

City of Bothell

2007-2008 Budget Status Report

For the Quarter Ending June 30, 2008

I. Biennium Status

The City has concluded the sixth quarter of its eight-quarter biennium. The budget period is 75% (18 of 24 months) complete.

Citywide

Citywide revenue inflows through June 2008 amounted to 69.1% of the biennial projection – this is 4.4% ahead of where the City ended June 2006. Expenditure outflows however spent down 54.2% of the biennial appropriation – 2.3% more than was spent down through the first six quarters of 2005-06.

The City's budget position (considering both inflows and outflows) is \$2.6 million ahead of where it ended June 2006.

General Fund

General Fund revenue inflows amounted to 70.3% of the biennial projection – this is 11.3% lower than the City received during the first six quarters of 2005-06. Retail sales tax revenues continue to run below budget projections, and substantially below the levels seen in 2005-06.

Expenditure outflows spent down 65.6% of the biennial projection – 4% less than the same period in 2005-06. Excluding \$4.05 million in transfers (which have occurred regularly throughout 2007-08, compared to a lump sum transfer at the end of 2005-06), the General Fund's budget position (considering both inflows and outflows), while still at break-even, is \$2.1 million behind where it ended June 2006.

The monthly transfer to the Capital Fund (per the City's CFP policy) has been stopped, given that a surplus of revenue over expenditures is no longer anticipated in 2008.

II. Citywide Summary

| | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|---|---------|----------------|------------------|-------------|
| <u>CITY TOTAL</u> | Inflow | \$124,924,284 | \$180,687,905 | 69.1% |
| | Outflow | \$111,772,069 | \$206,359,170 | 54.2% |
| <u>CITY TOTAL</u> (less Arterial Street and Capital Funds) | Inflow | \$85,515,316 | \$118,560,070 | 72.1% |
| | Outflow | \$81,516,550 | \$129,109,251 | 63.1% |
| <u>GENERAL FUND*</u> | Inflow | \$53,488,220 | \$76,032,322 | 70.3% |
| | Outflow | \$53,509,462 | \$81,526,582 | 65.6% |

III. Economic Recap

National non-farm payroll employment decreased by 191,000 jobs during the second quarter of 2008. The national unemployment rate rose to 5.5%.

| <u>U.S. GOODS-PRODUCING: - 232,000 JOBS</u> | | <u>U.S. SERVICE-PROVIDING: +41,000 JOBS</u> | |
|---|-----------|---|----------|
| Construction | - 139,000 | Retail trade | -75,000 |
| Manufacturing | - 107,000 | Professional/business services | -83,000 |
| | | Educational/health services | +121,000 |
| | | Leisure/hospitality | + 47,000 |
| | | Government | + 82,000 |

At the state level, 600 non-farm jobs were added during the second quarter of 2008. Washington's unemployment rate rose to 5.5% in line with the national rate, while the Seattle-Bellevue-Everett rate closed June at 3.9%.

| <u>STATE GOODS-PRODUCING: -1,800 JOBS</u> | | <u>STATE SERVICE-PROVIDING: +2,400 JOBS</u> | |
|---|--------|---|--------|
| Construction | -2,500 | Wholesale trade | -200 |
| Manufacturing | +1,000 | Retail trade | -800 |
| Natural Resources & Mining | -300 | Transportation/warehousing/utilities | -300 |
| | | Information | +1,600 |
| | | Professional/business services | +400 |
| | | Educational/health services | -800 |
| | | Leisure/hospitality | +1,200 |
| | | Other services | +300 |
| | | Government | +1,000 |

In response to a slowing economy in 2007, the Federal Reserve (central banking system of the United States) cut the federal funds rate in hopes of stimulating the economy. The federal funds rate currently sits at 2%, where it is expected to remain through 2008. The cumulative cut since September 2007 amounts to 3.25%.

The State Economic and Forecast Council indicated in its June report that the decline in Washington housing permits was much steeper than expected during the first quarter of 2008. The current forecast assumes that 2008 housing permits will be significantly lower than was assumed in February, but will recover to about the same rate in 2009. Little change in the overall level of construction employment is predicted for 2009-2011.

The bimonthly Consumer Price Index for the Seattle-Tacoma-Bremerton region made a big jump in June - rising 2.3% over the April 2008 figure and 6.2% over June 2007.

IV. General Fund Revenues

Tax receipts are remitted to the City by either the State or County, and therefore a one to two month lag is experienced between when revenue is earned and when it is actually received. For example, June sales tax revenue is not actually remitted to the City until the end of August.

Where actual revenue figures are not yet available, accruals have been utilized.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|---------------------|---------------------|---------------------|--------------|
| Property Tax | \$11,693,539 | \$15,947,425 | 73.3% |

Property tax is an exceptionally stable revenue stream. Receipts are remitted monthly to the City from King and Snohomish County.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|----------------------|---------------------|---------------------|--------------|
| Sales/Use Tax | | | |
| Retail | \$11,763,880 | \$19,520,145 | 60.3% |
| Construction | \$3,315,339 | \$5,210,000 | 63.6% |
| Hotel/Motel | \$375,033 | \$531,300 | 70.6% |
| Criminal Justice | \$969,721 | \$1,310,000 | 74.0% |
| Total | \$16,423,974 | \$26,571,445 | 61.8% |

Sales tax revenues continue to run below projections. Retail sales tax revenues in the first two quarters of 2008 were down \$310,000 from the same period in 2007, while construction sales tax revenues were down \$408,000.

Destination-based sales tax took effect July 1. Any positive impact from the legislation on Bothell's sales tax receipts remains uncertain. The legislation does ensure that municipalities will receive quarterly payments from the State to mitigate any net loss.

The Department of Revenue continues to withhold over \$26,000 each month (\$624,000 during the 2007-08 biennium) to adjust for an overpayment to the City in the 1990's.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|-----------------------------|---------------------|---------------------|--------------|
| Business/Utility Tax | \$10,780,022 | \$14,080,835 | 76.6% |

Some utility revenues are seasonal in nature – electric and gas utility tax receipts peak in winter months, while water and sewer utility tax receipts peak during the summer.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|--------------------|--------------------|------------------|---------------|
| Other Taxes | \$1,011,035 | \$748,000 | 135.2% |

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes.

EMS levy collections comprise 90% of taxes received in this category to date. King County voters approved a \$0.30 per \$1,000 of assessed property value levy for the 6-year period from 2008-2013, which has resulted in revenues exceeding expectations.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|-------------------------------|--------------------|--------------------|--------------|
| Licenses & Permits | | | |
| Business/Sign Licenses | \$444,179 | \$538,100 | 82.5% |
| Building Permits | \$1,475,196 | \$2,236,600 | 66.0% |
| Plumbing/Mechanical | \$234,339 | \$447,300 | 52.4% |
| Pre-Application Fees | \$50,104 | \$80,000 | 62.6% |
| Other Miscellaneous | \$6,056 | \$7,000 | 86.5% |
| Total | \$2,209,874 | \$3,309,000 | 66.8% |

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|--------------------------|--------------------|--------------------|--------------|
| Intergovernmental | \$3,277,299 | \$3,837,000 | 85.4% |

Intergovernmental revenues are for the most part comprised of grant funding, and make up only 5% of the General Fund's revenue budget. Grants awards normally require the grantee to expend its own funds before requesting reimbursement from the grantor.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|-----------------------------|--------------------|--------------------|--------------|
| Charges for Services | \$4,996,402 | \$7,035,411 | 71.0% |

Charges for services include development review fees, recreation program fees, passport fees, and EMS transport fees. Transfers from CFP projects which cover project-term staff members' salaries and benefits are also included in this category.

| Revenue | Inflow | 2007-2008 Budget | % of Budget |
|---------------------------------|--------------------|--------------------|--------------|
| Fines/Penalties/Criminal | \$633,135 | \$802,500 | 78.9% |
| Other Miscellaneous | \$1,854,380 | \$2,889,300 | 64.2% |
| Operating Transfers | \$608,555 | \$811,406 | 75.0% |

Investment earnings continue to run below 2007 levels. Rates are currently in the 2-3% range, down from a 5.25% high in 2007.

See General Fund Revenues - Chart 1

V. General Fund Expenditures

Biennial expenditures (excluding operating transfers) through June are \$7.9 million (13%) below the average month-to-month budget pace. Personnel expenditures continue to close the gap with projections, finishing the quarter 4.7% lower than expected – while maintenance and operations (M&O) expenditures are 9.7% lower than the monthly pace.

Operating transfer expenditures continue to lag behind budget projections because the interfund loans from the General Fund to the Water and Sewer Funds for the Public Works shop were not needed. At this point in the 2007-2008 biennium, \$4.05 million has been transferred to the Capital Improvement Fund in accordance with the City's Capital Facilities Plan policy. Monthly one-time revenues and surplus of revenue over expenditure transfers have been stopped, as a surplus of revenue in the General Fund is no longer expected in 2008. Operating transfers are reevaluated prior to closing the City's books at yearend.

| Expenditures | Outflow | 2007-2008 Budget | % of Budget |
|-------------------------------------|---------------------|---------------------|--------------|
| Salaries & Benefits | \$35,813,315 | \$50,110,462 | 71.5% |
| Maintenance & Operations | \$9,539,031 | \$14,085,555 | 67.7% |
| Capital | \$651,261 | \$740,947 | 87.9% |
| Operating Transfers | \$7,505,855 | \$16,589,618 | 45.2% |
| Total | \$53,509,462 | \$81,526,582 | 65.6% |

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

VI. Other Major Funds

| | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|--------|----------------|--------------------|--------------------|--------------|
| Street | Inflow | \$2,146,240 | \$3,221,530 | 66.6% |
| | Outflow | \$2,512,281 | \$3,682,681 | 68.2% |

A subsidy from the General Fund represents \$397,500 of Street Fund revenues. A subsidy remains necessary to balance inflows and outflows.

| | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|-----------------|----------------|---------------------|---------------------|--------------|
| Arterial Street | Inflow | \$15,039,880 | \$34,996,000 | 43.0% |
| | Outflow | \$15,335,588 | \$37,907,419 | 40.5% |

The Arterial Street Fund is project-driven and primarily grant funded. Note that this fund's budget includes projects that may carry forward into 2009-2010.

| | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|--------------|----------------|------------------|------------------|--------------|
| Park Reserve | Inflow | \$439,532 | \$779,200 | 56.4% |
| | Outflow | \$0 | \$490,000 | 0.0% |

In accordance with direction received from the State Auditor's Office, these restricted funds will be reclassified as "deferred revenue" until they are actually expended on capital parks projects.

| | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|---------------------|----------------|---------------------|---------------------|--------------|
| Capital Improvement | Inflow | \$24,369,088 | \$27,131,835 | 89.8% |
| | Outflow | \$14,919,931 | \$39,342,500 | 37.9% |

Revenues include \$4.05 million transferred from the General Fund in accordance with the Capital Facilities Plan fiscal policies. A portion of these funds may be returned to the General Fund if one-time revenues (excess construction sales tax and building permits) do not meet 2006 projections for 2008, or if the General Fund does not finish 2008 with a surplus of revenues over expenditures. Transfers of one-time revenues and any surplus of revenues over expenditures have been halted until year-end.

Capital spending picked up in early 2008 with the purchase of the Beta property. A number of transportation-related projects are underway, while other projects such as construction of the new Public Works shop are looming on the horizon.

VII. Proprietary Funds

| Utility Funds | | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|---------------|----------------|--------------------|---------------------|--------------|
| Water | Inflow | \$5,364,512 | \$10,063,184 | 53.3% |
| | Outflow | \$4,382,813 | \$10,485,662 | 41.8% |
| Sewer | Inflow | \$7,625,617 | \$12,348,597 | 61.8% |
| | Outflow | \$6,860,609 | \$12,936,110 | 53.0% |
| Storm Drain | Inflow | \$3,139,665 | \$6,676,200 | 47.0% |
| | Outflow | \$2,505,800 | \$8,429,666 | 29.7% |

Utility revenues and expenditures continue to lag behind projections. Personnel costs are currently \$535,000 (14.4%) less than the projected pace, while maintenance and operations (M&O) costs are \$464,000 (5.7%) less than expected.

Capital expenditures make up the largest share of the variance –running \$8.7 million below the projected month-to-month pace. This variance is the result of generally accepted accounting principles (GAAP), which require capital expenditures to be depreciated over time - while the City budgets for actual expenditures and the spending down of the Fund’s cash resources.

| Internal Service Funds | Inflow/Outflow | 2007-2008 Budget | % of Budget |
|------------------------|----------------|------------------|-------------|
| Equipment Rental | Inflow | \$2,293,843 | 74.9% |
| | Outflow | \$2,293,012 | 76.1% |
| Self-Insurance | Inflow | \$1,570,141 | 77.9% |
| | Outflow | \$1,569,603 | 78.1% |
| Asset Replacement | Inflow | \$1,925,930 | 73.7% |
| | Outflow | \$807,724 | 17.0% |

Asset Replacement capital expenditures are treated similarly to proprietary funds – that is, they are depreciated over time rather than expensed fully when they are purchased. This GAAP required accounting practice results in capital expenditures from the first year of the biennium being presented at an amount that is less than actual spending.

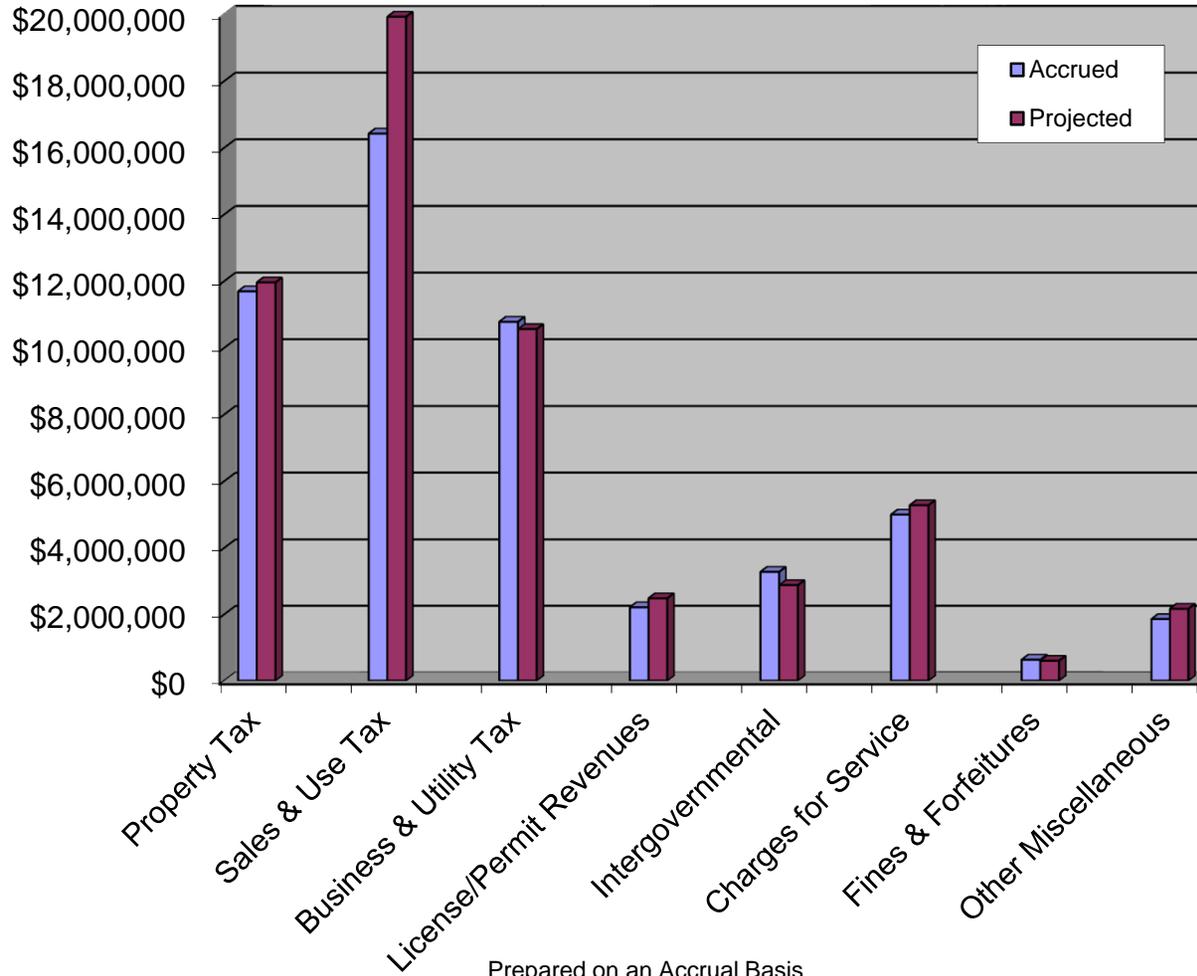
See Proprietary Funds Expenditures - Chart 4

See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. Council Emphasis Areas

| | | | |
|------------------------|---------|-------------|----------------------|
| Development Review | Inflow | \$699,901 | (Includes A/R) |
| | Outflow | 626,173 | (Includes overhead) |
| | Net | \$73,728 | |
| Permitting | Inflow | \$728,041 | |
| | Outflow | 623,917 | (Includes overhead) |
| | Net | \$104,124 | |
| CFP Project-Term Staff | Inflow | \$326,353 | (Reimbursement) |
| | Outflow | 326,353 | (General Fund wages) |
| | Net | \$ 0 | |
| PWS Facility Surcharge | Inflows | \$64,131.65 | (Since 1998) |
| | Expires | \$67,482.84 | |

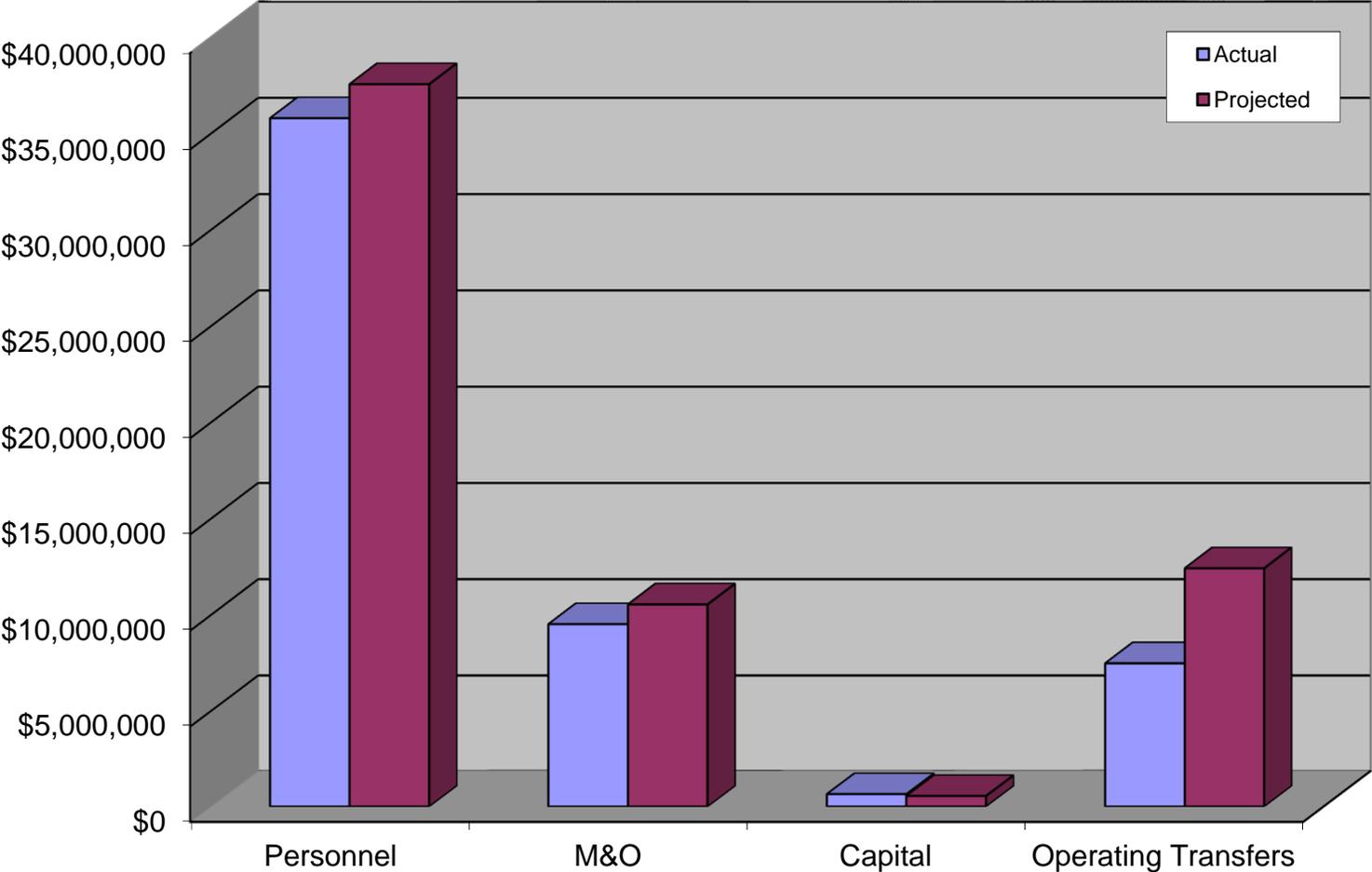
General Fund Revenue vs Budget June 30, 2008



Prepared on an Accrual Basis

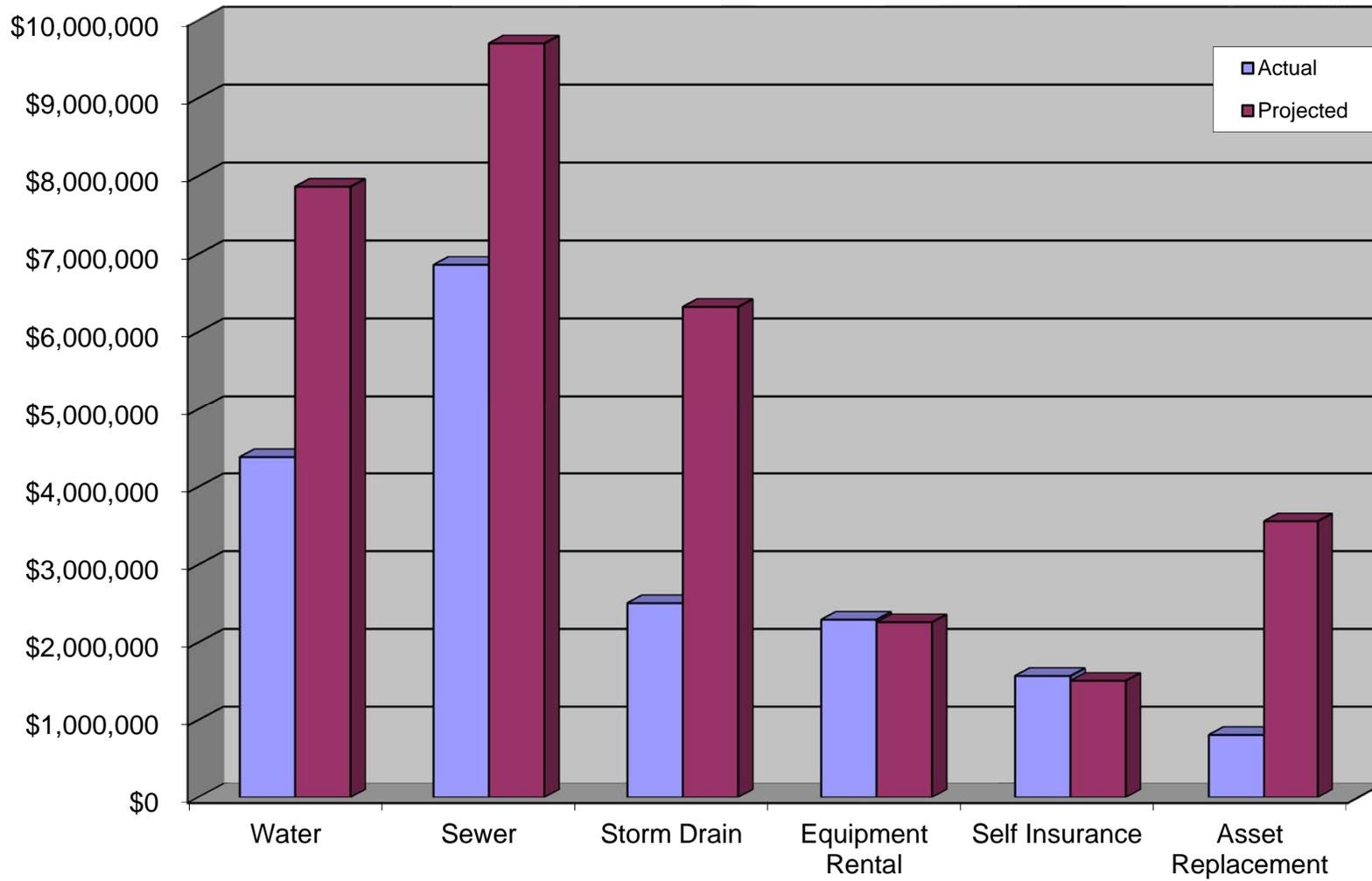
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget June 30, 2008



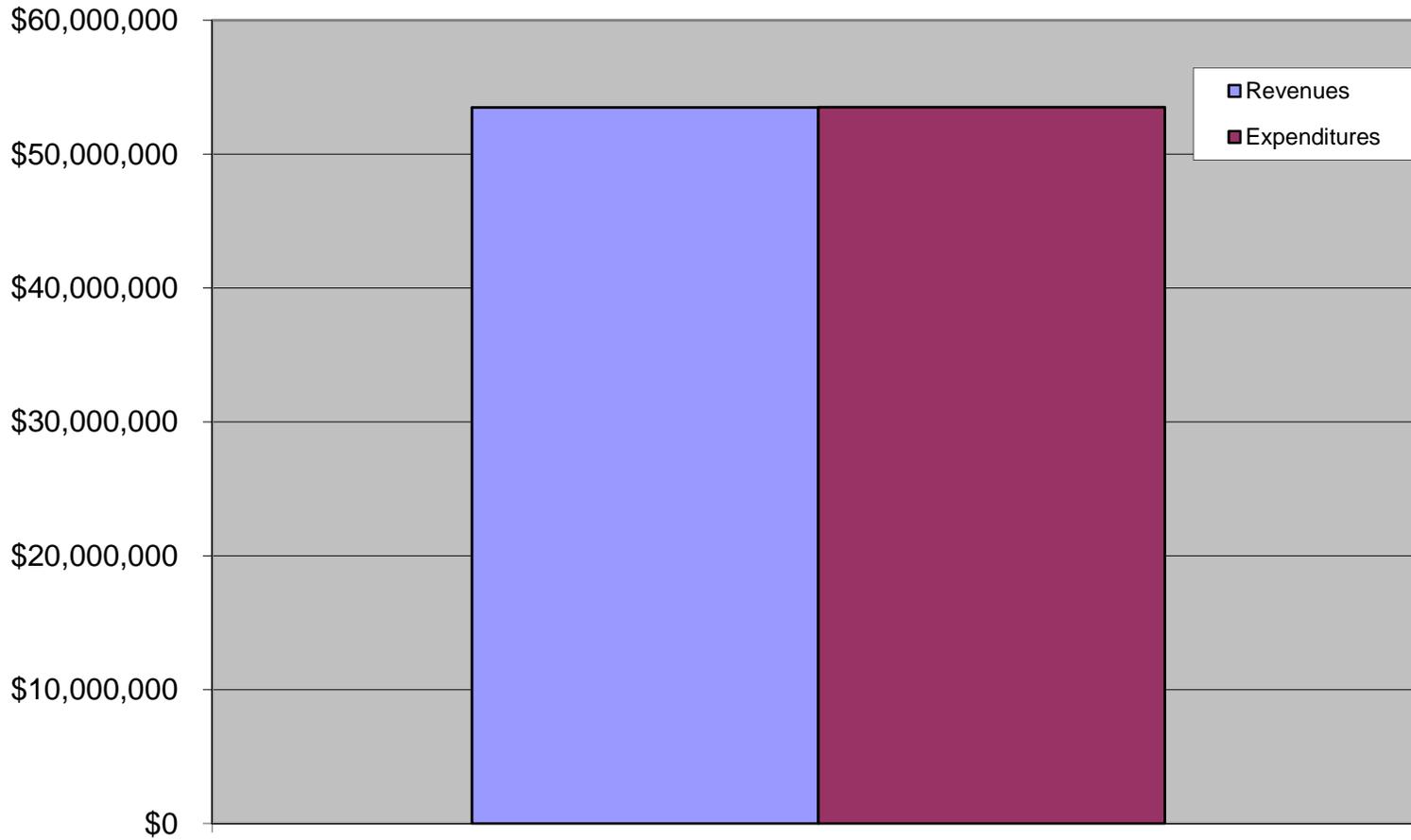
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget June 30, 2008



Proprietary Funds
Chart 3

General Fund Revenues vs Expenditures June 30, 2008



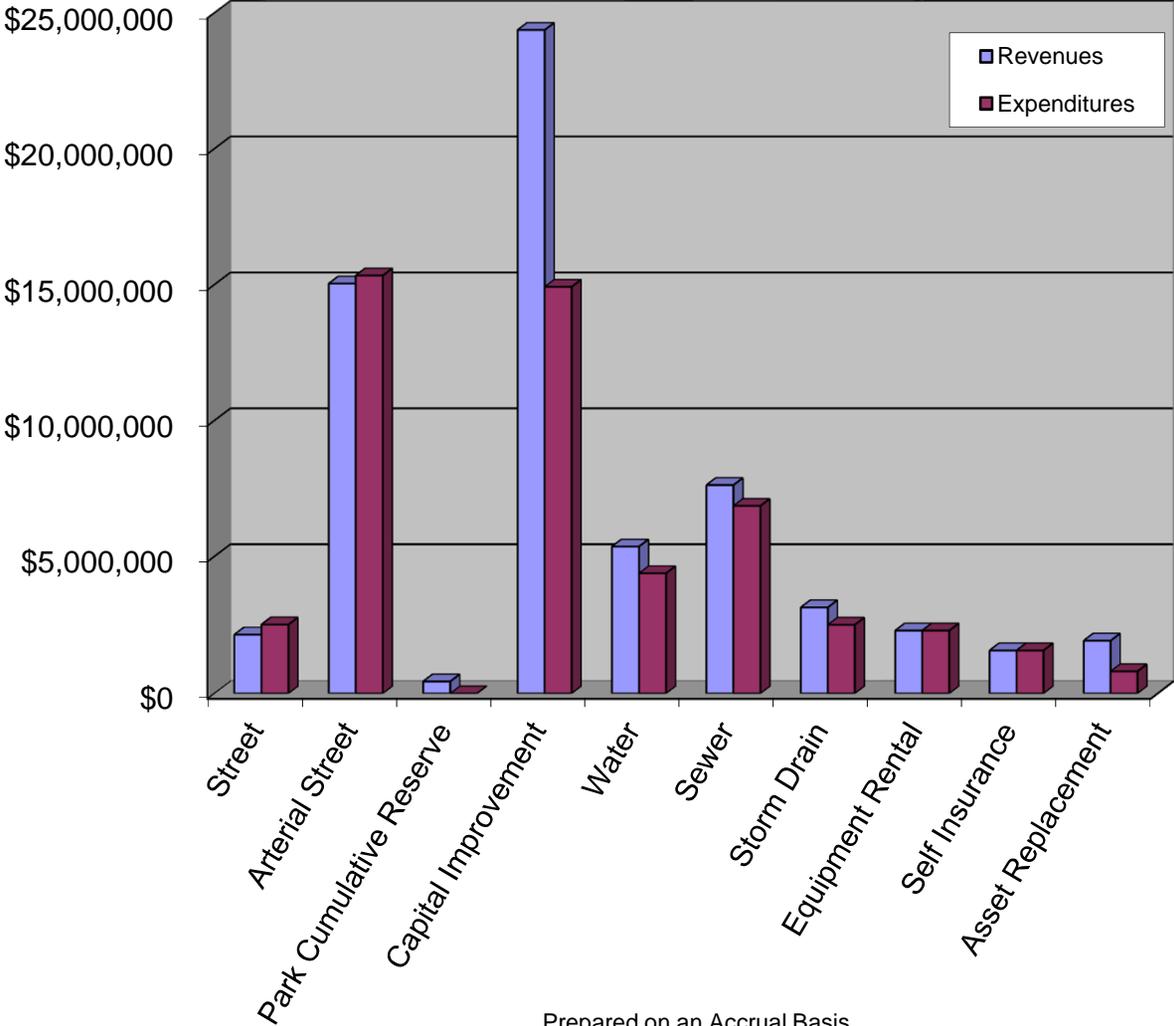
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

Other Major Funds Revenues vs Expenditures June 30, 2008



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 5