



City of Bellevue

MEMORANDUM

Phone: 452-6846
Date: April 22, 2014
To: Mayor Balducci and City Council Members
From: Jan Hawn, Finance Director
Subject: 2013 Year-End Budget Monitoring Report

Attached is the Year-End Budget Monitoring Report for the period ending December 31, 2013. This report presents the General, General CIP, Development Services, Utilities and Utility CIP Funds.

Key items – 2013 Year-End:

At the March 24th Council Retreat, preliminary year-end numbers did not reflect a utility bill which was received late and increased General Fund expenditures making them slightly greater than revenue. Overall, General Fund revenues were 0.3% under budget while General Fund expenditures were 0.15% under budget.

In the General CIP, 2013 debt issuance caused revenues to be greater than budget. Project spending was below the budgeted expenditures. The Budget Office continues to monitor the CIP with an eye on the future to ensure that the timing of capital project expenditures is planned with sufficient available revenue.

Development activity is on the rise as seen by the higher than anticipated revenue collections into the Development Services fund (\$3.9m over budget). The excess of revenues over expenditures will be added to fund balance for future operations.

The Utilities Operating funds experienced revenue collections \$5.6m over budget while expenditures were \$2.9m over budget due to higher than expected Cascade Water Alliance development fees, an additional transfer to the Storm R&R fund and tax obligations. Excess revenues will be added to Water and Sewer operating reserves.

Please feel free to contact Toni Rezab at 452-7863 or me at 452-6846 with any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Jan Hawn".

Jan Hawn, Finance Director

Attachment
2013 Year-End Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the calendar year 2013

Summary Overview

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

The purpose of the report is to compare actual expenditures and revenues to the 2013-2014 Amended Mid-Bi Budget, to discuss reasons for variance and to convey the local and national economic outlook.

At 2013 year end, General Fund revenue collections were 0.3% below budget while expenditures were 0.15% below budget. The General CIP revenue collections were over budget and expenditures under budget while Development Services and Utilities both had revenues and expenditures over budget.

The regional and local economy appears to be outpacing the slow growth of the national economy, but the City of Bellevue's mixture of revenue sources means the City's revenues are increasing at a slower rate than the local economy.

Bellevue Economy

Bellevue home prices have rebounded much faster than the nation or even the rest of King County. Bellevue has almost regained all home value that was lost in the recession. Housing inventory has finally been worked off, and new construction has begun. Housing activity is influenced by the national school rankings, which increase a location's desirability and property values. Current average home values in real dollars are 5% below peak and, if home value forecasts hold true, the former peak in 2008 home values will again be reached in 2014. However, recovery in the housing sector does not necessarily translate to increase property tax revenue due to state law proposal tax growth restrictions.

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%
- Negative variance of 1-4%
- Negative variance of > 4%

Employment in the region and in Bellevue has also fared better than the nation during and since the Great Recession. One reason for this is the strength of Boeing which was largely unaffected by the recession and, in fact, added jobs. Another factor is the higher-than-average educational attainment in the region. Since the beginning of the recession, workers with less than a high school diploma had a peak of 15% unemployment while workers with a bachelor's degree or higher had a peak unemployment rate of 5%, a 10% spread on a national level (*Source: Bureau of Labor Statistics*).

Regional Economy

Locally the economy has fared better than the nation as a whole, but that is in large part due to companies such as Amazon and Boeing. Amazon continues to expand its operations and Boeing recently selected Everett for the latest 777 wing manufacturing facility. The impact of the Boeing decision to stay in the Northwest cannot be minimized, especially with the \$700 million in contract bonuses Boeing will pay to the machinist union members. Local economist Dick Conway of the Puget Sound Economic Forecaster suggests that if Boeing was factored out of the region's economy, the region would have performed only as good as the national economy. Even though Boeing does not have a significant presence in Bellevue, Boeing and Amazon are important to the local economy because their employees live and spend their money in Bellevue's many retail stores.

U.S. Economy

Despite several stumbling blocks, the United States economy has continued to grow steadily since the end of the recession. However, if not for internal factors such as political wrangling, the economy would have been growing at a more brisk pace in 2013. There are also a number of risks on the horizon for 2014:

Trouble in the Ukraine. As trouble unfolds in Ukraine world markets will certainly be affected by the geopolitical implications of an East/West conflict. Ukraine is a significant exporter of grains and is the main conduit of natural gas to Western Europe from Russia.

China's economic slowdown. China's economy has weathered the Great Recession better than most other countries, and in the global economy has helped other economies, including the U.S. by providing much needed consumer and business demand. China's slowdown will be felt around the world and in the U.S.

Stagnation in Europe. Europe has climbed out of recession but growth remains weak. Also, Italy and France are currently on a European Union watch list for sovereign debt issues.

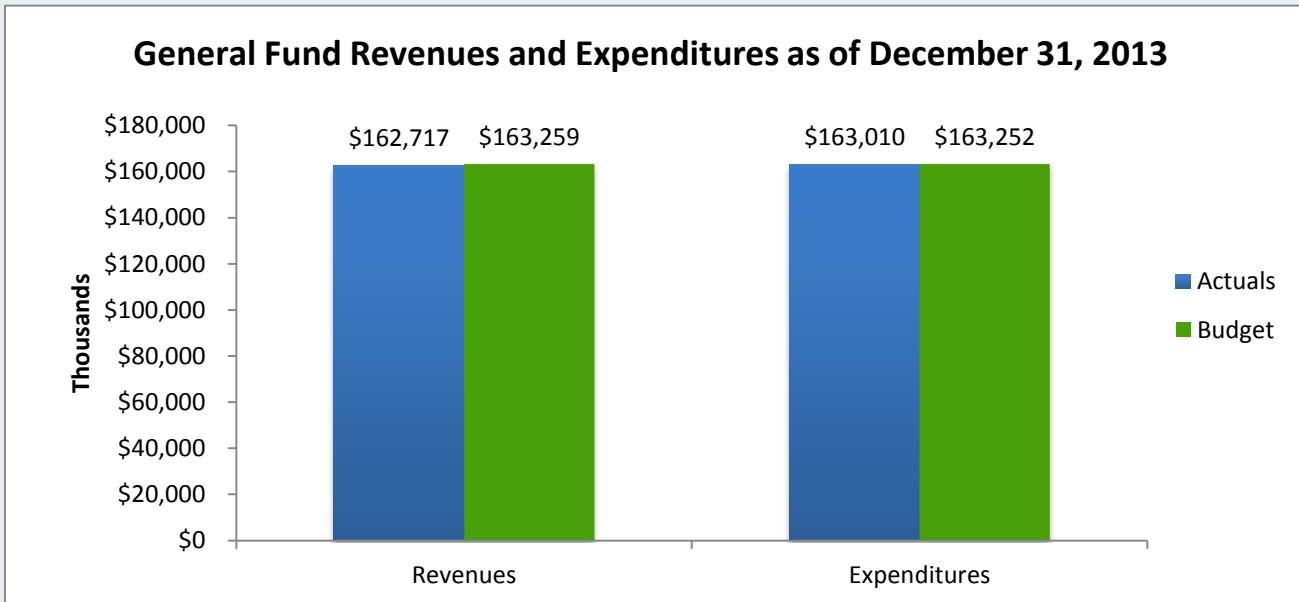
Domestic Political Gridlock. The lack of concord has diminished, but a political stalemate continues to be a real risk.

Puget Sound Annual Percent Change			
	<u>2011</u> Actual	<u>2012</u> Actual	<u>2013</u> Est.
% Change in Employment	1.7%	2.3%	2.8%
% Change in Personal Income	5.3%	4.2%	3.9%
% Change in Housing Permits	10.5%	52.2%	10.7%
% Change in Average Home	(9.6)%	3.5%	10.3%
% Change in Taxable Retail Sales	2.5%	6.1%	8.2%
<i>* Source: Puget Sound Economic Forecaster—March 2014</i>			

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2013

GENERAL FUND PERFORMANCE



Revenue

Overall, General Fund revenue collections came in 0.3% under the 2013 budget. The various revenue sources are broken down on the following page and discussed in greater detail.

Lower than budgeted utility tax collections were primarily responsible for the under-collection of revenues to budget.

Expenditures

Expenditures also came in slightly (0.15%) below budget, but slightly over actual revenue.

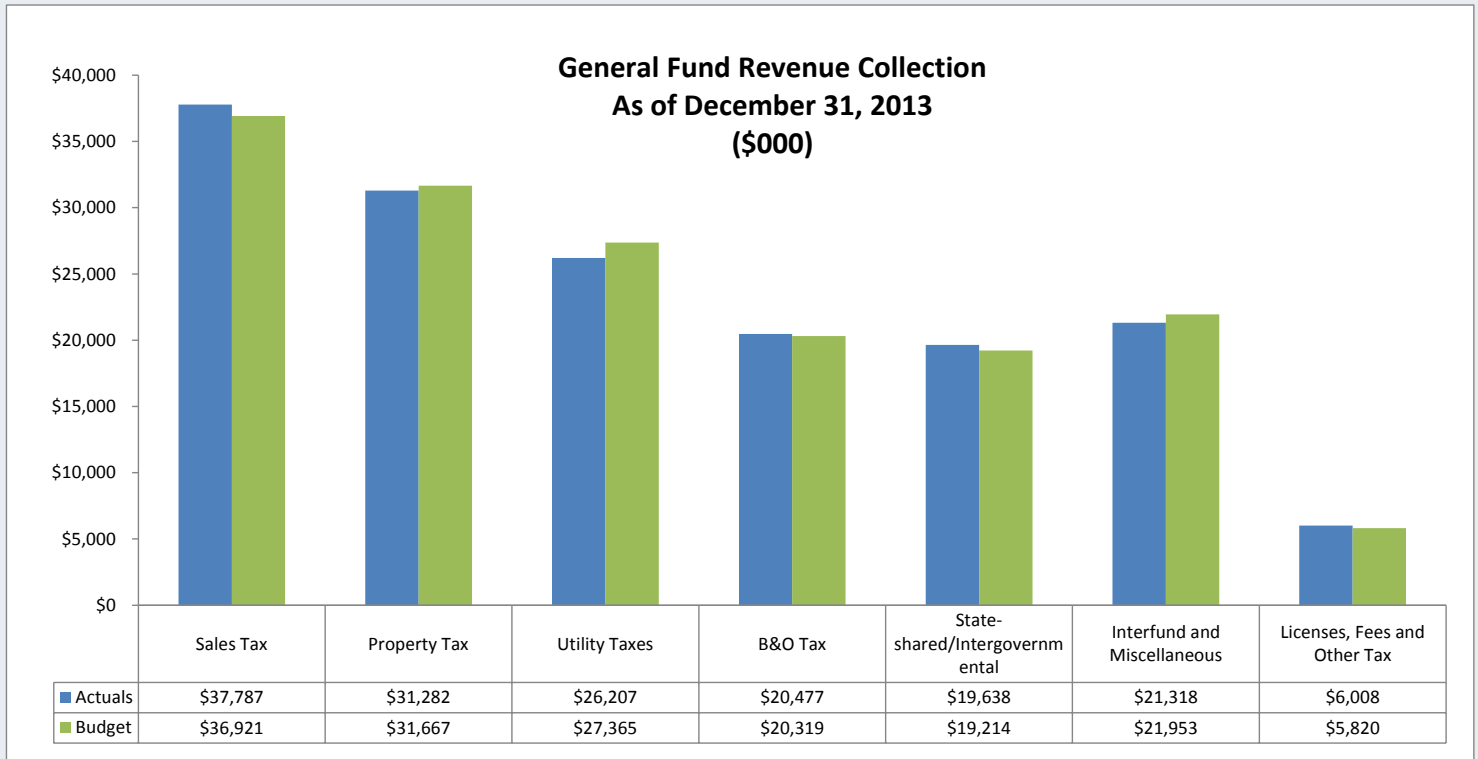
The preliminary year end numbers shown to Council during the March 24th Council workshop did not reflect a utility bill received late which increased General Fund expenditures.

Change in Fund balance

The slight difference between revenue collections and expenditures will mean a 0.18% decrease in the General Fund balance.

General Fund Balance			
Year	<u>2013</u>	<u>2014</u>	
Actual \$000	23,407	23,114	
% of GF Revenue	14.38%	14.20%	
% Change		-0.18%	

GENERAL FUND PERFORMANCE



Tax Revenues

Sales Tax and B&O Tax:

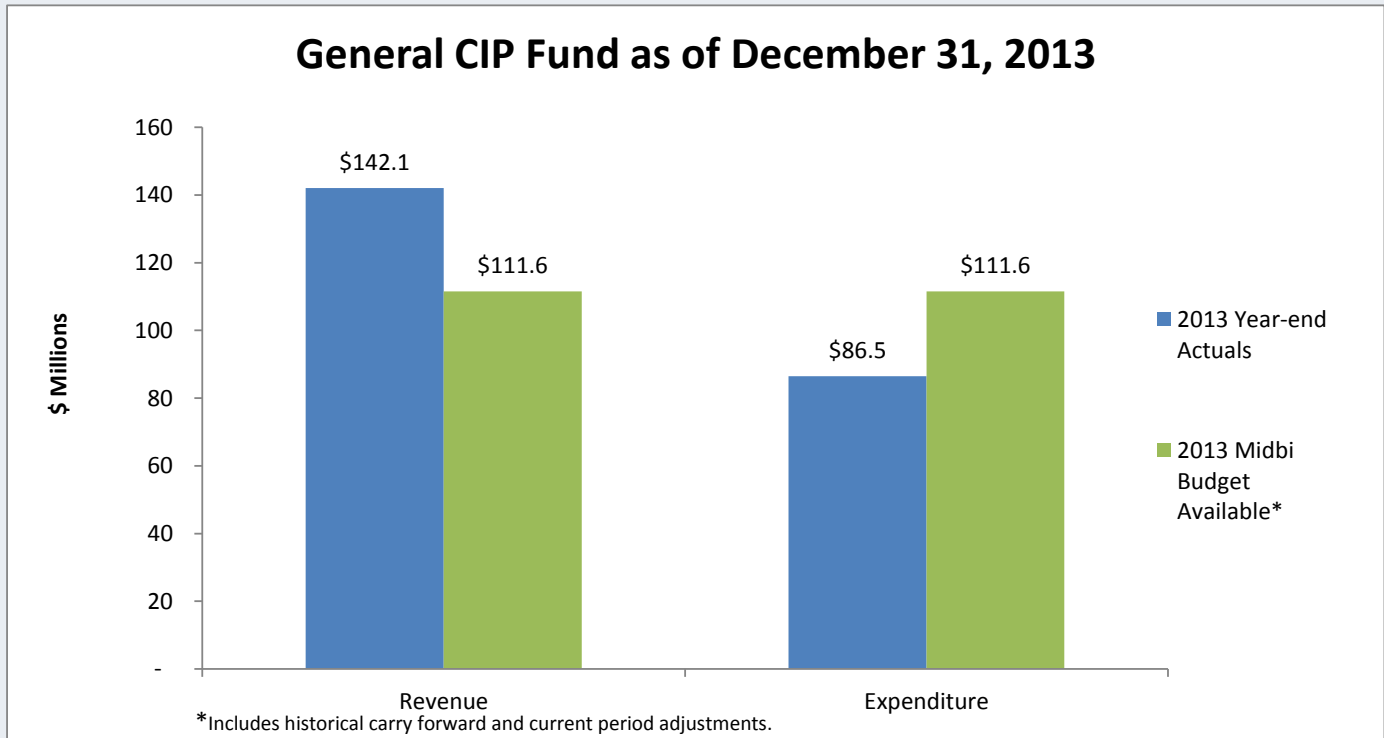
Sales tax came 2.3% over the 2013 budget. Over the last four years, December sales tax has come in disappointingly flat; however, this year, there was an unanticipated increase over prior year December receipts. If December had come in flat as anticipated, sales tax would have been right on forecast. The unanticipated revenue from December sales tax was due to additional one-time transportation and professional service taxable activity. The Budget Office will monitor these increases carefully and refine the forecast, if necessary, for sales tax going into the 2015-2016 Budget development.

Business and Occupation tax has historically been highly correlated to sales tax and 2013 was no exception. B&O ended the year slightly above budget, but by much less than sales tax (0.8%).

Utility Taxes:

Utility taxes have been trending down since the beginning of 2012. While City of Bellevue Water, Sewer and Storm Water utility taxes are on budget, the non-City utility taxes are performing under budget. Non-City utility tax collection decreases are due to conservation efforts, including energy efficient appliances and heating systems, and weather patterns which have all reduced overall demand. Telephone and cell phone utility taxes are trending down due to fewer land lines and a greater share of non-taxable data plans versus taxable voice plans. Overall, utility taxes were 4.2% under budget for 2013.

GENERAL CIP PERFORMANCE



Resources

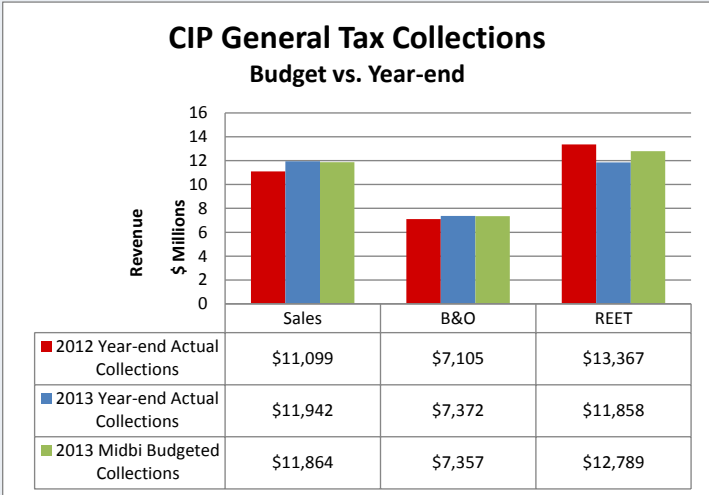
Bonds: Total revenues ended the year \$30 million (27%) over budget for 2013, mainly due to the receipt of LTGO bond proceeds.

General Taxes: Sales tax and B&O tax collections were slightly above budget. Real Estate Excise Tax receipts came in 7% below budget due to a decreasing pace of high-value real estate transactions towards yearend.

Other Revenues: Intergovernmental revenues (i.e., grants and contributions from other jurisdictions) were under-collected by roughly \$3.7 million (76%), which is mainly attributable the timing of grant receipts. Notably, Impact Fees were 49% under-collected (\$2 million) as the development pipeline saw some large projects pushed in to 2014.

Cash Flow Borrowing

As authorized by Council on October 7, a \$15 million interfund loan was required to reserve funds that are earmarked for specific uses (e.g., 2013 LTGO, Parks Levy). This borrowing will be repaid within three years.



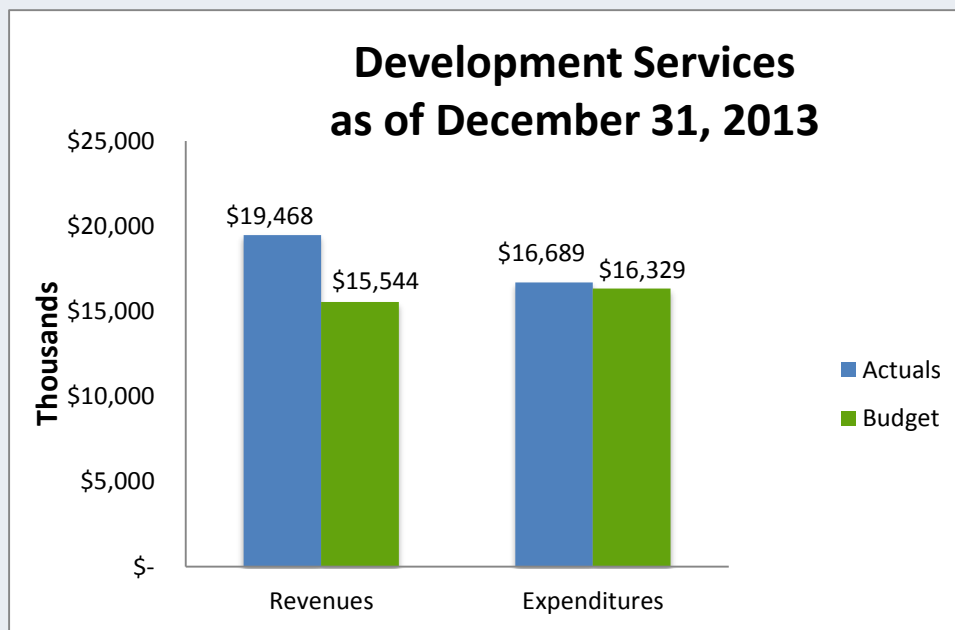
Expenditures

CIP expenditures were 78% of budget available, or \$86.5 million. This figure is in line with the long run historical average, due primarily to the beginning of many large scale construction projects (e.g., Bellevue Youth Theatre, West Lake Sammamish Pkwy Phase 1) and the acceleration of other project expenditures (e.g., 120th Ave NE, Bellevue Botanical Gardens).

DEVELOPMENT SERVICES PERFORMANCE



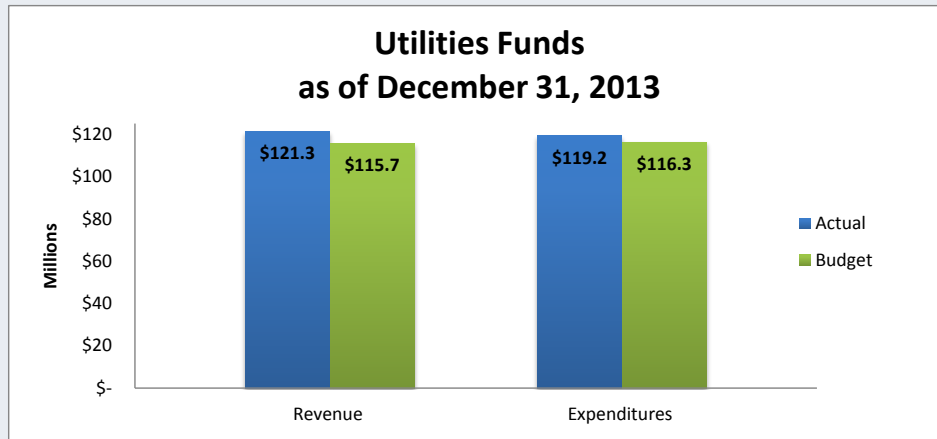
Design for the Soma Towers at 200 106th Avenue NE



Development Services revenue collections were nearly \$4 million above anticipated levels at year end, largely due to applications for major projects. Economic growth continues to improve as permit applications are increasing in valuation size and scope. Permit applications were 14% higher than the prior year end. This trend is antici-

pated to continue as the local economy improves and the Sound Transit Eastlink project begins. Development Services expenditure projections reflect cost increases for additional staff approved by Council in 2013 to meet the workload demand.

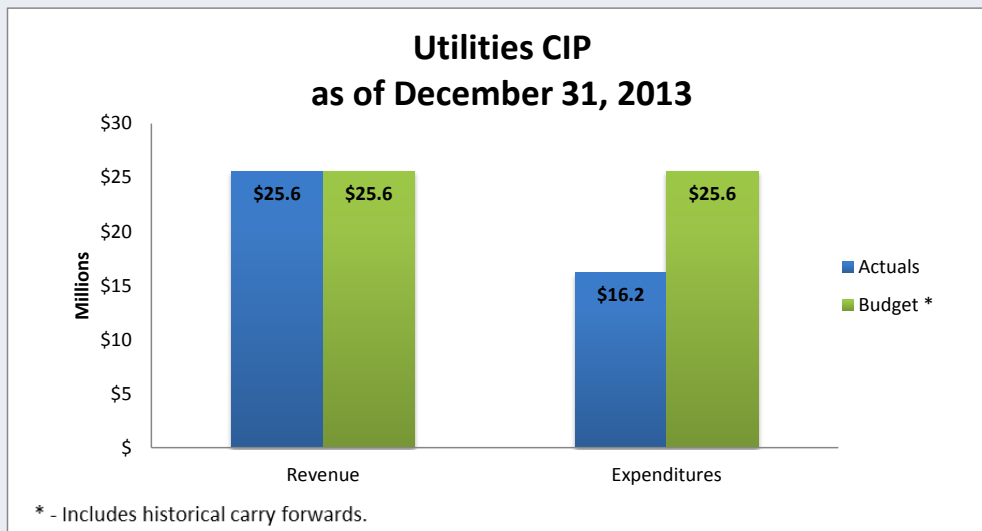
UTILITIES OPERATING FUNDS



Utility revenues were \$5.6 million above budget primarily due to higher than expected water and sewer service revenues and regional development fee revenues. Expenditures were \$2.9 million above budget, largely due to higher than anticipated development fee payments to Cascade Water Alliance and tax obligations, but partially offset by operational savings. Per Council-adopted finan-

cial policies, fund balances above budget in the Water and Sewer Funds will be used to restore and maintain operating reserves at target levels. In the Storm Fund, the majority of the excess fund balance was transferred to the Renewal and Replacement account. These actions will reduce the need for future rate increases.

UTILITIES CIP FUND



Utility revenues were at budget at yearend. Utility expenditures were \$9.4 million below budget primarily due to delays to accommodate coordination with other major projects by Sound Transit, Transportation, and Parks, and to consolidate projects to attract more favorable bid pricing, but partially offset by the acceleration of

other projects. A significant portion of the variance between revenue and expenditures carried forward will cover projects which have been designed and in some cases, bid and ready for construction in 2014 - 2015.