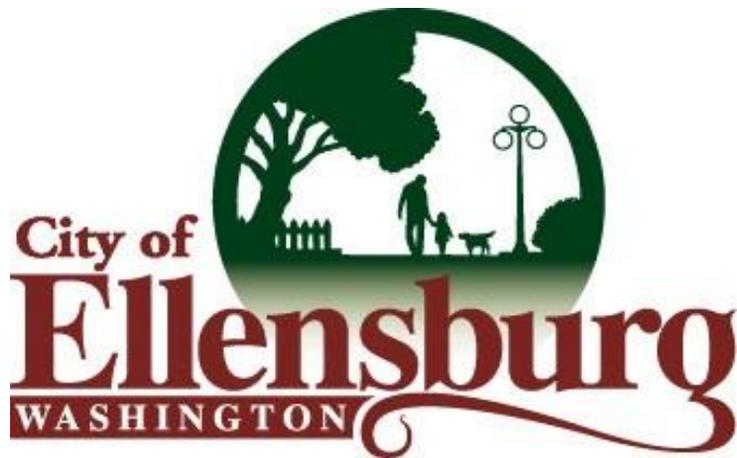


*City of Ellensburg
Washington, USA*



2012 Annual Budget

*Ted Barkley
City Manager*

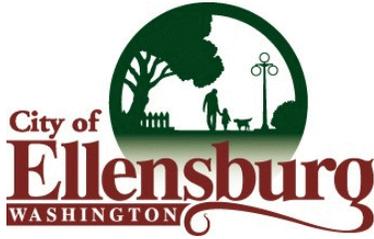
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Finance Director*

City of Ellensburg, Washington

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December 27, 2011

The Honorable Mayor,
City Council, and
Citizens of Ellensburg, Washington

We are pleased to present to you the 2012 Budget. This document represents our continued commitment to provide effective fiscal management, professional service delivery, and maintain a high quality of life for our citizens. This budget reflects our financial plan to move us forward toward achieving these goals within the confines of resources available to the City. This document shows the City's allocation of resources to a variety of programs necessary to protect the community, enhance our quality of life, increase economic development efforts, and maintain the City's infrastructure.

This Year's Budget Challenges

The following observations are directly from the Washington State Economic and Revenue Council Forecast dated September 20, 2011, and significantly impact our local thinking for 2012 and beyond:

- We are in the fragile aftermath of the Great Recession where a return to normalcy seems like a mirage in the desert – the closer we get to it, the further it moves away. Fear and uncertainty have overwhelmed consumer and business behavior. The risk of a recession has increased significantly.
- Revisions to U.S. real Gross Domestic Product show a much deeper recession than previously estimated, and a U.S. economy close to stall speed in the first half of this year.
- Our previous forecast prior to these data revisions had expected growth regaining momentum in the second half of 2011 as oil prices stabilized, and supply chains were restored with Japan rebuilding. Now that it turns out that there was no growth momentum in the first half of the year, a second half return to momentum seems unlikely.
- The likelihood of a full-blown European debt crisis, and the consequent ripples across the global economy have increased.
- Washington's economy is not immune to national and global economic developments. Like the nation, the outlook for the Washington economy has weakened since June.
- The employment recovery in Washington in this recession has been the weakest of any post-war recovery. Labor market conditions since the June forecast have been worse than anticipated.
- The recovery in state housing and construction will be later than previously expected. New construction faces headwinds from rising foreclosures and falling home prices.

- Washington is still expected to outperform the nation in employment and personal income growth, although the outlook for both has been lowered substantially.
- General Fund-State revenue for the 2011-13 biennium is now forecasted to be \$1.4 billion less than forecasted in June.
- The preliminary General Fund-State total for the 2009-11 biennium came in \$24.9 million below the June forecast.
- The downside risks to the outlook have risen and exceed the upside risks by a wide margin.

It appears that the Ellensburg economy is no longer shrinking, but neither is it growing appreciably. The local economy did grow slowly over the past year, with a modest increase in sales tax revenue over 2010. For the most part, economic activity and city revenues peaked in 2007 and 2008, and have not made any appreciable gains back to those levels. As a result, we are forecasting stabilization in revenue at a new lower level. It is not expected that many of our general fund revenue sources will return to 2008 levels for some time, possibly years. Put another way, the recession may be over, but it will be a long time before revenues return to pre-recession levels.

The City Council, management and staff have been largely proactive in responding to the recession. Spending was controlled early, capital projects rescheduled, cash and fund balances were preserved by borrowing to finance capital and numerous adjustments made to increase efficiency in key areas. Despite a decline in revenues during what has been described as the worst recession since the 1930's, we finished 2010 in fair shape, and have accumulated some reserve funds that we are using to support the 2012 budget. The cautionary note here is that, combined with lower revenue forecasts, the availability of reserve funds will not extend appreciably beyond 2012.

Even more than past years we must be cautious as we move ahead. Some of the curtailed spending can be absorbed through increased efficiency with little or no effect on service levels, but over the long term, the focus needs to be on sustainability. Because we do not see the economy recovering quickly, and because there is considerable lag time between the reporting of statistics and the real time effect of changes in revenue, we cannot simply declare the recession over, and resume business as usual.

We are certainly in a trying time, and economies are struggling everywhere. Ellensburg this past year has certainly experienced economic fallout. As a result of the City's organizational and fiscal structure, some of the good decisions made by the Council, and the management in past years, we are not as vulnerable as many cities of our size during this turmoil. The following are some of the challenges:

- **Slow growth in Sales Tax Revenue.** For the past six months, we have seen moderate growth in our sales tax revenue over 2010 (2010 was the lowest in the last five years). We expect to be operating with 15 percent less sales tax revenue than a few years ago. We do not expect to recover significantly in 2012 or 2013. Construction at the University appears to be picking up again which is fueling the modest growth in our sales tax revenue. Moderate growth in sales of automobiles and related parts and equipment, and CWU construction, represent the two largest components in the growth in sales tax revenue.
- **Almost no growth in Property Tax.** As a result of very little construction in the non-government sector, there won't be any significant property tax growth from new construction. The City's property valuation is updated every four years and the next one is in 2011 for 2012. There will be a decline in assessed property values (about 6.5%); however, we expect the property tax revenue to remain nearly the same as last year. The budget assumes a 1% increase in the property tax levy.

- **Little Net Growth in Utility Tax.** As a result of the significant decline in construction, there will be no significant increase in the number of customers. The year 2010 and the first half of 2011 saw utility sales revenue, and subsequently utility sales tax revenue, fall short of forecasts. This was driven significantly by warmer weather, and more precipitation than normal, resulting in lower utility sales. Electric rates increased in 2011 as a result of an increase in the wholesale purchased power cost, but resulting increases in utility sales tax revenue will be significantly offset by a decline in natural gas wholesale prices and retail rates.
- **Slight Increase in Permit Fees and Construction.** As a result of scheduled governmental construction, we are expecting a slight increase in revenue compared to last year. CWU is planning to continue construction and remodeling projects on campus in 2012 and 2013. CWU officials remain confident that State funding is still available. Overall revenue will remain low but slightly higher than 2010.
- **Risk Management Fund.** The Council approved the establishment of this fund in the Internal Service Fund category instead of the Special Revenue category. This will allow the City to charge the property, casualty, and liability insurance premium to all affected departments and create a little fund balance to fund the deductible which will lessen the pressure on the Sales Tax and General Fund. The fund will be used to pay small claims, as well as property and casualty insurance deductibles.
- **Required Fund Balances.** Due to a decrease in revenues and growing expenditures, some of our fund balances are decreasing as well. The good news is that a portion of the fund balance is intended to be used for years like this, and another portion of the balance is intended to be used to manage the cash flow. But there is a limit to how far we can spend down the fund balance without having to resort to short term borrowing to manage cash flow. There is no short term borrowing needed at this time. The General Fund Ending Fund Balance is expected to be at about 13%, which is less than the 20% target required by our policy.

Major Items Addressed In This Budget

Despite the difficult economic conditions this budget addressed a lot of the major issues for our departments and the citizens and some of them are as follows (assuming revenue projections are met):

- All employees will maintain the same hours as 2011, and maintain wages according to their bargaining agreement.
- The non-represented employees will receive a 1% market adjustment, and any step increase they may have earned. (Non-represented employees received no increase last year.)
- A 10% increase is factored into health insurance premiums.
- Current levels of service will be maintained.

Several unfunded requests for positions, programs and equipment by department directors are not included in this budget.

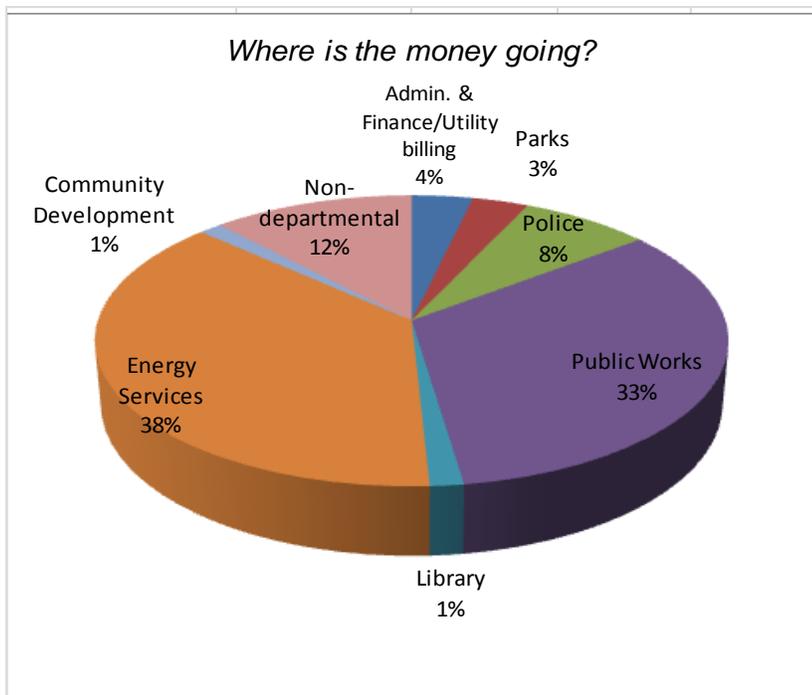
BUDGET HIGHLIGHTS

Expenditures

Public Works and Energy Services include I-Net, gas, electric, water, sewer, stormwater, information services, shop, sidewalk, traffic impact, street, arterial street funds plus engineering in the general fund. Together they account for about 71% of the total proposed budget. Police and Parks account for about 11% of the total proposed budget.

The City continues to invest in the security of its citizens, and police operation accounts for almost 8% of the total proposed budget.

	2012	% of Total Budget
City Administration	768,964	1.18%
Finance & Utility Billing	1,504,215	2.30%
Parks	2,120,252	3.24%
Police	4,865,618	7.44%
Public Works	22,067,430	33.74%
Library	963,326	1.47%
Energy Services	24,691,235	37.75%
Community Development	861,883	1.32%
Non-departmental	7,565,515	11.57%
	65,408,438	



The recreation programs support our quality of life and they account for over 3% of the total proposed annual budget. These programs include the after school youth program, adult activity programs, such as guided tours, computer training, social activities for our senior citizens, and the parks program that maintains soccer fields, baseball fields, softball fields, water front parks, trails, and the swimming pool.

Community Development programs account for about 1% of the total proposed budget.

The Sales Tax Fund is included as “Non-departmental” and it supports the General Fund, Street, Arterial Street, Capital Projects, and debt servicing funds. Changes in sales tax revenues

significantly affect programs in the General Fund and Street Fund that depend on annual transfers from the Sales Tax Fund. Sales tax revenues have a major impact on the City’s general administration, police programs, parks, library, and the maintenance of our streets. “Non-departmental” include the Fire Relief & Pension Fund, Risk Management Fund, and debt funds. The Fire Relief and Pension Fund is receiving \$264,375 in property tax in 2012, making it the fifth year in a row that the property tax will be used to fund pension payments of firefighters who retired from the former Ellensburg Fire Department.

*Note that the total budget amount shown above does not include the ending fund balances.

**Available Resources
Revenues**

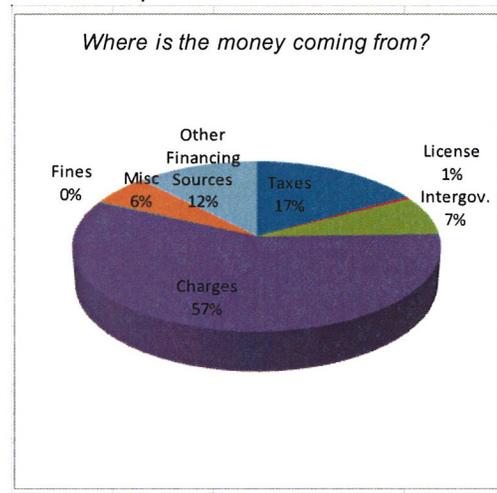
There is a slight decrease in the total tax revenue due to the distressed county sales tax that was

	Budget		Variance	
	2011	2012	Amount	%
Taxes	9,927,172	9,953,802	26,630	0.27%
License	275,050	275,350	300	0.11%
Intergov.	5,577,070	4,569,630	-1,007,440	-18.06%
Charges	33,018,658	34,423,529	1,404,871	4.25%
Fines	81,800	81,800	0	0.00%
Misc	3,419,240	3,475,875	56,635	1.66%
Other Financing Sources	7,508,517	7,109,649	-398,868	-5.31%
Total	\$59,807,507	\$59,889,635	\$82,128	0.14%

included in the 2011 budget in the amount of \$480,000 that we will not receive in 2012. The sales tax revenue will go up slightly and so will the property tax due to the 1% growth allowed by statute. Miscellaneous revenue went up as a result of the Health Insurance Fund that was established in 2010. The collection of the insurance premiums account for \$1.52

million in the Miscellaneous revenue line item. The Other Financing Sources category will decrease in 2012 as a result of no plans for a bond sale in 2012. This number was large in 2010 as a result of bonds that were issued in 2010, and various interfund loans which are not expected in 2012

Charges for services (primarily utilities) continue to be the major source of revenue for the City. The expected decline in natural gas prices and the increase in electric rates, when combined, will produce a slight increase in revenue in 2012.



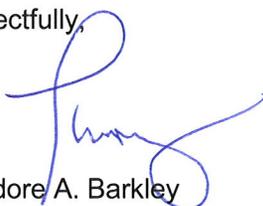
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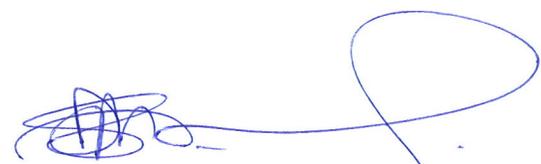
This budget is the financial plan that brings into being all the individual programs and projects envisioned by the City Council that we hope will serve and benefit our community, and carry us forward through uncertain times. Every effort has been made to assure consistency with the leadership direction of the City Council. Our City is blessed to have dedicated Council Members that spend countless hours during the budget meetings and Council retreats. The Council is supported by a professional staff that brings to bear extensive experience in meeting the needs of the community within the fiscal limitations that we face. We express our sincere appreciation for the teamwork, creativity, and the time spent by the department directors, their assistants, Finance Department staff, and the City Manager's Office staff.

We would like to thank the Mayor and the Council Members for their direction and policy insight, which enables staff to bring forward sound budget proposals and conduct the financial operations of the City in a responsible and progressive manner.

It is an honor to serve the Ellensburg community.

Respectfully,


Theodore A. Barkley
City Manager


Ademola A. Ariwoola, MBA, CGFM
Finance Director

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