



City of Bellevue

# MEMORANDUM

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Phone: 425-452-7863

Date: June 1, 2018

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Finance Director

Subject: 2018 First Quarter Budget Monitoring Report

Attached is the 2018 First Quarter Budget Monitoring Report for the period ending March 31, 2018. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds are performing within appropriation authority.
- Year-end General Fund expenditures are projected to be at budget.
- Revenue collections are expected to exceed budget by 0.3 percent (\$0.6 million) resulting in an ending fund balance of 21.9 percent of revenue.
- The City's General Fund balance is projected to slightly increase this year as revenue growth outpaces expenditures. The current forecast shows the general fund continuing to build reserves through 2020, at which point it is forecasted that reserves will be required to balance the out years.
- General CIP expenditures are expected to be \$135.1 million, approximately 56 percent of budget available. This total is slightly lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

Please feel free to contact me at 425-452-7863 with any questions you may have.

Sincerely,

Toni Call, Finance Director

Attachment

2018 First Quarter Budget Monitoring Report

Cc: Brad Miyake  
Leadership Team

# BUDGET MONITORING REPORT

For the period from January 1 through March 31, 2018



## Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program (CIP) 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 2018 Amended Budget, to discuss reasons for variance and to convey an overview of the local and national economic outlook.

### U.S. Economy

The U.S. Gross Domestic Product (GDP) increased at an annual rate of 2.3 percent in the first quarter of 2018, according to the estimate released by the Bureau of Economic Analysis. The increase in real GDP in the first quarter reflected positive contributions from nonresidential investment, personal consumption expenditures (PCE), exports, federal government spending, and state and local government spending (Source: Bureau of Economic Analysis, April 27, 2018 news release). Most financial agencies and economists forecasted that GDP growth is expected to rise in 2018, but decrease again in 2019.

Personal income also had strong growth in the first quarter. Personal income increased 0.3 percent in March, disposable personal income (DPI) increased 0.3 percent and personal consumption expenditures increased 0.4 percent, according to estimates released by the Bureau of Economic Analysis on April 30, 2018. Personal income, especially DPI is the biggest driver for consumer spending, and has a direct impact on local sales tax collection.

The Consumer Price Index for All Urban Consumers (CPI-U)

## 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%

increased 0.2 percent in April. Over the last 12 months, the all items index rose 2.5 percent before seasonal adjustment. The indexes for gasoline and shelter were the largest factors in the seasonally adjusted increase in the all items index, although the food index increased as well.

In 2018, the Pacific region's economy is expected to remain healthy and moderate, driven by strong gains in the professional/business services sector. Although a moderate economic growth is forecasted in the near term, potential federal policy actions are the main source of risks to the forecast.

## City of Bellevue Budget Monitoring Report

January 1 to March 31, 2018

## Regional Economy

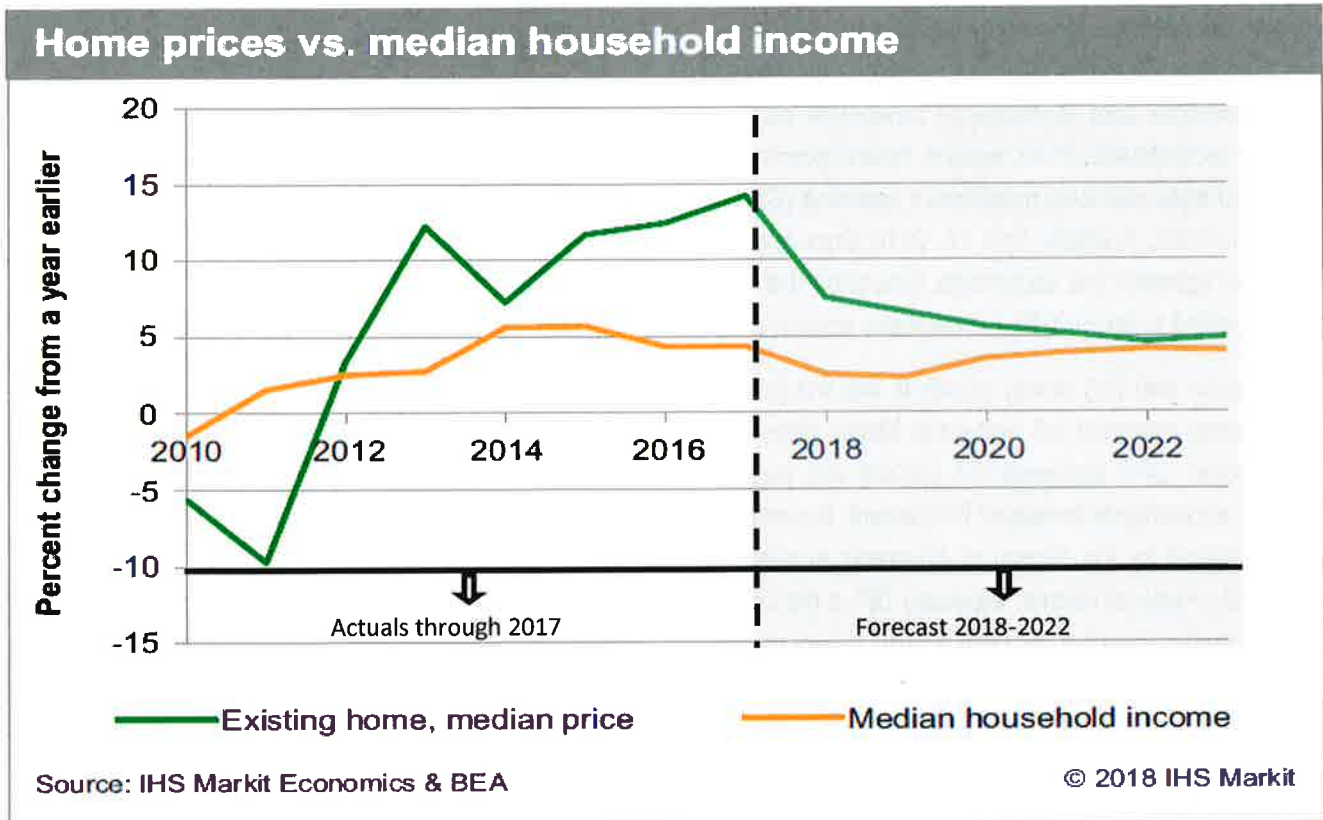
The Greater Seattle metro area is one of the strongest economies on the West Coast. It fully recovered to the pre-recession employment levels in 2013. Employment growth from 2013 to 2016 was strong, thanks to growth in construction developments, such as Amazon expanding its massive tech workforce, and strong consumer fundamentals. However, since 2017, the construction sector has begun to cool as many projects have come to completion. In addition, the manufacturing sector started to weigh down performance in the same year. As a result, the Greater Seattle metro area will reduce its speed into 2018. However, the metro area will still outpace the national average for the foreseeable future thanks to the upside of its tech- and trade-heavy economy (Source: IHS Markit 2018 Spring Metro Economies: Seattle-Tacoma-Bellevue, WA).

Housing affordability continues to be the hottest issue in this region as home prices have increased much faster than household income growth as shown in the chart below.

## Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's unemployment rate decreased to 3.0 percent in March, the lowest rate since 2008. The total employment grew approximately 2,500 compared to March 2017.

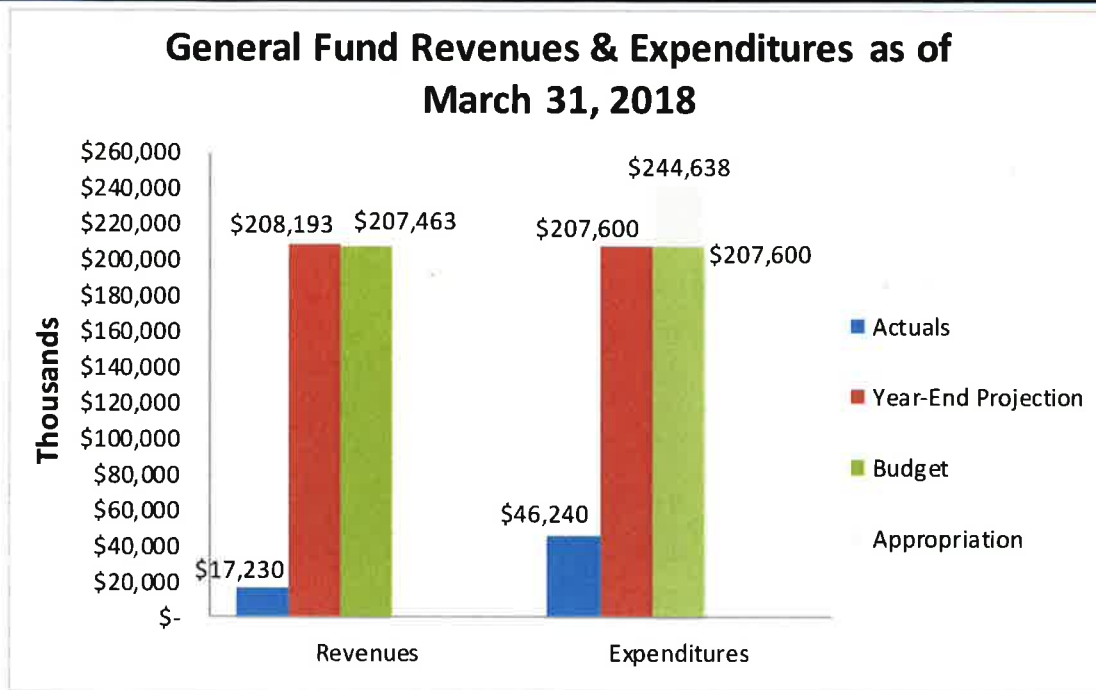
Bellevue home prices have rebounded much faster than the nation and even the rest of King County. Bellevue has now surpassed the home value that was lost in the recession. The median home value in Bellevue is currently \$948,000 (Single Family Homes are at \$1.07 million) as of March 2018 as provided by Zillow. Bellevue home values increased 18 percent compared to March 2017 and Zillow predicts they will rise 4.7 percent within the next year.



## City of Bellevue Budget Monitoring Report

January 1 to March 31, 2018

# GENERAL FUND PERFORMANCE



*Note 1: 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.*

*Note 2: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas Appropriation includes budgeted expenditures and fund balance (reserves).*

## Revenue

General Fund revenue collections are projected to be slightly above budget. Strong utility tax collections are projected to offset lower than anticipated sales and property taxes. Seventy two percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The City of Bellevue's tax base continues to grow due to the moderate growth in business activities and construction projects. The various revenue sources are broken down on the following page and discussed in greater detail.

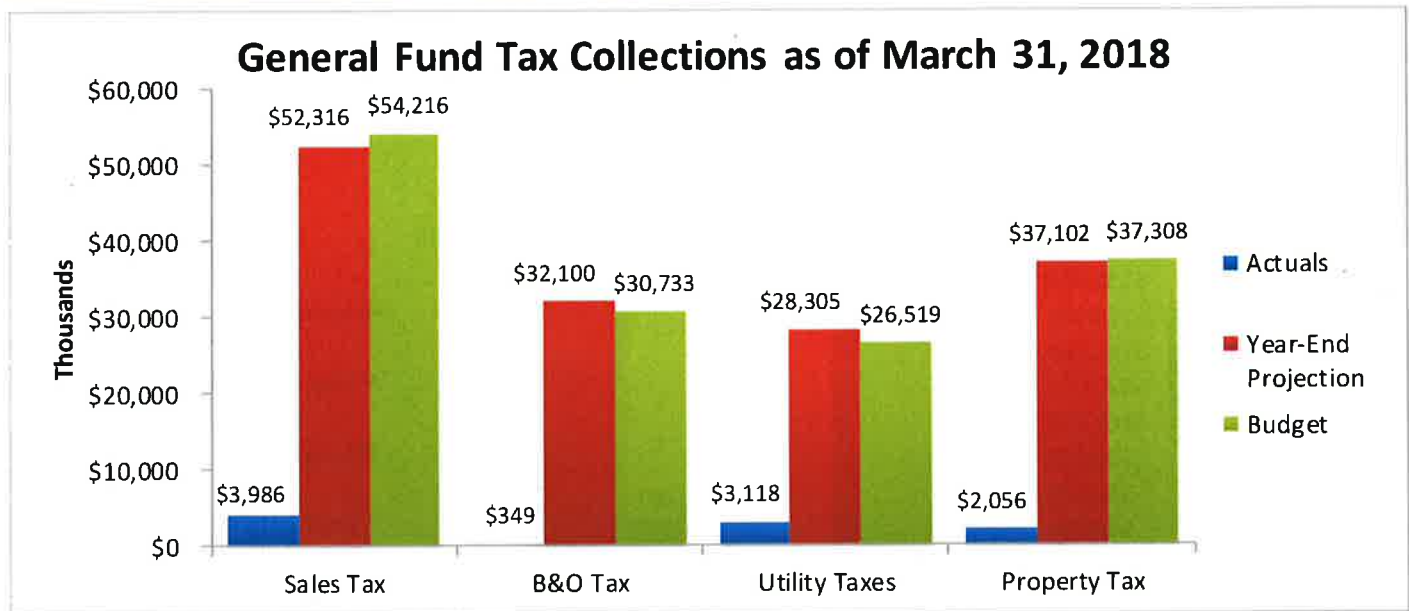
## Expenditures

Year-end estimated revenues are projected to exceed year-end expenditures. Expenditures are expected to be on budget for the year.

## Change in Fund Balance

The City's General Fund balance is projected to slightly increase this year as revenue growth outpaces expenditures. The current General Fund balance achieves the City's financial policy target of having 15 percent of revenues in reserves. The City is purposely building reserves in the near term as it is anticipated these reserves will be needed to balance the budget in future years.

## GENERAL FUND PERFORMANCE



*Note: The above graph illustrates the difference between year-to-date collections through March, current year-end estimates, and 2018 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:

At this early point, year-end tax revenue is projected to meet budget.

#### Sales Tax

Sales tax collections are projected to be 3.5% below budget, but are projected to be 7.5% greater than 2017.

#### Business and Occupation Tax (B&O Tax)

B&O tax is projected to come in 4.4 percent higher than the budget, primarily due to strong business activity and audit recovery.

#### Utility Tax

Utility tax projections are expected to be 6.7 percent over the budget due to strong electricity, gas and garbage collections.

### Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2018 total levy rate is \$1.03 per \$1,000 AV, which includes \$0.07 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.11 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.13 per \$1,000 AV Levy for Neighborhood Safety, Connectivity and Congestion projects. Property tax collections are projected to be slightly below the budget due to updated construction valuation information received from King County earlier in the year.

# GENERAL CIP PERFORMANCE

## General CIP Fund as of March 31, 2018



\*Includes historical carry forward and current period adjustments.

### Resources

Major CIP resources are comprised of taxes, grants and contributions. The largest annual resource for the CIP fund is taxes, including Sales tax, B&O tax, Real Estate Excise tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity and Congestion levies approved by voters in November 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in June 2017.

The 2018 CIP includes \$68.0 million in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections are projected to be slightly below budget, B&O tax is projected to be slightly above budget and REET collections are projected at budget. Grants and Interlocal contributions are projected to come in lower than budgeted due to project delays and timing of grants.

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

### Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City has designated five large transportation projects that will be funded by proceeds from the TIFIA loan. The projects are under design and are expected to ramp up this year with draws on the TIFIA loan expected in the second half of 2018.

### CIP General Tax Collection Budget vs Actuals



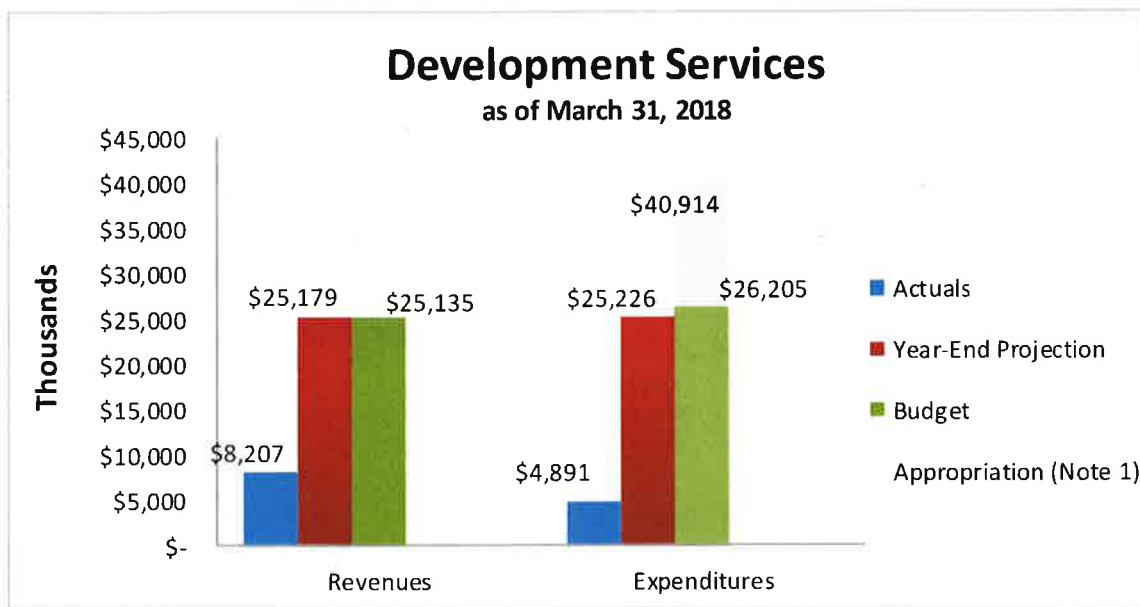
### Expenditures

General CIP expenditures are projected to be \$135 million, or approximately 56 percent of 2018 available budget. This total is slightly lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

Other expenditure highlights include work on the NE Spring Blvd. Zone 1 projects, 120th Ave NE Stages 2 and 3, the Meydenbauer Bay Phase 1 Park Development, Northup Way Corridor Improvements, and Surrey Downs Park development.

# DEVELOPMENT SERVICES PERFORMANCE

*One 88 — 120 Bellevue Way NE*



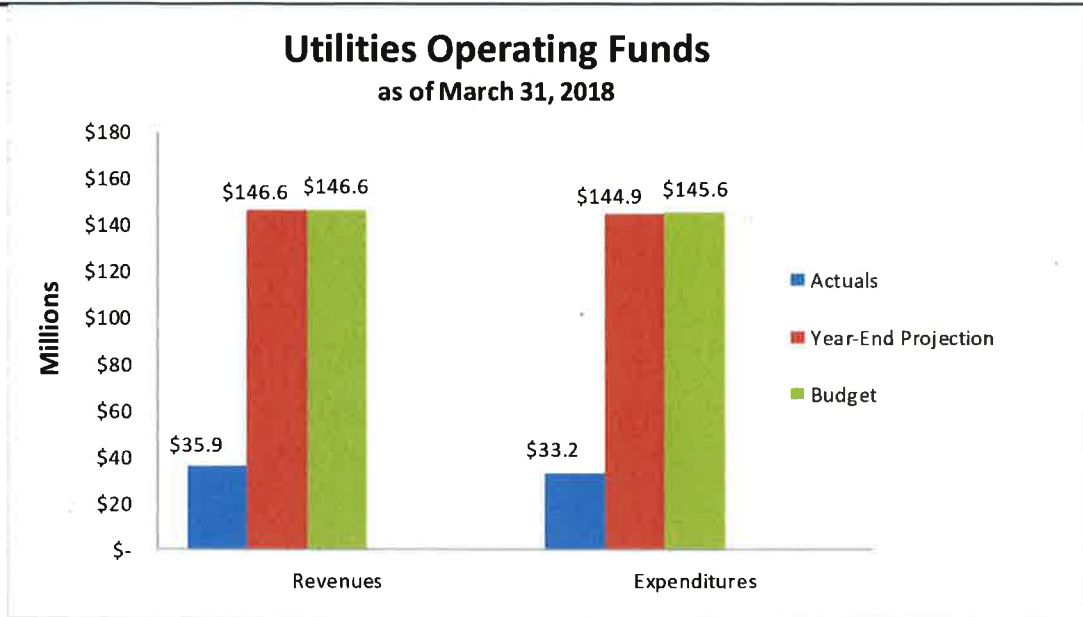
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Development Services revenue is on target as development activity in Bellevue continues at a high level. Several major projects that are in the review process will be issued for construction by year end and revenues are anticipated to be at budget. Expenditures are anticipated to show savings of approximately four percent by year end. This will be a result of vacant positions and other miscellaneous savings.

## City of Bellevue Budget Monitoring Report

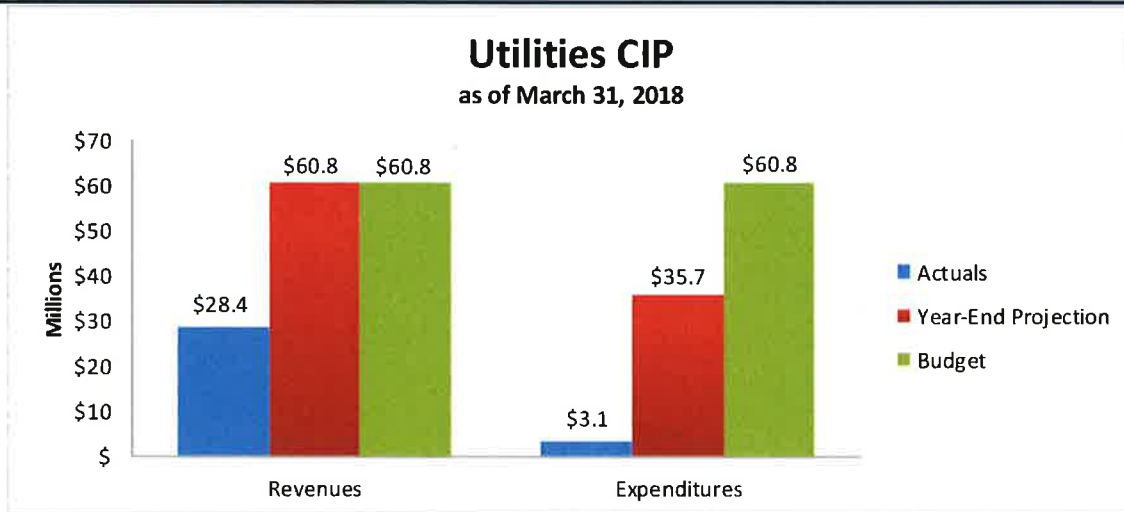
January 1 to March 31, 2018

## UTILITIES OPERATING FUNDS



Utility operating revenues were sufficient to cover expenses in the first quarter. Year-end revenues are forecasted to be at budget by year-end. Year-end expenditures are currently trending below budget due primarily to vacancy savings.

## UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8M for EastLink and \$8.1M for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.3M for water facilities for Spring Blvd.

Projected CIP expenditures reflect delays for several major projects. These include site selection for the New Water Inlet Station; AMI due to contract negotiations; redesign for the Midlakes Pump Station; and analysis of alternatives for the Flood Control program. In addition, several projects have been on hold due to internal staff capacity constraints. These projects will be initiated this quarter using professional consultant assistance.

### City of Bellevue Budget Monitoring Report

January 1 to March 31, 2018