



Date: December 15, 2023
To: Mayor Lynne Robinson and City Councilmembers
From: John Resha, Chief Financial Officer, Finance & Asset Management
Subject: 2023 Third Quarter Budget Monitoring Report

Attached is the 2023 Third Quarter Budget Monitoring Report for the period ending September 30, 2023. Numerous economic factors make for uncertain economic forecasting including, but not limited to slowing inflation, 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 2 percent or \$5.2 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 in decreased construction sales tax collections.
- General Fund expenditures are projected to be 1.3 percent or \$3.4 million over budget in 2023. The increase is primarily due to an L&I claim, and increased BPOG retrospective payments, drainage, and electricity costs which 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 \$127.8 million or 28 percent of the available CIP expenditure budget.

Please feel free to contact me at 425-452-2567 with any questions you may have.

Sincerely,

John Resha, Chief Financial Officer, Finance & Asset Management

Attachment

2023 Third Quarter Budget Monitoring Report

Cc: Diane Carlson, Acting City Manager
Leadership Team



City of Bellevue Budget Monitoring Report

For the period January 1 through September 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 Amended 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 September 2023.

In the third quarter of 2023 the national GDP grew by 4.9 percent annually, the fastest annual growth since the 2021 boom driven by the flurry of pent-up demand after the pandemic shutdowns in 2020. This growth exceeded expectations and defied predictions that the interest rate increases would prompt an economic slowdown. The sharp jump is driven largely by changes in private inventories and personal consumption. The increase in private inventory investment reflect increases in retail trade ([BEA](#)) and a slower drawdown in wholesalers' inventories of nondurable goods ([U.S. Treasury](#)) as the global supply chain crisis in the wake of the pandemic resolves itself. This is a volatile line, which moved from negative 2.22 percent annual growth in the first quarter 2023 to 1.32 percent growth in the third quarter 2023 and is the main reason why the overall GDP doubled from the first quarter to the third quarter 2023. Personal consumption was driven by increases in the annual growth for both goods and services, which rebounded to surpass the first quarter numbers after a slump in the second quarter. Within goods, the largest durable goods growth was seen in recreational goods and vehicles, such as motorhomes; and the largest nondurable goods growth was seen in prescription drugs ([BEA](#)). Within services, the largest contributor was housing and utilities, which similarly recovered after a second quarter slump.

Both private inventories and consumer spending are closely related to US retail sales, which for the third quarter in 2023 was up 3.1 percent from the same time period in 2022 ([Census](#)). The US consumer is still going strong despite persistent, yet slowing, inflation. This is in part due to wages increasing at a slightly higher pace

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%

than inflation, due to a tight labor market ([BLS](#)). This combination of slowing inflation and outpacing wages has lifted purchasing power which made the accelerated growth of personal consumption possible. Another contributing factor in the spending of the U.S. consumer is a 15.7 percent annual increase in credit card debt balance in the second quarter of 2022 ([NY Fed](#)).

The U.S. consumer confidence has improved in the third quarter 2023 compared to 2022, based on the Index of Consumer Expectations which asks consumers how they view the prospects for their own financial situation, for the general economy over the near term, and how they view the prospects of the general economy over the long term ([University of Michigan](#)). The U.S. economy posted strong numbers in many areas as discussed, but it should be noted that in August 2023 Fitch downgraded the U.S. sovereign debt rating from AAA to AA+ ([House Budget Committee](#)) and a number of uncertainties on the world stage remain.



City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

Regional Economy

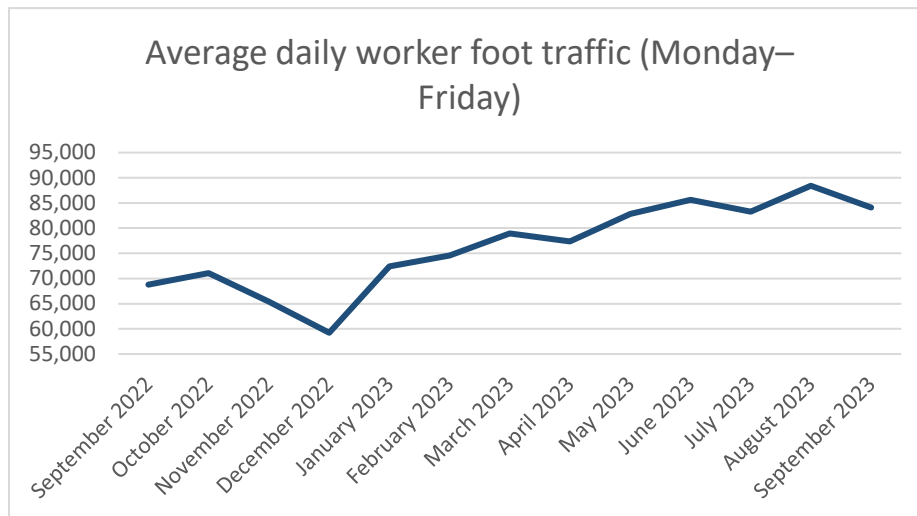
The Federal Reserve's aggressive interest rate increases since 2022 have led to increases in costs in residential and commercial real estate. In the Seattle region, the multifamily residential market is feeling the cooling effects as projects under construction are down by 5.8 percent ([Kidder Mathews](#)). Visually this can be seen across Seattle as a decrease in the number of construction cranes over the last six months ([Puget Sound Business Journal](#)) with decreases in residential projects. In Bellevue, sales tax receipts from those in the construction industry slowed in August 2023. Meanwhile, the number of occupied apartment units in Seattle increased by 3.8 percent in September 2023 compared to September 2022 ([Downtown Seattle](#)).

The regional office market continued to deal with rising vacancy rates with regional office vacancy at 12.9 percent in the third quarter of 2023, compared with 10.4 percent during the same time period in 2022 ([Kidder Mathews](#)). In Seattle, worker foot traffic increased by 21.0 percent compared to September 2022 ([Downtown Seattle](#)). The Eastside had over 20 inquiries from tenants needing a full floor or greater which is a welcome increase after two years of slow activity, however the Eastside market has a 14.0 percent vacancy rate in the third quarter 2023 (Broderick Group).

Bellevue Economy

In August 2023, the Sound Transit Board unanimously approved moving forward on the East Link light rail Starter line to open in March 2024. This new approved plan will open Eastside-only service from South Bellevue to the Redmond East Link light rail segment. The starter line is projected to draw 6,000 daily boardings in 2024; with the projection jumping to 43,000 as a low end estimate of daily riders in 2026 when the 2 line should run from Lynnwood, through downtown Seattle, to Redmond ([Sound Transit](#)).

Bellevue tourism continues to rebound, with occupancy rates of hotels increasing by 2 percent year-to-date by September 2023 compared to the same time period in 2022. In the same time period overnight visitors also increased by 2 percent, and these visitors increased their average spending per trip by 10 percent. The economic impact of these visitors increased by 6 percent on an annual basis (Visit Bellevue). The Bellevue-Redmond Tourism Promotion Area Advisory Board met for the first time in August 2023. It is estimated that this new Tourism Promotion Area will impact the region by improving citywide hotel occupancy by 12 percent and weekend occupancy by 9 percent, with corresponding increases in visitor spending and overall economic impact ([Bellevue-Redmond TPA](#)).



Source: Downtown Seattle

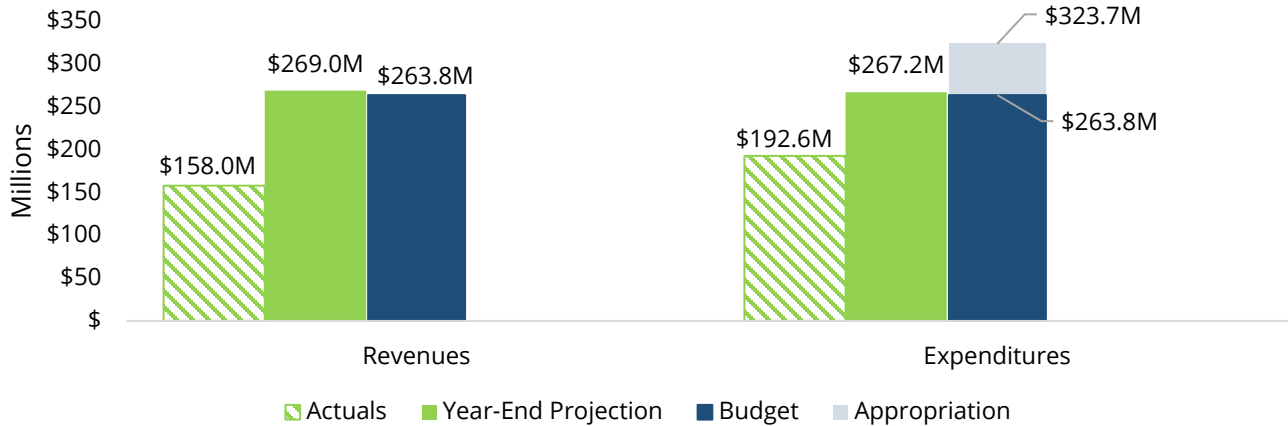


City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

General Fund Performance

General Fund Revenues and Expenditures as of September 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 September 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 1.97 percent or \$5.2 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 in decreased construction sales tax receipts. Additionally, the City has seen an uptick in recreational park fees as more residents are accessing facilities during the summer months.

Although the City expects the positive trend to persist through year-end, the City is aware of the potential factors that could impact the current revenue projection, such as a persistently tight labor market.

Expenditures

Expenditures are projected to be 1.29 percent or \$3.4M over budget in 2023. The increase is primarily due to an L&I claim, increased BPOG retrospective payments, 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 1.2 percent compared to 2022 year-end and be 25.4 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.

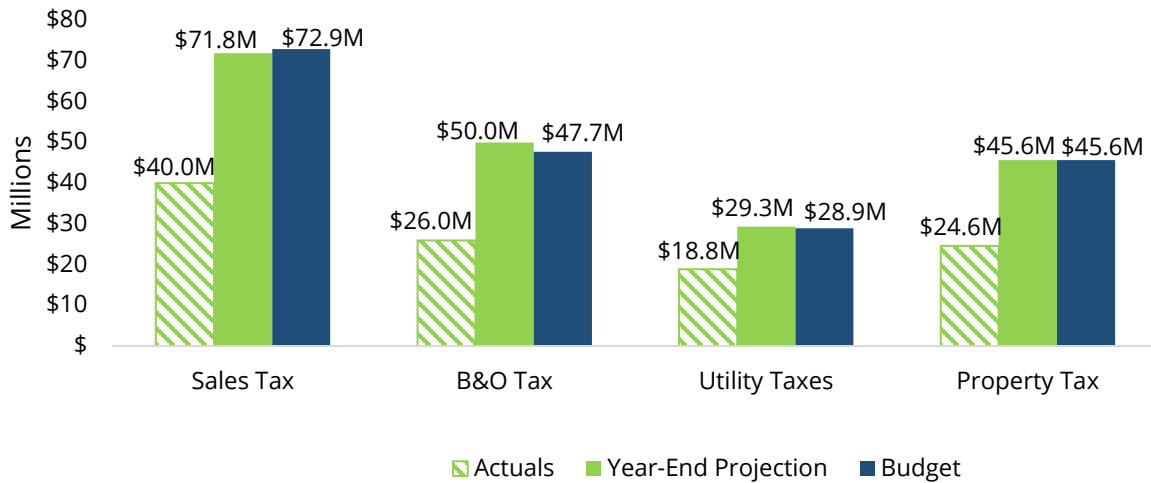


City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

General Fund Performance

General Fund Tax Collections as of September 30, 2023



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

Tax Revenues

Tax revenue collections are projected to exceed budget due to higher-than-anticipated consumer activity, and increased utility usage. This is slightly offset due to downward revision on weaker construction sales tax collection. 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

As inflationary supply chain issues relax, prices are decreasing particularly with used vehicles. Also, higher interest rates are affecting sales. Sales tax revenue is projected to be 1.5 percent below budget in part due to weak construction sales collection in the third quarter in addition to the lower auto sales tax collection previously reported.

Business and Occupation (B&O) Tax

B&O tax revenue collection is projected to be 4.8 percent over budget. This is primarily due to 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.

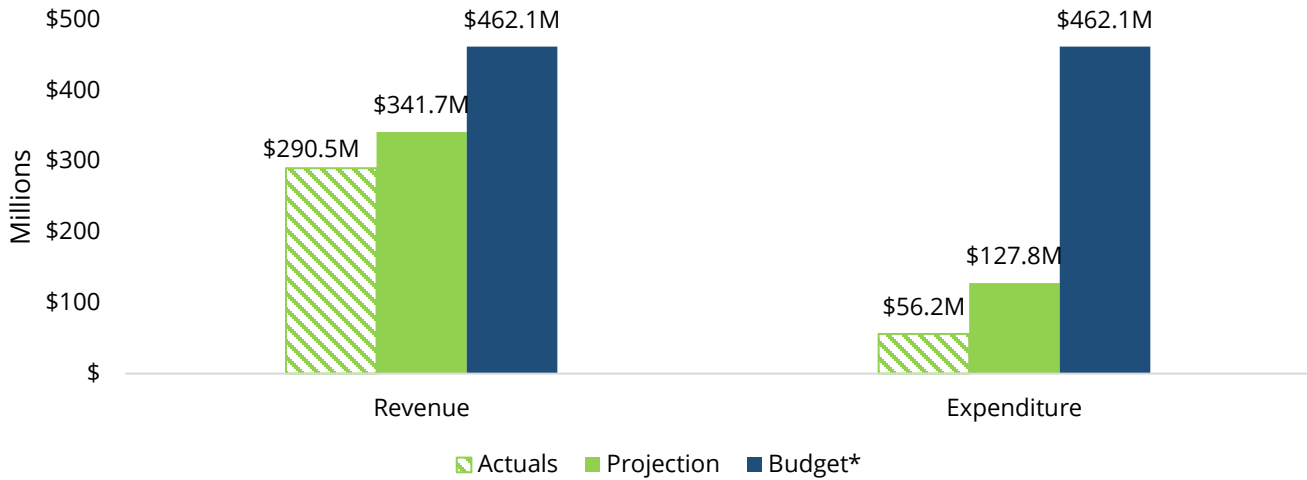


City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

General CIP Performance

General CIP Fund Revenues & Expenditures as of September 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 25 percent or \$4.7 million. The City is anticipating a 35 percent year-over-year decline in REET collection as the housing market slows. B&O tax collections are projected to be over budget by 5 percent in 2023 due to higher-than-anticipated business activity. Sales tax collections are projected to be slightly under budget.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue received one disbursement in the third quarter of 2023 for \$4,241,780.67 and has drawn \$38.9 million over the life of the loan. The City continues to monitor sites regularly for appropriate safety measures, engage with contractors, local jurisdictions, and other agencies to identify workforce labor and potential supply chain issues throughout the region. 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 \$127.8 million or 28 percent of the available CIP expenditure budget.



City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

Development Services Performance



100 112th Avenue NE

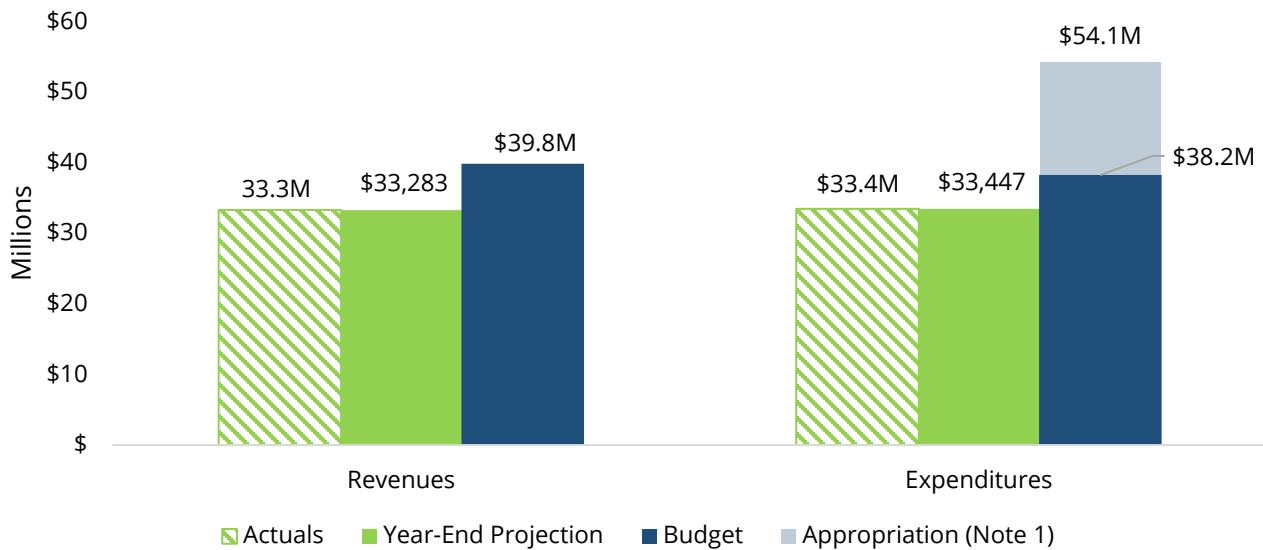


8 100th Avenue NE



10666 NE 8th Street

Development Services Revenues & Expenditures as of September 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. Yearend revenue projections are expected to be below budget levels.

Yearend expenditure projections are expected to be below budget levels. Expenditure savings are due to vacant positions and M&O savings.

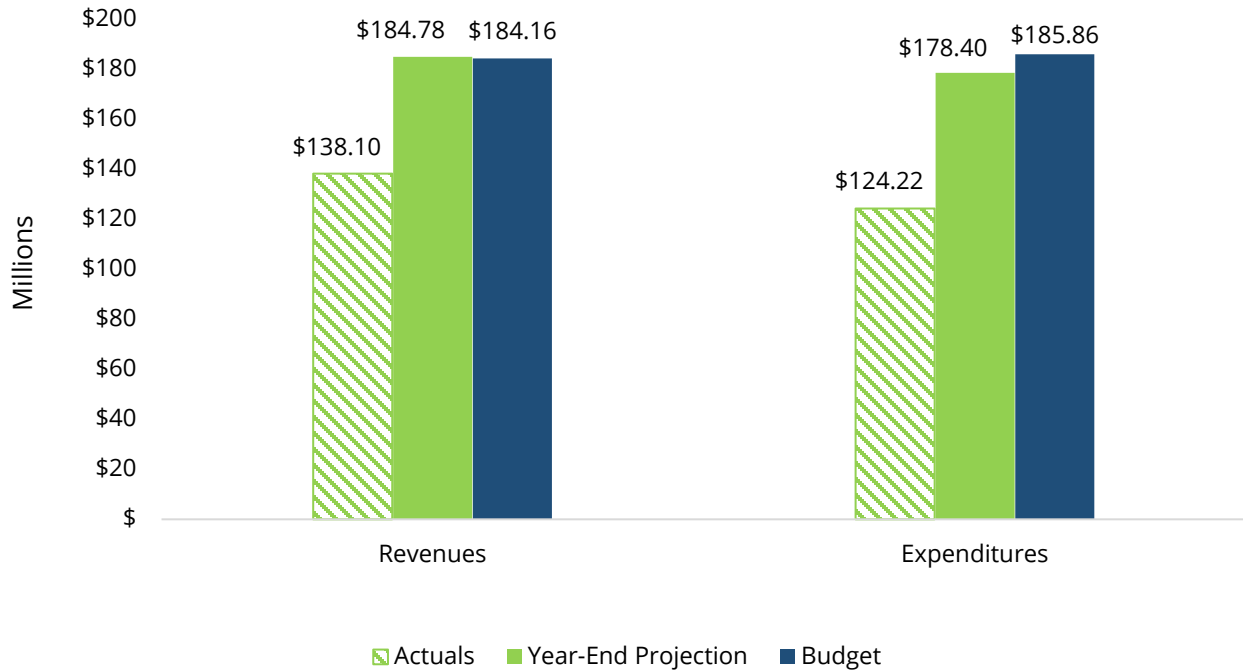


City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

Utilities Operating Funds

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



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

Year-end revenues are forecasted to exceed the budget primarily due to higher-than-expected sewer and water usage. This is largely driven by higher than anticipated commercial usage and warmer / drier spring weather.

Year-end expenditures are forecasted to be below budget primarily due to vacancy savings, delayed capital equipment purchases, and lower than expected Regional Capital Facilities Charges paid to Cascade Water Alliance.

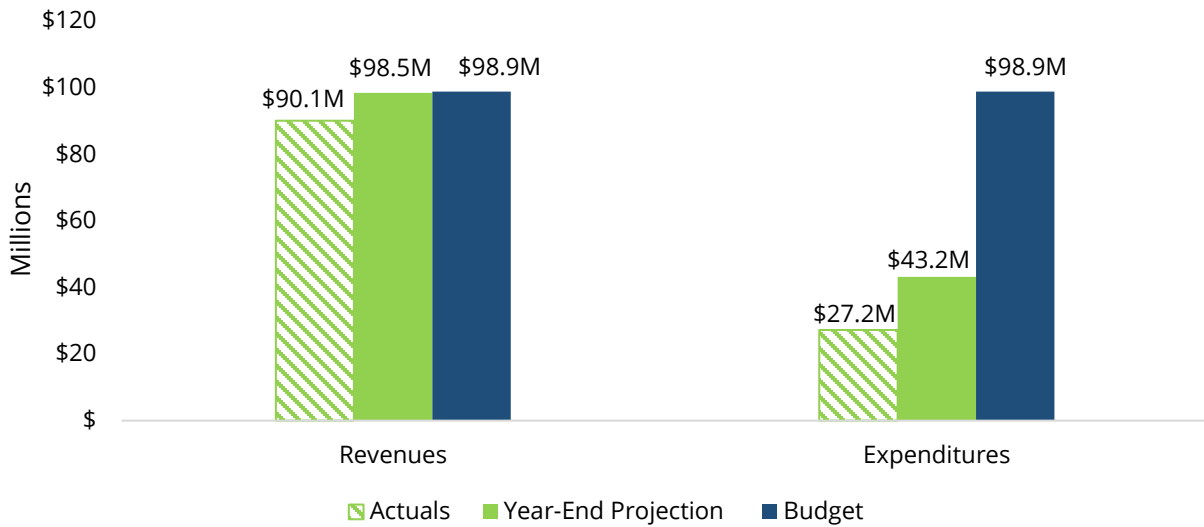


City of Bellevue Budget Monitoring Report

For the period January 1 through September 30, 2023

Utilities CIP

Utilities CIP Revenues & Expenditures as of September 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 slightly under budget at year end due to the timing of grant reimbursements. Actual revenues include funding for projects budgeted in previous years.

CIP expenditures are expected to be at approximately 44% 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.