



City of Bellevue

## MEMORANDUM

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Phone: 425-452-7863  
Date: June 7, 2022  
To: Mayor Lynne Robinson and City Council Members  
From: Toni Call, Director of Finance & Asset Management  
Subject: 2022 First Quarter Budget Monitoring Report

Attached is the 2022 First Quarter Budget Monitoring Report for the period ending March 31, 2022. The impacts of COVID-19 and its variants, the war in Ukraine, and continued national inflation all pose challenges to the City, and we will continue to address these impacts as they arise. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Notable items – update on the General Fund:

- General Fund revenue collections are projected to be 2 percent or \$4.8 million above budget in 2022. This is primarily driven by the timing of a receivable due 2021 which was paid in spring 2022, one time construction activity and associated right of way revenues.
- General Fund expenditures are projected to be 0.2 percent or \$600,000 lower than budget in 2022 due to department savings and underspending in projects that are experiencing supply disruptions. Expenditure projections reflect a gradual resumption of activity at City facilities including recreation spaces. Staff will monitor expenditures throughout the year and will update projections as economic and public health behaviors dictate.
- The General Fund reserve is projected to be 24 percent at year-end 2022. At the March 7 Budget Workshop, the forecast reviewed included the assumption that 2022 would be at 24 percent. Current projections are in alignment. The City maintained reserves above the Council reserve policy in 2021 of 15 percent and is on course to do the same in 2022.
- The Bureau of Labor Statistics' seasonally adjusted annual Consumer Price Index for All Urban Consumers (CPI-U) stood at 8.5 percent as of March 2022. In the March 7<sup>th</sup> budget workshop, staff highlighted the inflationary impact on 2022 through 2026. However, impacts of inflation are currently impacting the costs of services, construction materials and other goods the City purchases. Inflationary pressures remain highly uncertain in the near-term and long-term.

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

Sincerely,

Toni Call, Director of Finance & Asset Management

Attachment

2022 First Quarter Budget Monitoring Report

Cc: Brad Miyake  
Leadership Team



# BUDGET MONITORING REPORT

For the period from January 1 through March 31, 2022

## Economic Performance

This report discusses 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 this report is to compare actual expenditures and revenues to the Amended Budget, to explain any variances, and to convey an economic outlook from a national to a local scope.

The impacts of COVID-19 and the successive variants continue to beleaguer the world and the city will continue to actively manage and take fiscally responsible actions regarding the situation in 2022. Future economic impacts of COVID-19 remain uncertain, and the City of Bellevue will continue to take necessary actions to ensure the long-term fiscal sustainability of the city. This monitoring report reflects the impacts to the city as of March 2022.

## U.S. Economy

As the COVID-19 omicron variant receded, many regions of the country began to reopen by lifting mask mandates and encouraging a resumption of economic life. Consumer spending held up well for the first quarter. However, real gross domestic product (GDP) decreased at an annual rate of 1.4 percent in the first quarter of 2022 due to pullback in the government spending, trade imbalance and decrease in private inventory investment (Source: Bureau of Economic Analysis). The Consumer Price Index for All Urban Consumers (CPI-U) increased to 8.5 percent year-over-year without seasonal adjustment in March 2022 (Source: Bureau of Labor Statistics). The Federal Reserve Board (FED) raised interest rates for the first time in three years in March 2022, with plans to continue rate increases throughout 2022 in an effort to rein in inflation (Source: Federal Reserve).

Transitioning from pandemic to endemic COVID-19, supply chain disruptions and transportation bottlenecks continue to ease. However, the COVID-19 lockdowns in China and the Russian invasion of Ukraine pose threats to the supply chain and inflation.

## 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%

Energy components of the CPI increased by 32 percent year-over-year in March 2022 as gas prices surged in the wake of the initial invasion (Source: Bureau of Labor Statistics). On March 31, the Biden administration announced that the U.S. will release from reserves 1 million barrels of oil per day (Source: The White House). While this will help ease the price at the pump for many in the U.S., the war is expected to keep price pressures high in the energy sector (Source: World Bank).

Labor market tightness continues to be an issue, with the ratio of unemployed persons per job opening at its lowest ever recorded with only 60 unemployed persons per 100 job openings (Source: FRED). This labor market tightness indicates increased compensation costs along with the economic expansion. However, there are still numerous risks that cloud the outlook: ongoing hostilities in Europe; continuous public health risk from COVID-19 variants; supply chain disruptions; and quantitative tightening by the FED.

## Regional Economy

Gov. Jay Inslee announced the indoor mask requirements to be lifted as of on March 11 following declines in case rates and hospitalizations (Source: Governor's Office). On March 17, King County reached its lowest 7-day moving average of 2022 with only 165 cases of COVID-19 (Source: KC COVID-19 Dashboard). However, by April 25th King County officially moved into the medium COVID-19 community level as over 200 new cases per 100,000 people occurred over a seven-day period (Source: Public Health Insider). COVID-19 remains an ongoing risk to the economy.

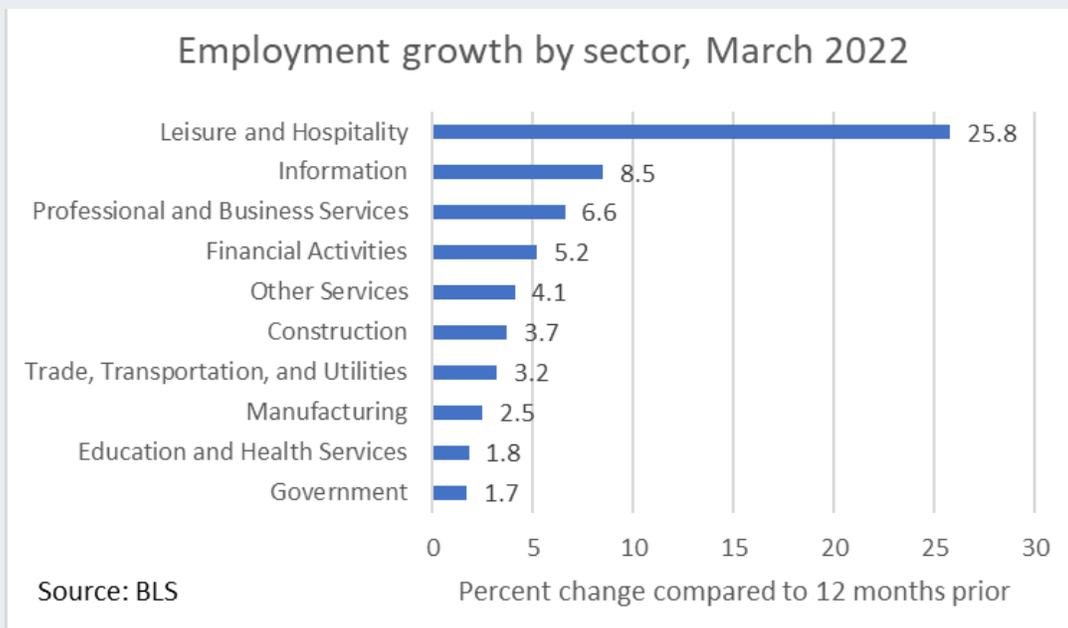
In the Seattle-Tacoma-Bellevue economy the labor market continued to recover in the first quarter of 2022. The unemployment rate dropped from 4.3 percent in January to 3.2 percent in March. Gains occurred in the leisure and hospitality industry which increased by 25.8 percent compared to March 2021. Some industries had little impact from the pandemic by pivoting to remote work and still posted gains, such as the professional and business services sector which increased 6.6 percent and information sector which increased 8.5 percent. Other industries are seeing smaller increases. The manufacturing industry is only up 2.5 percent and construction 3.7 percent in the same time frame (Source: Bureau of Labor Statistics).

The concrete delivery strike which impacted projects around King County wound down at the end of March, and the Teamsters' unconditional offer to return to work while negotiations continue came on April 8 (Source: Sound Transit). This will allow the project delays which have built up for nearly five months to resolve, although backlogged demand is expected to continue to impact deliveries in the short term.

## Bellevue Economy

The City of Bellevue unemployment rate dropped from 3.1 percent in January to 2.1 percent in March 2022 and is still recovering (Source: Bureau of Labor Statistics). This post-COVID economic recovery has not spread throughout the City of Bellevue evenly, with some sectors still not fully recovered. Restaurants in the greater Seattle area in 2022 are down 45 percent from 2019 levels (Source: OpenTable). The average occupancy for hotels has recovered to 47.35 percent, up from 44.08 percent in 2021. Average daily rates for hotels have increased to \$147.39 compared to \$117.42 in 2021, and visitor spending in the City of Bellevue averages \$36.5M monthly in 2022 compared to \$34M in 2021 (Source: Visit Bellevue). The Transient Occupancy Tax (TOT) has increased steadily since the COVID crisis began, with March 2022 revenues at their highest levels since COVID but is still about 43 percent below March 2019 levels.

While the economic recovery and low unemployment data is positive, it is offset by a trend of price increases as inflation rises across the nation. The home prices in the City of Bellevue are up 34.6 percent year on year (Source: RedFin) driven by inflation along with the economic recovery. At the end of 2021 permit valuation of development in the City of Bellevue reached a historic peak at \$1.6 billion (Source: Bellevue Development Services). This implies that construction activity in 2022 is still high, as permit valuation is a leading indicator for construction.

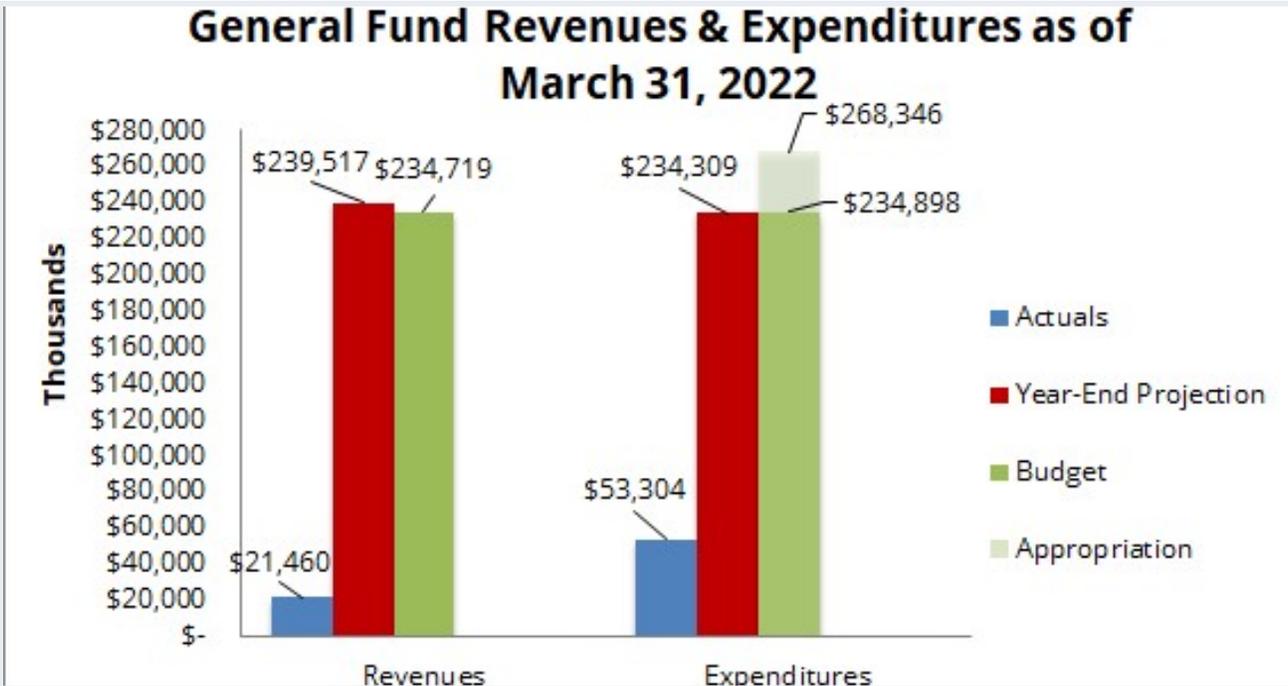


Source: Bureau of Labor Statistics

## City of Bellevue Budget Monitoring Report

January 1 to March 31, 2022

## GENERAL FUND PERFORMANCE



*Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through March, amended budget, and budget appropriation (includes fund balance).*

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

### Revenue

General Fund revenue collections are projected to be \$4.8 million (2.0 percent) above budget in 2022. The increase is due to strong construction activity and associated right-of-way leases, and the timing of a large receivable due in 2021 yet received in 2022. Generally, construction tax revenue is one-time revenue as long as the development cycle continues. The impacts from COVID-19 still remain uncertain and increased levels of economic activity are dependent on factors in the broader economy, continued expansion of vaccine doses and booster shots, low positive case rates, and limited public health impacts from COVID-19 variants.

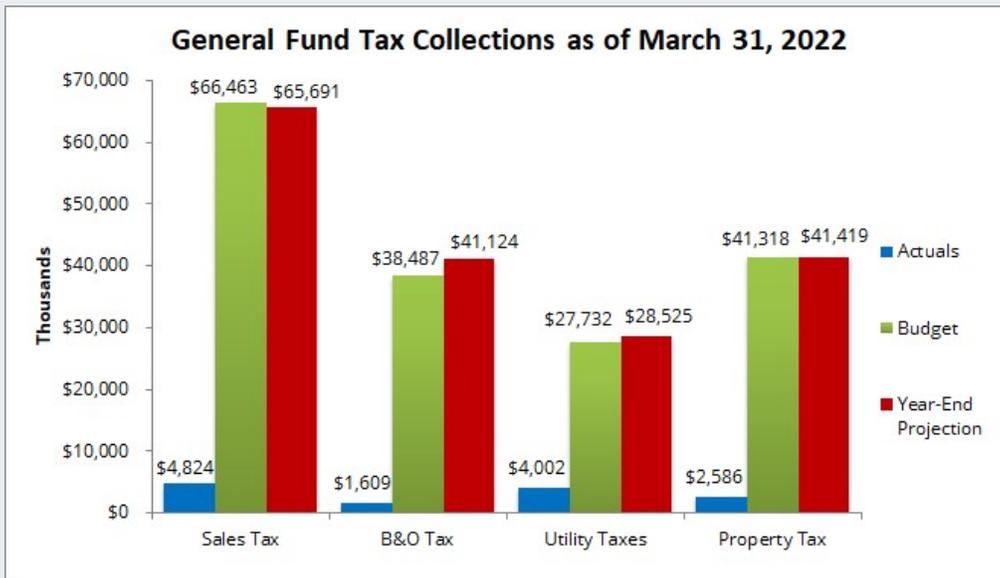
### Expenditures

Expenditures are projected to be \$600,000 (0.2 percent) below budget in 2021. This is driven by department M&O savings stemming from reduced capacity in City facilities in response to COVID-19 public health orders, as well as personnel savings from vacancies throughout the City. Additionally, the General Fund has seen increased costs for goods and services due to rising inflation levels and supply chain disruptions. As the impacts and response to COVID-19 persist and the war in Ukraine progresses, the City is continually monitoring and taking appropriate action as needed to ensure the fiscal sustainability of the city.

### Change in Fund Balance

The General Fund reserve as a percentage of General Fund revenues is projected to be 24 percent by the end of 2022, which aligns with the forecast present to Council at the March 7 Budget Workshop. This This projection will maintain reserves above the Council reserve policy in 2022.

# GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through March and the 2022 amended budget.

## Tax Revenues

Economic activity has continued to increase as the state and regional economy have reopened. Tax revenue is projected higher than budgeted due to the faster than expected economic recovery, along with high levels of construction and development activity in the City of Bellevue. However, the full extent of the future impacts of COVID-19 remains uncertain, and the Budget Office will continue to monitor for ongoing impacts to revenue collection.

### Sales Tax

The sales tax collection projection for the City of Bellevue is estimated to be 1.16 percent under budget, including the impact from higher inflation. The economic recovery continues with high levels of construction and development activity in the city, as well as the elimination of the mask mandate in March 2022.

### Business and Occupation Tax

B&O tax collection is projected to be 6.85 percent higher than the budget, due to the timing of a receivable in 2022 which was due in 2021 and construction activity. With the mask mandate lifted, most industry sectors' customers returned to their usual capacity and operations.

### Utility Tax

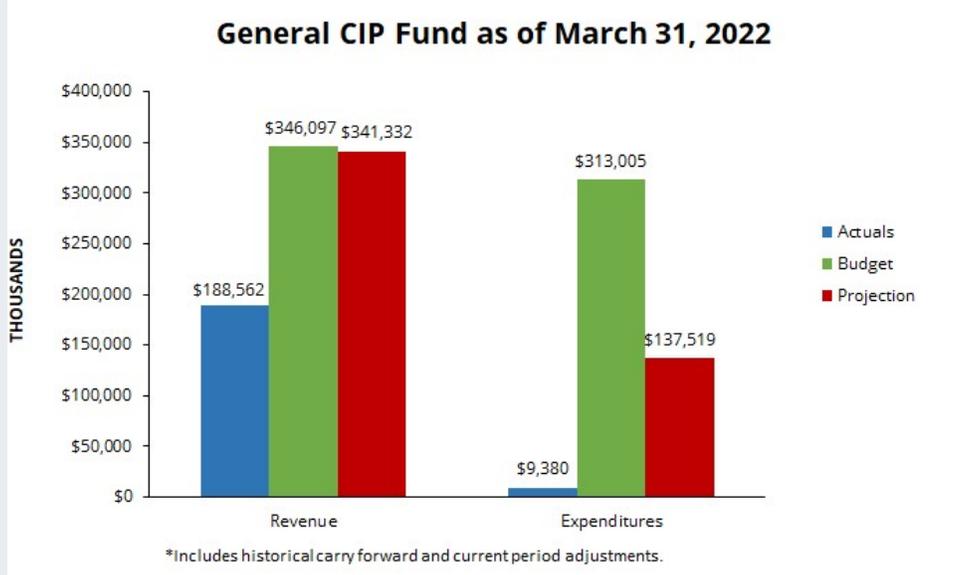
Utility tax collections are projected to be 2.86 percent over budget. They are primarily driven by increased electricity utility taxes and water utility taxes. Increased utility taxes are estimated to be partially offset by lower cell phone and television cable tax collections.

### Property Tax

Property tax revenue collection is projected to be slightly above budget in 2022. COVID-19 did not have any significant impact on the timing of payments or the collection of revenue in 2021, and likely will not through 2022.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2022 total levy rate is \$0.84 per \$1,000 AV, which includes \$0.05 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.09 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.11 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

# GENERAL CIP PERFORMANCE



*Note: Under-collection of revenue is driven by lower levels of spending and project savings in projects that receive grant funding.*

## Resources

Major CIP resources are comprised of taxes, grants, debt, and contributions, including Sales tax, B&O tax, Real Estate Excise Tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity, and Improvement levies approved by voters in 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in 2017.

The 2022 CIP includes \$173.1 million in beginning fund balance dedicated to existing projects in the CIP.

Real Estate Excise Tax (REET) - a historically volatile revenue source - is projected higher than anticipated in 2022 at approximately \$25.0 million in revenue collected by year-end. This forecasted increase in REET revenue collection is primarily driven by increased real estate prices and large transactions over \$50 million. The increase in REET revenue is one-time revenue and will fluctuate annually based on real estate market prices and transaction volume. However, CIP resources, including REET, will be reprioritized in the 2023-2024 budget development process to ensure that that all projects are evaluated in context of Council priorities and the needs of the city.

## Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue secured a refinance for the TIFIA loan from 2.86 percent originally to 1.86 percent as of December 2021. This will save the City over \$20 million over the life of the loan. The City of Bellevue received one TIFIA loan distribution in the first quarter of 2022, and has drawn \$21.9 million over the life of the loan. The City continues to monitor sites regularly for appropriate safety measures, engage with contractors, local jurisdictions, and other agencies to identify workforce labor and potential supply chain issues throughout the region.

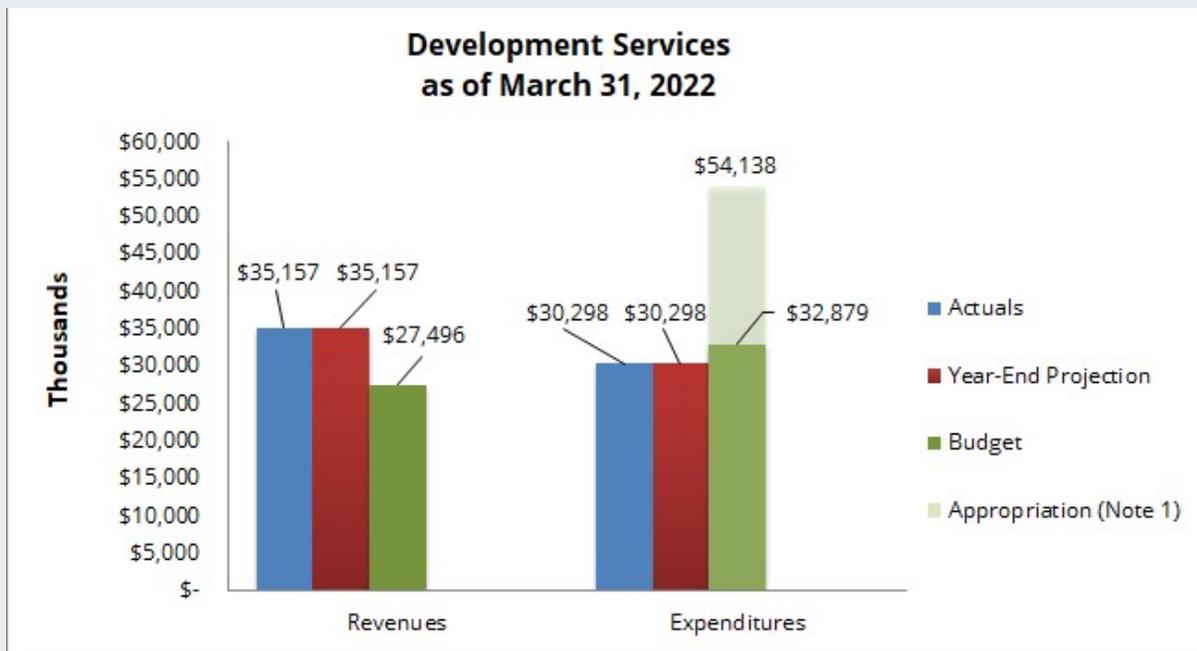
## Expenditures

It is anticipated that some CIP projects will experience delays in 2022 mainly due to staffing, and supply chain challenges. General CIP expenditures are projected to be \$137.5 million as of year-end, or 43.9 percent of the available CIP expenditure budget.

## DEVELOPMENT SERVICES PERFORMANCE



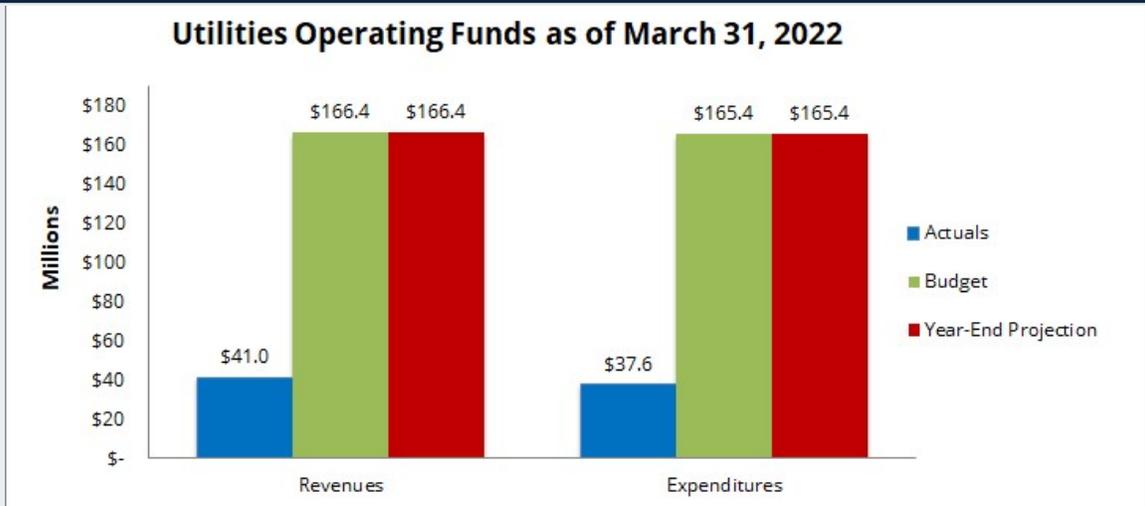
**Park Row—201 Bellevue Way NE**



*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 continues to generate high activity and workload for all development services. Permit activity has exceeded pre-pandemic levels and is anticipated to remain high through 2022. Revenues are projected to be 28 percent over budget, a result of fees for several projects that are in review and in construction in Bellevue. Expenditure savings are for vacant position and maintenance & operations (M&O) savings.

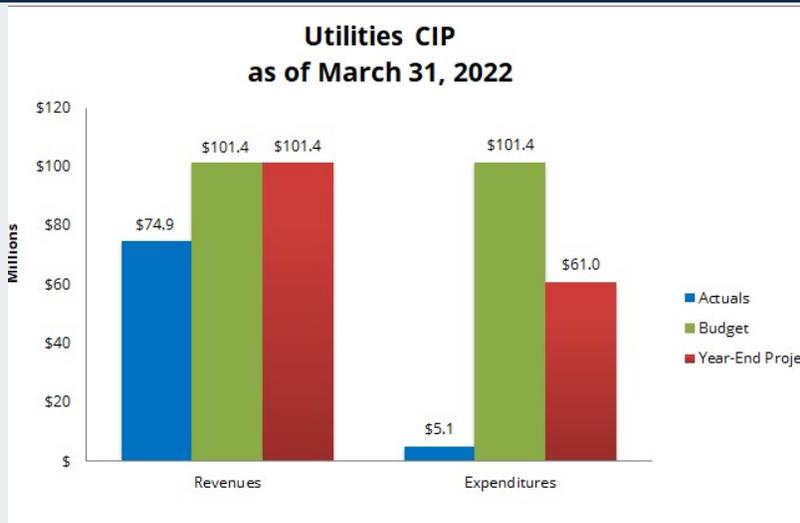
# UTILITIES OPERATING FUNDS



Note 1: The total expenditure appropriation is \$190.4 million, inclusive of reserves.

Utilities' year-to-date revenues are within expectations and sufficient to cover expenses. Revenues and expenditures are forecasted to be at budget by year-end.

# UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$16.0 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.5 million for water facilities for Spring Blvd.

CIP revenues are expected to be at budgeted levels at year end. Actual revenues reflect funding for projects budgeted in prior years. CIP expenditures are expected to be at about 60 percent of budgeted levels at year end. Expenditures reflect delays for several major projects due to ongoing supply chain and materials issues, environmental permitting delays, property acquisition issues, and staff capacity. Key projects impacted include Pike's Peak Reservoir and Advanced Metering Infrastructure (AMI). The majority of unspent 2022 budgeted funds will carryforward for projects into 2023.

## City of Bellevue Budget Monitoring Report

January 1 to March 31, 2022