



City of Bellevue

MEMORANDUM

Phone: 452-7863

Date: September 1, 2016

To: Mayor John Stokes and City Council Members

From: Toni Rezab, Interim Finance Director

Subject: 2016 Second Quarter Budget Monitoring Report

Attached is the 2016 Second Quarter Budget Monitoring Report for the period ending June 30, 2016. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items – 2016 Second Quarter:

- The General Fund Revenue projections as of the second quarter of the year remain slightly above budget by 0.20% and expenditure projections are tracking above budget by 0.16%, however, they are attributable to increased expenditures with direct revenue offsets.
- All funds are performing within total appropriation authority.

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

Sincerely,

A handwritten signature in blue ink that reads "Toni Rezab".

Toni Rezab, Interim Finance Director

Attachment

2016 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 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 this document is to report on the City's overall financial performance through the second quarter. This report compares actual expenditures and revenues and year-end projections to the 2016 amended budget.

U.S. Economy

We are getting some mixed messages looking at the major economic indicators in the U.S. The U.S. economy added 287,000 net new jobs in June, the largest monthly increase since October 2015 and a major turnaround after May data showed the smallest increase in jobs since September 2010 (Source: U.S. Bureau of Labor Statistics). However, the initial estimate of second quarter GDP growth was a disappointing 1.2%, with first quarter GDP growth revised down to 0.8%. Personal income increased 1.1 percent nationally in the first quarter. For the nation, earnings grew in 22 of the 24 industries; Health care, construction, and professional services were the leading contributors to overall growth in personal income (Source: U.S. Bureau of Economic Analysis). The median home value in the United States is \$187,000. United States home values have gone up 5.4% over the past year and Zillow predicts they will rise 2.9% within the next year. (Source: Zillow Research (<http://www.zillow.com/research/>)). However, the median home value in United States is still lower than its peak in 2007. Overall, although the national economy continued its weak pace of growth in the first two quarters, economists believe the economic

Performance at a Glance

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

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

recovery will continue at a moderate pace (Source: IHS Global Insight). The Federal Reserve is normalizing monetary policy, but recent weakness in the economy has caused them to delay raising interest rates. Global Insight still assumes that the Federal Reserve will raise the rates once by 0.25% this year (Source: IHS Global Insight).

Regional Economy

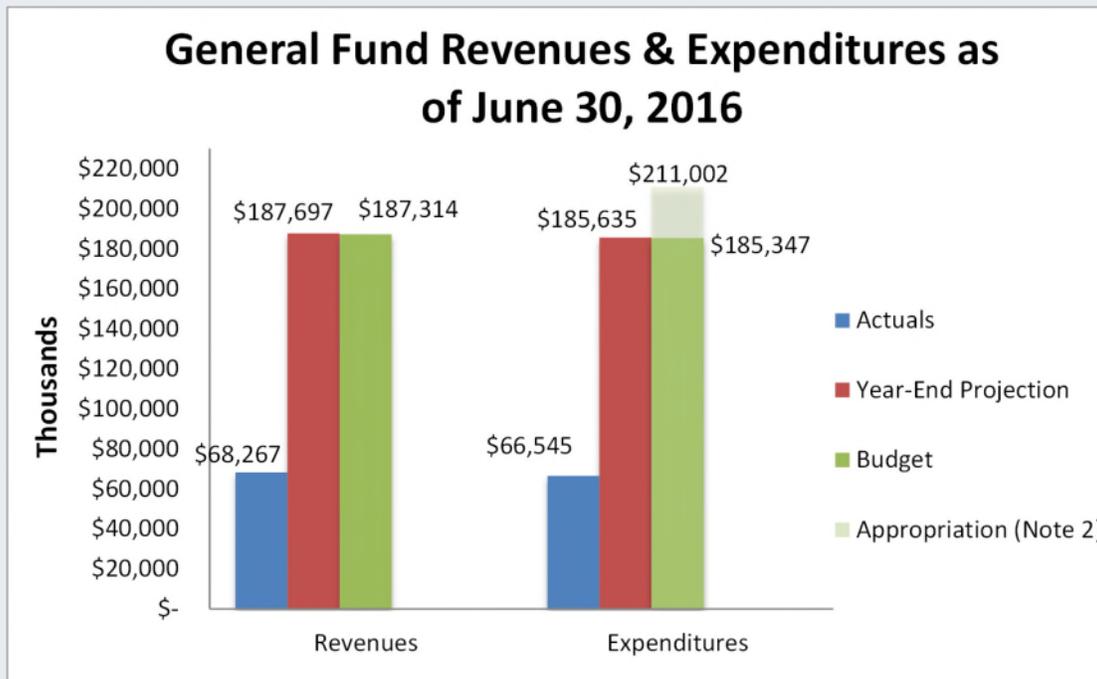
The Washington State and Puget Sound region had strong home price growth, job growth, personal income growth and population growth compared to the nation. Personal income in Washington State grew 2.1 percent, almost double the national earning growth, and faster than any other state, largely due to stock grants in the information sector (Source: U.S. Bureau of Economic Analysis). Global Insight economists expect the growth to moderate after a strong first half of 2016. Weak manufacturing performance and overall softer employment growth in the state and country is expected to limit growth. Construction growth and building - which helped Washington State and Seattle become so strong in the past few years - will begin to taper off as the tremendous amount of residential and commercial development projects that began a few years ago are slated to finish by the end of 2016 -2017. Growth will still be strong compared to the US, but may not be as pronounced (Source: IHS Global Insight).

Bellevue Economy

As one of the top destinations for domestic movers right now, Bellevue home prices have rebounded much faster than the nation. The median home value in Bellevue is \$716,900 by the end of June 2016. Bellevue home values have gone up 12.3% over the past year and Zillow predicts they will rise 6.8% within 2017. (Source: Zillow Research (<http://www.zillow.com/research/>)). On the other hand, Global Insight economists expect the home price growth should stabilize over the next few quarters, but will still be high. Affordability is a major concern in the Seattle Metro Area and it is unlikely to ease given strong wages in the metro area's expanding technology and information sector.

Sales tax collections for 2016 are projected slightly above budget. The increase is largely due to the growth in professional services, information, and retail trade. Bellevue added a total of 1710 jobs in the first two quarters of 2016 and our average monthly unemployment rate is 4.1%, lower than the nation rate of 4.9% and Washington State at 5.8% (Source: U.S. Bureau of Economic Analysis).

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, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Revenue

General Fund revenue is tracking above budget with a variance of less than quarter of a percent greater than budget. 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 recover, largely due to Sales and B&O tax growth, buoyed by audit activity and construction growth. Some of this strong growth is projected to continue in 2016, 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.

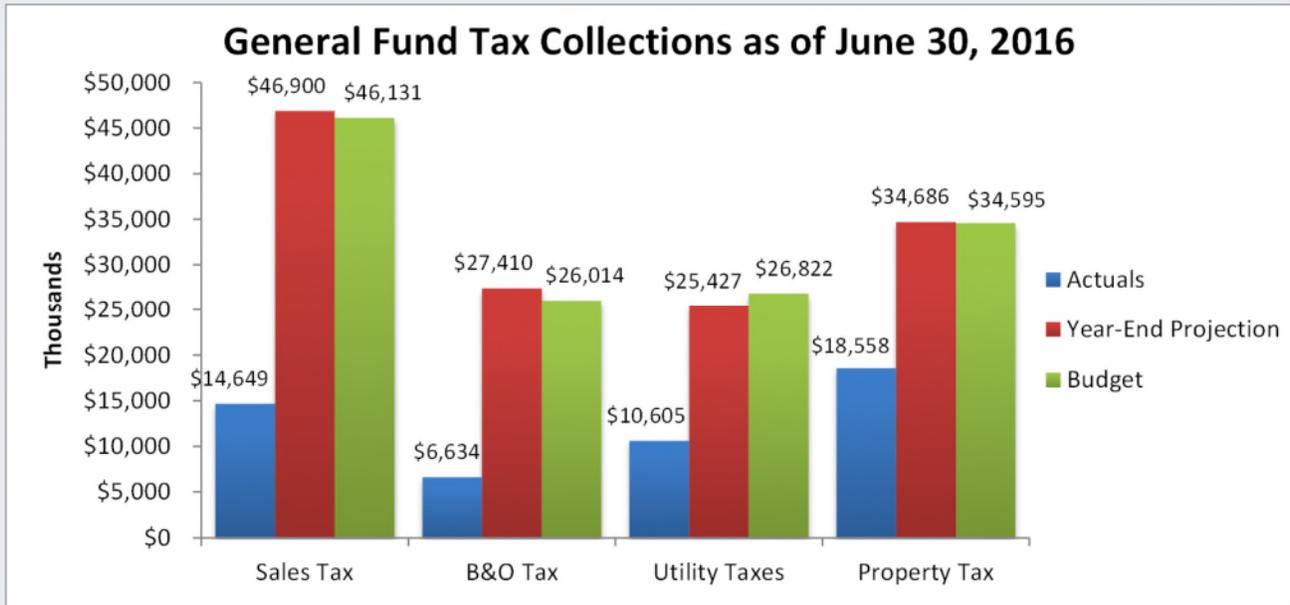
Expenditures

Expenditure projections have decreased between first quarter and second quarter. Expenditures are now tracking 0.16% above budget, however, they are attributable to increased expenditures with direct revenue offsets. For example, Advanced Life Support (ALS) revenues directly offset 100% of ALS expenditures.

Year-end estimated revenues are projected to counterbalance year-end expenditures. The city appropriates 100% of fund balance, and expenditure estimates will be within total city legal appropriation.

The Budget Office is closely watching revenue and expenditures on a monthly basis.

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and 2016 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:

Year-end tax revenue is projected to be approximately one half percent above budget. Taxes exceeding budget, like sales tax, are largely offset with taxes that are coming up short, such as utility taxes.

Sales Tax:

Sales tax collections are projected greater than budget and slightly greater than first quarter projections due to continued increases in the use of professional services, primarily in the technology, financial and administrative industries. Year to date collections reflected higher than anticipated development activity in the first quarter.

Business and Occupation Tax (B&O Tax):

B&O tax is projected to be about \$1.4M above budget slightly higher than first quarter projections, comprised of approximately \$800K due to a large business audited in the prior year remitting their ongoing tax obligation, as well as about \$300K due to development activity and \$300K due to increased audit activity.

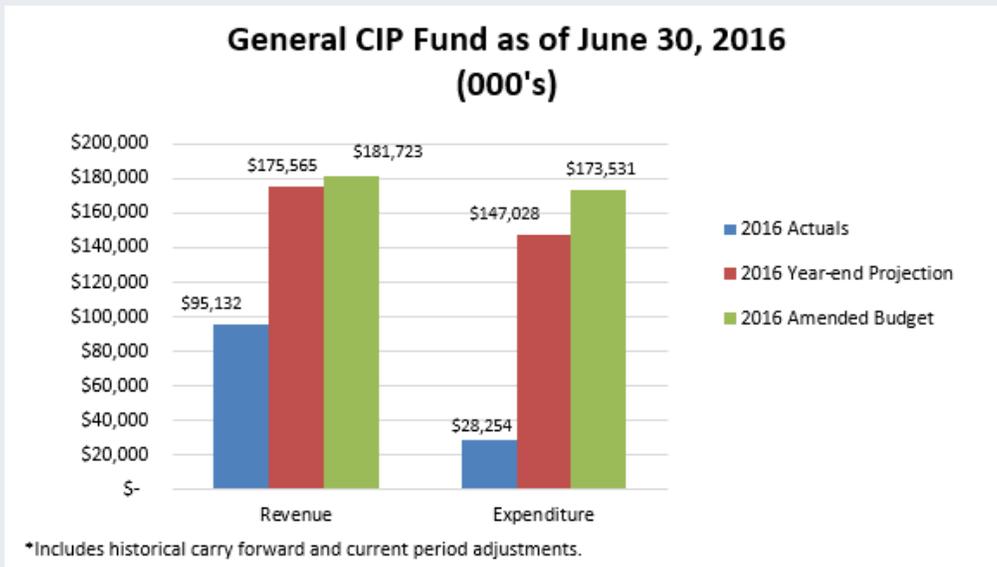
Utility Taxes:

Utility tax collections are projected to be below budget due to continued decline in telephone and cell phone tax collections. Utility taxes have been trending down since the beginning of 2012. Phone utility taxes are trending down due to fewer land lines and a greater share of non-taxable data plans versus taxable voice plans. The city's out year forecast reflects historical and future tax collection trends.

Property Tax:

Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. Bellevue's 2016 total levy rate is \$0.94 per \$1,000 AV, which includes a \$0.09 per \$1,000 of assessed value for the voter authorized Parks and Open Space Levy Lid Lift. Property tax is projected to be slightly above budget due to updated construction valuation information received earlier in the year.

GENERAL CIP PERFORMANCE



Note: The above graph illustrates the difference between year-to-date resource collections and expenditures through June, current estimates, and available 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. Expenditures are based on actual activities performed through the second quarter.

Resources

Major CIP resources are comprised of bond proceeds, taxes, grants and contributions. The largest annual resource for the CIP fund are taxes: Sales tax, B&O tax, Real Estate Excise Tax (REET) and the parks levy. The 2016 CIP includes \$73.7 million in beginning fund balance programmed to existing projects in the CIP. Sales tax and B&O tax collections are projected to be higher than budget. For specific discussion about Sales and B&O tax, see the General Fund section of this report.

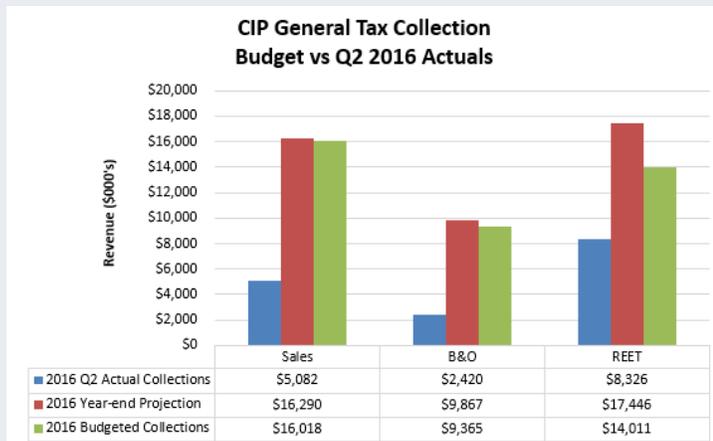
REET

This year there have been 18 transactions between \$10M and \$50M compared to 16 at this point last year, and 5 transactions of \$50M or above compared to 4 last year. The Budget Office is forecasting year end to be greater than budget. REET is restricted by Council Ordinance, 50% to Transportation and 50% to Parks. The Budget Office continues to monitor large transactions and incorporate these transactions into the forecast.

Expenditures

CIP expenditures are projected to be \$147 million at year-end. Expenditure projections for 2016 include progress on large scale transportation projects (completion of 120th Ave NE Stage 2 from NE 8th to NE 12th Street with construction set to begin in September on Stage 3 of the corridor from NE 12th Street to NE Spring Blvd, as well as, begin construction of NE Spring Blvd Zone 1b from the Eastside Rail Corridor to 120th Avenue NE) and the start of construction on the Downtown Park project.

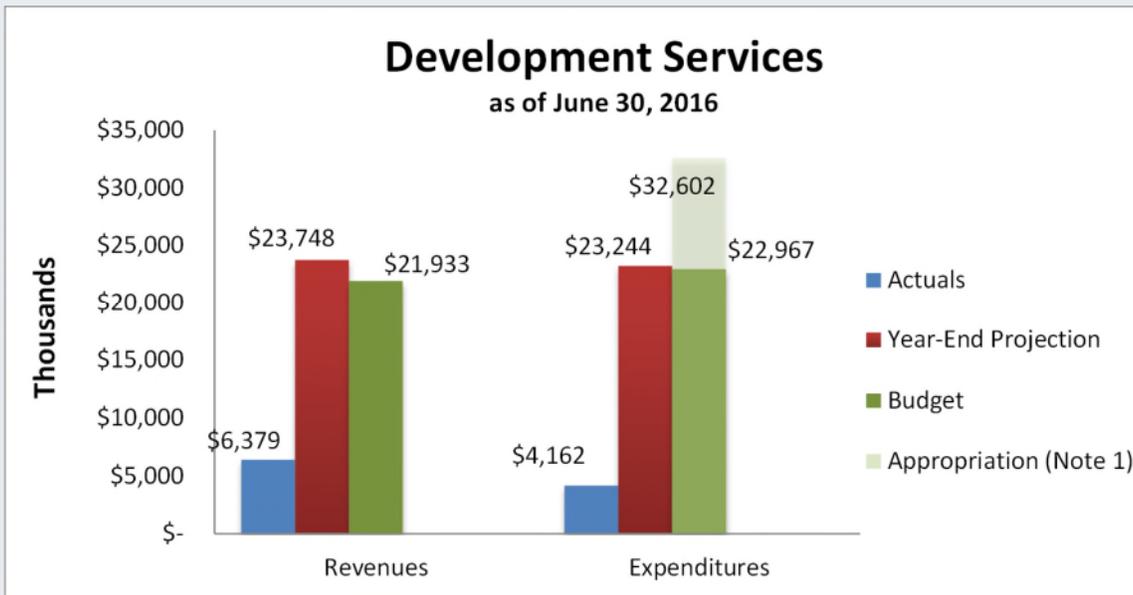
Other expenditure highlights include construction on the City Hall Parking Garage expansion project, which was recently completed. The second quarter projections estimate CIP revenue to exceed expenditures at year-end.



DEVELOPMENT SERVICES PERFORMANCE



Bellevue Square Expansion—701 Bellevue Way



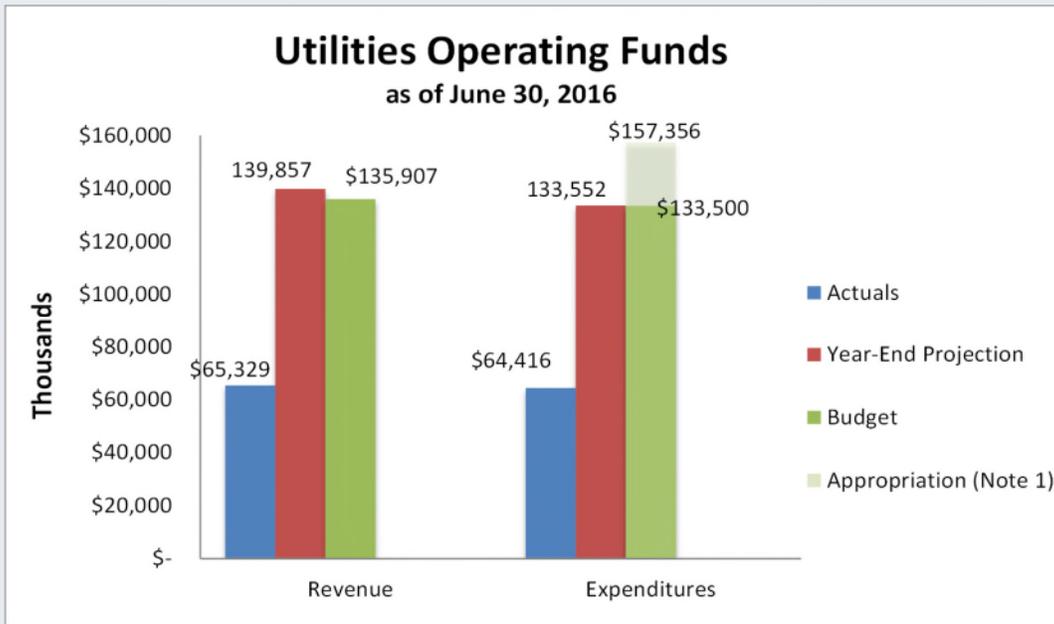
Note 1: *The City’s legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).*

Development in Bellevue continues to experience strong activity as several new projects are in construction or have permits approved to begin construction by year-end . Review and inspection work will also continue in response to the Sound Transit East Link light rail project that is anticipated to be well underway by year-end. 2016 budget anticipated a slowdown in development activity reflected in higher budgeted expenditures than budgeted revenues based on typical development collection cycles. Year-end projections reflect continued development activity.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2016

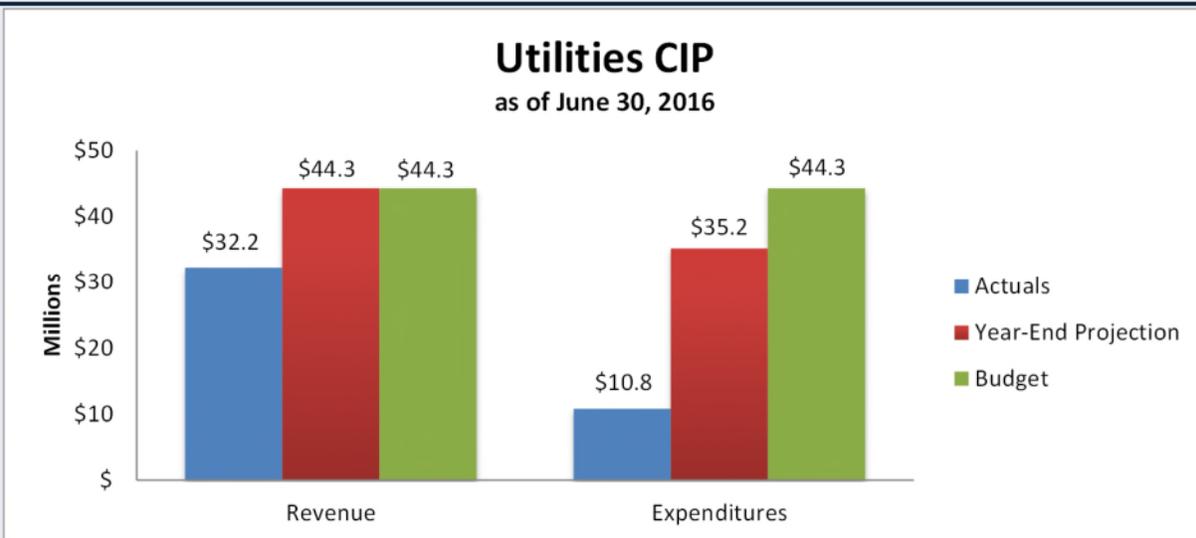
UTILITIES OPERATING FUNDS



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).

Utility operating revenues were sufficient to cover expenses through the second quarter. Year-end operating revenues are expected to be over budget due to stronger than anticipated water sales and ongoing development activity. Year-end operating expenses (exclusive of reserves) are expected to be slightly over budget, but within forecasted revenues, due to increased taxes as a result of strong water sales offset by savings from personnel vacancies.

UTILITIES CIP



Note: The figures above exclude reserves for Eastlink and long-term funding for stream restoration initiatives in the Bel-Red corridor.

Utility CIP second quarter actual revenues exceed expenses, reflecting carry overs from the previous year. Revenues are expected to be at budget by year-end. Second quarter CIP expenditures reflect projects under construction. Year-end projected under-expenditures reflect permitting delays, design delays due to project changes, and construction delays due to timing of project activities.

City of Bellevue Budget Monitoring Report

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