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# Proposed Fiscal 2012 Operating Budget

March 21, 2011

# Agenda

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## Proposed Operating Budget:

- Major Challenges/Environment
- Budget Overview:
  - Key Assumptions
  - Risks/Opportunities
  - Tax Rate Impact

## Proposed Capital Budget:

- Recommended \$\$ Allocation
  - By Category
  - Major Projects

## Q&A

# Major Challenges: déjà vu!



- **Weak economy/difficult environment**
- **Rising structural costs**
- **Onerous/Expensive labor agreements**
- **Costly infrastructure**
- **Financial condition under pressure**
- **Comparatively high taxes**
  - Taxpayers demanding fiscal restraint

**Challenges are complex...no “quick fixes”**

# Economic Environment

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## Background:

- “Aftermath” of worst recession in 50+ yrs
- High unemployment: **9.4%** (Dec.)...Slow, “jobless” recovery likely
- Stock market “rebound” in 2011 reliable indicator?
- Consumers still cautious
- Massive Federal deficit...consequences looming...
- CT in poor financial health (\$3.5B+ budget deficit; **9.0%** unemployment)

# Economic Environment



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## Stamford:

- Unemployment: **7.6%** in '10 (vs. 3.7% in '07; **7.1%** in Dec.)
- Significant loss of high-value jobs
- Commercial vacancy rates: CBD: **23.1%**; Non-CBD: **22.7%** (4Q'10)
- Home prices still depressed
- High tax rates
- City finances continue to be under pressure

**Continuing difficult environment, especially for municipalities**

# Municipalities –Financial Challenges



## Cities in Debt Turn to States, Adding Strain

By MARY WILLIAMS WALSH

Harrisburg, the capital of Pennsylvania, dodged financial from the state to make a payment to its bondholders.

It did so even though storm clouds for municipal bonds loomed. Underfunded liabilities loom as a threat to governments, finances.

Now Harrisburg is calling on the state again. On Friday, the city said it would not pay payroll without money from the state's treasury.

**Chicago's Daley Says He 'Wouldn't Doubt' More Cities to Default**  
Wednesday, January 19, 2011 02:55 PM

**Next Shoe to Drop Is Municipal Bonds**

**Michigan Prepares For A Tsunami Of Muni Financial Crises**

**Pension disaster makes states and cities into financial basket cases**

**Receiver to city: Financial ruin near**

**CENTRAL FALLS** — The city's financial problems through a merger with Portsmouth in a report Thursday.

**State's cities awash in financial problems**

**OLYMPIA** -- Washington's cities are falling behind financially. They need to provide basic services and decent roads for their 3.7 million people.

“Central Falls, in my opinion, is in a state of financial emergency. The state has appointed a receiver to run the city, unless the state administration in July to run the city, with elected government officials in advisory roles, after those officials had earlier declared the city insolvent.”

**Runaway health costs are rocking municipal budgets**  
But there's no will or willingness to roll back benefits granted in palmer times  
*The Boston Globe*

**Financial challenges facing municipalities widely publicized**

# Budget Constituencies



**2012 Budget again required difficult resource allocation decisions --challenging process to “balance” needs/interests of constituencies**

# 2012 Proposed Budget



## Summary:

Economic Outlook: --Continued weak economy near term...especially for municipalities

Revenues: --Strong, diverse tax base should support Revenue projections  
--Intensifying emphasis on Non-Tax Revenues

Expenditures: --Rising “structural costs” continue to pose financial challenge

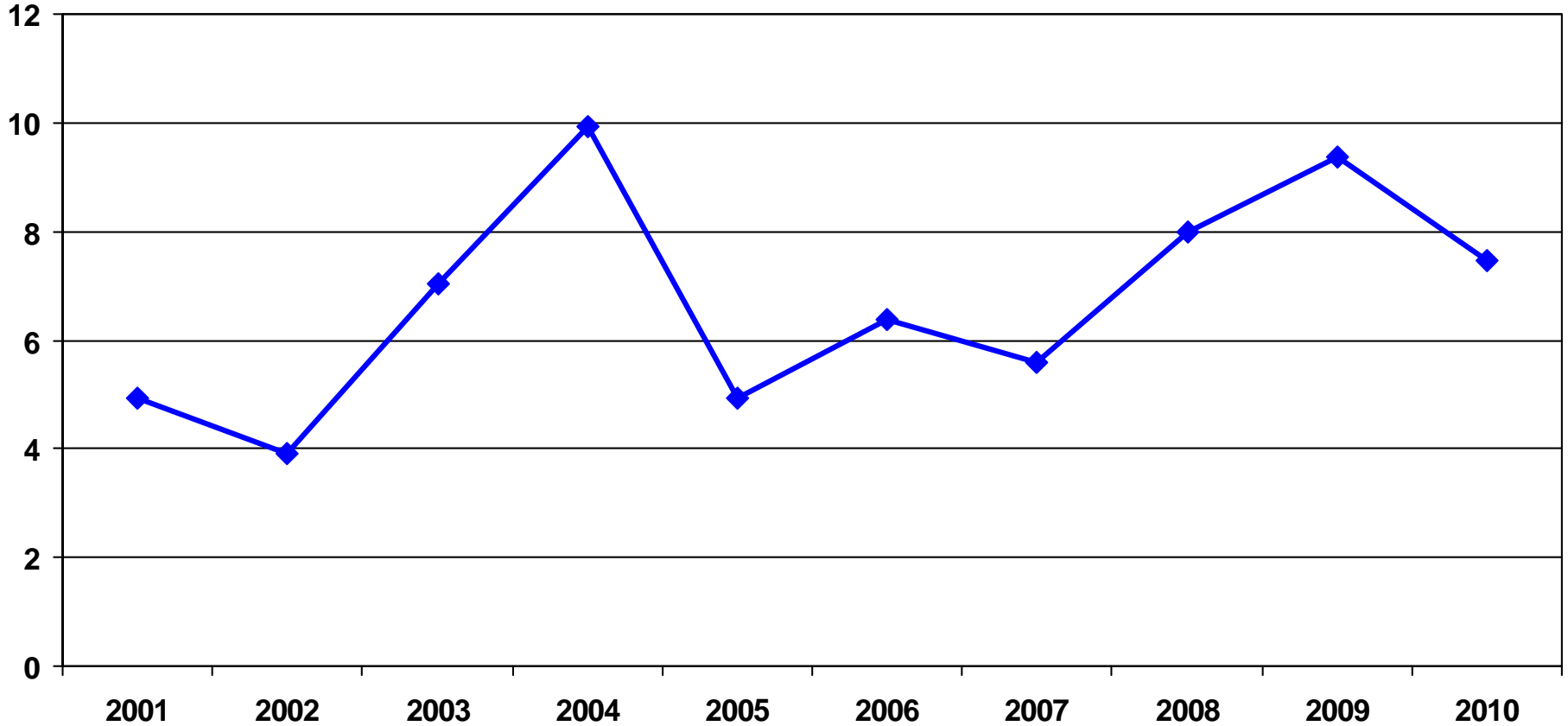
--Concerted ongoing effort planned to address cost structure

Tax Outlook: --Despite difficult economic environment and high “structural costs”, targeting a modest tax increase

**Aiming to maximize Revenues/control Costs amid difficult environment in order to minimize tax increase**

# Tax Rate History (per Gross Tax Levy)

**% Increase**

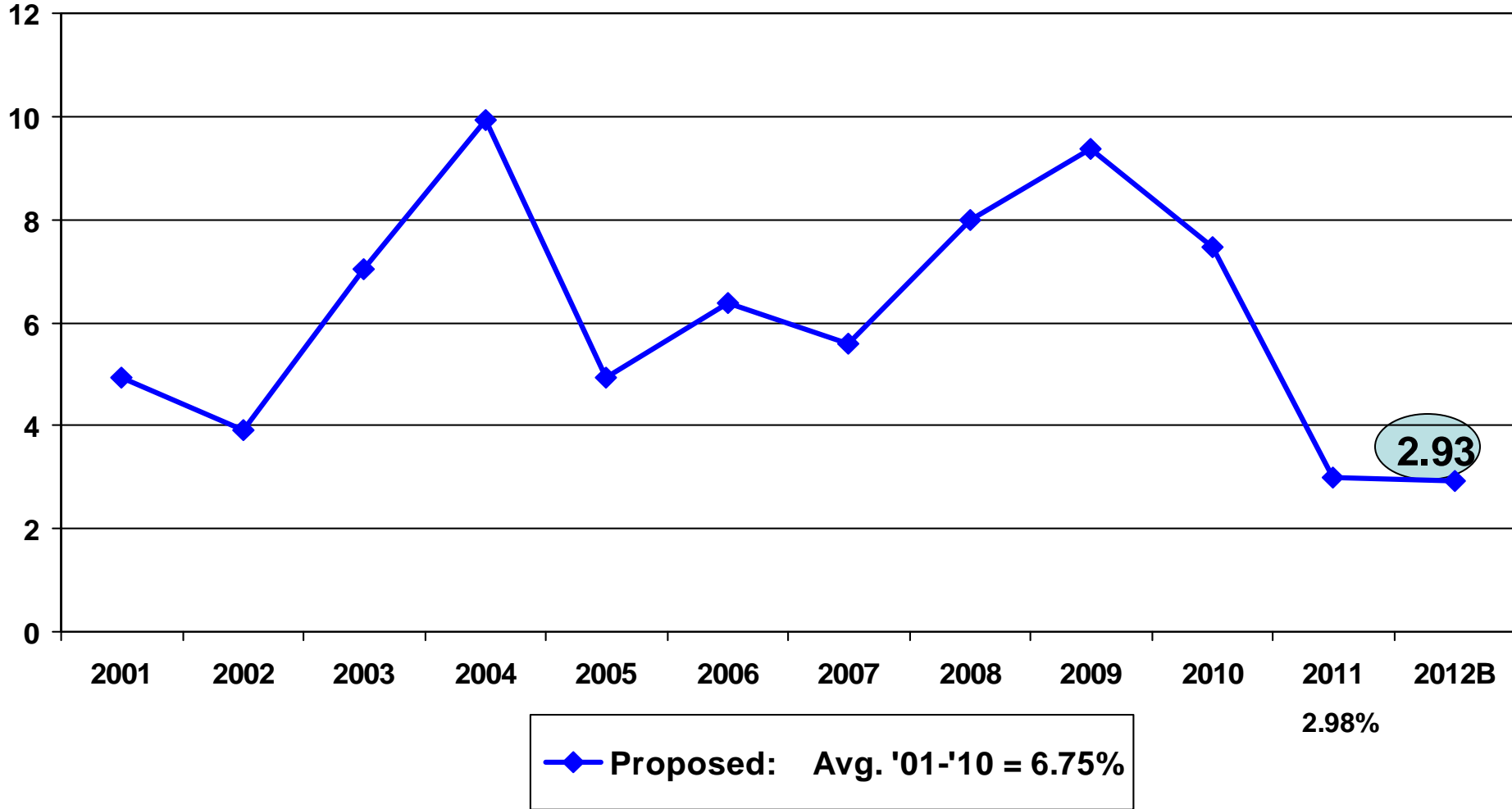


◆ Proposed: Avg. '01-'10 = 6.75%

**“Proposed” tax increases averaged 6.75% annually during 2001-2010**

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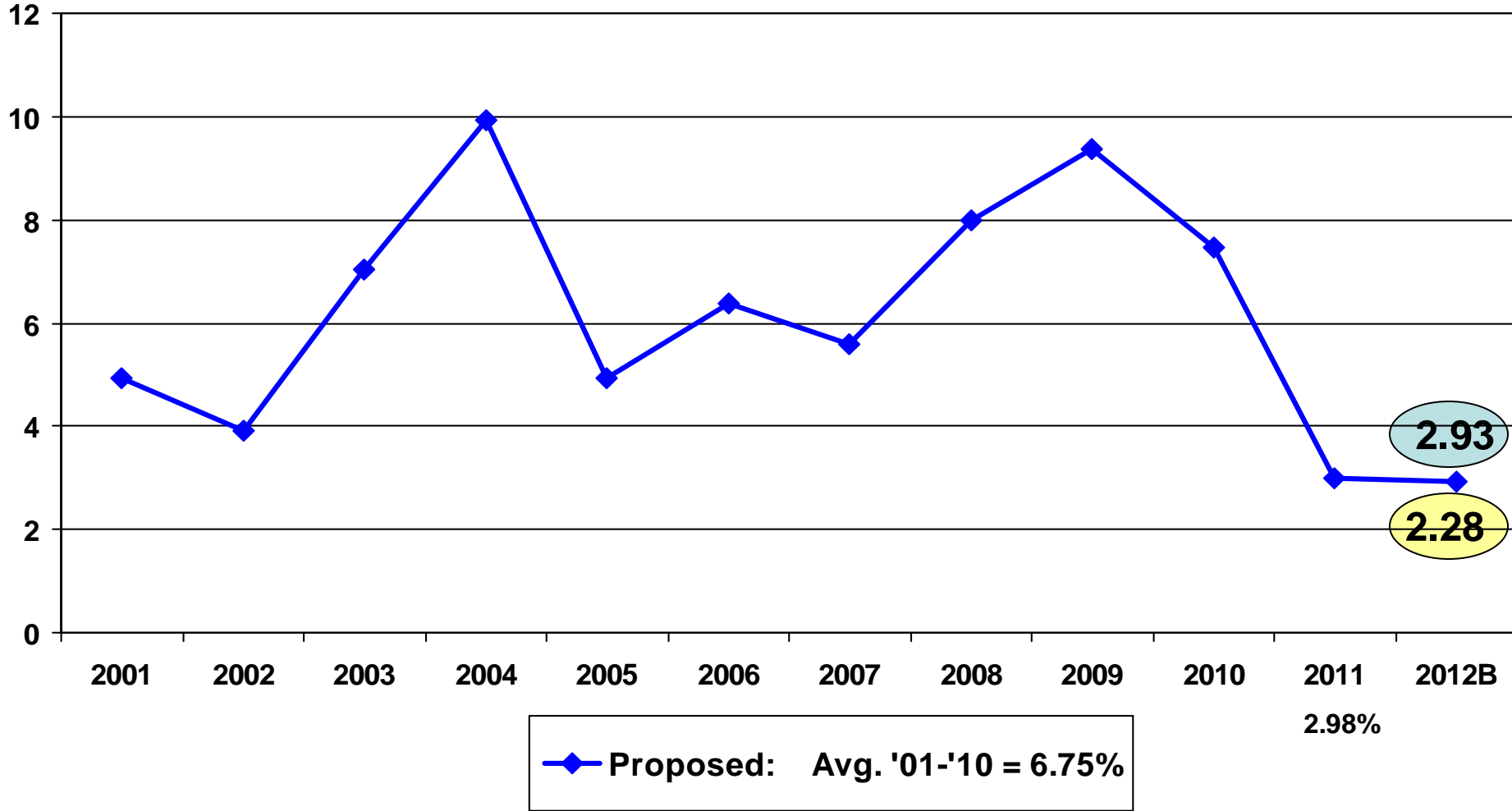
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2012 Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!

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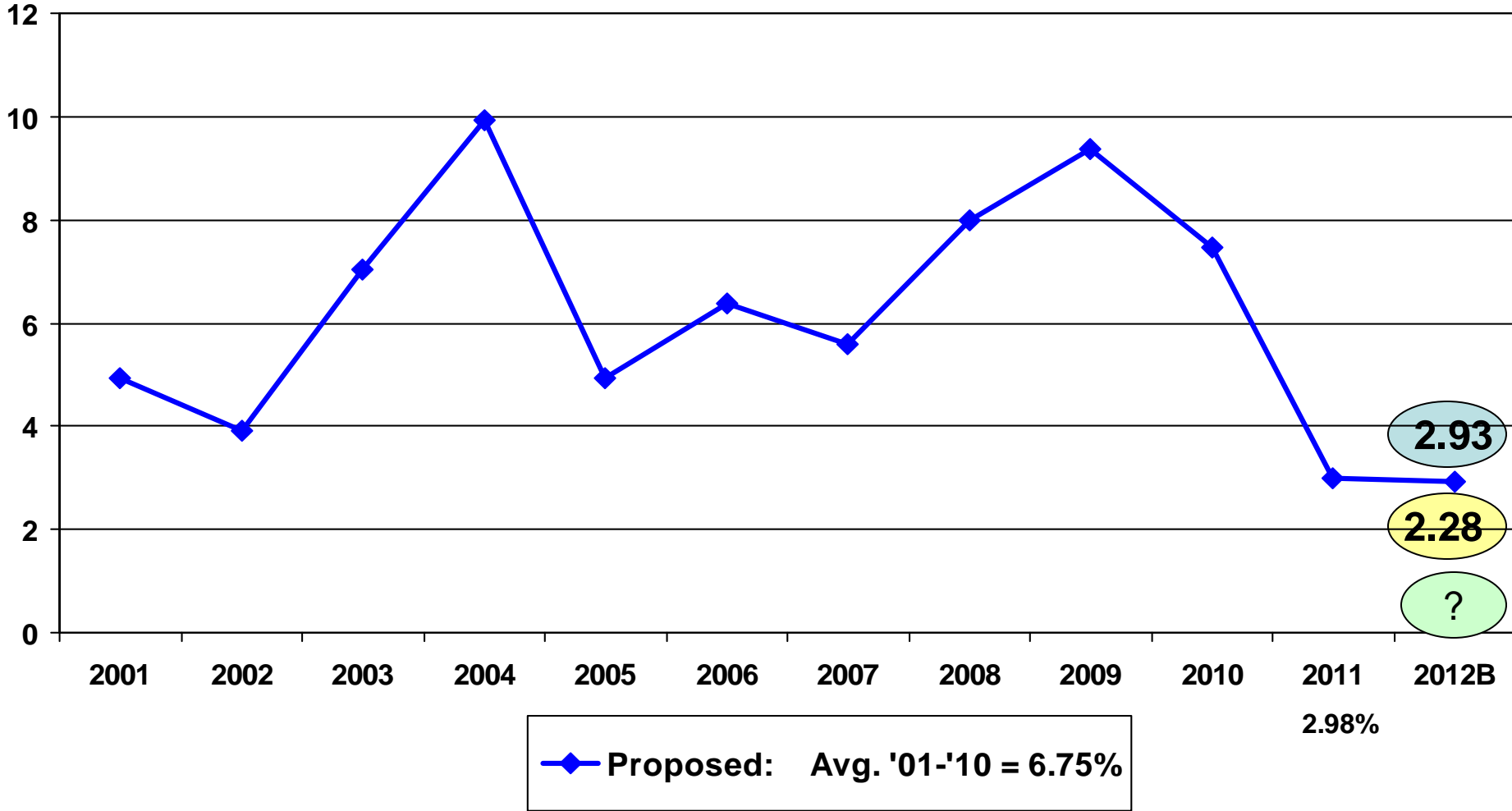
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2012 Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!  
- potentially 2.28% if proposed change in OPEB funding plan approved

# Tax Rate History (per Gross Tax Levy)

% Increase



**Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!  
- potentially < 2.00% w/proposed OPEB funding change & \$1.2M BOE reduction!**

# Key Assumptions – City



## Revenues:

- **Taxes:**– 98.5% Tax collection rate
  - Slight decline in Grand List (\$23M or 0.1%)
- **State/Federal Aid:** \$17.7M (vs. \$16.2M in '11B); includes \$8.0M in ECS funding (vs \$6.5M in '11B)
- **Non-Tax Revenues:** moderate increase: \$61.6M vs. \$57.2M in '11B (up \$4.4M or 8%)

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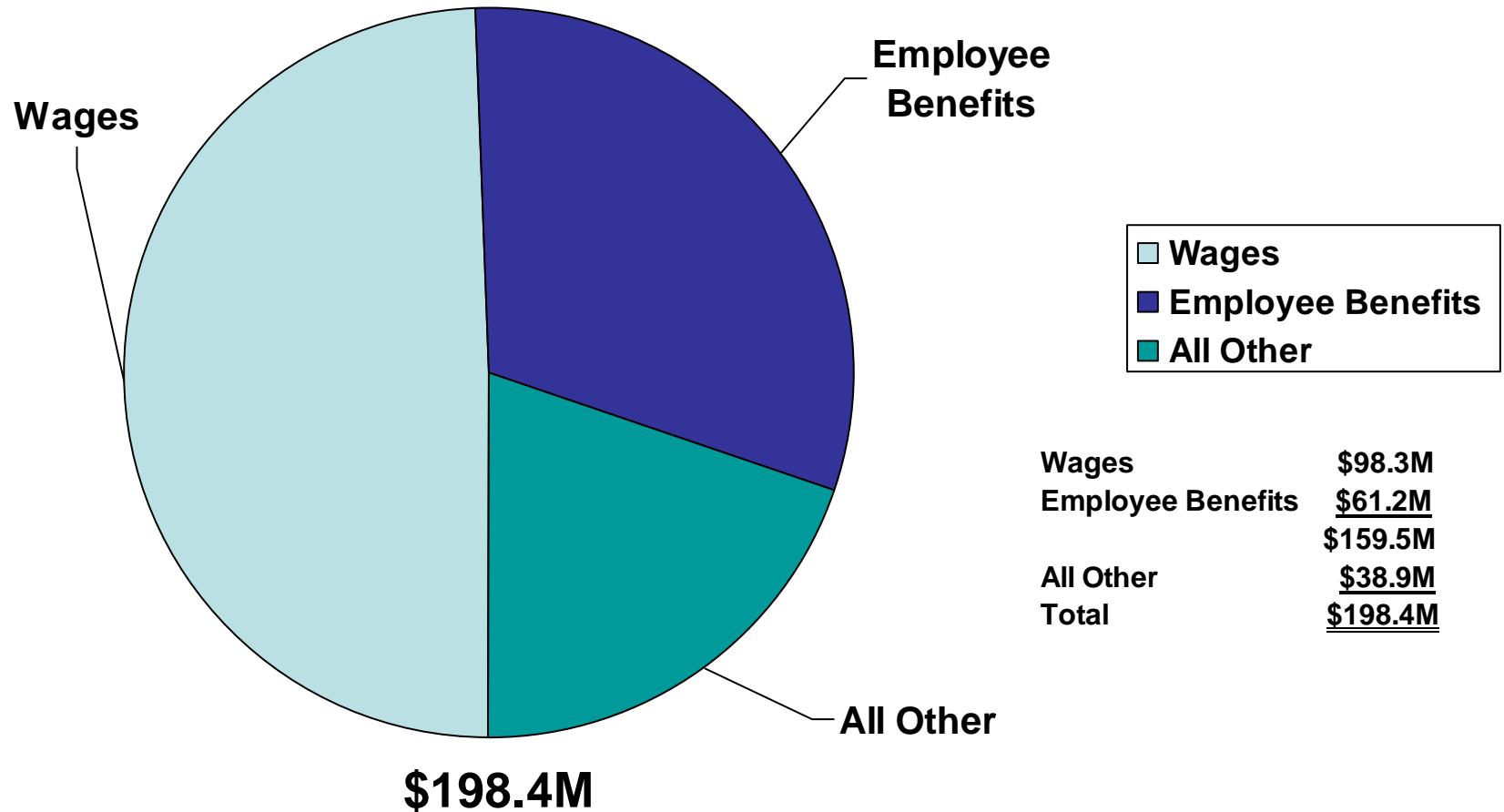
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  - Fire: OT budgeted at \$4.0M (vs. \$1.8M in '11B and \$3.4M in '11E)
    - SFR OT fully funded (in amount requested)
    - Volunteer Fire Companies funded at current operating level
    - Implementation of Fire Plan not assumed in Budget (requires approval by BOR)
- **Structural Costs:** – Pensions – increase of 17% budgeted in 2012
  - Medical – assuming relatively stable costs in 2012 (recent favorable claims trend)
  - OPEB – Budget reflects funding 2012 ARC at 75% (per Ordinance)
    - proposed revision to multi-year funding formula not included in Budget

# Cost Structure: 2012B - City



**Wages & Benefits represent about 80% of City's costs:**  
– Benefit costs are over 50% of Wages

# Structural Costs: City



\$M	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011E</u>	<u>2012B</u>	<u>2013P</u>	<u>2014P</u>
Pensions	\$3.4	\$3.2	\$2.3	\$5.0	\$9.4	\$11.0	\$13.1	\$15.8
OPEB	--	--	.2	2.2	3.9	8.1	11.6	12.5
Medical	15.3	22.2	24.3	24.3	29.4	28.4	31.2	34.4
Insurance	<u>6.6</u>	<u>6.9</u>	<u>7.9</u>	<u>9.0</u>	<u>9.3</u>	<u>9.2</u>	<u>10.2</u>	<u>11.2</u>
Total	<u>\$25.3</u>	<u>\$32.3</u>	<u>\$34.7</u>	<u>\$40.5</u>	<u>\$52.0</u>	<u>\$56.7</u>	<u>\$66.1</u>	<u>\$73.9</u>

## Comments:

- Structural costs have more than doubled since 2007 (from \$25.3M to \$52.0M)
- Structural costs projected to increase by \$21.9M (43%) in next 3 years!
  - Need to address underlying causes (e.g., rich employee benefit plans, OPEB cost sharing, etc.)

**Rising “structural costs” pose significant financial challenge**

# Key Assumptions – City



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## Other:

- **Employment:** modest increase in staffing (+20 positions – mostly Police officers)
- **Outside Agencies:** \$9.4M in funding (flat vs. \$9.4M in '11B)
- **Contingency:** \$3.0M (vs. \$3.8M in '11B)
- **Debt Service:** using \$3.0M in Debt Service Fund to partially offset increase in Debt Service in 2012
- **Revaluation:** assuming postponed until 2013; no \$\$ in 2012B

# Employment—City



	<u>2010B</u>	<u>2011B</u>	<u>2012B</u>	---Change---	
				#	%
<b>Administration</b>	83	71	74	3	4.2%
<b>Operations:</b>					
Public Services	92	83	137	54	
Engineering	81	68	15	(53)	
Administration	61	53	53	0	
Land Use	<u>15</u>	<u>11</u>	<u>12</u>	1	
Total Operations	<u>249</u>	<u>215</u>	<u>217</u>	<u>2</u>	<u>0.9%</u>
<b>Public Safety, Health &amp; Welfare:</b>					
Police	337	302	317	15	
Fire	290	273	269	(4)	
Smith House	109	105	105	0	
Health Department	65	60	60	0	
Emergency Communications/Other	<u>37</u>	<u>32</u>	<u>33</u>	1	
Total Public Safety Health & Welfare	838	772	784	12	1.6%
<b>Legal Affairs/HR/Other</b>	<u>45</u>	<u>39</u>	<u>42</u>	<u>3</u>	<u>7.7%</u>
<b>Total</b>	<u>1,215</u>	<u>1,097</u>	<u>1,117</u>	<u>20</u>	<u>1.8%</u>

**Proposed 2012 Budget includes modest increase in staffing – primarily Police  
-still absorbing significant reduction (118 positions) in FY 2011**

# Outside Agencies



## Background

- Recent funding history: (\$000)

<u>Top 5</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012B</u>	<u>Chg vs '11</u>
Ferguson Library	\$7,761	\$7,841	\$7,000	\$7,000	0
Stamford Museum	1,328	1,328	1,000	1,000	0
Bartlett Arboretum	412	412	309	309	0
DSSD	191	195	100	100	0
Mill River	<u>200</u>	<u>200</u>	<u>100</u>	<u>125</u>	<u>25</u>
Subtotal	\$9,892	\$9,976	\$8,509	\$8,534	\$25
All Others	<u>1,314</u>	<u>1,337</u>	<u>861</u>	<u>826</u>	<u>(35)</u>
Total	<u>\$11,206</u>	<u>\$11,313</u>	<u>\$9,370</u>	<u>\$9,360</u>	<u>\$(10)</u>

- Funding requests for FY 2012 totaled \$10.1M
  - Largest requested increases: Ferguson Library +\$407K (+6%)  
Bartlett Arboretum +\$103K (+33%)
  - Most organizations submitted “no increase” requests vs. 2011

## 2012 Budget Approach:

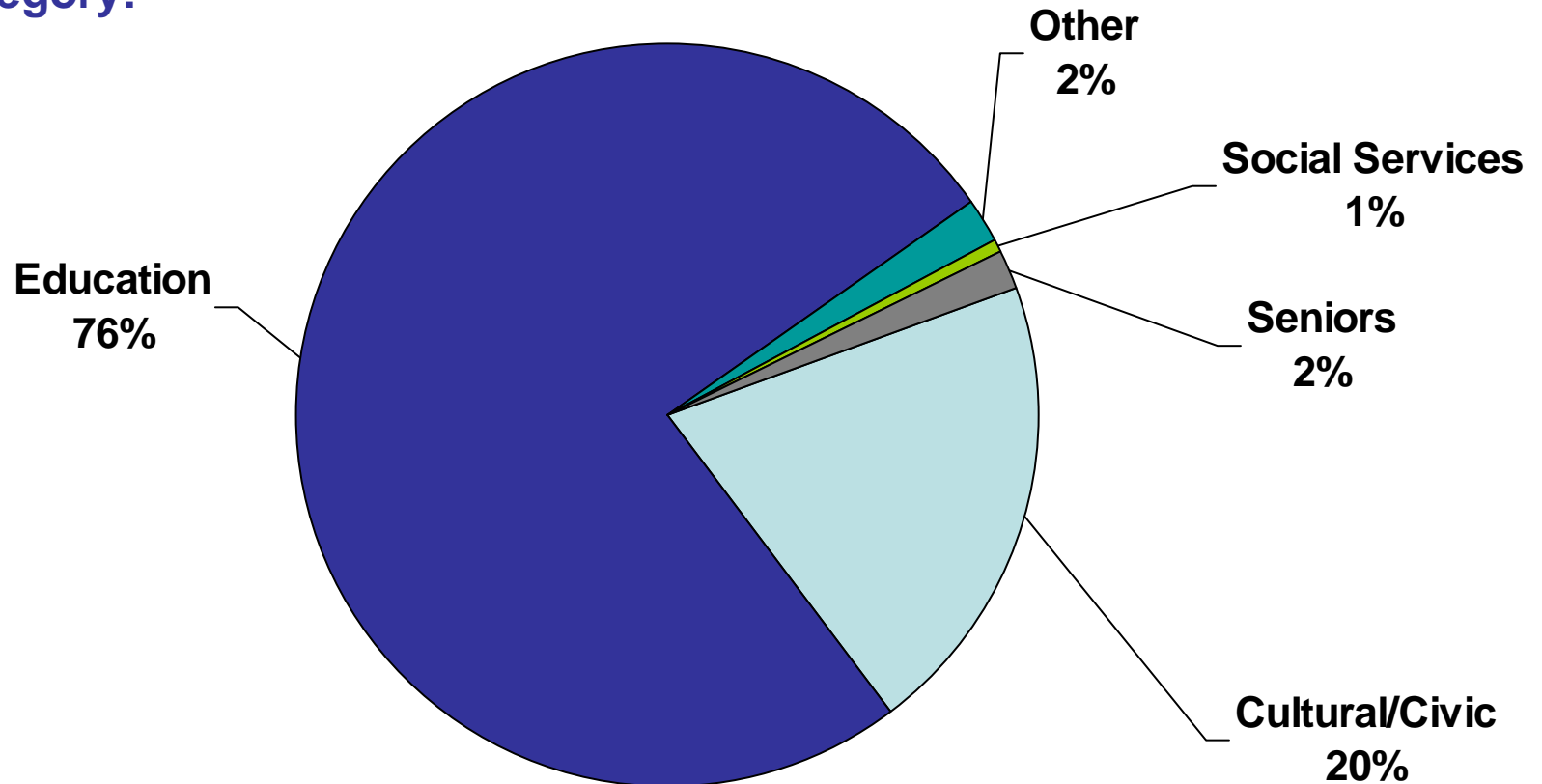
- Agencies were informed in November by OPM not to expect increase in prior year funding level (due to environment/continuing financial pressures facing City)
- Review of largest requests (Ferguson Library, Stamford Museum) included detailed Budget presentations to Mayor
- All agencies encouraged to proactively continue their private fundraising efforts

**2012 Budget includes \$9.4M in funding to Outside Agencies (flat w/ 2011 total)**

# Outside Agencies - FY 2012 Proposed Funding



By Category:



\$9.4M



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- Etc.

**BOE Proposed Budget:** \$229.6M: up \$6.2M or 2.8% vs. 2011B

# OPEB Costs



## Background

- City (incl. BOE) has been providing Other Post-Employment Benefits (“OPEB”) for over 25 yrs.
  - Benefits include retiree medical (incl. prescriptions) and life insurance
  - Retirees contribute a portion of such costs (per applicable CBA)
  - **Need to re-examine level of retiree cost sharing**
- Providing such benefits historically was relatively common
  - due to their significant cost, many municipalities re-assessing them
  - **City needs to re-examine its benefits strategy in this area**
- Effective 6/30/08 GASB required financial statement disclosure of OPEB liability by municipalities
  - Funding of OPEB liability not required (although an advisable financial practice)
  - Many municipalities do not currently fund their OPEB liability
  - **Stamford is ahead of most other large cities in CT regarding OPEB funding**
- Stamford began formally funding its OPEB liability in FY 2010
  - original plan was to fund 40% in FY 2010 and 100% in FY 2011
  - original funding plan was revised 2/8/10 to 50% in FY 2011; 75% in FY 2012; and 100% in FY 2013

# OPEB Costs



## Current Situation/Considerations

- In retrospect, prior OPEB funding plan was overly ambitious/financially unrealistic...especially in light of economic downturn
- **Modifying current funding plan is reasonable** and appropriate consideration
  - any modification requires Board of Reps approval (i.e. Ordinance revision)
  - such approval, if obtained, cant be obtained before March 8 Budget submission
- **Proposed change in City's multi-year funding plan not considered a serious issue with Rating Agencies**

## Recommendation

- Administration recommends tempering required funding % and extending term of current funding schedule to provide desired financial flexibility while continuing City's commitment to progressively fully fund the annual ARC (Annual Required Contribution) amount in a reasonable and manageable time frame



# Proposed OPEB Funding Schedule

A) % Funding: City & BOE

	FY	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Original Plan</b> (5/13/09)		40%	100%	→					
<b>Revised Plan</b> (2/8/10)			50%	75%	100%	→			
<b>Proposed Plan</b> (2/28/11)				55%	60%	70%	80%	90%	100%



# Proposed OPEB Funding Schedule

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<b>Proposed Plan</b> (2/28/11)			55%	60%	70%	80%	90%	100%

B) \$ Funding: (\$M) City & BOE

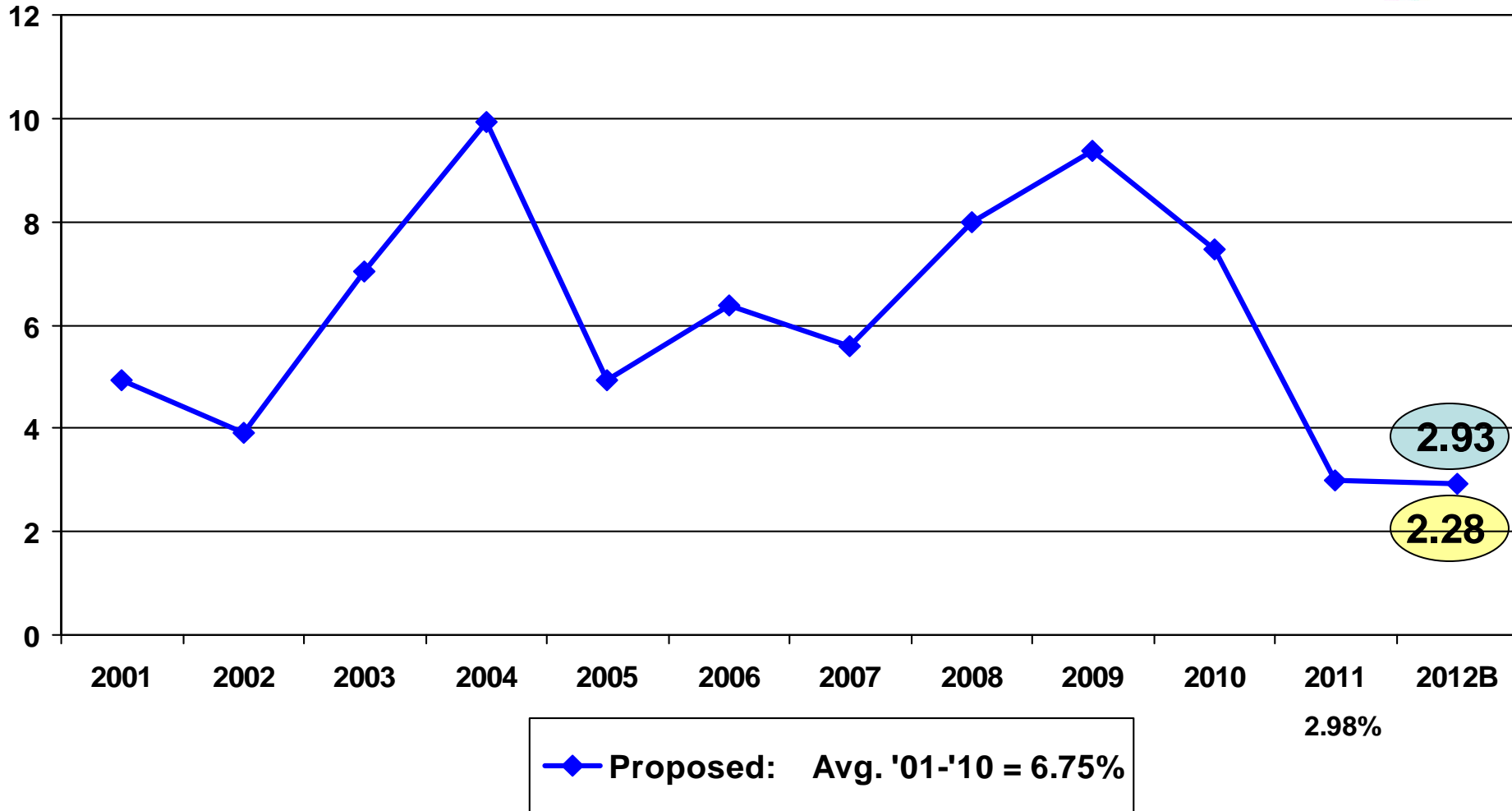
FY	<u>2010</u>	<u>2011</u>	<u>2012PB</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>	<u>2017P</u>
<b>Original Plan</b>	<b>40%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
City	2.2	7.8	10.8	11.9	13.1	14.4	15.8	17.4
BOE	<u>0.6</u>	<u>0.4E</u>	<u>2.3</u>	<u>2.5</u>	<u>2.7</u>	<u>3.0</u>	<u>3.3</u>	<u>3.6</u>
Total Liability (net)	2.8	8.2	13.1	14.4	15.8	17.4	19.1	21.0
<b>Revised Plan</b>		<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
City		3.9	8.1	11.9	13.1	14.4	15.8	17.4
BOE		<u>0.2E</u>	<u>1.7</u>	<u>2.5</u>	<u>2.7</u>	<u>3.0</u>	<u>3.3</u>	<u>3.6</u>
Total Liability (net)		4.1	9.8	14.4	15.8	17.4	19.1	21.0
<b>Proposed Plan</b>			<b>55%</b>	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>100%</b>
City			5.9	7.1	9.2	11.5	14.2	17.4
BOE			<u>1.2</u>	<u>1.5</u>	<u>1.9</u>	<u>2.4</u>	<u>3.0</u>	<u>3.6</u>
Total Liability (net)			7.2	8.6	11.1	13.9	17.2	21.0

Note: For illustrative purposes FY 2012 ARC amounts are assumed to increase by 10% annually

# Tax Rate History (per Gross Tax Levy)



% Increase



2012 Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!  
- potentially 2.28% if proposed change in OPEB funding plan approved

# Board of Education



## Background

- Recent history: (\$M)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012B</u>
Proposed Budget	\$205.7	\$213.6	\$220.9	\$226.8	\$223.4	\$229.6
Approved Budget	203.1	208.5	218.6	219.4	223.4	TBD
% increase	4.4%	2.7%	4.8%	0.4%	1.8%	TBD

- BOE's 2012 Proposed Budget (\$229.6M) represents 49% of Total Budget (\$470.6M)
  - Excluding Debt Service obligations (\$42.6M) in FY'12, BOE's Proposed Budget represents 54% of Total
  - Budget originally submitted by Superintendent was recently revised as follows:
 

Originally Proposed Budget	\$232.0M
less Reduced Cost Estimates	<u>( 2.2M)</u> – reduction simply reflects impact of favorable revised medical, pension & OPEB cost estimates
Less Budget “Cuts”	<u>( 0.2M)</u>
Proposed Budget	\$229.6M

## Observations/Suggestions:

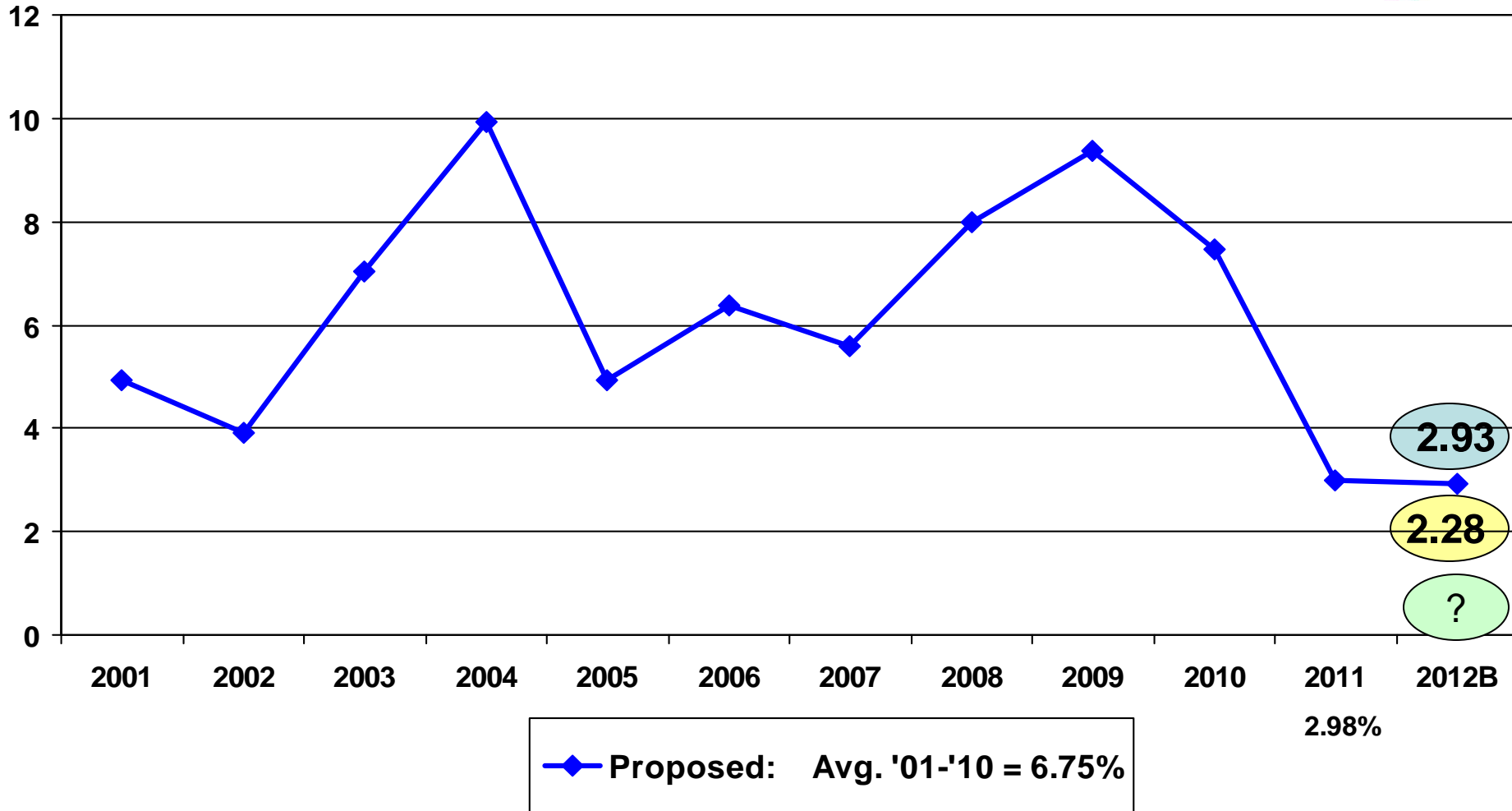
- Reduced Cost Estimates of \$2.2M did not involve any “cuts” in activities/services/people
- Approval by BOR of proposed change in OPEB multi-year funding plan would result in \$0.5M reduction in proposed BOE Budget of \$229.6M
- To achieve Goal of less than 2.0% Gross Tax Levy increase, in addition to OPEB change, reduction of \$1.2M in BOE Budget required
  - Such a reduction appears manageable, achievable and warranted in the current difficult economic environment

**We recommend reduction in Proposed BOE Budget by \$1.2M be considered/pursued by BOF/BOR**

# Tax Rate History (per Gross Tax Levy)



% Increase



**Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!  
- potentially < 2.00% w/proposed OPEB funding change & \$1.2M BOE reduction!**

# Risks/Opportunities

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## Risks:

- **Tax Revenues**
- **State/Federal \$\$**
- **Overtime**
  - Police
  - Other?
- **Medical Costs**
- **Contingency (adequate?)**

# Risks/Opportunities

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## Risks:

- **Tax Revenues**
- **State/Federal \$\$**
- **Overtime**
  - Police
  - Other?
- **Medical Costs**
- **Contingency (adequate?)**

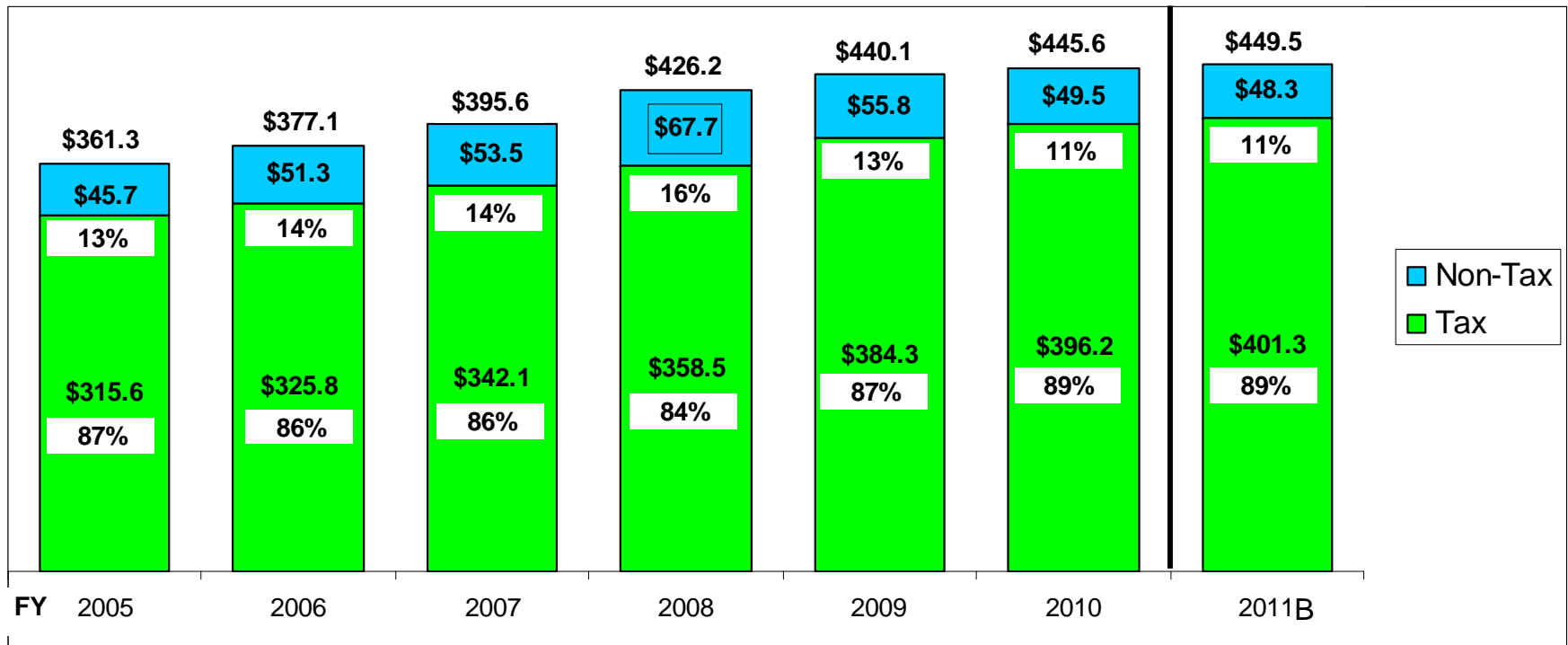
## Opportunities:

- **Cost Structure**
  - Supply chain management (Purchasing)
  - Labor agreements
  - Outsourcing
  - Etc.
- **Resource Deployment**
  - Scheduling/Utilization (Police, Fire, Others?)
- **Non-Tax Revenues**

# Revenue Sources – General Fund



\$Millions



**Non-Tax Revenue has significantly declined since 2008:**

$$\$67.7 - \$48.3 = \boxed{\$19.4}$$

# Non-Tax Revenues



## Major Variances (\$000s): General Fund

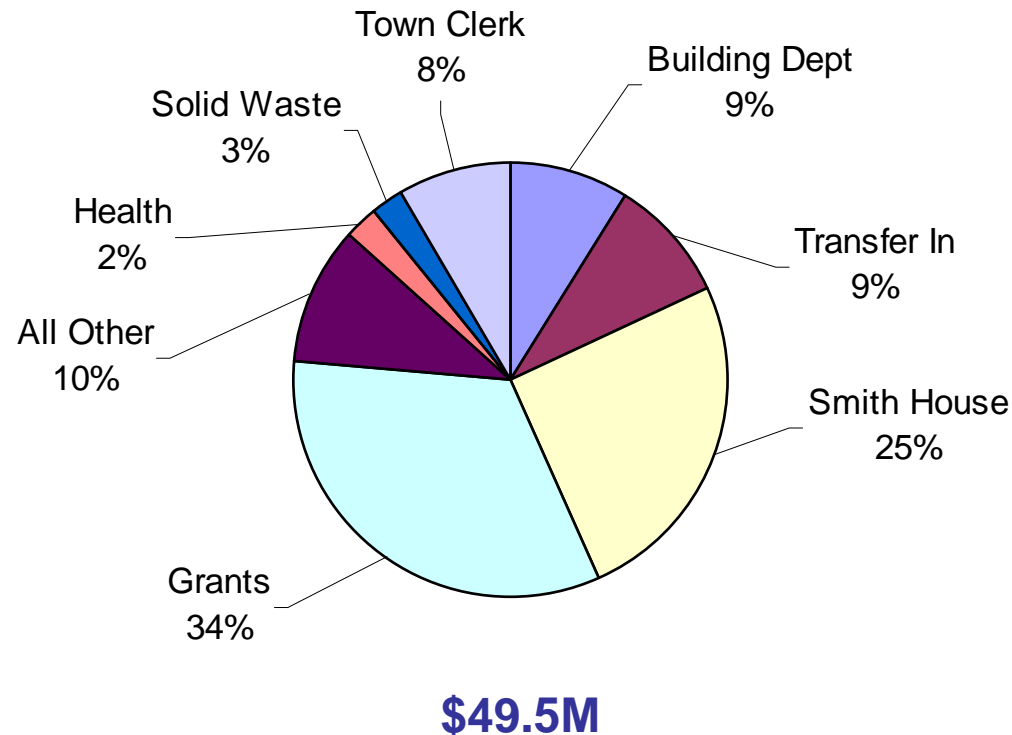
Account	2008A	2011B	Decline
<b>Conveyance Taxes</b>	\$ 8,350	\$ 3,000	\$ 5,350
<b>Interest Income</b>	5,277	750	4,527
<b>Permits-Building Dept</b>	7,621	3,425	4,196
Reversal of Prior Year Encumbrances	1,475	-	1,475
PILOT- Colleges & Hospitals	3,033	2,068	965
PILOT-State Owned Property	2,195	1,331	865
Educational Cost Sharing	7,302	6,495	808
Mashentucket Pequot Fund	1,439	913	526
Tipping Fees-PWD	866	400	466
Other	224	-	224
<b>Total</b>	<b>\$ 37,782</b>	<b>\$ 18,382</b>	<b>\$ 19,400</b>

**Weak economy has adversely impacted Non-Tax Revenues**

# Non-Tax Revenues



## Fiscal 2010 Actual (\$ Millions): General Fund



Systematic review of all Non-Tax Revenue sources underway

# Non-Tax Revenue



## Incremental Revenue Generation – Action Plan

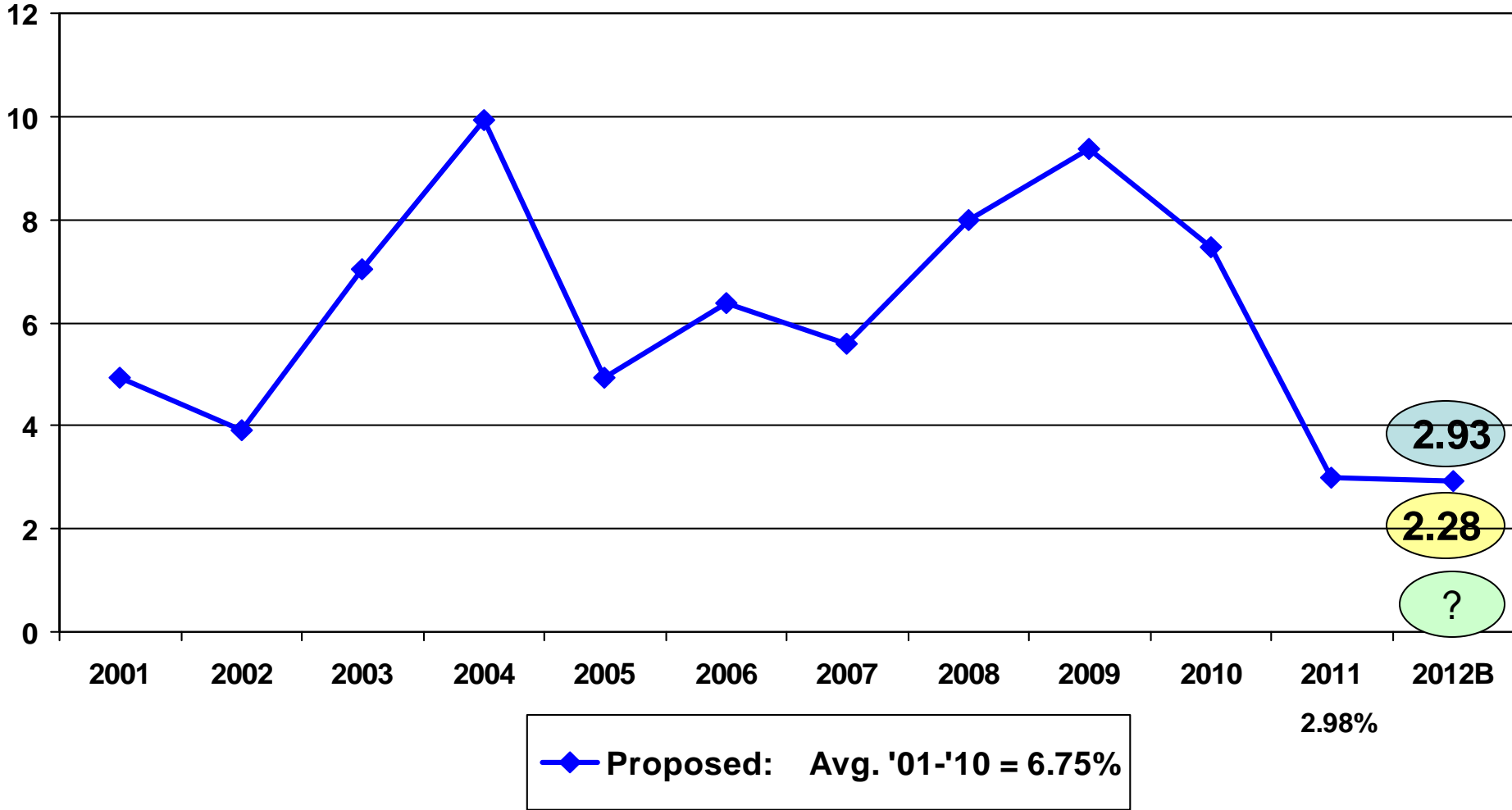
- ☑ • Review recent historical practices by Functional area
  - Cost vs. Value vs. Fees?
  - Benchmark similar practices (including fees) in other comparable cities
- ☑ • Establish cross-functional teams to focus on identifying incremental Non-Tax Revenues
  - “Low hanging fruit”
  - Potential obstacles and/or other considerations
  - Actionable initiatives
- Develop comprehensive plan (*in process*)
  - Increase existing fees where possible/practical
  - Add possible new Non-Tax Revenue sources/fees
  - Intensify collections
  - Other (TBD)
- Meet with BOR and BOF to solicit ideas and support

**Must proactively pursue incremental Non-Tax Revenue to help reduce magnitude of potential future tax increases**

# Tax Rate History (per Gross Tax Levy)



% Increase



2.98%

**Budget proposes 2.93% tax increase: lowest “back-to-back” increases in years!  
- potentially < 2.00% w/proposed OPEB funding change & \$1.2M BOE reduction!**



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# Proposed Fiscal 2012 Capital Budget

March 21, 2011

# Proposed 2012 Capital Budget



## Objectives:

- Link capital projects to Administration's priorities
- Judiciously allocate capital/especially considering economic environment
- Ensure financially sound overall plan and operationally manageable set of projects

## Approach:

- Focus on essential projects with emphasis on Infrastructure
- Use rigorous/consistent analytical methodology to evaluate projects
- Target/Leverage available Grant \$\$ to support Capital Project priorities
- Convert bond funding methodology to “project-specific” basis

**Imposing more disciplined capital Planning process and fiscally rigorous capital project Funding methodology**

# Proposed 2012 Capital Budget



## Financial Summary: (\$M)

	<u>Gross Amt</u>	<u>Net Amt</u>
Planning Board	\$65.9M	\$38.6M
<b>Mayor's Request</b>	<b><u>\$45.8M</u></b>	<b><u>\$20.0M</u></b>
Difference	\$20.1M	\$18.6M

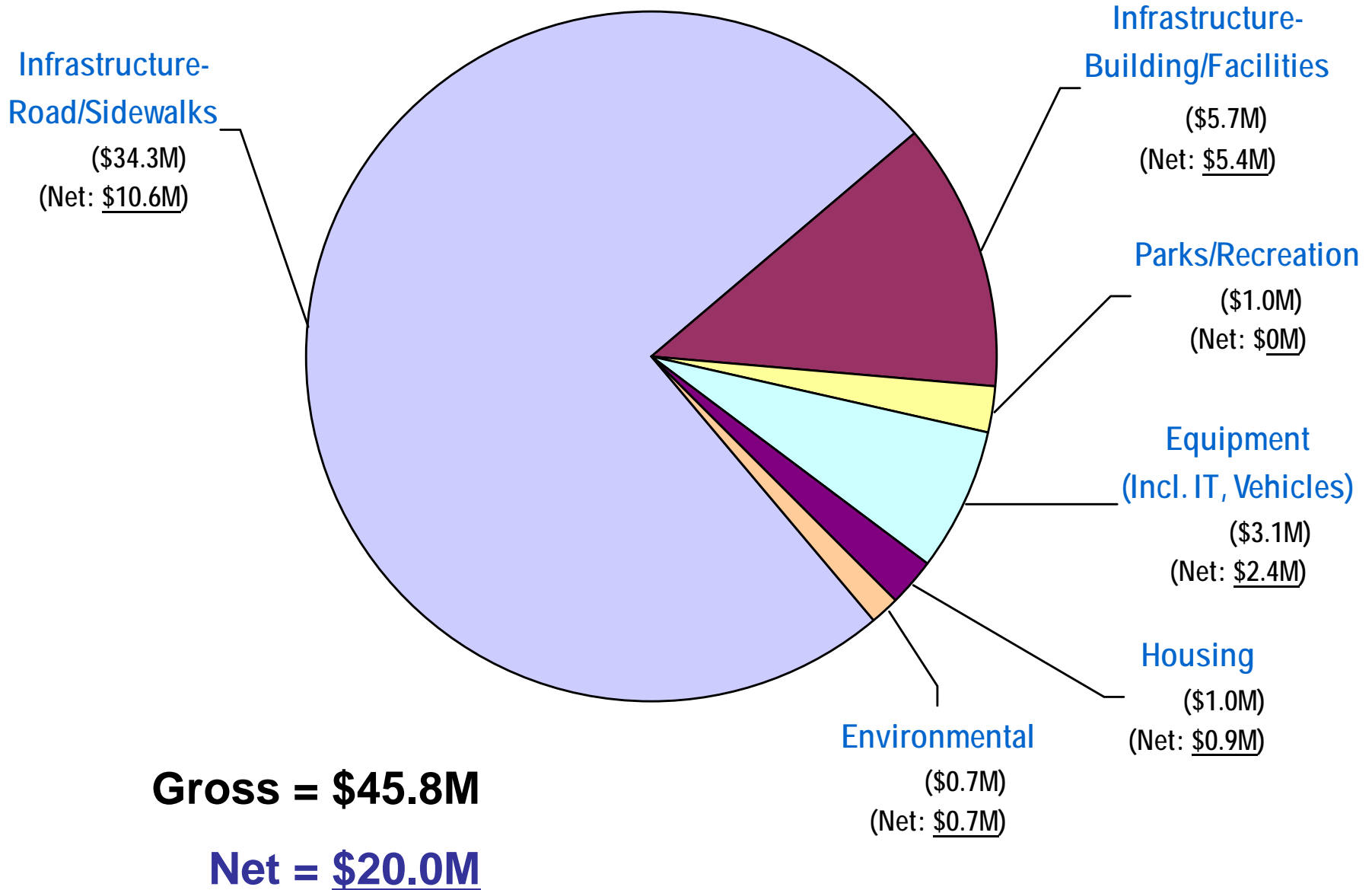
Request (Net Amt) is consistent with overall plan previously discussed with BOF

- See Budget book for specific proposed projects/\$\$ details

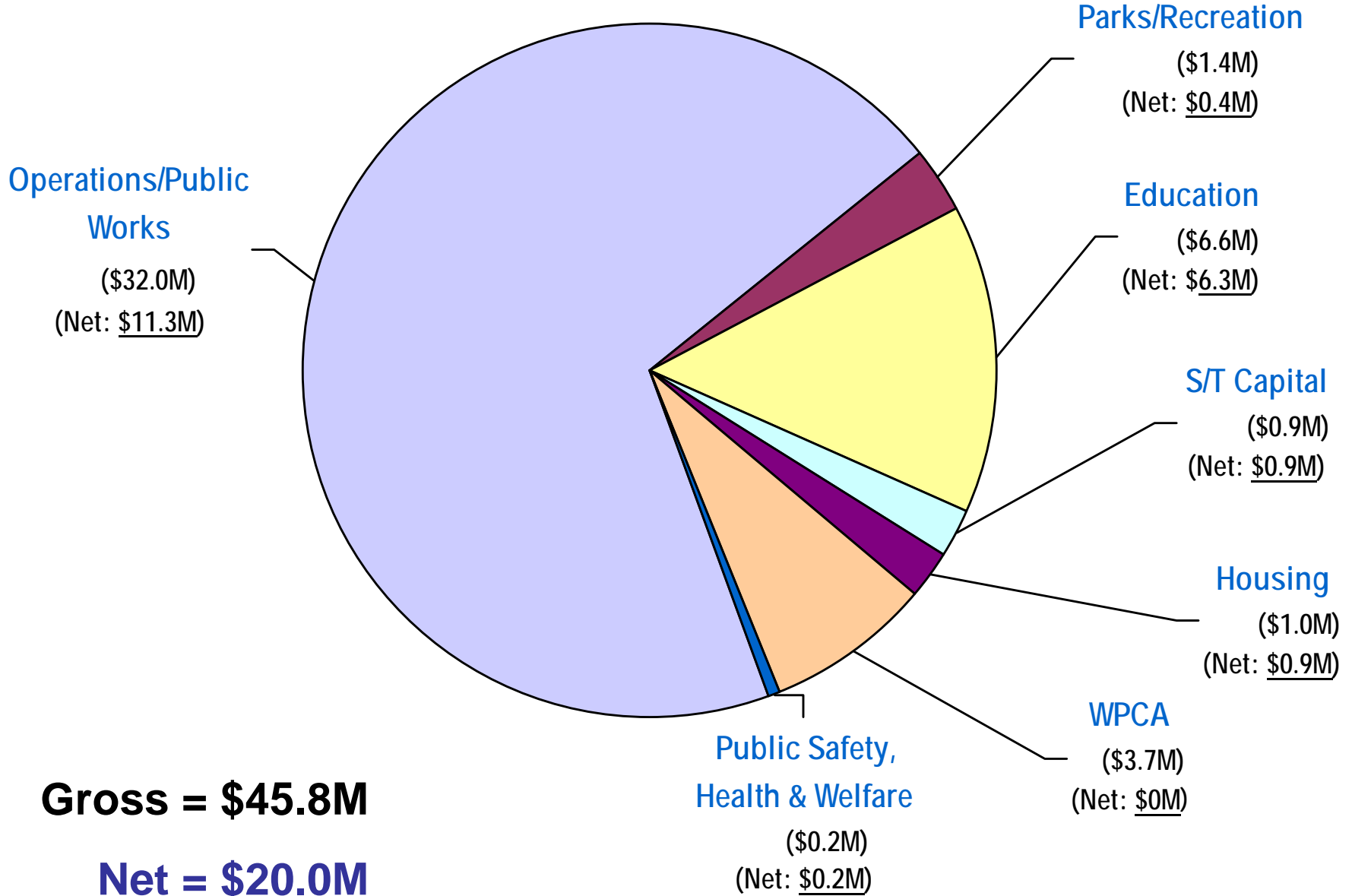
**Proposed FY 2012 Capital Plan is \$20.0M (net)**

- lowest proposed amount in over 10 years
- combined w/\$25.0M of priority AUI projects, total is consistent w/ Safe Debt Recommendation (\$45M)

# 2012 Capital Budget by Category



# 2012 Capital Budget by Activity





# Q&A