



2013 Operating Budget Summary

Letter from Steven R. Hall, City Manager

Council Members, Citizens, and Employees,

"Forecasting is very difficult, especially if it is about the future." - Niels Bohr, 1922

I believe Mr. Bohr's statement is more true today than 100 years ago. Certainly it is true for our budget.

The national news and the Internet are rife with stories about local and state governments struggling with flat and declining revenues, unfunded pension obligations and drowning in debt at a time when demands for services are increasing. The federal government, often a source for local revenue, is dealing with its own crushing debt issues.

We are still in a recession. Home sales and assessed values are stagnant or declining. Expenses for pension and medical insurance benefits alone outpace the growth in revenue. In the past few years we have made tough decisions, we took prudent steps to streamline operations, and we aggressively managed our expenses. Relying on the Long Term Financial Strategy (LTFS) developed with the community over a decade ago has provided us with a firm foundation, and it has guided decision-making during these difficult times. Our LTFS focuses on aligning the right level of community investment in government with services focused on community priorities.

This recession has lasted longer than anyone expected. Citizens, businesses and governments alike have been impacted. Nevertheless, we can learn some lessons from this that will better prepare us for future uncertainties. I hope that the pendulum is swinging back; but we must continue to institute reforms now, and anticipate and prepare for those uncertainties.

A Reformation Begins

Our experiences over the last several years have demonstrated the need to rethink and reform our way of doing business. The reformation of City service delivery in 2013 begins with the following six steps:

Reformation of City Service Delivery in 2013

1. Except for public safety, future pay increases are dependent upon increases in sales tax revenues.
2. Except for public safety, new employee health plans will be capped at a base amount. New employees may choose a higher cost plan, but must pay the difference.
3. Except for public safety, employees will pay a portion of their medical costs.
4. The commute trip incentive for employees will be eliminated.
5. Longevity pay for non-represented employees will be eliminated.
6. Contracting out seasonal street tree, roundabout and median maintenance will be evaluated for potential cost savings.

Over the long term, these changes will significantly reduce the need to cut services and staff. Over the last few years, we have learned cutting is not a budget strategy—reform must be the strategy.

The General Fund

The General Fund, comprising the basic municipal services, has increased 2% over the 2012 Budget, including the sales tax increase for Public Safety.

Our two biggest expense drivers are again benefit and maintenance costs. Another Public Employee Retirement System (PERS 2) increase is proposed for July 2013. The employer rate was 5.31% in June 2011. The increase included for 2013 takes the employer rate to 9.21% beginning in July. Unlike some states, Washington State's retirement system is financially sound and provides our employees some retirement security, but at a high cost. In 2013 we will also see a 15% premium increase by Group Health and a 6% increase for Regence medical costs. Olympia participates in an insurance pool with the Association of Washington Cities. The pool has been successful in helping to avoid major spikes in premium rates but certainly does not eliminate the increases. Beginning January 2013, newly hired employees may choose between two insurance options, with the City paying for the lowest cost option.

The second expense driver is maintenance. The City owns 19 buildings or facilities. As the economy struggles, the use of these buildings expands – especially the library, community center and City Hall. We need to make major investments in our assets now. The Capital Facilities Plan includes \$600,000 for building repair and maintenance. This is inadequate for our long-term needs. In late 2013 we will issue debt to pay for the Washington Center repairs. We will charge the debt service for the bonds to the building repair fund, but the amount remaining is insufficient to meet future building repair needs. Therefore, I will also present the Council with revenue options to consider during 2013 to solidify our foundation.

As in past years we are not budgeting some reserves in 2013. We do not include funding for LEOFF 1 (Law Enforcement Officer and Fire Fighter) long term care (\$50,000), additional general fund support for the Building Repair and Replacement Fund (\$414,600), the fire equipment reserve (\$88,500), or the \$1 per capita for the Arts. I am proposing to use any 2012 year end surplus to restore reserves. This is risky—the carryover may be insufficient, but follows our LTFS by allocating excess fund balance back into the base budget, rather than adding/expanding services.

Utilities

The 2013 budget continues to move us toward implementing our Utility Comprehensive Plans. As with the general fund, maintaining our utility infrastructure is critical. At the same time, we recognize the financial hardship on Olympia residents and tried to keep rate increases as low as practical. Under state law, the utilities are managed as separate enterprise funds with dedicated funding supported through rates and charges. Consistent with the LTFS, the 2013 budget reflects a

"smoothing" of the rate increases and general facility charges. In order to continue implementing work on the utility master plans, the following rate increases are being implemented for single-family residential customers:

Proposed Rate Increases

LOTT	3%
Drinking Water	7%
Stormwater	6%
Wastewater	0%
Waste ReSources	0%

General Facilities Charges (GFC)

Drinking Water	3.9%
Stormwater	3.9%
Wastewater	3.9%
Waste ReSources	0%

In Drinking Water, revenue is consumption based. The actual percentage of water rate increase is determined by usage. Given revenue volatility in recent years, staff and the Utility Advisory Committee (UAC) have recommended an increase in the Ready to Serve charge. This would be the second time in a three-year phased increase. In addition, the Ready to Serve charge is proposed to be a fixed charge. Therefore, customers that have no consumption in a month will still pay the minimum Ready to Serve charge. The UAC and staff are hoping this will reduce the number of requests to turn water on and off due to extended absences. In Stormwater, one half of the cost of the street sweeping program (\$121,000) will be borne by the Stormwater Utility because of the benefits to the surface water quality.

In order to smooth out the rate increases, staff and the UAC have recommended using fund balance above reserves for Wastewater, Stormwater, and Waste ReSources.

Revenue Outlook

In November, the voters agreed to a 1/10% increase in sales tax for Public Safety. The 2013 and future budgets would have looked very different without the voters' support. The sales tax increase should generate \$1.2 million on an annual basis. However, due to the effective date of the increase, the 2013 budget includes only \$600,000. Along with the 1/10% sales tax increase, I will be discussing a 6% utility tax on cable with the Council. This could generate approximately \$800,000 on an annual basis. I did not propose this to balance 2013, but rather, consider the tax as part of a long-term vision. A sustainable budget goes beyond cutting or balancing now—it must have sustainable vision.

Overall, the City's revenues are up less than 1% compared to 2012. In the general fund, revenues are flat, even with the voter approved sales tax. Sales tax is the most significant single revenue source. Sales tax on the construction of the State Information Services building and City Hall helped shelter us from the impacts of the recession.

With general fund revenues flat or decreasing and double digit expenditure increases for insurance alone,

we have to look at alternatives. This prompted the transfer of \$220,000 of REET taxes from the Capital Budget to the Operating Budget. This is something I did after careful thought and will require us to cut \$220,000 from the pavement management projects in the Capital Facilities Plan. In 2011 legislature expanded, for a limited time, the uses of REET. Cities may now use REET for operation and maintenance of existing capital projects (sunsets in 2016). This provides an option while we work with the Council and citizens to evaluate other revenue sources. There will still be a need for new revenue for basic municipal services, even with the voter approved sales tax increase. During 2013, I will work with the Council, citizens and staff to evaluate other options.

Unknowns

In any year, we are forced to make some assumptions about initiatives, legislative changes and voter demands. However, 2013 seems to have a greater number of unknowns and uncertainties.

Some of the unknown issues include:

Financial Impact "Unknowns"

- Potential loss from Federal sequestration
- Impact of Health Care Reform
- Financial impact of legalizing marijuana
- Cost to implement case load requirements for Public Defenders
- Unanticipated legislative budget actions

Some of these issues will unfold during 2013 and we must be prepared to respond.

Conclusion

Creating a sustainable budget will require several years with a number of complimentary efforts:

- Continue to trim costs and become more efficient.
- Generate and rely on more intergovernmental and community partnerships to do the work of the City.
- Selectively consider revenue options to replace stagnant income for the City.
- Drive down employee benefit costs.

Olympia is still a great place to live, work and play. We are building a responsible, sustainable budget over time. The 2013 budget positions us well to address our future challenges. We will continue to engage our community partners as we adapt to change and continue to reflect our community's values.

As always, I look forward to working with you, our employees, and our citizens to realize our vision for Olympia.

Respectfully,



Steven R. Hall
City Manager

City of Olympia Goals and Priorities

- ⇒ Adopt a Sustainable Budget
- ⇒ Champion Downtown
- ⇒ Change the Culture of Community Development
- ⇒ Inspire Strong Relationships



Long Term Financial Strategy - Key Financial Principles

- Make Trade-Offs
- Do It Well
- Focus Programs on Olympia Residents & Businesses
- Preserve Physical Infrastructure
- Use Unexpected One-Time Revenues for One-Time Costs or Reserves
- Invest in Employees
- Pursue Innovative Approaches to Service Delivery
- Contract In/Contract Out
- Maintain Capacity to Respond to Emerging Community Needs
- Pursue Entrepreneurial Initiatives
- Address Unfunded Liabilities
- Selectively Recover Costs
- Recognize the Connection Between the Operating Budget and the Capital Budget
- Consider Alternative Service Delivery to Maximize Efficiency and Effectiveness

Long Term Financial Strategy - Guidelines

What Should the City Do in the Following Year's Budget When the Financial Forecast is Positive?

- Assess the situation
- Maintain adequate reserves
- Use one-time revenues only for one-time expenses
- Use recurring revenues for recurring costs or for one-time expenses
- Stay faithful to City goals over the long run
- Think carefully when considering revenue cuts
- Think long-term

What Should the City Do Every Year, Whether the Financial Forecast is Positive or Negative?

- Increase operating cost recovery
- Pursue cost sharing

What Should the City Do in the Following Year's Budget When the Financial Forecast is Negative?

- Assess the situation
- Use reserves sparingly
- Reduce services
- Continue to think carefully when considering tax increases

City of Olympia Annual Budget Process



May/ June:

Strategic Planning

- Mid Year Budget Review - Council identifies current budget situation and begins to identify priorities, issues, projects, and focus areas for new budget year
- Budget instructions and guidelines distributed to City Departments.

July:

Financial Capacity/Needs Assessment

- Departments prepare operating budget proposals.
- Current trends and long-range impacts are identified.
- Budget needs and effect on operations are defined.

August/ September:

Review/Fine-Tune

- Departments meet with Budget Review Team
- City Manager and Budget Review Team, along with Department Directors, make adjustments that formulate City Manager's recommended budget.

October/ November:

Public Commentary & Workshops

- City Manager presents balanced Operating Budget to City Council.
- Council Study Sessions and meetings are held to discuss Utilities and proposed rate increases, Capital Budget, and Operating Budget.
- Council hears from boards, commissions, and community groups regarding budget requests, recommendations, and budget changes.
- Prior to November 30, Public Hearing on Capital and Operating Budgets.

December:

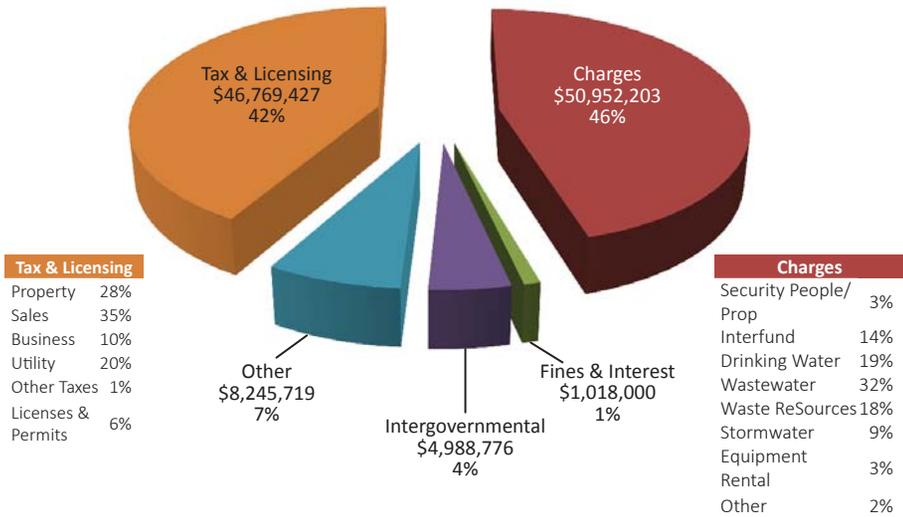
Final Adoption & Implementation

- Council adopts Operating and Capital Budgets by ordinance.
- Adopted budgets become effective January 1.



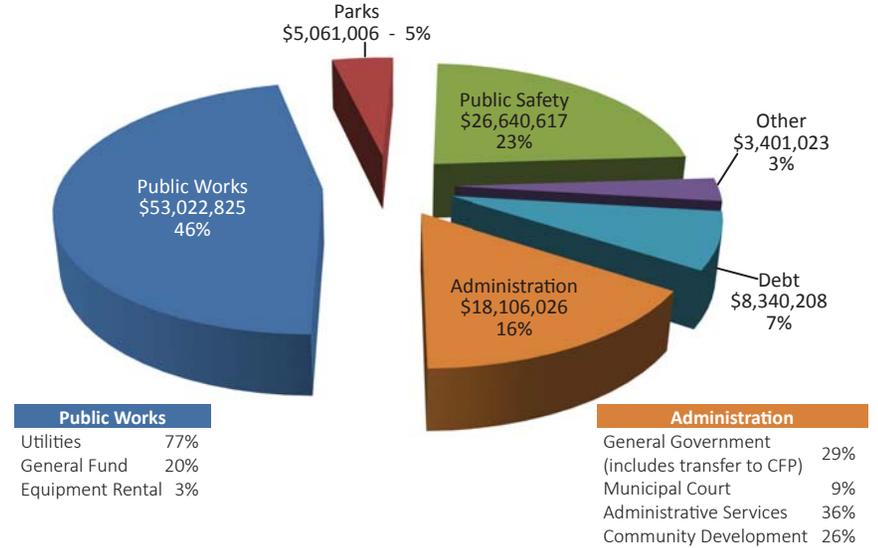
Where the Money Comes From:

Total Operating Revenues \$111,974,125



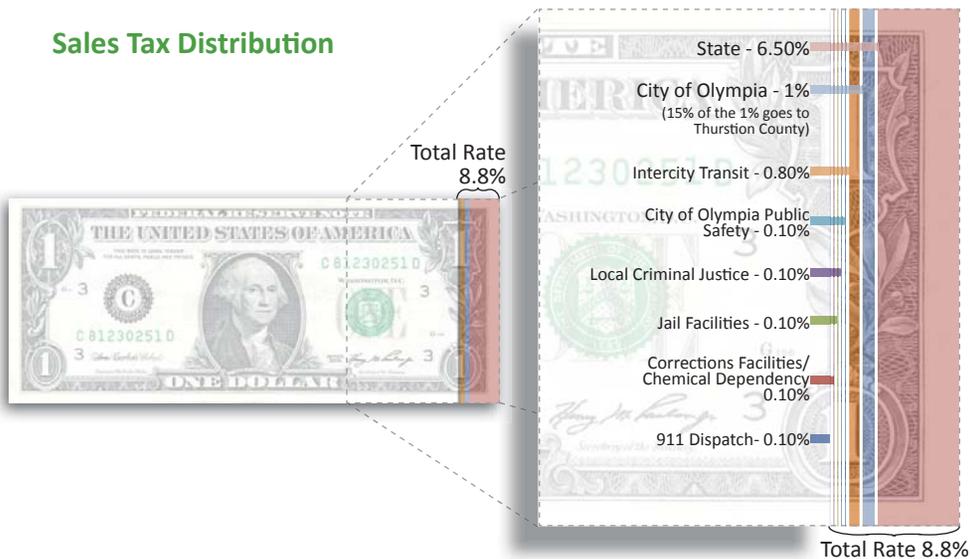
Where the Money Goes:

Total Operating Expenditures \$114,571,705



Where does your Sales Tax Go?

Sales Tax Distribution



General Fund Revenues

	2004 Budget	% of Total	2009 Budget	% of Total	2013 Budget	% of Total
Property Tax (*1)	\$ 8,152,000	17.3%	\$ 10,071,100	17.4%	\$ 9,591,500	16.0%
Sales Tax, regular & criminal justice	15,142,400	32.0%	15,867,500	27.4%	15,853,600	26.4%
Sales Tax, public safety (*2)	-	-	-	-	600,000	1.0%
B&O Tax & Licensing	3,699,700	7.8%	4,505,700	7.8%	4,748,000	7.9%
Utility Tax						0.0%
Private Utilities - 5%	4,155,800	8.8%	5,829,400	10.1%	5,429,200	9.0%
Private Utilities - adj from CFP (*3)			674,200	1.2%		0.0%
City Utilities (*4)	1,973,800	4.2%	2,375,300	4.1%	4,036,400	6.7%
State Shared Revenue	1,055,800	2.2%	1,682,000	2.9%	1,532,500	2.6%
State Fire Protection (*5)	672,800	1.4%	887,400	1.5%	842,200	1.4%
Fines, non-parking	583,700	1.2%	660,500	1.1%	418,000	0.7%
Interfund						
Engineering (*6)	1,423,900	3.0%	2,070,200	3.6%	3,848,400	6.4%
Non-Engineering	2,993,400	6.3%	3,484,000	6.0%	3,791,000	6.3%
Interfund, single use of REET (*7)	-	-	-	-	215,100	0.4%
Community Development & Planning	1,897,900	4.0%	2,418,500	4.2%	2,134,600	3.6%
Fire	1,665,000	3.5%	2,673,300	4.6%	3,003,800	5.0%
Parks, Arts & Recreation	736,700	1.6%	908,300	1.6%	878,700	1.5%
Parking	990,100	2.1%	1,287,400	2.2%	1,535,500	2.6%
Other	2,112,400	4.5%	2,515,300	4.3%	1,573,600	2.6%
Total	\$ 47,255,400		\$ 57,910,100		\$ 60,032,100	
Percent change since 2004			22.5%		27.0%	

NOTES

(*1) Property Tax Allocations, regular levy:

	2004 Budget	% of Total	2009 Budget	% of Total	2013 Budget	% of Total
General Fund	\$ 8,152,000	87.0%	\$ 10,071,100	86.9%	\$ 9,591,500	74.1%
Debt Service	751,100	8.0%	571,300	4.9%	2,253,413	17.4%
Firemen's Pension Fund						
2002 Actuarial Study	462,710	5.0%	572,500	4.9%	695,400	5.4%
Banked Levy Dedicated to Firemen's Pension			380,800	3.3%	396,300	3.1%
	\$ 9,365,810		\$ 11,595,700		\$ 12,936,613	

(*2) A 1/10th of 1% sales tax was approved by Olympia voters in November 2012. The tax became effective for retail sales as of April 1, 2013. The City receives the tax two months following the transaction month, e.g. City receives tax from April sales in June. The City expects to receive at least \$1.2 million on an annual basis from this tax.

(*3) To assist with balancing the General Fund budget, the City allocated part of the private utility tax (1%) generally dedicated to the Capital Facilities Plan.

(*4) 2004 and 2009 utility tax rate on City utilities was 7%. 2013 rate is 10% (wastewater, solid waste and stormwater utilities) and 12% (water.)

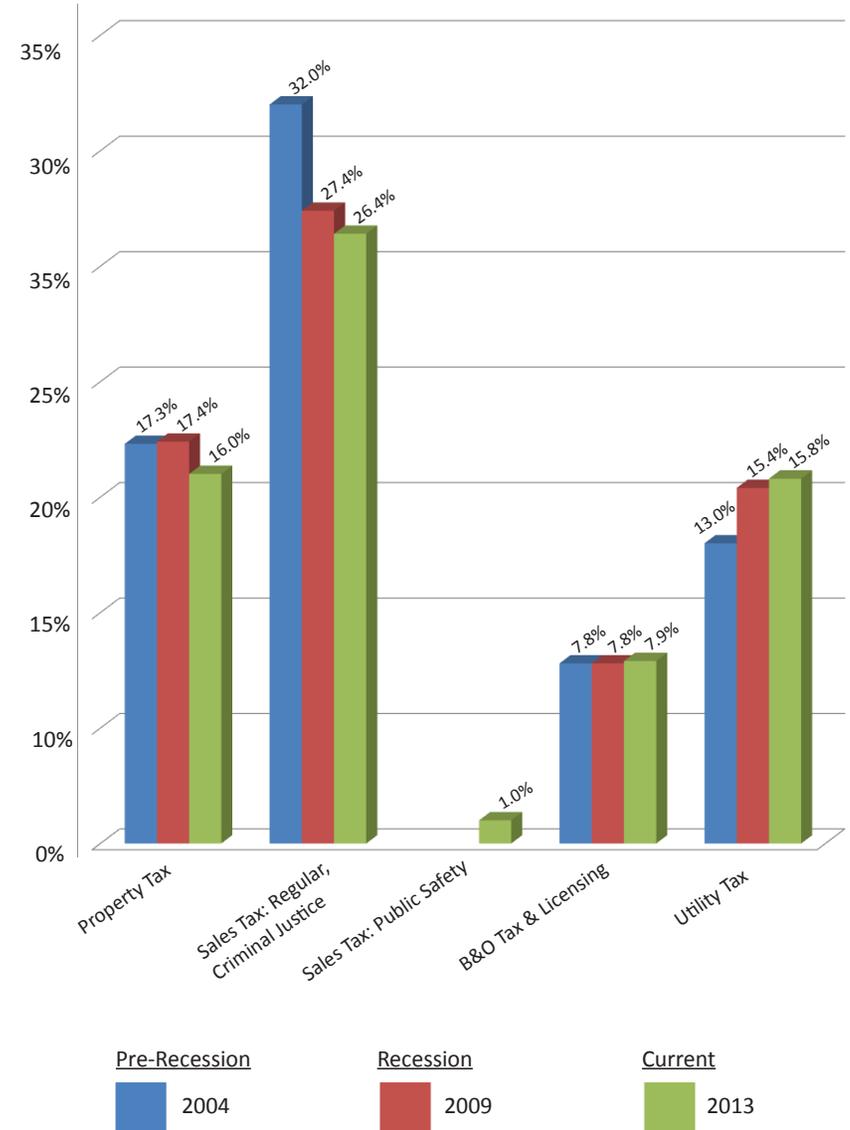
(*5) State pays a share of fire protection based on its percent of all commercial buildings. If the State's percentage is 10% or more, it is required to pay for fire protection. If less than 10%, it is optional for the State to pay for fire protection.

(*6) In 2010, Engineering project employees were moved into the General Fund; revenue was increased to pay added expense: about \$1,200,000 non-engineering major changes were to add facilities costs to administrative indirect overhead, about \$300,000.

(*7) Through December 31, 2016, the City may use a portion of REET for operation and maintenance of existing capital projects. As part of the 2013 budget, the City allocated a portion of its REET receipts to maintenance of transportation systems.

General Fund Revenues

% of Total Revenue



General Fund Expenses

Expenses by Type	2004 Budget	% of Total	2009 Budget	% of Total	2013 Budget	% of Total
Wages (*1)	\$ 27,804,500	58.3%	\$ 32,462,600	56.1%	\$ 34,335,700	57.0%
Benefits (*2)	6,805,200	14.3%	10,150,500	17.5%	12,487,500	20.7%
Supplies	1,577,200	3.3%	1,784,500	3.1%	1,621,800	2.7%
Professional Services	1,734,400	3.6%	1,843,300	3.2%	1,449,300	2.4%
Utility Cost	1,380,300	2.9%	1,752,000	3.0%	1,609,800	2.7%
Fleet Charges	1,376,960	2.9%	1,422,500	2.5%	1,656,500	2.8%
Contracted Jail Costs	715,000	1.5%	701,400	1.2%	460,000	0.8%
Other	6,261,940	13.1%	7,793,300	13.5%	6,585,900	10.9%
Total	\$ 47,655,500		\$ 57,910,100		\$ 60,206,500	
Percent change since 2004				21.5%		26.3%

Expenses by Function						
City Administration (*3)	\$ 6,008,700	12.6%	\$ 7,910,200	13.7%	\$ 9,169,700	15.2%
Special Accounts (*4)	2,850,300	6.0%	3,642,900	6.3%	2,549,600	4.2%
Court	1,552,600	3.3%	1,750,600	3.0%	1,641,500	2.7%
Community Development	3,233,000	6.8%	4,042,300	7.0%	3,701,700	6.1%
Fire (*1)	8,232,800	17.3%	10,371,400	17.9%	13,349,100	22.2%
Police	10,696,200	22.4%	12,938,900	22.3%	13,291,600	22.1%
Parks, Arts & Recreation	5,164,300	10.8%	5,857,600	10.1%	5,061,000	8.4%
Public Works						
Administration (*5)	2,048,400	4.3%	1,320,300	2.3%	216,900	0.4%
Engineering	2,061,900	4.3%	2,431,000	4.2%	3,491,100	5.8%
Facilities	1,240,100	2.6%	1,573,500	2.7%	1,640,100	2.7%
Transportation	3,725,100	7.8%	4,934,000	8.5%	5,050,800	8.4%
Parking	842,100	1.8%	1,137,400	2.0%	1,043,400	1.7%
Total	\$ 47,655,500		\$ 57,910,100		\$ 60,206,500	

NOTES

(*1) In 2011 the City added budget to fund the opening of its fourth fire station. The annualized cost of the opening of the station was \$1.4 million, of which \$906,000 was for wages and \$266,000 for benefits, with the remaining costs for operations.

(*2) Personnel Benefits as a % of budgeted wages:

Year	Total	Medical & Dental
2004	23.4%	12.4%
2009	29.9%	15.3%
2013	34.7%	19.1%

City retirement contribution rates (average):

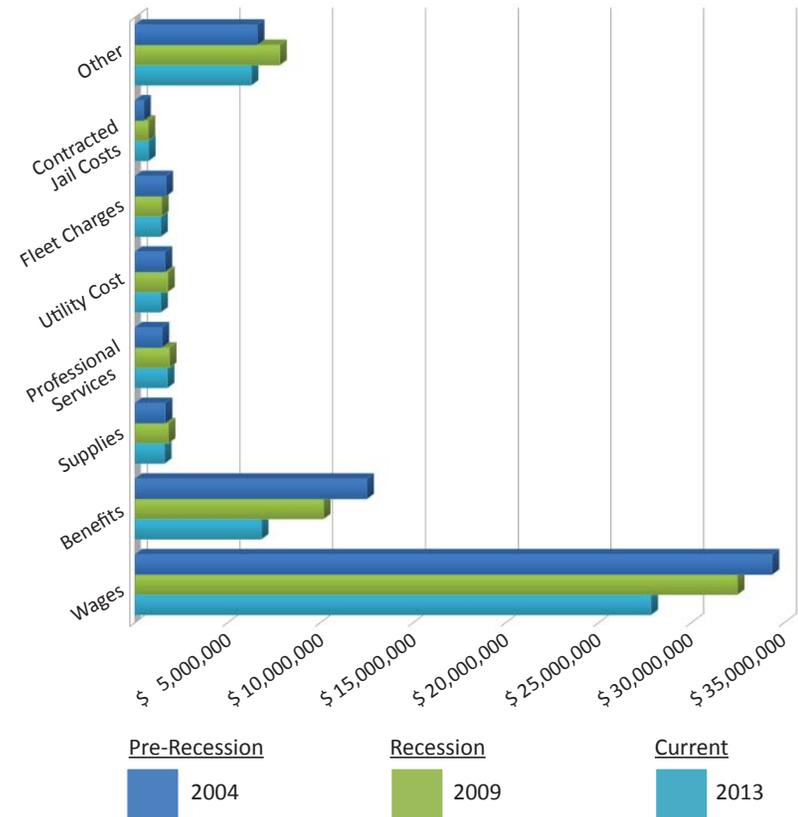
Year	PERS 2	LEOFF 2
2004	1.38%	3.25%
2009	5.31%	5.24%
2013	9.19%	5.23%

(*3) Increases from 2004 to 2009 were for added administrative responsibilities and duties. Increases from 2009 to 2013 are primarily related to Public Works administration changes, see note (5).

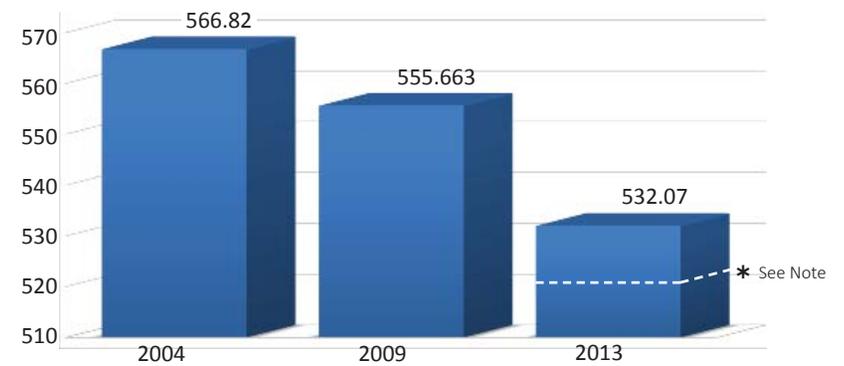
(*4) 2008 Special Accounts included \$1,400,000 for the City Hall debt service reserve.

(*5) Between 2004 and 2009, some Public Works administrative functions were re-allocated to different sections of Public Works. Between 2009 and 2013, most major functions of Public Works administration were transferred to other departments. The remaining portions, except for the Director and related supporting costs, were re-allocated within Public Works.

General Fund Expenses



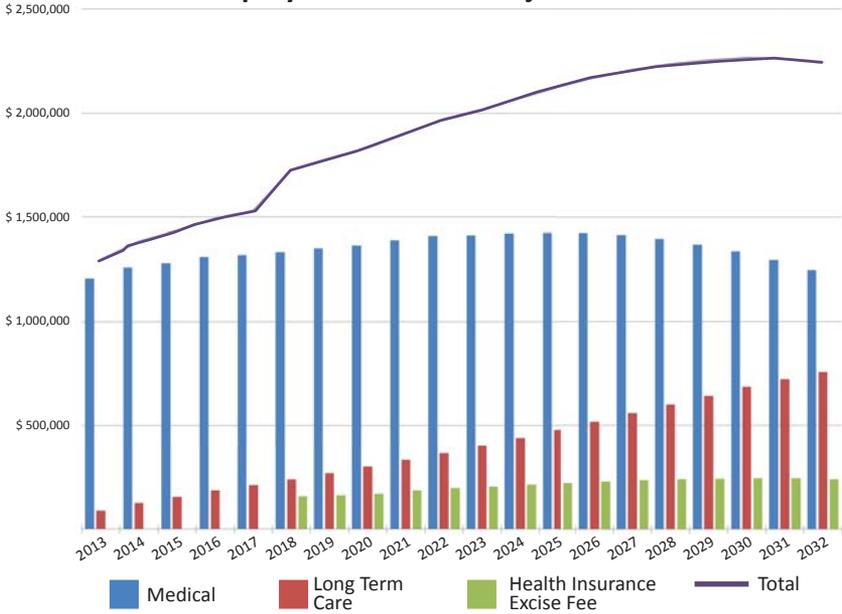
Full Time Employees



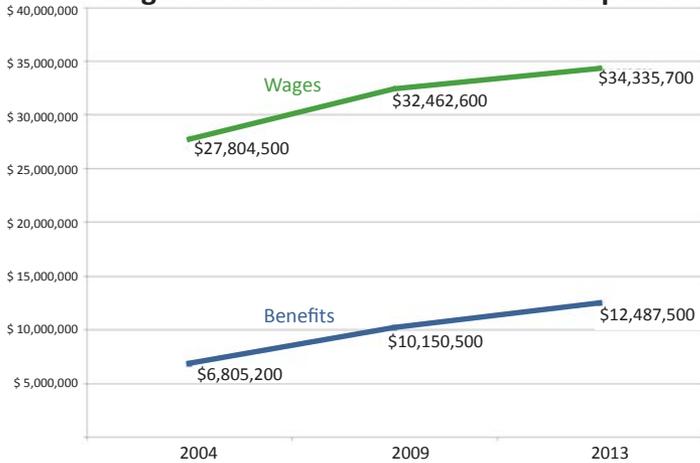
* In 2008, City of Olympia citizens voted yes on Proposition 1, which authorized an excess property tax levy for the capital construction of a new fourth fire station; the levy included the addition of 11 firefighters to staff and operate the completed station in 2011. Also, in 2012, Olympia voters passed a 1/10 of 1% sales tax increase for public safety. If this bond measure had not passed, 5 police positions would have been eliminated. Without these special funding measures, total FTEs as of January 1, 2013 would be 516.07

Key Expense Drivers

Law Enforcement & Firefighter Post Employment Benefit Projection 2013-2032



Wages and Benefits - General Fund Expense



More detailed information about the City's budget can be found on line at:
<http://olympiawa.gov/city-government/budget-financial-reports.aspx>

MAYOR: Stephen H. Buxbaum **MAYOR PRO TEM:** Nathaniel Jones
COUNCIL MEMBERS: Jim Cooper, Julie Hankins, Steve Langer, Jeannine Roe, Karen Rogers



City of Olympia | Capital of Washington State

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