



November 18, 2010

Honorable Mayor Anagnostou, city council members, and citizens of Longview:

Two years ago, within weeks of the council adopting the 2009-2010 budget, it became clear that that budget wouldn't last without significant changes. The onset of the Great Recession nationally was being reflected in steep declines in our sales and use tax revenue locally, and planned expenditures would have to be reduced correspondingly in order for us to reach the end of that biennium with any cash in the bank in the general fund.

2010 Cost-cutting Measures	
Measure:	Savings
Salary freeze, furloughs, freeze vacant positions, early retirements, suspend new merit step increases, reduction in employer paid pension contributions	\$1,284,570
Suspend vehicle depreciation	\$512,300
Reduction in supplies, services, travel, fuel savings, energy conservation & maintenance deferral	\$488,440
Total:	\$2,285,310

This has been said many times, but it bears repeating that the fact that we've been able to do so is due to a great extent to the support and cooperation of most of our employee groups. Unpaid furloughs and wage freezes, several of which were negotiated in the middle of existing contracts, helped us achieve significant spending reductions. Managers and supervisors also cut back on materials, supplies, and service contract expenditures; fuel prices moderated; several vacant positions were not filled; and the council supported our recommendation to suspend contributions to vehicle and equipment replacement reserves (i.e., accounting for depreciation).

Now, a snapshot of our financial position at the end of 2010 shows a relatively healthy picture, but one that masks continuing challenges for 2011-2012 and beyond.

2010 General Fund Overview		
	2010	2010 without cost-cutting measures
Beg Fund Balance	\$4,425,315	\$4,425,315
Revenues	<u>29,968,705</u>	<u>29,968,705</u>
Total Revenue	29,968,705	29,968,705
Expenditures	29,921,381	29,921,381
Concession Savings	0	<u>2,285,310</u>
Total Expenditures	29,921,381	32,206,691
Beg Cash Required	<u>47,324</u>	<u>(2,237,986)</u>
End Fund Balance	\$4,472,639	\$2,187,329
End Fund Balance %	14.9%	6.8%

The fact is that we are working through a situation of structural budgetary imbalance: the weak economic recovery and modest general fund revenue growth are being far outpaced by cost increases in major expenditure categories like employee health insurance and retirement plan contributions.

History of General Fund Medical/Dental/Long-Term Disability Premiums

General Fund:	2007	2008	2009	2010	2011	2012
Medical	\$2,778,663	\$2,942,720	\$3,145,980	\$3,464,060	\$3,510,320	\$3,734,770
Average % Rate Increase	10.1%-10.2%	6.5% - 6.6%	5.5% - 5.6%	10.1% - 10.2%	8.1% - 8.2%	

History of General Fund Pension Costs (PERS 2)

General Fund:	2007	2008	2009	2010	2011	2012
Pension Totals	\$740,160	\$866,000	\$853,410	\$1,005,520	\$904,980	\$1,111,490
Employer PERS Plan2 % contrib.	6.13%	8.31%	5.29%	5.31%	8.61%	9.3%

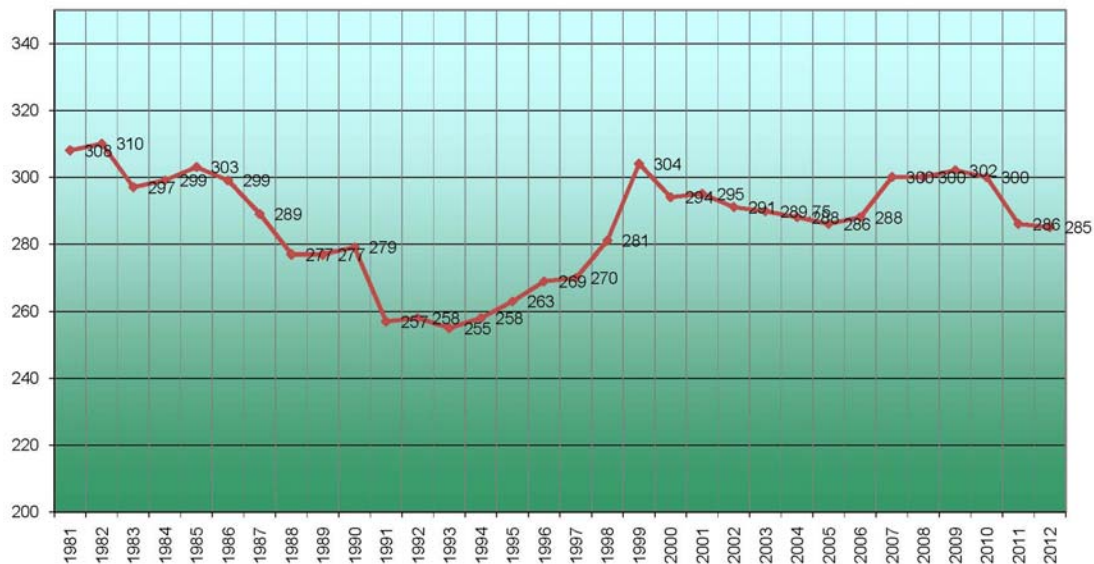
That's the case not just for Longview, of course, and certainly not just in Washington State, either, but we will address it in part in Longview with continuing wage freezes and spending cuts that we believe will get us through the coming two years without the frequent re-budgeting of the past two years. However, spending *policy* changes will be necessary if we are to achieve anything close to a budget and service levels that are sustainable beyond that. (You might hear us refer to "sustainability" at other times during the budget presentation and adoption process; on the other hand, please stop us if you sense we are about to utter the phrase, "new normal.")

Budget messages as a matter of course usually focus on the changes in spending plans from one year or one biennium to the next, and in that respect most of the changes identified herein are negative in character – things that we will not be able to do as well, or maybe not even be able to do at all, at least in the general fund supported operations. But keep in mind that the City will still be an organization of 300 employees, dedicated to doing the best they can every day with the resources available, while they go about providing public safety, emergency medical, transportation, development, recreation, library, clean water, and other services, as well as the associated administration and support activities.

Overview

With that as an introduction, the 2011-2012 budget presented herewith is balanced in all funds and totals \$243,704,480. The \$31 million increase over 2009-2010 is almost entirely attributable to capital spending, in particular the “mega-projects” of developing a new water source of supply and constructing a new water treatment plant; and closing the West Longview sewer lagoons and diverting the associated wastewater flow to the regional wastewater treatment plant. Otherwise, operating spending and services continue to show a distinct downward trend as can be seen from the graph below whereby the overall staffing level in 2012 is 302.6 FTEs, down from the 321.6 FTEs as recently as 2008.

History of Full-Time Positions



**2007 - 2012
COUNCIL INITIATIVES**

OUR MISSION: It is the mission of Longview City Council to mindfully develop and implement sustainable environmental, economic, and social strategies that protect and improve the quality of life in Longview. This mission challenges us to deliver services within the community's resources and at an acceptable level of risk.

OUR VISION: It is the vision of Longview to require forward-thinking leadership that creates an environment for excellence within the organization and promotes inclusiveness within the community.

- Continue effective financial management
- Enhance public safety and emergency response
- Strengthen economic conditions & create new opportunities
- Preserve neighborhoods
- Improve transportation systems
- Address quality of life issues
- Provide sustainable water quality & environmental infrastructure

The council's strategic initiatives continue to represent the principal policy for our spending priorities, and we have continued to take guidance from the four stages of budget prioritization.

FOUR STAGES OF BUDGET PRIORITIZATION

Stage 1
 Revenues are greater than expenditures, and ending fund balance is projected to be greater than 12%.
(In this scenario, surplus revenues are distributed to appropriate reserve funds and new programs may be considered that are in line with the Council's strategic initiatives).

Stage 2
 Expenditures exceed revenues and ending fund balance is projected to be greater than 12%.
(This scenario is a basic status quo budget where all core services and non-mandated programs are maintained through existing revenues and the use of reserves).

Stage 3
 Expenditures exceed revenues and projected ending fund balance is greater than 8% but less than 12%.
(The adopted budget provides for all core services with reductions in non-mandated programs as approved by Council. At this stage Council considers revenue enhancement proposals such as bond levies, tax increases and new revenues).

Stage 4
 Expenditures exceed revenues and projected ending fund balance is less than 8%.
(Further reductions in non-mandated programs are necessary. Possible core service reductions may be called for. Council will consider revenue enhancement proposals such as bond levies, tax increases and new revenues).

Through all the recommended actions to bring planned spending in line with anticipated revenues, we have also continued to try to ensure that the necessary operating services and capital needs are provided so that we are well positioned for economic recovery and to take advantage of growth opportunities. We want the City to be doing everything it can to contribute to Longview’s quality of place – to support and attract investment that creates new job opportunities and greater household income in our community.

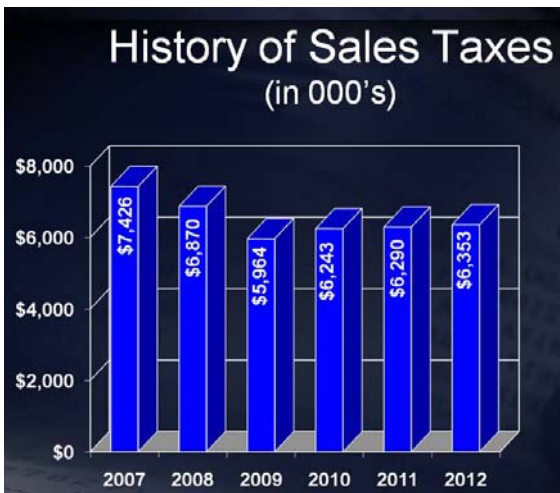
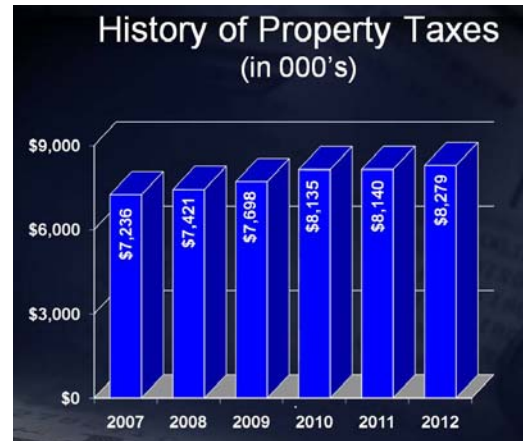
General Fund



The recommended budget for 2011-2012 of \$62,775,590 is down by \$819,010 or 1.3% compared to the originally adopted 2009-2010 budget.

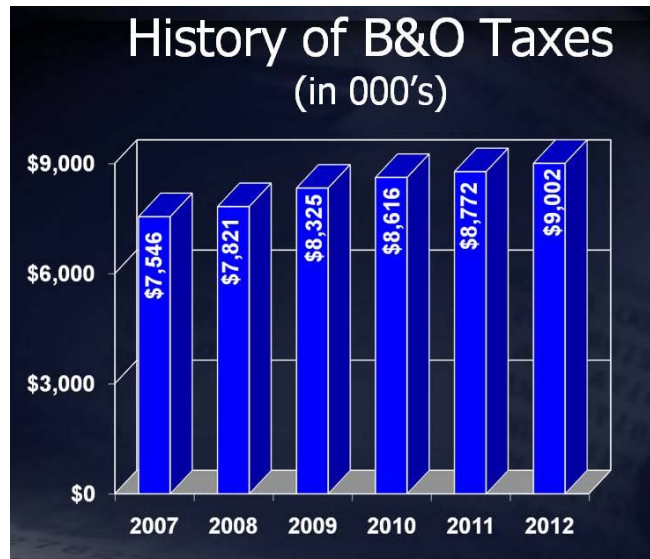
The neatly balanced “three-legged stool” of general fund revenues from a few years ago was undermined in 2009-2010, and it’s still off kilter in our projections for 2011-2012.

Property tax revenue growth has been slow. The tax levy conforms to the 1% annual growth limits embedded in Referendum 47 passed by the state’s voters several years ago, and it reflects a decline in new construction during the past two years.



The tax rate will actually go up again in 2011, from \$2.72 per \$1,000 of assessed value in 2009 to \$2.89 in 2010 and a projected \$3.03 in 2011, a direct result of a two-year decline in assessed values.

The relatively flat property tax portion of general fund revenues is a two-edged sword. At least it's still there, and stability is a good thing from the perspective of the decline in sales tax revenue. But it hasn't nearly kept pace with business and occupation tax revenue, which is now a more significant source of support for the general fund as it has grown with both the increase in City utility rates as well as the tax rate applied to the City's own utilities. The recommended budget assumes



and relies on the continued 9.5% tax rate on our utilities, a rate that the council increased from 7% two years ago. This has a \$500,000 annual impact to the general fund.



One other telling story in general fund revenues is in building permits. Although much smaller in impact compared to the three sources mentioned above, its steep decline since 2005, with a very modest growth outlook going forward, also reflects the local economic picture.

Even with the continued 9.5% utility tax rate and continued wage freezes for our two largest employee groups, there are significant spending cuts required to balance the general fund in 2011-2012 and achieve ending fund balances of 14.6% and 11.3% respectively.

BUDGET REDUCTION IMPACTS

GENERAL GOVERNMENT	
<i>Administrative Services</i>	
Reduction in administrative services will result in slower customer response times with poorer customer service.	(\$70,000)
Eliminate Mail Courier – Utility Pay Stations. Results in departmental personnel having to retrieve and deliver all incoming and outgoing mail. Discontinuing utility pay stations will result in increased remittance processing, a higher volume of web activity and longer lines at the cashier’s station. This budget reduction measure may result in temporary office closures and reduced service hours.	(\$42,600)
Technological improvements create efficiencies in GIS.	(\$85,500)
Reduced ability to participate in intergovernmental responsibilities, support citizen committees/ commissions, and respond to special project requests.	
Reduced departmental oversight.	
Reduction in software maintenance services.	(\$10,500)
COMMUNITY DEVELOPMENT	
<i>Planning Services</i>	
Planning services reduction will result in delays in activities involving new residential developments, annexations and zoning (reflects current demand).	(\$70,000)
Reduced participation in City committees/commissions.	
Code enforcement service reduction will result in fewer responses and resolutions to nuisance abatement complaints.	(\$90,000)
PUBLIC WORKS	
<i>Engineering</i>	
Continued vacancy for Traffic Engineer will reduce the Public Works Department’s ability to respond to traffic requests, synchronization and updates, review and analysis of traffic accidents, applications for traffic safety grants, citizen complaints, and traffic counts/engineering studies.	(\$99,300)
<i>Street Maintenance</i>	
Eliminate vacant Street Maintenance Utility position. Results in reduced street and alley maintenance activities such as concrete street/sidewalk replacement, chip sealing, patching potholes, blading of alleys, curb cuts, and snow and ice control.	(\$53,800)
Reduction in roadway and alley maintenance.	(\$80,000)
<i>Vehicle Fuel Savings</i>	
Fewer vehicles and a reduced fuel price assumption results in lower fuel expenditures.	(\$25,000)
LIBRARY	
<i>Circulation & Technical Services</i>	
Reduction in library circulation and technical services will result in citizens having to wait longer for materials to be checked back in and returned to the shelves.	
Citizens will face longer lines at the checkout desk.	
Reduction of materials (i.e. books, audiobooks, magazines, newspapers, DVDs and CDs)	
Citizens will have less access to new materials in all formats.	
More citizen requests for titles will be denied.	
Fewer copies of popular items will be purchased, leading to longer wait times for reserved items.	(\$100,000)

POLICE	
<i>Crime Analysis</i>	
No impact on service. This budget item reflects the transfer of the Crime Analyst Information Specialist from the Criminal Justice Assistance Fund to the General Fund Police Dept.	\$91,000
<i>Criminal Justice Assistance Fund</i>	
Delays the Police Department's ability to investigate and respond to incidents related to the reporting of property crimes, responding to abandoned vehicles resulting in these responsibilities being shifted to Patrol.	(\$71,950)
FIRE	
Eliminate vacant Fire Battalion Chief's position. Duties and responsibilities for this position will be covered by three remaining Battalion Chiefs and one Fire Captain. Results in increased overtime for existing fire mid-management personnel. Citizens will see a reduction in emergency planning and department administration support for the Chief and external customers.	(\$80,000)
<i>Criminal Justice Assistance Fund</i>	
Delays the Police Department's ability to investigate and respond to incidents related to the reporting of property crimes, responding to abandoned vehicles resulting in these responsibilities being shifted to Patrol.	(\$71,950)
PARKS AND RECREATION	
<i>Park Administration</i>	
Reduction in Parks and Recreation administrative services – current Parks & Rec Director position will not be replaced and Asst. City Manager will be assigned Director responsibilities, reduction in direction and oversight of Parks maintenance, delayed responses to Parks and urban forest maintenance complaints and calls for service; reduced recreation customer service in reception and program registration (encourages more on-line customer service).	(\$182,500)
<i>Park Maintenance</i>	
Reduction in Parks maintenance resulting in less frequent mowing, irrigation/restroom/landscape maintenance and weed control.	(\$56,600)
Reduction in the Urban Forestry program results in a significant reduction in tree maintenance program. Reduced activities include fewer tree replacements, less tree monitoring and inspections, less pruning, delays in grinding stumps and a reduction in pest management applications.	(\$72,500)
<i>Reduction in parks maintenance supplies.</i>	(\$25,000)
<i>Recreation</i>	
Eliminate on-site staff support at Senior Center.	(\$72,000)
NON-DEPARTMENTAL	
Reduction in facility maintenance services will result in delayed repairs on buildings and mechanical equipment, less frequent replacements of lighting fixtures, and a decline in overall preventive maintenance.	(\$83,500)

Cuts have been made throughout the organization and at all levels of personnel, and it will be impossible to “hide” the impacts. There will be slower customer response times; less ability for staff to participate in intergovernmental initiatives and support citizen committees; reduced ability to respond to new residential development proposals; less attention to nuisance code enforcement and ability to abate complaints; less street and alley maintenance; fewer new library materials and longer waiting times for those that are available; reduced ability to respond to and investigate property crimes and abandoned vehicle complaints; reduced parks, tree, and building facilities maintenance, and no on-site staff support at the senior center.

These cuts are regrettable to say the least, and painful to many. While some of the positions involved are already vacant (or will be due to retirements at the end of the year), and we will endeavor to help qualified employees transfer to other openings within the organization, there will also be some layoffs of talented staff.

We plan to continue contributing to the employee benefits reserve and office equipment reserve at lower levels than in the past. With changes in when and how computer hardware and software are replaced and personnel vacancies are filled, those reductions are manageable.

The continued lack of funding for building depreciation is not financially wise and it puts more pressure on other capital funds to cover building repair and remodeling needs, but that, too, is manageable short of a building disaster (which is why we carry insurance).

But one reserve contribution cut that is not sustainable is vehicle depreciation. We propose to reinstate that at a cost of a little over \$500,000 per year in order to prevent incurring greater maintenance and repair costs; the service life of the average vehicle has already been extended by two years as a result of that contribution being suspended during 2009-2010.

Enterprise Operations

The water, sewer, solid waste/recycling, public transit, and Mint Valley golf and racquet complex funds derive most of their revenues from user fees.

Major capital projects have been completed recently, are underway, or are looming in the near future in both our water and sewer systems and at the regional wastewater treatment plant. Those projects are increasing the pressure to raise user fee rates and collect sufficient revenue to pay for the City’s share of them.

For the water system, the council has approved a plan to abandon the Cowlitz River surface intake source and construct a new treatment plant in the Mint Farm Industrial Park, drawing on a deep aquifer for our supply needs. The existing treatment plant is old (dating to the 1940s) and nearing design capacity limits. Its capacity is additionally threatened by sedimentation in the river as more debris from Mt. St. Helens washes downstream.

Design of the new plant will be completed soon and the project will go out to bid early next year, with construction to be completed and operation to begin in the latter half of 2012. In all, the project costs will exceed \$30 million, with a portion to be paid by the plant's minority owners and water purveyors, the Cowlitz County Public Utility District and Beacon Hill Water/Sewer District. Two small (in relation to the overall costs) federal grants have been secured for the project, but the balance will have to be borne by City ratepayers. We have also been awarded \$24 million in low-interest loans, but revenue bonds will have to be issued for the rest of the financing. Fortunately municipal bonds are selling at historically low rates these days. User rate increases are being phased in over several years to meet the eventual debt service requirements.

Construction is currently underway for a project to close the West Longview sewer lagoons and divert the flow now going to that facility to the Three Rivers Regional Wastewater Treatment Plant. The lagoons have reached their capacity, and a state permit to expand and continue operating them cannot be obtained. The new collection lines and pump stations necessary for this project will exceed \$20 million. A state grant of almost \$4 million and low-interest loans of almost \$14 million have been obtained, leaving a few million dollars to be covered by City revenue bonds. The diversion portion of the project should be complete by early 2012, and biosolids removal at the lagoons will begin shortly afterwards. Again, user rate increases are being phased in.

At the regional wastewater plant, where Longview's flow is already over half of the total, meaning our ratepayers ultimately pay over half of the costs, replacement of one of the secondary clarifiers was completed during the past two years. Following completion of the diversion project, Longview's flow will be about two-thirds of the total. The budget provides for a systems development charge of nearly \$6 million for the regional plant to take that flow.

While the diversion project construction is underway, the City is also implementing a video inspection program for our sewer lines, with the goal of finding and fixing defects in order to reduce infiltration and inflow and/or leaks. The beginning of a pump station rehabilitation project during the upcoming biennium also represents an effort to make our system more reliable and efficient.

The stormwater utility is continuing with implementation of Phase II requirements related to our new NPDES permit. A comprehensive stormwater management program must be developed, and an outfall inspection program is underway in the interim, aimed at finding and eliminating illicit discharges. Best management practices for preventing pollution are being implemented for all City facilities. The utility continues to maintain the wetlands mitigation site at the Mint Farm, and testing is being done to try to remove the Longview Ditches from the state's list of impaired water bodies as far as bacteria counts are concerned. An engineering study is underway to determine the best means of providing water to Lake Sacajawea during the summer after the water treatment plant intake on the Cowlitz River is abandoned.

The solid waste/recycling utility has paid for half the costs of a more comprehensive and aggressive code compliance (nuisance abatement) program during 2009-2010, and the results are impressive. Slightly over 1,000 cases were received last year and the pace is at nearly that level again this year, with resolution reached about 75% of the time. The most common complaints concern junk/garbage/open storage of materials, inoperable/junk vehicles, vehicles on unapproved parking surfaces, and tall grass/weeds/overgrown vegetation.

A recycling “carts for tubs” program was implemented citywide for single-family households during the past year. Combined with removing many multi-family complexes from the curbside recycling program and instituting a new inspection and enforcement system, the amount of contamination found in recyclable materials has fallen dramatically, from 52% two years ago to 24% this year. Reducing the contamination percentage reduces the City’s cost to provide the service and may eventually enable us to reach a point where it is net positive financially.

After the voters approved an increase two years ago in the local sales tax dedicated to CUBS, our public transit service, an extensive public outreach program was initiated to determine how to add bus routes and increase hours of service most favorably. The system expansion plans will be announced soon.

The other enterprise funds continue to stand on their own financially, although there has been a reduction in full-time maintenance staffing at the Mint Valley Golf Course this year in order to maintain that situation. The poor economy and poor weather for much of 2010 have combined to cause a drop in the number of rounds played. Neither the golf course nor the racquet complex generates nearly enough revenue to pay for desirable capital repairs and improvements.

Capital Spending

Besides the new water treatment plant and wastewater lagoon diversion “mega-projects” described above, capital improvements are also accounted for in several other funds.

The capital projects fund is the budgetary home for a variety of types of projects. The real estate excise tax revenue that supports the fund has shrunk as the local economy has slowed, real estate values plateaued and then fell, and the number of property sales has declined. The recommended budget includes the following projects for 2011-2012.

2011 – 2012 CAPITAL PROJECTS

Capital Projects Fund projected uncommitted cash balance 12-31-10	\$180,000
Plus: value of canceled, completed, and reduced-in-scope projects	\$126,000
Plus: projected street tree wood sales reserve by 12-31-10	\$30,000
Plus: Paths & trails reserve	\$59,000
New REET revenue in 2011	\$170,000
Cowlitz Rural County Public Facilities Grant (streetscape)	\$150,000
Interfund loan to match County grant	\$50,000
Total available for 2011	\$765,000

Recommended 2011 projects

Annual neighborhood park grant program (city share)	\$25,000
Annual city-property owner-shared sidewalk repair program	\$10,000
Annual city responsibility sidewalk replacement program	\$40,000
Street trees (using street tree wood sales reserve)	\$30,000
Fire station plan	\$30,000
Street repairs (15 th Avenue resurfacing?)	\$160,000
Highlands path (match for transportation enhancement grant) (using paths & trails reserve)	\$35,000
City Hall generator upgrade (engineering only)	\$20,000
RA Long Park design	\$100,000
Lake sidewalk replacement	\$32,000
Columbia Theatre district streetscape improvements	\$200,000

Uncommitted cash balance 12-31-11	\$59,000
Plus: Paths & trails reserve	\$24,000
New REET revenue in 2012	\$170,000
Total available for 2012	\$253,000

Recommended 2012 projects

Annual neighborhood park grant program (city share)	\$25,000
Annual city-property owner shared sidewalk repair program	\$10,000
Annual city responsibility sidewalk replacement program	\$75,000
Street trees	\$30,000
LPD exercise room makeover	\$55,000
Columbia Theatre streetscape match loan repayment (not necessary if federal earmark for downtown streetscape received)	\$10,500
Uncommitted cash balance 12-31-12	\$23,500
Plus Paths & trails reserve	\$24,000

A few projects stand out:

Street repair money has been cut from the general fund because of its limited resources, but the fact that it is provided for elsewhere in the budget is a testament to how important that work still is. The highest priority arterial street for that work is 15th Avenue between Maple Street and Tennant Way.

A master plan for R. A. Long Park based on its original design was completed and adopted this year with significant public participation. The next step is to design the recommended improvements and features so that they are construction-ready; even if it appears that the City itself will have limited financial ability to pay for them in the near future, we want to have them ready to proceed in order that donations from service clubs, businesses, or outside grants might allow them to do so. Combined with pending civic center traffic and pedestrian safety improvements around the park, we believe the historic heart of Longview will eventually once again be used often for performances and other public gatherings.

One grant has already been obtained, from Cowlitz County, and we are hopeful that a federal earmark will also be approved soon, for streetscape improvements in downtown Longview. The county grant is focused specifically on the area around the Columbia Theatre. Streetscape improvements can help breathe new life into the historic commercial center of Longview, improving the environment for residents as well as people drawn downtown for entertainment, shopping, and other business.

The arterial street fund, financed largely by state-shared gas tax revenues and other state and federal grant programs, continues to show a strong orientation toward projects that are intended to improve traffic safety and traffic flow. Intersections and other locations where those sorts of improvements are scheduled for 2011-2012 include:

15th Avenue/Tennant Way/Oregon Way/California Way
14th Avenue/Tennant Way
7th Avenue/California Way
15th Avenue/Olympia Way/Hudson Street
14th Avenue/Broadway
30th Avenue/Pacific Way
The Civic Center Circle

The arterial street fund also includes funding for a streetscape improvement plan for Tennant Way west of 7th Avenue in keeping with the city entrance beautification priorities established for the community assessment action team.

Economic Development

The economic cycle of the past two years has resulted in no new private property development at the Mint Farm Industrial Park. The timing has simply been wrong for that. However, keeping our eyes on the long-term horizon, the past two years have been an enormously productive and successful time to complete the roads and utilities that make the Mint Farm so attractive as a ready-to-build site when the time is right for those developers. Amazingly, that infrastructure, thanks to federal, state, and county grants, Weyerhaeuser Real Estate Development Co., and property owner participation has been built at no direct cost to the City or its taxpayers; a federal economic stimulus grant received last year paid for the final anticipated pieces of those physical improvements.

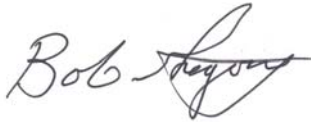
Now, with the sale of Weyerhaeuser's Columbia & Cowlitz Railway Co. that runs through the Mint Farm to Patriot Rail, we effectively have another partner who is motivated to want to help bring business to the site. It remains viable and in many ways is even more attractive for investment today than two years ago at this time. The recent acquisition of riverfront property west of the Mint Farm by the Port of Longview also promises to bring more attention, and ultimately success, to the job-creating venture that the Mint Farm represents.

Closing

Budget preparation is never easy. The details are always time-consuming, and the decisions are often frustrating at the very least – in this case, often painful. So we greatly appreciate the commitment of everyone involved who is dedicated to providing accurate, thorough, and timely information, the ultimate result of which enables us to provide the very best of city services to the residents and business community of Longview within the resources that are entrusted to us.

A budget is a plan, the direction and authority to use financial resources, in this case for the next two years. Inevitably there will be some revisions necessary during that time frame, probably starting with the impacts of state ballot initiatives and other decisions about the state's own budget by the Legislature during the first half of 2011. By degree we are certainly hopeful now that those revisions are nothing like the experience of the past two years. In any case we pledge to use our resources wisely in taking budgetary direction from the council, and we also pledge to bring you more information and professional recommendations if and when we can improve upon this plan during the next two years.

Respectfully submitted,



Bob Gregory
City Manager



Dave Campbell
Assistant City Manager



Kurt Sacha
Finance Director