



City of Bellevue

MEMORANDUM

Phone: 425-452-7863
Date: November 23, 2017
To: Mayor John Stokes and City Council Members
From: Toni Call, Finance Director *TC*
Subject: 2017 Third Quarter Budget Monitoring Report

Attached is the 2017 Third Quarter Budget Monitoring Report for the period ending September 30, 2017. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds are performing within appropriation authority.
- The General Fund is expected to increase fund balance in alignment with the 2017-2018 adopted budget.
- General Fund revenues are performing slightly greater than the budget by .7 percent, and expenditures are also trending slightly less than the budget by .4 percent.

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

Sincerely,

Toni Call, Finance Director

Attachment

2017 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2017

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program (CIP) Fund, Development Services (DS) Fund and the Utilities Operating and CIP Funds.

The purpose of the report is to compare actual expenditures and revenues to the 2017 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 at an annual rate of 3.0 percent in the third quarter of 2017, according to the estimate released by the Bureau of Economic Analysis in October. The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, private investment, nonresidential fixed investment, exports, and federal government spending.

The US Federal Reserve's latest Summary of Commentary on Current Economic Conditions report indicated that most areas of the country experienced modest to moderate growth in economic activity from September to early October. While the Northeast recorded strong levels of manufacturing activity, the region's labor and real estate markets were more restrained. The South dealt with the effects of hurricanes Harvey and Irma, which subdued consumer spending and auto sales in Florida, but the negative economic impacts from closed stores and damaged homes and vehicles will be transitory as rebuilding efforts commence. States in the Midwest, the Great Plains, and the West all experienced tightening labor markets with mounting wage pressures, as firms reported difficulties finding qualified candidates.

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%

The Federal Reserve has increased its benchmark interest rate twice in 2017, and left the rate unchanged in its November meeting. Global Insight Economists expect that concerns about the risk of overheating the economy and a sharp acceleration in prices will probably outweigh concerns about soft inflation, resulting in a rate hike in December. But that outcome is not certain; it could be influenced by subsequent developments, including incoming data bearing on the forecasts for output, inflation, and labor markets.

Regional Economy

Regional retail sales figures indicate that the economy has been doing well for many years now. The biggest driver for consumer spending is personal income, especially disposable income. Locally, personal income growth is forecast to hold fairly steady at about 5 percent through 2019, providing good support for consumer spending, but increasing interest rates, rising unemployment and a cooling off of housing activity are expected to offset some, if not most, of this support from income as we look further into the forecast period. Disposable income is expected to decline over time as a result, impacting retail sales everywhere. Expect consumers to become much more selective in their spending (Source: Puget Sound Economic Forecaster).

Home prices continue to rise in the wider Puget Sound region as well, up over 11 percent compared to this time last year.

While personal income has grown more rapidly than in the nation as a whole, affordability remains an issue for some residents. In King County, a middle-income family (\$96,150 annually) cannot afford a median-priced home (\$658,400). As of Q2 2017, a family could only afford a home that sells for nearly 20 percent below median (Source: University of Washington: Runstad Center for Real Estate Studies, Washington State Housing Market Q3 Report).

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's unemployment rate slightly rose to 3.7 percent in September, but the year to date month average at 3.2 percent is still the lowest since 2008.

The increasing construction activities in Bellevue pushed up construction sales tax in the first three quarters of 2017. The construction sales tax increased 19 percent comparing to the first three quarters of 2016, offsetting the slower growth in retail, and the decline in manufacturing, finance, insurance, and real estate services.

The city continues to observe the construction cycle. Construction now represents a historically large percentage of total sales tax revenues. During the recovery years from 2012 to 2016, the construction share of total taxable sales increased 9.5 percent, double the State and King County (excluding Bellevue and Seattle) construction share growth, which means the city's risks are also higher if there is a construction downturn. Development Services observed a slowdown in predevelopment and major project applications, but interest in development remains strong (Source: DS Oversight Report Snapshot; Third Quarter 2017, Section V).

Valuations Issued	2015	2016	2017 Target	2017 Q3
Total Valuations Issued	\$949,823,753	\$799,663,198	\$817,167,531	\$450,927,056
Major Projects	\$664,410,419	\$474,592,183	\$510,334,976	\$208,451,205
Commercial Alt.	\$137,770,353	\$180,691,061	\$173,379,640	\$120,057,787
Residence Alt.	\$26,448,750	\$33,980,360	\$32,099,987	\$31,546,890
New Residence	\$121,194,232	\$110,399,594	\$101,352,928	\$90,871,174
Annual % Change in Total	33%	-16%	2%	
Annual % Change in Major Projects	45%	-29%	8%	

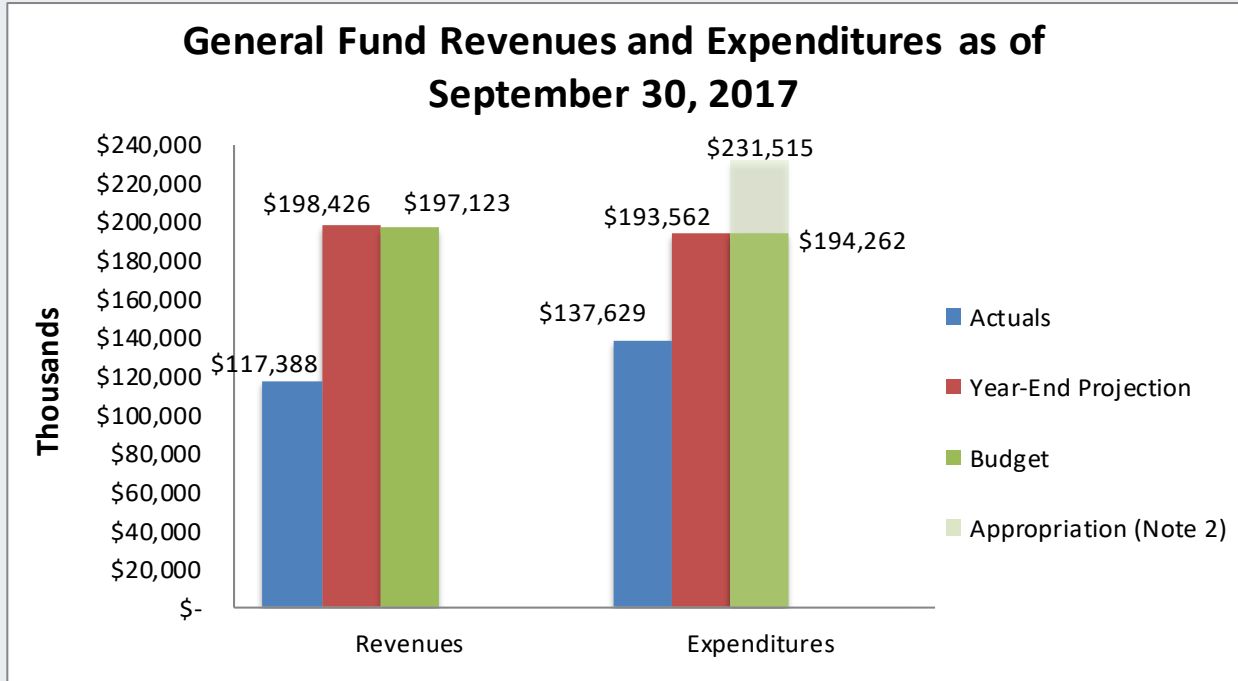
**Note: The construction valuations are estimations and are different from the market value of buildings. The 2017 Target estimation is developed once a year based on the best information available at that time.*

Source: DS Oversight Report Snapshot; Third Quarter 2017, Section VI.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2017

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). Expenditures are based on actual activities performed through 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

Seventy-one percent of revenue is collected through taxes (Sales, Business and Occupation, Utility, and Property taxes). The city's tax base remains strong, buoyed by audit activity and construction growth. Some of this growth is projected to continue in 2017, but due to the cyclical nature of construction, growth will eventually slow as construction projects are completed.

Revenues are projected to be .7 percent greater than budget. In addition to telephone, cell phone, water, and sewer actuals are trending higher than budget.

The various revenue sources are broken down on the following page and discussed in greater detail.

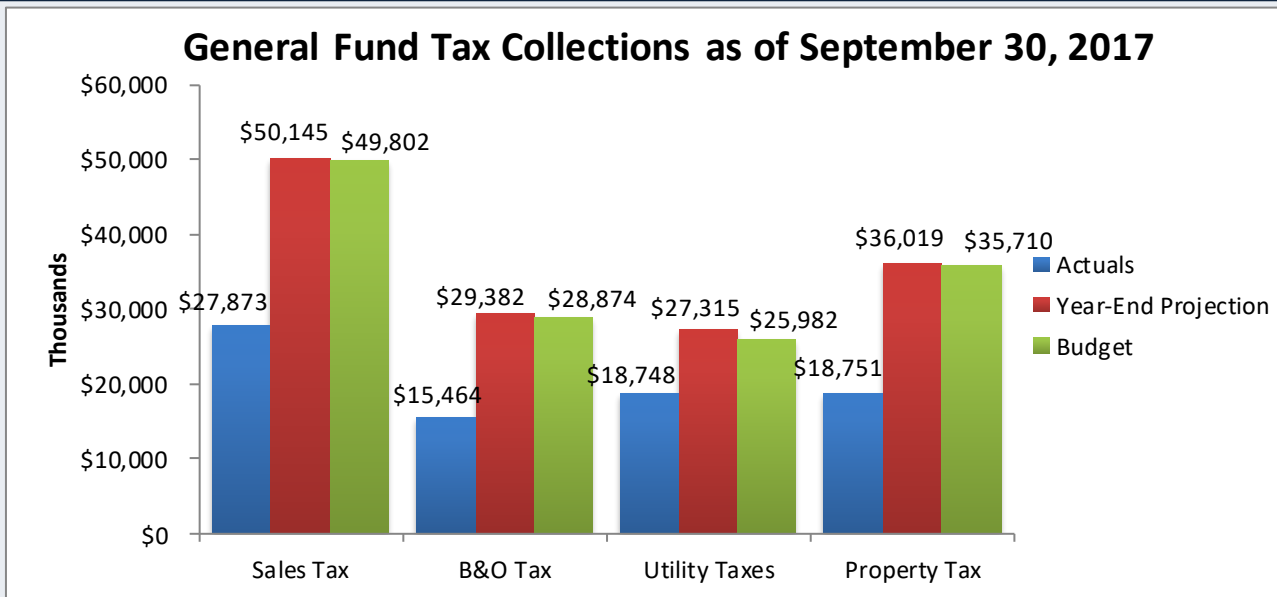
Expenditures

Expenditure projections are to be .4 percent less than the budget.

Change in Fund Balance

The General Fund ending fund balance is estimated to be slightly stronger than the budget. In accordance with the budget, the City is building reserves to assist with known future financial impacts. The 2017 ending fund balance is estimated to be 21.6 percent, 0.5 percent higher than second quarter estimates.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through September, current year-end estimates, and 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

Year-end tax revenue is projected to be 1.7 percent above the budget. Utility tax projections account for the majority of the projected tax collections over the budget.

Sales Tax

Sales tax collections remained consistent with budget. The 0.7 percent increase in sales tax projection over the budget is due to a higher construction and auto sales collection.

Business and Occupation Tax (B&O Tax)

B&O tax is projected to be slightly higher than the budget, primarily due to increases in audit recovery.

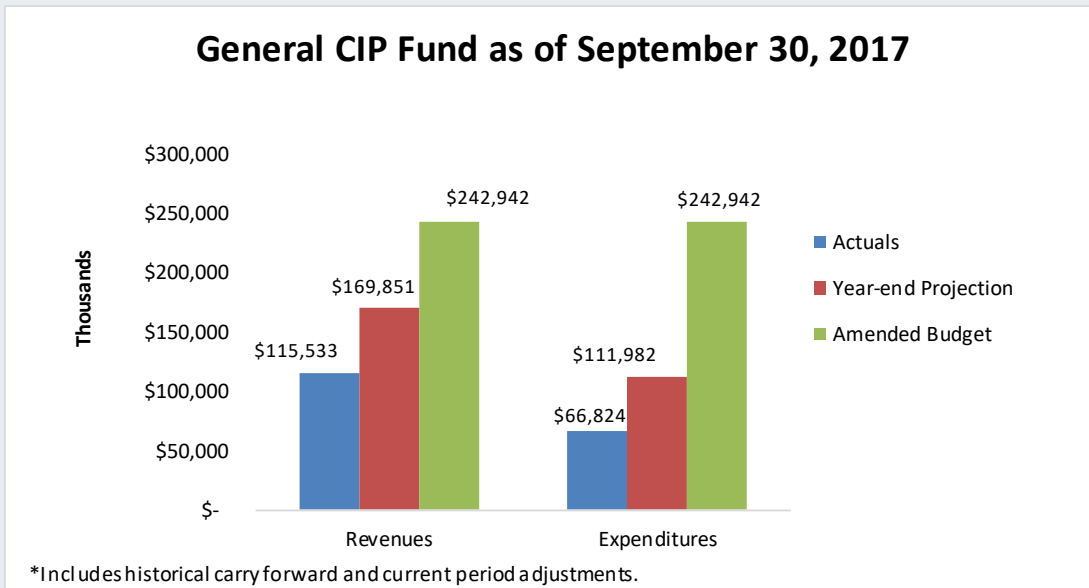
Utility Tax

Utility tax projections came in 5.3 percent over the budget. The Puget Sound Region had the warmest and driest summer on record (Source: National Weather Service Seattle), which contributed to higher usage of utilities.

Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2017 total levy rate is \$1.14 per \$1,000 AV, which includes a \$0.08 per \$1,000 of assessed value for the voter authorized Parks and Open Space Levy Lid Lift, a \$0.125 per \$1,000 AV Levy for Fire Facilities upgrades, and a \$0.15 \$1,000 AV Levy for Neighborhood Safety, Connectivity and Congestion projects. Property tax collections are projected to be slightly above the budget due to updated construction valuation information received earlier in the year.

GENERAL CAPITAL INVESTMENT PROGRAM (CIP) PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through September, 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 third quarter activities. Expenditures are based on actual activities performed through the third quarter.

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 2017 CIP includes \$69.2 million in beginning fund balance programmed to existing projects in the CIP. General CIP major tax collections are projected to exceed budget by \$6.3 million; \$5 million of which is attributed to an increase in REET collections.

These collections are offset by a \$6.1 million reduction in Transportation impact fees. Grants and Interlocal contributions are projected lower than the budget due to delays and timing differences in projects.

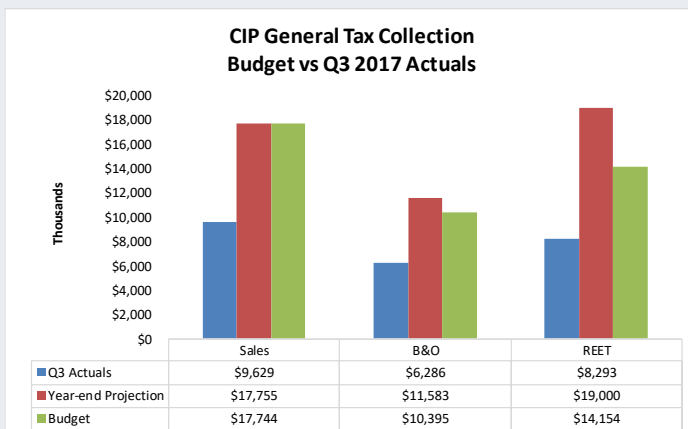
REET

REET is projected to be \$5 million higher than the budget due to two large commercial transactions of over \$50 million. REET is restricted by Council Ordinance (50 percent to Transportation and 50 percent to Parks). The Budget Office continues to monitor large transactions and incorporate these transactions into the forecast.

Expenditures

CIP expenditures are projected to be \$112 million, or 46 percent spent of budget at year-end. Year-end projections include shifts in costs to future years due to project timing and progress on large scale transportation projects, such as the 124th Ave NE - NE Spring Boulevard to NE 18th St, NE Spring Boulevard Zone 2, and the 124th Avenue NE/Ichigo Way (NE 18th St) to Northup Way projects.

Other expenditure highlights include completion of the 120th Ave NE Stage 2, Downtown Park Development, and the Meydenbauer Bay Phase 1 Park Development projects, and continued work on the 120th Ave NE Stage 3 and NE Spring Boulevard Zone 1 projects.

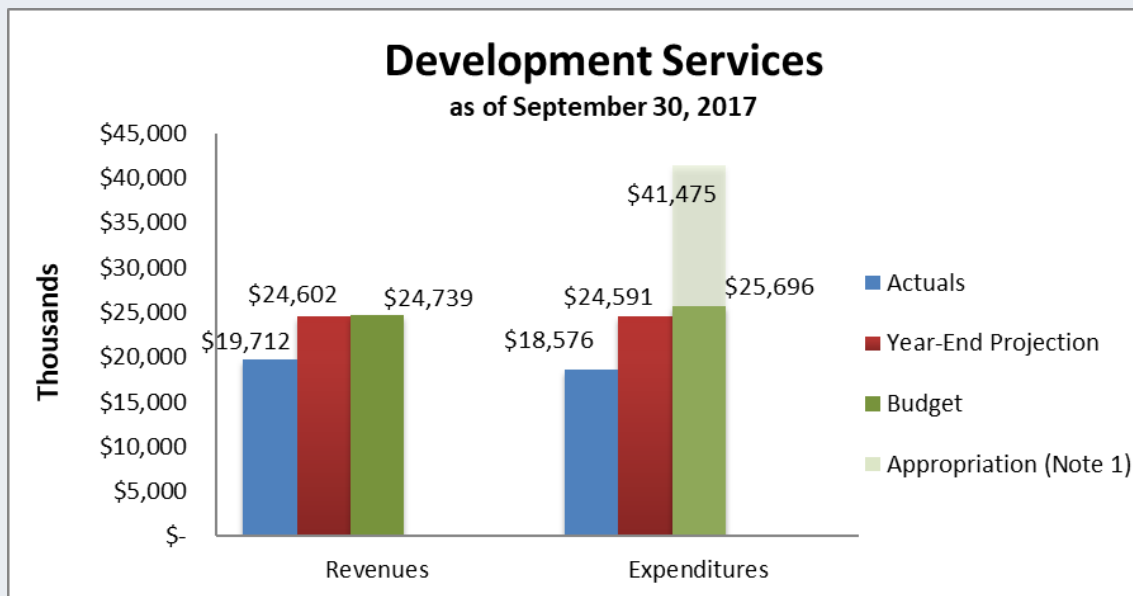


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January 1 to September 30, 2017

DEVELOPMENT SERVICES PERFORMANCE

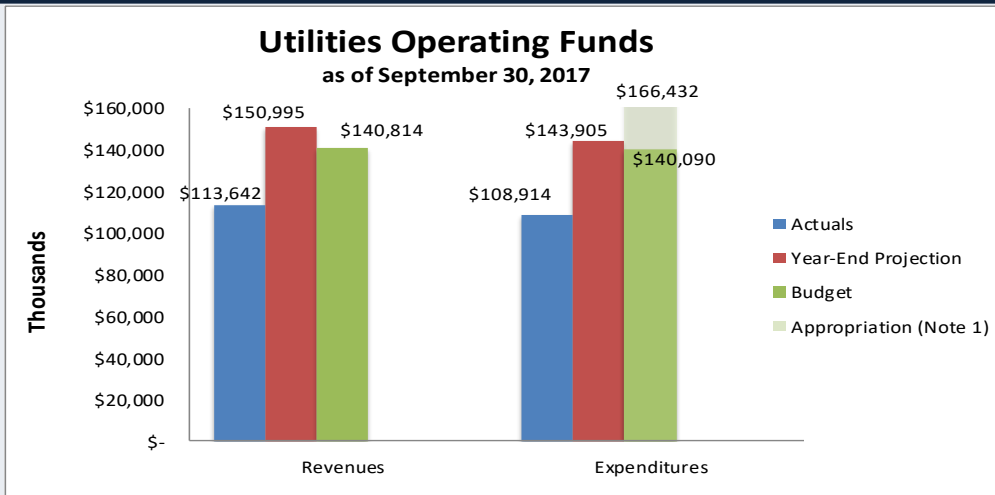
Brio Apartments—1021 11th Avenue NE



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 activity continues at a high level, with several major projects in the construction phase and additional projects in review. By year end, revenues are anticipated to be at budget. Expenditures are under budget levels and are anticipated to show savings of approximately 4 percent by year end due to vacant positions and other miscellaneous savings.

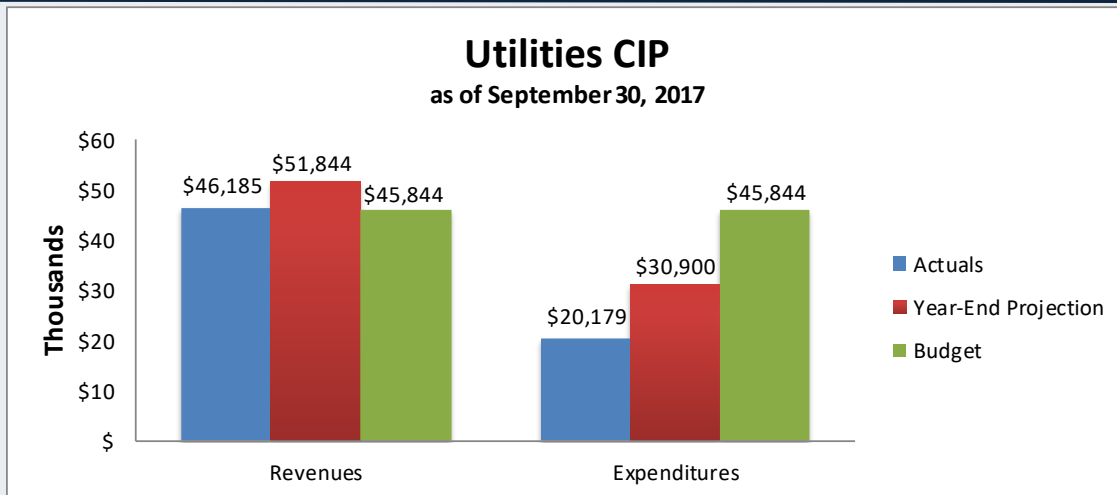
UTILITIES OPERATING FUNDS



Note 1: Projected expenses exceed budget primarily due to a \$6 million transfer of excess 2016 fund balance from the Water Utility to the Water CIP to fund advanced metering infrastructure (AMI) implementation, as approved by Council.

Utility operating revenues through the third quarter were sufficient to meet expenses. Projected revenues are expected to exceed budget, but will be within total appropriations and total projected revenues (see Note 1). This is due to greater than anticipated water and sewer service revenues from an extraordinarily long, hot and dry summer. The region experienced an average high of 78.6 degrees from June 21 to September 21 and was the hottest summer on record. Total revenues also include a \$1.6 million refund from King County Metro for overpayment of wastewater treatment costs and a \$1.1 million refund from the Washington State Department of Revenue for overpayment of excise taxes.

UTILITIES CAPITAL INVESTMENT PROGRAM (CIP)



Note: Total available budget excludes bank capacity projects - \$8.8 million for East Link and \$8.1 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.3 million for water facilities for Spring Boulevard.

Actual and projected revenues (exclusive of reserves) includes a \$6 million transfer of excess fund balance from water operations to fund the advanced metering infrastructure (AMI) project, as approved by Council. Projected year-end expenditures reflect delays for the Midlakes Sewer Pump Station (pending value engineering analysis), Water Pump Station Rehabilitation program (rebidding project due to high original bids), West Lake Sammamish Parkway AC water main replacement project (coordination with Transportation), and Vuecrest Sanitary Sewer rehabilitation project (lack of bidders). The remaining budget authority will be carried forward to 2018 to continue/complete these projects.

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