SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

ITEM NO:	D-2
DATE:	June 11, 2007
SUBJECT:	Capital Improvement Plan
CONTACT PERSON:	Deborah Knight, City Administrator

ISSUE:

The issue before the City Council is an update on the work completed to date on the revenue analysis necessary to develop a 20-year capital facilities plan and the corresponding 6-Year Capital Improvement Plan (2008-2013).

STAFF RECOMMENDATION:

1. Review and discuss the forecasts for capital budget revenues

    Attachment A – Development Project Buildout Estimates

    Attachment B – Strategic Funds Available Outlook

2. Evaluate potential revenue short-falls
3. Direct staff to areas of concern

BACKGROUND:

The City is currently updating the Capital Facilities Element and Transportation Element of its 2004 Comprehensive Plan as a result of a Decision and Order by the Central Puget Sound Growth Management Hearings Board.

The Growth Management Act (GMA) requires that communities prepare and adopt a Capital Facilities Element in their Comprehensive plans (Revised Code of Washington 36.70A.070). Transportation capital projects are a subset of the Capital Facilities Element. Transportation capital projects are generated out of the Transportation Element.

Section 7(3) of the GMA states that a a capital facilities plan element must consist of:

(a) An inventory of existing capital facilities owned by public entities, showing the locations and capacities of the capital facilities;

(b) A forecast of the future needs of such capital facilities;

(c) The proposed locations and capacities of expanded or new capital facilities;

(d) At least a six-year plan that will finance such capital facilities within projected funding capacities and will clearly identify sources of public money for such purposes; and

(e) A requirement to reassess the land use element if probable funding falls short of meeting existing needs and to ensure that the land use element, capital facilities plan element, and financing plan within the capital facilities plan element are coordinated and consistent.

A capital facility is a structure, street or utility system improvement, or other long-lasting major asset, including land. Capital facilities are provided for public purposes including, but not limited to: streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, domestic water systems, storm and sanitary sewer systems, parks and recreation facilities, and police and protection facilities.

This staff report presents the preliminary revenue forecasts to finance capital facilities.

SUMMARY:

<u>Development Project Build-out Estimates</u>

City staff and consultants have been working to forecast capital budget revenues to the year 2025 generated as a result of new construction (Attachment A – Development Project Build-out Estimates). These revenues include development generated capital revenues, Real Estate Excise Tax, Loans/Bonds, and grants.

Development Generated Capital Revenues include:

- Traffic impact fees
- Park impact fees
- Water general facility charge
- Sewer general facility charge

Developer generated revenues are the backbone funding source for capital projects needed to meet concurrency. Developer generated revenues are intended to ensure that "growth pays for growth". Unfortunately, these revenues can be extremely volatile and are dependent on many factors outside the control of the City including local economic conditions, the housing market, and weather.

It is important for the City to collect sufficient development revenues to support improvements to service new development within the six-year concurrency window because, the GMA requires that the City have a financing strategy in place to maintain adopted levels of service or the development can not proceed because it "doesn't meet concurrency".

The Development Project Buildout Estimates model (Attachment A) estimates only residential development. City staff and consultants are working on a commercial development model based on estimated employment assumptions over the 20-year planning period. However, the residential model provides sufficient information to identify probable funding short-falls requiring Council direction to staff and action.

Build-out Assumptions

The residential revenue model assumes that project build-out occurs over a number of years depending on the number of units in the development:

- Buildout will occur over the next two years for project less than 10 units
- Buildout will occur over the next three years for project of 11-20 units
- Buildout will occur over the next four years for project of 21-40 units
- Buildout will occur over the next five years for project of 41-80 units
- Buildout will occur over the next six years for project over 80 units

This assumption spreads the revenues over a number of years and avoids a bell shaped curve with a large spike in revenues in the middle of the planning period. The model is based on measured, conservative growth estimates.

Year	Dwelling Units	Traffic Impact Fee	Park Impact Fee	Water GFC	Sewer GFC
2007	16	$ -	$ -	$ -	$ -
2008	63	$ 91,850	$ 170,750	$ -	$ -
2009	109	$ 174,515	$ 324,425	$ 420,320	$ 682,950
2010	155	$ 282,898	$ 525,910	$ 499,130	$ 819,540
2011	229	$ 446,391	$ 829,845	$ 803,862	$ 1,338,582
2012	210	$ 396,792	$ 737,640	$ 1,276,722	$ 2,212,758
2013	213	$ 394,955	$ 734,225	$ 1,098,086	$ 1,903,154
2014	202	$ 354,541	$ 659,095	$ 1,082,324	$ 1,875,836
2015	152	$ 293,920	$ 546,400	$ 945,720	$ 1,639,080
2016	96	$ 146,960	$ 273,200	$ 840,640	$ 1,456,960
2017	55	$ 58,784	$ 109,280	$ 420,320	$ 728,480
2018	32	$ 58,784	$ 109,280	$ 168,128	$ 291,392
2019	144	$ 264,528	$ 491,760	$ 168,128	$ 291,392
2020	144	$ 264,528	$ 491,760	$ 756,576	$ 1,311,264
2021	200	$ 367,400	$ 683,000	$ 756,576	$ 1,311,264
2022	200	$ 367,400	$ 683,000	$ 1,050,800	$ 1,821,200
2023	100	$ 183,700	$ 341,500	$ 1,050,800	$ 1,821,200
2024	100	$ 183,700	$ 341,500	$ 525,400	$ 910,600
2025	125	$ 229,625	$ 426,875	$ 525,400	$ 910,600
Grand Totals	**2545**	**$ 4,561,271**	**$ 8,479,445**	**$ 12,388,932**	**$ 21,326,252**

The assumptions from the years 2007-2018 are based upon known or anticipated developments. These are properties where the property owner and/or a third party has expressed interest in actually developing the property. This is referred to as "known growth".

The assumptions for the years 2019-2025 are estimates based on the City's growth targets after the "known growth" has been calculated.

The number of estimated dwelling units, over the 20-year period, equals 2545 and generates the population targets adopted in the Comprehensive Plan (2545 x 2.62 persons per dwelling unit = 6679).

Traffic Impact Fees

The model shows that residential development will generate approximately $8.479 million in Traffic Impact Fees over the 20-year planning period.

Over the period of known growth (2007-2018) Traffic Impact Fees are $2.7 million. It appears that the Traffic Impact Fee is insufficient to fund the transportation projects necessary to maintain concurrency (level of service) over the 20-year planning period.

The City and Eric Irelan from Perteet Engineering are finalizing project cost estimates. Due to market conditions in the construction industry, the cost to construct new roadway projects has increased by double-digits each year over the past five years.

City staff will return to the City Council in July and August for a discussion regarding Traffic Impact fees and recommendations for increasing the fee based on the City's 20-year project list and cost estimates.

Sewer General Facility Charge

The model shows that residential development will generate approximately $21.3 million in Sewer General Facility Charges using the current rate of $9,106 per equivalent residential unit. By policy (subject to Council approval each budget cycle), 60% of the GFC is for current debt service obligations and only 40% is available for new capital projects.

Over the known planning period (2007-2018), the Sewer General Facility charge generates approximately $13.24 million. 40% or $5.29 million is available for proposed capital projects.

The proposed sewer plant upgrade is estimated to cost approximately $15 million dollars. The GFC will be necessary to pay the debt service on bonds and/or low interest public works trust fund loans.

City Council will consider increasing the GFC to fund the wastewater treatment plant upgrades.

The Council may want to direct staff to adjust the Development Project Buildout Estimates to reflect proposed changes in the GFC.

Strategic Funds Available Outlook

A second set of capital budget revenues (Attachment B – Strategic Funds Available Outlook) are somewhat less dependent on market and economic conditions and therefore somewhat less volatile. These revenues include:

- Capital Project fund - Real Estate Excise Tax (REET)
- Stormwater Utility
- Grants
- Debt
- Other

Real Estate Excise tax – REET is levied on the sale of all real estate, measured by the full selling price. State levies at the rate of 1.28% .

Under the revenue model, REET generates between $250,000 and $400,000 over the 20-year planning period. By way of example, the City of Woodinville generates $1.2 million annually in REET as a result of a high assessed value and new commercial development that changes ownership frequently.

The Capital Project Fund (REET 1 and REET 2) is expected to grow at a conservative 3% per year. This percentage could increase to 4% or 5% over the 20-year period if the City develops significant new commercial or multi-family properties.

This revenue estimate may increase after city staff completes the analysis of commercial development.

First quarter percent – REET 1

The City of Sultan may spend REET 1 revenues for any capital purpose identified in a capital improvement plan (CIP) and local capital improvements, including those listed in RCW 35.43.040. This includes LID-type projects such as streets, parks, sewers and water mains, swimming pools and gymnasiums (RCW). It also includes non LID-type projects such as city halls, fire stations and libraries as long as they are listed in a CIP.

Note that cities and towns larger than 5000 population and planning under the GMA - must spend first quarter solely on projects in CIP. RCW Defines capital projects very broadly

Second quarter of one percent – REET 2

REET 2 has more limited uses than REET 1 - streets, water, sewers and parks but not land acquisition for parks.

To be eligible for Public Works Trust Fund, a city must be imposing the optional 1/4 percent real estate excise tax for capital purposes.

Stormwater Utility

The model does not include the stormwater utility. The current staff proposal is to generate $50,000 annual from the stormwater utility fee to dedicate to capital improvements.

Staff is seeking Council feedback on whether to include this funding source in the revenue model.

Grants

The City has been very successful in obtaining grants to support city projects. Grants allow the City to leverage limited city funding sources to complete significant projects.

In 2007, approximately 30% ($1 million) of the revenues for capital improvements are from grants.

City staff and consultants are doing some research to determine whether this level of grant funding is likely to continue.

DISCUSSION:

The City Council is considering a number of related issues that will have an impact on revenue assumptions for the Capital Facilities Plan including:

- Increasing the Sewer General Facility Charge – The City Council reviewed the Sewer Rate Study at its May 10, 2007 meeting. One recommendation is to increase the sewer general facility charge annually to cover the cost of increasing the sewer plant capacity to accommodate new development. The general facility charge could increase from $9,106 in 2007 to $11,422 by 2012.
- Increasing the Sewer Base Rate – City staff and consultants are recommending the City Council increase the sewer base rate from $56.70 effective December 1, 2007 to $72.21 in 2013 to support improvements to the sewer plant necessary to maintain plant capacity and operations for existing customers.
- Financing Strategies the Sewer Plant Upgrade – Part of the discussion during the May 10, 2007 presentation on the Sewer Rate Study was a brief overview of financing strategies for the sewer plant upgrade. The City must increase capacity at the wastewater treatment plant in order to accommodate future residential and commercial growth.

The plant upgrade will cost approximately $15 million. General Facility Charges may not generate sufficient cash flow to pay for the plant upgrade when the funds are needed. The Council will need to adopt a financing strategy to repay bonds and/or Public Works Trust Fund loans secured in years 2009, 2010, and 2011.

- Increasing the Traffic Impact Fee – The City's contract with Perteet Engineering for the Transportation Plan update includes reviewing the City's Traffic Impact Fee. It appears that the Traffic Impact Fee is not sufficient to support the 20-year list of concurrency projects. Council will have an opportunity to discuss the Traffic Impact Fee at its meetings in July and August.
- Establishing a Stormwater Utility – On May 24, 2007, the City Council reviewed a proposal to establish a Stormwater Utility. The proposed six-year stormwater utility budget includes a $50,000/year expenditure for capital improvements such as conveyance upgrades, culvert repair and replacements, and habitat enhancements. Each developed property in Sultan would be assessed a $11-$13 fee per equivalent residential unit based on impervious surface to support operations, maintenance, and capital investment costs.

FISCAL IMPACT:

The fiscal impact to the City is still unknown. The revenue model is coming together and staff is working with consultants to finalize the expenditure assumptions.

What seems apparent from the Development Project Buildout Estimates is that the City Council will need to seriously consider raising capital revenues in order to meet concurrency requirements under the Growth Management Act.

It will not be possible for the City to depend on the volume of residential and/or commercial development to support its capital project needs. In order to be successful, the City Council should adopt a two-pronged strategy:

1. Raise available revenues such as traffic impact fees, park impact fees, sewer base rate, and the sewer general facility charge to ensure that growth-pays-for-growth and that adequate revenues are available to maintain the City's existing infrastructure.
2. Set aside funding in the general fund budget to encourage economic development. Economic development generates both retail sales tax to support the general fund and Real Estate Excise tax as commercial properties are bought and sold. The City needs to develop a serious economic development strategy and support the professional staffing necessary to implement the plan. This will be part of the City Council's budget discussions on June 23 at its budget retreat.

RECOMMENDED ACTION:

1. Review and discuss the forecasts for capital budget revenues
2. Evaluate potential revenue short-falls
3. Direct staff to areas of concern.

ATTACHMENTS

Attachment A – Development Project Buildout Estimates

Attachment B – Strategic Funds Available Outlook

COUNCIL ACTION:

DATE: