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Date: April 22, 2019

To: Mayor John Chelminiak and City Council Members

From: Toni Call, Finance Director

Subject: 2018 Year end Budget Monitoring Report

Attached is the 2018 Year End Budget Monitoring Report for the period ending December 31, 2018. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Key items:

- All funds performed within appropriation authority.
- Revenue collections were slightly under budget (.03%). Expenditures were also slightly (.05%) under budget for 2018. The result is an increase of ending fund balance (EFB) of \$200k with EFB at 22% of revenue. The current forecast shows the General Fund continuing to build reserves through 2020, at which point it is forecasted that reserves will be required to balance the out years.
- In 2018 \$74.9M was expended on Capital Investment Plan (CIP). Overall CIP projects continue to move forward with the completion of several projects in 2018. The first draws of our Transportation Infrastructure Finance and Innovation Act (TIFIA) loans were initiated in 2018 to fund the projects identified for TIFIA funding.

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

Sincerely,

Toni Call, Finance Director

Attachment

2018 Year End Budget Monitoring Report

Cc: Brad Miyake  
Leadership Team



# BUDGET MONITORING REPORT

For the period from January 1 through December 31, 2018

## 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 2018 Amended Budget, to discuss reasons for variance and to convey an overview of the local and national economic outlook.

### U.S. Economy

US. Economic activities continued to expand at a moderate pace. Real GDP increased 2.9 percent in 2018, compared with an increase of 2.2 percent in 2017. The increase in real GDP in 2018 primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, federal government spending, private inventory investment, and state and local government spending that were slightly offset by a small negative contribution from residential fixed investment and imports increase (Source: Bureau of Economic Analysis).

National personal income increased 4.5 percent in 2018, after increasing 4.4 percent in 2017, according to estimates released on March 26, 2019 by the Bureau of Economic Analysis. In 2018, personal income increased in all states and the District of Columbia. The percent change in personal income across all states ranged from 6.8 percent in Washington to 2.9 percent in Hawaii. For the nation, earnings growth in the three industries, professional, scientific, and technical services; health care and social assistance; and construction were the leading contributors to overall growth in personal income (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%
- o Negative variance of 1-4%
- Negative variance of > 4%

Conditions in the 2018 labor market remained tight, with modest-to-moderate gains in a majority of districts and steady to slightly higher employment in the rest. Labor markets also remained tight for all skill levels, including notable worker shortages for positions relating to information technology, manufacturing, trucking, restaurants, and construction. Contacts reported labor shortages were restricting employment growth in some areas (Source: Federal Reserve Summary of Commentary on Current Economic Conditions).

The inflation started to slow down by the end of 2018. The Consumer Price Index (CPI) all items increased 1.9 percent for the 12 months ending December. This was the first time the 12-month change has been under 2 percent since August of 2017.

## Regional Economy

Washington State's personal income grew the fastest in United States in 2018 at 6.8 percent, 2.4 percent higher than the national 2018 personal income growth (Source: Bureau of Economic Analysis, 2018 State Annual Personal Income preliminary estimation). The information industry was the leading contributor to the earnings increase in Washington. The strong personal income growth was the main driver of consumer spending thus the growth of sale tax base.

The region's house market slowed down in the middle of 2018. For the first time since the end of the Recession, Seattle has more listings with a price cut than does the rest of the nation. After contracting for three years, inventory is rising again across price points though faster in pricier areas and remains constrained by historical standards (Source: Zillow Research).

The Pacific Northwest observed strong building activity in the commercial real estate market. In Seattle, contacts noted brisk activity in office construction and leasing. Rents were stable at an elevated level, and reported continued low vacancy rates (Source: Federal Reserve Beige Book, January 2019).

In December 2018, the unadjusted seasonal unemployment rate in King County was 3.3 percent. The King County labor force expanded by 1.8 percent over the year. The largest gains were observed in information and professional and business

services. The only two industries reporting over-the-year losses were government and wholesale trade.

## Bellevue Economy

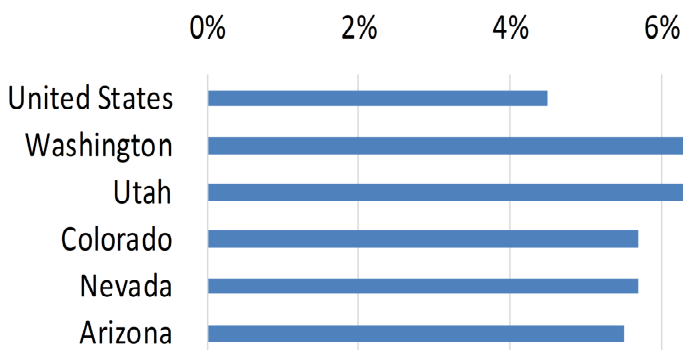
Bellevue's economy continued to expand in 2018. Bellevue's unemployment rate was 3.0 percent as of December 2018, a 0.2 percent decrease from December 2017. There were 1471 jobs added in Bellevue in 2018 (Source: Washington State Employment Security Department).

For construction activities, 2018 was a continuation of the current record-setting development cycle that has now extended over five consecutive years. The estimated value of construction represented by issued permits in 2018 exceeded \$850M. Several notable projects currently under construction include East Link, REI Corporate Headquarters, Spring District Residential Phase II, Aegis Overlake, Brio Apartments, Overlake Hospital, and the One 88, a condominium project in Downtown. Development activity is forecast to continue at a high level over the next 18 months with interest in multi-family development and a renewed interest in office development (Source: City of Bellevue Development Services Department).

Based on Bellevue's 2018 sales tax collection, luxury car sales, online retail sales, and information service sales contributed to majority of the sales tax growth.

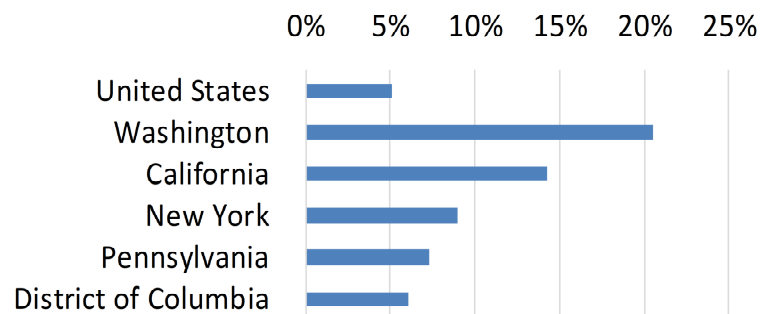
## 2018 Personal Income Growth in the U.S. & Top 5 States

(Data source: Bureau of Economic Analysis)

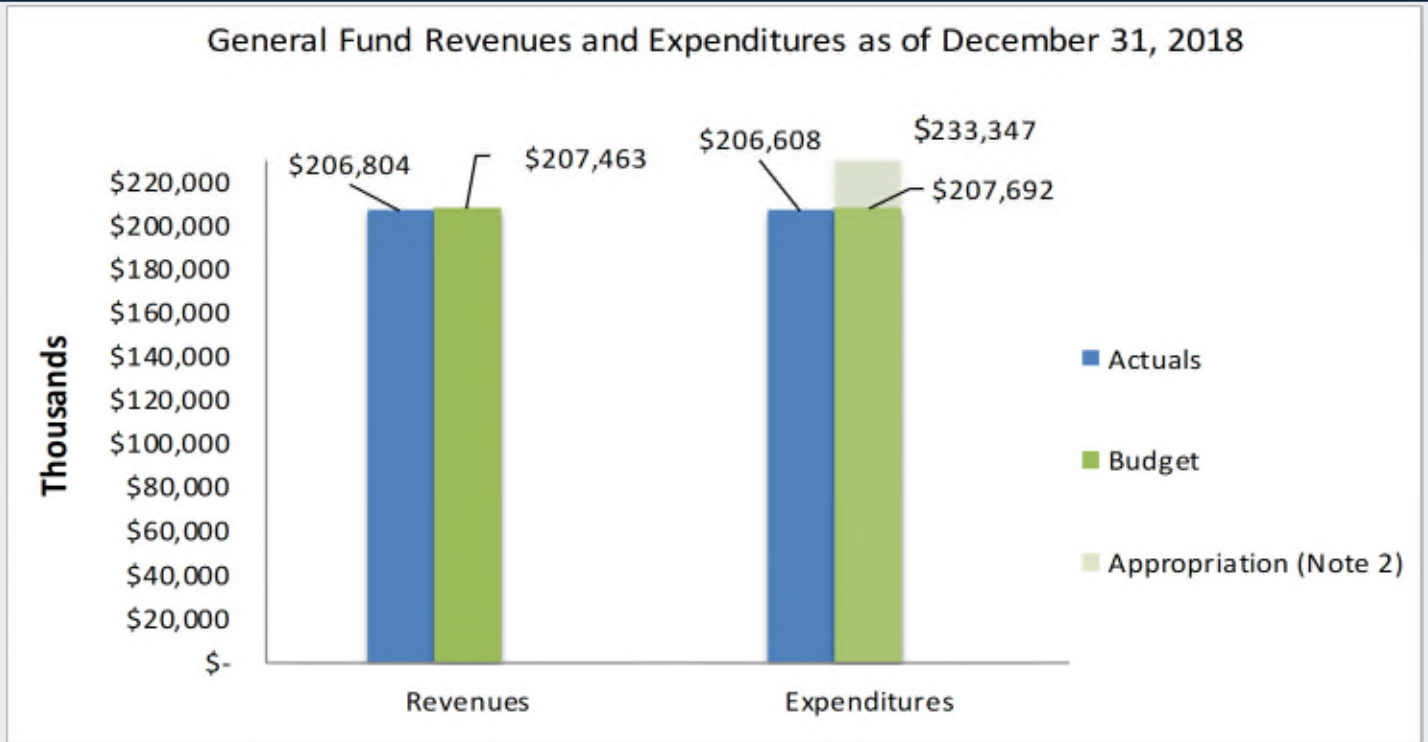


## Information Industry's Contribution to Total Personal Income Growth in the U.S. & Top 5 States

(Data source: Bureau of Economic Analysis)



# GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through December.

Note 2: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

### Revenue

General Fund revenue collections are below budget by \$0.66M (0.03%).

Seventy-two percent of General Fund 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 consumer spending and business activities. The various revenue sources are broken down on the following page and discussed in greater detail.

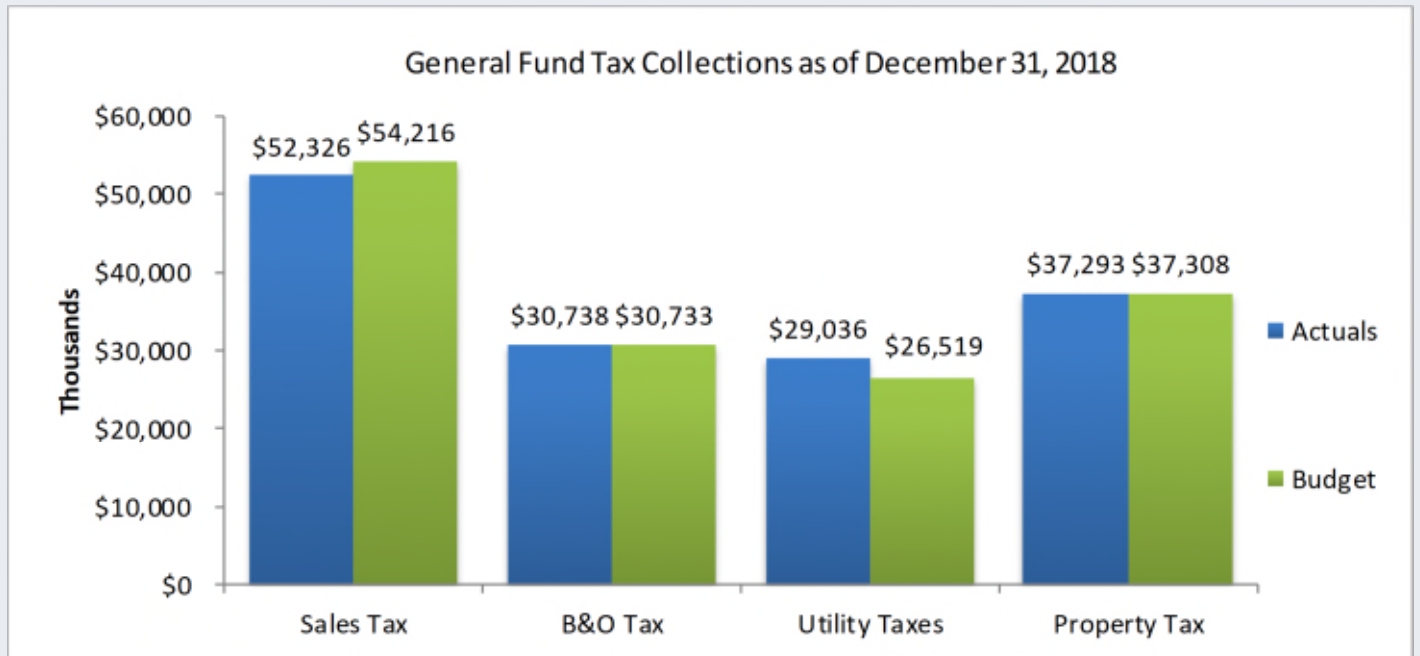
### Expenditures

Year-end revenues exceeded year-end expenditures. Expenditures for 2018 came in slightly lower than budget (0.05%).

### Change in Fund Balance

The city's General Fund balance increased by approximately \$200,000 this year as revenue exceeded expenditures. The current General Fund balance achieves the city's financial policy target of having 15 percent of revenues in reserves. The city is purposely building reserves in the near term as it is anticipated these reserves will be needed to assist in balancing the budget in future years.

# GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through December and 2018 amended budget.

## Tax Revenues:

### Sales Tax

Online sales tax contributed to around \$2M of sales tax growth, which accelerated the retail sales tax growth in 2018 to 10 percent. Auto sales grew by 16 percent due to luxury car sales. Sales tax collected from information, financial services, and administrative services also increased, while telecommunication sales tax had a decline due to audit refund, and real estate services sales tax declined due to slow real estate sales. Food, drink, and accommodation sales tax increased by 9 percent.

### B&O tax

B&O tax came in at budget (\$4k higher) due to expected business activity growth.

### Utility Tax

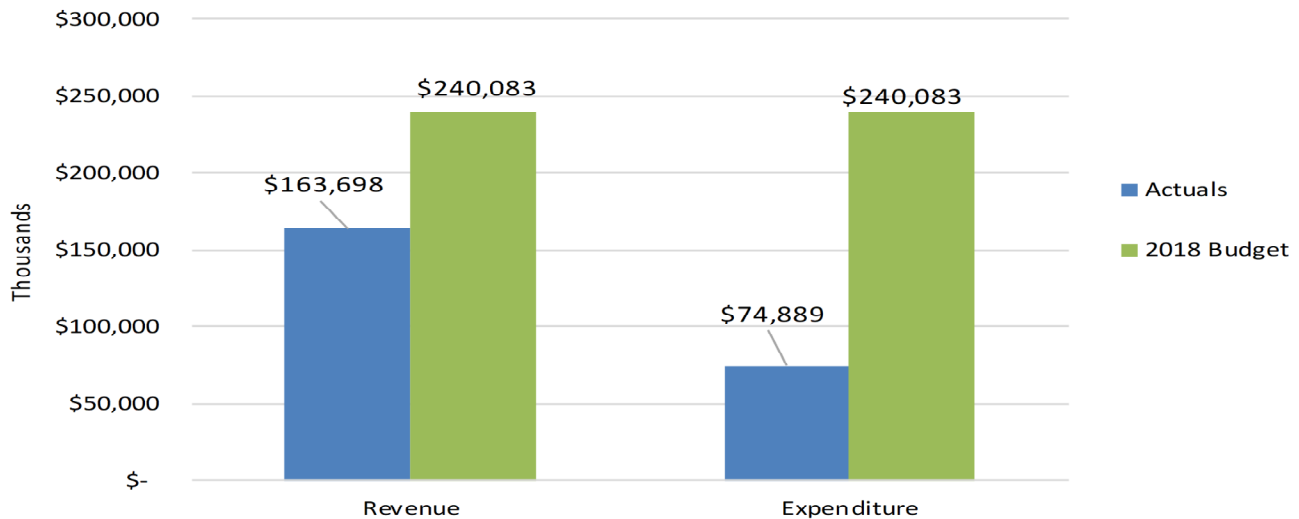
Utility tax came in \$2.5M higher than budget due to a change in taxable services in 2018. \$1.2M of the increase was due to a water utility amended return for 2014-2017 and \$500k was due to the amended return in 2018. Water utility tax collections are expected to be higher in out years due to this change in categorizing taxable services. Cell phone & telephone utility tax collection trend has stabilized.

### Property Tax

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2019 total levy rate is \$0.92 per \$1,000 AV, which includes \$0.06 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.10 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.12 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

# GENERAL CIP PERFORMANCE

## General CIP Fund as of December 31, 2018



\*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 Improvement levies approved by voters in November 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in June 2017.

The 2018 CIP includes \$70.2M in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections came in below budget by 2.5 percent, B&O tax came in at budget and REET collections were above budget by \$5.1M due to 9 large real estate transactions with a selling price over

\$50M. Grants and Interlocal contributions are projected to come in lower than budgeted due to project delays and timing.

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. The projects are under design and started in 2018 and will continue through 2023. The city has drawn \$908k in 2018 to support the projects.

### Expenditures

General CIP expenditures were \$74.9M or approximately 31 percent of 2018 available budget (excluding TIFIA expenditures this would be \$72.6M or 39.1 percent of available budget). This total is lower than historic averages due to the timing of design, construction and right of way (ROW) acquisitions.

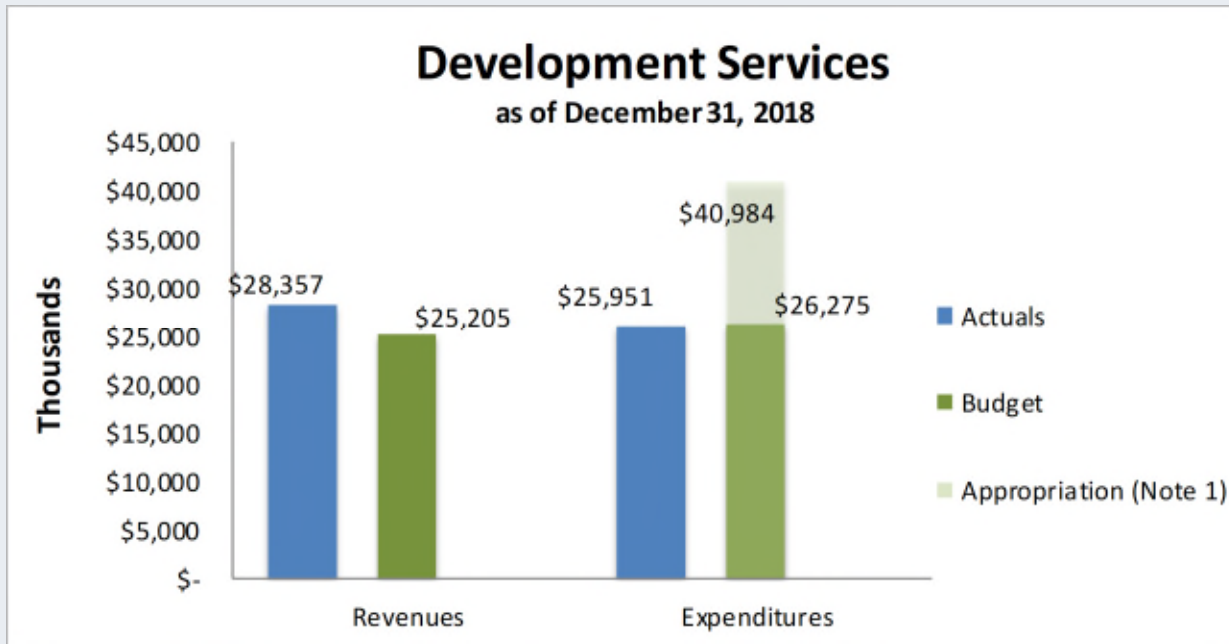
Other expenditure highlights include work on the NE Spring Blvd. Zone 1 projects, 120th Ave NE Stages 2 and 3, the Meydenbauer Bay Phase 1 Park Development, Northup Way Corridor Improvements, and Surrey Downs Park development.

CIP General Tax Collection Budget vs Actuals



# DEVELOPMENT SERVICES PERFORMANCE

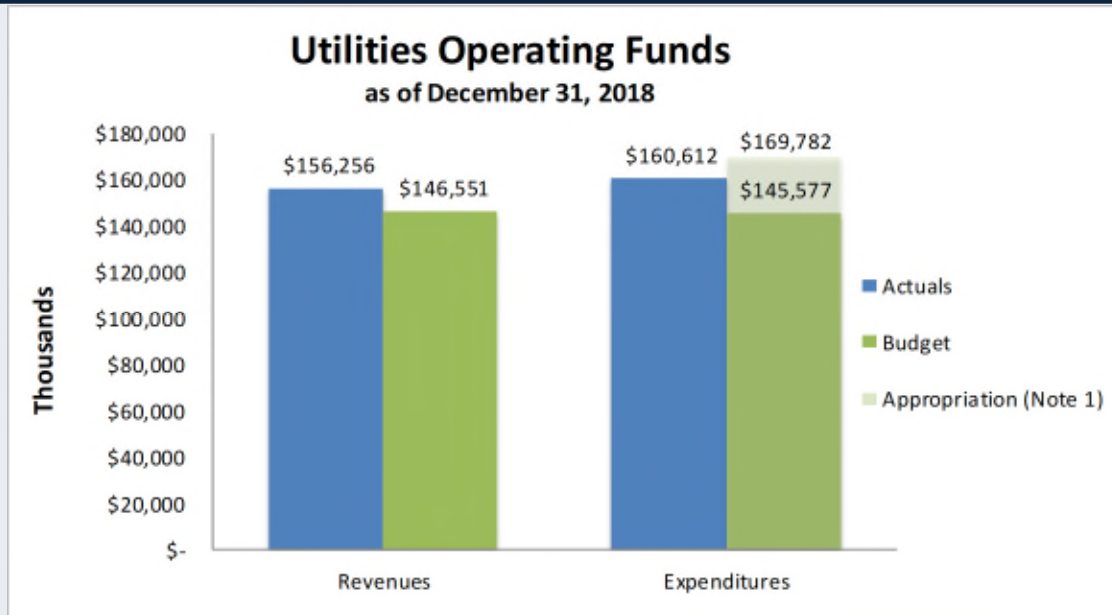
888 Bellevue Tower — 108th Avenue NE



*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 Services revenue exceeded 2018 budget by 13% as development activity continued at a high level through the year for both review and inspection services. Several major projects are in the review process and additional projects are in construction. Expenditures were under budget level by \$323k at year end for M&O and vacancy savings.

## UTILITIES OPERATING FUNDS



*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).*

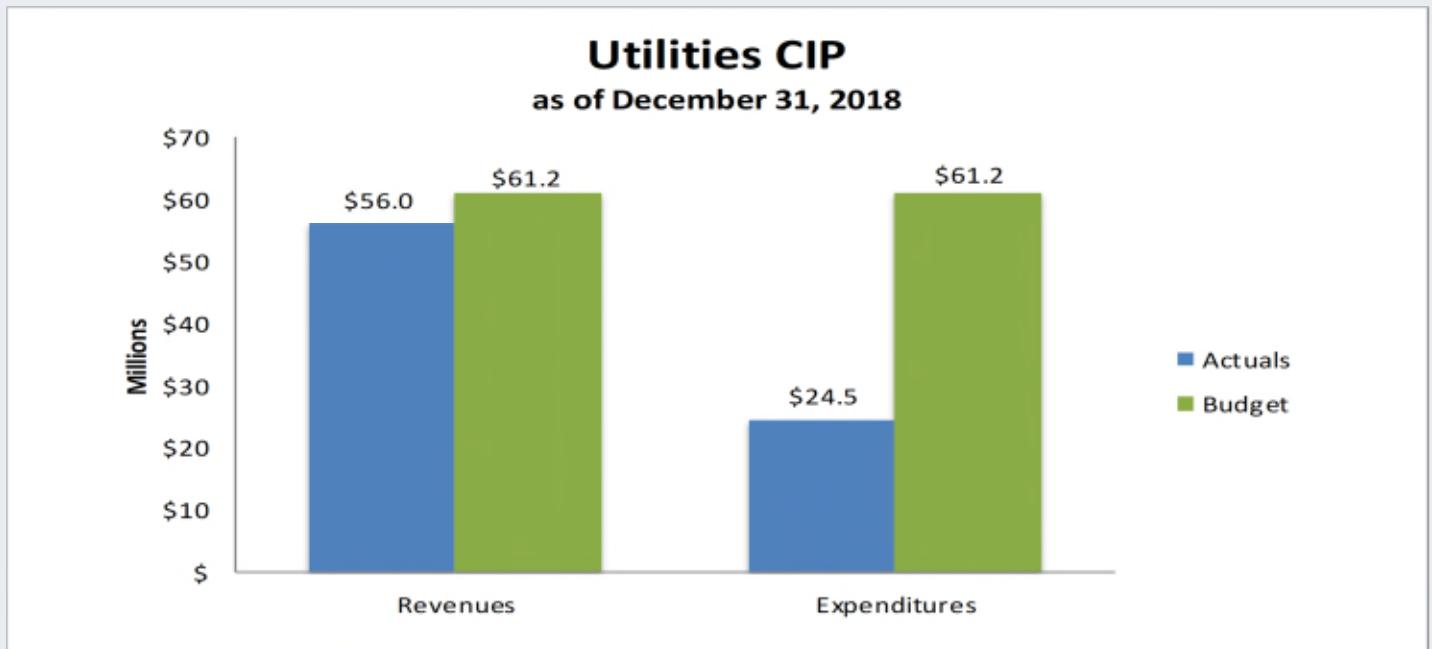
Utility operating revenues were sufficient to meet operating expenses, exclusive of a one-time transfer of extraordinary operating reserves to the capital program per utility financial policies.

The Utility operating funds began 2018 with fund balances above budgeted levels largely due to extraordinary water and sewer revenues resulting from exceptionally dry, hot summer weather in 2017. The dry, hot summer weather continued into 2018, driving 2018 revenues above expectations. As a result, utility operating reserves were above budgeted levels at the end of 2018.

Per City financial policies, reserves above target levels at the end of each biennium are to be transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs or to be used for one-time expenditures. As a result, expenses exceeded budget to accommodate an end-of-biennium transfer to the capital R&R account, and to fund a one-time project for the acquisition of land for future development of a new maintenance facility in the north-end of the city, 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.

CIP revenues were below budget due to the timing of King County grant reimbursements. Year-end CIP expenditures reflect delays for several major projects. These include the West Lake Sammamish Transportation project, which includes significant asbestos cement (AC) watermain replacement work, site selection for the New Water Inlet Station; advanced metering infrastructure (AMI) project due to contract negotiations; redesign for the Midlakes Pump Station; and analysis of alternatives for the Flood Control Program. In addition, several projects have been delayed due to internal staff capacity constraints caused by position vacancies that are actively being filled. Several of these projects were initiated in 2018 and will continue into 2019.