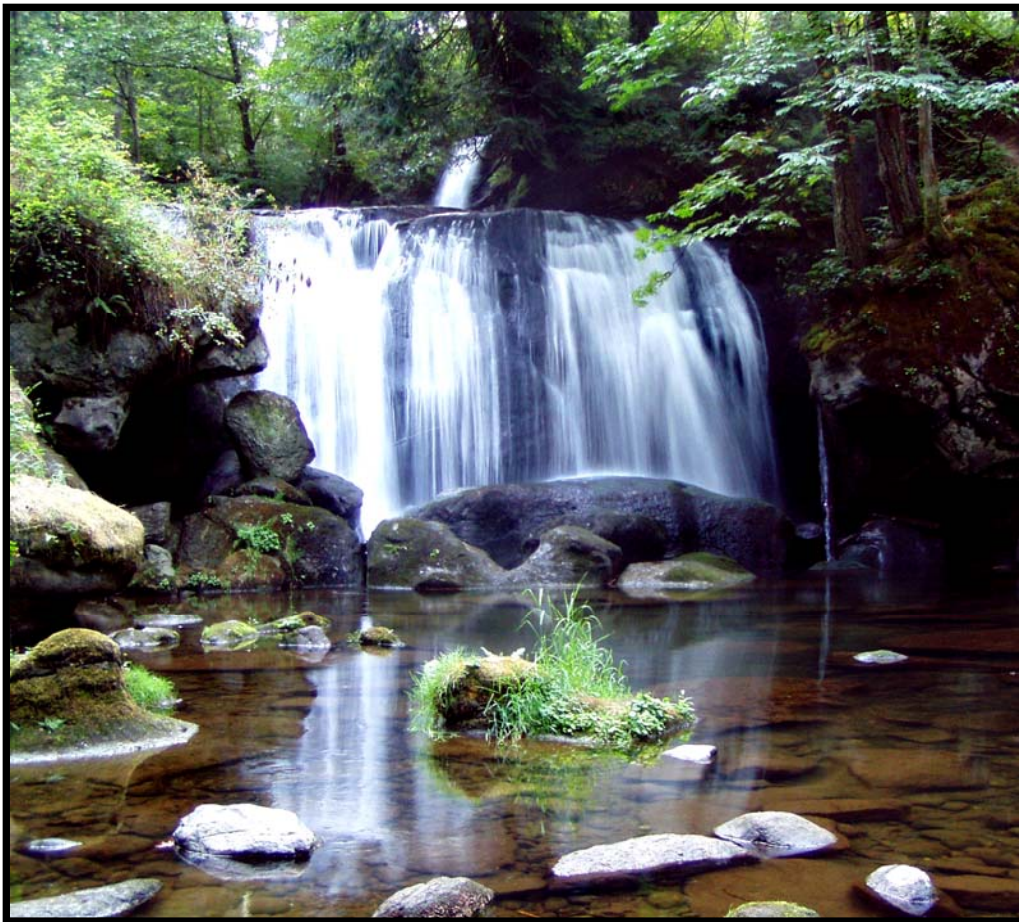


**CITY OF BELLINGHAM
WASHINGTON**

**2007
BUDGET IN BRIEF**



BELLINGHAM CITY COUNCIL LONG-TERM GOALS

- Maintain or improve the current level of City services, ensure that all City programs and services help protect or enhance the quality of life in Bellingham and assure that the City's financial and human resources are allocated to effectively and efficiently achieve the Council's goals.
- Protect and improve the quality of drinking water in the Lake Whatcom Reservoir.
- Continue to develop a vibrant downtown that includes a mix of residential, commercial, educational, retail, and cultural uses and amenities with connections between the downtown and waterfront areas.
- In partnership with the Port of Bellingham and the broader community, establish and implement a plan to redevelop the central waterfront to substantially reduce contaminants and improve environmental health, increase living-wage jobs, provide public access, recreation and housing, and complement the City's other neighborhoods.
- Develop and implement plans that preserve and shape Bellingham as a city of neighborhoods that function interdependently as a vibrant, livable community with a distinct sense of place.
 - Protect and enhance the City's cultural, educational, recreational, and environmental assets.
 - Improve coordination of transportation, parking and land use decisions to provide a system that effectively moves people and goods through and around the City.
- Support development of a more diverse and sustainable economy by providing services that maintain a high quality of life. Work with businesses and agencies to support economic development activities that increase living-wage jobs in Bellingham.
 - Improve communication between the City and its citizens about all goals, priorities, and challenges.
- Support programs and provide facilities that serve low income families and individuals.
 - Improve the City's disaster preparedness and response capability.

ABOUT BELLINGHAM

Located on Bellingham Bay with Mount Baker as its backdrop, Bellingham is the last major city before the Washington coastline meets the Canadian border. Bellingham is 85 miles north of Seattle and an hour south of Vancouver, B.C. The City of Bellingham, which serves as the county seat of Whatcom County, is at the center of a uniquely picturesque area that offers a rich variety of recreational, cultural, educational and economic activities and opportunities.

Bellingham citizens have made strategic investments in parks, trails and preserved open spaces, offering recreation and respite to the young and young-at-heart. From salt-water bays, rivers and lakes to the peak of Mount Baker, area residents and visitors alike can literally “do it all” in one day from Bellingham. Skiing, kayaking, mountain biking and other adventure sports abound, as well as slower-paced activities like hiking, golfing, bird watching and fishing.

City Government

The City's charter establishes a council-mayor form of government. City management is led by the elected Mayor in a strong-Mayor, weak-Council form of government. The City Charter also provides for an elected Finance Director. However, in November 2006 voters approved a Charter amendment making the Finance Director a position appointed by the mayor and subject to confirmation by the City Council. State statute also provides for an elected Municipal Court Judge.

Six council members are elected by wards and serve four-year terms. Three are elected every two years. The seventh council member is elected every two years in an at-large capacity. The Mayor is elected for a four-year. A Municipal Court Judge is elected for a four-year term at the mid-point of the Mayor's term of office.

The City provides a full range of municipal services that include public safety, culture and recreation activities, economic development, street and parking, utilities, and general administrative services.

Activities owned and operated by the City include water, wastewater and stormwater utilities, municipal parking facilities, Lake Padden Golf Course, Bayview Cemetery, Whatcom Museum of History and Art, Bellingham Public Library and Fairhaven Library, nearly 100 parks, a civic stadium, athletic fields, and the Arne Hannah Aquatic Center. The City operates Medic One to provide countywide emergency medical services under an agreement with Whatcom County.

THE BUDGET PROCESS

Preparing the City's Budget

Preparation of the City's budget is governed by the City Charter and State Law. Budget development is a year-long process. The City is constantly looking for ways to streamline operations, be more efficient, and make adjustments to improve service delivery. Many of the Council's actions throughout the year have budgetary implications for the coming year. Citizen input and ideas received during the year are reflected in the budget proposals prepared by City staff. Public hearings are held that specifically relate to the budget. A budget calendar is developed annually. Some of the significant steps in developing the budget and approximate timeline are listed below.

- March** *Council meets to discuss goals and priorities for the current and future budget years.*
- June** *Council holds its mid-year budget review, receives a status report on the current budget and a financial forecast for the coming year.*
- July** *Departments submit estimates of revenues and expenditures for the next year's budget to the Budget staff in the Executive Department.*
- Aug. – Sept.** *Budget staff provides the proposed budget to the Mayor. The Mayor makes revisions to the preliminary budget and submits it to the Finance Director and Council. Copies of the Preliminary Budget Document are then available to citizens on the City's website, at the City Library, and at the Mayor's Office and Finance Office reception desks.*
- October** *A public hearing on revenue sources, including property tax, is held.*
- November** *The Council holds work sessions and public hearings on the budget. Citizens may appear at the sessions and hearings and make comments on any part of the budget.*
- December** *Council makes changes to the Preliminary Budget and adopts the Final Budget prior to the end of the year.*
- Jan. – Feb.** *The Adopted Budget Document is published.*

Amending the Budget

The City Council can, by ordinance, increase or decrease the appropriations in any fund. Transfer of appropriations within a single fund or within any single department of the General Fund can be made with the Mayor's authorization. Transfer of appropriations between funds or between departments in the General Fund, requires Council approval.

Budget Control

The Finance Director presents a quarterly report to the Mayor and City Council, which compares estimated and actual revenues and expenses to date. If revenues appear to be less than anticipated, the City Council, by ordinance, reduces appropriations to keep expenditures within the cash income.

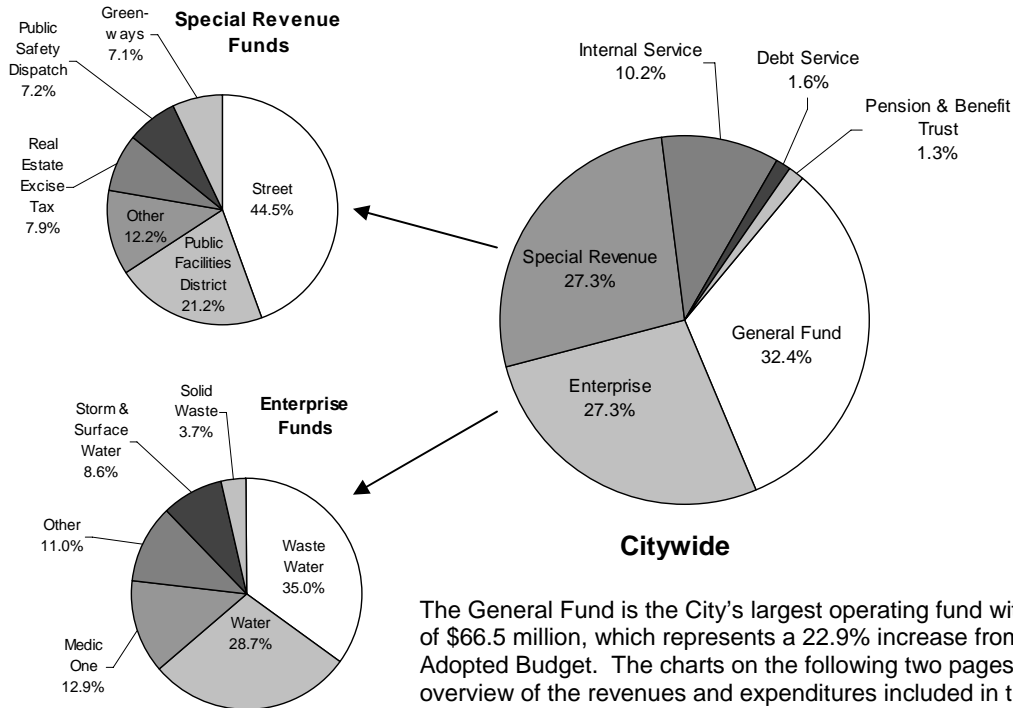
Guide to Bellingham's Budget

The City's Budget is composed of approximately 50 separate funds that are independently balanced.

Enterprise Funds operate similar to a business with customer charges supporting all costs. Resources from these funds cannot be used to subsidize other government functions. The **General Fund** accounts for services to the public such as public safety; planning, park, museum and library operation; and for City administrative activities such as finance, legal, and human resources. Taxes, fees and charges are the major funding sources for the General Fund. **Special Revenue Funds** account for proceeds from revenue sources that are legally restricted to be spent for specified purposes. **Internal Service Funds** account for the financing of goods or services provided by one department to another. **Debt Service Funds** account for principal and interest payment on outstanding debt. **Pension Trust Funds** account for resources held in trust for pension and other benefits. **Capital Projects Funds** account for financial resources designated for the acquisition or construction of major capital facilities.

The City's Adopted 2007 Budget totals \$205.4 million, which represents a 6.3% increase over the 2006 Adopted Budget.

Expenditures by Fund Type \$205,406,649



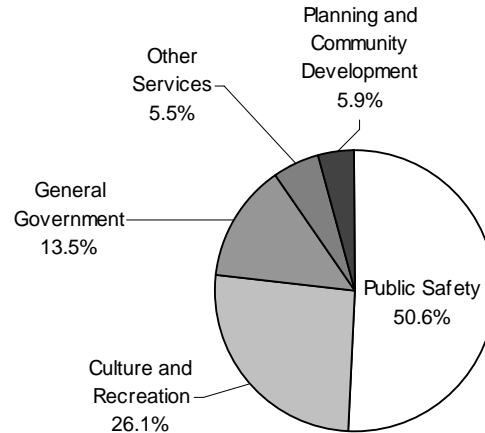
The General Fund is the City's largest operating fund with a 2007 Budget of \$66.5 million, which represents a 22.9% increase from the 2006 Adopted Budget. The charts on the following two pages provide an overview of the revenues and expenditures included in the City's General Fund.

BUDGET SUMMARY

BELLINGHAM'S GENERAL FUND BUDGET AT A GLANCE

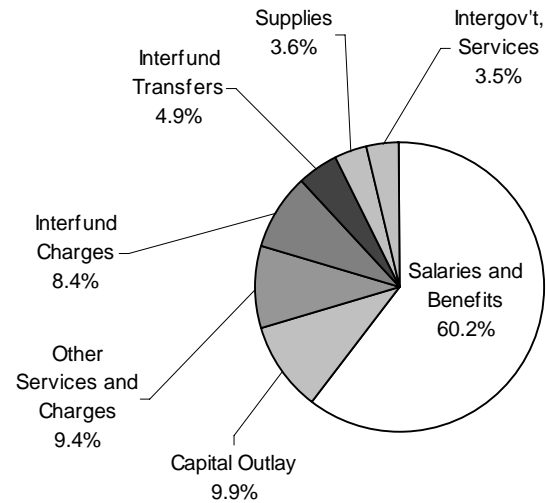
General Fund Expenditures By Program \$66,582,737

The General Fund accounts for 32% of the City's Budget. The majority of the expenditures in the General Fund are devoted to Public Safety (Police, Fire, and Municipal Court). Culture and Recreation (operation of Parks, Museum and Library) also account for a large portion of General Fund expenditures. General Government includes Legislative, Executive, Legal, Financial, and Human Resources services. Other Services includes financial and debt services.



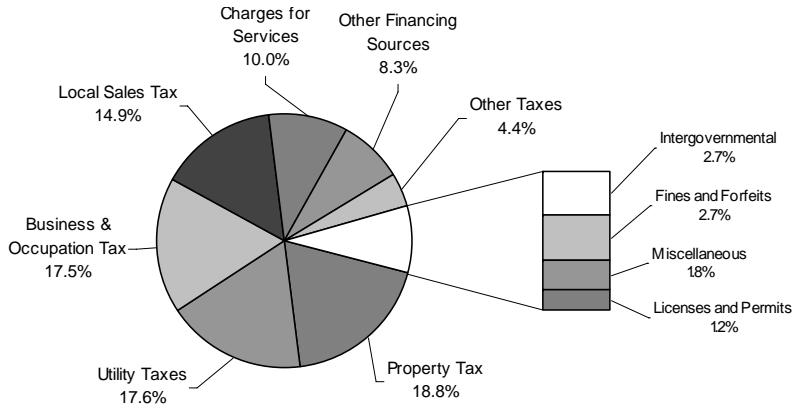
General Fund Expenditures By Category \$66,582,737

Salaries and Benefits comprise over 60% of the General Fund budget, with Public Safety representing about 60% of these Salaries and Benefits. Interfund Transfers and Interfund Charges are loans from one fund to another and charges for goods and services from one fund to another. Other Services and Charges is composed primarily of contracted services, and Intergovernmental Services are charges for services provided by another government agency.

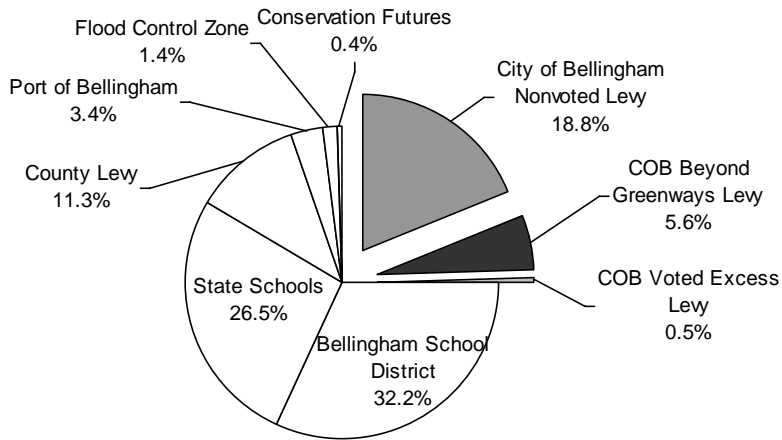


General Fund Revenue Sources \$65,029,375

The difference between Revenue Sources and Expenditures represents an increase in the Reserve balance for the General Fund. General Fund Revenues are typically available for any public purpose. Over 70% of General Fund revenue sources come from taxes.



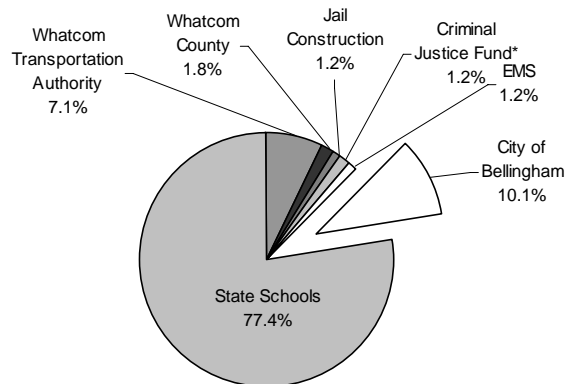
PROPERTY AND SALES TAX DISTRIBUTION



Although property taxes represent a significant source of funding for City services, the portion of each property owner's tax bill that is distributed to the City is about 25%. In 2007, the total property tax rate in Bellingham is \$10.91 per \$1,000 of assessed valuation, with \$2.54 (per \$1,000 assessed valuation) of that going to the City.

Breakdown of Retail Sales Tax Rate for Distribution

Whatcom Transportation Authority	0.60
Whatcom County	0.15
Jail Construction	0.10
Criminal Justice Fund*	0.10
EMS	0.10
City of Bellingham	0.85
State Schools	<u>6.50</u>
Total Retail Sales Tax Rate	8.40%



*Criminal Justice Fund money is divided between the City and County based on population.

Mayor's Message

TO: Bellingham City Council and the Citizens of Bellingham
FROM: Mayor Tim Douglas
DATE: February 7th, 2007
SUBJECT: Presenting the 2007 Budget

The City of Bellingham is among the most livable, vibrant communities in the United States. It is a city of engaged, energetic citizens, spectacular natural beauty, and outstanding public facilities. Bellingham has a bright future with many exciting opportunities.

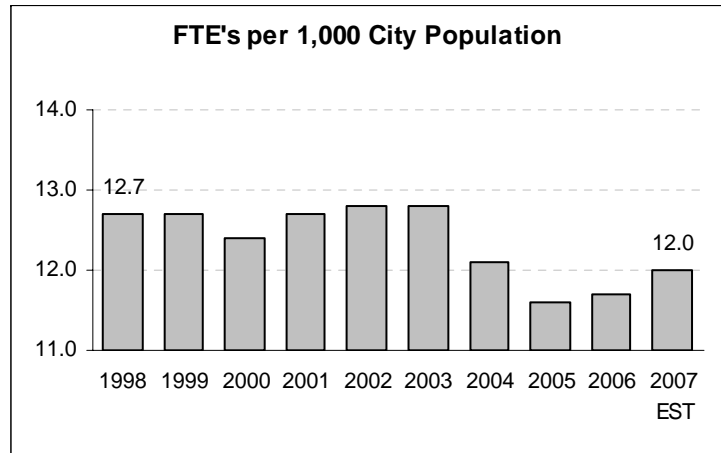
The 2007 Budget is a blueprint for the City's mission: To support safe, satisfying and prosperous community life by providing the citizens of Bellingham with quality, cost-effective services that meet today's needs and form a strong foundation for the future.

This balanced budget totals \$205.4 million, with a net General Fund total of \$66.6 million. It funds key community priorities and provides a wide range of services that are expected by Bellingham residents and/or mandated by federal and state governments. The budget enables the City to proceed with the goals adopted by the City Council.

The 2007 Budget:

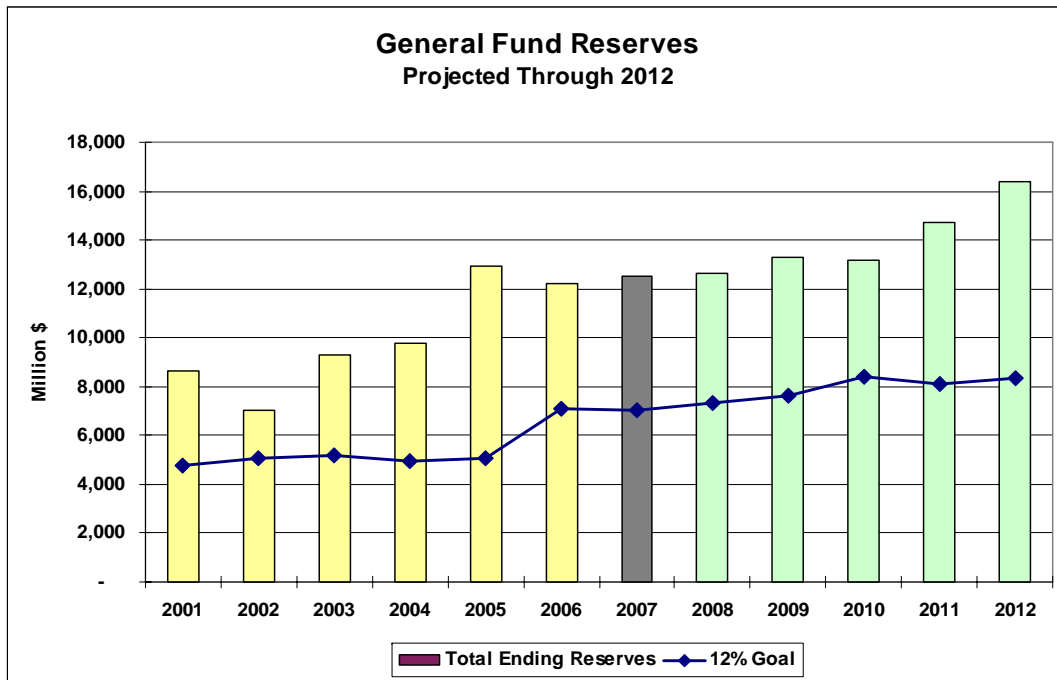
- Strategically adds staff to maintain existing levels of service as the City's population grows over time.
- Enables the City to advance water quality protection in the Lake Whatcom watershed, with further land or property rights acquisition measures still pending Council consideration and action.
- Provides adequate dedicated staff to manage the Waterfront Redevelopment effort - an unprecedented opportunity to shape the community's economic and environmental future.
- Adopts an emergency management approach which takes seriously the responsibility we have to assure our ability to respond to natural disasters and other emergencies.
- Provides improved tools through Information Technology to enable the City to work more productively and efficiently.
- Anticipates the first phase of meeting citizens' library service needs, including a new main library.

These changes add 15 positions in various departments in the General Fund. Reserves and projected personnel expenses have been reviewed to assure that positions can be sustained during the projects to which they are assigned. It is important to make sure that the overall ratio of staff to population is not excessive. As the graph illustrates, that ratio will be 6% below the staffing ratio we experienced in past years. We continue to operate effectively and efficiently.



City Reserve Levels

The following graph reflects changes in actual reserves over the past six years and projected reserves. The projections are based on what 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 six years.



BUDGET MESSAGE

As in prior years, the budget includes a 1% Property Tax increase which amounts to about 35 cents per month for the average home. While this increase does not keep pace with inflation, it is essential to maintain the relative balance of General Fund resources over time. It has been directed into reserves necessary to cover LEOFF-1 pension expenses in future years.

Local governments everywhere face financial challenges. Even in good times, the demands for services exceed the revenues available. Consequently we must continue to:

- 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.
- Fine-tune our forecasts of both expenses and revenues.
- 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. Maintain our extraordinarily successful efforts to obtain State and federal funds for capital projects.
- Evaluate City programs to ensure high quality services are delivered in the most cost-effective manner possible. Other key areas of emphasis, activities and projects funded in the 2007 Budget include:
 - **Growth Management.** We will reappropriate unspent funds from the 2006 budget targeting growth and community building issues. 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.
 - **Capital Facilities Projects.** Real estate activity has declined in recent months, but many capital projects will be funded from Real Estate Excise Tax revenues. These revenues can only be used for specific expenses related to certain types of capital facilities. The 2007 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:
 - A new bridge on Laurel Street to expand access to the Waterfront Redevelopment area.
 - Water and Sewer main extensions on Meridian in conjunction with the State's road widening project.
 - San Juan Boulevard improvements to provide alternate access to Interstate 5 thereby relieving some congestion along Lakeway Drive.
 - Sunset Drive improvements to expand vehicle, bicycle and pedestrian access out towards the city limits.
 - Continued enhancement of the City's pedestrian and bike access, specifically on Fraser Street, Northwest Avenue, Birchwood Avenue and James Street.
 - Continued annual street resurfacing program.

- Preliminary design for a new City Library and for preservation of the Fairhaven Branch.
 - Anticipated construction of a new Art and Children's Museum.
 - Land acquisition as part of the Greenways III program.
 - Replacement of the City's aging telecommunications system.
- **LEOFF Medical and Pension Funding.** The City is required under RCW 41.18 and 41.20 to pay the pension and medical costs of LEOFF-1 current and former Fire and Police employees who meet certain hire or retire date requirements. A recent actuarial study indicates that the present "value" of this liability is over \$48 million. As of October 1, 2006, the City has a total of \$7.8 million available in Fund Balance in both Fire and Police Pension and Long-Term Care Funds to cover this liability. The 2007 Budget directs all of the 1% increase in the property tax to the reserve to offset gradually this significant liability. This will reduce amounts required from the General Fund in the future.

The 2007 budget reflects our commitment to maintaining existing levels of service as our population grows, particularly in our top priority public safety services, by devoting more than 50 percent of the City's General Fund resources to Police, Fire and Judicial Support Services. It addresses other key priorities 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 the needs of disadvantaged members of our community and enhancing the quality of life for all Bellingham neighborhoods.

Finally, thanks to the hard work of the budget staff, the City Finance Director and staff City-wide who work on the budget, Bellingham has earned the Government Finance Officers Association (GFOA) "Distinguished Budget" award for the last three years; winning that designation again in 2006.

The budget is the City's most important policy action; the achievements it makes possible help realize a better life for the citizens of Bellingham. I have the unique and wonderful opportunity to serve as Bellingham's mayor for a year. In this year, I will do everything possible to further these achievements in a fiscally prudent manner while meeting the City's mission to form a strong foundation for the future.

Tim Douglas, Mayor
City of Bellingham

CITY OF BELLINGHAM MISSION

Support safe, satisfying and prosperous community life by providing the citizens of Bellingham quality, cost-effective services that meet today's needs and form a strong foundation for the future.

ELECTED OFFICIALS

Appointed Interim Mayor
Tim Douglas
676-6979

Finance Director
Therese Holm
676-6900

Municipal Court Judge
Debra Lev
676-6978

BELLINGHAM CITY COUNCIL

City Council Office: (360) 676-6970 • citycouncil@cob.org

Council Members

Bob Ryan, Ward 1, Council President • Gene Knutson, Ward 2
John Watts, Ward 3 • Joan Beardsley, Ward 4
Terry Bornemann, Ward 5, Mayor Pro-Tem • Barbara Ryan, Ward 6, Council President Pro-Tem
Louise Bjornson, At-Large

Visit us on the City's website at www.cob.org

Council regular meeting schedule for 2007 is shown below. Meetings are held at 7:00 pm.

2007

January	8, 22
February	5, 12
March	12, 26
April	2, 30
May	7, 21
June	4, 18
July	16, 23
August	6, 13
September	10, 17, 24
October	8, 15, 22
November	5, 19
December	3, 10