

9-12 TOWN HALL MEETING

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STAFF REPORT

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QUESTIONS FROM COUNCIL ON STAFF REPORT

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- a. Overview of the 2009 Legislative Session by our 9<sup>th</sup> District State Legislators
  - b. Issues of interest to the City of Pullman
  - c. Issues of interest to area cities and towns
  - d. Issues of interest to the public
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DISCUSSION

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ACTION TAKEN

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NOTES:



# CITY OF PULLMAN

## Administration/Finance


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[admin@pullman-wa.gov](mailto:admin@pullman-wa.gov)

### MEMORANDUM

TO: Mayor and City Council

FROM:  John Sherman, City Supervisor

RE: Annual Town Hall Meeting

DATE: January 2, 2009

Each year we hold a Town Hall Meeting with our 9<sup>th</sup> District State Legislators prior to the start of the legislative session. The format for the Town Hall Meeting is:

1. Overview of the 2009 Legislative Session by our 9<sup>th</sup> District State Legislators
2. Issues of interest to the city of Pullman
3. Issues of interest to area cities and towns
4. Issues of interest to the public

As we have done in past years, we are allowing members of the public who cannot attend the Town Hall Meeting to provide input via phone (509-338-3209), fax (509-334-2751), or e-mail ([jane.joyce@pullman-wa.gov](mailto:jane.joyce@pullman-wa.gov)).

At the City Council meeting on December 9, 2008, we held a discussion regarding the 2009 Town Hall Meeting. Included in the City Council packet was information from the 2008 Town Hall Meeting as well as 2009 AWC Legislative Priorities. Input was given by the City Council regarding other issues of interest as well. The following is a suggested list of issues you may want to discuss with our 9<sup>th</sup> District State Legislators. You are of course free to bring up any other issues that you desire.

#### 1. FISCAL ISSUES

Fiscal issues are understandably at the top of the priority list for the 2009 legislative session. Both the projected state deficit and the economy are of grave concern. September 19 news accounts detailed "an estimated \$3 billion shortfall over the next two years for the state's budget." Just two months later this projected state budget

deficit had doubled. According to November 26 news accounts, Governor-directed emergency statewide budget cuts were ordered “to lessen the blow of a projected state revenue shortfall Gregoire said could reach \$6 billion.” The impacts of these state budget cuts on WSU are of particular concern to the city of Pullman. WSU is being directed to cut an additional \$4.4 million on top of the \$6 million it had previously been directed to cut. The reduction of funding for WSU could have a significant negative impact on the Pullman economy. We are very concerned that such budget reductions will hurt students who desperately need a quality education that is accessible and affordable.

According to Associated Press media accounts on December 18 regarding Governor Gregoire’s budget proposal:

Gregoire proposes a \$300 million reduction in higher education, including a 13 percent reduction for the state’s research and regional institutions. Community and technical colleges would see a 6 percent cut. This could mean higher tuition, fewer courses, larger class sizes, and reduction in faculty. Raises for faculty and staff also are suspended.

The city of Pullman is also very concerned about its own fiscal conditions as well. According to the most recent Office of Financial Management (OFM) figures, the annual loss of Motor Vehicle Excise Tax (MVET) dollars for the city of Pullman is \$1,305,624. Senate Bill 6050 is projected to provide us with only \$72,275 in backfill funding in 2009. The adopted city of Pullman 2009 total city budget of \$4,031,284 reflects an 8.6% decrease from the 2008 amended budget. Within the General Fund, the \$15,553,624 budget for 2009 reflects only a 1.2% increase over the 2008 amended budget.

On pages 10-14 Finance Director Troy Woo has provided a memorandum that details additional information about the city’s financial condition. Also on pages 15-16 is a summary of the Association of Washington Cities (AWC) 2009 Major Legislative Priorities. The following major priority was adopted by the AWC Board with respect to fiscal issues:

### **Promote City Fiscal Health and Flexibility**

Cities need broad discretion in using existing revenue sources to respond to local challenges. It’s critical that cities and towns also have the authority to look for new and innovative strategies and resources.

#### **Major priority:**

##### ***Fiscal health***

**Sales Tax:** AWC will seek to allow cities to levy the .3 percent voter-approved public safety sales tax, independent of county action, and remove supplanting language and the requirement that one-third of funds be spent solely for criminal justice purposes.

**Property tax:** AWC will seek an increase of the property tax cap of 1 percent for city EMS permanent levies, using inflation as the cap. In addition, AWC will assist the counties in obtaining state resources so every county can conduct annual valuations.

**Fiscal aid for distressed cities and counties:** AWC will seek an increase to the City-County Assistance Account and establish a “floor” so distributions to qualifying cities do not drop below a certain amount.

## 2. **INFRASTRUCTURE FUNDING**

Infrastructure funding is a top priority for cities. The AWC 2009 Major Legislative Priorities states the following with respect to infrastructure:

### **Maintain and Develop Quality Infrastructure for Safety and Development**

It is in the state’s interest to help cities develop and maintain a strong infrastructure system that promotes economic development and provides the state and cities needed revenues. In addition, as public works become more complex, cities need more management flexibility.

#### **Major priority:**

**State infrastructure funding:** AWC will continue to pursue funding for infrastructure programs including:

Local Infrastructure Finance Tool (LIFT)  
Community Economic Revitalization Board (CERB)  
Communications Infrastructure-Interoperability  
Washington Wildlife and Recreation Program  
State Brownfield Redevelopment Funding

**Local infrastructure options and flexibility:** AWC will pursue local options to enhance transportation and economic opportunities for cities including:

Modify Alternative Public Works statutes  
Modify current architect/engineering services statutes  
Update bid limits authority  
Support enabling Community Facilities District legislation  
Modify Community Revitalization Financing statutes  
Harmonize use of 1<sup>st</sup> and 2<sup>nd</sup> quarter local Real Estate Excise Tax  
Pursue Street Utility authority  
Modify the Transportation Benefit Districts statutes

**Stormwater funding:** The state needs to partner with cities to help fund implementation of NPDES permits at levels greater than the 2007-2009 biennium. AWC will seek such financial assistance.

The city of Pullman has numerous infrastructure needs. Our streets are ranked far below the acceptable state standards. Given the freeze and thaw cycles on the eastside of the state, the challenges of street maintenance are much higher. Water, sewer, and wastewater are also key infrastructure systems that constantly are in need of upgrades.

### 3. **STORMWATER REGULATION RELIEF**

In addition to the additional funding that AWC is seeking from the state for stormwater compliance, the city of Pullman is still seeking relief from the onerous stormwater regulations. Although we have not received redress from our political or legal initiatives, we still feel strongly that Pullman should not have been included under the Phase II NPDES stormwater regulations as a bubble city. Reasonable and achievable standards need to be set for cities like Pullman which are far removed from salmon spawning areas and which are characterized by challenging topography and soil types.

A copy of the history of the stormwater issue is attached on pages 17-23. Compliance is very costly. The state will be impacted by these costs as well. Under the city of Pullman's very scaled back proposed stormwater utility, WSU will have to pay \$119,016 in the first year and \$277,704 in the third year. This is in addition to what WSU must pay to comply with its own permit requirements. The University of Washington currently pays \$874,418 to the city of Seattle for stormwater fees. In 2009 this will rise to over \$907,000. Thus this unfunded mandate is coming back to bite the state and its institutions as well at a time when the state is facing a major deficit.

### 4. **ECONOMIC STIMULUS PROJECTS**

With the recession in full swing both the federal and state governments are discussing possible economic stimulus funding. We have submitted the following projects for consideration. More detailed information is contained on pages 24-25.

Airport Fire Flow System - \$1.8 million total project cost  
Secondary Process Improvements at the City of Pullman WWTP - \$11 million

Harrison Street Resurfacing - \$550,000  
Rocky Way Resurfacing - \$135,000  
South Street Resurfacing - \$167,000  
Stadium Way Resurfacing - \$1,312,000  
Whitman Street Resurfacing - \$57,000  
Maiden Lane Resurfacing - \$198,000  
Opal Street Resurfacing - \$105,000  
Terre View Drive Resurfacing - \$312,000

## **5. WATER REUSE PROJECT FUNDING**

In November the Washington Department of Ecology announced that it had awarded more than one million dollars to Washington State University and the city of Pullman for a series of water reuse projects. The total cost of the reuse project is \$16 million. The city and WSU are extremely pleased not only for the grant monies but also for the endorsement by Ecology of water reuse projects. Mimi Wainwright, Ecology watershed lead for the Palouse Watershed Planning Unit, stated, "Re-using wastewater means the water in the aquifer can be preserved that much longer."

The city of Pullman and WSU have long supported the proposed wastewater reuse project. It is hoped that with the Department of Ecology grant, the interest by the state in infrastructure investment, and the strong support this project has received from a variety of sources that this important project will finally get funded.

According to published reports, within her 2009-2011 state budget proposal, Governor Gregoire has proposed "an alternative funding mechanism for a \$15.7 million wastewater treatment facility in Pullman that would allow bonding against student building fees...but excludes irrigation of the WSU golf course."

## **6. WATER CONCERNS**

We continue to have concerns over a variety of water issues. Due to a recent court decision, we are concerned about the continued ability of cities to grow if their water right entitlements are not perfected. Water resources are a concern. We need to have access to sources other than the Grand Ronde Aquifer. Funding of these projects are of particular concern. We need clarification on the rules for water rights as it pertains to both wastewater reuse and rain barreling.

## **7. WSU PROJECT SUPPORT**

In addition to WSU reuse project, we strongly support such projects as the Veterinary Medical Research Building and the Global Animal Health Building, Phase One. We greatly appreciate the investment the state has made in the WSU Pullman campus. We support WSU requests for further improvements. Within the ten-year capital plan the total WSU project costs are listed as follows:

Veterinary Medical Research Building - \$96,030,000  
Waste Water Reclamation - \$16,000,000  
Global Animal Health Buidling – Phase II - \$50,700,000

8. **HEALTH CARE ISSUES**

Concerns continue that health care costs are rising far faster than the inflation rate. We would like to know what can be done to simplify regulatory requirements that have reduced the number of insurance firms offering coverage within the state. We would also like to know how malpractice insurance coverage costs can be reduced to discourage Washington doctors from leaving the state.

9. **CERTIFICATE OF NEED REQUIREMENT**

Pullman Regional Hospital District has been trying to build a new nursing home facility in Pullman. One of the greatest challenges is that the Department of Social and Health Services (DSHS) has already allocated the quota of beds for Whitman County. The state needs to revisit this issue to ensure much needed improvements are not blocked by such artificial barriers. There should be an open market place so you won't be held up by an established nursing home because they control the number of beds.

10. **TAPING OF EXECUTIVE SESSIONS**

The Association of Washington Cities (AWC) continues to oppose the taping of executive sessions. The list of AWC 2009 Major Legislative Priorities states:

**Oppose the requirement to tape executive sessions and any restriction of attorney-client privilege or attorney work product.**

Cities will continue to oppose a requirement to tape all executive sessions and any attempt to restrict attorney-client privilege or attorney work products.

11. **HATE CRIMES**

At the joint meeting of the City Council and the Associated Students of Washington State University (ASWSU) on October 28, 2008, a discussion took place concerning some alleged hate crimes that had taken place in Pullman. The minutes of the City Council meeting state:

Senator Lauren Edholm stated there recently have been three incidents in Pullman. These included threats, assaults, broken windows, and threatening letters. There has been a lot of violence, hatred, and bigotry and it is not acceptable. ASWSU is taking a hard stance on this. The Senate passed a resolution denouncing these acts. There was a rally on campus today and they are trying to find solutions to the problem.

Nikki Hahn, chair of the Gay, Lesbian, Bisexual, Transgendered, and Allies (GLBTA), spoke about the attacks. She stated she is very concerned about the attacks and is concerned for the safety of herself and others.

In a subsequent e-mail to Mayor Glenn A. Johnson, Sonia Horan stated the following with respect to the attacks:

These attacks have been targeting homosexuality and gender identity. Gender identity is not equivalent with gender. Issues of gender relate more to the quality of being a man or a woman. Gender identity relates to individuals who transgress the divide between man and woman. It is a fine line, but a significant one. The state of Washington currently has no legislation protecting gender identity or expression. This means that crimes targeting people because they are transgender are not seen as hate crimes.

At the joint meeting with ASWSU on October 28, Police Chief Ted Weatherly passed out a “suspect sketch” from a recent attack that was based on gender identity. He also expressed his concerns about the level of violence that is occurring.

Would the state consider expanding protected classes to include sexual orientation and gender identity? Currently WAC 162-04-010 defines “Protected class” as follows:

“Protected class” means the persons who are members of (or who are treated as members of) one of the groups against whom discrimination is declared to be an unfair practice by the law against discrimination. **Protected classes** include persons between the ages of forty and seventy, persons of any race, creed, color, national origin, sex, or marital status, and persons who are handicapped.

## 12. **GAMBLING LAWS**

At the City Council meeting on December 9, 2008, Max Faulkner, President of the Recreational Gaming Association, requested that the City Council support a proposed bill in the 2009 session. According to Mr. Faulkner, the proposed bill contains the following provisions:

This Bill would give Cities and Counties a third option with respect to Card Rooms – current options only include allowing or banning all card room gambling – the bill would allow Cities and Counties the authority to impose a moratorium on new card room licenses within its jurisdiction.

If the moratorium is lifted, it cannot be reinstated for at least 10 years.

If a City that has a ban or moratorium annexes an area that allows card rooms, the annexed area would be under a moratorium. This moratorium would not affect the status of card rooms in the City’s traditional City Limits. The City could either allow or ban card rooms in its traditional City Limits.



Cities may also set limits to how close a new card room can locate to a church or school.

Nothing in this bill would prevent the City from banning or allowing all Card Rooms.

The Association of Washington Cities (AWC) has adopted the following position regarding gambling within its AWC 2009 Major Legislative Priorities:

**Land use/gambling**

AWC will defend cities' ability to fully ban gambling and seek legislation that provides cities the ability to zone and partially ban gambling facilities.

13. **WSU DEPARTMENT OF CRIMINAL JUSTICE**

At the 2008 Fall Conference of the Washington Association of Sheriffs and Police Chiefs, a resolution was passed that strongly supported the re-establishment of an independent and adequately resourced Department of Criminal Justice at Washington State University. A copy of the resolution is attached on page 26.

14. **MEDICAL COST CONCERNS**

Cities still have concerns about medical costs. First, there is great concern about LEOFF I medical and long-term care costs. These looming expenditures can bankrupt a city or cause it to cut city services in order to fund these cost requirements. Secondly, we are concerned about offender medical costs. This is another example of an unfunded mandate with unknown expenditures that cities might face.

15. **AIRPORT FINANCING**

In addition to securing funding for the airport fire flow project, the city of Pullman desires a stable source of on-going funding for the Pullman-Moscow Regional Airport. The creation of an Airport District with taxing authority on both sides of the state line would be a desirable option to explore.

16. **STATE BUDGET AND ECONOMIC OUTLOOK**

Attached on pages 27-34 are excerpts from the Governor's budget relating to her proposed state budget and her assessment of our economic condition. According to a recent newspaper article regarding the Governor's proposed higher education cuts:

The governor would cut \$216 million – 13 percent – from the budget for four-year public universities. Two-year community colleges would be cut by 6 percent, or \$110 million.

# ATTACHMENTS

# Memo

**To:** State Legislators, Mayor, City Council  
**From:** Troy Woo, Finance Director <sup>WJ</sup>  
**Date:** December 18, 2008  
**Re:** City of Pullman Fiscal Issues

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According to the most recent Association of Washington Cities (AWC) State of the Cities report, Pullman is facing the same challenges as other Washington cities. The two main struggles for Washington cities are that operating revenues are not adequate to sustain services and infrastructure systems are failing and inadequate. Adopted on December 9, 2008, the City of Pullman's 2009 Budget does not address a number of departmental needs. In addition, Pullman's adopted budget does not reflect the same level of economic downturn seen across the nation and state because the local indicators don't show the same slowdown yet. Also, five out of six labor union contracts remain unsettled and expire at the end of 2008, so the budget does not include salary adjustments for the majority of its employees. Both of these omissions are expected to impact the 2009 budget.

## The Challenges

The city of Pullman began its struggles in 1999 when I-695 was passed by the voters of Washington State. It was estimated by the State Department of Revenue that the city of Pullman lost \$1.3M in 2001 due to the elimination of the Motor Vehicle Excise Tax (MVET). This was equal to 15.5 percent of the General Fund Budget. The state did provide backfill funding, but due to its own financial challenges the funding dropped to a low of \$12,100 in 2005. The 2008 Budget included \$105,616 in backfill funding due to the passage of Senate Bill 6050, which is funded by the Real Estate Excise Tax (REET). Due to the housing slump, REET collections have declined 30 percent from 2007 to 2008, so only \$72,275 is budgeted for 2009. A combination of declining transactions and the value of the transactions are contributing to the decreases. The city is very grateful for this REET funding, but unfortunately it does not come close to matching the lost MVET funding and it is proving to be an unreliable source of revenues.

2001 saw the passage of I-747, which limits property tax growth to 1.0 percent or the implicit price deflator whichever is less. Following the resolution of the legal challenge, the State Legislature enacted the 1.0 percent revenue limit that was contained in I-747. Like many Washington cities, property tax is the single largest source of revenue for the city's General Fund. Pullman's 2009 property tax revenues are projected to be 27.9 percent of all 2009 General Fund revenues. To put the limitation on property tax growth in perspective, the 2009 Budget includes a 1.0 percent increase to general property taxes of \$34,265. This 1.0 percent property tax increase doesn't come close to addressing one the largest single expenditure increases, health insurance premiums. Those premiums are estimated to increase \$123,255 within the General Fund. Pullman's revenues are struggling to keep up with its increasing expenditures.

Pullman is fortunate to be the home of Washington State University, but it causes unique financial challenges. The city of Pullman is providing services to 27,150 (including WSU students) with revenues comparable to a much smaller city because of the property tax exempt status of WSU and the small retail base of Pullman. The October 2008 SB6050 distribution formulas showed that Pullman's per capita property assessed value is only 33.4 percent of the state average and per capita sales tax generation is only 52.7 percent of the state average. Because of the small tax base, Pullman receives the maximum funding under SB6050.

Construction is one area Pullman in which is experiencing a slowdown similar to other cities. So far in 2008 Pullman's building permit issues are 64.7 percent slower than in 2007. WSU taxable construction is also slowing significantly. It is projected that Pullman's 2009 sales tax collections will be \$448,423 or 13.1 percent lower than 2008. In 2005 the city issued a record \$64.3M worth of building permits. Building permit issuances continued its strong trend in 2006 with a valuation of \$61.1M and \$52.8M in 2007. Through November 2008, \$18.3M worth of building permits have been issued. Pullman's 10-year average for building permit valuation is \$36.2M, so construction activity in Pullman is slowing.

Fast rising labor costs continue to challenge the City's budgets. General Fund salaries and benefits are projected to compose 72 percent of all expenditures in 2009 and this does not include cost-of-living adjustments (COLA) for the large majority of employees. 2009 medical insurance premiums will increase 8.2 percent, which will result in an estimated \$123,255 increase in the General Fund and a citywide increase of \$188,840. The contributions to employee pension plans are estimated to increase \$37,067 in the General Fund and \$73,888 citywide. To put the potential COLA impact in perspective, the 2008 estimated COLA impact was \$225,479. The 2008 COLA increases ranged between 2.97 and 3.30 percent. Historically, the May/June CPI for Seattle/Tacoma/Bremerton has been used to determine COLAs. The 2008 CPI for this period was 6.20 percent. The 2007 CPI was 3.30 percent. The only labor contract that has been settled for 2009 is uniformed police. The estimated 2009 impact of the uniformed police contract settlement is \$61,938. It is easy to understand the challenge the city of Pullman is facing when comparing these labor cost increases to the 1.0 percent maximum property tax increase of \$34,265.

In summary, the city of Pullman has been forced to address labor costs growing at a pace faster than inflation, while its largest source of revenue's growth is limited to 1.0 percent. As a result, the 2009 General Fund budget proposes to use \$924,985 of cash reserves. This deficit will cause the City's reserve level to drop below the City Council 13 percent goal. We hope that our conservative projections will result in year-end savings that will be used to preserve the 13 percent reserve goal. Pullman will face difficult times when it no longer has reserves to balance its budget.

### **What the City Has Done**

Washington cities are responding to their financial challenges by reducing infrastructure spending, reducing services and workforces, and continuing to find ways to do more with less. Pullman has and continues to respond in a similar fashion.

Pullman City Code mandates that the General Fund spend an average of \$350,000 per year on capital projects. Since the passage of I-695 and I-747, the General Fund budget has been challenged and the number of capital projects has been limited. Even with limited capital expenditures, history shows that it is still averaging \$456,057 per year. A major factor for maintaining the high average is the dedication of year-end savings from 2004 and 2005 to capital projects. Those year-end savings have funded capital projects totaling \$579,600. Year-end savings were realized in 2007 as well, but the savings are being directed to capital repairs instead of capital improvements. It should be noted that since 2001 the \$350,000 capital project expenditure level has only been exceeded once. Like other Washington cities, Pullman has been struggling to adequately fund infrastructure for years now.

Pullman's adopted 2009 Budget does not currently include reductions to services or workforces, but if the local economic conditions worsen reductions to those areas could follow. The adopted 2009 Budget includes only the minimum required to maintain services. If reductions become necessary, service levels and positions are in danger.

As I stated earlier, the 2009 Budget will use \$924,985 in reserves to balance its budget. Pullman's financial challenges began with the tax limiting voter initiatives. In reaction Pullman has taken a number of steps, including increasing taxes and fees. Since 1999 the following taxes and fees have been increased locally.

1. Whitman County increased the sales tax by one-tenth of one percent for criminal justice purposes.
2. The city of Pullman increased the utility tax by one percent for the Street Fund.
3. Pullman voters approved a permanent 50 cent EMS property tax levy.
4. Pullman voters approved a lift to the regular property tax levy to \$3.60 per thousand in order to hire three fire and three police employees.
5. Pullman voters approved a levy of 50 cent per thousand to create the Metropolitan Park District.
6. The city of Pullman raised fees for many city services.

7. Private donations were or are being used to fund projects such as the Neill Public Library Expansion, Downtown Riverwalk, downtown flower baskets, and the Grand Avenue Greenway project.
8. WSU students voted to approve a \$15/semester increase to student fees to support Pullman Transit.
9. The city of Pullman passed a gambling tax.
10. Pullman voters this year approved a bond issue to make various improvements such as paths and sidewalk construction and restroom and ballfield lighting improvements in the parks.

Pullman has also held the line in terms of expenditures. Positions were eliminated because of revenue challenges. For example, the public services director, switchboard operator, and public communications specialist positions were eliminated in 2002 and remain unfilled. Much needed positions have been deferred because funding is not available. In order to maintain library hours, the materials budget remains at a low level to fund salary and benefits. There are many examples of justified building maintenance projects that have been deferred to maintain service levels. These are just samples of the actions taken by the city to control expenditures.

### **Cities Need Help**

The state's financial challenges are well publicized, but we still hope the state legislature will continue to help cities by allocating additional funding to cities such as the REET distributions contained in ESSB 6050 and revenue improvements such as the destination-based sales tax. We are open to a wide range of sources such as backfill funding and grants or low-interest loans to address infrastructure needs. As the AWC State of the Cities reports shows, Pullman, like other Washington cities, is neglecting infrastructure needs in order to maintain daily operations. The longer the infrastructure needs are ignored the more important grants and low-interest loans become.

Recognizing that the legislature has acted on the recent State Supreme Court decision on I-747, we hope that the issue can be revisited sometime in the future. With a limit of 1.0 percent on one of the largest sources for city revenue, cities cannot keep up. In fact, it may put cities in a constant state of reduction. We are not saying that 6.0 percent increases are the answer. We do not take tax increases lightly. We are very aware of the impact to our citizens. Perhaps a limit of 3.0 percent or a limit linked to the consumer price index is more appropriate. It may be appropriate to revisit the issue after more information becomes available for review.

### **The Good News**

The city of Pullman has been surviving without draconian cuts to its budget because of the efforts of its employees and strong construction activity. Construction impacts property tax, sales tax, and utility tax. Thankfully the increase to property taxes due to new construction is exempted from the 1.0 percent revenue limit, so Pullman's property taxes have been growing faster than 1.0 percent. Recent years' budgets

have heavily relied on new construction activity for revenue generation. The 2009 Budget includes revenue increases due to strong construction activity, but also includes adjustments due to an expected slow-down to construction activity. 2009 property taxes are increasing \$161,546 or 4.71 percent because of the addition of new construction to the assessment rolls. Unfortunately, as mentioned earlier, sales taxes are expected to decrease significantly because of slowing construction activity.

The first Destination-based Sales Tax distribution reports were released in December. According to the Washington State Department of Revenue, so far the city of Pullman has gained \$62,252.37 due to the change to Destination-based sales tax. It was expected that Pullman would gain \$21,100 in 2009 and \$24,300 in 2010, so this is welcome and unexpected news.

In closing, the city of Pullman has, for the most part, been able to maintain its operations despite its challenges. However, if the city has to contend with insurance premium increases that exceed the rate of inflation, a slow growing sales tax base, and no changes to funding limitations such as the 1.0 percent revenue limit, the city of Pullman may not be able to maintain its current level of operations for much longer. Pullman will need a combination of things to happen in order to continue to enjoy the level of services it has now. The state can help with some of these things.

Thank you for taking time from your busy schedules to hear our issues.



# AWC 2009 Major Legislative Priorities

On November 21, 2008, the AWC Board adopted an ambitious legislative agenda for this upcoming session. The seven major legislative priorities that will be presented to the Legislature by AWC and city officials fall under these three key themes:

- Maintaining and developing quality infrastructure for safety and development;
- Promoting city fiscal health and flexibility; and
- Providing for flexible general government operations.

The 2009 session will be like no other in the last 25 years given the projected \$5.1 billion state budget deficit. Success on the following issues will be difficult and only possible with significant direct city official assistance.

## Maintain and Develop Quality Infrastructure for Safety and Development

It is in the state's interest to help cities develop and maintain a strong infrastructure system that promotes economic development and provides the state and cities needed revenues. In addition, as public works become more complex, cities need more management flexibility.

### Major priority:

#### Infrastructure funding

- **State infrastructure funding:** AWC will continue to pursue funding for infrastructure programs including:
  - Local Infrastructure Finance Tool (LIFT)
  - Community Economic Revitalization Board (CERB)
  - Communications Infrastructure-Interoperability
  - Washington Wildlife and Recreation Program
  - State Brownfield Redevelopment Funding
- **Local infrastructure options and flexibility:** AWC will pursue local options to enhance transportation and economic opportunities for cities including:
  - Modify Alternative Public Works statutes
  - Modify current architect/engineering services statutes

- Update bid limits authority
- Support enabling Community Facilities District legislation
- Modify Community Revitalization Financing statutes
- Harmonize use of 1st and 2nd quarter local Real Estate Excise Tax
- Pursue Street Utility authority
- Modify the Transportation Benefit Districts statutes
- **Stormwater funding:** The state needs to partner with cities to help fund implementation of NPDES permits at levels greater than the 2007-2009 biennium. AWC will seek such financial assistance.

## Promote City Fiscal Health and Flexibility

Cities need broad discretion in using existing revenue sources to respond to local challenges. It's critical that cities and towns also have the authority to look for new and innovative strategies and resources.

### Major priority:

#### Fiscal health

- **Sales tax:** AWC will seek to allow cities to levy the .3 percent voter-approved public safety sales tax, independent of county action, and remove supplanting language and the requirement that one-third of funds be spent solely for criminal justice purposes.
- **Property tax:** AWC will seek an increase of the property tax cap of 1 percent for city EMS permanent levies, using inflation as the cap. In addition, AWC will assist the counties in obtaining state resources so every county can conduct annual valuations.
- **Fiscal aid for distressed cities and counties:** AWC will seek an increase to the City-County Assistance Account and establish a "floor" so distributions to qualifying cities do not drop below a certain amount.

*continued*



## **Provide for Flexible General Government Operations**

It's critical that cities have the flexibility and local decision-making authority to make the right decisions for their citizens. Cities must be able to develop service delivery tools in a way that's cost-effective, efficient and flexible—and free from unwarranted restraint.

### **Major priorities:**

#### ***Oppose the requirement to tape executive sessions and any restrictions of attorney-client privilege or attorney work product***

Cities will continue to oppose a requirement to tape all executive sessions and any attempt to restrict attorney-client privilege or attorney work product.

#### ***Annexation and city/county governance transition***

AWC will advocate for more annexation tools to facilitate annexations within urban growth areas and promote incentives to facilitate agreement among a city and county to jointly plan for and have consistent development regulations in unincorporated urban areas.

## **Limiting liability for local government**

AWC will continue to pursue reforms that limit joint liability for public entities; work to amend the law so that juries may be informed of seatbelt use; and support other entities that wish to advance legislation relating to establishing a willful and wonton level of misconduct for emergency workers.

## **Land use/gambling**

AWC will defend cities' ability to fully ban gambling and seek legislation that provides cities the ability to zone and partially ban gambling facilities

## **City flexibility package**

AWC will pursue proposals that support flexible and cost-effective options for cities to provide essential services.



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# CITY OF PULLMAN

## Administration/Finance

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### CITY OF PULLMAN HISTORY OF STORMWATER ISSUES

The following is a history of stormwater issues relating to the city of Pullman. As you will note from this information, there have been numerous public discussions of the stormwater issue. The City Council has also taken numerous definitive actions to address the issue.

The city of Pullman recognizes the importance of addressing stormwater issues in a fair and reasonable manner. The city currently has design standards that require erosion and sediment control plans be submitted and approved with new development and require stormwater detention and biofiltration when certain thresholds have been met. The city already addresses high risk land uses such as car washes, auto repair/maintenance shops, etc. with special requirements. The city also requires enhanced detention in one particularly sensitive sub-basin within the city (Hatley Canyon). With new construction, the city dye tests the sewer connections to verify the sanitary sewer lines are not inadvertently connected to the storm drain system. Thus, far from ignoring stormwater concerns, we have many procedures already in place.

However, when the proposed Phase II Stormwater Permit was proposed to include Pullman, we actively opposed our inclusion under the terms of the Phase II Permit. The city of Pullman, Washington State University and Schweitzer Engineering Labs, Inc. officially requested that Pullman not be included in the Phase II Program during the comment period that ended on May 19, 2006. The following statement was made within our city of Pullman letter in support of our request for not being included under the Phase II Stormwater Permit:

Pullman and the surrounding area are characterized by rolling hills, steep slopes and highly erodable soils. The relative impermeability of the soil virtually eliminates the use of infiltration for stormwater treatment, which results in close to 100% runoff. Agriculture is the primary land use in the surrounding area, and results in highly turbid runoff far outweighing contributions from the city stormwater system. Benchmarks such as the 25 NTU threshold in the Construction Stormwater General Permit are essentially impossible to meet at times, and quite frankly wouldn't matter much because the contribution from agricultural land is so much higher, both in quantity and turbidity levels.

The stormwater issue has been addressed in depth at numerous previous City Council meetings. On September 26, 2006, a public meeting was held on the stormwater

issue. David Duncan, from the Water Quality Program of the Washington State Department of Ecology, stated that "...Pullman has perhaps the most difficult situation in the whole state with regards to soils." Representatives from WSU and SEL spoke at the City Council meeting and raised concerns about the proposed Phase II Regulations. At the conclusion of the stormwater discussion, the City Council voted to table motions authorizing a stormwater consultant agreement and the acceptance of a Department of Ecology stormwater grant.

At the Town Hall Meeting on December 6, 2006, the stormwater issue was discussed in depth with our 9<sup>th</sup> District State legislators. Representatives from the Washington State Department of Ecology were also present to address the stormwater issue. Later in December, our 9<sup>th</sup> District State legislators were able to meet with Director of the Department of Ecology Jay Manning and convinced him to delay the proposed December implementation of the Phase II Permit until January. However in January 2007, the Department of Ecology issued the new Phase II Permits that included Pullman.

On January 23, 2007, the City Council discussed the decision of the Department of Ecology to include Pullman in the implementation of the Phase II Stormwater Permit. The City Council discussed the option of joining an appeal of the Department of Ecology decision.

On February 6, 2007, the City Council voted to join the appeal of the Phase II Regulations. Because the Department of Ecology opted to include Pullman under the requirements of the Phase II Regulations, the City Council also voted to approve the stormwater consultant agreement and accept the Department of Ecology stormwater grant.

On February 16, 2007, the NPDES Phase II Permit became effective. The minimum measures required under this Phase II Stormwater Permit are:

- Public education and outreach
- Public involvement and participation
- Illicit discharge detection and elimination
- Controlling runoff from development
- Pollution prevention for municipal operations.

At the City Council meeting on March 6, 2007, the City Council passed a resolution authorizing the city of Pullman to join a coalition of 33 cities and counties for the purpose of appealing provisions of the Municipal Stormwater Permit. In his staff report to the City Council, Public Works Director Mark Workman wrote:

The Department of Ecology (DOE) has issued the Phase II National Pollutant Discharge Elimination System (NPDES) Permit under the provisions of the Federal Clean Water Act. The permit applies to several cities in Washington, including the city of Pullman. It is the opinion of many of the affected cities that DOE has exceeded the requirements of the Clean Water Act to the extent that significant and unwarranted financial

burdens will be placed on these municipalities and the citizens residing therein, and subject the municipalities to costly legal challenges. Several Washington cities, including Pullman, committed to combine resources to appeal the permit to the Pollution Control Hearings Board and to Superior Court in Snohomish County.

On May 15, 2007, the appellants filed the proposed list of legal issues before the Pollution Control Hearings Board.

At the annual Association of Washington Cities (AWC) conference on June 14, 2007, a workshop was held on stormwater issues. The major point of the workshop discussion was that, regardless of the legal challenges to the Phase II Stormwater Permit, it is still in effect and we have a requirement to comply. The June 2007 AWC Stormwater fact sheet that was distributed at the conference stated:

The permit's requirements must be addressed in increments over the next five years and will be costly to implement for both public and private interests. Cities that have extensive stormwater programs and stormwater utilities in place may be meeting some of the requirements of the permit. Cities that have not developed stormwater programs or developed a stormwater utility will face a much greater challenge.

On June 26, 2007, the City Council requested that the options of retaining a consultant to aid in compliance and to retain a full-time stormwater program employee be brought back for consideration at a later date.

At the City Council meeting on August 17, 2007, the City Council authorized the creation of the city of Pullman stormwater manager position. The following are excerpts from the minutes of the City Council meeting:

Councilmember Bloom stated he concurred with the staffing needs for stormwater compliance, stated that the stormwater issue was an unfunded mandate and the citizens would have to find a way to pay for it, and that compliance would involve high volumes of work.

Councilmember Heath stated she agreed with Councilmember Bloom's comments that this was a complex issue and that the City should stay within the minimum standards and not go beyond that.

At the City Council meeting on October 23, 2007, a discussion took place concerning the stormwater issue. John Knutson of Otak, Inc., the city's stormwater consultant, gave a detailed presentation on stormwater regulations, the city's options, and new annual stormwater funding needs. He recommended the establishment of a stormwater utility. Public Works Director Mark Workman stated that the city was behind in the stormwater compliance process and that we needed to establish and collect fees by mid-year 2008.

On December 11, 2007, the issue of stormwater was again raised with our 9<sup>th</sup> District State Legislators. The first issue of interest to the city of Pullman in the town hall meeting was that the state should provide for reasonable and achievable stormwater standards. We requested that the legislature act to ensure that reasonable and achievable stormwater standards are applied that do not exceed federal requirements and that take into consideration the unique provisions of various geographic areas within the state.

At the City Council meeting on January 22, 2008, the stormwater issue was again addressed in depth. Four resolutions were passed by the City Council addressing various stormwater issues. The first resolution adopted a public participation policy for the development and implementation of an enhanced city stormwater management program. The second resolution provided more funding of the cost of litigating the stormwater appeal. The third resolution provided an addendum to the Otak, Inc. agreement for the purpose of performing the stormwater planning and funding project. The final resolution accepted a local stormwater grant from the Washington State Department of Ecology. Rob Buchert was formally introduced at the meeting as the city of Pullman's Stormwater Services Program Manager.

On April 17, 2008, city of Pullman representatives attended an AWC forum on stormwater that was held in the Spokane City Council Chambers.

On April 28, 2008, the city of Pullman, the Pullman Chamber of Commerce and the Pullman League of Women Voters co-sponsored a public forum on the stormwater issue. This was a very informative and well attended forum. Panelists included representatives from the city of Pullman, Otak, Inc., WSU, and the Washington State Department of Ecology.

Numerous meetings have been held to explain to various heavily impacted local businesses and organizations the impacts that the proposed stormwater utility would have upon them.

On May 22, 2008, representatives of the city met with representatives of the Washington State Department of Community, Trade and Economic Development (CTED). We emphasized that it is hard to promote economic development and affordable housing because of onerous expensive regulations under the Phase II Stormwater Requirements.

On May 2, 2008, Tammy Lewis, who was with the Palouse Economic Development Council (PEDC) and is now Executive Director of the Pullman Chamber of Commerce, sent a letter to Governor Gregoire. In the letter she stated that new stormwater fees will hit businesses particularly hard and that SEL has stated that it will reconsider any expansion plans in the area due to the fees.

At the City Council meeting on June 3, 2008, another discussion was held on the stormwater issue, the first draft of the stormwater utility ordinance was presented, and the

public comment period was opened. Representatives of the city of Pullman, Otak, Inc., and the Washington State Department of Ecology participated in the discussion. It was noted that the State of Oregon did not include any of its bubble cities within the Phase II Stormwater Program. Since Washington included all of its bubble cities, this demonstrates that Washington is exceeding federal requirements.

On June 10, 2008, representatives of the city and the Chamber of Commerce met with gubernatorial candidate Dino Rossi to discuss local issues of concern. Concerns about the cost and difficulty of compliance with the Phase II Stormwater Regulations were a major topic of discussion.

On June 17, 2008, representatives of the city and the Chamber of Commerce met with Michele Vazquez, Regulatory Assistance Lead for the Eastern Region of the Governor's Office of Regulatory Assistance, and David Knight, Unit Supervisor of the Water Quality Program of the Department of Ecology Eastern Regional Office. We emphasized that stormwater regulations need to be reasonable and achievable. As it pertains to Pullman, the Phase II Requirements are neither.

On June 19, 2008, city and Chamber of Commerce representatives met with our 9<sup>th</sup> District Legislators and again emphasized our concerns about the impact of the Phase II Stormwater Regulations on Pullman.

On June 26, 2008, Mayor Glenn A. Johnson sent a strongly worded letter to Governor Chris Gregoire expressing concerns about the fiscal impact of the stormwater regulations on the business climate, SEL, WSU and others.

On July 25, 2008, the Department of Ecology responded to Mayor Johnson's letter on behalf of Governor Christine Gregoire. The letter acknowledged that "The Department of Ecology (Ecology) is aware of the challenges that some cities, such as the City of Pullman (City), are facing in the implementation of the Phase II Municipal Stormwater General Permits". After detailing the reasons for the inclusion of Pullman under the Phase II requirements, the letter stated the following with respect to business climate concerns:

A major factor in bringing new business to Washington State is our healthy environment. The Municipal Stormwater Permits are part of the effort to keep the environment healthy, and to create a climate that is sustainable and good for business.

On August 12, 2008, a conference call took place with Keith Phillips, the Executive Policy Director to the Governor on Environment Issues. The call was set up in response to the Mayor's letter. The phone conversation allowed Mayor Glenn Johnson, City Supervisor John Sherman, and Stormwater Services Program Manager Rob Buchert the opportunity to discuss stormwater issues in depth with a representative from the Governor's Office.

At the City Council meeting on August 26, 2008, the City Council passed Resolution No. R-79-08 authorizing the execution of the second amendment between the city of Pullman and a coalition of Washington cities who are challenging the stormwater regulations. The coalition is appealing the Phase II National Pollutant Discharge Elimination Permit.

At the City Council meeting on October 21, 2008, the City Council discussed stormwater issues. The draft revised stormwater utility ordinance was presented. The City Council again expressed its strong concerns about the stormwater regulations before suggesting final revisions in the draft ordinance. For example, City Councilmember Keith Bloom reflected the sentiments of many City Councilmembers when he stated at the meeting:

If I believed for a moment that his would clean up one drop of stormwater, given our geology and our geography, I'd be all over this, all right? I do not believe that by writing a bunch of words on paper and creating a bureaucracy, that we are really going to clean up the stormwater in Pullman significantly enough that what flows in from out of town and winds up flowing out the South Fork still doesn't look like chocolate milk come springtime rolling down Palouse Falls.

At the conclusion of the City Council discussion the majority of the City Council concurred with the staff recommendation that the stormwater utility rate structure should be based upon impervious area.

On November 12, 2008, a second stormwater public forum was held in the City Council Chambers. City staff and representatives from Otak, Inc. gave a panel presentation before the forum was opened up for public input.

On December 2, 2008, city staff met with WSU staff for the ninth time to discuss WSU concerns about the proposed stormwater utility rate structure.

A notice of the proposed adoption of the stormwater utility ordinance at the December 9 was published in the December issue of the *Pullman Community UPDATE*.

At the City Council meeting on December 9, 2008, the City Council split on the vote to implement the stormwater utility. It was agreed that the issue would be back with a revised ordinance for the City Council meeting on January 6, 2009.

A notice of the proposed adoption of the stormwater utility ordinance at the January 6, 2009, City Council meeting was published in the January issue of the *Pullman Community UPDATE*.

In summary, the city of Pullman has attempted to gain relief from the onerous provisions of the stormwater permit requirements through both legal and political channels. The city has delayed implementing a stormwater utility for as long as is

reasonably prudent. The city has now been under the requirements of the permit since February 2007. At this point staff feels that it would be extremely detrimental to delay implementation of the stormwater utility. Funding stormwater expenditures from the Street Fund is already reducing our ability to make needed street repairs. The proposed utility ordinance is deemed to be legally defensible and fair from the perspective of our stormwater consultant, Otak, Inc. Accordingly, we would reluctantly and regretfully request you to move forward with the adoption of the stormwater utility so that we can comply with the costly stormwater permit requirements.



## Sherman, John

**From:** Workman, Mark  
**Sent:** Tuesday, December 09, 2008 2:21 PM  
**To:** Sherman, John  
**Subject:** street projects  
**Attachments:** Arterial Streets Resurfacing.xls

Here are the street resurfacing projects we are proposing for stimulus funding.

### Arterial Street Resurfacing Projects - City of Pullman

| Route Number | Street      | From        | To           | Tons HMA      | Amount             |
|--------------|-------------|-------------|--------------|---------------|--------------------|
| 7450         | Harrison    | Ritchie     | Clifford     | 1,526         | \$550,000          |
| 7428         | Rocky Way   | Grand       | Taylor       | 618           | 135,000            |
| 7428         | South       | Taylor      | Spring       | 778           | 167,000            |
| 7407         | Stadium Way | Grand       | Orchard      | 4,461         | 1,312,000          |
| 7418         | Whitman     | Kamiaken    | Maple        | 253           | 57,000             |
| 7418         | Maiden Lane | Maple       | Opal         | 973           | 198,000            |
| 7418         | Opal        | Maiden Lane | Campus       | 488           | 105,000            |
| 7460         | Terre View  | Merman      | Northwood    | 1,543         | 312,000            |
|              |             |             | <b>Total</b> | <b>10,640</b> | <b>\$2,836,000</b> |

**Jurisdiction:** City of Pullman, Washington

**Contact person:** Kevin Gardes, Deputy Public Works Director

**Project Title:** Airport Fire Flow System

**Total Cost:** Approximately \$1.8 million

**Federal (stimulus) contribution requested:** \$1.24 million - \$1.80 million (80% - 100%)

**Permanent Jobs Created/Maintained:** There is currently a moratorium on new development at the airport due to inadequate fire flow. It is estimated that once the building moratorium is lifted at the airport with the construction of the new water storage tank, the demand for new hangar construction will be a minimum of 10 to 15 units. The size of each unit would range from 2,000 – 12,000 square feet. The additional aircraft could support three to five new jobs and the additional revenue to the airport would be approximately \$10,000. Idaho and Washington have both conducted economic impact studies and the general aviation portion of the airport accounts for 138 local jobs with an annual output of approximately \$11.6 million to the local economy. The fire flow system is critical to both protecting the existing employment base and providing for future growth.

**Temporary Jobs Created/Maintained:** This project is expected to take approximately 180 days to construct. During this time the project will provide employment to the contractors and subcontractors constructing the water tank. In addition, the project is anticipated to have a positive impact on the local economy in terms of providing services to the employees and businesses working on the project and by also providing income to local construction suppliers and contractors who will participate in the project.

**Permitting Status:** The environmental review is scheduled to be complete by the end of the year and the project will be ready to go out to bid in January 2009. All other required permits have been secured. Construction could begin by April or May of 2009.

**Jurisdiction:** City of Pullman

**Contact person:** Mark Workman, Public Works Director

**Project Title:** Secondary Process Improvements at the City of Pullman Wastewater Treatment Plant (WWTP)

**Total Cost:** Approximately \$11 million

**Federal (stimulus) contribution requested:** \$9.9 million - \$11 million (90% - 100%)

**Permanent Jobs Created/Maintained:** The City of Pullman WWTP is currently at full capacity as reflected by several NPDES permit violations that have occurred over the past several years. The City has been aggressively planning and constructing improvements since 1998 that are aimed at maintaining compliance with both state and federal regulations and providing sufficient capacity for the City's projected 20-year growth. During the same period the City has experienced above average growth in both commercial and residential construction and, subsequently, an increase in population. According to the City of Pullman Comprehensive Plan, circa 1998 the projected increase in total jobs from 1998 to 2020 is estimated at 7,500 and the projected increase in population is estimated at 4,580. Based on this data, the growth of several employers in the area including Schweitzer Engineering and Decagon Devices Inc., and the increased enrollment at WSU, it is estimated that this project could be critical to supporting hundreds or even thousands of jobs over the next ten years.

**Temporary Jobs Created/Maintained:** This project is expected to take approximately 545 days to construct. During this time the project will provide employment to the contractors and subcontractors. In addition, the project is anticipated to have a positive impact on the local economy in terms of providing services to the employees and businesses working on the project and by also providing income to local construction suppliers and contractors who will participate in the project.

**Permitting Status:** All of the required permits and the environmental work have been completed. This project could go out to bid as early as January 2009 and construction could begin by May 2009, assuming the City is successful in securing sufficient funding.

# WASHINGTON ASSOCIATION OF SHERIFFS & POLICE CHIEFS

3060 Willamette Dr NE Lacey, WA 98516 PHONE (360) 486-2380 FAX (360) 486-2381 WEBSITE – [www.waspc.org](http://www.waspc.org)

Serving the Law Enforcement Community & the Citizens of Washington



## Department of Criminal Justice at the Washington State University Resolution #2008-04

**WHEREAS**, the members of the Washington Association of Sheriffs and Police Chiefs are assembled for the annual Fall Conference at the Red Lion, in Pasco, Washington, November 20, 2008; and

**WHEREAS**, the Association is committed to enhancing the quality of life and safety of the millions of people who live, work and play in the State of Washington; and

**WHEREAS**, the Association is committed to improving the effectiveness of law enforcement throughout the state; and

**WHEREAS**, the Association is aware that many law enforcement agencies throughout the state and nation have struggled with declining numbers of well qualified applicants, particularly those with degrees in criminal justice from well-respected educational institutions; and

**WHEREAS**, the Association recognizes the history of excellent criminal justice education and scholarship in the field of Criminal Justice at WSU, including the existence (prior to 1982) of one of the oldest *Departments* of Criminal Justice in the nation, preceded by the nation's second oldest Department of Police Science (dating back to the 1940's); and

**WHEREAS**, the Association recognizes that the current small "Program" in Criminal Justice at WSU is inadequately resourced and structured to support the state's and the nation's need for well-educated criminal justice and particularly law enforcement personnel; and

**NOW, THEREFORE, BE IT RESOLVED** that the membership of the Washington Association of Sheriffs and Police Chiefs strongly supports the re-establishment of an independent and adequately resourced Department of Criminal Justice at Washington State University.

|   |   |   |  |   |
|---|---|---|--|---|
| <b>President</b><br><b>COLLEEN WILSON</b><br><i>Chief – Port of Seattle</i> | <b>President Elect</b><br><b>JOHN DIDION</b><br><i>Sheriff – Pacific County</i> | <b>Vice President</b><br><b>SCOTT SMITH</b><br><i>Chief – Tulalip</i> | <b>Past President</b><br><b>RICHARD LATHIM</b><br><i>Sheriff – Franklin County</i> | <b>Treasurer</b><br><b>BRUCE BJORK</b><br><i>Chief – WA Fish &amp; Wildlife</i> |
| <b>ED HOLMES</b><br><i>Chief – Mercer Island</i>                            | <b>TOM SCHLICKE</b><br><i>Chief – Swinomish</i>                                 | <b>MIKE KLINE</b><br><i>Marshal – U.S. Marshals, ED-WA</i>            | <b>JOHN BATISTE</b><br><i>Chief – WA State Patrol</i>                              | <b>SAMUEL GRANATO</b><br><i>Chief – Yakima</i>                                  |
| <b>MIKE HUMPHREYS</b><br><i>Sheriff – Walla Walla County</i>                | <b>MIKE HARUM</b><br><i>Sheriff – Chelan County</i>                             | <b>SUE RAHR</b><br><i>Sheriff – King County</i>                       | <b>LAURA LAUGHLIN</b><br><i>SAC – FBI, Seattle</i>                                 | <b>DONALD PIERCE</b><br><i>Executive Director</i>                               |

## ***"My budget protects our values during these tough times"***



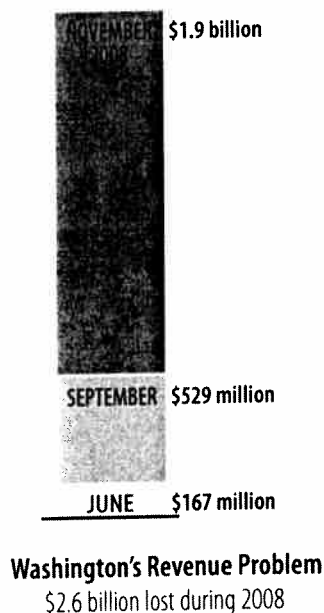
Our state is facing significant economic turmoil. The deepening national recession is already the longest in a quarter century and has resulted in severe budget shortfalls in states across the nation. People are losing their jobs — unemployment has risen from 4.6 percent to 6.3 percent over the past year. Our state is not immune and our revenue — largely reliant on a sales tax — is down dramatically, resulting in the largest budget gap in state history.

We took responsible steps to address potential economic challenges. In 2007, I proposed a constitutionally protected "rainy day fund" to help us prepare for future downturns. My proposal was adopted by the Legislature and a vote of the people. We immediately began putting money in this account, which now sits at just under \$430 million. I also left a large surplus in the budget at the conclusion of the 2008 legislative session, which, when combined with the rainy day fund, totaled \$850 million, one of the largest in state history.

But we are in no ordinary recession. No one could have predicted the reckless decisions in credit and financial markets that gave us this severe economic crisis that began on Wall Street and has spread to Main Street. The large surplus and rainy day fund we created have been swamped by the revenue shortfalls from the second half of 2008.

Washington is not alone. Today, 42 other states are looking at shortfalls. When all is said and done, states are likely to face more than \$100 billion in budget shortfalls this fiscal year and into the next budget cycle.

This drastic decrease in revenue has created a tremendous challenge for us in constructing the state budget. Since the November forecast, revenue has been predicted to decline significantly while the cost of providing services such as basic education and medical assistance has risen sharply over the past two years. Increases are also expected in caseloads, or the number of people we need to serve. The result is an approximately \$5.7 billion shortfall for 2009–11, which is a little more than the entire budgets of our higher education institutions and the Department of Corrections combined.



We cannot cut the almost 60 percent of the budget devoted to items we are required to provide, such as basic education, federally mandated Medicaid, pensions and debt service. This forces us to balance the budget through cuts in the remaining 40 percent of the budget.

In writing the budget for 2009–11, we began with one basic premise: Now is not the time to raise taxes on our residents and businesses. These are hard times for us all. Our families are tightening their belts, and that's what government must do. The state must squeeze every ounce of value out of each taxpayer dollar.

A wise man once told me that I needed to love my budget since I was going to be spending so much time on it. There is no way I can love this budget. We have to give up or shrink too much. There is something for everyone to not like in this budget. But I believe we have faced the challenge, made the tough choices and lived within our means. I am glad to discuss these choices with my fellow citizens and the Legislature.

Now is the time for us to work together — Democrats and Republicans, program advocates and citizens, all levels of government. If you don't like a cut in funding, tell me. But then tell me where you would cut funding — in other words, help me to find the solution. This is a difficult challenge for all of us. The budget is a work in progress, and my proposal is the first step in a long process that will continue in the Legislature in the coming months.

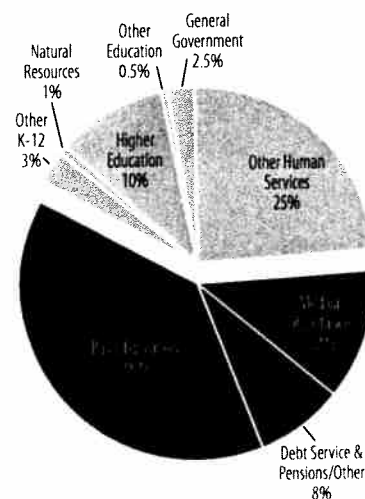
We are up to this challenge. Let us find opportunity in adversity to bring reform that will make us stronger. I am confident we will succeed if we all pledge to come together as a community, neighbor-to-neighbor, and help each other.

*Chris*  
Governor Chris Gregoire

### \$3 Billion in Spending Increases from Rising Caseloads and Enrollments Near General Fund-State, in millions

|                               |         |
|-------------------------------|---------|
| K-12 SCHOOLS                  | \$1,098 |
| MEDICAL ASSISTANCE            | \$725   |
| HIGHER EDUCATION              | \$232   |
| DEBT SERVICE                  | \$178   |
| PRISONS/COMMUNITY CORRECTIONS | \$178   |
| LONG-TERM CARE                | \$141   |
| PENSION RATE INCREASE         | \$149   |
| DEVELOPMENTAL DISABILITIES    | \$113   |

### 58% of the Budget is Off Limits



## SMARTER BUDGETING: PRIORITIES OF GOVERNMENT

In these tough times, Governor Gregoire used the Priorities of Government process to build her budget. This process is different from budgeting as usual, which adds to or cuts from an existing budget. Priorities of Government was launched in the spring with a government-wide assessment of services with two purposes:

- Establish a clear set of results that citizens expect from state government.
- Reprioritize state spending to focus on services that matter most in achieving those results.

The first step required state agencies to rank their activities among three categories: low, medium or high, when compared to the agency's mission.

The second step involved 10 multi-agency teams that were charged with looking beyond their own agencies' borders for the means to maintain or improve high-priority services despite budget constraints.

To accomplish this, the teams had to:

- View state government as a single, integrated enterprise.
- Achieve results, at lower cost, through innovative budget solutions.
- Reprioritize spending, eliminate programs or consolidate similar programs in different agencies.

In the final step, the teams delivered recommendations that prioritized state agency services. These recommendations were reviewed by a guidance team and then forwarded to Governor Gregoire for her consideration as she shaped this budget.

*"The Governor's budget makes some tough choices. Her decision to avoid increasing taxes during a recession is to be applauded. Washington state's competitive position depends on sound tax policy and this is a step in the right direction."*

*Bruce Kendall, Chair  
Washington Economic Development Commission*

## FOCUSING ON SERVICES THAT MATTER MOST

In constructing the budget for 2009–11, Governor Gregoire began with one basic premise: Now is not the time to raise taxes on our residents and businesses. State government must live within its means and construct a budget that emphasizes our most important priorities by protecting families and kids the best we can.

Five primary values represent the top priorities of the budget. These values guided Governor Gregoire's decisions when making tough choices with no new taxes:

1. We must ensure a solid foundation for our future, and that means investing in and protecting our children.
2. We must maintain the safety of our communities.
3. Government must partner with our communities to support and protect our most vulnerable.
4. We must lay the foundation for a strong quality of life and economy for the 21st century.
5. We are one state and it will take all of us working together to get through these tough times.

Woven within each of these values is an emphasis on our children. We must make sure our children are safe in their homes, have high-quality health care and are provided with an education that will equip them with the skills and opportunity they need to succeed in the economy we are building for tomorrow.

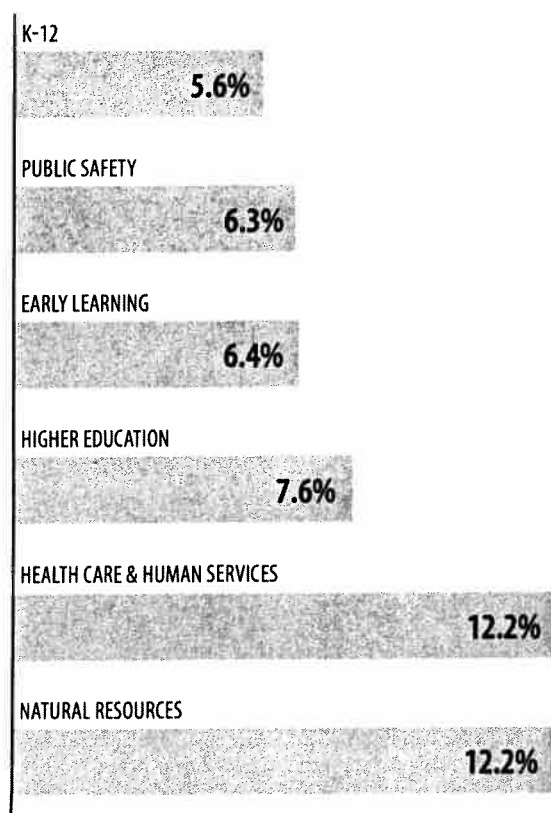
We are still preparing more than 8,200 low-income kids for school through early childhood education because it is the best investment we can make for our children. We are still educating 1 million students in grades K-12 because education is the foundation for their future. We are still providing higher education and job training for 300,000 people, because these services are our economic future. We are still ensuring that more than 650,000 kids receive health care. We are still protecting our communities' safety. We are still helping 74,000 seniors and vulnerable individuals. We are still preserving and protecting our environment, with a particular focus on Puget Sound. These investments keep us true to our primary values and will keep our state moving forward.

## CUTS IN EACH BUDGET AREA

The budget cuts needed to close a \$6 billion shortfall require reductions across all of state government. But Governor Gregoire used the values she shares with Washingtonians to guide where the reductions would be the smallest. Though the pain of these reductions will be felt by all, the Governor is committed to minimizing the effects felt by children.

Because education is the foundation for our future, cuts in this area were smaller. Other programs that affect children were also reduced less, including health care and child protective services. Public safety programs also received smaller reductions.

**Percentage Cut from Maintenance Level by Area**  
Proposed 2009–11 Budget and Supplemental Budget



## WHY COULDN'T WE GIVE SALARY INCREASES TO STATE WORKERS, TEACHERS AND CARE WORKERS?

Specific laws govern the granting of cost-of-living adjustments or raises to teachers, state employees and care workers.

These hardworking individuals provide immeasurably valuable services to the people of our state. They teach our kids, protect us from dangerous offenders, guard against environmental degradation and provide critical social services to our most vulnerable residents. They are well deserving of adjustments to maintain the value of their salaries.

Unfortunately, we had no choice but to put their raises on hold. The cost of these salary increases would be about \$678 million over the next two years. We looked hard at whether we could afford these increases during these difficult times, and saw we could not.

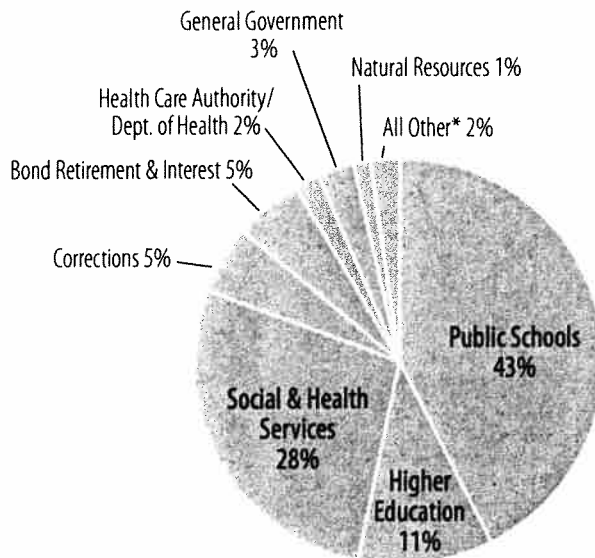
Forgoing the raises allowed us to keep classes smaller in our K-12 schools and protect early learning and teachers' jobs, as well as avoid even deeper cuts to services for our most vulnerable and health care for children and families.

Governor Gregoire has the highest regard for our teachers, state employees and those who serve the most vulnerable. She is hopeful that our economic situation will improve quickly so funding for salary increases becomes available in the state budget.

# Proposed Budget Expenditures

## Near General Fund-State: Operating

Distribution of 2009–11 Near General Fund-State Expenditures

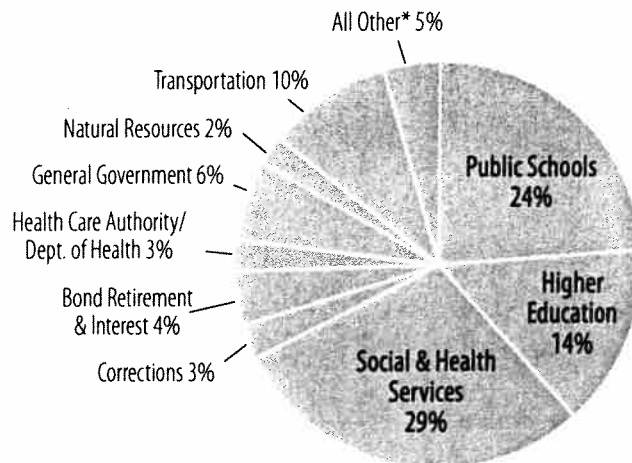


| Category                              | Dollars in Millions |
|---------------------------------------|---------------------|
| Public Schools                        | \$14,232            |
| Higher Education                      | 3,588               |
| Social & Health Services              | 9,246               |
| Corrections                           | 1,809               |
| Bond Retirement & Interest            | 1,805               |
| Health Care Authority/Dept. of Health | 653                 |
| General Government                    | 948                 |
| Natural Resources                     | 451                 |
| All Other*                            | 777                 |
| <b>TOTAL</b>                          | <b>\$33,509</b>     |

\*All Other includes Other Education, Transportation, Contributions to Retirement, Other Special Appropriations.

## All Funds: Operating Plus Transportation Capital

Distribution of 2009–11 All Funds Expenditures



| Category                              | Dollars in Millions |
|---------------------------------------|---------------------|
| Public Schools                        | \$15,782            |
| Higher Education                      | 9,523               |
| Social & Health Services              | 19,348              |
| Corrections                           | 1,822               |
| Bond Retirement & Interest            | 2,850               |
| Health Care Authority/Dept. of Health | 1,637               |
| General Government                    | 4,206               |
| Natural Resources                     | 1,515               |
| Transportation                        | 6,507               |
| All Other*                            | 2,957               |
| <b>TOTAL</b>                          | <b>\$66,147</b>     |

\*All Other includes Other Education, Contributions to Retirement, Other Special Appropriations.

Source: Office of Financial Management



# WASHINGTON'S ECONOMIC OUTLOOK

## The Present

Washington's economy began to slow in 2008 due to the bursting real estate, financial and commodities bubbles that affected local, national and international economies. However, throughout Governor Gregoire's first term, Washington's economy outperformed that of the nation. Since 2005, Washington has gained almost 214,000 jobs, a growth rate of about 8.1 percent. The state's strong growth was aided by significant expansion in the aerospace industry, very strong growth in the housing sector and an increase in disposable household income from home mortgage refinancing.

Washington has a strong economic foundation. This includes a vital export base; robust, knowledge-based businesses in technological, professional, health and financial sectors; and a high quality of life that continues to attract new residents.

Washington labor markets have weakened at the end of 2008. Fortunately, they have not experienced the longer and more severe retrenchment that has taken place at the national level. Washington's non-farm employment grew at a rate of 2.7 percent in 2007 and 2.1 percent in 2008, more than double the national rate. Personal income grew at a rate of 6.8 percent in 2008. The aerospace industry continued to expand with an employment increase of 8.3 percent in 2008. Employment in all other manufacturing sectors fell by 0.3 percent. Our unemployment rate averaged 4.7 percent in 2008, the lowest since 2000, although the rate rose to 6.3 percent in November 2008.

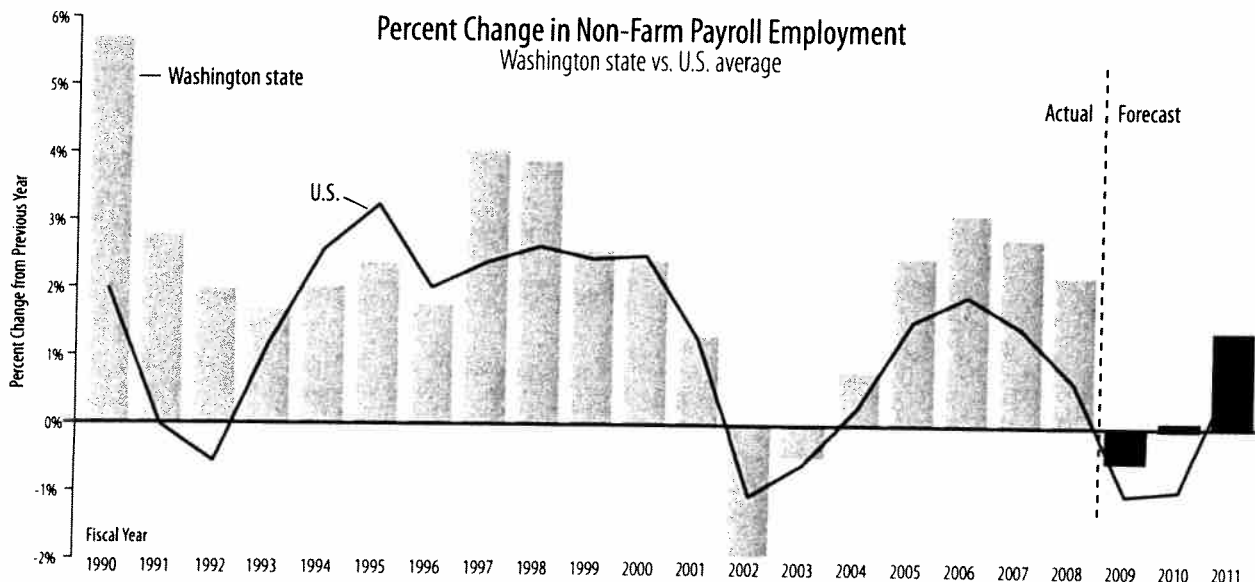
*"The credit squeeze has hurt Washington's economy and revenue collections. Relative to the nation, our state's downturn will be modest. However, the effect on state revenues will be far more severe than warranted by the depth or duration of our downturn because this is a consumer-led recession. Consumer spending has to recover for state revenues to recover."*

*Dr. Arun Raha, Executive Director  
Washington Economic and Revenue Forecast Council*

## The Future

Washington's economy is expected to experience some retrenchment during the next two years. Washington's economic forecast for 2009 and 2010 shows the state's economy battling recessionary forces. The November 2008 forecast by the state Economic and Revenue Forecast Council projected that growth in non-farm employment will likely decrease by 0.4 percent in 2009 and remain flat in 2010. These growth rates are similar to the employment change following the 2001 recession. However, they are notably higher than the likely national growth rate for non-farm employment of -1.0 percent in 2009 and -0.9 percent in 2010.

A few Washington industries will continue to experience slow employment growth or decline through the next two fiscal years. These include the financial activities industry, reflecting the shakeout from the credit crisis, the puncture of the housing market bubble and a growing sense of consumer frugality. Construction employment will also be fragile as the residential and commercial markets adjust to excess inventory and credit market restructuring. Construction payrolls will likely decline by 7.1 percent in 2009 and 3.9 percent in 2010.

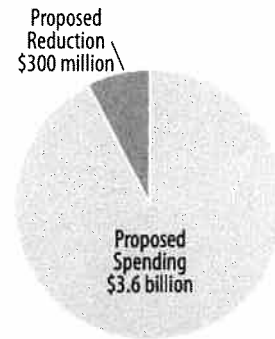


Source: Office of Financial Management

## HIGHER EDUCATION

Washington's public colleges and universities are the economic engine that drives the state's economy and will drive our recovery. Students with college degrees earn more over their lifetimes, report working in more fulfilling jobs and contribute stability to their communities.

Employers look for trained and skilled workers. Our higher education institutions fill this need by graduating students ready to join the work force and contribute to society. Yet even with 100,000 students in the four-year college system and 200,000 in the community and technical college system, demand for enrollments continues to top state funding. Governor Gregoire's proposed budget reduces state support for public colleges and universities, but maintains current enrollment levels. Tuition increases are consistent with established state policies that place limits on annual tuition growth. Student financial aid will increase to help keep tuition affordable for needy students.



### Goals

- » Preserve access to higher education by maintaining enrollment levels.
- » Maintain affordability for lower-income students by increasing financial aid grants to reflect higher tuition rates.
- » Acknowledge the diverse missions of the two-year and four-year institutions.
- » Maintain flexibility for state colleges and universities while establishing targets in vital areas such as high-demand fields.

### What We Invest In

#### Overall funding for two research universities and four regional universities and college

More than 100,000 students seeking a baccalaureate, graduate or professional degree are served at the state's public college and universities. (\$1.5 billion General Fund-State, \$143.0 million Education Legacy Trust Account)

#### Overall funding for the community and technical college system

More than 200,000 students are served in this system, many of whom enroll to upgrade their jobs skills or quickly retool for a new career. (\$1.4 billion GF-S, \$95.1 million Education Legacy Trust Account)

#### Student financial aid

Student financial aid programs, including the State Need Grant program, will increase to match higher tuition rates. The overall growth of financial aid programs is modified by making incremental changes to eligibility and grant amounts for students from families with higher incomes.

(\$376.6 million GF-S, \$79.8 million Education Legacy Trust Account)

### What We Authorize

The governing boards of the state college and universities are authorized to raise tuition for resident undergraduate students consistent with tuition caps established in state policy. A lower cap is applied to tuition at the community and technical colleges. On average, tuition can increase by about \$450 per year at the research institutions, \$310 per year at the regional college and universities, and \$125 per year at the community and technical colleges. (\$162.6 million local funds)

## How We Achieve Savings

**Reductions, across the board,** of 13 percent for the research and regional institutions and 6 percent for the community and technical colleges. Higher education institutions are given the flexibility to determine how best to implement this reduction. Effects on campus could include fewer course offerings, larger class sizes, reductions in faculty positions and fewer support services for students. Each institution must report on a number of specific outcome measures important to state policy goals, such as graduating/educating students in fields crucial to work force development, math and science, and skills training. The lower rate of reduction for the community and technical colleges is in recognition of their unique mission in job training and skills development essential to the state's economic recovery. *(\$341.9 million GF-S)*

**Suspension of Initiative 732 funds** for faculty and staff in the community and technical colleges. *(\$33.8 million GF-S)*