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TO: Bellingham City Council and the Citizens of Bellingham

FROM: Mayor Mark Asmundson

DATE: December 19, 2005

SUBJECT: Presenting the 2006 Budget

Amidst changes that have occurred in the past, those that are underway, and changes the future will inevitably bring, the City of Bellingham remains among the most livable, vibrant communities in the United States. It is a city of spectacular natural beauty, outstanding public facilities, and engaged, energetic citizens. Bellingham has a bright future with many exciting opportunities.

To continue supporting this bright future I am pleased to present the 2006 Budget for the City of Bellingham. This budget is the 2006 blueprint for the City's mission: To support safe, satisfying and prosperous community life by providing the citizens of Bellingham with quality, cost-effective services that meet today's needs and form a strong foundation for the future.

This balanced budget totals \$193.2 million, with a net general fund budget of \$54.2 million. This is about 2.5% greater than the 2005 general fund budget.

This budget funds key community priorities, provides a wide range of services that are requested and expected by our community, and contributes significantly to the high quality of life that Bellingham residents enjoy. This budget also builds on the significant successes we achieved in 2005.

Bellingham celebrates many achievements in 2005

We have much to celebrate as we look back on the past year and plan for the year ahead. Among the City's numerous achievements in 2005 are the following:

- Making significant progress in transforming Bellingham's waterfront into a source of vitality, value and pride for the entire community by establishing an effective working partnership with the Port of Bellingham, purchasing a partial ownership interest in a section of property at the South end of Cornwall Avenue, developing and implementing a work plan to carry out this enormous effort, securing \$12 million in funding for various aspects of the project, and developing several conceptual design alternatives for community review.

- Being recognized by Seattle Business Monthly magazine as Washington's third highest ranked "Best Cities for Business" reflecting the City's strong job growth, highly educated workforce, quality of life, business infrastructure, taxes and other criteria.
- Completing restoration of the Holly Street Landfill site along Whatcom Creek providing renewed tide flats and a salt marsh to attract fish and other aquatic life and a new boardwalk to attract people to Bellingham's Old Town and provide dynamic views of this productive estuary.
- Starting construction of the Taylor Dock Upland Improvements to provide a covered picnic shelter, a new floating dock and ramp, and completing the development of the upland park area.
- Securing numerous competitive grants including a \$600,000 grant toward the purchase of land in the Chuckanut Bay Greenway (Woodstock Farm), other grants to fund Whatcom Creek Trail and Northwest Avenue Pedestrian Improvement projects and development of the North Bellingham Trail and Greenway Plan.
- Acquiring significant parcels and conducting other activities in the Lake Whatcom watershed in 2005 address our goal of protecting our water resources in the reservoir, including winning a national award for our stormwater treatment facilities in the watershed.
- Negotiating an agreement with the County and receiving resounding support from voters to provide funding to continue providing EMS services throughout Whatcom County.
- Entertaining and informing over 110,000 people who visited the City's wildly successful museum exhibits including, "Motorcycles: The Good, the Bad and the Custom".
- Leading a regional one-day "point-in-time" count of the homeless population in Whatcom County. The results of this effort to accurately identify homeless needs in our community provide insights into local homelessness issues, additional services needs, and help bring in federal and state grant funding to address these important needs.
- Providing additional services to citizens via the city's website, including an on-line registration system for parks and recreational activities, on-line status checking for building permits, and on-line BTV10 television program schedule. These additions to the city's electronic services are easy to use and improve customer service and convenience, and have proved popular with citizens.
- Launching a redesigned government and education television channel, BTV10, featuring improved on-air audio and visual quality, more coverage of city government programs and activities, and easier access to the broadcast schedule.
- Installing video cameras at key locations downtown to monitor traffic flow and also aid in crime prevention. Within the first days of installation of the first camera, this additional eye on downtown contributed to an arrest.
- Increasing collaboration with educational institutions and neighborhood representatives to address underage drinking, disruptive neighborhood parties

and alcohol-related crime, including conducting "Party Patrol" emphasis patrols in key locations.

- Regaining sound financial standing allowing the City to restore reserve funds, strategically add staff in critical areas and fund the most pressing infrastructure maintenance and improvements.

As this list demonstrates, the City achieved numerous successes in 2005. This was possible thanks to strong leadership, hard work, a robust local economy and careful planning. However, making these achievements possible was not painless.

Strategic action was necessary to align costs with revenues

As I described in last year's budget message, several major events—including State legislation, initiatives and the closure of the Georgia Pacific pulp mill—have had a significant negative impact on the City's revenues. These events were exacerbated by increases in insurance costs and hikes in required pension contributions and other employee compensation. The City's financial forecasts indicated that the combined impact of these factors would soon deplete the City's financial reserves. To address these challenges, prepare for those ahead and maintain the highest priority services for a growing community, we took decisive and sometimes painful steps including:

- Eliminating over 40 positions during 2003 and 2004
- Implementing employee cost sharing for medical benefits
- Changing the way we provide Emergency Medical Service (EMS) transport to delay adding more ambulance staff yet still meet the demands for service
- Adopting many other cost-cutting measures, such as eliminating police officers in middle schools, bicycle patrols and the Drug Awareness and Resistance Education (DARE) program, reducing Library hours, closing a Museum facility, reducing Parks maintenance, and postponing fleet replacements

We also made strategic budget and accounting changes that allow us to more accurately identify expenses and forecast for the future including:

- Basing the budget on most recent actual expenditure reports (rather than the previous years budget, which tends to overestimate expenditures and understate revenues)
- Allocating expenses more appropriately by:
 - Revising our indirect cost allocation plan to more accurately attribute costs to the activities associated with those costs
 - Paying swimming pool bonds with Real Estate Excise Tax, a revenue source which by law is used primarily for capital facilities
 - Paying regulatory staff from the Development Services Fund rather than the General Fund, in order to eliminate a taxpayer subsidy of growth-related services
- Incorporating "turnback" into our long-term forecasts. The budget is a legal authorization to expend funds. It is also an educated estimate of both revenues and expenditures. The estimates can never fully predict future events. Thus, a careful review of our budget history indicates that about 3% of authorized general fund expenditures are not made in the course of the budget year. Therefore, we are recognizing this history in the 2006 budget, where the sum of \$1.6 million is

included as the anticipated amount of authorized expenditures that will not actually occur.

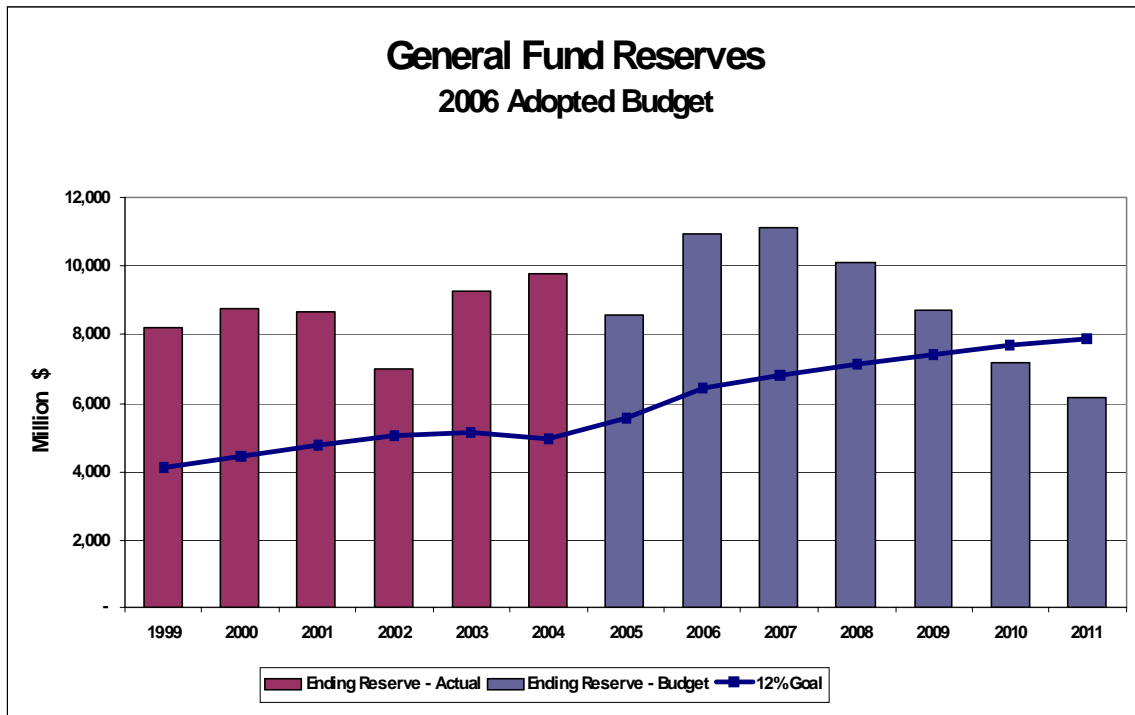
These actions combined with the revenue generated by our robust local economy put the City back into a strong financial position with healthy reserves.

Financial challenges are not over

In spite of the success of our recent actions and the current thriving economy, like all Washington cities Bellingham faces a structural funding problem. The service needs of the community, combined with the rate of increase of costs to provide those services, continue over the long run to make total costs rise faster than general fund revenue. More challenges ahead will aggravate this problem. These challenges include:

- In 2007 the State intends to more than double and then in 2008 more than triple the City's required contribution for employee retirement benefits. These increases from the current rate of 3.07% of wages to 9.38% in 2008 will add millions to the City's cost of employee retirement benefits mandated through the Public Employee Retirement System (PERS).
- Rising medical related costs will continue to drive increases in the annual cost to fund the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), which mandates pension, long-term care and medical care.
- Business and Occupation tax exemptions for certain activities adopted by the Legislature, that become effective in 2008, are estimated by the State to reduce the amount of Business and Occupations tax revenue that the City receives by \$632,000 annually.
- When Whatcom County opens the new interim jail in late 2006 or early 2007 we anticipate that the City's costs for incarcerating additional inmates will increase by approximately \$200,000 annually
- New challenges such as preparing for a potential bird flu pandemic and continuing unfunded mandates from the Federal and State government, such as the new requirements to meet specified fire response times will require additional funding.
- Creating a coordinated system of policies and procedures that has broad public support, complies with State laws and effectively maintains and improves the quality of life in individual neighborhoods, throughout the city and in the region will require significant staff and resources to engage the public and develop appropriate changes to the existing system.
- Strategically adding staff to maintain the existing level of service as the population of the City grows over time.

As we anticipate these events and project our revenues and expenditures over the next six years it is clear that we will continue to be faced with difficult choices. The graph on the next page reflects the changes in actual reserves over the past six years and the projected reserves that we can expect during the next six years as we anticipate the events listed above and if the historical trends in expenditures and revenues continue. As the graph indicates we expect to remain in strong financial shape for the next two years. However, beginning in 2008 expenditures will likely exceed revenues so that by 2010 our reserves will drop below the goal we set this year to maintain reserves equal to at least 12% of expenditures.



As in prior years, the budget includes a 1% property tax increase which amounts to about 35 cents per month for the average home. Without this increase, reserves would drop below our goal sooner than shown in the projection above.

Fortunately the strong Bellingham economy is contributing to our City's financial health and this year is expected to help bridge the otherwise large gap between the revenues from this 1% property tax increase and the larger increases in the City's mandated costs. Bellingham's diverse economy is growing rapidly. As a consequence tax revenues tied to the economy, such as sales and Business and Occupation (B&O) taxes, are increasing at rates significantly higher than the historical average. For instance, while B&O taxes have increased an average of 4.2% over the past five years, in 2005 they increased over 10%. Although we do not anticipate future tax growth to be as robust as we experienced in 2005, we do expect the economy to continue to grow. The graph above is based on the assumption that sales taxes will increase at approximately 5.2 percent annually and B&O taxes will increase at approximately 4.3 percent annually.

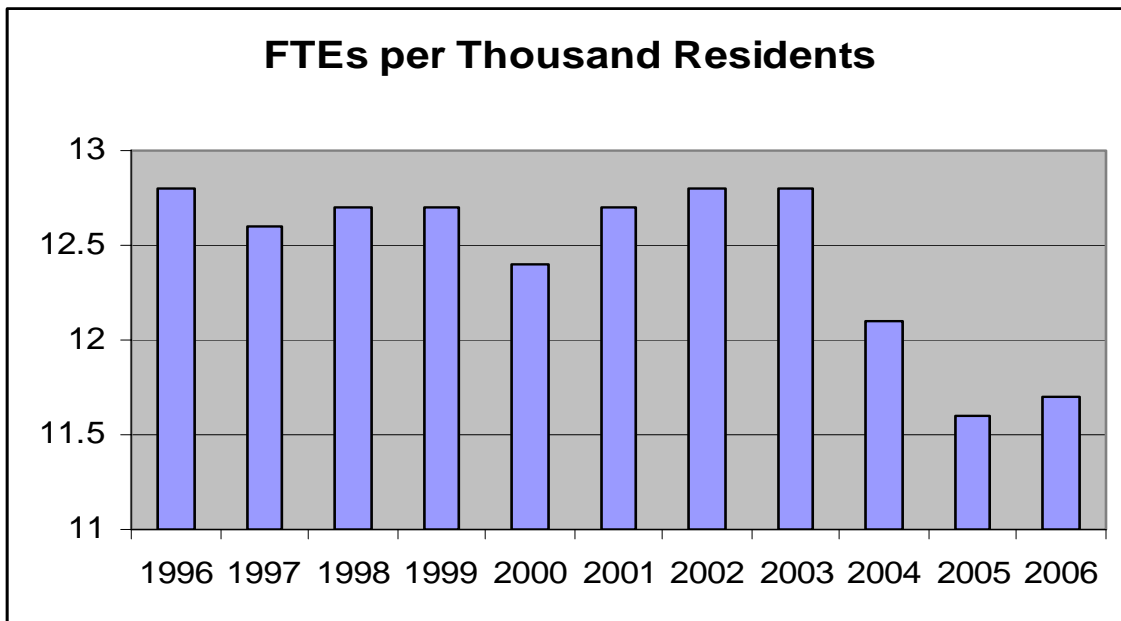
The challenges listed and illustrated above, as well as others that have not yet surfaced, require that we continue to strategically manage our resources and fiscal issues to accomplish our mission of safety and service. The actions we will take in 2006 to ensure our long-term financial health include the following:

- Develop funding solutions for Public Employees Retirement System (PERS) and Washington Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System increases, including internal and legislative options
- Continue fine-tuning our forecasts of both expenses and revenues
- Work to ensure priorities remain in line with community needs/wishes

- Work closely with all of the City’s collective bargaining units and employees to identify cost saving measures without lowering service levels
- Continue our extraordinarily successful efforts to obtain state and federal funds for capital projects
- Continue ongoing evaluation of city programs to ensure high quality services are delivered in the most cost-effective manner possible.

Highlights Of The 2006 Budget

The very nature of city services, such as police, fire and emergency medical services, court services, parks and recreation and planning, require *people*—city employees—to provide those services. Unfortunately, as the graph below illustrates, the ratio of staff to population has declined by almost 9% when compared with previous levels.



While the overall ratio of staff to population is an issue of general concern, even more important are the staff and other resources needed in specific areas. With this in mind, the 2006 budget strategically adds staff in a few key areas, primarily public safety, parks and utilities. These staff additions are necessary because of our growing population and increase in demand for City services. They include:

- Five new positions in Police to enhance patrol response time and increase police presence in our downtown
- One new Assistant City Attorney Senior position to handle the increasing caseload in the criminal division
- Increased hours for part-time parks maintenance staff
- Making permanent the existing time-limited Park Project Engineer position to oversee, coordinate and complete work associated with the numerous park development projects the City is undertaking and will undertake in the future

- Continuing full-year funding for expanded Geographical Information Systems and other staff to expand public information and involvement and ensure that citizens have timely and accurate information concerning development issues

Other key areas of emphasis, activities and projects funded in the 2006 Budget include:

- **Growth Management.** The budget includes \$500,000 for professional services to undertake numerous “Community Building” activities intended to clarify and address key public concerns about growth management issues and to update the City’s policies, procedures and implementing ordinances. This is intended to create a coordinated system for planning and addressing growth management issues that has broad public support and effectively maintains and improves the quality of life throughout the city and in the region.
- **Waterfront Redevelopment.** The outstanding partnership between the Port of Bellingham and the City for waterfront development is well underway and will continue into 2006. This unique joint project enjoyed early success in 2005, receiving \$12 million in funding from Federal and State sources. Our lobbying efforts will continue as the capital needs for this endeavor are significant. In 2006, a central waterfront master plan should be ready for public review and approval by the City Council and Port Commission.
- **Capital Facilities Projects.** The strong real estate market has increased Real Estate Excise Tax revenues. These revenues can only be used for specific expenses related to certain types of capital facilities. The 2006 budget includes funding from these restricted revenues, as well as funding available from grants, impact fees, utility revenues and sales tax revenues, for an array of capital projects, including:
 - Completing the Depot Market Square on Railroad Avenue
 - Completing major Civic Field renovations
 - Developing Phase 1 of Squalicum Creek Park
 - Constructing bicycle and pedestrian facilities on West Street to serve Squalicum Creek Park
 - Acquiring park land in the Cordata/North Bellingham area
 - Undertaking the largest street resurfacing effort in City history
 - Completing a major segment of the Whatcom Creek Trail from Racine Street to Ellis Street
 - Reconstructing the Holly Street entrance to downtown from Ellis Street to Railroad Avenue
 - Developing additional stormwater treatment facilities in the Lake Whatcom Watershed
 - Using \$3 million to acquire and protect land in the Lake Whatcom Watershed
 - Constructing innovative structures to divert water from the Middle Fork of the Nooksack, which will allow the removal of the 1950’s era diversion dam, a barrier to salmon spawning
 - Completing the site selection and schematic design for a new central library
- **Voter Approved Sales Tax Increase For EMS.** Voters resoundingly approved a 1/10th of 1% increase in sales tax to enable the continuation of a unified county wide system of emergency medical response. This system creates economies of scale for all participating jurisdictions. Consistent with the provisions of State law, 67% of the .01% sales tax will be used to fund the coordinated EMS system lead by the City of Bellingham in cooperation with Whatcom County and the cities and fire districts

within Whatcom County. The remaining 33% of the sales tax must be used solely for criminal justice purposes.

The budget is the City's most important policy action

This budget is a financial document in that it outlines anticipated revenues and proposed expenditures for 2006. But more than a financial document, it is a policy document. It specifies how City resources will be allocated to achieve the City Council's established goals and a broad array of city programs and services.

This budget reflects the highest priority of the city—public safety—and devotes more than 55% of the City's general fund resources to Police, Fire and Judicial support. It also addresses other key objectives including protecting Lake Whatcom; redeveloping our waterfront, expanding our parks and trail systems; maintaining public facilities; strategically applying technology to streamline and improve our operations; addressing needs stemming from our steady population growth; providing resources for programs and needs of the poorest members of our community and enhancing the quality of life for all Bellingham neighborhoods.

The budget is a plan for the future. Adopting the budget is the single most important policy action that the Council takes each year. We have developed this budget based on the goals that the Council adopted last February, on suggestions from various citizen advisory groups, including recommendations from the Budget Advisory Committee, on requests and comments from the public and on our best professional judgment. To make the policy clear, the budget is organized to make it easy to find the information required to understand how City services are provided, where the funding for each service comes from and how that funding is used.

Thanks to the hard work of the budget staff, the City's budget has earned the Government Finance Officers Association (GFOA) "Distinguished Budget" award for the last two years and I anticipate that it will do so again this year. I want to thank the Budget Team, the Department Directors and all of the staff who helped put the budget together. I also want to thank the City Council for fine tuning the preliminary budget and then unanimously approving the final budget to provide the resources to continue the City's efforts to maintain and improve the excellent quality of life we enjoy here.

Bellingham is my hometown. During my 50-plus years here I have experienced dramatic change throughout our community. The Bellingham of today is better than ever. The vision, vigilance, support and creativity of our community and its elected officials will ensure that the changes we face today are shaped so as to enhance our city. I have every reason for this confidence, as I have seen it occur time and time again. Bellingham in 2006 is a wonderful, vibrant community with limitless opportunities for the future, opportunities to be wisely, strategically embraced.

Sincerely,

Mark Asmundson, Mayor
City of Bellingham