



**BUSINESS OF THE CITY COUNCIL  
CITY OF MERCER ISLAND**

**AB 5640  
January 7, 2020  
Study Session**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 5640: Capital Improvement Program Overview and 2019 Year-End Progress Report	<input checked="" type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Receive program overview.	<input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

<b>DEPARTMENT:</b>	City Manager		
<b>STAFF:</b>	Matthew Mornick, Special Projects Consultant		
<b>COUNCIL LIAISON:</b>	n/a	n/a	n/a
<b>EXHIBITS:</b>	1. FY2019 CIP Progress Report		
<b>CITY COUNCIL PRIORITY:</b>	n/a		

<b>AMOUNT OF EXPENDITURE</b>	\$ n/a
<b>AMOUNT BUDGETED</b>	\$ n/a
<b>APPROPRIATION REQUIRED</b>	\$ n/a

**SUMMARY**

**CAPITAL IMPROVEMENT PROGRAM OVERVIEW**

As part of the biennial budget process the City develops a six-year Capital Improvement Program (CIP). The CIP outlines the City’s strategic financial plan to acquire, expand, or rehabilitate public infrastructure. Each year twenty-one capital managers from seven different City departments oversee over 100 capital projects. Work to build the six-year CIP begins every other spring, culminating with Council’s biennium budget approval.

After the first year of the CIP, staff provide Council, the administration, and the public with a status update for funded capital projects. Exhibit 1 is the Capital Improvement Program Year-End Progress Report which details infrastructure improvement activity during fiscal year 2019.

Capital projects are classified as part of the Capital Reinvestment Plan (CRP) or the Capital Facilities Plan (CFP). The CRP includes all maintenance projects that preserve the City’s existing infrastructure. The CFP consists of newly proposed capital assets. To maintain and improve existing assets before acquiring new assets, CRP projects take priority over CFP projects.

All street, pedestrian, and bicycle facilities maintenance and construction projects from the CIP are also organized in the City’s Transportation Improvement Program (TIP). The TIP is reviewed and approved by Council in tandem with the CIP before it is submitted each year to the State Department of Transportation.

Taken collectively, all capital projects fall into four programmatic areas:

1. Parks, Recreation and Open Space
2. Streets, Pedestrian and Bicycle Facilities
3. General Government (Equipment, Public Buildings, and Technology)
4. Utilities (Sewer, Stormwater, and Water)

Although the planning document spans six years, funds for the first fiscal year (FY 2019) are appropriated as part of the 2019-2020 budget process. Funds for the second year (FY 2020) are appropriated prior to the beginning of the second fiscal year.

Budget numbers for the out-years – FY 2021 through FY 2024 – are included as a planning tool to demonstrate anticipated capital funding needs. Projects are reevaluated each biennial budget cycle to ensure budgets fall within available funding limits and best reflect current City priorities.

**CIP RESOURCES**

Funds

Because of the diverse nature of governmental operations and the legal and fiscal constraints under which public services are provided, the City’s finances are accounted through separate funds. Funds are categorized by type to indicate both the revenue sources of the funds and the nature of activities financed. The City therefore can illustrate how money is spent, and how these expenditures tie directly to funds.

Fund accounting distinguishes between funds that can be spent for any purposes by the organization, versus funds that have a restricted use. Reasons for restrictions include legal requirements, where funds can only be lawfully used for a specific purpose, a restriction imposed by the State, or by the City’s financial management policy.

The 2019-2024 CIP draws from the following funds:

Funds	Revenue Sources
<b>Capital Improvement Fund</b>	REET, grants and contributions, property tax.
<b>Street Fund</b>	REET, fuel taxes, vehicle license fees, state funds.
<b>Technology &amp; Equipment Fund</b>	General funds, utility funds, sinking funds.
<b>Water Fund</b>	Water rates, connection charges, earned interest.
<b>Sewer Fund</b>	Sewer rates, connection charges, earned interest.
<b>Stormwater Fund</b>	Stormwater rates, earned interest.

Revenues

Funding for the 2019-2024 CIP relies on existing fund balances and projected revenues from Utility rates, Real Estate Excise Tax (REET), and Fuel Taxes (State shared revenues). The General Fund is the sole source for capital investments for technology and equipment.

Most revenues for capital projects come with restrictions. Utility rates may only be used for projects of the respective utility; fuel taxes may only be used for street and trail projects; and REET is reserved for capital projects to help develop parks, open space, and street infrastructure.

The City’s capital financing strategy uses restricted revenues on a “pay as you go” basis for needed improvements. This strategy remains unchanged, except for utility and public building projects where debt financing helps “smooth” utility rate spikes or to more equitably match costs of the project to the benefit period.

A revenue source tied into the capital program is REET, the 0.5% tax paid by the seller in property transactions. State law restricts the use of REET for specific capital purposes. REET-1 – the 1<sup>st</sup> quarter of 1% of the sales price – may be used for streets, parks, utilities, or facilities. The 2<sup>nd</sup> quarter of 1% of the sales price known as REET-2 may be used for streets, parks, or utilities, but not for facilities. Neither REET-1 nor REET-2 may be used for vehicles, equipment, or technology.

REET is the largest revenue source for projects in the Street and Capital Improvement Funds. REET revenue can vary significantly from year to year as its base (property sales) is highly dependent on economic conditions and interest rates.

The following table provides a brief overview of the CIP financing strategy:

Capital Improvement Program Financing Strategy			
REET 1	REET 2	General Purpose Revenue	Utilities
<b>Parks</b> - Construction - Maintenance <b>Open Space</b> - Property acquisition - Planning - Improvements <b>Public Buildings</b> - Repair - Maintenance - Planning and design	<b>Streets</b> - Construction - Maintenance <b>Pedestrian/Bike facilities</b> - Construction - Maintenance <b>Parks</b> - Construction - Maintenance	<b>Equipment</b> - Vehicle replacement - Public safety equipment <b>Technology</b> - Computers - Software - Communications	<b>Sanitary Sewer</b> - Construction - Maintenance <b>Stormwater</b> - Construction - Maintenance <b>Water</b> - Construction - Maintenance

Impacts of I-976

On November 5, 2019, ballot measure I-976 passed with a 52.99% statewide majority. The ballot measure was designed to reduce and remove authority to impose a range of state and local taxes, fees, and other charges relating to vehicles as well as limit annual motor-vehicle-license fees to \$30. [AB 5607](#) outlined in detail the pending impacts of the passage of Initiative 976. On December 5 the new law was set go into effect to:

- Repeal the authority for local transportation benefit districts (TBDs);
- Repeal the authority for Regional Transit Authorities (Sound Transit) to impose motor vehicle excise taxes (MVET);
- Repeal the authority for Public Transportation Benefit Areas to impose a MVET for passenger ferry service and for Sound Transit;

- Limit all other vehicle license and registration fees to \$30
- Base vehicle taxes on Kelley Blue Book value; and
- Repeal the 0.3% State tax on motor vehicle sales.

The State Department of Revenue estimates the total revenue loss to the State in the next six years is \$1,922,643,101. Total revenue loss to local governments in the next 6 years is estimated to be \$2,317,121,034.

#### Legal Challenges to I-976

On November 13, 2019, nine plaintiffs, including the governments of Seattle and King County, filed a legal complaint to block Initiative 976 as violating the Washington Constitution. With the State of Washington as the defendant, the complaint argued Initiative 976 violated the single-subject rule, the separate subject-in-title requirement, the requirement to disclose the repeal of statutes, and other constitutional provisions.

On November 26, 2019, Judge Marshall Ferguson in King County Superior Court blocked Initiative 976 from taking effect on December 5, pending the conclusion of the case. On December 4, 2019, the State Supreme Court affirmed the measure would remain on hold pending the resolution of the case.

With the King County Court injunction upheld, cities with a TBD like Mercer Island are required to collect and defer vehicle license fee revenues. Depending on the timeline of the court ruling, the accumulation of these revenues could be substantial.

Many State-approved transportation projects that have not yet commenced have been postponed. On November 26 the State Department of Transportation released a [list of postponed projects](#) until the legislature has an opportunity to reconvene and evaluate.

#### Local Impact

Mercer Island's Transportation Benefit District was created in 2014 and authorized a new and renewing vehicle license fee of \$20 to fund the preservation and maintenance of the City's transportation infrastructure.

In 2018, the City collected \$377,543 in vehicle license fees for the City's Street Fund. The City also received \$34,000 in fees each year from the State's Multimodal Transportation Account, which is dedicated to pedestrian and bicycle facilities. With I-976's passage, the City's stands to lose roughly \$411,000, 13.7% of the Street Fund's annual revenues. This will have a significant impact on street fund capital projects in 2020.

The State Department of Licensing issued a statement they will continue to collect vehicle fees and taxes unless directed otherwise by the courts. Staff will follow the case and report recommendations during the Transportation Improvement Program in Spring 2020. Staff is also tracking vehicle licensing fees received as of December 2019. City staff will hold and defer all vehicle license fee revenues pending the court ruling.

#### **FY 2019 PROGRESS REPORT**

The year-end progress report (Exhibit 1) summarizes first year activity of the City's 2019-2024 capital improvement program. Because capital projects often take more than one year to complete, this communications tool provides a snapshot of work completed on all projects during fiscal year 2019. In general, projects range in size from small improvements and routine maintenance projects to large one-time investments costing millions of dollars.

The progress report includes projects newly adopted in the 2019-2024 CIP as well as multiyear, carryover projects still underway from prior CIP adoptions. This retrospective report does not include projects for which funding was not provided in 2019.

### Summary of Progress

In FY 2019, the approved CIP budget was \$14.4 million. On May 7, 2019 in [AB 5564](#) (Ordinance No. 19-08), Council approved an additional \$5.2 million of unspent capital project funds carried over from the 2017-2018 biennial budget. As of December 1, 2019, approximately \$7 million was spent. Given the multi-year nature of capital projects, unspent funds in the first year are available for use in the latter part of the biennium and cover any outstanding obligations. Remaining unspent monies return to corresponding fund balances to be appropriated for future projects with Council's approval or are carried forward at the project manager's request.

There were 110 budgeted projects in FY 2019; 37 are ongoing capital infrastructure maintenance projects that receive funding allocations each year and are recurring by nature. This includes projects to maintain the safety and integrity of City facilities; replace technology, vehicles, and equipment that have reached the end of their useful life; sustain parks, open space, and trail networks on public lands; maintain pedestrian and bicycle amenities; repair and resurface streets and sidewalks; and maintain and improve the underground public water, sewer, and stormwater utilities.

Of one-time projects, 12 were completed during the fiscal year, releasing any remaining funds when the projects were closed out (highlighted in gray in the progress report). Substantial progress was made on additional projects but they still have final purchases and payments, warranty items, or cleanup actions remaining.

### Key Project Highlights for FY 2019

Exhibit 1 outlines capital projects organized by asset category: Parks, Recreation and Open Space; Streets, Pedestrian and Bicycle Facilities; General Government Equipment, Public Buildings, and Technology; Sewer, Stormwater, and Water Utilities. Some of the most significant achievements program-wide are briefly outlined below.

#### *Parks Moving Forward*

Over a year in the making with extensive community input and focused effort from an interdepartmental team and Council, the City adopted the Aubrey Davis Park Master Plan. The plan outlines areas for desired renovations and trail improvements within the park that preserves the park's historical character while anticipating its future needs as a world class public space.

#### *Ongoing Maintenance Progress*

Work continued with ongoing capital investments in City facilities. Several facility improvements, HVAC and roof repairs were completed at the Mercer Island Community and Events Center, the North Fire Station, and the Luther Burbank Administrative building. Street lighting improvements were completed in high pedestrian and bicycle traffic areas.

Annual ongoing projects to improve and resurface the island's transportation system worked in tandem with efforts to upgrade underground utilities. Over 1.3 miles of new asphalt and several crack sealing patches were applied to residential and arterial roadways in conjunction with the installation of new fire hydrants,

watermains, water service lines, sewer manhole castings, and storm drainpipes. Over 2,300 linear feet of new watermain and 83 new water service lines were installed in 2019.

Through the computer equipment replacement program, 54 City computers were replaced, and 9 police patrol vehicle video cameras were upgraded. Tremendous progress was made on the City's new website, which will launch in early 2020. In partnership with King County and Sound Transit, the City helped install fiber optic cable across I-90 and between City Hall and the Public Works facility, laying critical groundwork for network communications in anticipation of major software upgrades to better manage the City's public utility systems.

#### *Forward-Thinking Infrastructure Improvements*

In 2019, staff captured video imagery of City street and utility infrastructure visible from of the Island's critical public right of way. This data is imported into the City's geographic information system database as a low-cost method to evaluate and plan infrastructure improvement and maintenance activity.

An environmental rehabilitation pilot project with King County launched in 2019. Retrofits were completed for two water catch basins with crushed oyster shells as filter media to assess its effectiveness to reduce levels of dissolved copper and zinc. Staff are monitoring the two test sites with the hope this low-cost strategy for reducing levels of dissolved metals can be scaled in critical areas throughout the region.

#### **NEXT STEPS**

While staff made earnest progress on the capital program in fiscal year 2019, many projects were postponed. Staff will see through active capital projects over the coming year and maximize construction and maintenance activity during the 2020 summer months. In spring, Finance will begin the 2021-2022 capital and operating budget process and propose new policy considerations for the capital program.

During this time staff will look to Council to evaluate these policy proposals and set the vision for the 2021-2026 CIP. Council will need to weigh trade-offs in shaping the capital program's focus with the time, staff, and resources available to complete infrastructure improvement work. Simultaneously staff will explore process improvements, sourcing innovative ideas and best practices for mid-sized cities. This collective effort will ensure a more efficient and effective use of capital program resources.

The work plan for FY 2020 is articulated in the 2019-2024 Capital Improvement Plan. Staff will report to Council during the first year of the next biennial budget period about 2020 progress made on capital projects.

#### **RECOMMENDATION**

Receive report, discuss material, and provide input to staff.