



## *City of Bainbridge Island*

### ***DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES***

#### ***MEMORANDUM***

**TO:** City Council  
Doug Schulze, City Manager

**FROM:** Ellen Schroer, Director of Finance and Administrative Services

**DATE:** October 2, 2015

**RE:** City of Bainbridge Island 2016 Budget Adjustments

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The City of Bainbridge Island prepares a biennial budget, which provides a financial plan for two years, and is intended to allow both the Council and City administration to set longer-term priorities and plans. The biennial budget cycle supports efficient operations by minimizing budget development activities in mid-cycle years. The Council approved a budget for 2016 late in the fall of 2014 to which City administration is now proposing a limited number of adjustments for consideration. The proposed budget adjustments are explained in more detail in the attached documents. The mid-biennial adjustments do not propose significant changes to the programs and services currently offered by the City.

As discussed in the 2015 mid-year financial report, the City expects to end 2015 with more financial resources than originally planned in its General Fund. Due to a combination of strong 2014 financial performance and 2015 revenue growth, we estimate adding one-time funds of approximately \$2.0 million. Current forecasts show 2016 revenue estimates for significant General Fund and Building and Development Services revenues can be increased by a total of roughly \$1.0 million. Taken together, forecasts indicate roughly \$3.0 million in one-time General Fund resources available in 2016.

As we consider the City's strong financial position, it is important to remember that there are significant discussions underway with potential financial impacts to the City's General Fund, and already-established commitments to projects in 2017-2018 in the CIP. City General Fund spending on capital projects and equipment over those two years is \$2.7 million; grant funds will provide another \$3.8 million of support to the projects. Open questions with potential General Fund financial impacts include the voters' decision whether or not to authorize voter-approved bonds to support a Public Safety facility, Council decisions regarding the Surface and Storm Water utility, and a pending state decision regarding a grant application to support a planned project at the City Dock. Because these decisions, two of which are outside of the City's control, could change City financial expenditure plans, we are not proposing to increase 2016 budgeted expenditures to spend the increased revenue at this time. These funds will remain available to support future decision-making once more complete information is available in the first quarter of 2016.

The 2016 budget adjustments include a limited number of changes made to address significant priorities of the City Council and administration.

Adjustments can be grouped as follows:

1. Capital. These budget adjustments reflect changes to previously approved projects, or additional projects identified through staff analysis.
2. City programs and services. These budget adjustments reflect changes to City programs and staffing in support of ongoing efforts including customer service, utility services, and energy efficiency initiatives.
3. Technical changes. These budget adjustments reflect updated estimates of starting fund balance, along with updated forecasts of some revenue items including sales tax revenue, utility revenues, and Real Estate and Excise Tax (REET). Details are provided in the attached materials.

With these proposed adjustments, the 2016 budget continues to meet the City's guiding fiscal priorities:

- Improve efficiency, effectiveness, responsiveness, quality and productivity of government services;
- Hold recurring expenses less than recurring revenues, and
- Fully fund all policy reserves.

I look forward to working with you to discuss the proposed amendments and approve a final budget for 2016.

Attachments:

- Operating and Capital Budget Adjustments
- Summary and Reserves
- Budget Reports
- Budget Queries 1 - 7
- Ordinance 2015 – 33 Approving the 2016 Budget Modifications

## 2016 Budget Adjustments

The 2016 budget adjustments use the approved 2016 budget, and the City's current programs and services, as a starting point. The changes described below represent the differences from the current approved budget.

Adjustments presented can be grouped into three categories:

1. **Capital.** During the summer of 2015, staff performed an annual update to capital plans, which is presented along with the budget modifications. The adjustments below reflect anticipated budget impacts and the most recent estimates of project cost, timing and funding sources.
2. **City programs and services.** These are adjustments to reflect changes to City service delivery.
3. **Technical.** These are adjustments to reflect known changes in costs to deliver the city's current services or revenues from current revenue sources. All adjustments to revenue budgets fall into this category.

### ADJUSTMENTS TO CAPITAL BUDGETS

The budget adjustments reflect changes to funding in alignment with the updated information related to capital projects. Updates reflect current information on grants, and additional information based on recent work related to the sewer utility.

1. **Transportation projects** continue as previously approved, with the exception of starting the Wyatt Way Reconstruction Project in 2016 rather than 2017 due to receipt of a \$2.5 million grant. This moves \$134,000 in City contributions to this project into 2016. The anticipated City contribution remains at \$1.2 million for the Wyatt Way project, but will occur in 2016 – 2018 rather than 2017 - 2020.
2. **Non-motorized transportation projects** continue as previously approved, with the exception of delaying the Sound to Olympics Trail Phase III as the City did not receive a grant which would have been part of the project's funding. Prioritization of non-motorized transportation projects is ongoing and may affect future project plans, including the Waterfront Park Bridge Project, which now shows in the non-motorized section of the CIP.
3. **Water utility projects** continue as previously approved. One new project is added for water utility work on Olympic Drive.
4. **Sewer utility projects** are updated based on information provided by the General Sewer Plan and other ongoing analysis of the utility's capital needs. New projects include pump station and force main upgrades at the North Town Woods and Lynwood locations, totaling \$1.3 million.
5. **Surface and Storm Water Management utility projects** continue as previously approved.
6. **Fleet and equipment expenditures** increased by \$253,000 citywide to reflect updated purchase plans in the 2016 CIP update. This total includes one mower originally scheduled for purchase in

2015 but moved into 2016. The total also includes a decrease of \$50,000 to reflect the purchase and implementation of the City phone system in late 2014 rather than 2016.

## **CITY PROGRAMS AND SERVICES**

- 1. Emergency Preparedness.** A budget increase of \$22,000 (General Fund, one-time) provides support for establishing a community emergency response team, and provides supplies for the City's Emergency Operations Center. Emergency preparedness programs scored in the first and second quartiles in the Priority Based Budgeting exercise completed by the City in 2014.
- 2. Energy Efficient Streetlight Project.** A budget increase of \$60,000 (Street Fund, one-time) provides support for new LED lightbulbs for most streetlights on Bainbridge Island. The payback period for these energy-efficient lightbulbs is estimated to be between four and five years.
- 3. Island Utility Study.** A budget increase of \$250,000 (General Fund, one-time) provides funding for a comprehensive look at how best to provide utility services island wide, including the City's role in utility provision in the coming years. This work will build on policy and information developed for recent utility plan work, and will serve as a framework for utility-related decisions in coming years.
- 4. Service Delivery in Planning and Community Development.** To respond to increased development activity, a new Permit Specialist position (1.0 FTE, total cost of \$92,000 distributed between the General Fund and the Building and Development Services Fund, on-going) is proposed in the Planning and Community Development Department. The position will provide service at the building and planning counters and will assist with processing permits. This new position will allow the PCD counter to be staffed daily from 8:00 AM to 4:00 PM, providing eight hours of additional counter service time weekly.
- 5. Succession Planning.** To prepare for expected staff retirements in specialized utility roles, a new Maintenance Technician I position (1.0 FTE, total cost \$86,000 distributed between the Water and Sewer Funds) is proposed for 2016 only. The City has two water maintenance technicians who are responsible for the day-to-day operation of the utility, both of whom will be eligible to retire in 2016. Creation of this interim position will allow for knowledge transfer, continuity of operations, and training. The new position will perform duties primarily for the water utility, with some ancillary sewer utility duties.
- 6. Budget neutral staffing adjustment.** The Finance and Administrative Services Department reclassified a vacant Systems Administrator position to Financial Analyst to increase time for department work on analysis and support for internal and external reporting. The proposed increase to a half-time position allows for help desk tasks to be accomplished by the technical staff rather than the division manager.

## TECHNICAL CHANGES

1. **Updated beginning fund balance estimates.** The table below shows updated 2016 beginning fund balance estimates for the City's primary operating funds. The updated estimates reflect the City's financial performance in 2014 after budget development as well as through the first half of 2015.

<i>Fund</i>	<i>2016 Adopted Budget</i>	<i>2016 Adjusted Budget</i>	<i>Change</i>	<i>Comment</i>
<i>General Fund</i>	\$6,931,406	\$11,692,870	\$4,761,464	2016 adjusted starting point reflects the higher 2015 starting point and higher 2015 revenue numbers
<i>Streets Fund</i>	\$327,088	\$327,088	\$0	
<i>Building and Dev. Services Fund</i>	\$154,843	\$154,843	\$0	
<i>Water Fund</i>	\$5,256,659	\$5,669,159	\$400,000	2016 adjusted starting point reflects 2015 actual performance
<i>Sewer Fund</i>	\$2,254,045	\$3,854,045	\$1,600,000	2016 adjusted starting point reflects lower than budgeted costs for the Eagle Harbor Beach Mains project and subsequent use of loan funds.
<i>SSWM Fund</i>	\$844,395	\$844,395	\$0	

2. **Adjustments to revenue estimates.** Selected revenue estimates for 2016 have been revised based on performance through mid-year 2015. Significant revenue adjustments are as follows:

- Property Tax revenue adjusted up by \$78,000 or 1%, to \$7,130,000. This adjustment incorporates updated information from Kitsap County;
- Sales and Use tax revenue adjusted up by \$405,000 or 14%, to \$3,300,000, per actual performance in 2014 and 2015;
- Liquor excise and profits revenue adjusted up by \$25,000 or 14%, to \$205,000, per changes in state revenue sharing;
- Commercial Parking Tax revenue adjusted up by \$100,000 or 17%, to \$800,000, per actual performance in 2014 and 2015;
- Building and Development Services revenue adjusted up by \$240,000 or 22% to \$1,320,000, in alignment with actual revenue in recent years and 2015 performance, and including an estimate of \$80,000 for Fire inspection fees;
- REET revenue adjusted up by \$300,000 or 18%, to \$2,000,000, in alignment with actual revenue in recent years and 2015 performance;

3. **Other technical changes to the budget include:**

- An increase of \$77,000 for the services provided by the Bainbridge Island Fire Department

- to an annual total of \$160,000;
- Continuation of previously approved items:
    - a. \$20,000 for the City's 100% participation in the Puget Sound Energy Green Power Program;
    - b. \$35,000 for the City's community engagement program;
    - c. \$15,000 for the National Citizen's Survey;
  - An increase of \$30,000 in debt service for the Sewer Fund due to the use of the Public Works Trust Fund loan for the Wing Point Way Project, and
  - A decrease of \$580,000 in interfund transfers. This budget item is adjusted in tandem with changes to the funds that receive General Fund support (Streets, Building and Development Services, and Capital Construction).

## Update to General Fund Reserves: 2016 Adjusted Budget

In September 2010, the City Council established the following reserve targets and definitions, as included in Resolution 2010-35:

- Emergency Reserve: established by Resolution 2008-01 to pay for unexpected emergencies that cannot reasonably be accommodated by current budget appropriations.
- Contingency Reserve: established by Resolution 2008-01 to pay for unexpected needs that were not provided for in the annual budget and for minor shortfalls in budgeted appropriations.
- General Fund Stability Reserve: defined by Resolution 2010-35 as the excess of current assets over current liabilities, which is an unreserved, undesignated and unrestricted resource that remains part of the general fund budget.

In addition, there are several subfunds containing amounts tracked for various purposes, such as marine revenues and expenses and public art.

Detail behind General Fund Reserves			
	12/31/2016	2016 YE Target	Comment
Emergency Reserve	1,020,000	1,000,000	
Contingency Reserve (2016)	400,000	400,000	The total of \$400,000 assumes no spending. Spending can be approved by Council during the year by budget amendment.
Contingency Reserve (2017)	400,000	400,000	The total of \$400,000 assumes no spending. Spending can be approved by Council during the year by budget amendment. It is the policy of the City to begin the year with the reserve fully funded.
Legal Contingency	100,000	100,000	In 2016, \$100,000 included as legal contingency.
General Fund Stability Reserve	8,374,457	3,000,000	
Washington State Ferry Settlement	-	-	Assumes spending of WSF funds in 2015
Specially-tracked GF monies	129,017		Housing, Public Art, Public Safety, PEG
<b>Total General Fund</b>	<b>10,423,474</b>		

The budgeted ending fund balance exceeds the policy reserve levels. It is important to remember that there are significant commitments to capital projects and equipment in the upcoming 2017-1018 biennium which will be supported by the General Fund. In addition, in 2016 the City will make expenditure decisions related to the City Dock and Public Safety Facility capital projects. These decisions may include funding from the General Fund.

**CITY OF BAINBRIDGE ISLAND TAX SUPPORTED FUNDS EXCLUDING CAPITAL  
CONSTRUCTION 2016 MODIFIED BUDGET**

	General	Streets	Special Revenue	Bonds	Building & Development Services	Total for 2016
<b>BEGINNING FUND BALANCE</b>	10,892,870	327,088	779,578	262,821	154,843	12,417,200
<b>REVENUES</b>						
Taxes	14,282,100	800,000	2,160,000	607,700	-	17,849,800
Fees & Service Charges	1,046,801	25,000	-	-	1,320,000	2,391,801
Intergovernment Revenue	300,000	485,000	-	-	-	785,000
Fines & Forfeits	124,000	-	-	-	-	124,000
Miscellaneous	77,000	-	-	-	-	77,000
Assessments	-	-	-	44,000	-	44,000
Investment Revenue	40,000	-	-	26,000	-	66,000
Gain on Sale of Fixed Assets	5,000	-	-	-	-	5,000
<b>TOTAL REVENUES</b>	15,874,901	1,310,000	2,160,000	677,700	1,320,000	21,342,601
<b>OTHER SOURCES</b>						
From other Funds and Sub-Funds	-	1,526,888	180,784	2,000,000	816,960	4,524,632
<b>TOTAL RESOURCES</b>	26,767,771	3,163,976	3,120,362	2,940,521	2,291,803	38,284,433
<b>EXPENDITURES</b>						
Salaries	5,702,826	1,068,808	-	-	1,300,653	8,072,287
Benefits	2,265,356	451,755	-	-	483,804	3,200,915
Supplies	401,527	141,739	-	-	4,708	547,974
Professional Services	1,211,892	39,118	160,000	-	73,000	1,484,010
Community Services	498,627	-	180,784	-	-	679,411
Other Services & Charges	1,595,905	1,129,356	-	-	230,764	2,956,025
Intergovernmental Services	805,002	3,200	-	-	4,400	812,602
<b>TOTAL OPERATING EXPENDITURES</b>	12,481,136	2,833,976	340,784	-	2,097,329	17,753,224
<b>NON-OPERATING EXPENDITURES</b>						
Capital Equipment	380,000	205,000	-	-	-	585,000
Capital Projects	67,000	-	-	-	-	67,000
Debt Service	56,824	-	-	2,701,532	-	2,758,356
<b>TOTAL EXPENDITURES</b>	12,984,959	3,038,976	340,784	2,701,532	2,097,329	21,163,580
<b>OTHER USES</b>						
To Other Funds and Sub-Funds	3,359,338	-	2,473,794	-	-	5,833,132
<b>ENDING FUND BALANCE, RESERVES &amp; CONTINGENCIES</b>	10,423,474	125,000	305,784	238,989	194,474	11,287,721
<b>TOTAL USES</b>	26,767,771	3,163,976	3,120,362	2,940,521	2,291,803	38,284,433

**CITY OF BAINBRIDGE ISLAND 2016 MODIFIED BUDGET**

	WATER	SEWER	SSWM	TOTAL FOR 2016
BEGINNING FUND BALANCE	5,656,659	3,854,045	844,395	10,355,099
REVENUES				
Charges for Utility Services	1,091,200	3,510,000	2,025,000	6,626,200
Miscellaneous	138,000	255,000	-	393,000
Assessments	-	220,000	-	220,000
Investment Revenue	28,000	13,000	1,000	42,000
<b>TOTAL REVENUES</b>	<b>1,257,200</b>	<b>3,998,000</b>	<b>2,026,000</b>	<b>7,281,200</b>
OTHER SOURCES				
From other Funds and Sub-Funds	2,500	-	-	2,500
<b>TOTAL RESOURCES</b>	<b>6,916,359</b>	<b>7,852,045</b>	<b>2,870,395</b>	<b>17,638,799</b>
EXPENDITURES				
Salaries	465,164	888,273	838,884	2,192,321
Benefits	187,395	353,455	341,245	882,095
Supplies	53,791	109,507	72,112	235,410
Professional Services	76,555	14,506	70,906	161,967
Community Services	10,000	-	-	10,000
Other Services & Charges	205,532	414,068	304,481	924,081
Intergovernmental Services	155,440	456,201	185,750	797,391
<b>TOTAL OPERATING EXPENDITURES</b>	<b>1,153,876</b>	<b>2,236,010</b>	<b>1,813,378</b>	<b>5,203,264</b>
NON-OPERATING EXPENDITURES				
Capital Equipment	10,000	10,000	265,000	285,000
Capital Projects	248,000	1,452,000	341,000	2,041,000
Debt Service	-	1,417,716	53,190	1,470,906
<b>TOTAL EXPENDITURES</b>	<b>1,411,876</b>	<b>5,115,726</b>	<b>2,472,568</b>	<b>9,000,170</b>
ENDING FUND BALANCE, RESERVES & CONTINGENCIES	5,504,483	2,736,319	397,827	8,638,629
<b>TOTAL USES</b>	<b>6,916,359</b>	<b>7,852,045</b>	<b>2,870,395</b>	<b>17,638,799</b>