



Phone: 425-452-7863

Date: May 4, 2018

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Finance Director

Subject: 2017 Year-End Budget Monitoring Report

Attached is the 2017 Year-End Budget Monitoring Report for the period ending December 31, 2017. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds performed within appropriation authority.
- Year-end General Fund expenditures were under budget by 0.5 percent (\$1.0 million), primarily due to vacancies in personnel and professional services savings. Above budget revenue collections of 1.2 percent (\$2.4 million) resulted in an ending fund balance of 22.6 percent of revenue. This was reflected in the March 26th Budget Workshop materials.
- The increase in fund balance continues to build reserves, exceeding the City's policy of 15 percent of Revenue in the General Fund. The current forecast shows the general fund continuing to build reserves through 2020, at which point it is forecasted that reserves will be needed to balance the out years.
- General CIP expenditures totaled \$99.5 million, approximately 41 percent of budget available. CIP expenditures were slightly below historic averages due to timing of design and construction of large projects.

Please feel free to contact me at 425-452-7863 with any questions you may have.

Sincerely,

Toni Call, Finance Director

Attachment

2017 Year-End Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through December 31, 2017

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program (CIP) 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

The U.S. Gross Domestic Product (GDP) increased at an annual rate of 2.5 percent in the fourth quarter of 2017 following a third quarter increase of 3.2 percent. 2017 annual GDP growth was 2.3 percent compared with an increase of 1.5 percent in 2016. The increase in real GDP in 2017 primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, and exports (Source: Bureau of Economic Analysis February 28, 2018 news release). Most financial agencies and economists forecasted that GDP growth is expected to rise in 2018, but decrease again in 2019.

The U.S. economy added 313,000 jobs in February 2018. That was much stronger than economists expected and the biggest gain since July 2016, according to Labor Department figures published in March. The unemployment rate stayed at 4.1 percent, the lowest in 17 years, while wages grew 2.6 percent compared with a year earlier. In the first two months of the year, the United States has already added more than half a million jobs. February also marked the 89th consecutive month of job gains, the longest streak since the Labor Department began keeping track in the 1940s (Source: Bureau of Economic Analysis).

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%

Although a moderate economic growth is forecasted in the near term, concerns about economic overheating may intensify, given already robust growth and an unemployment rate that is well below most estimates of "full employment." It is predicted that after raising interest rates in mid-December 2017, the U.S. Federal Reserve is on track to hike another four times in 2018 (expected in March, June, September, and December) and three times in 2019, and there is a chance the Federal Reserve may raise interest rates more. In addition, political risks including fiscal policy, trade policy, and financial regulation are difficult to predict at this point (Source: March 2018 U.S. Macroeconomic Outlook and Implications for Residential Real Estate by Zillow Research).

Regional Economy

King County employment increased in all sectors in the fourth quarter, but manufacturing jobs slightly declined. The employers with the greatest number of open jobs include Amazon, the University of Washington, and Microsoft for the period between September and December 2017. Software developers continue to be the most in demand position in King County in the fourth quarter (Source: Washington State Employment Security Department).

Home prices in the Seattle area increased faster than anywhere else in the country yet again in the fourth quarter, increasing 12.7 percent over 2016. The average sales price for a home in King County was \$684,989 in the fourth quarter (Source: Standard & Poor's Case – Shiller Home Price Indices).

The number of new single and multi-family permits increased significantly in the fourth quarter relative to the year prior. The cost of construction for multi-family housing had another large jump, increasing 43.3 percent over the fourth quarter of 2017 (Source: King County Office of Economic and Financial Analysis).

Bellevue Economy

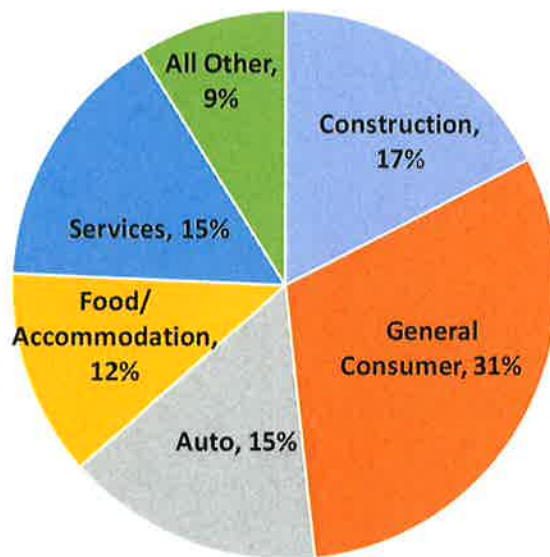
Bellevue's economy is consistently outperforming the nation as a whole. Bellevue's unemployment rate slightly rose to 3.7 percent in September, but the year-to-date month average of 3.2 percent is still the lowest since 2008.

Bellevue home prices have rebounded much faster than the nation and even the rest of King County. Bellevue has now surpassed the home value that was lost in the recession. The median home value in Bellevue is currently \$891,400 as of January 2018 as provided by Zillow. Bellevue home values have gone up 18 percent compared to January 2017 and Zillow predicts they will rise 4.7 percent within the next year.

Local employment has grown very well due to Bellevue being an economic center of east-central Puget Sound. People from all over the Puget Sound travel to work in Bellevue, and the City has continued to attract new businesses.

As the City's biggest revenue stream, sales tax growth is more reliant on one time construction activities in Bellevue. The share of construction sales tax to total sales tax increased from 10 percent in 2012 to 20 percent in 2017. Out of the total \$3.6 million sales tax growth from 2016 to 2017, \$1.5 million or 42 percent of the total growth was contributed by construction sales tax.

2013-2017 Sales Tax Average Share by Industry



2017 Sales Tax Total (In Millions)
\$66.87

-General Consumer	\$18.95
-Construction	\$13.63
-Auto	\$10.42
-Services	\$10.39
-Food/Acc.	\$8.05
-All other	\$5.41

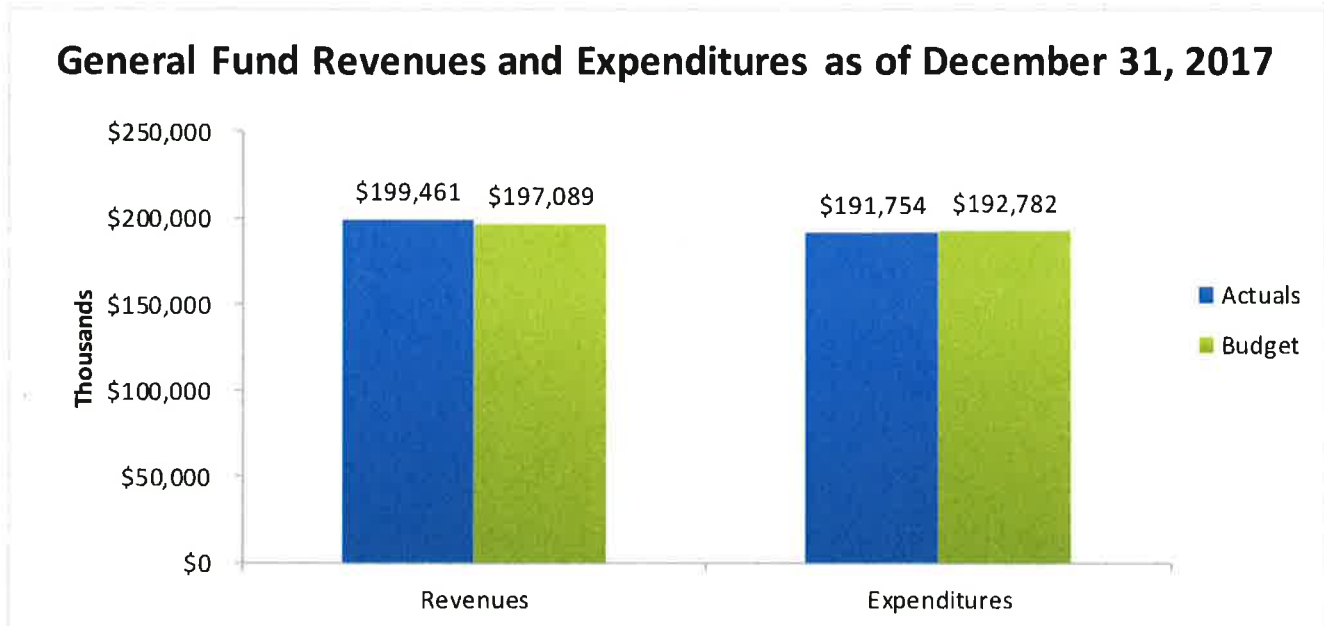
Totals may not foot due to rounding

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2017

GENERAL FUND PERFORMANCE

General Fund Revenues and Expenditures as of December 31, 2017



Revenue

At 2017 year end, General Fund revenue collections were 1.2 percent (\$2.4 million) above budget. This increase is largely due to one time voluntary B&O delinquency payments made by a few businesses towards the end of the year, and telephone and cell phone taxes were collected for a time period equivalent to five quarters for 2017 because of the timing of businesses filing their 2016 tax returns. The one time increases in utilities and B&O was able to offset the slower than expected sales tax collections.

Seventy two percent of revenue is collected through taxes (Sales, B&O, Utility, and Property taxes). The City of Bellevue's tax base continues to grow due to the moderate growth in business activities and construction projects. Some of this growth is projected to continue in 2018, but due to the cyclical nature of construction, growth is forecasted to slow thereafter as construction projects are completed. Utility Tax collections exceeded budget due to the timing of businesses filing cell phone and telephone taxes. The various revenue sources are broken down on the following page and discussed in greater detail.

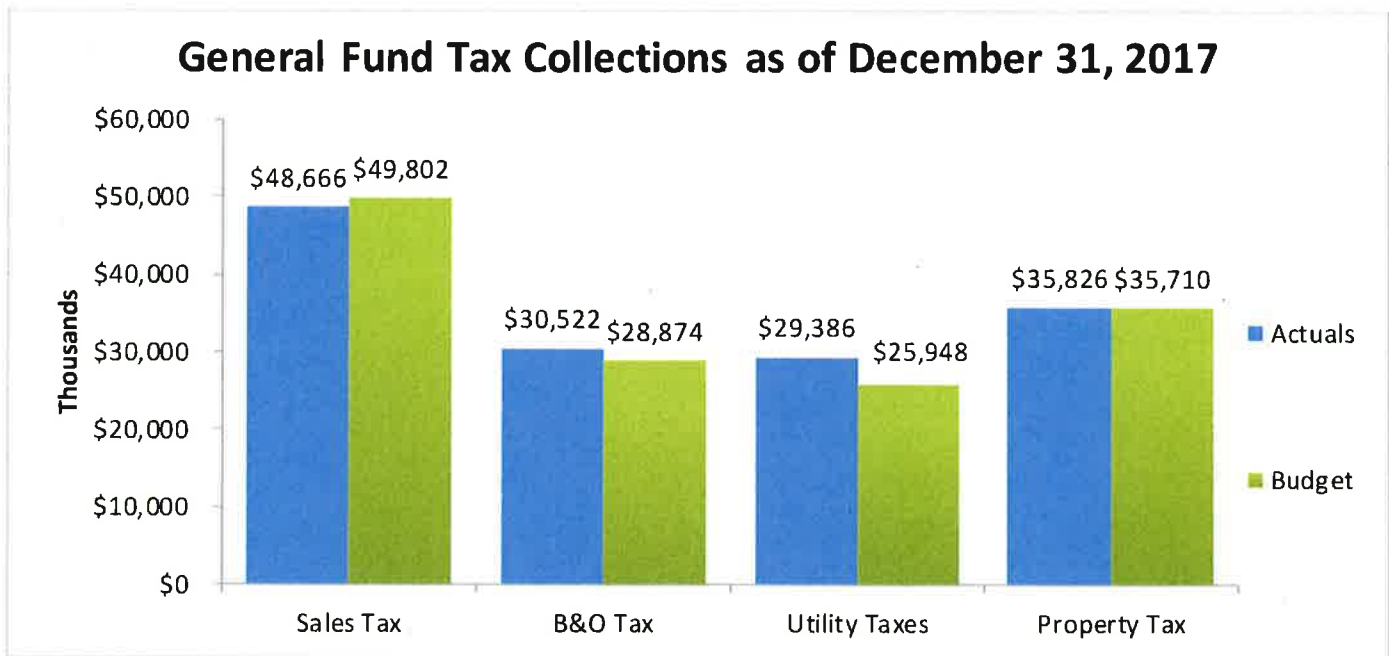
Expenditures

Year end expenditures were 0.5 percent (\$1.0 million) lower than budget. The citywide under expenditure was primarily due to vacancies in personnel and professional services savings.

Change in Fund Balance

The City's General Fund balance continues to grow, ending the year at 22.6%. The current General Fund balance achieves the City's financial policy target of having 15 percent of revenues in reserves. The City is building reserves to assist with known future financial issues.

GENERAL FUND PERFORMANCE



Tax Revenues

Sales Tax

Sales tax collections were 2.3 percent lower than budget due to slower than expected growth rates and several audit refunds that were issued by the State Department of Revenue. This is the first time that sales tax grew slower than budgeted since 2012.

Business and Occupation Tax (B&O Tax)

B&O tax came in 5.7 percent higher than the budget, primarily due to one time voluntary delinquency payments made by a few businesses towards the end of the year.

Utility Tax

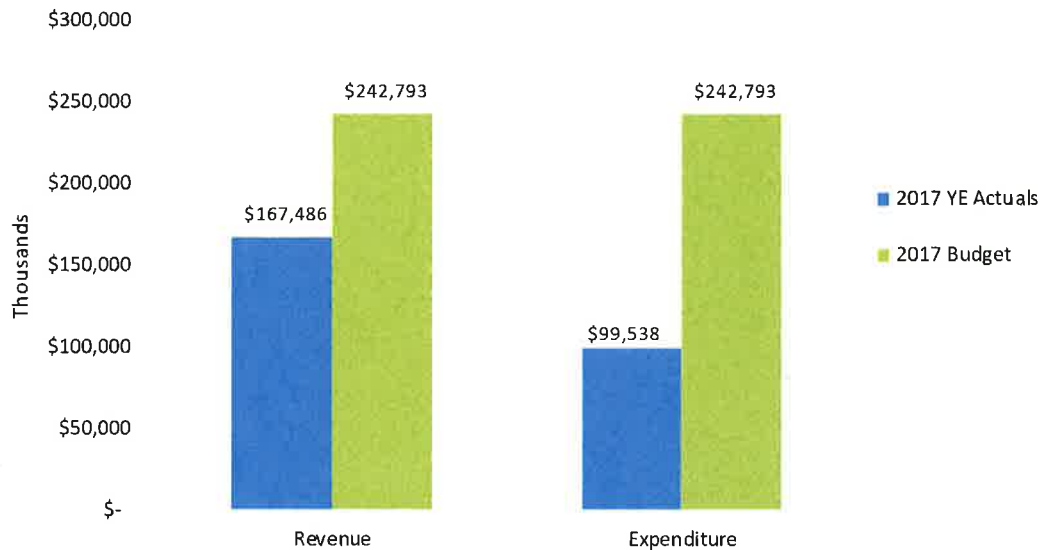
Utility tax projections came in 13.3 percent over the budget. A large portion of the increase is due to the fact that telephone and cell phone taxes were collected for a time period equivalent to five quarters for 2017 because of the timing of businesses filing their 2016 tax returns. The rest is because the Puget Sound region had the warmest and driest summer on record which caused higher usage of utilities (Source: National Weather Service Seattle).

Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2017 total levy rate was \$1.14 per \$1,000 AV, which includes \$0.08 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.125 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.15 per \$1,000 AV Levy for Neighborhood Safety, Connectivity and Congestion projects. Property tax collections were slightly above the budget due to updated construction valuation information received earlier in the year.

GENERAL CIP PERFORMANCE

General CIP Fund as of December 31, 2017



*Includes historical carry forward and current period adjustments.

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 \$69.2 million in beginning fund balance programmed to existing projects in the CIP. Sales tax, B&O tax and REET collections came in above budget. These collections are offset by a \$5.5 million reduction in Transportation Impact fees. Grants and Interlocal contributions were \$23.3 million lower than budget due to project delays and timing of grants.

The Budget Office continues to monitor overall cash flow needs within the General CIP.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City has designated five large transportation projects that will be funded by proceeds from the TIFIA loan, closed on June 9, 2017. The projects are under design and are expected to ramp up in 2018 with draws on the TIFIA loan expected in the second half of 2018.

CIP General Tax Collection Budget vs Actuals



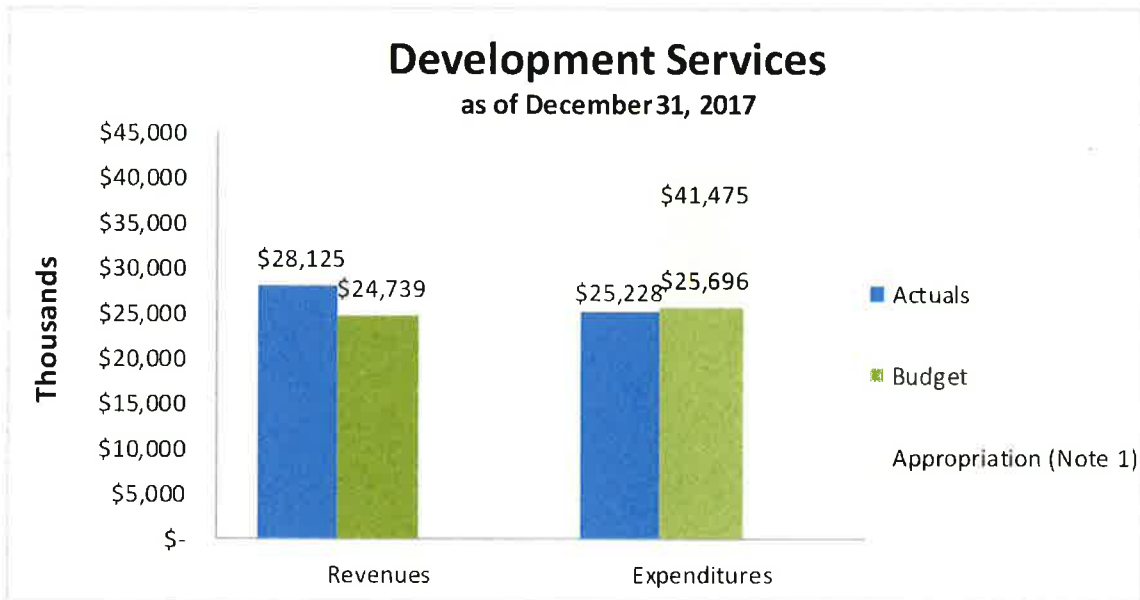
Expenditures

In 2017, General CIP expenditures totaled \$99.5 million, or approximately 41 percent of available budget. This total is lower than historic averages due to timing of design, construction and progress on primarily TIFIA projects.

Other expenditure highlights include completion of the 120th Ave NE Stages 2 and 3, Downtown Park Development, the Meydenbauer Bay Phase 1 Park Development, Northup Way Corridor Improvements, and NE Spring Blvd. Zone 1 projects.

DEVELOPMENT SERVICES PERFORMANCE

888 Bellevue Tower—888 108th Avenue NE



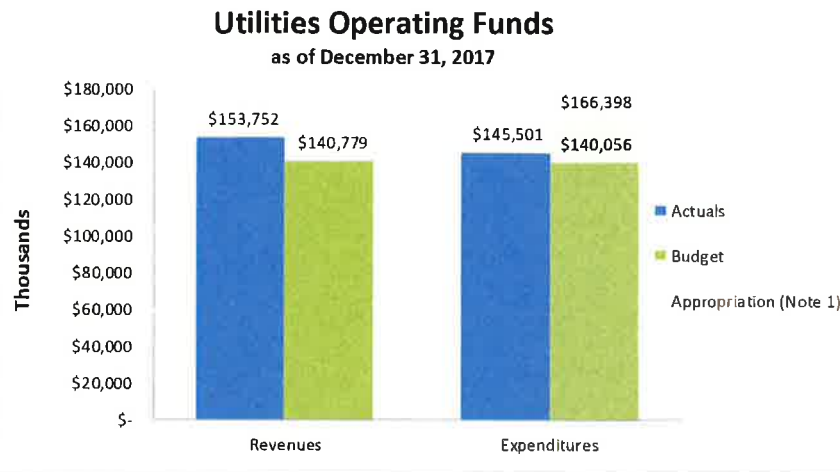
Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

Development activity continued to exceed expectations in 2017. Revenues were 12 percent over budget largely due to building fees as several major projects completed the review process and are in the construction phase. Expenditure savings are the result of vacant positions and other miscellaneous costs.

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2017

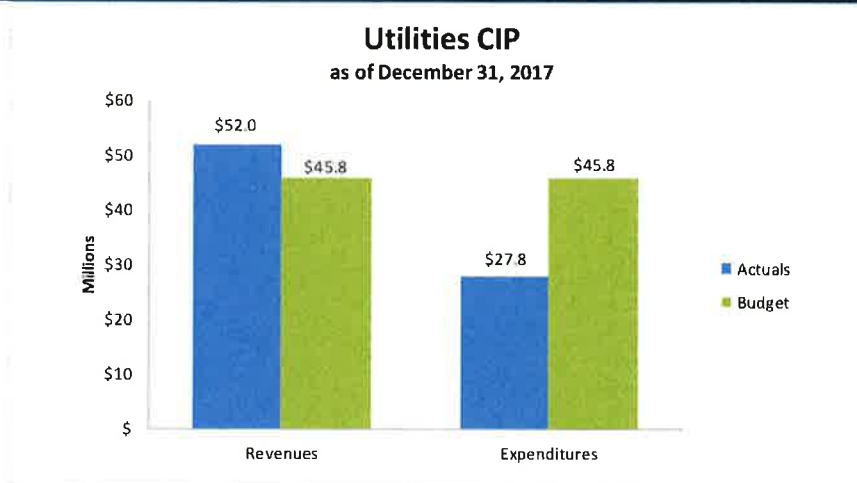
UTILITIES OPERATING FUNDS



**Note 1: Actual expenses exceed budget primarily due to a \$6.0 million transfer of excess 2016 fund balance from the Water Utility to the Water CIP to fund advanced metering infrastructure implementation, as approved by Council.*

Utility operating revenues for 2017 were sufficient to meet expenses. Actual revenues exceeded budget largely due to greater than anticipated water and sewer service revenues from an extraordinarily long, hot and dry summer. The region experienced an average high of 78.6 degrees from June 21 to September 21, 2017 and was the hottest summer on record. Total revenues also include a \$1.6 million refund from King County Metro for overpayment of wastewater treatment costs and a \$1.1 million refund from the Washington State Department of Revenue for overpayment of excise taxes. Actual expenses exceeded budget due to a \$6 million transfer of 2016 excess fund balance to CIP to fund advanced metering infrastructure (AMI) implementation, as approved by Council.

UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8M for EastLink and \$8.1M for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.3M for water facilities for Spring Blvd.

Actual revenues (exclusive of reserves) include a \$6M transfer of excess fund balance from Water operations to fund the advanced metering infrastructure (AMI) project, as approved by Council. Year-end under-expenditures largely reflect delays for the Midlakes Sewer Pump Station (pending value engineering analysis), Water Pump Station Rehabilitation program (re-bidding project due to high original bids), West Lake Sammamish Parkway AC water main replacement project (coordination with Transportation), Vuecrest Sanitary Sewer rehabilitation project (lack of bidders), and Sewer and Stormwater Rehabilitation programs (permitting issues). The remaining budget authority will be carried forward to 2018 to continue and complete these projects.

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2017