



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

**AB 6138
September 20, 2022
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6138: 2022 CIP Project Update and 2023-2028 CIP Preview	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive report and provide initial feedback and questions on the proposed 2023-2028 CIP to inform final development of the biennial budget document.	

DEPARTMENT:	Public Works
STAFF:	Jason Kintner, Chief of Operations/Public Works Director Matt Mornick, Finance Director Alaine Sommargren, Deputy Public Works Director Patrick Yamashita, Deputy Public Works Director/City Engineer
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Preliminary 2023-2028 Capital Improvement Program
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to provide the City Council with a “look ahead” to the proposed 2023-2028 Capital Improvement Program (CIP) (see Exhibit 1). The presentation will also include a progress report on capital projects underway in 2022.

- The six-year CIP outlines the City’s strategic financial plan to acquire, expand, or rehabilitate public infrastructure.
- Taken collectively, all capital projects fall into four programmatic areas: Parks, Recreation and Open Space; Streets, Pedestrian and Bicycle Facilities; General Government (Equipment, Public Buildings, and Technology); and Utilities (Sewer, Stormwater, and Water).
- Along with community input and direction from the City Council, the six-year CIP is developed using information from the Water System Plan, the General Sewer Plan, the Comprehensive Basin Plan, the Parks, Recreation and Open Space (PROS) Plan, and the adopted Transportation Improvement Plan.
- The presentation will include an update on 2022 CIP Projects and remaining major project milestones.

- Staff will also introduce the proposed 2023-2028 Capital Improvement Program and discuss the strategy to deliver the CIP program in the next biennium, which includes a combination of consultant and staff resources. A brief overview of the potential grant-eligible projects will also be covered.
- Staff is seeking initial questions and comments on the proposed 2023-2028 CIP to inform final development of the biennial budget document.

Public Works staff will attend to questions and comments from the City Council and participate in the overall discussion during the presentation.

BACKGROUND

As part of the biennial budget process, staff develops a six-year Capital Improvement Program (CIP). The CIP outlines the City's strategic financial plan to acquire, expand, or rehabilitate public infrastructure. Work to build the six-year CIP begins every other spring, culminating with the adoption of the biennial budget. For the current biennium, 29 capital managers from seven different City departments oversee more than 60 actively funded capital projects.

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)

Capital projects are further 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.

The Water System Plan, the General Sewer Plan, and the Comprehensive Basin Plan are the guiding planning documents used to develop and propose utility capital projects. The adopted 2022 Parks, Recreation and Open Space (PROS) Plan and the adopted Transportation Improvement Plan (TIP) are the guiding planning documents used in developing park, street, bicycle, and pedestrian projects in the proposed CIP.

As a reminder, the TIP is reviewed and approved by the City Council each spring before it is submitted to the State Department of Transportation (see [AB 6092](#)).

In addition, staff utilizes information from the City's asset management system, water system hydraulic modeling, video inspections of sewer and drainage pipes, periodic assessment of changing conditions in storm basins/ravines, maintenance history (ex: main and pipe breaks), and other information from field operations staff to aid in capital project identification and development.

CIP RESOURCES

The information below provides a broad overview of the various funds and revenues that support the CIP. The "look ahead" presentation is focused primarily on the CIP project list. The detailed financial information, including the six-year CIP funding plan, will be included in the 2023-2024 Preliminary Budget document and is planned for discussion in October and November of this year.

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 and nature of activities financed. The City can then 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 policies.

The 2023-2028 CIP draws from the following funds:

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

Revenues

Funding for the 2023-2028 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 match costs of the project more equitably to the benefit period. Utility rates for the upcoming biennium are being adjusted for Utility Board and City Council review with the assumption many of the long-term utility investments will be paid for with outside financing.

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 1st quarter of 1% of the sales price – may be used for streets, parks, utilities, or facilities. The 2nd 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 significantly vary 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
Parks - Construction - Maintenance Open Space - Property acquisition - Planning - Improvements Public Buildings - Repair - Maintenance - Planning and design	Streets - Construction - Maintenance Pedestrian/Bicycle Facilities - Construction - Maintenance Parks - Construction - Maintenance	Equipment - Vehicle replacement - Public safety equipment Technology - Computers - Software - Communications	Sanitary Sewer - Construction - Maintenance Stormwater - Construction - Maintenance Water - Construction - Maintenance

Capital Investments and ARPA Funds

During the 2021-2022 mid-biennial process, the City Council received an update on potential water and sewer capital projects to accelerate with the use of the American Rescue Plan Act (ARPA) funds received from the Federal Government (see [AB 5961](#)). The City of Mercer Island received \$7.23 million in ARPA Fiscal Recovery Funds. The first tranche of \$3.6 M arrived in late June 2021, with the second half received June of this year. The City Council provided staff direction on which projects to accelerate with an emphasis on using ARPA dollars strategically before the December 2024 deadline to expend funds.

Roughly \$850,000 in ARPA monies will likely be spent by December 2022 on sewer pipe replacements and upsizing work, the First Hill booster station generator replacement, and pressure reducing valve (PRV) station replacements. A total of \$4.45 M in ARPA monies is tentatively proposed as part of the FY 2023-2028 CIP. The 2023-2024 Preliminary Budget will include an update on ARPA funds to date, and an appropriation recommendation for the next biennium.

ISSUE/DISCUSSION

The Six-Year Capital Improvement Program (CIP) is a planning level document that identifies the capital projects intended to be funded and completed for the period from 2023 to 2028 (see Exhibit 1). Staff are providing this “look ahead” presentation to gather initial questions and comments from the City Council to inform final development of the biennial budget document.

Due to the high quantity of proposed projects, which span multiple disciplines, staff will focus on providing key information about each CIP project area. A few of the major projects are highlighted below, with the full list of proposed CIP projects included as Exhibit 1.

2023-2028 CIP HIGHLIGHTS

Water Utility

- Asbestos Cement Mains Replacement: The City owns and maintains over 113 miles of water mains. Asbestos cement pipe (AC pipe), which was installed on Mercer Island in the late 1950s and early

1960s during the construction of the water distribution infrastructure, has an expected useful life of approximately 50 to 70 years. This pipe is some of the oldest and most fragile within the distribution system and is responsible for many of the City's main line breaks and service interruptions. Though much of the AC pipe on the island has been replaced over time, approximately 4.8 miles of this pipe remain. A new program, proposed in the 2023-2028 CIP, includes replacing all AC pipe by 2028. Other system components including water services and fire hydrants will be replaced at the same time.

Sewer Utility

- **SCADA System Replacement**: Design for the Supervisory Control and Data Acquisition (SCADA) project will be completed in 2022. Construction of the new SCADA infrastructure is anticipated in 2023, once permitting for each of the pump stations is complete. Given the proximity to Lake Washington and the pump station modifications involved, each site will require individual permitting with local, state, and federal agencies. Permit preparation and applications are being prepared concurrently with the final system design. Construction of the new system includes replacing obsolete remote terminal units and the human-interface machine at the Public Works building. The SCADA system will allow staff to remotely monitor pump station operation and alarms and perform remote operations when needed.
- **Pump Station Rehabilitation & Replacement Assessment Program**: The City's sewer system is comprised of 17 pump stations, which convey sewage around the island into King County's facilities at the north and south ends of the island. These pump stations vary in age, condition, and capacity. Following the completion of the SCADA system replacement, a Pump Station Rehabilitation and Replacement program will be initiated to prioritize improvements and/or replacements based on risks and consequences of failure. Necessary improvements identified during this program will be designed and included as future capital projects.

Stormwater Utility

- **Stormwater Trunkline Condition and Capacity Assessments**: This new program will inspect the piped arteries of the stormwater conveyance system. Closed Circuit Television (CCTV) inspections will document pipe condition and defects and verify pipe size and material. Data collected will be analyzed and used to calculate pipe capacities. Areas with notable deficiencies will be selected for basin-specific modeling to assess runoff quantity with respect to pipe capacity. Standardized data analysis and prioritization methods will be used, allowing projects to be ranked in a consistent, data-driven manner.

Facilities

- **Facility Condition Assessment**: A new capital project for City facilities, including City Hall, the Public Works Facility, the Luther Burbank Administration Building, the Mercer Island Community Center Annex building and the two Fire Stations, has been included to evaluate the current conditions of the facilities. Evaluations will include structural, systems analysis (HVAC, plumbing), and energy efficiency, and the generation of as-built documents for the buildings. Several facilities are aging and in need of significant repair or replacement. This system-wide evaluation will help outline future considerations for these facilities.
- **Precinct Facility Assessment**: A new 2023 capital project for the former Tully's site has been included. This project will include the renovation of the Tully's building in Town Center for a small satellite police precinct and small parking lot design and reconfiguration to expand commuter parking. Initial design work is anticipated to begin in late 2022 with construction in 2023.

Parks Projects

Park projects have been programmed within the 2023-2028 CIP as presented in the adopted PROS Plan. Project budget numbers have been updated based on the current construction market as well as grant funding opportunities. As discussed during the PROS process, there are a number of critical infrastructure projects related to docks, shoreline restoration projects, and athletic fields, with the Luther Burbank Shoreline and Dock Replacement Project being the most significant.

NEXT STEPS

Staff are preparing the 2023-2024 Preliminary Biennial Budget document, which will be transmitted to the City Council at the end of September. Input from this discussion will be used to inform final development of that document. Additional budget discussions are planned for October and November of this year, with budget adoption anticipated on December 6, 2022.

RECOMMENDED ACTION

Receive report and provide initial feedback on the 2023-2028 CIP preview.