City Manager Barkley presented an overview of the 2003 preliminary budget. Policy priorities set by Council at its planning retreat earlier this year and in public meetings since that time have been the guiding principles in the preparation of the preliminary budget. It represents the thinking of management prior to a thorough discussion with Council and members of the public regarding program and policy commitments for next year. The budget is preliminary because fiscal conditions are changing rapidly, and may look somewhat different by the time the 2003 budget is adopted in its final form.

Two factors have significantly affected the overall financial condition of the City of Ellensburg: 1) reduced retail sales activity; and 2) significantly warmer weather in the early months of 2002. Retail sales activity fell following September 11, 2001. Sales tax revenues were off 17.5% in January, 1.5% in February, and 11.7% in March. While the City has seen significant improvements from these numbers, sales tax revenues for 2002 to date are running approximately 7.5% below budget. Warmer weather in the early months of 2002 resulted in lower utility sales, and corresponding lower utility tax revenue. This has had a significant effect in the gas and electric utilities, as well as the General Fund. Sales Tax Reserve Funds and the unrestricted balance in the General Fund have been used to help mitigate these impacts. All funds remain sound, and the preliminary budget leaves responsible balances in all funds.

The balancing of the General Fund is being accomplished through three mechanisms for 2003: 1) transfers from the Sales Tax Reserve Fund; 2) minimizing capital investment from the General Fund and Capital Projects Fund; and 3) a one time transfer from the Risk Management Fund.

The preliminary budget for 2003 is based on the following guiding principles: 1) Maintain current service levels in every area; 2) Maintain staffing levels and increase efficiencies; and 3) Retain responsible balances in each of our funds. In order to conform with the principles, a significant reduction in equipment replacement is scheduled for this year. Larger capital projects, such as the new City Hall Project and the Water Street Project, are not affected.
The 2003 preliminary budget assumes Council adoption of a 1% property tax increase that would produce approximately $15,000 in revenue. The budget also assumes a 2.7% increase in taxable retail sales over 2002 projections. This is a net decrease in retail sales from 2001. The City’s most recent experience is very promising for retail sales, with an aggregate growth rate of 4.37% for May through June, however, management has elected to be very conservative for projected revenue in 2003. Council reviewed a chart showing the increase/decrease in sales tax during the period of April, 2001 through July, 2002. The preliminary budget also assumes relative rate stability moving forward in energy costs. Non-represented employee compensation has been increased by 2%, and non-represented employees will start cost sharing for their health care benefits in 2003. Health care benefits are projected to increase approximately 10% in fiscal 2003.

General Fund revenues are expected to be up somewhat from 2002, largely due to transfers from other funds. The 2002 General Fund revenue budget was $9,279,491, and the 2003 budget anticipates $9,677,010 in revenue. The preliminary 2002 budget anticipated leaving an unbudgeted contingency reserve in the General Fund of $739,624. The preliminary 2003 budget anticipates leaving an unbudgeted contingency reserve balance of $724,000.

The 2003 preliminary budget contains funds for the following projects: 1) approximately $270,000 for information technology improvements--$150,000 of which will come from the Energy Services Department with the balance coming from the Sales Tax Reserve Fund; and 2) $1,845,000 in the Arterial Street Fund for Water Street Improvements--$156,000 of which represents local funds with the balance coming from state and federal grant programs. The Library Expansion project would be budgeted as a supplemental item during 2003 if general obligation bonds are approved by voters. Also, the budget does not attempt to define all revenues and expenditures related to the West Ellensburg Park/Williams Property project.

The General Fund is supported in a very significant way by the activities of the utilities and transfers from the Sales Tax Reserve Fund. In the case of utilities, the proportion of general government funds provided to the utilities is allocated accordingly, along with revenue received from the tax on utility sales. The General Fund received considerable support from sales tax as well, which is income directly generated from local retail sales. Support to the General Fund from retail sales is increased by $100,000 in 2003.

**REVENUES**

The proposed fiscal year 2003 budget reflects a 1% increase in the property tax rate. This increase will produce approximately $15,000 in additional property tax revenue, plus the taxes collected on new construction. As a result of several years of 0% tax increases, the City’s property tax base and revenue stream have not grown at the same rate as expenses—forcing increased reliance on sales tax and other revenue sources. Council approved property tax increases of 1% for 2002 and 2% for 2001. The City retains unused legal capacity to increase property taxes in the range of $200,000 per year should the Council ever elect to do so. Projected revenue from utility taxes is expected to rise in
2003 due to anticipation of a more “average” weather pattern. These increases are offset by the City and Bonneville Power Administration’s (BPA’s) investment in conservation measures. Projected 2003 revenue from building permits is $180,000 (down $64,000 from 2002) and includes fees associated with construction of the new Ellensburg High School. State Shared Revenue is likely to increase due to population growth in the City. Despite a significant increase in calls for service, revenue from Emergency Medical Services is forecast at $580,000 (down $72,715 from 2001) as a result of changes in Medicare and Medicaid reimbursement levels. A slight increase in Street Fund revenues is projected from motor vehicle fuel taxes ($4,304 increase).

The Arterial Street Fund anticipates revenue totaling $2,571,134 for 2003 (compared to $873,464 projected for 2002). The reason for the large increase involves the construction schedule for Water Street.

The original schedule had Water Street nearly complete in 2002, but due to regulatory delays the project will not be completed until 2003. Projected revenue in the Sales Tax Reserve Fund includes sales tax proceeds and earned interest totaling 2.442 million dollars. This compares to 2002 budgeted revenues of 2.597 million dollars.

EXPENDITURES

Community agency and program support is included in the City General account group of the General Fund. Support for these agencies and programs continues in 2003 at 90% of the 2002 budgeted amount. Studies are underway to identify the location, design, and costs associated with a second fire station. These costs are yet to be identified, and are not provided for in the preliminary 2003 operating budget.

The Sales Tax Reserve Fund budget recommends an expenditure of $3,189,878. Expenditures include: 1) $203,986 for capital projects; 2) 1.4 million dollars for General Fund support; 3) $699,332 for street maintenance; 4) $52,753 for the I-Net Project; 5) $293,300 for the Arterial Street Fund; 6) $170,874 for debt service related to the West Ellensburg Park property; and 7) $369,633 for debt service on the new City Hall/Washington School. Changes in the Sales Tax Reserve Fund from recent years include increasing support for the General Fund, decreasing funds available for miscellaneous capital projects and equipment replacement, and the addition of debt service payments for West Ellensburg Park and City Hall. Beginning in 2004, the departments occupying the new City Hall will begin making internal lease payments, thus reducing the net debt service requirement supported by this Fund. Another significant change for 2003 is that the Fund contains no transfer to the Fire Vehicle Support Fund.

The fund balance in the Community Access Television Capital Outlay Fund is projected to be over $200,000 by the end of fiscal year 2003. Though not programmed at this time, Council may consider using a portion of the balance in this Fund to equip the new City Hall for community access television.
The CHIP Reserve Fund budget includes $80,000 for historic building façade improvement and code compliance grants, $10,000 for reimbursement related to the administrative costs of grant administration, and leaves an unobligated balance of $82,902 in this Fund.

The Lodging Tax Fund budget includes $44,000 for tourism promotion, $120,000 for tourism related signage, $80,000 for the construction of a set of public restrooms in the downtown area, $120,000 for marketing, and $40,687 related to debt service for improvements at the fairgrounds. Major expenditures from the Risk Management Fund in 2003 include insurance deductible payments, and a $100,000 transfer to the General Fund to help offset health insurance and risk management costs. The City Hall Construction Fund budget for 2003 is projected to be 3.884 million dollars, with approximately two-thirds of this amount expected to be spent during 2003. The balance will be spent to complete the project in 2004.

Expenditures from the Capital Projects Fund in 2003 are substantially reduced in order to present a fundable budget. Expenditures proposed include new computers and related equipment ($83,486), hot tub replacement at the swimming pool, a sprayer unit for citywide weed control, and air system repairs at the Library. Many requested items were not funded this year, including a staff car for the Assistant Fire Chief and improvements to the fire station. Some of the fire equipment replacement may be funded from the Fire Vehicles Fund. City expenses associated with the I-Net Fund total $260,614 for 2003.

The total budget expenditure for the Gas Fund is $6,858,688 which is slightly less than projected expenditures for 2002. Natural gas costs have stabilized somewhat over the past year and are expected to decline somewhat in the next 18 months. The fuel switching and conservation program is transferred to the Light Fund for 2003. Expenditures in the Light Fund total $10,622,961 compared to a total of $10,894,865 projected for 2002. The City has been able to minimize the impact of rate increases for the wholesale cost of electricity through the issuance of rate mitigation bonds. Additional rate increases are expected in late 2002 and early 2003.

The preliminary 2003 Water Fund budget includes expenditures of slightly over 2.2 million dollars for several projects. Protecting and perfecting the City’s water rights continues to be a priority. The Water Construction Fund has a balance of approximately $420,000 following completion of projects funded by the issuance of utility bonds. These funds are currently scheduled for the planning and construction of projects related to the implementation of the City’s Strategic Water Plan. Specific expenditures are not yet identified, and are not shown in the preliminary 2003 budget. No Sewer Construction Fund projects are planned for 2003. The preliminary Sewer Fund budget totals 2.383 million dollars in expenditures.

Purchases from the Shop/Warehouse Equipment Fund total $474,335 for 2003 and include: 1) a bucket truck for the Light Division; 2) a loader/snow blower for the Street Division; 3) a backhoe and a flatbed truck for the Water Division; 4) a utility truck for the Water Division; 5) a chipper for the Street and Light Divisions; 6) a pickup for Energy Services; 7) a mower for the Waste Water Treatment
Plant; 8) a mower for the Parks Division; 9) a bush hog for the Street Department; and 10) information technology equipment for the mechanics and foreperson.

The 2003 Finance Department budget is reduced approximately $3,000 from the 2002 budget. Personnel changes include three retirements: the Senior Meter Reader, Account Clerk I, and Systems Implementer/Programmer. The proposed 2003 budget leaves the vacancy created by the Senior Meter Reader’s retirement unfilled. Staff proposes to utilize a more structured schedule for an on-call meter reader for vacations, sick leave, etc. Total benefits increase to $221,246 ($26,005 increase) due to retirement payouts and PERS balloon payments. The Internet Technology (IT) draft report indicates a need for more technical support. Because the Finance Department handles the meter reading and utility billing for the City new financial software is needed to replace the City’s aging billing system. By the end of 2003 new information technology and work patterns will guide new staffing.

The largest expenditure in City General is salaries and benefits. Under the Community Program Support account group the Alcohol Program budget for 2003 is reduced to the amount required by statute ($4,296 reduction from 2002). The City Manager’s budget is a status quo budget from 2002. Although the Training budget was not used much in 2002 it is anticipated to see more use in 2003. As the Manager anticipates doing more traveling in 2003 to network with fellow city managers and maintain his professional skills.

In answer to Council inquiry, Credit Card Fees under Other City General Expenditures is the City’s merchant discount.

**ADJOURN** Adjourn at 8:50 p.m. Barry Affirmed

Mayor

**ATTEST:**

City Clerk