SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

ITEM NO: A-4

DATE: November 15, 2007

SUBJECT: 2008 Capital Budget

CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The issue before the City Council is approving the 2008 Capital Budget.

City Staff recommend the City Council approve the proposed 2008 Capital Budget as outlined in Attachment A.

SUMMARY:

This staff report presents the 2008 Capital Budget which is one component of the 2008 Budget.

The other components of the 2008 Budget – General Fund, Street Fund, and Enterprise Funds are provided under separate cover.

Second reading of the ordinances to adopt the Capital Budget Funds – REET I and REET 2, Park Impact Fund, Trasportation Impact Fund and Stormwater Utility Fund are on the Consent Agenda for November 15, 2007.

Summary of Changes to the 2008 Capital Budget

The City Council discussed the 2008 Capital Budget at its November 8, 2007 meeting.

Following internal discussions, City staff are recommending that the City Council delay including the High Level Reservoir in the Capital Budget until the City Engineer has a more detailed project cost estimate for Council to review.

2008 Capital Budget

The attached 2008 Capital Budget outlines the proposed project expenditures and funding sources for the capital projects the City will be working on in the coming year. Capital project expenditures for 2008 must be included in the City's adopted 2008 Budget.

The policy question for the City Council is whether the capital projects, proposed expenditures, and revenue sources address the City's short- and long-range capital investment priorities. In other words, are these the projects Council wants to focus on in the coming year, are the expenditures adequate for the level of work, and are the funding sources appropriate? Attachment B includes the complete list of proposed projects and expenditures with the changes discussed at the November 8, 2007 meeting.

2008 Funding Source	**2008 Beginning Balance**	**Anticipated 2008 Revenues**	**2008 Total**
Real Estate Excise Tax 1	$109,000	$62,500	$171,500
Real Estate Excise Tax 2	$109,000	$62,500	$171,500
Transportation Impact Fees	$652,000	$56,947	$708,947
Park Impact Fees	$153,739	$112,695	$266,434
Sewer System Imp.	$27,318	$167,456	$194,774
Water Utility Reserve	$1,124,500	$162,874	$1,287,374
Surface Water Utility	$0	$50,000	$50,000
Grants	$1,250,000	$1,603,914	$2,853,914
Loans (PWTF)	$500,000	$0	$500,000
Private Contributions	$0	$10,000	$10,000
Developer Contributions (Twin Rivers RR crossing)	$0	$10,000	$10,000
Special Parks Fund (Treasurer's Trust)	$138,217	$0	$138,217
Total revenues	$4,063,774	$2,292,056	$6,355,830
Total 2008 proposed construction expenses			<$3,243,473
Transfer Debt Service			$627,776
2008 Ending Balance			$2,484,581

City staff have reviewed the proposed capital project expenditures against available revenues. Page 2 of Attachment A provides a detail of capital fund beginning balances for 2008, expected revenues for each fund, and the proposed project expenditures.

If projects and expenses proceed as planned, the City should have approximately $2,484,581 million at the beginning of 2009 to fund completion of on-going projects and add new projects to the list. The majority of the balance is from water utility reserves ($662,347) and anticipated grants ($1,467,831).

Real Estate Excise Tax

Sultan has levied two 1/4% real estate excise taxes. Each 1/4% should yield approximately $62,500 in revenue annually. Currently the two ¼% taxes are commingled. The revenue is allocated to the Capital Projects Fund.

The Revised Code of Washington 82.46 authorizes a real estate excise tax levy of 1/4%.

The Growth Management Act authorizes another 1/4% real estate excise tax to be used primarily for financing capital facilities specified in the City's capital facilities plan. Revenues from this tax must be used for financing capital facilities specified in the City's capital facilities plan.

City staff recommend the City Council approve Ordinance 967-07 and Ordinance 968-07 creating separate REET 1 and REET 2 Capital Project Funds.

REET 2 (second 1/4% real estate excise tax revenue) funds are restricted and may only be used for the following:

1) The planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation or improvement of: streets, roads, sidewalks, street and road lighting systems, and storm and sanitary sewer systems, and

2) The planning, construction, reconstruction, repair, rehabilitation, or improvement of parks and recreation facilities.

	REET 1	REET 2
2008 Beginning Balance	$109,000	$109,000
2008 Revenues	$62,500	$62,500
Total Revenues	$171,500	$171,500

2008 Expenditures		
Debt Service	$100,000	27,776
Sultan Basin Rd Overlay	$60,000	$140,000
Ending Balance	$11,500	$3,724

Note that the 2008 beginning balance and 2008 revenues have been changed since the Council reviewed the draft 2008 Capital Budget on October 18, 2007 because the budget amendment moved the Post Office Rent to the General Fund and additional funds were needed from REET 1 to make the bond payments on the Community Center. In order to maintain a positive balance in the REET 1 fund, expenses for Skate Park project will be paid using Park Impact Fees. The debt service payment of $27,776 is for the Main Street Project completed in 1988. 2008 is the final payment.

Transportation Impact Fees

The Transportation Impact Fee collects fees from developers for transportation construction and engineering costs. The fee is based on the number of car trips a development will generate and how those trips will impact areas of the City. Impact fee revenue is dependent on the types and level of development within the City. The fee is currently $1,837 per peak hour trip. The estimated revenue is $56,947 and is based on 31 single family building permits in 2008.

Park Impact Fees

The Park Impact Fee was established to set aside money for park facility planning, land acquisition, site improvements, construction, and engineering costs. The fee was increased to $3,415 per residential and multi-family dwelling unit in 2006. The estimated revenue from this tax is expected to be $105,865 and is based on 31 single family building permits in 2008.

	Transportation Impact Fee	Park Impact Fee
2008 Beginning Balance	$652,000	$153,739
2008 Revenues	$56,947	$105,865
Total Revenues	$708,947	$259,604

2008 Expenditures	Transportation Impact Fee	Park Impact Fee
Debt Service	$0	$0
Sultan Basin Rd Sidewalk	$500,000	
Park – west side		$120,173
Skate Park		$75,000
Ending Balance	$208,947	$64,431

The Skate Park Project will be paid using Park Impact Fees rather than REET 1 Funds as originally proposed during discussion of the Capital Budget on October 18, 2007.

Staff recommend Council approve Ordinance 969-07 and Ordinance 970-07 creating separate Transportation and Park Impact Funds.

Sewer System Improvement Fund
The Sewer System Improvement fund was established to fund construction, reconstruction, and expansion of sewer lines, treatment plants, and other related facilities and to reduce infiltration and inflow into the sewer treatment plant.

The City Council has made a policy decision that 40% of the revenues that come from new connection fees (general facility charge) will be dedicated to sewer system improvements. The remaining 60% of the fee will be used to pay for debt service. For example, 40% of the general facilities charge collected will be used to pay for the Public Works Trust Fund Loans borrowed to upgrade the existing waste water treatment plan.

The general facility charge will increase to $11,282 on January 1, 2008. The City anticipates that two developers will pay their fees in 2007 prior to the fee increase. The City anticipates collecting general facility charges for approximately 26 building permits in 2008.

Water System Improvement Fund
The Water System Improvement Fund is used for the construction, extension, repair and betterment of the municipal water system, and headworks and reservoir, or for the purchase of rights-of-way, and/or necessary land.

The fee to connect to the water system is $5,254 per equivalent residential unit. The City anticipates 31 new connections in 2008 generating approximately $162,847 in revenues.

The City is currently allocating $500 of the water connection fee (water general facility charge) to debt service.

City staff recommend that a Water Rate Study be completed to determine if adequate funding is available for future capital needs and debt service needs.

	Sewer Capital	Water Capital
2008 Beginning Balance	$27,318	$1,124,500
2008 Revenues	$167,456	$162,847
Total Revenues	$194,774	$1,287,347

2008 Expenditures		
Debt Service	$0	$500,000
~~Highlevel reservoir and transmission line - Design~~		~~$200,000~~
Sultan Basin Rd - waterline		$100,000
Sultan River Crossing, 12" - Design only		$25,000
2008 Expenditures		
Inflow and Infiltration Rehabilitation	$60,000	
Sultan River Crossing, 12" force main - design only	$25,000	
Waste water treatment plant - short term	$109,000	
Ending Balance	**$774**	**~~$462,374~~ $662,374**

Surface Water Capital Reserve

The Surface Water Reserve Fund will be established with surplus monies from the Surface Water Utlity Fund for the planning, acquisition, construction, reconstruction, repair, rehabilitation, or improvement of surface water or stormwater facilities. The Utility is expected to go into effect in January 2008. City staff recommend setting aside $50,000 from the utility fees to fund surface water capital projects. No projects are planned in 2008 in order to allow the fund to build sufficient revenues for future projects as identified in the Storm Water Quality Report adopted by the City Council in 2006.

	Storm Water Capital Reserve
2008 Beginning Balance	$0
2008 Revenues	$50,000
Total Revenues	$50,000

2008 Expenditures	
Debt Service	$0
Ending Balance	$50,000

Grants

The City will complete construction on a number of grant funded projects in 2007. However, final billing, project acceptance and the release of retainage, in accordance with state law, will keep the following projects on the books into 2008:

Date Avenue Phase II -	$185,000	Community Development Block Grant
Light Guard Crossing -	$60,000	Community Development Block Grant
Reese/Sportsmen Parks -	$111,256	Community Development Block Grant

The City is working to build funding for Sultan Basin Road Phase III

Award	Year	Phase	Source
$1,009,000	2006	Design and property acquisition	Puget Sound Regional Council - Transportation Improvement Board (PSRC-TIB)
$250,000	2007	Design	Puget Sound Regional Council – Rural Town Corridors
$500,000	2008	Construction	Surface Transportation Projects (Rural) – STP(R)
Total $1,759,000			

New Grant Applications for 2008

Although the City may receive grant funding in a particular year, it typically takes two years to complete the grant paperwork and begin the design process. Construction usually follows in the second or third year following the grant award.

2nd Street – Phase II may be an exception as Phase I design is complete and waiting award of funding for Phase II to begin.

Project	Award Amount	Phase	Source
6th Street Overlay	$61,816	Design/ Construction	Puget Sound Regional Council - Transportation Improvement Board (PSRC-TIB)
6th Street Sidewalk	$12,271	Design/ Construction	Puget Sound Regional Council - Transportation Improvement Board (PSRC-TIB)
2nd Street Reconstruction - Phase II	$250,000	Construction	Community Development Block Grant (CDBG)
Sultan Basin Road – Phase III	$500,000	Construction	Surface Transportation Projects (Rural) – STP(R)
Sultan Basin Community Park	$500,000	Acquisition	IAC (Interagency Committee for Outdoor Recreation):
Park – Westside	$279,827	Acquisition	FEMA/Hazard Mitigation
Total	**$1,603,914**		

Debt

The City received a $1,000,000 Public Works Trust Fund Loan in 2006 for engineering and design of the Waste Water Treatment Plant Upgrade.

City staff are uncertain at this point whether the City will receive sufficient connection fees to cover the cost of the loan payment if the City takes the final $500,000 draw in 2008. Staff will return to Council in December or January with an update and recommendation.

The Washington State Public Works Board offered the City of Sultan a $1 million dollar pre-construction low interest loan for design of the Waste Water Treatment Facility. At the September 28, 2006 Council meeting, the City Council approved a 2% interest

Public Works Trust Fund Loan (PWTF) with a 5% match over 5 years. The City's match is $50,000 and will be paid from a combination of connection fees and private development funds. This is a five-year loan with interest only due in 2007. On the current work schedule, the City will have completed the loan draws by 2008 and will need to make Principal and Interest payments on the loan.

The City has made one draw of $250,000. The City will have to take a second draw of $250,000 shortly to pay for the MBR engineering and design. Payments are made annually. The first payment is an interest only payment and is due on June 1, 2007. The second payment is a principal and interest payment due on June 1, 2008.

The City may convert to a loan when the project is closed out. The loan can be converted to a 20-year loan after the project goes to bid. Converting to a 20-year loan will reduce the City's annual loan payments.

The total cost for the design phase is $1.8 million. To date the City has $1 million in secured PWTF loan money and will need to secure an additional $800,000 to complete the design. At the current connection fee rate, that equates to 88 new connections and 100% capacity about 2012. Since design, permitting and construction will take at least three years, the process of adding capacity will need to start about 2008. The PWTF loan will fund the design phase.

Private and Developer Contributions

The City receives contributions toward capital projects from private parties and developers. There is a place holder in the 2008 capital budget for improvements to the rail road crossing at Foundry Drive.

2009-2014 Capital Improvement Plan

The capital budget should not be confused with the Capital Improvement Program (CIP). The capital budget represents the first year of the Capital Improvement Plan. The capital budget is a City's annual appropriation for capital spending and is the legally adopted City budget. The capital budget authorizes specific projects and appropriates specific funding for those projects. The capital budget is usually adopted in conjunction with the the City's operating budget and provides the legal authority to proceed with specific projects.

Projects and financing sources listed in the CIP for years other than Year 1 (years 2-6) are not authorized until the annual budget for those years is legally adopted. Years 2-6 serve only as a guide for future planning and are subject to further review and modification in subsequent years.

With approval of the proposed 2008 Capital Budget, the City will be ready to begin the process of evaluating and prioritizing projects for the 2009-2014 Capital Improvement Plan. The CIP is the tool for evaluating, planning and implementing the

recommendations of individual studies such as the Industrial Park Master Plan, General Sewer Plan, Water System Plan, and Water Quality Report, and to meet concurrency requirements (public improvements made concurrent with growth) under the Growth Management Act. The City will need to begin the process of preparing the 2009-2014 Six-Year CIP in order to have capital project expenses and funding sources identified for the 2009 budget.

RECOMMENDATION:

City Staff recommend the City Council approve the proposed 2008 Capital Budget as outlined in Attachment A..

ATTACHMENTS:

Attachment A – Proposed 2008 Capital Budget

Capital Budget
2008

	2008 CIP Expenditures				2008 CIP Expenditures				
	Year Complete	Sultan	Grants	Total Project Cost	Engineering	Design	Construction	Property Buy	CIP Expense
Motorized									
2nd Street Reconstruction - Phase I and II	2009	$0	$25,000	$25,000	$5,000	$20,000	$0	$0	$25,000
6th Street Overaly	2009	$0	$0	$0	$0	$0	$0	$0	$0
Date Avenue - Phase II	2008	$0	$185,000	$185,000	$5,000	$0	$180,000	$0	$185,000
Railroad Crossing Improvements	2009	$5,000	$5,000	$10,000	$5,000	$5,000	$0	$0	$10,000
Sultan Basin Road - Overlay	2008	$200,000	$0	$200,000	$5,000	$20,000	$175,000	$0	$200,000
Sultan Basin Rd - Phase III	2011	$0	$720,000	$720,000	$25,000	$245,000	$0	$450,000	$720,000
Non-Motorized									
6th Street Sidewalks			$12,271						
Light guard crossing	2008	$0	$60,000	$60,000	$5,000	$0	$55,000	$0	$60,000
Sultan Basin Rd Sidewalk	2008	$500,000	$0	$500,000	$5,000	$20,000	$475,000	$0	$500,000
Parks									
Park - Westside	2009	$120,173	$279,827	$400,000	$5,000	$0	$0	$395,000	$400,000
Reese/Sportsmans Parks	2008	$138,217	$111,256	$249,473	$5,000	$0	$244,473	$0	$249,473
Skate Park	2008	$75,000	$0	$75,000	$5,000	$10,000	$60,000	$0	$75,000
Water									
Highlevel reservior and transmission line - Design Only	2008	~~$200,000~~	$0	~~$200,000~~	~~$200,000~~	$0	$0	$0	~~$200,000~~
Sultan Basin Rd - waterline	2008	$100,000	$0	$100,000	$5,000	$0	$95,000	$0	$100,000
Sultan River Crossing, 12" - Design only	2008	$25,000	$0	$25,000	$5,000	$20,000	$0	$0	$25,000
Sewer									
Inflow and Infiltration Rehabilitation	2013	$60,000	$0	$60,000	$60,000	$0	$0	$0	$60,000
Sultan River Crossing, 12" force main - design only	2008	$25,000	$0	$25,000	$5,000	$20,000	$0	$0	$25,000
Waste water treatment plant - short term	2008	~~$120,000~~ $109,000	$0	~~$120,000~~ $109,000	$0	$0	~~$120,000~~ $109,000	$0	~~$120,000~~ $109,000
Waste water treatment plant - MBR	2012	$500,000	$0	$500,000	$0	$500,000	$0	$0	$500,000
Facilities									
				$0				0	$0
TOTAL		$1,857,390	$1,398,354	$3,243,473	$145,000	$860,000	$1,393,473	$845,000	$3,243,473

11/14/2007

Capital Budget
2008

2008 CIP
Revenues/Expenditures

	REET 1	REET 2	Trans. Impact Fee	Park Impact Fee	Sewer System Improvement	Water Utility Reserve	Surface Water	Grant	Debt	Private Contributions	Developer Contributions (fee-in-lieu)	Special Parks Fund (Treasurer's Trust)	Rev Totals
	Capital Project Fund	Special Capital Project Fund			General Facility Charge								
Beginning Balance 2008	~~162500~~ $109,000	~~162500~~ $109,000	$652,000	$153,739	$27,318	$1,124,500	$0	$1,250,000	$500,000	$0	$0	$138,217	$4,083,774
Revenues 2008	$62,500	$62,500	~~$60,624~~ $56,947	~~$112,685~~ $105,865	~~$178,852~~ $167,456	$162,874	$50,000	$1,603,914	$0	$10,000	$10,000	$0	$2,292,056
Transfer Debt Service	~~125,000~~ $100,000	$0 $27,776				-$500,000							-$627,776
Total Revenues	$71,500	$143,724	$708,947	$259,604	$194,774	$787,374	$50,000	$2,853,914	$500,000	$10,000	$10,000	$138,217	$5,728,054
2nd Street Reconstruction - Phase I and II	-	-	-	-	-	-	-	25,000	-	-	-	-	25,000
6th Street Overaly	-	-	-	-	-	-	-	-	-	-			-
Date Avenue - Phase II	-	-	-	-	-	-	-	185,000	-	-	-	-	185,000
Railroad Crossing Improvements	-	-	-	-	-	-	-	5,000	-	-	5,000	-	10,000
Sultan Basin Road - Overlay	~~$0~~ $60,000	~~$200,000~~ $140,000	-	-	-	-	-	-	-	-	-	-	-
Sultan Basin Rd - Phase III	-	-	-	-	-	-	-	720,000	-	-	-	-	720,000
Non-Motorized													
Light guard crossing	-	-	-	-	-	-	-	60,000	-	-	-	-	60,000
Sultan Basin Rd Sidewalk	-	-	$500,000	-	-	-	-	-	-	-	-	-	500,000
Parks													-
Park - Westside	-	-	-	$120,173	-	-	-	279,827	-	-	-	-	400,000
Reese/Sportsmans Parks	-	-	-	-	-	-	-	111,256	-	-	-	138,217	249,473
Skate Park	~~$75000~~ $0	-	-	~~$0~~ $75,000	-	-	-	-	-	-	-	-	-
Water													-
Highlevel reservior and transmission line - Design Only	-	-	-	-	-	~~200,000~~	-	-	-	-	-	-	~~200,000~~
Sultan Basin Rd - waterline	-	-	-	-	-	100,000	-	-	-	-	-	-	100,000
Sultan River Crossing, 12" - Design only	-	-	-	-	-	25,000	-	-	-	-	-	-	25,000
Sewer													
Inflow and Infiltration Rehabilitation	-	-	-	-	60,000		-	-	-	-	-	-	60,000
Sultan River Crossing, 12" force main - design only	-	-	-	-	25,000		-	-	-	-	-	-	25,000
Waste water treatment plant - short term	-	-	-	-	~~$120,000~~ $109,000		-	-	-	-	-	-	-
Waste water treatment plant - MBR	-	-	-	-	-	-	-	-	500,000	-	-	-	500,000
Facilities													-
													-
Total Expenditures	60,000	140,000	500,000	195,173	194,000	125,000	-	1,386,083	500,000	-	5,000	138,217	3,243,473
Ending Fund Balance	$11,500	$3,724	$208,947	64,431	774	662,374	50,000	1,467,831	-	10,000	5,000	-	$2,484,581

11/14/2007