

City of Bothell
2009-2010 Budget Status Report
For the Quarter Ending September 30, 2010

I. Biennium Status

As of September 30, 2010, the City had concluded seven quarters of its eight-quarter 2009-2010 biennium. The budget period described in this report is 87.5% complete.

Capital expenditures in proprietary funds (the utility enterprise funds, plus the Asset Replacement Fund) are capitalized at year-end and depreciated over time, rather than expensed in the year they are incurred. Actual spending and changes in fund balance for these funds will thus be greater than stated expenditure outflow totals. Capitalized expenditures in these funds from 2009 will be noted in Section VII of this report.

Citywide

At the end of the seventh quarter, Citywide revenue inflows totaled 66.2% of the amended 2009-10 revenue projection. Expenditure outflows have spent 69.9% of the 2009-10 amended appropriation.

The City's 2009-10 budget position (considering inflows and outflows) sits at a negative \$35.7 million at September 30. \$31.6 million of this figure is the result of planned Capital Facilities Plan (CFP) spending.

General Fund

General Fund revenue inflows totaled 80.4% of the biennial projection at September 30. Retail sales tax revenue remained well behind projections, but continued its recovery from 2009 totals (up \$640,000 from the first nine months of 2009.) Construction sales tax revenue was up \$350,000 from 2009, but continued below biennial projections.

Building permit revenues, while still behind the biennial projection, remained about 25% ahead of 2009 levels. Utility taxes continue to come in lower than projected – they are down \$325,000 from the first three quarters of 2010.

General Fund expenditure outflows spent down 85.8% of their biennial projection. Outflows exceeded inflows by \$525,000 (\$175,000 per month) in the third quarter of 2010, compared to:

2 nd quarter 2010:	\$597,000 (\$199,000/month)
1 st quarter 2010:	\$749,658 (\$250,000/month)
4 th quarter 2009:	\$343,000 (\$114,000/month)
3 rd quarter 2009:	\$748,000 (\$249,000/month)
2 nd quarter 2009:	\$249,000 (\$83,000/month)
1 st quarter 2009:	\$620,000 (\$207,000/month)

To date, City management has taken the following steps in response to 2009-2010 revenue shortfalls:

- Deferred approximately \$3 million in General Fund operating expenditures.
- Used \$600,000 in undesignated/unreserved fund balance.

In addition, staff projects that by the end of 2010, \$1.2 million or \$1.3 million of the 2009-2010 General Fund Operating Reserve will be needed to fill the fourth quarter revenue shortfall gap.

Staff's goal for the last quarter of the 2009-2010 biennium is to maintain a healthy 15% General Fund Operating Reserve for the 2011-2012 biennium. If the 2010 fourth quarter revenue gap exceeds current estimates, department expenditure deferrals will be required in the first quarter of 2011 to preserve City management's desired 15% General Fund Operating Reserve.

II. Citywide Summary

		Inflow/Outflow	2009-10 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$110,077,151	\$166,297,682	66.2%
	Outflow	\$145,791,498	\$208,401,537	69.9%
<u>CITY TOTAL</u> (less Arterial Street and Capital Improvements Funds)	Inflow	\$88,883,287	\$110,605,982	80.4%
	Outflow	\$99,970,825	\$131,011,137	76.3%
<u>GENERAL FUND*</u>	Inflow	\$58,663,760	\$72,940,996	80.4%
	Outflow*	\$62,496,293	\$73,535,308	85.0%

*Excludes a \$4 million operating transfer from the General Fund to the Capital Fund in 2009. This transaction was prescribed in the City budget, as well as the 2009-2015 adopted Capital Facilities Plan (CFP).

III. Economic Recap

National non-farm payroll employment declined by 782,000 jobs during the third quarter of 2010, raising the national unemployment rate to 9.6%. While the construction and manufacturing sectors saw slight gains, the governmental sector experienced large declines. Job losses in local government and the elimination of temporary Census 2010 jobs were the primary factors.

<u>U.S. GOODS-PRODUCING: +103,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: -885,000 JOBS</u>	
Construction	+55,000	Wholesale trade	-9,000
Manufacturing	+24,000	Retail trade	-88,000
Mining & logging	+24,000	Transportation/warehousing/utilities	+35,000
		Information	-22,000
		Professional/financial/business	+7,000
		Educational/health services	+188,000
		Leisure/hospitality	-294,000
		Other services	-44,000
		Government	-658,000

Statewide, 24,000 non-farm jobs were lost during the third quarter of 2010. Washington's September unemployment rate rose to 9.0%, and the Seattle-Bellevue-Everett rate climbed to 8.6%.

STATE GOODS-PRODUCING: -5,500 JOBS		STATE SERVICE-PROVIDING: -18,500 JOBS	
Construction	-4,700	Wholesale trade	+400
Manufacturing	-600	Retail trade	-3,300
Mining & logging	-200	Transportation/warehousing/utilities	+2,800
		Information	+700
		Professional/financial/business	-4,300
		Educational/health services	-2,600
		Leisure/hospitality	-1,100
		Other services	0
		Government	-11,100

State forecasters believe that the recession has ended, but they admit that the recovery continues to be painfully slow. There are some positive signs – the software industry is expanding, and the aerospace sector appears poised to resume growth in 2011.

New home starts in Washington were up slightly, but sales of new homes remained unchanged in the third quarter. The housing market is not expected to recover in any meaningful way until at least 2011.

The August Consumer Price Index for the Seattle-Tacoma-Bremerton region increased 0.7% from the June figure. The year-over-year increase was also 0.7%.

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 2010 sales tax revenues were not remitted to the City until the end of November.

Revenue	Inflow	2009-10 Budget	% of Budget
Property Tax	\$14,274,070	\$16,505,700	86.5%

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

Revenue	Inflow	2009-10 Budget	% of Budget
Sales/Use Tax			
Retail	\$11,237,035	\$15,070,200	74.6%
Construction	\$3,489,627	\$5,250,000	66.5%
Hotel/Motel	\$327,302	\$450,000	72.7%
Criminal Justice	\$937,596	\$1,153,100	81.3%
Total	\$15,991,560	\$21,923,300	72.9%

Retail sales tax revenues continued to run significantly below budgeted projections, but they remained improved over 2009 totals (\$640,000 higher than in the first nine months of 2009).

Similarly, construction sales tax revenues continued to run below projections. Revenues in the first three quarters of 2010, however, were up \$350,000 from 2009.

As stated earlier, the City has deferred \$3 million in operating expenditures during 2009-2010 to offset this revenue shortfall.

Both Hotel/Motel (legally restricted to tourism promotional activities) and criminal justice sales tax revenues remained consistent with 2009 levels.

Revenue	Inflow	2009-10 Budget	% of Budget
Business/Utility Tax	\$12,407,892	\$15,953,900	77.8%

Business and utility tax revenues continued to trail the month-to-month biennial projection. 2010 year-to-date revenues remained 6% (\$325,000) down from the first nine months of 2009

Revenue	Inflow	2009-10 Budget	% of Budget
Other Taxes	\$1,197,941	\$1,418,200	84.5%

Other taxes include leasehold excise taxes, EMS levy receipts, and gambling taxes. EMS levy collections comprise 91.9% 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	2009-10 Budget	% of Budget
Licenses & Permits			
Business/Sign Licenses	\$524,426	\$590,000	88.9%
Building Permits	\$1,043,910	\$1,273,800	82.0%
Plumbing/Mechanical	\$220,252	\$265,000	83.1%
Pre-Application Fees	\$32,147	\$70,000	45.9%
Other Miscellaneous	\$7,889	\$10,400	75.9%
Total	\$1,828,624	\$2,209,200	82.8%

Building permit revenues remained below biennial projections, but they were up 25% (\$102,000) compared to the first nine months of 2009. This modest upward trend in development is anticipated to be sustainable in the ensuing biennium.

Revenue	Inflow	2009-10 Budget	% of Budget
Intergovernmental	\$4,196,591	\$4,654,550	90.2%

Intergovernmental revenues are mainly comprised of grant funding, and make up only 6.4% of the General Fund's revenue budget. Grants awards normally require the grantee to incur expenditures before requesting reimbursement.

Revenue	Inflow	2009-10 Budget	% of Budget
Charges for Services	\$5,406,753	\$6,510,000	83.1%

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.

Revenues in this category were up nearly \$200,000 from the same period in 2009. Plan check fees made up the majority of this increase – up nearly \$192,000. This modest upward trend in development is expected to continue in the next biennium (2011-2012).

Revenue	Inflow	2009-10 Budget	% of Budget
Fines/Penalties/Criminal	\$768,535	\$920,800	83.5%
Other Miscellaneous	\$1,634,981	\$1,742,300	93.8%
Operating Transfers	\$961,736	\$1,103,046	87.2%

See General Fund Revenues - Chart 1

V. General Fund Expenditures

The \$4 million transfer to the Capital Improvements Fund skews the numbers that appear below. Personnel spending is now running about half of one percent above budget projections, while maintenance/operations (M&O) spending continues to run below projections. Considered together, the two categories are just over \$100,000 under the month-to-month biennial projection.

To date, \$3 million in General Fund expenditures have been deferred during the 2009-2010 biennium. Staff continues to analyze vital needs in order to identify additional 2010 fourth quarter spending that can be deferred, in order to offset revenue shortfalls expected through the end of the year.

Expenditure	Outflow	2009-10 Budget	% of Budget
Salaries & Benefits	\$48,973,988	\$55,753,055	87.8%
Maintenance & Operations	\$10,216,240	\$12,019,923	85.0%
Capital	\$274,106	\$415,830	65.9%
Operating Transfers	\$7,031,959	\$7,392,660	95.1%
Budget Deferrals	\$0	\$1,953,840	n/a
Total	\$66,496,293	\$77,535,308	85.8%

See General Fund Expenditures - Chart 2

See General Fund Revenues vs. Expenditures - Chart 3

VI. Other Major Funds

	Inflow/Outflow	2009-10 Budget	% of Budget
Street	Inflow	\$2,229,717	73.2%
	Outflow	\$2,841,347	71.1%

The Street Fund's 2009-2010 budget anticipated spending down fund balance (General Fund subsidy funding that had accumulated in recent years). The 2009-2010 budget

did not anticipate termination of the City's street light fee, which resulted in a \$300,000 revenue shortfall for the Street Fund.

A budget amendment to increase the General Fund subsidy to Street is required in 2010 to offset this revenue loss.

		Inflow/Outflow	2009-10 Budget	% of Budget
Arterial Street	Inflow	\$825,353	\$3,762,800	21.9%
	Outflow	\$1,012,796	\$2,644,500	38.3%

The Arterial Street Fund is primarily funded through grants and impact fees. Nearly all of the Capital Facilities Plan-related projects funded within Arterial Street were moved to the Capital Improvement Fund as part of the 2009 budget amendment.

		Inflow/Outflow	2009-10 Budget	% of Budget
Park Reserve	Inflow	\$1,524,787	\$967,213	157.6%
	Outflow	\$736,672	\$881,900	83.5%

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

		Inflow/Outflow	2009-10 Budget	% of Budget
Capital Improvement	Inflow	\$20,368,511	\$51,928,900	39.2%
	Outflow	\$44,764,877	\$74,745,900	59.9%

Capital spending is in line with the 2011-2017 adopted Capital Facilities Plan.

VII. Proprietary Funds

Utility Funds		Inflow/Outflow	2009-10 Budget	% of Budget
Water	Inflow	\$6,153,159	\$7,316,309	84.1%
	Outflow	\$6,823,124	\$11,816,490	57.7%
Sewer	Inflow	\$8,220,681	\$10,246,046	80.2%
	Outflow	\$9,306,398	\$13,984,646	66.5%
Storm Drain	Inflow	\$5,197,732	\$7,884,892	65.9%
	Outflow	\$5,307,626	\$9,828,212	54.0%

Capital expenditures in proprietary funds are capitalized at year-end and depreciated over time, rather than being completely expensed in the year they are incurred. The following amounts were capitalized in the utility funds at year-end 2009:

- Water \$1,195,974
- Sewer \$ 517,967
- Storm Drain \$1,774,495

The Storm Drain Fund's revenue budget contains a \$2.2 million inter-fund loan from the Asset Replacement Fund. This loan, for the new Public Works Operations Center, is

being made incrementally as Ops Center expenditures are made in Storm Drain. The loan will be fully drawn down by year-end 2010.

Internal Service Funds		Inflow/Outflow	2009-10 Budget	% of Budget
Equipment Rental	Inflow	\$2,340,710	\$2,689,928	87.0%
	Outflow	\$2,864,182	\$3,342,832	85.7%
Self-Insurance	Inflow	\$1,571,385	\$1,851,436	84.9%
	Outflow	\$1,851,706	\$2,059,737	89.9%
Asset Replacement	Inflow	\$1,657,660	\$2,206,576	75.1%
	Outflow	\$2,856,126	\$6,000,322	47.6%

\$487,045 in capital expenditures from Asset Replacement was capitalized in 2009.

The Equipment Rental Fund's budget allowed for spending down accumulated fund balance during the 2009-2010 biennium. This action reduced the current biennium's General Fund subsidy requirement through lower than normal equipment rental rates.

Self-Insurance expenditure figures are skewed for most of the year, as the City's annual insurance premium is paid during the first quarter.

As explained previously in the Utility Fund discussion, the Asset Replacement Fund's expenditure budget includes a \$2.2 million inter-fund loan to the Storm Drain Fund that is occurring in increments as expenditures are made in Storm Drain.

See Proprietary Funds Expenditures - Chart 4

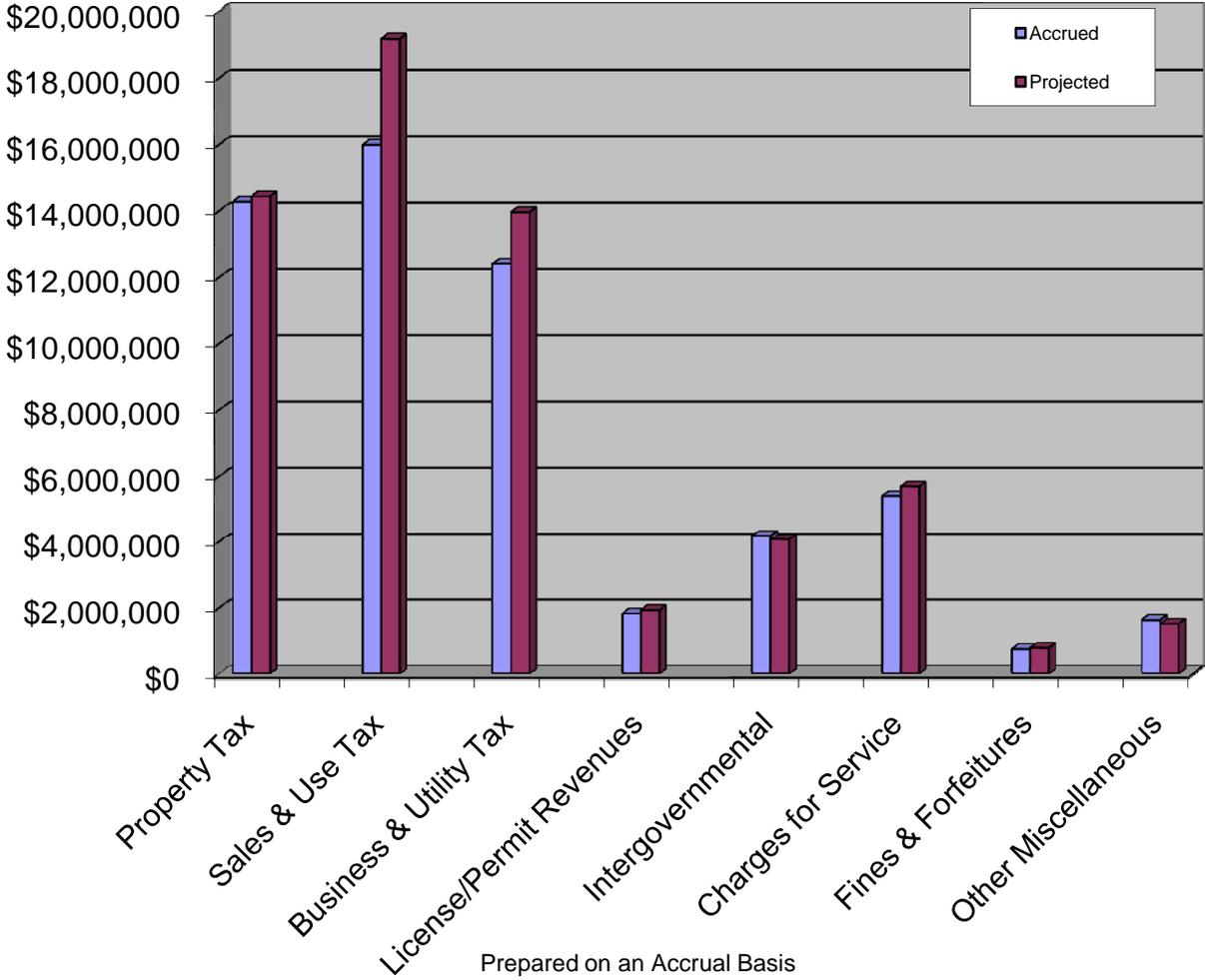
See Other Major Funds Revenues vs. Expenditures - Chart 5

VIII. Council Emphasis Areas

Development Review	Inflow	\$626,430	(Includes A/R)
	Outflow	921,283	(Includes overhead)
	Net	(\$294,853)	
Permitting	Inflow	\$1,023,136	
	Outflow	1,179,126	(Includes overhead)
	Net	(\$155,990)	
CFP Project-Term Staff	Inflow	\$858,361	(2010 reimbursement to Gen Fund)
	Outflow	858,361	(2010 Gen Fund salaries/benefits)
	Net	\$0	
PWS Facility Surcharge*	Inflows	\$70,003.65	(Since 1998)
	Expires	\$67,482.84	
Utility Tax Rebates	2010	\$ 2,450	(31 rebates)
	2009	5,975	(81 rebates)
	Increase		
	(Decrease)	(\$3,525)	

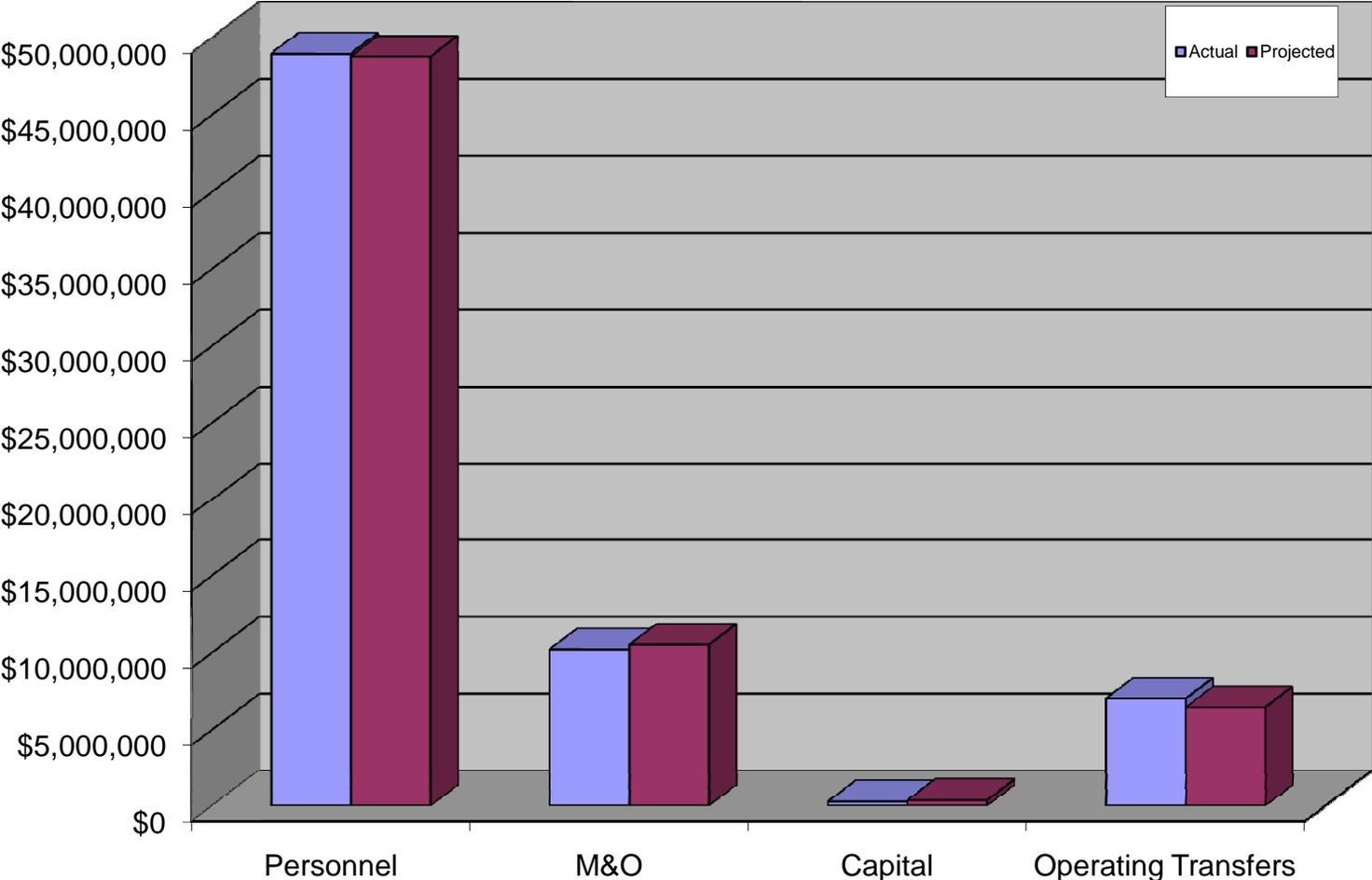
*Refunds are being issued to the two applicants whose payments pushed total revenues over the expiration threshold.

General Fund Revenue vs Budget September 30, 2010



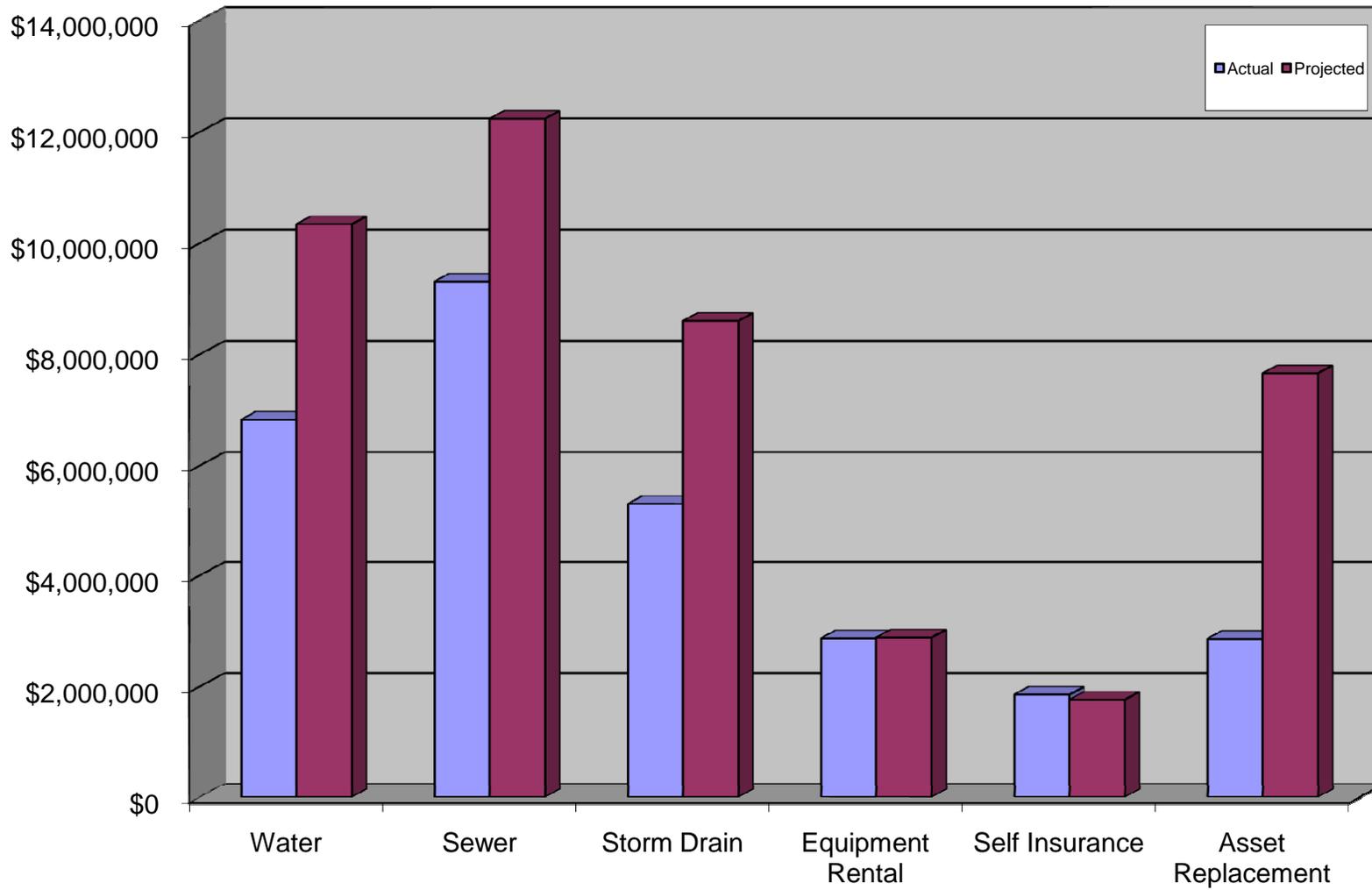
General Fund Revenues
Chart 1

General Fund Expenditures vs Budget September 30, 2010



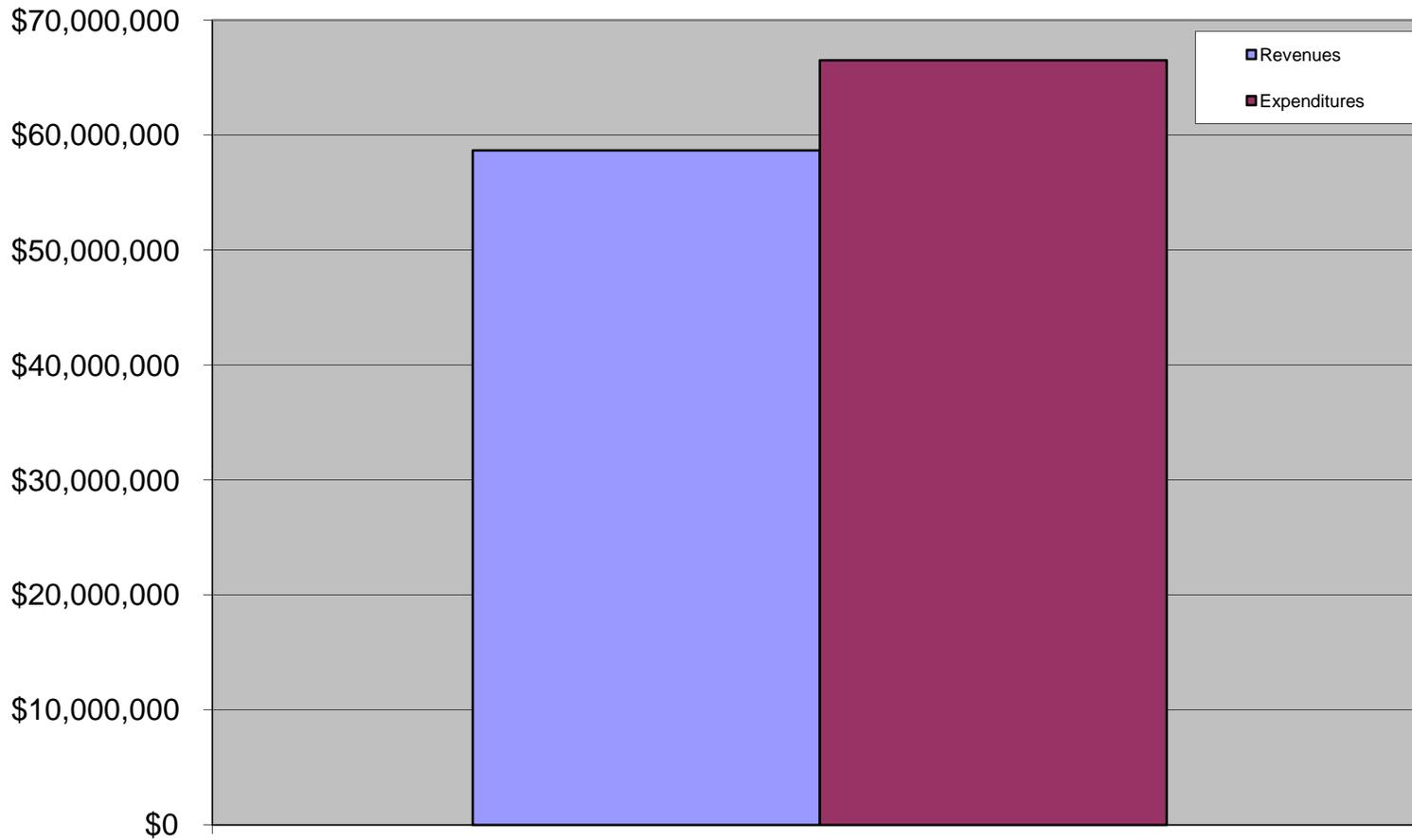
General Fund Expenditures
Chart 2

Proprietary Funds Expenditures vs Budget September 30, 2010



Proprietary Funds
Chart 3

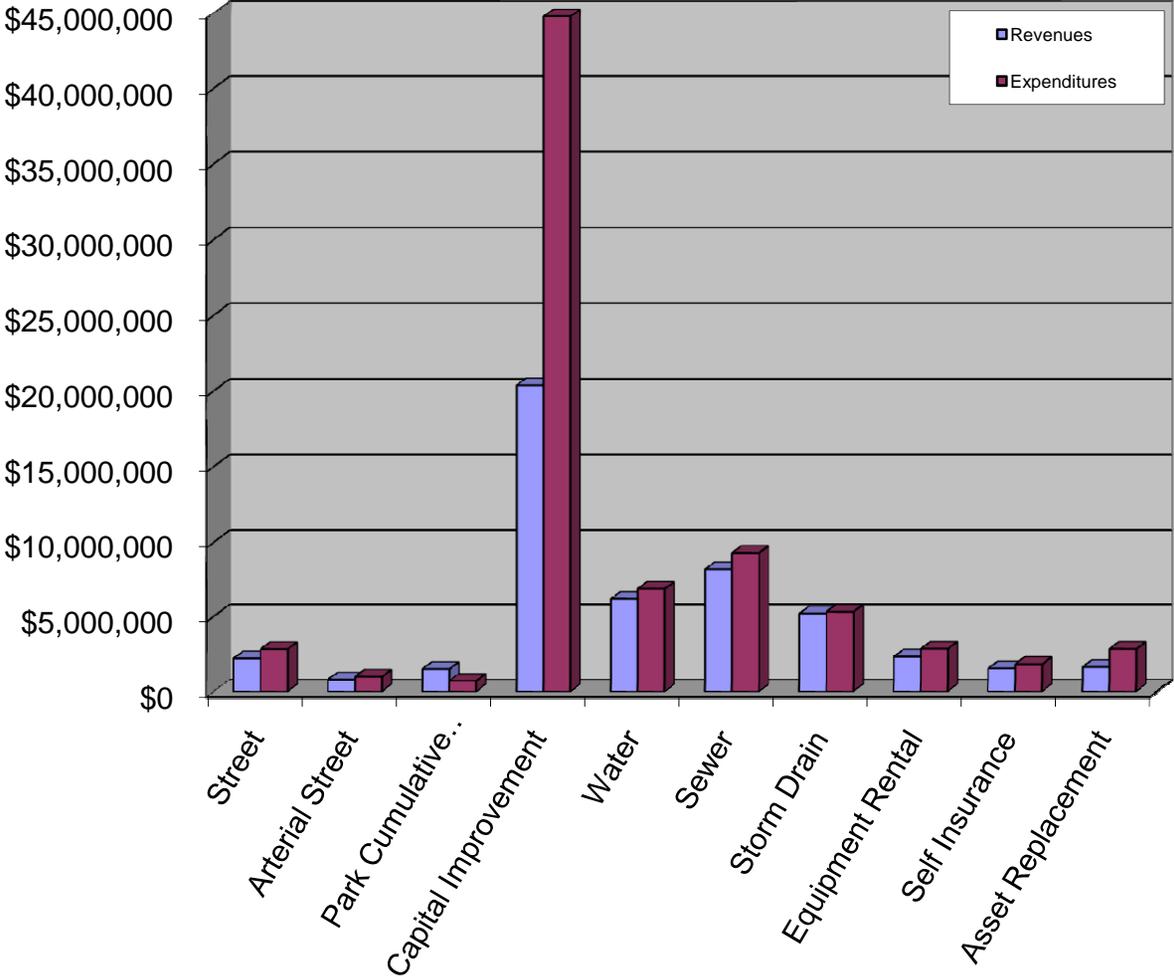
General Fund Revenues vs Expenditures September 30, 2010



General Fund
Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures
Chart 4

Other Major Funds Revenues vs Expenditures September 30, 2010



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures
Chart 5