



**MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER**

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
Submitted by: Holly Heinzen, Assistant County Executive Officer
DATE: July 24, 2006
SUBJECT: Capital Facilities Financing Plan

REQUEST

It is requested that the Board of Supervisors affirm priorities for County capital facility construction projects through FY 2015-16 and provide direction to staff to proceed with capital financing recommendations for these projects.

BACKGROUND

Consistent with the Comprehensive Facility Master Plan adopted by the Board of Supervisors in 1996, and the Capital Facilities Financing Plan affirmed on May 6, 2002, staff proceeded with the design and construction of the capital projects identified as priorities necessary for the delivery of county services. These projects include the Finance and Administration Building, Juvenile Detention Center, Main Jail Housing Unit 4, Fulweiler Administration Building Renovation, Community Development Resource Center, Auburn Justice Center, Cabin Creek Public Works Relocation Project, site acquisition for the South Placer Justice Center, South Placer Courthouse and the Children's Emergency Shelter.

Funding for these projects has been provided from a variety of sources, including State and Federal Grants, Capital Facility Impact Fees (CFIF), securitization of the Master Settlement Agreement revenues, debt proceeds (Certificates of Participation) and General Fund contributions and reserves. As of the mid 1990's, your Board implemented the CFIF collection process in the unincorporated areas of the County and secured the approval for collection of the CFIF in all but one of the cities in the County. This fee is applied to new development to offset the cost of capital facilities required to accommodate growth. Your Board has also had the foresight to set aside over \$30 million in capital infrastructure reserves over the last decade, made ongoing contributions to the operating budget for facility construction projects, and dedicated securitized funds from the Master Settlement Agreement in the amount of \$39.7 million for building construction.

Capital facility construction is dynamic in nature and, as a result, activities such as planning, estimated costing and funding, and project prioritization need to be reviewed periodically. To

that end, Facility Services and Executive Office staff evaluated and then updated facility project data for projects pending construction under the original Capital Facilities Financing Plan, and identified recommended priority projects to incorporate. In order to accommodate the rising cost of construction, land acquisition, and other project costs, staff were challenged with identifying additional, realistic funding alternatives that would support timely construction. Utilizing preliminary information, a presentation on proposed projects and funding strategies was given at the Strategic Planning Session held by your Board in March 2006. Since that time the tentative plan was updated to incorporate Board direction received during Session, and project construction costs and reimbursements have been reevaluated and updated.

Included for your Board's consideration today is the Capital Facilities Financing Plan that includes updated construction costs and delivery dates for facilities identified as priorities for the County over the next decade. Since inception of the original plan, the County's Finance Committee has worked closely with Facility Services to provide the Board and county management team with a framework that supports the capital facility projects by matching potential funding sources with the established project priority and construction timelines. The following information summarizes the most important components of this plan.

Staffs anticipate that the Capital Facilities Financing Plan will need to be updated annually due to the dynamic nature of the construction and finance markets, changes in construction costs, and economic conditions. The plan provides a "baseline" that essentially identifies what cash is needed throughout the decade, and calls for debt that fills a cash flow gap. Regardless, as the County moves through the next few years, as each major project comes up, a critical review will be conducted to determine the best means to fund that project at that point-in-time. Issues that will be evaluated are:

- Pay-as-you-go vs. issue new debt
- Borrowing rate vs. the amount of interest that can be earned on reserves
- Identify the useful life of the facility
- Identify the policy implications of construction, debt, use of reserves
- Look at opportunities for grants and other community funding support
- Issue debt to insure maximum financial flexibility

CAPITAL PROJECTS 10 YEAR FUNDING REQUIREMENTS

The Capital Projects 10 Year Funding Requirements reflects the proposed delivery of major projects and their anticipated funding needs through 2015-16 (Attachment). This schedule was developed to illustrate the continued implementation of the 1996 Comprehensive Facilities Master Plan, including the updated Criminal Justice Master Plan. The schedule is arranged in tiers, reflecting the general priority of each project. Tier definitions and associated projects are as follows:

Tier 1 – These projects are all currently under construction and significant funding has been allocated by your Board. The Community Development Resource Center is currently in the project closeout phase and the Auburn Justice Center will be completed this fall. The South Placer Courthouse and the DPW Relocation at Cabin Creek are projected to be completed in the summer of 2007. The B Avenue Extension will be completed in the spring of 2007 and the Children's Emergency Shelter in the fall of 2007. The South Placer Courthouse will require at

least \$32 million in additional funding in FY 2006-07, and the Auburn Justice Center an estimated \$1.5 million.

Tier 2 – These are projects that the Board of Supervisors has previously provided specific policy direction, but for which significant project funding has not yet been allocated. They include the South Placer Adult Detention Center, the Burton Creek Justice Center, the South Placer and Auburn Animal Shelters, the Rocklin, Colfax and Foresthill Libraries and the South Placer Justice Office Building.

Tier 3 – These projects represent the next series of anticipated projects to be completed after Tier 1 and 2 projects. They include the Tahoe General Government Center, a Health and Human Services (HHS) Office Building and an HHS Clinic and Laboratory facility. Land acquisition for the Tahoe General Government Center is anticipated to occur during FY 2006-07.

Tier 4 – Miscellaneous projects in Tier 4 are typically smaller in nature and cost, but occur with regularity every year and therefore funding needs should be addressed in the long range plan. Also included in Tier 4 is a Warehouse/Archive facility that will require over \$6.5 million dollars for construction on a site in Dewitt that has yet to be specifically determined.

Tier 5 – These projects represent a number of project needs that have been identified within the County's Capital Improvement Plan, but have not been included within Tiers 1 through 4. These include three South Placer Justice Center projects including a District Attorney/Probation Office Building, Sheriff Sub-Station and Phase II of the Adult Detention Center and a new County Administration Center. Most of these projects will begin the planning and/or construction process after FY 2015-16, however up to \$5 million may be needed for the South Placer Office Building prior to the close of the decade. Outside of Tier 5 is an additional \$1.5 million annual contribution to future infrastructure, roads and bridges that will be used as match to obtain State and Federal funding.

CAPITAL PROJECT FUNDING MECHANISM

The Capital Project Funding Mechanisms depicts the timeline and cost for the construction projects described above, and the proposed funding sources and the cash flow schedule (Attachment 1 / bottom of sheet). Upon review of current and future construction needs, staff has identified \$290 million, in current dollars, of capital facility needs for the next decade and over \$298 million for the decade beyond. The following funding mechanisms have been identified to finance these construction costs.

- Reserves
- Excess General Fund, fund balance carryover
- Ongoing General Fund contributions
- Facility impact fees (growth)
- Debt proceeds (certificates of participation)
- Securitization of Master Settlement Agreement revenue
- Community funding to support projects including the Rocklin Library and the West Placer Animal Shelter
- Federal funding such as that used to support the Children's Emergency Shelter

Utilization of these funds is predicated on a number of assumptions.

- An inflator was applied to project costs increasing the \$290 million to \$394.4 million by the end of the decade. The inflator was factored at 8% for FY 2006-07 through 2008-09, 6.5% in FY 2009-10 and 5% thereafter.
- Fiscal year 2005-06 was designated the “base year” for funding estimates.
- The General Fund will provide at least \$10 million in new funding per year toward facility construction over the decade.
- The General Fund will pick up new operating costs associated with debt service principal and interest payments. Debt levels will be maintained in accordance with the County's Debt Management Policy.
- General Fund revenues are expected to increase by 5.5% annually over the next decade.
- Community contributions, state and federal bonds and other revenues are realistically applied as an offset to specific project costs.
- A 2% annual growth factor was applied to the capital facility impact fee collections.
- Master settlement agreement, securitized revenues are 100% dedicated to project construction.
- A portion of the capital reserves and facility impact fee balances will be retained to address new and replacement facilities identified for the next decade (2016-17 through 2026-27).

The County's adopted Budget and Financial Policy and Debt Management Policy were referenced when evaluating the timing and issuing of debt to fund capital projects. Issuing debt commits a government's revenue several years into the future, and may limit its flexibility to respond to changing economic conditions and service priorities, revenue inflows, and/or cost structures. Adherence to a debt policy ensures that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The County intends to maintain the infrastructure necessary to provide public services, but does not intend to rely upon long-term debt to defer current obligations. Notwithstanding this intent, debt financing is a powerful and often necessary tool for undertaking major capital projects that can not be financed on a pay-as-you-go basis.

GENERAL FUND BUDGET PROJECTION MODEL

In addition to preparing a plan to address capital construction needs over the next decade, the Finance Committee also reviewed the major costs associated with new facility construction and operation and the impacts they would have on the General Fund. To that end a “budget” model was developed that not only projected future revenues and expenditures for the General Fund, it incorporated the following new operating costs into the model:

1. Annual General Fund contribution to infrastructure of \$10 million per year.
2. Principal and interest on new debt service.
3. Other Post Employment Benefit (OPEB) contributions consistent with the actuarial report phased into the County Budget over several years until the annual collection equals the amount recommended under GASB Statement 45.
4. A new \$1.5 million per year contribution to future infrastructure that would be used as a funding match for bridge and road construction to obtain State and Federal funding.
5. Operating funding to open the new jail in South Placer in FY 2011-12.

6. Funding has been allocated for new technology, such as the public safety radio system, to provide possible lease and operating costs.
7. As reserve balances are drawn down to pay for construction, those balances have been reduced in the model.

The General Fund Budget Projection Model factors in ongoing financial commitments in compliance with established Budget and Finance Policies. As a result, the model depicts increased contributions to reserve accounts every year and maintains the County's General Fund operating contingencies as policy levels. The General Fund Budget Projection Model illustrates that funding the Capital Facilities Financing Plan is feasible, and that the General Funds ongoing obligations can be met if all assumptions hold true as stated. The assumptions by which this budget model was constructed are conservative and reasonable, and the County is well positioned to address capital construction needs over the next decade.

FISCAL IMPACT

Capital Facility needs identified during the next ten years total approximately \$290 million dollars in current dollars and approximately \$394.4 million by the time of construction. This contrasts with the current County's capital reserves of \$81 million, including reserves held for capital construction (\$31.5 million) and capital facility impact fee balances (\$49.5 million), and \$13 million that resulted from the resecuritization of the Master Settlement Agreement revenue stream at the end of FY 2005-06. Adoption of the conceptual plan for financing the County's facility needs will utilize a combination of accumulated reserves, current or pay-as-you-go funding from within County budget resources, prudent debt obligation, development growth fees, and other revenues to bridge the \$300 million "gap" between the capital funds needed over the next decade and the funds on hand.

RECOMMENDATION

The Finance Committee, County Executive Office and Facility Services have all been instrumental in the preparation of this updated model, and each supports the Capital Facilities Financing Plan presented today. Your Board's affirmation of this updated Capital Facilities Financing Plan will provide staff the direction necessary to coordinate project design, construction of financing in an efficient manner.

Attachment – Capital Facilities Financing Plan (Capital Project 10 Year Funding Requirements & Capital Project Funding Mechanisms)

