



City of Bellevue

MEMORANDUM

Phone: 452-7863
Date: April 27, 2017
To: Mayor John Stokes and City Council Members
From: Toni Call, Finance Director
Subject: 2016 Year-End Budget Monitoring Report

Attached is the 2016 Year-End Budget Monitoring Report for the period ending December 31, 2016. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- Year-end General Fund expenditures were under budget by 0.33%, primarily due to vacancies in personnel. Above budget revenue collections resulted in an addition to fund balance, exceeding the City's policy of 15% of Revenue in the General Fund, by 4.9%.
- This increase in fund balance continues to build reserves to help address future issues and to help prepare for known items such as the impact from the conversion of LEOFF 1 medical plan and expiration of the sales tax annexation credit.
- In 2016, General CIP expenditures totaled \$83 million, approximately 47% of budget available. This total is slightly below historic averages due to timing of construction and slower than anticipated right of way purchases.

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

Sincerely,

Toni Call, Finance Director

Attachment
2016 Year-End Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through December 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 the report is to compare actual expenditures and revenues to the 2016 Amended Budget, to discuss reasons for variance and to convey an overview of the local and national economic outlook.

At 2016 year end, General Fund revenue collections were 1.8 percent above budget due to strong B&O tax collections as well as state shared revenues. Expenditures were 0.33 percent below budget.

With the increase in one-time revenue, the City's General Fund balance continues to maintain the City policy of 15 percent of revenues. The General CIP revenue collections and expenditures were under the annual budget which will result in carrying forward expenditures into 2017. Development Services, Utility Operating Funds, and Utilities CIP all performed with revenues exceeding expenditures.

U.S. Economy

Overall, economic indicators continued to grow in the U.S in 2016, but comparing the growth rate of 2016 to 2015, the major economic indicators' growth is slowing.

Real gross domestic product (GDP) increased at an annual rate of 2.1 percent in the fourth quarter of 2016. The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by negative contributions from exports and federal government spending (Source: Bureau of Economic Analysis).

Performance at a Glance

- Pg. 3 General Fund Revenue Actual vs Expenditure Actual
- Pg. 4 General Fund Revenue Performance as Compared to Budget
- Pg. 5 General CIP Revenue Actual vs Expenditure Actual
- Pg. 6 Development Services Revenue Actual vs Expenditure Actual
- Pg. 7 Utilities Operating Funds Revenue Actual vs Expenditure Actual
- Pg. 7 Utilities CIP Revenue Actual vs Expenditure Actual



Legend:

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

However, from the 2015 annual level to the 2016 annual level, the GDP growth is slowing down from 2.6 percent to 1.6 percent, personal consumption growth is slowing down from 3.2 percent to 2.7 percent, the growth rate of residential investment, state and local government spending growth, and imports are also lower than the 2015 levels. (Source: Bureau of Economic Analysis).

The employment in US. grew 1.8 percent, personal income grew 3.5 percent from 2015 to 2016, but both slower than the 2015 levels. Economists forecast the employment growth will slow down even more in 2017 and 2018, but the GDP, personal income, and CPI growth is estimated to be higher in 2017 at 2.3 percent, 4.6 percent and 2.5 percent respectively (Source: Blue Chip Economic Indicators).

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Regional Economy

Nothing locally has transpired to alter the regional economic outlook. As one of the big three players in the Puget Sound economy, Microsoft's impact should be gauged in terms of income, not employment. While the software company has added only 4,000 jobs since the trough of the recession, its total wages and salaries have increased a staggering \$4 billion. Boeing is still shedding employees in response to a slowdown in aircraft orders over the past two years. The aerospace industry has lost 8,600 jobs since the first quarter of 2013. Amazon.com, on the other hand, announced that it will hire 100,000 employees over the next eighteen months. Most of the employees will be located in the company's new fulfillment centers being built around the world, but that still leaves thousands of new jobs for the Puget Sound area (Source: Puget Sound Economic Forecaster).

Puget Sound employment growth is expected to slow from 3.0 percent in 2016 to 1.9 percent in 2017 and 1.4 percent in 2018, while personal income will continue to rise at a relatively constant 5.0 percent annual rate (Source: Puget Sound Economic Forecaster).

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's median home value increased 12 percent in 2016, doubling the nation's 6 percent growth (Source: Zillow Research (<http://www.zillow.com/research>, Zillow Home Value Index)). Bellevue's total assessed value increased 11 percent in 2016 (Source: King County Assessor).

Although employment growth, per capita income growth, home price growth, and tax revenues growth are all good economic signs, there is a need to pay attention to the following underlying risks: As people's spending habits change, the trend of moving from department stores/local retailers sales to more online (electronic) sales becomes apparent. Bellevue's sales tax growth slowed in the 4th quarter of 2016. Comparing to the total sales tax growth of 5.1 percent, the 2016 fourth quarter sales tax only grew by 0.2 percent from fourth quarter of 2015. The city is carefully monitoring this shift and the impact on sales tax collections.

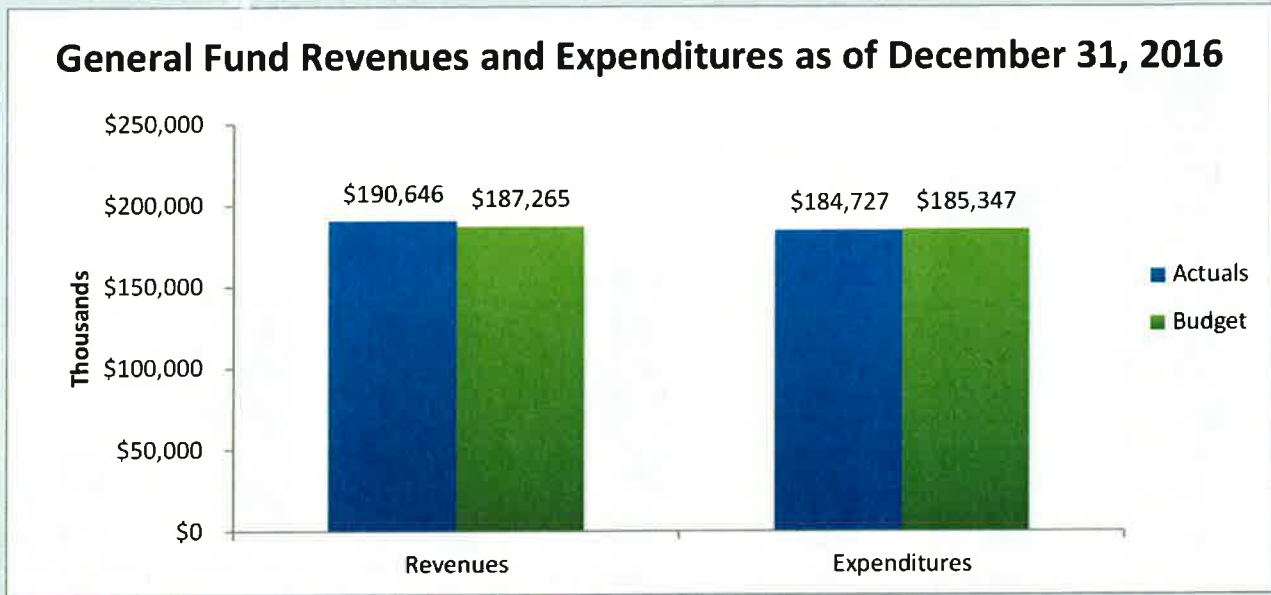
Housing affordability and livability also became an issue for people who work in Bellevue. Considering Bellevue is a fast developing region with a high demand in workforce, the supply of workforce will be impacted by the housing affordability.

Puget Sound Annual Percent Change				
	<u>2015</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Forecast</u>	<u>2018</u> <u>Forecast</u>
% Change in Employment	3.0	3.0	1.9	1.4
% Change in Personal Income	4.4	4.8	5.2	4.8
% Change in Housing Permits	23.9	-4.1	-9.4	-5.8
% Change in Average Home Price	7.5	9.8	6.4	1.7
% Change in Taxable Retail Sales	9.8	8.6	5.3	3.7
<i>* Source: Puget Sound Economic Forecaster—March 2017</i>				

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GENERAL FUND PERFORMANCE



Revenue

At 2016 year end, General Fund revenue collections were 1.8 percent (\$3.3 million) above budget. Approximately one third of this increase is due to strong growth in B&O tax and the remainder is due other revenues that are detailed on the following page.

Seventy one percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The City of Bellevue's tax base continues to remain strong, buoyed by audit activity and construction growth. Some of this strong growth is projected to continue in 2017, 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 households abandoning landlines and wireless phone companies shifting their service proportion more towards the non-taxable data plans and away from taxable voice services.

The various revenue sources are broken down on the following page and discussed in greater detail.

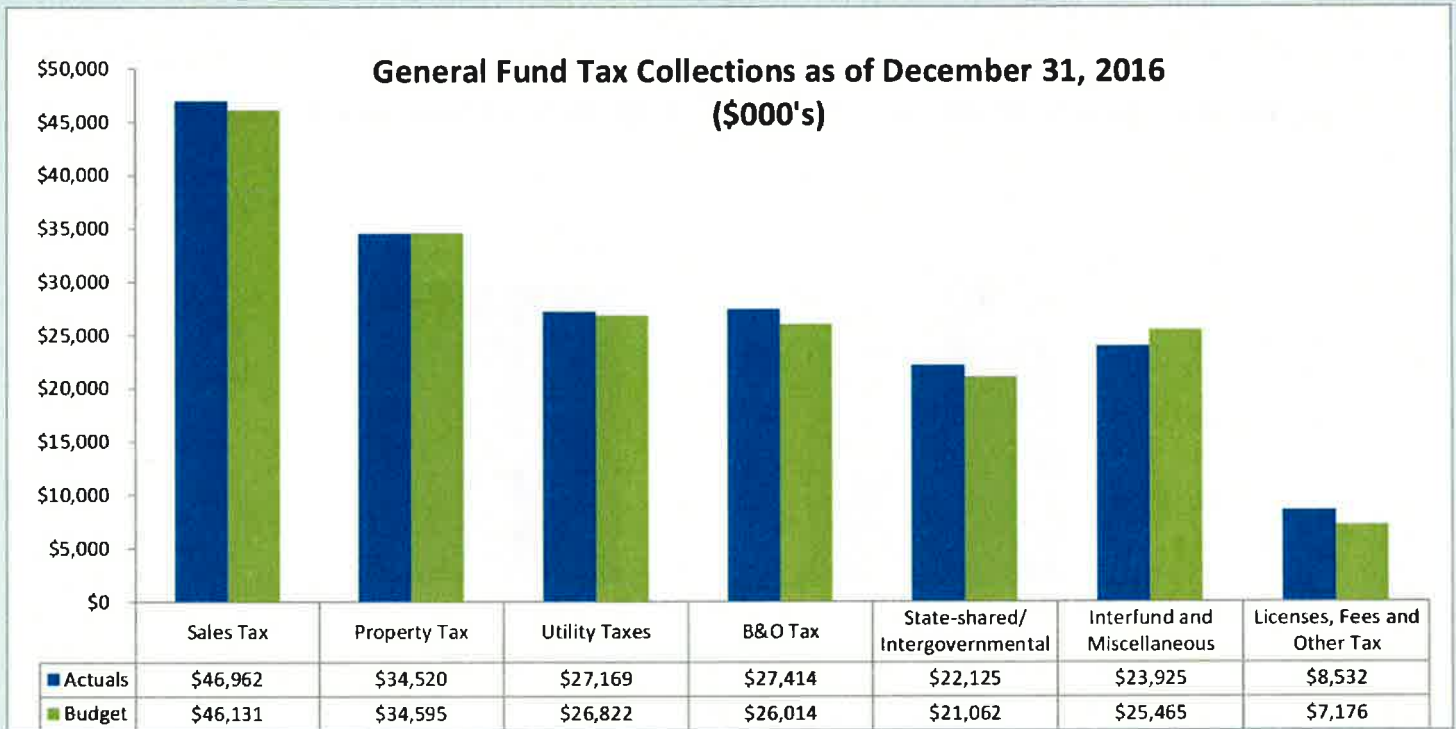
Expenditures

Year end expenditures were \$619,000, or 0.33 percent lower than budget. The city wide under expenditure was primarily due to vacancies in personnel.

Change in Fund Balance

The General Fund ended 2016 with approximately \$5.9 million greater revenue than expenditures. The current General Fund balance maintains the City's financial policy target of 15 percent. It is important to note that, though the City is experiencing revenues exceeding expenditures in the near term, the out year forecast reflects the reverse. The 2017-2018 budget continues to build reserves to assist in addressing future known issues.

GENERAL FUND PERFORMANCE



Sales Tax:

Sales tax collections remained consistent with prior quarter projections at 1.8 percent greater than budget due to continued increases in the use of professional services, primarily in the real estate/leases, service and administrative industries.

Utility Taxes:

Utility tax collections came in slightly over budget by 1.3 percent, and is attributed to increased water and sewer collections. Utility taxes continue to observe declines in telephone and cell phone tax collections as seen in prior years on average declining by 9.5 percent each year since 2014.

Business and Occupation Tax (B&O Tax):

B&O tax came in 5.4 percent (\$1.4 million) above budget, primarily due to increases in audit recovery.

State-shared/Intergovernmental:

State-shared revenues tied to King County sales tax growth, such as the Criminal Justice Sales Tax, performed \$570K above budget. A \$200K increase to Advanced Life Support revenue is offset by equal expenditures. Remaining revenues exceeding budget are from multiple other revenue lines.

Miscellaneous:

Miscellaneous and Interfund budget includes an "over collection" amount of \$1.5 million, which is dispersed throughout the revenues through actuals. The remaining shortfall from budget is from a variety of sources with no one source being a primary driver.

License, Fees, Other:

Revenues performing above budget in this category were primarily due to right of way lease collections related to development activity projects of \$676K above budget and \$550K in collected business tax penalties.

GENERAL CIP PERFORMANCE

General CIP Fund as of December 31, 2016 (000's)



*Includes historical carry forward and current period adjustments.

Resources

Bond Proceeds: The 2016 resource total includes unspent bond proceeds in the beginning fund balance from the 2013 and 2015 bond issues.

General Taxes: Sales tax and B&O tax came in slightly higher than budget. REET collections were approximately \$7 million higher than budget. This was due to 11 transactions of properties over \$50 million, seven more than the previous year.

Other Revenue: Intergovernmental revenue (i.e., grants and contributions from other jurisdictions) were under budget by approximately \$35 million—most of which is due to delays in the receiving of grant funding for projects. Miscellaneous revenue came in at \$7.8 million under budget—most of which is due to Impact Fees coming in lower than budgeted.

The Budget Office continues to monitor overall cash flow needs within the General CIP.

CIP General Tax Collection Budget vs Actuals (000's)



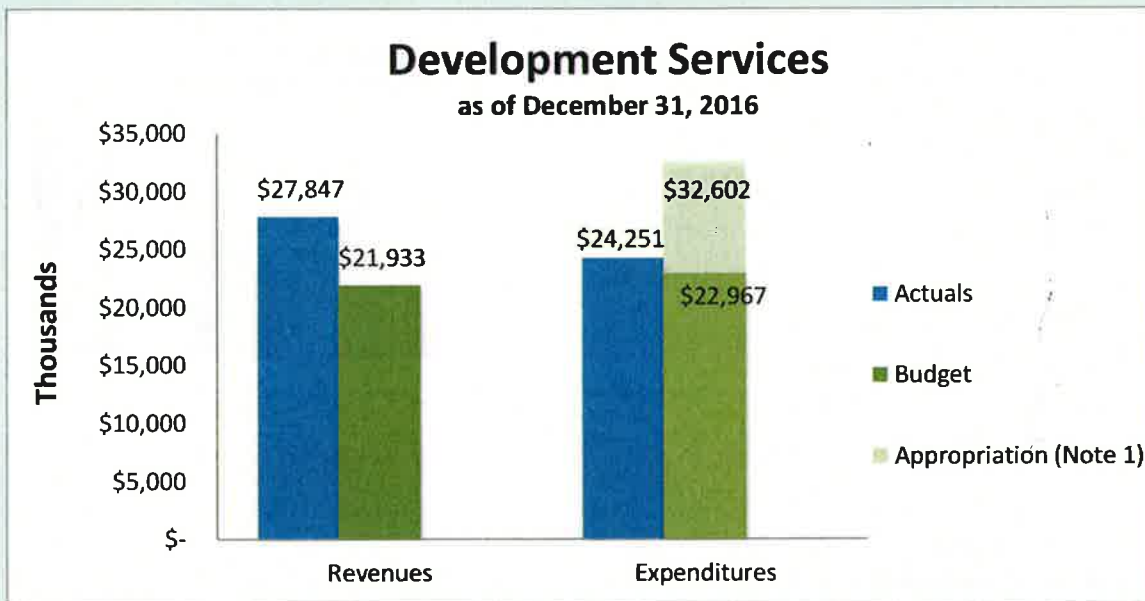
Expenditures

In 2016, General CIP expenditures totaled \$83.0 million, or approximately 47 percent of budget available. This total is lower than historic averages due to timing of construction and slower than anticipated right of way purchases. Highlights include completion of the City Hall East Garage Redevelopment and significant progress on 120th Ave NE Stages 2 and 3, and NE Spring Boulevard Zone 1.

DEVELOPMENT SERVICES PERFORMANCE



Gateway – 10360 Main Street



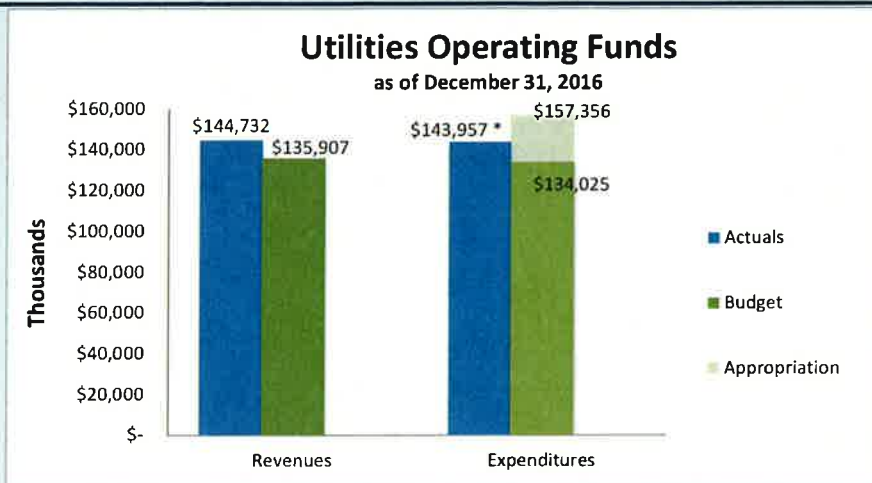
Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development in Bellevue continued with strong activity as several new projects began construction and additional permits are in review. Revenue is over budget largely due to major project fees and an increase in permit activity. Expenditures are over budget due to additional professional services and projects such as Customer Outreach, Energize Eastside and technology enhancements. Activity for the Sound Transit project is underway and is anticipated to increase over the next few years.

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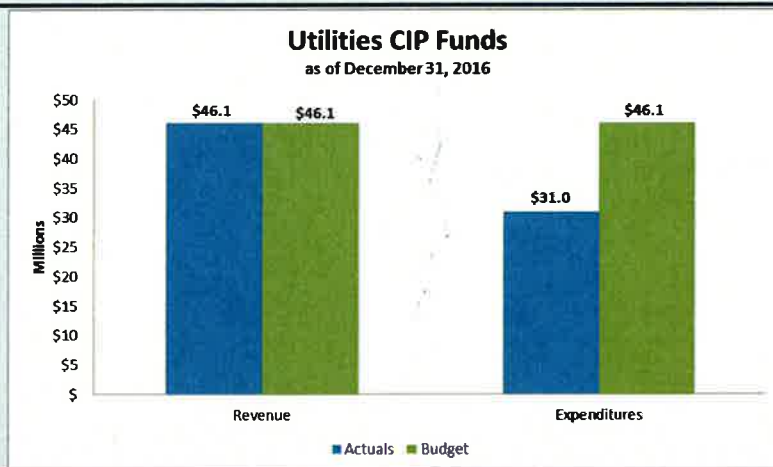
UTILITIES OPERATING FUNDS



*Total expenditures include the transfer of excess fund balances to R&R in the Water Utility and the Storm & Surface Water Utility totaling \$8.4M.

The Utilities Funds ended 2016 in positive financial condition, with operating revenues sufficient to meet operating expenses. Utility operating revenues exceeded budget by \$9M due primarily to stronger than anticipated water sales and development activity. Utility operating expenditures (exclusive of reserves) were higher than anticipated, reflecting higher regional water connection charge payments and taxes from increased water service revenue. These increased costs were partially offset with higher regional water connection revenues, and savings from staff vacancies and operations.

UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8M for East Link and \$6.1M for future Bel-Red stream restoration (Mobility & Infrastructure Initiative). Actual revenues exclude \$8.4M transfer of excess fund balance from operations per financial policies.

Utility CIP revenues represent transfers of rate revenues from Utilities Operating Funds. Utility CIP revenues (excluding reserves and excess fund balance transfers from Operations) ended 2016 as planned. Utility CIP expenditures ended the year with about 69 percent of budget spent. Project expenditures were below budget due largely to timing of construction activities. Unspent funding will be carried forward to 2017 to complete projects in progress. Significant construction activities in 2016 included replacing 3.8 miles of asbestos cement water mains, completion of the Bellefield Pump Station Capacity Improvement project, significant construction activity on the Wilburton Sewer Capacity Upgrade, and design work on the Lower Coal Creek Flood Hazard project.

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