

May 16, 2016

## **CITY COUNCIL STUDY SESSION ITEM**

### **SUBJECT**

Long Range Financial Planning Update

### **STAFF CONTACTS**

Toni Rezab, Acting Director 452-7863

#### ***Finance***

Dave Berg, Director 452-6468

Ron Kessack, Assistant Director 452-4631

#### ***Transportation***

Mark Risen, Chief 452-6895

#### ***Fire Department***

Kate Berens, Deputy City Manager 452-4616

#### ***City Manager's Office***

### **POLICY ISSUES**

Council's 2014 Two-Year Priorities include the "establishment of a transportation capital plan for future growth and mobility of the City, and determining a long term capital funding mechanism(s) to support the plan" within the strategic target area for Transportation and Mobility. Workaround developing a long-term funding mechanism for transportation planning prompted a significant amount of Council work around capital needs in 2014, identifying an approximately \$800 million gap existing between revenue available and potential projects. As a result of that work, Council took a number of steps, including:

- The 2015-2021 Capital Investment Program Plan included a first step in making progress toward the urgent unmet investments with a 2% (\$700,000 annually) Councilmanic (banked capacity) property tax increase in overall revenues, allowing sales tax to be targeted at Council priority projects.
  - Directing staff to explore opportunities for funding a package of significant capacity investments through the federal government's TIFIA (Transportation Infrastructure Finance and Innovation Act) loan program;
  - Development of a long range fire facilities plan outlining the investments needed to ensure that Bellevue's fire and emergency medical response remains among the best in the world; and
  - Continued focus on long-term stable financial solutions to filling the capital needs gap through a set of updated Council priorities adopted in April of 2016:
- Establish a long range financial strategy that includes options that respond to the future operating and capital needs of the City;

- Continue to execute on our transportation capital plans for future growth and mobility of the city, including projects in Downtown, BelRed, Wilburton and other growth areas; and
- Continue to implement projects in the neighborhoods, with a focus on safety and connectivity with a particular emphasis on sidewalks, crosswalks, and traffic calming.

### **DIRECTION NEEDED FROM COUNCIL**

   Action  
X Discussion  
X Information

No action is being requested from Council this evening. Tonight's presentation is intended to continue the conversation regarding long range capital needs linked to Council goals and priorities, community feedback related to project priorities, and review of existing capital plans. Additional updates will be provided during the course of the current budget process on topics related to the City's long range capital planning.

Tonight's presentation will focus on the following areas

- Review the City's long range capital forecast and needs (Attachment A)
- Update the Council on the City's pursuit of a Federal TIFIA loan (Attachment B) provides a proposed project map); and
- Provide information regarding options to introduce new revenue, including a voted measure, to address other aspects of the City's capital needs. (Attachment C through Attachment H provide background material to support this discussion, including information about community priorities and additional options for continued public outreach around these issues).

Staff will return to Council at an upcoming meeting seeking direction to continue research and outreach around community priorities that could be addressed through a voted measure; working with stakeholders to review need and potential projects.

### **BACKGROUND/ANALYSIS**

The 2014-15 City Council Priorities included the development of a Transportation Mobility Financing Plan. As a result, staff developed 20-year operating and capital forecasts to take a more holistic view of the City's overall financial planning. This work forms the basis of the broader Council priority of developing a long range strategy to address future capital and operating needs.

In 2014, Council had a significant amount of discussion about the City's capital investment strategy, including the gap between the large list of unfunded capital projects and the existing CIP revenue stream. The conclusion reached in 2014 noted that there remained a large unfunded potential projects list throughout the City totaling an estimated \$1.2 billion (2014\$), with the acknowledgement that the list is neither complete nor cost validated beyond the near term. Based on the existing CIP revenue stream, approximately \$400 million (2014\$) is estimated to be available over the next 20 years for all discretionary capital projects (i.e. projects other than debt and ongoing maintenance). The 2015-2021 Capital Investment Program Plan included a first step

in making progress toward the urgent unmet investments with a 2% (\$700,000 annually) Councilmanic property tax increase in overall revenues, allowing sales tax to be targeted at Council priority projects.

Also in 2014, the City completed its Fire Long Range Facilities report. That report identified several CIP funding needs, the top three of which received partial funding in the 2015-2021 CIP. Those items included the purchase of land for a downtown fire station, the rebuild of Fire Station #5 (Clyde Hill), and seed funding for training center improvements. In total, the adopted 2015-2021 CIP funding included \$24 million towards fire facilities projects. The total cost of projects identified in the Fire Facilities Long Range Plan is estimated at \$130 million (2014\$).

Tonight, Council continues the discussion regarding the Long Range Financial Plan focusing on the City's infrastructure needs. Attachment A is an update to the General CIP Long Range Financial Plan. The updates include adjusting the revenue streams through 2021 to the most current March 28 forecasts, and revising the numbers to be in 2015\$ vs. 2013\$.

The picture in Attachment A depicts three items:

- (1) The actual spending and revenue streams from 2003 through 2015;
- (2) The 2016-2021 Adopted General CIP plan revenue and expenditures; and
- (3) The long range forecast for 2022 to 2035.

The graphic shows that from 2022 to 2035, funding available to address discrete projects (i.e. projects other than debt and ongoing maintenance) remains at approximately \$400 million. The potential projects for the City remain well in excess of that amount.

In order to begin to address the shortfall, City staff is currently pursuing a two pronged approach:

- The City is in the process of applying for a Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan to support the needed BelRed corridor projects; and
- Researching new revenue options including a voted measure help bridge the gap.

#### **Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) Update**

Council adopted a set of 2-year priorities in April 2016 which included "continue to execute on our transportation capital plans for future growth and mobility of the City, including projects in Downtown, BelRed, Wilburton and other growth areas".

The City is currently pursuing a federal low-interest TIFIA loan that would allow the City to accelerate certain projects in the BelRed Corridor, including (see Attachment B for a TIFIA Proposal Map):

- 124<sup>th</sup> Avenue NE – NE 12<sup>th</sup> Street (BelRed) to Spring Boulevard **(10)**
- 124<sup>th</sup> Avenue NE – NE 18<sup>th</sup> Street to Northup Way **(12)**
- Spring Boulevard Zone 2 (120<sup>th</sup> Avenue NE to 124<sup>th</sup> Avenue NE) **(6)**
- Spring Boulevard Zone 4 EB (130<sup>th</sup> Avenue NE to 132<sup>nd</sup> Avenue NE) **(11)**
- 130<sup>th</sup> Avenue NE – BelRed Road to Northup Way **(13)**
- Transit Oriented Development (under a potential future TIFIA package)

It is important to note that TIFIA is a loan, not grant funding, with very favorable terms for the City. The City must be repay the loan in accordance with the terms of issuance. The full process is noted below. The City is currently preparing the Step 1: Letter of Interest, and targeting completion in July 2016.

- **Step 1:** Project Sponsor submits letter of interest on a rolling basis
- **Step 2:** If requested by Department of Transportation (DOT), Project Sponsor provides additional information, Preliminary Rating Opinion Letter and \$100,000
- **Step 3:** Upon invitation, Project Sponsor makes oral presentation to DOT
- **Step 4:** Upon invitation from DOT, Project Sponsor submits completed application
- **Step 5:** DOT notifies Project Sponsor regarding completeness of application no more than 30 days after receipt
- **Step 6:** DOT staff prepare evaluation and makes recommendation to DOT Credit Council
- **Step 7:** DOT Credit Council provides recommendation to the Secretary of Transportation who makes final determination
- **Step 8:** DOT notifies Project Sponsor regarding project approval no more than 60 days after delivery of Notice Regarding Application Completeness
- **Step 9:** DOT issues Term Sheet, executes Credit Agreement, and obligates funds
- **Step 10:** DOT disburses funds upon satisfaction of conditions set forth in the Credit Agreement

Staff will return in June with a further TIFIA update.

Should the City be successful in obtaining the TIFIA loan, it will allow the City to accelerate completion of a number of capacity projects that are aimed at addressing the needs of growth in the Downtown, BelRed and Wilburton areas; the City's major "growth corridor." These funds, in combination with revenue sources like impact fees on new development, respond to community priorities around congestion relief and new development paying its share of infrastructure needed to support growth. In turn, that infrastructure investment pays off in the form of an increasing contribution to base tax revenues for future operating and other needs.

**Researching new revenue options including a voted measure and public outreach options.**

While options like those described above and the base CIP allow the City to address significant transportation capacity projects, gaps remain to fund other priorities in the community.

Historically, community priorities have included areas such as:

- Congestion relief - The 2015-2021 CIP completes several capacity projects including Spring Boulevard Zone 1, 120<sup>th</sup> Avenue corridor and the 124<sup>th</sup> Avenue corridor. If successful, the TIFIA loan will continue congestion relief projects in the BelRed corridor.
- Neighborhood connectivity – Current programs provide funding of \$1 million annually, which conservatively would allow the City to complete approximately 1 mile of sidewalk annually; in addition, the current overlay program incorporates approximately 3 miles of bike lanes in 2016. There is still more to work to be done to connect the City's neighborhoods.
- The 2015-2021 CIP funded the top three Fire facilities priorities, including the purchase of land for a downtown fire station (\$7.2M), the rebuild of Fire Station #5 (Clyde Hill)

(\$12M), and seed funding for training center improvements (\$5M). There remains over \$100 million of needed projects to meet the full Fire Long Range Plan recommendations.

- Maintaining parks and open space – the voters passed the Park Levy in 2008 which allows for both construction of new parks and maintaining parks, in addition, Real Estate Excise Tax (REET), under Council policy, provides funding for maintenance.
- Council Policy directs staff to maintain what the City has before building new, existing maintenance of the existing infrastructure is funded through primarily general taxes, and REET. However, as the City builds new infrastructure, there is not a mechanism to ensure additional M&O funding.

Options for filling some of the gaps between existing resources and community priorities include implementing new revenues, adjusting existing projects within the CIP, and looking at financing tools.

In regards to new revenues, there are several tools available to the City for revenue generation under current RCWs. Attachment D provides a table displaying the options under which the Council can implement either with a vote of the Council versus those that require a vote of the people. Staff suggests the most viable options for revenues generation based on previous Council discussions would include property tax either via banked capacity (Councilmanic) or voted measure. The attached table includes all options for Council discussion.

The materials are included in the packet to support the discussion and to elicit if further information is needed, with the goal for staff to return for direction to continue research and outreach around community priorities that could be addressed through a voted measure; working with stakeholders to review need and potential projects.

#### New Revenue including a Voted measure facilitation materials:

Attachment C offers two areas of investment for the City (1) neighborhood safety and connections reflecting the direction from the Council Priorities, and (2) Fire Public Safety project in response to the growing number of fire facilities needing renovation and/or replacement. There are other projects identified either in the \$1.2 billion list or within the Council priorities where some work is underway, yet there is not enough detailed information at this time. There may be additional projects that the Council may wish to include in this list.

Attachment E provides a comparison of Property Tax distribution for the most common Bellevue property owner from 2011 to 2016. In 2011, the City of Bellevue received 13.1% of property tax compared to 2016 of 10.7%. The remainder of property tax is paid to the State, King County, and other jurisdictions.

Attachment F, G, and I provide background information, the most current resident and business survey, the Council agenda packet from June 2014 on the Long Range Fire Facilities Plan, and information from the Transportation Commission Study Session from April 7, 2015.

#### Public Outreach

Staff will return with additional information and a detailed proposed outreach scope and approach at an upcoming Council meeting.

**ATTACHMENT(S)**

Attachment A: Long Range Financial CIP Plan

Attachment B: TIFIA Proposal Project Map

Attachment C: Long Term Capital Needs

Attachment D: Revenue Options

Attachment E: Property Tax Distribution

Attachment F: Survey Data

Attachment G: Reprint of Fire Facilities Long Range Plan from June 30, 2014

Attachment H: Council 2-year Priorities: 2016

Attachment I: Transportation Commission Study Session from April 7, 2016