



**BUSINESS OF THE CITY COUNCIL  
CITY OF MERCER ISLAND, WA**

**AB 4928  
February 24, 2014  
Study Session**

**TRANSPORTATION AND STREET FUND  
STUDY SESSION**

**Proposed Council Action:**  
No action required.

<b>DEPARTMENT OF</b>	Finance (Chip Corder)
<b>COUNCIL LIAISON</b>	n/a
<b>EXHIBITS</b>	1. 2013 PCI Ratings for Arterial Streets Map 2. 2013 PCI Ratings for Residential Streets Map
<b>APPROVED BY CITY MANAGER</b>	

<b>AMOUNT OF EXPENDITURE</b>	\$	n/a
<b>AMOUNT BUDGETED</b>	\$	n/a
<b>APPROPRIATION REQUIRED</b>	\$	n/a

**SUMMARY**

**INTRODUCTION**

In response to the projected Street Fund deficit beginning in 2016, staff is presenting a number of options for Council discussion and initial direction. These issues are brought forward now in order to get an early start to development of the City Transportation Improvement Plan (TIP) and the 2015-16 Budget. Staff is not presenting detailed financial analysis of the options available to address the projected deficit at this time. Instead, general input and initial direction are sought from Council to inform staff's on-going work towards a proposed TIP and budget.

Options available to address the Street Fund deficit and transportation needs include:

1. Defer, cut, or scale back planned projects in 2015 and beyond.
2. Change current policies related to:
  - a. Arterial street life cycle (20-25 years)
  - b. Residential street life cycle (30-35 years)
  - c. Traffic level of service standard
3. Institute a new revenue source:
  - a. King County transportation benefit district (TBD) ballot measure (April 22, 2014)
  - b. Mercer Island specific TBD approved by Council (up to \$20 license fee per vehicle) vs. approved by voters (>\$20 license fee per vehicle)

## BACKGROUND

### Street Fund Projected Deficit

When the 2013-2014 Budget was adopted at the end of 2012, the Street Fund balance was projected to go negative beginning in 2016. A summary of the 2013-2018 projected Street Fund balance from the Capital Improvement Program section of the 2013-2014 Budget document is shown below.

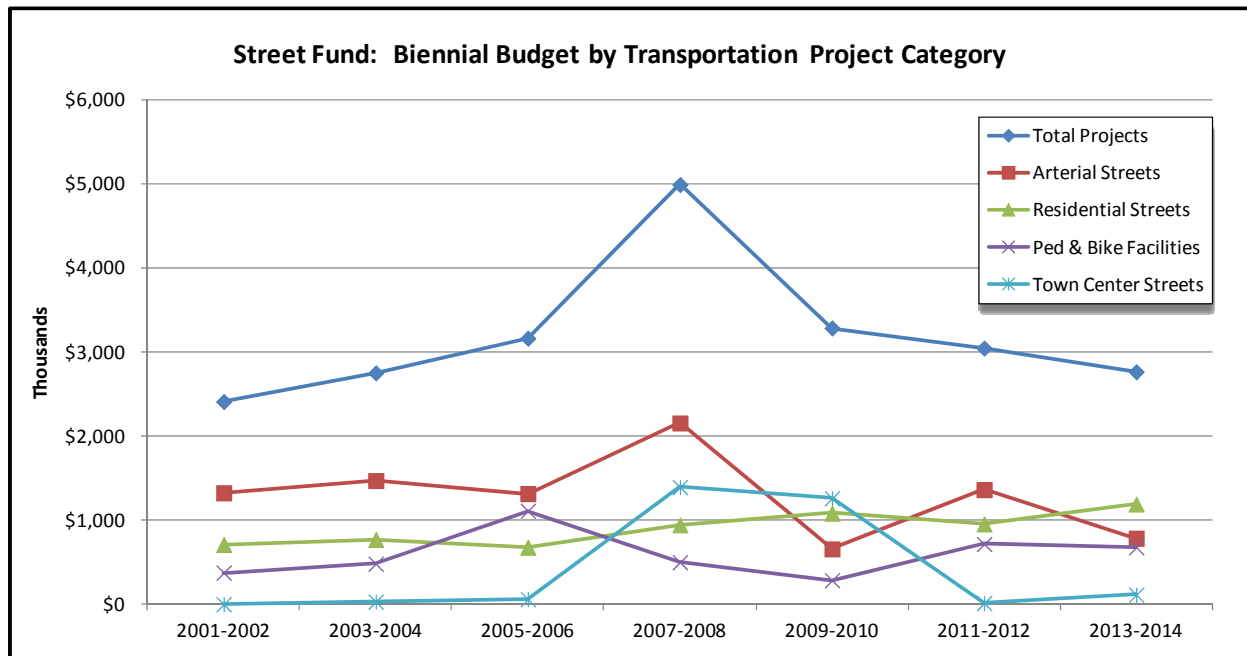
2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
\$767	\$1,398	\$593	(\$856)	(\$1,232)	(\$1,876)

*Note: Numbers are shown in thousands.*

The declining fund balance reflected above is primarily the result of the following:

1. The impact of the "Great Recession" on REET receipts, which declined significantly in 2008-2009 and recovered slowly in 2010-2012;
2. The decision to take advantage of a very favorable bid environment in 2009-2010 and 2011-2012, which entailed drawing down fund balance intentionally;
3. The decision to take a calculated risk in 2013-2014 that REET would recover faster than projected; and
4. Fewer state transportation grants available in 2011-2012 and 2013-2014.

To help the Council better understand how planned expenditures have changed in the Street Fund over the past seven biennia (2001-2014), the originally adopted biennial budget is broken down by transportation project category in the following graph and table.



Transportation Project Category	Originally Adopted Biennial Budget (in thousands)						
	2001- 2002	2003- 2004	2005- 2006	2007- 2008	2009- 2010	2011- 2012	2013- 2014
Residential Streets	\$710	\$770	\$678	\$943	\$1,082	\$954	\$1,191
Arterial Streets	\$1,325	\$1,470	\$1,315	\$2,155	\$658	\$1,363	\$784
Town Center Streets	\$0	\$30	\$60	\$1,393	\$1,260	\$14	\$113
Pedestrian & Bicycle Facilities	\$375	\$481	\$1,110	\$500	\$285	\$715	\$677
<b>Total Projects</b>	<b>\$2,410</b>	<b>\$2,751</b>	<b>\$3,163</b>	<b>\$4,991</b>	<b>\$3,285</b>	<b>\$3,046</b>	<b>\$2,765</b>

The impact of the “Great Recession” on transportation projects becomes visible in the 2009-2010 biennium, with total budgeted expenditures dropping 34% from the 2007-2008 biennium, which represented the peak during this seven biennia timeframe. Thereafter, total budgeted expenditures continued to drop in 2011-2012 and 2013-2014, reflecting the extremely sluggish economy. Overall, the 2013-2014 budget is equivalent to the 2003-2004 budget in nominal dollars and roughly equivalent to the 2001-2002 budget in constant (i.e. inflation adjusted) dollars. Looking at each project category, the only discernible trend relates to Residential Streets, which increased 9% per biennium in nominal dollars and 5-6% per biennium in constant dollars from 2001-2002 to 2013-2014.

## OPTIONS

The following options are presented for Council discussion and consideration in managing the projected Street Fund deficit.

### **Option 1. Defer, cut, or scale back planned projects in 2015 and beyond.**

The City could eliminate or defer planned projects as necessary to address, at least in part, the anticipated budget shortfall. In pursuing this option, staff would seek to prioritize projects and timing to meet the most critical needs. However, over time, this approach could lead to a degraded street system that does not meet the service needs or expectations of the community.

### **Mercer Island School District Bond Measure**

In considering project elimination or deferral, it should be emphasized that the Mercer Island School District bond issue recently approved by the voters places even greater stress on the Street Fund. The voter approved bond will fund construction of a new elementary school, renovation of the middle school and expansion of the high school. These projects may require as of yet unbudgeted neighborhood traffic control and pedestrian improvements. Analysis is underway to determine the improvements that may be needed and their cost. The TIP this year will include proposed traffic capacity improvements to accommodate the increased traffic expected from the major redevelopment on the school district’s mega block along with safe pedestrian routes to school.

The district will be responsible for paying their fair share of the necessary improvements but the majority of the cost will be the City’s responsibility. Adding these potentially significant projects to the TIP will result in difficult funding and prioritization decisions because project needs may significantly exceed anticipated revenues.

**Option 2. Change current policies related to arterial street life cycle, residential street life cycle, and/or traffic level of service standard.**

**Pavement Condition Index and Pavement Life Cycles**

Roadway pavements wear and deteriorate over time, primarily from the traffic loads they carry, but also due to distresses brought about by weathering and age. To rate the condition of the many individual pavement segments that comprise a given roadway network, a Pavement Condition Index (PCI) rating system is commonly used, in which a numerical PCI score is derived from quantifying common distress types that are visible on the pavement's surface. These PCI scores serve as the starting point in developing (or updating) near-term and long-term repair and repaving plans to maintain the network's pavements.

In 2009, the City had all street pavements rated by a visual PCI procedure. Because pavement distresses grow over time, additional distress surveys are needed periodically to keep the network's PCI information up to date, and in 2013, another PCI rating project was performed. Data was collected and evaluated using the ASTM D6433 "Standard Practice for Road and Parking Lots Pavement Condition Index Surveys" procedure. Mercer Island's 2013 average network PCI score is 77 (on a scale of 0 to 100, with 100 being best score), which is an overall rating of "Satisfactory."

Life cycles for pavements vary, and depend on traffic loads and volumes, types of construction materials used, strength of the roadway pavement section, and distresses accumulated over time. Pavement life cycles for Mercer Island streets have historically been planned and designed at 20-25 years for arterial and 30-35 years for residential streets.

The Street Engineer will give a presentation at the study session to explain the City's recent PCI project and data collection process, explain common pavement distresses that affect condition ratings, and discuss the PCI maps included herein as Exhibits 1 and 2. In addition, he will discuss pavement life cycles and repair strategies currently used for preserving the Island's road network.

In the short term, budget savings could be achieved by delaying repair and replacement beyond what is called for by current practices. However, in the longer term this approach would likely result in higher future costs of repair/replacement (it is more expensive to repair a badly deteriorated road than to provide timely repaving/maintenance) and may lead to community dissatisfaction with street conditions.

**Level of Service (LOS), Traffic Congestion and the Comprehensive Plan**

Mercer Island's roadway congestion standard (called "level of service" or "LOS") is identified in the Comprehensive Plan as "C", a letter designation defining traffic flow. Such a standard generally represents some delays with acceptable levels of driver comfort. In comparison, most cities have standards of D, E, or F which represents the kinds of delay seen in the cities in the greater Puget Sound area. Today, some of Mercer Island's intersections are either worse than C, or soon will be with additional growth. The blanket standard of C is no longer realistic without creating unintended consequences and the need for significant investment in congestion relief. For instance, to maintain level C, neighborhood streets connecting to Island Crest Way may need to be widened for turn lanes and Island Crest Way south of SE 53rd Street would likely need widening and additional traffic signals. Similar needs are anticipated at other locations to address LOS.

The City's Comprehensive Plan will be updated in 2014-2015, providing an opportunity to discuss and consider modification to the LOS. Reducing the LOS standard will lessen the need for some future congestion relief projects. If Council chooses to retain the current LOS standard, additional long term funding will be needed to support the widening of streets, installation of traffic signals and implementation of other traffic congestion measures.

### **Option 3. Institute a new revenue source.**

#### **Transportation Benefit District (TBD)**

State law provides an additional mechanism for transportation funding through the creation of a TBD. A TBD is a quasi-municipal corporation and independent taxing district created for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements. The improvements can be for maintenance of City streets, investments in high capacity transportation, public transportation, pedestrian and bicycle facility improvements, and transportation demand management. A TBD can also fund the operation, maintenance, and preservation of existing streets and trails.

King County is likely to propose a county-wide TBD with a ballot measure that is anticipated to go before voters on April 22, 2014. Funds from the TBD would be shared with cities. If placed on the ballot and approved by voters, this measure will generate \$598,000 (as estimated by King County) in new revenue annually for Mercer Island.

If King County does not move ahead with the TBD or the TBD ballot measure fails, the City Council could create a Mercer Island specific TBD, establishing up to a \$20 annual vehicle license fee, which would generate \$350,000 in new revenue annually for the City.

To establish an annual license fee greater than \$20 would require simple majority approval by Mercer Island voters. A \$40 annual vehicle license fee, for example, would generate \$700,000 in new revenue annually for the City.

#### **NEXT STEPS**

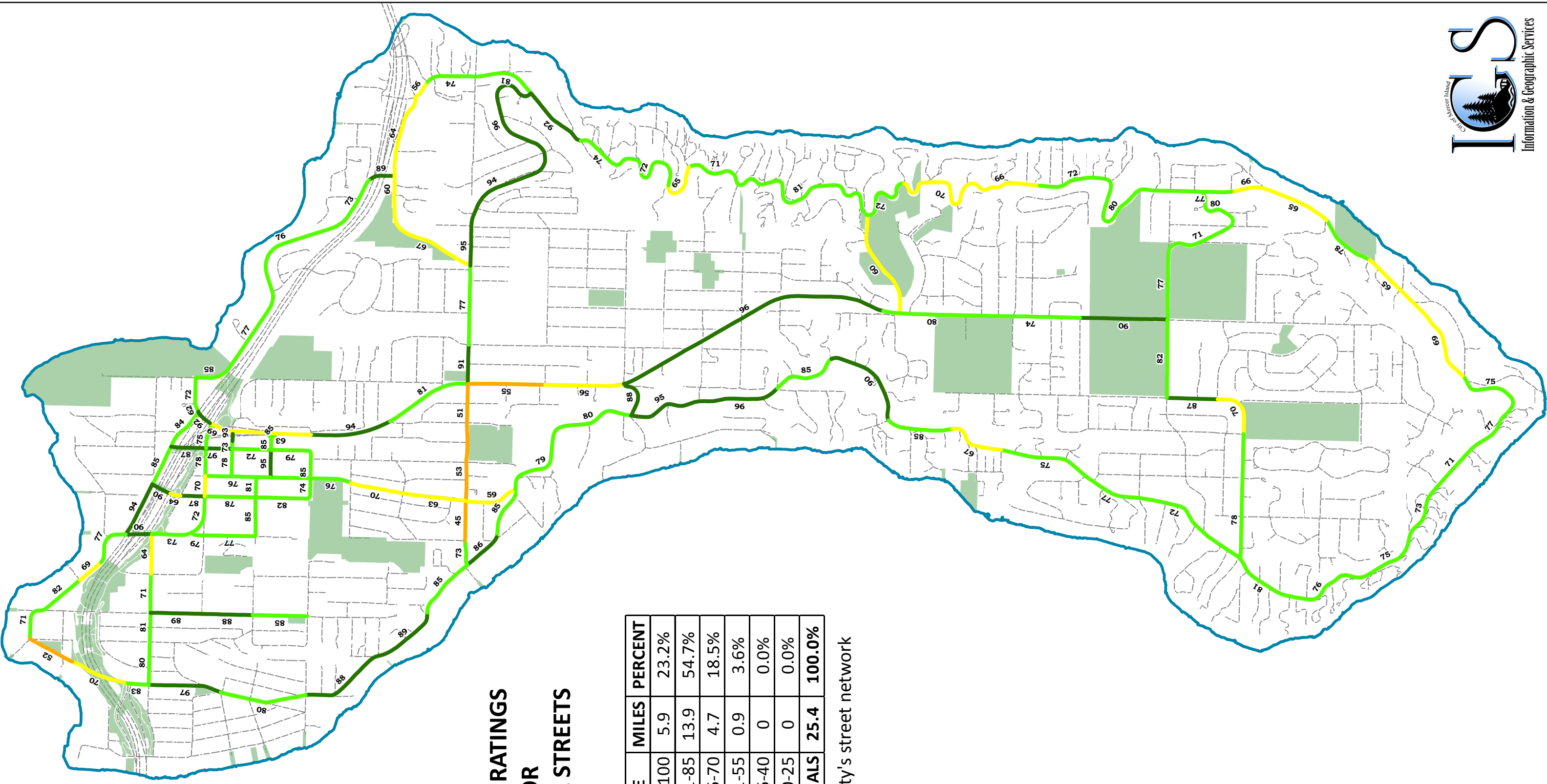
Council input on the options for addressing the Street Fund deficit will be used to guide development of the TIP and 2015-16 Budget. Council direction at this stage will not lock the City into a course of action. This study session is the first of several steps in developing the City's approach to the Street Fund. The Council will have future opportunities to consider these options and provide direction to staff as the TIP and budget are reviewed over the course of the year.

#### **RECOMMENDATION**

*Assistant City Manager/Finance Director*

Provide initial direction to staff regarding Street Fund budget development and 2014 TIP priorities.



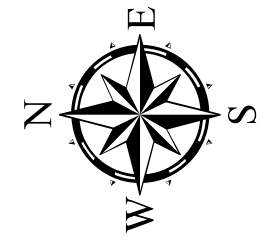


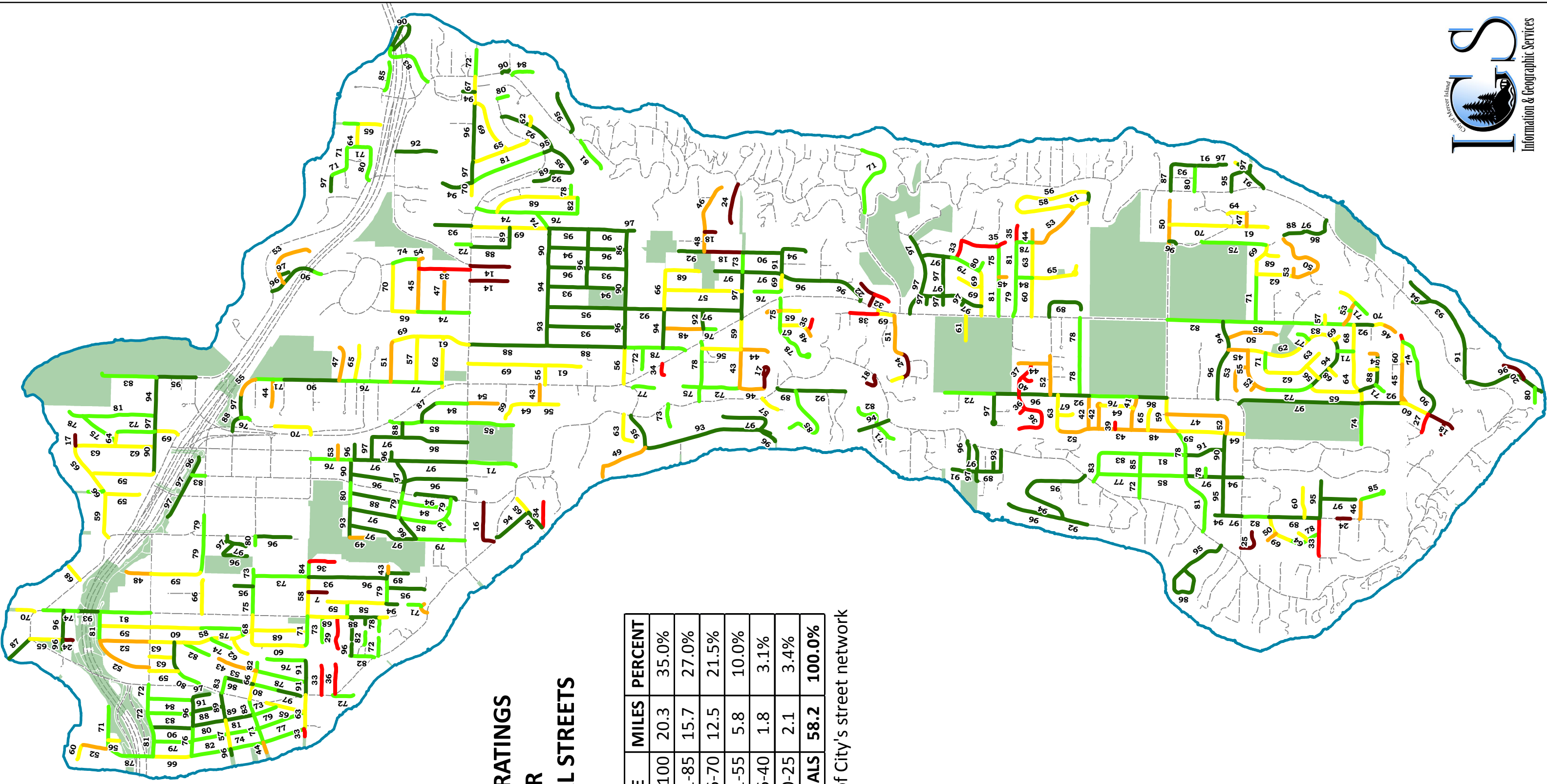
## 2013 PCI RATINGS FOR ARTERIAL STREETS

**Legend**

COLOR	RATING SCALE	MILES	PERCENT
<span style="color: green;">█</span>	86-100	5.9	23.2%
<span style="color: lightgreen;">█</span>	71-85	13.9	54.7%
<span style="color: yellow;">█</span>	56-70	4.7	18.5%
<span style="color: orange;">█</span>	41-55	0.9	3.6%
<span style="color: red;">█</span>	26-40	0	0.0%
<span style="color: darkred;">█</span>	0-25	0	0.0%
	<b>TOTAL ARTERIALS</b>	<b>25.4</b>	<b>100.0%</b>

Arterials are 30.3% of City's street network





## 2013 PCI RATINGS FOR RESIDENTIAL STREETS

**Legend**

COLOR	RATING SCALE	MILES	PERCENT
<span style="color: green;">—</span>	86-100	20.3	35.0%
<span style="color: lightgreen;">—</span>	71-85	15.7	27.0%
<span style="color: yellow;">—</span>	56-70	12.5	21.5%
<span style="color: orange;">—</span>	41-55	5.8	10.0%
<span style="color: red;">—</span>	26-40	1.8	3.1%
<span style="color: darkred;">—</span>	0-25	2.1	3.4%
<b>TOTAL RESIDENTIALS</b>		<b>58.2</b>	<b>100.0%</b>

Residentials are 69.7% of City's street network

