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TO: Bellingham City Council and the Bellingham Community
FROM: Mayor Dan Pike
DATE: October 12, 2009
RE: Presenting the 2010 Preliminary Budget

Overview

The Preliminary 2010 Budget I am presenting to you not only serves as a financial guide and work plan for the coming year, it represents our first collective step in our commitment to re-orient how we organize, measure and report our progress toward the long-range **Legacies and Strategic Commitments** adopted earlier this summer. I report that this is but a first step because the total re-orientation of our operations and construction of the full new reporting system on progress is expected to be a three-year phase in. Please see the Council Goals tabbed section for more information about this project. We are committed to this new paradigm despite the challenges we face.

I do not need to tell you—or likely anyone reading this document—that 2009 was an incredibly difficult year for our citizens, our local businesses, and for our city government due to the national financial “Great Recession” that has taken a tremendous toll on all sectors. Nonetheless, I am proud of the fact that through it all our dedicated employees and civic volunteers have kept focus on the City’s mission, which is:

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.

In every department, with sharply reduced resources at their disposal, City staff have innovated and collaborated to maintain service levels to the public as much as possible. This preliminary 2010 budget aspires to that goal as well; however, we have also had to be pragmatic in terms of using our limited resources to meet mandates and critical needs before wants, even when those wants are immensely popular. To maintain some of those value-added services we have reduced investments in several new initiatives discussed in last year’s budget message while still positioning ourselves to grow the economy and, thereby, our tax base to reduce future cuts should the economy remain flat for much of the year ahead. Continued proactive investment now will increase our resiliency in the coming years.

Amidst personnel and service reductions, it is a tall order to remain upbeat and grateful for what we still have. Nonetheless, I encourage us to keep in mind that even after the dreadful cuts that preceded this budget proposal and the ones contained in it, residents, businesses, visitors to our area, and grantors will still provide us with \$180 million in revenues in 2010. This total is inclusive of the statutorily allowed 1% increase in property taxation that I am recommending we factor in to carry out our mission and thereby keep our community the great place it is rightfully known to be. We will use these public resources to maintain our quality of life, move closer to Council-established goals, and prudently hold in reserve sums that will permit us to respond to unanticipated events.

Though, at the time of this submission, we are seeing some signs of stabilization –meaning the precipitous drops in revenues seem to be flattening out—I recommend we keep at least several things in perspective during our budget deliberations:

1. There remains some volatility in terms of U.S. economic indicators by region, and history tells us that we were among the last to fall into recessionary times and could likely be slow coming out of them.
2. There have been some federal actions that have been credited with stimulating spending (e.g. “Cash for Clunkers,” an \$8,000 first-time homebuyers tax credit, etc.), but these may mean only short-lived upswings in revenues, not sustainable growth. In fact, some have conjectured that the recent uptick in auto and home sales merely accelerated local buying decisions that now won't be made in 2010 as planned, thus affecting next year's revenues.
3. Unemployment rates are expected to remain high for some time after economic growth returns. As a self-financed entity for unemployment insurance, we may have liabilities for affected workers which could reach far into the maximum allowed time period for collecting unemployment, and there is a good chance that Congress will extend the eligibility period.
4. Though not my preference by any means, the proposed budget utilizes for a third year some of our General Fund operating reserves in order to balance revenues with expenses. My reluctant willingness to do this is because our departments have done a tremendous job in curtailing expenses in 2009 so as to create a higher year-end balance that makes dollars available in the reserve fund. Use of reserves is proposed as an alternative to additional cuts, which after five prior rounds of reductions would be nothing short of draconian for key service centers. If approved by the Council, the proposed reserve usage would leave approximately 12% in the General fund, which is our target and is within the recommended range by the Government Finance Officers' Association. Due to a smaller General Fund overall, however, I hasten to point out that this 12% translates to \$8 million, down from \$14.5 million at the start of 2009. In other words, 12% of a smaller pie is a smaller number of actual dollars in the bank. There is an additional \$2.3 million of restricted General Fund Reserves for jail expenditures and environmental cleanup.

Notwithstanding these caveats, this spending plan could not have come together if it were not for the excellent team work of all City departments and most represented bargaining units. For both management and labor this has been a dreadful time of seeing both services and the livelihood of valued colleagues negatively impacted by our financial conditions. My thanks to

our departmental managers and to City workers, whether represented or not, for doing their parts to make the best of what have simply been rotten circumstances.

Budget Highlights

The core city services and Council goal-driven initiatives in 2010 will be covered by this balanced budget that totals \$180 million, inclusive of a General Fund total of \$62 million. We will augment the generosity of local taxpayers with a number of grants and formula-driven resources from other levels of government to round out the revenue side of this budget. On the expense side, except for where beyond our control, outlays are often at or below the levels of the 2009 budget.

Similar to 2009, we reviewed proposed 2010 departmental expense submissions with four primary criteria applied:

- Protecting the public's safety
- Maintaining and safeguarding our capital assets
- Leveraging third party, e.g. other governmental or private grant, resources; and
- Executing City Council Legacies and Strategic Commitments

Departments were expected to uphold these priorities while presenting expenditures that were at or below 2009 revised budget figures. All departments had to hit their deficit reduction goal while absorbing sharp health care and other benefit costs, and unless covered by negotiated concessions, contractual salary or wage increases as well. Even when concessions were agreed to by labor, departments had to absorb the "step increases" rightfully owed to our workers. We are fortunate to have such an experienced, team-oriented set of departmental leaders and budgeteers in that compliance with these tight constraints was almost uniformly met.

To be sure, to meet their spending targets, Department Heads had to make painful choices. After eliminating 13 vacant positions in order to balance the 2009 budget, four rounds of cuts to the '09 adopted budget and further austerity imposed in preparation for 2010 have meant that more than 50 other positions have been either reduced or eliminated from the City's rolls. If the 2010 budget is adopted as presented, total City employment will total 851.7 (inclusive of FTEs in temporary labor) compared to 910.2 one year ago and to 916.3 FTEs budgeted in 2008. For any remaining vacancies that are budgeted partially or fully in the coming year, I expect to continue our "soft" hiring freeze to closely manage our resources.

Other Key Changes or New Directions for 2010

Despite our tight financial circumstances –or in some cases because of them—we are going to do business a bit differently next year on several fronts in ways that are at least cost-neutral, if not generators of savings or revenues. These include:

- Establishment of an Office of Economic Development & Business Relations within the Department of Planning & Community Development. This refocusing of part of the Community Development side of the department will include a business relations hotline, brokering of businesses that first contact the City to appropriate local resources and coordination of the City's Economic Development Strategic Plan. The office will also work closely with the Executive Department as we continue and further ramp up our

connection to local businesses and re-energize our collaboration with community economic development partners.

- Upholding the Council's policy on being a 100% Green Power City, yet reflecting bargaining unit input and the limits of our fiscal situation, we are reconfiguring our purchase of Renewable Energy Credits (RECs) to include two vendors and thereby reduce our cost by more than 60%.
- To further cement (permeable, of course!) our commitment to bringing Lake Whatcom back toward health and meet the State Department of Ecology's TMDL requirements, we are providing under separate cover an inter-departmental Lake Whatcom 2010 Action Plan.
- After this summer's water treatment challenges, we will explore our need to tap into cleaner source water in order to meet our obligation for sufficient quantities of quality treated drinking water. In 2010, we'll assess the advisability, process steps and projected costs for creating a dual-basin (2 & 3) intake system from Lake Whatcom. Since the basins differ seasonally in regard to turbidity, a two-basin intake could be switched over to the lowest turbidity source water at various points of the year to minimize impact to our treatment plant's equipment and lessen the extent of treatment needed.
- To increase customer service and create efficiency within tight department budgets, several different forms of payment to the City will become feasible via online resources in the year ahead.
- Staff two task forces that will examine in depth how, despite growth in population and annexed geography (approved and potential), we can provide quality, affordable Fire/Medic One and Police services as mandated in the years ahead.
- In collaboration with the Library Board, continue exploration of sites but also public-private partnerships that will enable a new Central Library in the years ahead at a price we can afford.
- After the splash of a grand opening late this fall, bring 30,000 visitors to the new Whatcom Art and Children's Museum through at least nine different shows (including one Smithsonian exhibit), classes, free-access days and quality offerings through the on-site store and café.
- Launch the Community Energy Conservation Challenge in concert with several local partners and with the support of the federal Department of Energy.
- Accelerate the uniform creation of amendments to building codes to more expressly enable green building technologies and methods.
- Negotiate a revised multi-year Franchise Agreement with Comcast for local cable access and programming.
- Convey key city-owned properties to the Bellingham Public Development Authority to create flagship development projects, waterfront connections and eventual revenues for the City.
- Initiate at least two infrastructure improvements to create access to the waterfront site in preparation for development that will eventually greatly enhance Bellingham's tax base.

- Initiate at least two conservation campaigns; one that reduces treated water consumption by our customers and a second that diverts fats, oils, grease and other food production by-products from the wastewater treatment system.

In that the bulleted items above are but a partial view of what we hope to accomplish in 2010, I draw your attention to the lists of departmental objectives found elsewhere in this document for added insight into planned activities that will shape our journey toward the City's Legacies and Strategic Commitments.

Bellingham's Financial Resiliency

In a year when I am proposing additional General Fund reserve usage (though a lesser amount than in either 2008 or 2009), I believe it is important to initiate a dialogue about our government's fiscal resiliency. I know from conversations with the City Council that this also is a keen interest of our policy makers.

First, let me review some vigilance measures that will continue in 2010:

- We will continue to use a methodology to forecast year-end tax revenues that combines historical and month-to-month trend analysis, including outside perspective from financial experts and local business leaders.
- We will monitor and work with our elected delegations to amend and mitigate any legislative act or citizen initiative that could threaten our fiscal stability and/or impose unfunded mandates on the City
- Seek funding solutions – internal and legislative - for our obligations for the Washington Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. 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. The most recent actuarial study indicated a projected present-day value of this liability at \$45 million. The 2010 contribution to the Funds will be \$2.9 million (\$1 million General Fund set-aside and \$1.9 million from Fire Pension Levy) included in the Preliminary Budget, the City has more than \$12 million available in fund balances to cover this liability. The current funding plan will enable the City to actuarially fund its LEOFF-1 Pension and Long Term Care obligations by the statutory deadline. The City intends to continue to pay the medical obligations as we incur these costs and the departments have budgeted accordingly in the document before you.
- Continue to press for State and Federal funds for capital projects ranging from wastewater treatment, street overlays, environmental clean-ups, habitat restoration and waterfront multi-modal transportation connections through leadership of our delegation members and any appropriate and available competitive grant processes.

As we have discussed, despite the urgency of our current fiscal situation, we need to do some longer-range planning on the City's financial picture. As such, in partnership with the Council, I hope we can at least begin, if not conclude, the following in 2010:

- A review and update of our reserves policies, inclusive of those that are legally required (e.g. bond debt service reserves), those that are incumbent upon us as trustee for various collaborative funds (e.g. Medic One and Public Safety Dispatch or WhatComm) and those established by you for our internal funds. These reserves can be both

designated and undesignated in terms of specific purpose and use caveats. With leadership from our Finance Director, it would be my goal to incorporate best practice from professional associations, guidance from our bonding underwriters, State Auditor guidelines and our own experience and expertise in conducting this review.

- A long-term capital improvement plan that captures Federal- or State-mandated improvements or build-outs, any projected implications of approved or likely to be approved annexations, and the anticipated needs of City Departments in terms of upkeep, replacement or new construction.
- Hand in hand with the item above, a comprehensive review and plan for managing the City's near and long-term debt capacity and repayment schedules.

Of course, the most immediate form of resilience against fiscal challenges comes in the form of reserves, particularly reserve liquidity. If the Council approves this proposed budget without major revision, we anticipate that the General Fund reserve will consist of \$8 million at 2010's year-end or approximately 12% of the year's General Fund expenditure level. In total, the City has more than \$72 million dollars in reserve accounts of all types. While these sums might appear to be bountiful, it is important to note that the General Fund Reserve, for example, if on target at the end of 2010, will constitute only about six (6) weeks of operating expenses. Most of the other reserves on hand have restricted uses.

2009 Austerity & 2010 Proposed Budget Staffing Changes' Impact on Comparable Ratios

After the addition of 6.2 staff-requested positions by Council ordinance during 2008, the City of Bellingham had on record as of 12/31/08 authorization for 916.3 FTEs, inclusive of temporary or seasonal workers. The net effect of the "flat" adopted 2009 budget reduced that total to 910.2 FTEs as of 1/1/09.

As previously described, the City's fiscal conditions during 2009 necessitated four (4) painful rounds of departmental cuts to align the year's expenses with anticipated revenues and lay the ground work for this proposed 2010 budget to balance. Until the third round of reductions, only Planning and Community Development's staffing levels were impacted to the point of a Reduction in Force (RIF) for incumbent workers, due to the sharp decrease in permitting and construction and the corresponding deficit in the Building Services Fund. By rounds three and four, however, many departments had few alternatives to laying off workers, as prior rounds of cutting had exhausted non-personnel reduction options.

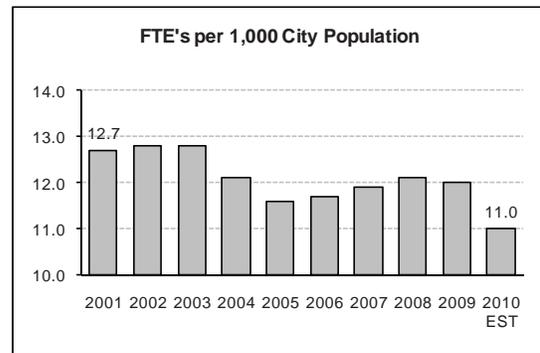
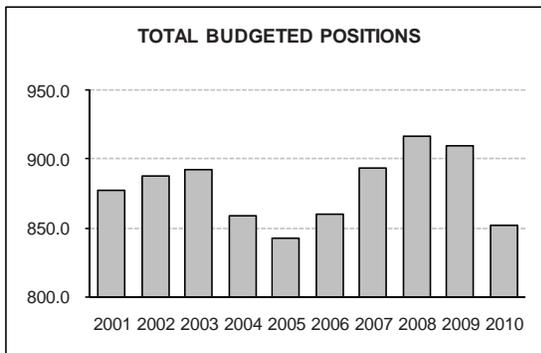
The resulting change in FTEs for 2010, therefore is calculated as follows:

Number FTE	
910.2	2009 budgeted FTEs
2.5	FTEs added in preliminary 2010 budget
912.7	Subtotal
(38.7)	Elimination of vacant position
(21.0)	Lay-offs
(1.3)	Changes in FTE hours
851.7	Total FTEs
(58.5)	Net reduction in FTEs from 2009 Adopted Budget

If approved, these reductions take the City workforce down 64.6 FTEs since the 2008 budget was adopted, or 7.5%. In addition, several departments will continue to function with some of their authorized strength "frozen" as vacancies until we feel it is prudent to authorize their filling.

The table below compares the requested number of FTEs for 2010 to prior years' adopted budget levels. With these net changes, the City's staff to thousand population ratio of 11.0 is below the level budgeted over the past decade, including 2005, when another significant reduction in force was implemented. At the same time, we will continue to operate at a level of staffing stretched but sufficient for our existing or reduced service needs.

Employee Group	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Elected Mayor (and Finance Director through 2007)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.0
Elected City Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Elected Municipal Judge	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non-Represented Employee Grp	75.9	75.6	78.6	77.4	77.1	79.9	83.9	90.8	87.0	80.6
Supervisors and Professionals	90.9	94.3	100.6	101.7	104.9	103.4	108.6	107.8	106.0	99.0
Professional Librarians	9.3	9.3	8.3	8.0	8.0	8.0	8.0	8.0	8.0	7.0
Emergency Med Svcs Dispatch	10.0	11.0	11.0	11.0	12.0	12.0	12.0	13.0	13.0	13.0
Fire Supervisors	8.0	8.0	8.0	7.3	7.0	8.0	8.0	8.0	8.0	8.0
Firefighters	120.8	128.7	129.7	129.3	122.5	126.0	132.0	135.0	133.0	129.0
Police	97.0	98.0	98.0	95.4	95.1	100.0	102.0	102.0	106.0	99.7
WHAT COMM Dispatch	0.0	0.0	23.0	23.0	23.0	23.0	26.0	26.0	26.0	26.0
Non-Uniformed	387.3	379.1	355.7	334.4	323.5	327.3	336.5	352.1	351.6	321.2
TOTAL REGULAR	808.2	814.0	822.9	797.5	783.1	797.6	827.0	851.7	847.6	792.5
Temporary Labor	69.0	73.4	69.1	60.9	59.2	62.2	66.6	64.6	62.6	59.2
TOTAL PAID WORKFORCE	877.2	887.4	892.0	858.4	842.3	859.8	893.6	916.3	910.2	851.7



Beyond the personnel and initiatives described above, our citizens expect that the City will continue its proud tradition of providing quality basic services to the community. This budget will maintain momentum on managing growth, redeveloping the waterfront, moving Lake Whatcom back toward health, bringing jobs and economic development to our community, strengthening and expanding cherished cultural facilities, maintaining our engagement of neighborhoods and building or maintaining key capital infrastructure.

In the weeks ahead, additional information presented to City Council and community members will elaborate this overview to assist Council with its fiduciary review and approval responsibilities.

Summary

A City's budget is its most important policy action. It represents an annualized purchasing of incremental progress toward the vision we share for our community and protection of the quality of life for which Bellingham is proud to be known.

Despite diminished resources, we will push for progress on the City Council's Legacies and Strategic Commitments. We will continue to partner with our citizen advisory boards, commissions, peer governments, and of course, the public to achieve these targets.

Though tough fiscal conditions and the difficult choices we have had to make have at times strained relationships with some, I remain honored to work alongside our skilled City employees and volunteers to implement our collective vision and I thank them for their hard work and dedication in delivering community services. I am particularly proud of the teamwork that Department Heads have exhibited with one another in charting new ways of going about our business.

As the end of another fiscal year looms, like most citizens of Bellingham, I am grateful to you, our Council Members, for your many hours of service and your willingness to forego an increase in your own compensation next year to share a bit of the pain felt by our departments.

I would also like to specifically acknowledge CAO, David Webster; Finance Director, John Carter; Budget Manager, Brian Henshaw, budget staff members Patricia Starcher and Karla Buckingham, as well as the entire Finance Department team for the many long hours required to produce a spending plan of this complexity and scope. It seemed to me -- and I'm sure to them and you-- that we never did finish the budget in 2009 due to all the changes our dwindling revenues forced us to make. Here is hoping that for our community, our employees and the State and nation that 2010 will be a brighter year as recovery gets traction.

Whatever next year may bring, I look forward to again working with the City Council, our staff and the citizenry to keep Bellingham strong and its future even brighter.

Sincerely,



Dan Pike, Mayor