



City of Bellevue

MEMORANDUM

Phone: 452-7863

Date: August 7, 2017

To: Mayor John Stokes and City Council Members

From: Toni Call, Finance Director

Subject: 2017 Second Quarter Budget Monitoring Report

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

Key items:

- Bellevue's unemployment rate continued to drop to 2.6 percent in April, the lowest since April of 2008.
- Second quarter General Fund revenues are performing slightly higher than budget and expenditures are estimated to be on budget.
- All funds are performing within appropriation authority.
- General CIP is projected to spend \$127M and includes the beginning of the Transportation Infrastructure Finance and Innovation Act (TIFIA) projects.

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 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 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

Real gross domestic product (GDP) increased 1.4 percent in the first quarter of 2017, according to the estimate released by the Bureau of Economic Analysis in June. The increase in real GDP was accounted for by increases in business investment, exports, consumer spending, and housing investment.

Real GDP is expected to have improved in the second quarter and will be boosted over the rest of the year by solid contributions from gains in consumer spending as well as residential and non-residential investment. IHS Markit believes that GDP growth will be 2.3 percent this year, up from 1.6 percent in 2016. (Source: IHS Markit).

Personal income increased 3.5 percent from a year ago as of May 2017 according to the Bureau of Economic Analysis. Disposable personal income (DPI) increased 2.2 percent and personal consumption expenditures (PCE) increased 1.4 percent.

The Federal Reserve continues to tighten monetary policy, with a 0.25 point rate increase in mid-March and more expected in 2017. There are still uncertainties in the new administration's future fiscal policies that might impact tax reform, deregulation or higher infrastructure spending.

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

U.S. Economy at a Glance (Annual percent change)

Gross Domestic Product (Q1)	1.4
Inflation Rate (Q2)	1.6
Unemployment Rate(Q2)	4.4

Regional Economy

The Puget Sound region's real estate market, already the hottest in the country, is now seeing prices rise faster than at any point since the housing bubble last decade. Single-family-home prices across the Greater Seattle area rose 13.3 percent in May compared to a year ago, the most in the country for the ninth straight month. (Source: Case-Shiller home price index).

The next-hottest market in May was again Portland, with home prices increasing 8.9 percent from a year ago; nationally, growth was 5.6 percent. (Source: Case-Shiller home price index). As property value increases, both residential and commercial construction are going strong in the Puget Sound region.

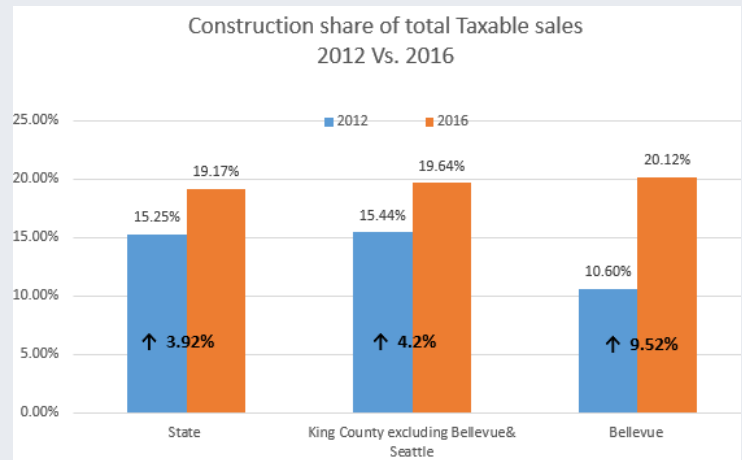
In the near term, IHS economists expect job growth in 2017 will see an annual pace of 2.3 percent. The Puget Sound region's economy is expected to slow down as many construction projects come to an end and labor markets tighten. However, strong service sectors such as trade, transportation, and utilities and information services will see payroll growth in the metro area excel in 2017 compared to the nation's expected performance. (Source: IHS Markit).

home value increased 16.2 percent from June 2016 to June 2017. (Source: Zillow Research (<http://www.zillow.com/research>, Zillow Home Value Index)).

The city continues to observe the construction cycle. Revenues from sales tax on construction labor and materials and business and occupation taxes paid by businesses in the construction sector continue to grow. 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, doubled 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.

Bellevue Economy

Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's unemployment rate continued to drop to 2.6 percent in April, the lowest since April 2008. In addition, Bellevue's per capita income is 26 percent higher than King County's per capita income, and 15 percent higher than Seattle. (Source: U.S. Census Bureau, American Community Survey (ACS)). As a result of the strong job growth and personal income growth, Bellevue's median



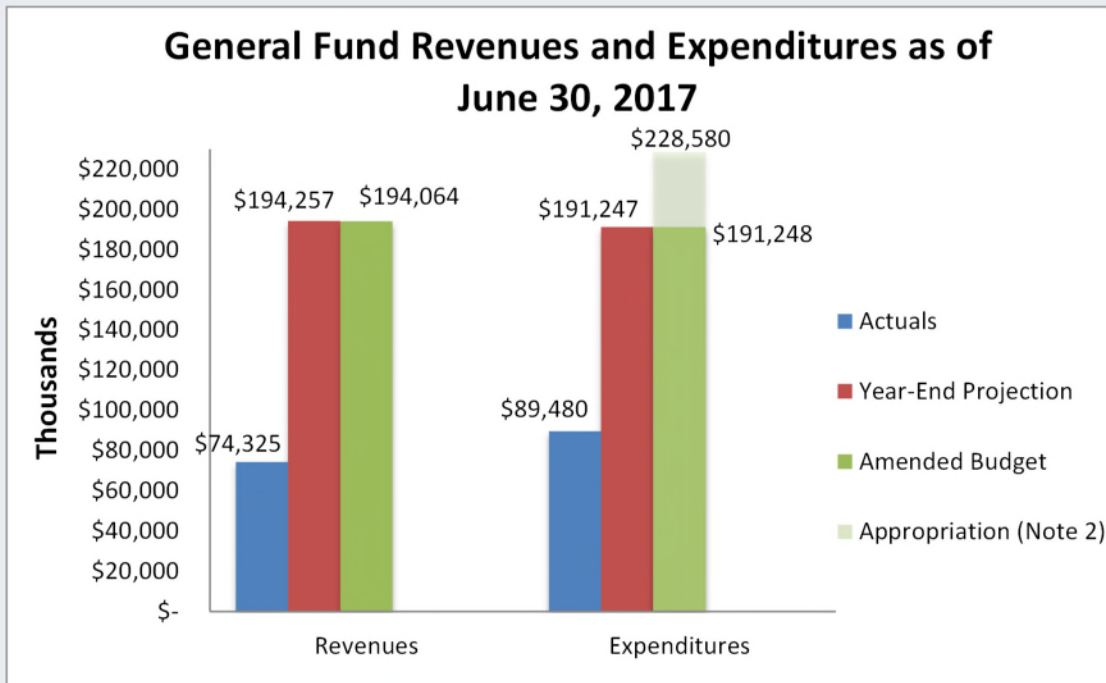
Valuations Issued	2015	2016	2017 Target	2017 Q2	% of Target
Total Valuations Issued	\$949,823,753	\$799,663,198	\$792,639,664	\$334,947,037	41%
Major Projects	\$664,410,419	\$474,592,183	\$527,229,659	\$162,433,660	32%
Commercial Alt.	\$137,770,353	\$180,691,061	\$129,009,600	\$88,482,002	51%
Residence Alt.	\$26,448,750	\$33,980,360	\$25,249,565	\$21,474,584	67%
New Residence	\$121,194,232	\$110,399,594	\$111,150,840	\$62,556,791	62%
Annual % Change in Total	33%	-16%	2%		
Annual % Change in Major Projects	45%	-29%	8%		

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

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2017

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, current year -end estimates, amended budget through 7/17/2017, 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 second 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.

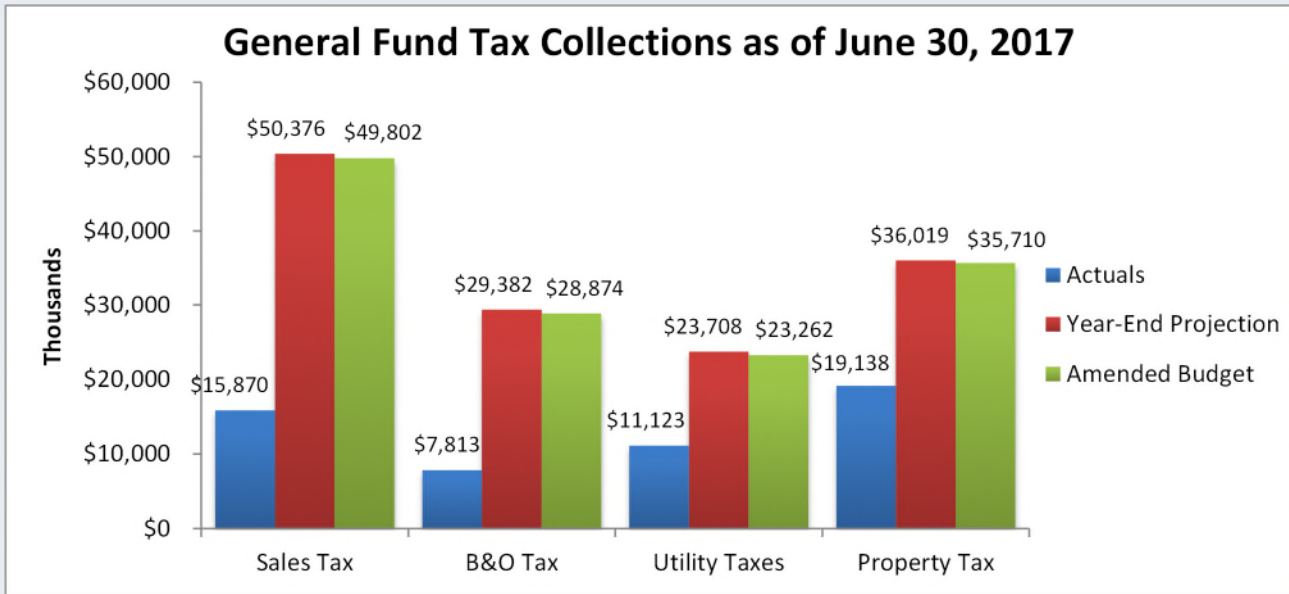
Expenditures

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

Change in Fund Balance

The General Fund ending fund balance is estimated to be slightly stronger than 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 21.1%.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and amended budget through 7/17/2017. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second 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 one percent increase in sales tax projection over 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 budget, primarily due to increases in audit recovery.

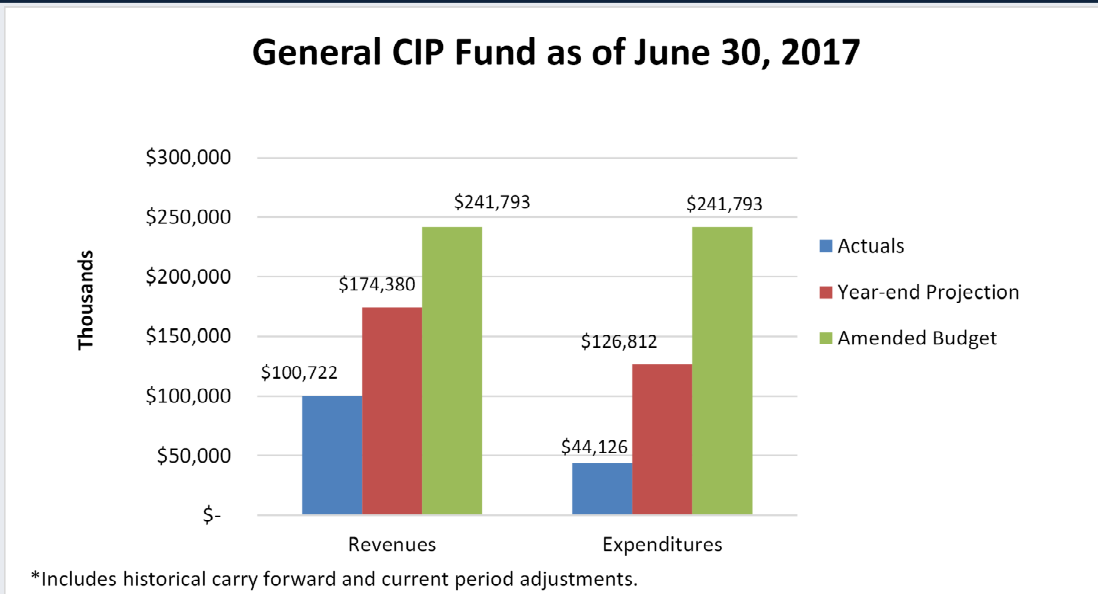
Utility Taxes

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 2016. The levies passed in November 2016 include a \$0.125 per \$1,000 AV for Fire Facilities upgrades and \$0.15 for Neighborhood 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 June, current estimates, and available budget through 7/17/2017. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed through the second 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 \$69.3 million in beginning fund balance programmed to existing projects in the CIP. Sales, B&O and REET collections are projected to exceed budget by \$2.9 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 and timing differences in projects.

REET

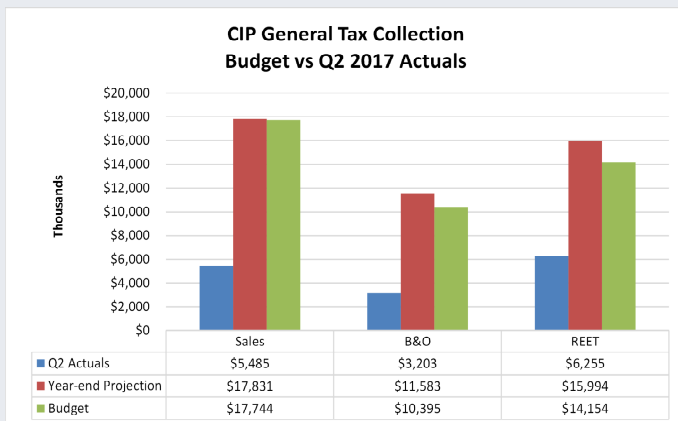
REET is projected to be higher than budget due to an increase in home and commercial sales. REET is restricted by Council Ordinance (50 percent to Transportation and 50 percent to Parks). The Budget Office continues to monitor large transactions and incorporate these transactions into the forecast.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The TIFIA loan closed in July 2017, and Council adopted the budget appropriation in July 2017. The City is beginning TIFIA projects with design in the first two projects approved by Council in July and will continue to ramp up throughout 2017. The TIFIA loan is a reimbursement loan which means the city does not make draws unless expenditures are incurred. The ramp up of the TIFIA projects is the primary driver in both revenues and expenditures performing less than budget.

Expenditures

CIP expenditures are projected to be \$127 million, or 52 percent spent of budget including the TIFIA amendment. Year-end projections include shifts in costs to future years due to project timing and progress on large scale transportation projects.

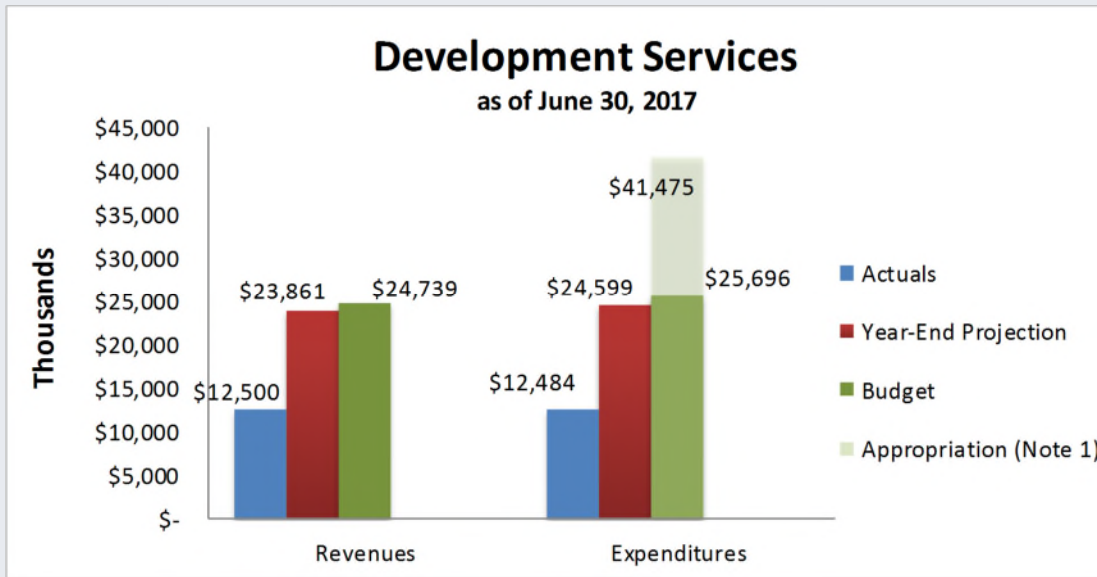


City of Bellevue Budget Monitoring Report

January 1 to June 30, 2017

DEVELOPMENT SERVICES PERFORMANCE

Gateway – 10360 Main Street



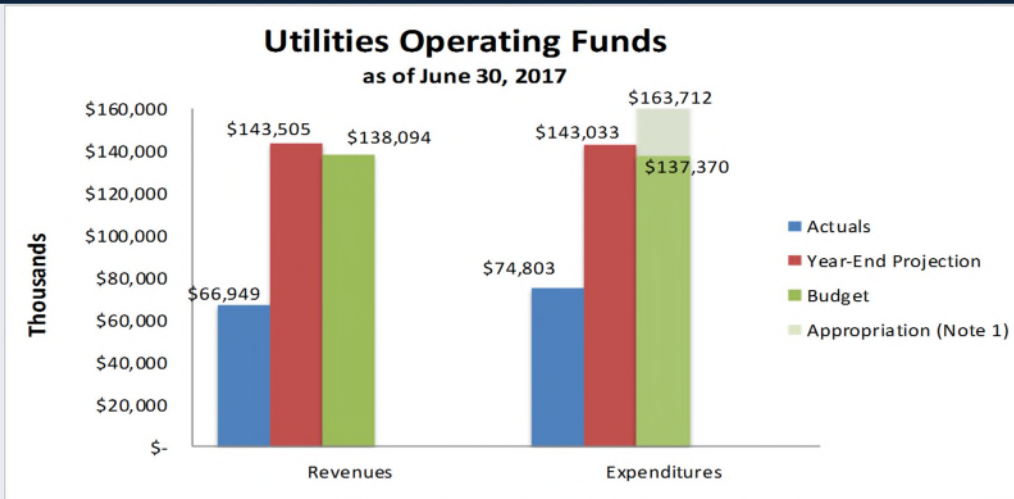
Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development 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 3% under budget. Expenditures are under budget levels and are anticipated to show savings of approximately 4% by year end due to vacant positions and other miscellaneous savings. In line with policy, 2017 includes a planned use of reserves to accommodate prepaid workload and shifts in the development cycle.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2017

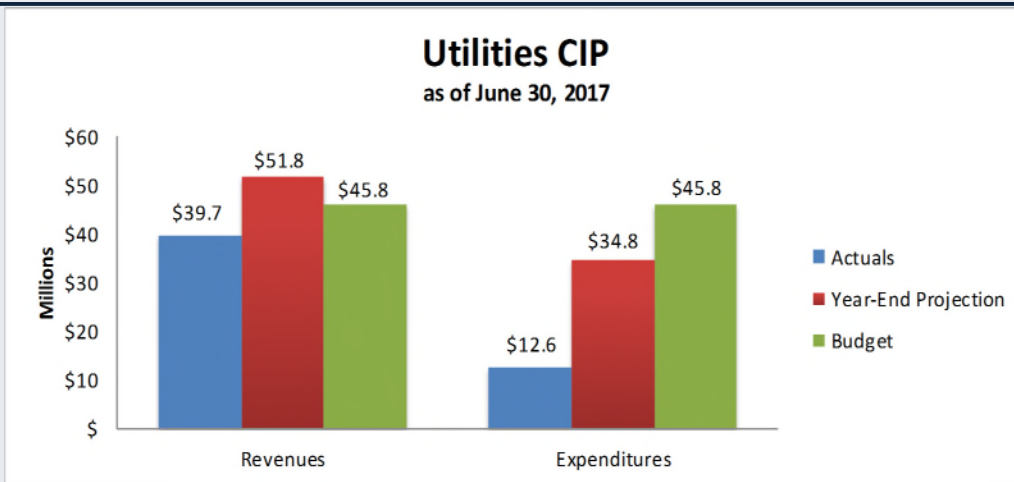
UTILITIES OPERATING FUNDS



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 through the second quarter were as expected. Total revenues include a \$1.6M refund from King County Metro for overpayment of wastewater treatment costs. Projected revenues are expected to exceed budget as a result of this refund and greater than anticipated Water and Sewer service revenues. Projected expenses are expected to exceed budget but will be within total appropriations primarily due to a \$6.0M 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 \$6M transfer of excess fund balance from Water operations to fund the AMI project, consistent with the Council adopted 2016 budget. As planned, these resources will be used to support implementation of AMI in 2017 and 2018. Projected CIP expenditures are projected to increase with the summer construction season. Projected year-end expenditures reflect delays for the Midlakes Sewer Pump Station, the Water Pump Station Rehabilitation program, and the West Lake Sammamish Parkway AC water main replacement project. The remaining budget authority will be carried forward to 2018 to continue/complete these projects.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2017