

EXECUTIVE SUMMARY

Honorable Mayor and City Council:

Enclosed is a copy of the City of Vancouver's Preliminary 2009-2010 Operating and Capital Biennial budgets for your review and consideration.

This document includes:

- Budget recommendations by function and department;
- Budget summaries for revenues and expenditures, including "cash" and "fund balance" information for each fund;
- Detailed descriptions of all proposed decision packages;
- Forecasted revenues and expenditures for 2009-2010 that were reviewed with City Council during the May 9, 2008 and October 6, 2008 Workshops;
- Financial policies used to prepare the budget recommendations;
- Capital budget information, including a list of the proposed projects by functional area and funding sources.

Current Economic Situation

This preliminary 2009-2010 budget was created during a time of unprecedented economic uncertainty. The real estate and the financial sectors are under tremendous strain, inflation is higher than in the past decade, and unemployment is on the rise. As a result the city is seeing a slowdown in its revenues, mainly in economy-dependent revenues such as sales taxes and Real Estate Excise Taxes. The economic forecast also anticipates an increase in the delinquency rate in the payment of property taxes, another major source of funding for the city.

The city is facing a \$6 million annual structural deficit. This structural deficit results from revenues growing at a slower pace than its expenditures. Contributing to this deficit include the passage of I-695, which eliminated the motor vehicle excise tax; I-747, which limited increases in property taxes to the lower of 1% or the implicit price deflator, and the elimination of the city's Business and Occupation Tax.

Our main challenge with regard to expenses is the direct link of personnel costs to inflationary indexes, double-digit increases in medical benefits, inflation on the cost of asphalt and energy, and the cost of service contracts with other jurisdictions.

Budget Highlights

The 2009-2010 Recommended Budget is fiscally responsible. It does not add any new positions that are not covered by either budget reductions or new revenues. The budget is consistent with the financial policies adopted by City Council. The budget is balanced and does not use one-time resources to fund on-going issues.

The primary focus of this budget is to address the city's structural deficit in the General, Street and Fire funds. This preliminary 2009-2010 budget incorporates approximately \$1.3 million in annual budget reductions in non-public safety agencies in the General Fund. These reductions will be in addition to the \$14.2 million in reductions the city has already made over the prior eight-year period. Public safety has always been our priority and it remains so in this recommended budget.

The recommended budget also contains more than \$1 million in recommended budget reductions in the city's Building Fund and in Development Review Services. These reductions proactively respond to the slowdown of development activity in the city. A total of 13 positions will be eliminated in the Building Fund in 2009.

On the expense side, I am proposing to continue to control increases in personnel and medical benefits costs.

On the revenue side, I am recommending a 4% increase in the utility tax on water, sewer and drainage utilities which would be used to fund public safety. The current rate is 16%. I also recommend converting the Solid Waste Franchise fee to a tax at a rate which is consistent with the other city utilities. The impact of these proposed increases would total \$4.10 per month for an average family.

The recommended budget continues making a considerable investment in the city's Pavement Management Program. The city does not have adequate funding for new transportation capital projects past 2010 and must invest in maintaining the infrastructure we have.

This preliminary budget does not address the long-term funding needed to maintain current service levels into the future. More than \$27 million is needed to replace or remodel the city's aging fire stations. Additional funding is required to address staffing needs in Police and Fire. Another \$20 million or more is needed each year to fund new street improvements and improve safety in our neighborhoods. Additionally, our ability to maintain our high quality of life will be challenged with the significant lack of sufficient funding for Parks and Recreation programs.

On the capital side, this recommended budget includes a reallocation of existing capital funds to temporarily support the city's Waterfront Transportation Access project. The city has received significant financial support from the state and federal governments with pledges for more support in the future. To facilitate the timing constraints set by the railroad and the Port of Vancouver project that is currently underway I recommend the city invest existing capital resources in this project for a period of five years in anticipation of potential grant funding coming through and tax revenue from the newly-developed area. The waterfront

redevelopment project will facilitate \$1.3 billion in private investment and leverage public investment at a 30:1 ratio (\$30 private for each \$1 of public infrastructure investment).

One other major recommendation is to move forward with consolidating city staff into one facility and converting our existing lease costs - that will increase over time - into fixed payments. I am recommending that the city move forward either with the construction of a new administrative facility or with the purchase of an existing facility within the next two years. This action will result in significant savings for the city over the long term.

Over the next several weeks, city staff will be reviewing the Preliminary Budget with City Council. A public hearing on the Preliminary Budget is scheduled on November 17th at City Hall.

Respectfully,

Pat McDonnell
City Manager