

BUDGET OVERVIEW

2011-2012 OPERATING BUDGET

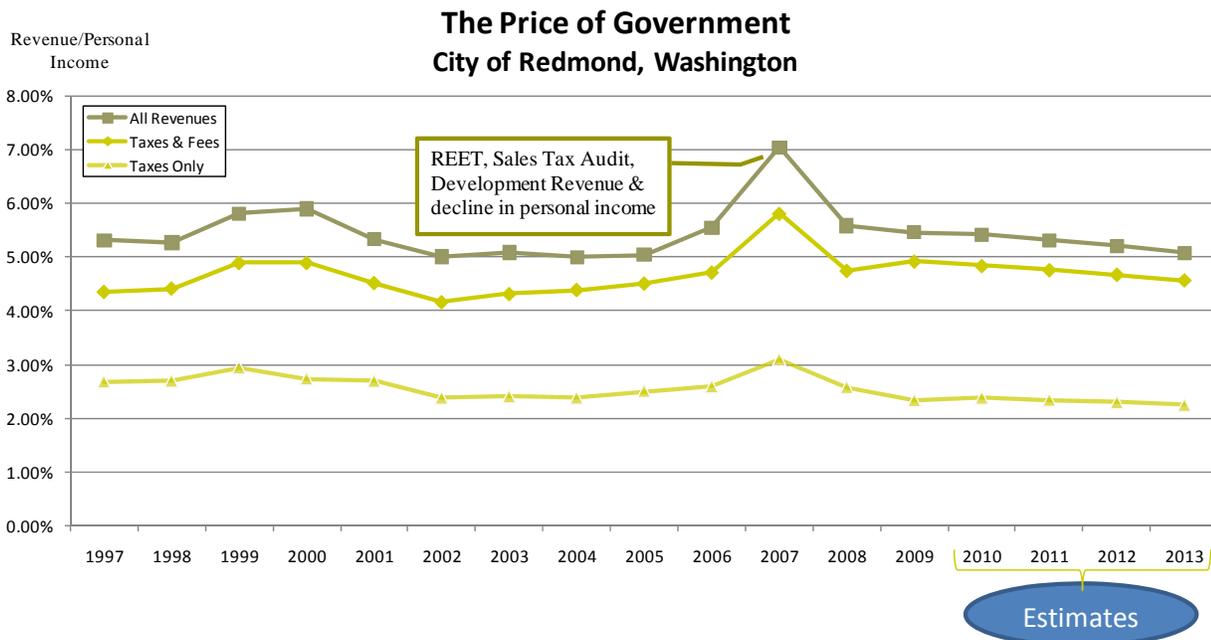
CITY OF REDMOND

Budget at a Glance serves as a high level summary of the 2011-2012 budget and includes revenue and expenditure projections over the biennium based on the City’s six-year forecast. This budget continues to use the priorities defined by the Redmond community in 2008, as well as expands on past accomplishments namely in the City’s Capital Improvement Program (CIP) by aligning the projects with Redmond’s long-range vision.

The process used by the City, known as Budgeting by Priorities (BP), relies on the Price of Government concept outlined in the book Price of Government by David Osborne and Peter Hutchison.

PRICE OF GOVERNMENT

The Price of Government is literally defined as the sum of all taxes, fees, and charges collected by all sectors of government divided by the aggregate personal income of that government’s constituents. The calculation is used to define the band within which residents are willing to pay for government services. The Price of Government for Redmond, illustrated below, shows all revenues as a percent of personal income ranges between five and six percent. This is typical for local governments.



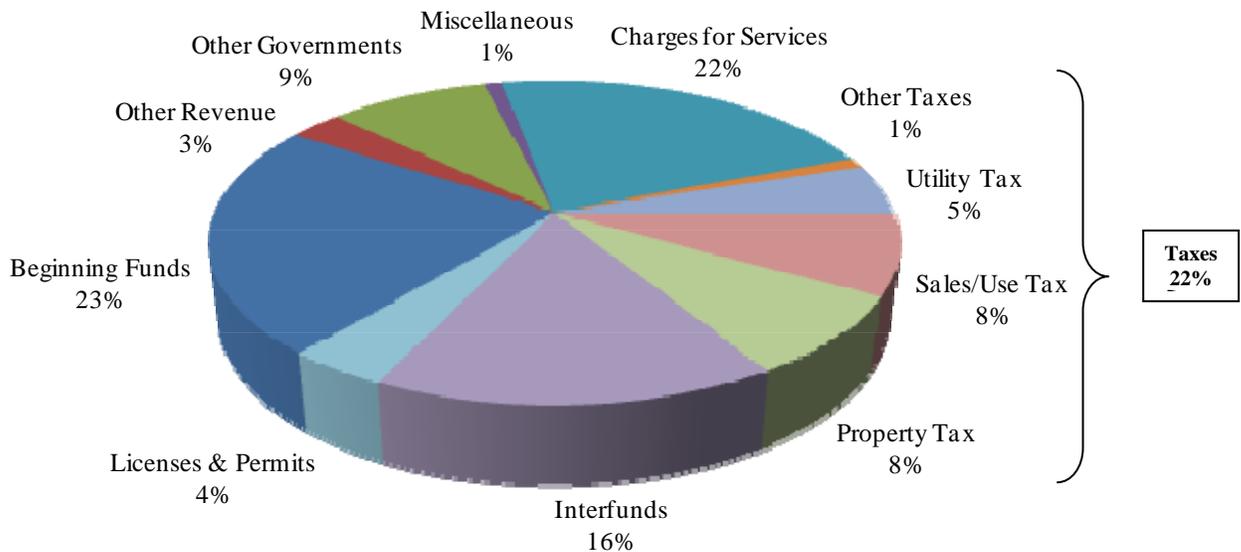
Keeping the Price of Government in mind, this budget conservatively forecasts revenues and relies on right-sizing costs, innovation and efficiencies and matching service expenditures with demand to balance Redmond’s resources.

MAJOR REVENUES & EXPENDITURES

The City of Redmond is a non-charter code city with authority to levy or assess all revenues generally available to all classes of cities and towns in Washington State. This section includes a discussion of major revenues utilized by the City and information on major factors affecting the revenue sources.

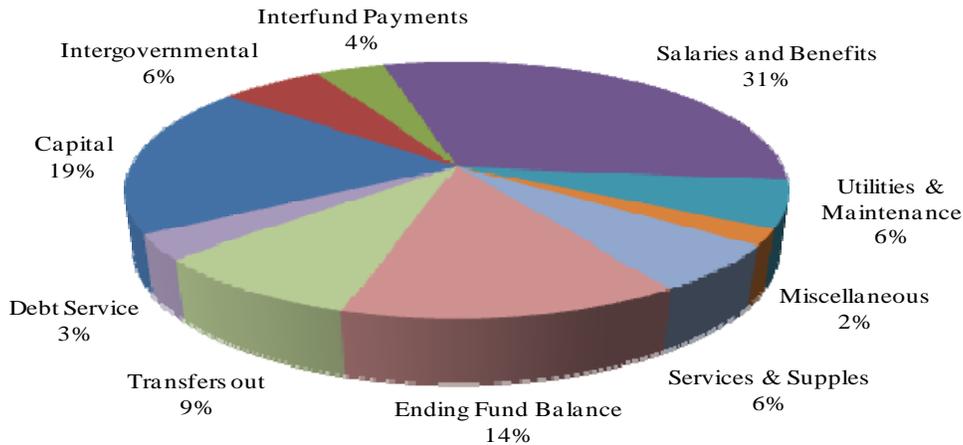
Total revenues over the biennium equal \$523 million, including beginning fund balances; this is an approximate 33% decrease under the 2009-2010 biennium. Due to the struggling economy, forecasted revenues have declined in most categories including sales tax, utility taxes, development revenue, real estate excise tax, impact fees and water sales. This budget includes a 1% property tax increase, allowed by law, and Water/Wastewater utility rate increases for both in-city and Novelty Hill customers. The components of the City’s 2011-2012 revenue sources are shown in the graph below.

**2011-2012 Revenues by Type
All Funds**



The 2011-2012 budget has been reduced to take into account lack of service demand as in development review, right-sizing of budget as in the case of public safety overtime and service reductions to accommodate the decrease in revenues the City is experiencing. The budget maintains all Council policy directives regarding reserves and transfers to the CIP including the Building Permit Reserve which is being used to maintain core development review activity through the economic recession. Total expenditures are expected to decline 33% commensurate with revenues. Also excluded from the budget is a net decrease of 28.15 full time equivalent employees (FTE).

2011-2012 Expenditures by Type All Funds



As mentioned above, reductions to the new budget were accomplished by a variety of methods. Salary and benefits make up the majority of budgeted costs. A net total of 28.15 FTEs have been eliminated in 2011-2012. This was in addition to the approximately 22.71 positions reduced in 2009-2010 due to the decline in development review activities and several limited duration grant funded positions. In a budget to budget comparison, Redmond has experienced a total reduction in FTEs of 50.86. The slight FTE increase, in the biennium, is to bring a Human Services technician and Planner up to full-time status. The FTEs changes by department are shown below.

<u>Department</u>	<u>2011-2012 FTE Reductions</u>	<u>2011-2012 FTE Additions</u>
Executive	1.50	
Finance	6.86	
Fire	3.00	
Human Resources	1.00	
Parks	1.38	
Planning	3.74	0.33
Police	1.00	
Public Works	10.00	
Total	28.48	0.33

Challenges to balancing the budget were met through a variety of reductions that focused on gaining additional efficiencies in current operations, assessing declines in service demand, reducing capacity and levels of service and eliminating new requests. Adjustments to expenditures include:

- Approximately \$5.6 million in expenditure reductions represented requests for new programs or additional service support. In most cases requests for new programs were denied.
- An additional \$19 million in reductions were gained through efficiencies in current operations, such as department reorganizations, monitoring and management of overtime in the public safety departments, reassessing debt needs in the utilities, appropriately charging staff time to the capital investment program and right-sizing administrative costs and other contingencies and reserves consistent with Council policy.

- Changes to service demand represented approximately \$1.5 million in reductions. These adjustments occurred in the development review and inspections areas.
- The budget was decreased by approximately \$3.6 million due to changes in the organization’s staffing capacity and/or service levels. Operations represented by these reductions included graphics services in communications, parks maintenance, tracking of traffic safety information in Transportation Services, fixed asset monitoring and Information Services administrative support.

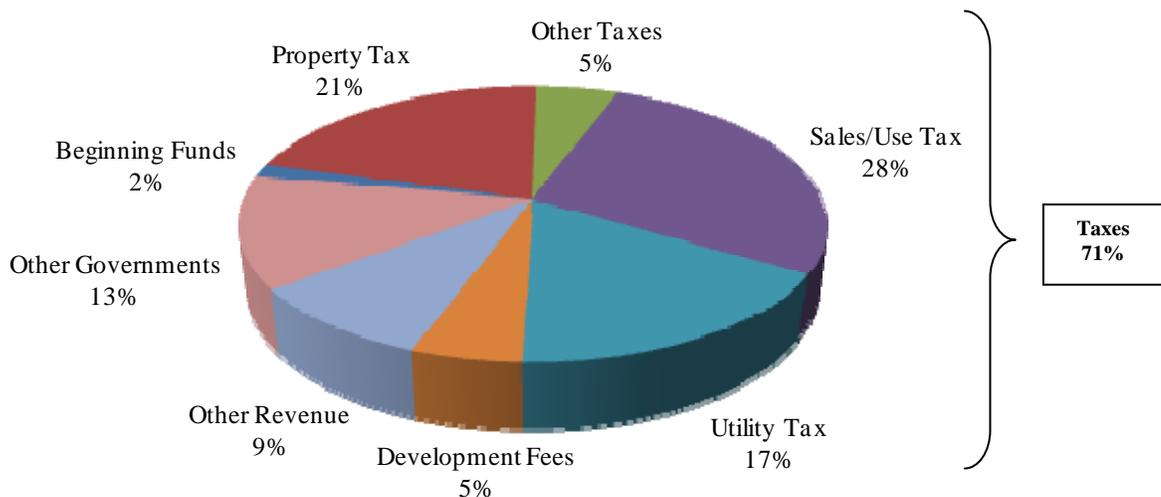
Each priority section includes a scalability summary detailing the reductions that occurred in each of the offers.

General Fund Revenues

General Fund revenues are forecasted to remain virtually unchanged from \$143.2 million budgeted in 2009-2010 to an estimated \$143.7 million in 2011-2012, excluding beginning fund balance. Current projections forecast the 2011-2012 beginning fund balance to be approximately \$2.2 million. This is in addition to the General Fund Reserves set by policy at 8.5% or \$5.4 million.

2011-2012 General Fund Revenue by Type

The General Fund supports basic operations of the City (Police, Fire, Public Works, Parks & Recreation, Planning, Human Resources, Finance & Information Services, and Administration)

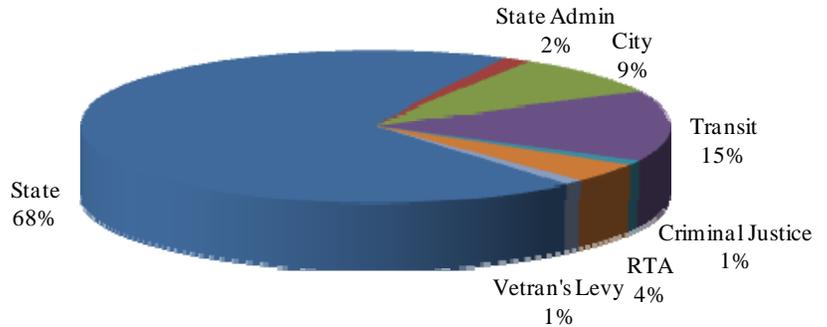


Sales Tax

Sales tax represents 28% or \$40.6 million of the City’s General Fund, making it the Fund’s largest revenue source. The overall sales tax rate for Redmond totals 9.5% of which .85% is distributed to the City for general government purposes and .01% for criminal justice programs. The majority of the sales tax collected in Redmond is distributed to other jurisdictions as illustrated in the graph on the next page.

Distribution of Sales Tax

Sales tax are projected to grow by 3.5% in 2011 and 2.7% in 2012 compared to forecasted estimates in the current biennium.



Property Tax

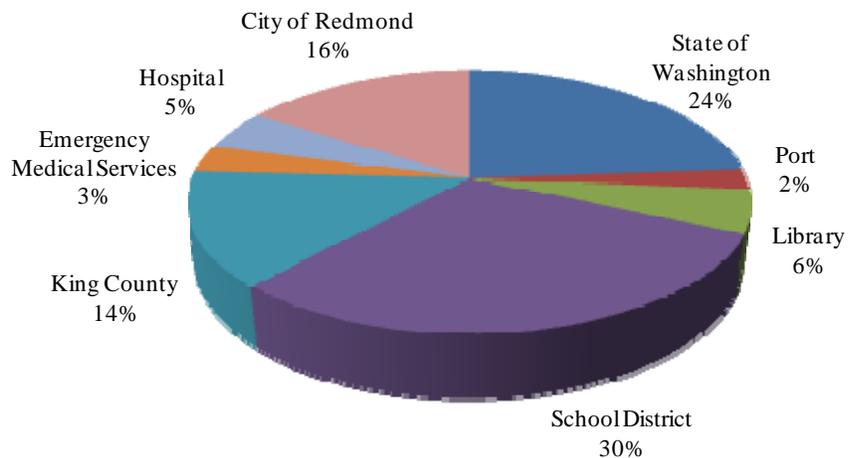
Redmond currently receives approximately \$1.46 per \$1,000 of assessed valuation from property owners located within the City limits. This equates to \$30.9 million over the 2011-2012 biennium and assumes a Council approved 1% increase. Detailed in the table below are historical collections of property taxes in Redmond. The additional amounts in excess of the 1% allowed by state legislature are attributable to revenues from new construction and annexations.

Historical Redmond Property Tax Collections

	2006	2007	2008	2009	Estimate	Forecast		
					2010	2011	2012	
Property Tax	\$11,624,892	\$12,052,751	\$12,545,679	\$13,342,921	\$14,541,667	\$15,087,084	\$15,937,954	
Percent Difference		5.09%	3.68%	4.09%	6.35%	8.98%	3.75%	5.64%

The significant increase in 2010 is due to the addition of almost \$1 billion in value from new construction. The increase on existing properties is 1% consistent with state law.

Redmond's levy is only one component of the total property tax rate that a property owner will pay. The total property tax rate includes additional levy's that are earmarked for the state, schools, emergency medical services (EMS), hospitals, local libraries, King County and the port.



Utility Tax

State law enables cities to levy taxes on natural gas, telephone, and electric utilities in an amount up to 6% of the total charges. A tax is also permitted on solid waste, water, wastewater, and stormwater utilities. Illustrated below are the utility taxes Redmond levies and the amount expected to be collected in 2011 and 2012.

Utility Taxes

					Estimate	Forecast	
	2006	2007	2008	2009	2010	2011	2012
Utility Taxes							
Electricity	\$4,724,899	\$5,833,448	\$5,802,710	\$5,957,773	\$6,076,928	\$6,253,159	\$6,434,501
Garbage Franchise	464,823	510,379	538,323	497,507	506,960	513,550	520,226
Telephone	1,768,423	1,793,952	1,348,235	1,176,455	1,176,455	1,176,455	1,176,455
Cellular Phone	1,734,168	2,196,143	2,323,220	2,269,782	2,312,908	2,342,976	2,373,434
Fire Protection Obligation	0	0	0	0	0	1,096,519	1,096,519 (1)
Natural Gas	1,301,786	1,708,339	1,385,313	1,459,778	1,471,456	1,497,942	1,533,893
Total Utility Taxes	\$9,994,099	\$12,042,261	\$11,397,801	\$11,361,295	\$11,544,707	\$12,880,602	\$13,135,029

Note: In response to the "Lane vs. Seattle" court decision, the General Fund includes support for water system infrastructure necessary for fire protection.

Redmond collects other taxes, such as cable franchise fees and admissions tax. These are significantly smaller than those illustrated above.

Development Revenue

A development user fee study approved in 2005 enacted a revised fee structure targeting 85-90% cost recovery for planning entitlement fees and full cost recovery for all other development fees. The forecasted revenue for this biennium assumes a continuation of this policy.

Development Revenues

					Estimate	Forecast	
	2006	2007	2008	2009	2010	2011	2012
Development Revenues							
Residential Permits	\$989,839	\$1,051,112	\$606,842	\$418,895	\$600,000	\$610,800	\$625,459
Commercial Permits	937,895	425,625	527,032	254,516	200,000	203,600	208,486
Plumbing/Electric	2,758,405	3,563,323	2,196,936	1,613,276	1,494,900	1,521,808	1,758,332 (1)
Plan Review	1,239,208	1,514,199	643,298	682,742	683,000	695,294	811,981 (2)
Plan Checks	624,418	622,283	847,495	439,746	439,000	446,902	557,628
Total Development Revenue	\$6,549,765	\$7,176,542	\$4,821,603	\$3,409,175	\$3,416,900	\$3,478,404	\$3,961,886

Notes:

(1) Includes Heating/Plumbing Permit, Building Permit-Tenant Improvement, Building Permit-Multi Family, Electrical Permit and Technology Surcharge.

(2) Includes Building Inspection and Plan Review fees.

Development revenues for 2011-2012 are projected to grow by 1.8% and 14%, respectively, from the forecasted 2009-2010 revenues. According to the most current forecast, development will recover gradually through the next six years, but will not reach the levels experienced in 2006-2007 until beyond the forecast period.

Other General Fund Revenues

Other revenues collected by the City include intergovernmental revenue from other jurisdictions, such as the state or county, business license fees, interest earnings, and overhead charges to the City’s utilities. Redmond expects little growth in these revenue sources through the next biennium.

Other General Revenues

					Estimate	Forecast	
	2006	2007	2008	2009	2010	2011	2012
License and Permits	\$2,840,913	\$3,754,492	\$4,224,900	\$4,267,560	\$3,760,431	\$4,134,498	\$4,208,304
Intergovernmental	5,619,939	6,265,925	7,067,583	7,878,998	7,319,977	8,027,809	8,181,550
Fines and Forfeitures	30,930	788,768	809,312	1,050,985	1,050,985	1,050,985	1,050,985
Miscellaneous	5,447,953	6,277,782	6,144,587	6,212,623	7,679,965	6,160,560	6,239,996 (1)
Total Other Revenues	\$13,939,735	\$17,086,967	\$18,246,382	\$19,410,166	\$19,811,358	\$19,373,852	\$19,680,835

(1) Miscellaneous includes grants, state entitlements, overhead, contributions, interest earnings and operating transfers

Broader Economic Context

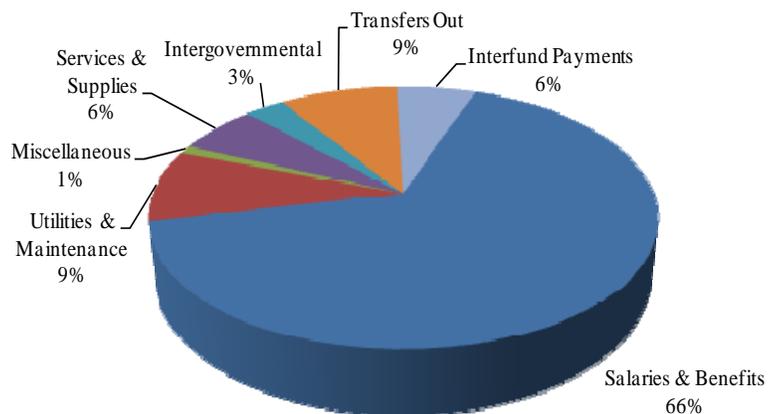
The broader economy is showing cautious recovery signals. The Gross Domestic Product (GDP) has been growing slowly and consumer spending appears to be strengthening. However, the construction sector continues to drag on the economy with non-residential construction not expected to improve until 2012. At the same time, new employment growth in Washington seems to be on track with jobs rising in the private sector and personal income growing modestly.

In Redmond, it appears the rate of decline in revenues is slowing. The 2011-2012 budget is built on a conservative forecast with slight growth in sales tax, utility taxes and licenses and permits. Development revenue is expected to pick up in 2012, commensurate with estimates from the Washington State Forecast Council, however it is not projected to return to more “normal” levels until the end of the forecast period. Due to the decline in revenues, this budget contains a number of expenditure reductions outlined below.

General Fund Expenditures

The \$145.9 million budgeted in the General Fund supports the basic operations of the City, such as Police, Fire, Parks, Planning, Public Works and Administration. The proposed biennial budget supports 624 full-time equivalent employees (FTEs), a net reduction of 50.86 FTEs from the original 2009-2010 budget (23 FTEs reduced due to right sizing the development services function as well as eliminating limited duration grant funded positions and a 28 FTE reduction in the 2011-2012 Budget).

General Fund Expenditures by Type



A majority (65%) are fully or partially funded by the General Fund. Transfers to other funds constitute another significant portion of General Fund costs. Transfers are made to support the City’s CIP, Human Services, Arts, and Special Event Activity Funds, as well as maintenance of City Hall.

The City is expected to end the biennium with at least \$2.2 million in one-time revenue. This money will go towards the economic contingency, continued work with Northeast King County Public Safety Communications (NORCOM) dispatch as well as to support the 5% transfer to the City’s Capital Investment Program. Additionally, the City is using one-time revenues from the Building Permit Reserve to support core development review services.

Salaries and Benefits

Overall, in a budget to budget comparison, salary and benefit costs are projected to decline by 3.3% over the biennium, excluding the salary and benefit contingency set aside for future labor agreements. Cost drivers for salary and benefits are merit and market adjustments, medical costs, overtime and employer retirement contributions, as shown below.

Employer Retirement Contributions

Retirement Contributions	Actual		Projected	
	2009	2010	2011	2012
PERS 1, 2 & 3	5.29%	5.31%	7.93%	7.51%
LEOFF 1	0.16%	0.16%	0.16%	0.16%
LEOFF 2	5.43%	5.39%	5.17%	5.17%

During the 2009 legislative session the State chose to lower Public Employees Retirement System (PERS) rates as a budget balancing measure. However, the City’s budget reflected the original higher rates of 8.71% and 9.10% for 2009 and 2010, respectively. Redmond chose to keep the higher rate in place and accrue the difference in a liability account as a hedge against future rate increases. This budget keeps the liability account intact and as of August 2010, the account totaled \$658,939.

Medical rate increases are budgeted at 7.1% annually. However, these rate increases will be assessed at mid-biennium due to the new Federal health care legislation passed in 2010, as well as an analysis of reserves in the Medical Self-Insurance Fund.

Transfers Out

Transfers from the General Fund total 9% of the General Fund budget or \$13.2 million. These transfers include contributions to the CIP, Human Services, Arts, and Community Events Funds, as well as City Hall maintenance and reserves.

Services & Supplies

The services and supply category includes expenditures such as, operating supplies, professional services, legal, travel, training and postage. Services and supplies have decreased for 2011-2012 due to elimination of one-time professional services for the code-rewrite activities, right sizing some professional service budgets and economic development studies. Additionally, the legal budget has been reduced to a level that is commensurate with spending over the 2009-2010 biennium.

Services and Supplies

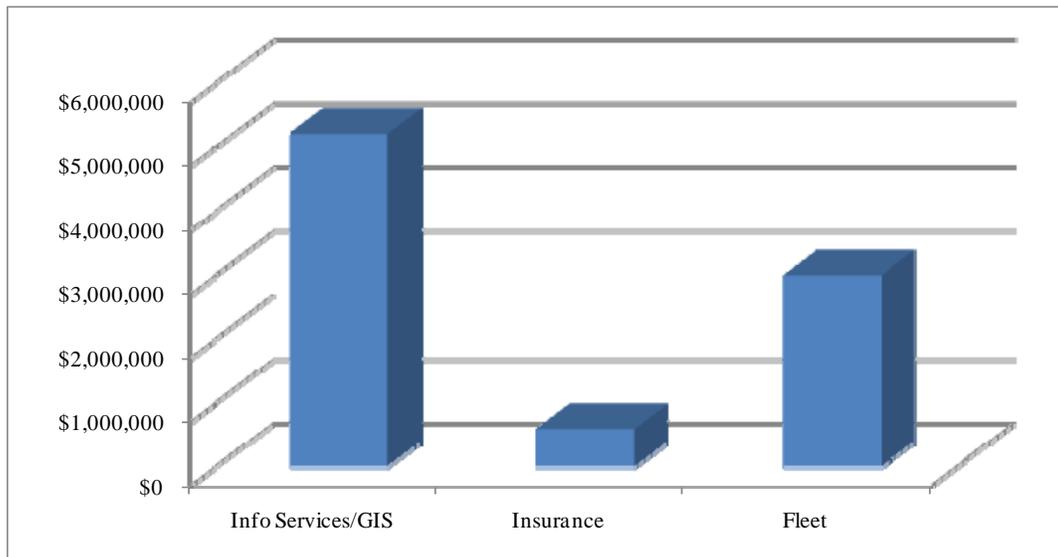
	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
Services & Supplies							
Supplies	\$1,549,107	\$1,390,960	\$1,438,458	\$1,506,518	\$1,895,736	\$1,802,281	\$1,809,859
Legal	656,335	756,681	414,756	305,502	503,254	490,288	516,529
Professional Services	1,554,970	1,379,158	1,565,706	1,556,643	2,073,745	1,739,716	1,371,530
Communication	398,632	363,649	347,200	489,595	401,492	452,525	471,073
Rentals	65,601	21,191	95,822	132,826	99,371	85,064	85,772
	\$4,224,645	\$3,911,639	\$3,861,942	\$3,991,084	\$4,973,598	\$4,569,874	\$4,254,763
Percent Change	33.8%	-7.4%	-1.3%	3.3%	24.6%	-8.1%	-6.9%

Interfund Payments

Interfund payments include transfers from operating departments to internal service funds (i.e. Fleet Maintenance, Insurance Claims, and Information Technology) for services provided. Internal service funds are supported by a variety of City funds, however the majority of their support comes from the General Fund. In a budget to budget comparison, interfund payments have declined by approximately 29% or \$3.6 million. This reduction is due to a one-time transfer of \$3 million into the Information Services area to support the Information Technology Strategic Plan, as well as a reduction to the Insurance Reserve to right-size fund balances based on a 2010 risk insurance review.

It is important to note that additional interfund payments go towards reserves, as well as medical and workers' compensation claims which are a part of the benefits cost category.

Interfund Payments



Intergovernmental

Intergovernmental expenses represent payments to other governments for services such as, fire dispatch, jail, and court services. Redmond currently contracts with NORCOM for fire dispatch services and with King County for jail and court services. For 2011-2012, fire dispatch costs, in the General Fund, have declined slightly due to a recalibration of the costs between Fire Suppression and Advanced Life Support which is funded through King County Medic One.

Intergovernmental Expenditures

	Actual				Estimate	Budget		Notes
	2006	2007	2008	2009	2010	2011	2012	
Intergovernmental								
Jail	\$894,560	\$817,191	\$948,047	\$978,505	\$984,395	\$940,000	\$963,500	
Fire Dispatch	235,178	196,080	307,132	485,084	328,666	302,912	329,918	
Court/Other	528,982	981,945	1,065,569	1,252,552	1,199,836	1,099,389	1,125,070	(1)
Total Services & Supplies	\$1,658,720	\$1,995,216	\$2,320,748	\$2,716,141	\$2,512,897	\$2,342,301	\$2,418,488	
Percent Change	67.0%	20.3%	16.3%	17.0%	-7.5%	-6.8%	3.3%	

Notes:

(1) Other includes elections and auditor services.

Utilities/Repairs & Maintenance (R&M)

Utility costs for the City include telephone, electricity, natural gas, garbage, water, wastewater, and stormwater costs. The repairs and maintenance category includes maintenance for all City buildings including fire stations. The forecasted increases for utilities are shown in the table below, as well as the historical and projected costs for utilities, repairs, and maintenance line items.

Projected Utility Rate Increases

Utilities	Projected	
	2011	2012
Telephone	3.00%	2.50%
Electricity	2.90%	2.90%
Natural Gas	2.90%	2.90%
Garbage	0.80%	0.80%
Stormwater	0.00%	0.00%
Water	5.00%	5.00%
Wastewater	2.00%	2.00%

Utilities/Repairs and Maintenance

	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
Utilities/R&M							
Utilities	\$1,951,054	\$2,243,527	\$2,305,988	\$2,482,419	\$2,518,757	\$2,803,220	\$2,912,640
Repairs and Maintenance	899,929	935,124	1,227,146	1,288,383	1,412,080	1,194,126	1,205,620
Total Services & Supplies	\$2,850,983	\$3,178,651	\$3,533,134	\$3,770,802	\$3,930,837	\$3,997,346	\$4,118,260
Percent Change	8.1%	11.5%	11.2%	6.7%	4.2%	1.7%	3.0%

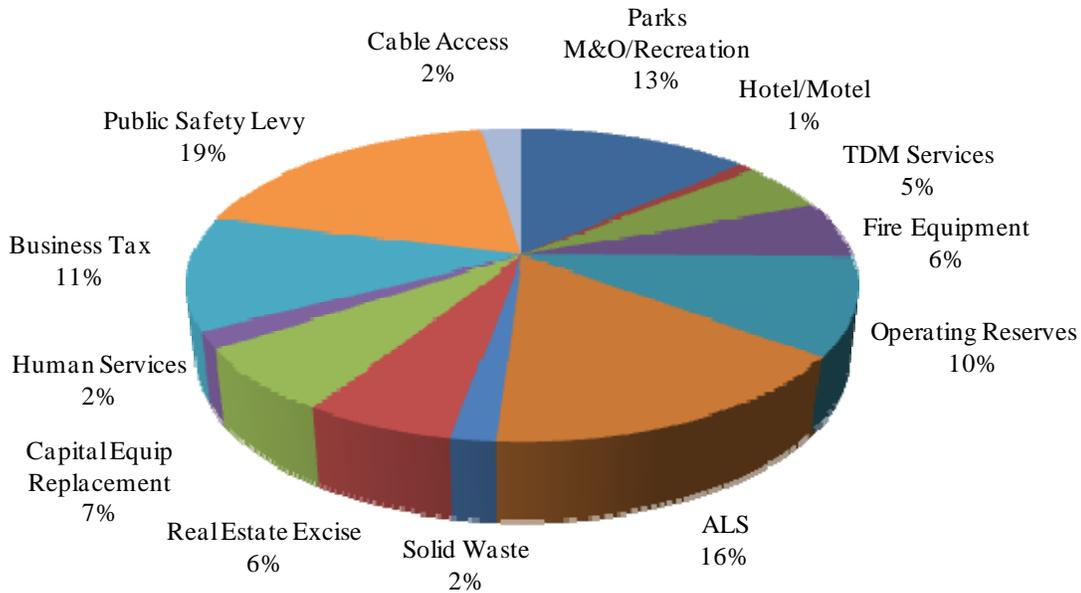
Miscellaneous

The last category of expenditures, miscellaneous, includes the economic contingency, capital purchases, tuition, advertising, and other expenditures such as support for the Redmond Pool.

SPECIAL REVENUE FUNDS

The City maintains twenty-one special revenue funds that account for revenue and expenditures that are restricted to a particular use. Examples of some larger special revenue funds are Advanced Life Support (ALS) which is supported by the Emergency Medical Services (EMS) Levy and the Police, Fire and Parks Levy funds that collect and spend the property tax levy lid lift that Redmond voters approved in 2007. Special Revenue Funds in the 2011-2012 Budget total \$76 million (including transfers and ending fund balances) and are illustrated below.

2011-2012 Special Revenue Funds



Following is a discussion of the 2011-2012 projected revenues for some of the larger Special Revenue Funds.

Advanced Life Support (ALS)

An emergency medical services property tax is paid by all property owners in King County. The taxes collected support paramedic services throughout the County. In 2004, Redmond became a lead agency for the Northeast ALS consortium made up of Redmond, Kirkland, Woodinville, Duvall, Fall City, and unincorporated areas surrounding those communities. Forecasted revenues for this service are based on the emergency medical services levy strategic plan approved by King County voters in 2007.

Advance Life Support Revenues

	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
Advanced Life Support (ALS)	\$4,750,523	\$5,362,039	\$4,894,036	\$6,114,213	\$5,902,923	\$6,052,310	\$6,081,084
Percent Change	22.7%	12.9%	-8.7%	24.9%	-3.5%	2.5%	0.5%

Fire, Police, & Parks Levy Funds

In 2007, Redmond voters passed special property tax levies to support Fire, Police and Parks services. These levies supported the addition of eighteen firefighters to be stationed at Fire Station 12 and at the soon to be constructed Fire Station 17. Seventeen police personnel were added to support patrol and a comprehensive school safety program with money also going to parks maintenance and recreation programs. A portion of these levy funds are receipted into the Parks Maintenance Fund to support maintenance activities. These revenues are subject to the 1% growth limitation imposed by the state legislature on property taxes.

Special Levy Funds

Levy Category	2008		2009		Estimate	Budget	
	2008	2009	2010	2011	2012	2011	2012
Fire Levy	\$2,267,656	\$2,284,200	\$2,334,952	\$2,338,958	\$2,380,348		
Police Levy	2,185,640	2,194,540	2,164,540	2,239,932	2,330,088		
Parks Levy	317,856	320,321	326,464	327,926	332,705		
Total Levy	\$4,771,152	\$4,799,061	\$4,825,956	\$4,906,816	\$5,043,141		

Note: Excludes beginning fund balances

Reserve Funds

The City maintains three accounts dedicated to supporting the City’s reserves. According to fiscal policies, the City will maintain General Fund reserves to mitigate a significant crisis, a building permit reserve to support the cyclical nature of the permitting process, a Law Enforcement Officers and Firefighters (LEOFF I) reserve to pay medical costs for retirees under the LEOFF I retirement system, as well as equipment replacement reserves for citywide equipment and fire vehicles. Reserves are also set aside in the Fleet Maintenance Fund (an internal service fund) for the replacement of citywide vehicles.

In 2009-2010, the City conducted a review of the general and Fire fleet reserves to determine the adequacy of the amounts in the fleet funds. As a result, ongoing transfers into the Fire fleet reserve have been reduced based on future vehicle replacements. Also, in 2011-2012, a portion of the Building Permit Reserve (\$800,000) will be used to support core development review services in the General Fund. The 2011-2012 budgeted reserves are illustrated below.

Operating Reserve Fund Balances

Reserves	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
General Fund Reserve	\$4,903,223	\$4,894,089	\$33,156	\$5,378,093	\$194,306	\$5,397,209	\$95,922
Building Permit Reserve	412,600	412,600	0	1,109,735	0	309,735	0
LEOFF I Reserve	420,632	420,632	0	388,223	0	428,223	0
Capital Equipment Reserve	1,295,347	2,689,552	0	3,707,850	0	2,965,843	0
Fire Equipment Reserve	1,952,224	2,416,683	0	2,743,289	0	3,044,573	0
Total Reserves	\$8,984,026	\$10,833,556	\$33,156	\$13,327,190	\$194,306	\$12,145,583	\$95,922
Percent Change	15.4%	20.6%	-99.7%	40095.4%	-98.5%	6150.8%	-99.2%

Note: Reserves are budgeted in the first year of the biennium. The second year represents the additional contributions to reserves based on the City's forecast.

DEBT SERVICE FUNDS

The City has created two debt service funds to pay for voted and non-voted debt. These funds are used to account for the principal and interest payments for the 1994 Refunded General Obligation debt and the debt payments on the Bear Creek Parkway project. These debt obligations total \$5.9 million over the biennium, including principal and interest.

CAPITAL IMPROVEMENT PROGRAM

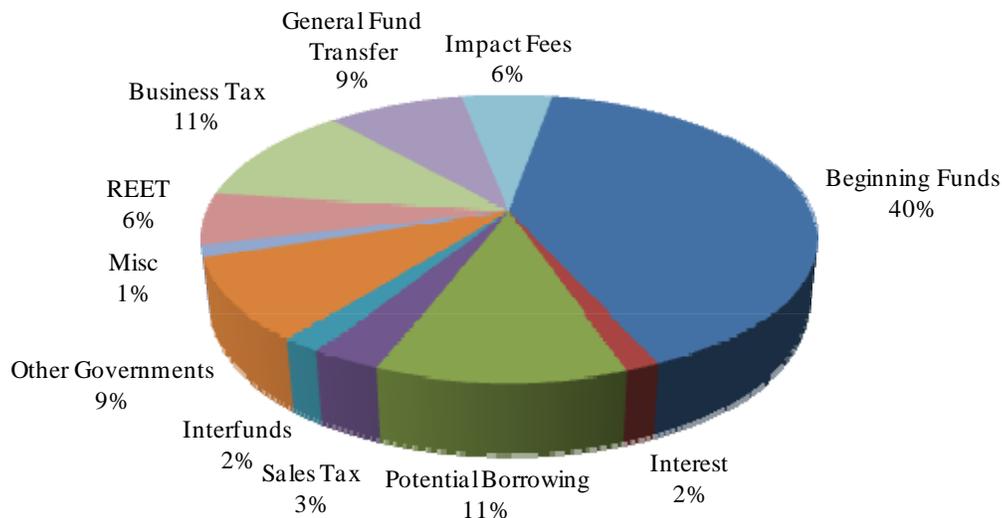
In 2011-2012, Redmond has worked hard to strengthen the alignment between the CIP functional areas and the City's long-range vision as articulated in the Comprehensive Plan. This alignment is especially important in the City's two urban centers of Downtown and Overlake, as the City seeks to direct its public infrastructure investment in ways that will facilitate continued private redevelopment of these priority areas. While there are infrastructure/capital needs beyond the urban centers, capital projects still should be prioritized in much the same way as operational offers. By focusing public projects in its urban centers, the City is taking tangible steps towards realizing its vision for these areas, signaling its commitment to private developers and thereby encouraging them to continue to invest as well.

In 2010, the Council reviewed the citywide CIP policies and made changes to the functional allocations of discretionary revenue. The CIP is currently broken down into three functional areas – parks, transportation and general government which include police, fire, council and general government projects.

The City's CIP projects are defined as a project that is \$25,000 or more and has a useful life of five years or more. CIP projects range from street extensions, park land acquisition and the continuation of fire station construction. These projects are funded through a variety of revenue sources, both public and private.

Excluding beginning fund balances, Real Estate Excise Tax (REET), impact fees and business tax, and transfers made from the General Fund are the four major revenues that make up a significant portion of the \$74.3 million of 2011-2012 general CIP revenues. Other CIP revenues include federal and state grants, private contributions, interest earnings, sales tax on construction and potential borrowing for the Downtown Park land acquisition.

Total 2011-2012 General CIP Revenues



Real Estate Excise Tax (REET)

REET is a 0.5% tax on the sale of real estate inside Redmond city limits and is restricted to expenditures on capital projects. Due to the economic recession causing a lack of real estate activity in the City, REET declined by approximately 50% from its historical base of \$4 million during the 2009-2010 biennium. In 2011-2012, a slight growth (3%) is expected above the 2009-2010 estimated revenue.

Business Tax (BTI)

A \$55.00 fee is assessed per employee to businesses operating in Redmond to support transportation and transportation demand management projects. These revenues have stayed relatively stable and are projected to grow by approximately 1.2%, commensurate with projected employment growth in the City.

General Fund Transfer

Per City policy, 5% of General Fund operating revenues (minus development revenues and significant one-time collections) is transferred into the City’s capital improvement program. In addition, \$1.1 million (adjusted for inflation) of sales tax on construction goes to support the lease on the City Hall building.

Impact Fees

The City collects impact fees from developers for transportation, fire, and parks. These impact fees are restricted to capacity projects that mitigate the impacts of growth in the community. Impact fees have also declined due to the economic recession. Impact fees are expected to grow by only 3% from 2009-2010 levels.

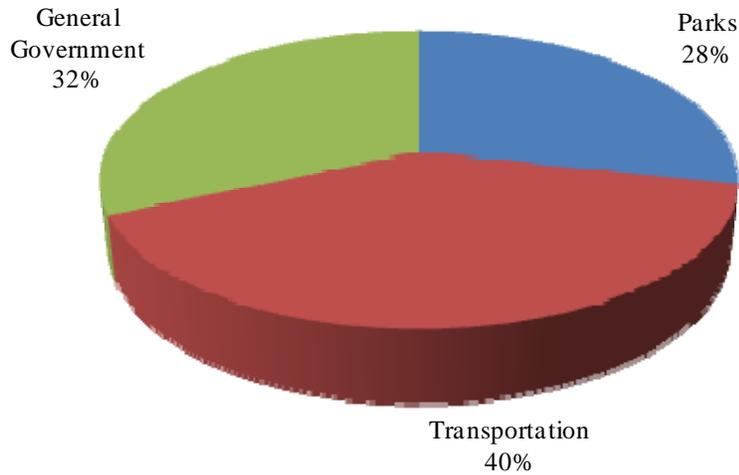
Major Capital Project Revenues

	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
Reserves							
REET	\$7,385,869	\$10,012,965	\$2,823,930	\$2,170,003	\$2,000,000	\$2,100,000	\$2,163,000
Business Tax	3,789,649	4,167,669	4,540,477	4,461,953	4,000,000	4,048,000	4,096,576
General Fund Transfer	4,986,309	4,165,648	4,288,866	7,250,478	4,704,153	4,559,021	4,693,175
Impact Fees	1,398,632	4,018,875	6,273,784	971,696	2,075,000	2,137,250	2,201,368
Total Reserves	\$17,560,459	\$22,365,157	\$17,927,057	\$14,854,130	\$12,779,153	\$12,844,271	\$13,154,119
Percent Change	30.4%	27.4%	-19.8%	-17.1%	-14.0%	0.5%	2.4%

Note: General Fund Transfer includes 5% of General Fund revenues, sales tax on construction and pavement management

A significant portion of the biennial CIP has been dedicated to projects in the two urban centers, such as acquisition of land for Downtown Park, street extensions and redevelopment of the Burlington Northern Santa Fe right-of-way. Expenditures by functional allocation are shown on the next page.

CIP Expenditures by Functional Area
(excludes ending fund balances)



ENTERPRISE FUNDS

Water, Wastewater, and Stormwater Revenue

Water, wastewater, and stormwater rates fund most of the costs associated with providing these services in our community. (Other sources include hookup fees and interest earnings.) Total Water/Wastewater and Stormwater revenues (including the Novelty Hill Service Area) are expected to increase from an estimated \$85.5 million to \$97.5 million, a 14% increase. Proposed in the budget are water and wastewater rate increases for both in-City and Novelty Hill customers. These rate increases are due to a rise in purchased water costs and Metro sewer charges. Water and wastewater rate increases for in-city customers equate to an average of 3.3% rise in an average residential water/wastewater bill. The proposed rate increases are outlined in the table below.

Proposed Water/Wastewater Rate Increases

Description	2011	2012
	Proposed	Proposed
City of Redmond		
Water	5.0%	5.0%
Wastewater	2.0%	2.0%
Novelty Hill		
Water	7.0%	7.0%
Wastewater	28.0%	0.0%

Enterprise Fund Revenues

	Actual				Estimate	Budget	
	2006	2007	2008	2009	2010	2011	2012
Utilities							
Water/Wastewater							
Charges for Services - City	\$21,085,080	\$24,425,933	\$24,839,619	\$26,357,759	\$25,845,528	\$30,436,900	\$31,684,641
Charges for Services - Novelty Hill	3,363,008	5,333,231	5,026,718	4,806,134	5,494,295	5,772,994	6,134,130
Miscellaneous - City	373,528	628,256	12,692,891	291,034	365,479	320,486	322,495 (1)
Miscellaneous - Novelty Hill	129,138	224,306	200,788	110,743	181,840	169,858	172,176
Total Water/Wastewater	\$24,950,754	\$30,611,726	\$42,760,016	\$31,565,670	\$31,887,142	\$36,700,238	\$38,313,442
Stormwater							
Charges for Stormwater	\$7,343,810	\$10,610,941	10,662,188	10,592,671	10,992,763	11,058,511	11,124,862
Miscellaneous	145,722	282,583	342,585	272,788	222,582	150,000	150,000
Total Stormwater	\$7,489,532	\$10,893,524	\$11,004,773	\$10,865,459	\$11,215,345	\$11,208,511	\$11,274,862
Total Utilities	\$32,440,286	\$41,505,250	\$53,764,789	\$42,431,129	\$43,102,487	\$47,908,749	\$49,588,304
Percent Change	0.4%	27.9%	29.5%	-21.1%	1.6%	11.2%	3.5%

Note: Excludes beginning fund balances

(1) In 2008, Water/Wastewater includes \$12.1 million of bond proceeds

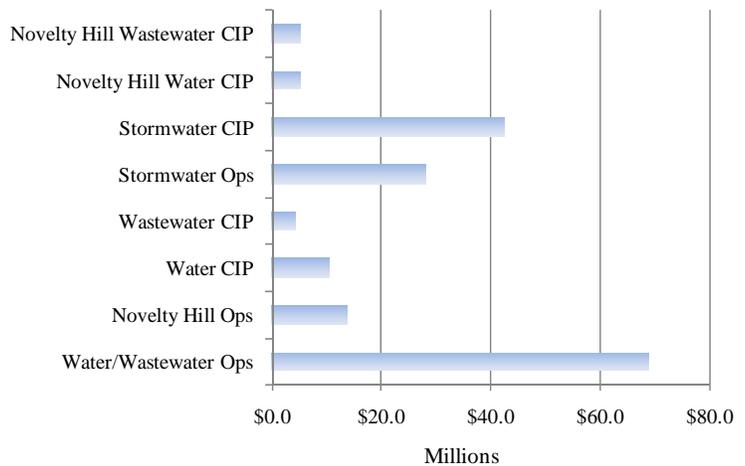
City policy calls for a rate study to be performed in conjunction with the adoption of each biennial budget which occurred in July-September 2010. The table above reflects the proposed rates recommended in the study.

Water, Wastewater, and Stormwater Expenditures

Money spent to support utility operations and construction is separated into eight utility funds – Water/Wastewater Operations, Water Construction, Wastewater Construction, Stormwater Operations and Construction, and Novelty Hill Service Area (UPD) Operations, UPD Water Construction and UPD Wastewater Construction.

The total budget for all eight funds equals \$178 million (including ending fund balance and transfers) with \$111 million dedicated to operations and \$67 million earmarked for construction. Included in the utility construction funds are expenditures to support the Downtown and Overlake Urban Center vision as well as stream rehabilitation and pump station improvements (see CIP section for more detail).

Utility Expenditures



Prospects for the Future

In the City's long-range forecast, salary and benefits will continue to make up the majority of General Fund costs and will rise approximately 5% in future years. Contributions to the state retirement and medical costs are the two main drivers of these expenditures. The impact of the new Federal health care legislation on the City is still unknown, but may be as large as \$350,000 per year based on actuarial studies.

The City will remain vigilant about cost containment as the economic recession continues to put pressure on citywide revenues. Past cost containment measures, new budgeting practices, and efficiency improvements will help Redmond manage expenditure increases into the future, as the City continues to refine and improve its execution of the BP model, consistent with its ten-year implementation plan.

See the Budget by Fund section for a financial summary of sources and uses of City funds.