2015-2020 General Fund 6-Year Forecast Detail

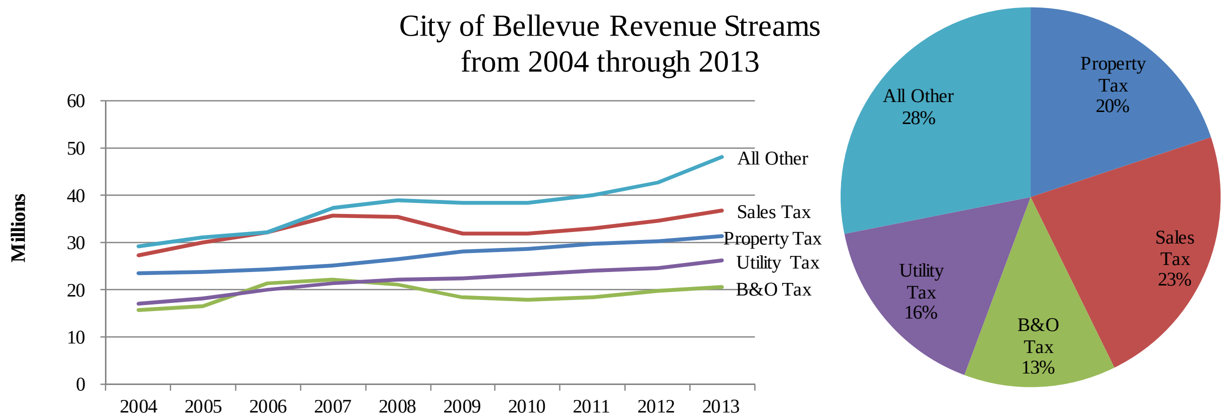
Executive Summary:

- ***The 2015-2020 forecast shows recovery, with growth back to the 15 percent fund balance level by 2019 at staffing levels based on the 2015-2016 Preliminary Budget.***
- ***2014 revenues continue to meet overall budget projections.***
- ***Includes the utilization of 5 percent of the City's property tax banked capacity with an equal an offsetting reduction in sales tax transfer to the Capital Investment Plan Fund.***
- ***No other tax increase (beyond the 5% banked capacity) is assumed in the forecast.***
- ***Sales and B&O tax growth is expected to continue, with a return to pre-recessionary levels in real dollars by 2015.***
- ***Sales tax forecast is in line with neighboring jurisdictions of King County and Seattle.***

General Fund Revenue Discussion

General Fund revenue growth is a mixture of sources that grow at rates ranging from 1 percent to 10 percent, depending on the economic environment. These revenue sources falls into essentially five categories: Property Tax, Sales Tax, Business and Occupation Tax (B&O Tax), Utility Tax and the catch all, "all other" revenue. Sales and B&O Tax, comprising 36% of revenues, are highly volatile. To illustrate the volatility, annual Sales and B&O tax growth combined have been as high as 12 percent and as low as a loss of 14 percent since 2000. Since there is such a large difference in revenue growth, sources that grow the fastest over time, will become a larger piece of the total revenue picture. These faster growing sources are also the most volatile and economically driven exposing the City to more economic risk. In the days of globalization, international risks can affect the City's revenue. This is especially true with the many companies in the Puget Sound and in Bellevue that conduct business around the world. If global demand falls for these international local workers will be affected and may result in a drop in per capita spending. Current areas that can potentially affect the City's fiscal condition are a slowdown in demand in China and European economic stagnation.

Chart 1



General Property Tax

The budget proposes a 5 percent increase in property tax through the use of the City's banked capacity. The increase in property tax is intended to keep general fund operations at its current level while additional Sales Tax is used to pay for debt service on a $25 million issue of long term debt. In a normal year, General Property Tax is the most stable of all the taxes.

Historically the City has not taken its allowable annual Property Tax increase of either the lesser of 1 percent or the implicit price deflator (IPD) consistently. Rather than taking that increase the City has chosen to bank that allowable increase (known as "banked capacity") for future use. The Council has not raised property tax in many years for operations, but has approved the use of banked capacity to offset a Sales Tax transfer to the General CIP to support capital projects on three occasions (2 percent each year in 2007 and 2008 and 3 percent in 2009). The proposed 5 percent use of banked capacity is intended to be used in the same manner as in 2007, 2008 and 2009.

Aside from Property Tax increases and annexations, new construction is generally the only cause of an increase in the Property Tax levy. New construction varies year to year dependent on the level of development activity fueled by a growing economy. Historically new construction contributes approximately 1.9 percent to the levy and within that time frame the annual increase to the General Property Tax levy has ranged from 0.3 percent to 5.0 percent. Downtown development of high-rise buildings has been the catalyst of the disproportionately high amounts of new construction.

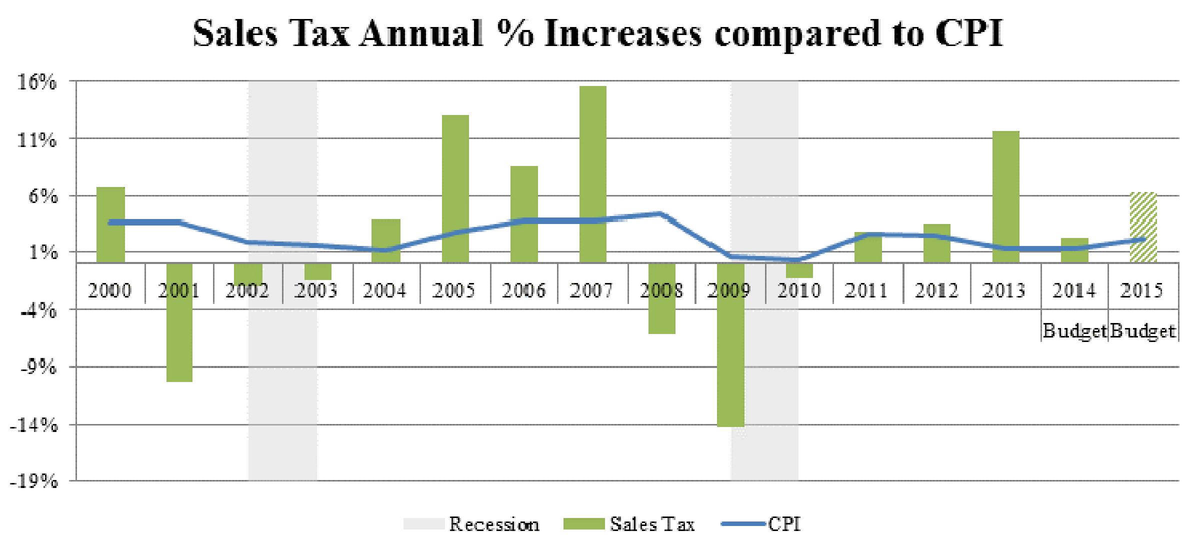
General Property Tax is levied as a dollar amount on the value of real and personal property. The tax rate is calculated by dividing the levy amount by the assessed value. This method for determining property tax means the rate may fluctuate depending on assessed value.

Bellevue's Property Tax is one on the lowest in King County. In 2014, only 11 percent of a property owner's tax bill will be collected by the City of Bellevue, and the remaining 89 percent will be remitted to King County, the State, schools, and other taxing jurisdictions.

Retail Sales/Use Tax

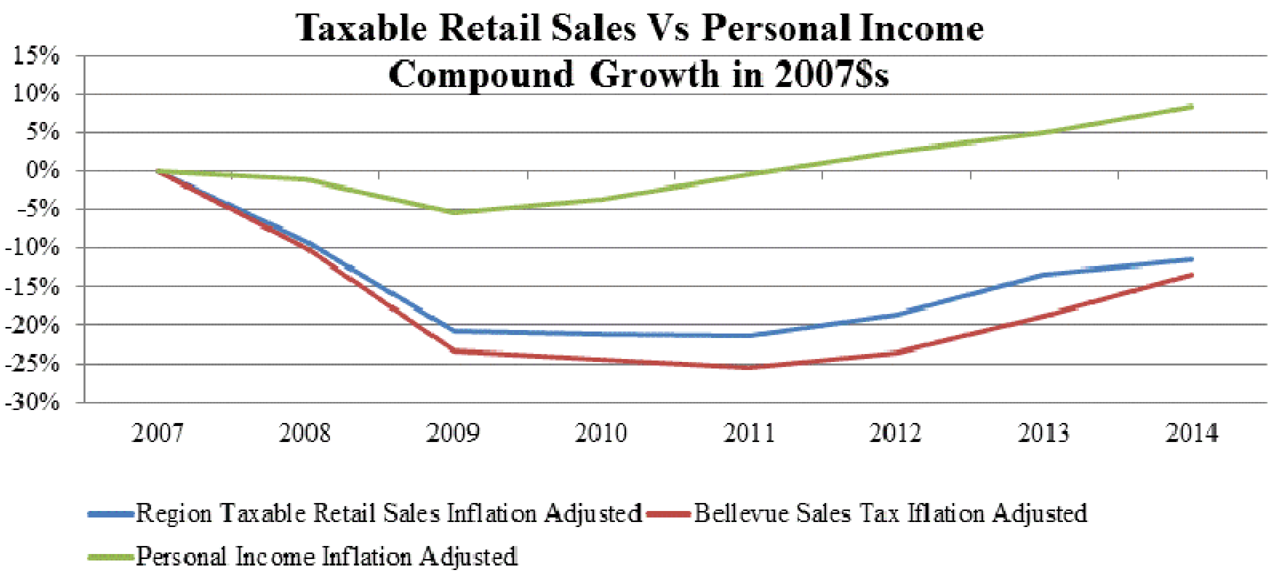
The City collects 0.85 percent tax on retail goods and services. Sales Tax revenue is the most volatile revenue the City's General Fund collects. During the recession, Sales Tax collections fell 21 percent from their peak in 2007 to the trough of the recession in 2010. Chart 2 shows the Sales Tax growth since 1999, and is shown compared to the Consumer Price index to demonstrate the magnitude of growth and volatility.

Chart 2



Sales Tax collections have been set back severely by the great recession. Personal expenditures dropped greatly through the recession and so did sales tax as a result of this change in behavior. In nominal dollars the City is close to getting back to its prerecession sales tax peak. However when adjusting for inflation, the City is still far behind its prerecession peak. Chart 3 shows the difference in growth between personal income and sales tax growth. What is notable from this chart is that personal income has recovered much more quickly than sales tax growth and this is a result of people's personal spending habits changing due to the recession.

Chart 3



Sales Tax is reported to the City by sectors. The major sectors for Bellevue are retail sales, construction, and auto sales, which together comprise 60 percent of sales tax revenue; all other retail sales tax sectors make up the balance. Construction has been slowly increasing over the last few years and recently has started to show stronger growth. Construction of buildings is forecasted to grow at nearly 43 percent in 2014, 26 percent in 2015 and 19 percent in 2016.

Due to the increasing level of growth, construction is now contributing to the overall increase in sales tax revenues. Construction was a driving force in the City's revenue growth leading up to the recession of 2007. Before the recession, construction accounted for 22 percent of Sales Tax revenue, but only 14 percent in 2013. 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.

Retail sales is a broad category that is comprised of both durable and non-durable goods. The Great Recession has had a profound effect on the City's sales tax collections. On a nominal dollar basis the City has recovered, but on a real dollar basis this is not the case. In the seven year since the pre-recession peak, purchacing power has been eroded meaning a dollar today does not buy as much as it did in 2007. Chart 3 compares growth of personal income and sales tax in 2007 dollars. The chart indicates that purchasing habits have changed and people are not buying as much as they once did as a percent of their total income.

Bellevue is a regional hub for retail stores spanning the Downtown core and other areas of the City, as well as many big box retailers. Having a significant retail presence has been very beneficial to the City drawing shoppers from outside Bellevue; however it also represents a risk. If a person from outside Bellevue usually shops in Bellevue and then decides to instead shop online instead, the sales tax generated will be lost to the city the purchaser is located. Auto sales are a sub-set of retail sales, but due to the relative size of auto purchases, are tracked and forecasted separately.

Chart 4 shows historical Sales Tax collections and the forecast for Sales Tax out to 2020. As depicted in the table, the City is forecasting a return to pre-recessionary levels by 2015 in real dollars. King County, and the neighboring cities of Kirkland and Redmond, are forecasting similar trends.

Chart 4

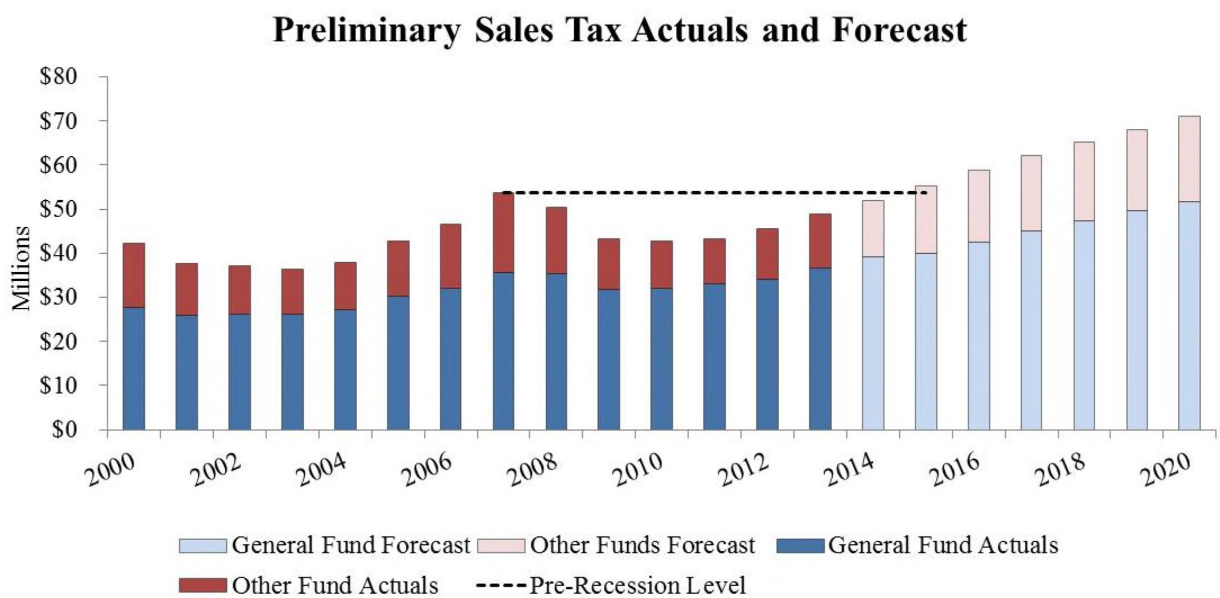


Table 1 provides a comparison of the City's sales tax forecast to King County and Washington State.

Table 1

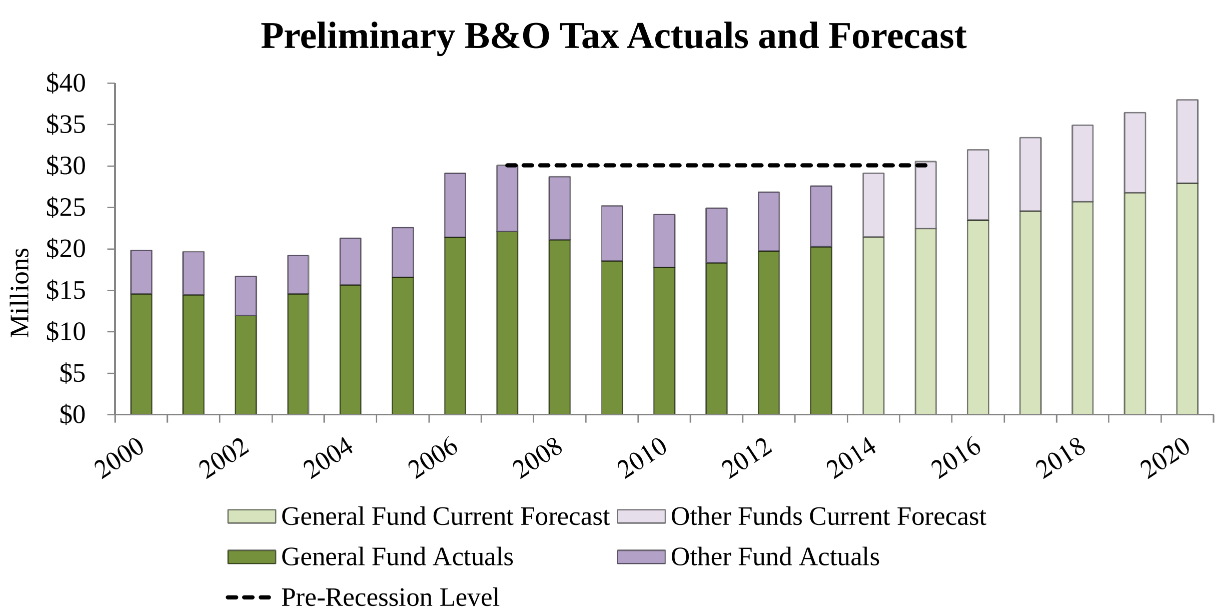
	2013	2014	2015	2016	2017	2018	2019	2020
Bellevue	7.6%	8.1%	4.7%	6.5%	5.4%	5.0%	4.6%	4.4%
King County Retail (August)*	7.3%	7.2%	4.9%	4.9%	4.9%	4.6%	4.2%	4.1%
Washington State (September)	6.7%	6.4%	5.1%	5.0%	4.9%	4.6%	4.2%	NA

*(65% Confidence Interval)

Business & Occupation Tax

Business and Occupation (B&O) Tax is made up of two parts, gross receipts and square footage taxes. This revenue, like Sales Tax, is subject to volatility brought on by economic risk. During the recession, B&O Tax collections fell 20 percent from the peak. Over the last 10 years, B&O Tax accounted for 14 percent of the City's General Fund revenue. B&O is projected to return to pre-recessionary levels by 2015 as reflected in Chart 5. During the recession B&O Tax was also subject to legislative changes which had a negative effect. These changes, called allocation and apportionment rules, have hindered the recovery because it reduced the tax base the City collected. Another factor that may cause additional volatility for B&O is audit activity. The City continually monitors B&O tax payers and has audit finding that require either a refund to the tax payer or an additional payment to the City. In the past few years audit activity has accounted for as much as $2.8 million dollars in a single year.

Chart 5



Utility Tax

Utility Tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. Aside from telephone and cellular phone taxes, Utility Taxes are fairly stable, rarely declining from year to year. A couple areas of note:

- In the last few years Electric and Natural Gas Utility tax collections have flattened out due to conservation efforts and mild weather patterns.

- Telephone and cellular phone taxes are expected to flatten due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including Excise Taxes, Sales Tax Annexation Credit, Penalty/Interest Delinquent Tax, Licenses and Permits, Intergovernmental – State and Other Cities, Charges for Goods and Services, Fines/Forfeits, and Other Miscellaneous Taxes and Revenues.

Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire EMS services, etc.). State funding, sometimes referred to as State-Shared Funds, consists of distributions from State taxes such as liquor excise tax and Liquor Board profits. In the 2011 State Legislative session, State-shared revenue was reduced to help fill the budget gap at the State level. Liquor excise tax distributions to cities were eliminated entirely for the State's Biennial Budget. This elimination of liquor excise tax was scheduled be reinstated after the end of the budget cycle; however, during the 2013 Legislative Session, the revenue was reinstated at only half of what it had been. The forecast reflects these changes.

General Fund Forecast

As of the publication of the second quarter 2014 financial report, estimates put revenue equal to expenses for the General Fund. The Estimated Budget for 2015-2016 shows a slight increase in fund balance, and the forecast for 2015 to 2020 shows revenues exceeding expenditures and growing fund balance to 15 percent by 2019 in line with the City's financial policies. The forecast assumes that one-time or short-term expenditures do not reoccur in the future.

Rebuilding fund balance is important as it illustrates the City's ability to protect essential service programs during economic downturns and natural catastrophes or other unforeseen major events. Maintaining fund balance directly contributes to the City's AAA bond rating, which will keep the City's cost of borrowing as low as possible and provide a tangible public indicator of the City's strong financial condition.

Since fund balance is calculated as a percentage of revenue, in order to grow the fund balance percentage back to 15 percent, the actual fund balance must increase. As displayed in Table 2 below, the City's fund balance level is at 13.7 percent, down from 14.2 percent in 2013. This drop of ending fund balance results from not projecting a contribution to fund balance at year end 2014. The City would have needed to add $2.1 million to fund balance to bring it to the target level of 15 percent in 2014. To simply maintain fund balance target percentage, the City must add $800,000 annually in subsequent years.

2015-2016 Preliminary Budget

2015-2020 General Fund 6-Year Forecast Detail

As with all forecasts, this is a best estimate of the future. It represents the collection of all fiscal information known as of September 2014. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/ October (as either the Adopted Budget or Mid-Biennium Update is before Council).

Table 2

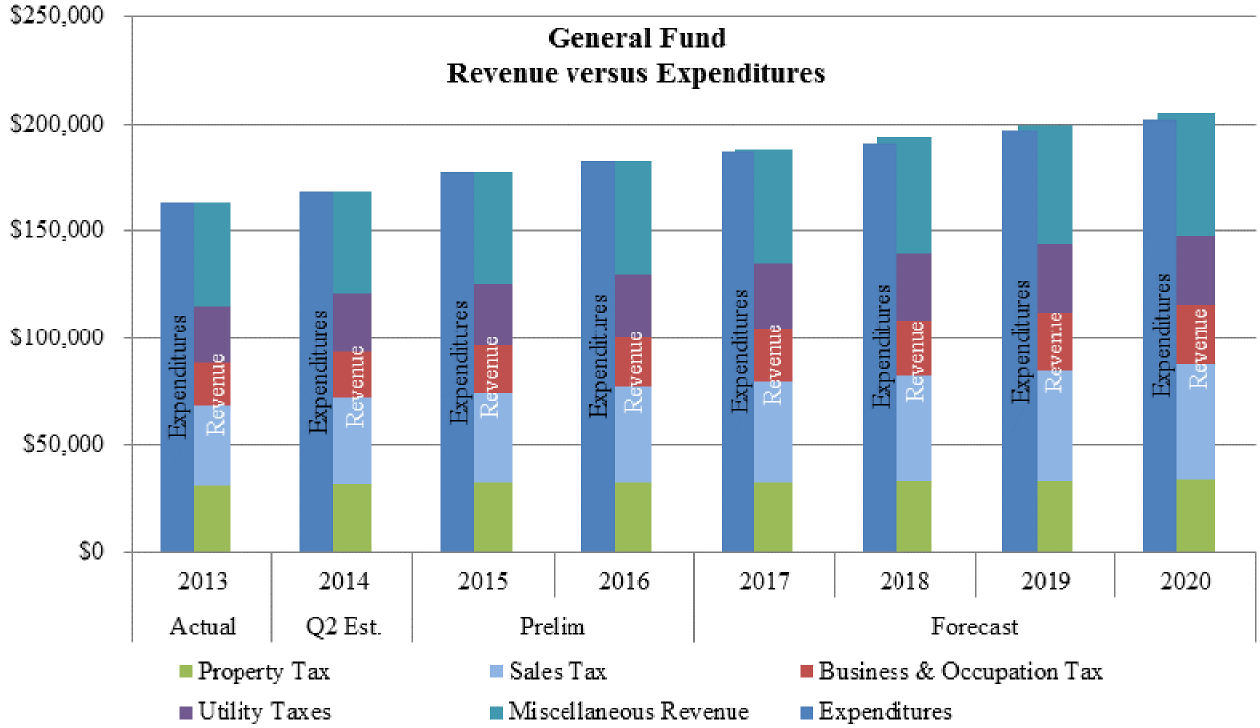
General Fund Forecast
(in $000)

	Actual	Q2 Est.	Prelim		Forecast			
	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Fund Balance	$23,407	$23,114	$23,114	$23,151	$23,149	$24,096	$27,072	$30,354
Revenue								
Property Tax	$31,282	$32,189	$34,209	$34,404	$35,020	$35,500	$35,985	$36,479
Sales Tax	36,789	39,751	39,886	42,598	44,979	47,309	49,548	51,795
Business & Occupation T	20,477	21,390	22,459	23,477	24,573	25,684	26,791	27,927
Utility Taxes	26,207	27,724	29,124	29,586	30,382	31,132	31,814	32,428
Miscellaneous Revenue	47,963	47,125	50,387	51,316	51,849	53,289	54,716	56,022
Over Collection	0	0	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenue	$162,717	$168,179	$177,566	$182,882	$188,302	$194,413	$200,353	$206,151
%Δ Total Revenue		3.4%	5.6%	3.0%	3.0%	3.2%	3.1%	2.9%
Expenditures								
Personnel	$100,890	$105,937	$111,040	$115,018	$118,046	$120,540	$124,620	$128,756
Maintenance & Operation:	62,120	62,241	64,790	66,165	67,609	69,198	70,750	72,345
Under Expenditure	0	0	1,700	1,700	1,700	1,700	1,700	1,700
Total Expenditures	$163,010	$168,179	$177,529	$182,884	$187,355	$191,438	$197,071	$202,801
%Δ Total Expenditures		3.2%	5.6%	3.0%	2.4%	2.2%	2.9%	2.9%
Ending Fund Balance	$23,114	$23,114	$23,151	$23,149	$24,096	$27,072	$30,354	$33,704
EFB as a % of Revenue	14.2%	13.7%	13.0%	12.7%	12.8%	13.9%	15.2%	16.3%

Notes:

- Figures may not foot due to rounding
- 2015 and 2016 reflect the Preliminary Budget. These figures will change as the final budget is adopted.
- The Forecast 2014 Quarter 2 Year End Estimate, the 2015-2016 Preliminary Budget and 2017 to 2020 Forecasts.
- 2015 Fund Balance reflects estimated 2014 year-end results based on 2nd quarter monitoring.
- Includes the use 5% of banked capacity in 2015 with an equal and offsetting sales tax transfer to the Capital Investment Plan. 2016 to 2021 property tax growth due to new construction only.
- Pay as you go LEOFF payments begin in 2019 at $2.3 million/year based on the 2013 LEOFF Actuarial Report.
- 2017 expenditures reflect the reduction of LTEs with a corresponding reduction in Labor Distribution Revenue.
- Beyond the 2015-2016 Preliminary Budget, staffing levels are assumed to be status quo, with no new capital purchases and no increase in FTEs.
- Annexation Sales Tax Credit ends in 2022; future forecasts will show this reduction in revenue.
- Assumes plan design changes over next several years to avoid tax penalties imposed by the Affordable Care Act.
- This forecast includes CPI-W at 2.2% for 2015 and 2.4% for 2016, current staffing levels, and known mandated expenses.
- The increase in personnel costs from 2014 to 2015 are primarily driven and supported by labor distribution from the General Capital Investment Plan.

Chart 6


General Fund
Revenue versus Expenditures
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Expenditures
Revenue
2013
2014
2015
2016
2017
2018
2019
2020
Actual
Q2 Est.
Prelim
Forecast
Property Tax
Sales Tax
Business & Occupation Tax
Utility Taxes
Miscellaneous Revenue
Expenditures