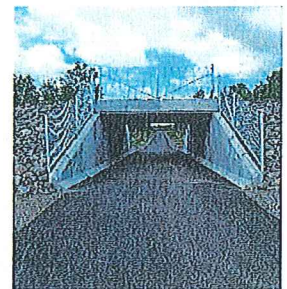
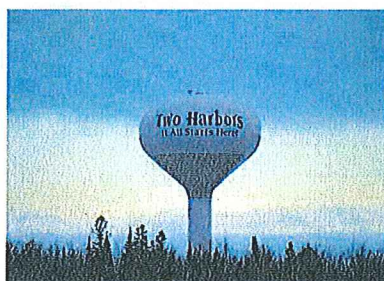


DRAFT

**CITY OF TWO HARBORS
CAPITAL IMPROVEMENT PLAN 2017-2021**



Memorandum

To: Mayor Bolen and City Council Members
From: Dan Walker, City Administrator
Date: 08/05/2016
Re: **City of Two Harbors Capital Improvement Plan 2017-2021**

Enclosed you will find the 2017-2021 Capital Improvement Plan (CIP) for the City of Two Harbors.

The Capital Improvement Plan it is a crucial budgeting tool for the Staff and City Council to prepare and prioritize for large capital outlays over the next five years and beyond. It is also a valuable budget forecasting tool to ensure that the City can remain fiscally sound and avoid any unseen liabilities.

The Capital Improvement Plan is also used as a guiding tool for the public so they are aware of when they can anticipate street repair projects in their neighborhood and ensure that the City is committed to seeing these projects through.

The first year of the plan becomes an adopted capital budget and relates almost completely to the operating budget that is approved on a yearly basis. The plan becomes a forecasting tool and place holder the further you go out in years, and is to be used as a guide for future decisions as funding is available.

The Capital Improvement Plan should be reviewed each year and amendments to the plan can be made as the needs, priorities and future availability of funds dictate.

Considering the needs over the next 5 years and beyond are only going to increase, we need to be proactive, comprehensive, and realistic when we consider projects moving forward.

**CAPITAL IMPROVEMENT PLAN
2017-2021
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INTRODUCTION AND PURPOSE

The Capital Improvement Plan is a flexible plan based upon long-range physical planning and financial projections, which schedules the major public improvements that may be incurred by the City over the next five years. Flexibility of the Capital Improvement Plan is established through annual review, and revision if necessary. The annual review assures that the program will become a continuing part of the budgetary process and that it will be consistent with changing demands as well as changing patterns in cost and financial resources. Funds are appropriated only for the first year of the program, which is then included in the annual budget.

The Capital Improvement Plan serves as a tool for implementing certain aspects of the City's comprehensive plan; therefore, the program describes the overall objectives of City development, the relationship between projects with respect to timing and need, and the City's fiscal capabilities.

The Capital Improvement Plan can help assure:

1. A systematic approach to planning and initiating capital projects affording the opportunity to plan the location, timing, and financing of needed public improvements;
2. The development of a realistic program of capital spending within the City's projected fiscal capability to finance such projects, avoiding sharp change in the tax levy or bonded indebtedness;
3. The coordination of public and private improvement projects permitting adequate time for design and engineering to eliminate duplication of effort and expense;
4. The expenditure of public funds that is compatible with the City's adopted Comprehensive Plan;
5. That the public is kept informed of the proposed future projects and expenditures;
6. That private investors are aware of the City's long-range development program so that they may guide their development in a way that is compatible with the City's program;
7. Aid in achieving federal and/or state participation by providing the necessary planning and lead time necessary for a successful application in addition to meeting prerequisites needed for certain federal and state grants.

Capital Improvement Plan (CIP)

The purpose of the Capital Improvement Plan (CIP) is to forecast and match projected revenues and capital needs over a (5) – year period. Long range capital planning is an important management tool that strengthens the linkages between community infrastructure needs and the financial capacity of the City.

The FY16 Capital Project Ordinance was adopted by City Council on _____, 2016. The City Council adopts first-year CIP project funding only. Future year projects are listed for planning purposes.

The Capital Improvement Plan is simply that – a plan. As such, projects are subject to change based on new or shifting service needs, special financing opportunities, emergency needs, or other directives or priorities established by the Mayor and City Council. Because priorities can change, projects included in outward planning years are not guaranteed for funding.

SOURCES OF FUNDING

General Fund – Current Year Revenues

The General Fund is the chief operating fund of the City. Yearly revenue streams are utilized to cover operating costs for the General Fund and Other Governmental Funds, namely the Library, Golf Course and Airport. Major sources of funding come from property taxes, state aid programs, charging for city services, and license and permit fees.

General Fund – Fund Reserves

Cities receive their two largest sources of revenue – the property tax and state aid distributions – twice each year. Fund balances are used for day-to-day cash flow for the following five to six months of city operations, until the next property tax and state aid distribution. The Office of the State Auditor's official position on city fund balances is that the unreserved portion should be equal to 35 to 50 percent of general fund operating revenues or no less than five months of operating expenditures in their general fund. The City has determined it does not want to fall below 40 percent.

Capital Notes

This is the form of financing the City will use for larger capital equipment purchases. This is a form of short-term indebtedness backed by the full faith, credit, and taxing powers of the City of Two Harbors. They are usually issued with a five-year term to finance large equipment purchases.

Special Assessments

A special assessment is a fee collected by the City for improvements or services the City provides that benefit the property. Special assessments can be used to finance many different types of local improvements. The City will be following their Special Assessment Policy from Resolution No. 7-112-03.

General Obligation Bonds

G.O. Bonds are backed by the full faith, credit, and taxing powers of the City of Two Harbors. General Obligation bonds means that capital projects are 100% supported by tax levies. Bonds more than 80% supported by tax levies require voter approval before they can be issued.

General Obligation Improvement Bonds

These bonds are similar to General Obligation Bonds except they do not require voter approval for issuance. This is because they represent the portion of public improvement project costs that are not assessed. At least 20% of the project cost must be assessed to issue these bonds.

General Obligation Revenue Bonds

These bonds differ from GO Bonds as they are backed by a specific stream of revenue; holders of GO Bonds are relying on the full faith and credit of the issuing municipality.

Tax Increment Financing

This funding source results from the tax value of new development that is "incrementally" greater than the existing tax value. This type of funding can be used for public improvements within a redevelopment district to support the goals of redevelopment, specifically the elimination of blighted conditions. State law strictly regulates the use of these funds.

Campground Revenues

The Burlington Bay Campground is a popular destination during the summer months. Annually we have over \$425,000 in sales from May to October. The revenues cover operating expenses and capital improvements; remaining monies will be transferred to the Capital Street Improvement Fund. This will generate approximately \$200,000 annually for Street Improvements.

Water Fund

The Water Fund revenues are generated from the sale of water to residents of Two Harbors. The revenues cover operating expenses, capital improvements and debt payments. Money is transferred in annually from the Local Sales Tax Fund to cover portions of water fund debt payments. Water rates are adjusted and reviewed annually to cover operating expenses.

Sewer Fund

The Sewer Fund revenues are generated from the sale of sewer to residents of Two Harbors. The revenues cover operating expenses, capital improvements and debt payments. Money is transferred in annually from the Local Sales Tax Fund to cover portions of sewer fund debt payments. Sewer rates are adjusted and reviewed annually to cover operating expenses.

Electric Fund

The Electric Fund revenues are generated from the charges of electricity to residents of Two Harbors. The revenues cover operating expenses and capital improvements. Annually the Electric Fund transfers 13% of its gross operating revenues to the General Fund.

Gas Fund

The Gas Fund revenues are generated from the charges of gas to residents of Two Harbors. The revenues cover operating expenses and capital improvements. Annually the Gas Fund transfers 13% of its gross operating revenues to the General Fund.

Municipal Liquor Store Fund

The Liquor Fund revenues are generated from the off sale of alcohol in Two Harbors. The revenues cover operating expenses and capital improvements.

Stormwater Fund

Stormwater Funds consist of revenue generated by charging storm water drainage fee to residents. Expenditures from this funding source are related to drainage facilities.

Local Sales Tax Fund

Revenues are utilized to cover debt service costs for the wastewater and water treatment facilities. With sufficient funding it can also go to harbor development projects.

Capital Equipment Fund

This fund will be established to finance capital outlay expenditures over \$10,000 in the General Fund.

Permanent Improvement – Street Improvement Fund

This fund will be established to finance street improvement expenditures.

SUMMARY OF IMPACTS ON MAJOR FUNDING SOURCES

Current Revenues/General Fund Reserves

Expenditures for 2016 are budgeted at an increase of 6.62% over the 2015 budget. The 2016 budget was complied with a 2% salary increase and 8.3% increase in health insurance. The 2016 budget had no levy limits and the City will receive approximately \$1,518,779 in LGA. The LGA is a major source of revenues (40%) for the General Fund; this is disconcerting when the funding can be reduced based on Legislature decisions.

Unassigned fund balance in the General Fund totals \$1,706,595 at the end of 2015. The 2015 General Fund represents 46.4% of a year's worth of expenditures at 2015 levels.

Capital Equipment Fund

Capital equipment totals are expected to be approximately \$3,363,004 over the next ten years. Funding will come from general tax levy. The projects currently are placed in the CIP but annually equipment needs will be re-evaluated and postponed until funding is secured.

Permanent Improvement - Street Improvement Fund

Street improvement projects will be financed by special assessment and bonds as needed. The debt will be funded by special assessment collections and city tax levies over a ten to fifteen year period.

Projects scheduled for 2017 total approximately \$392,000 and future projects in the years 2018-2021 total \$2,336,380. Projects scheduled for 2016 include 9th Avenue between 6th and 7th, reconstruction along 11th Avenue, 13th Avenue between 7th and 8th, 900 block of 11th Avenue, and reconstruction of allies between 4th and 5th and 5th and 6th. The funding is provided for these projects by special assessments and General Fund revenues.

In years 2017-2021 the city has an aggressive residential street improvement schedule planned, all of which will require special assessment and bonding.

Water Fund

In 2015 the Water Fund switched over from a flat rate structure to metered rates. Activity for the water fund has to be monitored to achieve agreed-upon operational goals.

As established in our comprehensive rate study, the City has targeted goals and rate increases over the next 10 years. Water rates will increase by 11% in 2017 or \$0.49 per 1,000 gallons of water for Tier One usage. Over the next four years there, will be an increase of 5.5% and a 2% increase starting in 2022.

Sewer Fund

In 2017, the Sewer Fund will switch over from a flat rate structure to meter rates. Activity for the sewer fund has to be monitored to achieve agreed-upon operational goals.

As established in our comprehensive rate study, the City has targeted goals and rate increases over the next 10 years. Sewer rates will be charged at a rate of 35% higher than water rates; this is a decrease from the 45% from the flat rates in 2016.

Electric Fund

The Electric Fund should have sufficient equity and liquid assets to provide for three to five months operating costs and to have a minimum level of cash reserves to provide for future renewal and replacement of system fixed assets or emergency expenditure requirements of \$1,300,000 or as much as the amount of accumulated depreciation whichever is greater (for reference see Resolution No. 9-143-93).

The Electric Fund provides annual transfer of funds to the General Fund in the amount of 13% of prior year gross operating revenue (this is an increase of 10% from 2016). In 2016 the transfer was \$140,977, anticipated transfer for 2017 is \$230,944. Also, over the next 10 years the Electric Fund will be providing assistance to the Golf Course to rid of its deficit fund balance.

Gas Fund

The Gas Fund should have sufficient equity and liquid assets to provide for three to five months operating costs and to have a minimum level of cash reserves to provide for future renewal and replacement of system fixed assets or emergency expenditure requirements of \$1,800,000 or as much as the amount of accumulated depreciation whichever is greater (for reference see Resolution No. 9-143-93).

The Gas Fund provides annual transfer of funds to the General Fund in the amount of 13% of prior year gross operating revenue (this is an increase of 10% from 2016). In 2016 the transfer was \$73,950, anticipated transfer for 2017 is \$93,458.

Liquor Store Fund

The Two Harbors Municipal Liquor Store is a way for the City to diversify their revenue sources because it allows us to invest liquor store profits back into the community.

Over the last four years, the Liquor Store has increased their unrestricted net position from \$82,624 to \$399,767. This unrestricted net position has put us in a good place to begin the process for looking into a new liquor store. The rough estimated project costs are \$1.5 million; this includes land purchases and building construction costs. Project financing is expected to come from bonding.

CITY OF TWO HARBORS, MN
STREET IMPROVEMENT PROJECT
2017 THRU 2021

Department		2017	2018	2019	2020	2021
9 th Avenue	Reconstruct 9 th Ave between 6 th and 7 th	116,480				
13 th Street	Reconstruct 13 th St between 7 th and 8 th	105,040				
Alley N of 2 nd Avenue	Reconstruct between 4 th and 5 th	33,280				
Alley N of 4 th Avenue	Reconstruct between 5 th and 6 th	33,280				
9 th Street	Repair between 10 th & 11 th Ave	56,160				
11 th Avenue	Reconstruct 11 th Ave between 9 th and 10 th	63,440				
3 rd Avenue	Reconstruct 3 rd Ave between 7 th and 8 th		166,566			
6 th Avenue	Reconstruct 6 th Ave between 8 th and 9 th		233,626			
Alley N of 3 rd Avenue	Reconstruct between 2 nd and 4 th		80,038			
Alley N of 7 th Avenue	Reconstruct between 7 th and 9 th		73,549			
Alley N of 8 th Avenue	Reconstruct between 7 th and 9 th		73,549			
8 th Avenue	Reconstruct 8 th Ave west of 9 th			57,368		
13 th Avenue	Reconstruct 13 th Ave between 8 th and 9 th			107,987		
14 th Avenue	Reconstruct 14 th Ave between 8 th and 9 th			115,861		
Alley N of 9 th Avenue	Reconstruct between 5 th and 8 th			115,861		
Alley N of 10 th Avenue	Reconstruct between 4 th and 5 th			35,996		
Alley N of 11 th Avenue	Reconstruct between 4 th and 7 th			115,861		
South Avenue	Street and Utility Reconstruction				1,059,892	
Alley N of 12 th Avenue	Reconstruct between 5 th and 7 th				79,550	
Alley N of 7 th Avenue	Reconstruct between 16 th and 17 th				49,134	
Alley N of 8 th Avenue	Reconstruct between 16 th and 19 th				121,665	
16 th Street	Reconstruct 16 th St between 7 th and 11 th					166,681
17 th Street	Reconstruct 17 th St between 7 th and 11 th					166,681
8 th Avenue West	Reconstruct 8 th Ave between 18 th and 19 th					65,699
10 th Avenue West	Reconstruct 10 th Ave between 16 th and 17 th					74,216
		<u>407,680</u>	<u>627,328</u>	<u>548,934</u>	<u>1,310,242</u>	<u>473,278</u>

CITY OF TWO HARBORS, MN
EQUIPMENT REPLACEMENT PLAN
2017 THRU 2021

PROJECTS BY DEPARTMENT

Department	2017	2018	2019	2020	2021
Public Works					
Carpenter Truck	30,900				
Mini-Exevator	51,500				
Salt Shed	51,500				
Tandem Dump Truck	144,200				
Skid Steer or Tool Cat	41,200				
Rubbed Tire Exevator		190,962			
Grader				315,142	
Public Works Total	319,300	190,962	-	315,142	-
Police					
Patrol Squad Car Replacement	46,350	47,741		45,020	54,486
Office Renovation			49,173		
Police Total	46,350	47,741	49,173	45,020	54,486
Fire					
Engine 21 Replacement			655,636		
Self Containing Breathing Apparatus & PPE		212,180			
Fire Total	-	212,180	655,636	-	-
Library					
Placeholder	10,000	10,300	10,609	10,927	11,255
Library Total	10,000	10,300	10,609	10,927	11,255
Airport					
Rehabilitate Taxiway/Aprons for T-Hanger		58,406			
Expand Hangar Area			31,496		
6 Unit T-Hanger				140,383	
Jet A Fueling System		10,609			
FBO Hangar					504,911
Airport Total	-	69,015	31,496	140,383	504,911
Golf Course					
Toro 3WD Tee Mower	30,900				
Utility Vehicle	15,450				
Chemical/Fertilizer Application (Sprayer)	20,600				
Sand Trap Rake		10,609			
EZ Go Cart (Equipment Hauling)			10,927		
Toro Rough Mower				61,903	
Future Year Placeholder					42,024
Golf Course Total	66,950	10,609	10,927	61,903	42,024
Campground					
Future Year Placeholder	25,000	25,750	26,523	27,319	28,139
Campground Total	25,000	25,750	26,523	27,319	28,139
Water					
Purification					
Water Plant Bldg Exterior Improvements			218,545		
Aesbestos Tile Removal		15,914			
Lighting Upgrade	10,300				
Detention Tank & Pumping Chamber					1,738,911
Distribution					
Relocation of 8" Water Main	51,500				
Update Hydrant Connections	33,218				
12" Water Valve Replacement	20,600				
Water Total	115,618	15,914	218,545	-	1,738,911

Sewer

Wastewater Treatment Facility Evaluation	51,500				
Removal of Lighthouse Lift Station	20,600				
Superior Shores Pump Replacement	10,300				
Manhole Cover Replacement (5 castings per yr)	25,750	26,523	27,318	28,138	28,982
Sewer - Pickup Truck		31,827			
Main Lift Station - Repairs & Updates		1,060,900			
Class A Bio Solids Drying			3,278,181		
Sewer Total	108,150	1,119,250	3,305,499	28,138	28,982

Electric

Storage Building - 80'x150' heated equip bldg	412,000				
Crew Truck	41,200				
Emergency Generator				84,413	
Crew Truck				47,271	
Digger Truck		159,135			
Bucket Truck					173,891
Electric Total	453,200	159,135	-	131,685	173,891

Gas

Pick Up Truck			32,782		
Gas Distrib - Superintendent Pickup Truck	30,900				
Gas Total	30,900	-	32,782	-	-

Municipal Liquor Store

Two Harbors Liquor Store	1,545,000				
Municipal Liquor Store Total	1,545,000	-	-	-	-

Stormwater

Cemetery Storm Sewer - Replace Existing Pipe					86,946
Stormwater Total	-	-	-	-	86,946

Grand Total	2,720,468	1,860,855	4,341,190	760,517	2,669,545
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CITY OF TWO HARBORS, MN
EQUIPMENT REPLACEMENT PLAN
2017 THRU 2021

PROJECTS BY DEPARTMENT SUMMARY

Department	2017	2018	2019	2020	2021	5 Year Department Total
Public Works	319,300	190,962	-	315,142	-	825,404
Police	46,350	47,741	49,173	45,020	54,486	242,770
Fire	-	212,180	655,636	-	-	867,816
Library	10,000	10,300	10,609	10,927	11,255	53,091
Airport	-	69,015	31,496	140,383	504,911	745,805
Golf Course	66,950	10,609	10,927	61,903	42,024	192,413
Campground	25,000	25,750	26,523	27,319	28,139	132,731
Water	115,618	15,914	218,545	-	1,738,911	2,088,988
Wastewater	108,150	1,119,250	3,305,499	28,138	28,982	4,590,018
Electric	453,200	159,135	-	131,685	173,891	917,911
Gas	30,900	-	32,782	-	-	63,682
Municipal Liquor	1,545,000	-	-	-	-	1,545,000
Stormwater	-	-	-	-	86,946	86,946
TOTAL	2,720,468	1,860,855	4,341,190	760,517	2,669,545	12,352,575

CITY OF TWO HARBORS, MN
EQUIPMENT REPLACEMENT PLAN
2017 THRU 2021

PROJECTS BY YEAR

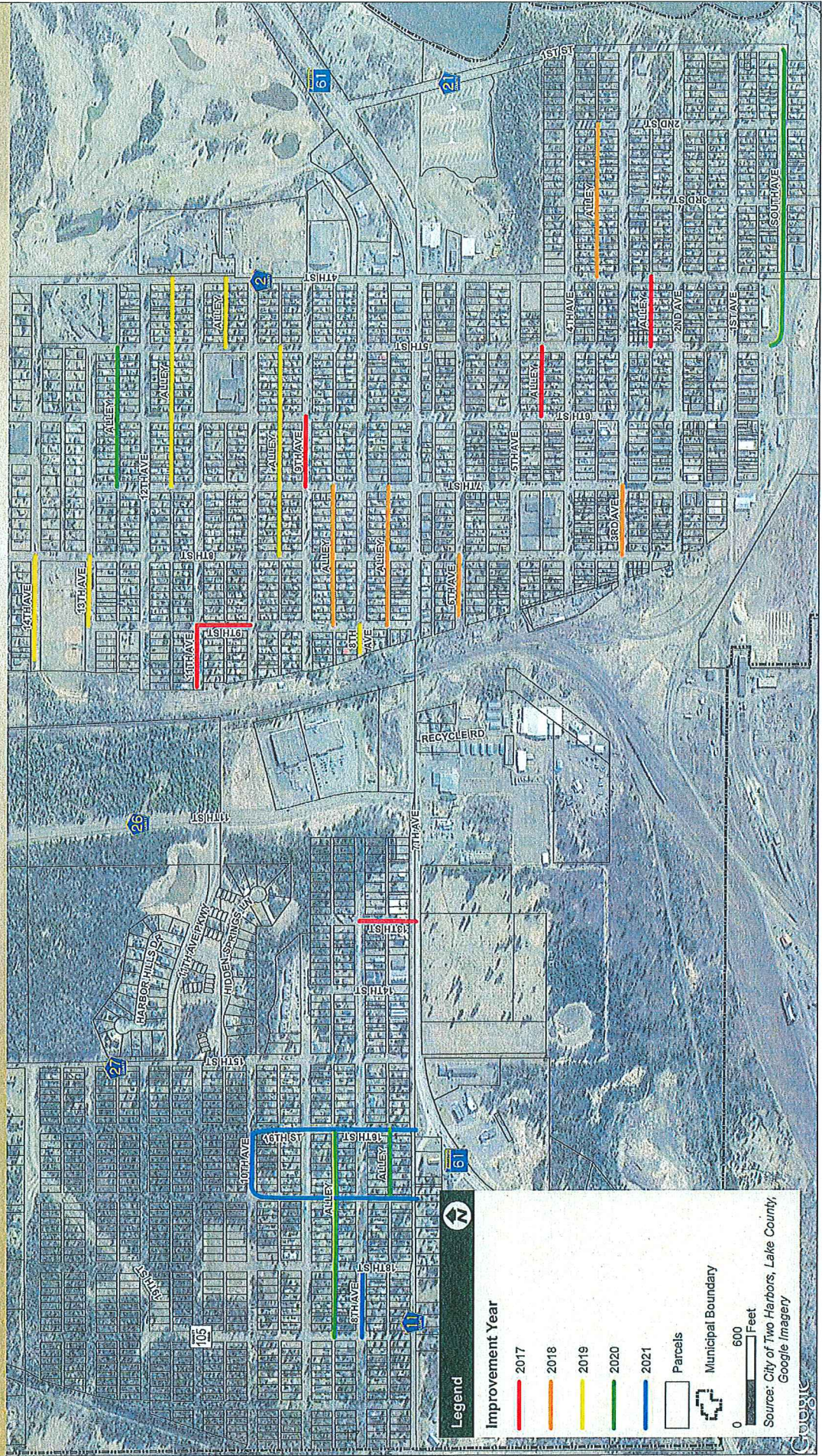
Project	Department	Project Cost
2017		
Carpenter Truck	Public Works	30,900
Mini-Exevator	Public Works	51,500
Salt Shed	Public Works	51,500
Tandem Dump Truck	Public Works	144,200
Skid Steer or Tool Cat	Public Works	41,200
Patrol Squad Car Replacement	Police	46,350
Placeholder	Library	10,000
Toro 3WD Tee Mower	Golf Course	30,900
Utility Vehicle	Golf Course	15,450
Chemical/Fertilizer Application (Sprayer)	Golf Course	20,600
Future Year Placeholder	Campground	25,000
Lighting Upgrade	Water Purification	10,300
Relocation of 8" Water Main	Water Distibution	51,500
Update Hydrant Connections (215)	Water Distibution	33,218
12" Water Valve Replacements	Water Distibution	20,600
Wastewater Treatment Facility Evaluation	Wastewater	51,500
Removal of Lighthouse Lift Station	Wastewater	20,600
Superior Shores Pump Replacement	Wastewater	10,300
Manhole Cover Replacement (5 castings per yr)	Wastewater	25,750
Storage Building - 80'x150' heated equip bldg	Electric	412,000
Crew Truck	Electric	41,200
Gas Dist - Superintendent Pickup Truck	Gas	30,900
Two Harbors Liquor Store	Municipal Liquor	1,545,000
Total for 2017		2,720,468
2018		
Rubbed Tire Exevator	Public Works	190,962
Patrol Squad Car Replacement	Police	47,741
Self Containing Breathing Apparatus & PPE	Fire	212,180
Placeholder	Library	10,300
Rehabilitate Taxiway/Aprons for T-Hanger	Airport	58,406
Jet A Fueling System	Airport	10,609
Sand Trap Rake	Golf Course	10,609
Future Year Placeholder	Campground	25,750
Aesbestos Tile Removal	Water Purification	15,914
Manhole Cover Replacement (5 castings per yr)	Wastewater	26,523
Pick-up Truck	Wastewater	31,827
Main Lift Station - Repairs & Updates	Wastewater	1,060,900
Digger Truck	Electric	159,135
Total for 2018		1,860,855

Project	Department	Project Cost
2019		
Office Renovation	Police	49,173
Engine 21 Replacement	Fire	655,636
Placeholder	Library	10,609
Expand Hangar Area	Airport	31,496
EZ Go Cart (Equipment Hauling)	Golf Course	10,927
Future Year Placeholder	Campground	26,523
Water Plant Bldg Exterior Improvements	Water Purification	218,545
Manhole Cover Replacement (5 castings per yr)	Wastewater	27,318
Class A Bio Solids Drying	Wastewater	3,278,181
Pick-up Truck	Gas	32,782
Total for 2019		4,341,190
2020		
Grader	Public Works	315,142
Patrol Squad Car Replacement	Police	45,020
Placeholder	Library	10,927
6 Unit T-Hangar	Airport	140,383
Toro Rough Mower	Golf Course	61,903
Future Year Placeholder	Campground	27,319
Manhole Cover Replacement (5 castings per yr)	Wastewater	28,138
Emergency Generator	Electric	84,413
Crew Truck	Electric	47,271
Total for 2020		760,517
2021		
Patrol Squad Car Replacement	Police	54,486
Placeholder	Library	11,255
FBO Hangar	Airport	504,911
Future Year Placeholder	Golf Course	42,024
Future Year Placeholder	Campground	28,139
Detention Tank & Pumping Chamber	Water Purification	1,738,911
Manhole Cover Replacement (5 castings per yr)	Wastewater	28,982
Bucket Truck	Electric	173,891
Cemetery Storm Sewer - Replace Existing Pipe	Stormwater	86,946
Total for 2021		2,669,545
GRAND TOTAL		12,352,575



2017 - 2021

August, 2016



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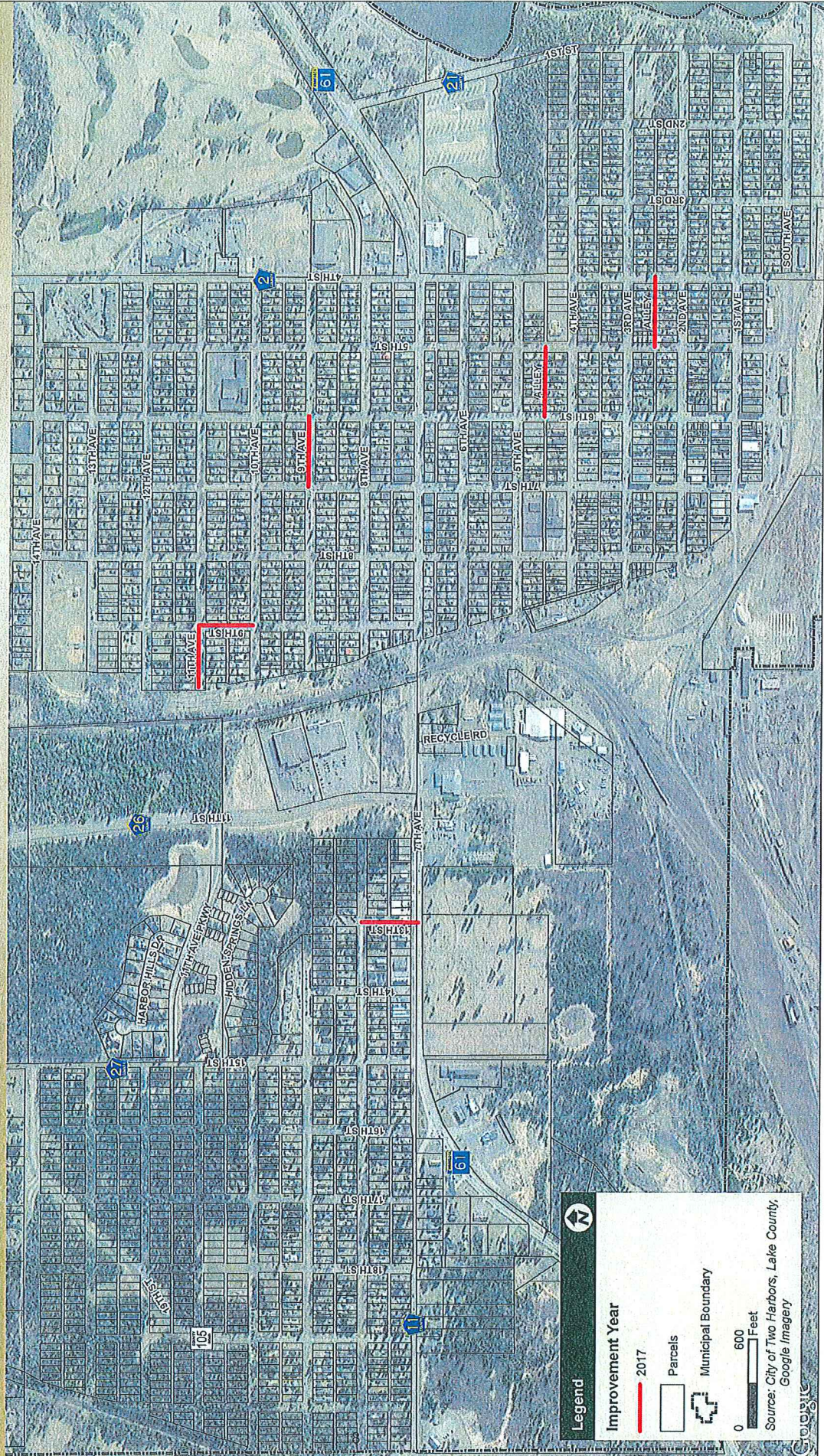


Street Improvement Plan

City of Two Harbors

2017

August, 2016



Legend

Improvement Year

2017

Parcels

Municipal Boundary

0 600 Feet

Source: City of Two Harbors, Lake County, Google Imagery



Street Improvement Plan

City of Two Harbors



2018

August, 2016



Legend

Improvement Year

2018

Parcels

Municipal Boundary

0 600 Feet

Source: City of Two Harbors, Lake County, Google Imagery

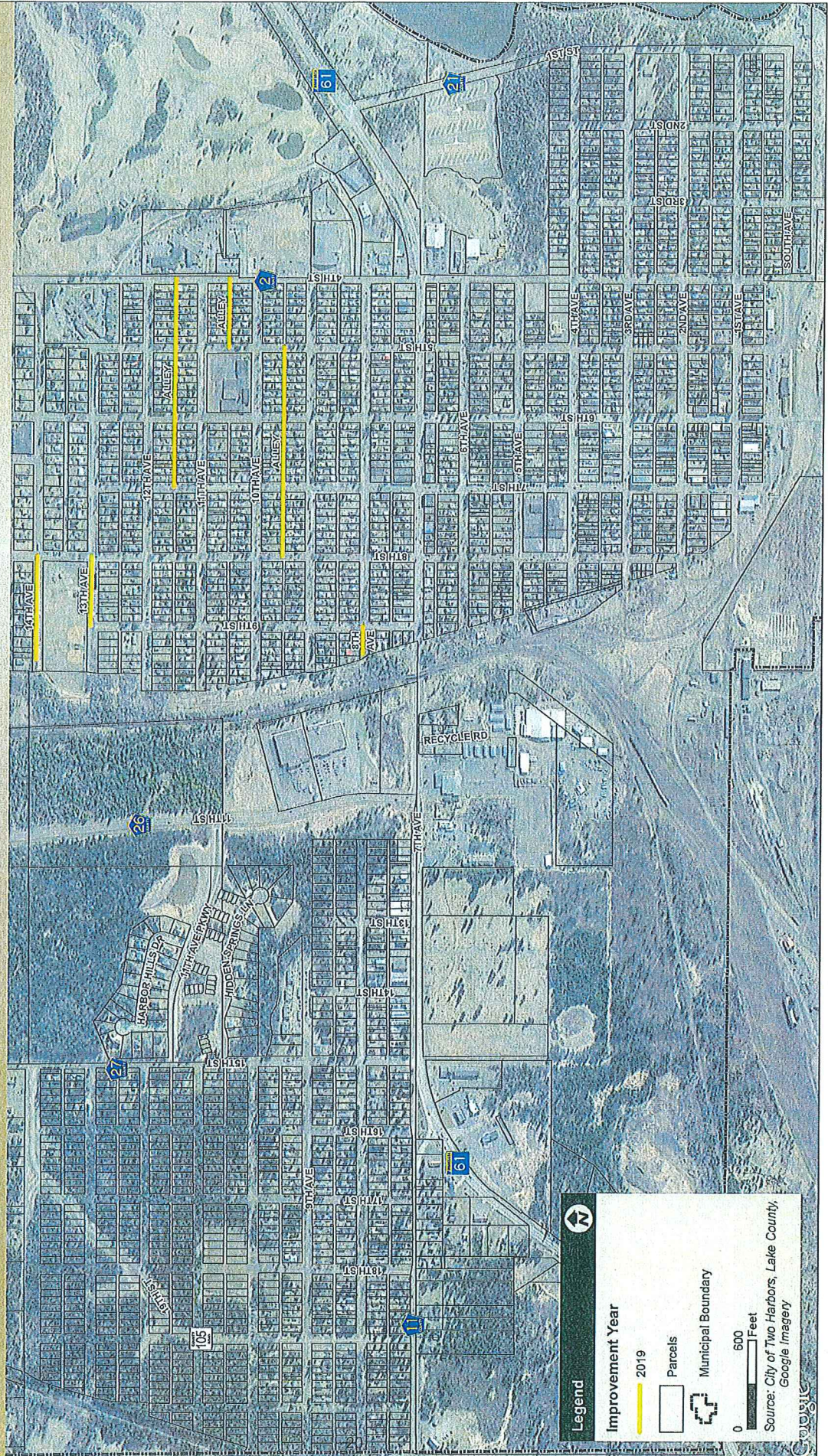


Street Improvement Plan

City of Two Harbors

2019

August, 2016



Legend

Improvement Year

2019

Parcels

Municipal Boundary

0 500 Feet

Source: City of Two Harbors, Lake County, Google Imagery



Legend

Improvement Year

2020

Parcels

Municipal Boundary

600 Feet

City of Two Ha

Source: City of Two Harbors, Lake County,
Google Imagery

Google Imagery

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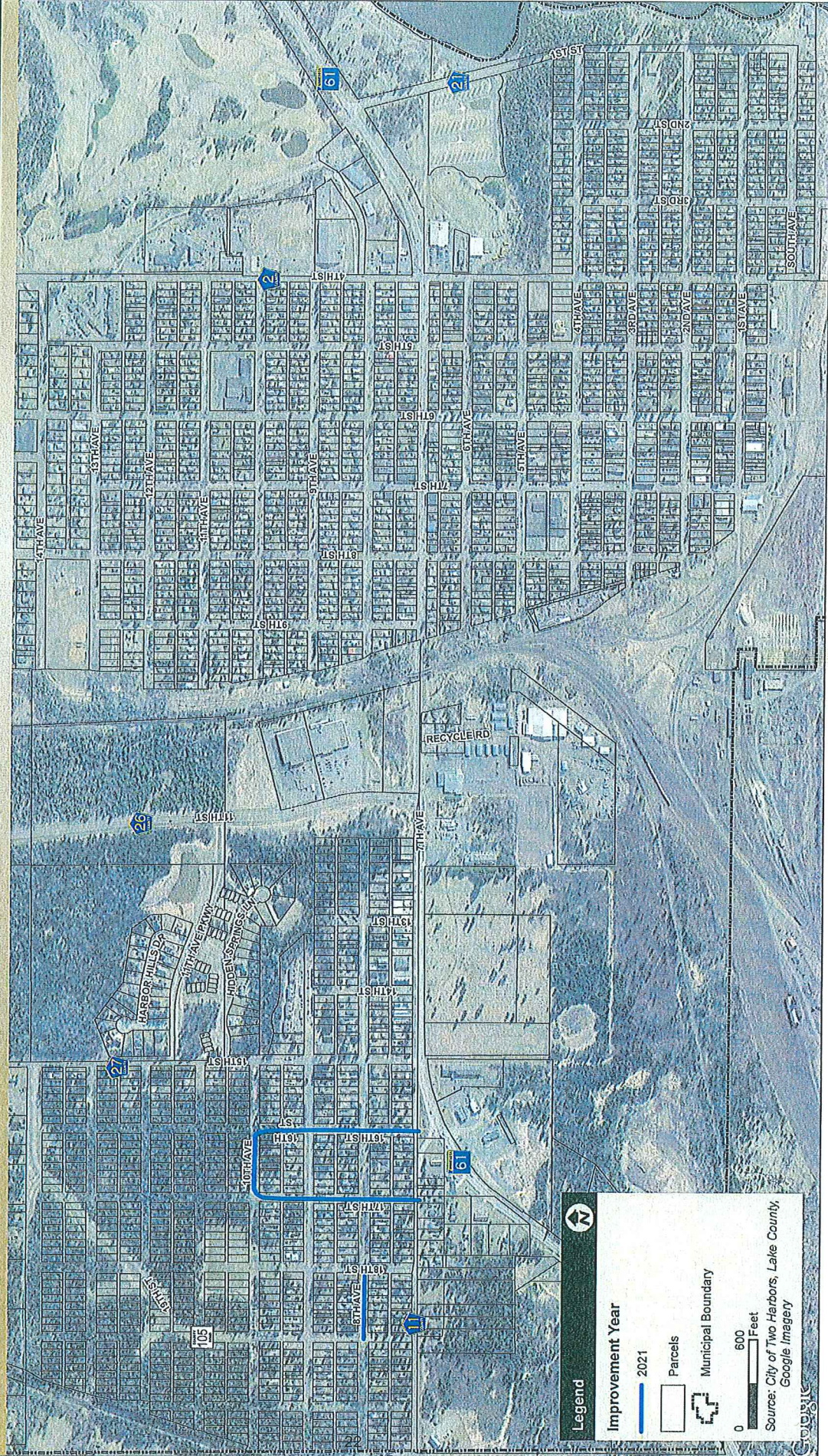


Street Improvement Plan

City of Two Harbors

2021

August, 2016



Legend

Improvement Year

2021

Parcels

Municipal Boundary

0 600 Feet

Source: City of Two Harbors, Lake County, Google Imagery