

A Message from Steven R. Hall, City Manager

December 13, 2011

Dear Mayor and Councilmembers,

Tonight I am presenting the 2012-2017 Capital Facilities Plan (CFP) for Olympia. However, its roots can be found in the Long Term Financial Strategy (LTFS) developed in 2000. I relied heavily on the LTFS to give you a balanced plan. The CFP serves as a vision for the future. It is a means by which priorities are established, and it provides a mechanism for delivering on those priorities. The decisions that shape this plan have a lasting impact for years to come. The LTFS has served us well in good economic times and hard economic times. Two key principles are:

- Preserve physical infrastructure: Give priority to maintaining existing infrastructure.
- Make trade-offs: Do not initiate new services or projects without either:
 - a) ensuring revenue to pay for the service can be sustained or
 - b) making trade-offs of existing services or projects.

The total CFP is \$127.7 million or almost 11% less than the current plan. The 2012 element is \$15.7 million. The theme for the plan is simple — maintain what we have. Funding these projects is the right thing to do and circumstances dictate that this is the right time. Our focus is on:

- Building Maintenance
- Park Maintenance
- Street Maintenance
- Utility Maintenance

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Preservation of existing assets is important to holding down future costs. We began including major building repair and replacement on general fund buildings in the capital budget last year. We have always included utility major repair and replacement in the CFP. With the addition of four buildings in 2011, I feel it necessary to expand major maintenance in the capital budget. Over the next several years, we will move towards fully funding building maintenance in the capital budget. The Transportation Benefit District (TBD) funds provide a much needed, although partial, source for street repair and reconstruction. And the legislature has expanded through 2016 the use of Real Estate Excise Tax (REET) to include park maintenance. These revenue sources will help fund our maintenance needs.



The City is pursuing partnerships to acquire, develop or maintain two community parks. The City and partners are exploring options between partners to either finance land, design and construct improvements or maintain facilities once built.

Partnerships are a creative way to stretch resources to accomplish mutual goals. In the case of both the Isthmus Park and West Olympia Plaza, these two projects were specifically referred to in the 2010 Olympia Parks, Arts & Recreation Plan as opportunities for park expansion.

Funding for the Isthmus project is anticipated from City, County, State and private contributions. In 2011, the City Council elected to reallocate \$945,900 in earlier park project appropriations and \$58,000 in 2012 Parks Voted Utility Tax funds to this new Community Park Partnership project. This funding provides the City a match needed to secure a grant for Isthmus land acquisition from the Thurston County Conservation Futures Program.

Also, the City of Olympia and Community visioning Group (CVG) entered into a Memorandum of Understanding establishing a partnership approach to acquiring, developing and maintaining a community park on the Westside of Olympia. In 2012, the City and CVG will continue work on approving a concept Plan and agreement outlining financial responsibility for design, construction and maintenance of the project. It is vital to develop partnerships in order to expand/maintain our capital facilities.

Impact fees, grants, and the voter approved utility tax will fund some new projects. In Parks, we anticipate completing Phase I on Ward Lake. This will include developing interim parking and multi-purpose use areas. We are also constructing new picnic tables for Sunrise Park. In addition to street maintenance, in Transportation, the Plan calls for sidewalk installation on Henderson from McCormick Street to Watershed Park. Through a congestion mitigation and air quality grant, we will also install traffic signal priority equipment at traffic signals to help Intercity Transit provide predictable, on-schedule service.

Utilities

Utilities comprise almost one-third of the CFP. Well maintained utilities are efficient utilities. However, the line between investing in our utilities, while maintaining affordable rates, is very thin. Further expanding our partnerships, on November 29, 2011 the City of Olympia and the Squaxin Island Tribe signed a Memorandum of Understanding initiating the Budd/Deschutes Watershed Environmental Coalition. This coalition creates a unique partnership for habitat protection and restoration in the Budd Inlet/Deschutes River Watershed. This culminates years of collaborative work between the City and tribe and will benefit both fish and people for years to come. In Water, we will continue implementation of an automated metering system to be completed in 2013. Replacing obsolete technology and failing equipment will add reliability and efficiency to the system. And, we will begin construction on a wellfield intended to replace McAllister Springs as a more protected supply source. In Stormwater, we are working on Yauger regional stormwater facility erosion and landscape maintenance to ensure the stormwater facility is stabilized. We are also focusing on neighborhood retrofits, with the goal of providing some level of water quality treatment to currently unmanaged runoff. In Wastewater, the maintenance push is on the West Bay Pump Station upgrade — replacing existing pumps, increasing wet well storage volume, and improving electrical and control systems to make the pump station more efficient.

Financial Environment

This CFP is supported by 12 different revenue sources as cited in the plan. The principle ones are utility rates and impact fees and grants. All 12 of the revenue sources are sensitive to conditions in the economy. The budget is always constrained in the sense that demand exceeds available resources. In the entire 2012 element of the CFP, only 5% of the funding is unrestricted -no constraints on how the money can be spent. This lack of flexibility makes it difficult for Council to address emerging needs or changing priorities, and there are good projects that remain unfunded or underfunded. There are no dollars for construction of Percival Landing Phase II. Nor have we included a library, parking garage, Art Space or other publicly supported projects. We had to scale back programs and expectations to focus on our highest priorities, while keeping the plan in balance.

The CIP revenue category includes REET, 1% of the non-voted utility tax, and the gas tax. The numbers included in this six-year CFP reflect the new financial reality. I believe they represent what we realistically can expect to receive over the life of the plan. Therefore, we had to reduce or eliminate the 2012 amount for some projects, such as bike facilities, sidewalks and urban forestry. It was necessary to make these trade-offs in order to fund building and street maintenance projects. Gas tax has been a consistent and stable source for us.

However, it is based on the number of gallons sold, not the price of gas. As gas prices approach \$4 per gallon, we should assume the revenue will decrease. Consumers will take alternative modes of transportation and/or reduce their total consumption. Both options are good for the environment, but reduce revenue. The economy impacts REET both in the length of time it takes to sell property as well as the price. REET is down 30% over 2008 levels. Adherence to conservative financial principles does not mean a lack of vision, but current economic conditions require a moderating pragmatism. The CFP is a reflection of the community's priorities as shaped by the LTFS. Priorities and vision must be tempered by fiscal realities. Our future and this CFP are as much about sustainability as it is new projects. We have created high expectations within our community for services, facilities, and quality of life. It is essential we sustain those expectations, and this plan provides the means to preserve them. Current economic conditions have created significant challenges; challenges that test our ability to meet those expectations. Trade-offs will be necessary; some projects will need to be deferred, but this plan will enable us to provide the continuity we need to sustain our service levels and the confidence of our citizens.

I look forward to working with the Council and the community as we continue to ensure Olympia is a great city to live, work and play.

Respectfully submitted,



Steven R. Hall

City Manager

Long Term Financial Strategy

Key Financial Principles

- **Make Trade-Offs**
Do not initiate major new services without either
—ensuring that revenue to pay for the service can be sustained over time,
or
—making trade-offs of existing services.
- **Do It Well**
If the City cannot deliver a service well, the service will not be provided at all.
- **Focus Programs on Olympia Residents & Businesses**
Give priority to maintaining existing infrastructure.
- **Preserve Physical Infrastructure**
Give priority to maintain existing infrastructure
- **Use Unexpected One-Time Revenues for One-Time Costs or Reserves**
One-time revenues — or revenues above projections — will be used strategically to fund prioritized capital projects.
- **Invest in Employees**
The City will invest in employees and provide resources to maximize their productivity.
- **Pursue Innovative Approaches to Service Delivery**
Continue to implement operational efficiencies and cost saving measures in achieving community values.
Pursue partnerships and cost sharing strategies with others.
- **Contract In/Contract Out**
Consider alternative service delivery to maximize efficiency and effectiveness.
- **Maintain Capacity to Respond to Emerging Community Needs**
- **Pursue Entrepreneurial Initiatives**
- **Address Unfunded Liabilities**
- **Selectively Recover Costs**
On a selective basis, have those who use a service pay the full cost.
- **Recognize the Connection Between the Operating Budget and the Capital Budget**

Guidelines

- **What Should the City Do in the Following Year's Budget When the Financial Forecast is Positive?**
 - Assess the situation
 - Maintain adequate reserves
 - Use one-time revenues only for one-time expenses
 - Use recurring revenues for recurring costs *or* for one-time expenses
 - Stay faithful to City goals over the long run
 - Think carefully when considering revenue cuts
 - Think long-term
- **What Should the City Do Every Year, Whether the Financial Forecast is Positive or Negative?**
 - Increase operating cost recovery
 - Pursue cost sharing
- **What Should the City Do in the Following Year's Budget When the Financial Forecast is Negative?**
 - Assess the situation
 - Use reserves sparingly
 - Reduce services
 - Continue to think carefully when considering tax increases