

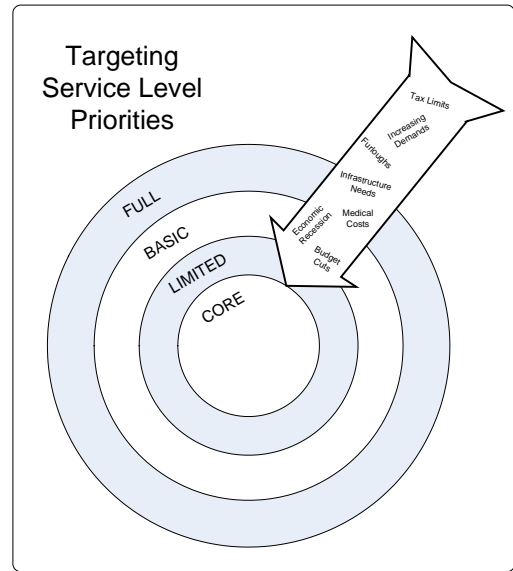
2010 REVISED BUDGET MESSAGE DECEMBER 7, 2009

The worldwide economic crisis that began a year ago in the Fall of 2008 likely will NOT lead to a “normal” recovery, but may be signaling a more fundamental change in our national economy. While there are signs of recovery on “Wall Street”, the recovery on “Main Street” and for the City may yet be years off. What will this “new normal” mean to families, businesses, communities and to the cities that serve them?

For the City of University Place, I believe that it means a return to basics, a Core level of services and lower tax levels. Anything above the Core funding levels will be dependant upon extra levels of community support in the form of dedicated revenues or contributions from volunteers and donors. Generally higher tax rates for higher levels of service Citywide simply may not be affordable nor supportable.

I am proposing Core level services for all departments and programs – including Police, Parks and Streets – and three new Special Revenue Funds with dedicated revenues for:

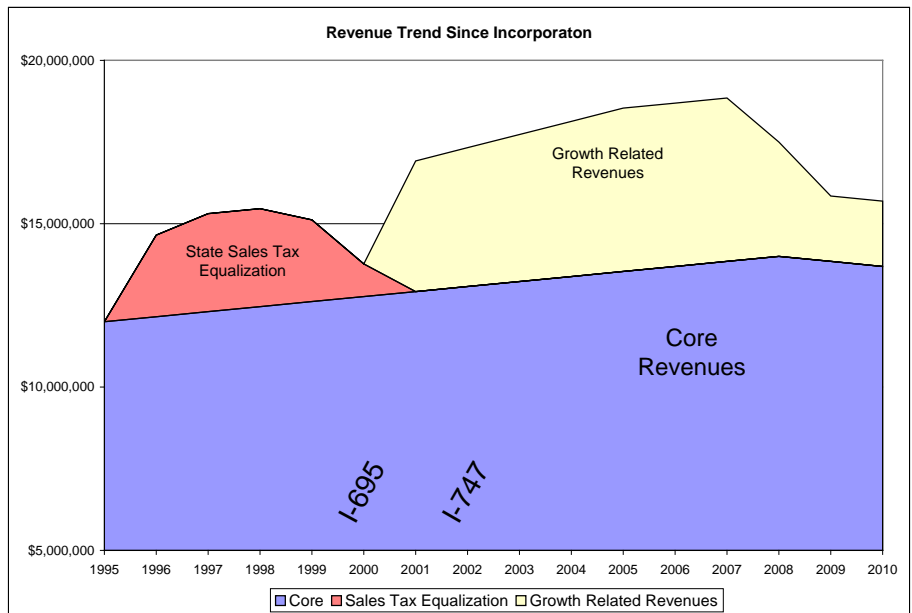
- Parks and Recreation
- Development Services
- Transportation Benefit District

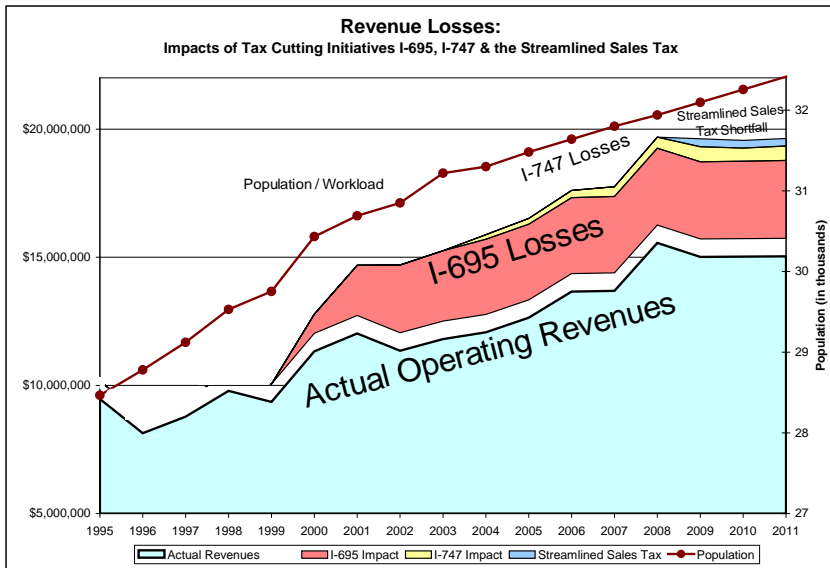


BUDGET OVERVIEW

University Place operates with a 2-year Budget. Normally at this time mid-Budget we would be making minor revisions. But as stated previously, this is not a “normal” Budget.

Since we incorporated as a City 15 years ago our core revenues have grown slowly from about \$12 million to now around \$14 million per year for general operations. We had been able to provide services at a much higher level in the \$15 million to \$18 million range initially with Sales Tax Equalization funds from the State, and then from 2002-2007 from strong economic, growth-related revenues. But after

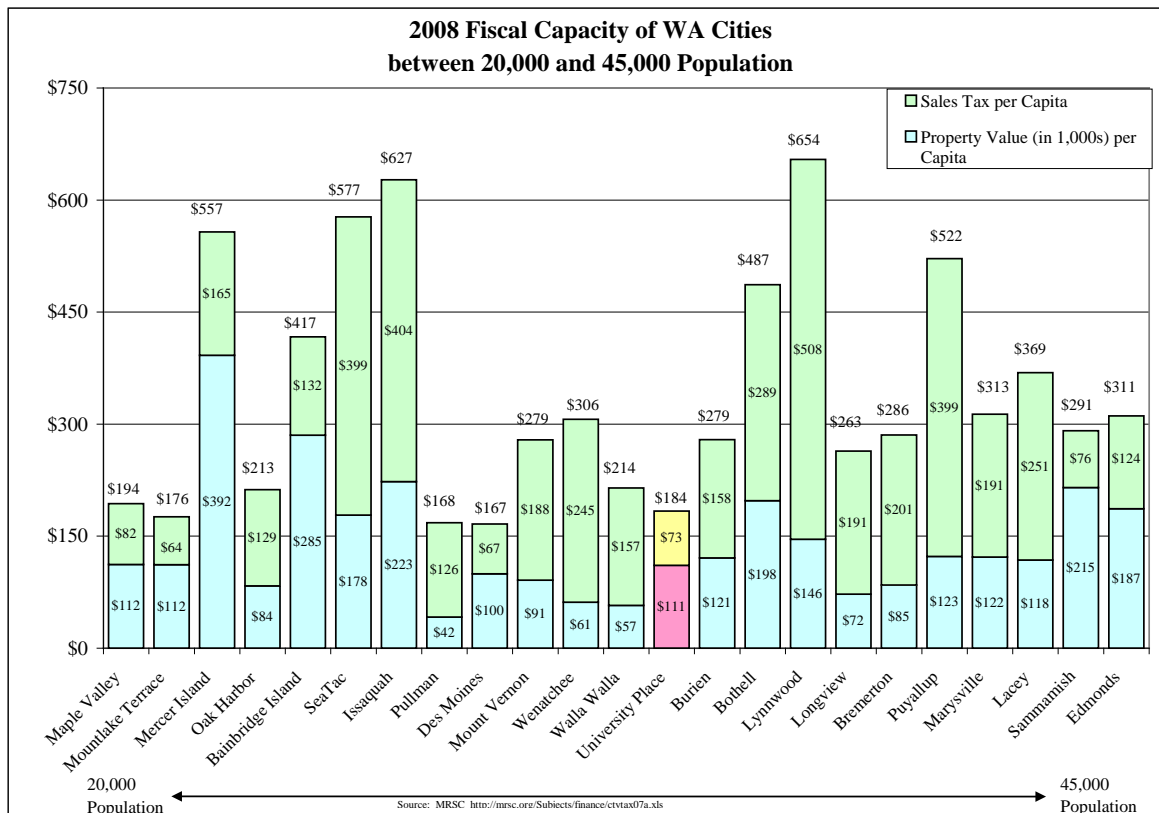


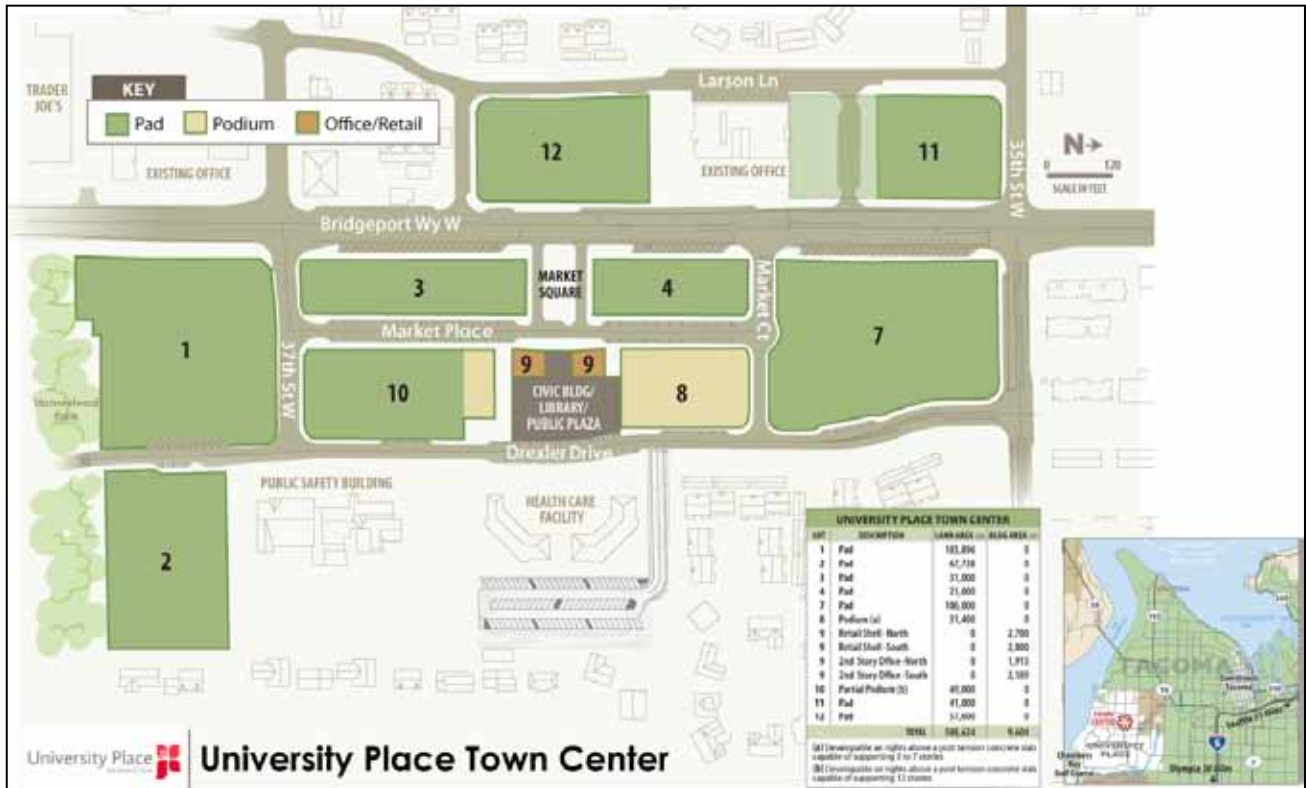


State-wide voter approved initiatives I-695 and I-747 permanently cut our revenues by \$3-4 million a year and then the recession shut down those growth-related revenues, we are back to our Core level resources. And, we have already been cutting Budgets for 10 years now. So, the Budget for 2010 will be even more challenging than for 2009.

University Place has among the lowest sales and property tax collections per capita for cities our size in the state. Town Center is our long-term investment and best chance in building a higher sales and property tax base for better levels of community services into the future. But Town Center has also been delayed by the economic crisis. So, until the economy begins to recover and WHEN Town Center proceeds, for the next few years, we need to adjust back to our Core levels of City services. With the proposed amendments to the 2009-2010 Budget we will:

- Lower the City property tax;
- Meet our Bond Debt obligations;
- Complete the new Library;
- Provide essential Core level services,
- And maintain other programs on a pay-as-we-go basis.





For Budget purposes we are planning AS IF there were to be no land sales from Town Center and assuming a slow economic recovery into 2012 and beyond. Then WHEN the economy begins to recover and when Town Center goes forward, THEN Council can begin to adjust services beyond Core levels. This conservative or “worst case” scenario is not to say that this will happen, only that we can meet all our obligations and provide for essential Core level services UNTIL the economy recovers.

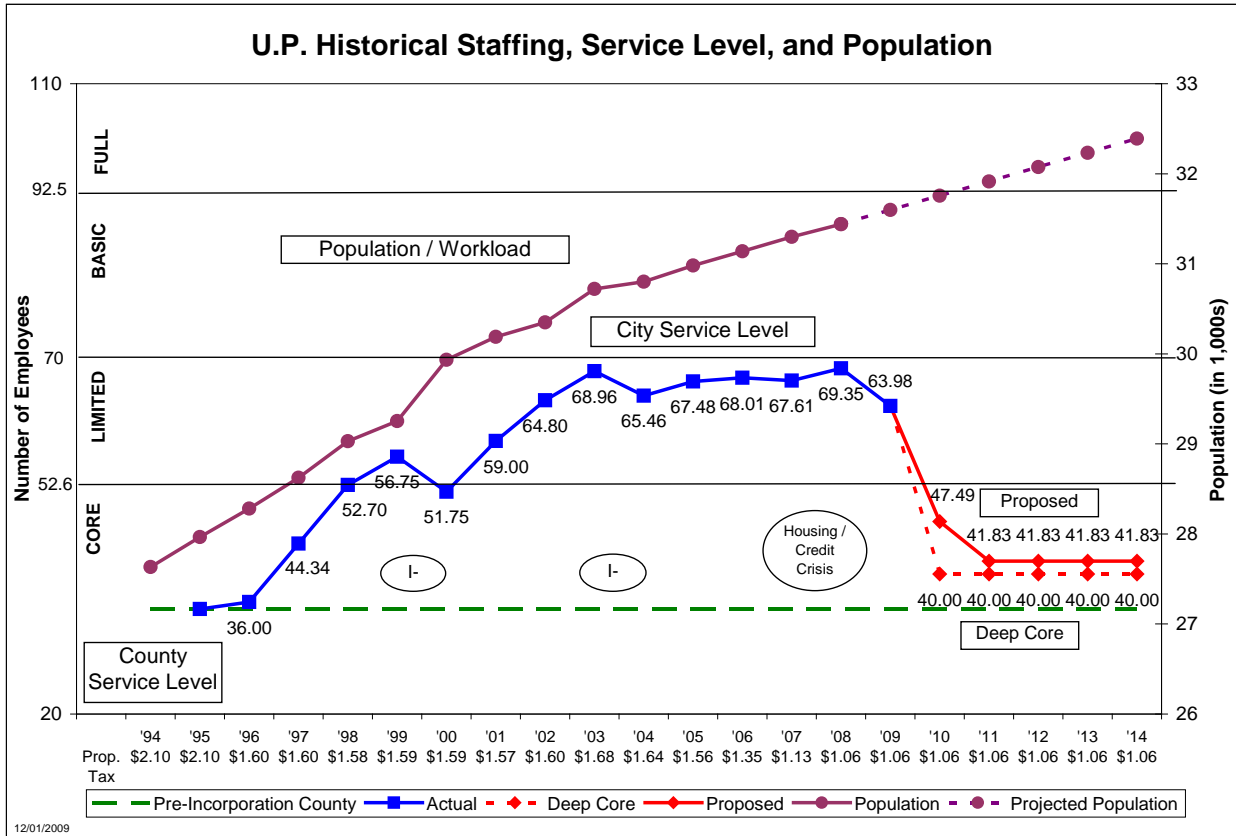
For 2010 we are also assuming the REDUCED PROPERTY TAX LEVY (\$70,000 lower than originally adopted) per Council’s action on 11/24/09 and assuming REVISED REVENUES \$4.4 MILLION LOWER due to the economy. We will use our RESERVES to balance 2009 and 2010, along with a \$1 million LINE OF CREDIT for cash flow needs and to offset even deeper service level cuts below Core levels, keeping our Strategic Reserve Fund of \$864,386.

In order to prepare amendments to the 2009-2010 Budget, we needed to find a sustainable new Core level of revenue and expenditure. Included in Council’s Budget materials are:

- Revised Organization at Staffing
- 2009 Revenue and Expenditure Amendments
- 2010 Revenue and Expenditure Amendments
- 2010 Cash Flow Assumptions
- 2010-15 Six Year Financial Forecast

REVENUE REVISIONS

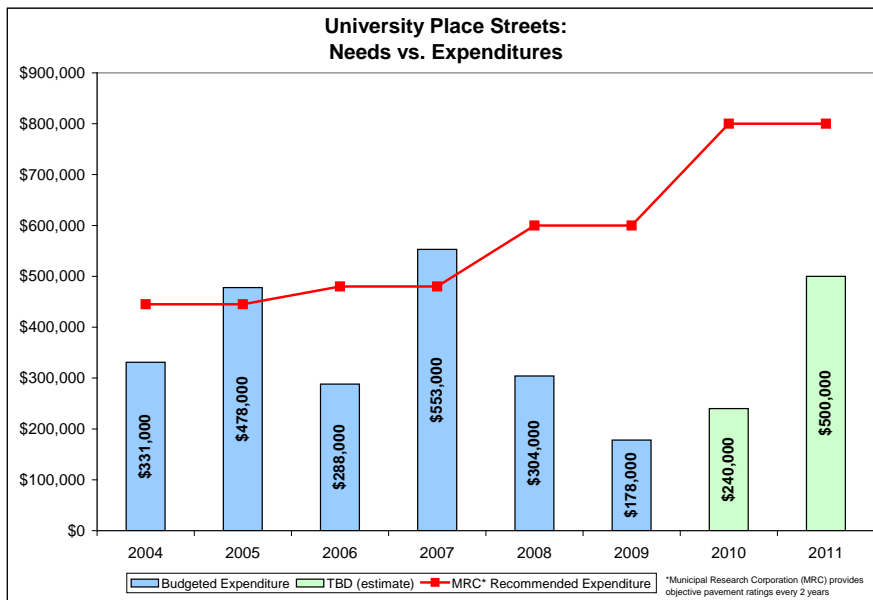
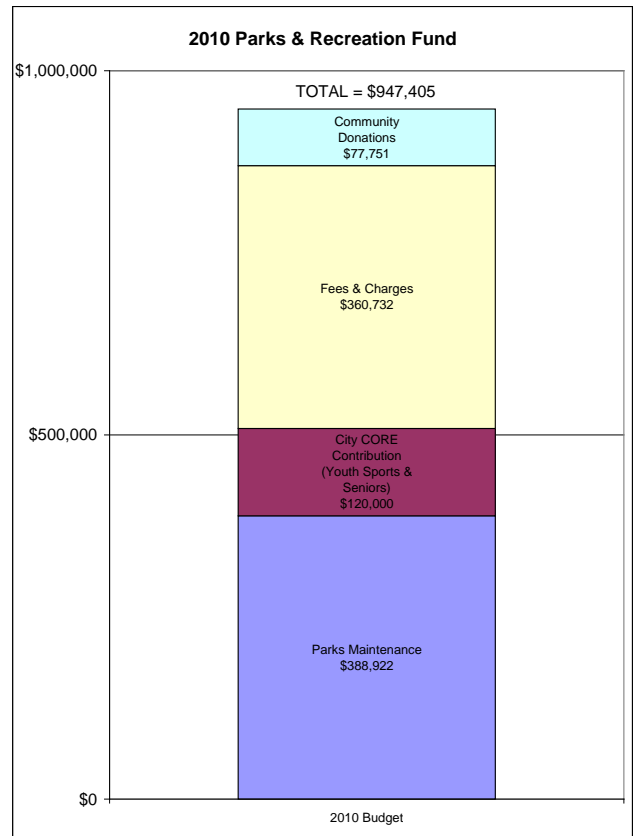
Following passage of I-695, and the resulting loss of 25% of the City's General Fund, the City began an aggressive economic development strategy leading to our investment in Town Center. We adopted a 5-Year BRIDGE STRATEGY reducing services to "Limited" levels and using reserve funds to bridge over the revenue gap. That 5-Year strategy has carried us for 10 years, but now we are back to Core levels until the economy recovers.



For 2009 amendments, the summary shows General Fund revenues UP \$146,068, but the details tell the real story. Development Service revenues from Building, Planning and Engineering permits were holding for the first half of 2009 then fell off dramatically and were DOWN about \$400,000 and was offset by the proposed TRANSFER of \$500,000 back to the General Fund from Equipment Reserve and Information Technology Reserve funds. Real Estate Excise Tax (REET) was DOWN \$200,000; Traffic Impact Fees DOWN \$400,000, and Parks Impact Fees DOWN \$180,000. We will use \$2 million of our \$4 million reserves to cover the 2009 revenue shortfall. Our 2009 ALL FUNDS ENDING FUND BALANCE will be \$5,960,089 and while substantial, this is \$2.2 million lower than the \$7,980,000 originally adopted.

For 2010 its not much better with the General Fund DOWN \$289,415; REET DOWN \$203,032; Traffic Impact Fees DOWN \$250,000; and Parks Impact Fees DOWN \$205,620; and, assuming no land sales, the CIP fund is DOWN \$3,044,177. And, yet to be included in the 2010 revision is the \$70,000 reduction in property tax by NOT taking the 1% increase allowed under I-747. Beyond these revenue adjustments, the 2010 Budget also includes some changes to Budget assumptions:

- The PARKS AND RECREATION Special Revenue Fund limits the General Fund contribution for Recreation to \$120,000 (\$10,000 per month) to guarantee Youth Sports and Senior programs, and \$388,922 for Parks maintenance. Recreation programs beyond the Youth and Senior Core revenues are dependent upon community donations to the Fund of \$80,110 and Recreation Fees of \$336,343 plus volunteers.
- The DEVELOPMENT SERVICES Special Revenue Fund will receive all of the permit fees from Building, Planning and Engineering plus General Fund support for general government planning. Engineering services outside the Fund will be shown as a Transfer to the General Fund.



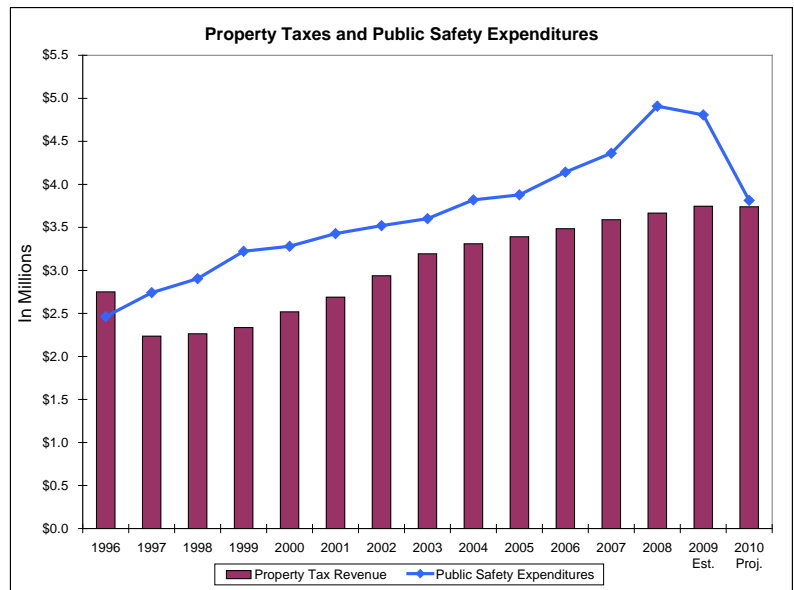
- The TRANSPORTATION BENEFIT DISTRICT (TBD) Fund proposes a \$20 per vehicle license fee dedicated to the Pavement Management Program exclusively for chip seals and overlay. Without this TBD revenue, the City's Core level pavement management will be limited to patching potholes and safety striping every other year.

- A \$1 million LINE OF CREDIT is proposed for approval in 2009 to cover mid-year cash flow needs between property tax collections in 2010 to meet our Library construction deadline by Fall 2010.
- And, a series of INTERFUND LOANS as needed in 2010 to balance remaining cash flow needs.

EXPENDITURE REVISIONS

As previously stated, the proposed 2010 amendments assume ALL departments and programs at Core levels for 2010 – including Police, Parks and Streets. And, while the Budget conservatively positions the City so we can hold at these levels for six years if needed, until the economy recovers, I do believe the Council will need to offer the community some alternatives before then: perhaps dedicating the Property Tax to POLICE/PUBLIC SAFETY purposes only, considering a separate U.P. Metro Parks proposal for ongoing PARKS AND RECREATION services; and, either through T.B.D. or Street Utility funds (if authorized by the Legislature), some dedicated ongoing funding for Streets (gas tax revenues only cover half of the current Core level needs).

As to our Core level Budget proposal, I did NOT cut as deep as I had feared I might have to. For 2009 we were at 63 full time equivalent (FTE) staffing levels (60 regular and 3 project positions). For 2010 I thought we might need to go down to 40 FTE or a 33% cut, but we should be able to hold at 47.5 FTE (46.9 regular and .5 project) for 2010 or a 25% cut to our operating budget staff levels. The Police Budget is also cut by 25% from 3-4 officers per shift to 2-3 officers per shift, so the property tax comes closer to paying for Public Safety services.



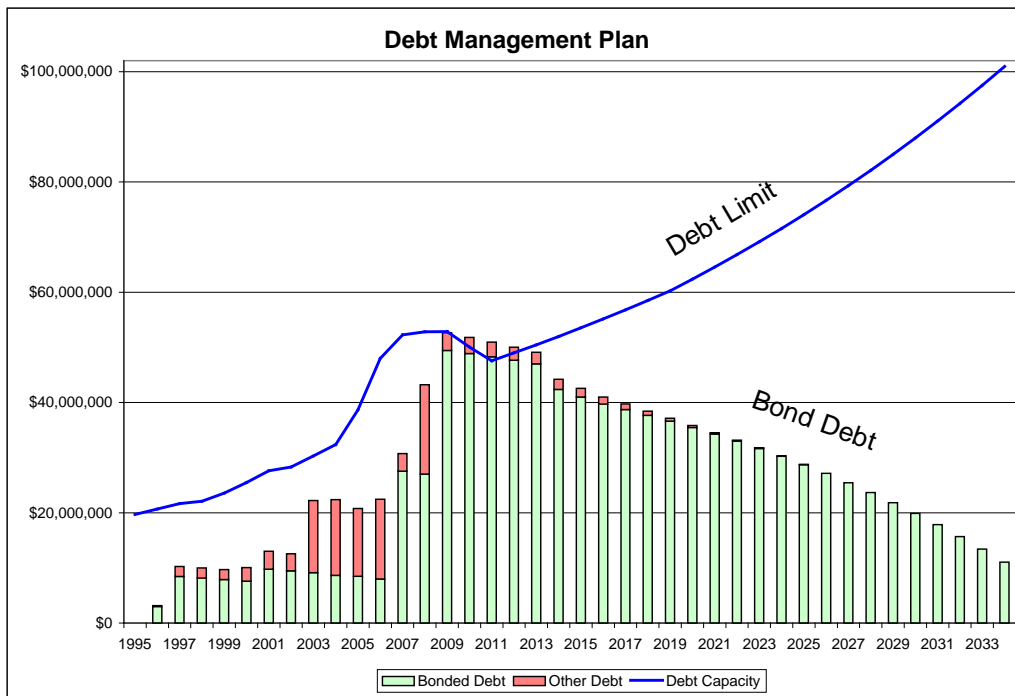
A variety of Budget cutting “alternatives” have been suggested over the last few months. We are proposing a mix of most all of them (excluding a B & O tax, nor business license fee increases):

- \$2 million staffing/service level cuts from Limited to Core levels (including Recreation at Core levels with 4 FTE):
- \$1.2 million Police service cuts (from 3-4/shift minimums to 2-3/shift);
- \$250,000/year cost increase avoidance by switching our County court contract to a partnership with the City of Lakewood;
- A 2% pay cut for employees from 5 unpaid furlough days (OEU employees per any contract re-opener);
- A 1% take-home pay cut by increasing the employee’s share of medical insurance costs from 90% City/10% Employee to 75/25 (OEU subject to re-opener or next contract).
- A 4% merit pay “freeze” for 2010;
- Line item cuts of \$900,000 (\$200,000 in 2009 and \$700,000 in 2010);
- Community Events are limited to community-based volunteer-run events (except for the Christmas Tree lighting);
- C.I.P. on a grant or pay-as-we-go basis only;
- Deferred equipment replacements into the next 2011-12 Budget or beyond;
- Additional miscellaneous line item cuts to offset the \$70,000 lower property tax levy after the 11/24/09 Council action.

FINANCIAL FORECAST AND DEBT MANAGEMENT

As a part of balancing the 2009-2010 Budget amendments, it was important that we look forward to not only maintaining our operating Budget service levels, but also meeting our commitments to our Bond holders, and matching our C.I.P. and grant obligations. Our fund-by-fund Financial Forecast goes out six years through 2015 and covers the period for repayment of the 2013 balloon payment/refunding and through the U.S. Open events in 2015. Our Financial Forecast assumptions are extremely conservative, but are intended as a financial foundation from which to rebuild City services and C.I.P. programs after repayment of Town Center borrowed funds from future land sales. Our assumptions are:

- Revenues grow at 2% annually;
- Expenses grow at 5% annually;
- Revenues from the U.S. Open at \$800,000 in 2015 (beyond direct costs covered by Event permits);
- Employees at Core level 42 FTE for 2011-15;
- Police at Core level 2-3 officers/shift;
- \$12.5 million balloon repayment in 2013 and \$8 million refunding at 5.5% IF NO land sales; repay sooner and without debt refunding if land sales before 2015;
- Set aside \$4.5 million by 2013 towards Balloon repayment (part of the General Fund prepayment of the \$14 million for the new City Hall vs. a sale-leaseback with Town Center developers);
- Current property tax with 1% increase after 2010 (\$350,000 lower over 5 years);
- No General Fund CIP contributions after 2010;
- No additional General Fund capital replacement contributions through 2015;
- No land sales, so no Town Center development or post-development expenses through 2015;
- City Hall T.I.'s completion deferred until land sales occur;
- Police Station completion deferred until land sales free up T.I.'s fund from Fire District purchase agreement.



TOWN CENTER AND LAND SALES

The Town Center investment is funded from grants and land sale revenues. Land sale revenues need to be used to repay any Town Center-related General Fund advances and repay outstanding Bond debt beyond new revenues generated. The City Hall portion of the project (approximately \$14 million) is considered a general government expense, not a Town Center cost as such.

WHEN land sales from Town Center do recommence, Council will need to avoid the temptation to restore ongoing service levels with these one-time revenues. Land sale revenues must first be used to (not in any particular order):

- Repay the 2013 Balloon payment;
- Complete the Garage T.I.'s;
- Complete the City Hall and Police Stations T.I.'s;
- Construct Market Court;
- Free up LRF/LIFT Bond capacity to access the \$12.5 million in State funds;
- Buy down long-term debt to levels matching new Town Center revenues towards Debt Service and service level increases.

Following land sales, the City can expect to see:

- Development Fees in the same year as land sales;
- Construction sales tax and R.E.E.T. funds in the year following land sales; and, then,
- Retail sales and new property tax revenues 2-3 years following land sales.
- Then net new revenues available for further Debt repayment, C.I.P. funding and/or service level increases.

CONCLUSION

University Place is a great community with a weak tax base. Without stronger sales tax revenues and a broader property tax base, University Place will not be able to afford anything beyond Core level services without higher tax levels per household.

Town Center is our long-term investment in building a tax base. What we thought could be accomplished in 3-5 years, we now know typically takes 7-10 years. We are just going into year 7 and it may take into year 10, given the economic challenges. But Town Center will succeed in building **NOT ONLY THE TAX BASE** University Place citizens deserve, but the "PLACE" as a visual center and gathering place for the community.

The 2009-2010 Budget amendments will guarantee we provide the minimum Core level services, meet our Bond debt obligation and commitments to the Library, while we position our City and our community for economic recovery, whether sooner or a bit later.

Respectfully Submitted,

Robert W. Jean
City Manager