



City of Bellevue

MEMORANDUM

Phone: 452-6846

Date: December 1, 2015

To: Mayor Balducci and City Council Members

From: Jan Hawn, Finance Director

Subject: 2015 Third Quarter Budget Monitoring Report

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

Key items – 2015 Third Quarter:

- The General Fund Revenue projections as of the third quarter of the year are slightly above budget by 1 percent and expenditure projections are above budget by 0.5 percent.
- 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,

A handwritten signature in blue ink, appearing to read "Jan Hawn".

Jan Hawn, Finance Director

Attachment

2015 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 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 third quarter. This report compares actual expenditures and revenues and year-end projections to the 2015 amended budget.

National Economy

The U.S. economy continued to grow at a tepid pace in the third quarter. Gross Domestic Product in the U.S. grew at an annual rate of 1.5%, down from a rate of 3.5% in the second quarter (US Bureau of Economic Analysis). According to analysts, the slowdown is a result of companies cutting down production due to fear of stockpiling inventory, even while consumer spending rose by 3.2% annually. A strong U.S. dollar continues to affect businesses with large international customers—making U.S. products more expensive overseas.

Businesses continue to keep an eye on activity at the Federal Reserve. Although the Fed did not raise interest rates in the third quarter, there is a growing belief among Fed officials that they will raise rates later this year. Overall, it has been five years since the Great Recession, and prudent financial planning requires starting to think about when the next recession may come.

Regional Economy

King County continues to experience increases in added jobs, employment, taxable retail sales, and the home price index. Neighboring municipalities of King County and the City of Seattle are experiencing higher than expected sales tax revenue due to construction.

Performance at a Glance

Pg. 2	General Fund Revenue Projection vs Expenditure Projection	+
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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	+

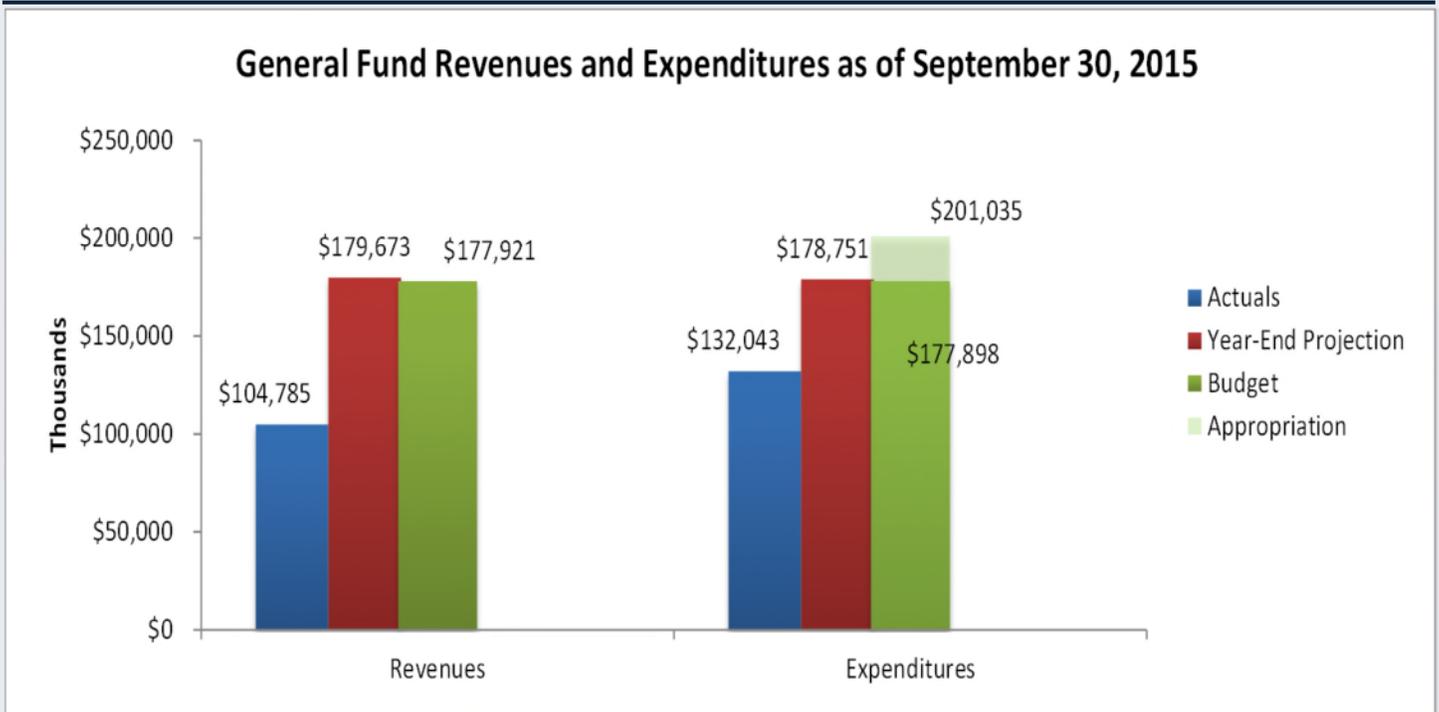
Legend:

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

Bellevue Economy

Bellevue continues to build up momentum as evidenced by the strong housing market and the number of large construction projects in progress. Bellevue home prices continue to perform well with assessed value growing by an average 14% in 2014, with the forecast for 2015 at 8% growth (Zillow). The Development Services Large Construction report for third quarter 2015 reports 11 major projects are under construction and another 20 projects are either in the pipeline, in land use and building review, or have issued land use and building permits.

GENERAL FUND PERFORMANCE



NOTE: 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.

Revenue

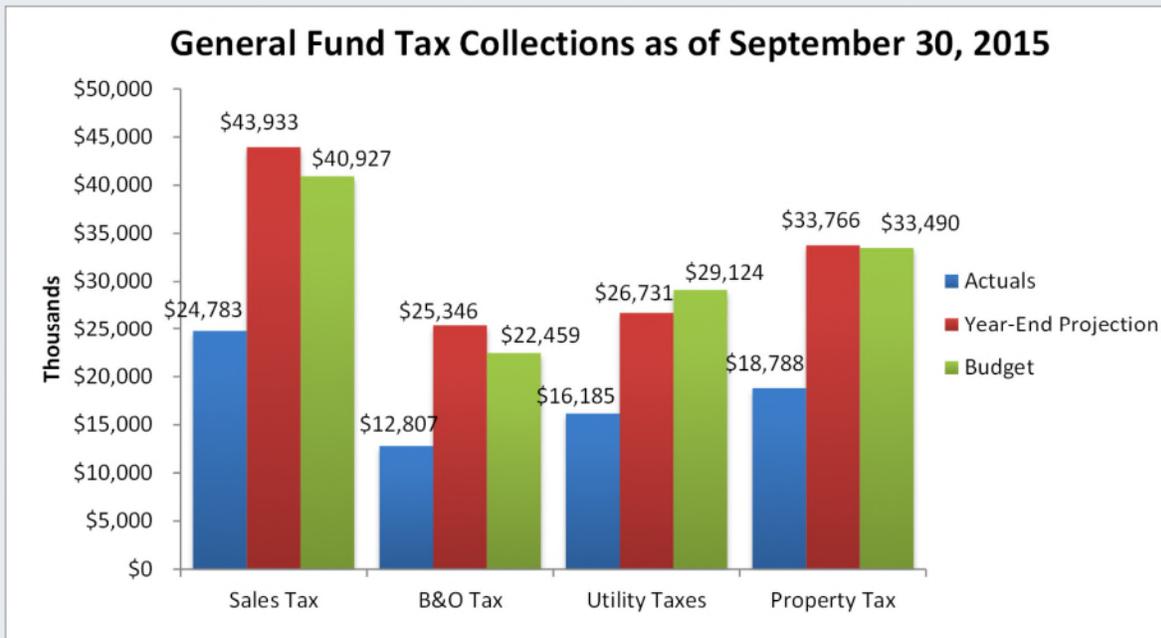
General Fund revenue is tracking above budget with a variance of 1% greater than budget. Seventy one percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The Bellevue economy is recovering nicely largely due to sales and B&O tax growth, buoyed by audit activity and construction growth. Some of this strong growth will continue on 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 conservation efforts, mild weather patterns, households abandoning landlines, and wireless phone companies shifting their service proportion more towards the untaxed data plans and away from voice services.

Expenditures

Year-end estimated revenues are projected to exceed year-end expenditures. Expenditures are tracking 0.5% above budget, due to expenditures 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 September, 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 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 3% 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 collections remain greater than budget due to continued higher than anticipated development activity, specifically large construction projects. 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. As learned in the aftermath of the Great Recession, sales tax growth from construction is at a minimum short term funding, and more likely, one-time funding.

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 development activity.

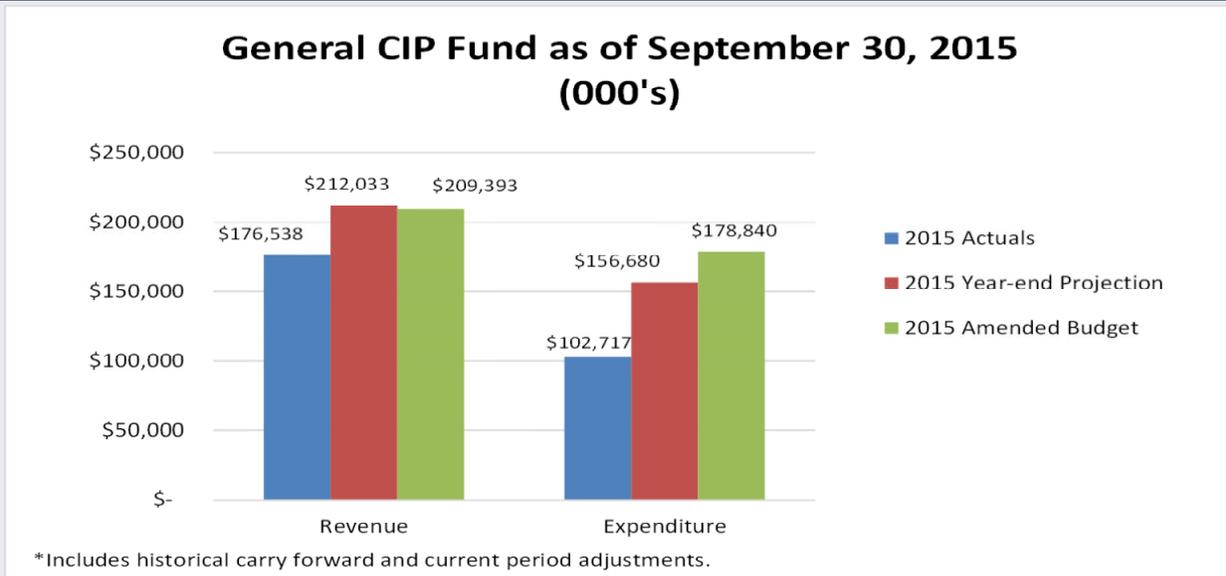
Utility Taxes:

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 assumed 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. The City's out year forecast is reflecting flat growth in the future.

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.

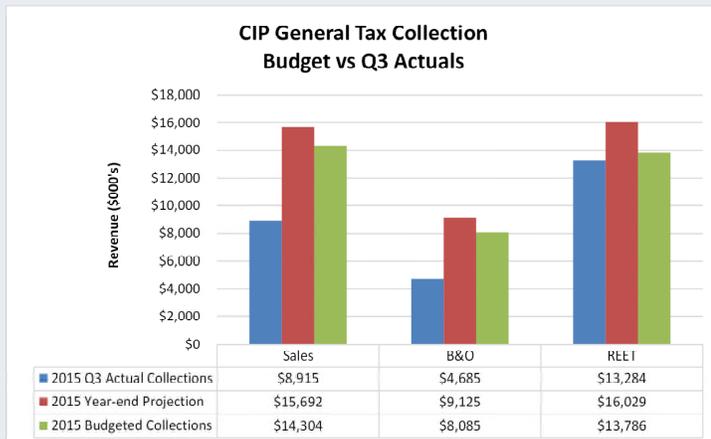
GENERAL CIP PERFORMANCE



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 and the parks levy. The 2015 CIP also includes an \$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 24 large transactions compared to 17 at this point last year. The Budget Office is forecasting year end to be greater than budget.

Expenditures

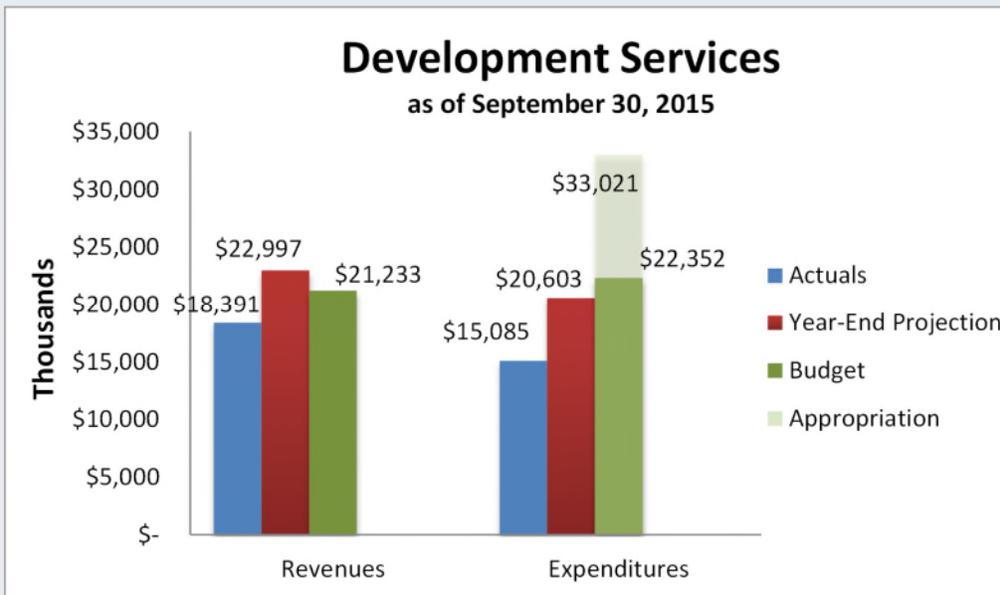
CIP expenditures are projected to be \$157 million at year-end. Expenditure projections include progress on large scale transportation projects (completion of the NE 4th St. extension, ongoing work on the 120th St. Stage 2 project and significant progress on the 2015 overlay program), as well as finalizing large property acquisitions related to the Sound Transit East Link project.

Other expenditure highlights include construction on the City Hall Parking Garage expansion project, which is schedule to be completed in 2016. The third quarter projections estimate CIP revenue to exceed expenditures at year-end.

DEVELOPMENT SERVICES PERFORMANCE

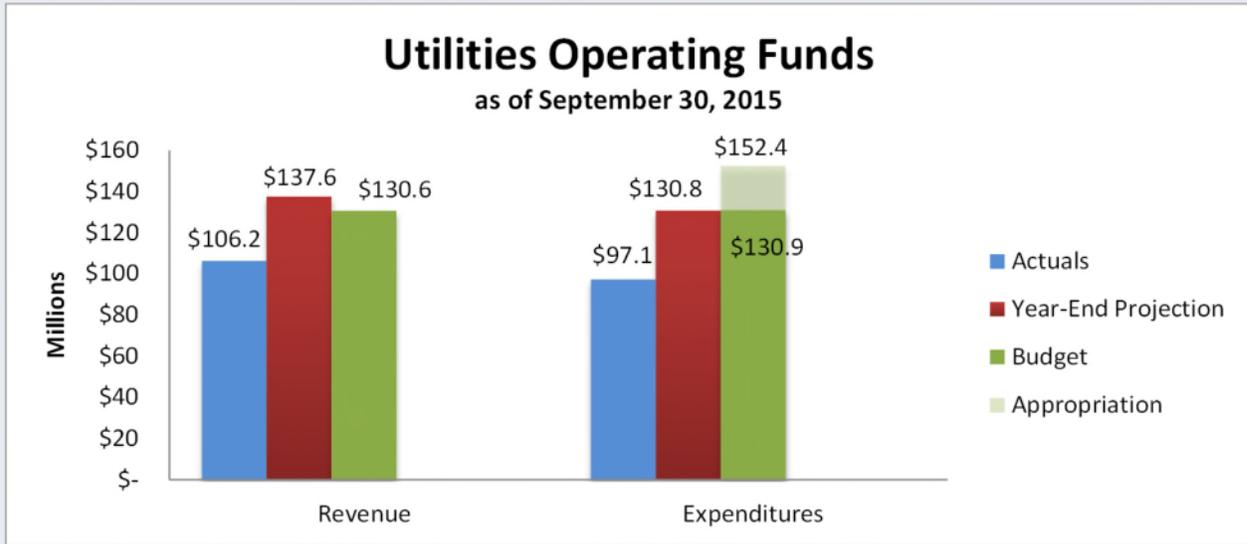


Bellevue Square Expansion—701 Bellevue Way



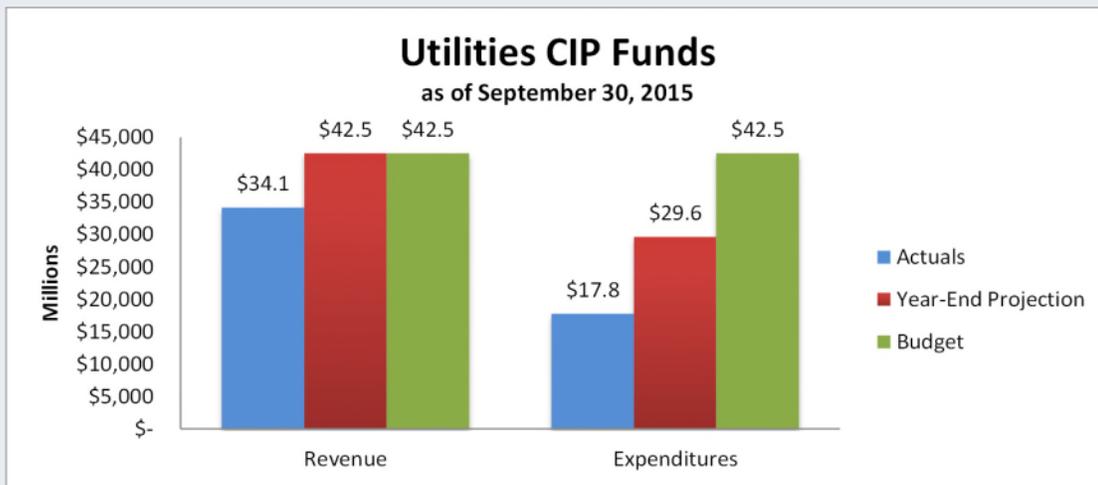
Development in Bellevue continues to experience high interest in major projects. Several new major projects are in construction or have permits approved to begin construction, of exceptional note are the new Lincoln Square II Expansion project and the Spring District. The Sound Transit East Link light rail project is also underway and is anticipated to spur long-term commercial and residential development in the city. Development Services year-end expenditure projection reflects expenditure savings realized mainly through position vacancies that were added in anticipation of additional workload for the Eastlink Light Rail project and will be filled as workload demands.

UTILITIES OPERATING FUNDS



Utility operating revenues exceeded operating expenses through the third quarter due primarily to stronger than anticipated revenue from water sales and development activity. Strong revenue collections over the summer are expected to offset the effects from lower water sales from the curtailment advisory. Year-end operating expenses (exclusive of reserves) are expected to be close to budget.

UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8M for East Link (W-107, S-70, D-108), \$5.6M future Bel-Red stream restoration (Mobility & Infrastructure Initiative; D-104), and \$1.3M Water facilities for NE 15th Street Multimodal Corridor (W-105).

Revenues (exclusive of reserves) are expected to be at budget by year end. CIP expenditures through the third quarter reflect projects under construction extended from 2014 and newly awarded in 2015. Key factors contributing to the variances in actual year-end expenditures include project under expenditures due to timing of construction activity and project schedule changes as a result of completion of the water system plan.