



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 2013 Budget Message
DATE: November 5, 2012

There was a slight temptation that we rejected, to just copy and paste the 2012 Mayor's budget message since many of the challenges we are facing this year were the same as last year. And from what we read in the projections economists are making, most likely we, as a city, will be facing some of the same financial challenges in 2013.

This certainly comes as no surprise, but for 2013 our major challenge is in the General Fund. Over recent years, the city's expenses in the General Fund have exceeded revenue which then forced the city to use cash reserves to balance those budgets.

At the City Council meeting on October 9, a pre-budget workshop was held with the primary goal of addressing a \$581,908 shortfall between anticipated 2013 revenue and proposed 2013 General Fund expenditure budgets. This shortfall occurred even though many departments had already made significant reductions to their budgets. At that meeting, Council accepted a recommendation to close this deficit by resetting the budgets for Police, Fire, and Library to 2012 levels and then making necessary additional reductions, based on a calculated percentage.

At the October 16 Council meeting, each of those departments presented its recommended strategy to meet target budgets, which included service reductions and personnel modifications. It is unfortunate that such cuts are required, but with General Fund cash reserves at only 8.5 percent, well below the council's goal of 13 percent, there is little choice. It is critical that spending and spending increases be brought under control. The Council and department heads are to be commended for this hard work and for making difficult decisions.

Most other funds, such as the Utility Fund, the Transit Fund, and the Stormwater Fund are healthy and although the Street Fund is beginning to see some stress, it also is adequate for now. But the General Fund is not where it should be or where we want it to be.

Although the Great Recession officially ended in June 2009, the city of Pullman has continued to struggle with slow growth and associated revenue restrictions, along with the state of Washington and rest of the country. In the last half of 2012, several major projects were permitted for construction with others well into the permitting process. These permitted projects include a new building by Schweitzer Engineering Laboratories, similar to their recently

completed Solutions Delivery Center; the Hilltop Inn expansion; Pimlico Phase 1 Apartments; Golden Hills Apartments; the Bishop 405 building, which will be the new home of the Washington State Employee Credit Union; and a new building for Washington Trust Bank. Other promising projects that are in process include a new Marriott Residence Inn on lease property on the WSU campus and the Grove Apartment complex. Constructed and planned WSU Stadium improvements also provide sales tax revenue to the city of Pullman through construction. Building permit valuation, including single-family home permits, through September 2012 already exceeded similar activity for all of 2011. So, it appears there may be a light at the end of the tunnel, and in Pullman, that light has SEL products protecting it.

As we move into 2013, it will be critically important for all departments to adhere to their 2013 budgets. Our hope is that departments will be able to attain this goal, but we also know that we have several departments with unsettled labor contracts. Up to this point, we have followed the council's directive to avoid city personnel layoffs and have made cuts by leaving vacant positions unfilled. Should expense increases cause 2013 General Fund budgets to be exceeded, we will need to be prepared to react with additional service reductions and personnel modifications as necessary.

The 2013 General Fund revenue includes sales tax from the construction of major projects as noted and anticipated, but 2014 may not have the same level of construction we are currently experiencing. As such, it will be prudent for Council to consider revenue enhancements in 2013, most of which will require voter approval.

The preliminary budget does contain a one percent increase in property taxes. Not making this increase would necessitate even deeper cuts for 2013. Property tax is our number one source of General Fund revenue, making up 27.7 percent of our revenue. Sales taxes are at 27.1 percent of our revenue. The one percent property tax increase increases taxes by only \$5.54 on a \$200,000 home. Neighboring Idaho and Oregon cities can increase their property taxes up to three percent annually. The one percent limitation on annual property tax increases has been well below inflation since its inception and has been a primary contributor to our fiscal challenges.

With the proposed fiscal strategy for 2013 of adopting a truly balanced budget and requiring accountability in the form of implementing additional reductions in response to expenditure increases, the city will end 2013 with the same 8.5 percent reserve with which it began—no better and no worse. The proposed General Fund operating budget for 2013 is \$15,998,416. This represents a 3.51 percent decrease from the 2012 amended General Fund operating budget. The total proposed 2013 budget, including capital expenditures, is \$16,533,582. This represents a 1.25 percent decrease from the 2012 amended General Fund budget.

The proposed 2013 city budget for all funds is \$52,395,252. This represents a 7.25 percent decrease from the amended 2012 total city budget. The major areas of decrease are in the Utility Capital Projects Fund and the Airport Agency Fund—primarily the result of timing and scheduling of major projects at the wastewater treatment plant and at the airport.

Although the reductions to General Fund budgets combined with an economy that stubbornly resists significant improvement can be disheartening, there are reasons to be optimistic for the future. Actions taken for 2013 have stopped the bleeding of the General Fund and we can now look at a possible transfusion by considering options for enhancing revenue to recover necessary cash reserves for operating and emergency purposes and to secure or even restore service levels.

As noted, the local economy is also exhibiting strong signs of improvement with several major projects already ongoing and others promising to start in the near future. For 2012, we have already exceeded \$41 million in building permit valuation, the highest since 2007. Single-family building permits are also up this year from recent years and home sales volume and average sale prices are similarly higher in 2012 compared to 2011. These are all reasons for guarded optimism.

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 challenge. In particular, I would like to thank and recognize Ed and Beatriz Schweitzer for their recent generous gift of \$310,000 for operational and capital/maintenance improvements at the Aquatic Center. In many ways we are a special community with many attributes that are the envy of other communities. I am confident that while the near future contains challenges we will confront them directly, as we always do, and strive for a positive outcome as a community.