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November 21, 2016

Honorable Mayor Jensen, city council members, and citizens of Longview:

Two years ago at this time of adopting a new biennial budget, our area had just come through a sustained period of growth and recovery from the Great Recession that began in 2008. Now, while the year-over-year growth in sales tax receipts and other revenues has not been as great in percentage terms, it's from a higher base, and the still-solid local economy and continued responsible use of budgeted appropriations by City staff have combined to make it possible once again to propose some important service enhancements and restorations. And once again, they are not "random", but are clearly focused on the city council's strategic initiatives and goals.

For 2015-2016, the theme was enhancing public safety, particularly police services, and several new and restored positions in the police department made it possible to accomplish much with respect to that council objective. In short, in spite of the fact that it has been difficult to get to the fully authorized police staffing level and remain there, the department's productivity has been outstanding: arrests are up, the crime rate is down, and we certainly want to maintain those results in 2017-2018.

Now, for the next biennium, the theme is improving street maintenance services. Following the citizens summit in January and during the city council planning retreat and budget workshops since then, the council has consistently made it clear that improving streets and roads is the top budget priority for 2017-2018. Indeed, a new statement was added to the council's strategic initiatives this year: improve streets and roads. A council committee was appointed to review the existing service levels and how they might be enhanced and at what cost. The budget parameters approved in May reinforced the desire to do as much of that as possible within existing resources, and consideration has been given since then to creating a City transportation benefit district by which additional revenue could be generated for street maintenance activities and rehabilitation projects, if desired. While not reflected in this preliminary budget, it's not off the table for 2017-2018 and could still be enacted sometime during the biennium.

For now, the preliminary budget takes advantage of the City's strong general fund cash position and proposes to enhance day-to-day street maintenance work by adding a new three-person crew, the new vehicles and other capital equipment they would need, and the operating supplies and materials they would consume, at a cost of slightly over \$500,000 per year beginning in 2017. The costs of operating the new equipment, including depreciation, are included in that figure, and the acquisition of it would be financed over its expected 15-year life at a cost of about \$50,000 per year, also in the general fund. For all that, the street division would double its output of street maintenance work (pothole repairs, crack sealing, chip sealing, asphalt repairs, and

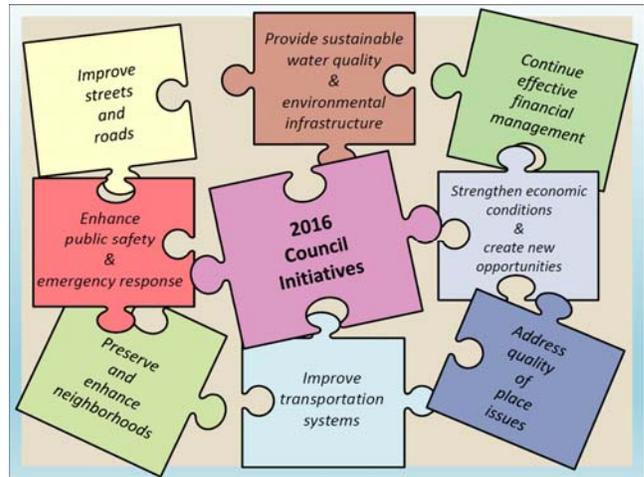
concrete panel repairs). More substantial pavement preservation and restoration work, including discrete rehabilitation projects and traffic signal repairs and upgrades, will take additional revenue and likely the commitment to issue bonds against it.

More information about the general fund, including other proposed service enhancements, and about selected other funds that make up the City’s budget is included below in this message.

Overview

The 2017-2018 biennial budget presented herein is balanced in all funds and totals \$216,896,190. The \$7,786,020 increase represents a 3.7% change from the \$209,110,170 adopted 2015-2016 biennial budget.

The recommended budget always takes its direction from the city council’s strategic initiatives. They represent the principal policy for establishing spending priorities, and were further refined by the parameters outlined during a council budget workshop on May 5. Just as importantly, guidance laid out in the four stages of budget prioritization developed by the council and staff over a decade ago continues to provide direction for how we prepared a balanced recommended budget.



2017-18 Suggested Parameters
 May 5, 2016 Workshop September 29, 2016 Workshop

- Enhance streets and roads repair and maintenance services
 - Recommendation to absorb costs of new street crew within General Fund
- Sustain existing service levels
 - Accomplished in preliminary budget, but expenditures “tightened up”
- Incorporate labor contract parameters
 - Provision for modest inflation
- General Fund support for enhanced economic development activities
 - Not necessary; continued in Economic Development Fund

2017-18 Suggested Parameters
 May 5, 2016 Workshop September 29, 2016 Workshop

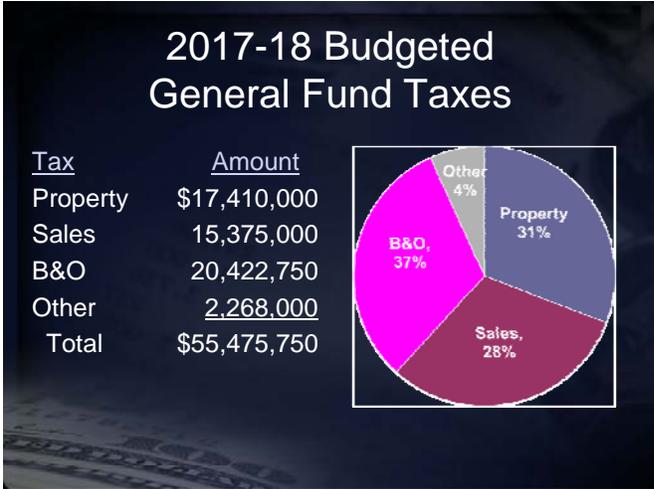
- ADA self-assessment transition plan
 - Intersection ramps inventory underway; appropriation to be recommended in Capital Projects Fund
- West Longview annexation (tbd)
 - Still to be determined
- Restore reserve contributions
 - Fire equipment depreciation (possible General Fund enhancement)
 - Building depreciation (Capital Projects Fund recommendation)
 - Employee Benefits Reserve (rate increase included in preliminary budget)
- Maintain Stage 2 of budget model with minimum 15% fund balance

General Fund

The recommended budget of \$74,383,750 for 2017-2018 is up by \$4,344,210 or 6.2% compared to the adopted 2015-2016 budget.

The formerly neatly-balanced “three-legged stool” of general fund tax revenues – property taxes, sales and use taxes, and business and occupation taxes – remains slightly

off kilter. While sales tax revenue has grown for several years now, they finally only recovered in 2016 to the prior peak year of 2007, and property tax revenue has grown steadily but slowly since then, while B&O tax revenue (which includes the tax applied to utilities) has grown most rapidly.



Property tax revenue continues to grow slowly in conformance with the 1% annual limit that is central to Referendum 47 approved by state votes over a decade ago, and also reflecting slow growth recently in new taxable construction. In fact 2017 will be the second consecutive year that the tax levy increases by less than 1% because the rate of inflation, as measured by the implicit price deflator, has been that low. The good news from the standpoint of the City’s financial situation is that assessed values are growing after a period of decline, and that reduces the property tax levy rate. It is projected to decline by a few cents from \$3.40 to \$3.35 per \$1,000 of AV in 2017.

Assessed Value/Property Tax Comparison

City of Longview				
Year	Assessed Value	% Chg	Levy Rate	Property Tax
2008	\$2,596,241,283	13.1%	\$2.88	\$7,472,452
2009	\$2,902,511,391	11.8%	\$2.72	\$7,906,395
2010	\$2,809,338,951	(3.2%)	\$2.89	\$8,134,755
2011	\$2,728,499,411	(2.9%)	\$3.03	\$8,284,506
2012	\$2,703,686,847	(0.9%)	\$3.11	\$8,419,453
2013	\$2,502,611,760	(7.4%)	\$3.41	\$8,533,950
2014	\$2,532,716,797	1.2%	\$3.42	\$8,671,021
2015	\$2,581,691,836	1.9%	\$3.43	\$8,846,768
2016	\$2,632,167,111	2.0%	\$3.40	\$8,946,920
2017	\$2,717,132,232	3.2%	\$3.35	\$9,109,867

Besides the significant commitment to street maintenance, other service enhancements include:

- An additional city prosecutor to help deal with the growing municipal court caseload and begin to ‘catch up’ with the number of indigent defense attorneys (five) for which the City is financially responsible. Indigent defense costs grew by over 150% from 2013 to 2015 in response to a lawsuit settlement elsewhere in Washington and State Supreme Court caseload standards imposed for criminal defense attorneys, and a third city prosecutor is the almost inevitable result of that and the increased police staffing that was made possible during the current biennium. This position will also enable us to have a more reliable source of support for criminal prosecution of code enforcement cases, which have usually been lower priorities in the past. First-year costs of \$95,000.
- A legal technician/public records assistant. This position will work half-time in the prosecutor’s office to support the attorneys with case file and trial preparation, and will also provide half-time support for processing the increasing number and complexity of public records disclosure requests. That burden is currently being felt more so in the police department than others, but the position may also be a resource to other departments in the future. Timely and accurate response to public records requests is very much a risk management issue. First-year costs of \$75,000.
- Fire personal protective equipment. This increase in spending for critical safety gear would step up our schedule of replacing clothing (“bunker gear”) and self-contained breathing apparatus bottles used in suppression responses. The SCBA bottles to be disposed of will reach the end of their useful lives in 2017. This enhancement also represents an important risk management issue, but in a different way than the public records compliance work described above. First-year costs of \$76,000.
- Fire large apparatus depreciation. The City stopped contributing to the reserve fund for replacing large fire vehicles (pumpers and a ladder truck) in 2009. That was a short-sighted but not atypical budgetary response to recessionary pressures at that time, and the savings then were over \$250,000 per year. Short of a federal grant, which has been on our legislative agenda, or a special levy/bond measure, we’ll probably never catch up with reserve contributions to the point that new large vehicles can be paid in cash on the intended replacement schedule in the future, but this amount should at least enable us to finance a new vehicle over time. \$200,000 per year.
- Recreation specialist. This restored position, also eliminated during the recession several years ago, would provide much-needed staff support for programs for teens and adults with disabilities. Importantly, the goal is to recover the costs of the position via new sponsorship revenue, grants, and program fees. First-year costs of \$61,000.
- Recreation after-school program. This program would be expanded to Mint Valley Elementary School where enough families have requested it to believe that we will also be able to cover its costs with program fees. First-year costs of \$18,000.

If not for the projected costs increases in employee medical insurance benefits and pension/retirement program contributions, which are significantly exceeding the rates of base salary compensation growth, the council may have been able to approve other requested service enhancements and reserve contribution increases submitted by departments for 2017-2018. As it is, the council discussed these and others before carefully approving the ones that represent the community's highest priorities at this time, and which address safety and risk concerns or which can be financially self-sustaining. That approach is prudent, and we are fortunate to be able to afford it at this time, but look at the projected ending fund balance change over time above. Sustaining these enhancements in 2019 and beyond will be a challenge that relies on continued economic growth and responsible budget management by staff.

2017-18 General Fund (with enhancements)

	2016 Proj.	2017 Budget	2018 Budget
Beg Fund Balance	\$ 9,424,000	\$ 9,504,000	\$ 7,845,140
Revenue	34,340,000	34,952,800	35,698,330
Total Revenue	\$34,340,000	\$34,952,800	\$35,698,330
Baseline Expenditures	\$34,260,000	\$35,544,020	\$36,736,090
Enhancements:			
Additional Street Crew	-	+ 490,720	\$ 508,600
Street Equipment Debt Service	-	+ 51,000	+ 50,000
Legal Prosecutor	-	+ 94,970	+ 101,950
Legal Tech/Public Records Assistant	-	+ 75,300	+ 80,780
Fire Personal Protective Equipment	-	+ 76,600	+ 12,000
Fire Apparatus Depreciation	-	+ 200,000	+ 200,000
Recreation Specialist	-	+ 60,790	+ 63,990
Recreation After-School Program	-	+ 18,260	+ 18,680
Total 2017-18 with Rec. Enhancemts	\$34,260,000	\$36,611,660	\$37,772,090
Beg Cash Required	80,000	(1,658,860)	(2,073,760)
End Fund Balance	\$9,504,000	\$7,845,140	\$5,771,380
% of End Fund Bal	27.7%	21.4%	15.3%

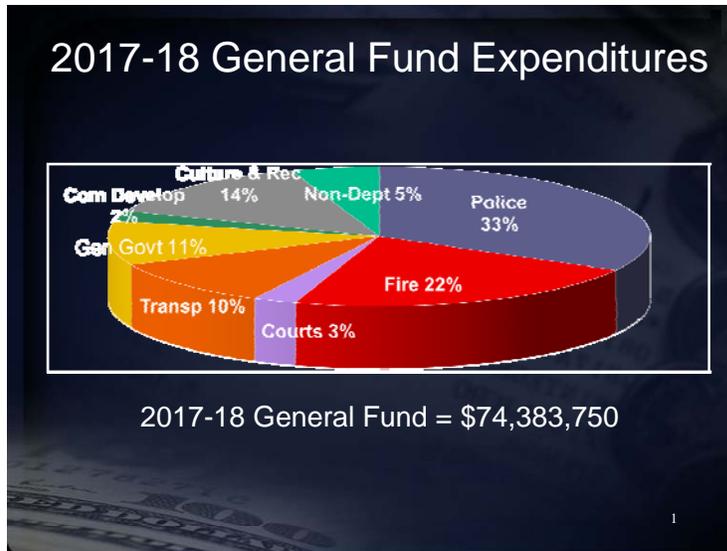
The following tables and charts provide additional useful information about the general fund. In summary again, we are now in a position to be able to afford some targeted service enhancements by drawing down our fund balance and still ending 2018 in Stage 2 of our budget model. The longer-term forecast remains daunting, as it always seems to be, but there are also more reasons now than in recent years to be optimistic about the continued growth in our economy.

General Fund Expenditures (by Function)

Function:	2016 Budget	2016 Projected	2017 Budget	2018 Budget
General Govt	\$3,740,880	\$3,642,930	\$3,889,450	\$4,072,280
Public Safety	20,878,830	19,849,505	21,101,140	21,733,200
Transportation	3,339,860	3,182,315	3,707,450	3,850,490
Community Dev	810,550	815,902	886,460	929,100
Culture & Rec	4,845,710	4,769,938	5,045,640	5,235,430
Non-Department	2,028,630	1,999,411	1,981,520	1,951,590
Total Expenses	\$35,644,460	\$34,260,001	\$36,611,660	\$37,772,090

Departments at a glance

Department:	2016 Projected	2017 Budget	2018 Budget
Legislative	\$176,365	\$202,260	\$205,030
Judicial	\$1,040,700	\$963,500	\$961,250
Executive	\$106,771	\$114,420	\$120,330
Finance	\$1,365,978	\$1,374,510	\$1,451,580
Human Resources	\$326,153	\$354,440	\$370,240
Legal	\$507,675	\$631,430	\$659,040
Info Technology	\$1,159,987	\$1,212,390	\$1,266,060
Police	\$10,999,693	\$12,102,430	\$12,513,500
Fire	\$7,809,112	\$8,035,210	\$8,258,450
Traffic	\$1,150,736	\$1,163,700	\$1,200,130
Street Maintenance	\$969,365	\$1,449,820	\$1,507,990
Engineering	\$1,062,214	\$1,093,930	\$1,142,370
Community Dev	\$815,902	\$886,460	\$929,100
Library	\$2,080,667	\$2,042,590	\$2,123,780
Recreation	\$1,167,683	\$1,296,160	\$1,345,880
Park Maintenance	\$1,521,589	\$1,706,890	\$1,765,770
Non-Department	\$1,999,411	\$1,981,520	\$1,951,590



Utility/Enterprise Operations

The water, sewer, stormwater, solid waste/recycling, and Mint Valley golf and racquet/fitness center complex funds derive most of their revenues from user fees. RiverCities Transit charges fees, too, but is largely supported by its own sales tax authority.

Our new water treatment plant went into service early in 2013 using a new source of supply – a deep aquifer a few hundred feet below the Mint Farm Industrial Park on the southwest side of Longview. Shortly after that we began receiving complaints about color, taste, odor, spotting residue, and other matters. Some of the complaints could be attributed to normal customer responses to changing from a surface water source to the groundwater supply, changes in the direction of flow and pressures in old distributions, and the learning curve for staff operating the new plant. Seemingly the worst water quality issues have been resolved by implementing an extended period of flushing lines and replacing the oldest ones in one particular neighborhood.

Near the end of 2014 the City and our partner in water supply and treatment, the Beacon Hill Water and Sewer District, appointed a 14-member customer advisory committee to identify and evaluate potential changes to the water supply and treatment system, everything from finding a new source to lesser changes in operating the plant and numerous options in between. Their objective was to make recommendations for a sustainable, safe, and satisfactory water supply for Longview and Beacon Hill customers. The committee, with the help of an engineering firm, considered over 50 options and sub-options. By mid-2015 their recommendations had boiled down to exploring the feasibility of developing a horizontal collector system (“Ranney wells”) near the west bank of the Cowlitz River.

A series of exploratory wells were drilled in early 2016 in locations deemed to be the most promising, from the former surface water treatment plant site northward about five miles, but test flows and water sampling determined that none were any more reliable,

and were worse in some ways in both quantity and quality than the Mint Farm plant site. As of the end of 2016, the city council and BHWSO board have decided to terminate searching for a new supply and, instead, to focus on improvements to the existing treatment chain that include adding dissolved oxygen to the water and evaluating several potential methods of removing silica. The DO injection improvements (estimated costs of \$500,000) will be constructed in early 2017, and results of the silica removal study are expected a few months after that.

Through it all, it should be emphasized again that even the worst of the complaints have not been found to violate water quality standards set by the state Department of Health which regulates public water purveyors.

Other plans for City utility and enterprise operations reflected in the recommended budget include:

- Adding a new three-person crew and supervisor for stormwater system maintenance in anticipation of further regulatory compliance requirements associated with our new NPDES stormwater permit. First-year operating costs of \$507,000.
- Adding a new utility systems operator position split between water and sewer operations to carry out cross-connection and pretreatment programs under ordinances that have been in place for several years. First year costs of \$90,000.
- Cleaning the interior of water reservoirs at a cost of \$45,000.
- Updating our water master plan at a cost of \$250,000.
- Decisions about how to re-use the abandoned West Longview sewer lagoons site. Public feedback about this issue is also being sought through the process of updating the City's comprehensive plan.
- Completion and adoption of new low impact development regulations also associated with the new stormwater permit.

Combined, an average residential water/sewer/stormwater/solid waste utility bill for an in-city account is calculated to increase by 2.6% in 2017, from \$119.80 to \$122.93 per month.

Capital Spending

In addition to the new street and stormwater crews' equipment and the dissolved oxygen water injection project mentioned above, other major capital spending for 2017-2018 includes continued water main replacement (\$1,500,000 in 2017), replacement of the Hillcrest water pump station (\$850,000), rehabilitation of four sewer pump stations (\$3,550,000 in 2017), a \$650,000 "placeholder" appropriation for the repurposing of the West Longview sewer lagoons site, continued annual sewer main replacements and lining projects (\$825,000 in 2017), replacement of a sewer vacuum/jetting truck (\$410,000), another "placeholder" appropriation of \$100,000 for to-be-identified ADA (Americans with Disabilities Act) improvements, Fire Station 81 apparatus bay heating improvements (\$100,000), parks playground equipment replacement (\$90,000), remodeling the police station (\$1,142,000, with a funding strategy still to be confirmed), the third and final planned phase of downtown streetscape improvements along Commerce Avenue (Hudson to Hemlock Streets, \$1,000,000), reconstruction of the R. A. Long Park plaza including a fountain (\$663,000), and acquiring a shooting training range site (\$263,000

for lead capture improvements). Portions of the costs for the final three projects will be included in the City's 2017 legislative agenda requests for support from the state's capital budget.

These and other smaller capital projects planned for 2017-2018 are listed in the Capital Improvement Program section of the budget document.

Next Steps

Several public hearings and matters of legislation are scheduled according to state law during the next month leading up to final budget adoption – a hearing on 2017 general fund revenue sources on November 29, an ordinance and resolution about the 2017 ad valorem/property tax levy and rate also on November 29, the first public hearing on the 2017-2018 biennial budget itself and the CIP on December 8, and the final public hearing and budget adoption ordinance as well as the CIP resolution on December 15.

Closing

Budget preparation is never easy. There are countless numbers to produce and narratives to be written. Scenarios have to be run and re-run as new information is received and projections change. It's always time-consuming, and sometimes tedious. Decisions are frustrating and in some cases painful, no matter how much better our financial projections might look from one cycle to another. So we greatly appreciate the commitment of everyone involved who is dedicated to providing accurate, thorough, and timely information, the ultimate result of which enables us to provide the very best of City services to the residents and business community of Longview within the resources entrusted to us.

Ultimately the budget is a plan, the direction and authority to use financial resources. Inevitably there will be some revisions necessary during the coming two years, but we pledge now to use our resources wisely in taking budgetary direction from the council, and we also pledge to bring you more information and professional recommendations if and when we can improve on this plan during the next two years. It is an honor and a privilege to do so.

Respectfully submitted,



Dave Campbell
City Manager



Kurt Sacha
Assistant City Manager/Finance Director