2011-2016 CAPITAL IMPROVEMENT PROGRAM KICK-OFF

Proposed Council Action:
Receive staff presentation and provide general direction regarding the development of the 2011-2016 CIP.

DEPARTMENT OF Finance (Chip Corder and Francie Lake)
COUNCIL LIAISON n/a
EXHIBITS
1. 2009-2010 CIP-Related Budget Policies

APPROVED BY CITY MANAGER

<table>
<thead>
<tr>
<th>AMOUNT OF EXPENDITURE</th>
<th>$ n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMOUNT BUDGETED</td>
<td>$ n/a</td>
</tr>
<tr>
<td>APPROPRIATION REQUIRED</td>
<td>$ n/a</td>
</tr>
</tbody>
</table>

SUMMARY

The purpose of this agenda bill is to kick-off the 2011-2016 Capital Improvement Program (CIP) process, which is outlined below. Primarily, the kick-off meeting provides an opportunity for staff to present its preliminary CIP revenue forecast and to “tee up” key policy issues at the beginning of the CIP process for initial Council direction. A 2011-2016 CIP Preview meeting is scheduled for June 21st, at which staff will present the proposed CIP projects, focusing on the coming biennium. At this Preview meeting, Council will have an opportunity to ask questions about specific projects and to provide further direction to staff. Any changes coming out of the Preview meeting will be incorporated into the 2011-2012 Preliminary Budget document that will be distributed to the Council on October 4th. The last public opportunity to make changes to the 2011-2016 CIP will be on November 15th, which is when the final budget review meeting is scheduled with the Council.

The following items are addressed in this agenda bill:

- CIP project presentation (first by project category, then by project status);
- CIP revenue forecast (including REET, motor vehicle fuel tax, and utility rates);
- 2009 year-end, “available” (i.e. neither reserved nor committed) fund balances;
- 2011-2012 CIP funding summary by fund;
- CIP-related results of the 2010 biennial citizen survey; and
- Significant issues.
CIP Project Presentation

As was done two years ago when the 2009-2014 CIP was developed, the projects will be organized and presented first by project category (i.e. not by priority of government) and then by project status as described below:

- **Project categories:**
  - Streets and Pedestrian/Bicycle Facilities
  - Parks, Recreation, and Open Space
  - General Government (Buildings, Technology, Equipment, and Vehicles)
  - Utilities (Water, Sewer, and Storm & Surface Water)

- **Project status:**
  - *Funded*
    - Existing project—no change (except for inflationary adjustments and revised cost estimates)
    - Existing project—modified (in terms of scope and/or timing)
    - New project (not in adopted 2009-2014 CIP)
  - *Unfunded/Partially Funded*
    - Existing project—no change (except for inflationary adjustments and revised cost estimates)
    - Existing project—modified (in terms of scope and/or timing)
    - New project (not in adopted 2009-2014 CIP)

CIP Revenue Forecast

Historical (2000-2009) and forecasted (2010-2016) real estate excise tax (REET), motor vehicle fuel tax (MVFT), and utility rate revenues are summarized below.

**Real Estate Excise Tax (REET)**

REET is the 0.5% tax paid by the seller in property transactions (sales of residential and commercial property). State law restricts the use of REET for specific capital purposes. REET 1 (the 1st quarter of 1% of the sales price) may be used for streets, parks, facilities or utilities. REET 2 (the 2nd quarter of 1% of the sales price) may be used for streets, parks, or utilities, but may not be used for facilities. Neither REET 1 nor REET 2 may be used for equipment or technology.
HISTORICAL REAL ESTATE EXCISE TAX (2000-2009)
Dollars in Thousands

Of particular note are the following:

- There were 4 large commercial property sales in 2005 (including Shorewood Apartments and Farmers Insurance) that generated $1.0M in “extraordinary” REET revenue, which was transferred to the Sewer Fund in 2006 for the Sewer Lake Line project.
- The City’s average home price reached a peak of $1.24 million in 2008, then dropped almost 31% in 2009 to $854,000, reflecting a major downturn in the real estate market.
- The number of annual sales dropped from a high of 603 in 2004 to a low of 260 in 2008. The 10 year (2000-2009) annual average for the number of home sales is 440. Prior to 2008, the 10 year annual average was 500 home sales.

FORECASTED REAL ESTATE EXCISE TAX (2010-2016)
Dollars in Thousands
The 2010-2016 REET forecast was based on the following assumptions:

- The average home sale price, which hit a low point in 2009, is projected to recover at a rate of 5% in 2010-2011, 6% in 2012, 7% in 2013, and 8% in 2014-2016, reflecting a slow recovery in the real estate market.
- The number of property sales, which hit a low point in 2008, is expected to be flat in 2010 and then recover at a pace of 75 property sales annually in 2011-2013, reaching the historical annual average of 500 property sales by 2013.
- Staff’s forecast is supported by The Puget Sound ECONOMIC FORECASTER (December 2009), which predicts a slow recovery in the average home sale price in 2010-2011 (5% per year) and a moderate recovery in the number of home sales for the same period. See the table below.

### PUGET SOUND REAL ESTATE ACTUAL AND FORECAST (2008-2011)

**Dollars and Number of Sales in Thousands**

<table>
<thead>
<tr>
<th>Year:</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average sale price</td>
<td>$402.9</td>
<td>$356.9</td>
<td>$374.4</td>
<td>$393.6</td>
</tr>
<tr>
<td>Change in average sales price</td>
<td>-11%</td>
<td>5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Number of property sales</td>
<td>40.2</td>
<td>36.5</td>
<td>42.8</td>
<td>45.4</td>
</tr>
</tbody>
</table>

**Motor Vehicle Fuel Tax (MVFT)**

MVFT is a fixed tax, currently making up 37.5 cents of the per gallon price of gasoline, diesel, and other fuels. It is not based on the dollar amount of the fuel sale like a sales tax would be. Hence, there is no revenue benefit from higher gas prices. In addition, MVFT is a state shared revenue that is distributed to incorporated cities and towns based on population.

### HISTORICAL MOTOR VEHICLE FUEL TAX (2000-2009)

**Dollars in Thousands**

<table>
<thead>
<tr>
<th>Year:</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Tax Revenue</td>
<td>$479</td>
<td>$477</td>
<td>$473</td>
<td>$459</td>
<td>$452</td>
<td>$470</td>
<td>$506</td>
<td>$530</td>
<td>$509</td>
<td>$493</td>
</tr>
</tbody>
</table>

Overall, the average annual growth in MVFT has been very flat over the last 10 years, declining 1.4% per year on average from 2000 to 2004 (before ESSB 6103 was passed) and growing 1.8% per year on average since 2004.

### FORECASTED MOTOR VEHICLE FUEL TAX (2010-2016)

**Dollars in Thousands**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Tax Revenue</td>
<td>$503</td>
<td>$510</td>
<td>$520</td>
<td>$512</td>
<td>$505</td>
<td>$497</td>
<td>$489</td>
</tr>
</tbody>
</table>
The 2010-2016 MVFT forecast was based on the following assumptions:

- Fuel tax is expected to increase from .28 to .39 per gallon between 2005 and 2012 based on passage of ESSB 6103 in 2005. This bill effectively adds approximately 1/10th of a cent to the City and Town portion of the tax revenue each year from 2005 to 2012.
- Per Municipal Research and Services Center (MRSC), fuel tax is expected to increase 2% in 2010. Based on ESSB 6103 and the anticipated impact of the Kirkland annexation in 2011, increases of 1.4% and 2% are forecast in 2011 and 2012 respectively.
- Fuel tax revenue is expected to decline approximately 1.5% each year after 2012 due to annexations of unincorporated areas and to Mercer Island's slower population growth rate relative to other cities.

Water Utility Rates

A significant portion of the water rates charged to utility customers is dedicated to capital reinvestment funding.

### Historical Water Rate Increases (2000-2009)

<table>
<thead>
<tr>
<th>Year:</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>12.75%</td>
<td>0.0%</td>
<td>3.4%</td>
<td>10.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>6.5%</td>
<td>6.65%</td>
<td>8.8%</td>
<td>10.50%</td>
</tr>
</tbody>
</table>

Rate Increase Statistics

- High (2000): 12.75%
- Low (2001): 0.0%
- 5 Year Average (2005-2009): 7.1%
- 10 Year Average (2000-2009): 6.5%

The 10.5% increase in 2009 was driven by a 10% rate increase passed on by Seattle Public Utilities and the Utility Board’s recommendation to phase water rate increases over a 4 year period in order to reach an annual capital reinvestment funding target of $1.10 million by 2011.

### Forecasted Water Rate Increases (2010-2016) & Capital Revenues (2010-2016)

#### Dollars in Thousands

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>8.15%</td>
<td>12.0%</td>
<td>6.75%</td>
<td>6.75%</td>
<td>6.75%</td>
<td>6.75%</td>
<td>6.75%</td>
</tr>
<tr>
<td>Rate Funding for Capital</td>
<td>$ 528</td>
<td>$ 748</td>
<td>$1,103</td>
<td>$1,237</td>
<td>$1,472</td>
<td>$ 1,669</td>
<td>$ 1,854</td>
</tr>
<tr>
<td>Water Connection Charges</td>
<td>$ 150</td>
<td>$ 150</td>
<td>$ 150</td>
<td>$ 150</td>
<td>$ 150</td>
<td>$ 150</td>
<td>$ 150</td>
</tr>
<tr>
<td>Interest</td>
<td>$ 15</td>
<td>$ 10</td>
<td>$ 15</td>
<td>$ 27</td>
<td>$ 33</td>
<td>$ 41</td>
<td>$ 46</td>
</tr>
<tr>
<td>Total Revenue for Capital</td>
<td>$ 693</td>
<td>$ 908</td>
<td>$1,268</td>
<td>$1,414</td>
<td>$1,655</td>
<td>$ 1,860</td>
<td>$ 2,050</td>
</tr>
</tbody>
</table>
The 2010-2016 water rate increases and the 2010-2016 water capital revenue forecast were based on the following assumptions:

- Rate funding for capital projects in 2010-2016 is based on the 2009 Water Rate Study completed by Financial Consulting Solutions Group (FCSG).
- Capital reinvestment levels are driven by the 2008 Water System Plan and the Assistant City Engineer’s and City Engineer’s professional judgment.
- The eventual sale of the First Hill water property and the corresponding retirement of a two year bank loan for $1,015,000 to fund the construction of the Emergency Water Supply Well are excluded from the forecast.

**Sewer Utility Rates**

Most of the increase in sewer rates beginning in 2004 has been dedicated to funding the Sewer Lake Line project.

**HISTORICAL SEWER RATE INCREASES (2000-2009)**

<table>
<thead>
<tr>
<th>Year:</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>9.4%</td>
<td>9.0%</td>
<td>9.0%</td>
<td>12.0%</td>
<td>18.1%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

**Rate Increase Statistics**

- High (2008) 18.1%
- Low (2000-2003) 0.0%
- 5 Year Average (2005-2009) 11.2%
- 10 Year Average (2000-2009) 6.6%

*Note: There was no increase in sewer rates from 1994-2003 (a 10 year period).*

Capital reinvestment funding levels were held down to below $250,000 per year for the last 5 years (2005-2009), while large rate increases were adopted to build up funding for the Sewer Lake Line project. The capital reinvestment funding target per the 2003 General Sewer Plan was $500,000 per year, subject to an annual adjustment by the Assistant City Engineer and the City Engineer based on the condition of the infrastructure.

**FORECASTED SEWER RATE INCREASES (2010-2016) & CAPITAL REVENUES (2010-2016)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>9.75%</td>
<td>9.75%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>3.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Rate Funding for Capital</td>
<td>$ 1,291</td>
<td>$ 1,486</td>
<td>$ 1,663</td>
<td>$ 1,859</td>
<td>$ 2,080</td>
<td>$ 2,132</td>
<td>$ 2,201</td>
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<tr>
<td>Interest</td>
<td>$ 26</td>
<td>$ 53</td>
<td>$ 46</td>
<td>$ 28</td>
<td>$ 26</td>
<td>$ 26</td>
<td>$ 27</td>
</tr>
<tr>
<td>Total Revenue for Capital</td>
<td>$ 1,317</td>
<td>$ 1,539</td>
<td>$ 1,709</td>
<td>$ 1,887</td>
<td>$ 2,106</td>
<td>$ 2,158</td>
<td>$ 2,228</td>
</tr>
<tr>
<td>Sewer Lake Line-Debt Service</td>
<td>$(1,201)</td>
<td>$(1,227)</td>
<td>$(1,226)</td>
<td>$(1,202)</td>
<td>$(1,205)</td>
<td>$(1,199)</td>
<td>$(1,196)</td>
</tr>
<tr>
<td>Net Available for Capital</td>
<td>$ 116</td>
<td>$ 312</td>
<td>$ 483</td>
<td>$ 685</td>
<td>$ 901</td>
<td>$ 959</td>
<td>$ 1,032</td>
</tr>
</tbody>
</table>
The 2010-2016 sewer rate increases and the 2010-2016 sewer capital revenue forecast were based on the following assumptions:

- Rate funding for capital projects in 2010-2016 is based on the 2009 Sewer Rate Update by staff.
- Capital reinvestment levels are driven by the 2003 General Sewer Plan and the Assistant City Engineer’s and City Engineer’s professional judgment. Applying inflation, the annual target of $500,000 set for 2003, would equate to an annual target of approximately $700,000 in 2011.
- The net available for capital reinvestment is reduced by the debt service requirements associated with the construction of the Sewer Lake Line.
- Staff is assuming that the Sewer Lake Line project will be completed in 2010 at least $1.0 million under budget (from unused contingency monies), which will be used to make up the current capital reinvestment funding gap.

**Stormwater Utility Rates**

Like the water and sewer utilities, a significant portion of the stormwater rates charged to utility customers is dedicated to capital reinvestment funding.

### HISTORICAL STORMWATER RATE INCREASES (2000-2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>0.0%</td>
<td>7.25%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>5.4%</td>
<td>5.1%</td>
<td>5.70%</td>
<td>0.0%</td>
<td>5.50%</td>
</tr>
</tbody>
</table>

**Rate Increase Statistics**

- High (2001) 7.3%
- Low (2000,2002-2004,2008) 0.0%
- 5 Year Average (2005-2009) 4.3%
- 10 Year Average (2000-2009) 2.9%

*Note: There was no increase in storm water rates for 5 years (2000, 2002, 2003, 2004, and 2008). In 2002 the Council transferred funds from the Capital Reserve Fund to replace the $81,000 that a rate increase would have produced.*

To help offset the overall utility rate impact of the 18.1% sewer rate increase in 2008, there was no increase in stormwater rates in 2008.

### FORECASTED STORMWATER RATE INCREASES (2010-2016) & CAPITAL REVENUES (2010-2016)

**Dollars in Thousands**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Increase</td>
<td>5.5%</td>
<td>5.5%</td>
<td>5.5%</td>
<td>5.5%</td>
<td>5.5%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Rate Funding for Capital</td>
<td>$ 643</td>
<td>$ 683</td>
<td>$ 726</td>
<td>$ 771</td>
<td>$ 819</td>
<td>$ 870</td>
<td>$ 924</td>
</tr>
<tr>
<td>Fee in Lieu *</td>
<td>$ 50</td>
<td>$ 60</td>
<td>$ 70</td>
<td>$ 80</td>
<td>$ 80</td>
<td>$ 80</td>
<td>$ 80</td>
</tr>
<tr>
<td>Interest</td>
<td>$ 10</td>
<td>$ 15</td>
<td>$ 20</td>
<td>$ 25</td>
<td>$ 17</td>
<td>$ 15</td>
<td>$ 10</td>
</tr>
<tr>
<td>Total Revenue for Capital</td>
<td>$ 703</td>
<td>$ 758</td>
<td>$ 816</td>
<td>$ 876</td>
<td>$ 916</td>
<td>$ 965</td>
<td>$ 1,014</td>
</tr>
</tbody>
</table>

* Fee in lieu payments are made to the City as an alternative to installing storm water detention facilities on properties under development. Once received, the funds are reserved for capital expenditures within storm basins on the Island.
The 2010-2016 stormwater rate increases and the 2010-2016 stormwater capital revenue forecast were based on the following assumptions:

- Rate funding for capital projects in 2010-2016 is based on the 2009 Storm Water Utility Rate Update by staff.
- Capital reinvestment levels are driven by the 2006 Comprehensive Basin Review and a contracted engineering assessment of basins every 2 years.
- Fee in lieu payments are reserved for capital reinvestment in storm basins on the Island (not for drainage improvements to neighborhood streets or city arterials).
- King County Flood Control District revenues are not included. An estimated $100,000 per year is available, but the City first needs to sign an interlocal agreement with King County before it can apply for the funds.

### 2009 Year-End, Available Fund Balances

The 2009 “preliminary” year-end fund balances available to fund 2011-2016 CIP projects are summarized in the two tables below: 1) General Government Funds, and 2) Utility Funds. The fund balance for each fund is broken down into the following components:

- Working Capital/Operating Reserve (i.e. for cash flow purposes or to fund unexpected operating needs)
- Capital Reserves (i.e. dedicated for the replacement of capital or to accumulate funding for new capital)
- Planned Expenditures in 2010
- Committed for Another Purpose (i.e. designated for a specific purpose, but not reserved)
- Available Fund Balance (i.e. not reserved or committed for any specific purpose)

#### 2009 YEAR-END FUND BALANCES

**GENERAL GOVERNMENT FUNDS**

<table>
<thead>
<tr>
<th>Fund Balance Components</th>
<th>General</th>
<th>Street</th>
<th>Beautification</th>
<th>Municipal Arts</th>
<th>Capital Improv</th>
<th>Tech &amp; Equip</th>
<th>Cap Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance, 12/31/09</td>
<td>3,043,379</td>
<td>3,647,513</td>
<td>864,338</td>
<td>339,151</td>
<td>3,061,894</td>
<td>1,337,279</td>
<td>1,069,999</td>
</tr>
<tr>
<td>Working Capital / Operating Reserve</td>
<td>(928,044)</td>
<td>(200,000)</td>
<td>(75,000)</td>
<td>-</td>
<td>(250,000)</td>
<td>(459,385)</td>
<td>-</td>
</tr>
<tr>
<td>Capital Reserves</td>
<td>-</td>
<td>(84,272)</td>
<td>(150,000)</td>
<td>-</td>
<td>(227,187)</td>
<td>(32,532)</td>
<td>(35,000)</td>
</tr>
<tr>
<td>Planned Expenditures in 2010</td>
<td>(735,257)</td>
<td>(2,615,034)</td>
<td>(251,986)</td>
<td>-</td>
<td>(2,102,566)</td>
<td>(577,004)</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>Committed for Another Purpose</td>
<td>(1,380,078)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Available Fund Balance</td>
<td>-</td>
<td>748,207</td>
<td>387,352</td>
<td>339,151</td>
<td>482,141</td>
<td>268,358</td>
<td>34,999</td>
</tr>
</tbody>
</table>

#### 2009 YEAR-END FUND BALANCES

**UTILITY FUNDS**

<table>
<thead>
<tr>
<th>Fund Balance Components</th>
<th>Water</th>
<th>Sewer</th>
<th>Stormwater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance, 12/31/09</td>
<td>2,066,476</td>
<td>12,818,380</td>
<td>1,781,362</td>
</tr>
<tr>
<td>Working Capital / Operating Reserve</td>
<td>(777,398)</td>
<td>(405,165)</td>
<td>(87,738)</td>
</tr>
<tr>
<td>Capital Reserves</td>
<td>-</td>
<td>-</td>
<td>(514,211)</td>
</tr>
<tr>
<td>Planned Expenditures in 2010</td>
<td>(513,907)</td>
<td>(11,859,870)</td>
<td>(274,133)</td>
</tr>
<tr>
<td>Committed for Another Purpose</td>
<td>(263,813)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Available Fund Balance</td>
<td>511,358</td>
<td>553,345</td>
<td>905,280</td>
</tr>
</tbody>
</table>
Across the General Government funds, there is about $2.26 million available to fund CIP projects in 2011-2016. Note that there is no available fund balance in the General Fund due to the $1.34 million revenue shortfall that occurred in 2009.

2011-2012 CIP Funding Summary

The total estimated available funding for capital projects in 2011-2012 is summarized in the following two tables: 1) General Government Funds, and 2) Utility Funds. These amounts are significantly less than what was available for the 2009-2010 biennium.

<table>
<thead>
<tr>
<th>Fund Balance Components</th>
<th>General</th>
<th>Street</th>
<th>Beautification</th>
<th>Municipal Arts</th>
<th>Capital Improv</th>
<th>Tech &amp; Equip</th>
<th>Cap Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Fund Balance for 2011-2012</td>
<td>-</td>
<td>748,207</td>
<td>387,352</td>
<td>339,151</td>
<td>482,141</td>
<td>268,358</td>
<td>34,999</td>
</tr>
<tr>
<td>Revenue Estimate for 2011</td>
<td>-</td>
<td>1,376,000</td>
<td>-</td>
<td>15,900</td>
<td>1,194,000</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td>Revenue Estimate for 2012</td>
<td>-</td>
<td>1,620,000</td>
<td>-</td>
<td>19,600</td>
<td>1,429,000</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td>Estimated Available For 2011-2012</td>
<td>-</td>
<td>3,744,207</td>
<td>387,352</td>
<td>374,651</td>
<td>3,105,141</td>
<td>768,358</td>
<td>34,999</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund Balance Components</th>
<th>Water</th>
<th>Sewer</th>
<th>Stormwater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Fund Balance for 2011-2012</td>
<td>511,358</td>
<td>553,345</td>
<td>905,280</td>
</tr>
<tr>
<td>Revenue Estimate for 2011</td>
<td>908,000</td>
<td>312,000</td>
<td>758,000</td>
</tr>
<tr>
<td>Revenue Estimate for 2012</td>
<td>1,268,000</td>
<td>483,000</td>
<td>816,000</td>
</tr>
<tr>
<td>Estimated Available For 2011-2012</td>
<td>2,687,358</td>
<td>1,348,345</td>
<td>2,479,280</td>
</tr>
</tbody>
</table>

2010 Biennial Citizen Survey

The 2010 biennial citizen survey results will be presented to the Council at their March 15th meeting. The CIP-related results from the survey are summarized in the following table:
<table>
<thead>
<tr>
<th>Survey Question</th>
<th>Rating/Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 3 problems facing the Island</td>
<td>1. Traffic/transportation/parking (19% of respondents)</td>
</tr>
<tr>
<td></td>
<td>2. Education/school funding (13% of respondents)</td>
</tr>
<tr>
<td></td>
<td>3. Overcrowding/overbuilding (11% of respondents)</td>
</tr>
<tr>
<td>Job the City is doing maintaining parks, trails, and open space</td>
<td>90% rating (good or excellent)</td>
</tr>
<tr>
<td>Job the City is doing maintaining streets</td>
<td>72% rating (good or excellent)</td>
</tr>
<tr>
<td>Job the City is doing maintaining sidewalks, and pedestrian/bicycle paths</td>
<td>65% rating (good or excellent)</td>
</tr>
<tr>
<td>Job the City is doing protecting the environment and the water quality on and around the Island</td>
<td>82% rating (good or excellent)</td>
</tr>
<tr>
<td>Likelihood that additional commuter parking for MI residents only would encourage use of public transit</td>
<td>79% said “no difference”</td>
</tr>
</tbody>
</table>

**Significant Issues**

To help staff with the development of the 2011-2016 CIP, Council direction is sought on the following issues:

- **CIP related budget policies**
  - A summary of the City’s current 2009-2010 budget policies related to the CIP is attached as Exhibit 1. A complete copy of the budget policies can be found in the 2009-2010 Final Budget document in Section C. These policies, along with various planning documents, staff’s professional judgment, and funding availability, guide the development of proposed capital projects for the Council’s consideration. **Staff intends to follow these policies in the development of the 2011-2016 CIP unless amended below.** Does the Council agree?

- **CIP administrative overhead costs**
  - For the 2009-2010 Budget, the Council approved staff’s recommendation to charge legitimate administrative support costs contained in the City Manager’s Office, the City Attorney’s Office, and the Finance Department to the CIP ($165,629 in 2009 and $173,289 in 2010). Prior to 2009, the General Fund subsidized the City’s CIP program. Reverting back to a subsidized arrangement in 2011-2012 would increase the projected revenue shortfalls in the General Fund for those years. **Staff recommends that the current policy be extended to the coming biennium.** Does the Council agree?

- **South Fire Station re-construction**
  - In 2010, staff has identified $20,000 to fund the building programming phase of this project. All subsequent phases, however, are currently unfunded. **Given the current and projected state of the economy, staff recommends that the design phase of this project be given a high funding priority in 2011, with the construction phase being slated for 2012, but wholly unfunded.** Does the Council agree?
If REET doesn’t recover sufficiently to fund this project, the Council could opt to go to the voters in November 2011 with a levy lid lift request. **Staff recommends delaying the levy lid lift funding decision until July 2011.** Does the Council agree?

### Real Estate Excise Tax (REET) revenue distribution

- Due to the recession, the City’s policy of maintaining REET funding for streets on an inflation adjusted basis was put on hold for the 2009-2010 biennium. As a result, REET has been distributed evenly between the Street Fund (encompassing street and pedestrian/bicycle facilities projects) and the Capital Improvement Fund (encompassing parks, open space, and facilities projects) in 2009-2010. **Given the current and projected state of the local real estate market, staff recommends maintaining the current 50/50 split between the two funds, unless the prioritization of non-utility projects, described below, results in high priority CRP projects being unfunded. In addition, staff recommends continuing our historical practice of redistributing and appropriating excess REET receipts, if any, as part of the year-end transfer process.** Does the Council agree?

### Prioritization of non-utility projects

- Following the current budget policy, CRP projects will take priority over CFP projects, unless there’s a dedicated or restricted funding source for a CFP project (e.g. November 2008 parks levy lid lift). Does the Council agree?

- In terms of prioritizing CRP projects, overall condition of infrastructure, current level of service relative to target, and external funding availability will be heavily weighted by staff in developing the Preliminary 2011-2016 CIP. Does the Council agree?

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**RECOMMENDATION**

*Finance Director*

MOVE TO: No formal action is required. Provide direction to staff on the significant issues noted above.
2009-2010 CIP-Related Budget Policies

The current 2009-2010 budget policies related to the Capital Improvement Program (CIP) are summarized below. A complete copy of the budget policies can be found in the 2009-2010 Final Budget document in Section C.

- **Investment earnings distribution** (see p. C-7 to C-8 in 2009-2010 Final Budget document)
  
  - This policy was amended by Council on May 18, 2009 at the recommendation of the Finance Director. Excess interest earnings, if any, are distributed to the Capital Reserve Fund (for unspecified CIP projects) after satisfying the following prioritized distributions:
    - Utility Funds, Firemen’s Pension Fund, Youth Services Endowment Fund based on cash balance;
    - $325,000 annually to the General Fund for maintenance and operations;
    - Fire apparatus replacement reserve to make up the difference between the required annual sinking fund charge and the 1.65% property tax levy dedicated for this purpose;
    - LEOFF I long-term care reserve based on cash balance;
    - Contingency Fund based on cash balance; and
    - Street Fund, Capital Fund, and Technology & Equipment Fund for those CIP projects that have investment interest as a budgeted revenue source.

- **Capital Reserve Fund** (see p. C-19 to C-20 in 2009-2010 Final Budget document)
  
  - Accumulate resources via the annual year-end transfer of surplus monies in the “general government” related funds and via the investment interest distribution policy to finance capital facilities projects. Such projects include the construction of new public buildings, major reconstruction of a public building or park, and acquisition of a new park or open space.

  - Currently residing in this fund is $1.0M that is reserved for the PEAK project.

- **Capital Improvement Program—General** (see p. C-45 to C-47 in 2009-2010 Final Budget document)
  
  - The Capital Reinvestment Plan (CRP) focuses on the preservation and maintenance of existing infrastructure. CRP projects are generally funded on a “pay as you go” basis. The Capital Facilities Plan (CFP) includes proposed, new CIP projects. Generally, CFP projects are funded with new revenues. In terms of funding, CRP projects take priority over CFP projects.

  - REET is split 50/50 between the Capital Improvement Fund (100% of REET 1) and the Street Fund (100% of REET 2).

- **Capital Improvement Program—Utilities** (see p. C-39 to C-42 in 2009-2010 Final Budget document)
  
  - Water, sewer, and storm water rates fund capital reinvestment projects in each utility.
• **Street maintenance & construction** (see p. C-49 to C-51 in 2009-2010 Final Budget document)
  
  o The policy of maintaining street funding on an inflation adjusted basis was put on hold for the 2009-2010 biennium. As noted above, REET is split 50/50 between the Capital Improvement Fund and the Street Fund.

• **Fire apparatus replacement** (see p. C-91 to C-92 in 2009-2010 Final Budget document)
  
  o Dedicate 1.6% in banked property tax capacity to fire apparatus replacement beginning in 2008. Any difference in the required annual sinking fund charge will be funded by investment interest earnings or the Contingency Fund, if needed.

• **Luther Burbank Park** (see p. C-69 to C-72 and C-79 to C-81 in 2009-2010 Final Budget document)
  
  o $110,000 (plus 1% optional increase, if approved by the Council) from the parks maintenance and operations levy, which was approved by voters in November 2008 for a 15 year period, is dedicated to small capital improvements at Luther Burbank Park.

• **Trees & urban forest lands** (see p. C-79 to C-81 and C-83 to C-85 in 2009-2010 Final Budget document)
  
  o About $300,000 per year of REET 1 revenue is dedicated to vegetation management and trail improvements in the City’s existing open space areas.
  
  o $77,000 of the parks levy lid lift approved in November 2008 for a 15 year period is dedicated to Pioneer Park Forest Management.
  
  o $65,000 of the parks levy lid lift approved in November 2008 for a 15 year period is dedicated to Open Space Vegetation Management.

• **Police & Fire dispatching** (see p. C-97 to C-98 in 2009-2010 Final Budget document)
  
  o As of 12/31/09, there is $409,385 reserved in the Technology and Equipment Fund to “smooth” the increase in dispatch costs in 2011-2012 related to joining NORCOM.