

City Manager's Recommended 2017-18 Operating and Capital Budget





**City Manager's Recommended Budget
2017-2018**

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Honorable Tim Leavitt, Mayor
City Council
Residents and Community members of the City of Vancouver

It is my pleasure to offer the recommended 2017-2018 budget for your consideration. The budget is the product of a lengthy and involved process, involving city employees and advisory boards and commissions, and is consistent with framework confirmed by Council in January of this year as well as the ongoing objective to assure stable, sustainable services for our city. The recommended budget is balanced while allowing the City to enjoy continued stability across all service areas and making measured progress toward becoming a safer, welcoming, vibrant and prosperous city.

The budget was formulated around the touchstones of the City's adopted financial policies and the Strategic Plan. The Financial policies embody the principles that guide the City's budgeting through the end of this decade and beyond, reinforcing the key principles of fiscal prudence, pay-as-you-go funding, and strong stewardship through asset management. The City's strategic plan, adopted in March of this year, embodies the community's ambition for the future of Vancouver. The recommended budget is not only fiscally balanced, but balances the inherent tensions between these two guiding documents; fiscal discipline on the one hand, high aspirations on the other.

The budget includes approximately \$1 billion in expenditures across all funds for the biennium. These expenditures are supported by approximately \$949 million in forecasted general and enterprise fund revenues along with planned, strategic deployment of capital and operating reserves in multiple funds directed to one time capital, limited term or bridge funded initiatives. The budget is extremely lean but ambitious across all funds, and reflects my confidence in our department leaders and employees to address critical community issues while prudently managing City resources.

Every biennium occurs within the context of the City being in the forever business; projects and programs frequently commence before or end after any specific budget. While this budget represents the first two of a six year forecast that is effectively balanced through 2022, there remain structural challenges for the City to solve in the mid-to-long term that underscore the need for continued fiscal discipline. The economy has been in a pattern of a very slow-paced recovery since the last recession and is likely to go through a downturn in the business cycle during the next two years. Though we remain committed to progress toward efficiency in City operations, the City's cost structure is still projected to outpace our revenues in the General, Street and Fire funds as we approach the end of the decade. *The compounding demands of a growing population and inflationary pressures exceed our ability to be addressed through efficiencies and the current revenue structure. Ultimately, new additional revenues will be needed to pace with the demands of a growing, urbanizing city.*

Within this context, the recommended budget has been carefully crafted to emphasize the Council's and community's service priorities and the City's strategic plan. Many of these priorities are underway, with funding advanced in the 2016 winter supplemental budget. This budget successfully incorporates and builds the initiatives advanced in the 2016 supplemental in the areas of police, parks, streets, fire, prosecution and support services. Along with these, the overall recommended budget includes a total of 71.45 new positions, (including the 38.25 approved in the 2016 Winter Supplemental) -- more than we have been able to add in any budget developed over the last ten year period. These additions will alleviate some of the pressure in the highest priority services the City provides and allows for modest service enhancements for City residents.

The budget continues to deploy resources in a manner that **assures a firm foundation**. City reserves and depreciation accounts are fully funded to levels provided for in Council's financial policies while maintaining adequate operating capital throughout the biennium. Additional positions in police, parks maintenance, public works, administrative services, and legal will allow the City to slightly increase service levels to provide adequate support for direct-service departments while remaining sustainable through the forecast period.

The recommended budget includes \$138.5 million to **invest in critical infrastructure**. New or ongoing capital investments include high priority projects in streets, fire stations, parks and recreation facilities, sewer, water and drainage utilities and technology infrastructure. Investments in new and existing streets, parks and community centers, including the waterfront park, will enhance the vibrancy and prosperity of our city, making it more welcoming. Completion of two replacement fire stations will help make the city safer. Projects in our utilities and other facilities will allow for service enhancements as well as prolong the life of our assets, supporting a safer and more prosperous city. The full capital program reflects a pay-as-you-go approach funded with a combination of one-time and ongoing resources consistent with the City's asset management philosophy. The fact that these investments can be made without reliance on debt is made possible by the ongoing commitment to disciplined fiscal policy and management.

The City continues to remain nimble and embrace **innovation for the future**. The coming biennium will include pursuit of innovative practices and improved technology on a number of fronts. Evolution of the City's self-insured health care model is anticipated to result in continued cost containment through benefitting the City and Vancouver Housing Authority, which has enjoyed stable premium rates since inception nearly 2 years ago. Extension of the SUV rescue pilot project in Fire and additional revenue-funded inspection staffing in the Fire Marshall's Office will allow the opportunity to improve our response and prevention stance. Continued pursuit of independent, third-party reviews of different lines of business will help ensure a reflection of best and next practices in a variety of areas. Acquisition and implementation of a new enterprise resource planning (ERP) platform, which provides a backbone to the flow of City financial, payroll and human resource management information, will replace our aged system with a more modern and cost effective solution.

There are additional innovations under development that had not matured for inclusion in this published budget, but are anticipated to be ready in 2017. These include reviews currently underway of the municipal court service delivery, equipment and fleet services, and grounds maintenance service areas. In addition, a conversion of the City's street light system to LED technology is under development. Fire and EMS service enhancements through our relationship with Fire District #5 are under development. Additional capacity and programs for Police (including permanent funding for

twelve positions in Police added during 2016) are pending the outcome of the Police Community Resource Team engagement process anticipated before the end of 2016. Finally, ongoing LEAN and process improvement efforts are underway in targeted areas across the City.

We continue to face a generational change in our workforce, making **leadership, staff development and succession planning** some of the City's most critical human resource needs. A new over hire policy is one of the few recommended changes to the City's Financial Policies which will allow the City greater flexibility in staffing to meet those needs and planning for succession of key positions across every service area. Resources are set aside in the budget to allow targeted staff training and development, including a city-wide effort to develop a diversity, inclusion and cultural intelligence strategy that will better position the city to navigate the changes in our workforce as well as the expectations of an increasing diverse community.

More detail on each initiative is found in the Executive Summary and throughout the remainder of the recommended budget.

Through the strong leadership of City Council, continued discipline by City management, and consistent dedication to service by every City employee, the City finds itself entering the next biennium enjoying ongoing fiscal stability and a strong financial position. Council's progressive financial policies, combined with ongoing efforts to seek out efficiencies in city operations, have positioned the City to have more choices as we enter the coming 2017-2018 biennium and move forward with the many exciting initiatives included in this recommended budget.

The City is a very complex organization. Forecasting our resources, preparing the budget, monitoring its implementation, assuring accountability and transparency, all while getting the work done takes an exceptional group of professionals. I want to thank the City's Management Leadership team, Budget Office, and the hundreds of employees across the City who participated in the development and preparation of this budget. I especially want to thank City Council, whose leadership and policy direction through the recession has enabled the City to make some of the progressive investments found in this recommended budget. Lastly, I thank the citizens and community of Vancouver, without whom we would not have a purpose.

Sincerely,



Eric J. Holmes
City Manager

Executive Summary

The proposed City Manager's 2017-2018 budget is balanced over the Biennium, including utilization of existing cash in various City funds to fund one-time initiatives and the City's capital program.

The 2017-2018 Recommended Budget totals \$1.004 billion for all operating and capital funds. It is proposing to utilize \$55.5 million city-wide in existing cash reserves, primarily from capital funds, to fund the City's 2017-2018 Capital program and one-time initiatives. The total number of Full Time Equivalent (FTE) positions funded in the Recommended Budget is 1,046.9 by 2018. The 2017-2018 total budget for all funds is 7.9% higher than the Adopted 2015-2016 Budget, over the two-year time period. The Operating budget has increased by 5.8% and the Capital budget increased by 16.4% over the budget included in the Adopted 2015-2016 Budget.

Fund Name	2016	2016	2016	2017-2018	2017-2018	2018
	Revenue Budget	Expense Budget	Ending Balance	Projected Revenues	Projected Expenses	Ending Balance
Total, All City Funds	\$ 467,112,026	\$ 480,202,866	\$ 275,829,399	\$ 948,755,069	\$ 1,004,300,843	\$ 220,283,625

The Recommended General, Street and Fire fund budget is anticipating utilizing \$3.7 million in existing reserves to fund one-time initiatives, including providing bridge-funding for 12 new FTE positions pending recommendations from the Police Community Resource Team on future funding, equipment needs and other one-time items. The 2017-2018 City Manager's Recommended Budget in the General, Street and Fire funds is 8% higher over the two-year time period than it was in the 2015-2016 Adopted Budget.

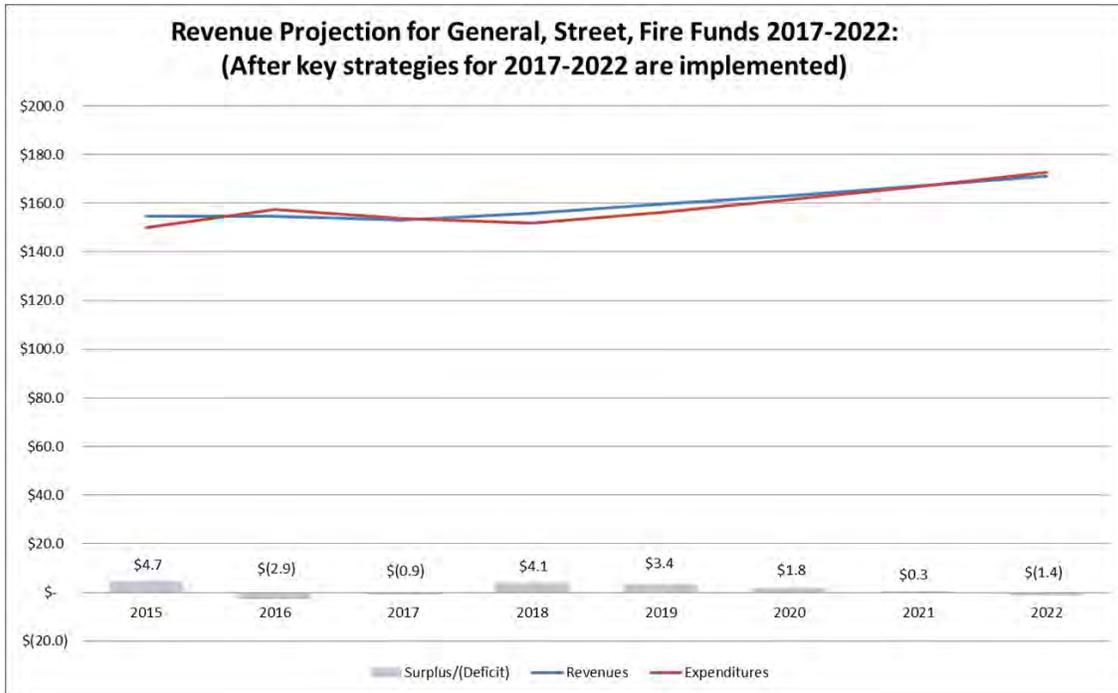
Fund Name	2016	2016	2016	2017-2018	2017-2018	2018
	Revenue Budget	Expense Budget	Ending Balance	Projected Revenues	Projected Expenses	Ending Balance
General Fund	139,965,836	145,270,967	51,566,788	283,748,651	286,725,490	48,589,950
Street Fund	18,579,714	17,760,898	8,079,162	36,339,958	37,025,920	7,393,200
Fire Fund	35,426,139	36,845,259	5,513,587	80,191,612	79,539,143	6,166,056
Total General, Street, Fire Funds	195,224,401	201,120,710	65,219,517	409,443,960	412,449,201	62,214,276

As reviewed with Council at a Retreat on January 29, 2016, and in several intervening conversations, the following assumptions underpinned budget preparation, and are included in the Recommended Budget.

- **Revenues** – the Recommended Budget reflects the following revenue assumptions:
 - The statutorily authorized 1% increase in property tax revenues for each year of the biennium.

- Rate adjustments for sewer, water, drainage and garbage utilities to reflect inflation and fund depreciation costs *that in the aggregate* equate to an overall adjustment of 3% each year.
 - Optimized fee rates in fee-for-service enterprise areas, parks and recreation, building and planning.
 - Increased parking rates to achieve full fiscal self-sufficiency in that area.
 - A mild recession anticipated in 2017.
- **Expenditures** – the expenditures in the recommended budget were developed consistent with the following:
 - Continuation of success in maintenance of health insurance cost containment.
 - Modest personnel cost increases.
 - Very limited addition of FTE employees without new associated revenue; use of limited-term positions to pilot new service delivery models.
 - A zero-based budgeting approach to overtime, repair and maintenance and professional services items.
 - Optimization of use of dedicated funds to sustain core services, particularly in public safety areas.
 - No new debt.

Forecast: with these basic assumptions, the forecast for the coming biennium reflected a combination of \$3.2 million/year in surplus over 2017-2018 biennium and a small deficit, roughly equating to half of the forecast's margin of error, was anticipated to develop by the last year of the forecast. The six-year forecast has been the best the City has had since late 1990s and reflects commitment to the strict fiscal discipline adhered to by the City and City Council since the end of the Great Recession.



A full detailed review of the six-year forecast was provided at the January 29th workshop.

Four Key Framework Initiatives:

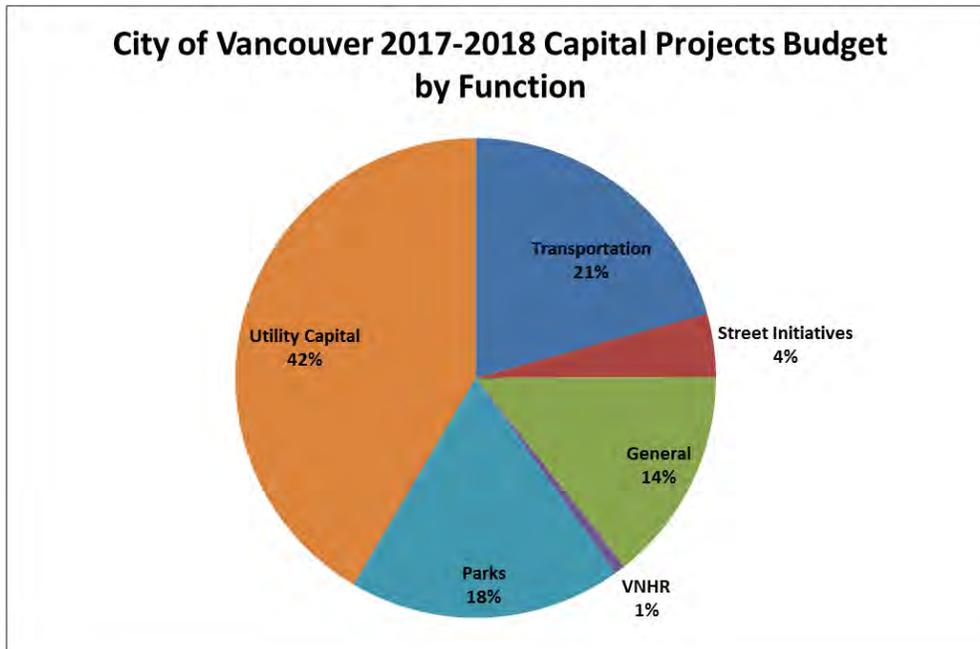
During the Legacy 2020 development process, the City has set the course of improving the City’s financial sustainability through 2020 by moving forward with four key initiatives to guide our budget development on a long-term basis. These four initiatives remain as, if not more, relevant today than they were two years ago. These initiatives are: firm our foundation, invest in critical infrastructure, innovate for the future, and invest in leadership and staff development. The City Manager’s Recommended Budget continues to follow these initiatives.

- **Firm our foundation.** The Recommended Budget continues to fully fund City reserves and depreciation accounts to levels provided for in the Council-approved financial policies while maintaining adequate operating capital throughout the biennium. Additional positions in police, parks maintenance, public works, administrative services and legal will allow the City to slightly increase service levels in both support service and direct service departments. Overall, the budget recommends adding 71.45 FTEs, (including the 38.25 approved in the 2016 Winter Supplemental) -- more than the City has been able to add in any budget developed over the last ten-year period. Below are some of the highlights of recommendations included in the Recommended Budget consistent with this key initiative:

Highlights:

- Maintain operating capital and fund full reserve and depreciation regimen in the General Fund to levels provided for in council financial policies.

- Twelve new full-time equivalent (FTE) Police Officers, Police Service Technicians and Support positions were added in Police to address specific staffing and administrative requirements in the Police Department. Utilization of the current one-time resources would not be needed after the Police Community Resource Team completes its funding recommendation and it gets confirmed by City Council.
 - Additional 19 FTEs in the Police Department were added to form the City's Police Records Division. These positions are fully funded by savings from the City's payment to the county for providing these services.
 - All three phases of the Parks Greening Program, including 3 FTEs and supporting costs, were included in the 2017-2018 Budget. This initiative will ensure that all City parks with installed irrigation systems will be green for the 2018 summer season.
 - Additional staffing is included in the budget to support the Street Funding Initiative, in both the right-of-way program and the Pavement Management program, funded by new revenues that are set to go into effect during the 2017-2018 Biennium. Some of the revenues funding the Street Initiative came in higher than originally anticipated, allowing us to initiate in 2017-2018 the sidewalk repair and maintenance program city-wide.
 - A total of 9 FTEs were added in the Internal Services Fund to support the network migration from the County, address information security, provide support of the Police Records Division, add support for the workers compensation and recruitment programs, and add staff in the public records and procurement areas to keep up with the increasing demand for services.
 - One new criminal attorney position was included to better keep up with the increasing workload demands, and one facilities assistant for City Hall was included.
 - The SUV pilot project in Fire will be extended through the next biennium.
 - Affirm 2015-16 staffing levels as baseline in all other service areas.
 - Maintain market relevance for compensation to assure competitiveness needed to retain and recruit workforce.
 - A new Utility Locator program is created in Public Works in response to a recent new mandate from the State of Washington.
- **Invest in critical infrastructure.** The Recommended Budget reflects an \$81.0 million capital investment in street infrastructure, fire stations, parks, recreation facilities and police precincts. An additional \$57.5 million represents proposed capital projects in the City's utility funds. These investments are funded with a combination of City's one-time and ongoing resources consistent with the City's asset management philosophy and federal and state grants.



Of the City’s nearly \$1.3 billion in total assets, approximately 80% are capital (buildings, streets, land, utility lines, etc.); our stewardship of these capital assets is critical to efficient, effective and sustainable service delivery. While the true costs to manage these assets through their lifetime are daunting, the City is in a position to begin to make meaningful, strategic investments in our assets without the need for new debt. Consistent with the City’s commitment to the Street Funding Initiative, the Recommended Budget includes a conversion of \$1 million in reduced debt service in the General Fund into an on-going revenue source.

The new array of programs included for Streets comprise of right of way maintenance, sidewalk repair, increased pavement management program, and increased capacity in the programs improving safety, mobility and livability at the City. All of these increases were funded by the dedicated Street funding that went into effect in 2016. The City is also embarking on a large project to replace its aged ERP system Oracle - that provides a backbone to the flow of City financial, payroll and human resource management information - with a more modern, agile, responsive and cost effective solution. The funds needed for a replacement system have been built up over time and will not create a negative impact on the financial position of the General Fund or put the City in debt. The following capital projects are included in the Recommended Budget using the pay-as-you go strategy while not borrowing funds from any sources.

Highlights:

- Install a new ERP system – a backbone of our financial and human resource management activities.

- Complete Fire Stations 1 and 2 replacement, capital projects at the Marshall Center and Waterfront Park. These are funded and currently underway, with expected completion dates in 2017.
- Asset Management -- \$6.9 million: A number of asset management projects are recommended to move forward – roof replacements, major maintenance, bathroom remodels at fire stations 3 and 6, pervious surface replacement at Firstenburg and East Precinct.
- Transportation -- \$34.6 million: Mill Plain Blvd from 104th to NE Chkalov Dr. , 137th Ave Corridor between 49th and Fourth Plain, 18th St. Utility Relocation and 16th St. Improvements, NE 18th St. From NE Four Seasons Ln to NE 136th Ave. and Street Initiative capital program of \$5.9 million.
- Parks and Trails -- \$16 million: Finish Waterfront Park construction, New Parks Land Acquisition and Development utilizing the City’s PIF resources.
- Utilities - \$57.5 million: Larger than in prior years SCIP program, totalling \$8.6 mil over the biennium, Process Controls Electronics and Interceptor Rehabilitation (Sewer), a \$5.3 mil two –year program in Drainage consisting of a variety of projects, Water Station 1 Standby Power Booster Station, a single largest project in the Water fund, totalling \$12.5 million over the biennium, other large projects include Water Works Park Reservoir and Seismic Upgrade, SCADA System Upgrade, 107th St., Evergreen Trans Main Blandford project and other water projects, totalling \$33.4 million.
- Sustainably fund fire equipment/apparatus replacement: the budget continues to fully fund fire equipment and apparatus repair and replacement in a manner that is sustainable for multiple budget cycles.
- **Innovate for the future.** The City continues to remain nimble and innovative to better meet the challenges of tomorrow. The City remains on the path toward being self-insured in the largest health insurance plan it has. So far, the result has been very favorable and allowed us to keep health insurance rates frozen over the past two years and for the upcoming biennium, benefitting the City and VHA, a member of our self-insured pool. Further cost-saving innovations on the health care front are explored in the Recommended Budget, such as unbundling of administration of different health insurance cost components. Also included in the Recommended Budget is the extension of the SUV pilot project in Fire and additional staffing in the Fire Marshall’s Office that is fully funded by inspection revenue. The City continues to pursue a third-party overview of different lines of business to ensure we keep up with best practices. Currently,

studies of municipal court service delivery and that of the City equipment shop are underway. The recommendations will likely be addressed in one of the Supplemental Appropriations of 2017.

Highlights:

- Health insurance innovations: the budget reflects the City remaining self-insured in the area of health insurance for our workforce and their families. By becoming a regulated insurer under state law, the 2017 premium rates on Regence plans are projected to stay at the 2014 levels, positioning the City to significantly temper the pace of growth in health care costs for years to come. The budget also anticipates influencing long-term health care costs through investing into a robust employee wellness program.
 - Pilot project in Fire to test utilization of SUV vehicles and staged service delivery coupled with the “staffing matched to demand” model is extended through the next biennium; Fire Marshall’s fully funded initiative is included to increase the frequency of inspection and re-inspection of city’s commercial properties. The first pilot program started in 2015 with limited staffing has proven to be very successful to-date.
 - The budget continues our ongoing investment in strategic, one-time change initiatives in pursuit of innovative approaches to improve efficiency and to preserve, sustain, and enhance service outcomes. The City had a number of initiatives included in the 2015-16 biennium, including review of the procurement function, workers compensation administration, municipal court, equipment repair services and grounds maintenance. The recommendations from the procurement study have been implemented, and those from the other studies are anticipated by the end of the year, with targeted action in 2017-2018. New focus areas in 2017-2018 include:
 - GIS program city-wide
 - Public Records program city-wide
 - Modest placeholder for one or two additional studies for 2018 or implementation of best practices recommendations from the studies completed in 2016.
 - A new program is tested in the Building Inspection area – two additional Building Inspector FTEs are added on a conditional basis. The department is developing performance expectations for the inspectors to ensure the employees have reasonable targets and deliver high quality inspections on a consistent basis. These two positions are anticipated to be deployed once the performance targets are set and the activity in the construction sector justifies adding staff.
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- **Leadership and staff development.** The City continues to face a generational change in our workforce making development of leadership skills at the City as well as succession planning critical. A new over-hire policy is one of the few recommended changes to the

City's Financial Policies and is included to allow the City more flexibility in staffing to meet that demand. Resources are set aside in the budget to allow targeted staff training and development.

In recognition of pending staff turnover of up to 10% by the end of 2018 due to retirements and natural attrition, the City needs to actively manage the transfer of experience and institutional knowledge and cultivate the next generation of leadership.

By the end of 2018, a total of 44 current seasoned employees will be ready and eligible to retire. An additional 3-5% of staff will turn over as a result of natural attrition. In addition, the demands of a fiscally constrained future require our workforce to have contemporary skills, and call for a deliberate investment in cultivating the next generation of leadership within the organization.

Highlights:

- A new over-hire policy is one of the few recommended changes to the City's Financial Policies to allow us more flexibility in staffing to address succession planning challenges.
- Resources are set aside in the budget to allow targeted staff training and development.
- Leadership development: The City is in the process of implementing a professional leadership development program:
 - Cultural competency, leadership and project management skills development are anticipated to be the City's focus over the next biennium.

Minor changes are proposed to the City's Financial Policies, reflecting updates and clarifications to current procedures, and incorporating confirmation of City commitment to the Street Funding Initiative.

The Recommended Budget addresses the highest priorities of the community with continued high level fiscal constraint in utilization of City resources. The budget is balanced by utilizing ongoing revenues, and the one-time resources are funded by existing cash. The budget sets initiatives in place to bear financial savings in future biennia and temper the growth in city expenditures.

Following are detailed recommendations by fund, by department, by project for all City funds and departments. A detailed listing of all decision packages submitted is also included.