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TO: Bellingham City Council and the Citizens of Bellingham
FROM: Mayor Mark Asmundson
DATE: September 19, 2005
SUBJECT: Presenting the Preliminary 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 preliminary budget for review and consideration by Bellingham citizens and the Bellingham City Council. In preparing and presenting it, I am mindful of the mission of Bellingham city government: 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 \$180.9 million, with a net General Fund budget of \$53.5 million, about 1.3% greater than the 2005 General Fund budget.

This budget proposes to fund key community priorities, provide a wide range of services that are requested and expected by our community, and contribute significantly to the high quality of life that Bellingham residents enjoy. As described in more detail below, our careful actions to reduce expenses and a robust local economy have combined to ease our financial challenges. Though we have more work to do to ensure long-term financial health, our increasingly positive fiscal position allows us to make strategic staffing additions to meet increasing demands for service. We also expect to tackle an array of capital projects in 2006 with funds that may be used only for expenditures related to capital facilities projects.

Strategic actions, strong economy overcome challenges

The City continues to experience significant financial challenges. Recent initiatives, legislative actions and local economic events have reduced General Fund revenues during the past several years. Furthermore, other factors adversely affecting the City's finances 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).
- The annual cost to fund the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), which mandates pension, long-term care and medical care, has increased dramatically, mostly driven by increases in medical costs.

To address these budget challenges—created by recent revenue losses and increasing expenses to provide services to a growing community—thus far we have:

- Reduced expenses by, among other things:
 - Eliminating over 40 positions during past two years
 - Implementing employee cost sharing for medical benefits
 - Changing Emergency Medical Service (EMS) transport to delay adding more ambulance staff to 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
- 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 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.

As in prior years, my proposed budget includes the 1% property tax increase which will amount to about 35 cents per month for the average home. Fortunately the strong Bellingham economy is contributing to our City's financial health and in 2006 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 a higher-than-expected rate. For instance, while B&O taxes have increased an average of 4.2% over the past five years, in 2004 they increased over 8%. Although we do not anticipate future tax growth to be as robust as we have experienced in 2005, we do expect the economy to continue to grow.

Financial challenges are not over

Like all Washington cities, Bellingham faces a structural funding problem in spite of these positive circumstances. The service needs of the community, combined with the rate of increase of staffing and other costs, continue to make total costs rise faster than General Fund revenue.

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. Consequently, changes in employee-related costs greatly affect the total cost of operations, particularly in General Fund departments. Additionally, some other costs—such as fuel and materials—have recently increased dramatically.

No matter how carefully we manage our resources, we cannot maintain our current staff-to-population ratio—one basic measure of the level of service we provide—over the long run and meet citizen demands for service. We must continue strategically managing our resources and fiscal issues to accomplish our mission of safety and service. To ensure our long-term financial health, in 2006 we will:

- 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 with the citizen Budget Advisory Committee and the public 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 Proposed In Preliminary 2006 Budget

Staff reductions made during the last two years, refinements in our approach to budgeting, and our very strong local economy have contributed to more positive fiscal conditions. This enables us to strategically add 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 limited-term 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 anticipated in the 2006 Budget include:

- **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 master plan for the “New Whatcom” area 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 Preliminary budget proposes using 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 in 2006
 - 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, for which \$1.6 million is budgeted
 - 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 Consideration of Sales Tax Increase For EMS.** The City of Bellingham, Whatcom County and the cities and fire districts within Whatcom County will ask voters in the November general election to consider a 1/10th of 1% increase in sales tax to ensure that residents continue to receive timely, safe and cost-effective emergency medical response when and where it is needed. The proposal will direct 67% of the

.01% sales tax to fund a coordinated EMS system. The remaining 33% must by state law be used solely for criminal justice purposes. Bellingham residents would benefit from this proposal for two reasons: in 2006 we would receive about \$160,000 for additional law enforcement; further, it would enable the continuation of a unified county wide system, which is more cost effective and provides higher quality service.

The City's 2006 preliminary budget does not depend upon this measure, so the budget will be modified if this measure passes. If it is not approved by voters in November, the system will still need additional dedicated funding to continue the Medic One program in its current, cost-effective, countywide configuration. The current system creates economies of scale for all participating jurisdictions. If the proposed funding measure fails and the County withdraws from the Medic One program, the per capita costs would increase for Bellingham residents. This would require the City to reduce service or raise additional revenues in future years.

The budget highlights financial plans and priorities

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 for your consideration.

This proposed 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 proposed 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 Services. 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 preliminary recommendations from the Budget Advisory Committee, on requests and comments from the public and on our best professional judgment. I ask you to consider it carefully, consult with the Department Directors, the Budget Team and me to address the questions that you have about this proposal; conduct hearings to ensure that the public has ample opportunity to comment on it; amend it as you believe is necessary;

and then adopt it 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 2005 is a wonderful, vibrant community with limitless opportunities for the future, opportunities to be wisely, strategically embraced.

Sincerely,

A handwritten signature in cursive script that reads "Mark Asmundson".

Mark Asmundson, Mayor
City of Bellingham