



City of Bellevue

MEMORANDUM

Phone: 425-452-7863

Date: December 14, 2018

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Finance Director

Subject: 2018 Third Quarter Budget Monitoring Report

Attached is the 2018 Third Quarter Budget Monitoring Report for the period ending September 30, 2018. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds are performing within appropriation authority.
- Revenue collections are expected to exceed budget by 1.6 percent (\$3.3 million) resulting in an ending fund balance of 22.9 percent of revenue. The current forecast shows the General Fund continuing to build reserves through 2020, at which point it is forecasted that reserves will be required to balance the out years.

Please feel free to contact me at 425-452-7863 with any questions you may have.

Sincerely,

Toni Call, Finance Director

Attachment

2018 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2018

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program (CIP) Fund, Development Services Fund and the Utilities Operating and CIP Funds.

The purpose of the report is to compare actual expenditures and revenues to the 2018 Amended Budget, to discuss reasons for variance and to convey an overview of the local and national economic outlook.

U.S. Economy

The U.S. economy is experiencing one of the longest expansions on record. U.S. Gross Domestic Product (GDP) increased at an annual rate of 3.5 percent in the third quarter of 2018, according to the US Bureau of Economic Analysis (BEA)'s early estimate. The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), state and local government spending, federal government spending, and nonresidential fixed investment that were partly offset by negative contributions from exports and residential fixed investment (Source: Bureau of Economic Analysis).

A decade has passed since the collapse of the housing market and start of the Great Recession. Home values have more than recovered in most of the nation's largest markets. The markets with the highest gains above the mid-2000s bubble are primarily in the West and Southwest. However, the Zillow house price forecast updated in September shows a slowdown in national home price growth. Also, the Case-Shiller home price index climbed 5.8 percent in August from a year earlier, marking the first time in 12 months that home price gains have dropped below 6 percent. Softening appreciation after the rapid growth is a sign that fierce competition is dying down, and the slowdown is expected to

Performance at a Glance

Pg. 3	General Fund Revenue Actual vs Expenditure Actual	+
Pg. 4	General Fund Revenue Performance as Compared to Budget	+
Pg. 5	General CIP Revenue Actual vs Expenditure Actual	+
Pg. 6	Development Services Revenue Actual vs Expenditure Actual	+
Pg. 7	Utilities Operating Funds Revenue Actual vs Expenditure Actual	+
Pg. 7	Utilities CIP Revenue Actual vs Expenditure Actual	+

Legend:

- + Positive variance or negative variance < 1%
- o Negative variance of 1-4%
- Negative variance of > 4%

continue as the Federal Reserve continues to raise interest rates. (Source: Zillow Research).

Although moderate economic growth is expected in the near term (Source: IHS Markit), the following risks need to be watched closely as the U.S. economy enters the 10th year of recovery. Uncertainty surrounding tariffs and trade policy is expected to persist, driven by the consideration of further tariffs with China and stokes tensions with trading partners. Loss in confidence and growing risk aversion may cause a reduction in investment and consumer spending across many categories. The recovery of jobs and housing markets has been uneven across the country. Employment growth is expected to slow going forward because the unemployment rate is low and the working age population is growing slowly even for the areas with fast job growth during the past a few years.

Regional Economy

In 2017, of the metropolitan areas with population greater than two million, Seattle-Tacoma-Bellevue, WA had the second largest increase (5.2 percent) in real GDP. This was led by growth in professional and business services; wholesale and retail trade; and finance, insurance, real estate, rental, and leasing (Source: US Bureau of Economic Analysis September 2018 News Release). The Puget Sound region's labor market demand is high, which is expected to increase competition between employers to gain and retain talent. Consequently, the personal income growth is expected to outpace the country in 2018 and 2019 (Source: IHS Markit).

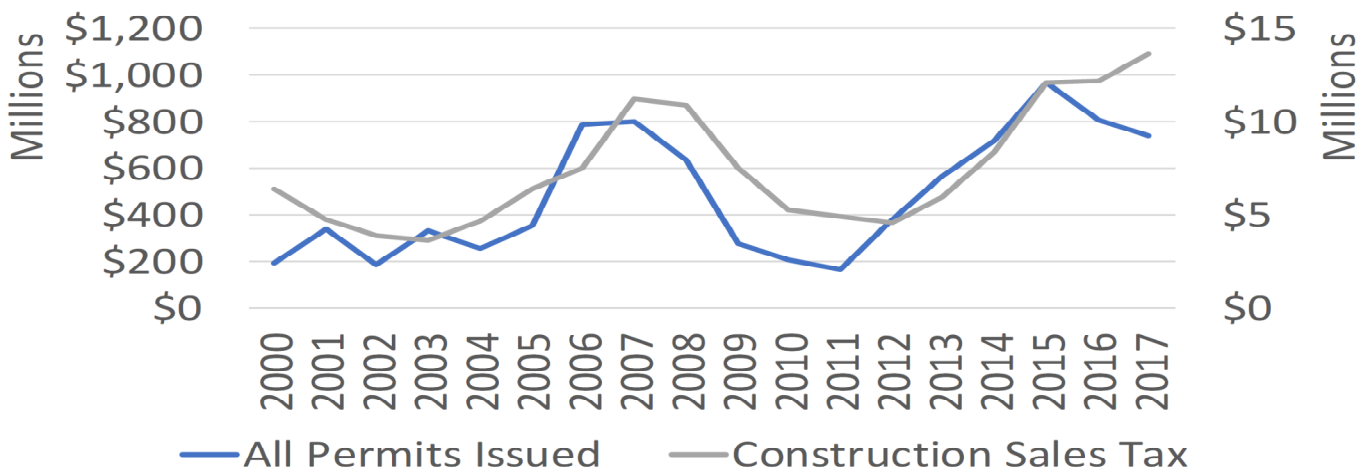
The residential construction sector in the Greater Seattle metropolitan area grew rapidly in 2017 but has since started to slow. Construction and natural resource employment was up 3.1 percent year over year in June 2018 (up 3,800 jobs), compared with 8.9 percent growth in December 2017 (Source: Washington State Employment Security Department). Despite the recent slowdown in construction employment, the construction sector looks strong. The Seattle area still has the highest number of cranes per metropolitan areas in the United States, according to Rider Levett Bucknall (RLB)'s latest Crane Index.

Bellevue Economy

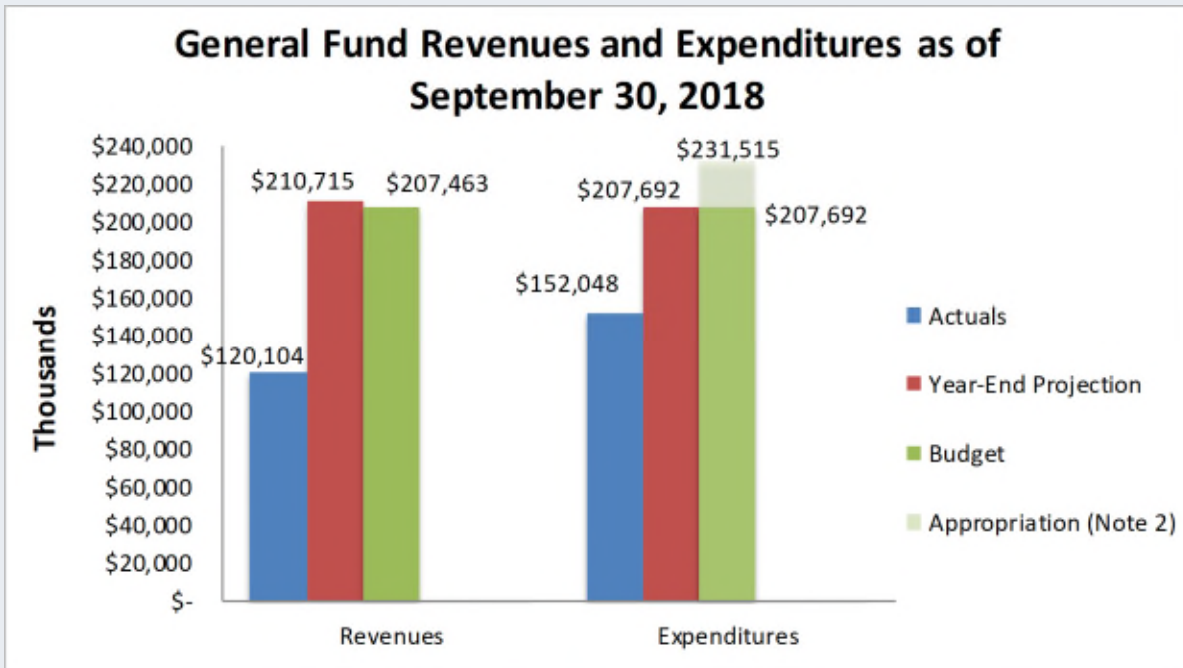
Bellevue's economy has recovered and expanded faster than the rest of the nation since the Great Recession. While a moderate economic growth is forecasted in the near term, there are a few areas that need to be watched closely. Sales tax data from the Department of Revenue has shown a decline of over 10 percent in construction sales tax in the first eight months of 2018 compared to the same period of 2017. In addition Development Service's permit issuance in 2018 and the projects in the pipeline is still strong, and the construction sales tax is expected to pick up in 2019 and 2020, but staff is closely watching the permit and construction activities as well as construction sales tax collection. The chart below shows the highly correlated relation with a 12-18 months lag between valuation of permit issued and construction sales tax collection.

Nationally, auto sales have been trending down since 2016 after U.S. vehicle sales hit records in 2014 and 2015, and this trend is continuing as of September 2018. Bellevue's auto sales had strong growth due to the growth of sales in existing car dealerships from 2014 to 2015, but the growth since 2016 was primarily driven by new car dealerships coming into Bellevue. In 2017, King County's auto sales tax base grew by only 3.5 percent, Seattle had a decline of 2.6 percent, but Bellevue had 7.8 percent growth primarily due to the strong growth of luxury car sales.

Valuations of Permits Issued Vs. Construction Sales Tax Collection 2000-2017



GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, current year-end estimates, amended budget, and budget appropriation (includes fund balance). Due to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed during the third quarter.

Note 2: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas Appropriation includes budgeted expenditures and fund balance (reserves).

Revenue

General Fund revenue collections are projected to be above budget by \$3.3M. B&O tax collections are projected to be higher due to increased business activities in the city and Utility tax collections are projected to be higher due to a one time amended water utility tax return (estimated at \$1M) and increased water usage in summer 2018. Seventy-two percent of General Fund revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The City of Bellevue's tax base continues to grow due to the moderate growth in business activities. The various revenue sources are broken down on the following page and discussed in greater detail.

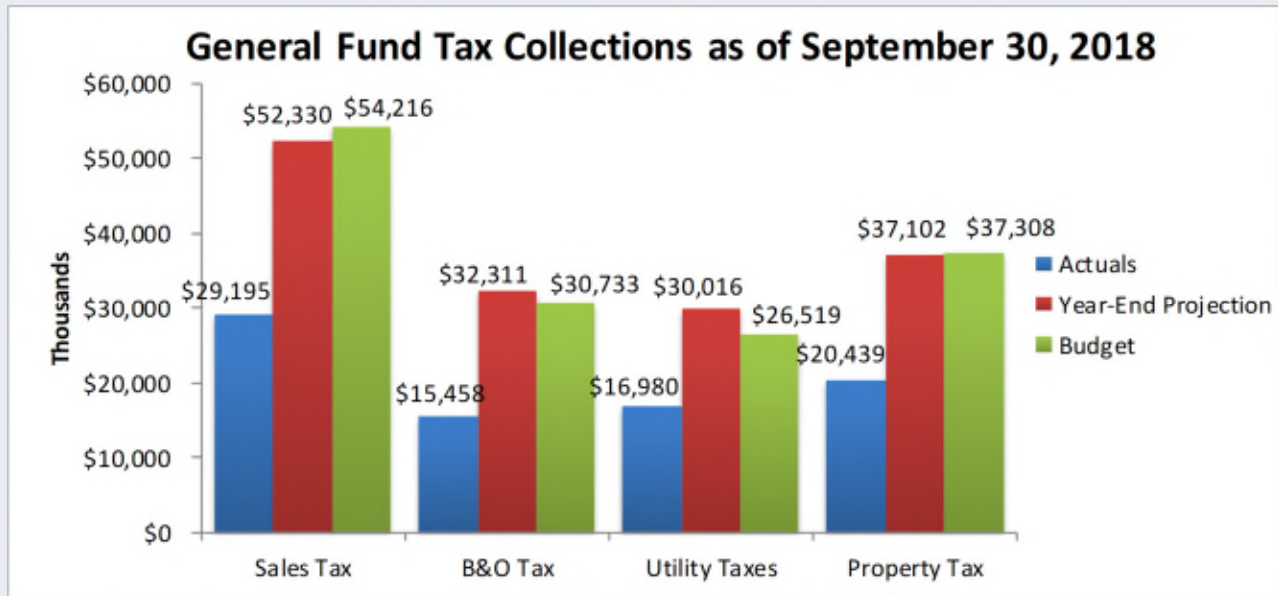
Expenditures

Year-end estimated revenues are projected to exceed year-end expenditures. Expenditures are expected to be on budget for the year.

Change in Fund Balance

The city's General Fund balance is projected to increase this year as revenue growth outpaces expenditures. The current General Fund balance achieves the city's financial policy target of having 15 percent of revenues in reserves. The city is purposely building reserves in the near term as it is anticipated these reserves will be needed to balance the budget in future years.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through September, current year-end estimates, and 2018 amended budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual third quarter activities. Additionally, year-end projections are based on the limited information available to date. Projections, which are based on economic trends and projections, as well as historical collections, will be updated as more information becomes available.

Tax Revenues:

At this point, year-end tax revenue is projected to exceed budget.

Sales Tax

Sales tax collections are projected to be 3.5 percent below budget due to lower than expected 2018 actuals, but are projected to be 7.5 percent greater than 2017 including the new online sales tax. The year to date online sales tax collection has come in stronger than anticipated.

Business and Occupation Tax (B&O Tax)

B&O tax is projected to come in 5.1 percent higher than the budget, primarily due to strong business activity and audit recovery.

Utility Tax

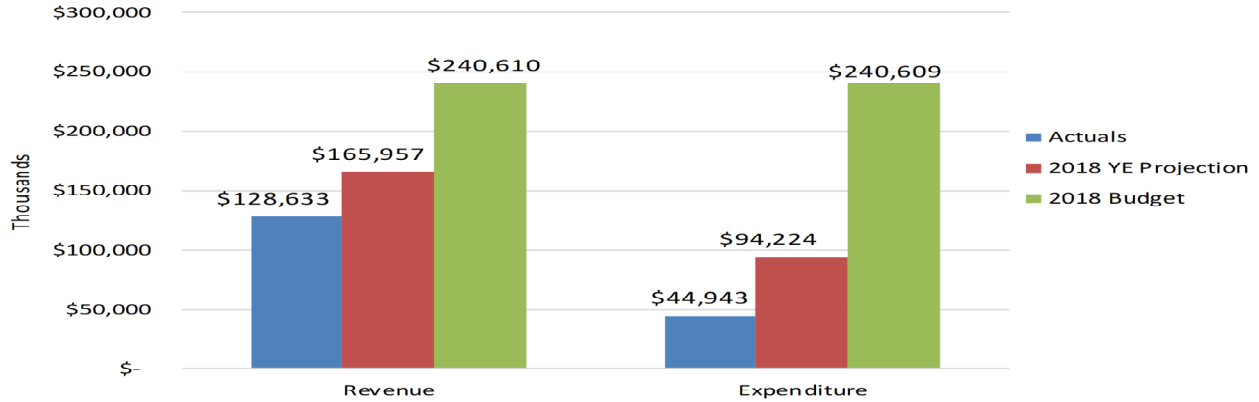
Utility tax projections are expected to be 13.5 percent higher than budget due to increased water usage in the summer months of 2018 and a one time amended water utility tax return estimated for \$1M. Continued demand increases in electric, gas, and sewer utility taxes are also observed in 2018.

Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2018 total levy rate is \$1.03 per \$1,000 AV, which includes \$0.07 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.11 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.14 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects. Property tax collections are projected to be slightly below the budget due to updated construction valuation information received from King County earlier in the year.

GENERAL CIP PERFORMANCE

General CIP Fund as of September 30, 2018



*Includes historical carry forward and current period adjustments.

Resources

Major CIP resources are comprised of taxes, grants and contributions. The largest annual resource for the CIP fund is taxes, including Sales tax, B&O tax, Real Estate Excise tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity Improvement levies approved by voters in November 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in June 2017.

The 2018 CIP includes \$71.2M in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections are projected to be below budget by two percent, B&O tax is projected to be above budget by four percent and REET collections are projected to be above budget by \$4.3M. Grants and Interlocal contributions are projected to come in lower than budgeted due to project delays and timing.

The Budget Office continues to monitor overall cash flow needs within the General CIP.

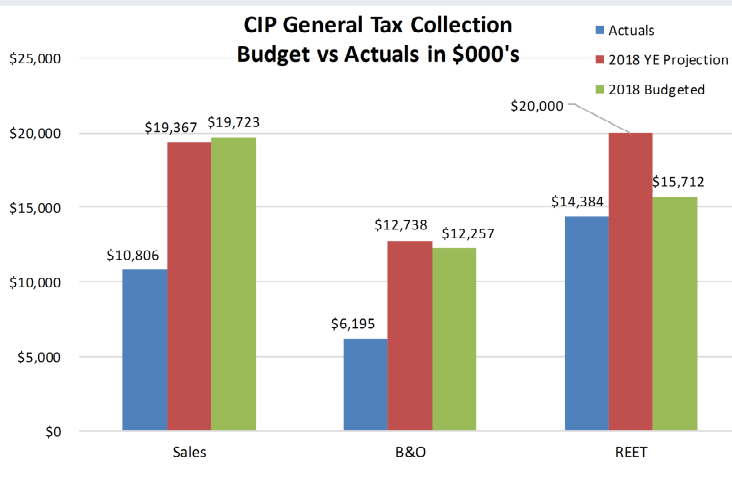
Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City has designated five large transportation projects that will be funded by proceeds from the TIFIA loan. The projects are under design and are expected to ramp up both this year and in 2019 with the first draw on the TIFIA loan expected in 2018.

Expenditures

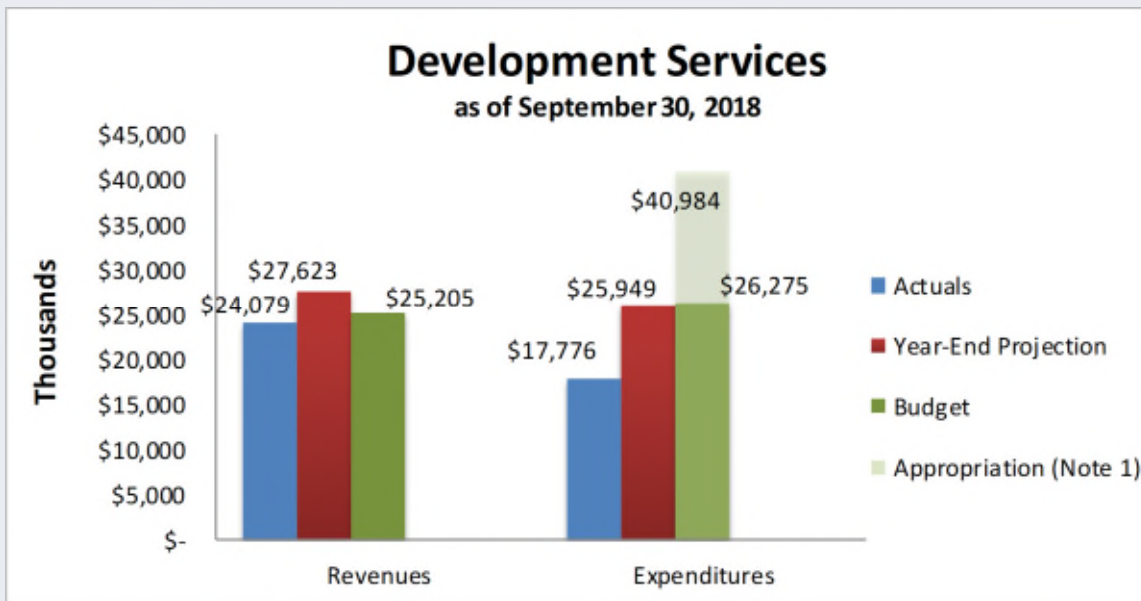
General CIP expenditures are projected to be \$94.2M or approximately 39 percent of 2018 available budget (excluding TIFIA expenditures this would be \$91.5M or 49 percent of available budget). This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

Other expenditure highlights include work on the NE Spring Blvd. Zone 1 projects, 120th Ave NE Stages 2 and 3, the Meydenbauer Bay Phase 1 Park Development, Northup Way Corridor Improvements, and Surrey Downs Park development.



DEVELOPMENT SERVICES PERFORMANCE

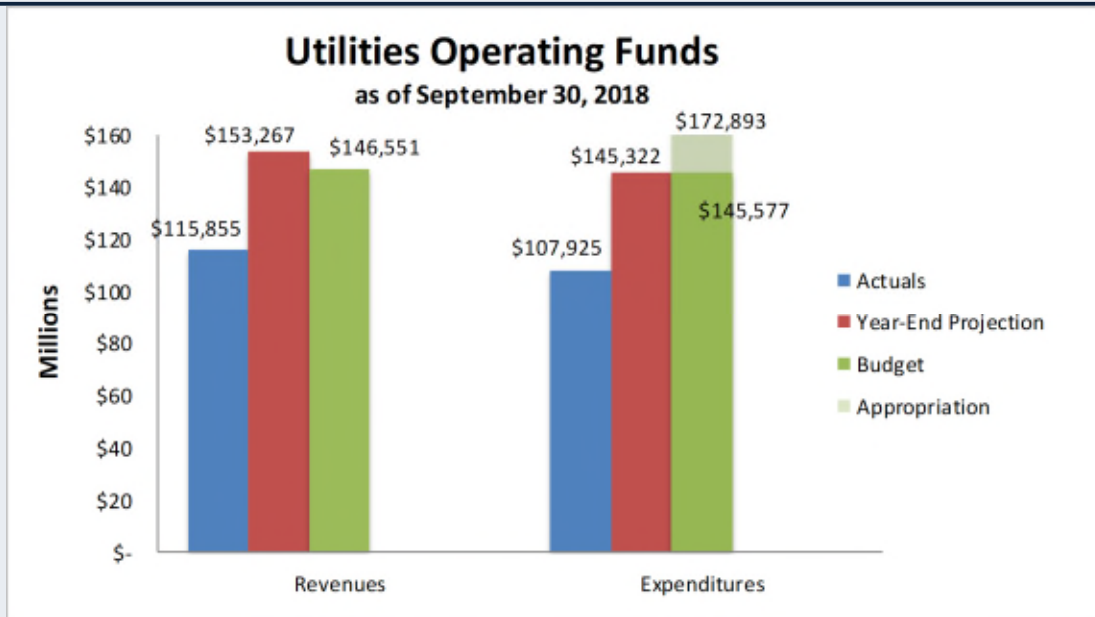
888 Bellevue Tower — 108th Avenue NE



Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development Services revenue has exceeded third quarter target as development activity continues at a high level for both review and inspection services. Several major projects are in the review process and additional projects are in construction. By year-end, revenues are anticipated to exceed budget by nearly 10%. Expenditures are under anticipated third quarter budget levels and are expected to be under budget by \$326K at year-end. Under expenditures are anticipated for M&O, offset by additional transfer to DS departments for review and inspection hours to be worked through year-end.

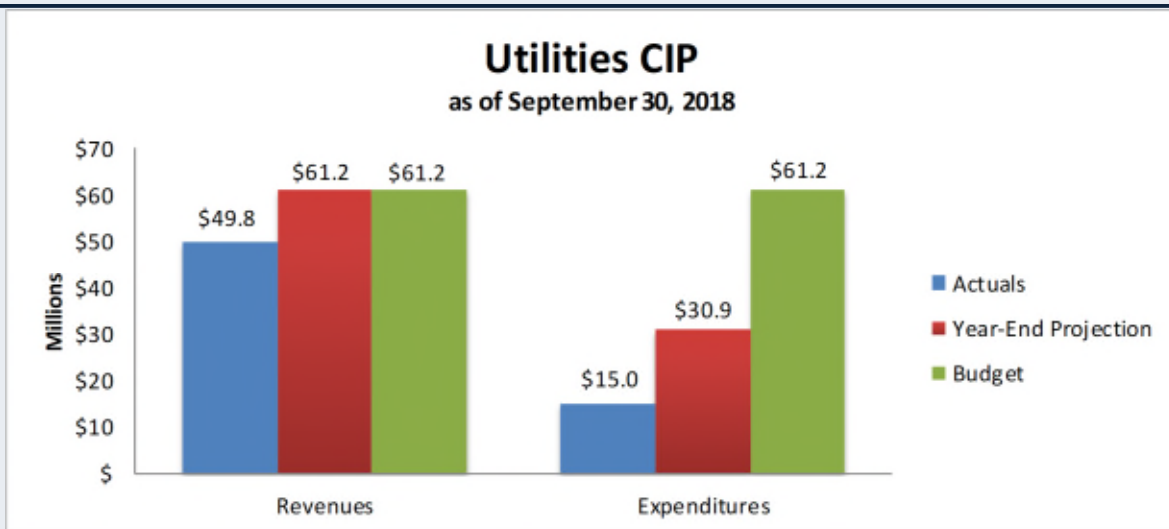
UTILITIES OPERATING FUNDS



Utility operating revenues were sufficient to cover expenses through the third quarter. Year-end revenues are forecasted to be above budget as a result of greater than anticipated Water and Sewer service revenues due to exceptionally hot and dry summer weather. Year-end expenditures are projected to be below budget due primarily to personnel vacancy savings.



UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8M for EastLink and \$8.1M for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.3M for water facilities for Spring Blvd.

Projected CIP expenditures reflect delays for several major projects. These include the West Lake Sammamish Transportation project, which includes significant asbestos cement watermain replacement work, site selection for the New Water Inlet Station; automated main infrastructure due to contract negotiations; redesign for the Midlakes Pump Station; and analysis of alternatives for the Flood Control Program. In addition, several projects have been delayed due to internal staff capacity constraints caused by position vacancies that are actively being filled. Several of these projects are now initiated and moving forward but will continue into 2019.

