



City of Bellevue

MEMORANDUM

Phone: 425-452-7863
Date: August 15, 2022
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2022 Second Quarter Budget Monitoring Report

Attached is the 2022 Second Quarter Budget Monitoring Report for the period ending June 30, 2022. The impacts of COVID-19 and its variants, the war in Ukraine, and continued national inflation all pose challenges to the City, and we will continue to address these impacts as they arise. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Notable items – update on the General Fund:

- General Fund revenue collections are projected to be 3.7 percent or \$8.6 million above budget in 2022. This is primarily driven by the timing of a receivable due in 2021 which was paid in spring 2022, and one time construction activity and associated right of way revenues.
- General Fund expenditures are projected to be 0.7 percent or \$995,000 above budget in 2022 due to rising inflation levels and supply chain disruptions. These impacts are offset by department savings and underspending in projects that are experiencing supply disruptions. Expenditure projections reflect a gradual resumption of activity at City facilities including recreation spaces. Staff will monitor expenditures throughout the year and will update projections as economic and public health behaviors dictate.
- The General Fund reserve is projected to be 24.5 percent at year-end 2022. At the March 7 Budget Workshop, the forecast reviewed included the assumption that 2022 would be at 24 percent. Current projections are in alignment. The City maintained reserves above the Council reserve policy in 2021 of 15 percent and is on course to do the same in 2022.
- The Bureau of Labor Statistics' seasonally adjusted annual Consumer Price Index for All Urban Consumers (CPI-U) stood at 9.1 percent as of June 2022. In the March 7th budget workshop, staff highlighted the inflationary impact on 2022 through 2026. However, impacts of inflation are currently impacting the costs of services, construction materials and other goods the City purchases. Inflationary pressures remain highly uncertain in the near-term and long-term.

Please feel free to contact me at 425-452-7863 with any questions you may have.

Sincerely,

Toni Call, Director of Finance & Asset Management

Attachment

2022 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 2022

Economic Performance

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

The City will continue to take fiscally responsible actions regarding the impacts of the ongoing variants of COVID-19, and will actively manage the long-term fiscal sustainability of the city. This monitoring report reflects the impacts to the city as of June 2022.

U.S. Economy

The GDP growth in the second quarter of 2022 was -0.9 percent following a 1.6 percent decline in the first quarter of 2022 (Bureau of Economic Analysis). There are a variety of factors contributing to the decline: housing investment is down, reflecting a decrease in brokers' commissions as the market cools with the interest rate hikes and government spending was down as nondefense spending decreased. This was offset partially by an increase in defense spending. On the positive side, exports increased reflecting both goods like industrial supplies and materials and services like travel.

The economy has reopened, despite the pandemic continuing, and the strong demand combined with ongoing supply issues have contributed to increased inflation. In June 2022, the consumer price index (CPI) increased at 9.1 percent nationally year-on-year, the hottest inflation in more than 41 years (BLS). The prices for used cars and trucks showed an increase of 7.1 percent in June 2022 and new vehicle prices remain elevated at 11.4 percent in June 2022. Overall food prices increased 10.4 percent year over year in June 2022, and shelter costs increased 5.6 percent.

Performance at a Glance

Pg. 3	General Fund Revenue Actual vs Expenditure Actual	
Pg. 4	General Fund Revenue Performance as Compared to Budget	
Pg. 5	General CIP Revenue Actual vs Expenditure Actual	
Pg. 6	Development Services Revenue Actual vs Expenditure Actual	
Pg. 7	Utilities Operating Funds Revenue Actual vs Expenditure Actual	
Pg. 7	Utilities CIP Revenue Actual vs Expenditure Actual	

Legend:

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

In order to rein in inflation the FED implemented its most aggressive interest rate hike since 1994 by raising its benchmark interest rates three quarters of a percentage point in June 2022 (Source: Federal Reserve). The FED's message has been that they will continue to raise rates until inflation is tamed. These interest rate hikes have influenced the real estate market, with the higher mortgage rates cooling the demand for housing (Source: Redfin).

The economy still faces much uncertainty from a variety of different directions: the FED increasing interest rates, ongoing supply chain issues, the war in Ukraine continues to put pressures on the prices of gas and oil, the risk of new variants continues as the pandemic lingers, and inflation remains a concern.

Regional Economy

Housing construction in Washington remained strong due to high demand for multi-family units (Washington ERFC). Home prices statewide increased 9.2 percent in June 2022 from June 2021, but the number of homes sold dropped by 19.4 percent in the same time frame (Redfin). The diminishing number of homes sold is in part due to the increase in interest rates applied by the FED to combat inflation. The first rate increase of 2022 occurred in March, which is when the median sales prices in Bellevue peaked as shown in the below graph.

Inflation was only slightly offset by an increase in income in the state of Washington. Wages and salaries for private industry workers in the Seattle-Tacoma region increased in the second quarter of 2022 by 5.4 percent year on year, compared to the first quarter year on year increase of 4.5 percent (BLS). The consumer is losing some purchasing power as a result within the area.

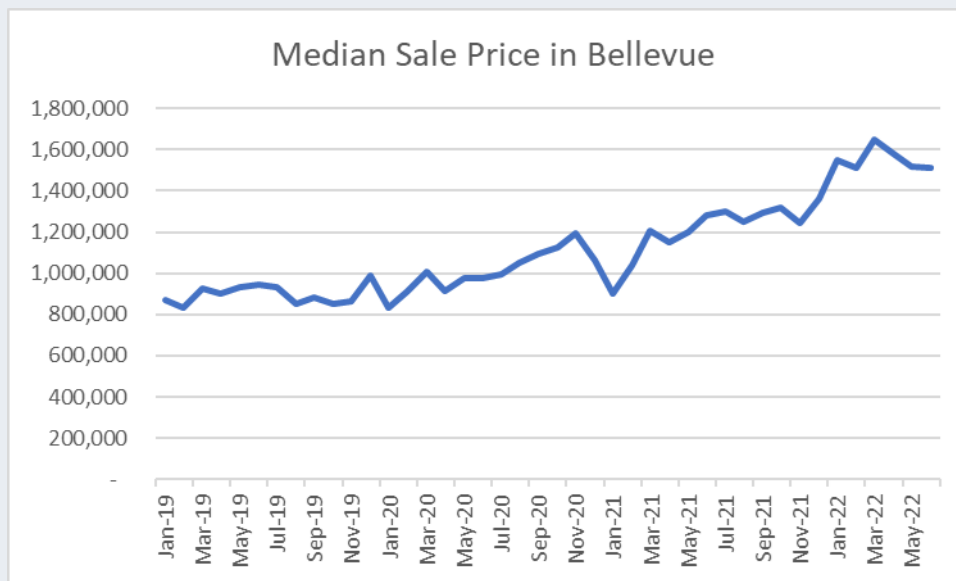
In the Seattle-Tacoma-Bellevue economy the labor market continued to be tight. In May 2022 the unemployment rate was 2.8 percent compared to the pre-pandemic level of 3.2 percent in May 2019. The sector with the largest year-on-year increases in employment was the leisure and hospitality industry which saw 19.6 percent growth in May 2022 year-over-year. Information services increased by 9.3 percent, professional and business services rose by 7.3 percent, and construction increased by 3.7 percent (Source: Bureau of Labor Statistics). The tourism industry is recovering as well, with occupancy rates increasing to 71.9 percent in the second quarter of 2022 compared to 51.9 percent in 2021 and 23.5 percent in 2020 (Kidder).

Bellevue Economy

The City of Bellevue and many others in the area opened for in-person activities beginning in April 2022. Companies are downsizing their office spaces to reflect hybrid environments. There were leases downsized in City Center Bellevue and Plaza East, and one company opted to not renew their lease in the I-90 area (Broderick Group). But despite some rightsizing, Bellevue remains an attractive location for companies. Amazon will have 10,000 workers in the city of Bellevue by the summer of 2022 (Seattle Times).

In June 2022 the home prices in the city of Bellevue were up 18 percent year on year (Source: RedFin). New private housing units authorized by building permits for the Seattle-Tacoma-Bellevue region increased by over 30 percent in April 2022 compared to April 2021 (FRED) as the area struggles to meet housing demand. Median rental price for a one-bedroom apartment in Bellevue, WA increased 38 percent between June 2021 and June 2022 to \$2,515 which is 56 percent higher than the national average (Zillow).

Seattle Teamsters agreed in April for concrete truck drivers in the area to return to work after a 140-day-long strike, despite a lack of contract resolution. This was an act of good faith from the union as negotiations continued with federal mediators. Despite the long strike, total construction activity for the area in 2022 has increased 14 percent over the same time period in 2021 (Dodge). New private housing building permits for the area increased by 109 percent year on year in June 2022 (FRED). This is in part due to the backlog in demand due to the strike.

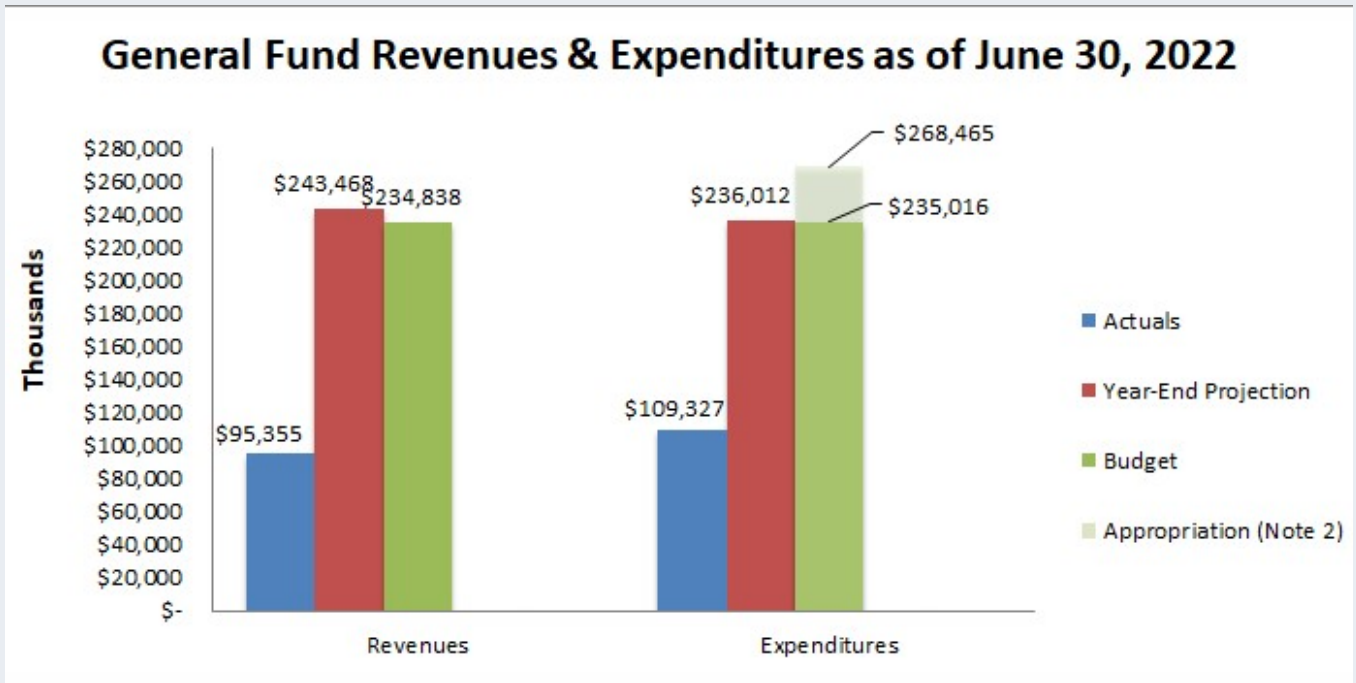


Source: Redfin

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2022

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, amended budget, and budget appropriation (includes fund balance).

Note 2: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas Appropriation includes budgeted expenditures and fund balance (reserves).

Revenue

General Fund revenue collections are projected to be \$8.6 million (3.7 percent) above budget in 2022. The increase is due to strong construction activity and associated right-of-way leases, and the timing of a large receivable due in 2021 yet received in 2022. Generally, construction tax revenue is one-time revenue as long as the development cycle continues. The impacts from COVID-19 still remain uncertain and increased levels of economic activity are dependent on factors in the broader economy, continued expansion of vaccine doses and booster shots, low positive case rates, and limited public health impacts from COVID-19 variants.

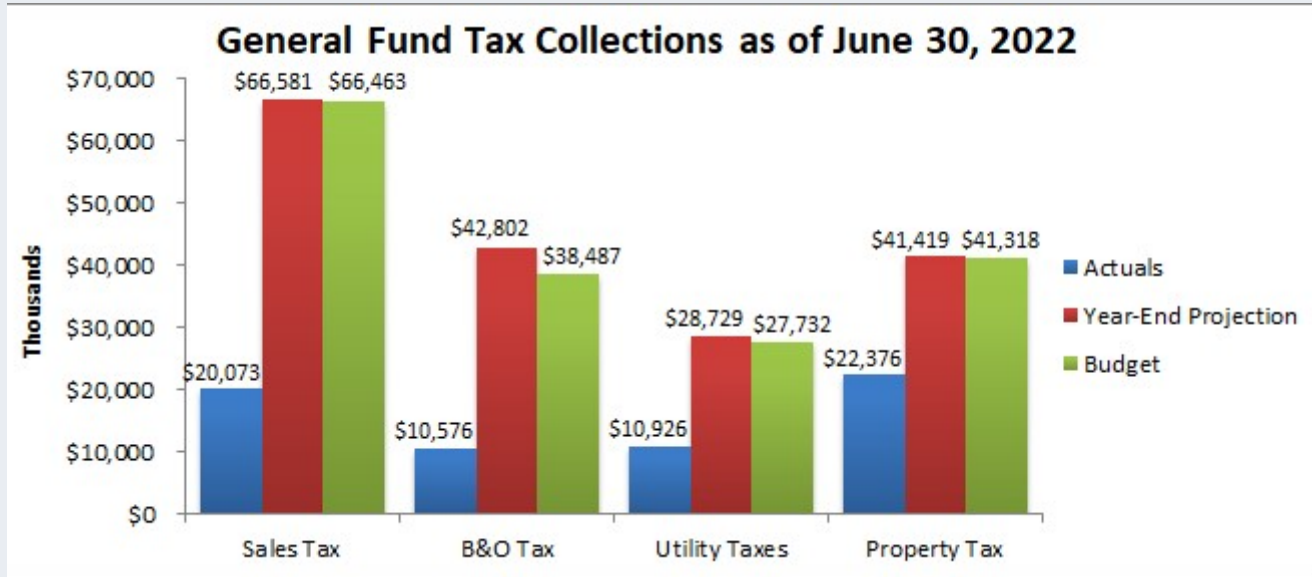
Expenditures

Expenditures are projected to be \$995,000 (0.7 percent) above budget in 2022. This is primarily because the General Fund has seen increased costs for goods and services due to rising inflation levels and supply chain disruptions. This is offset by department M&O savings stemming from reduced capacity in City facilities in response to COVID-19 public health orders, as well as personnel savings from vacancies throughout the City. As the impacts and response to COVID-19 persist and the war in Ukraine progresses, the City is continually monitoring and taking appropriate action as needed to ensure the fiscal sustainability of the city.

Change in Fund Balance

The General Fund reserve as a percentage of General Fund revenues is projected to be 24.5 percent by the end of 2022, which aligns with the forecast present to Council at the March 7 Budget Workshop. This projection will maintain reserves above the Council reserve policy in 2022.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through June and the 2022 amended budget.

Tax Revenues

Economic activity has continued to increase as the state and regional economy have reopened. Tax revenue is projected higher than budgeted due to high inflation and the faster than expected economic recovery, along with high levels of construction and development activity in the City of Bellevue. However, the full extent of the future impacts of COVID-19 remains uncertain, and the Budget Office will continue to monitor for ongoing impacts to revenue collection.

Sales Tax

The sales tax collection projection for the City of Bellevue is estimated to be 0.18 percent above budget, including the impact from higher inflation. The economic recovery continues with high levels of construction and development activity in the city, as well as the elimination of the mask mandate in March 2022.

Business and Occupation Tax

B&O tax collection is projected to be 11.2 percent above budget, due to construction activity and the timing of a receivable in 2022 which was due in 2021. With the mask mandate lifted, most industry sectors' customers returned to their usual capacity and operations.

Utility Tax

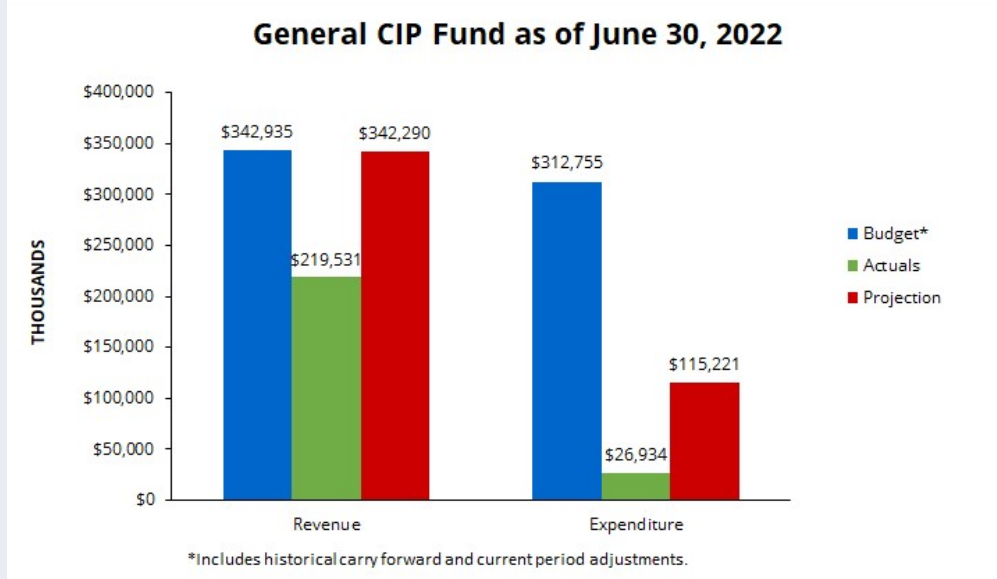
Utility tax collections are projected to be 3.6 percent over budget. This is largely due to the increase in gas prices as a result of geopolitical instability. They are also driven by increased electricity utility taxes and water utility taxes. Increased utility taxes are estimated to be partially offset by lower cell phone and television cable tax collections.

Property Tax

Property tax revenue collection is projected to be 0.2 percent above budget in 2022. COVID-19 did not have any significant impact on the timing of payments or the collection of revenue in 2021, and likely will not through 2022.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2022 total levy rate is \$0.84 per \$1,000 AV, which includes \$0.05 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.09 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.11 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

GENERAL CIP PERFORMANCE



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

Resources

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

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

Real Estate Excise Tax (REET) - a historically volatile revenue source - is projected higher than anticipated in 2022 at approximately \$25.0 million in revenue collected by year-end. This forecasted increase in REET revenue collection is primarily driven by increased real estate prices and large transactions over \$50 million. The increase in REET revenue is one-time revenue and will fluctuate annually based on real estate market prices and transaction volume. However, CIP resources, including REET, will be reprioritized in the 2023-2024 budget development process to ensure that that all projects are evaluated in context of Council priorities and the needs of the city.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue secured a refinance for the TIFIA loan from the original 2.86 percent down to 1.86 percent as of December 2021. This will save the City over \$20 million over the life of the loan. The City of Bellevue received two TIFIA loan distributions through the first half of 2022, and has drawn \$25.9 million over the life of the loan. The City continues to monitor sites regularly for appropriate safety measures, engage with contractors, local jurisdictions, and other agencies to identify workforce labor and potential supply chain issues throughout the region.

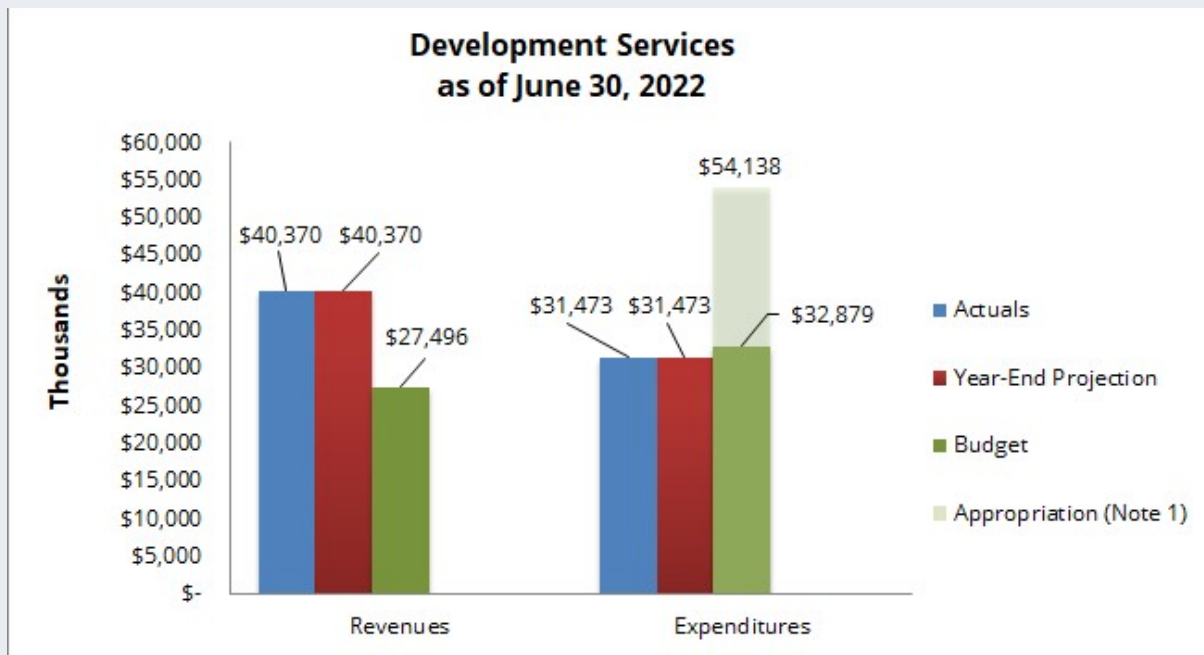
Expenditures

It is anticipated that some CIP projects will experience delays in 2022 mainly due to staffing, and supply chain challenges. General CIP expenditures are projected to be \$115.2 million as of year-end, or 36.8 percent of the available CIP expenditure budget.

DEVELOPMENT SERVICES PERFORMANCE



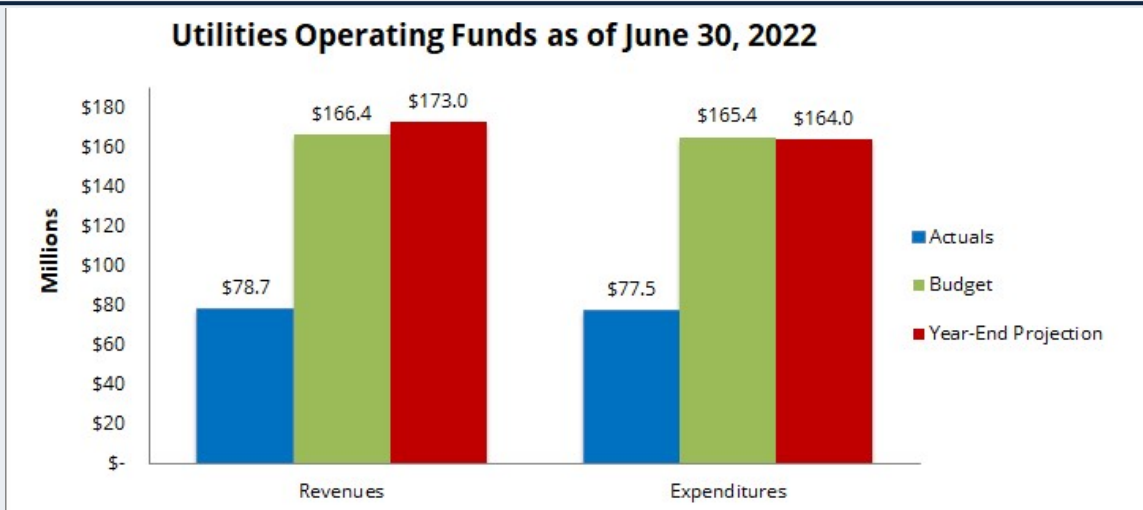
112th and Main



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

Development continues to generate high activity and workload for all development services. Permit activity has exceeded pre-pandemic levels and is anticipated to remain high through 2022. Revenues are projected to be 46.8 percent over budget, a result of fees for several projects that are in review and in construction in Bellevue. Expenditure savings are for vacant position and maintenance & operations (M&O) savings.

UTILITIES OPERATING FUNDS

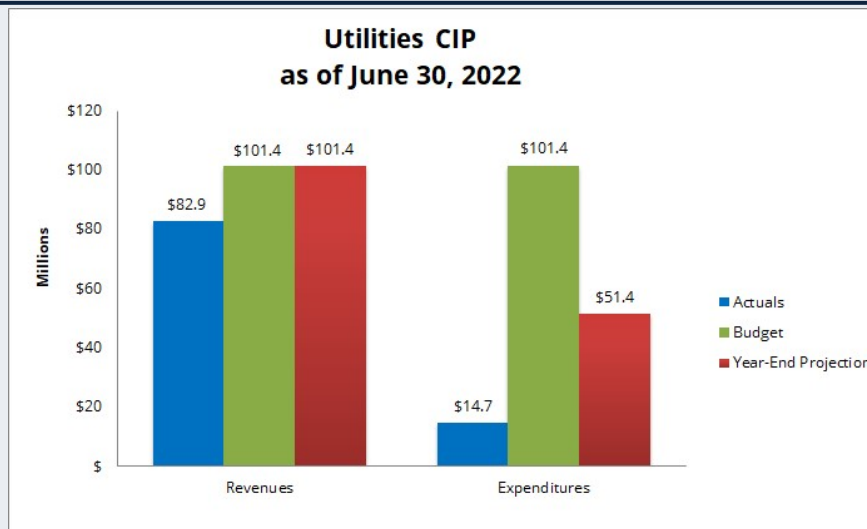


Note 1: The legal appropriation includes budgeted expenditures and fund balance (reserves)

Utilities' year-to-date revenues exceed expectations primarily due to greater than anticipated water and sewer service revenues. This is largely due to higher commercial water consumption from continued improvement in economic activity. Year-end revenues are forecasted to exceed budget.

Utilities' year-to-date expenditures exceed expectations primarily due to higher than anticipated taxes as a result of strong revenues. This is partially offset by vacancy savings. Progress on filling vacant Utilities positions has been made and some vacancy savings are expected in the second half of the year. As a result, year-end expenditures are forecasted to be below budget.

UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$18.7 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.5 million for water facilities for Spring Blvd.

CIP revenues are expected to be at budgeted levels at year end. Actual revenues reflect funding for projects budgeted in prior years. CIP expenditures are expected to be at about 51 percent of budgeted levels at year end. Expenditures reflect delays for several major projects due to ongoing supply chain and materials issues, environmental permitting delays, property acquisition issues, and staff capacity. Key projects impacted include Pike's Peak Reservoir and Advanced Metering Infrastructure (AMI). The majority of unspent 2022 budgeted funds will carryforward for projects into 2023.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2022