



City of Bellevue

## MEMORANDUM

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Phone: 425-452-7863

Date: December 3, 2019

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Director of Finance & Asset Management

Subject: 2019 Third Quarter Budget Monitoring Report

Attached is the 2019 Third Quarter Budget Monitoring Report for the period ending September 30, 2019. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds are performing within appropriation authority.
- General Fund revenue collections are expected to exceed budget by 0.8 percent (\$1.7 million) resulting in a forecasted ending fund balance of 23.1 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 \$108.9 million, approximately 38 percent of budget available. This total is 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, Director of Finance & Asset Management

Attachment

2019 Third Quarter Budget Monitoring Report

Cc: Brad Miyake  
Leadership Team



# BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2019

## 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 2019 Amended Budget, to discuss reasons for variances and to convey an overview of the local and national economic outlook.

### U.S. Economy

Real gross domestic product (GDP) increased at an annual rate of 1.9 percent in the third quarter of 2019, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.0 percent. The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), federal government spending, residential fixed investment, state and local government spending, and exports (Source: U.S. Bureau of Economic Analysis). Total nonfarm payroll employment rose by 128,000 in October, and the unemployment rate was little changed at 3.6 percent (Source: U.S. Bureau of Labor Statistics).

The US Federal Reserve's latest Beige Book report suggested that the national economic expansion continued at a slight to modest pace across the US since late August. The strongest growth occurred in the southern and western states while the Plains and Midwest saw below-average gains in economic activity. Consumer spending continued to support economic growth in much of the country, with boosts in auto sales benefiting the South and Midwest. Labor markets expanded at a slight pace

## 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%

in much of the nation, with strongest payroll additions occurring in Texas and the West. Manufacturing activity sagged in much of the country as producers faced a slowdown in global economic growth, persistent trade policy uncertainty, and rising costs due to tariffs. Construction activity remained robust in the West despite construction labor shortages and higher materials costs (Source: Federal Reserve Beige Book, October 16, 2019).

The Fed uses interest rates as a lever to stimulate the economy, when necessary. If the economy is slowing, the Fed can lower interest rates to make it cheaper for businesses to borrow money, invest, and create jobs. Lower interest rates also tend to make consumers more eager to borrow and spend, which helps spur the economy.

On October 30, the Federal Reserve's Federal Open Market Committee (FOMC) lowered the fed funds rate to 1.5-1.75 percent. This was the FOMC's third cut in 2019, following nine hikes since December 2015. Prior to that, the rate had been zero percent since December 2008. FOMC's reason for the rate cut was that although the U.S. economy is strong and unemployment is low, business investments and exports have continued to be weak.

**Regional Economy**

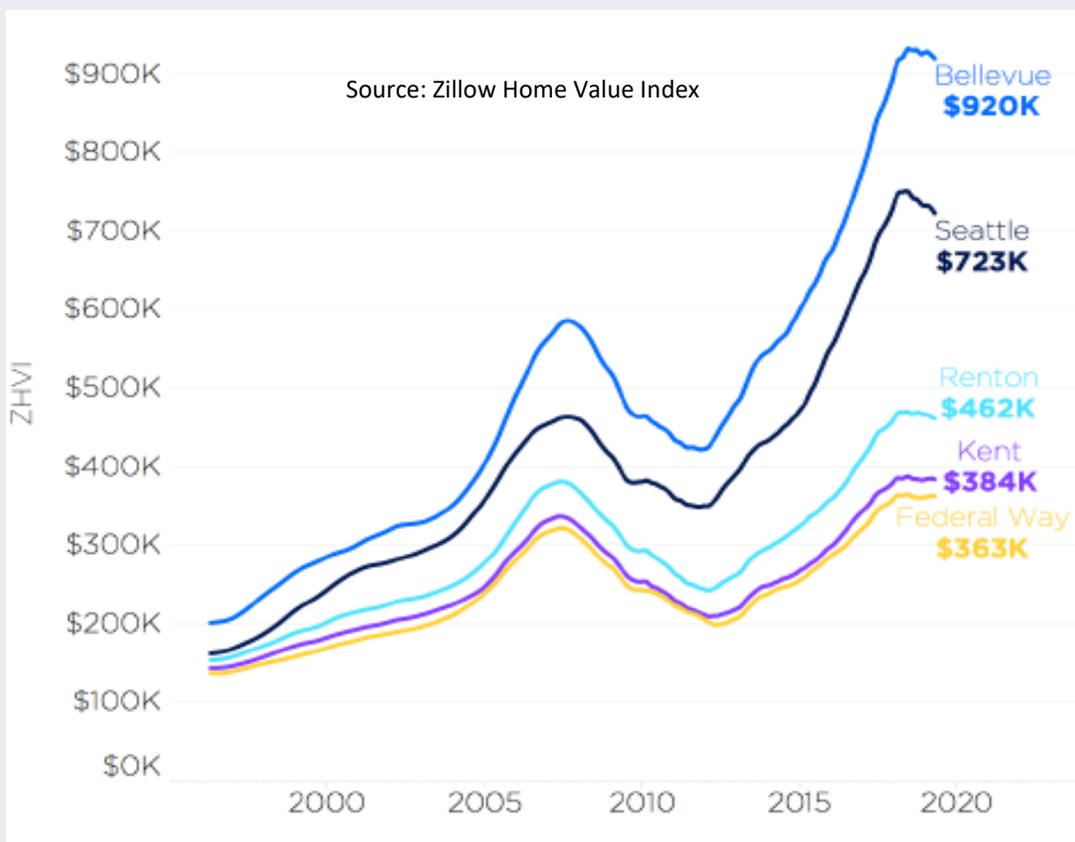
The Seattle-Tacoma-Bellevue metropolitan area has seen continued improvements in the labor market. The unemployment rate stayed low at 3.5 percent as of September 2019. Compared to last September, a few industries had strong employment growth. The financial activities employment increased 6.1 percent, construction employment increased 5.7 percent and information industry increased 5.6 percent from a year ago (Source: Bureau of Labor Statistics).

The chart below reflects the slow down in the local house market since last fall. Priciest markets have slowed faster than affordable pockets in the region. Listings are rising more in the region's pricier cities, and price cuts for listings continue to increase in the fall. Zillow economists are predicting home values will fall a little more, then stabilize as no near term job slow down is forecasted, and the housing market slowdown will spread to suburbs (Source: Zillow Economic Research).

**Bellevue Economy**

Development activities in Bellevue remain at a high level. Sound Transit's East Link light rail project is under construction along the entire alignment and is continuing to generate demand for permit review and inspection services. The light rail project is generating a significant amount of investment in commercial and residential Transit Oriented Development near light rails stations (Source: Development Services Department).

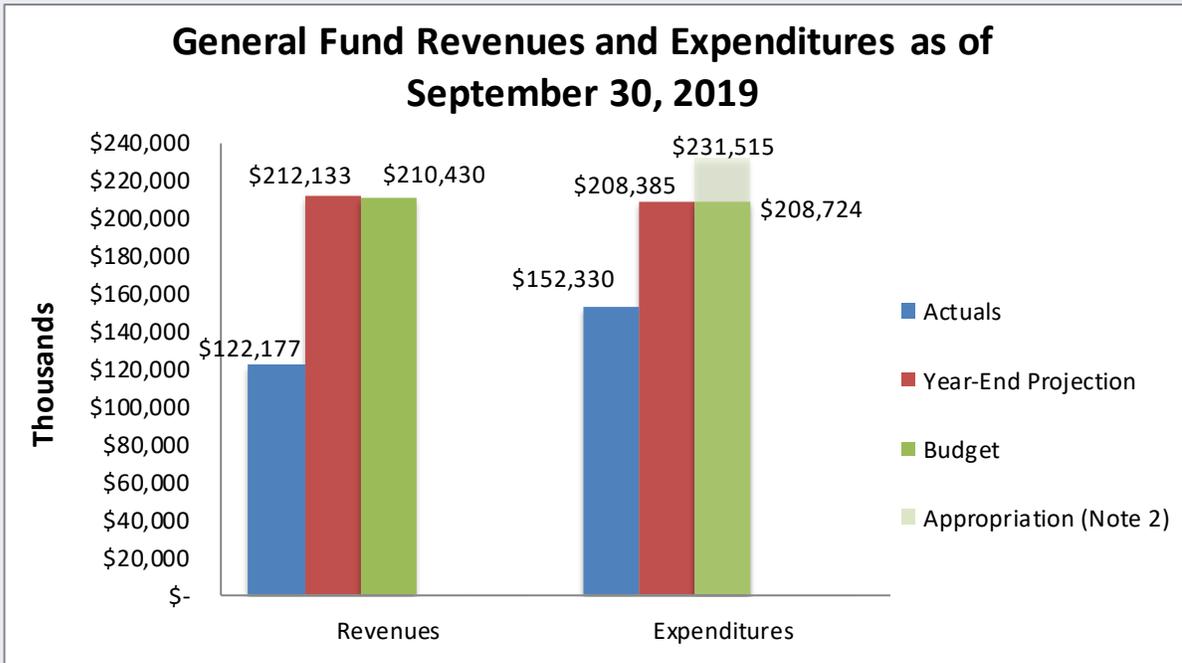
**Greater Seattle Area Median Home Value Index**



**City of Bellevue Budget Monitoring Report**

January 1 to September 30, 2019

# GENERAL FUND PERFORMANCE



*Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, 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 third quarter activities. Expenditures are based on actual activities performed during the third 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 \$1.7 million as Bellevue's tax base continues to grow due to the moderate growth in business activities and construction projects. The State of Washington informed us of a sales tax payment due to an audit which will negatively impact the city's sales tax. This negative impact is largely offset by the Ground Emergency Medical Transportation revenue. The various tax sources are broken down on the following page and discussed in greater detail.

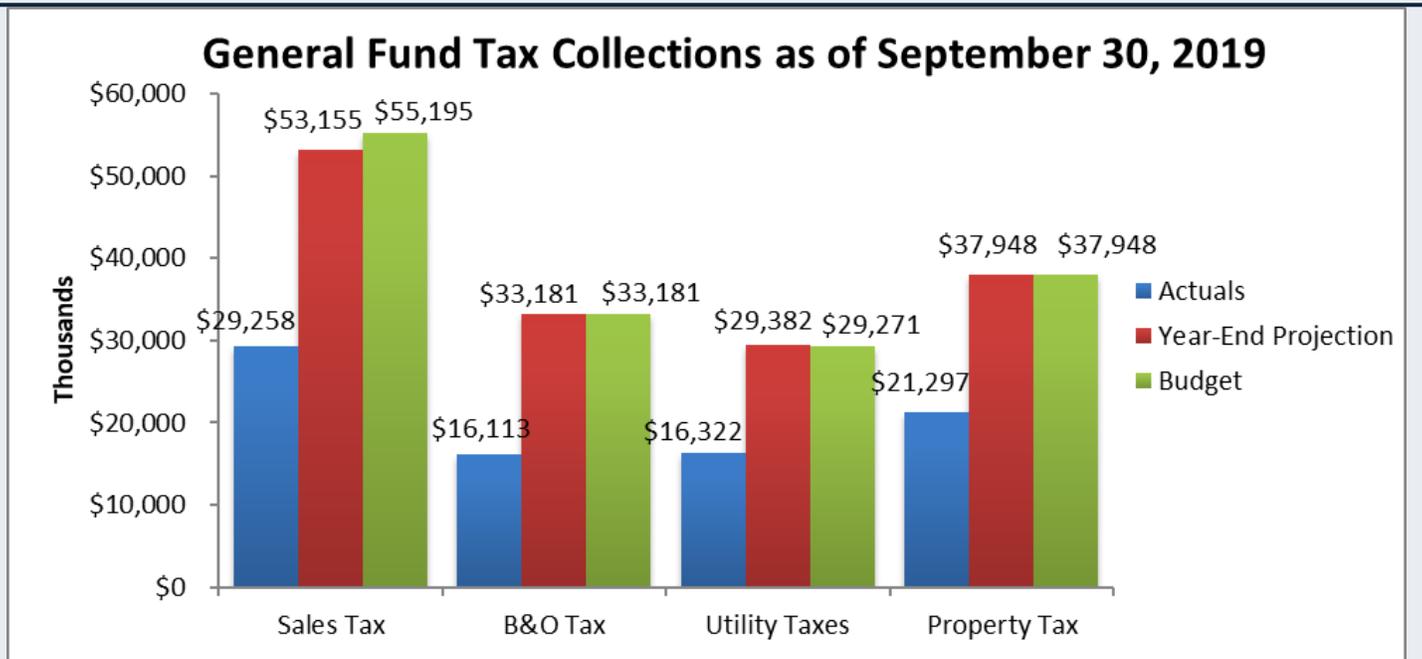
## Expenditures

Expenditures are expected to be slightly under budget. The winter storm has put pressure on the General Fund, largely offset by savings across all departments.

## Change in Fund Balance

The city's General Fund balance is projected to increase this year as revenue is projected to outpace 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 September, current year-end estimates, and 2019 amended budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual third 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:

As of third quarter, year-end tax revenue is projected to slightly exceed budget.

#### Sales Tax

The State of Washington informed us of a sales tax payment due to an audit which will negatively impact the city's sales tax by \$4.2 million. The General Fund impact of this (\$3.1 million) is partially offset by the increase in auto and online sales tax.

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

B&O tax is projected to be at budget. B&O tax in the chart above reflects collections through second quarter due to timing of collection.

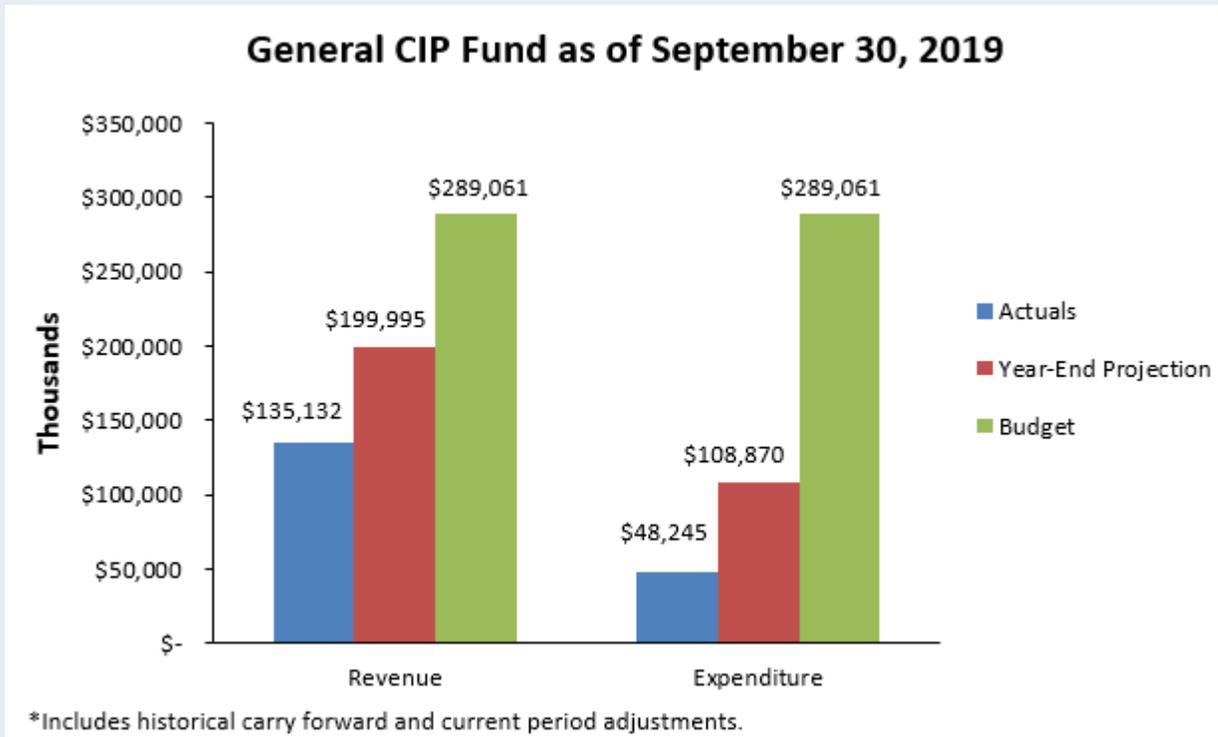
#### Utility Tax

Utility tax projections are expected to be slightly above budget by \$111,000 due to increased water usage in first half of 2019, partially offset by decreased electricity usage.

#### Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2019 total levy rate is \$0.92 per \$1,000 AV, which includes \$0.06 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.10 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.12 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

# GENERAL CIP PERFORMANCE



## Resources

Major CIP resources are comprised of taxes, grants, debt, and contributions, including Sales tax, B&O tax, Real Estate Excise Tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity Improvement levies approved by voters in 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in 2017.

The 2019 CIP includes \$88.0 million in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections are expected to be below budget by four percent due to a DOR audit. REET is estimated to be above budget by 14.3 percent,

or \$2.5 million, due to six transactions of properties over \$50 million. B&O tax is expected to be at budget. The impact fee refund has placed pressure on the CIP.

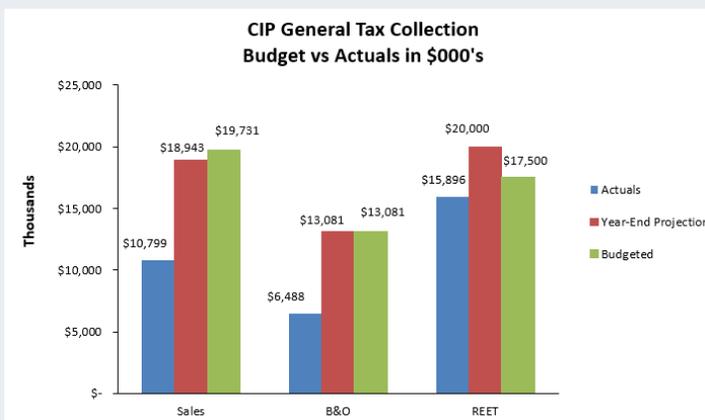
The difference between year-end revenue estimates and budget is a timing only difference due to TIFIA and grant reimbursement.

## 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 started in 2018 and have made significant advances in design and right of way acquisition. The city has drawn \$908k through 2018 to support projects and will continue to utilize this loan to advance qualifying projects. The NE Spring Boulevard (Zone 2) project (PW-R-173) began construction in the third quarter of this year.

## Expenditures

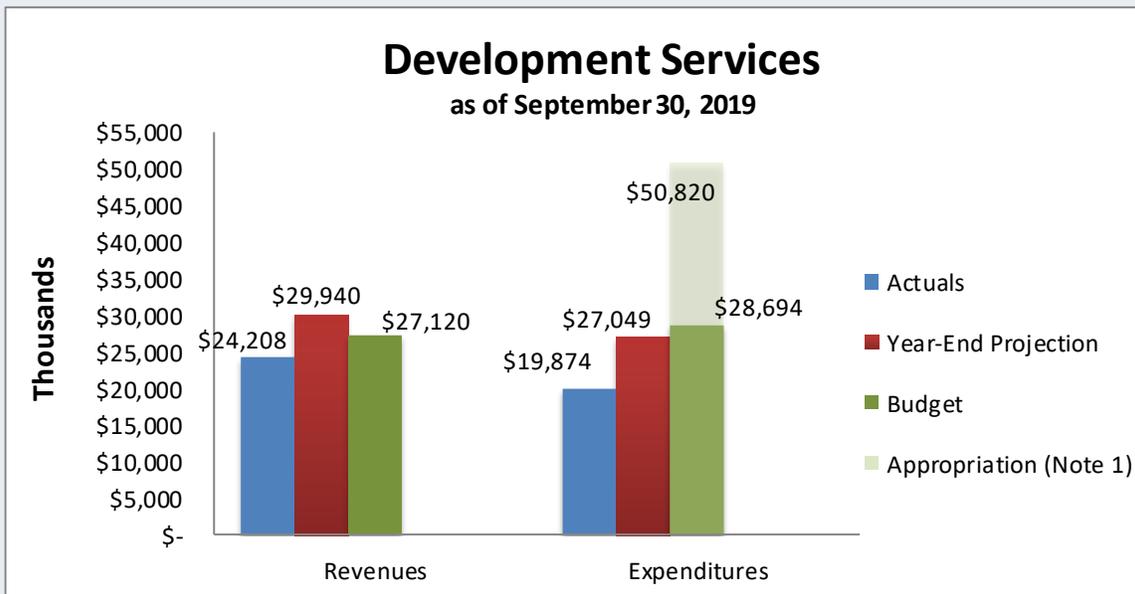
General CIP expenditures were \$48.2 million. This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.



## DEVELOPMENT SERVICES PERFORMANCE



**Summit III—320 108th Avenue NE**



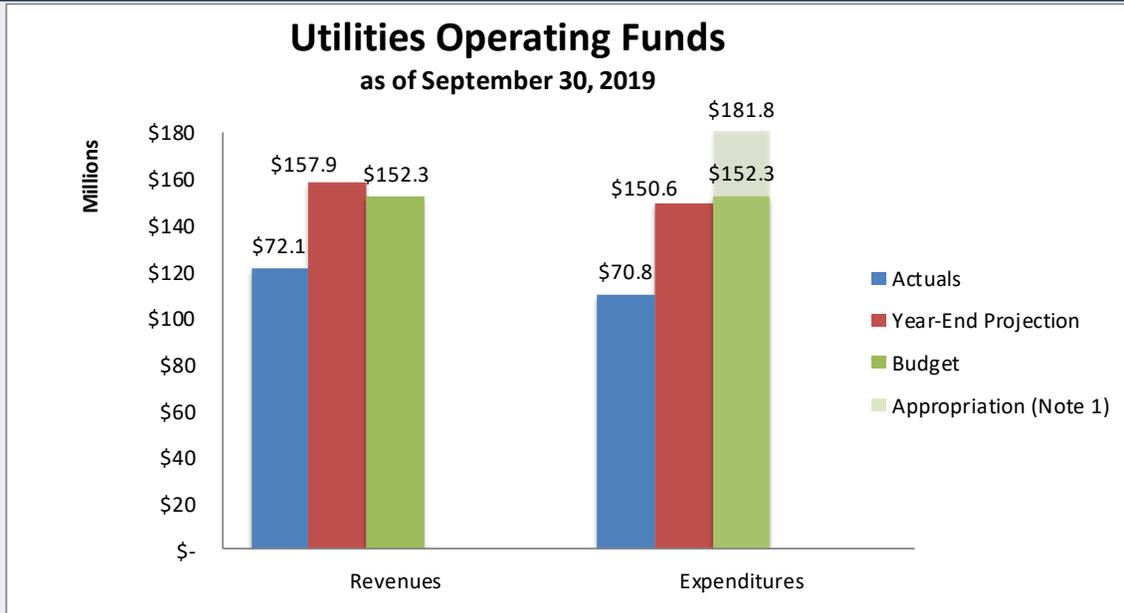
*Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).*

Revenue collections are 14 percent higher than anticipated, largely due to building revenue and investment interest growth. New projects and projects in construction continue to generate inspection revenue for all development services. By year end, revenues are anticipated to be over 10 percent over budget. Expenditures are under budget levels and are anticipated to show savings of approximately 6 percent by year end. This is a result of vacant positions and other miscellaneous savings.

### City of Bellevue Budget Monitoring Report

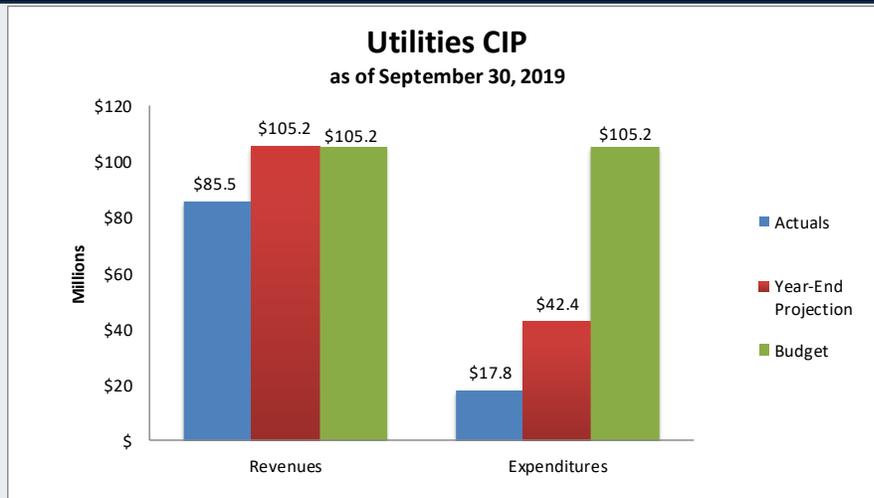
January 1 to September 30, 2019

## UTILITIES OPERATING FUNDS



Utility operating revenues are sufficient to cover expenses through the third quarter. Year-end revenues are forecasted to be above budget largely due to greater than anticipated Water and Sewer service revenues resulting from warm and dry spring weather. Year-end expenditures are trending below budget due primarily to personnel vacancy savings. The budget display above is adjusted down to reflect an accounting technical adjustment with a net zero impact to the fund.

## UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$10.6 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.5 million for water facilities for Spring Blvd.

Projected expenditures reflect delays for several major projects. These include the West Lake Sammamish Parkway Transportation Project and I-405 HOV Lanes Project, where most of the watermain replacement work will occur in 2020; New Water Inlet Station and NE 8th St. Transmission Main project, currently in design but construction is delayed due to development of agreements with Cascade Water Alliance; AMI due to contract negotiations; Flood Control Program due to projects requiring additional alternatives analysis and easement agreements, and Sewer Rehab Projects that were delayed due to time needed to hire consultants to augment staff resources. The anticipated unspent 2019 budgeted funds will be needed for construction in 2020/2021.

### City of Bellevue Budget Monitoring Report

January 1 to September 30, 2019