

BELLINGHAM CAPITAL FACILITIES:

What facilities do we need most?

How will we pay for them?

Report to the

Bellingham City Council

from the

Capital Facilities Task Force

November 2010

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EXECUTIVE SUMMARY

The City of Bellingham Capital Facilities Task Force, comprised of citizens and supported by elected officials and city staff, addressed two key issues facing Bellingham:

- City capital-spending priorities (*What facilities do we need most?*)
- Appropriate funding mechanisms to pay for priority projects (*How will we pay for them?*)

GUIDING PRINCIPLES

In response, the task force developed five Guiding Principles, each of which is further elaborated into Directives. The Guiding Principles provide overall guidance as Bellingham makes capital investment decisions during the coming years. Each Guiding Principle is supported by several policy Directives that add focus and clarification. Using these Guiding Principles and Directives, the task force identified a set of capital projects it believes should be given high priority. The Guiding Principles are ranked in importance and organized into the order in which they should be applied.

1. Make fully-informed decisions

The task force believes that the first order of business should be to conduct a careful and comprehensive assessment of the city’s existing assets and the drivers of future capital requirements.

2. Be prudent

Given current economic conditions, the task force’s second Guiding Principle urges the city to be cautious in committing to new projects, and to focus first on maintaining existing infrastructure.

3. Pursue alternatives

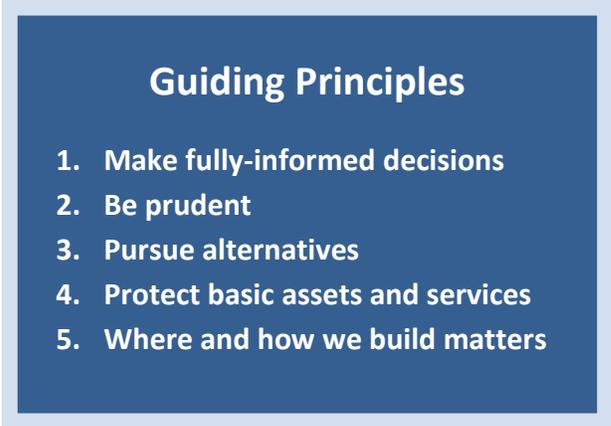
Next, the task force believes it is important to minimize capital spending by seeking alternatives to capital projects. The task force particularly supports partnering with the private and nonprofit sectors and encouraging changes in citizen behavior that could delay or reduce capital expenditures.

4. Protect basic assets and services

When capital investment cannot be avoided prudently, priority should be given to projects that fulfill local government’s basic duties to protect public health, safety and welfare.

5. Where and how we build matters

Finally, the task force recommends that the city be mindful of the impacts and importance of location for new projects.



Guiding Principles

1. Make fully-informed decisions
2. Be prudent
3. Pursue alternatives
4. Protect basic assets and services
5. Where and how we build matters

DEBT CAPACITY MODELING

To fulfill the second part of its mission, the task force examined the current financial status of the city, with consideration of current and likely future economic trends. In particular the task force evaluated the city's capacity to assume and service significant debt required for major capital projects. The task force surveyed the suitable revenue sources and financing options for various kinds of projects and program areas, comparing the magnitude of anticipated future needs with projected financial capacity.

These analyses show that existing revenue streams are insufficient to meet all anticipated capital needs, and reinforced the belief that prioritization of capital facilities is essential. The task force concluded that, although there are specific revenue options available to the city for completing existing priority projects, the current state of the economy and the resulting uncertainty about city revenues requires a deep analysis of specific revenue proposals before recommendations on preferred options can be made. The task force did not have the time to adequately investigate all revenue options and therefore did not bring forward specific funding options to the council.

It is important for readers to understand that the information gathered by the task force, the group's analysis, and the writing of this report all were completed in the midst of the most impactful recession of our time. This reality is the filter through which all our recommendations were made.

The task force does provide guidance in financial management with specific examples within the Debt Capacity section of this report. The City Council should work closely with the Mayor's Office and Finance Department to develop a comprehensive long-term funding plan that provides for appropriate fiscal planning to complete these priorities.

PRIORITY CAPITAL PROJECTS

The task force also recommends the city pursue eleven priority capital projects, completing them where possible in the next decade. These priorities were selected by applying the Guiding Principles and assessing the capital needs of the wide range of city government's responsibilities. These recommended priority capital projects are listed in the order of descending priority and by fund category in the chart on the next page and described more fully in the report. The task force is very much aware that this short list of priority capital projects leaves out numerous valuable and even critical government services and facilities. Unfortunately, at this point in time, the city's needs outstrip its means. Prioritization is essential, now more than ever, if the city is to fulfill its basic responsibilities and deliver the benefits of democratic self-government to its citizens.

It is important for readers to understand that the information gathered by the task force, the group's analysis, and the writing of this report all were completed in the midst of the most impactful recession of our time. This reality is the filter through which all our recommendations were made.

The task force concluded that the preservation of existing infrastructure is clearly a high capital priority and that any new initiatives should be tempered and pursued with a great degree of financial caution. Despite this reality, the task force also is very confident in the city’s ability to not only weather these recessionary times but to come through this difficult period with a strong financial future.

GENERAL FUND PRIORITIES	ENTERPRISE FUND PRIORITIES
1. Maintain and repair existing city streets	1. Maintain and replace water and sewer mains and stormwater infrastructure.
2. Restore and protect Lake Whatcom Reservoir watershed	2. Upgrade wastewater treatment facility
3. Develop library system plan	3. Address stormwater treatment and collection facilities citywide
4. Implement Phase 1 of Waterfront Master Plan	4. Install meters for all water customers
5. Focus on use and maintenance of existing general city buildings	
6. Implement a master plan for city-wide information management	
7. Improve safety and multi-modal options on existing streets	

INTRODUCTION AND PURPOSE

THE CHARGE

The Bellingham City Council recognizes the importance of large capital facilities projects to our community and the need for a comprehensive approach to capital facilities' decisions and projects that reflects the best of the public's values. In light of this, in late 2009 the Council asked Mayor Dan Pike to appoint a limited-term task force to provide a forum for evaluating and prioritizing the entire range of city capital projects over the next decade and beyond. The charge of the task force contained two broad components: "What facilities do we need most?" and "How will we pay for them?"

Specifically, the task force was asked to:

- Establish city capital spending priorities, and
- Recommend appropriate funding mechanisms to complete the prioritized capital projects.

THE TASK FORCE

In response to this request, Mayor Pike encouraged citizens to apply to participate in this effort. From that application process, the Mayor invited 11 citizens along with two City Council members (with one alternate Council member) to form the task force.

The task force members, in alphabetical order, were Mark Asmundson, Bruce Clawson, David Finet¹, Karen Funston, Eric Hirst, Andy Law, Scott Miles, Edie Norton, Barbara Ryan, John Stewart, Greg Sundberg. Bellingham City Council members were Terry Bornemann and Stan Snapp, with Michael Lilliquist and Barry Buchanan as alternates.

City staff participation on the task force included several Finance Department staff members, including Finance Director John Carter, Brian Henshaw, Linda Anderson and Jacob Howard, and Public Works Department representative Ravyn Whitewolf. In addition, a broad range of staff and department heads participated in the educational meetings during the first phase of the task force's work and assisted with the preparation of this report.

PUBLIC MEETINGS OF THE TASK FORCE

Beginning in February 2010 the task force met twice a month for a total of 17 meetings. The notes from these meetings as well as presentations made to the task force and work products of the task force are posted on the city website at:

<http://www.cob.org/government/public/boards-commissions/capital-facilities.aspx>

The meetings of the task force were divided into two distinct segments: an "educational" phase followed by a "deliberative" phase.

¹ David Finet withdrew from the task force for personal reasons midway into the process.

Education and Input

To assure that the task force had a broad understanding of the capital needs of the city, the early meetings focused on an overview of the city's financial situation and on background information regarding the options for funding capital projects. Department heads presented the operational and anticipated capital needs for their departments. These presentations were guided in part by a series of questions they received from the task force, including instructions to provide descriptions of current and future needs as well as operational and legal requirements. They also were asked to describe service levels and other ways that each department measures its delivery of programs and services to the community. Department heads presented current expenditures and sources of funding, and potential sources of funding, for these government services.

Formal presentations were made to the task force by the following city departments and organizations.

Public Works Department (*includes street, water, sewer and stormwater programs and general municipal facilities*)
Parks and Recreation Department
Planning and Community Development
Police Department
Fire Department

Information Technology Services Department
Waterfront Development
Whatcom Museum
Bellingham Public Library
Bellingham/Whatcom Public Facilities District
Bellingham Public Development Authority

Deliberation and Prioritization

Following a brief summary and review of the departmental presentations, the task force began a deliberative process to establish priorities and review funding options facilitated by Scott Miles, a member of the task force and a professor at Western Washington University, who has expertise in process facilitation. To build a foundation for its recommendations, the task force began by exploring and defining Guiding Principles to provide a conceptual framework for capital facilities decisions.

The five Guiding Principles were used by the task force to develop recommendations for capital spending priorities. Furthermore, the task force recommends that these principles also guide all future city-wide capital planning, decisions and priorities.

The task force also established a separate sub-committee to develop a debt capacity model to project the city's capacity for servicing additional debt. Capital projects, by their nature, require that large up-front costs typically must be paid for by borrowing. Therefore, the city's capacity to support debt is a function of the revenue available to pay for that debt.

The task force believes that the financial projections provided by the model, while to a degree uncertain, are crucial components of prudent long-term planning. The primary utility of the model is to indicate the relative size of long-term financial need compared to the size of current financing capacity. The sub-committee's recommendations were adopted by the task force. Details are included as Appendix A.

It is important to note that task force recommendations reflect the consensus of the majority of task force members. In some cases, not every task force member agreed with every individual

recommendation; however, each task force member who participated to the conclusion of the process supported this report and the conclusions and priorities it recommends. Task force members agreed that minority reports could be published on any dissenting or strongly held individual perspectives. One such report is contained in Appendix B.

GENERAL CONCLUSIONS AND RECOMMENDATIONS

The task force recognizes that the overall capital needs of the city are far greater than its current financing capacity (setting aside the option of voter-approved bonds). The task force found that the city has not fully developed a detailed and comprehensive assessment of its capital needs, nor has it identified a mechanism for funding on-going unmet needs.

The city also is engaged in several major initiatives that will demand a great deal of capital over the next 10-20 years. These initiatives include Lake Whatcom Reservoir watershed protection, development of the Waterfront District's infrastructure, a new library and expansion of the sewer treatment plant. The task force hopes that this report will help to address these challenges by providing a framework of principles for decision making and prioritization, as well as a broad view of the scale of debt funding available to serve the city's capital needs.

The task force's recommendations reflect the times, so aspirations are moderated by more caution than may have been the case with previous citizen commissions evaluating capital facilities' needs. This can be seen in the five Guiding Principles recommended by the task force, reflecting an equal emphasis on ways to avoid spending and on ways to spend public funds wisely.

The task force recommendations reflect the times, so aspirations are moderated by more caution than may have been the case with previous citizen commissions that evaluated capital facilities' needs.

The current economic environment makes capital funding much more difficult, due primarily to restricted revenue options. The task force is convinced that the city's revenues over the next several years will be insufficient to meet the operating and capital needs of the city. Although there will be future growth in the city's capacity to finance capital initiatives through bonds, most of the existing capacity will be needed to fund the current six-year Capital Improvement Plan². To meet Bellingham's long-term capital needs, debt capacity can be increased through financial discipline and by identifying new or expanded revenue sources tied to identified needs.

The task force also acknowledges that Bellingham's need to respond to a changing regulatory environment – such as updated energy codes, requirements for all water customers to have meters, more stringent stormwater requirements, and many others -- has and will continue to have a large impact on the viability of existing assets and costs to continue to deliver core city services.

² A Capital Improvement Plan is published with each annual city budget. At the time this report was written, the most current Capital Improvement Plan can be found in the 2011 Preliminary Budget, published in October 2010.

GUIDING PRINCIPLES

To respond to the City Council's charge, the task force created five Guiding Principles that should be foundational to making future capital-project decisions. Each principle was then further deepened into more specific, policy-level Directives. Where the Guiding Principles are general in nature, the Directives, which begin on page 11, are intended to drive particular decisions and program initiatives.

FIRST GUIDING PRINCIPLE: MAKE FULLY INFORMED DECISIONS

The city should conduct a thorough inventory and analysis of all city facilities as a critical first step toward developing a long-range capital facilities plan. Such a review of existing capital assets will provide the foundational structure for selecting and designing future capital assets.

The city should follow a fully informed decision-making process that includes a full range of financial considerations. This process also should evaluate the full costs of current and proposed capital facilities, including capital, operations, maintenance and environmental and economic sustainability costs. Capital facilities planning should identify the drivers of the city's capital needs, and determine whether facilities are relevant, appropriate and effective for our needs today and tomorrow.

SECOND GUIDING PRINCIPLE: BE PRUDENT

The city should be cautious about committing to new capital-intensive projects. Before such projects are undertaken, the city should be sure it has enough money to maintain and operate well its existing assets (buildings, parklands, playgrounds, equipment, and vehicles). Specific thought to how to generate sufficient revenue sources including service-level-based pricing and user fees should be considered.

The city should maintain sufficient reserves in the General Fund and Enterprise Funds to allow the city to pay for needed capital projects even during poor economic conditions. Furthermore, before agreeing to projects that are funded in part by others (e.g., grants from state or federal agencies, philanthropic gifts); the city should be sure these projects are valuable in their own right and that sufficient funds are available for their long-term operation. Finally, the City should seek to maximize efficiency by expanding current efforts at working with other local entities to share capital facilities.

THIRD GUIDING PRINCIPLE: PURSUE ALTERNATIVES

Where feasible the City should pursue all actions that can *eliminate, reduce or delay* capital-intensive projects. Such actions may include involving and educating citizens on reducing demand for public services. The city also can investigate ways to modify or more efficiently operate existing facilities to increase their usefulness, as well as look for innovative ways to manage the provision of public services to reduce demand for public facilities (for example, by implementing seasonal rates to reduce peak demand for water). Many alternatives to capital spending are already being implemented by the city and others, water conservation being a notable example. Alternatives to capital spending should be considered on a cost/benefit basis and in light of the First Guiding Principle: Make Fully Informed Capital

Facilities Decisions. Many of these alternatives have additional benefits, beyond cost savings, which should be considered.

FOURTH GUIDING PRINCIPLE: PROTECT BASIC ASSETS AND SERVICES

The City has a critical and fundamental obligation to provide for the health and safety of its citizens and employees. Therefore, priority should be given to capital facilities that provide for the basic assets and services of local government. In addition, many basic services are mandated by state or federal law; full and early compliance with law is essential. One important way that the city meets its basic obligations is by objectively determining an appropriate level of service that balances citizen needs, achievable results and costs to provide services.

FIFTH GUIDING PRINCIPLE: WHERE AND HOW WE BUILD MATTERS

The city should live up to its vision for and commitments to a sustainable future by recognizing that it matters where and how we build. The taskforce recommends that future capital facilities be located in or near downtown, the civic center or current and future urban villages in the city. These facilities should provide access to services in the neighborhoods as well as downtown; and should achieve cost efficiencies through co-location of disparate services and flexible facility uses. The location of facilities should be selected with an eye to reduced motor-vehicle dependence and increased access for bicycle, pedestrian and public transit. In addition, the city should continue to embrace green building practices for new facilities and champion intentional building design that maintains and enhances community character and culture.

GUIDING PRINCIPLES WITH DIRECTIVES AND EXAMPLES

This section expands on the Guiding Principles with specific Directives that support each of the five Guiding Principles. Examples given with the Directives are intended to be instructive and to provide better understanding as to how the Principles might be applied and are not recommendations for action. Specific project recommendations are detailed beginning on page 16.

FIRST GUIDING PRINCIPLE: MAKE FULLY INFORMED DECISIONS

Directives

- Use a broad array of tools that assist in measuring financial options for capital planning.
- Complete and maintain an inventory of capital assets to include current condition, relevance, effectiveness and cost to upgrade.
- Identify the drivers of capital needs (for replacing/continuing existing services, changes in type and quality of services, and infrastructure for new residents and businesses).
- Evaluate full costs (operations, maintenance, technological, capital, environmental, financing) for existing major assets.
- Evaluate full costs (operations, maintenance, technological, capital, environmental, financing) for all proposed capital projects.

SECOND GUIDING PRINCIPLE: BE PRUDENT

Directives

- Fix it first: Focus first on maintaining and repairing existing infrastructure before adding new capital facilities.
- Maintain reserve funds to protect existing assets.

The City Council has set both reserve targets and minimums. These are important and should be measured over multiple budgeting periods.

- Maintain the financial integrity of the General Fund and Enterprise Funds.
- Know when to say no: give extra scrutiny to lower-priority projects.

Be cautious about accepting donations or gifts when they place additional burden on city resources for operations and maintenance, especially when they are not consistent with established priorities.

- Focus on progressive funding mechanisms.

For example, consider using impact fees to shift more of the infrastructure costs of new development to the occupants and users of new developments.

- Expand partnering and collaboration with non-government entities and other local governments

The city has taken many opportunities to jointly operate and fund capital facilities with other governments. Examples include sharing gymnasiums with Bellingham Public Schools, using existing library services at Whatcom Community College and jointly planning public facilities within the Waterfront District. Other innovative ways to jointly house compatible facilities are strongly encouraged.

THIRD GUIDING PRINCIPLE: PURSUE ALTERNATIVES

Directives

- Educate public to help delay or reduce infrastructure expenditures.

Opportunities to help residents reduce the burden on city infrastructure are plentiful and cost effective, and the city should aggressively pursue these options where appropriate. For instance, encourage residents to compost food waste, install rain gardens, plant drought-resistant yards and use multi-modal transportation.

- Upgrade and improve facilities and operations rather than add, replace or expand assets.
- Use best available technologies and processes to manage resource demand and reduce the need for new capital projects.

Employing best practices and technological solutions has been proven to be cost effective. The city is moving toward more online capabilities for accessing its services. More can be done to accelerate this strategy, including initiating pricing strategies for services that shift consumer demand and providing for linkages with local business and institutions to provide services to citizens without traditional brick and mortar facilities.

Using seasonal and other new pricing structures to reduce and shift customer demand for certain municipal services, such as water and sewer, can defer the need for new capacity.

FOURTH GUIDING PRINCIPLE: PROTECT BASIC ASSETS AND SERVICES

Directives

- Give highest priority to public health and safety.
- Provide safe and adequate work environment for city employees.

For example, if analyses show it is necessary, invest in seismic retrofits in public buildings and offices.

- Provide services and facilities that meet legal mandates.
- Establish realistic level of services.

With diminished financial resources and changing measurements of quality-of-life goals the task force encourages assessing the city's level of services on today's metrics rather than on levels of measurement that were often determined on historical population size

and location. For example, use of park facilities may need to be altered to meet changing recreational trends.

FIFTH GUIDING PRINCIPLE: WHERE AND HOW WE BUILD MATTERS

Directives

- Locate government facilities near urban centers and established populations, to encourage infill.
- Co-locate facilities and share assets to reduce need for multiple buildings.

Many of the city's facilities are built and operated for a single purpose. The city should examine how these facilities can be used for multiple purposes and with greater utility. The task force also encourages locating facilities in neighborhoods when that is economically efficient and promotes better service delivery.

- Create facilities with capacity for flexible use.
- Locate and provide facilities consistent with providing viable transportation choices to achieve city's mode-shift goals.
- Encourage intentional design to foster community culture and sense of place.
- Encourage green-building construction, retrofit and repair practices.

DEBT CAPACITY MODELING

The task force established a separate sub-committee to develop a debt capacity model to project the city's capacity for servicing additional debt. This work was undertaken based on the understanding that capital projects, by their nature, require that large up-front costs typically must be paid for by borrowing. In simple terms, the city's capacity to support debt is a function of the revenue available to pay for that debt.

The sub-committee's recommendations were adopted by the task force, and are described below. Financial model details are included as Appendix A.

The task force believes that the financial projections provided by the model, while to a degree uncertain, are crucial components of prudent long-term planning. A debt capacity model necessarily involves predictions and assumptions about future trends in revenue, interest rates, cost, inflation, etc., in this case over the next two decades. The primary utility of the model is to indicate the relative size of long-term financial need compared to the size of current financing capacity.

The city's capacity to support debt is a function of the revenue available to pay for that debt.

CONCLUSIONS

After evaluating the results of the debt capacity model, the subcommittee reached the following conclusions:

- Debt capacity is limited by the funding available to support repayment, for both General Obligation Bonds supported by taxes as well as Revenue Bonds supported by fees and charges.
- The current six-year Capital Improvement Plan, which is incorporated into the annual city budget, will consume most of the city's short-term debt capacity.
- Current debt capacity is insufficient to meet most of the city's long-term capital needs.
- Additional debt capacity will likely become available as existing debt is retired, assuming continuation of current funding sources and assuming capital investment that matches the current six-year Capital Improvement Plan.
 - The range of anticipated debt capacity in 2016 is up to \$30 million in Revenue Bonds and \$20 million in General Obligation bonds.
- New debt capacity can be generated through new funding sources. Meeting all of the city's long-term capital needs will require a broad range of funding methods, including voter-approved tax levies, higher user fees, development impact fees, grant funding and state-backed loans.

RECOMMENDATIONS WITH EXAMPLES

- New revenues should be set aside to build additional debt capacity.

Any increase in property taxes should be harbored for funding of debt service for future bond issuance rather than to pay for expanding operating expenditures.

An increase in watershed land acquisition charges within the water utility billing should be set aside for repayment of future debt service for bonds specifically issued for property acquisition.

- New city initiatives requiring financing capacity for capital projects will also require identifiable additions to revenues.

The Local Infrastructure Financing Tool revenues should be solely dedicated to providing bonding capacity for the Waterfront District infrastructure.

Financing of library facilities should require a positive citizen vote approving a special property tax levy.

- When not available for bonding, new revenues should be spent on offsetting capital needs before being used to pay increasing operating costs.

A portion of the Transportation Benefit District funds are to be used for street overlay projects, which offset the capital needs of the street fund.

- Look for project funding sources that enhance debt capacity.

Seek state and federal capital grants.

Seek state and federal loan programs that lower interest costs and may provide secondary guarantees.

Leverage private sector investment where appropriate to offset costs and to minimize costs that result from financing delays.

- Maintain debt parameters as outlined within the Financial Management Guidelines³ endorsed by the Bellingham City Council.

Use conservative estimates in measuring debt capacity such as a target debt service coverage ratio for revenue bonds of 1.5 or higher.

Use debt policy guidelines (contained in the Financial Management Guidelines) in measuring all debt structures and terms.

³ The Bellingham City Council endorsed by resolution a set of Financial Management Guidelines in 2010. The guidelines can be found on the city website at <http://www.cob.org/documents/finance/publications/2010-financial-management-guidelines.pdf>.

PRIORITY CAPITAL PROJECTS

The city has experienced a significant downturn in revenue streams due to the severe recession endured by all local, state and federal governments. While the capital needs of the city are great, this economic reality limited the task force’s consideration of “new” projects that would certainly enhance the welfare and quality of life of its citizens. The task force reviewed dozens of capital needs and desires representing the wide spectrum of city services. With the reality of needs and limited resources, the task force prioritized these projects using the Guiding Principles developed as the first step of its deliberations. The city’s infrastructure has not been adequately maintained or replaced to achieve expectations of quality, responsive city services. Without additional investment in existing assets the level of city services are likely to degrade. The task force concluded that preserving existing infrastructure is a high priority, and that any new initiatives should be tempered and pursued with a great degree of financial caution.

The task force concluded that preserving existing infrastructure is a high priority, and that any new initiatives should be tempered and pursued with a great degree of financial caution.

The task force did note that, while today the city is in the midst of a recession, the local economy and therefore the city’s revenues are likely to improve over the next several years. For this reason priority new capital projects that benefit and are important to the values of our residents were included.

GENERAL FUND PRIORITIES

The General Fund is the most flexible of the city’s more than 50 funds, available to use for most functions without restrictions. The General Fund includes the primary tax receipts from sales, property and business and occupation taxes, and funds operations of general services as diverse as public safety, public amenities and general administration.

1. Maintain and repair existing city streets

The city has 298 miles of paved streets and 289 miles of sidewalks. Streets are inspected and rated on a four-year cycle, with approximately 25% inspected annually. Inspectors base their ratings on level of damage such as cracking, potholes and heaving. About 23% of the city’s streets need immediate attention, 16% of them requiring maintenance and over 6% considered ready for overlay work.

The city’s street infrastructure is deteriorating and a resurfacing program that meets appropriate replacement schedules has not been consistently funded. The breakdown of pavement on streets can create safety hazards and, without timely repairs and resurfacing, can require rebuilding the foundations of damaged streets at a much higher expense.

The task force recommends adequate funds be allocated to resurface and repair the city's existing street network on a regular schedule that allows for repairs to be made before more serious damage takes place.

2. Restore and protect Lake Whatcom Reservoir watershed

The Lake Whatcom Reservoir supplies drinking water to 95,000 people county-wide, including 82,000 people served by the city's water system. The health of this tremendously important resource is declining, requiring more expensive treatment to deliver clean, safe drinking water. While the city is in full compliance with all state and federal drinking water requirements, local governments are under federal and state mandates to improve the health of the reservoir.

Continued funding for watershed land acquisition, stormwater improvements and related capital improvement projects was identified by the task force as a very high priority. The task force also recommends:

- Funding new stormwater projects for the remaining "untreated" sub-basins and shoreline areas.
- Funding accurate evaluations of phosphorus removal for installed stormwater treatment systems, to determine if further upgrades/retrofits are needed.
- Continuing non-capital programmatic stormwater initiatives.

3. Develop library system plan

The Bellingham Public Library is one of our most-used public resources. Nearly 925,000 people visited Bellingham libraries in 2009, and card-holders checked out or renewed more than 1.5 million items. These figures place our libraries among the top-circulating libraries in the nation for communities our size. Yet the downtown central library -- housed in a deteriorating, obsolete facility that does not meet seismic and other building codes -- is inadequate for the needs and services of a modern library. Considerable physical deficiencies, outdated equipment, and inefficiencies caused by its design, are just a few of the many liabilities of this 60-year-old building.

A 2007 study identified a total cost of \$52 million to rebuild, expand and provide parking for a new downtown library on its current site. Given the city's other capital spending needs, the task force is concerned that such a large single project may consume a large portion of General Fund debt capacity, limiting financing options for other General Fund needs. In addition to the initial capital costs, operating an expanded library will likely add significantly to library operating expenses paid from the city's General Fund.

The task force agrees the need to modernize the downtown facility is obvious given its age, level of obsolescence and inefficiency, and very high use and circulation. The task force recommends the Library Board continue its planning to develop a modern downtown library, including continuing to consider what level of capital funding will be successful in a voter-approved bond,

and continuing to pursue an endowment or foundation to assist with future operations and maintenance.

The task force also believes it is important to consider how the library operates as a whole and what facilities are necessary to achieve its purposes. In particular, the task force believes that enhancing or multiplying the functions of library facilities through non-traditional means would achieve a greater return on public investment. Consideration should be given to:

- Replacing the central library by building a multi-purpose facility with public and/or private financial partners;
- Evaluating the cost effectiveness of other options, including shifting to a decentralized system with more smaller, lower-cost neighborhood libraries in leased space (as the library has already begun to do);
- Using newer technologies to redefine "access" in order to reduce central facility visits while sustaining high levels of circulation.

The task force recommends these and other ideas be incorporated into a library system plan, especially addressing library long-term capital needs.

4. Implement Phase 1 of Waterfront Master Plan

The City of Bellingham and Port of Bellingham are collaborating on creating a master plan to guide the redevelopment of Bellingham's downtown waterfront. The long range vision is to transform this brownfield site into a new mixed-used neighborhood, featuring residential, commercial, light industrial and institutional uses, as well as parks, trails and healthy shorelines.

The 2010 cost estimate for long-term investments in the waterfront by the Port and City is approximately \$365 million. Funding for these projects is expected to be supported through federal and state grants, as well as local sources of revenue. Infrastructure needs are planned to be addressed in phases aligned with environmental clean up and development phases.

The task force recommends the city develop only that portion of the Waterfront District Master Plan, Phase 1 infrastructure that can be funded from sources solely available for the waterfront and that does not reduce available funding for other capital projects. October 2010 estimates for the city's cost of Phase 1 infrastructure is \$56 million. Prior to authorizing city funds in any form, city officials should explore and exhaust opportunities for funding from non-city government funding, or private enterprise and other non-public sources.

5. Focus on use and maintenance of existing general city buildings

The city provides services and houses employees at more than 30 locations. The city's oldest and newest buildings are part of the Whatcom Museum campus, with the Old City Hall Building completed in 1892 and the Lightcatcher Building completed in 2009.

Most city buildings, however, are 10 to 70 years old and suffer from deterioration and deferred maintenance. Some were originally designed for the public services they provide today, such as

the current City Hall and the Arne Hanna Aquatic Center, and some of those have since become obsolete and inefficient. Others were purchased to fill the needs of a growing city government, such as the former church housing the Municipal Court and Information Technology Service Department. Most city buildings have significant maintenance needs, including the need for safety and seismic upgrades and opportunities for significant cost savings and reductions in energy use.

The task force recommends addressing these needs by applying its Guiding Principles. It further recommends that before constructing new facilities, the city should:

- Evaluate the effectiveness and appropriateness of current facility uses.
- Evaluate facilities with identified needs and make safety repairs and upgrades--or replace buildings where it would be more cost effective than upgrading.
- Where feasible, co-locate two or more city departments within the same facility. Facilities where these principles might be applied are: City Hall, Central Library, Fire Station #5, Municipal Court, Police Department, Public Works Operations on Pacific Street, and the Parks administrative building at Cornwall Park.

6. Implement a master plan for city-wide information management

Every city service provided today has information technology performing essential functions. The city's extensive and diverse technology systems operate over a 16-mile fiber optic network, supporting operations and employees at about 35 locations.

A number of information technology projects affecting all city departments have been postponed or deferred indefinitely, due to limited resources. Some internal operations rely on manual or duplicative processes or older technologies that do not maximize efficiency or value to the public. Replacement funding for the city's extensive fiber and radio infrastructure is not in place, although these resources are critical to public safety communications and overall city operations.

The task force recommends developing and implementing a city technology strategic plan, to prioritize and plan city investments in technology to provide greater efficiency, make information available to employees and the public, and to provide reliable systems and services in the future.

7. Improve safety and multi-modal options on existing streets

Bellingham is faced with the challenge of managing its transportation network under pressure from population growth and development in Bellingham and outside city limits. Years of planning and public sentiment, coupled with state and federal requirements, indicates that widening existing streets and building new ones will not support our community's transportation needs or our planning goals.

City officials have made strategic commitments to providing safe, well-connected mobility options for all users, increasing infrastructure for bicycles, pedestrians and other forms of

transportation that reduce use of single-occupancy vehicles. The task force supports these commitments. To achieve these goals, the task force recommends improving capacity and safety for all modes of transportation (automobile, bike, pedestrian, transit) on existing streets. Priority improvements requiring capital investments include bike lanes, sidewalks, crosswalks, roundabouts, signal installation and street lighting.

ENTERPRISE FUND PRIORITIES

Enterprise funds are established for activities of the city that are primarily funded from user fees charged for that service. Enterprise funds are self-sustaining; revenues for each fund are accounted for separately and all expenditures must be directly related to the operation, maintenance, repair and management of that service. Water and wastewater (sewer) utility services are examples; fees are collected for these services and those funds can only be spent in support of those activities. Other examples include the city's Parking Services Fund, the Cemetery Fund and the Street Fund.

1. Maintain and replace water and sewer mains and stormwater infrastructure

Water and wastewater infrastructure is largely underground and out of sight, yet plays a vital role in protecting public health and maintaining economic vitality. The city operates more than 300 miles of sewer main and 400 miles of water main, 25% of which are over 50 years old. Current funding levels fall short of the goal of replacing 1% of the water distribution and wastewater collection system annually, and are inadequate to replace water and sewer mains prior to the end of their estimated useful lives. This increases the likelihood of costly repairs due to main breaks. The task force recommends adequate funds be allocated to meet maintenance and replacement goals for this critical infrastructure.

2. Upgrade wastewater treatment facility

Every day, Bellingham residents send between 8 and 72 million gallons of wastewater (mixed with some stormwater) to the Post Point Wastewater Treatment Plant. Treated wastewater discharged from the plant into Bellingham Bay consistently meets or exceeds all state and federal standards. However, the plant is reaching capacity for the amount of wastewater it processes during wet weather, and some days the amount of solid and dissolved organic materials going through the plant exceeds capacity.

Expansions to the capacity of the wastewater treatment system are currently mandated by the Comprehensive Sewer Plan and by the state, and detailed planning for these improvements is underway. As such, these are high priority capital improvements and funding should and must be obtained. The least expensive option should be implemented as planned due to limited funding resources.

The task force recommends the city also vigorously pursue alternatives to expensive capital facilities, in order to reduce or delay these expenditures. Alternatives include integrated plans to reduce stormwater infiltration/inflow as well as pricing models that incentivize lower per-capita demand. Other suggested demand management programs could include pretreatment systems for industrial wastewater and wet weather peak flow reduction measures.

3. Address stormwater treatment and collection facilities citywide

Bellingham receives approximately 36 inches of rain annually. Rainfall travels over our roofs, streets and yards, picking up debris and pollution, and eventually ends up in our lakes, streams and Bellingham Bay. This water must be managed to ensure the health and safety of people, wildlife and the environment. The city collects stormwater utility fees to fund improvements and maintenance of the stormwater system in Bellingham.

Currently, most stormwater funds are used in the Lake Whatcom Reservoir watershed, with some funds also used to maintain more than 250 miles of stormwater piping citywide. Addressing stormwater management needs in the watershed is an obvious priority due to its service as our source of drinking water, yet the city is faced with millions of dollars worth of stormwater needs throughout the city.

Protecting other lakes, streams and Bellingham Bay is also important and needs to be addressed, and in the coming years will be required. New systems to treat stormwater in the Puget Sound drainage system will likely be necessary. Capital and grant funds will be needed for this new effort as the state ramps up requirements. The city currently lacks funding for these anticipated needs. The task force recommends adequate funds be allocated to begin to meet these needs.

4. Install meters for all water customers

Most single family residential accounts on Bellingham's drinking water utility have no meter measuring the amount of water consumed in their homes. About 3,600 accounts have metered service, while more than 15,000 accounts have no meter, and pay a bi-monthly flat rate for water service no matter how little or how much water they use. Recently enacted state laws require all municipal drinking water providers to meter residential water customers. The City of Bellingham must comply with this legal mandate no later than January 2017, at an estimated cost of \$9 million.

In addition to meeting the state requirement, implementing fully metered service will support the city's water conservation goals and fix the current mix of metered and unmetered water connections, which is inherently inequitable. Metering water service allows customers to see how much water they use and allows the city to reward those who practice good water conservation habits with lower water bills.

Water metering provides the ability to offer incentives for more efficient water-use patterns and smooth demand through variable pricing. Revamping the pricing of water so that rising levels of usage pay a higher per unit price could reduce peak water demands and save millions of capital dollars otherwise spent on upgrading water filtration and processing facilities. Water meters also provide important water consumption data that is essential for ensuring a reliable water supply for us all.

The task force recommends that steps be taken to move this project beyond the planning stages soon so that the city remains in full compliance with state law by its established deadline, as

well as to gain the other benefits of metering. The estimated \$9 million cost for city-wide water metering will be principally borne by residents through water utility rates, so this capital expenditure should be considered to have a defined source of funding.

CONCLUDING STATEMENTS

The task force worked diligently to answer the difficult questions posed by the City Council. As members listened, learned and finally deliberated, all agreed that Bellingham is an amazing place with wonderful facilities and programs. The task force understands that there are many new initiatives and new projects that have great potential for meeting the city's broad service goals. Despite these opportunities, we believe that maintaining existing municipal assets and taking care of the programmatic needs of the city should be the city's first priority.

For the near term, there will not be sufficient financial resources available to meet this objective adequately; consequently, we encourage city leaders to be aggressive in the development and nurturing of partnerships with federal and state officials. The relationships we build today are likely the key to funding opportunities in the future.

While we build on these relationships, we also encourage the city to examine its operational model. Be flexible in how services and programs are delivered. Look to partnering opportunities and joint ventures as a way to make the financial pie larger. We also encourage creative ways to work with the private sector on investments that will enhance our economy while helping support the important infrastructure and services the city delivers.

APPENDIX A: DEBT CAPACITY REPORT

September 8, 2010

TO: 2010 Capital Facilities Taskforce

FROM: The Debt Capacity Sub-Committee:

Terry Bornemann
John Carter
Bruce Clawson
Stan Snapp
Greg Sundberg

RE: Measurement of debt capacity and recommendation as to management of that capacity.

I. Overview of purpose

This document is intended to outline for the task force and eventually the Council guidance for measuring and managing the overall debt capacity of the City of Bellingham. A sub-committee of the Capital Facilities Task Force appointed by Council earlier this year was asked to provide the task force with its general recommendation in managing city-issued debt in light of the large need for capital asset replacement and expansion.

The sub-committee's recommendations are incorporated within this document.

II. Current debt situation

The City has historically managed its debt level with good prudence. This has resulted in the city receiving an AA2 rating from Moody's Investor Services on issued General Obligation bonds. Consequently, the City of Bellingham is in a position where its current debt levels are manageable and relatively low when compared to many cities of its size and operating complexity.

Generally city debt has been issued on 10- or 20-year amortizations with level debt service payments. Much of the debt will be fully amortized (retired) over the next five years, creating additional long term debt capacity.

The city has identified significant capital needs that will likely require outside financing. With the expected limitations on federal and state grants, larger capital projects will need to be financed through the issuance of city bonds.

III. Assumed structure for future debt

Municipal debt traditionally has been financed through tax exempt bond obligations. For the purpose of analyzing the debt capacity of the city, it is assumed that bonding is the primary source of debt that will be used to finance future capital investments.

REVENUE BONDS: City bonds that pledge repayment from specific revenues are called revenue bonds. The issuance of revenue bonds is typically done to finance projects for city activities that are paid for from user fees and charges. These activities are classified within the city's financial statement as Enterprise Funds. Examples of Enterprise Funds that can be supported through revenue bond debt are the wastewater and water utilities. These bonds typically carry covenants that the city must abide by. Covenants for revenue bonds include a minimum debt service coverage ratio. This ratio is a measurement of "cash flow" sufficient to pay for the debt service payments and is measured on an annual basis. A typical revenue bond will commit to a minimum debt service coverage ratio of \$1.25 of net cash flow to each \$1 of annual principal and interest payment (this ratio would be stated in the bond document as a debt service coverage ratio of 1.25)

GENERAL OBLIGATION BONDS: Bond financing for projects that do not have a dedicated source of revenues and are supported primarily from tax receipts are called General Obligation (G.O.) bonds. This debt capacity forecast assumes a pledge of the city's general tax receipts as payment for interest and principal for all issued G.O. bonds.

It is recognized that there is a wide variety of potential debt offerings in addition to traditional tax exempt bonds that are available for financing capital investments. These include private loans, bank lines of credit, short-term notes as well as a variety of leasing options. Alternative financings are typically on less favorable terms than is tax-exempt bond financing. Usually the term of the financing is shorter and interest rates higher than the municipal bond market. The city also has the option of "loaning" money from one fund to another for a limited period of time. Interfund loans are available when a fund is determined to have cash reserves in excess of its needs or where funds are required to be set aside for a future obligation.

The municipal bond market is quite mature and is generally considered a relatively safe investment. Cities as well as counties and special purpose districts all access this market. Access to the bond market is based on both the entity's capacity to repay debt as well as governing state laws. The city has specific limits on its debt that has been imposed by the state.⁴ Municipal bonds are issued with a wide variety of repayment terms. Some jurisdictions issue debt in excess of 40 years in length while others carry a high amount of variable rate short-term debt. The city has been very purposeful in managing its debt for predictability of terms and has issued all of its bonds with a maximum term of 20 years. Some bond issues issued for specific purposes have been shorter in duration.

Within this analysis the calculation of debt capacity assumes that all new debt will be issued as either a Revenue Bond or a G.O bond and that all debt is issued with a 20-year repayment period.

IV. Financing assumptions

For the purpose of calculating debt capacity, the following debt issuance assumptions have been made:

⁴ Background on the city's debt policy is contained in financial guidelines endorsed by resolution by the Bellingham City Council. The guidelines can be found on the city website at: <http://www.cob.org/documents/finance/publications/2010-financial-management-guidelines.pdf>.

- For activities within the city that generate specific revenues in the form of fees and charges (Enterprise Funds) it is assumed that any debt will be issued as revenue bonds without support of the general property tax levy of the city. It is also assumed that all new revenue bonds will be issued as parity bonds with existing revenue bonds. A parity statement clarifies that all outstanding revenue bonds have equal claim against future revenues. Stated differently, no revenue bond is subordinate to any other revenue bond as to its claim against future revenues or as to priority for debt service payment.
- For an Enterprise Fund issuing debt, it is recommended that a debt service coverage ratio be maintained at a ratio of 1.5 or higher as calculated using the revenues and expenses budgeted within each fund. Typically revenue bonds issued by the city have legally required a debt service coverage ratio of 1.25, the sub-committee by recommending a slightly higher ratio is allowing for variance in the revenue streams and leaving some debt capacity for an emergency or unknown future need. All of the city's existing revenue bond debt issues have been maintaining a debt service coverage ratio in excess of 2 times debt service. Within the model, cash flow available for future revenue bond debt service is calculated for each of the five large Enterprise fund activities:

- Water Fund
- Waste water (Sewer) Fund
- Stormwater Fund
- Solid Waste Fund
- Street Fund

This analysis does not include calculating debt capacity for smaller Enterprise Funds such as Parking and the Cemetery. Based on projected revenues for these smaller funds, it is clear that the debt capacity available for capital projects within these smaller funds is quite limited and that funding other than through bond issuance will be required for capital projects projected within these funds.

In calculating the debt service capacity of each fund it is assumed in the model that revenue bonds are issued at an average interest cost of 5%. New bonds are assumed to have an amortization schedule of equal payments over 20 years. The model also assumes that existing debt is fully amortized and that the debt capacity created from a bond being fully repaid is available for immediate use in the following year.

It is also assumed that any debt issued will not have its first debt service payment until the following year. Cash flow for debt service reserve funds are assumed to be taken out of existing reserve balances at the time of the issuance.

Projections for the fund include assumptions for modest revenue growth (3% annually) and for operating expenses within each fund (3-5%). In recommending a 3% growth rate in revenues the sub-committee looked at the average growth rates of the city's revenues over the past 20 years (4%+) and compared that to the recent impact of the recession and concluded that for modeling purposes that a rate for revenue growth that is less than the more normalized growth rate of 4% is prudent.

General Obligation bonds: Overall capacity for G.O. bonds is limited through state law. On a practical basis there is limited capacity within the existing tax revenues for new debt service. However, significant tax-supported debt capacity is available with approval of the voters. This model assumes that large projects such as a new library would be funded through bonds approved by the voters. The sub-committee recommends that due to the large existing capital needs of the city that “new” facilities be subject to a vote of the people. Any debt authorized by a vote of the citizens of Bellingham would be in addition to capacity projected within this model.

Given the recent contraction of tax receipts it is assumed that the need to fully utilize these receipts to maintain existing expenditures required to deliver city general services will make new debt supported by existing tax receipts unavailable. Any G. O. bond capacity available *without* a vote of the people is assumed to come solely from the growth of property tax⁵ receipts. It is assumed within this model that the City Council will formally adopt future budgets that restrict receipts from property tax increases to pay for future G.O. bond debt service. Should City Council decide to not restrict the use of the growth of property taxes to the funding of debt service on G.O. bonds, alternative funding sources will be required to create additional G.O. bond capacity. It further assumes that the existing limitations on the growth of the property tax levy remain in place and that no additional annexations have occurred.

It is assumed that all G.O. bonds are amortized with equal payments over 20 years. The interest rate is assumed to be at 5% for a 20-year G. O. bond. It is also assumed that any debt issued will not have its first debt service payment until the following year.

V. Debt capacity modeling

The Capital Facilities Task Force sub-committee charged with developing a debt capacity model has developed an Excel-based model that allows for flexibility to change a wide assortment of assumptions. The model was run incorporating the assumptions as outlined previously in this document. Three different scenarios were run through the modeling with the calculation of debt service capacity estimated for the primary utility-based Enterprise Funds and for the General fund. The three scenarios are:

Scenario 1 - Conservative growth rates, capacity calculated without new debt being issued.

Scenario 2 - Historical rate of growth of revenues without new debt being issued.

Scenario 3 - Historical rate of growth of revenues *with debt issuance as planned within the six-year Capital Improvement Plan*.

These scenarios are provided as examples for discussion purposes and illustrate both debt capacity and constraints using different assumptions. The task force should review these assumptions and make recommendations within its overall report as to the appropriate assumptions to be put into the model.

⁵ The sub-committee is recognizing that the demands for General Fund receipts to be used for on-going general governmental expenses limits any recommendation for bonding capacity, consequently it is assumed that other sources of General Fund tax revenue growth (sales tax, B & O tax and utility tax) will be unavailable for future bonding.

As the task force prioritizes capital projects and highlights the financing options for each project the sub-committee will be able to model the options for providing debt capacity for those prioritized projects.

Scenario 1: Debt capacity as projected in the spreadsheet with a *conservative rate of revenue growth* showing debt capacity in millions of \$'s. This scenario assumes no new debt being issued. Growth rate forecasts for revenues are: 1%, 3% for the Water and Sewer Funds. This is cumulative capacity assuming no new bond issues during the period and capital projects paid from reserves.

Scenario 1				
	2011	2016	2021	2029
Water Fund	\$3.9	\$12.8	\$32.6	\$54.3
Wastewater Fund	\$0.0	\$35.2	\$38.8	\$49.5
Solid Waste Fund	\$0.3	\$1.6	\$1.6	\$11.2
Stormwater Fund	\$1.5	\$0.0	\$0.0	\$0.0
Street Fund	\$16.5	\$2.6	\$0.0	\$0.0
Revenue Bond Total	\$22.2	\$52.2	\$73.0	\$115.0
General Obligation Bonds	\$8.8	\$20.2	\$37.4	\$79.2

Scenario 2: Debt capacity as projected in spreadsheet with traditional rate of revenue growth (in millions). Growth rate forecast for revenue is 4%. This is also cumulative capacity assuming no new bond issues and capital projects are paid from reserves

Scenario 2				
	2011	2016	2021	2029
Water Fund	\$3.9	\$17.7	\$45.7	\$90.9
Wastewater Fund	\$0.0	\$40.9	\$54.4	\$93.3
Solid Waste Fund	\$0.6	\$3.0	\$4.5	\$17.7
Stormwater Fund	\$2.5	\$2.4	\$2.0	\$0.5
Street Fund	\$18.6	\$16.7	\$12.8	\$0.0
Revenue Bond Total	\$25.6	\$80.7	\$119.4	\$202.4
General Fund	\$8.8	\$20.0	\$36.6	\$75.3

Note: A change to the assumptions can enhance the overall debt capacity. For example, the current requirement for Debt coverage is 1.25 times annual Debt Service. With this change in

our assumptions, we would enhance the overall Revenue Bond capacity in 2016 by \$20 million and by \$41 million in year 2029. This additional capacity however would be offset dramatically if Interest Rates were to rise significantly.

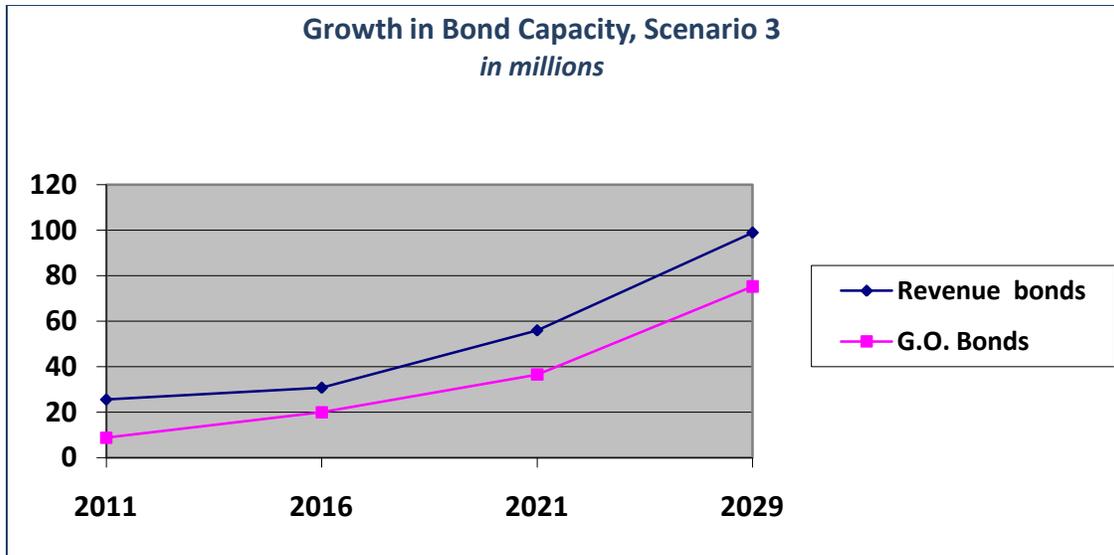
Scenario 3: Debt capacity as projected with a traditional rate of revenue growth of 4% and assuming current budget projection for debt issuance to complete the six year capital investments.

Scenario 3				
	2011	2016	2021	2029
Water Fund	\$3.9	\$8.7	\$36.7	\$80.7
Wastewater Fund	\$0.0	\$0.0	\$0.0	\$0.0
Solid Waste Fund	\$0.6	\$3.0	\$4.5	\$17.8
Stormwater Fund	\$2.5	\$2.4	\$2.0	\$0.5
Street Fund	\$18.6	\$16.7	\$12.8	\$0.0
Revenue Bond Total	\$25.6	\$30.8	\$56.0	\$99.0
General Fund	\$8.8	\$20.0	\$36.6	\$75.3

Note: The current \$114 million wastewater capital plan anticipates \$94 million in new debt issuance. The anticipated cash flows from the Wastewater fund alone are expected to be insufficient to fund this level of debt without additional grant funding, a change in debt terms and/or higher increases in user fees.

Other considerations: The city does contingently guarantee the bonds of the Bellingham Public Facilities District. These bonds are secured by rebated sales tax revenues from the State of Washington. The revenues to support these 2007 bonds assumed a 4.5% annualized growth rate.

Assuming that the shortfall in cash flow for the anticipated wastewater treatment facility is addressed either through rate increases or grant receipts the remaining funds all generate positive cash flow sufficient to carry additional debt beyond that required for the six-year Capital Facilities Plan. The chart that follows illustrates the compounding effect of debt capacity growth over the next 20 years.



VI. Additional capacity available

LIFT Revenues: Taxes generated within the Revenue Development Area (RDA) (downtown and the waterfront district) as defined with the structure of the “Local Infrastructure Finance Tool” (LIFT) legislation can support approximately \$12.5 million in additional bond capacity per \$1 million raised. The State of Washington has pledged up to \$1 million a year for 25 years from the increase in property and sales tax within the RDA. The City of Bellingham and the Port of Bellingham have pledged the growth in tax generated specifically from the RDA as the local match. Utilizing this option for financing of the city’s waterfront commitments requires a substantial growth in the assessed valuations of the waterfront district. Without new private investment in the waterfront the costs of financing waterfront infrastructure and amenities will be borne from the limited resource capacity we currently have. With the local match it is anticipated that the LIFT structure would support about \$25 million in 20-year bonds.

Low-interest state loans through various agencies and programs may be available for specific infrastructure projects and should be pursued aggressively to supplement financing capacity.

Voted Options

Transportation Benefit District: In July 2010 the City Council formed a Transportation Benefit District. In August, the Transportation Benefit District Board voted to put a 2/10’s of 1% sales tax on the November ballot asking for voter approval. The Transportation Benefit District Board can raise approximately \$4 million in new sales taxes (2010 \$’s) under an approved ten-year tax. The .2% sales tax could finance over \$40 million in additional transportation projects. Without a vote, a \$20-per-car tab fee can be added to the total annual car tab fee. It is estimated that about \$900 thousand per year can be raised through application of this fee. The Transportation Benefit District could ask the voters to raise the car tab fee by as much as \$100; any amount over \$20 would require an affirmative vote of the people. Raising the tab to \$100 per vehicle would likely generate up to \$4.5 million per year. These

funds could be leveraged to serve as repayment for a new bond issue. Each \$1 million in Transportation Benefit District generated tax revenue could finance about \$12 million in 20-year bonds.

Property tax levy lift: It is possible to generate additional capacity of approximately \$11 million per year for each \$.10 per \$1,000 of property value tax levy increase (assuming a 20-year bond at 5%). Maximum capacity with a vote is capped at 2.5% of assessed valuation. The available 2010 General Obligation bond capacity with a vote of the people would be approximately \$190 million.

VII. Summary

All three scenarios show that there is very limited debt capacity for the next several years.

With financial discipline and operating cost controls, significant debt capacity will grow in both the Water and Wastewater Funds. This capacity generated within the Wastewater Fund as reflected in Scenario 3, is likely to be fully utilized with the issuance of bonds to support the current six-year capital plan. Assuming that the timing of debt issuance is matched to follow the proposed six-year capital program, additional revenue bond capacity could reach \$100 million by 2029. Most of the capacity will be generated through the Water Fund. Please note, however, that it is likely that future treatment and infrastructure projects will require that a large portion of the Water Fund's capital costs be covered through the issuance of revenue bonds. The Solid Waste Fund is likely to generate additional capacity after 2024 when existing bonds are fully amortized. The other two Enterprise Funds - Street and Stormwater - are not anticipated to generate sufficient debt capacity under the current revenue scenarios. Due to expected rising operating costs for these two funds, any significant capital program will likely be highly dependent on state and federal grants. The Street Fund could significantly benefit from the implementation of Transportation Benefit District funding. Additional capacity for Councilmanic G.O. bonds of \$75-80 million is likely available by 2029, assuming 100% of the property tax growth be dedicated to debt service

Should there be an expansion of the watershed acquisition program or other new programs developed to protect water quality, additional revenues will need to be generated to cover debt service costs. A doubling of the \$5 per month watershed acquisition fee could raise enough revenue (in excess of \$2 million) to cover about \$25 million in additional bonding capacity.

It is likely that larger replacement projects and new capital programs will need to be done either through an affirmative vote of the people or through financing being supplemented by the private sector or other state and federal funding programs.

Some of the factors that would inhibit the growth of this debt capacity forecast include:

- Rising interest rates
- Lower access to municipal bond buyers
- Changes in federal and/or state laws that change or restrict municipal debt
- Slower economic growth rates

Given the state of the economy and the long-term capital needs, the sub-committee recommends that the Capital Facilities Task Force carefully consider the limited debt capacity in its overall recommendations it will be forwarding to council later this fall.

Glossary of terms used in Dept Capacity Report:

General Obligation Bonds: Bonds which have received a pledge of repayment from the tax receipts received by the city.

Debt capacity: The amount of new debt that can be issued within given financial parameters.

Debt service capacity: The capacity for revenues to pay interest and principal payments on new debt issuance.

Debt service coverage ratio: The calculation of how much cash flow at a specific point in time is available to make principal and interest payments on revenue bonds. A coverage ratio of 1.5 to 1 means that for each \$ of annual debt service that \$1.50 of cash flow (revenues less operating expenses) is available to pay interest and principle payments.

Debt service reserve funds: Most bond issues require that one year's debt service be placed in advance into a reserve fund isolated from use for any other purpose.

Revenue bonds: Bonds issued with a pledge of repayment from specific revenues of the city. Generally the pledge of revenues is from a known and steady source of revenues such as utility charges.

General fund: This fund collects the tax receipts owed to the city. These receipts pay for general governmental services that do not have a specified revenue source. An example of city services paid from these tax receipts is the fire and police departments.

Enterprise funds: Funds that operate based on receipt of specific revenues that are outside of the tax base of the city. An example is the Water Fund, which receives revenues from individual users of water within the city.

Parity bonds: Bonds that are issued with equal status as to priority of payment.

Property tax levy lift: An increase in property taxes that are approved specifically by a vote of people and is in addition to any levy request lawfully allowed.

Councilmanic bonds: Bonds approved solely by the City Council that when issued obligate the city to repayment from tax receipts.

APPENDIX B: MINORITY REPORTS

MINORITY REPORT ON DRIVERS OF CAPITAL COSTS AND IMPACT FEES, BY ERIC HIRST

October 29, 2010

This final report includes no examples for our most important *Guiding Principle: Make fully-informed decisions*. I suggest the city conduct two projects related to this top priority (both of which were discussed during task force meetings): the drivers of capital costs and the role of impact fees. The second project should be conducted after the first one is completed.

Drivers of Capital Costs: Determine how different types of residential development (single family, multifamily, mixed use) and growth in various employment sectors (skilled trades, retail, services, professional, manufacturing, construction, etc.) affect capital needs for new public infrastructure and the revenues to pay for these projects.

Impact Fees: The current system of impact fees for parks, water supply, sewage treatment, and transportation does not fully cover the costs of the public infrastructure needed to serve new residential, commercial, and industrial developments. The city should analyze the relationships between the revenues collected by its various impact fees (plus other infrastructure costs borne by developers) and the capital costs caused by new development. This analysis should then drive any needed changes in the impact-fee schedules. A good example of this issue is the proposed King Mountain Reservoir: How much of the \$6.5 million project cost should be paid by the King Mountain developer and how much should be paid by citizens (because of water-storage benefits for the Cordata and Guide Meridian neighborhoods)?