



Phone: 425-452-7863

Date: August 31, 2018

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Finance Director

Subject: 2018 Second Quarter Budget Monitoring Report

Attached is the 2018 Second Quarter Budget Monitoring Report for the period ending June 30, 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 1.3 percent (\$2.7 million) resulting in an ending fund balance of 22.7 percent of revenue. 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 \$111 million, approximately 46 percent of budget available. This total is slightly lower than historic averages due to the timing of projects.

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

Sincerely,

Toni Call, Finance Director

Attachment

2018 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 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

Real gross domestic product (GDP) increased in 48 states and the District of Columbia in the first quarter of 2018, according to statistics released by the U.S. Bureau of Economic Analysis. The percent change in real GDP in the first quarter ranged from 3.6 percent in Washington State to -0.6 percent in North Dakota.

The national Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in June after rising 0.2 percent in May. Over the last 12 months the index rose 2.9 percent before seasonal adjustment due to the increased cost of shelter, gasoline, and food. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increased 3.1 percent in the nation over the last 12 months (Source: Bureau of Labor Statistics). The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The various CPIs are based on the prices of food, clothing, shelter, fuel, transportation, and other goods and services that people buy for day-to-day living. While inflation usually means growth there are also warning signs in the data that this growth may be slowing.

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%
- o Negative variance of 1-4%
- Negative variance of > 4%

Entering the 10th year from the last recession, signs of late economic cycle phase are arising. Wage growth usually accelerates during the late-cycle phase and starts to crimp profit margins and slow the pace of hiring. This cycle, wages have risen and profit margins have declined off peak levels, but the process has been gradual, allowing margins to remain high and job gains strong.

In addition, trade tensions and geopolitical risk remain potential threats to US economic growth in the second half of the year and beyond. Economists are also increasingly worried that the escalating trade tensions between the US, China, and the European Union could bring trouble in the months ahead. (Source: The U.S. Business Cycle Report)

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2018

Regional Economy

Employment growth was strong from 2013 to 2016 thanks to growth in construction developments. The metro area is expected to continue its growth for the foreseeable future due to the growth in IT and services industries (Source: IHS Markit).

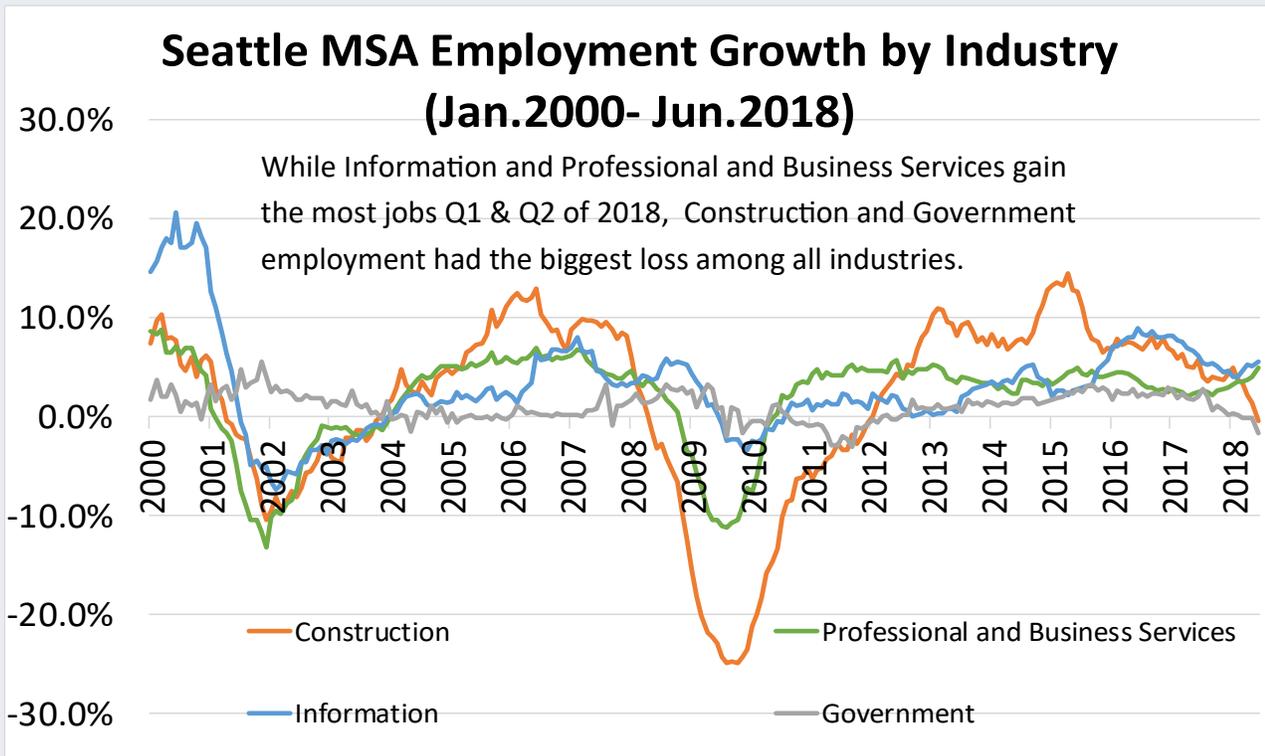
In June 2018, the unemployment rate in King County was 3.7 percent, down by 0.2 percent from 12 months ago. The largest gains of employment were attributable to hiring in professional and business, retail trade and information. Construction employment has been expanding over the past few years, but seems to have hit a soft patch in recent months. The last three King County Labor Area Summary reports show a decrease in construction employment in King County. Government employment (down 3,900) and construction employment (down 1,800) had the deepest loss compare to a year ago (Source: Employment Security Department of Washington State).

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's unemployment rate increased slightly to 3.4 percent in June, but is still 0.2 percent down from a year ago. Total employment grew approximately 1,400 compared to June 2017. For Comparison, Bellevue's unemployment rate increased to 7.9 percent during the great recession and has been running between 3 to 4 percent since 2013.

EHB (Engrossed House Bill) 2163 allows states and local governments to require vendors with no physical presence in the state to collect sales tax from internet and remote sales starting in 2018. Washington State Department of Revenue (DOR) estimated an additional online sales tax revenue of \$1.3M for Bellevue in 2018. Based on the five months of sales tax data the city received so far, the online sales tax came in close to DOR's projection that was included in the revenue forecast.

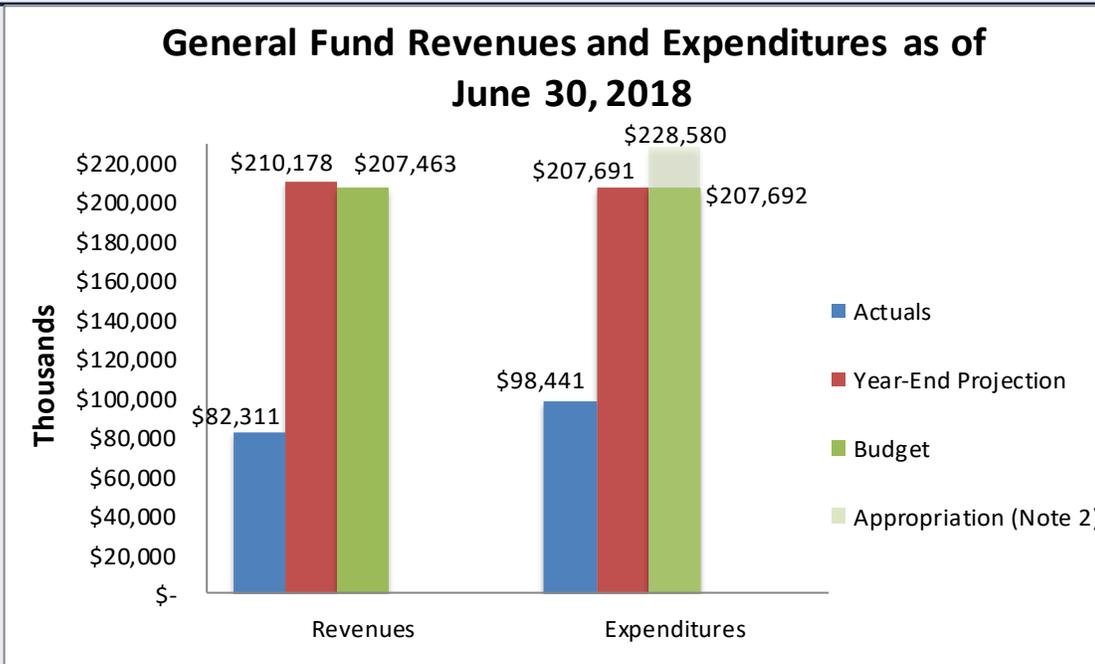
The construction employment and spending has been the biggest driver of sales tax increase in 2017. Staff is closely monitoring the construction activities in the region and in Bellevue.



City of Bellevue Budget Monitoring Report

January 1 to June 30, 2018

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, 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 second quarter activities. Expenditures are based on actual activities performed during the second 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 above budget by \$2.7M. Utility and B&O tax collections are projected to be higher due to increased business activities and utility usage in the city. 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. The various revenue sources are broken down on the following page and discussed in greater detail.

Expenditures

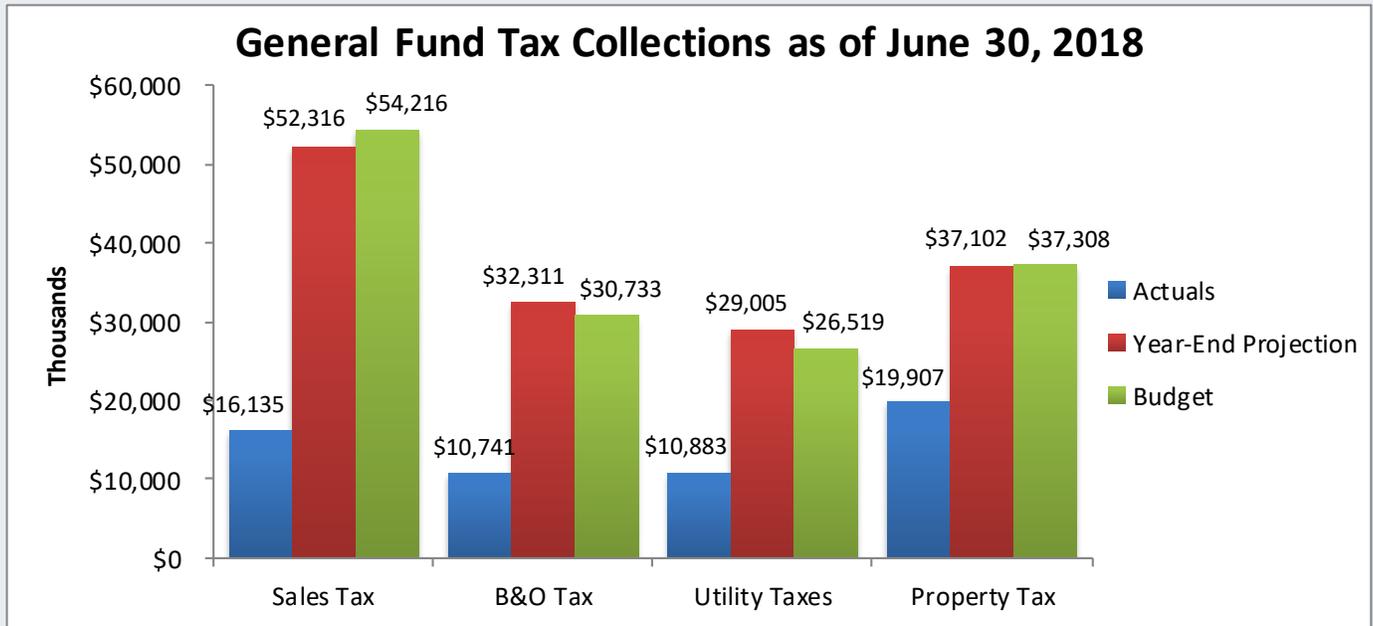
Year-end estimated revenues are projected to exceed year-

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 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 June, 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 second 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 point, year-end tax revenue is projected to exceed budget.

Sales Tax

Sales tax collections are projected to be 3.5 percent below budget due to lower than expected 2018 actuals, but are projected to be 7.5 percent greater than 2017 including the new on line sales tax.

Business and Occupation Tax (B&O Tax)

B&O tax is projected to come in 5.1 percent higher than the budget, primarily due to strong business activity and audit recovery.

Utility Tax

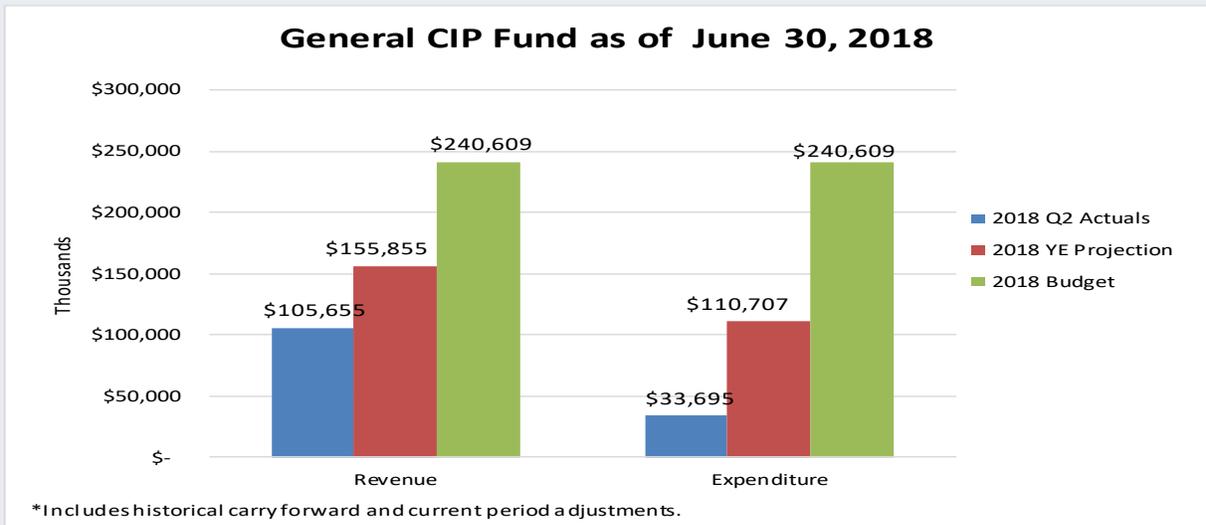
Utility tax projections are expected to be 9.4 percent higher

than budget due to strong water, electricity, gas, and garbage tax collections in 2018. Continued demand increases are projected in 2018.

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 \$0.14 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



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 below budget, B&O tax is projected to be 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.

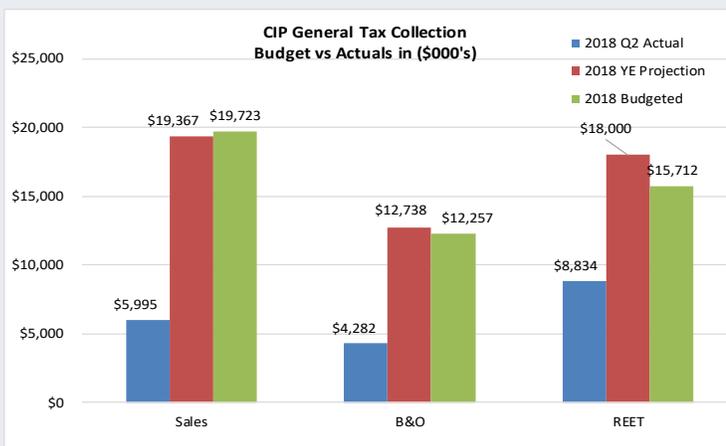
Transportation Infrastructure Finance & Innovation Act (TIFIA)

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.

Expenditures

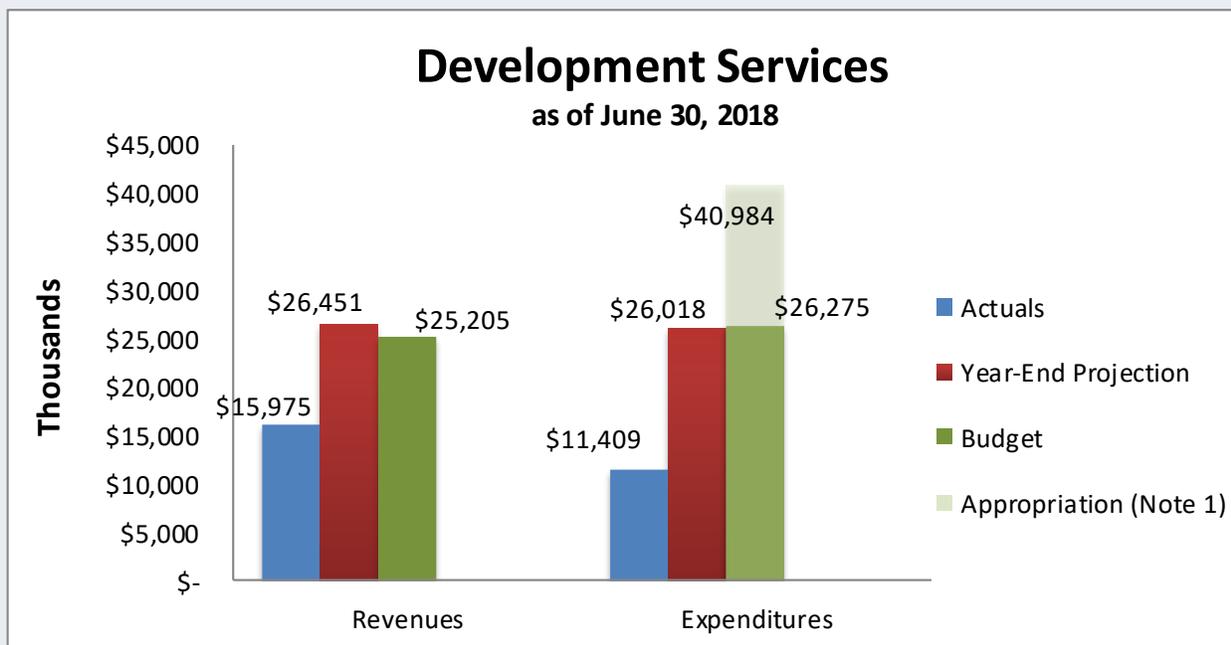
General CIP expenditures are projected to be \$111 million, or approximately 46 percent of 2018 available budget. This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

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

888 Bellevue Tower — 108th Avenue NE



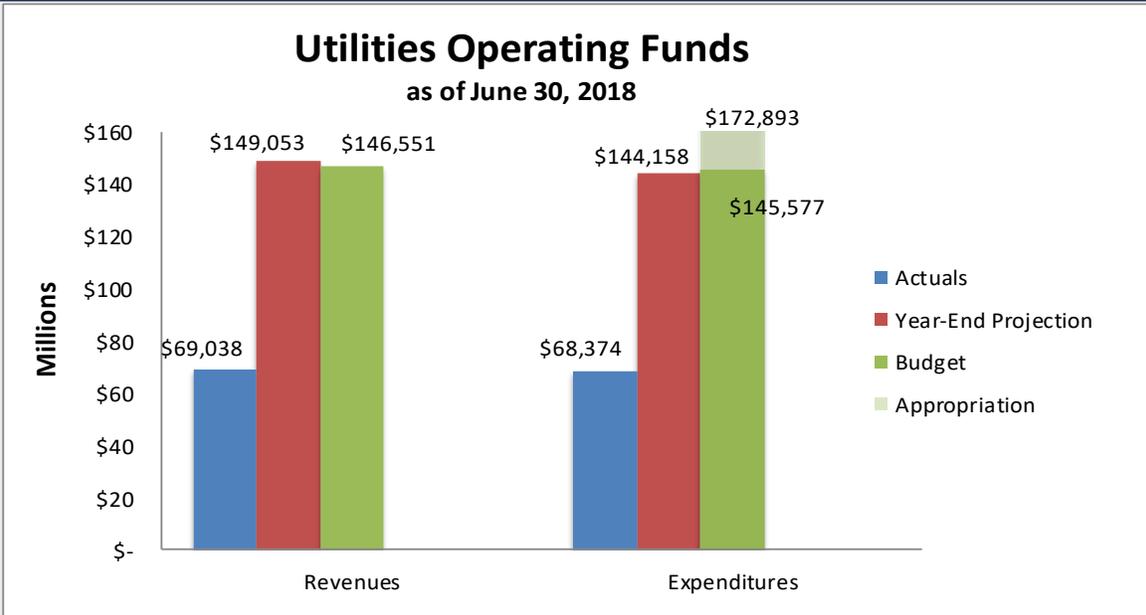
Note 1: The City’s legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development Services revenue has exceeded Q2 target as development activity for both review and inspections services continues to grow. Several major projects are in the review process and additional projects are in construction. By year end, revenues are anticipated to exceed budget by 5 percent. Expenditures are at anticipated Q2 budget levels and are expected to be under budget by \$226k at year end. Under expenditures are anticipated for M&O, offset by additional transfer to DS departments for review and inspection hours to be worked through year end.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2018

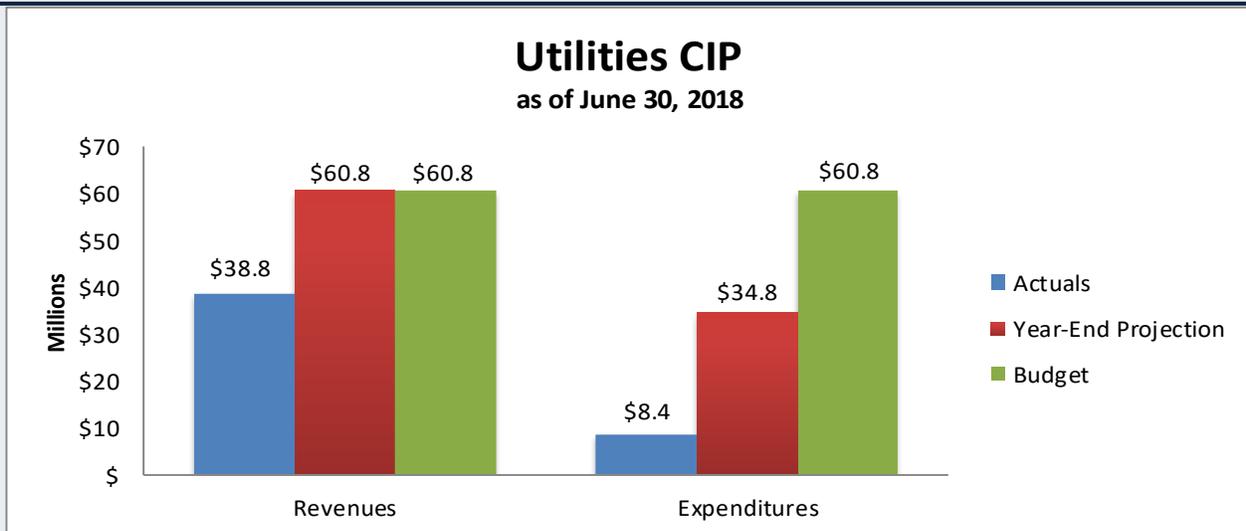
UTILITIES OPERATING FUNDS



Utility operating revenues are sufficient to cover expenses through the second quarter. Year-end revenues are forecasted to be above budget due to greater than anticipated Water and Sewer service revenues. Year-end expenditures are currently trending below budget due primarily to personnel savings as a result of vacancies.



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 are delayed due to internal staff vacancies. These projects will be initiated later this year using recently filled staff positions and professional consultant assistance.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2018