The attached document was submitted to the Washoe County Board of Commissioners during the meeting held on 10-15-19 by Christine Vuceich for Agenda Item No. 9 and included here pursuant to NRS 241.020(8).
WASHOE COUNTY
CAPITAL IMPROVEMENT FUNDING

October 15, 2019
DISCUSSION FLOW

- What is Capital Budgeting and Why is it Important?
- Recommended Best Practices and Washoe County's Capital Budgeting Policies
- Washoe County's Capital Improvement Plan
- Future Capital Improvements
- Resources for Funding Capital Improvements
- Next Steps
WHAT IS CAPITAL BUDGETING AND WHY IS IT IMPORTANT?

A Capital Budget is *financial plan* providing the means to obtain and allocate resources, and the methods to effectively deliver publicly determined *needs* for governmental capital assets:

- Land, Improvements to Land, and Easements
- Buildings and Building Improvements
- Machinery, Equipment and Technology Systems
- Infrastructure (roads, storm drainage, treatment plants)
- Works of Art and Historical Treasures
- Other Tangible or Intangible Assets
WHAT IS CAPITAL BUDGETING AND WHY IS IT IMPORTANT?

Stakes are High!
- Capital infrastructure, facilities and equipment are large and expensive
- Special planning, financing and management are called for to ensure projects are needed, well designed and efficiently implemented so money invested is well spent.

Decisions Extend for Years
- Capital assets are long-term investments. Facilities and infrastructure must last and be used by citizens and employees for decades.

Spending for Capital Assets Varies from Year to Year
- Replacement of long-lived assets occurs infrequently.
- Growth and development often occur in spurts, so infrastructure investments are concentrated in some years and limited in others.
WHAT IS CAPITAL BUDGETING AND WHY IS IT IMPORTANT?

Implementation Takes Time

- Capital projects involve careful planning, as to scope and size, design complexity, mitigation of environmental and other risks, which can take from several years to as long as a decade.

Long-term Debt Financing is Often Required

- Debt term is limited by the type of debt issued and/or the useful life of the asset.
- Debt is a commitment of future revenues (taxes), requiring citizens using the facility or infrastructure in future years to pay for the decisions made today.
RECOMMENDED BEST PRACTICES IN CAPITAL BUDGETING

Multi-year Planning & Adoption of a Capital Improvement Plan (CIP)
- Needs assessment aligned with strategic plan, master plans, infrastructure improvement, maintenance and replacement of existing assets
- Citizens and other stakeholders involvement in capital planning
- Determination of costs based on full extent of the project, including:
  - Adjustments for inflation and impact on ongoing operating budgets
  - Cost-benefit analysis to address value of project benefits over useful life vs. project cost
- Prioritization of capital requests based on policy and risk based methodology

Best practices recommended by the International City/County Managers Association (ICMA) and the Government Finance Officers Association (GFOA)
RECOMMENDED BEST PRACTICES IN CAPITAL BUDGETING

Plan for Capital Maintenance and Replacement Projects
- Adopt a Financial policy that puts a high priority on maintaining the quality of existing assets with financial resources to accomplish this goal as part of annual budget process.

Organization-wide Master Planning to Provide the Framework to Identify and Make Capital Investment Decisions
- Promotes proper long-term planning and financial sustainability.
- Utilizes time horizons longer than annual budget to help anticipate future capital needs.
- Identifies what is needed, and provides options, but is dependent upon resources (what we can afford, and desired service levels).

Best practices recommended by the International City/County Managers Association (ICMA) and the Government Finance Officers Association (GFOA).
RECOMMENDED BEST PRACTICES IN CAPITAL BUDGETING

Development of Financing Strategies, Including:
- Types of funding sources that can be used for specific types of projects
- Pay-as-you go funding and debt financing
- Public Private Partnerships, and Regional Partnerships

Adoption of a Formal Capital Budget
- Adoption as part of annual budget process, and should include capital project summaries, scope of projects, project costs and funding sources, estimated completion dates, and analytical information used to make decisions on projects

Best practices recommended by the International City/County Managers Association (ICMA) and the Government Finance Officers Association (GFOA)
WASHOE COUNTY CAPITAL IMPROVEMENT POLICIES

Capital Improvement Program Management Policy:
• Goal of the County’s policy on CIP management is to systematically, plan, schedule and finance projects to ensure their cost effectiveness. The CIP will strive to balance between capital needs, capital repair and replacement projects and available resources.

Capital Improvement Maintenance and Replacement Policy:
• Washoe County shall maintain capital improvements to a level required to adequately protect the County’s capital investment and to minimize future maintenance and replacement costs.

Resource Allocation Policy:
• Discretionary resources shall be allocated in direct relation to the strategic goals of the Board of County Commissioners (BCC).
• Each proposed capital improvement program project will include a statement describing how the proposed improvement shall accomplish the strategic goals of the BCC.
Capital Improvement Funding Policy:

- Revenue resources for proposed capital improvement projects shall be identified in the annual Operating and Capital Improvement Program Budgets.
- Alternative financing methods shall be analyzed.
- Projects financed must first meet an initial test of meeting the County's strategic goals and priorities.
- The County will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements.

Washoe County's Strategic Goals:
- Fiscal Sustainability
- Economic Impacts
- Vulnerable Populations
- Employee Engagement
WASHOE COUNTY CAPITAL IMPROVEMENT PLAN

Washoe County prepares a 5-year CIP, and submits it annually to the State Department of Taxation, and the Washoe County Debt Management Commission, as required by NRS 354.5945

- Current 5-Year CIP estimated total cost is $312 M, however some estimated costs may change as further details about the projects are known
- Only FY 2020 ($149M) has budgeted resources
- Years 2-5 show planned projects that are not yet budgeted, and may not have funding identified
- Master Plan projects and other emerging needs are not yet included in the capital improvement plan or the budget
# Washoe County Capital Improvement Plan

## Fund Summary

<table>
<thead>
<tr>
<th>Capital Funds Summary</th>
<th>Year 1 FY 2020</th>
<th>Year 2 FY 2021</th>
<th>Year 3 FY 2022</th>
<th>Year 4 FY 2023</th>
<th>Year 5 FY 2024</th>
<th>Total 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Improvement Fund</td>
<td>30,907,243</td>
<td>23,790,430</td>
<td>5,198,125</td>
<td>4,740,133</td>
<td>5,698,200</td>
<td>70,334,131</td>
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<tr>
<td>Parks Capital Fund</td>
<td>7,318,043</td>
<td>1,825,000</td>
<td>1,900,000</td>
<td>2,800,000</td>
<td>900,000</td>
<td>14,743,043</td>
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<tr>
<td>Capital Facilities Tax Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Roads Fund</td>
<td>3,906,000</td>
<td>3,984,120</td>
<td>4,063,802</td>
<td>4,145,078</td>
<td>4,227,980</td>
<td>20,326,981</td>
</tr>
<tr>
<td>Other Funds</td>
<td>3,915,120</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,915,120</td>
</tr>
<tr>
<td>Utilities Fund</td>
<td>98,335,000</td>
<td>12,150,000</td>
<td>18,000,000</td>
<td>26,900,000</td>
<td>26,900,000</td>
<td>182,285,000</td>
</tr>
<tr>
<td>Equipment Services Fund</td>
<td>4,824,048</td>
<td>5,318,855</td>
<td>3,759,634</td>
<td>3,582,120</td>
<td>3,255,537</td>
<td>20,740,194</td>
</tr>
<tr>
<td><strong>Total Funding Sources and Uses</strong></td>
<td>$149,205,454</td>
<td>$47,068,405</td>
<td>$32,921,562</td>
<td>$42,167,332</td>
<td>$40,981,717</td>
<td>$312,344,469</td>
</tr>
</tbody>
</table>

- Year 1, FY 2020 is budgeted
- Years 2-5 are *planned*, and will require funding/budgeting
- Master Plan projects and emerging projects not yet included in plan
Funds Used to Budget and Account for Capital Improvements

Capital Improvement Fund:
- Projects to maintain or replace existing facilities, major equipment, technology systems, and construction of new capital assets.

Parks Capital Fund:
- Projects are funded through restricted Residential Construction Taxes, Voter Approved Bonds, Grants and Donations.

Roads Fund:
- Projects receive funding from restricted Fuel Taxes, and Capital Facilities Tax Fund.

Utilities Fund:
- Projects are funded through utility fees and connection charges.

Equipment Services Fund:
- Fleet replacements are funded through annual service charges in the operating budgets of departments County-wide.
Capital Improvement Fund:

- Approx. $5 to $6 million in General Fund support annually (dropped as low as $1 million annually during the recession), plus other funding from grants, fees, and pay-as-you-go resources.
- On average able to fund only **40-50%** of requests/needs.

### FY 2020 NEW PROJECTS – Capital Improvements Fund

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voters - Additional Election Tablets</td>
<td>$445,425</td>
</tr>
<tr>
<td>RJCC Court Hearing Room_Resource Center</td>
<td>$373,855</td>
</tr>
<tr>
<td>911 Parr HU4 HVAC_Roof</td>
<td>$1,319,000</td>
</tr>
<tr>
<td>Animal Services Security Upgrade-Lobby</td>
<td>$114,345</td>
</tr>
<tr>
<td>WCSO Commissary Visitation Rooms</td>
<td>$455,000</td>
</tr>
<tr>
<td>WCSO Detention Infirmary Program Design</td>
<td>$750,000</td>
</tr>
<tr>
<td>P25 Radios</td>
<td>$250,000</td>
</tr>
<tr>
<td>Nevada Shared Radio System</td>
<td>$1,250,000</td>
</tr>
<tr>
<td>350 S Center Street Parking Garage Security Enhancements</td>
<td>$464,000</td>
</tr>
<tr>
<td>Incline Village Above Ground Fuel Tank</td>
<td>$620,000</td>
</tr>
<tr>
<td>NNAMHS Campus Remodel</td>
<td>$11,000,000</td>
</tr>
<tr>
<td>Wildcreek Golf Course Rehabilitation</td>
<td>$2,250,000</td>
</tr>
<tr>
<td>Bartley Ranch Bridge to Marr Property</td>
<td>$112,318</td>
</tr>
<tr>
<td>Parks Public Water System - Ops Plan Improvements</td>
<td>$550,000</td>
</tr>
<tr>
<td>Central Disk Storage System Upgrade (9th Street)</td>
<td>$335,650</td>
</tr>
<tr>
<td>Disaster Recovery Site at Switch, Inc</td>
<td>$568,174</td>
</tr>
<tr>
<td>Disk Backup System Upgrade</td>
<td>$438,012</td>
</tr>
<tr>
<td>Red Rock Facilities</td>
<td>$121,000</td>
</tr>
</tbody>
</table>

**Total FY20 Capital Improvements Projects**: $21,416,779
CAPITAL IMPROVEMENT FUND BUDGET FY 2020

FY 2020 General Fund is supporting $8.8 million, or 41% of Capital Improvement Fund projects:

- $6.3 million for maintenance and replacement projects
- $2.5 million for NNAMHS project
FUTURE CAPITAL IMPROVEMENT FUND PROJECTS

Capital Improvement Fund *Planned* Projects Years 2-5

**Emerging Capital Improvement Projects** FY 2021-2040:
- Existing Facilities and Infrastructure Maintenance and Replacement
- Major Equipment Replacements
- Technology Systems Replacements
- New Facilities and Infrastructure – Master Plan Projects, Flood, Storm Water & Other Projects
FUTURE CAPITAL IMPROVEMENT FUND PROJECTS

<table>
<thead>
<tr>
<th>Future Capital Improvement Fund Projects</th>
<th>FY 2021-2025</th>
<th>FY 2026-2030</th>
<th>FY 2031-2040</th>
<th>Estimated Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Improvement Fund (GF Maint/Replace Exist Assets)</td>
<td>$45,470,088</td>
<td>$60,000,000</td>
<td>$120,000,000</td>
<td>$225,470,088</td>
</tr>
<tr>
<td>Downtown Masterplan</td>
<td>1,430,000</td>
<td>356,630,178</td>
<td>-</td>
<td>358,060,178</td>
</tr>
<tr>
<td>9th Street Admin. Complex Masterplan</td>
<td>17,750,135</td>
<td>9,526,946</td>
<td>1,414,504</td>
<td>28,691,585</td>
</tr>
<tr>
<td>911 Parr Sheriff’s Office &amp; Detention Masterplan</td>
<td>177,329,145</td>
<td>72,558,050</td>
<td>10,434,970</td>
<td>260,322,165</td>
</tr>
<tr>
<td>Libraries Masterplan</td>
<td>83,117,135</td>
<td>28,911,555</td>
<td>83,289,480</td>
<td>195,318,170</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$325,096,503</strong></td>
<td><strong>$527,626,729</strong></td>
<td><strong>$215,138,954</strong></td>
<td><strong>$1,067,862,186</strong></td>
</tr>
</tbody>
</table>

- Total Estimated Funding Needed in the Next 20 Years is **Over $1 Billion**.
- These projects are not currently budgeted, and will require funding resources before projects can move forward.
Estimated costs are $950 million more than funding currently available. Project prioritization and additional revenue sources needed to pay for projects, and even then may not be sufficient to pay for all projects.
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Pay-as-you Go "Cash":
- One-time Resources (fund balance, if available, or monies set aside for projects)
- General Fund Continued Annual Support to Capital Improvement Fund ($5-$6M to maintain existing assets)
- Grants (capital construction grants are limited)

Other Potential Revenue Sources:
- Ad Valorem Property Tax rate for debt service
- C-Tax Pledged Revenues
- Sales Taxes for Infrastructure
- Library Expansion Taxes
- Fees (not a significant resource, but could provide a portion of needed revenue)
- Other Taxes (i.e. Supplemental Government Services Tax)
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Ad Valorem Debt Rate:

- Revenues can only be used to pay debt service on voter approved bonds.
- Existing ad valorem paid debt outstanding = $23.4 million, and matures in FY 2030.
- Issuance of additional ad valorem debt would require voter approval.
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Consolidated-Tax

- County limited to pledge up to 15% of C-Tax revenues (as allowed by NRS 360.698) as security for debt.

- Existing C-Tax debt outstanding = $51.5 million, and matures in FY 2036.

- Issuance of additional C-Tax bonds is dependent upon the 15% of revenues pledged limit, and affordability:
  - FY 2020 C-Tax revenue is budgeted at $120 million, with $114 million budgeted to pay for County operations, and $6 million to pay existing debt service.
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Library Expansion Tax:

- A 1994 voter approved Property Tax override
- Tax period is 30 years, beginning in FY 1995 and ending in FY 2025
- Allowable use is for acquiring, constructing, improving, equipping, operating and maintaining County library facilities
- Would require voter approval by November 2024 to continue the tax for Library purposes
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Sales Tax for Infrastructure

Authorized by NRS 377B, 1/8th Cent Tax for Infrastructure (BCC imposed by Ordinance 1047 in 1998)

- Restricted use to pay for projects for public safety and/or management of flood plains and flood prevention.
- BCC approves the plan for expenditure of proceeds of this tax (last amended in 2009)
- Current debt outstanding = $27 million, and matures in FY 2036
- Debt paid for construction of Regional Public Safety Training Center, Regional Emergency Operations Center and Truckee River Flood Management Authority (TRFMA) Flood Project, debt matures in 2036.
- After paying debt service, balance of the annual revenue goes to Truckee River Flood Management Authority for Truckee River Flood Management projects costs.
- NRS requires that: on or before the date that the expenditure plan expires BCC shall determine whether necessity exists for continued imposition of this tax
RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Supplemental Government Services Tax (GST):
- Revenue varies with annual motor vehicle registrations (Great Recession decreased by 24%, or $3.1M), current estimated gross annual revenue = $14 million (before deduction for required debt service coverage)
- Legal opinion required to determine if Supplemental GST can be pledged for debt financed projects other than for construction and maintenance of sidewalks, streets and right-of-ways for vehicular traffic (NRS 371.043)
- Previous supplemental GST imposed by BCC in 1991 and ended per AB 471 in 2005
- 2009 legislation broadened allowable uses, and 2011 legislation allowed Washoe County to re-impose Supplemental GST without voter approval
- 2012 advisory ballot question failed with 59.6% “no” votes
- 2016 Citizen Survey:
  - 53% opposed for culture and recreational facilities
  - 46% opposed for senior programs
## EXISTING RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Based on the FY 2020 Budget these are the existing revenues for capital improvements:

<table>
<thead>
<tr>
<th>Existing Resources for Capital Improvements</th>
<th>Library Expansion Tax</th>
<th>Ad Valorem Debt Rate</th>
<th>Consolidated Tax Debt Service</th>
<th>Infrastructure Sales Tax</th>
<th>Total Net Available Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue FY 2020</td>
<td>$3,000,000</td>
<td>$3,279,807</td>
<td>$6,077,401</td>
<td>$10,500,000</td>
<td></td>
</tr>
<tr>
<td>Less: Debt Service Commitments</td>
<td>-</td>
<td>$3,052,172</td>
<td>6,077,401</td>
<td>1,951,173</td>
<td></td>
</tr>
<tr>
<td>Less: Other Commitments</td>
<td>2,500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Available Revenue</strong></td>
<td><strong>$500,000</strong></td>
<td><strong>$227,635</strong></td>
<td><strong>$</strong></td>
<td><strong>$</strong></td>
<td><strong>$727,635</strong></td>
</tr>
</tbody>
</table>
EXISTING RESOURCES FOR FUNDING CAPITAL IMPROVEMENTS

Estimated existing revenues available for annual funding of capital improvement projects for FY 2021 through FY 2040:

- Existing annual resources are limited over the next 20 years
- Additional funding sources would be needed to accomplish all future capital improvement projects (est. $950 Million)
Before a Capital Funding Plan/Budget can be Developed Direction is Needed:

- **Recommendation**: Continue to budget General Fund support for maintenance/replacement of existing assets

- **Recommendation**: Further discussion in a strategic planning work session
  - Capital Projects prioritization – additional information needed?
  - Funding Sources – actions to be taken?
NEXT STEPS

October – April Capital Budgeting Process
- Departmental project requests and CIP Committee Review
- BCC strategic planning workshop
- Proposed operating and capital budgets presented to BCC

May 2020:
- BCC Adopts FY 2021 Operating and Capital Improvement Budgets, and FY 2021-2025 Capital Improvement Plan