



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager
From: Tracey Dunlap, Director of Finance & Administration
Sri Krishnan, Financial Planning Manager
Date: May 7, 2010
Subject: 2011-2016 Capital Improvement Program

RECOMMENDATION:

City Council review the Preliminary 2011 to 2016 Capital Improvement Program (CIP).

BACKGROUND DISCUSSION:

The Preliminary CIP for 2011 to 2016 is presented with this memo for Council consideration. The Preliminary 2011-2016 CIP is presented in two volumes:

- (1) A summary document including the narrative, maps, summary tables and graphs, and brief project descriptions. (A hard copy of the summary document was provided for Council review on May 11), and
- (2) A project detail document which contains the individual project sheets for funded and unfunded projects.

Both documents are available at: <http://www.ci.kirkland.wa.us/CIPdocument>.

In addition to the CIP document, information on selected issues is included in three attachments to this memo:

- Report on transportation and utility CIP backlog that was the focus of the 2009-2014 CIP (Attachment A)
- Memorandum on IT CIP projects that are not funded in the Preliminary 2011-2016 CIP (Attachment B)
- Memorandum on annexation immediate needs (Attachment C)

The identified focus of the Preliminary 2011-2016 CIP is on reviewing the impact of the economic downturn on projects scheduled for implementation in 2011 and 2012 presented in the Revised 2009-2014 CIP (approved on September 1, 2009). As a result of the review, the scope or timing of some projects were modified to better align with anticipated revenues.

A separate memo regarding annexation immediate needs includes a discussion of the initial capital improvement needs identified to date, for 2011 and 2012. The Preliminary 2011-2016 CIP does not incorporate specific annexation projects pending the results of the comprehensive assessment that will occur post-annexation. The post annexation assessment will include master planning processes that will identify specific projects and help establish levels of service. The results of the post annexation assessment will be incorporated into a future CIP.

The study session scheduled for May 18th is the first meeting to discuss the CIP. Depending on issues and questions that arise from the CIP discussion, additional study sessions may be scheduled. A public hearing on the CIP will be held on September 21st. Adoption of the CIP occurs by Council resolution and is scheduled for the first regular meeting in December.

Attachments



CITY OF KIRKLAND
 Department of Public Works
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3800
 www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager

From: Ray Steiger, P.E., Interim Public Works Director

Date: May 6, 2010

Subject: PUBLIC WORKS CIP PRODUCTION AND BACKLOG

During the 2008 development of the 2009-2014 CIP, Public Works presented information to the Council regarding the status of a number of previously funded CIP projects. The information included the total investment of capital improvements per category over a number of previous years (Figure 1) and included the status of project "backlog" due to a number of factors. The backlog of projects, reflected in carryover amounts, at that time was approximately \$20 million and involved projects in all categories: water/sewer, surface water, and transportation. Transportation projects accounted for 80% of the backlog and utility projects were 20% (Figure 2).

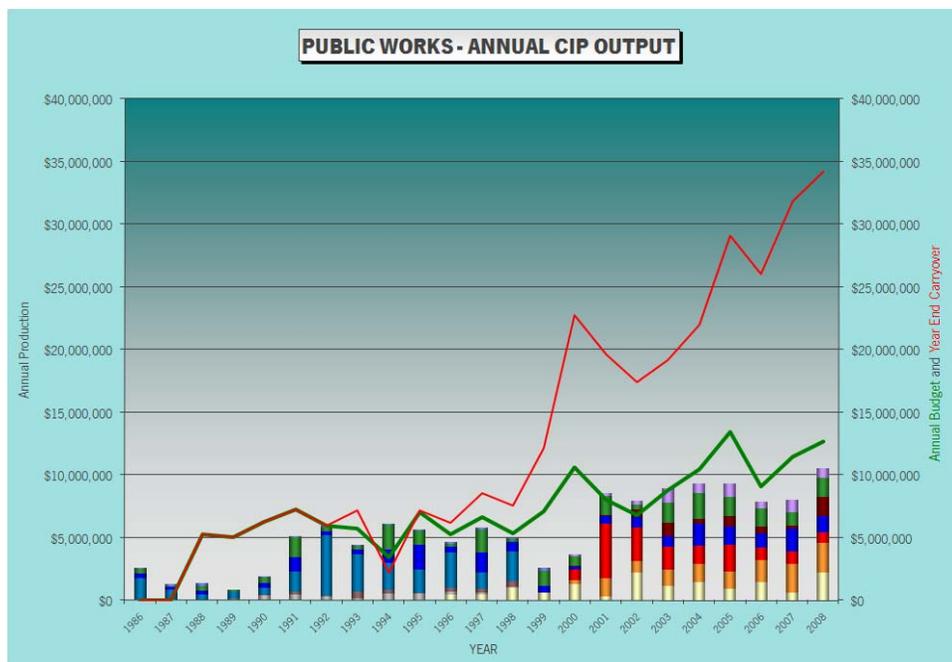


Figure 1 – Capital Improvement production 1986 – 2008

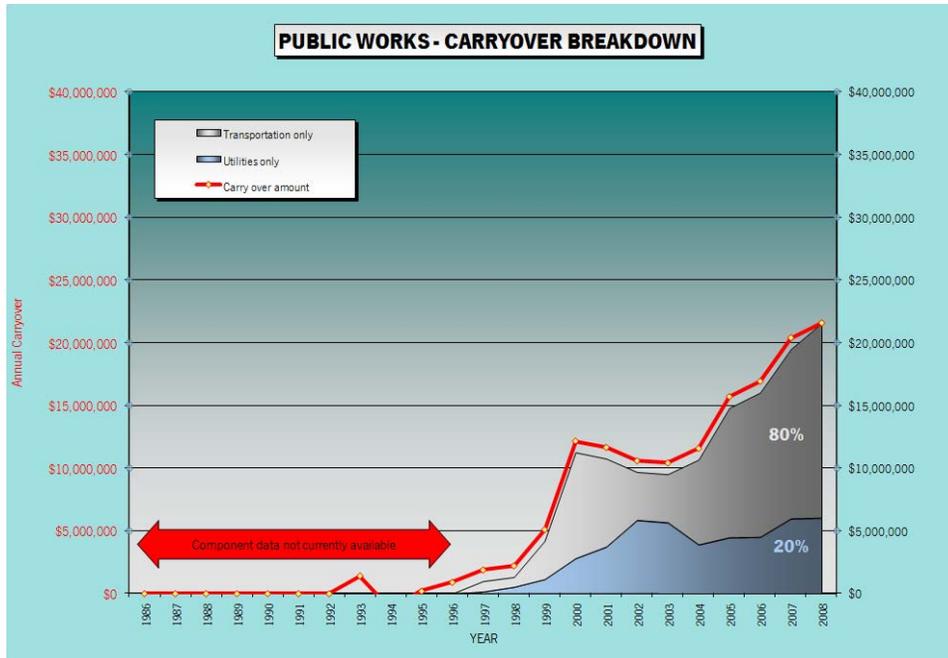


Figure 2 – Carryover Balance 1986 - 2008

Staff recommended a number of strategies to address the backlog:

- Convert a vacant .5 engineering position to .5 community outreach specialist,
- Hire a dedicated CIP administrative assistant (new position),
- Hire a dedicated CIP inspector (new position),
- Except for projects underway and maintenance projects, no new projects through 2012.

The Staff recommendations to increase staff positions were funded by the CIP projects and thus would require no additional funding. In addition, based on historical experience discussed in the 2008 CIP process, the additional staff could perform a number of tasks that were being done by the engineering staff. This would 1) free up engineering staff to focus on project critical elements, and 2) bring a level of expertise to the Capital Improvement group that was being done somewhat inefficiently by a variety of staff.

Since the Council adoption of the Staff recommendations and the 2009-2014 CIP, significant progress has been made in addressing the backlog of projects. All of the approved positions have been recruited and hired. Community outreach has undertaken a number of positive strides: Kari Page, Neighborhood Services Coordinator in the City Manager's office was hired as the .5 FTE for the CIP outreach specialist, the CIP webpage now includes information and outreach for almost all active projects, neighborhood involvement in developing the CIP has been enhanced, and various strategies are being adopted for CIP projects. The NE 85th Street corridor improvement outreach program includes a high degree of coordination with the CIP engineer and the outreach specialist. The Park Lane enhancement project showcased a close working relationship with Public Involvement and the CIP project delivery staff.

The Kirkland Transit Center requires day-to-day City coordination, and the new CIP inspector, Tom Chriest has been involved through the day-to-day construction interfacing with City utility, Parks, and signal technicians. He is currently developing standards and communication requirements for all City projects that allow the Project Engineering staff to focus on design and procurement efforts.

The administrative assistant position has been able to bring consistency to project records, contract routing, filing and reporting and works hand-in-hand with the outreach specialist and engineers to update project websites.

Historically, the project engineering staff has been able to spend 75% of their work efforts directly charging to CIP projects; the additional 25% are allocated to vacation, holiday, sick leave and on administrative tasks that benefit the overall division. With the addition of the three new positions in CIP, 2009 allowed the entire project engineering staff to be 86% directly billable to projects – this focus has also had an effect on the production and is resulting in a downward trend in the backlog.

Through 2007, the largest historical project delivery total was approximately \$9.3 million (in both 2004 and 2005). With the modifications made in 2008 as a part of the CIP process, the increase in annual production was marked: \$10.6 million (2008), \$12.2 million (2009 -- excluding approximately \$900,000 not realized due to the low bid climate), and is on target for \$14 million this year (Figure 3). At the same time, project backlog is steadily declining.

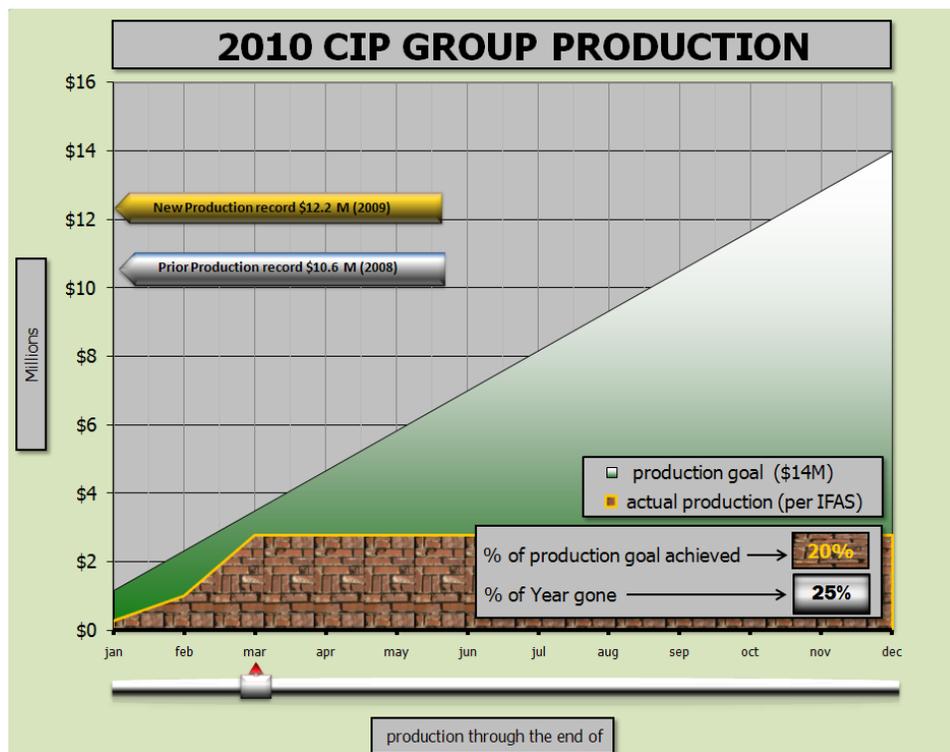


Figure 3 – Capital Improvement production 2010

The projected carryover from 2008 to 2009 was estimated to be \$21.4 million during the 2008 CIP discussions; actual carryover was \$20.6 million, of which \$5.8 million was in construction at the end of

2008. The projected carryover from 2009 to 2010 was \$16.2 million. At the time of this memo, the actual 2009 to 2010 carryover had not yet been finalized but will be presented in a later memo.

**CITY OF KIRKLAND**

Information Technology Department

123 Fifth Avenue, Kirkland, WA 98033 425.587.3050

www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager
Tracey Dunlap, Director of Finance & Administration

From: Brenda Cooper, Chief Information Officer

Date: April 28th, 2010

Subject: Information Technology 2011-2016 CIP

This memo explains the challenges that IT is experiencing with regards to the CIP, explains the actions taken to balance the CIP for the short-term, and the risks associated with those actions.

The Current IT Funding Model:

In order to set the discussion on firm ground, the following discussion describes how technology projects are funded currently.

The IT department operates as an internal services fund, which means that departments are billed back for the operational costs of supporting them, based on a complicated rate model approved by the IT Steering Team and the Finance Department. Rates pay for IT staff time, training, software maintenance for major systems and desktops, and for replacement of desktop computers. The e-CityGov Alliance membership is also paid for through rates (beginning in 2010).

This funding mechanism works reasonably well. Changes in rates are governed by direction provided by the IT Steering Team and Finance with approval from the City Council. However, it should be noted that rates generally go up by more than inflation every year because software maintenance goes up by 3 -5 % per year depending on the vendor. Whenever we replace software, the fee goes up by a much larger percentage. This, of course, puts a continuous minor hardship on the departments.

Many IT functions are not included in rates. These include network and server infrastructure purchase and replacement, replacement of major systems such as the permit system, financials, etc., and for continued development of our GIS system. All of these activities, as well as any new technology projects that come up, are funded by the CIP.

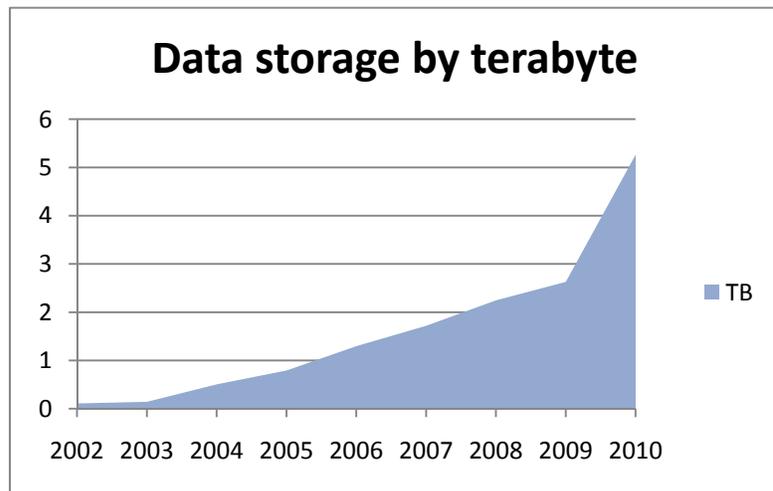
Some CIP funded activities, such as replacement of servers and storage, are in CIP's that carry along from year to year. These include a Network project, a GIS project, and Financial Systems project. Other projects, such as replacement of the permit system, are handled with scheduled beginning and end dates.

Pressures on IT Costs:

There are a number of pressures on technology costs:

- While the actual cost of hardware remains fairly constant (and in fact, additional capacity is usually available at the same price), the cost of software and IT related service has increased. This includes annual maintenance contracts. The most recent example of this is that the new permit software annual maintenance is around \$70,000 a year while the old software it replaced was about \$20,000 a year. Similar increases are occurring with every new piece of enterprise software.
- The amount of data stored has increased significantly every year. Files are getting bigger and more people are using more types of technology such as video, digital cameras, scanned PDF's, etc. In addition, we have been adding data that used to be on paper (such as the older Council information that we scanned to put in TRIM, the records management system). Data that we used to get only on paper form is now being delivered, acted on, and stored electronically. This includes electronic drawings for permits. The following table and graph summarizes our growth in data storage since 2002:

Year	Terabytes of data stored
2002	0.112891
2003	0.144492
2004	0.509336
2005	0.795469
2006	1.298418
2007	1.719814
2008	2.24959
2009	2.631494
2010	5.269141



The largest contributors to the increase in disk space needs from 2009 to 2010 are:

- The city moved from tape and CD type media for broadcast to a more true digital form. Because programming is now recorded and stored in a higher quality format, we have added about 2TB in saved video programming (Chan 21 & 75) as well as some additional items stored for the Granicus feeds (recordings of meetings).
- The pipe inspection truck video is now almost 1TB (about 800GB currently) in size. We have moved this data to less expensive types of storage.
- As we service new locations and new staff members, the cost of connectivity goes up. For example, two years ago we added a new building for Parks Maintenance. The cost was about \$32,000 in one-time costs (which came from Facilities) and \$500 in ongoing costs for software maintenance for the networking equipment (which ends up in the IT budget), plus the new burden of replacing the \$18,000 of equipment as it nears its end-of-life around 2012 or a little later.

- New users add new costs. In 2002, we supported 276 PC's. Today, IT supports 483 PC's.
- A more complex infrastructure requires more documentation and process to keep running. In the last ten years we've added a number of locations to the network, including the 505 building, Heritage Hall, the Parks Maintenance Building and McAuliffe Park.
- Unfunded mandates expand regularly, primarily in requirements that we keep data for long periods of time, that we keep all records that were created electronically in their electronic form for their retention period, and that we keep more records for longer. We are simultaneously charged with increasing security requirements and increasing requirements for open access to records, which essentially results in a bit of creative tension as we design and update policies. The Police Department will soon be required to use two-factor identification (a password and some other identifier such as a retina scan, fingerprint scan, key fob, access card, or other physical method or object for positive identification). Standards that we must adhere to such as PCI compliance (credit card security) and HIPPA compliance (health care privacy) also add costs.
- New methods used by hackers and others who are attacking our network regularly and with ever-increasing sophistication and determination periodically require that we revise and tighten our security policies and tools, and that we provide expensive training to IT staff.

While there are theoretically savings coming as well, they are difficult to document in any meaningful fashion. We are certain that the city's continued investment in technology has allowed City staff to be more productive and that it allows us to do more. New technologies often promise that they will save money. The largest currently hyped new technology is Cloud Computing, and so far we have not yet seen quotes that promise real savings, so we didn't factor any Cloud Computing projects in for the 2011 – 2012 years in the CIP.

Note that in addition to all of the upward pressures on IT costs, there has not been an increase in the amount of CIP money available to IT since 2000 and with the exception of a \$150,000 a year contribution toward GIS from the utilities. Several years ago, we recognized that some money in the CIP was actually funding ongoing operating costs of capital projects. The costs were moved into the operating budget which resulted in a decrease of the funding in the CIP and an increase in the operating budget.

Strategies used to balance the IT CIP:

IT is required to turn in a CIP that balances to the available revenue. This year, for the first time, some years of the 6-year CIP were so out of balance that the network needs alone surpassed the total amount of funding that was projected to be available. A summary of the proposed IT CIP project follow:

2011 and 2012

For 2011 and 2012 one project was added to care for some technology needs in the Municipal Court which have long been unfunded. These include replacing an old probation management system which was custom-written for the Court over a decade ago and which we are no longer able to change or enhance. While this would have needed to be done with or without annexation, we feel that it needs to be done prior to the effective date because of the anticipated expanded workload on the Court. The second court-related project is replacement of the current court automated recording system which is very old and no longer under warranty. This set of projects is estimated at \$50,000 total, and spread across the two years at this time. Since the projects are not scoped in detail, this is a rough cost estimate.

Other than that, no new projects were added. In order to add the Court project, a \$77,000 project to do phase II of the service desk and IT management system implementation was reduced. There is some significant replacement and other work coming up in the standard IT projects. In addition to "de-funding" some planned projects we are deferring projects based on budget. We also took \$48,000 out of the network CIP request by reducing our estimates in hope that we can drive the prices down via competitive bidding. Some of the highlights for 2011 and 2012 include:

GIS CIP:

- Providing additional field workers access to GIS
- Replacing servers and plotters

Network CIP:

- Server replacements
- Storage replacements and upgrades as needed
- Replacement of major network equipment which is aging
- Performing a required network security assessment

Finance CIP:

- Replacing the Finance Server (which is the only remaining minicomputer at the city, and which is almost \$65,000 by itself)
- Upgrading the utility billing system to prepare to bill garbage in the annexation area and to become compliant with current desktop software

The only other project in the 2012 CIP is a maintenance management system upgrade that we deferred in the recent budget crunches and which will need to be completed. This is not an optional upgrade, and we probably won't be able to be deferred again and still have the system be supported. This upgrade is about \$250,000. At that time, we will evaluate an "upgrade or buy something else" choice that the recent acquisition of a new permit system will make possible.

2013 thru 2016

For the purpose of balancing this document, all system replacement projects were eliminated and the Network CIP from 2013 was reduced. In reality, if we have to make those choices

today for the next two years, we would probably cut parts of the GIS system, cut the disaster recovery project entirely yet again, and perhaps beg for contributions from other departments.

The details of how we would accomplish the needed reductions are not provided at this time because predicting effectively three-years out in technology is difficult. IT tools change rapidly. The last time a CIP was prepared, there were no cloud computing options on the horizon. Now, they are much-hyped, but still basically too expensive every time we've priced them. By the next CIP, there may be some viable options for moving data storage off-premise.

This does not mean that we expect to be able to operate at the same level of service with the same budget. Rather we are hoping that we can make forward progress on IT funding over the next few years.

Possible Strategies for Funding Future IT Capital Needs:

IT staff will work with Finance and the City Manager to find a way to increase the funding available to IT. Because the problem is so large, a number of strategies may need to be considered and combined. These might include:

- Adding money to the IT CIP through finding an additional source of funding,
- Adding money to the IT CIP to account for the new users being added by annexation
- Directly billing departments back for the cost of storage,
- Taking advantage of any cost savings that become available via cloud computing, r
- Replenishing the IT Major Systems Reserve from cash should any become available,
- Using more open source software,
- More regional consolidation of IT functions to search for economies of scale,
- Issue debt to fund IT (which was identified as a strategy in the 2006 strategic plan but never pursued),
- Adding more technology fees into our city fees for service.

Although the IT CIP is balanced for the next two years, a longer term funding strategy is needed for major system replacement.



CITY OF KIRKLAND
Department of Finance & Administration
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
 www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager

From: Tracey Dunlap, Director of Finance & Administration
 Sri Krishnan, Financial Planning Manager

Date: May 7, 2010

Subject: **Annexation Immediate Needs-Capital Improvement Program**

This memo presents a summary of the initial estimates of the immediate or documented capital improvement needs in the annexation area in 2011 and 2012. The initial assessment presented in this document is largely based on King County's data. A more thorough analysis of needs will be undertaken after annexation becomes effective June 1, 2011. The result of the more comprehensive evaluation and analysis will be brought forward for Council review in 2011 as part of the interim update to the 2011-2016 CIP. The Preliminary 2011-2016 CIP does not incorporate the annexation needs summarized in this memo, pending the results of the assessment that will occur post-annexation.

BACKGROUND DISCUSSION:

Annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods to the north of the current City effective June 1, 2011 will change the City's CIP. As of this writing, the exact scope of the capital needs in the annexation area are not known, estimates of potential revenue sources for capital purposes need to be updated to reflect current economic conditions, and policy choices on allocation of revenues between operating and capital needs have yet to be made. The following discussion recaps potential revenue sources for capital projects, provides an overview of the types of capital needs in the annexation area in 2011 and 2012, and identifies next steps and policy issues for further discussion. A more comprehensive look at how the annexation CIP projects fit into the overall picture will occur in the next CIP process.

Potential Funding Sources

In November 2007, staff provided an initial assessment of infrastructure needs in the annexation area that indicated the resources available for capital projects could fund about 26% of the identified needs, which was similar to the funded portion of the existing City's CIP at that time. Economic conditions have changed dramatically since then, which has reduced the City's ability to meet its capital needs. It is reasonable to expect that capital-related revenues in the annexation area have declined as well. At this time, staff is awaiting updated financial information from King County to help in the assessment of the level of capital revenue that might be generated by the annexation area.

Gas tax, surface water fees, and REET revenues, three current sources of funding for capital projects, will increase as a result of annexation. In keeping with current City policies, these new revenues would be potential sources of funding for the annexation area capital needs. The application of impact fees in the annexation area will need to be evaluated given the statutory requirement that the fees be based on the adopted Capital Facilities Plan in the Comprehensive Plan, which will need to be updated once annexation needs are defined. That is, annexation area capital improvements need to be identified and adopted as part of the City's Comprehensive Plan prior to calculating new impact fees. This process may not be completed until 2012 or later. In addition to gas tax, surface water fees, and REET revenue, sales tax is also used to fund capital projects. The allocation of additional sales tax received from the annexation area would be at the Council's discretion. These on-going sources will be estimated when more current data is received from King County.

The annexation financial analysis assumed that a portion of the annexation sales tax credit would be used to support a share of the debt associated with the facilities expansion to service the annexation area. This share will be incorporated into the upcoming facilities financing plan.

In addition to the sources identified above, there is the potential that King County may identify capital resources that they could provide to the City to meet needs in the annexation area or that the County could complete specific projects needed in the area subject to the negotiation of the interlocal agreement with King County. There will also be some funding received from Woodinville Fire and Life Safety District (WFLSD) and Fire District 41, although these funds are expected to be used toward operational needs in the area currently served by WFLSD and the planned station consolidation project in Fire District 41.

Types of Capital Needs

Transportation Projects

Assuming current City policies regarding annual maintenance programs would also apply to the annexation area, staff estimates approximately \$1.88 million in annual Transportation project costs in the annexation area. The projects included in determining this estimate are:

- Annual Sidewalk Maintenance Program
- Crosswalk Program (to be funded every other year)
- Annual Street Preservation Program
- Annual Striping Program

In addition to the projects listed above, staff will identify projects that do not fall under the annual maintenance program definition. The estimated costs are based on both King County data and estimates generated by City staff's understanding of the scope of the project.

Surface Water Projects

The current estimate for Surface Water capital needs in the annexation area is based on the assumption that the City's current annual maintenance program would be extended to cover the new area. It also includes other known issues that would have to be addressed in 2011 or 2012. Under these assumptions, staff estimates that annexation area surface water projects would cost approximately \$1 million annually. The potential Surface Water projects in the annexation area are:

- Annual Stormpipe Repair Program
- Annual Streambank Program
- Juanita Tributary (Billy Creek)

Rate revenue is the primary source of funding for these projects in the annexation area. As with other capital needs in the annexation area, the full scope of Surface Water capital needs has not been determined as of this date. Staff is currently in the process of evaluating needs and will prepare a complete list for Council review as part of the update to 2011-2016 CIP planned for 2011.

Parks

At this time the City and County are still finalizing which County-owned properties will be transferred as a result of annexation. An initial assessment of County parks which are likely to be transferred does not identify any immediate capital needs, not withstanding likely community interest in park improvements. The full extent of Parks-related capital needs in the annexation area will be determined as part of an extensive update to the City's Comprehensive Parks, Recreation, and Open Space Plan, targeted to take place in 2012. The Plan update will assess Parks' Level of Service gaps and opportunities, community interest in park redevelopment and land acquisition, and will prioritize projects as they are identified. In the interim, the Park Board will evaluate any emerging needs in the annexation area and, if necessary, make recommendations for adjustments to the 2011-2016 CIP.

Public Safety

Annexation-related Public Safety needs are being primarily addressed through the annexation service package process. From a capital perspective, the addition of an aid car at Station 27 to serve the portion of the Kingsgate neighborhood currently served by Woodinville Fire Life Safety District (WFLSD) in 2011 is estimated to cost approximately \$237,000. In addition, some minor modifications to Station 27 may be required.

Facilities

The Public Works Internal Services Division is currently preparing cost estimates for the planned facility expansion projects that will address current space needs and annexation-driven space needs at City Hall and the Maintenance Center. The plans also include the option of a separate Public Safety building to be located in another part of the City. Non-voted debt is assumed as the primary funding source for facilities expansion. A separate overview of facilities needs and financing will be provided to Council in June 2010 and the selected option will be incorporated into the final CIP.

Technology

Technology capital needs are primarily in two categories: Geographic Information System (GIS) and network enhancements. GIS needs in 2011 include adding place names to assist police dispatch and an Environmentally Sensitive Area (ESA) layer to assist permitting. In 2012, GIS hopes to add utility layers that would help contractors tie to the City's survey control points; and street layers which include signs, street lights, sidewalks, and trees. Network CIP needs include purchase of additional software licenses and storage hardware. These purchases will be phased-in to match staffing additions in other departments. Other technology needs are addressed through the annexation service package process.

Annexation Capital Next Steps

As discussed above, a substantial effort needs to be invested to determine the specific needs in the annexation area. These needs will be incorporated into the City's capital planning processes and will be prioritized based on the criteria in the master plans and related documents. As the prioritization process moves forward, projects in the annexation area will be incorporated into the CIP.

At the same time, staff will be refining estimates of available capital revenues and negotiating the interlocal agreement with King County. These actions will determine the incremental revenue that will be available from the area towards specific capital needs. In addition, the City Council will need to consider whether to invest some of the non-capital tax revenues from the annexation area into the Capital Improvement Plan. This process will be a trade-off between phasing-in operating service levels versus dedicating funding to capital needs. There are a variety of approaches that can be considered, ranging from using all non-capital revenues for operating needs to setting aside a proportionate share of general revenues from the annexation area toward capital (consistent with the share of existing City revenues), or taking a more needs-based approach. Without information on the magnitude and immediacy of the needs, it is difficult to pursue this policy discussion. As needs are refined, staff will be identifying options to phase-in funding of the capital needs in the annexation area. This may take the form of prioritizing any dedicated capital revenues that are received from the area for the most immediate needs as they are identified. The next CIP process will include a comprehensive review of annexation area capital needs and funding strategies.