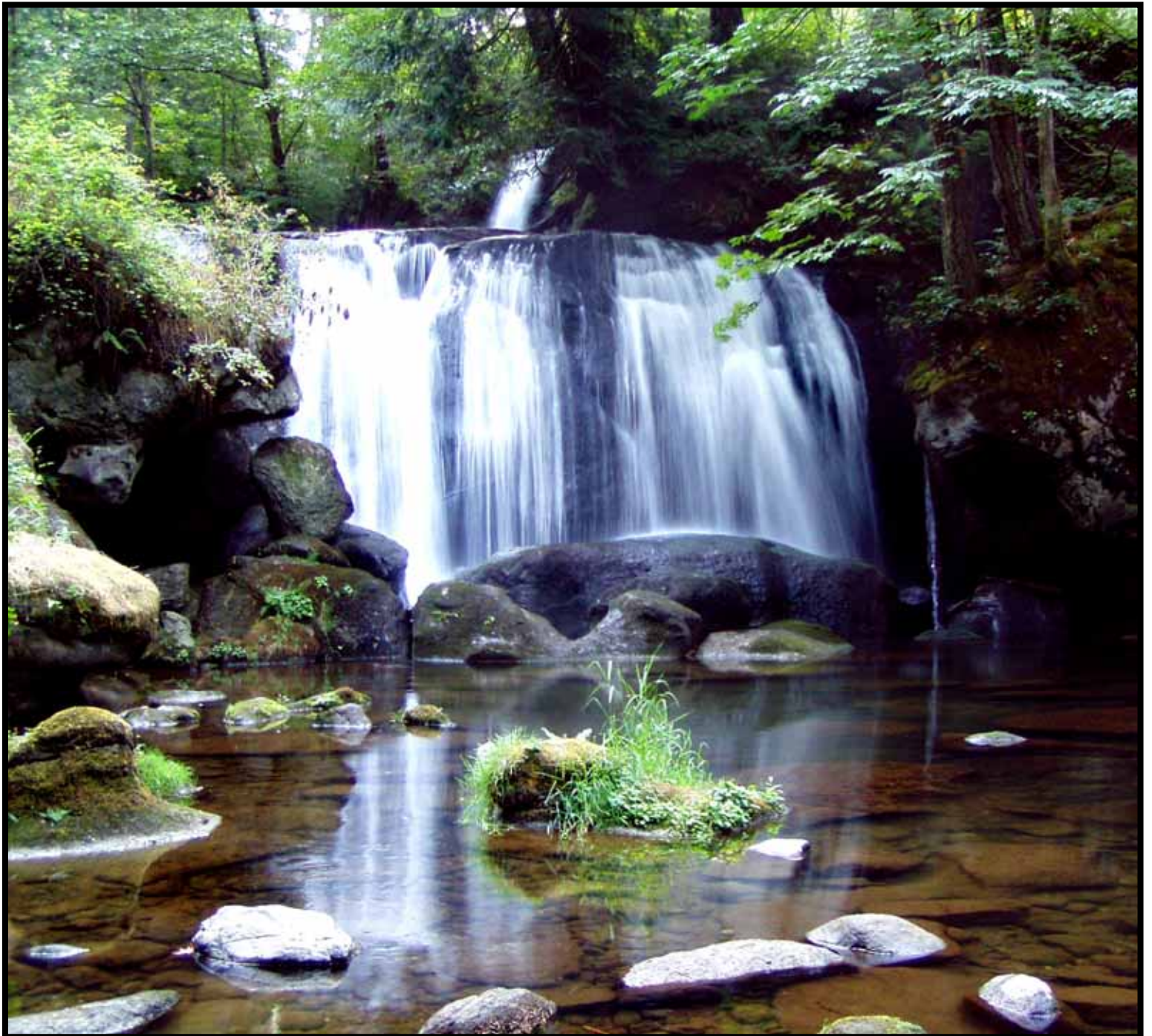


2007 Adopted Budget
City of Bellingham, Washington





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Bellingham
Washington**

Special Capital Recognition

For the Fiscal Year Beginning

January 1, 2006

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Bellingham Washington for its annual budget for the fiscal year beginning January 1, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

This award is for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

CITY OF BELLINGHAM MISSION STATEMENT

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.

CITY OF BELLINGHAM, WASHINGTON

2007 ADOPTED BUDGET

Budget Team

Malcolm Fleming, Chief Administrative Officer

Jason Kuest, Budget Manager

Pat Starcher, Budget Specialist

Karla Buckingham, Budget Technician

The budget process is a City-wide, year-long effort. Success depends on the combined efforts of budget staff along with City Department Heads and “Budgeteers”.

Thanks to all of you for your hard work and cooperation!



OFFICE OF THE MAYOR

210 Lottie Street, Bellingham, WA 98225

Telephone: (360) 676-6979 Fax: (360) 738-7418

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.

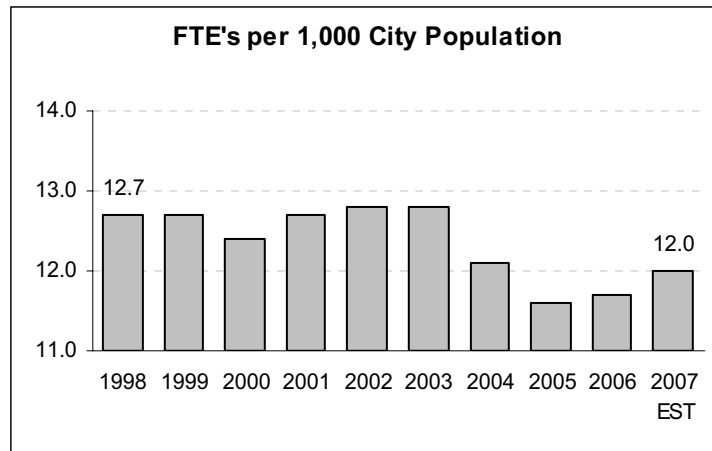
This balanced budget totals \$205.4 million, with a net General Fund total of \$66.6 million. It funds key community priorities and provides a wide range of services that are expected by Bellingham residents and/or mandated by federal and state governments. The budget enables the City to proceed with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

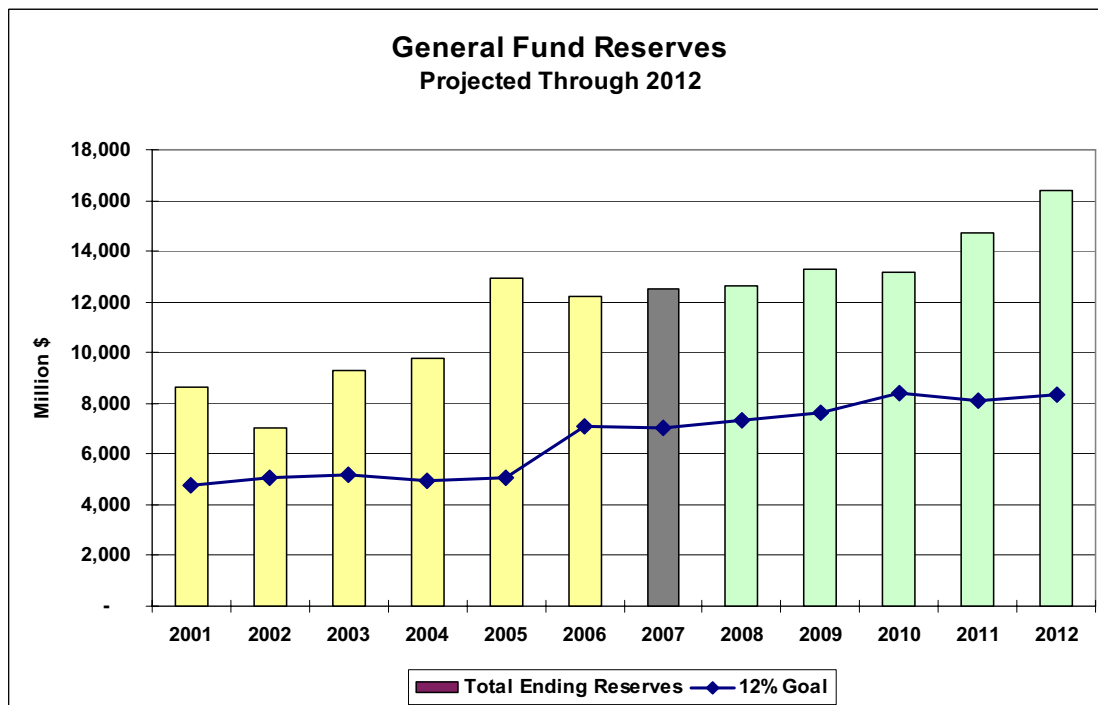
These changes add 15 positions in various departments in the General Fund. Reserves and projected personnel expenses have been reviewed to assure that positions can be sustained during the projects to which they are assigned. It is important to make sure that the overall ratio of staff to population is not excessive. As the following 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.



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.

A handwritten signature in black ink, appearing to read "Tim Douglas". The signature is fluid and cursive, written in a professional style.

Tim Douglas, Mayor
City of Bellingham

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CITY COUNCIL LONG-TERM GOALS

Council long-term goals are reviewed each year during the City Council's planning retreat. These goals are periodically amended to reflect changing priorities.

Departments are asked to relate their departmental objectives to Council goals by goal number. Both 2006 and 2007 Council goals are listed for reference. Departmental objectives for 2007 reference the Council long-term Goals list for 2007. Departmental objectives with accomplishments for 2006 reference the 2006 Council long-term goals.

2006 and 2007 goals appear on the following pages.

**2007
CITY COUNCIL LONG-TERM GOALS**

Goal 1

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.

Goal 2

Protect and improve the quality of drinking water in the Lake Whatcom Reservoir.

Goal 3

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.

Goal 4

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.

Goal 5

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.

Goal 6

Protect and enhance the City's cultural, educational, recreational, and environmental assets.

Goal 7

Improve coordination of transportation, parking and land use decisions to provide a system that effectively moves people and goods through and around the City.

**2007
CITY COUNCIL LONG-TERM GOALS (continued)**

Goal 8

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.

Goal 9

Improve communication between the City and its citizens about all goals, priorities, and challenges.

Goal 10

Support programs and provide facilities that serve low income families and individuals.

Goal 11

Improve the City's disaster preparedness and response capability.

See the Legislative Department section for specific budget year objectives.

**2006
CITY COUNCIL LONG – TERM GOALS**

Goal 1

Protect and improve the quality of drinking water in the Lake Whatcom Reservoir.

Goal 2

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.

Goal 3

Protect and enhance the City's cultural, educational, recreational, and environmental assets.

Goal 4

Continue to develop more effective systems for moving people and freight through and around the City; improve the coordination of transportation, parking and land use decisions.

Goal 5

Maintain existing facilities and build high-priority new capital facilities.

Goal 6

Plan and respond strategically to growth pressures to preserve a high quality of life for all residents.

Goal 7

Continue to support development of a more diverse and sustainable local economy.

Goal 8

Continue to improve communication between the City and its citizens about all goals, priorities, and challenges.

Goal 9

Continue to support programs and provide facilities that serve low income families and individuals.

2006 departmental objectives and accomplishments that relate to Council goals are referenced by 2006 goal number in each departmental section.

MAYOR

Tim Douglas, Interim Mayor
Executive Office 676-6979
email mayorsoffice@cob.org

CITY COUNCIL
2007

Council Office 676-6970
email citycouncil@cob.org

Bob Ryan 1st Ward
Council President

Gene Knutson 2nd Ward

John Watts 3rd Ward

Joan Beardsley 4th Ward

Terry Bornemann 5th Ward
Mayor Pro-Tempore

Barbara Ryan 6th Ward
Council President Pro-Tempore

Louise Bjornson At-Large

OTHER ELECTED OFFICIALS

Finance Director

Therese Holm
Finance Office 676-6900
email tholm@cob.org

Municipal Court Judge

Debra Lev
Bellingham Municipal Court 676-6978
email dlev@cob.org

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

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Fire Chief	676-6831
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Judicial and Support Services Director	676-6978
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Interim Museum Director	676-6981
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Visit us on the City's website at www.cob.org

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Dick Little dlittle@cob.org

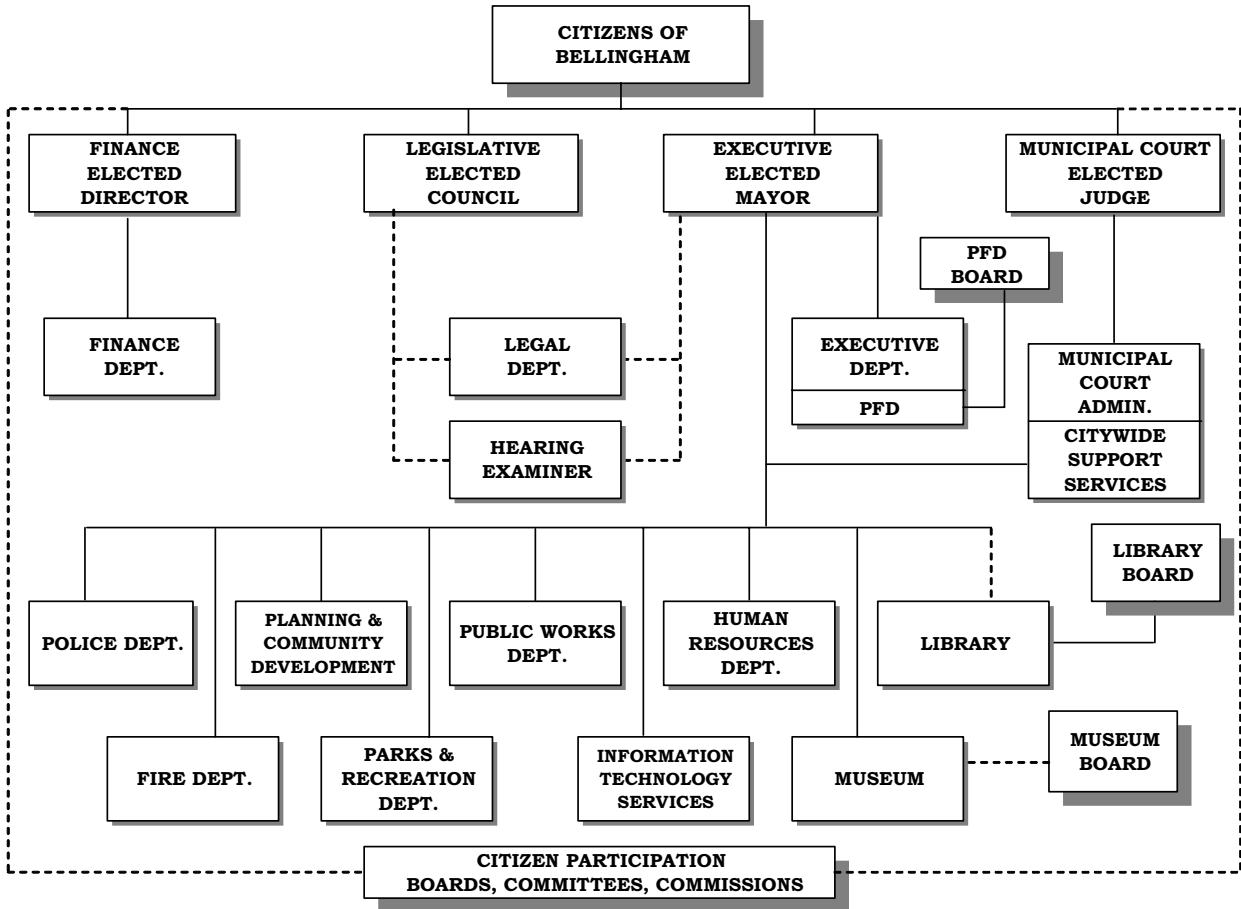
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Kathryn Hanowell khanowell@cob.org

Waterfront Redevelopment Manager 676-6979
Len Johnson ljohnson@cob.org

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

ORGANIZATION CHART



- TEXT BOX** A text box indicates a department or elected official within the City organization.

- TEXT BOX** A divided box indicates dual function and responsibility within the same department.

- TEXT BOX** A box with double-width shadow indicates an entity outside the City organization.

- A dotted line indicates an indirect or advisory relationship.

- _____ A solid line indicates a formal and direct relationship.

- PFD** Public Facilities District

This key applies to all organization charts throughout the Budget Document, which appear at the beginning of each Departmental section.

SERVICES PROVIDED BY THE CITY

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 Branch Library, nearly 100 parks, a civic stadium, athletic fields, and the Arne Hannah Aquatic Center. The City operates Medic One to provide county-wide emergency medical services under an agreement with Whatcom County.



ORGANIZATIONAL STRUCTURE

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 Chief Administrative Officer (CAO) and administrative department heads are appointed by and serve at the mayor's discretion, with two exceptions. The City Attorney requires approval of the City Council for appointment or removal, and the Library Director is appointed by the Library Board.

The City of Bellingham is structured into sixteen departments or service areas, which may be further divided into operating divisions. Each department or division is broken down into its functional units, or groups. The City organization chart shows the elected officials, the operating departments and the citizen boards, committees, commissions, etc. that assist the City to function.

COMMUNITY AND LOCAL ECONOMY

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.

Downtown Bellingham and the historic Fairhaven district feature an interesting mix of restaurants, art galleries and specialty shops. The growing downtown cultural district includes the respected Whatcom Museum of History and Art, owned and operated by the City of Bellingham with the generous support of many organizations and individuals. Originally built in 1892 as City Hall, the Museum's striking brick building is the centerpiece of a four-building campus, including a children's museum.

Bellingham's renowned Fairhaven district offers Victorian-era buildings, shops offering hand-crafted products, local restaurants serving fresh seafood and art galleries featuring Northwest artisans. Visitors bound for Alaska depart on the Alaska Marine Highway System ferries from the Bellingham Cruise Terminal, also in the Fairhaven District. Bellingham's active waterfront port supports fishing, boat building, shipping and marina operations. Squalicum Harbor is the second largest in Puget Sound, with 1,900 pleasure and commercial boats moored.

Bellingham is home to Western Washington University on Sehome Hill, one of several hilltop locations in Bellingham that feature sweeping views across the bay to the San Juan Islands. Western is the third largest university in the state with enrollment of more than 12,000 students. Whatcom Community College and Bellingham Technical College serve more than 10,000 students, offering undergraduate courses and a wide variety of technical training. Bellingham Public Schools operates 12 elementary schools, four middle schools and three high schools.

Multiple transportation links connect the community to the region and the world. Allegiant, Delta, and Horizon airlines and various charter services depart from the Port-operated Bellingham International Airport. Amtrak rail service and Greyhound bus service connects Bellingham to Seattle and Vancouver BC, both departing from the Fairhaven district. From Bellingham's ports, tour boats and ferries leave for whale watch cruises, tours to Victoria on Vancouver Island, cruises to the San Juan Islands and longer voyages to Alaska. Whatcom Transportation Authority (WTA) provides fixed-route bus transportation within Bellingham and throughout Whatcom County.

Some Key Facts:

Elevation: Ranges from sea level at the waterfront to approximately 240 feet above on Western Washington University's campus.

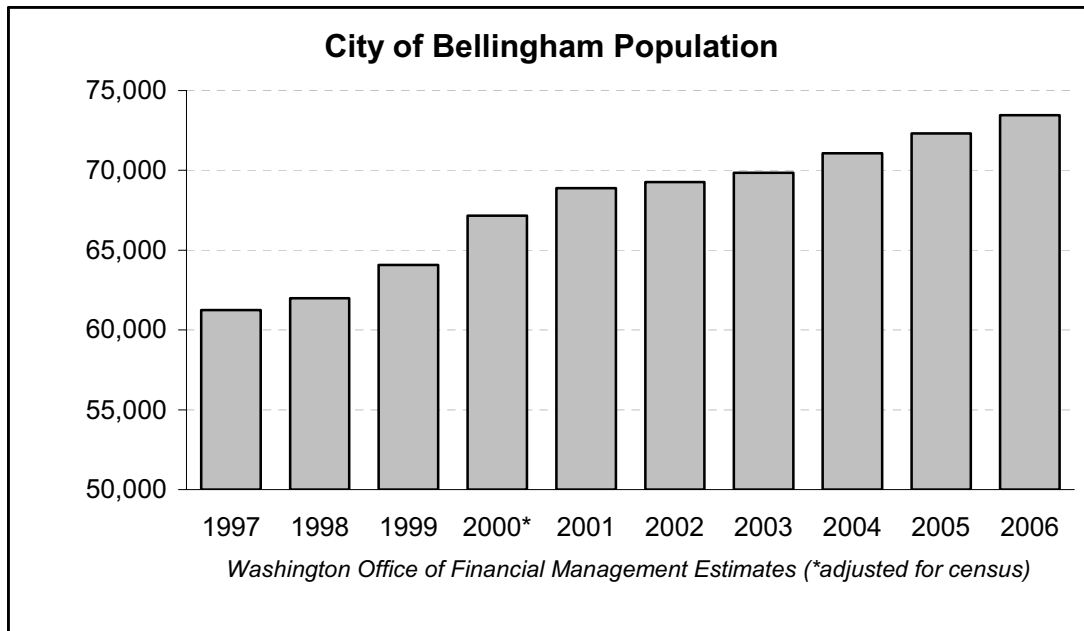
Weather: Seasonal. The temperature range in winter averages from 36° to 48°. In summer the average low is 54° to an average high temperature of 72°. Average annual rainfall is 34.83 inches per year. (*weather.com*)

Land size: The City encompasses approximately 28 square miles.

History: Native people were here first – Lummi, Nooksack and other Coast Salish people who thrived on the resources of what would become Bellingham Bay. English Captain George Vancouver first explored the area in 1792 and named Bellingham Bay for Sir William Bellingham, Vancouver's British Navy provisioner. Small communities came and went on the shores of Bellingham Bay through boom and bust cycles throughout the 1800s. The City of Bellingham incorporated as a Washington Municipal Corporation in 1904, after the populations of four bayside towns voted to consolidate.

Median resident age: 30.4 years
Median household income: \$32,530
Median house value: \$156,100
(Based on 2000 census data)

Bellingham's population of 73,460 in 2006 has increased over 22% from 1996.

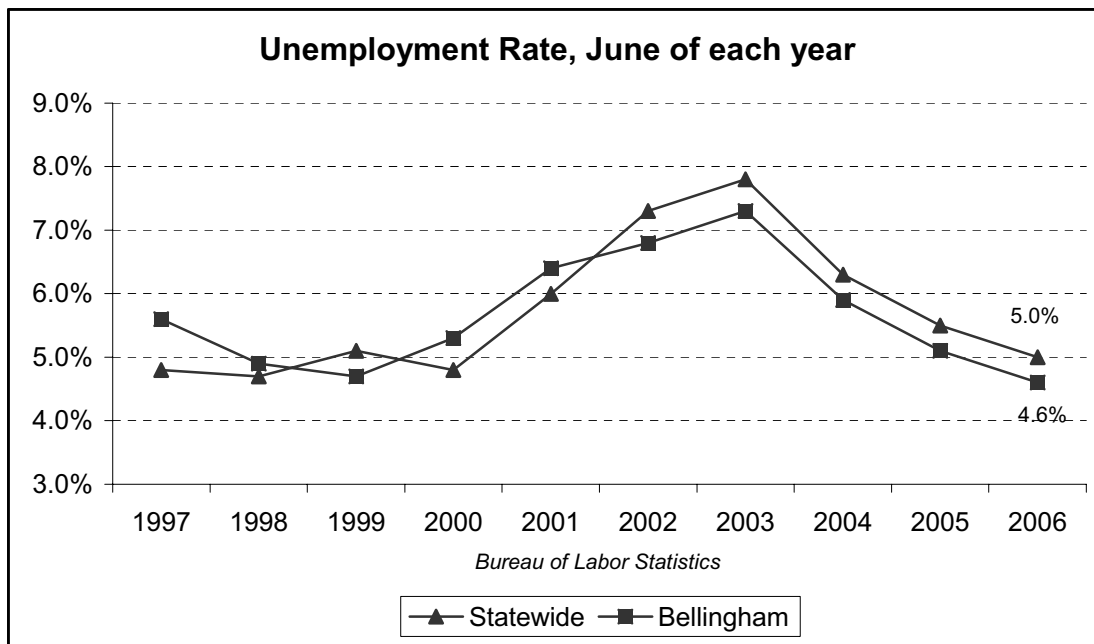


Largest Employers in Whatcom County

Name	Type	Employed
Western Washington University	Education	2,235
St. Joseph Hospital	Health Care	1,757
Bellingham School District	Education	1,651
Whatcom County	Government	930
Ferndale School District	Education	910
City of Bellingham	Government	858
Haggen, Inc.	Retail	843
Alcoa Intalco Works	Manufacturing	800
Sodexo Services	Catering	648
Brown & Cole Stores	Grocery	634

Bellingham Economic Development Council, Spring 2005

The preliminary unemployment rate for Bellingham for June of 2006 is 4.6%, with the rate for Washington State at 5.0%. (Rates shown for the ten-year period reflect a new modeling approach and re-estimation done by the US Bureau of Labor Statistics in March 2005. Also included are revised inputs, re-estimation, and new statewide controls, and corrections to the 2005 data.)



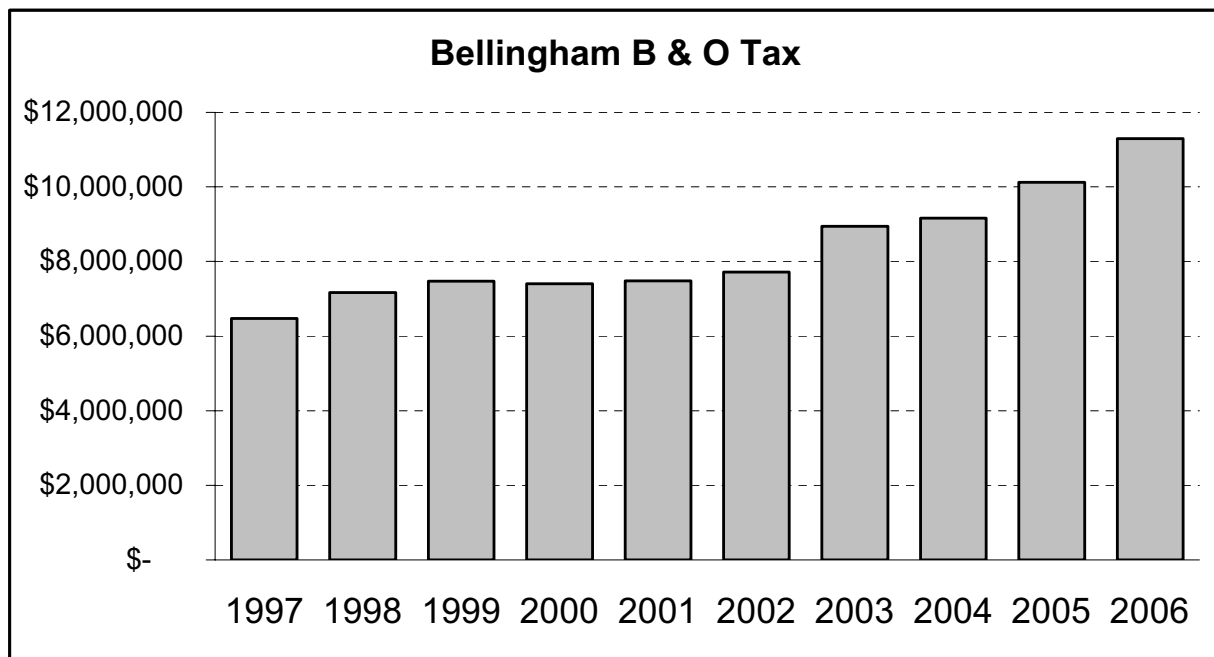
Makeup of Retail Sales Tax Base

Taxable Retail Sales - Bellingham By North American Industrial Classification System (NAICS)				
	2004	2005	% of Total	Change '04 to '05
Retail Trade	\$ 986,264,657	\$1,074,419,914	55.8%	8.9%
Construction	248,394,856	262,574,721	13.6%	5.7%
Services	236,796,832	243,953,248	12.7%	3.0%
Accomodation & Food Svc; Arts, Ent & Rec	179,399,862	189,875,455	9.9%	5.8%
Wholesale Trade	103,824,062	107,042,260	5.6%	3.1%
Manufacturing	26,296,678	31,246,770	1.6%	18.8%
Transportation & Warehousing; Other	13,924,814	15,922,872	0.8%	14.3%
Total	\$1,794,901,761	\$1,925,035,240	100.0%	7.3%

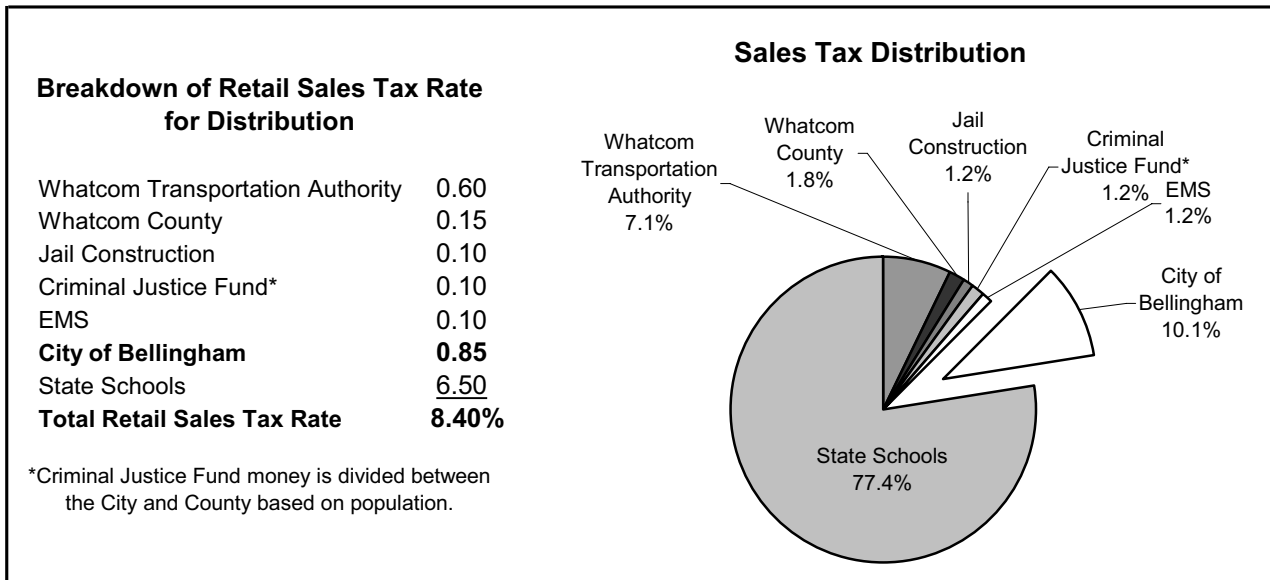
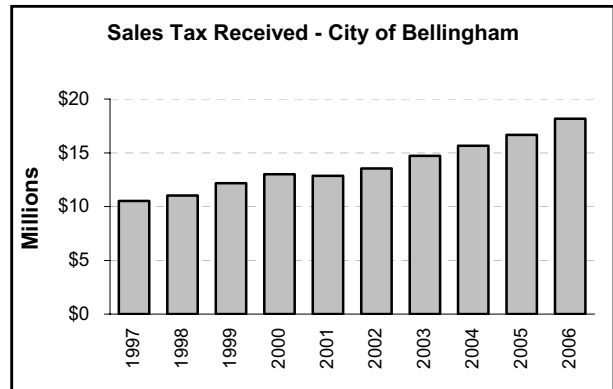
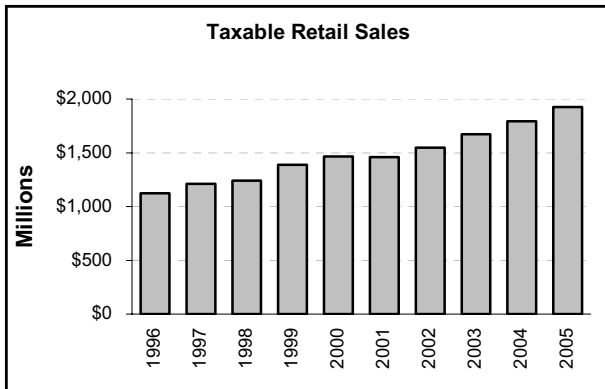
Department of Revenue, Quarterly Business Review

Business and Occupation Tax

This chart shows a ten-year history of the City's Business and Occupation Tax revenue. B & O Tax rates have not changed during this period.



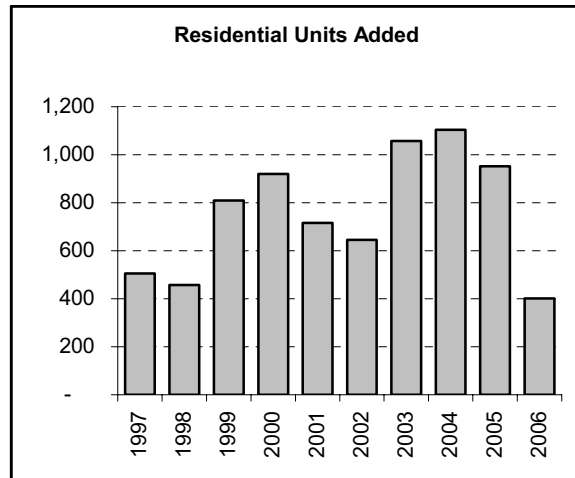
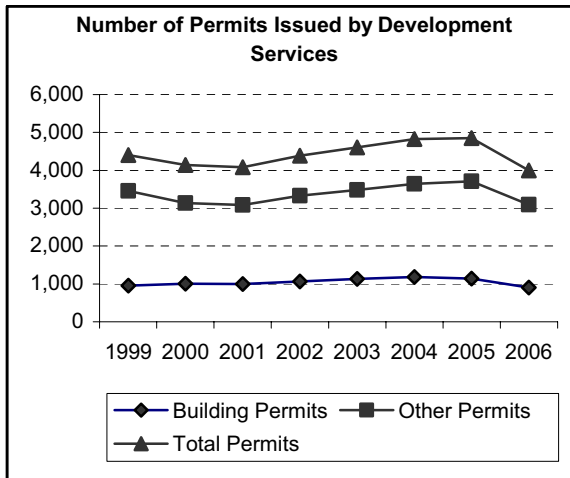
Distribution of Sales Tax



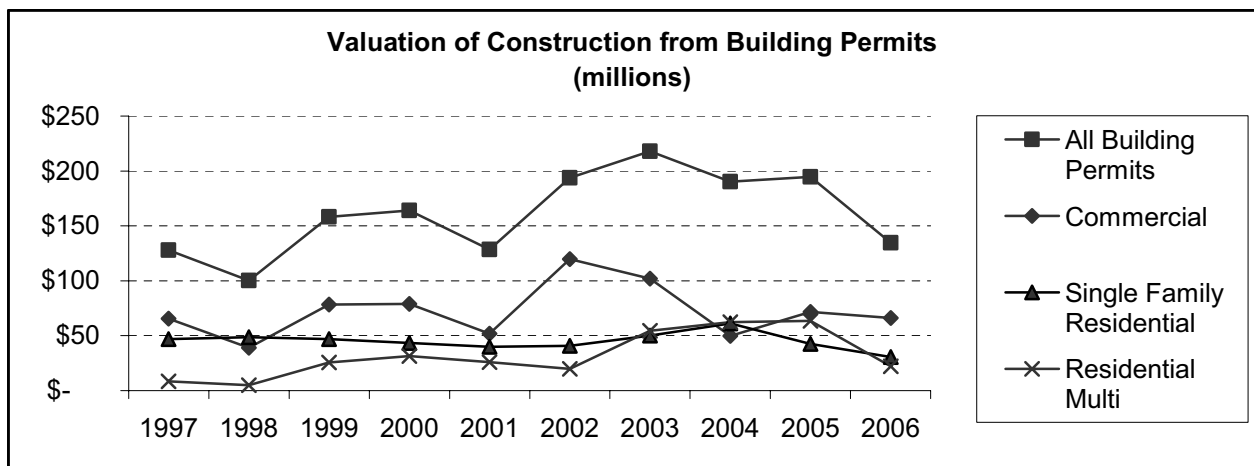
The .85% sales tax received by the City is divided with approximately 50% going into the General Fund and 50% going into the Street Fund.

Building Permit Activity

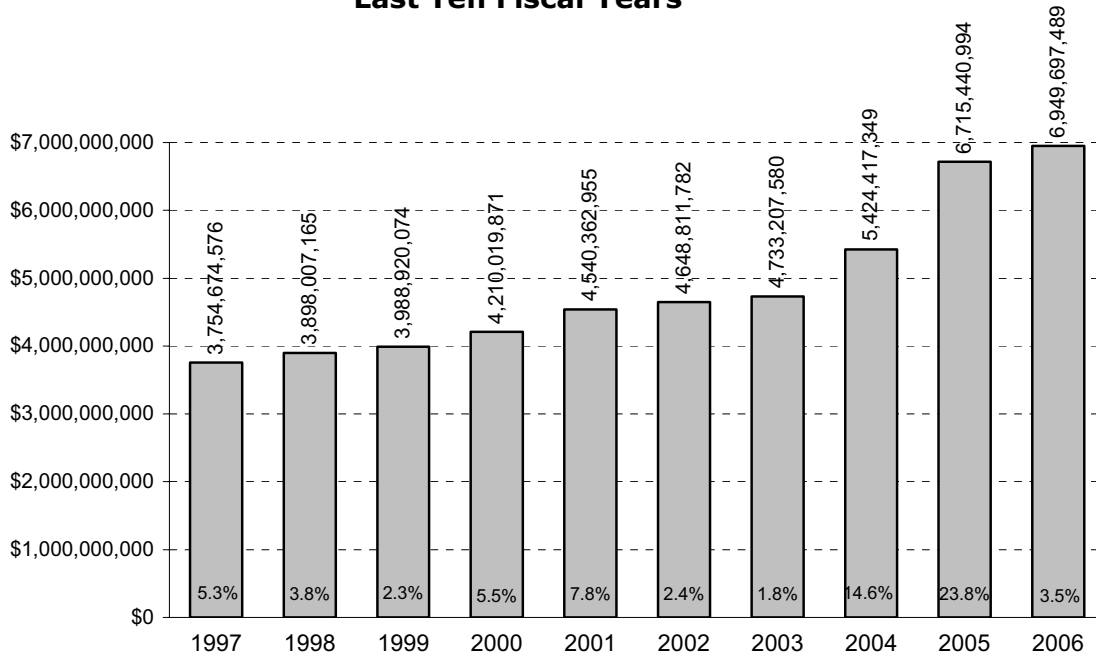
The number of residential units added within the City, the number of permits issued and the valuation of new construction are summarized from the Development Services permit tracking system.



Valuation is based on the square foot valuation in the permit tracking system. The valuation for All Building Permits includes more categories than are summarized in separate lines on the graph.

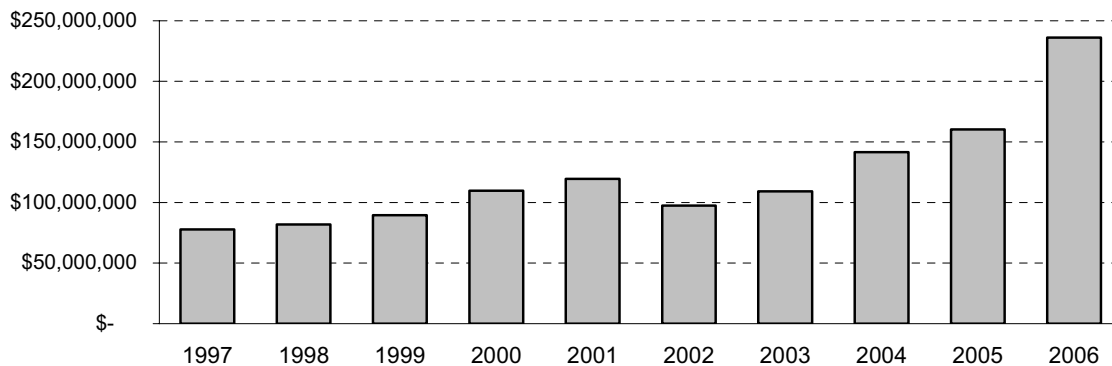


**ASSESSED VALUATION - REAL PROPERTY
Last Ten Fiscal Years**



Percentage is Increase Over Prior Year. 2006 is Assessment for 2007 Taxes.
Source: Whatcom County Assessor's Certification of Assessed Valuations memo.

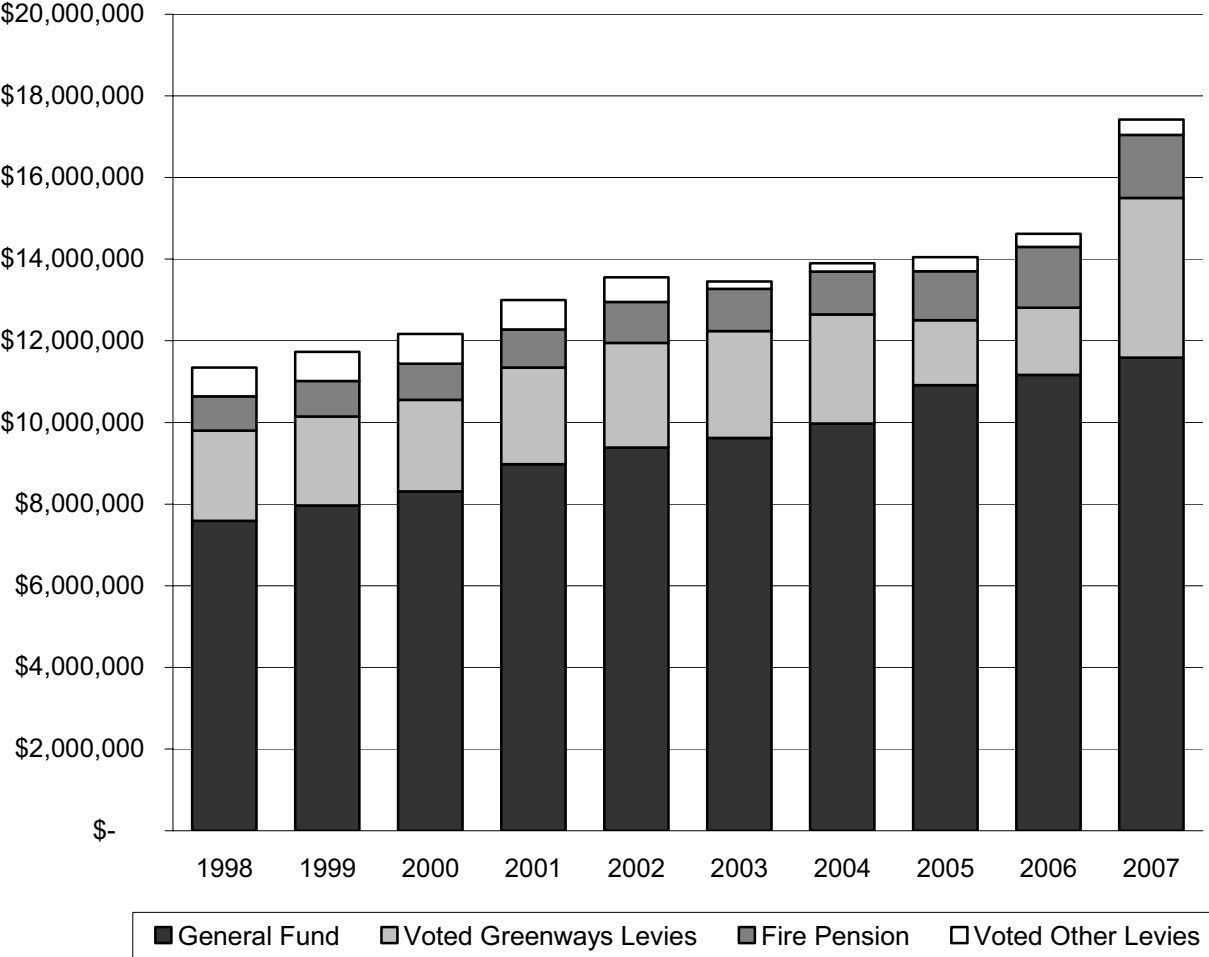
Assessed Valuation of New Construction



The Whatcom County Assessor revalues property in a four-year cycle. The southern portion of Bellingham was revalued in 2000 and 2004. The northern portion of Bellingham was revalued in 2001 and in 2005. Annexations and major new construction also can cause the values to increase more than normal in a given year.

The Assessor's new construction valuation is not generally comparable to the new construction valuation from the permit system. The value per square foot used is not the same, and some construction requiring permits is exempt from property tax, such as school construction.

Property Tax Levy Total - 10 Year History

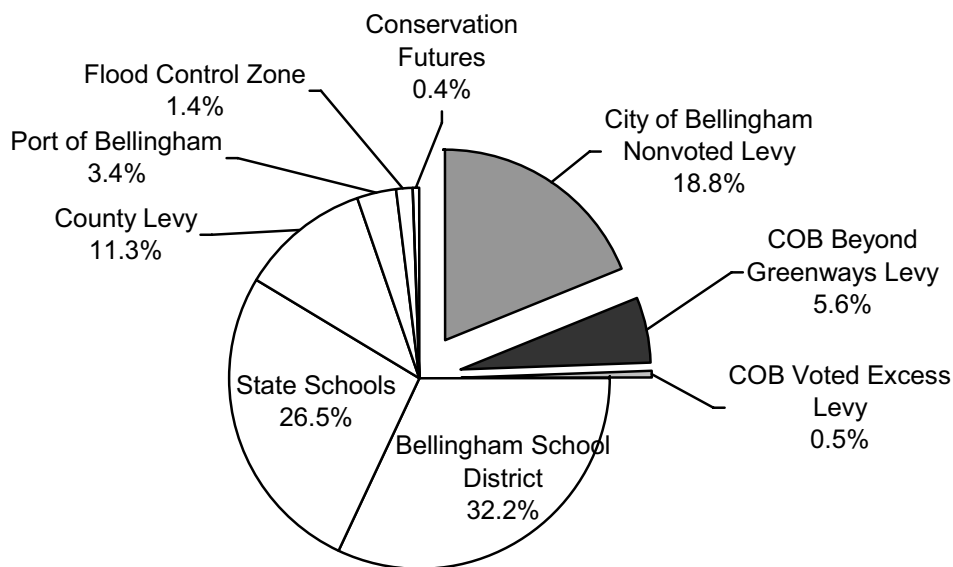


Distribution of Property Tax Dollars

The chart below shows how Property Tax dollars are distributed for a taxpayer residing within the City of Bellingham. The distribution is based upon the 2007 property tax levy.

Jurisdiction	2006 Levy Rate Per \$1,000 Valuation	2007 Levy Rate Per \$1,000 Valuation	2007 Percent of Levy	2007 Cost for \$250K HOME
City of Bellingham				
General Fund	\$1.68297	\$1.68677	16.55%	\$421.69
Fire Pension	0.22500	0.22500	2.21%	56.25
Nonvoted Levy	1.90797	1.91177	18.76%	477.94
Voted Greenways	0.24761	0.57000	5.59%	142.50
Total Regular Levy	2.15558	2.48177	24.35%	620.44
Voted Excess Levies	0.04884	0.05486	0.54%	13.72
Total City of Bellingham Levy	2.20442	2.53663	24.89%	634.16
State Schools	2.97937	2.69846	26.48%	674.62
County Levy	1.32537	1.14785	11.26%	286.96
Conservation Futures	0.05148	0.04453	0.44%	11.13
Flood Control Zone	0.16582	0.14354	1.41%	35.89
Port of Bellingham	0.38320	0.34220	3.36%	85.55
Bellingham School District (1)	2.97790	3.27693	32.16%	819.23
Total Levy	\$10.08756	\$10.19014	100.00%	\$2,547.54

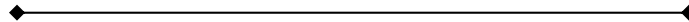
(1) Small portions of the City of Bellingham are within the Meridian or Ferndale School Districts rather than the Bellingham School District, resulting in a slightly different total property tax levy rate in those areas.



PREPARING AND AMENDING THE CITY’S BUDGET

2006 PROCESS CALENDAR FOR 2007 BUDGET

Council Retreat to discuss goals and priorities for 2007.....	February 4
Greenways III Levy.....	May 16
Departments prepare annual estimates	July 24 – August 18
Departmental requests filed with the Budget Manager.....	August 18
Departmental requests presented to the Mayor	September 1
Preliminary Budget presented to Council	October 9
Departmental Presentations and Hearings on the Budget ...	October 16, 23, November 6
Public Hearing on revenue sources including Property Tax.....	October 23
Property Tax Ordinance presented to Council	(Not required - Greenways III Levy)
Council adopts Property Tax Ordinance.....	(Not required - Greenways III Levy)
Final Public Hearing on Budget.....	November 13
Council adopts Budget	December 11
Adopted Budget Document Printed.....	February, 2007



Preparing the City’s Budget

Preparation of the City’s budget is governed by the City Charter and Revised Code of Washington (RCW), Chapter 35.33. The deadlines in the following narrative describe state minimum requirements. The City sometimes chooses to accelerate this schedule. The schedule that was used for this budget year is found above.

On or before the second Monday in September, Departments are notified that they have *until the fourth Monday in September* to submit their estimate of revenues and expenditures for the next year’s budget. Department heads provide these estimates along with their proposed method of financing expenditures from funding sources (bonds, etc.) not yet authorized. Estimates of interest and debt redemption requirements are prepared.

On or before the first business day in October, the Budget Manager submits a proposed preliminary budget to the Mayor, which shows the expenditures requested by each department and the related sources of revenue. The Mayor makes revisions to the preliminary budget and submits the Mayor’s Budget Message and the preliminary budget document to the Finance Director *on or before November 1st*. The Finance Director makes copies of the preliminary budget document available to taxpayers *no later than six weeks prior to January 1st*.

The City Council certifies the estimated amounts to be raised by taxation on the assessed valuation of property within the City through the adoption of an ordinance setting tax levy rates for the budget year. A public hearing on revenue sources is held by the Council prior to taking action on the proposed tax levy ordinance. The Finance Director sends a copy of the adopted ordinance to the Whatcom County Assessor *on or before the last day of November*.

The City Council holds hearings on the budget prior to the final public hearing. These hearings may include presentations from departments on their estimates and programs. These hearings take place *during the month of November*.

The clerk publishes the notice of public hearing *during the first two weeks of November*. The final hearing on the budget is held *on or before the first Monday of December*. Any taxpayer may appear at the final hearing and make comments on any part of the budget. The final hearing may be continued from day-to-day, but must be completed *no later than December 5th*.

The City Council makes changes to the preliminary budget as it deems necessary and adopts the Final Budget, by ordinance, *prior to January 1st*.

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 in 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.

Re-appropriating Prior Year Funds

All appropriations in any fund lapse at the end of the fiscal year. Amounts authorized during the fiscal year to pay for goods and services not received or completed by the end of the fiscal year may be re-appropriated to the next year by ordinance.

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 available resources and to maintain appropriate reserves.

BUDGET DEVELOPMENT POLICIES

The following pages consolidate several City policies, directives and practices that affect development of the budget. It may be revised as needed by the Mayor and City Council.

Basic Budget Balancing Equation

There is a simple equation to illustrate the components of a balanced budget. The equation is: Beginning Reserve Balance + Revenues = Expenditures + Ending Reserve Balance. When one of these four components is changed, then an account within the same component must change in the opposite direction by a like amount, or one or more of the other three components must change in order to keep the equation in balance.

Bellingham City Council Guiding Principals adopted in 1998:

1. Policy and administrative decisions should reflect long-term community goals.
2. All City decisions should reflect both immediate and long-term costs.
3. Encourage citizen stewardship through involvement in civic affairs.
4. Promote and support intergovernmental and public/private partnerships.
5. Planning a healthy environment for children fosters a healthy environment for us all; therefore, all City policies and decisions will consider the well-being and safety of children.

The following policies relate to the budget and, in some cases, the informal guidelines the administration typically uses when developing the preliminary budget

General Operating Policies

1. The City of Bellingham strives to provide a healthy balance of services to residents. These include programs for public safety, infrastructure, culture, recreation, planning, and maintenance of capital facilities. Such a balance is necessary to promote an outstanding quality of life in the City, a good community environment for families and youth, and a desirable climate for retention and attraction of leading businesses. While recognizing the importance of all programs to promote those goals, it is understood that the City's ability to provide them can vary according to shifts in the local and state economy. During periods of flat or declining revenues due to the level of economic activity, the City's emphasis on programs for public safety and maintaining previous investments in capital facilities will increase. During periods of increasing revenues due to improving economic activity, the City will generally work to improve the balance among different program areas.
2. The City will not use resources received, that are considered to be of a one-time nature, to finance on-going operational costs.

Budget Overview

3. The City strives for a compensation practice that will attract and retain competent employees and be in harmony with the community served. In establishing compensation, which includes salary and benefits, the City will normally reflect the compensation practices of employers in the geographic area from which job applicants are recruited.
4. The City will evaluate the costs of insurance versus the risk the City retains by self-insuring. Insurance will be purchased 1) when the premiums are reasonably priced; 2) when reputable, solvent insurance firms from which to select are available; and 3) when the likelihood of a loss occurrence is low but the potential dollar risk if such a loss occurs is high.
5. The City's top priority is public safety services. However, should compensation settlements continue to exceed the growth in the local economy, adjustments may be necessary in these services.
6. The City will not include City-owned park and open space land in the special benefit category subject to LID assessments, unless such property can be converted to a higher and better use.
7. The City will use interfund loans when possible to provide for cash flow coverage. Longer-term uses will be allowed on a case-by-case basis. The Finance Director will establish rates of return to assure the loaning fund receives a return equal to the pool investment rate.
8. The City will use the "Prudent Person" policy when investing funds. Preservation and safety of assets is a higher priority than return on investments. The City's investment policy provides greater detail on this subject.
9. The City will use recycled paper whenever costs are less than or similar to costs for virgin paper stocks.
10. City policy PAR 10.0.1 will establish the level of recovery of costs from fees charged for recreation programs.
11. Each fund should maintain sufficient cash balances to allow for seasonal fluctuations in revenues and expenses. Levels should be set independently for each fund.
12. Estimated revenues, expenditures and turnback (the amount of budgeted appropriations that remains unspent at year-end) are based on the 5-year historical average for each item, unless there is a compelling reason stated in writing for basing the estimate on a higher or lower amount.

General Capital/Debt Policies and Goals

1. Streets need to be resurfaced every 20 years. On the average this is 14 miles per year.

2. Water mains need to be replaced every 100 years. On the average this is 4 miles per year.
3. Sewer lines need to be replaced every 100 years. On the average this is 3 miles per year.
4. Drainage facilities are usually replaced in conjunction with street resurfacing projects. About \$500,000 in resources is required each year (not including grant funds or larger one-time capital projects).
5. Departmental computer equipment has different life spans. Due to rapidly changing technology, equipment may be obsolete before its physical life has expired.

Laser jet printers	5 yrs
Personal computers	5 yrs physical 3 yrs obsolete

6. Debt will be issued only when 1) it is required to meet time constraints, 2) it would not be cost effective to wait, and 3) a revenue stream is available to repay the debt.
7. If capital assets are constructed with funds from voted debt, it is anticipated that voted debt will be used for their replacement or for substantial repair.
8. Capital leases will be used sparingly. Rentals are recommended primarily when an asset is needed on a short-term basis. For assets needed for their full life expectancy it is more cost effective to acquire the asset by a cash purchase.

City Council Financial Policies

The financial policies currently adopted are listed below.

Finance Policy 96-1 (Adopted October 28, 1996 and subsequently amended):

The City of Bellingham has City Council approved, designated budgetary reserve balance goals in various funds. It is recognized that because they are goals they will not always be met because the City may be either in the process of increasing reserves to meet the goal or annual fluctuations may cause the City to be either above or below the goals. The current funds with City Council approved designated budgetary reserve balance goals are as follows:

1. General Fund - the goal is 12% of the annual operating budget, which is \$7,260,000 for 2007. The budget provides \$8,684,125 in designated and \$1,956,853 in undesignated reserves.
2. Street Fund - the goal is 5% of the annual operating budget. The budget provides \$700,000 in designated and \$346,850 in undesignated reserves.

Budget Overview

3. Computer Reserve Fund - the goal is 50% of the original value of General Fund acquired system hardware and software. The budget provides \$1,114,768 in designated reserves.
4. Development Services Fund - the goal is 50% or six months of the annual operating budget. The designated goal for 2007 is \$1,707,180 based on this method. The budget provides \$778,937 in reserves.
5. Fleet Administration - the Fleet reserve balance fluctuates depending upon the stage of the equipment replacement cycle. The 2007 budget provides \$4,090,000 in designated equipment replacement and operating reserves and \$123,974 in undesignated reserves.
6. Claims & Litigation Fund - the goal is \$5,000,000. The 2007 budget provides \$5,242,658.
7. Unemployment Compensation Fund - the goal is 75% of the annual expected claims payments to Washington State. The designated goal for 2007 is \$75,000 and the budget provides for this amount. The undesignated reserve is \$110,352.
8. Workers' Compensation Fund - this reserve has been increased to \$600,000, which is \$100,000 more than the City's stop-loss liability. The 2007 budget provides \$622,318.
9. Health Benefits Fund – the goal is 3% of the City's health insurance premiums. The budget provides \$286,200 in designated and \$426,134 in undesignated reserves.

Finance Policy 96-2 (Adopted October 28, 1996):

The budgeted beginning fund balance will be adjusted to actual and all unanticipated expenditures and revenues will be accounted for by adjustments to the ending fund balance.

Finance Policy 96-3 (Adopted October 28, 1996):

If funds are being set aside for a specific project or purpose, the funds will be identified as "designated reserves" and shall be presented in the annual budget.

EXPLANATION OF ACCOUNTING BASIS AND ACCOUNT STRUCTURE

Basis of Accounting

Basis of accounting defines when revenues, expenditures or expenses are recognized in the accounts and included in the budget estimates. The basis of budgeting and the basis of accounting used in the City's audited financial statements are the same.

The modified accrual basis of accounting is used for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Benefit Trust Funds and Permanent Funds. Under this method, expenditures are recognized in the accounting period in which the liability is incurred. Revenues are recognized when they become both measurable and available to finance expenditures of the current period (no more than 60 days beyond period end). Revenues that are measurable but not available are recorded as deferred revenues and offset by receivables.

- Taxes, entitlements and shared revenues are recognized when cash is received.
- Grant reimbursements are recognized in the year in which the expenditures are incurred.
- Special assessments are considered measurable and available when they become current.
- Interfund revenues for goods and services are considered measurable and available when earned.
- Proceeds from refunded debt are recognized as an "Other Financing Source" and the amount remitted to the refunding trustee is recognized as an "Other Financing Use".
- Redemption of long-term debt principal is considered an expenditure when due.
- Interest on long-term debt is recorded as an expenditure when due.
- Proceeds from the sale or loss of general fixed assets are recognized as an "Other Financing Source".
- Purchases of capital assets and inventories are considered expenditures.
- Prepaid items, for benefits not yet received, are recorded as expenditures when the benefits are realized.
- Accumulated unpaid sick pay and other health-related employee benefits are considered expenditures when paid. Accumulated vacation and compensatory time is expensed when earned and the resulting liability is reduced when the time is taken off or paid.
- All other revenues are either not measurable or considered not available until collected.

The accrual basis is used for Enterprise Funds, Internal Service Funds, and Pension Trust Funds. Under this method, revenues are recognized when earned, expenses when incurred.

Account Numbers

The State of Washington prescribes the account code structure cities must use for reporting. Cities may use any accounting system during the course of the year, but they must prepare their Comprehensive Annual Financial Report (CAFR) and Budget using the State's Budgeting, Accounting, and Reporting System (BARS) codes.

For regular accounting, the City uses an alternative numbering system called the User Account Code (UAC). The budget document shows portions of the UAC and portions of the expense code that are the same in both the BARS and UAC systems. The City sets up a one-to-one relationship between the UAC and BARS numbers but leaves the full BARS account code in the background. This allows the City to change the BARS account for reporting to the state without affecting departments that use a UAC code.

Fund descriptions, including which departments are responsible for each fund, appear under the title Fund Descriptions and Accountability at the end of this description of account structure.

For both revenues and expenditures, the City uses additional levels of account code detail that are not shown in the budget document. The budget detail report may be viewed on request at the Finance front counter.

Reserves

For budget preparation and monitoring purposes, the City uses reserves rather than fund balances. The reserve concept is used because it better defines for City Council and Administration the resources expected to be available at the beginning of the year for expenditure. The ending reserves also better define what will be left at year-end for use in the following year.

The City defines budgetary reserves as the difference between:

- those assets that can reasonably be expected to be available for use within the year or shortly thereafter and
- those liabilities that can reasonably be expected to be extinguished during the year.

Turnback

At the end of each fiscal year, any unused budget capacity that is not reappropriated to the subsequent year is returned to the fund balance for which it was originally budgeted. The City of Bellingham refers to this practice as turnback. Between 1999 and 2005, the total turnback for all General Fund departments averaged \$2.3m, or 4.4% of the total expenditure budget. For the 2006 budget it was decided that each General Fund department's budget would include a negative expenditure line, which in total amounted to \$1.6m, or 3% of the total expenditure budget. Because of challenges relating to the monitoring of these negative amounts, the practice of budgeting turnback in 2007 will cease. It will instead be handled as a forecasting issue. In the departmental summaries that follow, you may see some departmental budget increases attributed to the removal of the 2006 turnback, which refers to the change outlined above.

FUND DESCRIPTIONS AND ACCOUNTABILITY

To comply with the BARS system, the City must use a three-digit number for funds. The City classifies funds by different types. These are:

001 General or Current Expense Fund - To account for all financial resources not required to be accounted for in another fund.

100 Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted for specified purposes.

200 Debt Service Funds - To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

300 Capital Projects Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities.

400 Enterprise Funds - To account for operations that are normally financed and operated in a manner similar to private business enterprises.

500 Internal Service Funds - To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

611-620 Pension (and Other Employee Benefit) Trust Funds - To account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, and other employee benefit plans.

700 Permanent Funds – To account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

The Mayor is ultimately responsible for all expenditures of City government. Day-to-day responsibility for fund management is delegated by the Mayor to Department Heads. In some instances, a specific department has total responsibility for a fund; in other cases, more than one department or division draw on the resources of a fund. The listing below identifies the budgetary areas included in each fund and the area or the person responsible for reserve level management.

Budget Overview

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
001	General Fund: The primary operating fund of the City. It accounts for all financial resources not required to be accounted for in a special purpose fund, and finances operations for funds that do not have adequate dedicated revenues, such as Police and Fire Pensions, Medic One, Cemetery, reserve balances and debt services.	Legislative, Executive, Hearing Examiner, Legal, Judicial & Support Services, Planning & Community Development, Information Technology Services, Museum, Library, Finance, Parks & Recreation, Fire and Police. Reserve responsibility: Budget for general reserve and Departments for special reserves.
111	Street Fund: For maintenance of all City streets. Revenue is primarily from state sales tax, grants and interfund payments for administrative and engineering services.	Public Works
112	Arterial Street Construction Fund: For upgrading arterial roadways. Recurring revenue comes from state shared fuel tax. Project funding is supplemented by street related grants.	Public Works
113	Paths & Trails Reserve Fund: To establish and maintain paths and trails for bicyclists, equestrians and pedestrians. Source of revenue is one-half of one percent of motor vehicle fuel taxes received by the Street Fund.	Public Works
123	Park Site Acquisition Fund: Used for acquisition of land for parks, playgrounds, open space or greenbelts in areas deemed appropriate by the City Council. Source of revenue is a charge of \$50 per lot in subdivisions that do not dedicate or set aside property for park purposes.	Parks & Recreation
124	Computer Reserve Fund: For eventual acquisition or replacement of computer system hardware and software. Amounts approved by City Council are transferred from other funds.	Information Technology Services

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
125	Capital Maintenance Fund: A cumulative reserve to meet needs for repairs, maintenance, and non-capital improvements to General Fund supported facilities.	Public Works, Library, Museum, Parks & Recreation, and Fire. Reserve responsibility: Budget
126	Library Gift Fund: Accumulates cash gifts to the library from private sources. Expenditures are made to provide books or other materials for the library.	Library
131	Olympic Pipeline Incident Fund: To account for funds to implement maintenance and monitoring tasks on Whatcom Creek pursuant to the Olympic Pipeline Whatcom Creek Restoration Plan.	Public Works
132	Squalicum Park / Olympic Fund: To account for a portion of the proceeds of the settlement from Olympic Pipeline to be used for Squalicum Park.	Parks & Recreation
133	Olympic – Restoration: To account for fund to complete restoration projects on Whatcom Creek pursuant to the Olympic Pipeline Whatcom Creek Restoration Plan.	Public Works
135	Little-Squalicum-Oeser Settlement Fund: To account for the settlement funds from the Oeser property settlement	Parks & Recreation
141	First 1/4% Real Estate Excise Tax (REET) Fund: Proceeds from this tax fund construction, repair, replacement, rehabilitation, or improvement projects as authorized by state law.	Parks & Recreation, Planning & Community Development, Public Works, Police, and Fire. Reserve and debt responsibility: Budget
142	Second 1/4% REET Fund: Used solely for financing capital projects specified in the capital facilities plan element of the comprehensive plan, as authorized by state law.	Parks & Recreation, Public Works. Reserve and debt responsibility: Budget
151	Police Federal Equitable Sharing Fund: Created when the City entered into agreement with the Treasury Department to participate in the program for federally forfeited property or proceeds. Money received under the program is spent pursuant to federal guidelines.	Police

Budget Overview

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
152	Asset Forfeiture/Drug Enforcement Fund: Proceeds of seizures are deposited into this fund, and used exclusively for expansion of narcotics enforcement.	Police
153	Criminal Justice Fund: Supplements staffing costs and capital equipment purchases. Funded by State entitlements.	Police
160	Public Safety Dispatch Fund: Provides efficient communication services for Bellingham's Police, Fire and EMS units, and participating public safety agencies in the surrounding county. This separate fund facilitates reporting financial operations to user agencies and to the 911 Center's Board of Administration. It is funded by user agencies.	Police
165	Public Facilities District Fund: The Bellingham - Whatcom Public Facilities District is a separate Washington municipal corporation and an independent taxing authority created under RCW 35.57, Bellingham Municipal Code Chapter 2.94, and Whatcom County Code Chapter 1.17. The PFD was created in order to receive a state sales tax rebate for the purpose of creating a regional center, as defined in RCW 35.57. Administrative services and financial management are provided by the City through an interlocal agreement between the PFD and the City of Bellingham. The fund was established in 2002.	PFD Board of Directors/Manager
171	Greenways Levy Fund: The proceeds of this additional levy were collected from 1991 to 1996 to acquire and improve real property for open space, parks and trails. Fund closed in 2006.	Parks & Recreation

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
172	Beyond Greenways Fund: To continue acquisition improvement and maintenance of greenway areas begun by the original Greenway Levy. Funded by voter-approved \$20 million property tax levy, of which 90% is designated for capital projects.	Parks & Recreation
173	Greenways III: Funded by increased property tax of .57 per thousand of assessed valuation, the amount to be collected will total \$44,300,000. To continue the acquisition, improvement and maintenance of greenways areas begun by the original greenway levy. Voter approved levy passed in 2006.	Parks & Recreation
177	Park Impact Fee Fund: Park impact fees, as authorized by Ordinance 2006-02-012, are placed in this fund. Funds are invested until needed, and the interest income remains with the park impact fee fund until the fees and interest are either refunded to the property owner or utilized as part of the resources for an approved project.	Parks & Recreation
178	Sportsplex Fund: Created to accumulate amounts specified in lease with Whatcom Soccer Commission to be paid to the City for Security Deposit and Capital Improvement /Major Maintenance. These funds may only be spent by mutual agreement for capital improvements, major maintenance or early retirement of bonds.	Parks & Recreation
180	Tourism Fund: To pay costs of tourism promotion or acquisition and operation of tourism-related facilities. The source of revenue is a special excise on transient lodging.	Planning & Community Development

Budget Overview

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
190	Community Development Block Grant Fund: To upgrade neighborhoods and expand affordable housing choices, assist community social service agencies, address human needs, and create employment opportunities for individuals with low and moderate incomes. The source of revenue for this fund is a Community Development federal block grant.	Planning & Community Development
191	Home Investment Partnership Grant Fund: Accounts for federal home investment partnership grant revenue, a HUD grant for the expansion of the supply of affordable housing, particularly rental housing, for low and very low income Americans.	Planning & Community Development
211-235	General Obligation Debt Service Funds: Used to account for the accumulation of resources for and payment of general obligation bond principal and interest, special assessment bond principal and interest, and state loans, when the government is obligated in some manner for the payment.	Finance
245	Local Improvement District (LID) Guaranty Fund: Assures that payments on individual LIDs will be made on time if collections from district property holders are insufficient. Property in arrears is foreclosed and the proceeds deposited to the Guaranty Fund.	Finance
251-299	LID Debt Service Funds: LIDs are issued when property owners require assistance funding improvements that benefit the entire district. The City administers LID bond funds. Since they are not an obligation, the City does not budget for individual LIDs.	Finance

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
313	City Hall Annex Fund: To pay the cost of purchasing and remodeling the building and adjacent parking lot to accommodate City offices.	Public Works
341	Civic Field Improvements Fund: Created to account for the multi-year project to remodel and improve the Civic Field Complex. The primary resources for the project are from transfers from other funds and the issuance of G.O. Bonds in 2004.	Parks & Recreation
410	Water Fund: To pay for costs associated with supplying safe water to customers of the City's water supply system. The sole source of revenue is the sale of water to the general public. Demand charges, hydrant fees and reservoir fees are collected for construction purposes.	Public Works
420	Wastewater Fund: To pay for costs associated with conveying and properly treating sewage from customers of the City's wastewater treatment system. The sole source of revenue is from services provided to the general public. Demand charges are collected for construction purposes.	Public Works
430	Storm and Surface Water Utility Fund: Created to improve existing and construct new stormwater facilities, prepare a stormwater master plan and acquire additional wetland and open space. The primary source of revenue is a service charge for impervious surface runoff.	Public Works
440	Solid Waste Fund: To pay costs associated with waste collection, transfer and disposal. A private contractor handles garbage collection and billing. The primary source of revenue is the utility tax.	Public Works

Budget Overview

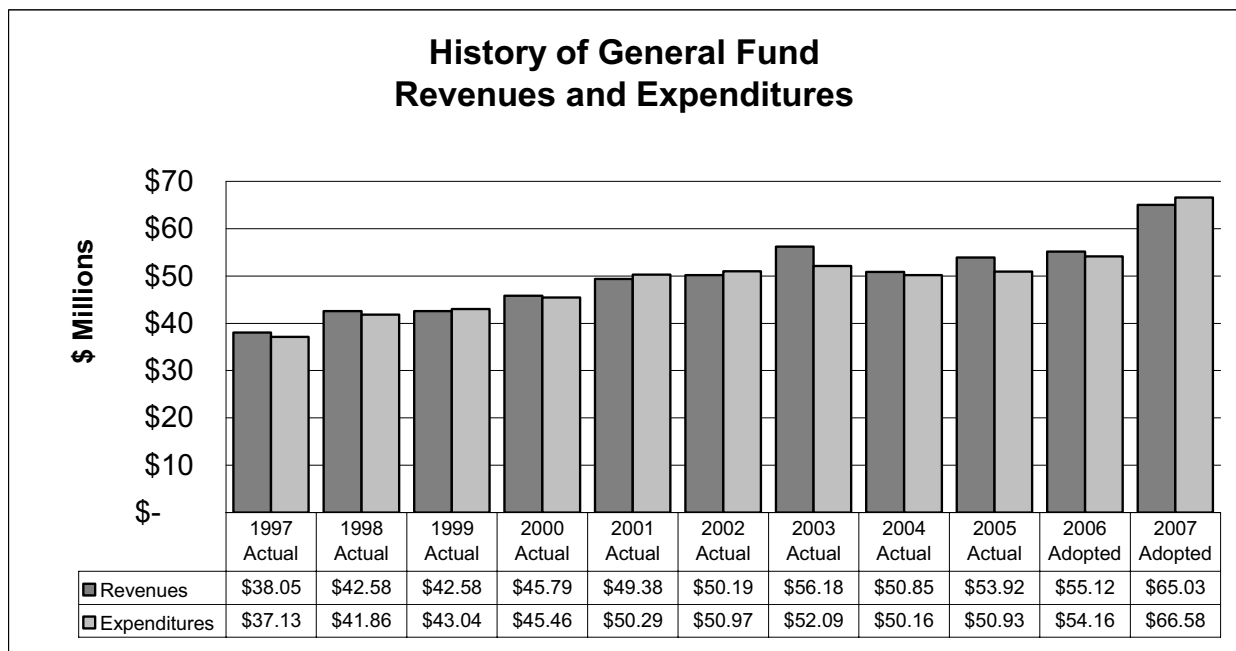
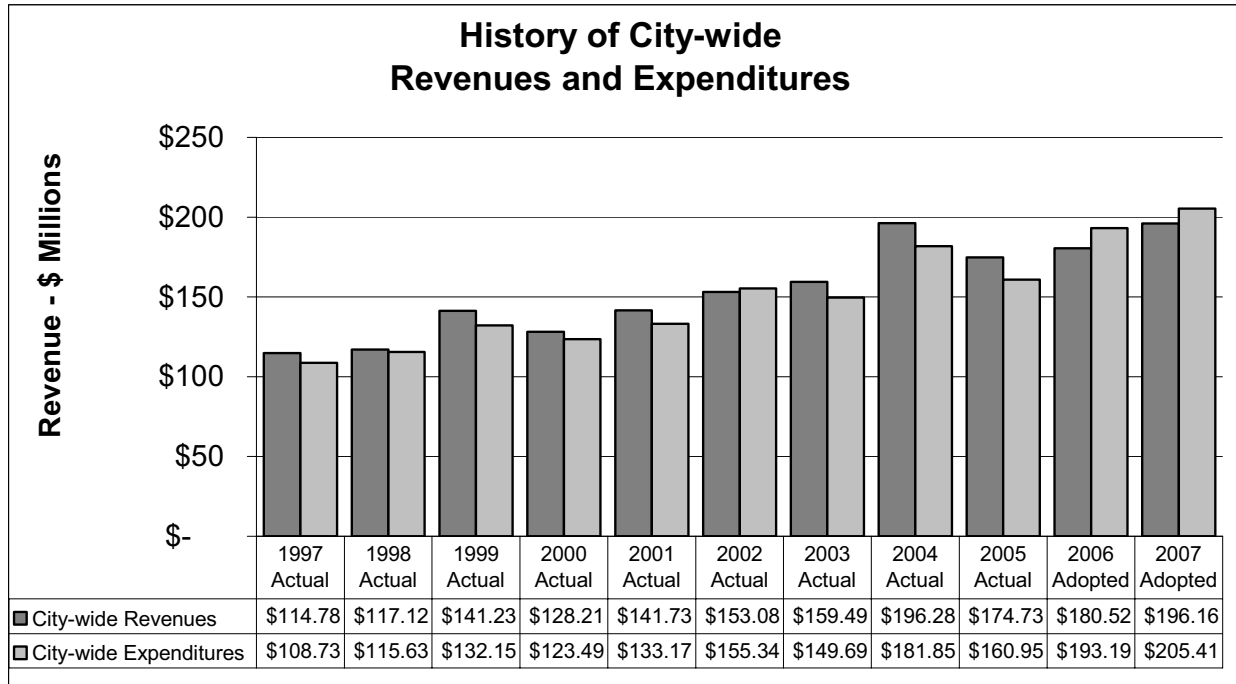
Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
456	Cemetery Fund: To provide for operation and maintenance of Bayview Cemetery. Revenue is derived from the sale of lots and concrete boxes, interment charges, and interest. Perpetual care for upkeep of graves and cemetery property is funded from the sale of gravesites. This fund is also supplemented by a contribution from the City's General Fund.	Parks & Recreation
460	Golf Course Fund: For operation of the pro shop and Lake Padden Golf course maintenance. These services are contracted.	Parks & Recreation
465	Parking Services Fund: To operate and maintain municipal parking system consisting of parking garages, surface lots, on-street parking and commercial space rental. Revenue is primarily derived from fees and rentals.	Public Works
470	Medic One Fund: Provides countywide ambulance service through an Interlocal agreement between the City and Whatcom County. Revenues generated by fees for services and supplemented by contributions from the City and County.	Fire
475	Development Services Fund: To ensure compliance with a variety of state and local construction codes. Primary source of revenue is fees for inspection services. (Previously named "Building Services" Fund.)	Planning & Community Development
510	Fleet Administration Fund: To consolidate vehicles and equipment under one fund for acquisition, repair, maintenance and replacement. Revenue is derived from renting these assets to user funds and mechanical shop services to other funds and other government agencies.	Public Works

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
520	Purchasing & Materials Management Fund: To consolidate the functions of purchasing, warehousing and issuing supplies to various departments of the City. Revenue is derived from inventory sales and overhead charges.	Public Works
530	Facilities Administration Fund: Consolidates the majority of custodial services and facility maintenance.	Public Works
540	Telecommunications Fund: To purchase telecommunications equipment and recover the costs from the user departments. Provides centralized payment of monthly telecommunication expenses. Additional funding is used for future acquisitions.	Information Technology Services
550	Claims & Litigation Fund: To pay expenses for claims, litigation, administrative costs, settlements and judgments on behalf of City departments. Departments pay insurance premiums into this fund for future contingencies. Costs over \$1 million are covered by excess liability insurance.	Legal
561	Unemployment Compensation Fund: Reimburses the state for unemployment claims paid to former employees, as required by state law. A percentage of payroll is transferred to this fund each payroll period.	Human Resources
562	Workers' Compensation Fund: Covers the cost of claims resulting from on the job injuries or job-related illnesses, and related preventive, safety and disability programs.	Human Resources
565	Health Benefits Fund: Covers the costs of providing medical, vision, and dental benefits to City employees, health studies and the wellness program. Revenue is from premiums charged to each department per employee.	Human Resources

Fund No.	Fund Name and Description	Budgetary Areas (Reserve responsibility is the department shown unless otherwise noted.)
612	Firefighters Pension Fund: Pension payment to firefighters or surviving spouses and medical benefits for firefighters hired prior to October 1, 1977. Revenue is from property tax, fire insurance premium tax, and General Fund contributions.	Human Resources. Reserve responsibility: Finance and Human Resources
613	Police Officers Pension Fund: Pension payment to police officers or surviving spouses and medical benefits for police officers hired prior to October 1, 1977. Revenue is from sales of unclaimed property and General Fund contributions.	Human Resources. Reserve responsibility: Finance and Human Resources
614	Firefighter's Long Term Care Fund: Provide long term care costs for firefighters hired prior to October 1, 1977. Revenue is from General Fund contributions.	Human Resources. Reserve responsibility: Finance and Human Resources
615	Police Officer's Long Term Care Fund: Provide long term care costs for police officers hired prior to October 1, 1977. Revenue is from the General Fund contributions.	Human Resources. Reserve responsibility: Finance and Human Resources
701	Beyond Greenways Endowment Fund: Revenue is derived from a voter approved \$20,000,000 property tax levy, of which 10% is dedicated for the endowment fund. Interest earnings are accumulated in this fund and transferred to the General Fund for maintenance of properties acquired and developed with the Beyond Greenways levy.	Parks & Recreation
702	Natural Resource Protection and Restoration Fund: This permanent fund was created in 2004 to account for the \$4,000,000 settlement passed on by the state as a part of the Olympic Pipeline Settlement. The principal cannot be spent for 50 years. Interest earnings will be spent on projects as they are identified.	Public Works

Historical Graphs – Revenues and Expenditures

Revenues and Expenditures only are shown - Reserves drawn down for use as a revenue source and funds used or budgeted to increase reserve balances are not shown.



Summary of Estimated Revenues, Expenditures and Reserves

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT FUNDS	CAPITAL FUNDS	ENTERPRISE FUNDS
ESTIMATED BEGINNING RESERVE BALANCE 1/1/2007	\$ 12,194,340	\$ 15,157,770	\$ 556,649	\$ 107,721	\$ 17,278,973
REVENUES					
Taxes	47,609,819	18,671,900	350,230	-	1,570,126
Licenses & Permits	810,235	59,000	-	-	2,078,200
Intergovernmental	1,775,901	10,974,661	-	-	2,612,029
Charges For Goods & Services	6,491,935	10,361,360	90,329	200	38,250,620
Fines & Forfeitures	1,767,558	-	-	-	107,793
Interest & Miscellaneous	1,195,238	2,184,266	416,097	15,000	4,086,880
Non-Revenues	-	-	-	-	846,840
Other Financing Sources	5,378,689	11,337,885	2,482,345	-	1,345,296
TOTAL REVENUES	65,029,375	53,589,072	3,339,001	15,200	50,897,784
TOTAL AVAILABLE RESOURCES	77,223,715	68,746,842	3,895,650	122,921	68,176,757
EXPENDITURES					
Salaries & Benefits	40,077,309	11,138,432	-	-	13,547,786
Supplies	2,423,021	961,010	-	-	2,068,550
Services	6,736,292	7,491,174	-	-	7,968,039
Intergovernmental Services	5,619,688	3,402,514	-	-	5,840,829
Capital	6,104,523	28,821,322	-	-	9,392,619
Principal & Interest	-	171,246	3,274,384	-	5,802,088
Interfund Charges	5,621,904	4,002,231	-	-	11,360,386
TOTAL EXPENDITURES	66,582,737	55,987,929	3,274,384	-	55,980,297
ESTIMATED ENDING RESERVE BALANCE 12/31/2007	10,640,978	12,758,913	621,266	122,921	12,196,460
TOTAL EXPENDITURES & RESERVE BALANCE	\$ 77,223,715	\$ 68,746,842	\$ 3,895,650	\$ 122,921	\$ 68,176,757

2007 Budget

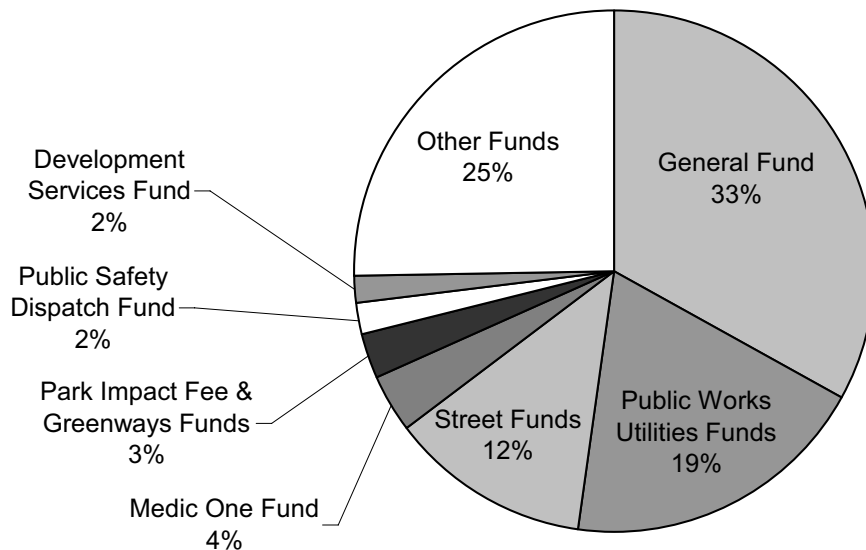
INTERNAL SERVICE FUNDS	PENSION TRUST FUNDS	PERMANENT FUNDS	TOTAL 2007 BUDGET	TOTAL 2006 ADOPTED	Change from 2006 Adopted	
					AMOUNT	PERCENT
\$ 13,189,537	\$ 7,977,095	\$ 3,970,610	\$ 70,432,695	\$ 76,099,165	\$ (5,666,470)	-7.4%
-	1,517,500	-	69,719,575	62,966,240	6,753,335	10.7%
-	-	-	2,947,435	2,961,093	(13,658)	-0.5%
-	96,350	-	15,458,941	16,139,646	(680,705)	-4.2%
2,772,818	-	-	57,967,262	55,545,515	2,421,747	4.4%
66	-	-	1,875,417	1,543,508	331,909	21.5%
15,428,903	1,745,208	248,219	25,319,811	20,130,144	5,189,667	25.8%
8,316	73,294	-	928,450	10,919,399	(9,990,949)	-91.5%
1,400,000	-	-	21,944,215	10,319,232	11,624,983	112.7%
19,610,103	3,432,352	248,219	196,161,106	180,524,777	15,636,329	8.7%
32,799,640	11,409,447	4,218,829	266,593,801	256,623,942	9,969,859	3.9%
2,581,991	2,214,000	-	69,559,518	63,505,802	6,053,716	9.5%
1,619,279	102,200	-	7,174,060	6,809,478	364,582	5.4%
11,593,146	377,000	-	34,165,651	28,679,185	5,486,466	19.1%
170,463	-	-	15,033,494	15,517,035	(483,541)	-3.1%
2,821,000	-	-	47,139,464	46,135,235	1,004,229	2.2%
-	-	-	9,247,718	8,030,252	1,217,466	15.2%
2,101,455	768	-	23,086,744	24,513,634	(1,426,890)	-5.8%
20,887,334	2,693,968	-	205,406,649	193,190,621	12,216,028	6.3%
11,912,306	8,715,479	4,218,829	61,187,152	63,433,321	(2,246,169)	-3.5%
\$ 32,799,640	\$ 11,409,447	\$ 4,218,829	\$ 266,593,801	\$ 256,623,942	\$ 9,969,859	3.9%

Revenues

The following pages describe the City's major revenue sources. The funds shown in the top section of this table generally make up at least 75% of the City's total revenue. Trends and other information used in projecting revenues for budget are explained here.

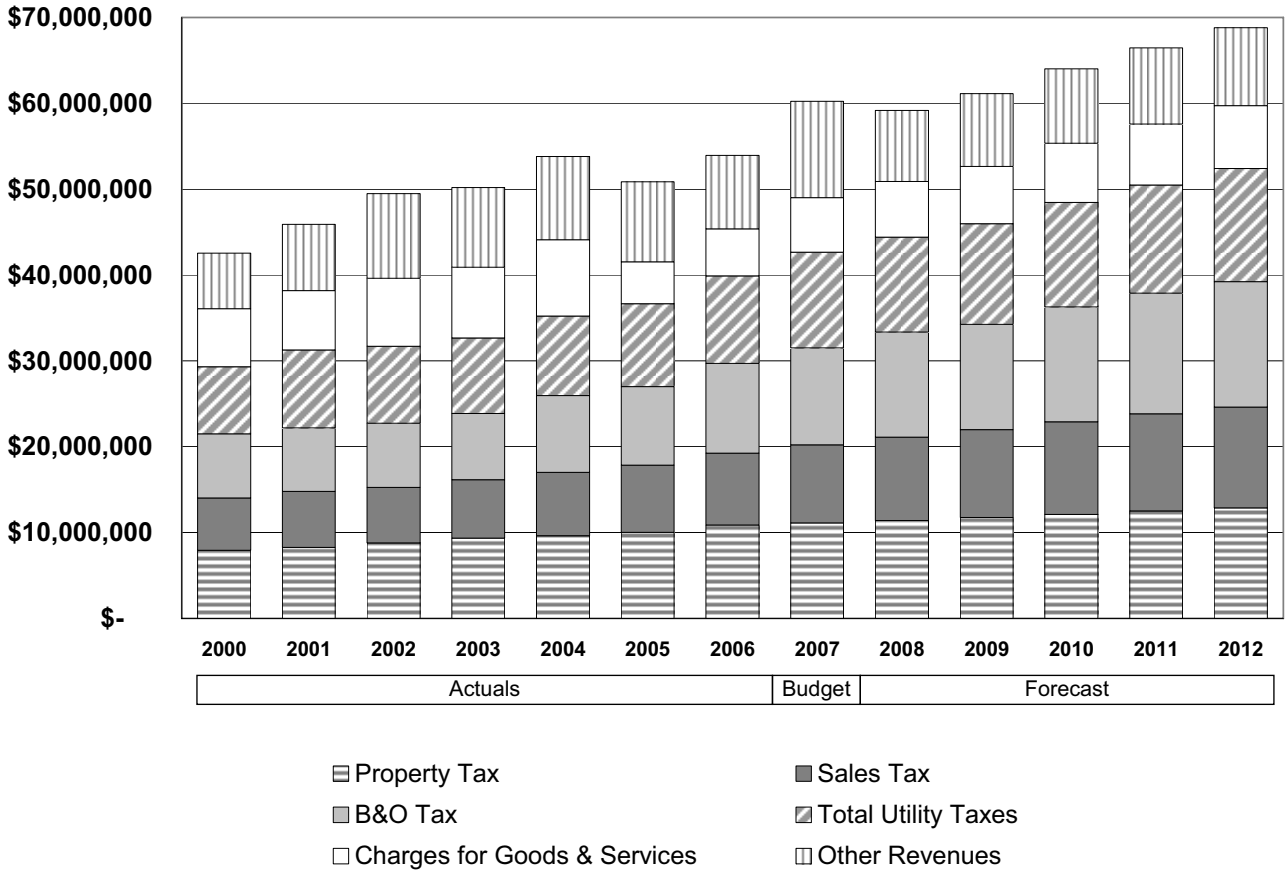
	2003	2004	2005	2006 Budget	2007 Budget
General Fund	56,180,433	50,848,182	53,918,914	55,116,954	65,029,375
Public Works Utilities Funds	32,664,620	50,928,803	45,912,892	51,501,312	37,547,403
Street Funds	16,312,254	17,531,895	17,061,462	19,638,877	24,192,478
Medic One Fund	5,662,251	5,588,095	6,925,459	6,375,370	7,226,113
Park Impact Fee & Greenways Funds	3,211,261	3,065,811	2,505,108	2,061,980	5,363,833
Public Safety Dispatch Fund	3,198,655	3,299,950	3,809,001	3,506,600	3,869,786
Development Services Fund	2,110,050	1,999,706	2,645,240	3,169,925	3,203,340
Subtotal	119,339,524	133,262,442	132,778,076	141,371,018	146,432,328
Percent of Total Revenues	75%	68%	76%	78%	75%
Other Funds	38,866,609	63,326,447	41,953,525	39,153,759	49,728,778
Total Revenues	158,206,133	196,588,889	174,731,601	180,524,777	196,161,106

2007 Budgeted Revenues



More detailed revenue numbers by fund and by group can be found in reports provided in the City-wide reports section.

General Fund Revenues – Sources and Trends



Property Tax – The Property Tax budget for 2007 of \$11.4m is 2.5% higher than the 2006 receipts. For the City, there is a statistically significant correlation between a given year's value of permits issued for new construction and the subsequent year's assessed value of new construction added to the tax rolls. The 2007 Property Tax budget uses this correlation to project assessed new construction and increases the overall levy amount by 1%. Normally the 1% increase must be approved by City Council, but in 2006 the voters approved the Greenways III Levy, which increased the Regular Levy Rate to \$2.49 per \$1,000 of assessed value and allowed for the 1% levy amount increase.

For 2008, a historical trend line from the 'pre-housing boom' period from 1996-2003 was used to extrapolate an estimated amount of new construction. For 2009-11 the average 'pre-boom' growth rate of 3% was used as a rate increase against the 2008 new construction estimate. Years 2008-11 also assume annual passage of the 1% levy amount increase.

General Fund Revenues – Sources and Trends (continued)

Business & Occupation Tax (B&O Tax) – The B&O Tax budget for 2007 of \$12.25m is 8.4% higher than the 2006 receipts. This amount was extrapolated by trending the B&O Tax collections for the past 3 years (2004 - 06), using the least squares method, and adding \$200,000 in incremental revenue expected by B&O Tax audits to be conducted in 2007.

For 2008, the amount was extrapolated by trending the B&O Tax collections for a 5-year period (2003-07). 2008 does not include any adjustment relating to B&O Tax audits. However, it does include a \$632,000 decrease in collections that relate to a B&O Tax Rule change that will be implemented in 2008.

Years 2009-11 were extrapolated using a similar method described for 2008 with the range used for trending expanding by two years for each year into the future (e.g. 2009 uses the range from 2002-08, 2010 uses the range from 2001-09, etc.).

Sales Tax – The Sales Tax budget for 2007 of \$10.9m is 5.9% higher than the 2006 receipts. The two components of the Sales Tax budget are General Sales Tax and Criminal Justice Sales Tax. Both amounts were extrapolated by trending the Sales Tax collections for the past 3 years (2004- 06), using the least squares method. Years 2008-11 were extrapolated using a similar method described for 2007 with the range used for trending expanding by two years for each year into the future (e.g. 2008 uses the range from 2003-07, 2009 uses the range from 2002-08, etc.).

Utility Tax – The Utility Tax budget for 2007 of \$11.4m is 2.3% higher than the 2006 receipts. Utility Tax revenue is a summation of taxes generated from several types of utilities. These utilities can be broken into two categories: City operated utilities (water, wastewater, and stormwater) and non-City operated utilities (electricity, telephone, natural gas, and cable television).

For City operated utilities, the underlying utility revenue was estimated by managers within the Public Works Department. Their revenue estimates were derived by projecting usage and anticipated utility rates. These estimates were then multiplied by the Utility Tax rate of 11.5% to calculate a portion of the General Fund's utility tax revenue.

For non-City operated utilities, the 2007 utility tax revenue was extrapolated by trending the individual utility tax collections for the past 3 years (2004- 06), using the least squares method. Years 2008-11 were extrapolated using a similar method described for 2007 with the range used for trending expanding by two years for each year into the future (e.g. 2008 uses the range from 2003-07, 2009 uses the range from 2002-08, etc.). The one exception was electricity utility tax revenue where only historical data back to 2002 was used. Data prior to 2002 is not comparable because of the usage fluctuations caused by the operations at the Georgia Pacific plant.

General Fund Revenues – Sources and Trends (continued)

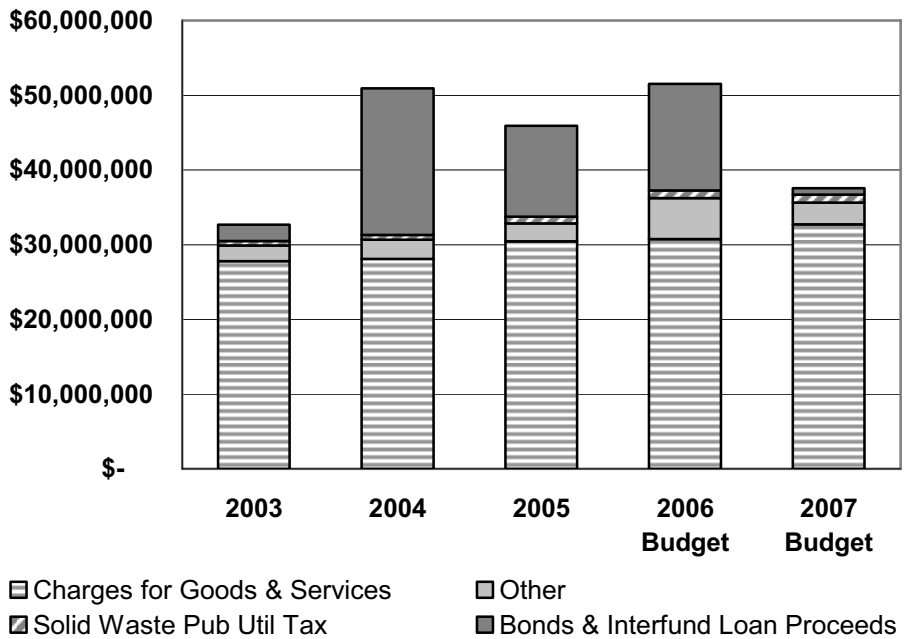
Charges for Goods & Services – The Charges for Goods & Services budget for 2007 is \$6.5m. Most of this total is generated by interfund charges to reimburse the General Fund for organization-wide services it provides such as administration, finance and human resources. The 2007 amounts charged back to non-General Fund departments were based on the actual costs incurred the departments in 2005. For future years, these base amounts were inflated by a 3% average growth rate.

The other component of Charges for Goods & Services are those fees that are charged to users of various City services including probation fees, recreation registration fees, and special police services. Each of these revenue streams has an operational manager assigned to the account who is responsible for estimating their 2007 revenue. The primary method for deriving these amounts was to review historical growth trends. For future years, these base amounts are inflated by a 3% average growth rate.

Other Revenues – The Other Revenues budget for 2007 is \$12.6m. In 2007, \$5m is budgeted in Bond revenue, which relates to a potential bond issue to acquire land for a new Library. The other major components in Other Revenues include fines, grants and permits. For 2007, these individual components were estimated by the assigned operation manager. For future years, one-time items, like the Library bond and grants, were removed and on-going revenue streams were inflated by a 3% average growth rate.

Public Works Utilities Funds – Sources and Trends

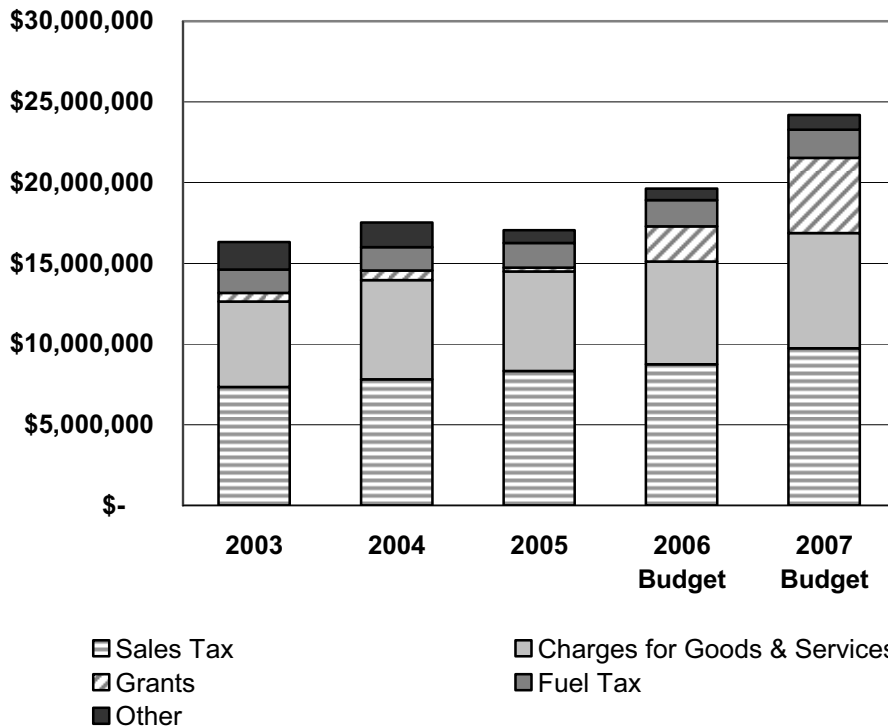
(Includes Water, Wastewater, Storm and Surface Water, and Solid Waste)



Charges for Goods & Services – This represents the charges received for water, wastewater and stormwater services provided by the City. The \$32.7m budget was derived by projecting 2007 usage volume multiplied by ordinance based utility rates. The volume portion of the equation was estimated by considering several factors, which include historical average customer usage, estimating usage for specific high volume customers, analysis of recent usage trends, and estimating impact of known new construction developments.

Street Funds – Sources and Trends

(Includes Street and Arterial Street Funds)



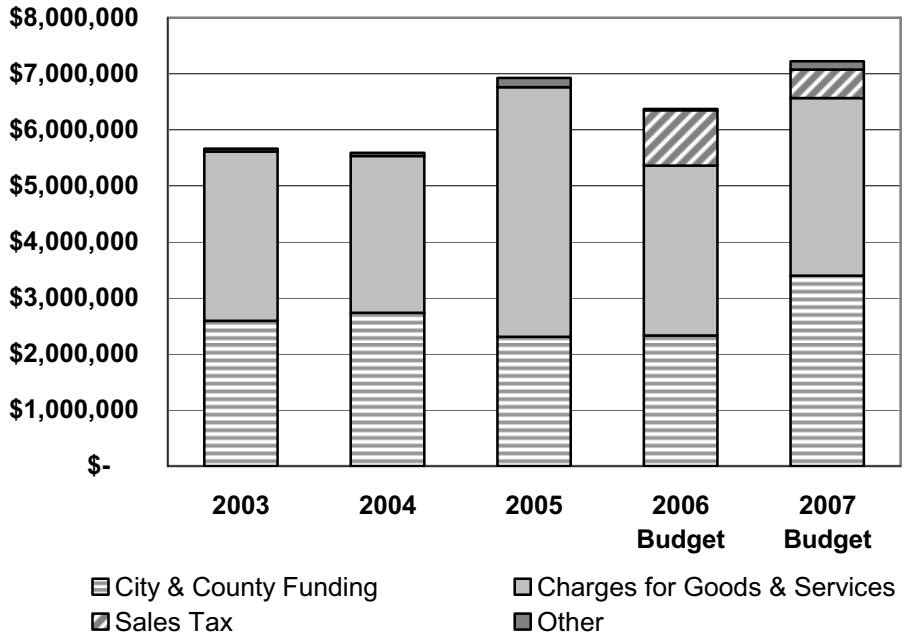
Sales Tax – The Sales Tax budget for 2007 is \$9.7m. This amount was extrapolated by trending the Sales Tax collections for the past 3 years (2004- 06), using the least squares method. Per ordinance 9124 & 9160 and longstanding practice, the General Sales Tax revenues are equally split between the General Fund and Street Fund.

Charges for Goods & Services – This primarily represents the charges to reimburse the Street Funds for Engineering Services it provides to other Funds. Those amounts are estimated by evaluating 2007 capital projects and estimating the utilization of Engineering Services on those projects.

Grants – For 2007, the Street Funds are anticipating \$4.6m in Grants to assist with various City projects. The largest of which is a \$2.5m Washington State Department of Transportation (WSDOT) Grant that will be used for improvements on Sunset Drive.

Fuel Tax – This amount represents the City’s portion of the overall tax the State collects on fuel. The budget estimates were provided by guidance from the Municipal Research and Services Center of Washington (MRSC). In summary, the MRSC states that high gas prices have reduced consumption, but a recovering state economy and an increase in the tax amount have contributed to an overall increase in the tax amount received.

Medic One Fund – Sources and Trends



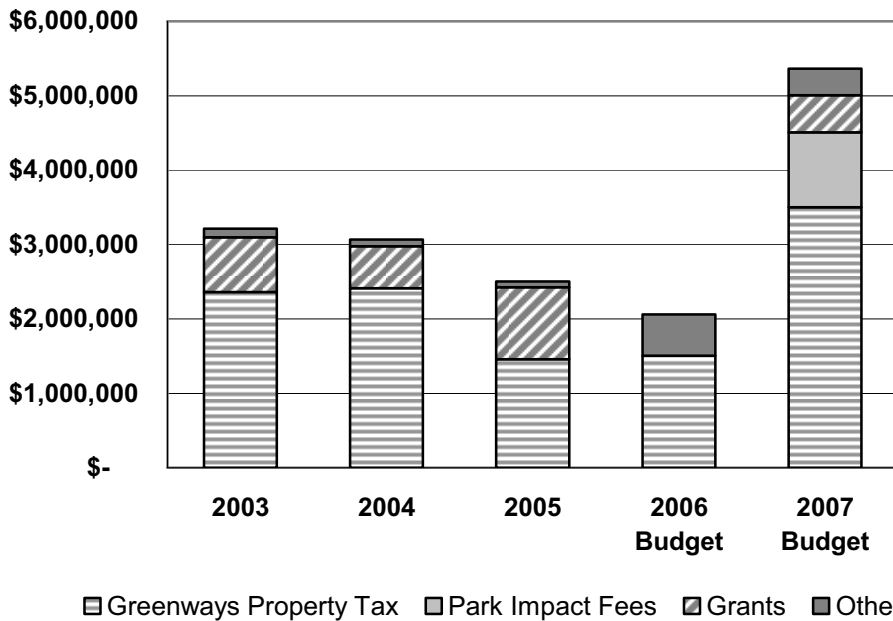
City & County Funding – This represents the funding Medic One receives from the City and the County to help subsidize their operations. The 2007 budget estimate of \$3.4m represents the sum of the contractually agreed to contributions from the City and the County, along with the balancing revenue required to cover the remaining annual costs. This balancing revenue comes from the 1/10th of 1% Sales Tax that is held by the County and administered by the Ambulance Advisory Board.

Charges for Goods & Services – This represents the fees collected by Medic One for ambulance services provided. The 2007 budget estimate of \$3.2m was calculated by analyzing the following components: the average rate of increase in revenue over the last 10 years, the call volume over the last 5 year, and the recent reimbursement patterns from insurance carriers.

Sales Tax – This revenue is from the 1/10th of 1% Sales Tax that went into effect in 2006 to help pay for County-wide Medic services. The 2007 budget amount of \$500,000 comes from the initial tax collection estimates that were calculated when the tax was initially approved. This amount is less than what was budgeted in 2006. The 2006 budget amount incorrectly included tax revenue that flowed to Medic One through the County. While Medic One ultimately received those monies, the appropriate accounting treatment was to classify it in the City & County Fund category, not directly in the Sales Tax category.

Parks Department Funds – Sources and Trends

(Includes Greenways Levies and Parks Impact Fee Funds)

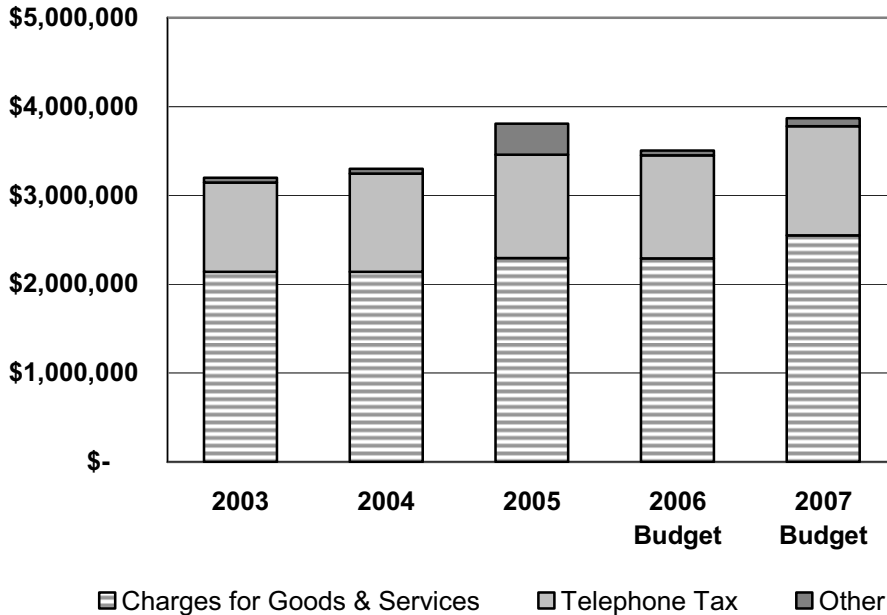


Greenways Property Tax – In May 2006 the Bellingham voters approved the Greenways III Levy. The Levy Rate for 2007 is \$0.57 per \$1,000 of Assessed Value. The budget amount for the Greenways III Levy is estimated at \$3.5m.

Park Impact Fees – These are fees added to the cost of obtaining a building permit for construction done within Bellingham. The budget of \$1m was estimated by projecting the permit level activity for 2007 and multiplying it by the Park Impact Fee Rate. Based on the recent decline in permit activity from records highs in the last few years, the initially calculated budget estimate was reduced to remain conservative as it has been very difficult to accurately predict the level of permit activity.

Grants – The Parks Department expects to receive a \$500,000 WSDOT Grant for improvements at Inspiration Point.

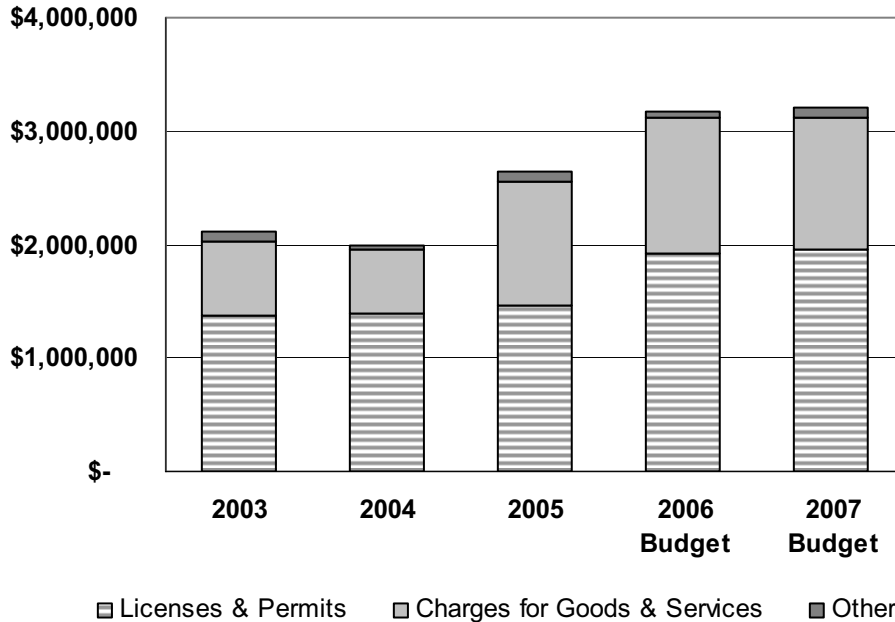
Public Safety Dispatch Fund – Sources and Trends



Charges for Goods & Services – These represent the charges paid to the Dispatch Fund from the City’s Fire & Police Departments and numerous other fire and law enforcement agencies within Whatcom County. The 2007 budget estimate is based on two different components. For the Fire portion of Dispatch, the budget is estimated by the actual number of incidents, by jurisdiction, which occurred from July 2005 – June 2006. For the Police portion of Dispatch, the budget is estimated by analyzing the incident history, number of commissioned officers, and the population of the jurisdiction.

Telephone Tax – This amount comes from a tax placed on telephone service provided in Whatcom County, which helps pay for 911 Operators. The 2007 budget was estimated by annualizing the mid-2006 year-to-date receipts and adding an inflation factor of 2%.

Development Services Fund – Sources and Trends



Licenses & Permits – These are the permits paid for new construction and include such items as building, plumbing, electrical and fire permits. The 2007 budget of \$2m is approximately equal to the 2006 budget. The Development Services staff felt this was the most prudent estimate due to the recent volatility in the Bellingham housing market and permit filings.

Charges for Goods & Services – These are the service fees paid for such items as Plan Review Fees, Zoning Fees, and Land Use Determinations. As with Licenses & Permits, due to the currently volatile housing market, the 2007 budget for Charges for Goods & Services of \$1.2m is approximately equal to the 2006 budget.

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