

BUDGET MONITORING REPORT



April 26, 2011

For the Period of January to December 2010

Performance at a Glance

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Positive = Positive variance or negative variance < 1% compared to seasonal trends.

Warning = Negative variance of 1-4% compared to seasonal trends.

Negative = Negative variance of > 4% compared to seasonal trends.

Economic Indicators

Puget Sound Economy

The regional economy remains weak at year-end 2010. Local economists have noted that employment has not improved as hoped over the past year, retail sales recovery has been slower than expected and home sales remained depressed. While the recovery has been slow, economic indicators suggest that a national recovery is ready to launch. Local economists are projecting the regional recovery to occur at about the same time as the Nation. As employment growth accelerates over the next two years, the economy will once again expand.

Annual Percent Change

	2009 Actuals	2010 Actuals
Employment	-4.9%	-1.9%
Personal Income	-1.6%	1.9%
Housing Permits	-50.1%	22.9%
Average Home Price	-11.7%	-2.3%
Taxable Retail Sales	-12.3%	-1.0%

Source: Puget Sound Economic Forecaster

Bellevue Economy

Bellevue Central Business District Office Vacancy Rates was 16.6% in the 4th Quarter of 2010. This is up only slightly from the 3rd quarter (16.2%). Bellevue's Class A asking rate continues to outpace neighboring areas. CB Richard Ellis indicates that technology companies are projected to grow in 2011 which should have a favorable impact on the Eastside's office market. Source: CB Richard Ellis.

Bellevue's taxable retail sales were up 0.9% in the 4th Quarter of 2010 compared to 2009. Retail trade and manufacturing continue to show improvement while construction and services remained below 2009 experience. Overall, sales tax collections were below expectations for 2010.

Economic Performance

The regional economy ended the year below economists' expectations. Local economists had projected a slow recovery, but ongoing signs of recovery have failed to materialize.

Unemployment was at 8.7% at the end of 2010 for the Seattle-Bellevue-Everett MD. Employment was nearly flat at year-end, although there was growth in retail trade and manufacturing, especially aerospace manufacturing. Employment declines were reported in educational services and local government.

The Puget Sound Index of Leading Economic Indicators* continues to suggest economic recovery is on the way. The index has climbed 6.4% over the last 6 quarters.

Overall, the regional economy is now expected to improve at the same pace as the national economy. Two industries, housing and the credit markets, which directly and indirectly brought forth the majority of employment loss over the past 2 years, will need to stabilize before we'll see growth again in the Puget Sound region.

*The Puget Sound Index of Leading Economic Indicators is composite index of seven leading regional economic indicators. It acts as an independent forecasting gauge for the regional business cycle.

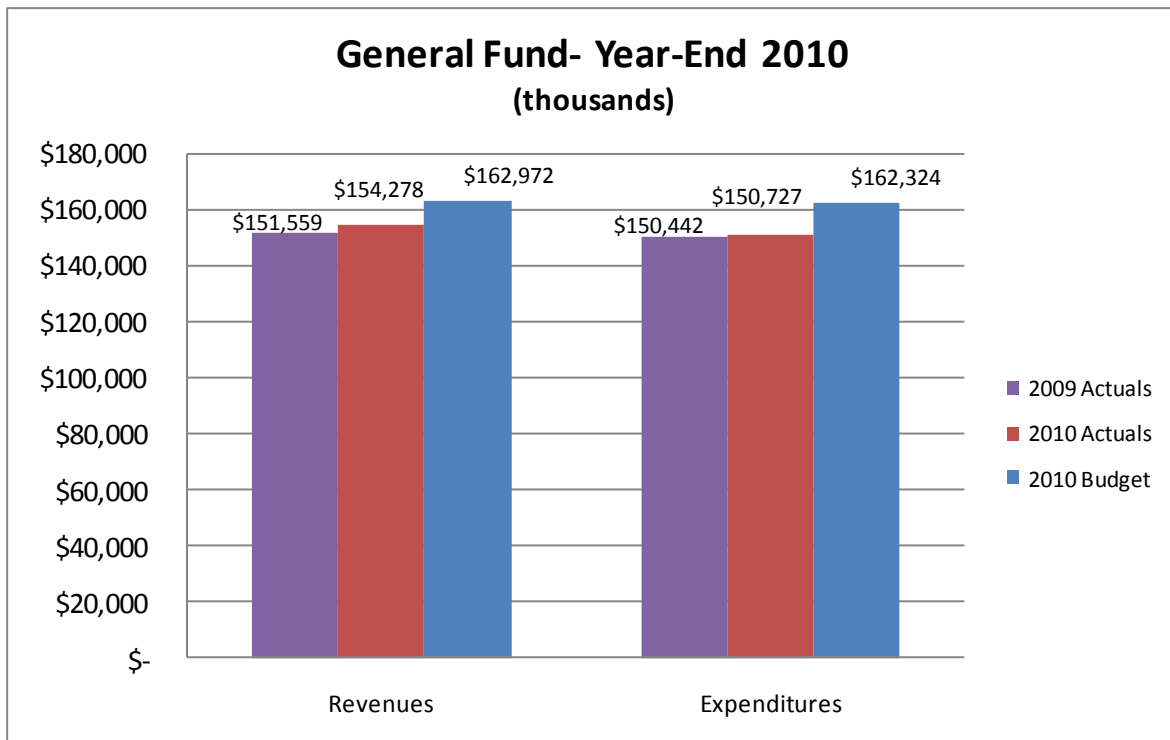
Cost Containment

Cost containment measures begun in 2009 continued through 2010. Efforts included savings/budget adjustments for:

- No COLA for 2010 based on June 2009 CPI-W
- Removed departmental inflationary increases for 2010
- Vacant positions were held open
- Departments reduced spending
 - Travel & Training
 - Reduce Temp Help/Contract employees
 - Defer minor repairs and replacement of equipment when possible
 - Reduce all discretionary spending
- Refund surplus fund balance/unanticipated revenues

General Fund Performance

Year-to-Date Expenditures and Revenues: Budget to Actual



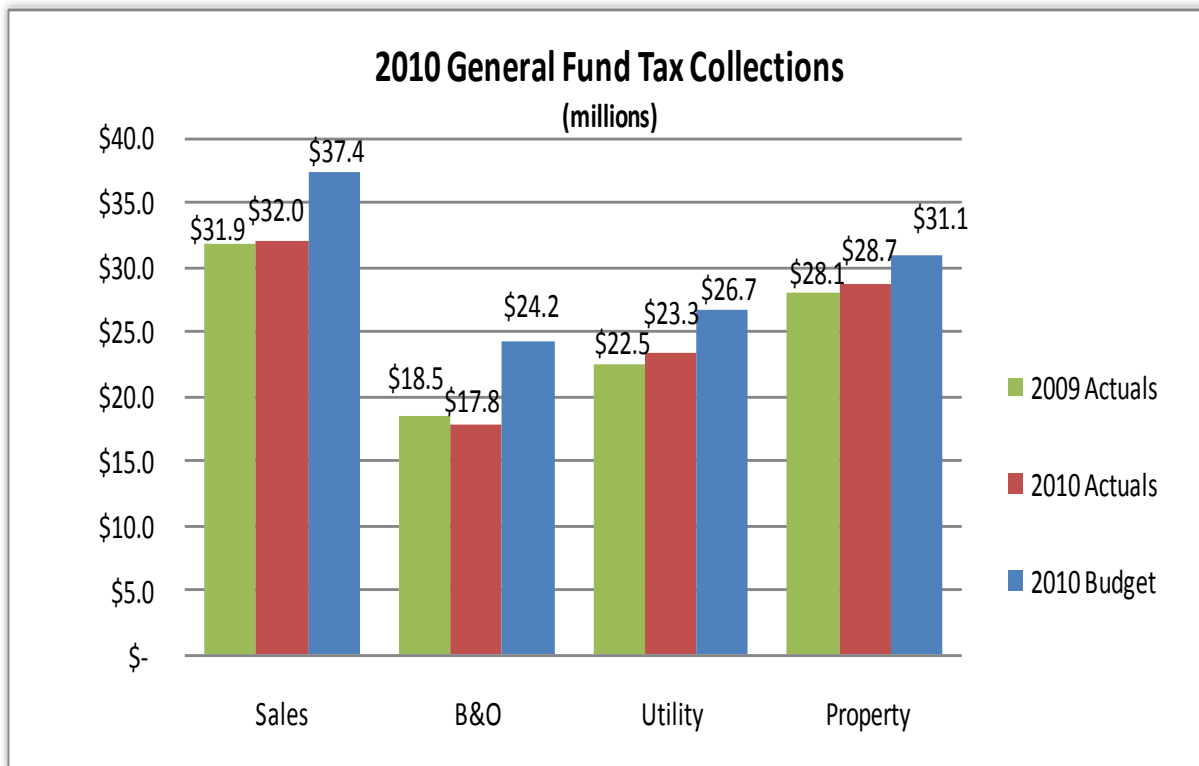
General Fund expenditures came in just slightly higher than 2009 expenditures and \$11.6 million (7%) below 2010 budget. The 2010 under-expenditure is due to cost containment efforts (see page 2).

Revenue collections (excluding fund balance) were about \$2.7 million greater than 2009 due to refunds from internal service funds. Overall, 2010 revenues were \$8.7 million (5%) below budget primarily due to lower than budget tax collections.

The City's fund balance policy indicates that the City will target 15% of General Fund revenues as a General Fund ending fund balance. For 2010, the General Fund ended the year with \$19.2 million in fund balance (about 13% of General Fund revenues excluding interfunds and fund balance) compared to the target of \$21.3 million.

General Fund Performance

Year-to-Date Tax Performance Compared to Budget



The 2010 revenue budget was developed for the 2009-2010 biennial budget in the fall of 2008 and was not adjusted to reflect lower revenue expectations due to the economic downturn. Subsequently, most major revenues came in below budget but within expectations. The above graph illustrates the difference between 2009 collections, 2010 collections, and budget.

Sales Tax. Retail sales activity remains low due to the sluggish economy. The construction sector remains down but retail trade and manufacturing showed moderate growth. Overall collections came in \$5.4 million less than budget but somewhat above expectations.

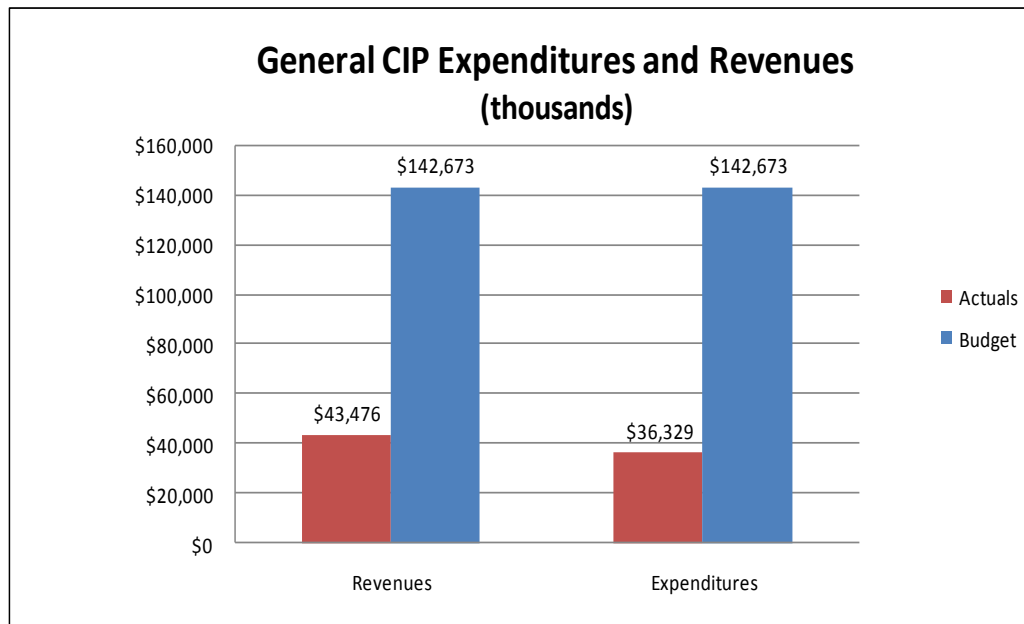
Business and Occupation Tax (B&O). B&O activity is lower than prior expectations, primary due to a shortfall in audit and D&D collections. Overall, B&O came in \$6.3 million less than budget.

Utility Taxes. Overall, year-end utility tax collections came in under budget by \$3.4 million. The primary drivers are lower usage of gas, and cell phones. Collections of sewer and stormwater taxes slightly exceeded budget and all others were under budget.

Property Tax. Collections came in \$1.7 million less than the 2010 budget due to a shortfall of new construction for the 2010 tax year.

General CIP Performance

Year-to-Date Expenditures and Resources: Budget to Actual



Comments: Year end General CIP fund expenditures totaled approximately \$36.3 million (75% below budget) due to cost containment measures and a “reset” of the CIP through the City’s Budget One approach for development of the 2011-2017 CIP Plan.

Revenue collections totaled approximately \$43.5 million at year end (60% below budget). Collections of sales and business & occupation (B&O) taxes were significantly below budget. Collections of intergovernmental revenues are aligned with lower expenditures. Included in total revenue collections is proceeds from the sale of General Obligation (GO) Bonds totaling \$12.5 million, which are restricted for projects in the Mobility & Infrastructure Initiative (M&I) and will be used to fund project costs in 2011-2012.

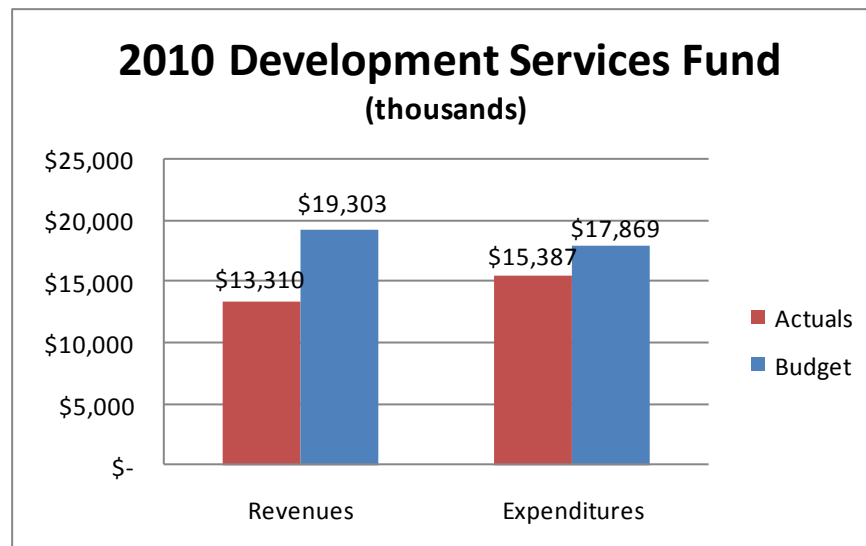
Real estate excise taxes (REET) were slightly below budget due to historically lower transaction volumes and lower average transaction values. In July, Bellevue City Center sold for nearly \$310M and Advanta Office Commons sold for \$240M. These sales generated \$1.5M and \$1.2M in total REET, respectively, which offset otherwise sluggish real estate activity.

Project Highlights Include:

- Converted the soccer fields at Wilburton Hill Community Park and Newport Hills Park to synthetic turf, which will allow the field to be used year-round
- Acquired property in the Newport Hills neighborhood, Richard’s Valley and south Bellevue expanding the City’s parks and Open Space system
- Completed the Bellevue Airfield Park master plan
- Completed construction plans for the Ravine Garden and the Wetland-Sun Terraced Garden at the Bellevue Botanical Garden, Lewis Creek Park picnic area improvements, and the Bellevue Youth Theater
- Completed and obtained Council adoption of the Meydenbauer Bay Park and Land Use Plan
- Factoria Trail and 120th Ave NE Stage 1 (PW-R-161) - Design completed
- 152nd Avenue SE (PW-W/B-74) - Construction completed
- NE 8th Street/Lake Washington Blvd to 96th Avenue (PW-W/B-73) - Construction completed
- Signal Warrant Project at 148th Avenue and SE 24th St (PW-I-84) - Construction completed
- Lake Hills and Eastgate Communications Upgrade (PW-R-155) - Construction completed
- The Bellevue Sculpture Exhibition expanded in 2010 to include visual art installations along a three-quarter-mile route through the heart of Downtown, known as “Bellwether 2010: Art Walk Bellevue”.

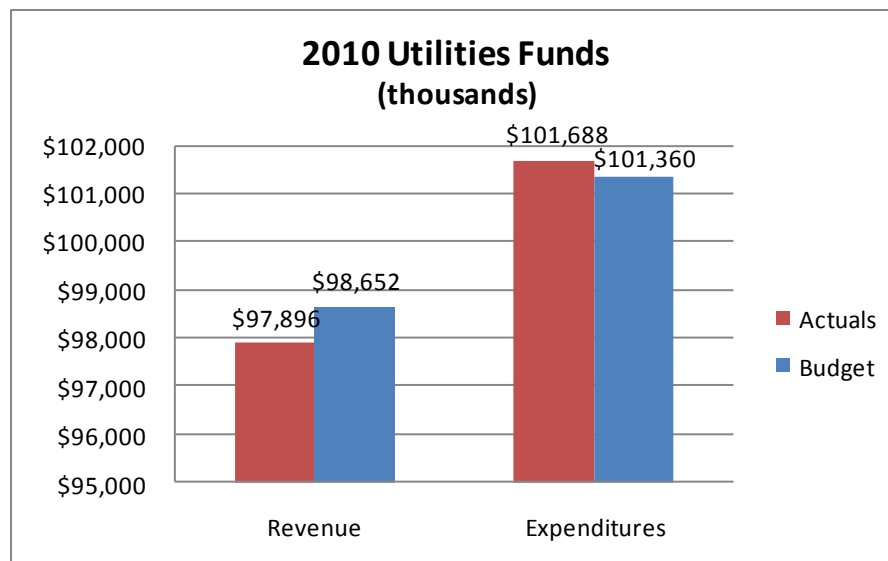
Year-to-Date Expenditures and Revenues: Budget to Actual

Development Services Performance



Comments: Development Services revenue collections were \$6.0 million (31%) below budgeted levels in 2010. The year-end revenue forecast was revised in early 2010 and year-end actual is 1% below the revised forecast. The decrease in revenue is an indication that although development work remains steady, the size and scope of projects are smaller. Expenditures were \$2.5 million (14%) below budgeted levels reflecting expenditure control measures implemented in 2010. Significant savings were realized through position vacancies (\$0.5 million) and reduction in contracted services (\$0.5 million). Cost containment strategies will continue into 2011.

Utilities Performance



Comments: The impacts of conservation efforts and a general decline in per-customer water usage became evident in the past few years. As a result, Water service revenues were below budget in 2010. Revenue projections were adjusted as part of the 2011-12 budget process. Developer and RCFC revenues were below budget due to the recession and its impacts on development activity. There were personnel cost savings due to vacancies and one-time excess fund transfers (\$5.2 million) from operations to R&R, as per financial policies. Ongoing cost containment strategies continued in 2010, resulting in savings of about \$2 million. An additional \$2 million in expenses was carried forward to 2011 due to delayed projects and capital purchases.