

VII.(a) 2012 CAPITAL BUDGET INTRODUCTION

Capital Budget Introduction

A. CAPITAL BUDGET SCOPE

The 2012 capital budget continues the policy originated in the 1992 Adopted Budget requiring completely separate operating and capital budgets to be submitted to the County Board that show total capital and operating expenditures being adopted in each document.

Capital projects are generally defined as major investments in public facilities and infrastructure, including buildings, highways, equipment, and land. Projects included in the capital budget usually cost at least \$50,000 and are anticipated to have a substantial useful life.

Dane County debt issues are typically 10 years in length. Items with a shorter useful life are repaid more quickly. Certain construction projects and Conservation Fund acquisitions are amortized over 20 years. In this budget, any item authorized for borrowing has a useful life of at least the term of the borrowing.

Capital budget items typically have included:

- Major remodeling or new construction of buildings, exceeding \$50,000 in value, and related architectural and engineering costs.
- Highway reconstruction or major maintenance assuming the maintenance is anticipated to have a substantial useful life.
- Conservation fund land purchases.
- Purchases of equipment.
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- Smaller remodeling projects involving a package of related improvements with a useful life of ten years.

Capital Budget Introduction (continued)

B. THE CAPITAL IMPROVEMENT PLANNING AND BUDGETING PROCESS

The Capital Budget is one part of a cycle of long-range and short-range capital improvement planning and budgeting. It represents the annual authorization of projects that typically were previously considered in a multi-year capital planning process.

The process of developing the Capital Improvement Plan involves multi-disciplinary planning for the long-term maintenance or replacement of these types of assets. Capital projects are expensive, have a significant useful life, and require more than one year to complete. As in the operating budget environment, the County must allocate a limited amount of resources among an ever-growing number of competing capital project requests. It is only through an organized planning process that all capital requests can be effectively evaluated, resources allocated, and assets adequately maintained.

The goals of capital improvements planning are as follows:

- to meet obligations to maintain all existing facilities and equipment in good repair, address potential liability problems, and conform to Federal and State regulations;
- to respond to opportunities to achieve economies in operation through automation, energy efficiency, or other capital investments;
- to consider long-range financing strategies for major capital projects that balance capital needs, operational needs, and fiscal responsibility in a framework that supports priority setting by policy-makers.
- to provide a basis for justifying and approving capital projects and accountability for implementation.

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The annual capital planning and budgeting cycle is expected to involve the following steps and time frames:

- January - Departments are asked to identify and justify capital requests.
- March - Departments submit their requests to the Department of Administration.
- July - County Executive Capital Plan recommendations are submitted to the County Board.
- October - County Executive's annual Capital Budget recommendations are submitted to the County Board.
- December - Decisions on Capital Budget are formalized.

C. BUDGET CONTROL POLICIES

Total expenditures shall be controlled for each capital project such that its authorized appropriation will not be exceeded.

Capital projects to be financed with borrowed funds may not proceed in advance of borrowing except with prior approval of the County Executive and County Board through resolution.

D. THE CAPITAL BUDGET

The next section of this document provides a schedule of authorized expenditures and revenues for capital projects. It also shows information about 2010 expenditures; 2011 budgets, spending to date, and estimated year-end amounts.

Following this schedule, Project Detail Summaries are provided for each authorized project. This includes a description of the project ("what" it does), its justification ("why" it is being proposed), timing ("when"), and in some cases its location ("where"). Financial information is also indicated by category of expense and revenue source.

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Finally, there is the 2012 Dane County Capital Budget Appropriations Resolution. This is the capital budget legally enacted by the County Board and approved by the County Executive.

E. FINANCING

I. CAPITAL IMPROVEMENT FINANCIAL STRATEGIES

Projects that acquire, create, or improve capital assets require a significant commitment of resources. These large, up-front expenditures benefit the county and its citizens by extending the useful life of existing assets and creating new ones. Decisions regarding the financing of these capital improvements affect the availability of resources for any other purpose.

Funding decisions are therefore made in light of overall budgetary priorities and needs. Also, funding considers short- and long-term resource availability and coincides with the useful life and cost of proposed projects. Financial strategies of the county are described below.

1. The county balances the needs for both maintenance of capital assets and provision of on-going direct services to citizens. In the process, the county makes every effort to maintain and, where appropriate, enhance its capital inventory.
2. The county implements capital projects within its ability to finance improvements using short- and long-term resources. The issuance of debt to finance capital improvements is predicated on the county's ability to service the debt over the life of the issue.
3. Financing decisions balance the use of pay-as-you-go financing (current financial resources) with long-term (debt) financing. The county may make substantial cash contributions to capital improvements.
4. The county encourages the leveraging of resources to maximize capital improvement efforts. This includes participation in intergovernmental programs, public/private partnerships, utilization of service charges/user fees, and the issuance of debt.

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5. Capital improvement decisions consider the impact of operating and maintenance costs to ensure the county's ability to maintain the capital asset and realize the best ongoing financial outcome.

II. DEBT MANAGEMENT AND EXISTING DEBT

Financing long-term capital improvements often requires the issuance of debt. This section describes the county's debt management strategies, and discusses issues related to debt management and information on debt limits and credit ratings.

The county continues to be conservative in its issuance of debt. The county limits the amount of its debt and structures its debt issues with the goal of controlling costs for taxpayers and continuing to get the best possible interest rates in the market.

The county typically has borrowed far less than allowable amounts. State of Wisconsin Statute Section 67.03 imposes limits on the amount of debt that can be issued by a county:

"The aggregate amount of indebtedness, including existing indebtedness, of any municipality shall not exceed 5% (five percent) of the value of the taxable property located therein as equalized for state purposes."

The December 31, 2011, estimated net amount of debt applicable to the statutory limit is \$239,266,308 which is considerably below the maximum of \$2,509,797,505.

When the county anticipates issuing debt, an assessment is made of the condition of the county by an independent credit rating agency. The credit agency considers the county's financial health and debt situation, the economic condition of the area and the county's management of its resources as factors in determining its rating.

The rating is utilized by potential investors to assess their risks in terms of the county's ability to pay them back when the bonds or notes sold become due. The level of risk an investor must assume translates into the interest rate that will be charged to the county to borrow money. Up until 2009, the county received the best possible credit rating, Aaa, from

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Moody's Investor Service on all of its long-term debt issues from 1981. In 2009 Moody's issued the County a credit rating of Aa1 and Fitch Ratings issued a rating of AA+. The county sustained these ratings in 2011.

Other county debt management strategies are listed below:

When appropriate, the county will sell ten-year notes instead of longer-term bonds. Debt will be structured to reduce overall cost of repayment, and to enhance the confidence of investors in Dane County's ability to repay the debt.

The county will maintain a segregated Debt Service Fund to provide for principal and interest payments.

The proceeds from the sale of notes and bonds will not be used for operations.

Debt will not be sold without integrating the costs of debt service with those of day-to-day operations.

At December 31, 2011, Dane County had outstanding indebtedness for all funds of \$240,025,000. Including associated interest commitments, the total legal obligation is \$287,459,944.

On November 9, 2011, the County issued \$11,415,000 in General Obligation Promissory Notes (Series 2011A) at an interest rate of 2.1% and \$15,410,000 in Taxable General Obligation Bonds (Series 2011B) at interest rates between 2.0% and 4.0%.

All debt outstanding is a general obligation of the county for which an irrevocable, irrevocable tax has been levied at the time of the borrowing, to be included in future tax levies, sufficient to repay the principal and interest payments as they become due.

III. DEBT/CASH FINANCING FOR 2012

The County Board and County Executive have authorized a capital budget for 2012 which totals \$22,882,412 of which \$22,145,997 is approved as borrowing proceeds and the balance cash from county taxes, Solid Waste, Land Information

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Office or Airport funds or outside revenues. A portion of the total amount approved for borrowing will be repaid from revenue related to the Alliant Energy Center, Airport, and Solid Waste.

Overall, the authorized capital budget includes projects which have been developed as part of a multi-year Capital Improvement planning process, with a financing strategy developed to address not only this year's budget but also future years' obligations. The financing strategy uses debt on a limited basis for long-term asset enhancement that will benefit the public and can be financed over a multi-year period.

IV. OPERATING & CAPITAL BUDGETS – THEIR RELATIONSHIP

Dane County's operating and capital budgets have a direct relationship. The capital budget can impact the operating budget in three ways. The primary impact is on debt service payments. The majority of the County's capital improvement costs have been funded through the issuance of general obligation bonds and notes that are repaid over a period of up to twenty years.

The second way the capital budget can impact the operating budget is through cash-funded projects. Financing capital projects on a pay-as-you-go basis minimizes the need for issuing bonds and substantially reduces current and future debt service costs. Historically, cash-funded projects in the county have been limited to the enterprise funds.

The final way capital projects can impact the operating budget arises when a project is completed and the county must now operate and maintain it. Capital projects can have either a positive or negative impact on future operating budgets due to an increase or decrease in maintenance costs, or by providing capacity for new programs or services. A renovation project may result in reduced expenditures due to a decrease in necessary costs.

Where available, the individual capital project detail sheets include estimated operating budget impacts. The chart on the following page shows the projected impact of deferred capital project borrowing and the 2012 capital budget on future debt service payments.

Dane County Projected Debt Service Schedule - All Funds

