



CITY OF PULLMAN

HIGH Tech, HIGHER Education, HIGHEST Quality of Life

325 S.E. Paradise Street Pullman, WA 99163

(509) 338-3208 Fax (509) 334-2751

admin@pullman-wa.gov

MEMORANDUM

TO: City Councilmembers and the Citizens of Pullman

FROM: Glenn A. Johnson, Mayor

RE: Mayor's 2014 Budget Message

DATE: October 29, 2013

What a difference a year makes! Thanks to the voters of Pullman, a recovering economy, housing starts and new construction, there were smiles around city hall as we started working on the 2014 city budget.

This time last year, the state of the city of Pullman General Fund was rather grim. Cash reserves had dwindled to dangerously low levels from balancing previous budgets with cash. That left us little option but to prepare a truly balanced budget for 2013 with proposed expenditures completely covered by anticipated revenue. But in order to accomplish this, we instructed Police, Fire and Library to cut their 2013 budgets below 2012 levels in order to close a \$580,000 deficit. We managed to accomplish this without layoffs, but it did include leaving certain vacant positions open. This led to increased overtime in Police and Fire just to cover minimum staffing. Service levels were reduced, especially at the Library. Department heads were advised that their 2013 budgets were firm and that they had to live within those budgets. This became particularly challenging for Police and Fire in light of both departments settling labor agreements that not only included salary increases in 2013, but also retroactive salary increases for 2012, but they have managed to do it.

In addition to the Great Recession, Pullman's financial situation was also suffering from the effects of Initiative 747, which limits annual increases in total property tax received to only 1 percent, far from a sustainable funding formula. It was apparent that further service cuts would be required for the 2014 budget unless supplemental revenue could be attained. An analysis of all potential revenue enhancements was made, with the two most likely candidates being a voter-approved property tax levy lift and a utility tax increase, which also requires voter approval if energy and telephone are to be included. On recommendation from staff, Council passed resolutions putting levy lift issues before the voters on the August 6 primary ballot to raise the regular property tax rate back to the lid limit of \$3.60 per \$1,000 of assessed valuation and the Emergency Medical Service and Metropolitan Park District property tax rates back to \$0.50 per \$1,000 of assessed valuation. Thanks to the citizens of Pullman, all three levy issues were overwhelmingly approved (more than 60 percent) providing much needed relief to the General Fund.

With the prospect of some financial relief due to additional property tax revenue, on August 27 Council authorized the backfilling of some positions in Police, Fire, Library, and Parks for the 2014 budget in order to restore service levels and reduce overtime, which fulfilled a promise we made to voters if the levies were approved. Staff further committed to bringing to Council a conservative budget that restores cash reserves, starts to accrue funds to address deferred capital and maintenance needs, and begins to anticipate potential negative events in the future, such as the decline of sales-tax-generating construction activity. Restoring our reserves will also help the city's bond rating that was lowered last year when the reserves dropped dangerously low. At a pre-budget workshop on October 1, Council further agreed to address other long-overlooked issues with the 2014 budget, including fully funding the amortization program for the replacement of all City vehicles, with the exception of Transit vehicles, (at no net cost increase for 2014) and updating the City's Comprehensive Plan (a cost offset by the closure of Reaney Pool in 2014 to accommodate the construction of a new splash pad). The 2014 budget is one that restores service levels, addresses critical deficiencies, provides for the beginning of recovery within departments to be realized over a period of two or three years as opposed to all at once, restores cash reserves, anticipates the future, and yet does not really grow government. The 2014 budget funds the City's General Fund at a good, reasonable level that the citizens of Pullman have come to expect. The intent for the future is to maintain this level with no significant increases in service levels and to avoid the need to make drastic cuts in the future.

In addition to the wonderful support we received from voters, 2013 has been a record year for construction activity. Through September, the total valuation permitted is \$66 million. The previous record for an entire year was \$64 million in 2005. Some of the notable construction projects include SEL Solution Delivery Center II, the Hilltop Inn expansion, Pimlico Apartments, The Grove Apartments, Marriott Residence Inn, Golden Hills Apartments, River Trail Apartments, the WSU Visitor Center, a six-room addition to Franklin Elementary, and 57 new, single-family homes. Other significant projects that may yet be permitted this year include phase II of Pimlico Apartments, the Hampton Inn, and the Pullman Armory Renovations. Although the City did not permit the project, we did receive significant sales tax revenue from the construction of the Football Operations Center. We remind everyone that sales tax from projects like this is one-time funding, but provides a great boost to the City when such projects do occur. While we hope that 2014 will build on this past year, we also realize it may not live up to the 2013 standard. But we believe it should still be a good construction year with projects such as the new high school on the horizon and ongoing projects as well as rumors of other projects that may materialize.

We have come a long way in one year. The financial outlook for 2014 is ever so much better than we had a year ago for 2013. Service levels and expenses in the General Fund are being established at a right-sized level, revenue enhancements have been secured, and the trend of depleting cash reserves has been reversed. Other City funds, such as Utility, Street, Transit, and Stormwater are also fairly stable at this time, although the Street Fund continues to be on the edge and will likely need attention at a point in the not-too-distant future.

The proposed 2014 operating budget for the General Fund is \$16,718,378, representing a 2.5 percent increase from 2013. The total proposed 2014 General Fund budget, including capital expenditures, is \$17,034,052. The projected General Fund year-end cash balance is projected to be a little over \$4.1 million. The proposed 2014 budget for all funds is \$54,304,334, an 11.5

percent decrease from 2013. The notable reasons for the total budget decrease are reduced expenses for Utility Capital projects in 2014 with the completion of the Secondary Process Improvements project at the Waste Water Treatment Plant and reduced Transit expenses in 2014 with the purchase of only one new bus compared to three new buses purchased in 2013.

Thanks to an improving Pullman economy that two local economists said is leading the entire region, and the wonderful support from our citizens of Pullman, 2014 shapes up to be a good year after several years of struggle. A good balance is being established providing services to the citizens and prudently safeguarding the City's funds into the future. Again, there is no thought to growing government but, as our population and businesses increase; we will continually monitor our ability to deliver quality services to this outstanding community that we call home.