



CITY OF
BAINBRIDGE ISLAND

Finance and Administrative Services Department Memorandum

TO: City Council

FROM: Doug Schulze, City Manager
Ellen Schroer, Director of Finance and Administrative Services

DATE: September 20, 2016

RE: City of Bainbridge Island 2017-2018 Proposed Budget Summary of Changes

The City of Bainbridge Island prepares a biennial budget. This fall the City Council will adopt a budget for both 2017 and 2018. This two-year budget provides a financial plan for both years, allowing both the Council and City administration to set longer-term priorities and plans.

The 2017-2018 Proposed Budget uses the 2016 Revised Budget as a starting point. From there, City administration has prepared a budget that includes technical adjustments and adjustments to reflect capital and operating priorities. The result is a budget that in large part continues the programs and services currently offered by the City. Ongoing improvement to our revenues and careful choices in added spending allows targeted increases to both staffing and services for the coming years.

The 2017-2018 Proposed Budget includes changes made to address significant priorities of the City Council and administration. For example, the proposed budget includes the capital projects as described in the overview provided to Council and the Planning Commission in August. This proposed set of capital projects continues the City's significant investments in transportation projects, as well as includes funding for the Law and Justice Center.

City staffing is also increased in the proposed budget. To support service delivery and allow staff to deliver the programs and services in the work plan, six new positions are created, one term-limited position is extended, and hours are added to three existing part-time positions. In addition, responsibilities are shifted for one existing position. The total FTE increase is 7.65 across the City. The additional staffing is intended to set staffing at the higher level that is required to meet increased demands for service. In addition, the staffing increase provides the ability to deliver enhanced services related to emergency preparedness, design review, and reporting.

The additional staffing is fully supported by recurring revenues through this biennium.

The 2017-2018 Proposed Budget includes a small number of technical changes required to adjust for known changes to City expenses and operations. Significant items among these technical changes include:

- updated information to reflect changes to starting fund balances and personnel cost distribution across funds;
- updated personnel cost information based on labor contracts and information from the City's health insurance providers, and
- changes to revenue forecasts for items including sales tax, Building and Development Services revenues, and Real Estate and Excise Tax (REET).
- Implementation of an Equipment Rental and Revolving (ER&R Fund). This fund collects funding to be saved and used for replacement of City vehicles. All contributions and uses are tracked by fund.

Utility rates are proposed to stay the same for both Water and Sewer Utilities. The Storm and Surface Water Management (SSWM) rates have been the same. With input from many sources, the City completed a comprehensive review of the SSWM utility in 2015 and used new measurement data in 2016. Using this data, a rate increase for SSWM is required to support the capital and operating program of the utility. The budget proposes a 15% rate increase in 2017, from \$147 to \$169 per year per impervious surface unit.

The attached documents provide a summary of the approach that we have taken to developing the 2017-2018 Proposed Budget. We are also providing you with a budget book, which contains complete policy and financial information related to the budget. All of this information will be posted to the City's website on September 21.

We look forward to your guidance as we finalize this biennial budget.

2017-2018 Proposed Budget

The 2017-2018 Proposed Budget uses the 2016 Revised Budget, and the City’s current programs and services, as a starting point. The changes described below represent the primary differences from the current budget.

Adjustments presented in the Proposed Budget can be grouped into three categories:

- **Budget Initiatives.** The 2017 – 2018 Proposed Budget funds selected initiatives that support the City’s Results, as identified in the Priority Based Budgeting process. These initiatives further City efforts on selected high priority items and represent explicit choices to recognize our obligations and move forward in key areas.
- **Capital Expenditures.** In the course of 2016, City Council expressed support for several significant capital projects that affect the budget in the coming years. Thus, the Proposed Budget includes these anticipated budget impacts and the most recent estimates of project cost and funding sources.
- **Technical.** These are adjustments to reflect known changes in costs to deliver the city’s current services or revenues from current revenue sources. Other changes are the addition of General Fund revenue from the extension of the utility tax and the increase in the SSWM Fund revenue in accordance with the proposed rate increase.

2017 – 2018 Proposed Budget Initiatives – Tax-Supported Funds

The 2017 – 2018 Proposed Budget funds selected initiatives that further City efforts on selected high priority items and represent explicit choices to recognize our obligations and move forward in key areas. These initiatives include partial or full staff positions in five City departments, with a total full-time equivalent increase of 7.65 FTE across the City.

1. **Community Leadership:** The City’s primary function is to provide the mix and level of programs and services that the community desires and can afford, and to provide civic leadership in areas that reflect identified community goals.

- **Emergency Preparedness:**

Increase Emergency Preparedness Coordinator FTE	No new FTE	\$15,000
Increase annual program budget for emergency preparedness		\$15,000
Add funding to initiate an AM radio station (one-time)		\$100,000

- **Begin to Implement Comprehensive Plan Actions:**

Add Long-Range Planner	1.0 FTE	\$105,000
Add funding for consultant services related to actions called for in the Comprehensive Plan		\$100,000
Extend limited-term Water Resources Technician (2017 only)	1.0 FTE	\$86,000

- Financial Reporting

Increase Financial Analyst from part-time to full-time	0.5 FTE	\$49,000
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2. **Service Delivery.** As the economy has improved, the volume and complexity of development across Bainbridge Island has increased, with a corresponding increase in building and planning permits, financial transactions, and inspections.

Add Engineering Manager	1.0 FTE	\$169,000
Add Construction Inspector	1.0 FTE	\$115,000
Move Development Engineers from Planning to Public Works	No change	No change
Add Current Planner	1.0 FTE	\$105,000
Add Accountant	1.0 FTE	105,000
Increase Evidence Technician FTE	0.1 FTE	\$10,000
Increase Deputy City Manager FTE	0.05 FTE	\$11,000

3. **Stewardship:** As responsible stewards of the public’s property, the City carefully plans for and carries out maintenance, repairs, and capital improvements.

- Major Maintenance:

Fuel Tank Removal at Suyematsu Farm	\$60,000
Farmhouse stabilization	\$15,000
Farm irrigation system repairs	\$15,000
Repair to Beach Drive Road End	\$50,000

- Ongoing Repair and Upkeep:

Rockaway Beach stabilization/mitigation	\$85,000
Farm property maintenance	\$40,000
Seasonal labor	\$16,000
Reconfiguration of City Hall related to new staff and current building uses	\$50,000
Tire Changer/Balancer	\$15,000

- Consultant services for specialized tasks or those outside the general work of the City:

Road rating study	\$45,000
On call engineering services	\$25,000
On call survey services	\$25,000
On call testing services	\$25,000

Technical changes

1. **Updated beginning fund balance estimates.** New information based on current performance.
2. **Adjustments to revenue estimates.** Based on 2011 through 2015 performance, selected revenue estimates for 2017 have been revised. Revenue adjustments of more than \$40,000 are highlighted below:

Revenue Source	Change	2017 value
Property Tax	Increase by \$172,000 or 2%	\$7,224,000
Sales and Use Tax	Increase by \$305,000 or 9%	\$3,605,000
Business and Occupation (B&O) Tax	Increase by \$101,000 or 22%	\$552,000
Utility tax on private utilities	Decrease by \$201,000 or 7%	\$2,604,000
Utility tax on City utilities	Increase by \$92,000 or 24%	\$480,000
Commercial Parking Tax	Increase by \$47,000 or 6%	\$847,000
Zoning and Subdivision	Increase by \$170,000 or 113%	\$320,000
Planning Review of Building Permits	Increase by \$70,000 or 93%	\$145,000
Plan Checking	Increase by \$100,000 or 23%	\$530,000
Other Planning	Decrease by \$55,000 or 33%	\$110,000
REET	Increase by \$600,000 or 30%	\$2,600,000
Surplus property sales		\$405,000
Sewer connection/All Other	Increase by \$81,000 or 32%	\$336,600
SSWM Charges	Increase by \$325,000 or 16%	\$2,350,000

3. **Redistribution of Actual Personnel Costs.** As part of the budget development process, the City has reviewed the factors which it uses to distribute personnel costs across operating funds, as discussed with and approved by Council. This summer, we updated the data with which we distribute personnel costs and incorporated this information into the budget. These changes represent a redistribution of personnel expenses rather than a net increase. Across the enterprise, this redistribution results in no net increase to costs, but does reflect the most recent data on the actual use of employee hours by fund.

Within funds, updated cost allocations result in an increase of personnel costs in some funds and a decrease in others. Specifically:

Fund	Change
General Fund	Increase of \$180,000 or 2%
Streets Fund	Decrease of \$30,000 or 0.3%
B&DS Fund	Increase of \$8,000 or 0.1%
Water Fund	Decrease of \$55,000 of 0.6%
Sewer Fund	Decrease of \$42,00 or 0.5%
SSWM Fund	Decrease of \$62,000 or 0.7%

4. Other technical changes to the budget include:

Item	Change
Show Council contingency in operating budget	\$300,000
Increased salary costs due to annual step increases	\$144,000
Increased salary costs due to Cost of Living Adjustment (COLA)	\$246,000
Decrease in Debt Service	(\$168,000)
Decrease in cost to insurance based on cost estimate from WCIA	(\$27,000)

Six-Year Capital Improvement Plan: 2017-2022

The City is working to update the content of the six-year CIP to reflect actual implementation plans with identified funding. The CIP information presented below makes the following assumptions:

- Projects anticipated to be completed in 2016 are not shown (the Wing Point Way Reconstruction project, for example).
- Projects that represent annual/programmatic repair and maintenance are not shown in the CIP because they are included in the operating budget. This is true for annual maintenance programs for roads, facilities, and all three utility funds.
- New projects with identified funding have been added to the CIP, as detailed below.

Project Name	City Funding	Grant Funding	Total
Wyatt Way Reconstruction	\$1.2 million	\$2.5 million	\$3.7 million
Sportsman's Club Road Improvements	\$845,000	\$155,000	\$1.0 million
Wardwell Road Reconstruction and Drainage	\$510,000	N/A	\$510,000
STO Phase 3 (Bridge across Highway 305)	\$1.0 million	\$2.1 million	\$3.1 million
Connecting pathways	\$25,000	N/A	\$25,000
Spot improvements	\$50,000	N/A	\$50,000
Core 40 Miller Bay Road	\$349,000	\$751,000	\$1.1 million
Law and Justice Center (2017 only)	\$3.0 million		TBD
Water Tank Storage Improvements	\$580,000		
Emergency Generator (Water Utility, Head of the Bay)	\$150,000		
Water Treatment Improvements	\$580,000		
Rockaway Intertie (Water Utility)	\$250,000		
Rehabilitate Pump Station (Sewer Utility, Village Pump Station)	\$900,000		
Rehabilitate Pump Station (Sewer Utility, Wing Point Pump Station)	\$550,000		
Replace Beach Sewer Main (Sewer Utility, Lower Lovell)	\$1.2 million		
Ravine Creek Outfall (SSWM)	\$170,000		
Eagle Harbor Drive @ McDonald Creek (SSWM)	\$200,000		
Wardwell Road @ Woodward Creek (SSWM)	\$245,000		

Recurring Revenues and Expenditures

Through the past several years, the City of Bainbridge Island has made a concerted effort to bring and maintain recurring expenses below recurring revenues and to establish prudent reserves. This framework is clearly articulated in the City's financial policies, and forms the foundation of the City's budget approach.

The chart below provides detail related to recurring revenues and recurring expenditures for the tax-supported funds, excluding capital construction, and demonstrates that the budget fully supports recurring expenditures with recurring revenue.

2017 Proposed Budget	
	Tax-Supported Funds
Recurring Revenues	
General Fund Taxes	14,777,247
General Fund Fees/Svc Charges	961,558
Intergovernmental Revenue	313,100
Fines and Forfeits	109,000
Miscellaneous	49,000
Streets	1,408,620
Building and Development Svcs	1,600,000
REET	2,600,000
Civic Improvement	181,000
GO Bond Fund	607,700
LID Bond Fund	62,500
TBD Fund	400,000
Total Recurring Revenues	23,069,725
Recurring Expenditures	
Salary	8,858,200
Benefits	3,578,473
Professional Services	1,321,903
Community Services	509,000
Supplies	604,057
Other Services and Charges	3,848,581
Intergovernmental Services	268,443
Subtotal: Operating Expenditures	18,988,657
Capital Equipment	512,000
Debt Service	2,536,574
Subtotal: Non-Operating Expenditures	3,048,574
Total Recurring Expenditures	22,037,231

The chart below provides detail related to recurring revenues and recurring expenditures for the three utility funds. The Water Fund shows higher expenditures than revenues, an intentional reduction of fund balance. The Sewer Fund shows higher revenues than expenditures, with some capital funding capacity in annual revenues. The SSWM Fund also shows higher revenues than expenditures. The revenue numbers below assume implementation of a rate increase in 2017.

2017 Proposed Budget			
Recurring Revenues	Water Fund	Sewer Fund	SSWM Fund
Charges for Services	1,090,500	3,682,000	2,350,000
Miscellaneous	143,000	336,600	-
Other	-	250,000	3,000
Total Recurring Revenues	1,233,500	4,268,600	2,353,000
Recurring Expenditures			
Salary	415,228	875,338	904,972
Benefits	173,714	369,196	376,040
Professional Services	157,237	135,056	131,089
Supplies	50,805	94,411	64,629
Other Services and Charges	380,057	627,663	369,702
Intergovernmental Services	130,975	548,703	180,987
Subtotal: Operating Expenditures	1,308,016	2,650,367	2,027,419
Capital Equipment	33,000	33,000	33,000
Debt Service	-	1,409,643	52,937
Subtotal: Non-Operating Expenditures	33,000	1,442,643	85,937
Total Recurring Expenditures	1,341,016	4,093,010	2,113,356

General Fund Reserves Detail

In August 2016, the City Council established the following reserve targets and definitions, as included in Resolution 2016-19.

- Emergency Reserve: defined as a reserve to pay for unexpected emergencies that cannot reasonably be accommodated by current budget appropriations. The target for this reserve is \$1.0 million.
- General Fund Minimum Fund Balance: defined by Resolution 2016-19 as the unencumbered fund balance, excluding any amounts held in reserves or otherwise committed funds. The target for this reserve is 25% of General Fund ongoing revenues, or \$4.1 million in 2017.

In addition, there are several subfunds containing amounts tracked for various purposes, such as marine revenues and expenses and public art.

The chart below provides detail behind the total shown for the General Fund, both at the beginning and the end of 2017 and 2018.

Detail behind General Fund Reserves			
	1/1/2017	12/31/2017	12/31/2018
Emergency Reserve	1,000,000	1,000,000	1,000,000
General Fund unencumbered balance		8,186,449	7,216,538
Specially-tracked GF monies	234,000	168,000	168,000
Total General Fund	12,555,571	9,354,449	8,384,538
General Fund Minimum Fund Balance, per policy		4,058,000	4,139,000
Amount above (below) minimum, calculated		4,128,449	3,077,538