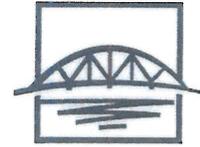


INTEROFFICE MEMORANDUM
Finance Department



City of Bothell

DATE: September 10, 2015
TO: Mayor and Council
THROUGH: Bob Stowe, City Manager
FROM: Tami Schackman, Finance Director
SUBJECT: 2015-16 Budget Status Report – Quarter #2

Attached for your review is the City's budget status report as of June 30, 2015.

I am pleased to report that the General Fund's operating surplus after the second quarter of the eight quarter 2015-2016 biennium was \$159,765. Recall that first quarter operations resulted in an operating deficit of \$25,459 – a turnaround of more than \$185,000 during the second quarter. Revenues as a whole are on their mark for the first time since 2008.

Local economists anticipate better results in the second half of 2015 than in the first half, and therefore staff remains optimistic that the \$600,000 budgeted annual surplus for reinstatement of the General Fund operating reserve can be realized by year-end 2015.

Please contact City Manager Stowe or me if you have any questions concerning the attached financial data.

City of Bothell

2015-2016 Budget Status Report

For the Quarter Ending June 30, 2015

I. EXECUTIVE SUMMARY

On June 30, 2015, the City concluded the second quarter of the 2015-2016 biennium. The budget period described in this report is 25% complete.

Citywide

Citywide 2015-2016 surplus/deficit: \$57,858

- General Fund (\$159,765). See detailed discussion below.
- Street Fund (-\$302,091). In 2014, the City received \$1,777,795 in King County road tax in lieu of property taxes following the February annexations. This one-time revenue is being used to help fund 2015 operations while a long-term funding strategy is developed.
- Capital Improvements Fund (\$692,784). Capital expenditures continued to progress as programmed in the City's adopted Capital Facilities Plan.

General Fund

General Fund 2015-2016 surplus/deficit: \$159,765

(General Fund + Street Fund) 2015-2016 surplus/deficit:* -\$142,326

*Since the General Fund has historically subsidized Street Fund operations, it is also useful to look at the combined financial results for the two funds. No subsidy is planned in 2015, but a \$735,000 subsidy is budgeted for 2016.

The General Fund's operating surplus as of June 30 was \$159,765. Revenue inflows totaled 23.6% of the biennial projection, while expenditure outflows amounted to 23.4%.

Retail sales tax revenues were down \$313,509 (7.8%) compared to the first two quarters of 2014, and construction sales tax revenues were up \$10,985 (1.1%). The drop in retail sales tax can be attributed to a one-time payment of \$323,500 that was received as part of May 2014 revenues. First half sales tax receipts were down statewide, but local economists anticipate a better second half than in 2014.

Utility tax revenues were \$182,115 (5.5%) higher than in the first half of 2014.

Year-to-date development revenues remained mixed compared to 2014, but were still strong and expected to remain strong:

- Building permits were up \$200,065 (52.3%).
- Plumbing/mechanical permits were down \$7,904 (6.5%).
- Pre-application fees were down \$2,702 (9.4%).
- Plan check fees were down \$191,303 (35.6%).
- Development review fees were down \$24,776 (5.5%).

II. BUDGET VS ACTUAL FIGURES

		Inflow/Outflow	2015-16 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$41,352,261	\$202,976,794	20.4%
	Outflow	\$41,294,403	\$219,519,285	18.8%
<u>GENERAL FUND</u>	Inflow	\$20,604,503	\$87,364,923	23.6%
	Outflow	\$20,444,738	\$87,481,520	23.4%
<u>GENERAL/STREET FUNDS</u>	Inflow	\$21,342,855	\$90,946,499	23.5%
	Outflow	\$21,485,181	\$92,816,714	23.1%
<u>CAPITAL IMP FUND</u>	Inflow	\$3,901,866	\$35,265,054	11.1%
	Outflow	\$3,209,082	\$35,765,646	9.0%
<u>UTILITY FUNDS</u>	Inflow	\$12,035,783	\$54,386,264	22.1%
	Outflow	\$13,155,332	\$69,145,419	19.0%

III. ECONOMIC INFORMATION

Employment - National

National non-farm payroll employment increased by 663,600 jobs during the second quarter of 2015. June's national unemployment rate was down slightly at 5.3%.

<u>U.S. GOODS-PRODUCING: +21,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +642,600 JOBS</u>	
Construction	+45,000	Wholesale trade	+1,200
Manufacturing	+11,000	Retail trade	+70,100
Mining & logging	-35,000	Transportation/warehousing/utilities	+42,300
		Information	+16,000
		Professional/financial/business	+241,000
		Educational/health services	+160,000
		Leisure/hospitality	+84,000
		Other services	+26,000
		Government	+2,000

Employment – State

18,900 non-farm jobs were gained statewide during the second quarter of 2015, and Washington's unemployment rate fell to 5.3% in June. The Seattle-Bellevue-Everett rate continued to fall, ending June at 3.9%.

<u>STATE GOODS-PRODUCING: -2,400 JOBS</u>		<u>STATE SERVICE-PROVIDING: +21,300 JOBS</u>	
Construction	-1,900	Wholesale trade	+1,600
Manufacturing	-200	Retail trade	+4,100
Mining & logging	-300	Transportation/warehousing/utilities	0
		Information	+1,000
		Professional/financial/business	+3,900
		Educational/health services	+5,800
		Leisure/hospitality	+1,200
		Other services	+100
		Government	+3,600

Economic Forecast

The State Economic and Revenue Forecast Council's June 2015 forecast stated that although underlying trends in both the national and state economic recoveries remain

solid, factors such as severe winter weather, port strikes, and declining oil prices caused the national economy to contract during the first quarter of 2015.

Washington’s economy continues to expand at a solid pace. Personal income growth was stronger than previously assumed in 2014, and is expected to remain so. The forecast for housing permits and construction employment is also higher than was projected in February.

CPI-W Data – Seattle/Tacoma/Bremerton Region

April 2015 – June 2015: +1.5%
 June 2014 – June 2015: +1.1%

IV. GENERAL FUND – REVENUES

There is a one to two month lag between when tax revenues are earned and when they are received. For example, June sales tax is received in late August.

Revenue	Inflow	2015-16 Budget	% of Budget
Property Taxes			
City Levy	\$5,386,906	\$21,869,036	24.6%
EMS Levy	\$439,040	\$1,805,242	24.3%
Total	\$5,825,946	\$23,674,278	24.6%

Property tax is a very stable revenue source. Projected revenues are accrued equally throughout each year. Actual cash receipts occur primarily in April and October.

The EMS levy is paid by Bothell’s Snohomish County residents, who approved a six-year levy in 2011. King County residents pay an EMS levy directly to the County, which in turn pays the City annually for providing Basic Life Support (BLS) services.

Revenue	Inflow	2015-16 Budget	% of Budget
Sales/Use Taxes			
Retail	\$3,729,671	\$17,806,835	20.9%
Construction	\$1,008,490	\$4,000,000	25.2%
Hotel/Motel	\$166,132	\$716,474	23.2%
Criminal Justice	\$428,059	\$1,586,726	27.0%
Total	\$5,332,352	\$24,110,035	22.1%
	2015 YTD	2014 YTD	Increase/Decrease
Retail*	\$3,729,671	\$4,043,180	-7.8%
Construction	\$1,008,490	\$997,505	+1.1%
Hotel/Motel	\$166,132	\$158,065	+5.1%
Criminal Justice	\$428,059	\$345,655	+23.8%
Total	\$5,332,352	\$5,544,405	-3.8%

*May 2014 retail sales tax included a one-time payment of \$323,500.

Revenue	Inflow	2015-16 Budget	% of Budget
Business & Utility Taxes			
Electric & Gas	\$1,835,679	\$8,339,122	22.0%
Cable TV	\$344,047	\$1,184,121	29.1%
PEG Fees (Cable TV)	\$13,001	\$0	n/a
Telephone & Cellular	\$837,843	\$3,421,197	24.5%
Water & Sewer	\$294,825	\$1,366,567	21.6%
Sanitation	\$189,647	\$605,206	31.3%
Gambling	\$8,764	\$36,000	24.3%
Utility Tax Rebate	(\$225)	(\$9,600)	2.3%
Total	\$3,523,580	\$14,942,613	23.6%
	2015 YTD	2014 YTD	Increase/Decrease
Electric & Gas	\$1,835,679	\$1,883,637	-2.5%
Cable TV	\$344,047	\$275,057	+25.1%
PEG Fees (Cable TV)	\$13,001	\$0	n/a
Telephone & Cellular	\$837,843	\$768,353	+9.0%
Water & Sewer	\$294,825	\$244,384	+20.6%
Sanitation	\$189,647	\$161,709	+17.3%
Gambling	\$8,764	\$8,325	+5.3%
Utility Tax Rebate	(\$225)	\$0	n/a
Total	\$3,523,580	\$3,341,465	+5.5%

Revenue	Inflow	2015-16 Budget	% of Budget
Other Taxes	\$17,675	\$70,000	25.2%
Other taxes include leasehold excise taxes and private harvest timber taxes, which are received periodically throughout the year.			

Revenue	Inflow	2015-16 Budget	% of Budget
Franchise/License Rev			
“Whatsup” Facilities (Parks)	\$2,011	\$0	n/a
Alderwood Water District	\$149,055	\$727,595	20.5%
Northshore Utility District	\$82,959	\$167,500	49.5%
Frontier/FIOS	\$39,317	\$134,000	29.3%
Business & Sign Licenses*	\$450,000	\$1,950,000	23.1%
Total	\$723,340	\$2,979,095	24.3%
	2015 YTD	2014 YTD	Increase/Decrease
Alderwood Water District	\$149,055	\$144,942	+2.8%
Northshore Utility District**	\$82,959	\$44,666	+85.7%
Frontier/FIOS	\$39,317	\$35,833	+9.7%
Total	\$271,331	\$225,441	+20.4%
*Reflects projected accrual for the first half of 2015. License renewal notices occur in July.			
**NUD serves a large portion of the territory that was newly annexed to the City in February 2014.			

Revenue	Inflow	2015-16 Budget	% of Budget
Non-Bus Licenses & Permits			
Building Permits	\$582,528	\$2,085,384	27.9%
Plumbing/Mechanical	\$114,347	\$480,000	23.8%
Pre-Application Fees	\$26,074	\$130,000	20.1%
Animal Licenses	\$35,330	\$180,000	19.6%
Concealed Weapons	\$2,574	\$14,000	18.4%
Total	\$760,853	\$2,889,384	26.3%
	2015 YTD	2014 YTD	Increase/Decrease
Building Permits	\$582,528	\$382,463	+52.3%
Plumbing/Mechanical	\$114,347	\$122,251	-6.5%
Pre-Application Fees	\$26,074	\$28,776	-9.4%
Total	\$722,949	\$533,490	+35.5%

Revenue	Inflow	2015-16 Budget	% of Budget
Intergovernmental	\$453,672	\$2,094,900	21.7%

Intergovernmental revenues include grants and entitlements.

Revenue	Inflow	2015-16 Budget	% of Budget
Charges for Services	\$2,392,630	\$9,365,098	25.5%
	2015 YTD	2014 YTD	Increase/Decrease
MVA Fees	\$2,159	\$7,540	-71.4%
EMS Transport Fees	\$148,246	\$173,060	-14.3%
Plan Check Fees	\$345,972	\$537,275	-35.6%
Development Review Fees	\$423,234	\$448,010	-5.5%
Total	\$919,611	\$1,165,885	-21.1%

Charges for services also include recreation program fees.

Implementation of the MVA fee and an increase in the EMS Transport fee were approved by Council in 2012. The City also began collecting the EMS Transport fee from residents of Fire District 10 beginning in 2013.

Revenue	Inflow	2015-16 Budget	% of Budget
Interfund Svcs – Utilities	\$331,920	\$1,327,678	25.0%
CFP Staff Transfers	\$825,238	\$4,256,342	19.4%
Total	\$1,157,158	\$5,584,020	20.7%

Interfund services represent payments made by the utility funds for their portion of central City service costs – Finance, HR, City Manager, Clerk, IS, Legal, and Facilities.

Revenue	Inflow	2015-16 Budget	% of Budget
Fines/Penalties/Criminal Costs	\$204,180	\$749,300	27.2%
Other Miscellaneous	\$213,118	\$906,200	23.5%
Total	\$417,298	\$1,655,500	25.2%
	2015 YTD	2014 YTD	Increase/Decrease
Fines/Penalties/Criminal Costs	\$204,180	\$196,884	+3.7%
Other Miscellaneous	\$213,118	\$213,068	0.0%
Total	\$417,298	\$409,389	+1.9%

See General Fund Revenues - Chart 1

V. GENERAL FUND – EXPENDITURES

Expenditure	Outflow	2015-16 Budget	% of Budget
Salaries & Benefits	\$16,068,073	\$68,260,786	23.5%
Maintenance & Operations	\$3,358,837	\$13,939,665	24.1%
Capital	\$12,460	\$0	n/a
Interfund/Op Transfers	\$1,005,369	\$5,281,069	19.0%
Total	\$20,444,738	\$87,481,520	23.4%
	2015 YTD	2014 YTD	Increase/Decrease
Salaries & Benefits	\$16,068,073	\$15,414,391	+4.2%
Maintenance & Operations*	\$3,358,837	\$2,924,074	+14.9%
Capital	\$12,460	\$22,450	-44.5%
Interfund/Op Transfers**	\$1,005,369	\$1,236,500	-18.7%
Total	\$20,444,738	\$19,597,414	+4.3%

*A number of large recurring quarterly expenditures (human services, jail contracts, etc) are being recognized on an accrual basis throughout 2015, since invoices for these services are received on a one to two month lag. 2015 expenditures will thus appear inflated compared to 2014 for the first three quarters of 2015.

**No Street Fund subsidy is scheduled for 2015. See Street Fund discussion below.

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

VI. OTHER MAJOR FUNDS

	Inflow/Outflow	2015-16 Budget	% of Budget
Street	Inflow	\$738,352	20.6%
	Outflow	\$1,040,443	19.5%

\$1,777,795 in one-time road tax revenue was received in 2014 from King County as a result of the February 28, 2014 annexation. The Street Fund is utilizing these monies for operations spending during 2015 in lieu of a subsidy from the General Fund.

	Inflow/Outflow	2015-16 Budget	% of Budget
Arterial Street	Inflow	\$857,547	11.6%
	Outflow	\$474,151	13.6%

The Arterial Street Fund is funded through impact and mitigation fees. Spending occurs through transfers to the Capital Improvement Fund for transportation projects.

		Inflow/Outflow	2015-16 Budget	% of Budget
Park Reserve	Inflow	\$70,196	\$86,000	81.6%
	Outflow	\$0	\$363,000	0.0%

Park Reserve spending occurs through transfers to the Capital Improvement Fund.

		Inflow/Outflow	2015-16 Budget	% of Budget
Capital Improvement	Inflow	\$3,901,866	\$35,265,054	11.1%
	Outflow	\$3,209,082	\$35,765,646	9.0%

The \$30 million Bond Anticipation Note (BAN) was repaid in early 2014 with proceeds from the \$30 million Local Infrastructure Financing Tool (LIFT) bond. Debt service associated with the LIFT bond is 50% funded (\$1 million annually) through a reallocation of the State's portion of sales tax receipts that is being directed to the City.

VII. PROPRIETARY FUNDS

Fund		Inflow/Outflow	2015-16 Budget	% of Budget
Combined Utility Systems*	Inflow	\$667,320	\$2,626,072	25.4%
	Outflow	\$2,616,487	\$15,502,069	16.9%
Water	Inflow	\$2,661,351	\$13,186,622	20.2%
	Outflow	\$2,394,451	\$15,113,624	15.8%
Sewer	Inflow	\$3,744,412	\$15,235,505	24.6%
	Outflow	\$2,983,769	\$16,158,096	18.5%
Storm and Surface Water	Inflow	\$4,962,700	\$23,338,065	21.3%
	Outflow	\$5,160,625	\$22,371,630	23.1%
Equipment Rental	Inflow	\$913,708	\$3,654,526	25.0%
	Outflow	\$860,101	\$3,667,506	23.5%
Self-Insurance**	Inflow	\$579,301	\$2,329,027	24.9%
	Outflow	\$559,893	\$2,354,407	23.8%
Asset Replacement	Inflow	\$596,003	\$2,365,368	25.2%
	Outflow	\$627,330	\$5,555,863	11.3%

*See discussion below re: combined utility revenue bond.

**The City's annual insurance premium is paid during the first quarter. One-fourth of the premium is shown here as an expenditure for the first quarter of 2014.

In October 2014, the City issued a combined utility revenue bond for \$18,355,000. Proceeds from the bond are designated for the following utility capital projects:

- Water: Penn Park Reservoir Improvements (W7)
- Water: Downtown Revitalization Utility Improvements – Water (W11)
- Sewer: Lift Stations #2 and #3 (S4 and S11)
- Sewer: Promontory Hillside Sewer Improvements (S8)
- Sewer: Downtown Revitalization Utility Improvements – Sewer (S9)
- Storm/Surface Water: Horse Creek Improvements (SW11)

Funds will be transferred from the Combined Utility Systems Fund to the other three utility funds on an as-needed basis to cover project expenditures.

See Proprietary Funds Expenditures - Chart 4

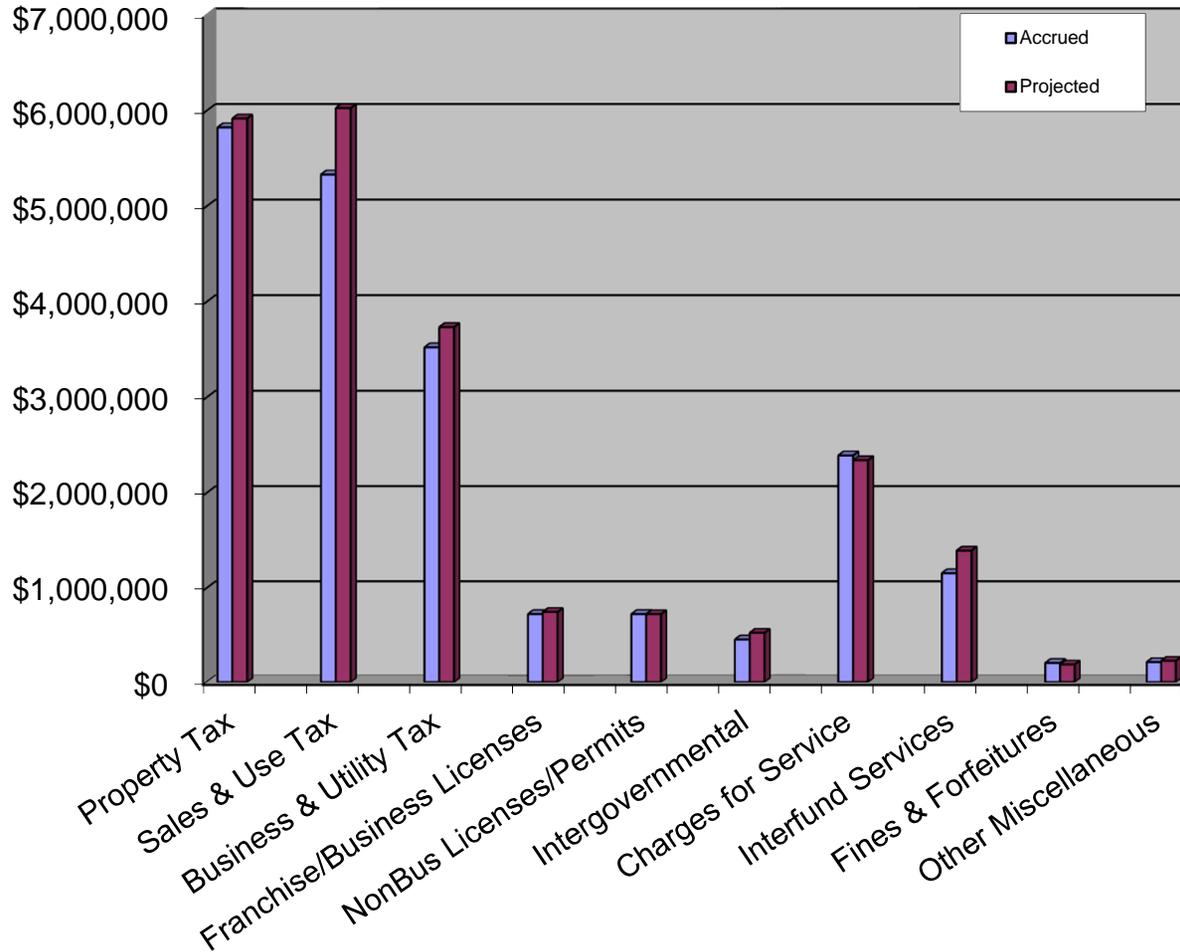
See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. COUNCIL EMPHASIS AREAS

Over the past several years, Council has asked that certain financial data be tracked and reported separately by staff.

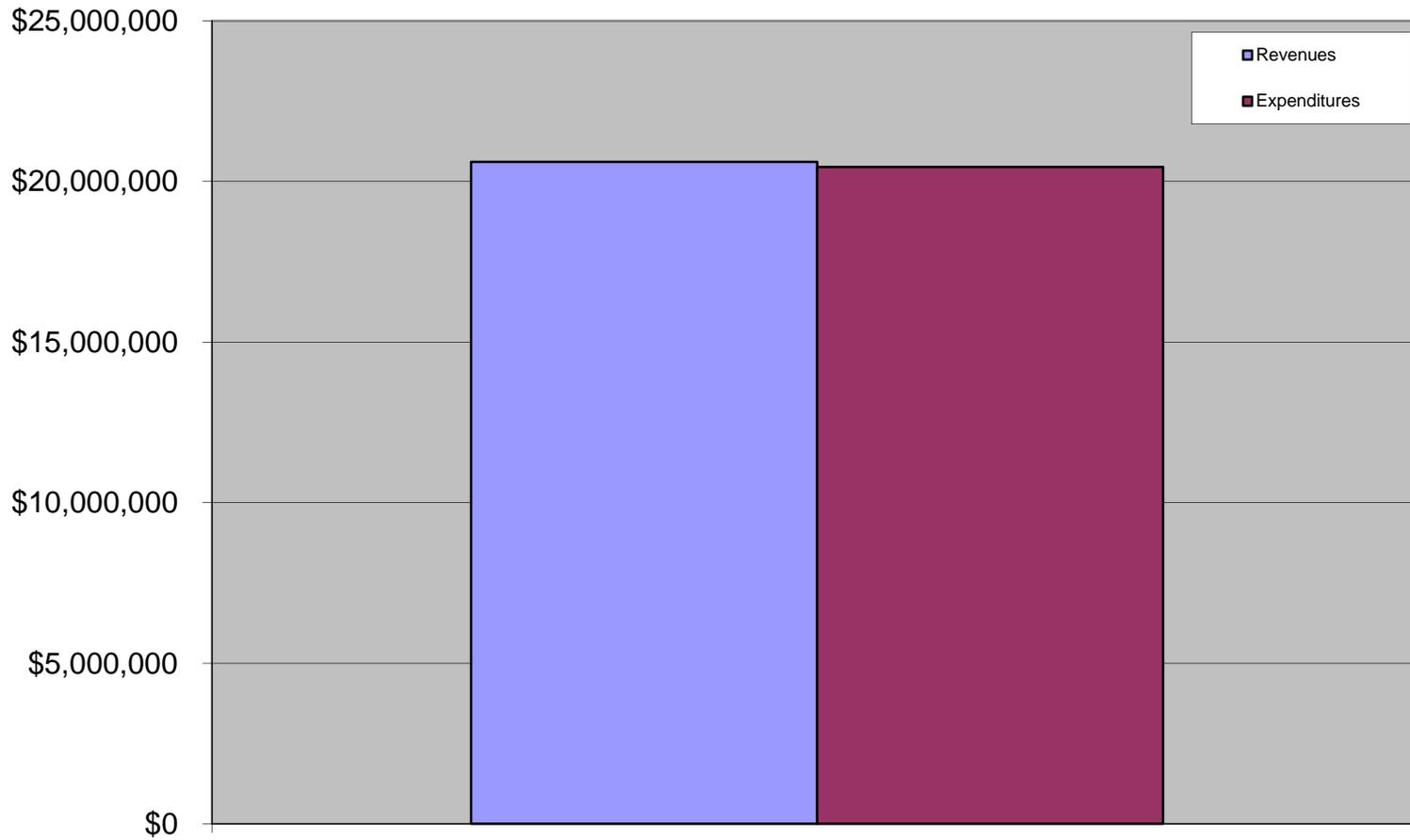
Development Review Fees	Inflow	\$509,457	(Includes A/R)
	Outflow	\$703,654	(Includes overhead)
	Net	(\$194,196)	
Permitting Fees	Inflow	\$1,042,847	
	Outflow	\$978,284	(Includes overhead)
	Net	\$64,563	
CFP Project-Term Staff	Inflow	\$653,322	(2015 reimbursement to Gen Fund)
	Outflow	\$653,322	(2015 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2015	\$225	(3 rebates thru June 30)
	2014	\$0	(No rebates thru June 30)
	Inc(Dec)	\$225	

General Fund Revenue vs Budget As of June 30, 2015



Prepared on an Accrual Basis

General Fund Revenues vs Expenditures As of June 30, 2015



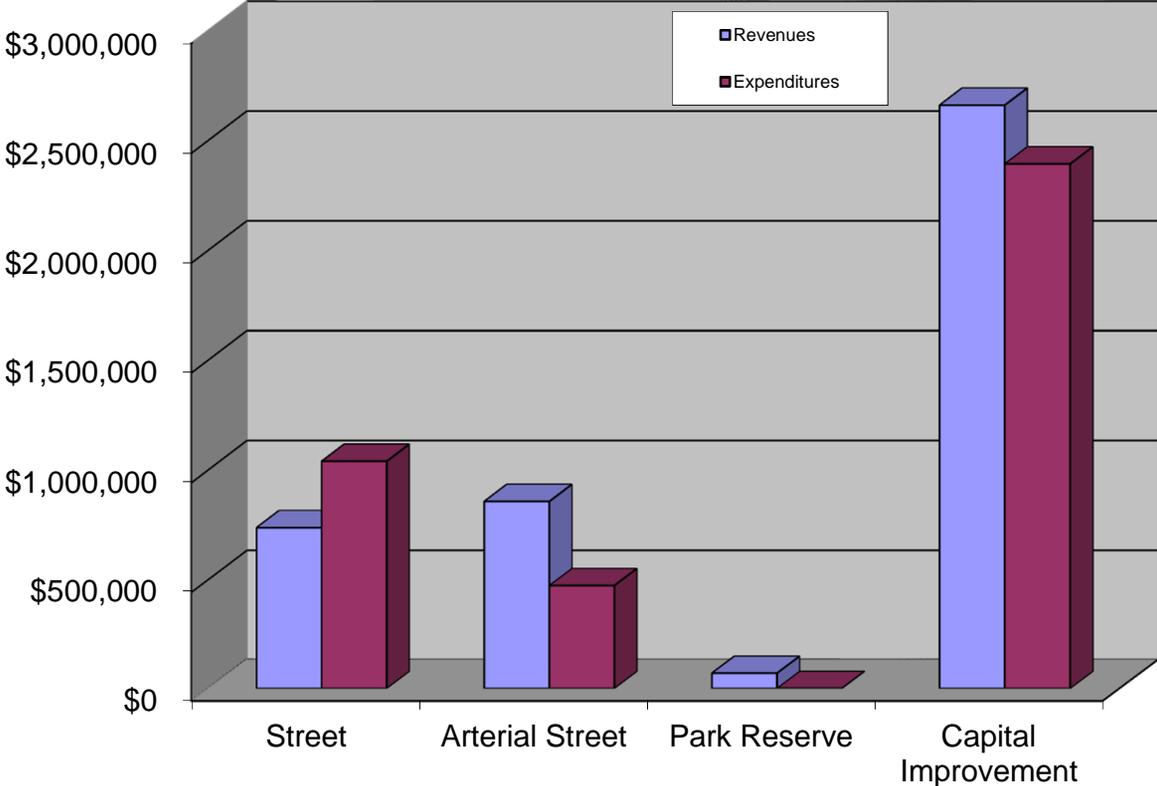
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 2

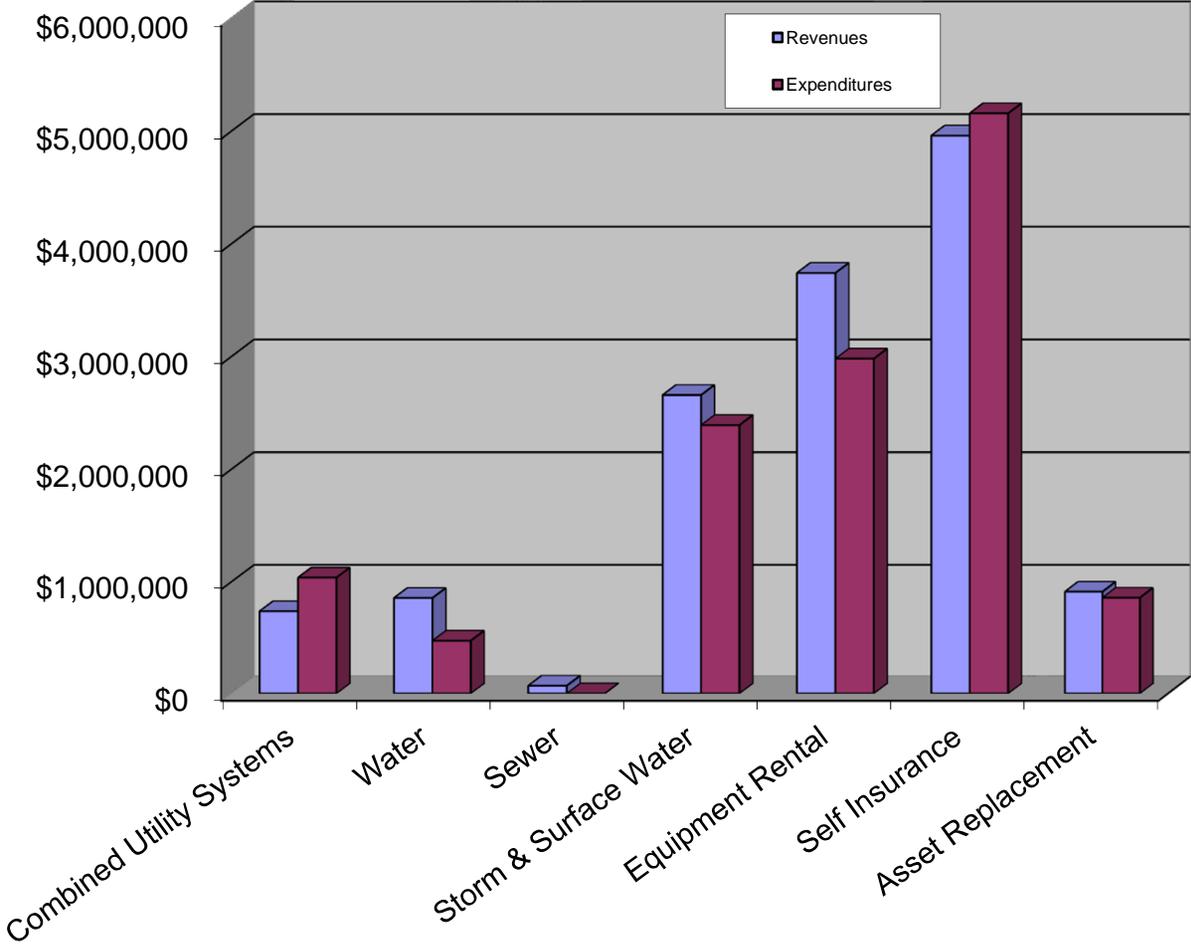
**Other Major Funds
Revenues vs Expenditures
As of June 30, 2015**



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 3

Proprietary Funds Revenues vs Expenditures June 30, 2015



Prepared on an Accrual Basis