



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Deputy City Manager
Tom Mikesell, Financial Planning Manager
Alyshia Saltman, Budget Analyst

Date: May 18, 2015

Subject: **2015-2020 CAPITAL IMPROVEMENT PROGRAM
INTRODUCTION AND FUNDING**

RECOMMENDATION:

The City Council receives an introduction to the Capital Improvement Program (CIP), a detailed review of the descriptions, legal restrictions and current budgeting practices for CIP revenue sources and an update on the 2015-2020 CIP process.

BACKGROUND DISCUSSION:

Introduction

The Capital Improvement Program is the City's six-year funding plan for building, maintaining and improving the roads, sidewalks, public buildings, parks, and other fixed assets in Kirkland. A full review of the CIP would normally accompany the review of the biennial operating budget, which took place last fall. To synchronize the capital planning in the CIP with the major community-wide planning efforts of Kirkland 2035, it was decided that the full review of the CIP be delayed to the summer of 2015. Consistent with that approach, staff has developed capital projects requests during the spring and the City Manager is developing his preliminary recommendation to be presented to the City Council at the July 21st regular meeting. This recommendation will be guided by the capital budgeting priorities adopted by the Council in March (Attachment A – Resolution R-5118).

The CIP process is intended to identify the funding sources available for projects prioritized in the next six years. The project costs are the best estimates available as of the date of the plan and, as a result, can change as market conditions and project scope evolve. As project timing changes, the impacts of cost escalation can also come into play. The first two years of the CIP are adopted as part of the biennial budget and therefore represent actual funding commitments. In general terms, the estimates for projects that appear beyond the first two years of the CIP are preliminary programming estimates rather than detailed engineering cost estimates. As a result, when the CIP is developed every other year (and updated in the intervening year), the cost estimates may change and require adjustments to the funding. There are several mechanisms in place to help address this uncertainty:

- In some cases, placeholder projects are used for outer years to recognize funding availability, for example Neighborhood Park Land Acquisition. This approach allows specific project priorities and estimates to be developed based on specific needs as they are identified.
- Preliminary programming estimates generally contain larger contingencies (10% of construction), which can be refined as engineering design progresses.
- Funds are set aside toward capital contingencies. These take the form of reserves in both the general and utilities capital funds. These reserves are intended to be used to supplement project budgets when actual site conditions and market pricing vary from previous assumptions. In most cases, use of these reserves should not be viewed as a failure of the process, but rather a planned approach to dealing with the unknowns in capital planning. The alternative would be to increase the contingency in each project which would likely strand significant revenues in individual projects. Keeping general capital contingency reserves to supplement projects is much more efficient and flexible.

As noted earlier, the CIP is a funding plan, rather than a spending plan. The amounts shown are the funding sources that are being set aside toward projects, which generally precedes detailed design work. For example, projects may show as funded over two years, with the first year reflecting design and the second year showing construction, but in reality the spending to complete the project may occur over a period of three to five years. This dynamic exists for a variety of reasons, including the ability to demonstrate that funding is available to match potential grants and to allow for coordination of projects across functions (for example, timing utility projects to coincide with resurfacing the roadway). The capital carryover that occurs at the beginning of each biennium is in part the recognition that cash has been set aside for projects, but not yet been spent.

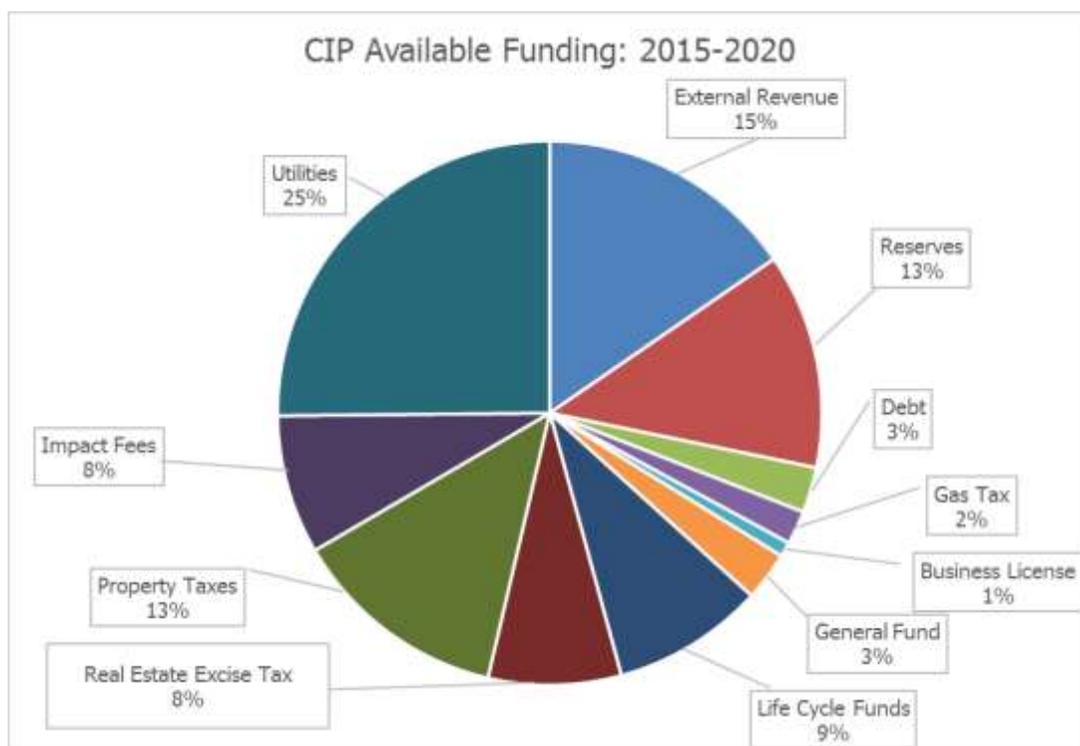
The desire of residents, the City Council and staff to maximize capital investments in a manner that keeps Kirkland as one of the most livable cities in America often means the wants and needs for capital improvements exceed available funding. This is evidenced by the 2014 update to the existing 2013-2018 CIP adopted by Council in December, which included funding for \$181.1 million of projects out of a total of \$730.3 million. As shown in the following table, the largest shares of this \$549.2 million unfunded amount are in the Transportation and Parks capital programs.

2014 Update to 2013-2018 Capital Improvement Program			
	6-year Funded CIP	Unfunded CIP	Total CIP
Transportation	\$69,635,000	\$372,010,600	\$441,645,600
Parks	14,044,000	97,425,000	111,469,000
Public Safety	2,896,200	119,100	3,015,300
General Government			
Technology	6,436,300	1,417,400	7,853,700
Facilities	48,383,400	0	48,383,400
Subtotal	\$141,394,900	\$470,972,100	\$612,367,000
Surface Water Mgmt	14,733,500	6,764,200	21,497,700
Water/Sewer	24,963,900	71,491,000	96,454,900
Utilities Subtotal	\$39,697,400	\$78,255,200	\$117,952,600
CIP	\$181,092,300	\$549,227,300	\$730,319,600

The term “unfunded” should not be interpreted to mean a project will not be funded. It simply means that a project is not funded within the six-year CIP window. Recognizing that the master plans that form the basis for the CIP identify projects that span a twenty year horizon (or more), it makes sense that the unfunded component far exceeds the funded amount. As part of development of this CIP, staff is evaluating whether to further refine the unfunded element to help identify those projects that would be candidates for funding from revenue sources after 2020 and those that are not likely to be funded without substantial external and/or new revenues. An example of the latter would be the Aquatics, Recreation, and Community Center (ARC), a project which is only likely to proceed with a new voted revenue source.

It is likely that the recommendations from the Kirkland 2035 process, in particular the Transportation Master Plan and Parks, Recreation and Open Space Plan will increase the demands on these limited capital resources. To frame the resource discussion, this memo includes a review of the funding sources used in the CIP, with the goal of identifying constraints on specific sources and opportunities to program additional revenue.

Current CIP funding comes from a variety of sources, as shown in the following chart.



Utility revenue represents the largest share of capital revenue, but these fees and charges are restricted for projects that benefit the city’s public water, sewer, and surface water utilities. Similar types of restrictions exist for many of the capital funding sources. In many cases the restrictions are in place due to legal requirements, as in the case of the utility revenues, but in other cases the restrictions come from past policy decisions. The following discussion will describe each revenue source, note any legal or policy restrictions and provide detail on how it is budgeted in the CIP.

Funding Sources Review

Note that the figures summarized below may change as the preliminary CIP is finalized. Any required revisions will be incorporated into the preliminary CIP presented in July.

Real Estate Excise Tax (REET)

The Municipal Research and Services Center (MRSC) describes REET as follows: "The real estate excise tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The state levies this tax at a rate of 1.28 percent. A locally imposed tax is also authorized...All cities may levy a quarter percent tax (referred to as "the first quarter percent of the real estate excise tax" or "REET 1"). Cities that are fully planning under the Growth Management Act are given the authority to levy a second quarter percent tax ("REET 2"). If both components are levied by a city, the total rate, including the state share, is 1.78 percent, with the city receiving 0.5 percent

The following are pertinent excerpts from the Revised Code of Washington governing the authorization and use of REET revenues:

REET 1

- [RCW 82.46.010 \(2\)\(b\)](#) provides that after April 30, 1992 REET 1 revenues "...must be used solely for financing capital projects specified in a capital facilities plan element of a comprehensive plan..."
- [RCW 82.46.010 \(6\)](#) defines capital projects that REET 1 revenues may be used on to include "... public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative and/or judicial facilities; river and/or waterway flood control projects by those jurisdictions that, prior to June 11, 1992, have expended funds derived from the tax authorized by this section for such purposes; and, until December 31, 1995, housing projects for those jurisdictions that, prior to June 11, 1992, have expended or committed to expend funds derived from the tax authorized by this section or the tax authorized by RCW 82.46.035 for such purposes; and technology infrastructure that is integral to the capital project"

REET 2

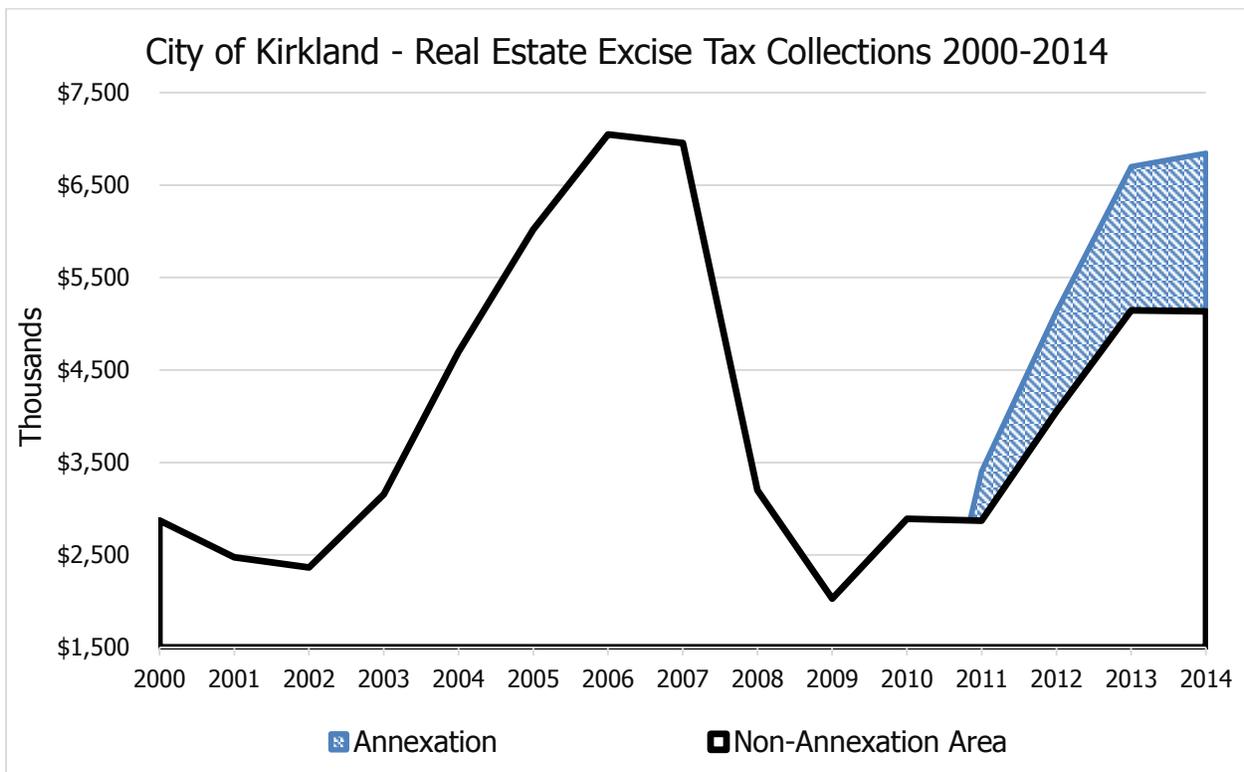
- [RCW 82.46.035 \(3\)](#) provides that REET 2 revenues "...must be used...solely for financing capital projects as specified in a capital facilities plan element of a comprehensive plan..."
- [RCW 82.46.035 \(5\)](#) defines capital projects that REET 2 revenues may be used on to include "...those public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks"

REET Flexibility

- [RCW 82.46.010\(7\)](#) provides that "From July 22, 2011, until December 31, 2016, a city or county may use the greater of one hundred thousand dollars or thirty-five percent of available funds under this section, but not to exceed one million dollars per year, for the operations and maintenance of existing capital projects as defined in subsection (6) of this section."
- [RCW 82.46.035 \(7\)](#) provides that "From June 30, 2012, until December 31, 2016, a city or county may use the greater of one hundred thousand dollars or thirty-five percent of available funds under this section [REET 2], but not to exceed one million dollars per year, for operations and maintenance of existing capital projects as defined in subsection (5) of this section..."

REET Revenues

REET revenues are entirely dependent on prices and sales volumes in the real estate market, and are therefore very volatile. As shown in the following graph, the peak to trough decline after the collapse of the housing bubble was approximately \$5 million from 2006 to 2009. Total REET collections in 2014 were \$6,846,463, which is \$202,908 below the peak collections in 2006 at the height of the bubble. This is especially significant since current collections include approximately \$1.7 million from the annexation areas that were not part of Kirkland in 2006.



The current forecast includes \$5 million per year in 2015-2016. As shown in the graph, this is approximately \$1.8 million below the 2014 actual amount collected.

The King County Office of Economic and Financial Analysis indicates revenues from unincorporated areas of King County will remain at near-2014 levels through 2020. If Kirkland's REET revenues followed the projected trend for King County, the result would be roughly a continuation of 2014 collections through the entire CIP programming window. This would result in approximately \$1.8 million per year above the currently forecasted revenues, for a six year increase of \$10.8 million. While this would provide a large boost to funding in the capital program, it would be difficult to predict this sustained level of revenue for such a volatile revenue base, particularly when past trends reveal sharp, large downturns in revenue. The current practice budgets the use of REET revenue at its low point of approximately \$2.6 million and allows for accumulated reserves to be budgeted as they are realized. This delays the availability of funds to support new projects in the CIP, but avoids the need to make drastic reductions in planned capital spending when revenues do not meet targets.

REET Expenditures

REET 1:

Annual capital funding from REET 1 has historically been allocated to Parks and Streets capital projects in the following manner:

- 2/3 of the projected revenue to parks
- 1/3 of the projected revenue to transportation

REET 2:

REET 2 is budgeted for Transportation projects in the CIP.

A portion of REET is used for operating and maintenance costs in the Parks and Street Maintenance programs as provided by RCW 82.46.035 (7) and RCW 82.46.010(7). As discussed above, the 2015-2016 Biennial Budget assumes revenues of \$5 million per year from REET. Nearly half of the forecasted current revenue is budgeted for specific uses in the 2015-2016 Operating and Capital budgets, as shown in the following table:

Budgeted REET Current Revenue *		
	2015	2016
REET 1		
Transportation Capital	\$375,000	\$386,000
Parks Capital	762,000	785,000
Teen Center Debt	12,934	12,934
Subtotal REET 1	\$1,149,934	\$1,183,934
REET 2		
Transportation O&M	\$103,863	\$83,329
Parks O&M	108,249	109,266
Transportation Capital	1,070,600	1,103,000
Subtotal REET 2	\$1,282,712	\$1,295,595
Total REET	\$2,432,646	\$2,479,529

The difference between the budgeted revenues and budgeted expenses, approximately \$2.5 million per year, is assumed to be set aside in the REET Capital Reserves, some of which will be programmed in the preliminary CIP. In addition, any difference between budgeted REET revenue and actual receipts is also retained in reserves. Monies held in reserves are used to:

- Provide grant matches;
- Supplement current revenue to fund high priority projects and facility needs; and,
- Backfill debt services payments for McAuliffe Park or the Teen Center, if needed.

The conservative revenue and expenditure assumptions used in recent years have been below actual results, resulting in accumulated reserve balances for both REET 1 and REET 2. A portion of these reserves balances are currently assumed as funding sources. Also, according to the City's Financial Policies, each reserve has a minimum target balance to assure the availability of cash resources to leverage external funding when the opportunity arises. The following table deducts both programmed resources and these targets to reflect the net available REET reserve balances.

REET Reserve Balances					
	Balance as of 12/31/2014	2015-2016 Revenue	Programmed	Target Balance	Net Available
REET 1	\$6,179,939	\$2,517,874	(\$3,029,500)	(\$1,732,329)	\$3,935,984
REET 2	5,405,568	2,636,776	(4,997,600)	(2,436,255)	608,489
Total	\$11,585,507	\$5,154,650	(\$8,027,100)	(\$4,168,584)	\$4,544,473

Impact Fees

The Municipal Research and Service Center (MRSC) describes impact fees as follows: "Impact fees are charges assessed by local governments against new development projects that attempt to recover the cost incurred by government in providing the public facilities required to serve the new development. Impact fees are only used to fund facilities that are directly associated with the new development. They may be used to pay the proportionate share of the cost of public facilities that benefit the new development; however, impact fees cannot be used to correct existing deficiencies in public facilities."

Impact fees are governed by Revised Code of Washington (RCW) 82.02.050, .110 and the Washington Administrative Code (WAC) 365-196-850. Pertinent provisions include:

- [RCW 82.02.060\(3\)](#) provides that impact fees:
 - "Shall only be imposed for system improvements that are reasonably related to the new development;
 - Shall not exceed a proportionate share of the costs of system improvements that are reasonably related to the new development; and
 - Shall be used for system improvements that will reasonably benefit the new development."
- [RCW 82.02.060\(4\)](#) provides that "impact fees may be collected and spent only for the public facilities defined in [RCW 82.02.090](#) which are addressed by a capital facilities plan element of a comprehensive land use plan...continued authorization to collect and expend impact fees shall be contingent on the county, city, or town adopting or revising a comprehensive plan in compliance with [RCW 36.70A.070](#), and on the capital facilities plan identifying:
 - Deficiencies in public facilities serving existing development and the means by which existing deficiencies will be eliminated within a reasonable period of time;
 - Additional demands placed on existing public facilities by new development; and
 - Additional public facility improvements required to serve new development."

- [RCW 82.02.060](#)(8) provides that the local ordinance “May provide for the imposition of an impact fee for system improvement costs previously incurred by a county, city, or town to the extent that new growth and development will be served by the previously constructed improvements provided such fee shall not be imposed to make up for any system improvement deficiencies.”
- [RCW 82.02.070](#)(2) provides that “Impact fees for system improvements shall be expended only in conformance with the capital facilities plan element of the comprehensive plan.”
- [WAC 365-196-850](#)(2)(a) defines "System improvements" (in contrast to "project improvements") as public facilities included in the capital facilities plan that are designed to provide service to service areas within the community at large.
- [RCW 82.02.070](#)(3)(a) provides that “impact fees shall be expended or encumbered for a permissible use within ten years of receipt, unless there exists an extraordinary and compelling reason for fees to be held longer than ten years”, with the governing body providing extraordinary or compelling reasons in writing.

Kirkland

The City currently imposes Transportation, Parks, and School impact fees. School Impact Fees were first imposed in 2011. Revised fees were adopted by the City Council at their December 9, 2014 meeting, with single family residential fees currently set at \$9,623. Revenues from School Impact Fees are passed through to Lake Washington School District.

Transportation and Park impact fees are being updated as part of the Kirkland 2035 process. Kirkland originally adopted Transportation (Road) impact fees effective in 1999 based on 1998 project costs and Park impact fees were imposed in late 1999. The rate studies completed at that time calculated the maximum supportable charge that the City could implement and, as a matter of policy, the City Council implemented 50% of that maximum amount, as shown in the table below for single family residential. Note that Park impact fees are collected from single family and multifamily residential projects only, Transportation impact fees are also collected from commercial development projects.

Single Family Residential Impact Fees – 1999 Study	
Transportation	
Full Cost	\$ 1,931
@ Current 50% Recovery	\$ 966*
Parks	
Full Cost	\$ 1,224
@ Current 50% Recovery	\$ 612*

*City of Kirkland impact fee collected from 1999 through 2007

In 2007, a major impact fee update was conducted that reflected the following City Council policy direction:

- Set the fees at 100% of the full cost;
- Provide for administrative indexing of fees with inflation;
- Base Transportation impact fees on concurrency projects rather than all capacity projects;
- Evaluate alternate methods during the next impact fee update.

The resulting impact fees shown below were adopted effective January 1, 2008.

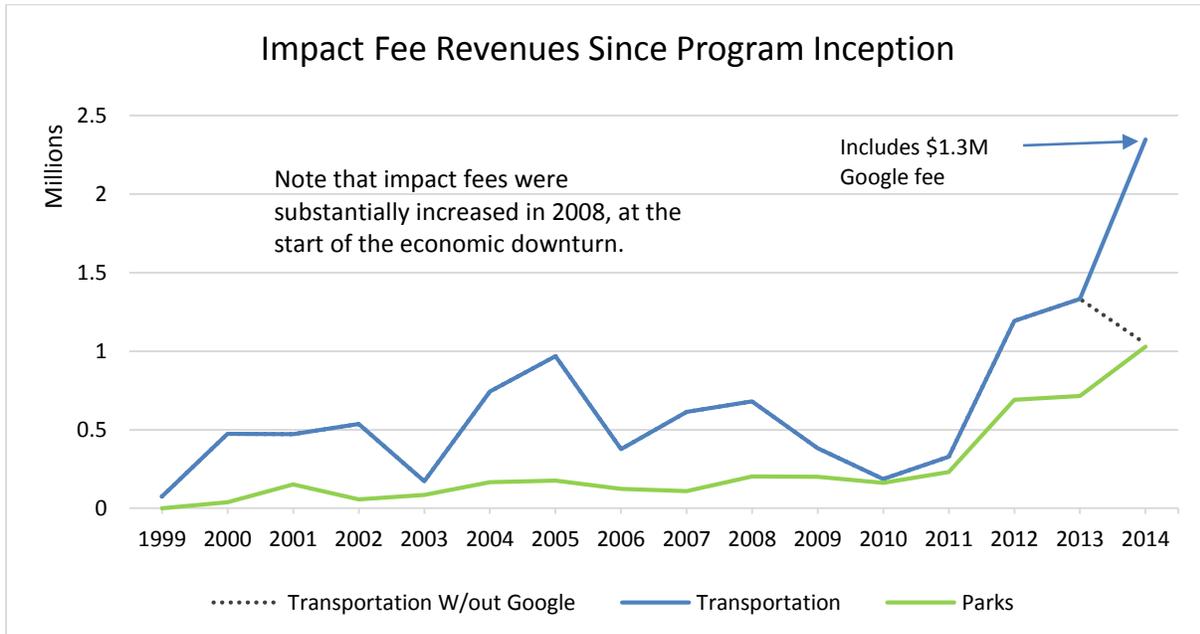
Single Family Residential Impact Fees – 2007 Study	
Transportation	\$3,432
Parks	\$3,621

Impact fees were subsequently indexed with inflation, resulting in the current impact fees shown in the table below. Note that the six-year moving average of the WSDOT Construction Cost Index (CCI) is used for Transportation and the June-to-June CPI-W is used for Parks, so the fees increased at different rates. No inflationary increases were applied in some years due to the economic downturn and/or that the inflation measures were negative. No change was made after 2013 pending the outcome of the Comprehensive Plan update.

Single Family Residential Impact Fees – Current	
Transportation	\$3,942
Parks	\$3,949

Revenue Trends

The following graph summarizes impact fee collections since the inception of the program in 1999. Note that the fees increased substantially in 2008, however, that year also marked the beginning of the economic downturn, so the higher fees did not result in higher revenue collections. Also note that the 2014 Transportation revenues include a \$1.3 million impact fee paid related to the Google campus expansion.



The 2014 update to the 2013-2018 CIP reflects the use of impact fees of \$350,000 per year for Transportation projects, well below the current level of collections, which have been at or above

\$1 million in each of the past three years. The difference between budget and actuals is retained in reserves.

In light of recent revenue trends and the future development outlook, staff recommends an annual amount of \$1 million per year for the 2015-2020 CIP, which would increase the amount available in the Transportation CIP by \$4.5 million over the six year program. Due to the unique nature in which the impact fees pay for the infrastructure needs to support growth, a downturn in growth would result in lower fee collections. This, in turn, would lead to a lower demand for street and road improvements that would have been supported by impact fees. This feedback effect would help mitigate the potential downside of using a higher forecast number.

In terms of Parks impact fees, the City Council is considering a new approach to park impact fees based on park investment per capita. The result of the evaluation will have bearing on the amount and timing of impact fees that can be programmed into the 2015-2020 CIP for Parks. The 2014 update to the 2013-2018 CIP assumed no new revenue from this source based on the existing standard that fee revenue cannot be used to correct deficiencies. In the budget, available Park impact fee balance are used to pay the debt service on McAuliffe Park (which retires in 2021) and a part of the debt on the Teen Center (which retires in 2019). In years where the Parks collections have fallen short, the debt service was backfilled by Real Estate Excise Tax (REET). In recent years collections have exceeded the annual debt service requirement, resulting in an accumulated balance sufficient to fully repay these debt obligations. The current assumption is that a portion of the existing balances will be used to retire this debt in advance by way of a defeasance, which involves using existing cash balances to purchase securities that will be set aside in an escrow account to pay future debt service obligations.

Recent collections of Park impact fees have ranged from \$750,000 to \$1 million. Based on this recent history, the potential exists to program an annual amount of \$750,000 per year, which would generate \$4.5 million over 6 years. The amount programmed in the CIP assumes this new revenue, and dedicates \$2,544,295 towards projects; the remainder is available for programming. As with Transportation, the fee revenue can only be used to fund new capacity in the system, so a slowdown resulting in lower fees would be accompanied by a decreased need for projects to support growth.

Property Taxes

In Washington State, all real and personal property is subject to tax unless specifically exempted by law. The tax levy, which is the amount of the revenue generated by the tax, is a function of the assessed value of the jurisdiction and the rate set by the governing body. State law limits property tax levy increases to 1% plus the value of new construction in the city. Through voter-approved "Lid Lifts", cities can increase the property tax levy beyond the statutory limit, on either a permanent or temporary basis.

Kirkland Levies

On November 6, 2012, Kirkland voters approved two new property tax levies to support parks maintenance, restoration and enhancement and street maintenance and pedestrian safety. In 2015 these levies are expected to generate \$2,376,399 and \$3,055,171 for these purposes, respectively. Revenues from the two levies are deposited in the Street and Park Levy Funds respectively and a set amount is transferred into the CIP for specific capital uses¹.

¹ Note that there is also a 2002 Park Levy, but those funds are used exclusively for operations.

In the CIP, Road Levy funding is used to fund Street Preservation, Pedestrian Safety, and Safe School Walk Route projects. Most of the Street levy revenues that are received each year go into the CIP, with the remainder being retained in the operating budget to fund management of the program and the safety elements of the program. Park levy funding supports specific park projects that were identified in the original ballot language. The annual Park levy revenue is evenly distributed between operations and capital. The long-term plan for the Park levy is it eventually will primarily be used for operating costs after the list of projects that were promised are completed. The table on the following page shows the breakdown of the capital and operating components of the two levies in the 2015-2016 budget:

Park and Road Levy Budgeted Uses		
	2015	2016
<u>2012 Road Levy</u>		
Total Revenue	3,053,409	3,128,638
Operating Budget	453,409	528,638
Capital Improvements Program	2,600,000	2,600,000
<u>2012 Park Levy</u>		
Total Revenue	2,394,833	2,453,836
Operating Budget	1,144,833	1,203,836
Capital Improvements Program	1,250,000	1,250,000

As mentioned above, property taxes levy growth is limited to 1% plus the value of new construction. Any growth in the Park levy is assumed to be retained in the operating budget, which means that the annual funding levels in the six year CIP are fixed at the annual levels shown above for the entire 6 year CIP. Growth in the Road levy beyond 2016 is allocated proportionally between the operating and capital budgets.

King County Parks, Trails, and Open Space Replacement Levy

The King County Parks, Trails, and Open Space Replacement Levy was approved by voters on August 6, 2013 to fund operations and capital purposes in the King County park system. Cities receive 7% of annual revenue, based on population and assessed value. Revenue from this levy is currently budgeted to reimburse the General Capital Contingency for the purchase of the Yuppie Pawn Shop. The planned payback schedule includes payments of \$200,000 per year through 2017. Actual distributions of this levy in 2014 totaled \$288,115, which means payback can take place on an accelerated basis if desired, freeing up this revenue for other uses.

In 2018 and 2019, Kirkland could expect to receive approximately \$300k year (with 1% annual new construction assumption). These amounts have been programmed in the CIP.

Life Cycle Funds

Life cycle funds are an internal way of collecting regular payments from the annual operating budget to pay for recurring capital needs. Departments pay a calculated amount each year that builds in a reserve fund until needed. All life cycle funds are linked to expected project costs and are then amortized backwards to be sure expenses can be met when needed. The city has several life cycle funds, including:

- Facilities Life Cycle – provides funds for scheduled building repair and maintenance projects;
- Technology Equipment Sinking – funds major technology infrastructure replacements, such as switches, servers, routers and telephones and copier and video production equipment;
- Public Safety Equipment Sinking – funds equipment replacement in Police and Fire; and,
- Equipment Rental Fund – funds vehicle replacements citywide.

Each of these sources contributes to the general government program in the CIP based on the replacement and/or maintenance schedules that drive the operating budget charges. Reserves in the funds are accumulated, as needed, to pay for future repair and replacements that exceed annual operating contributions.

Reserves

There are a number of special reserves that are established to retain year-end operating budget savings and/or excess revenues to fund capital projects. These reserves include:

- Major Systems Reserve – Established in 2003 to set aside funding for major information technology system replacements that are usually beyond the annual funding available for projects. The current balance in the Major Systems Reserve is shown in the following table:

Major Systems Reserve	
12/31/14 Balance	\$656,200
2015 Planned Add	500,000
Utility Tax Audit Add	119,475
Total Available	\$1,275,675
Help Desk Replacement	66,000
Rec Registration Replacement	83,000
Finance System Replacement Assessment	150,000
Total Planned Uses	\$299,000
Net Remaining Available	\$976,675

Planned uses of the Major Systems Reserve include projects from the 2014 update to the 2013-2018 CIP. The majority of the reserve is being preserved toward the eventual major upgrade or replacement of the financial system.

- Building and Property Reserve – Used for property purchases, building improvements and other property related transactions. Maintains a minimum balance of \$600,000. Current holds \$1.5 million to be used for the City Hall renovation project in 2015.
- Street Improvement Reserves – Gas tax revenues set aside in previous years. As of 12/31/2014, there is a balance of \$995,958 available for street improvements.

These are one-time resources that are available for use in the CIP based on project needs and the availability of sufficient balances. These are in addition to reserves that are accumulated from specific revenue sources, such as the REET and Impact Fee reserves discussed previously.

Utility Charges and Fees

The utilities capital program funds equipment and infrastructure requirements of the City's water/sewer and surface water utilities. Funding for the program comes from fees and charges assessed on current and new utility customers. The fees and rates are determined based on rate studies performed for each utility.

Connection Fees

Connection fees are charged to new water and sewer customers to offset the potential impact of the customer's load on city facilities and infrastructure. Fees vary by meter size for water, and equivalent units for sewer and surface water, and are incurred when the system is initially connected to the city network. The CIP assumes connection charge revenue across all three utilities of \$865,000 per year.

Utility Rates

The City of Kirkland charges rates for water, sewer, and storm water purposes. Each rate is calculated to cover the operating cost of providing the service to customer classes via utility rate studies. Utility rate studies also identify the need for system reinvestment funding depreciation. Utility fees are set to recognize the consumption of assets over their useful lives. The annual depreciation component of the rate is transferred to the CIP to fund replacement of depreciated assets. The annual depreciation funding is approximately \$3.6 million in 2015-2016, and it fluctuates in future years based on the depreciation schedules of the respective utilities.

Utility Contributions to Other CIP Programs

Due to the impact that utility operations have on other city infrastructure and other operations in the City, there are a few specific cases where utility rate revenues are directed to other CIP programs, as follows:

- Solid Waste-Street Preservation - Solid Waste rates primarily fund operating costs of waste collection. The large trucks used in solid waste collection can have a detrimental impact of streets and roads. In light of these impacts, the Solid Waste utility contributes \$300,000 per year to the Transportation program in the CIP to fund street preservation projects.
- Surface Water-Transportation – Recognizing that street construction projects can include surface water components, \$500,000 per year from Surface Water Utility rates is programmed in the Transportation program in the CIP to pay for surface water improvements that accompany street projects.

Debt

In general, debt does not represent new revenue to the City. Rather, it represents a way to use a stream of future revenues to fund a large one time project in the present. This provides three major benefits, including:

- Allowing a jurisdiction to generate the cash needed to build large projects that would otherwise not be possible;
- Providing intergenerational equity, which means that the costs of a project are borne by both the current and future beneficiaries of a project; and,
- Providing a mechanism to have the beneficiaries of a project repay the costs.

There are six major types of debt currently available to the City, including:

- Limited Tax General Obligation bonds (Councilmanic);

- Unlimited Tax General Obligation Bonds (Voted);
- Levy lid lift bonds;
- Local Improvement District bonds;
- Revenue bonds; and,
- Public Works Trust Fund Loans.

While the amount of debt that can be issued is fundamentally restricted by a city's financial ability to repay it, there are also specific provisions in state law that limit the type and amount of debt that can be issued.

- [RCW 39.36.020 \(2\)\(a\)\(ii\)](#) provides that "Counties, cities, and towns are limited to an indebtedness amount not exceeding one and one-half percent of the value of the taxable property in such counties, cities, or towns without the assent of three-fifths of the voters therein voting at an election held for that purpose.
- [RCW 39.36.020 \(2\)\(b\)](#) provides that "In cases requiring such assent counties, cities, towns, and public hospital districts are limited to a total indebtedness of two and one-half percent of the value of the taxable property therein"
- [RCW 39.36.020 \(4\)](#) provides that "a city or town, with such assent, may become indebted to a larger amount, but not exceeding two and one-half percent additional, determined as herein provided, for supplying such city or town with water, artificial light, and sewers, when the works for supplying such water, light, and sewers shall be owned and controlled by the city or town; and a city or town, with such assent, may become indebted to a larger amount, but not exceeding two and one-half percent additional for acquiring or developing open space, park facilities, and capital facilities associated with economic development

Washington State law limits a city's total amount of debt outstanding to 7.5 percent of total assessed property valuation plus the net of current assets and liabilities. This 7.5% capacity is allocated evenly among general purposes, open space/park/capital facilities and utilities. Within the 7.5 percent limit, the City Council has authority to issue bonds without voter approval, up to 1.5 percent of the City's assessed valuation. The dollar amount of these limits for the City of Kirkland as shown on the table on page 17.

There are a number of different types of debt available for use in Washington. These are distinguished by term, voter approval requirements, and sources of repayment.

Limited Tax General Obligation Debt (Councilmanic Bonds)

Limited Tax General Obligation (LTGO) debt is also called Councilmanic debt, in that it can be authorized by the City Council without voter approval. This type of debt can be issued for any length of time (Kirkland's fiscal policy limits the term to 30 years, unless otherwise approved by Council). The debt is repaid from general revenues of the City, meaning that the ability to issue this type of debt is largely limited by the ability to find an ongoing revenue stream to support it in the operating budget. The City currently has a few outstanding debt issues of this type, the largest of which supported the Kirkland Justice Center project. The current CIP includes approximately \$5 million of this type of debt in 2015 to cover a portion of the City Hall renovation project.

Unlimited Tax General Obligation Debt

A second type of debt is Unlimited Tax General Obligation (UTGO) Bonds. This type of debt is also commonly called 'Excess Levy' debt or 'Voter-Approved'. This is debt that must be approved by voters for a specific purpose and is repaid from a new dedicated property tax revenue stream. This debt can be issued for any length of time, but must be authorized by 60% of the voters, with

a validation provision of 40% of voters that participated in the last general election. The City currently has a very small amount of UTGO debt outstanding in relation to total capacity.

Levy Lid Lift

"Levy Lid Lift" debt is another form of voted debt which is repaid from a temporary increase to the property tax levy. This form of debt must be approved by 50%+1 of the voters, and is limited to 9 years. The City does not currently have any debt of this type outstanding.

Local Improvement District Bonds

Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who directly benefit from the capital improvement, through annual assessments to their property. LIDs are formed by the City Council after a majority of property owners agree to the assessment. Currently the City has no LID Bonds outstanding. LID bonds are limited to the actual increase in property assessed valuation from the improvement, which can limit their use.

Revenue Bonds

Revenue bonds represent debt that is supported from a dedicated revenue stream. This type of debt is most commonly found in the City's public utilities. The term is matched to the useful life of the project, and repayment comes from charges to utility customers. The City does not currently have any outstanding issues of this type of debt.

Public Works Trust Fund Loan

The Public Works Trust Fund (PWTF) is low-cost revolving-loan fund established by the 1985 State Legislature to provide financial assistance to local governments for public works projects. Eligible projects must improve public health and safety, respond to environmental issues, promote economic development or upgrade system performance.

PWTF loans are available at low interest rates. The useful life of the project determines the loan term, up to a maximum of 20 years for non-distressed communities. The applicant must be a local government, such as a city, county or special purpose utility district, and have an approved long-term plan for financing its public work's needs. Local governments must compete for PWTF dollars since more funds are requested each year than are available. Our current PWTF loans are summarized in the table below.

Kirkland

The amount of each type of debt held by the City of Kirkland as of 12/31/2014, and the total available capacity (where applicable), is shown in the following table.

Type of Debt	Original Amount	Outstanding 12/31/2014
<i>Councilmanic Bonds:</i>		
2011 Limited G.O. Refunding (Teen Center)	\$430,000	\$280,000
2011 Limited G.O. Refunding (McAuliffe)	1,781,031	1,145,000
2010 Limited G.O. (Kirkland Justice Center)	35,345,000	33,270,000
2011 Limited G.O. (Fire Station Construction) ^{1/}	4,000,000	2,930,287
Total Councilmanic Bonds	\$41,556,031	\$37,625,287
<i>Estimated Remaining Councilmanic Debt Capacity as of 12/31/2014</i>		<i>\$198,990,113</i>
<i>Voter Approved Bonds:</i>		
2013 Unlimited G.O. Refunding (Parks)	\$4,670,000	\$4,130,000
Total Voter Approved Bonds	\$4,670,000	\$4,130,000
<i>Estimated Remaining Voter Approved Debt Capacity as of 12/31/2014</i>		<i>\$1,141,321,714</i>
<i>Public Works Trust Fund Loans:</i>		
1995 Lift Station	\$794,850	\$44,522
2000 Lift Station Replacement-Design	227,500	62,675
2001 Lift Station Replacement-Construction	1,848,000	720,780
2004 Central Way Sewer Replacement	1,086,300	573,325
2012 NE 80th St Water/Sewer Replacement	177,522	172,011
Total Revenue Bonds & Trust Fund Loans	\$4,134,172	\$1,573,313

1/ On May 26, 2011, Fire Protection District #41 issued \$4 million in Limited Tax General Obligation Bonds to finance the Consolidated Fire Station Project. On June 1, 2011, the Fire District ceased operation when the City of Kirkland annexed all the territory served by the District. The outstanding debt remains an obligation of the taxable property which was annexed.

The City issues and manages its debt according to a set of adopted policies, which are included as Attachment B. A common question is the impact that issuing new debt will have on either the current operating budget, or in the case of voter authorized debt, on taxpayers. The table below shows the annual cost to repay \$1 million of different types of debt, at 4.5% interest over a range of repayment periods. For debt funded through a levy increase, the cost is also portrayed in terms of monthly property tax bill increase for a median valued house (\$435,000 in 2015).

	Type of Debt		
	Levy Lid Lift	Councilmanic Bonds	Unlimited Tax GO/Excess Levy
Bond Term (years)	9	20	30
Annual Debt Service/\$1m borrowed	\$137,574	\$76,876	\$61,392
Monthly Impact Median Home	\$0.27	n/a ^{1/}	\$0.12
1/ Councilmanic bonds are paid from current revenues			

There are a number of potential projects that, due to the magnitude of the investment involved, will not be possible without some form of bond financing. These include the Aquatics and Recreation Center, fire station relocations and renovations, some major road improvement projects and non-motorized improvements to the Cross Kirkland Corridor.

Other Sources

Gas Tax

Each gallon of motor vehicle fuel (gas) which is imported, produced, or delivered in the state is taxed by the state at a rate of 37.5 cents per gallon. Cities receive a portion of the State-collected gasoline tax on a per capita basis.

The City allocates a set portion for capital construction and street preservation projects and the balance for street operations. The amount allocated to capital projects in the 2015-2016 CIP is slightly higher than the previously required percentage, at 35.3% in 2015 and 36.2% in 2016. The following table shows the breakdown of Gas Tax revenue for 2015-2016.

Budgeted Gas Tax		
	2015	2016
Revenues	\$1,675,751	\$1,684,070
Budgeted Expenditures:		
Street Operations	\$1,083,751	\$1,074,070
Transferred to CIP	\$592,000	\$610,000

Any revenue received above forecast is retained in the street operating fund for the regular maintenance of existing streets, though in recent years revenues have been at or slightly below forecasted levels, resulting in a lower amount available for operations. This revenue source is programmed to grow 3% per year over the six year CIP.

Business License Fees

Prior to 2015, the City programmed \$270,000 of sales tax revenues per year to fund street CIP projects. Based on a recommendation adopted by the Council, beginning in 2015-2016 that transfer has been replaced with a transfer of \$270,000 of Business License Fee revenues. This is intended to match a portion of the fees businesses pay directly with street infrastructure improvements. For 2015-2016, revenues of approximately \$2.6 million per year are forecasted, which is programmed for use as shown in the table on the following page.

Budgeted Business License Uses		
	2015	2016
Economic Development Program	\$306,000	\$306,000
Commute Trip Reduction Program	20,000	20,000
Budgeted in Transportation CIP	270,000	270,000
General Fund Operations	2,012,315	2,038,399
Total Business License Uses	\$2,608,315	\$2,634,399

The CIP assumes the \$270,000 per year contribution continues at the same level through 2020.

Other General Fund

Beginning with the 2015-2016 budget, approximately \$390,000 per year from the General Fund that had been used to repay the debt for the Parking Garage has been repurposed to supplement and accelerate the Street Levy Pedestrian Safety and Safe School Walk route investments and related projects identified in the Transportation Master Plan. This level of funding is anticipated to

continue until 2021, at which time these monies will partially offset the loss of the Annexation Sales Tax Credit in the General Fund operating budget.

In addition, \$3 million of 2013-2014 sales tax collections above budget have been reserved in the 2015-2016 General Fund budget to contribute to fire station options for North Kirkland.

External Revenue

External revenues are primarily grants but can also take the form of contributions from other governments or from private sources such as developer contributions. The level of external revenue that will be available in future years is difficult to predict. In some cases, a city matching contribution is also required. Staff programs these revenues in the years they are expected to be received and allocates the appropriate level of city matching funds. Where placeholders for external funding are used, the projects would not occur or move further out in the CIP if grants or other sources were not secured.

Funding Sources Summary

At the beginning of the CIP development process in late February, department staff were given an initial assessment of available funding for the 2015-2020 CIP. As described above, there are areas where the amount of available funds either exceeds this original funding level, or could exceed it based on alternative forecast assumptions. The table on the following page details, by program, the total amount in 2015-2020, the amount that is allocated, and what remains to be programmed. In most cases, amounts in the "New Revenue" column largely represent monies in future years that could be programmed based on revised revenue forecast assumptions, or changes to policy governing their use (Park impact fees).

Existing balances represent monies currently held in reserve as of 12/31/2014 that are not yet programmed in the CIP. All of these balances are available for funding projects in the CIP within the constraints of each revenue source. Note that the funding assumptions and programming may change, as the preliminary CIP recommendations are still under review by the City Manager. The summary will be updated based on the preliminary CIP presented in July.

2015-2020 CIP Funding Summary					
	Available	Programmed	Remaining		Notes
			Balance as of (12/31/14)	New Revenue	
Transportation					
Gas Tax	3,715,000	(3,715,000)			
Business Licenses	1,620,000	(1,620,000)			
Utility Rates (Surface Water)	3,000,000	(2,850,600)		149,400	
External Sources	24,274,100	(24,274,100)			
Street & Pedestrian Safety Levy	15,863,000	(15,863,000)			
General Fund	2,400,000	(2,400,000)			
Street Improvement Reserve	1,000,000	(900,000)	100,000		
Street preservation (Solid Waste)	1,800,000	(1,800,000)			
REET 1	2,426,000	(2,426,000)			1
REET 2	7,283,600	(7,283,600)			1
REET 2 Reserves	8,042,344	(7,433,855)		608,489	2
Impact Fees	9,873,525	(9,873,525)			3
Subtotal Transportation	81,297,569	(80,439,680)	100,000	757,889	
Parks					
Impact Fees	5,453,620	(3,497,915)		1,955,705	4
Park Levies	8,100,000	(8,100,000)		-	
External Sources	2,066,000	(2,066,000)			
REET 1	4,931,000	(4,931,000)		-	1
REET 1 Reserve	8,697,813	(4,761,829)	1,418,110	2,517,874	5
Subtotal Parks	29,248,433	(23,356,744)	1,418,110	4,473,579	
General Government					
Sinking Funds (incl. Facilities Op.)	16,769,975	(16,769,975)			
Major Systems Reserve	1,275,675	(299,000)	976,675		
External Revenue	2,000,000	(2,000,000)			
Debt	5,003,262	(5,003,262)			
Utility and other	1,977,851	(1,977,851)			
General Fund	3,000,000	(3,000,000)			6
Subtotal General Govt	30,026,763	(29,050,088)	976,675	-	
Utilities					
Rates/Charges	39,862,000	(39,862,000)			
Reserves	4,738,000	(4,738,000)			
External	237,900	(237,900)			
Subtotal Utilities	44,837,900	(44,837,900)	-	-	
Total	185,410,665	(177,684,412)	2,494,785	5,231,468	

Notes:

1/ Assumes \$2.6-2.8 million annual REET revenue beyond 2016; continue O&M use beyond 2016 (~\$200k/yr)

2/ Programmed amount includes \$2,436,255 retained for grant match and unanticipated capital per target

3/ Assumes \$1m/year impact fees; increase from \$350k/year

4/ Assumes \$750K/yr impact fees; programmed costs represent defeasance of Mcauliffe and Teen Center debt

5/ Programmed amount includes \$1,732,3295 retained for grant match and unanticipated capital per target

6/ Funding set aside for fire station options for North Kirkland

Other Policy Issues

As identified at the February 20, 2015 City Council Retreat, there are a number of policy issues that staff is evaluating as part of this CIP process in addition to funding options:

- **University of Washington (UW) Process Study** – Over the last four months, Financial Planning staff has been working with two students from the UW Evans School on research into CIP budget processes, including a review of best practices and some benchmarking work/interviews at neighboring cities. The project report (Attachment C) serves a dual purpose, as both a capstone for the students' MPA work and a discussion item for the CIP process.

Based on the review, the City's CIP process incorporates many of the best practices identified including:

- Emphasis on citywide prioritization
- Inclusion of operating and maintenance impacts in project submissions
- Systematic, formalized review of projects as they are being built

A potential refinement to the City's process that staff will evaluate for the future is the formation of an interdepartmental team to review project proposals.

- **Capital/Operating Shifts** – There are projects in the Capital Improvements Program that could feasibly be funded from the operating budget. Candidate projects for this evaluation either fall below the capitalization threshold of \$10,000 as defined in Note 1 of the [City's Comprehensive Annual Financial Report \(CAFR\)](#), as summarized below, and the level of funding is reasonably consistent and predictable from year to year.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of 2 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

While a funding source needs to be identified for each activity regardless whether it is in the operating or capital budget, this comprehensive review provides an opportunity to assess whether there are advantages and disadvantages of shifting these projects between budgets. Recommended shifts, if any, will be highlighted as part of the preliminary CIP.

- **Project Design Overhead** – Public Works capital projects currently pay for the cost of Public Works Project management. As noted in the Public Works CIP Management recommendations discussed at the June 17, 2013 City Council Retreat (Attachment D), the project management costs associated with Public Works CIP managing the construction of Parks projects will be incorporated into the Parks project cost estimates in the preliminary CIP. The result of this change is that a portion of the budget estimates for Parks projects is now used to pay for internal overhead, which may result in either a reduction in scope or

the need to add funding to projects when more detailed program elements are identified. The advantage of charging for Public Works managing these contracts is that the more robust project tracking and management processes used by this group should help keep projects on schedule and budget and help with the early identification of issues. It will also help ensure that there is adequate funding for staff to manage the projects, as described below. Staff will evaluate whether this process should be applied to projects in other categories and will bring forward recommendations as part of the preliminary CIP.

- **Project Management Resources** – As the City’s capital budget expands, so does the need for project management resources. Charging for internal project management helps to provide funding for resources to perform that work. As part of the UW process study, neighboring cities were asked about their approaches to staffing this work. City staff will continue to evaluate the results to determine whether we want to change the mix of external and internal operating resources, staff these services with different skill mixes for projects where engineering expertise is not as heavily needed, and developing recommendations to ensure that internal staffing is sized properly to support the CIP projects planned for the next six years.

Next Steps

The City Manager is currently reviewing the CIP submittals from the departments to determine the projects recommended in the preliminary CIP within the Council’s adopted policy framework. Attachment E shows the current schedule for the CIP review process. The next major milestone is the CIP Study Session on July 21, which will be a review of the City Manager’s recommended preliminary CIP. Staff will continue to provide information to the public as the CIP process unfolds. Attachment F contains the Outreach Plan developed in cooperation with the City’s Communications Program Manager. This document provides the key messaging as well as the communications strategies contemplated over the next several months.

RESOLUTION R-5118

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
SETTING POLICY PRINCIPLES FOR PRIORITIZATION IN THE 2015-
2020 CAPITAL IMPROVEMENT PROGRAM.

1 WHEREAS, the Kirkland 2035 Comprehensive Plan represents a
2 collaboration between residents, staff and the City Council to develop a
3 long-term vision for the City of Kirkland's growth over the next 20 years;
4 and

5
6 WHEREAS, the City Council has adopted ten goals for the City
7 that articulate key policies and service priorities, and guide the allocation
8 of resources for Kirkland through the budget and capital improvement
9 programs; and

10
11 WHEREAS, the City Council desires to spur job growth and
12 economic development, retain a high quality of life in Kirkland, and
13 provide efficient and cost-effective city services to an informed and
14 engaged public; and

15
16 WHEREAS, the three Strategic Anchors, the Kirkland Quad, the
17 Price of Government and the five-year General Fund Forecast, are
18 fundamental tools for the sustainable allocation of resources to meet
19 the wants and needs of Kirkland residents; and

20
21 WHEREAS, the 2015-2020 Capital Improvement Program
22 provides an opportunity to utilize the Strategic Anchors to guide public
23 investments over the next six years that continue the City's progress
24 towards meeting the Council goals.

25
26 NOW, THEREFORE, be it resolved by the City Council of the City
27 of Kirkland as follows:

28
29 Section 1. The Kirkland City Council endorses development of a
30 2015-2020 Capital Improvement Program prioritized according to the
31 following principles:

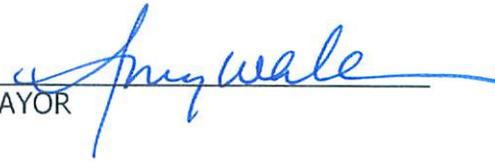
- 32
33 a. Sustains and enhances public safety, including bicycle and
34 pedestrian safety.
35 b. Invests in projects that facilitate near term economic
36 development to help address the gap between revenues and
37 expenditures as identified in the most recent five-year General
38 Fund Forecast.
39 c. Creates measureable progress toward achieving the City
40 Council's ten goals.
41 d. Implements the 2015-2016 City Work Program.
42 e. Improves services identified in both the "Imperatives" and
43 "Stars" sections of the most recent Kirkland Quad.

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- f. Improves efficiency of existing facilities and maintains integrity of existing infrastructure.
- g. Sequences projects in a manner that advances the Vision Statement and Guiding Principles of the Kirkland 2035 Comprehensive Plan.
- h. Maximizes the benefit to the community within a given level of funding.

Passed by majority vote of the Kirkland City Council in open meeting this 17th day of March, 2015.

Signed in authentication thereof this 17th day of March, 2015.


MAYOR

Attest:


City Clerk

DEBT MANAGEMENT POLICIES

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the immediate costs of substantial public improvements.

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved.
- All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- Interest, operating and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
- The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
 - General Debt -- 2.5% of assessed valuation
 - Non-Voted -- 1.5% Limited Tax General Obligation (LTGO) Bonds
 - Voted -- 1.0% Unlimited Tax General Obligation Bonds
 - Utility Debt -- 2.5% of assessed valuation
 - Open Space and Park Facilities -- 2.5% of assessed valuation
- The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Limited Tax General Obligation (LTGO) bonds will be issued only if:

- A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner; or
 - Emergency conditions exist.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
 - General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
 - The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
 - The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt.

The City's debt management policies provide guidelines for the appropriate use of debt. Some key debt management policies include:

- City Council approval is required prior to issuance of debt.
- The City will only use debt to finance capital improvements that cannot be financed through current revenues. The City will not use debt to finance current operations, non-capital furnishings, supplies, or personnel.
- Bonds will be issued for a period not to exceed the useful life of the asset being financed.
- The City will conduct a thorough analytical review before issuing debt and maintain a good credit rating at all times.
- The City's outstanding debt will remain within the limits stated in the City's fiscal policies.
- The City will use refunding bonds (refinancing) to restructure current outstanding debt when sufficient savings can be realized from lower interest rates.

When the City issues bonds, a thorough review of the City's financial condition is completed by bond rating agencies. Based on their findings, the bonds are given a rating. The City's bond rating is a reflection of its creditworthiness and affects the cost to the City of issuing debt. There are two rating agencies--Standard and Poor's (S&P) and Moody's Investor Service--that rate Kirkland's bonds. On November 2008, S&P upgraded the City's rating from AA to AAA, which is the highest rating. This AAA rating was reaffirmed on December 5, 2014. In April 2010, Moody's upgraded the City's rating from Aa2 to Aa1 for the UTGO Bonds and from Aa3 to Aa2 for the LTGO Bonds. Moody's reaffirmed Kirkland's rating for LTGO bonds at Aa2 on August 15, 2011.

Once bonds are rated, the City enters the bond market to secure the necessary funding. Occasionally, the City will conduct an "over-the-counter" sale where City staff sell bonds directly to Kirkland residents.

The proceeds (cash) received from selling the bonds are placed in a capital projects fund to account for the cost of constructing the capital improvement. Separate funds have been created

to track the principal and interest payments for limited and unlimited bonds. Each year a sufficient amount of revenue is budgeted and placed in each fund to pay the annual principal and interest due.

CAPITAL IMPROVEMENT PROGRAM REVIEW



Micah Phillips & Edin Sisic
University of Washington Evans School of Public Affairs
May, 2015

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We would like to thank Tracey Dunlap, Tom Mikesell, and all the staff at Kirkland for their guidance and assistance throughout this project. We would also like to thank the staff at the Cities of Bellevue, Bothell, Kent, and Redmond for donating their time and answering our many questions. Finally, we are grateful to Professor Crystal Hall for her supervision and patience, as our uncommon project frequently refused to obey deadlines. Thank you all.

Executive Summary

A review of Kirkland's capital improvement plan (CIP) is timely now, in 2015, for two reasons. The first reason is that the City underwent an annexation in 2011 that significantly increased the city's population and square mileage, both of which influence capital planning decisions. The second reason is that 2015 is the year that Kirkland is updating many of its long range planning documents, including the City's comprehensive plan, Kirkland 2035.

This report seeks to answer the following questions:

1. How do the City of Kirkland's Capital Improvements Program development, prioritization and approval processes compare with both national best practices and those of its neighbors, and, based on these comparisons, what are opportunities for improving Kirkland's processes?
2. How do neighboring cities manage CIP projects in terms of the use of internal and external resources and how do these management systems accommodate workload fluctuations?

To answer these questions, we first researched Kirkland's CIP process, reviewing City financial and planning documents and conducting interviews with City staff. We then researched national best practices, which included a literature review, and reviewed the practices of neighboring Eastside municipalities through interviews with staff at the Cities of Bellevue, Bothell, Kent and Redmond.

On the whole, our research indicates that Kirkland's CIP process is more or less comparable to that of its Eastside neighbors and national best practices. The City has many well-developed mechanisms by which it develops, prioritizes and seeks final approval of capital projects. The City is also currently improving and formalizing other, less-developed elements of its CIP process, in order to synchronize broader priorities with capital planning decisions.

Specifically, our findings indicate that:

- 1. Citywide CIP prioritization criteria are key to helping a CIP meet City and community goals.**
Kirkland has already begun developing such criteria. As other cities' experiences demonstrate, Kirkland should continue with this development.
- 2. An interdepartmental governance team can review proposed capital projects.**
Kirkland already makes excellent use of a Budget Leadership Team that helps departments finalize their list of proposed capital projects. Our research indicates that this team's results could be enhanced by a broader, interdepartmental project review team that could help evaluate proposed projects against citywide prioritization criteria.

Introduction to Kirkland

Kirkland is a city of approximately 84,400 people in King County, WA, situated on the east side of Lake Washington, about 10 miles from downtown Seattle. As with many of its Eastside neighbors, Kirkland has a high per capita income. The residents of Kirkland, in fact, have the 13th highest household income (\$87,480) among 522 ranked cities in Washington. At the time of the 2010 census, Kirkland's population was estimated to be 48,787. In 2011, however, the City annexed the North Juanita, Finn Hill and Kingsgate neighborhoods, which significantly increased the population and area of the City. Kirkland's population is now estimated to be 84,400, and its area totals 18 square miles. This represents a 64% increase in area from 2010.

Kirkland has a council-manager form of government. The City elects seven non-partisan, at-large council members who serve four year terms. The City Council then elects a Mayor and Deputy Mayor from among the members, who each serve two year terms in those positions. The City Manager serves as the professional administrator of the City and is responsible for coordinating day-to-day operations. The mission and strategic guidance for the City are set by the Council and carried out by the City Manager.

Project Context

There are numerous reasons why 2015 is an opportune time to formally assess Kirkland's capital planning process. First of all, with its recent annexation and expansion, Kirkland has to consider a far larger population and square-mileage when making capital planning decisions. Secondly, 2015 is the year that many of the City's long-range planning documents, including Kirkland 2035, the City's comprehensive plan, are to be updated. 2015 is also the year that Kirkland, facing funding constraints similar to most Washington cities, wants to take a proactive look at key elements of its Capital Improvements Program (CIP). Given all of these factors, it was serendipitous when Kirkland learned in late 2014 that volunteer consultants were willing to analyze the City's CIP processes. Feeling that the offer was too convenient and timely to turn down, the City agreed to work with the volunteers, and this report is the result.

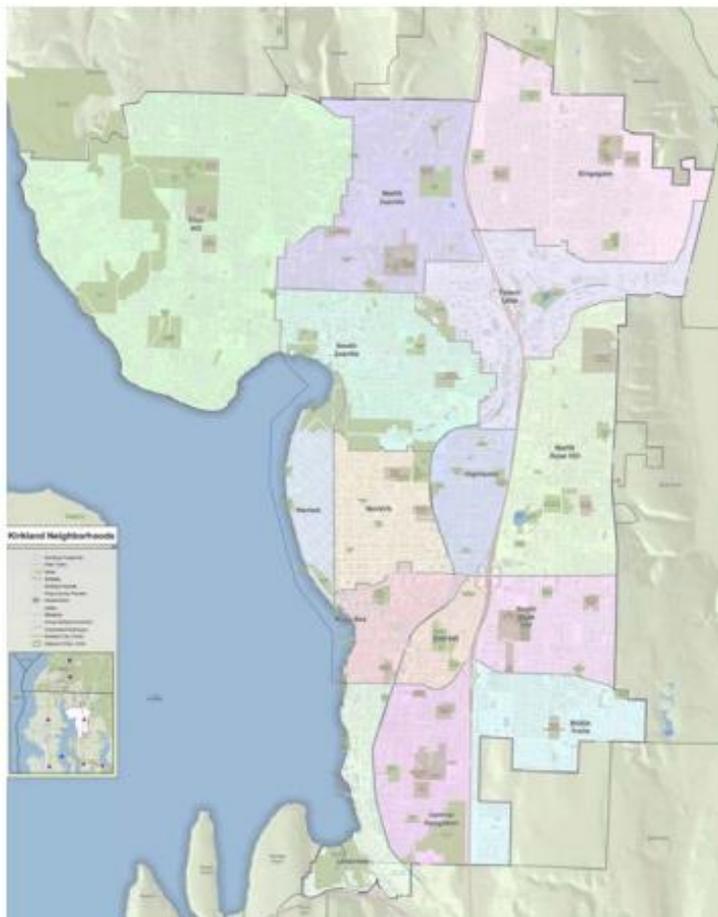


Figure 1. Map of Kirkland with annexed neighborhoods

Questions

Given the context above, this paper will seek to answer the following questions:

1. How do the City of Kirkland's Capital Improvements Program development, prioritization and approval processes compare with both national best practices and those of its neighbors, and, based on these comparisons, what are opportunities for improving Kirkland's processes?
2. How do neighboring cities manage CIP projects in terms of the use of internal and external resources and how do these management systems accommodate workload fluctuations?

Methodology

This project ran over five months, from January until May. The methodology included the following steps:

- Review of Kirkland's financial and planning documents to understand the current process.
- Literature review of relevant academic work on CIP development, evaluation, prioritization, adoption and maintenance.
- On-site interviews with various department heads and staff members involved in the CIP process to further our understanding of Kirkland's current CIP process and to identify potential areas of improvement.

Off-site interviews with finance directors and staff from the cities of Bellevue, Bothell, Kent and Redmond. The initial step was to learn Kirkland's CIP process, from pre-design to implementation and post implementation updates. To achieve this, on-site interviews were conducted with various staff involved in the CIP process, to identify areas of improvement. Most of the interview questions were unstructured, allowing for more of a conversational interview, with follow-up questions being based on the information provided by the interviewees. This interview style allowed us to gather more nuanced and unique information about Kirkland's capital planning process.

Following this assessment, we conducted a literature review of a number of neighboring cities and peer cities throughout the United States, in order to isolate best practices and trends in capital improvement plan development and management. Lastly, we conducted off-site interviews with finance staff from four of Kirkland's neighboring cities: Bellevue, Bothell, Kent, and Redmond. This interview process was slightly more structured, with some specific, preset questions that touched upon:

1. How other cities size and anticipate capital maintenance impacts.
2. How other cities manage their projects.
3. How prioritization is carried out departmentally and cross functionally.
4. How other cities 'stay nimble' and reprioritize when certain project opportunities arise.
5. How Information Technology projects are selected.
6. To what extent the community is involved in the CIP process.

Regular meetings with Kirkland’s Financial Planning Manager provided a significant proportion of the direction for the project. We would usually meet after each off-site interview to share our findings. These meetings were essential, as they provided not only constant guidance and feedback, but also an opportunity to share our findings thus far and refocus the project as necessary.

Literature Review

The aim of this literature review was to understand CIP development processes generally, to familiarize ourselves with the City of Kirkland’s CIP, and to research national best practices. We organized the results of this review based on recognized best practices.

Recognized Best Practices – Citywide Prioritization and Criteria

Many cities and government entities nationally as well as in Washington state use citywide methods for identifying and ranking capital projects for inclusion in the CIP. Nationally recognized capital program management studies (U.S. Government Accountability Office (GAO) and National Association of State Budget Officers (NASBO) studies) strongly recommend citywide prioritization as a best practice.¹ The GAO recommendations on best practices for capital project selection and monitoring have been incorporated into capital planning strategies of various local, state, and federal organizations and these recommendations include:

- Assessing capital projects as a portfolio across the organization, including ranking and selecting projects based on pre-established criteria reflecting the long-range vision embodied in the strategic plan.
- Using executive review committees to make project selections.
- Developing measurable goals and performance measures.
- Tracking project cost, schedule, and performance.

As an example, GAO recognized the City of Modesto, CA as one of the “leading” organizations by academia in CIP prioritization. The City established a CIP Task Force composed of individual department directors as well as council and citizen members, and the planning commission to evaluate and prioritize capital projects with equal voting weight. The process is designed to promote open dialogue and consensus building. Pre-approved evaluation criteria and protocol guide the CIP Task Force through the prioritization process.²

The following are criteria by which the citywide method for identifying and ranking capital improvement projects is structured in Modesto.

1. Establish an objective rating system that includes criteria that are appropriate for each facility type.

¹ Executive Guide Leading Practices in Capital Decision-making. Washington, D.C.: Office, 1999.

² See Appendix A.

2. Ensure projects conform to community plans and incorporate community-level priorities identified in each of the plans in the ranking process.
3. Develop broad-based regional financing options for regional-serving capital projects.
4. Assign “high priority” preference to projects located within existing and potential Specific Plan Areas that are also located within communities not meeting General Plan-identified public facilities guidelines or acceptable levels of service for the type of facility or service being considered. This is followed by preference to projects in areas generally located outside existing and potential Specific Plan Area locations, as previously described, in areas that are not meeting public facilities guidelines or acceptable levels of service as identified in the General Plan for the type of facility or service being considered.
5. Include in the ranking process preference for funding of new or expanded public facilities and services which can address needs in multiple areas.
6. Coordinate with other public, private, and not-for-profit entities to include areas with existing needs as a major criterion for allocating resources for new or expanded infrastructure, facilities, or amenities.

As identified by GAO, the objectives of establishing such criteria are three fold. It enables a credible process identifying top priority projects, coordinates CIP projects with other planning efforts, and engages staff, officials and citizens to garner consensus and community support.³

Recognized Best Practices - Timeline

A Capital Improvement Program is a medium-range plan, usually four to ten years, which allows municipalities to plan for, implement, and sustain capital projects. A well-managed CIP program provides numerous benefits, including:

- Systematic evaluation of all potential projects at the same time.
- The ability to stabilize debt and consolidate projects to reduce borrowing costs.
- A focus on preserving a governmental entity's infrastructure while ensuring the efficient use of public funds.
- An opportunity to promote collaboration amongst departments.

Local governments should prepare comprehensive multi-year capital plans to ensure adequate long-term management of assets. At a minimum, a plan should cover three years, but preferably covers five or more.⁴ The GFOA espouses that city staff, executive leadership, and the governing body review the status of projects in the capital budget periodically, although it does not specify how often. Reports should include whether the project is on budget, on schedule, has been modified for changes in service level,

³ Executive guide - leading practices in capital decision-making. (1998). Washington, D.C.: United States General Accounting Office.

⁴ GFOA Best Practice: Preparing and Adopting Multi-Year Capital Planning, 2006, www.gfoa.org.

and any other major changes.⁵ It is generally recommended that cities begin reviewing potential capital projects up to a year in advance of the budget allocation for thorough vetting and to avoid the last minute cancellation of projects that were not carefully evaluated.

Recognized Best Practices – Preparation of Projects

Evaluation and prioritization of capital projects is necessary in organizations because the size and volume of projects typically exceeds available resources.⁶ However, how projects are evaluated and prioritized takes many forms. As part of the project submittal, ICMA recommends staff submit a cost-benefit analysis. Some organizations may call an expanded version of this a business case. While it may be difficult to identify all costs and benefits for public goods, a business case is still an opportunity to vet out all aspects of a project. ICMA recommends the following five core pieces of a business case⁷:

1. Define the service-level objectives of the project.
2. Identify alternatives to the project.
3. Identify all costs and benefits associated with each alternative.
4. Forecast future streams of costs and benefits over the expected useful life of the asset, including operational costs.
5. Choose the alternative with the largest benefit in comparison with cost.

Recognized Best Practices – Evaluation of Projects

Depending on the need and goals, cities approach prioritization in multiple ways. ICMA recognizes six mainstream practices for prioritizing capital budget requests, several of which are supported by other professional organizations. Many cities incorporate multiple elements of each strategy, hybridizing their prioritization process to suit their needs.

The first strategy is “experience-based judgment.” As the name implies, this approach is based on the knowledge of small group of city staff. If officials in the ranking process are in touch with citizens, clients, and service providers and are up-to-date about the problems facing the community, this approach can result in the selection and funding of capital assets that address a jurisdiction’s most pressing infrastructure and capital needs.⁸ This process is often used by small- and medium-sized cities as the judgment of local officials is usually well informed by personal experience, citizen complaints, notices from state and federal regulatory agencies about local facilities that are out of compliance with current standards. This strategy has its obvious shortcomings in not adding value to a process for numerous or complex projects, as well as not having a full-bodied set of criteria to explain the choices to others.⁹

⁵ GFOA Best Practice: Incorporating a Capital Project Budget in the Budget Process, 2007, www.gfoa.org.

⁶ Capital Budgeting and Finance: A Guide for Local Governments, J. Marlowe, W. Rivenbank, A. Vogt, 2nd edition 2004, ICMA Press.

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

While this method is not recommended or widely used for large cities, experience and good judgment still play a role during other prioritization practices.

Second, the departmental service-level objectives method prioritizes projects according to their ability to meet goals in a specific department or service area. Each service area may then be assigned a certain allocation of dollars to stretch as far as they can down the list of projects. While this method allows some projects to be implemented in every area, it does not support situations where the most important projects may be concentrated in only a few areas due to reasons such as public health and safety or serious infrastructure deficiencies. This allocation method limits the ability to meet jurisdiction-wide goals.¹⁰ This method is commonly described as the “envelope” method of capital project prioritization. The GFOA recommends that departments have the ability to initially rank projects for their service areas, but other factors should also be applied and corporate level goals should be utilized to ensure that the goals of the elected bodies, and thus the public, are being met.¹¹

Third and fourth, by organizing projects according to broad categories of need and urgency of need, there is an attempt to set criteria for high-priority projects across the organization and fund those projects. Examples of high priority projects are those required by law, that protect public health and safety, or that otherwise meet a top goal for the community.

To achieve a more balanced list of priorities, many cities use the fifth method, a weighted rating system. In this method, each criterion is assigned a numeric weight or range of possible minimum and maximum values. Putting together the value for each criterion then results in a totaled score for each project used to rank the projects.¹²

Finally, using the advancement of organizational goals established by the governing board and the community as the main criteria or one of the heaviest weighted criteria in a ranking system is also common. Critical to the success of any formal priority system is gaining the understanding and support of elected officials. It is the role of the city manager and finance officer to clearly articulate how these objectives should be incorporated into the process.¹³ Using a strategic or master plan to guide decisions is also recommended by InfraGuide and the GFOA.¹⁴ For instance, in Ft. Lauderdale, Florida, the City Council ranks a mix of prioritization criteria for basic program attributes and balances that with an additional weightings system involving the impact on established strategic goals.

When a weighted scoring matrix is used for the capital planning process, it is common for the elected officials to review and approve the objectives used for prioritizing projects and participate in facilitated

¹⁰ *Ibid.*

¹¹ GFOA Best Practice: Preparing and Adopting Multi-Year Capital Planning, 2006, www.gfoa.org.

¹² Capital Budgeting and Finance: A Guide for Local Governments, J. Marlow, W. Rivenbank, A. Vogt, 2nd edition 2004, ICMA Press.

¹³ Capital Project Planning and Evaluation: Expanding the Role of the Finance Officer, J. Casey, M. Mucha, 2007, Government Finance Officers Association of the United States and Canada.

¹⁴ InfraGuide Decision Making and Investment Planning: Planning and Defining Municipal Infrastructure Needs, 2003, Federation of Canadian Municipalities and National Research Council.

sessions in which they set the system weights. Government entities that utilize these methods often also collect and manage specific capital project data that correlates to these objectives. The key outputs from the system can even include an “optimal funding curve” which shows the set of projects estimated to produce the greatest benefits for any given funding level.¹⁵ Also, since master plans are the foundation of economic development, land acquisition and use, transportation, and other major services that come to fruition through capital infrastructure, the GFOA recommends that staffers directly relate elements of current master plan into capital improvement project requests.

Capital Planning Processes Overview

Kirkland

The City of Kirkland’s 2014 update to the 2013-2018 CIP totals approximately \$730.3 million, which includes \$181.1 million of funded projects and \$549.2 million of unfunded projects. The CIP is organized into seven sections: Transportation, Surface Water Management, Water and Sewer, Parks, Public Safety, General Government, and Equipment Rental. CIP projects originate from various departments’ master plans, as department staff use these plans as guides to help create prioritized lists of capital projects. For Parks and Transportation, these lists are reviewed by the City Council-appointed Park Board and Transportation Commission. These staff then submit these lists to a Budget Leadership Team comprised of the City Manager, Deputy Managers and Finance staff, who prioritize these projects based on Council adopted goals and prioritization criteria. The City Manager then forwards a preliminary CIP on to Council, to act as a starting point for Council deliberation and decision-making.

Kirkland’s CIP includes projects over a six year period, and each CIP fiscal year parallels the Budget Development process that operates on the fiscal year from January to December. Noted on the next page are milestones of the current CIP development process.

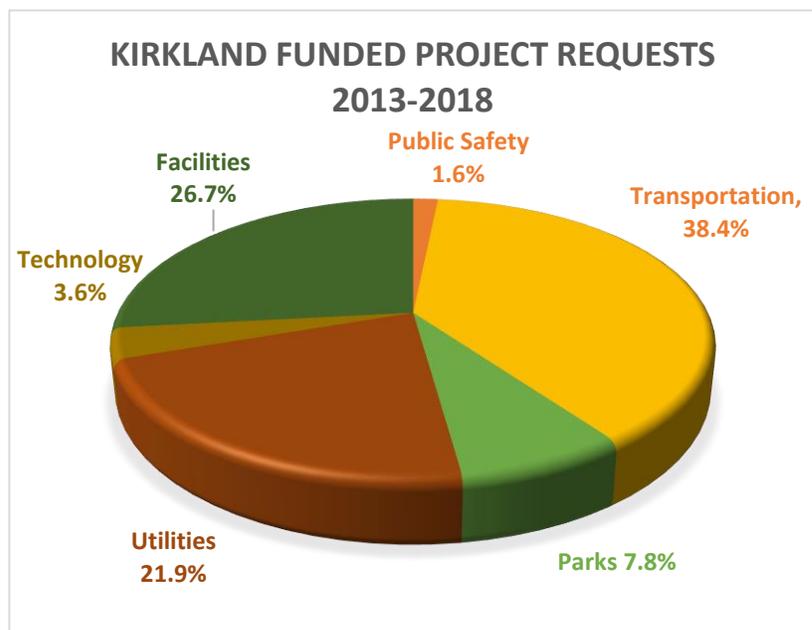


Figure 2. Kirkland's funded project requests (2013-2018)

¹⁵ Prioritizing Projects, Lee Merkhofer, 2005, www.icma.org.

Month	Project Phase
January	CIP Process Discussion/Soft-Launch with Directors
February	City Council Retreat, CIP Kick-off
March	Council Review of Revised Impact Fees, Departments Complete Project Sheets
April	Financial Planning Division Analysis & Review
May	City Manager's Review, City Council Retreat
June	Financial Planning Division Finalize Preliminary CIP
July	City Council Review Preliminary CIP
September	Council CIP Public Hearing
December	Council Adopt Final CIP

Project Prioritization Themes

As noted previously, 2015 is an important year for Kirkland's CIP development. It's important because the year coincides with Council approval of many of the City's comprehensive planning documents, including Kirkland 2035, the City's comprehensive plan. It's also important because 2015 exemplifies the stark financial realities that many cities face moving forward, where funding gaps exist despite prudent planning. Given these considerations, Kirkland decided in early 2015 to take a proactive look at the way it prioritizes capital projects. The City began by developing a broad prioritization framework that can apply to all capital needs, across all departments. This framework centers on budget strategic anchors and the following themes, which were discussed by the City Council at its February 2015 retreat, and are summarized below:

- **Council Goals and Work Plan:** Project prioritization and sequencing should take place in the context of the Council's ten goals (See Notable Elements section below) and the 2015-16 Work Plan.
- **Kirkland 2035 Vision:** Projects that help achieve the City's long-term vision of making Kirkland a more livable, walkable, sustainable, and connected community, should receive priority.
- **Kirkland Quad:** The Kirkland Quad is the City's framework for analyzing citizen preferences and their satisfaction with services. Any new or expanded projects should consider the Quad's categorization of services based on importance and performance.
- **Five Year General Fund Forecast:** The City's five-year forecast for the General Fund indicates that significant financial challenges are in store for the City. As such, capital projects that promote economic development, increase the City's revenue base, or help reduce spending on operating costs, should be given priority. Additionally, the City promotes financial sustainability through the maintenance of current infrastructure in order to avoid costly replacement of new facilities in the future.

- **Price of Government:** The latest analysis of Kirkland’s Price of Government shows that capacity exists to explore new funding alternatives through ballot initiatives for capital projects that are highly-valued by citizens, such as a new aquatic and recreation center.

Prioritization Principles

Based on the retreat discussion, the City Council recently endorsed a set of CIP prioritization principles. This endorsement came in the form of a March 17, 2015, resolution stating that the City would develop the 2015-2020 CIP so that the document:

- Sustains and enhances public safety, including bicycle and pedestrian safety.
- Invests in projects that facilitate near term economic development to help address the gap between revenues and expenditures as identified in the most recent five-year General Fund Forecast.
- Creates measurable progress toward achieving the City Council’s ten goals.
- Implements the 2015-2016 City Work Program.
- Improves the services identified in both the “Imperatives” and “Stars sections of the most recent Kirkland Quad.
- Improves efficiency of existing facilities and maintains integrity of existing infrastructure.
- Sequences projects in a manner that advances the Vision Statement and Guiding Principles of the Kirkland 2035 Comprehensive Plan.
- Maximizes the benefit to the community within a given level of funding.

Budget Leadership Team

The Budget Leadership Team is comprised of the City Manager, Deputy City Managers, and key Finance staff. This group is responsible for reviewing departments’ lists of proposed projects and evaluating these projects based on the prioritization themes, Council goals and Council prioritization principles described above. The City Manager then forwards a final proposed list to Council for approval.

Maintenance and Operation Impacts

Departments identify operations and maintenance impacts on the CIP projects sheets. Any operating impacts are summarized as part of the CIP document. New operating resources needed to support projects must be requested as part of the operating budget process once the project nears completion.

Project Management

A CIP Steering Team holds monthly meetings to review status of in-progress projects. This group is comprised of the City Manager, Public Works Director and Public Works and Finance staff, and reviews project status dashboards that include project completion percentages, budget to actual performance, and other important topics surrounding project construction.

Community Input

One novel feature of Kirkland’s CIP is the “Suggest a CIP Project” web portal, where the public can submit capital projects for the City’s consideration. Through this portal, members of the public are able to suggest capital improvements to specific locations throughout the city. These suggestions go to City leaders for consideration in the capital planning process.

The City also conducts a Citizen Survey every two years, which informs both operating and capital improvement financial planning decisions.

Bellevue

Bellevue is a city of 33.4 square miles with an estimated population of 134,400¹⁶. The median home value is \$525,000, and the median household income is \$90,000.¹⁷ Bellevue’s city center is the second largest in the state of Washington, with over 35,000 employees and 5,000 residents. The City has a council-manager form of government with seven, non-partisan council members elected at large for staggered four-year terms. The City Council selects a Mayor from among its members, who serves as council chair but has no veto power. Bellevue recently adopted a 2015-16 biennial budget totaling \$1.459 billion, with a two-year appropriation for operations (\$954 million), special purposes (\$53 million) and capital investments (\$452 million).¹⁸

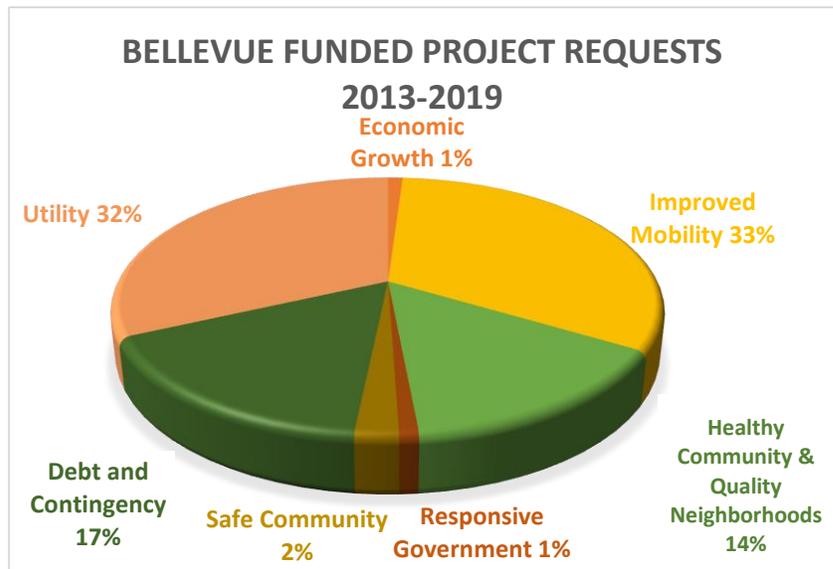


Figure 3. Bellevue Funded Project Requests (2013-2019)

Bellevue’s CIP outlines the public facility improvements that will be implemented over the next seven years. The City’s 2015-2021 CIP totals \$724 million, of which \$512 million is allocated for the General CIP and \$212 million is allocated for the Utility CIP. The first two years of this CIP were folded into the recently-adopted 2015-2016 biennial budget. The 2015-21 CIP also features a 2% property tax increase that allows additional funds to be directed toward unmet neighborhood and infrastructure needs.

¹⁶ Bellevue 2015-16 Adopted Budget.

(<http://www.ci.bellevue.wa.us/pdf/Finance/2015%202016%20Adopted%20Budget%20Book%20Final.pdf>)

¹⁷ U.S. Census Bureau. (<http://quickfacts.census.gov/qfd/states/53/5305210.html>)

¹⁸ Bellevue 2015-16 Adopted Budget.

(<http://www.ci.bellevue.wa.us/pdf/Finance/2015%202016%20Adopted%20Budget%20Book%20Final.pdf>)

Almost all of the projects included in the CIP originate from long-range plans approved by Council, needs assessments or surveys performed by City departments, community input, or Council recommendations. Individual departments include projects in capital investment proposals submitted to the “CIP Panel,” a cross-departmental evaluation team. The CIP Panel reviews these proposals using a set of City-wide prioritization criteria. The Panel then forwards its recommendations to the City Manager, who in turn submits a preliminary budget for review and approval by Council.

Budgeting-for-Outcomes Approach

As with its operating budget, Bellevue’s CIP centers on a budgeting-for-outcomes approach called “Budget One.” This approach prioritizes and funds services based on community priorities (called “outcomes”) that are approved by City Council. These outcomes are, as defined in the City’s 2015-16 budget:

- **Economic Growth and Competitiveness:** investments are intended to plan for growth that will add value to the quality of the City and create a competitive business environment.
- **Healthy and Sustainable Environment:** focuses on preserving nature spaces and providing a healthy environment, which supports healthy living for current and future generations.
- **Improved Mobility:** focuses on existing and future infrastructure, traffic flow, built environment and travel options.
- **Innovative, Vibrant, and Caring Community:** promotes community engagement and fosters diversity and creativity in City-provided services.
- **Quality Neighborhoods:** creates a “sense of community” by maintaining neighborhoods that support families and provides convenient access to day-to-day activities.
- **Responsive Government:** fosters stewardship of financial and property interests, reflects sound business practices, and ensures deployment of programs that are necessary to deliver services.
- **Safe Community:** focuses on maintaining a safe place to live, learn, work and play.

The above Outcome areas are primary considerations for decision makers at all stages of the City’s CIP development process, from department staff compiling lists of proposed projects, to the CIP Panel evaluating those proposals, to the City management who ultimately decides which projects move forward for Council approval.

Project Prioritization Criteria

The prioritization process used for CIP updates is the primary mechanism by which the City aligns capital investments with Council’s Outcome areas and the goals of City comprehensive planning documents.

This prioritization happens at two basic levels: the department level and the citywide level. At the department level, City staff propose projects by CIP major project area (MPA), such as Roadways, General Government, or Parks Acquisition and Development. In each MPA, staff prioritize projects using many, less-formalized criteria, like program area distribution, policy mandates, community support, geographic distribution, and outcome distribution.¹⁹

Citywide funding prioritization criteria are more formalized. When the CIP Panel evaluates non-utility CIP projects submitted for funding consideration, it is likely to use the following criteria, as described in the 2015-2021 CIP Plan:

- **Effectiveness at achieving City Mission/Community Outcomes/Council Priorities**
 - Effectiveness/extent to which project achieves Outcome
 - Tangibility/clarity of project results
 - Multiple benefits
- **Mandates**
 - Legal
 - Appropriate level of investment needed to meet mandate
- **Financial Factors**
 - Leveraging other funds: extent to which project is funded by external sources
 - Cost versus Benefit
 - Sunk costs: extent to which project expenditures have already been incurred
 - Avoided costs: extent to which project creates savings/decreases future costs/reduces risks
 - Stewardship: extent to which project protects and leverages existing investments
- **Timing/Urgency**
 - Project readiness: extent to which project can proceed within the CIP period
 - Need to move forward during this 7-year CIP period
 - Critical linkage to other high priority projects
- **Scaling**
 - Level of Service (LOS)
 - Right element of project at this time (e.g. full build, partial build, design only)

The CIP Panel applies these criteria qualitatively, rather than with a numerical rank or score. The reason for this qualitative approach is that it allows the CIP Panel to adapt its prioritization as necessary. Take, for example, one project that only addresses a few of the criteria, versus a second project that addresses more of the criteria. The first project has more sunk costs, while

¹⁹ For an overview of prioritization criteria broken out by MPA, see Bellevue's 2015-16 Adopted Budget. (<http://www.ci.bellevue.wa.us/pdf/Finance/2015%202016%20Adopted%20Budget%20Book%20Final.pdf>)

the second project has none. In this scenario, the first project—the project that is less of a priority, according to the City’s criteria—actually would get prioritized over the second one, because the financial importance of the sunk costs. Such a decision is an example of the balance that the CIP Panel can strike by using these criteria in a qualitative way.

It’s also important to note that of all proposed projects, those with funds contractually committed, such as debt service obligations, are funded first.

Maintenance and Operations Impacts

In its adopted CIP, the City highlights the estimated impacts on its operating budget of ongoing maintenance of some large capital projects.²⁰ These estimates do not include, however, M&O costs of ongoing capital improvements that have not yet reached the design phase where M&O cost estimation occurs. It would be useful to know how and when these cost estimations factor into the capital project planning process—when, for example, department staff consider M&O costs in relation to their decision to put forward a project for consideration of City management. Unfortunately, the research for this report was inconclusive in this regard.

It’s also worth noting here that the City has a financial policy that requires the preservation of existing capital infrastructure before funding is sought to build new facilities.²¹ This policy aims to prevent the City from embarking on a facility enhancement program that the City cannot afford to maintain. While it is clear that City staff consider this policy when prioritizing major capital projects, the research for this report did not confirm the importance of this policy relative to other prioritization considerations.

Project Management

One notable aspect of Bellevue’s project management process (particularly as it touches upon the human capital issues implicit in this report’s Research Question #2,) is the City’s “as-needed” approach to hiring limited term employees (LTEs). According to City staff, there is no formal decision-making process for hiring an LTE. The decision is made on a case-by-case basis. If there is a capital project that needs additional project management staff, the City simply hires the LTEs it needs.

²⁰ See Appendix B.

²¹ See Appendix C.

Bothell

Bothell is a city of 14.38 square miles²² with a population of 41,630.²³ The median home value is \$343,700, and the median household income is \$74,769.²⁴ The City operates under a council-manager form of government, with seven council members of equal decision-making power. Bothell recently adopted a 2015-16 biennial budget totaling \$206 million with a total operating budget of \$87 million, and a 2015-16 Capital Facilities Plan (CFP) totaling \$58 million.²⁵ Bothell's seven-year CFP incorporates 55 projects totaling approximately \$225 million.

Bothell's Capital Facilities Plan (CFP) process is formalized, robust, and a source of great pride for the city. This pride is understandable, as the process earned Bothell the 2007 Governor's Smart Communities Award for Implementation of a Comprehensive Plan. 51¢ of every \$1 Bothell plans to invest in infrastructure from 2015 through 2021 is being funded by non-city resources, and this is in large part due to decisions made throughout the CFP process.

The city's CFP assumed its current form in 2006, when Bothell's City Council passed a resolution creating a biennial CFP process and a Capital Facilities Plan Process Committee (CFPPC). The CFP planning process takes place in even-numbered years in coordination with Bothell's biennial budget development process, and systematically identifies and finances both vitally needed and community desired capital infrastructure. The first two years of the CFP are incorporated into the following biennial city budget. The CFPPC is composed of three Bothell Councilmembers, a Planning Commissioner, a Parks and Recreation Board Member, the City Manager, and the Finance Director. The committee is responsible for strategically prioritizing the city's capital needs for each seven-year capital planning period and producing a corresponding funding plan. After the committee prioritizes projects and produces the funding plan, it provides a recommendation to Bothell's City Council.

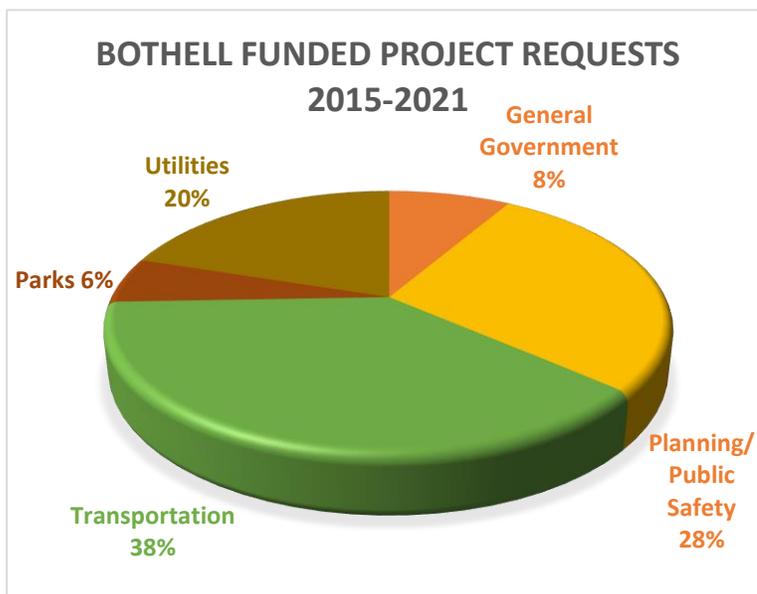


Figure 4. Bothell's Funded Project Requests (2015-2021)

²² City of Bothell estimate.

²³ Washington State Office of Financial Management

(http://ofm.wa.gov/pop/april1/ofm_april1_population_change_and_rank.xlsx)

²⁴ U.S. Census Bureau (<http://quickfacts.census.gov/qfd/states/53/5307380.html>.)

²⁵ 2015-16 Bothell Biennial Budget

(<http://www.ci.bothell.wa.us/Site/Content/Administration/Budget%20and%20Finance/Budget%20Documents/2015-2016Budget.pdf>)

Six criteria drive the CFP prioritization process. These criteria are:

- Consideration of community needs
- Availability of sufficient revenue
- Coordination of projects and project time lines
- Availability of sufficient staff and expertise to manage projects
- Maximization and leveraging of City revenues
- Adherence to sound financial strategies

The CFP also advances Bothell's long-term capital vision by addressing pressing community investment needs while emphasizing revenue-generating redevelopment of Bothell's Historic Downtown area.

Community Input

In preparation for the 2015-2021 CFP development process, City staff resumed the practice of soliciting new project ideas from the community, as noted in Bothell City Council's Resolution No. 1183, from 2006. City staff consider this solicitation one of the most important means by which the community can provide input into capital planning efforts before the proposed CFP goes to Council for approval. One of the key features of this practice is that City staff not only accept resident requests for projects, but also reply to every request with a letter to the resident acknowledging receipt of his or her request and a description of the steps the City will take to evaluate the proposed project for possible inclusion into the CFP.

Project Management

Every other month the City holds capital project status meetings, which City staff believe are key to the City's management and evaluation of the CFP after its adoption. In these meetings, the Finance Director and Finance staff meet with department heads and other staff involved in the management of capital projects and discuss how individual projects are progressing. These meetings provide project management staff the opportunity to explain numerous aspects of a project's status, including missed or shifted deadlines, cost overruns, input received from community members, and other pertinent information. These meetings also give the Finance Department a chance to provide project management staff with important financial information, such as updated budget numbers, funding requirements, and advice on financial reporting.

Another interesting feature of the City's project management strategy is the use of "project term employees" (PTEs). These employees are similar to limited term employees (LTEs), except that PTEs' employment is tied specifically to one or more projects. This specification allows the City to dismiss a PTE if a project gets delayed, canceled, or otherwise does not meet certain requirements due to the PTE's performance. In City management's view, this distinction has two benefits. It can both cut contracting costs and eliminate project delays due to insufficient human capital.

Staff Acknowledgement Form

One interesting feature of Bothell’s CFP process is the “Staff Acknowledgement Form” that employees involved in the management of capital projects must sign after the CFP is adopted. By signing the form, staff acknowledge that an update to the CFP has occurred, that they have received, read and understood the Council-adopted CFP spending plan, and that they commit to performing their duties in compliance with that spending plan. Accompanying these Acknowledgement Forms is a checklist that the Finance Manager or Senior Finance Analyst managing capital projects uses to track every staff member required to sign the forms.²⁶ As to the consequences for an employee who signs this form when an aspect of a project’s implementation goes awry, the research for this report could not adequately conclude.

Kent

Kent is a city of 28.6 square miles with an estimated population of 124,400²⁷. These figures include the 5-square-mile, 24,000-resident annexation that the City undertook in 2010. The median home value is \$261,300, and the median household income is \$57,500²⁸. The City operates under a mayor-council form of government. Kent recently adopted a 2015-16 biennial budget totaling \$463 million, with a total operating budget of \$419 million and a 2015-16 Capital Improvement Plan (CIP) totaling \$44 million.²⁹ Kent’s 2015-2020 CIP totals \$175 million, of which \$103 million is allocated for the General CIP and \$72 million is allocated for the Utility CIP.³⁰

As with many cities, Kent’s capital budget has suffered in recent years from a decline in revenues that has placed extreme pressure on the City’s ability to preserve and maintain City

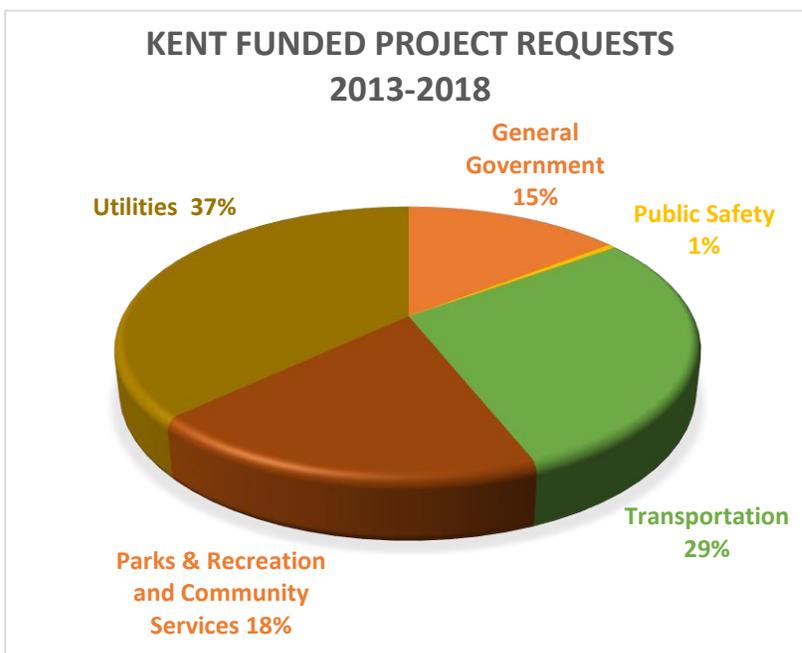


Figure 5. Kent’s Funded Project Requests (2013-2018)

²⁶ To see both the Acknowledgement Form and the Acknowledgement Form Checklist, see Appendix D.

²⁷ U.S. Census Bureau. (<http://quickfacts.census.gov/qfd/states/53/5335415.html>)

²⁸ *Ibid.*

²⁹ Kent staff provided us this information, from the forthcoming 2015-16 Adopted Budget.

³⁰ Kent staff provided us this information, from the forthcoming 2015-2020 Capital Improvement Program Plan.

assets. To alleviate some of this pressure, in the 2013-14 biennium the City dedicated a portion of new revenues to capital. These revenues included \$4.7 million of the B&O tax for streets overlays and materials, and \$850,000 of a cable TV utility tax for technology capital needs.³¹

Capital Project Prioritization

As noted above, Kent's CIP includes parks, facilities, public safety, and technology projects. Prioritization of these projects took place within individual departments. While City management feels that this approach to prioritization 'gets the job done,' it also believes that there is room for improvement. As such, Kent recently began creating a more holistic, City-wide methodology to prioritizing general capital needs. The City started in 2015 by establishing a capital facilities prioritization committee, composed of department heads from each City department along with finance and long-term planning staff. In these committee meetings, individual departments describe proposed capital projects, the department's rationale or business need for proposing the project, and numerous other factors, including political and financial considerations. Here, the departments emphasize the criteria they use to prioritize specific projects as important. The ultimate goals of this exercise are to have a conversation among staff and increase understanding about CIP development generally, and to identify criteria that can apply to the vast majority of projects. In the end, Kent wants a set of City-wide criteria that can guide its CIP prioritization.

Community Input

Currently, community input is not well incorporated into Kent's CIP development process. Kent, like many Washington communities, faces perpetual budget shortfalls due to property tax collection limits, among other factors. To address these facts and to educate and engage the Kent community generally about the City's long-term financial sustainability, the City established the Financial Sustainability Taskforce³² in April 2015. The Taskforce is a citizen advisory committee composed of 15 residents that represent a strong socio-economic cross section of the Kent community. The Taskforce will meet 1-2 times per month to evaluate Kent's finances as they pertain to the scope of services provided by City departments, the City's needs, and the community's priorities. In these meetings, Finance staff will educate the committee members about important City financial practices, including how revenues are collected and allocated. The Taskforce will provide quarterly progress reports to the Mayor and Council, and in June 2016, a final report with recommendations. After presenting its report, the Taskforce will sunset. Ideally, this process will provide the City guidance on how to, in addition to other financial management practices, prioritize and manage capital projects to best benefit the Kent community.

Maintenance and Operational Planning

Kent has a financial policy that says the maintenance of current assets will take priority over new capital projects whenever possible. The policy also states that the City Council must ensure that there are stable

³¹ Kent "Budget at a Glance 2013-14." (<http://kentwa.gov/Budget.aspx>)

³² Kent's website for the Financial Sustainability Taskforce. (<http://kentwa.gov/FSTF>)

sources of revenue to fund ongoing maintenance of capital assets.³³ The policy furthermore stipulates that staff are responsible for estimating life cycle and maintenance costs, and including these costs in the future capital budgets.

Redmond

Redmond is a city of 16.94 square miles with an estimated population of 54,144 in 2013³⁴ The median home value is \$453,900, and the median household income is \$96,088.³⁵ The city has a mayor-council form of government, with the mayor and seven council members elected at large for staggered four-year terms. Redmond's \$618 million budget for the 2015-16 biennium includes an operating budget of \$454 million and a capital budget of \$164 million.

Redmond's \$267 million CIP incorporates 53 projects over a six-year planning period.

Capital Investment Strategy: Vision Blueprint

Redmond's Capital Investment Strategy (CIS), also known as *Vision Blueprint*, is a hybrid planning and budgeting document summarizing known capital investment projects and programs from 2013-2030. The projects and programs included in *Vision Blueprint* are not "wish list" items, but planned actions that allow the City to accommodate existing community needs and expected growth. The document was created in 2011 with the intent to balance near-term financial considerations, as identified in the six-year CIP, against the City's 2030 land use vision. *Vision Blueprint* expands upon Redmond's capital planning program to show the actions and funding required to achieve the City's long-term capital investment goals by 2030. Redmond describes its CIS as "a strategy of identifying how the long range plan can be supported with adequate facilities. It is the master plan portion of the Comprehensive Plan, containing an integrated package of tools for implementing the vision."³⁶

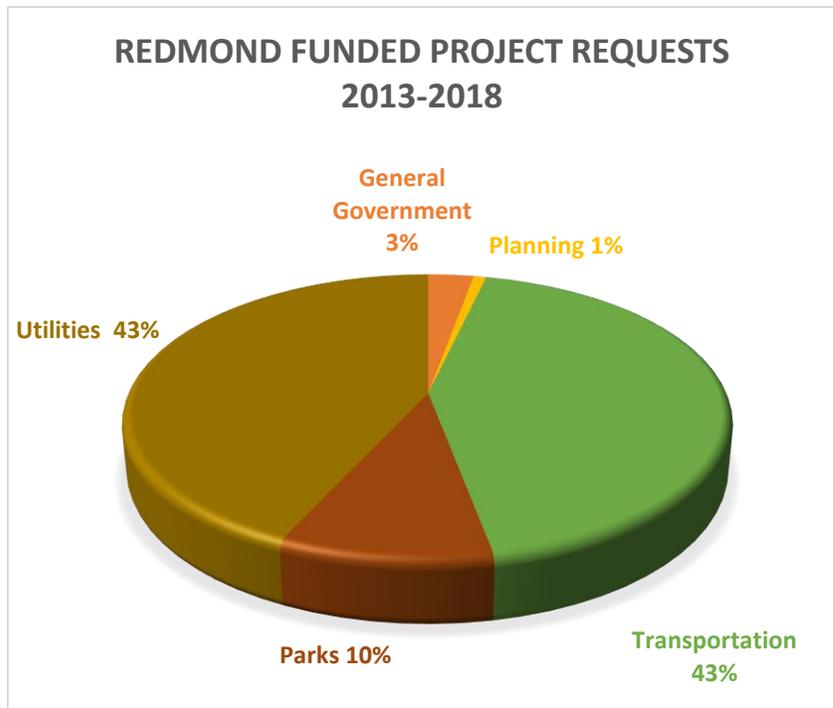


Figure 5. Redmond's Funded Project Requests (2013-2018)

³³ See Appendix E.

³⁴ The square mileage was provided by Redmond staff, source unknown. The population total came from the U.S. Census Bureau. (<http://quickfacts.census.gov/qfd/states/53/5357535.html>)

³⁵ U.S. Census Bureau. (<http://quickfacts.census.gov/qfd/states/53/5357535.html>)

³⁶ *Vision Blueprint*. (<https://www.redmond.gov/common/pages/UserFile.aspx?fileId=69486>)

Vision Blueprint is divided into three six-year segments: the “Near-term” (2013-2018), the “Mid-term” (2019-2024), and the “Long-term” (2025-2030). In total, there are 399 projects planned over this 18-year span. The Near-term segment is similar in nature to an average city’s CIP: it’s a six-year plan, adopted by the City Council, updated every two years, and it includes projects whose costs are nearly balanced to expected revenues. Unfunded projects are not listed in the Near-term and instead pushed out to year seven, or the Mid-term. The Mid-term also includes projects for which later timing is appropriate due to sequencing with other investments, expected development activity, or population and employment growth. Long term projects include those that were not a funding priority in the Mid-term.

Vision Blueprint is updated biennially in the budget off year in order to undertake various follow-up actions recognized in the *Vision Blueprint* development phase. These actions are categorized as:

- Council discussion and direction
- Functional plan updates
- Strategic implementation actions

CIP Development and Prioritization

Redmond has a formalized, streamlined CIP process that is described below:

1. Department directors and staff update the *Vision Blueprint* to reflect any changes in expenditure and revenue projections, including project changes for the near, mid and long term.
2. The “CIP Team”, comprised of capital project managers from each department, uses the *Vision Blueprint* as a guide and proposes projects for incorporation into the biennial budget.
3. The “CIP Results Team,” made up of long range planners, establishes the criteria with which they will assess the CIP Team’s proposed projects. The Results Team then evaluates each project using the established criteria and the guidance contained within the Vision Blueprint and the City’s Comprehensive Plan. The projects are placed in rank order by how well they meet the criteria.
4. The Mayor and department directors consider the CIP Results Team’s rankings, select the final projects to forward onto Council, and balance these projects’ expenditures against anticipated revenue.
5. The Mayor presents to the Council his preliminary budget for both operations and the CIP.
6. The Mayor and department directors work with Council to review the projects in the preliminary CIP.
7. Council reaches a conclusion about each of the projects and adopts the six-year CIP.

Project Management

While the City of Redmond currently has a well-developed and sophisticated CIS, City management also believes that there is room to improve its project management tracking systems. The City wants to maximize accountability and transparency as capital projects are being built. As such, City management

has recently begun developing a “phase gate” approach to project management. Phase gates are common stops along the life of a project where a “go/no-go” decision might be made. At these stops, staff will be able to evaluate the status of a project and make decisions about how that project should proceed. These decisions could, for example, involve assessing the accuracy of cost estimations or determining whether or not a project can go to bid. Ideally, this process will allow for additional scrutiny throughout the life of a project, and City capital improvements overall will better match community priorities. All this said, the phase gate approach is still in the development stages, so its true efficacy remains to be seen.

Another project management practice to note is that Redmond rarely, if ever, has to hire limited term employees to manage capital projects. Redmond staff attribute this fact to the superior planning methodology required by *Vision Blueprint*. City management believes that the near-, mid-, and long-term visioning process that results from the creation of that document is so well-developed that it avoids any unexpected project delays that might require the hiring of additional project management staff.

Community Input

The City uses several mechanisms to involve the community in the creation of the capital and operating budgets:

- Community surveys – Each year, the City asks the community’s opinion of the City’s performance in areas such as transportation, parks, and communications. Some of the information collected has implications for CIP development.
- Citizens Results Teams – During budget years, the City recruits citizens to evaluate and rank the value of departmental budget proposals.

Beginning June 2015, Redmond is kicking-off the OneRedmond Business Fee and Tax Advisory Committee. OneRedmond is a partnership between local government, business and the community to create a truly “business friendly” environment. For two years, OneRedmond members have reviewed and confirmed the principles of the City’s transportation plan, specifically those projects that were being planned or constructed through support of the City’s business tax funds. BFTAC is made up of representatives from the City’s business clusters, resident groups, education community, Citizens Results Team, large and small businesses, the freight industry, and the development community. The City hopes that BFTAC will:

- Offer advice to the Redmond City Council regarding business fees and taxes and their impact on the business community and economic development.
- Increase community awareness and understanding of and input to fee and tax development, citywide mobility issues, and transportation planning.
- Review and recommend refinements, as necessary, to City principles for the use of business tax funds.

Principal Findings

The above research resulted into two basic categories of ideas for Council to consider. The first category includes comments on Kirkland’s CIP processes based on national best practices and the practices of Eastside neighbors. These comments can be viewed either as practices Kirkland does now and should continue to do, or as practices that Kirkland should consider undertaking in the future. The second category includes interesting observations that arose from the research for this report, but that are not neither best practices nor universally employed by peer cities.

1. Citywide CIP prioritization criteria are key to helping a CIP meet City and community goals.

Perhaps the single most important component of a successful CIP is its ability to link the identified priority projects with the City’s comprehensive planning documents and overall community goals. The experience of Kirkland’s Eastside neighbors and national best practices both indicate that the establishment of citywide prioritization criteria is a key means to reach this end. Bellevue, Bothell and Redmond all use Citywide CIP criteria to:

- Link each project to goals identified in their comprehensive planning documents and the vision of City management, City Council, or the community.
- Objectively compare cross-departmental projects that compete for the same funding.
- Evaluate community responses and Council priorities to prepare a “fully baked” list of projects in accordance to community need and Council goals. This can, as best as possible, streamline the CIP adoption process.
- Promote interdepartmental collaboration, consensus buy-in, and transparency.

Kent’s recent decision to identify citywide priorities is further testament to the benefit of such a prioritization process. The ultimate goal of the City’s new criteria-setting exercise is to have conversations among staff, increase understanding about CIP development generally, and to identify criteria that can apply to the vast majority of projects.

Kirkland has already begun developing citywide capital prioritization criteria. As other cities’ experience demonstrate, Kirkland should continue with this development.

2. An interdepartmental governance team can review proposed capital projects.

Equally important to formalized prioritization criteria is a leadership team that can employ those criteria to evaluate projects. Many cities believe that an interdepartmental CIP governance team that assesses the list of proposed projects and weighs the list against a set of citywide prioritization criteria before a recommendation is forwarded onto Council for approval, can maximize the positive effects of capital dollars on the City and community. Take Bellevue, Bothell and Redmond, for example, which all evaluate projects based on a strict citywide prioritization criteria, and alter or remove projects as necessary before submitting the proposed projects to their Councils. Kent likewise is convening an internal committee to analyze which criteria can apply to the majority of that City’s departments. Clearly, such

interdepartmental assessment of proposed capital projects is an increasingly important feature of modern municipalities' capital program development processes.

Kirkland already makes excellent use of a Budget Leadership Team to prioritize projects. As best practices indicate, the City could explore expanding the process to include some form of interdepartmental team to help weigh proposed projects against citywide prioritization criteria.

Other Observations

1. Tying limited term employment to specific projects can prove beneficial.

As explained above, hiring limited term employees can mitigate two of the City's issues simultaneously. It can cut contracting costs and eliminate project delays due to insufficient human capital. Issues can arise, however, when a project is delayed or shelved, and the limited term employee hired to assist with that project then has no explicit purpose. Bothell avoids such a costly scenario by hiring only "project term employees" (PTEs) to manage projects. These staff members' employment is tied specifically to one or more projects, so that if a project gets delayed, canceled, or otherwise does not meet certain requirements due to the PTE's performance, that PTE can be dismissed.

2. Having capital planning staff sign an acknowledgement form could increase accountability.

As described above, the City of Bothell uses an "Acknowledgement Form" to enhance accountability amongst capital project staff. This encourages employees to perform project duties in compliance with that project's spending plan. Accompanying these Acknowledgement Forms is a checklist that the Finance Manager or Senior Finance Analyst managing capital projects uses to track every staff member required to sign the forms.³⁷

³⁷ See Appendix D.

Bibliography

Best practice resources:

1. GFOA Best Practice: Preparing and Adopting Multi-Year Capital Planning, 2006, www.gfoa.org.
2. Capital Budgeting and Finance: A Guide for Local Governments, J. Marlow, W. Rivenbank, A. Vogt, 2nd edition 2004, ICMA Press.
3. Capital Project Planning and Evaluation: Expanding the Role of the Finance Officer, J. Casey, M. Mucha, 2007, Government Finance Officers Association of the United States and Canada.
4. InfraGuide Decision Making and Investment Planning: Planning and Defining Municipal Infrastructure Needs, 2003, Federation of Canadian Municipalities and National Research Council.
5. GFOA Best Practice: Presentation of the Capital Budget in the Budget Document, 2008, www.gfoa.org.
6. InfraGuide Decision Making and Investment Planning: Investment Parameters for Municipal Infrastructure, 2003, Federation of Canadian Municipalities and National Research Council.
7. Prioritizing Capital Projects in a Suffering Economy, A. Abraham, PM Magazine, May 2009.
InfraGuide Decision Making and Investment Planning: Managing Infrastructure Assets, 2005, Federation of Canadian Municipalities and National Research Council.
8. GFOA Best Practice: The Role of Master Plans in Capital Improvement Planning, 2008, www.gfoa.org.
9. GFOA Best Practice: Incorporating a Capital Project Budget in the Budget Process, 2007, www.gfoa.org.
10. GFOA Aligning Technology with Business through IT Governance Presentation Guide, www.gfoa.org.
11. Executive guide - leading practices in capital decision-making. (1998). Washington, D.C.: United States General Accounting Office.

Peer City Resources

1. Austin, TX

<https://austintexas.gov/department/capital-planning>

2. Bellevue, WA*

<http://www.ci.bellevue.wa.us/finance.htm>

3. Bothell, WA*

<http://www.ci.bothell.wa.us/CityServices/Administration/BudgetAndFinance/Capital%20Facilities%20Plan.ashx?p=1798>

4. Ft. Lauderdale, FL

<http://www.fortlauderdale.gov/departments/city-manager-s-office/budget-cip-and-grants-division>

5. Kent, WA*

<http://kentwa.gov/Budget.aspx>

6. Redmond, WA*

<http://www.redmond.gov/PlansProjects/ComprehensivePlanning/VisionBlueprint/>

7. Tacoma, WA

<https://www.cityoftacoma.org/cms/One.aspx?portalId=169&pageId=35830>

*Note: * = on-site interviews with City staff were conducted*

Appendix A – Modesto Citywide Evaluation Criteria and Weights

CITY OF MODESTO CAPITAL IMPROVEMENT PROGRAM PRIORITIZATION CRITERIA

Evaluation Criteria

Seven evaluation criteria have been developed for project evaluation. Every project is evaluated against all seven criteria and assigned points on a scale of -5 to +5. This ensures the most objective process possible and leads to consistent decision making.

1. Public Health, Safety and Other Mandates
 - a. Does the project improve or specifically address a health, safety or other regulatory mandate in the community?
 - b. Does the project specifically address a legal requirement or abate a potential health or safety crisis?
2. Supports Stated Community Goals and Policies
 - a. Does the project help implement policies in the General Plan, Strategic Plan, or other adopted plan?
 - b. Is the project a part of or consistent with an articulated, acceptable mid, short or long-range program or departmental strategic plan?
 - c. Does the request implement some or all of the recommendations of a previous study?
 - d. Has the project been specifically identified by the public in previous community forums, surveys, etc.?
 - e. Has the project consistently been included in previous capital improvement programs?
3. Capital Fiscal Impact
 - a. Does the project have a positive impact on the General Fund budget?
 - b. Does the project bring in additional outside funds or grants in some proportion?
 - c. Is the project realistic from a financial standpoint? (Consider direct costs, as well as ongoing and additional costs such as those to provide temporary services during implementation of the project.)
 - d. Are funds already dedicated or available for the project?
 - e. Will funding the project now result in a significant savings or economies of scale?
4. Promotes Economic Development
 - a. Does the project facilitate a job producing development?
 - b. Does the project facilitate development that will provide positive revenue enhancement to the City?
 - c. Does the project help prevent revenue leakage?
5. Operation and Maintenance Fiscal Impact
 - a. Does the project have a positive impact on the City's Operating and Maintenance (O&M) budget?
 - b. Is the project an efficiency improvement project?
 - c. Is the project a low-maintenance project?
 - d. Does the City have the ability (staff, funds, etc.) to support the project in O&M?
6. Impact on Service Levels
 - a. Does the project bring the service up to a desired level?

- b. Does the project improve service levels?
7. Relationship to Other Projects/Coordination
- Does the project coordinate well with other projects underway?
 - Can the project be effectively coordinated with other projects (for instance, water and/or sewer line repairs done in conjunction with road work?)
 - Will all prerequisite projects be complete before this project is scheduled?
 - Is the project timely or does it provide a critical window of opportunity?
 - Is the project planned to create minimal disruption or inconvenience to the public?
 - Is the project the best use of funding for the fund category (as ranked by sponsoring department)? D.

Criteria Weights

The CIP Task Force determined that certain criteria are worthy of greater emphasis. In the evaluation process, this is accomplished by creating “weighting points” that are assigned to each of the seven criteria. These weighting points are automatically calculated as the CIP Task Force scores each project.

Criteria Weighting	Total
Public Health and Safety Mandates	95
Community Goals 85	85
Promotes Economic Development 85	85
Capital Fiscal Impact	75
Operation and Maintenance Fiscal Impact	75
Impact on Service Levels	65
Relationship to Other Projects/Coordination	65

Final Project Scoring

Projects should first be grouped into categories based on their project location. Using the evaluation criteria and weights above, the CIP Task Force will score each project. Some of the projects may not be scored by the Task Force because they are under a legal or regulatory mandate to be completed. Because the City is already obligated to complete these projects expeditiously, scoring them would serve no purpose.

All project rankings have been added to the project detail sheets. The scores range from 0 to 3000. Projects ranked the highest by the CIP Task Force will have a priority code of 3000. For each project ranked by the CIP Task Force, its corresponding priority score can be found below the project title of the project detail sheets.

The CIP Task Force will review and prioritize all existing capital projects to assure consistency with the City’s General Plan and the City’s vision statement. A recommendation will then be made to the Planning Commission.

Appendix B – Ongoing Maintenance and M&O Estimates – Bellevue



CIP Budget by Outcome

Capital Project Maintenance and Operation Estimates

CIP Plan No.	Project Name	Estimated 2013-2019 Impact of Capital Investments on Operating Budget
PW-R-141	West Lk Sammamish Pkwy NE - Phase 1	\$ 166,044
PW-R-160	NE 4th Street Extension	171,871
PW-R-161	120th Avenue NE Stage 1	83,353
PW-R-164	120th Avenue NE Stage 2	140,280
PW-R-155	SCATS	76,601
PW-R-146	Northup Way Corridor Improvements	55,654
G-88	Joint City License and Tax Portal	1,063,578
<i>Total for 2013-2019</i>		<i>\$ 1,757,382</i>

CIP Plan No.	Project Name	Estimated 2013-2019 Impact of 2008 Parks Levy Capital Investments (Funded by Levy LID LIFT)
P-AD-89	Nature Trail Expansion	\$ 250,000
P-AD-82	Park & Open Space Acq	37,500
P-ad-86	Surrey Downs	600,000
P-AD-87	Downtown Park	450,000
P-AD-85	Bellevue Botanical Garden	750,000
P-AD-90	New Youth Theatre	750,000
P-AD-88	Neighborhood Park Dev	540,000
<i>Total for 2013-2019</i>		<i>\$ 3,377,500</i>

Appendix C – Financial Policy; Preservation of Existing Capital



Comprehensive Finance Management Policies Policies & Processes

In the event that the project is 100 percent LID funded, interim financing shall be issued either in phases (i.e., design phase and construction phase) or up front in the amount of the entire estimated final assessment roll, whichever means is estimated to provide the lowest overall cost to the project as determined by the Finance Department.

- H. **Non-Utility CIP Maintenance and Operating (M&O) Costs:** Proposals for CIP project funding shall include the estimated future M&O cost, to provide full cost disclosure. Such M&O costs anticipated to be incurred in the upcoming biennium should be included in operating budget proposals for funding consideration. As of 2011, funding for existing CIP M&O is provided by a distribution of the City's Sales Tax revenue, split between 75 percent General Fund and 25 percent CIP. The dollar amount for CIP M&O is adjusted upward each year by the anticipated Consumer Price Index for all Urban Consumers (CPI-U) after first making any necessary adjustments (e.g., partial vs full-year costs) and eliminating any one-time items. The distribution amounts should be reviewed periodically by Council for reasonableness and potential adjustment.
- I. **Preserve Existing Capital Infrastructure Before Building New Facilities:** It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources to build new facilities that also have operating and maintenance obligations. This policy addresses the need to protect the City's historical investment in capital facilities and to avoid embarking on a facility enhancement program, which when coupled with the existing facilities requirements, the City cannot afford to adequately maintain.

Appendix D – Bothell’s Sample Staff Acknowledgement Form and Checklist



CAPITAL FACILITIES PLAN 2009-2015

DECEMBER 15, 2009 UPDATE

STAFF ACKNOWLEDGEMENT FORM

The Bothell City Council adopted revisions to the City's 2009-2015 Capital Facilities Plan (CFP) on December 15, 2009.

I attest that I have received a copy of the December 15, 2009 CFP Update and that I have read and understand the Council adopted spending plan associated with the CFP.

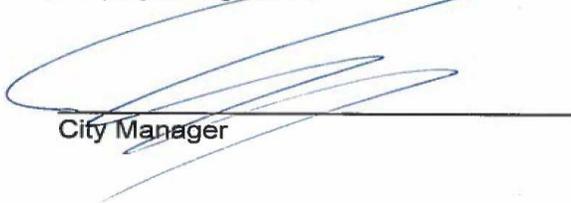
I further attest that I will perform my duties in compliance with the City's 2009-2015 capital spending plan – including the timing priority considerations, project commencement requirements, and project stopping points prescribed in the plan.

Gretchen Zundel, Sr. Financial Analyst
Employee Printed Name and Title

1-25-10
Date


Employee Signature

1-25-10
Date


City Manager

2-11-10
Date

Finance Received on _____ Received by _____

Total PW Capital Staff = 15

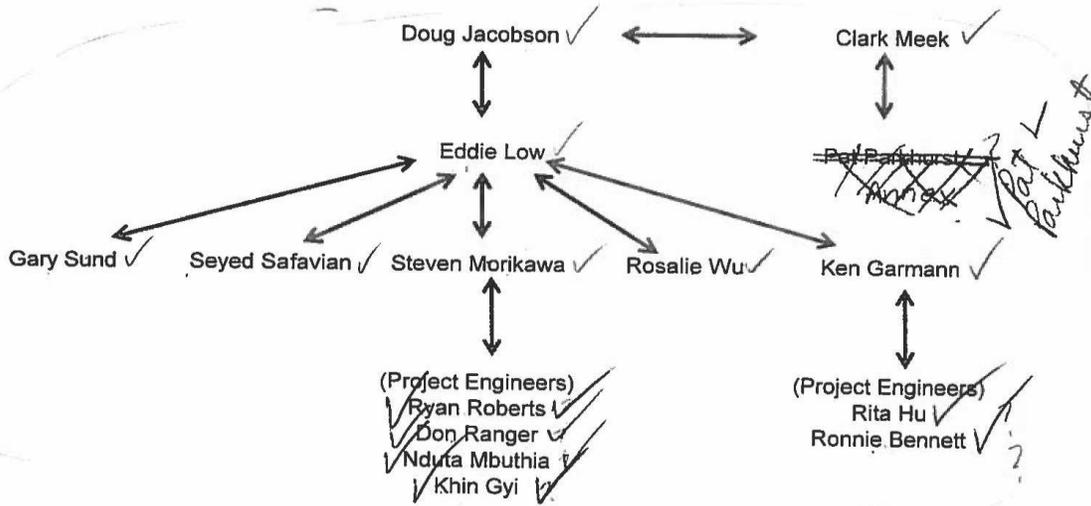
- ✓1 Doug Jacobson
- ✓2 Eddie Low
- ✓3 Clark Meek
- ✓4 Steven Morikawa
- ✓5 Ken Garmann
- ✓6 Seyed Safavian
- ✓7 Gary Sund
- ✓8 Rosalie Wu
- ✓9 PW Annex building (to be shared among other project engineers)

Total City Hall Staff = 10

- ✓1 Tami
- ✓2 Gretchen Zundel
- ✓3 Steve Anderson
- ✓4 Bob Stowe
- 5 Carol Gregerson
- 6 ???
- 7 Finance Office (shared)
- 8 Maureen Deputy

Ted ✓

Contractor 2 ✓



Pat Parkhurst
Annex
Pat Parkhurst
Terrie?
Arthur?

Prepare for
NAME
Title

Appendix E – Kent Financial Policies

FINANCIAL POLICIES

FINANCIAL STABILITY POLICIES

General Fund Reserves – The target for the General Fund contingency Reserve is 10% of the General Fund Budgeted expenditures or an amount that will maintain sufficient cash flow, whichever is greater. The policy is designed to provide a fiscal cushion, meet seasonal cash flow shortfalls. If the General Fund reserves go below 10%, based on the ending fund balance on December 31 of each year, the City shall take steps to rebuild the reserve within the next fiscal year.

Strategic Opportunities Fund – The City shall annually transfer any amount in excess of the 10% contingency reserve in the General Fund to this fund. This fund will act as if it is a permanent fund except that it may be used to take advantage of investment opportunities that may arise. This fund shall only be utilized by an appropriation approved by City Council. In the event any of this fund is used in an economic downturn to stabilize city finances, such appropriation shall be repaid to the fund annually over the next three years.

Capital Reserve Fund – The City shall annually budget a minimum of \$250,000 into a reserve for the general capital needs of the City. Such fund may be used for unanticipated capital needs typically resulting from a natural disaster. This fund is designated to act as a stabilization fund for general capital and may, with a specific appropriation by City Council, be used for investment in revenue producing capital projects. This fund shall be enumerated in the budget and accrue each year.

Contingency for Unanticipated Costs – The City will annually budget no less than \$500,000 in the General Fund for unanticipated costs. This amount, if unused, will be transferred into a project account until the amount reaches a maximum of \$1,500,000. If the fund or any portion of it is used, the City shall restore the balance to its \$1,500,000 within three years.

Equipment Replacement Fund - The City will maintain an Equipment Rental Fund adequately funded to replace a fleet of vehicles and other heavy equipment at their scheduled replacement time. Technology capital replacement shall be funded through departmental charges and other revenues sufficient to replace both hardware and software at the end of their useful life.

Self Insurance Program - The City will maintain an actuarially sound self insurance program for unemployment, worker's compensation, liability insurance and health insurance. All of the insurance programs are accounted for as separate cost centers within one parent insurance fund. Beginning in 2011, the liability insurance fund is funded through commercial insurance for claims of \$250,000.

Pension Funds - The City will maintain an actuarially sound Firemen's Relief and Pension Fund.

Maintenance and Operational Planning – Maintenance of current assets shall take priority over new capital projects whenever possible. The City Council shall ensure that there are stable sources of revenue to fund ongoing maintenance of capital assets.

Before any new capital asset is approved, staff shall present an estimate of the life cycle and maintenance cost. Such costs shall be included in the budgets for the following years. The City Council shall not approve of new capital projects unless there is funding for the ongoing maintenance of the asset. The City shall maintain an inventory of all City assets and costs of maintenance of those assets.

OPERATING BUDGET POLICIES

City Target Issues – The City Council will update its strategic plan in the early spring of each year. The staff will use this plan for development of the following year's budget priorities and the next biennial budget.

Budget Kickoff – The Mayor and City Council shall meet in the spring of even numbered years to plan the following biennial budget and agree on the anticipated revenues on which the preliminary budget will be based. The city council shall review revenue estimates and preview potential changes to revenues. The City Council shall then approve the revenue amount that will be used by the Mayor to form the initial preliminary budget. The Mayor and City Council will meet additionally in late summer to re-review the revenue estimates and to adjust them more closely to the additional revenue information that has become available with the passage of time. Any changes resulting from this meeting shall be incorporated into the preliminary budget to be considered by City Council.

Program Reviews – The Mayor shall perform a periodic review of staff and programs of the City for both efficiency and effectiveness. Alternate methods of delivery will be evaluated for providing services. Programs that are determined to be inefficient, ineffective, or inconsistent with the City Council's strategic goals shall be reduced in scope or eliminated.

Preliminary Budget – The Mayor shall propose a preliminary budget in the fall of even numbered years. The preliminary budget will be developed in accordance with the revenues approved by the City Council at the budget kickoff as amended. If the preliminary budget is based on revenues in excess of those approved by City Council, the Mayor will present the justification for the increased revenues or the additional proposed revenue sources.

Structurally Balanced Budget – The City should adopt a budget in which ongoing revenues equal or exceed ongoing expenditures. One time revenues should not be used to pay for recurring expenditures.

Conservative Expenditure Budgeting - The City will maintain its conservative expenditure budgeting with respect to budgeting existing full time positions for a full year.



CITY OF KIRKLAND

Department of Public Works

123 Fifth Avenue, Kirkland, WA 98033 425.587.3800
www.kirklandwa.gov

Attachment D

MEMORANDUM

To: Kurt Triplett, City Manager

From: Pam Bissonnette, Interim Director of Public Works
Tracey Dunlap, Director of Finance & Administration

Date: May 29, 2013

Subject: Public Works CIP Management

RECOMMENDATION:

City Council receives an overview of improvements to the Public Works CIP Management process and provides feedback.

BACKGROUND DISCUSSION:

Just as Kirkland has grown over the past decade, so has its Capital Improvement Program (CIP). The Public Works (PW) Department has historically had the largest role in implementing the CIP through capital construction projects requiring design, property acquisition, environmental analysis, permitting, construction, inspection, and closeout. The majority of all CIP projects are designed by consultants and built by contractors. PW's role has been one of project management, including oversight of the design consultants and construction contractors, negotiators of land acquisition, inspectors, and managers of the project budget. It is this responsibility for project budget management that is the primary subject of this discussion.

PW has had practices in place for many years to manage CIP projects and project budgets. The Request for Proposal and Bid Processes provide for the procurement of outside services per state law and city policy, and are usually the largest expenditures. Appropriate contingency amounts are set aside for both design and construction to assure that a project, under normal circumstances, can be completed within the budget approved by the City Council for an individual project. Use of the contingency for construction occurs through a formal change order process.

At times the contingency is not sufficient to cover additional unanticipated costs for a project. For example, if land acquisition is a large component of a project budget, and condemnation is not used to secure property rights at fair market value in a timely manner, land acquisition costs can be considerably above a project budget and result in delays with associated inflationary increases on the whole project. In such cases, staff needs to re-estimate the budget and obtain council approval to add funding in order to complete the project.

While PW's project management practices have served the city well over the past decade, they need periodic review and revision. Based on significant changes in the current and future CIP program, PW, in partnership with the Finance Department, has initiated such a review and is implementing proposed revisions.

Size of Projects

Ten years ago, Kirkland had only one project larger than \$5 million. Today Kirkland has, or is anticipated to have soon, seven projects over \$5 million, and at least three over \$10 million (Public Safety Building, 85th Street, City Hall renovation). The ultimate funding of the Cross Kirkland Corridor could be well over \$10 million. Each of the Proposition 1 & 2 levies in aggregate are over \$10 million. Larger projects are often far more complex than small projects.

Number and Funding Value of Projects

The 2002 funding for Public Works CIP projects was \$18.6 million dollars and there were 54 active projects. The 2013 funding for Public Works projects, including work in progress, is over \$80 million with 92 active projects.

Complex Funding Sources and Restrictions

Kirkland has recently had major success in obtaining grant funds. For example, the average annual grant funding from 2002-2008 was about \$1 million. In 2012 alone CIP grant funding was just under \$8 million, and more large grant applications are in the pipeline for 2013 and beyond. Grants are restricted in use and have significant new and complex reporting requirements, particularly for federal grants. In addition, PW often combines projects including streets, water, sewer and stormwater investments. The rationale is to accomplish as much as possible when a street or sidewalk is opened up so that you don't have to dig into it again soon. This combining of projects has resulted in greater efficiency, less overall public cost, and less disruption to citizens. However, utility funds are restricted in use as well and management of the funds requires strict accounting. Kirkland also often has other partners in projects such as WSDOT, PSE, Sound Transit, and King County, each with their own funding and restrictions. PW has several current projects that may have as many as 5-6 different funding sources, each with their own restrictions and reporting requirements. This situation has been called the "color of money" issue, meaning that it is not only important to manage a project within budget, but also within each funding source.

Managing Projects for Clients

PW's own projects tend to be primarily streets and utilities. However, PW manages the design, land acquisition, and construction of City facilities, such as the Public Safety Building (PSB) for Police and the Court. The City Manager is the client for the City Hall remodel. PW recently was assigned the Parks CIP. Managing projects for clients adds an additional layer of approvals and signoffs for such things as project design, change orders, use of contingency funding, development of bid alternates, and budget management.

Accountability

Publically voted measures appropriately create an expectation of public accountability for spending the added funding as authorized. Propositions 1 & 2 included specific authorizations for street maintenance, safe pedestrian and bike investments, investment in the CKC interim

trail, and a variety of parks capital improvements. Annual accountability reports for both levies will be provided to the Council and the public. The levies were also premised on “non-supplanting” of the base budget for these purposes, adding complexity in how both the base CIP budget and levy funding is managed and reported.

CIP Management Objectives

As a result of these major changes, PW and Finance have collaborated on best practices for CIP management and have put several enhancements in place to improve internal CIP budget controls and project management to achieve the following objectives:

1. Apply best practices and standardize CIP project management.
2. Support the City’s CIP process.
3. Support Council decision-making throughout the life of a project so there are no unexpected changes to the project, the revenues, or the cost.
4. Manage projects within budgets before requesting additional funding in the event of projected changes resulting in projected cost increases.
5. Develop performance measures and engage in continuous improvement.

Revisions to Public Works CIP Management: Large, Complex Projects

Project management should recognize differing levels of oversight based on size and complexity of both the project and its budget. For example, it is recommended that all projects over \$5 million have a Steering Committee comprised of PW, any client department, the CMO, and Finance (See Figure 2). Responsibilities of the Steering Committee include monitoring the project expenditures against the budget, early forecasting of changes to projects that might impact scope, schedule, and/or budget, development of alternatives to address project changes, agreement on expenditures of contingency through change orders, and claims management.

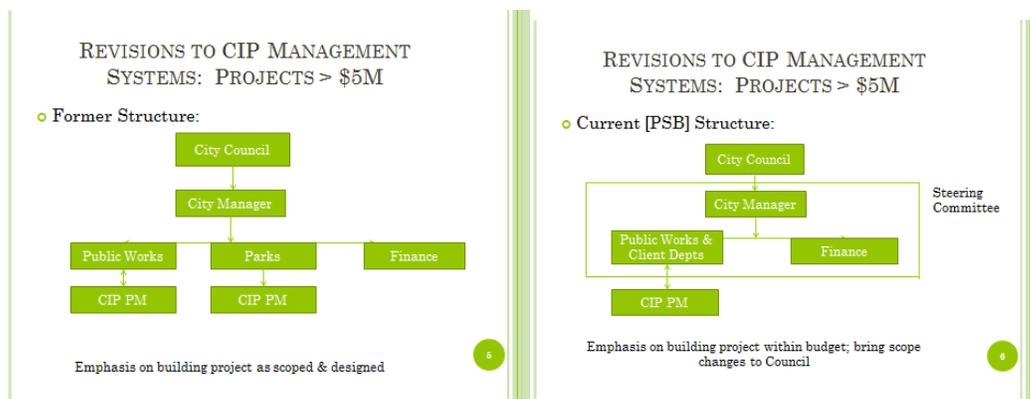


Figure 1

Figure 2

This process also demonstrates a shift in emphasis from “building the project as scoped and designed” to include more of a balance with “building the project within the budget”. A good example is the Public Safety Building (PSB), which has a Steering Committee of CMO, Finance, PW, Police and the Court. The committee meets monthly, and more often at major milestones as needed to oversee the project. When the projected cost to complete the project exceeded the budget, options for Council were developed within the Steering Committee to

reduce scope (shooting range, additional jail beds, ceiling paint) and Finance developed options to increase funding. These options and decisions were presented to the Council for decision-making in advance of project commitments.

Revisions to Public Works CIP Management: Small Projects

Even smaller projects can present significant complexity. A closer working relationship by PW with Finance is recommended such as regular meetings to review all active projects at major milestones to enhance communications and monitor expenditures against budgets. Other topics should include the formalization of new projects as CIP projects between CIP updates, project revenues, funding sources, and to review anticipated and secured grant funding. Several tools have been developed to make project reviews more transparent and easier.

1. Project Budget Dashboard (see Attachment A, example)

A project budget dashboard sheet is being developed for each project within the CIP. For each major component of a project (land acquisition, design, construction, internal engineering/project management, and contingency) it will bring together the budget, source of funds, percent expenditures, and percent project complete each month for review. The Dashboard will improve transparency during a project and will provide a means to forecast changes, develop options, and obtain formal approvals before project commitments are made.

2. CIP Project Management and Finance Coordination Sheet (see Attachment B)

This sheet makes formal a structure for PW and Finance to follow throughout the life of a project, improving the transfer of financial and project information through two-way communication. It sets out known milestones for expected consultations.

3. CIP Checklist (see Attachment C)

The CIP Checklist is primarily for the PW Project Engineer and CIP Manager as a guide to sign-offs and authorizations at significant decision points in a project, including the CMO, client departments, Finance, and the PW Director. Necessary authorizations for change orders, use of contingency, submittals of or responses to claims, etc. will be noted and logged.

These tools will enhance management of projects by providing additional documentation of the various elements, budgets and milestones of a project.

Changes to CIP Process/Management

During each CIP Update process, PW will revise completion estimates for all active projects, based on current information, and adjust for schedule, inflation, changes in scope, etc. and submit to Finance. In addition, at 60% design, cost to complete the project will be re-estimated and if it is greater than the budget, project alternatives will be developed, such as down-scoping, to complete the project within its authorized budget. Additional options will be developed along with Finance to add funding or to phase the project. These options will be reviewed with the CMO and Council for re-authorization.

Finance will review all CIP financial materials before they go to Council. All CIP sheets and project revision sheets will be documented in TRIM, the City's electronic management system. Each project will now be managed to the main components (land acquisition, design, construction, engineering, contingency), and funding sources rather than to the overall project budget. Continuous improvement will be fostered through the development and monitoring of CIP performance measures.

All CIP staff will be trained on the new CIP project management system in 2013. In addition, Public Works plans to provide additional external project management training for the project engineers as a refresher on best practices and current trends.

Council Reporting

Currently, Council CIP project authorizations occur throughout a project (Figure 3).

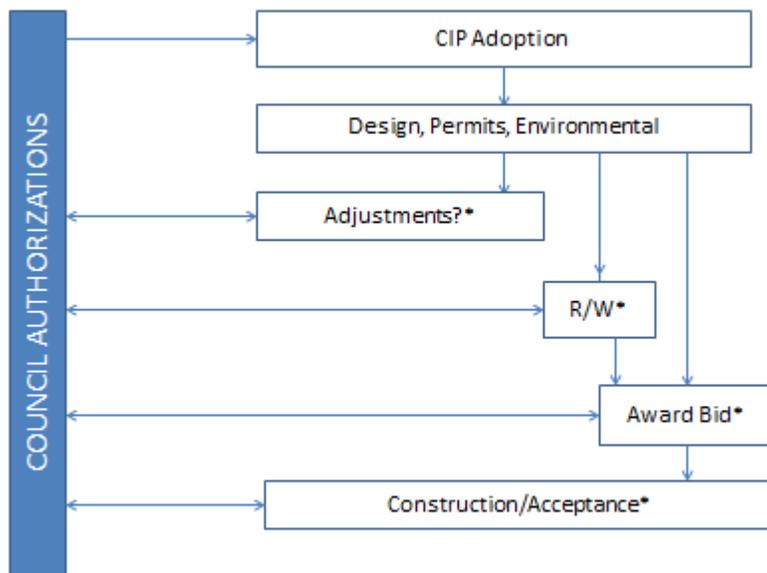


Figure 3

As the over-arching client for the CIP process, it is recommended the Council receive additional periodic reports on large capital projects (>\$5 M) at major milestones. The first such report was on May 7th with the bid award of the PSB. We plan a report to the Council on 85th Street in July. The Street and Parks Levies report is planned in early 2014 following the first year of its implementation. Future large projects are expected to include City Hall renovation and the Cross Kirkland Corridor (CKC). The Intelligent Transportation System (ITS) series of investments is approaching the \$5M threshold and might be included in future Council reports.

A summary on the status of all projects should be co-incident with the CIP Update, and with individual Council actions (e.g. bid awards).

Conclusion

With these enhanced practices, we hope to make the PW CIP implementation process more transparent to the Council and public, and engage the Council in decisions on CIP projects during implementation when the unanticipated does occur, and before commitments are made. Finally, we expect these enhancements to result in continuous improvements in project delivery, the efficient use of public resources, and accountability.

Attachment A: CIP Project Dashboard Example
Attachment B: CIP Project Coordination
Attachment C: CIP Project Management Checklist

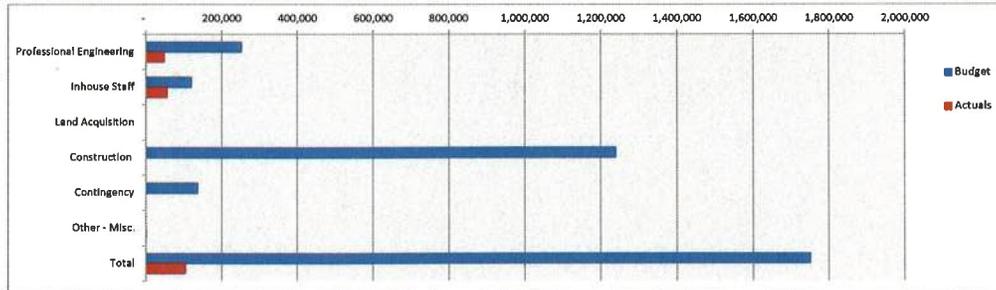
Project Budget Dashboard - 4/30/2013
CST 1306-000 / 2013 Annual Street Preservation Program

Budget History			
Budget Document	GG Budget	SW Budget	Total Budget
13-18 CIP	1,750,000	-	1,750,000
			-
			-
			-
			-

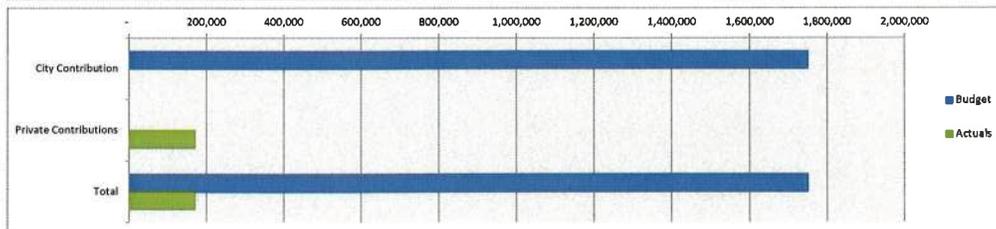
Current Approved Budget - by Year						
Source	2013					Total
External						-
City Contribution	1,750,000					1,750,000
Debt						-
Other						-
Impact Fees						-
Subtotal General	1,750,000	-	-	-	-	1,750,000
SWM (423)						-
Utilities (413)						-
Subtotal Utilities	-	-	-	-	-	-
Total Project	1,750,000	-	-	-	-	1,750,000

Budget Document	GG Budget	IFAS	IFAS Check	Difference
13-18 CIP	1,750,000	1,750,000	TRUE	-

Budget Authority - Expense Category							
Category	Budget	Actuals	Balance	% Complete (Budg.)	% Complete (P.E.)	As Of - Date	ETC
Professional Engineering	252,900	48,510	204,390	19%	20%		242,550
Inhouse Staff	120,600	56,198	64,402	47%	40%		140,495
Land Acquisition							-
Construction	1,238,850		1,238,850	0%			1,238,850
Contingency	137,650		137,650	0%			137,650
Other - Misc.		203	(203)	#DIV/0!			-
Total	1,750,000	104,911	1,645,089	6%			1,759,545



Budgeted Revenue				
Category	Budget	Actuals	Balance	% Complete (Budg.)
City Contribution	1,750,000	-	1,750,000	0%
Private Contributions	-	170,329	(170,329)	#DIV/0!
Total	1,750,000	170,329	1,579,671	10%



Notes:

5.24.13 - Cl

- > 2013 City funding will occur on 6/30 & 12/30 (half & half)
- > Potential budget adjustment to recognize private contributions
- > **Option 1: Increase budget by \$170,329 to \$1,920,329**
- > **Option 2: Decrease City funding by \$170,329 to \$1,579,671 (keeps project funding at \$1.75m)**

Project Budget Dashboard - 4/30/2013
CSS 0081-000 / 7th/8th Ave W Alley Sewermain Replacement

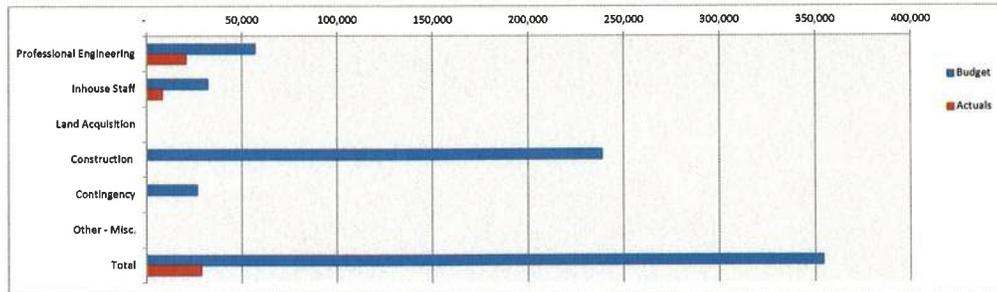
Attachment D

Budget History			
Budget Document	GG Budget	Utility Budget	Total Budget
13-18 CIP		354,000	354,000
			-
			-
			-
			-

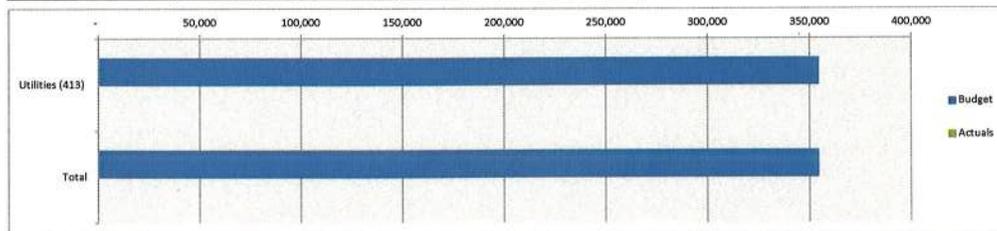
Current Approved Budget - by Year							
Source	2013						Total
External							-
City Contribution							-
Debt							-
Other							-
Impact Fees							-
Subtotal General	-	-	-	-	-	-	-
SWM (423)							354,000
Utilities (413)	354,000						354,000
Subtotal Utilities	354,000	-	-	-	-	-	354,000
Total Project	354,000	-	-	-	-	-	354,000

Budget Document	Utility Budget	IFAS	IFAS Check	Difference
13-18 CIP	354,000	354,000	TRUE	-

Budget Authority - Expense Category							
Category	Budget	Actuals	Balance	% Complete (Budg.)	% Complete (P.E.)	As Of - Date	ETC
Professional Engineering	57,000	20,621	36,379	36%	34%		60,651
Inhouse Staff	32,000	8,096	23,904	25%	27%		29,984
Land Acquisition							-
Construction	238,500		238,500	0%			238,500
Contingency	26,500		26,500	0%			26,500
Other - Misc.							-
Total	354,000	28,717	325,283	8%			355,635



Budgeted Revenue				
Category	Budget	Actuals	Balance	% Complete (Budg.)
Utilities (413)	354,000	-	354,000	0%
Total	354,000	-	354,000	0%



Notes:

5.24.13 - CL

> 2013 Utility funding will occur on 6/30 & 12/30 (half & half)

Project Budget Dashboard - 4/30/13
CTR 0111-000 / ITS Phase 1

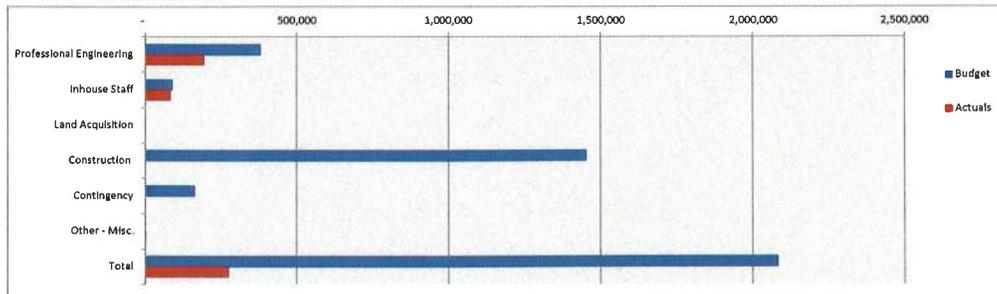
Attachment D

Budget History			
Budget Document	GG Budget	SW Budget	Total Budget
11-16 CIP Revised	2,081,000		2,081,000
			-
			-
			-
			-

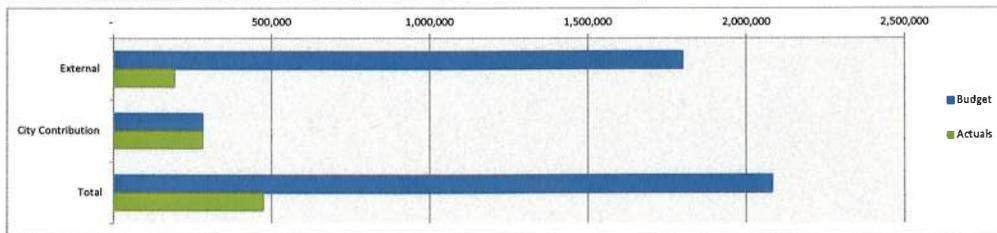
Current Approved Budget - by Year							
Source	2011						Total
External	1,800,000						1,800,000
City Contribution	281,000						281,000
Debt							-
Other							-
Impact Fees							-
Subtotal General	2,081,000	-	-	-	-	-	2,081,000
SWM (423)							-
Utilities (413)							-
Subtotal Utilities	-	-	-	-	-	-	-
Total Project	2,081,000	-	-	-	-	-	2,081,000

Budget Document	GG Budget	IFAS	IFAS Check	Difference
11-16 CIP Revised	2,081,000	2,081,000	TRUE	-

Budget Authority - Expense Category							
Category	Budget	Actuals	Balance	% Complete (Budg.)	% Complete (P.E.)	As Of - Date	ETC
Professional Engineering	379,400	191,197	188,203	50%	50%		382,394
Inhouse Staff	87,800	82,240	5,560	94%	80%		102,801
Land Acquisition							-
Construction	1,452,420		1,452,420	0%			1,452,420
Contingency	161,380		161,380	0%			161,380
Other - Misc.		11	(11)	#DIV/0!			-
Total	2,081,000	273,449	1,807,551	13%			2,098,995



Budgeted Revenue				
Category	Budget	Actuals	Balance	% Complete (Budg.)
External	1,800,000	192,040	1,607,960	11%
City Contribution	281,000	281,000	-	100%
Total	2,081,000	473,040	1,607,960	23%



Notes:

3.13.13 - CL

- > Accrual charge for \$10,307.20 (DKS) will invoice on Q1 2013 grant billing
- > Typically this would have been included on Q4 2012

5.20.13 - CL

- > 2013 OH rate calculated at 2012 total avg for all T.E. & P.E.
- > Transportation Engineers (T.E.) = 1.52
- > Project Engineers (P.E.) = 1.60

CIP Project Management & Financial Coordination

Topic: Coordination meetings between the Finance department and Public Works department project engineers for the purpose of establishing, monitoring and refining project budgets and to track actual and planned expenditures. Meetings will provide the opportunity to discuss each project’s funding structure and address restrictions that may exist on the funding sources that make up the project’s budget.

Check-in points for CIP projects would be tied to milestones in the project lifecycle, after project has been approved by Council as a funded capital project.

Milestone	Description of Milestone	Meeting Goals
Project Kickoff (during project baseline phase)	The beginning of the project life cycle (project start).	Meet to discuss the funding sources (“color of money”) involved in the project and any spending restrictions that exist.
60% Design (during phase I)	Point in planning process where detailed cost estimates are available.	Establish an improved budget estimate; identify any potential challenges in the future to plan for changes in spending or requests for budget adjustments. Communicate any changes in funding or discrepancies.
Bid Award (during phase II)	Contractor costs are contractually established.	Finalize the pre-construction budget estimate; make budget adjustments as needed. Discuss funding and address discrepancies.
75% Construction (during Phase IV)	Majority of construction is complete, final project cost estimates are accurate.	Compile the most accurate budget estimate to date, discuss any problems that have occurred with funding. Remedy any issues.
Project Close Out (during phase V)	Project is complete, summary of project is prepared and contract is closed.	Prepare final summary of the project's financial performance. Make sure to: 1) review budget to actual report, 2) check that expenses have been allocated to all funds appropriately, 3) account for retainage, and 4) close out the project.

Some projects may require additional check-ins:

Other Milestones	Description of Milestone	Meeting Goals
Land acquisition planning @ 30% or 60% design, or as needed for ROW negotiations (during phase I)	If the project requires the purchase of private property, most often in right-of-way.	Outline budget and funds available for acquisition and any restrictions that may exist on funding.
Quarterly meetings for "watch list" projects	Date-specific meetings for projects that are inherently more complex and thus carry more uncertainty, or projects with known issues.	Report on the status of the project and identify financial challenges or areas of improvement. Plan remedies for financial challenges.
Grant Application	When the application is ready for a final review before it is submitted.	Update finance on the grant, make sure everyone understands the grant parameters and how they could affect the project
Grant Award	Once a grant has been awarded to the project.	Review and confirm the grant rules and restrictions to understand its impact on the project finances.
<i>Any time anyone in either department notices a problem with the budget.</i>	If anyone working on a project finds anything unexpected in terms of funding or if any claims by or against the City are pending.	Discuss the issue and work to find resolution, inform management about the situation and address as necessary.

CIP PROJECT MANAGEMENT CHECKLIST

PROJECT BASELINE	PW	PARKS	FINANCE	OUT-REACH
A. SCOPE:				
CIP Paragraph	X	X		X
B. BUDGET:				
Project Revision Request policy	X	X	X	
Project Revision Request form	X	X	X	
Funding change notification	X	X	X	
C. PROJECT SCHEDULE:				
Project Team Establishment at Kickoff	X	X	X	X
Quarterly Project Meetings	X	X	X	X
Weekly Team Meetings	X	X		X
PHASE I - PLANS, SPECIFICATIONS, AND ESTIMATES (PS&E)	PW	PARKS	FINANCE	OUT-REACH
A. SELECT PROJECT CONSULTANTS:				
Set-up internal file system	X			
Advertise for consultants/use consultant roster	X	X		
Select from consultant pool for project	X	X		
Develop scope for consultant work	X	X		
Interview prospective consultants	X	X		
Check consultant references	X	X		
Notify consultant of award or rejection	X	X		
B. SECURE CONSULTANT CONTRACT:				
Negotiate consultant contracts	X	X		X
Submit Project Revision Request (if required)	X	X	X	
Secure City contractual routing/approval of contracts	X	X		
Notice to proceed to consultant	X	X		
Assemble project schedule in MS Project	X			
C. COORDINATE ASSEMBLY OF PRE-PLANS AND SPECIFICATIONS				
Provide standard specification package to consultant	X			
Provide Federal provisions and information	X			
Provide standard details to consultant	X			
Notify utilities of project	X			
Submit RFI from Planning Dept	X			
Assist in SEPA checklist preparation	X			
Obtain required permits (HPA, Shoreline, BNRR, etc.)	X			
Answer consultant design questions	X	X		
Perform in-house design review	X	X		
Provide 30% design review	X	X		
D. MONITOR PROJECT CONSULTANT PROGRESS:				
Monitor consultant design	X			X
Monitor consultant schedule	X			X
Monitor consultant products/requisitions	X			
Requisition process	X			
Process consultant progress payments	X			
Monitor consultant budget	X		X	
Submit Project Revision Request (if required)	X	X	X	
E. ACQUIRE PROJECT RIGHT-OF-WAY (ROW) AND EASEMENTS:				
Select ROW consultant from roster	X			

Acquire title reports for ROW	X			
30% land acquisition planning	X	X	X	
Submit Project Revision Request (if required)	X	X	X	
Make initial contact with property owners	X			X
Provide easements or take documents	X			
Coordinate meeting with property owner	X			
Finalize ROW acquisition, submit PRR (if required)	X	X	X	
Proceed or not proceed with condemnation	X			
Forward documents for closing	X			
Process payments for ROW	X			
F. PREPARE AGENCY AND PUBLIC INFORMATION:				
Prepare Council memoranda and information	X	X		X
Prepare open-house notifications	X	X		X
Secure open-house facilities	X	X		X
Prepare open-house exhibits	X	X		X
Attend public open houses	X	X		X
Answer design questions for public	X	X		X
G. COORDINATE ASSEMBLY OF FINAL PLANS AND SPECS:				
Provide 60% design review/engineer's estimate	X	X	X	
Submit Project Revision Request (if required)	X	X		
Provide plans to utilities for review/comment	X			
Review construction insurance requirements (Contact WCIA)	X			
Provide 90% design review	X	X		
H. COORDINATE ADVERTISEMENT OF PROJECT FOR BIDS:				
Prepare Council memorandum and information	X	X	X	X
Establish advertisement dates	X			
Establish pre-bid meeting date	X			
Establish bid opening date	X			
Prepare/submit advertisement package to purchasing	X			
Provide final design review and stamp	X	X		
Provide applicable prevailing wage rates	X			
Incorporate all WSDOT/APWA amendments (CD or Web page)	X			
Prepare plan holder list	X			
Setup construction estimate/specification pages	X			
Prepare final PS&E package for sale	X			
PHASE II - AWARD				
A. ADMINISTER/COORDINATE PUBLIC BIDDING PROCESS				
Answer contractor/vendor questions	X			
Issue addenda for plans and specs (if required)	X			
Maintain sufficient supply of bid documents	X			
Conduct pre-bid meeting	X			
Attend bid opening	X	X		
Tabulate bid results (Excel spreadsheet and post to H)	X			
Verify subcontractor list for projects over \$1,000,000	X			
Check low-bidder references	X			
Contact DLI regarding liens (1.800.647.0982)	X			
Reconcile all job costs	X			
Submit Project Revision Request (if required)	X	X	X	
Prepare Council award memorandum/exhibits	X			
Attend Council meeting	X	X	X	
PHASE III - PRE-CONSTRUCTION				
PW PARKS FINANCE OUT-REACH				

A. PREPARE INFORMATION /DOCUMENTS FOR CONSTRUCTION:				
Secure inspection contract	X			
Secure compaction/geotechnical services from roster	X			
Secure project display sign	X			
Put construction notice on City Web page	X			
Print triplicate inspector forms	X			
Take pre-construction video and photographs	X			
Prepare and mail notice(s) to residents	X			
B. CONDUCT PRE-CONSTRUCTION MEETING:				
Set-up conference room and agenda	X			
Notify agencies/attendees of meeting	X			
Conduct meeting	X	X		
Attend Pre-construction meeting	X	X		X
Review and process contractor's CPM schedule	X	X		
Coordinate submittal of contractor's contract	X			
PHASE IV - CONSTRUCTION	PW	PARKS	FINANCE	OUT-REACH
A. MANAGE CONSTRUCTION AND INSPECTION OF PROJECT:				
Issue Notice to Proceed letter	X			X
Receive and file Intent to Pay Prevailing Wage forms	X			
Review/approve submittals	X			
Review/approve traffic control plan	X			
Review/approve subcontractors	X			
Review/approve private property agreements	X			
Answer construction questions	X			
Coordinate testing of new systems	X	X		
Monitor inspector's construction record drawings	X			
Answer questions from public	X	X		X
Review/file Construction Inspection Daily Report	X			
Review/file Inspector's Daily Log	X			
Review/file Weekly Statement Report of Contract Days	X			
Review and Compile Force Account Activity	X	X		
75% Construction (dollars)	X	X	X	
Issue change orders (per change order policy)	X	X		
Force Account documentation (if required)	X	X		
Submit Project Revision Request (if required)	X	X	X	
B. MONITOR CONSTRUCTION PROGRESS OF CONTRACTOR:				
Process monthly progress payments	X	X		
Collect/review weekly certified payroll	X			
Monitor/update contractor schedule	X	X		X
Submit Project Revision Request (if required)	X	X	X	
Prepare final punch list	X	X		
Issue letter of Substantial Completion	X			
C. OTHER				
Claim for Damages	X	X	X	
PHASE V - POST CONSTRUCTION	PW	PARKS	FINANCE	OUT-REACH
A. PROVIDE FINAL CONTRACT ACCOUNTING:				
Prepare construction close-out cost summary	X	X	X	
Prepare Council acceptance memorandum	X	X	X	
Submit Notice of Completion	X			
Complete Administration and Finance (A&F) checklist	X		X	
Coordinate release of retainage to contractor (letter from A&F)	X			

B. COLLECT PRIVATE FUNDING:				
Determine concomitants for project	X		X	
Send concomitant billings to property owners	X		X	
Collect concomitant funds	X		X	
Prepare, route, record concomitant releases	X			
C. PROJECT CLOSE-OUT:				
Provide construction record drawings for inclusion in base maps	X	X		
Take post-construction photographs	X			
Prepare job completion critique (consultant and contractor)	X	X		
Complete and file project documentation	X			
Submit Final Project Revision Request (mandatory)	X	X	X	
Submit all files to archives - PROJECT COMPLETE	X			

Attachment E

Working 2015 Capital Improvements Program (CIP) Calendar

Key:

City Council Meetings
K2035 /Comprehensive Plan Processes
CIP Elements

January

January 7th –CIP Process Discussion/Informal Soft-Launch with Directors

February

February 11th – Park Board - Finalize Evaluation Criteria and List of Projects

February 20th - City Council Retreat

February 23rd – Formal CIP Kick-off with Departments

February 25th – Transportation Commission - Review Project List and Initial Recommendations

March

March 11th – Park Board - Review Rankings and Develop Preliminary CIP

March 25th - Transportation Commission – Finalize CIP Recommendations

March 31st – Departments - Complete Project Sheets

April

April 8th – Park Board - Finalize Proposed Parks' CIP

April 21st – City Council Study Session - Transportation Master Plan

April 23rd – Planning Commission Study Session- Review Capital Facilities Element (Text Only - Excluding Capital Facilities Project Tables)

May

May 29th (Tentative) - City Council Retreat

End of May – Draft Environmental Impact Statement

June

June 2nd – City Council Briefing on Capital Facilities Plan

July

July 21st – City Council Study Session – Preliminary CIP

July 23rd – Planning Commission Study Session Capital Facilities Plan Project Tables

August

August 13th – Planning Commission Public Hearing on Capital Facilities Plan draft

September

September 1st – City Council CIP Public Hearing

September 15 – Planning Commission final review and recommendation on Comprehensive Plan (includes Capital Facilities Plan)

October

October 20 – City Council Study Session on Comprehensive Plan (includes Capital Facilities Plan)

November

November 17th – City Council CIP Study Session

November 17th – City Council Regular Meeting – Adopt Final Comprehensive Plan (Excluding Capital Facilities Plan) & Planned Action EIS Ordinance

December

December 15th – City Council Adopt Final CIP

December – City Council Adopt Capital Facilities Plan as part of Comprehensive Plan

Kirkland's Capital Improvement Program: Outreach Plan for the 2015-2020 CIP Plan

Background:

Kirkland's Capital Improvement Program (CIP) funds the City's capital needs over a six-year period based on various City-adopted long-range plans, goals and policies. Capital projects are generally large-scale in terms of cost, size and benefit to the community. The underlying strategy of the CIP is to designate resources for land acquisition, construction, and major maintenance of public facilities necessary for the safe and efficient provision of services. A critical element of a balanced CIP is the provision of funds to preserve or enhance existing facilities and provide new assets that will aid response to service needs and community growth.

The City's Kirkland 2035 Initiative involves the update to the City's Comprehensive Plan and the update to existing long-range plans for transportation, the Cross Kirkland Corridor, Totem Lake Park, surface water management utility, and parks, recreation and open spaces. These plans identify goals, policies and projects that will be integrated into the Comprehensive Plan.

Key Messages:

- **Kirkland's vision for its future is that the community is livable, walkable, sustainable and connected.**
 - This vision has emerged from the public involvement in the update to the City's Comprehensive Plan that guides the future growth of Kirkland to the year 2035.
 - The Kirkland 2035 Initiative also involved the update of existing long-range plans and the creation of new master plans which identify major investments in transportation, water quality, parks, and other areas.
- **The 2015-2020 Capital Improvement Program will be developed around the City Council Goals, City Work Program, Kirkland 2035 Vision, Kirkland Quadrant (high importance services) and the Five Year General Fund Forecast.**
 - Other focus areas include improving public safety, including pedestrian and bicycle safety, focusing on economic development, increase efficiency of operations, maintain existing infrastructure as a strategy to proactively address the forecasted gap between revenues and expenditures and selecting projects that have the greatest community benefit.
 - The Comprehensive Plan's Capital Facilities Plan (CFP) is a 20-year project list that identifies facilities to accommodate the anticipated jobs and housing growth for Kirkland.
 - The CFP identifies funding sources for City capital projects needed to support the Comprehensive Plan, however, the CFP does not actually appropriate funds for these projects. The formal designation of resources occurs in the CIP.

- **The City of Kirkland Capital Improvement Program is a complex process that involves optimizing the City’s existing financial resources to fund the construction, repair, maintenance and acquisition of major capital facilities and equipment.**
 - Kirkland’s Capital Improvement Program (CIP) is a funding plan that shows the timing, estimated costs and sources of revenue and funding for selected priority projects over a six year period.
 - The Six-Year CIP Plan funds projects that replace or maintain existing assets, provide required capacity needed to meet growth projections and the adopted level of service, and projects that enhance capacity or services to the public.
 - A capital project is defined as the construction, acquisition or renovation of buildings, infrastructure, land and major equipment with an estimated value greater than \$50,000 (except for land), is an expenditure that can be classified as a fixed asset, and has a useful life of ten years or more (with the exception of certain equipment that may have a shorter life span.)
 - Kirkland’s CIP Plan is organized into the following sections: Transportation, Surface Water Management Utility, Water and Sewer Utilities, Parks, Public Safety, General Government, and Equipment Rental.

- **Extensive public outreach was provided through the Kirkland 2035 initiative and the City’s “Suggest a CIP Project” program**
 - The Kirkland 2035 public involvement campaign provided multiple opportunities for public input on long-range plans such as the Cross Kirkland Corridor Master Plan, Transportation Master Plan, Surface Water Management Plan, Parks, Recreation and Open Space Plan, and the Comprehensive Plan update. This public input has not only helped to identify future projects but to prioritize them.
 - Through the City’s CIP online “Suggest a Project” program, close to 500 projects were suggested by residents, businesses, and visitors for the 2015-2020 CIP.
 - Public Hearings by the City Council will also provide an opportunity for public input on the Preliminary CIP.

- **The CIP is constrained by available funding and by funding sources that have specific restrictions.**
 - The community’s need for capital improvements significantly exceed available funding.
 - The City has competing priorities for existing funds.
 - There is very limited discretionary funding available.
 - High priority projects in the surface water and water and sewer utilities may be funded by rates increases.
 - Given funding constraints and competing priorities, many capital projects have been deferred.
 - The 2013-2018 CIP update includes \$612 million in capital investments needs, of which only \$180 million are funded given limited revenues.

- **Funding sources for CIP projects include: Current revenue, Reserves, Debt and External Sources.**
 - Some of the major CIP resources include Real Estate Excise Tax (REET), Impact Fees and special property tax levies for street preservation and pedestrian safety and parks.
 - Reserves are used to a limited extent for specific purposes.
 - Debt represents a funding commitment to repay borrowed funds over an extended period of time.
 - External sources are primarily grants but could include contributions from other governments or private sources.

Timeline for Development of the 2015-2020 CIP

- March, 2015: City departments submit proposed CIP projects to Finance Dept.
- April, 2015: Park Board finalizes proposed Parks CIP projects, City Council continues discussion of Transportation Master Plan & Planning Commission reviews Capital Facilities Element
- May, 2015: City Council Retreat: Review CIP policy issues
- June, 2015: City Council receives briefing on Capital Facilities Plan
- July, 2015: City Council Study Session on the Preliminary CIP
- August, 2015: Planning Commission public hearing on the draft Capital Facilities Plan
- September, 2015: City Council Public Hearing on Preliminary CIP
- November, 2015: City Council Study Session on Preliminary CIP
- December, 2015: City Council adopts final CIP & CFP (as part of Comprehensive Plan Update adoption)

Communication Strategies

- CIP Document Webpage: Update with content about overall process (by 4/30/15)
 - Update with upcoming City Council meetings (ongoing)
- City Update Newsletter
 - Special Edition: Mailed to homes/businesses by 6/1/15
 - Regular Editions (Sept, Dec 2015)
- Public engagement
 - Comprehensive Plan Update Open Houses: Have info about 2015-2020 CIP including opportunities to comment (?) 6/25; 7/9; 7/23 & 8/13
- News Releases
 - Announce adoption process
- List Serv Notices: Budget & CIP list servs
 - News Releases, follow up on Council actions, web updates
- Online survey
 - Preference of proposed projects
- Neighborhood Outreach
 - KAN (monthly meetings)
 - Neighborhood Association Meetings (coordinate through Kari Page)