



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 2011 Budget Message

DATE: November 3, 2010

Although we all recognize that 2011 will be another very challenging budget year, we also are very pleased with the many positive activities that are occurring within our local economy. This gives us hope that indeed the "Great Recession" which officially ended in June 2009 is giving way to a slow but growing economic recovery. There are many positive signs of economic growth in Pullman. At the City Council meeting on October 26, Ed Schweitzer announced that the new facility SEL plans to construct in Pullman in 2011 has been increased in size from 70,000 square feet to approximately 100,000 square feet. On October 27 the new Walmart Supercenter opened in Pullman. We have already heard of other retailers who are interested in locating in the vicinity of the new Walmart site. Two new motels, a convention center, and a motel expansion have also been announced. Many local high-tech companies, including Ecowell, are looking at significant expansion opportunities. Thus there are signs of a light at the end of the tunnel from the economic recession.

Since the onset of the "Great Recession" in December 2007, we have carefully monitored the economic situation. The following statement that was contained within the 2009 and 2010 budget messages remains very appropriate for this 2011 budget message:

During these challenging financial times, we recognize that there have been troubling signs of economic problems at the global, national, state, and local levels. We cannot, and indeed have not, ignored the situation. To the contrary we have taken definitive steps to ensure that we are carefully monitoring our current year's budget and proceeding in a very conservative manner.

As is the case with other cities throughout the nation, we know that tax receipts lag the economic recovery. In other words, the economic situation may improve while tax receipts for local governments continue to drop.

We also recognize that our own local economy is not out of the woods when it comes to financial challenges. When the 2010 budget message was presented last year, our largest local employer, Washington State University, already had cut \$54 million from its budget and eliminated 359 positions. This year WSU was directed to make a permanent cut of \$15.5 million and another \$11.2 million cut from the current budget. Deans have been requested to prepare plans for how they could cut 10 percent in the long-term and 8 percent immediately. Given the grim outlook for the 2011-2013 state biennial budget, additional cuts at WSU are probable. Thus in spite of the optimistic private sector outlook, the budget situation at WSU remains very grim. We have sent the resolution the City Council passed in support of higher education funding to the governor and the legislature. We sincerely believe that investing in higher education is the key to economic recovery. Higher educated employees and technology transfer are keys to building the economy.

During the pre-budget workshops that we conducted at the City Council meetings on October 12 and October 26, we discussed our challenging budget situation for 2011. Within the memorandum for the October 12 City Council meeting, the following information was provided regarding the severity of the budget situation in other cities nationally:

Despite their status as core services, police and fire departments are being cut back in 63 percent of cities and 39 percent of counties responding to a July survey by the Washington-based National Association of Counties (NACo), National League of Cities and U.S. Conference of Mayors.

Although we have not experienced such severe budget reductions in Pullman, we know that we are not immune from budget reductions. In 2010 the City Council adopted the following three goals to guide the budgetary process:

1. Within the scope of budget constraints, make every effort to keep present city employees fully employed during this recessionary period. Continue to carefully track financial trends and apply year-end reserves to address the 2011 budget. Be prepared to respond promptly and appropriately to city revenue shortfalls or expenditure increases that would trigger changes in the adopted 2010 budget. Continue to provide updates on current economic conditions and the city's financial status throughout 2010 and be prepared to establish budget priorities should the financial situation deteriorate to the point that adopted 2010 service levels cannot be sustained.
2. Use any 2009 year-end savings to maintain the 13 percent General Fund reserve. As a long-term goal, evaluate increasing the reserve to 16 percent in keeping with the Government Finance Officers Association (GFOA) suggestion for having a two-month operating reserve.
3. Document long-term capital needs and establish a plan to fund priority projects. Consider earmarking some of the new revenues generated by new businesses to address capital needs. Establish an enterprise or other fund to preserve new tax revenue for capital requirements.

Within the budget workshop on October 12, the City Council authorized us to make cuts in capital items (CIP, minor capital, ERD, and Government Buildings) in order to avoid layoffs. The City Council also agreed to drop the General Fund reserve below 13 percent in order to balance the 2011 General Fund budget. At the pre-budget workshop on October 26, the City Council authorized us to take additional needed measures to balance the 2011 budget by deferring the increase in PERS contributions from 5.31 percent to 8.61 percent until January 1, 2012, based upon the comment from AWC staff that the legislature would probably be receptive to such a delay. We also discussed this delay with Steven Becker, the Eastern Washington Representative from the Governor's office. Should the legislature opt to implement the recommendation of a July 1, 2011, implementation from the State Actuary, we will have to make further reductions to the budget in 2011. The City Council also agreed to defer Metropolitan Park District projects except for the field improvements at Kruegel Park.

The budget as presented does include the 1 percent allowable increase in the property tax. Unlike last year, the Implicit Price Deflator (IPD) is above 1 percent so it is not necessary for a supermajority of the City Council to pass a resolution to raise the property tax by 1 percent. As was the case for the 2010 budget, no COLA salary increases are proposed for non-union employees except for the equity salary increases the City Council approved for the Police Chief and the Police Commander at the pre-budget workshop on October 12. Two unions have also agreed to no COLA salary increases for 2011. Teamsters Union Local 690 agreed to a 0 percent COLA for 2010 and 2011 for both the bargaining unit representing Public Works – Parks and Recreation employees as well as the bargaining unit representing Library employees. The Pullman Police Guild agreed to a 0 percent COLA for 2010 and 2011 for Police Support Services employees. Uniformed Police employees received a 2.5 percent salary increase for 2010 and 2011 in keeping with the third and fourth year provisions of their labor contracts. Fire and Transit employees do not yet have settled agreements for 2011 although Amalgamated Transit Union Local No. 1015 did settle for a 0 percent COLA for 2010.

Although many of our employees agreed to no pay increases for 2011 to help us through this recession—and we are very grateful for this agreement—our employees understood that our insurance premiums that covered them and their families have gone up dramatically. While they do not see it in their paychecks, the city will face insurance premiums that will increase more than 10 percent in 2011. We hope that our continued emphasis on the employee wellness program will result in reduced benefit increases in the future under the terms of our AWC Benefit Trust insurance coverage. Employee costs for salaries and benefits continue to consume the vast majority of the General Fund budget.

The proposed budget for 2011 for the operating portion of the General Fund is \$15,874,163. This represents a 3.2 percent increase over the 2010 amended General Fund budget. The total proposed General Fund budget for 2011 is \$15,972,553. This represents a 2.6 percent increase over the amended total 2010 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 increases within the General Fund budget are in the police and fire departments.

The proposed budget for 2011 for the total city budget for all funds is \$47,921,265. This represents a 2.5 percent increase over the 2010 amended total city budget. The major areas of increase are in utility capital projects and the airport agency.

Although the budget being presented is balanced through the use of cash reserves, we must caution that it could become necessary to make significant additional cuts in 2011 if any of a number of possibilities occur. These possibilities include the legislature moving forward with the proposed 3.3 percent increase in PERS pension contribution rates on July 1; additional city labor contract settlements; and impacts from state budget reductions and WSU cuts. If it becomes evident that the 2011 budget is not sustainable after its adoption, we will need to implement the process of establishing levels of services and priorities in order to make additional budget reductions.

Although these have been challenging economic times, we feel we have been able to weather the storm through at least 2010 at a time when many cities in Washington and throughout the nation were making drastic reductions in services and employees. Each city's financial situation is unique. We certainly experienced reductions in many areas but we did not experience the tremendous boom and bust cycle that some cities endured. College communities are typically more stable than many other cities. We hope to offset the deep cuts at WSU through the strength of other elements of our local economy, such as high tech and an expanded retail trade base.

Throughout 2011 we will continue to monitor current economic conditions and our financial situation just as we did in 2010. By mid-year we should know if the state pension increases have been delayed or if we will need to address this additional expenditure requirement. We will also have a better handle on both cuts at WSU as well as how the local economy is performing. Based upon the information obtained in 2011, we will have a better idea of whether additional cuts need to be made or if some of the cuts contained in the proposed 2011 budget can be rescinded.

We want to express our sincere appreciation to the City Council and staff for closely monitoring our financial situation and taking the appropriate actions to avoid deep service cuts and layoffs. We want to avoid contributing to a worsening financial situation by making layoffs within the city workforce.

Pullman is a wonderful community for many reasons. It has an outstanding quality of life and wonderful citizens. By continuing to work together to address our challenges we hope that we can look forward to a bright and prosperous future.