

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Presentation of the 2012 – 2017 Capital Improvement Plan
DEPARTMENT:	Administrative Services
PRESENTED BY:	Debbie Tarry, Assistant City Manager
ACTION:	Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> <u>X</u> Discussion

PROBLEM/ISSUE STATEMENT:

Tonight, staff will present the proposed 2012-2017 CIP to the City Council. As Council begins to review the Capital Improvement Plan (CIP) there are three major policy issues to consider:

- Balancing the need to maintain and improve the City's facilities, parks and roads within the limited resources currently available to fund these types of projects. The 2012-2017 CIP has fewer projects than previous CIPs as a result of a reduction in resources. Specifically the City's collection of Real Estate Excise Tax (REET) had dropped dramatically since 2005 and collections are expected to remain below historical baseline collections through 2013. Additionally the 2006 Park Bond projects are nearly complete and the Aurora project is expected to be completed in 2014. The reduction in anticipated projects over the six year planning horizon has resulted in an anticipated decrease in capital funded staff positions. Most immediately the 2012 CIP reflects a reduction in 2.5 staff positions.
- The City's Parks, Recreation and Open Space (PROS) Plan, the Transportation Master Plan (TMP), and the Surface Water Master Plan (SWMP) updates will be presented to the City Council later this year. It is anticipated that there will be a number of potential projects that cannot be funded within current CIP resources. Alternative revenue sources will be included in the master plan discussions for Council consideration.
- The Transportation Planning Program has historically been funded within the capital budget, but given that the program has transitioned into an operational focus it should be funded in the City's operational budget. Since incorporation approximately 30% of the City's gambling tax revenue has been allocated for funding capital programs. In order to fund the Transportation Planning Program within the City's operating budget, staff is recommending that Council consider reducing the gambling tax revenue allocation for capital from 30% to 10% by 2015.

The following schedule is proposed to facilitate the adoption of the 2012-2017 CIP:

June 6, 2011	Presentation of 2012-2017 CIP and initial discussion on policy issues
June 13, 2011	Council Discussion on the Proposed 2012-2017 CIP
June 20, 2011	Public Hearing and continued Council discussion on the Proposed 2012-2017 CIP
June 27, 2011	Council Adoption of 2012-2017 CIP

FINANCIAL IMPACT:

The Proposed 2012 – 2017 CIP is balanced as required by the Growth Management Act and totals \$57.78 million. The General Capital Fund totals nearly \$8.6 million; City Facilities/Major Maintenance Fund totals \$591,160; Roads Capital Fund totals \$40.2 million; and Surface Water Utility Fund capital projects totals nearly \$8.4 million.

Capital Fund	2012	2013	2014	2015	2016	2017	Total
General Capital	\$1,751,438	\$1,429,934	\$830,087	\$1,804,346	\$1,114,546	\$1,663,946	\$8,594,297
City Facilities	\$60,000	\$96,000	\$140,000	\$145,000	\$80,160	\$70,000	\$591,160
Roads Capital	\$7,026,346	\$23,771,245	\$3,888,371	\$1,760,142	\$1,881,697	\$1,891,322	\$40,219,123
SWM Capital	\$2,266,288	\$1,860,600	\$1,062,789	\$1,154,211	\$981,265	\$1,049,720	\$8,374,873
CIP By Year	\$11,104,072	\$27,157,779	\$5,921,247	\$4,863,699	\$4,057,668	\$4,674,988	\$57,779,454

RECOMMENDATION

Staff will introduce the 2012-2017 CIP to the City Council this evening. This item is for discussion purposes only. Council discussion is desired regarding the policy issues listed above, the proposed process to review and approve the 2012-2017 CIP and any key questions or issues that Council may wish staff to address as part of the CIP review process.

Approved By: City Manager *Ju* City Attorney ____

Attachment A – Revenue Options

INTRODUCTION

Annually the City Council reviews the proposed six year capital plan. The projects in the plan are usually a subset of projects from the City's surface water, transportation, and parks, recreation, and open space master plans. The six year capital plan is required to have identified funding for all proposed projects and serves as a guide to the City's capital budget over the six year planning period. The Capital Improvement Plan (CIP) serves as a planning document for the City. This being said, the actual cost and scope of projects may vary from those listed in the CIP as they are more clearly defined over time. Projects may be added, modified or even removed during annual CIP updates as financial resources may either increase or decrease or priorities for the City change. The City Council will adopt the 2012-2017 Capital Improvement Plan (CIP) at the end of June and the 2012 project listing will serve as the basis for the 2012 capital budget to be adopted during the City's 2012 budget process.

BACKGROUND

Master Plan Development

As Council is aware, staff is currently developing the Transportation, Surface Water, and Parks and Open Space master plan updates. These plans generally provide for a longer planning horizon than the CIP and include a number of projects that may not have an identified funding source. The following schedule is an estimate of the review process for the plan updates:

PROS Plan

June	Review of the Parks, Recreation and Open Space (PROS) Plan
July	Adoption of the PROS Plan

TMP

June – Sept.	Review of Draft Transportation Master Plan (TMP)
September	Adoption of the TMP
October	Discussion of the TMP – Impact Fee
November	Adoption of TMP – Impact Fee

SWMP

July – Sept.	Review of the Surface Water Master Plan
September	Adoption of the Surface Water Master Plan

Since these plan updates are currently underway, they will not be used in formulating the City's CIP until the development of the 2013 – 2018 CIP.

Funding Sources

As discussed during the Council retreat, the funding sources for capital projects have substantially declined over the past few years due to the impacts of the recession. Staff anticipates that these revenues will not return to pre-recessionary levels for a few years. This has limited the number of projects that could be funded in the proposed 2012 – 2017 CIP. The major funding sources for capital improvements are discussed below.

Real Estate Excise Tax

Real estate excise tax (REET) is the primary funding source for park, facility and transportation improvements. REET is generated when property is sold within the City. Historically, staff estimated that the baseline collection of REET would be \$1.3 to \$1.5 million annually. In 2005, the highest year of collections, the City received more than \$2.6 million of REET. In 2011 the projected REET collection is \$945,984, approximately 38% of what was collected in 2005 and approximately 70% of expected baseline collections. Given the continued sluggish real estate market, staff projects that collections will remain below the historical baseline through 2013. The chart below displays the annual projection for REET that has been included in the proposed CIP.

2011	2012	2013	2014	2015	2016	2017
\$945,984	\$1,018,588	\$1,132,616	\$1,280,174	\$1,481,532	\$1,675,342	\$1,787,196

Approximately \$640,000 of annual REET collections are committed to repay the City Hall bonds. The remaining REET is used for transportation system improvements.

2006 Park Bond

In May of 2006 voters approved issuing nearly \$19 million in general obligation bonds to purchase open spaces and improve parks, trails, and athletic facilities throughout the City. The park bond projects will primarily be completed in 2011 with the remaining bond funds, \$1.1 million, used to complete trail connections in 2012 and 2013.

Grants

Grants continue to be an important source of funding for capital projects. The City has typically received grants to support park improvements, open space acquisitions and transportation improvements. Currently, the Aurora Corridor Improvements 165th – 205th are 90% funded by federal, state and local grants and utility reimbursements. Grants fund 53% of the 2012-2017 CIP, with the most significant portion funding the remaining Aurora Corridor Improvements from 185th to 205th.

Gambling Tax Allocation

It has been Council's policy to allocate an amount equal to 30% of gambling taxes to the Roads Capital Fund to support transportation improvements. For 2011, this allocation is approximately \$450,000. This policy was adopted by Council shortly after incorporation. At that time there was significant concern that the state legislature would reduce the maximum gambling tax rate from 20% to less than 10%. As a precaution, the City Council adopted a policy to allocate gambling taxes equivalent to a 7% gambling tax rate to the City's operating budget. Any tax collections in excess of the 7% tax rate were to be allocated for one-time purposes such as capital funding. The City adopted a gambling tax rate of 11% at incorporation and subsequently other councils lowered the rate to 10%. As the City's gambling tax collections have declined over the past few years, the amount of revenue allocated to fund transportation projects has also declined.

To give some context the City collected approximately \$2.6 million in annual gambling taxes in 2004 and 2005. Since that time collections have declined annually until 2009. Earned gambling taxes in 2010 were nearly \$1.8 million, although two casinos had a

total of \$530,000 in taxes due to the City that were not paid. The 2012-2017 CIP assumes that the City will collect an average of \$1.7 million annually in gambling taxes.

The proposed 2012 – 2017 CIP includes a revision to the Council's current gambling tax policy as a result of moving the Transportation Planning Program from the capital budget to the operating budget. The proposed CIP reduces the allocation of 30% of gambling taxes to 10% by 2015 to provide funding within the City's operating budget for transportation planning. Transportation planning is needed to respond to King County and Sound Transit planning.

Vehicle License Fee

The last significant CIP revenue source is the \$20 vehicle license fee assessed by the Shoreline Transportation Benefit District (TBD). The vehicle license fee generates approximately \$600,000 annually and is dedicated to help fund the City's road surface maintenance program.

Alternative Revenue Sources

The 2012-2017 CIP does not include any new or alternative revenues, but as the master plan updates are reviewed by Council, staff will be presenting alternative revenue sources for Council to consider. Attachment A to this staff report lists a variety of revenue sources that the City Council could consider to either implement or to submit to voters to fund future capital needs. Another source to consider is transportation impact fees, which will be brought to Council in October 2011.

The Long-Range Financial Citizens Advisory Committee (CAC) recommended that future capital priorities include funding for sidewalks, traffic signal synchronization, and increased funding for pavement preservation. Their April 2009 final report to the City Council included the following recommendation:

Voter Approved Increase to the Vehicle License Fee Beyond \$20 (Each \$10 = \$300,000). This would be an expansion of the Transportation Benefit District vehicle license fee. The CAC recommends that the Council consider this as a future revenue source with reservations.

1. This revenue stream could be used for enhanced or new transportation programs. As the CAC believes that the current focus should be on preserving current transportation system programs, it is likely that this revenue source would not come into play for a few years.
2. The City may want to pursue additional polling research to determine if there is a preference amongst Shoreline voters for an additional vehicle license fee or property taxes.
3. The CAC does recognize that once approved by voters this revenue stream does not require repeated ballot measures to maintain the revenue stream like a property tax levy lid lift.

The Surface Water Master Plan Update will include a proposed surface water fee rate structure for the long-term support of operating activities and capital improvements in support of the surface water utility.

Staff may present options for revenue bond or other debt related financing tools to fund capital improvements, but an ongoing revenue source must be identified for the repayment of the debt. For example, surface water fees could be used for the repayment of revenue bonds issued for surface water capital improvements. Debt is usually used to provide the ability to fund projects up front, instead of waiting to collect enough cash to finance the project. The theory is that the repayment of debt over the future is paid by those who are benefiting from the debt funded improvements.

Transportation Planning Program

In the past, the transportation planning function has been included in the Roads Capital portion of the CIP. Over the past few years, the focus of transportation planning was on road and other transportation related capital projects. Recently, there has been a shift in focus from capital to operational activities in the areas of traffic signal synchronization, traffic studies, and transit planning and integration. One example is the light rail station locations and related planning efforts. Staff is recommending that portions of the Transportation Manager (0.3 FTE) and the Transportation Senior Planner position (0.75 FTE) be funded within the general fund starting in 2012. As the Aurora project is completed, the allocation of these staff positions increases until 80% of the Transportation Manager and 100% of the Transportation Senior Planner are funded within the general fund in 2015. This change is reflected in the proposed 2012 – 2017 CIP.

Additionally anticipated contracted services related to the transportation planning program would be funded in the City's general fund. This would require a change in Council policy for the allocation of gambling tax revenue. Currently approximately 30% of the gambling tax is used for capital transportation funding; the proposed change would reduce the level to about 10% by 2015. If this change in gambling tax allocation does not occur, then either the transportation planning program would need to be reduced or eliminated or other programs within the City's operational budget would need to be reduced to provide ongoing funding for the transportation planning program.

Significant Changes from the 2011 – 2016 CIP

In response to the decline of revenues to support capital projects, staff has eliminated some projects that were included in the 2011 – 2016 CIP and greatly reduced the level of funding for others. The following is a list of the major changes included in the proposed 2012-2017 CIP:

General Capital Fund

- Parks Repair & Replacement – Reduced
- Saltwater Park Pedestrian Bridge Major Repairs – Eliminated

Roads Capital Fund

- Curb Ramp, Gutter & Sidewalks – Reduced
- Annual Road Surface Maintenance - Reduced
- 145th Dual Left Turn Lane @ Aurora – Eliminated
- Annual Sidewalk Improvements - Eliminated

Proposed Staffing Changes in 2012-2017 CIP

As a result of the elimination and reduction of capital projects and anticipating the completion of 2006 Park Bond projects in 2013 and the Aurora project in 2014, the required level of capital funded staff positions has decreased within the proposed 2012-2017 CIP. Most immediately there is a reduction of 2.5 staff positions effective January 1, 2012. This includes reducing the Capital Project Technician from full-time to half-time and eliminating an Administrative Assistant and Capital Project Manager position.

The proposed 2012-2017 CIP includes an additional 3.5 FTE reduction from 2013 through 2015. Although this is the case, if the number of capital projects increases as a result of additional funding or a major grant funded project were added, then the staffing needs may change from those proposed.

Proposed 2012-2017 CIP

The Proposed 2012 – 2017 CIP is balanced as required by the Growth Management Act and totals \$57.78 million. The General Capital Fund totals nearly \$8.6 million; City Facilities/Major Maintenance Fund totals \$591,160; Roads Capital Fund totals \$40.2 million; and Surface Water Utility Fund capital projects totals nearly \$8.4 million.

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SUMMARY

As presented, the 2012 – 2017 CIP is balanced; reflects the projected available funding sources; and incorporates projects included in the current Transportation, Surface Water, and Parks and Open Space Master Plans. Staff has recommended transfer of the Transportation Planning Program to the operating budget and a corresponding change in the level of gambling taxes used for capital purposes. As Council reviews the upcoming master plan updates, staff will be presenting additional revenue options to support the CIP.

RECOMMENDATION

Staff will introduce the 2012-2017 CIP to the City Council this evening. This item is for discussion purposes only. Council discussion is desired regarding the policy issues listed above, the proposed process to review and approve the 2012-2017 CIP and any key questions or issues that Council may wish staff to address as part of the CIP review process.

REVENUE OPTIONS			
Revenue Source	Process to Implement	Revenue Potential	Annual Revenue Range
Revenue Generating Business Licenses	City Ordinance – City Council Adoption	Fee may be assessed in different ways: Per employee, square footage, flat amount	Dependent on the structure used to generate the fee.
Gambling Tax - Current City tax rate is 10%, State Law allows up to 20%	City Ordinance – City Council Adoption	For each 1% increase approximately \$170,000 (Assuming current level of card room activity is maintained)	\$170,000 to \$1.7 million
Business & Occupation Tax	City Ordinance – City Council Adoption	For each .1% approximately \$460,000	\$0 to \$1 million
Utility Tax above 6% on natural gas or telephone (Existing City rate is 6%)	Election – Majority Approval Required	For each 1% on natural gas - \$175,000 and for each 1% on telephone - \$292,000	Each 1% increase for both would be \$467,000
Utility tax above 6% on surface water utility fee (Existing City rate is 6%)	City Ordinance – City Council Adoption	For each 1% approximately \$30,000	Each 1% increase \$30,000
Transportation Benefit District – revenue restricted for transportation improvements (maintenance or capital)	Election – Majority Approval Required <ul style="list-style-type: none"> Property Tax – 1 year excess levy Up to 0.2% sales and use tax Up to \$100 annual vehicle fee per vehicle registered 	Voter Approved: <ul style="list-style-type: none"> Vehicle Fee – Each \$10 increase is \$300,000 Sales Tax @ 0.1% = \$590,000 	Voted: <ul style="list-style-type: none"> Vehicle License Fee \$300,000 to \$2.4 Million Sales Tax - \$0 to \$1.2 Million
Impact Fees	Council Ordinance Adoption	Dependent on development activity	Currently under review

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