

# City of Bothell

## 2007-2008 Budget Status Report

### For the Quarter Ending December 31, 2008

#### I. Biennium Status

The City has concluded the final quarter of its eight-quarter biennium. The budget period is 100% (24 of 24 months) complete. The 2008 books remain open as staff work on revenue accruals and other year-end accounting entries. The City's 2008 State-audited Comprehensive Annual Financial Report (CAFR) will be available in June 2009.

Enterprise funds' capital expenditures are capitalized and depreciated over time rather than expensed in the year they are incurred, so enterprise fund expenditures will decrease once year-end fixed asset entries are available and posted.

#### Citywide

Citywide revenue inflows for the biennium amounted to 90.2% of the biennial projection, compared to 94.5% in 2005-06. Expenditure outflows spent 83.5% of the biennial appropriation, compared to 78.1% in 2005-06.

The City's budget position (considering inflows and outflows) sits at a positive \$193,657 for 2007-08, compared to +\$15.25 million in 2005-06. (Recall that \$17 million in surplus and one-time revenue was transferred to the Capital Fund during 2005-06.)

#### General Fund

General Fund revenue inflows amounted to 96.2% of the biennial projection, compared to 112.7% in 2005-06. Throughout the 2007-08 biennium, retail sales tax revenues ran below budget projections, and substantially below levels seen in 2005-06. Expenditure outflows spent down 97.8% of the biennial projection, compared to 94.9% in 2005-06. Departments were notified in mid-2008 to curb spending, in an effort to better align 2007-08 General Fund expenditures with revenue receipts.

General Fund outflows exceeded inflows by \$1.97 million. \$852,000 was due to the Department of Revenue (DOR) withholding 2007-08 sales tax revenues to correct prior year DOR distribution errors – leaving a gap between earned revenues and expenditure outflows of \$1.1 million. Staff had anticipated a \$500,000 variance.

This budget position is \$5.2 million ahead of where the Fund ended 2005-06 - the comparison is skewed, however, by the fact that transfers to the Capital Fund (per the City's CFP policy) are expected to total \$4 million in 2007-08, compared with \$17 million in 2005-06.

#### II. Citywide Summary

		Inflow/Outflow	2007-2008 Budget	% of Budget
<u>CITY TOTAL</u>	Inflow	\$153,274,617	\$169,912,095	90.2%
	Outflow	\$153,080,959	\$183,301,402	83.5%
<u>CITY TOTAL</u> (less Arterial Street and Capital Funds)	Inflow	\$110,775,001	\$114,816,028	96.5%
	Outflow	\$112,370,071	\$117,736,483	95.4%

		Inflow/Outflow	2007-2008 Budget	% of Budget
<u>GENERAL FUND*</u>	Inflow	\$70,222,518	\$73,008,111	96.2%
	Outflow	\$72,189,545	\$73,825,814	97.8%

\*Excludes \$852,000 in sales tax revenues that were earned, but withheld by DOR to correct past DOR distribution errors.

### III. Economic Recap

National non-farm payroll employment decreased by a staggering 1,531,000 jobs during the fourth quarter of 2008. The national unemployment rate rose to 7.2%.

Since the start of the recession in December 2007, the number of unemployed persons has grown by 3.6 million, and the unemployment rate has risen from 4.9% to 7.2%.

<u>U.S. GOODS-PRODUCING: - 634,000 JOBS</u>		<u>U.S. SERVICE-PROVIDING: -111,000 JOBS</u>	
Construction	- 265,000	Retail trade	-233,000
Manufacturing	- 376,000	Professional/business services	-339,000
		Educational/health services	+111,000
		Leisure/hospitality	-119,000
		Government	+ 19,000

At the state level, 44,800 non-farm jobs were lost during the fourth quarter of 2008. This total represents 82% of the total statewide jobs that were lost during all of 2008. Washington's unemployment rate shot up to 7.1%, while the Seattle-Bellevue-Everett rate closed December at 6.2%.

After lagging behind the national rate for the first three quarters of 2008, Washington's unemployment rate has nearly caught up to the U.S. unemployment rate. Until the U.S. financial system has fully recovered, credit-sensitive industries in Washington such as construction and durable goods manufacturing will continue to see job losses.

<u>STATE GOODS-PRODUCING: -20,300 JOBS</u>		<u>STATE SERVICE-PROVIDING: -24,500 JOBS</u>	
Construction	-11,800	Wholesale trade	-3,200
Manufacturing	-8,100	Retail trade	-9,100
Natural Resources & Mining	-400	Transportation/warehousing/utilities	+800
		Information	0
		Professional/business services	-19,500
		Educational/health services	+1,700
		Leisure/hospitality	-1,300
		Other services	-500
		Government	+6,600

The Federal Reserve indicated in its January meeting that it intends to keep the targeted range for the federal funds rate (interest rate that banks charge each other on overnight loans) between 0% and 0.25% "for some time" to help brace the economy. Economists are predicting that the rate will remain at this level for the rest of 2009.

The State Economic and Forecast Council indicated in its February revenue collections report that General Fund tax receipts for January (reflecting December and fourth quarter business activity) were 10.1% lower than the same period a year ago. The

forecasted decline was just 5.7%. Tax receipts from the retail trade sector have declined year-over-year in 12 of the past 13 months.

The bimonthly Consumer Price Index for the Seattle-Tacoma-Bremerton region continued to drop in December - dropping 1.5% from the October 2008 figure. It remained 1.7% higher than in December 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, December sales tax revenue is not actually remitted to the City until the end of February. Where actual revenue figures are not yet available, projected accruals have been utilized.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Property Tax</b>	<b>\$15,604,605</b>	<b>\$15,758,913</b>	<b>99.0%</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>			
Retail*	\$16,125,042	\$16,821,500	95.9%
Construction	\$4,443,282	\$4,569,300	97.2%
Hotel/Motel	\$494,071	\$497,300	99.4%
Criminal Justice	\$1,281,426	\$1,311,600	97.7%
<b>Total*</b>	<b>\$22,343,822</b>	<b>\$23,199,700</b>	<b>96.3%</b>

\*Includes \$852,000 in revenues that were earned, but withheld by DOR to correct past DOR distribution errors.

As stated earlier, retail sales tax revenues ran below projections. Revenues received in 2008 were down \$793,000 from 2007, and down \$1.87 million from 2006. The professional science and technical services sectors experienced the largest declines.

Destination-based sales tax took effect July 1. Impact from the legislation on Bothell's sales tax receipts remains uncertain. The legislation calls for municipalities to receive quarterly payments from the State to mitigate any net loss. In 2002, the Department of Revenue (DOR) estimated Bothell's streamlined sales tax (SST) mitigation to exceed \$420,000 per year.

The City's first SST mitigation funding for the third quarter (July-September) was paid at the end of December, and totaled just \$3,566. We will not know until March 31, 2009 if inclement weather may have impacted SST mitigation for the fourth quarter of 2008.

In 2007, DOR miscoded \$228,000 as Bothell sales tax, which subsequently had to be returned to DOR in 2008. In addition, DOR withheld over \$26,000 per month (\$624,000 during 2007-08) 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>\$14,136,960</b>	<b>\$14,483,434</b>	<b>97.6%</b>

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Other Taxes</b>	<b>\$1,356,427</b>	<b>\$1,376,000</b>	<b>98.6%</b>

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

EMS levy collections comprise 90% 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	2007-2008 Budget	% of Budget
<b>Licenses &amp; Permits</b>			
<b>Business/Sign Licenses</b>	<b>\$519,500</b>	<b>\$532,500</b>	<b>97.6%</b>
<b>Building Permits</b>	<b>\$1,794,753</b>	<b>\$2,250,000</b>	<b>79.8%</b>
<b>Plumbing/Mechanical</b>	<b>\$307,869</b>	<b>\$410,000</b>	<b>75.1%</b>
<b>Pre-Application Fees</b>	<b>\$57,456</b>	<b>\$72,000</b>	<b>79.8%</b>
<b>Other Miscellaneous</b>	<b>\$8,331</b>	<b>\$7,500</b>	<b>111.1%</b>
<b>Total</b>	<b>\$2,687,909</b>	<b>\$3,272,000</b>	<b>82.1%</b>

The slumping housing market and struggling economy combined to nearly eliminate new building permit requests in the last quarter of 2008. Development review fees (shown below in Charges for Services) were up slightly in 2008.

Revenue	Inflow	2007-2008 Budget	% of Budget
<b>Intergovernmental</b>	<b>\$4,188,471</b>	<b>\$4,277,780</b>	<b>97.9%</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>\$6,731,505</b>	<b>\$6,821,778</b>	<b>98.7%</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>\$837,917</b>	<b>\$805,300</b>	<b>104.1%</b>
<b>Other Miscellaneous</b>	<b>\$2,216,676</b>	<b>\$2,201,800</b>	<b>100.7%</b>
<b>Operating Transfers</b>	<b>\$970,220</b>	<b>\$811,406</b>	<b>119.6%</b>

Outside legal costs associated with the 2008 vacancy of the City Attorney position were allocated to the utility and Self-Insurance funds via a year-end operating transfer in 2008, as the City Attorney's salary would have been allocated.

*See General Fund Revenues - Chart 1*

## V. General Fund Expenditures

Biennial expenditures were \$1.64 million (2.2%) below the 2007-2008 projection. Personnel expenditures made up the lion's share of the variance – they finished \$1.24 million (2.5%) lower than projected.

\$4 million was transferred to the Capital Improvement Fund during 2007-2008, in accordance with the City's Capital Facilities Plan policy.

Expenditures	Outflow	2007-2008 Budget	% of Budget
Salaries & Benefits	\$48,870,410	\$50,110,462	97.5%
Maintenance & Operations	\$13,722,384	\$14,085,555	97.4%
Capital	\$943,031	\$740,947	127.3%
Operating Transfers	\$8,653,720	\$8,888,850	97.4%
<b>Total</b>	<b>\$72,189,545</b>	<b>\$73,825,814</b>	<b>97.8%</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>\$3,061,999</b>	<b>95.0%</b>
	<b>Outflow</b>	<b>\$3,446,554</b>	<b>93.6%</b>

\$530,000 of Street Fund revenues consisted of a subsidy from the General Fund.

	Inflow/Outflow	2007-2008 Budget	% of Budget
Arterial Street	<b>Inflow</b>	<b>\$18,474,656</b>	<b>59.2%</b>
	<b>Outflow</b>	<b>\$18,192,689</b>	<b>55.2%</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>\$535,433</b>	<b>68.7%</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	2007-2008 Budget	% of Budget
Capital Improvement	<b>Inflow</b>	<b>\$24,024,960</b>	<b>100.6%</b>
	<b>Outflow</b>	<b>\$22,518,199</b>	<b>69.0%</b>

Revenues include \$4 million transferred from the General Fund in accordance with CFP Plan fiscal policies.

## VII. Proprietary Funds

Utility Funds	Inflow/Outflow	2007-2008 Budget	% of Budget	
Water	Inflow	\$7,340,692	\$7,581,184	96.8%
	Outflow	\$6,578,607	\$7,815,662	84.2%
Sewer	Inflow	\$9,784,928	\$9,866,597	99.2%
	Outflow	\$9,627,358	\$10,266,110	93.8%
Storm Drain	Inflow	\$4,057,397	\$4,486,200	90.4%
	Outflow	\$4,679,960	\$6,072,666	77.1%

Interfund loans and payments, plus capital expenditures related to the new Public Works shop, were removed as part of the 2008 budget amendment.

Personnel costs ended up \$370,000 (7.5%) less than projected, while maintenance and operations (M&O) costs nearly hit their mark – falling \$22,700 (0.2%) shy of projections.

Capital expenditures make up the largest share of the variance –running \$2.7 million below biennial projections. 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. The variance will likely increase once the 2008 books are closed.

Internal Service Funds	Inflow/Outflow	2007-2008 Budget	% of Budget	
Equipment Rental	Inflow	\$3,143,669	\$3,062,518	102.6%
	Outflow	\$3,116,588	\$3,163,397	98.5%
Self-Insurance	Inflow	\$2,085,244	\$2,015,701	103.5%
	Outflow	\$1,918,839	\$2,010,179	95.5%
Asset Replacement	Inflow	\$2,573,517	\$2,516,987	102.2%
	Outflow*	\$2,879,021	\$2,553,946*	112.7%*

\*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. 2008 expenditures will be capitalized before the City's books close, which will reduce outflows by approximately \$1.2 million.

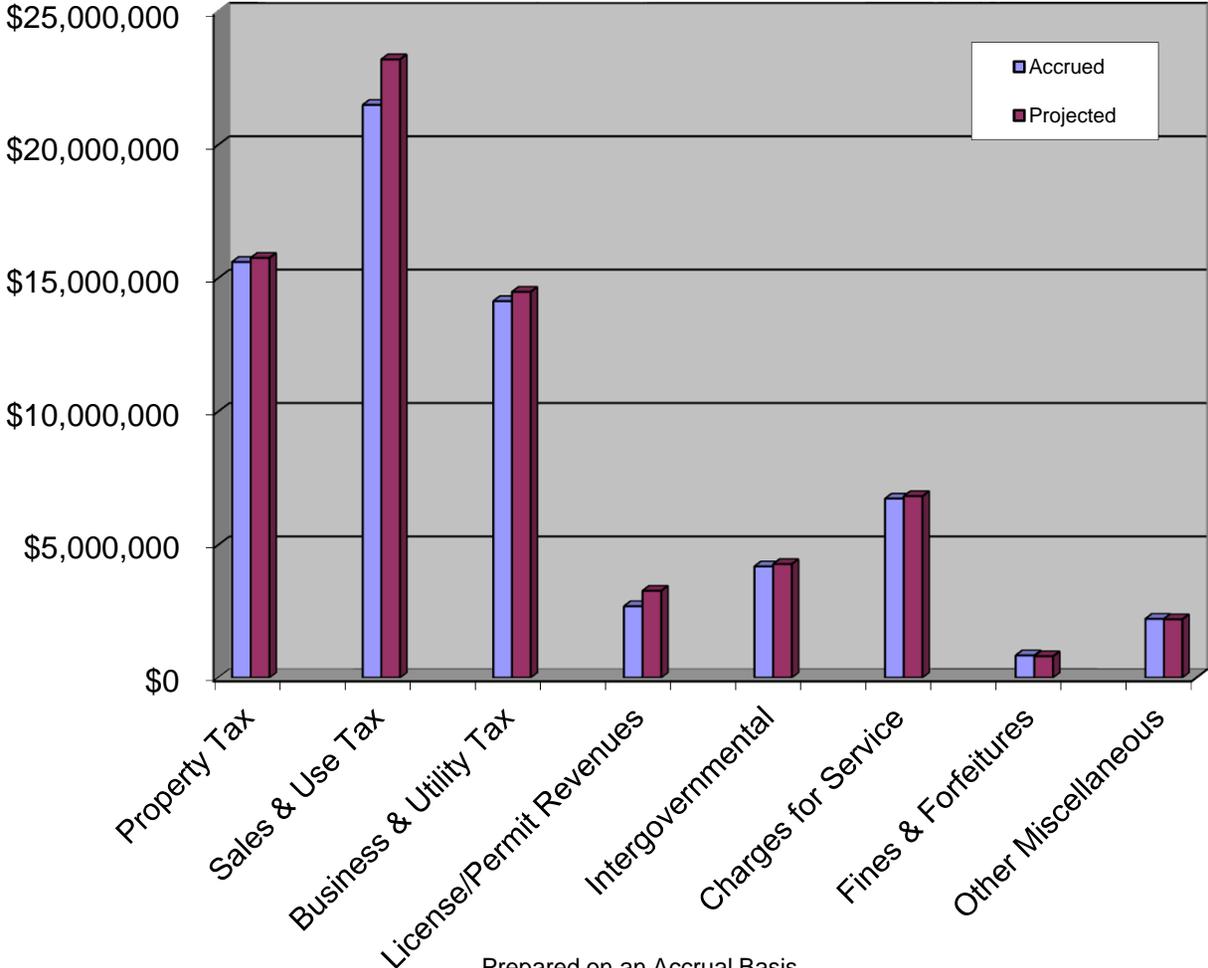
*See Proprietary Funds Expenditures - Chart 4*

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

## VIII. Council Emphasis Areas

Development Review	Inflow	\$1,246,348	(Includes A/R)
	Outflow	1,414,695	(Includes overhead)
	Net	(\$168,346)	
Permitting	Inflow	\$1,408,097	
	Outflow	1,334,438	(Includes overhead)
	Net	\$ 73,659	
CFP Project-Term Staff	Inflow	\$830,709	(Reimbursement)
	Outflow	830,709	(General Fund wages)
	Net	\$ 0	
PWS Facility Surcharge	Inflows	\$64,131.65	(Since 1998)
	Expires	\$67,482.84	

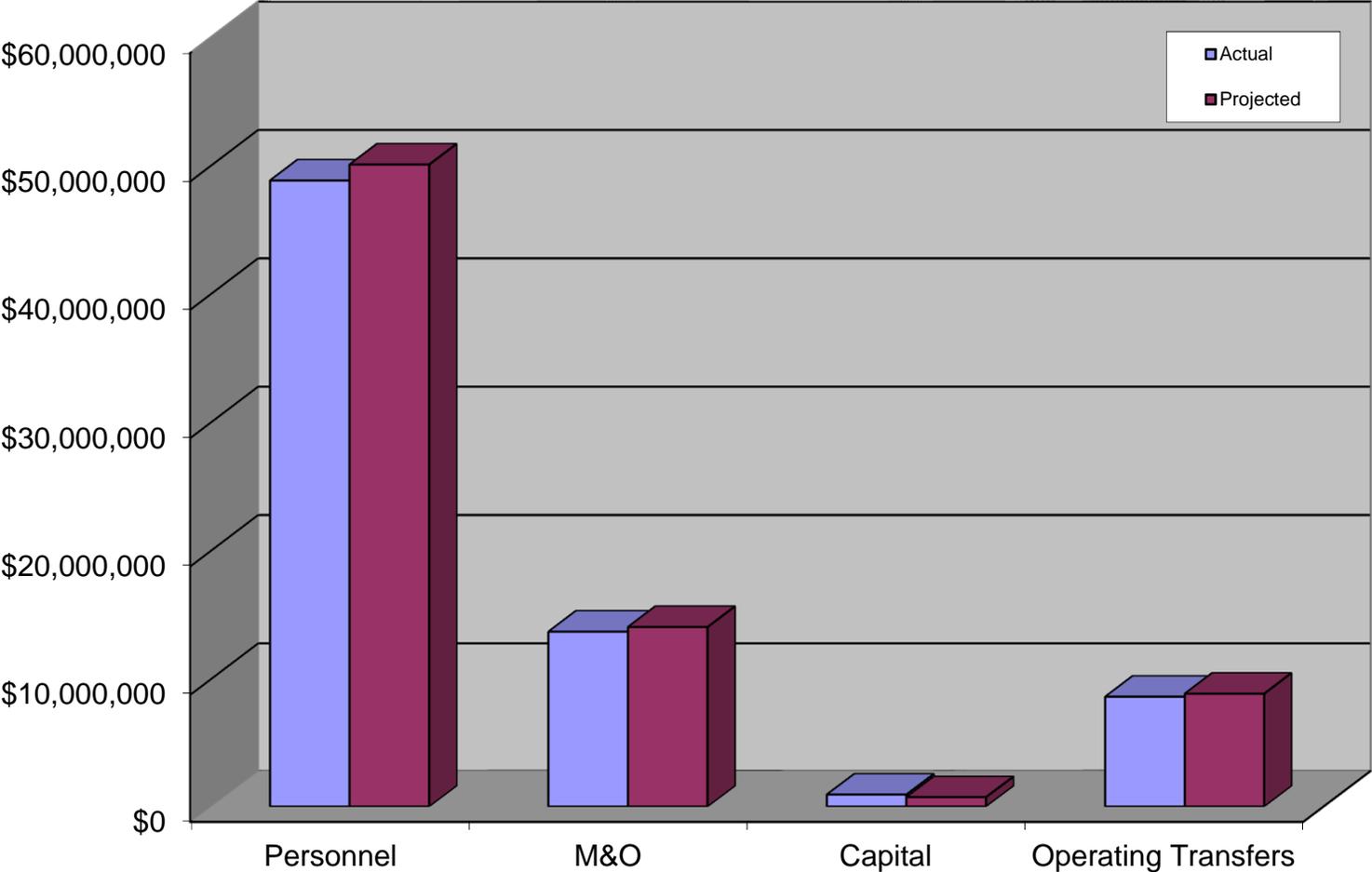
# General Fund Revenue vs Budget December 31, 2008



Prepared on an Accrual Basis

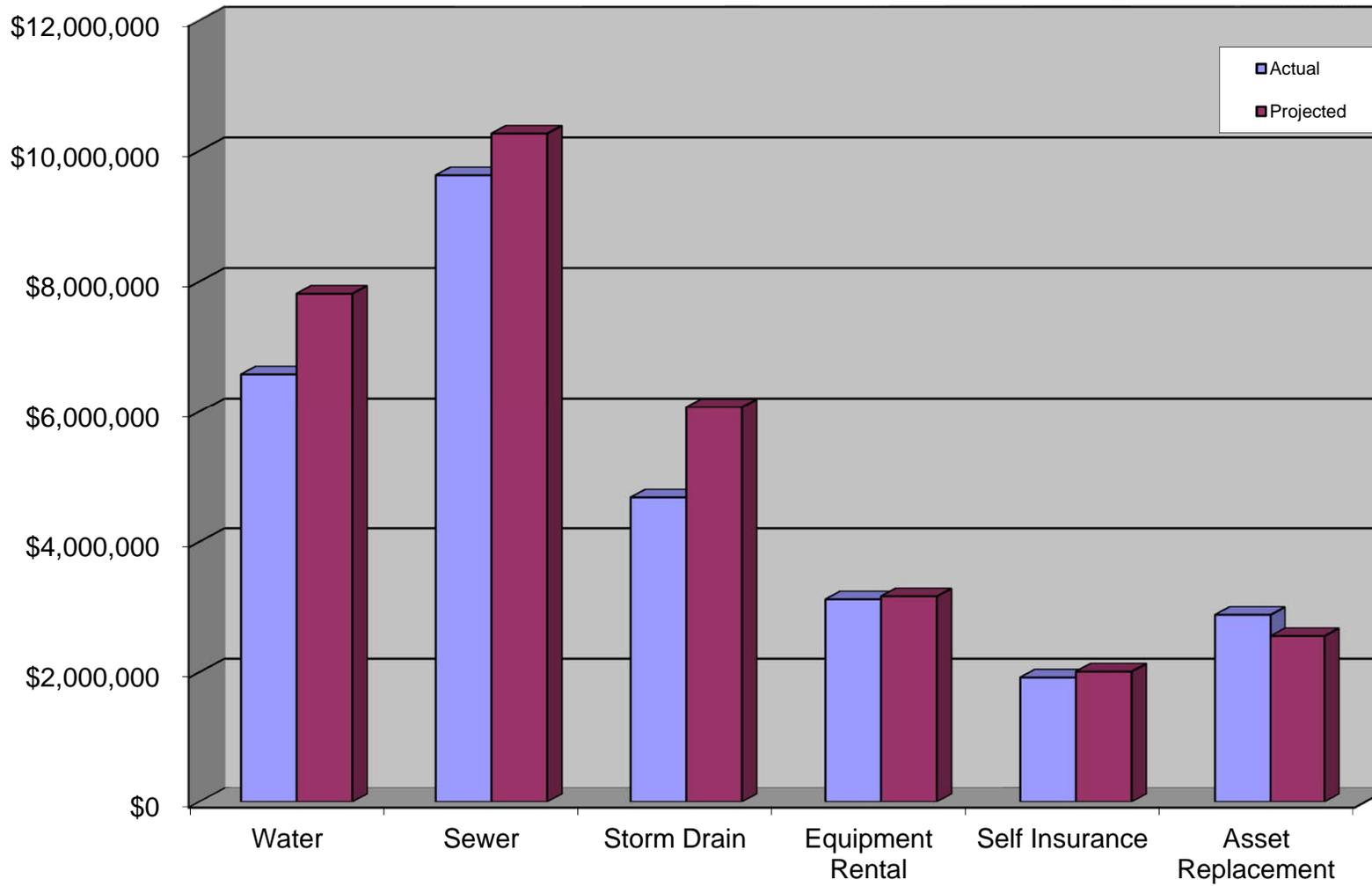
General Fund Revenues  
Chart 1

# General Fund Expenditures vs Budget December 31, 2008



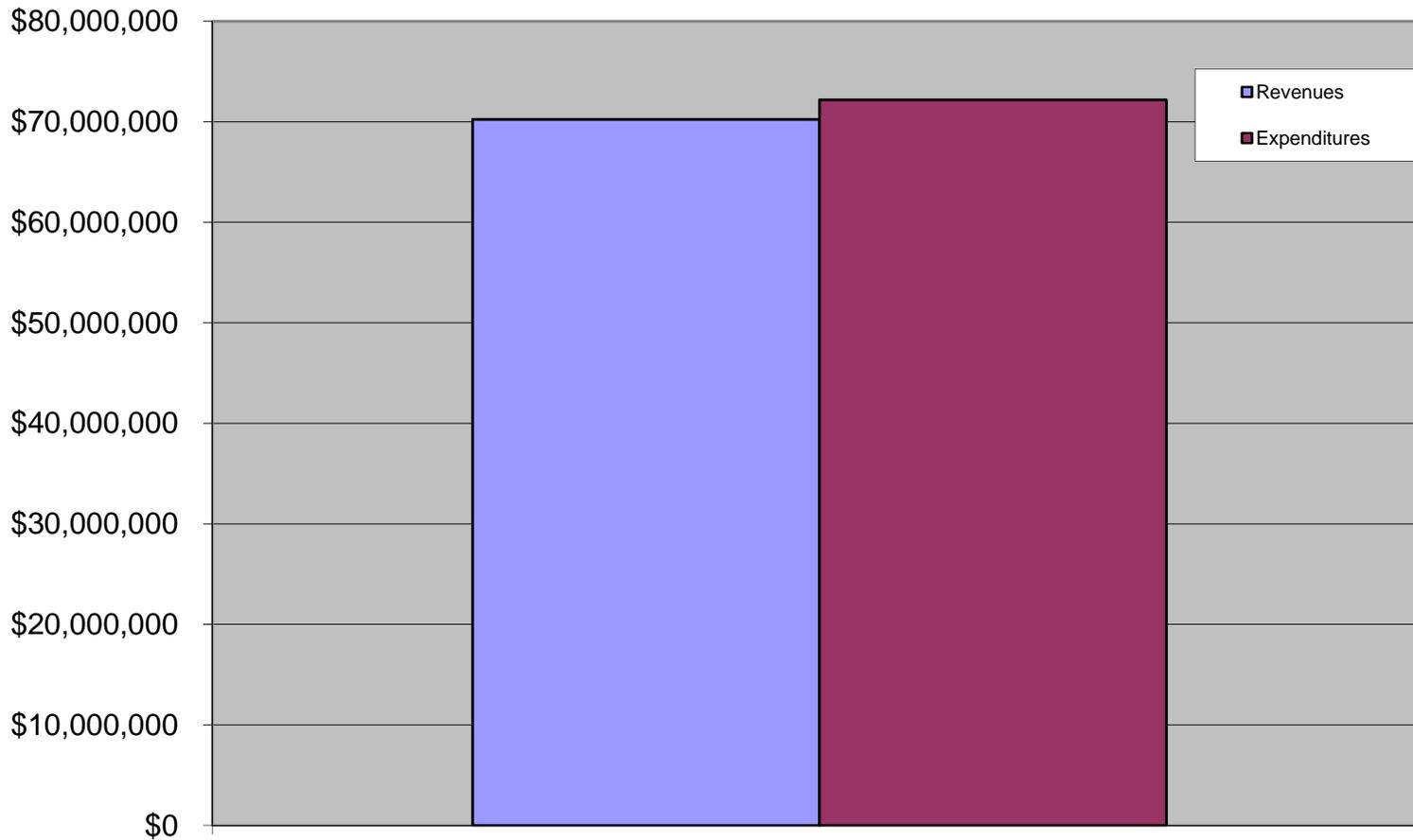
General Fund Expenditures  
Chart 2

# Proprietary Funds Expenditures vs Budget December 31, 2008



Proprietary Funds  
Chart 3

# General Fund Revenues vs Expenditures December 31, 2008



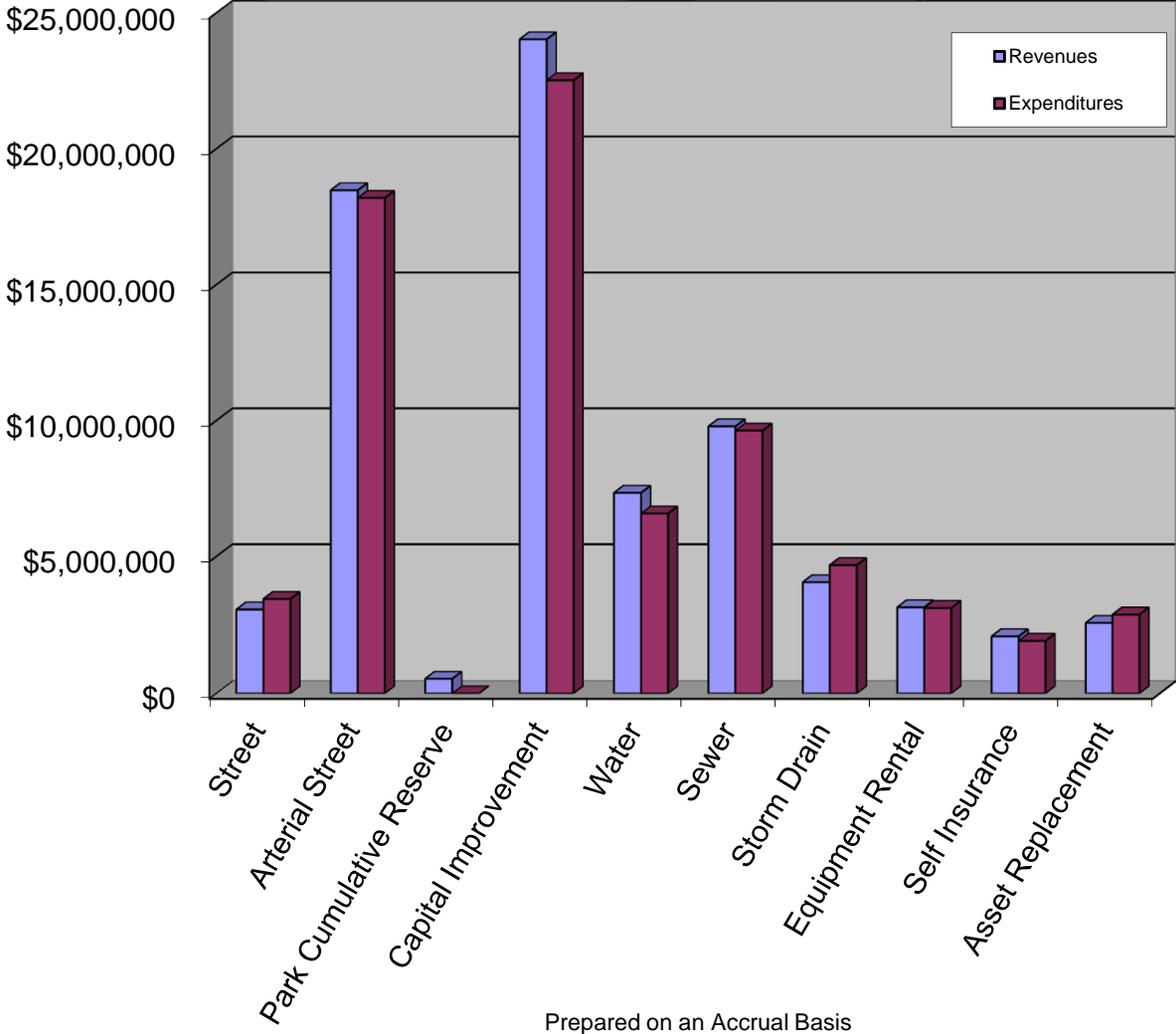
General Fund

Prepared on an Accrual Basis

General Fund Revenues vs. Expenditures

Chart 4

# Other Major Funds Revenues vs Expenditures December 31, 2008



Prepared on an Accrual Basis

Other Major Funds Revenues vs Expenditures  
Chart 5