



City of Bellevue

MEMORANDUM

Phone: 452-7863

Date: December 6, 2016

To: Mayor John Stokes and City Council Members

From: Toni Call, Interim Finance Director 

Subject: 2016 Third Quarter Budget Monitoring Report

Attached is the 2016 Third Quarter Budget Monitoring Report for the period ending September 30, 2016. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items – 2016 Third Quarter:

- The General Fund Revenue projections as of the third quarter of the year remain slightly above budget by 1.1% and expenditure projections are now tracking below budget by 0.04%, primarily due to vacancies in personnel.
- All funds are performing within total appropriation authority.

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

Sincerely,

Toni Call, Interim Finance Director

Attachment

2016 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2016

Economic Performance

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

The purpose of this document is to report on the City's overall financial performance through the third quarter. This report compares actual expenditures and revenues and year-end projections compared to the 2016 amended budget.

U.S. Economy

Overall, economic indicators are performing well in the U.S in the third quarter. US productivity growth bounces back and increased 3.1% in the preliminary estimate of the third quarter (Source: U.S. Bureau of Labor Statistics). The Current Population Reports released in September show that after a brutal economic recession and years of stagnation, real median household income rose from \$53,718 in 2014 to \$56,516 last year. That's a 5.2% rise — the first statistically significant increase since 2007, but the median household income in the nation still remains lower than it was in 2007 (Source: U.S. Census Bureau). US September personal income was up 0.3% while personal spending jumped 0.5%. Global Insights economists are forecasting holiday retail sales to rise 3.7% above last year, however not as strong as 2014 (Source: Global Insight).

While the overall economy appears to be strong, there are still a few areas we need to watch . According to the most recent employment report from the U.S. Bureau of Labor Statistics (BLS), looking at state job gains over the previous six months, compound annual employment growth was 1.5%, only a few tenths of a percentage point lower than in September 2015.

Performance at a Glance

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

Legend:

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

However, the number of states that are struggling is starting to increase. More than 15 states registered either flat or negative numbers over the previous six months, whereas six months ago there were only six states with job growth less than or equal to zero.

Auto Sales growth slowing — Although national auto sales grew 66 consecutive months beginning in September 2010, in 2016 there have been five months of decline. The softening of auto retail sales amid low interest rates, relatively cheap gas, and automakers pushing more aggressive incentives may be an indicator that further growth in this cycle will be challenging. The U.S. automotive market continues to show signs of little growth.

Regional Economy

Due to the strength of the basic sector—Boeing, Microsoft, and other drivers of the economy, jobs will expand faster in the region than the nation. Rapid employment growth will result in rapid income growth. Regional population will expand in accordance with the difference between the regional and national employment growth rates. Since people follow jobs, the regional and national unemployment rates will tend to converge. Since consumer goods and services are also mobile, the regional and national inflation rates, as measured by the consumer price index, will follow similar tracks. (Source: Puget Sound Economic Forecaster (PSEF)).

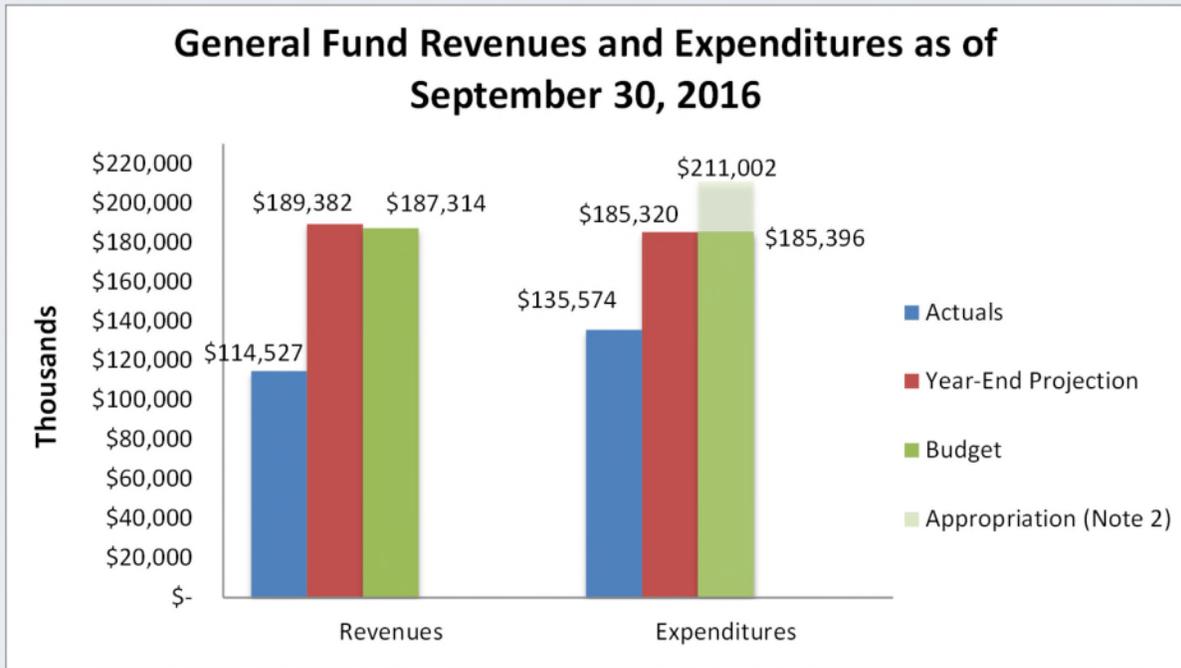
Even though we have no immediate concerns about a recession, seven years past the last recession, signs of a slow down will be watched carefully. A sluggish national economy, job cuts at Boeing, an end to hiring by Amazon, and a downturn in high-rise construction could be signs that we need to pay more attention to.

Rather than a downturn, PSEF's ten-year forecast calls for a significant slowdown. In light of the current momentum of the economy, the low point of the regional economic cycle in terms of job growth is predicted to be 2021, when employment is projected at advancing at a 1.1 percent rate, only 0.2 percentage points faster than the national rate (Source: Puget Sound Economic Forecaster (PSEF)).

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue home prices continued to grow in the third quarter (Source: Zillow Research (<http://www.zillow.com/research/>)). Although employment growth, per capita income growth, home price growth, and tax revenues growth are all good signs, we need to pay attention to the following underlying risks: As people's spending habit change, the trend of moving from department stores/ local retail stores sales to more online (electronic) sales becomes apparent. The city is carefully monitoring this shift and the impact on sales tax collections. The concern will be if the city's total retail sales tax base begins to show a decline. A slowing growth of auto parts and sales is seen locally in Bellevue as well as the nation after a strong growth in the past two years. As the major projects come to completion in the end of this year and 2017, construction activities need to be watched as well.

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 third 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 is tracking above budget slightly over one percent. Seventy one percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The City of Bellevue's tax base continues to recover, largely due to Sales and B&O tax growth, buoyed by audit activity and construction growth. Some of this strong growth is projected to continue in 2016, but due to the cyclic nature of construction, growth will eventually slow thereafter as construction projects are completed. Utility Taxes continue to have flat or decreasing growth due to households abandoning landlines, and wireless phone companies shifting their service proportion more towards the non-taxable data plans and away from taxable voice services.

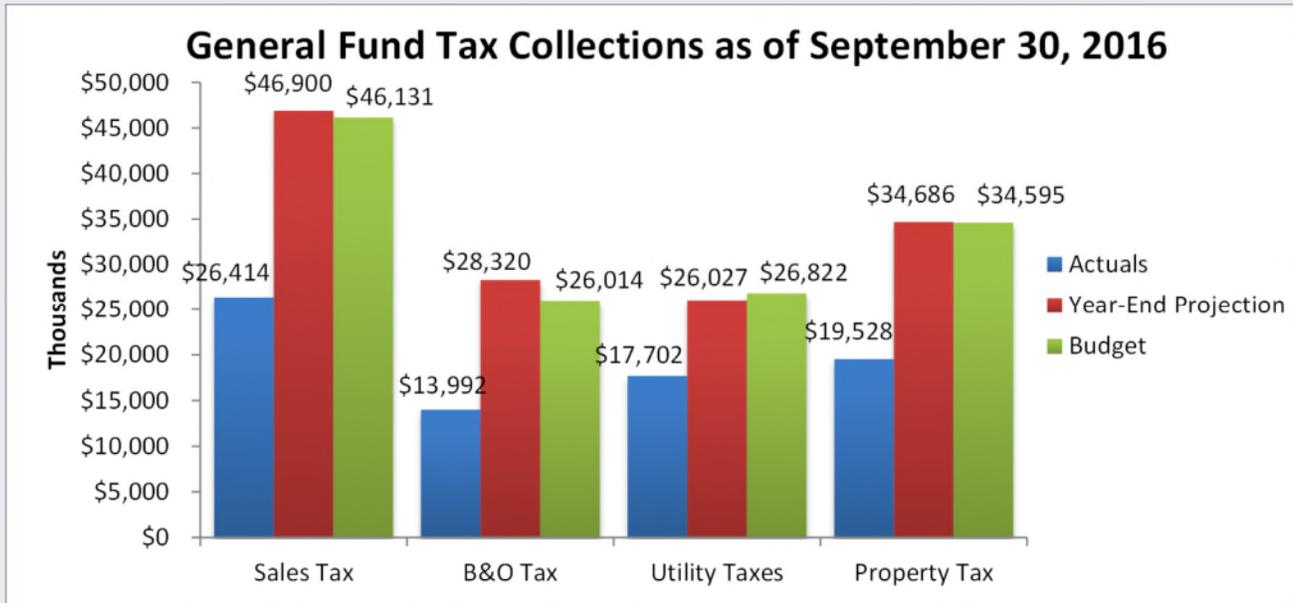
Expenditures

Expenditure projections have decreased between second quarter and third quarter. Expenditures are now tracking slightly below budget, primarily due to vacancies in personnel.

Year-end estimated revenues are projected to counterbalance year-end expenditures. The city appropriates 100% of fund balance, and expenditure estimates will be within total city legal appropriation.

The Budget Office is closely watching revenue and expenditures on a monthly basis.

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date collections through September, current year-end estimates, and 2016 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:

Year-end tax revenue is projected to be approximately 1.8 percent above budget. Taxes exceeding budget, like B&O tax, are largely offset with taxes that are coming up short, such as utility taxes.

Sales Tax:

Sales tax collections remain consistent with quarter two projections at greater than budget due to continued increases in the use of professional services, primarily in the technology, financial and administrative industries. Year to date collections reflected higher than anticipated development activity .

Business and Occupation Tax (B&O Tax):

B&O tax is projected to be about \$900K above second quarter projections primarily due to increases in audit recovery and economic model growth similar to sales tax.

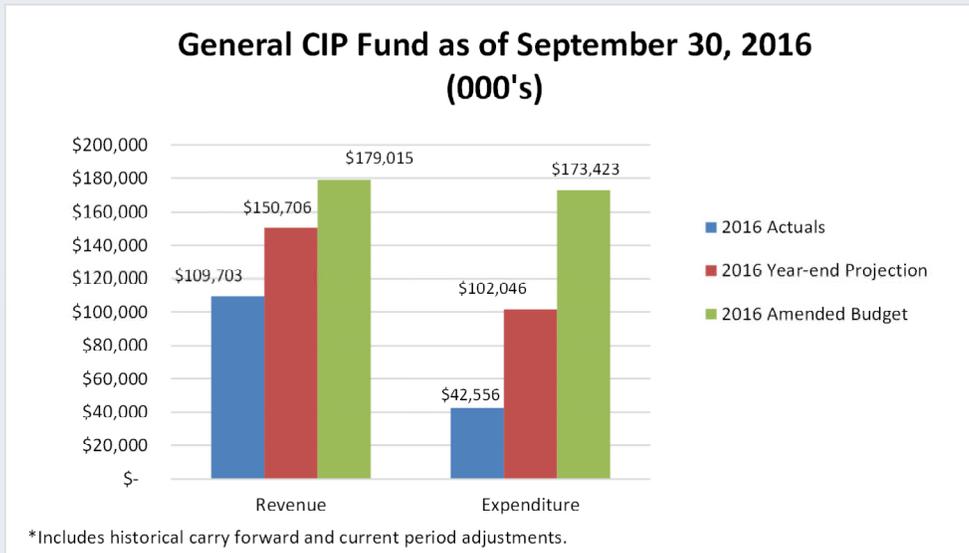
Utility Taxes:

Utility tax collections are projected to be below budget, however projections have increased since second quarter due to strong actuals in quarter three. Utility taxes in general continue to see declines in telephone and cell phone tax collections. Utility taxes have been trending down since the beginning of 2012. Phone utility taxes are trending down due to fewer land lines and a greater share of non-taxable data plans versus taxable voice plans. The city's out year forecast reflects historical and future tax collection trends.

Property Tax:

Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. Bellevue's 2016 total levy rate is \$0.94 per \$1,000 AV, which includes a \$0.09 per \$1,000 of assessed value for the voter authorized Parks and Open Space Levy Lid Lift. Property tax is projected to be slightly above budget due to updated construction valuation information received earlier in the year.

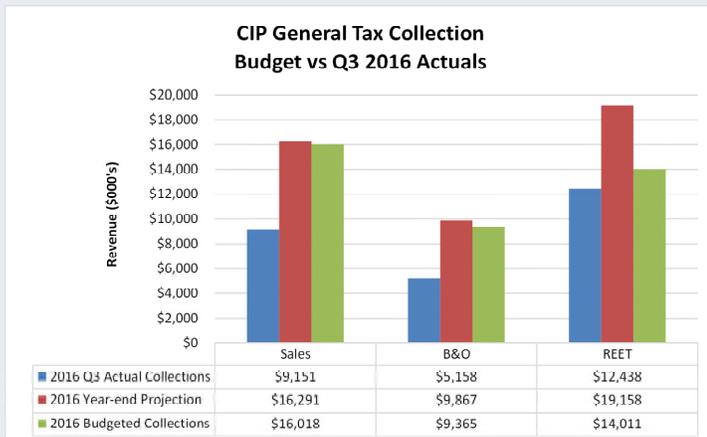
GENERAL CIP PERFORMANCE



Note: The above graph illustrates the difference between year-to-date resource collections and expenditures through September, current estimates, and available 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. Expenditures are based on actual activities performed through the third quarter.

Resources

Major CIP resources are comprised of bond proceeds, taxes, grants and contributions. The largest annual resource for the CIP fund are taxes: Sales tax, B&O tax, Real Estate Excise Tax (REET) and the parks levy. The 2016 CIP includes \$69.2 million in beginning fund balance programmed to existing projects in the CIP. Sales tax and B&O tax collections are projected to be higher than budget. For specific discussion about Sales and B&O tax, see the General Fund section of this report.



REET

This year there have been 26 transactions between \$10M and \$50M compared to 20 at this point last year, and 7 transactions of \$50M or above compared to 4 last year. The Budget Office is forecasting year end to be greater than budget. REET is restricted by Council Ordinance, 50% to Transportation and 50% to Parks. The Budget Office continues to monitor large transactions and incorporate these transactions into the forecast.

Expenditures

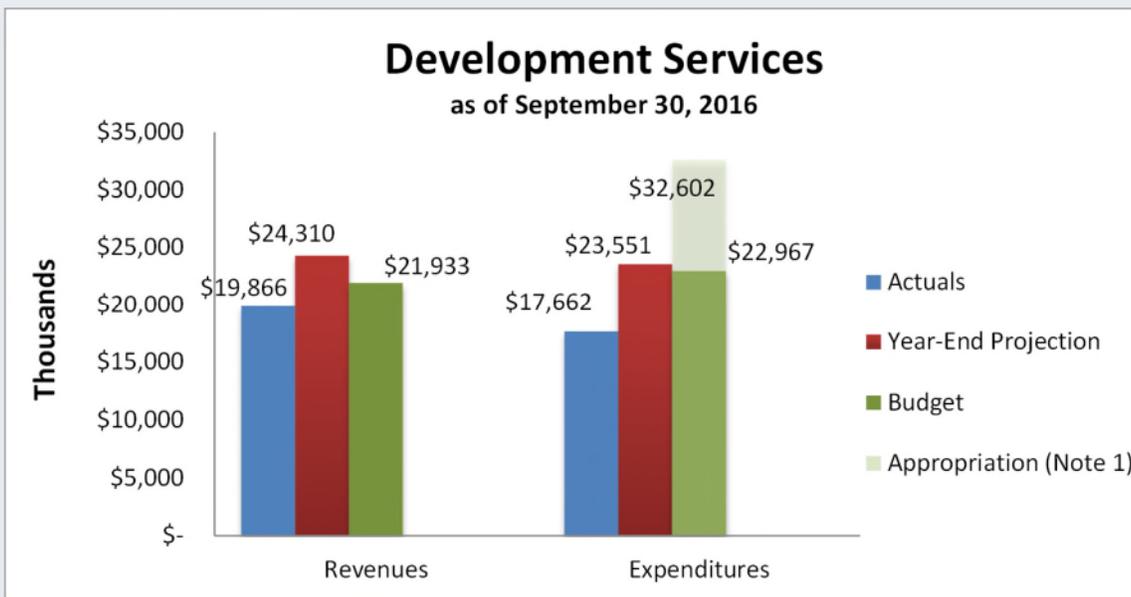
CIP expenditures are projected to be \$102 million at year-end. Expenditure projections for 2016 include progress on large scale transportation projects (completion of 120th Ave NE Stage 2 from NE 8th to NE 12th Street with construction beginning in August on Stage 3 of the corridor from NE 12th Street to NE Spring Blvd, as well as, begin construction of NE Spring Blvd Zone 1b from the Eastside Rail Corridor to 120th Avenue NE) and the start of construction on the Downtown Park project.

Other expenditure highlights include construction on the City Hall Parking Garage expansion project, which was recently completed. The third quarter projections estimate CIP revenue to exceed expenditures at year-end.

DEVELOPMENT SERVICES PERFORMANCE



Gateway – 10360 Main Street



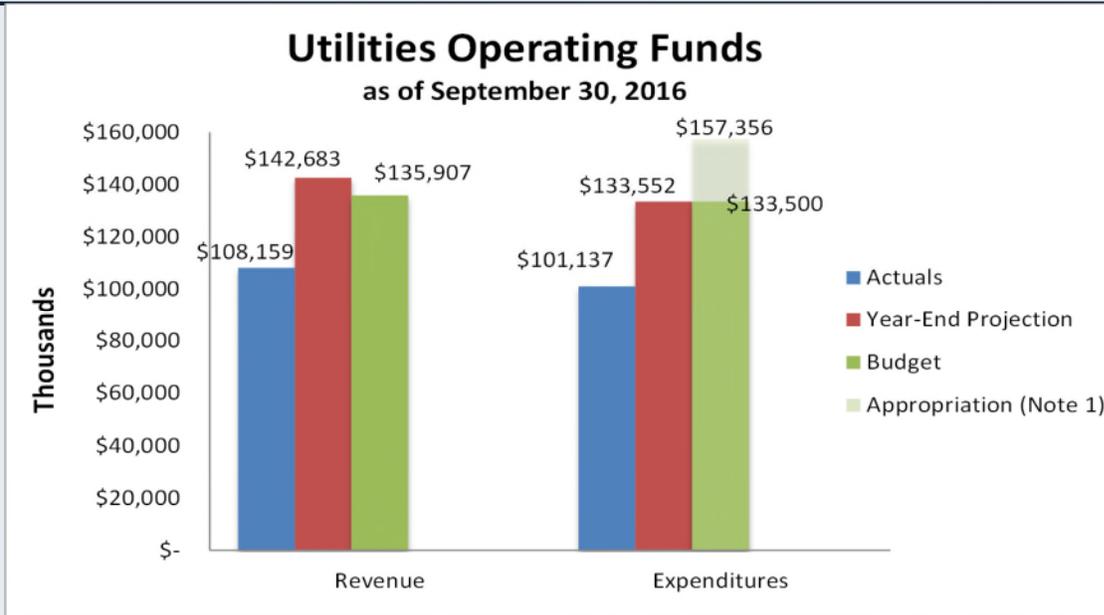
Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development in Bellevue continues to experience strong activity as several new projects are in construction or have permits in review to be approved by year-end. Revenue is over budget largely due to major project fees and an increase in permit activity. Expenditures are anticipated to be over budget by year-end for additional professional services and other M&O costs. Review and inspection work is ramping up in response to the Sound Transit East Link light rail project

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2016

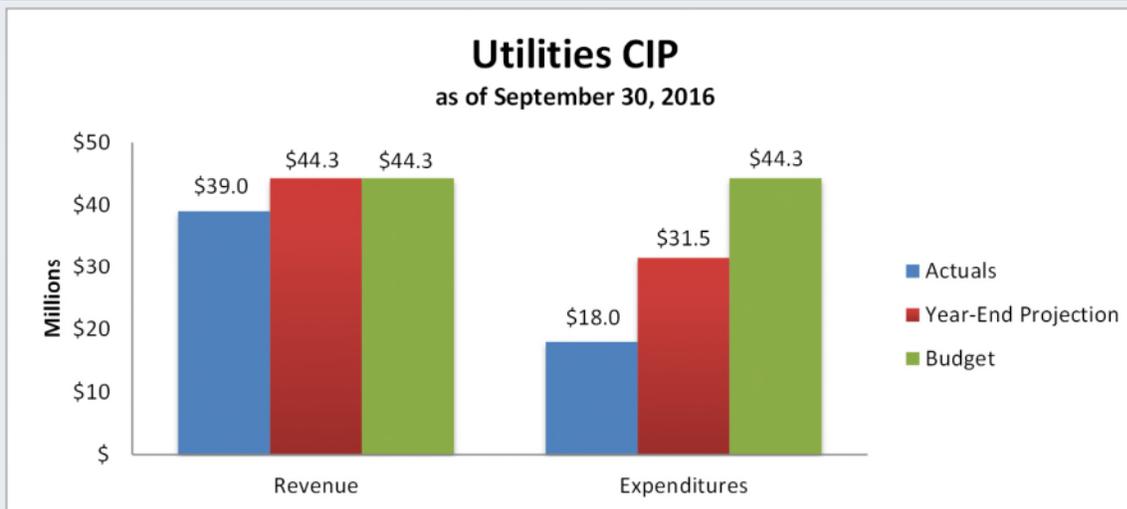
UTILITIES OPERATING FUNDS



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

Utility operating revenues were sufficient to cover expenses through the third quarter. Year-end operating revenues are expected to be over budget due to stronger than anticipated water sales and ongoing development activity. Year-end operating expenses (exclusive of reserves) are expected to be slightly under budget, due to savings from personnel vacancies offset by increased taxes as a result of strong water sales.

UTILITIES CIP



Note: The figures above exclude reserves for Eastlink and long-term funding for stream restoration initiatives in the Bel-Red corridor.

Utility CIP third quarter actual revenues exceed expenses, reflecting carry overs from the previous year. Revenues are expected to be at budget by year-end. Third quarter CIP expenditures reflect projects under construction. Year-end projected under-expenditures reflect permitting delays, design delays due to project changes, and construction delays due to timing of project activities.

City of Bellevue Budget Monitoring Report

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