SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

ITEM NO:	Budget Hearing
DATE:	November 8, 2007
SUBJECT:	2008 Street and Enterprise Funds
CONTACT PERSON:	Connie Dunn, Public Works Director Deborah Knight, City Administrator

SUMMARY:
This staff report presents the 2008 Street and Enterprise Funds Budget, which is one component of Ordinance 972-07 adopting the 2008 Budget.

The other components of the 2008 Budget – General Fund and Capital Budgets are provided under separate cover.

STAFF RECOMMENDATION:
City Staff recommends the City Council include the proposed 2008 Street and Enterprise Funds as outlined in this agenda cover during the public hearing on Ordinance 972-07 – 2008 Budget.

BACKGROUND:
The 2008 budget is built around the Strategic Budget Initiatives (Budget Themes) discussed by the City Council at its June 2007 budget retreat. These "budget themes" are the basis for the 2008 budget presented by City staff:

- Economic Development
- Community Vision
- Financial Health
- Succession Planning
- Strategic Partnerships

The included 2008 Street and Enterprise Fund outline the proposed revenues and expenditures for the coming year. The Council discussed the 2008 Street and Enterprise Fund Budgets at its October 18, 2007 meeting. Staff has adjusted revenue and expenditures to balance the 2008 street and enterprise funds presenting a balanced budget to Council.

Street Fund:

Total Revenues	$283,582.00
Total Expenses	$233,281.00
Balance	$50,301.00

The street fund receives 10% of property tax revenues ($70,000) by Council Policy. All of the B&O Electric revenues ($54,024), Motor Vehicle Excise Tax ($113,658), contributions, Street Project ($40,400.00) and right-of-way permit's ($5,000).

The City realized budget shortfalls cutting the street budget to minimal expenditures for the fourth quarter of 2007. A budget crisis continues in the 2208 street fund. The Public Works Department has trimmed the budget to include street lights, insurance, and minimal maintenance including the purchase of some street signs:

- Staff time (approximately 3.21 FTE) $153,110.05, this includes storm water, which will be reallocated when the Storm Water Utility Fees are set.
- Equipment and materials for repair and maintenance activities approx. $ 12,000
- Operating street lights $35,000, which is funded with B&O Electric Utility Tax. The City will be adding approximately 20 street lights in 2008 in new plats as building of homes occur which will be in addition to the existing $35,000.
- Maintaining the City's rights-of-way approximately $10,000
- Debt service on the street sweeper $9,754 (this is the final payment)
- Shared costs distributed to all funds approximately $20,000

Establishing the storm water utility will shift some expenses such as street sweeping, catch basin repair and vactoring from the Street Fund to the Storm water Utility in 2008.

Enterprise Funds

Communities establish enterprise funds for their business type services (e.g., water, sewer, trash disposal, ambulance services, skating rinks, pools, golf courses, airports, dock and wharf facilities). An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with the revenues and expenses of the General Fund.

Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service. With all the direct and indirect costs (e.g., interdepartmental support, health and insurance costs), debt service and capital expenditures associated

with providing the service in a consolidated fund, the community will be able to readily identify the true cost of the service.

The City has four established enterprise funds – cemetery, garbage, water, and wastewater (sewer). City staff anticipates the Council will approve establishing the storm water utility. The 2008 budget includes anticipated revenues and expenses to operate the storm water utility.

Cemetery:

Total Revenues	$23,000.00
Total Expenses	$20,838.00
Balance	$2,162.00

Endowment Care Revenues are estimated at $2,500.00, these revenues are received into a separate interest bearing reserve fund.

The City of Sultan operates its own cemetery located at 32840 Cascade View Drive. The cemetery was founded September 10, 1910. There are currently 2,500 lots sold with approximately 300 lots remaining without expansion to the ball field. The City is currently interfacing with Snohomish County Solid Waste Department regarding a Green Waste Facility on Cascade View Drive on a portion or the entire City owned property adjacent to the Cemetery.
Cemetery operating expenses are funded by lot sales ($11,250 anticipated in 2008) burial and liner fees ($8,750) and investment interest from the endowment care fund ($3,000) for total revenues of $23,000.

City staff proposes to complete the niche wall for ash burials and the entrance sign submitted to the City Council on May 24, 2007 for discussion and direction. The niche wall and entrance sign will be paid by using the cemetery ending fund balance – fund balance will be approximately $32,000.

City staff also proposes to contract with a private provider for grave site "open/close" services. The private provider would be obtained through a request for proposal (RFP) process. The cost for the private provider is estimated at $9,000 in 2008. There is an offsetting credit for this expense on the revenue side of the ledger so there is no net cost to the City.

Garbage:

Total Revenues	$573,198.00
Total Expenses	$556,027.00
Balance	$17,171.00

The City of Sultan provides garbage collection services to residential and commercial customers. The City has approximately 1,320 residential and 80 commercial customers. The City currently collects garbage three days per week using a two-man crew and a single garbage truck. Rabanco collects recycling from residential and commercial customers through a franchise agreement with the City of Sultan.

The majority of revenues for the garbage fund come from fees for service:

- Residential and commercial accounts - approximately $480,000.00
- Recycling charges approximately $58,800.00 (offset by recycling expense)
- Dumpster rental fees $17,853.00

Expenses in the garbage fund include:

- Salary and benefits for 3.18 FTE - $182,551.35
- Distributed expenses (office supplies, legal fees, planning costs, etc.) $29,000.00
- Vehicle operation, maintenance and repairs (gas and repairs) $45,000.00
- Disposal fees $261,000.00
- Purchasing new commercial dumpsters for rent $14,340.00 (offset by dumpster rental fees)
- Shared costs for replacing the power pole and installing meters at the PW shop $10,000.00

The City purchased a garbage truck in 2006. There will be budget amendment at the end of 2007 to determine the amount to transfer from the garbage reserve fund to equipment replacement in 2007 and a $20,000 transfer from the operating budget in 2008 to begin setting aside money for replacing the garbage truck. The garbage truck is on a 10 year depreciation schedule.

With the forecast of approximately 35 new homes being occupied within the City of Sultan along the Sultan Basin Road in 2008, the garbage crew will need to work even more efficiently to continue the high quality service existing customers have come to expect. 2008 may be the year garbage route service extends into the fourth day of the week. An additional public works crewmember may be needed to provide garbage collection to new residences. This has not been budgeted in 2008 pending verification of need.

Utility Water Fund

Total Revenues	$912,555.00
Total Expenses	$911,310.00
Balance	$1,245.00)

The City of Sultan owns its own watershed in Township 28, Section 16, Range 8 east. The water impound area is spring fed with a small concrete dam creating Lake 16 in 1911; in 1993 the Department of Ecology verified these rights at 2,000 gallons per

minute. The intake at the dam is two miles north of the Water Treatment Plant on 124th Ave SE. In 1999, the City negotiated a contract with the City of Everett to provide access to 2.66 gallons per day from Pipeline 5.
The water plant has a number of programs planned or underway with associated expenses reflected in the 2008 budget for each of these programs:

- Replacing mechanical meters with electronic meters – Capital Outlay Equipment $100,000.00. This investment will require a $100,000.00 transfer in from the Utility Water capital account (Fund #407). Mechanical meters have been replaced with electronic meters for county and the majority of commercial customers. There are approximately 1,445 residential customers remaining, the amount in the 2008 budget is approximately 40% of those remaining. Replacing mechanical meters is an important part of the Water Efficiency Rule requirements adopted by the State Legislature in 2003 with a January 1, 2008 deadline to meet the requirements for all systems with 1,000 connections or more.

  The 2003 Municipal Water Law required that the Washington Department of Health (DOH) must develop a set of conservation regulations by December 2005. The initial pre-draft regulations received over 700 comments and resulted in delays for the rule. The hearings for the formal draft were held in late August and again resulted in a huge volume of written and oral testimony. As a result, the intended date for rule adoption was delayed with final adoption in late spring of 2007. The time devoted to this effort truly indicates the diversity of interests and parties involved in this process. We know that the final rule has several elements that will affect Sultan and its water customers.

  City staff will be bringing this Rule, which went into effect in January 2007, and its requirements to the City Council for discussion in January 2008.

- Department of Health Sanitary Survey Compliance – $6,000.00. The Department of Health recently completed its sanitary survey of the water treatment plant. Elements of the Survey include source, treatment, distribution system, water storage, pumps, monitoring and reporting, system management and operations, and operator certificates.

  The final survey report states the water plant will need additional pump redundancy, additional alarms, and phone/computer upgrades. Costs are divided between Capital Equipment $14,500.00, Small Tools $6,000.00 and Professional Services $2,000.00.

- Water Rate Study – Professional Services $45,000.00. City staff is recommending the City fund a water rate study in 2008. The Water Debt Service Fund had adequate reserves to pay for three years of debt service with minimal contributions from new users. There is no specified amount in the monthly service fee that is allocated to debt service. The City has been allocating $500.00 of the connection fee to debt service and it is anticipated that this will

need to be increased. Shows the Utility Water Funding, an enterprise fund, being in balance by $1,245.00, which is a strong indicator a water rate study is needed in Sultan.

A study would determine if adequate funding is available for future capital and debt service needs. Without a study the City may not be able to cover the costs of debt service and capital improvements needed to serve existing and new customers.

- Other fund goals for 2008 include – developing and implementing a Valve Exercising Program, a Fire Hydrant operation and maintenance program, continue to develop the Cross Connection Program, and continue to meet all State and Federal Requirements.

Revenues:

- The majority of revenues for the Utility Water Fund come from water sales ($738,375.00) inspection fees ($40,400.00) for new development, and turn-on and turn-off fees ($17,500.00).
- Water connection charges are a pass-through cost with an administrative fee ($10,500.00) for new customers.
- There is a proposed operating transfer in from the water capital account for electronic meters ($100,000.00).

Expenditures include:

- Salaries and benefits for 5.82 FTE including a portion of the city administrator, deputy finance director, public works director and utility billing clerk– $396,524.76.
- Operating supplies, small tools for plant operations and new connections - $70,000.00. This includes the cost of supplying meters to 35 new single family homes.
- Distributed expenses (office supplies, legal fees, planning costs, insurance etc.) $225,430.00.
- Miscellaneous expenses including water fluoride testing, annual water quality report, and water plant operating fee - $9,000.00
- Interfund water/sewer bonds - $50,000.00
- Excise taxes - $39,000.00
- Capital outlay - $143,500.00 for electronic water meters, backhoe bucket, phone/computer equipment for Sanitary Survey compliance, and a portion of the proposed vactor truck that will be shared with the storm water utility.
- Operating transfer out to equipment replacement fund - $40,000.00 for a proposed 4x4 truck for the Water Department Staff to use.

Utility Sewer:

Total Revenues	$1,042,900.00
Total Expenses	$976,958.00
Balance	$65,942.00

The wastewater treatment plant is located on West Stevens Avenue. The current plant was constructed in 1998, replacing the original 1969 plant.

The National Pollution Discharge Elimination System (NPDES) permit number WA-0023302 requires the City to monitor the Wastewater Treatment Plant Outfall Effluent into the Skykomish River for metals, temperature, pH, turbidity, suspended solids and fecal coli form. The Plant uses ultra-violet lights for disinfection, which minimizes pollutants and chemical byproducts discharged into the receiving water.

In mid-2007, there was a shortage of sawdust to mix with biosolids. The City's previous vendor Groco notified the City that they would be unable to accept the City's biosolids at the current rate and would be increasing fees and decreasing the amount they could receive. As a result, the City had to split hauling plant solids between Groco and the Town of La Conner. This has resulted in additional expense for gas and disposal. The City will need to continue working with the City of Monroe to form a Regional Bio-Solids Hauling Center. The City of Monroe will be opening a Compost Facility by end of 2009; Sultan will once again enter into an interlocal agreement with Monroe to accept Sultan's sludge.

The plant capacity is operating between 35% in the dry season and 70% in the wet season. With continue work on the infill and infiltration study (I&I Study), the wet season operating capacity will decline providing additional plant capacity for infill and commercial development in Sultan.

The primary focus of the Sewer Utility in 2008 is to continue with the design of the MBR Treatment Plant as the City Council approved in the 2007 Engineering Report. The sewer plant upgrade is part of the City's capital budget.

Revenues:

- The majority of revenues come from sewer service fees ($998,000.00). This reflects the increase in the monthly base rate from $52.00 to $56.70 approved by Council in Ordinance No. 961-07.
- Sewer inspection fees are estimated at $40,400.00 and are offset on the expense side in the professional services line item. Engineering services are estimated at $3,500.00 and are off-set on the expense side under construction review costs.

Expenses

- Salaries and benefits for 6.24 FTE including a portion of the city administrator, deputy finance director, public works director and utility billing clerk– $409,436.59.

- Operating supplies and small tools for plant operations - $109,500.00. This includes chemicals, oils, grease, lab supplies, UV lights, freightliner service etc.
- Distributed expenses (office supplies, legal fees, planning costs, insurance etc.) between City Hall Administration, WWTP Staff and Public Works - $115,057.00
- Sludge hauling $50,000.00
- Professional services including support in Olympia for securing a state allocation for the Plant upgrade - $18,000.00, WWTP Upgrade Design - $30,000.00, Engineer MBR's - $160,000.00 and Sewer Demand Study - $40,000.00.
- Miscellaneous expenses including collecting system repair, yard lights and sensors and non-potable water maintenance - $17,257.00
- Interfund water/sewer bonds - $50,000.00
- Excise taxes - $19,200.00
- Capital Outlay Building - $10,000.00 Shared costs for replacing the power pole and splitting power at the building at 703, 705 and 707 1st Street.
- Capital equipment - $7,950.00 for refrigerator, dishwasher, desicator cabinet, air compressor and portion of the backhoe bucket.
- Operating transfer out to equipment replacement fund - $10,000.00 for a portion of a light duty vehicle for the public works crew.
- Debt Service is paying for previous improvements on the Sultan's system collected from General Facility Charges and Monthly Rate Payers.

Storm Water Utility:

The City is seeking to adopt a storm water utility to address flooding, water quality and riparian habitat needs within the City. A storm water utility fee is used to finance storm water operations, maintenance and capital improvements. The utility fee raises the revenues needed to fund Sultan's Storm Water Management program. A SEPA checklist prepared June 2005 for the 2003 Surface Water Management Plan. This program will bring the City into compliance with federal regulations and a compliance order from the Growth Management Hearings Board in Fallgatter VIII.

The City has discussed the storm water utility throughout the year. A public hearing was held on June 17, 2007 at the Sultan Planning Board meeting and City Council on August 9, 2007. City staff will return with an adopting ordinance prior to the end of 2008 for Council approval.

Residential property owners will pay a flat fee of $12.35/month based on the average equivalent residential unit (ERU) of 4,519 square feet. All residential units are considered to be 1 ERU regardless of size.

Non-residential properties are converted into ERUs based on the amount of impervious surface area on the property. The City's consultant has recently completed

an analysis of commercial properties within the city to calculate exact utility fees based on the amount of impervious surface. Staff is currently auditing this work to ensure its accuracy.

Annual Budget:

Costs to operating a storm water utility are broken down into two categories:

1. Ongoing costs or costs of conducting Operations and Maintenance, and associated administrative costs for the storm water system.
2. One-time costs or capital improvements

The City currently maintains 3 detention ponds, 15 infiltration trenches, 592 inlets and 5 outlets. The proposed six-year budget is as follows. The first year (2008) budget includes start up capital equipment costs such as a utility pick-up, computer, and inspection equipment. Debt service payments are for a vactor truck and street sweeper.

Employees						
Public Works Director	0.33	0.33	0.33	0.33	0.33	0.33
Administrative Assistant	0.17	0.17	0.17	0.17	0.17	0.17
Stormwater Engineer	1	1	1	1	1	1
Inspector	0.5	0.5	0.5	0.5	0.5	0.5
Utility Worker	1	1	1	1	1	1
Total	**3**	**3**	**3**	**3**	**3**	**3**

Storm Water Budget:

Surface water Fund	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
# of full-time Equivalent employees	3	3	3	3	3	3
Salaries and Wages	$ 209,300	$216,626	$224,207	$232,055	$240,177	$ 248,583
Benefits	$ 52,325	$ 54,156	$ 56,052	$ 58,014	$ 60,044	$ 62,146
Operating Supplies	$ 12,000	$ 12,240	$ 12,485	$ 12,734	$ 12,989	$ 13,444
Other Services/charges	$ 115,000	$ 40,750	$ 16,538	$ 17,364	$ 18,233	$ 19,144
Intergovernmental Services	$ -	$ -	$ -	$ -		$ -
Capital Outlay	$ 62,000	$ 21,000	$ 21,000	$ 21,000	$ 21,000	$ 23,000
Debt Service Payment w/ Interest	$ 29,631	$ 29,631	$ 29,631	$ 29,631	29,631	$ 29,631
Operating Transfer Out to Capital Improvement	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000

Total Surface Water Fund	$ 521,625	$344,772	$330,282	$341,167	$352,442	$ 366,316

Storm Water Budget Detail:

Other Services/Charges						
Surface Water Comp Plan	100000	25000	0	0	0	0
Professional Services	15000	15750	16538	17364	18233	19144
Total Other Svc/Charges	115000	40750	16538	17364	18233	19144
Capital Outlay						
Truck	40000	5000	5000	5000	5000	5000
Computer	2000	0	0	0	0	2000
Inspection Equipment	5000	1000	1000	1000	1000	1000
Minor Repairs (<$5k)	15000	15000	15000	15000	15000	15000
Total	**62000**	**21000**	**21000**	**21000**	**21000**	**23000**
Debt Service Payments						
Vactor	14000	14000	14000	14000	14000	14000
Sweeper	7000	7000	7000	7000	7000	7000
2002 Water Quality Report	8631	8631	8631	8631	8631	8631
Total	**29631**	**29631**	**29631**	**29631**	**29631**	**29631**

RECOMMENDED ACTION:

Review and discuss the proposed 2008 budget for the street enterprise funds - water, waste water, cemetery, garbage, and storm water, and capital expenditures and direct staff to areas of concern.

COUNCIL ACTION:

DATE: