

**WHATCOM COUNTY
EXECUTIVE'S OFFICE**

County Courthouse

311 Grand Avenue, Suite #108
Bellingham, WA 98225-4082



January 1, 2002

Citizens of Whatcom County:

I submit the Whatcom County Final Budget for the fiscal year beginning January 1, 2002.

In accordance with the Whatcom County Charter, I proposed a 2002 budget to the County Council on October 17, 2001. On November 13, 2001, the council adopted the final 2002 budget in open session with Whatcom County¹ Ordinance Number 2001-058 .

Expenditures in the 2002 proposed budget total \$118,701,722. This is decrease of 4.2 percent from the \$123,910,296 amended 2001 budget.

The resources in the 2002 budget have been allocated in accordance with Whatcom County's mission statement, "*provide essential and desirable public services in a cost effective and accountable manner.*"

The 2002 final budget:

- Complies with budget development policies adopted by the County Council for 2002.
- Maintains current service levels.
- Holds the general fund property tax at 2001 levels, with an increase of \$483,000, which represents the property tax levy on the value of new construction.
- Funds studies and projects that will make us more energy efficient.

September Eleventh Impacts Whatcom County Budget

The terrorists attacks on our country last September have impacted many facets of our county's 2002 budget. At the time that the attacks took place, we were approximately half way through preparing our recommended budget.

¹According to the Whatcom County Code ordinance adoption rules, this ordinance became law on November 27, 2001.

These attacks provided us an unavoidable glimpse at the importance of local government to its citizens. As a first responder and provider of public safety, emergency and health services, county government has responsibilities that, in the face of tragedy or disaster, are enormous.

Like other local governments, our struggle to reduce operating costs as revenue sources decline or disappear has become more challenging. It was in this environment of financial contraction and enhanced awareness that the 2002 budget was prepared, reviewed, and adopted.

Short Term Financial Condition Still Sound

In the short term, Whatcom County's financial condition is reasonably sound. We have very little debt and a significant general fund balance. The projected 2002 ending general fund balance is \$12.5 million, 22 percent of general fund expenditures. In spite of our current status, we are not immune to financial pressures and difficulties as our economy shifts. It is clear that we will face serious financial challenges in the months and years ahead. Our focus in 2002 will be on preparing for the short term and long term impacts of declining revenues and growing costs.

Falling Revenues are a Serious Concern

Over the last five years we have closely watched revenue trends and have seen them flatten. One of the greatest challenges we currently face is that this trend has changed and our revenues are

now falling on several fronts. Our general fund revenues will drop from \$54,499,279 in 2001 to \$54,314,106 in 2002. We are projecting further reductions in 2003 and 2004.

Retail Sales Tax Declining

Retail sales tax, the general fund's second largest revenue source, is expected to decline by \$150,000 in 2002. There are several factors that compound to reduce our sales tax revenues:

- A national economic recession.
- Fewer Canadian dollars spent in our county due to tighter crossing restrictions at the United States and Canadian border.
- Recent job layoffs at the Georgia Pacific and Alcoa Aluminum plants.

Interest Earnings Falling

The Federal Reserve Board has lowered interest rates eleven times since the beginning of 2001. In one year the Fed Fund rate has fallen from 6.0 percent to 1.75 percent. It is possible that Whatcom County's interest income in 2002 will be as much as one million dollars less than it was in 2001.

Statewide Initiatives Impact Funding of Local Services

In 2001 and 2002, the state legislature reduced its funding to counties for local law and justice and public health. Whatcom County received over \$600,000 less per year in state funding for these areas. The governor and legislature are now proposing to completely eliminate the remaining \$1.4 million in funding. This will impact our 2002 budget by approximately \$220,000 and the 2003 budget by the full amount.

Whatcom County Fights to Contain Increasing Costs

Expenditures in the 2002 budget were held to \$118,701,722. This is a 4.2 percent decrease from the amended 2001 budget. The 2002 expenditure budget recognizes increasingly limited revenues. Every effort will be made to contain growing costs.

Health Insurance

Our costs for employee health insurance in 2002 will be 87 percent higher than two years ago. The impact of increased premiums on Whatcom County's budget will exceed one million dollars in 2002.

Emergency Medical Costs

Our contract with the City of Bellingham, which provides ambulance services outside the Bellingham city limits, has been increasing at 15% per year. The impact of this on the 2002 budget is an additional \$173,500 in ambulance costs.

Energy Costs

Energy costs are projected to increase again in 2002 in our region. The 2002 budget anticipates a \$132,000 rise in electricity costs. This is an increase of 24 percent over 2001. Further increases in energy costs are anticipated in the near future.

Salaries and Wages

Whatcom County has a number of labor contracts currently open for renegotiation. We have limited ability to accommodate settlement costs in the 2002 budget. When these contracts do settle, this budget will be amended.

Summarized 2002 Budget Priorities

Develop a Plan for the Future

A major initiative for Whatcom County in 2002 is to develop a plan for providing services beyond 2002. Given our declining resources, we must continue to look for efficiencies in our operations. We will look for cost reductions through the use of technology and through operation consolidations. We will continue to evaluate programs and determine if we can no longer afford to provide them.

Contain Health Care Costs

We will work in partnership with our employees and key union groups to reduce our medical plan costs.

Become More Energy Efficient

The 2002 budget includes \$265,000 for energy saving projects.

Address Critical Water Issues

Whatcom County government is leading a cooperative effort with other governments, tribes and citizen groups to address critical water issues facing our communities. The 2002 budget will implement plans and programs to:

- Improve water quality in Lake Whatcom.
- Improve salmon habitat.
- Assist in shellfish recovery and water quality in our bays and estuaries.

Maintain Infrastructure

Annually Whatcom County prepares a six-year capital improvement program as a component of our comprehensive plan. The 2002 budget for road improvements is \$10,286,000. There are no major facilities additions budgeted in 2002.

Whatcom County Committed to Quality Service, Cost Effective and Accountable Methods

In light of the challenges we face, Whatcom County government continues in its commitment to provide quality services through cost effective and accountable methods, through 2002 and beyond.

Respectfully Submitted,



Pete Kremen
County Executive