

CITY COUNCIL FINANCIAL STATUS OVERVIEW

SUBJECT:

Economic Update and Second Quarter 2011 Budget Monitoring Report.

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POLICY ISSUES:

The City routinely provides quarterly financial updates as part of its fiscal stewardship.

BACKGROUND/ANALYSIS:

City Council adopted a balanced 2011-2012 Budget and 2011-2017 CIP Plan. Since that time, the Finance Department has carefully monitored revenues and expenditures in light of the recent economic news.

- The Puget Sound economy continued to grow slowly in the 2nd quarter. Local economists are citing “chronically weak demand” as the primary hold-up for regional recovery. Consumers — faced with near-record high gas costs, tight credit, high unemployment, shrinking home values and government belt tightening—are not spending at historical levels.
- Second quarter General Fund (GF) monitoring shows that revenues are down, particularly sales tax and B&O tax which are now projected to be \$2.9M below budget for 2011.
- The sluggish economy continues to impact development activity in Bellevue. Development Services now anticipates only modest activity growth through 2012.
- The recent economic news will impact the General Fund, the General CIP, and Development Services.

Tonight staff will discuss the latest economic news and its impact on the City’s fiscal position and present the second quarter budget monitoring report.

BUDGET CONTROL:

The 2011 Budget is in balance by the use of aggressive cost containment, management actions, and the potential use of reserves.

PROVIDED UNDER SEPARATE COVER:

Attachment – Budget Monitoring Report for the Period Ending June 30, 2011

BUDGET MONITORING REPORT



September 12, 2011

For the Period of January to June 2011

Performance at a Glance	Year to Date	Reference
Economy and Performance		Page 2
General Fund Expenditures vs Budget	O	Page 3
General Fund Revenues vs. Revised Estimate	O	Page 3
Tax Performance	O	Page 4
General CIP Expenditures & Resources vs. Budget	O	Page 5
Development Services Expenditures & Resources vs. Budget	O	Page 6
Utilities Expenditures & Resources vs. Budget	+	Page 6

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 economy continued to grow at a snail's pace in the 2nd quarter. Local economists are citing "chronically weak demand" as the primary hold-up for regional recovery. Consumers — faced with near-record high gas costs, tight credit, high unemployment, shrinking home values and government belt tightening—are not spending at historical levels.

Annual Percent Change

	2010 Actual	2011 Forecast
Employment	-1.8%	1.3%
Personal Income	2.4%	5.0%
Housing Permits	31.2%	8.2%
Average Home Price	-0.8%	-3.5%
Taxable Retail Sales	-0.9%	4.7%

Source: Puget Sound Economic Forecaster—June 2011

Bellevue Economy

A positive sign, Bellevue's Central Business District's office vacancy rate dropped in the 2nd quarter to 15.1% (down 1%). The decline is due to the absorption of more than 60,000 SF. Bellevue's asking lease rate for Class A space remains higher than most neighboring markets. Source: CB Ellis

Taxable retail sales began to outpace 2010 experience in the 2nd quarter. Retail trade and services continued to show growth, but increases were somewhat offset by declines in construction and other sectors. Taxable retail sales are projected to increase somewhat over the course of the year, although full recovery to pre-recessionary levels is not expected for several years. Source: Puget Sound Economic Forecaster

Bellevue's hotel activity remains positive, with hotel/motel taxes coming in 14% over 2010 (cash basis of tax collections), and nearly equal to this year's projection. Local hoteliers are reporting healthy gains and project this trend to continue

Economic Performance

Regional Economy

The regional economy continued to experience slow growth through the 2nd quarter of 2011. A slow recovery is still projected with gradual employment gains returning the region to pre-recession levels by 2015.

The Seattle metropolitan employment area has continued to add jobs month over month throughout 2011. During the 2nd 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 in downtown Bellevue remain high (15.1% in the second quarter), despite a decreasing trend from the rate peak at 17.55% in the second quarter of 2010.

The local housing market may be stabilizing. Average home prices on the eastside have remained fairly stable over the past 2 quarters, although still down from June 2010, and closed home sales were nearly equal to last year's experience. Price stabilization is likely due to a lower level of inventory, combined with higher sales—which may be a sign of a market shift.

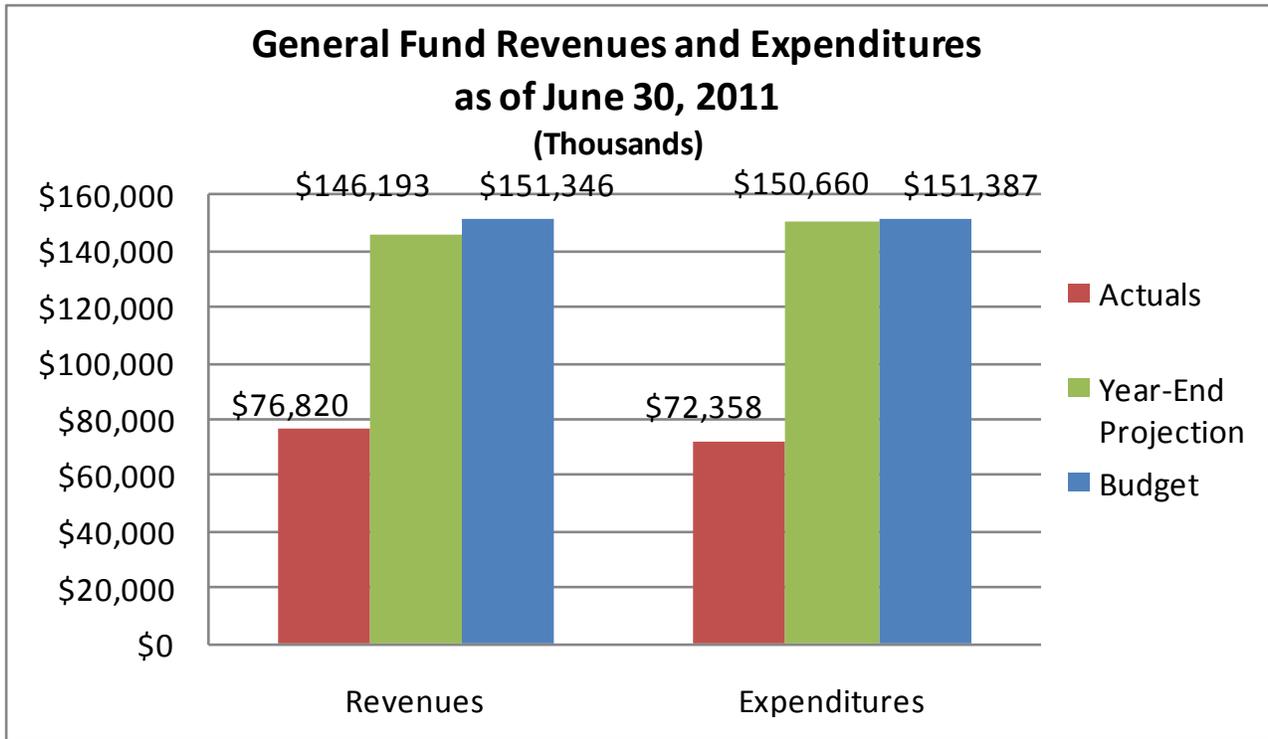
The Seattle area Consumer Price Index for All Urban Consumers (CPI-U) increased to 3.2% in June. The increase year over year is primarily driven by energy prices, which rose 20%, largely the result of an increase in the price of gasoline.

Cost Containment

The City's cost containment measures begun in 2009 are continuing into 2011. Efforts include holding non-critical vacant positions open, significantly reducing discretionary spending, and deferring expenses.

General Fund Performance

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



NOTE: Due to a time lag between earning and receiving some major tax collections (i.e., sales, business & occupation, and utility), year to date actuals reflect up to a three month lag. The year end projections reflect the full year. Year-End Projection is as of June 30, 2011.

The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, 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. Expenditures are based on actual activities performed during the 2nd quarter. Year-end projections are based on economic trends and projections, as well as historical collections and expenditures.

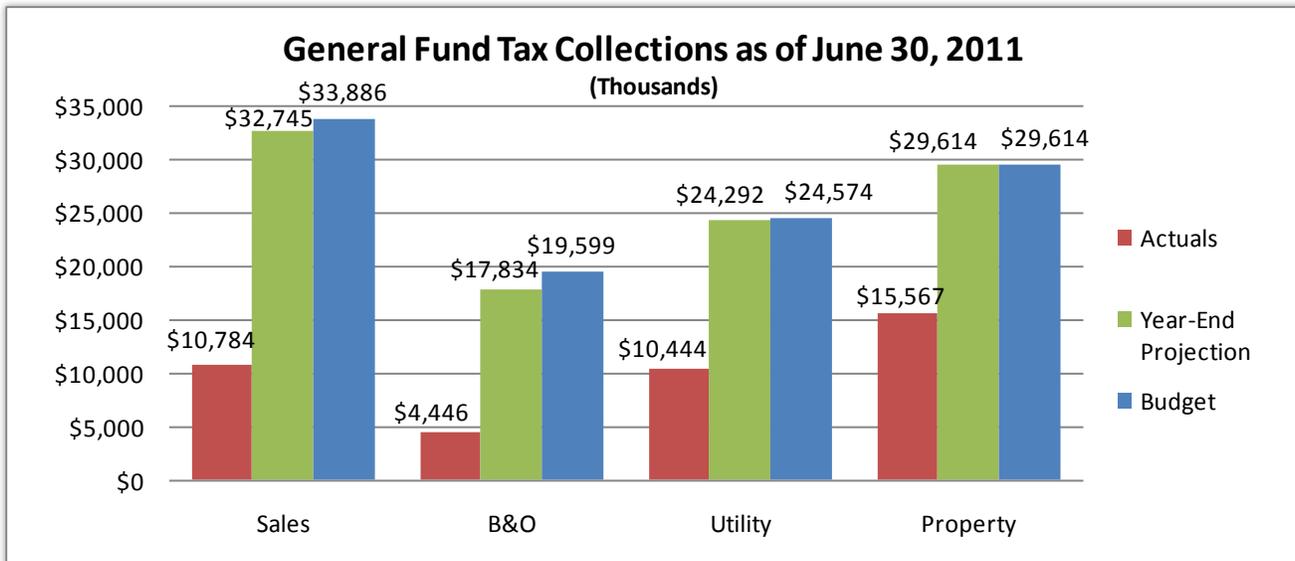
Through the 2nd quarter, General Fund expenditures are projected to be \$0.7 million (0.5%) below budget primarily due to cost containment efforts (see page 2).

Revenue collections (excluding fund balance) are projected to be \$5.2 million (3.4%) below budget primarily due to lower sales and B&O tax projections. Of that amount, total tax collections are projected to be \$3.2 million (3.0%) below budget.

Overall, the 2nd 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 being held more closely in line with total resources. Through aggressive cost containment, management actions, and the potential use of reserves the 2011 Budget is in balance.

General Fund Performance

Year-to-Date Tax Performance Compared to Budget



NOTE: Due to a time lag between earning and receiving some major tax collections (i.e., sales, business & occupation, and utility) year to date actuals reflect up to a three month lag. The year end projections reflect the full year. Year-End Projection is as of June 30, 2011.

The above graph illustrates the difference between year-to-date tax collections through June, current year-end projections, 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. Year-end projections are based on economic trends and projections, as well as historical collections.

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 \$1.1 million (3.4%) below budget.

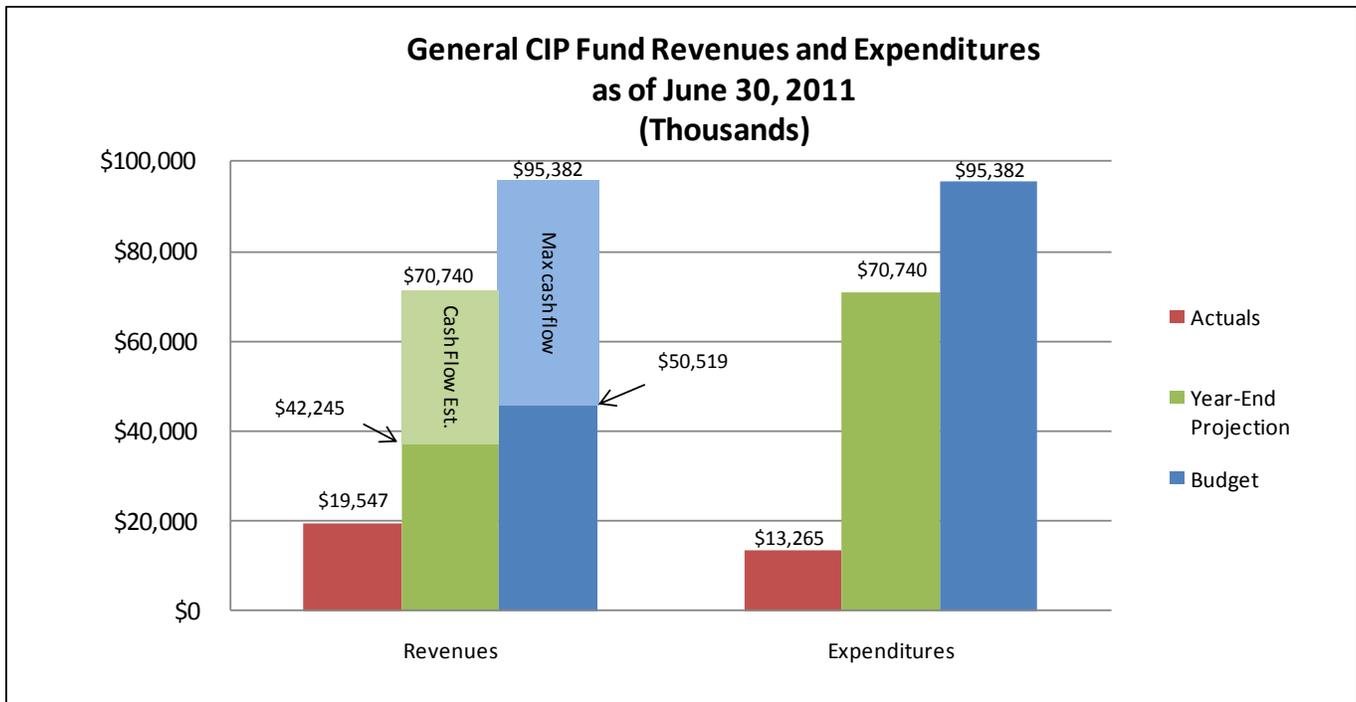
Business and Occupation Tax (B&O). B&O tax collections are down slightly from the same period in 2010, indicating that year-end collections are likely to be about \$1.8 million (9.0%) below budget.

Utility Taxes. Overall, utility taxes are projected to be \$0.3 million (1.1%) below budget primarily due to lower than anticipated collections of telephone and cell phone taxes (\$0.9 million or 12% below estimates). Electric and gas taxes are anticipated to be \$0.6 million (6%) above budget, and collections of other utility taxes are projected to be 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



NOTE: Due to a time lag between earning and receiving some major tax collections (i.e., sales, business & occupations, and real estate excise) year to date actuals reflect up to a three month lag. The year end projections reflect the full year. Year-End Projection is as of June 30, 2011.

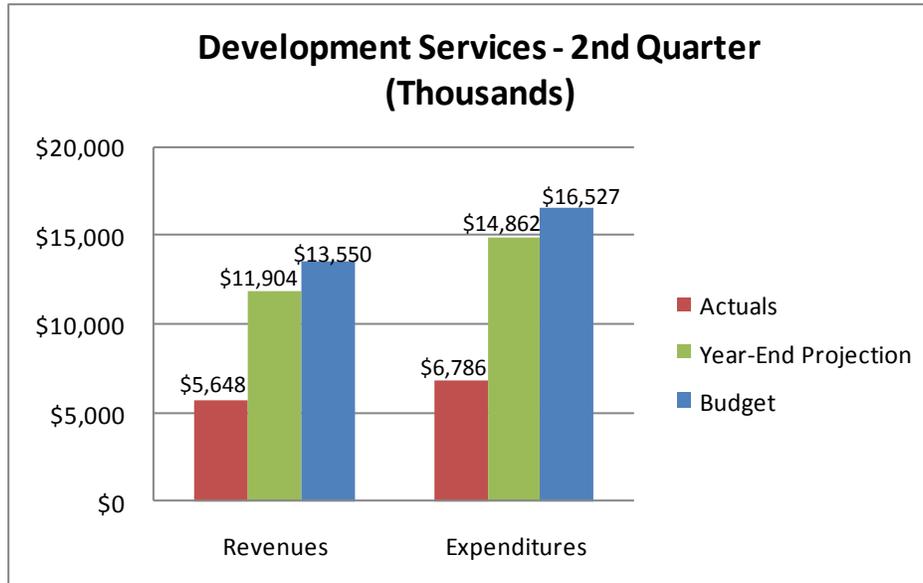
Revenue collections, excluding cash flow borrowing, are projected to total \$42.2 million or 16.4% (\$8.3 million) below budget. Collections of sales, business and occupation, and real estate excise taxes are projected to be \$2.8 million (9.2%) below budget. In addition, the Wilburton Connections Local Improvement District (LID), created to partially fund the NE 4th and 120th Avenue NE project, was protested by property owners and the LID was not formed. The LID was budgeted at \$10.2 million.

Expenditures are projected to be \$70.8 million or 25.8% below budget.

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 \$28.5M (light green portion of graph). The City currently has a \$30.0 million line of credit, authorized by the City Council in October 2009, that is sufficient to deal with the projected cash flow deficit in 2011. Cash flow borrowing is assumed to be repaid by the end of the CIP period.

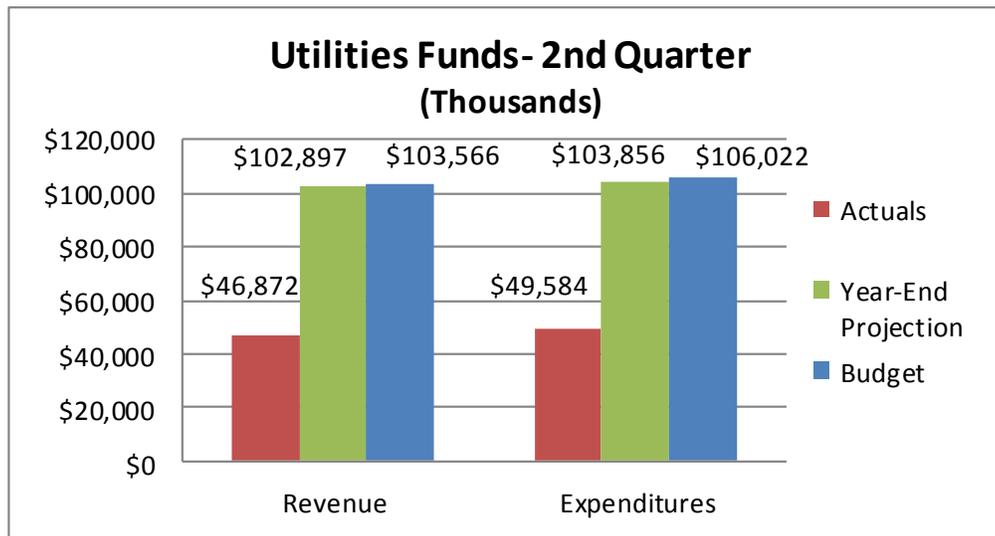
Year-to-Date Expenditures and Revenues: Budget to Actuals

Development Services Performance



The impacts of the recession and its effect on development activity continue in 2011. Development Services revenues are anticipated to be nearly \$1.6 million (12%) below budgeted levels. Expenditures are anticipated to show savings of nearly \$1.7 million (10%) from budgeted levels reflecting ongoing cost control measures. Savings will be realized through position vacancies, reductions in contracted services, and additional reductions in staffing as necessary. Development Services carries operating reserves for cash flow shortfall.

Utilities Performance



Developer revenues are expected to be about \$350,000 below budget due to low development activity. Other revenues are expected to be about \$325,000 below budget due to lower than expected interest earnings and interfund service revenues, and a lag in the payment of fire protection costs by outside-City jurisdictions, net of miscellaneous revenues and one-time receipts. Projected savings from vacancies is estimated to be about \$1.0 million, and the projected 2011-12 Customer Information System (CIS) carry forward is estimated to be about \$1.1 million. All other revenues and expenses are projected to be at budget by year end.