



CITY OF PULLMAN

HIGH Tech, HIGHER Education, HIGHEST Quality of Life

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MEMORANDUM

TO: City Councilmembers and the Citizens of Pullman

FROM: Glenn A. Johnson, Mayor

RE: Mayor's 2012 Budget Message

DATE: November 10, 2011

2011 has been a very productive year in spite of continuing city budget challenges. We gratefully acknowledge the hard work of our city employees and the generosity of our citizens which have allowed community progress and improvements to continue. We hope that 2012 will also be a year of significant accomplishments. However, we acknowledge that the 2012 budget will be the most challenging for the city since the onset of the "Great Recession". Although the "Great Recession" officially lasted from December 2007 through June 2009, we are now experiencing its greatest impacts. We are not alone in this predicament. As was noted in this year's pre-budget workshop, a September 27, 2011, article in *The New York Times* stated:

Cities typically suffer the full force of a recession later than states and the nation as a whole do.

The lead article in the October 18, 2011, edition of *USA Today* stated the following with respect to the extent that position cuts in local governments have impacted the national economy:

Local governments, once a steady source of employment in tough economic times, are shedding jobs in unprecedented numbers, and heavy payroll losses are expected to persist into next year.

The job cuts by city and county governments are helping offset modest private-sector employment gains, restraining broader job growth.

An Associated Press article dated October 19, 2011, stated the following with respect to what the state of Washington is experiencing with respect to government job losses:

Washington state recorded its first monthly employment decline in more than a year Wednesday, losing some 18,000 jobs in September largely due to deep cuts in government.

Thus, there is ample documented evidence that the full impact of the “Great Recession” is now being felt at the local level. Unfortunately, the city of Pullman is feeling the full impact of this national trend.

At the City Council meeting on October 11, we conducted public hearings on 2012 revenue sources for the budget and what to do with the remaining funds from the 2007 bond issue. With respect to revenue sources, it was noted that we face a major problem with respect to our General Fund cash reserves. In 2008 the General Fund had in excess of \$3.5 million in cash reserves. By the end of 2012 it is estimated that General Fund cash reserves will be reduced to approximately \$580,000. We will balance the Preliminary Budget for the General Fund with cash but we will not have enough to pay bills and make payroll for the entire year.

Funds remaining from the 2007 bond issue cannot be used to meet this General Fund cash shortfall, but must rather be used only for those purposes specified within the 2007 bond ordinance. The bottom line is that we have reduced our General Fund reserve by approximately \$3 million since 2008 and no longer have sufficient reserves to ward off the financial challenges we face within the General Fund. In addition, on October 10, 2011, we were also notified that we will experience a \$331,000 reduction in our sales tax receipts due to the passage of HB 1347.

In order to address this significant General Fund budget problem, at the pre-budget workshop the City Council agreed that we should take actions as necessary following the receipt of financial information from the first quarter of 2012. If financial conditions substantially improve or if we can achieve reductions in some of our major expenditure areas, we may be able to avoid making deep cuts within the General Fund budget. In the meantime, the City Council authorized specific actions to make reductions in the proposed projects for the 2012 General Fund Capital Improvement Program (CIP), the General Fund portion of the Equipment Rental Division (ERD), and the General Fund portion of the Government Buildings Fund.

In addition to capital program reductions, the City Council authorized us to address some major issues we are facing with respect to spiraling medical insurance costs and our lack of competitiveness in attracting and retaining selected city positions. In essence we have an overly generous medical plan but are not competitive salary-wise with respect to some of our job classifications. For example, the Chief of Police position was 13 percent below market when we advertised to fill our vacancy and the Fire Chief position we are currently seeking to fill is 16 percent below market. As the City Council authorized, included within the proposed 2012 Preliminary Budget is a \$100 monthly increase for all full-time, non-union job classifications and the elimination of the monthly \$75 Voluntary Employee Benefit Association (VEBA) contribution for health related expenses for all non-union employees. The \$100 salary increase would not apply to the Chief of Police and Police Operations Commander positions because their salaries were adjusted in 2010 and 2011 due to pay compression issues. As the City Council also authorized at the pre-budget workshop, funding is included for a pay and classification study in 2012.

Aside from the \$100 salary increase coupled with the elimination of the VEBA for non-union employees, there are no salary increases included within the proposed 2012 Preliminary Budget. All six of our labor contracts are open for negotiation in 2012. We intentionally did not

enter into multi-year contracts to include 2012 due to the economic and financial uncertainties, as well as the looming onerous provisions within the federal health care reform act. For example, by 2014 those employees who work 30 or more hours in a week must be offered affordable coverage by the employer's medical insurance for the entire month. This has a significant financial impact on a number of departments within the city. Addressing escalating insurance costs and determining how to comply with the federal health care reform requirements are top priority issues for 2012. We sincerely appreciate the cooperation of our union and non-union employees whose participation in the city of Pullman Wellness Program was rewarded by the city receiving a 2 percent reduction in its 2012 insurance premium rate increases. Our premiums for 2012 medical insurance coverage will increase by 9 percent rather than the 11 percent hike that we would have otherwise experienced.

The preliminary budget does contain a proposed 1 percent increase in property taxes. It is virtually impossible to avoid making this increase because our costs are far exceeding our revenues and property tax is our number one source of General Fund revenue. The 1 percent property tax increase would only increase taxes by \$4.90 on a \$200,000 home. Neighboring Idaho and Oregon cities can increase their property taxes up to 3 percent annually. As was previously noted, our medical insurance premium will go up 9 percent for 2012. Because we can only increase the property tax by 1 percent annually, it is easy to see why our number one source of General Fund revenue fails to address many of our expenditures that far exceed the rate of inflation.

At this time we do not know the financial impacts to the 2011 budget of the fire interest arbitration award that will determine 2011 fire union salaries. Absent this adjustment, it is estimated at this time that we will end 2011 with a General Fund cash reserve of 9.1 percent. The proposed General Fund operating budget for 2012 is \$16,260,376. This represents a 1.8 percent increase over the 2011 amended General Fund operating budget. The total proposed General Fund budget for 2012 is \$16,399,357. This represents a 2.0 percent increase over the 2011 amended total General Fund budget. Included within the General Fund are departmental expenditures for police, fire, parks and recreation, administration/finance, planning, engineering, building inspection, the library, and capital transfers. The major increase within the General Fund budget is in the police department.

The proposed 2012 city budget for all funds is \$55,918,287. This represents a 14.1 percent increase over the amended 2011 total city budget. The major area of increase is in the Utility Capital Projects Fund. This will be the first year of the next phase of major improvements at the wastewater treatment plant.

We anticipate that further budget changes may be required after the first of the year as the result of additional budget cuts at the state level. Such cuts potentially could impact us either directly through reductions in state allocations to the city or indirectly such as through the impacts of budget cuts for WSU. The legislature is scheduled to convene in a special session on November 28 to address the worsening state financial situation.

Although it is tempting to be overwhelmed by all the negative information pertaining to the economy and the budget, as I noted at the outset of this budget message there have been

many positive improvements within the community in spite of our budget challenges. There are also many signs of that elusive light at the end of the tunnel. One of these positive signs has been the increase in total building permit valuation in spite of the continuing decline in the issuance of single-family building permits. In 2011 we have already eclipsed \$30 million in total building permit valuation. This resurgence in building permit valuation was led by the new building at ever expanding SEL and by new apartment complexes. Due to the record enrollment at WSU, we anticipate there will be additional applications for building permits in the near future. We exceeded \$50 million in building permit valuation in each of the three years from 2005 through 2007 but have reflected the impact of the "Great Recession" by failing to reach \$30 million in building permit valuation in the three years from 2008 through 2010. We hope the 2011 trend of increased building permit activity will carry on in 2012 and beyond.

Another positive is that we have \$680,000 in remaining construction funds for parks and recreation improvements from the 2007 bond issue. At the City Council meeting on October 11, the City Council held a public hearing and then directed how the remaining monies from the bond issue should be spent. The major project approved was the Reaney Park Pool improvements including a spray pool to replace the lap pool and a new liner for the main pool.

Once again I would like to sincerely commend our citizens and our employees for their support in helping the city to cope with its financial challenges. We cannot ignore such challenges, but by acknowledging and addressing them we can overcome them. We hope that we will be able to carry such a positive outcome forward as we address the continuing budget challenges of 2012.