

2012 BUDGET MESSAGE

From
Mayor Scott Higgins
To
Council and Citizens

This presents a fourth consecutive recession budget, as we see local signs of “the turn”. This message is to accompany the full 2012 budget document. The message provides highlights. The 2012 budget for the City of Camas retains adequate service for the citizens of Camas in another year of budget stress and caution. Service levels are stable and City staffing levels will slightly decline. However, citizens will continue to benefit from a balanced array of municipal services at adequate levels. We see signs of local economic growth; and continue to invest in the City’s infrastructure and economic future. At least locally, we are seeing further evidence of economic strengthening, which appears to have begun in some sectors in 2010. We may see some limited effects of this rebound in the City finances as 2012 proceeds. Since City revenues typically “trail” the economy generally, the budget again cautiously does not yet project major recovery. The actual evidence of strengthening will be more visible when the facts of increased sales, property and development revenues for late ’11 and early ’12 are in hand. We will need to observe local conditions carefully, monitor our budgets, actively promote economic growth, competently embrace opportunities and be flexible as we respond in 2012 and beyond.

The proposed “fourth recession budget” meets several continuing goals, including:

- 1) Provide an adequate, austere, balanced array of services.
- 2) Use existing revenue streams; with no new taxes.
- 3) Preserve a base level of General Fund reserves (about 17%), consistent with adopted financial policies and acceptable to the City Council.
- 4) Invest in the City’s future, consistent with adopted plans, with especially using grant and other favorable “outside” funding sources.

In the proposed budget an austere approach to ongoing expenses is taken. The operating budgets are “flat”. This especially applies to staffing levels. Staffing levels are essentially unchanged. The minor reductions are through attrition, continuing re-organization, and consolidation of duties. In contrast with staffing and operational levels, the City’s capital investment program continues its robust course. A variety of capital projects are favorably financed, and include completion of the Wastewater Treatment Plant Phase II project, construction of the 38th Avenue Extension project, design of a water reservoir, and other street, lighting, water and sewer projects. The major street program—the arterial/collector street rehabilitation effort is again funded with Real Estate Excise Tax (REET) revenues. The very large state highway SR-14 Safety project will continue into 2012, financed with state funds.

The budget is constructed within a framework which balances needs with community expectations and revenues. The General Fund depends largely on property tax revenues, which have declined very sharply in the past three years. This was “driven” by virtually unprecedented and serious declines in assessed value (AV). The declines were \$91 million (or 2.8%) for the 2009 year, \$401 million (12.7%) for 2010, and \$193 million (7%) for 2011. For 2012, we see a turn, wherein new construction value of approximately \$50 million, has almost fully offset a modest decline in the value of all other taxable property in Camas. This

is positive for many reasons. The new construction, including major additions from businesses, is strong. The AV decline in the existing property has moderated. It is important to note that the annual official assessed value calculation by the Assessor's Office is a "snapshot" in time. The AV "snapshot" is as of January 1 of each year. In the fall of 2012, the tax base AV information for the next budget year of 2013 will become available. Will the evidence and analysis show that in the winter and spring of 2010-11 the local market "turned" and assessed value began to recover?

Future assessed value is conjecture. Two major, positive facts have benefited the proposed 2012 budget. First, the Police Station bonded debt is fully repaid. The building was constructed with "councilmanic" bonded debt, of about \$300,000 per year, for a 15-year period. These funds now are released to support the array of General Fund purposes. Second, the "REET Flexibility Legislation" (HB 1953) passed in the 2011 Legislative Session and became law. Camas sought this legislative change, acknowledge Representative Rivers for her active support of this change, and the 2012 budget proposes to use \$250,000 in REET (Real Estate Excise Tax) funding to support the operation and maintenance of City facilities. The REET transfer helps us maintain our parks, and protect those investments, as the legislation intended.

Looking to the future—2012 and beyond—there are grounds for both optimism and/or for caution. The local economy gives evidence of economic strengthening. As 2011 closes, one notes that building is diverse in the community. This is across a spectrum of development, including residential, commercial, industrial and public construction. Initial activities of the new Camas-Washougal Economic Development Association bring reports of wide contacts, business recruitment and development, and future possibilities. This three party collaboration between Camas, Washougal and the Port has great potential, and will require sustained partnership for the regional economic benefit. There is also some renewed funding for the Downtown Camas Association (DCA), supporting DCA's role in economic vitality and downtown health. In the residential arena, we now expect that upwards of 100 plus permits will be issued in 2012. This contrasts with 74 and 70 in "low" prior years. The commercial, office, industrial sector has significant 2012 potentials. The Fisher Development five story office building was occupied in the past weeks. Upwards of 350 employees are expected to be accommodated in that first phase building. Two smaller structures are permitted and under construction on the Fisher Campus. More development of this complex may happen in the new year. An office building in the Camas Meadows area is nearing completion, and will house about 20 plus professional accounting personnel. Sharp has been issued permits for improvements at its site; and Sharp has publicly announced the related addition of new employees to its Camas site. Other existing firms appear to be considering investments in Camas, and we are encouraged by this.

Public construction in 2012 will include major SR-14 improvements, construction of the Woodburn Hill Elementary School, and completion of the Wastewater Treatment Plant project. Employment has rebounded at a wide variety of established firms. PeaceHealth will take the initial steps increasing its nearby employment. As Fisher, Logitech and others expand their well paid local workforces, the "ripple effects" of employment on housing activity, values, sales taxes, and other economic impacts are quite likely and very positive.

The trend for City sales tax revenues is consistent and upward. It appears that sales tax trends "turned" in the winter/spring of 2010, we now have fully 12 consecutive months of sales tax increases (based on "same month, prior year comparisons).

All of these are reasons for "guarded local optimism".

Paradoxically, the wider scene is unclear, uncertain and indicates caution. It is remarked that government is a “trailing indicator” of the economy, and there are numerous reminders of this. As an example, the housing shock of sharply falling values began in 2008, and has “rippled through” to local governments in the form of unprecedented declines in assessed values and related property tax revenues. The Washington State Budget received another negative revenue forecast in September, and a special session is slated for a late November response. Predicting any direct or indirect effects of this on local City budgets is a foolish errand. We do know of several favorable capital project steps taken by state, regional and federal agencies which affect Camas projects. Here are four important illustrations of this phenomenon:

--Camas’s 38th Street project has been recommended by the Southwest Washington Regional Transportation Council (RTC) for \$1,400,000 in Surface Transportation Program (STP) grant funding.

--The Crown Road Reservoir project has been approved by the Washington State Public Works Board for \$2,040,000 in favored loan (one-half percent interest, 20-year term) funding. This project is in a statewide “package” of public works projects to be recommended to the Governor and 2012 Legislature. We anticipate design of the reservoir in 2012, and construction in 2013.

--The Sewer Main Replacement project has also been approved by the Public Works Board and recommended to the next legislative session. This project is recommended for \$3,740,000 in favored loan (one-half percent interest, 20-year term) funding. This project will need extensive permitting and design work, leading to construction in 2014.

--The Watershed Line and Filter Plant project was the subject of careful consultant alternatives review, recommendation and Council discussion. Further preliminary planning steps for this are funded in the utility budget proposal, and initiatives to secure a fitting, favorable funding match for this major long-term project have begun.

These capital investments and other smaller ones are in the budget, and represent investment in our future. How their “outside funding” prospects will be influenced by events in the region, state, and nation are unpredictable. Our strategic approach is to insure that we have solid, needed, properly planned local projects, a good reputation with the funding sources, and a practice which is nimble, reliable, and competent. Camas looks to the future with vision, and invests capital for the next decades of prosperity. We are a confident organization in a nervous environment.

Staffing. Another highlight is the staffing elements of the budget. As noted, staffing is stable. “No layoffs/no adds” is the shorthand. The staffing pattern is flat - a projected 175 (FTEs). The staffing ratio (FTEs per thousand inhabitants) declines under this budget to a bit under nine (FTEs) per thousand (175 FTEs divided by 19,620 official 2011 population) for all funds. With stable staffing and population growth, the ratio of General Fund (FTEs) to population declines to 5.9 per thousand (2011) to about 5.7 per thousand. Camas General Fund staffing levels are like the levels of 2003-2005, which were reached in the wake of the last major recession. Meanwhile, the community has grown from about 15,000 people to over 19,620 in population. Since staff costs are a huge driver of overall costs—especially in the General Fund, the “difficult times, difficult budget” restrains staffing.

The Budget includes salary and benefit costs for all proposed employees. The City and three of its contract groups have signed agreements for 2012. The agreements call for 1% increases in salaries; and have included medical insurance premium sharing provisions which increase the employee’s share of these costs. Contract talks with the Police Association and the IAFF (Fire/EMS) groups have begun for the 2012 year and potentially beyond. These talks

have not come to conclusion at this writing. The medical insurance premium increases are continuing, although they have moderated somewhat from the 2011 rates of increase. For the Regence plan, the increase is 11%, offset partially by a 2% Wellness Program credit. For the Kaiser plan, the 2012 increase is about 6.5%. Also, Public Employee Retirement Plan employer contributions for PERS employees are scheduled to increase again in 2012. These increases are legislated, and the increases have been structured into the proposed budget. Overall, personnel costs constitute the bulk of the General Fund's costs. Salaries and fringe benefits for the entire General Fund constitute fully 72% of the expenditures. In the Fire and Police Departments, the trend is especially striking. In the Fire Department, personnel costs are 88% of the budget. In the Police Department, personnel costs constitute 83% of the budget.

Reserves. Estimating reserves is a complex and uncertain task. Caution guides our foresight. Staff estimates in a broad range or band for the General Fund (GF) December 31, 2011, ending fund balance. The consensus Administration/Finance estimate is between \$3.3 and \$3.8 million. The financial goals and Council goal of preserving 17% of GF in reserve are met across this forecasted band. Using the mid-point of the range, and the proposed 2012 General Fund's proposed revenues and expenditures, the ending 2012 GF balance would be upwards of \$3.1 million. Despite the vagaries of estimating, the important point is that adequate reserves are set aside and protected in this budget. The Council's 17% goal is "structured into" the budget.

The proposed budget estimates that \$336,778 in GF reserves will be programmed to balance the 2012 GF. This is from a conservatively estimated balance of \$3.4 million. The total amount of reserves (\$3M+) is substantial. The fact that the past three years have seen stabilization of the reserve "drawdown" is reassuring. Expenditures and revenues will continue to be closely monitored, with a recommended major spring budget review.

Capital. Many scheduled elements of the Capital Facilities Plan (CFP) are in the budget. The City is able to continue a Street Rehabilitation project, funded with \$300,000 in REET revenues. Several other capital projects are funded with "outside" grants, and favored loans. The largest of these is the Wastewater Treatment Plant Upgrade, Phase II, which includes an additional clarifier. Here is a list of top capital projects for 2012, with budgeted amounts for that year:

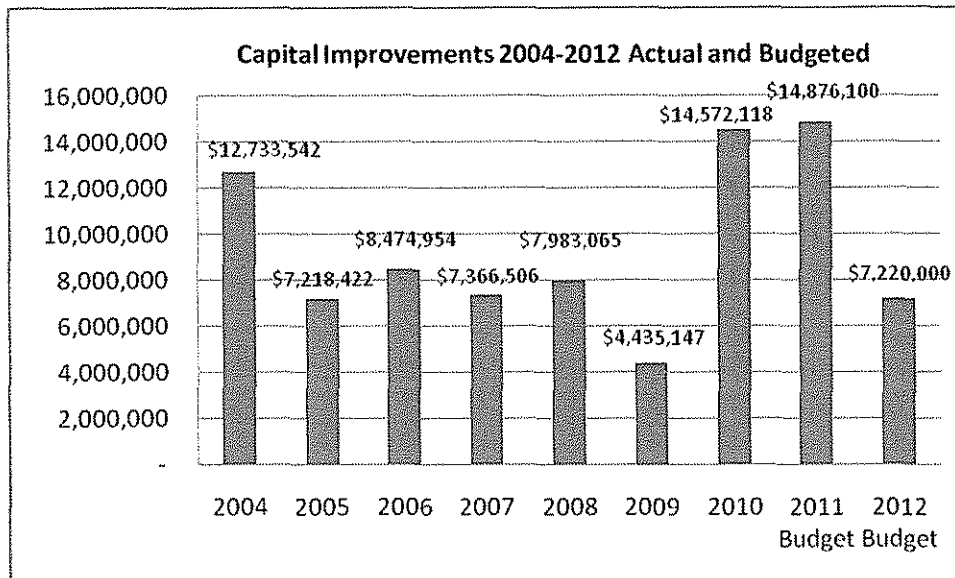
2012 Top Ten Capital Projects

NW 38 th Ave Street construction	\$4,400,000
Joy to wastewater treatment plant bypass design	400,000
Roadway Preservation	300,000
Reservoir Design – Gregg Zone	300,000
Major upgrades to pump stations system wide	250,000
Crown Park ADA Sidewalks	160,000
Open space acquisition	150,000
Goodwin Road trailhead parking	80,000
NW 38 th Ave waterline extension	80,000
Heritage Park conversion	75,000

As a budgeting practice, generally items which are dependent of grant funding for which grants are not yet assured are excluded from the budget. As grant or other outside funding is secured and/or necessary agreements with cooperating agencies are prepared, project budget appropriations will come forward for Council action.

Capital Investment:

The following chart depicts historic levels of capital investment.



Over \$7 million in capital investments are reflected in the 2012 budget. This represents a strong and important level of capital investment in community infrastructure. Solid infrastructure investment has proven a fundamental of a strong local economy and a very livable community.

Other Highlights:

Economic Development Partnership. The 2012 budget—in the Community Development Department – includes \$50,000 towards an East County Economic Development Partnership. This is the second year of funding for this initiative. The partners include the Port of Camas-Washougal, and the City of Washougal. This timely cooperation to focus and promote our area’s economy is underway, and has been the subject of updates and reports. The cooperating partners have also budgeted funding toward this effort, in the amounts of \$100,000 for the Port and \$50,000 for Washougal. Council has received periodic updates on this prospective economic initiative, and an interlocal agreement between the partners has been adopted and implemented. The partnership aims to promote and grow our East Clark County economy, with gains in employment, investment, tax base, and community vitality.

Emergency Medical Service/Fire Department. The EMS budget faces the most difficult and complex set of challenges. Assessed value declines in prior years have placed big stresses on this quality service’s financing. For 2012, an estimated \$150,000 in system reserves will be needed to balance. By Finance Department estimates, this will exhaust the systems reserves in 2012. The proposed budget’s administrative charge for 2012 is \$133,424. Based on current estimates of system revenues—including assessed value taxes of the partner jurisdictions and fee revenues—a portion of the administrative charge is proposed for deferral. Such deferrals have been done twice in the past two decades. The specifics of the deferral include an interfund loan, memorialized in a resolution adopted by the City Council. The estimated loan amount is \$85,000. As definitive information about property tax (AV) revenues becomes available the loan amount may be adjusted to reflect this. As 2012 proceeds, the

EMS system will see the further results of the “trial consolidation” initiative implemented in the fall of 2011. Further efficiencies are expected with the cooperation of the partners and full team. Further options for partnerships are under study as we enter 2012. After analysis and discussion, more action will be needed. The Camas EMS levy will expire at the end of 2012, and this will “push” study and action. There is recognition that the system’s financing needs attention of the partners.

Recognizing the impact of sharp assessed value revenue declines, and the value of the EMS system, the City of Washougal took very significant steps. Concurrent with the beginning of the “trial consolidation”, Washougal a) hired an additional fire department staff member to help with coverage; b) supplemented the EMS revenues with a \$95,000 cash payment; and c) purchased a new ambulance. These very important actions and the collaboration with the Washougal City leadership in these matters is gratefully acknowledged. The helpful cooperation of the system employees and their union representatives is also appreciated. The focused “problem-solving” work of Chiefs Brachmann, Swinhart and Schumacher contributed to the daunting task of “*righting this ship*”. More work, problem-solving and cooperation lie ahead in 2012, which must be a year of further action.

More broadly, the option of “functionally consolidating” fire services for the two communities is under continuing study. The potential options could lead to forming a Regional Fire Authority for Camas and Washougal. This examination of options is being done by a broadly based committee, including the Mayors, Fire Chiefs and two Council members from each City. Their work has been assisted by Mr. Paul Lewis. These discussions and deliberations will continue into 2012. Further cooperation and partnership between the two Fire Departments could take many forms, building on the current interlocal agreements, mutual aid, and working relationships. Also, an even wider (potentially county-wide) fire consolidation series of options has been analyzed. With the study costs borne by others, the Emergency Services Consulting International firm has examined more expansive options. A draft of ESCI’s study has been released (early October) and is being reviewed by the “stakeholders”. Additional reports and “check-ins” with the two City Councils are expected on all these matters in the new year. Formation of a Regional Fire Authority would ultimately be a question for the voters to decide, if the committee finds it a feasible recommended model. The most pressing matter is the review of the EMS system, and the challenge of finding the best, sustainable “path forward” to assure that our citizens have good Emergency Medical Service.

Austerity measures. To construct the four “recession budgets” of 2008-2012, a long and continuing series of austerity measures, curtailments and cuts were implemented. There has been great reliance on the departments and the department directors in the internal prioritization of expenditures to be included (and excluded) from the budgets. There are many, many examples of the reductions and deferrals which were made to construct these budgets. The sharpest reductions were implemented in 2011, and those have helped to focus our services and expenses and form the base of the proposed 2012 budget. Fortunately, we appear to have reached a steady point. Perhaps we have unknowingly witnessed “the turn”. In the coming months, we may see more clearly what we now only sense. We will remain watchful, nimble, and engaged. A special spring budget session is recommended for an updated review.

REVIEW of the Proposed 2012 General Fund Budget:

The recommended appropriation for the General Fund in 2012 is approximately \$16.1 million.

<i>General Fund</i>			
	ADOPTED	PROPOSED	INCREASE
	2011	2012	(DECREASE)
Operating Programs	\$15,695,084	\$15,985,957	\$ 290,873
Capital	\$ 95,000	\$ 120,000	\$ 25,000
Total	\$15,790,084	\$16,105,957	\$ 315,873

OVERVIEW of the Proposed 2012 Budget for All Funds:

The proposed 2012 budget for all funds is \$41 million; \$8 million less than budgeted for 2011. The “all funds” appropriations are reflective of capital project appropriations, including water/sewer capital projects (estimated at \$7 million) as well as the utility functions (i.e. refuse collection, water, sewer, etc.) and the General Fund.

CITY WORK FORCE:

Forty-two percent (42%) of the entire “all funds” 2012 budget is allocated to personnel salaries and benefits. City employment in 2011 was 175.42 FTEs, and is estimated at 174.84 in 2012. This is a stable staff to serve a growing population. The staffing levels benefit from the co-operative agreements for service with the City of Washougal. Approximately \$38,380 is allocated for uniform and clothing allowances. The budget, as prepared, reflects the known costs of personnel under existing collective bargaining agreements. Staffing flexibility within related classifications, as detailed in prior budget messages, continues.

Training. Training is important. Limited training, especially related to keeping required certifications and current professional skills and knowledge is included in this budget. The training provisions are not robust or substantial, however are included in modest amounts. Professional updates increase competency and efficiency, help our ability to attract large “outside funding”, and bolster the professionalism of Camas’ team.

Retirements and Recruitments. Our City workforce is aging. With few new hires in the past several years, and low turn-over rates (about 4% per year over the past decade), the average age of the staff is increasing. Although no senior staff has declared retirement plans for 2012, these possibilities exist. This is especially true for long term staff who is fully vested in Washington Public Retirement programs. Up to an estimated 10% of our workforce *may be eligible* for retirement or early retirement. In the absence of declared retirement plans, budget provisions are made for such retirements, related costs such as sick leave cash-outs, and/or related recruitment(s). Provision for the retirement “cash-out” of the estimated vacation and partial sick leave balances for one declared 2012 retirement are prudently carried in the Police budget. The HR budget includes NO funding for assisted recruitments. Reduced levels of other personnel activities (recruitments, transfers, summer hires, etc.) are foreseen and budgeted.

SUPPLIES, SERVICES AND CHARGES:

Sixteen and seven-tenths percent (16.7%) of the “all funds” 2012 budget is related to supplies, services, and charges. Detailed information on the categories listed below can be found in the body of the budget document:

<i>Professional Services</i>	\$1,289,736
<i>Intergovernmental Services</i>	\$1,117,900*
<i>Public Utilities</i>	\$1,505,830**
<i>Supplies (includes chemicals)</i>	\$1,285,775
<i>Vehicle Maintenance/Fuel</i>	\$ 376,416
<i>Repairs and Maintenance</i>	\$ 606,460
<i>Insurance</i>	\$ 435,700
<i>Small Tools</i>	\$ 284,823

* Includes jail, corrections, and court expenses.

**Includes solid waste tipping fees.

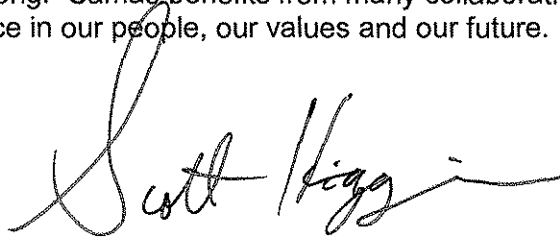
DEBT OBLIGATIONS:

Nine percent (9%) of the "all funds" budget goes toward debt repayment for the current year. General obligation debt repayment totals \$1,187,531 for 2012 and revenue obligation debt for 2012 totals \$2,544,227.

SUMMARY:

Times remain difficult. This is a fourth "recession budget". The City of Camas 2012 Budget is stable, marked with steady services and capital investment. The long winter of 2011 may – in hindsight – be seen as a local economic and budget turning point. As we construct the foundations of future prosperity and preserve our community's livability, we have many advantages. The community has unity, leadership, and vision. Our base of citizens and businesses is strong. Camas benefits from many collaborative partnerships. We have an abiding confidence in our people, our values and our future.

Sincerely,



Scott Higgins
Mayor