



SECTION 2: BUDGET DEVELOPMENT



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Financial Policies.....	13-14
Budget Process.....	15
Key Assumptions in 2017-2018 Budget Development	16-17
General Fund Reserves.....	18
Financial Capacity/Fiscal Health	19-21
Basis of Accounting & Budgeting	22
Debt Service	23-26



FINANCIAL POLICIES

The City's adopted municipal code is the main policy document of the City of Bainbridge Island. It establishes policy and guidelines for most City operations. In addition, the City defines its approach to operations or the scope of duties and responsibilities through additional policies and practices.

Stewardship of public funds on behalf of the community is the primary financial responsibility of the City of Bainbridge Island. Policies that define and maintain the City's fiscal stability have been created to help City officials plan fiscal strategy with a consistent approach. By adhering to its stated policies, City Council and City management seek to continually improve the City's financial stability and provide adequate funding for the services desired by the public. The City Council reviews the Financial Policies as a key initial step of budget development. In 2016, Council reviewed and adopted an updated set of financial policies. The entire text of the policies is included in the Appendix to this document, with certain key provisions cited below.

KEY POLICY STATEMENTS

The primary purpose of financial policies is to provide guidelines for the City Council and staff to use in making financial decisions that ensure core services are maintained and the Council's vision for the community is achieved.

The City shall adopt a balanced budget. The City defines a balanced budget as one in which current biennium budgeted revenues in addition to fund balances are equal to or greater than current biennium budgeted expenditures. In addition, the City's budget shall maintain recurring expenditures for each fund at a level less than recurring revenues for that fund.

The City shall consider its financial capacity when making budget decisions. Staff shall deliver to Council a ten-year Financial Capacity Analysis as part of the biennial budget process. For each Financial Capacity Analysis, the financial assumptions shall be reasonable and shall take into account an appropriately chosen set of inflation factors and an appropriate set of economic projections. The Administration's chosen assumptions for revenues, expenditure inflation factors and economic measures shall be disclosed to the Council.

The City will strive to maintain a diverse and stable revenue stream to protect against short-run volatility of any single revenue source.

The City shall maintain a structure for all fees and charges where the beneficiary of the service pays the cost of that service except to the extent that the Council has determined that provision of the specific service in question provides a general public benefit.

The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).



The Capital Improvement Plan and the City operating budget will be reviewed at the same time to ensure that capital and operating needs are balanced with each other and support overall City goals.

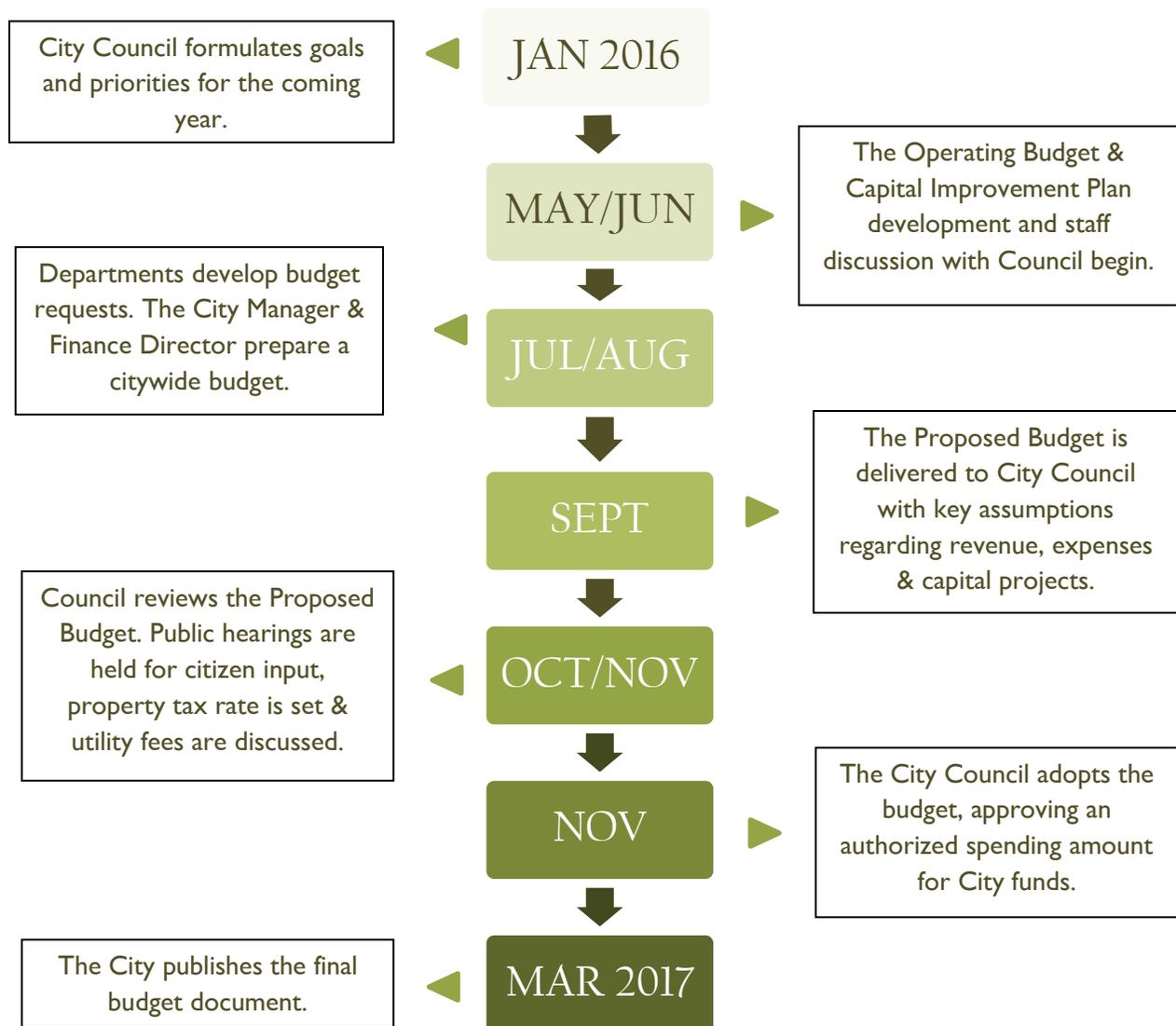
Reserve funds enable the City to deal with unforeseen emergencies and changes in economic conditions. Reserve targets are set by the City Council for the General Fund, and for each utility fund.

The accounting system will maintain records on a basis consistent with accepted national standards for local government accounting and the Washington State Auditor's Budgeting, Accounting and Reporting System.

The City will ensure that City records are audited annually, resulting in a financial opinion. The results of the audit will be available to the public through the City's website.

BUDGET PROCESS

Budget development is a continuous process that begins in January and culminates with the passage of a final budget in November or December. During the year, the City tracks budget to actuals to improve on the next year’s budget. On a quarterly basis, Council considers a consolidated set of citywide budget and capital project changes, and amends the current year’s budget, either increasing or decreasing authorized spending for City funds. The amendment ordinances are considered in public meetings, and adopted either as presented or as modified by Council. Many of Council’s actions, citizen input, and new legislative mandates throughout the year have implications for future budget years.



*The City of Bainbridge Island adopts a biennial budget with a full budget process once every two years. In the mid-biennium, there is a review and necessary adjustments are made.

*The Adopted Budget is monitored and amended by ordinance as necessary during the budget year.



KEY ASSUMPTIONS

The City developed the 2017-2018 Adopted Budget beginning with some key citywide assumptions related to revenue and expenditures based on prior years' performance. Budget figures are also influenced by external factors, and by City policy decisions related to level of service or one-time capital spending. Weighing all factors, the City developed spending plans on a department-by-department basis.

Key Assumptions in Budget Development

Citywide assumptions used in development of the 2017-2018 Adopted Budget included:

- Estimated beginning fund balances for each fund for 2017 based on 2016 performance through July and estimated revenue and expenditure performance through the end of 2016. In most cases, beginning fund balances were higher than estimated through the 2016 budget process.
- Revenue estimates were prepared for specific sources after an analysis of the City's past five years of revenue performance. In some cases, such as the statutory limits to increases to property tax, external factors guide the revenue estimate. In most cases, actual performance was used to determine if a reduction or increase was warranted. For other small revenue sources, a general inflator of 2% was applied to the average of recent years' actuals. Based on 2011 through 2015 performance, selected revenue estimates for 2017 have been revised.

Significant revenue sources are noted below:

Revenue Source	Change	2017 value
Property Tax	Increase by \$172,000 or 2%	\$7,224,000
Sales and Use Tax	Increase by \$305,000 or 9%	\$3,605,000
Business and Occupation (B&O) Tax	Increase by \$101,000 or 22%	\$552,000
Utility tax on private utilities	Decrease by \$201,000 or 7%	\$2,604,000
Utility tax on City utilities	Increase by \$92,000 or 24%	\$480,000
Commercial Parking Tax	Increase by \$47,000 or 6%	\$847,000
Zoning and Subdivision	Increase by \$170,000 or 113%	\$320,000
Planning Review of Building Permits	Increase by \$70,000 or 93%	\$145,000
Plan Checking (B&DS)	Increase by \$100,000 or 23%	\$530,000
Other Planning (B&DS)	Decrease by \$55,000 or 33%	\$110,000
Real Estate Excise Tax	Increase by \$600,000 or 30%	\$2,600,000
Surplus property sales	Estimate for 2017-2018 plans	\$405,000
Water fee revenue	No rate change or growth	\$1,090,500
Sewer fee revenue	No rate change, increase by 5% for growth/recent actuals	\$3,682,000
Sewer connection/All Other	Increase by \$81,000 or 32%	\$336,600
SSWM Fee revenue	Rate increase of 15%. Increase by \$325,000 or 16%	\$2,350,000

- Personnel costs were updated in two ways:
 - First, the cost allocation factors were updated. Consistent with best practices, the City reviewed the factors that it uses to distribute personnel costs across operating funds. For example, personnel costs related to Human Resources are distributed based on the number of full-time equivalent employees, while the Code Compliance officer's costs are distributed based on the past three years of cases by topic. Departments including City Council, Public Safety, and the Municipal Court are entirely allocated to the General Fund. To prepare for the 2017-2018 budgets, staff updated the data on allocation factors based on information from the most recent years. Staff used updated data to distribute personnel costs, and incorporated this information into the budgets. These changes represent a redistribution of personnel expenses rather than a net increase or decrease to City personnel spending.
 - Secondly, personnel costs were calculated for 2017-2018 using approved position lists and salary schedules along with estimated costs provided by external service providers such as the Department of Retirement Services and the Association of Washington Cities (AWC). Vacant positions are estimated at top step. Personnel costs increase by 2.5% in 2017 and 2018, as an assumption for a cost-of-living increase based on current Consumer Price Index information and expected increases due to employees moving up the established position steps. Medical costs increase by 6% for 2017 and 2018, based on estimates from AWC.
- Other central costs such as insurance and utilities were updated based on recent actual costs or estimates from outside service providers.
- Capital costs were updated based on the Capital Improvement Plan included with budget.
- Operating transfers were updated to match budgeted expenditure levels.
- Departmental costs were developed for City programs and services at approved service levels. Changes in costs for additional services or enhanced services are detailed in the department budget sections.



GENERAL FUND RESERVES

During 2016, Council reviewed and approved the City’s comprehensive financial policies, including the following reserve targets and definitions.

- **Emergency Reserve:** established to pay for unexpected emergencies that cannot reasonably be accommodated by current budget appropriations. The target level for this reserve is \$1.0 million.
- **General Fund Stability Reserve:** defined as the dollar amount of unencumbered fund balance, excluding amounts held in restricted or designated reserves. The year-end target level for this reserve is 25% of ongoing General Fund revenues, or approximately \$4.1 million in 2017 and 2018.
- The 2017-2018 Adopted Budget provides for additional items to be tracked as part of financial management. These amounts include the following:
 - Specially-tracked General Fund monies. These include PEG Capital Reserve, Police Investigative Reserve, Police Marine Reserve, Public Arts Reserve.
 - General Fund reserve for 2019-2020 capital plans. This reserve is the net City investment required to fund the current 2019-2020 CIP for projects that will begin in those two years.

The charts below provide detail behind the total shown for the General Fund policy reserves at the end of 2017 and 2018. The budgeted total balance of the General Fund year-end is \$8,861,453 for 2017 and \$7,392,235 for 2018.

Detail of General Fund Reserves at end of 2017 and 2018

General Fund Reserve Category	2017	2018
Emergency Reserve	1,000,000	1,000,000
General Fund Stability Reserve Minimum	4,058,000	4,139,000
Other specially-tracked General Fund Monies	133,000	133,000
Reserve for 2019-2020 CIP		2,518,000

FINANCIAL CAPACITY/FISCAL HEALTH

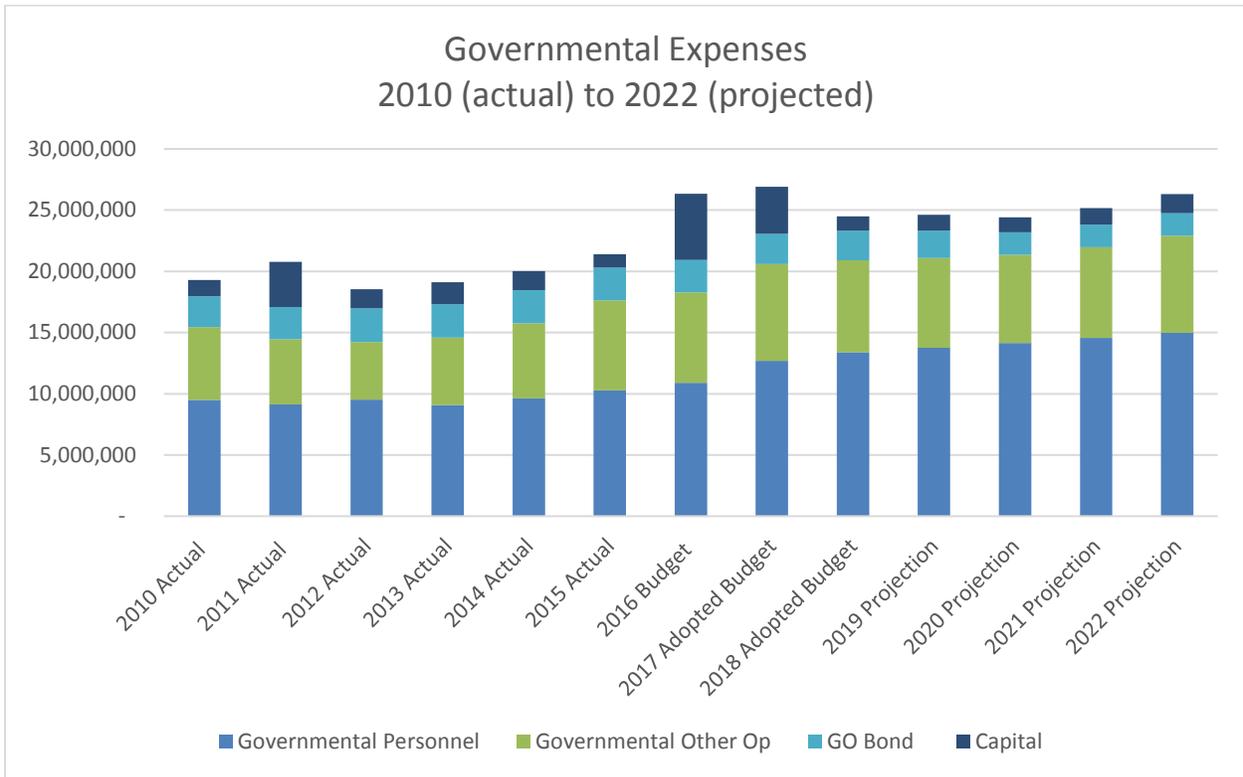
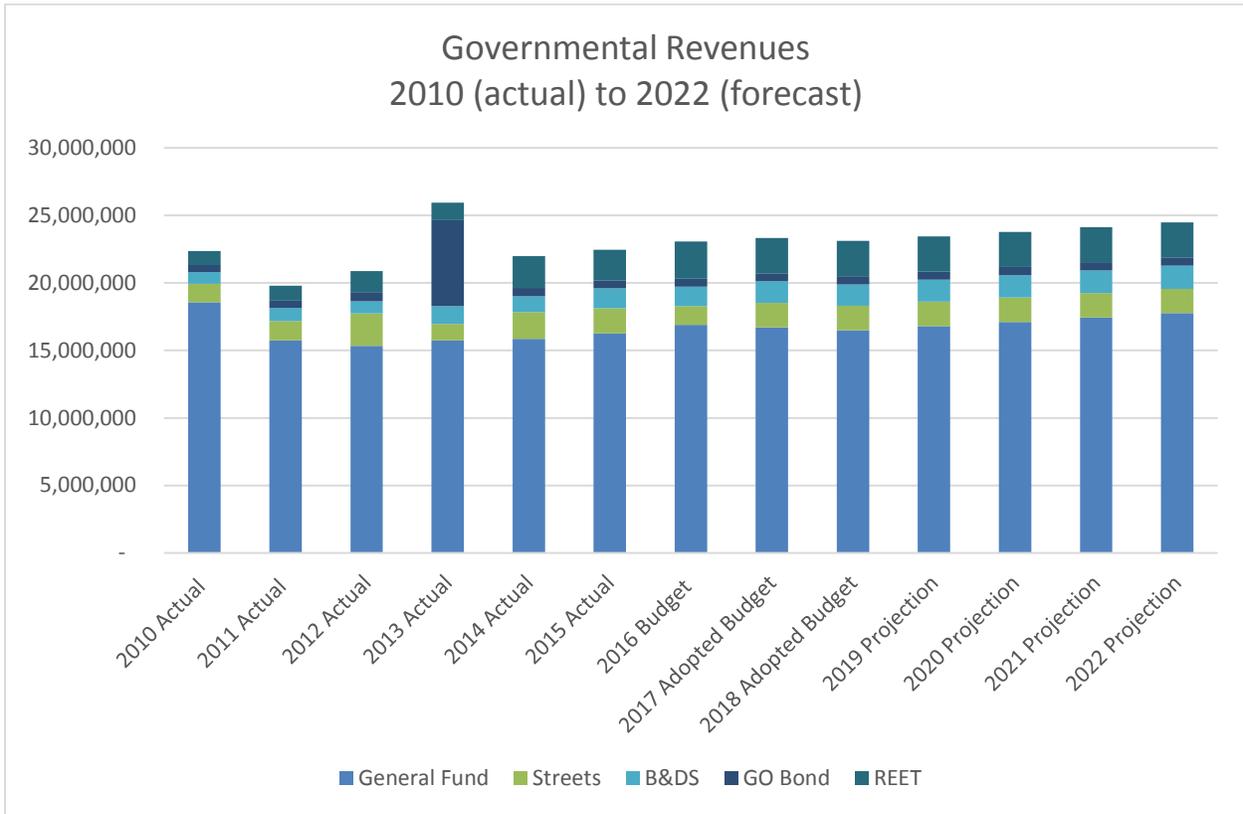
In an effort to support the review of the long-term viability of the City's financial structure, the Finance Department provides a six-year forward look at the City's projected financial performance by fund. This analysis is called the "Financial Capacity Analysis" and is based on analysis completed through the Fiscal Health tool.

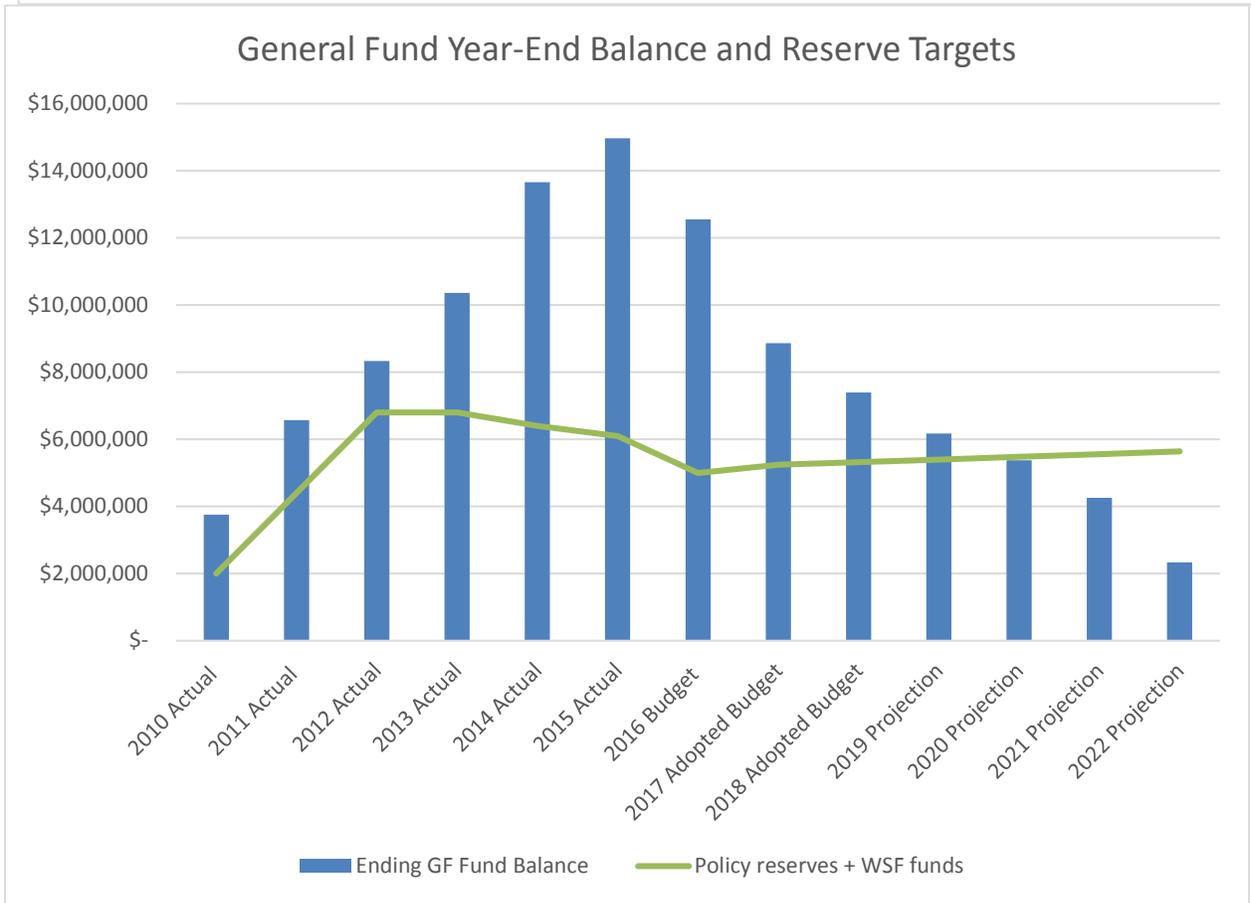
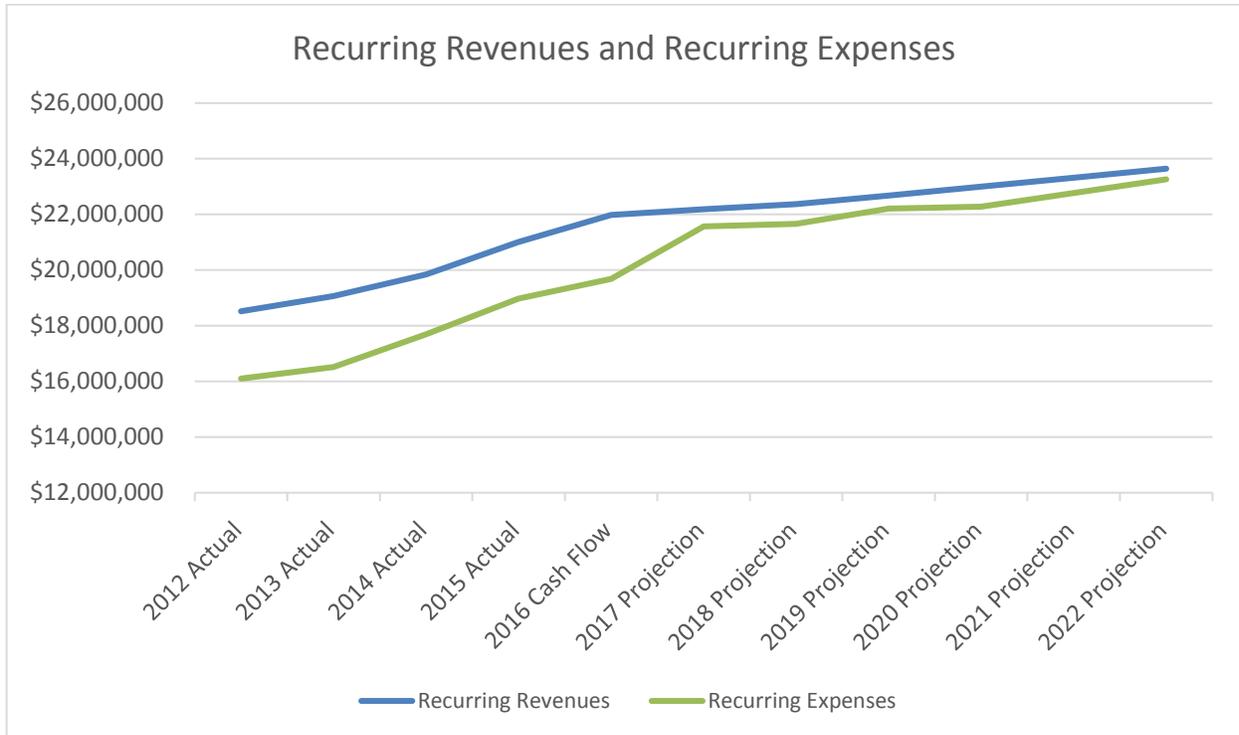
This forward-looking analysis is a long-range planning tool to guide macro-level financial planning in support of maintaining City services and financial stability, while moving towards its goals. The analysis is based on past actual results, current estimates and budgeted forecasts, and relies on a wide range of assumptions and escalators that require periodic review. Thus, it can provide a useful look at the results of overall budget decisions and multi-year trends and impacts. We update this tool periodically, usually in conjunction with annual budget development and as part of Council financial briefings, and use the updated information to provide context for future decision making.

The attached analysis shows that the City has built General Fund balance over the past five years that is now supporting robust capital investment. It also shows that, absent new revenues or significant changes to spending patterns, the City does not have capacity to undertake increases in either programmatic or capital spending beyond 2017-2018. Going forward, reserves are fully funded for the next biennium, but not for years after 2020. Periodic future updates will provide staff and Council with the information to position the City for continued financial stability.

To help interpret this information, the following assumptions are presented as background and are incorporated into the FCA results for years after 2018:

- General Fund Sales Tax revenue growth of 3%, Property Tax growth of 1.5%, and B&O growth of 2%;
- For all funds, personnel costs assume an annual increase of 2% for salary costs and an annual increase of 4% for benefits costs;
- General operating expenses assume an annual increase of 2%;
- Councilmanic general obligation debt issued in late 2017 to support the Police and Municipal Court Building project;
- No change to policy reserve targets or expenditure of reserve funds with the exception of the Washington State Ferry reserve, expected to be spent on the City Dock Project in 2017;
- Street annual preservation program at \$600,000, increasing annually for inflation;
- REET annual revenue held steady at \$2.6 million;
- Building and Development Services annual revenue held steady at \$1.6 million;
- Capital project expenses and revenues matched to current CIP.







BASIS OF ACCOUNTING & BUDGETING

The basis of accounting determines how and when to recognize revenues and expenditures in the financial accounts of the City, and then to report them on the City's financial statements.

In the City's financial statements, governmental funds use a modified accrual basis of accounting (see glossary), while proprietary funds use accrual (see glossary). Beginning in 2002, the Governmental Accounting Standards Board Statement No. 34 required an additional set of government-wide financial statements that use accrual accounting.

The City's budget is prepared using the modified accrual basis of accounting. Revenues and receivables are recognized in the year in which they are available to fund that year's expenditures. Expenditures are recognized in the year the liability is incurred.

One major function of the City's budget is to evaluate what projects and programs, in addition to normal operations, the City plans to fund in the coming budget biennium and how the City will pay for those plans. Support can come from expected budget-year revenues, fund balance, new long-term debt or a combination of these resources.

**CITY OF BAINBRIDGE ISLAND - 2017 ADOPTED BUDGET
LIMITS ON DEBT**

Washington State law places limits on the amount of debt that cities may issue. Those limits cover all direct debt of the City. The City Council has the authority under RCW 35.42.200 to obligate the taxpayers without a vote of the people for up to a net aggregate total of 1.5% of the 'taxable property value' (assessed value) within the City. In addition, with a 60% vote of the people, the City can issue bonds of up to 2.5% of the assessed value for general purposes plus up to 2.5% for utility purposes plus up to 2.5% for open space and park facilities. The total for all purposes may not exceed 7.5% and the total for general purposes may not exceed 2.5% whether or not a vote has been held. There are no limits (other than political or market driven ones) on the amount of debt that can be issued which is not an obligation of the taxpayers (utility revenue debt and local assessment debt).

LIMITED TAX GENERAL OBLIGATION BONDS (Can be approved by a majority vote of the City Council)	1/1/2017 OUTSTANDING	PERCENTAGE OF LEGAL LIMIT
2005 LTGO (Refunding) Bonds	\$ 1,450,000	
2007 LTGO (Construction) Bonds	2,660,000	
2008 LTGO (Construction) Bonds	1,235,000	
2009 LTGO (Refunding) Bonds	1,235,000	
2011 LTGO (Construction & Refunding) Bonds	3,845,000	
TOTAL LTGO BONDS	\$ 10,425,000	
Public Works Trust Fund Loans	6,844,860	
All Other Direct General Obligation Debt	8,114,336	
TOTAL DIRECT DEBT	\$ 25,384,196	27.2%
	LEGAL LIMIT \$ 93,168,164	
	REMAINING (UNUSED) MARGIN \$ 67,783,969	
SPECIAL LEVY GENERAL OBLIGATION BONDS (All types require a 60% vote of the people)		
For General Purposes	\$ 0	
For Utility Purposes	0	
For Parks & Open Space	3,715,000	
TOTAL SPECIAL LEVY BONDS	\$ 3,715,000	
TOTAL GENERAL OBLIGATION DEBT	\$ 29,099,196	6.2%
	LEGAL LIMIT \$ 465,840,821	
	REMAINING (UNUSED) MARGIN \$ 436,741,626	
ASSESSMENT DEBT		
Public Works Trust Loan for South Island Sewer	\$ 2,380,000	
2011 LID Street Bonds	261,545	
TOTAL ASSESSMENT DEBT	\$ 2,641,545	No legal limit
REVENUE DEBT		
Public Works Trust Loan #2 for WWTP Constr.	\$ 2,000,081	
TOTAL REVENUE DEBT	\$ 2,000,081	No legal limit

**CITY OF BAINBRIDGE ISLAND - 2017 ADOPTED BUDGET
LONG-TERM DEBT AND DEBT SERVICE**

EXISTING DEBT	ORIGINAL ISSUE	1/1/2017 BALANCE	2017 PRINCIPAL	2017 INTEREST	12/31/2017 BALANCE	FINAL MATURITY
2005 LTGO Bonds - Refunded Most Portions of the 1996, 1997 & 1999 LTGO Bonds	\$ 7,410,000	\$ 1,450,000	\$ 685,000	\$ 60,605	\$ 765,000	Oct-2019
PWTF Loan - New Storm Drain Decant Facility Design	179,025	76,360	9,545	382	66,815	Jun-2024
PWTF Loan - New Storm Drain Decant Facility Construction	782,000	370,421	41,158	1,852	329,263	Jun-2025
PWTF Loan - South Island Sewer LID Construction	5,600,000	2,380,000	297,500	11,900	2,082,500	Jun-2024
PWTF Loan - Sewage Treatment Plant Upgrade Design	389,215	168,700	21,088	844	147,612	Jun-2024
PWTF Loan - Sewage Treatment Plant Upgrade Construction Loan #1	3,618,000	1,895,611	210,624	9,478	1,684,987	Jun-2025
PWTF Loan - Sewage Treatment Plant Upgrade Construction Loan #2	3,564,500	2,000,081	200,008	10,001	1,800,073	Jun-2026
PWTF Loan - Dec 2007 Storms - Street Repairs	449,632	283,978	23,665	8,520	260,313	Jun-2028
2007 LTGO Bonds - Open Space Purchases & Winslow Way Design	4,120,000	2,660,000	195,000	108,080	2,465,000	Dec-2027
2008 LTGO Bonds - Capital Construction	1,770,000	1,235,000	80,000	52,565	1,155,000	Jun-2028
2009 LTGO Bonds - Refunded most of the 1998 LTGO Bonds	5,220,000	1,235,000	605,000	61,750	630,000	Dec-2018
2011 LTGO Bonds - Sewer Treatment Plant Upgrade Construction	5,700,000	3,845,000	210,000	151,700	3,635,000	Dec-2030
2011 LID Bonds - Winslow Way Construction	755,300	261,545	37,364	11,975	224,181	May-2023
2013 Voted Refunding Bonds - Refunded 2002 and most of 2004 Voted GO Bonds	5,230,000	3,715,000	465,000	139,050	3,250,000	Dec-2023
PWTF Loan - Sewer Beach Mains Design	383,542	245,208	20,434	1,227	224,774	Jun-2028
PWTF Loan - Sewer Beach Mains Construction	4,167,089	3,804,582	244,566	20,273	3,560,016	Jun-2032
TOTAL EXISTING DEBT	\$ 49,338,303	\$ 25,626,486	\$ 3,345,952	\$ 650,202	\$ 22,280,534	

2017 BUDGETED NEW DEBT

There is no new 2017 budgeted debt at this time

TOTAL EXISTING DEBT AND BUDGETED NEW DEBT	\$ 49,338,303	\$ 25,626,486	\$ 3,345,952	\$ 650,202	\$ 22,280,534
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DEBT ITEMS NOT INCLUDED ABOVE: The following types of debt are not included above:
Interfund Debt, Compensated Absences, Net Pension Liability, Accounts Payable and Accrued Payroll.

**CITY OF BAINBRIDGE ISLAND - 2018 ADOPTED BUDGET
LIMITS ON DEBT**

Washington State law places limits on the amount of debt that cities may issue. Those limits cover all direct debt of the City. The City Council has the authority under RCW 35.42.200 to obligate the taxpayers without a vote of the people for up to a net aggregate total of 1.5% of the 'taxable property value' (assessed value) within the City. In addition, with a 60% vote of the people, the City can issue bonds of up to 2.5% of the assessed value for general purposes plus up to 2.5% for utility purposes plus up to 2.5% for open space and park facilities. The total for all purposes may not exceed 7.5% and the total for general purposes may not exceed 2.5% whether or not a vote has been held. There are no limits (other than political or market driven ones) on the amount of debt that can be issued which is not an obligation of the taxpayers (utility revenue debt and local assessment debt).

LIMITED TAX GENERAL OBLIGATION BONDS (Can be approved by a majority vote of the City Council)	1/1/2018 OUTSTANDING	PERCENTAGE OF LEGAL LIMIT
2005 LTGO (Refunding) Bonds	\$ 765,000	
2007 LTGO (Construction) Bonds	2,465,000	
2008 LTGO (Construction) Bonds	1,155,000	
2009 LTGO (Refunding) Bonds	630,000	
2011 LTGO (Construction & Refunding) Bonds	3,635,000	
2018 LTGO (Construction) Bonds	8,000,000	
TOTAL LTGO BONDS	\$ 16,650,000	
Public Works Trust Fund Loans	6,273,780	
All Other Direct General Obligation Debt	8,114,336	
TOTAL DIRECT DEBT	\$ 31,038,116	33.3%
	LEGAL LIMIT	\$ 93,168,164
	REMAINING (UNUSED) MARGIN	\$ 62,130,049
 SPECIAL LEVY GENERAL OBLIGATION BONDS (All types require a 60% vote of the people)		
For General Purposes	\$ 0	
For Utility Purposes	0	
For Parks & Open Space	3,250,000	
TOTAL SPECIAL LEVY BONDS	\$ 3,250,000	
 TOTAL GENERAL OBLIGATION DEBT	\$ 34,288,116	7.4%
	LEGAL LIMIT	\$ 465,840,821
	REMAINING (UNUSED) MARGIN	\$ 431,552,706
 ASSESSMENT DEBT		
Public Works Trust Loan for South Island Sewer	\$ 2,082,500	
2011 LID Street Bonds	224,181	
TOTAL ASSESSMENT DEBT	\$ 2,306,681	No legal limit
 REVENUE DEBT		
Public Works Trust Loan #2 for WWTP Constr.	\$ 1,800,073	
TOTAL REVENUE DEBT	\$ 1,800,073	No legal limit

**CITY OF BAINBRIDGE ISLAND - 2018 ADOPTED BUDGET
LONG-TERM DEBT AND DEBT SERVICE**

EXISTING DEBT	ORIGINAL ISSUE	1/1/2018 BALANCE	2018 PRINCIPAL	2018 INTEREST	12/31/2018 BALANCE	FINAL MATURITY
2005 LTGO Bonds - Refunded Most Portions of the 1996, 1997 & 1999 LTGO Bonds	\$ 7,410,000	\$ 765,000	\$ 375,000	\$ 32,520	\$ 390,000	Oct-2019
PWTF Loan - New Storm Drain Decant Facility Design	179,025	66,815	9,545	334	57,270	Jun-2024
PWTF Loan - New Storm Drain Decant Facility Construction	782,000	329,263	41,158	1,647	288,105	Jun-2025
PWTF Loan - South Island Sewer LID Construction	5,600,000	2,082,500	297,500	10,413	1,785,000	Jun-2024
PWTF Loan - Sewage Treatment Plant Upgrade Design	389,215	147,612	21,088	739	126,524	Jun-2024
PWTF Loan - Sewage Treatment Plant Upgrade Construction Loan #1	3,618,000	1,684,987	210,624	8,425	1,474,363	Jun-2025
PWTF Loan - Sewage Treatment Plant Upgrade Construction Loan #2	3,564,500	1,800,073	200,008	9,001	1,600,065	Jun-2026
PWTF Loan - Dec 2007 Storms - Street Repairs	449,632	260,313	23,665	7,810	236,648	Jun-2028
2007 LTGO Bonds - Open Space Purchases & Winslow Way Design	4,120,000	2,465,000	205,000	100,280	2,260,000	Dec-2027
2008 LTGO Bonds - Capital Construction	1,770,000	1,155,000	85,000	49,265	1,070,000	Jun-2028
2009 LTGO Bonds - Refunded most of the 1998 LTGO Bonds	5,220,000	630,000	630,000	31,500	0	Dec-2018
2011 LTGO Bonds - Sewer Treatment Plant Upgrade Construction	5,700,000	3,635,000	220,000	145,400	3,415,000	Dec-2030
2011 LID Bonds - Winslow Way Construction	755,300	224,181	37,364	10,275	186,817	May-2023
2013 Voted Refunding Bonds - Refunded 2002 and most of 2004 Voted GO Bonds	5,230,000	3,250,000	490,000	125,100	2,760,000	Dec-2023
PWTF Loan - Sewer Beach Mains Design	383,542	224,774	20,434	1,124	204,340	Jun-2028
PWTF Loan - Sewer Beach Mains Construction	4,167,089	3,560,016	244,566	19,876	3,315,450	Jun-2032
TOTAL EXISTING DEBT	\$ 49,338,303	\$ 22,280,534	\$ 3,110,952	\$ 553,709	\$ 19,169,582	
 2018 BUDGETED NEW DEBT						
2018 Public Safety and Municipal Court Facility	8,000,000	0	0	270,000	8,000,000	Dec-2037
TOTAL EXISTING DEBT AND BUDGETED NEW DEBT	\$ 57,338,303	\$ 22,280,534	\$ 3,110,952	\$ 823,709	\$ 27,169,582	

DEBT ITEMS NOT INCLUDED ABOVE: The following types of debt are not included above:
Interfund Debt, Compensated Absences, Net Pension Liability, Accounts Payable and Accrued Payroll.