



City of Bellevue

MEMORANDUM

Phone: 425-452-7863
Date: November 21, 2022
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2022 Third Quarter Budget Monitoring Report

Attached is the 2022 Third Quarter Budget Monitoring Report for the period ending September 30, 2022. High national inflation, supply chain disruptions, and geopolitical instability all pose challenges to the City. 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 4.6 percent or \$10.8 million above budget in 2022. This is primarily driven by the timing of a receivable due in 2021 which was paid in spring 2022, and right-of-way lease revenues directly related to the construction market. Conversely, the expenditures are conservatively projected to be 1.9 percent or \$4.4 million above budget in 2022, yet within overall legal appropriation limit of \$269 million. The impact to expenditures is primarily due to rising inflation levels and one time costs associated with COVID/emergency response and winter weather. The Budget Office is watching closely and, as with past history, anticipate additional savings prior to year end which will mitigate the expenditure impact.
- The net impact to the General Fund reserve is projected to be 23.8 percent at year-end 2022, or \$6.1 million above 2021. At the March 7 Budget Workshop, the forecast reviewed included the assumption that 2022 would be at 24 percent. The City maintained reserves above the Council reserve policy in 2021 of 15 percent and is on course to do the same in 2022.

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 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 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 Mid-Bi Budget, to explain any variances, and to convey an economic outlook from a national to a local scope.

The City will continue to take fiscally responsible actions to actively manage the long-term fiscal sustainability of the city in the face of persistent inflation and tightening monetary policy. This monitoring report reflects the impacts to the city as of September 2022.

U.S. Economy

In the third quarter of 2022 the national GDP grew 2.6 percent after modest decreases in the first two quarters of the year (Bureau of Economic Analysis). The trade deficit narrowed, and government outlays increased. The gain in consumer spending reflected an ongoing shift to services spending over goods. A sharp pullback in housing was part of a broader decline in private investment.

Energy components of inflation, in particular gasoline, have been decreasing steadily over the summer but remain high year-over-year. With OPEC cutting production and the European Union implementing additional sanctions in the beginning of 2023, energy prices are likely to rise once more soon. The Core Consumer Price Index (CPI), which includes all items less energy and food, was at 6.6 percent annually in September 2022. Large contributors to the increase in the index were shelter, vehicles, and medical care (BLS).

The persistence of inflation has solidified the Federal Reserve's aggressive strategy of rate increases. The Federal Open Market Committee raised rates by 75 basis points for a third consecutive meeting in September 2022, and signaled that rates will continue to increase into 2023 (Federal Reserve). Federal Reserve Chair Jerome Powell cautioned that defeating the persistent high inflation in the

Performance at a Glance

Pg. 3	General Fund Revenue Projection vs Expenditure Projection	+
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%

United States would require a slowdown of the economy. The aggressive raising of the Federal Reserve's benchmark interest rate has already begun to impact existing home sales in August 2022 which were down 19.9 percent annually, reflecting the escalating mortgage rates (National Association of Realtors). The value of the U.S. dollar against a collective basket of currencies has risen to become the strongest it's been in two decades, largely due to the Fed's battle against inflation. As rates continue to rise, the strength of the U.S. dollar will continue to gain.

The economy still faces much uncertainty from a variety of different directions: the FED increasing interest rates, ongoing supply chain issues, the risk of new variants continues as the pandemic lingers; and inflation remains a concern. The geopolitical conflict in Ukraine has escalated, increasing the likelihood of an intensified or prolonged conflict.

Regional Economy

The Seattle-area consumer price inflation surpassed the national average, rising 9.0 percent annually in August 2022 in Seattle compared to 8.2 percent in the U.S. City Average index (FRED). Similarly, the U.S. City Average annual inflation of shelter is 6.3 percent while the same metric for Seattle has increased by 8.5 percent. Supply of shelter is still tight compared to the demand, and home prices in Washington were up 4.3 percent in August compared to August 2021. However, the number of homes sold in the state of Washington by August 2022 was only 10,315 - down 23.6 percent year-over-year, and bidding wars are no longer as common (Redfin). The real estate industry is beginning to be affected on a local level by the actions of the FED on a national level.

In the Seattle region, the labor market is relaxing moderately, with total non-farm employment growing at 4.8 percent annually in August 2022. The sector with the largest year-on-year increases in employment was the leisure and hospitality industry which saw 10.3 percent growth in August 2022 year-over-year. The Information industry employment increased by 9.8 percent, construction employment increased by 6.7 percent and manufacturing employment increased by 6.5 percent. The number of job openings per unemployed person decreased slightly, from 2 in March through July 2022 to 1.6 in August 2022 (BLS).

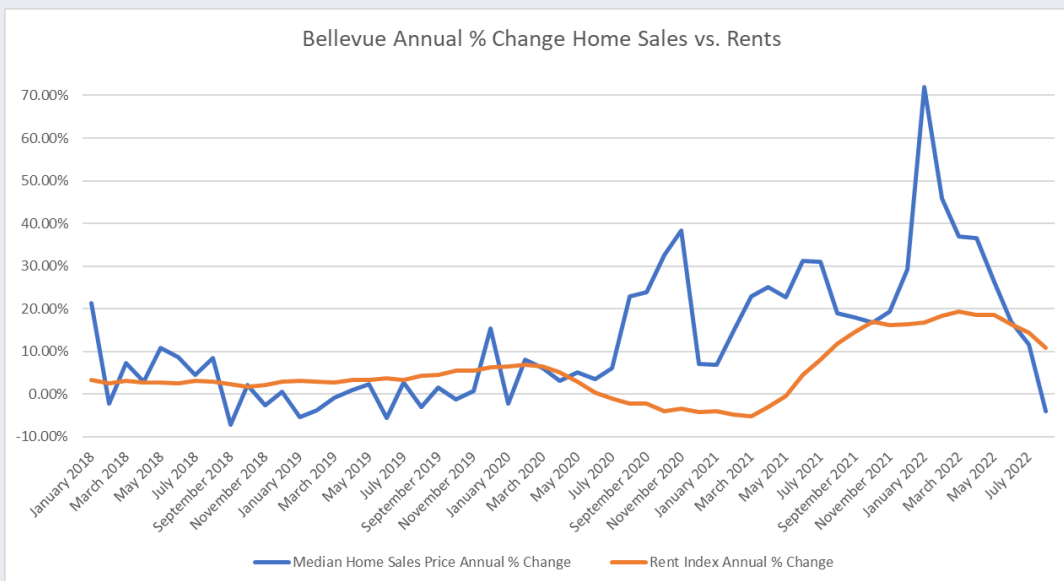
The summer of 2022 saw the demand of the tourism industry in Seattle at times matching or exceeding pre-pandemic levels for the first time. Traveling attractions such as baseball games and concerts were among drivers of historically strong demand at Seattle hotels. During August Seattle's hotel occupancy rate was at times the second highest in the country (Puget Sound Business Journal).

Bellevue Economy

In August 2022, the economic impact of an overnight visitor in Bellevue increased by almost 30 percent annually and short term rental occupancy reached 90 percent in both July and August (Visit Bellevue). In early September the St. Jude Rock 'n' Roll half marathon event in Bellevue generated \$4.8 million in direct spending by the 10,500 participants in the event, 6,000 of whom were from outside of the local region.

The current overall vacancy rates for the entire eastside commercial real estate market are at 8.4 percent, a steady rate in line with the 8.5 percent vacancy overall in 2021. However, tenants are taking a cautious approach until their company needs for space become more apparent. There will likely be a flight to quality as tenants maximize amenities, so buildings with perks such as excellent location will not be as negatively impacted (Broderick Group).

Paralleling the state's slowdown in residential construction, the residential real estate market in Bellevue is responding quickly to the rising interest rates implemented by the Fed. In August 2022 the median sale price for all home types in Bellevue decreased by 4.5 percent year-over-year. The number of homes sold in August 2022 decreased by 44.2 percent annually, and the median number of days on the market increased from 6 days in August 2021 to 18 days in 2022 (Redfin). This is not reflected in rent prices, with the median rental price for all bedrooms and all property types in Bellevue increasing by 9.4 percent annually in September 2022 (Zillow).

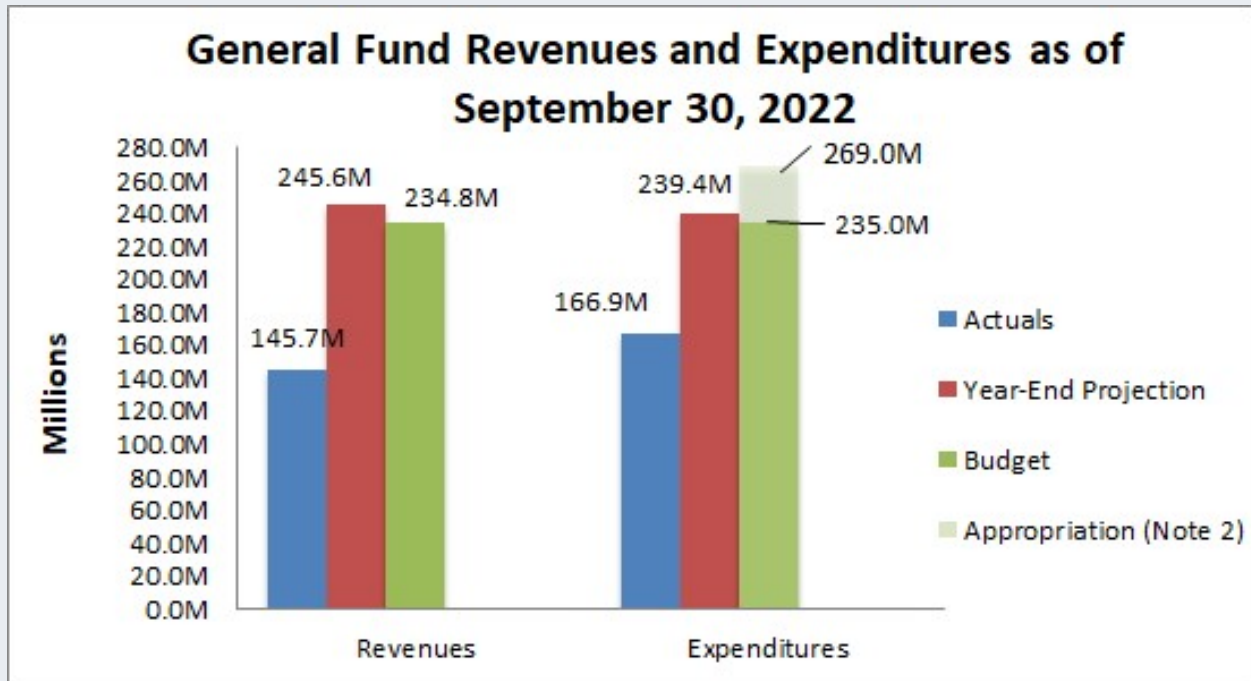


Source: Redfin

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2022

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, 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 4.6 percent or \$10 million 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.

There are many uncertainties persisting in the economy such as inflation and tightening monetary policy and are dependent on global events such as the Ukraine war and supply chain issues. The impacts of the hybrid workforce creates uncertainty on the demand for business district activities and office space.

Expenditures

Expenditures are conservatively projected to be 1.9 percent or \$4 million above budget in 2022, yet within total appropriation of \$269 million in 2022. This is primarily because the General Fund has seen increased costs for goods and services due to rising inflation levels and supply chain disruptions.

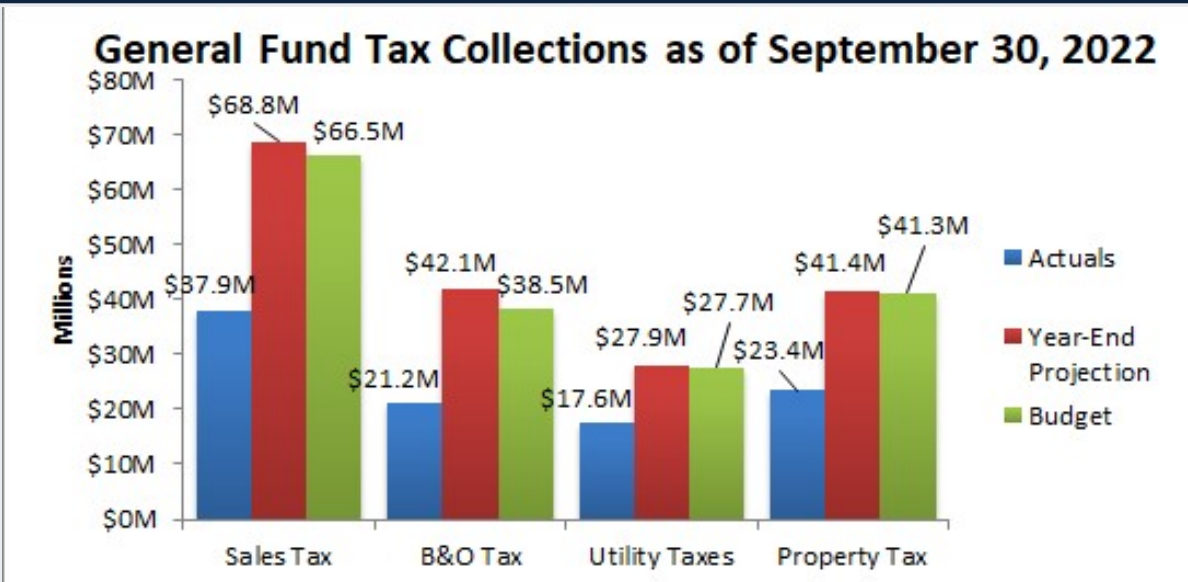
This is primarily because the General Fund has seen increased costs for goods and services due to rising inflation levels and one time costs associated with COVID/emergency response and winter weather. This is slightly offset by department maintenance and operating (M&O) savings from reduced capacity in City facilities compared to pre-pandemic levels, as well as department personnel savings from vacancies throughout the City.

The City is continually monitoring all factors 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 23.8 percent by the end of 2022, which aligns with the forecast present to Council at the March 7 Budget Workshop. 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 September and the 2022 amended budget.

Tax Revenues

Uncertainty continues within the economy as inflation and the tightening of the monetary policy in response to inflation both persist. 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 \$3 million above budget. The economy continues with high inflation and high levels of construction and development activity in the city.

Business and Occupation Tax

B&O tax collection is projected to be \$3 million above budget, due to high inflation, construction activity, and the timing of a large receivable in 2022 which was due in 2021.

Utility Tax

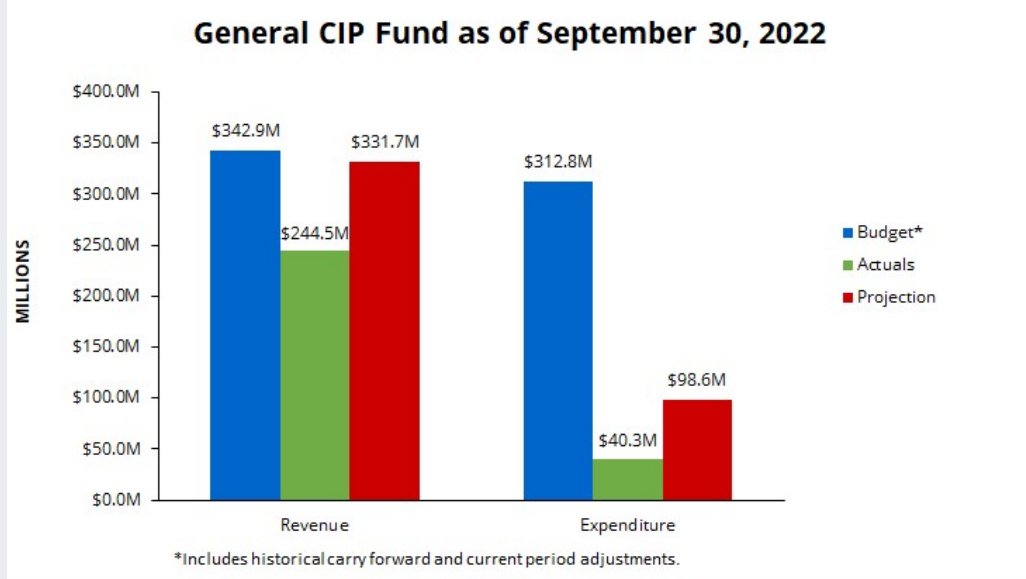
Utility tax collections are projected to be \$180 thousand over budget. This is largely due to the increase in gas prices as a result of geopolitical instability, as well as increased electric utility taxes. Increased utility tax revenues are estimated to be partially offset by lower cell phone and television cable tax collections. Water utility taxes are lower from cooler than expected summer weather decreasing water consumption.

Property Tax

Property tax revenue collection is projected to be 0.2 percent above budget in 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 originally executed in 2017, and re-financed in 2021.

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 slightly higher than anticipated in 2022 at approximately \$22.8 million in revenue collected by year-end. As a reference REET in 2021 was over \$30 million, noting that even though 2022 is coming in slightly stronger than budget, the city is seeing an overall decline in REET as the housing market slows.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue secured a refinance for the TIFIA loan from the original 2.86 percent down to 1.86 percent as of December 2021. This saved the City over \$20 million over the life of the loan. The City of Bellevue received two TIFIA loan distributions through the first half of 2022, and has drawn \$25.9 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.

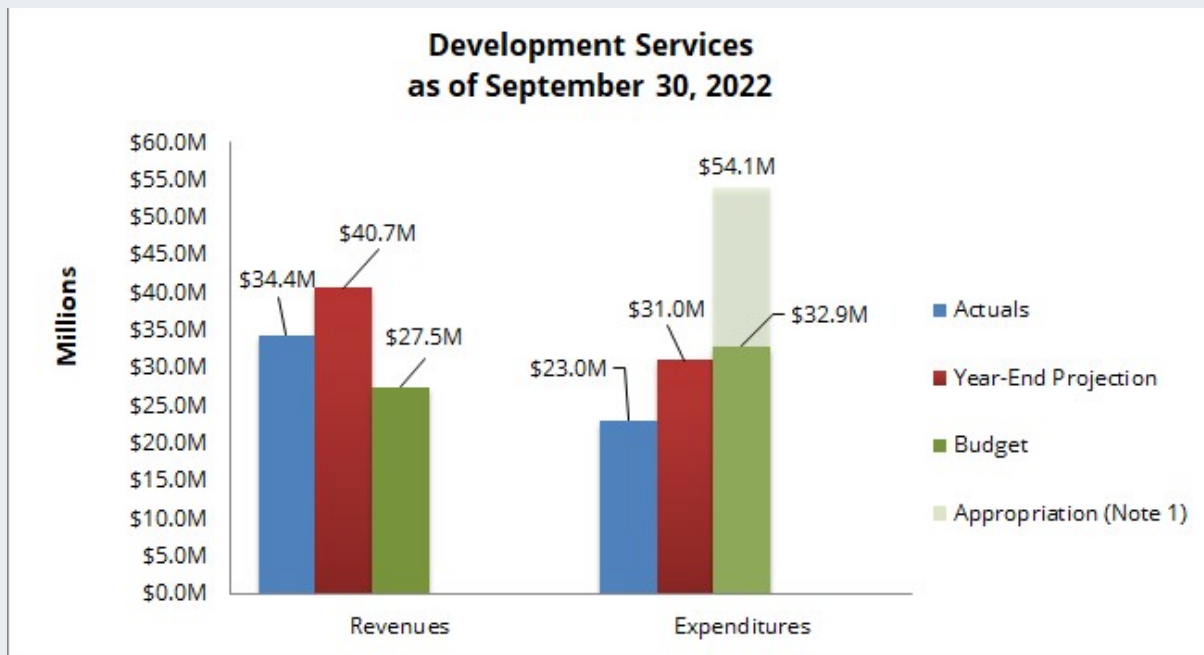
Expenditures

It is anticipated that some CIP projects will experience delays in 2022 mainly due to staff capacity and supply chain challenges. General CIP expenditures are projected to be \$98.6 million as of year-end, or 31.5 percent of the available CIP expenditure budget.

DEVELOPMENT SERVICES PERFORMANCE



400 108th



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 the remainder of the year. Revenues are projected to be 48 percent over budget, a result of fees for several large valuation projects that are in review and in construction in Bellevue. Expenditure savings are for vacant position and M&O savings.

UTILITIES OPERATING FUNDS

Utilities Operating Funds as of September 30, 2022



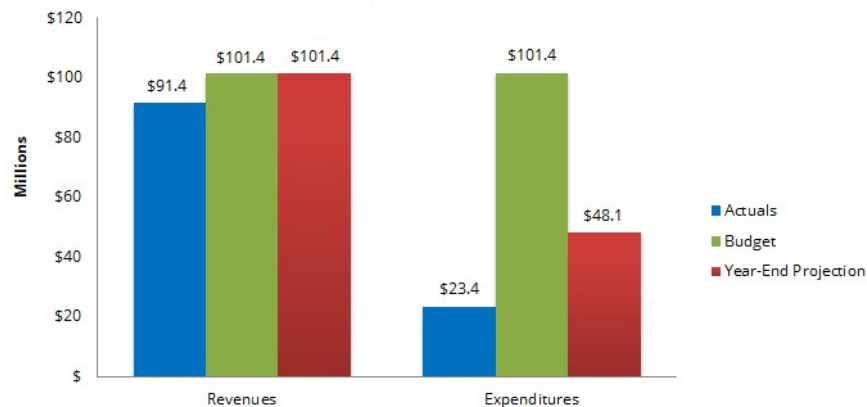
Note 1: The legal appropriation includes budgeted expenditures and fund balance (reserves)

Utility year-to-date revenues exceed expectations primarily due to greater than anticipated water and sewer service revenues. This is largely due to higher commercial usage from continued improvement in economic activity. As a result, year-end revenues are forecasted to exceed budget.

Tax expenditures are expected to be higher than budget as a result of higher revenues. Total Utility year-to-date expenditures are below expectations because of vacancy savings. Progress on filling vacant positions has been made; some vacancy savings are still expected in the fourth quarter of the year. As a result, year-end expenditures are forecasted to be below budget.

UTILITIES CIP

**Utilities CIP
as of September 30, 2022**



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$18.7 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 47 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 Factoria Blvd. Conveyance Improvements, O&M Maintenance Yard, 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 September 30, 2022