



City of Bellevue

MEMORANDUM

Phone: 452-6846

Date: April 27, 2015

To: Mayor Balducci and City Council Members

From: Jan Hawn, Finance Director

Subject: 2014 Year-End Budget Monitoring Report

Attached is the 2014 Year-End Budget Monitoring Report for the period ending December 31, 2014. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- Year-end General Fund expenditures were above budget by 0.2%. The excess expenditures were offset with higher revenue collections including a sizable one-time audit received in December 2014. This resulted in an addition to fund balance, bringing General Fund fund balance up to the City's policy of 15% of Revenue.
- In 2014, General CIP expenditures totaled \$87.8 million, approximately 64% of budget available. This total is slightly below historic averages because of large property acquisitions that have been delayed until 2015. When controlling for delayed property purchases, expenditures in 2014 were approximately 86% of budget available.

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 blue ink, appearing to read "Jan Hawn".

Jan Hawn, Finance Director

Attachment

2014 Year-End Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through December 31, 2014

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 CIP Funds.

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

At 2014 year end, General Fund revenue collections were 1.8% above budget primarily due to a large one-time audit receipted in December 2014, while expenditures were 0.2% above budget. With the increase in one-time revenue, the City's General Fund balance is now at the City policy of 15% of revenues. The General CIP revenue collections and expenditures were under the annual budget which will result in carrying forward expenditures into 2015. Development Services, Utility Operating Funds, and Utilities CIP all performed with revenues existing expenditures.

Bellevue Economy

As reported previously, Bellevue continues to outperform the nation. When compared to the nation and the region, unemployment is lower, schools are ranked higher, and the workforce is more highly educated. All these factors contribute to Bellevue's economic success, creating a great place to live and work. Bellevue's economy has also seen a rise in construction activity, with several large multi-family housing projects under construction as well as significant commercial development.

Performance at a Glance

Pg. 3	General Fund Revenue Actual vs Expenditure	+
Pg. 3	General Fund Revenue Actual as Compared to Budget	+
Pg. 5	General CIP Revenue Actual vs. Expenditure	+
Pg. 6	Development Services Revenue Actual vs Expenditure	+
Pg. 7	Utilities Operating Funds Actual Revenue vs Expenditure	+
Pg. 7	Utilities CIP Actual Revenue vs Expenditure	+

Legend:

- + Positive variance or negative variance < 1%
- o Negative variance of 1-4%
- Negative variance of > 4%

Bellevue home prices have rebounded much faster than the nation or even the rest of the Seattle-Tacoma-Bellevue MSA. Home prices have been a key measure to show how well the economy has recovered from the recession. Bellevue has regained or surpassed the home value that was lost in the recession (not adjusted for inflation). (Source: Zillow Research (<http://www.zillow.com/research/>))

Regional Economy

The Puget Sound region continues to perform better than the nation due to its economic makeup. There are a few factors that contribute to the better than nation economic performance such as the businesses located in the area and the high quality workforce. The region draws and produces highly educated workers. Fifty five percent of the Puget Sound region jobs are professional jobs requiring post-secondary education. Three of the top four job categories other than retail in Bellevue are Information (13%), Professional, Scientific and Technical (13%), and Healthcare and Social (10%) (Puget Sound Regional Council).

The national unemployment rate is currently 5.5%. Economists consider full employment to occur when unemployment is at 3%. Currently, Bellevue's unemployment rate is at 3.7% which is significantly closer to full employment than the nation as a whole. (Bureau of Labor Statistics, as of December 2014)

U.S. Economy

The Federal Reserve (the Fed) ended its Quantitative Easing program, which consists of the Fed buying large quantities of bonds to drive interest rates down. This move indicates that the Fed believes that inflation and unemployment are at a manageable level and intervention is no longer needed. The US economy is subject to many risks, both internal and external.

Internal Risk:

Political risk is an important factor in the US Economy. This upcoming year is the beginning of a presidential election cycle which, if history repeats, will cause impacts. What the impacts will be are yet to be determined.

External Risk:

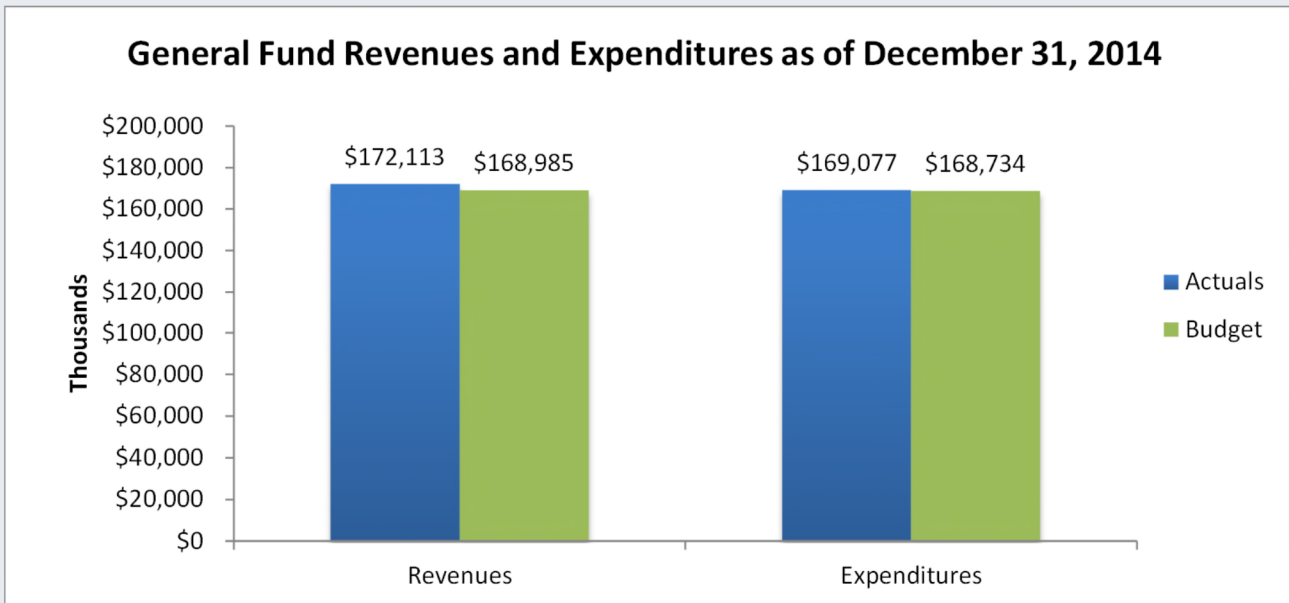
The US economy also has risk exposure with the global economy. The European Union is a significant trading partner and thus represents risk to the US economy. The EU has barely risen out of recession and, to help support the recovering economy, has instituted a quantitative easing program similar to the US program that just ended. China is also a major trading partner and recently has witnessed falling demand, missing governments targets. China has enjoyed double digit growth for many years but that growth has recently started to fall short of the China's growth targets.

Puget Sound Annual Percent Change			
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>
% Change in Employment	2.3	2.8	3.0
% Change in Personal Income	4.2	3.1	5.6
% Change in Housing Permits	52.2	8.6	13.2
% Change in Average Home Price	3.5	10.3	7.8
% Change in Taxable Retail Sales	2.5	7.7	6.5
<i>* Source: Puget Sound Economic Forecaster—December 2014</i>			

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2014

GENERAL FUND PERFORMANCE



Revenue

At 2014 year end, General Fund revenue collections were 1.8% (\$3.1 million) above budget primarily due to a large one-time audit (\$2.9 million) receipted in December 2014, while expenditures were 0.2% (\$343,000) above budget. The various revenue sources are broken down on the following page and discussed in greater detail.

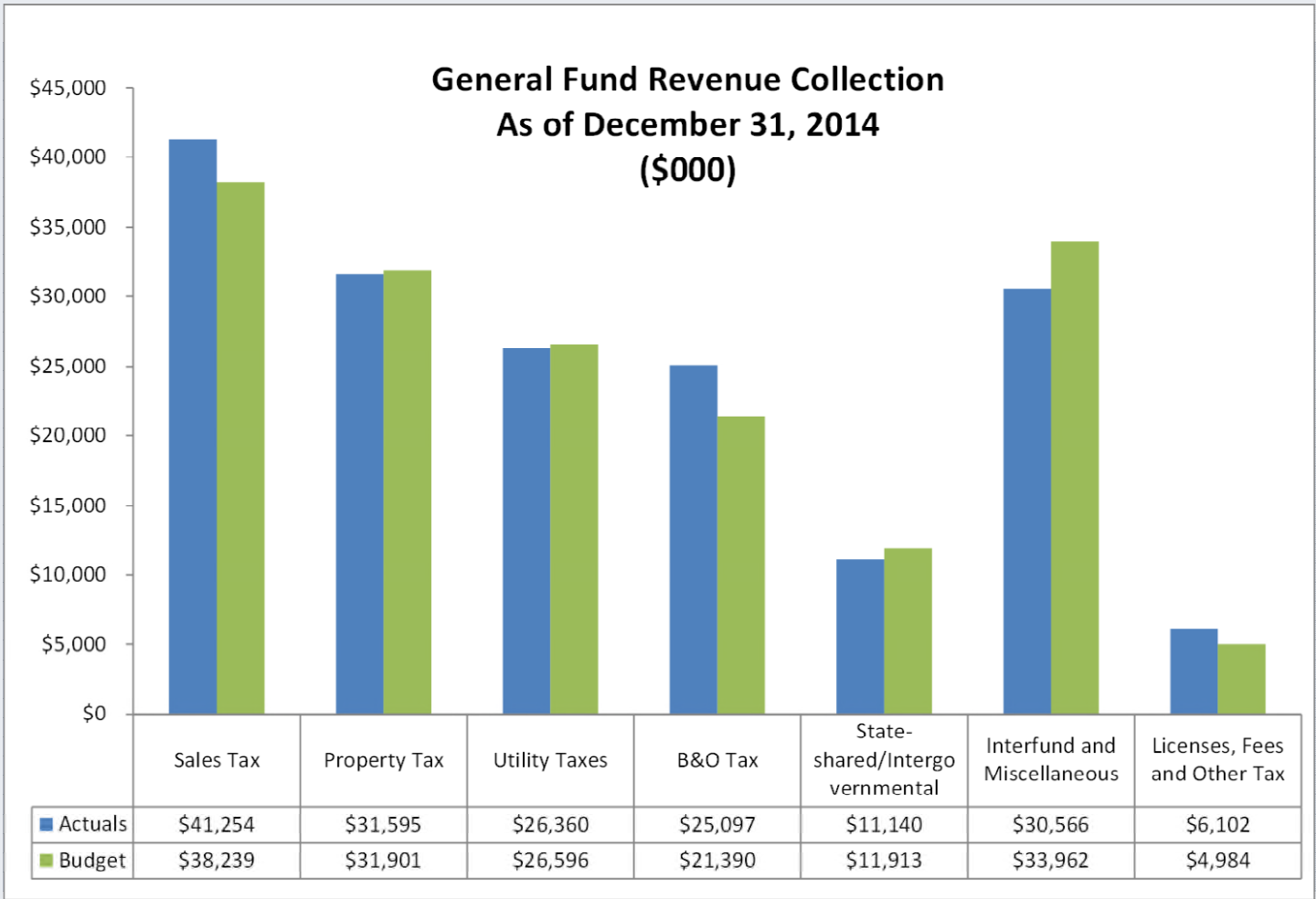
Expenditures

Year-end expenditures were \$343,000, or 0.2% greater than budget, yet within total City appropriation since the City does appropriate 100% of fund balance.

Change in Fund Balance

The general fund ended 2014 with approximately \$3 million greater revenue than expenditures. As a result, the general fund balance increased to 15% bringing the City to its policy target fund balance earlier than previously forecasted.

GENERAL FUND PERFORMANCE



Sales Tax:

Sales tax total was 7.9% over the 2014 budget. Included in the excess was \$625,000 of large one-time purchases and collections of taxes incurred in previous years, while the remaining amount is due to development activity ramping up quicker than anticipated. The greater-than-expected sales tax helped in covering the slightly weaker performance of property tax, utility tax, state share revenues, and miscellaneous.

Business and Occupation Tax (B&O Tax):

B&O tax came in 17% above budget. The increase was attributable to a \$2.9 million one-time audit assessment received in December 2014. Removing the one-time audit, B&O tax came in 3.8% above budget.

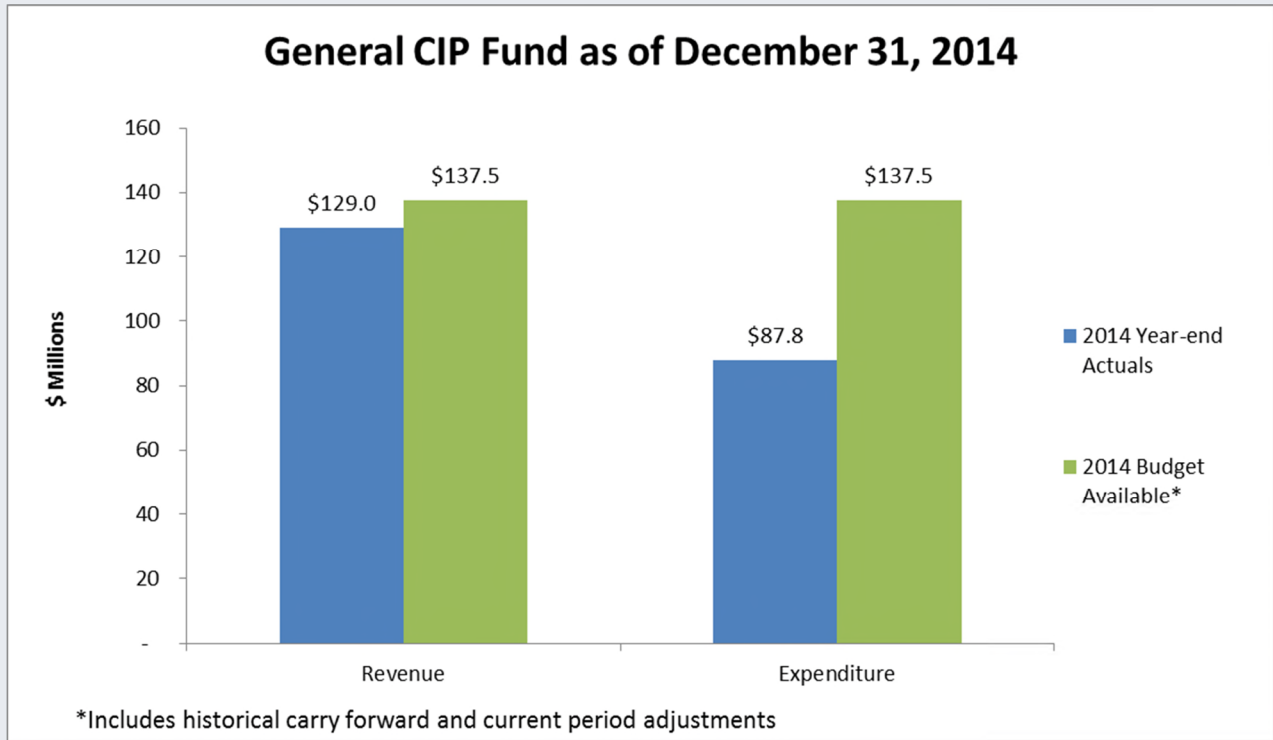
Utility Taxes:

Utility taxes have been trending down since the beginning of 2012. Electric and Gas tax collection decreases are due to conservation efforts. 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 slightly below budget for 2014.

Miscellaneous:

Miscellaneous and Interfund budget includes an “over collection” amount of \$1.5M, which is dispersed throughout the revenues through actual. The remaining shortfall from budget is a variety of sources with no one source being a primary driver.

GENERAL CIP PERFORMANCE



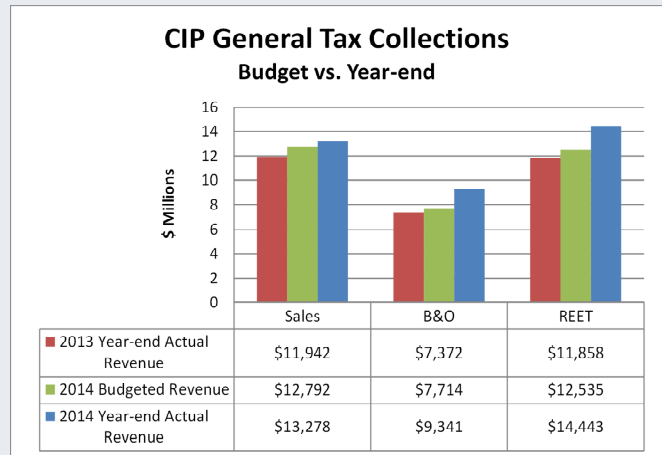
Resources

Bond Proceeds: The 2014 resource total includes unspent bond proceeds in the beginning fund balance from the 2013 bond issue (\$60.7 million).

General Taxes: Sales tax, B&O tax, and REET were all above budget. B&O tax was higher than budget as a result of a large one-time audit and REET collections were 15% above budget.

Other Revenue: Intergovernmental revenue (i.e., grants and contributions from other jurisdictions) were under collected by \$4.9 million—most of which is attributed to timing of grant receipts. Miscellaneous revenue, which includes private contributions, were also under collected by \$2.1 million, again, most of which is due to timing. It is estimated that \$7.0 million project specific revenues that were budgeted in 2014 will be received in 2015 due to timing.

Cash Flow Borrowing: The 2014 budgeted revenue included \$4.3 million in cash flow borrowing, but the short-term borrowing was not needed. The Budget Office continues to monitor overall cash flow needs within the General CIP.



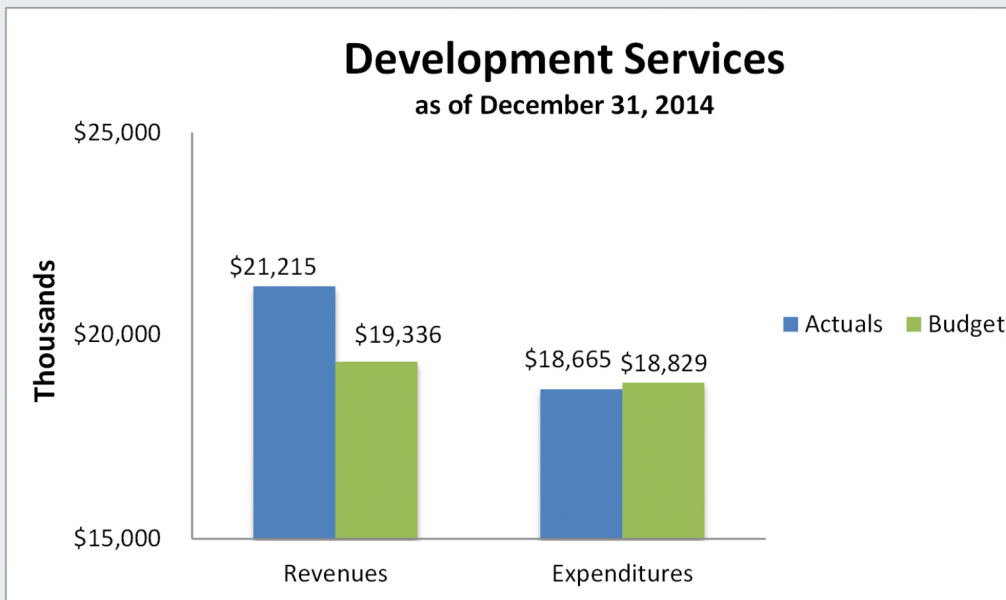
Expenditures

In 2014, General CIP expenditures totaled \$87.8 million, approximately 64% of budget available. This total is slightly below historic averages because of large property acquisitions that have been delayed until 2015. When controlling for delayed property purchases, expenditures in 2014 were approximately 86% of budget available.

DEVELOPMENT SERVICES PERFORMANCE



Bellevue Square Expansion—701 Bellevue Way

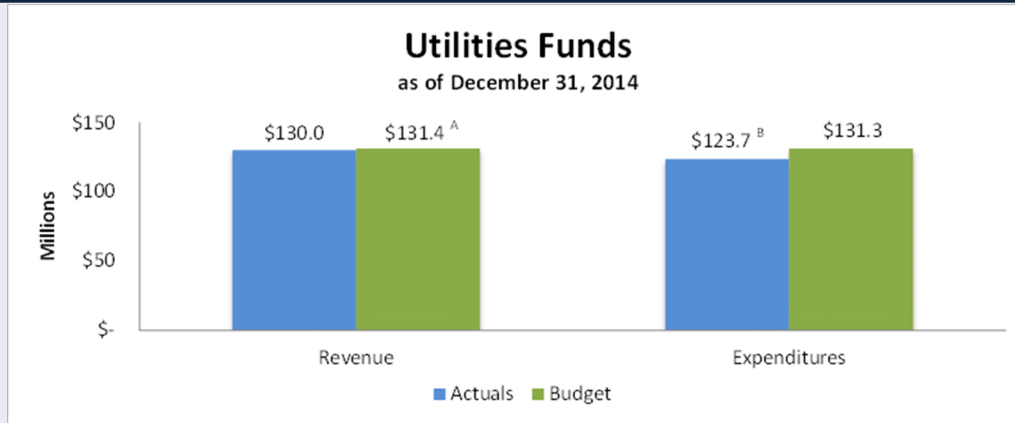


Development Services revenue collections were \$1.9 million above budget at year end largely due to major project permits issued for construction. Development permit activity remained at a high level through 2014 and is anticipated to continue through 2015. In 2015, East Link permit activity is expected to be another significant driver of workload. Development Services expenditures showed savings of \$164,000, a result of positions that were vacant in the early part of the year and other maintenance and operation savings. During times of economic success, Development Services continues to build fund balance in order to manage through times of economic recession. This is their normal business practice.

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2014

UTILITIES OPERATING FUNDS

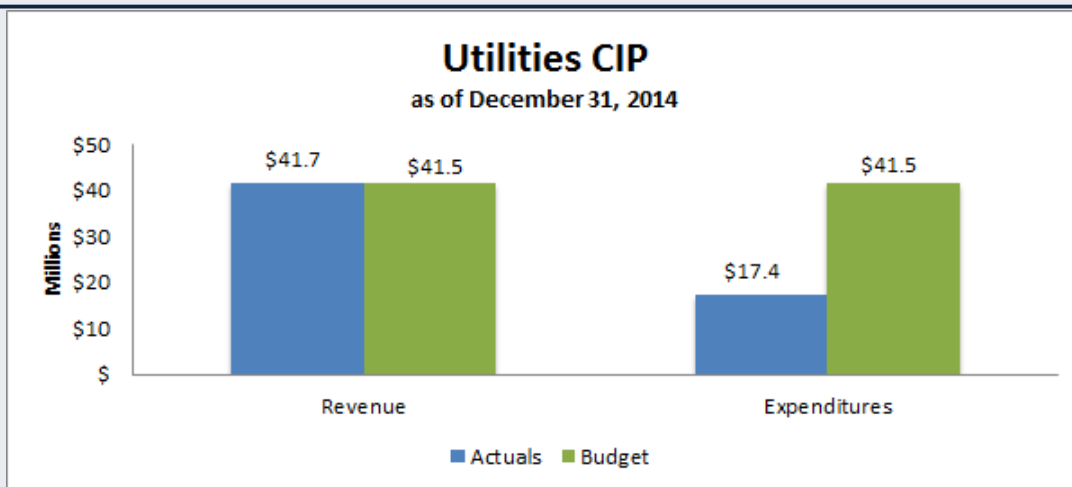


A - 2014 budgeted revenues include \$1.8 million in funding carried forward from 2013 to complete work that was started but not yet complete at the end of the year.

B - Actual expenditures do not include \$8.8 million transfer to R&R per financial policies.

The Utilities Funds ended 2014 in a positive financial condition, with operating revenues sufficient to meet operating expenses. Utility operating revenues were \$1.4M under budget at year end. This was the result of a delay in the timing of interfund revenues related to the East Link utility relocations project, with the \$7.7M funding for this project being rebudgeted to 2015. This revenue shortfall was largely offset by water sales and regional capital facility charges being stronger than anticipated due to favorable weather conditions and development activity. Utility operating expenditures were under budget by \$7.6M, again due to the timing of expenditures for the East Link utility relocations project. Partially offsetting this under-expenditure are higher than anticipated regional water connection charge payments and additional taxes from the increased water service revenue. Consistent with City financial policies, transfer of year-end fund balances above anticipated levels to the infrastructure renewal and replacement fund will be made at the end of the year.

UTILITIES CIP



Utility CIP revenues (not including reserves) ended 2014 slightly above budget due to an unanticipated increase in annual payments from King County for flood control projects. Utility CIP expenditures were below budget due to coordination of construction activities with other projects, consolidation of projects to attract more favorable bid pricing, and project delays due to a shortage of staff resources. The delayed projects have been incorporated into the 2015-2021 Utilities CIP and unspent project resources have been rebudgeted as part of the 2015-2016 biennial budget process. The 2015-2016 budget includes the additional staffing resources necessary to deliver planned CIP projects starting in the 2015-2016 biennium.

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