

**SULTAN CITY COUNCIL
BUDGET RETREAT AGENDA ITEM**

ITEM NO: D-3 Capital Budget
DATE: October 14, 2010
SUBJECT: 2011 Capital Budget
CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The issue before the city council is to review the proposed capital budget for 2011 and provide direction to staff. A public hearing on the 2011 budget is tentatively set for October 28, 2010.

STAFF RECOMMENDATION:

Council discuss the proposed 2011 Capital project expenditures as detailed in Attachment A.

SUMMARY:

2011 Capital Budget

The attached 2011 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 2011 must be included in the city's adopted 2011 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 A includes the complete list of proposed projects and expenditures.

City staff have reviewed the proposed capital project expenditures against available revenues. Attachment A provides a detail of capital fund beginning balances for 2011, expected revenues for each fund, and the proposed project expenditures. The proposed expenditures are from existing and available resources. The ending fund balances are sufficient to start the 2012-2017 6-Year Capital Improvement Plan (CIP).

Proposed 2011 Capital Projects

Project	Phase	2011 Expenditure	Project Completed
Sultan Basin Road – Phase III Stage 1	Consultant engineering, property acquisition, design and construction	\$1,008,360	2014
2 nd Street Reconstruction between Birch and Date	Engineering, design and construction	\$222,000	2012
First Street Sidewalks – Willow to Osprey Park (west side only)	Construct missing sidewalk section on First Street for safe passage.	\$100,000	2012
Pavement Reconstruction 3 rd and Bell	Replace failed sub-grade and pavement	\$10,000	2011
Main St. Preservation – 6 th Street to US 2	Replace failed sub-grade and pavement	\$88,000	2012
East Main Street Reconstruction from US2/11 th	In-house engineering	\$5,000	2015
2 nd Street water line replacement Birch to Date	Engineering, design and construction	\$95,000	2011
Eastside Reservoir – Engineering Plan	Consultant engineering support. Coordinated with WSP Update	\$75,000	2014
Waste Water Treatment Plant Short-term Improvements	Add one intermediate Archimedes screw, additional UV lights and lift station improvements.	\$335,000	2011
2 nd Street storm line replacement Birch to Date	Engineering, design and construction	\$40,000	2011
Culvert Replacement	Repair failed culverts and prevent street failure.	\$30,000	2011
LID-97 Mitigation	Design and construction to implement planting plan	\$30,000	2011
Total		\$2,038,360	

2011 Revenue Sources

2011 Funding Source	2011 Beginning Balance	Anticipated 2011 Revenues	2011 Total
Real Estate Excise Tax 1	\$0	\$35,000	\$35,000
Real Estate Excise Tax 2	\$0	\$35,000	\$35,000
Transportation Impact Fees	\$35,000	\$26,360	\$61,360
Park Impact Fees	\$78,000	\$15,875	\$93,875
Sewer Reserve Fund	\$54,400	\$56,410	\$110,810
Water Utility Reserve	\$338,062	\$30,995	\$369,057
Surface Water Utility	\$70,000	\$30,000	\$100,000
Grants	\$1,504,000 ¹	\$188,000	\$1,692,000
Street Improvement	\$0	\$15,000	\$15,000
Private Contributions	\$0	\$0	\$0
Total revenues	\$2,325,462	\$319,640	\$2,507,102
Transfer Community Center Bond Fund			(\$40,000)
Transfer Water Debt Service			(\$22,000)
Transfer to Sewer Debt Service			(\$56,000)
2011 Ending Balance			\$2,364,102

Real Estate Excise Tax

Sultan has levied two 1/4% real estate excise taxes. Each 1/4% should yield approximately \$37,500 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.

The City Council created a separate Special Capital Projects Fund for REET 2 revenues in 2007.

¹ The beginning fund balance for grants includes secured grants where the funding will not be "received" until after the proper reimbursement request has been submitted to the granting agency. Anticipated grant revenues include funding that has been requested but not awarded. If grant funds are not received these projects will be postponed.

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.

2011 Revenues	REET 1	REET 2
2011 Beginning Balance	\$0	\$0
2011 Revenues	\$35,000	\$35,000
Total Revenues	\$35,000	\$35,000

2011 Expenditures		
Debt Service for City Hall	\$35,000	\$35,000
Ending Balance	\$0	\$0

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 was increased in 2008 from \$1,837 per PM peak hour trip to \$5,272. The estimated revenue is \$26,360 and is based on 5 single family building permits in 2011.

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. In 2008 the fee was decreased to \$3,175 to account for one community park estimated to cost approximately \$7.5 million. The estimated revenue from this tax is expected to be \$15,875 and is based on 5 single family building permits in 2011.

2011 Revenues	Transportation Impact Fee	Park Impact Fee
2011 Beginning Balance	\$35,000	\$78,000
2011 Revenues	\$26,360	\$15,875
Total Revenues	\$61,360	\$93,875

2011 Expenditures		
Sultan Basin Road City Match	\$61,360	\$0
Ending Balance	\$0	\$93,875

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 60% of the revenues that come from new connection fees (general facility charge) will be dedicated to sewer system improvements. The remaining 40% of the fee will be used to pay for debt service. In 2011 100% 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 increased to \$11,282 on January 1, 2008. The City anticipates collecting general facility charges for 5 building permits in 2011 generating \$56,410 in revenues.

Water System Improvement Fund

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

The fee to connect to the water system will increase December 1, 2009 from \$5,254 per equivalent residential unit to \$6,199. The City anticipates 5 new connections in 2011 generating approximately \$30,995 in revenues.

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

2011 Revenues	Sewer Capital	Water Capital
2011 Beginning Balance	\$54,400	\$338,062
2011 Revenues	\$56,410	\$30,995
Total Revenues	\$110,810	\$369,057

2011 Expenditures		
Debt Service	\$56,000	\$22,000
2 nd Street waterline replacement		\$95,000
Eastside Reservoir		\$75,000
Ending Balance	\$54,810	\$177,057

Surface Water Capital Reserve

The Surface Water Reserve Fund receives 50% of the revenues from the Surface Water Utility Fund for the planning, acquisition, construction, reconstruction, repair, rehabilitation, or improvement of surface water or stormwater facilities. The Utility went into effect in January 2009. The city will collect approximately \$80,000.

The City Council authorized \$50,000 from the utility fees to fund surface water capital projects. Staff recommends reducing this to \$40,000 in 2011.

No projects are planned in 2011 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.

2011 Revenues	Storm Water Capital Reserve
2011 Beginning Balance	\$70,000
2011 Revenues	\$30,000
Total Revenues	\$100,000

2011 Expenditures	
2 nd Street storm line replacement	\$40,000
Culvert Replacement	\$30,000
LID-97	\$30,000
Ending Balance	\$0

Grants

The City will continue construction on a number of grant funded projects in 2011:

Project	Anticipated Revenue	City Match	Anticipated Expenditure
2 nd Street Phase II	\$222,000	\$0	\$222,000
Sultan Basin Road	\$947,000	\$61,360	\$1,008,360
Sewer Short-Term Imp	\$335,000	\$0	\$335,000

New Grant Applications for 2011

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.

First Street Sidewalks -	\$100,000	Transportation Imp. Board
Main Street Preservation (6 th Street to US 2)	\$88,000	Transportation Imp. Board

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.

The City will use all of the anticipated \$56,000 in sewer connection fees (General Facilities Charge) to make the debt service payment.

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). This was a five-year loan with interest only paid in 2007. The City will completed the loan draws in 2008 and began making principal and Interest payments on the loan. In 2009, the council directed staff to work with the PWTF Board to refinance the loan. The loan was refinanced in 2010 lowering the payment to \$246,000 and extending the term to 2012.

Under a separate action, the city council is considering a limited 2-year rate increase to make the loan payment.

The City secured an \$500,000 from the state legislature in 2008. The funds were used to purchase a centrifuge to replace the aging somat process for handling biosolids. A \$400,000 bond was secured to finish installation of the centrifuge. The debt service payment is \$40,000 in 2011. This will be paid from the CR Sewer Reserve Account (capital account).

Private and Developer Contributions

No private contributions are expected.

Building Maintenance and Repair

The City Council directed staff to set aside funds for major building maintenance and repair. A new fund was established for this purpose. Funding will come from the 1% of the 6% utility tax and beginning fund balance from the police equipment replacement fund

Building improvements are included in this fund and are not included in the capital budget.

RECOMMENDATION:

Council discuss the proposed 2011 Capital project expenditures as outlined in Attachment A.

2011 CAPITAL BUDGET

2011 Funding Sources	Real Estate Excise Tax 1	Real Estate Excise Tax 2	Transportation Impact Fees	Park Impact Fees	Sewer Reserve	Water Utility Reserve	Surface Water Utility	Grants	Street Improvement	Total
Beginning Fund Balance	\$ -	\$ -	\$ 35,000.00	\$ 78,000.00	\$ 54,400.00	\$ 338,062.00	\$ 70,000.00	\$ 1,504,000.00	\$ -	\$ 2,079,462.00
Anticipated Revenues	\$ 35,000.00	\$ 35,000.00	\$ 26,360.00	\$ 15,875.00	\$ 56,410.00	\$ 30,995.00	\$ 30,000.00	\$ 188,000.00	\$ 15,000.00	\$ 432,640.00
(Debt Service Payment)	\$ (35,000.00)	\$ (35,000.00)			\$ (56,000.00)	\$ (22,000.00)				\$ (148,000.00)
Available Revenues for 2011 Capital Budget	\$ -	\$ -	\$ 61,360.00	\$ 93,875.00	\$ 54,810.00	\$ 347,057.00	\$ 100,000.00	\$ 1,692,000.00	\$ 15,000.00	\$ 2,364,102.00
2011 CAPITAL PROJECTS										
Sultan Basin Road – Phase III Stage 1	\$ -	\$ -	\$ 61,360.00	\$ -	\$ -	\$ -	\$ -	\$ 947,000.00	\$ -	\$ 1,008,360.00
2 nd Street Reconstruction between Birch and Date	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,000.00	\$ -	\$ 222,000.00
First Street Sidewalks – Willow to Osprey Park (west side only)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000.00	\$ -	\$ 100,000.00
Pavement Reconstruction 3rd and Bell	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000.00	\$ 10,000.00
Main St. Preservation – 6th Street to US 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,000.00	\$ -	\$ 88,000.00
East Main Street Reconstruction from US2/11 th	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000.00	\$ 5,000.00
2 nd Street water line replacement Birch to Date	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,000.00	\$ -	\$ -	\$ -	\$ 95,000.00
Eastside Reservoir – Engineering Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,000.00	\$ -	\$ -	\$ -	\$ 75,000.00
Waste Water Treatment Plant Short-term Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335,000.00	\$ -	\$ 335,000.00
2 nd Street storm line replacement Birch to Date	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,000.00	\$ -	\$ -	\$ 40,000.00
Culvert Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000.00	\$ -	\$ -	\$ 30,000.00
LID-97 Mitigation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000.00	\$ -	\$ -	\$ 30,000.00
2011 TOTAL EXPENDITURES	\$ -	\$ -	\$ (61,360.00)	\$ -	\$ -	\$ (170,000.00)	\$ (100,000.00)	\$ (1,692,000.00)	\$ (15,000.00)	\$ (2,038,360.00)
2011 ENDING FUND BALANCE	\$ -	\$ -	\$ -	\$ 93,875.00	\$ 54,810.00	\$ 177,057.00	\$ -	\$ -	\$ -	\$ 325,742.00