



2015-2020 Financial Forecast General Fund

Executive Summary:

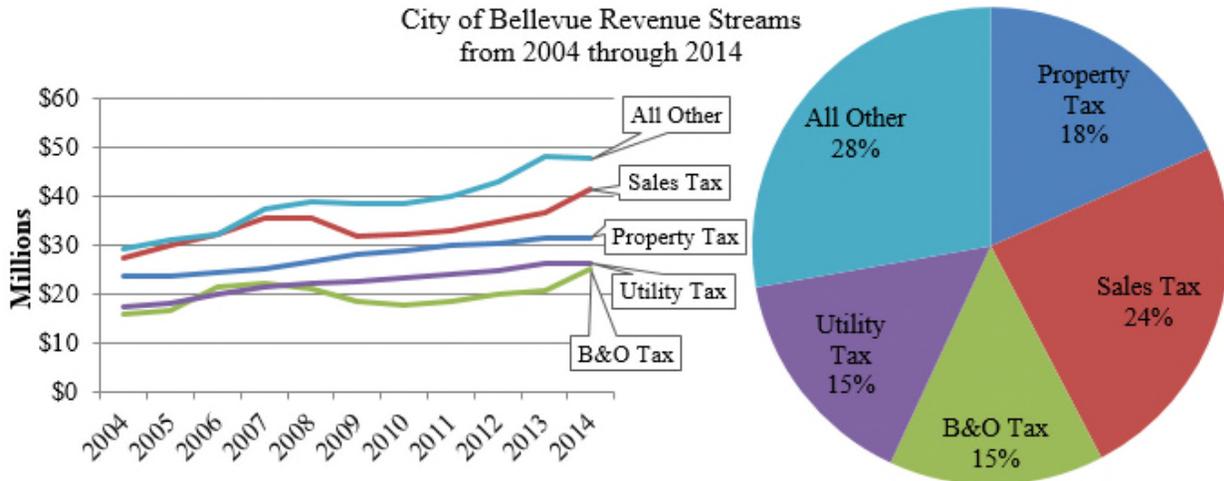
- *The 2015-2020 forecast shows recovery*
- *Fund Balance reached 15% in 2014 due to one-time audit revenue*
- *2014 revenues came in above budget due to an unusually large audit.*
- *Property tax increase of 3% consisting of the statutorily allowable 1% to help pay for 4 firefighters and a 2% increase utilizing Banked Capacity with an equal offsetting reduction in sales tax transfer to the Capital Investment Plan Fund to address infrastructure needs.*
- *No other tax increase (beyond the total property tax increase of 3%) is assumed in the forecast.*
- *Sales and B&O tax growth is expected to continue, with a return to pre-recessionary levels in real dollars by 2015.*
- *Sales tax forecast is in line with neighboring jurisdictions of King County and Seattle.*

General Fund Revenue Discussion

General Fund revenue growth is a mixture of sources that grow at rates ranging from 1 percent to 10 percent, depending on the economic environment. These revenue sources falls into essentially five categories: Property Tax, Sales Tax, Business and Occupation Tax (B&O Tax), Utility Tax and the catch all, “all other” revenue. Sales and B&O Tax, comprising 36 percent of revenues, are highly volatile. To illustrate the volatility, annual Sales and B&O tax growth combined have been as high as 12 percent and as low as a loss of 14 percent since 2000. Since there is such a large difference in revenue growth, sources that grow the fastest over time, will become a larger piece of the total revenue picture. These faster growing sources are also the most volatile and economically driven exposing the City to more economic risk. In the days of globalization, international risks can affect the City’s revenue. This is especially true with the many companies in the Puget Sound and in Bellevue that conduct business around the world. If global demand falls for these international local companies, local per capita spending will also fall effecting the City’s sales tax and B&O tax collections. Current areas that can potentially affect the City’s fiscal condition are a slowdown in demand in China and European economic stagnation.

2015-2020 Financial Forecast General Fund

Chart 1



General Property Tax

The budget proposes a 3 percent increase in property tax through the use of the City’s statutorily allowed annual 1 percent and 2 percent from the City’s banked capacity. The increase in property tax is intended to keep general fund operations at its current level while additional sales tax is used to pay for debt service on bonds anticipated to be issued in support of the City’s capital program. In a normal year, General Property Tax is the most stable of all the taxes.

Historically the City has not taken its allowable annual Property Tax increase of either the lesser of 1 percent or the implicit price deflator (IPD) consistently. Rather than taking that increase the City has chosen to bank that allowable increase (known as “banked capacity”) for future use. The Council has not raised property tax in many years for operations, but has approved the use of banked capacity to offset a Sales Tax transfer to the General CIP to support capital projects on three occasions (2 percent each year in 2007 and 2008 and 3 percent in 2009). Two percent of the 3 percent property tax increase is intended to be used in the same manner as in 2007, 2008 and 2009. The remaining 1 percent was approved by council to fund additional firefighters requested in the budget process.

Aside from Property Tax increases and annexations, new construction is generally the only cause of an increase in the Property Tax levy. New construction varies year to year dependent on the level of development activity fueled by a growing economy. Historically new construction contributes approximately 1.9 percent to the levy and within that time frame the annual increase to the General Property Tax levy has ranged from 0.3 percent to 5.0 percent. Downtown development of high-rise buildings has been the catalyst of the disproportionately high amounts of new construction.

2015-2020 Financial Forecast General Fund

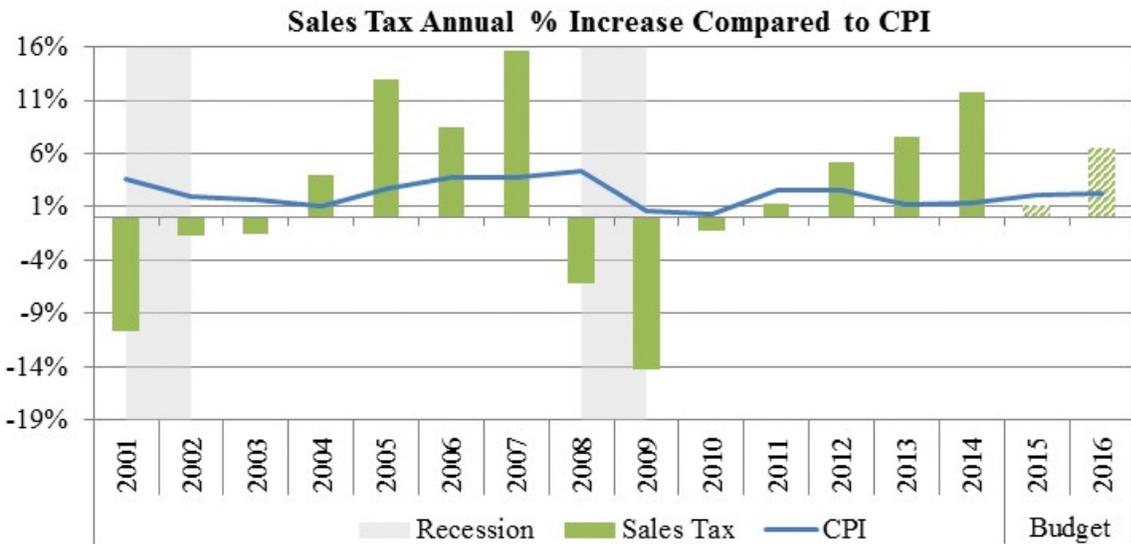
General Property Tax is levied as a dollar amount on the value of real and personal property. The tax rate is calculated by dividing the levy amount by the assessed value. This method for determining property tax means the rate may fluctuate depending on assessed value.

Bellevue’s Property Tax is one on the lowest in King County. In 2014, only 11 percent of a property owner’s tax bill was collected by the City of Bellevue, and the remaining 89 percent was remitted to King County, the State, schools, and other taxing jurisdictions.

Retail Sales/Use Tax

The City collects 0.85 percent tax on retail goods and services. Sales Tax revenue is the most volatile revenue the City’s General Fund collects. During the recession, Sales Tax collections fell 21 percent from their peak in 2007 to the trough of the recession in 2010. Chart 2 shows the Sales Tax growth since 1999, and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility.

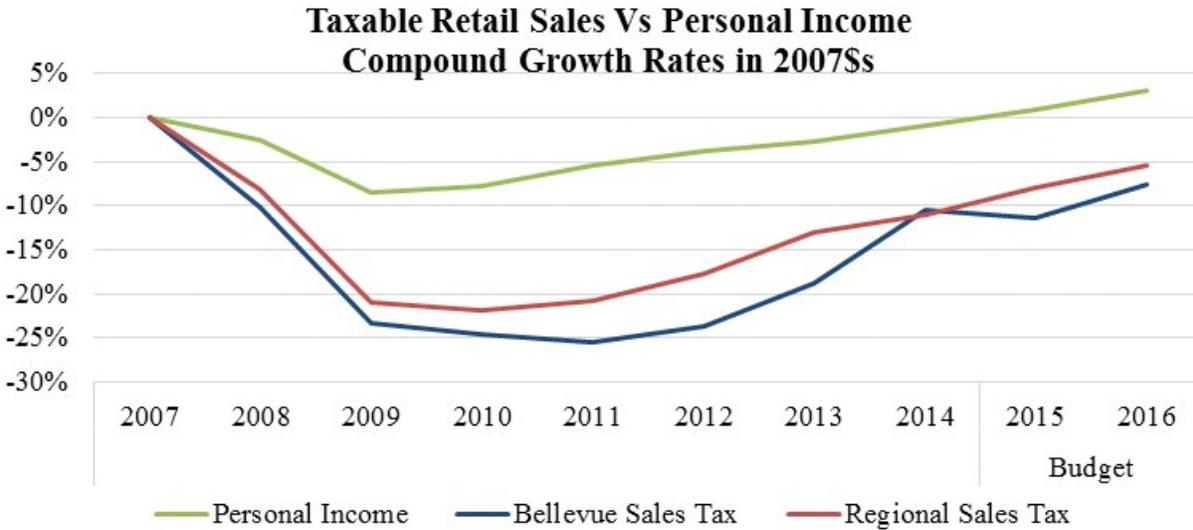
Chart 2



Sales Tax collections have been set back severely by the great recession. Personal expenditures dropped greatly through the recession and so did sales tax as a result of this change in behavior. In nominal dollars the City is close to getting back to its prerecession sales tax peak. However when adjusting for inflation, the City is still far behind its prerecession peak. Chart 3 shows the difference in growth between personal income and sales tax growth. What is notable from this chart is that personal income has recovered much more quickly than sales tax growth and this is a result of people’s personal spending habits changing due to the recession.

2015-2020 Financial Forecast General Fund

Chart 3



Sales Tax is reported to the City by sectors. The major sectors for Bellevue are retail sales, construction, and auto sales, which together comprise 60 percent of sales tax revenue; all other retail sales tax sectors make up the balance. Construction has been slowly increasing over the last few years and recently has started to show stronger growth. Construction of buildings grew at nearly 64 percent in 2014, and is projected to be 10 percent in 2015 and 19 percent in 2016.

Due to the increasing level of growth, construction is now contributing to the overall increase in sales tax revenues. Construction was a driving force in the City’s revenue growth leading up to the recession of 2007. Before the recession, construction accounted for 22 percent of Sales Tax revenue, but only 14 percent in 2013. Having such a large portion of the City’s revenue subject to this volatility presents challenges due to the economic sensitivity of the construction industry.

Retail sales is a broad category that is comprised of both durable and non-durable goods. The Great Recession has had a profound effect on the City’s sales tax collections. On a nominal dollar basis the City has recovered, but on a real dollar basis this is not the case. In the seven years since the pre-recession peak, purchasing power has been eroded, meaning a dollar today does not buy as much as it did in 2007. Chart 3 compares growth of personal income and sales tax in 2007 dollars. The chart indicates that purchasing habits have changed and people are not buying as much as they once did as a percent of their total income.

Bellevue is a regional hub for retail stores spanning the Downtown core and other areas of the City, as well as many big box retailers. Having a significant retail presence has been very beneficial to the City drawing shoppers from outside Bellevue; however it also represents a risk. If a person from outside Bellevue usually shops in Bellevue and then decides to shop online instead, the sales tax generated will be lost to the city the purchaser is located. Auto sales are a sub-set of retail sales but due to the relative size of auto purchases, they are tracked and forecasted separately.

2015-2020 Financial Forecast General Fund

Chart 4 shows historical Sales Tax collections and the forecast for Sales Tax out to 2020. As depicted in the table, the City is forecasting a return to pre-recessionary levels by 2014 in real dollars. King County, and the neighboring cities of Kirkland and Redmond, are forecasting similar trends.

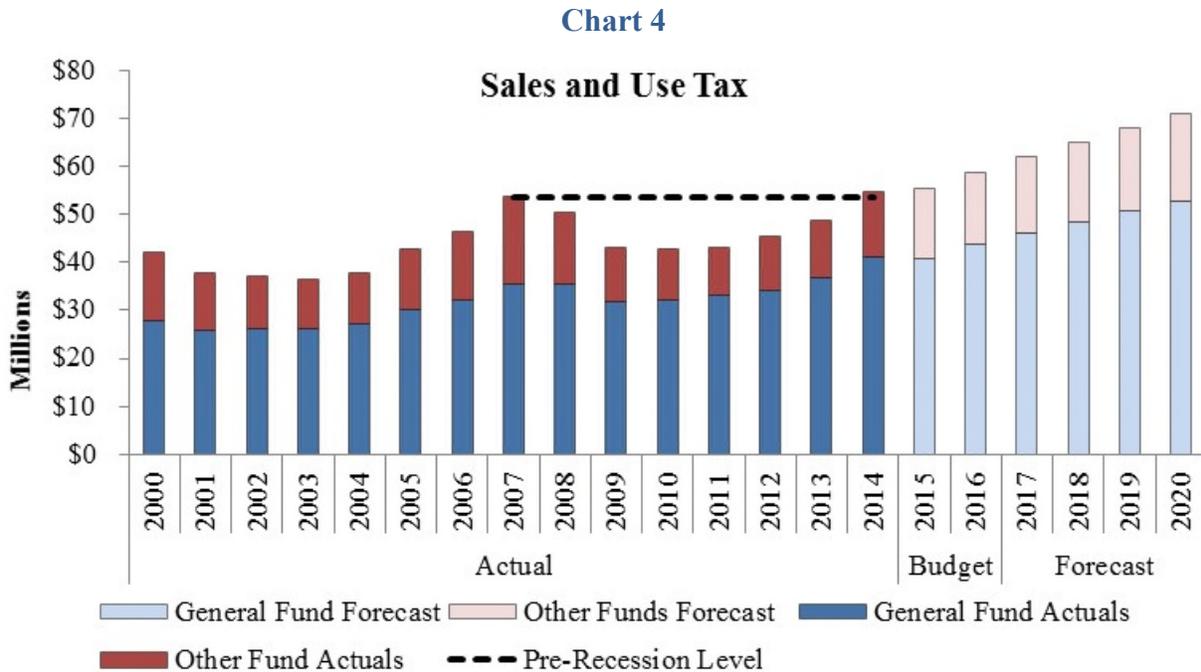


Table 1 provides a comparison of the City’s sales tax forecast to King County and Washington State.

Table 1

	2013	2014	2015	2016	2017	2018	2019	2020
Bellevue	7.6%	8.1%	4.7%	6.5%	5.4%	5.0%	4.6%	4.4%
King County Retail (August)*	7.3%	7.2%	4.9%	4.9%	4.9%	4.6%	4.2%	4.1%
Washington State (November)	6.7%	6.4%	6.1%	5.3%	5.5%	4.9%	4.3%	NA

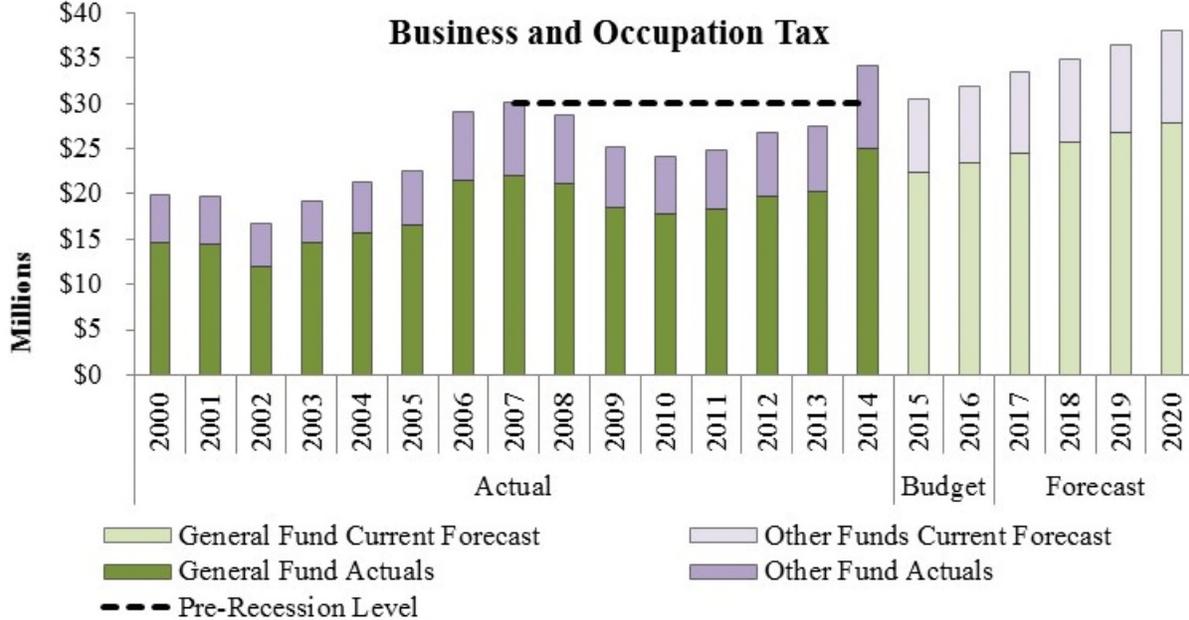
*(65% Confidence Interval)

2015-2020 Financial Forecast General Fund

Business & Occupation Tax

Business and Occupation (B&O) Tax is made up of two parts, gross receipts and square footage taxes. This revenue, like Sales Tax, is subject to volatility brought on by economic risk. During the recession, B&O Tax collections fell 20 percent from the peak. Over the last 10 years, B&O Tax accounted for 14 percent of the City’s General Fund revenue. B&O returned to pre-recessionary levels in 2014 as reflected in Chart 5. 2014 saw an earlier return to pre-recession levels than previously forecasted mainly due a higher than anticipated influx of one-time audit revenue of \$3 million. The City continually monitors B&O tax payers and has audit findings that require either a refund to the tax payer or an additional payment to the City. Audit revenue is highly volatile and prior to 2014 the audit revenue has ranged from several hundred thousand dollars to nearly \$3 million. During the recession B&O Tax was also subject to legislative changes which had a negative effect. These changes, called allocation and apportionment rules, have hindered the recovery because it reduced the tax base the City collected.

Chart 5





2015-2020 Financial Forecast General Fund

Utility Tax

Utility Tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. Aside from telephone and cellular phone taxes, Utility Taxes are fairly stable, rarely declining from year to year. A couple areas of note:

- In the last few years Electric and Natural Gas Utility tax collections have flattened out due to conservation efforts and mild weather patterns.
- Telephone and cellular phone taxes have been on the decline and are expected to flatten due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including Excise Taxes, Sales Tax Annexation Credit, Penalty/Interest Delinquent Tax, Licenses and Permits, Intergovernmental – State and Other Cities, Charges for Goods and Services, Fines/Forfeits, and Other Miscellaneous Taxes and Revenues.

Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire EMS services, etc.). State funding, sometimes referred to as State-Shared Funds, consists of distributions from State taxes such as liquor excise tax and Liquor Board profits. In the 2011 State Legislative session, State-shared revenue was reduced to help fill the budget gap at the State level. Liquor excise tax distributions to cities were eliminated entirely for the State's Biennial Budget. This elimination of liquor excise tax was scheduled to be reinstated after the end of the budget cycle; however, during the 2013 Legislative Session, the revenue was reinstated at only half of what it had been. Due to the uncertainty around state shared revenue, the City has forecast them at current levels to avoid possible short fall in funding.

General Fund Forecast

The general fund ended 2014 with approximately \$3 million greater revenue than expenditures. As a result, the general fund balance increased approximately \$3 million from 2014 to 2015 bringing the City to its fund balance target earlier than previously forecasted. 2014 revenue had mixed results, with sales tax and B&O tax ending the year higher than forecast and alternatively utility taxes and a few miscellaneous revenues falling short of forecast. Growth above budget for sales tax was primarily driven by development activity. B&O tax growth in 2014 was due to one-time audit activity which results in a one-time bump in revenue that will not be added to the tax base on an ongoing basis. With the one-time audit removed from the overall general fund revenue, revenue would have matched expenses resulting in no increase to the fund balance. Utility taxes, as mentioned previously have been particularly weak the last few years.

Rebuilding fund balance is important as it illustrates the City's ability to protect essential service programs during economic downturns and natural catastrophes or other unforeseen major events.



2015-2020 Financial Forecast General Fund

Maintaining fund balance directly contributes to the City's AAA bond rating, which will keep the City's cost of borrowing as low as possible and provide a tangible public indicator of the City's strong financial condition.

Since fund balance is calculated as a percentage of revenue, in order to grow the fund balance percentage back to 15 percent, the actual fund balance must increase. As displayed in Table 2 below, the City's ending fund balance level is at 15.2 percent in 2014. Subsequent years fund balance is displayed as being around 14 percent, which is due to adopted fund balances for 2015 and 2016 which do not reflect the increase in fund balance in 2014. Since the fund balance percentage is based on revenue, which is growing, the City must add approximately \$800,000 per year to simply maintain its current level.

As with all forecasts, this is a best estimate of the future. It represents the collection of all fiscal information known as of September 2014. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/October (as either the Adopted Budget or Mid-Biennium Update is before Council).



2015-2020 Financial Forecast General Fund

Table 2
General Fund Forecast
(in \$000)

	Actual		Budget		Forecast			
	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Fund Balance	\$23,407	\$23,108	\$23,114	\$23,151	\$23,149	\$24,124	\$27,133	\$28,105
Revenue								
Property Tax	\$31,282	\$31,595	\$33,490	\$33,884	\$34,622	\$35,206	\$35,798	\$36,401
Sales Tax	36,789	41,254	40,927	43,639	46,019	48,349	50,589	52,836
Business & Occupation Tax	20,477	25,097	22,459	23,477	24,573	25,684	26,791	27,927
Utility Taxes	26,207	26,360	29,124	29,586	30,382	31,132	31,814	32,428
Miscellaneous Revenue	47,963	47,808	50,387	51,316	51,849	53,289	54,716	56,022
Over Collection	0	0	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenue	\$162,717	\$172,113	\$177,887	\$183,402	\$188,944	\$195,160	\$201,207	\$207,114
%Δ Total Revenue		5.8%	3.4%	3.1%	3.0%	3.3%	3.1%	2.9%
Expenditures								
Personnel	\$100,890	\$104,303	\$111,316	\$115,505	\$118,549	\$121,060	\$125,159	\$129,313
Maintenance & Operations	62,120	64,774	68,234	69,598	71,120	72,791	76,776	78,507
Under Expenditure	0	0	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)
Total Expenditures	\$163,010	\$169,077	\$177,851	\$183,404	\$187,969	\$192,152	\$200,235	\$206,120
%Δ Total Expenditures		3.7%	5.2%	3.1%	2.5%	2.2%	4.2%	2.9%
Ending Fund Balance	\$23,114	\$26,144	\$23,151	\$23,149	\$24,124	\$27,133	\$28,105	\$29,099
EFB as a % of Revenue	14.2%	15.2%	13.0%	12.6%	12.8%	13.9%	14.0%	14.0%

Notes:

- Figures may not foot due to rounding
- 2015 and 2016 reflect the Adopted Budget.
- 2014 Fund Balance reflects actual 2014 year-end results which were approximately \$3 million higher than anticipated due to one-time audit revenue.
- Includes a 3% property tax increase consisting of use of 1% increase allowed as well as 2% use of banked capacity in 2015 with an equal and offsetting sales tax transfer to the Capital Investment Plan. 2016 to 2021 property tax growth due to new construction only.
- Pay as you go LEOFF I Medical payments begin in 2019 at \$2.3 million/year based on the 2013 LEOFF Actuarial Report.
- 2017 expenditures reflect the reduction of LTEs with a corresponding reduction in Labor Distribution Revenue.
- Beyond the 2015-2016 Adopted Budget, staffing levels are assumed to be status quo, with no new capital purchases and no increase in FTEs.
- Annexation Sales Tax Credit ends in 2022; future forecasts will show this reduction in revenue.
- Assumes plan design changes over next several years to avoid tax penalties imposed by the Affordable Care Act.
- This forecast includes CPI-W at 2.2% for 2015 and 2.4% for 2016, current staffing levels, and known mandated expenses.
- The increase in personnel costs from 2014 to 2015 are primarily driven and supported by labor distribution from the General Capital Investment Plan.

2015-2020 Financial Forecast General Fund

Chart 6

