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The new normal. The new reality. The new narrative. The buzzwords we hear everywhere these days are all about moving beyond this recession by recognizing that our communities aren’t going back to what they were.

We are all working with circumstances that redefine who we are, how we provide services, and how we position ourselves to promote economic development. As governments at all levels cut budgets and services, how can cities work together to create jobs and build more sustainable communities?

Cities across Washington have always made things work, despite some daunting conditions. We've gone through a decade of ballot initiatives whose cumulative impact brought us to the wall, and yet city staffs and councils continued to look for ways to make the best of the situation.

Today's recession is a different animal— it has ushered in a fundamental change in how we do business. Our resources have changed dramatically, but cities still have talented staff, visionary electeds, and connected citizens. If the customary economic development strategies aren’t the right tools for the new normal, let’s identify other options that can help drive our post-recession recovery.

More and more, experts at the local, state, and national levels are recommending that communities cultivate existing local and regional talent as a way of growing economies from the ground up (see “The Local Option,” p. 14). In this issue, we spotlight other strategies communities are pursuing to meet the challenges of the times, such as tax increment financing legislation, which is explained in our Noted feature (see p. 8); take a look and ask your legislators to support this proposal. Another potential solution involves public-private partnerships, outlined in CityWise (see p. 22), where you’ll also read about meeting the changing price of government.

Finally, it may come as a comfort to realize that not all recent change stems from the recession. A recent Brookings Institution report (see “Coming of Age,” p. 17), for example, emphasizes a fundamental demographic shift that is also altering the economic equation. A piece of advice from Brookings researcher Alan Berube resonated with me: “Know thyself.” Who we are and what we do matter, and it’s up to us to bring it home.

Kathy R. Turner
Mayor of Puyallup
Welcome note 1
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In this issue, we highlight how cities can align their budget strategies with their other priorities, from community to sustainability to overall quality of life. And in our popular NOTED feature, we parse the legislative syntax of tax increment financing.

The Local Option 14
The aftermath of the Great Recession has changed the perspective of cities fostering growth and renewal. Rather than attracting new citizens from the outside with specific skill sets, more Washington communities are looking to their home-grown capabilities as the source of economic revitalization in the form of business clusters. By Ted Katauskas

CityWise 21

CityScape 28
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Landing Script
Long-term planning helps Bothell spark downtown renewal.

AT A TIME when some local governments are struggling just to make payroll, the City of Bothell recently broke ground on a $150 million makeover of its urban core, the largest city-led downtown revitalization project underway in Washington.

“By using a simple formula—that old mantra, ‘live within your means’—we created substantial capital which we’re now utilizing at a time when we think our community and our region need it the most,” says City Manager Bob Stowe.

The renewal centers on an 18-acre parcel across the street from city hall, home to a shuttered municipal pool and the Anderson Building, an Art Deco junior high school slated for closure. The 2006 Bothell Downtown Revitalization Plan reimagines the parcel as Bothell Landing, a pedestrian-oriented mixed-use development that would become a dining, retail, and entertainment destination.

At the same time, the city will tame a notorious metro area bottleneck. Under Bothell Landing’s $62 million street plan, known

continued on page 10
Two Shades of Green

Burien finds that its sustainability efforts help the bottom line.

JUST A FEW YEARS AGO, many people considered sustainability a fad. The thinking was that when push came to shove in a tough economy, municipalities would throw environmentally responsible programs out the window and focus solely on the bottom line. It didn’t happen—because it turns out that policies adopted to conserve natural resources are often just as good at conserving fiscal resources.

“It’s true,” says Mike Martin, city manager of Burien. “We’ve taken an energized and frugal approach to sustainability, and the results are paying dividends.”

The growing city on Puget Sound has introduced a number of green initiatives even as it stretched city dollars to maintain services. Across the board, these programs have had positive impacts both fiscally and environmentally.

Waste Reduction: Making commercial recycling easier and more cost-effective has resulted in Burien sending less garbage to the landfill every year since 2008. Recycling specialists routinely visit restaurants and other businesses, providing free recycling audits to help them reduce their carbon footprint. They set up recycling systems and train employees on-site. Last summer, the city even introduced a program in which recycling experts made surprise visits to local businesses and awarded $150 in cash to the best recyclers.

Food Composting: A new regulation that allows food scraps to be tossed into Burien yard debris carts has reduced garbage bills and turned waste into valuable compost for healthy gardens.

Cleaner Air: Fewer pollutants in the air means reduced cleanup costs and better quality of life for cities. While the direct savings are hard to measure precisely, Burien expects to benefit substantially from Waste Management’s recent recognition as the first green-certified heavy-duty fleet in the region. The certification was conferred by Evergreen Fleets, a program of the Puget Sound Clean Air Agency and the Puget Sound Clean Cities Coalition.

Sewer Pipe Protection: To avoid a holiday-induced hangover involving costly sewer repairs, Burien partnered with General Biodiesel and Waste Management to actively collect used cooking oil—the kind used for deep-frying turkeys. The convenient service helped keep Burien drains clean and clear, the oil was repurposed for biodiesel, and the program didn’t cost the city a dime.

Such results are music to a city manager’s ears. Martin’s city is energized by its green achievements, he says, “and it seems to be helping our bottom line.”

For more information: www.burienwa.gov
Play Date

Deer Park puts the fun in funding decisions.

ON A RECENT Tuesday evening, two dozen leaders and residents of Deer Park gathered at city hall for a unique planning session: Game Night.

As in, the Futures Game, an economic development tool originally developed for aboriginal communities in Australia. As part of Washington State University Extension’s Horizons program, a revised version is being played in struggling rural communities around the state. Participants divide into teams that adopt the roles of decision-makers for a fictional small town, setting city budgets and services looking out toward 2030 while working with a defined set of commercial and community assets.

Although the game uses imaginary situations and outcomes, it’s designed to promote long-range strategies for confronting real-world problems. In Deer Park, that might mean whether or not to support a public-private partnership that’s being proposed to fund $8 million in infrastructure upgrades for a planned 450-acre industrial park. Prior to playing the Futures Game, many residents believed such costs should be borne by businesses benefitting from the park, not by taxpayers. But those attitudes may be shifting.

“Parks and pools and libraries are wonderful assets, but they don’t typically create jobs,” says Deer Park Airport manager Penni Loomis, one of two city officials who played the game. “The Futures Game really helped participants see the effects of making decisions based on economic rather than social factors. For me, that was the whole point.”

STEVIE LACY
Mayor, East Wenatchee

Our council approved a small utility tax, which offset the drop in operating revenue. The city has been bettering its cash position, but the removal of options for grant funding has drastically reduced our capacity for maintaining and improving city infrastructure.

LAURA SONMORE
Mayor Pro-Tem, Mountlake Terrace

The recession has had a significant impact on economic development. However, we have a balanced budget, we’re maintaining our financial forecast and capital investment strategy, and we’re bringing the private and public sectors together to spark revitalization.

JASON MILLER
Councilmember, Concrete

Some citizens have left town because of the recession, which decreased our revenues, but we’ve bumped up utility rates to offset the drop. We’re operating with caution, because as one councilmember put it, “The other shoe always seems to drop when we least expect it.”

WENDY VAN ORMAN
Mayor, Liberty Lake

We’ve reassessed city services, looking for innovative ways to economize and conserve. Living within our means and ascertaining between want and need will continue to be the norm, allowing for better levels of service without impacting our sustainable financial model.

2010 Census Is Out

Here are some highlights of the demographic shifts that have taken place in our state since 2000.

Washington gains a 10th seat in the House of Representatives

Renton and Spokane Valley edge out Bellingham and Federal Way as top 10 cities

Hispanics/Latinos are the fastest-growing minority (of any race), up 71%

Spots 1,3,7: Snoqualmie, Moxee, Fife jump up in the small-city growth rankings

76 small cities lost population, mostly in rural areas
The ABCs of Tax Increment Financing in Washington State

Washington State’s unique tax structure has resulted in several variations of tax increment financing, or TIF, over the last several years. What is TIF? TIF is a method of using expected future gains in tax revenues, typically from property taxes, to finance public investments. For example, if a series of public projects is carried out, there is a projected increase in real estate values, which would generate increased tax revenues. A portion of these increased revenues, or the “tax increment,” is then dedicated within a defined area, or “appropriation district,” to finance debt that is used to pay for public infrastructure.

In Washington State, there are two fundamental hurdles to using this mechanism: one constitutional and the other related to how our budget-based system affects property tax rates.

TIF and our state constitution

The Community Redevelopment Financing (CRF) Act was created in 1982 for the purpose of allowing a portion of regular property taxes to be allocated for TIF purposes. Accompanying this policy bill was Senate Joint Resolution (SJR 143) to enable the financing described in the act. It was defeated in the general election. A similar measure was defeated three years later.

In 1993, the City of Spokane created an appropriation district to redevelop part of its downtown, using the CRF. However, a property owner within the newly formed district sued on the grounds that the CRF authority was unconstitutional. In Leonard v. Spokane, the State Supreme Court held that the CRF funding mechanism diverted taxes to public improvements and away from common schools in violation of the state constitution (Article IX, Section 2).

101% property tax limit and TIF

The passage of I-747 has also limited cities’ ability to pursue a TIF-like mechanism. In effect, cities (and the state, and other local governments that rely on property tax revenues) must limit their total property tax collections to no more than 101% of the amount collected in the previous budget year (although cities may add the value of new construction to their property tax base). For example, imagine a city has 10 city blocks of undeveloped property. A private investor redevelops the property and increases the city property tax by $10 million. Although those city blocks increased in value, there is no revenue increment that could be used to finance public projects, because the new revenues are incorporated directly within the total property tax receipts that are used to calculate the maximum 101% budget.

LIFT, LRF, and a revived CRF

For nearly the past decade, the Washington State Legislature has tried to work around the limitations noted above. The Local Infrastructure Financing Tool, or LIFT, allowed cities to use their own revenues (property taxes) and receive a state sales tax match for a set period of time. LRF, or Local Revitalization Financing, drew on the previous programs and allowed cities and counties to compete on a first-come, first-served basis.

The Community Revitalization Financing Act has come full circle. The 2011 Legislature has proposed updating this law with an accompanying constitutional amendment. Although it is similar to a classic TIF because it captures a “tax increment,” there is a significant difference. The updated CRF would create an appropriation district funded by a special property tax instead of a regular property tax. Because it is a special property tax, underlying taxing districts are not impacted. A constitutional amendment is still necessary because the act would exempt the appropriation district from the uniformity clause and the 101% property tax limit.
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You Be the Judge
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ABCs of Debt
September 28
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**MAYORS AS CEO**
APRIL 12
Approximately 80 percent of Washington’s mayors serve as their city’s chief executive officer. Strong mayors carry out their council’s policy, from dealing with personnel and contracts to balancing the budget and managing internal and external conflict. Whether or not a professional administrator assists in the daily operations, the challenges and complexity of serving as the city’s primary decision-maker are significant.

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**For more information:**
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as the Crossroads Project, Highway 527, the city’s primary north/south arterial, will be rechristened “The Boulevard,” a leafy promenade with broad sidewalks and earth-friendly LED lighting. Even more crucially, Highway 522—the primary east/west conduit around Lake Washington’s north end—will be moved one block south to disconnect it from the tangled intersection. The rerouting of traffic adds three acres to the city’s marquee riverside park and two blocks to Bothell’s historic Main Street, the third spoke of the traffic snafu, which is slated to receive a completely remade streetscape.

The trick was financing the dream. Instead of using tax receipts on new hires and expanded services as the economy boomed, Bothell’s city council shunted surpluses into a reserve fund. In 2007, the city received a state Local Infrastructure Financing Tool grant worth $25 million (derived from property and sales taxes generated by the development) that would help pay for the Crossroads Project. After the real estate bubble burst, Bothell tapped its cash reserves—and real estate excise tax revenues—to purchase the Anderson site from the local school district for $20.6 million. But instead of handing over development of Bothell Landing to a private firm, and risking that the project would be mothballed until the economy improved, the city began courting a retail anchor to jump-start the project.

In June, Oregon-based McMenamins agreed to buy the 5.4-acre junior high school campus for $7 million ($2.4 million in cash and $4.6 million in future community benefits), with plans to spend an additional $14 million reincarnating the Anderson Building as a pub, restaurant, movie theater, and 70-room inn. As part of the agreement, McMenamins would renovate the municipal swimming pool—which had been mothballed because at $150,000 per year it had been too costly to operate—and allow residents to use it free of charge for 15 years. One month later, the council began accepting bids from developers to rebuild Bothell’s 80-year-old city hall into the gold LEED-rated cornerstone of Bothell Landing, right across the street from McMenamins, where city leaders and residents plan to toast the rebirth of downtown with pints of Hammerhead ale in 2013.

“In today’s economic environment, if cities aren’t willing and capable to make investments like this, we should be prepared for further decline,” says Stowe, who notes that a 2007 economic study of Bothell Landing projected returns of $650 million in private investment and 1,367 permanent family-wage jobs. “There’s a lot of excitement around what’s happening here, which is one of the unexpected benefits of this revitalization: total community support.”—Ted Katauskas
Does it take a rocket scientist to be an effective mayor these days? When I ran for a seat on the council after Sammamish was incorporated in 1999, my campaign slogan was, “It doesn’t take a rocket scientist to start a city, but it can’t hurt to have one along for the launch.”

How did you apply the laws of physics to city government? I started a math contest, a citywide take-home test, and the questions were all problems that involved city issues like dealing with a stormwater retention pond: if you have five inches of rain, will it overflow or not? Using a math contest helped broaden awareness.

Any takers? I had 100 participants. In 2009, for our 10th anniversary, I had another math contest and included a calculus problem because we have over 3,000 Microsoft workers living in Sammamish—and they thought the last test was too easy.
Sammamish’s first test as a city was producing a sustainable budget. Talk about the process you used. I’m a number cruncher, so we looked out 20 years to see if we were being sustainable with our budget, and we saw we’d reach a crossover point somewhere between 2013 and 2017 where operating expenses would exceed operating revenue. By tightening our belts along the way, we pushed that crossover point out to the indefinite future.

One of the ways Sammamish did so was by maintaining one of the lowest employee-to-population ratios of any city in the state. We incorporated in the initial stages of a building boom, and we recognized that that wasn’t going to go on forever. Instead of hiring a whole lot of staff to handle the boom, we contracted out a lot of services, so that when those services weren’t needed we didn’t have to lay off employees.

One contractor you hired was Jeff Kober, a trainer who developed Walt Disney Company’s customer-service strategy. He led our staff through an introspective process to produce an employee mission statement— “Building community together.” He taught us how not only to respect our customers, but to respect each other, and that’s increased the internal enthusiasm among the staff to help each other out and to remove barriers between departments.

What’s one tangible payoff for customers of Sammamish city government? We revised our process at the permit counter: people can schedule an appointment with a plans examiner so they can come into City Hall and leave with a permit in less than an hour. In the past, you’d come to the permit counter, fill out a form, and hand it to the counter person—and it might sit in an in-basket for days.

Sammamish is also a member of eCityGov Alliance, a web-based service provider for nine Puget Sound cities. How does it work? A good example is a service called mypermit.com, where a contractor can fill out a permit online using a common application form that’s used by all nine cities. So if a plumber is doing work in multiple cities, he only has to fill out one document.

Any other service innovations? A year ago we introduced an impact fee deferral program: if a developer wants to build a house, we now allow 70 percent of those fees to be deferred until he actually sells the house, and the fees he would have had to pay up front come out of the closing expenses.

Last year, community volunteers gave nearly 6,000 hours of service to the city. How has Sammamish been able to engage so many people? We have a very excellent volunteer coordinator on staff. For Sammamish Days, Fourth on the Plateau, or concerts in the park, volunteers do everything from cleanup to directing traffic.

And organizing Sammamish Redhead day, a Guinness World Record with 901 carrot tops … In my younger years I had a red beard, so I was one of the judges of that event.

Your hair’s gone gray, but you haven’t lost your sense of humor. When we were first incorporated, one of the citizens set up a name-the-city contest, and I was the first person to respond. I came up with the ground rules: the name should be no more than two syllables; it should be easy to spell; it should be unique in the United States; and lastly, if you’re on a cruise in the Caribbean and someone asks you where you’re from, it should be a conversation starter—like if you’re from Hell, Michigan, or Intercourse, Pennsylvania.

What was your suggestion? Heaven.

So you lost. Not really. I’ve been told that Sammamish can be loosely translated as “a heavenly place.”

All kidding aside, isn’t running a city serious business? You know, when we first started televising council meetings, I received an e-mail from a citizen saying we should cut out all the joking at council meetings because it was serious business. What we realize is that levity helps us do our serious business. It keeps me awake, too … but don’t quote me on that! ☺
Cityvision looks at the how the relatively new city of Sammamish has set itself up for a successful future.

**By the Numbers**

### Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sammamish Residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>34,104</td>
</tr>
<tr>
<td>2010</td>
<td>45,780</td>
</tr>
</tbody>
</table>

### Empowered Employees

- **100% Attendance**
  - All 67.5 employees take in-house customer service and leadership training.

### Ethnic Makeup

- **77.3% White**
- **18.1% Asian**
- **3.4% Hispanic or Latino (of any race)**
- **.09% Black/African American**
- **.03% American Indian/Alaska Native**

### Solid Future

- Reserves expected end of 2012 budget biennium:
  - **$15M**

### Tax Investment

- **Before incorporation**
  - $1M spent annually on infrastructure improvements
- **After incorporation**
  - $13M spent annually on infrastructure investments

### Balancing Needs

- **$694,787** total impact fees deferred in 2.5 years
- **69** total liens received

### Lean Staff

- **1.47 employees per 1,000 citizens**
- Contracted public safety services
- No water/sewer utility
- Limited recreation programs

All population data from the 2010 U.S. Census, unless otherwise indicated.
Cities turn to home-grown expertise and industry niches for a new source of revival. By Ted Katauskas
It used to be that when a city needed to jump-start a stalled local economy, the one-step solution was to revitalize its downtown. A decade ago, the City of Federal Way hired its first economic development director to do just that.

“Federal Way was founded 21 years ago on an antigrowth platform, and when I got here it still had a reputation as being a really difficult place to do business,” says Patrick Doherty, who began in the position in 2001. “We really needed to turn this ship around. It’s everyone, from the front-counter people to the mayor and city staff and directors, becoming more enthusiastic about accommodating business and growth and development, as opposed to putting a stop to it.”

Within a few years, the attitude adjustment had fairly well taken hold. The city also instituted regulatory reform to streamline city code and encourage development. But one crucial detail remained missing: there was no traditional Main Street–oriented city center to revitalize.

Developed by Weyerhaeuser in the 1970s as an automobile-oriented Seattle satellite city of office parks, warehouses, big-box retailers, and homes for some 33,000 families, sprawling Federal Way has no obvious downtown; even city hall is quartered in a retrofitted 88,000-square-foot office park across from the Wall Street Journal’s regional printing plant. But it does have the Commons at Federal Way, a tired ’70s-era shopping mall surrounded by an ocean of asphalt and islands of auto-oriented commercial development, including strip malls, big-box retailers, chain restaurants, and a few extended-stay hotels—an area the size of downtown Bellevue—on either side of a six-lane arterial just off the I-5 interchange.

As a planning and development officer for the City of Seattle in the 1980s and 1990s, Doherty had helped shape the forward-looking “new urbanism” expansion of Northgate Mall, transforming an underused south parking lot into a pedestrian-friendly urban center complete with high-rise multifamily homes, restaurants, shops, a cinema, a library, a public park, and even an assisted-living center and a jitney service tailored for the area’s underserved and expanding aging population. Federal Way presented him with the challenge of replicating that success on a much larger scale.

“From an economic development perspective, having a full-service, attractive, modern city center is priceless,” says Doherty. “But when you come off the freeway, you feel like you’re entering a typical suburban shopping district. There’s nothing that says ‘downtown.’”

Doherty and his staff drew up plans to transform the 350 acres surrounding the Commons as a densely built, pedestrian-oriented city center with a bus and light-rail transit hub, pedestrian plazas, soaring mixed-use condominiums, a performing arts and conference center, open space, trails, and bicycle paths. Working in concert with Federal Way’s council, he rezoned the area for high-density residential and commercial development and designated it as an official “regional growth center”; drafted a single environmental impact statement for the area that all developers could use; granted 12-year property-tax exemptions for developments of four units or more of housing; and secured a $25 million state LIFT grant to fund the construction of roads, sewers, water lines, and other infrastructure that would prime the area for rapid development. After nearly a decade of planning, all of the pieces were in place. And then the Great Recession ripped the bottom out of the real estate market.
In 2009, when the city issued a request for concepts from developers interested in partnering with the city, no viable proposals emerged. Three times Doherty has traveled to the nation’s largest real estate development conference in Las Vegas to personally court developers, only to be rebuffed.

“We’ve done just about everything we can do to attract investment, but we’ve been kicked in the gut by the recession,” says Doherty. “Regionally, we had a small pool of developers to begin with, and the largest of those, Opus Northwest, just left the Northwest. I mean, here’s a city with views of Mount Rainier all day long, a place that has so much potential … everybody sees it but nobody wants to be the pioneer.”

Actually, there was one enthusiastic pioneer.

Last year, the city announced that it had signed a contract with a local developer who had planned to build the tallest building between Seattle and Portland on a four-acre parcel of city-owned land near the Commons mall. On the site of a demolished cinema, Seattle-based Twin Development envisioned the Sky Hotel & Residences, three gleaming towers housing a 120-room hotel and 400 condominiums plus 24,000 square feet of restaurants and shops. The $350 million project would have jump-started Federal Way’s city center. But the deal collapsed in February after the developer failed to pay a $100,000 deposit for the $6.1 million parcel.

Although the city intends to issue yet another request for concepts from developers in coming months, Doherty has a Plan B: creating a business cluster, an economic development tool that elected officials and civil servants from Olympia to Washington, D.C., are now embracing as the retooled engine that will drive the state’s, and the nation’s, post-recession economic recovery.

**It’s less about pumping money in and more about the alignment of new kinds of relationships.**

**Egils Milbergs**

sees the turn away from investments that attract outside talent and toward local business clusters as a natural result of the recent recession.

It’s less about pumping money in and more about the alignment of new kinds of relationships.

However, a fundamental demographic shift (see “Coming of Age,” opposite page) and the onset of the Great Recession have revised the economic development equation. People and companies are staying put; private investment capital has largely evaporated. And Porter’s ideas are back in vogue, as evidenced by a Brookings Institution report released in September 2010 that promotes clusters as “an antidote to the nation’s recent economic history of bubbles and consumption and also a framework for recognizing and bolstering the real-world variety and dynamism of regional economies.”

Fortunately for Washington cities, in January 2008, just before the economy imploded, Governor Chris Gregoire installed Egils Milbergs as head of the Washington Economic Development Commission. The Harvard-educated Milbergs, founding president of the Center for Accelerating Innovation (a Washington, D.C., consulting firm), served as deputy assistant secretary for productivity, technology, and innovation at the U.S. Commerce Department during the Reagan administration. He also served as executive director of the President’s Commission on Industrial Competitiveness; one of his commissioners happened to be Michael Porter, who became a mentor. So it shouldn’t be surprising that the WEDC chief has embraced the business cluster as...
one of three pillars of the state’s economic recovery plan. (Aside from business clusters, the plan also includes innovation research teams, industry-academic partnerships to commercialize technological breakthroughs, and entrepreneurs in residence, 14 start-up gurus stationed at Washington State University and the University of Washington to launch businesses from promising academic research.) Earlier this year, on January 17, testifying before the Senate Committee on Economic Development, Trade & Innovation, Milbergs predicted that established and emerging business clusters across the state would transform Washington into “the world’s greatest innovation park.”

“What’s significant about the Brookings work is that it brings home the point that traditional economic development strategies have very limited potential, particularly in the time of recession when you have fewer companies thinking about moving around,” says Milbergs. “Our economic development strategy needs to be from the bottom up. To grow the economy during a recession, you have to invest in what I call knowledge-based assets, the intangibles: human capital and skills, intellectual property, entrepreneurship. If metro areas and rural areas want to create jobs, they’re going to have to go about the business of creating new products and new industries using home-grown talent.”

Indicative of exactly how that can happen, says Milbergs, is Washington’s Innovation Partnership Zones (IPZ) Program. The $6.5 million pilot project, managed by the state Department of Commerce, has spawned 12 business clusters around the state since its creation in 2007, in an impressive range of industries. Examples include the Grays Harbor Sustainable Industries IPZ, which has Paneltech, a manufacturer of exterior siding, collaborating with Imperium Renewables, the nation’s largest biodiesel refinery, to combine recycled cardboard with a nontoxic byproduct of the refining process to create composite countertops; the Spokane University District IPZ, which centers on a $1.7 million data center at Washington State University that’s a hub of medical research and software development for medical records management; and the Walla Walla IPZ, which literally has as its mission statement the goal of turning water into wine.

“It’s not as miraculous as it may sound,” laughs Tim McCarty, director of support services for the City of Walla Walla, who assumed the duty of IPZ administrator when the city was forced to shed its economic development coordinator during its most recent round of layoffs.

But in a way, it is miraculous. In 2007, with a $725,000 state grant, Walla Walla’s IPZ commissioned the construction of the William A. Grant Water & Environmental Center (a.k.a. “The Water Center”) on the campus of Walla Walla Community College and an expansion of the school’s existing Center for Enology & Viticulture (a.k.a. “The Wine Center”) to include a private laboratory that provides chemical analysis for Walla Walla’s 22 wineries. The Water Center, undergoing a 16,000-square-foot expansion funded by more than $6.88 million in state, federal, and private contributions, is a public–private partnership—including the Confederated Tribes of the Umatilla Indian Reservation, the Washington State Department of Ecology, and the Nelson Irrigation Corporation—formed to commercialize water conservation

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**COMING OF AGE**

Q&A WITH ALAN BERUBE

Alan Berube, research director at the Brookings Institution’s Metropolitan Policy Program and a former policy adviser to the U.S. Treasury, explains how a paradigm shift in the nation’s demographics has changed the rules of local economic development.

What’s one key thing from the latest Brookings “State of Metropolitan America” report that city leaders in Washington need to know? We surveyed the demographic landscape of the nation and how it shifted over the last decade, and pointed to five big demographic dimensions of transformation: population growth, the growing diversity of the nation, the aging of the baby boomers, growing levels of disparity in educational attainment, and a decade of stagnant income and growing income inequality.

If you had to identify one of these shifts as the top priority for cities, which would it be? Definitely the aging of the population, the fact that the baby boom generation—those who just started reaching 65 this year—was America’s first suburban generation. They grew up in the suburbs and many never left the suburbs, so suburbs in smaller cities and towns are now on the precipice.

The precipice of what? Suburbs were created for families with children; they were laid out that way, with assets and amenities that cater to families. That shift from young to old is upon them now, so they need to be thinking about what it’s going to mean for the types of housing they should have. They need to assess the relationship between housing and services that older people need, such as health care and community centers, and consider how people get from place to place and what transportation options should be available to older people. I don’t think communities can tackle this on their own.

Why not? These are massive demographic changes that are going to affect every place. Collections of communities—whole metropolitan areas—ought to be thinking about this together, because it’s too massive a structural change for every city and town on its own to figure out.

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And it’s happening everywhere. “The good news is, if you go out to local communities in Washington State, you see it happening from the Tri-Cities to Spokane to Pullman to Walla Walla to Vancouver and Seattle and King County and Bellingham and on and on it goes,” adds Milbergs. “Business, education, and government leadership are doing some pretty amazing things, preparing the future of their economy, the future of their workforce. If we allow that process to work and nurture it, and help scale it and make sure the barriers get out of the way, I’m pretty optimistic that Washington State can really emerge as one of the top regions of the country when it comes to job creation in the next five to 10 years.”

AT AROUND THE TIME the recession began putting the brakes on its plan for the Commons, Federal Way began plotting a new direction for its economic future with Enterprise Seattle, the 39-year-old public-private partnership formerly known as the Economic Development Council of Seattle and King County. During a brainstorming session at Enterprise Seattle’s annual board retreat in 2008, Jack Dovey—an entrepreneur who was then Federal Way’s mayor and represents the city on the organization’s board—started tossing ideas around with Enterprise Seattle’s life sciences manager, Bruce Jackson, about creating a business cluster in his city.

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But given the state’s dire financial straits, those resources are scarce; $6.5 million split 12 ways for the original group of business clusters isn’t a lot of money to jump-start an economic revolution. The latest round of state grants, split between five IPZs, totaled just $217,500, And there’s worry that the IPZ program itself may fall victim to the budget-cutting axe. But perhaps not: no fewer than four bills authorizing funding for IPZ and business cluster development are currently in the draft stage. Regardless, Milbergs says, anyone who thinks of the IPZ program’s success in terms of dollars spent or generated misses the point.

“It’s less about pumping money in and more about the alignment of new kinds of relationships,” stresses Milbergs. “The term we use is the ‘regional innovation ecosystem,’ partnerships of university researchers, industry, public sector, and nonprofit sector. It’s the new collaborative DNA. If you get the DNA right, it grows and expands. The idea of the IPZ is more about building local collaborations and a collective economic vision. Partnership and relationship capital as opposed to real dollar capital. Money helps, but it isn’t the real lesson of why this is happening.”

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A year earlier, Jackson, an experienced venture capitalist, had helped launch the Washington State Biomedical Device IPZ, a business cluster based in Bothell that’s the fifth-largest biomedici-
cal device cluster in the United States, representing 2,800 jobs at dozens of private firms that control two-thirds of the state’s $2.5 billion in biomedical device revenues. Dovey, an inventor who holds several patents, wondered if Jackson might be interested in doing something similar in Federal Way, betting that a good many of the city’s 5,300 health care professionals, when tapped into Dovey’s and Jackson’s network of product development and start-up specialists, could spawn a cluster of new businesses that would begin filling the city’s vacant office parks.

“The vision was to bring high-paying jobs to Federal Way,” explains Dovey, now a councilmember who also runs a local start-up, GPS Lockbox, a technology he patented that allows companies to track the whereabouts of delivery trucks and fleet vehicles. “There’s no lack of good ideas, but the hardest thing is getting people to understand how to get from the good idea to a product they can sell. I’ve patented several snowboard designs, I’m an inventor, and I’ve been through their pain. I said to Bruce, ‘Why don’t we start our own [innovation cluster] in Federal Way? We have 400,000 square feet of vacant space; we need jobs; let’s not rely on someone else. Let’s just do it ourselves.’”

Dovey broached the idea with his council, and in 2009 the city appropriated $75,000 from its general fund to hire Enterprise Seattle to conduct a feasibility study. Jackson surveyed physicians and nurses at Federal Way’s largest hospital and found that more than a quarter believed they had patentable ideas for medical devices, but they needed
help in figuring out how to navigate the product development and start-up process. In November last year, with another $245,000 from the city (matched by a $100,000 grant from the state, secured with help from State Senator Tracey Eide), Federal Way’s medical device business cluster was born.

Physicians, nurses, and researchers start with the Cascadia MedTech Association, the business cluster’s nonprofit recruiting arm, which charges $2,000 for six months of access to the association’s precommercialization support team: 21 experts, including Steve May, the former chief patent counsel from Battelle Memorial Institute, and Jim Swick, the chief scientific officer of a Silicon Valley consulting firm that specializes in medical device product development. Ideas that pass muster advance to the start-up phase at the cluster’s for-profit Cascadia MedTech Accelerator, headed by Garry Welch, a Federal Way resident and former General Electric executive who pioneered multiple start-ups in the software and wireless industry.

Although separate, both entities maintain virtual offices and physical addresses at Hometown Office Suites & Services, a shared incubator space near city hall where Jackson, the cluster’s chief administrator, pays $350 a month for a mailbox and access to a conference room to meet with potential clients. So far, the incubator has one (a hospitalist) and the accelerator has two: a start-up that has developed a portable clean room that’s being marketed to agencies like FEMA for “pandemic and disaster preparedness,” and a biosensor firm that’s preparing to launch a product that can rapidly detect the presence of pathogens in water. Both products aim to fill lucrative niches, and if all goes as planned, both will be manufactured in Federal Way.

“When you create jobs, you create more opportunity. That’s what we’re trying to do,” says Dovey. “Building a nice new strip mall the old-fashioned way doesn’t work anymore. We’re giving entrepreneurs opportunities that they aren’t going to get anywhere else. Right now, we’re working with three companies with great products with great potential that could end up being the next billion-dollar company—based in Federal Way.”

And perhaps that business will chose to locate its headquarters near the incubator and accelerator offices, in a space that could yet become part of a reenvisioned downtown. One thing’s for sure: with the new economy, if Federal Way is ever going to realize its dream of developing a city center, the impetus likely will have to come from the ground up, from the energy, initiative, and talents of local citizens. When you think about it, what could be more appropriate? A city goes looking for its center, and in tapping its entrepreneurial prowess builds a medical device cluster to defibrillate its economic heart.

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Throughout America’s history, suspicion of public-private partnerships has gone hand-in-hand with voter demands that governments use the “more efficient” and “cost-effective” private sector to deliver public needs.
THESE ARE REMARKABLY TOUGH TIMES for Washington cities and other local governments. As the fiscal situation becomes increasingly dire, calls have increased for the expanded use of public-private partnerships, or P3s, to finance public projects. What are public-private partnerships? When might P3s make sense? And are they really all that new and different?

First, P3s are not new. When the newly created United States of America and its constituent states desired roads, canals, and bridges, they routinely chartered corporations that would match state or federal grants with privately raised capital to build those facilities. The first highway financed partially with federal funds, the Cumberland Road, was constructed by various chartered, quasi-private companies that used tolls to supplement investments of private and public funds. Later, canals and then railroads were routinely structured as public-private cooperative ventures—including the Union Pacific, which first opened up Washington Territory to massive growth. Local improvement districts, which began to be used for infrastructure in the 1840s, were also thought of as public-private partnerships, because private-sector property owners banded together to form LIDs, then used the power of local government to compel all properties to contribute to the infrastructure cost.

But close public-private cooperation in financing and building infrastructure periodically encountered rocky times. In the early 19th century, many Americans adamantly opposed federally chartered banks. In the 1840s, the level of corruption in public works and other government contracting had become so high that advocates of clean government began forcing open-government and clean-bidding provisions into state constitutions and state laws. After a number of railroad company collapses in the 1870s, local citizens demanded provisions such as Washington’s Article 8, Section 7, which bars gifts or loans of public funds, or public credit support, for the private sector.

In fact, throughout America’s history, suspicion of public-private partnerships has gone hand-in-hand with voter demands that governments use the “more efficient” and “cost-effective” private sector to deliver public needs.

So when do P3s make sense? The first step always is to answer the question: “Just what do you mean by a public-private partnership?” There are many kinds, and you need to know where you want to go before you start down a path. Varieties of P3s include:

- **Full privatization.** In this model, complete lines of public services are sold and handed over to the private sector. Examples include the sale of government railroads to private companies in the United Kingdom or the sale of Anchorage’s municipal phone system to an investor-owned utility.

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TECHNOLOGY ALLOWS COMPANIES to escape the tether of place and locate wherever they want. Retail districts can re-shape themselves over a few short years. Whole industries can disappear in what seems like a moment. At the end of the day, economic development is about managing this change.

As a city, whether you are trying to recruit businesses, increase tourism dollars, or revitalize a commercial corridor, you need to operate under the umbrella of an authentic and effective identity to guide your policies and your marketing efforts. This identity, your civic identity, should also inform your implementation of land-use planning and the design of your infrastructure, since your city tells much of its story through roads, buildings, plazas, and parks.

For example, civic identity building can help repair small cities’ relationships with their more illustrious past and inspire the community to view their historical infrastructure for what it is—a treasure and an opportunity. Beautiful, interconnected, creative, and vibrant historic districts can attract new office users, entice visitors to explore, and make people proud to live in their city.

Here are four ways that we build civic identity:

1) **Engage**  It is very common for cities to gather and/or disseminate information through written reports, but to really communicate, get out, talk to people, and use every sense possible—let them see, do, touch, feel, and hear. *Suggestion: Sponsor a design and land-use lecture series, with field trips, for the public and private sectors and community residents.*

2) **Listen**  Interview a wide variety of stakeholders and hear what they have to say, but don’t just gather the usual suspects; reach out and make sure you have real input from property owners, business owners, residents, and minority groups. *Suggestion: Hold an ice cream social listening event in the summer.*

3) **Examine**  Review the city’s history, demographics, news coverage, marketing materials, visitor feedback, and economic and employment data. *Suggestion: Have local high schools participate in this review as a social studies project.*

4) **Analyze and Build**  What was your city’s story in the past? What is your city’s story now? What would you like it to be in the future? How did your city’s story change over time? Where is the story being told well? Where is it breaking down? *Suggestion: Express the arc of your city’s story through artistic exhibitions in public spaces.*

A comprehensive version of your story builds a true sense of your city’s civic identity so that you can craft a narrative about what you believe in, what you stand for, and what makes you special. Ultimately, it’s what will make people decide to con-nect with you. 

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**Identity Checks**

Is your city having an identity crisis?

Ask yourself these questions:

- What stories do your buildings tell?
- What stories do your leading industries tell?
- What stories do your roads tell?
- How would visitors describe your city?
- Do your citizens have a shared sense of purpose?
- Do your public and private sectors cooperate?
- What does your city stand for?
- What does your city communicate through its actions?
- How does your city relate to neighboring cities, counties, and states?

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Michele Reeves works with cities to revitalize their downtown districts and commercial corridors.
Thinking of a P3?

A checklist of questions to answer:


☐ Which tasks can/should the city do itself, and how much control do you want?

☐ Does current state law permit the type of privatization or public-private arrangement you are considering?

☐ Do bond covenants or federal tax laws prohibit privatization of bond-financed facilities?

☐ How might labor contracts restrict a privatization approach? Must you bargain with one or more unions?

☐ What type of competitive process must you (or do you want to) carry out?

☐ How detailed a contract do you want to draft before selecting a private “partner” (in order to nail down terms you need)?

☐ In negotiating a P3 agreement, what issues are most important to the city, and which can you give ground on?

☐ On what issues and at what point are you willing to terminate negotiations? How do you intend to interact with your P3 partner on an ongoing basis, and how will you evaluate their performance?

■ Long-term concessions. Very close to full privatization is the use of long-term concessions granted to private companies to operate and maintain public facilities—usually facilities that have an associated revenue stream to provide the private entity with a return on its investment. Examples are the Chicago Skyway and the Indiana Toll Road, which are operated by private firms, and the complete transfer of responsibility for airports, water treatment systems, and sewer treatment systems to private corporations throughout the world. The governmental owner or former owner usually receives a large payment up front, or annual payments, but otherwise the public sector is pretty much out of the picture. A cousin of this approach is the use of contracts with nonprofit corporations to take complete responsibility for low-income housing facilities, certain social service programs, and arts facilities (such as the Seattle Art Museum and Benaroya Hall, which are publicly owned but subject to long-term leases to nonprofit entities).

■ Private operation with oversight. This approach to “privatization” is very common in Washington State. For example, for decades many Washington cities and towns have contracted with private companies to collect and dispose of solid waste pursuant to contract. Private firms also operate municipal golf courses, water treatment plants, and sewer treatment facilities. The Seattle Mariners organization operates, maintains, and uses Safeco Field, a publicly owned facility. An innovative example is provided by public hospital districts in San Juan and Snohomish Counties that recently entered into long-term lease and/or operating agreements with nonprofit health care providers (PeaceHealth and Swedish Health Services, respectively).

■ Traditional public works contracting. The use of private-sector contractors to build public facilities is an example of a public-private partnership, although people often don’t think of it that way. Instead of using public employees to construct facilities, the expertise is provided—and much of the risk is undertaken—by private builders.

■ Alternative public works. We have seen an increase in the use of alternative public works processes, such as design-build and general contractor-construction manager. Both of those approaches permit a more efficient allocation of responsibility and risk, and they often save money.

■ Cooperative co-development. In this scenario, public entities and private developers pool their resources (land, money, personnel, experience) to develop interwoven projects. Examples are the King County Housing Authority’s construction of mixed-income housing in conjunction with public transit facilities and private developments, and Bothell’s proposed partnership with Vulcan to build a new city hall, a parking garage, public space, and private commercial uses.

It is very important to decide which of the many available P3 tools makes sense in each instance. Public officials must ask themselves what they want to achieve, what can be done using traditional tools, and whether an arm’s-length but cooperative arrangement with the private sector might be valuable.

Most of these approaches require careful attention to legal details to avoid state constitutional violations—the arrangements may not involve “giveaways” to the private sector or credit support for private obligations. (In fact, public-private partnerships rarely are true legal partnerships because of the way that liability is often shared in true partnerships.) Where public finance is involved, care must be taken to comply with federal tax law. It almost always makes sense to use a competitive process to select a private “partner.” And when negotiating an arrangement with private-sector players, remember that (1) their needs are very different from public needs, and (2) sometimes they will never reveal what their true needs are. The public representatives must determine what the public needs and work to find common ground. But it is important to be willing to walk away from a proposed deal if it just doesn’t make sense from a public standpoint.

With that approach in mind, some variety of P3 might just be a partial solution for cities looking to deliver services efficiently in tough times.
NOTES ON THE NEW NORMAL

WHAT DOES THE ALTERED FISCAL LANDSCAPE MEAN FOR LOCAL GOVERNMENT BUDGETS?

**NOT ONLY HAS** the economic recession reduced local government revenues, but it may also have kick-started a more fundamental change. Other relatively recent recessions were deemed “cyclical,” in that they happened every 10 years or so to allow the economy to catch up with itself. The Great Recession has been labeled “structural.” This suggests something bigger, so we as local government leaders need to treat it differently.

In addition, municipalities continue to face a strong sentiment that government’s financial burden on taxpayers has grown too large. Statewide voter initiatives concerning taxes and fees are now an annual event, and their passage requires creative thinking so that cities can provide the levels of service desired by our local communities within the permitted revenue structure. The “one size fits all” revenue approaches that tend to result from initiative measures do not actually fit at all for many of our localities.

These new challenges arrive at a time when the nature of some critical revenue streams is changing. The only part of the economy that grew during the latest recession was online commerce—a good deal of which does not generate any local tax receipts. Our main-street businesses contribute to their local governments, and we provide services that enable them to function, while their online competitors benefit from the services but don’t contribute. The reluctance of Congress to recognize the Internet as another forum for commerce—subject to the tax systems to support services that enable commerce to prosper—is not sustainable.

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**Finding Your Footing**

The Government Finance Officers Association (www.gfoa.org) has a fiscal recovery website that lists dozens of tools and best practices for dealing with the “new normal,” or really for just getting your city’s budgeting in order. Click on “Recovery from Financial Distress” on the GFOA home page to access a number of highly informative topics, including:

- Assessment tools
- Long-term financial planning
- Establishing or reviewing financial policies
- User fees
- Budgeting for employee compensation (including overtime)
- Regional service delivery models
- Outsourcing

For more information: www.redmond.gov

**Mike Bailey** has worked in local government finance since 1980, for Wenatchee, Everett, Lynnwood, Renton, and Redmond. He serves on the GFOA executive board.

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**CITY 101**

**MARC H/APRIL 2011**

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is working to help address this inequity by modernizing and standardizing the sales tax systems across the country. The end goal would be to prompt Congress to allow states to enforce collection of these taxes on local as well as interstate sales—thereby leveling the taxation playing field for 21st-century commerce.

A related trend is the shrinking of the telecommunications tax base. Such laws as the Internet Tax Freedom Act are creating further inequities as our economy becomes more entwined with technology. Recent efforts to work with the telecommunications industry to address these problems hold promise; however, local revenues have not kept pace with the significant expansion of this part of our economy.

These pressures have prompted a variety of responses. My first recommendation would be to conduct a review of your financial policies. In my work with AWC leading its annual budget workshops, I remain surprised at how many of our cities do not even have such policies.

Adopting formal policies should do several things to help your organization manage the budgeting and prioritization process. First, it creates the forum to deal with this general topic of financial oversight and strategy in a very specific way. Second, adopting a policy requires resolving differences of opinion among various constituents and focuses everyone in the organization on the agreed-upon strategy. Third, adopting a policy documents the discussion, agreements, and strategy that have transpired, so that

It is more important than ever to create a strong connection with our citizens to develop local solutions.

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periodic reviews (I recommend one with each budget cycle) start with your existing strategies—rather than instigating a rehash of everything that has previously been accomplished. Without the aid of a focused periodic review, it will be very hard to craft a successful strategy to deal with difficult economic times.

Simply put, a single statewide policy does not serve the specific needs of our communities. It is now more important than ever to create a strong connection with our citizens (both residential and business) as a means of developing local solutions. Your financial policy discussion can establish guidelines on such matters as how often you would use the discretion granted to you by the state to adjust revenues and how often you would seek authority from your community to raise revenues. The budget process is an excellent way to reconcile the needs of a community with the resources that community provides to meet those needs.

For example, in Redmond we first set a “price of government” as the revenue constraint within which public services will be provided. Redmond chose one of the more common approaches—setting a cap on total revenues as a percentage of total personal income. We learned by looking at our history that total city revenues (all funds) averaged between 5 and 6 percent of total personal income.

We now use this context to look forward at proposed revenue changes (utility rate changes, property tax changes, and others) to determine whether they result in an acceptable price of government. As the local economy grows or shrinks, this fluctuation gets reflected in the acceptable price of government. With this approach as a part of our financial strategy, we reshape the discussion about new revenues. If we believe the price of government needs to go up, we should be having that conversation with our community. However, if we can, we strive to meet community needs within the existing price.

The challenges of the “new normal” call for new ideas and strong leadership to build our communities for the future. But that doesn’t mean we can’t learn lessons from the best practices of the past and present. With sound management strategies and frank communication, cities can rise to the challenge.

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Sometimes change is thrust upon us, but even the direst upheaval contains the seeds of rebirth.

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As communities across the nation try to emerge from under the dark cloud of the worst downturn since the Great Depression, they know that life can’t go back to normal. Too many sets of circumstances have changed. What cities do, what they don’t do, and how they perceive their role are all going to be redefined. Electeds and staff are asking themselves, “How do we get from here to there?” —without even a clear picture of what “there” looks like. But like the basic building blocks of life, the foundations of community remain the same. Cities that can tap their inner resources will discover a vital future, even if it may not look like the past.
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