



City of Bellevue Budget Monitoring Report

For the period January 1 through December 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 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 December 2023.

In the fourth quarter of 2023 the national GDP grew by 3.2 percent year-over-year after 4.9 percent growth in the third quarter of 2023 (BEA). Consumer spending drove the economy's growth in the fourth quarter as well as increases in government spending at the local, state, and federal levels. Consumers were able to contribute so much to the economy in part due to a strong labor force. Wages and salaries increasing 4.3 percent in December 2023 compared to December 2022 (BLS). The unemployment rate was at 3.7 percent in December, unchanged from November 2023 and the labor force participation rate for December 2023 was 62.5 percent (BLS). Another factor allowing consumers to continue spending is the large year-over-year increases in credit card debt balance, which has not dipped under 10% growth since the second quarter of 2022 (NY Fed).

In December 2023, the year-over-year all items consumer price index increased by 3.4 percent. This was driven by increases in shelter costs, which contributed over half of the monthly all items increase (BLS). The post-pandemic inflation situation was driven by supply chain bottlenecks because of pandemic era shutdowns and strong consumer demand. The supply chain situation has eased, normalizing inflation. However, the strength of the U.S. consumer has continued to keep inflation higher than the Federal Reserve's goal (CEA). The Federal Reserve kept interest rates steady in the final meeting of 2023. This is thanks to the easing of inflation throughout the economy to more manageable, although still elevated, levels. However, the committee will reserve the right to hike if necessary if inflation rears its head once more.

Performance at a Glance

Pg. 3	General Fund Revenue Projection vs. Expenditure Projection	+
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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%

The oil prices are down despite much of OPEC+ cutting production (OPEC). This is due to global markets adjusting to the economic distortions caused by sanctions, and global demand falling short of expectations. The price of Brent crude oil was down by \$19 per barrel on average in 2023 (EIA).

The Red Sea has become a focal point of geopolitical conflict now, as shipping vessels have been under attack. The cost of insuring vessels in the Red Sea have jumped significantly, from 0.1 percent of the value of the ship's hull before the attacks to 0.5 percent by the end of December 2023. Some shippers, including BP, have rerouted ships around the tip of Africa. The increased geopolitical risk, insurance prices, and longer voyages threaten to increase the costs of goods such as Brent. There is a large amount of uncertainty as these many dynamics play out in the economy.



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Regional Economy

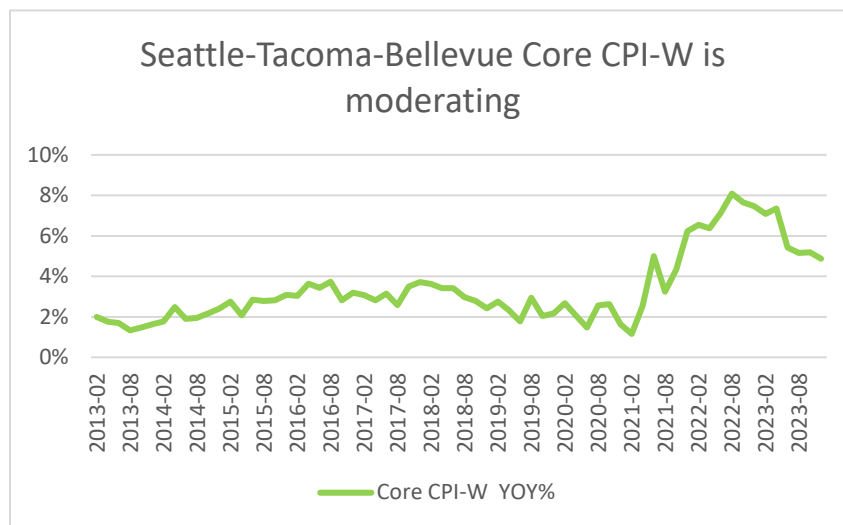
Inflation in the Seattle-Tacoma-Bellevue area has moderated significantly over the course of 2023. In December 2023, the year-over-year change in the CPI-W for all items was 4.29 percent. Compare this to the December 2022 year-over-year change in the CPI-W for all items of 7.89 percent. The category which has improved the most is food and beverages which was 11.4 percent in December 2022 and is now 2.1 percent in December 2023. Transportation has dropped from 10.1 percent in December 2022 to 5.3 percent in December 2023, and housing dropped from 8.7 percent to 5.0 percent in December 2023 (BLS).

The labor market is also softening, with the layoffs in the tech sector creating a 4.7 percent year-over-year decrease in the information sector employment in the Seattle region. The construction sector employment is down by 2.3 percent annually. Education and health services increased their employment levels by 5.1 percent compared to December 2022. The leisure and hospitality sector's employment rose by 5.4 percent in December 2023 compared to December 2022. Other sectors were stable (BLS). In December 2023 the King County Council approved a new levy which will provide almost \$800 million over the next seven years for science, heritage and arts funding to support programming in schools, increase tourism, and increase the workforce pipeline to the arts and culture sector (Bellevue Reporter).

Bellevue Economy

The fourth quarter of 2023 saw commercial real estate in most of the Eastside still struggling, but Bellevue Central Business District (CBD) is a bright spot in the market. The flight to quality drives tenants to the Class A office spaces with lovely views, and most of the pending leases for Eastside are concentrated in the Bellevue CBD. The I-90 Corridor has borne the brunt of the commercial real estate struggle for the Eastside, with 39.1 percent vacancy rate and 44.4 percent of the submarket listed as available (Broderick Group). Bellevue's tourism rebounded in the fourth quarter of 2023 with overnight visitors increasing by 20 percent over numbers in the fourth quarter of 2022. Average spending per trip for visitors increased by 10 percent and hotel revenue increased by 27 percent (Visit Bellevue).

In December 2023 the U.S. Department of Transportation announced that it was awarding the City of Bellevue \$2.787 million through a Safe Streets and Roads for All (SS4A) grant. The award will allow the city to further invest in its commitment to roadway safety for people using all modes of transportation by performing additional road safety audits, conducting speed studies, developing a separated bike lane design guide, and creating speed safety camera procedures (Bellevue Gov).



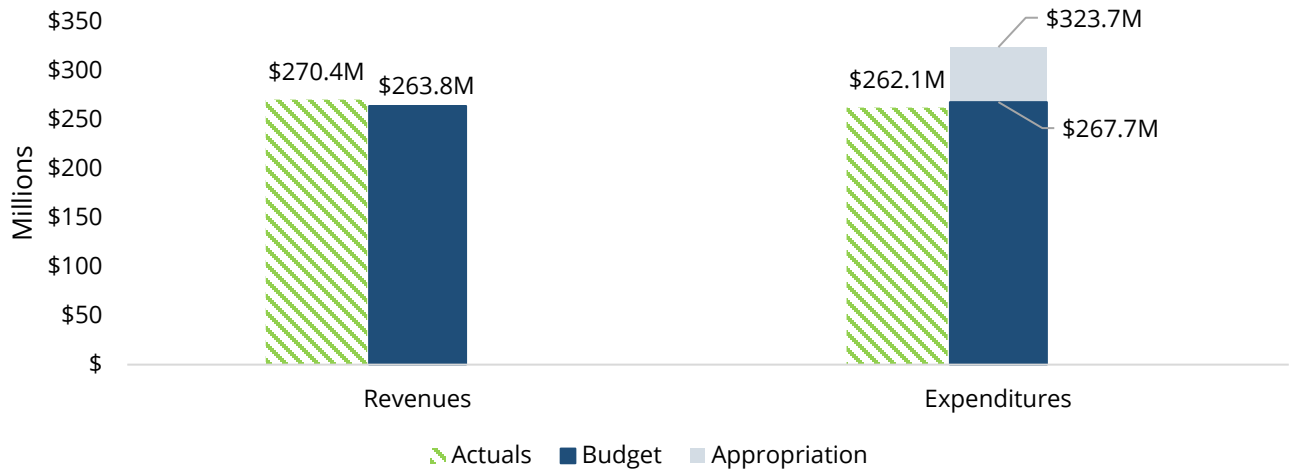


City of Bellevue Budget Monitoring Report

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General Fund Performance

General Fund Revenues and Expenditures as of December 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 December 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 were 2.5 percent or \$6.6 million above budget in 2023. Utility taxes and B&O taxes surprised on the upside. This offset the sales tax revenues which were below budget due to weak construction activity and lower than expected holiday general consumer activity. Court revenues surprised on the downside reflecting an allocation adjustment. Transportation revenues came in over budget due to higher-than-expected Right-of-Way funds and FEMA reimbursement at year end.

There are many uncertainties persisting in the economy such as inflation tightening monetary policy and are dependent on global events such as the Ukraine war and supply chain issues. The impacts of the hybrid workforce create uncertainty on the demand for business district activities and office space.

Expenditures

Expenditures landed 2.1 percent or \$5.6M below budget in 2023. The savings are primarily from personnel, Park Levy and M&O.

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 Funds reserve as a percentage of General Fund revenues is 25.4 percent at the end of 2023. The City maintained reserves above the Council reserve policy in 2023.

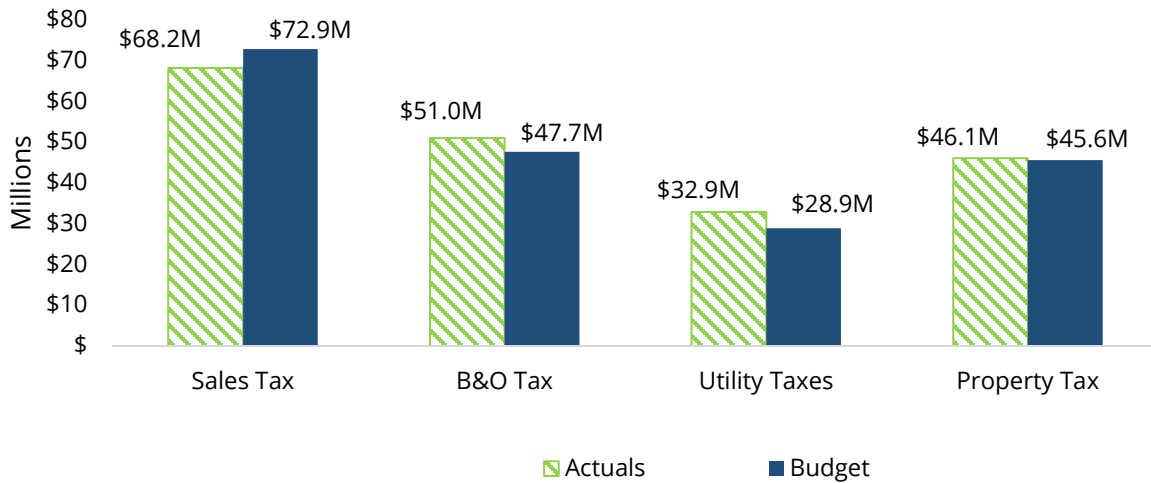


City of Bellevue Budget Monitoring Report

For the period January 1 through December 31, 2023

General Fund Performance

General Fund Tax Collections as of December 31, 2023



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

Tax Revenues

The Federal Reserve continued to tighten monetary policy in 2023, moderating inflation. The Budget Office will continue to monitor ongoing impacts to revenue collection.

Sales Tax

The sales tax collection projection for the City of Bellevue was \$4.7 million under budget. Construction activity for 2023 was weak, reflecting a challenging financing environment in the wake of increasing FED interest rates and weak demand for commercial real estate like office space. The services sector, which includes technology and media companies, came in below expectations due to a market adjustment in the tech industry.

Business and Occupation (B&O) Tax

B&O tax collection was \$4.0 million above budget, due in part to amended payments.

Utility Tax

Utility tax collections were \$4 million over budget. The gas and electric utilities both had rate increases which boosted revenues, as well as a late payment from 2022 which booked in 2023. This is also due in part to higher solid waste taxes as the City received a performance incentive bonus revenue from the provider. Additionally, customer usage of water was higher than expected due to above average heat in summer 2023.

Property Tax

Property tax revenue collection is projected to be 1.0 percent above budget in 2023. 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 original voter-authorized Parks and Open Space Levy Lid Lift; \$0.07 per \$1,000 AV Levy for Fire Facilities upgrades; \$0.09 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects; and \$0.20 per \$1,000 AV Levy for the new 2022 voted Parks and Open Space Levy Lid Lift.

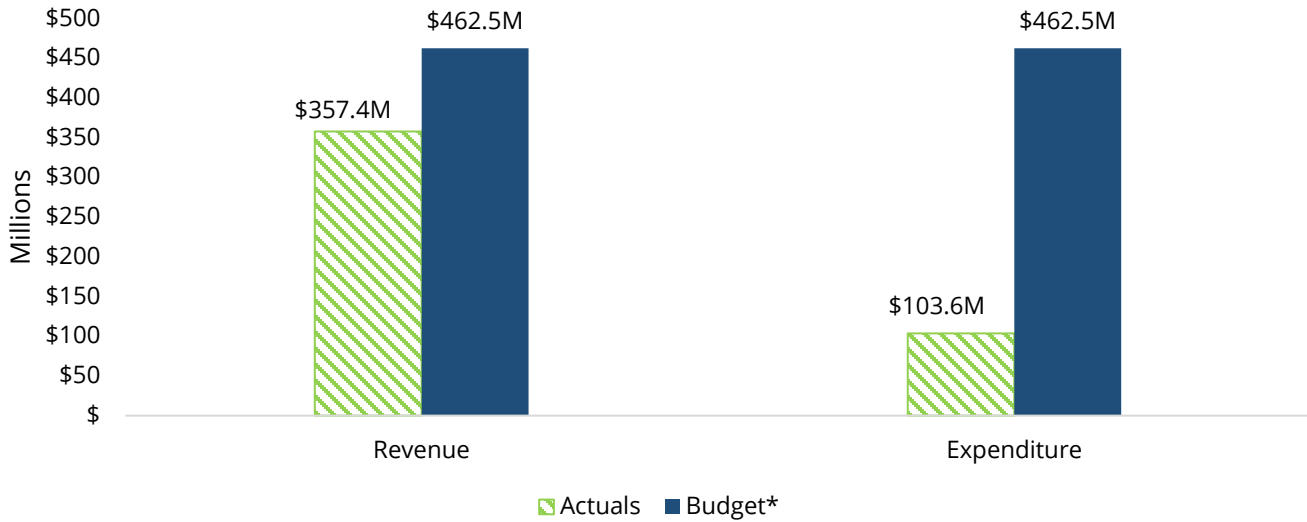


City of Bellevue Budget Monitoring Report

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General CIP Performance

General CIP Fund Revenues & Expenditures as of December 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.

Real Estate Excise Tax (REET) revenue source closed the year slightly lower than budgeted in 2023 at approximately \$4.5 million or 24 percent. The City is anticipating a 35 percent year-over-year decline in REET collection as the housing market slows. B&O tax collections in 2023 were over budget by 9 percent due to higher-than-anticipated business activity. Sales tax revenues in 2023 were 6 percent or \$1.5 million below the budget.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The City of Bellevue received one disbursement in the fourth quarter of 2023 for \$103,785.53 and has drawn \$39.1 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

Several CIP projects experienced delays in 2023 due to staff capacity and supply chain challenges. General CIP expenditures landed at \$103.6 million or 22 percent of available CIP expenditure budget.



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Development Services Performance



600 108th Avenue NE

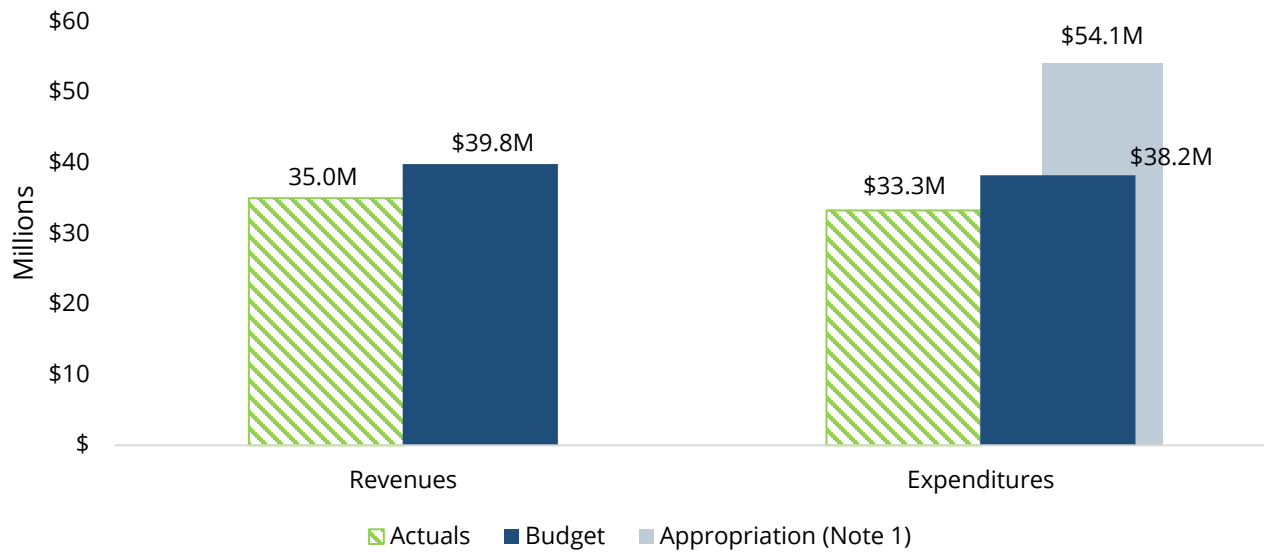


200 105th Avenue NE



788 106th Avenue NE

Development Services Revenues & Expenditures as of December 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 activity continues to generate high workload for development services as current projects move through the review and inspection process. Although interest in Bellevue continues, the development pipeline is slowing due to uncertain economic conditions and is reflected by lower than anticipated revenue.

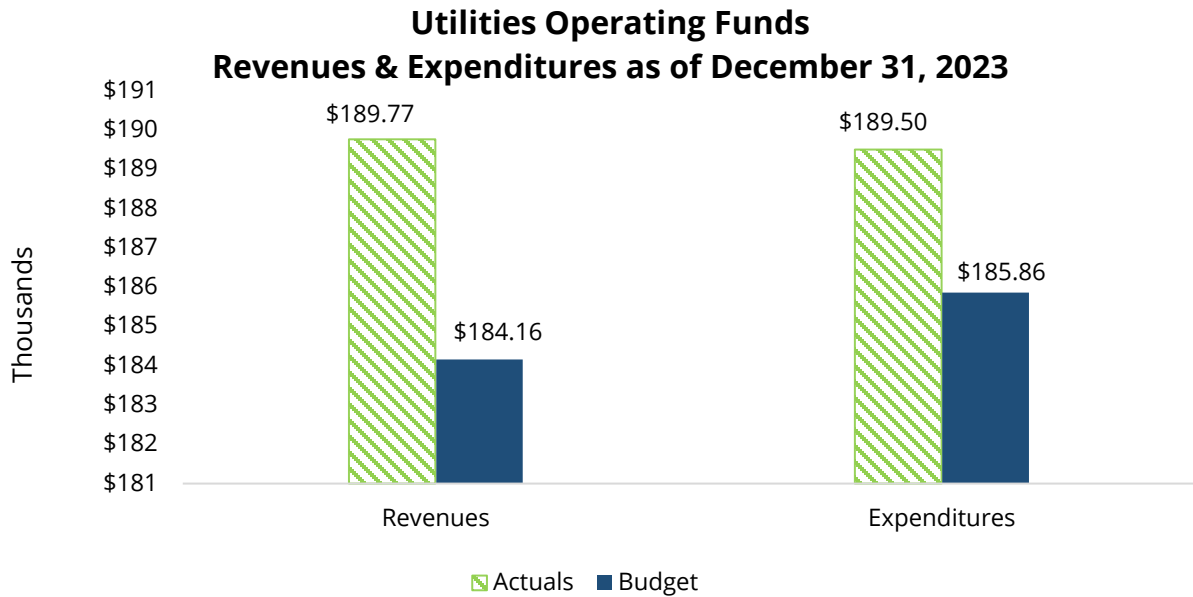
Expenditure savings are for vacant positions, miscellaneous M&O and delays for the DS remodel project and permit system upgrade.



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Utilities Operating Funds



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

Operating revenues exceeded the budget by \$5.6 million, primarily due to higher than anticipated water and sewer service revenues. This was primarily driven by higher commercial usage from better than forecasted economic activity.

Operating expenditures exceeded budget by \$3.6 million, primarily due to unanticipated legal settlement costs. These unanticipated costs were partially offset by vacancy savings and delayed capital outlay.

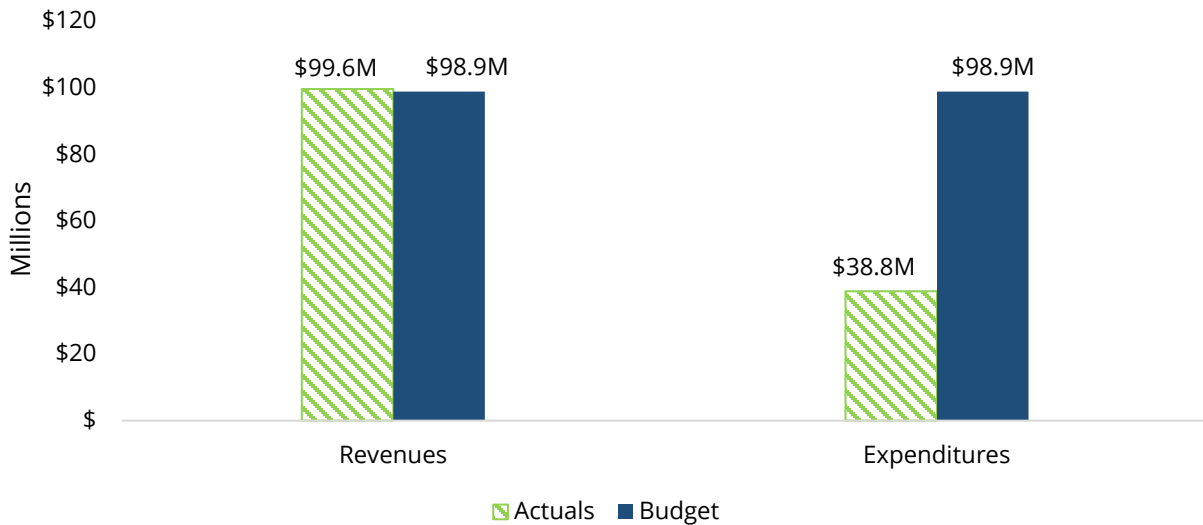


City of Bellevue Budget Monitoring Report

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Utilities CIP

Utilities CIP Revenues & Expenditures as of December 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 were \$0.8M over budget due to the timing of grant reimbursements from the King County Flood Control District. Actual revenues reflect funding for projects budgeted in previous years.

CIP Expenditures ended the year at 39% of budgeted levels. 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 factors include:

- Factoria Blvd Conveyance Improvements
- Horizon View 2 Reservoir and Pump Station
- Bogline Sewer Line Replacement
- Watermain Replacement projects
- Operations & Maintenance Yard Project

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