



April 16, 2018

Council, Citizens and Stakeholders:

Attached for your review is the City's quarterly budget status report as of September 30, 2017. Due to the implementation of a new financial system, material amount of third quarter revenue figures not being available, and multiple union contract impact analyses being necessary, the third quarter budget report is behind schedule. The fourth quarter budget report (full 2017 report) is expected in May 2018 and will be presented to City Council at the May 15 meeting.

The General Fund's operating deficit for the first three quarters of the 2017-2018 biennium totaled \$1,692,599. The majority of the deficit is due to unanticipated tax refunds and unbudgeted public safety expenditures:

Revenue Shortfalls: \$1,021,726

- \$447,890 – Resulting from a refund of inaccurate 2015-2016 cellular utility tax payments made by a utility provider.
- \$249,931 – Resulting from 2011 through 2013 sales tax overpayments refunded by the Department of Revenue (DOR) following a taxpayer audit.
- \$262,500 – The Interim City Manager budgeted for City Hall parking garage lease revenue that did not materialize in 2017 as expected, credit card service fees the City's current financial system could not support in 2017, and City Hall office space rental income that did not occur.
- \$61,405 – Resulting from changes in how the State allocates marijuana revenues.

Unbudgeted and Union Contract Expenditures: \$670,873

- \$350,793 – Retroactive 2016 salary and benefits per the recent Fire collective bargaining agreement. In all, the AFSCME (eight months retro pay for 156 employees) and IAFF (eighteen months retroactive pay for 56 employees) agreements included \$1,008,000 in retroactive pay, but only the 2016 prior period/prior biennium Fire retroactive pay was unbudgeted.
- \$109,063 – Fire overtime exceeded department expectations.
- \$99,848 – Authorized but unbudgeted purchase of wayfinding signage using restricted tourism revenues that are not available for other purposes.
- \$75,816 – Recruitment costs for a number of executive vacancies (Assistant City Manager, Human Resources Director, Fire Chief, Community Development Director).
- \$35,353 - Other miscellaneous unbudgeted expenditures.

To further clarify the third quarter deficit, and its "future impact" on fund balance, nearly \$760,000 in revenue shortfall was due to "one-time" inaccurate third-party tax reporting outside of the City's control, \$460,000 was associated with the rising "ongoing" cost of providing public safety services, and \$100,000 was due to a "one-time" spending down of restricted tourism monies.

Again, the result of fourth quarter operations will be available in May and are expected to be further impacted by public safety (police) union contracts (52 BPOG employees and 4 BPC employees).

Prior to the Great Recession, Bothell held a 20 percent fund balance reserve. Over half of these monies were spent down to sustain vital community services during the economy's lengthy recovery period.



Despite considerable fiscal planning and economic growth, the City has not been able to reinstate a prudent 15 percent “best practice” fund balance. This is partially due to the impacts of the opioid epidemic, which has created an unprecedented demand on the community’s police, fire and court services, which in turn impact the City’s internal service departments – Information Services, Finance, and Human Resources. Population growth, increases in labor and supply costs, and demand for general services also contributed to expense increases.

Specifically, the cost to maintain the current public safety service standard is increasing faster than the revenues that fund them, thereby diluting both the level of service provided and the General Fund reserve balance. Other contributors to the Bothell’s reserve reinstatement predicament are: insufficient mental health resources, homelessness, property crimes, unfunded public safety legislative mandates, and a three percent unemployment rate that inherently escalates the cost of recruiting and retaining skilled personnel. The regional year over year personal income rate increase remains steady in the five percent range.

Staff presented this information to Council and the public in October 2017 and again in March 2018. Council directed staff to investigate a Public Safety Maintenance and Operating Levy to reestablish and adequately fund the community’s desired public safety service delivery standard to allow for the reinstatement of a prudent “best practice” General Fund operating reserve. A 15 percent “best practice” operating reserve is necessary to maintain municipal services while weathering the next recession.

Staff has identified \$1,000,000 that could be utilized to reduce the impact of the 2017 “one-time” revenue shortfalls (\$500,000 budgeted in 2017 and \$500,000 budgeted in 2018). Since 2012, through a public process, \$500,000 annually in business license revenues has been collected in the General Fund and transferred to the Street Fund to help subsidize street maintenance. The nine-year Safe Streets and Sidewalks levy allows an opportunity for City management to revisit citywide needs and consider reallocation of these business license receipts. Any reallocation would require a Council-approved budget amendment.

In addition, staff has updated 2018 budget projections and determined that if expenditures remain constant, a compensating surplus is anticipated in the second year of the biennium. Staff will continue to monitor the situation and provide updates in future quarterly reports.

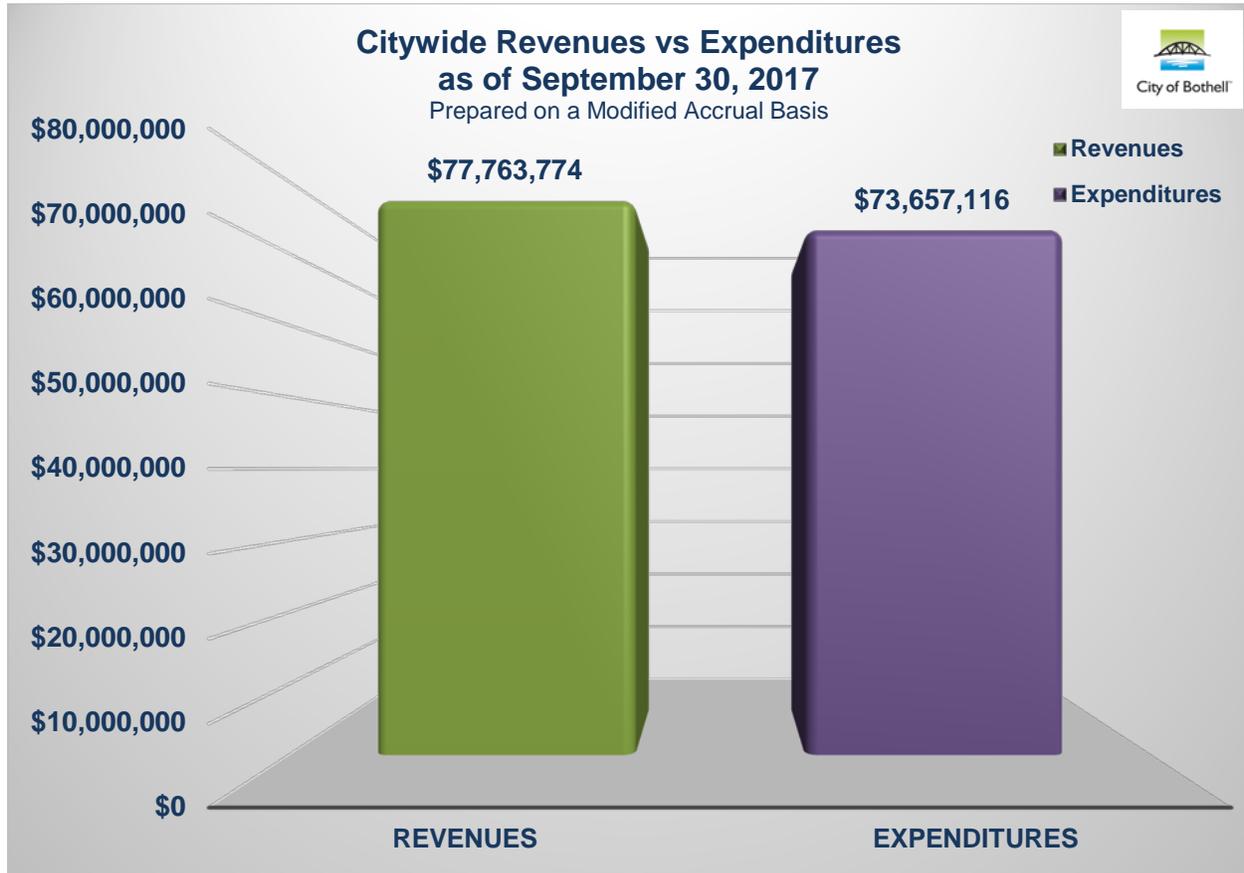
Please contact me if you have questions concerning this report.



Tami Schackman
City of Bothell Finance Director

2017-2018
Budget Status Report
For the Quarter Ending September 30, 2017
Executive Summary

On September 30, 2017, the City concluded the third quarter of the 2017-2018 biennium. The budget period described in this report is 37.5% complete.



Notable Highlights

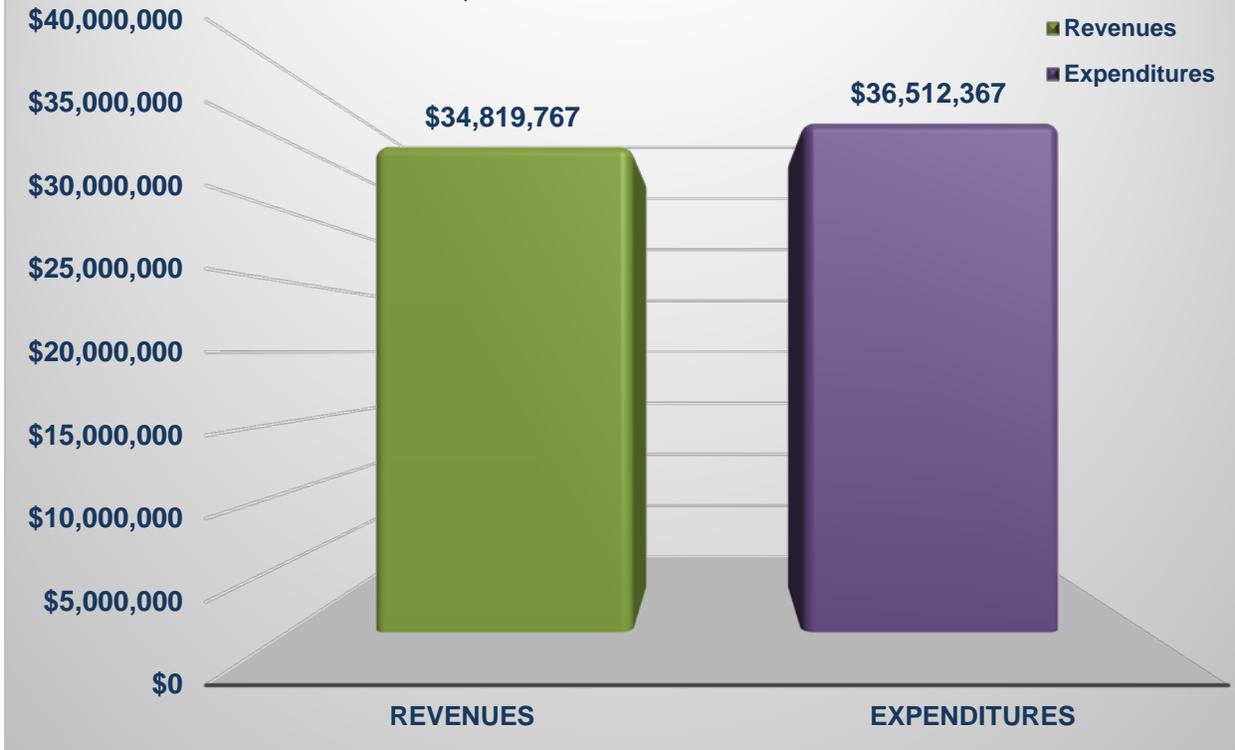
Retail sales tax receipts for the first three quarters of 2017 were up \$88,721 (1.4%) compared to 2016 results. The 2017 figure is skewed by the one-time tax refund (\$249,931 discussed on page 1) that the Department of Revenue (DOR) deducted from Bothell's May tax distribution.

Major 2017 development revenues versus the first three quarters of 2016:

- Construction sales tax: up \$280,597 (16.4%)
- Building permits: down \$264,329 (21.8%)
- Plumbing/mechanical permits: down \$59,600 (22.4%)
- Pre-application fees: up \$6,816 (15.3%)
- Plan check fees: up \$268,901 (43.3%)
- Development review fees: up \$90,738 (14.5%)

General Fund Revenues vs Expenditures as of September 30, 2017

Prepared on a Modified Accrual Basis



Budget vs Actual Figures		Inflow/Outflow	2017-18 Budget	% of Budget
CITYWIDE TOTAL	Inflow	\$77,763,774	\$225,849,513	34.4%
	Outflow	\$73,657,116	\$224,004,505	32.9%
<u>GENERAL FUND</u>	Inflow	\$34,819,767	\$97,850,909	35.6%
	Outflow	\$36,512,367	\$97,850,909	37.3%
<u>STREET FUND</u>	Inflow	\$3,013,640	\$7,262,417	41.5%
	Outflow	\$2,146,903	\$6,592,303	32.6%
<u>CAPITAL IMPROVEMENTS FUND</u>	Inflow	\$14,618,134	\$51,445,324	28.4%
	Outflow	\$13,389,990	\$52,912,586	25.3%
<u>PROPRIETARY FUNDS</u>	Inflow	\$19,460,412	\$52,656,219	37.0%
	Outflow	\$17,637,841	\$61,249,015	28.8%

The City Council requested that the following financial activities be tracked and reported in Bothell's Quarterly Budget Status Report.

2017 Development Review Fees	Inflow	\$902,283	Includes Accounts Receivable Includes Overhead
	Outflow	(\$1,141,289)	
	Net	(\$239,006)	
2017 Permitting Fees	Inflow	\$2,037,604	Includes Overhead
	Outflow	(\$1,700,340)	
	Net	\$337,264	
2017 CFP Staff	Inflow	\$1,015,322	2017 Reimbursement to GF 2017 GF Salaries/Benefits
	Outflow	(\$1,015,322)	
	Net	\$0	
Utility Tax Rebates	2017	\$1,825	22 rebates YTD
	2016	\$1,900	24 rebates YTD
	Difference	(\$75)	

Economic Indicators

September 2017 unemployment rates:

United States:	4.2%
Washington State:	4.6%
Seattle/Bellevue/Everett:	3.8%

Consumer Price Index (CPI) data:

[CPI-U \(all urban consumers\)](#)

- U.S. city average, June 2017 – August 2017 0.2%
- Seattle/Tacoma/Bremerton, June 2017 – August 2017 -0.2%
- U.S. city average, August 2016 – August 2017 1.9%
- Seattle/Tacoma/Bremerton, August 2016 – August 2017 2.5%

[CPI-W \(urban wage earners\)](#)

- U.S. city average, August 2017 – September 2017 0.6%
- Seattle/Tacoma/Bremerton, Feb 2017 – August 2017 1.6%
- U.S. city average, September 2016 – September 2017 2.3%
- Seattle/Tacoma/Bremerton, August 2016 – August 2017 2.8%

Economic Forecast

The State Economic and Revenue Forecast Council's [November Economic and Revenue Forecast](#) no longer incorporates an increase in national infrastructure spending or any tax changes (Bothell did not forecast these speculative monies).

Employment in Washington State is now expected to grow by 3.0% in 2017, and by an average of 1.6% per year from 2018 through 2021. Personal income is expected to grow by 5.5% in 2017, and by an average of 5.1% per year from 2018 through 2021. Seattle-area home prices continue to rise rapidly, and housing construction remains strong.