



City of Bellevue

MEMORANDUM

Phone: 452-7863

Date: May 25, 2017

To: Mayor John Stokes and City Council Members

From: Toni Call, Finance Director

Subject: 2017 First Quarter Budget Monitoring Report

Attached is the 2017 First Quarter Budget Monitoring Report for the period ending March 31, 2017. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- Bellevue's median home value increased 14 percent from March 2016 to March 2017.
- First quarter General Fund revenues and expenditures are estimated to be on budget.
- All funds are performing within appropriation authority.
- General CIP as of the first quarter is projected to spend \$166M or approximately 82 percent of the 2017 budget.

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

Sincerely,

A handwritten signature in blue ink that reads "Toni Call".

Toni Call, Finance Director

Attachment

2017 First Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through March 31, 2017

Economic Performance

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 2017 Amended Budget, to discuss reasons for variance and to convey an overview of the local and national economic outlook.

U.S. Economy

Overall, the U.S. economy is slowing down in the first quarter. The first estimate of real GDP growth in the first quarter of 2017 was a paltry 0.7 percent—the weakest in three years (Source: Bureau of Economic Analysis). The weakness was concentrated in four areas: 1) consumer spending on automobiles fell after three very strong quarters; 2) consumer spending on services was weak because of lower spending on utilities; 3) defense spending dropped; and 4) there was a sharp slowdown in business inventory/stock accumulation (Source: IHS Markit).

However, IHS Markit expects that real GDP growth will rebound sharply in the second quarter to above 3 percent. First, the residual seasonality alone will boost the second-quarter numbers—especially defense spending. Second, after the temporary pause in the first quarter (some of it weather related), consumer spending is expected to recover. Third, after a big deceleration in inventory accumulation in the first three months of the year, businesses will begin rebuilding their stocks of goods once again (Source: IHS Markit).

The labor market expanded moderately. The national unemployment rate declined by 0.2 percentage points from

Performance at a Glance

Pg. 3	General Fund Revenue Actual vs Expenditure Projection	+
Pg. 4	General Fund Revenue Performance as Compared to Budget	+
Pg. 5	General CIP Revenue Actual vs Expenditure Projection	+
Pg. 6	Development Services Revenue Actual vs Expenditure Projection	+
Pg. 7	Utilities Operating Funds Revenue Actual vs Expenditure Projection	+
Pg. 7	Utilities CIP Revenue Actual vs Expenditure Projection	+

Legend:

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

February to 4.5 percent and was 0.5 points lower than in March 2016. Tight labor markets exist across districts as employers struggle to find and retain skilled labor, with some firms having to adjust compensation packages to gain an edge (Source: Bureau of Labor Statistics).

Economy at a Glance (Q1 Percent Change, Annual Rate)

Gross Domestic Product	2.3
Personal Consumption	2.4
Fixed Investment	3.0

Regional Economy

The overall economic growth in the Puget Sound region remains strong.

The pace of increasing home prices in the Puget Sound region has become a hot topic. King County median home prices in April surpassed \$600,000 for the first time, growing 15.7 percent compared to a year ago, the fastest growth in about a year. The new median house price is \$625,000 as of April, more than double the price at the bottom of the market in early 2012. Seattle has also set a record for home prices for the third straight month, with the typical house cost nearing three quarters of a million dollars. On the Eastside, the median home value reached \$880,000 for the first time after rising \$150,000 in just a year, the biggest jump ever (Source: Northwest Multiple Listing Service).

The strong home price growth is supported by the strong employment growth and personal income growth. Roughly 28% of King County residents are in professional business/managerial positions. As a result, median household income in King County is well above the U.S. average. Cost of living is generally higher than the U.S. average, but it is in line with other metropolitan areas with similar income levels (Sources: Economic Development Council of Seattle and King County).

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's median home value increased 14 percent from March 2016 to March 2017 (Source: Zillow Research (<http://www.zillow.com/research>, Zillow Home Value Index)).

Although employment growth, per capita income growth, home price growth and tax revenues growth are all good economic signs, there is a need to pay attention to the following underlying risks: As people's spending habits change, the trend of moving from department stores/local retail store sales to more online (electronic) sales becomes apparent. Department stores have been struggling to compete with online retailers like Amazon. In its first quarter earnings report, Macy's reported a 7.5 percent overall sales drop since a year ago, both its sales and profits below the forecast. In addition, JCPenny, Kohl's, Sears, Dillard's and some other traditional retail stores reported sales decline. Nordstrom's first quarter earning increase is largely due to its online sales (23 percent of the total sales). The city is carefully monitoring this shift and the impact on sales tax collections.

Construction cycle is another area closely observed since it has a significant impact on construction sales tax, property tax, impact fees and other city revenues. After 4 years of continuous increase in the total permit valuation issued by the city from 2012-2015, there was a slight decline in 2016. The 2016 total permits issued by the city valued at around \$800 million, and the 2017 target set by the development services department is \$793 million, 1 percent lower than 2016. However, the major projects valuation estimated to increase 11 percent from 2016, which indicates the construction activities in the city are still going strong. See the table below for more information.

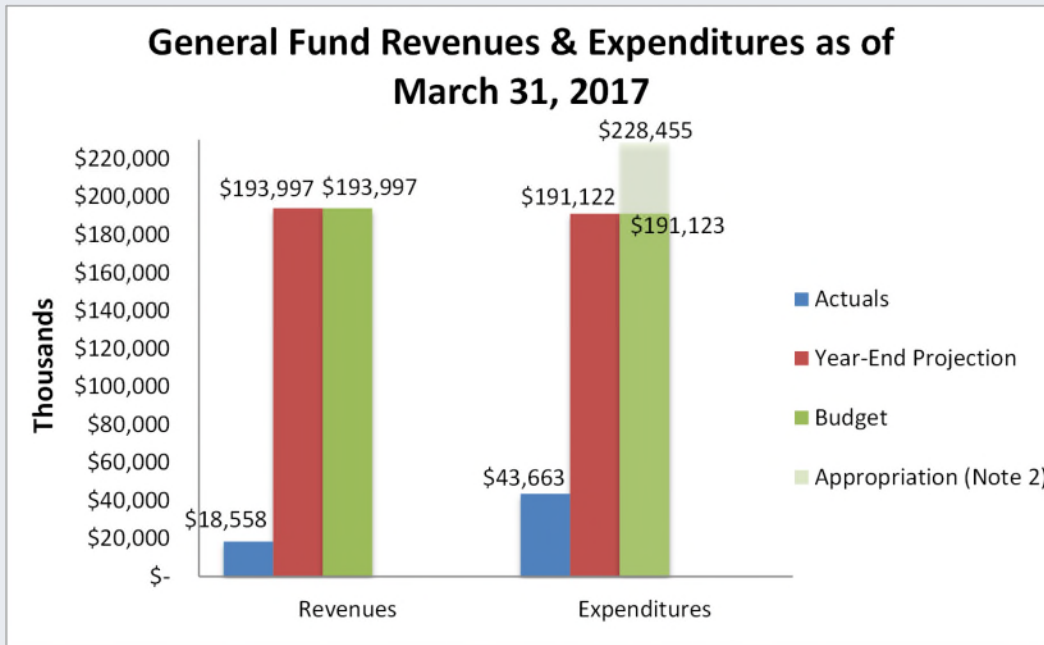
Valuations Issued	2015	2016	2017 Target	2017 Q1	% of Target
Total Valuations Issued	\$949,823,753	\$799,663,198	\$792,639,664	\$144,228,910	18%
Major Projects	\$664,410,419	\$474,592,183	\$527,229,659	\$64,443,816	12%
Commercial Alt.	\$137,770,353	\$180,691,061	\$129,009,600	\$40,385,768	31%
Residence Alt.	\$26,448,750	\$33,980,360	\$25,249,565	\$7,551,449	30%
New Residence	\$121,194,232	\$110,399,594	\$111,150,840	\$31,847,877	29%
Annual % Change in Total	33%	-16%	-1%		
Annual % Change in Major Projects	45%	-29%	11%		

Source: DS Oversight Report Snapshot; First Quarter 2017 Preliminary, Section V.

City of Bellevue Budget Monitoring Report

January 1 to March 31, 2017

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

Seventy-one percent of revenue is collected through taxes (Sales, B&O, 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. Utility taxes continue to have flat or decreasing growth due to households abandoning landlines and wireless phone companies shifting their service proportion more towards the non-taxable data plans and away from taxable voice services.

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

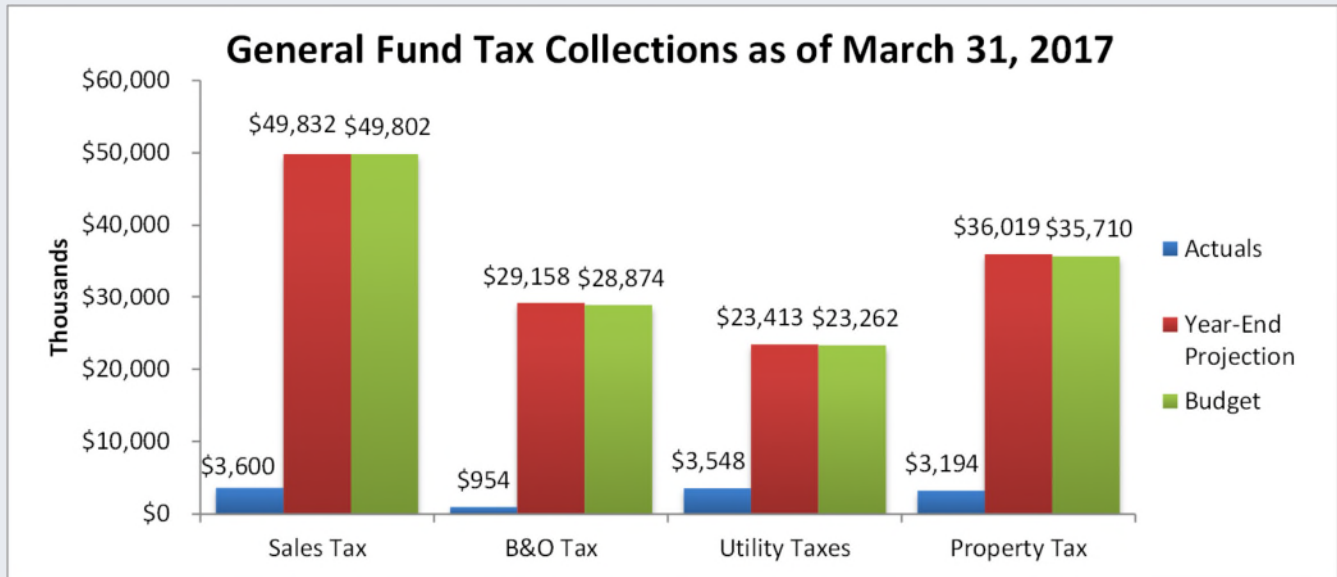
Expenditures

Expenditures projections are budgeted at budget. The city wide under expenditure was primarily due to vacancies in personnel.

Change in Fund Balance

The first quarter General Fund ending fund balance is estimated to be on budget and was purposefully set to increase to assist with future known items. The current General Fund balance maintains the City's financial policy target of 15 percent. It is important to note that, though the City is experiencing revenues exceeding expenditures in the near term, the out year forecast reflects the reverse.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through March, current year-end estimates, and 2017 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.

Sales Tax

Sales tax collections remained consistent with budget. The 0.2 percent increase in sales tax projection over budget is due to a slightly higher February sales tax collection.

Business and Occupation Tax (B&O Tax)

B&O tax is projected to be less than 1 percent above budget, primarily due to increases in audit recovery.

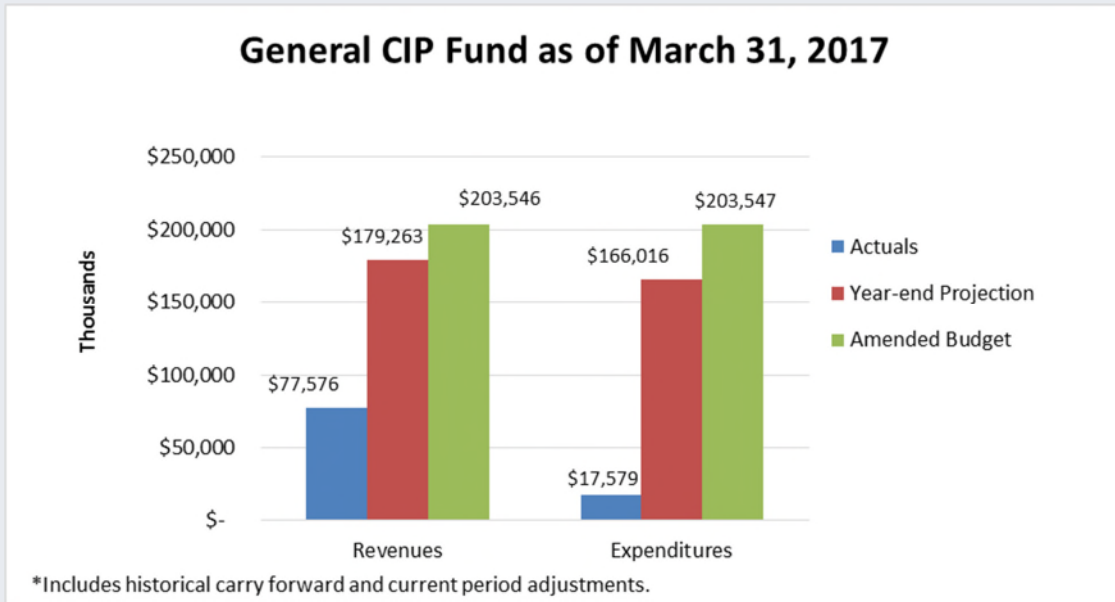
Utility Taxes

Utility tax collections came in slightly over budget by 1.5 percent and is attributed to a slower drop in cell phone and telephone utility tax. Utility taxes continue to decline due to reduced telephone and cell phone tax collections as seen in prior years, declining by 9.5 percent on average each year since 2014.

Property Tax

Property tax is determined based on the assessed value 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 and two voter approved levies passed in November of 2016. The two voter approved levies passed in November 2016 include a \$0.125 per \$1,000 AV for Fire Facilities upgrades, and \$0.15 for Neighborhood Safety, Connectivity for upgrade safety, connectivity, and congestion projects. The three voter approved levy collections are budgeted and spent in the capital improvement program. Property tax collections are projected to be slightly above budget due to updated construction valuation information received earlier in the year.

GENERAL CIP PERFORMANCE



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

Resources

Major CIP resources are comprised of bond proceeds, 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) and the Fire Facilities and Neighborhood Congestion, Safety and Connectivity Levies approved by voters in November 2016.

The 2017 CIP includes \$69.3 million in beginning fund balance programmed to existing projects in the CIP. Sales, B&O and REET collections are projected to exceed budget by \$3.0 million but are partially offset by a \$1.5 million reduction in Transportation impact

fees. Grants and Interlocal contributions are projected lower than budgeted due to delays in projects.

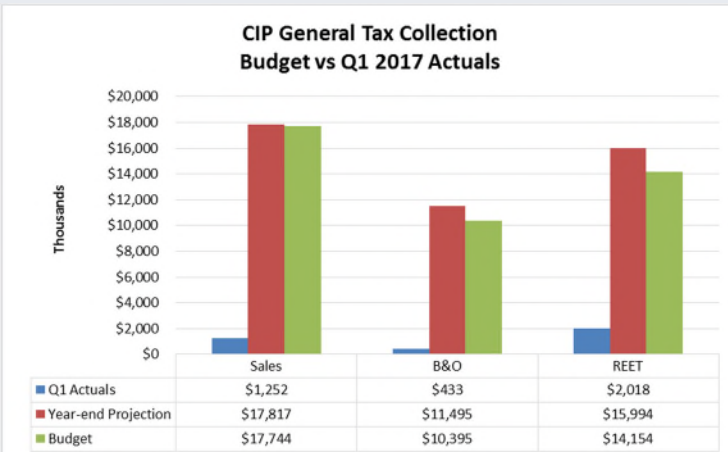
REET

Real Estate Excise Tax is projected to be higher than budget due to an increase in home and commercial sales. 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 \$166 million, or 82 percent spent at year-end. Year-end projections include savings due to project timing and progress on large scale transportation projects, such as completion of the 120th St. NE Stage 3 project, ongoing design and engineering on Spring Boulevard Zone 1 and continued work on the Overlay Program.

Other expenditure highlights include further implementation of the Fire Facility Master Plan, the Fire Station 10 project and the Neighborhood Congestion Management and Neighborhood Safety & Connectivity projects.

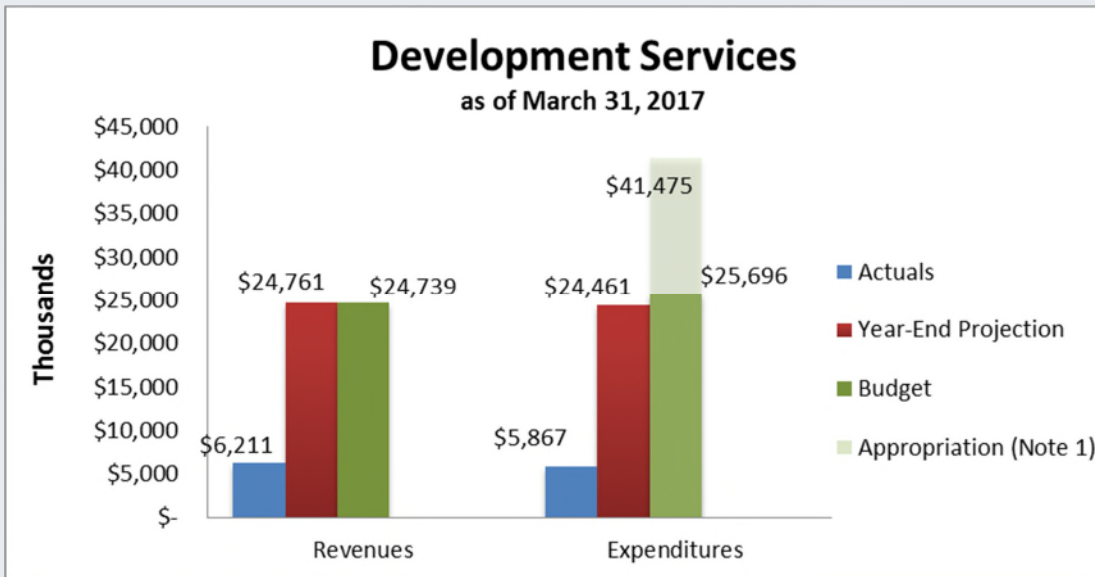


City of Bellevue Budget Monitoring Report

January 1 to March 31, 2017

DEVELOPMENT SERVICES PERFORMANCE

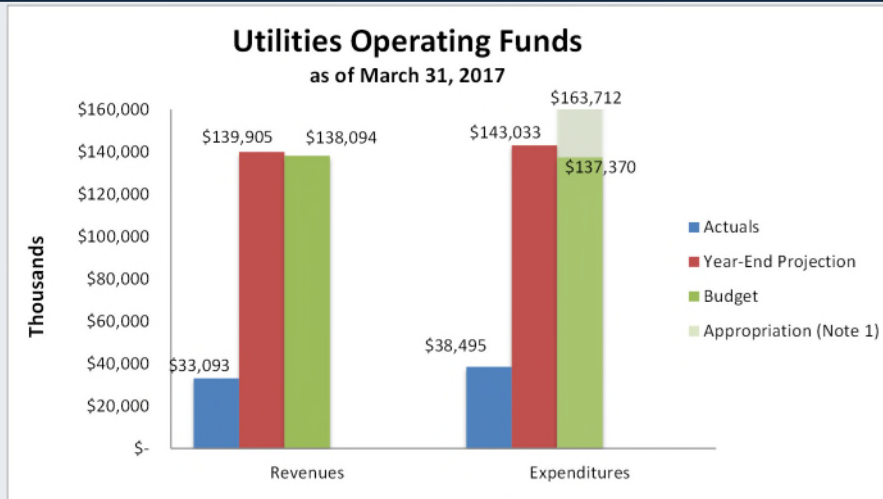
Gateway – 10360 Main Street



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 Services revenue is on target as development activity continues at a high level. Several major projects are in the review process and additional projects are in construction. By year end, revenues are anticipated to be at budget. Expenditures are anticipated to show savings of approximately five percent by year end. This is the result of vacant positions and other miscellaneous savings.

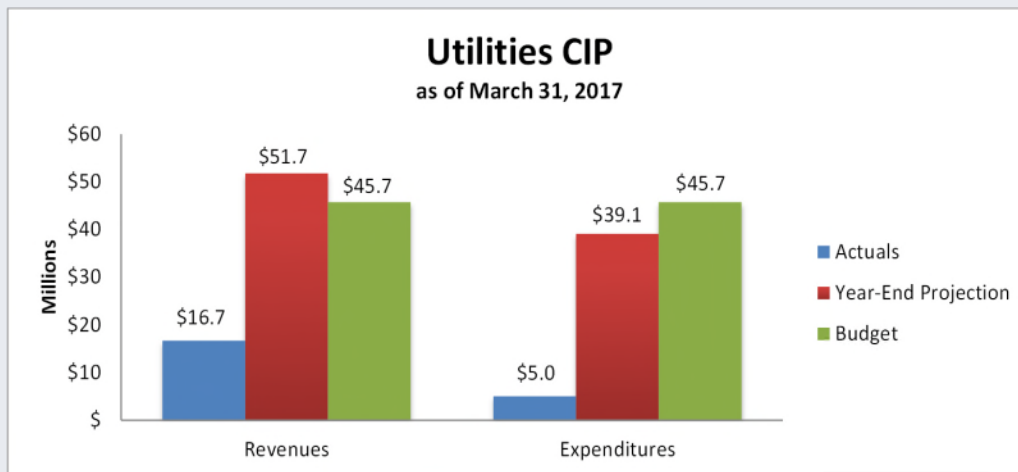
UTILITIES OPERATING FUNDS



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).

Utility operating revenues and expenses in the first quarter were as expected. Total revenues include a \$1.6 million refund from King County Metro for overpayment of wastewater treatment costs. Projected revenues are expected to exceed budget as a result of this refund. Projected expenses are expected to exceed budget but will be within total appropriations due to a \$6.0 million transfer of excess 2016 fund balance from the Water Utility to the Water CIP to fund AMI implementation, as approved by Council.

UTILITIES 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 Blvd.

Actual and projected revenues (exclusive of reserves) include a \$6 million transfer of excess fund balance from Water operations to fund the AMI project, consistent with the Council adopted budget. As planned, these resources will be used to support implementation of AMI in 2017 and 2018. Projected CIP expenditures reflect delays in construction activities for Midlakes Sewer Pump Station, the water pump station rehabilitation program and the West Lake Sammamish Parkway AC water main replacement project.