

BUDGET MONITORING REPORT



May 16, 2011

For the Period of January to March 2011

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Positive = Positive variance or negative variance < 1% compared to seasonal trends.

Warning = Negative variance of 1-4% compared to seasonal trends.

Negative = Negative variance of > 4% compared to seasonal trends.

Economic Indicators

Puget Sound Economy

The Puget Sound Index of Leading Economic Indicators* has increased 14% since bottoming out in April 2009—a clear signal that the economy is moving in the right direction. Local economists are noting healthy 1st quarter employment growth and project that the region will add more than 37,000 jobs over the course of the year.

Annual Percent Change

	2010 Actual	2011 Forecast
Employment	-1.8%	1.1%
Personal Income	2.4%	4.3%
Housing Permits	31.2%	9.6%
Average Home Price	-0.8%	-0.1%
Taxable Retail Sales	-0.9%	2.8%

Source: Puget Sound Economic Forecaster

Bellevue Economy

Bellevue's Central Business District's office vacancy rate dropped slightly in the 1st quarter to 16.1%. The decline is due to the absorption of more than 32,000 SF. Bellevue's asking lease rate for Class A space remains higher than most neighboring markets. Source: CB Ellis

Taxable retail sales were flat in the 1st quarter of 2011 compared to 2010. Retail trade and services were up 3% and 12% respectively, while construction, wholesaling and manufacturing were down. Taxable retail sales are projected to increase significantly over the course of the year although full recovery to pre-recessionary levels is not expected until 2014. Source: Puget Sound Economic Forecaster

Bellevue's hotel activity was up 10% over 2010 (cash basis of tax collections), but under this year's projection. Local hoteliers are reporting healthy gains and project this trend to continue through the year.

Economic Performance

Regional Economy

The regional economy showed signs of growth in the 1st quarter. A slow recovery is still projected with gradual employment gains returning the region to pre-recession levels by early 2014.

During the 1st quarter of 2011, employment gains were spread across several industries, but were most heavily weighted in manufacturing, including aerospace, retail, and professional and business services sectors. The construction industry continues to shed positions as the demand for housing remains low and office vacancies remain high.

The housing market remains flat. Annual home sales are up from the low point in 2008 but are well below the high point in 2004. Average home prices continue to drop, declining by approximately 7% in March 2011. Local economists speculate that the continued decline in price may be due to the large amount of foreclosures currently on the market, which are being offered at discounted prices.

The Seattle area Consumer Price Index for All Urban Consumers (CPI-U) increased from February to April to 2.1% (0.6% increase). The increase is primarily associated with increases in gasoline prices.

*The Puget Sound Index of Leading Economic Indicators is composite index of seven leading regional economic indicators: help-wanted ads, initial claims for unemployment insurance, length of manufacturing workweek, housing permits, real durable goods purchases, the Boeing backlog-delivery ratio and an interest rate spread. It acts as an independent forecasting gauge for the regional business cycle.

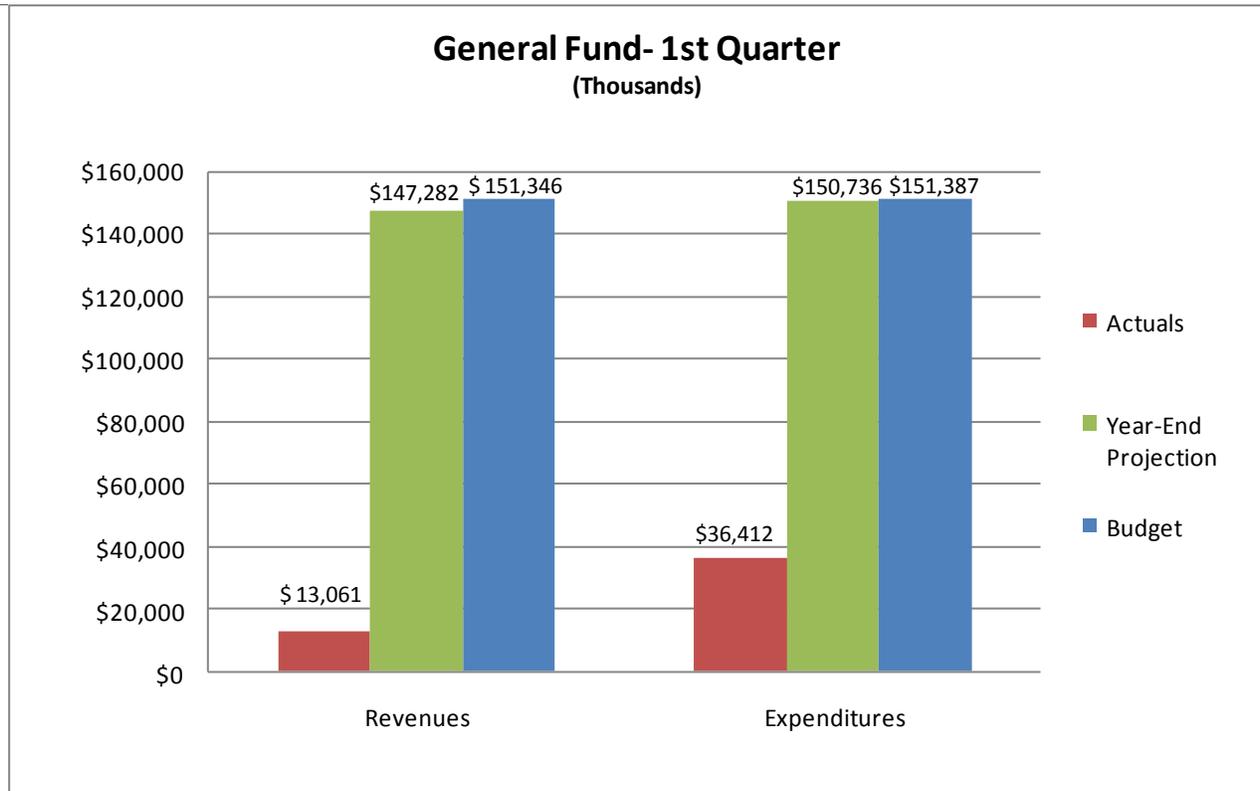
Cost Containment

With the uncertainty of the economic recovery, the City's cost containment measures begun in 2009 are continuing into 2011. Efforts include holding vacant some positions open, reducing discretionary spending, and deferring expenses.

As a result, General Fund expenses are expected to be in line with projected resources.

General Fund Performance

Year-to-Date Expenditures and Revenues: Budget to Actuals



The above graph illustrates the difference between year-to-date revenue collections and expenditures through March, current estimates, and budget. The City's accounting and budgeting basis is modified accrual. Accordingly, the year-to-date revenue collections represents monies received for 2011 activity only. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual 1st quarter activities. Expenditures are based on actual activities performed during the 1st quarter. Additionally, year-end projections are based on the limited information available to date. Estimates, which are based on economic trends and projections, as well as historical collections and expenditures, will be updated as more information becomes available.

Through the 1st quarter, General Fund expenditures are projected to be \$0.7 million (0.4%) below budget primarily due to cost containment efforts (see page 2).

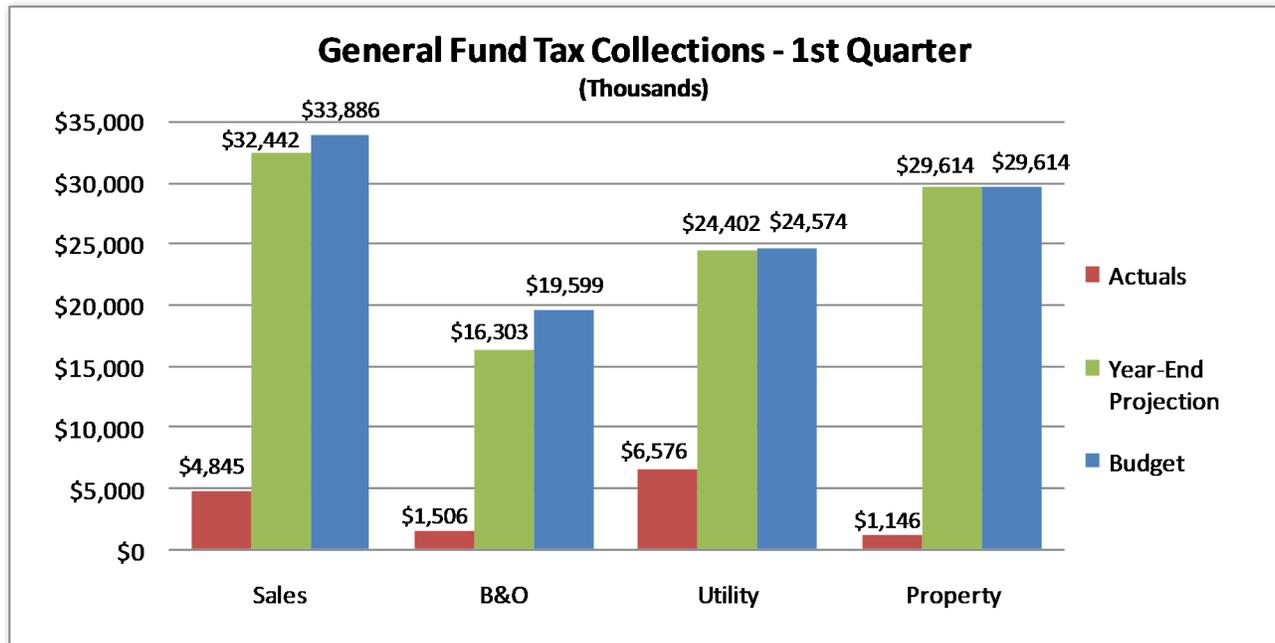
Revenue collections (excluding fund balance) are projected to be \$4.1 million (2.7%) below budget primarily due to lower sales and B&O tax projections. Though tax collections are expected to grow slightly in 2011 as the economy continues to recover, tax collections are projected to be \$4.0 million (2.7%) below budget.

The City's fund balance policy indicates that the City will target 15% of General Fund revenues as a General Fund ending fund balance. For 2011, the General Fund ending fund balance is projected to end the year with \$15.7 million in fund balance (about 10% of General Fund revenues excluding interfunds and fund balance) compared to the target of \$22.5 million.

Overall, the 1st quarter was not as strong as expected. While major tax revenues are below expectations, local economists project increasing activity in each of the remaining quarters of the year. Expenditures are in line with expectations and cost containment targets. Staff will continue to monitor revenues and expenditures closely.

General Fund Performance

Year-to-Date Tax Performance Compared to Budget



The above graph illustrates the difference between year-to-date collections through March, current estimates, and budget. The City's accounting and budgeting basis is modified accrual. Accordingly, the year-to-date collections represents monies received for 2011 activity only. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual 1st 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 activity remains flat as compared to last year due to the sluggish economy. Year-over-year comparisons indicate that the construction, manufacturing and wholesaling sectors remain down but retail trade and services are showing moderate growth. Overall, collections-to-date indicate that sales tax collections are projected to be \$1.4 million (4%) below budget.

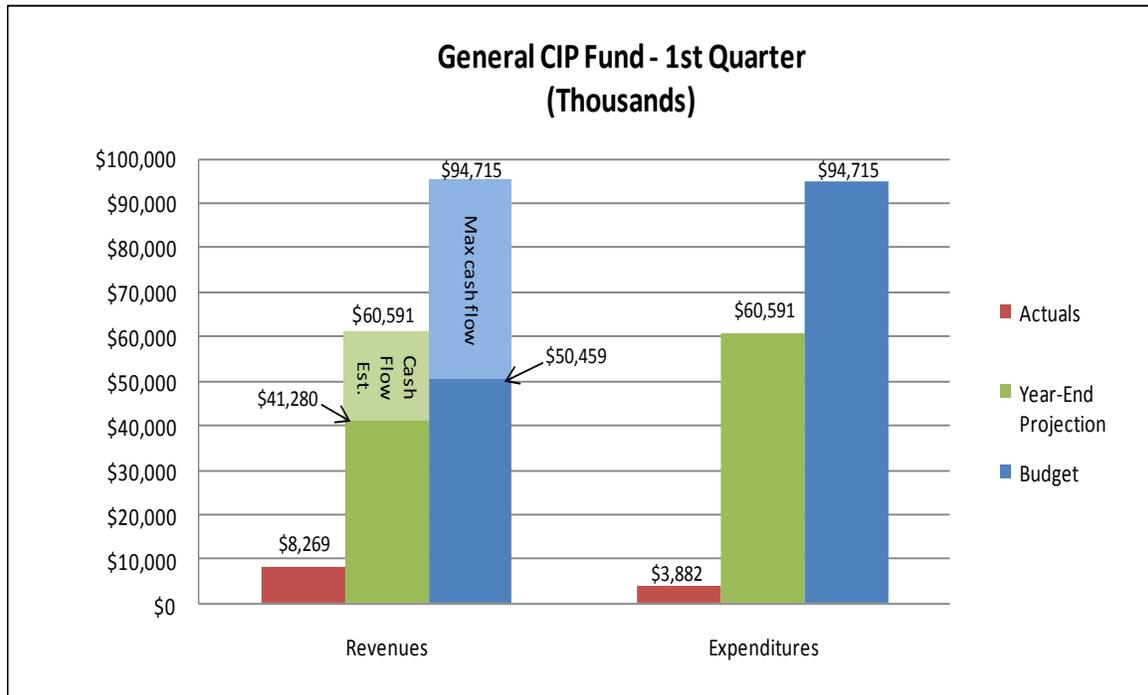
Business and Occupation Tax (B&O). B&O tax collections are down slightly from the same period in 2010, indicating that year-end collections are likely to be about \$1.6 below budget. Sector information is not yet available but will be reported in the 2nd quarter monitoring report.

Utility Taxes. Overall, utility taxes were \$0.02 million or 0.7% less than estimates primarily due to lower than anticipated collections of telephone and cell phone taxes (\$0.7 million or 22% below estimates). Gas tax collections exceeded expectations by \$0.5 million (20%) and collections of other utility taxes were generally in line with budget.

Property Tax. Property Tax is projected to be at budget.

General CIP Performance

Year-to-Date Expenditures and Resources: Budget to Actuals



Comments: Revenue collections, excluding cash flow, are projected to total \$41.3 million or 18.2% (\$9.2 million) below budget. Collections of sales, business and occupation, and real estate excise taxes are expected to grow slightly in 2011 as the economy continues to recover; tax collections are projected to be \$4.0 million (13.7%) below budget. In addition, the Wilburton Connections Local Improvement District (LID), created to partially fund the NE 4th and 120th Avenue NE project, was protested by property owners. The LID was budgeted at \$10.2 million.

Expenditures are projected to be \$34.1 million (36%) below budget. There was little activity in the first quarter with projects currently in the design/planning phase and/or waiting for the dry construction season. In addition, significant acquisitions of right-of-way for several projects are anticipated to occur in late 2011 and 2012.

In an effort to move forward on projects sooner rather than later, the City's policy is to use temporary cash flow borrowing to bridge the gap between revenue collections and expenditures. Projections indicate that cash flow borrowing in 2011 will total approximately \$19.3M (light green portion of graph).

Project Highlights:

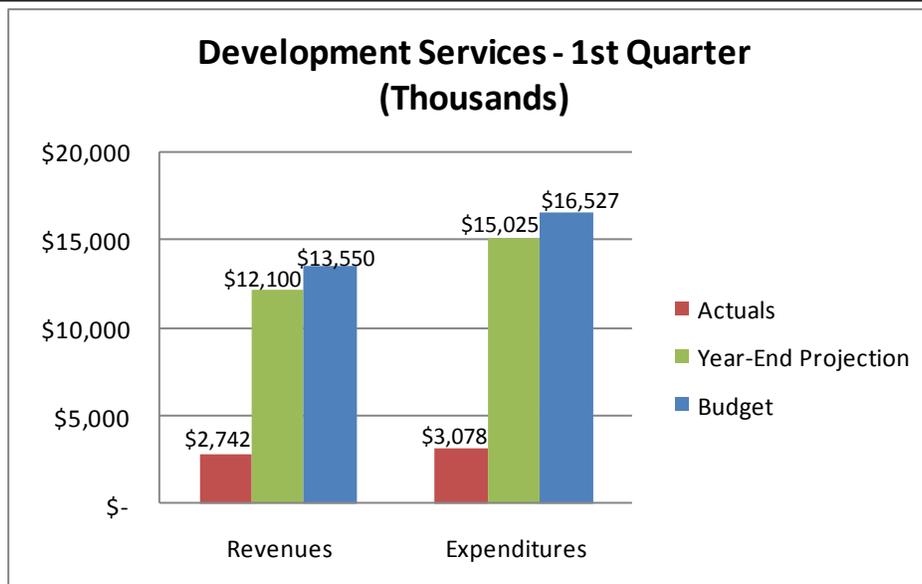
The Traffic Signals Division is planning to implement the SCATS Traffic Adaptive signal system at an additional 7 intersections as part of the SCATS Phase 1 deployment. These additional seven intersections are located around Bellevue Square and on Coal Creek Pkwy. Implementation will occur the week of May 16th. Signals is also planning to return to Council for approval of the SCATS Phase 2 contract in July. This contract will finish the Downtown area, and also implement SCATS in the Hospital District and 116th Ave NE/SE corridors. The SCATS Phase 2 contract will be funded by a Transportation, Community, and System Preservation (TCSP) federal grant, and the estimated cost for the Phase 2 contract is \$240,000. Council accepted the TCSP grant on September 7, 2010.

The City entered into agreement with the Bellevue School District to use parts of Cherry Crest Park to construct portions of a parking lot and to install an underground geothermal heating system as part of the adjacent Cherry Crest Elementary School reconstruction project. The project will begin immediately after school ends this summer.

Design work for the renovation of Fire Station 5 is scheduled to begin in the second quarter, with the project ready to go to bid this fall and project completion projected mid-2012. Staff is also moving forward on its energy conservation efforts through the light retrofitting project at all 10 fire facilities.

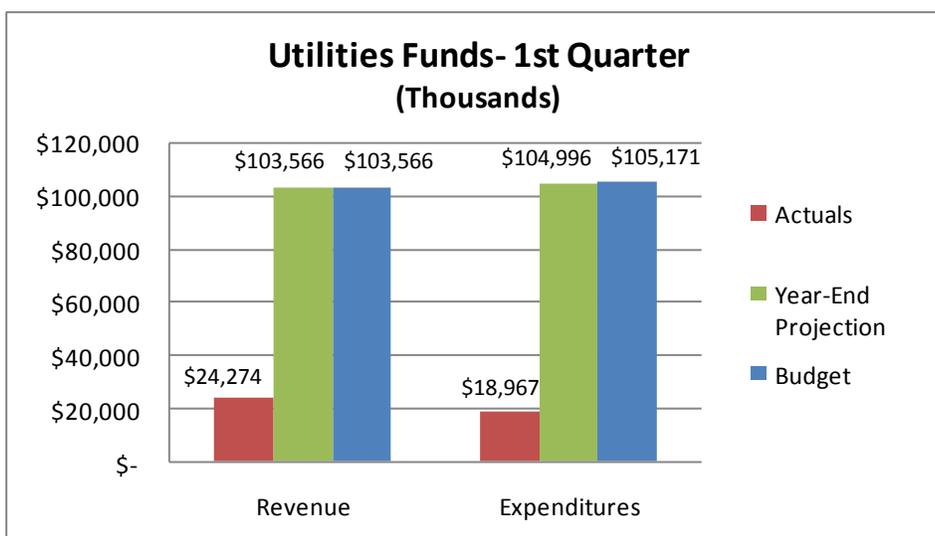
Year-to-Date Expenditures and Revenues: Budget to Actuals

Development Services Performance



Comments: The impacts of the recession and its effect on development activity continues in 2011. Development Services revenues are anticipated to be \$1.5 million (11%) below budgeted levels. Expenditures are anticipated to show savings of nearly \$1.5 million (10%) from budgeted levels reflecting expenditure control measures implemented this year. Savings will be realized through position vacancies and reduction in contracted services. Additional savings will be derived through ongoing cost containment strategies through 2011.

Utilities Performance



Comments: Other revenues in Water are projected to be approximately \$175k below budget due to lags in the payment of fire protection costs by outside-City jurisdictions. All other revenues and expenses are projected to be at budget by year end.