

# INTEROFFICE MEMORANDUM

## Finance Department



City of Bothell

**DATE:** April 19, 2013

**TO:** Mayor and Council

**THROUGH:** Bob Stowe, City Manager

**FROM:** Tami Schackman, Finance Director

**SUBJECT:** 2011-12 Budget Status Report – Quarter #8

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Attached for your review is the City's budget status report as of December 31, 2012. The City is in the process of preparing its 2012 financial statements for review by the State Auditor's Office.

The General Fund concluded the 2011-2012 biennium with a deficit of \$2,748,216. (\$2,127,896 in 2011, and \$620,320 in 2012.) This deficit was anticipated in the development of the 2013-2014 budget, which forecast a 9 percent General Fund reserve entering 2013. Fourth quarter operations resulted in the actual General Fund reserve totaling 8.8 percent - only \$57,632 less than was projected.

\$1.5 million of the 2011 deficit was offset by the Council-approved use of funds from the City's operating reserve. This was done to fill a budget gap primarily created by the unexpected loss of revenue streams (street light fees and broadband utility tax), and to provide time for Council to discuss the impacts of budget sustainability options developed by staff. The remaining deficit was attributable primarily to a shortfall in construction sales tax receipts, which were \$566,000 below 2011 projections.

At its January 2012 retreat, Council approved a \$1.8 million budget sustainability initiative designed to correct the structural imbalance between operating revenues and expenditures. Sustainability measures were implemented throughout 2012, and included:

- A new Motor Vehicle Accident (MVA) fee
- Increasing the Emergency Medical Services (EMS) transport fee
- Increasing the City's business license fees
- Personnel concessions (modifying employee benefit packages to current market levels)

While budget sustainability measures significantly reduced the 2012 budget shortfall, they fell short of completely closing the revenue/expenditure gap, as several measures did not achieve their anticipated fiscal impact or could not be negotiated:

- The City did not receive personnel concessions from three public safety bargaining groups (IAFF/Fire, BPOG/Police, and Police Captains). Combined savings from these groups in 2013 was estimated at \$332,000. The IAFF did agree to concessions as part of the contract agreement reached in 2013.

- The Motor Vehicle Accident (MVA) fee was projected to bring in \$100,000 in 2012, but actual revenues totaled just \$15,337.
- The business license fee increase was projected to generate \$500,000 in additional revenue but actually generated an additional \$428,000.

Additionally, construction sales tax receipts in 2012 remained significantly (\$629,000) below projections. However, fourth quarter 2012 receipts were up \$92,820 - or 25 percent over 2011 receipts, clearly indicating that development in Bothell is rebounding. Construction sales tax that was originally expected to be generated though development planned for the 2011-2012 biennium is now expected to be receipted during the 2013-2014 biennium.

Council adopted a balanced 2013-2014 General Fund budget in December 2012. Staff will continue to closely monitor revenues and expenditures – first quarter expenditure data will be available for analysis and reporting in mid-to-late April.

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, 2012**

**I. BIENNIUM STATUS**

On December 31, 2012, the City concluded the final quarter of the 2011-2012 biennium. The budget period described in this report is 100% complete.

The City is in the process of preparing its 2012 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 2011 surplus/deficit:	-\$ 646,632*
Citywide 2012 surplus/deficit as of December 31:	<u>-\$3,354,889</u>
Citywide Biennial surplus/deficit as of December 31:	<u>-\$4,001,521*</u>

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

- General Fund (**-\$2,748,216**). See detailed discussion below.
- Capital Improvements Fund (**-\$2,290,436**). Capital expenditures continue to progress as programmed in the City's adopted Capital Facilities Plan (CFP).
- Asset Replacement Fund (**-\$1,731,521**). Spending continues according to planned replacement schedules, although replacements of assets whose useful lives can safely and reasonably be extended have been deferred to future budget periods. It is important to note that vehicle and equipment asset replacement funding transfers from the General Fund were not made during the 2011-2012 biennium.

**General Fund**

General Fund 2011 surplus/deficit:	-\$2,127,896*
General Fund 2012 surplus/deficit as of December 31:	<u>-\$ 620,320</u>
General Fund Biennial surplus/deficit as of December 31:	<u>-\$2,748,216*</u>

\*Includes \$280,108 in prior period interest (not reflected in 2011-2012 data) transferred from the Trust Fund and excludes \$1,711,130 in bond anticipation note (BAN) proceeds, which were reimbursed from the Capital Improvement Fund. This transaction stems from a transfer made to the Capital Improvement Fund in 2009 – prior to the City issuing a Local Infrastructure Financing Tool (LIFT) bond anticipation note. As in years prior to 2009, these funds continue to be designated for future capital investment needs.

In 2011, \$1.5 million of the \$2,127,896 deficit was offset by the Council-approved use of City operating reserves. This fiscal strategy was taken to fill a budget gap that was primarily created by the unexpected loss of revenue streams (street light fees and broadband utility tax), and to provide time for Council to discuss the impacts of budget sustainability options developed by staff. The remaining deficit was for the most part attributable to a shortfall in construction sales tax receipts, which were \$566,000 below 2011 projections.

In early 2012, Council approved and implemented a number of budget sustainability measures - a new Motor Vehicle Accident (MVA) fee, increases in EMS Transport and

business license fees, and personnel concessions from each bargaining group. These measures were necessary to close an expected \$1.8 million budget gap.

While the budget sustainability measures identified above reduced the 2011-2012 budget shortfall as designed, they fell short of closing the entire gap because several measures did not achieve their anticipated fiscal impact or could not be negotiated.

- The City did not receive personnel concessions from three public safety bargaining groups (IAFF/Fire\*, BPOG/Police, and Police Captains). In 2012, combined savings from these groups was estimated at \$332,000.
- The Motor Vehicle Accident (MVA) fee was projected to create \$100,000 in new 2012 revenues, but actual MVA receipts totaled \$15,337.
- An increase in the City's 2012 business license fee was projected to generate \$500,000 in additional revenue, but actual revenue generated was \$428,000.

In addition, 2012 construction sales tax receipts were \$629,000 less than anticipated. However, fourth quarter receipts were up significantly (\$92,820 or 25%) over 2011 receipts, which strongly suggests that development in Bothell is rebounding.

\*The IAFF did subsequently agree to concessions in their 2013 contract.

## II. BUDGET VS ACTUAL SUMMARIES

		Inflow/Outflow	2011-12 Budget	% of Budget
<u>CITY TOTAL*</u>	Inflow	\$169,488,743	\$214,881,322	78.9%
	Outflow	\$173,770,372	\$220,936,265	78.7%
<u>CITY TOTAL</u> <small>(less Arterial Street, Capital Imp. Utility, and Asset Replacement Funds)</small>	Inflow	\$81,092,049	\$90,965,072	89.1%
	Outflow	\$82,175,867	\$90,381,939	90.9%
<u>GENERAL FUND</u>	Inflow	\$71,726,190	\$78,126,549	91.8%
	Outflow	\$73,043,384	\$78,556,380	93.0%
<u>UTILITY FUNDS*</u>	Inflow	\$24,504,083	\$25,341,543	96.7%
	Outflow	\$23,311,396	\$28,503,567	81.8%

## III. ECONOMIC INFORMATION

### Employment - National

National non-farm payroll employment increased by 453,800 jobs during the fourth quarter of 2012. The national unemployment rate remained at 7.8% in December.

The number of long-term unemployed (those jobless for 27 weeks or more) was unchanged at 4.8 million, and accounted for 39.1% of the total unemployed.

<u>U.S. GOODS-PRODUCING: +84,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: +369,800 JOBS</u>	
Construction	+45,000	Wholesale trade	+14,000
Manufacturing	+37,000	Retail trade	+95,300
Mining & logging	+2,000	Transportation/warehousing/utilities	+12,500

		Information	-1,000
		Professional/financial/business	+126,000
		Educational/health services	+121,000
		Leisure/hospitality	+86,000
		Other services	+5,000
		Government	-89,000

### Employment – State

3,800 non-farm jobs were gained statewide during the fourth quarter of 2012. Washington’s unemployment rate fell to 7.6% in December, and the Seattle-Bellevue-Everett rate dropped to 6.5%.

<u>STATE GOODS-PRODUCING: +5,900 JOBS</u>		<u>STATE SERVICE-PROVIDING: -2,100 JOBS</u>	
Construction	+5,700	Wholesale trade	-200
Manufacturing	+300	Retail trade	+700
Mining & logging	-100	Transportation/warehousing/utilities	+1,500
		Information	+600
		Professional/financial/business	-1,700
		Educational/health services	+1,500
		Leisure/hospitality	+2,700
		Other services	-200
		Government	-7,000

### Economic Forecast

While growth remains slow, Puget Sound economists continue to expect the state economy to grow somewhat faster than the national economy. Positive signs include the housing recovery and its impacts on the construction sector, the Boeing backlog, and continued growth in software employment.

While the “fiscal cliff” was avoided, the 2 percent payroll tax cut was eliminated for all workers – and additional tax increases and/or spending cuts are still possible. According to economists, the downside risks still outweigh the upside risks.

### CPI Data – Seattle/Tacoma/Bremerton Region

October 2012 – December 2012: -1.4%  
December 2011 – December 2012: +1.4%

## 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 2012 sales tax revenues were not remitted to the City until the end of February 2013.

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>\$17,295,600</b>	<b>\$18,103,472</b>	<b>95.5%</b>

Increases in State-assessed property did not come to fruition as anticipated. The term State-assessed property pertains to property belonging to inter-county utility and transportation companies.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Sales/Use Tax</b>			
Retail	\$13,593,906	\$16,369,249	83.0%
Construction	\$2,804,396	\$4,000,000	70.1%
Hotel/Motel	\$543,356	\$475,000	114.4%
Criminal Justice	\$1,141,131	\$1,186,391	96.2%
<b>Total</b>	<b>\$18,082,789</b>	<b>\$22,030,640</b>	<b>82.1%</b>
	2012	2011	Increase/Decrease
Retail	\$6,895,452	\$6,698,454	+2.9%
Construction	\$1,370,608	\$1,433,788	-4.4%
Hotel/Motel	\$282,040	\$261,316	+7.9%
Criminal Justice	\$585,166	\$555,965	+5.3%
<b>Total</b>	<b>\$9,133,266</b>	<b>\$8,949,523</b>	<b>+2.1%</b>

Construction sales tax receipts ended the biennium well under budget due to the postponement of multiple development projects. Fourth quarter 2012 receipts showed a significant increase (\$92,820 or 25%) over the same period in 2011 - clearly demonstrating that post-Great Recession development is forging ahead.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Business &amp; Utility Tax</b>			
Electric & Gas	\$6,640,468	\$7,734,254	85.9%
Cable TV	\$1,010,612	\$1,089,326	92.8%
Telephone & Cellular	\$3,845,003	\$5,440,404	70.7%
Water & Sewer	\$898,209	\$873,583	102.8%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$1,348,460	\$1,372,897	98.2%
Utility Tax Rebate	(\$9,050)	\$0	0.0%
<b>Total</b>	<b>\$13,733,703</b>	<b>\$16,510,464</b>	<b>83.2%</b>
	2012	2011	Increase/Decrease
Electric & Gas	\$3,308,275	\$3,332,193	-0.7%
Cable TV	\$527,754	\$482,858	+9.3%
Telephone & Cellular	\$1,922,137	\$1,922,866	-0.0%
Water & Sewer	\$516,151	\$382,058	+35.1%
Other Franchise Fees (Waste Mgmt, AWWD, NUD, FIOS)	\$687,468	\$660,992	+4.0%
Utility Tax Rebate	(\$4,400)	(\$4,650)	-5.4%
<b>Total</b>	<b>\$6,957,385</b>	<b>\$6,776,318</b>	<b>+2.7%</b>

A Council-approved increase in water utility tax was returned to the Water Fund in order to fully fund fire hydrant maintenance. This change was required to ensure compliance with a court decision involving the City of Seattle. Customer water rates were equally decreased to offset the tax increase and produce a net-zero impact on utility customers.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Other Taxes</b>	<b>\$1,576,420</b>	<b>\$1,713,000</b>	<b>92.0%</b>

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes. The EMS levy is paid by Bothell's Snohomish County residents (who approved a six-year levy in 2011) as part of their property taxes. EMS receipts make up the vast majority of taxes received in this category.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Licenses &amp; Permits</b>			
<b>Business/Sign Licenses</b>	<b>\$957,100</b>	<b>\$565,000</b>	<b>169.4%</b>
<b>Building Permits</b>	<b>\$1,263,339</b>	<b>\$1,489,274</b>	<b>84.8%</b>
<b>Plumbing/Mechanical</b>	<b>\$285,969</b>	<b>\$300,000</b>	<b>95.3%</b>
<b>Pre-Application Fees</b>	<b>\$62,295</b>	<b>\$100,000</b>	<b>62.3%</b>
Animal Licenses/Concealed Weapons	<b>\$157,765</b>	<b>\$170,400</b>	<b>92.6%</b>
<b>Total</b>	<b>\$2,726,468</b>	<b>\$2,624,674</b>	<b>103.9%</b>
	<b>2012</b>	<b>2011</b>	<b>Increase/Decrease</b>
<b>Building Permits</b>	<b>\$737,575</b>	<b>\$525,765</b>	<b>+40.3%</b>
<b>Plumbing/Mechanical</b>	<b>\$161,458</b>	<b>\$124,511</b>	<b>+29.7%</b>
<b>Pre-Application Fees</b>	<b>\$28,936</b>	<b>\$33,359</b>	<b>-13.3%</b>
<b>Total</b>	<b>\$927,969</b>	<b>\$683,635</b>	<b>+35.7%</b>

In July 2012, Council approved a business license fee increase, as well as an extension of the 2012 payment deadline.

Fourth quarter building permit revenues were up more than \$116,000 (179.4%) compared to the fourth quarter of 2011.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Intergovernmental</b>	<b>\$5,414,004</b>	<b>\$4,870,560</b>	<b>111.2%</b>

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
<b>Charges for Services</b>	<b>\$4,365,580</b>	<b>\$5,091,700</b>	<b>85.7%</b>
	<b>2012</b>	<b>2011</b>	<b>Increase/Decrease</b>
Passport Fees	\$50,280	\$47,360	+6.2%
EMS Transport Fees	\$321,077	\$177,221	+81.2%
MVC Fees	\$15,337	\$0	+100.0%
Plan Check Fees	\$697,934	\$430,774	+62.0%
Development Review Fees	\$651,712	\$716,645	-9.1%
<b>Total</b>	<b>\$1,736,340</b>	<b>\$1,372,000</b>	<b>+26.6%</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>\$1,133,450</b>	<b>\$1,133,450</b>	<b>100.0%</b>
<b>CFP Staff Transfers</b>	<b>\$3,115,609</b>	<b>\$3,003,020</b>	<b>103.7%</b>
<b>Total</b>	<b>\$4,249,059</b>	<b>\$4,136,470</b>	<b>102.7%</b>

Interfund services represent payments made by the three utility funds for their portion of central City services costs – Finance, HR, City Manager, City Clerk, IS, and Facilities.

Revenue	Inflow	2011-12 Budget	% of Budget
<b>Fines/Penalties/Criminal</b>	<b>\$773,285</b>	<b>\$1,067,400</b>	<b>72.4%</b>
<b>Other Miscellaneous*</b>	<b>\$1,597,960</b>	<b>\$1,778,000</b>	<b>89.9%</b>
<b>Operating Transfers</b>	<b>\$200,169</b>	<b>\$200,169</b>	<b>100.0%</b>
<b>Total</b>	<b>\$2,571,414</b>	<b>\$3,045,569</b>	<b>84.4%</b>
	<b>2012</b>	<b>2011</b>	<b>Increase/Decrease</b>
<b>Fines/Penalties/Criminal</b>	<b>\$385,734</b>	<b>\$387,550</b>	<b>-0.5%</b>
<b>Other Miscellaneous</b>	<b>\$829,207</b>	<b>\$768,753</b>	<b>+7.9%</b>
<b>Operating Transfers</b>	<b>\$0</b>	<b>\$200,169</b>	<b>-100.0%</b>
<b>Total</b>	<b>\$1,214,941</b>	<b>\$1,356,472</b>	<b>-10.4%</b>

\*Excludes \$1.7 million reimbursement transfer from the Capital Improvement Fund.

See General Fund Revenues - Chart 1

## V. GENERAL FUND – EXPENDITURES

Expenditure	Outflow	2011-12 Budget	% of Budget
Salaries & Benefits	\$58,620,820	\$60,949,843	96.2%
Maintenance & Operations	\$10,887,102	\$12,297,993	88.5%
Capital	\$110,799	\$361,498	30.6%
Interfund/Op Transfers	\$3,424,664	\$4,947,046	69.2%
<b>Total</b>	<b>\$73,043,384</b>	<b>\$78,556,380</b>	<b>93.0%</b>
	2012	2011	Increase/Decrease
Salaries & Benefits	\$29,372,134	\$29,248,686	+0.4%
Maintenance & Operations	\$5,288,547	\$5,598,555	-5.5%
Capital	\$29,854	\$80,945	-63.1%
Interfund/Op Transfers	\$1,867,470	\$1,557,194	+19.9%
<b>Total</b>	<b>\$36,558,005</b>	<b>\$36,485,380</b>	<b>+0.0%</b>

2012 expenditures were up just \$72,625 (less than 0.2%) over 2011 expenditures.

It is important to note that equipment and vehicle operating transfers to the Asset Replacement Fund were not funded during the 2011- 2012 biennium.

*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	\$3,413,689	84.6%
	Outflow	\$3,457,571	95.4%

Subsidy transfers from the General Fund represented over \$1.4 million of Street Fund revenues during the biennium. A portion of the subsidy funding came from a business license fee increase that was approved by Council in July 2012.

	Inflow/Outflow	2011-12 Budget	% of Budget
Arterial Street	Inflow	\$2,335,939	45.2%
	Outflow	\$2,704,481	52.0%

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	\$361,073	75.2%
	Outflow	\$49,334	98.7%

Park Reserve spending occurs through transfers to the Capital Improvement Fund.

		Inflow/Outflow	2011-12 Budget	% of Budget
Capital Improvement	Inflow	\$61,106,252	\$91,349,599	66.9%
	Outflow	\$63,396,688	\$92,529,298	68.5%

Council adopted the 2013-2019 Capital Facilities Plan in October 2012.

## VII. PROPRIETARY FUNDS

Fund		Inflow/Outflow	2011-12 Budget	% of Budget
Water*	Inflow	\$6,890,432	\$7,574,929	91.0%
	Outflow	\$7,077,541	\$8,448,624	83.8%
Sewer*	Inflow	\$10,749,647	\$11,249,481	95.6%
	Outflow	\$10,430,286	\$11,901,736	87.6%
Storm Drain*	Inflow	\$6,864,004	\$6,517,133	105.3%
	Outflow	\$5,803,568	\$8,153,207	71.2%
Equipment Rental	Inflow	\$1,969,936	\$3,057,338	64.4%
	Outflow	\$2,100,606	\$2,957,579	71.0%
Self-Insurance	Inflow	\$1,950,553	\$2,118,078	92.1%
	Outflow	\$1,955,143	\$2,068,077	94.5%
Asset Replacement*	Inflow	\$450,419	\$2,057,092	21.9%
	Outflow	\$2,181,940	\$4,318,461	50.5%

The following 2011-2012 capital expenditures were capitalized, and will be depreciated over time as prescribed by generally accepted accounting principles (GAAP):

	2011/2012		2011/2012
Water:	\$330,449 / \$219,853	Storm Drain:	\$531,519 / \$940,876
Sewer:	\$320,119 / \$326,805	Asset Replace:	\$603,242 / \$389,575

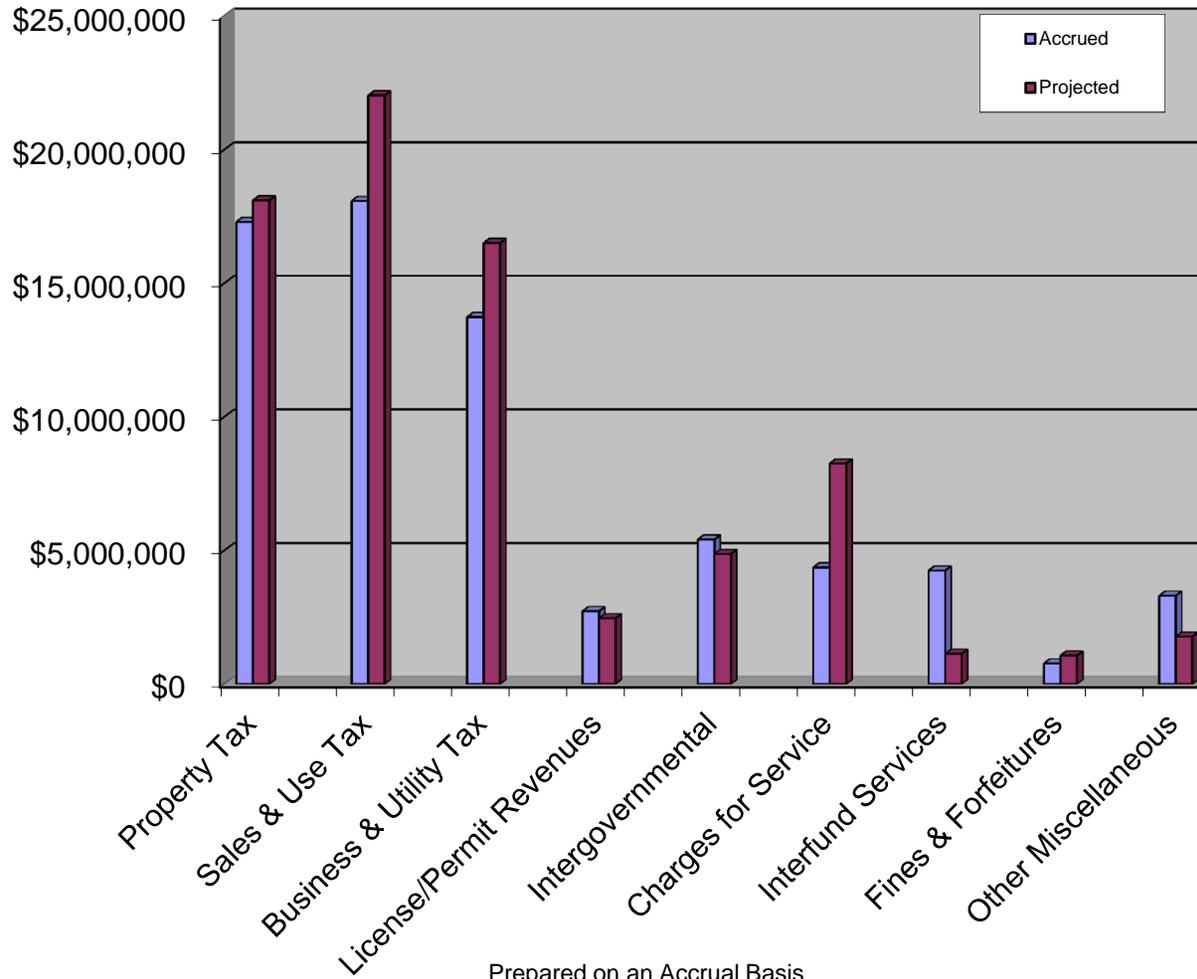
*See Proprietary Funds Expenditures - Chart 4*

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

## VIII. COUNCIL EMPHASIS AREAS

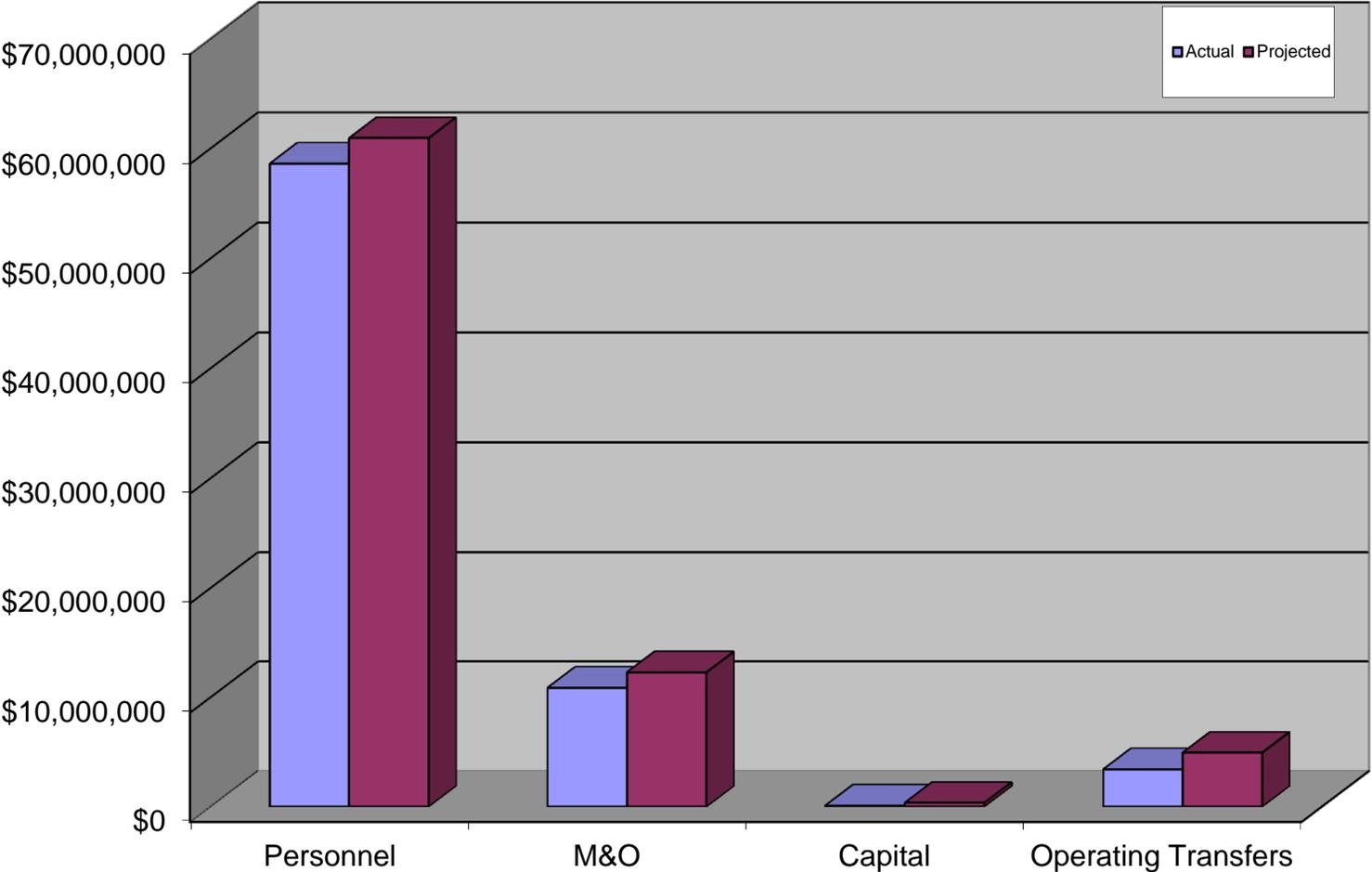
Development and Land Review Fees	Inflow	\$763,383	(Includes A/R)
	Outflow	1,155,219	(Includes overhead)
	Net	<b>(\$391,835)</b>	
Permitting Fees	Inflow	\$1,596,966	
	Outflow	1,682,494	(Includes overhead)
	Net	<b>(\$85,528)</b>	
CFP Project-Term Staff	Inflow	\$1,281,731	(2012 reimbursement to Gen Fund)
	Outflow	1,281,731	(2012 Gen Fund salaries/benefits)
	Net	\$0	
Utility Tax Rebates	2012	\$4,400	(54 rebates)
	2011	4,650	(59 rebates)
	Inc(Dec)	<b>(\$250)</b>	

# General Fund Revenue vs Budget December 31, 2012



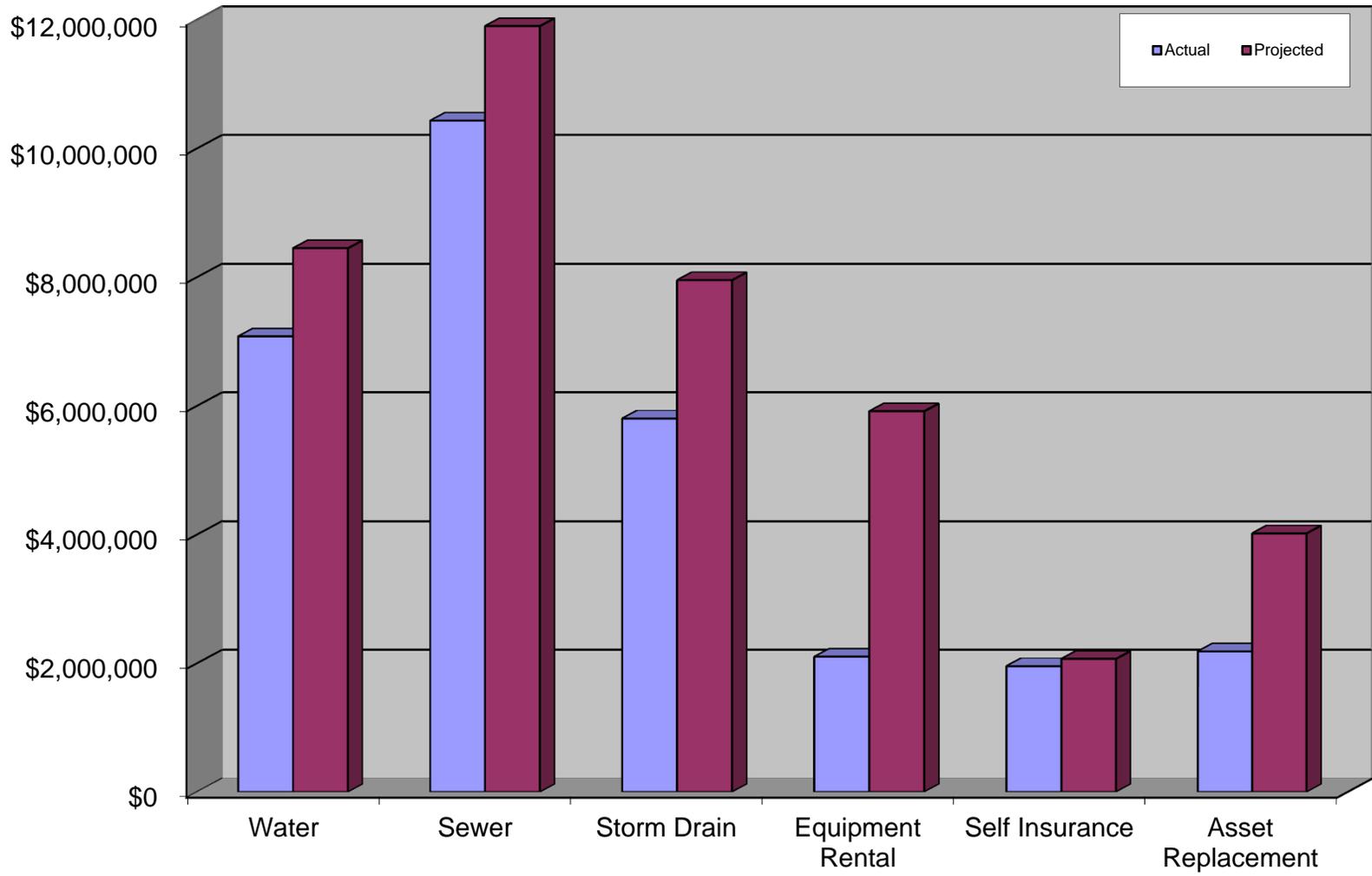
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget December 31, 2012



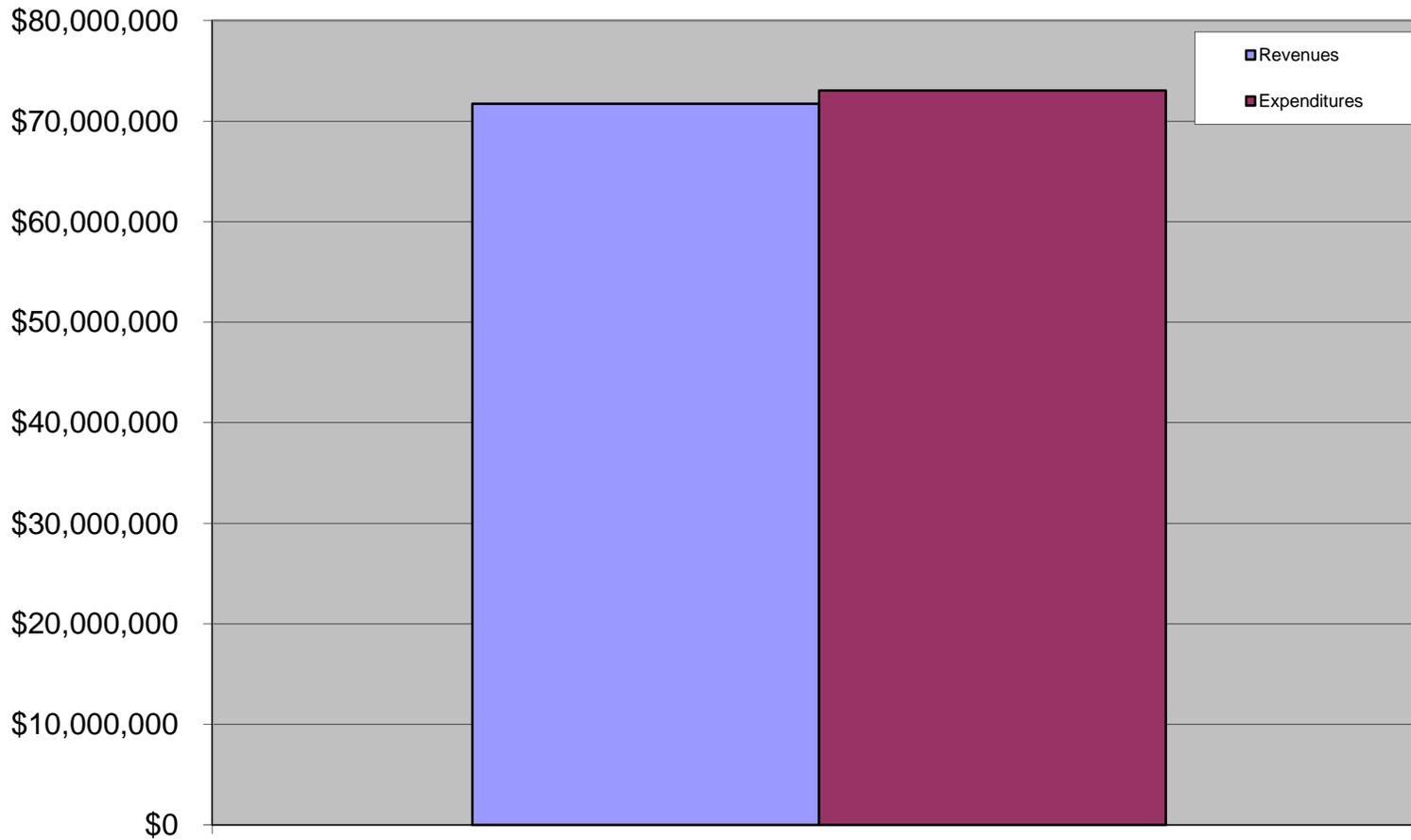
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget December 31, 2012



Proprietary Funds  
Chart 3

# General Fund Revenues vs Expenditures December 31, 2012



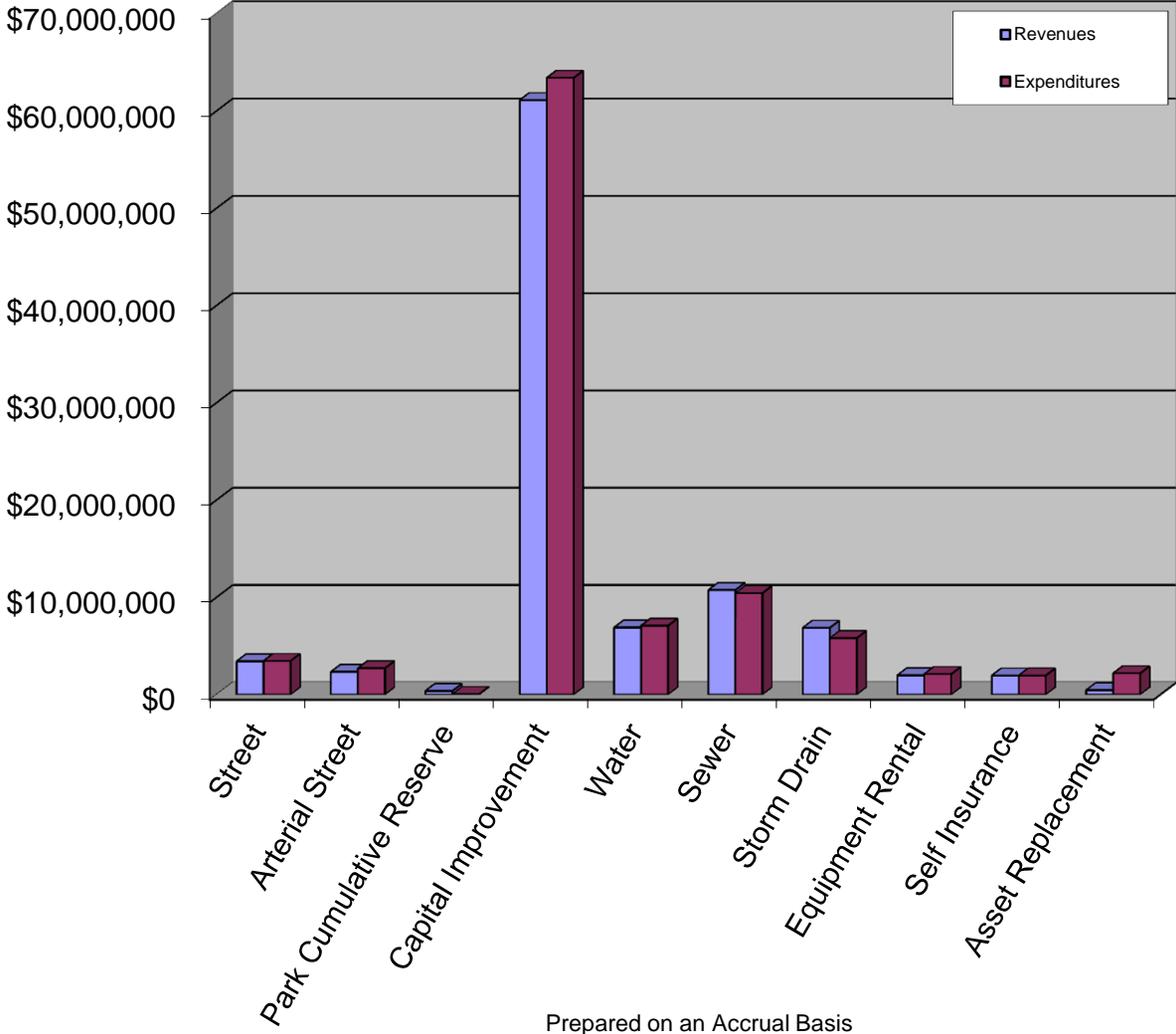
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

# Other Major Funds Revenues vs Expenditures December 31, 2012



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5