

2018 through 2022

Five-Year Capital Improvement Plan
for the City of Minneapolis under Minnesota Statutes,
Chapter 475

Dated: March 5, 2018

Adopted: _____, 2018

City of Minneapolis

Five-Year Capital Improvement Plan 2018 through 2022 for Purposes of Minnesota Statutes, Chapter 475

I. INTRODUCTION

A Capital Improvement Plan (“CIP”) is a document designed to anticipate capital improvement expenditures and schedule them over a five-year period so that they may be planned for and constructed in a more efficient and cost effective method. A CIP allows the matching of expenditures with anticipated income. As potential expenditures are reviewed, the municipality considers the benefits, costs, alternatives and impact on operating expenditures.

The City of Minneapolis (the “City”) believes the capital improvement process is an important element of responsible fiscal management. Major capital expenditures can be anticipated and coordinated so as to minimize potentially adverse financial impacts caused by the timing and magnitude of capital outlays. This coordination of capital expenditures is important to the City in achieving its goals of adequate physical assets and sound fiscal management.

To pay for capital improvements, local and state governments often utilize debt. The City utilizes a number of authorities and procedures to issue debt to support the construction and reconstruction of its capital assets. In some cases this debt is repaid over a few years and in others the term may be closer to 30 years. Debt of the City is often referred to as a bond or a municipal bond issue. Bonds that may rely on a primary source of repayment revenues and will often carry a general obligation or “G.O.” pledge of the City taxpayers in order to lower the interest rate on the debt.

The City can rely upon State Statutes to authorize a G.O. pledge for a bond issue and it can also use its City Charter for other types of authorities. Because there is a long-standing limitation of \$15,000,000 per project for City charter-authorized G.O. bonds, the City often looks to general State law or special law authorities to issue the debt. The City can issue G.O. debt under State law for larger projects when relying upon revenues such special assessments, water revenues, sewer revenues, tax increments, sales taxes, parking revenues, and other revenues. The City can also issue revenue bonds of various types supported by lease payments from the City for a facility. Additionally, G.O. bonds can be paid exclusively from property taxes and issued for various types of City endeavors such as equipment, vehicles, and for certain types of City buildings.

In 2003, the Minnesota State Legislature adopted a statute (Section 475.521, referred to herein as the “CIP Act”) that authorizes cities to issue general obligation bonds pursuant to a specific type of a capital improvement plan. The CIP Act applies to capital improvements consisting of (in whole or in part) city halls, public works facilities, and public safety facilities.

Throughout this plan, the term “capital improvement” refers only to those improvements identified in the CIP Act, as summarized above. The City of Minneapolis follows a specific procedure for its typical street, utility, park and other building capital improvements starting with the Capital Long Range Improvement Committee (CLIC), its recommendation to the Mayor, the Mayor’s recommendation to the City Council, and ultimately adoption by the elected officials of a five year capital funding plan. This annual capital improvement process is different than the larger building projects included in this CIP for the CIP Act, but there a few steps in the processes that have and will inevitably result in some overlap. To help alleviate some of the overlap and potential confusion between the two processes, this document will refer to the capital improvement plan for the CIP Act for larger building projects as the Chapter 475 CIP.

II. THE CHAPTER 475 CAPITAL IMPROVEMENT PLAN PROCESS

To issue bonds under the CIP Act, the City Council must follow a specific set of procedures. The City must hold a public hearing regarding issuance of the bonds. Notice of such hearing must be published in the official newspaper of the municipality at least 14, but not more than 28 days prior to the date of the public hearing. In addition, the notice may be posted on the City’s official web site. (The public hearings on the Chapter 475 CIP and the issuance of bonds under the Chapter 475 CIP may be combined into a single hearing, in which case the notice requirements for bonds must be followed.)

The Council must approve the sale of capital improvement plan bonds (“CIP Bonds”) by a 2/3rds vote of its membership. However, the bonds are subject to a so-called “reverse referendum:” if a petition signed by voters equal to at least five percent of the votes cast in the City in last general election is filed with the City Clerk within 30 days after the public hearing regarding the bonds, the bonds may not be issued unless approved by the voters (by a majority of those voting on the question). Further, the maximum debt service in any year on all outstanding CIP bonds is 0.16% of the estimated market value of property in the city, using the market value for the taxes-payable year in which the bonds are issued.

In subsequent years, the process is repeated if additional debt is required above the authorized amount.

III. PROJECTS SUMMARY

There are three buildings, two of which are directly linked into one project, contemplated in this Chapter 475 CIP. The first is a new public works storage and maintenance facility to be located at 340 27th Avenue NE, which is in the southeast quadrant of 27th and University Avenue. It is also known as the East Side Storage and Maintenance Facility (“East Side Facility”) it is expected to include bonds under the CIP Act in the maximum amount of \$47,000,000. Debt service on approximately \$32,000,000 of the authorized bonds would be primarily supported by solid waste and recycling revenues from the City’s self-supporting enterprise funds. A portion of the City’s property tax debt levy (also known as the bond redemption levy) is anticipated to support annual payment on the

approximately \$15,000,000 of remaining bond authority. The ad valorem taxes pledged to the East Side Facility's net (levy supported) debt service were approved and dedicated by the City Council during the budget adoption process in December, 2017. Construction is expected to commence in 2018.

The remaining two buildings under the Chapter 475 CIP consist of a combined project incorporating renovations to City's space in the historic City Hall located at 350 South 5th Street and new construction of an office building/new public service center to be located adjacent to City Hall at 501 4th Avenue South. Currently the City leases space for its employees spread throughout downtown Minneapolis in five different facilities, plus it owns two buildings that are at the end of their useful life. These leased buildings and outdated facilities house many departments that serve the public such as Community Planning and Economic Development (CPED), Health, Regulatory Services, Public Works, Finance and Property Services, the Youth Coordinating Board, plus other departments such as Human Resources, Neighborhood and Community Relations, Information Technology and the Assessor. The City plans to move portions of the investigations division of the Police department and other parts of the Police department that interact with the public to the new public service center building along with outward facing departments or portions of departments. Human Resources, parts of Information Technology, parts of Finance, and Property Services, will move into space vacated by the Police department in City Hall. Therefore, significant renovation costs will be incurred in City Hall for the relocated departments plus remodeling for existing uses such as Emergency Communications and other City Coordinator departments. The construction of a 380,000 square foot new public service center will provide better service to residents and businesses in the City that regularly visit the City's downtown facilities to do business. The total amount of bonds issued under the CIP Act for both the City Hall and the new office building/new public service center (collectively the two buildings will be referred to in this document as the "City Hall/PSC") are estimated at a maximum amount of \$108,000,000. The construction and renovation cost of the City Hall/PSC may reach \$210,000,000 over the next five years. Because the CIP Act limits CIP bonds to City Hall, public works, and public safety improvements, those parts of the new PSC that related to the departments of Health, CPED, Regulatory Services, Information Technology, parts of Finance, and Property Services, will be financed with other statutory authorities and with cash resources. Part of the cash resources will be funded by the sale of the vacated property that the City owns at the former City of Lakes and old Public Service Center. Construction is expected to commence in 2018.

Expenditures by Year Expected for CIP Bonds Eligible Costs

2018 Expenditures

- East Side Facility: \$20,000,000
- City Hall/PSC: \$15,000,000

2019 Expenditures

- East Side Facility: \$27,000,000
- City Hall/PSC: \$30,000,000

2020 Expenditures

- City Hall/PSC: \$50,000,000

2021 Expenditures

- City Hall/PSC: \$8,000,000

2022 Expenditures

- City Hall/PSC: \$5,000,000

The CIP Act requires the City Council to consider eight factors in preparing the Chapter 475 CIP:

1. Condition of the City's existing infrastructure, including projected need for repair or replacement.
2. Likely demand for the improvement.
3. Estimated cost of the improvement.
4. Available public resources.
5. Level of overlapping debt in the City.
6. Relative benefits and costs of alternative uses of funds.
7. Operating costs of the proposed improvements.
8. Alternatives for providing services most efficiently through shared facilities with other cities or local governments.

The City has considered the eight points as they relate to facilities contemplated to be financed through the issuance of CIP Bonds. In addition to the information contained below, the City Council has approved more than a dozen requests for Council action over the past four years. The actions have generally been originated in the Ways and Means Committee and the dates below reflect those meetings. Agendas with more information available on the City's website where such actions were considered include the following dates:

East Side Facility

March 6, 2018

February 20, 2018

January 23, 2018

November 14, 2017
May 22, 2017
March 6, 2017
February 21, 2017
October 31, 2016
January 11, 2016
December 7, 2015
CLIC reports and capital budget approvals for budget years 2016, 2017, and 2018

City Hall/Public Service Center Building

February 20, 2018
February 1, 2018 (Executive Committee)
December 4, 2017
September 18, 2017
August 28, 2017
June 26, 2017
April 24, 2017
February 21, 2017
December 5, 2016
September 18, 2016
June 27, 2016
September 15, 2014

The findings related to the CIP Act are as follows:

Conditions of City Infrastructure and Need for the Projects

The East Side Facility will be replacing two aging facilities: a solid waste storage and maintenance facility near 27th and Pacific in north Minneapolis that is immediately adjacent to the Mississippi River and slated, in part, for redevelopment as part of the “Above the Falls” master park plan. The City commissioned a facility condition report and facility assessment in 2013 for the 27th and Pacific facility. The main building was first constructed in 1948 with additions in the late 1950s and 1960s.

The East Side Facility will replace a dilapidated transportation maintenance and repair facility at 1809 Washington Street, NE. It was built in 1949. It does not meet ADA accessibility and clearance requirements, mechanical and electrical systems are outdated/past their design life, it is not energy-efficient, staff and maintenance areas are poorly lighted and ventilated. There is no landscaping or acoustic buffering

Both of these older facilities do not meet current City and industry standards for storage, repair, and maintenance of the public works vehicles necessary to serve the citizens of the City. Vehicles are stored outdoors, employees are subject to weather extremes when caring for the vehicles, the facilities are not ADA compliant, and the facilities are not adequate to ensure that vehicles are maintained adequately, safely, and efficiently.

The City Hall was first occupied by City officials over 110 years ago. The facility is jointly owned and operated by the City and Hennepin County through the Municipal Building Commission. Currently the City utilizes approximately 60% of the building and the County occupies 40% of the building, primarily for the Sheriff's offices and a jail on the 4th and 5th floors of the building. While several areas of the building have been renovated more recently, the office space in many parts of the City portion of the building does not adequately meet current staff office needs. There are inadequate conference rooms. The City's 911 operators are housed in the basement of the building with inadequate work stations. In most parts of the City Hall, the office spaces are tucked into small corners and interior rooms of the building which are difficult to navigate and do not promote a collaborative work environment. Many work areas do not have access to natural light, have very low ceilings, and/or contain work stations that are several decades old.

The old public service center and the City of Lakes buildings that house many departments currently in the City's downtown were built in the 1950s. In 1999, the City Council directed its property services staff to cease from investing in those two buildings' major systems in anticipation of a new office building. Air quality is a major concern for the old public service center. These buildings do not meet current City expectations for density of development in the downtown core. Renovation of these two facilities would cost tens of millions of dollars and would still not be adequate in size or footprint to house City employees currently in leased space.

Demand for Projects

There are many increased demands placed upon the City with an increasing population, a diversity of services provided to residents, and an expanding number of restaurants, hotels, entertainment venues, and other businesses. The City has a responsibility to deliver services that provide for the safety, health, and welfare of residents and their property. To serve residents and to do their jobs efficiently and safely, City employees need adequate facilities.

The East Side Facility is needed to assist the solid waste and recycling division with increased responsibilities due to population growth, expanded recycling efforts, and composting efforts. In addition, the City has increased its spending on street rehabilitation and reconstruction by approximately \$20,000,000 per year which impacts the services to be provided from this facility.

The City Hall renovations and new construction of a public service center have been deferred for several decades. The City has no more vacant space in its facilities for offices in the downtown area. The City recently leased additional space in the Grain Exchange building for a part of its Public Works Department because new employees were required for expanded programs. In 2014 and 2015, the City studied more than a dozen options to either lease or own space in the downtown core. Due to the aging Fire Station No. 1 in the downtown core and the inadequate space in Police Precinct No. 1, a public safety component that could be located adjacent to or integrated in a new office building was also

initially reviewed. Ultimately it was determined to leave the fire station on its existing block due to response times. Options for the police precinct are still being evaluated, but separate from a new office building.

To determine the size and types of office spaces necessary, currently and for the next century, the City produced a pre-design and program development document in 2017 with the assistance of Perkins + Will. This document contains an array of rationale for the renovation of City Hall and the construction of a new office building to serve City residents and City businesses. The City also determined through the pre-design and program development phase that customers of the City were being inadequately served by existing facilities. City staff who help small businesses expand with financing assistances are located several blocks from City staff that issue permits and give advice on regulatory issues. It was clear in the program development for new facilities that a new public service center should house multiple departments in one building and with trained employees at one public service desk to better serve businesses and residents who are unfamiliar with City processes. The Perkins+Will document is available from the Office of the City Clerk or the City's Chief Finance Officer.

Estimated Cost of the Project

See the first two paragraphs under Projects Summary above.

Availability of Public Resources

The City plans to pay for the East Side Facility with a combination of solid waste revenues from its enterprise funds and the City's debt levy that fits within its current five year financial forecast.

The City Hall/PSC will be funded with property taxes from existing debt levies for the City's library bonds that will be retired within the next five years. Therefore the new debt service will replace the existing debt levy, resulting in no new property tax supported debt levies for the portion of the CIP Bonds financing the City Hall/PSC. Portions of the building will house other enterprise supported functions such as utility billing, parking, and information technology. Therefore some portion of debt service on the whole project will be paid with enterprise fund revenues. Additionally, several departments are supported in part by other general fund revenues such as fees, permits and licenses. All of these costs will be allocated through the City's internal service fund methodology.

Level of Overlapping Debt

Below is a section taken from the City's last official statement for a bond sale in the fall of 2017:

Set forth in the table that follows is information relating to the outstanding overlapping general obligation indebtedness of the City as of December 31, 2016.

	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percent of Debt Applicable*</u>	<u>Amount of Debt Applicable</u>
Special School District No. 1	\$362,225,000	100.00%	\$362,225,000
Hennepin County ⁽¹⁾	811,375,883	28.03%	227,428,660
Hennepin County Regional Railroad Authority	32,848,204	28.03%	9,207,352
Metropolitan Council	38,874,706	14.21%	5,524,096
Total	<u>\$1,245,323,793</u>		<u>\$604,385,107</u>

(1) Excludes Hennepin County Suburban Library Bonds for which the taxpayers in the City are not obligated.

* Source Hennepin County

Set forth below is the outstanding overlapping general obligation indebtedness of the City on December 31, 2012 through 2015.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Special School District No. 1	\$289,107,000	\$270,415,000	\$197,989,000	\$225,449,000
Hennepin County	205,406,816	200,595,002	190,797,307	175,990,190
Hennepin County Regional Railroad Authority	10,244,483	9,373,760	9,852,930	10,158,472
Metropolitan Council	14,851,484	17,656,445	19,134,999	23,108,671
Total	<u>\$519,609,783</u>	<u>\$498,040,207</u>	<u>\$417,774,236</u>	<u>\$434,706,333</u>

Relative Costs and Benefits of Alternative Uses of the Funds

The City has reached a point with the facilities described above that doing nothing is not an option. The City will need to spend a significant amount to substantially rehabilitate its substandard facilities and will not see the benefits for its residents, customers, and employees if consolidation of facilities does not occur.

Because these facilities are to be supported primarily by existing debt levies, the primary alternative use of funds would be other infrastructure needs for the City such as fire stations, police precincts, regional parks and vehicles. Or the City could wait until for several years when the existing bonds are paid off and repurpose these debt levies for other City operating costs.

Operating Costs of the Proposed Improvements

The City's property services division and public works department have estimated that the operating costs for the East Side Facility will be approximately \$100,000 less than if operations had continued separately for the solid waste and street maintenance functions. The actual savings will depend upon staffing levels.

For the City Hall/PSC, the City will see substantially less in operating costs for a consolidated facility compared to existing operating costs and lease costs. The City is expected to pay close to \$4,000,000 per year for leases and operating costs outside of City Hall for employees that will be relocated to the renovated City Hall and new public service

center. The operating cost for the new PSC building will be approximately \$1,000,000 less per year, depending upon staffing levels in the future. The lower operating costs will provide savings that can be used to help offset the capital costs of the new and renovated facilities.

Options for Shared Facilities with Other Cities or Local Government

The East Side Facility is combining two City facilities into one, promoting more efficient use of land and City employees. The City and the Minneapolis Park and Recreation Board in 2016 and 2017 did explore the location of a Park Board maintenance facility on the East Side Facility site. The Park Board decided to defer a decision to relocate its facilities to this site, but such an option remains a possibility in the future.

Regarding the City Hall/PSC facilities, the City does currently share its facilities with a variety of public agencies. The Youth Coordinating Board is a joint powers organization that serves young people throughout the City and will be located in these facilities, whereas now it is in leased space. The City also provides workforce training through CPED in cooperation with State agencies which provide similar services. As was mentioned earlier, the City and the County have shared the City Hall building for over 100 years and expect to continue sharing the facility. The County has recently purchased the Thrivent Building to consolidate its staff into one building over the next 10 years. Therefore, the option to share office facilities is limited.

IV. FINANCING THE CAPITAL IMPROVEMENT PLAN

CIP Bonds to be Issued

The total maximum principal amount of CIP bonds under this Chapter 475 CIP is \$155,000,000. This amount meets the requirements of both the City Charter and State Statutes.

1. Under the City's Charter, the City cannot incur debt in excess of 3-1/3% of the market value for the municipality. In the City, the market value is more than \$40 billion. Therefore, the total amount of certain types of tax supported debt could be at least \$1.3 billion. As of the end of 2017, the City had slightly more than \$110,000,000 of principal amount of debt subject to the legal debt limit. An additional \$155,000,000 of CIP bonds is contemplated in this document. As such, issuance of the CIP Bonds will be within the overall debt limit for the City.
2. A separate limitation under the CIP Act is that, without referendum, the total amount of principal and interest in any one year on all CIP Bonds issued by the City debt cannot exceed 0.16% of the total estimated market value in the municipality. In the City, that maximum annual debt service amount is more than \$60,000,000 per year. The annual principal and interest payments on the CIP Bonds proposed to be issued under this CIP will average less than \$15,000,000 and the City has no other outstanding CIP bonds. As such, debt service on the CIP Bonds will be within

the annual limits under the CIP Act.

Expected Structure of CIP Bonds

The CIP Bonds to be issued under this Chapter 475 CIP are expected to be issued over five years. The City may determine to issue the CIP Bonds sooner than the schedule of bonding noted above if the proceeds of the CIP Bonds are needed earlier to pay for the capital costs of the facilities to be financed. If CIP Bonds are issued earlier than expected, no further amendment to this Chapter 475 CIP is necessary.

The CIP Bonds are expected to have a term of between 10 and 25 years for each issue. The City may structure interest only payments for one or more years until other bond issues are retired in the next three to five years. The City expects to seek at least one or more bond ratings for the long-term bond issues associated with this Chapter 475 CIP. Similar to other large construction projects in the City such as Nicollet Mall and the Target Center renovation, the City may utilize variable rate financing during construction.

V. CONTINUATION OF THE CAPITAL IMPROVEMENT PLAN

This Capital Improvement Plan will be reviewed periodically by the City Council using the process outlined in this Capital Improvement Plan. The City Council will review proposed expenditures, make priority decisions, and seek funding for those expenditures it deems necessary for the City. If deemed appropriate, the City Council will prepare an update to this Plan.

