

INTEROFFICE MEMORANDUM

Finance Department



DATE: April 5, 2012

TO: Mayor and Council

THROUGH: Bob Stowe, City Manager

FROM: Tami Schackman, Finance Director

SUBJECT: 2011-12 Budget Status Report – Quarter #4

Attached for your review is the City's budget status report as of December 31, 2011.

I am pleased to report that the first year of the City's 2011-2012 biennium has concluded on target with yearend projections conveyed to the Council throughout the second half of 2011.

The 2011 General Fund Surplus/Deficit at December 31, 2011 is (\$2,127,896).

As Council is aware, during the July 2011 Fiscal Update, staff proposed and Council approved the use of approximately \$1.5 million from the City's operating reserve. This was done to fill a budget gap created primarily by the unexpected loss of long relied on revenue streams (street light fees and phone/broadband utility tax), and to provide time for Council to weigh and discuss the impacts of corresponding budget sustainability options developed by staff.

Staff prepared a \$1.8 million budget sustainability initiative to correct the structural imbalance between future operating revenues and expenditures. Staff's sustainability proposal was a key focus of the Council retreat in January 2012. Sustainability measures began to be implemented immediately in January, and will likely continue to be implemented throughout 2012.

Sustainability measures do not impact residents. Sustainability measures include personnel concessions (mainly related to modifying employee benefit packages to current market levels), establishing a Motor Vehicle Accident (MVA) fee, increasing the Emergency Medical Services (EMS) transport fee, and potentially increasing the City's business license fee. The MVA and EMS transport fees only impact insurance companies. As stated previously, the \$1.8 million budget sustainability initiative does not impact Bothell residents.

In addition, it is important to note that a deficit of nearly \$500,000 was budgeted for 2011, while an equal surplus is budgeted for 2012, which together results in a net zero impact on fund balance for the 2011-2012 biennium.

The General Fund 2011 deficit (\$2,127,896) is therefore the combination of the operating reserve allocation and the budgeted 2011 deficit that was explained above.

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 December 31, 2011

I. BIENNIUM STATUS

On December 31, 2011, the City concluded the fourth quarter of the eight quarter 2011-2012 biennium. The budget period described in this report is 50% complete.

The City is in the process of preparing its 2011 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 Biennial surplus/deficit as of December 31: \$1,064,498*

*Includes \$280,108 in prior period interest (not reflected in 2011 data) transferred from the Trust Fund to the General Fund. This figure does not include depreciation expense for the utility funds, because depreciation figures are not yet available.

- General Fund (**-\$2,127,896**). See detailed discussion below.
- Capital Improvements Fund (\$3,520,088). Capital projects are continuing, in alignment with the City's Capital Facilities Plan (CFP).
- Arterial Street Fund (**-\$556,222**). Traffic impact fees were transferred to the Capital Improvements Fund for ongoing CFP transportation projects, as prescribed in the City's capital spending plan.

General Fund

General Fund Biennial surplus/deficit as of December 31: **-\$2,127,896***

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

During the July 2011 Fiscal Update, Council approved the use of approximately \$1.5 million from the City's operating reserve. This was done to fill a budget gap that was primarily created by the unexpected loss of long relied on revenue streams (street light fee and phone/broadband utility tax), and to provide adequate time for Council to weigh and discuss the impacts of budget sustainability options developed by staff.

Staff's \$1.8 million budget sustainability initiative was a key focus of the Council Retreat in January 2012. Sustainability measures were implemented in January, and will continue to be implemented throughout 2012.

In addition, it is important to note that a deficit of \$474,287 was budgeted for 2011 while an equal surplus is budgeted for 2012. Together, the deficit and surplus results in a net zero impact on fund balance for the 2011-2012 biennium.

The overall impact of 2011 operations on fund balance is as follows:

2011 beginning fund balance	\$ 4,052,527
2011 revenues	\$34,029,507
2011 expenditures	(\$36,437,512)
Prior period entries*	\$ 401,241
Reimbursement from Capital Fund	<u>\$ 1,711,130</u>
2011 ending fund balance	\$ 3,756,897

*Prior period interest was transferred from the Trust Fund, and donated funds awaiting appropriation were transferred from the Trust Fund (and classified as restricted fund balance in the General Fund) per direction from the State Auditor's Office.

The \$1,711,130 reimbursement from the Capital Improvements Fund (noted above) stems from a transfer made from the General Fund to the Capital Improvements Fund in 2009. This transaction was made prior to the City issuing a Local Infrastructure Financing Tool (LIFT) bond anticipation note (BAN). As in previous years, the funds will be designated (not restricted) for future capital investment.

General Fund revenues were improved over the prior year, but only slightly – they were up \$335,000 (1%) compared to 2010. Revenues continue to lag below pre-recession levels. 2011 revenues were down \$1.8 million (5.1%) compared to 2007 receipts.

Expenditures for 2011 were down \$200,000 (0.5%) from 2010 levels. 2011 expenditures were just \$607,000 (1.7%) higher than in 2007, even though personnel costs increased \$5.76 million (24.5%) over that same time period. Departments have continued to closely monitor day-to-day spending – hence maintenance and operating (M&O) expenditures have decreased \$637,000 (10.3%) since 2007.

2011 revenues fell below 2010 receipts in a number of categories:

- Retail sales tax: \$22,846
- Construction sales tax: \$606,933
- Telephone utility tax: \$96,660
- Cellular utility tax: \$134,722
- Building permits: \$114,004
- Development review fees: \$37,245
- Fines/penalties/criminal costs: \$43,638

II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2011-12 Budget	% of Budget
<u>CITY TOTAL*</u>	Inflow	\$94,409,911	\$214,046,322	44.1%
	Outflow	\$93,625,521	\$220,276,265	42.5%
<u>CITY TOTAL</u> <small>(less Arterial Street, Capital Imp, Utility, and Asset Replacement Funds)</small>	Inflow	\$38,613,776	\$90,505,072	42.7%
	Outflow	\$41,042,857	\$89,921,939	45.6%
<u>GENERAL FUND</u>	Inflow	\$34,029,507	\$78,126,549	43.6%
	Outflow	\$36,437,512	\$78,106,380	46.7%
<u>UTILITY FUNDS*</u>	Inflow	\$11,392,733	\$24,966,543	45.6%
	Outflow	\$10,737,392	\$28,303,567	37.9%

*Utility figures include year-end entries involving expenditure capitalization – but do not include depreciation expense, which is still being calculated.

III. ECONOMIC INFORMATION

Employment - National

National non-farm payroll employment increased by over 412,000 jobs during the fourth quarter of 2011, and the December national unemployment rate dropped to 8.5%.

In December, the number of long-term unemployed (those jobless for 27 weeks or more) dropped slightly to 5.6 million, or 42.5% of the total unemployed.

<u>U.S. GOODS-PRODUCING: +48,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +364,600 JOBS</u>	
Construction	-5,000	Wholesale trade	+22,600
Manufacturing	+34,000	Retail trade	+82,200
Mining & logging	+19,000	Transportation/warehousing/utilities	+59,800
		Information	-1,000
		Professional/financial/business	+75,000
		Educational/health services	+99,000
		Leisure/hospitality	+78,000
		Other services	+3,000
		Government	-54,000

Employment – State

6,500 non-farm jobs were gained statewide during the fourth quarter of 2011. A loss of 10,700 jobs in December was just the second month of job losses in 16 months.

Washington's preliminary December unemployment rate fell to 8.5%, and the Seattle-Bellevue-Everett rate dropped to 7.9%.

<u>STATE GOODS-PRODUCING: +3,600 JOBS</u>		<u>STATE SERVICE-PROVIDING: +2,900 JOBS</u>	
Construction	-1,600	Wholesale trade	+2,700
Manufacturing	+5,200	Retail trade	-3,500
Mining & logging	0	Transportation/warehousing/utilities	+900
		Information	-1,000
		Professional/financial/business	-7,500
		Educational/health services	+6,700
		Leisure/hospitality	+1,900
		Other services	-400
		Government	+3,100

Economic Forecast

While economic data remains mildly encouraging, State economic forecasters continue to watch potential downside risks. Europe's financial problems continue to cause concern, while growth in Asia is slowing dramatically and could have a serious impact on exporting demand from Washington State.

Both the aerospace and software sectors in Washington continue to add jobs. 2011 housing starts remain weak – although recent economist's reports (March 2012) have strengthened their outlook projections for housing permits.

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

October 2011 – December 2011: -0.6%
 December 2010 – December 2011: +3.8%

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, December 2011 sales tax revenues were not remitted to the City until the end of February 2012.

Revenue	Inflow	2011-12 Budget	% of Budget
Property Tax	\$8,656,849	\$18,103,472	47.8%

Revenue	Inflow	2011-12 Budget	% of Budget
Sales/Use Tax			
Retail	\$6,698,454	\$16,369,249	40.9%
Construction	\$1,433,788	\$4,000,000	35.8%
Hotel/Motel	\$261,316	\$475,000	55.0%
Criminal Justice	\$555,965	\$1,186,391	46.9%
Total	\$8,949,523	\$22,030,640	40.6%
	2011 YTD	2010 YTD	Increase/Decrease
Retail	\$6,698,454	\$6,721,300	-3.4%
Construction	\$1,433,788	\$2,040,721	-29.7%
Hotel/Motel	\$261,316	\$190,760	+37.0%
Criminal Justice	\$555,965	\$540,754	+2.8%
Total	\$8,949,523	\$9,493,535	-5.7%

Retail sales tax numbers for November (received in late January) were slightly improved over 2010, but revenues for December (received in late February) – historically the highest of the year - were disappointing. Construction sales tax figures finished the year well below 2010 receipts. Projected construction sales tax from downtown revitalization projects is running behind schedule as a result of project timing delays.

Revenue	Inflow	2011-12 Budget	% of Budget
Business & Utility Tax			
Electric & Gas	\$3,332,193	\$7,734,254	43.1%
Cable TV	\$484,372	\$1,089,326	44.5%
Telephone & Cellular*	\$1,922,866	\$5,440,404	35.3%
Water & Sewer	\$382,058	\$873,583	43.7%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$660,992	\$1,372,897	48.1%
Utility Tax Rebate	(\$4,650)	\$0	0.0%
Total	\$6,777,831	\$16,510,464	41.1%

	2011 YTD	2010 YTD	Increase/Decrease
Electric & Gas	\$3,332,193	\$3,190,120	+4.5%
Cable TV	\$484,372	\$476,273	+1.7%
Telephone & Cellular*	\$1,922,866	\$2,154,248	-10.7%
Water & Sewer	\$382,058	\$366,649	+4.2%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$660,992	\$630,164	+4.9%
Utility Tax Rebate	(\$4,650)	(\$4,025)	+15.5%
Total	\$6,777,831	\$6,813,430	-0.5%

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

Revenue	Inflow	2011-12 Budget	% of Budget
Other Taxes	\$696,381	\$1,713,000	40.7%

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.

An additional \$250,000 in EMS levy revenue is expected for 2012. A \$0.30 levy was passed by voters in 2011.

Revenue	Inflow	2011-12 Budget	% of Budget
Licenses & Permits			
Business/Sign Licenses	\$262,106	\$565,000	46.4%
Building Permits	\$525,765	\$1,489,274	35.3%
Plumbing/Mechanical	\$124,511	\$300,000	41.5%
Pre-Application Fees	\$33,359	\$100,000	33.4%
Animal Licenses/Concealed Weapons	\$83,085	\$170,400	36.0%
Total	\$1,028,825	\$2,624,674	39.2%

	2011 YTD	2010 YTD	Increase/Decrease
Building Permits	\$525,765	\$639,769	-17.8%
Plumbing/Mechanical	\$124,511	\$136,110	-8.5%
Pre-Application Fees	\$33,359	\$19,628	+70.0%
Total	\$683,635	\$795,507	-14.1%

Development-related revenue is lagging due to delays involving downtown revitalization projects. Development revenues are anticipated to rise in mid-2012.

Revenue	Inflow	2011-12 Budget	% of Budget
Intergovernmental	\$2,502,089	\$4,870,560	51.4%

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
Charges for Services	\$1,964,674	\$5,091,700	38.6%
	2011 YTD	2010 YTD	Increase/Decrease
Passport Fees	\$47,360	\$58,575	-19.1%
EMS Transport Fees	\$177,221	\$179,448	-1.2%
Plan Check Fees	\$430,774	\$473,877	-9.1%
Development Review Fees	\$716,645	\$753,890	-4.9%
Total	\$1,372,001	\$1,465,790	-6.4%

Charges for services also include recreation program fees.

Revenue	Inflow	2011-12 Budget	% of Budget
Interfund Svcs – Utilities	\$566,725	\$1,133,450	50.0%
CFP Staff Transfers	\$1,540,638	\$3,003,020	51.3%
Total	\$2,107,363	\$4,136,470	50.9%

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.

CFP staff transfers were reclassified from “charges for services” to “interfund services”, per direction from the State Auditor’s Office.

Revenue	Inflow	2011-12 Budget	% of Budget
Fines/Penalties/Criminal	\$387,550	\$1,067,400	36.3%
Other Miscellaneous	\$758,233	\$1,778,000	42.6%
Operating Transfers	\$200,169	\$200,169	100.0%
Total	\$1,345,952	\$3,045,569	44.2%
	2011 YTD	2010 YTD	Increase/Decrease
Fines/Penalties/Criminal	\$387,550	\$431,188	-10.1%
Other Miscellaneous	\$758,233	\$472,647	+60.4%
Operating Transfers	\$200,169	\$0*	N/A
Total	\$1,345,952	\$903,835	+48.9%

*Operating transfers made in 2010 were reclassified to “interfund services” at year-end, per direction from the State Auditor’s Office.

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
Salaries & Benefits	\$29,243,898	\$60,922,252	48.0%
Maintenance & Operations	\$5,554,667	\$12,325,584	45.1%
Capital	\$80,945	\$361,498	22.4%
Interfund/Op Transfers	\$1,557,194	\$4,497,046	34.6%
Total	\$36,436,703	\$78,106,380	46.7%
	2011 YTD	2010 YTD	Increase/Decrease
Salaries & Benefits	\$29,243,898	\$28,518,252	+2.5%
Maintenance & Operations	\$5,554,667	\$5,761,406	-3.6%
Capital	\$80,945	\$199,363	-59.4%
Interfund/Op Transfers	\$1,557,194	\$2,158,651	-27.9%
Total	\$36,436,703	\$36,637,672	-0.5%

Maintenance and operations (M&O) spending has declined in each of the past three years. 2011 M&O spending is down \$1.88 million (25%) compared to 2008 spending.

Asset replacement operating transfers for vehicles will take place in the second year of the biennium (2012).

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	\$1,707,912	46.4%
	Outflow	\$1,732,125	47.8%

In approving the 2011-2012 budget, Council acknowledged that replacement revenues and/or equal expenditure reductions would be implemented in 2012 to offset the loss of street lighting fee revenue (\$300,000 annually).

	Inflow/Outflow	2011-12 Budget	% of Budget
Arterial Street	Inflow	\$611,252	11.8%
	Outflow	\$1,167,474	22.4%

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	\$139,786	29.1%
	Outflow	\$49,334	98.7%

Park Reserve Fund spending occurs through transfers to the Capital Improvement Fund. A \$50,000 transfer was appropriated in the 2011 budget amendment.

		Inflow/Outflow	2011-12 Budget	% of Budget
Capital Improvement	Inflow	\$43,582,784	\$91,349,599	47.7%
	Outflow	\$41,773,825	\$92,529,298	45.1%

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	\$3,233,836	\$7,574,929	42.7%
	Outflow	\$3,176,582	\$8,448,624	37.6%
Sewer*	Inflow	\$5,043,433	\$11,249,481	44.8%
	Outflow	\$5,135,670	\$11,901,736	43.2%
Storm Drain*	Inflow	\$3,115,464	\$6,142,133	50.7%
	Outflow	\$2,424,346	\$7,953,207	30.5%
Internal Service Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Equipment Rental	Inflow	\$941,623	\$2,957,338	31.8%
	Outflow	\$1,054,106	\$2,957,579	35.6%
Self-Insurance	Inflow	\$962,343	\$2,118,078	45.4%
	Outflow	\$965,431	\$2,068,077	46.7%
Asset Replacement	Inflow	\$209,366	\$2,057,092	10.2%
	Outflow	\$1,218,345	\$4,318,461	28.2%

*Utility figures include year-end entries involving expenditure capitalization – but do not include depreciation, which is still being calculated.

The following spending from 2011 was capitalized, and will be depreciated over time in line with generally accepted accounting principles (GAAP):

- Water: \$330,449
- Sewer: \$320,119
- Storm: \$531,519

Fuel costs in the Equipment Rental Fund were \$81,000 higher than budgeted for 2011.

Asset replacement operating transfers for vehicles will take place in the second year of the 2011-2012 biennium. The Asset Replacement Fund is projected to be fully funded for the next five years.

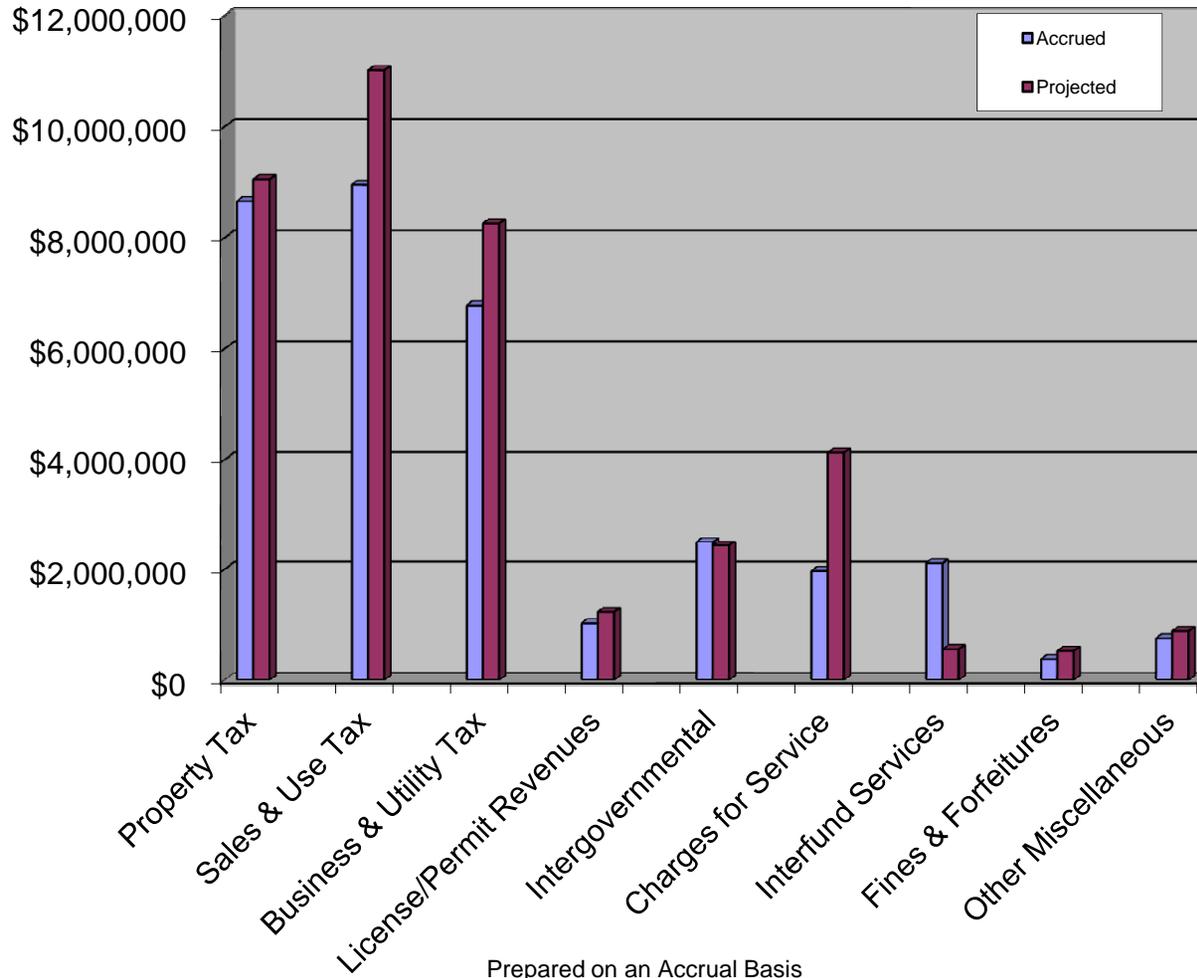
See Proprietary Funds Expenditures - Chart 4

See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. COUNCIL EMPHASIS AREAS

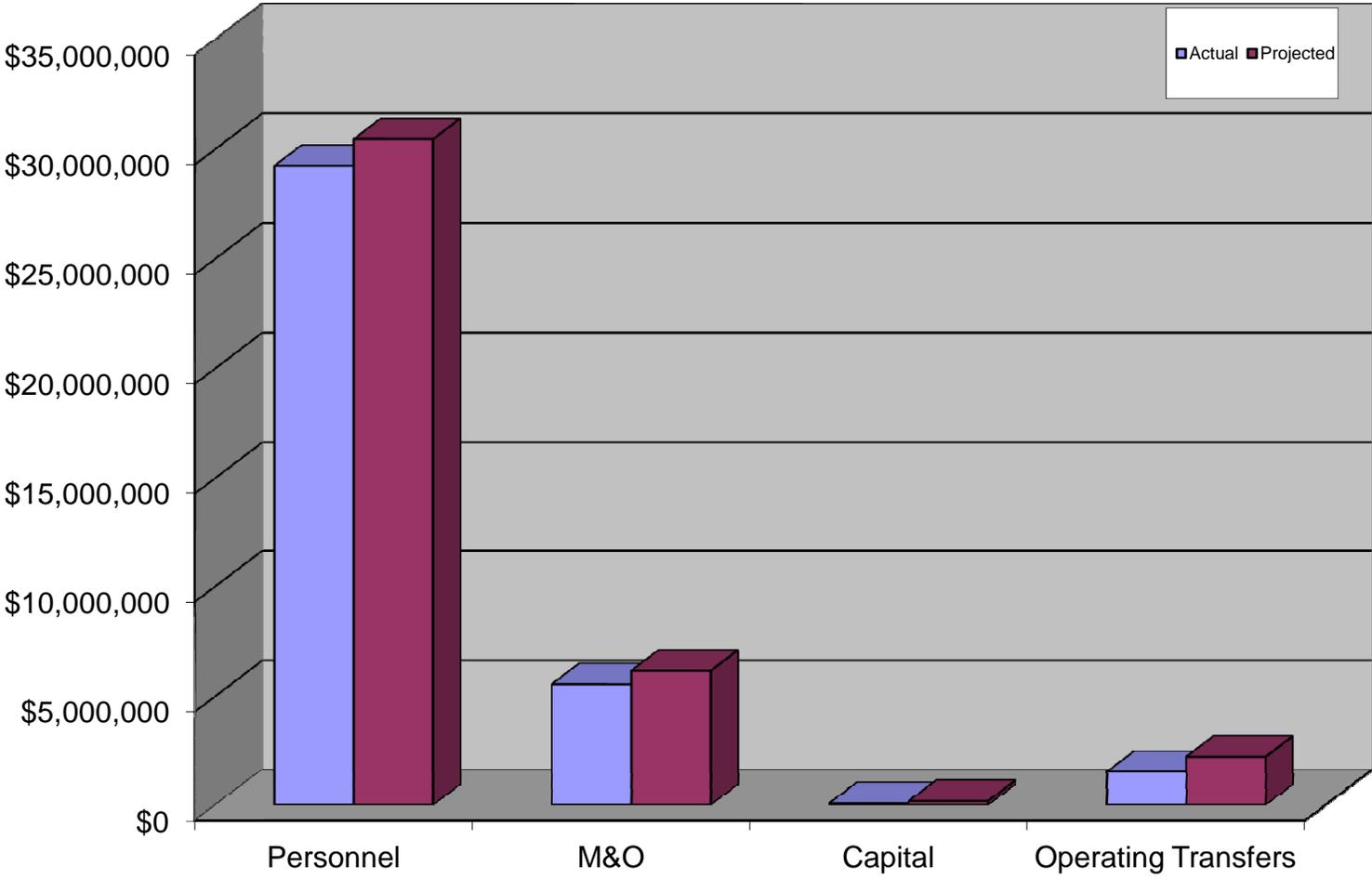
Development and Land Review Fees	Inflow	\$831,646	(Includes A/R)
	Outflow	1,214,957	(Includes overhead)
	Net	(\$383,312)	
Permitting Fees	Inflow	\$1,081,050	
	Outflow	1,548,886	(Includes overhead)
	Net	(\$467,836)	
CFP Project-Term Staff	Inflow	\$1,247,320	(2011 reimbursement to Gen Fund)
	Outflow	1,247,320	(2011 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2011	\$4,650	(59 rebates)
	2010	4,025	(50 rebates)
	Inc(Dec)	\$625	

General Fund Revenue vs Budget December 31, 2011



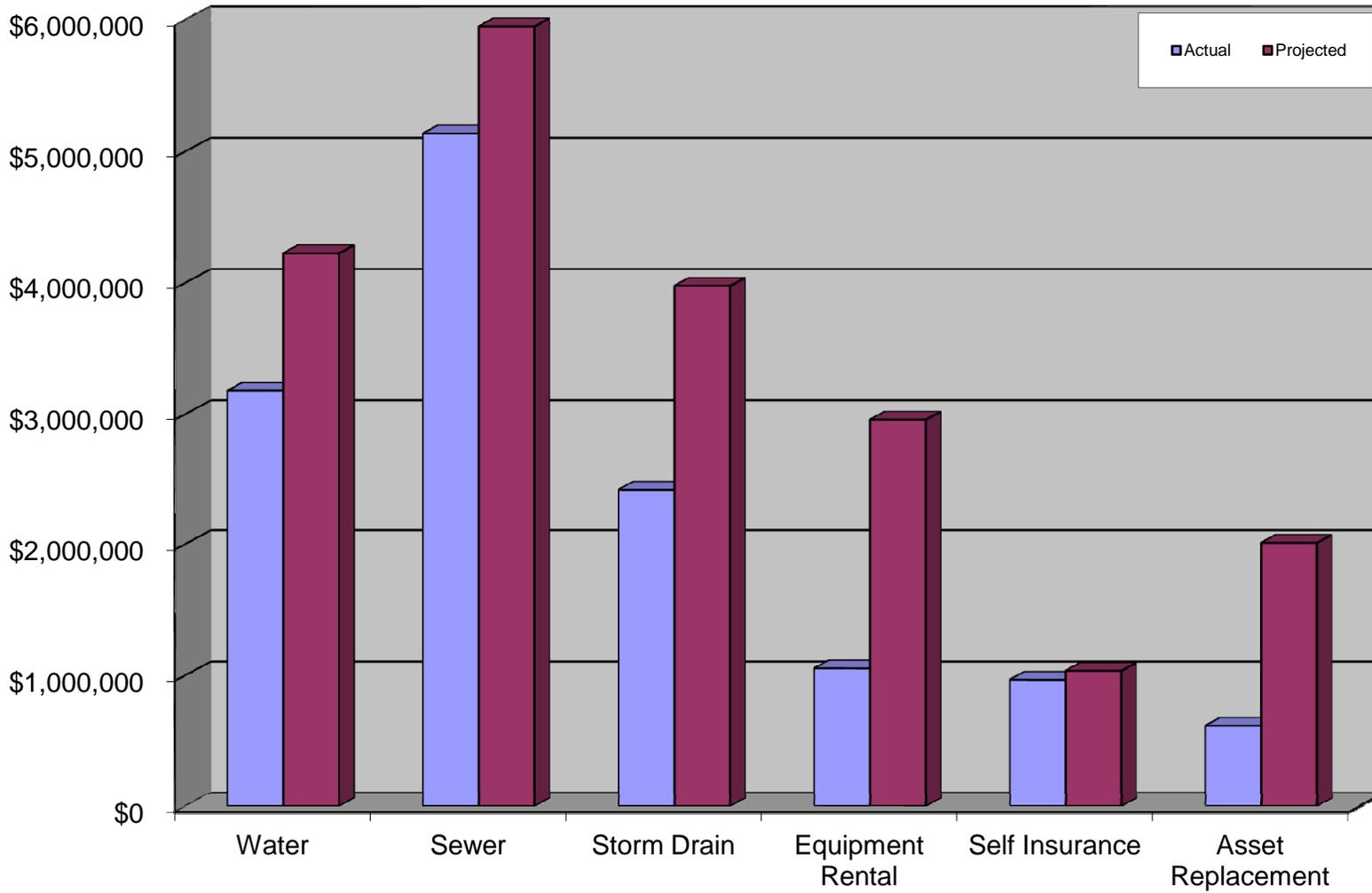
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget December 31, 2011



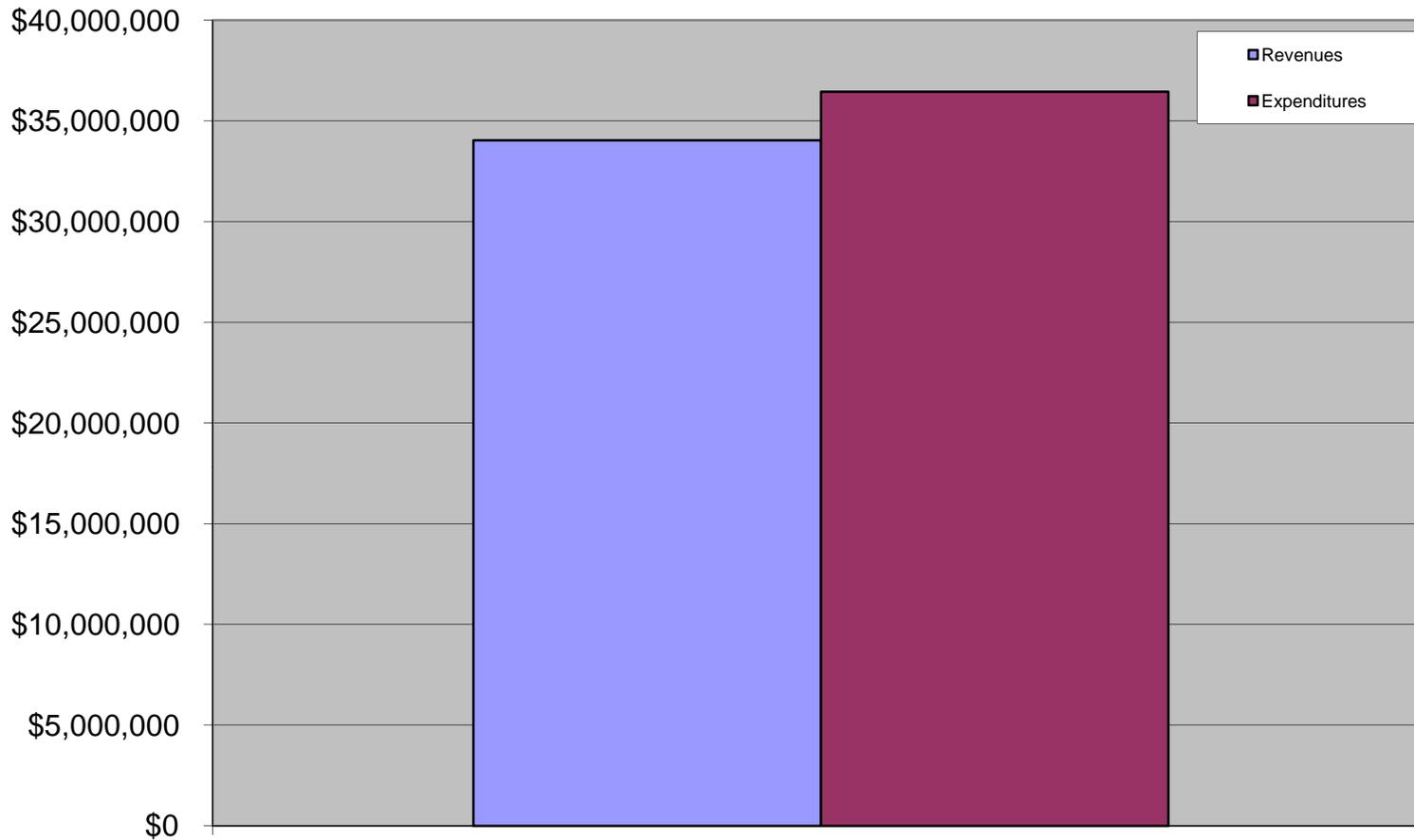
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget December 31, 2011



Proprietary Funds
Chart 3

General Fund Revenues vs Expenditures December 31, 2011



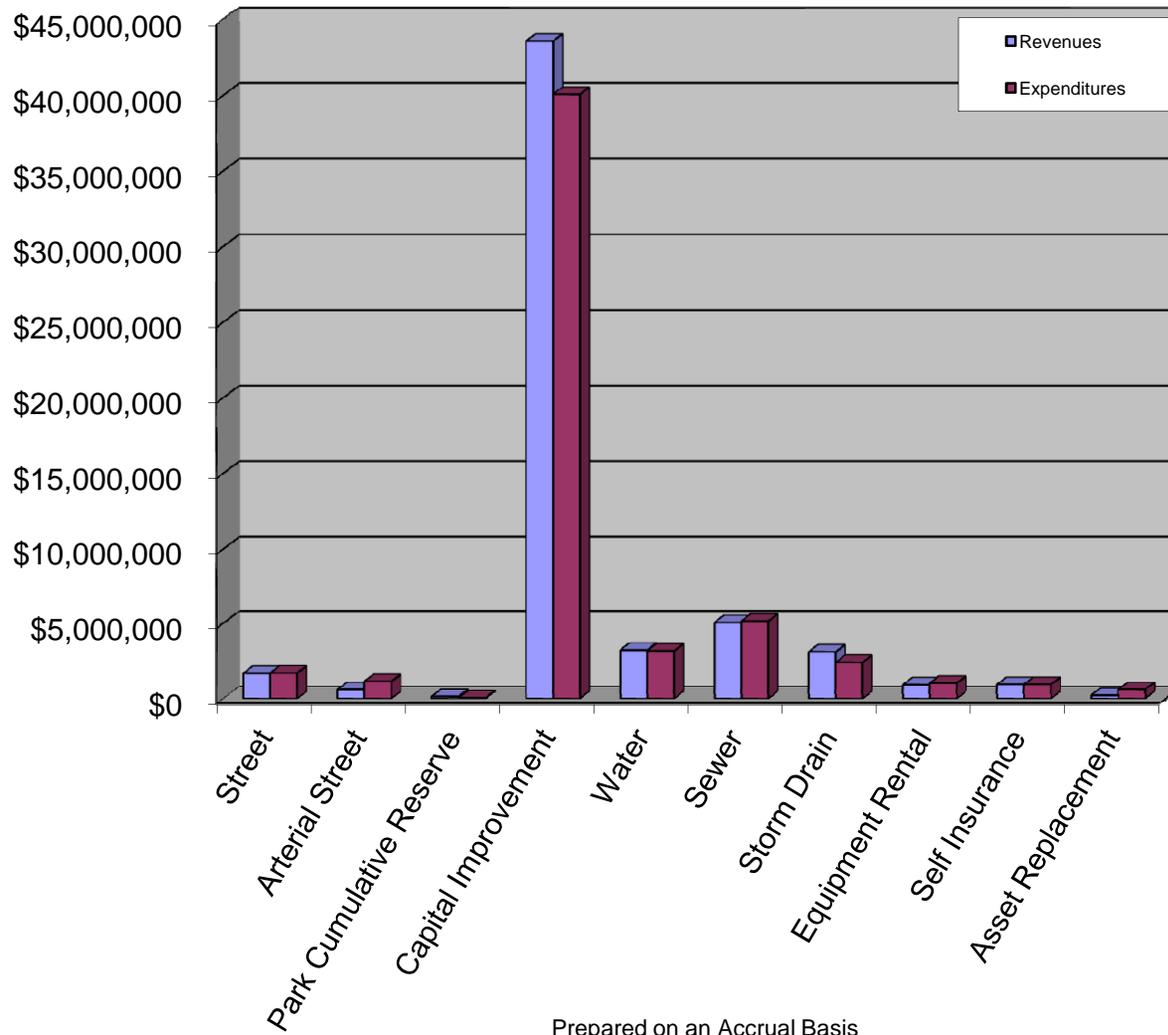
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

Other Major Funds Revenues vs Expenditures December 31, 2011



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 5