



City of Bellevue

MEMORANDUM

Date: April 17, 2023
To: Mayor Lynne Robinson and City Council Members
From: Laurie Leland, Interim Director, Finance & Asset Management
Subject: 2022 Year End Budget Monitoring Report

Attached is the 2022 Year End Budget Monitoring Report for the period ending December 31, 2022. High national inflation, supply chain disruptions, and changes to federal monetary policy all posed challenges to the City. We will continue to address these impacts as they arise. This report presents the General Fund, General CIP Fund, Development Services Fund, and Utilities Operating & CIP Funds.

Notable items:

- *General Fund revenue* collections were 6.0 percent or \$14 million above budget in 2022. This was primarily driven by strong construction activity and associated right-of-way leases, the timing of receivables, and a better-than-expected economic recovery.
- *General Fund expenditures* were 2.5 percent or \$5.8 million above budget in 2022, yet within the overall legal appropriation limit of \$261 million. The impact to expenditures was primarily due to increased costs of goods impacted by higher levels of inflation and one-time costs such as two major winter weather events and the one-time costs related to the payment of settlements. The City is continually monitoring all factors and taking appropriate action as needed to ensure fiscal sustainability.
- *General Fund reserve balance* as a percentage of General Fund revenues closed the year at 24.2 percent, in line with the forecast reviewed at the March 7, 2022 Budget Workshop which assumed 24 percent. This was primarily due to right-of-way leases and business & occupation tax collections. The City maintained reserves above the 15 percent Council reserve policy.

Please feel free to contact me at 425-452-4366 with any questions you may have.

Sincerely,

Laurie Leland, Interim Director
Finance & Asset Management

Attachment
2022 Year End Budget Monitoring Report

Cc: Brad Miyake, City Manager
Leadership Team



City of Bellevue Budget Monitoring Report

For the period January 1 through December 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 Adopted 2021-2022 Budget, to explain any variances, and to convey an economic outlook from national and local perspectives.

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 federal monetary policy. This monitoring report reflects the impacts to the City as of the end of 2022.

In the fourth quarter of 2022, the national Gross Domestic Product (GDP) grew 2.7 percent after a revised third quarter increase of 3.2 percent and modest decreases in the first two quarters of the year (Bureau of Economic Analysis). The third quarter real GDP was higher than previous estimates due to upward revisions in consumer spending, nonresidential fixed investment, and state and local spending. The fourth quarter grew 2.7 percent due to an increase in consumer spending, in particular services such as healthcare, housing, and utilities. The national core Consumer Price Index (CPI), which includes all items less energy and food, was at 5.7 percent annually in December 2022. Large contributors to the increase in the index were transportation services, shelter, and new vehicles. There was a decrease in used cars and trucks of 8.8 percent (BLS).

The persistence of inflation has solidified the Federal Reserves' aggressive strategy of rate increases. In their December meeting, the Federal Open Market Committee raised rates by half a percentage point to 4.4 percent, which brings the benchmark interest rate to the highest level in 15 years. Officials also indicated that rates will be kept higher in the near future, with no reductions until 2024.

Performance at a Glance

Pg. 3	General Fund Revenue Projection vs. Expenditure Projection	+
Pg. 4	General Fund Revenue Performance as Compared to Budget	+
Pg. 6	General CIP Revenue Actual vs. Expenditure Actual	+
Pg. 7	Development Services Revenue Actual vs. Expenditure Actual	+
Pg. 8	Utilities Operating Funds Revenue Actual vs. Expenditure Actual	+
Pg. 9	Utilities CIP Revenue Actual vs. Expenditure Actual	+

Legend:

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

The Federal Reserve would need to see a consistent decline in inflation before it would be pertinent to lower interest rates once more. In December, nonfarm payrolls increased by 223,000 and the unemployment rate edged down to 3.5 percent (BLS). Total retail sales in 2022 were up 8.1 percent compared to 2021 (Census). This indicates the economic environment is still inflationary despite the Federal Reserve increasing interest rates.

The economy still faces much uncertainty from a variety of different directions: the Federal Reserve increasing interest rates, ongoing supply chain issues, the risk of new COVID variants as the pandemic lingers, and inflation remains a concern. The prolonged geopolitical conflict in Ukraine has continued, and there is a risk of escalation impacting the energy markets.



City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

Regional Economy

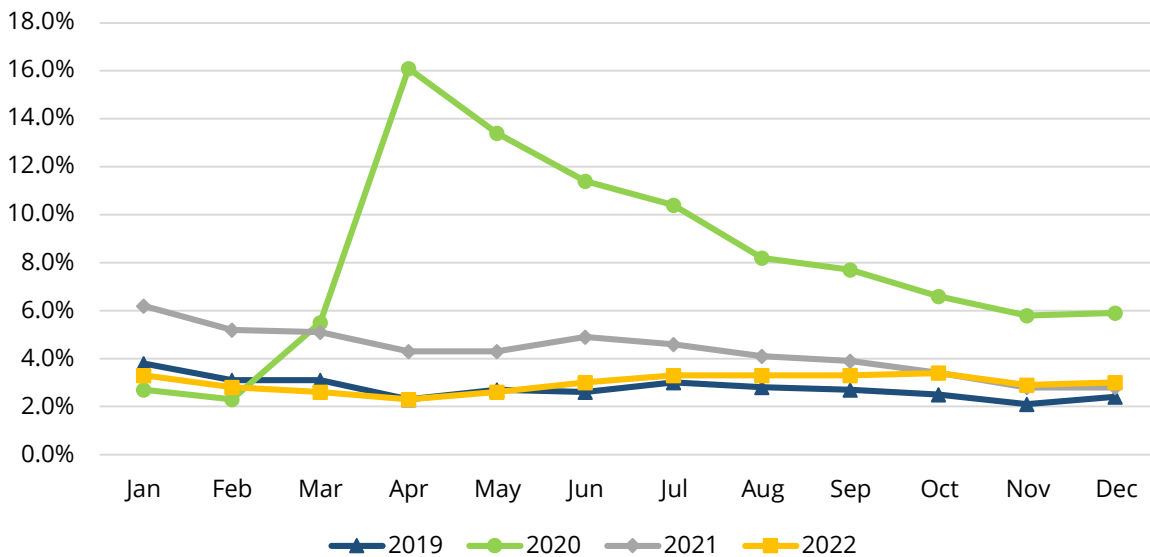
The Seattle area consumer price inflation for urban wage earners rose 7.89 percent in 2022 compared to December 2021. This is higher than the national average of 5.8 percent (BLS). In the Seattle area the largest increases were seen in the food and beverage category, which increased 11.4 percent, the transportation category which increased 10.1 percent, and the housing category which increased 8.7 percent.

Seattle area home prices were effectively flat compared to December 2021 pricing. This came after home prices were increasing in the double digits in spring of 2022. In December 2022, the number of homes sold in Seattle decreased by 47.1 percent and the median number of days on the market increased by 18 percent compared to December 2021 (Redfin).

In the Seattle region, the labor market is relaxing moderately, with total non-farm employment growing at 3.4 percent in December 2022. The sector with the largest year-over-year growth was leisure and hospitality which increased by 9.9 percent. Professional and business services increased by 6.3 percent in December 2022 compared to the same time period in December 2021.

The unemployment rate increased slightly to 3.0 percent in December 2022 compared to 2021 which ended at 2.8 percent (BLS). However, with the Federal Reserve combating inflation by raising interest rates, companies are rethinking their growth strategies. Some companies in the Puget Sound region have begun reducing headcounts such as Redfin, Zillow, Microsoft, Amazon, Twitter, and Meta (Puget Sound Business Journal).

Unemployment Rate in Seattle-Bellevue-Everett



Source: Bureau of Labor Statistics



City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

Bellevue Economy

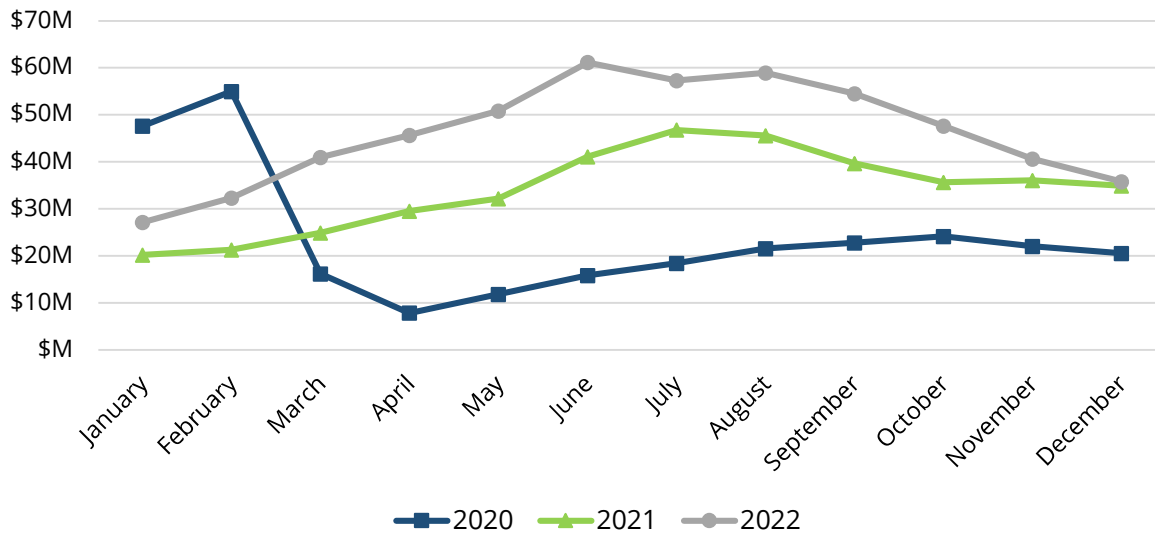
The broad economic trends seen in the national and regional arenas are also playing out in Bellevue. As the Federal Reserve attempts to reign in inflation through interest rate increases, the local housing market is responding. The tourism industry was one of the hardest hit during the pandemic, but is continuing to recover and Bellevue has plans to support its growth.

Median sale prices for all home types in Bellevue decreased by 12.4 percent in December 2022 compared to December 2021. The number of homes sold in Bellevue decreased by 33.3 percent compared to December 2021 (Redfin). This is in part due to interest rates increasing as the Federal Reserve combats inflation. This easing of price pressures has also reached the rental markets. The average rental price for a one-bedroom in Bellevue has gone down 9.17 percent in December 2022 compared to December 2021. However, rents in Bellevue are still 11 percent higher than a similar one-bedroom in Seattle (Zillow).

The tourism industry is continuing to recover from the pandemic. Overnight visitors in Bellevue increased 36 percent in 2022 compared to 2021 (Visit Bellevue). Hotel occupancy was 59.77 percent for 2022, compared to 44.08 percent in 2021. The average occupancy of short-term rentals was 74 percent in 2022, compared to 62 percent in 2021 (Visit Bellevue).

In December 2022, the City Council was presented with and voted to move forward on a Tourism Promotion Area (TPA) with the City of Redmond. To fund the joint TPA efforts there will be a \$2.50 per room night collection from hoteliers in Bellevue and Redmond, with money being spent in the jurisdiction where it is collected. TPA funds can only be spent on tourism promotion efforts and is expected to generate \$3.5 million in its first full year of existence (Bellevue Council Roundup).

Visitor Spending in Bellevue



Source: Visit Bellevue

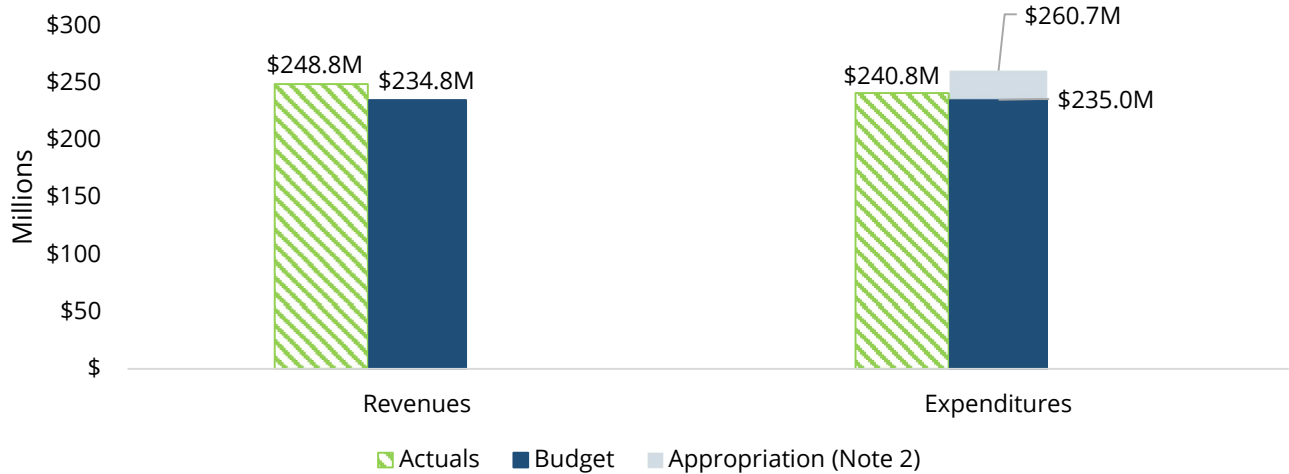


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

General Fund Performance

General Fund Revenues and Expenditures as of December 31, 2022



NOTE 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through December 31, 2022, amended budget, and budget appropriations (includes fund balance).

NOTE 2: The City's legal appropriation is greater than budgeted expenditures due to the inclusion of reserves in appropriation.

Revenue

General Fund revenue collections were 6.0 percent or \$14 million above budget in 2022. The increase was due to strong construction activity and associated right-of-way leases, higher than projected business and occupation (B&O) tax revenue due to a better-than-expected economic recovery, and the timing of a large receivable that was due in 2021 but received in 2022.

There are still several uncertainties persisting in the economy such as federal monetary policy, changes in the labor market, higher than usual inflation, and the continuation of supply chain issues. Additionally, businesses and the demand for commercial office space continues to adjust and adapt to changes related to the hybrid/remote work environment.

Expenditures

Expenditures landed 2.5 percent or \$5.8 million above budget in 2022, yet within total 2022 appropriation of \$261 million.

This was primarily due to increased costs of goods impacted by higher inflation levels and one-time costs associated with two major winter weather events. This was 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 position vacancies throughout the City.

The City is continually monitoring all factors and taking appropriate action as needed to ensure fiscal sustainability.

Change in Fund Balance

The General Fund reserve as a percentage of General Fund revenues came in at 24.2 percent, which aligns with the forecast presented to Council at the March 7, 2022, Budget Workshop. This also complies with the 15 percent Council Reserve policy.

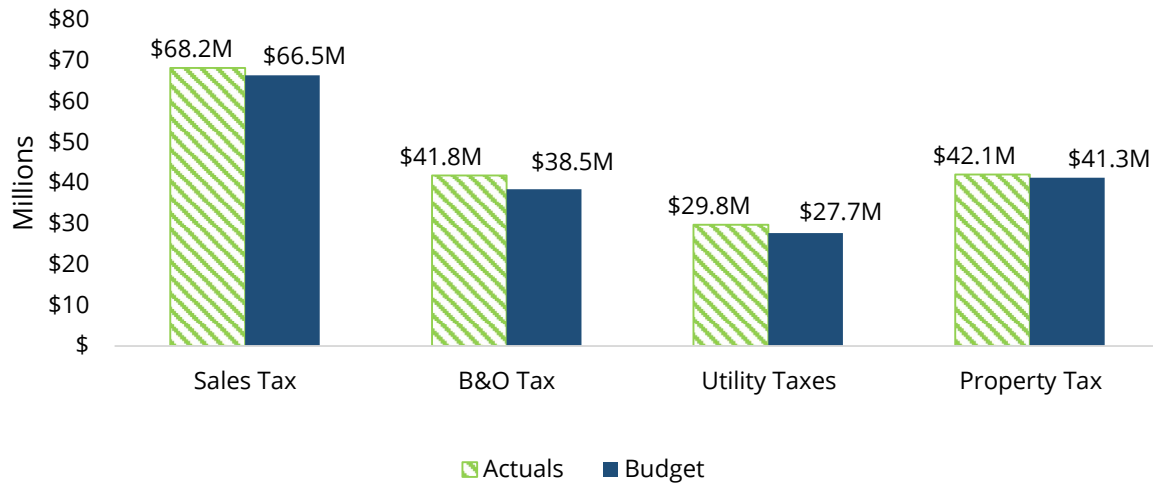


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

General Fund Performance

General Fund Tax Collections as of December 31, 2022



NOTE: The above graph illustrates the difference between year-to-date collections through December 31, 2022, and the 2022 Amended Budget.

Tax Revenues

Uncertainty within the economy continued as inflation and the tightening of federal monetary policy persisted. However, tax revenue collections were higher than budgeted due to a better-than-expected economic recovery, high level of construction, and higher inflation. There is still uncertainty within the economy due to federal monetary policy and the demand for business district activities and office space. The City's Budget Office will continue to monitor ongoing impacts to revenue collection.

Sales Tax

The City of Bellevue collected \$1.7 million or 2.6 percent above budget. This was driven by continued high inflation, elevated levels of construction, and increased activity in the city.

Business & Occupation (B&O) Tax

B&O tax collection closed out the year \$3.3 million above budget, due to high inflation, construction activity, and the timing of a large receivable that was due in 2021 but received in 2022.

Utility Tax

Utility tax collections were \$2.1 million or 7.6 percent above budget. This was largely due to an accounting adjustment that resulted in an additional month's revenues accruing to 2022 leading to 13 months of revenues at year end instead of 12. In 2023 this will be reflected in 11 months of revenues for some utility lines.

Property Tax

Property tax revenue collections were \$800 thousand or 2 percent above the 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 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.

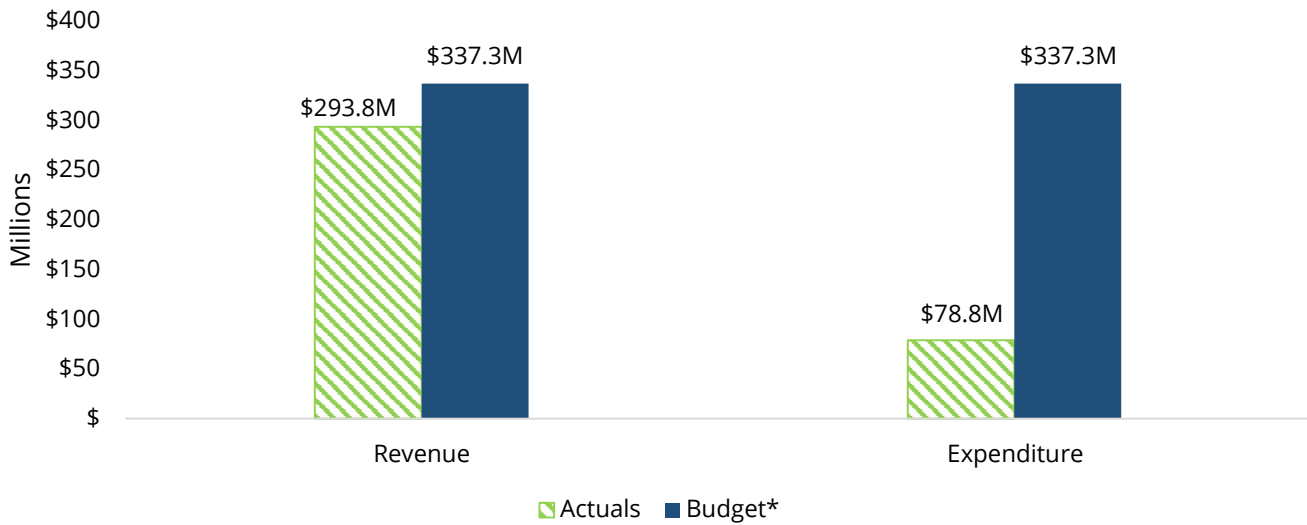


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

General CIP Fund Performance

General CIP Fund Revenues & Expenditures as of December 31, 2022



NOTE 1: Under-collection of revenue is driven by lower levels of spending and savings in projects that receive grant funding.

*NOTE 2: Includes historical carry forward and current period adjustments.

Revenue

Major Capital Investment Program (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 refinanced in 2021.

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

Real Estate Excise Tax (REET), a historically volatile revenue source, closed the year slightly higher than budgeted at approximately \$21.8 million. This was \$4.3 million or 25 percent above the budget. As a reference, REET in 2021 was \$39.2 million, noting that even though 2022 came in slightly stronger than budget, the City is seeing an overall 44 percent year-over-year decline in REET collection as the housing market slows.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue received four TIFIA loan distributions through 2022 and has drawn \$29.1 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. 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.

Expenditures

Several CIP projects experienced delays in 2022 due to staff capacity, raw material delays, and supply chain challenges. General CIP expenditures landed at \$78.8 million or 23 percent of available CIP expenditure budget. An acceleration in CIP project delivery is anticipated as the identified barriers diminish.



City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

Development Services Fund Performance



200 112th Avenue NE

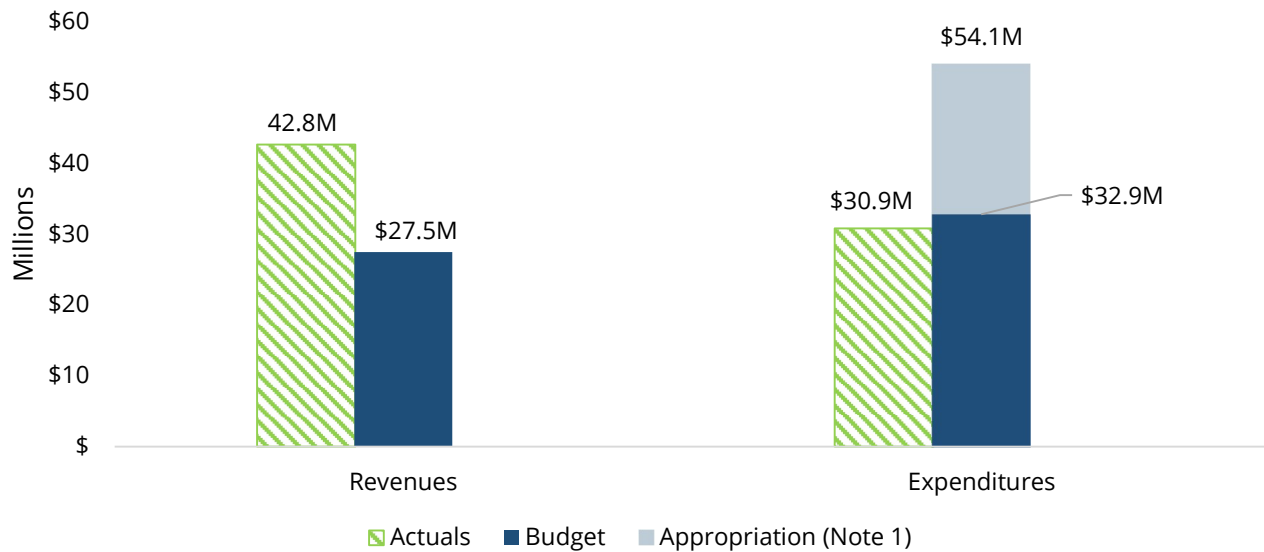


NE 8th 10666 NE 8th Street



100 & Main Residential

Development Services Revenues & Expenditures as of December 31, 2022



NOTE 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas appropriation includes budgeted expenditures and fund balance (reserves).

Development continues to generate high activity and workload for all development services. Permit activity exceeded pre-pandemic levels and is also reflected in the revenue activity. Revenues are 55 percent over budget, a result of fees for several large valuation projects that are in review and in construction in Bellevue.

Expenditure savings are due to vacant positions and M&O savings.

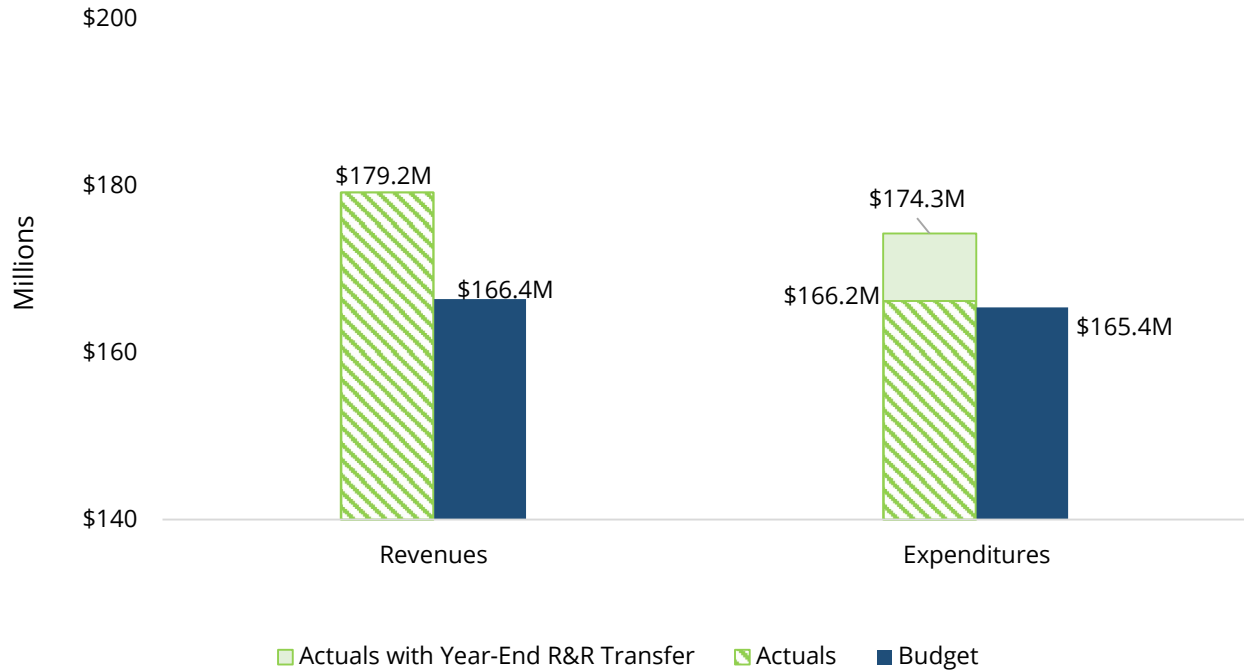


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

Utilities Operating Fund Performance

Utilities Operating Fund Revenues & Expenditures as of December 31, 2022



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

Operating revenues exceeded the budget by \$12.8 million, primarily due to higher than anticipated water and sewer service revenues. This was largely driven by higher commercial usage from better than forecasted economic activity.

Operating expenditures exceeded the budget by \$0.8 million, primarily due to higher taxes because of higher water and sewer service revenues. These higher taxes were largely offset by lower than budgeted personnel expenditures because of vacant positions.

Consistent with Utilities financial policies, operating reserves above fund target levels are transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs. As a result of the positive net financial performance, Utilities was able to transfer \$8.1 million to the R&R accounts in 2022.

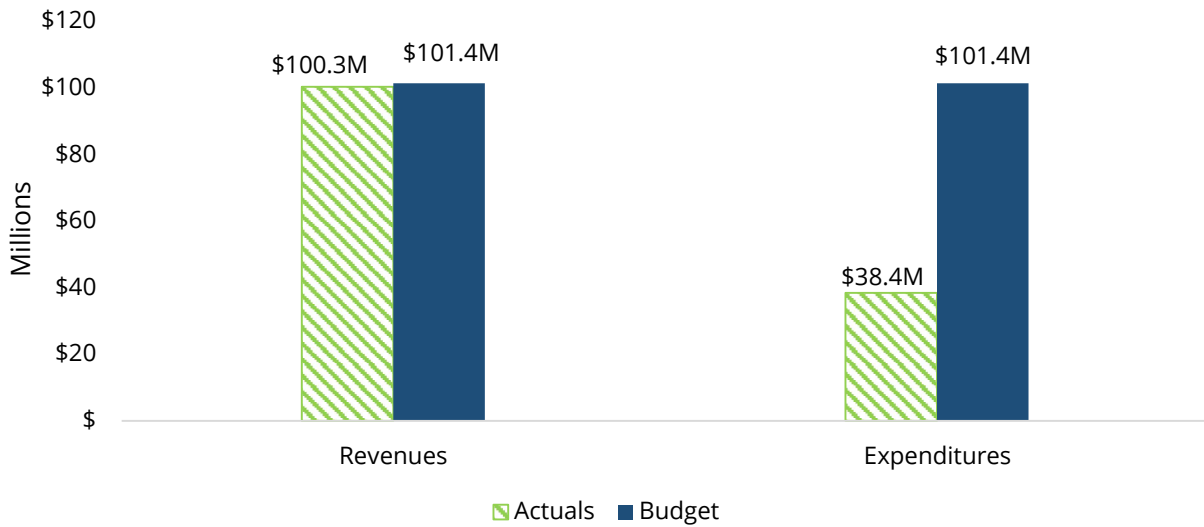


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2022

Utilities CIP Fund Performance

Utilities CIP Fund Revenues & Expenditures as of December 31, 2022



NOTE 1: 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 Boulevard.

CIP Revenues were \$1 million below budget due to the timing of grant reimbursements from the King County Flood Control District. Actual revenues reflect funding for projects budgeted in previous years.

CIP Expenditures ended the year at 38 percent of budgeted levels. CIP expenditures reflect delays for several major projects due to one or more of the following factors: ongoing supply chain and materials availability issues, environmental permitting delays, property acquisition issues, scope adjustments, related schedule delays, and staff capacity/turnover.

Examples of projects impacted by these ongoing factors include:

- Factoria Blvd Conveyance Improvements
- Operations & Maintenance Yard Project
- Flood Control Program (Valley and 21st)
- Advanced Metering Infrastructure (AMI)

Expenditures were anticipated to come in under which resulted in this being reprogrammed in the development of the 2023-2029 CIP.