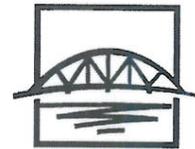


INTEROFFICE MEMORANDUM
Finance Department



City of Bothell

DATE: April 27, 2015
TO: Mayor and Council
THROUGH: Bob Stowe, City Manager
FROM: Tami Schackman, Finance Director
SUBJECT: 2013-14 Budget Status Report – Quarter #8



Attached for your review is the City's budget status report as of December 31, 2014.

The General Fund 2013-2014 operating surplus totaled \$652,824. Revenue inflows finished the biennium at 99% of their total projection, while expenditure outflows ended at 98%. Although revenues exceeded expenditures for the biennium, the 2013-2014 budget targeted a surplus of \$1.2 million based on projected one-time revenues.

A combination of revenue declines and unanticipated expenditures resulted in a decreased surplus. Specific factors are explained in detail within the attached report. Financial results for the first two quarters of 2015 will determine if the 2013-2014 surplus shortage can be absorbed by 2015-2016 operations.

The State auditors are currently on site auditing 2014 operations and financial reports. As in past years, an audited version of the City's Comprehensive Annual Financial Report (CAFR) will be available in late June.

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 December 31, 2014

I. BIENNIUM STATUS

On December 31, 2014, the City concluded the eighth and final quarter of the 2013-2014 biennium. The budget period described in this report is 100% complete.

The City is in the process of preparing its 2014 financial statements for review by the State Auditor's Office. As in past years, the audited Comprehensive Annual Financial Report (CAFR) will be available in June.

Citywide

Citywide 2013-2014 surplus/deficit: \$17,131,047

- General Fund (\$652,824). See detailed discussion below.
- Capital Improvements Fund (\$4,239,556). Capital expenditures continued to progress as programmed in the City's adopted Capital Facilities Plan.
- Street Fund (\$1,115,739). In 2014, the City received \$1,777,795 in King County Road Tax in lieu of property taxes following the February King County annexations. This one-time revenue will be used to help fund 2015 operations while a longer-term revenue strategy is developed.

General Fund

General Fund 2013-2014 surplus/deficit: \$652,824

(General Fund + Street Fund) 2013-2014 surplus/deficit:* \$1,768,563

*Since the General Fund has historically subsidized Street Fund operations (the subsidy for 2013-2014 totaled \$494,240), it is also useful to look at the combined financial results for the two funds.

The General Fund's operating surplus for the biennium totaled \$652,824. Revenue inflows finished the biennium at 99% of their total projection while expenditure outflows ended at 98%. Although revenues exceeded expenditures for the biennium, the 2013-2014 budget targeted a surplus of \$1.2 million based on projected one-time revenues.

A combination of revenue declines and added expenditures that were authorized during the biennium contributed to the revenue surplus being less than expected:

- One-time development revenues were nearly \$400,000 lower in 2014 than in 2013 with the majority of the decline appearing in the second half of 2014.
- A \$119,000 audit refund was issued to a broadband telecommunications provider, which was credited against the provider's 2013-2014 utility tax payments.
- Consultant services were authorized during the biennium that were not originally included in the 2013-2014 expenditure appropriation.
 - Transportation element update to the City's Comprehensive Plan (\$78,479)
 - Regional Fire Authority feasibility study (\$29,472)
 - The Development Services fee study (\$28,723)

II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2013-14 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$210,238,317	\$233,767,369	89.9%
	Outflow	\$193,107,270	\$238,453,883	81.0%
<u>GENERAL FUND</u>	Inflow	\$78,843,684	\$79,937,472	98.6%
	Outflow	\$78,190,860	\$79,905,430	97.9%
<u>GENERAL/STREET FUNDS</u>	Inflow	\$83,732,114	\$85,147,779	98.3%
	Outflow	\$81,963,551	\$84,263,966	97.3%
<u>CAPITAL IMP FUND</u>	Inflow	\$76,912,582	\$80,974,637	95.0%
	Outflow	\$72,673,016	\$81,600,090	89.1%
<u>UTILITY FUNDS</u>	Inflow	\$33,182,054	\$48,294,379	68.7%
	Outflow	\$25,408,728	\$49,502,702	51.3%

III. ECONOMIC INFORMATION

Employment - National

National non-farm payroll employment increased by 866,000 jobs during the fourth quarter of 2014. The national unemployment rate edged down to 5.6% in December.

The number of long-term unemployed (those jobless for 27 weeks or more) dropped to 2.8 million in December. There were 740,000 discouraged workers (persons not currently looking for work, believing no jobs are available), down 177,000 from December 2013.

<u>U.S. GOODS-PRODUCING: +160,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +706,000 JOBS</u>	
Construction	+84,000	Wholesale trade	+23,500
Manufacturing	+70,000	Retail trade	+96,000
Mining & logging	+6,000	Transportation/warehousing/utilities	+37,500
		Information	-3,000
		Professional/financial/business	+225,000
		Educational/health services	+133,000
		Leisure/hospitality	+149,000
		Other services	+19,000
		Government	+26,000

Employment – State

Although 23,300 non-farm jobs were gained statewide during the fourth quarter of 2014. Washington's unemployment rate still rose to 6.3% in December due to an increase in the total resident labor force. The Seattle-Bellevue-Everett rate fell to 4.6%.

<u>STATE GOODS-PRODUCING: +6,700 JOBS</u>		<u>STATE SERVICE-PROVIDING: +16,600 JOBS</u>	
Construction	+4,600	Wholesale trade	+700
Manufacturing	+1,900	Retail trade	+1,900
Mining & logging	+200	Transportation/warehousing/utilities	+1,500
		Information	-500
		Professional/financial/business	+7,500
		Educational/health services	+3,500
		Leisure/hospitality	+3,000
		Other services	+2,500
		Government	-3,500

Economic Forecast

The State Economic and Revenue Forecast Council's November 2014 quarterly report stated that the national economy is continuing to advance at a moderate pace. Uncertainty remains elevated, and downside risks to the economy (weak growth in Europe, China, and Japan) continue to outweigh upside risks.

The state economy also continues to expand moderately, and is expected to continue to outpace the national economy. Seattle-area inflation is slightly higher than the national rate due to rapidly rising shelter costs – but Seattle home prices have leveled off, though they are still 26.7% higher than the November 2011 trough.

Exports of transportation equipment (mainly Boeing planes) and agricultural products increased sharply in 2014, while exports of other commodities fell. This was the first year-over-year decline in “other” exports in two years.

CPI Data – Seattle/Tacoma/Bremerton Region

October 2014 – December 2014: **-1.5%**

December 2013 – December 2014: **+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, December sales tax was received in late February.

Revenue	Inflow	2013-14 Budget	% of Budget
Property Taxes			
City Levy	\$18,651,987	\$18,322,896	101.8%
EMS Levy	\$1,702,852	\$1,802,936	94.4%
Total	\$20,354,839	\$20,125,832	101.1%

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	\$14,994,339	\$16,176,032	92.7%
Construction	\$4,189,511	\$3,101,990	135.1%
Hotel/Motel	\$658,274	\$597,175	110.2%
Criminal Justice	\$1,427,865	\$1,412,047	101.1%
Total	\$21,269,989	\$21,287,244	99.9%
	2014 Total	2013 Total	Increase/Decrease
Retail	\$7,910,792	\$7,083,547	+11.7%
Construction	\$2,021,545	\$2,167,966	-6.8%
Hotel/Motel	\$351,208	\$307,066	+14.4%
Criminal Justice	\$794,805	\$633,060	+25.5%
Total	\$11,078,350	\$10,191,639	+8.7%

Revenue	Inflow	2013-14 Budget	% of Budget
Business & Utility Taxes			
Electric & Gas	\$6,794,009	\$7,836,381	86.7%
Cable TV	\$1,105,687	\$1,150,969	96.1%
Telephone & Cellular	\$3,333,683	\$4,161,458	80.1%
Water & Sewer	\$1,187,080	\$1,321,304	89.8%
Sanitation	\$616,237	\$563,707	109.3%
Gambling	\$31,959	\$30,000	106.5%
Utility Tax Rebate	(\$7,925)	\$0	n/a
Total	\$13,060,729	\$15,063,819	86.7%
	2014 Total	2013 Total	Increase/Decrease
Electric & Gas	\$3,501,255	\$3,292,754	+6.3%
Cable TV	\$560,903	\$544,784	+3.0%
Telephone & Cellular	\$1,587,887	\$1,745,795	-9.0%
Water & Sewer	\$611,203	\$575,877	+6.1%
Sanitation	\$329,224	\$287,013	+14.7%
Gambling	\$17,304	\$14,654	+18.1%
Utility Tax Rebate	(\$3,225)	(\$4,700)	-31.4%
Total	\$6,604,551	\$6,456,178	+2.3%

Revenue	Inflow	2013-14 Budget	% of Budget
Other Taxes	\$63,355	\$74,000	85.6%

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	\$629,443	\$645,000	97.6%
Northshore Utility District	\$194,669	\$192,485	101.1%
Frontier/FIOS	\$141,135	\$175,000	80.6%
Business & Sign Licenses	\$1,646,409	\$1,669,580	98.6%
Total	\$2,611,656	\$2,682,065	97.4%
	2014 Total	2013 Total	Increase/Decrease
Alderwood Water District	\$326,137	\$303,306	+7.5%
Northshore Utility District*	\$141,322	\$53,347	+164.9%
Frontier/FIOS	\$73,661	\$67,474	+9.2%
Business & Sign Licenses	\$850,295	\$796,114	+6.8%
Total	\$1,391,414	\$1,220,241	+14.0%

*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	\$2,263,986	\$1,535,000	147.5%
Plumbing/Mechanical	\$504,303	\$300,000	168.1%
Pre-Application Fees	\$79,368	\$100,000	79.4%
Animal Licenses	\$142,334	\$177,125	80.4%
Concealed Weapons	\$12,949	\$16,100	80.4%
Total	\$3,002,939	\$2,128,225	141.1%
	2014 Total	2013 Total	Increase/Decrease
Building Permits	\$1,011,726	\$1,252,260	-19.2%
Plumbing/Mechanical	\$211,980	\$292,323	-27.5%
Pre-Application Fees	\$44,476	\$34,892	+27.5%
Total	\$1,268,182	\$1,579,475	-19.7%

Revenue	Inflow	2013-14 Budget	% of Budget
Intergovernmental	\$2,597,540	\$2,599,006	99.9%

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	\$9,489,542	\$9,223,860	102.9%
	2014 Total	2013 Total	Increase/Decrease
MVA Fees	\$11,052	\$25,350	-56.4%
EMS Transport Fees	\$329,981	\$382,125	-13.6%
Plan Check Fees	\$947,651	\$1,042,784	-9.1%
Development Review Fees	\$846,584	\$787,150	+7.6%
Total	\$2,135,268	\$2,237,408	-4.6%

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	\$1,157,068	\$1,157,068	100.0%
CFP Staff Transfers	\$3,448,070	\$3,645,828	94.6%
Total	\$4,605,138	\$4,802,896	95.9%

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

Revenue	Inflow	2013-14 Budget	% of Budget
Fines/Penalties/Criminal Costs	\$722,444	\$854,050	84.6%
Other Miscellaneous	\$1,065,513	\$1,096,475	97.2%
Total	\$1,787,958	\$1,908,875	93.7%
	2014 Total	2013 Total	Increase/Decrease
Fines/Penalties/Criminal Costs	\$341,186	\$381,258	-10.5%
Other Miscellaneous	\$459,311	\$606,202	-24.2%
Total	\$800,497	\$987,460	-18.9%

See General Fund Revenues - Chart 1

V. GENERAL FUND – EXPENDITURES

Expenditure	Outflow	2013-14 Budget	% of Budget
Salaries & Benefits	\$61,240,726	\$62,055,467	98.7%
Maintenance & Operations	\$12,167,226	\$12,548,386	97.0%
Capital	\$639,349	\$556,000	115.0%
Interfund/Op Transfers	\$4,143,559	\$4,745,577	87.3%
Total	\$78,190,860	\$79,905,430	97.9%
	2014 Total	2013 Total	Increase/Decrease
Salaries & Benefits	\$31,297,392	\$29,943,334	+4.5%
Maintenance & Operations	\$6,263,039	\$5,904,187	+6.1%
Capital	\$109,424	\$529,925	-79.4%
Interfund/Op Transfers	\$2,190,482	\$1,953,077	+12.2%
Total	\$39,860,337	\$38,330,523	+4.0%

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	\$4,888,430	93.8%
	Outflow	\$3,772,691	86.6%

Subsidy transfers from the General Fund represented \$494,240 of Street Fund revenues during 2013. In 2014, \$1,777,795 in one-time road tax was received from King County following the February 28, 2014 annexation.

	Inflow/Outflow	2013-14 Budget	% of Budget
Arterial Street	Inflow	\$3,668,024	59.8%
	Outflow	\$1,983,848	28.6%

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	2013-14 Budget	% of Budget
Park Reserve	Inflow	\$433,519	90.3%
	Outflow	\$78,770	78.8%

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

		Inflow/Outflow	2013-14 Budget	% of Budget
Capital Improvement	Inflow	\$76,912,582	\$80,974,637	95.0%
	Outflow	\$72,673,016	\$81,600,090	89.1%

\$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 2013
- \$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	\$9,525,507	\$10,624,378	89.7%
	Outflow	\$7,916,131	\$11,680,279	67.8%
Sewer	Inflow	\$13,447,487	\$15,120,910	88.9%
	Outflow	\$10,967,804	\$15,754,663	69.6%
Storm/Surface Water	Inflow	\$10,209,060	\$22,549,091	45.3%
	Outflow	\$6,524,793	\$22,067,760	29.6%
Equipment Rental	Inflow	\$2,922,411	\$3,082,272	94.8%
	Outflow	\$2,912,367	\$3,099,486	94.0%
Self-Insurance	Inflow	\$1,968,671	\$2,211,524	89.0%
	Outflow	\$1,942,426	\$2,130,813	91.2%
Asset Replacement	Inflow	\$2,296,992	\$3,035,058	75.7%
	Outflow	\$1,885,113	\$6,326,272	29.8%

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)

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 during 2013-14, along with depreciation that was recognized in 2013-14.

	(\$ spent in 2013-14, but not 2013-14 "expenditures")	(\$ expensed in 2013-14, but not cash spending)
	2013-14 Capitalized Spending	2013-14 Depreciation
Water	\$1,029,340	\$914,218
Sewer	1,965,210	699,960
Storm & Surface Water	8,236,524	875,916
Equipment Rental	36,104	8,489
Asset Replacement	2,931,717	1,487,903
Total	\$14,198,895	\$3,986,406

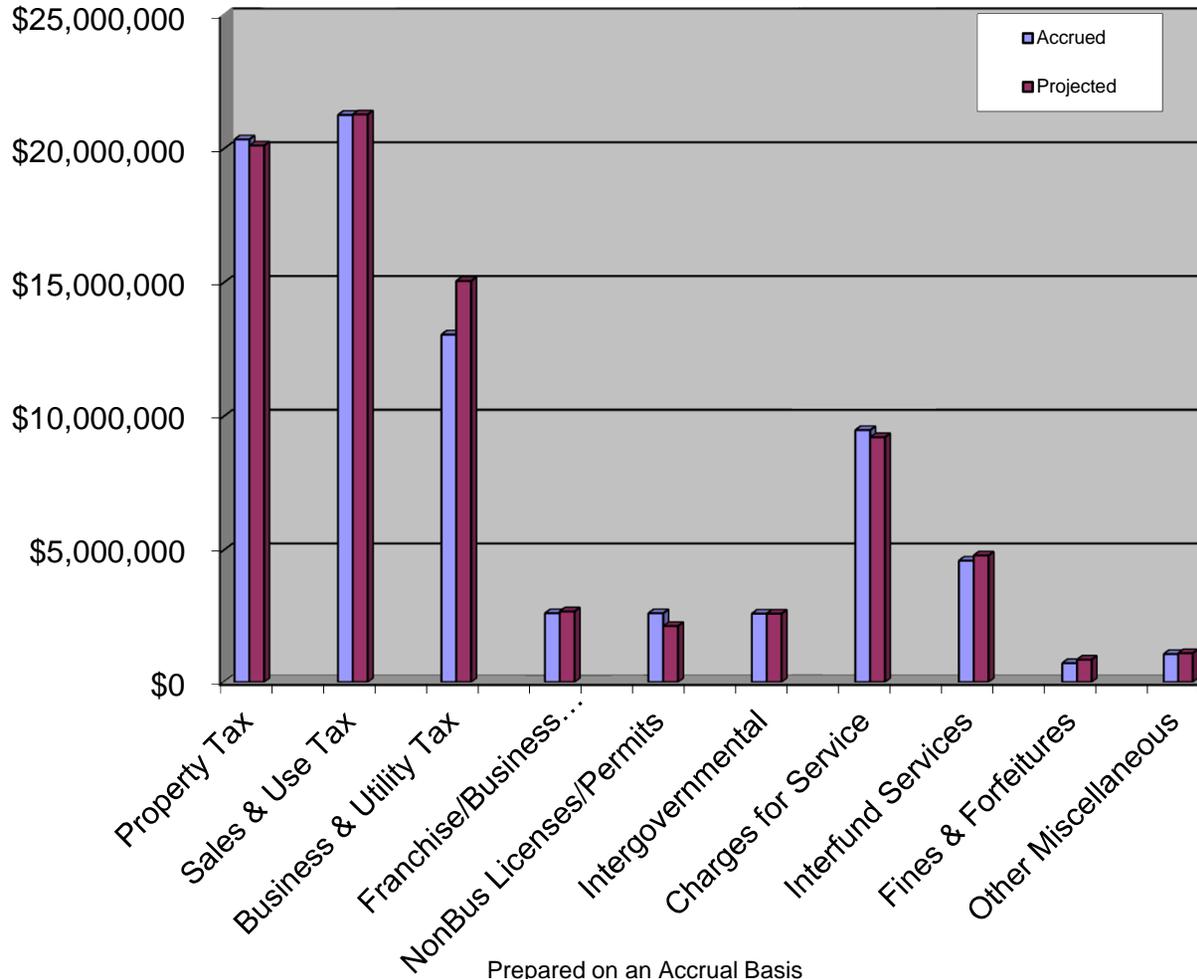
See Proprietary Funds Expenditures - Chart 4

See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. COUNCIL EMPHASIS AREAS

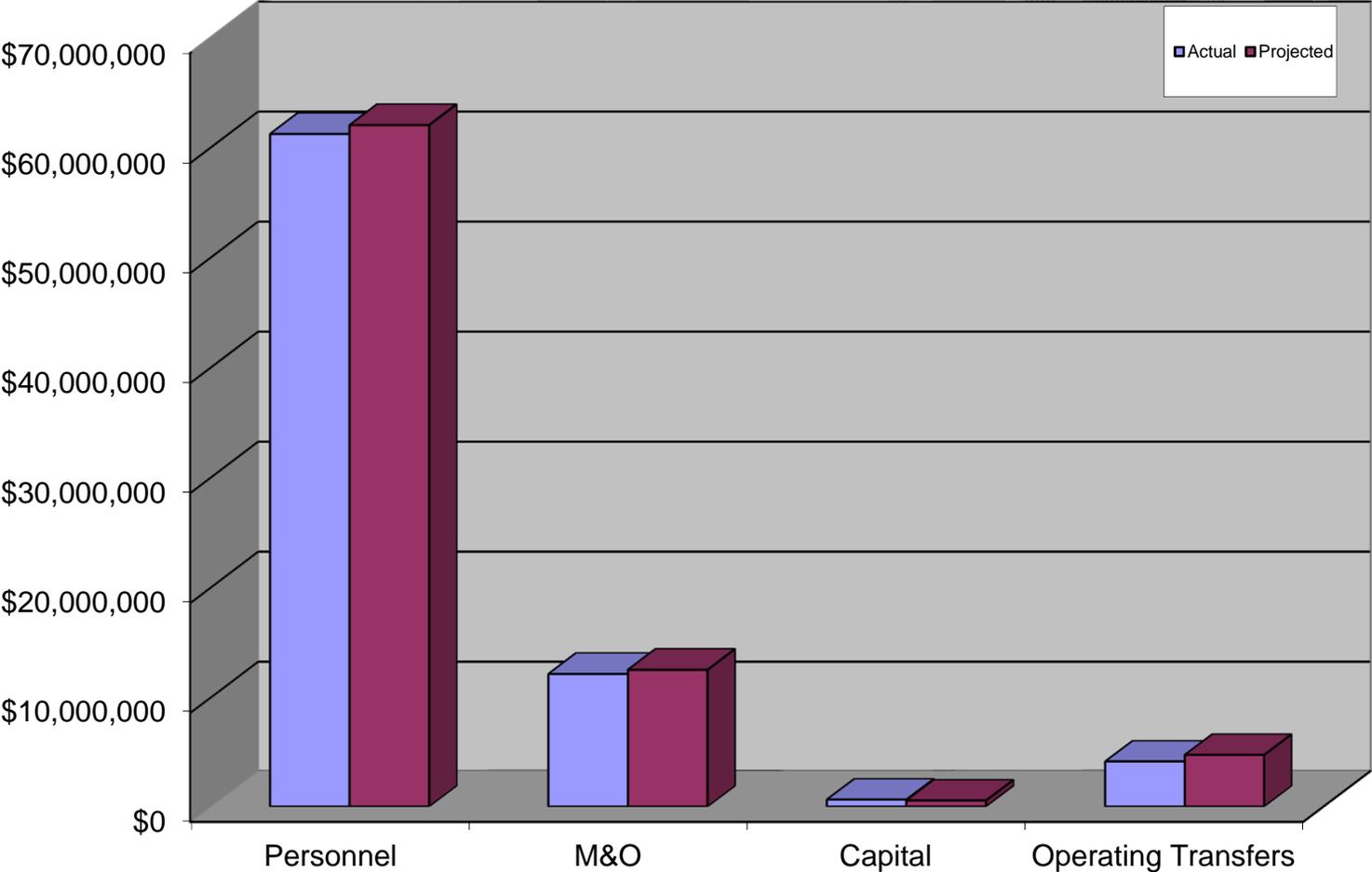
Development Review Fees	Inflow	\$1,025,527	(Includes A/R)
	Outflow	1,267,619	(Includes overhead)
	Net	(\$242,092)	
Permitting Fees	Inflow	\$2,171,357	
	Outflow	\$1,857,739	(Includes overhead)
	Net	\$313,618	
CFP Project-Term Staff	Inflow	\$1,345,424	(2014 reimbursement to Gen Fund)
	Outflow	1,345,424	(2014 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2014	\$3,225	(41 rebates)
	2013	\$4,700	(61 rebates)
	Inc(Dec)	(\$1,475)	

General Fund Revenue vs Budget December 31, 2014



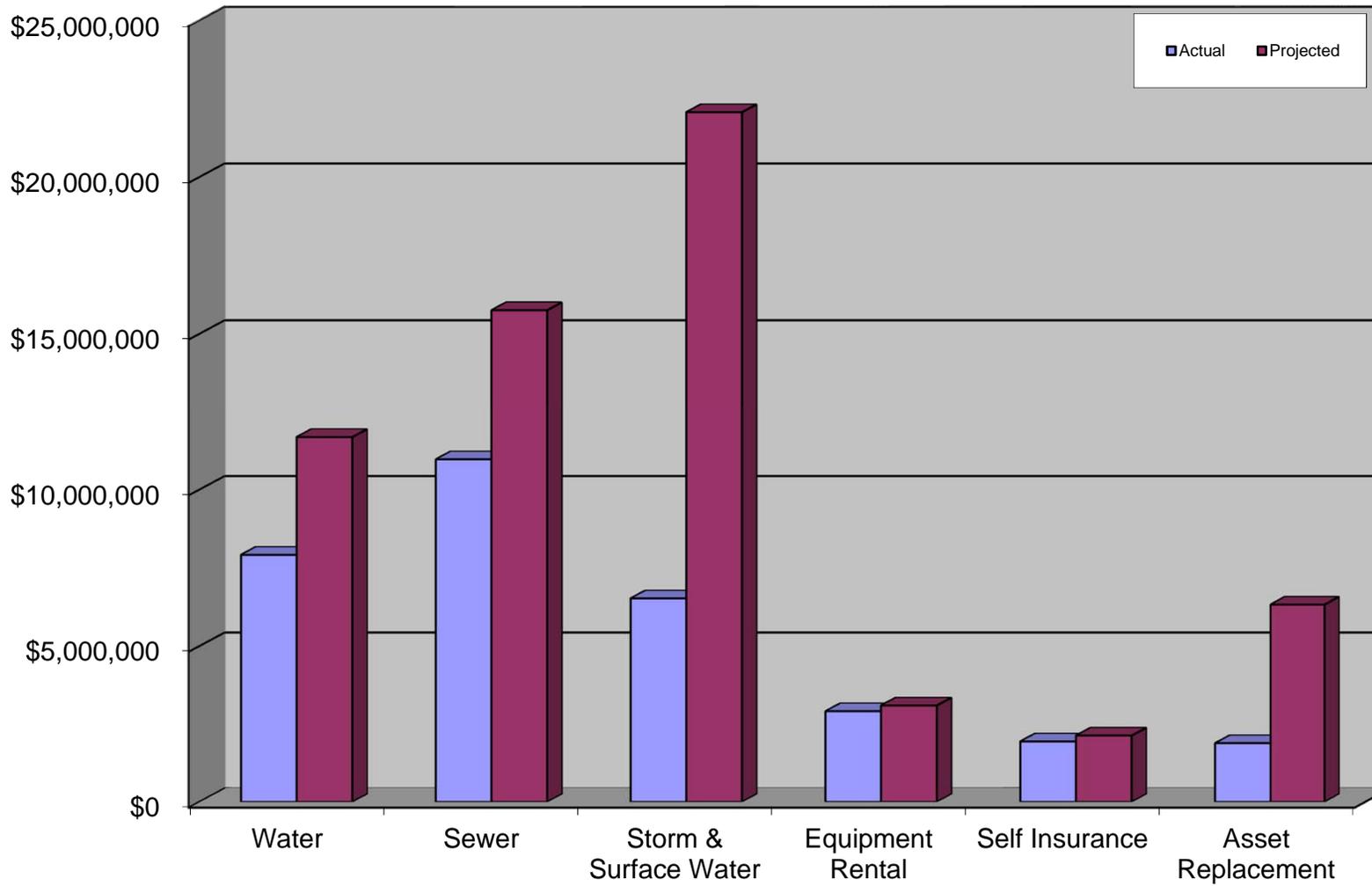
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget December 31, 2014



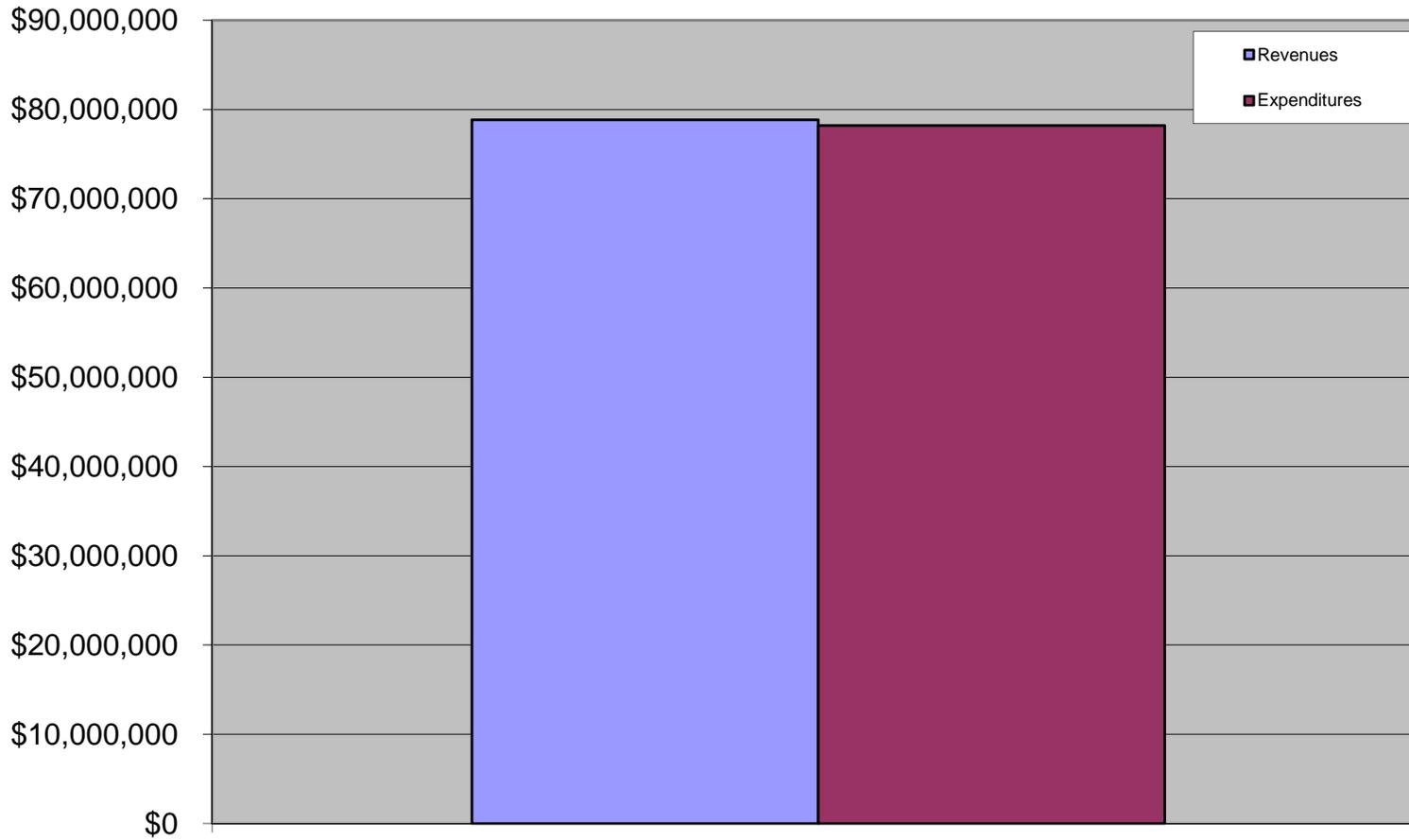
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget December 31, 2014



Proprietary Funds
Chart 3

General Fund Revenues vs Expenditures December 31, 2014



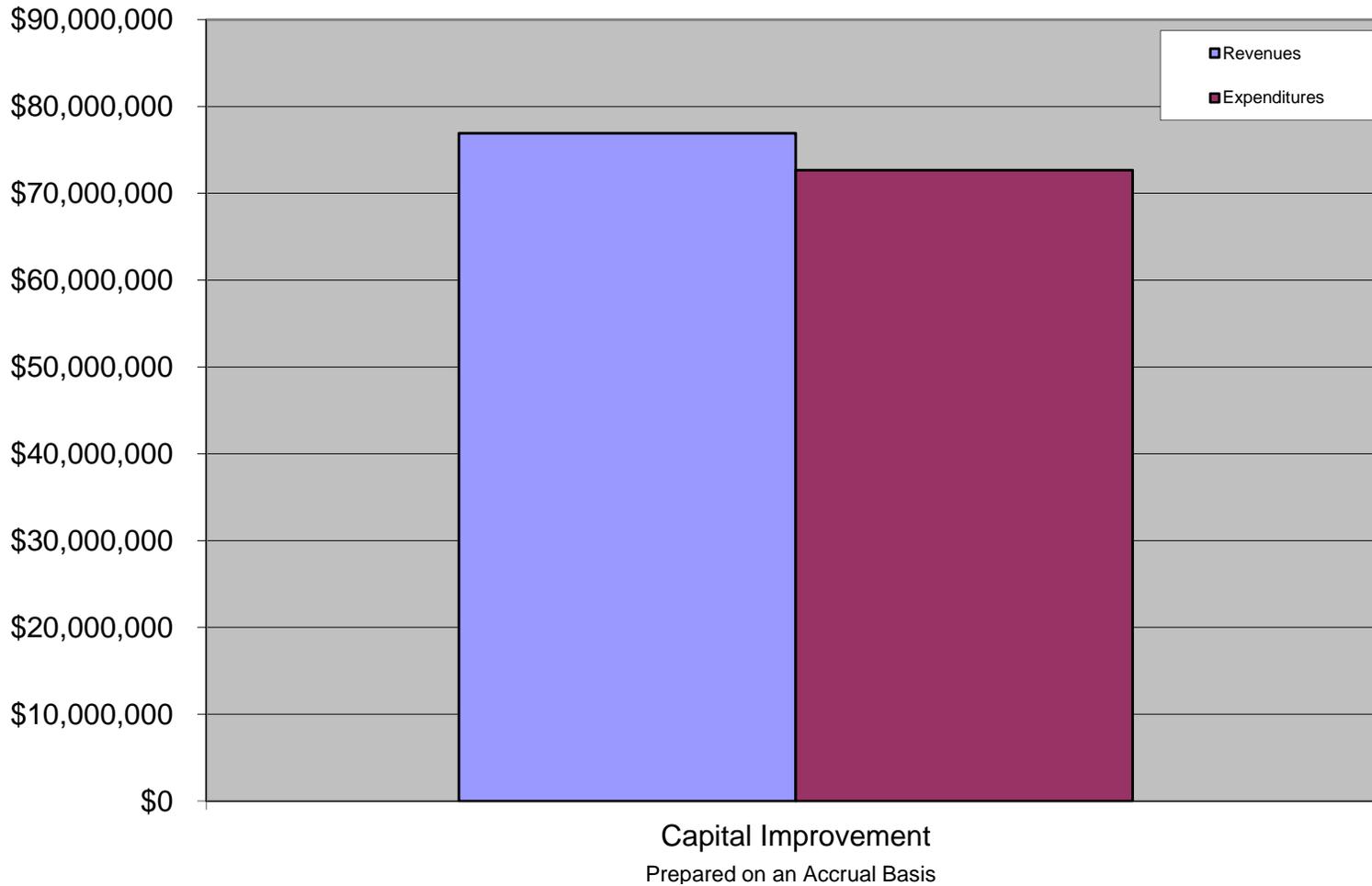
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

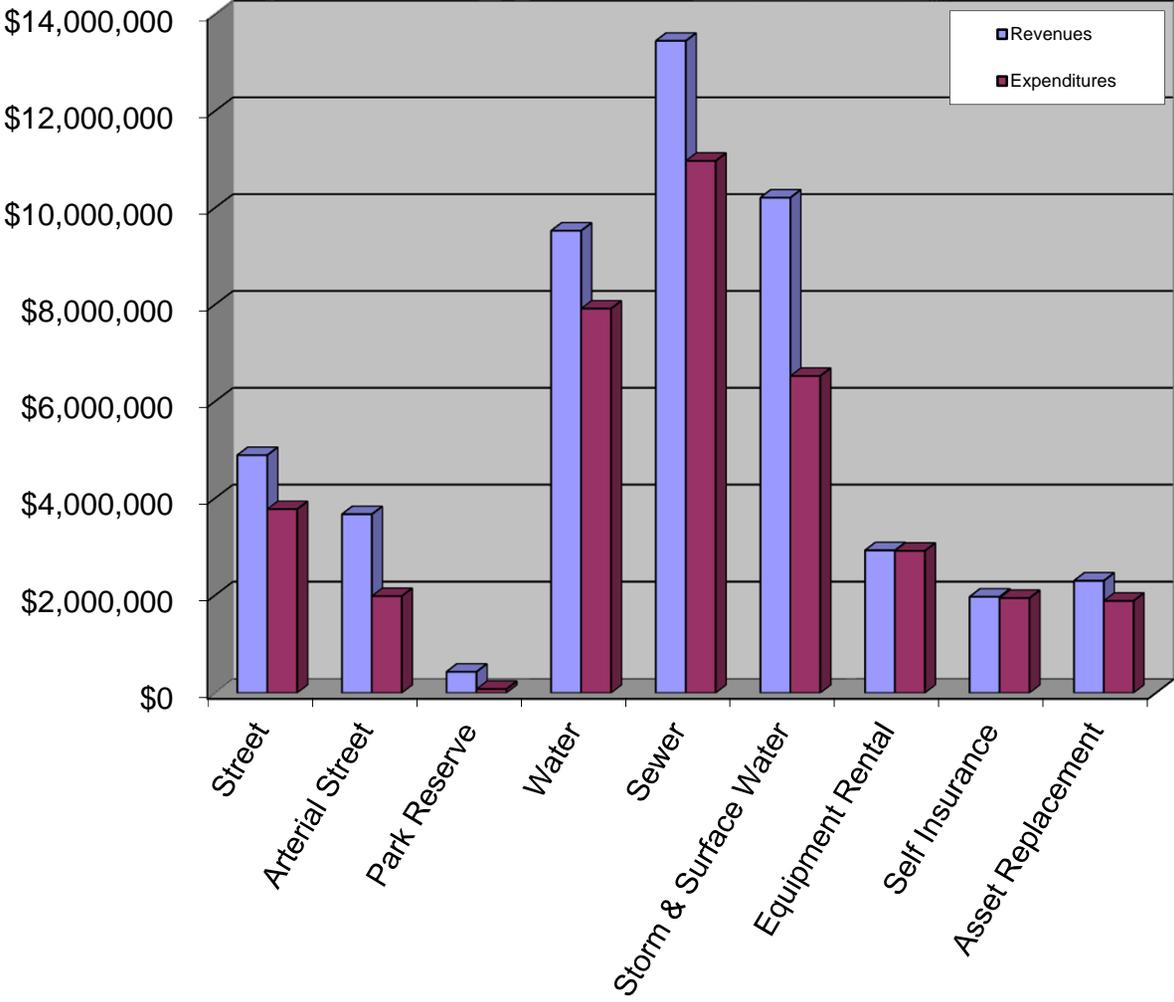
Chart 4

Capital Improvement Fund Revenues vs Expenditures December 31, 2014



Capital Improvement Fund Revenues vs. Expenditures
Chart 5

Other Major Funds Revenues vs Expenditures December 31, 2014



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 6