



# BUDGET MONITORING REPORT

For the period from January to December 2012

## Economic Performance

This report presents revenues and expenditures for the General Fund, Capital Investment Program Fund, Development Services Fund and the Utilities Funds.

The purpose of the report is to compare year-end actual expenditures and revenues to the 2011-2012 adopted budget, to discuss reasons for variance and to convey the local and national economic outlook.

The City of Bellevue shows year-end General Fund revenue collection to be 2.1% above year-end General Fund expenditures for 2012. Cost saving measures in 2012 were effective in curbing expenditures and \$800k was set aside for risks and mitigations for potential 2012 costs that may still occur in 2013. If the risks and mitigation funds were spent in 2012, the revenue overage would drop to 1.6% over expenses. One-time revenue collections such as business & occupation tax audits, the sale of Liquor Control Board assets, and 2011 Advanced Life Support revenue recognized in 2012 accounted for the 1.6%

### U.S. Economy

Since the trough of the recession, the national GDP has grown at an average rate of 1.8% annually. Moving forward, as a result of federal sequestration and the payroll tax rate deduction expiration, the **national economy is expected to continue to grow only 1.8% annually** (*Puget Sound Economic Forecaster, March 2013*).

The Congressional Budget Office estimates that the “**Budget Control Act of 2011**” or **sequestration** enacted in early 2013 will amount to **\$85 billion of spending cuts nationally and \$1.2-\$1.3 billion in the Puget Sound region**. Sequestration is across the board budget reductions applied equally to both defense and non-defense spending. The broader impact of this sequestration is the continuation of the struggling labor market. The **national unemployment rate for 2012 was 8.1%, compared to 6.5% for the Puget Sound Region** (*U.S. Bureau of Labor Statistics*).

The Federal Reserve has maintained a policy to keep the Federal Fund rate at 0.25% since 2008 and promises to leave the rate at

## Performance at a Glance

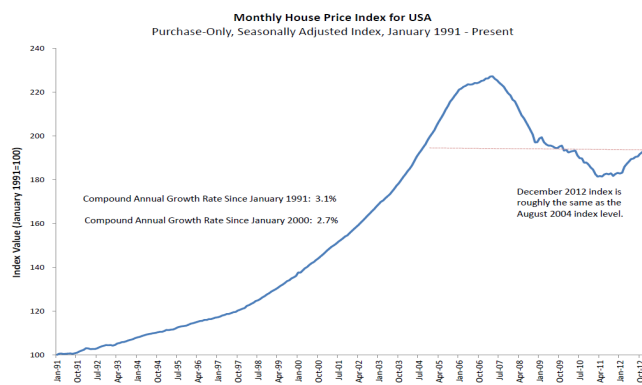
	YTD
Pg 3 General Fund YE Revenue vs General Fund YE Expense	+
Pg 4 Tax Performance as Compared to Revised Forecast	+
Pg 5 General CIP Expenditures & Resources vs Adopted Budget	-
Pg 6 Development Services YE Expenditures vs YE Revenues	-
Pg 6 Utilities Expenditures & Resources vs Adopted Budget	+

Compared to seasonal trends:

- + = Positive variance or negative variance < 1%.
- O = Negative variance of 1-4%.
- = Negative variance of > 4%.

this level until the national unemployment rate reaches 6.5%. Low borrowing rates discourage saving and spur growth in the economy.

The national housing market has begun to show signs of a turnaround. **Nominal housing prices nationally have risen 5.5% since the end of 2011, or 3.7% adjusted for inflation**. In addition, the U.S. stock markets have been increasing steadily. In 2012, the NASDAQ rose 16% and the S&P 500 was up 13.4% (*nasdaq.com*).



Source: Federal Housing Finance Agency—Q4 2012 Report

## Regional Economy

The end of 2012 was marked by strong gains in the construction and manufacturing sectors, notably a large hiring increase at Boeing. In addition, construction jobs are increasing in the Greater Seattle metropolitan area. As a result of growth in these large employment sectors, **unemployment in the region has decreased from 8.1% in 2011 to 6.5% in 2012** (*Global Insight U.S. Regional Report, March 2013*).

In addition, the forecast for the Puget Sound region calls for a **4.4% rise in nominal personal income**. (*Puget Sound Economic Forecaster – December 2012*).

The **federal sequestration** of 2013 will likely **impact the Pacific Northwest to the tune of \$1.2 to \$1.3 billion**, primarily through reduced Department of Defense contracts (*Puget Sound Economic Forecaster, March 2013*).

Below is a chart of the percentage change in drivers of revenue for the City of Bellevue.

While the region is showing strong gains in construction and manufacturing, Bellevue is still slow to recover in these areas, but beginning to show signs of increase.

## Bellevue Economy

One of the major drivers in any economic recovery is construction. In 2012, **permitting for major construction projects in Bellevue was up** from 2011. However, actual tax revenue collections from construction activities did not show the same recovery in 2012.

Bellevue's Central Business District **overall vacancy rate continues to drop, down to 10.6%** from 13.5% one year ago. **Rent prices in the Central Business District are up 6.7% from 2011**. (*CBRE Puget Sound Area, Office Market View—Q4 2012*). Low vacancy rates and high rent prices are very attractive to developers and could spur more construction in the downtown core.

Another positive sign for the Bellevue economy is the increase in real estate transactions within city limits. **2012 REET Transactions equaled \$2.7 billion** in Bellevue, compared to only \$1.2 billion in 2011. These large-scale purchases indicate economic recovery and a change in economic conditions.

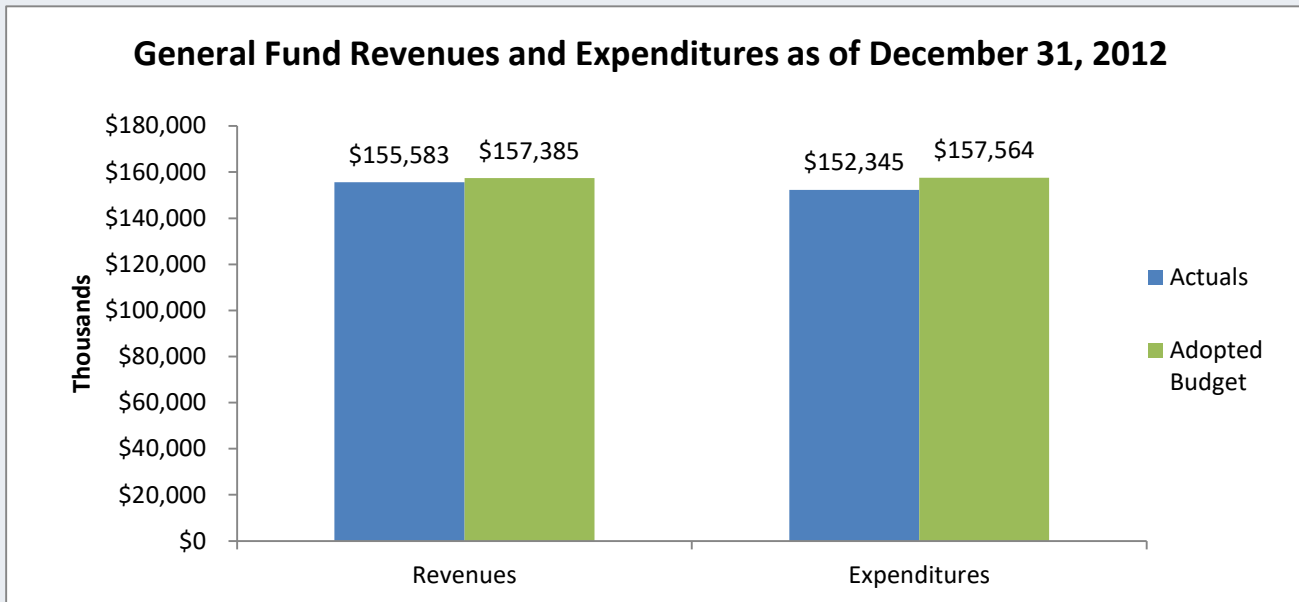
The City of Bellevue receives a significant amount of sales tax revenue through auto sales and, similar to national car sales, Bellevue's auto industry was very strong in 2012 increasing 10.9% over 2011.

<b>Puget Sound Annual Percent Change</b>			
	<b><u>2011</u> Actual</b>	<b><u>2012</u> Actual</b>	<b><u>2013</u> Projected</b>
<b>% Change in Employment</b>	1.7%	2.5%	2.6%
<b>% Change in Personal Income</b>	5.3%	4.4%	4.5%
<b>% Change in Housing Permits</b>	10.5%	49.6%	28.5%
<b>% Change in Average Home Price</b>	(9.6)%	3.5%	12.3
<b>% Change in Taxable Retail Sales</b>	2.5%	6.2%	6.6%
<i>* Source: Puget Sound Economic Forecaster—March 2013</i>			

## City of Bellevue Budget Monitoring Report

January to December 2012

# GENERAL FUND PERFORMANCE



## Revenue

The primary revenue sources for the General Fund include property tax, sales tax, and business and occupation tax. Together, sales tax and business and occupation tax comprise about 38% of the General Fund revenue. Both of these revenue sources are highly dependent on the local economy.

As reported previously, the Great Recession impacted the economically sensitive revenues, specifically business and occupation tax and sales tax. To reflect the slow economic recovery, revenue forecasts were revised downward during the mid-biennium update, although the adopted budget was not adjusted. The chart above compares the adopted budget for 2012 (adopted in December 2010) to the 2012 year-end actuals. The year-end actuals portray the effects of the Great Recession with reduced revenues.

Sales tax was on forecast, and business and occupation tax ended

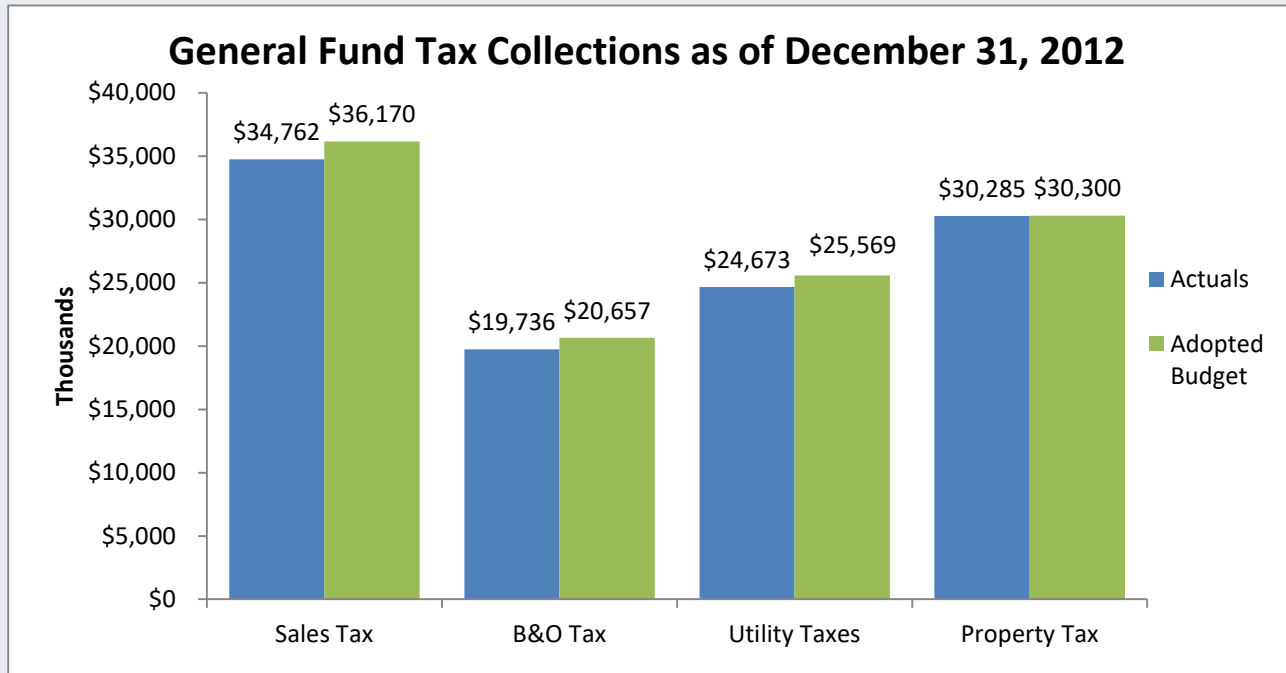
the year higher than forecast due to audit recoveries. Also pushing revenue higher than forecast was additional liquor profit from the sale of Liquor Control Board assets and Advanced Life Support revenue accrued in 2011 but recognized in 2012.

## Expenses and Cost Containment

During the November 2011 mid-biennium update, the City of Bellevue enacted extensive cost containment measures and the City Council authorized the collection of additional Advanced Life Support revenue. The management actions taken in 2011 have brought actual expenditures below collected revenues. As a measure of fiscal prudence, \$800,000 was set aside for risks and mitigations from 2012 that may still occur in 2013. The chart above does not reflect the \$800,000 risk and mitigation funds set aside.

The Budget Office is closely watching spending and revenue collections as the economy continues to recover.

# GENERAL FUND PERFORMANCE



## Tax Revenues

Tax revenue have been slow to recover after the Great Recession, with business and occupation tax and sales tax collections particularly lagging due to their dependence on economic activity. Consequently, during the mid-biennium update the forecast was revised downward although the adopted budget was not adjusted. The chart above compares the adopted budget for 2012 (adopted in December 2010) and the 2012 year-end actual collections.

### Sales Tax:

Sales Tax ended the year virtually on forecast at 5.6% over 2011. Sales were strong in retail and particularly auto sales and parts with an overall 10.1% increase over 2011. Another area of higher than average improvement was wholesale, with a 7.0% increase over 2011.

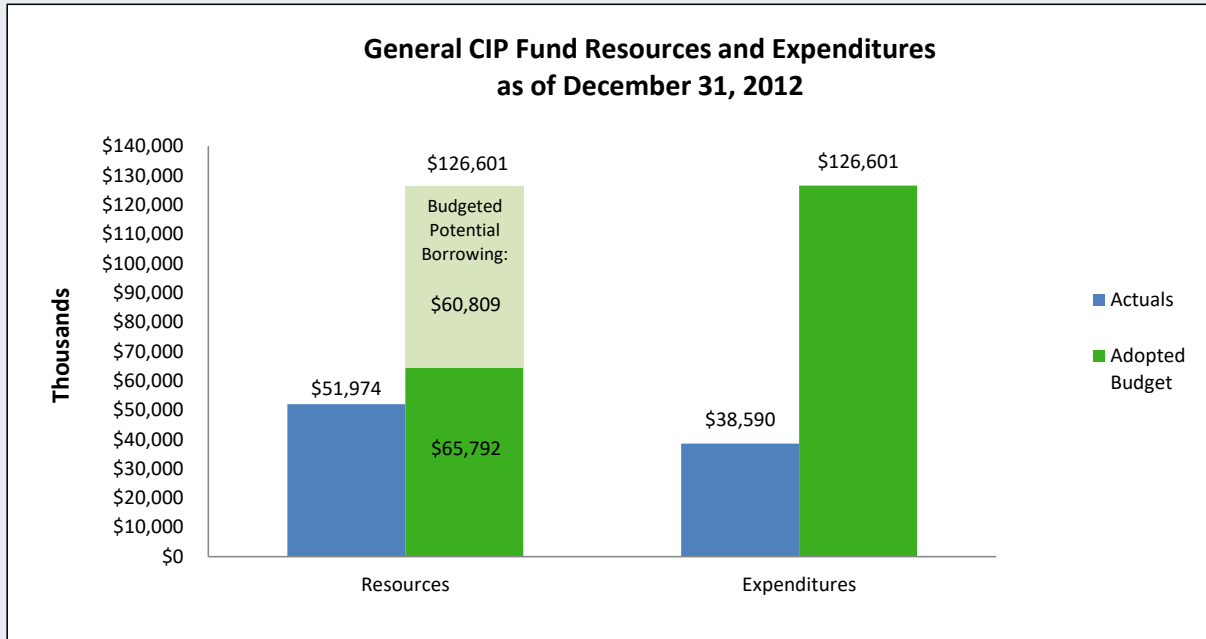
### Business and Occupation Tax (B&O Tax):

Business and Occupation Tax ended the year with a 7.7% increase over 2011. This increase was due in large to above-average audit recoveries. Not including the audit component, B&O tax increased only 3.8% over 2011.

**Utility Taxes:** Utility Taxes increased by 2% over 2011. Electric and Natural Gas Utilities both ended the year flat from 2011. Electric rates saw a modest rate increase through the year so flat tax collections indicate a reduction in customer demand. Natural Gas rate were reduced through the year due to higher production, causing tax collections to fall. The other utilities; solid waste, telephone, water, sewer, and stormwater, all ended the year above 2011 totals.

**Property Tax.** Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. This tax is not as volatile as sales and B&O tax and is typically very close to the adopted budget as shown in actual 2012 collections.

# GENERAL CIP PERFORMANCE



The chart above compares the CIP's year-end actuals to the 2012 adopted budget (adopted in December 2010), incorporating the timing of project expenditures and project specific revenues (e.g., grants and intergovernmental contributions) which are generally provided on a reimbursement basis. For the year ending December 31, 2012, revenue collections were \$13.8 million (21%) below budget. Of this amount, collections of sales, business and occupation, and real estate excise taxes (REET) were approximately \$1.1 million (3.5%) above budget.

Real estate excise tax (REET) collection has seen an improvement in transaction volume and dollars collected over the previous year, as volume and collections ascend to historical averages.

Collections of project specific, intergovernmental revenues were aligned with the lower than planned expenditures for 2012. Notably, the \$7 million of Local Revitalization Funding (LRF) budgeted for the NE 4th and 120th Avenue NE project was deferred until 2013 due to the protracted economic recovery within the associated Revitalization Area (RA).

Expenditures ended the year at \$38.6 million (30.5% of budget). Significant projects (e.g., NE 4<sup>th</sup>, 120th Avenue NE) were delayed due to complex negotiations with adjacent property owners or delays in securing the environmental approvals during the right-of-way

(ROW) acquisition stage. However, some major surface street overlays (i.e., 148<sup>th</sup> Avenue and 164<sup>th</sup> Avenue) were completed throughout the year.

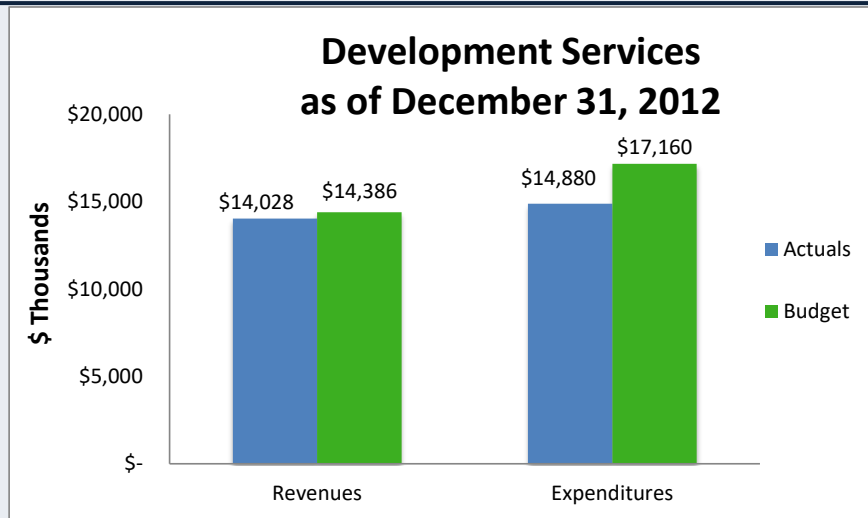
- Pending further Council direction, significant ROW acquisitions and Transportation construction are projected to occur in 2013;
- West Lake Sammamish Pkwy Phase I broke ground in late December 2012.

The City's Parks Department continued its efforts on moving forward with projects from the 2008 Parks and Open Space Levy. Notable project updates include:

- Obtained construction permits for the Bellevue Youth Theatre at Crossroads Park and the Bellevue Botanical Garden Visitor's Center
- Completed construction of the suspension bridge at the Bellevue Botanical Garden
- Completed construction of the picnic area at Lewis Creek Park
- Acquired the 14.5-acre open space property adjacent to Eastgate Park/South Bellevue Community Center;

The Neighborhood Enhancement Program (NEP), originally launched in 1988, has ended after completing over 430 critical small neighborhood projects in its 24 year life.

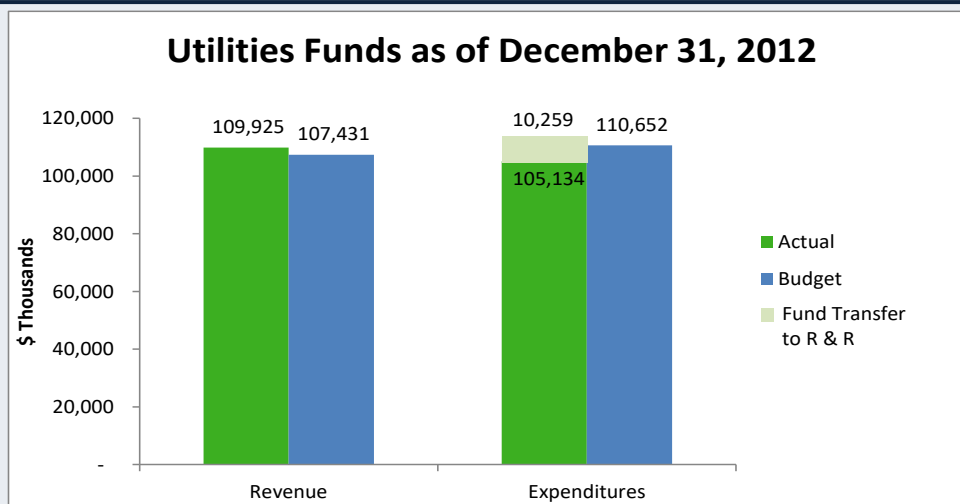
## DEVELOPMENT SERVICES PERFORMANCE



Development Services revenue fell short of budget by \$358k; however, the budget was developed in 2010 when the economy was expected to recover at a faster pace. In 2012, economic growth continued to improve with revenues 13% higher than the previous year. This is partially due to an increase in the number of applications and an increase in the size and scope of projects. Develop-

ment Services continued to exercise expenditure control measures through 2012, with savings of \$2.3 million under budget. Although Development Services reduced staff, 2012 expenditures remained the same as the prior year mainly due to increases for personnel cost-of-living adjustments and benefits. By policy, reserves are held to address revenue shortfalls in downward cycles.

## UTILITIES PERFORMANCE



Utility revenues were \$2.5 million above budget largely due to higher-than-expected service revenues in the Wastewater fund, fire flow capacity charges, and other miscellaneous revenues. Expenditures were \$5.5 million below budget largely due to cost control measures, deferred capital equipment purchases, and lower water wholesale costs due to changes to Cascade Water Alliance's cost

projections and ratemaking methodology. \$7.5m in surplus fund balance and \$2.7m in planned contributions were transferred to the Capital Facilities Renewal and Replacement (R&R) accounts, for a total \$10.2m transfer. Budgeted expenditures shown in the chart above exclude ending fund balance so actual expenditures are within the appropriated budget.