

# City of Bothell

## 2009-2010 Budget Status Report

### For the Quarter Ending June 30, 2009

#### I. Biennium Status

The City has concluded the second quarter of its 2009-2010 eight-quarter biennium. The budget period is 25% (6 of 24 months) complete.

The City's 2009 revenue projections are materially less than 2010. 2009 revenue projections were derived based on a recession that began in the fourth quarter of 2007 and is speculated to end in the third quarter of 2009. For this reason, budget versus actual figures referenced in this report will pertain to 2009 projections only. The 2009 fiscal year is 50% (6 of 12 months) complete.

#### Citywide

Citywide revenue inflows for the first half of 2009 amount to 29.7% of the 2009 revenue projection. Expenditure outflows have spent down 30.3% of the 2009 projection.

The City's budget position (considering inflows and outflows) sits at a negative \$10.33 million for 2009, compared to a positive \$1.7 million during the first half of 2008. The Capital Improvements Fund alone accounts for \$8.55 million of the \$10.33 million, as Council-adopted Capital Facilities Plan (CFP) project spending continues.

#### General Fund

General Fund revenue inflows amount to 45.4% of their 2009 projection. Retail sales tax revenues ran \$590,000 behind January-June budget projections. The ailing economy continues to impact building-related revenues such as permit and development review fees. Expenditure outflows have spent down 47.7% of their biennial projection.

At the conclusion of the second quarter, the deficit gap between General Fund revenue inflows and expenditure outflows amounts to \$869,000. Only 29% of this gap is attributable to second quarter performance.

General Fund second quarter outflows exceeded inflows by \$249,000 (\$83,000 per month), compared to \$620,000 (\$207,000 per month) during the first quarter.

#### II. Citywide Summary

		Inflow/Outflow	2009 Projection	% of Projection
<u>CITY TOTAL</u>	Inflow	\$25,829,629	\$86,992,140	29.7%
	Outflow	\$36,159,293	\$119,526,701	30.3%
<u>CITY TOTAL</u> (less Arterial Street and Capital Improvements Funds)	Inflow	\$24,274,397	\$55,190,140	44.0%
	Outflow	\$25,537,701	\$69,346,561	36.8%
<u>GENERAL FUND*</u>	Inflow	\$16,581,993	\$36,558,108	45.4%
	Outflow	\$17,451,229	\$36,558,016	47.7%

### III. Economic Recap

National non-farm payroll employment continued its decline during the second quarter of 2009. More than 1.3 million jobs were lost from March to June, causing the national unemployment rate to rise to 9.5%.

Since the start of the recession in December 2007, the number of unemployed persons nationwide has grown by 7.2 million, and the unemployment rate has risen by 4.6 percentage points.

<u>U.S. GOODS-PRODUCING: - 705,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: -603,000 JOBS</u>	
Construction	- 230,000	Retail trade	-71,000
Manufacturing	- 442,000	Professional/business services	-293,000
		Educational/health services	+98,000
		Leisure/hospitality	-34,000
		Government	+11,000

20,500 non-farm jobs were lost statewide during the second quarter of 2009. Washington's June unemployment rate increased slightly to 9.3%. The Seattle-Bellevue-Everett rate for June moved upward to 8.8%.

Job losses in Washington have increased for the last six months – however, monthly job losses have decelerated in both the goods-producing and the service-providing sectors. The trend was significantly stronger in the service-providing sector.

<u>STATE GOODS-PRODUCING: -10,800 JOBS</u>		<u>STATE SERVICE-PROVIDING: -9,700 JOBS</u>	
Construction	-5,600	Wholesale trade	-500
Manufacturing	-5,000	Retail trade	-1,900
Natural Resources & Mining	-200	Transportation/warehousing/utilities	+1,000
		Information	-2,000
		Professional/financial/business	-3,400
		Educational/health services	-2,000
		Leisure/hospitality	+2,200
		Other services	-700
		Government	-2,400

Forecasters continue to predict that the nationwide recession will bottom out during the third quarter of this year, followed with a slow, gradual recovery.

Employment growth in Washington State is expected to turn positive in 2010 – increasing slowly at first, but gaining strength later in 2010 and throughout 2011. Statewide building permit totals were somewhat better than forecasted, but housing activity still remains depressed.

The pace of new housing construction statewide is now well below the increase in demographic demand for housing, which suggests that excess housing stock will be largely absorbed once the economic recovery is in full swing.

The bimonthly Consumer Price Index for the Seattle-Tacoma-Bremerton region continued to rise only slightly in June – increasing 0.8% compared to the April figure.

#### 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 sales tax revenue is not actually remitted to the City until the end of August. Where actual revenue figures are not yet available, projected accruals have been utilized.

Revenue	Inflow	2009 Projection	% of Projection
<b>Property Tax</b>	<b>\$4,096,736</b>	<b>\$8,150,300</b>	<b>50.3%</b>

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

Revenue	Inflow	2009 Projection	% of Projection
<b>Sales/Use Tax</b>			
<b>Retail</b>	<b>\$3,366,736</b>	<b>\$8,832,200</b>	<b>38.1%</b>
<b>Construction</b>	<b>\$887,019</b>	<b>\$1,371,700</b>	<b>64.7%</b>
<b>Hotel/Motel</b>	<b>\$104,783</b>	<b>\$275,000</b>	<b>38.1%</b>
<b>Criminal Justice</b>	<b>\$269,287</b>	<b>\$700,200</b>	<b>38.5%</b>
<b>Total</b>	<b>\$4,627,825</b>	<b>\$11,179,100</b>	<b>41.4%</b>

Retail sales tax revenues continue to be suppressed by the economic downturn – this revenue stream is running behind both the January-June 2009 projection (-\$590,000), as well as compared to the same period in 2008 (-\$415,000).

Construction sales tax revenues are higher than projected – and higher than last year's January-June revenues (+\$103,000) as well. King County's Brightwater project is contributing to this increase.

Hotel/Motel sales tax revenues are down \$10,000 from the first half of 2008. These revenues are restricted to tourism promotional activities.

Criminal justice sales tax receipts are \$38,000 less than at this same point in 2008.

Revenue	Inflow	2009 Projection	% of Projection
<b>Business/Utility Tax</b>	<b>\$3,834,247</b>	<b>\$7,996,900</b>	<b>47.9%</b>

Business and utility tax revenues slowed during the second quarter, and are now 4.1% (\$164,000) behind the month-to-month projection for 2009. Water and sewer utility tax revenues should pick up during the summer months, but telephone and cellular taxes may remain below projections throughout 2009.

Revenue	Inflow	2009 Projection	% of Projection
<b>Other Taxes</b>	<b>\$348,889</b>	<b>\$721,000</b>	<b>48.4%</b>

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes.

EMS levy collections comprise 91% of taxes received in this category. King County voters approved a \$0.30 per \$1,000 levy for the 6-year period from 2008-2013.

Revenue	Inflow	2009 Projection	% of Projection
<b>Licenses &amp; Permits</b>			
Business/Sign Licenses	\$145,000	\$290,000	50.0%
Building Permits	\$231,876	\$685,800	33.8%
Plumbing/Mechanical	\$53,208	\$125,000	42.6%
Pre-Application Fees	\$8,491	\$40,000	21.2%
Other Miscellaneous	\$2,870	\$5,200	55.2%
<b>Total</b>	<b>\$441,445</b>	<b>\$1,146,000</b>	<b>38.5%</b>

The housing market continues to struggle – building permit revenues for January-June were down over \$210,000 from 2008.

Revenue	Inflow	2009 Projection	% of Projection
<b>Intergovernmental</b>	<b>\$1,098,030</b>	<b>\$2,248,000</b>	<b>48.8%</b>

Intergovernmental revenues are for the most part comprised of grant funding, and make up only 6% of the General Fund's revenue budget. Grants awards normally require the grantee to expend their own funds before requesting reimbursement from the grantor.

Revenue	Inflow	2009 Projection	% of Projection
<b>Charges for Services</b>	<b>\$1,298,844</b>	<b>\$3,414,100</b>	<b>38.0%</b>

Charges for services include development review fees, recreation program fees, passport fees, and EMS transport fees. Transfers from CFP projects which cover project-term staff members' salaries and benefits are also included in this category.

The economy continues to hamper a number of revenues in this category. Development review revenues are down \$290,000 (46%) from the first half of 2008, and plan check fees are down \$113,000 (50%).

Revenue	Inflow	2009 Projection	% of Projection
<b>Fines/Penalties/Criminal</b>	<b>\$238,766</b>	<b>\$416,300</b>	<b>57.4%</b>
<b>Other Miscellaneous</b>	<b>\$328,306</b>	<b>\$748,600</b>	<b>43.9%</b>
<b>Operating Transfers</b>	<b>\$268,904</b>	<b>\$537,808</b>	<b>50.0%</b>

General Fund investment earnings (Other Miscellaneous category) for the first half of 2009 are down \$90,000 from the same period in 2008, and \$48,000 below the 2009 monthly projection. Investment earnings are expected to hit the 2009 mark by year-end.

*See General Fund Revenues - Chart 1*

## **V. General Fund Expenditures**

General Fund expenditures are currently \$828,000 (4.5%) below their 2009 projection. Personnel expenditures (\$549,000 below projections) make up most of this variance.

Expenditures	Outflow	2009 Projection	% of Projection
Salaries & Benefits	\$13,703,603	\$28,505,389	48.1%
Maintenance & Operations	\$2,981,088	\$6,549,602	45.5%
Capital	\$39,026	\$48,000	81.3%
Operating Transfers	\$727,513	\$1,455,025	50.0%
<b>Total</b>	<b>\$17,451,229</b>	<b>\$36,558,016</b>	<b>47.7%</b>

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

## VI. Other Major Funds

	Inflow/Outflow	2009 Projection	% of Projection
Street	<b>Inflow</b>	<b>\$461,928</b>	<b>31.6%</b>
	<b>Outflow</b>	<b>\$832,510</b>	<b>40.4%</b>

Street revenues to date in 2009 include a \$51,170 subsidy from the General Fund. The Street Fund's 2009-2010 budget anticipated spending down fund balance (General Fund subsidy funding that had accumulated in prior years).

	Inflow/Outflow	2009 Projection	% of Projection
Arterial Street	<b>Inflow</b>	<b>\$539,128</b>	<b>2.4%</b>
	<b>Outflow</b>	<b>\$1,054,856</b>	<b>4.2%</b>

The Arterial Street Fund is primarily funded through grants and impact fees.

	Inflow/Outflow	2009 Projection	% of Projection
Park Reserve	<b>Inflow</b>	<b>\$37,197</b>	<b>18.6%</b>
	<b>Outflow</b>	<b>\$0</b>	<b>0.0%</b>

In accordance with direction received from the State Auditor's Office, these restricted funds have been reclassified as "deferred revenue" until they are actually expended on capital parks projects.

	Inflow/Outflow	2009 Projection	% of Projection
Capital Improvement	<b>Inflow</b>	<b>\$1,016,104</b>	<b>10.6%</b>
	<b>Outflow</b>	<b>\$9,566,736</b>	<b>38.0%</b>

Real Estate Excise Tax (REET) revenues continue to lag significantly compared to 2008 receipts. This revenue stream will require a budget amendment to lower 2009 expectations by \$1 million – in line with both current receipts and their associated expenditures. In addition, operating transfers into the Capital Fund were originally budgeted at over \$2 million, but only \$201,000 will actually take place. This reduction of \$1.8 million in operating transfers is associated with the deferral of a capital project.

## VII. Proprietary Funds

Utility Funds	Inflow/Outflow	2009 Projection	% of Projection
Water	<b>Inflow</b>	<b>\$1,736,559</b>	<b>47.8%</b>
	<b>Outflow</b>	<b>\$1,269,277</b>	<b>18.6%</b>

Sewer	Inflow	\$2,325,714	\$5,124,095	45.4%
	Outflow	\$2,413,864	\$9,077,154	26.6%
Storm Drain	Inflow	\$1,245,925	\$4,435,053	28.1%
	Outflow	\$1,809,504	\$6,988,989	25.9%

Storm Drain revenues are collected with property taxes and remitted to the City from King and Snohomish County. Snohomish County revenues vary greatly from quarter to quarter throughout the year.

The expenditure budgets for the three utility funds contain a total of \$8.1 million for the new Public Works Operations Center, so expenditure budget-to-actual outflow figures will remain skewed until spending on the project ramps up. Similarly, the Storm Drain Fund's revenue budget contains a \$2.4 million inter-fund loan from the City's Asset Replacement Fund that is associated with the new Public Works Operations Center and has not taken place yet.

Internal Service Funds		Inflow/Outflow	2009 Projection	% of Projection
Equipment Rental	Inflow	\$670,330	\$1,344,964	49.8%
	Outflow	\$764,189	\$1,645,292	46.4%
Self-Insurance	Inflow	\$374,149	\$763,252	49.0%
	Outflow	\$706,317	\$1,006,202	70.2%
Asset Replacement	Inflow	\$489,440	\$999,738	49.0%
	Outflow	\$162,730	\$4,376,033	3.7%

The City's annual insurance premium is paid in the first quarter of each year, which skews the Self-Insurance Fund's expenditure-to-actual figure.

As explained previously in the Utility Fund discussion, the Asset Replacement Fund's expenditure budget includes a \$2.4 million inter-fund loan to the City's Storm Drain Fund associated with the new PW Operations Center that has not yet taken place.

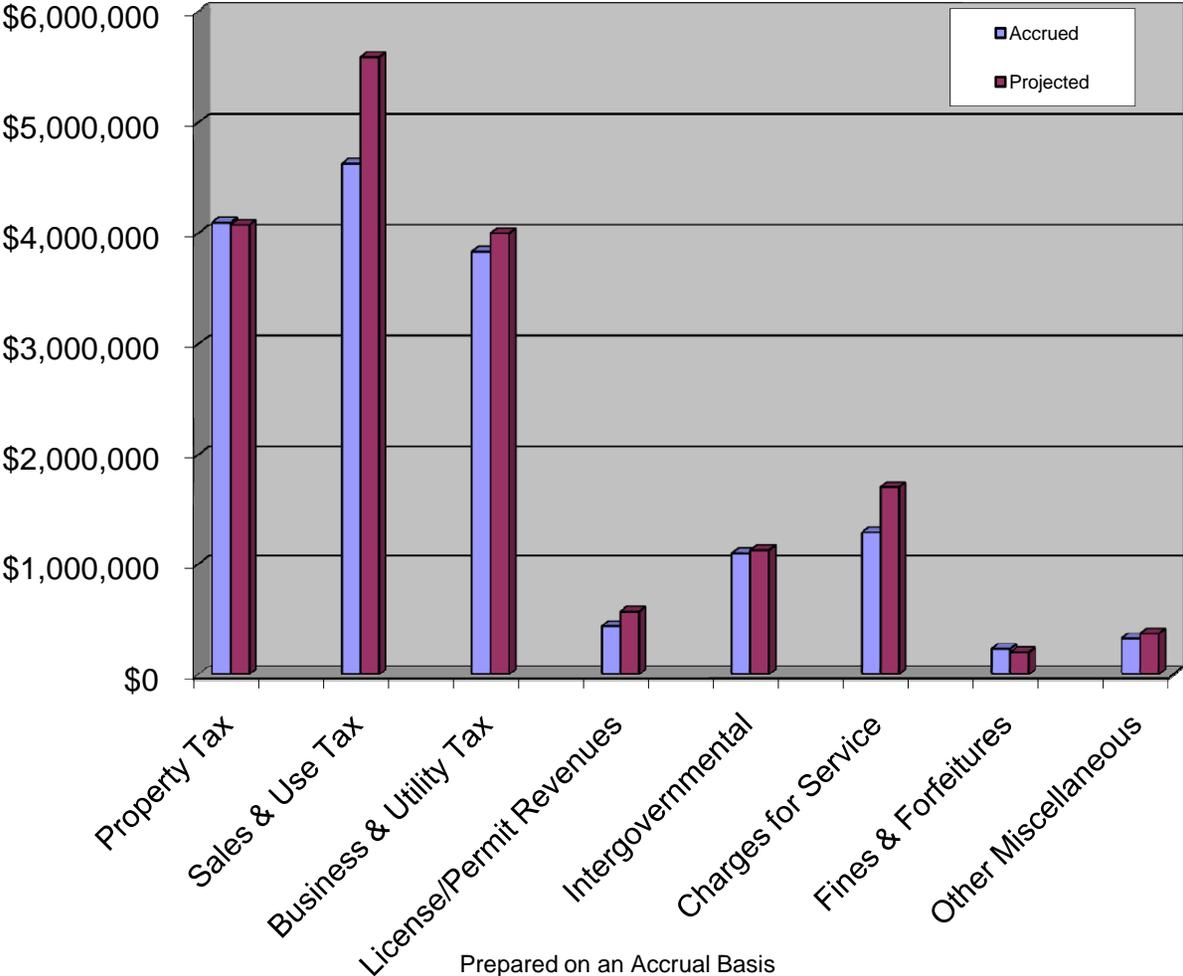
*See Proprietary Funds Expenditures - Chart 4*

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

### VIII. Council Emphasis Areas

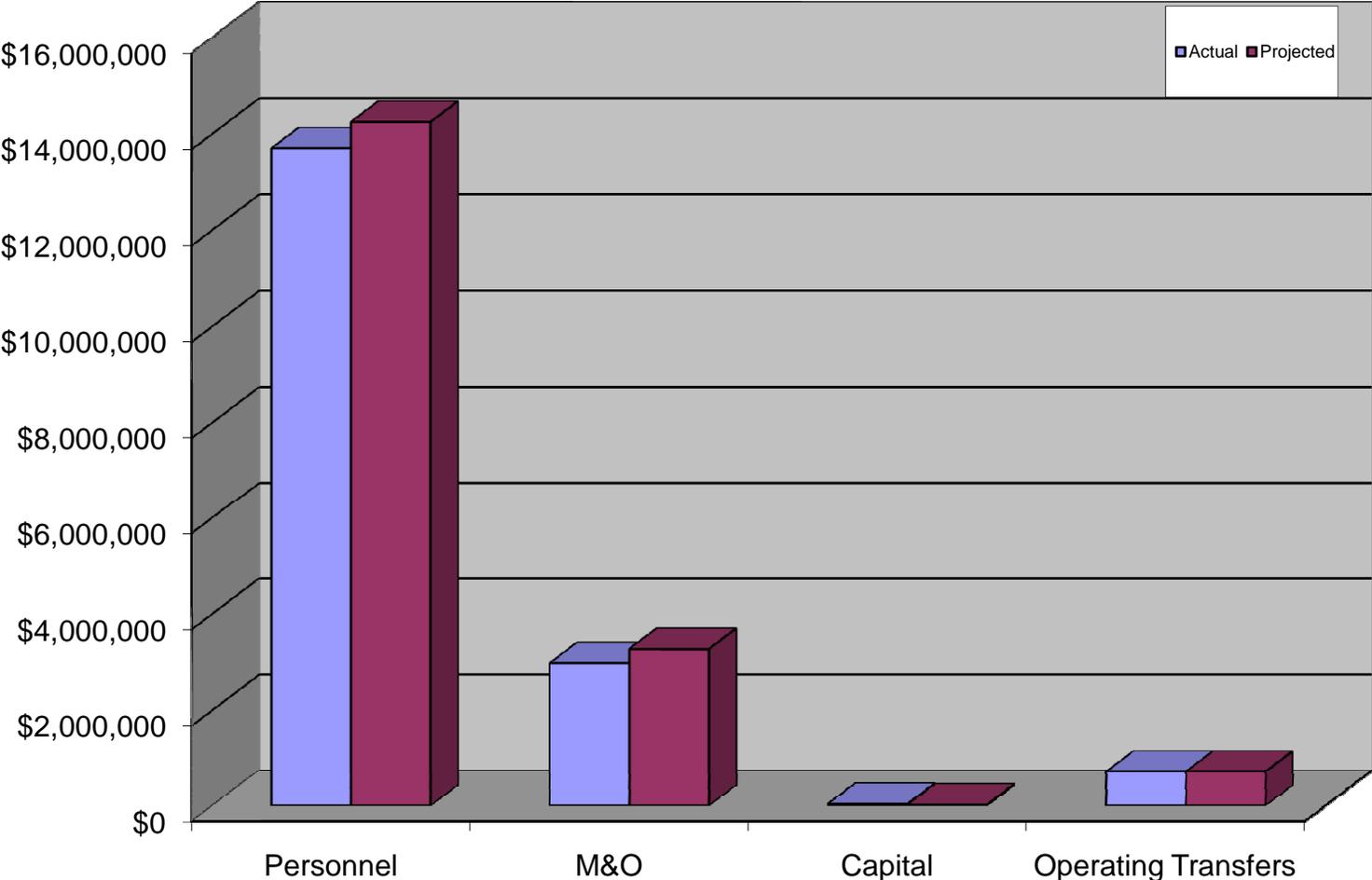
Development Review	Inflow	\$233,356	(Includes A/R)
	Outflow	651,434	(Includes overhead)
	Net	(\$418,077)	
Permitting	Inflow	\$397,838	
	Outflow	759,466	(Includes overhead)
	Net	(\$361,628)	
CFP Project-Term Staff	Inflow	\$535,113	(Reimbursement)
	Outflow	535,113	(General Fund wages)
	Net	\$ 0	

# General Fund Revenue vs Budget June 30, 2009



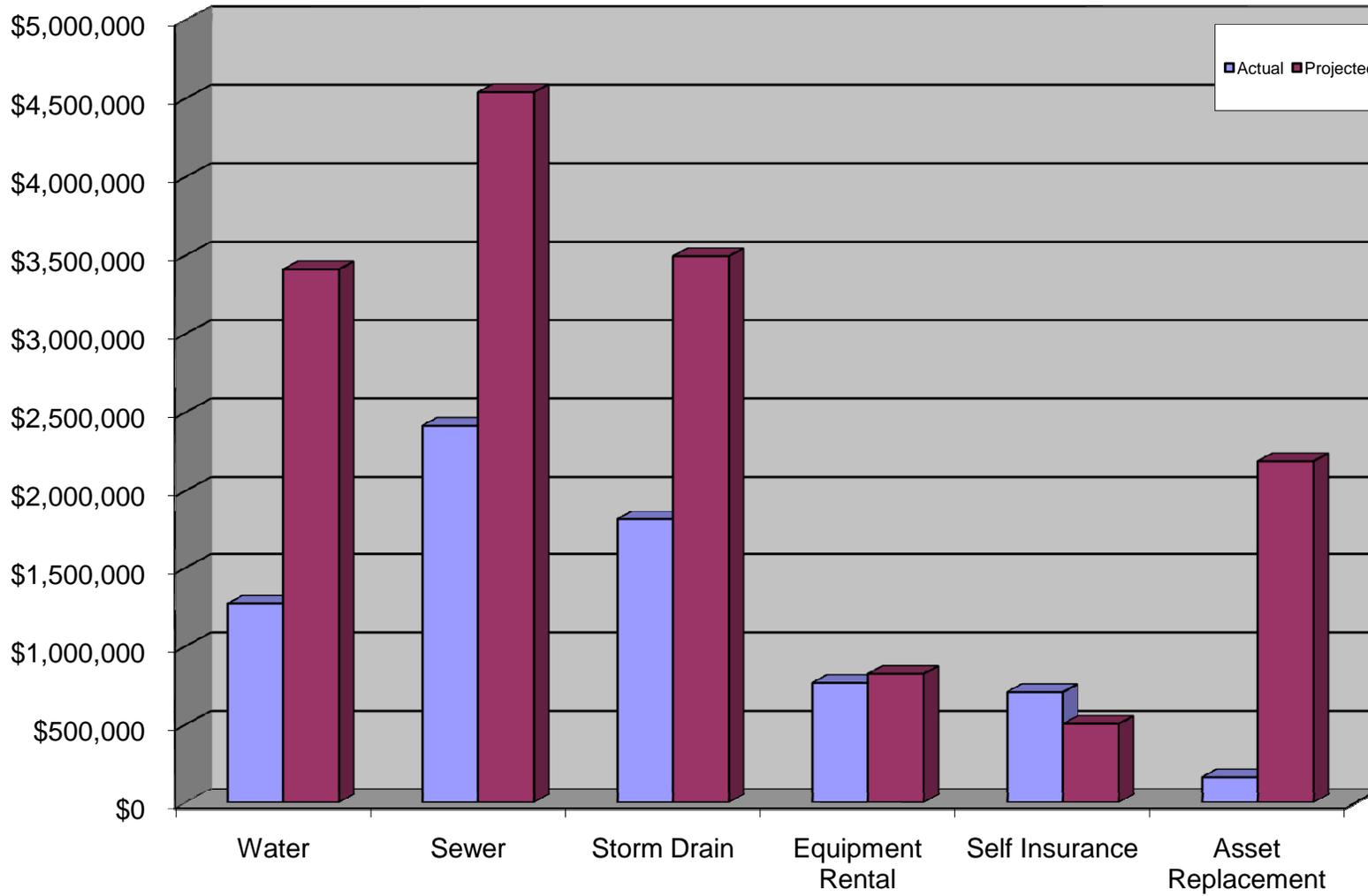
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget June 30, 2009



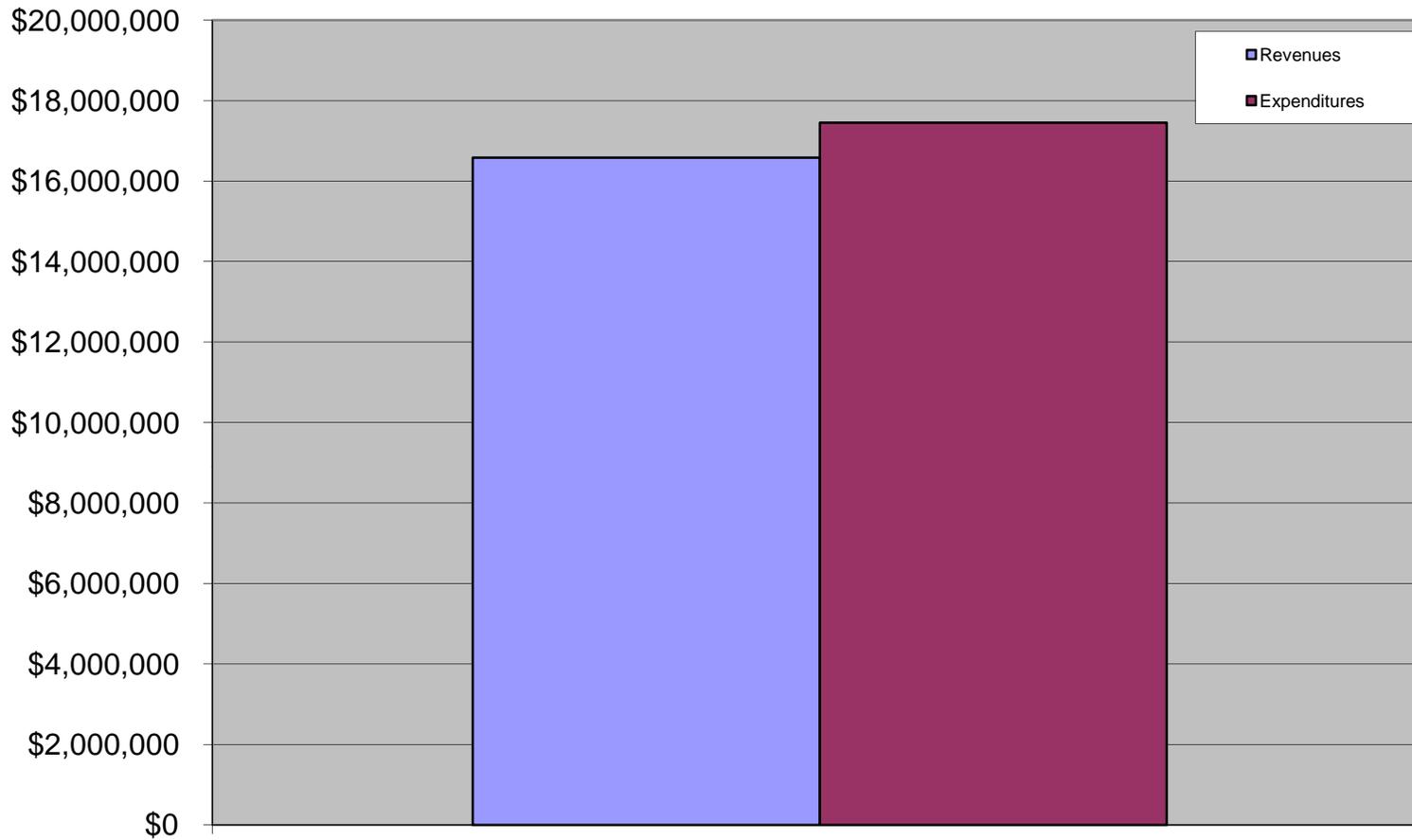
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget June 30, 2009



Proprietary Funds  
Chart 3

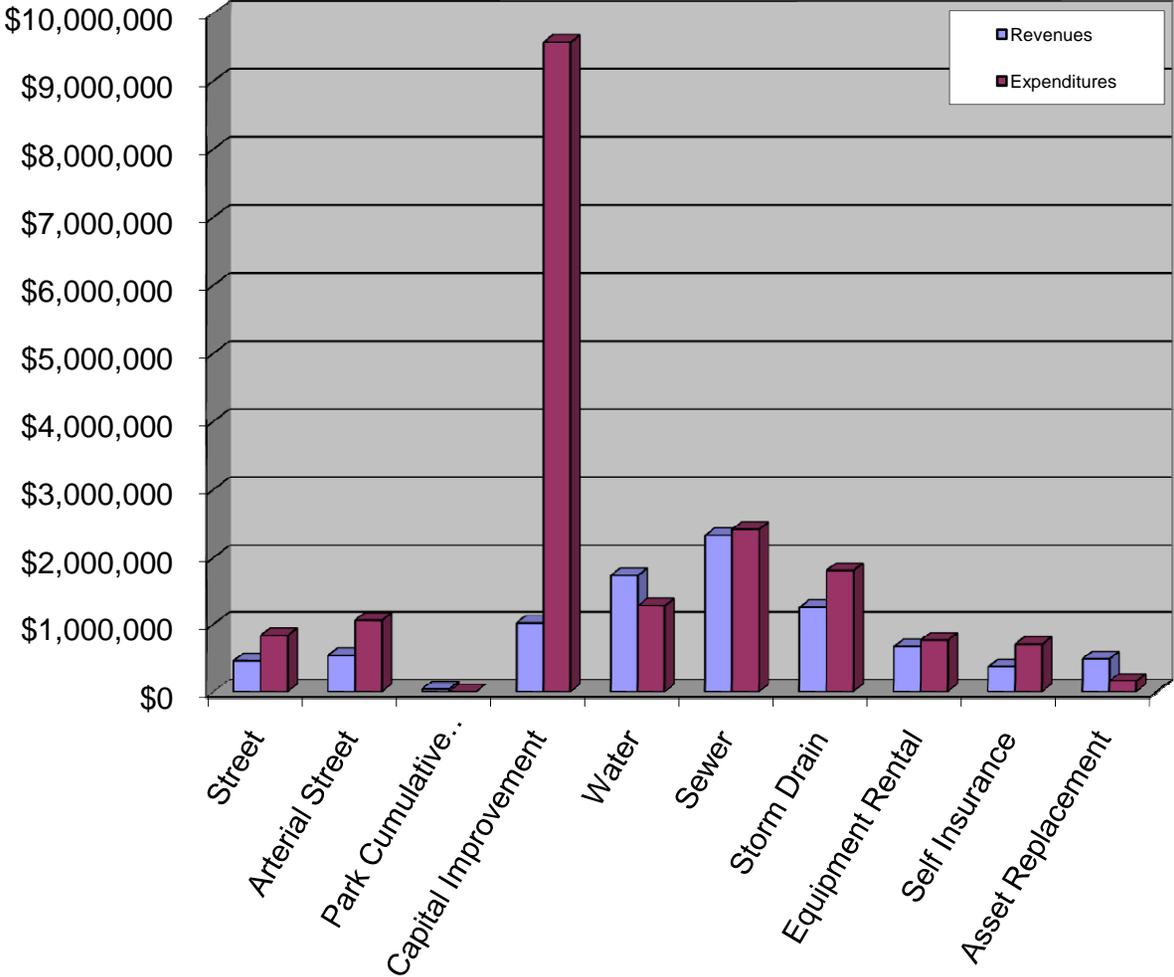
# General Fund Revenues vs Expenditures June 30, 2009



General Fund  
Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures  
Chart 4

# Other Major Funds Revenues vs Expenditures June 30, 2009



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5