



Date: June 30, 2023  
To: Mayor Lynne Robinson and City Councilmembers  
From: John Resha, Director, Finance & Asset Management  
Subject: 2023 First Quarter Budget Monitoring Report

Attached is the 2023 First Quarter Budget Monitoring Report for the period ending March 31, 2023. The City still faces challenges such as uncertainties within the banking industry, federal monetary policy, higher than usual inflation, and the continuation of labor market tightness. Staff will continue to address and communicate these impacts as they arise. 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 3.5 percent or \$9.4 million above budget in 2023. The increase is due to an increase in investment interest, Right-of-Way leases, a modest increase in sales tax and B&O tax and increases in the utility tax and amusement revenues.
- General Fund expenditures are projected to be 0.3 percent or \$860 thousand under budget in 2023. This is primarily due to projected department personnel savings from vacancies throughout the city. Departments are anticipating increased recruitment efforts, which will have an impact on spending as staff capacity increases and work on projects increases.
- The General Fund reserve as a percentage of General Fund revenues is projected to slightly increase by 1.9 percent compared to 2022 year-end and be 26.1 percent in 2023.
- The City expects staff capacity and supply chain challenges to continue to impact CIP Fund expenditures. However, the City still anticipates higher spending in 2023 compared to 2022 due to the completion of several projects and the start of construction on new projects such as Fire Station 10, with expected construction to begin in Q2.

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

Sincerely,

John Resha, Director, Finance & Asset Management

Attachment

2023 First Quarter Budget Monitoring Report

Cc: Brad Miyake, City Manager  
Leadership Team



# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 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 Adopted 2023-2024 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 to actively manage the long-term fiscal sustainability of the City in the face of persistent inflation and tightening monetary policy. This monitoring report reflects the impacts to the City as of March 2023.

In the first quarter of 2023 the national GDP grew 1.1 percent according to the advance estimate released by the Bureau of Economic Analysis. This increase was driven by increases in government spending, exports, and consumer spending. The increase in consumer spending was on both goods and services, with goods being led by motor vehicles and services being driven by health care. The GDP growth was partially offset by a decrease in residential fixed investments, which are buildings and equipment rented out to tenants but owned by landlords. The leading contributor within residential fixed investment was the decrease to new single-family home construction (BEA).

Nationally, the labor market as a whole is still tight with the unemployment rate unchanged at 3.5 percent. The labor force participation rate is at 62.6 percent and has been steadily trending upwards since June 2020 (BLS).

The Core Consumer Price Index (CPI), which includes all items less energy and food, was at 5.6 percent annually in March 2023. Large contributors to the increase in the index were transportation services, which increased 13.9 percent annually, and shelter, which increased 8.2 percent. There was a decrease in used cars and trucks of 11.2 percent (BLS). The continuation of the inflationary environment has

## Performance at a Glance

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

### Legend:

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

bolstered the Federal Reserves' strategy of rate increases. The interest rates went up a quarter point in March 2023 (FED). As inflation continues to be higher than the Federal Reserve prefers, they will likely continue their interest rate increases despite recent turmoil in the banking sector. In mid-March 2023, both the Silicon Valley Bank in California and the Signature Bank in New York were taken over by the Federal Deposit Insurance Corporation (FDIC). Also, the country's largest banks pulled together to deposit into the First Republic Bank after there were signals that it too was on shaky ground. Federal Reserve Board Chair Jerome Powell and Secretary of Treasury Janet Yellen released a joint statement that this action demonstrated the resilience of the banking system (Treasury). Despite these recent events, the state of the U.S. financial system remains sound but there are downside risks from rising market interest rates, inflation, and geopolitical uncertainties (FDIC).



# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## Regional Economy

The Seattle-area consumer price inflation for urban wage earners rose 7.5 percent in February 2023 compared to the same period in 2022. This is higher than the national average of 5.78 percent (BLS). In the Seattle area the largest increases were seen in the food and beverage category, which increased 10.0 percent, the housing category which increased 9.2 percent, and the transportation category which increased 8.7 percent (BLS).

The commercial real estate market is in the midst of a slowdown, with consistently rising vacancy rates in Seattle since the low point in the second quarter of 2019 of 5.79 percent. In the first quarter of 2023 shows the office market in Seattle has 14.26 percent vacancy. The percentage of sublet vacancies continues to be high at 18 percent, and investment sales remain stagnant (Kidder Mathews).

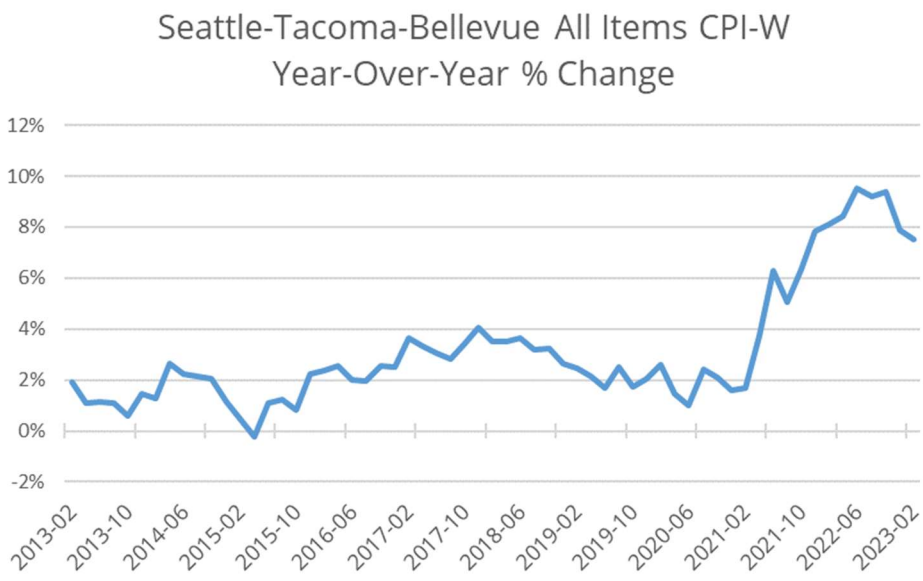
The end of 2022 brought a wave of layoffs in the tech industry which has continued into the first quarter of 2023. In 2023, various technology companies in Bellevue, Issaquah, Redmond, and Seattle permanently laid off 5,169 workers (Employment Security Dept).

These layoffs can be a boon to other industries as the labor market has been notoriously tight recently, but the former tech workers will likely face pay cuts in new roles (Seattle Times).

## Bellevue Economy

Median sale price for single family homes in Bellevue decreased by 20.7 percent in March 2023 compared to the same month in 2022. The number of single-family homes sold in Bellevue decreased by 24.8 percent in the same time period. The prices in the rental market are also relaxing. The median rental price for a two-bedroom home has decreased by 9.92 percent, and the median rental price for a one-bedroom apartment has decreased by 9.12 percent (Zillow).

The City of Bellevue began construction on its first new fire station in 29 years, with the groundbreaking ceremony occurring on March 22, 2023. Fire Station 10 will allow firefighters to respond to Bellevue’s “vertical neighborhoods” downtown and in BelRed. The ability to defend against the risk of fire is critical to the security of businesses and residents, contributing to Bellevue’s economy.



Source: Bureau of Labor Statistics

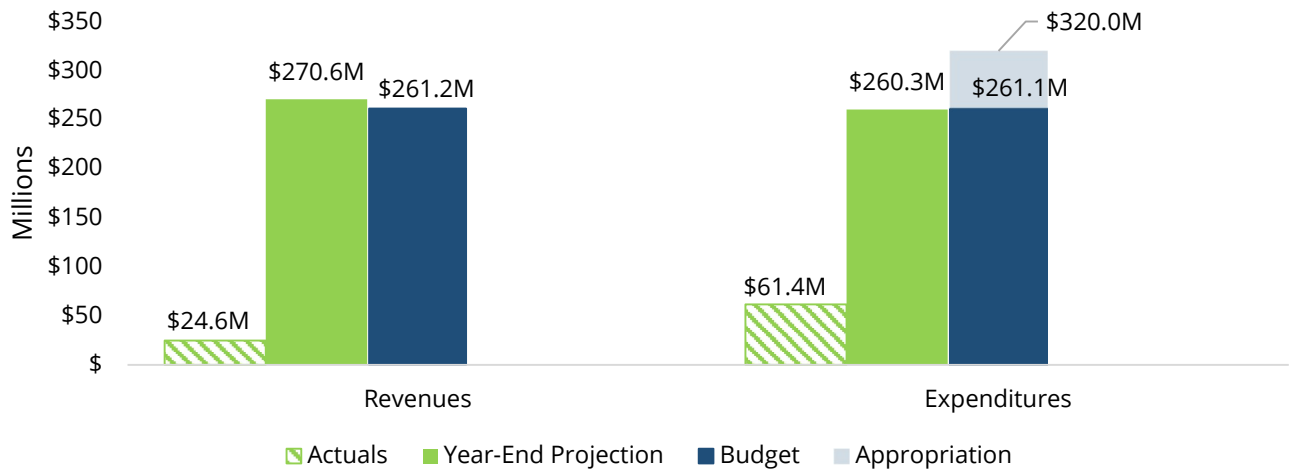


# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## General Fund Performance

### General Fund Revenues and Expenditures as of March 31, 2023



NOTE 1: Graph illustrates year-to-date revenue and expenditure actuals, year-end projections, amended budget, and budget appropriations (includes fund balance) through March 31, 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 3.5 percent or \$9.4 million above budget in 2023. The increase is due to an increase in investment interest, Right-of-Way leases, a modest increase in sales tax and B&O tax and increases in the utility tax and amusement revenues.

There are still several uncertainties persisting in the economy such as uncertainty within the banking industry, federal monetary policy, higher than usual inflation, and the continuation of labor market tightness.

### Expenditures

Expenditures are projected to be 0.3 percent or \$860 thousand under budget in 2023. This is primarily due to projected department personnel savings from

vacancies throughout the City. Departments are anticipating increased recruitment efforts, which will have an impact on spending as staff capacity increases and work on projects increases.

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 1.9 percent compared to 2022 year-end and be 26.1 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.

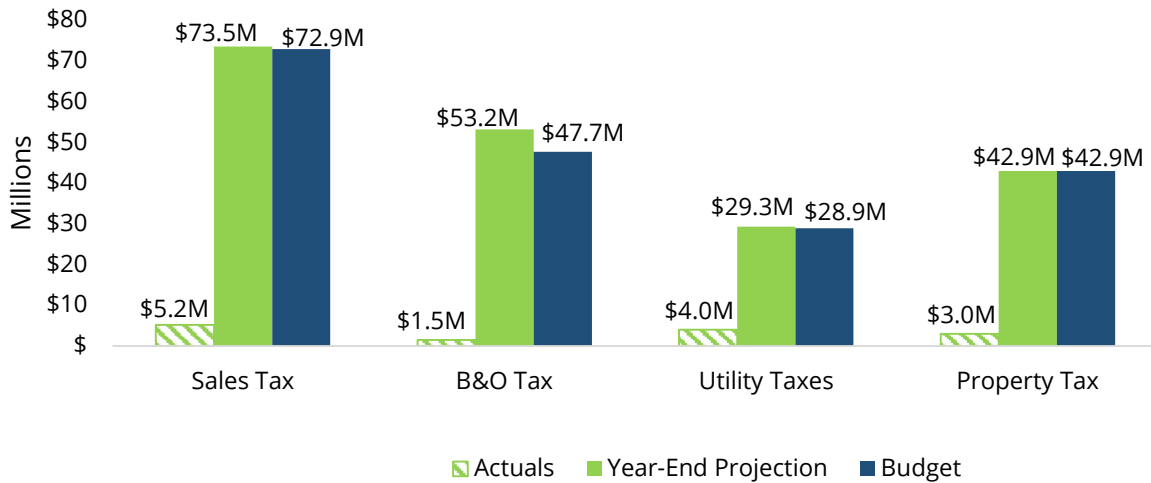


# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## General Fund Performance

### General Fund Tax Collections as of March 31, 2023



NOTE: The above graph illustrates the difference between year-to-date collections through March 31, 2023, and the 2023 Amended Budget.

#### Tax Revenues

Tax revenue collections are projected to meet budget due to an increase in investment interest, strong construction activity, and temporary construction Right-Of-Way leases. There is still uncertainty within the economy due to changes in federal monetary policy 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 continued high inflation 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 was slightly offset by a market correction in IT service sector as well as Microsoft vacating their Bellevue buildings starting on July 1.

#### Utility Tax

Utility tax collections are projected to be 1.4 percent above budget. This is due to the continuing inflationary environment lifting expectations for electric, gas, and solid waste collections.

#### Property Tax

Property tax revenue is projected to meet the budget in 2023. The forecast does not include the new 2023 park levy increase referenced below. The increased revenues and associated expenditures will be reflected in the 2<sup>nd</sup> Quarter Budget Monitoring Report.

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.

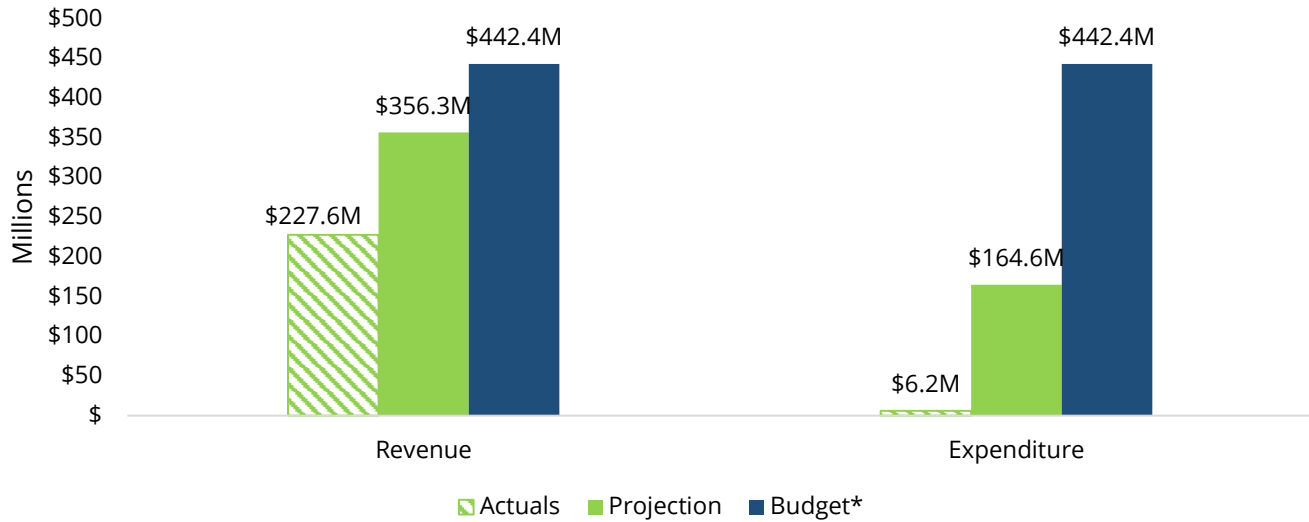


# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## General CIP Performance

### General CIP Fund Revenues & Expenditures as of March 31, 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 23 percent or \$14.4 million. The City is anticipating a 34 percent year-over-year decline in REET collection as the housing market slows and less valuable REET transactions occur. B&O tax collections and sales tax collections are projected to be over budget.

#### Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue did not receive any TIFIA loan distribution in the first quarter of 2023 and has drawn \$31.9 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. However, the City still anticipates the completion and start of several CIP projects in 2023. For example, construction on Fire Station 10 is expected to start in Q2. General CIP expenditures are projected to be \$164.6 million or 37 percent of available CIP expenditure budget.



# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## Development Services Performance



205 105th Avenue NE

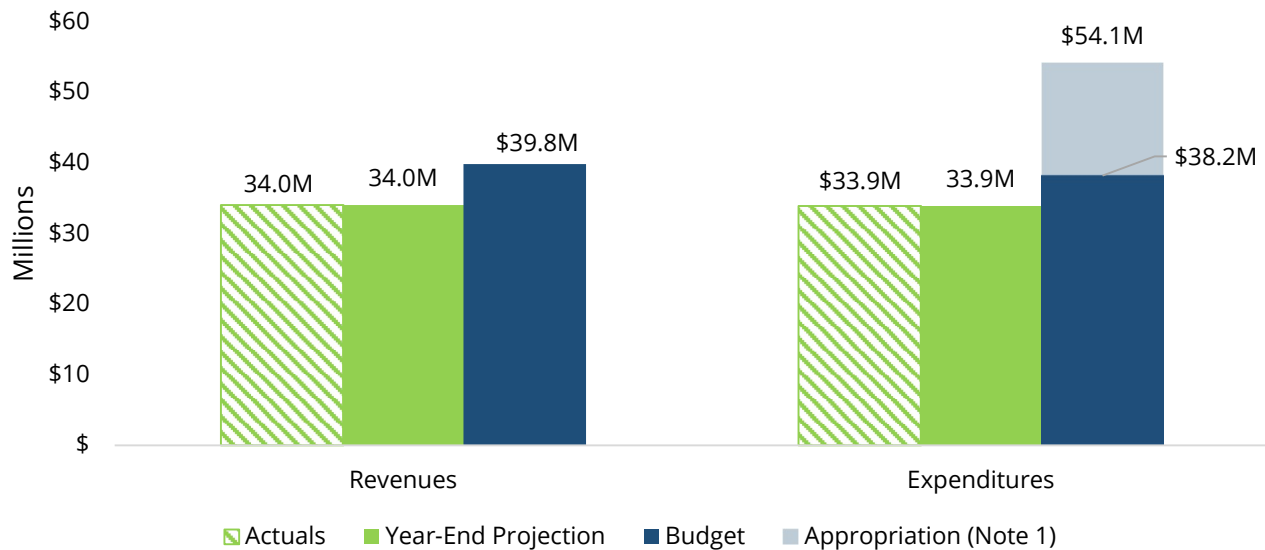


788 106th Avenue NE



400 108th Avenue NE

### Development Services Revenues & Expenditures as of March 31, 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 continues to generate high activity and workload for all development services as projects move through the review and inspection process. Permit activity has slowed, reflected in lower than anticipated revenue.

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

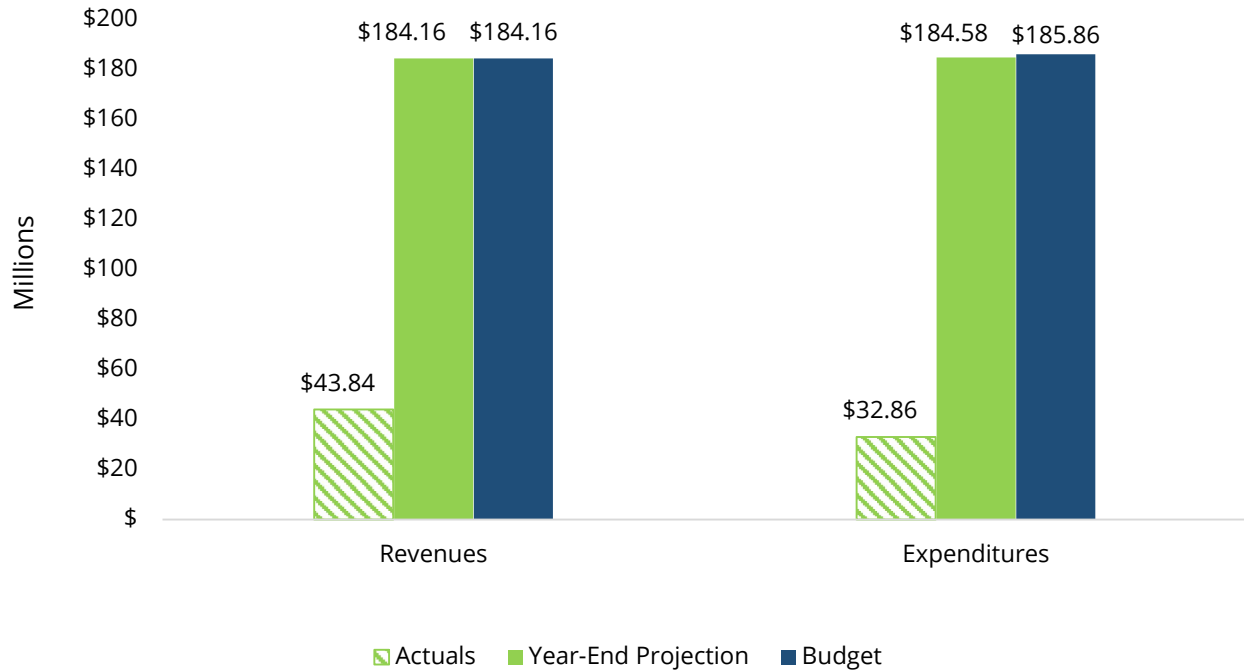


# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## Utilities Operating Funds

### Utilities Operating Funds Revenues & Expenditures as of March 31, 2023



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

Utility year-to-date revenues are within expectations and sufficient to cover expenses. Annual Utility revenues vary seasonally and can be affected by external factors such as weather and development activity. There are no indicators at this point that would alter our revenue outlook and revenues are forecasted to be on budget by year-end.

Utility year-to-date expenditures are within expectations. Annual Utility expenditures vary seasonally and can be affected by construction cycles, development activity and staffing. It is too early in the year to forecast any significant variances from budget with the exception of Personnel costs, which are forecasted to be \$1.3M under budget due to vacancies at Year End.



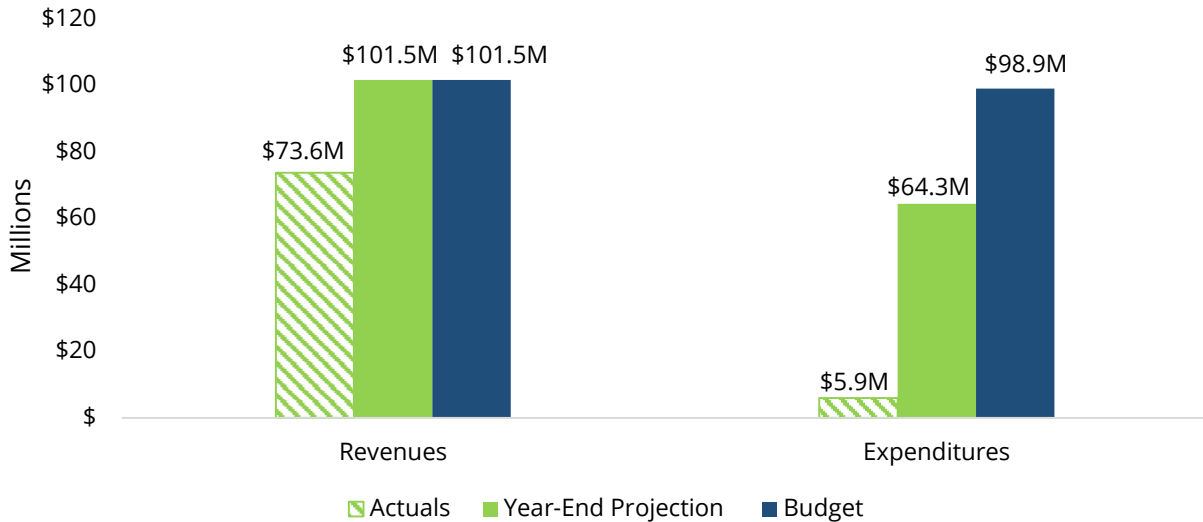


# City of Bellevue Budget Monitoring Report

For the period January 1 through March 31, 2023

## Utilities CIP

### Utilities CIP Revenues & Expenditures as of March 31, 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 65% 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
- Operations & Maintenance Yard Project
- Flood Control Program (Valley and 21st)
- Advanced Metering Infrastructure (AMI)

Several key projects were delayed earlier in design phase, however, now have initiated construction such that major expenditures will incur through 2023-2024. The majority of the anticipated unspent 2023 budgeted funds will be needed for project delivery in 2024.