

MEMORANDUM



City of Bellevue

DATE: September 18, 2023

TO: Mayor Lynne Robinson and City Councilmembers
John Resha, Director, Finance & Asset Management

FROM: Evan Phillips, City Budget Manager
Finance & Asset Management

SUBJECT: 2023 Second Quarter Budget Monitoring Report

Attached is the 2023 Second Quarter Budget Monitoring Report for the period ending June 30, 2023. Numerous economic factors make for uncertain economic forecasting including, but not limited to, the federal monetary policy adjustments such as interest rates, the potential consumer impact of the student loan payments resuming in September, and a persistently tight labor market. This report presents the General, General CIP, Development Services, and Utilities Operating & CIP funds.

Notable items:

- General Fund revenue collections are projected to be approximately 3.6 percent or \$9.6 million above budget in 2023. The increase is due to an increase in investment interest, Right-of-Way leases, higher-than-anticipated B&O revenue, and increases in utility tax collections. This is offset by a downward revision of forecasted court revenues.
- General Fund expenditures are projected to be 0.2 percent or \$513 thousand over budget in 2023. This is primarily due to an L&I claim, winter storm, and increased drainage and electricity costs. This is partially offset by personnel savings.
- The General Fund reserve as a percentage of General Fund revenues is projected to slightly increase by 1.2 percent compared to 2022 year-end and be 25.4 percent in 2023.
- The City expects staff capacity and supply chain challenges to continue but still anticipates planned and unexpected spending to continue in 2023. General CIP expenditures are projected to be \$168.4 million or 37 percent of the available CIP expenditure budget.

Please feel free to contact me at 425-452-2831 with any questions you may have.

Sincerely,

Evan Phillips, City Budget Manager, Finance & Asset Management

Attachment

2023 Second Quarter Budget Monitoring Report

Cc: Brad Miyake, City Manager
Leadership Team



City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

Economic Performance

This report discusses revenues and expenditures for the General Fund, General Capital Investment Program (CIP) Fund, Development Services Fund and the Utilities Operating and CIP Funds. The purpose of this report is to compare actual expenditures and revenues to the Mid-Bi Budget, to explain any variances, and to convey an economic outlook from a national to a local scope. This monitoring report reflects the impacts to the City as of June 2023.

The Federal Reserve increased the target range for the federal funds rate to 5 to 5.25 percent in May, a 25-basis point increase over the 4.75 to 5 percent range in March (FED). The U.S. City average Core Consumer Price Index (CPI), which includes all items less energy and food, was at 4.8 percent annually in June 2023. Gasoline of all types dropped by 26.5 percent annually, after last year's surge in prices peaked in June 2022 (BLS). As the rate of inflation is slowing, the Federal Reserve abstained from an interest rate hike in June 2023 in a hawkish pause, but they telegraphed that more interest rate hikes could be in the works for 2023.

The reason the Federal Reserve is waiting to see the impacts of the policy moves and keeping additional increases on the table for 2023 is because while inflation moderation is promising, the data is uneven across the economy. Nationally, the unemployment rate changed slightly to 3.6 percent in June 2023. Job gains occurred in government, health care, and construction. The labor force participation rate held steady at 62.6 percent for the fourth consecutive month (BLS). The ratio of unemployed people to job openings has hovered between 0.6-0.5 since October 2021 (BLS). The labor market would need to soften for the Federal Reserve to confidently move away from interest rate increases.

The effects of the interest rate increase on the economy have been most obvious in the banking sector. The first quarter saw two regional banks, Silicon Valley Bank and Signature Bank, fail in March. In the second quarter

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%
- X Negative variance of >4%

2023, First Republic Bank failed in May with JP Morgan assuming the deposits and substantially all of the assets (FDIC). Despite the recent crisis, the Federal Reserve determined in its' June 2023 Stress Test that the largest US banks have sufficient safeguards in place to continue lending to households and businesses under stressful conditions such as a recession (FED).

In the second quarter of 2023 the gross domestic product of the nation increased by 2.4 percent. The increase was driven by increases in government spending and consumer spending (BEA). The positive data from the second quarter 2023 GDP and inflation has led to hope that the Federal Reserve will be successful in their goal of a soft landing, defeating inflation without overly cooling the economy or negatively impacting the labor market. There is much uncertainty, particularly the ongoing conflict in Ukraine, the potential consumer impact of the student loan payments resuming, and a persistently tight labor market.



City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

Regional Economy

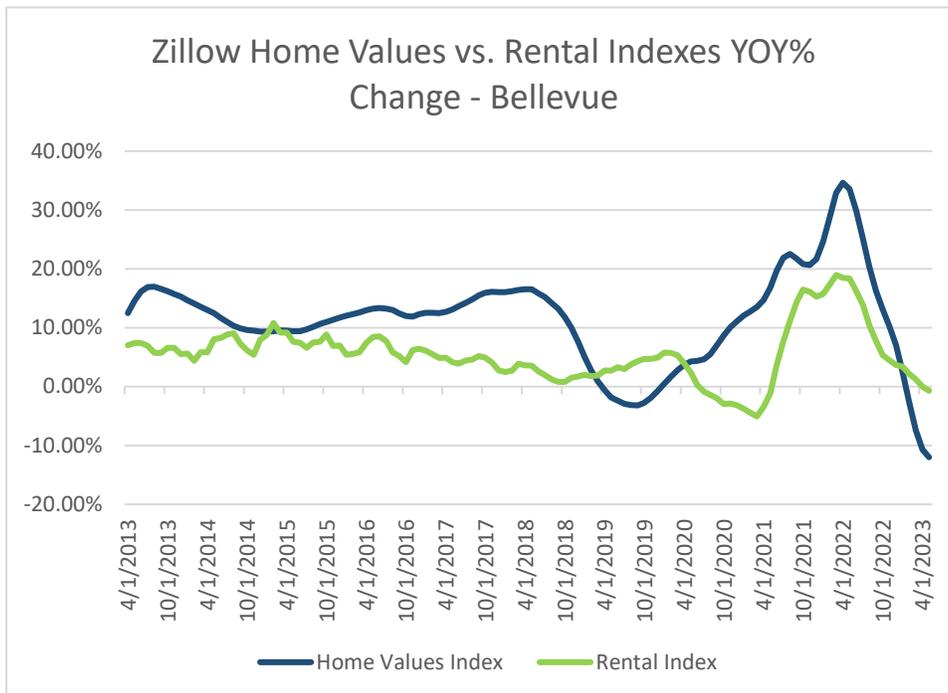
Colliers is reported to have Seattle overall vacancy rising from 22% in Q1 to 24% in Q2 2023 (Puget Sound Business Journal). Nationally, remote and hybrid work are correlated to increasing vacancies. Seattle as of June 2023 had 54 percent of the worker foot traffic compared to that in 2019 (Downtown Seattle). Beginning May 1st Amazon workers returned to office a minimum of three days a week, a shift in the policy Amazon had in place since 2021. South Lake Union, where Amazon has its largest campus, saw an 82 percent increase in weekly foot traffic and an 86 percent increase in credit card transactions at neighborhood restaurants (Axios).

Additionally, office space under construction and being planned in Seattle are among the highest percentages of stock compared to cities nationwide, only topped by cities like San Francisco and Austin (Commercial Edge). Vacancy rates will likely continue to be volatile as companies upgrade their offices, decrease their space, and experiment with hybrid situations. Some Seattle-area companies are responding to the uncertainty around workers hybrid work demands by taking shorter leases on their office space so they can have a wait-and-see approach (Seattle Times).

Bellevue Economy

The home values index for the City of Bellevue dropped by 12 percent in May, and the rental index is also beginning to drop, with May 2023 showing a 1 percent year-over-year decline (Zillow). The declining home values index began in February 2023, after Bellevue experienced double-digit growth from November 2020 to November 2022 due to the exorbitant demand which arose during and immediately after the COVID-19 pandemic. During the same time period the rental index declined slightly from July 2020 to May 2021, then grew in the double digits between August 2021 and August 2022.

Tourism in Bellevue is also normalizing like shelter prices. Hotel occupancy is down an average of 3.6 percent year-over-year in the second quarter, and revenue per room is down an average of 0.7 percent. It is important to keep in mind that the summer of 2022 saw the release of pent-up demand as people finally moved past the pandemic, so it is expected to see this level out. In short-term rentals occupancy rate is up an average of 6 percent year-over-year, and the revenue per room is down an average of 11 percent in the same time period.



Source: Zillow

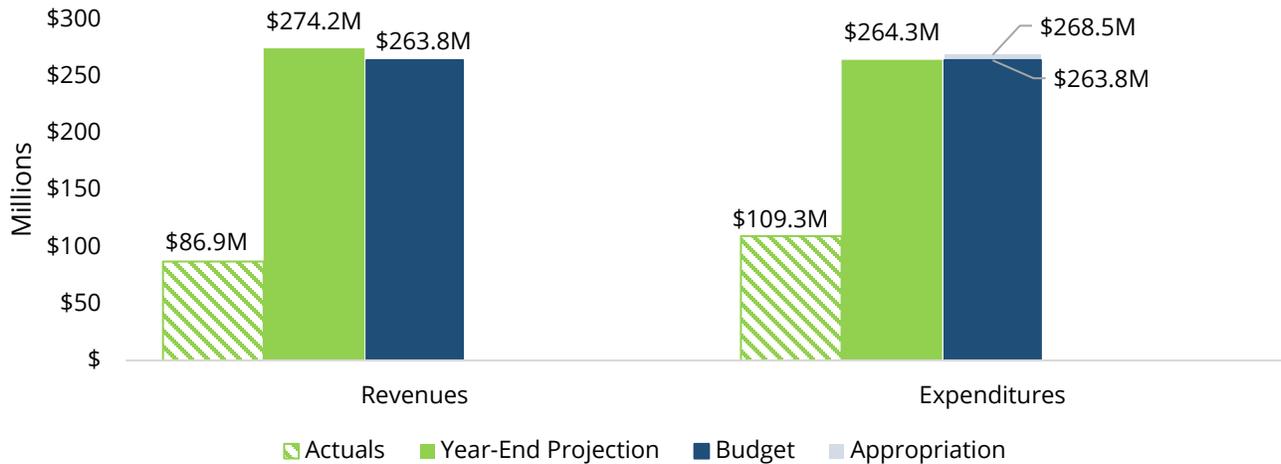


City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

General Fund Performance

General Fund Revenues and Expenditures as of June 30, 2023



NOTE 1: Graph illustrates year-to-date revenue and expenditure actuals, year-end projections, amended budget, and budget appropriations (includes fund balance) through June 30, 2023,

NOTE 2: Appropriation is greater than budgeted expenditures because of the inclusion of reserves in appropriation and not in budgeted expenditures.

Revenue

General Fund revenue collections are projected to be approximately 3.94 percent or \$10.4 million above budget in 2023. The increase is due to an increase in investment interest, Right-of-Way leases, sales tax, a B&O audit finding, and increases in utility tax collections. This is offset by a moderation of the court revenues forecast.

Several uncertainties persist, such as the possibility of additional federal monetary policy adjustments, the potential consumer impact of the student loan payments resuming, and a persistently tight labor market.

Expenditures

Expenditures are projected to be 0.2 percent or \$513 thousand over budget in 2023. This is primarily due to

an L&I claim, winter storm, and increased drainage and electricity costs. This is partially offset by personnel savings.

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

Change in Fund Balance

The General Fund reserve as a percentage of General Fund revenues is projected to slightly increase by 1.4 percent compared to 2022 year-end and be 25.6 percent in 2023. The City is projecting to maintain reserves above the Council Reserve Policy figure of 15 percent, which helps ensure the financial stability of the City.

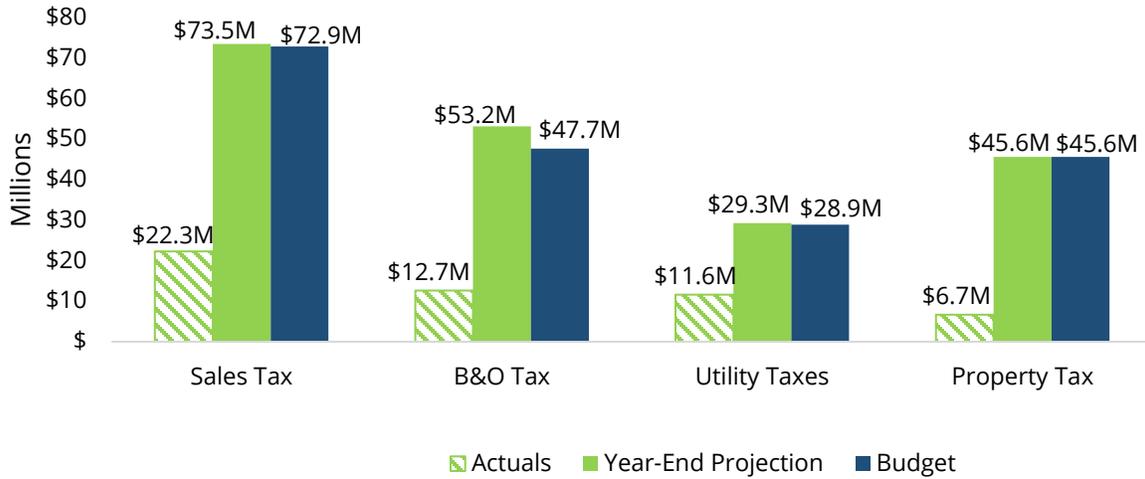


City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

General Fund Performance

General Fund Tax Collections as of June 30, 2023



NOTE: The above graph illustrates the difference between year-to-date collections through June 30, 2023, and the 2023 Amended Budget.

Tax Revenues

Tax revenue collections are projected to meet budget due to strong construction activity, high-than-anticipated consumer activity, and increased utility usage. This is slightly offset by a decrease in court revenues. There is still uncertainty within the economy due to changes to work-from-home policies and the demand for business district activities and office space.

Sales Tax

Sales tax revenue is projected to be 0.8 percent above budget. This is due to increased consumer activity and high construction activity in the City.

Business and Occupation (B&O) Tax

B&O tax revenue collection is projected to be 11.5 percent over budget. This is primarily due to an audit finding and higher-than-anticipated business activity.

Utility Tax

Utility tax collections are projected to be 1.4 percent above budget. This is due to high inflation in this area continuing to lift expectations for electric, gas, and solid waste collections.

Property Tax

Property tax revenue is projected to meet the budget in 2023. The forecast does include the new 2023 park levy increase referenced below.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue’s 2023 total rate is \$0.88 per \$1,000 AV, which includes \$0.04 per \$1,000 of AV for the voter-authorized Parks and Open Space Levy Lid Lift, \$0.08 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.09 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

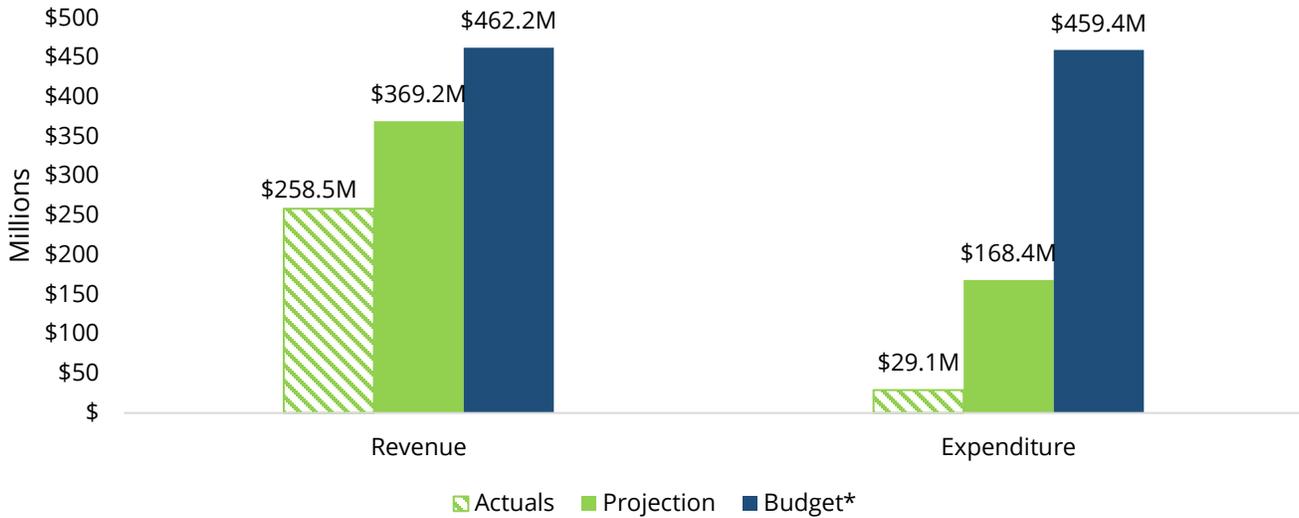


City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

General CIP Performance

General CIP Fund Revenues & Expenditures as of June 30, 2023



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

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

Revenue

Major CIP resources are comprised of taxes, grants, debt, and contributions, including Sales tax, B&O tax, Real Estate Excise Tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity, and Improvement levies approved by voters in 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan that was originally executed in 2017, and refinanced in 2021.

The 2023 CIP includes \$215.0 million in the beginning fund balance dedicated to existing projects in the CIP.

The City projects that Real Estate Excise Tax (REET) collection will be below budget in 2023 by 26 percent or \$4.9 million. The City is anticipating a 36 percent year-over-year decline in REET collection as the housing market slows. B&O tax collections are projected to be over budget by 6 percent in 2023 due to higher-than-anticipated business activity. Sales tax collections are projected to be slightly over budget.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue received two disbursements in the second quarter of 2023, for a total of \$2,803,877.34 and has drawn \$34.7 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

The City expects staff capacity and supply chain challenges to continue but still anticipates planned and unexpected spending to continue in 2023. General CIP expenditures are projected to be \$168.4 million or 37 percent of the available CIP expenditure budget.



City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

Development Services Performance



200 112th Avenue NE

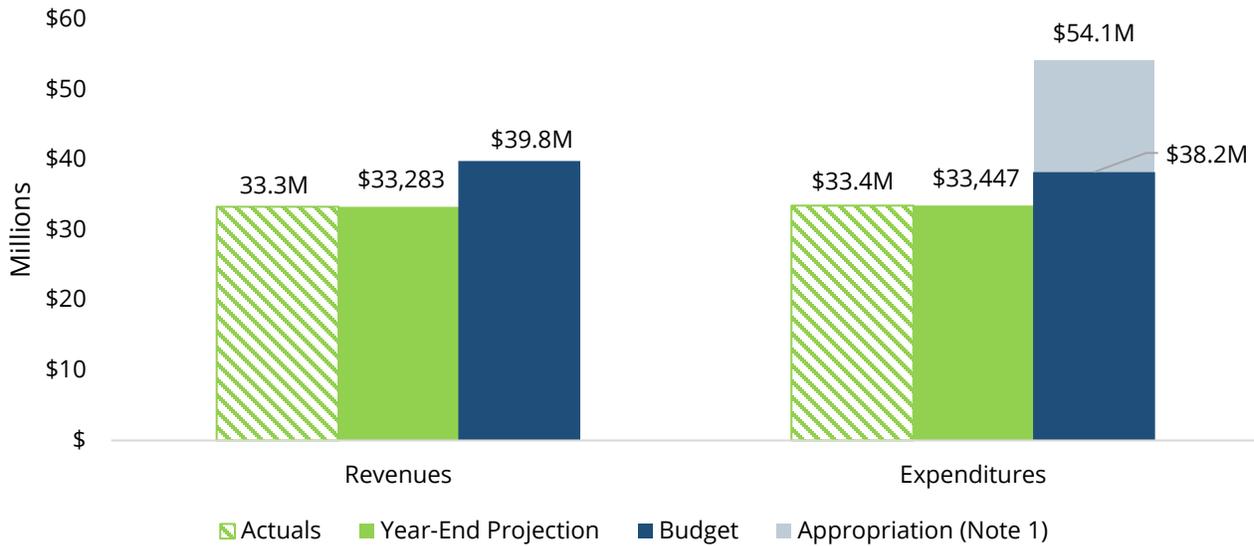


555 108th Avenue NE



10850 NE 8th Street

Development Services Revenues & Expenditures as of June 30, 2023



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 activity continues to generate high workload for all development services as projects move through the review and inspection process. Permit activity has slowed somewhat, which is reflected in lower than anticipated revenue.

Expenditure savings are due to vacant positions and M&O savings. Year-end revenue and expenditure projections are expected to be below budget levels.

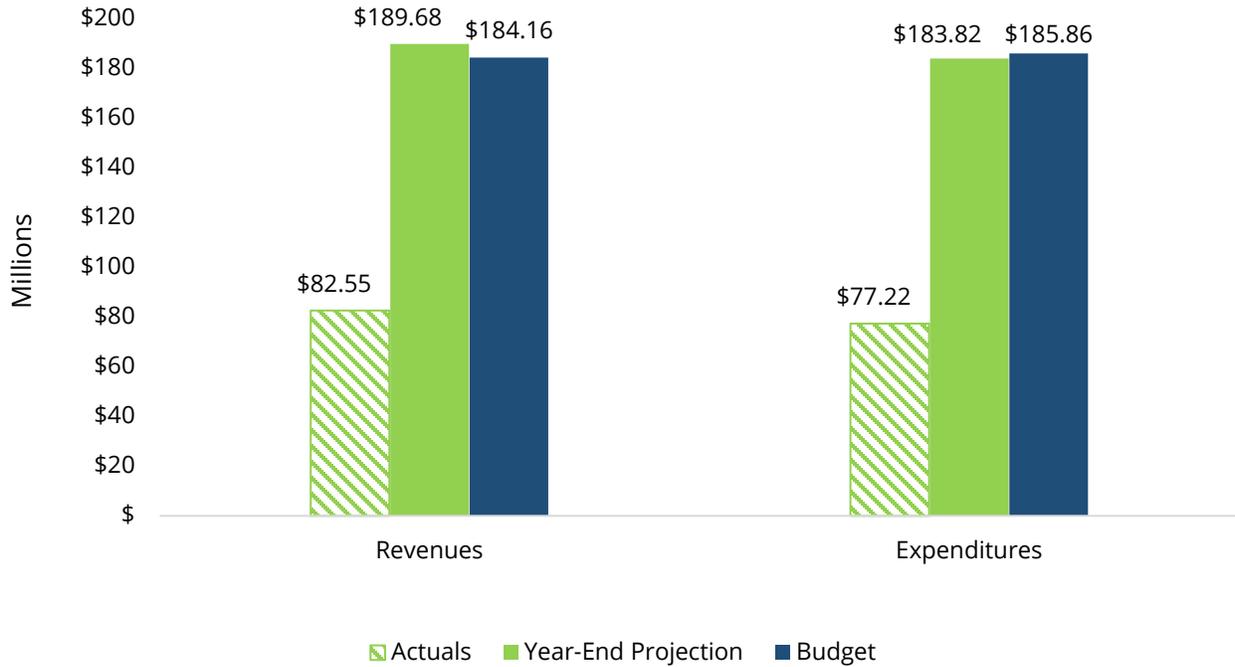


City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

Utilities Operating Funds

Utilities Operating Funds Revenues & Expenditures as of June 30, 2023



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

Utility year-to-date revenues are within expectations. Year-end revenues are forecasted to exceed budget due to higher-than-expected water and sewer usage. This is driven by warmer and drier weather, and higher than anticipated commercial usage.

Utility year-to-date expenditures are within expectations. Year-end expenditures are forecasted to be below budget primarily due to vacancy savings. This is partially offset by higher than anticipated credit card processing costs.

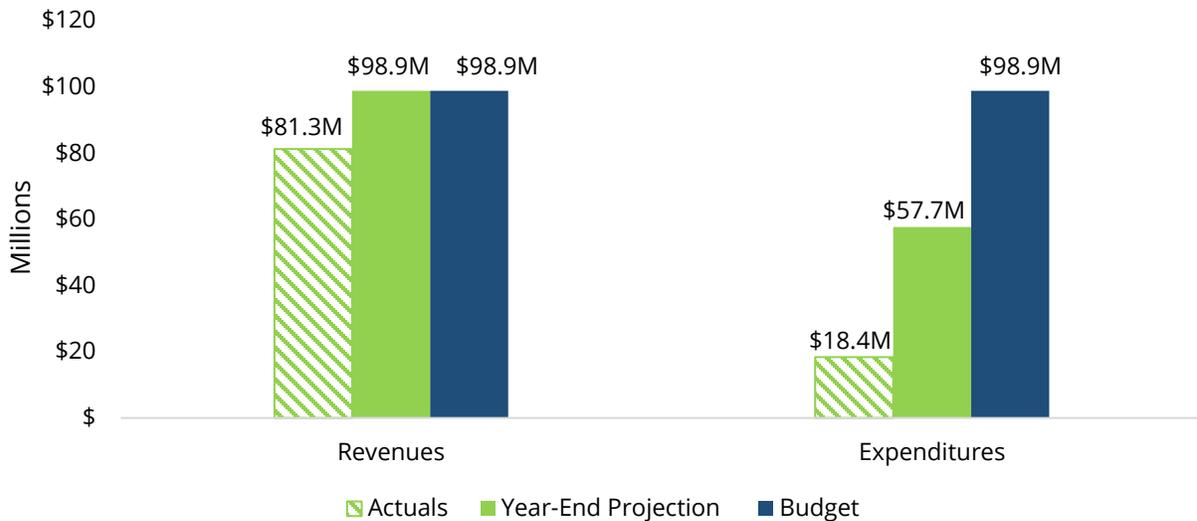


City of Bellevue Budget Monitoring Report

For the period January 1 through June 30, 2023

Utilities CIP

Utilities CIP Revenues & Expenditures as of June 30, 2023



NOTE 1: Total available budget excludes bank capacity projects - \$8.8 million for East Link and \$22.7 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative).

CIP Revenues are expected to be at budgeted levels at year-end. Actual revenues reflect funding for projects budgeted in previous years.

CIP Expenditures are expected to be at approximately 58 percent of budgeted levels at year end. CIP expenditures reflect delays for several major projects due to one or more of the following factors - ongoing supply chain/materials availability issues, environmental permitting delays, property acquisition issues, and staff turnover.

Examples of projects impacted by these ongoing factors include:

- Factoria Blvd Conveyance Improvements
- Horizon View 2 Reservoir and Pump Station
- Bogline Sewer Line Replacement
- Advanced Metering Infrastructure (AMI)
- Operations & Maintenance Yard Project

The majority of the anticipated unspent 2023 budgeted funds will be needed for project delivery within the current CIP period.