

Financial Review to Council

First Quarter, 2013

Presented: May 13, 2013

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Fiscal 2012 - Financial Overview

Government wide Statement of Financial Position

At December 31, 2012 the City had \$772 million in Total Assets and \$136.3 million in Total Liabilities with a positive Net Asset position of \$636.1 million. Net Assets increased during the year by a total of \$15.9 million. Of the net asset total \$398.8 million is dedicated to governmental activities while \$237.3 million is committed to business-type activities (Enterprise) as defined by the Governmental Accounting Standards Board (GASB).

The City also manages two component units. The Bellingham/Whatcom Public Facilities District has assets of \$26.5 million and carries a year-end liability, which totals \$19.7 million. The Bellingham Public Development Authority had a net asset position at year-end of \$1.3 million

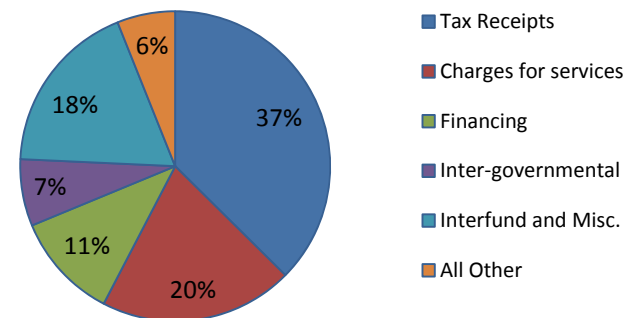
Revenues: The City received Revenues in 2012 totaling \$206.3 million. Taxes from various sources totaled \$75.8 million, grant and entitlement revenues totaled \$16.8 million and the City received interest earnings of \$1.7 million. The City also charged \$69.3 million for goods and services provided.

Expenses: During 2012, the City recorded total expenditures of \$213.4 million. Operating expenditures increased 4% over 2011 with a total of \$156.6 million spent. The City spent \$33.0 million in capital projects and had financing costs of \$19.3 million

Citywide Revenues

2012

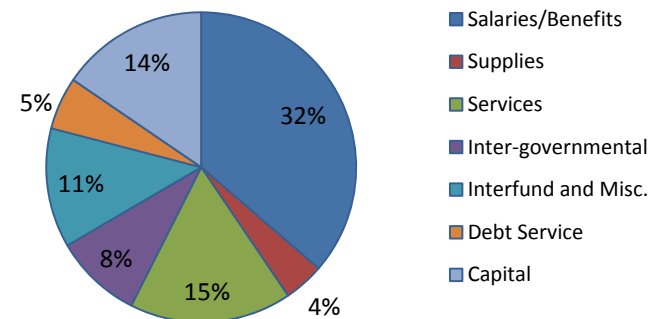
Total \$206.3 million



Citywide Expenses

2012

Total \$213.4 million



The local economy:

Demographic information:

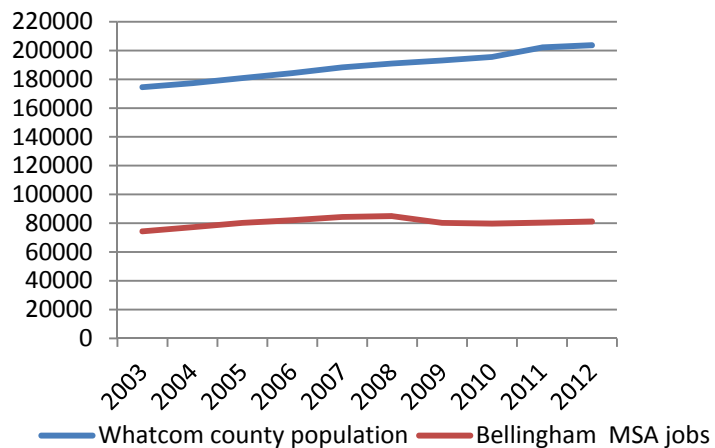
The population of Bellingham has grown by 11,500 over the past decade with a 2012 population of 81,360. Total jobs in the Bellingham metropolitan area, although well below the high point of 84,900 in 2008, is still 6,700 jobs higher than 2003. The local economy has grown by 2,400 since the summer of 2010. The unemployment rate ended 2012 at 6.9% only slightly higher than the 2003 rate of 6.8%.

Despite the recession personal income in Bellingham (in the aggregate) has grown from \$1.94 billion in 2003 to \$3.1 billion in 2011 (over 5% annual growth). Per capita personal income for Bellingham residents is estimated at \$38,100.

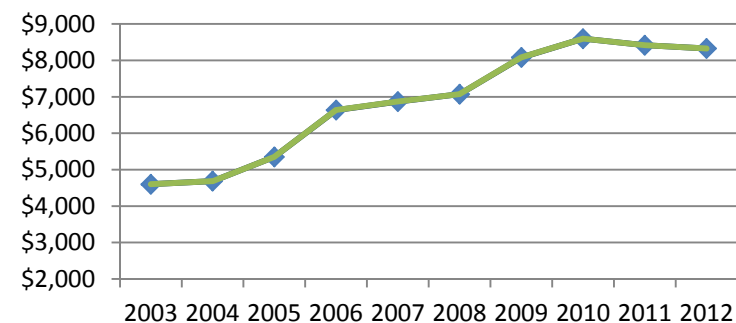
Principal Property Tax Payers:

Rank	Company Name	Taxable value in millions	% of total city assessed value
1	Puget Sound Energy	\$104.7	1.26%
2	Bellis Fair Partners	41.6	.50%
3	PKII Sunset Square LLC	34.3	.41%
4	Talbot Real Estate	22.1	.27%
5	Qwest Corporation	19.9	.24%
6	Cascade Natural Gas	19.1	.23%
7	St. Joseph/PeaceHealth	18.6	.22%
8	Madrona/St. Joseph	17.6	.21%
9	Fred Meyer	16.3	.20%
10	Metropolitan Life Insurance	16.3	.20%
Total	Top Ten Taxpayers	\$310.5	3.73%

Population/Non-farm jobs



Assessed Valuation (in millions)



Status of our COB finances - March 2013

Citywide Overview: During the first quarter, the city took in Revenues of \$46.1 million and spent \$50.1 million.

Citywide Revenues: For the first three months, the City captured revenues that are higher than last year in every broad revenue category. Tax revenues in total were up year over year by 6%. Utility service charges grew by over 11.7%.

Citywide Operating Expenditures: To date Operating Expenses, although within budget, are flat when compared to Q1 of the prior year. The operations of Public Works accounted for \$14.2 million in expenses during the quarter, which is 8% higher than the same period of 2012. Public Safety costs (Police, Fire and Municipal court) totaled \$11.9 million. Total salaries and benefits for the first three months was \$20.5 million

Capital expenditures: We spent \$10 million in January-March, which is more than double that spent in the first quarter of 2012. The expenditures grew in large part due to the costs related to the expansion of the Post Point wastewater treatment facility. Budgeted funds for many of the current capital projects were not spent in 2012 and were re-budgeted as a reappropriation in 2013.

Debt: We made debt payments of \$1.1 million during the quarter.

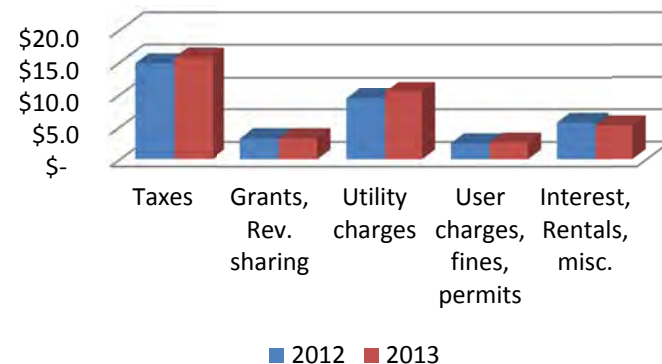
the total investment portfolio, including cash and cash equivalents, has declined by \$7.6 million to \$165.2 million. Year to date the overall investment portfolio generated \$365 thousand in interest earnings.

Reserve analysis: All funds finished the quarter with positive reserve balances. The General Fund balance decreased during the quarter by \$1.7 million but still has a balance of \$14 million which is above our targeted reserve balance per the city's adopted financial guidelines.

Citywide Revenues Q1

2012/2013 in millions

2013 Total \$46.7 million



Total Cash and Investments: Since March 31, 2012

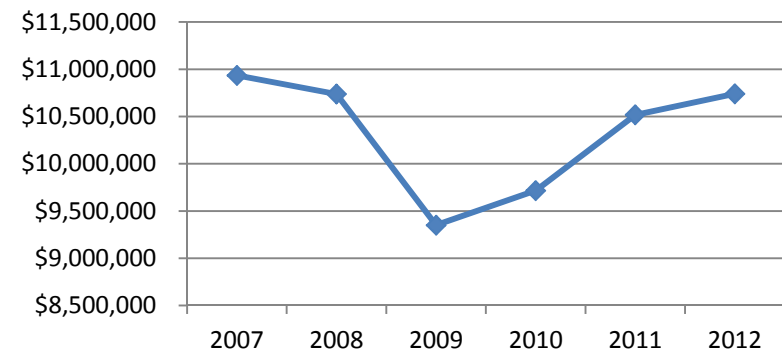
GENERAL FUND

Overview: For the first quarter, the General Fund saw total revenues grow by 4.8% from that received in Q1 of 2012. Sales Taxes and Business and Occupation taxes were up substantially from Q1, 2012 and are currently trending well above the forecasted budget amounts. Expenses for the quarter exceeded Revenues by \$1.6 million. Operating expenses for the quarter however were 4% lower than the same period last year.

Revenues: Tax receipts grew at a substantial rate during the quarter with sales tax receipts up 9% and B and O taxes tracking at a 8% growth rate. Despite 2½ years of consistent revenue growth these two categories of taxes ended 2012 with receipts 3% lower than recorded 2007 receipts. Utility taxes grew by almost 5% over the prior year period. All other categories of General Fund revenues were either flat or below last year March figures. General Fund revenues totaled \$14.1 million in Q1.

Revenue concerns: The City's tax revenues are still below revenue levels recorded prior to the recession. The Sales tax and B and O growth rates although strong in the first quarter did slow significantly in March and again in the preliminary April figures. State and Federal grant resources remain quite restricted with shared revenues such as liquor sales being reallocated at the state level.

General Fund - Annual Sales Tax Receipts



Note: 2007 and 2008 allocation % to General fund adjusted for comparison purposes

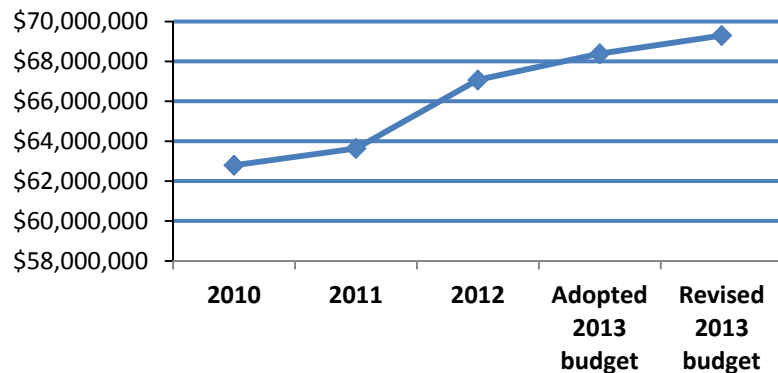
Trends: Finance staff had forecasted that the local economy would likely grow at 2-3% annually for the next several years and that underlying inflation will generally be moderate to low. Due to strong retail sales, real estate activity and growth in local construction we are now optimistic that primary tax revenues for 2013 shall exceed the forecasted growth rate.

The tax forecasting tool the city uses indicates that 2013 tax revenues should track to about \$1.0 million or 3% above the budget forecast

GENERAL FUND - continued

Operating Expenses: The 2013 budget authorizes departmental operating expenditures of \$68.4 million. During the first quarter \$14.6 million was spent for departmental operating expenses. Operating expenses declined by 4% when compared to the same period in 2012. Of the fourteen departments funded by the General Fund, half had Q1 expenses higher this year than last.

General Fund total expenditures



Capital and Debt Service: **No capital expenses are budgeted in the 2013 General Fund budget due to budget pressures.** Debt Service payments of \$1.1 million were made during the first quarter.

Budget status: The adopted 2013 General Fund expenditures budget called for a 2% increase in spending, which was anticipated to combine with increased revenues to reduce the deficit spending from that incurred in 2012. Reappropriations and other budget amendments have increased the General Fund expenditure budget by an additional \$900 thousand. Unless the current trend of increased revenue continues, the budgeted deficit is likely to exceed that incurred in 2012.

General Fund Deficit



State of other funds:

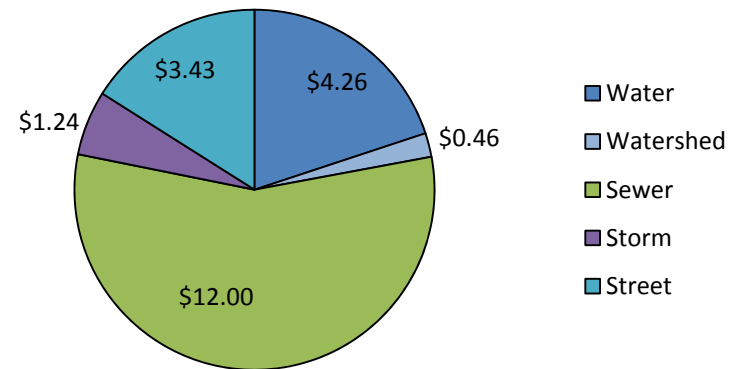
Water, Sewer and Storm Water Utility: During the quarter significant progress on capital projects was made with almost \$9 million spent in the quarter. Larger projects include monies spent on the Post Point treatment facility, installation of new water meters and separation of storm water from sewer mains in the Sunnyland neighborhood.

Utility Revenues: New rates were instituted in January for utility customers. Rate increases averaging 6-8% were put into place by council. The rate increases have helped to offset reduced revenues from state and federal grants. Revenues for the entire utility totaled \$11.3 million for the 1st quarter, which was 1% higher than Q1 of 2012.

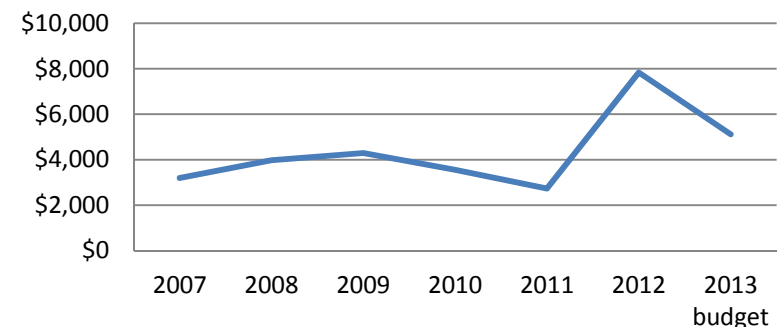
Utility Operating Costs: The operating costs for the water utility grew year over year by 9% while costs in the sewer utility fell by 2% in comparison to Q1 of 2012. In the water utility costs for installing meters (1400 as of this writing) have been expensed. Costs for the new invasive species inspection program are also expected to impact the overall utility costs for 2013.

Streets: This fund recorded only \$4.1 million in first quarter revenues, which is down substantially from that received in Q1 of 2012. Charges to other departments for engineering services were substantially lower in Q1 of 2013 than in Q1, 2012. Note: The GIS services group moved to the Technology Fund in 2012. Revenues in 2012 also included \$350,000 in Economic Development funds from the county.

Public Works Q1, 2013 expenses
In millions, (selected funds)



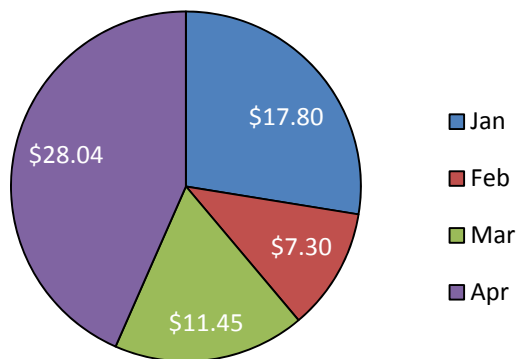
Watershed Management Expenses,
Total \$30.7 million
2007 through 2012



Development Services: The fund recorded first quarter revenues, which were 17% higher than comparable 2012 revenues. This continues the trend of increased construction activity, which started in the summer of 2010. Revenues are on track to exceed both last year's total for the year as well the budgeted figures. In response to increasing demand, expenses have risen but are within the budgeted amounts.

Permit values totaled \$64.6 million through April with permits being issued for 172 new housing units (56 single dwellings, 2 duplexes and 112 apartment units).

2013 Construction Permit Valuation
in millions



Parking: This fund failed to meet its 2012 Revenue budget with revenues falling by 5% from the prior year total. In the first quarter however, revenues began to grow again with a first quarter increase of 22%. Reduced debt service payments contributed to a decrease in first quarter operating expenses, which fell by over \$128 thousand. Fund cash flow for the quarter was a positive \$156 thousand, which reversed a deficit of \$33 thousand in the prior year period.

Medic One: This fund receives revenues from a variety of sources including an EMS countywide sales tax. Medic One services are supplied primarily by Bellingham Fire Department personnel and is contracted for by agreement with Whatcom County. Negotiations on continuing a unified countywide EMS system are ongoing.

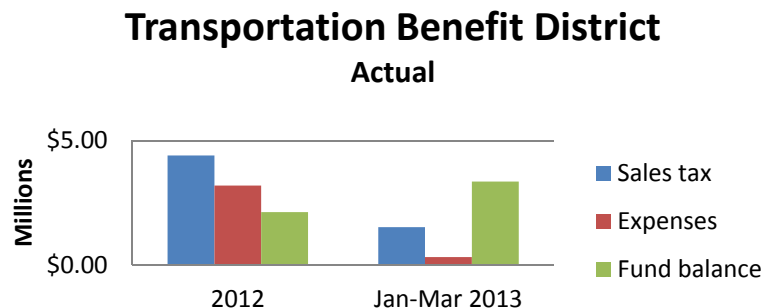
For the quarter, the Medic One fund generated \$1.78 million in Revenues while spending \$1.86 million (down 8%). Revenues from ambulance and aid fees continue to fall as reimbursement rates are reduced for Medicare and Medicaid patients. 72% of total Medic One expenses is for labor costs.

Real Estate Excise Taxes Fund: The city receives ½ of 1% excise tax on the transfer of real property within the city. Revenues from this source had been severely impacted during the recession but began to grow again with the upturn in real estate sales.

Our current forecast is for REET revenues to exceed \$2.6 million at year-end. This would be about 25% above the 2012 receipts for this fund although well below the peak revenues received during 2005-2006.

Other fund highlights:

Transportation Benefit District: Sales tax revenues from the voter approved TBD totaled \$4.4 million in 2012 and is up about 10% in the current year. Revenues are expected to exceed \$4.6 million for fiscal 2013



Police Funds: Three funds, Fund 151 Federal Equitable Share, Fund 152 Asset Forfeiture and Fund 153 Criminal Justice Receipts, are all funding sources that supplement the equipment and service needs of the Police Department. In aggregate, these three funds had year ending reserves of \$1.12 million.

Public, Educational, and Government Access Television Funds: A portion of the proceeds of the city imposed franchise fee tax on Comcast cable television subscribers is dedicated to PEG television. This fund had \$424 thousand balance at March 31, 2013.

Tourism Fund: This fund collects proceeds from the hotel, motel tax and a portion of the admission tax collected. For 2012, this fund collected \$1.1 million and spent \$1.0 million. Revenues grew by 20% in the first quarter and the fund has a March 31st balance of \$452 thousand.

Cemetery Fund: This fund has significant outstanding long-term obligations with fairly static revenues and growing operational and maintenance expenses. Expenses grew by 6.3% in the first quarter and were slightly higher than Revenues for the period.

Internal Services Funds: These funds provide services across all operations of the city.

- **Claims and Litigation Fund:** This fund serves to manage the risk liabilities of the City. The City has a goal of maintaining a \$5 million balance. As of March 31st this fund had approximately \$4.7 million.
- **Fleet Administration Fund:** This fund charges departments for the use and maintenance of its rolling stock fleet. The fund accumulates monies to replace the asset when needed. The fund had a March 31st balance of \$6.3 million.
- **Health benefits, Workers Compensation and Unemployment Compensation Funds:** These funds pay all costs for employment benefits and charge the departments for these services. The total fund balances at 3/31/2013 for these three funds is approximately \$4.4 million.

Treasury activities:

Overview of investments: U.S. Treasury yields after being quite volatile in the last half of 2012 were quite stable during the 1st quarter of 2013. During the quarter, the U.S. 10-year treasury bond ranged in yield from 1.84% to 2.06%. The 3/31 yield at 1.87% was 1 basis point higher than the yield on the first trading day of the year. In response to the low rates and with the start of significant capital expenditures the city began to build up its liquidity with deposits readily available at its primary bank account and in the State of Washington Short Term Investment Pool.

During the quarter, the City's Investment Portfolio shrunk from \$153 million to just over \$140 million. The portfolio had a yield to maturity of .97% at the end of March, which is lower than the 1.13% the portfolio yielded in December, 2012. The effective rate of return for the quarter was .99%. This return is significantly higher than the benchmarks of the State Local Government Investment Pool rate of .17% or the two year rolling average for the U.S. Treasury Bill of .40%

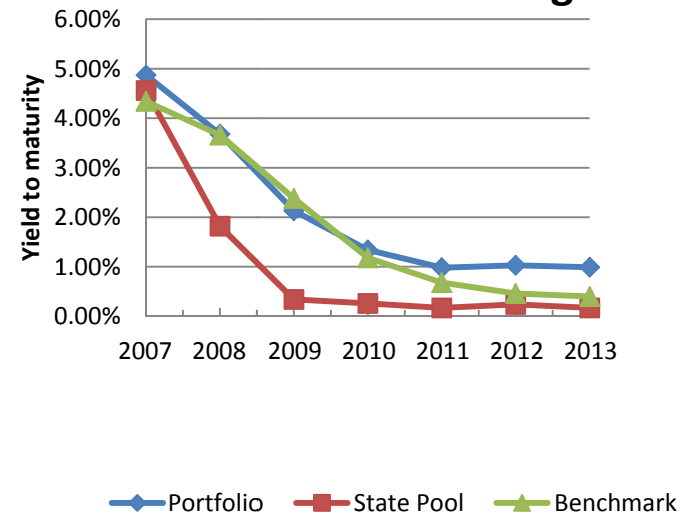
The portfolio has yielded investment earnings of \$364,738 year-to-date and has an average duration of 1.98 years.

Investment Portfolio by type:

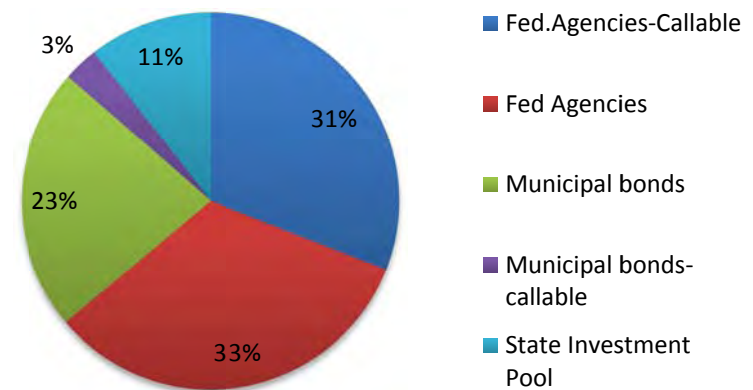
State Local Government Investment Pool	\$ 14,879,481
Federal Agency Issues-(Non-callable)	40,730,905
Federal Agency Callable Issues	43,476,833
Federal agency-Zero coupon (amortizing)	4,810,145
Municipal bonds - (Non-callable)	31,652,885
Municipal bonds Callable issues	4,580,234

Total investments at 3/31/2013 \$ 140,130,483

Investment earnings



Investments by type



Contingent liabilities and other budgetary concerns:

- **Environmental Remediation**

The city is liable for a number of environmental cleanups. The booked liabilities for these are:

	2012 Est.
○ S. State Street Gas Plant	\$9.0 million
○ Cornwall Ave. Landfill	\$3.6 million
○ RG Haley Site	\$6.5 million
○ Eldridge Municipal Landfill	\$.1 million
○ Central Waterfront	\$1.5 million
○ Total booked liability	\$20.8 million

- Council funded \$1 million from reserves in 2012 budget
- City anticipates approximately ½ of the costs to be paid through DOE remediation grants.
- City Council authorized using up to \$500 thousand per year in solid waste fund dollars for clean-up activities.

- **Fire & Police LEOFF and Pre-LEOFF Pensions and Post-employment benefits**

The city is liable for the pension costs for 31 retired Pre-LEOFF Firefighters and 17 retired Pre-LEOFF law enforcement officers and for survivor pensions for 25 spouses. In addition the city is liable for the medical benefits and long term care needs for the 48 Pre-LEOFF retirees and for an additional 42 LEOFF I firefighters and 29 LEOFF I law enforcement officers.

- The 2012 actuarial reports estimate the present value liability of all Pre-LEOFF and LEOFF I obligations under this plan at \$48.5 million. Of this total, the city has funds in the plans totaling \$13.5 million leaving an unfunded liability of \$35 million.
 - Council levies .225 cents per thousand property tax. In 2012 this tax generated \$2.0 million in revenue for the fund.
 - Council funded from the General Fund a total of \$1.7 million in 2012.

- **Public Facilities District revenue shortfall:**

The Public Facilities District was formed to build and manage the Lightcatcher Museum and the remodeling of the historic Mt. Baker Theatre. In addition the PFD borrowed from the city \$1.8 million to complete these projects in 2009. Debt was issued to support this effort in 2004 and again in 2007. The PFD intended on paying its debt obligation through a sales tax rebate, which was offered for a 25 year period by the State of Washington.

- Current projections show forecasted sales tax proceeds to be insufficient to meet debt service obligation in 2017-2020 timeframe
- The bonds are heavily back loaded as to principal payment. The city loan assumed interest only payments for five years with principal paid over five years beginning in 2014.
- The PFD board is expected to ask to restructure the COB loan.
- 2004 debt was refunded during 2012 at a total savings to the PFD of \$1.1 million.
- The 2007 debt could be refinanced as early as 2015 should interest rates stay low.
- The total shortfall using conservative revenue forecasts is estimated at approximately \$5 million.

- **Costs to address water quality issues in Lake Whatcom**

- Programming for addressing this important issue is being discussed
- Costs to fully protect and restore the water quality of Lake Whatcom are not currently estimated.

- **Costs to address deteriorating facilities and infrastructure.**

- The city owns over \$600 million in physical assets (at book value).
- The capital maintenance and replacement for most real property assets owned by the Utility Funds are assumed to be paid through future rate increases.
- The capital maintenance and replacement for the physical real property assets of the general purpose government has not been funded for a number of years.
- The current estimate for minimum funding levels to address the general purpose government real assets is \$5 million per year.

- **Waterfront District infrastructure:**

- Six year budget \$38 million
- Future years >\$100 million

- **Medic One dissolution**

- 2013 deadline, net costs undetermined

- **Claims & Litigation pending**

There is no estimated contingent liability although the city is potentially liable for a number of asserted claims.

- *Council funded \$800 thousand from reserves in 2012 to increase fund balance.*
- *Current balance in fund is \$4.7 million.*

- **Cemetery: declining revenues/rising expenses.**

- Timing and costs uncertain
- Shrinking reserves

- **Continued reductions in State and Federal grants and shared revenues.**

- **No sustainable funding plan for General Fund**
The 2013 budget is expected to be the sixth consecutive year that the General Fund has operated at a deficit.