

**City of Bothell**  
**2007-2008 Budget Status Report**  
**For the Quarter Ending September 30, 2008**

**I. Biennium Status**

The City has concluded the seventh quarter of its eight-quarter biennium. The budget period is 87.5% (21 of 24 months) complete.

**Citywide**

Citywide revenue inflows through September 2008 amounted to 76.5% of the biennial projection – this is the same pace at which the City ended September 2006. Expenditure outflows spent 63% of the biennial appropriation – 1.3% more than was spent down through the first seven quarters of 2005-06.

The City's budget position (considering inflows and outflows), while still at a positive \$8.18 million for 2007-08, is \$3.85 million behind where it ended September 2006.

**General Fund**

General Fund revenue inflows amounted to 81.3% of the biennial projection – this is 14.2% lower than the City receipted during the first seven quarters of 2005-06. Retail sales tax revenues continue to run below budget projections, and substantially below the levels seen in 2005-06.

Expenditure outflows spent down 77.3% of the biennial projection – 3% less than the same period in 2005-06.

At September 30, General Fund outflows exceeded inflows by \$1.2 million – this budget position is \$5 million behind where the Fund ended September 2006. The monthly transfer to the Capital Fund (per the City's CFP policy) has been stopped, given that a surplus of revenue over expenditures is no longer anticipated in 2008. Departments were notified to curb spending to align 2007-2008 General Fund expenditures with revenue receipts.

**II. Citywide Summary**

		Inflow/Outflow	2007-2008 Budget	% of Budget
<b><u>CITY TOTAL</u></b>	Inflow	\$138,204,327	\$180,687,905	76.5%
	Outflow	\$130,028,523	\$206,359,170	63.0%
<b><u>CITY TOTAL</u></b> (less Arterial Street and Capital Funds)	Inflow	\$97,926,554	\$118,560,070	82.6%
	Outflow	\$95,719,397	\$129,109,251	74.1%
<b><u>GENERAL FUND*</u></b>	Inflow	\$61,833,584	\$76,032,322	81.3%
	Outflow	\$63,010,615	\$81,526,582	77.3%

### III. Economic Recap

National non-farm payroll employment decreased by 299,000 jobs during the third quarter of 2008. The national unemployment rate jumped to 6.1%.

<u>U.S. GOODS-PRODUCING: - 188,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: -111,000 JOBS</u>	
Construction	- 71,000	Retail trade	-87,000
Manufacturing	- 147,000	Professional/business services	-93,000
		Educational/health services	+128,000
		Leisure/hospitality	-51,000
		Government	+ 79,000

At the state level, 3,900 non-farm jobs were added during the third quarter of 2008. Washington's unemployment rate rose to 5.8%, while the Seattle-Bellevue-Everett rate closed September at 4.6%.

The state and local rates are preliminary, and are likely to be revised upward given the ongoing nationwide financial crisis – but for the time being, Washington's employment outlook continues to look somewhat more favorable than the national outlook.

<u>STATE GOODS-PRODUCING: -8,800 JOBS</u>		<u>STATE SERVICE-PROVIDING: +12,700 JOBS</u>	
Construction	-6,400	Wholesale trade	+800
Manufacturing	-2,200	Retail trade	+2,400
Natural Resources & Mining	-200	Transportation/warehousing/utilities	+100
		Information	+1,700
		Professional/business services	-1,400
		Educational/health services	+5,000
		Leisure/hospitality	+600
		Other services	+1,200
		Government	+2,300

The Federal Reserve (central banking system of the United States) has slashed interest rates by 4.25% since September 2007, to try and cushion the economy from the global credit crisis. The most recent cut on October 29 took rates to an even 1%. Investors are betting that the Fed will ease rates again at its next meeting on December 16, 2008.

The State Economic and Forecast Council indicated in its September report that the decline in Washington housing permits was as expected during the second quarter of 2008. Preliminary data, however, indicates that the third quarter figures will be quite weak. The forecast assumes that construction employment will experience a larger decline through 2009 than previously expected. On a positive note, the State's software employment forecast is stronger than was anticipated in June.

The bimonthly Consumer Price Index for the Seattle-Tacoma-Bremerton region retreated slightly in August - dropping 0.1% from the June 2008 figure. It remained 5.4% higher than in August 2007.

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

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Property Tax</b>	<b>\$13,743,217</b>	<b>\$15,947,425</b>	<b>86.2%</b>

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

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Sales/Use Tax</b>			
<b>Retail</b>	<b>\$13,404,838</b>	<b>\$19,520,145</b>	<b>68.7%</b>
<b>Construction</b>	<b>\$3,934,391</b>	<b>\$5,210,000</b>	<b>75.5%</b>
<b>Hotel/Motel</b>	<b>\$449,862</b>	<b>\$531,300</b>	<b>84.7%</b>
<b>Criminal Justice</b>	<b>\$1,132,602</b>	<b>\$1,310,000</b>	<b>86.5%</b>
<b>Total</b>	<b>\$18,921,693</b>	<b>\$26,571,445</b>	<b>71.2%</b>

Retail sales tax revenues continue to run below projections. Revenues in the first three quarters of 2008 were down \$459,000 from the same period in 2007, and down \$1.4 million from the first three quarters of 2006.

Destination-based sales tax took effect July 1. Any impact from the legislation on Bothell's sales tax receipts remains uncertain. The legislation does ensure that municipalities will receive quarterly payments from the State to mitigate any net loss. In 2002, the Department of Revenue (DOR) estimated Bothell's streamline sales tax (SST) mitigation to exceed \$420,000 per year. The City's first SST mitigation funding for the 3<sup>rd</sup> quarter (July-September) is due at the end of December 2008.

In 2007, the DOR miscoded \$228,000 as Bothell sales tax, which subsequently had to be returned to DOR in 2008. In addition, DOR continues to withhold over \$26,000 each month (\$624,000 during the 2007-08 biennium) to adjust for an overpayment made to the City in the 1990's.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Business/Utility Tax</b>	<b>\$12,329,093</b>	<b>\$14,080,835</b>	<b>87.6%</b>

Some utility revenues are seasonal in nature – electric and gas utility tax receipts peak in winter months, while water and sewer utility tax receipts peak during the summer.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Other Taxes</b>	<b>\$1,176,483</b>	<b>\$748,000</b>	<b>157.3%</b>

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

EMS levy collections comprise 91% of taxes received in this category to date. King County voters approved a \$0.30 per \$1,000 of assessed property value levy for the 6-year period from 2008-2013, which has resulted in revenues exceeding expectations.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Licenses &amp; Permits</b>			
<b>Business/Sign Licenses</b>	\$513,526	\$538,100	95.4%
<b>Building Permits</b>	\$1,704,044	\$2,236,600	76.2%
<b>Plumbing/Mechanical</b>	\$280,152	\$447,300	62.6%
<b>Pre-Application Fees</b>	\$52,388	\$80,000	65.5%
<b>Other Miscellaneous</b>	\$7,152	\$7,000	102.2%
<b>Total</b>	<b>\$2,557,262</b>	<b>\$3,309,000</b>	<b>77.3%</b>

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Intergovernmental</b>	<b>\$3,778,748</b>	<b>\$3,837,000</b>	<b>98.5%</b>

Intergovernmental revenues are for the most part comprised of grant funding, and make up only 5% of the General Fund's revenue budget. Grants awards normally require the grantee to expend its own funds before requesting reimbursement from the grantor.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Charges for Services</b>	<b>\$5,897,955</b>	<b>\$7,035,411</b>	<b>83.8%</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.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Fines/Penalties/Criminal</b>	<b>\$733,755</b>	<b>\$802,500</b>	<b>91.4%</b>
<b>Other Miscellaneous</b>	<b>\$1,985,391</b>	<b>\$2,889,300</b>	<b>68.7%</b>
<b>Operating Transfers</b>	<b>\$709,980</b>	<b>\$811,406</b>	<b>87.5%</b>

Investment earnings continue to run below 2007 levels. The Fed recently reduced its primary rates to 1%, down from a high of 5.25% in 2007.

*See General Fund Revenues - Chart 1*

## **V. General Fund Expenditures**

Biennial expenditures (excluding operating transfers) through June are \$8.3 million (11.7%) below the average month-to-month budget pace. Personnel expenditures continue to close the gap with projections, finishing the quarter just 3.5% lower than expected – while maintenance and operations (M&O) expenditures are now only 4.6% lower than the monthly pace.

Operating transfer expenditures continue to lag behind budget projections (\$6.4 million less than projected at September 30), as interfund loans from the General Fund to the Water and Sewer Funds for the Public Works shop did not take place.

At this point in the 2007-2008 biennium, \$4.05 million has been transferred to the Capital Improvement Fund in accordance with the City's Capital Facilities Plan policy. Monthly one-time revenues and surplus of revenue over expenditure transfers have been stopped, as a surplus of revenue in the General Fund is no longer expected in 2008. Operating transfers will be reevaluated prior to year-end.

Expenditures	Outflow	2007-2008 Budget	% of Budget
Salaries & Benefits	\$42,296,086	\$50,110,462	84.4%
Maintenance & Operations	\$11,761,318	\$14,085,555	83.5%
Capital	\$870,858	\$740,947	117.5%
Operating Transfers	\$8,082,353	\$16,589,618	48.7%
<b>Total</b>	<b>\$63,010,615</b>	<b>\$81,526,582</b>	<b>77.3%</b>

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

## VI. Other Major Funds

	Inflow/Outflow	2007-2008 Budget	% of Budget
Street	<b>Inflow</b>	<b>\$2,464,900</b>	<b>76.5%</b>
	<b>Outflow</b>	<b>\$2,921,716</b>	<b>79.3%</b>

\$463,750 of Street Fund revenues consist of a subsidy from the General Fund.

	Inflow/Outflow	2007-2008 Budget	% of Budget
Arterial Street	<b>Inflow</b>	<b>\$16,647,449</b>	<b>47.6%</b>
	<b>Outflow</b>	<b>\$17,396,834</b>	<b>45.9%</b>

The Arterial Street Fund is project-driven and primarily grant funded. Note that this fund's budget includes projects that likely will carry forward into 2009-2010.

	Inflow/Outflow	2007-2008 Budget	% of Budget
Park Reserve	<b>Inflow</b>	<b>\$482,804</b>	<b>62.0%</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 will be reclassified as "deferred revenue" until they are actually expended on capital parks projects.

	Inflow/Outflow	2007-2008 Budget	% of Budget
Capital Improvement	<b>Inflow</b>	<b>\$23,630,324</b>	<b>87.1%</b>
	<b>Outflow</b>	<b>\$16,912,292</b>	<b>43.0%</b>

Revenues include \$4.05 million transferred from the General Fund in accordance with the Capital Facilities Plan fiscal policies. A portion of these funds may be returned to the General Fund if one-time revenues (excess construction sales tax and building permits) do not meet 2006 projections for 2008, or if the General Fund does not finish 2008 with a surplus of revenues over expenditures.

As mentioned previously, all one-time revenue and surplus revenue over expenditure transfers have been halted until year-end.

## VII. Proprietary Funds

Utility Funds		Inflow/Outflow	2007-2008 Budget	% of Budget
Water	Inflow	\$6,596,843	\$10,063,184	65.6%
	Outflow	\$5,649,894	\$10,485,662	53.9%
Sewer	Inflow	\$8,782,101	\$12,348,597	71.1%
	Outflow	\$8,061,934	\$12,936,110	62.3%
Storm Drain	Inflow	\$3,241,334	\$6,676,200	48.6%
	Outflow	\$3,266,663	\$8,429,666	38.8%

Utility revenues and expenditures continue to lag behind projections. Personnel costs are currently \$495,000 (11.4%) less than the projected pace, while maintenance and operations (M&O) costs are \$514,000 (5.4%) less than expected.

Capital expenditures make up the largest share of the variance –running \$9.3 million below the projected month-to-month pace. This variance is the result of generally accepted accounting principles (GAAP), which require capital expenditures to be depreciated over time - while the City budgets for actual expenditures and the spending down of the Fund’s cash resources.

Internal Service Funds		Inflow/Outflow	2007-2008 Budget	% of Budget
Equipment Rental	Inflow	\$2,763,642	\$3,062,518	90.2%
	Outflow	\$2,701,717	\$3,013,397	89.7%
Self-Insurance	Inflow	\$1,833,952	\$2,015,701	91.0%
	Outflow	\$1,700,544	\$2,010,179	84.6%
Asset Replacement	Inflow	\$2,213,712	\$2,612,818	84.7%
	Outflow	\$1,318,084	\$4,743,946	27.8%

The City’s Asset Replacement Fund is an internal service fund and therefore the Fund’s capital expenditures are treated similarly to proprietary fund capital expenditures – that is, they are depreciated over time rather than expensed fully when they are purchased.

This accounting practice is required by Generally Accepted Accounting Principles (GAAP) and results in capital expenditures from the first year of the biennium being presented in financial reports at an amount that is less than actual spending.

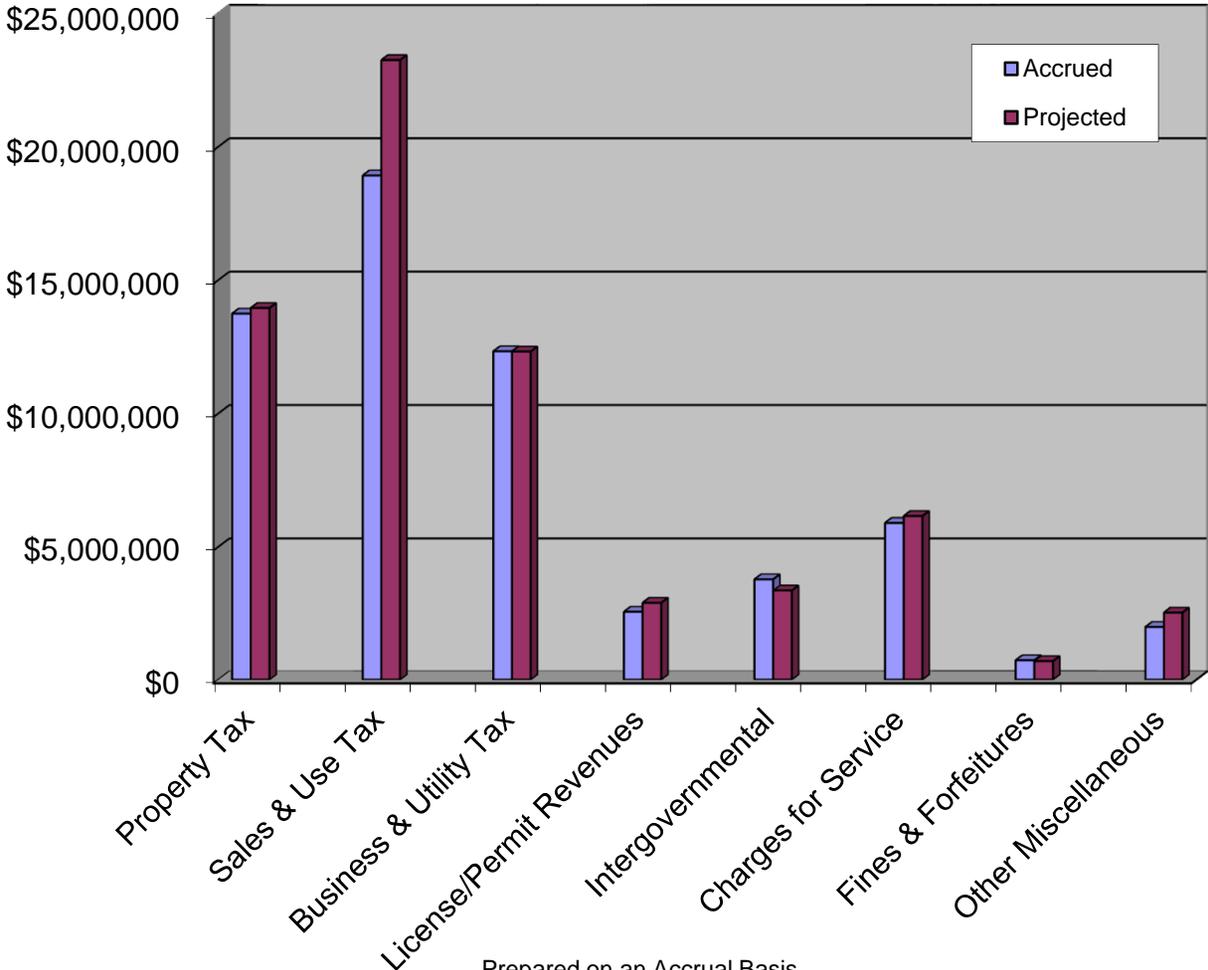
GAAP rules are established by the Government Accounting Standards Board (GASB). Staff is required to prepare, present, and report the City’s financial statements in observance and compliance with GAAP.

*See Proprietary Funds Expenditures - Chart 4*  
*See Other Major Funds Revenues vs. Expenditures - Chart 5*

### VIII. Council Emphasis Areas

Development Review	<b>Inflow</b>	<b>\$907,942</b>	(Includes A/R)
	<b>Outflow</b>	<b>1,057,024</b>	(Includes overhead)
	<b>Net</b>	<b>(\$149,082)</b>	
Permitting	<b>Inflow</b>	<b>\$1,243,901</b>	
	<b>Outflow</b>	<b>952,867</b>	(Includes overhead)
	<b>Net</b>	<b>\$291,033</b>	
CFP Project-Term Staff	<b>Inflow</b>	<b>\$554,368</b>	(Reimbursement)
	<b>Outflow</b>	<b>554,368</b>	(General Fund wages)
	<b>Net</b>	<b>\$ 0</b>	
PWS Facility Surcharge	<b>Inflows</b>	<b>\$64,131.65</b>	(Since 1998)
	<b>Expires</b>	<b>\$67,482.84</b>	

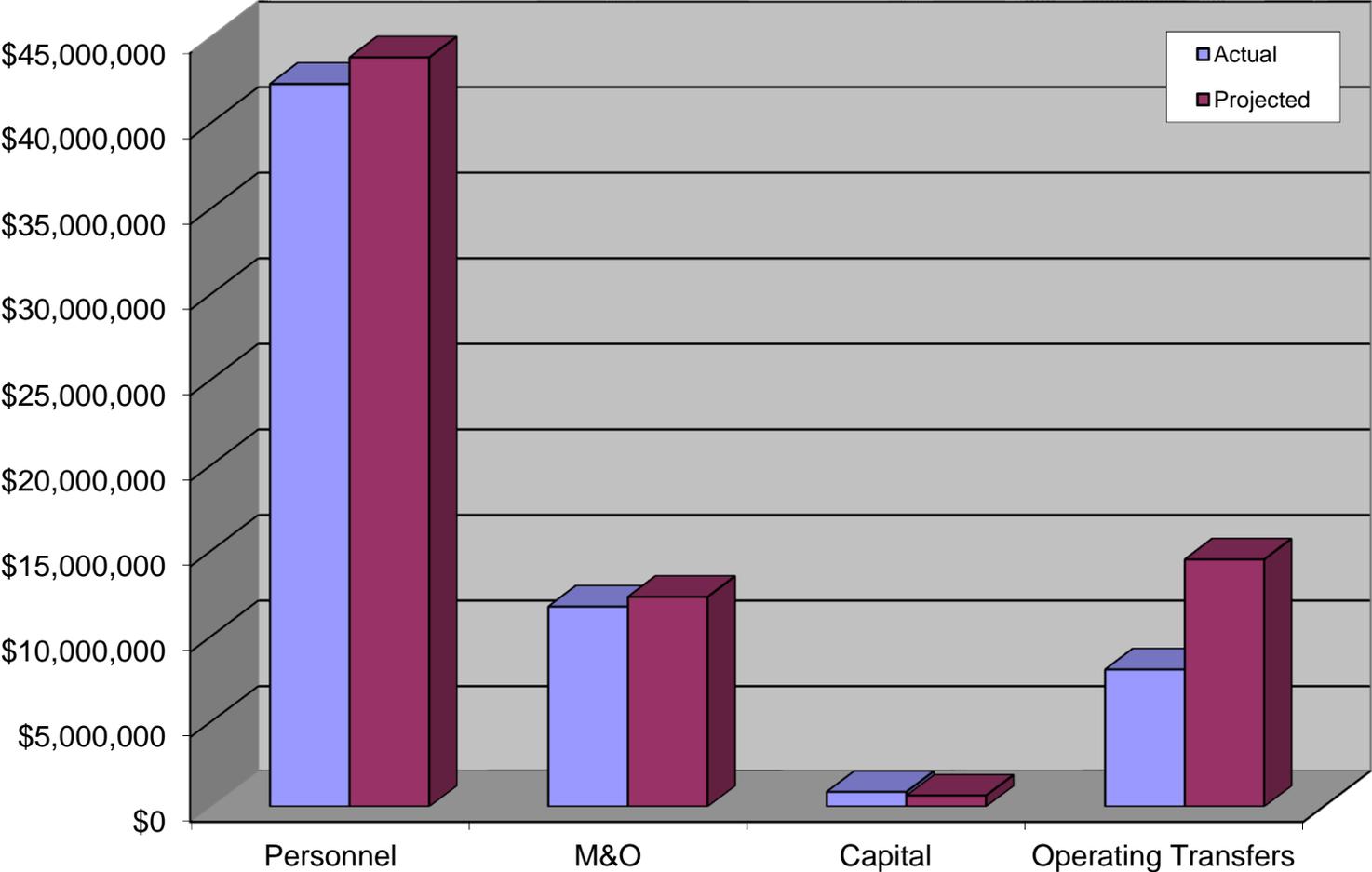
# General Fund Revenue vs Budget September 30, 2008



Prepared on an Accrual Basis

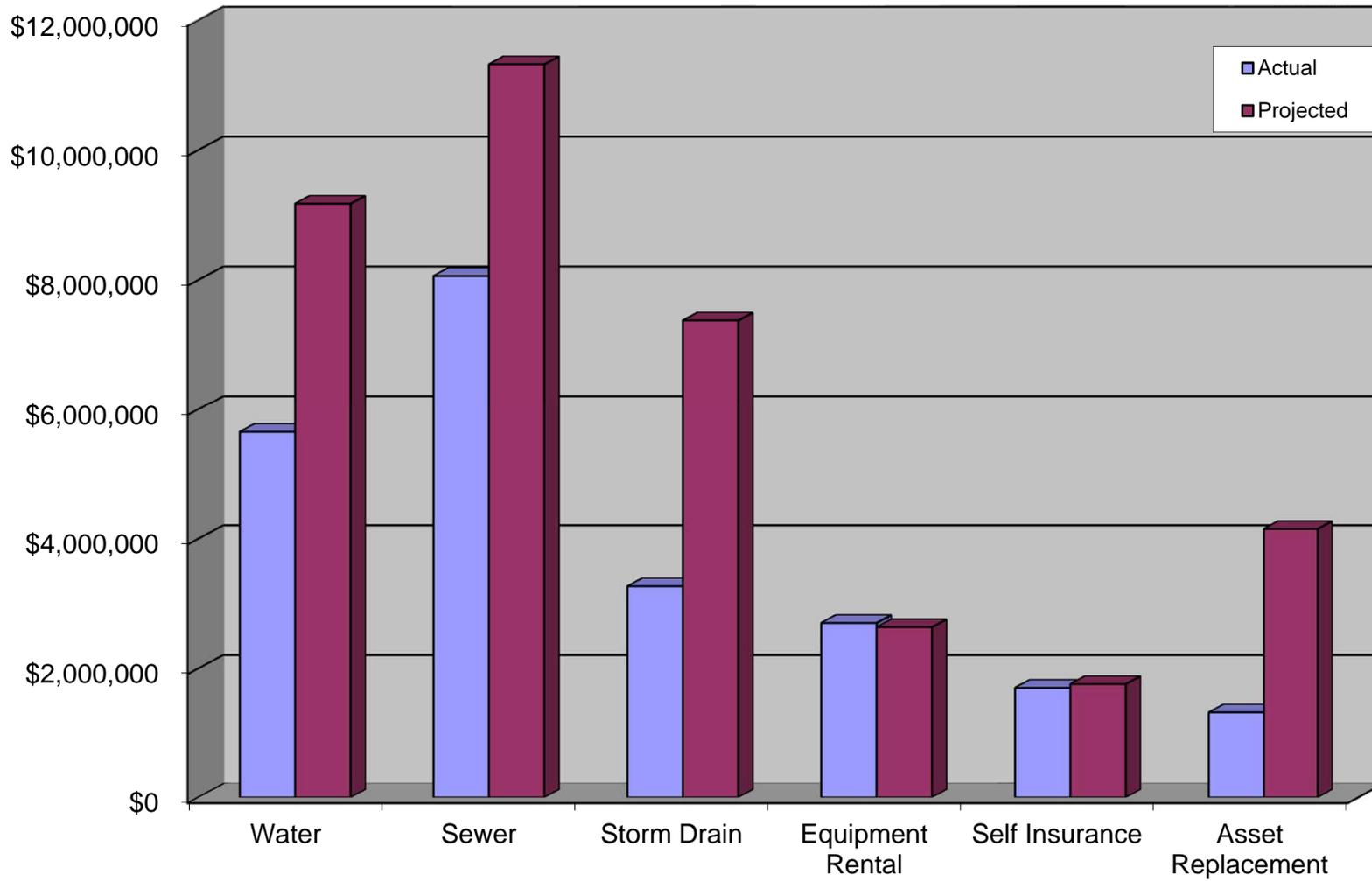
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget September 30, 2008



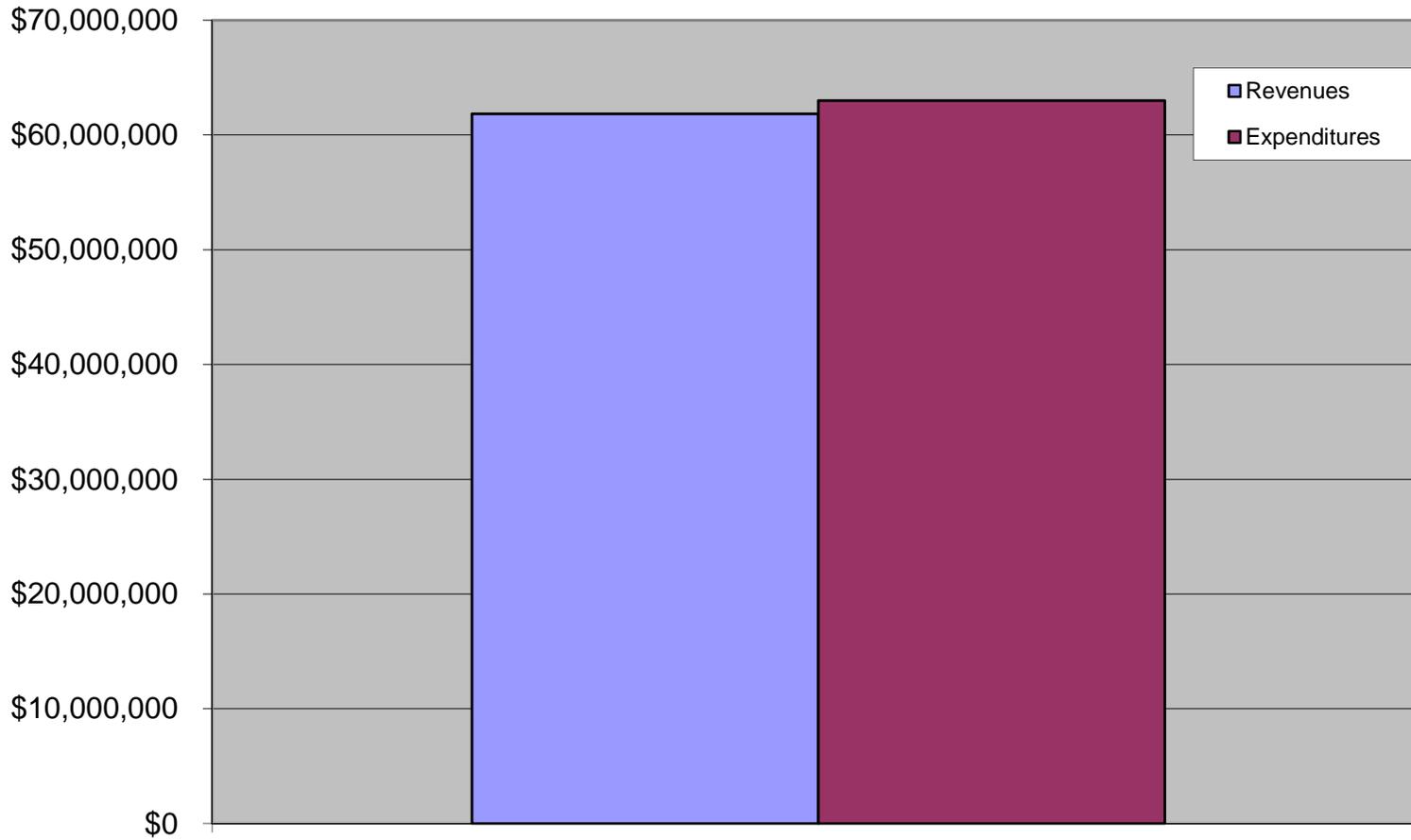
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget September 30, 2008



Proprietary Funds  
Chart 3

# General Fund Revenues vs Expenditures September 30, 2008



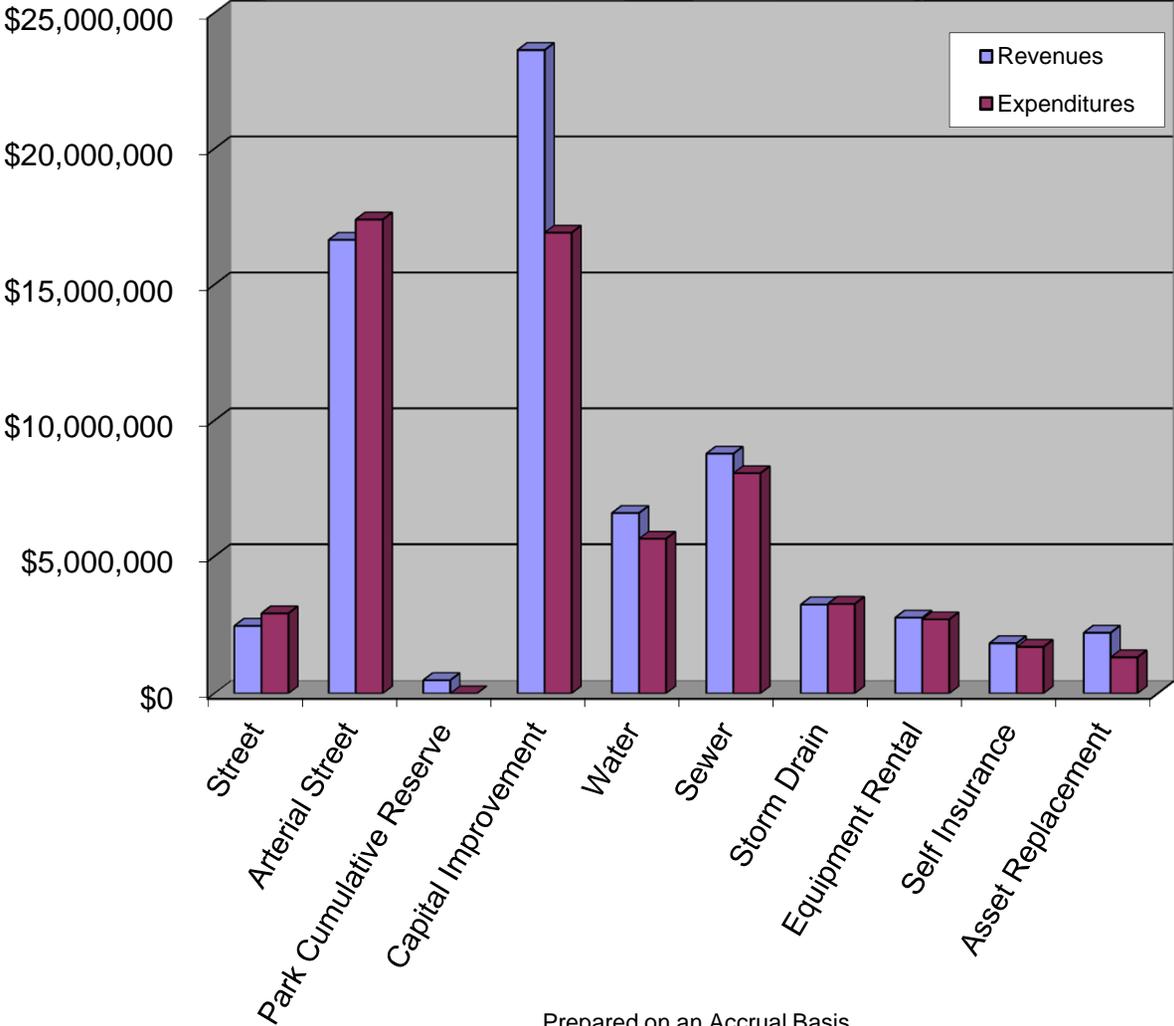
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

# Other Major Funds Revenues vs Expenditures September 30, 2008



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5