2011-2012 Budget Preview/Forecast Update

October 5, 2010



- Review Economic Context
- Price of Government
- Changes in Revenue Forecast
- Overview of Expenditures
- Risks/Pending Initiatives
- Next Steps

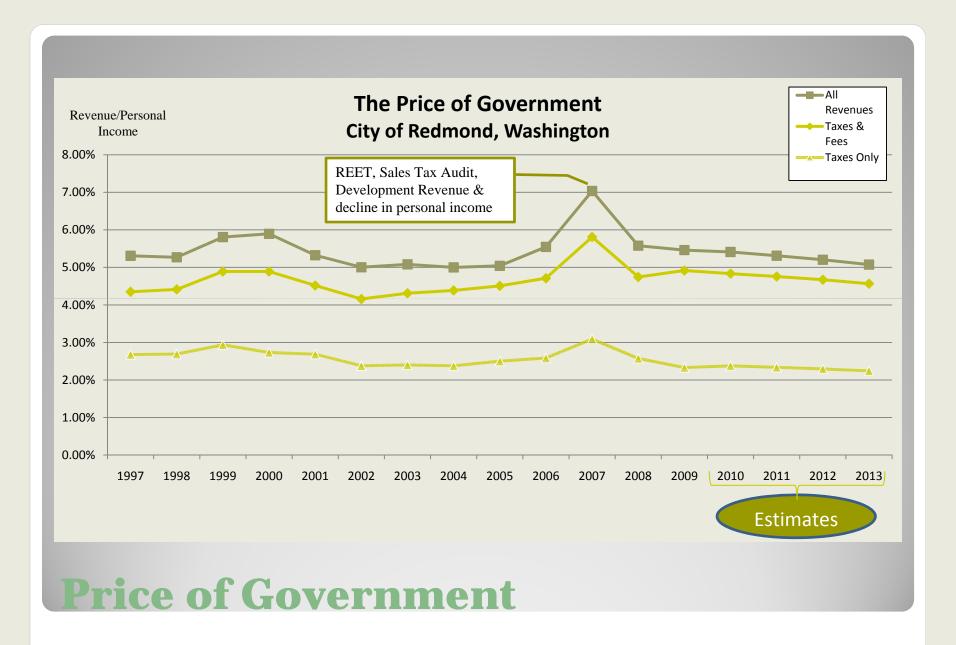
Agenda

- Current forecasts show growth slowing
 - Stimulus spending is declining
 - Jump in imports
- Despite some trends, forecast remains cautiously optimistic
- GDP continues to grow (1.6-1.8% in 3rd qtr.)
- Consumer spending appears to be strengthening
- Non-residential construction still not expected to improve until 2012

Economic Context

- Redmond's forecast remains conservative
- Current revenue forecast shows little growth over the two years
 - Assumes small increase in sales tax in 2011 and 2012
 - Projects development activity will improve in 2012
 - Assumes property tax will rise by 1% plus new construction
- Current expenditure forecasts assumes reductions due to:
 - Efficiencies gained in 2009-2010
 - Reductions in service demand
 - Decreases in levels of service

Budget Context

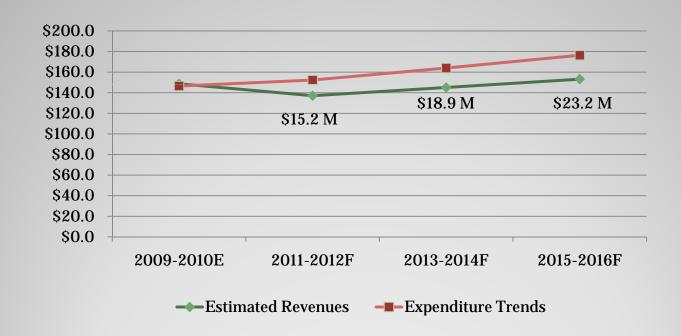


- Changes since the July update include:
 - Increase in sales tax by approximately \$150,000 annually
 - Rise in business tax to reflect more normal collections
 - Addition of General Fund fire protection obligation
 - Increase in grant revenue
 - One-time use of Building Permit Reserve to maintain development review activities

General Fund Revenue Forecast

From Forecast presentation of July 13

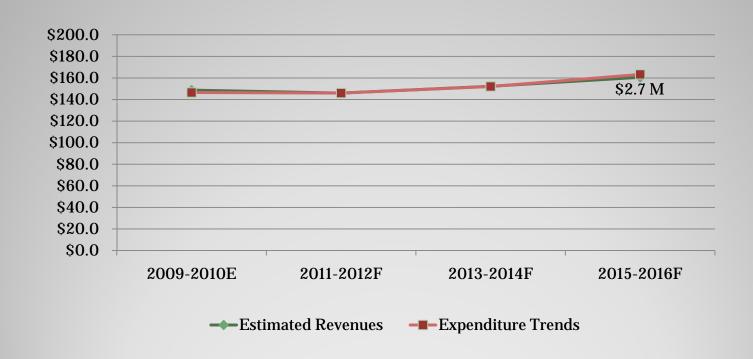
Estimated Gap Based on Revenue and Expenditure Trends (based on expenditure trends and does not take into account current budget offers)



Revenue/Expenditure Comparison

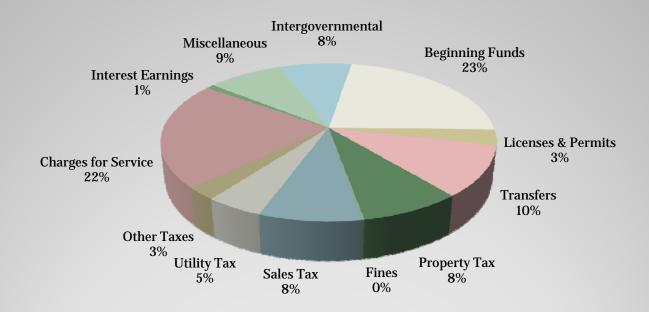
Updated for Proposed 2011-2012 Budget

Estimated Gap Based on Budgeted Revenues and Expenditures



Revenue/Expenditure Comparison

Total 2011-2012 Biennial Budget equals \$522.8 million



Total Biennial Revenue

Total General Fund Budget Equals \$145.9 million

(including beginning fund balance)



General Fund Trends

Projected growth in General Fund revenues

- · 4% in 2011
- 3% in 2012

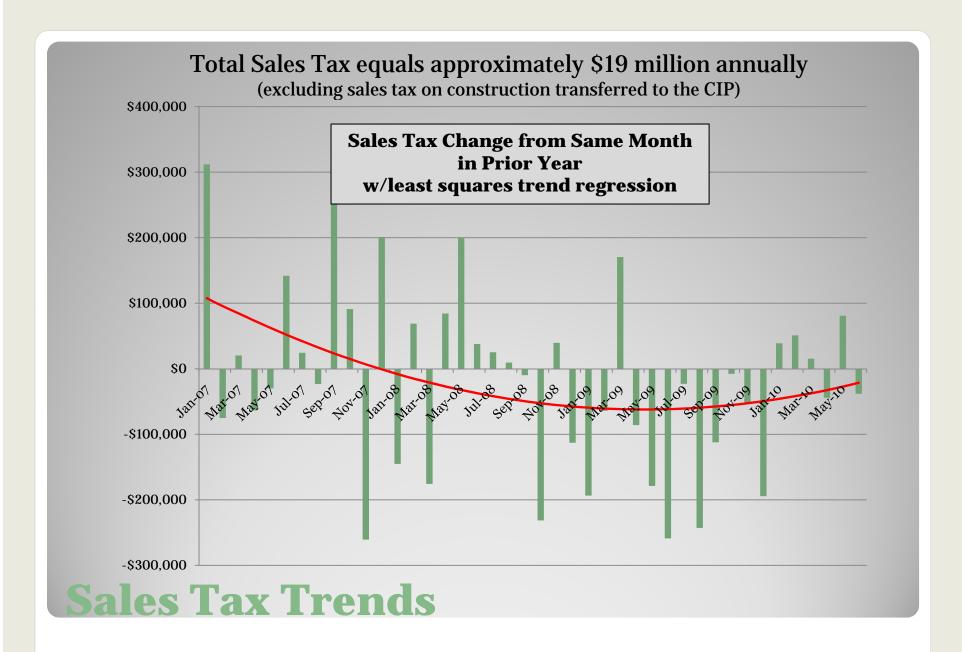
Changes from revenue estimate in July include:

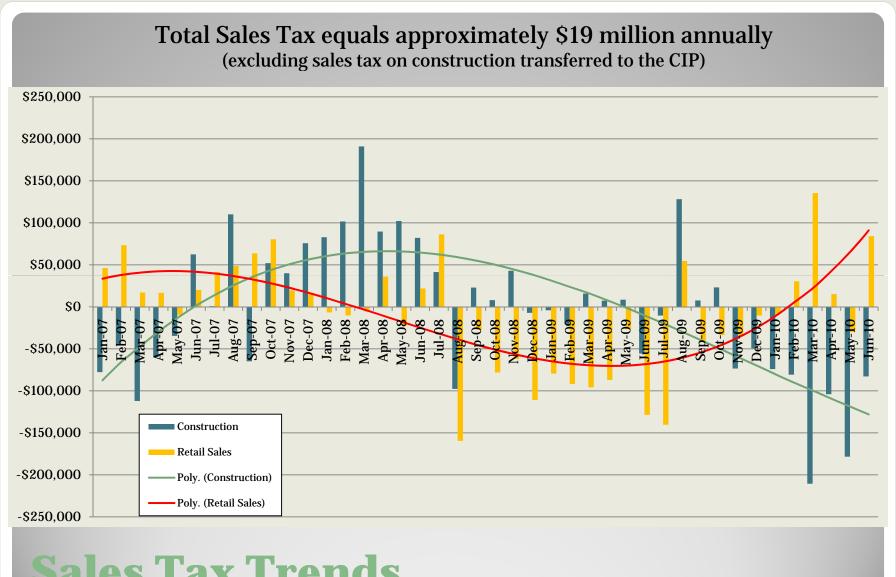
- Fire protection obligation (\$2.2 million utility tax)
- Sales Tax (\$300,000)
- Intergovernmental revenue (\$1.9 million includes additional revenue from FD# 34, EPSCA and grants)
- Business License (\$628,000)
- Building Permit Reserve contribution (\$800,000)

General Fund Revenue Changes

- Projected growth
 - · 3.5% in 2011
 - · 2.7% in 2012
- 2010 actual to date showing some growth over 2009
- Current Puget Sound growth forecast for region
 - · 4.4% in 2011
 - 5.1% in 2012

Sales Tax





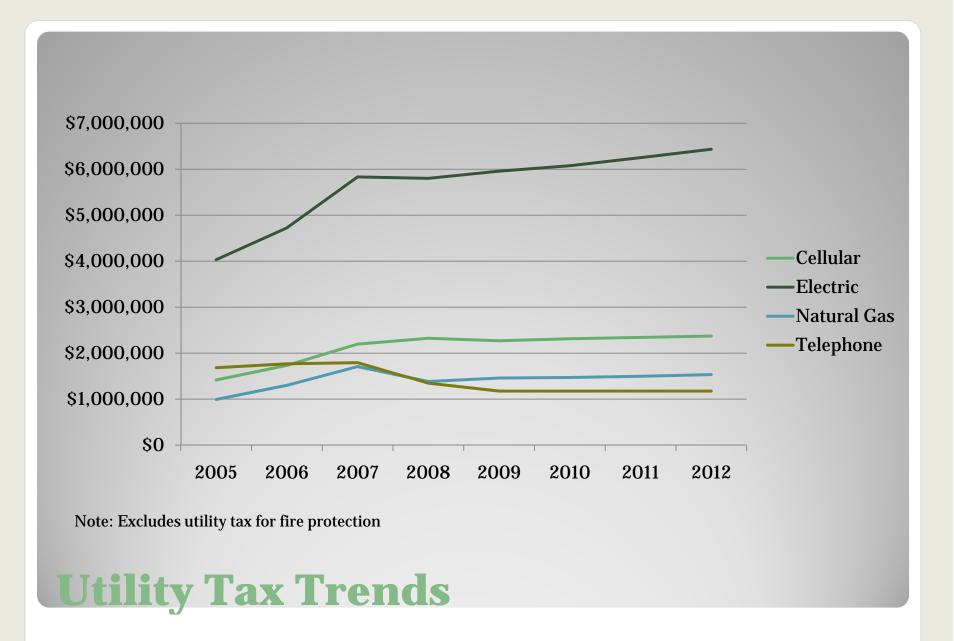
Property Tax

- Assumes 1% increase allowed by law
- New construction projected at \$400,000 and \$300,000 in 2011-2012, respectively
- 1% property tax is equal to approximately \$204,000 annually (\$145,000 General Fund and \$59,000 other levy funds)

Utility Tax

- Assumes growth of 11% in 2011 and 2% thereafter
- Increase in 2011 due to the General Fund utility tax for fire protection

General Fund Revenue



Development Revenue

No change from previous forecast

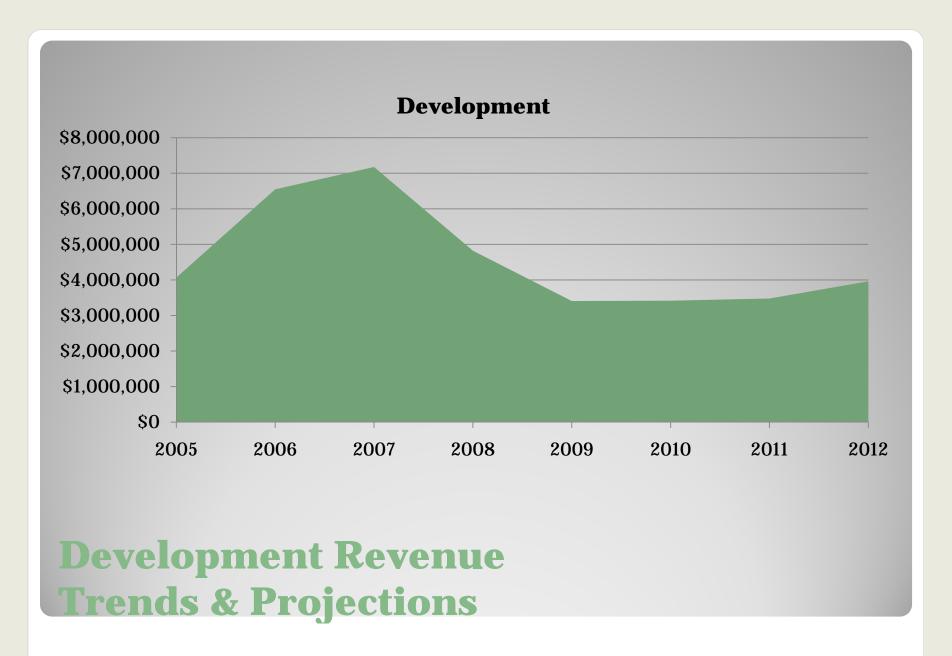
Projected growth

- 1.8% (\$61,000) in 2011
- 13.9% (\$480,000) in 2012

Building Permit Reserve

 One-time use of building permit reserve money to maintain core development review services (\$800,000)

Development Revenue



Business License

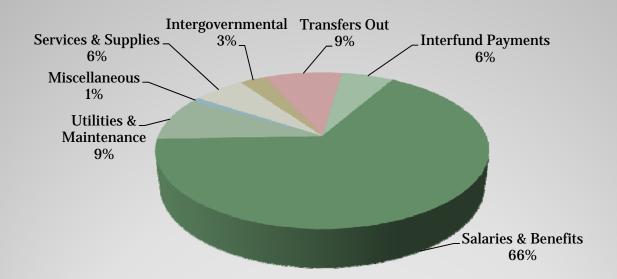
- Projection normalized for effects of 2010 refund
- Growth estimated at 1.2% annually

Intergovernmental Revenues

- Fire District #34 increased estimate based on current preliminary budget costs and new operating services agreement
- Recognized estimated EPSCA reimbursements
- Additional grant revenue through King County E-911 program for Police information technology needs

General Fund Revenue

General Fund Expenditures by Type 2011-2012 Biennial Budget



General Fund Expenditures

- Expenditures projected to decline by 8.2% under the 2009-2010 Budget
 - August underexpenditure rate trending at approximately 9%
- Salary and Benefit assumptions
 - Decline of approximately 3% under the 2009-2010 Budget
 - A net 28.15 FTE reduction
 - Market adjustments assumed at 1% annually
 - Medical increases projected at 7.1% annually
 - Market and medical adjustments will be reevaluated mid-biennium due to pending labor negotiations and health care reform impacts
- Maintains Council fiscal policies/practices
 - General Fund reserves
 - Transfers CIP and capital equipment transfers
 - Portion (\$800,000) of Building Permit Reserve used to maintain core development review activities

Expenditure Summary

- Summary of actions taken
 - Eliminated new requests (\$5.6 million)
 - Gained operating efficiencies (\$19 million)
 - Monitoring/management of overtime
 - Right-sizing administrative costs
 - Reassessing debt needs in the utilities
 - Recognized changes in demand for service (\$1.5 million)
 - Decreased levels of service (\$3.6 million)
 - Graphics services
 - Fixed asset monitoring
 - Parks maintenance

Balancing the Budget

• Utility revenues are expected to increase from an estimated \$85.5 million to \$97.5 million (a 14% increase), including the Novelty Hill service area

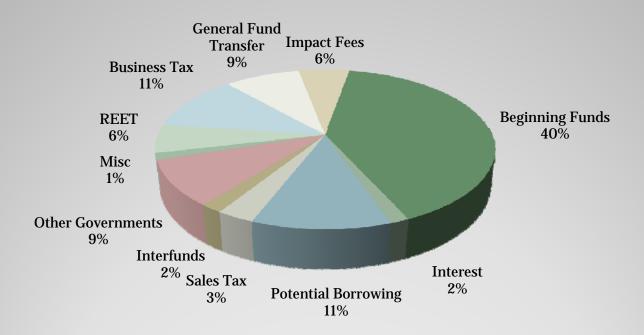
- Increases due to:
 - Metro increases of 13.2%
 - Cascade Water increases of 6.6% 2011 and 3% 2012
- Impact of rate increases on an average in-city customer equates to a 3% rise on a residential utility bill for 2011 and 1% for 2012

Enterprise Funds

Utility Revenue Requirement Increases	2011	2012
City Service Area:		
Water	5%	5%
Wastewater	2%	2%
Novelty Hill Service Area:		
Water	7%	7%
Wastewater	28%	0%

Proposed Rate Increases

Total 2011-2012 General CIP Revenues (\$74.3 million)



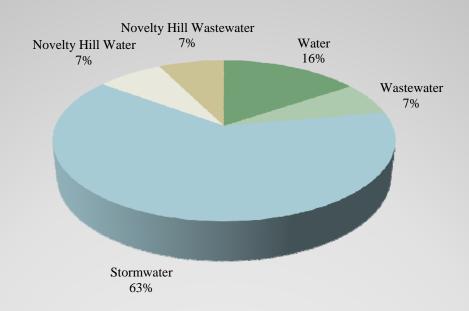
General Capital Investment Program

Revenue Highlights

- Slight growth in real estate excise tax (3%), but still approximately 50% below historical base
- General Fund transfers equal \$9.3 million (including sales tax on construction, pavement management and 5% transfer)
- Business Tax estimated to grow by approximately 1.2% annually
- Impact fees expected to increase at about 3% above the 2009-2010 revised forecast
- Parks CIP includes approximately \$8.3 million in potential borrowing to support Downtown Park land acquisition

General CIP Revenues

Total 2011-2012 Utility CIP Revenues (\$67.4 million)



Stormwater revenue includes potential borrowing for Downtown projects.

Utility CIP Revenues

- CIP projects focus on three major areas:
 - Downtown Urban Center
 - Overlake Urban Center
 - Established Neighborhoods
- 2011-2012 Major projects include:
 - Fire Station #17
 - Burlington Northern Right-of-Way
 - Downtown Park
 - Street Extensions (164th and 161st)
 - Redmond Way Storm Trunk and Water Quality Facilities

2011-2012 Major Projects

Health Care Reform

- Projected increases of \$385,000 to medical plan
- Mitigating through rate increase and reserve balances

November Initiatives

- I-1053
 - Requires tax increases be approved by 2/3 majority of both houses (or by the people) and new fees be approved by a simple majority of both houses
 - New revenue measures become significantly more challenging
 - Replacement revenues or potential transportation revenue packages would face new hurdles

• I-1082

- Would allow private insurers to become certified as Workers' Compensation insurance providers
- Theoretically creates another potential avenue for coverage

• I-1098

- Establishes new income tax rate for high wage earners, reduce limit on statewide property tax and increase B&O tax credits
- If passes, potential positive indirect impact on Redmond as State's budget reductions may not be as severe.
- Would minimize the risk of state-shared revenues being at risk during the 2011-2013 State budget cycle.

• I-1100 & I-1105

- Privatize hard liquor sales
- I-1100 would eliminate liquor profit distributions from the state
- Approximately \$300,000 annual loss to Redmond
- I-1105 would eliminate both liquor profit distributions and liquor excise tax
- Approximately \$630,000 annual loss to Redmond
- 2011-2012 loss in revenue would equal approximately \$1.3 million
- Potential State would re-enact the liquor excise tax should I-1105 pass
- Potential increase in sales tax from a rise in liquor sales
- Potential impact to public safety due to more liquor outlets

• I-1107

- Would repeal 2010 legislative action to impose permanent sales tax on candy and gum; temporary sales tax on bottled water and temporary excise tax on certain carbonated sodas/beverages
- Potential indirect impact on state-shared revenues as State cuts may need to be more severe if passes

Referendum 52

- Allowing voters to decide whether to authorize bonds for energyefficiency upgrades to K-12 and higher education buildings
- If passes, State may consider expanding energy efficiency upgrades to other public buildings

- Proposition 1 (King County)
 - Sales tax increase of 0.2%
 - Provide law enforcement and criminal justice funding to King County (60%) and to cities in the County (40%)
 - Redmond would receive a share of the projected \$35 million raised in 2011 and \$48 million in 2012
 - Redmond share is estimated at approximately \$1.9 million for 2011-2012
- King County E-911 Revenue (PSAP)
 - King County Council to vote on E-911 Tax Ordinance 10/11
 - Redmond receives PSAP funds to support E-911 programs
 - Potential reduction of \$217,000 if ordinance is not enacted

- Budget to Council October 5
- Budget Public Hearing #2 on October 19
- Budget Study Sessions begin October 26
- Budget Public Hearing #3 on November 16
- The budget document can be found on the City's website: http://www.redmond.gov/insidecityhall/finance/budget/

Next Steps