



MAYOR'S OFFICE

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TO: Bellingham City Council and the Bellingham Community

FROM: Mayor Dan Pike

DATE: January 3, 2011

RE: Presenting the 2011 Adopted Budget

Overview

Though national economists have declared a technical end to the deep recession that has plagued our country since at least 2008, we would be hard-pressed to find many in the local economy who feel that is true, based on the continuing financial pressures in their lives and businesses. Those two and half years of fiscal contraction and the many painful stories from all sectors – including from our very own government—still form a significant part of the context for the 2011 Adopted Budget. .

I retain a strong belief in our community's resilience and in the bright future that awaits us. The road of late has been difficult, but the passion, innovation, civic engagement and dedication of our citizens, educational institutions, businesses, City staff and policy makers, non-profits and others make me confident that Bellingham will remain a first-tier, beautiful city in which to live, work and play.

As within our individual lives, tragedies and hard times change us, but they do not defeat us. And they often make us stronger. This Adopted Budget takes care of our obligations today but also looks to that bright future before us and lays more of the groundwork that will get us there. Our municipal vehicle on that journey might be smaller and transformed, but our destination—a safe, family-friendly community of diverse neighborhoods supporting a dynamic, sustainable marketplace, complemented by many life-enriching amenities and surrounded by natural beauty that is beyond compare - has not. Let us continue our dialogue about how we stay on track to accomplish that vision.

Following Council-Provided Guidance

In addition to being the financial guide for the 12-month period beginning in January 2011, the 2011 Adopted Budget continues our collective efforts to organize, measure and report our progress toward the long-range ***Legacies and Strategic Commitments*** adopted by Council in 2009. It is my hope that the budget review process and subsequent discussions about our City operations will regularly be framed by senior staff and the Council asking how planned strategies and executables will move the recently approved quantifiable indicators under each of those legacies in the right direction. The 2011 fiscal year will be the first full year of data we report out to the public under those various metrics.

In this Adopted Budget and through the departmental presentations to Council about the 2011 budget, we highlighted some of our 2010 efforts aimed at legacy accomplishment. In so doing, we underscore that despite all our challenges, the City's mission still 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.

Obviously, in the past year and again in 2011 we must meet that mission with fewer dollars available than desired. Regrettably, this year will be another year when despite City staff innovations and greater community collaborations we will likely need to reduce some service levels to the public. As has become customary during this recession, our choices were a stark exercise in pragmatically weighing the use of our limited resources to meet mandates and critical needs before wants, even when those wants were immensely popular. At the same time, we are not proposing abandoning our role in support of key quality of life amenities that matter to our citizens and to potential new businesses that would consider joining our community.

Additional Important Context Behind the Adopted Budget

I have forewarned staff leaders that 2011 will require numerous nimble adjustments or mid-course corrections as perhaps some of our unknowns today become clearer in their impact. Until more is known, these are the assumptions utilized in crafting the Adopted Budget:

1. While some portions of our local economy have remained relatively strong despite the recession and others are showing some signs of improvement, most, including some of our primary drivers of tax revenues (e.g. construction), continue to bump along the lowest ebb of their business cycle. As a result, despite our conservative projections for 2010, our primary revenues to date for the current year's budget (e.g. sales tax, B&O, etc.) were some \$1.1 million dollars below expectation. And fewer grants from the strapped other levels of government, lower earned interest rates and other factors further eroded our financial position. We offset much of that through expense control by our experienced and dedicated department heads but we will continue to have

rather anemic revenue momentum as we face down known and probable cost increases for 2011.

2. Employment growth – a key driver of economic activity in a consumer-based taxation system such as ours in Washington—is expected to lag for at least the next couple of years. We are projecting only a 2% growth in primary revenue sources, such as sales/use tax and Business & Occupations (B&O) taxes in 2011.
3. Simultaneously, after absorbing a 12% increase in this proposed budget, we anticipate continued acceleration in health benefits costs that will be three to five times the rate of revenue growth, which poses a tremendous structural challenge going forward.
4. As we continue under the temporary restraining order that blocked a sales tax exemption intended for residents of Canada because of their new Harmonized Sales Tax (HST), we have not reflected any possible change in tax receipts. In other words, the included revenue projection is based on historical practice and, therefore, counts on sales tax receipts paid by our neighbors to the north when visiting local businesses.
5. At the time the budget was adopted, Council action had not concluded on automated traffic safety cameras and with only estimates in hand regarding how quickly local residents will modify their risky driving behaviors in the targeted zones, we did not budget any revenue from this planned initiative. Now that traffic safety cameras have been approved, we plan to bring a budget amendment forward in early 2011.
6. The Adopted Budget does include revenue for the statutorily allowed 1% increase in property taxation, but does not include use of our banked capacity.
7. There are currently five open labor contracts unsettled as we go to press, that are not included in the adopted budget.

Clearly, this is a very large—perhaps unprecedented—number of fiscal unknowns facing the City as we meet our obligation to craft an Adopted 2011 Budget before December 31, 2010. Through all the haze, one thing emerges with clarity: we will need to be prepared to work together to adjust the budget as any possible combination of the above scenarios unfolds during the year.

The Basics of the Adopted Budget

Residents, businesses, visitors to our area, intergovernmental agreements and grantors will provide us with an estimated \$182.4 million in revenues in 2011. Though far fewer in number than in previous years, multi-year capital projects and other initiatives needing carryover revenues to enable completion will result in a projected total City spending plan of \$197.6 million for the 2011 fiscal period. Comparably, in 2010's budget that sum was \$188 million. Just a few years ago, the 2007 adopted spending plan called for \$ 205.4 million.

Our General Fund revenue, the most flexible of our more than 50 funds, is projected in 2011 to consist of some \$62.6 million within that citywide total. As a point of comparison, the General Fund in the 2007 Adopted Budget was more than \$65 million, or nearly 4% higher.

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As a result, City departments have had to undertake their 8th round of budget reductions since the 2008 budget was adopted as they prepared their 2011 proposals. Even with the additional cuts, some institutionalized costs, such as the health care premium increases referenced earlier and the final years of multi-year bargaining unit agreements, have resulted, to date, in slightly higher expense totals for some departments. After eliminating more than 60 positions in previous rounds of cutting, this budget eliminates another 10.7 FTEs net, after several departments have redefined or added positions as part of a reorganization of their work to streamline operations or achieve other policy goals, (e.g. operator positions added to run the wastewater treatment plant's incinerator seven days per week to "buy down" our Biochemical Oxygen Demand (BOD) levels to comply with Department of Ecology directives). In short, as a table later in this document will illustrate, the Adopted Budget reflects 74.1 fewer FTEs than the 2008 Adopted budget, or stated differently, a City workforce that is 9% smaller.

Even with these painful impacts of the past couple of years, in order to balance our limited 2011 revenues with projected expenses and avoid decimation of core government services and others highly prized by our citizens, Council again approved usage of some of the balance in the General Fund reserves. Earlier this year, Council approved new Financial Management Guidelines which established that the General Fund reserve would not fall below 6% of annual expenditures for the fund and pinpointed a goal of a 12% balance. If 2010 expense containment stays on target once the books are closed, and we do not face the full brunt of the potential negative consequences of the contextual issues enumerated earlier in this message, we should be able to meet these guidelines in 2011. As previously mentioned, the odds are good that we will need to make adjustments in 2011 in response to the eventual outcomes of some or all of those contextual issues in order to stay within the guidelines.

Where we have had to make difficult decisions, we have measured our choices against key frameworks and guidelines. Similar to 2010, we reviewed proposed 2011 departmental expense submissions with five filters applied:

- Executing City Council Legacies and Strategic Commitments to achieve the related quantifiable metrics or measurements of each goal in the years ahead
- Following the Council-approved Financial Management Guidelines
- Protecting the public's safety (both services and infrastructure)
- Maintaining and safeguarding our capital assets in the "fix it first" mode being recommended by the Capital Facilities Task Force; and
- Leveraging third party, e.g. other governmental or private grant, resources

Budget Specifics of Note

In last year's budget message I outlined 14 larger systemic undertakings that we hoped to accomplish in 2010. I am pleased to report that despite our revenue shortfalls we have managed to complete or make significant progress on 12 or 86% of them. Looking to 2011, I

will outline six themes. Those themes stem from the approved Legacies and will receive added emphasis both within our daily operations and through some very limited discretionary dollars next year. The themes include:

- Economic development and job creation
- Protecting and remediating Lake Whatcom, our drinking water source
- Maintaining a balanced approach to effective public safety
- Further advances in sustainability
- Maintenance and improvements in infrastructure
- Continued investment in quality of life amenities

I also draw your attention to the lists of departmental objectives in the Adopted Budget for added insight into planned activities in support of these six themes and the City's Legacies and Strategic Commitments overall.

Impacts of the Budget on our City Workforce

Though we are not alone among our peer cities or counties in terms of the multiple waves of budget cutting we've endured, I do think it is important for our citizens to recognize that this budget document constitutes our ***eighth*** round of concerted expense reductions due to revenue shortfalls. After seven prior cuts, to be sure, our Department Heads had to make painful choices to meet their spending targets for the year.

As a reminder, after freezing hiring in late 2008, we eliminated 13 vacant positions in order to balance the 2009 budget. During four rounds of cuts to the '09 adopted budget and further austerity imposed in preparation for the 2010 fiscal year, we had a reduction in force (RIF) or lay-offs that affected more than 20 of our colleagues and saw, in total, that more than 50 other positions were eliminated from the City's workforce through FTE partial reductions or full eliminations. In other words, some 63 FTEs were lost before we even got to this budget exercise.

The budget that Council adopted for the 2008 fiscal year included 916.3 FTEs. With my attempt to add police officers in 2009, the total number of FTEs cut was partially masked but fell to a net of 910.2 in 2009. With the recession's full weight upon us, we acted to bring the total in the 2010 Adopted Budget to 852.9 FTE positions. As the table below illustrates, regrettably, we are enduring the net loss of another 10.7 FTEs for the year ahead, taking our workforce down to 842.2 FTEs. The net impact since adoption of our current year's budget is calculated as shown here:

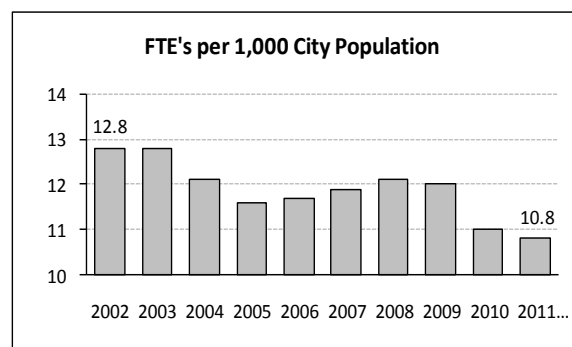
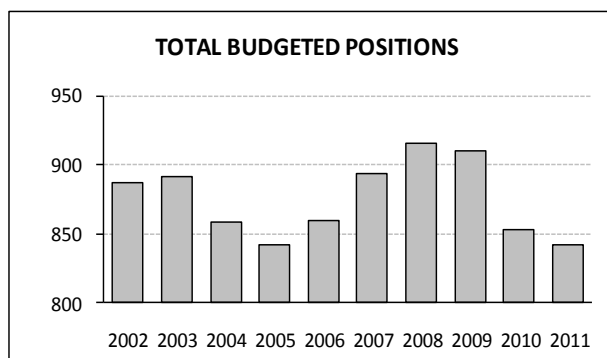
BUDGETED FTEs	
2010 Budgeted FTEs	852.9
FTEs added by ordinance in 2010	7.4
FTEs added for 2011	4.4
Elimination of Vacant Positions	(10.2)
Layoffs	(4.0)
Net decrease in hours including Limited Term positions ending during 2011	(5.9)
2011 FTE savings for delayed hires (delayed to 7/31/11)	(2.4)
2011 Budgeted FTEs	842.2
Net Decrease	(10.7)

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These reductions take the City workforce down 74.1 FTEs since the 2008 budget was adopted, or 8%. In addition, several departments will continue to function with some of their authorized positions "frozen" as vacancies until we feel it is prudent to authorize their filling.

The table below compares the number of FTEs budgeted for 2011 to prior years' adopted budget levels. With these net changes, the City's staff to thousand population ratio of 10.8 is below the level budgeted over the past decade, including 2005, when another significant reduction in force was implemented. This level of staffing has affected service levels and we highlighted those changes for the public in recent budget presentations before Council.

Employee Group	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Elected Mayor (and Finance Director through 2007)	2.0	2.0	2.0	2.0	2.0	2.0	1.0	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	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non-Represented Employee Grp	75.6	78.6	77.4	77.1	79.9	83.9	90.8	87.0	80.1	77.0
Supervisors and Professionals	94.3	100.6	101.7	104.9	103.4	108.6	107.8	106.0	100.0	97.5
Professional Librarians	9.3	8.3	8.0	8.0	8.0	8.0	8.0	8.0	6.3	7.0
Emergency Med Svcs Dispatch	11.0	11.0	11.0	12.0	12.0	12.0	13.0	13.0	13.0	13.0
Fire Supervisors	8.0	8.0	7.3	7.0	8.0	8.0	8.0	8.0	8.0	8.0
Firefighters	128.7	129.7	129.3	122.5	126.0	132.0	135.0	133.0	129.0	133.0
Police	98.0	98.0	95.4	95.1	100.0	102.0	102.0	106.0	99.7	101.0
WHAT COMM Dispatch	0.0	23.0	23.0	23.0	23.0	26.0	26.0	26.0	26.0	26.0
Non-Uniformed	379.1	355.7	334.4	323.5	327.3	336.5	352.1	351.6	319.8	310.1
TOTAL REGULAR	814.0	822.9	797.5	783.1	797.6	827.0	851.7	847.6	790.9	781.6
Temporary Labor	73.4	69.1	60.9	59.2	62.2	66.6	64.6	62.6	62.0	60.6
TOTAL PAID WORKFORCE	887.4	892.0	858.4	842.3	859.8	893.6	916.3	910.2	852.9	842.2



Source for population estimates – State of Washington Office of Financial Management

What will not be obvious in this precipitous drop in the workforce is the good work that has happened in some departments to creatively combine or redefine jobs and collaborate with other departments to maintain functionality and services. This creativity has cost-effectively saved some employment that would have otherwise been lost. Under very trying circumstances, this represents excellent team work by City departments and some represented bargaining units for very positive outcomes. For both management and labor this has

otherwise been a dreadful time of seeing both services and the livelihoods 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 has simply been a hard slog through circumstances that were largely beyond our control.

In what fiscal position does the 2011 Adopted Budget leave us?

The answer to that question in a phrase is “Woe is us and thank goodness we’re not them!” Almost daily we read of U.S. states and cities, some close to home, that are facing massive deficits, depleting all their reserves, laying off huge numbers of workers including public safety personnel, and even defaulting on various bonds they have issued. One poor city in Virginia not only defaulted on a bond they issued, they put up their city hall building as the collateral and now risk losing the heart of the municipal government’s operations in the process. Thank goodness we’re not them!

As I have said many times before, as difficult as the last few years have been and as precarious as 2011 may end up being, we must be thankful for the vision of our predecessors (including a couple of you that are still contemporaries on the Council) who put significant dollars into reserves for rainy days such as these. At the same time, we must be conscious of the trend we’re on.

With all the contextual unknowns listed early in this document, Council adopted a General Fund Budget with a known deficit between expected income and expenses of \$1 million. The shortfall will be taken from reserves. We can do so and remain within the financial guidelines you established earlier this year; however, we must be mindful of the pitfalls of a guideline based on percentages of expense. As our expenses shrink, it takes fewer real dollars in the bank to constitute the targeted percentages, and if practiced for too long, such a trend could mean that our reserves in real dollars become too small to give us the resiliency we might need in times of natural disaster or other major event.

We anticipate that the General Fund reserve will consist of just \$8.6 million at 2011’s year-end. That would still have us within our guidelines, but it is just over half of the more than \$15 million we had in General Fund reserves a few years ago. I don’t think we can responsibly go much lower.

In total, the City has more than \$83 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 2011, will constitute only about six (6) weeks of operating expenses. Most of the other reserves on hand have restricted uses, such as Greenways funds used exclusively to purchase parks and open space lands.

This will not be the last year of difficult budget deliberation conversations. Going forward do we continue our modest pattern of reserve usage to limit the further erosion of core services and quality of life amenities that have defined the Bellingham that we love? Or, do we sharpen

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again for the ninth time the budget cutting knife, knowing that our options are few for additional savings without affecting people and services? In my view, our citizens have, with rare exception, been exceedingly understanding of the predicaments we have faced and continue to face. I know they still expect that the City will, to the best of its ability and resources, continue its proud tradition of providing quality basic services to the community and keep this a most desirable place to live

Summary

The 2011 Adopted Budget represents the fourth fiscal chapter we must write since this deep recession began. Especially in such tough times, a City's budget is its most important expression of policy, values and the vision we hold for our collective future.

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 the quantifiable targets we have laid out as the barometers of our movement forward.

This budget will maintain momentum on managing growth, keep the processes for enabling redevelopment of the waterfront alive, keep us focused on Lake Whatcom's health, and do what is within our power to bring jobs and economic development to our community on a well-maintained and increasingly efficient infrastructure. Though at support levels smaller than I find ideal, it will also sustain our cherished cultural institutions and park facilities, both within our vibrant neighborhoods and citywide.

My thanks to our Department Heads and their staff, and particularly our Finance Department's budget team who make this annual, essential process as smooth as can be during these uncertain times.

I look forward to working with the City Council and citizens of Bellingham in 2011 to keep Bellingham strong and its future even brighter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dan Pike".

Dan Pike, Mayor