.

### **OPERATIONS AND LIBRARIES**

**The Capital Budgeting Task Force is recommending \$55.8 million for 2019 and \$224.3 million for the 2019-2023 period for Operations and Libraries projects.** This represents 11.5% of the recommended 2019 Capital Budget and 11.9% of the 2019-2023 Capital Improvement Program.

#### Libraries

The CBTF is recommending \$23.3 million toward eight Library projects in 2019. The largest three investments from a financial perspective are: the final \$8.9 million

toward the \$12.1 million *Eden Prairie Library Refurbishment*, \$7.5 million toward a *New Southdale Library*, and \$3.5 million toward ongoing *Library Facility Preservation*.

#### Information Technology

For 2019, 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 \$23.3 million in investment for 2019. Projects with a recommended 2019 allocation over \$2.0 million include:

- \$4.0 million toward the \$13.6 million *HCGC Elevator & Escalator Modernization* project,
- \$4.0 million toward the \$33.0 million *Government Center Rehabilitation* project,
- \$2.0 million toward *Building Automation System Upgrades*,
- \$3.0 million toward general *Facility Preservation*,
- \$2.0 million toward *701 Building Facility Preservation*, and
- \$4.0 million toward the *Countywide Security Systems & Equipment* replacement project.

#### Municipal Building Commission

For 2019, we are recommending \$7.6 million toward five projects that will continue to maintain and preserve the historic City Hall / Courthouse building. This amount is higher than our historical recommended amount and may be more than what the City of Minneapolis may support.

We are recommending \$1.6 million toward *Safety Improvements- Non Stagework Areas*; \$2.8 million toward *Exterior Improvements* and \$2.5 million in *Elevator Upgrades*. In addition, we are recommending the acceleration of two projects that are fully funded by the county: \$675,000 for the *ADC Electric Locks Upgrade* and \$50,000 to start the planning work for *Electrical Upgrades*.

#### **C. CONCLUSION**

It should be noted that 2019 is the only year for which a capital budget will be set at this time. The remaining years of the proposed 2019-2023 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.



## Regional medical examiner's facility

A new regional medical examiner's facility serving Dakota, Hennepin and Scott counties will open in 2021.

For additional budget information visit:  
[www.hennepin.us/budgets](http://www.hennepin.us/budgets)



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