



City of Bainbridge Island 2013 Adopted Budget

Section One *Introduction*

City Manager's Message	pages	1 – 2
Readers' Guide	pages	3 – 10
Citywide Organization Chart	page	11
Comprehensive Plan	page	12
Description of Funds	pages	13 – 14



CITY MANAGER'S MESSAGE

The 2013 Adopted and 2014 Endorsed Budgets provide the overall plan for the City of Bainbridge Island to deliver public services to the community over the next two years. The budgets illustrate important aspects of current city operations.

First, the budget continues to support explicit financial management principles that have served the city well as we continue to respond to broader economic shifts. The key financial principles guiding the city's budget development are:

1. Recurring expenses are fully supported by recurring revenues.
2. Significant reserve targets are maintained.
3. Forecasts of future revenue are conservative and are derived from recent actual performance.

At the same time, the adopted budget funds significant community priorities. In 2013, the budget provides for \$1.15 million of annual roads preservation dollars, in addition to \$3.0 million dedicated to major capital roads projects. Leveraged by grant support, the City will undertake road reconstruction projects such as Rockaway Beach, as well as significant improvements to Fort Ward Hill Road and a portion of Madison Avenue. In addition, the budget includes projects to support non-motorized forms of transportation including targeted portions of Sportsman Club Road and shoulder improvements to State Route 305. The 2013 Adopted Budget also includes dedicated funding at the level of approximately \$1.00 per resident, or \$25,000, for both non-motorized trails and economic development. Key projects within the utilities include continuing work on the required General Sewer Plan, as well as completing design and beginning construction of the Eagle Harbor Beach Mains project.

The adopted and endorsed budgets highlight the continuing structural challenges that must be addressed in order for the organization to attain true financial sustainability. While these issues cannot be resolved in a single year or budget, it is important to recognize these problems and continue to respond, even in incremental ways:

1. Broader economic conditions indicate that near-term revenue performance for existing revenue streams will be relatively flat.
2. The city continues to face increases in recurring expenses that are both significant and externally driven. Currently, annual impacts of this type generate between \$450,000 and \$500,000 in new costs for existing services. These increases accumulate year-over-year, and so are expected to grow by a larger amount each year. This is a fundamental challenge faced almost universally by both public and

private sector organizations as medical and pension expenses and general inflation levels continue to rise.

3. The city must begin to resume capital projects and asset management at a level that reflects good stewardship and long-range sustainability. This includes sound management of roads, facilities, fleet, equipment and utility infrastructure.

Sustainability in city operations must include forward-looking, long-range planning in order for the city to fulfill the full range of its municipal obligations. These obligations should include addressing the backlog of capital repairs, maintenance, and service delivery initiatives that have been previously identified and largely deferred. To meet this goal, the city will need to continue work begun in 2011 to identify the comprehensive inventory of city needs and to prioritize those activities that should be addressed first.

Given near-term revenue forecasts, significant progress towards these deferred obligations will not be possible without pursuit of an expanded revenue portfolio. City planning in the coming years should include discussion of potential revenue sources and how best to match these options to support critical city needs.

Finally, city leadership needs to work together to establish realistic expectations about service delivery and new initiatives. Given our forecasts, the city will be challenged to continue to deliver current services. Certainly, opportunities exist for improvements through increased efficiencies. However, the set of mandatory city activities stipulated by law is extensive. Consideration of new or expanded activities will need to be explicitly weighed against the organization's capacity to first meet existing regulatory obligations, and to next resolve identified deferred needs.

These are the challenges that have shaped the development of the current biennial budget, and which will influence city choices in the coming years. I hope that a shared awareness of these trends and limitations will help to focus attention on the most critical questions at hand. I am confident that council, staff, and the community can work together to develop successful and sustainable solutions, and thus extend recent improvements in city management and finances.



Bainbridge Island

Bainbridge Island is located within the Central Puget Sound Basin, linked to the west to the Kitsap Peninsula by the Agate Pass Bridge and to the east by a ferry to the City of Seattle. With 53 miles of shoreline, the island is approximately five miles wide and ten miles long, encompassing nearly 17,778 acres, or 28 square miles (73 km²), and is one of the larger islands in Puget Sound. The City was incorporated in 1947 as the City of Winslow. In 1991, the remainder of the island was annexed to form the City of Bainbridge Island.

Once home to the world’s largest sawmill, over the years, water-related industry on the island has diminished. Bainbridge Island is now a residential community with an active central business district, along with some small commercial/light industrial centers. As a result, many island residents commute for employment, primarily to Seattle via ferry. On the island, employment relies on a mixture of small retail, manufacturing, healthcare, and government. Tourism is also an important component of the community and economy. Bainbridge Island’s population has remained steady at approximately 23,000 in recent years.

Bainbridge Island by the Numbers

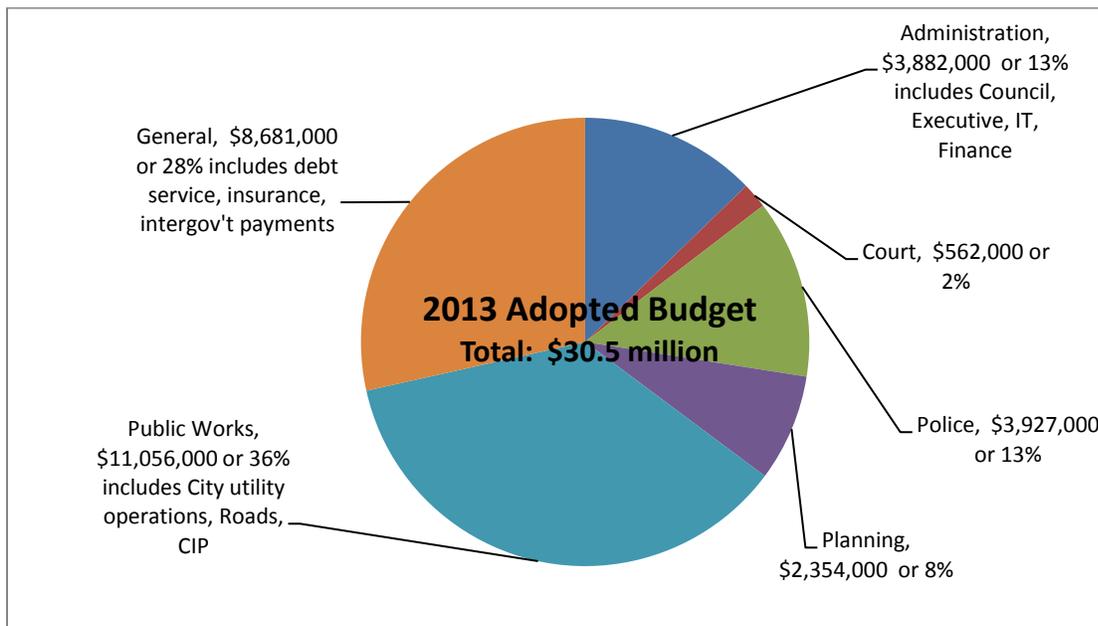
First post office:	1858
First school:	1860
Population:	23,290
Rank among Washington cities (population)	41
Miles of shoreline:	53
Total area (square miles):	28
Average temperature (August):	77 F/55 F
Average temperature (February):	49 F/35 F
Average annual precipitation (inches):	54
Miles of city-owned paved roads:	140
Miles of city-owned gravel roads:	12
Vehicles registered to island residents:	18,000
Vessels registered to island residents:	3,443
Total Assessed Valuation:	\$5,642,373,993
Retail Sales Tax:	8.6%
City of Bainbridge Island Fulltime Equivalent Employees (FTE):	103

Bainbridge Island City Government

The City of Bainbridge Island supports a range of municipal services, including public safety, planning and community development, and streets and roads. The City also supplies and charges for water and sewer services to a part of the island, and storm water management services to the entire island. Separate districts supply fire services, public education, and public libraries. Since 2009, the City has operated under a Council-City Manager form of government.

The City receives money from taxes, including taxes on property, retail sales, parking, and real estate transactions. The City also charges fees on certain activities, including building permits and business licenses.

The City's 2013 Adopted Budget for its operating departments totaled \$30.5 million, including operating and capital expenditures, along with debt service. This total does not include operating transfers. The City's 2013 adopted budget is shown in the pie chart below, demonstrating the relative level of spending on various City functions.



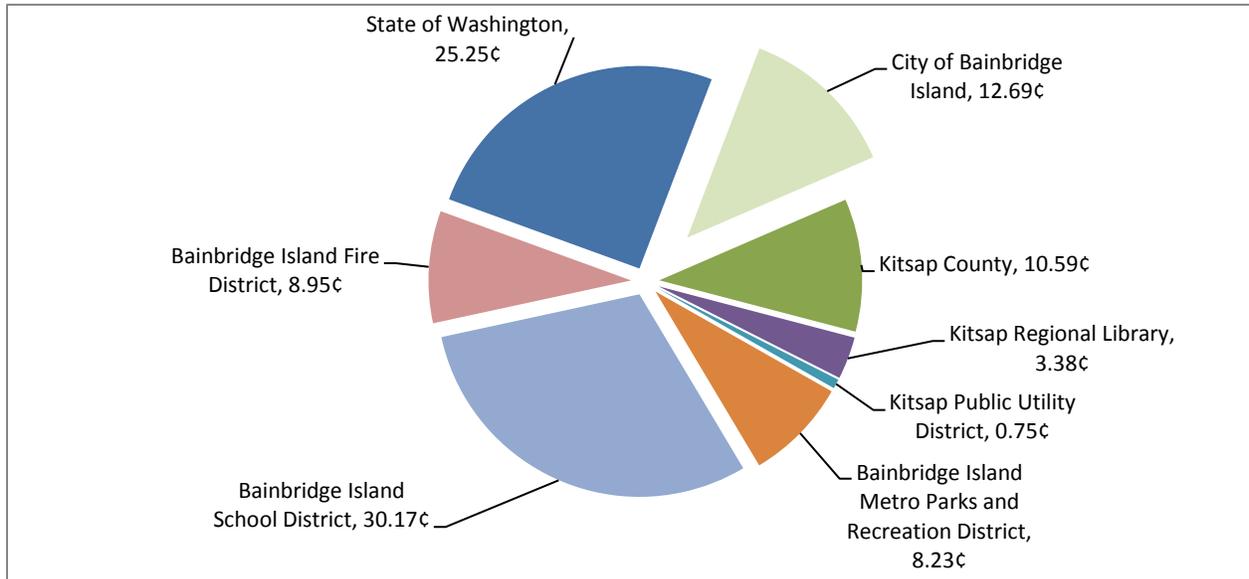
Revenues

Property Tax

The single largest revenue source for the City of Bainbridge Island is property tax paid by owners of island property. In 2001, Washington voters passed Initiative 747, decreasing the limit on the annual increase on property taxes from six percent to one percent, plus the value of new construction. The 2013 budget includes a total of \$6,724,000 in general property taxes in 2012, plus an additional \$666,000 in dedicated property tax to pay debt service related to voter-approved bonds.

The figure below shows the breakout of the total property tax payments made by Bainbridge Island property owners. The City of Bainbridge Island receives less than 13 cents of every dollar of property tax paid by property owners.

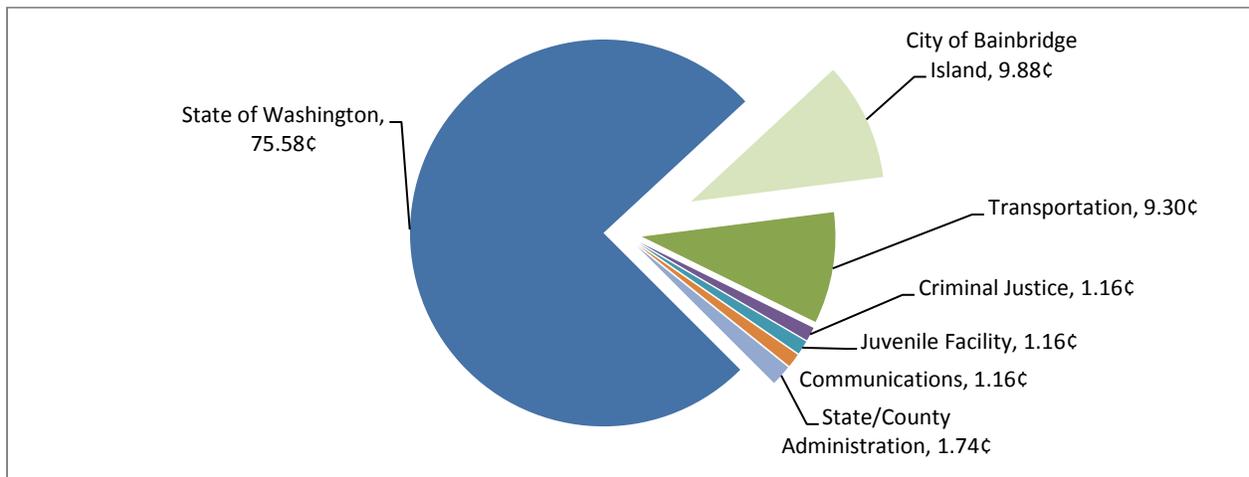
Figure 1: Distribution of \$1.00 of Bainbridge Island Property Tax



Sales Tax

The retail sales tax rate within the City of Bainbridge Island is 8.6% on taxable items. Similar to the property tax, the revenue is divided among various jurisdictions and for various purposes. The City of Bainbridge Island receives about 10 cents of every dollar of sales tax paid on Bainbridge Island.

Figure 2: Distribution of \$1.00 of Bainbridge Island Sales Tax



Key Assumptions in 2013 Adopted Budget

The 2013 Adopted Budget uses the 2012 Amended Budget along with the City's current programs and services as a starting point.

Listed below are some key assumptions that are incorporated into the 2013 Adopted Budget:

- Property tax revenue growth at 1%, plus new construction;
- Other tax revenue sources are assumed to perform at levels comparable to 2010 – 2012 actual performance;
- No change to utility rates;
- No change to current Street Fund payment to the Surface and Storm Water Management Fund. A decision made in late 2012 exempts the City streets and roads from the surface and storm water fee; this change may be reflected by amending the 2013 budget during 2013;
- Personnel costs increase by 2.7% in 2013, per cost-of-living provisions stipulated in labor agreements approved in late 2012;
- Medical costs increase by between 6% for Regence and 15% for Group Health in 2013;
- Debt service costs assume repayment of a Public Works Trust Fund loan related to design of the Eagle Harbor Beach Mains project. Other debt service is assumed to follow scheduled repayment, and
- Most other costs are assumed to stay constant in 2013 and 2014.

2013 Adopted Budget Highlights (operating budget)

Budgets for personnel expenditures increased to reflect COLA and medical cost increases. Increases in other expenditure categories were made to adjust for specific identified and approved items.

Revenue estimates assume very modest growth in property and real estate excise tax receipts. Other revenue estimates assume that 2013 revenue will be close to 2011 and 2012 levels.

In order to meet the budget goal of recurring expenses less than recurring revenues, the adopted budget reduces city staffing. The budget eliminates one term-limited position in the Planning Department. In addition, City administration proposes a net reduction of 3.5 additional FTE across the City (2.0 FTE in the Department of Planning and Community Development and 1.5 FTE in the Police Department). These position reductions will require increased staff efficiency and will reduce the level of City services in areas staffed by these positions.

2013 Adopted Budget Highlights (capital budget)

The 2013 Adopted and 2014 Endorsed budgets reflect funding to support the City's planned capital projects. This set of capital projects increases funding over 2012 levels for transportation, facility and equipment investments across the City.

The following projects are included in the CIP for 2013 and 2014:

Transportation

- Annual Preservation program
- Rockaway Beach Road stabilization
- Fort Ward Hill reconstruction
- Madison Avenue overlay

Non-motorized

- Non-motorized spot projects
- North Madison climbing lane
- Sportsman's Club climbing lane and separated pathway
- Olympic Drive/State Route 305 intersection

Facility/Equipment

- Reseal Police Station Roof
- Confiscated Vehicle Covered Storage
- Energy Efficiency Projects/Lighting Upgrades at City Hall and Public Works facility
- Vehicle replacements, including police vehicles and pickup trucks, are included in 2014 only

Water

- Annual Preservation program
- Other projects deferred pending ownership/management decision

Sewer

- Annual Preservation program
- Eagle Harbor Beach Mains

SSWM

- Culvert replacements
- Conveyance improvements
- Lynwood Outfall retrofit and improvements

General Fund Reserves

In September 2010, the City Council established the following reserve targets and definitions, as included in Resolution 2010-35.

- **Emergency Reserve:** established by Resolution 2008-01 to pay for unexpected emergencies that cannot reasonably be accommodated by current budget appropriations.
- **Contingency Reserve:** established by Resolution 2008-01 to pay for unexpected needs that were not provided for in the annual budget and for minor shortfalls in budgeted appropriations.
- **General Fund Stability Reserve:** defined by Resolution 2010-35 as the excess of current assets over current liabilities, which is an unreserved, undesignated and unrestricted resource that remains part of the general fund budget.

In addition, there are several sub funds containing amounts tracked for various purposes, such as marine revenues and expenses and public art.

The chart below provides detail behind the total shown for the General Fund policy reserves at the end of 2013 and 2014.

Figure 3: Detail of General Fund Reserves at end of 2013

	Year end 2013	Policy Target	Comment
Emergency Reserve	574,880	1,000,000	Funded by property sales
Contingency Reserve	900,000	800,000	Assumes no spending in 2013. Additional \$100,000 for legal contingency
General Fund Stability Reserve	3,028,743	3,000,000	
WSF Settlement	2,007,000		Assumes no spending in 2013
Specially-tracked monies	434,547		Public Art, Public Safety, PEG, Floor Area Ratio, Housing Funds

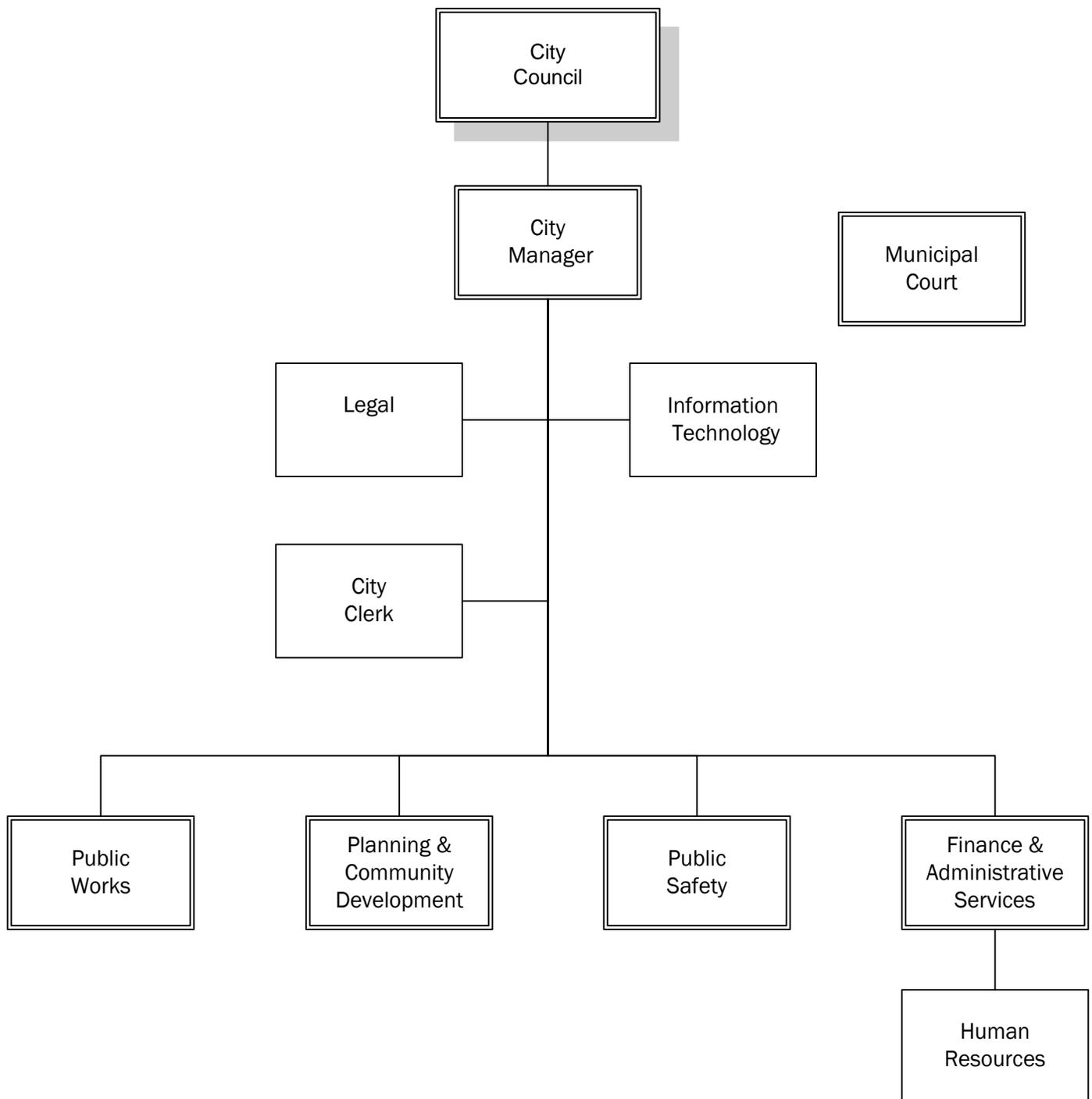
The 2014 Endorsed Budget continues the programs and services of the 2013 budget, with costs increased as described in the assumptions section above. The 2014 Endorsed Budget also includes the capital program as described in the Capital Improvement Plan. The results of these assumptions are that the City will not fully fund the \$3,000,000 policy stability reserve, as shown below. However, given significant policy and programmatic decisions expected in 2013 that could have large dollar impacts to the City's tax-supported funds, such as management of the Water Utility, the budget acknowledges but does not resolve this issue.

Figure 4: Detail of General Fund Reserves at end of 2014

	Year end 2014	Policy Target	Comment
Emergency Reserve	574,880	1,000,000	Funded by property sales
Contingency Reserve	900,000	800,000	Assumes no spending in 2013 or 2014
General Fund Stability Reserve	2,807,388	3,000,000	
WSF Settlement	0		Assumes spending in 2014 of entire amount.
Specially-tracked monies	499,506		Public Art, Public Safety, PEG, Floor Area Ratio, Housing Funds

The reserve total is estimated to finish about \$190,000 shy of its target at the end of 2014. In that same year, the budget continues significant investment in capital projects and equipment, including over \$1.2 million in capital spending in tax-supported funds.

City of Bainbridge Island





COMPREHENSIVE PLAN

The City of Bainbridge Island established five overriding principles to guide our Comprehensive Plan: preserve the special character of the Island, protect fragile water resources, foster diversity, consider costs and benefits to property owners when making land use decisions and promote sustainable development. Goals that support these priorities include:

- Preserve open space and the character of the natural landscape.
- Preserve environmentally sensitive areas.
- Protect the water resources of the Island, which are of primary importance to its residents.
- Preserve and encourage agricultural activities as a means of providing locally grown food, enhancing the cultural and economic diversity of the community and preserving open space and view corridors.
- Foster the diversity of the residents of the Island, its most precious resource.
- Encourage the retention of small-scale service centers outside Winslow.
- Provide a variety of housing choices for residents.
- Foster a financially sound development pattern.
- Preserve a reasonable use of the land for all landowners.
- Reduce reliance on the auto; encourage establishment of pedestrian and bicycle oriented communities.
- Provide affordable housing.
- Establish Winslow's urban core as a mixed-use, pedestrian-oriented village.
- Foster the energy, drive, initiative and artistic talent of Island residents by encouraging home occupations and environmentally sound businesses, with minimal impact on groundwater resources.
- Provide adequate public facilities and utilities within the citizens' ability to pay which maximize public safety and minimize adverse environmental impacts.
- Support, protect and enhance the value of the arts and humanities as essential to education, quality of life, economic vitality, broadening of mind and spirit, and as treasure in trust for our descendants.



DESCRIPTIONS OF FUNDS USED BY THE CITY

TAX SUPPORTED

Building & Development Services Fund

Segregates revenues and costs associated with permitting of building and development.

Capital Construction

Accounts for all major capital construction projects except those paid for with L.I.D. Bonds or the City's Water, Sewer or Storm and Surface Water utility customers.

Civic Improvement (Hotel / Motel Tax) Fund

4 % on the revenues of hotels and motels for aiding tourism.

F.A.R. (Floor Area Ratio) Fund

Accounts for payments from developers to add density above the base level specified in the Winslow Master Plan. Funds may be used to preserve agricultural land and develop public amenities and/or infrastructure in Winslow.

General Fund

Accounts for the City's non-restricted ongoing operations. The fund includes expenditures for the City Council, Court, Executive, Finance, Police, Planning, Public Works and Information Technology.

General Long Term Debt

Citywide financial reporting mechanism required by GASB 34.

General Obligation (GO) Bond Fund

Tracks liabilities and payments of general obligation debt. Each bond issue is accounted for in a separate sub-fund. This fund receives the special levy for the Open Space Bonds.

L.I.D. Bond Fund

Receives Local Improvement District assessments and pays the interest and principal due on L.I.D. bonds while keeping necessary reserves to ensure that timely bond payments are made.

L.I.D. Capital Construction

Accounts for the City's local improvement district construction projects.

Real Estate Excise Tax Fund

Accounts for Real Estate Excise Taxes (REET) revenues received by the City. The State of Washington allows cities to charge an excise tax on the sale of real estate of up to ½ of 1%. The revenue raised by this tax is restricted to capital construction projects as described in RCW Chapter 82.46.



DESCRIPTIONS OF FUNDS USED BY THE CITY

Streets Fund

Accounts for the maintenance of the City's roads, streets, sidewalks, road shoulders and bike lanes. The fund is treated as a special revenue fund because the City receives the State's tax on gasoline and that money can only be used for work on streets and arterials plus City parking revenues and taxes.

UTILITY FUNDS

Water Fund

Accounts for all activities related to Water.

Sewer Fund

Accounts for all activities related to Sewer.

Storm & Surface Water Management Fund

Accounts for all activities related to Storm and Surface Water Management.

OTHER FUNDS

Agency Fund and Expendable Trust Fund

For budget purposes, the City has combined what are actually several distinct funds and sub-funds. These funds share the characteristic that the money accounted for in them belongs to someone other than the City. They include 622 Miscellaneous Trust Fund and 650 Agency Funds (which includes sub-fund 030, the money collected in School Impact Fees for the benefit of Bainbridge Island School District No. 303.)

Clearing Fund

An accounting mechanism for funds that will be allocated at a later date.