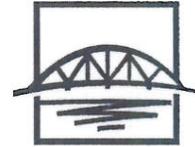


INTEROFFICE MEMORANDUM

Finance Department



City of Bothell

DATE: January 21, 2015

TO: Mayor and Council

THROUGH: Bob Stowe, City Manager

FROM: Tami Schackman, Finance Director

SUBJECT: 2013-14 Budget Status Report – Quarter #7

Attached for your review is the City's budget status report as of September 30, 2014.

The General Fund 2013-2014 operating surplus increased slightly during the seventh quarter of the biennium – as of September 30, the surplus sits at \$930,703.

As indicated throughout the biennium, these surplus funds were anticipated and are allocated toward reinstating pre-recession operating and asset replacement reserve levels. This action is in line with the City's strategy to preserve a prudent fiscal position and its strong credit rating.

Staff is working toward finalizing the City's 2013-2014 fiscal period. December sales tax revenues will not be received from the Department of Revenue until the end of February.

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

City of Bothell
2013-2014 Budget Status Report
For the Quarter Ending September 30, 2014

I. BIENNIUM STATUS

On September 30, 2014, the City concluded the seventh quarter of the 2013-2014 biennium. The budget period described in this report is 87.5% complete.

Revenue and expenditure budget totals reflect the 2013 budget amendment, which was approved by Council in November 2013. The 2014 budget amendment is not reflected in this report. The 2014 budget amendment will impact the fourth quarter report.

Citywide

Citywide 2013-2014 surplus/deficit: \$8,604,054

- General Fund (\$930,703). See detailed discussion below.
- Capital Improvements Fund (\$4,413,603). Capital expenditures continued to progress as programmed in the City's adopted Capital Facilities Plan.
- Street Fund (\$548,868). In 2014, the City is receiving King County Road Tax in lieu of property taxes from the February King County annexations.

General Fund

General Fund 2013-2014 surplus/deficit: \$930,703

(General Fund + Street Fund) 2013-2014 surplus/deficit:* \$1,479,571

*Since the General Fund has historically subsidized Street Fund operations (the subsidy for 2013 totaled \$494,240), it is also useful to look at the combined financial results for the two funds.

The General Fund's operating surplus rose slightly during the third quarter of 2014, increasing by \$31,356. Retail sales tax revenues continued to trend higher than in 2013, but construction sales tax revenues (while still exceeding budget projections) declined in the third quarter and are now just slightly (\$23,000) below 2013 levels.

Building permit and development review fees remained down compared to 2013 levels, but pre-application fees continued to trend higher than a year ago.

II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2013-14 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$185,955,504	\$234,652,869	79.2%
	Outflow	\$177,350,650	\$239,406,383	74.1%
<u>GENERAL FUND</u>	Inflow	\$68,924,027	\$79,937,472	86.2%
	Outflow	\$67,993,325	\$79,905,430	85.1%
<u>GENERAL/STREET FUNDS</u>	Inflow	\$73,066,771	\$85,147,779	85.8%
	Outflow	\$71,587,200	\$84,263,966	85.0%
<u>CAPITAL IMP FUND</u>	Inflow	\$72,601,795	\$81,974,637	88.6%
	Outflow	\$68,188,193	\$82,600,090	82.6%
<u>UTILITY FUNDS</u>	Inflow	\$27,008,870	\$48,294,379	55.9%
	Outflow	\$26,318,443	\$49,502,702	53.2%

III. ECONOMIC INFORMATION

Employment - National

National non-farm payroll employment increased by 670,700 jobs during the third quarter of 2014. The national unemployment rate edged down to 5.9% in September.

The number of long-term unemployed (those jobless for 27 weeks or more) dropped to 3.0 million in September. There were 698,000 discouraged workers (persons not currently looking for work, because they believe no jobs are available for them), down by 154,000 from September 2013.

<u>U.S. GOODS-PRODUCING: +106,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +564,700 JOBS</u>	
Construction	+62,000	Wholesale trade	+7,300
Manufacturing	+24,000	Retail trade	+56,000
Mining & logging	+20,000	Transportation/warehousing/utilities	+33,400
		Information	+27,000
		Professional/financial/business	+233,000
		Educational/health services	+111,000
		Leisure/hospitality	+63,000
		Other services	+13,000
		Government	+21,000

Employment – State

13,700 non-farm jobs were gained statewide during the third quarter of 2014. Washington's unemployment rate fell to 5.7% in September, and the Seattle-Bellevue-Everett rate held steady at 4.8%.

<u>STATE GOODS-PRODUCING: +3,100 JOBS</u>		<u>STATE SERVICE-PROVIDING: +10,600 JOBS</u>	
Construction	+1,700	Wholesale trade	+2,400
Manufacturing	+1,400	Retail trade	+4,600
Mining & logging	0	Transportation/warehousing/utilities	-2,200
		Information	+1,400
		Professional/financial/business	+4,400
		Educational/health services	-1,900
		Leisure/hospitality	-2,400
		Other services	-600
		Government	+4,900

Economic Forecast

The State Economic and Revenue Forecast Council's September 2014 report stated that the national economy is continuing to advance at a moderate pace. Uncertainty remains elevated, and downside risks to the economy (potential slowdowns in Chinese or European economic growth) once again outweigh upside risks.

The state economy also continues to expand moderately, and is expected to continue to outpace the national economy. Aerospace employment continues to decline due to improvements in productivity, but analysts continue to believe that a hefty backlog of orders will keep this decline relatively mild.

Microsoft announced in July that it would lay off 18,000 employees worldwide. While most do not affect the Puget Sound area, 2,098 Washington employees had been notified of layoffs as of September. Approximately 2,900 Microsoft job cuts remain, some of which will likely be local. The layoffs are expected to be complete by the end of Microsoft's June 30, 2015 fiscal year.

Seattle-area home prices declined 0.1% in July 2014, but were still 7.1% higher than in July 2013, and 26.1% higher than the November 2011 trough.

CPI Data – Seattle/Tacoma/Bremerton Region

June 2014 – August 2014: +0.1%

August 2013 – August 2014: +2.1%

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, September sales tax was received in late November.

Revenue	Inflow	2013-14 Budget	% of Budget
Property Taxes			
City Levy	\$15,796,410	\$18,322,896	86.2%
EMS Levy	\$1,491,936	\$1,802,936	82.8%
Total	\$17,288,346	\$20,125,832	85.9%
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	2013-14 Budget	% of Budget
Sales/Use Taxes			
Retail	\$13,109,873	\$16,176,032	81.0%
Construction	\$3,694,420	\$3,101,990	119.1%
Hotel/Motel	\$587,739	\$597,175	98.4%
Criminal Justice	\$1,199,697	\$1,412,047	85.0%
Total	\$18,591,729	\$21,287,244	87.3%
	2014 YTD	2013 YTD	Increase/Decrease
Retail	\$6,026,326	\$5,238,309	+15.0%
Construction	\$1,526,454	\$1,549,888	-1.5%
Hotel/Motel	\$280,673	\$243,325	+15.3%
Criminal Justice	\$566,638	\$460,725	+23.0%
Total	\$8,400,091	\$7,492,247	+12.1%

Revenue	Inflow	2013-14 Budget	% of Budget
Business & Utility Taxes			
Electric & Gas	\$5,884,394	\$7,836,381	75.1%
Cable TV	\$955,998	\$1,150,969	83.1%
Telephone & Cellular	\$2,889,132	\$4,161,458	69.4%
Water & Sewer	\$941,035	\$1,321,304	71.2%
Sanitation	\$539,198	\$563,707	95.7%
Gambling	\$27,554	\$30,000	91.8%
Utility Tax Rebate	(\$7,300)	\$0	n/a
Total	\$11,230,011	\$15,063,819	74.5%
	2014 YTD	2013 YTD	Increase/Decrease
Electric & Gas	\$2,591,640	\$2,380,779	+8.9%
Cable TV	\$411,214	\$407,044	+1.0%
Telephone & Cellular	\$1,143,336	\$1,354,682	-15.6%
Water & Sewer	\$365,158	\$390,332	-6.4%
Sanitation	\$252,186	\$217,189	+16.1%
Gambling	\$12,900	\$10,919	+18.1%
Utility Tax Rebate	(\$2,600)	(\$3,850)	n/a
Total	\$4,773,833	\$4,757,095	+0.4%

Revenue	Inflow	2013-14 Budget	% of Budget
Other Taxes	\$53,461	\$74,000	72.2%
Other taxes include leasehold excise taxes and private harvest timber taxes, which are received periodically throughout the year.			

Revenue	Inflow	2013-14 Budget	% of Budget
Franchise/License Rev			
Alderwood Water District	\$575,856	\$645,000	89.3%
Northshore Utility District	\$152,133	\$192,485	79.0%
Frontier/FIOS	\$122,055	\$175,000	69.7%
Business & Sign Licenses	\$1,621,079	\$1,669,580	97.1%
Total	\$2,471,123	\$2,682,065	92.1%
	2014 YTD	2013 YTD	Increase/Decrease
Alderwood Water District	\$272,550	\$252,077	+8.1%
Northshore Utility District*	\$98,785	\$36,971	+167.2%
Frontier/FIOS	\$54,581	\$49,582	+10.1%
Total	\$425,916	\$338,630	+25.8%
*NUD serves a large portion of the territory that was newly annexed to the City in February 2014.			

Revenue	Inflow	2013-14 Budget	% of Budget
Non-Bus Licenses & Permits			
Building Permits	\$1,958,279	\$1,535,000	127.6%
Plumbing/Mechanical	\$456,926	\$300,000	152.3%
Pre-Application Fees	\$72,172	\$100,000	72.2%
Animal Licenses	\$126,944	\$177,125	71.7%
Concealed Weapons	\$11,173	\$16,100	69.4%
Total	\$2,625,494	\$2,128,225	123.4%
	2014 YTD	2013 YTD	Increase/Decrease
Building Permits	\$706,019	\$884,883	-20.2%
Plumbing/Mechanical	\$164,603	\$200,376	-17.9%
Pre-Application Fees	\$37,280	\$27,136	+37.4%
Total	\$907,902	\$1,112,395	-18.4%

Revenue	Inflow	2013-14 Budget	% of Budget
Intergovernmental	\$2,337,611	\$2,599,006	89.9%
Intergovernmental revenues include grants and entitlements.			
Grant revenues for the Biomedical Manufacturing Innovation Partnership Zone (IPZ) project are included in the inflow figure above. This project's estimated revenues and expenditures were included in the 2013 budget amendment.			

Revenue	Inflow	2013-14 Budget	% of Budget
Charges for Services	\$8,457,443	\$9,223,860	91.7%
	2014 YTD	2013 YTD	Increase/Decrease
MVA Fees	\$9,796	\$19,355	-49.4%
EMS Transport Fees	\$251,984	\$291,620	-13.6%
Plan Check Fees	\$756,176	\$878,823	-14.0%
Development Review Fees	\$641,400	\$652,127	-1.6%
Total	\$1,659,356	\$1,841,925	-9.9%

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	2013-14 Budget	% of Budget
Interfund Svcs – Utilities	\$1,012,435	\$1,157,068	87.5%
CFP Staff Transfers	\$3,044,763	\$3,645,828	83.5%
Total	\$4,057,197	\$4,802,896	84.5%

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

Revenue	Inflow	2013-14 Budget	% of Budget
Fines/Penalties/Criminal Costs	\$660,015	\$854,050	77.3%
Other Miscellaneous	\$1,151,598	\$1,096,475	105.0%
Total	\$1,811,613	\$1,908,875	94.9%
	2014 YTD	2013 YTD	Increase/Decrease
Fines/Penalties/Criminal Costs	\$278,757	\$304,415	-8.4%
Other Miscellaneous	\$545,395	\$418,754	+30.2%
Total	\$824,152	\$723,168	+14.0%

See General Fund Revenues - Chart 1

V. GENERAL FUND – EXPENDITURES

Expenditure	Outflow	2013-14 Budget	% of Budget
Salaries & Benefits	\$53,447,882	\$62,055,467	86.1%
Maintenance & Operations	\$10,180,240	\$12,548,386	81.1%
Capital	\$552,375	\$556,000	99.3%
Interfund/Op Transfers	\$3,812,827	\$4,745,577	80.3%
Total	\$67,993,325	\$79,905,430	85.1%
	2014 YTD	2013 YTD	Increase/Decrease
Salaries & Benefits	\$23,504,549	\$22,417,354	+4.8%
Maintenance & Operations	\$4,276,053	\$4,144,585	+3.2%
Capital	\$22,450	\$349,472	-93.6%
Interfund/Op Transfers	\$1,859,750	\$1,689,808	+10.1%
Total	\$29,662,802	\$28,601,218	+3.7%

2013-2014 M&O and capital figures include \$782,411 in one-time expenditures for two Biomedical Manufacturing Innovation Partnership Zone (IPZ) projects. Project costs were covered 100% by two grants from the Department of Commerce. IPZ revenues and expenditures were approved in the City's 2013 budget amendment.

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

VI. OTHER MAJOR FUNDS

	Inflow/Outflow	2013-14 Budget	% of Budget
Street	Inflow	\$4,142,723	79.5%
	Outflow	\$3,593,875	82.5%

Subsidy transfers from the General Fund represented \$494,240 of Street Fund revenues during 2013.

	Inflow/Outflow	2013-14 Budget	% of Budget
Arterial Street	Inflow	\$2,585,762	42.2%
	Outflow	\$2,452,391	35.4%

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	2013-14 Budget	% of Budget
Park Reserve	Inflow	\$394,066	\$480,000	82.1%
	Outflow	\$0	\$100,000	0.0%

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

		Inflow/Outflow	2013-14 Budget	% of Budget
Capital Improvement	Inflow	\$72,601,795	\$81,974,637	88.6%
	Outflow	\$68,188,193	\$82,600,090	82.6%

\$10 million in bank qualified bonds were issued in June 2013 (as approved by Council in May). The proceeds were allocated as follows:

- \$4.0 million - repaid outstanding Bond Anticipation Note (BAN) in June
- \$1.5 million - Wexler property purchase necessary for the Multi-way Boulevard
- \$4.5 million - Phase 1 of Boulevard construction

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	2013-14 Budget	% of Budget
Water	Inflow	\$7,834,560	\$10,624,378	73.7%
	Outflow	\$6,968,706	\$11,680,279	59.7%
Sewer	Inflow	\$11,195,892	\$15,120,910	74.0%
	Outflow	\$10,206,798	\$15,754,663	64.8%
Storm/Surface Water	Inflow	\$7,978,419	\$22,549,091	35.4%
	Outflow*	\$9,142,939	\$22,067,760	41.4%
Equipment Rental	Inflow	\$2,698,865	\$3,082,272	87.6%
	Outflow	\$2,545,929	\$3,099,486	82.1%
Self-Insurance	Inflow	\$1,927,275	\$2,182,524	88.3%
	Outflow	\$1,845,956	\$2,130,813	86.6%
Asset Replacement	Inflow*	\$3,446,756	\$2,949,558	116.9%
	Outflow	\$1,749,129	\$6,326,272	27.6%

*Storm & Surface Water made a \$1.532 million interfund loan repayment to Asset Replacement in September 2014.

Capital spending in proprietary funds is not recognized as an expenditure in the year that spending takes place, but instead is depreciated over time in line with generally accepted accounting principles (GAAP). The following table lists capital spending that occurred in 2013, along with depreciation that was recognized in 2013.

	(Cash spent in 2013, but not counted as a 2013 expenditure)	(Counted as an expenditure in 2013, but is not cash spending)
	2013 Capitalized Spending	2013 Depreciation
Water	\$640,650	\$451,268
Sewer	265,721	327,280
Storm & Surface Water	1,400,170	434,169
Equipment Rental	0	3,342
Asset Replacement	1,411,682	733,903
Total	\$3,718,223	\$1,949,962

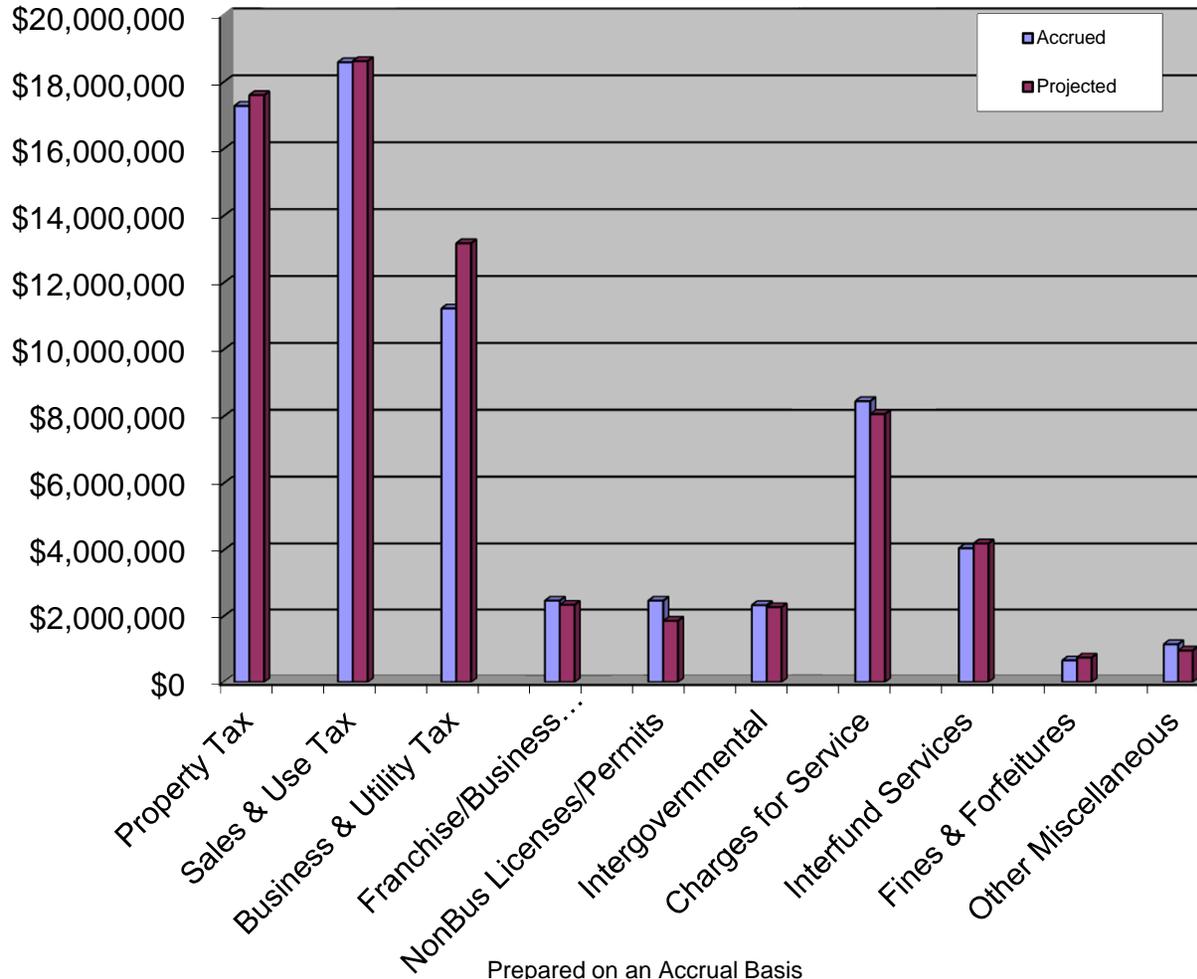
See Proprietary Funds Expenditures - Chart 4

See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. COUNCIL EMPHASIS AREAS

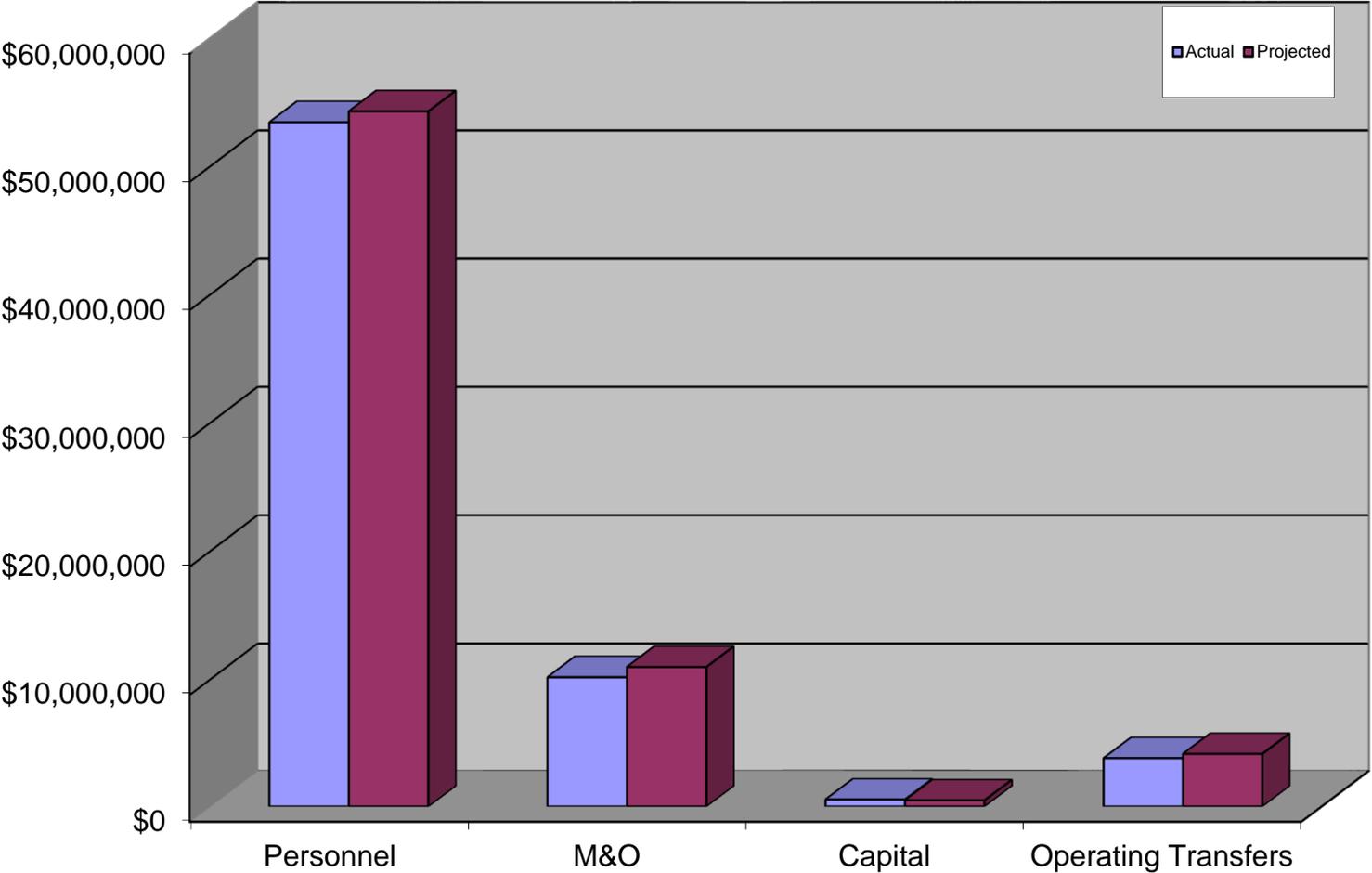
Development Review Fees	Inflow	\$785,796	(Includes A/R)
	Outflow	924,539	(Includes overhead)
	Net	(\$138,743)	
Permitting Fees	Inflow	\$1,626,798	
	Outflow	\$1,419,588	(Includes overhead)
	Net	\$207,209	
CFP Project-Term Staff	Inflow	\$1,014,840	(2014 reimbursement to Gen Fund)
	Outflow	1,014,840	(2014 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2014	\$2,600	(34 rebates)
	2013	\$3,850	(51 rebates)
	Inc(Dec)	(\$1,250)	

General Fund Revenue vs Budget September 30, 2014



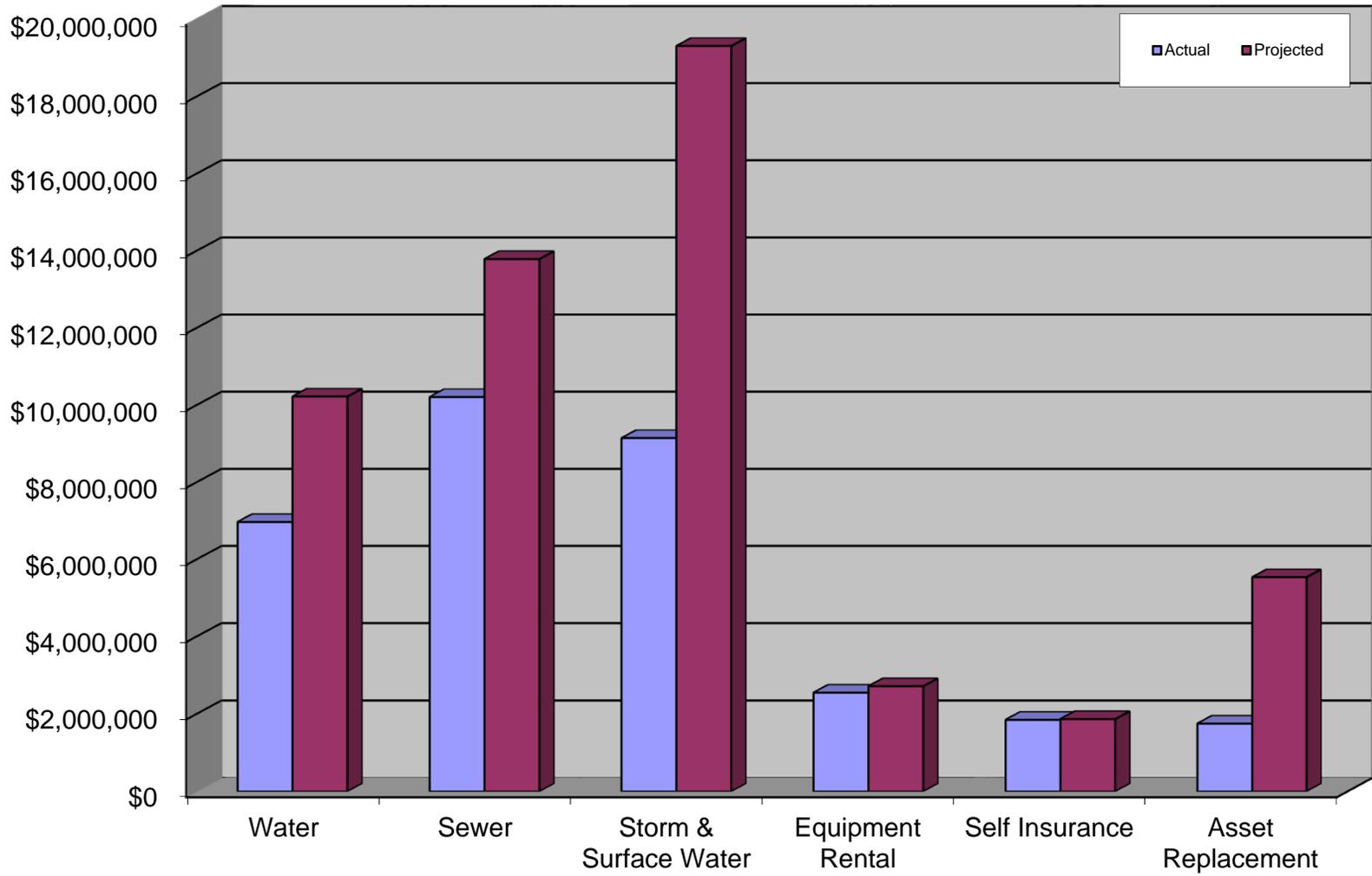
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget September 30, 2014



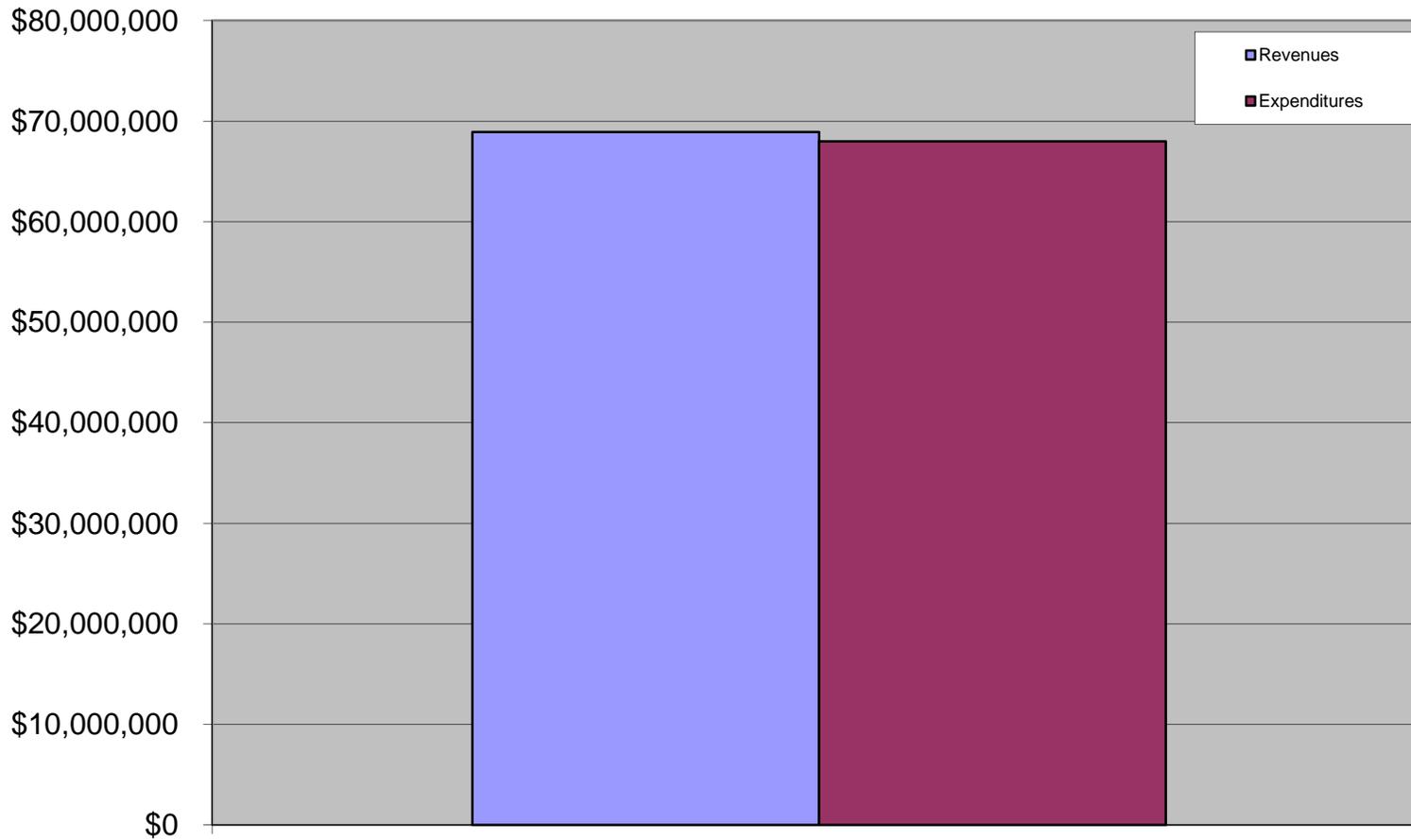
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget September 30, 2014



Proprietary Funds
Chart 3

General Fund Revenues vs Expenditures September 30, 2014



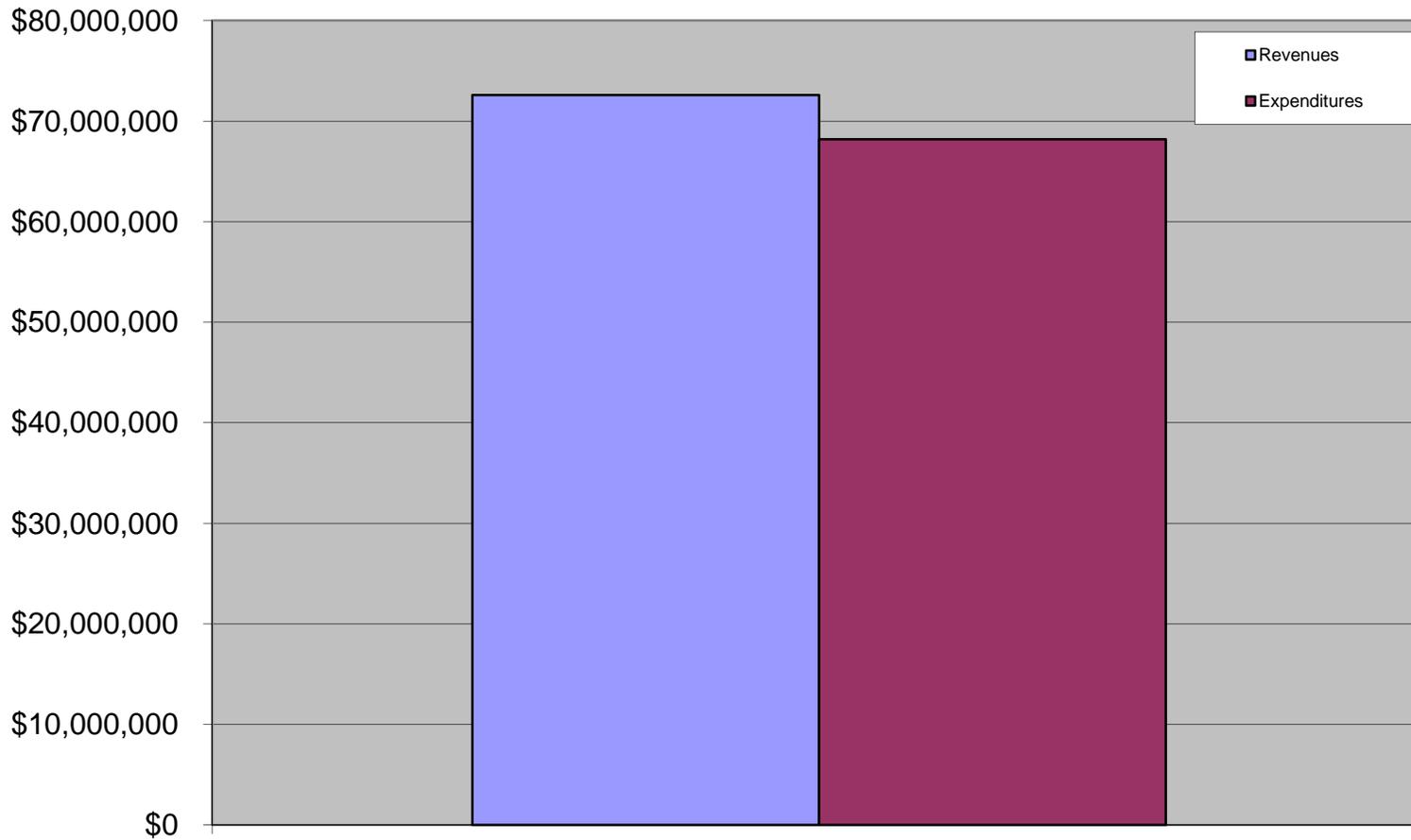
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

Capital Improvement Fund Revenues vs Expenditures September 30, 2014



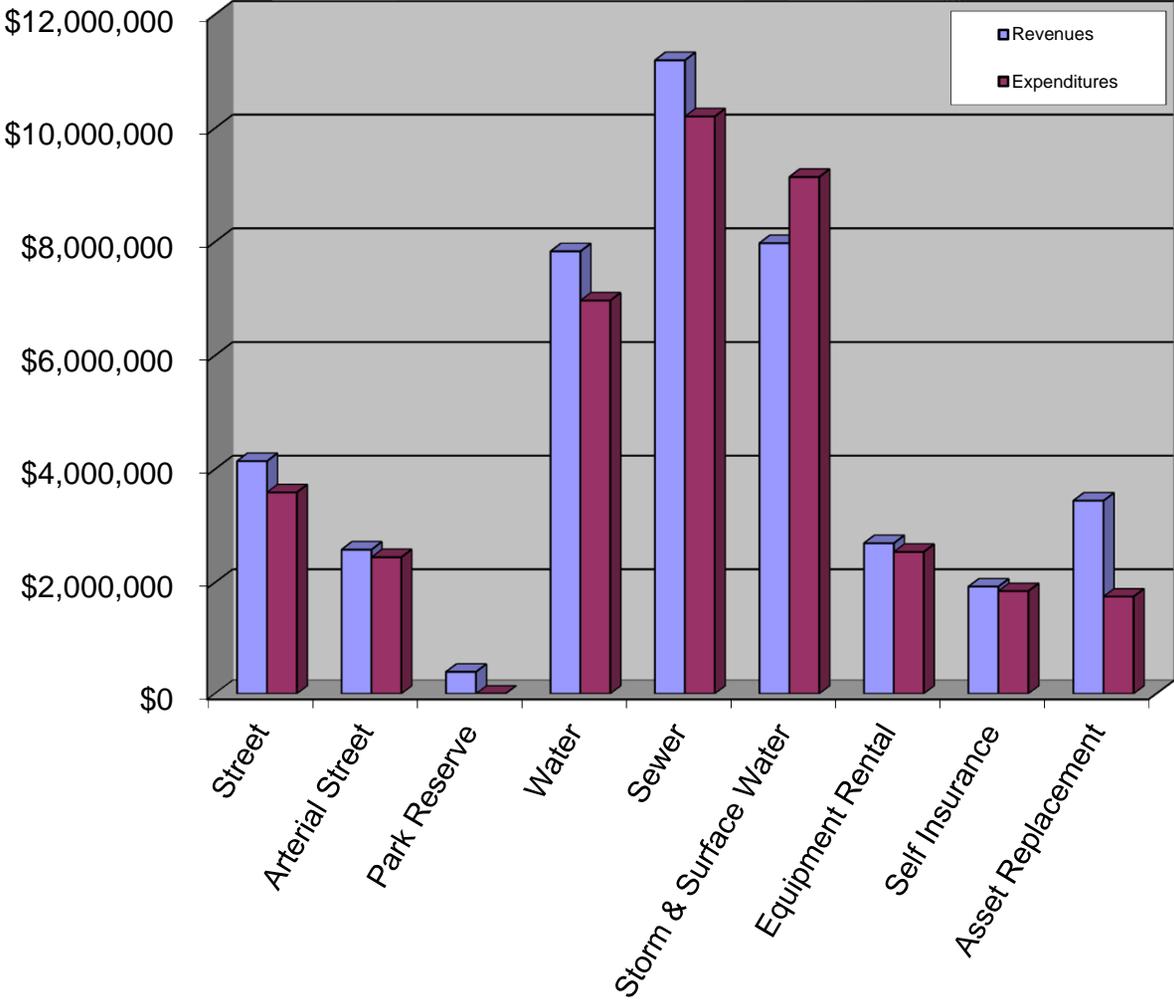
Capital Improvement

Prepared on an Accrual Basis

Capital Improvement Fund Revenues vs. Expenditures

Chart 5

Other Major Funds Revenues vs Expenditures September 30, 2014



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 6