

# **INTEROFFICE MEMORANDUM**

## **Finance Department**



**DATE:** July 11, 2011

**TO:** Mayor and Council

**THROUGH:** Bob Stowe, City Manager

**FROM:** Tami Schackman, Finance Director

**SUBJECT:** 2011-12 Budget Status Report – Quarter #1

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

As noted in the final 2009-2010 budget report, the City's current fiscal operating challenge continues to be finding a long-term solution to absorb or replace two significant revenue losses, as well as a potential 2011 construction sales tax shortfall.

- A \$300,000 annual loss in Street Light fee revenue
- A \$750,000 annual loss in broadband telephone utility tax revenue
- A \$450,000 potential shortfall in construction sales tax

Staff continues to work diligently to study and evaluate potential General Fund sustainability measures. Sustainability efforts will be discussed as part of the mid-year fiscal update later in July.

Please contact us if you have any questions concerning the attached financial data.

# City of Bothell

## 2011-2012 Budget Status Report

### For the Quarter Ending March 31, 2011

#### I. BIENNIUM STATUS

On March 31, 2011, the City concluded the first quarter of the 2011-2012 biennium. The budget period described in this report is 12.5% complete.

##### Citywide

Citywide Biennial surplus/deficit as of March 31: -\$525,260

- General Fund (-\$451,970). See detailed discussion below.
- Self Insurance Fund (-\$431,904). The City's \$593,786 insurance premium for 2011 was paid to Washington Cities Insurance Association (WCIA) in the first quarter.
- Street Fund (-\$200,177). A \$245,000 payment to 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.
- Storm Drain Fund (+\$229,220). A \$245,000 payment from the Street Fund for 2011 annual water runoff fees was made in the first quarter.
- 2008 GO Bond Fund (+\$200,694). Bond payments are not made until June (semi-annual interest payment) and December (principal and interest payment).
- Capital Improvements Fund (+\$92,232). Capital project expenditures are often subject to grant funding; timing of grant reimbursements varies.

##### General Fund

General Fund Biennial surplus/deficit as of March 31: -\$451,970

While first quarter 2011 results are improved from the same period in 2010 (\$620,000 deficit) and 2009 (\$750,000 deficit), the City's General Fund is still seeing outflows that are in excess of inflows – to the tune of approximately \$150,000 per month. 42 percent of this shortfall was expected due to the loss of broadband utility tax, while the remainder is largely the result of lower than expected construction sales tax revenues. Construction sales tax figures are only known through April 2011, and could rebound during the remainder of 2011 and 2012.

#### II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2011-12 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$14,839,422	\$213,976,153	6.9%
	Outflow	\$15,364,682	\$219,906,096	7.0%
<u>CITY TOTAL</u> <small>(less Arterial Street, Capital Imp. Utility, and Asset Replacement Funds)</small>	Inflow	\$9,850,966	\$90,484,903	10.9%
	Outflow	\$10,698,291	\$89,851,770	11.9%
<u>GENERAL FUND</u>	Inflow	\$8,652,729	\$78,106,380	11.1%
	Outflow	\$9,104,699	\$78,106,380	11.7%
<u>UTILITY FUNDS</u>	Inflow	\$2,675,366	\$24,966,543	10.7%
	Outflow	\$2,426,214	\$28,303,567	8.6%

### III. ECONOMIC INFORMATION

#### Employment - National

National non-farm payroll employment increased by 384,000 jobs during the first quarter of 2011. The national unemployment rate fell to 8.8%. Total payroll employment has grown by 1.5 million jobs since February 2010.

Health care has added 283,000 jobs over the last 12 months. Durable goods manufacturing has increased by 243,000 jobs since its most recent low in December 2009. Local government, on the other hand, has lost 416,000 jobs since an employment peak in December 2008.

<u>U.S. GOODS-PRODUCING: +142,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +336,000 JOBS</u>	
Construction	+16,000	Wholesale trade	+41,000
Manufacturing	+102,000	Retail trade	+40,000
Mining & logging	+24,000	Transportation/warehousing/utilities	-30,000
		Information	-13,000
		Professional/financial/business	+166,000
		Educational/health services	+115,000
		Leisure/hospitality	+82,000
		Other services	+21,000
		Government	-86,000

#### Employment – State

27,400 non-farm jobs were gained statewide during the first quarter of 2011. This represents 83% of the 33,100 jobs that were gained from March 2010 to March 2011.

Washington's March unemployment rate dropped to 9.2%, and the Seattle-Bellevue-Everett rate fell to 8.6%. March 2010 rates were 9.9% statewide and 9.2% locally.

<u>STATE GOODS-PRODUCING: +2,200 JOBS</u>		<u>STATE SERVICE-PROVIDING: +25,200 JOBS</u>	
Construction	-100	Wholesale trade	+1,400
Manufacturing	+1,900	Retail trade	+900
Mining & logging	+400	Transportation/warehousing/utilities	+300
		Information	-600
		Professional/financial/business	+16,300
		Educational/health services	+1,900
		Leisure/hospitality	+5,500
		Other services	-500
		Government	0

#### Economic Forecast

State forecasters continue to foresee a slow economic recovery, despite slow job growth and a sluggish housing market. However, political unrest in the Middle East and the Japanese earthquake and tsunami pose further stumbling blocks to the recovery.

Energy prices have spiked upward, and there is anecdotal evidence that exports to Japan are backing up at Washington ports because Japan's infrastructure is not adequate to receive shipments. Japan is Washington's third largest trade partner.

High vacancies are pushing down Washington home prices, and new home construction is competing with an increasing stream of foreclosures – the housing market is likely to remain weak for some time.

CPI Data – Seattle/Tacoma/Bremerton Region

December 2010 – February 2011: +1.3%  
 February 2010 – February 2011: +2.1%

**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, March 2011 sales tax revenues are not remitted to the City until the end of May 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>\$2,207,741</b>	<b>\$18,103,472</b>	<b>12.2%</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	\$1,639,320	\$16,369,249	10.0%
Construction	\$342,152	\$4,000,000	8.6%
Hotel/Motel	\$53,071	\$475,000	11.2%
Criminal Justice	\$127,919	\$1,186,391	10.8%
<b>Total</b>	<b>\$2,162,461</b>	<b>\$22,030,640</b>	<b>9.8%</b>

	2011 YTD	2010 YTD	Increase/Decrease
Retail	\$1,639,320	\$1,541,446	+6.3%
Construction	\$342,152	\$527,748	-35.2%
Hotel/Motel	\$53,071	\$36,463	+45.5%
Criminal Justice	\$127,919	\$125,072	+2.3%
<b>Total</b>	<b>\$2,162,461</b>	<b>\$2,230,730</b>	<b>-3.1%</b>

Combined sales tax revenues are comparable to 2010 levels, but are still short of biennial projections thus far due to lower than expected construction sales tax figures.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Business &amp; Utility Tax</b>			
Electric & Gas	\$1,002,475	\$7,734,254	13.0%
Cable TV	\$118,407	\$1,089,326	10.9%
Telephone & Cellular*	\$464,992	\$5,440,404	8.5%
Water & Sewer	\$81,963	\$873,583	9.4%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$181,484	\$1,372,897	13.2%
Utility Tax Rebate	\$0	\$0	0.0%
<b>Total</b>	<b>\$1,849,321</b>	<b>\$16,510,464</b>	<b>11.2%</b>
	2011 YTD	2010 YTD	Increase/Decrease
Electric & Gas	\$1,002,475	\$913,883	+9.7%
Cable TV	\$118,407	\$114,035	+3.8%
Telephone & Cellular*	\$464,992	\$616,834	-24.6%
Water & Sewer	\$81,963	\$82,538	-0.7%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$181,484	\$167,201	+8.5%
Utility Tax Rebate	\$0	(\$550)	0%
<b>Total</b>	<b>\$1,849,321</b>	<b>\$1,893,941</b>	<b>-2.4%</b>

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

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Other Taxes</b>	<b>\$170,011</b>	<b>\$1,713,000</b>	<b>9.9%</b>

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes. Bothell's EMS levy is billed 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>			
Business/Sign Licenses	\$70,000	\$565,000	12.4%
Building Permits	\$105,088	\$1,489,274	7.1%
Plumbing/Mechanical	\$31,120	\$300,000	10.4%
Pre-Application Fees	\$9,704	\$100,000	9.7%
Animal Licenses/Concealed Weapons	\$3,218	\$10,400	30.9%
<b>Total</b>	<b>\$219,130</b>	<b>\$2,464,674</b>	<b>8.9%</b>
	2011 YTD	2010 YTD	Increase/Decrease
Building Permits	\$105,088	\$132,473	-20.7%
Plumbing/Mechanical	\$31,120	\$27,242	+14.2%
Pre-Application Fees	\$9,704	\$4,246	+128.5%
<b>Total</b>	<b>\$145,912</b>	<b>\$163,961</b>	<b>-11.0%</b>

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Intergovernmental</b>	<b>\$616,116</b>	<b>\$4,870,560</b>	<b>12.6%</b>
<p>Intergovernmental revenues include grant funding, plus contracted services the City provides to other governmental agencies:</p> <ul style="list-style-type: none"> <li>• Snohomish County Fire District #10 (fire protection service)</li> <li>• City of Lake Forest Park (dispatch service)</li> <li>• Northshore School District (School Resource Officers)</li> </ul>			

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Charges for Services</b>	<b>\$823,539</b>	<b>\$8,254,720</b>	<b>10.0%</b>
	<b>2011 YTD</b>	<b>2010 YTD</b>	<b>Increase/Decrease</b>
<b>CFP Staff Transfers</b>	<b>\$383,733</b>	<b>\$327,148</b>	<b>+17.3%</b>
<b>Plan Check Fees</b>	<b>\$89,094</b>	<b>\$110,195</b>	<b>-19.1%</b>
<b>Development Review Fees</b>	<b>\$178,426</b>	<b>\$131,109</b>	<b>+36.1%</b>
<b>Total</b>	<b>\$651,253</b>	<b>\$568,452</b>	<b>+14.6%</b>
<p>Charges for services also include passport and recreation program fees.</p>			

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Interfund Services</b>	<b>\$141,681</b>	<b>\$1,133,450</b>	<b>12.5%</b>
<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
<b>Fines/Penalties/Criminal Costs</b>	<b>\$103,549</b>	<b>\$1,067,400</b>	<b>9.7%</b>
<b>Other Miscellaneous</b>	<b>\$179,178</b>	<b>\$1,778,000</b>	<b>10.1%</b>
<b>Operating Transfers</b>	<b>\$180,000</b>	<b>\$180,000</b>	<b>100.0%</b>
<b>Total</b>	<b>\$462,727</b>	<b>\$22,030,640</b>	<b>10.1%</b>
	<b>2011 YTD</b>	<b>2010 YTD</b>	<b>Increase/Decrease</b>
<b>Fines/Penalties/Criminal Costs</b>	<b>\$103,549</b>	<b>\$108,088</b>	<b>-4.2%</b>
<b>Other Miscellaneous</b>	<b>\$179,178</b>	<b>(\$20,902)</b>	<b>+957.2%</b>
<b>Operating Transfers</b>	<b>\$180,000</b>	<b>\$141,309</b>	<b>+27.4%</b>
<b>Total</b>	<b>\$462,727</b>	<b>\$228,495</b>	<b>+102.5%</b>
<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	\$7,332,172	\$60,910,252	12.0%
Maintenance & Operations	\$1,187,256	\$12,337,584	9.6%
Capital	\$26,184	\$361,498	7.2%
Interfund/Operating Transfers	\$559,087	\$4,497,046	12.4%
<b>Total</b>	<b>\$9,104,699</b>	<b>\$78,106,380</b>	<b>11.7%</b>
	<b>2011 YTD</b>	<b>2010 YTD</b>	<b>Increase/Decrease</b>
Salaries & Benefits	\$7,332,172	\$7,133,533	+2.8%
Maintenance & Operations	\$1,187,256	\$1,401,998	-15.3%
Capital	\$26,184	\$15,627	+67.8%
Interfund/Operating Transfers	\$559,087	\$520,645	+7.4%
<b>Total</b>	<b>\$9,104,699</b>	<b>\$9,071,803</b>	<b>+0.4%</b>

The General Fund should realize approximately \$650,000 in pension savings during 2011, as a rate increase that was budgeted for January will not occur until July.

Departments are remaining cautious with their M&O spending until the revenue picture becomes clearer.

*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	\$350,241	9.5%
	Outflow	\$550,417	15.2%

In approving the 2011-2012 budget, Council recognized a solution needed to be found to offset the loss of \$300,000 per year in street lighting fee revenue.

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

	Inflow/Outflow	2011-12 Budget	% of Budget
Arterial Street	Inflow	\$24,434	0.5%
	Outflow	\$1,073	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	\$25,143	5.2%
	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	\$2,118,429	\$91,299,599	2.3%
	Outflow	\$2,026,196	\$92,529,298	2.2%

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	\$598,029	\$7,574,929	7.9%
	Outflow	\$557,614	\$8,448,624	6.6%
Sewer	Inflow	\$1,202,870	\$11,249,481	10.7%
	Outflow	\$1,223,354	\$11,901,736	10.3%
Storm Drain	Inflow	\$874,467	\$6,142,133	14.2%
	Outflow	\$645,247	\$7,953,207	8.1%
Internal Service Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Equipment Rental	Inflow	\$369,692	\$2,957,338	12.5%
	Outflow	\$360,905	\$2,957,579	12.2%
Self-Insurance	Inflow	\$260,232	\$2,118,078	12.3%
	Outflow	\$684,813	\$2,068,077	33.1%
Asset Replacement	Inflow	\$170,226	\$2,057,092	8.3%
	Outflow	\$212,907	\$4,018,461	5.3%

Self-insurance outflows are skewed by the fact that 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 currently funded for the next five years. Additional funding from the General Fund will be needed at some point to ensure the Fund's stability beyond that five-year window.

*See Proprietary Funds Expenditures - Chart 4*

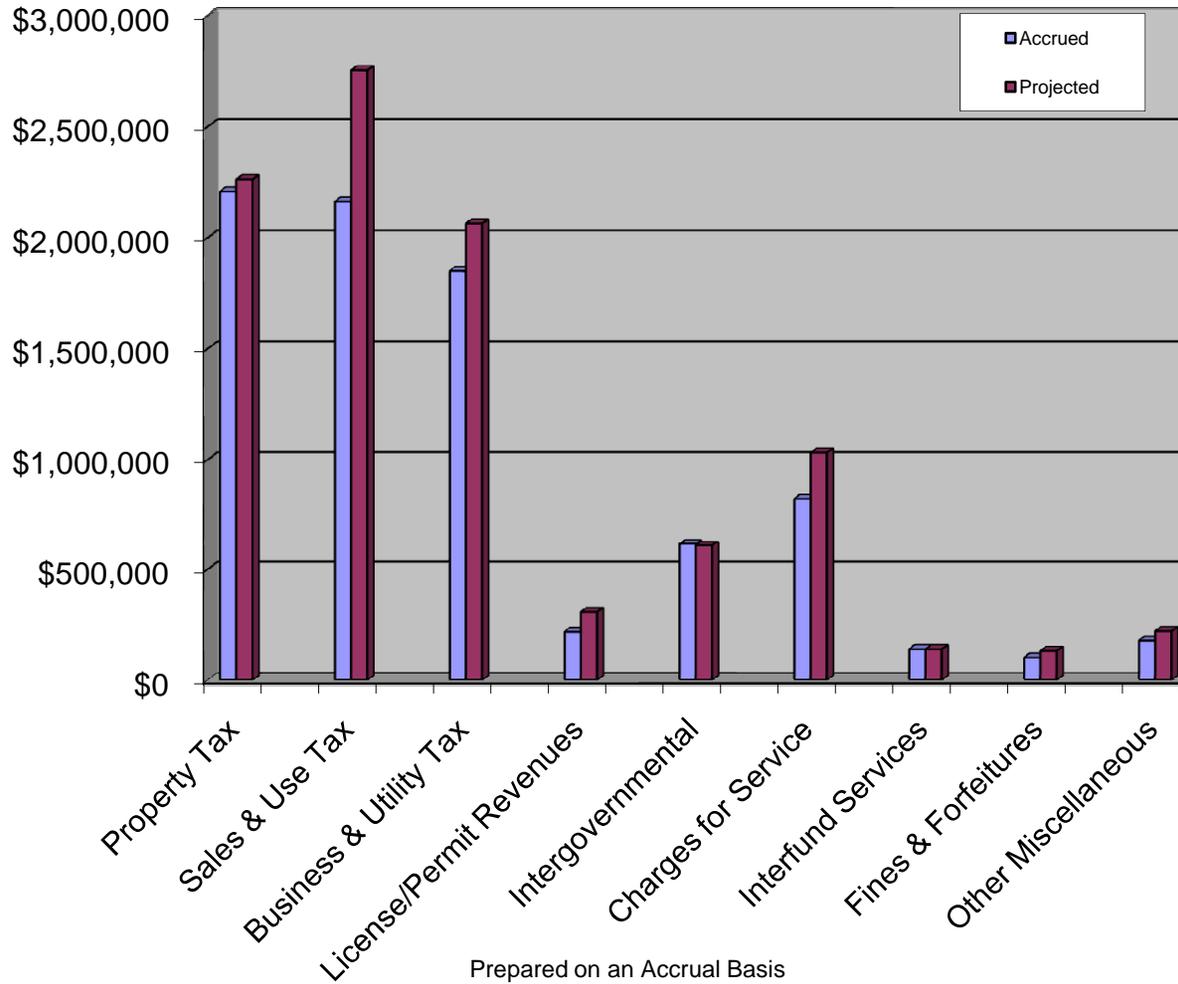
*See Other Major Funds Revenues vs. Expenditures - Chart 5*

## VIII. COUNCIL EMPHASIS AREAS

Development and Land Review Fees	Inflow	\$210,616	(Includes A/R)
	Outflow	275,916	(Includes overhead)
	Net	(\$65,300)	
Permitting Fees	Inflow	\$225,302	
	Outflow	369,608	(Includes overhead)
	Net	(\$144,306)	
CFP Project-Term Staff	Inflow	\$307,044	(2011 reimbursement to Gen Fund)
	Outflow	307,044	(2011 Gen Fund salaries/benefits)
	Net	\$0	

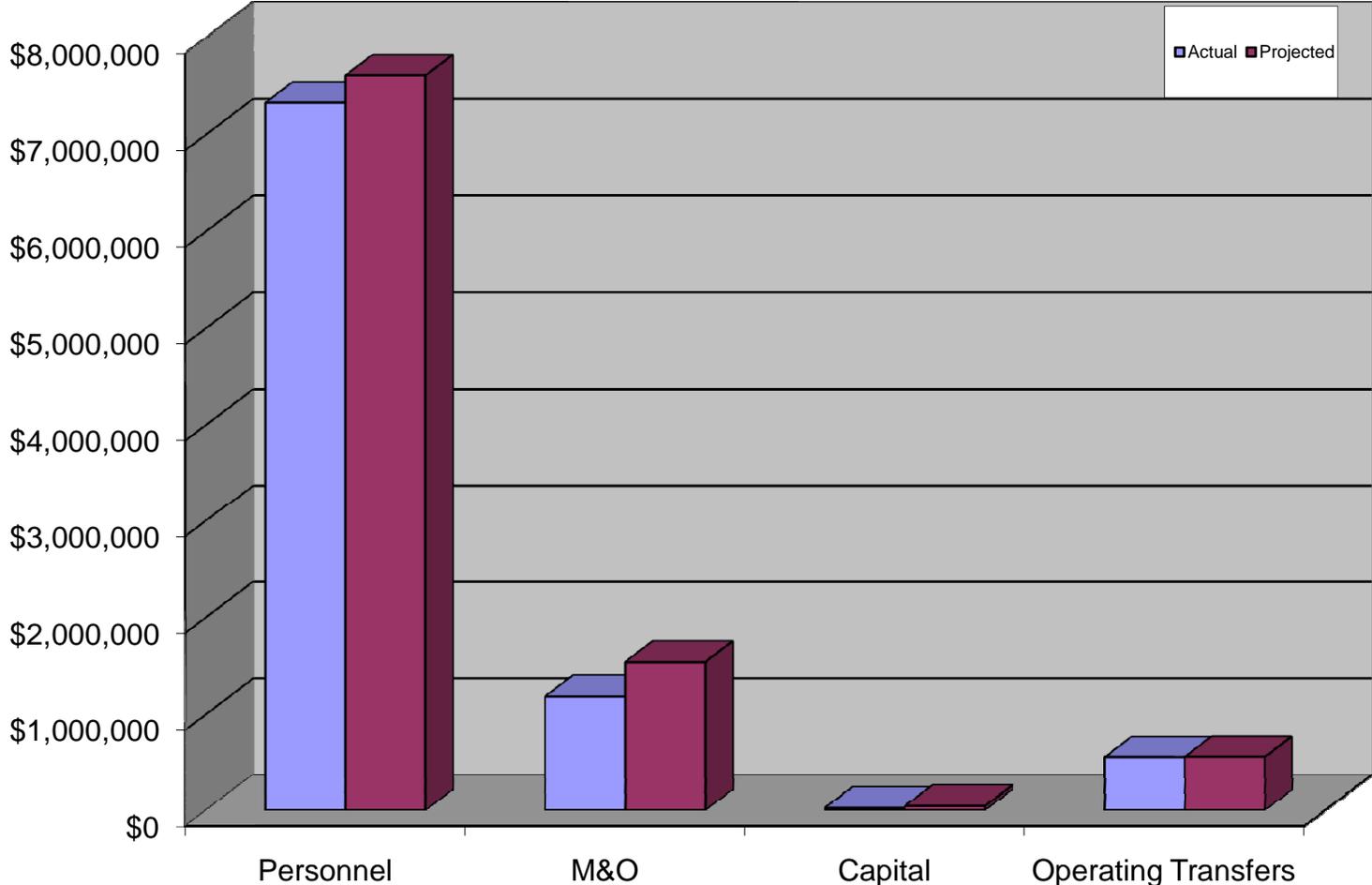
Utility Tax Rebates	2011	\$ 0	(0 rebates Jan-March)
	2010	550	(6 rebates Jan-March)
	Increase (Decrease)	<u>(550)</u>	

# General Fund Revenue vs Budget March 31, 2011



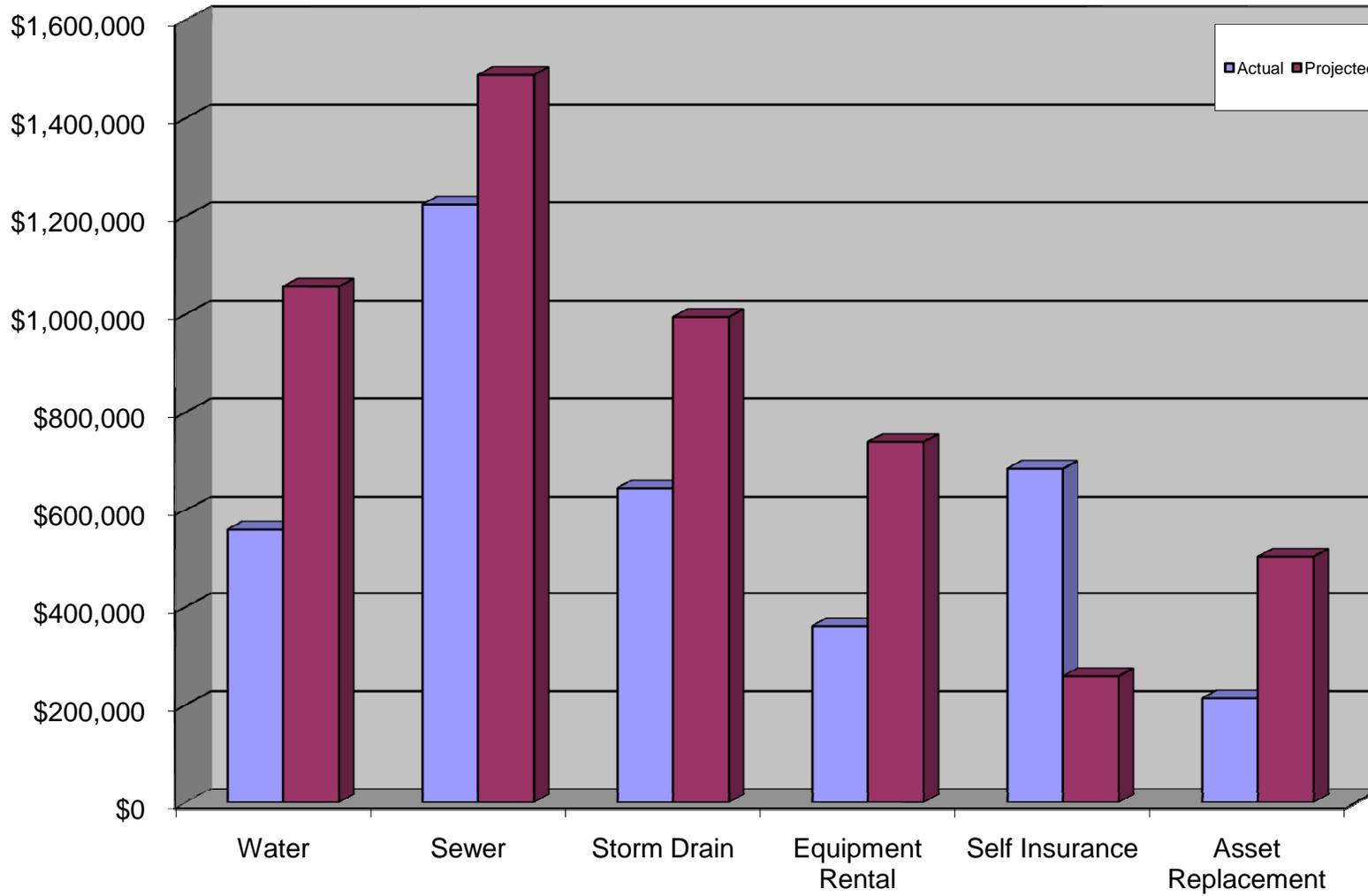
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget March 31, 2011



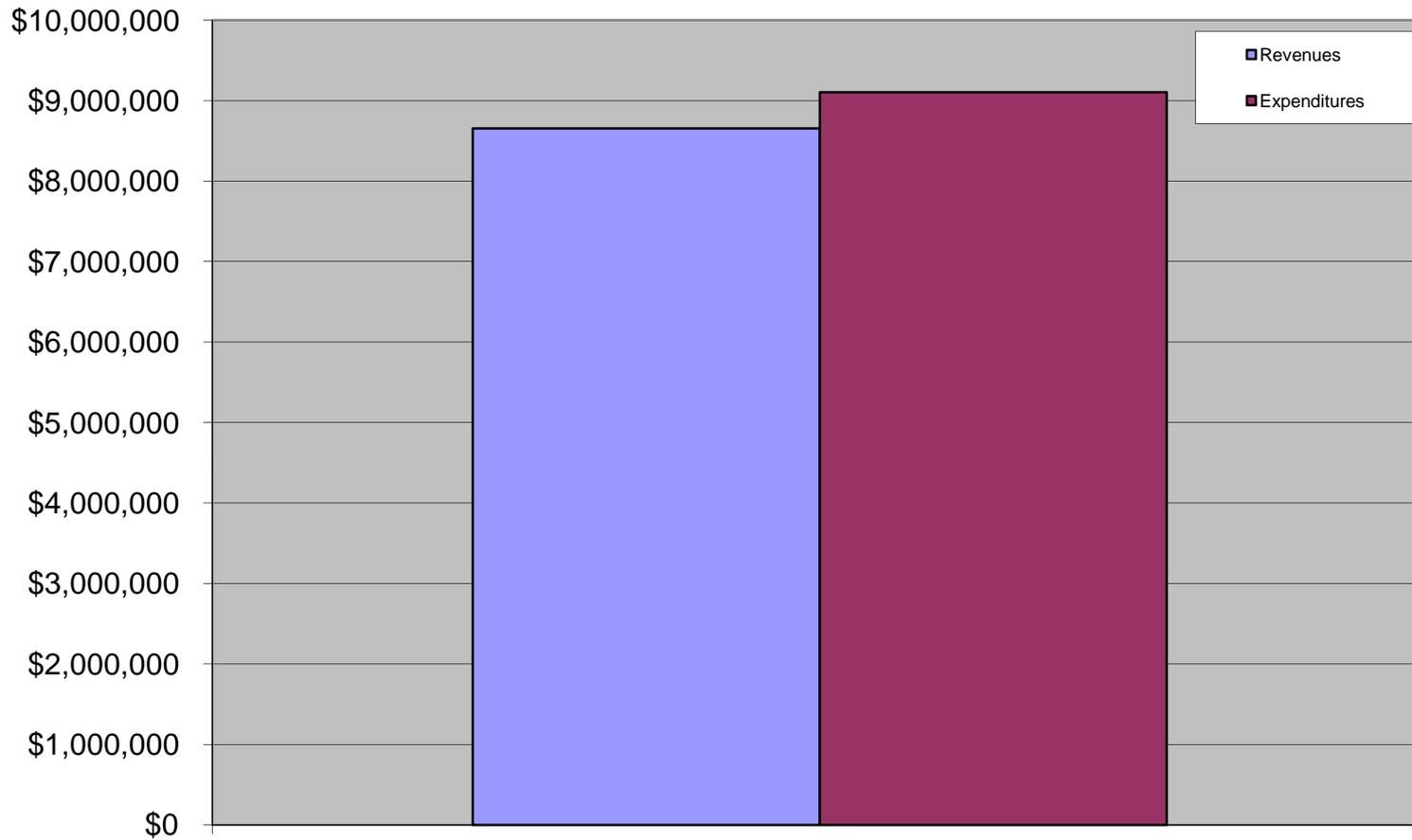
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget March 31, 2011



Proprietary Funds  
Chart 3

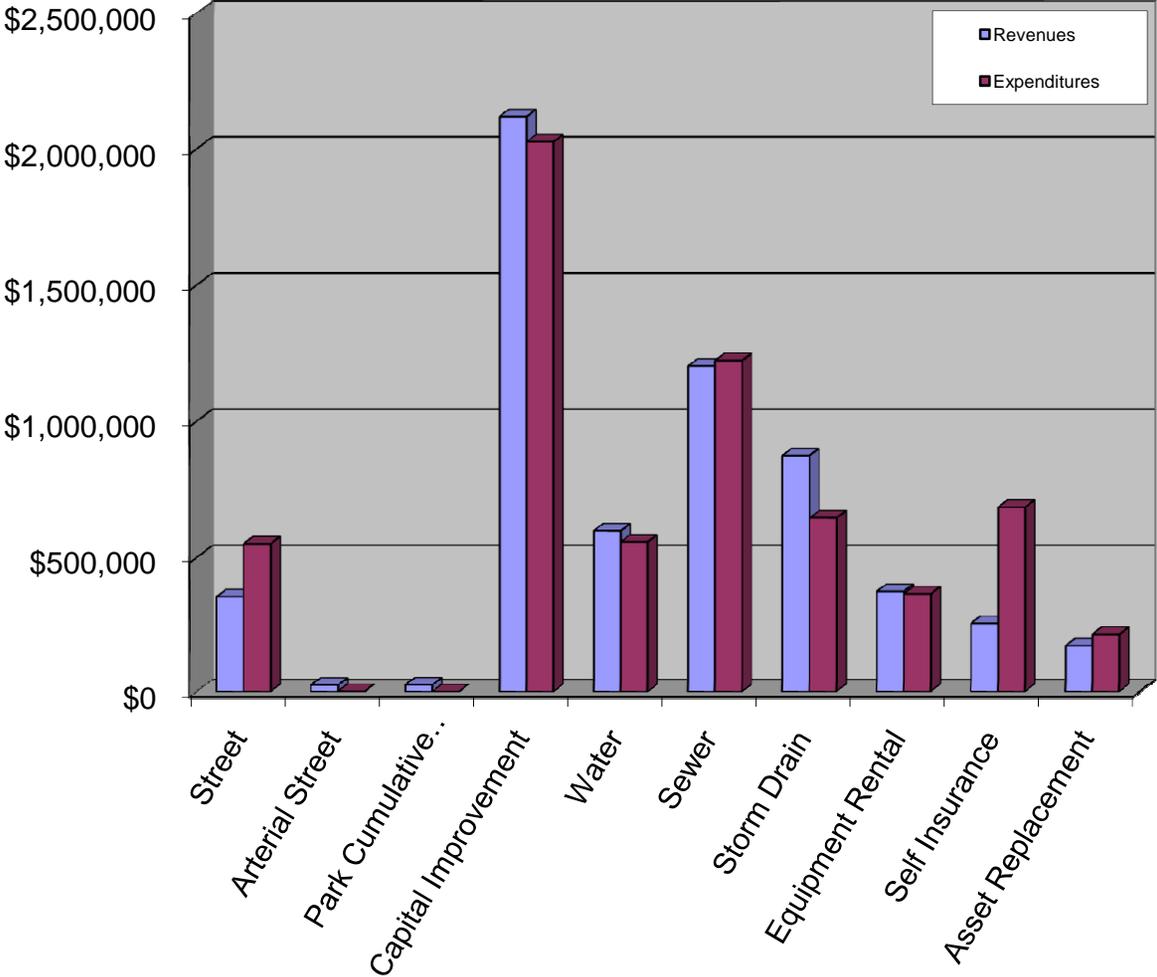
# General Fund Revenues vs Expenditures March 31, 2011



General Fund  
Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures  
Chart 4

# Other Major Funds Revenues vs Expenditures March 31, 2011



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5