AM No. 10-174

TO: Mayor Marchione and Members of the City Council

FROM: Mike Bailey, Finance and Information Services Director; 425-556-2160

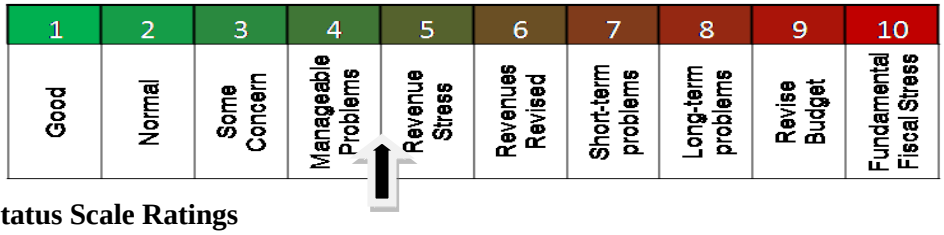
SUBJECT: **Quarterly Financial Report**

DATE: August 17, 2010

In light of the current economy the Council requested a quarterly briefing with regard to the quarterly financial report. In our reports to Council we have also included an explanation of a method of assessment of the financial condition. In order to assure a common understanding of the status of the City's finances we have devised a "Budget Status Scale". It will serve as a common point of reference with respect to the overall condition, as well as selected revenues.

We believe the current financial condition of the General Fund continues to remain between a 4 and 5 (where it was illustrated during our last quarterly presentation). This is based on data consistent with the revised financial forecast presented during the mid-biennium review. A thorough explanation of the financial data will be distributed prior to the meeting.

General Fund Financial Condition Scale



Budget Status Scale Ratings

1. **Good -** Better than budgeted conditions, surpluses expected
2. **Normal** – Use typical care in managing expenses
3. **Some short-term concern--** that revenues may not meet budget manage expenses conservatively
4. **Some manageable problems**-- modest voluntary budget reductions encouraged to avoid deteriorating financial condition
5. **Revenue revisions** recommended – expenditure targets in place (managed by department directors)
6. **Revenues revised** – expenditures controlled to targets by mayor's office
7. **Short-term problems**-- cost savings plans implemented (furloughs, hour reductions, overtime reduced)
8. **Long-term problems--** cost savings plans implemented (layoffs, permanent hour reductions)
9. **Revise Budget** and reductions in services using BP
10. **Fundamental / long-term fiscal stress** – budget revised accordingly

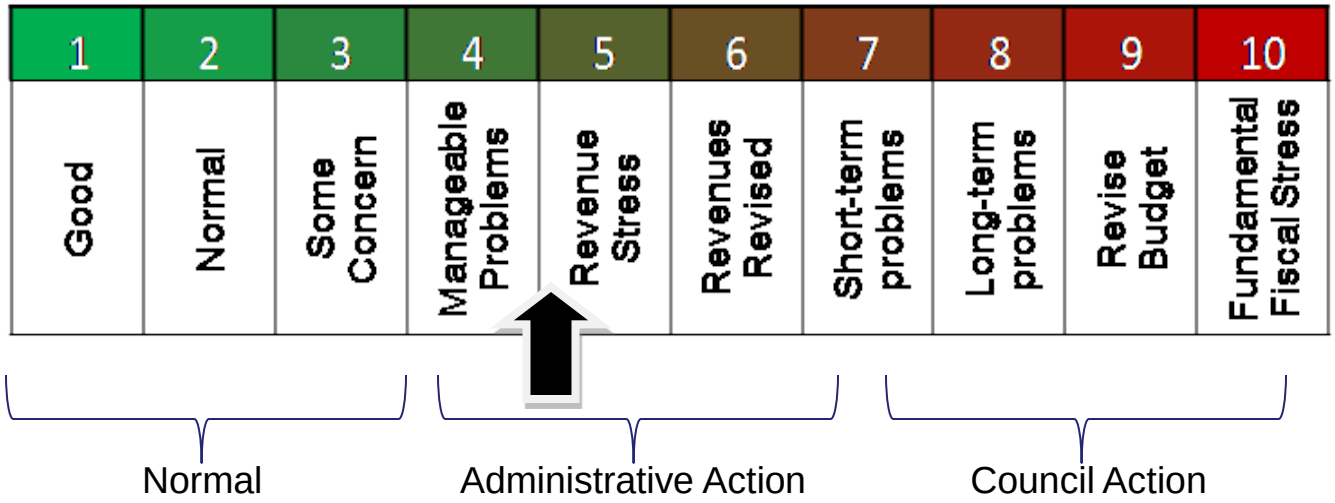
Quarterly Financial Report

Second Quarter - 2010

By Mike Bailey, Finance and Information Services Director

Background

- Difficult economic times results in greater scrutiny
  - Public Administration and Finance Committee
  - City Council
  - City Administration



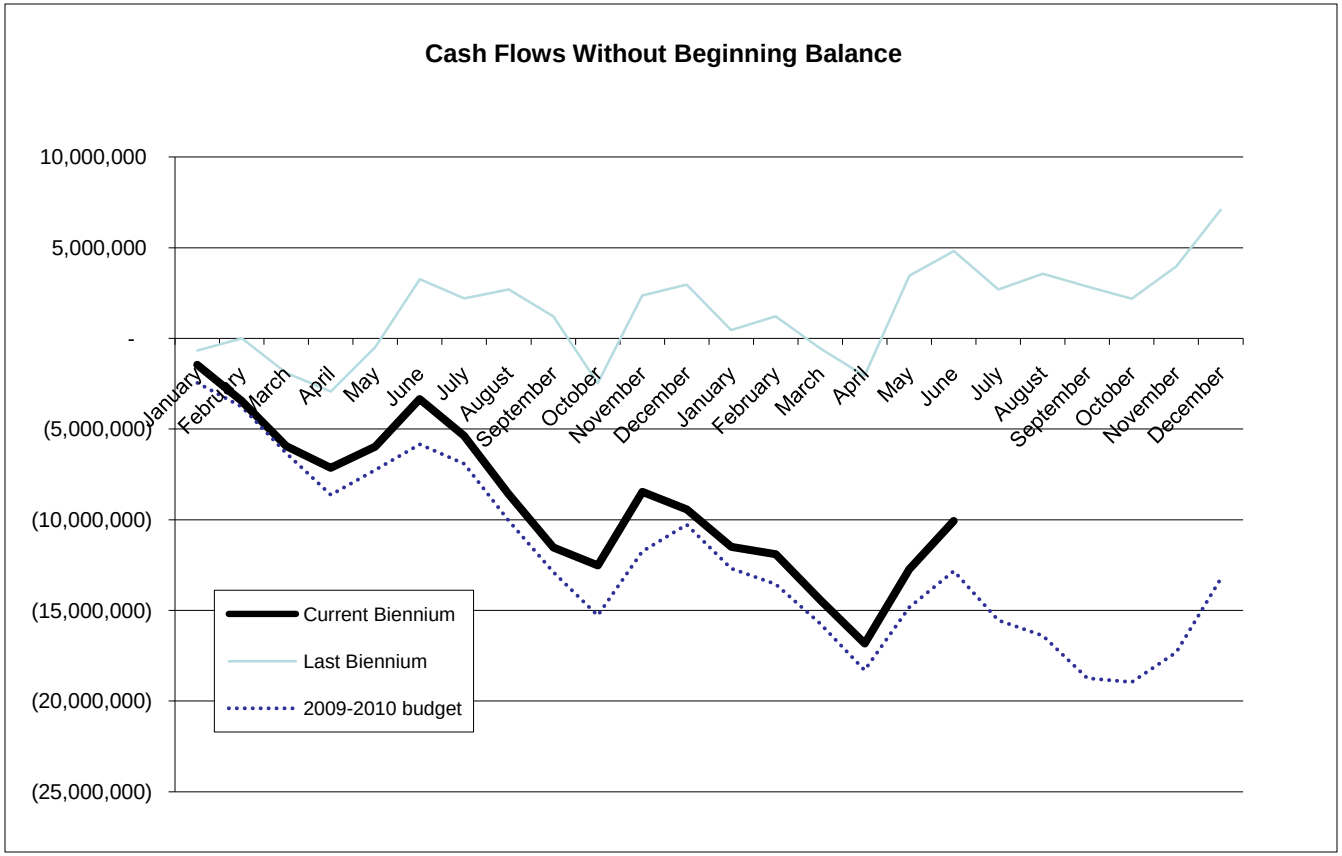
“5 point plan”

2009 - 2010

1. Continued tight management control currently resulting in +/- 8% under-expended
2. On-going restrictions on travel expenses and other discretionary expenses
3. Fund review (i.e. fleet, equipment replacement)
4. Initial efficiency measures / savings
5. Set the stage for the 2011/2012 biennium

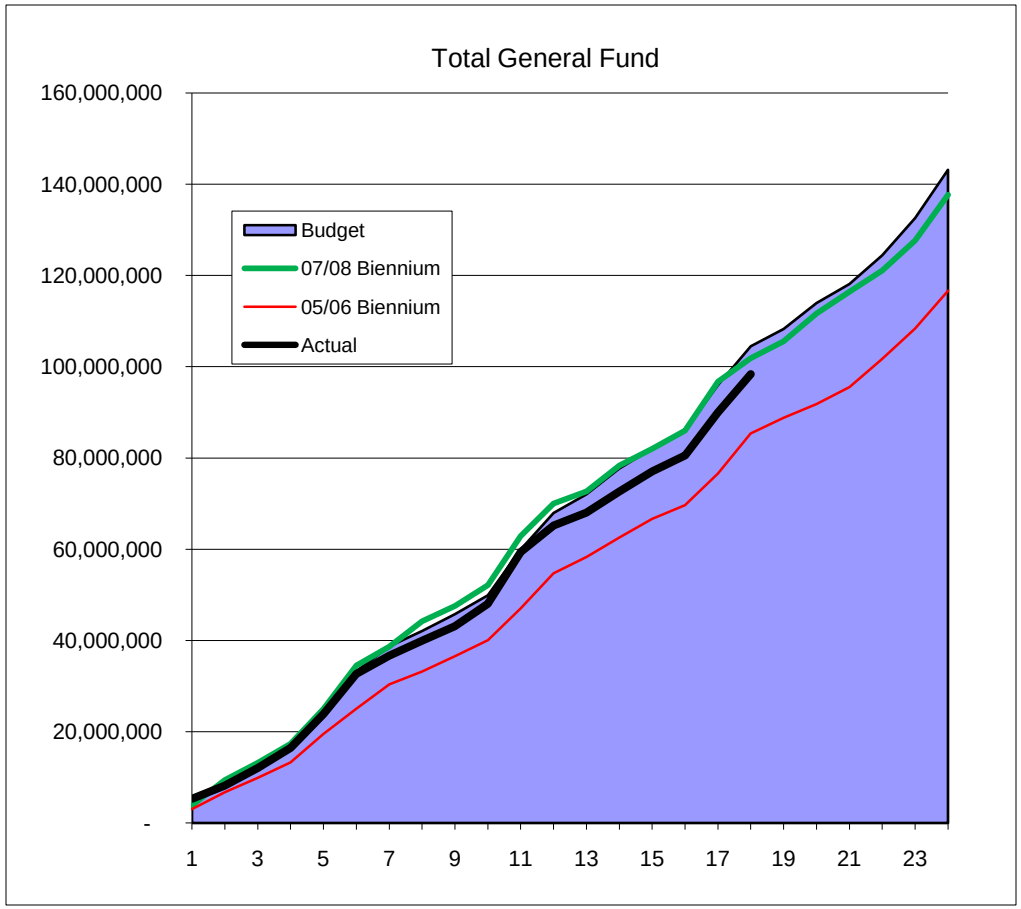
Goal to retain all of $3 million economic contingency

General Fund
Cash Flow



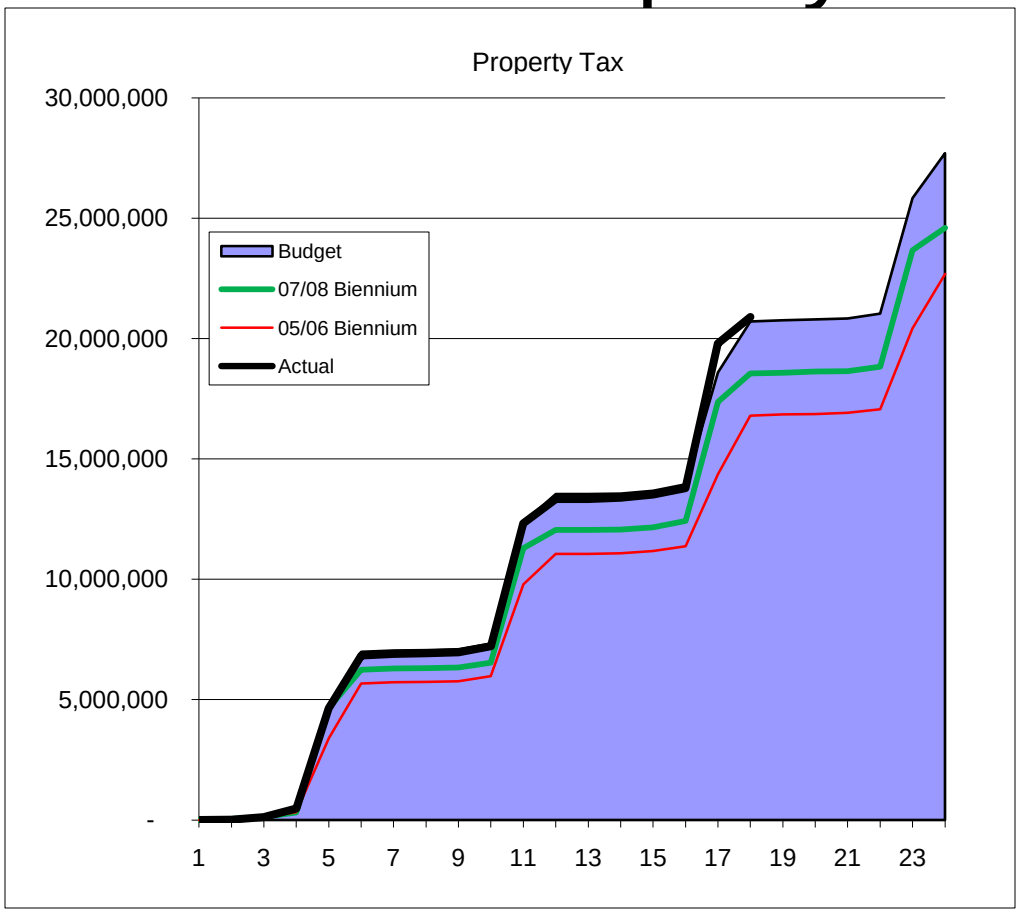
$12.7 million swing from prior biennium (which resulted in $7.1m surplus)
Budget calls for $21m swing
($7.1m surplus last year and $14m one-time this year)

General Fund Revenue



5.85% behind estimates overall (was 6.1% last quarter)

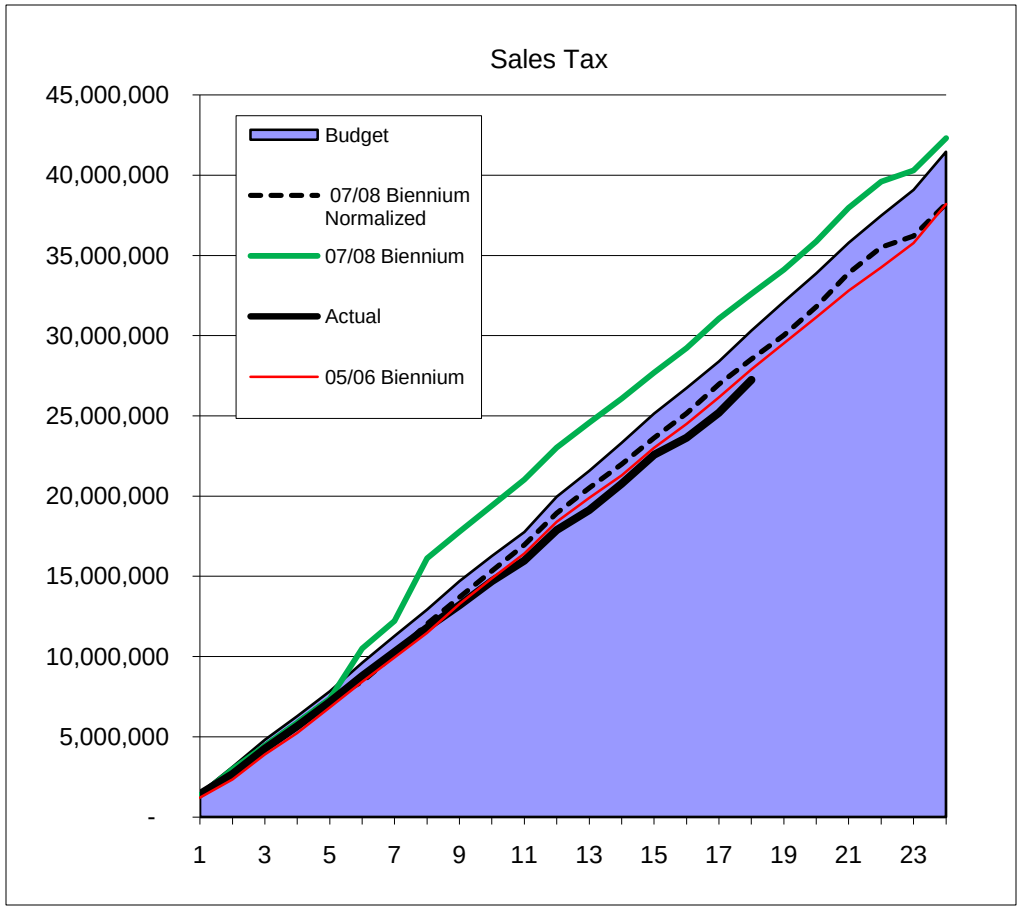
General Fund
Revenue – Property Tax



.92% ahead of estimates – not a volatile revenue (1.1% behind last quarter)

Represents 19% of total budgeted revenue

General Fund Revenue – Sales Tax

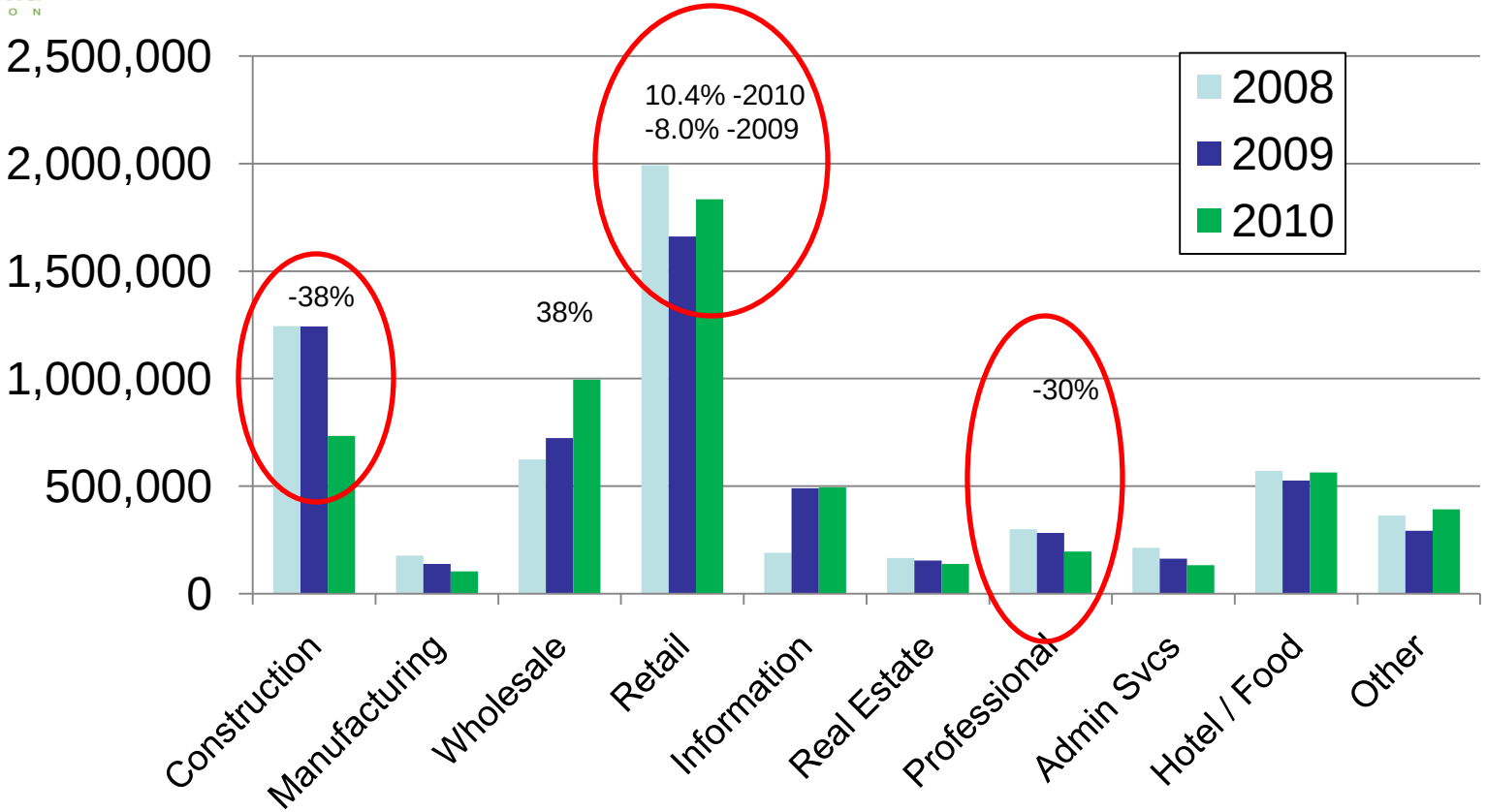


10.11% behind estimates – a volatile / significant revenue source

(10.2% behind last quarter)

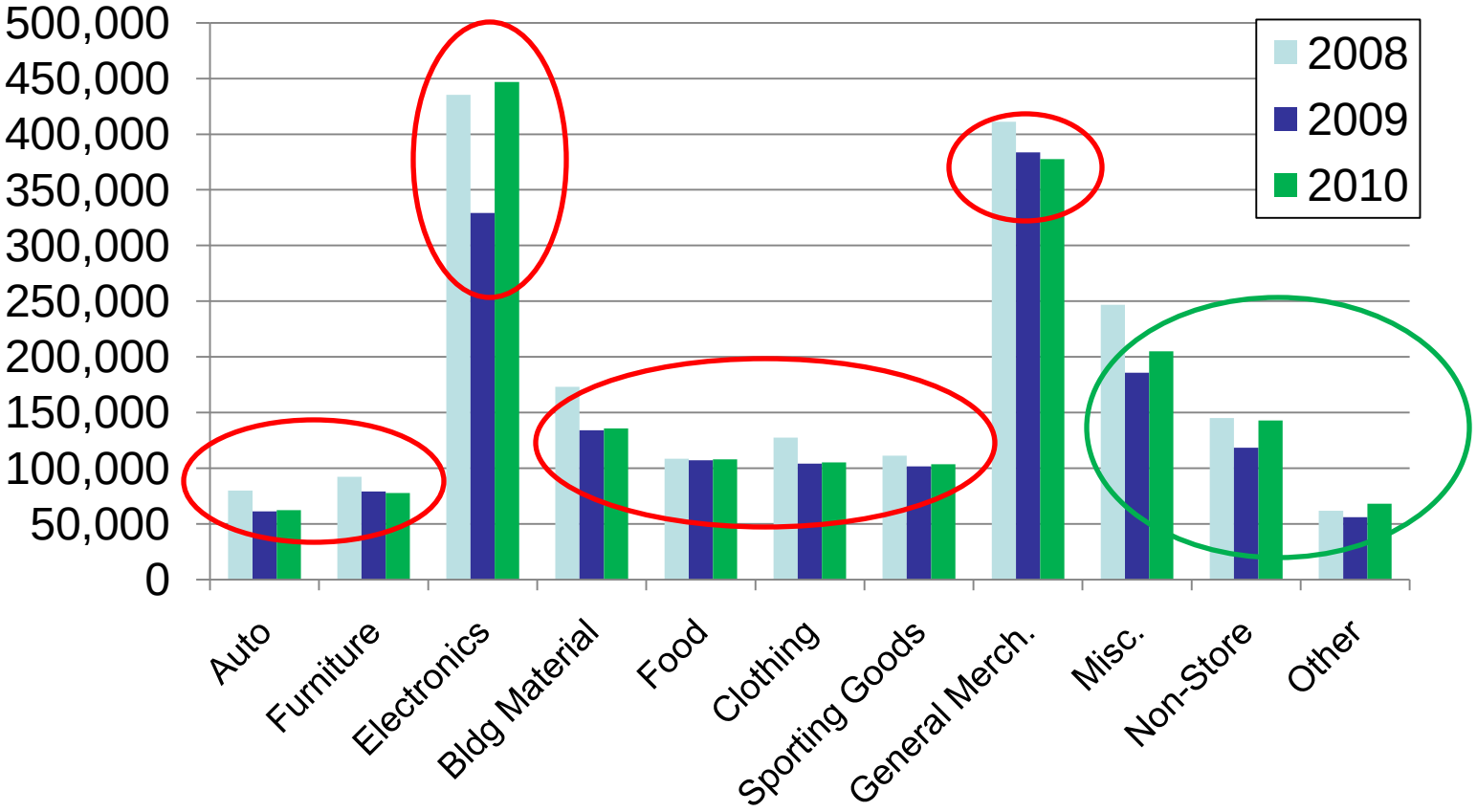
Represents 31% of total budgeted revenue

General Fund Revenue – Sales Tax



Overall sales tax decrease from 2009 YTD is 1.6%
Decrease from 2008 is 4.4%

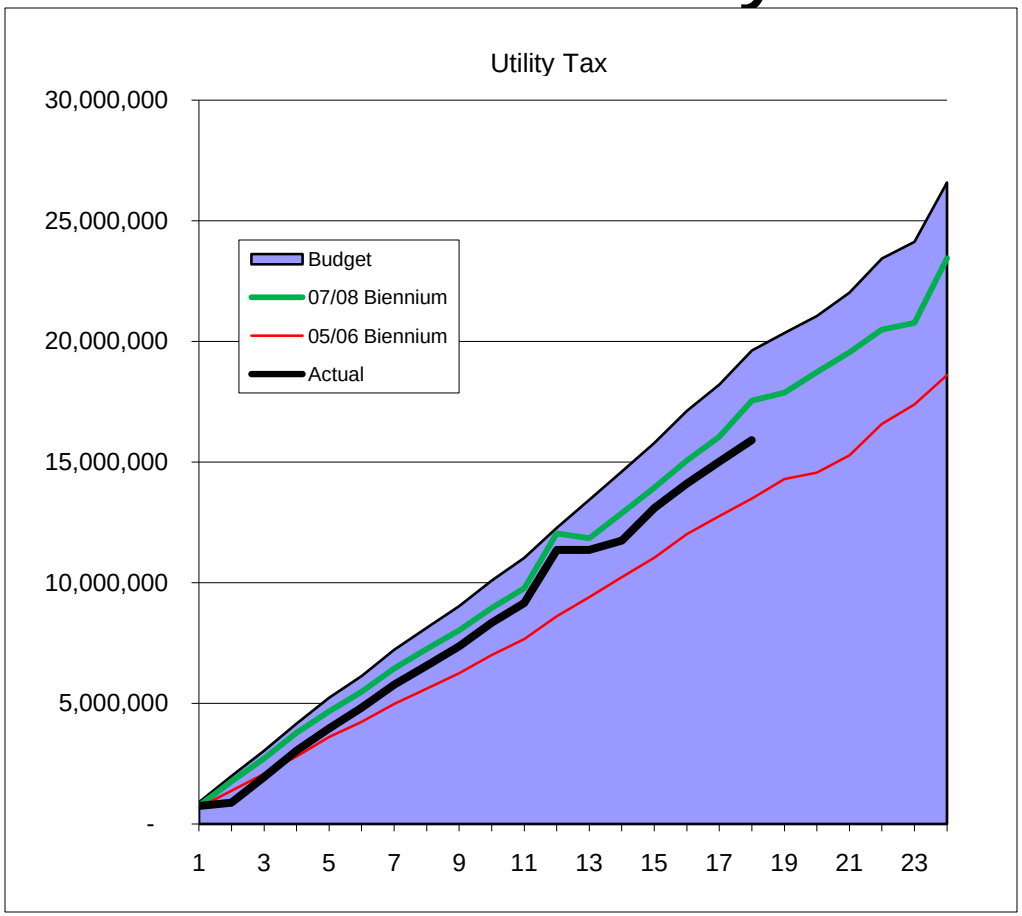
General Fund
Retail Sales Tax Analysis



Overall retail sales tax increase from 2009 YTD is 10.36%

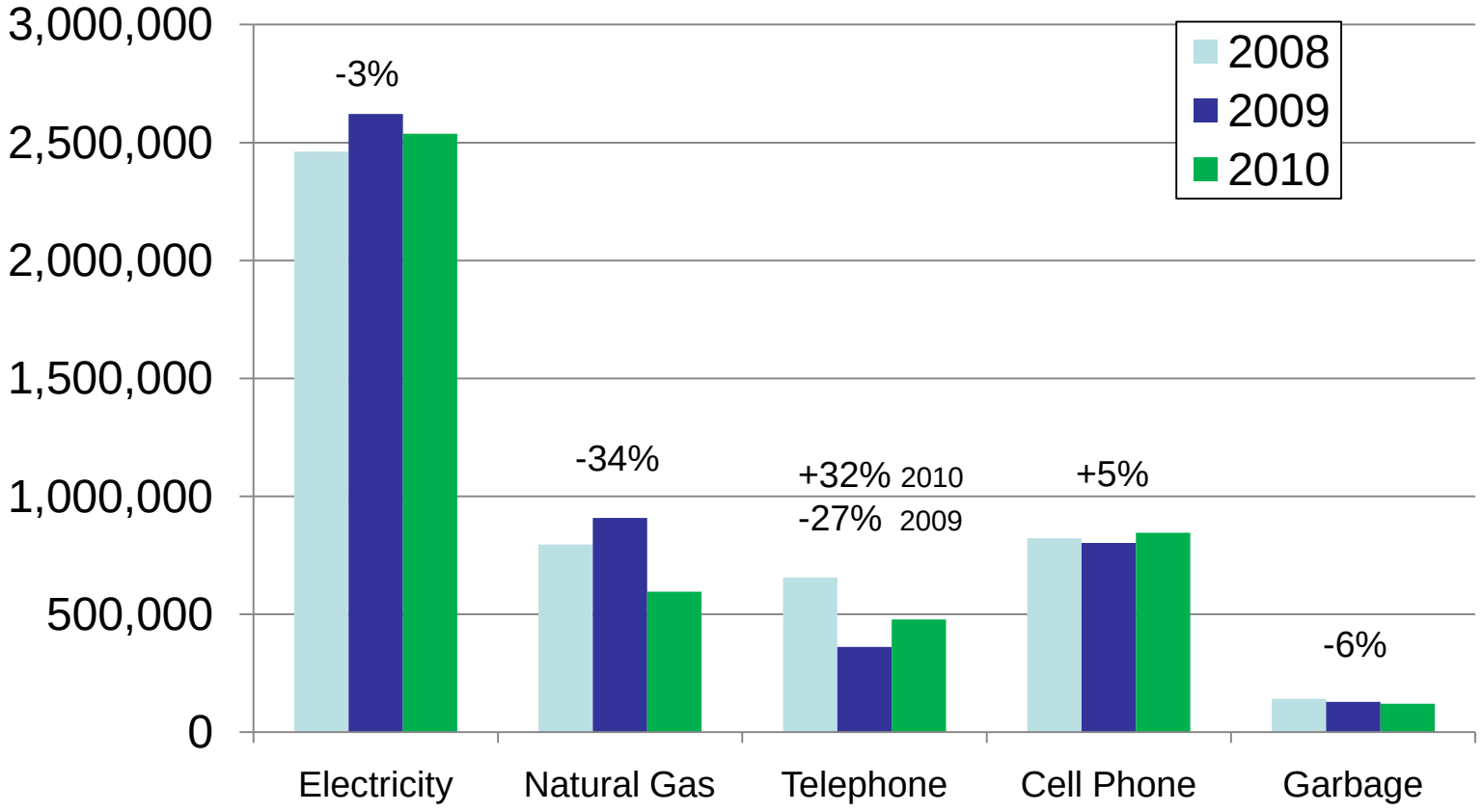
This still results in a decrease of 8.0% this quarter two years ago (2008)

General Fund Revenue – Utility Tax



Continues to be below target but consistent with revised forecast.
Represents 20% of total budgeted revenue

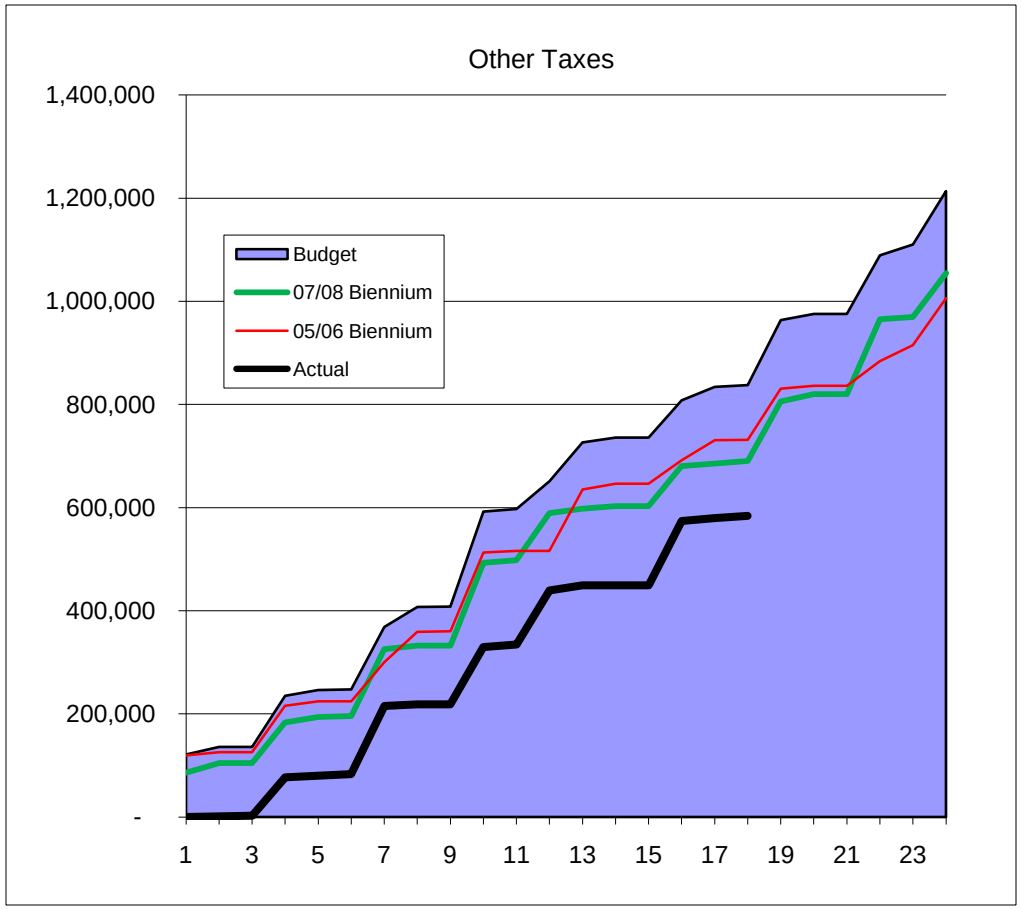
General Fund Revenue – Utility Tax



Overall **decrease** from 2009 YTD is 5.1%

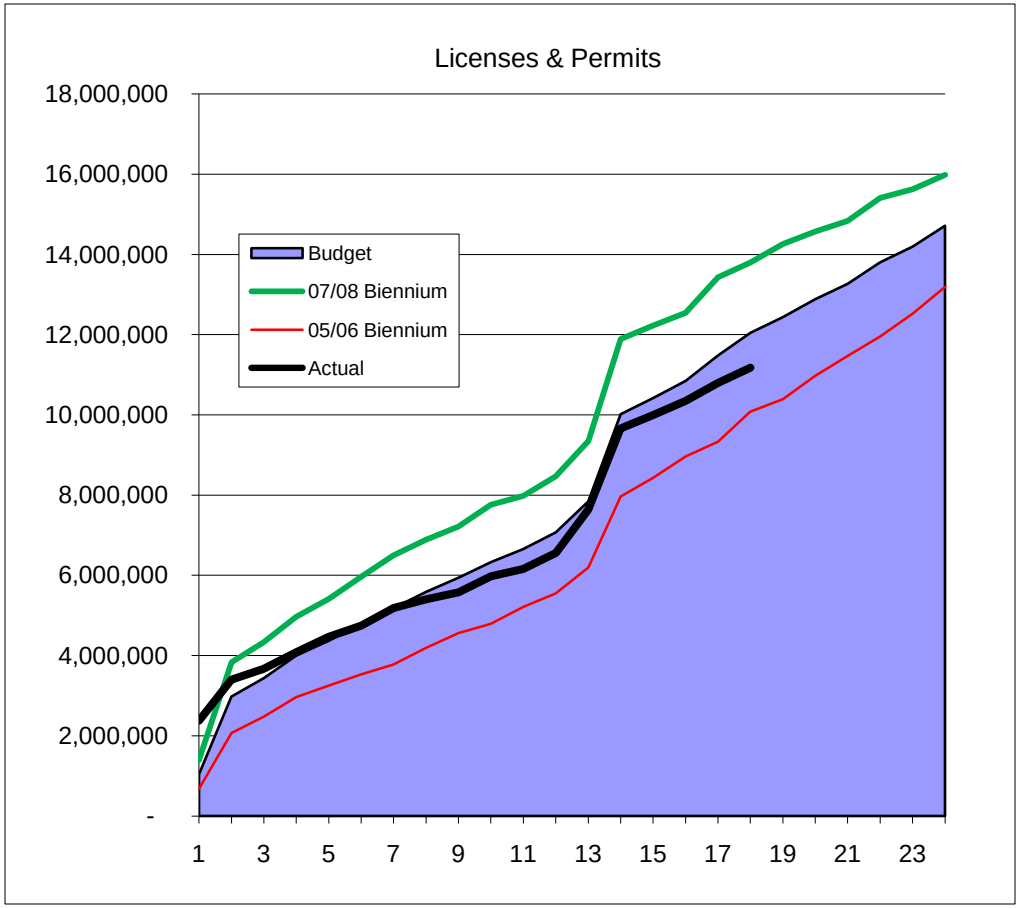
And **decrease** from 2008 is 6.1%

General Fund Revenue – Other Taxes



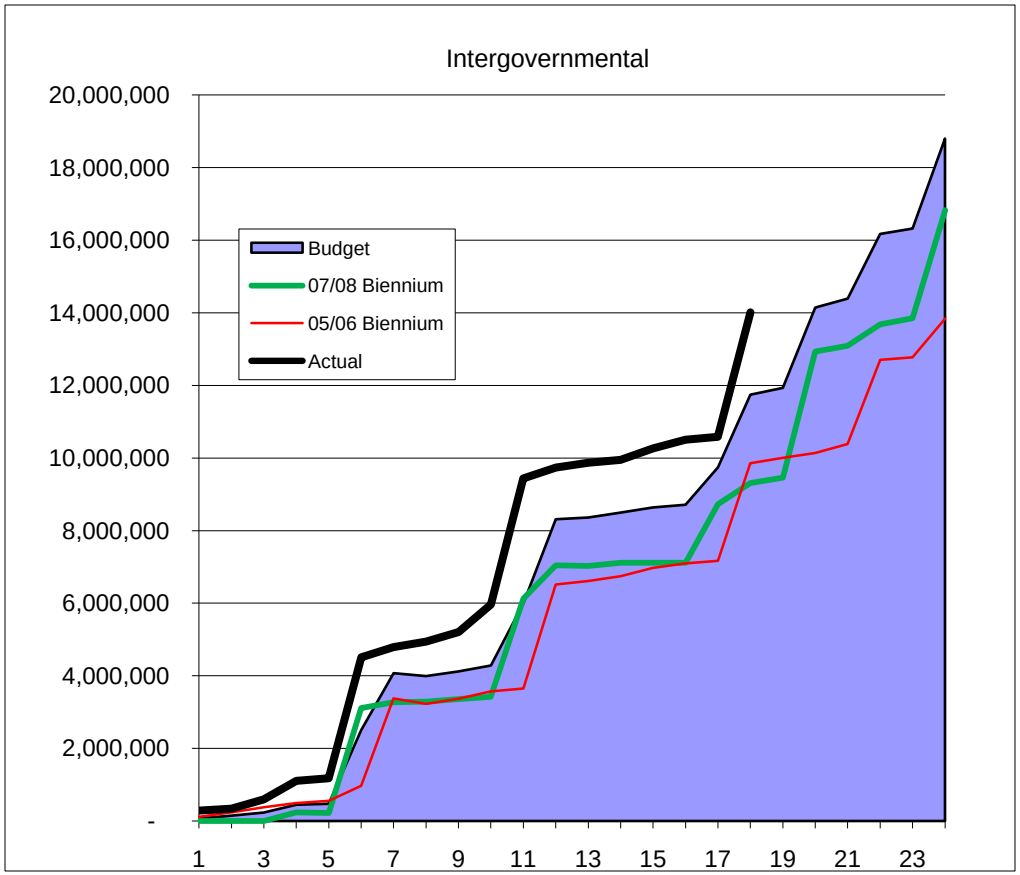
Continues to be below target but consistent with revised forecast.
(Is less than 1% of total revenue)

General Fund
Revenue – Licenses & Permits



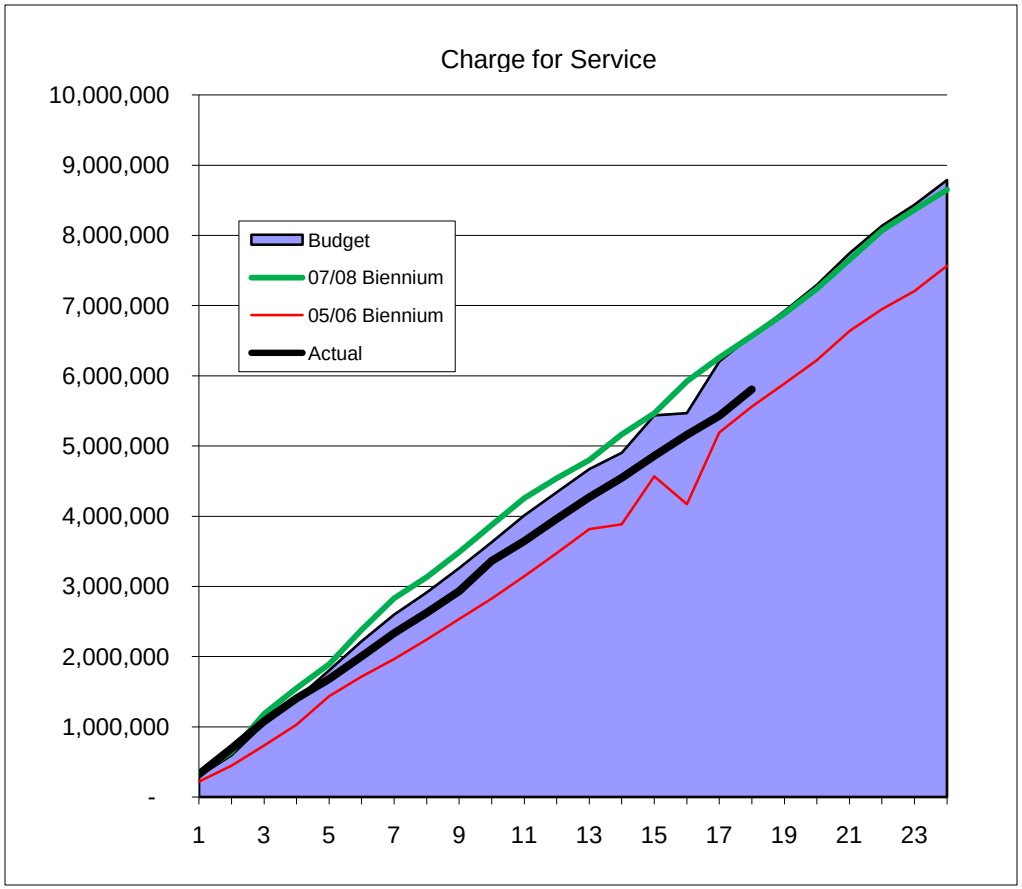
Below target by 7.2% (was 4%)
Reflects decreasing development activity.

General Fund
Revenue – Intergovernmental



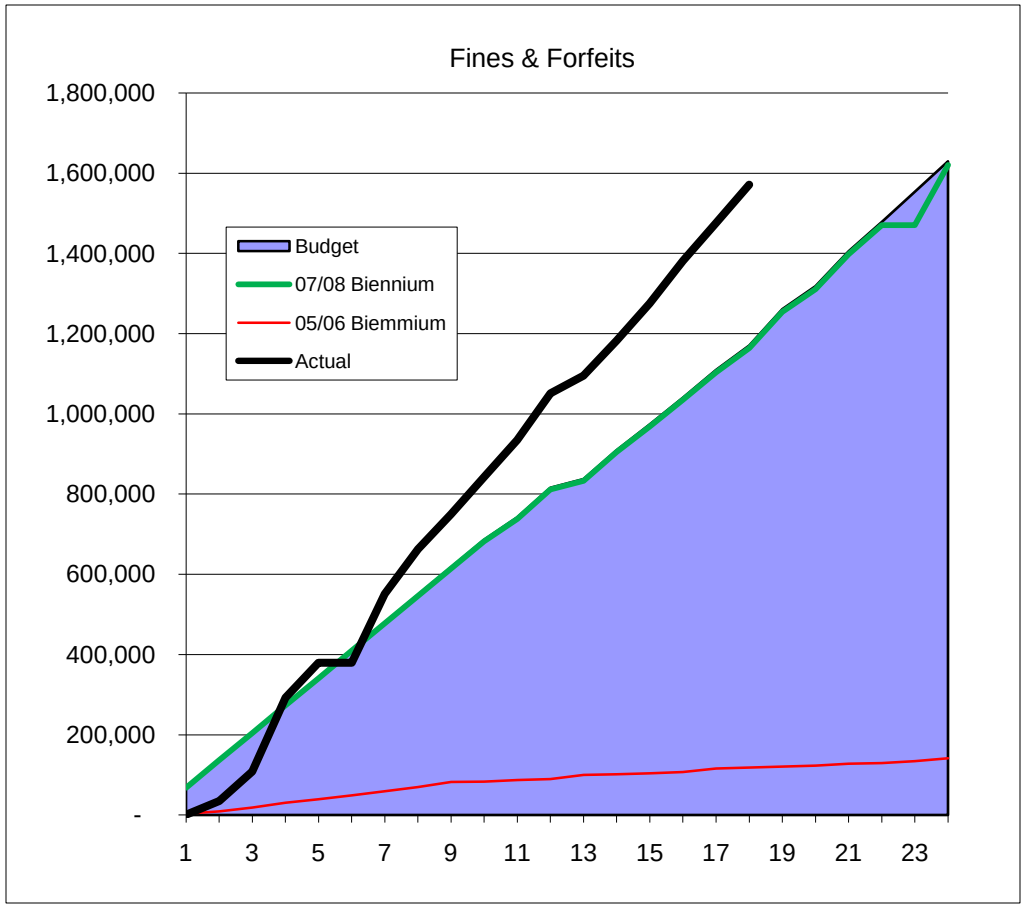
Ahead of trend line which steepens later in biennium

General Fund
Revenue – Charges for Service



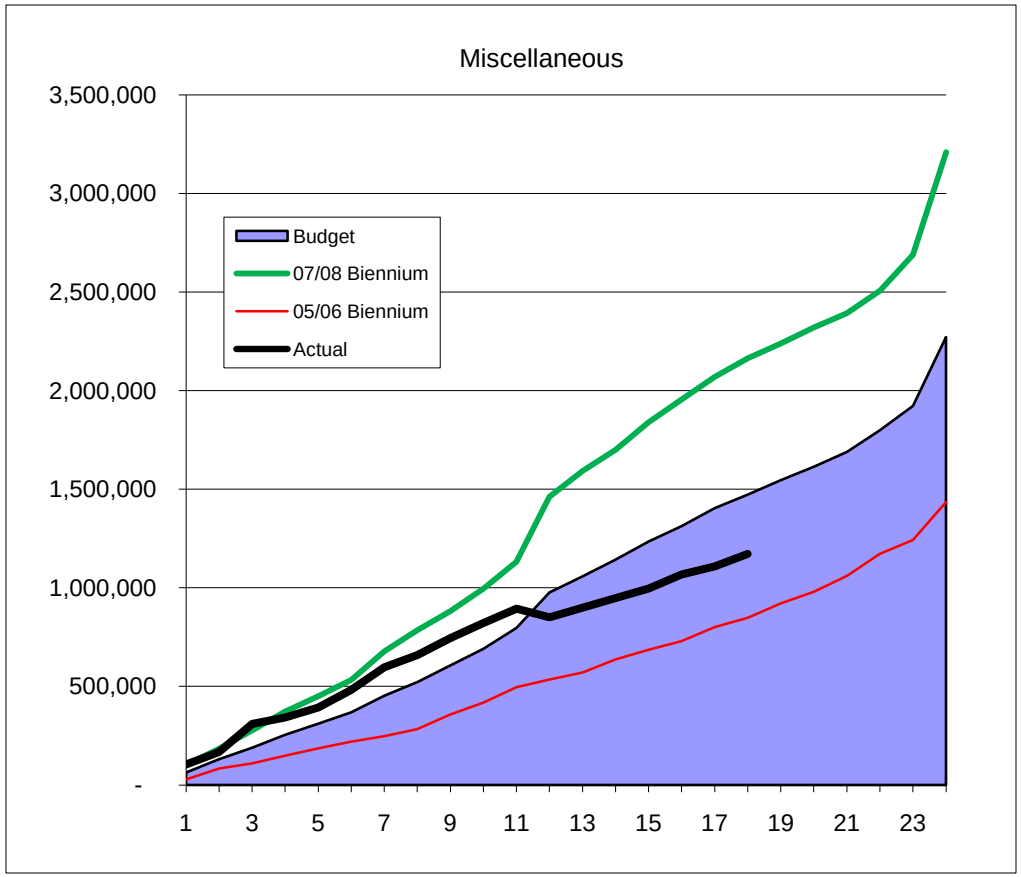
Trending 11.7% below target (was 10.6%)
Reflects decreasing development activity

General Fund
Revenue – Fines & Forfeits



Pass-through revenues to county court system.

General Fund
Revenue – Miscellaneous



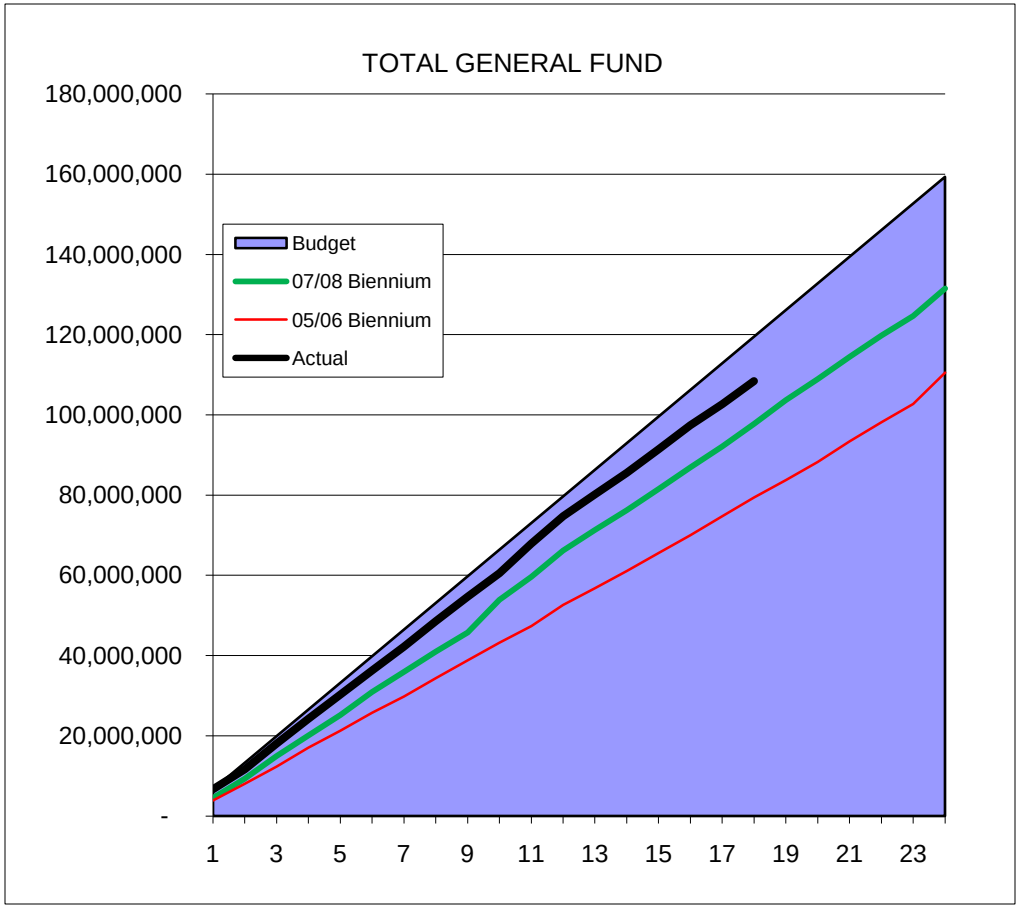
Mostly investment earnings and rents. Investment rates are declining.
Adjusting entry at year-end allocated interest earnings to other funds

General Fund
Revenue - Conclusion

- Revenues continue to slide however remain consistent with financial forecast
- Retail sales taxes showing strength – construction lags

General Fund Expenditures

- Below budget by 9.3%
- Was 8.0% last quarter
- Contrasted to revenues at 5.85% below budget

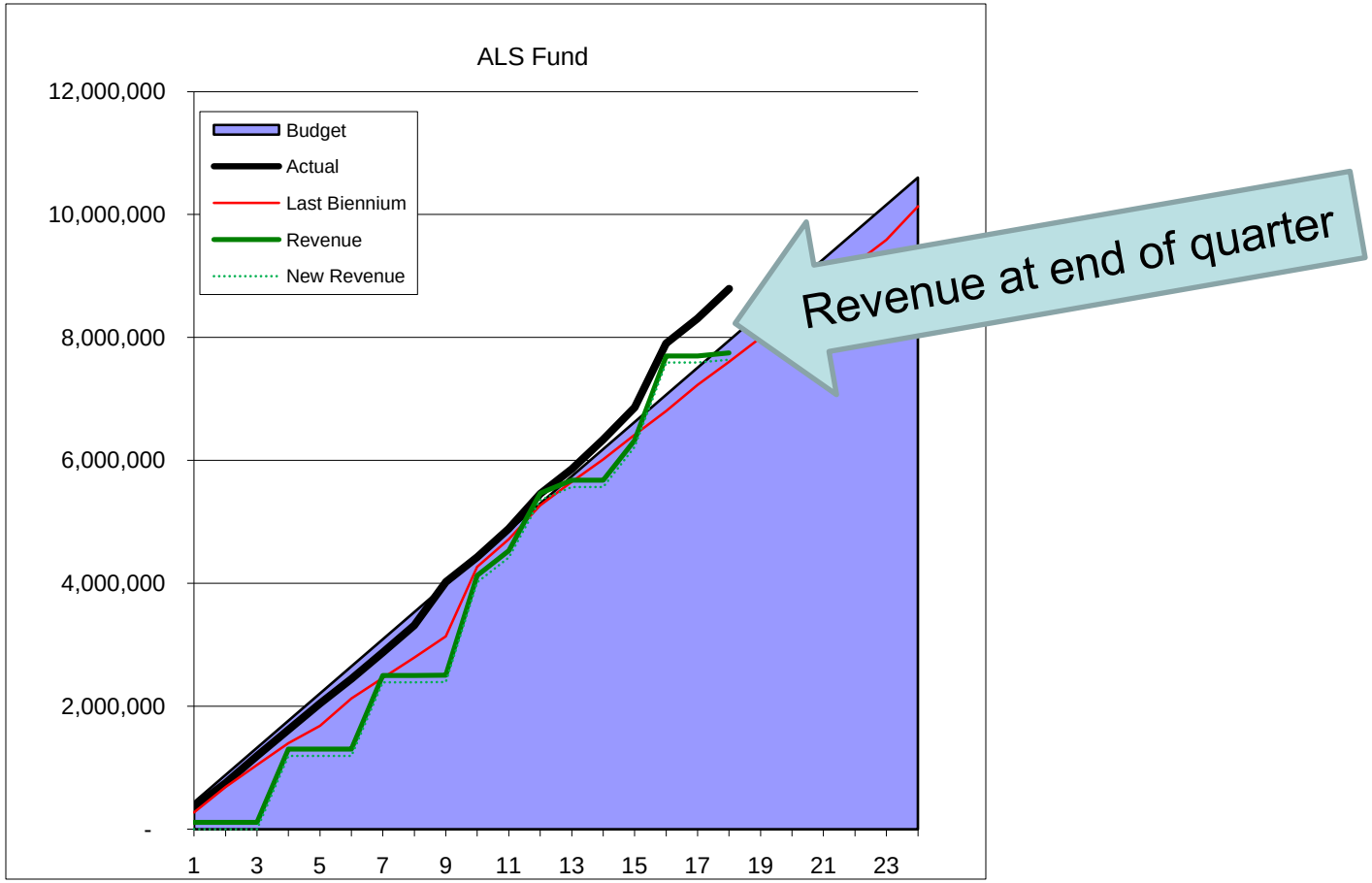


All department budgets below expenditure targets

General Fund Expenditure - Conclusion

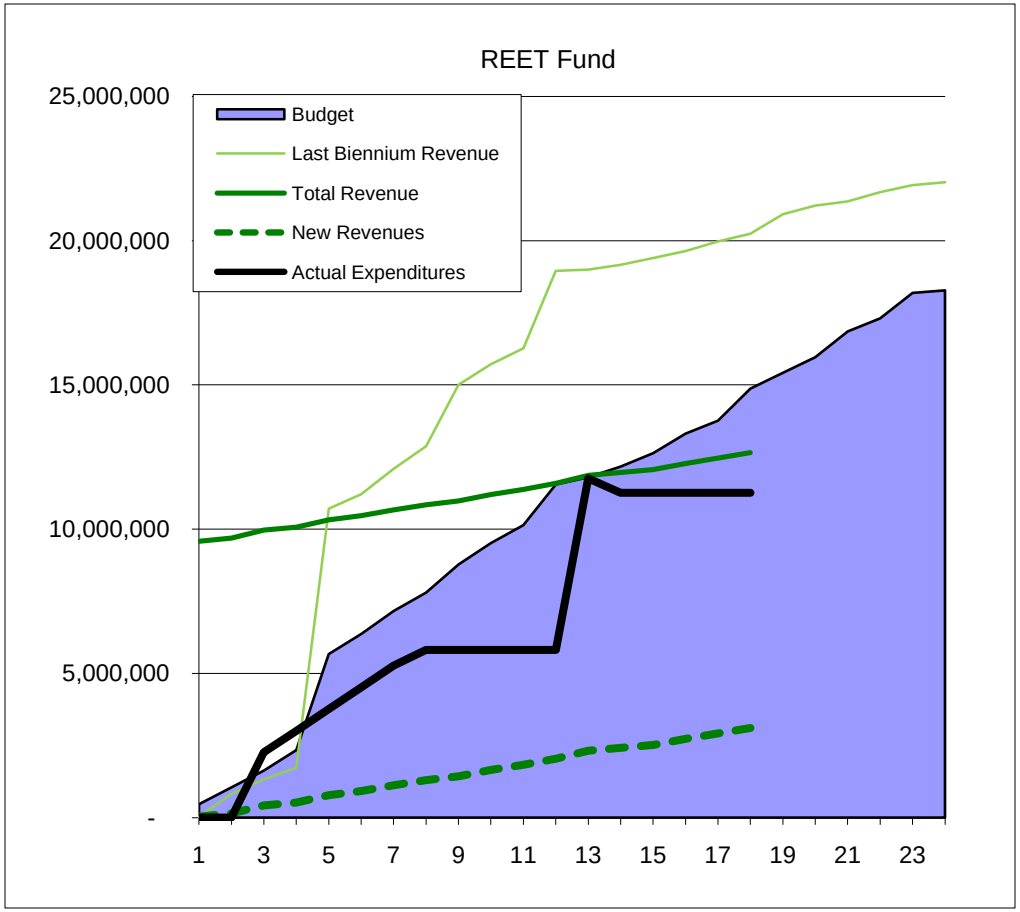
- Overall expenditures are consistent with revised forecast
- Prospect for preserving economic stabilization funds remains good

Advanced Life Support Issue: Cash Flow



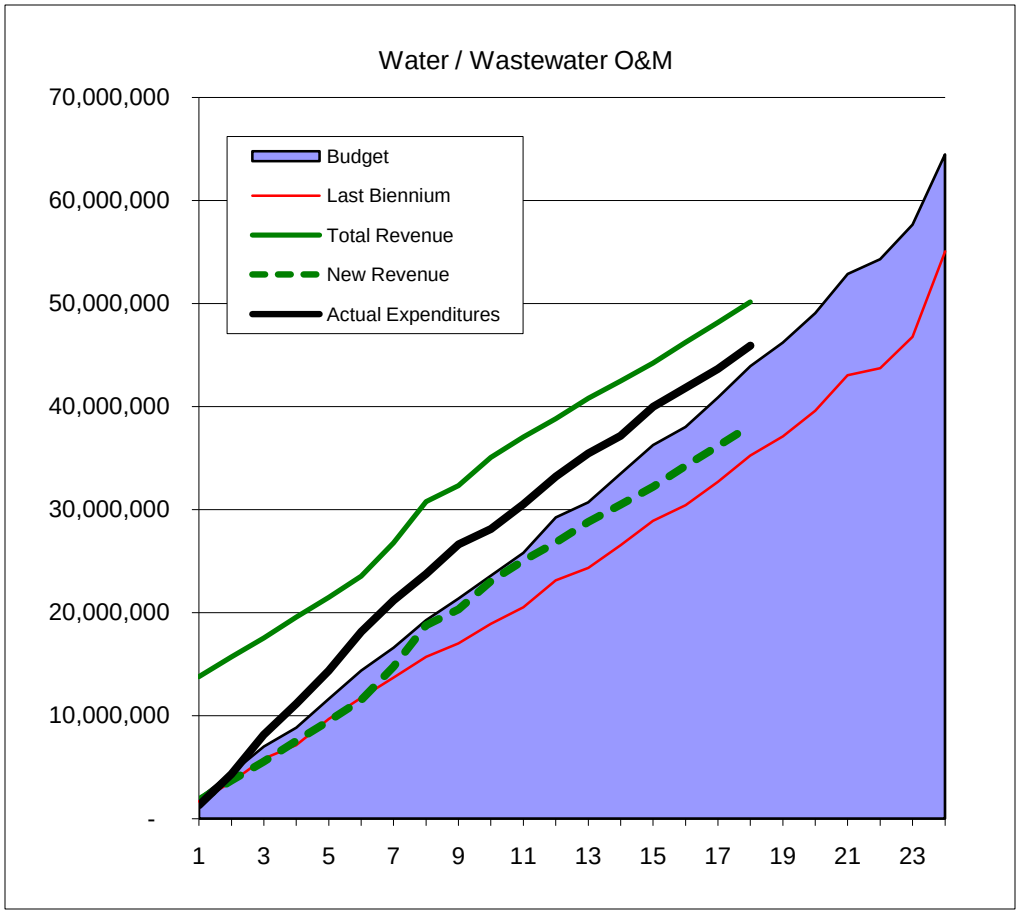
Negative cash flow has become routine in this fund

Real Estate Excise Tax Issue: Revenue



Revenues are $3m compared to $19 m at this time in 2007

Water Sewer Operating Fund
Issue: Revenues and Expenditures



Revenues down due to decline in development activity
Expenditures include transfers to capital funds – budgets to be adjusted

Questions?