

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

Most people in the United States have been deeply and negatively affected in one way or another by the Great Recession that began in 2008, not just those of us involved in budgeting with the City of Longview. Two years ago at this time the 2013-2014 budget message referred to a weak (at best) economic recovery underway in Southwest Washington. That situation didn't do anything to prevent a few staffing and service cuts then, ones that followed on more significant ones that had been made beginning in 2009.

Now we are happy to recognize the relatively good period of growth (primarily as measured by sales tax receipts in the City's general fund) that we have come through for most of the past two years. That growth may be moderating now, and we certainly do not take it for granted, but the improvement we've seen and the continued responsible use of budgeted appropriations by City staff have combined to make it possible to recommend some selected service restorations in 2015-2016. Though they are limited – and clearly focused on the city council's policy initiatives and goals – they represent a major change in our financial position from the past few years.

At the same time we are able to propose these restorations in our law enforcement and street maintenance programs, we also want to reinforce the council's recognition that our ability to sustain them in future years, and certainly our ability to consider any others, will depend greatly on continued economic improvement. Our most recent general fund forecast shows expenditures exceeding revenues on an annual basis every year through 2019.

Overview

The 2015-2016 biennial budget presented herewith is balanced in all funds and totals \$207,915,700. The \$2,657,420 decrease represents a 1% reduction from the \$210,573,120 adopted 2013-2014 biennial budget.

The recommended budget always takes its direction from the council's strategic



**2014
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 and enhance neighborhoods**
- Improve transportation systems**
- Address quality of place issues**
- Provide sustainable water quality & environmental infrastructure**

initiatives. They represent the principal policy for establishing spending priorities.

During the recent recession-dominated slow economic years, the strategic initiatives provided guidance in determining where we would cut staffing and related services the least, and early on in the preparation of the 2015-2016 budget, the council adhered to them in telling us where we should try to increase spending to the extent that additional discretionary dollars might be available beyond the costs of maintaining the services we provide now.

Just as importantly, guidance laid out in the four stages of budget prioritization developed by the council and staff a decade ago continues to provide direction for how we prepare a balanced recommended budget.

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).

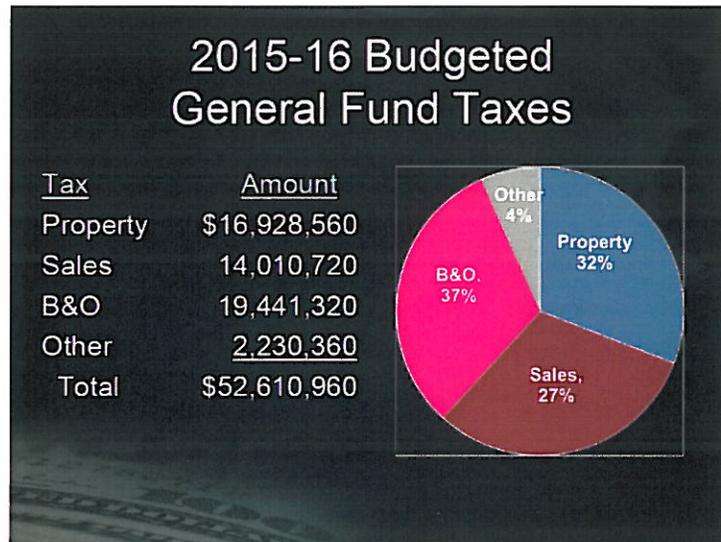
General Fund

The recommended budget of \$69,786,200 for 2015-2016 is up by \$5,818,170 or 9% compared to the originally adopted 2013-2014 budget.

The “three-legged stool” of general fund revenues – property taxes, sales taxes, and business and occupation taxes (B&O, which includes utilities) – was neatly balanced before the recession.



It had become increasingly off kilter since then due to the significant decline and then slow recovery of sales taxes and increases in utility rates, but it is now projected to be ever-so-slightly more in balance during 2015-2016 as a result of recent sales tax growth.



Property tax revenue continues to grow slowly – conforming to the 1% annual growth limits that are central to Referendum 47 as approved by state voters a decade ago, and also reflecting very slow growth in new taxable construction. The good news from the standpoint of the City’s financial situation is that assessed values are growing slightly after a period of decline, and that moderates the increase in the property tax levy rate. It is projected to increase by only one cent to \$3.43 per \$1,000 AV in 2015. The statutory limit of \$3.60 is closer, but the improving economy, in which property values often lag, offers hope that it will not be a factor anytime soon.

Assessed Value/Property Tax Comparison

City of Longview				
Year	Assessed Value	% Chg	Levy Rate	Property Tax
2006	\$1,919,495,278		\$3.60	\$6,910,183
2007	\$2,296,278,710	19.6%	\$3.15	\$7,227,142
2008	\$2,596,241,283	13.1%	\$2.88	\$7,472,452
2009	\$2,897,346,852	11.6%	\$2.72	\$7,906,395
2010	\$2,809,338,951	(3.0%)	\$2.90	\$8,134,755
2011	\$2,736,916,514	(2.6%)	\$3.03	\$8,284,506
2012	\$2,703,686,847	(1.2%)	\$3.11	\$8,419,450
2013	\$2,502,611,760	(7.4%)	\$3.41	\$8,533,950
2014	\$2,532,716,797	1.2%	\$3.42	\$8,671,022
2015	\$2,561,105,283	1.1%	\$3.43	\$8,778,669

Sales tax receipts surpassed their historical growth rate during the past biennium, but even with the continued growth projected for the next two years, they will remain well below the peak year of 2007.



Without the growth in B&O taxes during the past several years, the destructive impact of the recession on general fund services and finances would have been much more severe. B&O taxes have grown both because the city’s own utility rates have had to be increased significantly since 2008 in order to help pay for large water and sewer construction projects and new regulatory stormwater utility programs; and because the council was willing to increase the tax rate itself from 7% to 9.5%. That higher rate will stay in effect indefinitely and will help pay for the restored priority services in 2015-2016.

Beginning with the planning retreat nine months ago and budget workshops since then, the city council has consistently said enhancing police services first, and secondarily street maintenance, would be the budget priorities for 2015-2016 to the extent anything is possible beyond maintaining all services generally. This recommended budget does that. The service enhancements proposed include funding for:

- *one new community services unit police corporal assigned to the Highlands Satellite Office to initiate outreach programs involving youth, burglary prevention, social issues, and volunteers. The objectives for this highest priority police services enhancement are to build partnerships, strengthen communities, and prevent crime in the first place. First-year costs of \$179,270 include a new vehicle, training, and equipment.

- *one new street crimes unit police officer. The objectives for this enhancement are to address our drug violation rate which is more than six times higher than the state average and which is closely associated with other types of crime, including burglary and domestic violence. First-year costs of \$96,980.

- *another street crimes unit police officer to be transferred out of the regional narcotics task force. First-year cost of \$54,500 is only for a vehicle because the city is already paying for this position. We will continue to provide a supervisory role for the task force, so this transfer will not cause the unit to be dissolved.

- *one new information technology specialist position to be dedicated to public safety support and troubleshoot the police department’s technical devices and information systems, thereby freeing up our existing crime analyst position to do more gathering and presentation of statistical data that is vital to planning how staff and other resources can be best deployed. First-year costs of \$85,370 include training, a computer, and software licenses.

*a \$45,000 increase in the street maintenance materials budget for 2015 and \$47,000 in 2016. This increase helps to restore some of the reductions made in this account in recent years, and it represents about all that can be effectively used given our current staffing levels in this program.

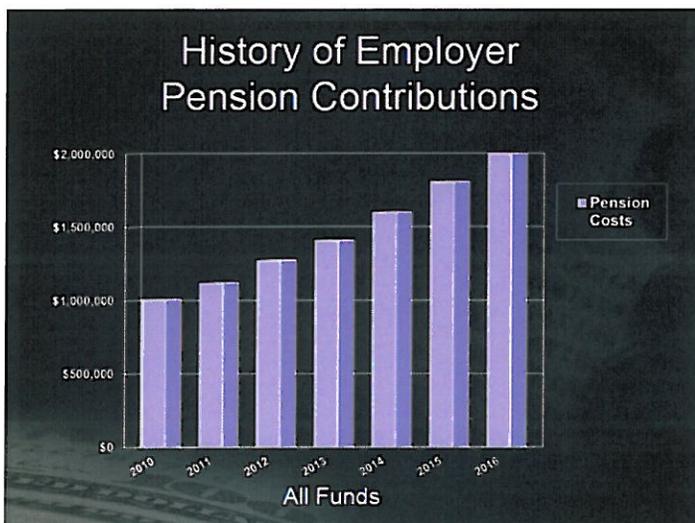
The above service enhancements address some of the highest priorities identified in the Police Executive Research Forum (PERF) report completed a few years ago to help guide the police department’s own strategic planning; and they respond (minimally) to the street pavement conditions report also completed a few years ago.

If not for extraordinary increases planned for things like indigent defense and the City’s share of employee pension contributions, it would have been possible either to recommend additional service enhancements, maintain a greater ending fund balance, or possibly modestly reduce the utility tax rate.

Indigent defense costs, based on the outcome of a recent request for proposals process and award of a new contract, are budgeted to increase by \$273,000 beginning in 2015. This responds to a lawsuit settlement involving another Washington city and state Supreme Court caseload standards for criminal defense attorneys.

History Indigent Defense Expenditures

General Fund:	2012	2013	2014	2015	2016
Indigent Defense	\$196,450	\$214,260	\$271,000	\$544,000	\$544,000
<i>\$ Increase</i>		\$17,810	\$56,740	\$273,000	\$273,000
<i>% Increase</i>		9.0%	26.5%	100.7%	0.0%



Employee pension contributions continue to climb as a result of calculations by the state actuary and retirement board. The new rates will be considered by the state Legislature next year and might be mitigated to some extent, but it is far better to assume that they will go into effect as recommended.

An administrative initiative that coincided with the 2013-2014 budget was making high-deductible medical insurance plans the primary option for City employees in that benefit category. Human resources department staff, our labor groups, and ultimately the city council can all be thanked and congratulated for their willingness to put that program in place. It is innovative in the public sector and involved taking some risks, but the structure and use of the plans to date have resulted in noticeable cost savings. The premiums cost curve has clearly been flattened during the past two years, and we are now in a better position to comply with the federal Affordable Care Act in the coming years without additional costs.

The following tables and charts provide more useful information about the general fund. In summary again, we are in a financial position now to be able to afford some targeted service enhancements by drawing down our fund balance and still ending 2016 in Stage 2 of our budget model. The longer-term forecast is still daunting, but there are also more reasons now than in recent years to be optimistic about growth in our economy.

General Fund Expenditures (by Function)

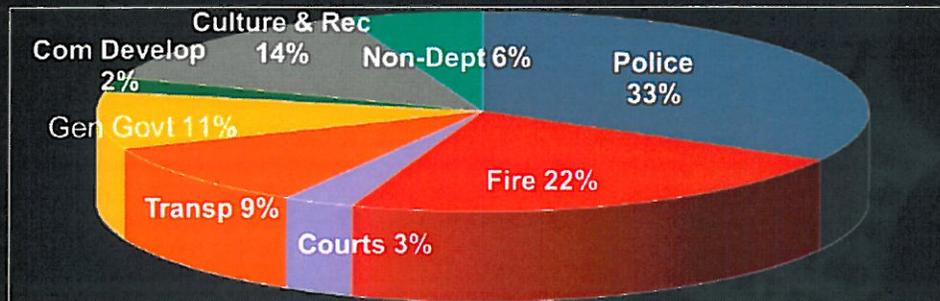
Function:	2014 Budget	2014 Projected	2015 Budget	2016 Budget
General Govt	\$4,230,570	\$4,066,470	\$4,637,970	\$4,778,580
Public Safety	18,021,270	17,742,392	18,985,590	19,706,130
Transportation	3,015,080	3,235,321	3,192,670	3,318,650
Community Dev	767,590	798,221	779,540	810,550
Culture & Rec	4,774,250	4,545,749	4,712,570	4,845,710
Non-Department	<u>1,581,890</u>	<u>1,810,043</u>	<u>1,989,610</u>	<u>2,028,630</u>
Total Expenses	\$32,390,650	\$32,198,196	\$34,297,950	\$35,488,250

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Departments at a glance

Department:	2014 Projected	2015 Budget	2016 Budget
Legislative	\$171,614	\$184,240	\$187,040
Judicial	\$718,095	\$1,037,700	\$1,037,700
Executive	\$104,760	\$111,310	\$115,020
Finance	\$1,321,406	\$1,405,490	\$1,459,510
Human Resources	\$301,580	\$313,600	\$333,860
Legal	\$457,079	\$474,060	\$490,730
Info Technology	\$991,936	\$1,111,570	\$1,154,720
Police	\$10,142,164	\$11,318,760	\$11,793,490
Fire	\$7,600,228	\$7,666,830	\$7,912,640
Traffic	\$1,058,037	\$1,130,190	\$1,173,650
Street Maintenance	\$1,188,105	\$913,990	\$958,280
Engineering	\$989,178	\$1,148,490	\$1,186,720
Community Dev	\$798,221	\$779,540	\$810,550
Library	\$1,999,383	\$1,999,440	\$2,043,460
Recreation	\$1,070,817	\$1,137,110	\$1,182,970
Park Maintenance	\$1,475,549	\$1,576,020	\$1,619,280
Non-Department	\$1,810,043	\$1,989,610	\$2,028,630

2015-16 General Fund Expenditures



2015-16 General Fund = \$69,786,200

2015-16 General Fund Summary with Enhancements

	2015 Budget	2016 Budget
Beg Fund Balance	\$ 7,800,000	\$ 6,544,840
Revenue	33,042,790	33,746,830
Total Revenue	\$33,042,790	\$33,746,830
2015-16 Baseline Expenditures	\$33,836,830	\$35,388,210
Enhancements:		
Community Services Unit Officer	+ 179,270	-
Street Crimes Unit Officer	+ 96,980	+ 100,040
Street Crimes Unit Officer	+ 54,500	-
Public Safety I.T. Support	+ 85,370	-
Restore Street Mtnce Materials	+ 45,000	-
Total 2015-16 with Rec. Enhancements	\$34,297,950	\$35,488,250
Beg Cash Required	(1,255,160)	(1,741,420)
End Fund Balance	\$6,544,840	\$4,803,420
% of End Fund Bal	19.1%	13.5%

Utility/Enterprise Operations

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

Our new water treatment plant went into service early in 2013 using a new source of supply – a deep aquifer a few hundred feet below the Mint Farm Industrial Park on the southwest side of Longview. Shortly after that we began receiving complaints about color, taste, odor, spotting residue, and other matters. Some of the complaints could be attributed to normal customer responses to a different source (changing from surface water to groundwater), changes in flow directions and pressures through old distribution lines, and the learning curve for staff operating the new plant. Seemingly the worst water quality issues were dealt with by implementing an extended period of flushing lines and replacing the oldest ones in one particular neighborhood.

But the complaints have not gone away by any means, and we are in the midst of a formal customer survey and engineering analysis for what options may be feasible and acceptable to reduce or eliminate them. The unanticipated expenses during the current biennium for line flushing and replacement, outside consultant analysis, customer bill adjustments, and other actions are approaching \$3 million. It's truly an open book now as to what steps will be taken and what costs will be incurred in 2015-2016 in trying to solve the problems. Through it all, it should be emphasized again that even the worst of the complaints have not been deemed to violate water quality standards set by the state Department of Health which regulates public water purveyors.

There are challenges and unknowns in other city utility and enterprise operations currently, but none quite so perplexing and potentially costly as those involving the water system. Among them:

- *decisions will have to be made about how to re-use the abandoned West Longview sewer lagoons site

- *new Phase II stormwater NPDES permit conditions are requiring us to adopt new low impact development regulations and otherwise get ready to implement a more extensive monitoring program by 2017

- *play and revenue declined significantly at MVGC this year, and the council has directed staff to research new, more aggressive marketing ideas for the use of our golf facilities.

Combined, a typical, residential water/sewer/stormwater/solid waste utility bill is anticipated to increase by 5.7% in 2015, from \$110.63 to \$117 per month.

Capital Spending

Planned capital spending in 2015 is headlined by the replacement of the Washington Way bridge (\$5.6 million), a continuing program of replacement and rehabilitation of several sewer pump stations (\$6.2 million), and additional old water main replacement (\$1.5 million) likely targeted at locations where quality complaints can be dealt with in no other way.

All of the capital projects for 2015-2016 are listed in the Capital Improvement Program section of the budget document.

Next Steps

Several public hearings and matters of legislation are scheduled in compliance with state law during the next two months leading up to final budget adoption – a hearing on 2015 revenue sources on November 6, ordinances regarding the property tax levy and rate on November 20, the first public hearing on the budget itself and the CIP on December 11, and the final public hearing and budget adoption ordinance as well as CIP resolution on December 23.

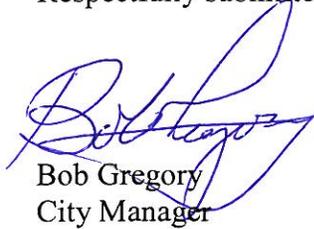
Closing

Budget preparation is never easy. There are countless numbers to produce and narratives to be written. It's time-consuming. Scenarios have to be run and re-run as new information is received and projections change. Decisions are frustrating and in some cases 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 entrusted to us.

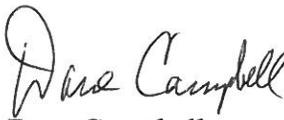
Ultimately the budget is a plan, the direction and authority to use financial resources. Inevitably there will be some revisions necessary during the coming two years, but we pledge now to use our resources wisely in taking budgetary direction from the council, and we also pledge to bring you more information and professional recommendations if and when we can improve on this plan during the next two years.

As a personal note, while budgeting has certainly often not been easy or fun during my tenure as city manager, it has always been an honor and a privilege to present you the best financial plan we could during each set of circumstances.

Respectfully submitted.



Bob Gregory
City Manager



Dave Campbell
Assistant City Manager/
Parks & Recreation Director



Kurt Sacha
Finance Director