

# **INTEROFFICE MEMORANDUM**

## **Finance Department**



**DATE:** November 23, 2011

**TO:** Mayor and Council

**THROUGH:** Bob Stowe, City Manager

**FROM:** Tami Schackman, Finance Director

**SUBJECT:** 2011-12 Budget Status Report – Quarter #3

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

The City remains on track to incur a General Fund operating deficit of approximately \$1.5 million in 2011, requiring the use of General Fund reserves as previously reported.

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.

It is important to note that approximately \$475,000 of this 2011 deficit was anticipated in the originally adopted 2011-2012 budget. A corresponding surplus of \$475,000 is budgeted to occur in 2012.

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 September 30, 2011

#### I. BIENNIUM STATUS

On September 30, 2011, the City concluded the third quarter of the 2011-2012 biennium. The budget period described in this report is 37.5% complete.

#### Citywide

Citywide Biennial surplus/deficit as of September 30: -\$3,412,294\*

\*Includes \$280,108 in prior period interest (not reflected in 2011 data) transferred from Trust Fund to General Fund.

- General Fund (-\$1,474,933). See detailed discussion below.
- Capital Improvements Fund (-\$3,078,069). CFP projects are continuing. The City did not draw down funding from its Bond Anticipation Note (BAN) during the first three quarters of 2011.
- Sewer Fund (-\$185,688). A utility rate study is in progress.
- Street Fund (-\$118,921). A replacement funding source for the discontinued street light fee has not yet been identified.
- Self Insurance Fund (-\$100,518). The City's \$593,786 insurance premium for 2011 was paid in the first quarter. Payments to Self Insurance from other funds are made evenly throughout the year.

#### General Fund

General Fund Biennial surplus/deficit as of September 30: -\$1,474,933\*

\*Includes \$280,108 in prior period interest (not reflected in 2011 data) transferred from Trust Fund.

General Fund expenditure outflows continue to outpace revenue inflows, and this trend accelerated in the third quarter. The third quarter deficit was \$1,043,961 (\$348,000/month), compared with \$711,080 (\$118,513/month) through June.

Third quarter revenues for 2011 were down from 2010 in a number of categories:

- Construction sales tax: \$155,590
- Retail sales tax: \$72,429
- Development review fees: \$60,254
- Building permits: \$35,726
- Fines/penalties/criminal costs: \$20,811

Note that the adopted 2011-2012 General Fund budget anticipated a \$474,287 deficit in 2011 and a corresponding \$474,287 surplus in 2012.

#### II. BUDGET VS ACTUAL SUMMARIES

|  |         | Inflow/Outflow | 2011-12 Budget | % of Budget |
|--|---------|----------------|----------------|-------------|
| <u>CITY TOTAL</u>  | Inflow  | \$59,659,279   | \$213,976,153  | 27.9%       |
|  | Outflow | \$63,351,682   | \$219,906,096  | 28.8%       |
| <u>CITY TOTAL</u>  | Inflow  | \$29,649,308   | \$90,484,903   | 32.8%       |
| <small>(less Arterial Street, Capital Imp. Utility, and Asset Replacement Funds)</small> | Outflow | \$31,068,038   | \$89,851,770   | 34.6%       |

|                               |         |              |              |       |
|-------------------------------|---------|--------------|--------------|-------|
| <a href="#">GENERAL FUND</a>  | Inflow  | \$25,908,053 | \$78,106,380 | 33.2% |
|                               | Outflow | \$27,663,094 | \$78,106,380 | 35.4% |
| <a href="#">UTILITY FUNDS</a> | Inflow  | \$8,428,621  | \$24,966,543 | 33.8% |
|                               | Outflow | \$8,577,199  | \$28,303,567 | 30.3% |

### [III. ECONOMIC INFORMATION](#)

#### [Employment - National](#)

National non-farm payroll employment increased by 286,700 jobs during the third quarter of 2011, and the national unemployment rate fell slightly to 9.1%.

The number of long-term unemployed (those jobless for 27 weeks or more) was 6.2 million in September – these individuals accounted for 44.6% of the unemployed.

| <a href="#">U.S. GOODS-PRODUCING: +62,000 JOBS</a> |         | <a href="#">U.S. SERVICE-PROVIDING: +224,700 JOBS</a> |          |
|--|---------|---|----------|
| Construction                                       | +29,000 | Wholesale trade                                       | -2,800   |
| Manufacturing                                      | +17,000 | Retail trade  | +41,300  |
| Mining & logging                                   | +16,000 | Transportation/warehousing/utilities                  | -5,800   |
|  |         | Information   | -22,000  |
|  |         | Professional/financial/business                       | +119,000 |
|  |         | Educational/health services                           | +137,000 |
|  |         | Leisure/hospitality                                   | +21,000  |
|  |         | Other services  | +2,000   |
|  |         | Government  | -65,000  |

#### [Employment – State](#)

4,900 non-farm jobs were lost statewide during the third quarter of 2011. A loss of 18,400 jobs in September marked the first month of job losses since August 2010.

Washington's preliminary September unemployment rate fell slightly to 9.1%, and the Seattle-Bellevue-Everett rate dropped to 8.6% (from 8.8% in June.)

| <a href="#">STATE GOODS-PRODUCING: +5,600 JOBS</a> |        | <a href="#">STATE SERVICE-PROVIDING: -10,500 JOBS</a> |        |
|--|--------|---|--------|
| Construction                                       | -300   | Wholesale trade                                       | -100   |
| Manufacturing                                      | +6,100 | Retail trade  | +1,300 |
| Mining & logging                                   | -200   | Transportation/warehousing/utilities                  | +500   |
|  |        | Information   | -500   |
|  |        | Professional/financial/business                       | -800   |
|  |        | Educational/health services                           | +1,700 |
|  |        | Leisure/hospitality                                   | -700   |
|  |        | Other services  | -2,100 |
|  |        | Government  | -9,800 |

#### [Economic Forecast](#)

State economic forecasters continue to convey that the national economic outlook remains extremely uncertain. Europe appears on the brink of recession, China and India are moving to cool their overheating economies, and U.S. political turmoil makes it unlikely that fiscal policy will be able to help stabilize the economy.

At the state level, both the aerospace and software sectors have added more jobs than were lost during the recession. Construction, however, remains weak and has a disproportionately negative impact on state revenues. The state's economy is likely to outperform the U.S. in the near future, but remains vulnerable to uncertainties at the national and global levels.

[CPI-W Data – Seattle/Tacoma/Bremerton Region](#)

June 2011 – August 2011: +0.2%  
 August 2010 – August 2011: +3.2%

**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, September 2011 sales tax revenues will not be remitted to the City until the end of November 2011.

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

| Revenue             | Inflow             | 2011-12 Budget      | % of Budget  |
|---------------------|--------------------|---------------------|--------------|
| <b>Property Tax</b> | <b>\$6,623,222</b> | <b>\$18,103,472</b> | <b>36.6%</b> |

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  |
|----------------------|--------------------|---------------------|--------------|
| <b>Sales/Use Tax</b> |                    |                     |              |
| Retail               | \$5,142,090        | \$16,369,249        | 31.4%        |
| Construction         | \$1,047,792        | \$4,000,000         | 26.2%        |
| Hotel/Motel          | \$205,233          | \$475,000           | 43.2%        |
| Criminal Justice     | \$410,577          | \$1,186,391         | 34.6%        |
| <b>Total</b>         | <b>\$6,805,693</b> | <b>\$22,030,640</b> | <b>30.9%</b> |

|                  | 2011 YTD           | 2010 YTD           | Increase/Decrease |
|------------------|--------------------|--------------------|-------------------|
| Retail           | \$5,142,090        | \$4,957,203        | +3.7%             |
| Construction     | \$1,047,792        | \$1,607,525        | -34.8%            |
| Hotel/Motel      | \$205,233          | \$145,571          | +41.0%            |
| Criminal Justice | \$410,577          | \$395,872          | +3.7%             |
| <b>Total</b>     | <b>\$6,805,693</b> | <b>\$7,106,171</b> | <b>-4.2%</b>      |

| Revenue                           | Inflow      | 2011-12 Budget | % of Budget |
|-----------------------------------|-------------|----------------|-------------|
| <b>Business &amp; Utility Tax</b> |             |                |             |
| Electric & Gas                    | \$2,439,016 | \$7,734,254    | 31.5%       |
| Cable TV                          | \$358,898   | \$1,089,326    | 32.9%       |
| Telephone & Cellular*             | \$1,447,763 | \$5,440,404    | 26.6%       |
| Water & Sewer                     | \$258,888   | \$873,583      | 29.6%       |

|  |                    |                     |              |
|--|--------------------|---------------------|--------------|
| <b>Other Franchise Fees</b><br>(Waste Mgmt, AWWD, NUD, FIOS) | <b>\$529,572</b>   | <b>\$1,372,897</b>  | <b>38.6%</b> |
| <b>Utility Tax Rebate</b>                                    | <b>(\$3,400)</b>   | <b>\$0</b>          | <b>0.0%</b>  |
| <b>Total</b>   | <b>\$5,030,737</b> | <b>\$16,510,464</b> | <b>30.5%</b> |

|  | 2011 YTD           | 2010 YTD           | Increase/Decrease |
|--|--------------------|--------------------|-------------------|
| <b>Electric &amp; Gas</b>                                    | <b>\$2,439,016</b> | <b>\$2,327,184</b> | <b>+4.8%</b>      |
| <b>Cable TV</b>  | <b>\$358,898</b>   | <b>\$349,515</b>   | <b>+2.7%</b>      |
| <b>Telephone &amp; Cellular*</b>                             | <b>\$1,447,763</b> | <b>\$1,680,866</b> | <b>-13.9%</b>     |
| <b>Water &amp; Sewer</b>                                     | <b>\$258,888</b>   | <b>\$252,501</b>   | <b>+2.5%</b>      |
| <b>Other Franchise Fees</b><br>(Waste Mgmt, AWWD, NUD, FIOS) | <b>\$529,572</b>   | <b>\$491,929</b>   | <b>+7.7%</b>      |
| <b>Utility Tax Rebate</b>                                    | <b>(\$3,400)</b>   | <b>(\$2,450)</b>   | <b>+38.8%</b>     |
| <b>Total</b>   | <b>\$5,030,737</b> | <b>\$5,099,545</b> | <b>-1.3%</b>      |

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

| Revenue            | Inflow           | 2011-12 Budget     | % of Budget  |
|--------------------|------------------|--------------------|--------------|
| <b>Other Taxes</b> | <b>\$525,172</b> | <b>\$1,713,000</b> | <b>30.7%</b> |

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  |
|--|------------------|--------------------|--------------|
| <b>Licenses &amp; Permits</b>            |                  |                    |              |
| <b>Business/Sign Licenses</b>            | <b>\$252,875</b> | <b>\$565,000</b>   | <b>44.8%</b> |
| <b>Building Permits</b>                  | <b>\$460,563</b> | <b>\$1,489,274</b> | <b>30.9%</b> |
| <b>Plumbing/Mechanical</b>               | <b>\$105,863</b> | <b>\$300,000</b>   | <b>35.3%</b> |
| <b>Pre-Application Fees</b>              | <b>\$24,868</b>  | <b>\$100,000</b>   | <b>24.9%</b> |
| <b>Animal Licenses/Concealed Weapons</b> | <b>\$61,375</b>  | <b>\$170,400</b>   | <b>36.0%</b> |
| <b>Total</b>                             | <b>\$905,544</b> | <b>\$2,624,674</b> | <b>34.5%</b> |

|                             | 2011 YTD         | 2010 YTD         | Increase/Decrease |
|-----------------------------|------------------|------------------|-------------------|
| <b>Building Permits</b>     | <b>\$460,563</b> | <b>\$514,240</b> | <b>-10.4%</b>     |
| <b>Plumbing/Mechanical</b>  | <b>\$105,863</b> | <b>\$106,667</b> | <b>-0.1%</b>      |
| <b>Pre-Application Fees</b> | <b>\$24,868</b>  | <b>\$15,771</b>  | <b>+57.7%</b>     |
| <b>Total</b>                | <b>\$591,294</b> | <b>\$636,678</b> | <b>-7.1%</b>      |

| Revenue                  | Inflow             | 2011-12 Budget     | % of Budget  |
|--------------------------|--------------------|--------------------|--------------|
| <b>Intergovernmental</b> | <b>\$1,924,071</b> | <b>\$4,870,560</b> | <b>39.5%</b> |

Intergovernmental revenues include grant funding, plus contracted services the City provides to other governmental agencies:

- 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              |
|--------------------------------|--------------------|--------------------|--------------------------|
| <b>Charges for Services</b>    | <b>\$2,628,061</b> | <b>\$8,094,720</b> | <b>32.5%</b>             |
|                                | <b>2011 YTD</b>    | <b>2010 YTD</b>    | <b>Increase/Decrease</b> |
| <b>CFP Staff Transfers</b>     | <b>\$1,169,069</b> | <b>\$959,764</b>   | <b>+21.8%</b>            |
| <b>Plan Check Fees</b>         | <b>\$270,096</b>   | <b>\$402,229</b>   | <b>-32.9%</b>            |
| <b>Development Review Fees</b> | <b>\$594,578</b>   | <b>\$536,142</b>   | <b>+10.9%</b>            |
| <b>Total</b>                   | <b>\$2,033,744</b> | <b>\$1,898,134</b> | <b>+7.1%</b>             |

Charges for services also include passport and recreation program fees.

| Revenue                   | Inflow           | 2011-12 Budget     | % of Budget  |
|---------------------------|------------------|--------------------|--------------|
| <b>Interfund Services</b> | <b>\$425,044</b> | <b>\$1,133,450</b> | <b>37.5%</b> |

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.

| Revenue                               | Inflow             | 2011-12 Budget     | % of Budget              |
|---------------------------------------|--------------------|--------------------|--------------------------|
| <b>Fines/Penalties/Criminal Costs</b> | <b>\$291,934</b>   | <b>\$1,067,400</b> | <b>27.4%</b>             |
| <b>Other Miscellaneous</b>            | <b>\$548,391</b>   | <b>\$1,778,000</b> | <b>30.8%</b>             |
| <b>Operating Transfers</b>            | <b>\$200,169</b>   | <b>\$180,000</b>   | <b>111.2%</b>            |
| <b>Total</b>                          | <b>\$1,040,494</b> | <b>\$3,025,400</b> | <b>34.4%</b>             |
|                                       | <b>2011 YTD</b>    | <b>2010 YTD</b>    | <b>Increase/Decrease</b> |
| <b>Fines/Penalties/Criminal Costs</b> | <b>\$291,934</b>   | <b>\$332,015</b>   | <b>-12.1%</b>            |
| <b>Other Miscellaneous</b>            | <b>\$548,391</b>   | <b>\$472,597</b>   | <b>+16.0%</b>            |
| <b>Operating Transfers</b>            | <b>\$200,169</b>   | <b>\$423,928</b>   | <b>-52.8%</b>            |
| <b>Total</b>                          | <b>\$1,040,494</b> | <b>\$1,228,540</b> | <b>-15.3%</b>            |

Other miscellaneous revenues include investment interest, facility and field rentals, donations, and selected State remittances.

See General Fund Revenues - Chart 1

## V. GENERAL FUND – EXPENDITURES

| Expenditure                          | Outflow             | 2011-12 Budget      | % of Budget  |
|--------------------------------------|---------------------|---------------------|--------------|
| <b>Salaries &amp; Benefits</b>       | <b>\$21,889,497</b> | <b>\$60,922,252</b> | <b>35.9%</b> |
| <b>Maintenance &amp; Operations</b>  | <b>\$4,028,632</b>  | <b>\$12,325,584</b> | <b>32.7%</b> |
| <b>Capital</b>                       | <b>\$67,704</b>     | <b>\$361,498</b>    | <b>18.7%</b> |
| <b>Interfund/Operating Transfers</b> | <b>\$1,677,262</b>  | <b>\$4,497,046</b>  | <b>37.3%</b> |
| <b>Total</b>                         | <b>\$27,663,094</b> | <b>\$78,106,380</b> | <b>35.4%</b> |

|                               | 2011 YTD            | 2010 YTD            | Increase/Decrease |
|-------------------------------|---------------------|---------------------|-------------------|
| Salaries & Benefits           | \$21,889,497        | \$21,261,575        | +3.0%             |
| Maintenance & Operations      | \$4,028,632         | \$4,339,138         | -7.2%             |
| Capital                       | \$67,704            | \$188,225           | -64.0%            |
| Interfund/Operating Transfers | \$1,677,262         | \$1,561,934         | +7.4%             |
| <b>Total</b>                  | <b>\$27,663,094</b> | <b>\$27,350,871</b> | <b>+1.1%</b>      |

Departments are remaining cautious with 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  | \$1,124,131    | \$3,684,507    | 30.5%       |
|        | Outflow | \$1,243,052    | \$3,624,334    | 34.3%       |

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  | \$547,644      | \$5,168,016    | 10.6%       |
|                 | Outflow | \$148,505      | \$5,203,000    | 2.9%        |

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  | \$111,991      | \$480,000      | 23.3%       |
|              | Outflow | \$0            | \$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  | \$20,232,316   | \$91,299,599   | 22.2%       |
|                     | Outflow | \$23,310,484   | \$92,529,298   | 25.2%       |

2011-2012 capital spending is anticipated to remain in line with the adopted 2011-2017 Capital Facilities Plan and the City's 2011-2012 budget - although the timing of projects may fluctuate.

## VII. PROPRIETARY FUNDS

| Utility Funds          |         | Inflow/Outflow | 2011-12 Budget | % of Budget |
|------------------------|---------|----------------|----------------|-------------|
| Water                  | Inflow  | \$2,388,524    | \$7,574,929    | 31.5%       |
|                        | Outflow | \$2,323,818    | \$8,448,624    | 27.5%       |
| Sewer                  | Inflow  | \$3,770,831    | \$11,249,481   | 33.5%       |
|                        | Outflow | \$3,956,520    | \$11,901,736   | 33.2%       |
| Storm Drain            | Inflow  | \$2,269,266    | \$6,142,133    | 36.9%       |
|                        | Outflow | \$2,296,862    | \$7,953,207    | 28.9%       |
| Internal Service Funds |         | Inflow/Outflow | 2011-12 Budget | % of Budget |
| Equipment Rental       | Inflow  | \$1,109,095    | \$2,957,338    | 37.5%       |
|                        | Outflow | \$1,156,384    | \$2,957,579    | 39.1%       |
| Self-Insurance         | Inflow  | \$781,282      | \$2,118,078    | 36.9%       |
|                        | Outflow | \$881,800      | \$2,068,077    | 42.6%       |
| Asset Replacement      | Inflow  | \$801,390      | \$2,057,092    | 39.0%       |
|                        | Outflow | \$247,555      | \$4,018,461    | 6.2%        |

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 the next five-year window.

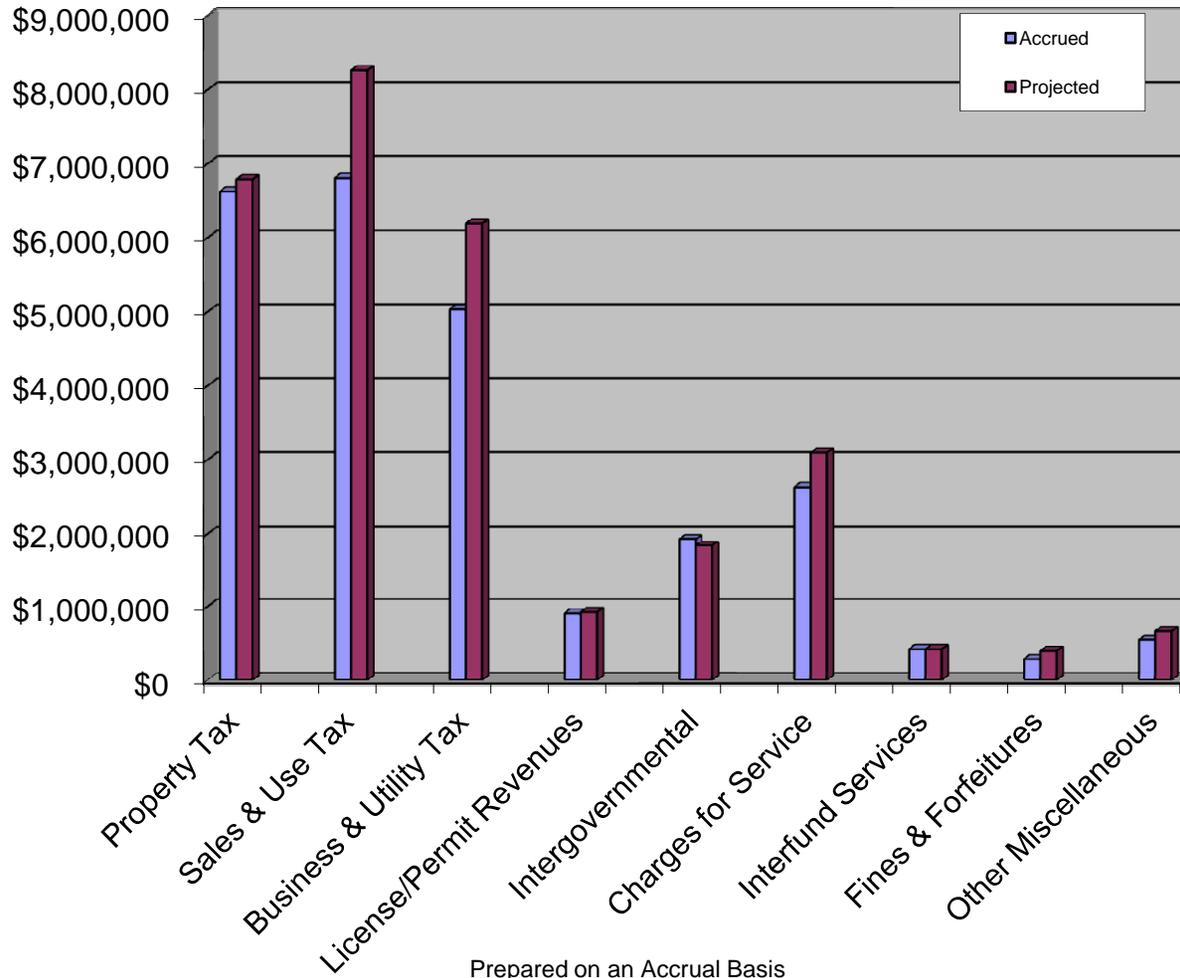
*See Proprietary Funds Expenditures - Chart 4*

*See Other Major Funds Revenues vs. Expenditures - Chart 5*

## VIII. COUNCIL EMPHASIS AREAS

|                                  |          |             |                                   |
|----------------------------------|----------|-------------|-----------------------------------|
| Development and Land Review Fees | Inflow   | \$689,219   | (Includes A/R)                    |
|                                  | Outflow  | 875,109     | (Includes overhead)               |
|                                  | Net      | (\$185,890) |                                   |
| Permitting Fees                  | Inflow   | \$836,522   |                                   |
|                                  | Outflow  | 1,161,126   | (Includes overhead)               |
|                                  | Net      | (\$324,603) |                                   |
| CFP Project-Term Staff           | Inflow   | \$931,203   | (2011 reimbursement to Gen Fund)  |
|                                  | Outflow  | 931,203     | (2011 Gen Fund salaries/benefits) |
|                                  | Net      | \$0         |                                   |
| Utility Tax Rebates              | 2011     | \$3,400     | (45 rebates Jan-Sept)             |
|                                  | 2010     | 2,450       | (31 rebates Jan-Sept)             |
|                                  | Inc(Dec) | \$950       |                                   |

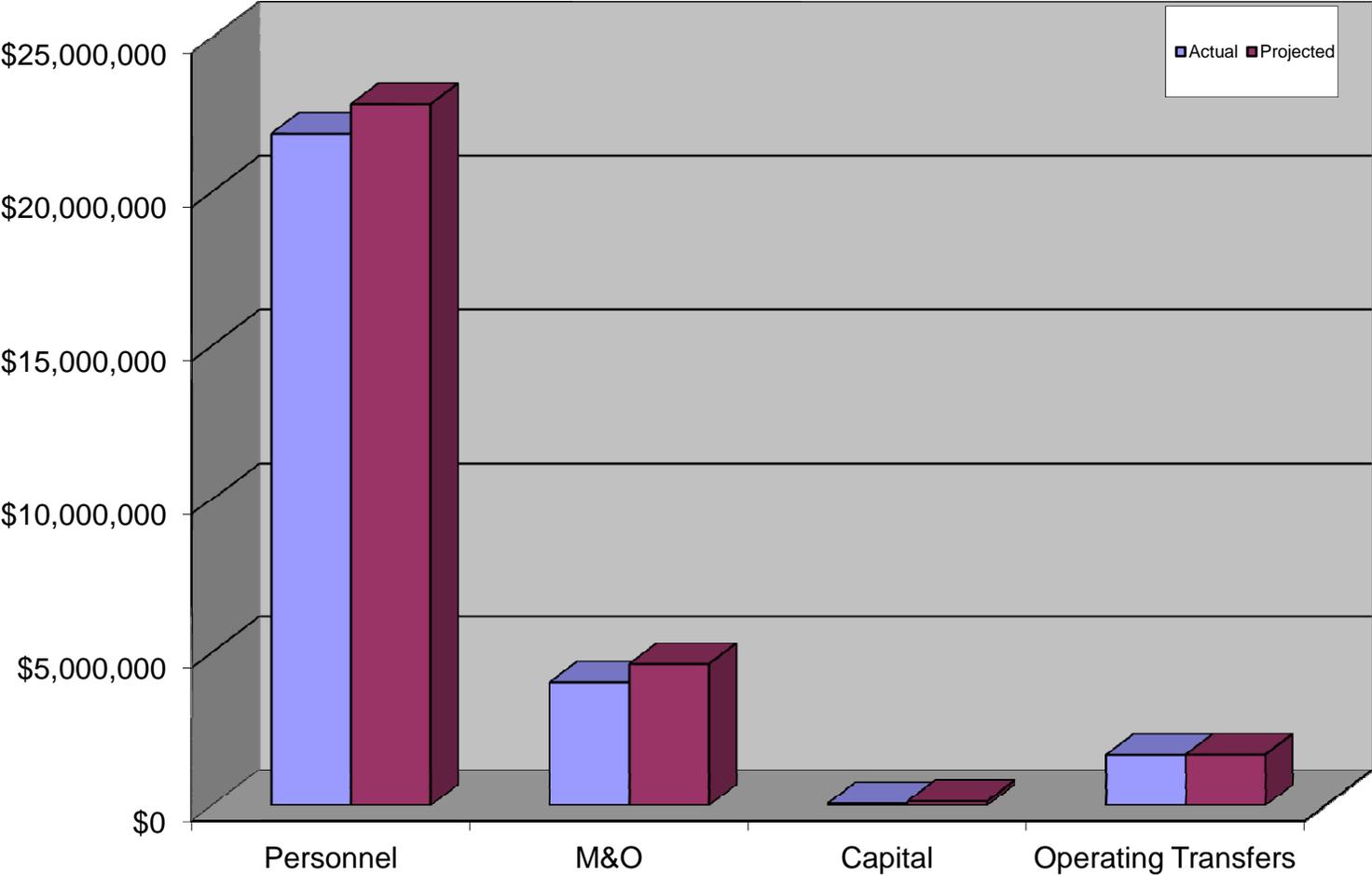
# General Fund Revenue vs Budget September 30, 2011



Prepared on an Accrual Basis

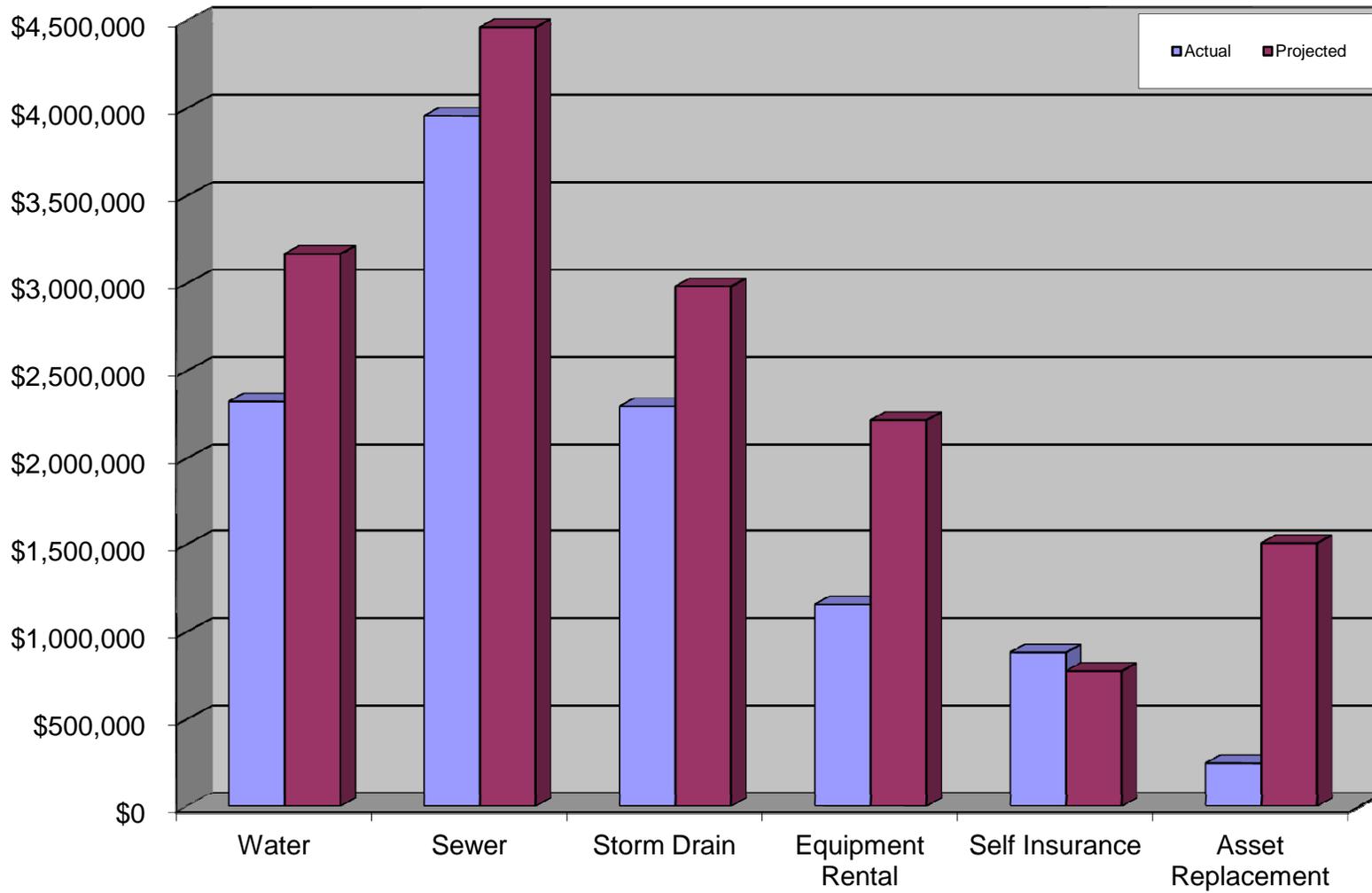
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget September 30, 2011



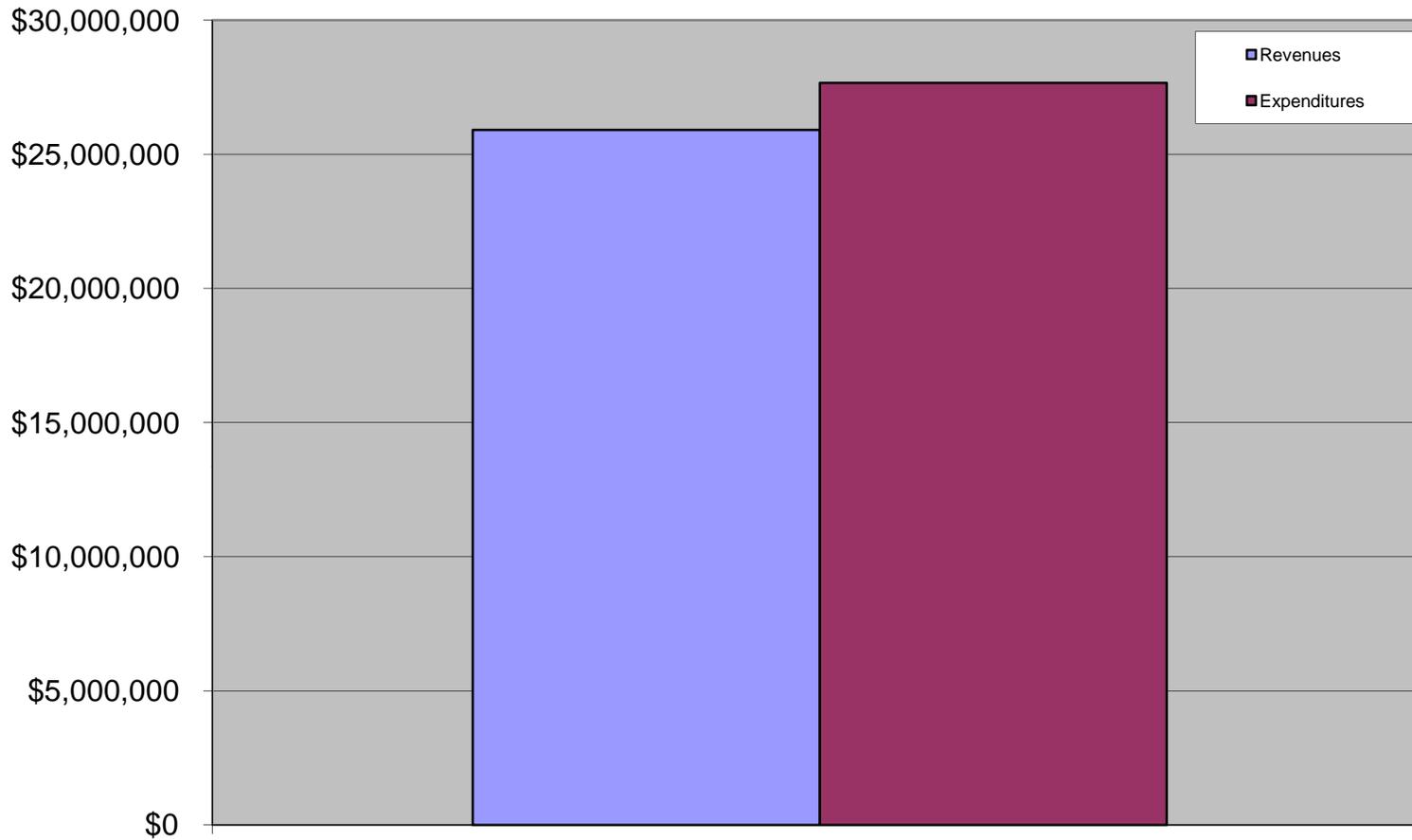
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget September 30, 2011



Proprietary Funds  
Chart 3

# General Fund Revenues vs Expenditures September 30, 2011



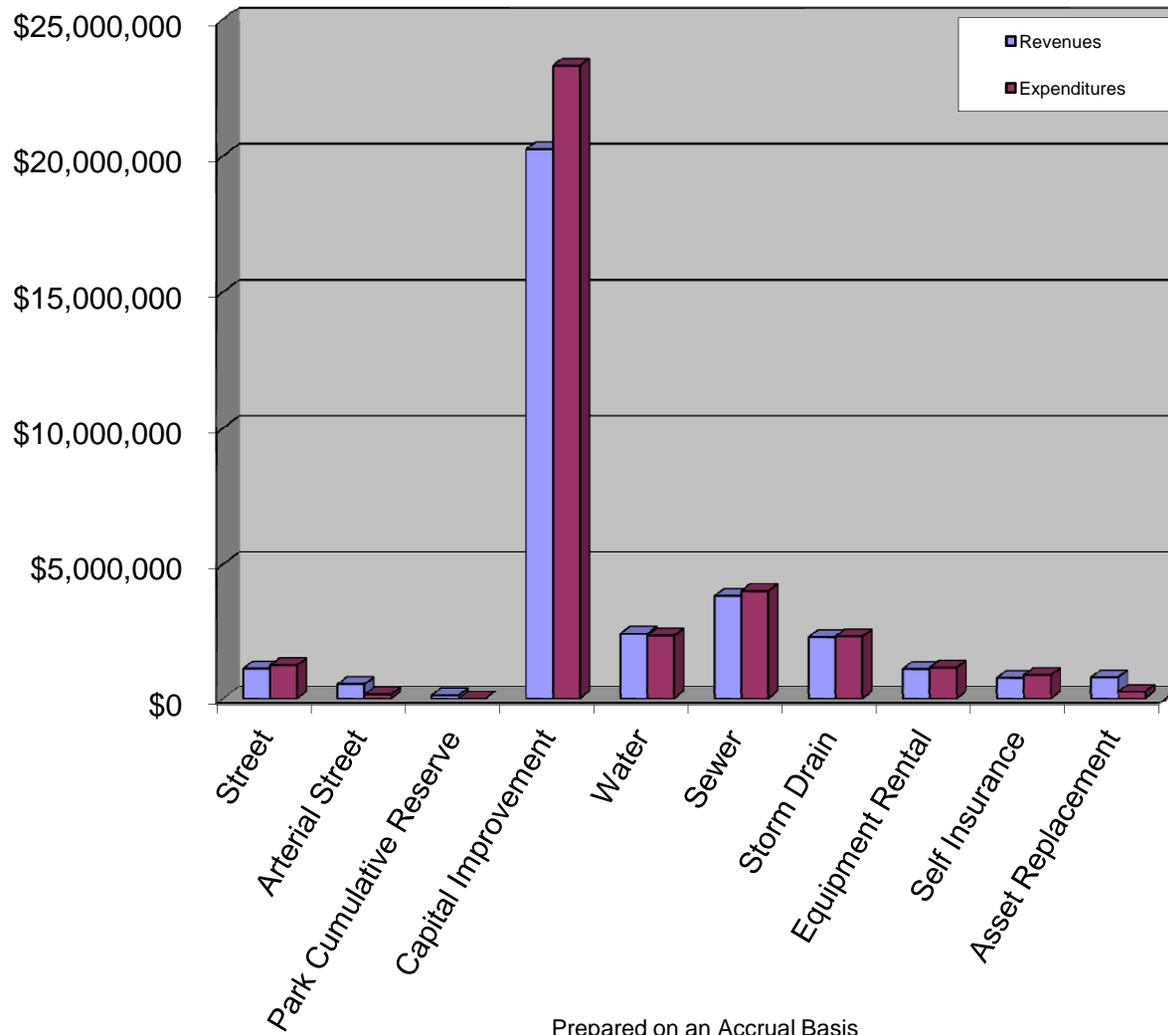
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

# Other Major Funds Revenues vs Expenditures September 30, 2011



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5