



CITY OF  
BAINBRIDGE ISLAND

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT

MEMORANDUM

TO: City Council  
Doug Schulze, City Manager

FROM: Kim Dunscombe, Budget Manager

DATE: November 28, 2017

RE: City of Bainbridge Island 2018 Budget Public Hearing and Consideration of Approval

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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 current mid-biennial budget review is therefore limited to changes needed in the next year to continue ongoing operations of the City. With that scope in mind, in October, City administration proposed changes to the 2018 Adopted Budget. Since that time, we have had discussions of the budget at several Council meetings, with a public hearing and second reading of the budget ordinance scheduled for November 28.

Mid-biennial adjustments can be grouped as follows:

- Staffing. This budget adjustment represents the conversion of a term-limited position to a regular position in the Public Works Department.
- Capital. These budget adjustments primarily reflect previously-approved changes to current projects. In addition, the State Route 305/Olympic Drive project is modified to recognize grant applications, a new project in the Water utility addresses needed water pressure improvements, and funding is included in 2019 for a viewing platform near the Ferry Terminal.
- Operations. These budget adjustments reflect changes to City programs in support of ongoing efforts including customer service, facility maintenance, and emergency preparedness.
- Technical changes. These budget adjustments reflect decisions that have already been made through, for example, 2017 Quarterly Budget Adjustments, Collective Bargaining Agreements or contract acceptance.

Details for all adjustments are provided in the attached materials.

With these proposed adjustments, the 2018 budget continues to meet the City's guiding fiscal priorities: Improve efficiency, effectiveness, and responsiveness of government services; to hold recurring expenses less than recurring revenues, and to fully fund all policy reserves.

Attachments:

- Priority Based Budgeting 2018 information
- Operating and capital budget amendments
- Recurring revenue and expense
- General Fund reserve information
- Budget reports
- 2017-2022 CIP, as approved November 14, 2017

## PRIORITY BASED BUDGETING

In the spring of 2014, the City of Bainbridge Island partnered with the Center for Priority Based Budgeting (CPBB) to implement a Priority Based Budgeting (PBB) process. PBB provides a way to compare community values with the programs and services the government provides. PBB helps the City and community:

- Identify key Council and community goals;
- Evaluate how well the City's resources are aligned with these goals; and
- Engage in strategic decision-making regarding funding, adding, and/or eliminating programs and services.

PBB allows the community and City employees to better understand the City's use of its limited resources. The PBB analysis contributes to the City's long-term financial sustainability by helping to identify explicit choices and trade-offs. The PBB process helps the City to develop a strategic budget that reflects community values and ensures a high level of city service to residents.

### **KEY CITY "RESULTS"**

Based on Council discussions, staff input, and consultant review, six strategic priorities were identified for the City of Bainbridge Island. These areas represent the City's primary focus, or "results":

- Safe City
- Green, Well-Planned Community
- Reliable Infrastructure and Connected Mobility
- Healthy and Attractive Community
- Vibrant Economy
- Good Governance

### **RESOURCE ALIGNMENT DIAGNOSTIC TOOL**

A key component of the PBB approach is the "Resource Alignment Diagnostic Tool" (RAD) that illustrates how well the City's service delivery performs relative to the strategic results. After identifying programs, associating budgeted costs with the programs, and assessing the programs' relationship to the City's "results" and other criteria, each program, and its costs, is assigned to a quartile. This analysis provides a visual representation of how much money is being spent on the programs that fall into each quartile. In this representation, the First Quartile (Q1) identifies programs with the most direct connection and support of the City's results and other contributing attributes. The Fourth Quartile identifies the programs with the lowest relative connection to the results and other attributes.

City staff have updated the RAD tool with 2018 Adopted Budget information, as shown below. The proposed modifications are also shown.

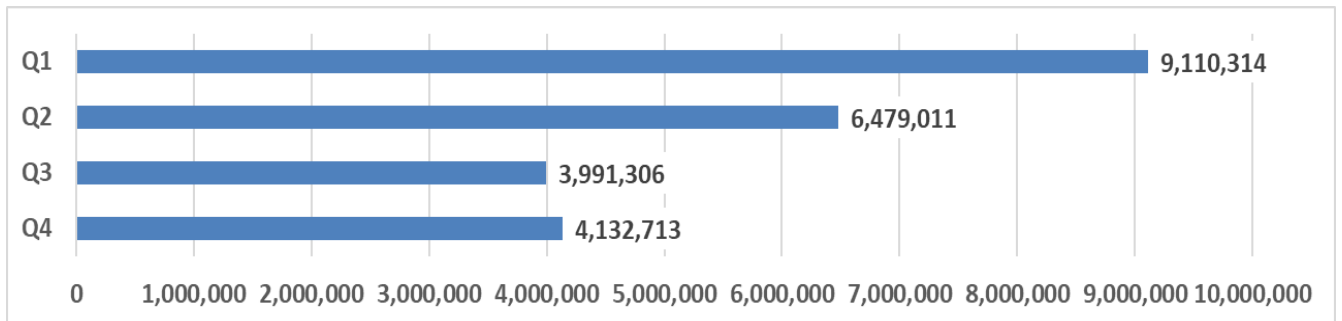
## 2018 BUDGET QUARTILE DISTRIBUTION

### 2018 Adopted Budget – All Departments, Community and Governance Programs

The graph below shows the budgeted amounts for all City departments, distributed by program and then summarized by the RAD analysis into quartiles. The graph demonstrates that the City continues to prioritize spending on the programs which most closely match the identified “results,” as shown by the longer bars for Q1 and Q2 programs. A complete list of programs sorted by quartile is available on the City website.

#### **Chart: 2018 Adopted Budget – All Departments, Community and Governance Programs**

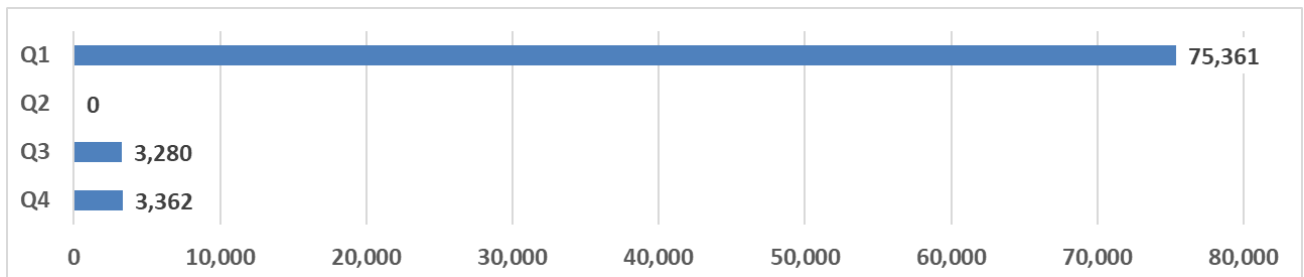
The chart below shows citywide programmatic budgets for 2018, totaling \$23.7 million.



### 2018 Budget Modifications

The following graphs represent the quartile analysis for the Water Resources Technician in the Public Works Department. This position is converted from a term-limited position with a sunset date of December 31, 2017 to a regular, on-going position in 2018.

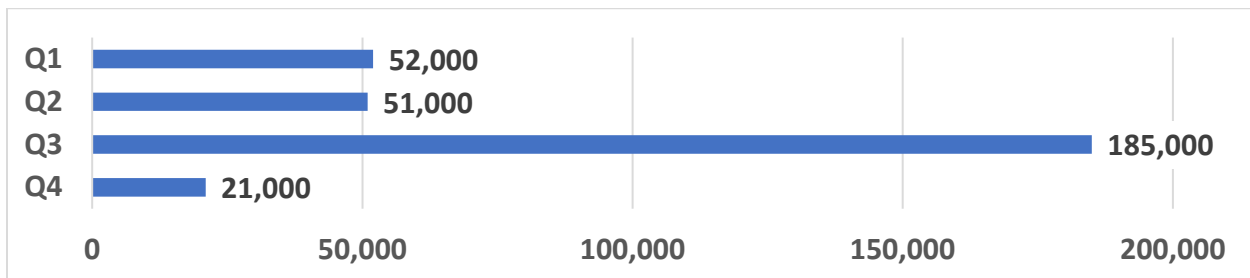
#### **Chart: Water Resources Technician**



This position has responsibilities for the following programs:

Program Name	Quartile
Groundwater Management Program	1
Illicit Discharge Detection and Elimination	1
NPDES - Discharge Permit Management	1
Runoff Control from New Development	1
Special Projects/Studies - Water	1
Water Quality and Flow Monitoring Program	1
Emergency Preparedness - Public Works	3
Public Involvement and Participation - NPDES	3
Public Outreach - Public Works	4
Public Records Requests - Public Works	4

The following graph represents the quartile analysis for the other, non-staffing, proposed changes to the operating budget. As shown below, important categories of spending, such as maintenance and upkeep of the City's facilities are scored in the lower quartiles. However, these proposed budget modifications recognize the importance of regular investment in the City's physical infrastructure, especially some maintenance which was deferred during times of more limited financial resources.



The mid-biennial budget changes proposed support the following programs:

Program	Quartile	Amount
Communications Systems Administration	1	\$52,000
Emergency Preparedness - Executive	2	\$26,000
Facility Planned Asset Improvement Projects	2	\$25,000
Facility Maintenance and Repairs	3	\$185,000
K9 Program	4	\$15,000
Human Services Funding	4	\$6,000

## 2018 BUDGET ADJUSTMENTS

The 2018 budget adjustments use the Adopted 2018 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 four categories:

1. Staffing.
2. Capital Projects in the CIP. 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, and additional funding sources.
3. City programs and services. These are adjustments to reflect changes to City service delivery.
4. 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 STAFFING

The 2018 Budget modifications include one change to current staffing.

1. **Water Resources Technician, Public Works.** For the past two years, a term-limited position has supported the City's Water Resources program, participating in NPDES-required public involvement programming, as well as the Illicit Discharge Detection and Elimination (IDDE) prevention program and groundwater management data gathering. This position, 1.0 FTE, supported by the General Fund and the SSWM Fund, was included in the budget developed for the SSWM rate approved for 2018.

### ADJUSTMENTS TO CAPITAL PROJECTS

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 City's HVAC control upgrades.

1. **State Route 305/Olympic Drive.** The CIP has been updated to reflect that the City has applied for a federal grant of \$872,000 and a state grant of \$400,000. If the City does not receive these grants, staff will work with Council to identify additional funding options or reductions in project scope.
  2. **Cave Avenue Fire Flow Improvements.** In order to provide appropriate water pressure to the existing customers in the Cave Avenue neighborhood, individual pressure reducing valves may be installed. In addition, to improve the operations of the water system in this area a new water line connection from the developer-installed facilities on Cave Avenue to
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Gilmore Way will be needed. This project is budgeted at \$75,000.

3. **Ferry Terminal Viewing Platform.** The CIP has been updated to include funding of \$26,000 for this project in 2019.

## **ADJUSTMENTS TO PROGRAM OPERATIONS**

1. **Mobile technology initiative.** The City Manager convened an interdepartmental group of employees to consider use of more mobile technology to increase efficiency and allow for better data collection. The additional devices and associated licenses are estimated to add new costs of \$40,000 for one-time purchases in 2018, and \$12,000 annually for cellular connectivity. This additional cost is shared across several operating funds based on the employees who will use the tools.
  2. **Facility maintenance.** The current biennial budget includes a focus on major maintenance; projects identified for 2018, including exterior refurbishment and HVAC work at City Hall and removal of the linear moorage system, require a one-time budget increase. In addition, looking ahead to 2019-2020, funding in 2018 will support a facility assessment and identify planned maintenance needs for coming years.
  3. **Emergency preparedness.** Emergency management has been identified as a high-priority program by City Council. The request for increased program budget will promote community preparedness and provide professional services to deliver specialized training, such as: Hybrid-Wilderness First Responder certification, Until Help Arrives training, and Community Emergency Response training.
  4. **Police K9 program support.** The Police Department has not had a canine officer for several years, but is reinstating the program to improve search and rescue capabilities. A one-time budget increase of \$15,000 provides for training and supplies.
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## TECHNICAL CHANGES

1. **Updated beginning fund balance estimates.** The table below shows updated estimated January 1, 2018 fund balance estimates for the City's primary operating funds. The updated estimates reflect the City's stronger than forecast financial performance in 2016 after budget development, which has continued through the first half of 2017.

<i>Fund</i>	<i>2018 Adopted Budget</i>	<i>2018 Modified Budget</i>	<i>Change</i>	<i>Comment</i>
<i>General Fund</i>	\$8,861,453	\$13,800,000	\$4,938,547	2018 adjusted starting point reflects the higher 2017 starting point and higher 2017 revenue numbers
<i>Streets Fund</i>	\$135,000	\$754,000	\$619,000	2017 under spending due to deferral of some elements of the annual roads program.
<i>SSWM Fund</i>	\$487,453	\$850,000	\$362,547	2017 expenditures less than budgeted due to staff changes and decision not to pursue consultant studies.

2. **Adjustments to revenue estimates.** Selected revenue estimates for 2018 have been revised based on performance through mid-year 2017. Significant revenue adjustments for 2018 are as follows:
    - Sales and Use tax revenue adjusted up by \$525,000 or 3.1%, to \$4,100,000, per actual performance in 2016 and 2017;
    - REET revenue adjusted up by \$700,000 or 27%, to \$3,300,000 for 2018, in alignment with actual revenue in recent years and 2017 performance;
    - Bond revenue was removed from the 2018 budget due to ongoing planning for the Police and Municipal Court Facility project.
  3. **Other technical changes to the budget.** As included in the chart on the next page, additional technical changes update the budget to reflect ongoing amendments or costs in alignment with previously-approved decisions. Technical changes include items such as budget decisions made earlier in 2017, updates to costs related to provisions in collective bargaining agreements, and changes to assumptions related to the Police and Municipal Court facility.
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2018 Budget Amendments					
	Department	Amount - Tax	Amount - Util	Total	FTE
<b>Beginning Fund Balance</b>					
General Fund Revise per actuals	4 - Finance	4,938,547		4,938,547	
Streets Fund Revise per actuals	4 - Finance	619,000		619,000	
SSWM Revise per actuals	4 - Finance		350,000	350,000	
<b>Revenues</b>					
Increase Sales & Use Tax revenue estimate	4 - Finance	525,000	-	525,000	
Increase Real Estate Excise Tax revenue estimate	4 - Finance	700,000	-	700,000	
Sale of Bonds Revenue	4 - Finance	(8,000,000)			
SSWM Rate Decision	4 - Finance	-	(84,000)	(84,000)	
	<b>Total Rev Increase</b>	<b>(6,744,998)</b>	<b>(84,000)</b>	<b>1,171,002</b>	
<b>Expenses</b>					
<b>Program - CIP</b>					
SR305 Olympic Drive - STO Phase I	7 - Public Works	1,272,000	-	1,272,000	
Cave Ave Fire Flow Improvements	7 - Public Works	-	75,000	75,000	
	<b>Total Prg CIP Cost</b>	<b>1,272,000</b>	<b>75,000</b>	<b>1,347,000</b>	
<b>Program - Operations</b>					
Mobile technology initiative	All Departments	52,000	-	52,000	
Facility maintenance	7 - Public Works	40,000	-	40,000	
Emergency preparedness	3 - Executive	26,000	-	26,000	
City Wide building assessment	7 - Public Works	25,000	-	25,000	
Linear Moorage removal	7 - Public Works	18,000	-	18,000	
Police Program Support - K9	5 - Public Safety	15,000	-	15,000	
	<b>Total Prg Op Cost</b>	<b>176,000</b>	<b>-</b>	<b>176,000</b>	<b>-</b>
<b>Technical</b>					
Police and Court Facility Project Expense	4 - Finance	(8,000,000)	-	(8,000,000)	
Prosecuting Attorney Contract	3 - Executive	110,000	-	110,000	
Reduction in Outside Litigation	3 - Executive	(110,000)	-	(110,000)	
City Hall HVAC	7 - Public Works	70,000	-	70,000	
Janitorial Contract	7 - Public Works	57,000	-	57,000	
Update police salaries per CBA	5 - Public Safety	30,000	-	30,000	
Committee email initiative	1 - Council	10,000	-	10,000	
HRB management of City IMHP shares	3 - Executive	6,000	-	6,000	
Farm Major Maintenance	7 - Public Works	(10,000)	-	(10,000)	
Decrease Bond Fund debt svc.	4 - Finance	(270,000)	-	(270,000)	
Water Zone Project Start 2017 not 2018	7 - Public Works	-	(150,000)	(150,000)	
Water Zone Project Start 2018 not 2019	7 - Public Works	-	950,000	950,000	
ADD WTR Res as reg position	7 - Public Works	32,000	50,000	82,000	1.00
Engineering vehicle (72)	7 - Public Works	18,400	27,600	46,000	
Utility vehicle (73)	7 - Public Works	-	46,000	46,000	
Sewer biosolids disposal	7 - Public Works	-	30,000	30,000	
Annual SSWM Program Reduction	7 - Public Works	-	(59,000)	(59,000)	
Reduced Insurance Estimate	4 - Finance	(45,000)	(15,000)	(60,000)	
Decrease SSWM Excise Tax	4 - Finance	-	(6,000)	(6,000)	
Decrease Sewer Fund debt svc.	4 - Finance	-	(62,000)	(62,000)	
Deep Culvert R&M Reduction	7 - Public Works	-	(200,000)	(200,000)	
	<b>Total Technical Cost</b>	<b>(8,101,600)</b>	<b>611,600</b>	<b>(7,490,000)</b>	
<b>Total 2018 Request Cost</b>		<b>(6,653,600)</b>	<b>686,600</b>	<b>(5,967,000)</b>	
<b>Fund Balance &amp; Revenue Increases Less Total 2018 Request Cost</b>		<b>4,847,149</b>	<b>(770,600)</b>	<b>4,076,549</b>	

## 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 \$4.2 million in 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 2018. Based on the 2018 Modified Budget as presented by staff and modified by Council, the budgeted total balance of the General Fund at the end of 2018 is \$13,386,000. The City tracks several General Fund reserves, as shown below, which are included in the budgeted total.

### Detail of General Fund Reserves at end of 2018

<b>General Fund Reserve Category</b>	<b>2018 Modified</b>
Emergency Reserve	\$1,000,000
General Fund Stability Reserve Minimum	\$4,230,000
Other specially-tracked General Fund Monies	\$168,000
Reserve for 2019-2020 CIP	\$3,300,000
<b>Total of above amounts</b>	<b>\$8,698,000</b>

## 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.

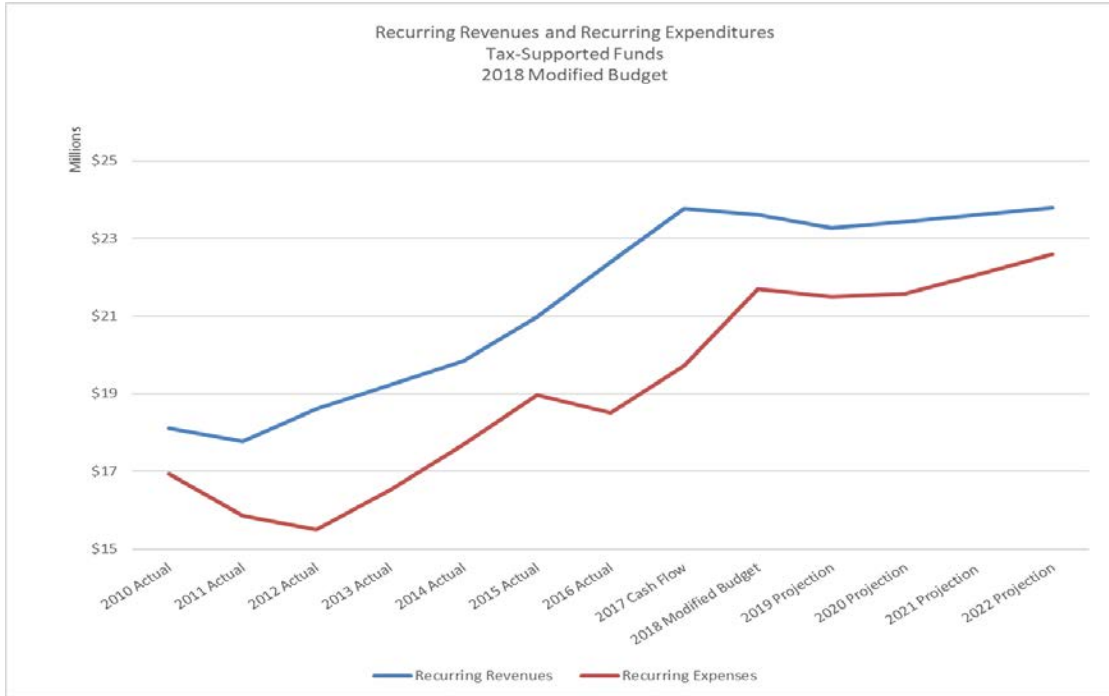
The attached analysis shows that the City has built General Fund balance over the past five years that is now supporting robust capital investment. Going forward, reserves are fully funded for the next biennium, but not for years after 2022. Periodic future updates will provide staff and Council with 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 2% after 2018.
- 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%;
- No change to policy reserve targets or expenditure of reserve funds;
- Street annual preservation program at \$600,000, increasing annually for inflation;
- REET annual revenue at \$3.3 million in 2018, then held at \$2.8 million;
- Building and Development Services annual revenue held steady at \$1.6 million;
- Capital project expenses and revenues matched to current CIP.

The chart below shows recurring revenues and expenses for the Tax-Supported Funds. The revenue line includes estimates for 2018 based on the strong performance seen in 2017. The future years are estimated at 2% growth for the General Fund.

In both cases, the 2018 budget modifications are included in the charts below. There is no debt service assumed for a police and municipal court building.



The chart below shows the actual/estimated ending balance for the General Fund, with the reductions due to planned one-time capital spending.

