

# INTEROFFICE MEMORANDUM

## Finance Department



**DATE:** June 4, 2012

**TO:** Mayor and Council

**THROUGH:** Bob Stowe, City Manager

**FROM:** Tami Schackman, Finance Director

**SUBJECT:** 2011-12 Budget Status Report – Quarter #5

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Attached for your review is the City's budget status report as of March 31, 2012.

The first year of the City's 2011-2012 biennium concluded materially on target with year-end projections that were conveyed to the Council throughout the second half of 2011.

The 2011 General Fund Surplus/(Deficit) at December 31, 2011 was (\$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 primarily created by the loss of long relied on revenue streams (street light fees and telephone/broadband utility tax), and to provide time for Council to weigh impacts of budget sustainability options developed by staff. A \$500,000 budgeted deficit for 2011 also played a significant part in the final year-end figure. This deficit was anticipated and budgeted for, as was an equal surplus budgeted for 2012 - together the 2011 deficit and 2012 surplus result in a net zero impact on budgeted fund balance for the 2011-2012 biennium. The General Fund 2011 deficit (\$2,127,896) was therefore the combination of the approximate \$1,500,000 operating reserve allocation and the \$500,000 budgeted deficit for 2011.

Staff prepared a \$1.8 million budget sustainability initiative to correct the structural budget imbalance between future operating revenues and expenditures. The initiative comprised of \$900,000 in expenditure reductions associated with employee concessions and \$900,000 in replacement revenues. The sustainability proposal was a key focus of the January 2012 Council retreat.

Sustainability measures began to be implemented early in January 2012. Sustainability measures include:

- Implementing \$900,000 in personnel concessions mainly related to modifying employee benefit packages to current market levels. The \$900,000 figure was allocated equitably between employee groups based on number of employees. On January 1, 2012, approximately \$337,000 in non-represented personnel concessions were implemented. City management continues to negotiate concessions with represented employees.

- Establishing a Motor Vehicle Accident (MVA) fee (implemented March 1, 2012). The MVA is expected to recoup approximately \$104,400 in Fire Department expenditures from insurance companies annually.
- Increasing the Emergency Medical Services (EMS) transport fee to current market levels (implemented March 1, 2012). The fee increase is projected to recover approximately \$174,000 in Fire Department expenditures from insurance companies annually.
- Implementing miscellaneous expenditure reductions amounting to \$121,600. Implementation of identified expenditure reductions began in January 2012.
- Increasing the City's 2012 business license fee. A \$500,000 business license initiative was deliberated at the Council retreat in January, and is scheduled for Council consideration on June 19, 2012.

The \$1.8 million Budget Sustainability Initiative does not impact Bothell residents. The MVA and EMS transport fees only recover costs from insurance companies.

The first quarter of 2012 added an additional \$543,900 to the 2011-2012 biennial deficit. MVA and EMS transport fee revenues are subject to a two-month billing lag and therefore are not available until the second quarter of 2012. Additionally, business license projections cannot be determined until after the June 19, 2012 Council meeting. These sustainability measures will have a positive impact on the biennial deficit figure. Staff will continue to monitor results from budget sustainability initiatives closely to determine if additional measures are necessary in the second half of 2012. Staff should have adequate data to make this determination by the Council's Fiscal Update presentation next month.

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 March 31, 2012

#### I. BIENNIUM STATUS

On March 31, 2011, the City concluded the fifth quarter of the eight quarter 2011-2012 biennium. The budget period described in this report is 62.5% complete.

#### Citywide

Citywide Biennial surplus/deficit as of March 31: -\$1,919,677\*

\*Includes \$280,108 in prior period interest (not reflected in 2011-2012 data) transferred from the Trust Fund to the General Fund.

- General Fund (-\$2,671,796). See detailed discussion below.
- Asset Replacement Fund (-\$1,081,865). Vehicle and equipment asset replacement transfers from the General Fund did not take place in 2011.
- Self-Insurance Fund (-\$440,790). The City paid its annual insurance premium in the first quarter of 2012, while Self-Insurance collects premiums from other funds on a monthly basis throughout the year.

#### General Fund

General Fund Biennial surplus/deficit as of March 31: -\$2,671,796\*

\*Includes \$280,108 in prior period interest (not reflected in 2011-2012 data) transferred from Trust Fund.

This figure excludes \$1,711,130 in bond anticipation note (BAN) proceeds that were deposited into the General Fund at year-end 2011. These funds serve as a reimbursement from the Capital Improvements Fund, stemming from a transfer made from the General Fund to the Capital Improvements Fund in 2009 - prior to the City issuing the Local Infrastructure Financing Tool (LIFT) bond anticipation note. As in previous years (prior to 2009), these funds are reserved for future capital investment.

The City's \$1.8 million budget sustainability initiative that was established at the Council Retreat in January 2012 continues to be implemented. Sustainability measures are necessary to realign a structural budget imbalance between General Fund revenues and expenditures that resulted from the loss of two long relied on revenue streams (street light fees and telephone/broadband utility tax), as well as the need to adjust to "new-ongoing" sales tax revenue expectations.

In the first quarter of 2012, General Fund expenditure outflows exceed revenue inflows by \$543,900 (\$181,300 per month) – compared to \$451,970 in the first quarter of 2011.

Sales and utility tax revenues were slightly higher than the first quarter of 2011, while development-related revenues were lower. Expenditures were up about \$180,000 (2%) from first quarter 2011 – personnel costs increased by \$240,000 (3.3%), while maintenance and operating (M&O) costs decreased nearly \$60,000 (4.9%).

## II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2011-12 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$108,208,884	\$214,046,322	50.6%
	Outflow	\$110,408,669	\$220,276,265	50.1%
<u>CITY TOTAL</u> <small>(less Arterial Street, Capital Imp. Utility, and Asset Replacement Funds)</small>	Inflow	\$50,331,858	\$90,505,072	55.6%
	Outflow	\$51,796,325	\$89,921,939	57.6%
<u>GENERAL FUND</u>	Inflow	\$44,527,419	\$78,126,549	57.0%
	Outflow	\$45,768,193	\$78,106,380	58.6%
<u>UTILITY FUNDS</u>	Inflow	\$13,985,032	\$24,966,543	56.0%
	Outflow	\$14,100,372	\$28,303,567	49.8%

## III. ECONOMIC INFORMATION

### Employment - National

National non-farm payroll employment increased by 635,000 jobs during the first quarter of 2012. The national unemployment rate dropped to 8.2% in March.

The number of long-term unemployed (those jobless for 27 weeks or more) dropped to 5.3 million, or 42.5% of the total unemployed. The number of long-term unemployed has fallen by 1.4 million since April 2010.

<u>U.S. GOODS-PRODUCING: +138,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +497,000 JOBS</u>	
Construction	+5,000	Wholesale trade	+25,600
Manufacturing	+120,000	Retail trade	-37,500
Mining & logging	+13,000	Transportation/warehousing/utilities	+36,900
		Information	-13,000
		Professional/financial/business	+221,000
		Educational/health services	+134,000
		Leisure/hospitality	+123,000
		Other services	+3,000
		Government	+4,000

### Employment – State

13,900 non-farm jobs were gained statewide during the first quarter of 2012. Washington's unemployment rate fell to 8.3% in March, and the Seattle-Bellevue-Everett rate dropped to 7.3%.

<u>STATE GOODS-PRODUCING: +2,900 JOBS</u>		<u>STATE SERVICE-PROVIDING: +11,000 JOBS</u>	
Construction	+1,700	Wholesale trade	+2,000
Manufacturing	+1,500	Retail trade	+2,500
Mining & logging	-300	Transportation/warehousing/utilities	+600
		Information	-700
		Professional/financial/business	+3,600
		Educational/health services	+2,500
		Leisure/hospitality	+2,100
		Other services	-200
		Government	-1,400

Economic Forecast

State economic forecasts indicate that economic growth continues on a slow but sustainable path to recovery. Uncertainty, however, remains high due to factors outside the state - the economic situations in Europe and Asia, Iran's effect on the oil markets, and political gridlock in Washington, DC.

Washington exports and equipment investment have been strong, while the housing sector is only just beginning to recover. New home construction remains weak, but demand for multi-family housing is increasing. The latest State forecast calls for rising construction employment beginning in late 2012.

CPI-W Data – Seattle/Tacoma/Bremerton Region

December 2011 – February 2012: +0.3%  
 February 2011 – February 2012: +2.8%

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, March 2011 sales tax revenues will not be remitted to the City until the end of May 2012.

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

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Property Tax</b>	<b>\$10,974,976</b>	<b>\$18,103,472</b>	<b>60.6%</b>

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Sales/Use Tax</b>			
Retail	\$8,522,088	\$16,369,249	52.1%
Construction	\$1,670,616	\$4,000,000	41.8%
Hotel/Motel	\$316,821	\$475,000	66.7%
Criminal Justice	\$684,670	\$1,186,391	57.7%
<b>Total</b>	<b>\$11,194,195</b>	<b>\$22,030,640</b>	<b>50.8%</b>
	<b>2012 YTD</b>	<b>2011 YTD</b>	<b>Increase/Decrease</b>
Retail	\$1,823,634	\$1,639,320	+11.2%
Construction	\$236,828	\$342,152	-30.8%
Hotel/Motel	\$55,505	\$53,071	+4.6%
Criminal Justice	\$128,705	\$127,919	+0.6%
<b>Total</b>	<b>\$2,244,672</b>	<b>\$2,162,462</b>	<b>+3.8%</b>

Construction sales tax from downtown revitalization projects is lagging due to project schedule delays.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Business &amp; Utility Tax</b>			
Electric & Gas	\$4,344,355	\$7,734,254	56.2%
Cable TV	\$611,652	\$1,089,326	56.1%
Telephone & Cellular	\$2,413,701	\$5,440,404	44.4%
Water & Sewer	\$469,632	\$873,583	53.8%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$843,610	\$1,372,897	61.4%
Utility Tax Rebate	(\$4,800)	\$0	0.0%
<b>Total</b>	<b>\$8,678,150</b>	<b>\$16,510,464</b>	<b>52.6%</b>
	2012 YTD	2011 YTD	Increase/Decrease
Electric & Gas	\$1,012,162	\$1,002,475	+1.0%
Cable TV	\$128,794	\$118,407	+8.8%
Telephone & Cellular	\$490,835	\$481,259	+2.0%
Water & Sewer	\$87,573	\$81,963	+6.8%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$182,619	\$181,484	+0.6%
Utility Tax Rebate	(\$150)	\$0	+100%
<b>Total</b>	<b>\$1,901,832</b>	<b>\$1,865,588</b>	<b>+1.9%</b>

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Other Taxes</b>	<b>\$927,956</b>	<b>\$1,713,000</b>	<b>54.2%</b>
<p>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.</p> <p>In 2011, voters approved a six year EMS levy (\$0.30 per \$1,000/AV).</p>			

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Licenses &amp; Permits</b>			
Business/Sign Licenses	\$345,439	\$565,000	61.1%
Building Permits	\$619,034	\$1,489,274	41.6%
Plumbing/Mechanical	\$144,885	\$300,000	48.3%
Pre-Application Fees	\$35,247	\$100,000	35.2%
Animal Licenses/Concealed Weapons	\$100,951	\$170,400	59.2%
<b>Total</b>	<b>\$1,245,556</b>	<b>\$2,624,674</b>	<b>47.5%</b>
	2012 YTD	2011 YTD	Increase/Decrease
Building Permits	\$93,270	\$105,088	-11.2%
Plumbing/Mechanical	\$20,373	\$31,120	-34.5%
Pre-Application Fees	\$1,888	\$9,704	-80.5%
<b>Total</b>	<b>\$115,531</b>	<b>\$145,912</b>	<b>-20.8%</b>
<p>Development-related revenue is lagging due to delays in the City's downtown revitalization projects. Development revenue is anticipated to rise in mid-2012.</p>			

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Intergovernmental</b>	<b>\$3,052,194</b>	<b>\$4,870,560</b>	<b>62.7%</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>\$2,494,774</b>	<b>\$5,091,700</b>	<b>49.0%</b>
	<b>2012 YTD</b>	<b>2011 YTD</b>	<b>Increase/Decrease</b>
<b>Passport Fees</b>	<b>\$13,105</b>	<b>\$15,200</b>	<b>-13.8%</b>
<b>EMS Transport Fees</b>	<b>\$69,379</b>	<b>\$35,194</b>	<b>+97.1%</b>
<b>MVA Fees</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>
<b>Plan Check Fees</b>	<b>\$175,654</b>	<b>\$89,094</b>	<b>+97.2%</b>
<b>Development Review Fees</b>	<b>\$144,095</b>	<b>\$178,426</b>	<b>-19.2%</b>
<b>Total</b>	<b>\$402,233</b>	<b>\$317,914</b>	<b>+26.5%</b>

Charges for services also include recreation program fees.

In February 2012, Council approved a new Motor Vehicle Accident (MVA) Fee, as well as an increase in the City's EMS Transport Fee. These fees only impact insurance companies – they do not impact Bothell residents.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Interfund Svcs – Utilities</b>	<b>\$708,406</b>	<b>\$1,133,450</b>	<b>62.5%</b>
<b>CFP Staff Transfers</b>	<b>\$1,940,159</b>	<b>\$3,003,020</b>	<b>64.6%</b>
<b>Total</b>	<b>\$2,648,565</b>	<b>\$4,136,470</b>	<b>64.0%</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.

In 2011, 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
<b>Fines/Penalties/Criminal</b>	<b>\$485,992</b>	<b>\$1,067,400</b>	<b>45.5%</b>
<b>Other Miscellaneous*</b>	<b>\$913,742</b>	<b>\$1,778,000</b>	<b>51.4%</b>
<b>Operating Transfers</b>	<b>\$200,169</b>	<b>\$200,169</b>	<b>100.0%</b>
<b>Total</b>	<b>\$1,599,903</b>	<b>\$3,045,569</b>	<b>52.5%</b>
	<b>2012 YTD</b>	<b>2011 YTD</b>	<b>Increase/Decrease</b>
<b>Fines/Penalties/Criminal</b>	<b>\$98,442</b>	<b>\$103,549</b>	<b>-4.9%</b>
<b>Other Miscellaneous</b>	<b>\$144,989</b>	<b>\$179,178</b>	<b>-19.1%</b>
<b>Operating Transfers**</b>	<b>\$0</b>	<b>\$180,000</b>	<b>-100.0%</b>
<b>Total</b>	<b>\$243,431</b>	<b>\$462,727</b>	<b>-47.4%</b>

\*Excludes \$1.7 million reimbursement transfer from the Capital Improvement Fund.  
 \*\*No operating transfer revenue is anticipated for the General Fund in 2012.

See General Fund Revenues - Chart 1

**V. GENERAL FUND – EXPENDITURES**

Expenditure	Outflow	2011-12 Budget	% of Budget
Salaries & Benefits	\$36,820,866	\$60,949,843	60.4%
Maintenance & Operations	\$6,727,518	\$12,297,993	54.7%
Capital	\$97,441	\$361,498	27.0%
Interfund/Op Transfers	\$2,122,368	\$4,497,046	47.2%
<b>Total</b>	<b>\$45,768,193</b>	<b>\$78,106,380</b>	<b>58.6%</b>
	<b>2012 YTD</b>	<b>2011 YTD</b>	<b>Increase/Decrease</b>
Salaries & Benefits	\$7,572,180	\$7,332,172	+3.3%
Maintenance & Operations	\$1,128,964	\$1,187,256	-4.9%
Capital	\$16,496	\$26,184	-37.0%
Interfund/Op Transfers	\$565,174	\$559,087	+1.1%
<b>Total</b>	<b>\$9,282,814</b>	<b>\$9,104,699</b>	<b>+2.0%</b>

Maintenance and operations (M&O) spending has declined in each of the past three years, and is down nearly \$60,000 from the first quarter of 2011.

Asset replacement operating transfers for vehicles and equipment are planned for 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	<b>Inflow</b>	<b>\$2,058,879</b>	<b>\$3,684,507</b>	<b>55.9%</b>
	<b>Outflow</b>	<b>\$2,058,546</b>	<b>\$3,624,334</b>	<b>56.8%</b>

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	<b>Inflow</b>	<b>\$876,131</b>	<b>\$5,168,016</b>	<b>17.0%</b>
	<b>Outflow</b>	<b>\$1,167,474</b>	<b>\$5,203,000</b>	<b>22.4%</b>

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	<b>Inflow</b>	<b>\$165,610</b>	<b>\$480,000</b>	<b>34.5%</b>
	<b>Outflow</b>	<b>\$49,334</b>	<b>\$50,000</b>	<b>98.7%</b>

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	\$42,637,427	\$91,349,599	46.7%
	Outflow	\$41,884,197	\$92,529,298	45.3%

2011-2012 capital spending is anticipated to remain in line with the 2011-2017 Capital Facilities Plan and the 2011-2012 budget - although project timing may fluctuate.

## VII. PROPRIETARY FUNDS

Utility Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Water	Inflow	\$3,848,092	\$7,574,929	50.8%
	Outflow	\$4,119,393	\$8,448,624	48.8%
Sewer	Inflow	\$6,366,553	\$11,249,481	56.6%
	Outflow	\$6,450,607	\$11,901,736	54.2%
Storm Drain	Inflow	\$3,770,387	\$6,142,133	61.4%
	Outflow	\$3,530,452	\$7,953,207	44.4%
Internal Service Funds		Inflow/Outflow	2011-12 Budget	% of Budget
Equipment Rental	Inflow	\$1,311,219	\$2,957,338	44.3%
	Outflow	\$1,424,323	\$2,957,579	48.2%
Self-Insurance	Inflow	\$1,248,418	\$2,118,078	58.9%
	Outflow	\$1,689,208	\$2,068,077	81.7%
Asset Replacement	Inflow	\$378,437	\$2,057,092	18.4%
	Outflow	\$1,460,301	\$4,318,461	33.8%

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
- Asset Replacement: \$603,242

Self-Insurance expenditure figures are skewed, due to the fact that the City pays its annual insurance premium during the first quarter of each year.

Asset replacement operating transfers for vehicles are planned for the second year of the 2011-2012 biennium.

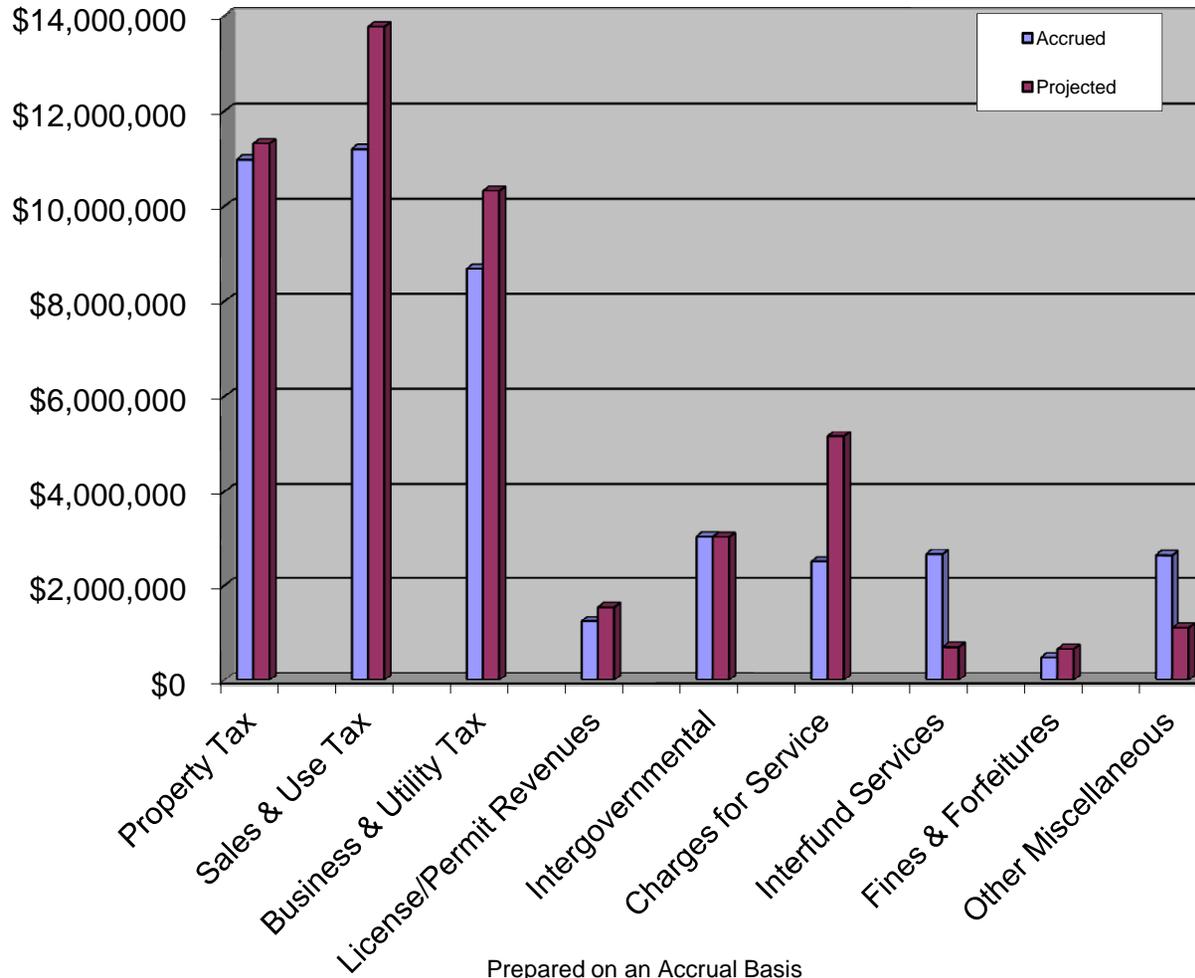
*See Proprietary Funds Expenditures - Chart 4*

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

### VIII. COUNCIL EMPHASIS AREAS

Development and Land Review Fees	<b>Inflow</b>	<b>\$166,998</b>	(Includes A/R)
	<b>Outflow</b>	<b>273,955</b>	(Includes overhead)
	<b>Net</b>	<b>(\$106,957)</b>	
Permitting Fees	<b>Inflow</b>	<b>\$289,297</b>	
	<b>Outflow</b>	<b>421,391</b>	(Includes overhead)
	<b>Net</b>	<b>(\$132,094)</b>	
CFP Project-Term Staff	<b>Inflow</b>	<b>\$337,506</b>	(2012 reimbursement to Gen Fund)
	<b>Outflow</b>	<b>337,506</b>	(2012 Gen Fund salaries/benefits)
	<b>Net</b>	<b>\$0</b>	
Utility Tax Rebates	<b>2012</b>	<b>\$150</b>	(2 rebates)
	<b>2011</b>	<b>0</b>	(0 rebates)
	<b>Inc(Dec)</b>	<b>\$150</b>	

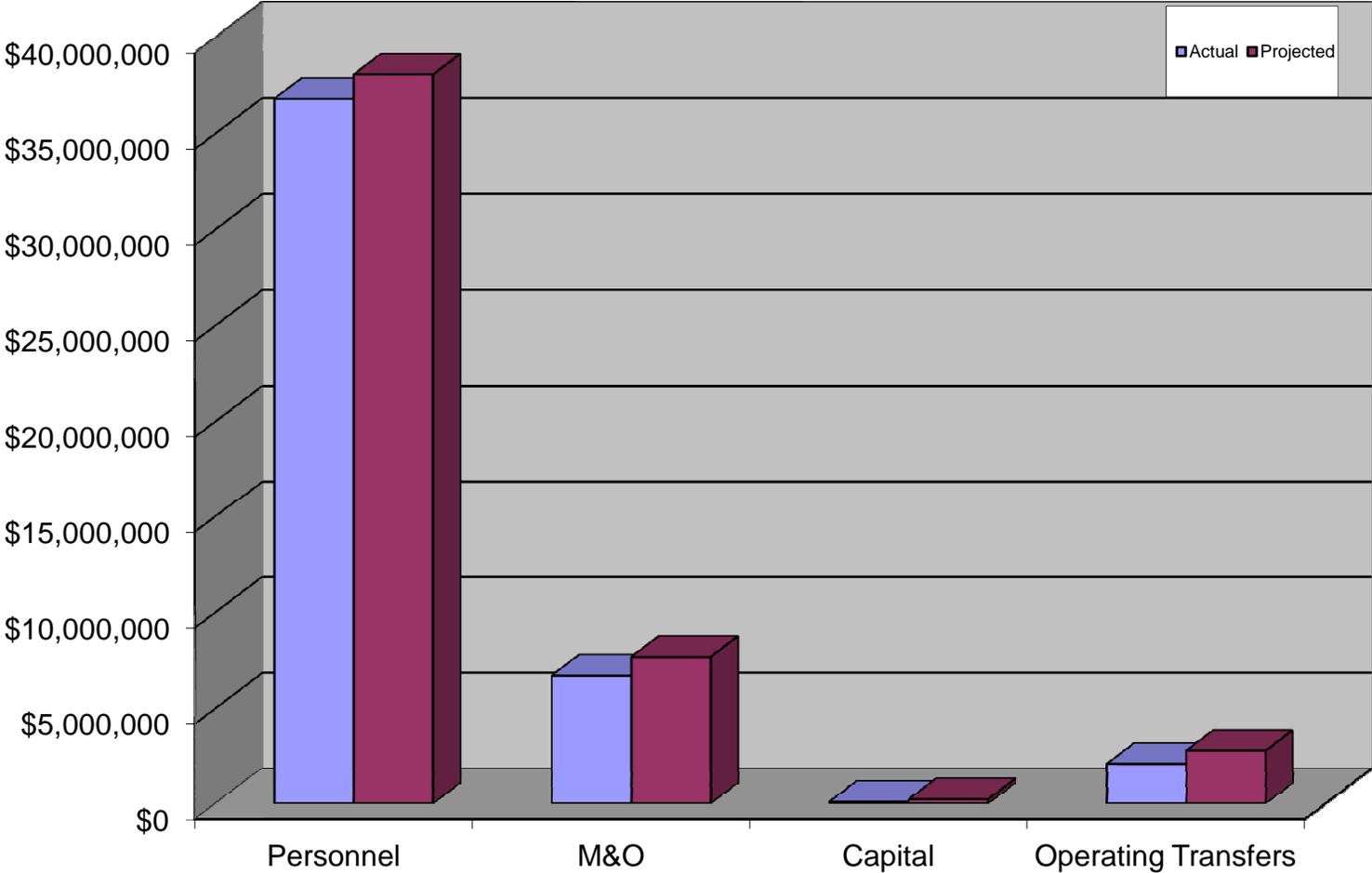
# General Fund Revenue vs Budget March 31, 2012



Prepared on an Accrual Basis

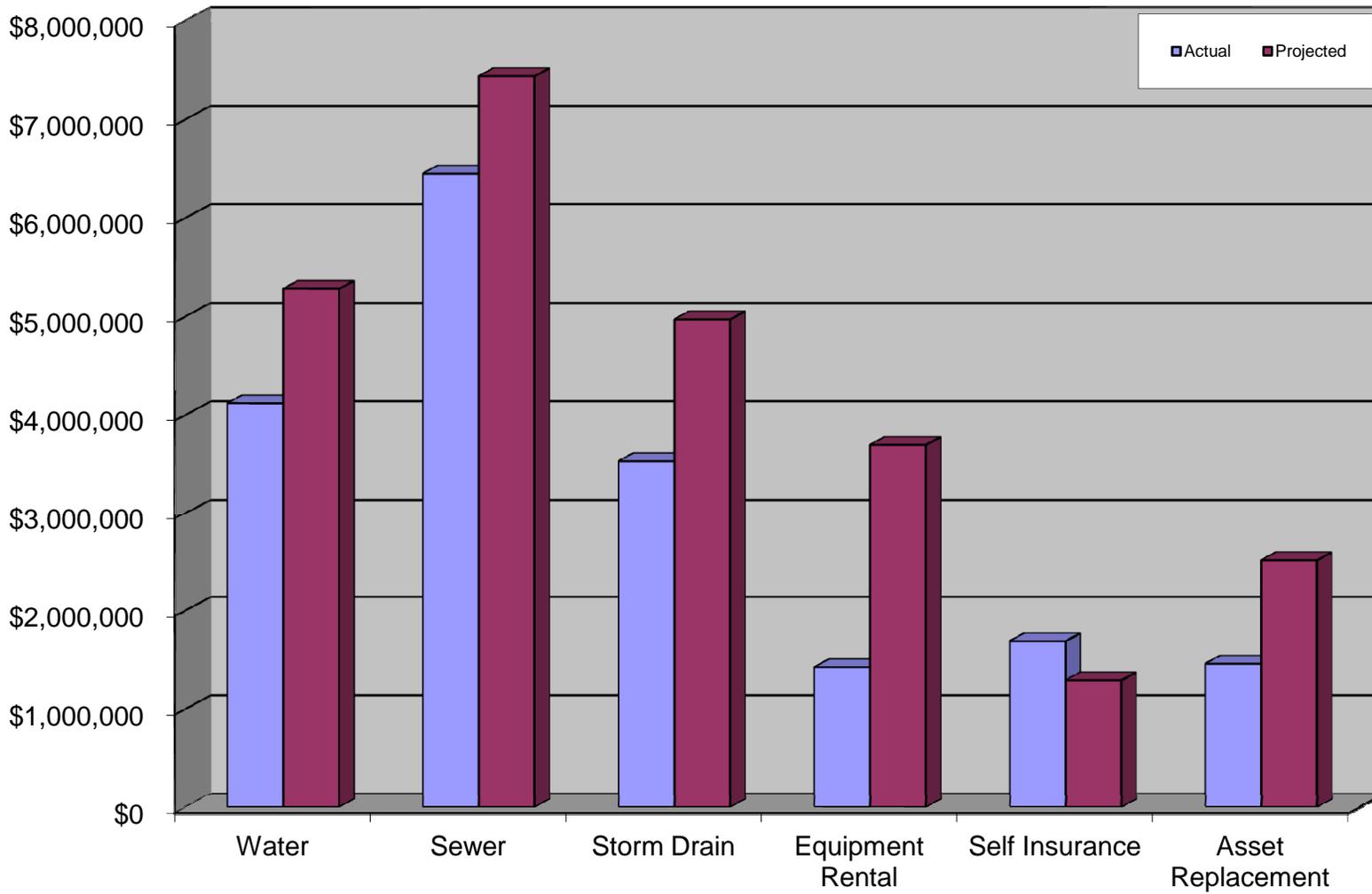
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget March 31, 2012



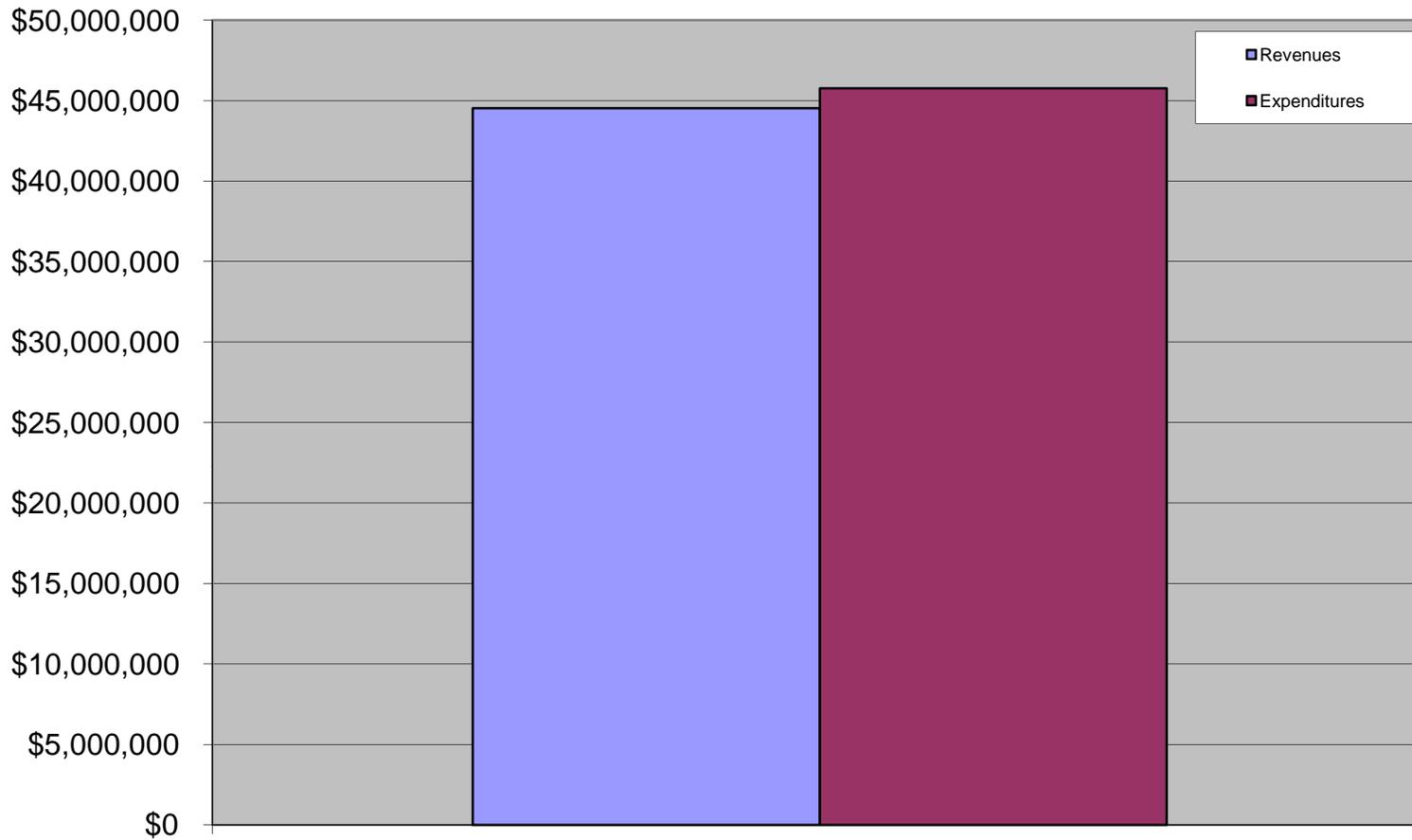
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget March 31, 2012



Proprietary Funds  
Chart 3

# General Fund Revenues vs Expenditures March 31, 2012



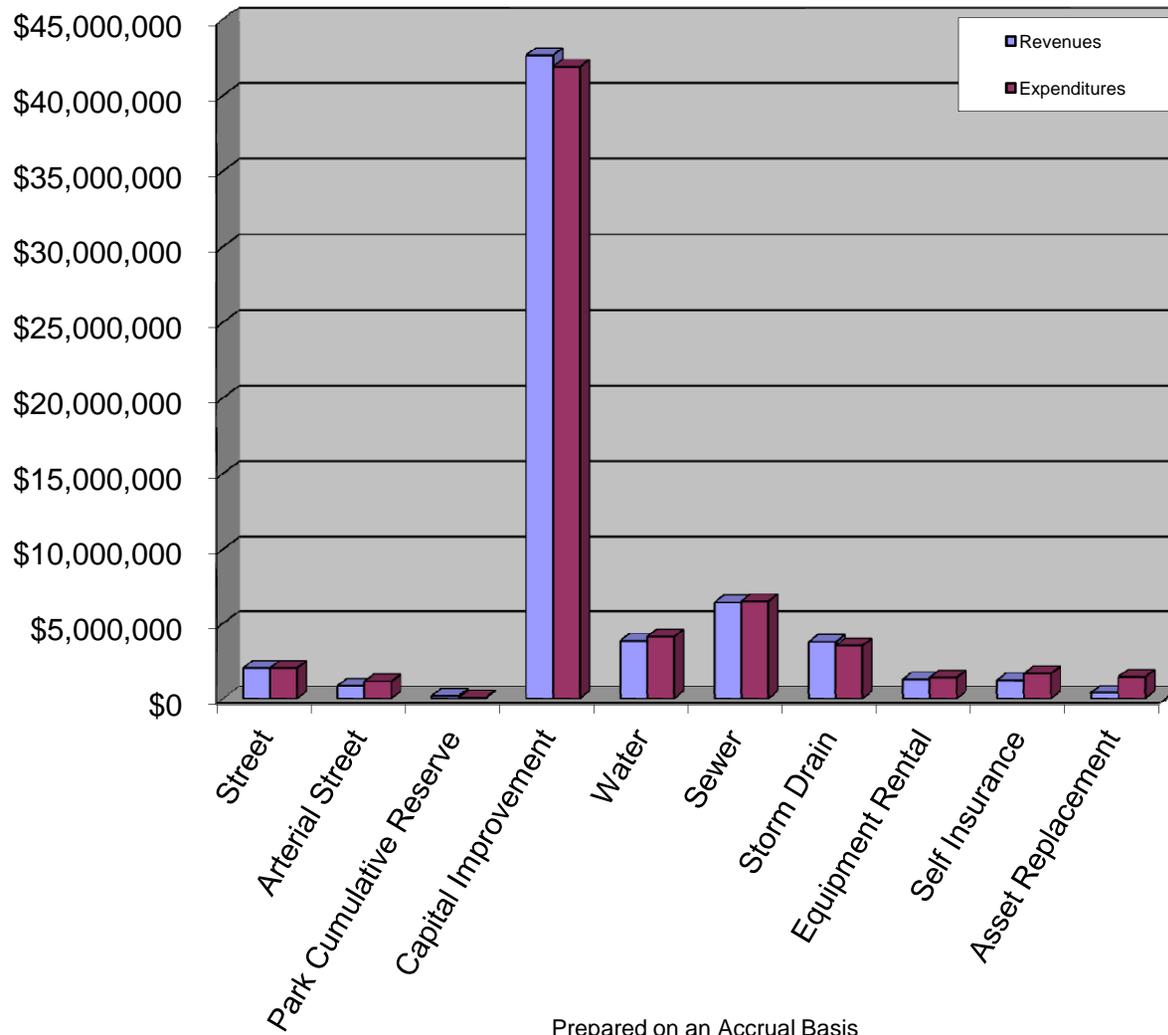
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

## Other Major Funds Revenues vs Expenditures March 31, 2012



Other Major Funds Revenues vs Expenditures  
Chart 5