

TO: Mayor John Marchione and City Council
 FROM: Mike Bailey, Finance and Information Services Director; 425-556-2160
 SUBJECT: **Quarterly Financial Report**
 DATE: May 3, 2011

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 to have mitigated to about 3.5 (last quarter it was about 4.5). This is based on the new 2011 / 2012 biennial budget which is balanced with revenue estimates that we believe are sound. A thorough explanation of the financial data will be distributed prior to the meeting.

General Fund Financial Condition Scale

1	2	3	4	5	6	7	8	9	10
Good	Normal	Some Concern	Manageable Problems	Revenue Stress	Revenues Revised	Short-term problems	Long-term problems	Revise Budget	Fundamental Fiscal Stress

Budget Status Scale Ratings

1. **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