

INTEROFFICE MEMORANDUM

Finance Department



DATE: August 25, 2011

TO: Mayor and Council

THROUGH: Bob Stowe, City Manager

FROM: Tami Schackman, Finance Director

SUBJECT: 2011-12 Budget Status Report – Quarter #2

Attached for your review is the City's budget status report as of June 30, 2011.

As recently discussed during the July, mid-year fiscal update, the City is projected to suffer a General Fund operating deficit of approximately \$1.5 million in 2011. The elimination of two significant revenue streams - broadband utility tax and street lighting fees, along with a further slump in construction sales tax continue to be the primary drivers behind this deficit.

Staff continues to work diligently to evaluate long-term budget sustainability alternatives to replace these unexpected losses in revenue. Budget sustainability is scheduled for Council discussion during the year-end, mid-biennial review.

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

City of Bothell

2011-2012 Budget Status Report

For the Quarter Ending June 30, 2011

I. BIENNIUM STATUS

On June 30, 2011, the City concluded the second quarter of the 2011-2012 biennium. The budget period described in this report is 25% complete.

Citywide

Citywide Biennial surplus/deficit as of June 30: -\$1,237,678

- General Fund (-\$711,080). See detailed discussion below.
- Capital Improvements Fund (-\$1,247,026). CFP projects are continuing. The City has not drawn down further funding from its Bond Anticipation Note (BAN) in 2011.
- Self Insurance Fund (-\$258,614). The City's \$593,786 insurance premium for 2011 was paid to Washington Cities Insurance Association (WCIA) in the first quarter.
- Street Fund (-\$139,731). A \$245,000 payment to the Storm Drain Fund for 2011 annual water runoff fees was made in the first quarter. A replacement funding source for the discontinued street light fee has not yet been identified.
- Arterial Street Fund (+\$412,640). No operating transfers to the Capital Improvements Fund have been made thus far in 2011.
- Asset Replacement Fund (+\$395,674). Budgeted acquisitions will continue to be purchased throughout 2011.
- 2008 GO Bond Fund (+\$337,321). June's bond payment is a semi-annual interest payment only. December's payment consists of both principal and interest.

General Fund

General Fund Biennial surplus/deficit as of June 30: -\$711,080

While the General Fund is still seeing expenditure outflows in excess of revenue inflows, the negative trend slowed April through June. The second quarter deficit was \$259,110 (\$86,370/month), compared to \$451,970 (\$150,657/month) in the first quarter.

Broadband utility tax (down \$284,000 from 2010) and construction sales tax (down \$404,000 from 2010) remain the primary drivers.

II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2011-12 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$31,743,093	\$213,976,153	14.8%
	Outflow	\$32,980,771	\$219,906,096	15.0%
<u>CITY TOTAL</u> <small>(less Arterial Street, Capital Imp, Utility, and Asset Replacement Funds)</small>	Inflow	\$20,233,521	\$90,484,903	22.4%
	Outflow	\$20,934,701	\$89,851,770	23.3%
<u>GENERAL FUND</u>	Inflow	\$17,702,013	\$78,106,380	22.7%
	Outflow	\$18,413,093	\$78,106,380	23.6%
<u>UTILITY FUNDS</u>	Inflow	\$5,331,710	\$24,966,543	21.4%
	Outflow	\$5,429,497	\$28,303,567	19.2%

III. ECONOMIC INFORMATION

Employment - National

National non-farm payroll employment increased by 316,000 jobs during the second quarter of 2011, but the national unemployment rate rose to 9.2%. Despite the increase in jobs, the number of unemployed persons increased by 545,000 between March and June, indicating a large influx of persons reentering the job market. (Those not actively searching for work in the past four weeks are not counted as unemployed.)

The local government sector continues to decline – 520,000 local government jobs have been eliminated since employment peaked in December 2008.

<u>U.S. GOODS-PRODUCING: +79,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +237,000 JOBS</u>	
Construction	+2,000	Wholesale trade	+21,000
Manufacturing	+46,000	Retail trade	+78,000
Mining & logging	+31,000	Transportation/warehousing/utilities	+33,000
		Information	+1,000
		Professional/financial/business	+89,000
		Educational/health services	+73,000
		Leisure/hospitality	+37,000
		Other services	+9,000
		Government	-104,000

Employment – State

11,100 non-farm jobs were gained statewide during the second quarter of 2011. June marked the 10th consecutive month where jobs were added.

Washington's June unemployment rate remained unchanged at 9.2%, and the Seattle-Bellevue-Everett rate rose to 8.8% (from 8.6% in March.)

<u>STATE GOODS-PRODUCING: +5,300 JOBS</u>		<u>STATE SERVICE-PROVIDING: +5,800 JOBS</u>	
Construction	+2,100	Wholesale trade	-200
Manufacturing	+3,200	Retail trade	+100
Mining & logging	0	Transportation/warehousing/utilities	+500
		Information	+1,800
		Professional/financial/business	+4,900
		Educational/health services	-200
		Leisure/hospitality	+900
		Other services	+3,400
		Government	-5,400

Economic Forecast

Weak consumer and business confidence continue to hold back the national economic recovery. The State's chief economist, Dr. Arun Raha, stated that consumer confidence today is about where it was in March 2009 - when the U.S. economy was in a "free-fall".

State forecasters do see a few positive signs in Washington, however. Rental vacancies are dropping, Boeing has seven years of orders lined up, and software publishing appears to be on the rebound. Washington's exports, dominated by the aircraft industry, make the state the highest export state per capita in the nation.

The interruption in Japan's manufacturing had a negative impact on vehicle purchases, resulting in less sales tax revenue. Five percent of Washington's general fund revenues are derived from vehicle sales.

CPI-W Data – Seattle/Tacoma/Bremerton Region

April 2011 – June 2011: +0.8%
 June 2010 – June 2011: +3.7%

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 2011 sales tax revenues are not remitted to the City until the end of August 2011.

Where actual revenue data is not yet available, projected accruals have been utilized.

Revenue	Inflow	2011-12 Budget	% of Budget
Property Tax	\$4,527,887	\$18,103,472	25.0%

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

Revenue	Inflow	2011-12 Budget	% of Budget
Sales/Use Tax			
Retail	\$3,458,913	\$16,369,249	21.1%
Construction	\$670,907	\$4,000,000	16.8%
Hotel/Motel	\$118,681	\$475,000	25.0%
Criminal Justice	\$268,985	\$1,186,391	22.7%
Total	\$4,517,485	\$22,030,640	20.5%

	2011 YTD	2010 YTD	Increase/Decrease
Retail	\$3,458,913	\$3,201,596	+8.0%
Construction	\$670,907	\$1,075,050	-37.6%
Hotel/Motel	\$118,681	\$81,992	+44.7%
Criminal Justice	\$268,985	\$256,632	+4.8%
Total	\$4,517,485	\$4,615,270	-2.1%

Combined sales tax revenue through June 2011 remained relatively comparable to same period in 2010, although the distribution of receipts changed considerably.

Revenue	Inflow	2011-12 Budget	% of Budget
Business & Utility Tax			
Electric & Gas	\$1,801,687	\$7,734,254	23.3%
Cable TV	\$236,682	\$1,089,326	21.7%
Telephone & Cellular*	\$960,923	\$5,440,404	17.7%
Water & Sewer	\$169,870	\$873,583	19.4%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$320,544	\$1,372,897	23.3%
Utility Tax Rebate	(\$125)	\$0	0.0%
Total	\$3,489,581	\$16,510,464	21.1%
	2011 YTD	2010 YTD	Increase/Decrease
Electric & Gas	\$1,801,687	\$1,679,396	+7.3%
Cable TV	\$236,682	\$230,822	+2.5%
Telephone & Cellular*	\$960,923	\$1,244,618	-22.8%
Water & Sewer	\$169,870	\$189,718	-10.5%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$320,544	\$298,514	+7.4%
Utility Tax Rebate	(\$125)	(\$550)	+77.3%
Total	\$3,489,581	\$3,642,518	-4.2%

*Broadband providers stopped applying municipal utility tax to telephone and cellular broadband usage in September 2010.

Revenue	Inflow	2011-12 Budget	% of Budget
Other Taxes	\$358,957	\$1,713,000	21.0%

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes. Bothell's EMS levy is paid twice a year in April and October along with property tax. EMS receipts comprise the vast majority of taxes received in this category.

Revenue	Inflow	2011-12 Budget	% of Budget
Licenses & Permits			
Business/Sign Licenses	\$186,667	\$565,000	33.0%
Building Permits	\$271,482	\$1,489,274	18.2%
Plumbing/Mechanical	\$69,776	\$300,000	23.3%
Pre-Application Fees	\$18,196	\$100,000	18.2%
Animal Licenses/Concealed Weapons	\$37,964	\$10,400	365.0%
Total	\$584,085	\$2,464,674	22.3%
	2011 YTD	2010 YTD	Increase/Decrease
Building Permits	\$271,482	\$289,432	-6.2%
Plumbing/Mechanical	\$69,776	\$60,570	+15.2%
Pre-Application Fees	\$18,196	\$7,885	+130.8%
Total	\$359,454	\$357,887	+0.4%

Revenue	Inflow	2011-12 Budget	% of Budget
Intergovernmental	\$1,400,319	\$4,870,560	28.8%
<p>Intergovernmental revenues include grant funding, plus contracted services the City provides to other governmental agencies:</p> <ul style="list-style-type: none"> • Snohomish County Fire District #10 (fire protection service) • City of Lake Forest Park (dispatch service) • Northshore School District (School Resource Officers) 			

Revenue	Inflow	2011-12 Budget	% of Budget
Charges for Services	\$1,817,641	\$8,254,720	22.5%
	2011 YTD	2010 YTD	Increase/Decrease
CFP Staff Transfers	\$771,595	\$653,820	+18.0%
Plan Check Fees	\$214,753	\$345,164	-37.8%
Development Review Fees	\$427,580	\$308,890	+38.4%
Total	\$1,413,928	\$1,307,874	+8.1%
<p>Charges for services also include passport and recreation program fees.</p>			

Revenue	Inflow	2011-12 Budget	% of Budget
Interfund Services	\$283,363	\$1,133,450	25.0%
<p>Interfund services represent payments made by the three utility funds for their share of the cost of central City services – Finance, Human Resources, City Manager, City Clerk, Information Services, and Facilities. These revenues are recouped through monthly transfers.</p>			

Revenue	Inflow	2011-12 Budget	% of Budget
Fines/Penalties/Criminal Costs	\$199,359	\$1,067,400	18.7%
Other Miscellaneous	\$343,334	\$1,778,000	19.3%
Operating Transfers	\$180,000	\$180,000	100.0%
Total	\$722,693	\$3,025,400	23.9%
	2011 YTD	2010 YTD	Increase/Decrease
Fines/Penalties/Criminal Costs	\$199,359	\$218,629	-8.8%
Other Miscellaneous	\$343,334	\$279,595	+22.8%
Operating Transfers	\$180,000	\$282,619	-36.3%
Total	\$722,693	\$780,843	-7.4%
<p>Other miscellaneous revenues include investment interest, facility and field rentals, donations, and selected State remittances.</p>			

See General Fund Revenues - Chart 1

V. GENERAL FUND – EXPENDITURES

Expenditure	Outflow	2011-12 Budget	% of Budget
Salaries & Benefits	\$14,529,334	\$60,922,252	23.8%
Maintenance & Operations	\$2,718,564	\$12,325,584	22.1%
Capital	\$47,020	\$361,498	13.0%
Interfund/Operating Transfers	\$1,118,174	\$4,497,046	24.9%
Total	\$18,413,093	\$78,106,380	23.6%
	2011 YTD	2010 YTD	Increase/Decrease
Salaries & Benefits	\$14,529,334	\$14,154,980	+2.6%
Maintenance & Operations	\$2,718,564	\$3,017,658	-9.9%
Capital	\$47,020	\$174,021	-73.0%
Interfund/Operating Transfers	\$1,118,174	\$1,041,289	+7.4%
Total	\$18,413,093	\$18,387,948	+0.1%

General Fund spending remains flat from 2010 levels. Departments are remaining cautious with their maintenance and operating spending.

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

VI. OTHER MAJOR FUNDS

	Inflow/Outflow	2011-12 Budget	% of Budget
Street	Inflow	\$746,502	20.3%
	Outflow	\$886,232	24.5%

In approving the 2011-2012 budget, Council recognized that a solution was needed to offset the loss of street lighting fee revenue (\$300,000 annually).

Street outflows are skewed by the fact that its annual payment to the Storm Drain Fund for water runoff was made in the first quarter. This year's payment was \$245,000.

	Inflow/Outflow	2011-12 Budget	% of Budget
Arterial Street	Inflow	\$413,714	8.0%
	Outflow	\$1,074	0.0%

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	2011-12 Budget	% of Budget
Park Reserve	Inflow	\$82,411	17.2%
	Outflow	\$0	0.0%

Park Reserve Fund spending occurs through transfers to the Capital Improvement Fund. No spending is appropriated in the 2011-2012 budget.

		Inflow/Outflow	2011-12 Budget	% of Budget
Capital Improvement	Inflow	\$5,131,768	\$91,299,599	5.6%
	Outflow	\$6,378,794	\$92,529,298	6.9%

Capital spending is in line with the adopted 2011-2017 Capital Facilities Plan.

VII. PROPRIETARY FUNDS

Utility Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Water	Inflow	\$1,266,342	\$7,574,929	16.7%
	Outflow	\$1,329,259	\$8,448,624	15.7%
Sewer	Inflow	\$2,465,638	\$11,249,481	21.9%
	Outflow	\$2,496,600	\$11,901,736	21.0%
Storm Drain	Inflow	\$1,599,730	\$6,142,133	26.0%
	Outflow	\$1,603,638	\$7,953,207	20.2%
Internal Service Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Equipment Rental	Inflow	\$739,377	\$2,957,338	25.0%
	Outflow	\$775,687	\$2,957,579	26.2%
Self-Insurance	Inflow	\$507,529	\$2,118,078	24.0%
	Outflow	\$766,143	\$2,068,077	37.0%
Asset Replacement	Inflow	\$632,379	\$2,057,092	30.7%
	Outflow	\$236,705	\$4,018,461	5.9%

Self-insurance outflows are skewed because the City's insurance premium is paid in the first quarter of each year. This year's premium totaled \$593,786.

The Asset Replacement Fund is funded for the next five years. Additional funding from the General Fund is needed to ensure asset needs beyond a five-year window.

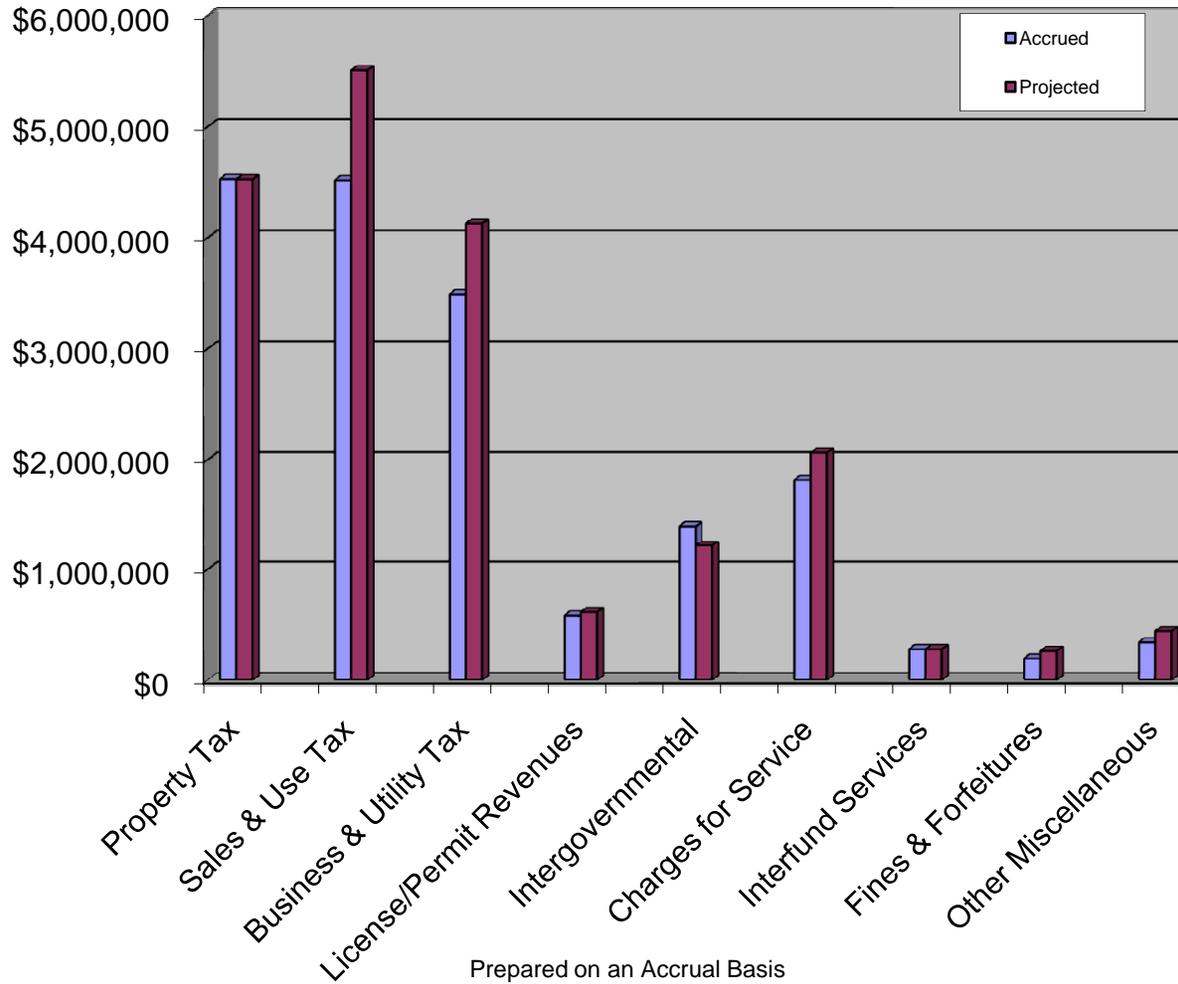
See Proprietary Funds Expenditures - Chart 4

See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. COUNCIL EMPHASIS AREAS

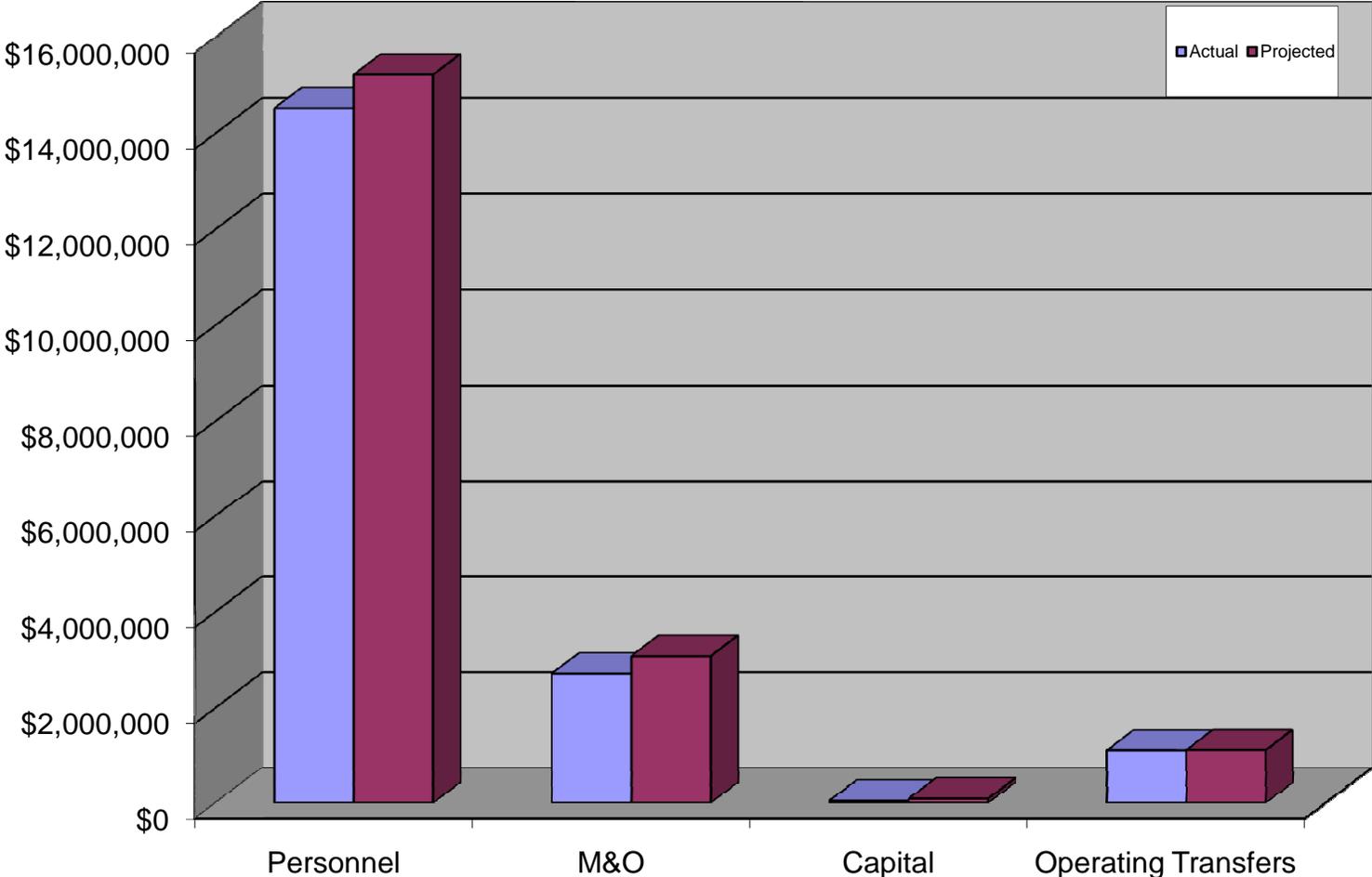
Development and Land Review Fees	Inflow	\$495,042	(Includes A/R)
	Outflow	583,038	(Includes overhead)
	Net	(\$87,996)	
Permitting Fees	Inflow	\$556,011	
	Outflow	772,681	(Includes overhead)
	Net	(\$216,670)	
CFP Project-Term Staff	Inflow	\$617,082	(2011 reimbursement to Gen Fund)
	Outflow	617,082	(2011 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2011	\$ 125	(2 rebates Jan-June)
	2010	550	(6 rebates Jan-March)
	Inc(Dec)	(\$425)	

General Fund Revenue vs Budget June 30, 2011



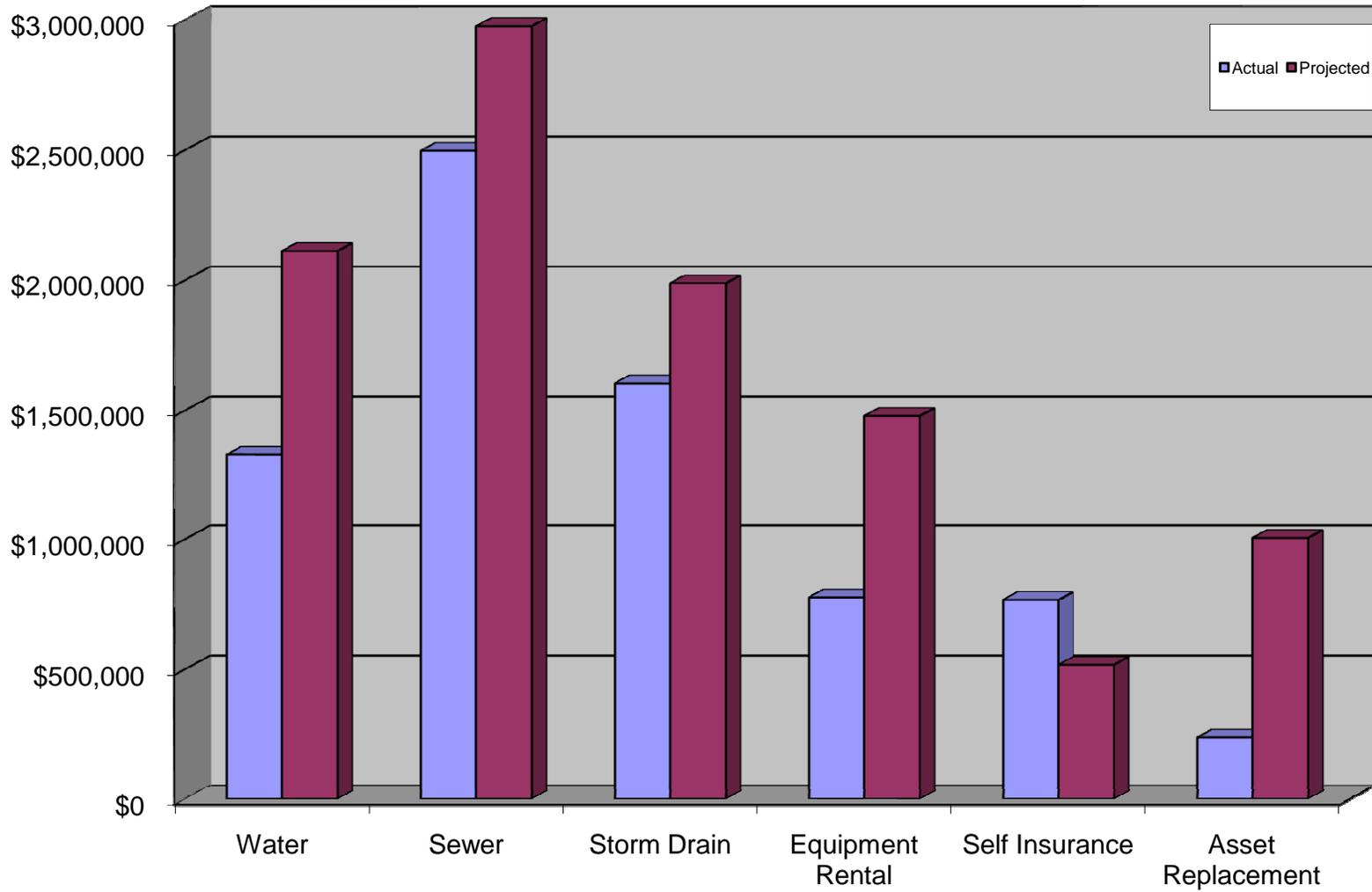
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget June 30, 2011



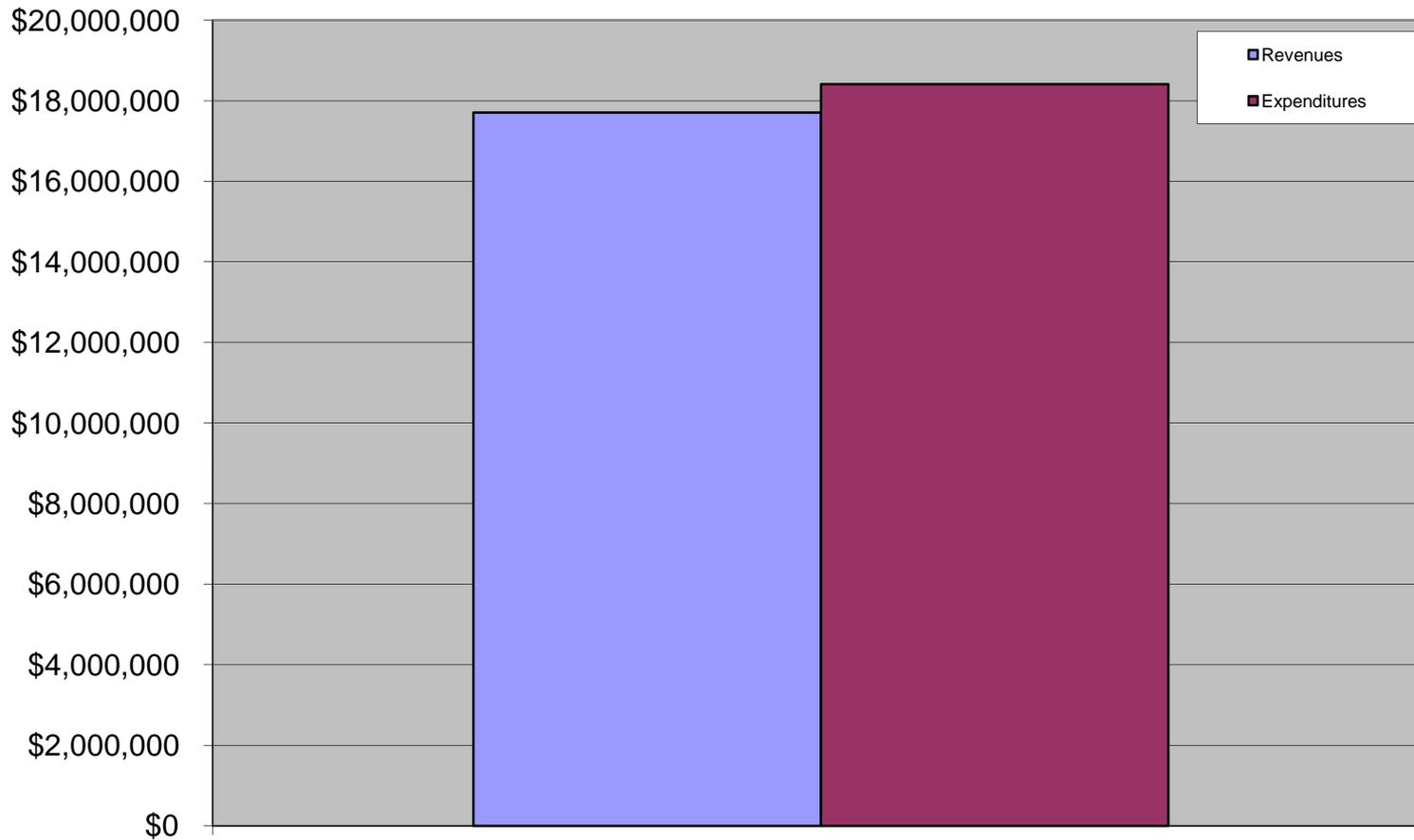
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget June 30, 2011



Proprietary Funds
Chart 3

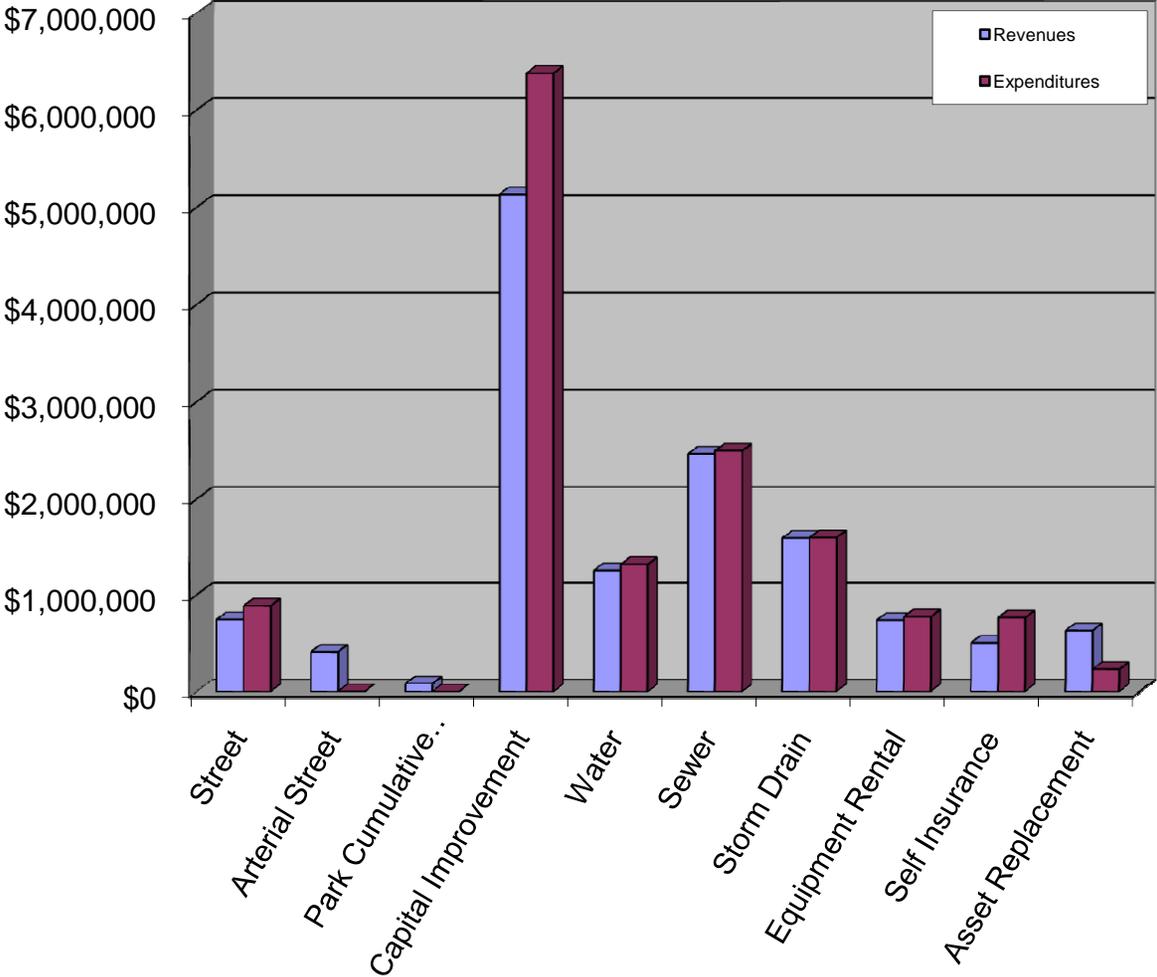
General Fund Revenues vs Expenditures June 30, 2011



General Fund
Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures
Chart 4

Other Major Funds Revenues vs Expenditures June 30, 2011



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 5