

CITY OF *Yakima*

MISSION AND VISION STATEMENTS

The City of Yakima's goals and objectives are clearly emphasized in the Mission and Vision Statements as amended in May of 2006.

THE MISSION OF THE CITY OF YAKIMA IS TO: focus on preserving and improving public safety; Promote a regional approach to services; act as a catalyst for economic development; and, build a positive image of the community.

THE VISION FOR THE CITY OF YAKIMA IS TO: govern responsibly with cooperative, diverse leadership; enhance the quality of life; and, continually improve services.

The following Critical/Strategic Priorities are an extension of the Mission and Vision for the City of Yakima.

2007 YAKIMA CITY COUNCIL STRATEGIC DIRECTION PRIORITIES

COMMUNITY SAFETY — Ensure that necessary resources are available in order to preserve and enhance community safety by providing high-quality, effective law enforcement, court services, fire protection, and emergency response capabilities.

REGIONAL GOVERNMENT SERVICES — Lead, pursue and encourage opportunities for greater regionalization and coordination of public services and intergovernmental cooperation which best serves all citizens.

ECONOMIC IMPROVEMENT — Promote, stimulate and foster economic improvements, investments, partnerships and job creation to revitalize our economy, maintain fiscal stability and enhance our prosperity for the future.

COMMUNITY IMAGE — Strengthen Yakima's image as a clean, attractive, and progressive community through proactive communications, responsive actions, citizen involvement, and effective community relations efforts.

CITY OF *Yakima*
2007 BUDGET FORECAST

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MEMORANDUM

October 17, 2006

To: The Honorable Mayor and
Members of the City Council

FROM: Dick Zais, City Manager
Rita M. DeBord, Finance Director
Cindy Epperson, Financial Services Manager

SUBJECT: 2007 BUDGET FORECAST

IA – INTRODUCTION

Once again, we are pleased to present to the City Council and to the citizens of the City of Yakima the Budget Forecast for 2007. The total proposed City wide 2007 budget is \$163 million - or 9.4% less than the 2006 amended budget. Of that amount, the City's 2007 General Government budget is approximately \$55 million – or 2.1% over the prior year's amended budget.

The proposed 2007 budget is restrained and balanced within existing resources. However, there is a proposition on the November 2006 general election ballot, which, if approved by voters, would increase the City's tax on private utilities from 6% to 7.5% and would generate approximately \$1.6 million to help fund Council's "Safe Community Action Plan" (SCAP) - a crime reduction plan for our community. Should the voters approve this ballot measure, staff will update the 2007 budget accordingly prior to submitting the final budget to Council for adoption in December.

The City budget continues to be significantly impacted by increases in unfunded mandates, including State retirement costs for City employees, higher public safety/jail and related criminal justice costs, together with substantial price increases for gas, private utilities, and other private sector costs. The increases continue to outpace the growth in existing City operating revenues.

In order to help offset the impact of these cost increases and ensure a balanced budget, City Management has maintained close supervision, discipline and control over City spending. The most significant cost containment measure in this budget is a “freeze” on base salary increases for all City employees for 2007. Members of City Management have taken the lead, but this will ultimately require agreement by all the City’s collective bargaining groups and negotiations with them are currently in progress. Other reductions in spending were also made in General Government expenditures for next year. These actions were critical to maintain a balanced budget and to avoid major reductions in essential services and layoffs in City employees next year.

The result of our efforts to keep City spending within existing resources is a fiscally conservative budget, which follows the City Council’s Strategic Priorities, maintains and enhances essential services to our citizens, invests in the City’s infrastructure and local economy, ensures fiscal stability for the coming year, and preserves minimum operating reserves.

The following charts compare the 2006 and 2007 budgets for General Government and Citywide expenditure. (Note: according to the Bureau of Labor Statistics, the 2006 rate of inflation as of the August 2006 is 5% – Seattle-Tacoma-Bremerton CPI index.)

2006 VS. 2007 EXPENDITURES

	2006 YEAR-END ESTIMATES	2006 AMENDED BUDGET	2007 PROPOSED BUDGET	2007 INCREASE / (DECREASE) FROM PRIOR YEAR
General Government	\$52,752,000	\$53,478,000	\$54,600,000	2.1%
Total Citywide Expenditures	158,564,000	179,409,000	162,608,000	(9.4%)

*Numbers are rounded

GENERAL GOVERNMENT EXPENDITURES

- 2007 General Government budget of \$54.6 million is approximately \$1.1 million – or 2.1% - greater than the prior year. Note: This is well below the August 2006 CPI of 5%; for the Seattle-Tacoma-Bremerton area.
- 2006 General Government Year-end expenditure estimate of approximately \$52,752,000 is approximately 1.4% below the amended budget of \$53,478,000.

This increase in the 2007 expenditure budget is primarily due to:

1. A state mandated and unfunded increase in the City’s 2007 State retirement plan contributions of approximately \$695,000, (this accounts for more than 50% of the total cost increase in the 2007 General Government budget) and a potential increase of \$1.2

million budgeted for a portion of the Council's Safe Community Action Plan. (Only a portion of the City's crime reduction plan is currently included in the 2007 budget. Further adjustments to the budget will be required once the outcome of the vote on the utility tax rate increase, which is on the November general election ballot, is known. Additional information on this topic is included in Section 1B of the Forecast.)

2. The above increases were partially off-set by a budgeted reduction (elimination) of \$1.3 million in 2007 (as a result of the voter approved annexation of the library, effective 1/1/07), and the tight controls on expenditures maintained during 2006. Note: Citywide overtime costs in 2006 are projected to be approximately \$500,000 below 2005 levels. Additionally, management projects no increase in the self-insured employee benefit costs in 2007. The City's health benefit plan continues to provide quality health coverage to employees, while experiencing significantly lower costs increases than most other plans (ex: 2007 projected cost increases in the AWC's plan is 9% and the general industry average is 12% to 20%. The City of Yakima projects costs to remain flat; - 0% increase.)

CITYWIDE EXPENDITURES

- Total 2007 proposed Citywide budget is approximately \$162.6 million or 9.4% less than the 2006 amended budget of \$179.4 million. The decrease is mainly due to the completion of some major capital projects.
- 2006 Year-end expenditure estimate of \$158,563,655 is approximately 11.6% less than the amended budget of \$179,409,160. In addition to strict spending controls, this savings is primarily due to the deferral of some capital projects that will not be completed by year-end.

(Refer to Exhibit I for budget information on each of the City's funds.)

2006 VS. 2007 REVENUES

- 2007 General Government revenue budget is \$53,273,000; 1.9% greater than the year-end estimate of \$52,298,000.

Notable changes in the 2007 budgeted revenue from the prior year include:

1. 2007 includes a net increase of approximately \$650,000 in property taxes related to the library annexation, an increase of approximately \$800,000 related to the Englewood & 96th Avenue annexations, and \$560,000 of potential new revenue anticipated from the reduction in the Utility tax exemption for large utility users. (Refer to the "City's Fiscal Condition" later in this section for more information regarding these revenue adjustments.)
2. 2006 includes one-time payments of (a) \$100,000 from the library for the sale of assets and (b) a "double revenue" payment of \$300,000. This represents the final franchise fee

payment for natural gas, (effective 1/1/06 the franchise fee was replaced with a utility tax in the same amount; however, the final franchise fee payment – related to 2005 – was received in early 2006 and the new utility tax revenue is received monthly.)

Note: without the impacts of the above one-time revenues, the 2007 revenue budget would be approximately 2.9% greater than the prior year.

BUDGET FOCUS — FISCAL OBJECTIVES

In May 2006, the City Council adopted updated Mission and Vision Statements for the City and set new Strategic Direction Priorities for the future of our community. The City Council's Mission, Vision, and Strategic Priorities governed the preparation of the 2007 budget. These are the basis upon which fiscal plans and strategies for the new budget were developed. (Refer to the front section - before the first tab - for the City's current mission, vision and strategic priorities.)

IN ADDITION TO ADDRESSING THE COUNCIL'S PRIORITIES AND OBJECTIVES, THE 2007 BUDGET:

1. The budget was prepared according to strict guidelines issued in July by City Management, which maintained tight controls on expenditures.
2. Presents a balanced spending plan for operating and capital budgets that follows municipal service levels and priorities set by the City Council and is in compliance with budget guidelines issued by City Management.
3. Preserves minimum operating cash flow reserves and allocates necessary funds for non-discretionary fixed, mandated and contractual costs.
4. Includes cost reductions and operational efficiencies to offset potential revenue shortfalls and maintain a balanced budget.
5. Incorporates the City's Six-Year Capital Facilities Plan for Utilities, Streets, Parks, Public Safety, and Community and Economic Development projects.

THE REMAINDER OF THIS SECTION INCLUDES:

- Description of the 2007 budget focus on the Council's Strategic Directions
- A Quick Look at:
 - 2007 Budget Focus / Council Direction
 - 3 Year Out Look
 - Summary
- 2007 Budget Highlights, including:
 - Budgeted Staffing Changes - Summary

THE BALANCE OF THIS SECTION IS BROKEN INTO THE FOLLOWING CATEGORIES:

A QUICK LOOK

- **2007 BUDGET FOCUS / COUNCIL DIRECTION**
- **3 YEAR OUTLOOK**
- **SUMMARY**

2007 BUDGET HIGHLIGHTS

A QUICK LOOK — BUDGET FOCUS / COUNCIL DIRECTION

During the first two quarters of this year, the City Council reviewed, discussed and, in May 2006, established a new Strategic Direction for the City. The City Council established Community Safety as their number one priority; recognizing the critical link between community safety, quality of life and economic prosperity. Additionally, Council set Regional Government Services, Economic Improvement and Community Image as the top strategic priorities for the City. In support of this new direction, City management has placed significant emphasis on these four primary areas during the 2007 budget planning process. Additionally, cost containment continues to be a major consideration in all planning and budgeting decisions due to the significant fiscal challenges of maintaining a balanced budget while providing critical core services to our citizens. (See following pages for information on each of these four areas of focus.)

BUDGET FOCUS #1 — COMMUNITY SAFETY

In January of 2006, at Council’s direction, staff submitted a crime reduction plan to Council for their consideration. This plan included an assessment of the needs of the police department, prosecuting attorney’s office, jail, municipal court, indigent defense and various support services as well as a plan for funding these critical needs. Subsequently, Council held numerous public meetings at which they evaluated and discussed the proposal and numerous alternative options.

In July, the Council unanimously approved a crime reduction plan and a related funding proposal. The crime reduction plan includes adding 22 additional police officers to the City’s Police force and other personnel in the prosecuting attorney’s office, municipal court and various related support service areas, and increases funding for jail costs, indigent defense, court security and interpreters, etc. The addition of 22 police officers represents approximately a 25% increase in the number of commissioned police officers for the City and is intended to move the police department from a reactive police force

that primarily responds to calls, to a proactive force that will focus on crime prevention, attack high-crime “hot spots”, target repeat offenders and lower the City’s crime rate by 20%.

A total investment of approximately \$3.35 million, to be phased in over four years, is proposed for this enhancement to the City’s criminal justice system. The proposal calls for the use of a combination of available City resources and two changes in the tax rate structure applied to private utilities to fund this crime reduction plan, known as the “Safe Community Action Plan” or SCAP. One of these funding sources is a proposed increase in the utility tax rate on private utilities from 6% to 7.5%; this requires a vote of the people and is on the November 2006 general election ballot. Staff did not budget for this additional revenue in the preliminary budget forecast. If the voters approve this ballot measure in November, staff will update the 2007 budget prior to submitting it to Council for final adoption in December. If so, this would be the only tax increase in the 2007 budget.

Two elements of the proposed funding plan for the SCAP, however, are included in the 2007 budget as submitted herein. These include \$650,000 in additional property tax revenues estimated to result from the annexation of the library, which was approved by voters last April, and \$560,000 in additional revenues estimated to result from the lowering of the existing tax exemption on large utility customers should Council approve this change in the utility tax rates. (Note: unlike the change in the utility tax rate noted above, this change does not require a vote of the people and can be approved by a majority vote of the City Council.)

These two elements of the proposed funding for the Safe Community Action Plan for crime reduction total an estimated \$1.2 million. Since this revenue has been included in the 2007 budget proposal a like amount of expenses for the crime reduction plan has also been included in the budget. To prevent inconsistencies when comparing the 2006 and 2007 budget, these revenue and expenditures have been budgeted as a separate line item unto them-selves, entitled “Safe Community Action Plan”. (Refer to this line item on page 1 of Exhibit I for a quick reference as to where these revenue and expenditure items have been budgeted.)

BUDGET FOCUS #2 — ECONOMIC IMPROVEMENT

The City is tackling Council’s economic improvement directive through many varied efforts including economic development, annexation, tourism, infrastructure investments and public/private partnerships. The City has made a strong commitment to assisting the private sector in revitalizing the local economy through supporting economic development, including various federal tax incentive opportunities spurring growth, promoting tourism and by investing millions of dollars in the local economy. The City is continually working on, and looking for, new ways to grow the economy and strengthen the City’s fiscal condition; some of the City’s significant, recent efforts are noted below.

ECONOMIC DEVELOPMENT

- During 2005 and 2006 , a dedicated group of community members, led by City Council, secured State funding for the “Downtown Yakima Futures Initiative” totaling \$7.5 million. Together with another \$2.5 million from federal, state and City resources will be combined and invested into the renaissance of Downtown Yakima, including sidewalk, lighting and landscaping improvements. Work began on Phase I of the project in the spring with construction scheduled to be completed late in 2006, phase II is included in the 2007 budget. The total investment over 2 years will be \$10 million dollars.
- A “Renewal Community”, award of \$12 million annually, which encourages economic development by providing tax incentives for creating jobs in Yakima.
- Established a Housing and Urban Development (HUD) Section 108 loan program for job creation in the targeted area (primarily east of 16th Ave.) Have provided 5 loans for a total of \$7.6 million over the past 3 years.
- Negotiated major Public/Private partnerships for economic development with a Yakima developer in 2005 resulting in the City Council approving a public/private investment package to fund construction of the new Hilton Garden Inn Hotel in Downtown Yakima, which opened in May of 2006. The total investment package included a \$3.5 million federal “Section 108 HUD” loan and \$6.5 million in federal “Commercial Revitalization Deductions.

CITY’S INVESTMENTS IN COMMUNITY

- Investments in Infrastructure — The City has plans for several significant multi-million dollar construction projects over the next several years, including: over \$17 million for wastewater capital projects (2006 and 2007); \$2.2 million for water capital projects; \$2.4 million for the irrigation rebuild project; \$7 million for the railroad underpass project; and over \$6 million in several currently funded street projects (many in-progress.)
- The road and sewer expansion and improvement to Washington Avenue were completed in 2006 at a total cost of \$11 million. Ultimately, an expanded and improved Washington Avenue will be a critical element of an East/West “beltway” that will spur economic development along its route and ease congestion for City residents.
- River Road improvement project is scheduled to begin next year; \$2 million is included in the 2007 budget - total project investment is \$6.5 million.
- The City plans to invest nearly \$1 million in 2007 to enlarge and enhance the West Valley Fire Station, which is owned by the City and houses firefighters from both the City and West Valley Fire District #12.

Over \$36 million is included in the 2007 budget for major capital projects, largely funded by Federal or State Grants; thereby significantly lessening the burden on our

local citizens who need these infrastructure upgrades but could not otherwise afford this level of investment. The magnitude of these investments will provide a substantial economic boost to the local economy — creating jobs and stimulating growth.

ANNEXATION

- The Englewood Annexation was completed in mid 2005, adding more than 1,900 people and more than \$170 million of assessed value to the City.
- The 96th Avenue Annexation, which was initiated in late summer 2005 and completed in 2006, added about 1,100 people and nearly \$62 million of assessed valuation to the City.
- The State Fair Grounds were also annexed into the City in 2006, adding about \$21.9 million of assessed valuation to the City. (Note: as a non-profit organization, the fairgrounds is exempt from property tax.)

TOURISM

- The City partnered with business leaders, sports enthusiasts, service clubs and local citizens to acquire land and construct a new sports complex at Kiwanis Park in Southeast Yakima. Three ball fields at the Gateway Sports Complex were completed during 2005 and a fourth ball field was completed in 2006. In its first full season in operation, the complex enjoyed significant success with 90% of the available weekend schedule filled with softball tournaments; drawing athletes and fans to the valley and providing an influx of tourist dollars.

BUDGET FOCUS #3 — COMMUNITY IMAGE

The City has committed to build, sustain and strengthen the City's public image as a clean, safe, attractive and progressive community, which is respected as a desirable place to live, work and play.

- The City invested approximately \$250,000 for two "water spray playgrounds", one in Miller Park and one in Dr. Martin Luther King, Jr. Park during 2006 (refer to budget cover for picture of one of these facilities in use).
- Continued the significant investment in the Gateway Sports Complex at Kiwanis Park with the \$550,000 investment in a 4th Ball Field during 2006, as noted above. The improvements will continue the substantial enhancement of a highly visible area directly adjacent to Interstate 82 and near one of the primary freeway entrances to the City.
- The Police Department's "Gang Unit" was established in 2004 and has proven instrumental in solving several major gang-related crimes since its inception and is helping to suppress gang activity in the community. And the City Council is proposing a major crime reduction effort commencing in 2007 with a planned investment of over

\$3.3 million annually, after a four-year ramp-up (as discussed in some detail in the “community safety” strategic direction information provided above.)

- In 2006, the City’s “Paint Out Graffiti” program has cleaned up more than 1,300 sites that had been hit with graffiti. The City has spent \$15,600 on this program this year; however a nearly equal amount in paint has been donated along with volunteer labor valued at more than \$80,000, which has been critical to the success of this program.

BUDGET FOCUS #4 — REGIONAL GOVERNMENT SERVICES

The City is committed to lead, pursue and encourage opportunities for greater regionalization and coordination of public services and intergovernmental cooperation, which best serves all citizens of our community.

- In August 2005, the City signed an agreement with the City of Union Gap to house Union Gap inmates in the Yakima Municipal jail. The cost of keeping inmates in Yakima’s jail is less expensive for Union Gap than housing inmates in the Yakima County jail.
- In 2006, Yakima County began providing management and oversight of the City’s probation services. This consolidation was the result of negotiations between the City and County during 2005 and the transition to the County went very smoothly.
- In 2005, the City Council authorized an investment of \$75,000 to evaluate the feasibility of a regional aquatics center, which would potentially be funded by the City and neighboring communities. In 2006, preliminary work on the possibilities and interest in such a project got underway and a request for proposal for a feasibility study was prepared, this effort will continue into 2007.
- A Stormwater Task Force, consisting of representative from the cities of Yakima, Union Gap, Moxee, and Sunnyside, and Yakima County, is continuing to make progress toward the establishment of a joint approach to meeting pending EPA and state regulations related to stormwater quality. Recently released preliminary findings of an independent value engineering study, indicated that costs during the first five year after the program’s implementation could be as much as \$4 million less than initial estimates. Significant policy recommendations are expected to be made by the task force by the end of 2006.

A QUICK LOOK - 3 YEAR OUTLOOK

While the 2007 Budget Forecast is balanced within existing resources, as required by law, the City will continue to be fiscally challenged in our ability to provide basic, core and essential services to our citizens within current revenues as is evidenced by the planned use of over \$1 million dollars of reserves to balance the 2007 General Government (tax supported) budget and the projected continued reliance on reserves to help balance the budget in 2008 and 2009 (as indicated in the following graphs).

The expansion in new and existing unfunded mandates, contractual responsibilities and rising private sector costs compounded by the low income levels and high crime rates of the area continue to place increased pressure on and demands for City services (examples include: police overtime, jail costs, environmental regulations, financial reporting requirements, state pension fund contribution requirements, jail health care costs, equipment costs and higher labor, fuel, chemical and utility costs.) These ever increasing pressures on costs coupled with continued restrictions in revenue growth from previously approved voter initiatives is overloading the City's resources and our ability to continue to provide customary and essential services into the future. If not addressed, these factors could significantly affect the future financial stability of the City's General Government funds.

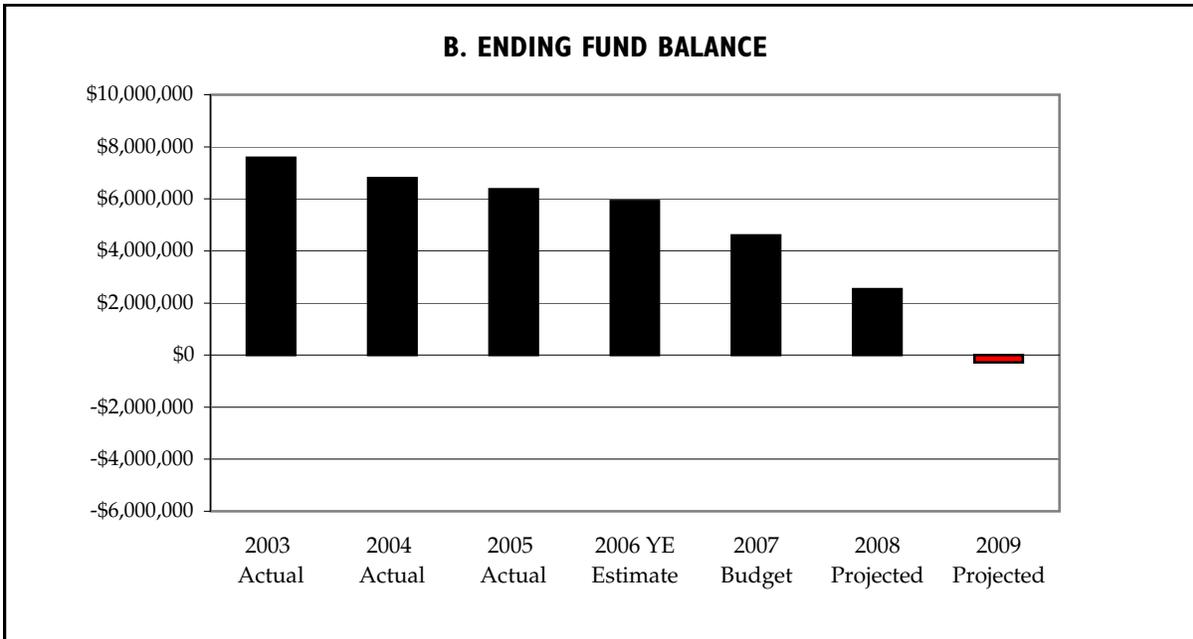
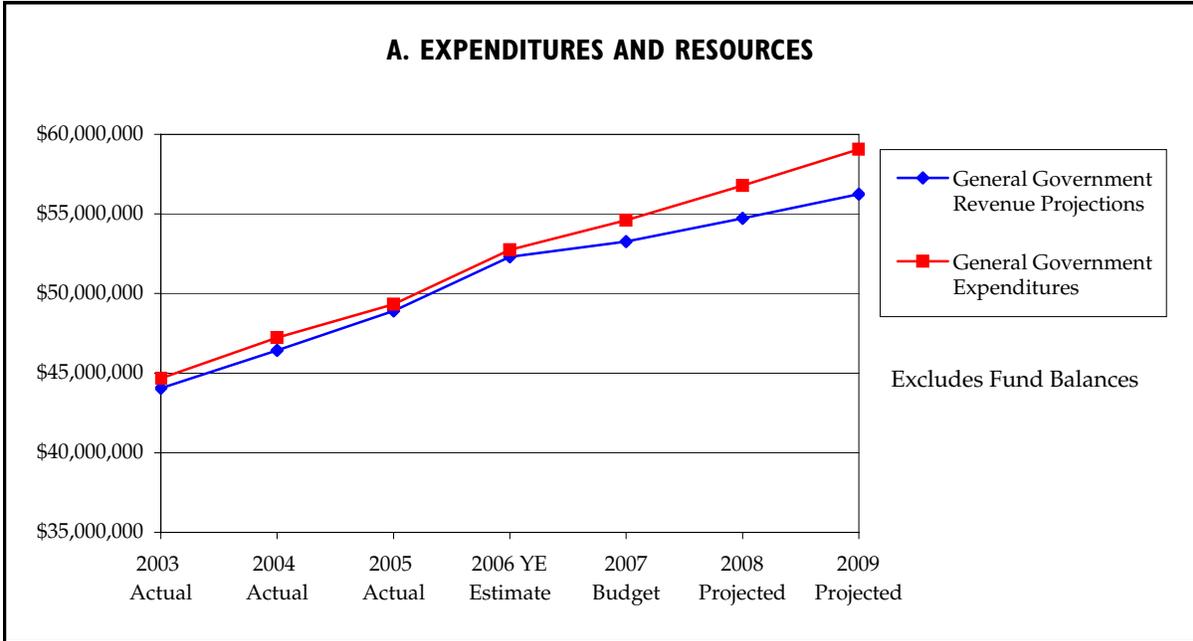
The following charts depict the negative impact on the City's fiscal resources that these, and other factors, have had in the past few years and that they could have over the next three years should no corrective action be taken. These charts are presented for illustrative purposes only, as the City will, of course, take action to prevent negative fund balances from occurring. However, these charts do provide an indication of the significant action that may be required in order to prevent the negative fiscal results that are depicted in the charts from occurring.

Assumptions underlying the revenue and expenditure projections on the next page:

- 2006 revenue and expenditure projections are based on our current year-end forecast.
- The 2007 projections reflect the City's proposed 2007 budgeted revenues and expenditures, with a "freeze" in employee base wages.
- 2008 and 2009 Expenditures are projected based on an estimated average increase of 4.0% annually (known changes were inserted, if applicable.)
- 2008 and 2009 Revenues are projected to increase an average of 3% annually, overall; based on the following estimated increases.
 - Property Tax Revenues - 2% annually, overall. (1% general increase, per maximum allowed under I-747, plus 1% for growth. Additionally, Property tax revenue projections have been adjusted for recent annexations, including the library annexation approved by voters in April 2006.
 - Sales Tax Revenue - 4% annually
 - Utility Tax and all other Tax Revenue - 3% annually.

GENERAL GOVERNMENT HISTORY / PROJECTION

YEARS 2003 - 2009



Note: The above charts are included solely to identify the negative fiscal impacts these factors would have on the City if left unchecked, this scenario assumes no action is taken to offset the above impacts on revenues and expenditures, even though the City would (and is required by law to) maintain a balanced annual budget.

FUTURE OUTLOOK SUMMARY

You'll note on the previous charts, that for the past three years (2003-2005), the City has relied on reserves to cover expenditures (i.e.: expenditures have exceeded revenues for three consecutive years). This is a trend that cannot be sustained over time as reserves will eventually be depleted and should an unforeseen emergency occur, the City could find itself without resources to adequately address the situation. Continuing to rely on reserves to cover normal annual expenditures of the City also runs the risk of increased borrowing costs when the City goes to the market to sell bonds or incurs other types of debt financing as creditors and rating agencies assess a higher risk to investments in City's that cannot cover their annual operating costs within their annual operating revenues.

Management has worked diligently to constrain spending, reduce costs wherever possible and to operate within — or below — our budget, and we are pleased to state that we project the total 2006 General Fund operating expenditures to be fully covered by our 2006 revenues. As stated above, this will be the first time in three years that revenues have been sufficient to cover costs. As a result of the City's cost containment measures and tight spending controls, our projected cost increases are well below national and industry standards in many areas. Examples include: (1) medical insurance costs are projected to increase 9% to 20%. (AWC — 9%; The Kiplinger Letter — 8%; general industry — 12% to 20%.) The City's projection is flat — no increase — in costs of the City's self-insured medical plan in 2007. (2) Again, the September 2006 Kiplinger Letter anticipates private sector salary/wages to increase an average of 3.7% in 2007; while the City has initiated a wage freeze. (3) Staff reduced Citywide overtime expenditures by \$500,000 in 2006, from 2005 levels.

However, despite our best efforts to control costs, and our success in doing so in 2006, we do foresee expenditures again outpacing revenues in 2007, 2008 and 2009. Left unchecked, as depicted in the previous charts, the City's general reserves will be fully depleted in less than three years. To avoid this possibility, the City must add new revenues or significantly reduce expenditures — and the related services provided to our citizens.

Again, the future outlook, as depicted in the previous charts, reflects the projected outcome of the above-described situation in the event that no action is taken to reduce costs or increase revenues. Obviously, the City would, in fact, take the necessary actions to prevent a negative balance from occurring.

SUSTAINABILITY OF SERVICES PLAN (SOS)

The impact of increased costs and reduced/restricted revenues becomes greater over time. As a result, in the absence of expenditure reductions in basic services, the City would need to utilize a greater portion of the general government reserves, or obtain new revenues, each year to pay for existing services. The City's reserves have been built up over time and once they are spent, this funding source is gone. Once the reserves are depleted, if not before, the City would be forced to reduce costs by eliminating services. Part of the City's current, and prudent, management practices includes the conscious efforts to maintain General Government reserves at an amount approximately equivalent to one month's operating costs (e.g.: generally not less than 7%) in its endeavor to ensure that sufficient funding is available to cover unexpected expenditures and/or emergencies, including unanticipated revenue shortfalls.

City management's tight spending controls and conservative approach to fiscal expenditures has allowed the City to consistently provide the citizens with the basic and essential services they have enjoyed for years and come to expect. During the past several years, management has continued to minimize expenditures and to "do more with less" which has allowed the City to accommodate the many unfunded mandates that have been "levied" on the City by external sources, absorb many private sector cost increases and to fund many capital projects and service enhancements.

However, management and other staff have been stretched beyond their capacity to absorb further increases. Given the current projections of revenues and expenditures, as noted on the previous pages, the City will either need to find additional funding or be prepared to make many difficult and significant budget/service reductions in order to achieve a balanced budget and maintain a strong fiscal position.

In light of this situation, City management has taken the following additional steps to address and prepare for this fiscal challenge:

- To avoid serious and painful reductions of staff and service levels in the coming year, City management has budgeted a zero (-0-) general wage and benefit increase for all employees in 2007. (Note: this is dependent on the results of collective bargaining efforts.) This freeze excludes Municipal Court Judges at these salaries are tied to State District Court Judges salaries and are, therefore, partially offset with State revenues. (It should be noted that pay raises in the private sector are projected to increase approximately 3.7%, per the Kiplinger Letter of September 8, 2006.)
- For each of the past several years, staff has prepared a budget/service reduction plan that could be implemented quickly should significant expenditure reductions be required due to a worsening of the City's fiscal position. Over time, many of these contingent budget reduction elements have, in fact, been implemented as part of management's conservative and tight control over spending.

However, management believes that it is now time to go to an even deeper level of planning for potential future budget/service reductions and recommends that during 2007 the City Council – as a whole, or through a sub-committee – take on the significant but critical task of performing an in-depth review of the services currently provided by the City and their related costs and prepare a “Fiscal Stability and Service Sustainability” Plan, much like the Budget Strategy Team’s work of 2004 and 2005.

The primary focus of this Council effort would be to prepare a SOS plan to (a) ensure the City’s ability to provide those essential services most needed and cherished by our citizens (b) to meet the fiscal challenges facing the City and to ensure the fiscal health and stability of the City into the foreseeable future and (c) to identify permanent, ongoing reductions in spending of approximately \$2 million in existing General Government expenditures starting in 2008. Additionally, this effort would also identify and prioritize any potential new revenue options for the future.

Although this would be a significant and time-consuming undertaking by Council members and City staff, management believes Council’s involvement at this level is essential to ensure the Council’s and the public’s complete and thorough understanding of the issues and impacts from all service reductions needed in the future.

Across-the-board budget reductions have been implemented numerous times in the past so that there is simply no cushion left in department budgets. It would be irresponsible to reduce budgets further without first taking a serious and focused assessment of all General Government services currently provided by the City and set priority levels for basic services, and determine which services should no longer be provided within existing and projected resource levels.

These steps will help ensure that the City is prepared for — and is taking appropriate pro-active steps — to ensure the on-going stability and health of the City’s fiscal condition and the sustainability of the city’s essential service priorities to our citizens well into the future.

CITY’S FISCAL CONDITION — SUMMARY

Once again, in the preparation of the 2007 budget, the City was faced with unexpected and unfunded mandates, rising costs — many well above the rate inflation - and ever increasing demands for municipal services. The management staff has spent the past few months analyzing these new challenges, reviewing and updating the services provided by the City and preparing the enclosed 2007 budget for Council’s consideration.

The enclosed Budget is balanced and presents staff’s 2007 proposed budget of revenues and expenditures. The 2007 budget was built with a very conservative perspective and focused on Council’s stated strategic priorities. This Budget Forecast identifies the City’s current and projected near-term fiscal status, the significant financial pressures affecting the City’s ability to both maintain a balanced budget and continue to provide the existing level of essential and customary services our citizens have long enjoyed and come to

expect. Additionally, the Budget Forecast identifies and discusses the options available to the City, actions previously taken and those recommended by staff for addressing the many financial and service delivery challenges facing the City.

This Forecast is provided to Council and the community as background information to the detailed Preliminary Budget that will be distributed in early November, and as a tool to assist Council in your consideration, discussions and, ultimately, your final decisions regarding the City's 2007 budget.

IC – BUDGET HIGHLIGHTS

This 2007 budget proposal is the result of a process that spans several months and includes detailed, in depth reviews and budget discussions with employees in every department of the City. As part of this process the City Administration and Budget staff have carefully examined all major spending programs and obligations, and implemented cost savings and expenditure reductions wherever possible without severely jeopardizing essential services.

City staff is continually assessing proposals from various legislative, regulatory and political bodies, citizen initiatives, citizen groups, etc. in an effort to identify, analyze and prepare the City for the impacts that may result should various proposals become a reality. Additionally, staff monitors changes in revenue and expenditure trends that, if continued over time, could reduce the City's ability to continue to provide existing basic and essential services to our citizens. This section incorporates an overview of the proposed 2007 budget with a discussion of known or anticipated significant changes in the City's revenues and/or expenditures and the related impacts thereof on the City's fiscal condition over the next few years.

THIS SECTION IS BROKEN INTO THE FOLLOWING FIVE CATEGORIES:

- Resources
- Expenditures
- Major Capital Projects
- Debt Service Costs
- Changes in Funding (Budget) Authorization
 - Personnel / Staffing
 - Policy Issues (Overview)

NOTE: This section is meant to provide an overview of the City's resources only; subsequent sections of this document provide more detailed information on the 2007 proposed budget within each of the above areas.

RESOURCES

Total resources consist of the prior year's ending cash balance plus the current year's revenues. Estimates of these two critical elements of the proposed 2007 budget are noted below.

	2006 YEAR-END ESTIMATE	2007 BUDGET
GENERAL GOVERNMENT		
Beginning Balance	\$6,375,430	\$5,921,916
Revenues	52,298,316	53,272,916
Total Resources	\$58,673,746	\$59,194,832
CITYWIDE		
Beginning Balance	\$56,450,134	\$45,027,389
Revenues	147,140,910	150,589,884
Total Resources	\$203,591,044	\$195,617,273

To assist in communicating the City's 2007 budgeted Resources, they have been separated into the following categories:

Citywide Resources

- Taxes (Unrestricted and Restricted/Dedicated)
- Intergovernmental
- Charges for Services
- Miscellaneous (Fines, Licenses / Permits and Other Revenue / Financing Sources)
- Cash Reserves

The 2007 budget for each of the five resource categories listed above are discussed on the following pages.

TAXES

The following items make up the majority of the City's revenues that are derived from taxes: Sales tax, Hotel / Motel tax, Property tax, Utility tax (including franchise fees and business license fees), Gambling taxes, Real Estate Excise taxes and Tourist Promotion fees. An overview of each of these major revenue sources for the City is provided on the following pages.

SALES TAX

The total of the proposed 2007 Sales Tax budget is \$21,178,840; this includes General sales tax, Criminal Justice sales tax and Transit sales tax revenues. This is the single largest revenue source for the City's General Fund.

SALES TAX — GENERAL (UNRESTRICTED): This revenue is available for any City purpose; however, it is primarily utilized to support General Government activities (e.g.: fire, police, municipal court, finance, human resources, information systems, etc.) and is currently the largest revenue source for the City's General Fund.

- 2007 Budget is \$13,000,000; approximately \$425,000 or a 3.3% increase over the 2006 year-end estimate.
- 2006 Year-end Estimate is \$12,575,000; approximately \$604,573 or 5% over actual 2005 levels.

SALES TAX — CRIMINAL JUSTICE (RESTRICTED): This revenue is dedicated to criminal justice related services such as police officers and equipment, prosecuting attorneys, jail costs and Municipal Court costs.

- 2007 Budget is \$2,572,000; approximately \$82,000 or a 3.2% increase over the 2006 year-end estimate of \$2,490,000.

Note: there are two components to the Criminal Justice Sales Tax revenues: (1) a 1992 voter approved sales tax of 0.1% and (2) a 2004 voter approved sales tax of 0.3%. Both of these taxes are authorized exclusively for criminal justice purposes. (Refer to Section III for a more detailed discussion of this critical revenue source to the City.)

SALES TAX — TRANSIT SERVICE (RESTRICTED): Approved by the voters, this revenue is legally restricted to providing transit services and related costs.

- 2007 Budget is \$4,577,000; approximately \$150,000 or 3.3% increase over 2006 year-end estimate.
- 2006 Year-end Estimate is \$4,427,000; approximately \$208,448 or 4.9% increase over 2005 actual levels.

SALES TAX ISSUES / COMMENTS

REVENUE STABILITY —Due to annexations and strong construction activity over the past few years the city has benefited from stronger than normal sales tax revenues. However, new construction has been slowing nationally and is not anticipated to continue at its current pace. Sales tax revenue, is a critical revenue source for the city, as it is nearly 25% of total general government revenue. However, even strong growth in this significant revenue source is not expected to be sufficient to sustain existing essential services in the future given the much weaker growth in other critical City revenues.

STREAMLINED SALES TAX — For the past few years, there has been a move underway in the State Legislature to change the basis on which local sales tax revenues are collected. The proposal, known as Streamlined Sales Tax (SST), would change sales tax from an origin based to a destination based collection methodology. This means that taxes would be collected at the point of destination rather than at the point of sale (origin), as is the method utilized within the State of Washington today. Each year the SST legislation has received increasing support in the State Legislature and it is anticipated that this legislation will be passed during the 2007 legislative session and go into effect in July of 2008.

For the past two to three years, the City has been working closely with other cities around the State who, like the City of Yakima, anticipated that their sales tax revenues could be severely and negatively impacted by the implementation of SST as it has been proposed during the earlier legislative sessions. This group of “negatively impacted Cities” has been working diligently to ensure that any SST bill that is passed by the State of Washington includes full mitigation for any revenue losses that would otherwise occur to cities, counties and other impacted jurisdictions without protective language in the bill.

After months of negotiations, representatives from both cities that anticipate winning and those that anticipate losing revenues under the previous SST proposals have reached an agreement, in principal, on an SST bill proposal that would provide for full mitigation and thus result in a win/win situation for all parties impacted by the sales tax sourcing changes inherent in any SST bill. This bill was advanced during the 2006 legislative session but did not get out of committee; however, there was strong support for this bill and it is believed that it will be advanced again in 2007 and that it has a high probability of being approved during this legislative session. If passed, the changes would likely become effective in July of 2008; thus the City will need to incorporate this major change in the sales tax regulations into our 2008 budget planning. Even though the anticipated legislation includes full mitigation language, there is likely to be a transition period – which would primarily occur in 2008 – in which funding could be delayed. If so, this could have a significant negative impact on 2008 sales tax revenues.

PROPERTY TAX

The total of the proposed 2007 Property Tax Levy (budget) is \$14,545,569; this includes both General Purpose and Special Purpose (voted) Property Taxes.

PROPERTY TAX - GENERAL PURPOSE (UNRESTRICTED) — This is the second largest revenue source for the City's General Fund (second only to general sales tax revenues discussed above) and supports basic services such as Police, Fire, Streets, Parks, Finance and the like.

- The 2007 budget for general-purpose property tax is approximately \$14.2 million, 3% increase over the 2006 year-end estimate of \$13.8 million.
- City Administration is proposing a 1% increase in the property tax levy or approximately \$138,000 budgeted revenue increase. Additionally, staff projects new construction revenues to be approximately \$200,000, representing a 1.5% increase.
- The property tax levy has been adjusted to reflect the change resulting from the voter approved annexation of the Library into the Library District last April, effective 1/1/07. The net affect of the changes related to this annexation is an estimated increase in revenues of approximately \$650,000.
- The Englewood Annexation complete in late 2005 and the 96th Avenue annexation completed in 2006 will, together, provide approximately \$800,000 of new property tax revenue to the City in 2007.

As allowed by law, City Administration is proposing a 1% increase in the property tax levy for 2007 and a budgeted estimate of 1.5% growth for new construction.

PROPERTY TAX - SPECIAL PURPOSE (RESTRICTED) — The 2007 proposed budget includes \$300,000 in Special Purpose Property Taxes; previously approved by voters to pay the debt service on the 1995 Fire Bonds.

UTILITY TAXES, FRANCHISE FEES AND BUSINESS LICENSE TAXES

This category includes revenues from Utility Taxes, Franchise Fees and Business License Taxes. Utility Taxes are the third largest revenue source for the City's General Government Funds (after sales and property tax revenues).

- 2007 City-wide Budget is \$12,449,400 (see restricted/unrestricted break-out below.)

Note: The Safe Community Action Plan (SCAP) a crime reduction plan proposed by the City Council, has two elements that could affect the revenues generated from this tax in the future: (1) a proposal, pending approval by voters in the November General Election, to increase the Utility tax rate 1.5% and (2) a proposal to reduce the Utility tax rate exemption for large Utility consumers. Refer to Section 1B for more information regarding this issue.

UTILITY TAXES (UNRESTRICTED) —Utility taxes and Franchise fees are imposed on private and public utilities and make up the majority of this revenue (approximately \$10.8 million); a small portion of the unrestricted revenues comes from the business license tax (\$.5 million). Although revenues from the business license fees are not legally restricted, a portion of which are dedicated to pay the debt service on the Sundome bonds.

- 2007 General Government budget is \$11,348,000; \$409,372 or 3.7% above the 2006 year-end estimate of \$10,938,638. This increase is primarily due to the proposed elimination of utility tax exemption on large utility consumers. (This relates to the funding proposal for the Safe Community Action Plan; refer to Section 1B for further information.) Additionally, 2006 revenue included a one-time payment related to the gas franchise fee that was replaced with a Utility tax in late 2005. The revenue was not re-budgeted in 2007.

UTILITY TAXES (RESTRICTED) — Cable TV; This category includes a franchise fee and utility tax on Cable TV services. These revenues are dedicated to: Criminal Justice related debt service and capital needs, the capital theatre, and Community Relations Division operations - public communications.

- 2007 Proposed Budget is \$1,101,000 or 3.8% above the 2006 Year-end estimate of \$1,060,500.

HOTEL / MOTEL TAX (RESTRICTED/DEDICATED)

Consists of a 2% distribution of State Sales Tax and 3% local option Hotel/Motel Tax; both dedicated for Tourist Promotion and related debt service.

- 2007 Proposed budget is \$1,029,840; an increase of \$22,090 or 2.2% over the 2006 year-end projection.

Breakdown of 2007 revenue projection:

- \$617,904 - 3% Local Option,
- \$411,936 - 2% State credit; this revenue is dedicated to the payment of debt service on the Convention Center bonds. Tax scheduled to sunset when bonds are paid off.

GAMBLING TAX REVENUES (UNRESTRICTED)

This category includes revenue from card rooms, bingo, punch-boards and pull-tabs.

- 2007 Proposed Budget is \$985,000; 2.2% or \$22,200 less than the 2006 Year-end estimate of \$1,007,200. Revenues from this source appear to have peaked and are beginning to trend down slightly from their higher levels of recent years.

OTHER TAXES

This category includes revenues from Real Estate Excise Taxes (REET), the Tourist Promotion fee and other minor miscellaneous tax revenues.

- 2007 proposed budget is \$1,900,700; a \$80,000 decrease from the 2006 year-end estimate of \$1,980,700.

OTHER TAXES — REAL ESTATE EXCISE TAX (REET) (RESTRICTED): The City imposes a total of 0.5% tax on real estate sales. Low interest rates and strong real estate sales recently have boosted this revenue source the past couple of years, although in the 2006 year-end estimate we anticipate a slight drop from the prior year. It is difficult, at best, to predict future revenues due to the unknown direction of interest rates in the future and what response the local residential housing market may have relative to the recent slow-down in the national and regional housing markets. The 2007 budget is based on a conservative estimate reflecting this revenue source remaining strong but with some slowing from the current year.

- The total 2007 proposed budget is \$1.5 million ; \$300,000 over the 2006 budget of \$1.2 million but down slightly from the 2006 year-end forecast of \$1.6 million. (Each .25% excise tax is expected to generate approximately \$750,000).

The total 0.50% Real Estate Excise tax consists of:

- The first 0.25% was imposed in 1986 and is restricted to use on Public Works capital projects.
- The second 0.25% excise tax became effective January of 2004; these revenues are restricted to capital projects included within the growth management plan.

Note: the streets division has submitted a 2007 policy issue to purchase a new patch truck utilizing \$170,000 of the second one-quarter percent Real Estate Excise tax revenues. (Refer to the summary of 2007 policy issues at the end of this section for more information.)

OTHER TAXES - TOURIST PROMOTION AREA (TPA) (RESTRICTED) — In 2003 - at the request of the local hotel and motel organizations - City Council established a Tourist Promotion Area (TPA) and imposed TPA fees to over-night guest stays. The revenue generated by this fee is restricted to tourist promotion activities and is expected to generate approximately \$400,000 in 2007.

SUMMARY – TAX REVENUE

General government funds receive approximately 76% of their unrestricted revenues from sales, property and utility tax revenue. Growth in the city's sales tax remained strong in 2006, however, the year-end forecast for both utility and property tax revenues is below the current rate of inflation. This results in the overall growth in total revenue from these three primary and critical revenue sources to be growing more slowly than are the costs of the services the City provides to our citizens. (August 2006 CPI is 5.0%, per the Bureau of Labor Statistics, for the Seattle-Bremerton-Tacoma are.)

Annual operating costs, and the related service needs of our citizens, have outpaced operating revenues for the past three years - if this trend continues, as expected, the city will be forced to either reduce or eliminate services in an effort to reduce costs, or find new revenue sources to fund these services in the future.

INTERGOVERNMENTAL AND STATE-SHARED REVENUES

This category includes revenues to the City from State and Federal grants; that portion of revenues collected by the State that are allocated to the City and restricted local government assistance funding.

- 2007 Budget is \$22,581,562; 39.6% or \$14,831,240 below the 2006 amended budget of \$37,412,802. This decrease is primarily due to the completion of some major capital projects during 2006 (e.g.: Washington Avenue expansion, Phase I of the Downtown Revitalization Project). (Note: Due to the types of revenues included in this category, it can fluctuate significantly from year to year.)

The major revenue sources in this category include:

- Federal Housing and Urban Development (HUD) - Community Development Block Grant. (CDBG)
- State gas tax: 2007 budget is \$2,027,000. This tax is dedicated to city streets and is distributed by the state based on a predefined formula.
- Liquor Profits /Excise Tax: Combined 2007 Budget is \$940,000; \$50,000 above the 2006 year-end estimate and \$10,000 above the 2006 budget of \$930,000. A portion of this revenue is restricted to substance abuse programs. As this is a per capita distribution, recent annexations positively affect this revenue source.
- Federal Transit Administration: 2007 budget is \$1,600,000; \$270,000 above the 2006 amended budget and year-end estimate. This money is operating assistance dedicated to the City's transit system. The increase is mainly due to the reallocation of federal funding. Every six years an analysis of the funding allocation is performed and the following year is adjusted accordingly; 2007 is the first year of the realignment of funds.
- State Transportation Improvement Board (TIB), Federal Highway Administration (FHA), and State Department of Transportation (WSDOT) funding.

CHARGES FOR SERVICES

This category of revenues includes charges for more than 100 different services provided by the City that are partially or primarily supported by the users of those services, (example utility rates charged to utility customers.)

- 2007 Budget is \$34,083,283; 2.2% or \$753,679 over the 2006 amended budget of \$33,329,604.

Note: the above revenues include: (1) a 2007 budgeted policy issue for a 3% refuse rate increase, (2) a budgeted water rate increase of 3.5%, which was previously approved by council (this is year three of a five year, phased in rate increase for water) and (3) a 2007 budgeted policy issue for a 10% increase for Irrigation operating and maintenance rates (the capital portion of the Irrigation rate is unchanged.)

MISCELLANEOUS / OTHER REVENUES AND FINANCING SOURCES

Revenues grouped into this category include; inter-fund operating transfers (2007: \$12.4 Million), debt proceeds (2007: \$8.2 Million), licenses and permit revenues (2007: \$1.2 Million), convention center operating revenues, lid assessments, interest earnings, utility connection charges and other miscellaneous revenues. (License / permit revenues include charges for building, plumbing, mechanical and sign permits, dog licenses, wastewater discharge permits and other similar miscellaneous revenues.)

- 2007 Budget is \$43,700,530; 10.8% or \$4,271,602 above the 2006 amended budget of \$39,428,928.

Due to the types of revenues included in this category, it tends to fluctuate from year to year.

CASH RESERVES

Total City resources consist of revenues (discussed above) and reserves. Prudent fiscal management dictates that reserves be budgeted to prepare the city for potential shortfalls in revenue projections, unbudgeted policy issues which Council may approve, unanticipated expenditure requirements during the budget year and/or other contingencies.

The City endeavors to maintain operating reserves for general government activities in an amount equal to approximately one month's operating budget expenditures, (i.e.: approximately 7% to 8%). The 2007 year-end cash balance (reserves) in general government is projected at 8.42% of the 2007 general government expenditures. On average, operating budgets of other funds (i.e.: funds for non-general government activities such as utilities, economic development, etc.) maintain an operating reserve of one to three months of their operating costs, subject to some one-time expenditures, as necessary, from time to time.

2007 year-end reserves for all funds are projected to be approximately \$33 Million; as noted below, by category:

General Gov't Funds (incl.: Police, Municipal Court, Fire, Engineering, Finance, Streets, Parks, etc.)	\$4,595,000
Other Operating and Enterprise Funds	\$8,167,000
Capital Improvements.....	\$9,374,000
Contingency / Operating.....	\$1,417,000
Employee Benefit.....	\$5,429,000
Trust and Agency.....	\$547,000
Debt Service.....	\$3,480,000
TOTAL	\$33,009,000

Each year the City budget, as a whole, includes cash reserves, most of which are limited to a specific purpose(s); see further information, below, regarding restrictions and dedications of reserve funds. (Refer to Exhibit I for more information on reserve funds)

RESERVE RESTRICTIONS / DEDICATIONS

The City maintains reserves for many different purposes; some reserve funds are available for emergencies and unanticipated expenditure needs during the year and other reserves are legally or contractually restricted and may only be used for a specific purpose (such as the repayment of debt; support of a specific construction project; payment of retirement expenses and so on.) The dedications and restrictions, if any, on reserves, are noted below.

GENERAL GOVERNMENT RESERVES — This category is made up of reserves for the general fund, parks fund and the street fund. General fund reserves are primarily unrestricted and maintained to offset unanticipated reductions in revenues, unanticipated expenditures and other emergencies. Parks and Street funds reserves are restricted to operations and maintenance costs within these funds.

OPERATING AND ENTERPRISE RESERVES — (1) Operating reserve funds are special revenue funds, which, by law or legislation, are restricted to the operations, maintenance and capital costs for a designated purpose; (example, grants for economic development; assessments on local businesses for parking and business improvements, etc.) NOTE: there may be a small portion of funds in this

category which are not legally restricted.; (2) Enterprise reserves are generated from revenues received for transit services or from refuse, water and irrigation or wastewater utilities; a separate fund is set up to track revenues and expenditures for each of these services. Reserves in these funds are restricted in use to the operation and maintenance needs of the specific fund from which they were generated.

CAPITAL IMPROVEMENT RESERVES — Capital funds are established, by law, to account for the receipt and disbursement of moneys used for the acquisition of capital. Reserves are built up over time to support capital improvements and are designated either for payments on the debt of past improvements or to build a reserve to cover the cost of future improvements.

CONTINGENCY AND OPERATING RESERVES — These funds include (1) a general contingency fund which is available to cover emergencies and unanticipated expenditures in any fund within the City; although they are primarily designated to cover contingencies in the General Government Funds; (2) a Capitol Theatre reserve fund of approximately \$579,000. This fund was originally established from a \$1 million endowment; the interest on which is utilized for, and restricted to, operating and maintenance costs of the Theatre. During 2006, a portion of the original endowment was utilized to help fund major capital improvements to the Capital Theatre, therefore the level of the reserve fund has been reduced; (3) a Risk Management reserve fund which covers the City's stop loss insurance costs, excess costs of claims, insurance / professional services costs and other miscellaneous "risk-management related" costs.

EMPLOYEE BENEFIT RESERVES — Funds in this category are designated for the payment of unemployment compensation, employee health benefits, workers' compensation, employee wellness, and Firemen's relief and pension costs. (NOTE: The City is self insured for the above costs and is required to pay claims as they arise. Therefore it is prudent to keep reserves at a level adequate to pay all claims as they become due.)

TRUST AND AGENCY RESERVES — (1) Trust fund reserves are restricted to the purpose(s) for which the trust or endowment was originally designated (for example, cemetery trust fund requires interest on the endowment to be used for operating and maintaining the cemetery; the principal may not be utilized for any purpose); (2) Agency fund reserves are established as "pass through funds" for the purpose of providing payments to a third party and carry a zero balance.

DEBT SERVICE — These funds are restricted to the repayment of debt.

General Information: The State of Washington has a law which provides that "one fund cannot benefit" another fund. State law also establishes the rule that a "fund" or a self-balancing set of records be established if revenue sources are restricted for specific purposes. This rule enforces the concept that money collected for a specific purpose must be used for that purpose. (For example, the utility funds are self-supporting; the rates charged are designed to recover the costs of providing the utility services. Therefore, these funds may not be used for police or firefighters.)

Reserves are generally built up over time; they are non-recurring, and once they're spent they're gone (i.e., there is no revenue source that will automatically fund these reserves once they are spent.)

EXPENDITURES

TABLE I-1

2007 VS. 2006 EXPENDITURE BUDGET COMPARISON

FUND	2006 YEAR-END ESTIMATE	2006 AMENDED BUDGET	2007 BUDGET	'07 vs. '06 AMENDED BUDGET % CHANGE
General	\$43,215,760	\$43,880,630	\$44,624,241	1.7%
Parks	4,064,301	4,074,592	4,178,643	2.6%
Street and Traffic	5,471,769	5,522,653	5,796,676	5.0%
General Government Sub Total	\$52,751,830	\$53,477,875	\$54,599,560	2.1%
Community Development ⁽¹⁾	\$3,089,618	\$3,114,895	\$2,512,699	(19.3%)
Utilities/Other Operating	49,991,555	51,269,648	49,749,861	(3.0%)
Capital Improvement	33,645,195	51,492,944	35,715,496	(30.6%)
Contingency/Operating Reserves	2,876,778	3,068,404	2,518,843	(17.9%)
Employee Benefit Reserves	10,756,826	11,431,502	11,389,646	(0.4%)
General Obligation Bonds	2,006,786	2,108,824	3,059,605	45.1%
LID Debt Service	332,000	332,000	132,000	(60.2%)
Water/Sewer Revenue Bonds	3,098,067	3,098,068	2,910,472	(6.1%)
Trust and Agency Funds	15,000	15,000	20,000	33.3%
Total City Budget	<u>\$158,563,655</u>	<u>\$179,409,160</u>	<u>\$162,608,182</u>	<u>(9.4%)</u>

Legend:

(1) The 2007 budget includes an estimate of the 2007 grant awards only. The 2006 amended budget includes the 2006 grant awards and awards carried forward from the previous years.

* See Exhibit I for an expenditure detail by individual fund.

General Government — The 2007 General Government expenditure budget is approximately 2.1% above the 2006 amended budget.

Citywide Expenditures — The Citywide Expenditure budget is approximately \$16.8 million or 9.4% below the 2006 amended budget.

2007 BUDGET ITEMS OF INTEREST

PERSONNEL COSTS

In order to help offset the impact of operating costs that continue to increase faster than the City's operating revenues (due to rising private sector costs, unfunded mandates and contractual obligations, legislative constraints on revenue increases and the like) and in an effort to avoid serious and painful staff and service reductions in the coming year, management has implemented a "freeze" on employee wages and salaries for 2007. While this requires an agreement with all the City's collective bargaining groups, and negotiations are underway, there are no general wage/salary increases included in this 2007 Budget Forecast with one exception. The City is required to maintain the salary of the Municipal Court Judges at 95% to 100% of the salary paid by the State to District Court Judges in order to be eligible for a partial reimbursement

from the State. Therefore, the Municipal Court Judges base salary was increased to maintain eligibility for the funding.

Employee salary and benefits account for approximately 68% of the total general government budget. A 1% increase in wages/benefits in 2007 would have increased the City's General Government budget by approximately \$370,000.

However, the State mandated an unfunded increase in the City's 2007 State retirement plan contributions of approximately 63% or \$695,000. This comes on top of a nearly 25% increase in 2006, and the State has indicated that there may be a similar increase in 2008.

LIBRARY

In April of 2006, voters approved the annexation of the library into the Yakima Rural Library System; therefore, 2007 budgeted expenditures have been reduced by the \$1.3 million the City previously paid for library services. Likewise, the revenues received from the property tax levy will be reduced, as a portion of the revenues the City previously received will now be levied directly by the Library District.

ANNEXATIONS

In 2006 the City completed the three annexations, known as Long, 96th Avenue and the State Fair Park and in late 2005 the Englewood annexation was completed. Together, these annexations added more than 1100 people and more than \$84 million of assessed value to the City. These annexations will add approximately \$800,000 in additional property tax revenues in 2007. (Note: the State Fair Park is exempt from property tax due to its non-profit status.)

Additionally, during 2006 the annexation of the Occidental area is under-going review by the City; if completed, this annexation could add about 600 people and over \$67 million of assessed value to the City.

CRIMINAL JUSTICE

After several months discussing and debating various options, in July of 2006, the Yakima City Council adopted the "Safe Community Action Plan" – a strategy to reduce crime in the community by placing more police on the streets, more prosecutors and judicial support in the courts and to keep more criminals in jail. This is a comprehensive plan that enhances all areas of the City's criminal justice system. This proposal is estimated to cost \$3.35 million, to be phased in over a four-year period and funded from a combination of five different sources.

Two of the five funding sources for this proposal have been included in the 2007 budget (both the revenue and expenditure budget), these are, (1) the estimated \$650,000 of property tax revenues that became available as a result of the annexation of the library, which was approved by voters in April of 2006, and (2) \$560,000 estimated additional revenues from the Council proposal to reduce the utility tax rate exemption for large utility consumers.

The balance of the necessary funding is proposed to come from two sources: (1) a 1.5% increase in the utility tax rate (from 6% to 7.5%); this proposed change will go before the voters in the November general election. If approved by voters, the budget will be updated to include this estimated \$1.6 million component of the plan. (2) Future revenues anticipated to be derived from future annexations and from additional fines and forfeiture revenues collected as a result of efforts of the additional police officers that will be hired under the proposal.

MAJOR CAPITAL PROJECTS

Capital project funds for 2007 are budgeted at approximately \$35.7 million. The 2007 proposed budget includes new capital expenditures and a carryover of ongoing projects previously approved by Council, as follows:

Water and Wastewater Capital Projects	\$12,008,000
(Including Wastewater Facilities Improvement)	
Major Street Construction Project.....	\$12,619,069
Includes:	
River Road - N 16th to Fruitvale	\$1,970,000
Railroad Grade Separation.....	\$7,040,000
Douglas Trail - 6th Ave & Naches.....	\$307,408
Douglas Bridge Restoration	\$479,890
Other Street Projects and Debt Service Payments	\$2,821,771
Transit Capital	\$700,000
City Hall Rehabilitation/Contingency/Repairs Project.....	\$450,000
(Continuation)	
Parks Capital Improvements	\$605,000
Fire Capital.....	\$2,037,700
Capitol Theatre	\$10,000
Criminal Justice/Capital Expenditures.....	\$644,500
Convention Center Capital.....	\$144,000
Central Business District Improvements	\$3,622,227
Irrigation System Improvements	\$2,375,000
Local Improvement District (LID) Construction	\$500,000
Total Capital Projects	<u>\$35.7 million</u> ⁽¹⁾

(1) Rounded.

NOTE: The operational impacts of these projects have been included in the 2007 proposed budget.

To fund these major projects, the City has:

- Secured grant funding and ongoing, dedicated street funding for a significant portion of the street projects.
- Funded projects through the use of rates, reserves, grants and State loans and the issuance of debt.
- Due to the nature of this category, it tends to fluctuate from year to year. Refer to Section V, Capital Improvements, for more information on the above projects.

DEBT SERVICE COSTS

Most municipal organizations must issue long term debt to finance capital projects and improvements, and Yakima is no exception. This category includes the cost of principal and interest payments on the City's outstanding bonded debt and capital leases.

- 2007 Budget of \$6,115,997; a 12.4% or \$679,144 Increase over the 2006 amended budget of \$5,436,853. This increase is primarily due to financing for the Downtown Revitalization Project, the River Road Project, and to refinance a Line of Credit related to the West Valley fire station upgrade.

Due to the nature of this category, it tends to fluctuate from year to year. Refer to Section V, Capital Improvements, for more information on the above projects.

CHANGES IN FUNDING AUTHORIZATION

THIS SECTION IS BROKEN INTO TWO CATEGORIES:

**Changes in Staffing
Policy Issues Overview for Council Consideration.**

CHANGES IN STAFFING

In the 2006 amended budget, there were several positions that were included for only a partial year. Council has already approved these positions, but the conversion from a partial year to a full year will increase the respective budgets in 2007. Following is a summary of these changes:

PUBLIC SAFETY GRANTS — Both Police and Fire received new federal operating grants that were effective in mid-2006. One Police Officer was added to implement the Gang Resistance Education and Training (GREAT) grant. Three firefighter positions were added because of an award of a Staffing for Adequate Fire and Emergency Response (SAFER) grant. The 2007 budget will be affected by the annualization of these positions.

NEW ANNEXATIONS — Because of the increased workload related to the increased service areas resulting from recent annexations, as well as general growth, City Council approved 1.75 new positions in the Streets and Traffic Division and 1 new Sergeant position in the Police Department. Because of the phase-in of annexation revenue, Council approved the addition of these positions in a prior action, to be effective in 2007. Therefore, these are not a topic of a 2007 policy issue.

CONVERSION OF TRANSIT CLEANING SERVICE — When the bus cleaning contract expired in 2006, the City's Transit department was the successful lowest bidder. Therefore, this function was moved in house, adding 2 ¾ time Transit Vehicle Cleaners (a total of 1.5 FTE's.)

2007 PROPOSED ADJUSTMENTS IN PERSONNEL

FUND/DEPT	DESCRIPTION	No of POSITIONS	BASE SALARY & BENEFITS	REMARKS
015-Finance	Financial Services Officer	1.00	\$59,177	2007 PI Budgeted At ¾ of a Year (Partially Offset By Temp Position)
021-Planning	Assoc. Planner/Asst Planner	(1.00)	(64,093)	Delete FTE / Budget Constraint
021-Planning	Department Assistant III	0.50	10,966	2007 PI Offset By Temporary Position
022-Codes Adm	Code Compliance Officer	0.00	See Refuse	2007 Policy Issue Funded By Refuse
031-Police	Police Sergeant Step B	1.00	91,883	2007 Addition Due To Annexation
041-Engineering		(1.50)	(46,376)	Reorganization of Engr Division
054-Utility Services	Water Service Specialist	0.00	2,183	2007 PI Position Upgrade
054-Utility Services	Water Service Specialist	0.75	22,813	2007 PI (Part Offset By Temp Position)
TOTAL GENERAL FUND		.75	\$76,552	
131-Parks & Rec	Parks & Rec Dept Reorg	1.10	\$22,705	Reorganization Net Change
131-Parks & Rec	Park Maint Specialist	(0.75)	(41,605)	Deletion Of Personnel (Downtown Maintenance Will Be Contracted Out)
TOTAL PARKS		0.35	(\$18,900)	
TOTAL GENERAL GOV'T		1.10	\$57,652	
OTHER OPERATING FUNDS:				
123-Economic Dev.	Deputy C.E.D Director	(0.15)	(\$10,934)	Reorganization of Engr Division
124-Housing	Deputy C.E.D Director	(0.50)	(50,810)	Reorganization of Engr Division
151-Public Safety	911 Calltaker	1.00	48,431	2007 Policy Issue
151-Public Safety	Public Safety Dispatcher	1.00	54,181	2007 Policy Issue
462-Transit	Transit Dispatcher	1.00	47,688	2007 Policy Issue
471-Refuse	DA II	0.50	(5,522)	2007 PI Offset by Temp Position
471-Refuse	Code Compliance Officer	1.00	52,715	2007 Policy Issue
473-Wastewater	Laboratory Chemist	(1.00)	(61,373)	Deletion Due to Budget Constraint
473-Wastewater		0.10	8,725	Reorganization of Engr Division
474-Water		0.05	4,316	Reorganization of Engr Division
475-Irrigation		0.00	(192)	Reorganization of Engr Division
475-Irrigation	Irrigation Specialist II	0.00	9,196	2007 PI Position Upgrade
515-Risk Mgmt	Legal Asst II	0.50	30,639	2007 PI Funded By Risk Mgmt
515-Risk Mgmt	Senior Asst City Atty I	1.00	95,991	2007 PI Funded By Risk Mgmt
TOTAL OTHER OPERATING FUND		4.50	\$223,051	
TOTAL CITY-WIDE		5.60	\$280,703	

* Salary and benefits shown reflect impact on 2007 budget.

In the 2007 budget, Management continues to accommodate Federal and State unfunded mandates and provide critical public safety and other essential services. In an effort to minimize costs and increase efficiencies, management has increased, decreased and shifted personnel resources in the 2007 budget. The total net affect of these changes is an increase of 5.6 FTE positions at a net cost of \$280,703.

2007 POLICY ISSUES OVERVIEW

When staff proposes changes that include a policy component — not strictly administrative and operational issues — we prepare a Policy Issue document for Council consideration. Additionally, all funding for support to outside agencies (new and existing) and all proposed increases in staffing require a Policy Issue. The Policy Issue document includes a description of the proposed change, the consequence of making and not making the change, impacts, if any on the public and on personnel, and the increase/decrease in funding requirements. If there is an increase in funding requirements, the source of the additional funding must also be identified. Council separately considers and approves or denies each policy issue as part of their review and approval of the annual budget.

Following is an overview of the 2007 policy issues (Refer to Exhibit II for more information on each of the following items. A Policy Issue Document with detailed information on each policy issue will be submitted to Council in early November.)

OUTSIDE AGENCY REQUESTS — Total 2007 request is \$97,046

Agencies requesting funds that have been included in the proposed budget at the same funding level as the prior year include: Yakima County Development Association; Yakima Chamber of Commerce; Hispanic Chamber of Commerce, Fourth of July Committee; Yakima Sunfair Association; Allied Arts Van; Retired Senior Volunteer Program (RSVP) and the Yakima-Morelia Sister City Association. These requests total \$47,046.

Additionally, in 2006, the City provided \$30,000 to the Yakima Basin Storage Alliance; their 2007 budget request is \$50,000 - \$30,000 is included in the proposed 2007 budget the remaining \$20,000 is unbudgeted.

INTERGOVERNMENTAL REQUESTS / REQUIREMENTS — A total of \$110,075 has been requested and included in the proposed 2007 budget, allocated as follows: Clean Air Authority — \$12,622 (2006 budget — \$12,622); Yakima County Emergency Management — \$54,721 (2006 budget — \$42,244); and the Yakima Valley Conference of Governments (COG) requested \$42,732 (2006 budget — \$39,130).

CITYWIDE — (Two Policy Issues)

1. Management proposes to have a feasibility study performed regarding the siting / building of a Westside Operational Center for streets, transit and possibly police and fire. (\$50,000 budgeted — Transit Capital)
2. SOS: Management proposes that Council establish a Council Committee — of the whole or a sub-committee — to (a) review the City's General Government budget, (b) establish priorities and identify expenditure and service reductions and (c) identify potential revenue opportunities that may be necessary to ensure the city's fiscal health and on-going sustainability of services (SOS) as prioritized by Council. (No impact on 2007 budget.)

CITY MANAGEMENT / CITY MANAGER DIVISION — Management proposes that the City become a member of the ICMA Performance Consortium Group. (\$5,250 budgeted – general fund)

CITY MANAGEMENT / LEGAL DIVISION — To reduce overall legal costs, the City Attorney's office is proposing to add one Land Use Attorney position and one half-time Legal Assistant position. (\$130,700, Budgeted — Risk Management Fund)

CITY MANAGEMENT / INDIGENT DEFENSE DIVISION — Management proposes to review options to provide Indigent Defense services. Three alternatives are included in the policy issue, the option to re-bid the existing contract has been included in the 2007 budget — increasing by \$85,000 from the 2006 funding of \$240,000. (\$325,000, budgeted)

CITY MANAGEMENT / WASTEWATER DIVISION — The Wastewater Utility requests authorization of an ultra-violet disinfection project. (\$2.7 million total, budgeted)

CITY MANAGEMENT / WATER & IRRIGATION DIVISION — (Two Policy Issues)

1. Increase Irrigation Specialist I position from 80% to 100%. (\$9,000, Budgeted)
2. An Irrigation operation and maintenance rate increase; three alternatives are proposed: (a) 10% over two years; generate \$120,000; (b) 7% over three years, generate \$84,000 annually (2007, 2008 & 2009) And (c) 20% first year, generate \$240,000. (Option a is included in 2007 budget - \$120,000 annually for 2007 & 2008)

FINANCE DEPARTMENT / FINANCIAL SERVICES — Finance proposes to add one Financial/Treasury Services Officer position; cost will be partially offset by reduction in temporary services funding. (\$63,700, Budgeted — first year)

FINANCE DEPARTMENT / INFORMATION SYSTEMS — (Three policy issues)

1. Implement a Citywide Time Tracking software system. (\$70,000, Budgeted 2007; \$10,000 on-going support costs)
2. Implement an Electronic Payment System. (\$30,000, Budgeted 2007)
3. Staff report status of the 2005/2006 approved Policy Issue to implement an integrated Utility Customer Service Management System. (This project has been deferred; not included in 2007 budget)

FINANCE DEPARTMENT / UTILITY SERVICES — (2 Policy Issues)

1. To improve coordination and efficiency of work in field, Utility Customer Services proposes to upgrade one Water Services Specialist field position to a Crew Leader field position. (\$5,000 net increase, Budgeted)
2. To continue and enhance results of recent efforts to improve customer service and to augment Lead Field position noted above, Utility Services proposes to add one $\frac{3}{4}$ time Water Service Specialist field position; costs will be partially offset by reduction in temporary employee funding. (\$20,000 net Increase, Budgeted)

CED DEPARTMENT / ENVIRONMENTAL PLANNING — A proposal to upgrade one Temporary DA-III position to a “permanent” half-time position. (\$11,000, Budgeted)

CED DEPARTMENT / YAKIMA CONVENTION CENTER / TOURIST PROMOTION — (3 policy Issues)

1. Replace reader board (electronic sign) in front of the Convention Center. (\$30,000 Budgeted)
2. Increase annual management fee from \$525,000 to \$555,000, to adequately support Center operations. (\$30,000 increase, Budgeted)

3. Increase annual Management fee from \$165,000 to \$180,000 for Tourism Promotion. (\$15,000 increase, Budgeted)

CED DEPARTMENT / CAPITOL THEATRE — Increase the annual management fee paid to the Capitol Theatre Committee from \$146,000 to \$175,000, to cover increased costs in day to day operations of the theatre and stabilize the CTC's revenue base, to be funded by the Cable TV utility tax enacted in 2006. (\$29,000 increase, Budgeted)

CED DEPARTMENT / ENGINEERING — Is proposing a reorganization plan for the division, which will both add and delete positions as well as re-align the duties and responsibilities of various positions, resulting in changes in the 2007 budgets of several funds. (\$46,400) decrease - General Fund; (\$11,000) decrease — Economic Development Fund; (\$50,800) decrease — ONDS Fund; \$8,700 increase Wastewater Operating Fund; \$4,300 increase — Water Operating Fund; (\$200) decrease — Irrigation Operating Fund. For a total Citywide net savings of \$95,000, Budgeted.

FIRE DEPARTMENT / OPERATIONS — (Two policy issues)

1. Replace Fire Pumper/Engine #94 — Fire Capital Fund. (\$490,000, Budgeted)
2. Reinstate one Battalion Chief position — funded by other reductions in the Fire Department operating budget (dependent on outcome of labor negotiations. (\$120,000, Unbudgeted)

FIRE DEPARTMENT / PUBLIC SAFETY COMMUNICATIONS — (Two policy issues)

1. Add one Public Safety Dispatcher position. (\$54,200, Budgeted)
2. Add one 9-1-1 Call-taker position. (\$48,600, Budgeted)

PUBLIC WORKS DEPARTMENT / ADMINISTRATION — Restore parking lot at Public Works Administration Facility. (\$500,000 — Transit Capital; \$100,000 Streets Operating Fund; \$150,000 Water Capital Fund; \$100,000 Refuse fund; \$50,000 Irrigation Capital Fund; \$100,000 Environmental Fund. Total project cost of \$1,000,000. Budgeted)

PUBLIC WORKS DEPARTMENT / STREETS AND TRAFFIC OPERATIONS — (Four Policy Issues)

1. Initiate a Neighborhood Traffic Calming Program. (\$50,000, Budgeted)
2. Contract for Traffic Circulation Study in the Downtown Area. (\$90,000, Budgeted)
3. Purchase of an asphalt patch truck. (\$170,000, Budgeted)
4. Upgrade field radio equipment. (\$75,000, Unbudgeted)

PUBLIC WORKS DEPARTMENT / TRANSIT — Add one Transit Dispatcher to accommodate demand / route volume. (\$47,700, Budgeted)

PUBLIC WORKS DEPARTMENT / REFUSE — (Two Policy Issues)

1. Add one ½ time Department Assistant II position to perform tasks previously completed with temporary staffing. New position costs of \$23,000 to be offset by reduction in temporary staffing costs of \$16,000. (\$7,000 increase, Budgeted)

2. This is a two-part Policy Issue:

- Increase Refuse rates by 3%; \$89,000 increase revenue in 2007; \$114,500 annually to fund a Code Compliance Officer. (\$89,000, Budgeted)
- Add one Code Compliance Officer position, including related vehicle, supplies, etc.) to enforce refuse related ordinance violations, including graffiti. (\$89,000 total costs, Budgeted)

PUBLIC WORKS / EQUIPMENT RENTAL — Add a second fuel storage location to accommodate increased demand and help prepare City for emergency fuel supply disruptions; to be paid for from Environmental Fund. (\$150,000, Budgeted)

PUBLIC WORKS DEPARTMENT / PARKS AND RECREATION — (Five Policy Issues)

1. Increase certain fees and charges for Parks and Recreation. (\$ Unknown at press time; Unbudgeted)
2. Install HVAC improvements at Lions Pool — paid from Parks Capital Fund. (\$150,000, Budgeted)
3. Maintenance of West Valley Community Park; park transferred from County to City in 2006. (\$15,000, Budgeted)
4. Provide funding of \$100,000 to cover the estimated increase in maintenance costs of the Central Business District/Yakima Avenue Pedestrian Improvements; options include:
 - Create an amended PBIA
 - Increase of 20% in business license fees
 - Increase “in-lieu” utility tax on City’s utilities (water, wastewater and refuse) from 3.5% to 4% or a 0.5% increase.
 - Establish a volunteer Community Corp.
 - Implement other service reductions in Parks and Recreation

(Current expenditure of \$50,000 Budgeted in 2007; additional costs of \$100,000 — staff proposes to defer costs and to initiate a study of the options be performed in 2007.)

5. Implement re-organization plan for Parks/Recreation Division (\$25,000 net cost increase, Budgeted)

PUBLIC WORKS DEPARTMENT / CEMETERY — (Two Policy Issues)

1. Increase cemetery fees and charges by 3%. (\$4,400 revenue, Budgeted)
2. Construct a Columbarium/Niche Wall at the Tahoma Cemetery; paid from Cemetery Fund/pre-paid lot sales. (\$30,000, Budgeted)

(This page intentionally contains no information.)

II. WHAT YOU PAY AND WHAT YOU GET

OVERVIEW

This section is presented to assist the reader in understanding the taxes they pay, what governmental entity receives those tax revenues and how the City spends their allocated portion. Enclosed, you'll find charts and graphs which identify how much of the taxpayers' dollar comes to the City and what percentage of the City's total revenues each type of tax/charge represents. Also included is (a) an outline of the City taxes and utility charges collected from a typical Yakima household; (b) a depiction of how those revenues are then distributed between the various City services/functions and (c) the amount a typical four-person household pays for these services.

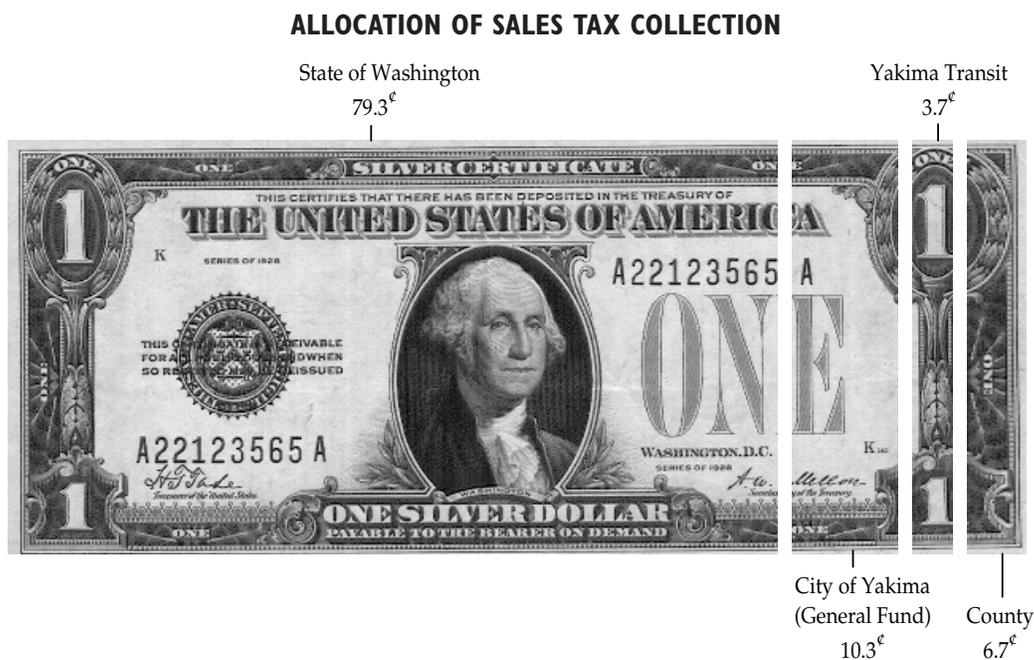
MAJOR TAXES PAID

SALES AND USE TAX — There is a 8.2% sales tax charged on the sale of goods within the City. The vast majority of this revenue is allocated to the State, not the City. The State receives 6.5% while the City receives .85% for the general fund and an additional 0.3% that is restricted for transit services, and .15% goes to the County, and .40% represents county wide taxes for Criminal Justice that is allocated between Cities and the County. (Refer to chart below for a complete detailed listing of how this revenue is allocated.)

Following is an example of how the sales taxes paid by the consumer are allocated between the City and the State. Based on the assumption that a family with a taxable income of \$40,000 will spend \$10,000 on items on which sales tax will be applied, they will pay approximately \$820 in sales taxes annually. Of this amount, 1.15% or approximately \$115 goes to the City (\$85 or .85% for general fund and \$30 or 0.3% for transit services).

The following chart depicts how much of each dollar of sales tax revenue is allocated to the State, the City and the County.

FIGURE II-1



SALES TAX RATES WITHIN YAKIMA CITY LIMITS

(in descending order by total allocation)

	RATE	% OF TOTAL	EXAMPLE (\$100 SALE)
State of Washington	6.50%	79.3%	\$6.50
City of Yakima (General Fund) ⁽¹⁾	0.85%	10.3%	\$0.85
Yakima Transit	0.30%	3.7%	\$0.30
Yakima County (Current Expense Fund) ⁽¹⁾	0.15%	1.8%	\$0.15
Yakima County Criminal Justice ⁽²⁾	0.40%	4.9%	\$0.40
Total sales tax rate in city limits	8.20%	100%	\$8.20

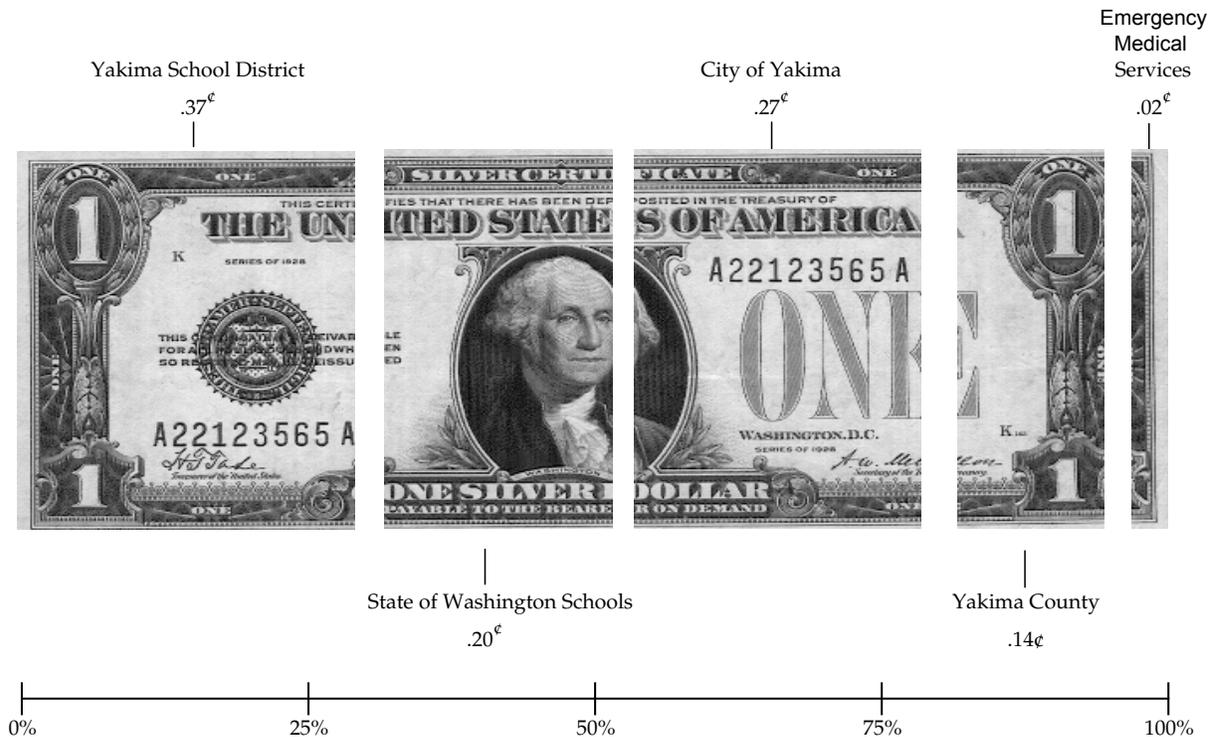
(1) The City charges 1%, however, the county receives .15% of the cities' sales tax collections.

(2) This tax is allocated among the cities and the county to support Criminal Justice uses.

PROPERTY TAXES — The total property taxes paid by property owners within the City of Yakima includes taxes levied by several governmental entities; the State, School Districts, Special County wide voted levies and the City's general and special voter approved levies. The percentage of the total property taxes levied by, and allocated to, each individual governmental entity will change slightly from year to year. The City's portion is generally under 30% of the total amount collected. (Refer to the graph and chart below for how the 2006 property taxes were allocated between these governmental entities.)

FIGURE II-2

2006 PROPERTY TAX DISTRIBUTION



City of Yakima Property Tax — In 2006, a typical City resident pays approximately \$12.69 per thousand of assessed value on property taxes. Only \$3.45, or about 27.3% goes to the City, with the balance divided between the County, schools, and other special districts.

DESCRIPTION OF HOW PROPERTY TAXES ARE LEVIED

The following explanation is included to help the reader understand how property taxes are assessed to the individual property owners. To aid in this explanation three commonly used terms must be understood, they are Property Tax Levy, Property Tax Rate and Assessed Value.

PROPERTY TAX LEVY — is the total amount of money that is authorized to be collected.

ASSESSED VALUE — is the total value, as determined by the County Assessor's Office, of all property within the City.

PROPERTY TAX RATE — is the property tax amount that will be applied to every \$1,000 of assessed value; the rate is determined by simply dividing the levy amount by the total assessed value amount and dividing that number by 1000.

In other words, an increase in assessed value does not affect the total amount levied or collected by the governmental entity. Nor does it automatically affect the amount the property owner must pay. The dollar amount of the levy is restricted by law — the assessed value is simply the means to allocate the total dollars among the property owners. A change in one property owner's assessed value will affect his/her property tax bill only if the change is significant enough to change that property owner's percentage of the total assessed value of all property within the taxing districts. (Example: if the amount of property tax levied does not change from one year to the next, and every property owner's assessed value goes up 3%, there will be no change in the property tax owed by any of the property owners. This is due to the fact that everyone's assessed value increase by the same amount, therefore, every property owner's percentage of the total tax levy remained the same.)

TABLE II-I

PROPERTY TAX CODE AREA #333 (YAKIMA SCHOOLS) - CONSOLIDATED LEVY AND RATES 2005 ASSESSED VALUATION - 2006 TAX YEAR

<u>PROPERTY TAX LEVY</u>	<u>2005 RATE/ THOUSAND</u>	<u>2006 LEVY</u>	<u>PERCENT OF LEVY</u>
General Fund	1.4701	\$6,129,756	
Library	0.3152	1,314,107	
Parks and Recreation	0.4417	1,841,985	
Street and Traffic Operations	0.7948	3,314,344	
Firemen's Relief and Pension	0.3595	1,498,895	
TOTAL OPERATING LEVY	\$3.3813	\$14,099,087	26.7%
Total Bond Levies	0.0729	300,000	0.6%
TOTAL CITY LEVY	\$3.4542	\$14,399,087	27.3%
OTHER LEVIES			
School District #7			36.7%
Operation and Maintenance	2.9338	12,077,883	
Bond Redemption	1.7781	7,320,091	
State Schools	2.5026	10,435,191	19.8%
Yakima County	1.6222	6,764,152	14.2%
Yakima County Flood Control	0.0948	394,040	
Juvenile Justice Bond	0.0724	301,889	
EMS Levy	0.2368	987,394	2.0%
TOTAL OTHER LEVIES	\$9.2407	\$38,280,640	72.7%
TOTAL LEVY CODE #333	\$12.6949	\$52,679,727	100.0%

CITY TAXES AND UTILITY CHARGES

The taxes and utility charges shown in the following charts are only those directly levied by the City. In the cases of sales and property taxes, the 2 major taxes paid directly by Washington residents, only a small portion of the total tax belongs to the City.

For example, the total local tax and charges for all municipal services provided to a typical household in Yakima in 2006 is approximately \$165 a month, or \$1,975 a year, as depicted in the following charts.

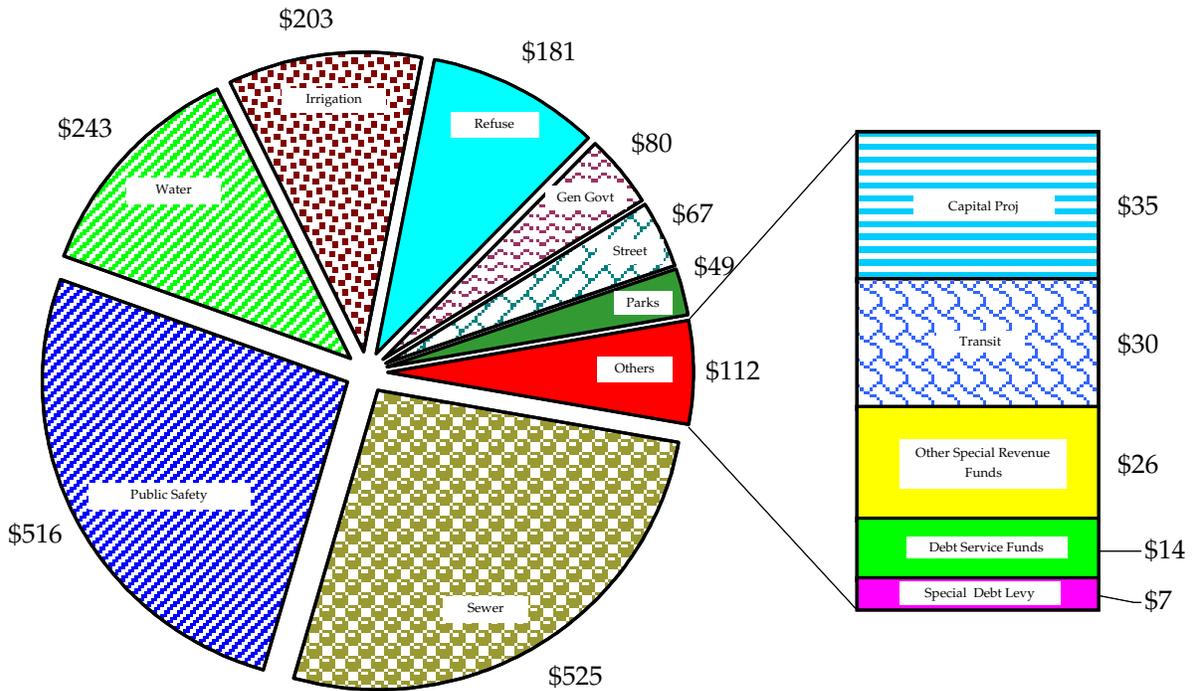
TABLE II-2

ANNUAL TAXES AND UTILITY CHARGES LEVIED BY THE CITY OF YAKIMA ON THE TYPICAL HOUSEHOLD FOR 2006

Property Taxes - General	\$3.3813/1,000	\$338
Special Levy Property Taxes	\$0.0729/1,000	7
(Assumes \$100,000 home)		
Sales Taxes - General		115
Transit Sales Tax.....		30
(Assumes \$10,000 taxable purchases on \$40,000 taxable income)		
Tax on City-owned Utilities - General		125
Tax on Private Utilities - General.....		209
(Assumes electricity and gas of \$2,160, telephone of \$720 and Cable TV of \$600)		
Water, wastewater and refuse Utility Charges (excluding Utility Tax).....		949
(Refuse: 96 gallon can; Water/Wastewater: 1,300 cubic foot consumption)		
Irrigation Assessment		203
(Assumes 7,000 square footage)		

Total Annual City Taxes, Utilities and Assessment Charges	\$1,976
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**CITY TAXES AND UTILITY CHARGES
COST TO TYPICAL HOUSEHOLD — \$1,976 ANNUALLY**



REVENUE ALLOCATION BASED ON 2007 BUDGET

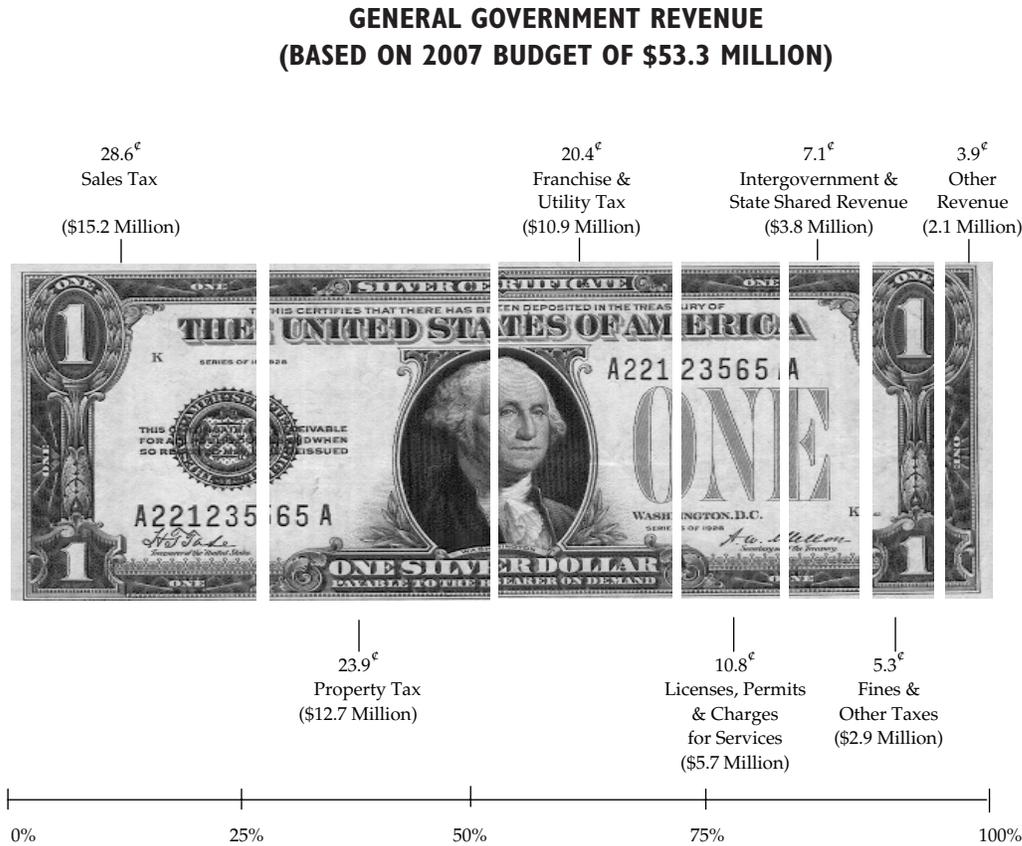
Assumptions — Typical 4 person household: Property tax based on \$100,000 home; Sales tax based on \$40,000 annual income and \$10,000 taxable purchases; Utilities based on 96 gallon can for Refuse, 1300 cubic foot monthly consumption for Water/Sewer; Irrigation for 7,000 square foot lot; Storm Water based on impervious surface; Gas/electricity \$2,160, telephone \$720, cable television \$600.

GENERAL GOVERNMENT REVENUE

The total 2007 proposed General Government Revenue Budget is approximately \$53.3 million.

The following chart breaks this dollar amount down by the source of the revenue. You'll note that three revenue sources — sales tax, property tax and franchise and utility taxes — generate over 72% of the total general fund revenues.

FIGURE II-4



Due to changes in population resulting from annexations, City revenues fluctuate considerably over time, making revenue comparisons very difficult in absolute dollars. The following chart compares the changes in the City's general government revenues and expenditures to changes in the Consumer Price Index (CPI) between 2000 and 2004. You'll note that while the City's general government revenues decreased an average of 0.8% and expenditures decreased an average of 0.1% on a per capita basis over this four-year period, the CPI increased an average of 1.3%. This indicates that the increase in the City's revenue and expenditures have fallen below the consumer price index by approximately 3.5% on a per capita basis.

**CITY OF YAKIMA
SUMMARY OF GENERAL GOVERNMENT
REVENUES AND EXPENDITURES PER CAPITA COMPARED TO CPI**

	2001 AMOUNT	2002 AMOUNT	2003 AMOUNT	2004 AMOUNT	2005 AMOUNT	AVERAGE ANNUAL % CHANGE
REVENUES						
Total General Government	\$41,154,269	\$42,827,719	\$44,045,258	\$46,439,661	\$48,910,601	4.7%
Population	73,040	79,120	79,220	79,480	81,470	2.9%
Revenue per capita	\$563	\$541	\$556	\$584	\$600	1.6%
EXPENDITURES						
Total General Government	\$39,647,044	\$42,374,664	\$44,673,857	\$47,224,547	\$49,335,994	6.1%
Population	73,040	79,120	79,220	79,480	81,470	2.9%
Expenditures per capita	\$543	\$536	\$564	\$594	\$606	2.9%
CONSUMER PRICE INDEX (CPI)	181.3	184.1	185.7	190.4	194.8	1.9%

Note: The term “General Government” refers to basic tax-supported functions. The major functions included in this category are: Police, Fire, Streets and Traffic Operations, Parks and Recreation, Library and Code Administration services. These functions use about 71.3% of General Government revenues. Other administrative services include Information Systems (i.e. computer support), Legal, Finance, and Human Resources — services necessary for any organization to function.

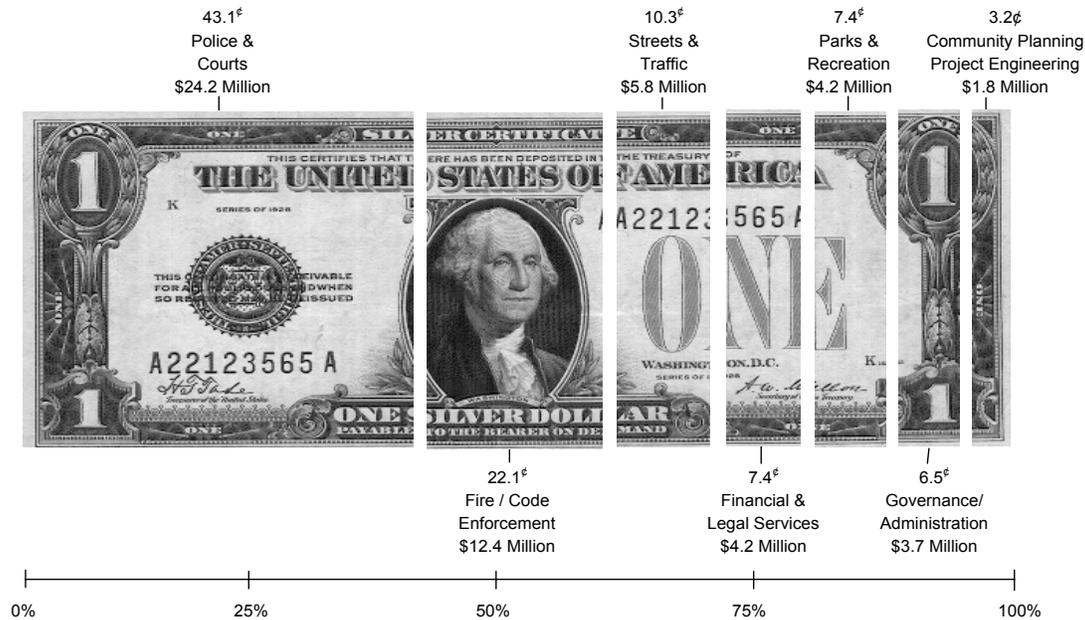
GENERAL GOVERNMENT EXPENDITURES

The following chart depicts the breakdown of the proposed 2007 general government expenditure budget. This breakdown identifies that the City spends over 62.3% (or approximately \$33.5 million) of its available resources on providing public safety services (Police, Municipal Court, Fire, 9-1-1 Calltaker and Dispatch services). Additionally, the City allocates over 9.8% of its resources to maintaining and operating the Streets and Traffic Systems and another nearly 7.5% to provide Parks and Recreation programs and services. Providing the existing services in these four basic categories takes nearly 79.6% of all the City’s available general government resources.

Providing the services in these four critical areas is labor intensive; approximately 69.3% of these costs are personnel related. Therefore, any significant budget reductions in these areas will require a reduction in personnel and the related services these individuals perform. Conversely, any significant reductions in the overall general government budget that do not include these four largest areas of the budget will severely limit the services the remaining departments will be able to provide (i.e.: Finance and Legal, Community Planning and Project Engineering; Administration and the Library).

Breaking down the City’s general government budget by these major service areas and identifying the percentage of each available dollar that the City allocates to each of these areas provides the reader with a visual picture of where the focus and priorities of the City have been placed. Additionally, this chart will assist the reader in understanding the difficult challenges facing the City should it become necessary to implement a significant reduction in the City’s proposed budget without affecting the public safety budget and services.

**GENERAL GOVERNMENT EXPENDITURES
(BASED ON 2007 BUDGET OF \$56.3 MILLION)**



1) Includes Fire pension and benefit costs (of \$1.6 million) which are not classified as general government expenditures but are included here to reflect the full costs of fire services.

ALLOCATION OF EXPENDITURES

Following is a detailed analysis of the City of Yakima’s local tax structure. This analysis shows the various sources of City revenue and identifies what type of services these revenues will fund in 2007. Additionally, this analysis reflects the cost of each of these services to a typical household.

The non-tax funding sources identified include all sources except directly levied taxes (shown in the adjacent column) which are property, sales and utility taxes. The non-local tax amounts are made up of direct charges for services, state shared revenues, grants, interfund charges, beginning balances, and other miscellaneous sources.

Municipal public safety services consume the greatest share of local taxes, \$516 per household per year, or 65.5% of the total general taxes paid. Other General Government services cost \$80 per household annually, or 10.1%. Streets and Parks together cost \$116 per household annually, or 14.9% of general taxes paid.

The utilities combine to cost approximately \$949 annually per household. (Many of the costs included in the budgets of the utilities fund State and Federal mandates that local citizens must pay.)

**ALLOCATION OF TAXES AND UTILITY CHARGES
(BASED ON 2007 PROPOSED BUDGET)**

	2007 PROPOSED BUDGET (000's)	NON-TAX FUNDING SOURCES (000's)	LOCAL TAXES (000's)	ALLOCATION OF TAXES COLLECTED	HOUSEHOLD TYPICAL COST ⁽¹⁾	2007 PERMANENT BUDGETED POSITIONS
LOCAL DIRECT GENERAL PURPOSE TAX SUPPORTED FUNCTIONS						
Public Safety (Police Fire and Pensions)	\$35,603	\$5,305	\$30,298	65.5%	\$516	308.75
General Government	14,437	9,744	4,693	10.1%	80	136.04
Streets Department	5,797	1,827	3,970	8.6%	67	41.50
Parks Department	4,179	1,270	2,909	6.3%	49	26.82
Other Special Revenue Funds	4,037	2,517	1,520	3.3%	26	18.09
Debt Service Funds	2,767	1,939	828	1.8%	14	0.00
Capital Project Funds	12,924	10,895	2,029	4.4%	35	0.00
LOCAL DIRECT SPECIAL PURPOSE TAX SUPPORTED FUNCTIONS						
Special Levy Debt	426	126	300		7	0.00
Transit Division	7,275	2,698	4,577		30	50.75
NON-LOCAL TAX SUPPORTED FUNCTIONS						
Street Construction	10,879	10,879	0		0	0.00
Refuse-17,030 Residential accts	3,977	3,977	0		181	19.50
Sewer-22,411 Residential accts	29,111	29,111	0		525	65.55
Water-16,704 Residential accts	8,186	8,186	0		243	30.00
Equipment Rental	4,205	4,205	0		0	11.85
Public Works Administration	1,155	1,155	0		0	9.05
Self-insurance Reserve	3,770	3,770	0		0	0.00
Employee Benefit Reserve	8,469	8,469	0		0	0.00
Irrigation-10,591 Residential accts	5,350	5,350	0		203	9.17
PBIA	63	63	0		0	0.00
TOTALS	\$162,610	\$111,486	\$51,124	100.0%	\$1,976	727.07

(1) Based on 2005 cost for a typical four-person household: Property tax based on \$100,000 home; sales tax based on \$40,000 annual income and \$10,000 taxable purchases; utilities based on 96 gallon can for refuse, 1300 cubic foot monthly consumption for water/sewer; irrigation for 7000 square foot lot; gas/electricity \$2,160, telephone \$720, and cable tv \$600.

TAX BURDEN — FEDERAL VS. LOCAL

The Tax Foundation of Washington D.C. publishes a Special Report each April, called "America Celebrates Tax Freedom Day". This is when Americans will have earned enough money to pay off their total tax bill for the year. Taxes at all levels of government are included, whether levied by the federal government or state and local governments. Tax Freedom Day in 2006 fell on April 26th, three days later than it did in 2005, but still considerably earlier than in 2000, when it fell on May 3rd. Tax Freedom Day was on April 16th in both 2004 and 2003. On average in 2006, Americans will work 77 days to afford their federal taxes and 39 more days to afford state and local taxes.

According to the Foundation's report, "Despite rapid growth of the total tax burden between 2004 and 2006, Tax Freedom Day still shows the effects of the tax cuts in 2001 and 2003. Even as late as April 26th, Tax Freedom Day is still celebrated seven days earlier than it was in 2000 when the tax burden reached its peak and Tax Freedom Day was delayed until May 3.

Since 1990, state and local tax burdens have slowly decreased from 11.2% in 1990 to 10.9% in 2006. The report indicates that Washington State is ranked 4th in the nation for federal per capita taxes paid in 2006. However, it is ranked 13th in the nation for state and local taxes per capita. This demonstrates that Puget Sound, with a higher cost of living and commensurately higher salaries, generated high federal income tax payments. (Some of the wealthiest people in the world live in Washington State.) It also demonstrates how small the state and local tax burden is in comparison to the total taxes paid – at just under one third of the total tax burden.

For the most part, local taxes cost the least and provide citizens with the services they need and care about the most – they have the most direct bearing on their quality of life. This is also the level where citizens are most empowered to affect government policy and monitor accountability. There are per capita comparisons presented in the Budget, which contrasts the City of Yakima with other similar cities in Washington State. Yakima is consistently below the average in per capita taxes.

III. GENERAL GOVERNMENT

YEAR IN REVIEW

General Government is the term used to describe basic tax-supported activities, which are included in three funds:

- General Fund: services provided include; police, fire, code enforcement, planning, legal, municipal and district courts, financial services, purchasing, information systems, etc.
- Parks and Recreation Fund: programs and maintenance.
- Street Fund: Street and Traffic operations and maintenance.

TABLE III-I

**2006
GENERAL GOVERNMENT
ESTIMATED REVENUES AND EXPENDITURES**

	<u>GENERAL FUND</u>	<u>PARKS AND RECREATION FUND</u>	<u>STREET FUND</u>	<u>TOTAL</u>
ACTUAL BEGINNING BALANCE	\$4,762,269	\$479,487	\$1,133,674	\$6,375,430
Estimated Revenue	<u>43,216,904</u>	<u>3,895,555</u>	<u>5,185,857</u>	<u>52,298,316</u>
TOTAL ESTIMATED RESOURCES	47,979,173	4,375,042	6,319,531	58,673,746
Less: Estimated Expenditures	<u>43,215,760</u>	<u>4,064,301</u>	<u>5,471,769</u>	<u>52,751,830</u>
ESTIMATED ENDING BALANCE 2006	<u>\$4,763,413</u>	<u>\$310,741</u>	<u>\$847,762</u>	<u>\$5,921,916</u>

GENERAL FUND

- 2006 Year-end revenue estimate is \$43,216,904 — \$2,858,335 or 7.08% over actual levels for 2005. The primary reasons for this increase are 1) A full year's collection of the .3% Criminal Justice Sales Tax approved by the voters in Nov. 2004; 2) A one-time final Utility Franchise Fee payment and; 3) The sale of some real property to the Library District. With these one-time revenues eliminated, the year-over-year increase is approximately 4.3% - less than the inflation rate.
- 2006 year-end expenditure estimate is \$43,215,760 — \$664,870 or 1.5% under the authorized, amended budget of \$43,880,630.

PARKS FUND

- 2006 year-end revenue estimate is \$3,895,555 — \$71,890 or 1.88% over the actual levels for 2005.
- 2006 year-end expenditure estimate is \$4,064,301 — \$10,291 or 0.26% under the 2006 amended budget.

STREET FUND

- 2006 year-end revenue estimate is \$5,185,857 — \$457,490 or 9% more than actual levels for 2005. A full year’s collection of the first phase of the gas tax increase, six months of the second phase of the increase and County Road Tax collected in lieu of Property Tax on the Englewood and 96th Avenue annexations account for this increase.
- 2006 year-end expenditure estimate is \$5,471,769 — \$50,884 or 9.2% under the 2006 amended budget.

TABLE III-2

**CITY OF YAKIMA
GENERAL GOVERNMENT COMPARISON
2006 BUDGET VS. YEAR-END ESTIMATE**

FUND	2006 AMENDED BUDGET	2006 YEAR-END ESTIMATE	VARIANCE	YEAR-END EST. AS PERCENT OF BUDGET
Police	\$17,696,027	\$17,572,869	\$123,158	99.3%
Fire	7,748,682	7,731,321	17,361	99.8%
Information Systems	2,666,686	2,544,210	122,476	95.4%
Transfers	2,017,000	2,017,000	0	100.0%
Code Administration	1,429,346	1,429,184	162	100.0%
Police Pension	1,337,956	1,258,661	79,295	94.1%
Legal	1,320,229	1,224,075	96,154	92.7%
Library	1,314,107	1,314,107	0	100.0%
Financial Services	1,196,487	1,195,766	721	99.9%
Municipal Court	1,152,898	1,001,742	151,156	86.9%
Engineering	1,136,261	1,121,489	14,772	98.7%
Utility Services	984,114	976,653	7,461	99.2%
Environmental Planning	633,565	631,336	2,229	99.6%
Records	605,113	641,051	(35,938)	105.9%
City Manager	500,651	466,453	34,198	93.2%
Human Resources	483,973	439,406	44,567	90.8%
City Hall Maintenance	384,397	383,146	1,251	99.7%
Indigent Defense	241,186	241,186	0	100.0%
Purchasing	230,793	228,401	2,392	99.0%
Intergovernmental	225,339	225,339	0	100.0%
City Council	180,765	180,710	55	100.0%
SunDome	149,174	149,174	0	100.0%
State Examiner	103,000	100,000	3,000	97.1%
Hearings Examiner	61,000	61,000	0	100.0%
Probation Center	56,081	56,081	0	100.0%
District Court	25,800	25,400	400	98.4%
TOTAL GENERAL FUND	\$43,880,630	\$43,215,760	\$664,870	98.5%
Parks and Recreation	\$4,074,592	\$4,064,301	\$10,291	99.7%
Street and Traffic Operations	5,522,653	5,471,769	50,884	99.1%
TOTAL GENERAL GOVERNMENT	\$53,477,875	\$52,751,830	\$726,045	98.6%

TABLE III-2 provides a breakdown of the year-end estimate of General Government budgets for 2006. Most of the positive variances (expenditures savings) relate to position vacancies, cost containment measures or timing of project completion. The negative variance (expenditures over budget) in the City Clerk’s Division (Records) is due to the double filling of the City Clerk’s position during training of the new Clerk prior to retirement of the existing Clerk. This negative variance is offset by a positive variance in the City Manager’s office created by a vacant position left temporarily unfilled.

TABLE III-3

GENERAL FUND THREE YEAR COMPARISON

	2004 ACTUAL	2005 ACTUAL	2006 YEAR-END ESTIMATE
Beginning Balance	\$5,893,638	\$5,175,976	\$4,762,269
Revenues	38,257,489	40,358,569	43,216,904
Total Resources	\$44,151,127	\$45,534,545	\$47,979,173
Expenditures	38,975,151	40,772,276	43,215,760
Ending Balance	\$5,175,976	\$4,762,269	\$4,763,413

REVENUE TRENDS

The City receives revenue from many different sources; some revenue is available for any government purpose and some revenue is restricted in use to a specific fund(s) and/or a specific purpose. The sources of revenue that are available for use within the General Government Funds (for general purposes or for a restricted purpose within General Fund, Parks or Street Funds) are listed in Figure III-1 below, along with a three-year comparison of the amount of revenue received from each source (Table III-4).

For 2007, total General Government revenues are budgeted to be \$53,272,916, \$974,600 or 1.86% more than the 2006 year-end estimate of \$52,298,316. Total beginning cash reserves are estimated to be \$5,921,916, (\$453,514) or (7.11%) less than the 2006 estimate of \$6,375,430. The decline in cash reserves is occurring in the Streets and Parks Funds. The Parks Fund is struggling with flat revenue sources while the effects of recent annexations are stretching the Streets Fund Resources.

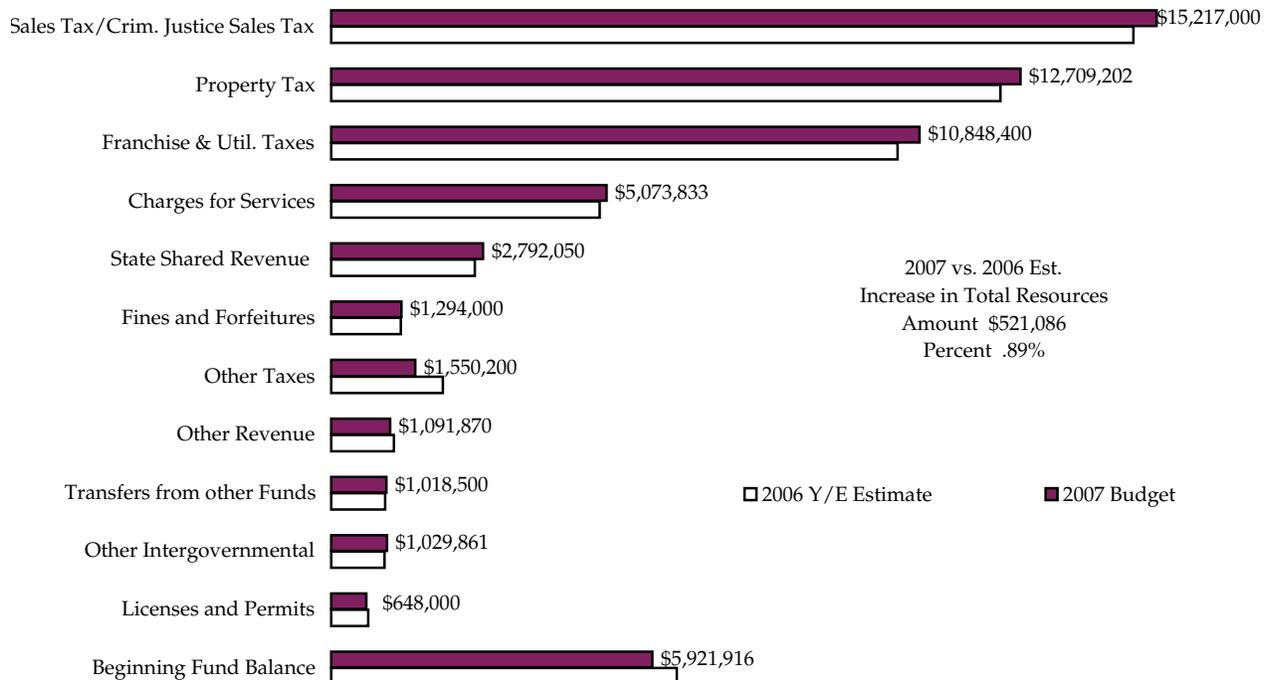
TABLE III-4

GENERAL GOVERNMENT RESOURCES THREE YEAR COMPARISON

SOURCE	2005 ACTUAL	2006 YEAR-END ESTIMATE	PERCENT CHANGE	2007 BUDGET FORECAST	% OF 2007 TOTAL	INCREASE (DECREASE)	PERCENT CHANGE
General Sales Tax	\$11,970,427	\$12,575,000	5.1%	\$13,000,000	24.4%	425,000	3.4%
Crim. Justice Sales Tax*	1,442,726	2,207,000	53.0%	2,217,000	4.2%	10,000	0.4%
Property Tax	12,008,736	12,336,329	2.7%	12,709,202	23.9%	372,873	3.0%
Franchise and Utility Taxes	9,572,186	10,438,628	9.0%	10,848,400	20.4%	409,772	3.9%
Charges for Services	5,066,454	4,947,812	(2.3%)	5,073,833	9.6%	126,021	2.5%
State Shared Revenue	2,364,771	2,644,050	11.8%	2,792,050	5.2%	148,000	5.6%
Fines and Forfeitures	1,190,300	1,280,250	7.6%	1,294,000	2.4%	13,750	1.1%
Other Taxes	1,714,684	2,052,400	19.7%	1,550,200	2.9%	(502,200)	(24.5%)
Other Revenue	1,151,240	1,153,172	0.2%	1,091,870	2.0%	(61,302)	(5.32%)
Transfers from other Funds	1,053,710	998,500	(5.2%)	1,018,500	1.9%	20,000	2.0%
Other Intergovernmental	684,584	982,825	43.6%	1,029,861	1.9%	47,036	4.8%
Licenses and Permits	690,783	682,350	(1.2%)	648,000	1.2%	(34,350)	(5.0%)
TOTAL REVENUE	\$48,910,601	\$52,298,316	6.9%	\$53,272,916	100.00%	\$974,600	1.9%
Beginning Fund Balance	\$6,796,302	\$6,375,430	(6.2%)	\$5,921,916		(\$453,514)	(7.1%)
TOTAL RESOURCES	\$55,706,903	\$58,673,746	5.3%	\$59,194,832		\$521,086	0.9%

* Some Criminal Justice sales tax is allocated to the Law and Justice capital fund (a non-general Governmental fund) for capital needs. (See section IV for details.)

**GENERAL GOVERNMENT RESOURCES
2006 YEAR-END ESTIMATE AND 2007 BUDGET**



GENERAL SALES TAX (SINGLE LARGEST REVENUE SOURCE FOR GENERAL FUND)

- 2007 revenue projection is \$13,000,000 — \$425,000 or approximately 3.3% more than the 2006 year-end estimate of \$12,575,000.

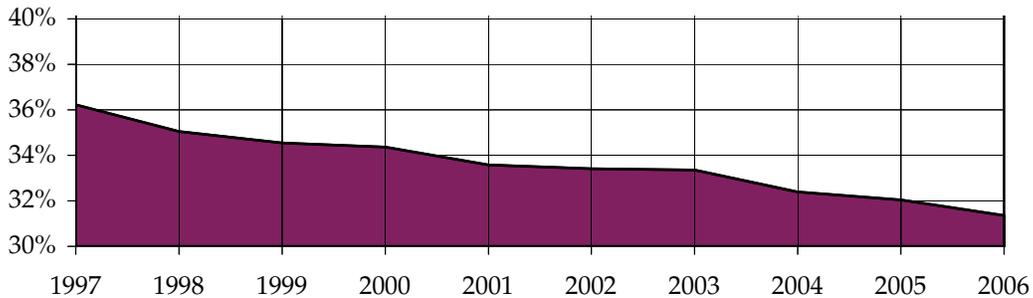
When compared to the rate of inflation, the City has realized three consecutive years of modest growth in this revenue source. 2005 demonstrated 4.6% growth over 2004, and 2006 to date is about 5% above the 2005 levels. This is mostly a product of new home and commercial construction and durable goods purchases, which is being initiated by a relatively low interest rate environment. Another factor of the new construction appears to be development in newly annexed areas and, to some extent, the City’s designation as a renewal community which generates tax incentives to the private sector for capital investments that create jobs in its boundaries. Unfortunately, these are transitory conditions and are likely not sustainable. For these reasons, Sales Tax has been conservatively budgeted in 2007 at a 3.4% growth rate over 2006 year-end estimates. Over time, this has been the average increase in Sales Tax revenues. In CPI adjusted 1998 dollars, (see Figure III-7), Sales Tax is actually below 1998 levels. There are several factors affecting this trend: the cyclical nature of the agricultural industry, traditionally high unemployment rates, often in double digits much of the year, the loss of retail shopping from downtown due to the mall’s conversion to other uses, and lower than State average household incomes.

Of the 8.2% sales and use tax collected within the City, the City of Yakima receives only 0.85% (or about 10.36% of the total) in general Sales Tax revenue. The General Government Funds receive the full amount of the City's share of general sales tax revenues. (Note: the City also receives 0.3% sales tax revenues which are restricted for transit purposes and a portion of the 0.4% sales tax revenues which are restricted for criminal justice purposes. The State receives 6.5% and Yakima County receives .15% of the remainder — refer to Section II for more information.)

The following chart identifies Yakima's sales tax revenues as they relate to the total General Fund operating revenues (excluding inter-fund transfer revenues). This revenue source is very sensitive to economic conditions. As the graph below (Figure III-2) shows, sales tax receipts have trended downward over the past 10 years as a percentage of total revenue in the General Fund, as other revenue sources such as utility tax have generally kept up with inflation (See Figure III-7).

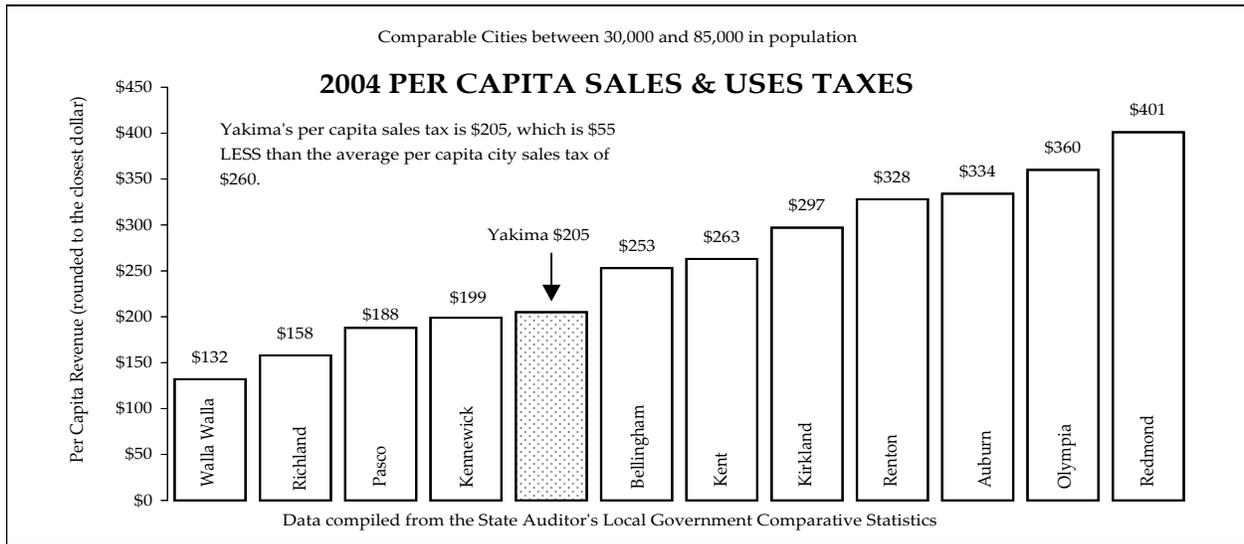
FIGURE III-2

**PERCENT OF SALES TAX
COMPARED TO OPERATING REVENUE
GENERAL FUND**



COMPARISON OF PER CAPITA SALES TAX WITH OTHER WASHINGTON STATE CITIES

The City's sales tax per capita is compared with 11 other similar sized cities throughout the State (see Figure III-3). The data shown was compiled from the State Auditor's Office statistics, and is the most recent data available. Although sales tax revenue is the City's largest single source of General Government revenue, the City's collections are the fifth lowest out of the 12 comparable cities. The City of Yakima's per capita sales tax is \$205; lower than 7 of the cities compared. Additionally, Yakima is the only community listed that has a voter approved Transit sales tax. The revenues generated from the Transit Sales Tax are restricted to providing transit and related services within the City of Yakima. If Transit revenues are excluded from the comparison with other cities (to provide a better comparison of unrestricted revenues), Yakima's sales tax rate drops to approximately \$145 per capita, the second lowest of the 12 cities compared.



CRIMINAL JUSTICE SALES TAX

0.1% SALES TAX — A special 0.1% Criminal Justice Sales Tax was approved by the voters of Yakima County in the November 1992 General Election and became effective January 1, 1993. The State allocates this 0.1% criminal justice sales tax revenue between the City and the County, based on a predefined formula. The General Fund and the Law and Justice Capital Fund receives the full amount of the City's share of these sales tax revenues; these revenues are restricted to providing criminal justice related services, and are allocated based on operating vs. capital needs.

This tax is expected to generate \$892,000 for the City in 2007, and is allocated in the City's budget forecast as noted below:

0.1% CRIMINAL JUSTICE SALES TAX

FUND	2005 ACTUAL	2006 YEAR-END ESTIMATE	2007 BUDGET FORECAST
General Fund	\$779,523	\$817,000	\$842,000
Law and Justice Capital	50,000	50,000	50,000
TOTAL	\$829,523	\$867,000	\$892,000

Since population is a component of the tax distribution, annexations have a positive influence on this revenue. This tax revenue is affected by the same regional economic factors that affect the General Sales Tax revenue, as outlined above.

0.3% SALES TAX — Another special sales tax of 0.3% dedicated to Criminal Justice expenditures was approved by the Yakima County voters in November, 2004 and took effect on April 1st of 2005. The tax is on sales inside the County only and the proceeds are divided between the County and Cities on a predefined formula under which the County receives 60% and all cities within the County share the remaining 40%. The City received the first distribution of the tax on June 30th of 2005. Anticipated revenue is depicted in the table below. The 2006 & 2007 increase are a result of a full years collection of the tax (Note: Public Safety Communications and Law and Justice Capital Finds are not part of General Government). This tax is expected to generate \$1,680,000 in 2007, and is allocated in accordance with the chart below.

0.3% CRIMINAL JUSTICE SALES TAX

FUND	2005 ACTUAL	2006 YEAR-END ESTIMATE	2007 BUDGET FORECAST
General Fund (for Criminal Justice Expenditures)	\$663,203	\$1,390,000	\$1,375,000
Law and Justice Capital	235,000	155,000	160,000
Public Safety Communications	37,000	78,000	145,000
TOTAL	\$935,203	\$1,623,000	\$1,680,000

PROPERTY TAX

Property tax provides approximately 24% of all General Government revenue in the 2007 budget. The 2007 projection includes a proposed 1% increase in the property tax levy, plus a conservative 1.5% growth factor for new construction, plus new revenue from recent annexations. There were two annexations of approximately \$267 million in assessed valuation that occurred in late 2005 and early 2006. These annexations will add slightly over \$800,000 to the property tax levy. Also, in 2006, the voters of the City elected to be annexed by the Yakima Regional Library District. This transaction will result in a lower maximum rate per thousand available to the City to levy, but expenditures related to the former contractual obligation of support to the Library has been eliminated in the 2007 Budget. The net result is additional Property Tax revenue to the City of approximately \$650,000 annually, which Council has dedicated to be spent on the Safe Community Action Plan (SCAP) approved by Council in 2006. (Refer to Section IB for more information regarding SCAP.)

The 2007 request complies with the levy limit restrictions contained in Initiative 747; limiting property tax levy increases to the maximum of 1% or the rate of inflation, whichever is less. (NOTE: the initiative defines the rate of inflation as measured by the Implicit Price Deflator for consumer goods). Under the initiative, the City could increase the levy by more than 1% if approved by the majority of voters.

Currently, this law is under review by the State Supreme Court for possible Constitutional issues and its future will likely be decided soon.

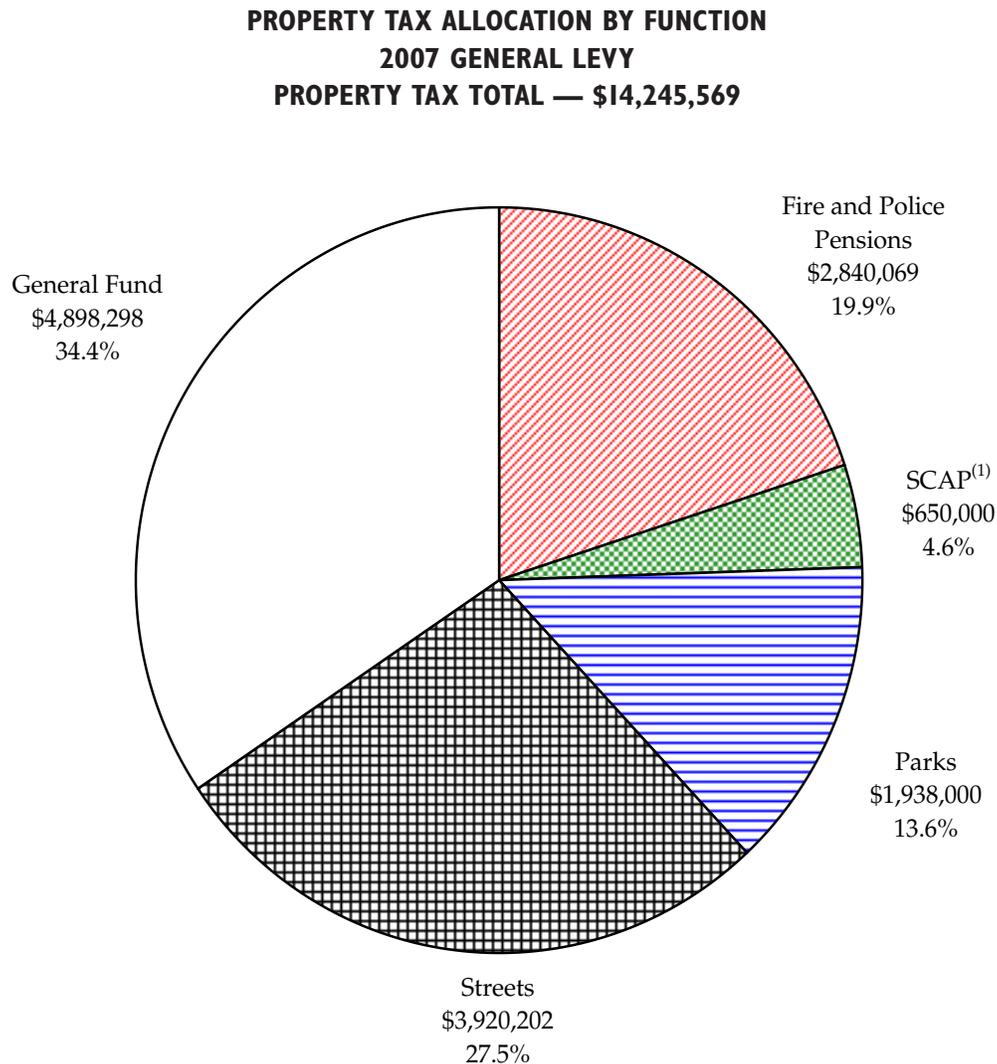
As a point of clarification, the property tax levy is limited to a 1% increase in the dollars levied (about \$138,000 for 2007) - it does not limit growth in assessed value. The 1% limit affects the total dollars levied, while assessed valuation is the mechanism used to allocate the levy ratably among the property owners.

The annual increase in General Fund State mandated Retirement contributions of approximately \$290,000 alone is more than twice the 1% increase in property tax revenues. This 1% restriction on growth will have an adverse effect on all of General Government services, the cost of which will grow exponentially as time passes. Coupled with the depressed economy and constraints on other revenue sources that are directly related to economic activity, further City budget reductions might be necessary, causing diminished capacity of the City to deliver critical services to its citizens.

Since most consumer activity (i.e., wages, equipment, etc.) is more closely tied to the Consumer Price Index (CPI), and CPI is greater than 1% in almost all years, the future effect of 1% or less growth in Property Tax is restrictive to the City since Property Tax is one of General Government's primary revenue sources.

The graph below depicts the 2007 budgeted allocation of the City's property tax revenues.

FIGURE III - 4



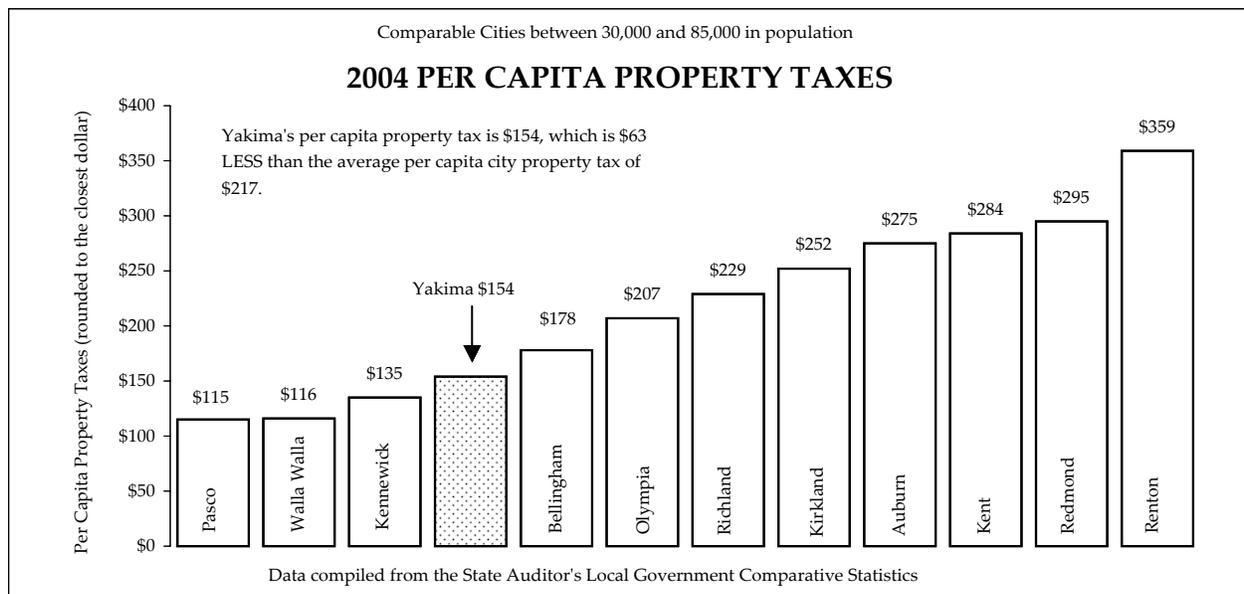
(1) Starting in 2007, the Library has its own levy; a new program (SCAP) may be launched for 2007.

**2007 PROPOSED
GENERAL PROPERTY TAX LEVY**

	2005 ACTUAL	2006 YEAR-END ESTIMATE	2007 BUDGET PROJECTION	2006 VS. 2007
General	\$5,578,287	\$5,865,893	\$6,201,000	5.7%
SCAP	\$0	\$0	\$650,000	n/a
Library	1,414,107	1,314,107	0	(100.0%)
Parks and Recreation	1,841,985	1,841,985	1,938,000	5.2%
Streets/Traffic	3,174,357	3,314,344	3,920,202	18.3%
Sub-Total — General Government	\$12,008,736	\$12,336,329	\$12,709,202	3.0%
Firemen's Relief and Pension	1,405,779	1,498,895	1,536,367	2.5%
TOTAL	\$13,414,515	\$13,835,224	\$14,245,569	3.0%

The City has compiled data from the State Auditor's Office that identifies per capita property tax for comparable cities throughout the State. The following chart (Figure III - 5) compares the City's per capita property tax income for 2004 (the last year information is available). It shows the City of Yakima's property tax per capita is \$154, which is \$63 less than the average of all the comparable cities. Yakima ranks fourth lowest in tax per capita of the 12 comparable cities.

FIGURE III - 5



FRANCHISE AND UTILITY TAXES

Franchise and utility taxes are collectively the third largest category of General Government revenues. They comprise 20.4% of 2007 projected General Government revenues and 24.8% of projected 2007 General Fund Revenues.

- 2007 projection is \$10,848,400 — \$409,772 or 3.9% above the 2006 year-end estimate of \$10,438,628.

These revenues are largely a function of weather conditions and utility rates in the Valley. Franchise and utility taxes are the only major revenue source keeping pace with the rate of inflation, primarily because of the growth in customers resulting from recent annexations (See Figure III-7).

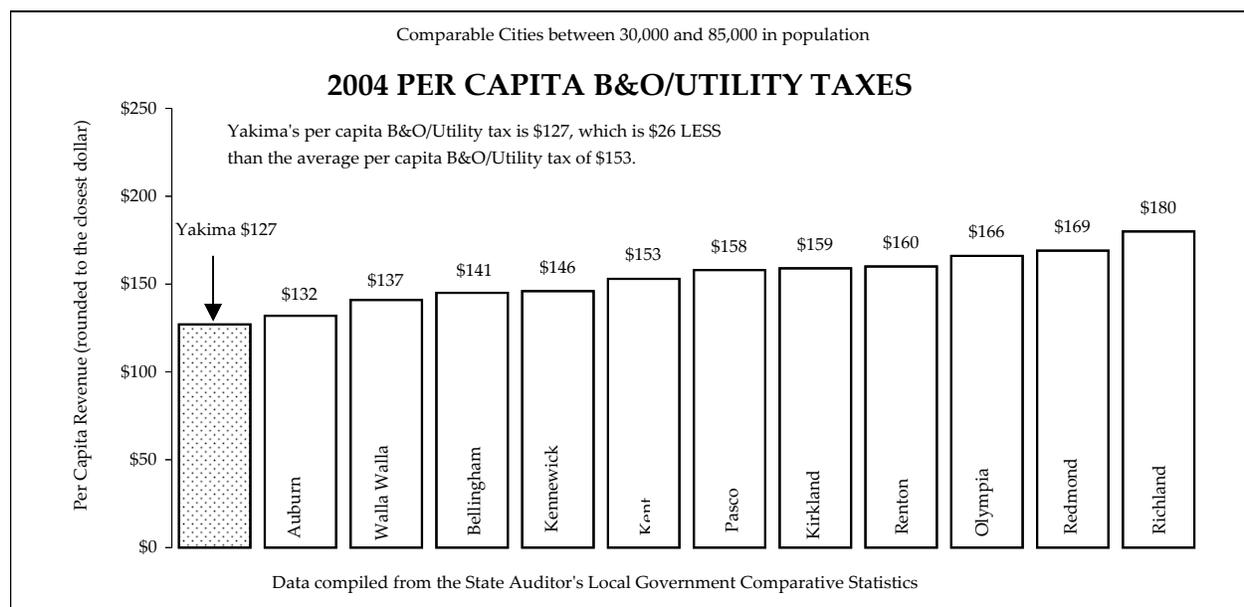
2006 revenues include a one-time payment related to the gas franchise fee that was replaced with a utility tax (of the same rate) in late 2005. This revenue was not budgeted in 2007.

Note: the Safe Community Action Plan (SCAP), a crime reduction plan proposed by City Council, has two funding elements that could impact utility tax revenues in 2007: (1) a proposal, pending approval by voters in the November general election, to increase the Utility tax rate 1.5% (from 6% to 7.5%.) Should the voters approve this rate adjustment, staff will update the 2007 budget prior to submitting it to Council for final adoption in December, and (2) Council has proposed to reduce the utility tax rate exemption for large utility consumers. This change is estimated to generate \$560,000 and is included in the 2007 budget forecast.

BUSINESS AND OCCUPATION TAX AND BUSINESS LICENCE FEES

Figure III-6 represents Business License Fees, Business and Occupation (B and O) tax, and Utility taxes on private and public utilities. (Note: Yakima does not impose a general-purpose business and occupation tax, which is generally charged on the gross volume of sales.) Yakima's \$127 per capita B and O/Utility Tax ranks the lowest of the twelve cities in this comparison. This is \$26 below the \$153 average per capita revenue.

FIGURE III - 6



CHARGES FOR SERVICES

This revenue category consists of revenues from various parks and senior citizen programs, plan checking fees and street and traffic engineering fees, etc. However, the largest component (about half), are fees paid by other City funds for General Fund services (legal, administration, purchasing, etc.); these charges for 2007 reflect an increase due to the normal fluctuation in volume of services provided, and an increase in City Service Charge to fund additional finance support (See Policy Issue Summary - Exhibit II)

- 2007 projection is \$5,073,833. This is a 2.5% or \$126,021 increase from the 2006 estimate.

STATE-SHARED REVENUE

State-shared revenues are the fifth largest category of revenues received for General Government Operations.

- 2007 projection for all revenues within this category is \$2,792,050; an increase of \$148,000 from the 2006 year-end estimate of \$2,644,050.
- Liquor excise and liquor profits taxes are budgeted at \$940,000 for 2007 — \$50,000 above the 2006 year-end estimate of \$890,000.
- Gas tax in the Street Fund is budgeted at \$1,402,000 for 2007. This is \$127,000 or 9.9% above the 2006 year-end estimate of \$1,275,000. This tax is calculated by the State using population figures from counties. The increase this year is the result of a full year of the first phase of the gas tax increase along with six months of the second phase of the increase which will take effect on July 1st.

FINES AND FORFEITURES

These revenues come primarily from criminal fines and non-criminal penalties assessed in the City of Yakima's Municipal Court, and parking violations. This revenue category is conservatively budgeted to show an increase of 1.1% for 2007.

The SCAP proposal, if approved by voters, will increase FTE's in both the Police department and the Court system. By the third year of the SCAP phase-in, an increase in fines and forfeitures proportional to the number of additional police officers is estimated to be \$280,000. (Because of the training time for new officers, the SCAP program is not expected to affect 2007 revenues.)

- 2007 projection is \$1,294,000, up \$13,750 or 1.1% from 2006 estimates

OTHER TAXES

This category includes Business Licenses, Gambling Taxes and County Road Tax from annexation. The 2007 projection is \$1,550,200, down 24.47% or \$502,200 from 2006 year-end estimate because the year-end estimate includes county road tax from the Englewood and 96th Avenue annexations.

OTHER REVENUES

The balance of revenues supporting the general government funds consists of transfers from other funds, licenses and permits, and other miscellaneous sources. For 2007, \$1,091,870 is expected to be generated in this category.

The largest revenue sources in this category include:

- Interest income — 2007 projection is \$700,000; no change from 2006, as interest rates are not predicted to change significantly in 2007.
- Business Licenses, and Permits represent most of the remainder of this category.

OTHER INTERGOVERNMENTAL

This category includes revenue received from Government units other than the State of Washington. The 2007 budget of \$1,029,861 is up \$47,036 or 4.79% from the 2006 estimate. This increase is mainly due to two federal grant awards, (1) GREAT grant - Police and (2) SAFER grant - Fire.

LICENSES AND PERMITS

The 2007 budget is \$648,000, 5% or \$34,350 less than the 2006 year-end estimate of \$682,350. This decrease is a conservative estimate based on 2006 construction permits being a record year.

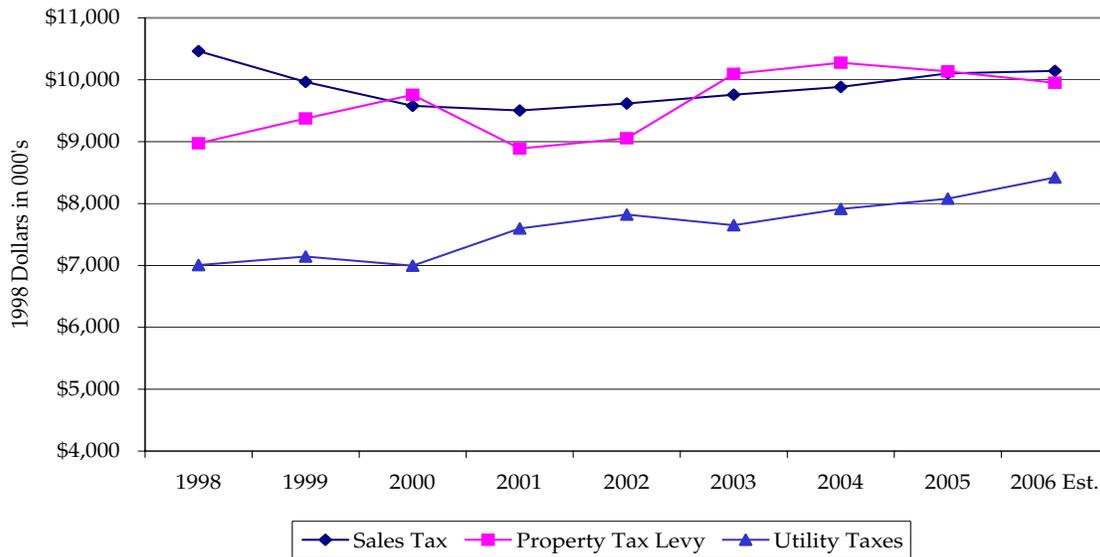
REVENUE TREND - SUMMARY

- *Based on 2007 budgeted revenues and expenditures, the General Government funds will again be forced to rely on reserves to maintain a balanced budget.*

This minimal increase in General Government revenues is reflective of an economy confronted with high unemployment and low median income, with modest growth in elastic revenues and existing tax limitations.

The chart on the next page depicts trends over the past nine years (in 1998 Constant Dollars) in sales, property and utility tax revenues; the City's three largest General Government revenue sources. Sales tax has exhibited consistent losses from 1999 through 2002. The City boundaries were expanded by a major annexation in 2002, which resulted in some rebound of this revenue source. In 2005 and 2006 Sales tax is performing better due to the transitory effects of new construction spurred by low interest rates. With the passage of Initiative 747, property tax levy growth has been constrained to 1%, which is generally below inflation, although the chart does show an increase in 2003 as a result of the annexation, which brings its constant dollar value back to 2000 levels. The constant dollar trend for utility taxes is the only General Government revenue source keeping pace with inflation. *This means two of the three major General Government resources are not keeping pace with inflation, even after realizing the growth in tax base from major annexation areas.*

**GENERAL GOVERNMENT
SALES, PROPERTY AND UTILITY TAX REVENUE TRENDS
(CONSTANT DOLLAR)**



The following information is illustrated in Table III-6.

GENERAL FUND

- 2007 projected beginning balance is \$4,763,413 — is virtually the same as the 2006 beginning balance, indicating a balanced budget in 2006.
- 2007 projected revenue is \$43,713,973 — \$497,069 or 1.2% over the 2006 year-end estimate. The 2007 proposed revenue include \$560,000 increase of utility tax due to elimination of large users cap; this is a Council option regardless of the voters’ approval on this coming tax election November 2006. Passage of the Ballot Measure is not included currently in the 2007 Budget.

PARKS AND RECREATION FUND

- 2007 projected beginning balance is \$310,741 — \$168,746 or 35.2% under the 2006 beginning balance of \$479,487, again meaning it is necessary to use reserves in 2006 to balance the Budget if year-end estimates stay at current projections.
- 2007 projected revenue is \$4,109,191 — \$213,636 or 5.5% over the 2006 year-end estimate. This is mainly due to property tax and anticipated receipt of an Americorp grant from the Federal Government.

STREET FUND

- 2007 projected beginning balance is \$847,762 — \$285,912 or 25.2% under the 2006 beginning balance of \$1,133,674, meaning there is dependence on reserves in 2006. Reserves may again be used to balance the 2007 Budget.
- 2007 projected revenue is \$5,449,752 — \$263,895 or 5.1% over the 2006 year-end estimate. This is represented by increased Property Tax allocation to support services in the new annexation areas and the receipt of the next phase of the Gas Tax increase.

Total General Government Revenues for 2006 are estimated to be about 6.9% more than 2005 actuals.

Total General Government Revenues for 2007 are projected to increase by only 1.9% over 2006 estimates.

These increases are primarily a function the new Criminal Justice Sales Tax and annexation activity.

TABLE III - 6

GENERAL GOVERNMENT THREE YEAR RESOURCE COMPARISON

	2005 ACTUAL RESOURCES	2006 YEAR-END ESTIMATED RESOURCES	2006 vs. 2005 % CHANGE	2007 BUDGETED RESOURCES	2007 vs. 2006 % CHANGE
General Fund Revenues	\$40,358,569	\$43,216,904	7.1%	\$43,713,973	1.2%
General Fund Balance	5,175,976	4,762,269	(8.0%)	4,763,413	0.0%
TOTAL GENERAL FUND	\$45,534,545	\$47,979,173	5.4%	\$48,477,386	1.0%
Parks and Recreation Revenue	\$3,823,665	\$3,895,555	1.9%	\$4,109,191	5.55
Parks Balance	472,283	479,487	1.5%	310,741	(35.2%)
TOTAL PARKS	\$4,295,948	\$4,375,042	1.8%	\$4,419,932	1.0%
Street and Traffic Fund Revenue	\$4,728,367	\$5,185,857	9.7%	\$5,449,752	5.1%
Street and Traffic Beg. Balance	1,148,043	1,133,674	(1.3%)	847,762	(25.2%)
TOTAL STREET AND TRAFFIC	\$5,876,410	\$6,319,531	7.5%	\$6,297,514	(0.3%)
TOTAL GENERAL GOVERNMENT REVENUE	\$48,910,601	\$52,298,316	6.9%	\$53,272,916	1.9%
Total General Gov't Beg. Balance	6,796,302	6,375,430	(6.2%)	5,921,916	(7.1%)
TOTAL GENERAL GOVERNMENT REVENUE	\$55,706,903	\$58,673,746	5.3%	\$59,194,832	0.9%

The largest revenue source for the General Government Funds is sales tax. Yakima is in the lowest third of per capita sales tax compared with similar cities in the State. (Refer to Figure III-3) **However, Yakima is also in the lower 1/3 of rankings in all other revenue** comparisons per capita and is the lowest out of the twelve cities compared in combined per capita revenue. Yakima's \$1,107 per capita taxes is \$577 below the average of \$1,684 based on 2004 actual data, as demonstrated in Figure 8, below. *The most important conclusion from this analysis is that the City of Yakima has a very limited revenue/tax base compared with most cities of its size in the state, and yet provides similar or enhanced services and programs to its citizens.*

FIGURE III - 8

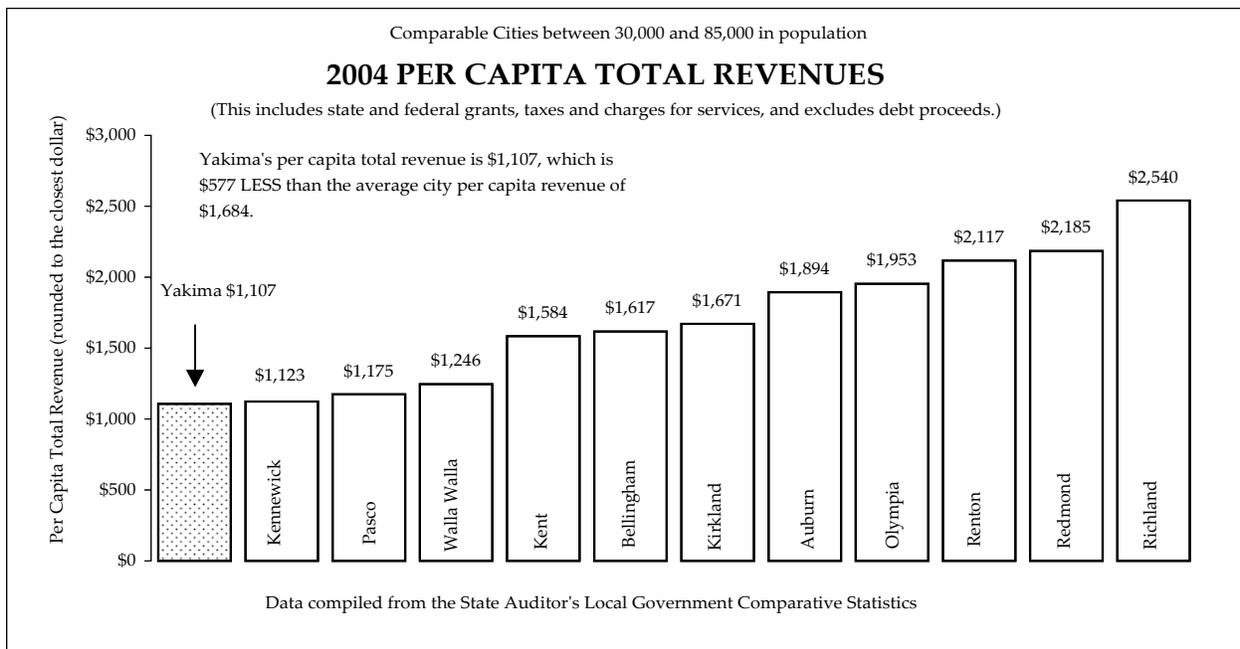


TABLE III-7

GENERAL GOVERNMENT RESOURCES BY MAJOR CATEGORY

	2004 ACTUAL	2005 ACTUAL	2006 AMENDED BUDGET	2006 YEAR-END ESTIMATE	2007 FORECAST BUDGET	2007 CHG. FROM 2006 EST. (%)
GENERAL FUND						
Property Tax	\$6,972,609	\$6,992,394	\$7,180,000	\$7,180,000	\$6,201,000	(13.6%)
Property Tax (SCAP)	0	0	0	0	650,000	n/a
Sales Tax	11,447,827	11,970,427	12,233,000	12,575,000	13,000,000	3.4%
Criminal Justice Sales Tax	691,182	1,442,726	2,123,000	2,207,000	2,217,000	0.5%
Franchise Tax	420,791	426,818	364,000	337,828	37,000	(89.0%)
Utility Tax	8,743,358	9,145,368	9,400,400	10,100,800	10,811,400	7.0%
Other Taxes	1,532,201	1,562,044	1,569,200	1,522,400	1,500,200	(1.5%)
Licenses and Permits	529,767	690,783	592,000	682,350	648,000	(5.0%)
Intergovernmental Revenue	1,605,395	1,763,989	2,258,311	2,244,757	2,238,165	(0.3)
Charges for Services	4,201,981	4,290,541	4,104,864	4,162,544	4,293,508	3.1%
Fines and Forfeitures	1,363,565	1,190,300	1,316,000	1,280,250	1,294,000	1.1%
Miscellaneous Revenue	455,365	792,858	632,100	782,975	782,700	0.0%
Other Financing Sources	779	321	101,000	101,000	1,000	(99.0%)
Capital Lease Financing	147,669	0	0	0	0	n/a
Transfers From Other Funds	145,000	90,000	110,000	40,000	40,000	0.0%
TOTAL REVENUE	\$38,257,489	\$40,358,569	\$41,983,875	\$43,216,904	\$43,713,973	1.2%
Beginning Fund Balance	\$5,893,638	5,175,976	4,762,269	4,762,269	4,763,413	0.0%
TOTAL GENERAL FUND	\$44,151,127	\$45,534,545	\$46,746,144	\$47,979,173	\$48,477,386	1.0%

TABLE III-7 (CONTINUED)

	2004 ACTUAL	2005 ACTUAL	2006 AMENDED BUDGET	2006 YEAR-END ESTIMATE	2007 FORECAST BUDGET	2007 CHG. FROM 2006 EST. (%)
PARKS AND RECREATION FUND						
Property Tax	\$1,741,985	\$1,841,985	\$1,841,985	\$1,841,985	\$1,938,000	5.2%
Intergovernmental Revenue	49,519	85,493	85,100	106,618	181,246	70.0%
Charges for Services	794,244	708,162	797,625	757,848	763,325	0.7%
Miscellaneous Revenues	134,087	174,264	163,670	190,604	208,120	9.2%
Other Financing Sources	99,439	50,051	40,000	40,000	40,000	0.0%
Transfers From Other Funds	910,695	963,710	958,500	958,500	978,500	2.1%
TOTAL REVENUE	\$3,729,969	\$3,823,665	\$3,886,880	\$3,895,555	\$4,109,191	5.5%
Beginning Fund Balance	482,724	472,283	479,487	479,487	310,741	(35.2%)
TOTAL PARKS & RECREATION FUND	\$4,212,693	\$4,295,948	\$4,366,367	\$4,375,042	\$4,419,932	1.0%
STREET AND TRAFFIC OPERATIONS FUND						
Property Tax	\$3,185,644	\$3,174,357	\$3,314,344	\$3,314,344	\$3,920,202	18.3%
County Road Tax	8,479	152,640	518,000	530,000	50,000	(90.6%)
Fuel Tax Street	1,111,681	1,164,787	1,238,358	1,275,000	1,402,000	10.0%
Other Intergovernmental	0	35,086	500	500	500	0.0%
Charges for Services	108,337	67,751	17,000	27,420	17,000	(38.0%)
Miscellaneous Revenue	14,442	15,174	10,050	20,874	60,050	187.7%
Other Financing Sources	23,620	118,572	0	17,719	0	n/a
TOTAL REVENUE	\$4,452,203	\$4,728,367	\$5,098,252	\$5,185,857	\$5,449,752	5.1%
Beginning Fund Balance	1,204,826	1,148,043	1,133,674	1,133,674	847,762	(25.2%)
TOTAL STREET & TRAFFIC OPER FUND	\$5,657,029	\$5,876,410	\$6,231,926	\$6,319,531	\$6,297,514	(0.3%)
TOTAL GENERAL GOVERNMENT	\$54,020,849	\$55,706,903	\$57,344,437	\$58,673,746	\$59,194,832	0.9%
TOTAL REVENUE	\$46,439,661	\$48,910,601	\$50,969,007	\$52,298,316	\$53,272,916	1.9%
Total Beg Fund Balance	7,581,188	6,796,302	6,375,430	6,375,430	5,921,916	(7.1%)
TOTAL RESOURCES	\$54,020,849	\$55,706,903	\$57,344,437	\$58,673,746	\$59,194,832	0.9%

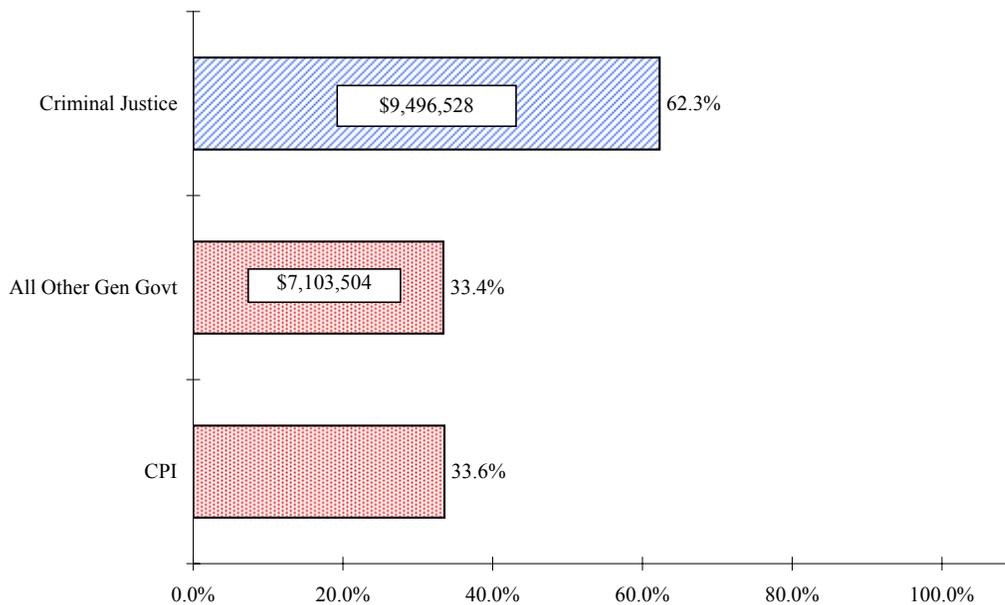
EXPENDITURE TRENDS

Figure III-9 and III-10, which follow, depict the major effect on the General Fund of the increase in criminal justice costs compared to all other cost increases from 1997 to 2007.

Criminal justice costs continue to consume an ever-increasing share of total General Fund resources. In order to pay these costs other General Fund programs are necessarily limited to remain within available resources. See Exhibit III for more information.

FIGURE III - 9

PERCENTAGE INCREASE OF CRIMINAL JUSTICE COSTS VS. OTHER GENERAL GOVERNMENT FUNCTIONS AND CPI 1997 BUDGET TO 2007 BUDGET



Criminal Justice includes Police Operations; Pensions; Public Safety Communications; Jail Costs/Security; District and Municipal Court; Prosecution and Indigent Defense; and 40% of Information Systems.

Cumulatively, over the past ten years Criminal Justice budgets have increased over 62%. By comparison, *all other General Government expenses have increased by only 33%*. During this same ten-year period the Seattle-Tacoma Consumer Price Index also increased by 34%. *Criminal justice cost increases are nearly double what increases are for other cost categories. This is the reason Council has adopted the Safe Community Action Plan (SCAP See Section 1) to fund the substantial criminal justice needs in the City.*

When the increase in population and boundaries are considered over this same time frame, the fact that other services are just slightly above the rate of inflation demonstrates a real reduction in service costs per capita.

CRIMINAL JUSTICE FUNDING — With the loss of MVET in 2000 and caps on Property Tax Levies, funding available for criminal justice needs is inadequate to deal with the City’s problem. (Table III-8 on this page depicts the growth in Law and Justice operations costs for 2005, 2006 estimate and 2007 budget) The new .3% Criminal Justice Sales Tax has helped in addressing some of the issues, but Cities only get 40% of the collected tax, Yakima County gets the other 60%. In response to this situation the City Council has adopted the Safe Community Action Plan, or SCAP proposal, that is going before voters in November. This proposal is to raise the current Utility Tax from 6% to 7.5 % and almost eliminate the large consumer exemption currently in place, to pay for the costs of adding officers to the Police Force and making the necessary adjustments in the remainder of the Criminal Justice Program. The Council would still have the ability to eliminate the large consumer exemption even if the ballot measure fails; therefore \$560,000 in revenue has been budgeted along with the additional Property Tax received on the Library transaction of \$650,000, for a total of \$1,210,000. Law enforcement expenditures have been included in the 2007 Budget equal to these funds. This is the majority of the 2007 increase in criminal justice costs in General Fund. In reviewing Table III-8, it should be noted that it includes only General Fund expenditures on criminal justice. Another \$644,500 is budgeted in the Law and Justice Capital Fund, (not a General Government fund). Also good to review is Figure III-10, on the next page, which demonstrates that over half of General Fund’s budget is dedicated to criminal justice.

TABLE III - 8

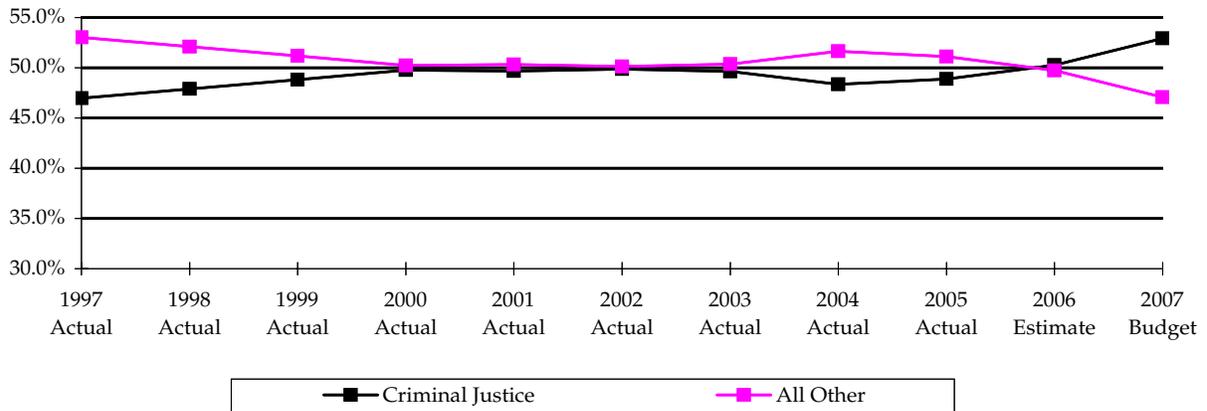
**SCHEDULE OF CRIMINAL JUSTICE EXPENDITURES
FOR THE YEARS ENDED DECEMBER 31, 2005 THRU 2007 FORECAST**

DESCRIPTION	2005	2006	2007	%CHANGE
	ACTUAL	ESTIMATE	FORECAST	2007 FROM 2006
Police Operations and Administration	\$13,946,917	\$15,027,491	\$16,937,971	12.7%
Outside/Inside Jail Costs	2,232,469	2,545,375	2,632,233	3.4%
District & Municipal Court / Probation	1,392,156	1,083,223	1,268,242	17.1%
Prosecution Costs/ Indigent Defense	805,949	799,141	931,091	16.5%
Other Related Expenses				
Police Pension	1,204,149	1,258,661	1,303,702	3.6%
Emergency Dispatch Transfer	405,000	415,000	415,000	0.0%
Transfer-Law and Justice Center *	135,530	136,000	136,000	0.0%
Total Other Related Expenses	1,744,679	1,809,661	1,854,702	2.5%
TOTALS	<u>\$20,122,170</u>	<u>21,264,891</u>	<u>23,624,239</u>	<u>11.1%</u>

*Utility Tax transfer from General Fund.

FIGURE III - 10

CRIMINAL JUSTICE EXPENDITURES AS A PERCENTAGE OF TOTAL GENERAL FUND



The following chart (Figure III-11) compares per capita criminal justice expenditures with comparable cities based on 2004 data. Yakima has the second highest per capita percentage of revenue spent on Criminal Justice among the 12 comparable cities; Yakima has been first for the last five out of seven years. Note: 2004 was prior to the new voted 0.3% Criminal Justice sales tax.

FIGURE III - 11

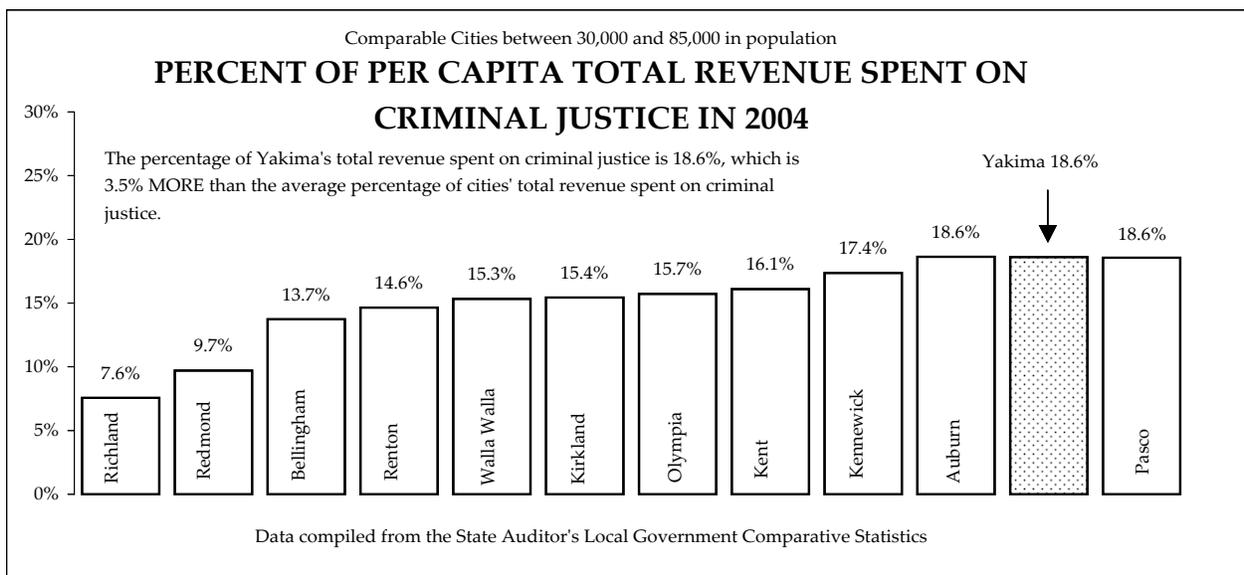
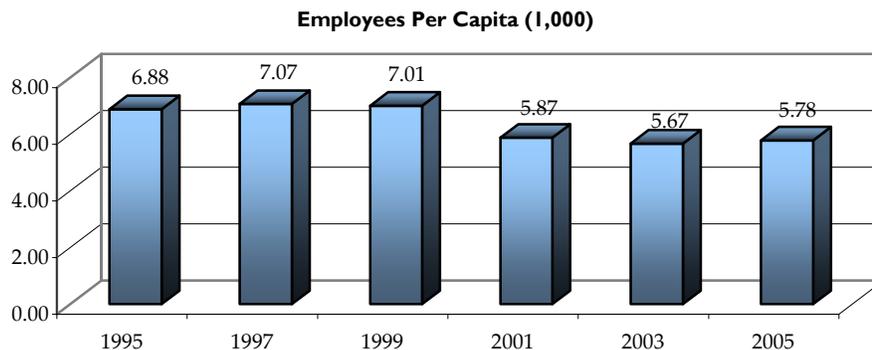


Figure III-12 below depicts City-wide staffing levels per 1,000 population. There are 4 major events that have had significant effect on City Staffing levels:

1. In 1996 and 1997 the City started its own Municipal Court, Probation Services and began operating its own jail for misdemeanor crimes - 32 FTE's.
2. In 2000 33.21 positions were deleted as a cost containment measure associated with the City's loss of MVET Revenue.
3. 2002 through 2004 36.35 FTE's were added in Police, Fire, Streets and Transit to support services to a large newly annexed area.
4. In 2005, 12.75 FTE's in Police, Courts and legal were added as a result of voter approval of a 0.3% increase in the sales tax rate for Criminal Justice.

FIGURE III - 12

**GENERAL GOVERNMENT BUDGETED POSITIONS COMPARISONS*
FOR THE LAST TEN YEARS**



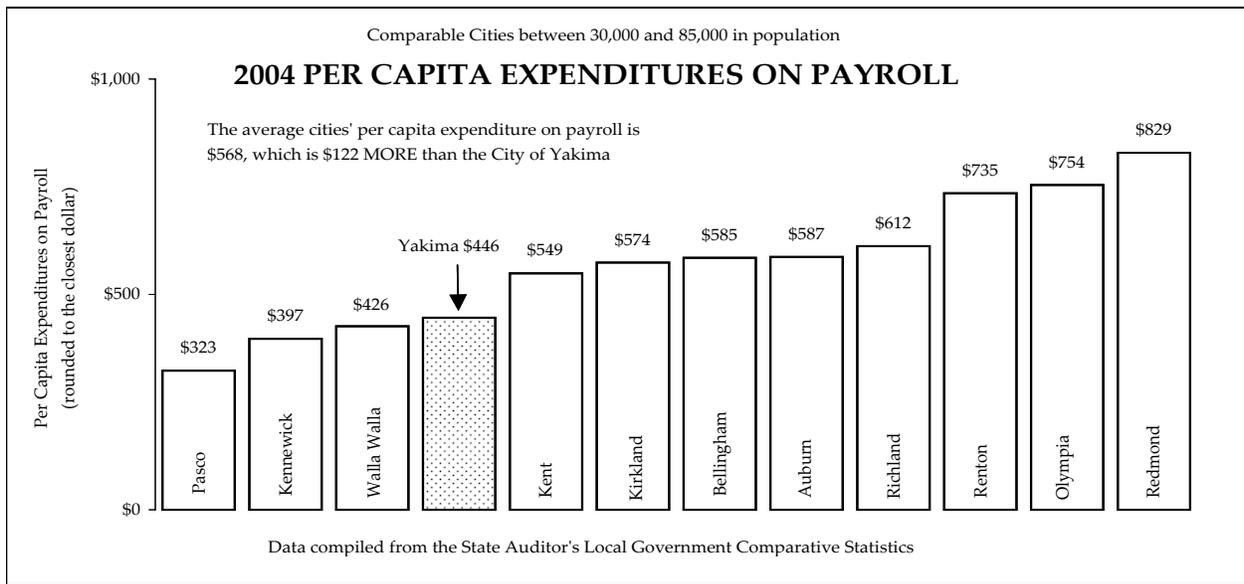
	1995	1997	1999	2001	2003	2005
Number of Employees	424.19	449.00	457.22	428.96	448.94	471.07
Employees Per Capita	6.88	7.07	7.01	5.87	5.67	5.78
Square Miles	17.43	19.26	19.26	24.08	24.23	25.20
Population	61,650	63,510	65,260	73,040	79,220	81,470

* Does not include temporary employees (number of employees are stated in Full-Time Equivalents).

SALARY AND BENEFIT COSTS

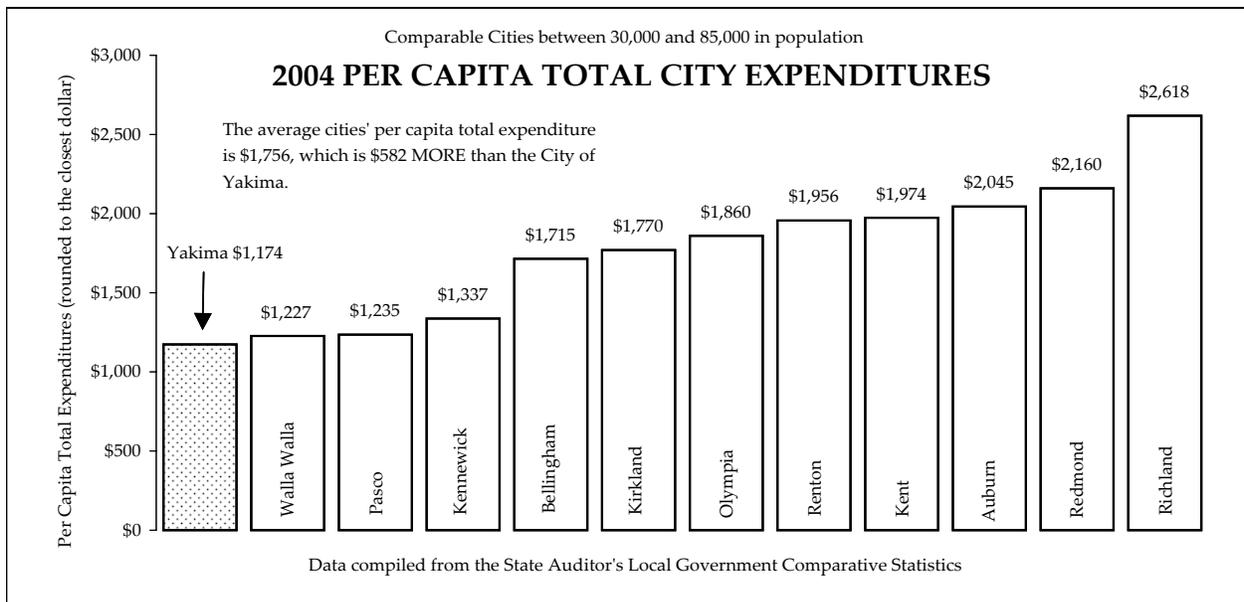
The following graph is based on information gathered by the State Auditor's Office. It identifies the per capita salary costs. This analysis indicates that the City of Yakima spends, on the average, \$122 less per capita on salaries than other comparable cities. Yakima employs fewer people per capita than other cities. To maintain levels of service during periods of peak workload demands, the City uses contract and temporary labor when possible.

FIGURE III - 13



Finally, total City expenditures per capita are the lowest of the 12 cities compared, \$582 below the average (Figure III - 14). Yakima does offer full services (i.e. Police, Fire, Water, Wastewater, Irrigation, Refuse, and Transit) to its citizens. Even though we provide services that many other cities do not provide, we are still next to last in cost per citizen, proving Yakima does “more with less” in delivering important services to our constituency.

FIGURE III - 14



GENERAL GOVERNMENT: IMPACTS OF FIXED, MANDATED, CONTRACTUAL COSTS

Total General Government Fixed, Mandated or Contractual net cost increases equal

\$1,000,330, an increase of 2.3%. However, as stated previously, the total General Government operating budget for 2007 is 2.1% more than 2006 budget. This means that the 2007 budget had to restrain non-mandated spending in order to balance the budget within existing resources.

Notable 2007 mandated and contractual cost adjustments compared with the 2006 amended budget are as follows:

- 2007 projected labor cost increase of \$518,018; largely comprised of the annualized effect of employees added mid-2006 for new annexations and grant programs. For cost containment purposes a salary “freeze” for all employees is reflected in the 2007 budget. (This is subject to negotiations with all labor unions.)
- Retirement/termination cash-outs reflect an increase of \$41,379. This is variable depending on anticipated retirements for 2007.
- Fringe benefits such as social security, special pay and industrial insurance for General Government employee groups accounted for an increase of \$42,203. The increase is a function largely of the full year of positions added in 2006, and tracks with the salary increase mentioned above.
- Overtime is reduced by \$36,350 or 2.5%, primarily due to a reduction in overtime for the Fire Department.
- The total State Retirement cost increased from \$1,162,666 in 2006 to \$1,521,666 in 2007, an increase of \$359,000 or 31%, due to employer contributions to State Retirement Systems for both PERS and LEOFF systems were increased in July 2006.
- Medical and Dental costs are flat (no change) for 2007, based on the City’s group history and expected medical cost trends within the City’s self-insured health program.
- Police Pension costs are budgeted to increase \$34,254 or 2.6% as the result of an aging population.
- The cost of Library services has been eliminated from the budget in 2007 as the result of an election where the voters agreed to be annexed into the Library District.
- Safe Community Action Plan is a crime reduction proposal proposed to be phased in over four years, commencing in 2007. The 2007 budget includes \$1.2 million funding for the plan.
- Jail services provided by outside agencies are budgeted at \$1,298,000 for 2007. Year-end estimates for 2006 are \$1,240,000. The increase is mostly due to the number of prisoners incarcerated and outside jail costs.
- Election costs fluctuate based on the number of City issues on the ballot. These costs are projected to decrease by \$110,664, as 2007 is not an election year.
- Overall, Fixed, Mandated or Contractual Costs have increased approximately \$1,000,000 or 2.6% from 2006 to 2007. (See Table III-9 next page.)

**CITY OF YAKIMA
GENERAL GOVERNMENT
FIXED, MANDATED, AND CONTRACTUAL COSTS
2006 VS. 2007 COMPARISON**

	2006 AMENDED BUDGET	2007 PRELIMINARY BUDGET	PROJECTED INCREASE (DECREASE)	PERCENT CHANGE
Salary Increase*	\$27,145,960	\$27,663,978	\$518,018	1.9%
Overtime	1,468,850	1,432,500	(36,350)	(2.5%)
Special Pay	179,006	173,623	(5,383)	(3.0%)
Retirement/Termination Cash-Outs	287,874	329,253	41,379	14.4%
Social Security	1,148,197	1,170,474	22,277	1.9%
State Retirement	1,162,666	1,521,666	359,000	30.9%
Industrial Insurance	661,527	681,453	19,926	3.0%
Life Insurance	60,926	70,983	10,057	16.5%
Medical and Dental Insurance	3,743,921	3,743,674	(247)	0.0%
Unemployment Compensation	103,708	104,127	419	0.4%
Police Pension	1,337,956	1,303,702	(34,254)	(2.6%)
Utility Costs: Telephone	135,827	135,922	95	0.1%
Electricity	611,254	661,130	49,876	8.2%
Natural Gas	162,541	162,386	(155)	(0.1%)
Fuel	544,308	540,485	(3,823)	(0.7%)
Vehicle/Equipment Maintenance	484,355	528,283	43,928	9.1%
Vehicle Rentals/Replacement	245,496	264,396	18,900	7.7%
Liability Insurance Coverage	567,211	623,932	56,721	10.0%
State Examiner	103,000	103,000	0	0.0%
Library	1,314,107	0	(1,314,107)	(100.0%)
Safe Community Action Plan	0	1,210,000	1,210,000	n/a
Yakima County Emergency Mgmt	42,244	54,721	12,477	29.5%
Clean Air Authority	12,622	12,622	0	0.0%
Alcoholism	18,600	18,600	0	0.0%
Jail Costs - Yakima County	1,170,000	1,228,000	58,000	5.0%
Jail Costs - Sunnyside	15,000	15,000	0	0.0%
Jail Costs - Toppenish	25,000	25,000	0	0.0%
Jail Costs - Wapato	30,000	30,000	0	0.0%
SunDome Debt Service	149,174	150,000	826	0.5%
District Court Costs	25,800	25,400	(400)	(1.5%)
Public Defense*	241,186	325,000	83,814	34.7%
Election Costs	240,664	130,000	(110,664)	(46.0%)
TOTAL FIXED, MANDATED COSTS	\$43,438,980	\$44,439,310	\$1,000,330	2.3%
% of Total General Government Amended Budget	81.23%	81.39%		

* Salary costs only. Does not include benefits listed elsewhere in this exhibit.

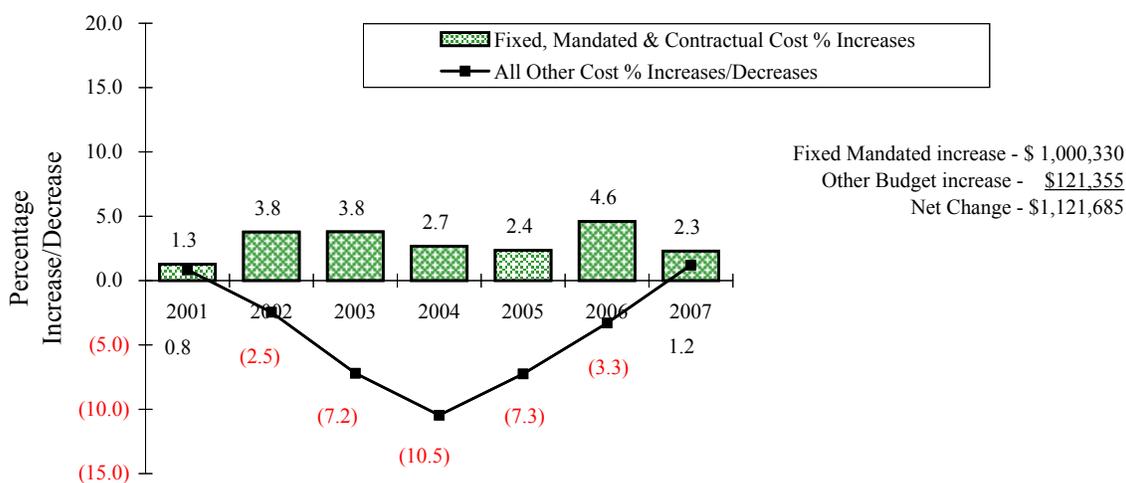
COMPONENTS OF GENERAL GOVERNMENT BUDGET

	2006 AMENDED BUDGET	2007 BUDGET	PROJECTED INCREASE (DECREASE)	PERCENT CHANGE
General Government Budget	\$53,477,875	\$54,599,560	\$1,121,685	2.1%
Less: Fixed, Mandated and Contractual Costs	43,438,980	44,439,310	1,000,330	2.3%
BALANCE (DISCRETIONARY COSTS)	<u>\$10,038,895</u>	<u>\$10,160,250</u>	<u>\$121,355</u>	<u>1.2%</u>

Figure III-15, below, graphically depicts that increases in fixed, mandated and contractual costs in the General Government Funds must be compensated for by reductions in other discretionary costs to maintain a balanced budget.

FIGURE III-15

**ANNUAL BUDGETED PERCENTAGE COST INCREASES
FIXED, MANDATED & CONTRACTUAL COSTS VS. ALL OTHER COSTS ⁽¹⁾**



(1) Fixed, mandated, and contractual costs include salaries and benefits; medical insurance costs; public safety pension expenses; utility costs; liability insurance; jail/ security contract expenses; library services; election expenses; debt service and other expenses.

GENERAL GOVERNMENT EXPENDITURE SUMMARY

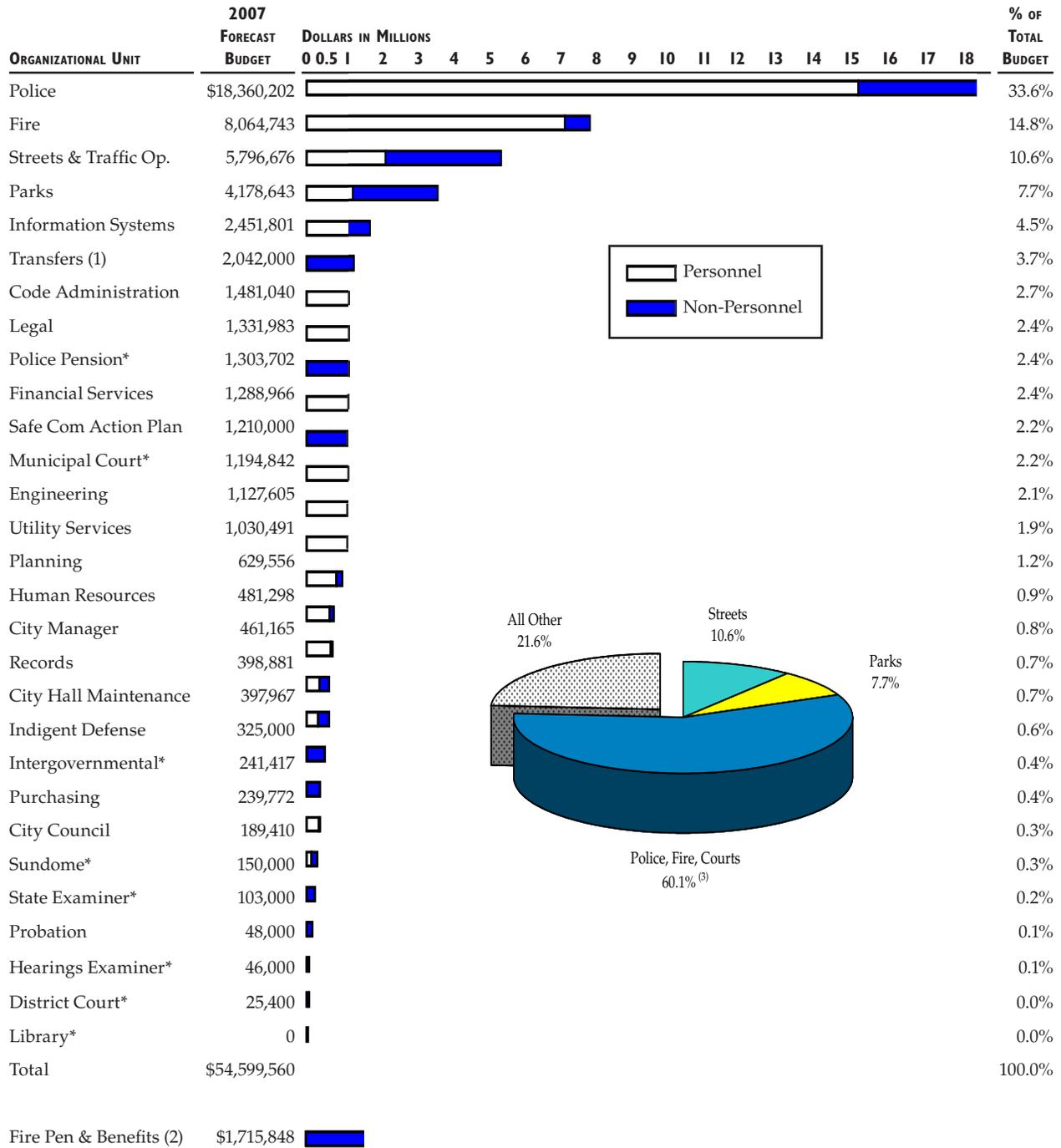
Tables III-11 and III-12 illustrate that the total 2007 General Government budget is \$54,599,560, \$1,121,685 or 2.1% more than the 2006 amended budget of \$53,477,875.

TABLE III-11

	2006 AMENDED BUDGET	2006 EST. YEAR-END EXPENDITURE	2007 PROJECTED BUDGET	DOLLARS	CHANGE 2007 VS. 2006 PERCENT
General	\$43,880,630	\$43,215,760	\$44,624,241	\$743,611	1.7%
Parks and Recreation	4,074,592	4,064,301	4,178,643	104,051	2.5%
Street and Traffic Operations	5,522,653	5,471,769	5,796,676	274,023	5.0%
TOTAL	<u>\$53,477,875</u>	<u>\$52,751,830</u>	<u>\$54,599,560</u>	<u>\$1,121,685</u>	<u>2.1%</u>

TABLE III-12

2007 GENERAL GOVERNMENT BUDGET



* Fixed, Mandate or Contractual Costs.

(1) Includes \$830,000 transfer to Public Safety Communications for dispatch services.

(2) Fire Pension, although classified as an operating reserves fund, is included here because it is supported primarily with General Government resources.

(3) 67% of General Government resources is spent on Public Safety, including police, fire, municipal and district courts, transfers to public safety communications, and police and fire pensions.

REVENUE AND EXPENDITURE COMPARISON

Table III-13, which follows, depicts the City's projected composite ending balance for the year 2007 for General Government funds. This reflects that the General Government budgets are balanced utilizing \$1,326,644 of the estimated beginning fund balance for year 2006. Further, it projects the General Government ending cash for the year 2007 to be \$4,595,272.

The City's budget guidelines for each operating fund are:

(1) Dependency on beginning cash balances should not exceed 5% of annual operating expenditures and (2) reserves should be 7% or more of annual operating expenditures. NOTE: the City maintains reserves to meet potential revenue shortfalls, emergencies, cash flow, and unforeseen contingencies.

Total General Government dependency on beginning cash for 2006 is 2.4% and ending cash reserves are projected to be 8.4%. Both are within the established guidelines, as noted above. However, as mentioned earlier in this message and in the BST report, General Government reserves are at minimum levels, and could be exhausted by the end of 2009 unless additional cost reductions and/or revenue enhancements are attained.

TABLE III-13

	2007 PROJECTED REVENUE	2007 PROJECTED EXPENDITURES	DIFFERENCE	2007 ESTIMATED BEGINNING BALANCE	2007 ESTIMATED ENDING BALANCE
General Fund	\$43,713,973	\$44,624,241	(\$910,268)	\$4,763,413	\$3,853,145
Parks and Recreation	4,109,191	4,178,643	(69,452)	310,741	241,289
Street and Traffic Operations	5,449,752	5,796,676	(346,924)	847,762	500,838
TOTAL GENERAL GOVERNMENT	\$53,272,916	\$54,599,560	(\$1,326,644)	\$5,921,916	\$4,595,272

(This page intentionally contains no information.)

IV. OTHER OPERATING AND ENTERPRISE FUNDS

2006 year-end estimates for the City's Other Operating and Enterprise Funds are summarized below (Table IV-1):

TABLE IV-1

2006 BUDGET STATUS

FUND	2006	2006 Est.	VARIANCE	2006	2006
	AMENDED	ACTUAL		ESTIMATED	EST. ENDING
	BUDGET	EXPENDITURES		RESOURCES	BALANCE
Economic Development	\$293,658	\$276,565	\$17,093	\$488,604	\$212,039
Neighborhood Development (Housing)	3,114,895	3,089,618	25,277	3,625,202	535,584
Community Relations	700,959	613,592	87,367	1,351,678	738,086
Community Services	126,267	116,217	10,050	151,167	34,950
Growth Mgmt/Com Trip Red Fund	74,271	31,026	43,245	35,000	3,974
Cemetery	296,038	291,313	4,725	335,895	44,582
Emergency Services	999,906	995,965	3,941	1,149,832	153,867
Public Safety Communications	2,604,545	2,553,806	50,739	2,691,406	137,600
Parking & Business Imp (PBIA)	97,075	97,075	0	133,560	36,485
Trolley (Yakima Interurban Lines)	498,707	303,707	195,000	308,313	4,606
Front Street Business Improvement	3,000	3,000	0	5,472	2,472
Tourist Promotion	1,176,149	1,174,870	1,279	1,259,943	85,073
Capitol Theatre	264,878	250,182	14,696	396,447	146,265
Public Facilities District Revenue	664,000	656,000	8,000	739,920	83,920
Tourist Promotion Area	390,000	380,000	10,000	380,414	414
Transit	6,347,758	6,297,070	50,688	6,657,598	360,528
Refuse	3,701,252	3,654,260	46,992	3,867,657	213,397
Sewer	16,617,868	16,368,575	249,293	18,382,005	2,013,430
Water	7,040,923	6,832,450	208,473	8,338,620	1,506,170
Irrigation	2,597,517	2,569,472	28,045	2,914,625	345,153
Equipment Rental	5,388,743	5,327,814	60,929	8,107,106	2,779,292
Environmental	262,950	92,500	170,450	465,456	372,956
Public Works Admin.	1,123,184	1,106,096	17,088	1,221,244	115,148
TOTAL	\$54,384,543	\$53,081,173	\$1,303,370	\$63,007,164	\$9,925,991

All Operating and Enterprise Funds are anticipated to end 2006 with positive fund balances. This analysis includes appropriations approved by Council through September, and a balanced (i.e. revenues equal to expenditures) appropriation request for the Tourism Promotion Area scheduled to go before Council at their October 17, 2006 meeting. After considering this proposed budget amendment, all operating funds are anticipating actual expenditures within authorized levels.

2007 projections for Other Operating and Enterprise Funds expenditures and resources are reflected below in Table IV-2. (Resources include the beginning fund balance plus current year revenue, to arrive at a total available to spend.)

TABLE IV-2

PROPOSED 2007 BUDGET

FUND	2007 PROJECTED RESOURCES	2007 PROJECTED EXPENSE	2007 PROJECTED BALANCE
Economic Development	\$312,039	\$274,075	\$37,964
Neighborhood Development (Housing)	3,028,834	2,512,699	516,135
Community Relations	1,183,936	547,609	636,327
Community Services	376,542	347,214	29,328
Growth Management/Commute Trip Reduction Fund	29,440	29,440	0
Cemetery	373,361	326,105	47,256
Emergency Services	1,131,080	1,030,115	100,965
Public Safety Communications	2,786,154	2,650,413	135,741
Parking & Business Improvement (PBI)	70,085	59,911	10,174
Trolley	203,381	198,709	4,672
Front Street Business Improvement Area	4,847	3,000	1,847
Tourist Promotion	1,347,373	1,269,647	77,726
Capitol Theatre	425,532	281,616	143,916
Public Facilities District Revenue	723,920	649,000	74,920
Tourist Promotion Area	400,414	400,000	414
Transit	6,886,943	6,574,793	312,150
Refuse	4,145,607	3,976,921	168,686
Sewer	17,118,031	15,952,687	1,165,344
Water	7,881,107	6,746,423	1,134,684
Irrigation	2,872,507	2,653,949	218,558
Equipment Rental	7,346,501	4,205,376	3,141,125
Environmental	515,456	417,950	97,506
Public Works Administration	1,266,513	1,154,908	111,605
TOTAL OTHER OPERATING AND ENTERPRISE FUNDS	\$60,429,603	\$52,262,560	\$8,167,043

See Exhibit I for additional detail of Other Operating and Enterprise Funds.

The following graph (Table IV-3) depicts resources and expenditures for Major Operating and Utility Fund Operations for 2007. (See Exhibit III for policy issues impacting Operating/Enterprise Budgets.)

2007 RESTRICTED OPERATING AND RESERVE FUNDS

DIVISION	2006 FORECAST BUDGET	DOLLARS IN MILLIONS																				
		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Reserves	\$13,928,489																					
Risk Mgmt, Emp Benefits, Cap Theatre, Cemetery, Trust Reserves	21,321,194																					
Wastewater	15,952,687																					
	17,118,031																					
Water/Irrigation	9,400,372																					
	10,753,614																					
Transit	6,574,793																					
	6,886,943																					
Refuse	3,976,921																					
	4,145,607																					
Equipment Rental	3,128,376																					
	3,138,833																					
Special Purpose	11,707,411																					
Housing, Emer Svce, Public Works Admin, Cable TV, Misc	13,733,907																					
		TOTAL EXPENDITURES – \$64,669,049 TOTAL RESOURCES – \$77,098,129																				

THE ECONOMIC DEVELOPMENT FUND reflects resources of \$312,039 and expenditures of \$274,075 for 2007. These funds are planned to be used to spur economic development. Expenditures include an allocation of the Deputy Director of Community and Economic Development position; the City’s match for a planning program related to downtown revitalization and downtown manager; and continuation of professional service agreements with the National Development Council and Artifacts, Inc.

THE NEIGHBORHOOD DEVELOPMENT FUND contains programs funded by Housing and Urban Development (HUD), including the Community Development Block Grant (CDBG) and Homeownership (HOME) grants. Expenditures are budgeted at \$2,512,699 and are subject to the public hearing process. With pressures on the Federal Budget, the 2007 budget anticipates a slight reduction in these program grants. Because of the programmatic nature of the Community Development Budget, along with differences in reporting time frame for Federal programs, the City budget is annually adjusted to reflect the final outcome of prior year programs. The 2007 ending balance is projected to be \$516,135.

THE COMMUNITY RELATIONS FUND expects resources of \$1,183,936 for 2007. Expenditures are estimated to be \$547,609, leaving the balance estimated at \$636,327 for year-end, earmarked primarily for capital expenditure on production equipment/cable TV facilities.

THE COMMUNITY SERVICES FUND includes the 2nd year of the new Healthy Families Yakima program, which is a demonstration project through the Department of Social and Health Services. Total resources, which include grant revenue and match contributions, are estimated to be \$376,542, and expenditures are budgeted to be \$347,214, leaving an ending balance of \$29,328.

THE GROWTH MANAGEMENT/COMMUTE TRIP REDUCTION FUND has special projects/grants related to growth management issues that have been accounted for in this fund. For 2007, \$29,440 is carried forward for the contract to update the Metropolitan Transportation Model, funded by a Federal Surface Transportation grant.

CEMETERY FUND resources for 2007 are projected at \$373,361, expenditures are estimated to be \$326,105, and the estimated ending balance is projected at \$47,256. Two policy issues are budgeted in this fund—1) the construction of a columbarium/niche wall, funded by an allocation of prepaid lot sales; and 2) a general increase in fees and charges of 3%. **The Cemetery Fund is depending on a \$125,000 operational subsidy from the Parks and Recreation Fund.**

THE EMERGENCY SERVICES FUND reflects resources of \$1,131,080 and expenditures of \$1,030,115 related to the provision of Emergency Medical Services, and is supported by the Special EMS Property Tax Levy, which was renewed by the voters in September 2002. The 2007 ending balance is projected to be \$100,965.

THE PUBLIC SAFETY COMMUNICATIONS FUND expects resources of \$2,786,154 and expenditures of \$2,650,413 for 2007, leaving a balance of \$135,741 at year-end. This fund accounts for 9-1-1 Calltakers, supported by Yakima County 9-1-1 resources in the amount of \$1,233,989. General Fund expenditures include a transfer of \$830,000 for dispatch. There are two staffing policy issues budgeted in this fund:

- The addition of one Public Safety Dispatcher position funded by an additional allocation from the growth in the 0.3% Criminal Justice Sales Tax.
- The addition of one 9-1-1 Calltaker position funded by an increase in the 9-1-1 excise tax allocation from Yakima County

PARKING AND BUSINESS IMPROVEMENT (PBI) FUND resources are projected to be \$70,085, while expenditures are projected at \$59,911. The ending balance for 2007 is projected at \$10,174. This fund includes a transfer \$7,500 to the Parks and Recreation Fund to supplement the City's downtown beautification program. Much of the 2007 budget is targeted toward downtown revitalization efforts.

THE TROLLEY FUND projects resources of \$203,381 and expenditures of \$198,709 for 2007, and includes the continuation of a grant-supported improvement project at the Trolley barn. The year-end balance is projected at \$4,672.

THE FRONT STREET BUSINESS IMPROVEMENT AREA FUND projects resources of \$4,847 and expenditures of \$3,000 — leaving an ending balance of \$1,847 for 2007.

THE TOURISM PROMOTION/YAKIMA CONVENTION CENTER FUND budget anticipates resources of \$1,347,373 (this includes a transfer of \$120,000 from the Public Facility District) and expenditures of \$1,269,647, and thus is expected to end 2007 with a balance of \$77,726. The 2007 budget includes two policy issues to increase management fees to the Visitor's and Convention Bureau for additional promotional efforts and additional operational/staffing needs of the Convention Center.

THE CAPITOL THEATRE FUND is expected to have resources of \$425,532 and expenditures of \$281,616 for 2007, and an ending balance of \$143,916. The expenditure budget includes a policy issue to increase the Capitol Theatre Committee's management fee. (See Policy Issues Summary — Exhibit III.)

THE PUBLIC FACILITIES DISTRICT FUND includes resources estimated to be \$723,920 for 2007. Expenditures are estimated to be \$649,000, primarily for debt service on the Convention Center bonds issued in 2002 and supplemental support for Convention Center operations. This leaves a fund balance of \$74,920 at the end of 2007.

THE TOURIST PROMOTION AREA accounts for a self-assessment imposed by the lodging industry to promote tourism. Resources are estimated to be \$400,414, with expenditures programmed at \$400,000, leaving a balance at the end of 2007 of \$414.

TRANSIT FUND expenditures are estimated to be \$6,574,793 and resources are projected to be \$6,886,943 for 2007. Total Transit sales taxes for 2006 are forecast to be \$4,427,000, and are estimated to be slightly more in 2007—the 2007 budget includes a total of \$4,577,000 with \$4,394,000 allocated to operations and \$183,000 to capital. This fund also includes an operating grant of \$1,600,000. There is a budgeted policy issue to add one Transit Dispatcher position. (See Policy Issues Summary — Exhibit III.) An ending balance of \$312,150 is currently projected for 2007.

THE REFUSE FUND expenditure budget for 2007 is \$3,976,921, and continues the transition to automated routes. Total resources are estimated to be \$4,145,607, and an ending balance is currently projected at \$168,686. The 2007 projected resources include a 3% rate adjustment to fund a Code Compliance Officer. (See Policy Issue Summary — Exhibit III.)

WASTEWATER FUND resources for 2007 are expected to total \$17,118,031. Expenditures are budgeted at \$15,952,687 and the 2007 year-end balance is currently projected to be \$1,165,344. Transfers of about \$2.7 million to Wastewater Construction Funds, and \$3.1 million to provide for Wastewater Bond redemption and repayments of Public Works Trust Fund Loans are currently programmed in this budget. The proposed 2007 Sewer budget includes continued implementation of the Sewer Comprehensive Plan, the Wastewater Facilities Plan, and the cost-of-service rate study to meet mandated costs.

WATER FUND resources of \$7,881,107 are projected for 2007. Expenditures are estimated to be \$6,746,423, leaving \$1,134,684 at the end of 2007. These costs include \$500,000 transfer to the Capital Fund, and about \$590,000 to provide for Water Bond Debt Service and repayments of Water Public Works Trust Fund Loans. The 2007 projected resources include the rate adjustment of 3.5% that was approved by Council in 2005.

IRRIGATION FUND resources for 2007 are projected to be \$2,872,507 and expenditures are estimated to be \$2,653,949, which includes a transfer of \$881,000 to the Irrigation Capital Fund, \$354,304 to provide debt service for Irrigation bond and Public Works Trust Fund loan. A 10% adjustment in the operating rates is included in the resources as a budgeted policy issue. (The operating rates haven't been adjusted for several years. See Policy Issue Summary — Exhibit III.) The 2007 ending fund balance is projected to be \$218,558.

THE EQUIPMENT RENTAL FUND budget for 2007 is \$4,205,376 of which \$3,011,416 is the maintenance and operations budget, and \$1,193,960 is the Equipment Replacement budget. Resources are expected to be \$7,346,501 while the ending fund balance for 2007 is expected to be \$3,141,125, most of which represents capital equipment replacement reserves.

THE ENVIRONMENTAL FUND was created to provide for cleanup of environmental hazards. Funding for the program is from a surcharge on vehicle fuel sales in the Equipment Rental Fund. For 2007, \$515,456 in resources are expected to be generated and \$417,950 is expected to be spent. A year-end balance of \$97,506 is projected.

PUBLIC WORKS ADMINISTRATION FUND expenditures for 2007 are expected to be \$1,154,908. Resources for 2007 are expected to be \$1,266,513 generated from operating funds located in the Public Works complex, resulting in a year-end balance of \$111,605.

RESERVE FUNDS

EMPLOYEE BENEFIT RESERVES

THE UNEMPLOYMENT COMPENSATION RESERVE FUND is estimated to end 2007 with a balance of \$385,845. Resources are projected to be \$537,763 and expenditures for claims and other related expenses are estimated at \$151,918. Because the reserve is adequately funded, rates are unchanged from 2006.

EMPLOYEES HEALTH BENEFIT RESERVE FUND expenditures for 2007 are projected to be \$8,359,804, while resources are \$11,496,825; leaving an ending balance projected to be \$3,137,021. Through September, the plan is experiencing an unprecedented decrease in total plan costs. Because of this favorable claims environment, rates are being held at 2006 levels for the 2007 budget cycle. The insurance board continues to monitor the plan and review potential cost containment measures, with a goal of reducing the magnitude of future annual premium increases.

THE WORKERS COMPENSATION RESERVE FUND estimates a year-end balance of \$1,401,334, the result of resources totaling \$2,454,284 and expenditures of \$1,052,950. Concentrated efforts in plan management and safety training has resulted in a slowdown of claims/costs. Therefore, the Industrial Insurance rates were also held at 2006 levels.

WELLNESS/EMPLOYEE ASSISTANCE PROGRAM (EAP) FUND projected total resources for 2007 are \$220,517 and expenditures are \$109,126 with a projected year-end balance of \$111,391.

THE FIREMEN'S RELIEF AND PENSION FUND for 2007 projects resources of \$2,108,803 and projected expenditures of \$1,715,848, leaving an estimated 2007 year-end balance of \$392,955.

The Fire Pension property tax allocation for 2007 of \$1,536,367, is 2.5% greater than the 2006 allocation of \$1,498,895. **The City is mandated to increase property tax contributions to fund pension and LEOFF I medical and long-term care requirements regardless of whether the allowable levy actually increases.**

OPERATING RESERVES

RISK MANAGEMENT RESERVE — The City changed its general liability program at the end of 2005, and purchased insurance from both the Washington State Transit Insurance Program (WSTIP) for transit/van pool coverage, and the Cities Insurance Association of Washington (CIAW) for other general liability coverage. Both of these programs have significantly lower retention rates (\$100,000 for CIAW and \$5,000 for WSTIP), and higher event limits. With these new coverages in place for 2006 and into 2007, the City has lowered its exposure for events occurring in 2006 and into the future. However, the “tail” of unsettled claims occurring prior to 2006 will continue to be paid as settled, resulting in a few years of higher costs, until the older claims are disposed.

For 2007, Risk Management Fund departmental contributions totaling \$1,941,659 are programmed from City departments, an increase of 10% for most operating divisions. The increase helps pay for liability and other insurance coverages and increased claims costs and to meet reserve requirements. These charges, along with interest earnings, combine for projected 2007 revenues of \$2,161,659.

Total resources to the Risk Management Reserve for 2007 are expected to be \$2,949,701. Since the Wal-Mart land issue could be resolved in the near future, the Legal Department is re-submitting its policy issue to add one land use attorney and ½ time support position, which was deferred in the 2004 budget development process until the pending land use litigation was settled. These additional 1.5 FTEs are included in the 2007 Risk Management expenditures (See Policy Issue Summary — Exhibit III.) Based on personnel costs, claims experience and other insurance/ professional services costs, expenditures are estimated to be \$2,146,916, and the year-end 2007 reserve balance is estimated to be \$802,785. These reserve levels are still considered marginal in comparison to the existing liability for incurred claims, however, the combination of reductions in deductible levels and proactive legal overview of land use actions are expected to limit future liability. The reserve balance in this fund will continue to be monitored for adequacy.

GENERAL CONTINGENCY RESERVE FUND — The Contingency Reserve Fund is estimated to end 2006 with a balance of \$259,840. For 2007, \$75,000 is programmed to be transferred from the General Fund to this fund, providing total resources of \$334,840, and \$300,000 is appropriated for contingency purposes during 2007.

CAPITOL THEATRE RESERVE — The Capitol Theatre Reserve projects resources for 2007 of \$651,281. Interest earnings on this balance support an annual transfer to the Capitol Theatre Operating Fund Reserve of \$71,927. The projected 2007 ending balance is \$579,354.

GENERAL FUND CASH FLOW RESERVE — General Fund cash flow resources for 2007 are estimated at \$3,853,145. This source is a contingency for unbudgeted policy issues, results of negotiations for unsettled bargaining units, other unknown expenses and potential revenue shortfalls.

In summation, the City's 2007 General Reserve position is estimated to be as follows:

TABLE IV-4

	2005 ACTUAL	2006 ESTIMATED	2007 PROJECTED
Contingency Fund	\$316,634	\$259,840	\$34,840
General Fund Cash Flow	4,762,269	4,763,413	3,853,145
Capitol Theatre Reserve	925,208	621,281	579,354
Risk Management Reserve	871,726	788,042	802,785
TOTAL	\$6,875,837	\$6,432,576	\$5,270,124

Exhibit I contains additional detail of Operating Reserves.

V. CAPITAL IMPROVEMENT FUNDS

For 2006, a number of capital improvements were programmed for an amended capital budget of \$51.5 million. However, capital improvement expenditures for 2006 were estimated to be \$33.6 million, a spending level approximately \$17.9 million below budgeted levels. These projects are rebudgeted in 2007 along with additional capital improvements. Examples of the projects being rebudgeted include the Railroad Grade Separation; River Road improvements (including a Wastewater component); and Downtown revitalization/pedestrian improvements. (See Exhibit I for a summary of the status of the capital funds.)

The following (Table V-1) describes the relationship of resources and expenditures for major capital budgets of the City.

TABLE V-1

2007 RESTRICTED CAPITAL AND DEBT SERVICE FUNDS

DIVISION	2006 FORECAST BUDGET	DOLLARS IN MILLIONS																
		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Streets	\$13,442,718																	
	15,258,910																	
Wastewater	13,158,920																	
	17,126,937																	
Water/Irrigation	4,134,552																	
	8,955,297																	
Transit	700,000																	
	1,350,785																	
Equipment Rental	1,077,000																	
	4,207,668																	
Special Purpose Capital Misc G.O. Debt	10,826,383																	
	12,424,715																	
TOTAL EXPENDITURES		\$43,339,573																
TOTAL RESOURCES		\$59,324,312																

For 2007, Capital Fund expenditures of \$35,715,495 are estimated as follows, inclusive of carry-over projects from 2007:

STREET/OTHER INFRASTRUCTURE IMPROVEMENT PROJECTS — Total projects of \$12,619,069 (including carryover projects and Debt Service):

- 2007 Street Projects — Real Estate Excise Tax II (REET 2) Program — \$1,100,000
- William O. Douglas Trail Projects — \$787,298 (Federal grants)
- Nob Hill Blvd. Expansion, 68th Ave. to 80th Ave. (Carry-over) — \$130,000 (State and Federal grants)
- River Road N. 16th Ave. to Fruitvale — \$1,970,000 (State grants and Councilmanic Bond)
- Railroad Grade Separation — \$7,040,000 (State and Federal grants)
- Neighborhood Traffic Calming Program -- \$50,000 (See Policy Issue Summary – Exhibit II)
- Debt Service — \$597,927
- Other miscellaneous projects (including a \$200,000 contingency)— \$943,844.

Arterial Street Gas tax and the Real Estate Excise Taxes are the primary local revenue sources for street projects. These revenues are used to match state and federal grants to maximize funding for projects.

IRRIGATION IMPROVEMENT FUND — 2007 projects of \$2,375,000:

- Design/Rebuild Irrigation General System — \$1,600,000 (bond proceeds issued in 2004).
- Other System Improvements — \$775,000

DOMESTIC WATER IMPROVEMENT FUND — 2007 projects of \$1,150,000:

- 2nd level Reservoir Pipe — \$800,000
- Water main replacement — \$100,000
- Other Water Capital Projects — \$250,000

FIRE CAPITAL FUND — Total projects of \$2,037,700:

- \$386,000 — Fire Station 92 facility upgrade in West Valley (Carryover)
- \$840,000 — Pay off Line of Credit for Station 92 upgrade (Councilmanic Bond Proceeds)
- \$490,000 – Replacement of Fire Pumper/Engine (See Policy Issue Summary—Exhibit II)
- \$110,000 – Purchase a Brush Truck (Contribution from Fruitvale Fire District)
- \$211,700 for other miscellaneous upgrades to equipment and fire stations.

WASTEWATER CAPITAL EXPENDITURES — Facility projects and other sewer improvements, including sewer line extension rehabilitation and other costs, total \$10,858,000:

- Ultraviolet Disinfection System -- \$2,645,000 (Public Works Trust Fund Loan—see Policy Issue Summary—Exhibit II)
- Facilities improvements — \$5,305,000
- River Road Interceptor — \$2,270,000 (Public Works Trust Fund Loan)
- Other miscellaneous projects — \$638,000

TRANSIT CAPITAL — The 2007 budget of \$700,000 which is for miscellaneous capital needs and vehicle replacement.

- Repaving Project at Public Works -- \$500,000 (See Policy Issue Summary - Exhibit II)
- Other capital needs — \$200,000

PARKS IMPROVEMENTS PROJECTS total — \$605,000 for various project/capital needs.

- Kiwanis Skate Park — \$225,000 (bond proceeds)
- HVAC Repairs/upgrade at Lions Pool -- \$150,000 (See Policy Issue Summary – Exhibit II)
- Improvements at Elks Park — \$100,000
- Other capital needs -- \$130,000

CITY HALL REHABILITATION/REFURBISHMENT/CONTINGENCY — \$450,000 for continued refurbishment projects.

LAW AND JUSTICE CAPITAL FUND — \$644,500 for the Police Station/Legal Center related equipment and projects including:

- Vehicle Replacement — \$335,000
- Other miscellaneous projects and equipment — \$309,500.

CONVENTION CENTER CAPITAL IMPROVEMENTS — \$144,000 is programmed for ongoing capital needs of the Center for 2007.

LID CONSTRUCTION — \$500,000 for a local improvement district at Englewood Terrace.

CBD CAPITAL IMPROVEMENT — \$3,622,226 for the second phase of Downtown revitalization/pedestrian improvements funded by State grants and a Councilmanic General Obligation (LTGO) bond proceeds.

CAPITOL THEATRE CONSTRUCTION — Major capital improvements are scheduled to be completed in 2006. 2007 includes \$10,000 as a contingency. The next phase of capital improvements for the Theatre are currently in the planning stages.

SUMMARY

Overall, Capital Fund expenditures in the 2007 Budget Forecast are \$35,715,496; \$15,777,448 or 44% less than the 2006 amended levels of \$51,492,944. Several major projects are being accomplished in 2006, such as Washington Avenue expansion and improvements; the first phase of the Downtown revitalization/pedestrian improvements; Transit bus replacement; and Water capital projects. These related capital budgets are seeing a decrease from 2006 to 2007. The Railroad Grade Separation project is not included in the 2007 budget at the total project level—just the amount expected to be completed in 2007 is budgeted, which is less than the 2006 budget. Other areas, such as Wastewater, Irrigation, and projects funded by Real Estate Excise Taxes are in the midst of capital programs, budgeting similar amounts from 2006 to 2007. All of these changes net to an overall decrease in the capital fund expenditures for this budget cycle.

VI. BUDGET SUMMARY

DEBT CAPACITY

GENERAL OBLIGATION DEBT — The City is allowed by State statute to issue general obligation debt either by Council approval (Councilmanic) or by a vote of the people. The amount of debt outstanding is restricted by State law to certain percentages of the property tax assessments (called the limitation of indebtedness). In most instances, Councilmanic debt issues have dedicated sources of revenue for repayment, while voted debt is serviced by an additional property tax levy.

As of December 31, 2005 the City had \$20,610,096 of Councilmanic debt issued; of which \$17,130,096 was outstanding. Of the amount outstanding, all have a dedicated revenue source (such as cable TV utility tax, hotel/motel tax, Public Facilities District (PFD) revenues, etc.)

The amount of voted debt issued as of the above date, was \$3,700,000; of which \$2,235,000 was outstanding.

- The tax levy on voted debt for 2006 is \$.0729 per \$1,000 of assessed valuation; for a total levy of \$300,000.
- The levy on voted debt for 2007 is projected to be \$300,000, to cover scheduled debt service.

For 2005, the ratio of net general bonded debt to assessed value is .45%, and the net bonded debt per capita is \$229. These numbers indicate a General Obligation debt burden for Yakima that is well within industry standards. This is appealing to potential investors. The remaining debt capacities (from the limitation of indebtedness calculation) are:

- \$44.1 million for Councilmanic general obligation debt.
- \$39.7 million for voted general obligation debt (in addition to above).
- \$104.2 million for utilities.
- \$104.2 million for parks and open space.

The chart below summarizes the general purpose debt available to the City.

		<u>LIMIT BY SECTION</u>	<u>CUMULATIVE LIMIT</u>
I.	General Purpose		
	Without a Vote (Includes Capital Leases)	1.50%	
	With a vote	<u>1.00%</u>	2.50%
II.	Utilities Purpose	2.50%	5.00%
III.	Open Space and Parks Facilities	<u>2.50%</u>	7.50%
	TOTAL LEGAL LIMIT	<u><u>7.50%</u></u>	

The basic percentages for Section I, above, are the maximum levels of General Obligation indebtedness those sections may incur. However, utility or parks indebtedness may each exceed 2.5% and reduce the general indebtedness margin. The percentages are applied to the taxable assessed value (regular levies) of \$4.17 billion.

REVENUE BONDS — Revenue bonds are issued for construction projects or other legal purposes in the water, sewer and irrigation utilities. Repayment of these debt issues is built into the rate structures charged by the utilities.

At December 31, 2005, the amount of revenue bonds issued was \$34,590,000 of which \$28,095,000 was outstanding, \$22,975,000 for the Wastewater/Water Utility and \$5,120,000 for the Irrigation Utility. The revenue bond coverage ratio (net revenues available for debt service/debt service requirements) is 2.61 for the Wastewater/Water Utility, and 3.70 for the Irrigation Utility in 2005. The City's general policy is to maintain a minimum coverage ratio of between 1.4 and 2.0 times debt service. Both utilities exceed that standard and have healthy coverage ratios. This provides a high level of assurance that the City will be financially able to repay its outstanding revenue bonds.

PUBLIC WORKS TRUST FUND LOANS — The City also utilizes Public Works Trust Fund Loans to fund capital projects for street, wastewater, and water divisions. These loans are obtained by competitive process from the State of Washington's Department of Community and Economic Development. Interest rates range from .5% to 3% depending on amount of available matching funds, and are more favorable than bonded debt. The other advantage to using this program is that these loans are not considered to use debt capacity for G.O. debt nor do they have coverage or reserve requirements in the case of utility debt.

At December 31, 2005, the City had \$23,457,746 of Public Works Trust Funds issued, with \$10,557,154 outstanding.

STATE AND FEDERAL MANDATES

In establishing the budget levels for all of the funds of the City, the cost of complying with State and Federal mandates is factored in. The cost of mandate compliance continues to be a heavy burden on City budgets, particularly City operating budgets. The cost of compliance is very high while the revenues received from State and Federal agencies which enact these mandates is minimal. The most significant impacts from State and Federal mandates is the expense of implementing:

- Health Insurance Portability and Accountability Act (HIPAA)
- GASB 34 Financial Statement/Reporting Model
- Safe Drinking Water Act
- Endangered Species Act (4(d) Rules for Salmon Recovery)
- National Fire Protection Association apparatus manning standard
- Americans' with Disabilities Act

- Fair Labor Standards Act
- State Ecology Stormwater Regulations
- State and Federal Retirement Laws
- Growth Management Act (on-going)
- State mandate which shifted cost to cities for domestic violence, prosecution, adjudication, and incarceration of State charge misdemeanor and gross misdemeanor offenses.

To fulfill recent Stormwater mandates, a new utility was proposed. During the course of researching funding options, there have been discussions with other governments about regionalizing this function. Minimum expenses required to obtain a NPDES permit in 2007 for the Stormwater program is included in the Wastewater budget, to be reimbursed when the utility is established. The cooperating agencies are targeting 2007 to begin the utility.

All of the above have had far reaching impacts on most City budgets. Again, few State or Federal funds have been granted to support implementation of these mandates. Additionally, the Legislature continues to consider measures to preserve and recover northwest salmon stock. Most of the measures discussed carried multi-million dollar price tags. This is a potential future mandate that could have dramatic impacts on local governments throughout Washington State.

It should also be noted that while mandates and regulatory requirements continue to be a heavy burden on the City, the City's ability to collect revenues to meet those requirements has been legislatively diminished. New State laws often impair the City's ability to collect revenue for City programs and services. Recent initiatives have reduced the City's ability to meet requirements. It's important for the citizenry to weigh the cost of compliance (i.e. taxes and fees to meet the laws) versus the cost of non-compliance (for example: quality of life issues, fines for non-compliance, and other "hidden" costs such as increased fire and property insurance rates, loss of grant revenue, etc.)

BALANCED BUDGET

THE 2007 BUDGET IS PLANNED TO BE BALANCED AS FOLLOWS:

GENERAL FUND — \$910,268 of the total 2007 beginning balance of \$4,763,413 is allocated to meet the current difference between estimated revenues and expenditures. The estimated \$3,853,145 General Fund ending balance will be used as a minimum operating reserve for cash flow needs for unbudgeted policy issues, final bargained settlements and as a general contingency reserve against potential revenue shortfalls.

PARKS AND RECREATION FUND — Projected 2007 Parks expenditures are \$4,178,643. The budget includes \$4,109,191 in revenues, along with \$69,452 of the beginning 2007 cash balance to balance the 2007 budget. This will leave a projected operating reserve of \$241,289 for year-end 2007. Even though the Parks Division has recently completed a major capital campaign, adding new parks and facilities, its operating budget is remaining flat relative to inflation. To adequately support the new facilities, a new dedicated revenue source is desirable. The option of establishing a Metropolitan

Park District is currently being researched, however, preliminary results indicate that total available revenues within the City limits would not be adequate to maintain the entire Parks system.

STREET AND TRAFFIC OPERATIONS FUND — Beginning balance projection for 2007 is \$847,762. Revenues of \$5,449,752 along with \$346,924 of the beginning balance will be used to balance the 2007 budget. Total expenditures of \$5,796,676 are programmed for 2007. The year-end balance is projected at \$500,838. Additional personnel were added by Council in 2006 to accommodate growth in the miles of city streets added by recent annexations.

WASTEWATER OPERATIONS FUND — Expenditures for 2007 are budgeted within projected resource levels. Because of the large volume of capital projects in both 2006 and 2007, operating transfers to the Wastewater capital funds was expanded in 2006 and remains at high levels for 2007. This is resulting in the operating reserve balance is being reduced from \$3,077,652 at the beginning of 2006, to \$2,013,430 at the end of 2006, and then to \$1,165,344 by the end of 2007. This balance is about 7% of the expenditure budget and is, therefore, still within guidelines. The facility capital projects necessary to maintain the operating permit and expand the collection system are scheduled to be done using capital reserves and Public Works Trust Fund loans. All Wastewater reserves, both operating and capital, are programmed to be at minimum levels at the end of 2007. Before other major capital projects are contemplated, a rate study will need to be accomplished.

WATER RATES — Water recently developed a cost of service study tied to operating costs and identified capital needs. Council approved a rate adjustment to be phased in over 5 years, starting in 2005. The adjustment included in the 2007 budget is 3.5%.

REFUSE RATES — As Refuse transitions to automated pick-up, this fund is achieving the goal of gradually reducing staffing costs, as the automated trucks only require one operator. As a result, a rate adjustment is not needed for general operations in 2007. However, City Council recognizes that enforcement of Refuse division ordinance violations would complement the Safe Community Action Plan. Therefore, the Refuse budget includes a budgeted policy issue to add a new Code Compliance Officer position and related supplies to be funded by a 3% rate adjustment.

CONCLUSION

The City's projected Operating, Enterprise, and Capital Fund expenditures for 2007 are balanced within anticipated revenues and projected cash balances.

The total 2007 Budget is estimated at \$162,608,182 — a decrease of \$16,800,978 or 9.4% less than the 2006 amended budget level of \$179,409,160. Most of this decrease is derived from the timing of capital projects. All other operating budgets remained relatively flat, primarily because of the proposed Citywide wage freeze.

The overall 2007 Budget addresses, within resource limitations, the Critical/Strategic Issues of the City in an ongoing effort to meet citizen needs for municipal services; address the City's Mission and Vision for the future; and satisfy Federal and State mandated responsibilities. (See Exhibit IV for a graphic portrayal of total City budget resources and expenditures.)

CITY OF YAKIMA
2006 BUDGET BY CITY FUNCTIONAL GROUPING

	2005	2006		2006	2007		2007		2007		2007
	ACTUAL EXPENDITURES	AMENDED BUDGET	AMENDED BUDGET	YEAR-END ESTIMATE	P RELIINARY BUDGET	VS 2006 AMENDED	BEGINNING FUND BALANCE	PROJECTED REVENUE	EST ENDING FUND BALANCE		
GENERAL GOVERNMENT											
City Council	\$163,556	\$180,765	\$180,710	\$180,710	\$189,410	4.8%					
City Manager	540,441	500,651	466,453	466,453	461,165	(7.9%)					
State Examiner	96,772	103,000	100,000	100,000	103,000	0.0%					
Records	278,672	605,113	641,051	641,051	398,881	(34.1%)					
Financial Services	1,089,198	1,196,487	1,195,766	1,195,766	1,288,966	7.7%					
Human Resources	438,841	483,973	439,406	439,406	481,298	(0.6%)					
Legal	1,452,324	1,320,229	1,224,075	1,224,075	1,331,983	0.9%					
Municipal Court	949,322	1,152,898	1,001,742	1,001,742	1,194,842	3.6%					
Purchasing	205,918	230,793	228,401	228,401	239,772	3.9%					
Hearing Examiner	47,092	61,000	61,000	61,000	46,000	(24.6%)					
Environmental Planning	518,572	633,565	631,336	631,336	629,556	(0.6%)					
Code Administration	1,338,568	1,429,346	1,429,184	1,429,184	1,481,040	3.6%					
Indigent Defense	0	241,186	241,186	241,186	325,000	34.8%					
Safe Community Action Plan (SCAP)	0	0	0	0	1,210,000	n/a					
Police	16,179,388	17,696,027	17,572,869	17,572,869	18,360,202	3.8%					
Fire	7,399,381	7,748,682	7,731,321	7,731,321	8,064,743	4.1%					
Police Pension	1,204,149	1,337,956	1,258,661	1,258,661	1,303,702	(2.6%)					
Probation Center	410,693	56,081	56,081	56,081	48,000	(14.4%)					
Engineering	1,075,802	1,136,261	1,121,489	1,121,489	1,127,605	(0.8%)					
City Hall Maintenance	372,084	384,397	383,146	383,146	397,967	3.5%					
Information Systems	2,345,684	2,666,686	2,544,210	2,544,210	2,451,801	(8.1%)					
Utility Services	899,277	984,114	976,653	976,653	1,030,491	4.7%					
Library	1,414,107	1,314,107	1,314,107	1,314,107	0	(100.0%)					
Intergovernmental	179,877	225,339	225,339	225,339	241,417	7.1%					
Sun Dome	150,697	149,174	149,174	149,174	150,000	0.6%					
District Court	32,142	25,800	25,400	25,400	25,400	(1.6%)					
Transfers	1,994,240	2,017,000	2,017,000	2,017,000	2,042,000	1.2%					
TOTAL GENERAL FUND	\$40,776,797	\$43,880,630	\$43,215,760	\$43,215,760	\$44,624,241	1.7%	\$4,763,413	\$43,713,973	\$3,853,145		
Parks & Recreation	3,816,461	4,074,592	4,064,301	4,064,301	4,178,643	2.6%	310,741	4,109,191	241,289		
Street & Traffic Operations	4,742,736	5,522,653	5,471,769	5,471,769	5,796,676	5.0%	847,762	5,449,752	500,838		
TOTAL GENERAL GOVERNMENT FUNDS	\$49,335,994	\$53,477,875	\$52,751,830	\$52,751,830	\$54,599,560	2.1%	\$5,921,916	\$53,272,916	\$4,595,272		

	2005	2006		2006	2007	2007		2007	2007	2007	2007	2007
	ACTUAL	AMENDED	YEAR-END	P	VS 2006	BEGINNING	PROJECTED	EST				
EXPENDITURES	BUDGET	ESTIMATE	BUDGET	AMENDED	BUDGET	FUND BALANCE	REVENUE	FUND BALANCE	REVENUE	FUND BALANCE	REVENUE	FUND BALANCE
OTHER OPERATING/ENTERPRISE												
Economic Development	\$53,024	\$293,658	\$276,565	\$274,075	(6.7%)	\$212,039	\$100,000	\$37,964				
Community Development	2,442,755	3,114,895	3,089,618	2,512,699	(19.3%)	535,584	2,493,250	516,135				
Community Relations	417,538	700,959	613,592	547,609	(21.9%)	738,086	445,850	636,327				
Community Services	0	126,267	116,217	347,214	175.0%	34,950	341,592	29,328				
Growth Mgmt/Commute Trip Red Fund	17,280	74,271	31,026	29,440	(60.4%)	3,974	25,466	0				
Cemetery	312,985	296,038	291,313	326,105	10.2%	44,582	328,779	47,256				
Emergency Services	988,957	999,906	995,965	1,030,115	3.0%	153,867	977,213	100,965				
Public Safety Communications	2,436,772	2,604,545	2,553,806	2,650,413	1.8%	137,600	2,648,554	135,741				
Parking & Business Improvement Area	68,360	97,075	97,075	59,911	(38.3%)	36,485	33,600	10,174				
Trolley (Yakima Interurban Lines)	13,436	498,707	303,707	198,709	(60.2%)	4,606	198,775	4,672				
Front Street Business Improvement Area	2,525	3,000	3,000	3,000	0.0%	2,472	2,375	1,847				
Tourist Promotion	1,156,592	1,176,149	1,174,870	1,269,647	7.9%	85,073	1,262,300	77,726				
Capitol Theatre	197,788	264,878	250,182	281,616	6.3%	146,265	279,267	143,916				
Public Facilities District Revenue	696,121	664,000	656,000	649,000	(2.3%)	83,920	640,000	74,920				
Tourist Promotion Area	362,680	390,000	380,000	400,000	2.6%	414	400,000	414				
Transit	5,684,194	6,347,758	6,297,070	6,574,793	3.6%	360,528	6,526,415	312,150				
Refuse	3,485,228	3,701,252	3,654,260	3,976,921	7.4%	213,397	3,932,210	168,686				
Sewer Operating	15,974,475	16,617,868	16,368,575	15,952,687	(4.0%)	2,013,430	15,104,601	1,165,344				
Water Operating	6,337,734	7,040,923	6,832,450	6,746,423	(4.2%)	1,506,170	6,374,937	1,134,684				
Irrigation Operating	2,538,940	2,597,517	2,569,472	2,653,949	2.2%	345,153	2,527,354	218,558				
Equipment Rental	4,320,946	5,388,743	5,327,814	4,205,376	(22.0%)	2,779,292	4,567,209	3,141,125				
Environmental Fund	105,959	262,950	92,500	417,950	58.9%	372,956	142,500	97,506				
Public Works Administration	1,068,734	1,123,184	1,106,096	1,154,908	2.8%	115,148	1,151,365	111,605				
TOTAL OTHER OPERATING/ENTERPRISE	\$48,683,023	\$54,384,543	\$53,081,173	\$52,262,560	(3.9%)	\$9,925,991	\$50,503,612	\$8,167,043				
CAPITAL IMPROVEMENT												
Arterial Street	\$3,200,037	\$8,075,217	\$6,390,993	\$3,838,555	(52.5%)	\$44,141	\$3,979,586	\$185,172				
Transportation Improvement	60,000	30,828	30,828	0	(100.0%)	0	0	0				
C.B.D. Capital Improvement	388,660	9,151,381	5,535,727	3,622,227	(60.4%)	355,678	3,615,500	348,951				
Capitol Theatre Construction	27,574	697,345	697,345	10,000	(98.6%)	101,099	0	91,099				
Parks & Recreation Capital	(7,049)	1,655,820	1,245,240	605,000	(63.5%)	506,393	200,000	101,393				
Fire Capital	270,984	1,329,350	836,030	2,037,700	53.3%	681,080	1,527,419	170,799				
Law & Justice Capital	713,130	1,352,531	1,318,745	644,500	(52.3%)	406,580	535,000	297,080				

	2005	2006	2006	2006	2007	2007	2007	2007	2007	2007	2007	2007
	ACTUAL	AMENDED	YEAR-END	P	PRELIMINARY	VS 2006	BEGINNING	PROJECTED	EST			
	EXPENDITURES	BUDGET	ESTIMATE	BUDGET	BUDGET	AMENDED	FUND BALANCE	REVENUE	FUND BALANCE	REVENUE	FUND BALANCE	FUND BALANCE
CAPITAL IMPROVEMENT (CONT.)												
Public Works Trust Construction	489,566	1,371,566	971,566	1,090,514	(20.5%)	1,568,087	825,000	1,302,573				
REET 2 Capital Construction	367,648	1,419,300	1,316,700	1,100,000	(22.5%)	501,256	750,000	151,256				
L.I.D. Construction Control	873,666	500,000	40,414	500,000	0.0%	0	500,000	0				
Transit Capital Reserve	542,874	2,425,784	2,406,109	700,000	(71.1%)	1,127,785	223,000	650,785				
Convention Center Capital Improvement	77,854	94,000	82,500	144,000	53.2%	151,977	42,500	50,477				
Cum. Reserve for Capital Improvement	476,315	9,247,500	881,511	7,040,000	(23.9%)	57,822	7,040,100	57,922				
Wastewater Facilities Capital Reserve	45,890	162,876	25,000	2,795,000	1616.0%	786,584	2,452,000	443,584				
Sewer Construction	3,148,167	3,900,000	2,662,325	2,728,000	(30.1%)	1,866,804	1,373,900	512,704				
Domestic Water Improvement	1,209,375	1,729,446	1,555,538	1,150,000	(33.5%)	1,167,641	508,000	525,641				
Wastewater Facilities	2,638,781	5,600,000	5,597,624	5,335,000	(4.7%)	3,250,983	2,582,204	498,187				
Irrigation System Improvement	1,371,276	2,750,000	2,051,000	2,375,000	(13.6%)	5,439,994	921,000	3,985,994				
TOTAL CAPITAL IMPROVEMENT	\$15,894,748	\$51,492,944	\$33,645,195	\$35,715,496	(30.6%)	\$18,013,904	\$27,075,209	\$9,373,617				
CONTINGENCY/OPERATING RESERVES												
Contingency Fund	\$185,581	\$321,694	\$231,794	\$300,000	(6.7%)	\$259,840	\$75,000	\$34,840				
FRS/Capitol Theatre Reserve	83,927	333,927	333,927	71,927	(78.5%)	621,281	30,000	579,354				
Risk Management	2,002,403	2,412,783	2,311,057	2,146,916	(11.0%)	788,042	2,161,659	802,785				
TOTAL CONTINGENCY/OPERATING RESERVES	\$2,271,911	\$3,068,404	\$2,876,778	\$2,518,843	(17.9%)	\$1,669,163	\$2,266,659	\$1,416,979				
EMPLOYEE BENEFIT RESERVES												
Unemployment Compensation	\$118,906	\$178,378	\$167,644	\$151,918	(14.8%)	\$384,763	\$153,000	\$385,845				
Employees Health Benefit	8,293,699	8,408,739	7,900,281	8,359,804	(0.6%)	3,049,793	8,447,032	3,137,021				
Workers' Compensation	877,321	1,083,955	979,778	1,052,950	(2.9%)	1,428,484	1,025,800	1,401,334				
Wellness/EAP Fund	87,052	115,878	112,251	109,126	(5.8%)	115,517	105,000	111,391				
Firemen's Relief & Pension	1,487,653	1,644,552	1,596,872	1,715,848	4.3%	510,144	1,598,659	392,955				
TOTAL EMPLOYEE BENEFIT RESERVES	\$10,864,631	\$11,431,502	\$10,756,826	\$11,389,646	(0.4%)	\$5,488,701	\$11,329,491	\$5,428,546				
TRUST AND AGENCY FUNDS												
Cemetery Trust	\$14,402	\$15,000	\$15,000	\$20,000	33.3%	\$541,180	\$26,000	\$547,180				
TOTAL TRUST AND AGENCY FUNDS	\$14,402	\$15,000	\$15,000	\$20,000	33.3%	\$541,180	\$26,000	\$547,180				

	2005	2006	2006	2007	2007	2007	2007	2007	2007	2007
	ACTUAL	AMENDED	YEAR-END	P	2006	VS 2006	BEGINNING	PROJECTED	EST	
	EXPENDITURES	BUDGET	ESTIMATE	RELIIMINARY	AMENDED	AMENDED	FUND BALANCE	REVENUE	FUND	ENDING
				BUDGET					BALANCE	FUND
										BALANCE
DEBT SERVICE										
L.I.D. Guaranty	\$0	\$0	\$0	\$0	0.0%	0.0%	\$28,378	\$300	\$28,678	\$28,678
PFID Debt Service	473,470	475,545	475,545	479,255	0.0%	0.0%	127,066	480,000	127,811	127,811
General Obligation Bonds	1,435,407	1,633,279	1,531,241	2,580,350	58.0%	58.0%	485,888	2,588,200	493,738	493,738
L.I.D. Debt Service	184,801	332,000	332,000	132,000	(60.2%)	(60.2%)	7,075	132,500	7,575	7,575
Water-Irrigation/Sewer Bonds	2,853,501	3,098,068	3,098,067	2,910,472	(6.1%)	(6.1%)	2,818,127	2,914,997	2,822,652	2,822,652
TOTAL DEBT SERVICE	\$4,947,179	\$5,538,892	\$5,436,853	\$6,102,077	10.2%	10.2%	\$3,466,534	\$6,115,997	\$3,480,454	\$3,480,454
TOTAL CITY BUDGET	\$132,011,888	\$179,409,160	\$158,563,655	\$162,608,182	(9.4%)	(9.4%)	\$45,027,389	\$150,589,884	\$33,009,091	\$33,009,091

CITY OF *Yakima*

2007 Budget Preparation

POLICY ISSUE SUMMARY*

I. OUTSIDE AGENCY AND INTERGOVERNMENTAL REQUESTS

OUTSIDE AGENCY REQUESTS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Yakima County Development Association (New Vision)	General Fund	\$19,913	Budgeted
—	Yakima Chamber of Commerce	General Fund	\$5,900	Budgeted
—	Hispanic Chamber of Commerce	General Fund	\$5,900	Budgeted
—	Fourth of July Committee	General Fund/Fire	\$5,000	Budgeted
—	Sunfair Association	General Fund	\$1,000	Budgeted
—	Allied Arts ArtsVan	General Fund	\$5,333	Budgeted
—	Retired Senior Volunteer Program (RSVP)	Parks and Recreation Fund	\$3,000 / \$2,000 in-kind	Budgeted
—	Yakima Basin Storage Alliance, Black Rock	Water Reserves (60%) Irrigation Reserves (40%)	\$18,000 <u>12,000</u> 30,000 Add'l request \$20,000	Budgeted Unbudgeted
—	Yakima-Morelia Sister City Assn.	Economic Development Fund	\$1,000	Budgeted

Note: These Outside Agency Requests are included in the 2007 Preliminary Budget at the same levels as approved in the 2006 budget.

INTERGOVERNMENTAL AGENCIES

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Clean Air Authority Assessment	General Fund	\$12,622	Budgeted
—	Yakima County Emergency Management Assessment	General Fund	2006 Assessment \$42,244 Increase <u>12,477</u> 2007 Total \$54,721	Budgeted
—	Yakima Valley Conference of Governments (COG) Membership Assessment	General Fund	2006 Assessment \$39,130 Increase <u>3,602</u> 2007 Total \$42,732	Budgeted

* Note: (1) Policy proposal figures may be rounded.

(2) Detailed information on each policy issue will be distributed in early November, along with the detailed preliminary budget.

II. CITY-WIDE

ALL DEPARTMENTS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Establish a Council Committee to review the City General Government budget, establish priorities and identify expenditure and service reductions, and identify potential revenue opportunities that may be necessary to ensure the City's fiscal health and on-going Sustainability of Services (SOS), as prioritized by Council.	Approximately \$2 million reduction in General Government existing services; using existing council and staff resources		N/A	Budgeted
—	Conduct a Feasibility Study of siting/building a West-side Operational Center to include Streets and Transit, and possibly Public Safety.	Transit Capital Budget		\$50,000	Budgeted

III. CITY MANAGEMENT

CITY MANAGER

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Become a member of the ICMA – Performance Consortium Group Membership	General Fund		\$5,250	Budgeted

LEGAL

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one Land Use Defense Attorney position and one half-time Legal Assistant position and related supplies/professional dues, etc. Total \$130,700 (Anticipated savings of \$350,000 in professional services annually)	Risk Management Fund	Senior Attorney I 96,000 Legal Ass't II \$30,700 Total Cost \$126,700	\$4,000	Budgeted

INDIGENT DEFENSE

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Review options to provide Indigent Defense services: a) Re-bid contract b) Create new division under the supervision of the Asst City Manager — Add three to four staff c) Combine staffing and contracting options	General Fund (remove from Legal budget — establish new division)		2006 Contract \$240,000 Increase <u>85,000</u> \$325,000	Budgeted (option a)

WASTEWATER/PRE-TREATMENT

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Authorize an ultra-violet disinfection project	a) Public Works Trust Fund loan (to be repaid by Wastewater rates) b) Sewer construction fund reserves		a) PWTF Loan \$2.3 m b) Reserves <u>0.4 m</u> Total Project \$2.7 m	Budgeted

WATER/IRRIGATION

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Increase Irrigation Specialist I position from 80% to 100%	Irrigation Operating Fund — rates	\$9,000		Budgeted
—	Operation and maintenance rate increase for Irrigation (Operating component only) Phasing Options: a) 10% for two years (budgeted) b) 7% for three years (2007, 2008, & 2009) c) 20% in one year	Bi-monthly irrigation rate charges paid by customers of the Irrigation Utility		<u>Annual Revenue</u> a) \$120,000 b) 84,000 c) \$240,000	Budgeted Unbudgeted Unbudgeted

V. FINANCE

FINANCIAL SERVICES

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one Treasury/Financial Services Officer position and related supplies, training, dues, etc.	Combination of reduction of existing temporary salary, General Fund and 2% increase in City Services Charge	Annually \$95,000 ----- Nine months \$72,000 Less: reduction in temp (\$10,800) Net personnel increase for 2007 \$61,200	<u>Revenue</u> City Service Charge increase of 2% \$38,000 <u>Expenditures</u> \$2,500	Budgeted

INFORMATION SYSTEMS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Implement a Time Tracking software system to gain efficiencies in Payroll & project Time-keeping.	General Fund		Implement- ation \$70,000 Annual Support \$10,000	Budgeted
—	Implement an Electronic Payment System for Utility payments. (Expand Citywide once proven)	General Fund		Software and Implemen- tation \$10,000 Annual Transaction Fees \$20,000	Budgeted
—	Status report on the 2006 Policy Issue to implement a utility customer service system	Wastewater/Water/ Irrigation/Refuse Funds			Unbudgeted (Temporarily deferred pend- ing utilities rate studies)

UTILITY SERVICES

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one ¾-time permanent Water Service Specialist field position	General Fund (Utility Services) — Reimbursed by Utility funds	Permanent \$38,500 Reduction in temporary (18,500) Net increase \$20,000		Budgeted
—	Upgrade one Water Service Specialist field position to Utility Service Crew leader field position	General Fund (Utility Services) — Reimbursed by Utility funds	Net In- crease \$5,000		Budgeted

VI. COMMUNITY AND ECONOMIC DEVELOPMENT

ENVIRONMENTAL PLANNING

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one DA-III position funded partially by elimination of temp. 50% FTE Budgeted 50% FTE Unbudgeted (A 50% FTE receives full benefits; thus cost of 2nd 50% FTE includes wages only.)	General Fund	Perm ½ time \$24,600 Less: elim temp (13,600) Net Increase \$11,000 Additional full time 16,000 Total \$27,000		Budgeted Unbudgeted

TOURISM PROMOTION/YAKIMA CONVENTION CENTER

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Replace reader board (electronic sign) in front of the Convention Center	Convention Center Capital Fund — Hotel/Motel Tax		\$30,000	Budgeted
—	Increase annual management fee to adequately support Center operations from \$525,000 to \$555,000	Tourist Promotion Operating fund — Hotel/Motel Tax; Event Revenue		\$30,000	Budgeted
—	Increase Annual Management Fee for Tourism Promotion efforts from \$165,000 to \$180,000	Tourist Promotion Operating Fund — Hotel/Motel Tax		\$15,000	Budgeted

CAPITOL THEATRE

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Increase Annual Management Fee from \$146,000 to \$175,000	Capitol Theatre Operating Fund — Cable Utility Tax, Hotel/Motel Tax		\$29,000	Budgeted

ENGINEERING

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Reorganization plan for Engineering Division. Includes addition, elimination and re-alignment of various positions and affects multiple funds.	General Fund Economic Development Fund ONDS Fund Wastewater Operating Fund Water Operating Fund Irrigation Operating Fund City-wide Savings	(\$46,400) (11,000) (50,800) 8,700 4,300 (200) (\$95,000)		Budgeted

VIII. FIRE

OPERATIONS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Replacement of Fire Pump-er/Engine (No. 94)	Fire Capital Fund Reserves		\$490,000	Budgeted
—	Reinstate one Battalion Chief to be funded by other reductions in the Fire Department operating budget (Dependent on outcome of labor negotiations)	General Fund	\$120,000		Unbudgeted

PUBLIC SAFETY COMMUNICATIONS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one Public Safety Dispatcher position	Public Safety Communication Fund — 0.3% Criminal Justice Sales Tax	\$54,200		Budgeted
—	Add one 9-1-1 Calltaker position	Public Safety Communications Fund — 9-1-1 Excise Tax Revenue (from Yakima County)	\$48,600		Budgeted

IX. PUBLIC WORKS

PUBLIC WORKS ADMINISTRATION

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Restore parking lot at Public Works Administration Facility	Transit Capital Fund Streets Operating Fund Water Capital Fund Refuse Fund Irrigation Capital Fund Environmental Fund Project Total		\$500,000 100,000 150,000 100,000 50,000 <u>100,000</u> \$1,000,000	Budgeted

STREET AND TRAFFIC OPERATIONS

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Initiate a Neighborhood Traffic Calming Program	Arterial Street Fund/Gas Tax		\$50,000	Budgeted
—	Contract for Traffic Circulation Study in the Downtown Area	Traffic Operations/ Gas Tax		\$90,000	Budgeted
—	Purchase of an Asphalt Patch Truck	Second ¼% Real Estate Excise Tax Fund (REET II)		\$170,000	Budgeted
—	Upgrade Field Radio Equipment	Unknown — Possibly Homeland Security Interoperability Grant		\$75,000	Unbudgeted

TRANSIT

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add one Transit Dispatcher to accommodate demand/ route volume	Transit Operating Budget	\$47,700		Budgeted

REFUSE

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add ½-time Department Assistant II position to perform tasks previously completed with temporary staffing	Refuse Division Operating Fund	New perm position \$23,000 Reduction in temp (16,000) Net increase \$7,000		Budgeted
—	This is a two part PI: (a) Increase rates 3% (b) Add one Code Compliance Officer position, with related supplies and vehicle to enforce Refuse related ordinance violations including graffiti removal (2007 total expenditures = \$89,000)	3% Refuse Rate adjustment	(a) ----- (b) \$52,800	<i>Revenue</i> 2007 \$89,000 <i>Annual</i> 114,500 ----- Expenditures \$36,200	Budgeted ----- Budgeted

EQUIPMENT RENTAL

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Add a second fuel storage location to accommodate increased demand and improve preparation for possible fuel supply disruption	Environmental Fund		\$150,000	Budgeted

PARKS AND RECREATION

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Increase certain fees and charges for Parks and Recreation (to be determined)	Parks and Recreation Fund		<i>Revenue</i> Information unavailable at press time	Unbudgeted
—	Make HVAC improvements to Lions Pool	Parks Capital Fund		\$150,000	Budgeted
—	Maintenance of West Valley Community Park	Parks and Recreation Fund		\$15,000	Budgeted

PARKS AND RECREATION (CONT.)

—	Maintenance of the Central Business District/ Yakima Avenue Pedestrian Improvements: Revenue options to fund estimated additional costs of \$100,000: a) create an amended PBI b) Increase of 20% in business license fees c) Increase in-lieu-of utility taxes on water, wastewater and refuse by 0.5% (from 3.5% to 4.0%) d) other service reductions in Parks and Recreation e) Establish volunteer community corp			Current costs \$50,000 Additional costs <u>100,000</u> Estimated future costs \$150,000	Budgeted Unbudgeted — Deferred (to be studied for consideration next year)
—	Reorganization plan for Parks and Recreation	Parks and Recreation Fund	Net increase \$25,000		Budgeted

CEMETERY

	DEPT./DIV. POLICY ISSUE REQUEST/JUSTIFICATION	PROPOSED FUNDING SOURCE	PERSONNEL	NON-PERSONNEL	BUDGETED/ UNBUDGETED
—	Increase cemetery fees and charges by 3%	Cemetery Fund user fees and charges		<i>Revenue</i> \$4,400	Budgeted
—	Construction of a Columbarium/Niche Wall at Tahoma Cemetery	Cemetery Fund — Prepaid lot sales		\$30,000	Budgeted

Exhibit III

CRIMINAL JUSTICE COSTS

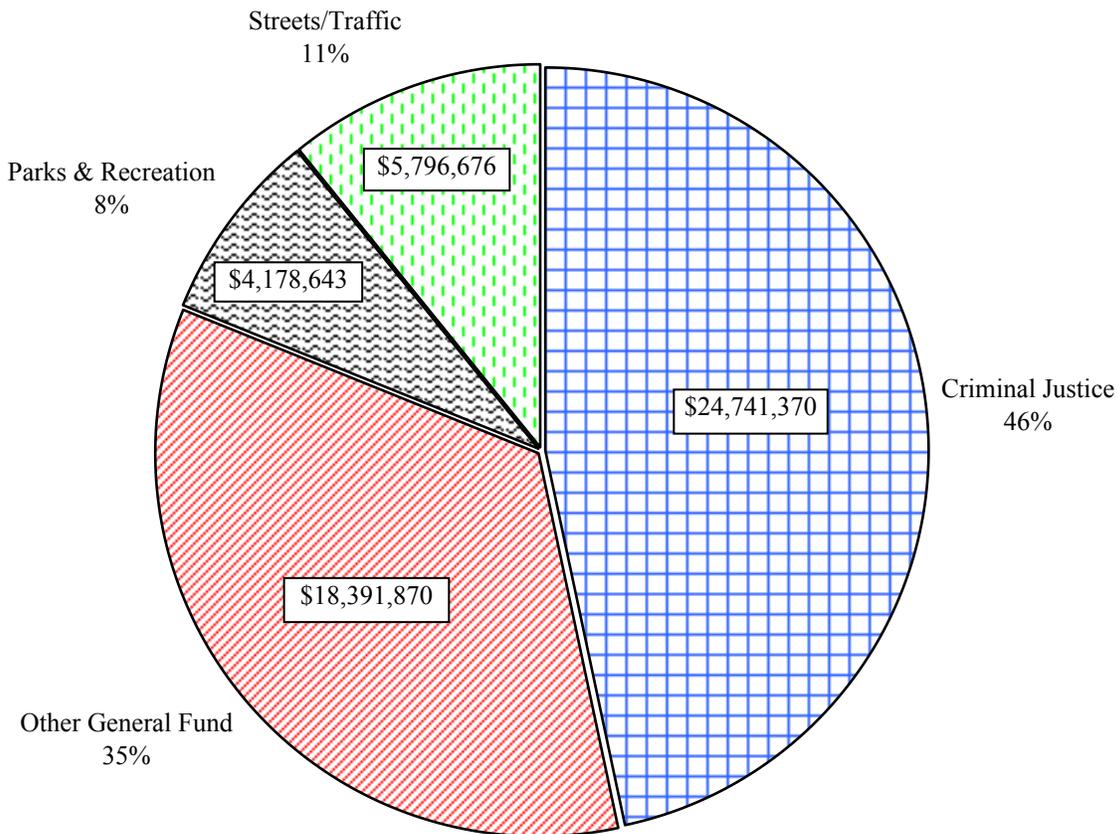
0.3% Criminal Justice Sales Tax

SALARY AND BENEFIT COSTS

RESOURCE AND EXPENDITURE BREAKDOWN

Total Resources
Taxes Distributed
Intergovernmental Revenue
Charges for Services
Borrowings
Operating Reserves
Capital Reserves
Other Resources
Total Resources
Total Expenditures

**CRIMINAL JUSTICE COSTS VS.
OTHER GENERAL GOVERNMENT FUNCTIONS
2007 BUDGET**



This analysis compares Criminal Justice expenditures to other General Government costs. Criminal Justice costs include: Police Department (including jail costs); Police Pension; Court and Probation costs; Prosecution and Indigent Defense (included in the Legal Department budget) and forty percent of Information Systems budget (the amount dedicated to Law and Justice support). This category also includes one-half of the transfer from the General Fund to the Public Safety Communications Fund for Dispatch and the transfer from the General Fund to Debt Service funds to repay debt borrowed for Criminal Justice purposes. This graph reflects the City's efforts to meet Council's Strategic Priorities; Law Enforcement/Public Safety and Well Being was Council's Highest Priority through most of the 1990's, and is now second only to Economic Development. This is further elaborated in the following table.

**CITY OF YAKIMA
GENERAL GOVERNMENT BUDGETS***

	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2007	10 Year
	AMENDED BUDGET	PRELIMINARY BUDGET	VS 2006	INCREASE								
General Fund:												
Criminal Justice	\$15,244,842	\$16,504,899	\$17,462,994	\$17,477,709	\$18,992,948	\$19,702,698	\$20,061,761	\$20,794,116	\$22,857,422	\$24,741,370	8.2%	62.3%
All Other	\$14,505,199	\$15,120,012	\$15,429,647	\$14,914,045	\$15,571,751	\$16,913,032	\$17,476,192	\$17,862,426	19,557,208	18,391,870	(6.0%)	26.8%
Parks and Recreation	\$3,295,957	\$3,434,761	\$3,629,742	\$3,456,199	\$3,504,423	\$3,620,410	\$3,832,816	\$3,905,396	4,074,592	4,178,643	2.6%	26.8%
Street/Traffic	\$3,462,529	\$3,741,754	\$3,936,319	\$4,218,454	\$4,826,542	\$5,192,894	\$4,883,030	\$5,273,574	5,522,653	5,796,676	5.0%	67.4%
TOTAL	<u>\$36,508,527</u>	<u>\$38,801,426</u>	<u>\$40,458,702</u>	<u>\$40,066,407</u>	<u>\$42,895,664</u>	<u>\$45,429,034</u>	<u>\$46,253,799</u>	<u>\$47,835,512</u>	<u>\$52,011,875</u>	<u>\$53,108,559</u>	<u>2.1%</u>	<u>45.5%</u>

CONSUMER PRICE INDEX

	JUNE 1996	JULY 1997	JULY 1998	JUNE 2000	JUNE 2001	JUNE 2002	JUNE 2003	JUNE 2004	JUNE 2005	JUNE 2006	10 Year INCREASE
Seattle/Tacoma											
Wage Earners/ Clerical Workers	152.6	158.2	162.1	172.8	181.3	184.1	185.7	190.4	194.8	203.8	33.6%

* Excludes double budgeted transfers between general government funds.

**CRIMINAL JUSTICE SALES TAX - .3% PROPOSED ALLOCATIONS
FOR 2006 AND 2007 BUDGETS**

GENERAL FUND:	2006		2007	
Police Department				
5 Police Patrol Officers	\$355,006		\$354,941	
1 Detective	70,327		70,293	
Liability Insurance	5,750		6,325	
Overtime	56,000		100,000	
Miscellaneous (Uniforms/Fuel/Travel)	55,000		134,000	
Professional Services	0		30,000	
Yakima County Jail Cost	180,000	\$722,083	363,000	\$1,058,559
Municipal Court				
1 Court Commissioner	\$86,675		\$88,206	
1 Court Clerk	39,983		42,078	
1 Court Clerk-cashier	44,302		44,565	
Overtime	5,000		5,000	
Professional Services/Office Supplies	45,000	\$220,960	59,000	\$238,849
Legal Dept				
1 Assistant City Attorney II	\$82,686		\$78,633	
1 Legal Assistant II	52,025		54,280	
Miscellaneous (Office Supplies/Travel/Dues)	3,500	\$138,211	3,500	\$136,413
Information Systems				
Temporary Employee	\$28,741		\$28,721	
R & M Contractors	2,000		2,000	
Data Processing Equipment	50,000	\$80,741	20,000	\$50,721
Animal Control				
1 Animal Control Officer	\$52,073		\$57,459	
Overtime	3,000		3,000	
Misc. (Uniforms/Supplies/Fuel/Cell Phone)	2,550	\$57,623	2,661	\$63,120
Human Resources				
Professional Services (Employee Recruitment)	\$10,000	\$10,000	\$10,000	\$10,000
GENERAL FUND TOTAL EXPENDITURES		\$1,229,618		\$1,557,662
OTHER FUNDS:				
Public Safety Communication				
Public Safety Dispatcher	0		54,181	
Temporary Employee	14,009		14,017	
R & M Supplies	4,000		0	
Small Tools & Equipment	2,200	20,209	0	68,198
Law & Justice				
Small Tools & Equipment	135,000		35,000	
Replacement Garage	25,000		75,000	
Remodel Crime Lab	100,000	<u>260,000</u>	50,000	<u>160,000</u>
TOTAL PROPOSED ALLOCATIONS		\$1,509,827		\$1,785,860
PROJECTED REVENUE		\$1,563,000		\$1,680,000

Note: Because of the lag time in start-up costs for these Criminal Justice programs, the 2007 budget exceeds current revenue estimates. This "overage" is being supported by program reserves built in 2005 and 2006.

(This page intentionally contains no information.)

SALARY AND BENEFIT COSTS TO TOTAL BUDGET

The following chart represents the relationship of the City's salary and benefit costs to total budget for General Government and other funds of the City. The City's General Fund ranks the highest with salary and benefit costs, representing 72.5% of total fund expenditures. However, employee compensation and benefit costs for an individual department within the General Fund as a percentage of its total costs range from 44.0% to 92.7%. In several departments (including Police, Legal and Information Systems) if contracted services were excluded, the percentage of salary and compensation costs as a percentage of the division total costs would be considerably higher than what is depicted on the following chart.

Parks, Streets and other operations for the most part are more capital-intensive, and the ratio of salary and benefits to total costs are representative of that type of operation.

Section III includes an analysis based on information gathered by the State Auditor's Office. Figure III-13 identifies the per capita salary costs for Yakima and 11 other comparable cities, and indicates that:

- The City of Yakima spends, on the average, \$122 less per capita on salaries than other comparable cities.
- Yakima employs fewer people per capita than other cities.

To minimize the number of regular employees and to maintain service levels during periods of peak workload demands, the City uses contract and temporary labor when feasible.

**OPERATING FUNDS
SALARIES AND BENEFITS
AS A PERCENTAGE OF
TOTAL DEPARTMENT / FUND BUDGET**

GENERAL GOVERNMENT	2007 BUDGET	2007 SALARIES & BENEFITS	LABOR PERCENTAGE
Police	\$18,360,202	\$14,912,867	81.2%
Fire	8,064,743	7,421,588	92.0%
Information Systems	2,451,801	1,533,555	62.5%
Code Administration	1,481,040	1,247,542	84.2%
Financial Services	1,288,966	1,170,074	90.8%
Legal	1,331,983	1,130,619	84.9%
Engineering	1,127,605	1,020,259	90.5%
Municipal Court	1,194,842	964,287	80.7%
Utility Services	1,030,491	847,725	82.3%
Environmental Planning	629,556	524,669	83.3%
City Manager	461,165	427,705	92.7%
Human Resources	481,298	406,089	84.4%
Records	398,881	227,597	57.1%
Purchasing	239,772	209,510	87.4%
City Hall Maintenance	397,967	202,428	50.9%
City Council	189,410	83,251	43.9%
Other General Fund Expenditures	5,494,519	0	0.00%
TOTAL GENERAL FUND	\$44,624,241	\$32,329,765	72.4%
Parks & Recreation	\$4,178,643	\$2,013,508	48.2%
Street & Traffic Operations	5,796,676	2,846,707	49.1%
TOTAL GENERAL GOVERNMENT	\$54,599,560	\$37,189,980	68.1%
Economic Development	\$274,075	\$38,075	13.9%
Community Development	2,512,699	757,312	30.1%
Community Relations	547,609	341,587	62.4%
Cemetery	326,105	195,021	59.8%
Emergency Services	1,030,115	734,722	71.3%
Public Safety Communications	2,650,413	2,097,893	79.1%
Transit	6,574,793	3,131,689	47.7%
Refuse	3,976,921	1,271,556	32.0%
Sewer Operating	15,952,687	4,562,448	28.6%
Water Operating	6,746,423	2,130,967	31.6%
Irrigation Operating	2,653,949	674,483	25.4%
Unemployment Comp Reserve	151,918	24,994	16.4%
Employment Health Benefit Reserve	8,359,804	95,261	1.1%
Workers Compensation Reserve	1,052,950	100,712	9.6%
Risk Management Reserve	2,146,916	413,450	19.3%
Equipment Rental	4,205,376	771,965	18.4%
Public Works Administration	1,154,908	591,826	51.2%
Other Funds (Capital/Debt Service etc.)	47,690,961	0	0.00%
TOTAL CITY-WIDE BUDGET	\$162,608,182	\$55,123,941	33.9%

GRAPHIC PORTRAYAL OF CITY RESOURCE CONSUMPTION

The purpose of this section is to graphically present total City resources by category, and distribute them by function and type of expenditure (object) for the 2007 budget year. This “flow of resources” concept is designed to give the taxpayer a basic understanding of how tax dollars and other revenues are spent in the City. We have eliminated interfund transactions (i.e., those items that flow out of one fund and into another; we refer to these as double budgeted items) in order to portray only external revenue sources available to the City.

The broad revenue categories are based upon the State of Washington’s mandated accounting structure. A definition of the terms is included below:

BORROWINGS — Proceeds from long-term debt issued by the City. In 2007 this includes a Councilmanic Bond issue for street and other General Government projects; Capital Leases; Public Works Trust Fund loans for utility capital needs; and potential Local Improvement District (LID) debt issuance.

CAPITAL RESERVES — Accumulated fund balances set aside for specific capital projects.

CHARGES FOR SERVICES — Fees charged to outside users to cover the cost of providing services (e.g. utility rates, golf course and swimming pool fees, transit fare box revenues).

INTERGOVERNMENTAL REVENUES — Revenues received from other governmental agencies (i.e. federal, state, and county). This category includes primarily grants and state-shared revenues (such as gas and liquor tax revenues).

OPERATING RESERVES — Accumulated fund balances in operating funds. Prudent reserves generally are 8% of annual operating budgets.

OTHER — All revenue sources which are not included in other categories. This includes primarily investment income, program income, fines and forfeitures, and licenses.

TAXES — Tax assessments are levied for the support of the governmental entity. Sales tax is the largest item in this category. It is followed by property tax, utility and franchise taxes, and various other business taxes.

The first graph identifies the total revenue picture. The following seven graphs display how each individual revenue category is applied to City functions. The final revenue graph depicts the relationship of the various revenue sources to each function.

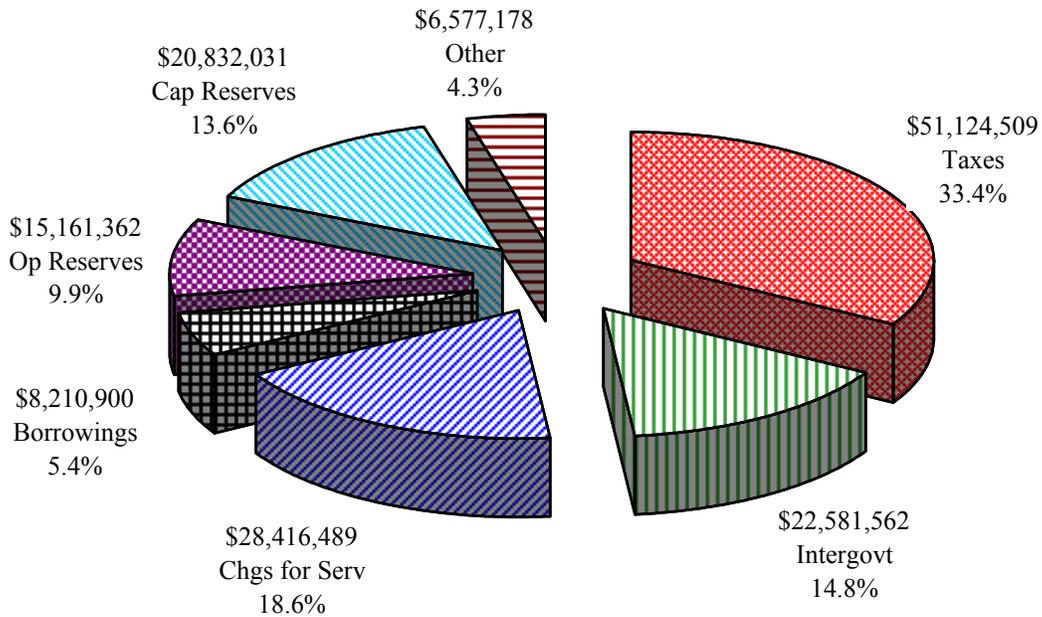
Lastly, included is a graphic by major object (or type) of expenditure, net of double budgeted expenditures.

The following graphs specifically identify how much outside revenue is collected and precisely what services it provides, across “fund” lines.

CITY OF *Yakima*

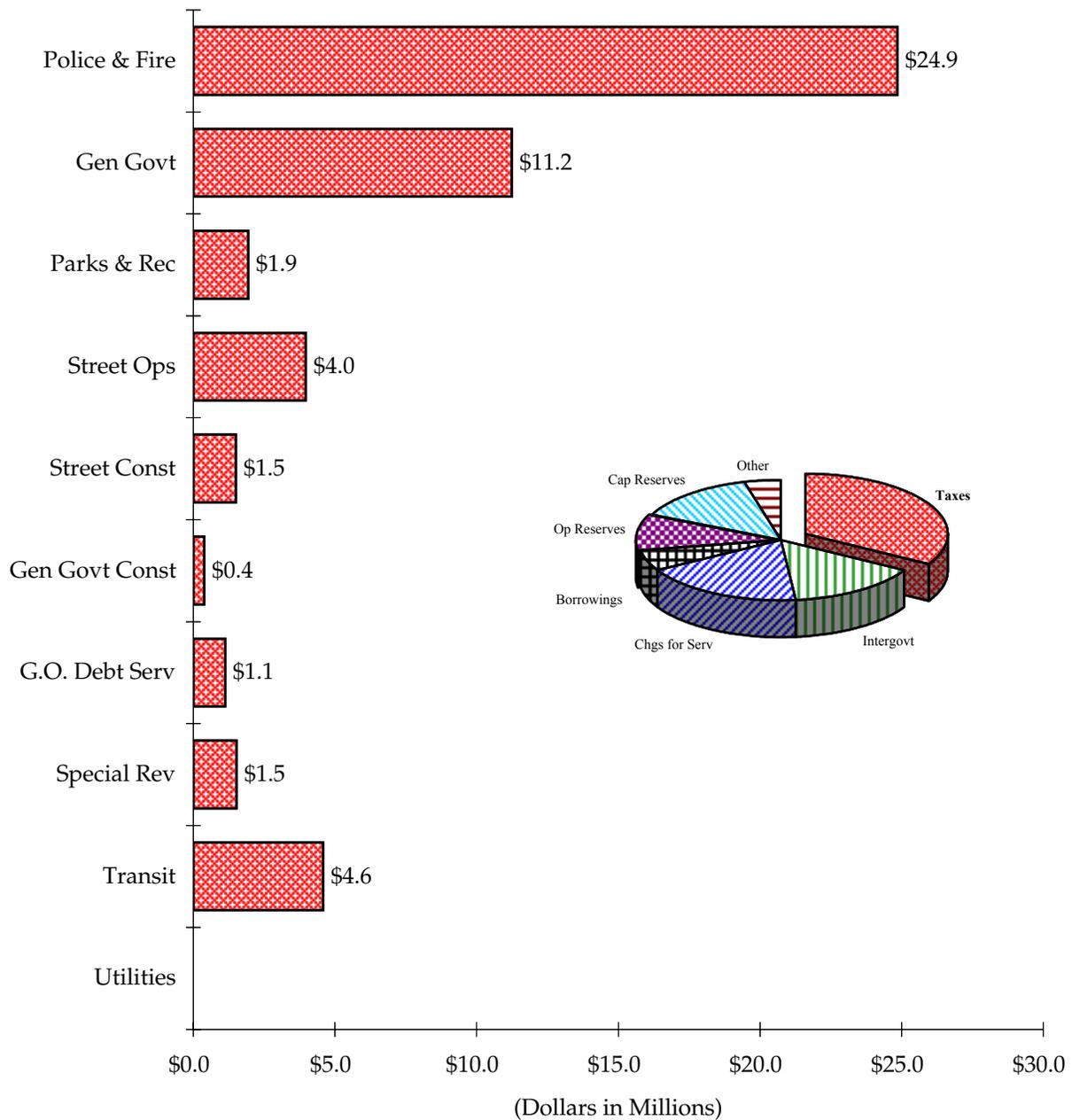
TOTAL RESOURCES BY CATEGORY 2007 BUDGET

Total Resources = \$152,904,031
(Excludes Internal Service Funds
and other double budgeted
resources of \$42,713,241)



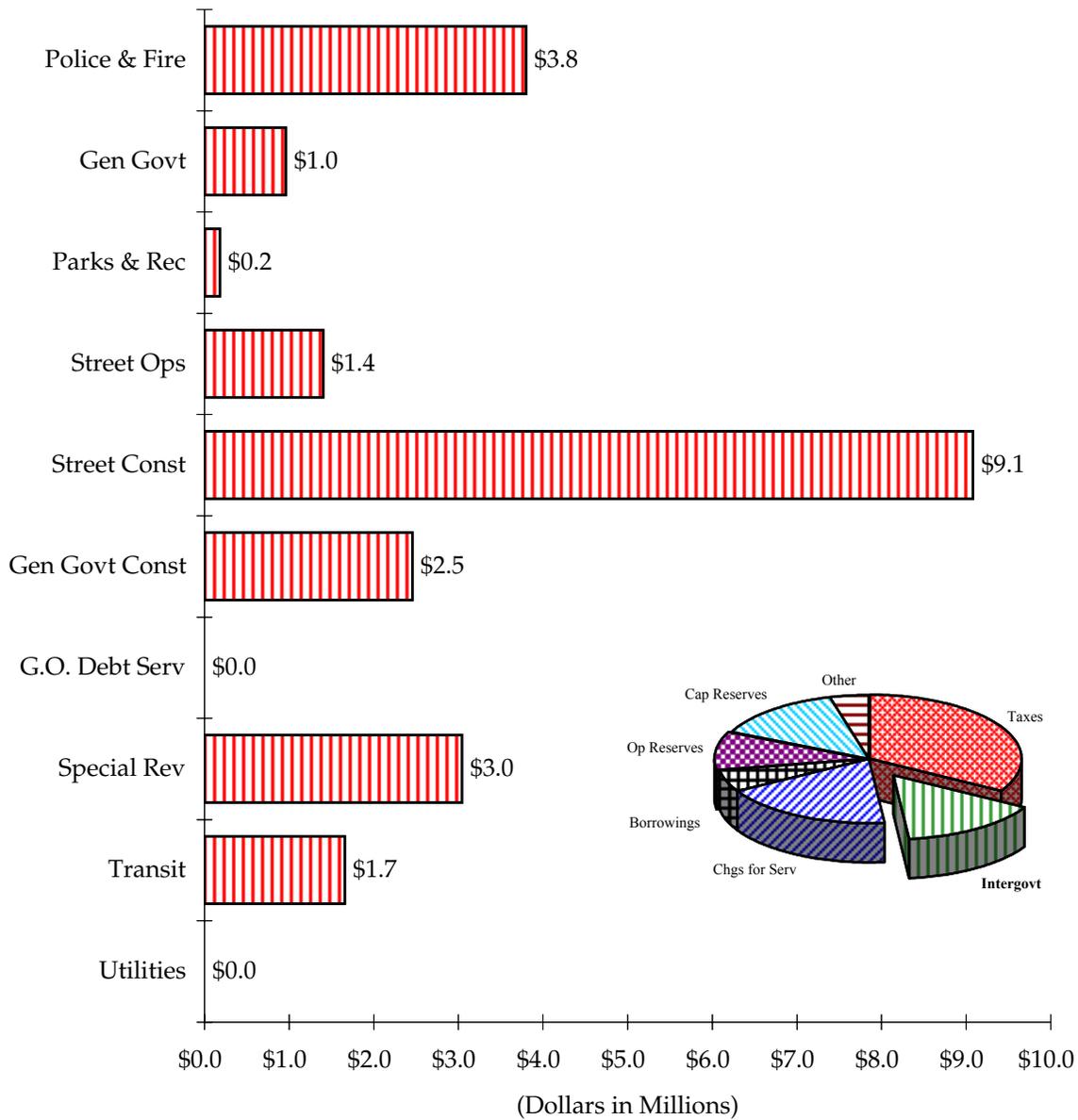
CITY OF *Yakima*

TAXES DISTRIBUTED BY FUNCTION 2007 BUDGET



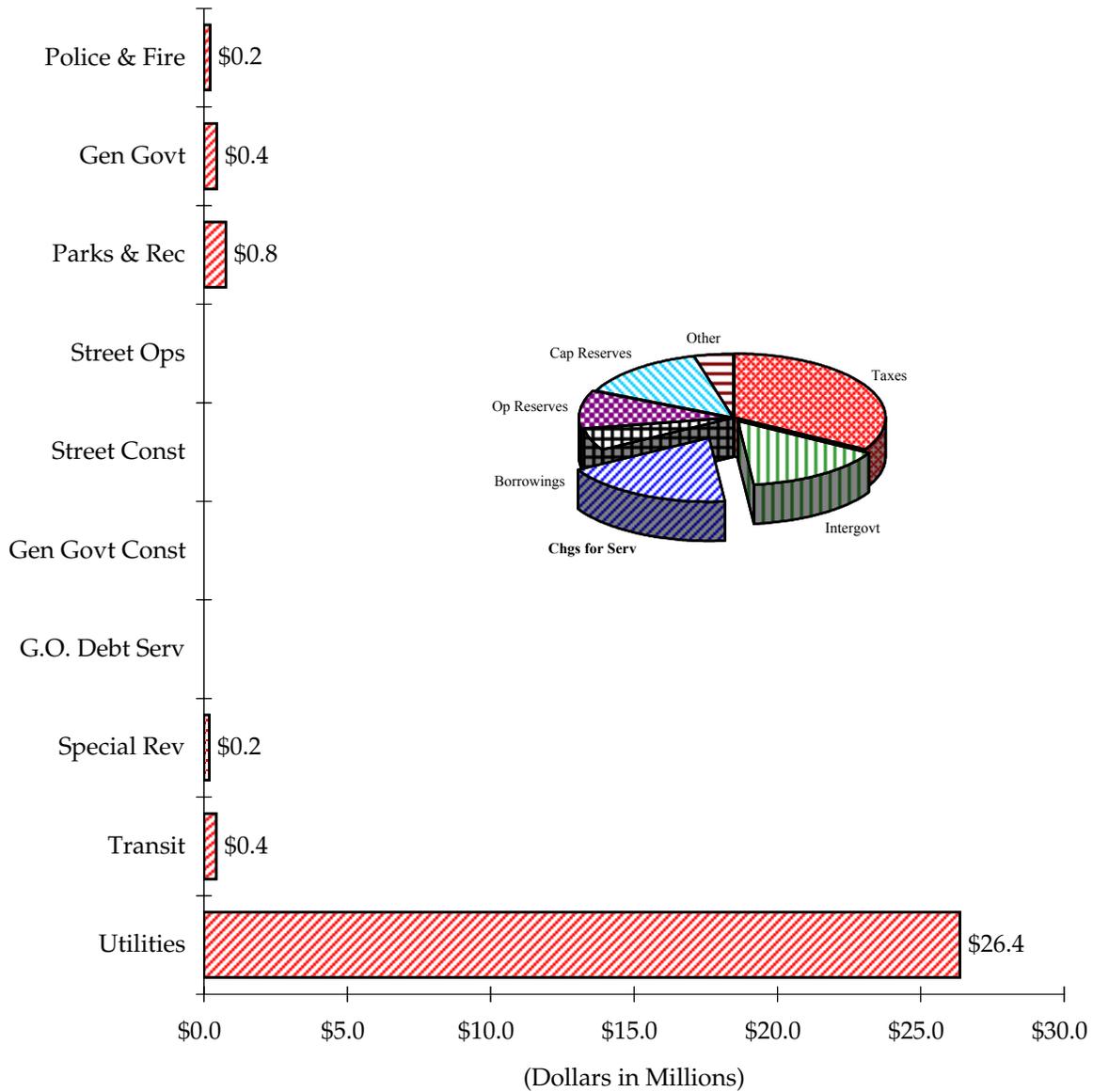
CITY OF *Yakima*

INTERGOVERNMENTAL REVENUE DISTRIBUTED BY FUNCTION 2007 BUDGET



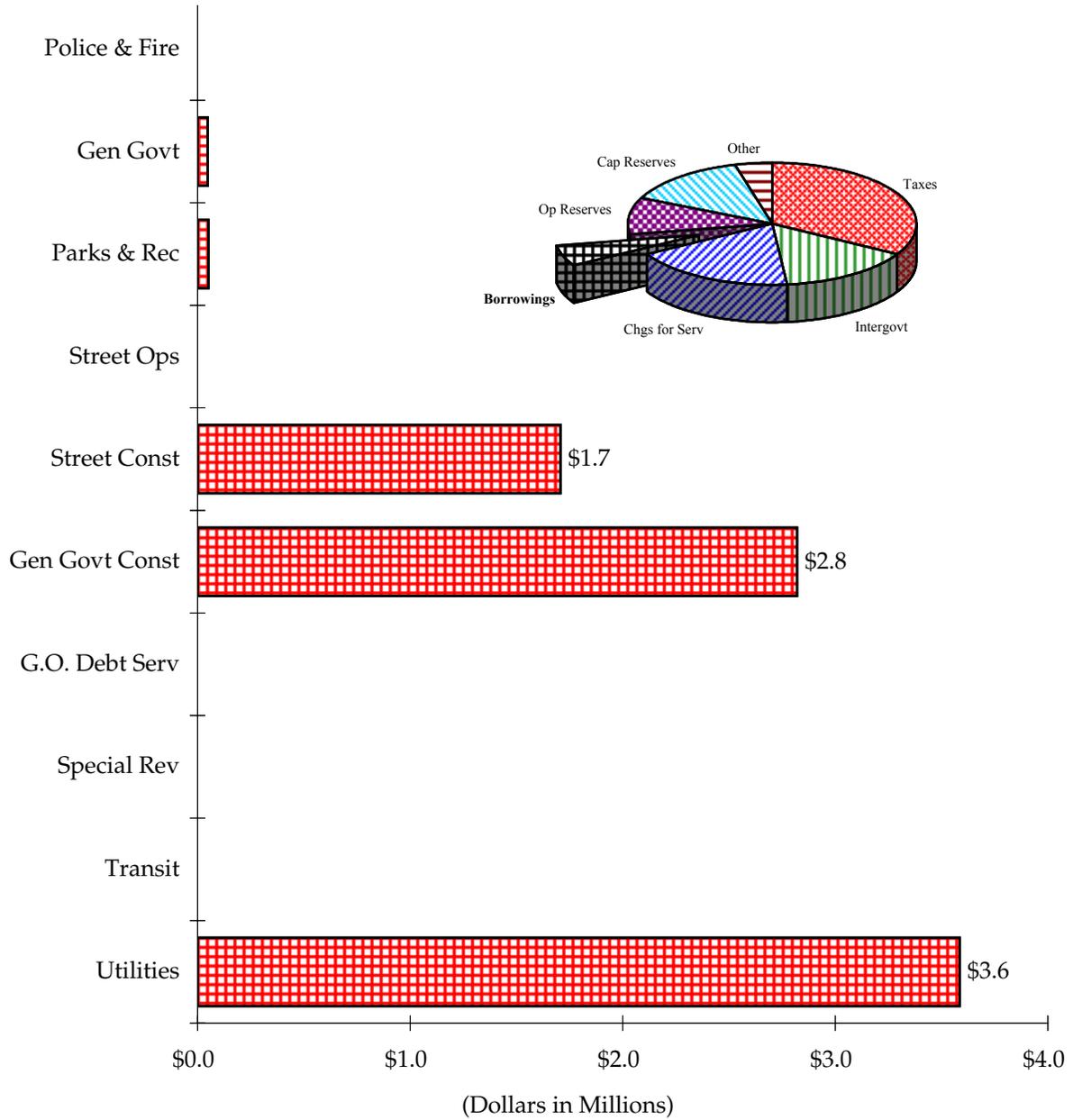
CITY OF *Yakima*

CHARGES FOR SERVICES DISTRIBUTED BY FUNCTION 2007 BUDGET



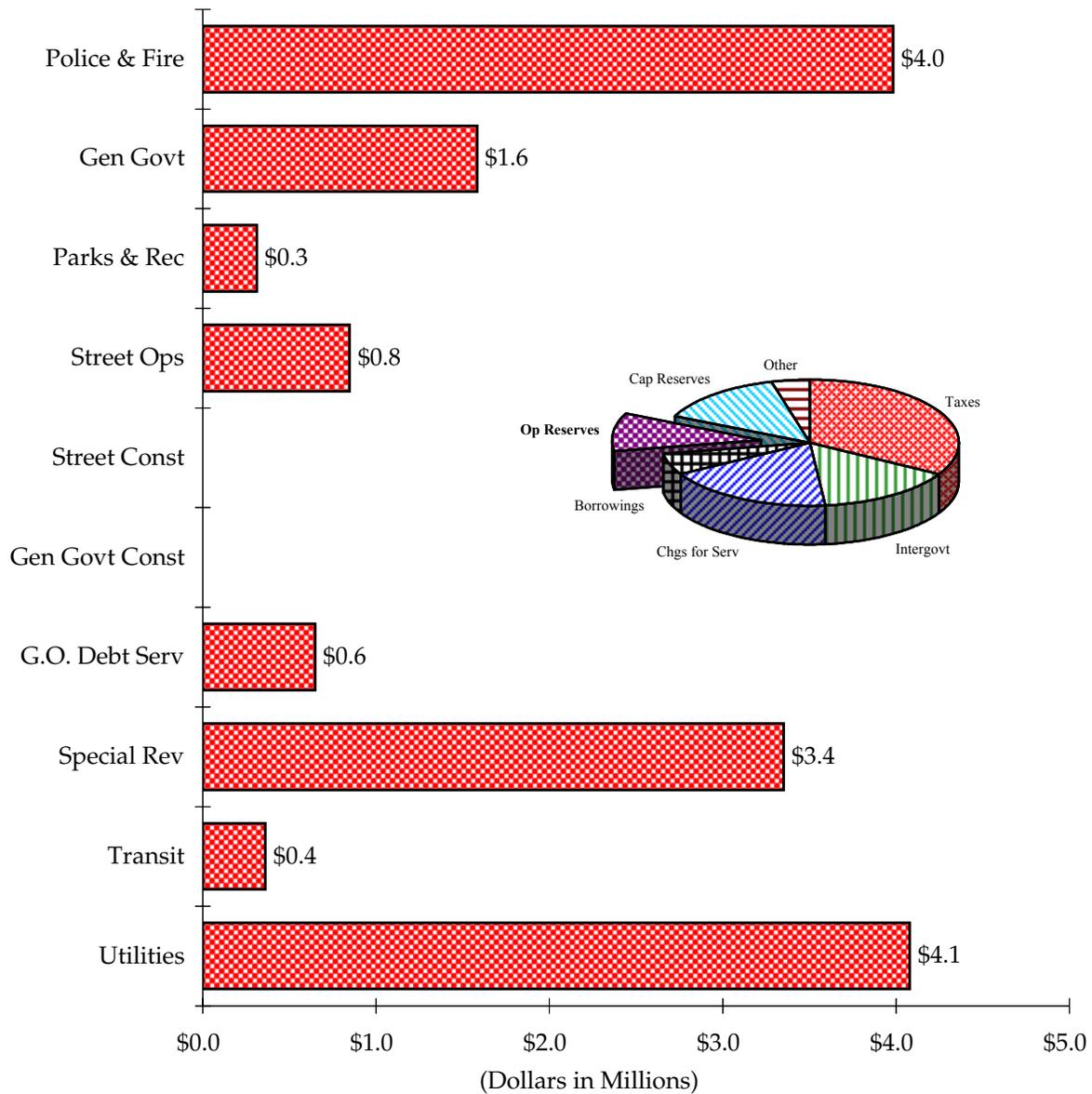
CITY OF *Yakima*

BORROWINGS DISTRIBUTED BY FUNCTION 2007 BUDGET



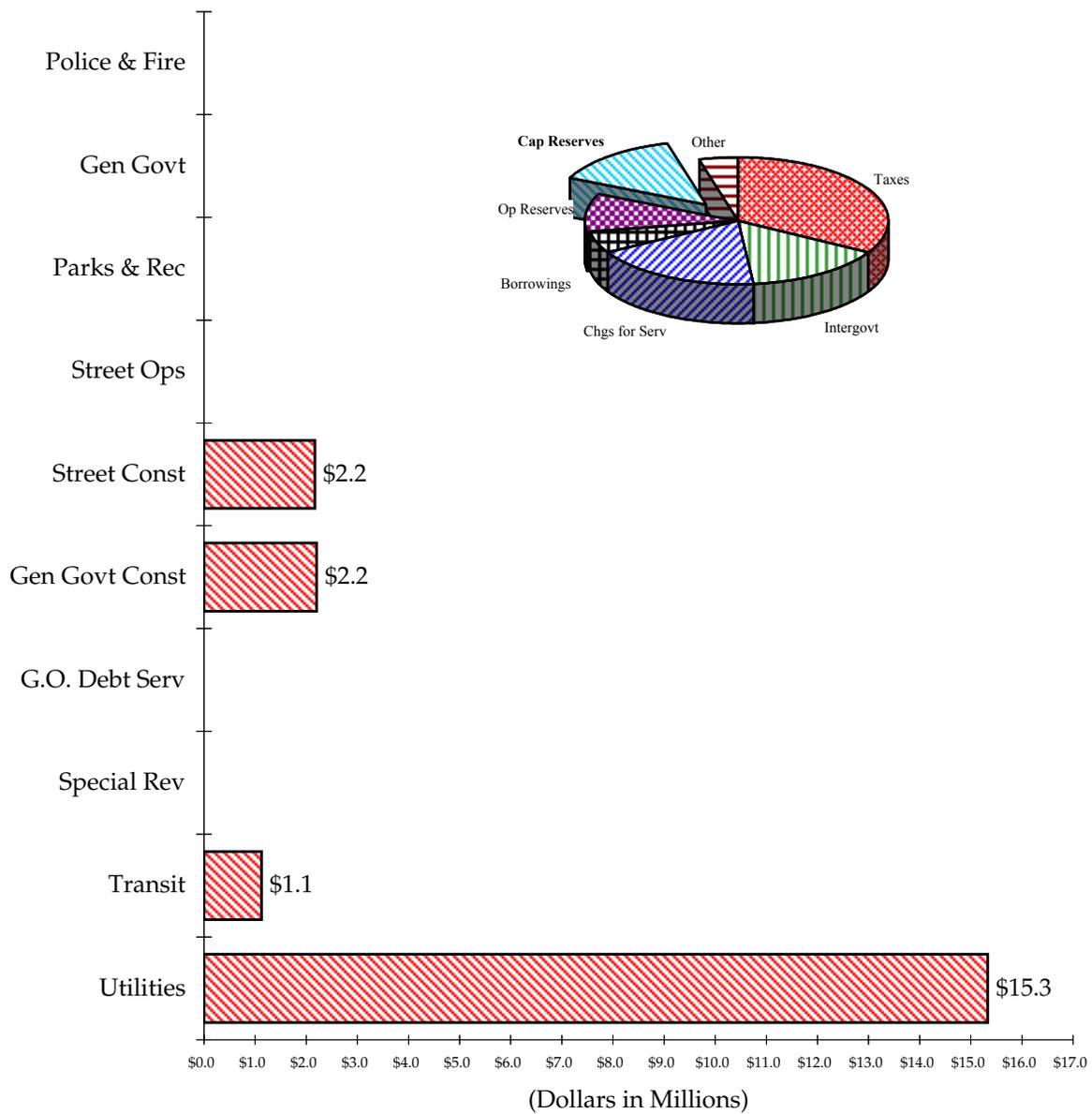
CITY OF *Yakima*

OPERATING RESERVES DISTRIBUTED BY FUNCTION 2007 BUDGET



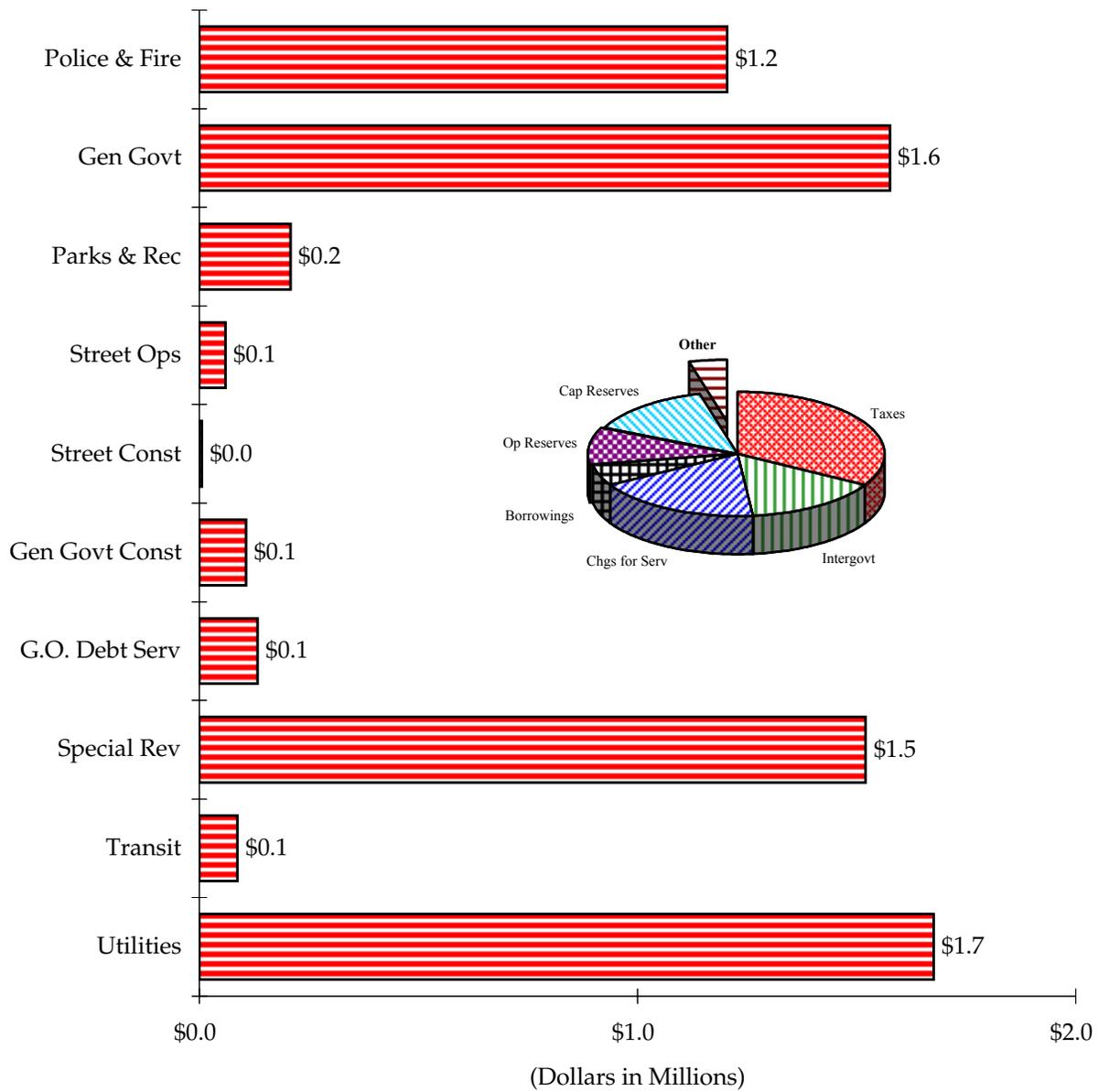
CITY OF *Yakima*

CAPITAL RESERVES DISTRIBUTED BY FUNCTION 2007 BUDGET



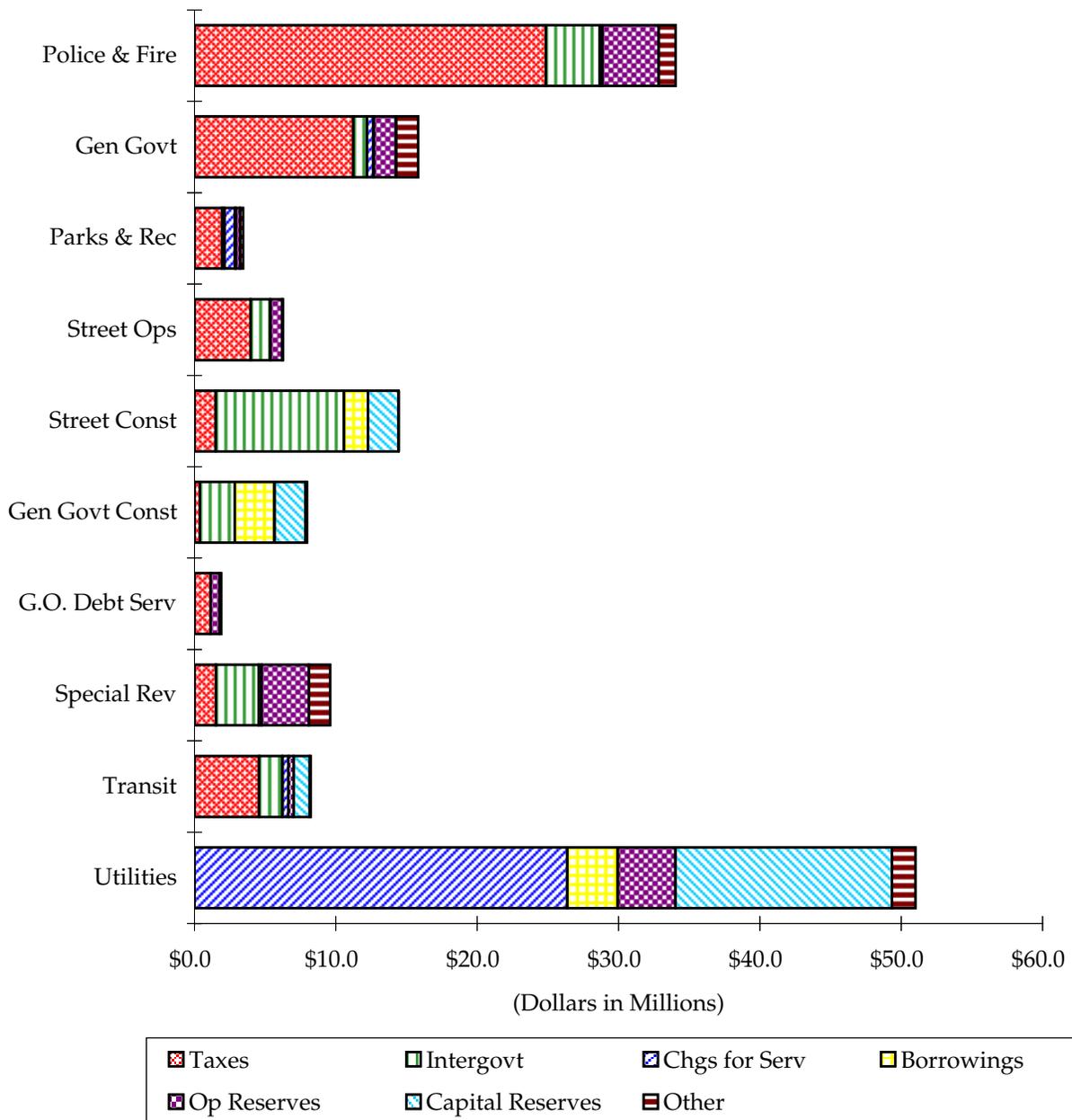
CITY OF *Yakima*

OTHER RESOURCES DISTRIBUTED BY FUNCTION 2007 BUDGET



CITY OF *Yakima*

TOTAL RESOURCES BY CATEGORY AND SOURCE 2007 BUDGET



CITY OF *Yakima*

TOTAL EXPENDITURES BY TYPE 2007 BUDGET

Total Expenditures = \$128,246,378
(Excludes double budgeted expenditures
of \$34,361,804)

