

OVERVIEW

The Montana Legislature has passed legislation which allows a municipality to set aside a portion of its general all-purpose levy for replacement and acquisition of property, plant or equipment costing in excess of five thousand dollars (\$5,000.00) with a life expectancy of five (5) years or more.

To set up a capital improvement *fund* the City is required to formally adopt a *Capital Improvement Program (CIP)*. The main advantage of this method of financing is that funds can be earmarked and carried from one year to the next. If it is recognized that renovation of a public building will be needed in five years, an amount can be set aside annually so the project can be funded at the end of five years. The CIP fund also allows a project to be done in phases, with funds allocated for architectural planning the first year and construction in later years.

The Capital Improvement Program is a 5-year planning document designed to guide decisions concerning capital expenditures and not cast in stone. This is a planning document and, as for all planning documents, it is subject to revision in order to reflect changes in community needs and service requirements, environmental factors and Council priorities. The first year of the Plan is intended to accurately reflect that year's anticipated appropriation for major capital projects and is called the *Capital Budget*. The subsequent four years represent an anticipated capital need during the period as submitted by Department Heads. The CIP must be reviewed and revised each year in order to add new projects and revise priorities.

The process of determining major capital needs and establishing a financial program extending beyond the annual budget encourages department managers to examine long-range needs and allows the City to develop more coherent city-wide fiscal policies. The CIP provides a basis to compare and rank projects and provides opportunities to explore alternate funding sources, since most capital improvement requests exceed the available revenues. The Council will be requested from time to time to make revisions to the plan. Staff, as well as Council members, may develop these requests themselves.

The capital budget is separate and distinct from the City's operating budget for several reasons. First, capital outlays reflect non-recurring capital improvements rather than ongoing expenses. Where possible, capital projects are funded from nonrecurring funding sources such as debt proceeds and grants; these one-time revenue sources are not appropriate funding sources for recurring operating expenses. Second, capital projects tend to be of high cost in nature, requiring more stringent control and accountability. To provide direction for the capital program, the City Council has adopted policies relating to the Capital Improvement Program and the Capital Budget, which are discussed later in this section.

CIP PURPOSE

The purposes of setting up a five- (5) year Capital Improvement Program are:

- To ease the review of the annual capital budget through a uniform process.
- To broaden public participation in the budget process by providing documentation and scheduling hearings early in the process.
- To link capital budgets with the strategic plans, adopted policies, and other plans.
- To link capital expenditures with operating budgets.
- To increase coordination between departments, agencies, and other political jurisdictions.

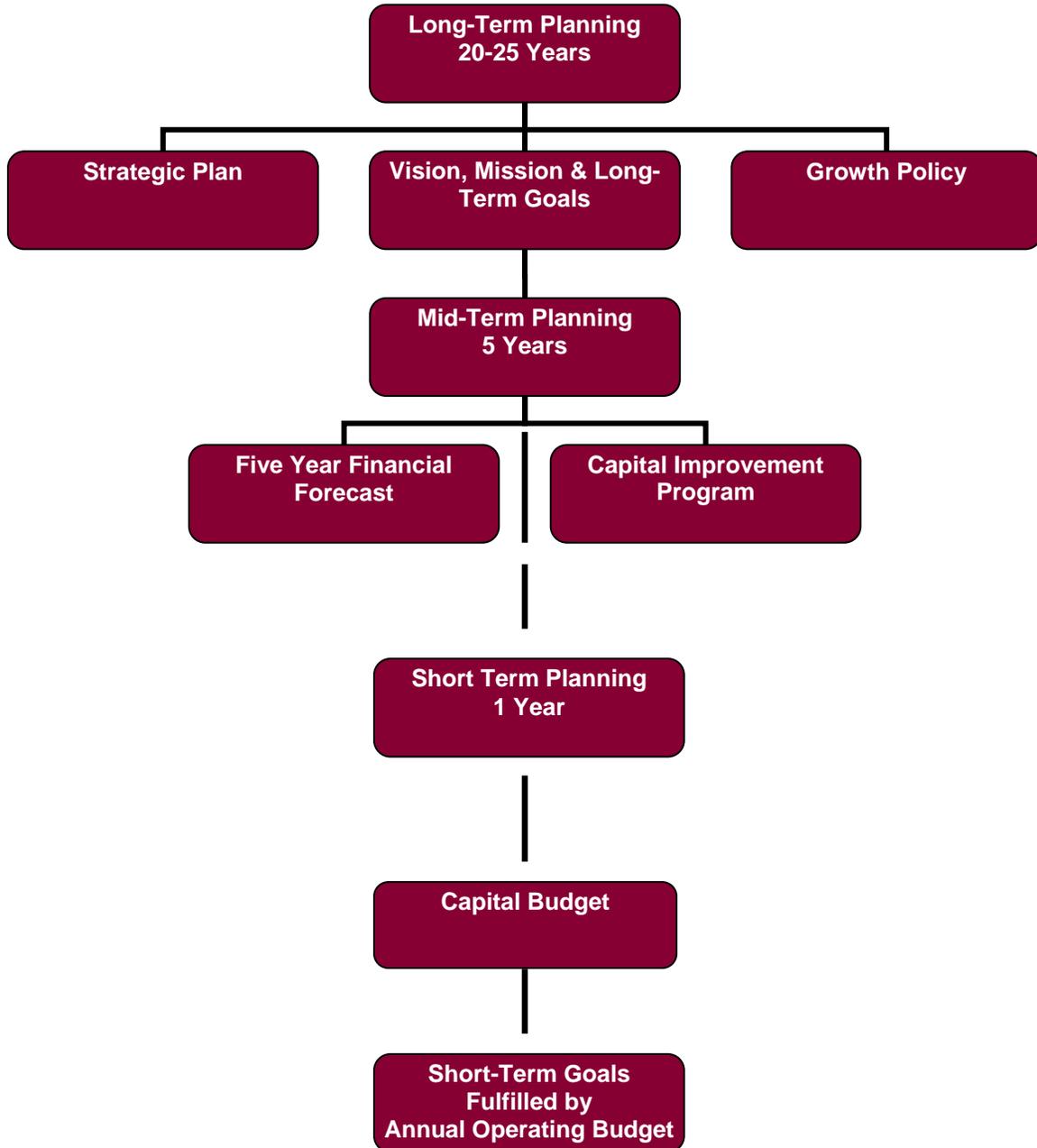
LINKAGE

The City of Missoula conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to insure each of these component planning processes are in concert with one another. This so called “Linkage” is paramount to insure short-term decisions are consistent with the overriding values embodied in the mid-term and long-term planning processes adopted by the City Council. This required linkage dictates that the CIP be developed within the context of, and consistent with, the City’s long-term and mid-term plans.

One area of linkage between the city’s future capital requirements has to do with the level of future debt service, especially in the debt supported by the General Fund and General Obligation debt which is supported by taxes. The debt management section of this budget reviews the future debt service requirements in these two areas. As discussed in that section of this budget document, after FY 2013, each future year has a smaller debt service requirement than the preceding year for the General Fund and the voted GO debt service. Eventually, after FY 2013, between \$350,000 and \$440,000 per year of tax supported projects will be freed up for future debt service requirements. This will provide more flexibility for the city in future budgets in the capital improvement program that is tax supported.

Each element of the City’s planning process has a different purpose and timeframe. The Strategic Plan, Vision, Mission, Long-term Goals and Growth Policy are the most far-reaching in nature—20 to 25 years. The Capital Improvement Program and the Five-Year Financial Forecast are mid-term in nature—5 years. The Annual Budget and the Capital Budget are short-term—covering a 1 year timeframe. The most important requisite is that they are coordinated and are in concert with one another.

Shown on the following page is a hierarchy of the City’s layered planning processes, all which support one another and are designed with a common goal. The chart depicts how the Capital Improvement Program, the Annual Operating Budget, and the Capital Budget fit within the City’s planning process hierarchy.



CAPITAL PLANNING

Capital Planning refers to the process of identifying and prioritizing City capital needs for determining which capital projects should be funded in the capital budget as resources become available. Citywide planning is guided by the City's Strategic Plan and the Growth Policy. These plans provide long term direction for the growth and development of the City.

Proposed capital projects are reviewed for compliance to the adopted Strategic Plan and Growth Policy as part of the budget adoption process.

PROCESS

General Discussion:

The capital improvements process provides for the identification, reviewing, planning, and budgeting of capital expenditures.

All requests for capital improvements are evaluated to aid the Mayor and City Council in selecting the projects to be funded. Department heads submit CIP requests. Departmental staff initiates some of these projects while other organizations; citizen groups and individual citizens initiate others. Evaluation is based on a point system, which requires the department head to judge how well the project in question satisfies each of several criteria. The process is designed to provide a comprehensive look at long term capital needs, which is essential for effective decision-making. However, the system is not intended to provide an absolute ranking of projects based solely on the total numerical scores. A few points difference between total scores of projects is not the only significant factor in determining priority. In addition, there are several criteria, which are considered separately from the point system. For example, if a project was urgently required in order to replace an existing dilapidated facility, it would probably be scheduled for early funding regardless of its score on other criteria. Also, there is a question, which asks the evaluator's overall personal judgment of a project's priority, and helps to identify which proposals are considered most important.

This ranking process allows projects to compete for funds either within its own fund source or citywide. If the department's request only includes capital expenditures which are proposed to be funded out of its own non-tax revenue generated by that department, the projects compete within that department for inclusion within the plan, (for example, wastewater treatment plant projects are funded by Sewer Fees, etc.). However, if the request is outside of the department's ability to generate revenue, i.e., a request for assistance from the General Fund, then the project would compete on a citywide basis for funding.

The adoption of a CIP by the City is strictly a statement of intent, not an appropriation of funding for projects contained within. A list of CIP projects will be updated on an annual basis as new needs become known and priorities change. The possibility of a project with a low priority can remain in the CIP longer than four years due to a more important project bumping ahead for quicker implementation. Some projects may also be bumped up in priority and implemented quicker than originally planned.

Definitions:

For the purposes of this process, capital is defined as items that have a single acquisition cost of \$5,000 and a useable life of 5 years. Basically, this definition implies that those items, which can be clearly classified as major improvements, rather than routine maintenance or equipment replacement, are defined as capital for the purposes of this program. It includes any major expenditure for physical facilities. Vehicles intended for use on streets and highways, costing less than \$35,000 are **not** included in the CIP.

2011-2015 Capital Improvement Program

1. Recommendation for 2011-2015 Capital Improvement Program:

When possible department heads must, where appropriate, look at the City's Strategic Plan, the most recent Comprehensive Plan Update and amendments, Themes Document, Transportation Plan, Strategic Plan and other plans and documents or studies to determine if their projects are meeting the community's goals, and make a statement of their findings.

2. The Project Rating System:

When considering a department's proposal(s) the CIP Budget Team will meet with each Department and Division Head. The purpose for this meeting will be: 1) to assure that both the Department and Division Head and the CIP Budget Team are fully briefed on the department's proposal(s); and 2) discussion between the CIP Budget Team and the Department and Division Head regarding how proposal(s) are rated.

3. Coordination:

Department and Division Heads are encouraged to coordinate project proposals with internal departments as well as external agencies such as: the County, the Neighborhood Network and Councils, the Chamber of Commerce, the University of Montana, the School Districts and other community based organizations.

4. External Projects:

Projects initiated by external organizations, citizens groups and individual citizens will be given to appropriate Department Heads after submittal to the Finance Department.

Annual Review

The CIP is reviewed on an annual basis. During this annual review process projects budgeted for the prior fiscal year are reviewed to determine status and whether to continue funding or require re-submittal to compete as a new project. New projects are added to projects carried over from the prior two years according to ranking or priority.

Responsibilities for Program Development

Before a project reaches the Mayor and City Council for FY 2011-2015, each project should be reviewed for financial feasibility, conformance to established plans and response to public need. Responsibility to coordinate with the appropriate department project proposal(s) requiring review for engineering feasibility, environmental impact, land use regulations, grant eligibility and redevelopment plans falls to the Department and Division Head submitting those project proposal(s).

1. Department Heads

- a. Prepare project request forms.
- b. Provide all necessary supporting data (project sheets, maps, environmental data forms, fiscal notes, schedules, etc.) for the CIP Committee.
- c. Review projects with other department heads when there is a need to coordinate projects.
- d. Meet with CIP Team on projects.

2. Public Works

Review feasibility and cost estimates of all proposed public works type projects including preparatory studies.

3. Health Department

As appropriate, review all projects for environmental impact.

4. Office of Planning and Grants
Review all projects for conformance with the Transportation and Land use Plan, and whether projects being submitted for grants meet grant eligibility criteria and determination of which projects will compete best for competition grants.
5. Missoula Redevelopment Agency
Examine all projects that relate to the Missoula downtown redevelopment area to see that they correspond to Missoula redevelopment plans.
6. CIP Team
 - a. Review revenue estimates.
 - b. Review fund summaries.
 - c. Provide overall coordination for development of the CIP.
 - d. Review departmental requests and staff comments.
 - e. Review priorities, staff advice, and recommended additions, adjustments, or deletions.
 - f. Review financial data and recommend proposed plans for financing CIP.
7. Council Members
Requests that department heads prepare project forms for projects they feel should be considered.
Update, review and approve CIP annually.

Method for Ranking Projects

1. **STEP 1** - The CIP Committee establishes the importance of one criterion over another by assigning the highest numerical score to the highest ranked criteria. This is called the weight factor.
STEP 2 - The department's criteria score is multiplied by the weight factor to establish a total score. The weight factor broadens the range of total scores and assigns priorities to the criteria. The total score will help determine the relative importance of one project over another in a systematic way.
STEP 3 - The department heads rate the capital projects according to the established criteria. All departments use the same criteria.
STEP 4 - Determine that projects are urgently needed for public safety or are mandated legally or by a contractual agreement. (See criteria PI-4 on sample CIP form)
STEP 5 - Determine scheduling of projects relative to allocation of available funds.
2. Rationale for Weight Factor Determination
The weighted score is assigned to each criterion by a method, which measures each criterion against every other criterion. When one criterion is more important than another it is assigned a point. The criterion with the most points (most important) is given the highest weight. For example Criterion 05 (Does the project result in maximum benefit to the community from the investment dollar?) has the highest weight score. The following discussion explains the method by which the criteria were given a weight score. For Street Reconstruction projects, blocks considered to need reconstruction in the next five years are first rated according to the Asphalt Institute Pavement Rating System. Streets planned for reconstruction in the CIP budget year are then assigned a priority ranking utilizing the Asphalt Institute Pavement Rating System.

Definition of Criteria:

1. Is the project necessary to meet Federal, State, or local legal requirements? This criterion includes projects mandated by Court Order to meet requirements of law or other requirements. Of special concern are those projects being accessible to the handicapped.
2. Is the project necessary to fulfill a contractual requirement? This criterion includes Federal or State grants that requires local participation. Indicate the Federal grant name and number in the comment column.
3. Is this project urgently required? Will delay result in curtailment of an essential service? This statement should be checked "Yes" only if an emergency is clearly indicated; otherwise, answer "No." If "Yes," be sure to give full justification.
4. Does the project provide for or improve public health or safety? This criterion should be answered "No" unless public health or public safety can be shown to be an urgent or critical factor. If yes, please describe the public health or safety urgency.
5. Does the project result in maximum benefits to the community from the investment dollar? (Equipment and small projects should be related to larger program goals.)

Use a cost/benefit analysis, and/or another systematic method of determining the relative merits of the investment where it is appropriate. You may develop your own method of analysis; however, you may wish to review this method with the Finance Director or CIP Team prior to submitting the project in order to resolve any questionable elements. Leveraging of city money by attracting outside dollars from other public or private sources should be considered and explained.

Examples include when a project may be eligible for a federal or state grant where every dollar of City money will be matched by three dollars of federal monies. Another example would be when a piece of equipment is purchased; it may increase productivity by fifty percent (50%) and thereby reduce personnel and operating costs. This enables the City to avoid additional personnel or operation costs that would have been incurred otherwise in order to keep up with growing public service demand. Another example would include the acquisition of equipment so that a particular operation could be performed in-house as opposed to contracting outside when the in-house costs would be less than outside contracting costs.

Types of analyses include established cost/benefit calculations, return on investment, and pay back period through operating savings or other capital savings, and accepted industry rating schemes such as The American Asphalt Institute test. Also, estimate the number of people served over the life expectancy of the project and divide by the cost of the project. Relate this to other similar projects. Put this figure in the comment section and attach the information used to arrive at the figure. Where possible use standard measurements, for example, average daily trips (ADT).

This criterion also applies to the replacement or renovation of obsolete and inefficient facilities, which will result in substantial improvement in services to the public at the least possible cost.

- 0 – No analysis is submitted where analysis is possible.
- 1 – Analysis submitted is open to questioning. There are slight benefits to the project and no leveraging.
- 2 – A credible analysis is submitted showing moderate benefits.
- 3 – A credible analysis is submitted showing high benefits, which may include substantial leveraging.

6. Does the project require speedy implementation in order to assure its success of maximum effectiveness? (Equipment and small projects should be related to larger program goals.)
- 0 – Time is not a critical factor (i.e., the project will be as worthwhile doing five years from now as it is now).
 - 1 – Time is of moderate importance.
 - 2 – Time is of substantial importance.
 - 3 – Time is critical factor.

For example, there may be a time limitation on providing a local funding share in order to receive a State or Federal grant. Another example would be if an improvement or replacement project is not performed now, such as replacing a roof, the benefits will be reduced, such as an unrepaired/replaced roof that continues to leak until the building's structure is rotted until there is no structure that can be saved. A third example would be when a hazard, such as environmental pollution, exists and there is an increasing and significant risk that, if the hazard is not abated, then it is likely that significant or irreparable damage occurs or the City might be financially liable for the consequential damage. There may be other reasons why time is of the essence in the success or failure of a project. If the time factor is critical, explain why.

7. Does the project conserve energy, cultural or natural resources, or reduce pollution?
- 0 – Does not have any conservation aspects or pollution reduction.
 - 1 – Project has minimal amount of conservation aspects or pollution reduction, or there is no substantiation of the claims of these benefits.
 - 2 – Project has significant level of either conservation aspects or pollution reduction, or an accompanying analysis or reference to another study, or plan substantiates this benefit.
 - 3 – Project has both conservation aspects and an accompanying analysis or reference to another study, or plan substantiates pollution reduction or a substantial amount of energy or pollution savings and this claim.
8. Does the project improve, maintain or expand upon essential City services where such services are recognized and accepted as necessary and effective? Identify in comment section what services are expanded. (Provision of a new service can be ranked anywhere on 0-2 scale).
- 0 – Low to moderate improvement in low to moderately important service.
 - 1 – Maintain current level of service, substantial improvement of low priority service or moderate improvement of an essential service.
 - 2 – Substantial improvement of an essential service.
9. Does the project relate specifically to the City's strategic planning priorities or other plans?
- 0 – Project enhances another plan, project or program aside from the strategic plan or does not conflict with any other plans, projects or programs (Note plan, project or program related to in comment section.)
 - 1 – Project enhances any of the strategic directions as determined during the City's strategic planning process. Falls within the appropriate year of the strategic plan.
 - 2 – This project substantially benefits any of the strategic directions to any of priorities as determined during the City's strategic planning process. Falls within the appropriate year of the strategic plan.
 - 3 – This project is critical to any of the strategic directions determined during the City's strategic planning process. Falls within the appropriate year of the strategic plan.

2011-2015 Guides for Department Heads in Preparing Information on Projects

Process

1. Requests for all City Hall building construction needs should be sent to the Public Works Director. Please include the following information: the square footage, the number of people affected and the function of the people affected. Also note the problem with the existing space.
2. Submit project forms to the Finance. If there are any organizations in Missoula that you wish to be sure get a copy of the preliminary list, please submit their names and addresses with your projects.
3. All on-road vehicles worth less than \$35,000 are not included in the Capital Improvement Program.
4. Present a list of projects that might be included in the Capital Improvement Program after 2009.

Filling Out Forms

1. Only projects requesting funding during the first three years of the CIP will be evaluated with the criteria and ranked. The other projects are included for planning purposes without expressing intent to fund or not fund.
2. Be sure that all information asked for on the form is presented. If further explanation is needed, please attach it to the form.
3. If there is a need to coordinate one project with another project either internal or external, note and explain the need for the coordination in Part 5 of the form (Justification). Attach additional information when necessary.
4. In the justification section (Part 5) of the form explain your choice of a particular funding method(s). Also include a justification for your project and its relation to the criteria.
5. Section 7 of the form should reflect funding sources (include operating budget/in-king contributions) your totals should equal the total cost of the project, not just the cost to the City.

DESCRIPTION OF PROGRAM CATEGORIES

The capital budget is broken down into the following categories:

- **CS** – Community Services (includes public buildings, etc.) e.g., renovation and energy improvements as well as new construction
- **PR** –Parks, Recreation and Open Space
- **S** –Street Improvements
- **PS** –Public Safety
- **WW**– Wastewater Facilities
- **SE** –Street Equipment

CIP AMENDMENT PROCEDURE

In the case of a situation that arises which involves receipt of unanticipated revenue or unanticipated Missoula Redevelopment Agency projects the following amendment procedure is prescribed:

1. Department head requests an amendment to the CIP through the Finance Director.
2. CIP Team reviews the request.

3. CIP Team takes the request to all department heads for comments.
4. CIP Team makes recommendation to Council.
5. Amendment goes to Council for approval.

The purpose of this procedure is to handle large capital requests, which occur at mid-fiscal year and to adjust the CIP so that it remains up-to-date and therefore a useful working document.

TAX INCREMENT FUNDS

The unique nature of tax increment funds is recognized. The Missoula Redevelopment Agency undertakes capital expenditures, which are intended to encourage additional private investment within the Central Business District. Not all of these expenditures are committed a year or more in advance and they require the ability on the part of the Missoula Redevelopment Agency (MRA) to respond promptly to developer requests.

Pursuant to the purpose of the CIP all anticipated projects to be funded in part or totally with tax increment funds for acquisition of property and public works facilities will be placed in the CIP. Tax increment funds not committed or anticipated for specific projects within these budget categories will be appropriated as contingency funds, and be made available for authorized expenditures under State law. For project requests made during the fiscal year, which require tax increment financing, the CIP amendment procedure described in Section V shall be used.

The following project categories may be financed with tax increments funds and will not be subject to the CIP process: demolition and removal of structures, relocation of occupants and cost incurred under redevelopment activities described under MCA 7-15-4233. Section MCA 7-15-4233 outlines the exercise of powers and costs incurred for planning and management, administration and specific urban renewal projects, i.e., rehabilitation programs.

CAPITAL IMPROVEMENT PROGRAM FUNDING MECHANISMS

The FY 2011-2015 Capital Improvement Program has sixteen different sources of funding. Each fund source is described below.

The various projects submitted by the departments are scored and ranked as shown in the statistical charts in Section IV. Projects within each fund source compete against other projects in that fund source for funding.

As noted before, capital projects, unlike operating expenses which recur annually, only require one-time allocations for a given project. This funding flexibility allows the City to use financing and one-time revenue sources to accelerate completion of critical projects.

All potential capital funding resources are evaluated to ensure equity of funding for the CIP. Equity is achieved if the beneficiaries of a project or service pay for it. For example, general tax revenues and/or General Obligation Bonds appropriately pay for projects that benefit the general public as a whole. User fees, development fees, and/or contributions pay for projects that benefit specific users.

General Fund Tax Levy: The City of Missoula is authorized by M.C.A. 7-6-616 to set aside up to 10 percent (10%) of its General Fund Tax Levy for projects in a Capital Improvement Program (C.I.P.).

Cash Balance: This fund source is a contribution of the City's general fund cash balance, in addition to the portion of the CIP that comes from the general fund tax levy. This category also includes projects which use excess cash reserves in the CIP fund itself.

State Revenues: The City receives various payments from the State of Montana for different purposes. A portion of Gas Tax revenues is earmarked for labor and material costs of street projects. The City also maintains State routes

within City limits and does special street projects for the State. Revenues from these activities are used for labor, material, and capital outlay expenditures.

Tax Increment Fund:

This fund source consists of taxes levied on increases in the Central Business District tax base since 1978. These funds are earmarked for redevelopment projects within the Central Business District. Two new Urban Renewal Districts have been created to supersede the original downtown district that will address redevelopment issues in two older parts of the City.

Sewer R & D Fund:

The Sewer Replacement and Depreciation Fund consists of funds set aside annually for future investment in sewage treatment plant facilities.

Parking Commission:

The Missoula Parking Commission maintains substantial cash reserves that are available to them for projects related to parking needs.

Grants/Donations:

This fund source consists of Federal grants, State grants, and donations by citizens and businesses where the money is passed through the City.

CTEP:

These are Federal grants primarily directed towards improving or expanding non-motorized transportation.

G.O. Bonds:

These are bonds for which the full faith and credit of the City is pledged. G.O. Bonds require voter approval.

Special Assessments

& Other Debt:

Special Assessments are charges against certain properties to defray the cost of infrastructure improvements deemed primarily to benefit those properties. Also included are Revenue bonds where the debt service payments are paid for exclusively from the project earnings and Sidewalk/Curb Assessments. Other debt can include revenue bonds for Sewer project loans and tax increment bonds, which were sold to finance the downtown parking structure. Tax increment bonds are repaid by tax increment revenues, which were previously discussed.

Title One:

These are funds generated by repayment of HUD? UDAG projects.

Trails Fund:

Donations and land lease payments have been set aside in a special revenue fund for the purpose of expanding the trails system.

Cable TV:

These are funds generated from collection of franchise fees paid by subscribers of the local cable television operators.

User Fees:

User fees are charges for city services where the benefits received from such services can be directly and efficiently applied to those who receive the benefits.

Park Acq. &

Development Fund:

This fund is set up to account for funding that developer's pay to the City instead of donating park land when they are subdividing bare land.

CMAQ:

These are federal grants aimed at mitigating air quality problems.

Other & Private:

This fund source represents other miscellaneous categories. One type of funding source would be the operating budget, which are the “in-kind” costs of City employee labor that are funded by the operating budget. Private investment is not included in the total City costs of the project, but is shown to demonstrate the “leveraging” of private investment that some projects, especially projects of the Missoula Redevelopment Agency, have. Also included are projects where the State of Montana may fund the project and be responsible for its implementation, so the project does not affect city funds or go through our treasury. These projects are shown because they affect the urban area.

CAPITAL BUDGET AND ITS IMPACT ON FUTURE OPERATING BUDGETS

Whenever the City commits to a CIP plan, there is an associated long-range commitment of operating funds. For this reason, it is important to evaluate capital commitments in the context of their long-range operating impact. Most capital projects affect future operating budgets either positively or negatively due to an increase or decrease in maintenance costs or by providing capacity for new programs to be offered. Such impacts vary widely from project to project and, as such, are evaluated individually during the process of assessing project feasibility. The five-year financial forecast also provides an opportunity to review the operating impact of growth-related future capital projects.

The operating impact of capital projects is analyzed and taken into consideration during the extensive CIP prioritization process. Estimated new revenues and/or operational efficiency savings associated with projects are also taken into consideration (net operating costs). Departmental staff plan and budget for significant start-up costs, as well as the operation and maintenance of new facilities. The cost of operating new or expanded facilities or infrastructure is included in the operating budget in the fiscal year the asset becomes operational. Debt service payments on any debt issued for capital projects is also included in the operating budget.

Listed below are two tables. The first table contains the capital items included in this year’s Annual Budget, together with projected impacts on future operating budgets (exclusive of equipment replacement costs). The second table shows the equipment replacement costs by department for the next five fiscal years. A detail of the summarized capital replacement schedule is printed in the appendix to this report.

Please note that the level of operating budget impact is disclosed in the tables below. The General Fund debt service impacts have been in the CIP budget for many years and are discussed in further detail in the debt management section of this document. The financing and actual sizing for the General Fund energy saving projects was put in place in the fall of 2010, as disclosed below. These projects had a certain amount of city equity and grant funding. They will save more money than the actual annual debt service costs, as disclosed in the table below.

The Fire equipment replacement schedule below (fire engines and ladder truck) will likely be postponed until a voted levy can be secured to pay for the purchase and financing of this very expensive equipment. The General Fund equipment will be financed while the enterprise fund equipment in the replacement schedule will be paid for in cash. Not all of the General Fund equipment will be purchased due to economic reasons, although the police patrol vehicles are always replaced due to their heavy use.

The future operating debt service impact for both of the new parking structures (East Main Street and the Riverfront Triangle) and the new head-works at the wastewater plant will be completely mitigated by current and future rate increases already in place. These projects will be funded utilizing revenue bonds that are rated by national rating agencies (Standard & Poors and Moody’s). Rate covenants are in place for the all current revenue bonds requiring that debt service coverage ratios be maintained in order to maintain the debt ratings. No future revenue bonded debt can be issued without a demonstrated history of maintaining adequate debt service coverage ratios (please see the appendix for coverage calculations for both parking

and wastewater). The dates and actual debt sizing for the E. Main Street parking ramp financing and the headwork's financing are disclosed below.

Other than the debt financed projects discussed above, most non-General Fund supported projects are paid for in cash from various types of revenue streams such as grants and tax increment dollars.

The following capital financings occurred subsequent to July 1, 2010:

\$850,000 Master Governmental Lease Purchase Agreement – heavy equipment/rolling stock- sold and closed on September 9, 2010

\$10,345,000 Taxable Sewer Utility Revenue Bonds, Series 2010 (Recovery Zone Economic Development Bonds) - sold in a negotiated bond sale on November 15, 2010

\$1,030,000 General Fund Limited Obligation Bonds, Series 2010C - sold in a negotiated bond sale on November 23, 2010

\$635,000 Missoula Parking Commission Parking Facilities Revenue Bonds, Tax Exempt Refunding, Series 2010A - in a negotiated bond sale on December 17, 2010- in a negotiated bond sale on December 17, 2010

\$7,500,000 Missoula Parking Commission Parking Facilities Revenue Bonds, Taxable Recovery Zone Economic Development Bonds Direct Pay, Series 2010B – sold in a negotiated bond sale on December 17, 2010

CAPITAL IMPROVEMENT PROGRAM & CAPITAL BUDGET

FY 2011 Capital Budget & Operating Budget Impacts					
Projects by Department/Project Name					
FY 2011 Capital Budget		Annual Operating Budget Impacts			
Department/Project Title	Appropriation	Personal Services Costs	Other Operating Costs	Debt Service Costs	Total
General Fund Capital Purchases					
PC - Computer Replacement - City Wide	\$ 76,000				\$ 76,000
CIP - General Fund					
White Pine Debt Service Series 2001A	132,130			132,130	132,130
FY2005 Art Museum Debt Service	36,356			36,356	36,356
City Hall Expansion Debt Service	86,848			86,848	86,848
Aquatics - General Fund Debt Service 2006C (\$1.86 M)	129,779			129,779	129,779
Fire Station #4 - General Fund Debt Serv. 2007A (\$680K)	54,435			54,435	54,435
50 Meter Pool - Gen. Fund Debt Serv. (\$840 K)	59,855			59,855	59,855
Internally Financed Equipment - owed to CIP	159,677			159,677	159,677
CIP CORE Replacement Equipment	157,405			157,405	157,405
Building Inspection Fund					
Building Division Computer Replacements	2,100				2,100
Wastewater Treatment Plant					
Wastewater Facility Headworks & Odor Control Project	10,500,000			610,000	11,110,000
Miller Creek Interceptor Sewer	3,015,000				3,015,000
Airport Interceptor PhII & Wye Collection System	50,000				50,000
Sewer Pipe Rehabilitation Program	100,000				100,000
Sewer Lift Station Upgrade & Rehabilitation	70,000				70,000
Russell Street Interceptor	50,000				50,000
Missoula Redevelopment Agency					
Computer Replacement	5,000				5,000
Other Funds - CIP - FY 2011					
URD II West Broadway Corridor Improvements	100,000				100,000
URD III Streetscape Improvements	85,000				85,000
Riverfront Triangle Parking Structure	9,500,000		20,000	500,000	10,020,000
Central Maintenance Security Fence	16,400				16,400
URD III Trail Connections	50,000				50,000
URD II Silver Park & Millsite Trail System	1,026,500				1,026,500
URD II Curb/Sidewalks Commercial Corridor	410,000				410,000
URD III Residential Curbs-Sidewalks Ph II	300,000				300,000
URD II Curb/Sidewalk Improvements	216,200				216,200
Urd II Street Tree-Landscape Project	94,000				94,000
River Bank Restoration and Flood Control	1,757,000				1,757,000
Cregg Lane/Wyoming St Connection	7,000,000				7,000,000
Epoxy Bike Lane Striping	60,789				60,789
Bicycle Commuter Network-Pending CTEP Projects	420,732		2,911		423,643
Grant Creek Trail	577,000				577,000
New & Expanded Park Development per MPP & NHD	70,000				70,000
Transportation Impact Fee Funded Projects	393,000				393,000
Aquatics CIP Plan for Splash & Currents	150,000				150,000
Eldora Lane Drainage Improvements	120,000				120,000
Annual Sidewalk Installation/Replacement Program	635,000				635,000
Neighborhood Initiated Traffic Calming	55,000				55,000
Street Improvement and Major Maintenance Program	1,000,000				1,000,000
Energy Savings Performance Contracting	1,670,216		(130,000)	85,000	1,625,216
Neighborhood Infrastructure Street Improvements	140,000				140,000
Public Service Commission Mandated Meter Conversion	43,000				43,000
Lower Miller Creek Rd Reconstruction (LV Blvd-Big Fork Rd)	837,500				837,500
Rattlesnake Drive Sidewalk (Brookside to Creek Crossing)	295,000				295,000
Front Street Parking Structure	8,200,000				8,200,000
Two-Way Front and Main Sts Traffic Flow Project	200,000				200,000
Waterproofing Parking Structures	300,000				300,000
E Main Street Project	6,000,000			250,000	6,250,000
SCBA Replacements	323,000				323,000
GRAND TOTAL	\$ 56,729,922	\$ -	(\$ 107,089)	\$ 2,261,485	\$ 58,067,833

CAPITAL IMPROVEMENT PROGRAM & CAPITAL BUDGET

DEPARTMENT	EQUIPMENT REPLACEMENT TOTALS					
	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
MAYOR						
Total Operating Portion	\$ 6,550	\$ 6,550	\$ 31,550	\$ 6,550	\$ 6,550	\$ 6,550
Total CIP Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OPERATING AND CIP	\$ 6,550	\$ 6,550	\$ 31,550	\$ 6,550	\$ 6,550	\$ 6,550
PW ENGINEERING						
Total Operating Portion	\$ -	\$ -	\$ 59,500	\$ 35,000	\$ 85,000	\$ 34,500
Total CIP Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OPERATING AND CIP	\$ -	\$ -	\$ 59,500	\$ 35,000	\$ 85,000	\$ 34,500
POLICE DEPARTMENT						
Total Operating Portion	\$ 228,000	\$ 217,000	\$ 341,000	\$ 544,000	\$ 141,000	\$ 402,000
Total CIP Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OPERATING AND CIP	\$ 228,000	\$ 217,000	\$ 341,000	\$ 544,000	\$ 141,000	\$ 402,000
FIRE DEPARTMENT						
Total Operating Portion	\$ 370,230	\$ 70,730	\$ 35,480	\$ 38,330	\$ 43,430	\$ 38,730
Total CIP Portion	\$ 11,000	\$ 1,515,500	\$ 442,000	\$ -	\$ 337,000	\$ -
TOTAL OPERATING AND CIP	\$ 381,230	\$ 1,586,230	\$ 477,480	\$ 38,330	\$ 380,430	\$ 38,730
FIRE ADMINISTRATION						
Total Operating Portion	\$ -	\$ -	\$ 25,000	\$ -	\$ 30,000	\$ 95,000
Total CIP Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OPERATING AND CIP	\$ -	\$ -	\$ 25,000	\$ -	\$ 30,000	\$ 95,000
STREET DIVISION						
Total Operating Portion	\$ 15,000	\$ 47,500	\$ 54,000	\$ 67,500	\$ 40,000	\$ 73,500
Total CIP Portion	\$ 370,000	\$ 1,067,000	\$ 497,000	\$ 1,131,000	\$ 815,000	\$ 685,000
TOTAL OPERATING AND CIP	\$ 385,000	\$ 1,114,500	\$ 551,000	\$ 1,198,500	\$ 855,000	\$ 758,500
VEHICLE MAINTENANCE						
Total Operating Portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total CIP Portion	\$ -	\$ -	\$ 25,000	\$ -	\$ 70,000	\$ -
TOTAL OPERATING AND CIP	\$ -	\$ -	\$ 25,000	\$ -	\$ 70,000	\$ -
TRAFFIC SERVICES						
Total Operating Portion	\$ -	\$ 7,000	\$ -	\$ 24,000	\$ 41,000	\$ -
Total CIP Portion	\$ -	\$ 5,000	\$ 178,000	\$ 175,000	\$ 48,000	\$ -
TOTAL OPERATING AND CIP	\$ -	\$ 12,000	\$ 178,000	\$ 199,000	\$ 89,000	\$ -
PARKS DEPARTMENT						
Total Operating Portion	\$ 1,300	\$ 36,000	\$ 26,300	\$ 28,000	\$ 31,300	\$ 93,000
Total CIP Portion	\$ -	\$ 33,000	\$ 41,000	\$ 281,000	\$ 235,000	\$ -
TOTAL OPERATING AND CIP	\$ 1,300	\$ 69,000	\$ 67,300	\$ 309,000	\$ 266,300	\$ 93,000
Grand Total Operating Portion	\$ 621,080	\$ 384,780	\$ 572,830	\$ 743,380	\$ 418,280	\$ 743,280
Grand Total CIP Portion	\$ 381,000	\$ 2,620,500	\$ 1,183,000	\$ 1,587,000	\$ 1,505,000	\$ 685,000
Federal Transportation Portion	\$ (314,500)	\$ -	\$ -	\$ -	\$ -	\$ -
SCBA Equipment Grant	\$ (258,400)	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL GENERAL FUND	\$ 429,180	\$ 3,005,280	\$ 1,755,830	\$ 2,330,380	\$ 1,923,280	\$ 1,428,280

CAPITAL IMPROVEMENT PROGRAM & CAPITAL BUDGET

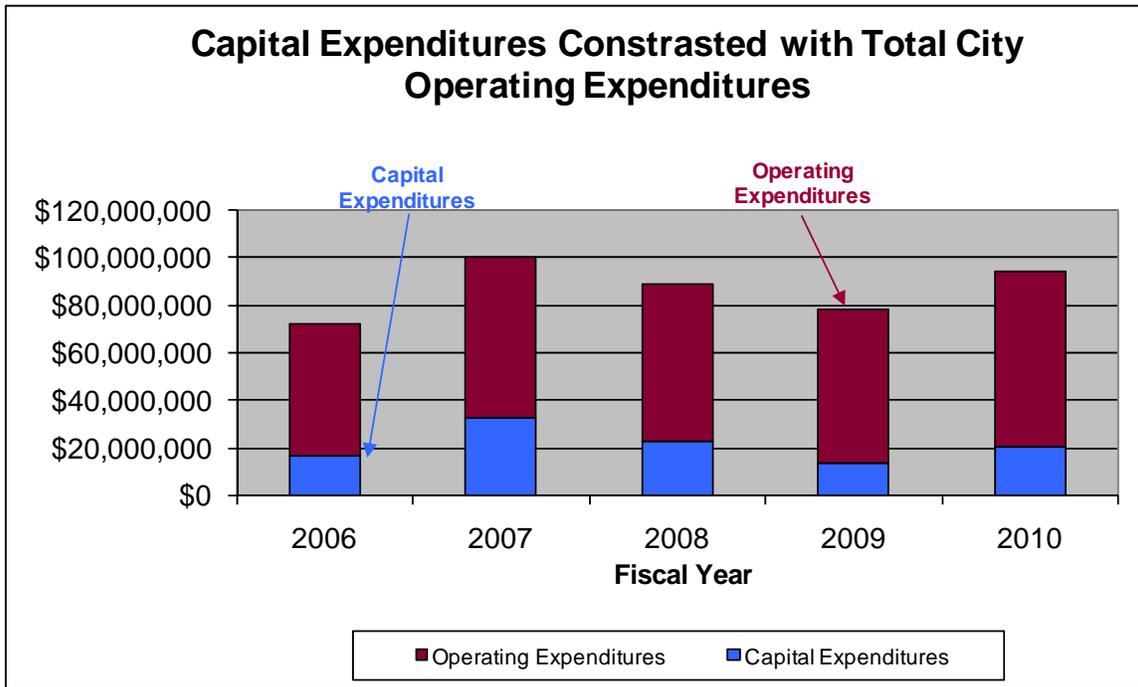
CEMETERY												
Total Operating Portion	\$	-	\$	-	\$	-	\$	-				
Total CIP Portion	\$	-	\$	80,000	\$	72,000	\$	46,000	\$	56,000	\$	38,000
TOTAL OPERATING AND CIP	\$	-	\$	80,000	\$	72,000	\$	46,000	\$	56,000	\$	38,000
PARKING COMMISSION												
Total Operating Portion	\$	28,000	\$	30,000	\$	36,000	\$	56,000	\$	58,000	\$	-
Total CIP Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL OPERATING AND CIP	\$	28,000	\$	30,000	\$	36,000	\$	56,000	\$	58,000	\$	-
WASTEWATER TREATMENT												
Total Operating Portion	\$	59,000	\$	160,000	\$	45,000	\$	50,000	\$	65,500	\$	160,000
Total CIP Portion	\$	370,000	\$	218,000	\$	123,000	\$	238,000	\$	270,000	\$	-
TOTAL OPERATING AND CIP	\$	429,000	\$	378,000	\$	168,000	\$	288,000	\$	335,500	\$	160,000
BUILDING												
Total Operating Portion	\$	-	\$	75,000	\$	75,000	\$	25,000	\$	75,000	\$	25,000
Total CIP Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL OPERATING AND CIP	\$	-	\$	75,000	\$	75,000	\$	25,000	\$	75,000	\$	25,000
MRA												
Total Operating Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total CIP Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL OPERATING AND CIP	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
MCAT												
Total Operating Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total CIP Portion	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL OPERATING AND CIP	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total Operating	\$	708,080	\$	649,780	\$	728,830	\$	874,380	\$	616,780	\$	928,280
Total CIP	\$	751,000	\$	2,918,500	\$	1,378,000	\$	1,871,000	\$	1,831,000	\$	723,000
Grand Total	\$	1,459,080	\$	3,568,280	\$	2,106,830	\$	2,745,380	\$	2,447,780	\$	1,651,280
Federal Transportation Portion	\$	(314,500)	\$	-	\$	-	\$	-	\$	-	\$	-
SCBA Equipment Grant	\$	(258,400)	\$	-	\$	-	\$	-	\$	-	\$	-
TOTALS	\$	886,180	\$	3,568,280	\$	2,106,830	\$	2,745,380	\$	2,447,780	\$	1,651,280
Operating Equipment - predominantly rolling stock - pickup trucks & cars costing less than \$35,000												
CIP Equipment - Predominantly heavy equipment such as tandem axel dump trucks, fire engines, graders etc.												

CAPITAL EXPENDITURES CONTRASTED WITH TOTAL CITY OPERATING EXPENDITURES

The investment by the City in its capital and infrastructure is of primary importance to insure the long-term viability of service levels. The amount of capital expenditures in relation to the total City budget is a reflection of the City’s commitment to this goal.

The City of Missoula strives to provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement. All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the government’s equipment and infrastructure in good operating condition.

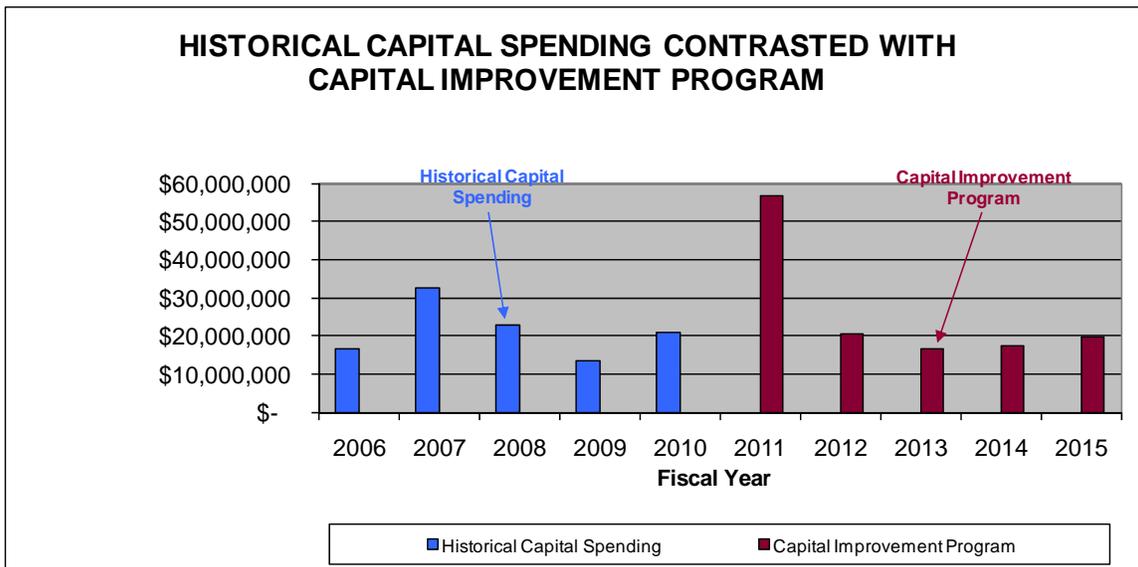
The graph below illustrates Missoula’s historical investment in capital. The graph depicts actual capital expenditures over the course the last five years as compared to the City’s operating budget. Obligating resources to capital investment is appropriate for a growing community as Missoula strives to meet level of service standards identified in the Strategic Plan and community outcomes identified in the Growth Management Plan.



CAPITAL IMPROVEMENT PROGRAM (NEXT FIVE YEARS) CONTRASTED WITH HISTORICAL CAPITAL SPENDING (PREVIOUS FIVE YEARS)

Another indicator of Missoula’s commitment to providing for the adequate maintenance of capital, plant, and equipment and for their orderly replacement is the level of projected capital spending over the course of the next five years as compared to the previous five-year period. This information is useful to the City Council in their deliberations when determining which items will be included in the Capital Budget. This information also helps the City Council make decisions with a long-term perspective.

Shown below is a graph which contrasts historical capital spending (last five years) with the capital spending identified in the Capital Improvement Program (the next five years).



CAPITAL IMPROVEMENT POLICIES

The City of Missoula has developed a set of financial management policies that cover all aspects of its financial operations. These and other policies are reviewed periodically by the Chief Administrative Office, the Finance Director and the City Council and are detailed in the Executive Summary section of this document. Policies on capital improvements are one component of those financial policies. Listed below are excerpts from those policies, which relate specifically to capital improvements.

CIP Formulation:

- 1) CIP Purpose.** The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

- 2) **CIP Criteria.** Construction projects and capital purchases of \$5,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$5,000 will be included in the regular operating budget. The Capital Improvement Plan (CIP) differentiates the financing of high cost long-lived physical improvements from low cost "consumable" equipment items contained in the operating budget. CIP items may be funded through debt financing or current revenues while operating budget items are annual or routine in nature and should only be financed from current revenues.
- 3) **Deteriorating Infrastructure.** The capital improvement plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

Project Financing:

- 1) **Minor Capital Projects.** Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues. Minor capital projects or recurring capital projects represent relatively small costs of an on-going nature, and therefore, should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.
- 2) **Major Capital Projects.** Major capital projects, which benefit future residents, will be financed with other financing sources (e.g. debt financing). Major capital projects represent large expenditures of a non-recurring nature which primarily benefit future residents. Debt financing provides a means of generating sufficient funds to pay for the costs of major projects. Debt financing also enables the costs of the project to be supported by those who benefit from the project, since debt service payments will be funded through charges to future residents.

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