



City of Bellevue

MEMORANDUM

Phone: 452-6846

Date: August 17, 2015

To: Mayor Balducci and City Council Members

From: Jan Hawn, Finance Director 

Subject: 2015 Second Quarter Budget Monitoring Report

Attached is the 2015 Second Quarter Budget Monitoring Report for the period ending June 30, 2015. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items – 2015 Second Quarter:

- The General Fund Revenue and Expenditure projections as of the second quarter of the year are slightly above budget by 0.4 percent.
- All other funds are performing well with revenues projected to exceed expenditures.
- All funds are performing within total appropriation authority.

Please feel free to contact Toni Rezab at 452-7863 or me at 452-6846 with any questions you may have.

Sincerely,

Jan Hawn, Finance Director

Attachment

2015 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 2015

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 second quarter. This report compares actual expenditures and revenues and year-end projections to the 2015 amended budget.

National Economy

Through the second quarter of 2015, the economy has continued to grow at a lack luster pace. US gross domestic product actually shrank in the first quarter, but rebounded in the second. However, relative to the rest of the world the US is doing better. One of the main factors is rooted in oil prices. World oil markets are priced in US dollars, oil had been at historically low levels and the US Dollar has been getting stronger relative to other currencies, which means that from the US perspective oil has been cheap but that is not necessarily true for the rest of the world. Other areas that we continue to watch include Greece and China.

Regional Economy

One effect of a strong US dollar is that domestic industrial investment is reduced due to demand abroad for US produced goods. Aircraft products largely consisting of Boeing, one of the largest employers in the Northwest, accounts for 63% of the Seattle-Tacoma-Bellevue Metro Statistical Area's industrial production and how Boeing performs broadly influences the overall industrial production numbers (Brookings Institute Exports MSA). Boeing recently announced that FedEx is purchasing fifty 767's, the largest single order for large jets.

Performance at a Glance

Pg. 2	General Fund Revenue Projection vs Expenditure Projection	+
Pg. 3	General Fund Revenue Projection as Compared to Budget	+
Pg. 4	General CIP Revenue Projection vs. Expenditure Projection	+
Pg. 5	Development Services Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities Operating Funds Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities CIP Revenue Projection vs Expenditure Projection	+

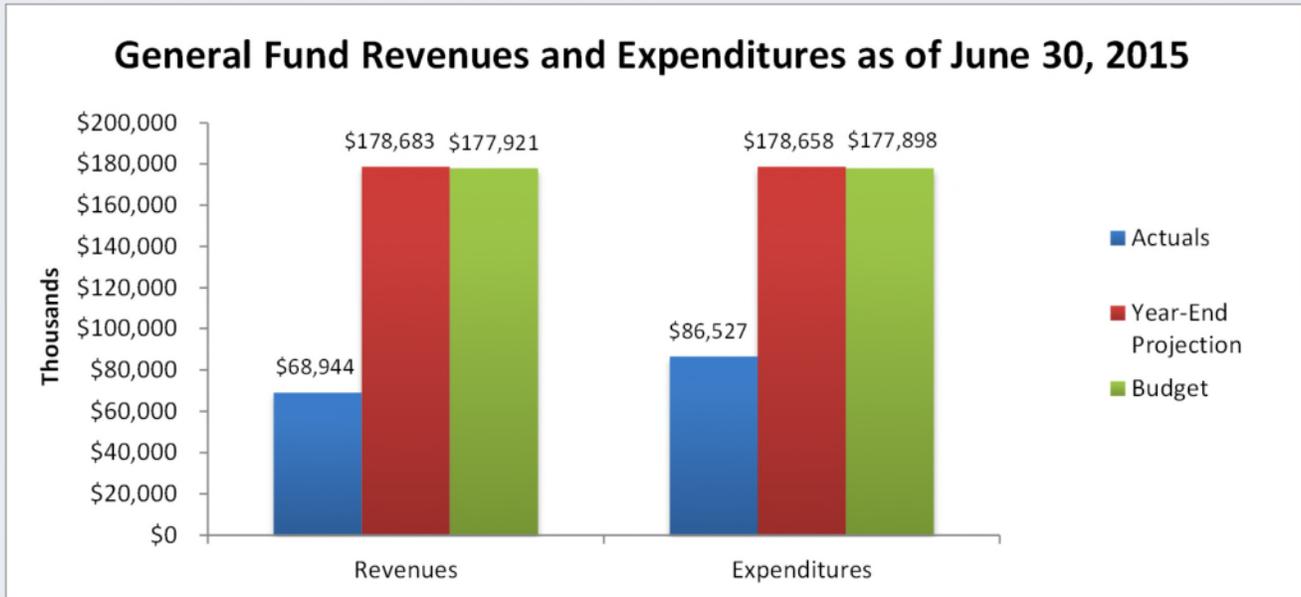
Legend:

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

Bellevue Economy

The City is performing well economically, with low unemployment as well as increasing high paid jobs. The City is in the midst of a development cycle. There are two projects underway with a reported value at \$3.5 billion combined, the Kemper developments (Bellevue Square and Lincoln Square expansions), and the Spring District (Puget Sound Business Journal). Bellevue continues to experience auto sales growth, averaging 9% growth since 2012. This continues to be good news for the City and it is reflected in stronger sales tax receipts.

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, current year-end estimates, and amended budget. 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 second quarter.

Revenue

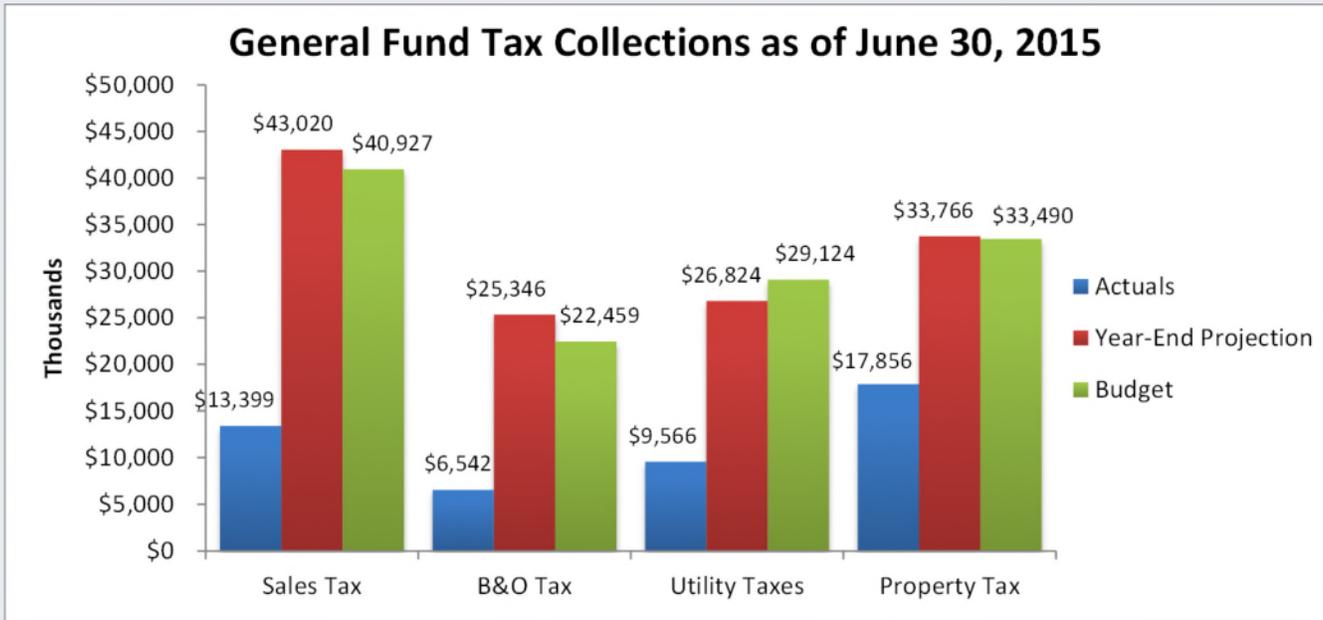
General Fund revenue is tracking above budget at this point with a variance of 0.4 percent greater than budget. Seventy one percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). Sales Tax and B&O are volatile and tied to economic conditions. One component of sales tax that is particularly cyclical is construction activity. 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. Both are tracking 0.4% above budget, much of the excess expenditures are covered by excess revenues (for example, ALS revenue). Expenditure estimates will be within total City appropriation since the City appropriates 100% of fund balance.

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

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and 2015 amended budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second 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 2.35% above budget. Taxes exceeding budget, like sales tax, are largely offset with taxes that are coming up short, such as utility taxes.

Sales Tax:

Sales tax is projected to be greater than budget due to continued development activity, specifically large construction projects. Construction sales tax is cyclical and is highly influenced by economic conditions.

Business and Occupation Tax (B&O Tax):

B&O tax is projected to be about \$2.9M above budget, comprised of approximately \$900K due to a large business audited in the prior year remitting their ongoing tax obligation, \$1M due to a one-time audit assessment, as well as about \$1M due to unanticipated development activity.

Utility Taxes:

Utility tax collections are projected to be below budget due to continued decline in Electric, Gas, Telephone and Cell Phone tax collections. Utility taxes have been trending down since the beginning of 2012. Electric and Gas tax collection decreases are due to conservation efforts. Cell phone utility taxes are trending down due to fewer land lines and a greater share of non-taxable data plans versus taxable voice plans. Despite strong water rate revenue, water utility taxes are expected to be in line with budget.

Property Tax:

Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. Bellevue's 2015 total levy rate is \$0.98 per \$1,000 AV which includes a \$0.10 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

General CIP Fund as of June 30, 2015 (000's)



*Includes historical carry forward and current period adjustments.

NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through June, 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 second quarter activities. Expenditures are based on actual activities performed through the second 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 and the Parks Levy. The 2015 CIP also includes a \$88.2 million bond issue which was finalized in the second quarter. 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. Miscellaneous revenues, which includes private donations, are keeping pace with schedule.

REET

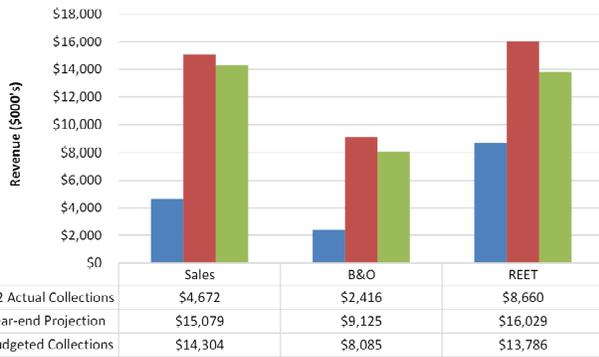
Real Estate Excise tax (REET) is projected to be in excess of budget. REET is restricted by council ordinance, 50% to Transportation and 50% to Parks. This year there have been 20 large transactions compared to 10 at this point last year. The Budget Office will continue to watch and reevaluate during the third quarter.

Expenditures

CIP expenditures are projected to be \$165 million at year-end. Expenditure projections include progress on large scale transportation projects (completion of the NE 4th St. extension, ongoing work on the 120th St. Stage 2 project), as well as finalizing large property acquisitions related to the Sound Transit East Link project.

Other expenditure highlights include the Parks Department's ongoing planning work on the Downtown Park projects. Construction is anticipated to begin in late 2015. The second quarter projections estimate CIP revenue to exceed expenditures at year-end.

CIP General Tax Collection Budget vs Q2 Actuals



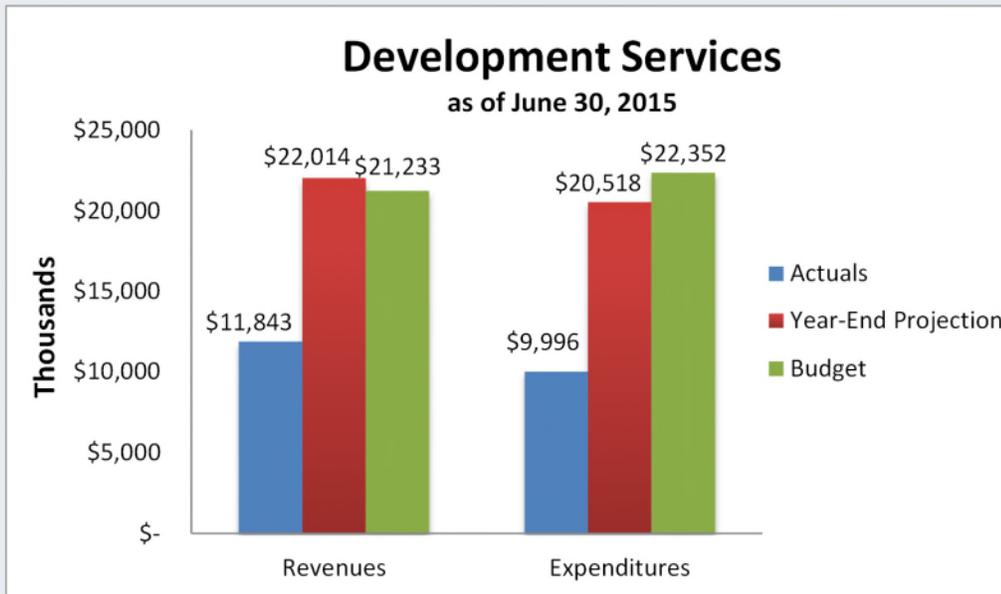
City of Bellevue Budget Monitoring Report

January 1 to June 30, 2015

DEVELOPMENT SERVICES PERFORMANCE

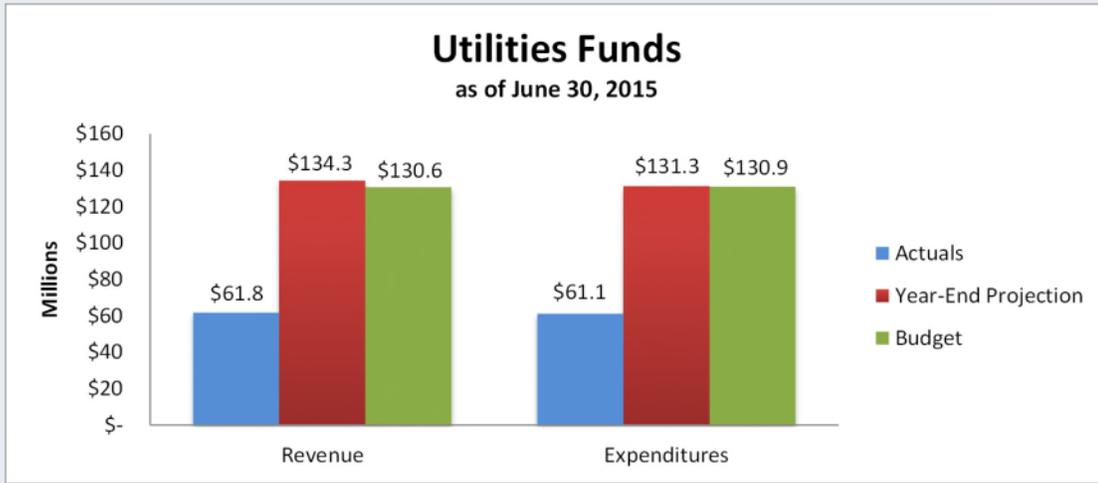


Bellevue Square Expansion—701 Bellevue Way



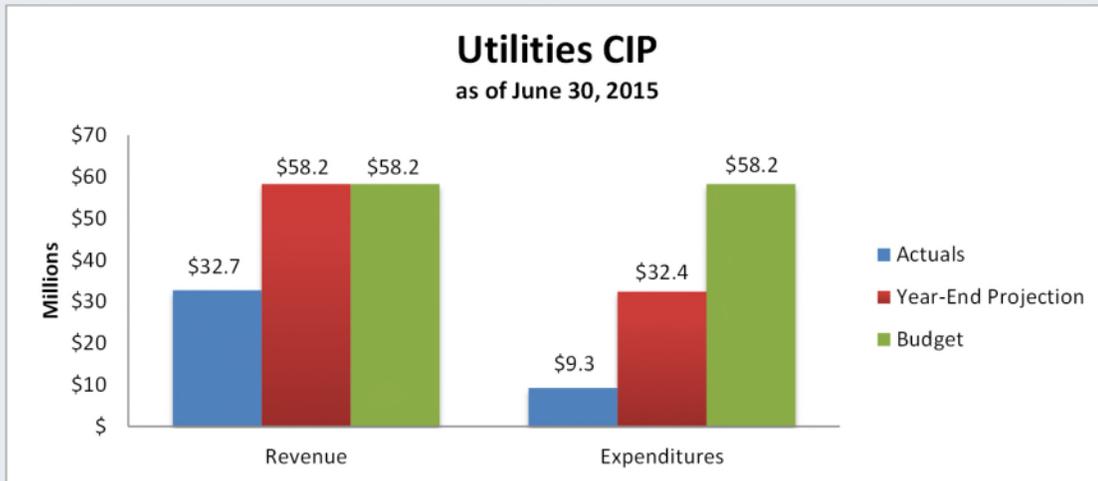
The Development Services fund activity remains at a high level with several projects in the construction process and additional projects in permit review. The project activity indicates that development in Bellevue will stay strong for the next few quarters. Development Services year-end expenditure projection reflects expenditure savings realized mainly through position vacancies that were added in anticipation of additional workload for the East Link Light Rail project and will be filled as workload demands.

UTILITIES OPERATING FUNDS



Utility operating revenues exceeded operating expenses through the second quarter. This trend is expected to continue for the remainder of the year due primarily to stronger than anticipated revenue from water sales and development activity. Year-end operating expenses (exclusive of reserves) are expected to be over budget, but within forecasted revenues, reflecting increased taxes as a result of stronger than anticipated water sales and operating expenses from capital outlays. These areas of over-expenditure will be largely offset by savings from personnel vacancies.

UTILITIES CIP



Utility CIP actual revenues include carry overs from the previous year. Revenues (exclusive of reserves) are expected to be at budget by year-end. CIP expenditures through the second quarter reflect projects under construction extended from 2014 and newly awarded in 2015. The CIP expenditure differential between year-end projections and budget reflect funding reserved for East Link and future Stream Restoration in the Bel Red corridor, and project delays due to Bel Red Road improvements.

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