



November 8, 2004

Honorable Mayor and City Council
City of Longview
Longview, Washington

Re: 2005 – 2006 Budget Message

◆ **Introduction**

Presented herein is the City of Longview 2005-2006 biennial budget. This biennial budget represents our most challenging of the five fiscal biennial budgets that the City has prepared over the last decade. Under the direction of City Council, City staff has prepared this budget beginning with the parameters established at the May 2004 budget kick-off workshop. Subsequently, it was necessary to include additional resources and program changes beyond the original budget parameters to meet the present service levels. This budget document reflects the updated information that was provided to Council and the direction staff received at the October 16 preliminary budget workshop.

Adoption of this biennial budget is being proposed with the recognition that it undoubtedly will be necessary to reconsider program priorities prior to the end of this biennium. This is the type of flexibility that a biennial budget provides for the City Council and staff. As transitioning occurs out of the last economic recession, increased retail development is currently underway in the City; however, it is difficult to predict the resources that these developments will produce over the next 24 months to enable forecasting what service levels the City will be able to deliver.

City staff again acknowledges appreciation for City Council direction in this budget. Staff is ready and committed to immediately begin the arduous effort that lies ahead in the upcoming biennium to prioritize services, and anticipates that this 2005-2006 budget document will assist in that endeavor.

◆ **Financial Dynamics**

Revenue Overview

General Fund service delivery continues to be a challenge. In addition to the impacts of the voter-approved initiatives experienced over the last several years, this budget presents the added challenge of a reduction in General Fund property tax revenues the

City received in 2004. In 2004, for the second consecutive year, the total assessed valuation in the City is actually lower than in the previous year, even after adding in the value of new construction. Property tax revenues in 2004 did go up slightly from 2003, but that was a result of the City reaching its statutory levy rate limit of \$3.60 per \$1,000 of assessed valuation. This trend has been even more pronounced in 2005, and can be attributed to the significant reduction in assessed valuation that has resulted from the construction suspension of the Mirant energy facility at the Mint Farm Industrial Park and plant closings or tax appeals by several other industries resulting in reduced assessed values. In 2005, this anomaly caused limiting of City property tax revenues to the 2004 assessed value multiplied by the statutory levy rate of \$3.60 per \$1,000 of assessed valuation. The result is that the maximum property tax collected in 2005, estimated at \$6.8 million, will be approximately \$280,000 lower than what was received in 2004 and is almost \$352,000 lower than what could have been collected under the limitations of Initiative 747. The following table summarizes property tax revenues since 1994.

Property Tax Summary		
Year	Assessed Valuation	Property Tax Revenue
1994	\$1,119,728,594	\$3,970,358
1995	\$1,286,660,052	\$4,281,294
1996	\$1,402,235,857	\$4,661,085
1997	\$1,445,965,907	\$5,068,453
1998	\$1,532,431,734	\$5,460,684
1999	\$1,563,890,386	\$5,630,005
2000	\$1,631,516,520	\$5,873,459
2001	\$1,767,279,340	\$6,128,925
2002	\$1,862,349,063	\$6,353,031
2003	\$1,999,811,208	\$6,996,340
2004	\$1,963,167,938	\$7,067,405
2005	\$1,885,143,803	\$6,786,518
*In 2004, levy rate increased from \$3.50/\$1,000 to \$3.60/\$1,000.		

Sales tax revenue is another strong indicator of the impact of the recession on our ability to provide services. Between 2000-2003, sales tax revenues remained constant at about \$5.4 million annually. Again, the recession and the high unemployment are the major factors contributing to this occurrence. There is some hope for optimism with the recent acquisition and redevelopment of the Triangle Mall, allowing some growth in sales tax revenues, although the City must use caution until the project is completed. In 2004, receipt of a modest 2.9% increase is projected, and a 2% increase in 2005 and a 2.3% increase in 2006 of the biennial budget is included. The following graph illustrates the historical sales tax trend and projections through the end of the 2005-2006 biennium.



Overall, in the general fund, after deducting estimated use of reserves necessary to fund all proposed programs, the 2005-2006 budget allows for an overall increase of 4.3% in total revenues. Total utility fund residential rate increases have been set at 4.99% for 2005, or \$3.26 per month based on the average usage for a single-family residence.

It is important to remind Longview's citizens of the impact that the initiative process in Washington State has had on the City's ability to provide services in the 2005-2006 budget. Because the voters in this state decided that less money should be available for services, to meet the voters' edict, services have and will continue to be reduced and/or eliminated. Because of the recent downturn in the economy, it would have been difficult to avoid the use of reserves to maintain services even without the effect of the initiatives. However, the added impact of the initiatives has also resulted in the City having to abandon past financial practices for funding depreciation and future employee liabilities, as well as limiting the ability to address some serious critical issues such as the recent rise in crime due to methamphetamine use. The following is a summary of the impact of the initiatives to the City of Longview.

Impact of Initiatives on General Fund

<u>Year</u>	<u>MVET Loss</u>	<u>I-747</u>	<u>TOTALS</u>
2000	(\$352,838)	\$0	(\$352,838)
2001	(\$428,344)	\$0	(\$428,344)
2002	(\$461,304)	(\$309,052)	(\$770,356)
2003	(\$753,041)	(\$317,400)	(\$1,070,441)
2004	(\$797,108)	(\$325,747)	(\$1,122,855)
2005	(\$843,753)	(\$334,314)	(\$1,178,067)
TOTALS	(\$3,636,388)	(\$1,286,513)	(\$4,922,901)

Expenditure Overview

General fund expenditures continue to outpace revenues at an alarming rate. In the 2005-2006 biennium, the following expenditure areas represent about 40% of the total general fund increases:

1. Medical-Dental-Life Insurance Premiums
2. Pension-PERS/LEOFF
3. Motor Pool Rent-Fuel
4. Police Department-Records Management
5. LEOFF 1 Health Care

Medical/dental/life, pension, and fuel costs are also major factors in the enterprise funds, resulting in increased utility and user rates for these services. It has also become necessary to discontinue funding building depreciation and to reduce funding of our employee benefit reserve and unemployment compensation funds. These are risky financial practices, which expose the City to future liabilities that could result in significant service impacts if poor experience exposure is incurred in any of these areas.

The 2005-2006 budget does include restoring past Council objectives of funding long-term programs such as depreciation in the utility capital funds. Water depreciation will be funded at 100% of recommended depreciation funding and sewer depreciation at 25% of recommended levels. The firemen's pension fund transfer is budgeted at levels identified in the updated actuarial study performed for the City in 2003. Previous levels of

support for outside agencies have been maintained; however, the allocation for Community House will be funded by document recording fee revenues the City began receiving in 2004. Total outside agency funding in the 2005-2006 biennium totals approximately \$127,000.

As stated previously, the general fund budget includes expenditures that exceed revenues and require the use of approximately \$1.2 million in reserves. The City is operating in a precarious financial situation, continuing to operate at reduced service levels and diverging from financial principles that have been a foundation for the City's sound fiscal position. Council has acknowledged the need to direct focus next year on evaluating services, and to begin a process with the community to prioritize and evaluate services. In January, a citizen's summit will focus on services and resources necessary to support those services. This information will then be used as the foundation for the Council 2005 retreat to establish the direction of future City services and financial policies. City staff is committed to assisting Council and providing all the support necessary to accomplish this effort.

◆ **Economic Development**

In 2003-2004 budget message, optimism and strategic initiatives for providing economic development opportunities in our community were communicated. While there is cause for optimism, because of an enduring recession having significant impact on our region, the City did not realize as much success as expected. However, several important infrastructure projects were completed including the regional sewage treatment plant/collection system that will serve growth in the region for the next decade and beyond. The Port of Longview recently dedicated the new rail corridor, which opens multiple opportunities for development at the Port. A recent upturn in interest in the retail sector of our economic outlook has also evolved. The following is a summary of the state of the local economy in Longview.

Retail Development

Activity in the downtown area is beginning to experience success. An increase in occupancy of retail space has occurred. While the formation of a Business Improvement Area was unsuccessful, there is a renewed collaboration among the businesses as is evident with such events as the introduction of the Farmer's Market in the downtown area between May and October of each year. This past year, the City made a major investment in the Columbia Theatre that provides some much needed safety improvements, and the County supplied rural economic development funds to support the Columbia Theatre in constructing a new marquee that is attractive and signifies the potential renaissance of the theatre. The City also stepped forward in a partnership with the theatre by entering into a new operating agreement that should allow for a sound financial foundation for operating the theatre. In addition, the City is participating in a feasibility study to explore the long-term vitality of the theatre and how it can be a catalyst in the downtown revitalization.

Cowlitz County and the Public Facilities District recently completed construction of the \$10 million conference center at the County Exposition Center. The facility has already enjoyed strong interest in scheduling the conference center for community and regional events. This is an exciting opportunity to attract people to our community through events scheduled at the facility.

In 2003, the Triangle Mall was purchased by P.O'B. Montgomery, and is undergoing a vital transformation that will attract major new retail merchants to



Longview. WinCo Foods will be a major anchor, and other known retail and food establishments include PetCo, Michael's, Ross Dress for Less, Blockbuster, Quizno's, Linens & Things, E.B. Games, Lane Bryant, LA Weight Loss, and Applebee's. Many of the existing businesses will

also remain.

The City is also experiencing newfound interest as a regional shopping center. The community is currently considering a major land use decision that would allow a Lowe's Home Improvement Center to locate in the city. Several other large "box" retail businesses are exploring the market in the region and are looking at potential sites in Longview. All of this retail interest bodes well for our local economy, provides excellent opportunities locally for our citizens to purchase retail goods, and will improve City revenues that will enable the City to provide services.

◆ Industrial Development

In 2004, industrial development began to show signs of making a recovery in our community. Regionally, industrial development in small increments is picking up momentum in the southern Cowlitz County areas of Woodland and Kalama. Steelscape, located at the Port of Kalama, is very sound and has a strong outlook.

Locally, the Port of Longview recently completed the new rail corridor, and is entertaining several industries who are heavily dependent on rail and are very interested in the opportunities that the Port has to offer. Longview Fibre and Weyerhaeuser have been showing strong signs in the marketplace. Weyerhaeuser has made significant capital investments in the Longview facility, and the lumber market is extremely strong. Weyerhaeuser recently announced plans to increase production capacity at their Green Mountain sawmill, which will make it the number 2 producing lumber facility in North America.

It is also necessary to recognize the opportunity that exists at other sites within the city that have great economic potential. Demolition of the closed Ross-Simmons mill has been completed, and the site has gathered some interest for redevelopment.

A 45-acre site located between Oregon Way/California Way/Industrial Way and owned by Weyerhaeuser is nearing completion of some environmental remediation work, and they have retained a local real estate firm to actively market the property. Caffall Brothers, a local company which specializes in



manufacturing of cedar products, is currently underway with a \$4.0 million expansion project that will allow them the ability to process other raw wood into finished products. These represent good examples of other opportunities available in the next biennium with existing and underdeveloped property, and the City should explore what resources and role it might have in assisting with development of these properties.

Flexible Foam, manufacturing carpet and furniture padding and packing foam used for protecting manufactured goods during shipping, announced its purchase of the Prudential Steel property at the Mint Farm Industrial Park. The acquisition has been completed and Flexible Foam is currently underway with making improvements and installing manufacturing equipment. Startup of manufacturing is expected to begin in early 2005, and Flexible Foam hopes to be under full operation with a goal of employing up to 100 people by the end of the year.



In October of 2004, the City Council authorized the refinancing of bonds for developing the infrastructure at the Mint Farm Industrial Park. This will allow the City to extend the terms of its debt service obligations while continuing to attain the objective of retiring the debt through the sale of parcels to new industries and revenue generated from property, sales, and B&O taxes generated from development at the Mint Farm Industrial Park, thereby avoiding the use of any current General Fund revenues for debt service. Because of the very favorable bond market, a nominal present value savings over the life of the refunding bond issue will be realized, even though terms were extended another 10 years.

Weyerhaeuser and the City are continuing to partner in the marketing and development of the Phase I and II properties. The 125-acre Phase I site, in conjunction with the planned 310-acre Phase II area, provides an aggregate industrial site of approximately 335 “developable” acres and an estimated building area yield of 5.9 million square feet. Weyerhaeuser has renewed a marketing agreement with the City through 2006, which provides for WREDCO’s participation in City marketing efforts including the recent billboard erected on Tennant Way and a significant overhaul and updating of our Mint Farm website, which is currently underway and will go online soon after the first of the year. In addition, WREDCO assists in other marketing initiatives including printed marketing brochures, travel to meet prospective clients, and participation in industrial development trade shows. The wetland mitigation area construction continues to be on hold pending a major industrial development that would make the expenditure for the mitigation cost-effective. Resource agencies are aware of the delays and are keeping the permit in active status. Although the slow development that has occurred is disappointing, Weyerhaeuser’s commitment to renew the City’s marketing agreement is a continued source of encouragement as it appears to validate the Mint Farm Industrial Park’s viability as a major industrial site in the region.

Mirant’s Mint Farm Generation project continues to be held in suspension as Mirant looks for a buyer of the project. As stated earlier, this single project has had one of the most detrimental impacts on our property tax base in memory. However, just as it has



negatively impacted the City in the short term, a restart of the construction and the eventual operation of the plant gives cause for optimism and demonstrates the significant asset that the Mint Farm Industrial Park can have on the City's financial condition. Staff will continue to do everything possible to encourage Mirant and its prospective purchasers to restart the project and bring about its completion and operation.

All of this bodes well for our economic development outlook and is cause for great optimism. Nationally, the economy is improving, albeit slowly, and locally, there are encouraging signs of economic opportunities. In the next biennium, it is paramount to continue making economic development a key strategy and not undermining resources dedicated to this effort. Economic development is the foundation of the City's capability to provide high-quality services, and will be the framework for moving forward in the next decade.

◆ Overall Budget

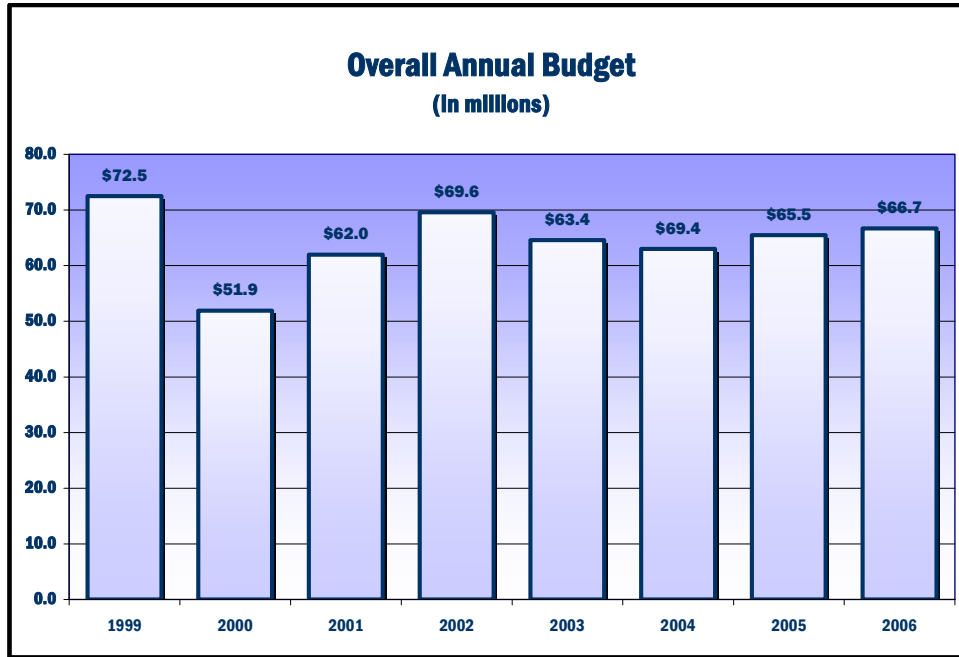
Despite the slow economic recovery, the overall 2005-2006 biennial budget of \$132.2 million reflects a 3.6% increase from the \$127.6 million amended 2003-2004 biennial budget. The year 2005 element total of \$65.5 million represents an increase of 3.9% from 2004. The year 2006 element totals \$66.7 million, an increase of 1.8% or \$1.2 million more than the 2005 element.

The total expenditures for all operating funds for the 2005-2006 biennial budget are \$104,448,390. This is an increase of \$1.8 million or 1.7% over the 2003-2004 biennium. As stated earlier in this message, increases in employer-paid health care premiums, employer pension contributions, and increased fuel costs make up a significant part of these increases. In the general fund, these costs plus the upsurge in fire pension and public safety retirees' medical costs are also major contributors to expenditure increases. Capital expenditures will grow by approximately \$1.0 million or 5.0% from the previous biennium.

The overall budget also includes the addition of the Community Development Block Grant Entitlement Fund, which totals an estimated \$950,000 over the biennium. The City elected to become an entitlement community in 2003, and approved the program plan in June of 2004. Creation of this fund will establish implementation of the CDBG program.

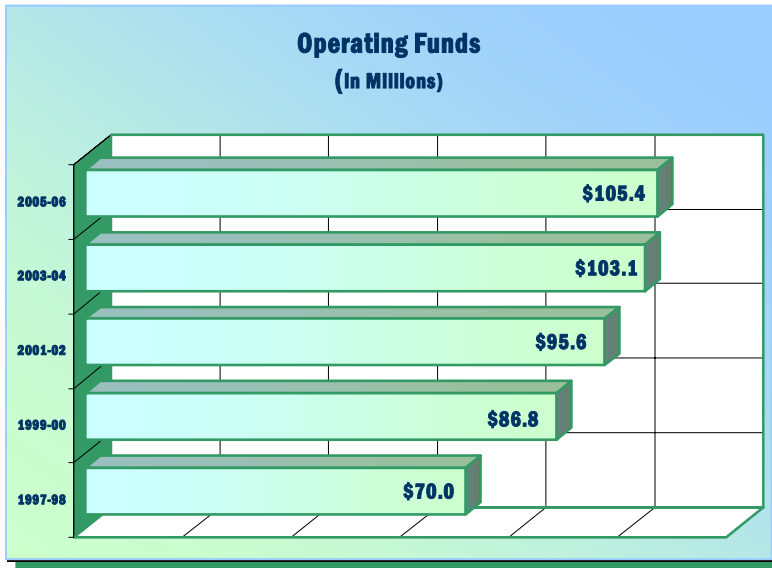
And finally, the overall 2005-2006 biennial budget also reflects the elimination of joint services with the City of Kelso in the Parks, Recreation, Fleet Maintenance, and Solid Waste/Recycling budgets.

In order to better understand the cost of City operations, the City budget must be broken down to several components. In addition to operating funds, the overall budget includes such items as capital project, special revenue, debt service, and enterprise funds. Expenditures from these funds might be misleading in understanding the true cost of operations. As has been done in the past, the following is a detailed examination of the operating funds, which are defined as services that are delivered to Longview citizens.



◆ **Operating Funds**

The operating funds consist of the following functions: Legislative, Judicial, Executive, Finance, Human Resources, Information Technology, Police, Fire, Traffic, Street, Engineering, Community & Economic Development, Library, Recreation, Parks, Non-Departmental, Downtown Parking, HUD, Insurance Reserve, Criminal Justice Assistance, Water Operations, Sewer Operations, Filter Plant Operations, Sanitary/Recycling, Storm Water, Public Transit Operations, Golf, Mint Valley Racquet, Equipment Rental Operations, Facility Maintenance, and Fireman's Pension Funds.



The total 2005 element for all operating departments is \$52.4 million. This is a decrease of 0.05%, or \$26,790 less than the total for these departments in 2004. The City of Kelso's decision to provide its own Parks, Recreation, Fleet Maintenance, and Solid Waste/Recycling administration is reflected in the overall decrease in total

operating expenditures. The total for the year 2006 element is \$53 million, an increase of 1.2%, making the 2005-2006 biennial total for all operating funds \$105.4 million. The 2003-2004 operating fund budget was \$103.1 million. Included in these operating costs are cash transfers of \$381,140 and \$400,210 to the Firemen's Pension Fund for 2005 and 2006, respectively. This transfer has been redirected from the non-department operating budget to the Fire Department budget to more accurately reflect the cost of fire services in the City. Also, per Council direction, no funds will be transferred to building depreciation in 2005-2006 due to the revenue shortfalls we continue to experience. Transfers to the Office Equipment Reserve (OER) Fund of \$410,110 in 2005 and \$468,170 in 2006 are also included. OER transfers provide ongoing support to the City's substantial investment in technology and maintain depreciation funding for our network. In the 2005/2006 biennium, we are scheduled to complete the implementation of our online e-government services such as payment of utility bills, registration for City recreation programs, tracking and payment of engineering/planning fees and building permits/fees.

A couple of program enhancements are included in the 2005-2006 biennial budget. In the Information Technology (IT) Department, we will be redirecting the temporary/seasonal salaries to a regular part-time position that will be responsible for updating and maintaining our City website. Up to now, this was decentralized with individual departments having the responsibility to update their respective areas. This has proven to be unsuccessful and with the implementation of online services, it is critical that the website be up to date so that we are effective in our e-government efforts. This enhancement does not result in any additional staffing or cost to the IT budget.

The other enhancement is in our Solid Waste/Recycling Division of the Public Works Department. In the 2005/2006 biennium, we are promoting a Citywide "Clean-up Day". While we are still working out the specifics, the concept is to provide one day throughout the year whereby the City will distribute drop boxes in each of the City's neighborhoods and allow for free dumping of solid waste. It is hoped that this will provide an opportunity to improve the overall appearance of the community and also allow for some camaraderie among our citizens to work together, have fun, and take part in making the city look clean and attractive!

◆ **General Fund**

Most City services are budgeted in the General Fund, the largest of the City's operating funds. The General Fund supports general governmental services such as legislative, executive, legal, finance, human resources and information technology. Also included in the General Fund are public safety services including fire and police; transportation services including traffic, street maintenance and engineering; community development; and cultural and recreational services which provide library, parks and recreation services.

The chart on the following page lists the City Council's General Fund parameters for the 2005 and 2006 biennium:

General Fund Parameters	
Parameter:	2005-2006 Proposed Budget:
<ul style="list-style-type: none"> • Provide for annual inflationary increases in revenues 	2005 revenues increased by 2.3% 2006 revenues increased by 2.1%
<ul style="list-style-type: none"> • Provide existing level of services and no new programs 	Expenditures down 0.5% in 2005 Expenditures up 3.7% in 2006
<ul style="list-style-type: none"> • Provide COLA rollup for personnel costs 	2.25% COLA budgeted for 2005 2.0% COLA budgeted for 2006
<ul style="list-style-type: none"> • Maintain Firemen's Pension Fund actuarial contribution 	\$381,140 budgeted for 2005 \$400,210 budgeted for 2006
<ul style="list-style-type: none"> • Suspend transfer to Building Replacement 	\$0 budgeted for 2005 \$0 budgeted for 2006
<ul style="list-style-type: none"> • Selective freeze on vacant positions 	\$200,000 for 2005 \$200,000 for 2006
<ul style="list-style-type: none"> • Transfer of 3 officers to Criminal Justice Assistance Fund 	\$304,980 for 2005 \$315,740 for 2006
<ul style="list-style-type: none"> • Continue with reduction in Library hours 	\$123,070 in 2005 \$125,530 in 2006
<ul style="list-style-type: none"> • Continue with reduction in Street Maintenance programs <ul style="list-style-type: none"> -Defer concrete, chip sealing, alley maintenance & curb cuts -Reduce painting, striping & pavement marking schedule/extend street sign replacements 	\$101,370 in 2005 \$103,390 in 2006 \$47,440 in 2005 \$48,390 in 2006
<ul style="list-style-type: none"> • No funding commitment for Catlin Pool • Discontinue Kessler & Northlake School summer programs 	\$31,510 in 2005 \$32,140 in 2006
<ul style="list-style-type: none"> • Continue with extended depreciation life cycle on City's rolling stock 	\$23,770 in 2005 \$24,250 in 2006
<ul style="list-style-type: none"> • Keep a reasonable fund balance 	2005 budgeted ending fund balance—11.4% 2006 budgeted ending fund balance—8.0%

The 2005 element of the 2005-2006 General Fund budget totals \$25.4 million. This is actually a reduction of 0.5% or \$116,590 below the 2004 budget. Major factors in financing the 2005 budget are cost-of-living increases of 2.25%, anticipated increases in medical insurance premiums of 15.7%, an increase in healthcare expenditures for LEOFF 1-Police retirees of 34.3%, an increase of 8.9% for fleet fuel costs, an increase in our records management costs of 28.7%, and an increase of 39.6% in pension contributions for the City's active PERS/LEOFF employees. Although these expenditures are offset with some modest increases in revenue, they are primarily balanced with the use of reserves that have accumulated in the General Fund. Also reflected in the 2005 revenue estimate is the elimination of revenues received from the City of Kelso for the Parks, Recreation, Fleet Maintenance, and Solid Waste/Recycling services the City provided in

2003/2004. The 2006 expenditure element totals \$26.4 million and represents an increase of 3.7% or \$943,700 over and above the 2005 total.

The General Fund also makes funding assistance available for public and community agencies for community social services and an array of government service contracts. In the 2005-2006 budget the City Council is continuing to support and/or contract with the Southwest Washington Clean Air Authority, Kelso/Longview Chamber of Commerce, Cowlitz County Emergency Management, Cowlitz-Wahkiakum Council of Governments, Humane Society of Cowlitz County, KLTV (local access television), Pathways 2020's Cowlitz County Community Report Card, the Ethnic Support Council Multi-Cultural Services program, Longview Teen Council, Columbia Theatre for the Performing Arts, and Lower Columbia Community Council Meals-On-Wheels program. Council has also agreed to continue support of the Community House on Broadway (homeless shelter); however, the funding support for this service will come from document recording fees currently being collected. Document recording fees are specifically dedicated to shelter and housing needs. At the October 16 budget workshop Council approved funding community agency requests at 2003-2004 levels. The 2005-2006 service contract amounts are based on existing agreements. Total agency funding supported by the General Fund in the 2005-2006 biennium is \$803,520.

Summarizing the General Fund, conservative revenue projections have been made based on an historically weak economy, and results in modest revenue increases consisting of 2.3% and 2.4% for 2005 and 2006, respectively. Service levels are essentially unchanged from the previous biennium. We have, however, had to temporarily depart from several of our funding principles to maintain these service levels. Examples include discontinuing the transfer and setting aside of funds for major renovation of the facilities that support general fund services, reducing transfers and funding for employee benefits when employees separate service from the City, and "budgeting" to hold vacant positions open in order to achieve our minimum fund balance, which in reality has the effect of reducing services because tasks that would have been accomplished will be left undone. These ill-advised strategies include putting off preventative maintenance by reducing street overlays, chip sealing, and pavement repairs, and accepting higher public safety and liability risk by reducing traffic control striping and reducing the frequency for replacement of signage. In conclusion, the 2005-2006 General Fund budget has been balanced by requiring the use of \$1.2 million in reserves to offset expenditures required to maintain existing service levels. Staff is extremely supportive of Council's reservations about adopting a budget with these factors, and is committed and ready to work with Council in evaluating and prioritizing general fund services that are in balance with revenues while also practicing sound financial and risk management principles.

◆ **Tourism Fund**

The Tourism Fund is a dedicated fund that receives its revenue from hotel/motel taxes. Funds must be used for activities or facilities that will promote and attract tourism to the City. In 2005/2006, similar revenues are being projected as were received during the previous biennium. Outside agencies for which the Council has indicated support

from the Tourism Fund include: Cowlitz County Historical Society for the Cowlitz County Museum operations, Ethnic Support Council's International Festival, Longview Downtowners' participation in the Cowlitz County "Awesome" brochure, promotion activities for the Lewis & Clark commemoration event, and the Longview/Kelso Chamber of Commerce Longview promotional brochures. Expenditures totaling \$42,500 have been budgeted in the Tourism Fund for the 2005-2006 biennium, a nominal \$100 increase from the 2003-2004 funding level.

◆ **Capital Projects**

Capital projects in the City are funded by the Special Revenue, Capital Projects, Enterprise, and Internal Service Funds. Continued investment into preservation and expansion of our infrastructure is reflected in the City's capital improvement project expenditures in the 2005-2006 budget. The total capital improvement program amount in the 2003-2004 budget was \$20.1 million. In 2005-2006, capital improvement program expenditures total \$21.0 million.

Those projects funded from the City's Capital Project fund have very limited resources. The primary revenue source for this fund is real estate excise tax. In recent history, approximately \$187,000 has been received annually. The City was fortunate in the 2003/2004 biennium to realize a significant increase in these revenues due to low interest rates and a high resale volume of new and existing real estate in the City and the sale of the Triangle Mall property. This activity resulted in a large beginning fund balance that will allow for completing several much-needed capital projects. The following is a summary of the Capital Project Fund projects for 2005 and 2006.



Capital Projects Fund

2005:

Sidewalk Repair Program	\$55,000
Neighborhood Park Grant Program	\$25,000
Street Tree Program	\$10,000
Bicycle Pedestrian Facilities	\$2,500
Columbia Theatre R&M	\$25,000
Columbia Theatre Electrical Upgrade	\$10,000
Parks - Install Benches from Donations	\$10,000
Lake Sacajawea Irrigation Upgrade	\$50,000
Roy Morse Park – Replace Playground Equip.	\$40,000
Mint Valley Golf Course – Replace Irrigation P.S.*	\$110,000
Police-Evidence Room/Briefing Room Carpeting	\$14,000
Lake Sacajawea – Restock Carp	\$8,000
City Hall – Resurface Parking Lots	\$40,000
City Hall Annex – Replace Stairway/Landing	\$16,000
<u>Fire Station 82 – Replace Concrete Apron</u>	<u>\$20,500</u>
TOTAL 2005	\$376,000

*40% CPF/60% MV Golf Revenues

Capital Projects Fund

2006:	
Sidewalk Repair Program	\$55,000
Neighborhood Park Grant Program	\$25,000
Columbia Theatre R&M	\$25,000
Street Tree Program	\$10,000
Bicycle Pedestrian Facilities	\$2,500
Police Station – Expand Women’s Locker Room	\$30,000
Parks - Install Benches from Donations	\$10,000
Parks – Picnic Table/Bleacher Replacements	\$13,000
Library – Replace Elevator*	\$110,000
Women’s Club – Replace Vinyl Flooring	\$10,000
Fire – Sta. 81 Training Room/Office Accommodations	\$48,000
<u>Lake Sacajawea – Rep. Ret. Wall @ Covered Area’s</u>	<u>\$8,000</u>
TOTAL 2006	\$346,500

*Pending 50% Library Foundation Contribution

Presented below is a breakdown of the major capital program expenditures by fund included in the 2005-2006 biennial budget.

Capital Improvements

	<u>2005</u>	<u>2006</u>
Water Projects	\$1,265,000	\$1,035,000
Sewer Projects	\$1,190,000	\$1,877,900
Storm Water Projects	\$899,710	\$245,000
Street & Traffic Projects	\$3,040,000	\$2,909,000
Vehicle Replacements	\$1,044,430	\$860,100
City Capital Fund Projects	\$376,000	\$346,500
Office Equipment	\$921,750	\$1,195,260
L.I.D. Construction	\$350,000	\$350,000
Transit	\$8,000	\$1,885,000
Economic Development	\$1,200,000	\$1,250,000
<u>Park Memorial Trust</u>	<u>\$600,000</u>	<u>\$0</u>
Total Capital Outlay	\$10,894,890	\$10,061,760

◆ **Water, Sewer, Storm Water and Sanitary Funds**

Enterprise funds derive the majority of their revenue from user fees. Enterprise funds include the Water, Sewer, Storm Water, Sanitary/ Recycling, Public Transit and Mint Valley Golf and Tennis/Racquet Fund. This budget provides for the Council’s practice of fully supporting utility enterprise funds through regular, modest rate increases, which allow for adequate funding of the operations as well as timely replacement of the extensive infrastructure. The utility revenues include a depreciation increment to fund 100% of the estimated annual depreciation funding for the water system and 25% of the estimated annual depreciation funding required for the sewer system. Self-funding a portion of our capital needs avoids unnecessary borrowing and interest charges. This pay-as-you-go strategy allows Longview residents to experience utility rates that are among the lowest in Washington cities similar in size and location.

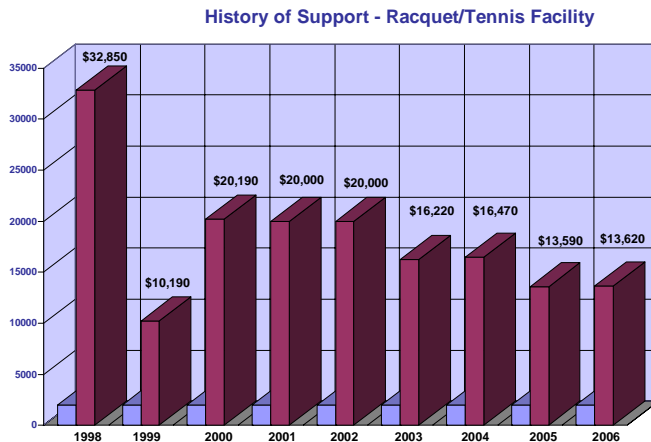
The 2005/2006 budget includes an aggregate utility rate increase of 4.99% for all City utilities. Individually, rates for water will increase by 3.5%, sewer rates by 7.5%, storm water rates will be increased by 11%, and solid waste/recycling will be increased 1%. Although unpopular, rate increases continue to sustain the sound financial practices long held by the City. These revenue increases will permit the City to continue to provide the excellent utility service levels customers expect, and will allow the continuation of our capital program for system expansion, replacement, and modernization.

◆ **Golf & Racquet Funds**

The Mint Valley golf and tennis/racquet operation continue to improve and be stable. The 2005/2006 budget proposes that the golf fund continue to be supported totally from user fees. While the racquet and tennis complex will again require a subsidy for facility maintenance costs, we keep seeing a downward trend for the subsidy. Play at the golf course was down in 2003, likely due to a combination of the

poor economy and bad weather, but improvement was seen in 2004. Golf fee increases will be considered during the biennium, depending on level of play and operating costs.

Included in the expenditures for golf are costs for maintenance and operation of the golf course and debt service for the cart path paving project completed in 2001. In 2005, another capital project is being proposed to replace the irrigation pump station. Funding for this project will include 40% from the City Capital Project Fund and 60% from golf



revenues. It is anticipated that the City will be required to borrow the initial funding for this project, and that debt service will be provided from golf fees.

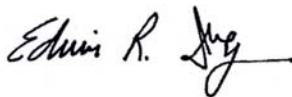
The operator that has managed the Mint Valley Tennis/Racquet Complex since 1998 continues to operate in a reasonably stable financial manner. Revenues generated through user fees charged by the operator support the operational costs of the facility for utilities, programming, and staffing. City financial support is obligated for building maintenance. The 2005/2006 budget includes a reduction in General Fund contributions for this facility from the 2004 budgeted contribution of \$16,470 to \$13,590 in 2005 and \$13,620 in 2006, a net decrease of 16.8% below the 2003-2004 biennium. Again, this continues to be a positive trend for the stability of the racquet and tennis facility.

◆ **Closing**

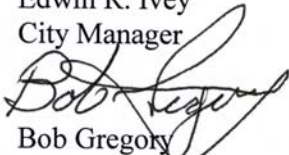
The City is beginning to climb out of the difficult economic cycle experienced in 2002 and 2003. There is good basis for optimism that the City's revenue outlook will improve. However, it is unlikely the City will grow out of the deficit whereby expenditures exceed revenues at the current level of services being provided. Further, staff appreciates Council's recognition that our sound financial practices for depreciation are necessary, and that employee benefit liability, preventative maintenance, and the like need to be accounted for in the cost of basic service delivery.

Reserves are at fragile levels and all of the "easy" alternatives have simply been exhausted. Tough decisions lie ahead. Council and City staff stand ready to collaborate with Longview's citizens to identify and develop a framework for delivery of core services to our community.

Sincerely,



Edwin R. Ivey
City Manager



Bob Gregory
Assistant City Manager



Kurt Sacha
Finance Director