



City of Bellevue

MEMORANDUM

Phone: 425-452-7863

Date: August 05, 2019

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Director of Finance & Asset Management

Subject: 2019 Second Quarter Budget Monitoring Report

Attached is the 2019 Second Quarter Budget Monitoring Report for the period ending June 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 0.2 percent (\$0.5 million) resulting in a forecasted ending fund balance of 21.9 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 \$126.7 million, approximately 44 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 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 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

On July 1st, the U.S. broke its record for the longest economic expansion in history as it began the 121st consecutive month of gross domestic product (GDP) growth since the Great Recession. The recovery began in July 2009, and unemployment peaked at 10 percent in October 2009. The labor market has added jobs in every month since October 2010, which drove unemployment down to 3.7 percent as of July 2019. National Inflation (CPI-U) stays low at 1.6 percent as of June 2019 before seasonal adjustment (Source: U.S. Bureau of Labor Statistics). The current federal funds rate target range remained low at 2.25 to 2.5 percent when the Federal Open Market Committee met on June 19 (Source: Federal Open Market Committee Press Release).

An economy is considered recessionary after two consecutive quarters of negative GDP growth. Though this trend has not yet been recorded, the Bureau of Economic Analysis projected a GDP growth slowdown in 2019 from 2018. According to the July 17th Beige Book published by the Federal Reserve, national vehicle sales were flat, residential construction activity was flat, agricultural output declined modestly, and oil and gas production fell somewhat.

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%

The overall outlook is generally positive for the coming months, with expectations of continued modest growth, despite widespread concerns about the possible negative impact of trade-related uncertainty. IHS Market economists highlighted that the risk of loss in confidence and growing risk aversion may cause a reduction in investment and consumer spending across many categories, which could trigger a decline in an already slowing housing market and capital investment.

Regional Economy

The Seattle-Tacoma-Bellevue metropolitan area has seen continued improvements in the labor market. The unemployment rate continues to decline to 2.9 percent as of June 2019 (Source: Bureau of Labor Statistics). The tight labor market has increased competition between employers to gain and retain talent, which resulted in Seattle metro's personal income growth outpacing the country in 2018. However, the newest Employment Cost Index (ECI), displayed in the chart below, shows that Seattle metro's wage and salary growth is slowing down to be closer to the nation.

Demand for office space in the Puget Sound was high, and the vacancy rate was nearly the lowest in the country. This can be attributed to the availability of skilled workers and a healthy mix of amenities and transit. The Eastside strengthened its reputation as the tightest major market in the region as more tenants signed leases and occupied space, and with new developments still yet to deliver (Source: Puget Sound Office Market View Q2 2019, CBRE Research).

Bellevue Economy

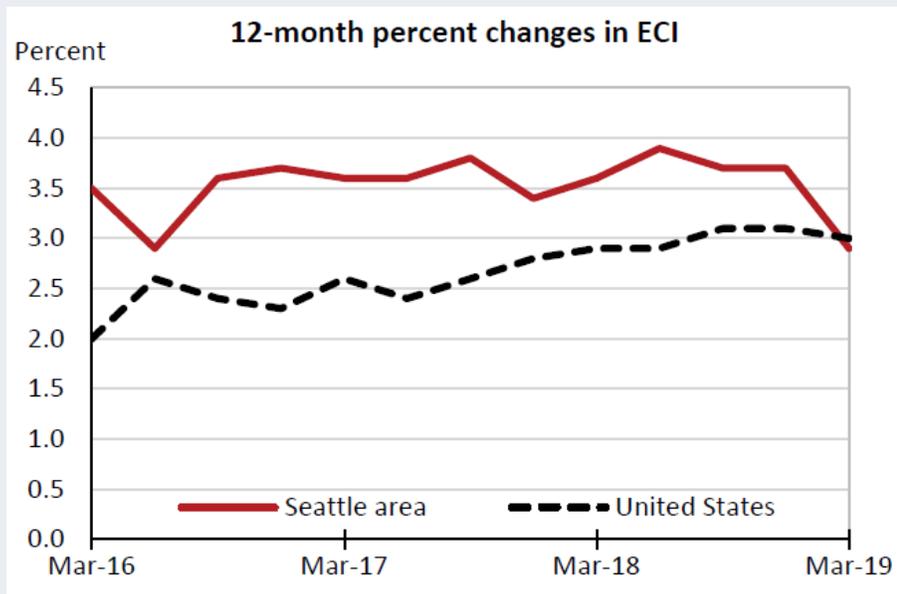
Bellevue's unemployment rate decreased to 2.6 percent in June. The total employment grew 2,062 jobs from a year ago (Source: Employment Security Department/LMEA; U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics).

Bellevue's Office demand is increasing, which is reflected in the increasing office rent asking rate and the decreasing vacancy rate. According to CBRE's 2nd Quarter report, Bellevue's central business district (CBD) currently has the highest Class A asking lease rate at \$56.94/SF/Yr among all the sub markets in the Puget Sound region, 12 percent higher than Seattle CBD's second highest asking rate. Bellevue's vacancy rate is 4.8 percent, significantly lower than Puget Sound's 9.7 percent market total vacancy rate.

Bellevue CBD experienced several significant leases in 2nd quarter including HNTB, Facebook, Davis Wright Tremaine, and Discovery Communications. With 330,800 sq. feet of office space currently under construction in Bellevue CBD and 338,000 sq ft under construction in Bel Red area, more office space will be available for businesses (Source: Puget Sound Office Market View Q2 2019, CBRE Research).

Over-the-year changes in wages and salaries

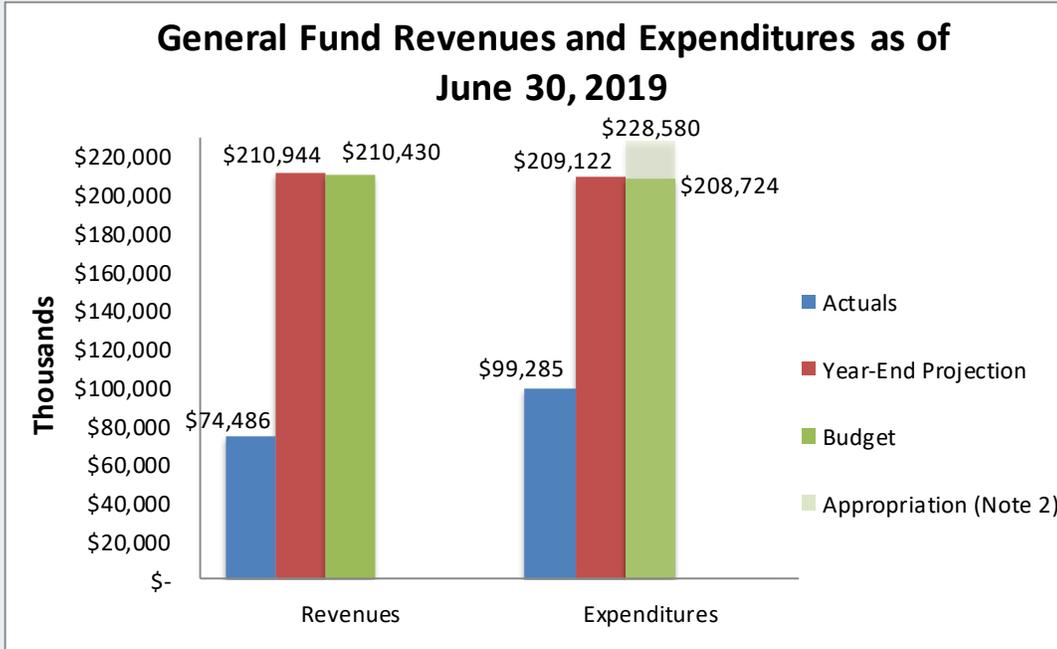
Source: U.S. Bureau of Labor Statistics, Employment Cost Index



City of Bellevue Budget Monitoring Report

January 1 to June 30, 2019

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 \$0.5 million. 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 revenue sources are broken down on the following page and discussed in greater detail.

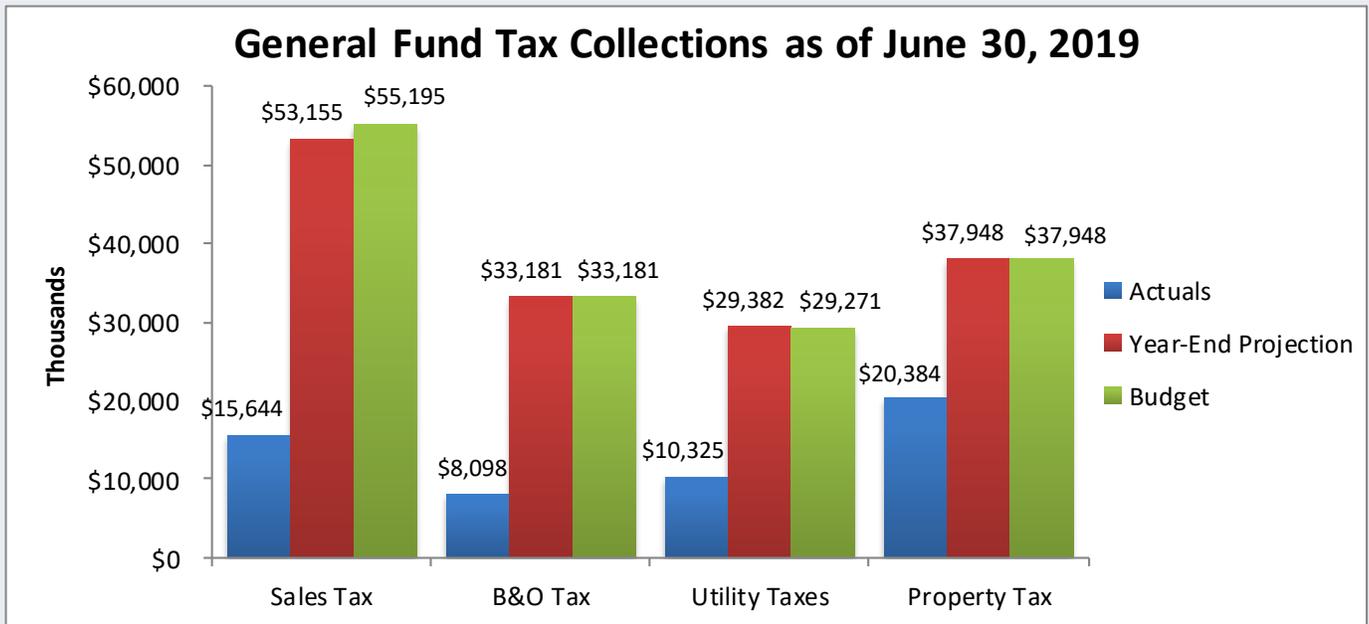
Expenditures

Expenditures are expected to be slightly over budget. The winter storm has put pressure on the General Fund, largely offset by savings in prevailing wage and vacancies 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 June, 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 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:

As of second 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 Ground Emergency Medical Transportation (GEMT) revenue.

Business and Occupation Tax (B&O Tax)

B&O tax is projected to be at budget due to strong business activity and audit recovery.

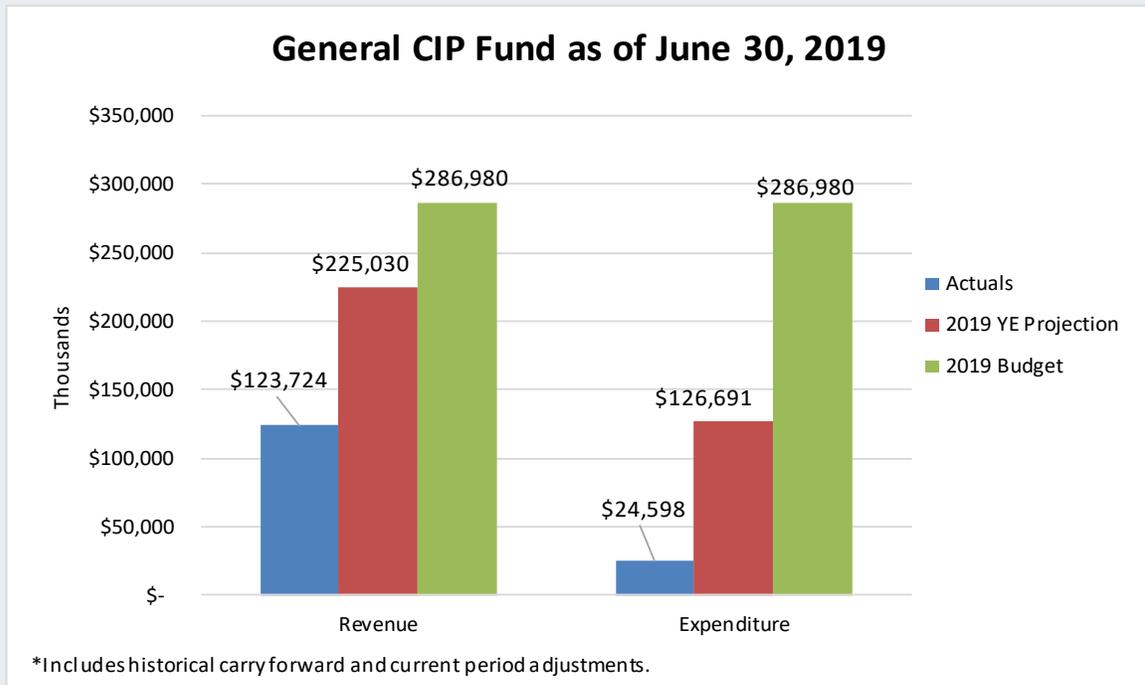
Utility Tax

Utility tax projections are expected to be slightly above budget by \$100,000 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.

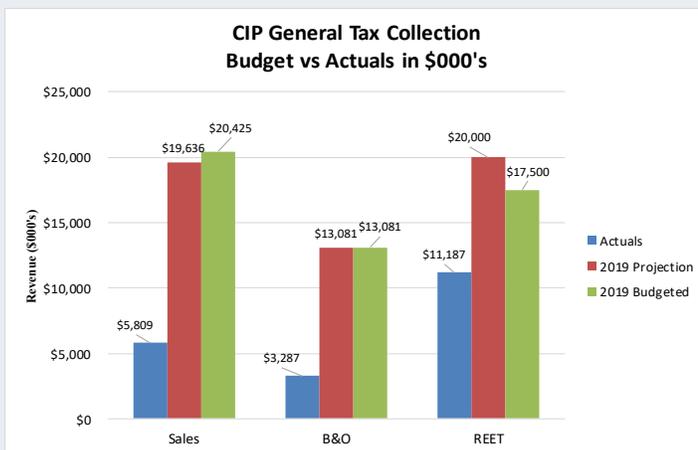
The 2019 CIP includes \$88.0 million in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections are expected to be below budget by four percent due to a DOR audit. REET is estimated to be above budget by 14.3 percent,

or \$2.5 million, due to six transactions of properties over \$50 million. B&O tax is expected to be at budget. An impact fee refund negatively impacted year-end fee projections.

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 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) is expected to begin construction in the third quarter of this year.



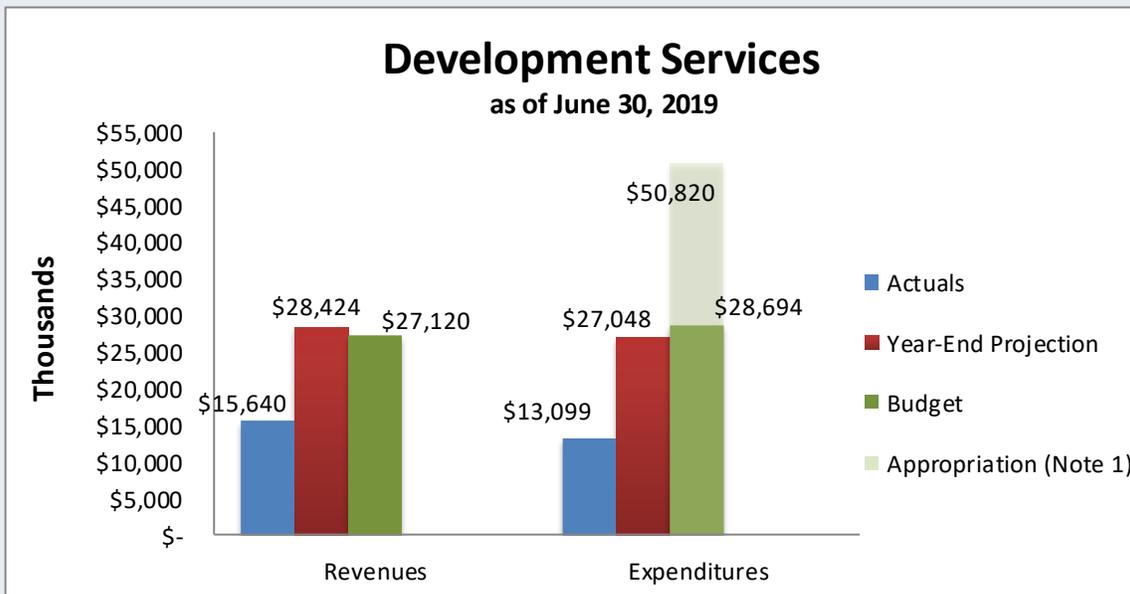
Expenditures

General CIP expenditures were \$24.6 million. This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

DEVELOPMENT SERVICES PERFORMANCE



Alamo Manhattan B2
10625 Main St



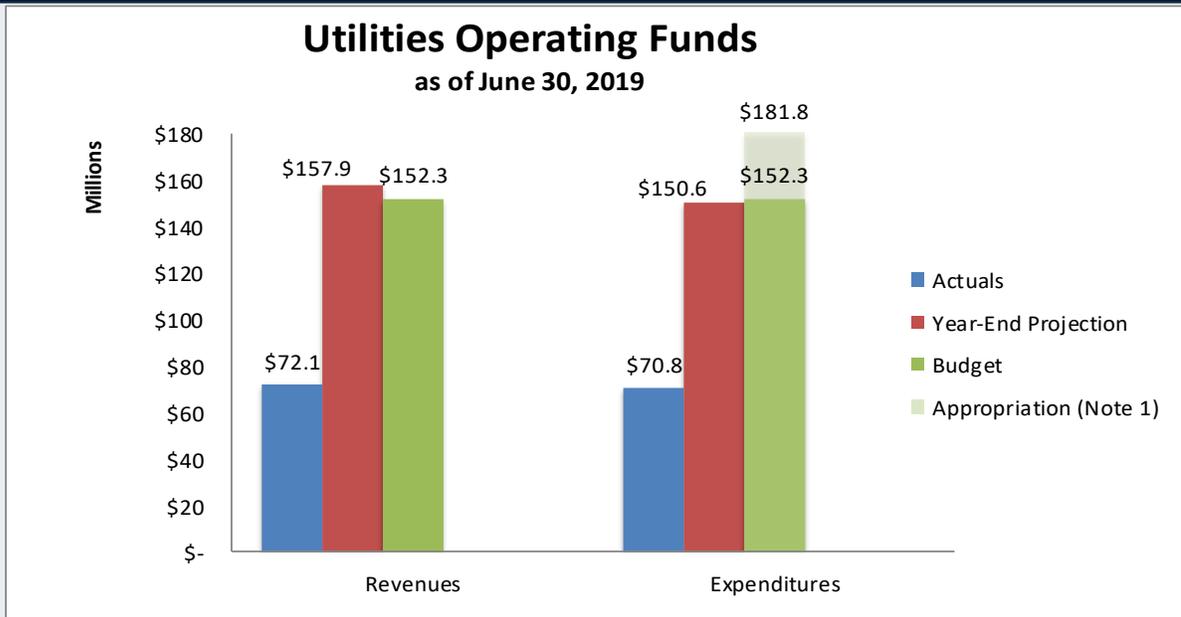
Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Revenue collections are 8 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 nearly 5 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

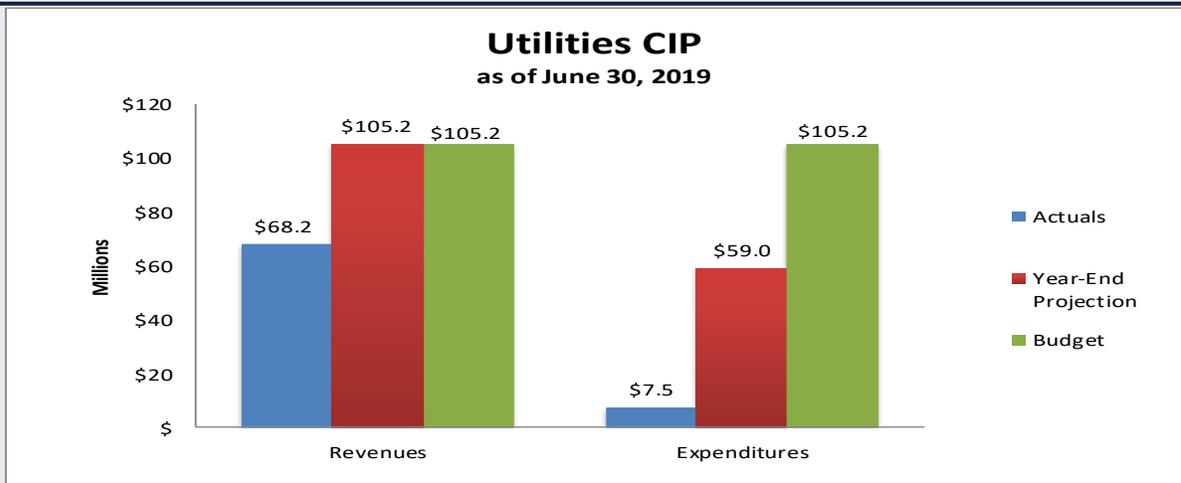
January 1 to June 30, 2019

UTILITIES OPERATING FUNDS



Utility operating revenues are sufficient to cover expenses through the second 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. This will be requested to be corrected in the Mid-Biennium update.

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 majority of the anticipated unspent 2019 budgeted funds will be needed for construction in 2020/2021.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2019