
BUDGET DOCUMENT

The City of DuPont budget includes the financial planning and legal authority to obligate public funds. Additionally, the budget provides significant policy direction by the City Council to the staff and community. As a result, the City Council, staff and public are involved in establishing the budget. The budget document provides four functions:

1. Policy Document – The budget functions as a policy document in that the decisions made within the budget will reflect the general principles or plans that guide the actions taken for the future. As a policy document, the budget makes specific attempts to link desired goals and policy direction to the actual day-to-day activities of the City staff.
2. Operational Guide – The budget of the City reflects its operations. Activities of each City function and organization have been planned, discussed, formalized, and described in the following sections. This process will help to maintain an understanding of the various operations of the City and how they relate to each other and to the attainment of the policy issues and goals of the City Council.
3. Link with the General Public – The budget provides a unique opportunity to allow and encourage public review of City operations. The budget describes the activities of the City, the reason or cause for those activities, future implications, and the direct relationship to the citizenry.
4. Legally Required Financial Planning Tool – The budget as a financial planning tool has been its most traditional use. Preparing and adopting a budget is a State law requirement of all cities as stated in Title 35A of the Revised Code of Washington (RCW). The budget must be adopted as a balanced budget and must be in place prior to the beginning of the City's fiscal year. The budget is the legal authority to expend public moneys and controls those expenditures by limiting the amount of the appropriation at the fund level. The revenues of the City are estimated, along with available cash carry-forward, to indicate funds available.

BUDGET PROCESS

The City of DuPont operates on a calendar year basis. It utilizes an incremental budgeting approach that assumes, for most functions of government, that the current year's budget is indicative of the base required for the following year. Any increases are incremental and are either based on need, emerging issues, Council goals, and available resources.

The budget process begins in late spring with departments preparing requests for new staff, programs, or significant increases to their current year budget that will address emerging issues and other operational needs. The Finance Director and City Administrator conduct an analysis of the departmental base budgets and the revenue outlook for the coming year to determine the availability of funds for any new initiatives. During the summer the departments also prepare their base budgets. These budget requests are submitted to the Finance Director for review. By late summer the Mayor reviews each department's budget requests and develops a preliminary budget recommendation.

As mandated by RCW 35A.33.135, the first requirement is that the Mayor submit estimated revenues and expenditures to the City Council on or before the first Monday in October. The preliminary budget is presented to the City Council in early October. Public hearings are held to obtain taxpayer's comments, and Council budget workshops are held throughout the fall. The Council makes its adjustments to the preliminary budget and adopts by ordinance a final balanced budget no later than December 31. The final

operating budget as adopted is published, distributed, and made available to the public during the first quarter of the following year.

After the budget is adopted, the City enters a budget implementation and monitoring stage. Throughout the year, expenditures are monitored by the Finance Division and department directors to ensure that funds are within the approved budget. Finance provides financial updates to the City Council to keep them current with the City's financial condition. Any budget amendments made during the year are adopted by City Council ordinance. These amendments allow for necessary adjustments to the budget that could not have been planned for during the normal budgeting process. Typical amendments include administrative adjustments, carry forward appropriations resulting from projects that were not completed at year end, and new grant revenues awarded after the budget adoption.

The Mayor is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, or other conditions of employment must be approved by the City Council.

BASIS OF ACCOUNTING AND BUDGETING

Basis of Presentation – Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City uses thirteen (13) separate funds. Each fund has a specific role and responsibility. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. Revenues and expenditures within each fund are closely monitored to ensure accuracy, accountability, and efficiency. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of DuPont:

Governmental Fund Types

Governmental funds are used to account for activities typically associated with state and local government operations. There are four governmental fund types used by the City of DuPont:

General Fund

This fund is the primary fund of the City of DuPont. It accounts for all financial resources except those required or elected to be accounted for in another fund. It is used to meet the basic services that your local government provides. The General Fund covers Police, Fire, EMS, Parks and Recreation, Administration, Engineering, Planning, Building Development, Finance, Legal, and Legislative Services. Major revenue sources include taxes, fees, licenses and permits, and intergovernmental revenues (Federal, State and County).

Special Revenues Funds

These funds account for revenues that are legally restricted or designated to finance particular activities. The Street Fund is a Special Revenue Fund. Gas taxes are collected into the Street Fund and must be used for the maintenance of our arterial streets, sidewalks, and trails. Other Special Revenue funds include the Street Depreciation Fund, Hotel/Motel Tax Fund, Public Safety Mitigation Fund (formerly the Fire Mitigation Fund), Technology Fund, and Glacier NW Settlement Fund.

Debt Service Funds

These funds account for financial resources which are designated for the retirement of debt. The General Obligation Fund and the Local Improvement District (LID) Fund are Debt Service Funds. The General

Obligation bonds were voter approved bonds used to remodel the Community Center/City Hall in 1992 and the LID bonds are special assessment bonds used to construct the streets, utility infrastructure, sidewalks, etc. for the first phase of development in Northwest Landing. LID bonds are paid for through assessments against the benefited properties in the first phase of development.

Capital Project Fund

This fund accounts for financial resources which are designated for the acquisition or construction of general government capital projects. A part of the revenues received into this fund (such as Real Estate Excise Taxes or REET) are restricted by law to be used for general capital improvements.

Proprietary Fund Types

Proprietary Funds are used to account for services to the general public where all or most of the costs, including depreciation, are to be financed or recovered from users of such services. There are two generic fund types in this category:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily by user charges. The Water Utility Fund, the Sewer Utility Fund, and the Stormwater Fund are enterprise funds. These Utility Funds cover the City's water and sewer utilities, as well as the maintenance and costs of the City's stormwater system.

Internal Service Fund

This fund accounts for operations that provide goods or services to other departments or funds of the City on a cost-reimbursement basis. The Equipment Rental & Replacement (ER&R) Fund is an internal service fund. The ER&R Fund collects user fees from those departments with vehicles and major equipment. These fees are used to replace the vehicles or equipment based on a predetermined schedule.

With the exception of the General Fund, money within each fund cannot be used in other funds. Many of these revenues received in each fund are restricted in use by law and/or by legislative action. Funds may make interfund loans to other funds. However, any interfund loan must be paid back based on a predetermined schedule and must pay prevailing interest rates (usually the interest rate earned through the Local Government Investment Pool). The General Fund can make transfers to other funds if money is available.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The City of DuPont uses a cash basis of accounting. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for all funds. These funds are budgeted on the cash basis of accounting. The financial statements include budgetary comparisons for all funds.

Budgets are adopted at the fund level that constitutes the legal authority for expenditures. Annual appropriations for all funds lapse at the fiscal period end.

FINANCIAL POLICIES

Reserve Policy

The City recognizes the importance of maintaining a reserve account to meet unanticipated needs and to fund emergency expenditures. If a reserve account is nonexistent or low, there is concern by bond rating agencies about the entity's ability to make payments in times of economic downturn. On the other hand, if a reserve level is too high, there is concern that the entity is not using its resources adequately. Maintaining an adequate reserve is an essential component of cash management and good fiscal practice.

The City established a reserve policy for the General Fund beginning in the 1998 budget. The Council's policy at that time was to have 10% of annually projected revenues set aside in a contingency balance within the General Fund. However, due to revenue shortages, this level of funding has not always been possible. Beginning in 2005, the City began to reestablish its reserves. These reserves are again beginning to decline, due to declining development related revenues and a downturn in the economy, combined with escalating costs of providing public safety services to a growing community. The reserve balance is to be held for possible use as Council may deem appropriate. Possible uses include meeting revenue shortfalls during times of economic downturn, meeting unanticipated expenditure needs, and financing possible emergency situations.

Investment Policy

The City maximizes its investment returns while maintaining the safety of its principal by investing its revenues in the Local Government Investment Pool (LGIP). The LGIP is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economy of scale. Currently the LGIP is the only authorized investment vehicle available to the City.

Although the LGIP's rate of return is lower than more aggressive investment vehicles (such as stocks and bonds), the City's investments in the LGIP are easily accessed and highly stable. In other words, we can divest within 24 hours to meet any unexpected cash flow needs and there is no risk to the City's principal. The monthly rate of return on investments is reported to the Council through the Finance report and is available to the general public upon request.

The Finance Division is responsible for making and withdrawing investments while considering the City's cash flow requirements. The cash flow objective is to maintain the City's bank account cash balance at such a level so that the balance should be no more than what is sufficient to cover the City's immediate financial obligations. Any money above this threshold is invested in the LGIP.

Purchasing Policy

The City of DuPont currently uses a purchase order system for operational purchasing needs. Any purchases and contracts above a specific level are handled in accordance with state mandated purchasing practices, such as small works roster and bidding requirements.

Purchasing authority is based on the appropriated budget as passed by the City Council. Council must approve any purchases beyond original appropriations through the budget amendment process. If the budget requires an amendment, revenues are first readdressed to verify that adequate resources are available to fund the amendment. If adequate resources are available, proposed amendments are presented to Council for consideration. Public comment is taken on the amendment at the first reading. After receiving the public comment, Council considers the proposed amendment prior to passage. Once

passed, any affected purchases may be made in accordance with the appropriate purchase order, small works roster, or bidding requirements.

Revenue Policy

The City's administration strives to maximize revenue by recommending stable and dependable tax measures and alternative revenue sources such as intergovernmental grants and loans. For established revenues, the Finance Division continues to pursue all collection efforts available to the City. User charges for services will also be proposed so that the charges are proportional to the actual costs of providing the related services.

Financial Communication

The City will continue to provide reports on the budget status to the Council, City departments, and DuPont's citizens. Spending figures are projected and compared to budgeted appropriations on a monthly basis. These reports are reviewed on a monthly basis by the affected departments, the Finance Director, and the City Administrator. Quarterly summary reports will be provided to the City Council for review. If fund projections exceed appropriations, an explanation must be provided by the appropriate department along with a course of action to correct the situation. Every effort is made to stay within budget. Any potential overruns in the bottom line will be documented for Council review for budget amendment consideration.

CITY REVENUES

Each of the thirteen (13) funds detailed within the 2008 Budget have a specific purpose and responsibility. The funds act much like the separate checking accounts maintained by family members. Each fund accounts for all revenues and all expenditures/expense transactions that occur throughout the year. This allows the City to accurately record revenues and authorize and monitor expenditures as to source and purpose for greater accountability and improved efficiency.

Most traditional local government functions, including police, fire, parks and recreation, finance, administration, planning, engineering, legal, building inspection, and legislative services, are budgeted within the General Fund. Following is a listing of many of the funding sources for the City. This list is not meant to be all-inclusive, but is meant to assist in understanding how and where much of the money comes from in the support of general services of the City.

TAX REVENUES

Tax revenues in 2008 (\$5,264,296) are projected to increase by \$458,499 or 9.54% over 2007 tax collections (\$4,805,797). The increase is primarily due to utility taxes, and retail sales tax and property tax associated with the continuing residential and commercial growth of the community.

Property Tax

Property taxes are the largest source of revenue in the General Fund. All real and personal property (except where exempt by law) is assessed by the Pierce County Assessor at 100 percent of the property's fair market value. Assessed values are adjusted each year based on market value changes.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill allocated to the City is relatively small. In 2007, the total property tax rate

for DuPont was \$10.11 per \$1,000 of assessed valuation. Of that total, about 15.2 percent, or \$1.54 per \$1,000 assessed valuation, went to the City. This included the levy lid lift and EMS levy. In 2008, the total property tax rate for DuPont is \$9.28 per \$1,000 of assessed valuation. Of that total, about 15.3 percent, or \$1.42 per \$1,000 assessed valuation, goes to the City. This includes the levy lid lift and EMS levy.

Initiative 747, which passed in November 2001, limits the annual increase in the regular property tax levy to the lesser of one percent or the implicit price deflator. Previously, the cap was six percent. The City can only exceed the limitation with the approval of voters. I-747 does not affect special levies that are approved by voters. The initiative does not affect property values and has no impact on the annual valuation of property that is done by the County Assessor. It does not cap the value of your property or your total property tax bill.

In 2007 the Washington State Supreme Court ruled Initiative 747 unconstitutional. The Governor convened a special session of the Legislature to address the issue and a bill was passed to reinstate the one percent cap on annual property tax increases by taxing districts. The Legislature also approved a measure that allows home owners earning less than the median state income (currently \$57,000 per year) to defer up to half of their property taxes. Although they will have to pay the taxes with interest upon the sale of the house this will have an immediate impact on local taxing districts.

The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed businesses and homes. The new construction levy does not increase the overall tax rate paid by property owners. The City's total rate cannot be more than \$3.10 per \$1,000 of assessed valuation.

The annual tax impact on a property owner is usually different than the percent increase of the levy, since it depends on several factors such as changes in the assessed valuation of the property, growth in the City's overall assessed valuation, and levy increases by other taxing districts. The property tax rate is determined by dividing the levy amount by the assessed valuation per \$1,000.

DuPont voters approved a six-year EMS levy renewal during 2005 which went into effect in 2006. These funds must be used for EMS purposes. 2008 EMS property tax funds are projected to be \$497,874. The 2008 budget has appropriated \$703,834 for daily EMS operations; thus, the City has committed additional General Fund dollars to cover the additional costs that are not covered by the EMS levy.

DuPont voters also approved an increase to its regular property tax levy for collections commencing in 2003, with the rate thereafter being subject to otherwise applicable statutory limits. This additional tax revenue is needed to fund regular city operations. However, even with the voted rate increase, DuPont continues to have one of the lowest City property tax rates in 2008 in Pierce County.

Retail Sales and Use Tax

Sales tax is levied on the sale of consumer goods (except most food products and services) and construction. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The general sales tax rate within the City of DuPont is 8.8 percent. Of the 8.8 percent, one percent (less 0.15 percent that goes to Pierce County) is returned to the City of Dupont, and the remainder is distributed to the State and other public agencies. The City's effective rate is .84%.

In September 2000, Pierce County voters approved a 0.1 percent increase in the general sales tax rate to provide funds to acquire, improve, rehabilitate, maintain, or develop regional and locals parks. Fifty

percent of the funds are allocated to the Point Defiance Zoo and Northwest Trek. The remaining fifty percent are allocated on a per capita basis for parks to Pierce County (with a required match), Metropolitan Park District, and each city and town in Pierce County (except Tacoma). The City of Dupont can expect to receive \$64,270 in 2008.

In November 2001, Pierce County voters approved a 0.3 percent increase in the general sales tax rate for those areas within the Public Transportation Benefit Area (PTBA) boundaries. These funds are authorized for use by Pierce Transit to replace revenue lost when Initiative 695 cut off the Motor Vehicle Excise Tax as a source of funding for public transportation.

Criminal Justice Sales Tax

Under the authority granted by the State and approved by the voters, Pierce County levies an additional 0.1 percent sales tax to support criminal justice programs. The State collects this optional tax and retains 1.5 percent for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent is distributed to cities based on population. This revenue must be used exclusively for criminal justice purposes and cannot replace existing funds designated for these purposes.

Utility Taxes

Utility taxes are levied on the gross operating revenues that public and private utilities earn from operations within the boundaries of the City. This applies to electric, natural gas, water, sewer, surface water, solid waste, and telephone. Legislation passed in 1982 limits the tax rate on electric, gas, steam, and telephone utilities to six percent. There are no restrictions on the tax rates for water, sewer, surface water, and solid waste utilities. Currently, a six percent tax rate applies to both residential and commercial customers of the utilities which the City imposes a utility tax on.

This revenue source could be affected by federal legislation. Congress has considered various bills that would limit the definition of “telephones” as it relates to emerging technology. This could eliminate such services as Digital Subscriber Lines (DSL) and Voice Over IP (VOIP) from taxation as part of the telephone utility.

Leasehold Excise Tax

Leasehold excise taxes are collected on property owned by state or local governments and leased to private parties (City’s share). Leasehold taxes are paid in lieu of property taxes. The state rate is 12.4% of which the City is given 4 percent.

Real Estate Excise Tax (REET)

The Real Estate Excise Tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at the rate of 1.28 percent. Cities are also authorized to impose a local tax of 0.50 percent. The first 0.25 percent tax must be used primarily for local capital improvements identified under the capital facilities plan element of the City’s Comprehensive Plan. The second 0.25 percent, which is optional, must also be used solely on capital projects. Capital projects are defined as those public works projects of a local government for the planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and parks. The acquisition of land for parks is not a permitted use of these funds.

Business & Occupation (B&O) Tax

The City of Dupont currently has a Business & Occupation Tax ordinance which requires all businesses conducting business within the city limits to pay a business and occupation tax. This tax applies to the gross revenues of most businesses with a rate of one-tenth of one percent. The City adopted a streamlined business & occupation tax ordinance in December 2004, which was a culmination of a project worked on for four years in cooperation with all local cities, the Association of Washington Businesses (AWB), and the Washington State Department of Revenue. Over the years, business leaders have expressed concern over the lack of uniformity among the various city business & occupation tax ordinances. This multi-year project was to resolve those differences and craft a solution to assist in meeting everyone's needs. With the adoption of this ordinance there were some fundamental changes in how taxes are reported and remitted to the city. Some of the highlights are: revisions to the administrative provisions that streamline all taxes paid with the same deadlines, late penalties, refunds, and appeals; and uniform apportionment and credit provisions to ensure against multiple tax burdens on businesses with activities in more than one B&O tax-imposing city. In 2007 the City adopted the allocation and apportionment provisions to the Model B&O tax ordinance in order to be in compliance with RCW 35.102.130. The Association of Washington Cities (AWC) estimates that this apportionment provision will cost Washington cities 30 million dollars annually.

Hotel/Motel Tax

Hotel/Motel tax is levied upon charges made for the furnishing of lodging by a hotel, rooming house, tourist court, motel, trailer camp and other transient accommodations in the City. The tax rate is two percent of the selling price or charge made for the lodging. The tax is taken as a credit against the state sales tax, so that what a patron pays in retail sales tax and the hotel/motel tax combined is equal to the retail sales tax in the jurisdiction. It is collected and administered by the Washington State Department of Revenue. State law requires that these taxes be credited to a special fund with limitations on use, principally to generate tourism/convention activities that bring new visitors to our area, as prescribed by RCW 67.28.310. Cities with over a 5,000 population are required to have a "Lodging Tax Advisory Committee" of at least five members appointed by the City Council. The City of DuPont created this committee in 2006.

LICENSES AND PERMITS

Building Related Permits

This category consists primarily of revenue collected by the Building Division and the Public Works Department. Included in this category are building permits, plumbing permits, grading permits, and mechanical permits. Fees imposed for permits are subject to a base charge determined by the type of permit, plus additional fees determined by either the dollar value or size (square foot or number of units) of the project.

Business Licenses and Permits

This category includes the issuance of business licenses, and permits for fire alarms, fire sprinkler systems, animal licenses, and other miscellaneous items. The fee structure for business permits is typically an annual fee or one-time charge depending on the particular type of license or permit. The City of Dupont also requires businesses with no physical presence in DuPont that are doing business in the city (e.g. contractors) to obtain a business license.

Franchise Fees

Franchise fees are charges levied on private utilities for the right to use city streets, alleys and other public properties. Cable TV franchise fees are governed by federal rather than state law and may be levied at a rate of five percent of gross revenues, regardless of the cost of managing the franchise process. The Federal Communication Commission ruled in 2002 that cable companies do not have to pay franchise fees on cable modem services.

INTERGOVERNMENTAL

State Shared Revenues

State shared revenues are received for liquor sales and motor vehicle excise taxes, including travel trailer and camper excise tax. These taxes are collected by the State of Washington and shared with local governments based on population. State shared revenues are distributed on either a monthly or quarterly basis, although not all quarterly revenues are distributed in the same month of the quarter.

The April 1, 2007 population figure used in the 2008 Budget is 7,045 as determined by the Office of Financial Management for Washington State. This figure is important when determining distribution of state shared revenues on a per capita basis.

State shared revenues also used to include motor vehicle excise tax and local vehicle license fees. The passage of I-695 in November 1999 resulted in the repeal of the motor vehicle excise tax and the passage of I-776 in November 2002 repealed the \$15 local vehicle license fees, resulting in the loss of this revenue source beginning in 2003. The State Legislature has provided “backfill” funds for cities to mitigate against the loss of revenue from I-695, but future allocations were eliminated in order to balance the state budget.

Liquor Receipts Profits and Taxes

In Washington State, liquor sales are controlled by a state-operated monopoly. Cities and towns receive 40 percent of the profits generated by the Washington State Liquor Control Board and 28 percent of the liquor excise tax receipts. The profits are distributed on the last day of March, June, September, and December. The excise portion is distributed on the last day of January, April, July, and October. The purpose of allocating these funds back to the cities is to help defray the costs for the policing of liquor establishments located within the city limits. Cities are required to appropriate at least two percent of these revenues to support approved alcohol and drug addiction programs.

The per capita rate projection for 2008 is \$7.08 from liquor board profits and \$4.70 from liquor tax. This is an decrease for liquor board profits and an increase for liquor taxes from the 2007 revised per capita rates due to a number of new initiatives and programs by the Liquor Control Board aimed at increasing revenues or decreasing costs. 29 more stores will open on Sundays in 2008, which will result in an increase in expenditures, which will reduce liquor profits, but the extra store hours will increase gross sales, leading to enhanced liquor taxes.

Motor Vehicle Fuel Tax (Gas Tax)

In Washington State, cities receive a portion of the state-collected gasoline tax. Beginning July 1, 2003, the state fuel tax increased to 28 cents per gallon from 23 cents as part of the “Nickel Funding Transportation Package” enacted by the state legislature. The State distributes 10.6961 percent of the base amount of 23 cents to cities (less some small deductions).

New transportation funding enacted by ESSB 6103, passed by the 2005 Washington Legislature and signed into law by Governor Gregoire, will provide additional revenues to incorporated cities and towns. Cities and towns received 8.333 percent of a three cent tax increase which began July 1, 2005, and 8.333 percent of another three cent increase which began July 1, 2006. This is in addition to the base amount of 23 cents to cities.

Prior to 2006, 31.86 percent of gas tax proceeds received had to be deposited into an Arterial Street Fund for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets. The remaining funds received were to be deposited in a Street Fund for street maintenance. Cities and towns with a population of less than 15,000 could combine the two funds and use all their gas tax money for maintenance if they desired. With the passage of SB 5969, beginning with the September 2005 distribution, cities only receive a single distribution. This means that cities can now spend any portion of their gas tax on street maintenance.

The revenue estimate for gas tax is based on a forecast provided by the Association of Washington Cities. Gas tax is imposed as a fixed amount per gallon of gas purchased (i.e. fluctuations in the price of gas will effect gas tax revenues only if consumption changes). In recent years, higher gas prices have resulted in lower consumption, which in turn has slowed the growth in this revenue source. The estimated per capita amount in 2008 is \$25.09.

Criminal Justice Revenues

The Washington State Legislature approved the Criminal Justice Funding Act in a special session of the Legislature in July 1990. The principal focus of the Act is to provide funding for county and city criminal justice systems, including police protection, mitigation of congested court systems, and relief of over-crowded jails.

Effective January 2004 the law changed on how the funds are distributed. Quarterly distributions of state general fund monies are based upon a purely per capita basis, with each city receiving a minimum of \$1,000, no matter how small their population.

The distribution is now divided into five separate distributions:

1. High Crime – For cities that have (1) a crime rate in excess of 125 percent of the statewide average; (2) levied an additional sales and use tax at the maximum rate per RCW 82.14.030, and (3) have less than 150 percent of the statewide average per capital yield for all cities from such local sales and use tax. 30 percent of the money available for this distribution is distributed to cities and towns with crime rates in excess of 175 percent of the statewide average. The monies are allocated based on population with no city receiving more than 50 percent (of the 30 percent). The remaining 70 percent of the money is distributed to cities and towns with crime rates in excess of 125 percent of the statewide average. These monies are also allocated based on population. No city may receive more than 30 percent of the total high crime monies available.

The other 50 percent of the municipal criminal justice assistance money is divided as follows:

2. Criminal Justice – Special Programs: Innovative Law Enforcement, At-Risk Children, and Domestic Violence – 54 percent is distributed to cities and towns on a per capita basis.
3. Criminal Justice – Contracted Services: 10 percent is distributed to cities and towns that contract with another governmental agency for a majority of the city's law enforcement services. These monies are allocated on a per capita basis.

4. Population – 16 percent is distributed to cities and towns based on population with no city receiving less than \$1,000 (per calendar year).
5. Violent Crime – 20 percent is distributed to cities and towns with a three-year average violent rate for each 1,000 in population in excess of 150 percent of the statewide three-year violent crime rate. Monies shall be distributed based on population with no city receiving more than one dollar per capita per calendar year.

The City of Dupont currently qualifies in two of the five funding areas: Special Programs and Population. The City does not qualify to receive the funds for high crime, violent crime, or contracted services.

The City also receives funding to help reduce impaired driving and to provide funding for the costs associated with enforcing laws relating to driving while under the influence of intoxicating liquor or any other drug and for other criminal justice purposes. This program is administered by the Department of Licensing and its revenue comes from licenses, permits, and fees.

CHARGES FOR SERVICES

Planning and Development Fees

These fees are collected for services related to the issuance of permits and the review of plans for compliance with City codes. Fees are generally collected at a level estimated to recover the cost of the service provided.

Utility Rates

The water, sewer, and stormwater rates fund most of the costs associated with providing these services in our community. Other revenue sources include hookup fees and interest earnings. These rates have not been increased for several years.

Miscellaneous Fees

Recreation fees are collected for participants in the City's recreation programs and activities. Other fees collected include sale of maps, documents and records, processing of invoices, fingerprinting fees, false alarm fees, and civil service testing fees.

MISCELLANEOUS REVENUE

Investment Income

In the City of Dupont, available cash is invested with the Local Government Investment Pool. The amount of interest received will vary with interest rates and the amount of cash available for investment during any particular budget year. Interest income is allocated to City funds according to average cash balance.

Rentals and Leases

Sources of rental and lease income include the rental of City owned facilities for events, and the leasing of City owned land for cell-tower usage.

Other Financing Sources

Other financing sources represent those funding sources that are one-time or non-recurring in nature. Examples include general long-term debt such as General Obligation Bonds, Local Improvement District (LID) financing, interfund transfers, insurance proceeds, restitution, and grants.

Interfund Transfers

Some funds receive revenues from other funds in the form of an interfund transfer. These transfers may represent payments for service, an operating transfer, or a concentration of revenues for a specific project. The following funds receive transfers from other funds.

- Street Fund is budgeted to receive a transfer in the amount of \$163,250 from the General Fund.
- General Obligation Debt Service Fund is budgeted to receive a transfer of \$26,763 from the Capital Projects Fund.
- Street Depreciation Fund is budgeted to receive a transfer from the Glacier Northwest Settlement Fund of \$100,000.

MAJOR BUDGET ASSUMPTIONS

- The 2007 population figure used in the 2008 Adopted Budget is 7,045 as determined by the Office of Financial Management for the State of Washington. This figure is important when determining distribution of State shared revenues on a per capita basis.
- The 2008 assessed valuation (AV) is \$1,212,061,693. The City's assessed valuation is determined by the Pierce County Assessor-Treasurer.
- Property taxes are levied based on assessed value and the City's authorized levy rate of \$1.42 per thousand dollars of assessed value. This includes the EMS and excess levies.
- Gas taxes, liquor excise taxes and liquor profits are based upon estimates from the Municipal Research and Services Center (MRSC).
- Building permit and land use fees are estimated by the Community Development department based on expected 2008 collections.
- Revenue forecasts are largely influenced by historical trends of revenue received, rates for services provided, inflation, and population growth, as well as other known factors specific to each revenue source.
- Service levels are the same or greater than provided in 2007 in most areas.
- Funding was reduced in Parks and Greenways and staff will be researching alternatives and options regarding levels of services and alternative funding mechanisms.
- The City began providing Advanced Life Support (ALS) services in late 2007. The 2008 budget reflects the annual cost of this program.
- Positions and salary ranges are based on the City's compensation and classification plan, incorporating increases in accordance with the approved collective bargaining agreements.
- Benefit amounts are based on employee benefit plans now in force, with the continued incorporation of a provision for employee sharing of the medical premium in accordance with the approved collective bargaining agreements. The employee medical premium contribution has also been applied to non-represented classifications.
- Equipment replacement funds contributions are budgeted from the operating expenses of departments owning the capital equipment or vehicles in an amount necessary to replace the equipment or vehicle at the end of its useful life.

RISK MANAGEMENT

The City of DuPont is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). This agency is a pool of Washington cities that uses its collective buying power to purchase general liability, public officials, property, and automobile insurance. The City was recognized with a Certificate of Excellence for having no claims in 2005. The City's industrial (worker's compensation) insurance is provided by Washington State Department of Labor and Industries, and unemployment insurance is paid through the State of Washington Employment Security Department. The City is also a member of the Association of Washington Cities Retrospective Rating Pool for workers' compensation claims. It is anticipated that membership in this pool will improve the City's management of claims as well as reduce future costs.

SALARIES AND BENEFITS

Employee compensation continues to be the largest expense for the City. Total salaries and benefits are budgeted at \$4,669,259. A ½ time Emergency Services Specialist position was added in the 2008 budget, the Assistant Building Official was reclassified to Building Official, and the Assistant Building Official position was eliminated, bringing the total authorized positions to 47. The Emergency Services Specialist position had previously been a contracted position.

The City currently has three bargaining units: the DuPont Employees Association (DEA), the DuPont Police Officers' Association Local #165 (DPA), and the DuPont Professional Fire Fighters Local #3829 (DFA). The DEA and DPA contracts are effective for 2007-2009. The Fire contract expired at the end of 2006 and a new contract is in the negotiation process.

Per the bargaining agreement, the DPA employees will receive a 3.5% cost of living (COLA) adjustment effective January 1, 2008. DPA employees are also eligible for annual step increases (predetermined by the contract) pending a satisfactory performance review. Additionally, employees are eligible for longevity pay and specialty pay upon meeting certain criteria.

Per the bargaining agreement, the DEA employees will receive a 3.5% cost of living (COLA) adjustment effective January 1, 2008. DEA employees also receive step increases (predetermined by the contract) on January 1st and July 1st pending a satisfactory annual performance review. Additionally, employees are eligible for longevity pay upon meeting certain thresholds of employment length.

DFA employees are eligible for annual step increases (predetermined by the contract) pending a satisfactory performance review. Additionally, employees are eligible for longevity pay upon meeting certain thresholds of employment length.

The City Council adopted an Exempt Employees Policy and new salary matrix in 2007. Exempt employees salary ranges are set by the Mayor and City Council and beginning on January 1, 2008 are subject to automatic cost of living increases, which is the same as represented employees. A Compensation Committee was established in 2005 to review elected officials salaries. The recommendations from this committee were effective on January 1, 2006.

The City offers a variety of benefits to its employees through the Association of Washington Cities Benefits Trust Group. Benefits also have increased over 2007 rates. Regence health insurance rates increased approximately 14.8%, while Group Health rates increased 6.2%. Washington Dental Service rates for dental insurance did not increase, but Willamette Dental increased by 4.9% in 2008. Vision Services Provider rates and the rates for long-term disability and life insurance remained the same.

All of the above factors were taken into consideration when formulating salary and benefit projections.

FUND BALANCES

Each fund begins the year with a beginning fund balance. As the year progresses the expenditures made from the fund and revenues received will change the fund balance. A minimum amount of fund balance should be maintained in each operating fund to meet cash flow needs and, if needed, as a means of meeting commitments when a revenue shortfall occurs. Fund balance in excess of the amount needed for minimum cash flow purposes can be used to fund one-time expense or to replenish or enhance reserves. Budgeted fund balances recognize all cash resources estimated to be available as of the end of the year.

Citywide fund balances increased 3% between 2006 and 2007, and are projected to decrease by 14.9% between 2007 and 2008, primarily due to costs associated with the Civic Center project and the transfer of the Sewer Utility to Pierce County.

