

INTRODUCTION

CAPITAL IMPROVEMENTS PROGRAM

FY2009-10/2014-15

HISTORY OF THE CITY

The City of Des Moines was incorporated in 1851 and operates under Home Rule authority. Extending over 78 square miles, it is home to almost 200,000 people and the central city of a thriving metropolitan area of 425,000. It is a river city, intersected by the Des Moines and Raccoon Rivers.

The City provides a full range of services including:

- police and fire protection
- solid waste and recycling collection
- park and recreation programs
- library services
- construction and maintenance of infrastructure, including:
 - streets, roads, and bridges
 - traffic control
 - storm water and sanitary sewer collection systems
- enforcement of zoning and building regulations
- operation and maintenance of an international airport
- operation and maintenance of a municipal parking system
- housing and social services
- economic development

School, Transit, and Water (treatment and distribution) services are provided by other entities. The Des Moines Metropolitan Wastewater Reclamation Authority, governed by the Wastewater Reclamation Authority Management Agency, a separate entity, provides treatment of the City's wastewater.

Des Moines is the capital of the State of Iowa and operates under the Council-Manager form of government. The Mayor and two Council Members are elected at large; four other Council Members each represent a ward of the City.

Des Moines is the industrial, commercial, financial, trade, and transportation center of the State of Iowa. The City's insurance industry is one of the largest in the world. While Iowa is an agricultural state, the City's economic diversification buffers it from the farm economy. Further, as many of the state's rural areas experience population decline, the Des Moines metropolitan area continues to grow.

WHAT IS A CAPITAL IMPROVEMENT PROGRAM?

Knowing the major components of a *Capital Improvements Program (CIP)*, and what one even is, will help one better understand what is a complex document. The following are the major components of this CIP.

Capital Improvement Program is essentially this entire document. More specifically, it is all of the *Capital Improvement Projects* that are in the *Capital Budget*, and the five fiscal years following. *The Capital Improvement Program* helps to better plan for, prioritize, and coordinate *Capital Improvement Projects*

INTRODUCTION

CAPITAL IMPROVEMENTS PROGRAM

FY2009-10/2014-15

within a city's limited resources. This helps avoid surprises, and coordinate financing, through single debt issuances or planned rate increases. The City of Des Moines has adopted a CIP each and every year since before 1965.

Capital Budget is the first year of the *Capital Improvement Program* that includes a detailed source of funding for each project. The *Capital Budget* is formally adopted by March 15th of each year, in conjunction with the Operating Budget. The two budgets are tied together in that *Capital Improvement Projects* often lead to reduced or increased operating costs. The operating budget should reflect any corresponding changes in resource allocation due to CIP projects.

Capital Improvement Project is a major expenditure involving all aspects of the construction, renovation, and repair of City owned buildings and infrastructure. Such projects usually have a minimum useful life of 10 years, costs exceeding \$10,000, and are funded in whole, or in part, through the issuance of Bonds, Federal Funds, State Funds, or user fees specifically designated for such a purpose.

Capital Improvement Projects **do not** include: normal operating expenditures for employee salaries, routine maintenance and repair, other activities associated with, or consumed during a single fiscal year, and capital outlays (projects and equipment that fail to meet the definition of a capital project). All salaries and benefits are paid out of the operating departments, however, the operating funds are reimbursed for city staff work directly related to CIP projects.

CIP PROCESS

The City's fiscal year runs from July 1, through June 30. The budget must be adopted and certified to the State by March 15 of each year.

In late September of each year, city departments are given an updated copy of each project sheet with the previous year's revenue and expenditure activity, and ending cash balance. The Research and Budget Office coordinates this entire process.

Departments are asked to review each project sheet for the project's timing, total cost, funding sources, and narrative. The Departments are given the opportunity to include new projects within the time frame of the current CIP, as well as add new projects/continue existing projects into the last year of the proposed CIP (the 6th year). Departments are asked to consider the recommendations of the city's various Boards and Commisions when proposing projects.

All of the proposals are assembled and their costs are compared to the limited funding sources. Projects are then prioritized within the available funding sources.

The City Manager's recommended CIP document is normally prepared for presentation to the City Council by January of each year. The City Council and City Manager hold budget workshops and informal hearings to give city departments the opportunity to present their budgets and answer questions from the City Council and the public. In late February or early March, a formal public hearing is held where the current year's budget is amended, the following year's budget is adopted, and the five (5) year CIP plan is approved.

Each year some projects are either scaled back, postponed or eliminated, with funding being moved to other projects. Projects may also fall behind the anticipated schedule with dollars not being spent

**INTRODUCTION
CAPITAL IMPROVEMENTS PROGRAM
FY2009-10/2014-15**

in the fiscal year they were originally budgeted. Therefore, this funding is carried-over to the next fiscal year, increasing the total budget from what was forecasted the previous year.

CRITERIA FOR SELECTION OF CIP PROJECTS

The following criteria (in no particular order), in coordination with the recommendations of various organizations, are utilized for the selection and establishment of priorities for capital improvement projects for the City of Des Moines:

- The project addresses an immediate public safety or health need.
- The project meets one of the other criteria stated herein, and further represents a maximum utilization of non-local matching funds in the form of grants from the State or Federal Government.
- Failure to initiate the project in a timely manner would result in a substantial increase in future repair costs and/or critical damage to City facilities and infrastructure.
- The project is required to fulfill an economic development objective of the community, and is anticipated to result in substantial future job and tax base growth.
- The project will have a beneficial impact on the City's Operating Budget by significantly reducing yearly operating costs.
- The expenditure is required to maintain a specific level of service to the public as established by the City Council and failure to purchase/replace the equipment could result in a noticeable degradation in the quality and level of service.
- The project is considered valuable, and no alternative sources of funding are available.
- The project represents a commitment to an ongoing multi-jurisdictional effort.

CITY GOALS

The following City goals were adopted by the City Council on October 23, 2006 (RC 06-2111). Each project has been reviewed for its relationship to the following goals – with the goal's abbreviation identified in the heading of each project sheet.

Entertainment Destinations (Entertain Dest): Des Moines will be an entertainment hub for all ages and will attract visitors from the metro region and beyond.

Fair Distribution of Government Costs (Fair Dist Costs): City services will be provided through stable, diverse revenue streams that reduce reliance on property taxes.

Great Customer Service and Communication (Great Cust Serv): The City will proactively communicate information about services and policies to all in Des Moines. Citizens will receive accurate, timely, and courteous responses to their requests for information and services.

Inclusive Community (Inclusive Comm): Des Moines will celebrate the rich diversity of our community by welcoming residents of all ages and cultures and encouraging their civic involvement.

Neighborhood Commercial/Retail Districts (Neigh/Retail Dist): Neighborhoods throughout Des Moines will experience expanded and enhanced commercial/retail businesses.

INTRODUCTION
CAPITAL IMPROVEMENTS PROGRAM
FY2009-10/2014-15

Pride in Community Assets (Pride in assets): The City will set the standard for constructing and maintaining attractive buildings, parks, and infrastructure that represent our world-class city and generate civic pride.

Public Safety (Public Safety): Residents and visitors will experience a sense of safety in all neighborhoods and in all activities.

Quality Jobs of the Future(Quality Jobs): Des Moines will encourage a balanced, diversified economy and increase the number of jobs that offer good wages and benefits.

Sustainable Green Community (Green Comm): Des Moines will be a leader in setting policies and practicing service delivery innovations that promote environmental sustainability. Des Moines will offer safe, reliable, and convenient transportation alternatives that reduce reliance on automobiles and parking facilities.

Vibrant Downtown Area (Vibrant Comm): Downtown Des Moines will be a “24-7” city within a city, with a strong employment base, entertainment and recreation opportunities, housing, and retail.

World-Class, Lifelong Learning Opportunities (Learning Opps): The City will work with public and private schools, higher education institutions, and others to offer exceptional learning opportunities for all ages.

Youth as Community Stakeholders (Youth): Des Moines will be a supportive community for young people and families.

DEBT MANAGEMENT POLICY

One of the most important aspects of the Capital Improvement Plan is debt management. Properly forecasting and managing debt maximizes the City's ability to acquire capital at the lowest-possible borrowing cost, preserve debt capacity for future capital and emergency needs, administer its obligations in an efficient manner, and maintain a high credit standing. Legal and self-imposed limits restrict the City's ability to borrow for general obligation debt. While there are no legal limits for the issuance of revenue bonds, the City's ability to issue debt for these needs is limited by the maximum user fees/rates that are acceptable to the City Council and their constituents.

While it is cheaper to pay cash for a project, foregoing interest payments, borrowing is an important alternative if the benefit stream from the project accrues to taxpayers into future years. The City's decision to issue debt is not entered into lightly, but rather as a result of careful planning. The City has established a *Debt Administration Policy* to help guide decision-makers in planning and developing the Capital Improvement Program. What follows are the highlights of that Policy.

INTRODUCTION
CAPITAL IMPROVEMENTS PROGRAM
FY2009-10/2014-15

Structural and Economic Guidelines - Debt Limit Policy

- The City's legal debt limit is five percent (5%) of total assessed valuation. *The City has established a self-imposed limit of eighty percent (80%) of the legal debt limit - leaving a margin of twenty percent (20%).* This margin gives the City a cushion of approximately **\$100,000,000** at the current valuation. The City could exceed its self-imposed limit if faced with emergency needs.
- The City utilizes the shortest possible terms (bond maturities) consistent with available interest rates, the need to maintain a low debt service levy, and the useful life of the financed facilities. The City's typical maturity is twenty years for most capital improvements, with an average life of approximately nine and one half years. **Debt incurred for other improvements such as ambulances and Library materials will be retired in five years or less by "front loading" bonds.**
- Debt is structured with the earliest possible call date, while seeking the lowest possible interest rates based upon prevailing market conditions.
- New debt is issued for revenue producing enterprises (e.g., parking, sewer, airport, etc.) in the form of revenue bonds and therefore, is not part of the City's legal debt margin. These issues are not counted as a portion of the debt service tax levy.
- Bond proceeds are utilized to pay for costs incurred for capital projects, not for operating expenses.
- Projects are not authorized to begin until the City has cash in hand for its share of the project, and any other funding sources are committed, even if the project is budgeted (exceptions are occasionally made for very large projects where the City's share will be spent over a number of years – helping the City avoid arbitrage penalties). For this reason the City issues debt for capital improvement projects in the last month of the fiscal year proceeding the year in which the capital improvements are scheduled so cash is available July 1.

**INTRODUCTION
CAPITAL IMPROVEMENTS PROGRAM
FY2009-10/2014-15**

Bond Rating

In 2008 Standard and Poors gave the City's general obligation bonds a AAA rating, and Moody's a rating of Aa2. These excellent ratings were made possible, in part, by the City Council's debt management policy, and more importantly, its adherence to this policy.

Moody's	Standard & Poor's
Aaa	Prime → AAA
Aa1	AA+
Aa2 ← Outlook = "Stable"	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Any bonds graded below Baa3/BBB- are not "investment grade", " i.e. "junk bonds."	

Debt Margin Model

The City has developed a Debt Margin Model to help determine the City's ability to meet future needs within the legal and self imposed debt limits. This model is run for a 20-year period and assumes a growth in assessed valuation that alternates between 1/2 percent and 6% per year to more closely match the reassessment schedule of every-other year. The average growth per year over the past ten years is approximately three percent. This model may be modified in upcoming years depending on the impact of the economy on local property values.

Tax Rate

In prior years, the number of CIP projects the City could fund with General Obligation Bonds was limited by the City's self-imposed debt limit. Since the City lowered its self-imposed debt limit from eighty-percent of the legal limit to seventy-percent, the city finds itself with excess capacity, but it's now constrained by the tax levy needed to pay the principle and interest on those bonds. There is no legal limit on the debt service levy, but elected officials must weigh the impact of the total tax levy on property owners of the City. If the debt levy needs to increase to pay the principal and interest on debt that is issued for a Capital Improvement program that is not kept in check, other levies would have to be reduced if the Council does not want property taxes to increase. Decreases in other city levies, would most likely require a reduction of services.

Debt Capacity - Enterprise Funds

The City's ability to fund each of the Enterprise Funds is not limited by law, but by the levy the City is willing to set.