



City of Bellevue

MEMORANDUM

Phone: 452-7863

Date: June 3rd, 2016

To: Mayor John Stokes and City Council Members

From: Toni Rezab, Acting Finance Director

Subject: 2016 First Quarter Budget Monitoring Report

Attached is the 2016 First Quarter Budget Monitoring Report for the period ending March 31, 2016. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items – 2016 First Quarter:

- The General Fund Revenue projections as of the first quarter of the year are slightly above budget by 0.27% and expenditure projections are above budget by 0.27%.
- All funds are performing within total appropriation authority.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Toni Rezab", with a long, sweeping flourish extending to the right.

Toni Rezab, Acting Finance Director

Attachment

2016 First Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through March 31, 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 first quarter. This report compares actual expenditures and revenues and year-end projections to the 2016 amended budget.

U.S. Economy

Both the U.S. and Global economy weakened early this year due to oil price declines, a slowdown in China, the increasing recession fears, and concerns about the U.S. presidential election outcome. Based on the major economic indicators, economic growth slowed more than expected in the first quarter. The deceleration in real GDP in the first quarter reflected a larger decrease in nonresidential fixed investment, a downturn in federal government spending, an upturn in imports, and larger decreases in private inventory investment and in exports that were partly offset by an upturn in state and local government spending and an acceleration in residential fixed investment. (Source: Bureau of Economic Analysis)

Nationally, the economy is growing at a slower pace, though solid gains in employment, real disposable income, and household net worth will support consumer spending. Home prices are expected to have a slower but steady growth, and the oil price is forecasted to rebound from its record low (Source: EIA). Foreign trade will have a negative impact on real GDP growth because of a strong dollar and sluggish growth in major export markets. The Federal Reserve is anticipated to gradually raise the federal funds rate. (Source: IHS Global Insight)

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 as Compared to Budget	+
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%
- o Negative variance of 1-4%
- Negative variance of > 4%

Regional Economy

The Puget Sound economy is going strong compared to the nation. Solid gains in employment, real disposable income, and household net worth are supporting consumer spending growth.

However, the latest Puget Sound employment data shows slower growth in employment and the Puget Sound economy is predicted to decelerate, causing the regional and national growth rates to converge. This implies that if the nation avoids a recession over the next few years, so will the region. (Source: PSEF March Release)

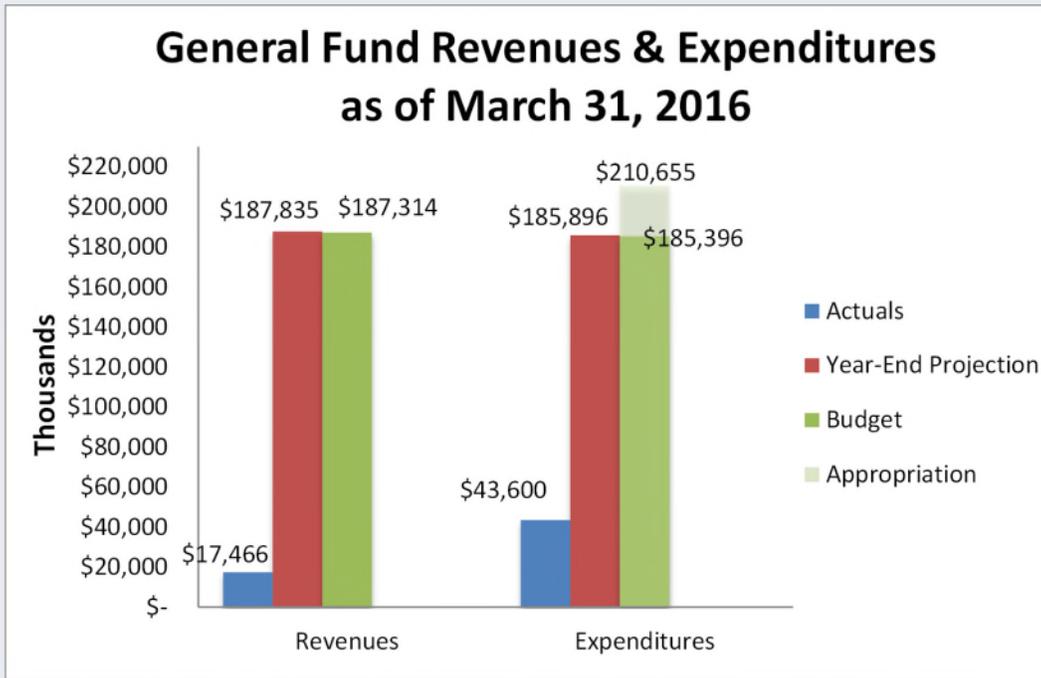
Bellevue Economy

Bellevue's economy is largely driven by consumer spending due to a large retail presence as well as many car dealerships. The factors that drive consumer spending are recovering well locally, with per capita income growing at a healthy pace and home price recovery outpacing the rest of the Puget Sound communities. These measures lead to more construction activities and consumer spending. Bellevue has seen this in terms of sales tax collections.

Bellevue home prices have rebounded much faster than the nation or even the rest of the Seattle Tacoma Bellevue Metropolitan Statistical Area. Bellevue has now surpassed the home value that was lost in the recession (not adjusted for inflation). Home prices have been a key measure to show how well the economy has recovered from the recession. The median home value in Bellevue is currently \$660,100. Bellevue home values have gone up 9.5% over the past year and Zillow predicts they will rise 4.6% within the next year. (Source: Zillow Research (<http://www.zillow.com/research/>)).

Bellevue's economy is largely dependent on the two most volatile taxes: Sales Tax and B&O Tax. Together, Sales Tax and B&O Tax make up 38% on average since 2004 of the City's General Fund revenue. These two taxes are strongly affected by the national and regional economic environment. As the national fear of recession increases, along with the economic uncertainty of an election year, the local building boom might be reaching its peak, and the employment growth slowing down, the Budget Office continually reviews Bellevue's economic indicators.

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through March, 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 first quarter activities. Expenditures are based on actual activities performed during the first quarter.

Revenue

General Fund revenue is tracking above budget with a variance of less than half a percent 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 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 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.

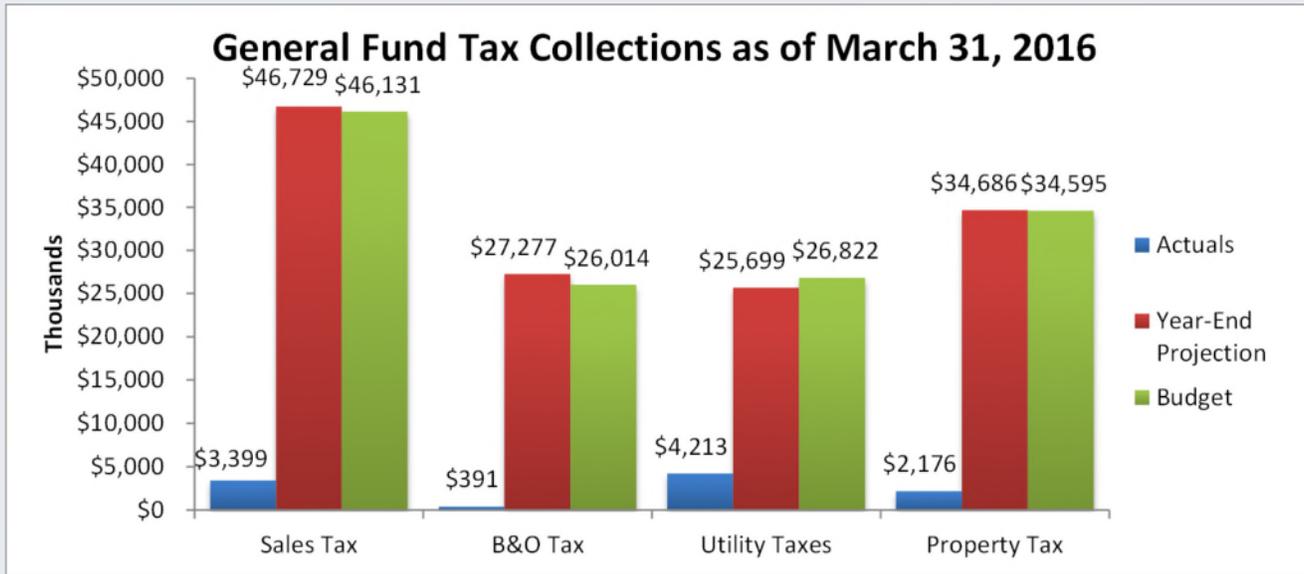
Expenditures

Year-end estimated revenues are projected to exceed year-end expenditures. Expenditures are tracking 0.27% above budget, however, they are attributable to increased expenditures with direct revenue offsets. For example, Advanced Life Support (ALS) revenues directly offset 100% of ALS expenditures.

Expenditure estimates will be within total City appropriation since the City appropriates 100% of fund balance.

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 March, 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 first 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 one half percent 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 are projected slightly 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 \$1.2M above budget, comprised of approximately \$800K due to a large business audited in the prior

year remitting their ongoing tax obligation, as well as about \$300K due to development activity.

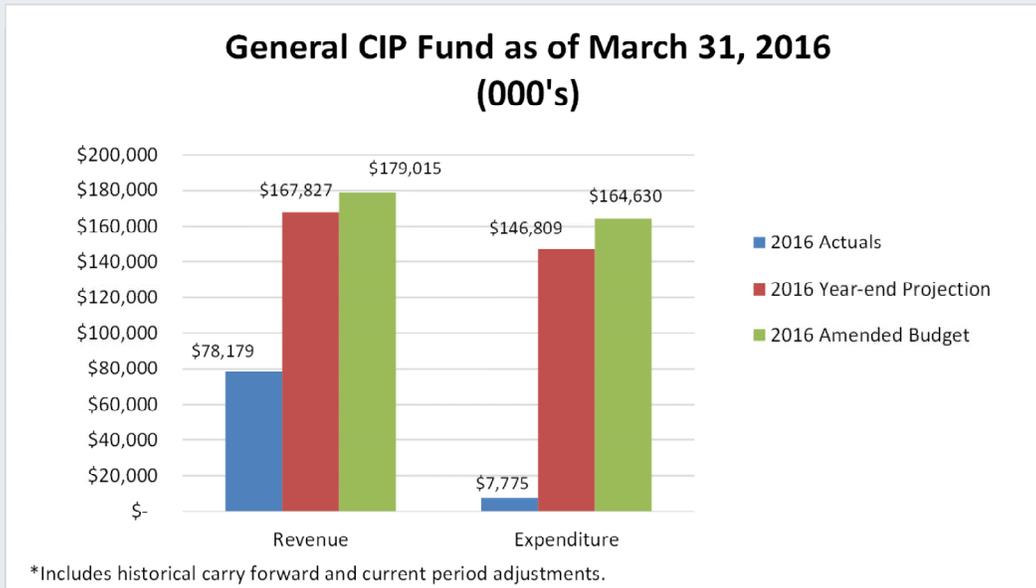
Utility Taxes:

Utility tax collections are projected to be below budget due to continued decline 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 is reflecting flat growth in the future. Electric and gas tax collection decreases are assumed due to conservation efforts.

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.

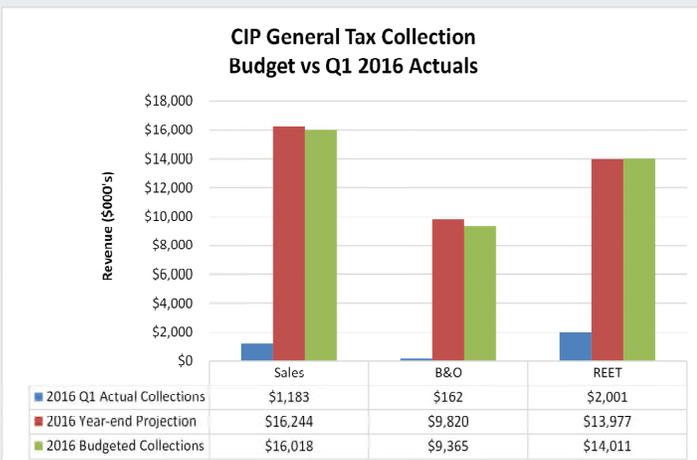
GENERAL CIP PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through March, 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 first quarter activities. Expenditures are based on actual activities performed through the first 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 \$73.7 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

Real Estate Excise Tax is projected to be closely in line with 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

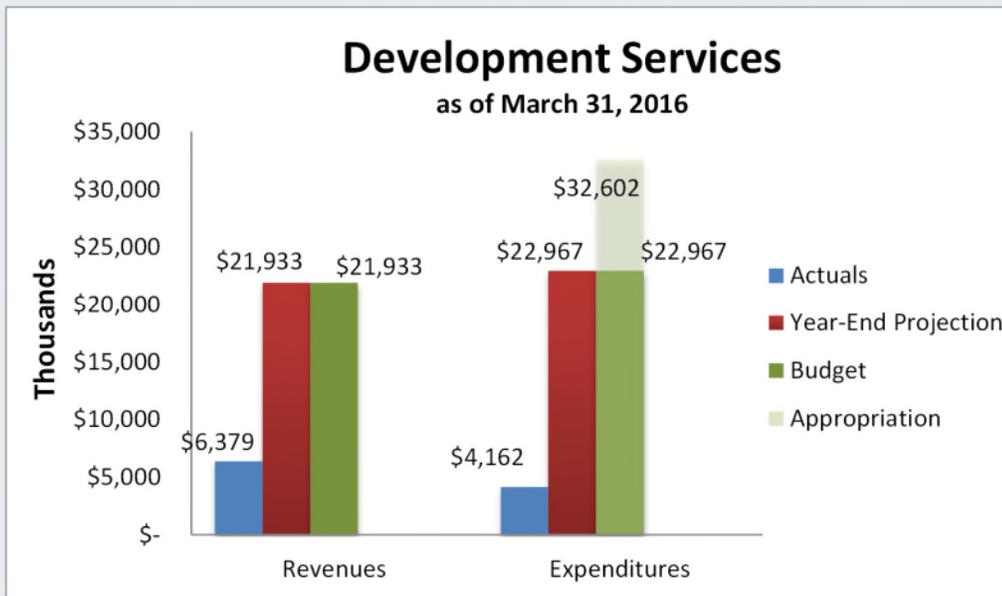
CIP expenditures are projected to be \$146.8 million at year-end. Expenditure projections for 2016 include progress on large scale transportation projects (completion of the 120th St. Stage 2 project and ongoing design and engineering on Spring Boulevard Zone 1) and the start of construction on the Downtown Park project.

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

DEVELOPMENT SERVICES PERFORMANCE

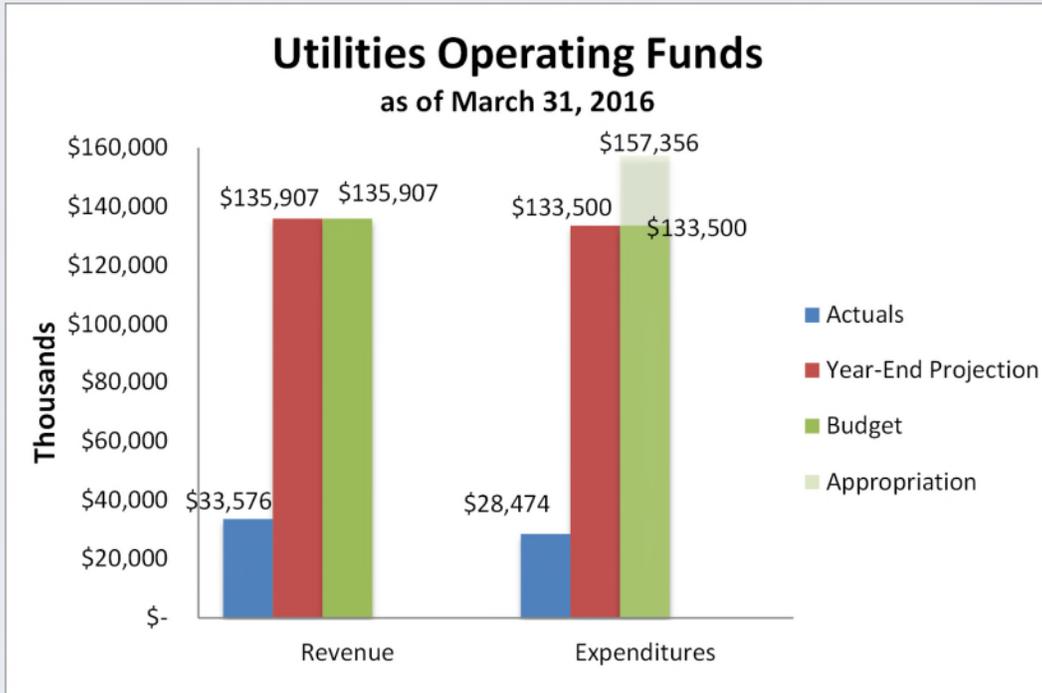


Bellevue Square Expansion—701 Bellevue Way



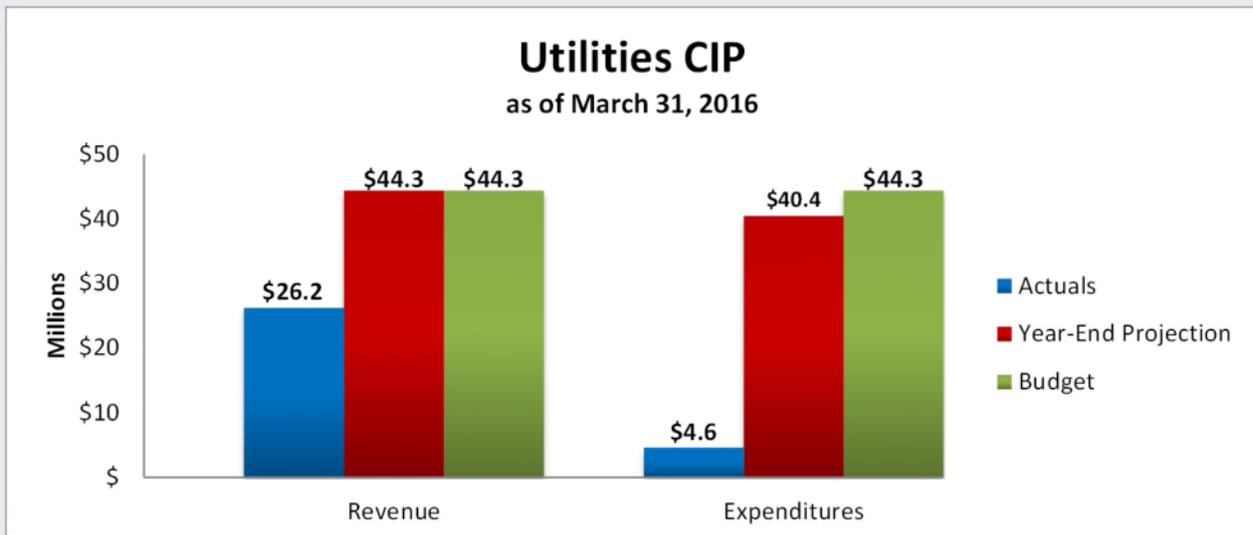
Development in Bellevue continues to experience high activity as several projects are in construction or have permits approved to begin construction. The Sound Transit East Link light rail project is also underway and is anticipated to spur long-term commercial and residential development in the city.

UTILITIES OPERATING FUNDS



Utility operating revenues were sufficient to cover expenses in the first quarter. Through the first quarter there have been no significant variances from expected results. Year-end revenues and expenses are forecasted to be at budget by year-end.

UTILITIES CIP



Utility CIP first quarter actual revenues exceed expenses, reflecting carry overs from the previous year. Revenues (exclusive of reserves) are expected to be at budget by year end. First quarter CIP expenditures reflect projects under construction. Year-end projected under-expenditures reflect anticipated timing of project activities. The figures below exclude reserves for Eastlink and long-term funding for stream restoration initiatives in the Bel-Red corridor.

City of Bellevue Budget Monitoring Report

January 1 to March 31, 2016