Executive Summary

- The world is recovering as the COVID-19 pandemic now shifts to its endemic phase. Much economic uncertainty abounds, but persistent labor strength among other indicators suggest the economy is not in a recession.
    - Inflation in 2022 reached levels not seen in 40 years.
        - Supply side drivers include a number of distortions which occurred in the wake of the COVID-19 containment measures shutting down production almost universally, with key shortages developing in industries with high lag times such as semi-conductor chips.
        - Another key supply side driver of inflation is the recent geopolitical crisis in Ukraine, and its ramifications on the energy commodities markets that act as key inputs in every industry.
        - Demand side drivers of the current inflation build up include the fiscal stimulus distributed by governments in order to avoid an economic collapse during the COVID-19 crisis.
    - Labor shortages are occurring across many industries.
    - Despite many challenges and uncertainties during these unprecedented times, the outlook for the national economy remains resilient with both upside and downside risks explored.
- The Puget Sound region developed similar issues locally that are also reflected on the national level.
    - Inflation rose across the board in the Seattle-Tacoma-Bellevue area, the only area experiencing an easing of prices was apparel. The categories that affect local residents the most are the 48 percent increase in the cost of gasoline and the rise in rents for shelter.
    - There is much economic uncertainty so both optimistic and pessimistic scenarios are analyzed in the City's planning for the future. The region's outlook is optimistic as a center of culture and recreation for a robust and often remote workforce, but there are many challenges on the horizon.

Global and National Economy

Over the past two years the novel coronavirus and its variants have up-ended society world-wide as governments scrambled for emergency measures to help the health of their citizens and to mitigate the damage done to their economies. Now in 2022 the mask requirements and sweeping containment measures which kept people isolated in quarantine are generally gone as the pandemic transitions to its endemic phase. Authorities now have an opportunity to plan for a stronger path forward into the next normal for society.

In the first quarter of 2022 real gross domestic product (GDP) decreased at an annual rate of 1.6 percent. This was followed by a 0.6 percent decrease in the second quarter of 2022. These declines were driven by extended lockdowns in China, the interest rate hikes to ease inflation, and the war in Ukraine. While the textbook definition of a recession is two consecutive quarters of negative growth there is considerable evidence, such as persistent strength in the labor market and expanding industrial production, that suggest the economy is not currently in a recession (Source: Bureau of Economic Analysis). Labor income surged over 11 percent annualized rate and remained positive, but modest, once adjusted for inflation (Source: U.S. Department of Treasury). These labor gains accounted for the strong 1.8 percent growth in gross domestic income (GDI). Additionally, industrial production is rising and non-financial corporate profits are high which are not suggestive of a recessionary environment.

There are numerous uncertainties on the horizon: historic high inflation, broad base supply chain issues, waning fiscal support, and interest rates heading higher, among others. Consumer demand was driven up by fiscal stimulus with $3.4 trillion in COVID-19 relief in 2020 and $1.9 trillion from the American Rescue Plan in 2021 (Source: IHS Markit) and as the stimulus recedes there is much uncertainty about the resilience of demand. This section will discuss: inflation and its supply and demand drivers; persistent labor tightness; and the outlook for the national economy.

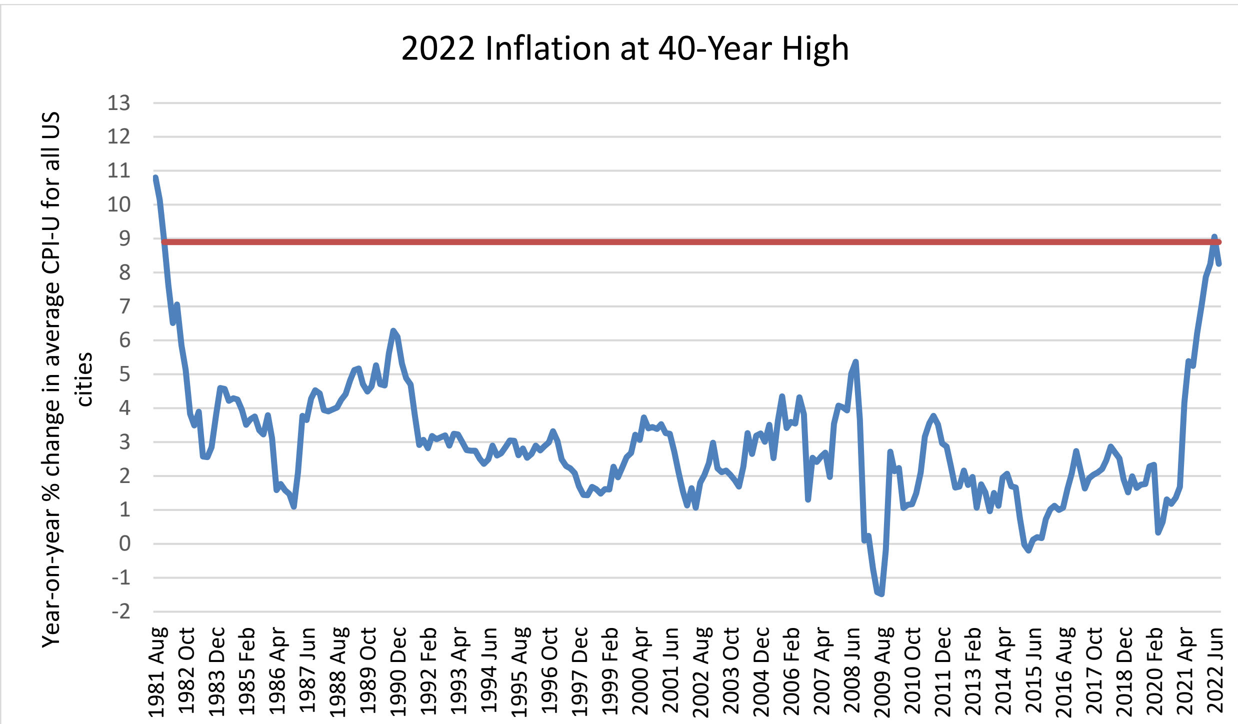
Inflation

During the initial onset of the pandemic in 2020 a decline in inflation occurred as demand receded when the economy shut down. There was a societal shift in demand from services which can be enjoyed outside of the home, to goods as the services sector shut down. The demand-drive price changes included goods consumed at home such as furniture and cookware. This was accompanied by home-goods related shortages such as toilet paper and groceries as consumers pivoted their consumption from in the office and out on the town to isolating in their homes.

In June 2022, the year over year percentage increase in the consumer price index (CPI) reached 9.06 percent, a level not seen in the last 40 years since 1981 as shown in Chart 1 below. It has moderated slightly to 8.26 percent in August 2022. There are numerous arguments as to why inflation is emerging in such a way, with the primary factor driving excessive inflation being the

COVID-19 pandemic and the demand and supply-side distortions that the crisis caused worldwide. In an analysis the Federal Reserve Bank of San Francisco estimated that demand pull factors are responsible for about one-third of the run-up in current inflation levels, while supply factors explain about half of the current inflation levels with the remainder due to ambiguous factors (Source: FRBSF).

Chart 1



Source: BLS, August 2022

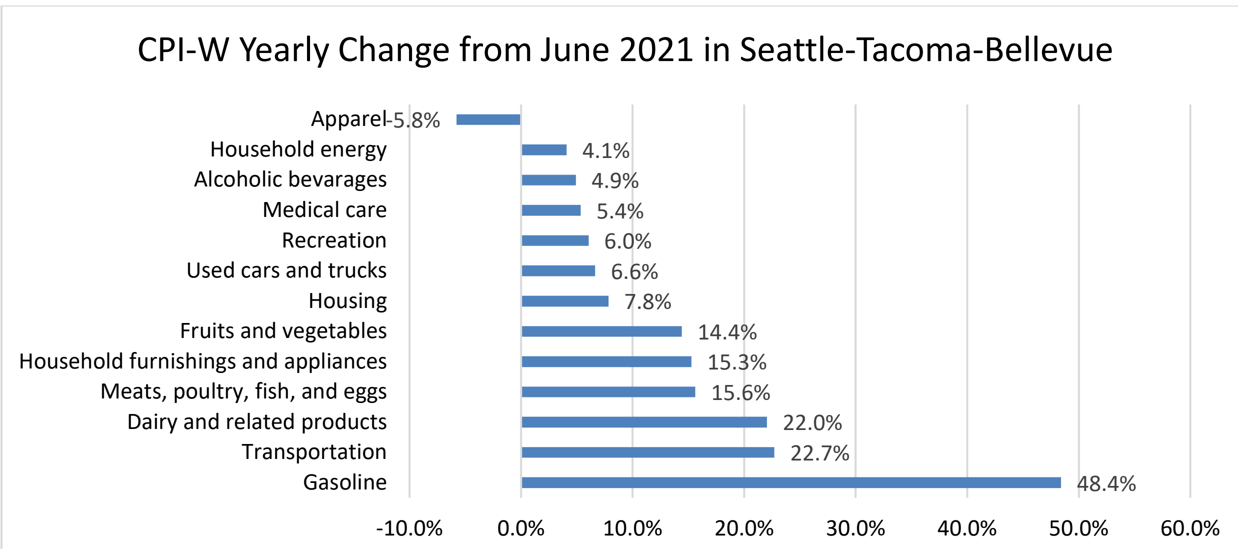
Local Economy

Mirroring the national economy, Washington State and the Puget Sound region also experienced record levels of inflation and labor tightness. This section will explore the regional inflation in various areas as it switched from goods to services, and the local labor shortages manifesting into strikes in the concrete and education industries. Despite these challenges and uncertainties, the regional economy is still optimistic.

Inflation

As shown in Chart 2 below, in the region, gasoline prices have increased by 48.4 percent year over year which feeds into the large increases in many other sectors dependent on gasoline such as transportation, up 22.7 percent, and groceries overall increasing by 13.5 percent. Grocery prices were driven by large increases in dairy, up 22 percent, and meat products, up 15.6 percent. Other categories had more modest increases, and in the apparel industry prices went down reflecting the increased inventory many retailers have now in response to the lingering supply chain issues that created shortages in the recent past. While the pace of inflation does appear to be moderating in response to the FED's interest rate increases, the current level of inflation in areas of groceries and transportation disproportionately affect those already disadvantaged. Price pressures on food and transportation could dampen consumer confidence and eventually lead to behavioral shifts in spending patterns which could affect retail sales tax revenues.

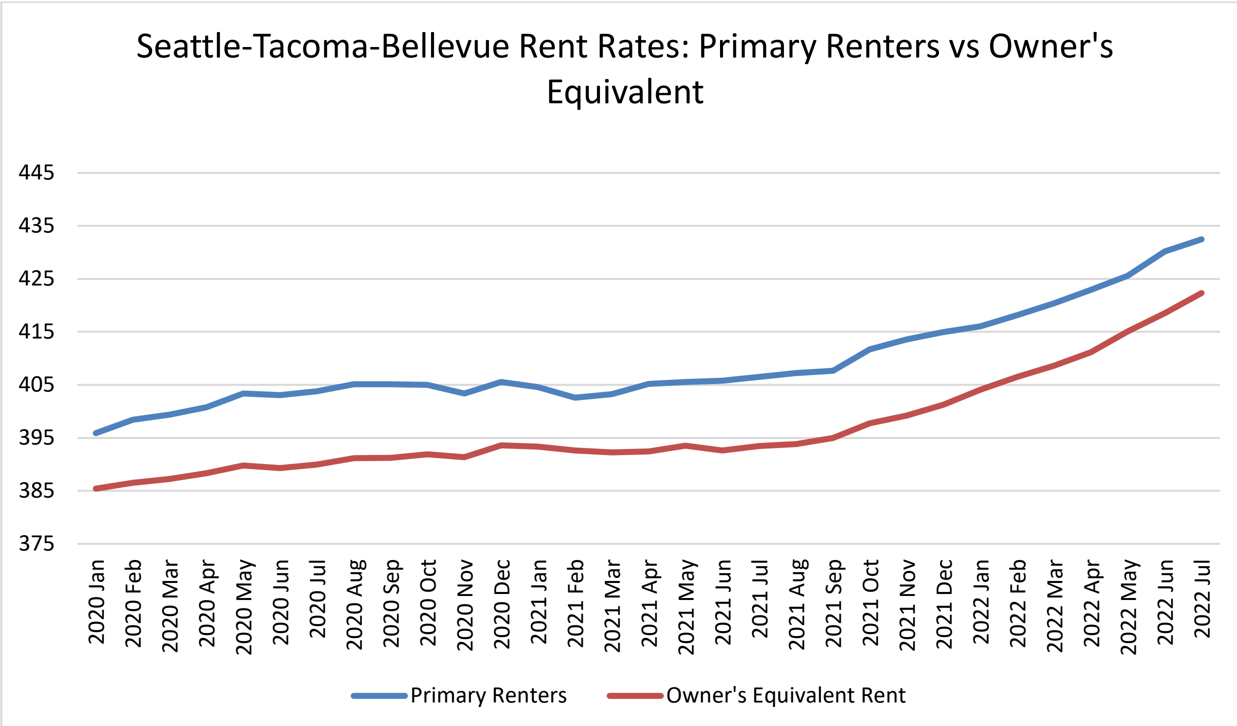
Chart 2



Source: U.S. Bureau of Labor Statistics, July 2022

A pressure point for consumers is the cost of shelter monthly. As the housing market demand increased after the pandemic in 2021, the index for the owner's equivalent of rent increased from 393 in January 2021 to 422 in July 2022. This is shown in Chart 3 below. This figure represents an over 7 percent increase compared to July 2021. The index measuring the direct rent of primary residence, from renters not owners, increased only 6 percent in the same time period (Source: BLS). As the combination of higher mortgage rates and slowing economic growth weigh on the housing market, prices for homes are moderating and this price moderation should be passed along through moderating rents in the future.

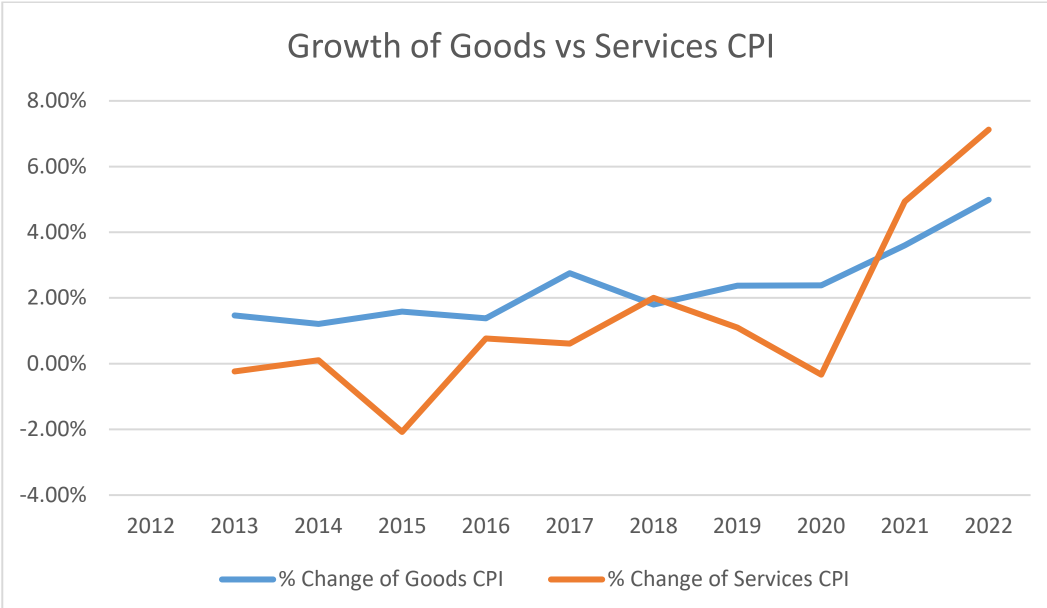
Chart 3



Source: U.S. Bureau of Labor Statistics, July 2022

To disaggregate the inflation of goods from services the categories of CPI-W for Seattle-Tacoma-Bellevue categories were sorted into separate categories. Services consisted of the sub-categories education and communication, medical care, recreation, and transportation. Goods consisted of the sub-categories apparel, housing, food and beverages, and other goods. Separating the consumer price inflation out in this manner illuminates an interesting facet of the current pandemic driven inflation. When the lockdowns first occurred in 2020 the services sector was forced to close for the most part, and when it reopened there were new rules and risks to navigate. In the meantime, the stimulus money helped bridge the gap in the consumers wallets while the economy was paused, and online delivery services brought goods to consumers' homes whenever they demanded. This is one of the components that initially began the buildup in inflation. Then as the economy reopened and the services sector rebounded that sector overtook goods as the leading driver of inflation. The switch from goods-driven inflation to services-driven inflation is shown in Chart 4 below.

Chart 4



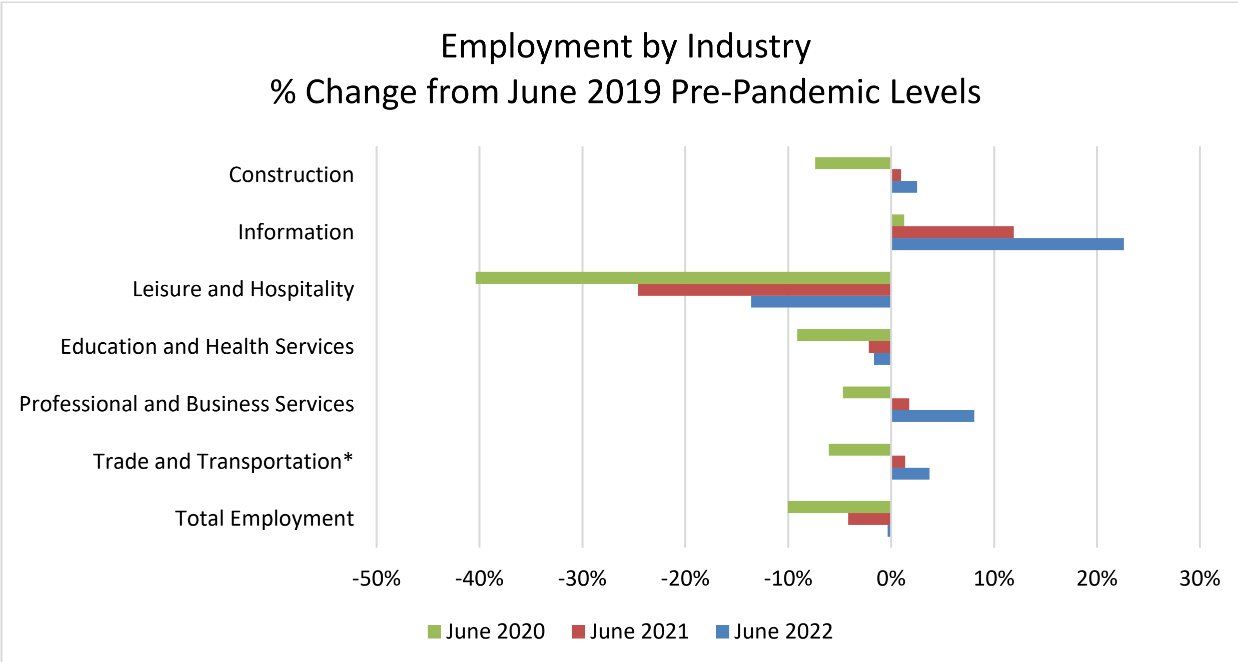
Source: U.S. Bureau of Labor Statistics, July 2022 data; City of Bellevue calculations

Labor

The labor shortage noticed on the national level is amplified on the local level, with the unemployment rate in January 2022 at 4.3 percent and then tightening further until it reached 2.6 percent in April 2022. Since April it has moderated, slowly increasing to 2.8 percent in May 2022 and 3.3 percent in June 2022. While more unemployment is usually seen as a negative force on the economy, in today's unusually tight labor market it would be welcomed to alleviate pressures on labor prices and encourage employee retention.

The chart below shows employment by industry as it has changed in percentage since the pre-pandemic 2019 levels. June 2020 levels show the deep drop in employment in almost every industry, particularly hard hit was leisure and hospitality and education and health services. The only industry which gained employees in June 2020 was the information industry. Now in June 2022 the information sector has gained 23 percent compared to the level of employment in the industry in June 2019. Other industries that have fully recovered to 2019 levels or surpassed them are professional and business services which increased 8 percent since 2019, trade and transportation which increased 4 percent, and construction which increased 3 percent. In June 2022 two industries are still below pre-pandemic levels of employment: education and health care is still down 2 percent and leisure and hospitality is still down 14 percent compared to pre-pandemic levels. However, those two industries are recovering, they are just recovering slower than the others. Leisure and hospitality gained 27 percent in June 2021 and 15 percent in June 2022 in year-on-year growth.

Chart 5



Source: U.S. Bureau of Labor Statistics, July 2022

Record-high construction costs and delays have plagued the development industry nationwide since the onset of the pandemic due in part to labor shortages. Locally these issues manifested with a concrete strike lasting 145 days. Many projects were delayed, including Sound Transit's light rail project into Mercer Island and Bellevue. Construction completion for this project was previously expected in mid-2023 and is now 2024. The costs for construction are expected to increase even further through the end of 2022, with some estimating a 14 percent increase by year end (Source: Puget Sound Business Journal). Despite these challenges, there is still a lot of uncertainty on whether these price increases will result in a slowdown in construction. The industry is closely watching the growth of rents as a factor in estimating market demand. There is much uncertainty in the outlook for the industry.

Local Risks on the Horizon

Overall, there is uncertainty surrounding many aspects of the economy, with the City of Bellevue analyzing optimistic and pessimistic scenarios in the outyears. Here are some areas of risks that also needs to be monitored:

- Growth throughout Bellevue's varied economic hubs:
  - Upside indicators: growth continues at the rate which the City has become accustomed to, most notably in Downtown, BelRed, and the Spring District.
  - Downside indicators: long-impacts of continued hybrid working environments may lead to reduced office space demand and less economic activity with fewer workers spending time in Bellevue.

- Recessionary environments possible on the horizon:
  - Upside indicators: consumer demand indicators soften which leads the FED to moderate interest rate hikes and eventually refrain from implementing further hikes. Lower interest rates will encourage construction and real estate markets in the Bellevue area.
  - Downside indicators: inflation remains strong leading the FED to increase interest rates even more. Additionally, there may be compounding effects from interest rates increasing in a coordinated manner across the globe.

Outlook

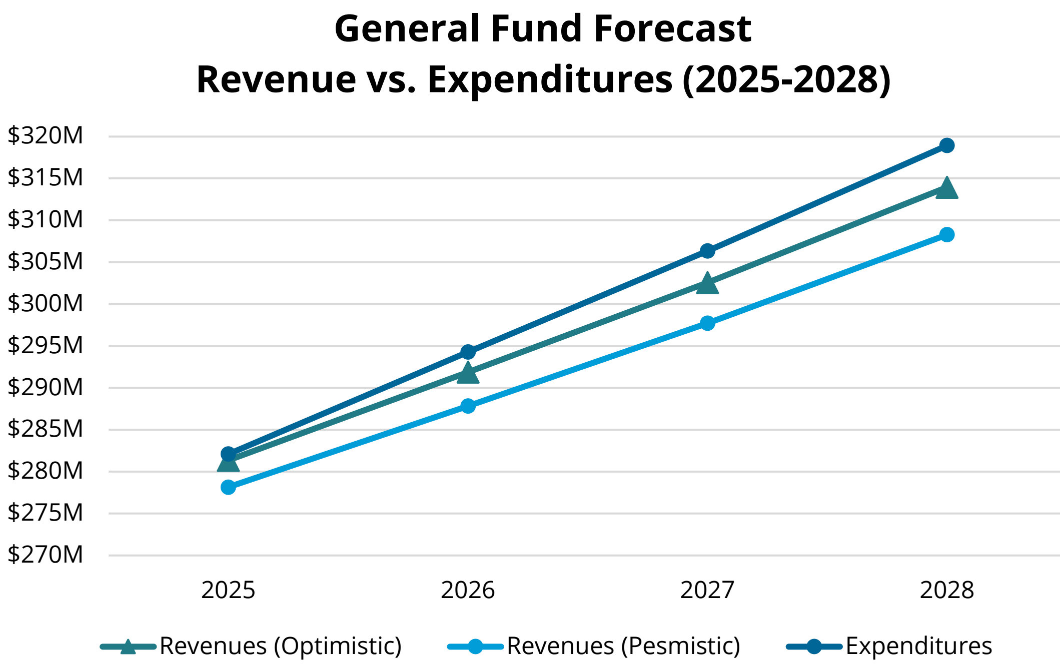
There is much economic uncertainty as the world moves forward from the COVID-19 pandemic. Inflation in 2022 has reached levels not seen in 40 years, caused by many drivers including supply chain disruptions from COVID-19 and geopolitical conflicts and fiscal stimulus distributed to support demand during the COVID-19 containment measures. Inflation has also hammered the Puget Sound region locally. For both the national and local economies the optimistic scenarios have inflation moderating, allowing for a soft landing economically. A pessimistic scenario occurs if inflation continues or increases, requiring further interest rate hikes which raise the likelihood of a recession. For the City of Bellevue specifically, pessimistic scenario also considers long-term impacts of remote work reducing economic activity in the area. The City's optimistic vision considers the region as a center of culture and recreation with a robust workforce that will continue to engage with the community economically even when working remotely.

2023-2028 General Fund Forecast Executive Summary

Executive Summary

- With the help of stimulus money and availability of COVID vaccine, the City's general fund revenue has rebounded back to pre-pandemic level in 2021. However, inflation has increased and remains high as strong demand is combined with ongoing supply issue.
- With the actions proposed in 2023 and 2024, the near-term outlook appears manageable, barring a severe recession. However, the structural imbalance between revenue and expenditure growth will continue in the long term due to a series of influences:
    - Revenue growth not keeping pace with expenditure growth, primarily due to revenue streams being capped by state law,
    - Urbanization and growth of the city will require investing in services to keep pace.
- Prior to COVID-19, the City had implemented several cost containment strategies to allow the City to use fund balance over time to address the out-year fiscal challenge. This 2023-2024 Budget includes modest revenue increases to move the City to a more financially sustainable position as the needs on City services expand.
- Future years' budget discussions will be required as the city learns more about the fiscal impact of growth and inflation, geopolitical uncertainty and policy variability.
- Chart 1 below depicts the General Fund out-year forecast with two potential revenue scenarios to reflect optimistic and pessimistic environments.

Chart 1



Risks

The risks to the General Fund revenue include:

- Inflation has affected prices in the Seattle region with more intensity than nationwide, and there is much uncertainty as to when this will be tempered. If inflationary pressures continue, it will reduce consumer's real spending and increase the City's expenses.
- Worldwide events like Russia-Ukraine war and extreme weather cycles could further disrupt the supply chain and make inflation more persistent.
- As the FED tightens the monetary policy to combat inflation, the risk of a recession grows.
- Although we have navigated through the 3 waves of COVID, virus variants could complicate the outlook.
- Enduring remote and hybrid work impact downtown retail and dining sales, and a long-term impact on office vacancy and new construction.

2023-2028 General Fund Financial Forecast

General Fund Revenue Overview and Revenue Details

The City's General Fund revenue collections totaled $225.6 million in 2021. The City's mix of revenue consists of property tax, sales tax, business and occupation (B&O) tax, utility tax, user fees, state-shared revenue, as well as other smaller revenue sources. These revenue sources fall into essentially five categories: sales tax, B&O tax, property tax, utility tax, and all other revenues. With COVID-19 transitioning from pandemic to endemic, economic growth has resumed with the aid of stimulus money and COVID related restrictions being lifted. However, inflation has increased and remains high as strong demand is combined with ongoing supply chain issues. The General Fund is projected to grow at 7.7 percent in 2023 and 3.5 percent in 2024 as new businesses come to Bellevue and light rail opens.

In years 2025 through 2028, the City's revenue picture becomes less certain and the impact of economic assumptions compounds with each year. For this Adopted Budget, the City is including two out-year forecast scenarios, one optimistic and another more pessimistic. The optimistic scenario assumes continued growth throughout Bellevue's varied economic hubs, most notably Downtown, BelRed and the Spring District. Conversely, the pessimistic scenario, while still assuming growth is more tepid about the long-term impacts of continued hybrid working environments which may lead to reduced office space demand and less economic activity with fewer workers spending time in Bellevue. Bellevue's workforce population and the proximity to other notable employers has served as an incubator for growth, and the pessimistic scenario is more conservative regarding the long-term impacts of changing economic behaviors.

The City has a diverse tax base, but many revenue sources are sensitive to changes in economic conditions. Pre COVID-19, Sales, and B&O taxes had strong growth and has increased their proportionate share due to the faster growth of new marketplace fairness revenue and the combined growth of traditional sales tax and B&O tax base compared to other revenue streams. The proportionate share increase of these two revenues has supported the existing expenditure levels in the City and assisted in building reserves in the past, but also created a greater reliance on these revenue streams.

Sales and Use Tax

Overview

Most components of the sales tax recovered to pre-pandemic levels with some even rising above the pre-pandemic levels boosted by the economic recovery and inflation in 2021. However, the tourism industry's related sectors such as food, drink, and accommodations are still below the pre-pandemic level. The sales tax collections from those sectors are forecasted to recover to pre-pandemic levels in 2023. The construction development projects will grow fast through 2024 when the light rail opens. The sales tax collection is forecasted to grow 7.9 percent in 2023 and 6.3 percent in 2024. For years beyond 2024, sales tax is forecasted to grow by an average of 5.4 percent per year in the optimistic scenario and 4.5 percent per year in the pessimistic scenario as economic and business growth continue.

The table below provides a comparison of the City's sales tax forecast to Seattle, King County, and Washington State. In both optimistic and pessimistic scenarios, Bellevue's forecast is comparable with King County and Washington State. This forecast is based on the best information available at this point in time, and as the forecast extends to the out years, the margin of error increases. A high degree of uncertainty surrounds the impacts of the Fed's tightening monetary policy, high inflation and geopolitical disruptions on the economic activity.

Bellevue Sales Tax Forecast Comparing to Other Jurisdictions

	2023	2024	2025	2026	2027	2028
Bellevue (Optimistic)	7.9%	6.3%	5.3%	5.6%	5.3%	5.5%
Bellevue (Pessimistic)	7.9%	6.3%	4.2%	4.6%	4.4%	4.7%
Seattle	3.5%	2.6%				
King County	4.1%	4.6%	4.2%	4.6%	4.3%	4.9%
State	3.7%	3.5%	3.2%	3.4%	3.6%	

Note: All growth rates include marketplace sales tax.
*Bellevue sales tax rates displayed above are the total citywide sales tax growth rate.
*Seattle sales tax growth rate is from Seattle's Aug 2022 Forecast.
*King County sales tax growth rates are from King County July 2022 Forecast by King County Office of Economic and Financial Analysis.
*Washington State growth rates are from the June 2022 Revenue forecast by the Economic and Revenue Forecast Council.

Background

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Bellevue. The tax is collected from consumers by businesses that in turn remit the tax revenue to the state. The state sends the City its share of this revenue monthly. The City collects a 0.95 percent tax on retail goods and services with 0.1 percent dedicated to affordable housing. Chart 2 shows Bellevue's sales and use tax rate components. Sales tax revenue is the most volatile revenue that the City's General Fund collects. Chart 3 shows the sales tax growth since 2000 and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility. The outbreak of COVID-19 created a sharp and profound negative impact upon the economy and sales tax revenues.

Chart 2

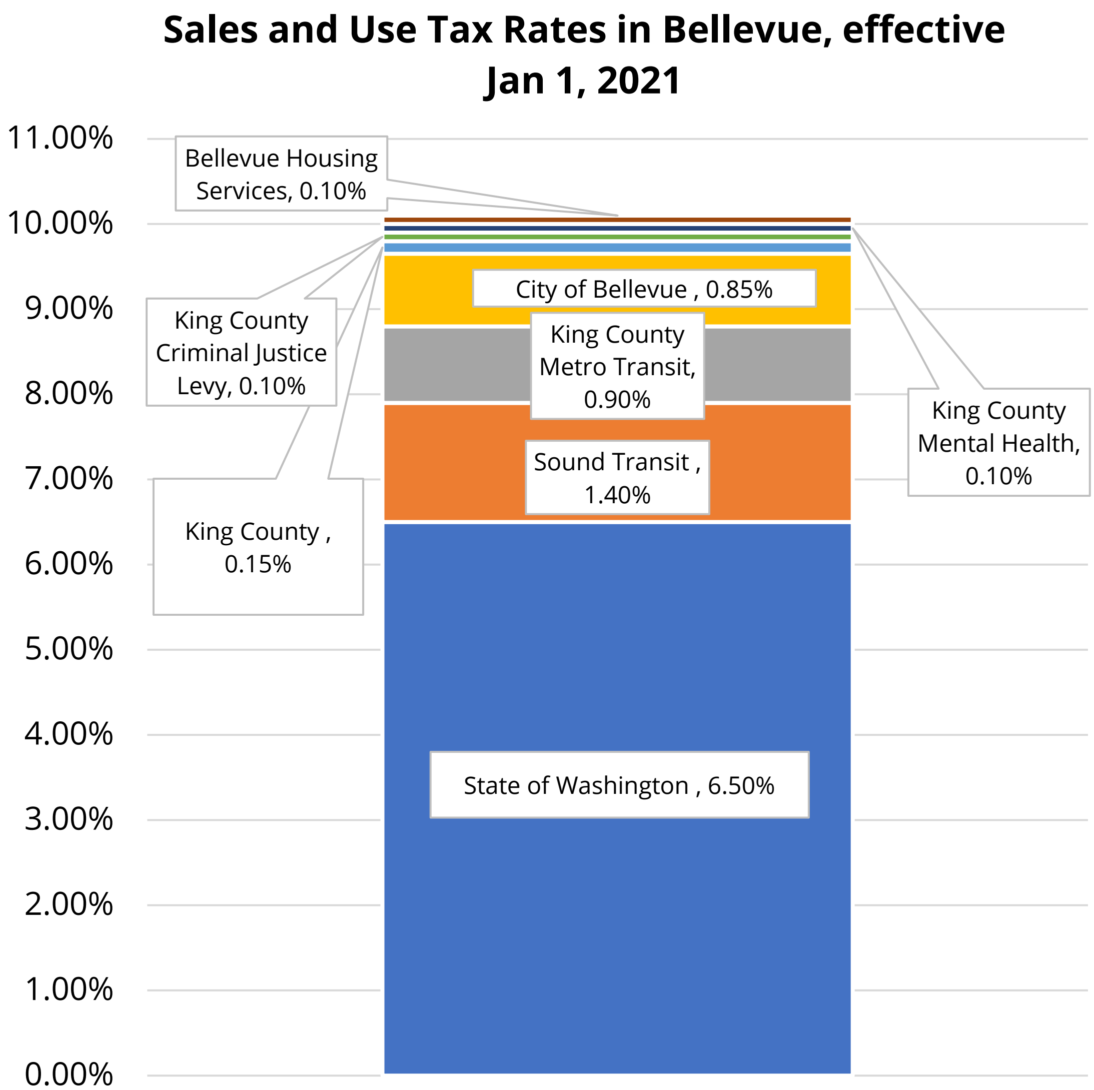
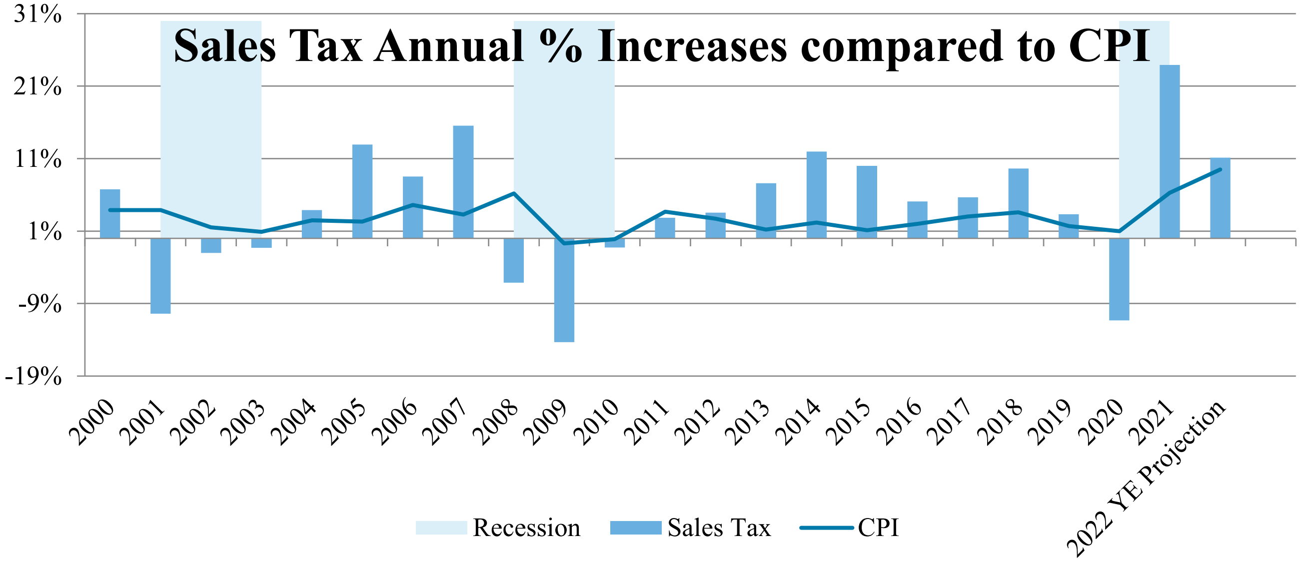

Sales and Use Tax Rates in Bellevue, effective Jan 1, 2021
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Bellevue Housing Services, 0.10%
King County Criminal Justice Levy, 0.10%
King County , 0.15%
City of Bellevue , 0.85%
King County Metro Transit, 0.90%
Sound Transit , 1.40%
King County Mental Health, 0.10%
State of Washington , 6.50%

Chart 3



**One-time Department of Revenue audit refund issued in 2018-2022 was removed from growth rate calculation to show the trend. 2022 YE projection comes from Q2 monitoring.*

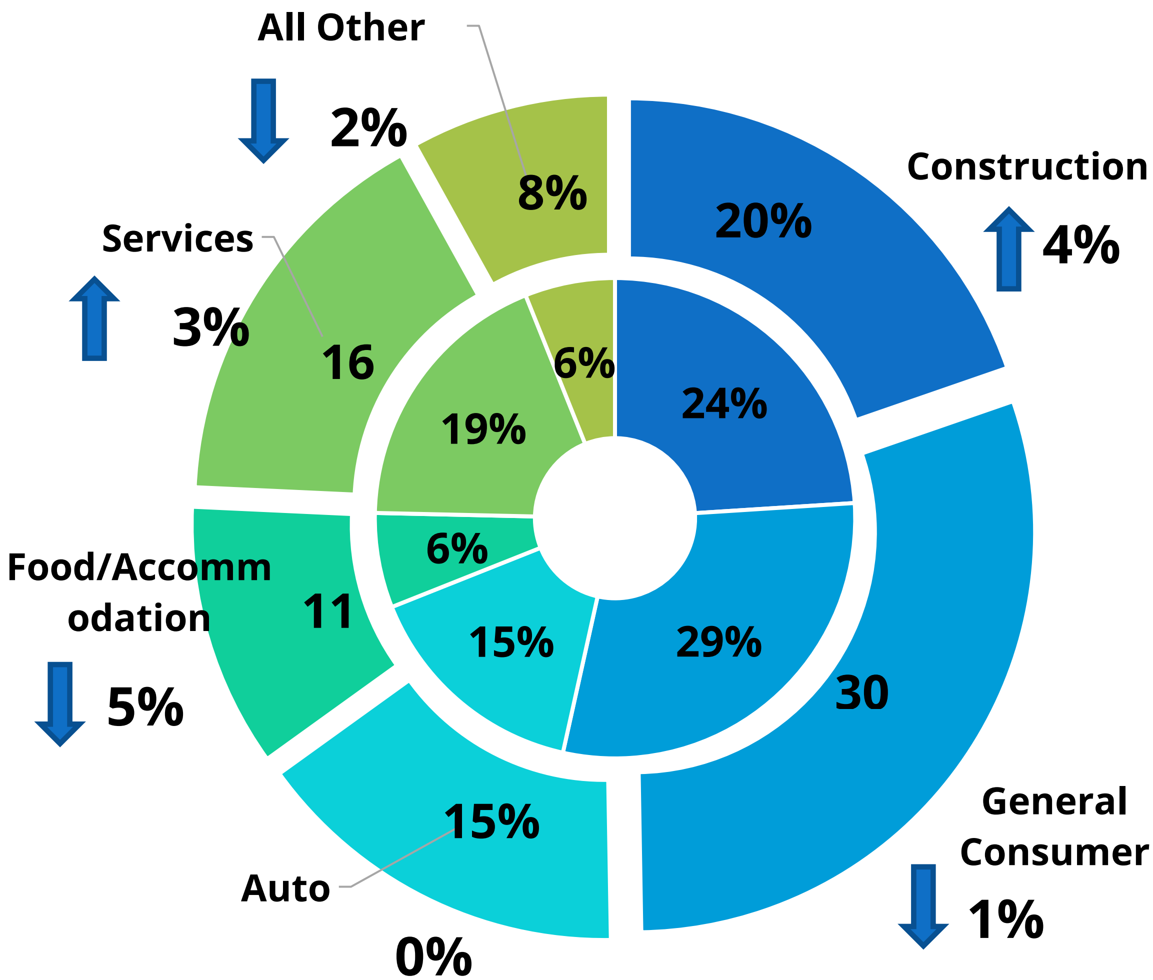
Since the Great Recession, total sales tax growth has recovered at moderate speed due to the significant construction growth and the consistent recovery of food/accommodation. However, retail trade growth was recovering at a much slower speed due to the long recovery process of consumer confidence. This imbalanced growth in different sectors led to sales tax growth relying more and more on construction activities. The share of construction sales tax to total sales tax increased from 10 percent in 2012 to 19 percent in 2019.

Due to the impact of COVID, policy restrictions were imposed on the economy to slow the spread of virus. These measures and associated social distancing requirements resulted in the abrupt closure of the economy, reducing sales tax revenue collections by 11 percent in 2020 compared to pre-pandemic level. The hardest-hit sectors for Bellevue were food/accommodation, auto sales, retail sales, which together comprised over 55 percent of sales tax revenue in 2019. However, both constructions and services including information technology and financial services had little impact from COVID in 2020. Boosted by inflation, total sales tax recovered to be above pre-pandemic level in 2021 as the economy reopened and stimulus money were released. However, food/accommodation sector was still 34 percent below the pre-pandemic level in 2021. Significant office projects are currently planned or under construction in all growth areas of the city. Several large offices and mixed-use developments currently in the plan review phase will move to construction with office development as the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue by 2025. All other sales tax sectors make up the remaining balance.

Chart 4 below shows how the share of each economic sector has changed after COVID-19 pandemic.

Chart 4

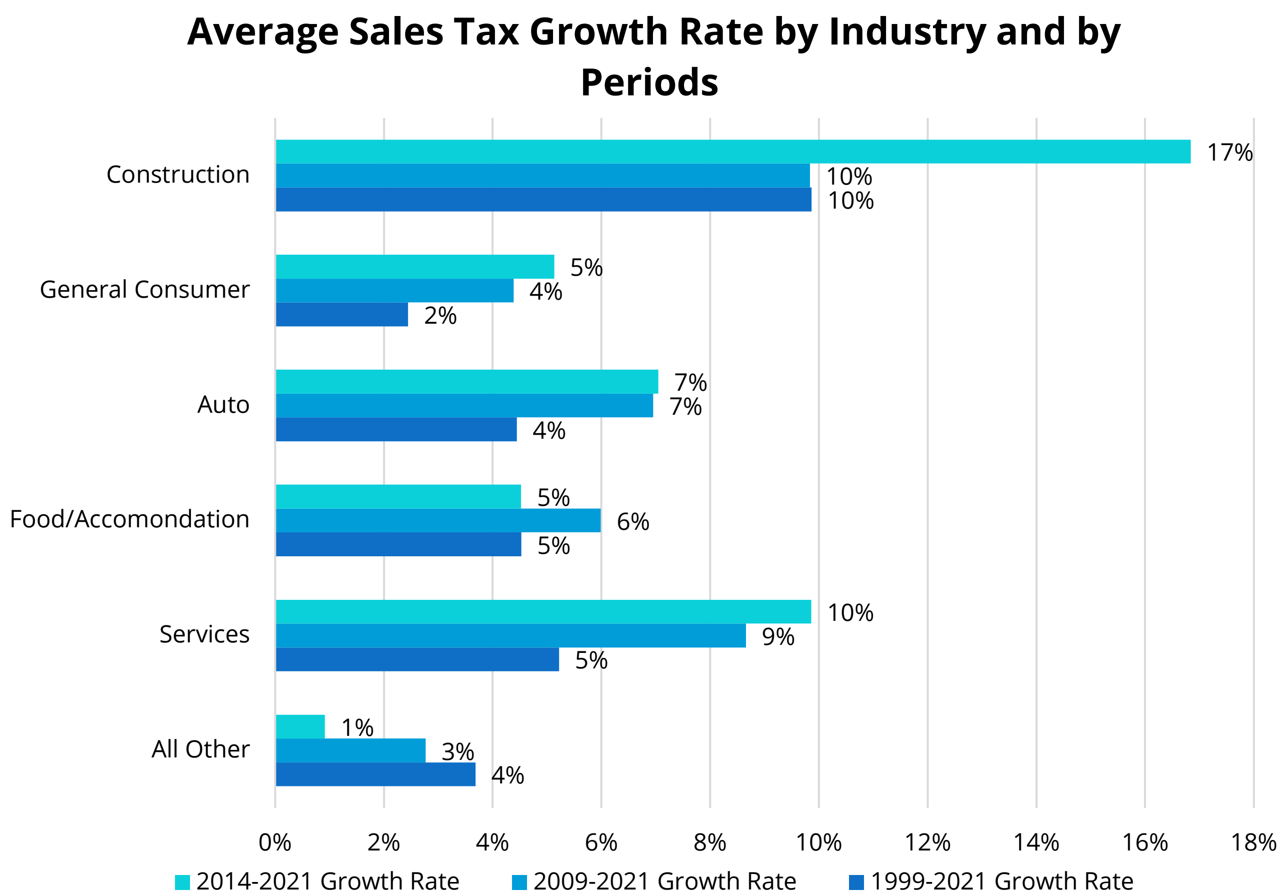
Sales Tax Pie Chart
2021 (Inner Circle) vs. 2006-2019 (Outter Circle)



Construction

Construction activity is highly volatile and is dependent on several factors, such as the real estate market and the overall health of the economy. However, construction is a one-time activity and eventually it will slow as demand diminishes. Chart 5 below shows the volatility of the construction sales tax by comparing the sales tax by category and by different periods. Total construction growth decreased significantly during the recession (up to 31 percent in a year) and then came back up to a higher than pre-recession growth rate as the economy recovered from the recession. In the post-recession recovery period, it has an annual growth rate of 17 percent, a much higher rate than the other sales tax categories. However, by including the great recession in the analysis, the average annual growth rate reduces to 10 percent. Chart 5 below compares the different categories of sales tax and their average annual growth rate in different economic stages, the growth patterns for different sales tax categories can vary a lot. As shown in the sales tax growth rate comparison chart below, the construction sales tax share has gone up and down due to the construction/economic cycles. By the end of 2021, the construction, the second largest component of sales tax, has grown to be 24 percent of the sales tax. The largest components of sales tax - the general consumer (mostly retail sales) category is continuing to decrease its shares due to slower growth.

Chart 5



Bellevue's construction activities tend to move with the region's trend but are somewhat unique due to the fast growth in the BelRed and downtown areas. However, Bellevue's construction is not immune to the macroeconomic impacts which include increasing borrowing costs and rising material and labor costs. As working-from-home and hybrid schedule have become an enduring feature after the pandemic response, other jurisdictions around Bellevue are also watching construction activities very closely.

The 2023-2028 General Fund forecast incorporated the Development Services Department's forecast and assumed the construction activities in the City will continue its high level in the near terms. Significant projects currently planned or under construction are in all growth areas of the City including several offices, mixed-use and multi-family developments. As companies re-evaluate in-office work strategies, office development may slow somewhat. Completion of the Eastlink Light Rail project is anticipated to spur additional long-term commercial and residential Transit Oriented Development near light rails stations (Source: Development Service Department).

Bellevue's construction sales tax is projected to maintain its high growth until 2024 based on the known projects in the pipeline and then grow with the region's construction trend. As a general rule, sales tax is received on major construction projects between 9 months and 18 months post permit issuance.

Retail Sales

Retail sales is a broad category that is comprised of sales tax generated by the sale of both store retailers operating fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers and non-store retailers including electronic shopping and mail-order houses. Personal income, employment rate, consumer spending, and inflation are all highly correlated with retail sales tax revenue.

The retail industry has been undergoing an enormous transformation, especially during the pandemic as it accelerated digital offerings and adapted quickly to new customer needs. Ecommerce levels peaked in the second quarter of 2020 at about 16 percent of retail sales. Digital marketplaces have helped the industry grow during the pandemic, particularly small and medium sized retailers. Since then, levels have dropped to 14 percent in the first quarter of 2022 — higher than pre-pandemic level 11 percent but lower than the highest levels in early 2020 (Source: Fred).

Chart 7

Source: United States Census Bureau

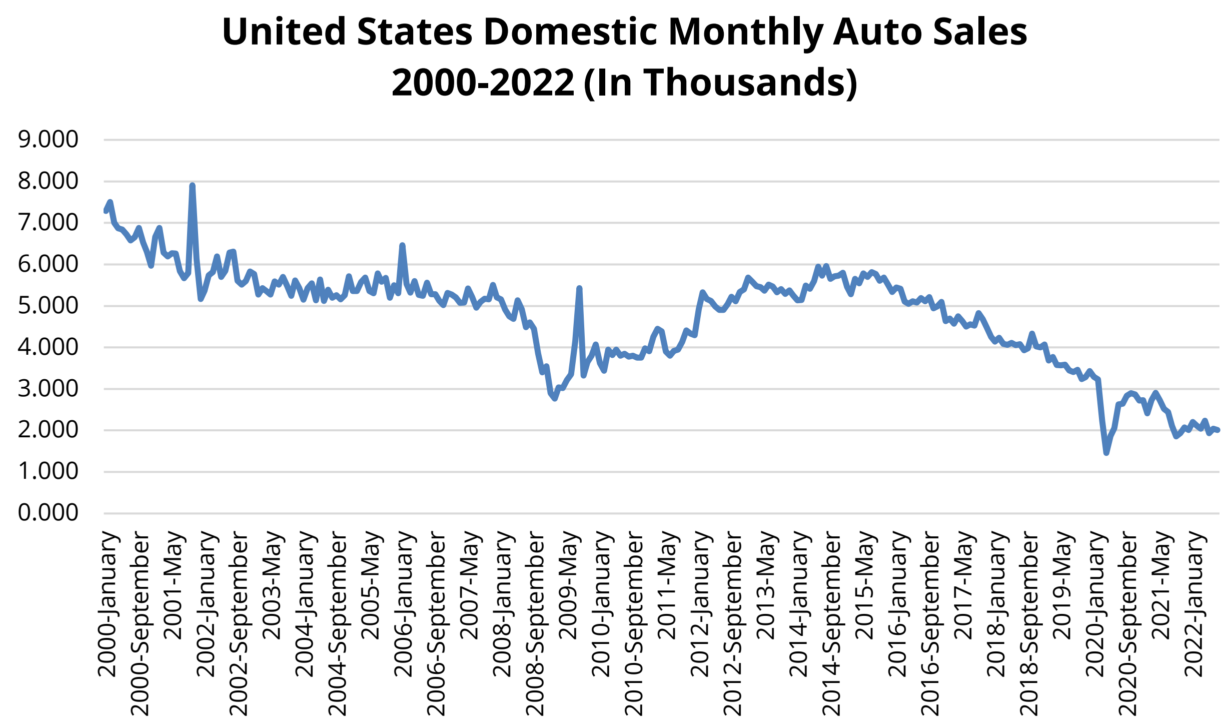
Physical locations remain pivotal, especially now that a significant proportion of ecommerce orders are fulfilled by stores. Increasing retailers meet consumers both online and in-store, creating an integrated experience that blends channels. Retail store counts continue to grow with the industry and the broader economy, despite the growing share of ecommerce. In fact, the role of the store is evolving to support buying across all channels (Source: NRF).

Strong wage growth and healthy job gains are the key support for consumer spending. Solid retail sales in 2022 despite inflation points to a willingness amongst households to run down accumulated savings and increase in personal credit usage to maintain lifestyles consumers are accustomed to (Source: Bloomberg). However, credit card spending grew at 21 percent annual rate in July 2022, compared to 7 percent annual rate in early 2020 before the COVID hit the economy. (Source: FRED). If high inflation persists, it will hurt different income groups disproportionately, especially the low-income consumers. Considering consumers shift back to services from goods, the retail sales tax is forecasted to grow at 4.4% on average from 2023 to 2028.

Auto Sales

Auto sales is the fourth largest component of sales tax, accounting for 15 percent of the total sales taxes. This revenue is highly volatile considering the 18 percent and 10 percent decreases in 2008 and 2009 respectively. Due to the COVID-19 pandemic and containment efforts, automotive domestic sales in the country fell over 58 percent year over year in April 2020. Auto sales started to recover as the economy reopened thanks to pent up demand. The 2021 auto sales tax was collected to be above the pre-pandemic level in 2021 due to historic high inflation. However, the sales volume of vehicles was still below the pre-pandemic level.

Chart 8

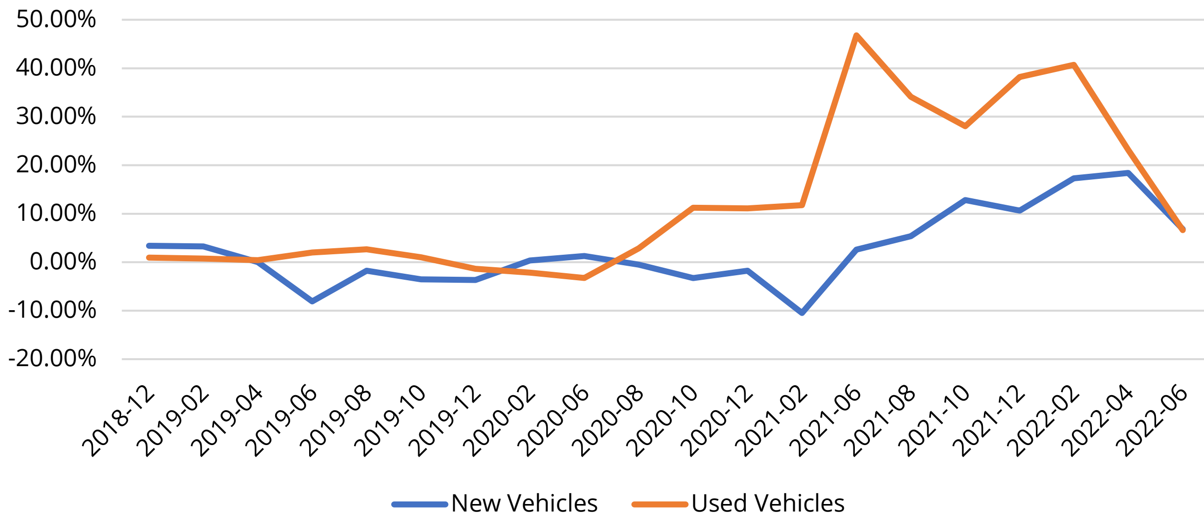


Source: Bureau of Economic Analysis

COVID shutdowns impacted auto production challenging the inventory. The semiconductor chip shortage has been stubbornly persistent. The sales pace is dictated by how many units are delivered to retailers and demand exceeds supply. High transaction prices are the result. New vehicle price indexes for Seattle-Tacoma-Bellevue increased 6.84 percent year over year in June 2022, a moderation after a peak at 18.41 percent year over year increase in April 2022. Even at record high prices, a significant number of vehicles are purchased by consumers before they arrive at the dealership. Production volumes are likely to improve as the chip production and supply chain issues abate. Extra production should be sold quickly due to the pent-up demand. Transaction prices will grow slower due to higher interest rates and improved vehicle availability. Used car prices are historically high as the auto industry continues to work through the on-going new vehicle inventory challenges. The price index for used cars in Seattle-Tacoma-Bellevue moderated to 6.64 percent year over year in June 2022 after it's the peak rate 40.67 in February 2022.

Chart 9

Year-Over-Year Growth Rates for New and Used Vehicles CPI in the Seattle-Tacoma-Bellevue Region



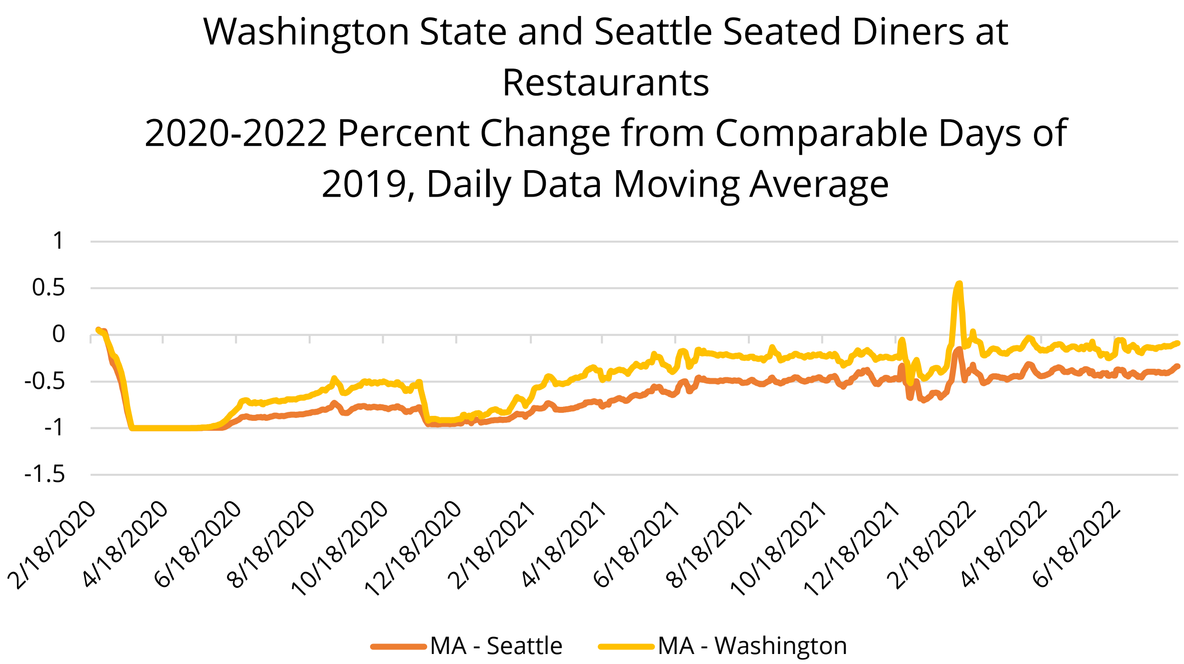
Source: U.S. Bureau of Labor Statistics

The political tension exacerbates the supply issues and adds pressure on gasoline prices. The Fed's tightening monetary policy will apply additional downward pressure to the auto sales. As the pandemic recedes people are more comfortable using public transportation, this combined with rising prices from inflation may lead to an issue with a lack in demand once the supply catches up. Recovery of sales volume is pushed out further as a result. Auto sales still faces uncertainty due to market disruptions and low consumer confidence. The current forecast anticipates a 3 percent average annual growth from 2024 to 2028.

Food and Accommodation

Food and accommodation sector was one of the hardest hit by COVID-19 pandemic. The number of employees in leisure and hospitality in the Seattle and Bellevue region in June 2022 is still down by 13 percent compared to pre-crisis 2019 levels. Since COIVD outbreak, many restaurants have adapted to the technology such as apps, third-party ordering, and direct online ordering. Restaurants and bars have been slowly recovering as business restrictions were gradually lifted. Seattle area seated diners are still down an average of 44 percent compared to pre-pandemic levels. Food delivery services have become immensely important but brought unique challenges such as trust of the food handling process, delivery methods, and demand for contactless transactions. Labor shortages still significantly affect the industry. Due to the staff shortage, many restaurants are forced to operate with shorter hours and fewer days. Drastic increase in food cost due the supply chain issues also challenges the restaurant industry.

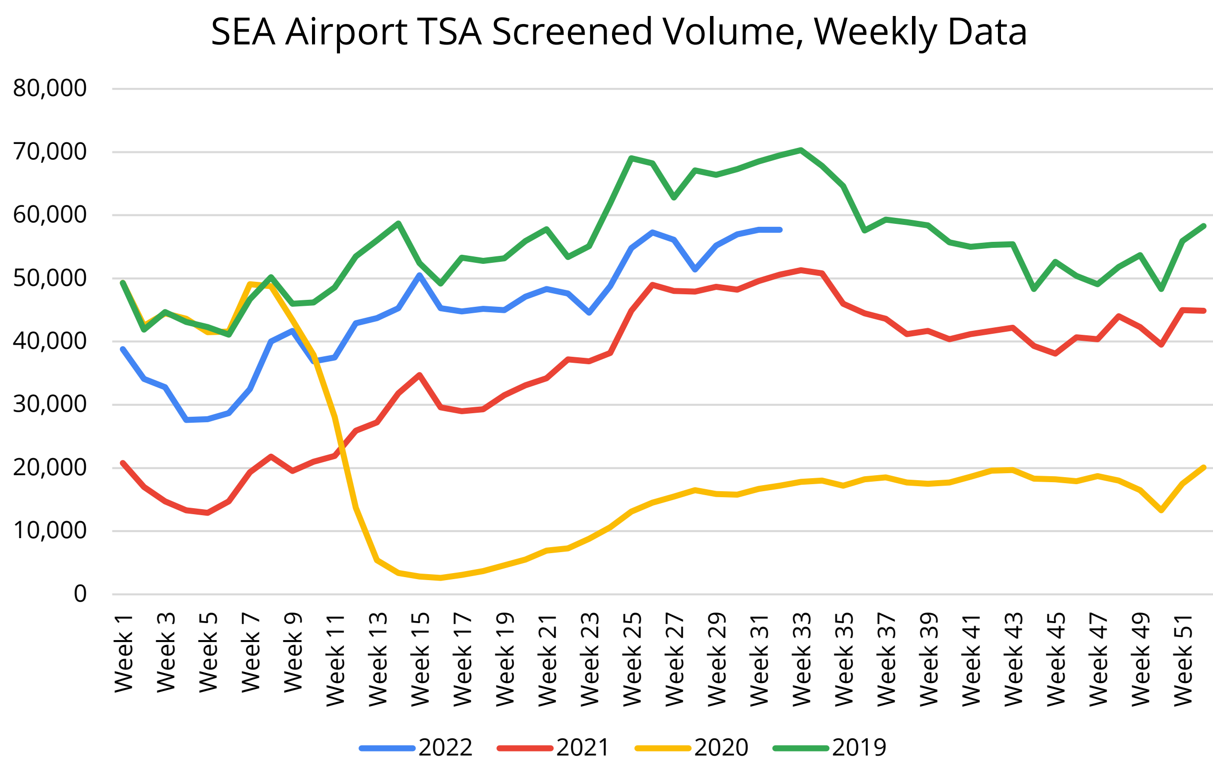
Chart 10



Source: OpenTable

Tourism, one of the industries hit hardest by COVID-19, was the state's fourth-largest economic driver before the pandemic (Source: The Seattle Times). Bellevue, part of greater Seattle tourism hubs, had both domestic and international visitors including business travelers. Chart 11 below shows a weekly dashboard of airport activity to track economic recovery following COVID-19 for SEA and the region. As of August 2022, Seattle-Tacoma International Airport (SEA) served an average of 57k daily departing passengers. Volumes are up 14 percent compared to August 2021, but remain 17 percent down compared to pre-crisis levels in August 2019. Air carriers are limited by staff shortage, compounded by the rising price of fuel. As an indicator of the hotel industry, the trends in air travel are still gradually improving and below the pre-pandemic level, which implies lower hotel room occupancy. Food and Accommodation sales tax collection is forecasted to be back to the pre-pandemic level in 2023 and then grow at a 7.3 percent annual rate on average for 2024 through 2028.

Chart 11



Source: Port of Seattle

Services

The service sector comprises various service industries including professional/business services, information services and financial services. On the heels of strong in-migration and population growth, the majority of gains were in service sectors, especially in professional/business services, which expanded at a rapid pace of 3.9 percent year-over-year. The information services sector, the third-largest job creator, grew at a pace of 8.2 percent year-over-year as of December 2019 and was the fastest-growing employment sector. The financial services also had steady growth at 3.3 percent (Source: IHS Markit). The service sector has played a vital role during COVID as remote work, online education, telehealth and social distancing have created a demand for products and services delivered by the information industry. The service sales tax collection had little impact from COVID in 2020 and continued to expand in 2021. The remote and hybrid work have been enduring in service sector even after the COVID pandemic. The office buildings remain on average below 40 percent occupancy. Some companies have chosen to downsize their office leases when the leases expire. Companies can cut expenses on the commercial real estate to partially offset increased payroll under the high inflation and high interest rates environment. As tech companies continue to expand in Bellevue, the service sector will keep fast growth.

Business & Occupation Tax

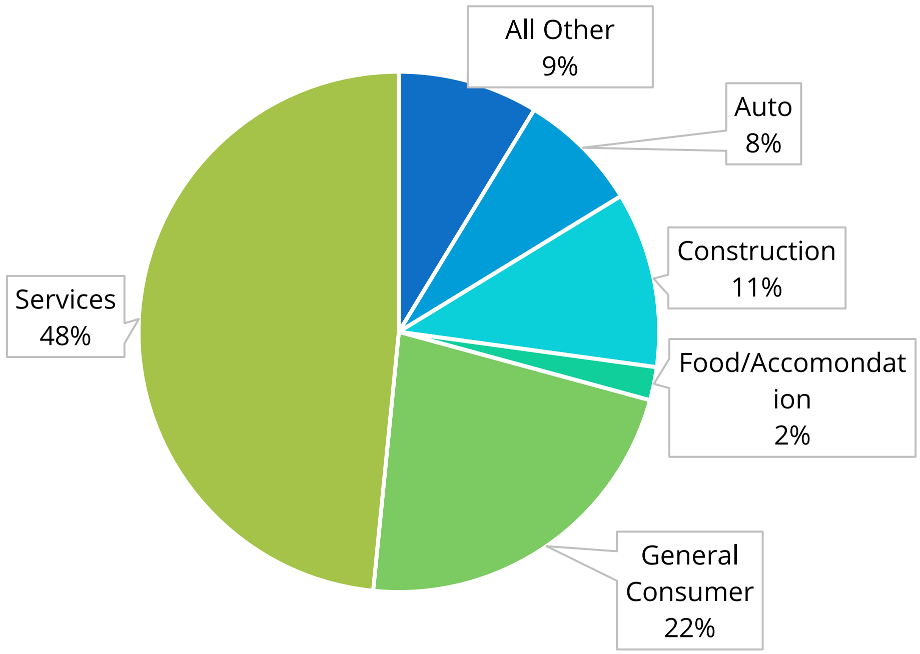
Business and occupation (B&O) tax is made up of two parts: gross receipts and square footage taxes. The B&O tax is the third-largest source of General Fund, accounting for 16 percent of General Fund revenue in 2021. Like sales tax, it is also economically sensitive and volatile. During the Great Recession, B&O tax collections fell 20 percent from the peak and did not return to pre-recessionary levels until 2014. Due to the impact of COVID-19, B&O tax collection in 2020 went down 9 percent from the 2019 level. It recovered to be above the pre-pandemic level in 2021. Assuming 0.01 percent of gross receipts rate adjustment in 2023, the B&O tax collection without audit revenue is forecasted to grow stronger in 2023 with 11 percent year-over-year supported by the major business movements. B&O tax collection will continue to grow at 6 percent as light rail opens in 2024. Without audit revenue, B&O is forecasted to grow by an average of 5 percent per year from 2025 to 2028 due to increased business growth in downtown Bellevue and the Spring District. B&O tax forecast is subject to a high degree of uncertainty due to high inflation, Fed's tightening monetary policy and geopolitical disruptions.

In 2021, the largest contributor to total state B&O tax collection was the services sector (chart 12), which represented an estimated 48 percent of B&O taxes due. About 41 percent of B&O tax collection was impacted heavily by COVID-19 consisting of retail, accommodation, food and drink, auto sale and other in-person services. Most of them recovered to be above the pre-pandemic level in 2021 except for food and accommodation. Construction collections were less impacted by COVID, representing 11 percent of 2021 B&O tax collections. Since COVID outbreak in 2020, remote and hybrid work has created an underutilization of office space. Bellevue CBD office had 6 percent vacancy rate in the second quarter of 2022 with 1 million square footage of new office spaces built in 2021. Less demand for the office spaces creates some uncertainty of our B&O collection especially for the square footage taxes. Some companies will right-size as leases expire, providing opportunities for new companies coming to the Bellevue and those still growing. As a tech base on the Eastside, the business environment in Bellevue remains attractive.

The City continually monitors the B&O tax base as well as audit findings that may require either a refund to the taxpayer or an additional payment to the city. Audit revenue is highly volatile and has ranged from several hundred thousand dollars to nearly $4.4 million.

Chart 12

2021 Bellevue B&O tax collection



General Property Tax

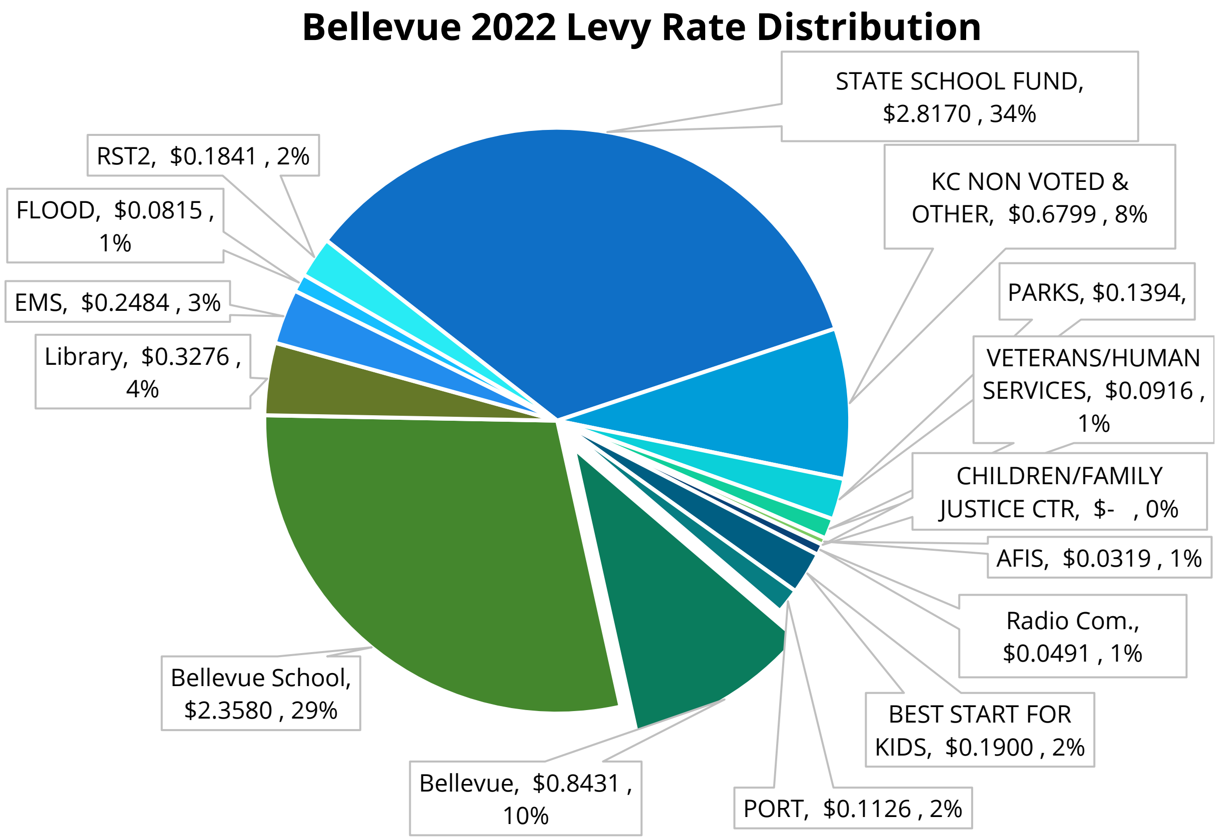
Property tax is applied to the assessed value (AV) of all taxable real and personal property located within the City, with several exceptions such as public structures (government buildings, roads, etc.), property owned by several types of non-profit organizations, personal property (up to a specified dollar value), and others.

Under Initiative 747, the regular levy can grow at a maximum of 1 percent annually or the rate of inflation, whichever is less plus additions for new construction, changes in the value of state-assessed utility property, and newly annexed property (referred to as "add-ons"). Inflation is defined as the increase in the implicit price deflator (IPD).

Bellevue's property tax rate is one of the lowest in King County. The City's 2022 property tax rate at $0.84 per $1,000 AV was roughly 16 percent of the most common total $8.20 rate paid by Bellevue property owners for all taxing jurisdictions such as King County, Washington State, and school districts. The 2022 property tax total and City of Bellevue tax obligations for a home of median assessed value ($1,107,000) in Bellevue is $9,078 and $933 respectively. Chart 13 shows the destinations of a typical Bellevue property owner's property tax in 2022.

Due to the capped growth of property tax and its large share among all general fund revenues, the maximum of 1 percent plus new construction growth does not keep up with the growth rate of personnel and maintenance costs. This is the main fundamental problem in the tax structure that caused the imbalanced growth between general fund revenues and expenditures.

Chart 13



In 2023, the City utilizes 1 percent of Property Tax from the banked capacity to cover additional service costs. Bellevue currently has estimated $8.3 million in banked capacity available. This forecast assumes a 2 percent statutorily available property tax adjustment in 2023 and another 1 percent in 2024.

Utility Tax

Utility tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer, and stormwater. The utility tax share to total general fund revenue decreased from 16 percent to 12 percent from 2013 to 2021 and is projected to decrease further in out years.

- In the last few years, electric and natural gas utility tax collections have been higher than the historic trend due to hotter weather and higher inflation. Mild growth of the tax collections are forecasted for out years.
- Telephone and cellular phone taxes have been on the decline and are expected to decline further during the forecasted period due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.
- Water and sewer utility taxes have increased in the past three years due to longer and hotter summers; the forecast assumes mild increases for water and sewer utility taxes.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including excise taxes, penalty/interest delinquent tax, licenses and permits, intergovernmental – state and other cities, charges for goods and services, fines/forfeits, and other miscellaneous taxes and revenues. Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire, Emergency Management Services, etc.). See the Resource Summary section for more details on these revenues.

General Fund Expenditure Overview

Building off the 2021-2022 budget, the 2023-2024 maintains the cost containment measures adopted to weather the economic impacts of COVID-19. While these ongoing measures help with the City's long-term revenue and expenditure imbalance, it does not do enough to fully offset needs and services needed for a growing and urbanizing city.

Urbanization
Starting with the 2018 Mid-Biennium, the City's forecast includes a modest assumption of 0.3 percent growth in total expenditures for an increase in demand for services based on the continued urbanization of the city. The forecast includes a modest 0.3 percent growth in total expenditures ($806,000 in 2025) continuing and growing annually to 2028.

Inflation

Inflation is estimated by the King County Office of Economic and Financial Analysis in July 2022 as follows:

2024	2025	2026	2027	2028
3.70%	2.67%	2.56%	2.62%	2.69%

Capital Investment Program Maintenance and Operations (CIP M&O)
While major maintenance and renovation projects are contained within the CIP, minor maintenance is funded with operating funds. The city has a policy that addresses funding for minor maintenance on existing infrastructure. As the city builds new infrastructure, there are limited mechanisms to ensure additional maintenance and operations funding for new facilities. Over time, this puts increasing pressure on the operating budget. In the 2024 to 2028 General Fund forecast, additional CIP M&O is assumed every year starting from 2023. The actual cost could vary depending on the actual completion date and maintenance cost.

In '000s	2025	2026	2027	2028
New Infrastructure M&O	$500	$500	$500	$500

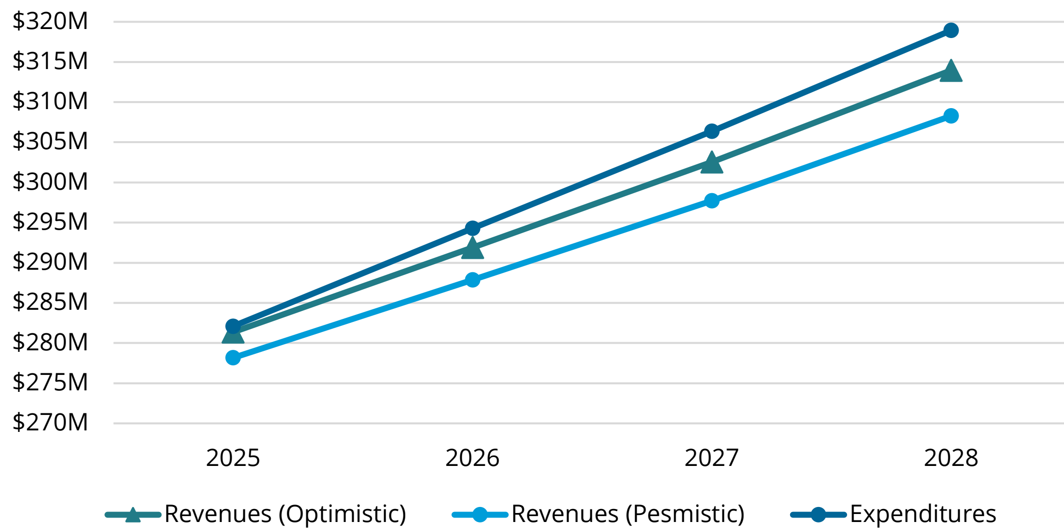
New Investments
The 2023-2024 Adopted Budget and by extension, the 2023-2028 General Fund forecast include several new investments. These investments include increased public safety, internal services, development, and planning staffing as well as investments in environmental stewardship, equity, inclusion, and access among others. Many of these investments are ongoing programs and those added expenditures are reflected in the out years of the forecast.

General Fund Scenario Forecasts

The 2023-2028 forecast includes the use of the councilmanic statutorily allowable 2 percent annual property tax increase in 2023 and 1 percent increase in 2024. Major tax components such as sales tax, business and occupation tax, or utility taxes are as forecasted in the sections above. Expenditures are forecasted as noted in the expenditure section above. The current forecast (see Chart 14) indicates that the General Fund ending fund balance will be above the 15 percent in 2023 and 2024.

Chart 14

General Fund Forecast
Revenue vs. Expenditures (2025-2028)



2023-2028 Financial Forecast Development Services Fund Executive Summary

Executive Summary

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2023-2028 forecast reflects a high level of development activity in the early years as several major projects are in review and construction phases of the development cycle and is anticipated to return to a more moderate level in subsequent years.
- In response to the high development activity, an additional 15.0 FTE positions are added in the 2023-2024 budget to be hired as workload demands.
- The Adopted Budget includes a proposed policy change to adjust the Land Use discretionary review cost recovery objective and moves that objective from 50% to 100% fee supported.
- This forecast assumes that while development may be impacted by economic uncertainty, projects currently in the review/inspection phase will be completed and development interest in Bellevue will continue.

Background

In the early forecast years, development activity continues at a high level for office, retail, and housing construction projects, and return to a more moderate level through the remaining forecast period. Interest in construction projects remains strong, despite economic uncertainty from high inflation, workforce shortages, and global economic impacts to supplies. Significant projects currently planned or under construction are in all growth areas of the City including several office, mixed-use and multi-family developments. However, office development, the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue, may slow somewhat as companies re-evaulate in-office work strategies. Completion of the Eastlink Light Rail project is anticipated to spur additional long-term commercial and residential Transit Oriented Development near light rails stations.

After reaching peak levels after the pandemic, single-family applications are anticipated to be at more moderate levels in the early forecast period. High demand and low inventory for housing continues, however, new single-family projects are impacted by high interest and costs due to high inflation. Tenant improvement projects declined slightly due to the pandemic and uncertainty of office space demand but activity for commercial reinvestment has since returned to pre-pandemic levels and is anticipated to remain steady.

The timing of construction for these projects plays a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of several major large projects expected to be in concurrent construction phases, increasing the demand for inspection services. In the 2023-2024 budget, an additional 15.0 FTE are added in anticipation of continued demand for review/inspection work.

2023-2028 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q2 2022 was 8.2%, down by 1.0% from Q1 2022. Several new office buildings were pre-leased prior to completion, and while construction of additional office buildings during this development cycle is in response to low vacancy, there is uncertainty around future demands for office space as companies evaluate more expansive and long term teleworking options for their employees.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to decline to a more moderate level. Valuation in prior years is mainly a result of the volume and high valuation of projects. Construction investment for major projects will stay strong in the early years, with an expected decline in the latter years of the forecast. The current strong demand for single family and multi-family housing, and single-family alterations, may be impacted in the near future by high inflation and interest rates.

The land use design review application activity remains consistent with prior years indicating interest in future development in Bellevue continues, however, the pace of development is anticipated to decline in the latter years of the forecast as Bellevue moves through a downturn in the development cycle.

Because of the variables, the early forecast years reflect revenue collections for several new major projects, with reductions in revenue collections through the latter years.

2023-2028 Financial Forecast
Development Services Fund

Development Services Fund
2023-2028 Financial Forecast
(in $000)

	2023	2024	2025	2026	2027	2028
Beginning Fund Balance	$57,372	$59,083	$60,067	$60,062	$58,271	$55,118
Resources:						
Building Fees	$22,140	$22,430	$21,567	$21,145	$20,935	$21,145
Land Use Fees	$3,740	$3,746	$3,637	$3,531	$3,496	$3,531
Fire, Trans & Util Fees	$9,809	$9,834	$9,594	$9,314	$9,222	$9,314
sub: Dev Svcs Fees	$35,689	$36,010	$34,798	$33,990	$33,653	$33,990
Gen Fund Subsidy	$4,571	$4,851	$4,899	$4,948	$4,998	$5,048
Other Revenue/Interest	$431	$441	$443	$445	$447	$449
Total Resources	$40,691	$41,301	$40,140	$39,383	$39,098	$39,487
Expenditures:						
Building	$16,226	$16,918	$17,370	$17,815	$18,281	$18,760
Land Use	$4,388	$4,588	$4,710	$4,831	$4,957	$5,087
Fire, Transp. & Utilities	$7,808	$7,808	$8,016	$8,221	$8,437	$8,658
Policy & Code Compliance	$2,670	$2,775	$2,849	$2,922	$2,999	$3,077
Administrative/Shared Costs	$6,253	$6,526	$6,700	$6,872	$7,052	$7,237
Technology/Facility Initiatives	$1,635	$1,702	$500	$513	$526	$531
Total Expenditures	$38,980	$40,317	$40,146	$41,173	$42,252	$43,350
Ending Fund Balance	$59,083	$60,067	$60,062	$58,271	$55,118	$51,254

Forecast Drivers and Assumptions

1. The announcement by Amazon to move up to 25,000 employees into the downtown is a significant driver for new office development and additional amenities in the downtown.

2. Several major mixed-use development projects (Avenue Bellevue, BIG 1, GIS Plaza, 1001 Office Towers, Bellevue 600, Broadstone Bellevue Gateway, Northup Way Mixed Use, The Artise) are under construction in the early years of the forecast. Residential and senior housing development continues with construction of several apartment, townhome and senior living projects including 1250 112th Ave, 8 100 Bellevue Condos, Aegis at Lake Hills, Basel Newport Townhomes, Bellevue Senior Housing, Bellevue Way Townhouses, Broadstone Bellevue Gateway, Eastgate Men's Shelter, MIRA II, Main Street Apartments, Milestone NW Bell-Way Condos, Ondina, Polaris at Eastgate, and The Flats at 15th Place.

3. New project activity continues as several currently in the review process (200 112th Office, 228 106th Pl NE, 305 Office Building, 400 108th, BSD – Evergreen Transition New Home, Bell10, Bellevue 600 Phase 2, Bellevue Fire Station 10, Block 13, Block 15, Crossroads Multifamily Mixed Use Building, Filament East and West, Four 106, Pinnacle Bellevue, SummerhHill Highland Park and W Townhomes) are expected to begin construction in early forecast years. Tenant improvements of new office buildings will also continue, however, is anticipated at a more moderate rate.

4. The forecast reflects an additional 15.0 FTEs that will be filled as workload demand warrants. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload and maintain service levels, and to maintain budget alignment.

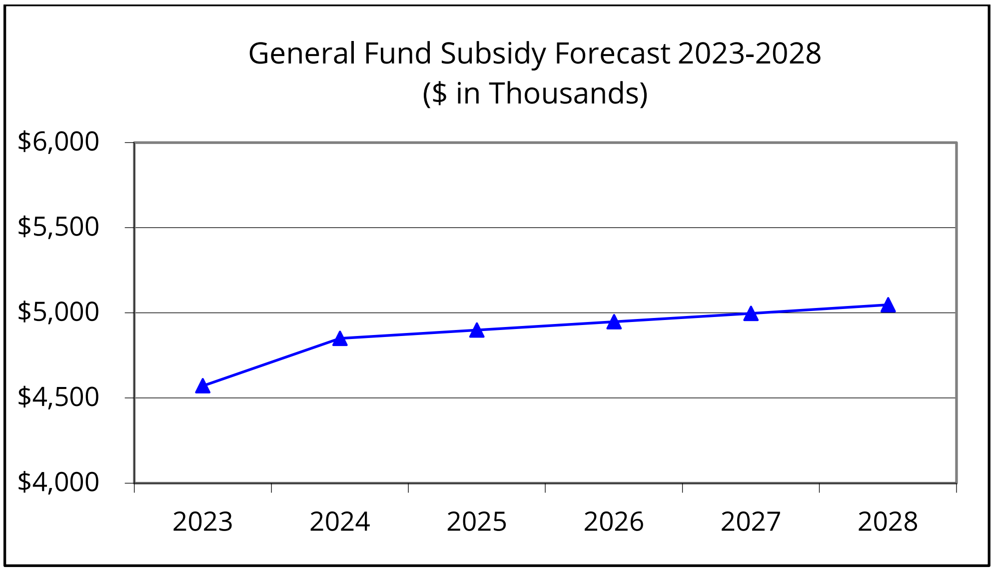
5. The forecast reflects a proposed change to the land use discretionary review cost recovery objective and moves that objective from 50% to 100% fee supported. The proposed change would eliminate the need for general fund subsidy for the land use review service.

6. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by the Council. This forecast assumes that rates will grow at levels near the average rate of inflation.

7. Council continues to review land use codes that are pertinent to the future growth in Bellevue, including areas around or in the Downtown and other subareas. Affordable housing continues to be an area of focus and priority for the Council.

General Fund Subsidy

The General Fund contribution to the Development Services Fund supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, code and policy development.



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period for code and policy development. In later years, the contribution grows by inflation factors, consistent with projections for staff and operating costs.

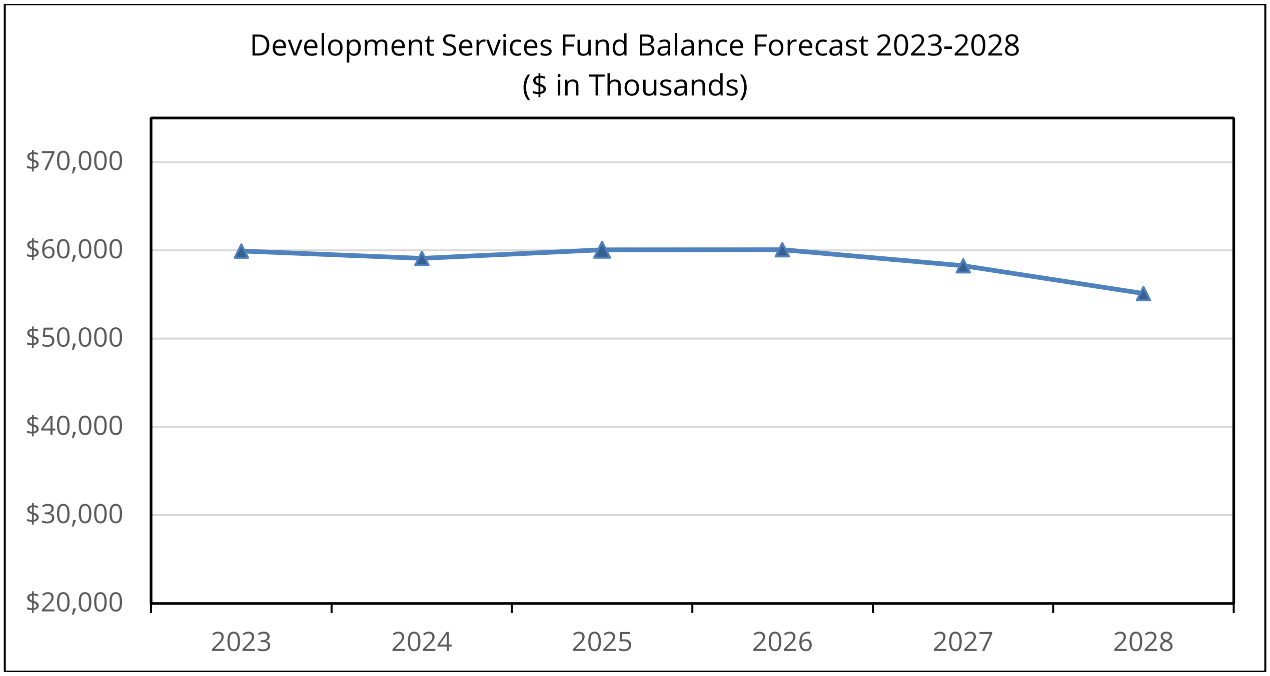
Development Services Fund Reserves

The Development Services Fund includes prepaid fees and reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund level is forecast at approximately $59 million through 2023, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level declines through the forecast years as reserves are drawn upon to maintain enough staff to complete the review and inspection of projects in construction and continue process improvement work.

2023-2028 Financial Forecast
Development Services Fund

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.



2022-2028 Financial Forecast
Parks Enterprise Fund
Executive Summary

Executive Summary

- The Parks Enterprise Fund forecast assumes that user fee revenue can continue to recover program expenditures over the forecast period. While Bellevue Golf Course revenues remained near historic levels despite the COVID pandemic, program revenues from Aquatics, Tennis, and Facility Rentals are forecasted to return to budgeted levels in 2022.
- The Parks Enterprise Fund forecast shows that the fund will meet reserve requirements and fund capital improvements at the golf course from 2023-2028. Transfers for golf course capital improvements were paused from 2020-2022 due to lower than targeted reserve levels, but capital transfers are forecasted to return to typical budget levels from 2023-2028.

Background

The Parks Enterprise Fund accounts for the services provided by the Enterprise Program within the Parks & Community Services Department. These services include golf, tennis, aquatics, adult sports, and facility rentals. Enterprise Programs are fully supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves range between $1.5M and $3.1M over the forecast period and meet the targeted reserve policy of 2-months operating expenses. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-2), including capital projects at the Bellevue Golf Course to enhance player services and the financial performance of the course. Transfers for golf course capital improvements were paused from 2020-2022 due to lower than targeted reserve levels, but are forecasted to return to typical budget levels from 2023-2028.

Parks Enterprise Fund
2022-2028 Financial Forecast
(In $000)

	2022 Projection	2023 Budget	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Resources:							
Beginning Fund Balance	$1,349	$1,485	$1,757	$2,034	$2,302	$2,568	$2,827
Program Revenue	6,931	8,226	8,518	8,731	8,949	9,173	9,402
General Fund Subsidy	0	0	0	0	0	0	0
Total Resources	**$8,279**	**$9,711**	**$10,275**	**$10,765**	**$11,251**	**$11,740**	**$12,229**

	2022 Projection	2023 Budget	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Expenditures:							
Personnel	$2,718	$2,922	$3,042	$3,123	$3,203	$3,287	$3,375
M&O	2,623	3,355	3,457	3,549	3,640	3,735	3,836
Interfund Transfer	1,453	1,572	1,632	1,676	1,719	1,764	1,811
Capital Transfer	0	105	110	116	122	128	134
Total Expenditures	**$6,794**	**$7,954**	**$8,241**	**$8,463**	**$8,683**	**$8,913**	**$9,156**
Reserves:							
Ending Fund Balance	**$1,485**	**$1,757**	**$2,034**	**$2,302**	**$2,568**	**$2,827**	**$3,073**

Note: Columns may not foot due to rounding

2023-2028 Financial Forecast
Utilities Funds
Executive Summary

Executive Summary

- The Utilities Department operates as an enterprise within the City structure and functions much like a private business entity.
- This forecast supports a prudent, balanced, and responsible budget to maintain high-quality utility service delivery to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.
- Significant rate drivers in the 2023-2024 biennium include higher inflationary pressures, wholesale cost increases for drinking water supply and wastewater treatment services, and infrastructure maintenance and renewal/replacement needs.
- Since all Utility functions are primarily supported by rates, this forecast includes funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term infrastructure renewal and replacement requirements.

Background

The Utilities Department faces the following key challenges and constraints in the 2023-2024 biennium:

Key Challenges

- *Operating and Construction Cost Inflation*. Similar to the General Fund, and other utilities, Bellevue Utilities is impacted by higher than previously forecasted inflation. Current inflation expectations result in increased personnel, operating and maintenance costs, as well as associated interfund costs. Construction costs have increased substantially due to disruptions in the global supply chain impacting materials costs, and the local construction market driving labor costs.
- *Aging Capital Infrastructure*. Maintaining and replacing the City's aging utility infrastructure continues to be a key rate driver for all three utilities. Most of Utilities' system infrastructure is well past mid-life. The Department's ability to deliver quality services to its customers is dependent on the ability of each system to function on demand, every day of the year.
- *Supporting Economic Growth*. Additional utility infrastructure is needed to support development and economic growth.
- *Operational Efficiency*. The Utilities Department is mindful of the need to operate efficiently and continually evaluate business processes to seek opportunity to deliver services in the most cost-effective manner.

Constraints

- *External Financial Obligations*. Half of Utilities' operating costs represent legal and contractual financial obligations, including wholesale costs for water supply and wastewater treatment, tax payments the State and cities, and support service charges from the General Fund.
- *Legal Mandates*. Utilities must comply with State and Federal mandates, such as the Safe Drinking Water Act, Clean Water Act, and National Pollution Discharge Elimination System (NPDES) Municipal Stormwater Permit, to protect drinking water and surface water quality.

Within this context, the Adopted 2023-2024 budget was prepared with the following guiding principles to support City Council strategic direction by:

- Supporting the City's economic development;
- Protecting the built and natural environment; and
- Being a high-performance government by:
    - Complying with Council-adopted financial policies;
    - Maintaining a long-term view;
    - Leveraging innovation and technology to achieve efficiencies;
    - Minimizing impacts to customers; and
    - Preserving Utilities' financial sustainability.

Adopted 2023-2024 Utility Rates

The following table summarizes the rate adjustments necessary to support the adopted 2023-2024 budget for the Water, Sewer, and Storm and Surface Water utilities by rate drivers.

	Water		Sewer		Storm		Total	
	2023	2024	2023	2024	2023	2024	2023	2024
Wholesale	**1.7%**	**1.1%**	**3.7%**	**3.6%**			**2.4%**	**2.1%**
Local								
CIP/R&R	*2.3%*	*2.0%*	*2.5%*	*2.2%*	*2.3%*	*2.9%*	*2.4%*	*2.2%*
Taxes/Interfunds	*1.6%*	*1.1%*	*1.0%*	*0.5%*	*1.5%*	*0.9%*	*1.3%*	*0.8%*
Operations	*0.3%*	*0.5%*	*0.5%*	*0.5%*	*1.5%*	*1.5%*	*0.6%*	*0.7%*
Local Subtotal	**4.2%**	**3.6%**	**4.0%**	**3.2%**	**5.3%**	**5.3%**	**4.3%**	**3.7%**
Total Rate Increase	**5.9%**	**4.7%**	**7.7%**	**6.8%**	**5.3%**	**5.3%**	**6.7%**	**5.8%**

The total monthly utility bill for the typical single-family residential customer for water, sewer, and storm and surface water services is $197.44 in 2022. With the above adopted rate increases, the total monthly utility bill for the typical single-family resident would increase by 6.7% or $13.18 in 2023, and 5.8% or $12.19 in 2024.

The following section provides further detail on the key rate drivers for the Adopted 2023-2024 Utilities budget.

Payments to External Service Providers

Wholesale Costs
The single largest cost center for the Utilities Department is wholesale costs, which include payments to the Cascade Water Alliance (Cascade) for the purchase of water supply and regional capital facility charges and payments to King County for wastewater treatment. Combined, these expenses total $133.9 million for the 2023-2024 biennium, or approximately 35% of the total budget for the Utilities Department.

The cost from Cascade to purchase water supply is projected to increase from $22.4 million in 2022 to $23.1 million in 2023 and $23.6 million in 2024. The impact of this cost increase to the Bellevue retail water rate is 1.7% and 1.1% in 2023 and 2024, respectively.

The cost from King County for wastewater treatment is projected to increase from $37.8 million in 2022 to $40.0 million in 2023 and $42.3 million 2024. The impact of the cost increase to the Bellevue retail sewer rate is 3.7% and 3.6% in 2023 and 2024, respectively.

To ensure local operations and the CIP are not degraded, the Department's Adopted 2023-2024 budget is consistent with the Council-adopted financial policy which directs rate increases necessary to fund wholesale costs be passed directly through to the customer.

Local Costs

CIP / R&R
Outside of wholesale costs discussed above, the next largest cost driver for the Utilities Department is the CIP and the cost to renew and replace infrastructure in the future, representing approximately 33% of the operating expense budget for the Utilities department, or approximately $124 million for the 2023-2024 biennium. Utilities infrastructure has a replacement value of over $3.5 billion, and most of the systems are well past their mid-life. As a result, the systems used to deliver water, convey wastewater, and manage stormwater runoff are experiencing more failures, and the cost to maintain, operate, rehabilitate, and replace this infrastructure is increasing. To minimize costs and optimize the integrity of the utility systems, the Utilities Department has developed a strategic 75-year asset management plan to systematically fund the future renewal and replacement of these assets. Consistent with Council-adopted financial policy, this long-term funding strategy is also designed to smooth future rate increases and provide for intergenerational equity.

The Adopted Utilities 2023-2029 CIP includes the following investments:

- **Aging infrastructure**: $262 million, or 83% of the adopted CIP, is for investments to address aging infrastructure needs. Examples of projects include water main replacements ($111.5 million), sewer system trunk rehabilitation ($26.8 million), sewer pump station improvements ($23.3 million), and storm system conveyance repairs and replacements ($19.8 million).
- **Environmental preservation**: $41 million, or 13% of the adopted CIP, is for environmental preservation and flood protection projects. Example projects include the storm system flood control program ($11.7 million), and Factoria Blvd. stormwater conveyance improvement project ($7.3 million).
- **Capacity for growth**: $4 million, or 1% of the adopted CIP, is to increase utility system capacity to accommodate growth. Example projects include water storage availability for downtown ($4.2 million).
- **Operational efficiencies**: $11 million, or 3% of the adopted CIP, is funding to support operational efficiencies, including building an additional operational facility to maintain service delivery to the community ($10.0 million).

Total funding for current and future capital infrastructure needs will require combined rate increases of 2.4% in 2023 and 2.2% in 2024.

Taxes/Internal Service Provider Payments

Taxes and interfund payments represent approximately 15% of the total budget for the Utilities Department, or approximately $55.3 million for the 2023-2024 biennium. The amount of taxes paid is based upon the amount of revenue collected and the tax rates assessed by the State and cities. No changes to the State and city tax rates are assumed in the adopted budget. Interfund payments represent costs that Utilities pays to the General Fund for support services. Combined rate increases of 1.3% in 2023 and 0.8% in 2024 are required for cost increases in taxes and interfund payments.

Operations

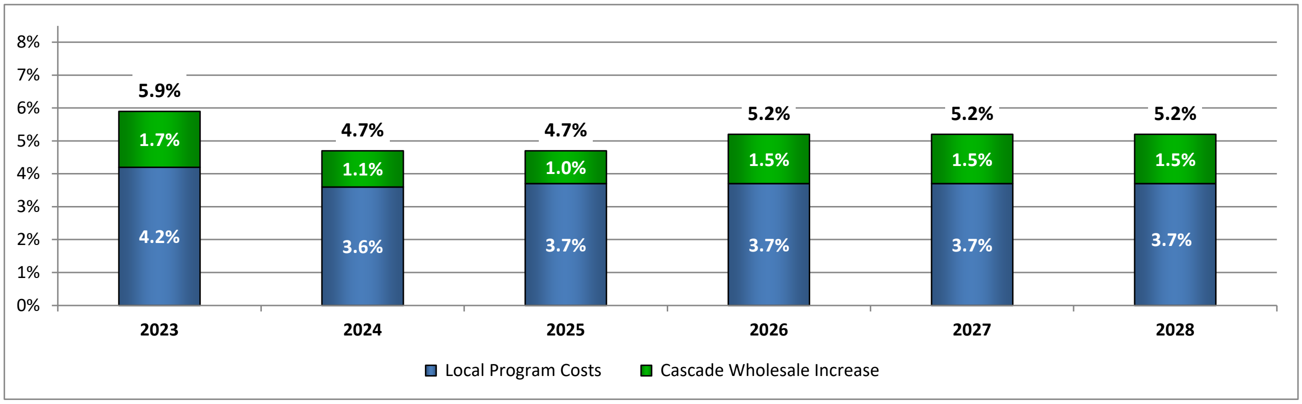
Operating costs include personnel, supplies, and professional service expenses that are necessary to carry out the daily functions of the Utilities Department. This cost category totals $66.1 million, or about 17% of the Utilities budget for the 2023-2024 biennium. The costs to operate and maintain the utilities are increasing and will require combined rate increases of 0.6% in 2023 and 0.7% in 2024.

2023-2028 Financial Forecast

The following pages provide a more in-depth discussion of the individual rate drivers and forecasted rate adjustments through the year 2028 for the water, sewer, and stormwater utilities.

WATER UTILITY FUND
2023 - 2028 Proposed Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2023	2024	2025	2026	2027	2028
Prior Year Bill	$74.74	$79.15	$82.87	$86.77	$91.28	$96.03
Increase:						
Cascade Wholesale Purchased Water	1.27	0.87	0.83	1.30	1.37	1.44
Local	3.14	2.85	3.07	3.21	3.38	3.55
Total	$4.41	$3.72	$3.90	$4.51	$4.75	$4.99
Projected Bill	$79.15	$82.87	$86.77	$91.28	$96.03	$101.02

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**
  Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). The wholesale rate is adopted by Cascade, and per City financial policy is passed directly through to the ratepayer. Cascade's wholesale costs to the City of Bellevue are projected to increase by 3.3% in 2023 and 2.3% in 2024. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue customers are 1.7% for 2023 and 1.1% for 2024. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 1.4% per year for 2025 through 2028.

- **Capital Program**
  The projected 2023-2029 water capital investment program (CIP) includes $178.2M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program ($170.0M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include water main replacement and reservoir rehabilitations. Total costs for current and future infrastructure needs will require rate increases of 2.3% in 2023 and 2.0% in 2024, and an average of about 1.8% per year thereafter.

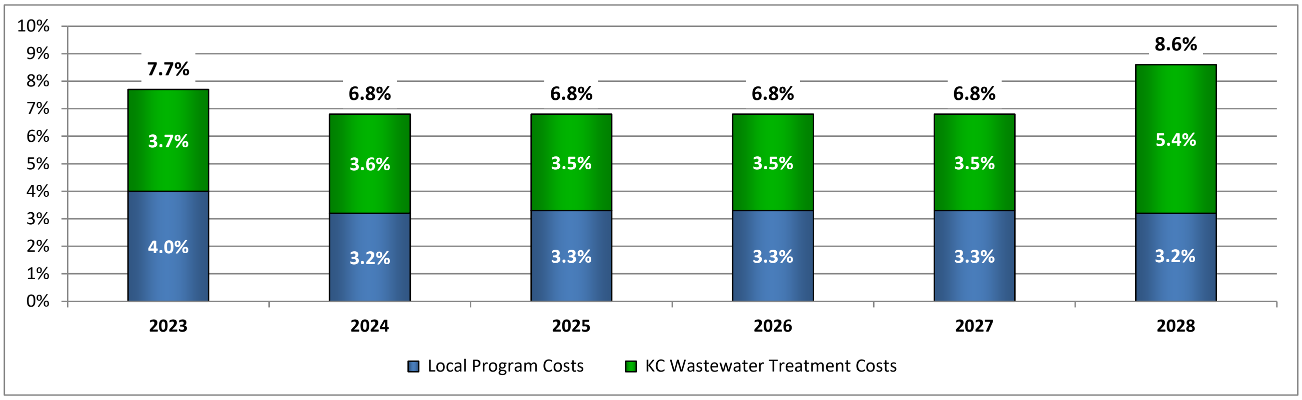
- **Taxes/Intergovernmental**
  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 1.6% in 2023 and 1.1% in 2024. Rate increases for the remainder of the forecast period will average 1.0%.

- **Operations**
  The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 0.3% in 2023, 0.5% in 2024, and an average of about 1.0% per year thereafter.

SEWER UTILITY FUND

2023 - 2028 Proposed Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2023	2024	2025	2026	2027	2028
Prior Year Bill	$92.97	$100.14	$106.95	$114.22	$121.99	$130.29
Increase:						
KC Wastewater Treatment	3.44	3.61	3.74	4.00	4.27	7.04
Local	3.73	3.20	3.53	3.77	4.03	4.17
Total	$7.17	$6.81	$7.27	$7.77	$8.30	$11.21
Projected Bill	$100.14	$106.95	$114.22	$121.99	$130.29	$141.50

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

  The City of Bellevue purchases wastewater treatment services from King County. The wholesale wastewater treatment rate is established by the County, and per City financial policy is passed directly through to the ratepayer. Per King County's adopted sewer rate plan, wholesale costs to Bellevue Utilities are projected to increase by 5.75% in 2023 and 5.75% in 2024. The retail rate impacts of the projected increases in wastewater treatment costs to Bellevue customers are 3.7% in 2023, 3.6% in 2024, and average 4.0% for 2025-2028. The projected increases provided by King County do not fully reflect increases due to regulatory compliance projects such as combined sewer overflows or the Puget Sound nutrient general permit.

- **Capital Program**

  The projected 2023-2029 sewer capital investment program (CIP) includes $77.5M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program ($71.3M) will be invested to replace existing aging infrastructure. Significant aging infrastructure projects include sewer system pipeline major repairs, sewer pump station improvements, and sewer system pipeline replacements. Total costs for current and future infrastructure needs will require rate increases of about 2.5% in 2023, 2.2% in 2024, and an average of 2.1% per year thereafter.

- **Taxes/Intergovernmental**

  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 1.0% in 2023, 0.5% in 2024, and an average of 0.6% per year thereafter.

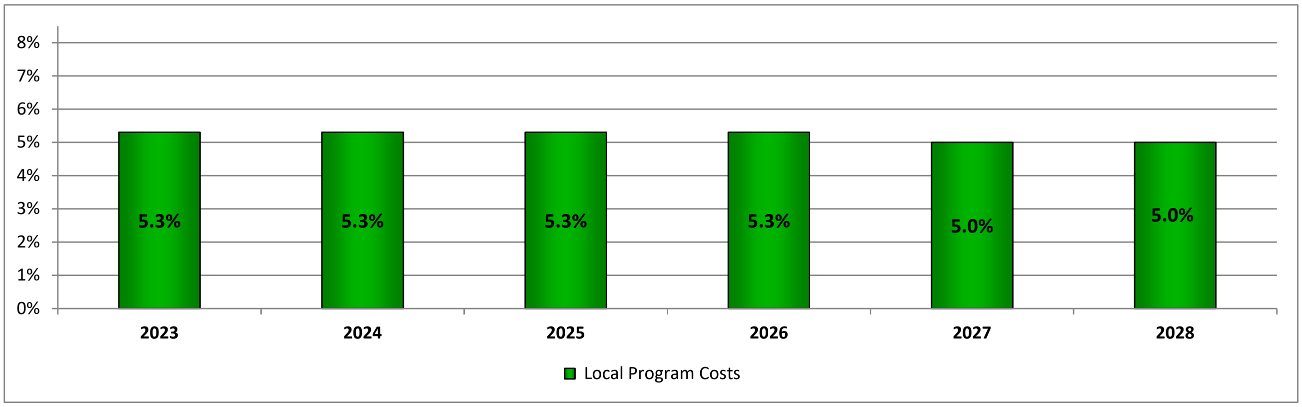
- **Operations**

  The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 0.5% in 2023 and 0.5% 2024, and an average of 0.7% per year for the remainder of

2023-2028 Financial Forecast
Utilities Funds

STORM AND SURFACE WATER UTILITY FUND
2023 - 2028 Proposed Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2023	2024	2025	2026	2027	2028
Prior Year Bill	$29.73	$31.33	$32.99	$34.74	$36.58	$38.41
Increase	$1.60	$1.66	$1.75	$1.84	$1.83	$1.92
Projected Bill	$31.33	$32.99	$34.74	$36.58	$38.41	$40.33

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**
  The storm and surface water fund does not have a wholesale component. All elements of storm and surface water management is performed locally by the City of Bellevue.

- **Capital Program**
  The projected 2023-2029 stormwater capital investment program (CIP) includes $61.7M in investments. Of this amount, $40.6M is for environmental preservation investments, and include mitigating flood hazards and constructing fish passage and stream improvement projects. The remaining $21.1M is largely for aging infrastructure rehabilitation and replacements. Significant projects include stormwater system conveyance infrastructure rehabilitation and minor stormwater capital improvement projects. Total costs for current and future infrastructure needs will require rate increases of 2.3% in 2023 and 2.9% in 2024 and an average of about 2.4% per year thereafter.

- **Taxes/Intergovernmental**
  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 1.5% in 2023, 0.9% in 2024, and increases averaging about 0.7% per year thereafter.

- **Operations**
  The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 1.5% in 2023, 1.5% in 2024, and about 2.0% per year thereafter.