

Five Year Capital Improvement Program

August 2009 Update

City of Kent, Ohio



FIVE YEAR CAPITAL IMPROVEMENT PLAN

Updated August 28, 2009

When it comes to infrastructure, time has a way of turning assets into liabilities.

The City's \$150 million investment in Kent's infrastructure loses value every day. Time, weather and daily usage take their toll on an aging infrastructure. Kent's infrastructure is on-call 24 hours a day, 7 days a week, 365 days a year – and whether the tolls are paid along the way or at the end of the trip, the meter is always running. The question is how and when the bill gets paid. The Capital Improvement Plan (CIP) seeks to answer that question.

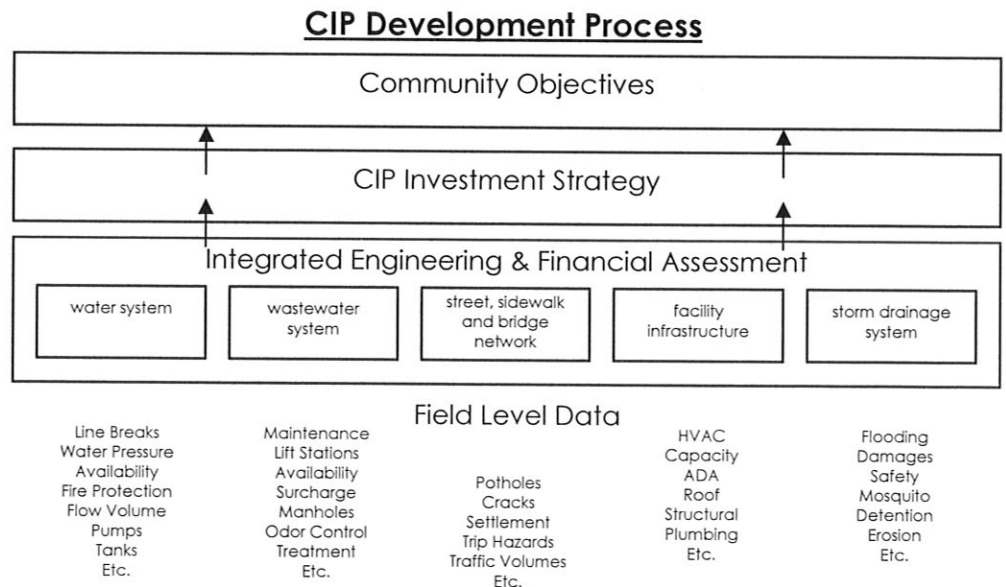
The matter of how the bill gets paid takes infrastructure into the realm of investment strategies with questions like: How valuable is the asset? How important is preservation of asset equity? What return on equity is expected? What is the risk tolerance for infrastructure failure? The answers to these questions make it possible to develop an investment strategy that matches investor goals.

The City's CIP is based on the recognition that infrastructure is not free, re-investment matters, repairs work and planning is critical.

Investment Grade Infrastructure

Public infrastructure is the largest class of investments that Kent has made in pursuit of community prosperity. Like any successful investment strategy, managing the City's infrastructure portfolio requires balancing risks against the City's income position, asset base and goals. In this process asset allocation decisions can be aligned with strategic objectives and infrastructure equity can be leveraged to yield dividends in public safety, environmental protection, economic development and quality of life.

With over \$150 million invested in Kent's infrastructure it is fiscally imperative to preserve the value of that equity through well-planned and appropriately timed capital re-investments. The City's infrastructure is also expected to be a catalyst for new growth and accelerate economic development opportunities. Achieving both capital preservation and growth goals requires exceptional planning and a long term commitment to constructing and maintaining grade infrastructure.



Infrastructure performance, like market performance, has an inherent degree of uncertainty. From aspects in design, construction and daily use there are many variables that can affect infrastructure service life. The City's CIP is based on the application of proven engineering principles and practices to evaluate the City's infrastructure in order to understand the risks, quantify those risks and assess options based on probable outcomes that drive CIP project recommendations.

Infrastructure performance is a necessary – but not sufficient – condition for nearly all of the City's strategic objectives and it is integral to the City's mission of advancing community prosperity. Infrastructure makes strategic outcomes possible. When infrastructure performs at the highest levels it is capable of being leveraged to drive economic activity and enhance quality of life. Likewise, poor performing infrastructure is equally capable of impeding economic growth, impairing quality of life and undercutting efforts to stimulate community vitality. The City's CIP creates a framework for matching resource inputs to community outputs.

Collaborative Capital Planning

The City of Kent recognizes the importance of long-range capital investment planning to maintain the health and vitality of the community. The City's Capital Improvement Plan (CIP) is a five year infrastructure plan that has been developed to provide the City's highest capital priorities with a sustainable financing schedule. The Capital priorities are built around the City's strategic goals that have been collaboratively defined through input from community members, City Council and City staff as follows:

- **Financial Health and Economic Development***"to be a prosperous and livable city for all citizens"*
- **Natural Resources***"to protect and promote the City's natural resources"*
- **Quality of Life***"to enhance lifestyle choices through physical and social environment"*
- **Community Safety***"to be an exceptionally safe city"*
- **Communities within the City***"to strengthen the quality and enhance the value of neighborhoods"*
- **City / University Synergy***"expand collaborative opportunities that enrich the community experience"*
- **Governmental Performance***"to provide the best services at the lowest cost"*

The CIP was developed to meet the needs of Kent residents that depend upon modern and reliable utility services for public health, jobs from economic development and the lifestyle amenities and conveniences that define the quality of life in their hometown. By facilitating economic development, enhancing the tax base, forging partnerships and protecting the community's safety and environmental resources, the CIP seeks to benefit all segments of the community and support the mission of the Kent municipal government.

Framework for Investment

The City has established a multi-year planning process as a framework to evaluate and address short and long term capital needs. With more capital outlay needs than available resources can support at any one time, this framework serves as a decision matrix for maximizing resources and selecting projects based on Council policies, priorities and sound financial principles.

The multi-year focus creates the continuity needed to focus resources towards long term strategic objectives in a decision environment that is typically dominated by the short term pressures of the annual budget cycle. This continuity does not mean that the CIP is rigid and non-adaptive. Rather, the CIP provides a platform to understand the choices and consequences of possible

budgetary changes before making decisions – which is what sound fiscal management and strategic planning is all about.

The effectiveness of the CIP framework is measured by its ability to provide predictability, stability and financial sustainability for the replacement, upgrade and development of critical public facilities and infrastructure. In this way, the CIP offers a fiscally responsible approach to reconciling the gap between the mounting costs of critical infrastructure needs and affordability or the ability of the customer to pay for those needs.

Ultimately, the CIP framework ensures elected officials and citizens that major capital decisions are fully considered before they are approved and funded.

Principle Based Programming

The general principles applied to the selection of projects in the development of the CIP include:

1. Fulfilling the 25% charter requirement for income tax allocation for capital projects;
2. Ensuring continued compliance with all applicable federal and state mandates;
3. Honoring existing financial commitments (previously approved grant or partnership agreements);
4. Leveraging public funds to obtain external funding, e.g., grants;
5. Investing in projects that yield a return on investment – internally in the form of cost savings, e.g., energy upgrades, and externally in terms of tax base growth and economic development;
6. Sustaining infrastructure performance at a level commensurate with community expectations;
7. Timing infrastructure replacement to optimize the operating cost to capital cost ratio;
8. Providing a balanced capital plan which funds the highest priority community needs, serving the widest array of public possible.
9. Stabilizing rates to avoid dramatic year-to-year fluctuations by amortizing costs across multiple years;
10. Utilizing conservative bond finance practices to keep debt load to a minimum);
11. Building towards a "pay as you go" cash position that leverages debt recoveries and rate based revenues (water, sewer, storm sewer) to reduce the need for new debt issuance;
12. Aligning and budgeting expected project costs to match realistic spending time frames.

Capital Improvement Financing

Capital outlays can be financed with operating revenues, user charges (rates), bond proceeds, capital reserves (fund balances), lease-purchase agreements, equipment-purchase revolving funds, special assessments, and state/federal grants. The use of operating revenue to finance capital projects or equipment is called "pay-as-go" financing and has been Kent's traditional method of addressing the community's capital outlay needs.

At present, the City does not possess sufficient financial resources to both adequately meet its capital needs and maintain current levels of municipal services. Strategically, the City must either: 1) continue to defer much needed capital improvements until a crisis arises; 2) reduce current levels of municipal services; 3) increase revenues; or 4) a combination of two or more of the above. These options clearly demonstrate the inter-relationship that exists between revenues, operating expenses and capital needs.

Deferred Capital Maintenance

Investment grade infrastructure is what Kent residents and businesses appear to expect and it is what potential investors look for when considering whether the Kent community is investment-worthy. Experience has demonstrated that there are different paths to get to investment grade infrastructure but the deferred maintenance path is a slippery slope that has proven to be a costly diversion from the financial reality of infrastructure maintenance.

Debt is not just a result of over-spending, it also arises when significant infrastructure problems go unaddressed and associated costs climb. Avoiding debt at the front-end of infrastructure maintenance (e.g., deferring capital investment) only grows the debt burden at the back-end of infrastructure maintenance; and failing to recognize this linkage or to balance this transfer of costs has proven in practice to fail both the intent of good infrastructure maintenance and the spirit of fiscal conservatism that defended deferred maintenance in the first place.

Capital Improvement Projects

The list of projects in the Capital Improvement Program is the heart of the capital budgeting process. The list is reviewed and updated annually to provide a recurring opportunity to assess the capital needs of the City based on what has been funded and what new needs have been identified. The project list contained in this CIP for the years 2010 through 2014 represents the Administration's recommendation for the City's 5-Year Capital Improvement Program.

Proposed 2010 Capital Program Summary

- The proposed 2010 capital program includes 35 projects.
- The total proposed capital program costs (including all debt costs) for 2010 is \$9,887,461.
- \$6,987,000 of the \$9,887,461 (or 71%) is grant and/or debt funded.
- The City has leveraged outside capital for City cash on a 3:1 basis.
- The approved 2008 Capital Plan showed a \$5.5 million cash contribution for 2010.
- The proposed new City cash contribution for 2010 is \$2,900,461 (a \$2,599,539 reduction).
- The estimated Charter requirement for 2010 is \$2,561,489.
- The proposed 2010 City cash contribution is \$338,972 above the Charter requirement.
- The proposed 2010 debt (debt service, principle, interest) is \$3,295,185 (reduced from \$3.6 million in 09).
- The net cost of debt in 2010 will be \$570,186.
- The City's legal debt margin (10.5% of assessed value) is approximately \$35 million.
- The undesignated fund balance declined by \$240,000 in 2008 to \$12.6 million.
- The undesignated fund balance is projected to decline by \$2.2 million in 2009 to \$10.4 million.
- The undesignated fund balance is projected to decline by \$2.3 million in 2010 to \$8.04 million.
- The managed reserve fund balance (emergency fund) is projected to be \$2.27 million in 2010.
- The staff is proposing a 3% water and 3% sewer rate increase for 2010 (projected to add .75 cents / month to water bill and \$1.60/month to sewer for a total of \$1.91/month -- or \$22.94 per year for an average customer)
- The last rate increases were in 2003 for water and 2007 for sewer.

2010 Proposed Capital Project Listing By Strategic Priorities

Note: some projects are listed twice because they serve multiple priorities and some related projects have been consolidated (e.g., Fire safety equipment replacement) under a single heading rather than listed separately for each purchase.

- **Financial Health and Economic Development***"to be a prosperous and livable city for all citizens"*
 - Alley 4 Reconstruction
 - Debt Refunding (short term)
 - City Energy Conservation Project
 - Kent Central Gateway (transit center) Design
- **Natural Resources***"to protect and promote the City's natural resources"*
 - City Energy Conservation Project
 - Plum Creek Stream Restoration
- **Quality of Life***"to enhance lifestyle choices through physical and social environment"*
 - Streets & Sidewalk Repair Program
 - Area Q Stormwater Phase 5
- **Community Safety***"to be an exceptionally safe city"*
 - Summit Street Signal Coordination
 - Fairchild Avenue Bridge
 - Fire Safety Equipment Replacement
 - Police Safety Equipment and Vehicle Replacement
 - SR 59 Signal Improvements
- **Communities within the City***"to strengthen the quality and enhance the value of neighborhoods"*
 - Streets & Sidewalk Repair Program
 - Longmere Pavement Reconstruction
- **City / University Synergy***"expand collaborative opportunities that enrich the community experience"*
 - Kent Central Gateway (transit center) Design
- **Governmental Performance***"to provide the best services at the lowest cost"*
 - Middlebury Road Watermain
 - Service Department Alarm Upgrade
 - Water Reclamation Plant Equipment Replacement
 - Water Reclamation Van
 - Water Treatment Plant Equipment Replacement
 - Water Treatment Plant Vehicle Replacement
 - Budget and Finance IT System Back-up
 - Central Maintenance Pick-up Truck Replacement
 - Howe Road Water Main Vault

Additional capital needs that are not reflected in the current list but are likely for 2010 include Police Facility repairs and downtown redevelopment. Due to the uncertainty of the costs related to either of these items at this time the staff was unable to show an accurate capital allocation in the proposed CIP. However, as these projects become more defined the staff will bring them to Council for consideration as amendments to the capital plan.

The Five Year Capital Improvement Program should be viewed as a living document reflecting the dynamics of an ever-changing environment that requires constant monitoring and adjustment as priority needs change over time. This process needs to be revisited and updated annually with the understanding that the City's Annual Budget may need to be modified from time to time in reaction to the transforming needs of the Kent community.