

SUMMARY OF GENERAL FUND REVENUES
2005-2006 Budget

	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Beginning Fund Balance	\$12,448,838	\$1,662,829	\$1,737,773	\$1,139,447
Economic Contingency			\$3,300,000	\$1,600,000
Base Operating Revenues				
Sales Taxes	34,613,105	36,890,000	36,695,745	38,629,270
Sales Tax Transfer to CIP	(2,200,000)	(2,200,000)	(2,200,000)	(2,200,000)
Property Taxes	18,556,096	20,076,000	19,963,892	21,342,852
Utility Taxes	16,289,153	18,664,000	17,156,266	18,803,338
Development Revenues	7,977,216	7,924,000	6,346,080	7,043,007
Intergovernmental	15,671,113	17,053,408	16,881,382	17,204,982
Other Revenues	6,702,986	6,601,339	6,642,517	6,815,485
Total Budget	\$110,058,507	\$106,671,576	\$106,523,655	\$110,378,381

Distribution of Revenues by Major Category	2003-04 Budget	2005-06 Budget
Sales Taxes	33%	33%
Property Taxes	19%	19%
Utility Taxes	18%	16%
Intergovernmental	16%	16%
Development	7%	6%
Other	6%	4%
New Revenues	0%	2%
Economic Contingency (one time)	0%	1%
Beginning Fund Balance	2%	1%
Total	100%	100%

GENERAL FUND REVENUES**By Category**

	2001-2002 Actual	2003-2004 Budget	2003-2004 Estimate	2005-2006 Budget
Beginning Fund Balance	\$12,448,838	\$1,662,829	\$1,737,773	\$1,139,447
Economic Contingency			\$3,300,000	\$1,600,000
Sales Taxes	\$34,613,105	\$36,890,000	\$36,695,745	\$38,629,270
Less Sales Tax on Construction	(2,200,000)	(2,200,000)	(2,200,000)	(2,200,000)
Property Taxes	\$18,556,096	\$20,076,000	\$19,963,892	\$21,342,852
Utility Taxes				
Electricity	\$6,424,389	\$7,394,000	\$6,959,905	\$7,847,841
Telephone	6,593,543	7,447,000	6,737,713	7,381,013
Natural Gas	1,731,395	1,998,000	1,336,107	1,540,730
Garbage Collection	715,405	921,000	1,014,684	913,545
Cable Television	824,421	904,000	1,107,857	1,120,209
Development Fees	\$7,977,216	\$7,924,000	\$6,346,080	\$7,043,007
Intergovernmental				
Fire & Emergency Services	\$8,418,622	\$9,636,820	\$9,492,108	\$10,107,838
Overhead Fees	4,271,262	4,820,983	4,706,947	4,509,537
Motor Vehicle Fuel Taxes	1,368,130	1,366,000	1,305,200	1,300,000
Motor Vehicle Excise Taxes	424,675	0	0	0
Liquor Profits & Taxes	805,062	812,000	919,550	962,789
Other Intergovernmental Revenues	383,362	444,334	484,306	324,818
Other				
Investment Interest	\$2,264,503	\$2,450,000	\$724,698	\$669,563
Business Licenses	1,618,222	1,627,000	2,156,589	3,648,492
Admissions Tax	903,422	903,000	939,547	977,505
Fines and Forfeitures	530,119	297,000	394,897	201,968
Licenses and Permits	214,564	132,700	218,714	222,569
Other	1,172,156	1,164,910	2,181,343	1,095,388
Total	\$110,058,507	\$106,671,576	\$106,523,655	\$110,378,381

GENERAL FUND MAJOR REVENUE CHANGES 2005-2006 Compared to 2003-2004

SUMMARY

General fund revenues for 2005-06 include four new revenue sources to balance the budget: a 1% property tax increase which will generate approximately \$110,000 each year, a one-time infusion of \$1.6 million from the economic contingency set aside in 2003, an increase in the utility tax from 5.5% to 5.8% for telephone, electric and natural gas companies, and an increase in the general fund's portion of the business license fee from \$12.50 to \$28.25. This increase raises the total business license fee from \$67.50 to \$83.25 per employee: \$28.25 to the general fund and \$55 to transportation. These four new revenues are estimated to generate an additional \$4.6 million in revenues to the City and are described in greater detail below.

1% Property Tax Increase

Under state law, the City may increase its property tax levy by 1% each year with Council approval. This increase will generate new revenues of approximately \$110,000 annually or \$220,000 over the biennium.

One-time use of economic contingency

During budget strategy discussions with the City Council in the summer of 2004, the City Council indicated their support to use up to \$3 million of the \$3.3 million economic contingency in 2005 to balance the budget. The 2005-06 budget uses \$1.6 million of this resource with the remaining balance of \$1.7 million being maintained as a contingency in the event of further economic weakness.

It is important to recognize that this infusion is one-time and does not address the long-term structural problem inherent between the City's general revenues and expenditures. However, this approach does allow the Mayor and Council additional time to further study the City's financial condition and develop a sound financial strategy going forward.

Utility Tax Increase: Raises the utility tax rate for telephone, natural gas and electricity to 5.8% from the current 5.5%. The City is expected to receive approximately \$16 million over the biennium in tax revenue from these three utilities. Increasing the City's tax rate to 5.8% effective February 1, 2005 will yield an additional \$840,000 in utility tax revenues over two years. The fiscal impact on the average homeowner is about \$.30 a month or \$3.60 per year.

Business License Fee Increase: Increases the City's business license fee by \$15.75 for inflation from the current rate of \$67.50 for each employee working within Redmond city limits to \$83.25. This increase will generate in 2005-2006 approximately \$1.9 million of new revenue and is dedicated to the General Fund for general services and programs. The impact of this increase on a business operating in Redmond and employing 10 employees is \$165 per year. For 2005, the total fee of \$83.25 is apportioned \$28.25 to the General Fund and \$55 to transportation. The transportation surcharge is scheduled to be sunset December 2006 unless reauthorized by Council.

The following sections provide an overview of the City's major revenue categories along with an explanation of significant budget assumptions.

BEGINNING CASH

Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Beginning Fund Balance	\$12,448,838	\$1,662,829	\$1,737,773	\$1,139,447
Economic Contingency			\$3,300,000	\$1,600,000

For 2005-2006, the budget includes a beginning cash balance of \$2.7 million. This includes \$1.1 million, which represents the difference between revenue and expenditure estimates for the 2003-2004 biennium, and \$1.6 million, which is the amount of one-time economic contingency funds that the Council has authorized to balance the 2005-2006 budget. With that latter action, the remaining balance in the economic contingency is \$1.7 million. This money will continue to be held in reserve as a hedge against future economic weakness.

SALES TAX (\$36.4 million; \$1.8 million or 5.2% increase over 2003-2004 budget)

Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Retail Sales Taxes	\$32,831,301	\$34,950,000	\$34,898,765	\$36,648,100
Criminal Justice Distributions	1,781,804	1,940,000	1,796,980	1,981,170
Deposit to CIP	(2,200,000)	(2,200,000)	(2,200,000)	(2,200,000)

Retail Sales Taxes. Sales taxes is the City's single largest revenue source and accounts for about one-third of the City's general revenues. As this revenue is highly sensitive to economic conditions, collections declined dramatically in 2002 as a result of the recession. It is important to note that sales tax collections in 2004 continue to remain below 2000 levels. For the 2005-06 biennium, this revenue source is anticipated to increase by 5% each year, in anticipation of a modest recovery in the local economy.

For 2005-06, no new major retailers are anticipated within the City limits. While Larry's Market is constructing a smaller satellite location on 116th, this store is not anticipated to generate much in new sales tax revenue for the City, but rather result in a shift of the market share amongst the City's current grocers. The Marriott Hotel is currently under construction. However, tax revenue from the Marriott is received in the form of hotel/motel taxes which are to be used for tourism-related activities and not general governmental services.

Criminal Justice Distributions. Other sales tax-related revenues included in this category are distributions from King County to cities and towns to support criminal justice programs. Under a criminal justice funding package passed by the State in 1990, King County distributes on the basis of population, one-tenth of 1% of sales taxes for local management of criminal justice programs. This revenue source generated \$1.8 million in 2003-04 and is expected to generate \$1.9 million in 2005-06, an increase of 5.6%.

Deposit to CIP. A total of \$2.2 million of construction sales tax revenue will be deposited directly to the Capital Investment Program (CIP) in accordance with Council policy. This allocation is in addition to the 5% transfer of General Fund revenues to the CIP, which is reflected on the expenditure side of the budget. In total, the General Fund will contribute \$7.7 million to the CIP over the 2005-2006 biennium.

PROPERTY TAX (\$21.3 million; \$1.4 million or 6.3% increase over 2003-2004 budget)

Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Property Taxes	\$18,556,096	\$20,076,000	\$19,963,892	\$21,342,852

Assumes a 1% increase in property taxes for 2005 and 2006. Under state law, the City may increase the property tax levy by up to 1% without voter approval plus new construction. The 1% increase is projected to generate approximately \$110,000 each year or \$220,000 over the biennium. New construction is estimated at \$150,000 and \$250,000 in each year, respectively.

UTILITY TAX (\$18.8 million; \$200,000 or 9.3% increase from 2003-2004 budget)

Utility Tax - Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Electricity	\$6,424,389	\$7,394,000	\$6,959,905	\$7,847,841
Telephone	6,593,543	7,447,000	6,737,713	7,381,013
Natural Gas	1,731,395	1,998,000	1,336,107	1,540,730
Garbage Collection	715,405	921,000	1,014,684	913,545
Cable Television	<u>824,421</u>	<u>904,000</u>	<u>1,107,857</u>	<u>1,120,209</u>
Total Utility Taxes	\$16,289,153	\$18,664,000	\$17,156,266	\$18,803,338

The City levies a tax on utilities operating within City limits. Electric, telephone (includes local, long distance, and cellular), and natural gas companies pay a 5.8% tax on their gross revenues. The local garbage company is assessed a utility tax of 6% and the local cable television provider is assessed a franchise fee of 5% of gross revenues.

Starting February 1, 2005, the City's utility tax on telephones, electricity and natural gas will be increased from 5.5% to 5.8%. This increase is expected to generate \$840,000 in additional utility tax revenues to the City and add \$.30 per month to the utility bill for an average homeowner.

DEVELOPMENT FEES (\$7.0 million; -\$900,000 or 11% decline over 2003-2004 budget)

Development Fees - Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Commercial Building Permits	\$901,142	\$630,000	\$450,699	\$700,000
Multifamily Building Permits	530,685	600,000	334,385	500,000
Tenant Improvements Building Permit	604,797	480,000	481,010	600,000
Residential Building Permits	1,319,339	1,450,000	1,812,223	1,400,000
Mechanical Systems Permits	1,422,518	1,531,000	1,281,808	1,535,000
Building Inspection/ Plan Review fees	2,991,082	3,043,000	1,824,079	2,128,861
Technology Surcharge	<u>207,653</u>	<u>190,000</u>	<u>161,876</u>	<u>179,146</u>
Total Development Fees	\$7,977,216	\$7,924,000	\$6,346,080	\$7,043,007

The development review fee budget was adjusted downward in 2005-2006 to more closely reflect actual results. This revenue source is highly sensitive to economic cycles and is not expected to show significant improvement until the economy fully recovers.

Included in this category are fees collected as part of the City's 3% technology surcharge on development fees. This surcharge, created during the 2001-02 biennium, generates funds to finance the implementation of technological improvements to the City's development review process. Examples of projects in the past include Interactive Voice Response, Permit Center credit card acceptance and Automated Field Inspection projects. For the 2005-06 biennium, fees from this surcharge will support an interface between the City's GIS and Permits Plus system which would allow for more efficient use of data that is captured in each system, purchasing laptop computers for field inspectors, and public access kiosks in the lobby of the new City Hall.

INTERGOVERNMENTAL (\$17.2 million; \$150,000 or .9% increase from 2003-2004 budget)

Intergovernmental - Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Fire & Emergency Services	\$5,869,523	\$7,350,820	\$7,157,677	\$8,439,944
City of Sammamish Fire Contract	1,551,972	1,336,000	1,335,788	667,894
EMS Levy	821,111	800,000	889,996	900,000
Fire Apparatus Maintenance	176,016	150,000	108,647	100,000
Overhead Fees- Water/Wastewater	2,622,790	2,788,047	2,680,695	2,404,288
Overhead Fees- Stormwater	1,480,608	1,623,333	1,718,942	1,639,809
Overhead Fees- Other	167,864	409,603	307,310	465,440
Liquor Profits & Taxes	805,062	812,000	919,550	962,789
Motor Vehicle Excise Taxes	424,675	0	0	0
Motor Vehicle Fuel Taxes	1,368,130	1,366,000	1,305,200	1,300,000
State Criminal Justice	97,887	84,000	94,019	85,800
E-911 King County Dispatch	122,000	222,000	231,018	231,018
Federal/State/Local Grants	<u>163,475</u>	<u>138,334</u>	<u>159,269</u>	<u>8,000</u>
Total Intergovernmental Revenues	\$15,671,113	\$17,080,137	\$16,908,111	\$17,204,982

This revenue source includes all inter-governmental and intra-governmental payments. For 2005-2006, revenues in this category are expected to remain relatively stable. Highlights include:

Fire and emergency services. This category includes revenues from several sources: Fire District 34 and the City of Sammamish/Eastside Fire & Rescue (EFR) for fire services, Emergency Medical Services (EMS) levy proceeds, and fire equipment maintenance agreements. The City has renegotiated an agreement with Fire District 34 to continue to provide fire services through 2010. However, the contract which provides service to the north end of the City of Sammamish is scheduled to expire at the end of 2005 and at the time of this writing is not expected to be renewed. No fiscal impact is expected for the City of Redmond as a result of the non-renewal as revenues which were previously received from Sammamish/EFR will be offset by higher payments from Fire District 34 in 2006.

EMS Levy. King County currently distributes revenue to the City of Redmond Emergency Medical Service for basic life support based on population, assessed value, and calls for service. For 2005-2006, the City's basic life support is expected to continue at \$900,000.

Fire Apparatus Maintenance. The City of Redmond provides apparatus maintenance services under contract to the Cities of Mercer Island and Bothell. The 2005-06 budget assumes continuation of this contract at approximately the same level as the previous biennium.

Overhead fees are charged to other City funds to recover the full cost of providing citywide administrative services such as financial, legal, human resources, etc., to non-general government activities. For the 2005-2006 biennium, this category consists of \$4.5 million in payments primarily from the City's water/wastewater and stormwater utilities. Other funds contributing overhead to the City's General Fund in 2005-06 include Solid Waste and Recycling (\$55,496), Advanced Life Support (\$370,910), and Recreation Activity (\$38,000).

State-shared revenues represent distributions by the State of Washington to the City and include Liquor Board profits, liquor excise taxes, and motor vehicle fuel taxes. These revenue sources are distributed to cities on the basis of population. Collections are expected to remain relatively stable over the 2005-2006 biennium.

Please note that no revenue is expected from motor vehicle excise taxes as this revenue source was repealed by the state legislature in 1999. This action resulted in a loss of \$900,000 of ongoing revenue to the City. In 2001, the City received \$425,000 from the State which represented a one-time payment to assist local governments in the transition from this revenue source. As this assistance was one-time only, no future distribution is anticipated.

E-911 King County dispatch resources reflect a tax assessed by King County on each phone line operated within the County. Revenues collected are used to support the county-wide E-911 dispatch system and is distributed to jurisdictions that operate a E-911 dispatch center to help defray the costs of this service. Redmond operates a E-911 dispatch center that is used to dispatch police services. For the 2005-2006 biennium, this revenue is expected to total approximately \$231,000, which is the amount received in 2003-2004.

OTHER REVENUES (\$6.8 million; \$241,000 or 4% increase from 2003-2004 budget)

Other Revenues - Revenue Source	2001-02 Actual	2003-04 Budget	2003-04 Estimate	2005-06 Budget
Investment interest	\$2,264,503	\$2,450,000	\$724,698	\$669,563
Business license	1,618,222	1,627,000	2,156,589	3,648,492
Admissions Tax	903,422	903,000	939,547	977,505
Fines and forfeitures	530,119	297,000	394,897	201,968
Facility Usage/Rental	209,098	80,000	252,966	258,050
Licenses and Permits	214,564	132,700	218,714	222,569
Gambling Taxes	76,537	120,000	86,369	88,104
Operating Reserves Transfer In	0	537,069	537,069	0
Building Reserve Transfer In	0	0	500,000	0
Other	<u>886,521</u>	<u>427,841</u>	<u>804,939</u>	<u>749,234</u>
Total Other Revenues	\$6,702,986	\$6,574,610	\$6,615,788	\$6,815,485

This category represents a variety of revenues including investment interest, business licensing fees, admissions taxes, fines/forfeitures, facility rental fees, licenses and permits, gaming taxes and a variety of miscellaneous revenues collected from the sale of assets and other contributions. A brief description of each of these sources follows:

Investment interest revenues are a function of the City's cash and interest rates. Interest earnings have declined significantly over the past several years due to low cash balances in the General Fund and

historically low interest rates. For the 2005-2006 biennium, interest earnings are anticipated to total \$670,000, which represents a significant decline from the 2003-2004 budget.

Business license fees are paid by all owners of businesses licensed to operate within the City limits based on the number of employees. Business licenses include a base fee of \$28.25 per FTE which goes to the General Fund and a surcharge of \$55.00 per FTE. The surcharge supports improvements to the City's transportation and transportation demand management projects, and is scheduled to expire at the end of 2006. The base fee was increased from \$12.50 during the 2005-2006 budget deliberations and reflects four years of inflation since the base fee was last adjusted in 2000, and eight years of inflation since the surcharge was created in 1996. This increase is expected to generate an additional \$1.9 million in the 2005-2006 biennium.

Admissions taxes are paid primarily by local theaters and golf courses, and are based on 5% of gross receipts. These taxes are projected to increase 8.3% over the biennium.

Fines and forfeitures represent net fees received by the City of Redmond after expenses for court services. The City currently contracts with King County for municipal court services. Under the current contract, which lasts through 2004, King County receives 75% of the revenue from fines paid and the City receives 25% of this revenue. Last year the contract was renegotiated with King County for a period of two years, ending December 2006. Under the terms of the new contract, King County will receive 86% of the revenue received from fines while the City will receive 14% of this revenue. If the 86% which is paid to the County is not sufficient to cover the cost of court services, the City may have to remit a larger portion of fines and forfeiture revenues to the Court. During the 2005-06 biennium, the City will continue to evaluate its options for court services beyond 2006, which include renegotiating a contract with King County, forming and operating its own municipal court, or contracting with another city that operates a municipal court.

Facility usage/rental fees represent collections from patrons reserving facilities at the various City parks or at the recently renovated Old Redmond Schoolhouse Community Center. The 2005-06 budget for this revenue category has been adjusted to more accurately reflect actual collections.

Licenses and permits represent fees paid for the issuance of street/curb use permits, carnivals, cabarets, and other events. For 2005-2006, revenues from these fees and permits are budgeted to more accurately reflect actual collections.

Gambling taxes are assessed against local businesses offering bingo, punchboards, pull-tabs, and card rooms. For 2005-2006, revenues from gaming activities are anticipated to total \$88,000, or about the same as 2003-2004 estimated collections.

Other revenues are derived from the sale of fixed assets, maps and other publications; penalties assessed for delinquent business license payments; and other miscellaneous revenues.

Operating Reserve Transfer-In. No transfer in is anticipated from the Operating Reserve Fund in 2005-06. In 2003-04 the operating reserve was decreased by \$537,069, or from 10% to 8.5% of General Fund revenues, to help balance the budget. In 2005-2006 the General Fund Operating Reserve will remain at 8.5%. Additionally, the building permit reserve was reduced in the 2003-2004 biennium from \$912,600 to \$412,000 to more closely approximate the ongoing inspection liability given that development has slowed significantly. The Building Permit reserve will remain at \$412,600 for the 2005-2006 biennium. For further detail, refer to Special Revenues, Operating Reserve Fund.