



City of Bellevue

## MEMORANDUM

---

Phone: 452-6846

Date: August 28<sup>th</sup>, 2014

To: Mayor Balducci and City Council Members

From: Jan Hawn, Finance Director

Subject: 2014 Second Quarter Budget Monitoring Report

Attached is the 2014 Second Quarter Budget Monitoring Report for the period ending June 30, 2014. This report presents the General, General CIP, Development Services, Utilities Operating and Utilities CIP Funds.

Key items – 2014 Second Quarter:

Economic conditions appear to be improving. Specific points regarding the 2014 revenue and expenditure projections are:

- General Fund year-end expenditure projections are tracking slightly over revenues within a 1/10th of a percent (0.01%) differential. The Budget Office expects each department to be 1% under budget at year-end.
- Utility CIP Expenditures are expected to be under budget by about \$19.0 million due primarily to delays to accommodate coordination with other projects, to re-scope projects to attract more favorable bid pricing, and variance between projection and budget will be carried forward to 2015.

Please feel free to contact Toni Rezab at 452-7863 or me at 452-6846 with any questions you may have.

Sincerely,

Jan Hawn, Finance Director

Attachment

2014 Second Quarter Budget Monitoring Report

Cc: Brad Miyake  
Leadership Team



# BUDGET MONITORING REPORT

For the period from January 1 through June 30, 2014

## 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 and year-end projections to the 2014 adopted budget, to discuss reasons for variance and to convey the local and national economic outlook.

Year-end projected General Fund expenditures are tracking slightly over revenues. The year end estimates include both a .6% (\$1 million) over-collection of revenues assumption and a 1% (\$1.7 million) under-expenditure assumption. These assumptions are included in the adopted budget. The Budget Office is watching expenditures and revenues closely.

## Bellevue Economy

Bellevue continues to maintain one of the lowest vacancy rates in the country and finding office space in the area is becoming increasingly difficult for businesses seeking Class A office space. The Bellevue Central Business District continues to experience decreases in the vacancy rate at 9.0% in the second quarter. (Cushman & Wakefield Bellevue Q2 2014).

Construction of Trammell Crow's 929 Tower in downtown Bellevue started in June is expected to add an approximate 462,000 square feet of office space, as well as the expansion of Bellevue Collection by Kemper Development, with an anticipated 700,000 square feet of office space.

## Performance at a Glance

Pg. 2	General Fund Revenue Projection vs Expenditure Projection	+
Pg. 3	General Fund Revenue Projection as Compared to Budget	+
Pg. 4	General CIP Revenue Projection vs. Expenditure Projection	-
Pg. 5	Development Services Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities Operating Funds Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities CIP Revenue Projection vs Expenditure Projection	+

### Legend:

- + Positive variance or negative variance < 1%
- o Negative variance of 1-4%
- Negative variance of > 4%

## Regional Economy

The Puget Sound Region continues to experience job growth and an economic recovery higher than the nation as a whole. Unemployment has steadily declined, currently at 5.5% during the second quarter and is expected to continue this pace through the rest of 2014. (PS Economic Forecaster Q2).

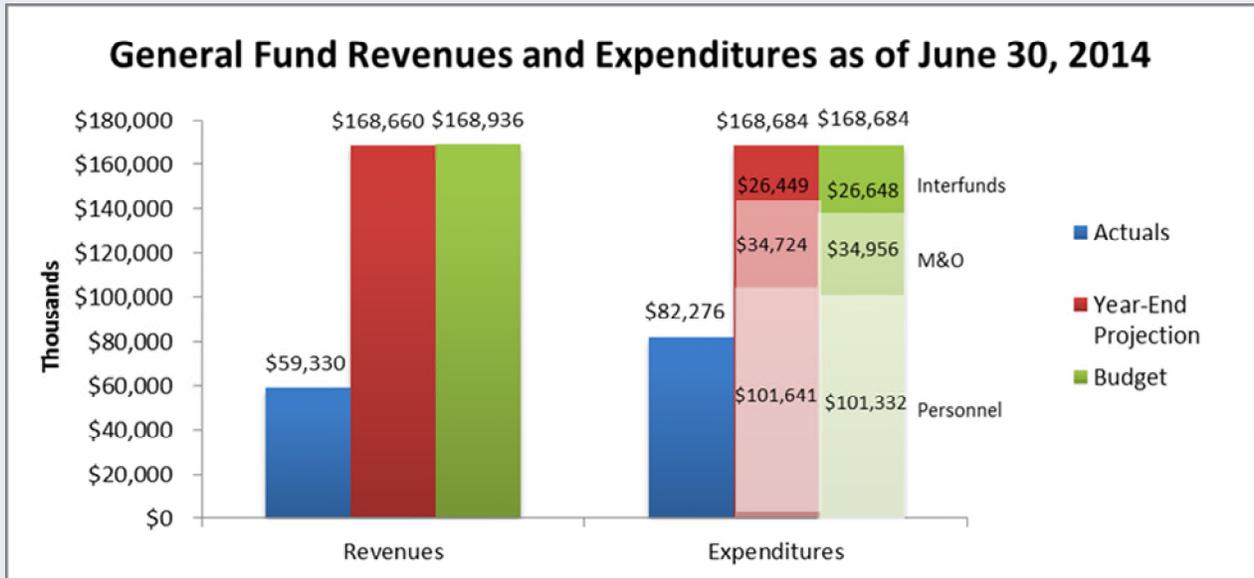
During the second quarter, Boeing secured an additional 275,000 square feet of lease space in Bothell and in the I-90 Corridor.

Google's Kirkland campus expansion, approximately 180,000 square feet is ongoing and expected to be completed in Q2 of 2015.

## City of Bellevue Budget Monitoring Report

January 1 to June 30, 2014

## GENERAL FUND PERFORMANCE



*NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed during the second quarter.*

### Revenue

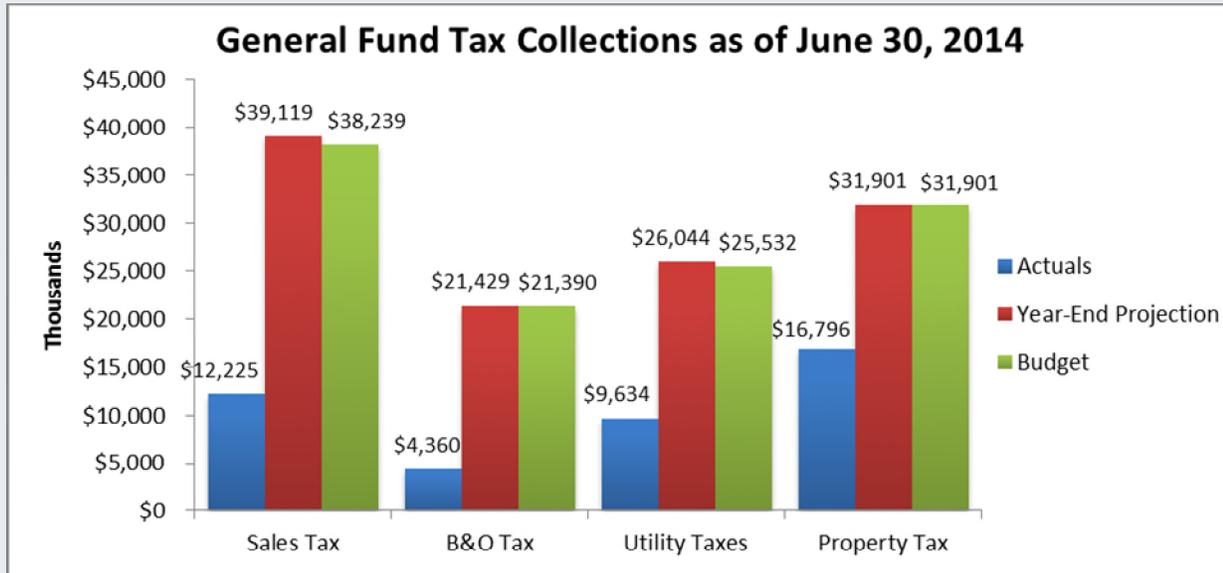
Revenues are tracking slightly below budget primarily due to reduced electric utility and admission tax revenues. Sales tax is projected to be slightly above budget and Business & Occupation tax is tracking at budget due to one time corporate purchases. The year end projection assumes a .6% over collection of revenues. The adopted budget included a 1% over collection.

### Expenditures

Projected expenditures are tracking closely to budget.

Year-end expenditure projections are tracking slightly over revenues. The Budget Office is closely watching spending and revenue collections as the economy continues to recover. These projections include department's 1% under budget assumption which the departments have included in their year end estimate and are monitoring to.

# GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and adopted budget. 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.

## Tax Revenues

At this point, year-end tax revenue projections are slightly above budget. Projections will be updated as additional information is received.

### Sales Tax:

Sales tax is projected to be slightly above budget .

### Business and Occupation Tax (B&O Tax):

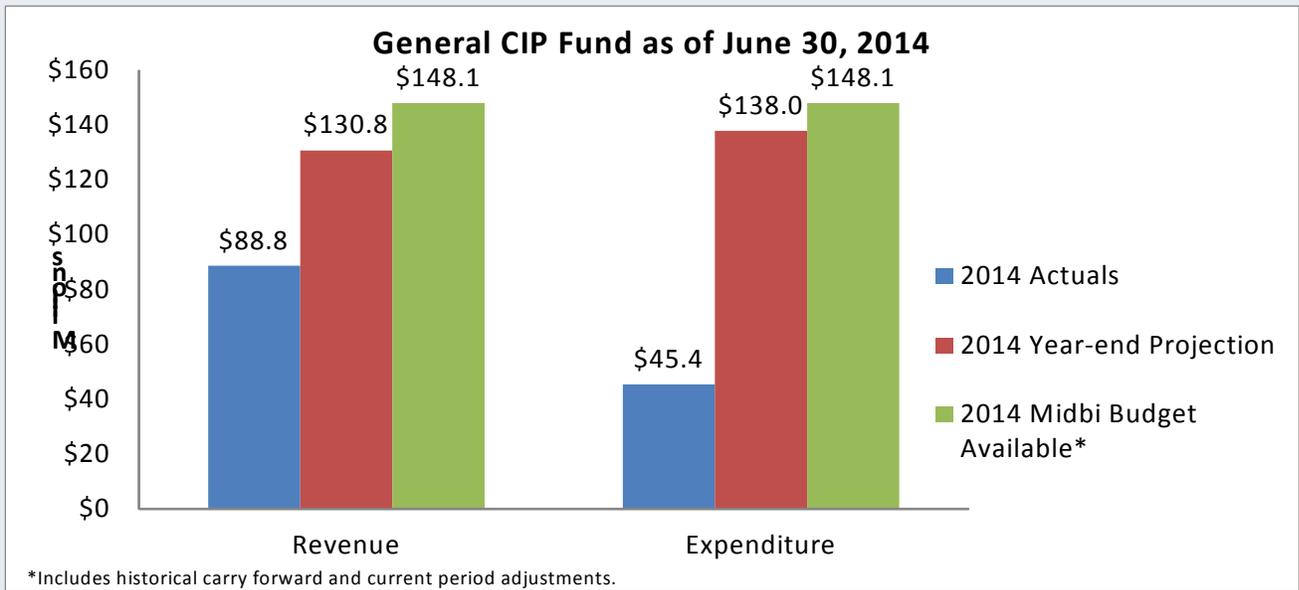
B&O tax is projected to be slightly above budget and is collected several months in arrears.

### Utility Taxes:

Utility tax collections are projected to be slightly above budget due to the water utility rate increase. Electric and admission taxes are projected to be below budget.

**Property Tax.** Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. This tax is not as volatile as sales and B&O tax and is projected at budget.

# 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. 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 during the second quarter.*

### Resources

Major CIP resource are comprised of bond proceeds, taxes, grants and contributions. Other than bond proceeds which are generally not issued annually, the largest resource for the CIP fund are taxes, Sales, B&O Tax, Real Estate Excise Tax and the Parks Levy. Taxes are projected to be at slightly above budget. For specific discussion about Sales and B&O tax please see the General Fund section of this report. Real estate excise tax (REET) collections are projected to come in as forecasted; however, the Budget Office is monitoring this revenue stream particularly closely. Other CIP resources are grants, Intergovernmental revenue and contributions, which are projected to be less than budgeted and is the difference between projected and budgeted resources, however these resources are

collected on a reimbursement basis and thus have a commiserate reduction in project expenditures.

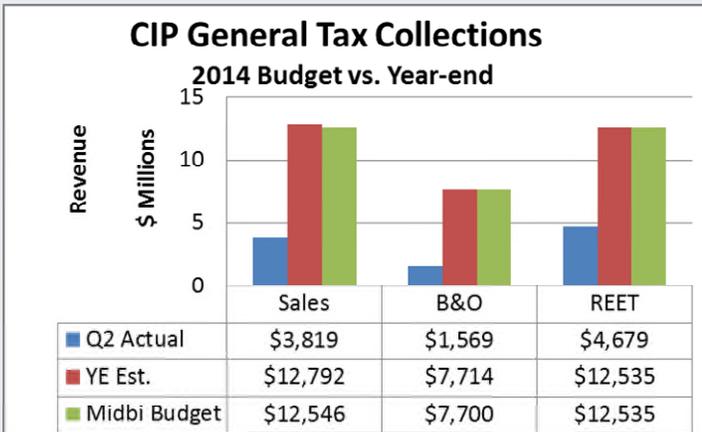
Further, miscellaneous revenues, which includes private donations, are keeping pace with associated project schedules, such as the Bellevue Botanical Garden Projects and the Hidden Valley Sports Field Improvements. In total The CIP fund is estimated to collect \$130.8 million.

### Expenditures

CIP expenditures are projected to be \$138 million at year end largely due to continued progress on large scale transportation projections, including NE 4th Street and NE 120th Street, and the completion of priority Parks & Community Services projects (e.g., Bellevue Youth Theatre, Bellevue Botanical Garden). In addition, throughout 2014 the City will continue to acquire properties in support of the East Link MOU commitment.

### Cash Flow Borrowing

At this point year-end estimated expenses are exceeding resources by \$7 million. An interfund loan was approved by City Council in 2013 for \$30 million and to-date only \$15 million has been borrowed. The Budget Office is monitoring this funding gap closely. Despite the apparent gap in funding, additional cash flow borrowing is not anticipated by year-end. The whole of capital projects are rarely fully spent at the end of the year and as year-end approaches the gap will likely diminish.



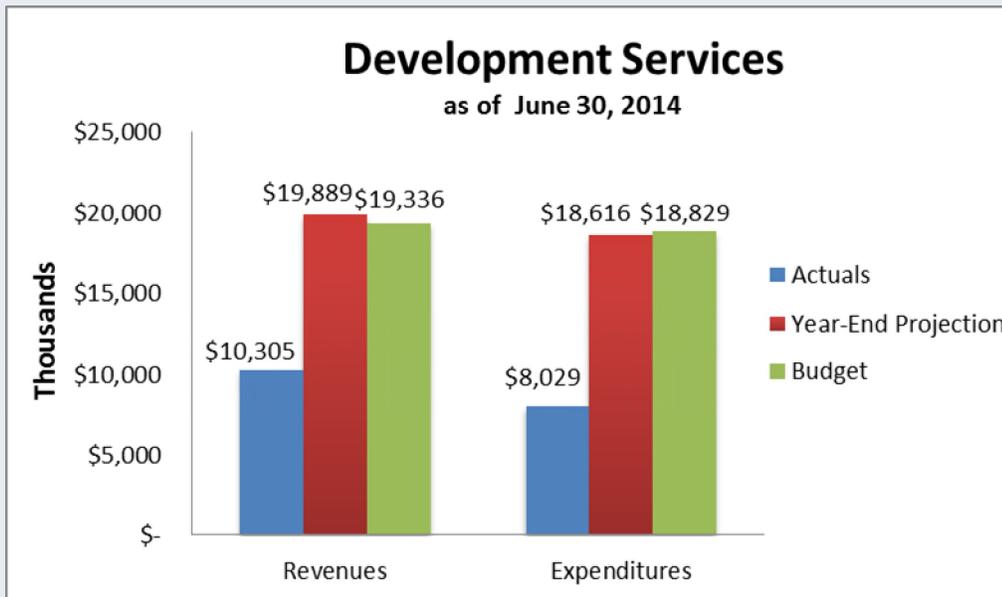
## City of Bellevue Budget Monitoring Report

January 1 to June 30, 2014

## DEVELOPMENT SERVICES PERFORMANCE



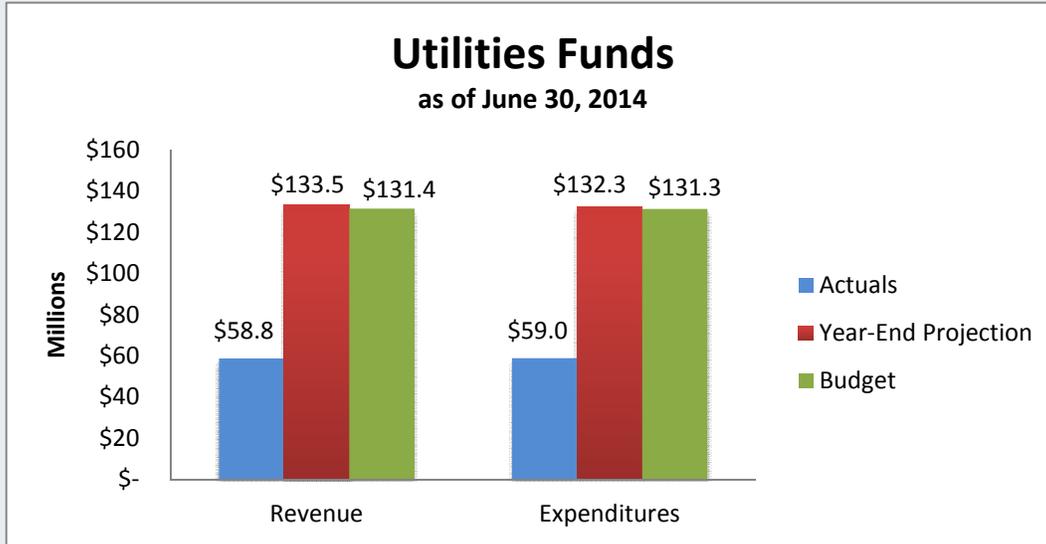
*Bellevue Square Expansion—701 Bellevue Way*



Development Services revenue collections are at anticipated levels in Q2, largely due to applications for major projects. Economic growth continues to improve as development permit applications increase in valuation size and scope. Development permit activity has increased over 2013 levels by 8% and is anticipated

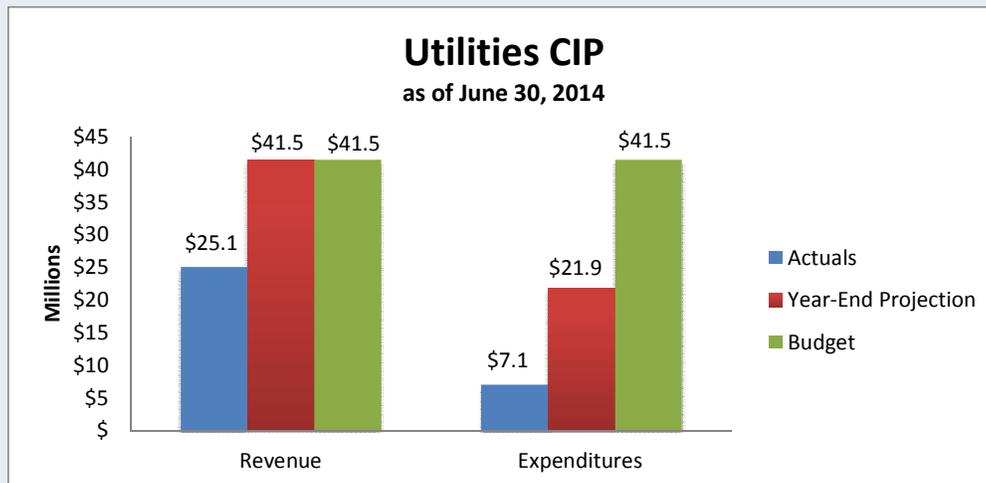
to remain steady through yearend. Eastlink permit activity has begun and is anticipated to be a driver of workload in 2015. Development Services yearend expenditure projection reflects expenditure savings realized mainly through position vacancies and other maintenance and operation savings.

## UTILITIES OPERATING FUNDS



Utility operating revenues are projected to be above budget by about \$2.1 million due primarily to stronger than anticipated water service revenues, regional water connection charges as a result of development activity, and sewer service revenues. Year-end expenditures are expected to exceed budget, reflecting higher than anticipated regional water connection charge payments associated with the stronger development activity referenced above. Budgeted and projected expenditures and revenues also include \$1.8 million in funding carried forward into 2014 to complete work that was started but not yet complete in 2013.

## UTILITIES CIP



Utility CIP revenues (not including reserves) are projected to be at budget by year end. Utility CIP expenditures are expected to be below budget by year-end due to the timing of construction activities to coordinate with other projects, to consolidate projects to attract more favorable bid pricing, and project delays due to shortage of staff resources. The delayed projects will be incorporated into the updated 2015-2021 Utilities CIP. The related unspent project resources will be requested as part of the 2015-2016 biennial budget planning process.