

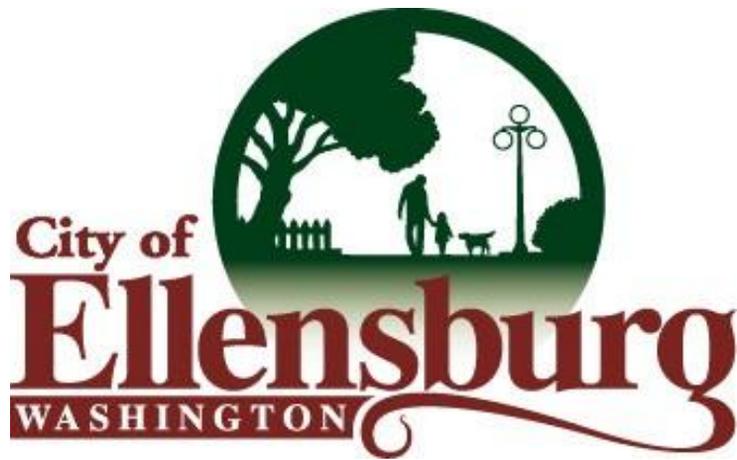


2013-2014 Biennial Budget

Energy Generating Project

*City of Ellensburg
Washington*

*City of Ellensburg
Washington, USA*



2013-2014 Biennial Budget

*Ted Barkley
City Manager*

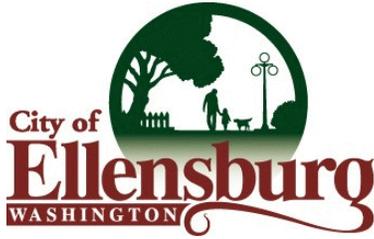
*Ade' Ariwoola
Finance Director*

City of Ellensburg, Washington

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CITY OF ELLENSBURG
501 North Anderson Street
Ellensburg, Washington 98926
Telephone: (509) 962-7221 Fax: (509) 962-7143

January 31, 2013

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

We are pleased to present to you the 2013-2014 Biennial Budget. This document represents our continued commitment to provide effective fiscal management, professional service delivery, take a long term approach 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 19, 2012, and significantly impact our local thinking for 2013 and beyond:

- Recent developments at the state level have generally been a bit stronger than expected in the June forecast. Employment growth in recent months has slightly outpaced the modest growth we expected in June. Personal income is tracking above our forecast in early 2012 due mainly to very strong wage growth in the first quarter. Housing construction was stronger than expected in the second quarter and Seattle area home prices are now higher than in the previous year. On the downside, the manufacturing expansion is slowing and Washington exports have weakened considerably.
- In the three months since the June forecast was adopted, the Washington economy added 12,700 jobs, 2,100 better than the 10,600 expected in the June forecast. In addition, revisions to previous estimates raised the level of total employment in May 2012 by 4,000. As a result of the historical revisions and slightly stronger than expected growth, total employment is 6,100 (0.2%) higher in August than expected in the June forecast. As expected in the June forecast, manufacturing employment growth remains strong, construction employment growth remains weak, and government employment continues to decline. Our forecast for Washington employment is very similar to the forecast adopted in June. As in June, we expect aerospace employment to peak at the end of this year and begin a gradual decline in mid-2013. Construction employment is expected to remain moderate through the remainder of this year with growth gradually picking up beginning in 2013. Government employment is expected to decline through late 2013 with only modest growth thereafter.
- Our current estimate of Washington personal income for the first quarter of 2012 is \$4.4 billion (1.4%) higher than the June forecast. The upward revision is due mainly to the incorporation of newly available data for the first quarter which showed that wages were stronger than assumed in the June forecast. Wage and salary disbursements were \$3.5 billion higher than assumed in the June forecast. Non-wage income was \$0.9 billion higher than expected mostly due to higher proprietor's income and higher employee benefits.
- The June forecast had assumed some backsliding in housing construction in the second quarter of 2012 after the strong growth in the first quarter but this was not the case. Washington housing permits came in at 28,100 (SAAR) units in the second quarter of 2012 compared to 27,700 in the first quarter and 20,600 in the fourth quarter of 2011. Single-family permits totaled 15,900 in the second quarter while multi-family permits came in at a 12,200 annual rate. These are both stronger than the

June forecast of 13,600 single family and 10,800 multi-family units. The third quarter got off to a strong start as well with 17,200 single-family units, 12,600 multi-family units and 29,800 total units permitted in the month (SAAR). As a result of the recent strength in housing, we have again raised our housing forecast for 2012 and 2013. While both single-family construction and multi-family construction have improved, single-family remains relatively depressed. Multi-family construction, however, is back in the normal range for Washington. We expect housing to continue to recover slowly throughout the forecast.

- According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last four months and, as of June, are now 1.7% higher than in the previous June. Prior to May and June of this year, Seattle home prices had not registered a year-over-year gain since December 2007. Nationally June home prices were up 0.5% compared to the previous year.
- A sign the manufacturing expansion may be slowing, the Institute for Supply Management's Western Washington index declined to 53.5 in August from 58.8 in July, barely exceeding the critical 50 mark (index values above 50 indicate expansion while values below 50 indicate contraction). The August results were the lowest since September 2009.
- The slowing global economy has put an end to Washington's export boom. Total exports in the second quarter of 2012 were only 7.5% higher than in the previous year compared to 25.2% growth in the first quarter and 32.2% growth in the second quarter of last year. Transportation equipment exports (mostly Boeing planes) were 21.3% higher than in the previous year but exports other than transportation equipment declined 2.8%. This was the first year-over-year decline in non-transportation equipment exports since mid-2009.
- Our September economic forecast for Washington is a bit stronger than the forecast adopted in June. Our new Washington employment growth forecast for 2012 through 2015 averages 2.0% per year compared to 1.7% per year in the June forecast. Our new forecast for personal income growth averages 5.1% per year in 2012 through 2015 compared to 4.8% per year in the June forecast but the increase is due mostly to the higher actual level of personal income in early 2012. This is our first forecast to extend through 2016 and 2017. We expect employment growth to average 1.6% per year in 2016 and 2017 and personal income growth to average 5.0% per year.

It appears that the Ellensburg economy is stabilizing, but there is still much uncertainty in the years ahead. The local economy did grow slowly over the past year, with a modest increase in sales tax revenue over 2011. For the most part, economic activity and city revenues peaked in 2007 and 2008, and have not made any appreciable gains back toward 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 sales tax revenues return to 2008 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 2011 in fair shape, and have accumulated some reserve funds that we are using to support the 2013 - 2014 budget. The cautionary note here is that, combined with lower revenue forecasts, the availability of reserve funds will not extend appreciably beyond 2013.

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 and 2011 (2010 was the lowest in the last five years). We expect to be operating with less sales tax revenue than a few years ago. We do expect our sales tax to continue to grow if one or all of the four projects we are working on break ground in 2013 or 2014. Construction at the University appears to be tailing out and we are waiting for the State's decision on other projects the University is working on. If some of these projects get the green light from the State it will continue to provide healthy growth for our sales tax. 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 last valuation was done in 2011 for 2012. Our property valuation went down from \$1,240,861,642 in 2010 to \$1,190,097,922 in 2011 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.
- **Flat Growth in Permit Fees and Construction.** As a result of scheduled governmental construction, we are expecting no growth in revenue compared to last year. CWU is planning to continue construction and remodeling projects on campus in 2013 and 2014. CWU officials remain confident that State funding is still available. Overall revenue will remain low but slightly higher than 2010.
- **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 at the end of 2013 is expected to be at about 16%, which is less than the 20% target set by our policy. We will address the 2014 Ending Fund Balance before the end of 2013 in our budget amendment.

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. The following are some of the issues addressed assuming revenue projections are met:

- All employees will maintain the same hours as 2012, and maintain wages according to their bargaining agreement.
- The non-represented employees will receive 1% market adjustment in 2013 and will receive any step increase they may have earned. (Non-represented employees received a 1% increase in 2012.)
- There will be no increase to City's health insurance premiums in 2013.
- Current levels of service will be maintained.
- The City will still use a portion of its property tax revenues to fund Fire Relief and Pension Fund in 2013 and 2014 by \$141,081.

Several unfunded requests for positions, programs and equipment by department directors are not included in this budget and we plan to explore alternative funding for these items with the Council.

The following are some of the unfunded items:

1	Park Portable fencing	10,000	11	Police auto repair	7,500
2	Pool Storefront window	38,000	12	Library material	5,000
3	Pool Lockers	14,000	13	Auditorium doors	4,000
4	Pool backup pump	18,000	14	Council chamber	60,000
5	ERRC Carpet	7,000	15	IPO Security	16,000
6	Weed Abatement -Street	10,000	16	Council streaming	35,000
7	City Hall Driveway	17,000	17	Council & staff tablets	12,600
8	Art Commission new requests	17,000	18		
9	Municipal Court study	25,000	19		
10	Police Parking lot	7,500	20		
					\$303,600

BUDGET HIGHLIGHTS

Expenditures

Public Works and Energy Services departments 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 70% of the total proposed 2013 budget. Police and Parks account for about 11% of the total proposed 2013 budget.

The City continues to invest in the security of its citizens, and police operation accounts for more than 8% of the total 2013 budget.

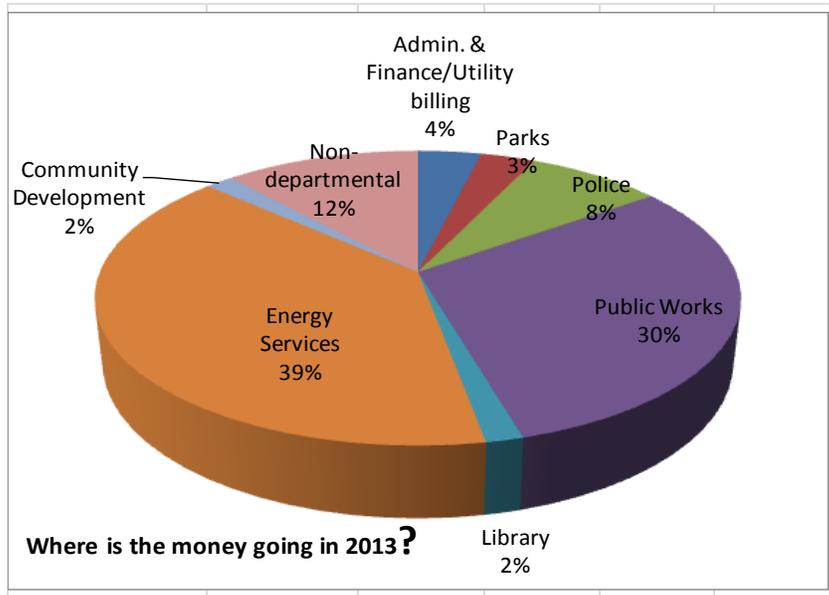
	Budget		Variance	Budget 2014	Variance
	2012	2013			
City					
Administration	0.77	0.77	0.00	0.78	0.01
Finance & Utility Billing	1.51	1.52	0.01	1.54	0.02
Parks	2.13	1.98	-0.15	1.99	0.01
Police	4.87	4.90	0.03	4.91	0.01
Public Works	22.09	18.60	-3.49	16.78	-1.82
Library	0.96	0.97	0.01	0.98	0.01
Energy Services	28.22	24.11	-4.11	25.37	1.26
Community Development	0.90	0.99	0.09	0.75	-0.24
Non-departmental	12.77	7.09	-5.68	7.98	0.89
	\$74.22	\$60.93	-\$13.29	\$61.08	\$0.15

The recreation programs support our quality of life and they account for over 3% of the total 2013 proposed budget. These programs include the after school youth programs, adult activity programs, such as guided tours, computer training, social activities for our senior citizens, and the parks programs that maintain soccer fields, baseball fields, softball fields, water front parks, trails, and the swimming pool.

Community Development programs account for about 2% of the total proposed 2013 budget.

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

significantly affect programs in the General Fund, Street Fund, Arterial Street Fund, Debt funds 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" includes the Fire Relief & Pension Fund, Risk Management Fund, and debt funds. The Fire Relief and Pension Fund is receiving \$141,081 in property tax in 2013 and 2014, making it the sixth and the seventh 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 increase in the total tax revenue in 2013 due to the 1% property tax increase, and utility tax due to high electric cost in 2013 compared to the 2012 budget. With the completion of the Dolarway project we have less grant revenues in 2013 compared to 2012, therefore we have less Intergovernmental revenues in 2013 than 2012. The Other Financing Sources category will decrease in 2013 as a result of no plans for a bond sale in 2013. This number was large in 2010 through 2012 as a result of bonds that were issued in 2010, and various interfund loans which are not expected in 2013.

	Budget		Variance		Budget 2014	Variance	
	2012	2013	Amount	%		Amount	%
Taxes	9.95	10.20	0.25	2.51%	9.93	-0.27	-2.65%
License	0.28	0.27	-0.01	-3.57%	0.27	0.00	0.00%
Intergov.	4.70	2.39	-2.31	-49.15%	2.34	-0.05	-2.09%
Charges	34.52	35.00	0.48	1.39%	35.09	0.09	0.26%
Fines	0.08	0.08	0.00	0.00%	0.08	0.00	0.00%
Misc	3.74	3.44	-0.30	-8.02%	3.51	0.07	2.03%
Other Financing Sources	12.52	6.83	-5.69	-45.46%	5.71	-1.13	-16.47%
Total	\$65.79	\$58.21	-\$7.58	-11.53%	\$56.93	-\$1.29	-2.21%

tax due to high electric cost in 2013 compared to the 2012 budget. With the completion of the Dolarway project we have less grant revenues in 2013 compared to 2012, therefore we have less Intergovernmental revenues in 2013 than 2012. The Other Financing Sources category will

decrease in 2013 as a result of no plans for a bond sale in 2013. This number was large in 2010 through 2012 as a result of bonds that were issued in 2010, and various interfund loans which are not expected in 2013.

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 2013.

Acknowledgments

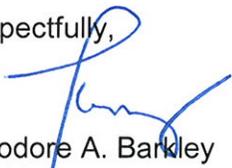
This budget is the financial plan that brings into being all the individual programs and projects envisioned by the City Council that we hope will serve and benefit our community, and carry us forward through uncertain times. Every effort has been made to assure consistency with the leadership direction 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. A special note of thanks is given to Jerica Pascoe, Senior Accounting Analyst/Budget Officer, who served as the main budget preparer and coordinator.

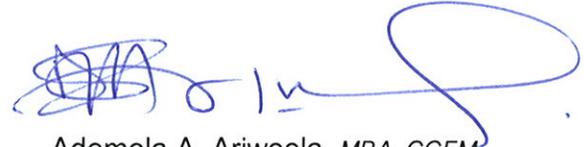
We would like to thank the Mayor and the Council Members for their direction and policy insight, which enables staff to bring forward sound budget proposals and conduct the financial operations of the City in a responsible and progressive manner.

It is an honor to serve the Ellensburg community.

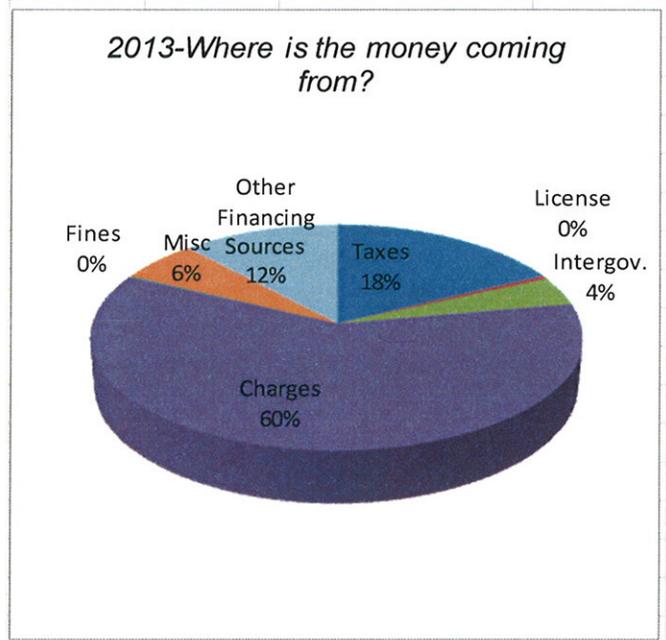
Respectfully,



Theodore A. Barkley
City Manager



Ademola A. Ariwoola, MBA, CGFM
Finance Director



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