
2011 BUDGET OVERVIEW

This budget section is preceded by the Mayor's Message which is delivered to the City Council at the first budget hearing. The City of Everett purposefully presents a brief Mayor's Message which is intended to be read in concert with this more comprehensive overview section.

2011 Financial Overview

Total City

The City's Operating Budget is comprised of 58 separate funds, each with a unique purpose. The budget funds day-to-day expenditures for a variety of services. Among these are police and fire protection, water and sewer services, transit, street maintenance, parks and the library, debt service, and support services. These basic services are funded by user fees, taxes, permits, grants, state-shared revenue and other charges. The budget can vary greatly from year to year depending on construction projects and equipment replacement schedules, especially for enterprise operations such as Water, Sewer and Transit. As summarized below, the total City expenditure budget increased by \$27.5 million between 2010 and 2011.

<u>Expenditure Budget</u>	Adopted 2010	Adopted 2011	% Increase (Decrease)
General Government	\$ 108,089,057	\$ 108,890,196	0.7%
Special Revenue Funds	44,342,815	39,555,005	-10.8%
Debt Service	2,418,560	2,069,000	-14.5%
Enterprise Funds	116,055,596	144,991,628	24.9%
Internal Service Funds	25,108,803	27,648,788	10.1%
Police & Fire Pension Funds	<u>4,906,667</u>	<u>5,221,676</u>	<u>6.4%</u>
Total Expenditure Budget	300,921,498	328,376,293	9.1%

The total City revenue budget increased by \$24.9 million in 2011, from \$270.5 to \$295.4 million, excluding beginning fund balances. The City's ending fund balance budgets decreased by \$3.0 million from \$168.0 million in 2010 to \$165.0 million in 2011.

Additional information on the revenue, expenditure and fund balance changes for various funds can be found in the Financial Summary section of the budget.

General Government

The city's Strategic Outlook financial model functions as a primary tool in the general government budget development process. As the budget develops, all changes are processed through the Outlook to show the five-year impacts. The City maintains a fund balance policy that limits operating expenses to operating revenues and targets the General Government Fund balance at 20% of operating revenues.

At the beginning of the 2011 budget process, the model projected a \$9.4 million operating deficit for 2011. Subsequent revisions to the revenue forecast and expenditure budget eliminated the projected deficit, bringing 2011 operating expenditures in line with 2011 operating revenues.

The main guidelines used for annual budget development were as follows:

- Adhere to sound fiscal management practices
- Maintain the discipline of limiting current expenses to current revenues
- Maintain, to the extent possible, the current level of public services that our residents enjoy

These guidelines carried forward from 2010 as the city confronted another unusually challenging budget year. The principal constraints facing the City budget for the year 2011 included:

- Continuing lower level of retail sales and utility tax revenues
- Continuing lower level of new residential and commercial building projects
- Property tax revenue growth limited to 1% on the base, plus adjustments for new construction and annexations
- Large increases in employee health care and PERS/LEOFF retirement funding costs

Major budget changes to balance the 2011 budget include:

2011 Budget Balancing	
2011 Estimated Annual Deficit as of 12/01/09	\$ (9,351,993)
Budget Changes:	
Property Tax Update	72,323
B & O Tax Update	(215,360)
Sales Tax Update	(1,461,349)
Utility Tax Update	(1,448,601)
Restore Brokered Natural Gas Budget	800,000
Other Revenue Updates	93,275
Increase Vacancies Held Open	1,254,981
Cost of Living Update	970,328
Health Benefit Cost Increase	(632,670)
PERS/LEOFF Pension Cost Increase	(304,727)
Other Labor Cost Reductions	291,806
Suspend Annual Police and Fire Pension Rsv Contribution for 2011	3,069,816
Reduce Contribution to Facilities Maintenance Reserve	371,752
Suspend Rainy Day Contribution	100,000
Prepay 2011 Expenditures with 2010 Underexpenditures	1,988,443
Defer Riverfront Debt Service Issuance	1,309,909
Reduce Street Improvement funding	500,000
Reduce Contribution to MVD Replacement Fund	500,000
Specific Departmental M & O Reductions	893,150
Jail Fee Budget Update	342,000
SNOPAC Budget Update	178,658
Reduce Contribution to Self - Insurance Reserves	161,926
Reduce Contribution to Telecommunications Internal Service Fund	217,849
All Other Adjustments	298,484
Total Budget Changes:	<u>\$ 9,351,993</u>
Revised Annual Balance	<u>\$ -</u>

General Government Budget Actions and Service Level Impacts

In mid-2010, the City reduced both the revenue and expenditure budgets by \$2.5 million. Many of the expenditure reductions carried forward to the 2011 budget. These expenditure reductions fall into several categories: program changes, deferred projects, reserve reductions, and labor/vacancies.

Program changes include:

- Reduction in jail fee budget due to changes in sentencing guidelines and practices.
- Reduction in Municipal Arts expenditures due to cancellation of Music in the Parks on Sundays.
- Temporary assignment of four Street Department employees to the Utilities department to work on the Surface Water Management project, to be completed by 2012. This project includes inspection and cleaning of all catch basins, retention basins, storage vaults, ditches, culverts, and manholes, in order to be in compliance with Department of Ecology Phase II Stormwater regulations. The redeployment of the four employees will extend out the sidewalk repair schedule for several years.
- Investment in new public safety technology to improve efficiencies, including a computer-aided dispatch system, a law enforcement records management system, and automated field reporting.
- Temporary and permanent reductions in M&O budgets. It is expected that departments will be able to absorb these reductions without severe impacts to service delivery. In previous years departments returned substantial unspent funds to the general fund at year end. In light of the permanent M&O reductions, we expect that these amounts will diminish in future years.

Deferred projects include:

- Deferral of the property enforcement project to improve downtown Everett through additional code enforcement, building inspection, and other actions. However, some building inspections are occurring within the existing budget of the Engineering department.
- Deferral of debt issuance for the Riverfront project until commercial and city development occur at the site.
- Temporary reduction in the 10-year traffic sign replacement program to replace all of the traffic signs in the City at a cost of \$250,000 per year. This program was suspended in 2010, and will proceed in 2011 at a reduced amount.
- Deferral of the contract for Downtown Everett parking management, which is part of the Downtown Plan, to 2012. This contractor will manage parking coordination as Everett moves to permit and pay parking in the future.
- Deferral of some Parks department small projects.
- Reduction of the Street Improvement allocation from the General Fund budget from \$1.45 million to \$950,000. Overlays are normally prioritized based on need; but 2010 overlays were restricted due to grant funding sources.

Reserve fund changes include:

- Suspension of annual contribution to Rainy Day fund. This fund has a balance of \$4.1 million, which is an adequate supplement to the General Fund balance.
- Suspension of annual Police and Fire Pension Reserves contribution. These pension funds are scheduled to be fully funded by 2023 with payouts projected through 2056.
- Reduction in funding for Facilities Maintenance Reserve. Due to several building projects scheduled for 2011, timing issues will require the department to defer some maintenance projects to future years.
- Reduction in annual contribution to Motor Vehicle Replacement fund. All scheduled vehicle replacements and new vehicle requests are closely scrutinized each year and subject to possible deferral or elimination.

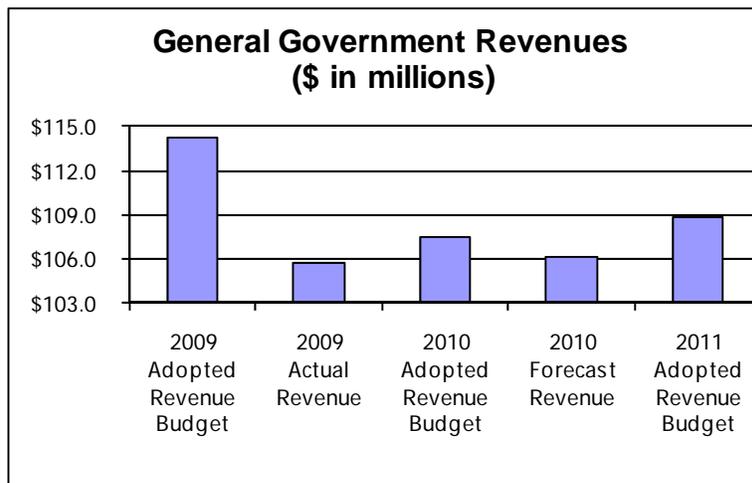
- Reduction in required contributions to the Tort, Unemployment and Worker’s Compensation Self Insurance Reserves. These reserve requirements are re-calculated annually based on known claims and trends, and each fund has a targeted fund balance. The 2011 contributions were slightly lower than anticipated.
- Reduction in annual contribution to Telecommunications Internal Service Fund. There will be no service impact as this fund has an adequate balance.
- Elimination of the contribution to the Van Valey House maintenance reserve, as this reserve has an adequate balance.

Labor/Vacancy changes include:

- Elimination of the budget appropriation allowing police officers to be hired in advance of retirements.
- Maintenance of fourteen vacancies at any given time throughout 2011. Twelve of these positions have been identified to remain vacant for the entire year. Generally, the city has regular employee turnover, and on average, twenty positions are vacant. All vacancies are examined, prior to rehire to determine if they are still essential to current operations and if the work could be accomplished differently.
- Modification of labor deployment to reduce overtime costs.
- Consolidation of the Water/Sewer Utilities department and the Engineering/Public Services department administration. The subsequent labor changes resulted in the transfer of 2.35 FTE’s from Engineering to Utilities.
- Reduction in general government staffing is reduced by a total of 6.4 FTE’s, including the 2.35 FTE’s described above. Details can be found in the Personnel Summary.

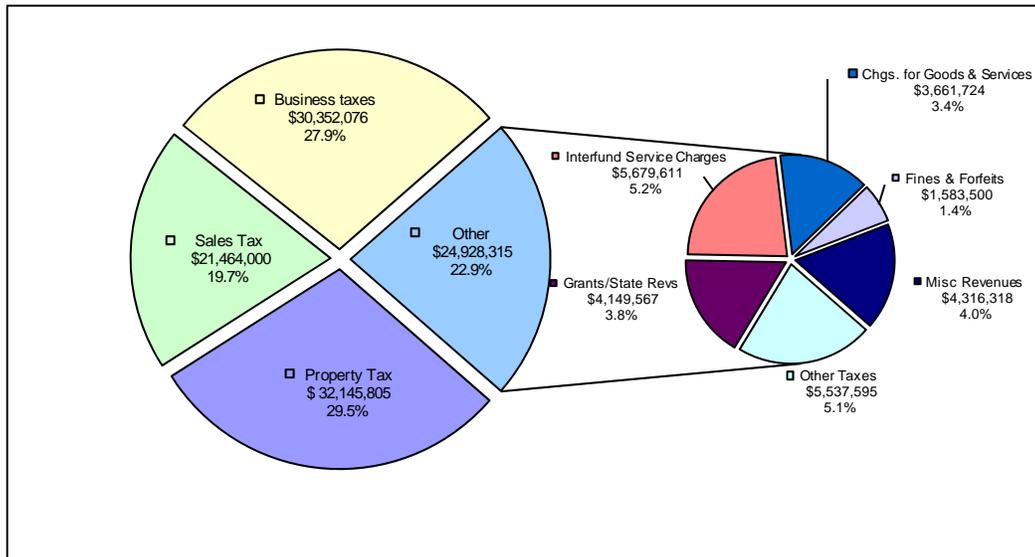
General Government Revenues

The 2011 general government revenue budget is \$108.9 million - a 1.3% increase over the 2010 adopted budget. It provides for an ending fund balance of \$21.8 million, or 20% of operating revenues, and maintains compliance with the city’s reserve balance policy. 2010 revenues are currently projected at \$106.1 million. At present, the City is seeing a slowly growing economy; the 2011 revenue budget reflects this viewpoint with an increase of 2.7% over than the 2010 revenue forecast.



Everett strives to maintain a diverse and stable revenue base to shelter public services from short-term fluctuations in any one revenue source. The current economic development activities, combined with property tax growth limits, are helping to move the city toward a more balanced revenue base, as shown in the graph below.

General Government Revenue Sources



Special Revenue Funds

The city has 17 Special Revenue Funds which account for the proceeds of specific revenue sources that are restricted for specific expenditure purposes. These funds are all related to General Fund type operations, with budget details in the Special Revenue section of the budget. Items of note for the 2011 budget include:

- The Downtown Improvement Fund, together with the Traffic Mitigation Fund, will continue work on the Hoyt Streetscape Improvement project, currently funded by parking fines.
- The EMS Department has a \$7.8 million operating budget that is funded by a property tax levy and transport fees. Voters reaffirmed their commitment to the paramedic program by approving a six-year levy lid lift to increase the EMS levy rate to the maximum permissible rate of \$0.50 per \$1,000 assessed valuation in April 2010. Consequently, the fund, which has been running a deficit since 2005 as a result of restrictions on property tax growth, will be on a stronger financial footing.
- The Real Estate Excise Tax Fund will provide funding for the Plaza project next to the Everett Performing Arts Center. This project is expected to be completed by 2012.
- The Capital Improvement Reserve Fund provides funding for debt service on the Events Center Land and the Conference Center, debt support to the Everett Public Facilities District; and funding for the Municipal Court building project.
- Both the Real Estate Excise Tax Fund and the Capital Improvement Reserve are funded with Real Estate Excise Taxes, which have declined precipitously since 2007. Both of these funds will make adjustments as necessary until the real estate market improves.

Enterprise Funds

The City has seven enterprise funds that are mainly self-supporting and expected to operate like private businesses. Items of note include:

Utilities (Water, Sewer and Surface Water Management): Overall, service revenues of Everett Utilities are projected to increase by approximately 1.8% for 2011. This increase is due almost entirely to increases in charges for service. The increase is necessary to address the City's capital replacement and improvement programs, and to finance inflation-based cost increases in operations and maintenance. The estimated impact to the average residential customer is approximately \$3.70 per month for water, filtration, sewer, and surface water combined, which compares favorably to neighboring utility systems. In addition, Utilities is planning to issue \$51 million in revenue bonds to ensure cash flow for Utilities' capital replacement and improvement programs.

Increases in Utilities' current service expense level are projected at \$6.4 million, which is primarily the result of \$1.9 million of additional debt service costs, a \$1.2 million sediment removal expense for NPDES compliance, a \$1.3 million increase in personnel and medical costs, and a \$1.3 million increase in professional services.

The 2011 budget adds two employees to work on the conversion from flat rate to metered water services which, must be completed by 2017. Additionally, four Street department employees have been temporarily assigned to Utilities to work on the Surface Water Management project, which is scheduled to be completed by 2012. This project includes inspection and cleaning of all catch basins, retention basins, storage vaults, ditches, culverts, and manholes; in order to be in compliance with Department of Ecology Phase II Stormwater regulations.

Utilities strives to maintain a balance between preserving essential services for its customers while minimizing the burden of rate fees. We continue to invest in our future, efficiently manage our resources, and provide a high level of service to city residents and purveyors.

The Transit Fund is budgeted to maintain the levels of service implemented on November 21, 2010, without a fare increase. As a consequence of the slow economic recovery, public bus service was streamlined to reduce overtime and maximize efficient and effective use of Transit resources.

Four additional SWIFT stations were built along Evergreen Way to complete Everett Transit's segment of the Bus Rapid Transit (BRT) service between the Swift Northern Terminal at Everett Station and the South Terminal in Shoreline. One station was opened in November, 2010, and the remaining three will open in early 2011. Grant funding is making possible a traffic signal priority system along the BRT route within the city limits. This enhancement will enable the BRT service to be more timely and reliable.

The addition of bus stop enunciators, passenger counters, mobile data terminals, and enhanced computer-aided dispatching equipment to the fixed route and paratransit vehicles will improve overall efficiencies in transit services as well as enhance reporting capabilities to Federal and State agencies. These projects are made possible with grant funding from the Washington State Dept of Transportation and the Federal Transit Administration.

Everett Transit continues to upgrade its fleets of fixed route and paratransit vehicles with the assistance of federal grant funds. As eight fixed route buses and five paratransit vans are replaced over the next two years, emphasis will be placed on environmentally friendly hybrid vehicles.

Within the ORCA (One Regional Card for All) system implemented in May 2009, special pricing plans are available to employers, schools, and social service agencies through Business Accounts aimed at encouraging commute trip reduction and improving the environmental footprint of the City.

Capital Expenditures

The total budgeted capital expenditures by major category for 2011 are listed below. Further detail can be found in the Capital Improvement Program section of this document.

2011 Budgeted Capital Expenditures

Category	Included in Operating Budget	Included in Capital Budget	Total	Percent of Total
General Government	\$ 8,639,427	\$ 13,158,600	\$ 21,798,027	21.1%
Transit	6,071,860	-	6,071,860	5.9%
Parks & Recreation	1,160,631	2,218,725	3,379,356	3.3%
Transportation	6,986,262	10,616,907	17,603,169	17.0%
Utilities	1,065,200	53,450,800	54,516,000	52.7%
TOTAL	\$ 23,923,380	\$ 79,445,032	\$ 103,368,412	

Economic Environment

The national and local economy declined severely from 2008 through 2009. The depth and length of this recession and its impact on the local economy is yet to play out. Although it has been determined that the national recession ended in June 2009, local economists believe that the local economy bottomed out in early 2010, and forecast a modest upturn beginning in all areas by late 2011.

Construction permitting, housing prices and housing sales continued to decline in 2010, but are expected to start a slow recovery in 2011.

Local Housing Industry Indicators			
	<u>2009</u>	<u>2010</u>	<u>Change</u>
<u>City of Everett Construction:</u>			
Single Family Permits	84	53	-36.9%
Single Family Valuation	\$ 15,268,435	\$ 10,321,008	-32.4%
Duplex Permits (Units)	6	6	0.0%
Duplex Valuations	\$ 868,962	\$ 868,962	0.0%
Multi-Family Permits (Units)	-	-	0.0%
Multi-Family Valuations	\$ -	\$ -	0.0%
Commercial Permits	12	10	-16.7%
Commercial Valuations	\$ 46,743,629	\$ 17,413,444	-62.7%
Residential Alterations	225	252	12.0%
Residential Alterations Valuation	\$ 5,950,150	\$ 6,771,252	13.8%
Commercial Alterations	346	279	-19.4%
Commercial Alterations Valuation	\$ 34,716,481	\$ 42,922,390	23.6%
<u>Home Sales Trends for Snohomish County:</u>			
November Sales	803	572	-28.8%
November Pending Sales	4,888	4,987	2.0%
November Average Sales Price	302,000	289,269	-4.2%
November YTD Active Listings	5,063	5,129	1.3%
Sources: City of Everett Engineering Dept Snohomish County Business Journal			

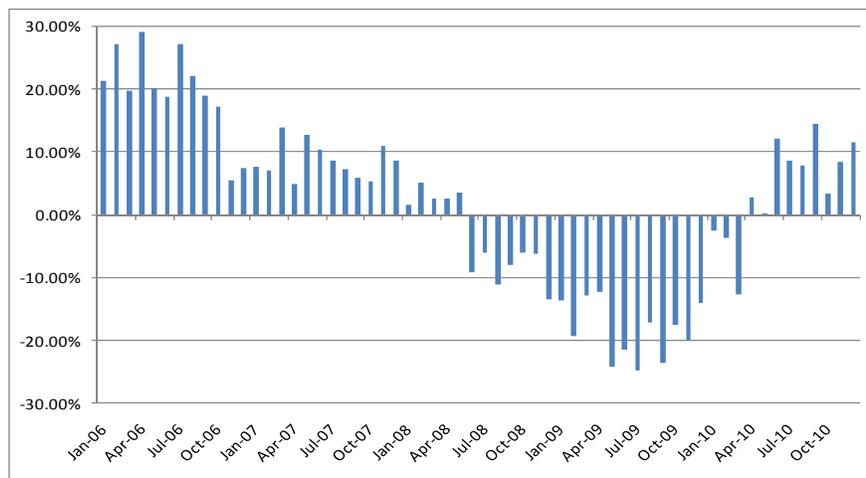
Unemployment in Snohomish County is now above the national average and the Puget Sound average, at 9.9%, compared to 9.8% a year ago, and 4.1% in November 2007. Employment is expected to grow slowly throughout 2011 and 2012.

Local Employment Indicators - Snohomish County					
	Nov 2007	Nov 2008	Oct 2009	Oct 2010	% Change 09-10
Unemployment Rate	4.1	6.2	9.8	9.9	1.0%
Manufacturing Employment	56,000	57,100	51,800	52,500	1.4%
Construction Employment	24,900	22,000	17,300	16,200	-6.4%
Services Employment	182,100	182,700	175,400	174,800	-0.3%
Government	37,400	39,800	39,300	39,300	0.0%

Source: Snohomish County Business Journal

The City's three largest taxes are property tax, sales tax, and business & occupation tax. Property taxes are both allowed and limited to 1% growth in Washington. Because the City's regular levy rate is well under the legal limit, declining property values have not affected property tax revenues. In contrast, the slowing economy has had an enormous impact on city sales tax revenues. The City began to see noticeable declines in retail sales tax in mid-2008, compared to the extraordinary growth of 2006. Sales tax represents 20% of the general government revenue budget for 2011, compared to 23% in 2009. The following chart shows that sales tax revenues declined every month for twenty two months, compared to the same month in the previous year, ending in March 2010. Beginning in April 2010, sales tax has increased every month for nine months compared to the same month in the previous year. Sales tax revenues are expected to remain fairly flat for 2011 with modest growth in the next few years.

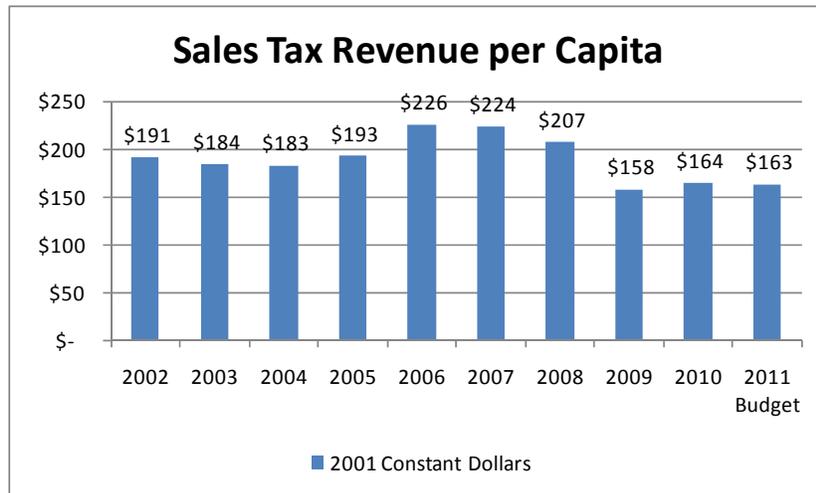
Sales Tax Month to Prior Year Month % Change



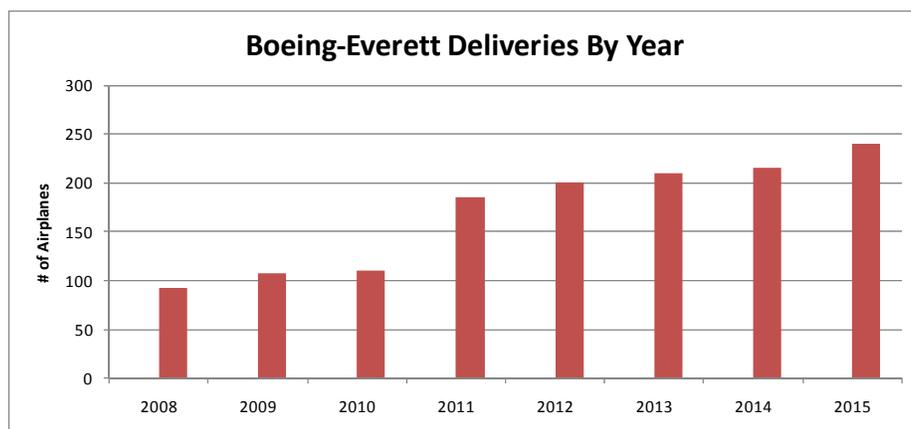
The chart below breaks out sales tax into business categories, showing that the many categories turned around in 2011, after across-the-board declines in 2009. General Merchandise and Motor Vehicles weigh heavily in the Retail group and both changed minimally in 2010. Non-retail categories performed better than retail and brought sales tax growth up to 3.8% for 2010. For 2011, most major sales tax categories, including retail, manufacturing and wholesale, are expected to grow 1% to 2% from 2010 levels. Due to the completion of the Providence Everett Medical Center building in mid-2011, construction-related sales tax is forecast to decline, netting to a decrease in total sales tax revenues of 1% for 2011.

Sales Tax Revenue		
Category	% Change Dec 09-10 <u>YTD</u>	Category as % of 2010 <u>Retail Sales</u>
Retail Sales:		
<u>Areas of Strength</u>		
Food & Beverage Stores	16.1%	6.8%
Sporting Goods	9.2%	3.7%
Nonstore Retailers	5.3%	2.9%
Building/Garden	4.0%	5.4%
Gas Stations	3.7%	2.6%
General Merchandise	1.6%	26.3%
Electronics	0.1%	6.4%
<u>Areas of Weakness</u>		
Motor Vehicle	-1.8%	26.2%
Health/Personal Care	-3.6%	3.4%
Miscell Retailers	-5.5%	10.0%
Clothing	-7.5%	3.9%
Furniture	-12.0%	2.5%
Total Retail Sales Tax	0.3%	100.0%
Total Sales:		
All Other Categories	12.3%	15.0%
Information	9.6%	5.1%
Construction	8.8%	15.3%
Wholesale	7.8%	7.7%
Food Services/Accomod.	0.9%	8.6%
Retail	0.3%	42.8%
Manufacturing	-6.8%	5.5%
Total Sales Tax	3.8%	100.0%

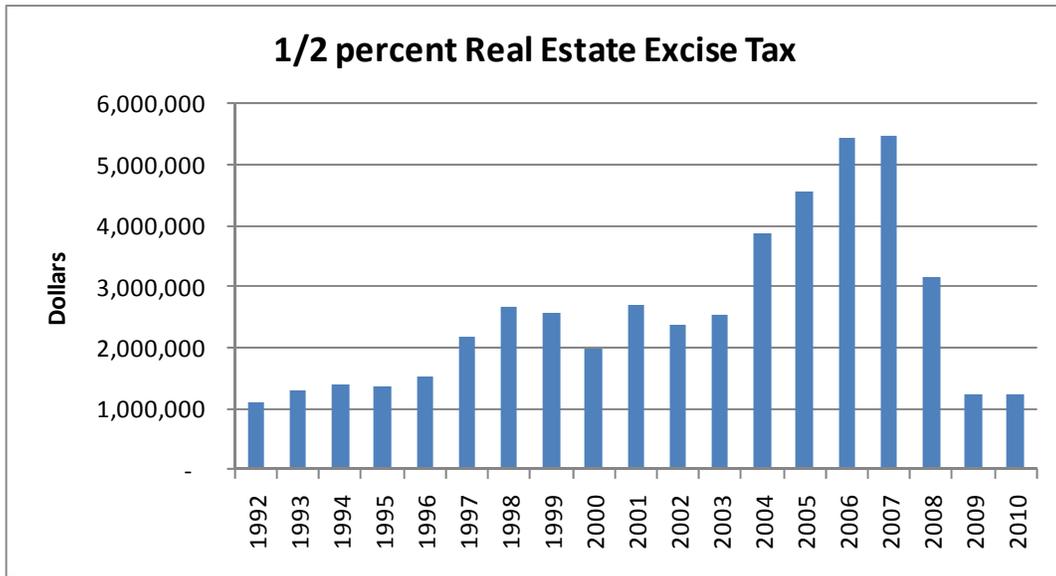
The 2008-2011 reduction in sales tax revenue is magnified in the chart below, with annual sales tax revenue translated into constant dollars, so that the impact of inflation is removed. There is a substantial decrease between 2006 and 2009 in the taxes available to provide services to our residents. Adjusted for inflation and population growth, real taxable retail sales may not fully recover for many years. Although the City has been able to develop budgets for 2009 through 2011 with minimal service reductions, some of the adjustments made are not sustainable for the long term. If current economic conditions continue for the next few years, the City may have to re-set the level of services that citizens currently enjoy, setting a priority on those that are vital and mandatory.



The City's business and occupation tax, which is based on gross business receipts, shows a 21% increase in 2011. The deferral of Boeing's 787 airplane delivery schedule has impacted the city's B&O tax forecasts for the past few years. However, production is expected to ramp up in 2011. The chart below shows actual and forecast airplane deliveries for an eight year period. 747's, 767's, 777's and 787's are built in Everett.



Monthly real estate excise tax (REET) receipts (0.5% of the value of real estate transactions) began to fall in September 2007 and have continued with very low activity throughout 2010. Although the City has substantial reserves in its REET funds, REET revenues are committed to fund park and road projects, and to make debt service payments. The following chart shows 2009 and 2010 receipts matching 1993 collections. The City has seen no uptick in REET revenues in 2010 and therefore, 2011 has been budgeted conservatively.



City of Everett - 2011 Priorities and Current Initiatives

The City of Everett current initiatives focus on keeping our City services strong while preparing for future opportunities.

1. Foundation of a Great Community

- **Financial Health**

The City continues to live within its means and is maintaining compliance with the fund balance policy. Our long-standing conservative approach to financial management is helping us to cope with the challenges presented by the national recession.

Everett's revenue and general obligation debt was upgraded from AA- to AA+ in 2008. This rating means Everett taxpayers likely will pay lower interest rates on bonds issued for capital improvements than they would have if the City maintained a lower credit rating.

The 2011 budget maintains the City's workforce and essential service levels, but the Administration continues to watch the changing dynamics of the economy, and is prepared to make adjustments as necessary.

- **Public Safety**

The City will invest more than \$600,000 in 2011 to support new technology that includes a computer-aided dispatch system, a law enforcement records management system, and automated field reporting.

The City is in the design process for a much-needed new municipal court, which is expected to be open in 2012.

The Residential Graffiti Removal Program continues into its third year in 2011.

Voters reaffirmed their commitment to the paramedic program by approving a six-year levy lid lift in 2010.

- **Streets**

The City will make a \$13 million investment in streets in 2011, compared to \$16 million in 2010. West Marine View Drive bike and pedestrian improvements, 7th Avenue SW pedestrian improvements, and traffic signal improvements on Broadway at 13th and 14th near Providence Hospital will begin this summer. The City is beginning design of the replacement of the Broadway Bridge near Hewitt Avenue, with significant grant support.

- **Water/Sewer Utilities**

The City continues its substantial and long-term infrastructure and utilities investments to provide safe and reliable drinking water and wastewater treatment. In the next decade, the City will spend more than \$500 million to improve drinking water and wastewater systems to meet growth demands and regulatory requirements. Rates are in place to cover capital, operational, and maintenance needs through 2012. The City provides drinking water to more than 530,000 people in Everett and Snohomish County, and sewer service to more than 120,000 people in Everett and adjacent areas.

2. Investment and Redevelopment

- Current large projects underway in Everett include:
 - The Providence Everett Medical Center expansion, which includes the parking garage completed in 2008 and the 12 story, 460 bed medical building to be completed in 2011.
 - The Everett Community College expansion, which will conclude with a doubling of the campus size by 2015.
 - The Navy's \$11 million Fleet Regional Readiness Center. Additionally, Naval Station Everett is on track for a \$3.8 million boat launch project and a \$4 million energy conservation project.
 - The Farmer's Market and residential living project
 - The new Marriott Courtyard Hotel on surplus City property
 - The Hoyt Avenue Streetscape project
- Economic Development Focus
 - The fundamentals of a strong and increasingly diverse economy exist in Everett, including aerospace, Naval Station Everett, the health care community, the Port of Everett, and the SW Everett light industrial area.
 - The City approved a B&O tax credit for businesses that increase employment by 50 or more employees.
 - The City will continue to participate in Project Concentrus, the newly formed consolidation of Snohomish County's economic development organizations.
- Regional Energy Roundtable
 - Everett is at the center of Secretary of Navy Ray Mabus' energy initiatives and pursuit of a "Green Fleet." Included in the roundtable are UW, WWU, UW-B, SnoCo PUD, Boeing, Puget Sound Energy, PSRC, Washington Technology Industry Assn., and Pac NW defense Coalition, among others.
- Commercial Air at Paine Field
 - The City supports the development of commercial flights at Paine Field. A 2008 study showed that the City could attract more and larger high-tech businesses if commercial air service were more convenient. The study also said that regularly scheduled passenger flights could stimulate tourism and other economic development in the region.
- Higher Education
 - The City believes that Everett is the best location for a new four-year university, that will provide the upper-division and advanced-degree access that our students, families, and employers seek. Everett and Snohomish County continue to be among the most under-served areas of the state. Bringing a four year university to Everett is in the forefront of our goals for this community.
 - The City plans to introduce legislation in the 2011 session to expand higher education access in the Everett area by transferring operation and administration of the University Center of North Puget Sound to Washington State University.
 - Boeing has consolidated its engineering and R&D functions for commercial airplanes in Everett, and needs 1,000-plus engineering degreed workers each year. The City and WSU are seeking an avenue to locally serve the critical engineering needs of our aerospace-based economy.
 - In doing so, the City is protecting our state's largest industry and job creator; maintaining our global competitiveness; and giving our children a chance at aerospace engineering jobs.

- Navy
In December 2010 the Navy announced that the USS Nimitz will make its homeport in Everett arriving in January 2012. It will replace the USS Lincoln, which is departing for a four-year refueling overhaul. Naval Station Everett has 6,000 employees.

3. Improving our Quality of Life

- Parks
2011 Parks Projects include the renovation of Jackson Park in Northeast Everett in the Delta Neighborhood; and the purchase of 1.7 acres for a neighborhood park in the Evergreen Neighborhood. The Riverfront Amenities master plan was approved by City Council in March 2010.
- Community Events
The City will continue popular community events such as Sorticulture, Music in the Parks, Jetty Island Days, and Cinema Under the Stars.
- Climate Action Plan
The City's climate action plan is in its final draft stages. The City's carbon footprint has been adjusted, City programs have been reviewed, and new approaches for conserving energy and reducing greenhouse gas emissions have been recommended. A final report is anticipated in mid-2011.

Economic Vitality

In early 2010, the Mayor convened an Ad Hoc Economic Development Advisory Group comprised of citizen stakeholders. This group was tasked with identifying strategies and priorities to enhance the City's economic development efforts. The recommendations were developed within the framework of the City's ongoing comprehensive economic development plan and designed to bring focus to expedient opportunities within the total approach. The group's findings and recommendations were finalized in early 2011:

1. The City of Everett's focus on higher education should remain a top priority. The City's elected officials should continue to provide resources for a strategy that will lead to a partnership with Washington State University or other quality institution. Endeavors should include securing community support and pursuing key legislative actions to accomplish this task while keeping Everett Community College and Everett School District informed so that their respective programs are aligned with the City's overall educational goals.
2. The City of Everett should work to retain its status as one of the largest aerospace clusters in the world. Attention should be paid to local, state, and federal policies which threaten the strength of this base. The Economic Development Director should make regular site visits with aerospace companies, and retention efforts should match those of recruiting. The City should pay close attention to the workforce trends and needs of the aerospace cluster, and be actively involved in growing a viable, skilled, and educated workforce. The City should take a leadership role in the Puget Sound Region in all issues pertaining to the well-being of our growing aerospace cluster.
3. The City of Everett should actively assume a leadership role with Snohomish County leaders, including the EDC, Snohomish County cities and towns, and community and business groups, to allow commercial air service at Paine Field.
4. The City of Everett has done extensive work on the Riverfront and has put forth commendable effort in this current economic downturn to keep this project moving forward. The City should continue to work closely with OliverMcMillan to insure quality tenants, relevant entertainment, and a vibrant new

- City district. In keeping with the unique setting of the Riverfront, efforts should be made to make this development a model of sustainability in design and function.
5. The City should work in tandem with the leadership of Naval Station Everett to insure and strengthen our homeport status. The City should lobby appropriately for vessels, maintenance facilities, and operations.
 6. The City of Everett should formalize a joint planning effort with the Port of Everett to coordinate economic development opportunities, including the development of Port assets, coordinated planning and marketing strategies, and service agreements with recognized firms following evaluation of proposals, to provide the roadmap for development to occur.
 7. The City should solicit, encourage, and assist private development which adds to the vibrancy and overall economic health of the community.
 8. The City of Everett should continue to aid the private sector in securing foreign investment. The City should actively participate with the private sector in securing Regional Center Designations and market this financing advantage to potential new businesses to the area.
 9. The City of Everett should foster Healthcare Industry Sector expansion within its boundaries. Thoughtful policies and practices should be implemented to encourage the growth of this sector.
 10. The City should provide leadership and encouragement to the State, Department of Commerce, Prosperity Partnership, and the PSRC to study and develop legislation allowing incentives to enhance the competitiveness of Washington State cities.
 11. The City should continue to support and pursue efforts to bring light rail to Everett Station via aerospace cluster.
 12. The City should initiate an evaluation of its surplus properties, including office space, and identify encouraged uses for surplus properties. Various marketing sources should be pursued including local and out of area real estate brokers, relocation consulting firms, and site selectors. The City should maintain an internal website which identifies such properties. All information should be kept current.
 13. The City should continue to make prudent quality of life improvements to the entire city. Understanding that the workforce of the knowledge-based economy will choose to live in vibrant, safe, sustainable, active, and beautiful communities, the City should invest in amenities that align with those choices. A vibrant, walkable downtown, an active cultural presence, well maintained parks and open space, community events and festivals, a sense of sustainability, a farmers market, a growing diverse economy, accessibility to natural amenities, and a sense of strong fiscal leadership are all attributes of a city that will attract knowledge-based business and workforce.
 14. The City should continue to participate in the successful implementation of the consolidation of Snohomish County's economic development organizations, "Project Concentrus."

RECENT ECONOMIC DEVELOPMENT ACCOMPLISHMENTS

CITY ACTION	COMMUNITY IMPACT
2006 Downtown Plan and 2008 Downtown Streetscape Plan	Solidifies future expectations and opportunities for downtown development. Creates incentive for investment in a predictable plan.
Implemented and supported two applications for Regional Center Designation	Allows for the flow of significant foreign investment into the city to create job growth.
B&O Tax Credit	Recruitment and retention tool to encourage business to relocate to Everett or expand existing operations within Everett.
Vacant Building and Minimum Maintenance Ordinance for the Central Business District	Encourages upkeep of downtown properties, which creates incentive for new investment.
Regional Energy Roundtable	Everett is at the center of Secretary of Navy Ray Mabus' energy initiatives and pursuit of a "Green Fleet." Included in the roundtable are UW, WWU, UW-B, SnoCo PUD, Boeing, Puget Sound Energy, PSRC, Washington Technology Industry Assn., and Pac NW defense Coalition, among others.
Code amendment to allow more flexibility for the use of basement spaces in downtown, and to allow antique shops in certain downtown areas	Helps absorption of vacant retail space, thus enhances vital appearance of downtown.
Downtown Historic Preservation Plan	Hewitt Avenue Historic District has been approved for the National Register of Historic Places.
Economic Development Website with site selection component	Provides ready access to data required by site selectors for new businesses.
Facilitated leasing of 43,000 sf in downtown in 2010	Enhanced downtown--creates, critical mass and vitality
Completed gateway landscaping projects at 41 st & Broadway, Everett Avenue, and southbound at SR529 and Broadway.	Improves first impression of visitors and potential investors in City of Everett.
Completed Downtown Planned Action Ordinance	Expedites the environmental review process for projects in the downtown. It will cut a few months out of the permit review process.
Code amendment to allow small scale wineries in the B-3 zone	Port Gardner winery is setting up both production and retail space in a building on Rockefeller.

LARGE PROJECTS	COMMUNITY IMPACT
Navy	Completion of \$11 million Fleet Regional Readiness Center, \$1 million expansion of the Child Development Center. Plans for a \$3.8 million boat launch project and a \$4 million energy conservation project.
Expansion of Providence Hospital	New \$500 million medical tower and \$52 million Cancer Center at the Colby campus. Provided more than 2,000 construction jobs and will provide 1,800 permanent jobs by 2025.
Fluke expansion	Creates jobs and serves business retention goal.
Schack Art Center and Arts Space artist lofts	A new \$23.2 million, 96,000 sf arts center and artist live-work facility on Hoyt Avenue. Created 55 temporary construction jobs, 30 to 40 part-time and 7 full-time jobs when fully operational. Serves as a business incubator for artists. City surplus property was provided with favorable financing terms, and facility grant funding for the project.
Potala Village	A \$22.3 million, 150,000 sf, mixed-use residential/retail/restaurant building on the corner of Pacific and Rucker. 750 temporary construction jobs. Permanent jobs not known at this time.
Farmers' Market	An estimated \$47.5 million, 313,000 sf, mixed use residential/retail building on Grand Ave, between Wall and Pacific Avenue. In design phase.
Touchstone – Marriott Courtyard Hotel	A new \$25 million, 165,000 sf hotel to be constructed on surplus City property on the corner of Colby and Wall St. Will provide an estimated 55 jobs.

Other Planning Processes

In addition to the strategic budget model, the capital improvement plan, and the economic development plan, the City of Everett has numerous boards, commissions, and committees that play a role in planning for the future of the city. These include, but are not limited to: Animal Control Board, Council of Neighborhoods, Cultural Commission, Diversity Advisory Board, Historical Commission, Housing & Community Development Board, Housing Authority, Human Needs Advisory Committee, Library Board, Lodging Tax Advisory Board, Parks Commission, Planning Commission, Public Facilities District Board, Salary Commission, Senior Center Advisory Board, Transportation Advisory Committee, Tree Committee, Mayor's Youth Council, Neighborhood Associations and various ad hoc committees. These groups mainly have an advisory role to the City, and were created either by code or assignment.

The Future – Principal Issues Facing the City

There are a number of issues facing the City of Everett that present significant challenges or opportunities as we look to future years. These include legislative changes, regulatory changes, world events, and economic factors. This section describes and updates these subjects for events occurring subsequent to the November/December budget hearings.

The Economy

The Consumer Price Index (CPI) has a significant impact on the City budget. City bargaining unit cost-of-living increases and many other City contracts are tied to CPI. The June 2009 to June 2010 CPI resulted in no CPI-based wage increases for the 2011 calendar year. Subsequent to June 2010, the Seattle area CPI has remained fairly steady for six months and is currently 0.3% above the June 30, 2010 measurement. The strategic budget assumes low CPI growth for 2012 and a moderate growth in CPI for all future years.

The 2011 revenue budget is \$1.4 million higher than the 2010 budget and was balanced with minimal service cuts and no layoffs; combining conservative revenue budgeting with an expenditure budget containing some discretionary programs and projects. This provides the City with a certain amount of flexibility. However, 2011 looks to be another challenging year. If sales taxes or other revenues dip significantly below the budget, the City is prepared to take additional cost-cutting measures.

Boeing Production

The Boeing Co. held the inaugural flight of its 787 Dreamliner jet in December 2009. At the time the 2011 budget was written, it assumed that deliveries of the airplane would begin in early 2011. The strategic budget currently reflects that delivery plan. Boeing has 847 orders for the 787. The Boeing 747, 767, and 777 are also built in Everett and have unfilled orders of 107, 50 and 253 respectively.

In October 2009, Boeing announced that it would set up a second production line for the 787 Dreamliner in South Carolina. The second line is expected to be operational by mid-2011. Since the dawn of the jet age, virtually all Boeing airliners have been assembled in either Everett or Renton, Washington. The City and State intend to work together to ensure that Washington State remains the center of aerospace manufacturing, both nationally and internationally. The set up of the second production line outside of Everett is not expected to have an impact on the current strategic outlook. 787 production will be at full capacity for many years, contributing to a stable business environment for our community.

In 2011, the Pentagon is expected to make its decision between the Boeing KC-767 Advanced Tanker and an Airbus version for the U.S. Air Force Aerial Tanker Program. The tankers would be assembled in Everett, supporting 9,000 jobs in our state, providing \$400 million in economic benefits and supporting some 70 suppliers across the state. The contract would provide orders for the first 179 tankers. The strategic budget does not include revenue from any KC-767 tanker deliveries.

Boeing is, by far, the largest employer in Snohomish County with 32,000 employees. Boeing is expected to hire more workers in 2011. It is unknown how many of those jobs will be in Snohomish County.

Riverfront District Development

The riverfront property east of Everett is a valuable City asset and is in the process of becoming an important gateway to the community. At 221 acres, it is one of the largest developable pieces of property available along I-5 between Everett and Tacoma. The City's development plan for this site includes a mix of retail, residential, and recreational use.

In April of 2005, pursuant to a formal request for proposal process, the City selected Oliver McMillan as the prospective developer of Everett's Riverfront Property. In 2007, City Council approved a plan that will develop 100 acres including high quality mixed-use retail and residential projects. The remaining 100 acres will remain as wetlands. Site work began in 2007.

The City has been preparing for the Riverfront development for many years by mitigating environmental issues, studying uses, and developing access. This preparation has been funded by a combination of grants, settlements, insurance recoveries, and general tax revenues. This is an important project for the city, which will have a major impact on revenues and expenditures in the future. The strategic budget sets aside \$50,000 each year for Riverfront expenses. Currently, the developer and the City are waiting out the recession before substantial construction occurs. The City obtained bond funding for the Solid Waste portion of this project in 2010. Once private development gets underway, bonds may be issued to construct the planned public amenities.

November 2010 Election Results

The City of Everett budgets as if current legislation will remain in force. If the liquor privatization initiatives had been approved by the voters, they would have reduced City revenues by a substantial amount. However, the initiatives failed and the City's budget is unchanged. The 2011 budget does include the increased sales tax on candy and bottled water that was approved by the state legislature in early 2010. The voters revoked the added sales tax in November. Therefore, the 2011 revenue budget may subsequently be adjusted to reflect the reduced tax revenue. The strategic budget includes about \$250,000 each year for the additional tax on candy, gum and bottled water.

B&O Tax Credit

In March 2010 the City amended the Business and Occupation tax ordinance by adding a tax credit for expansions that create 50 or more new jobs within four quarters. The taxpayer may claim a credit of one thousand dollars per new position, subject to a cap of \$500,000 per taxpayer. The added positions must remain filled for at least three years.

The City has received several taxpayer inquiries regarding the tax credit, but no applications to date. Tax credit applications are possible in 2011, but have not been included in the strategic budget.

State of Washington/U.S. Government

The state legislature has an extremely challenging budget to balance for the 2011-2013 biennium. It is unknown how any budget reductions may affect the City. The City receives various state-shared revenues including Streamlined Sales Tax Mitigation, Criminal Justice Assistance, Liquor Revolving Account, Liquor Excise Tax Account, and Motor Vehicle Fuel Tax. The City also receives various operating program grants, mainly related to public safety; and some capital grants.

Additionally, the state legislature works on a multitude of issues that could impact the City budget. No state legislative impacts are included in the strategic budget.

The U.S government also provides grant funding for City programs, mainly in the areas of road construction, transit and Community Housing Improvement Program (CHIP) funding. Additionally, the U.S. legislature works on a multitude of issues that could impact the City budget. No federal legislative impacts are included in the strategic budget.

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