



Phone: 425-452-7863

Date: May 24, 2019

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Director of Finance & Asset Management

Subject: 2019 First Quarter Budget Monitoring Report

Attached is the 2019 First Quarter Budget Monitoring Report for the period ending March 31, 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.
- Year-end General Fund expenditures are projected to be within appropriation.
- General Fund revenue collections are expected to exceed budget by 0.9 percent (\$1.9 million) resulting in a forecasted ending fund balance of 23.1 percent of revenue. The City's General Fund balance is projected to increase this year by \$3.4 million, 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 \$159.9 million, approximately 56 percent of budget available. This total is at 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 First Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through March 31, 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

The current recovery from the Great Recession is currently the second longest in history and will become the longest if it lasts through June 2019. This is also the slowest recovery since World War II in terms of GDP growth.

The U.S. Gross Domestic Product (GDP) increased at an annual rate of 3.2 percent in the first quarter of 2019, according to the advanced estimate released by the Bureau of Economic Analysis. The increase in real GDP in the first quarter was the strongest growth since 2015, and higher than expected. On the other hand, Consumer spending, or personal consumption expenditures (PCE), accounts for 70 percent of economic activity and slowed to 1.5 percent annual growth in March from a 2 percent annual growth observed in December 2018 (Source: US. Bureau of Economic Analysis).

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%

IHS Markit Economists predict US economic growth will decelerate in the rest of 2019 and beyond, as fiscal and monetary stimulus are reduced and the gains slow to the more sustainable path of around two percent (Source: IHS Markit). Employment continued to grow and the unemployment rate stayed low at 3.9 percent nationwide as of March 2019. The largest over-the-year percentage increases in employment occurred in San Francisco-Redwood City-South San Francisco, CA (+3.7 percent), Dallas-Plano-Irving, TX (+3.5 percent), and Seattle-Bellevue-Everett, WA (+2.7 percent) (Source: US. Bureau of Labor Statistics May 1 news release).

Regional Economy

The Seattle-Tacoma-Bellevue metropolitan area has been one of the strongest growing metro areas in the nation in the past couple of years. The area owes much of its economic growth to being the trade center of the Pacific Northwest Region, thanks to the vibrant tech scene from the likes of Microsoft and Amazon. This, in conjunction with construction of new residential and commercial developments and an ever-evolving manufacturing base, serves as the bedrock of the metro area.

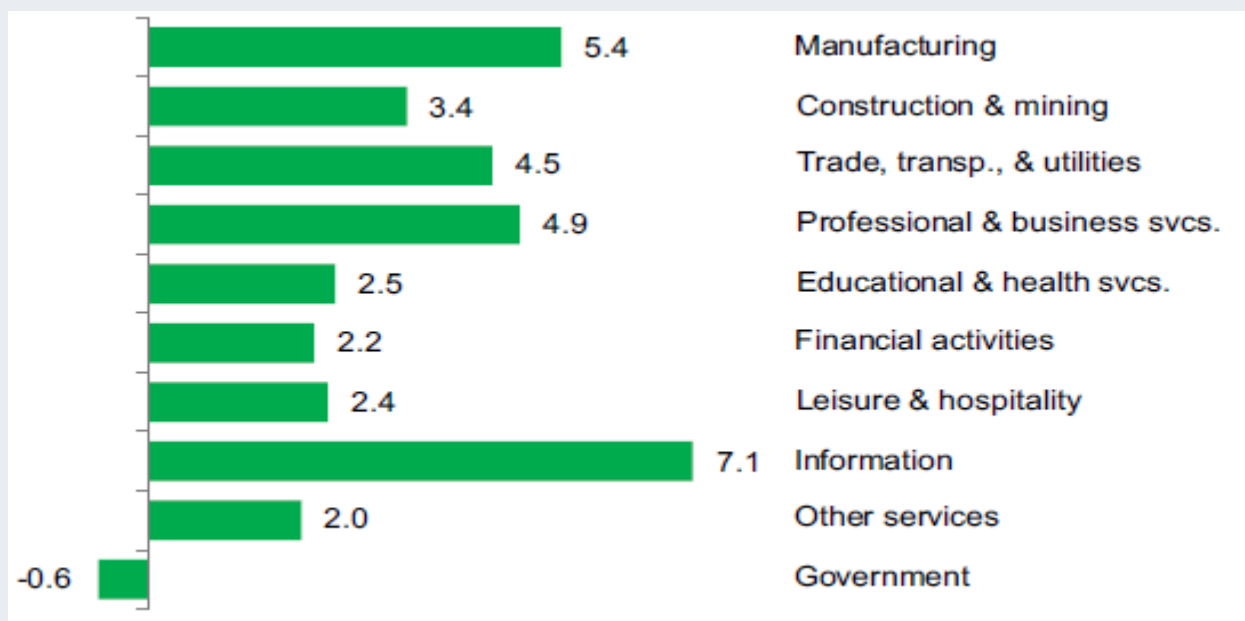
Construction employment in the area was up 3.4 percent year-over-year in December 2018 (up 4,300 jobs), compared with 8.9 percent growth in December 2017. Despite the slowdown, the construction sector looks healthy. While there are fewer cranes on the Seattle skyline for the first time in years, the city still leads the United States in crane count. Construction is driven by Amazon’s growth, along with a new Google Office project. In addition, developments near the Denny Triangle, Capitol Hill, and the University District are also experiencing large amounts of building, particularly in residential (Source: IHS Markit US Markets Metro Economies).

Bellevue Economy

Bellevue maintained a low unemployment rate at 3.3 percent in March, the average unemployment rate for the first three months of 2019 was 3.2 percent, a 0.1 percent decrease from first quarter 2018. The total employment grew approximately 1,085 in the first quarter (Source: Employment Security Department/LMEA; U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics).

Development activities in Bellevue have maintained a high level. In Downtown, there are six projects currently under construction including East Link Bellevue Transit Station; five projects with land use and building permit issued including Summit III; eleven projects in review, and six projects in the pipeline. In the BelRed district, there are ten projects currently under construction including REI; two projects with land use/ building permits issued including East Link Spring District/120th Station; seven projects in land use and building review, and five projects in the pipeline (Source: Bellevue Development Services Department 2019 Q1 Major Project list).

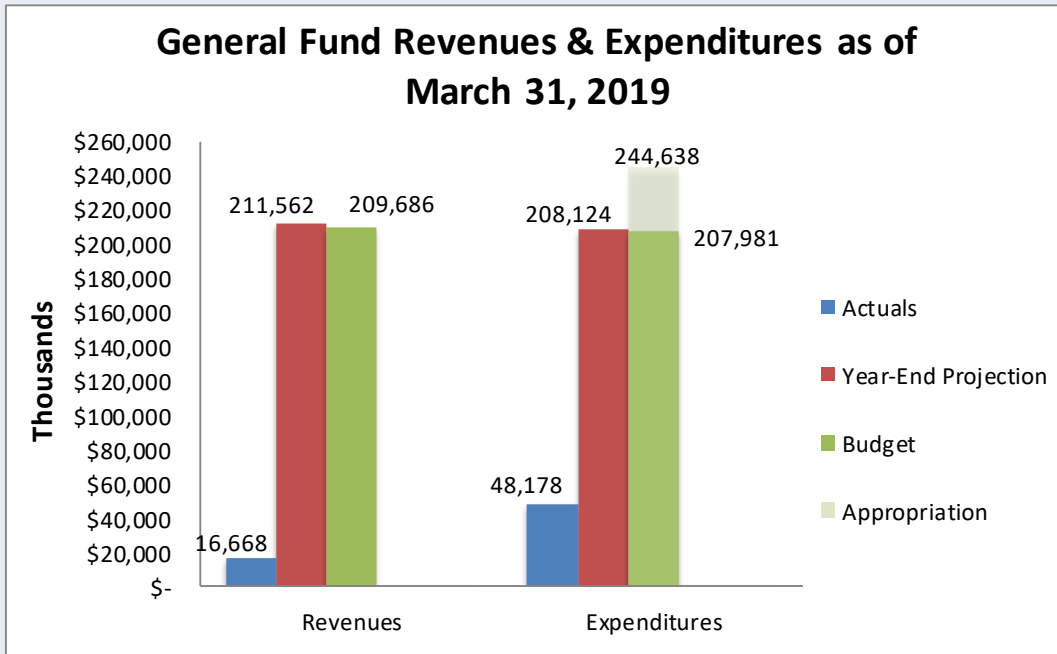
2018 Seattle-Tacoma-Bellevue Metro Employment Growth by Sector



City of Bellevue Budget Monitoring Report

January 1 to March 31, 2019

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 above budget by \$1.9 million. 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.

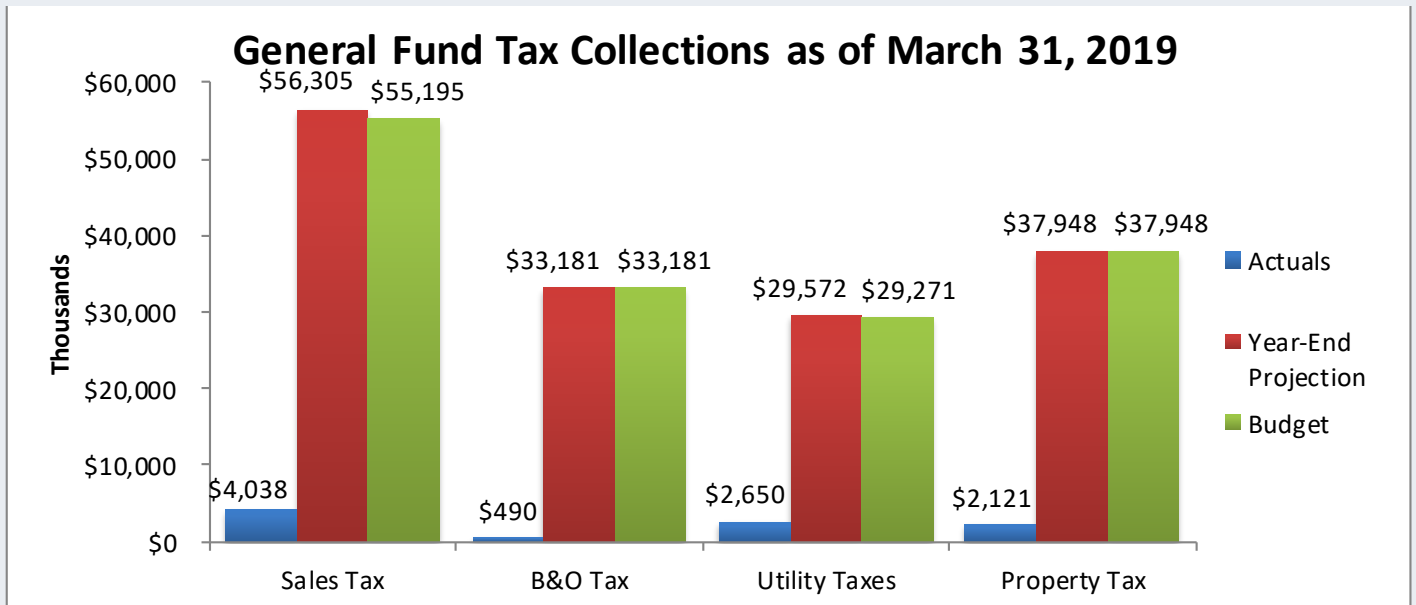
Expenditures

Expenditures are expected to be within appropriation. The Winter Storm has put pressure on the General Fund. The Budget Office is monitoring expenditures, and will have future information for the Second Quarter Budget Monitoring Report.

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 March, 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 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 exceed budget.

Sales Tax

Sales tax collections are projected to be 2.0 percent above budget due to the faster growth of auto sales and online sales. The Budget Office is closely monitoring a potential audit refund.

Business and Occupation Tax (B&O Tax)

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

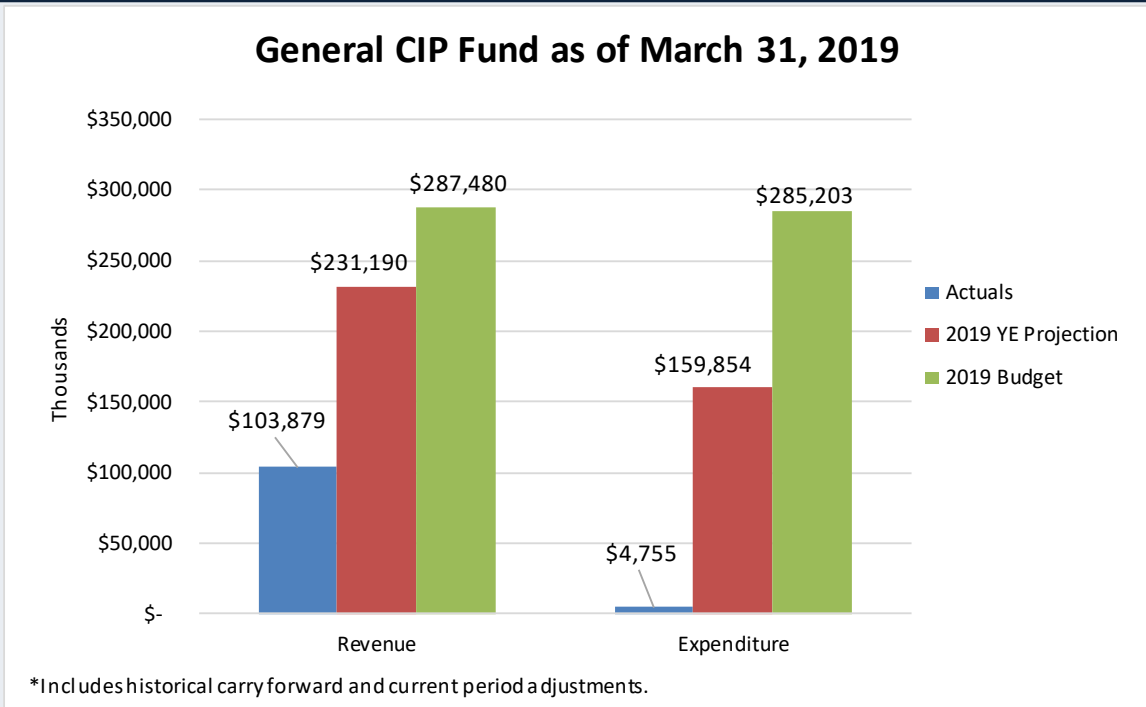
Utility Tax

Utility tax projections are expected to be slightly above budget by \$300,000 due to a higher 2018 collection and increased water usage in first quarter 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 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 Improvement levies approved by voters in 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in 2017.

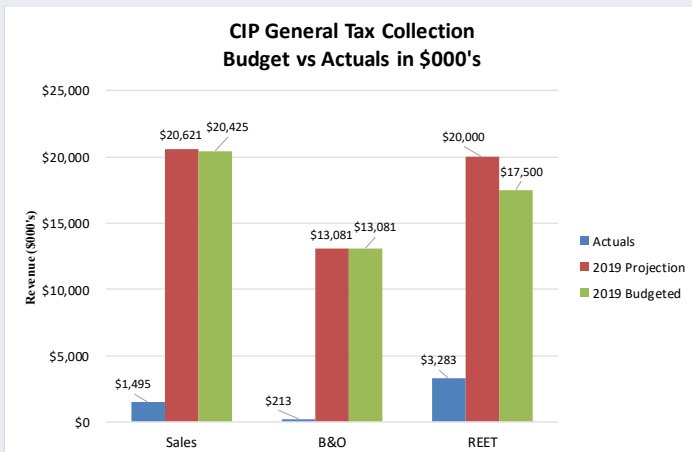
The 2019 CIP includes \$88.8 million in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections are expected to be above budget by one percent due to faster online sales and auto sales growth. REET is expected to be

above budget by 14.3 percent, due to six transactions of properties over \$50 million. B&O tax is expected to be at budget. Grants and Interlocal contributions are projected to come in lower than budgeted due to project delays and timing.

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.



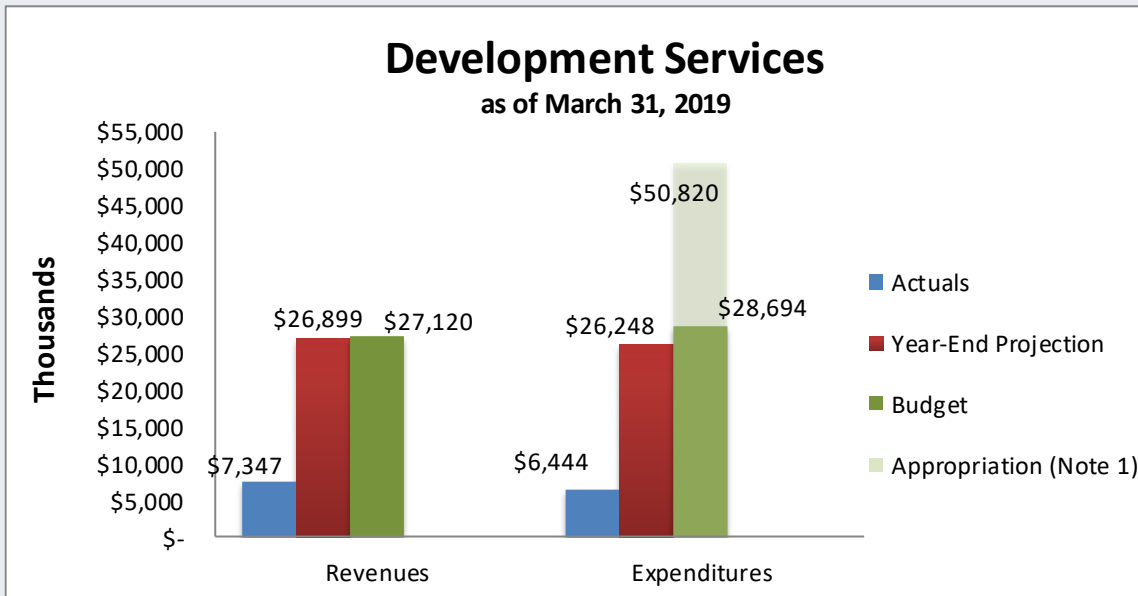
Expenditures

General CIP expenditures were \$4.8 million. This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

DEVELOPMENT SERVICES PERFORMANCE



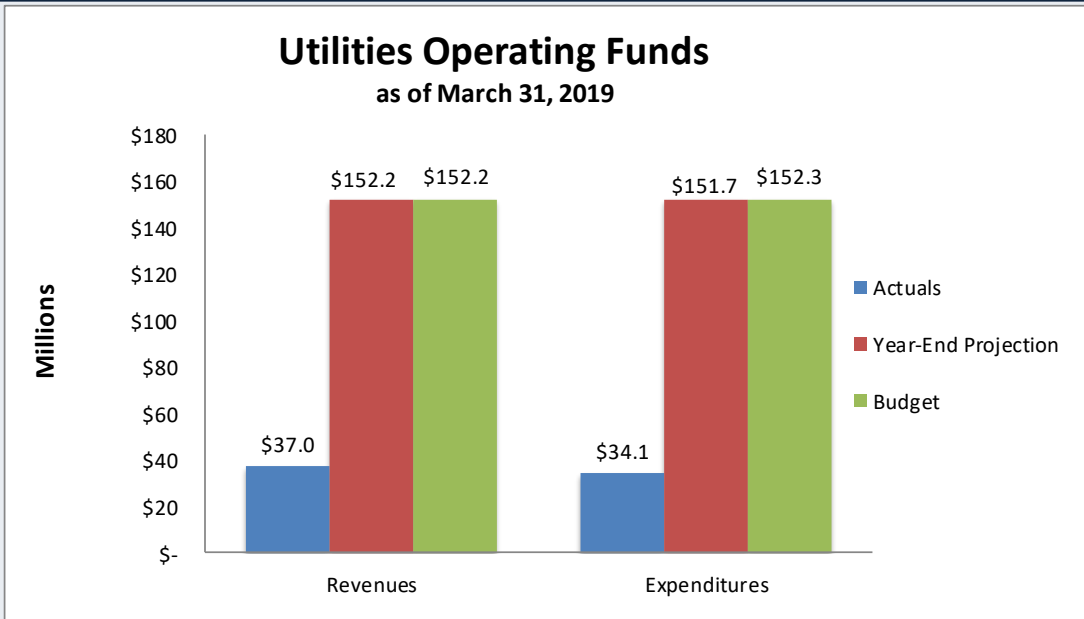
East Link Bellevue Downtown Station
— 450 110th Avenue NE



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

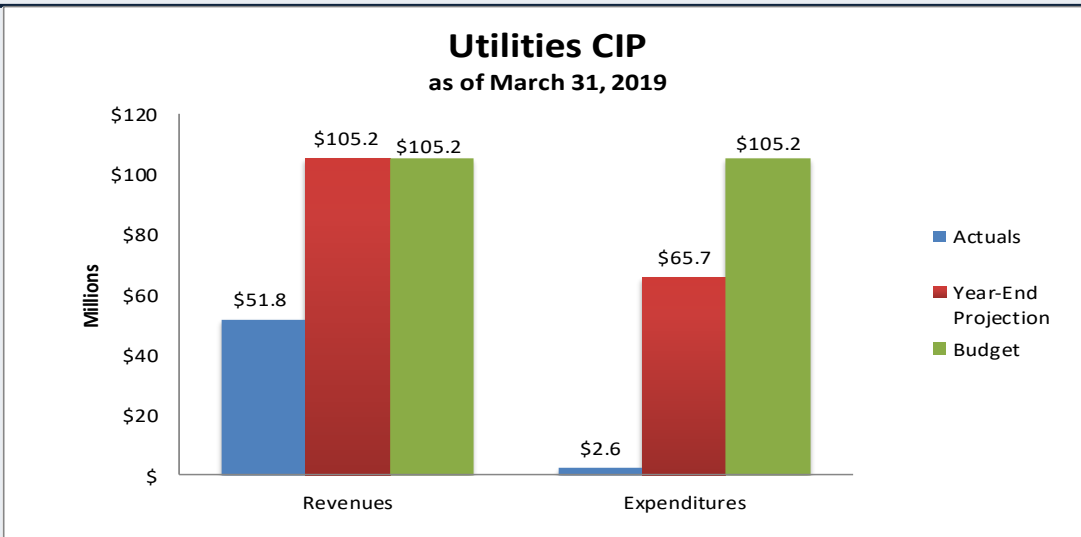
Development Services revenue is anticipated to be just under budget due to a slight slow down in development activity. However, interest in future development in Bellevue remains high. Expenditures are anticipated to be under budget level due to vacancy and maintenance and operations savings and delay in technology project work.

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 personnel savings as a result of vacancies. The budget display above is adjusted down to reflect an accounting technical adjustment with a net zero impact to the fund. This will 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 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, 2019