

CITY COUNCIL AGENDA TOPIC

Update to financial outlook of the broader economy and Bellevue.

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

Tonight, staff will present an update on the financial outlook of the City with an emphasis on the key economic policies and forces that the City will continue to monitor in today's uncertain economic environment. The forecast reflects a continuation of the 2024 forecast that served as the basis for the 2025-2026 Adopted Budget and sets the stage for the technical 2025-2026 mid-biennium process that will be before Council for consideration this fall.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS**Financial Outlook Update**

Staff have been working to develop an updated financial outlook for the city over the past several months and, tonight, will outline the key takeaways, monitoring items and economic policy issues. This update is a continuation of the 2024 forecast and reflects the latest data available to staff.

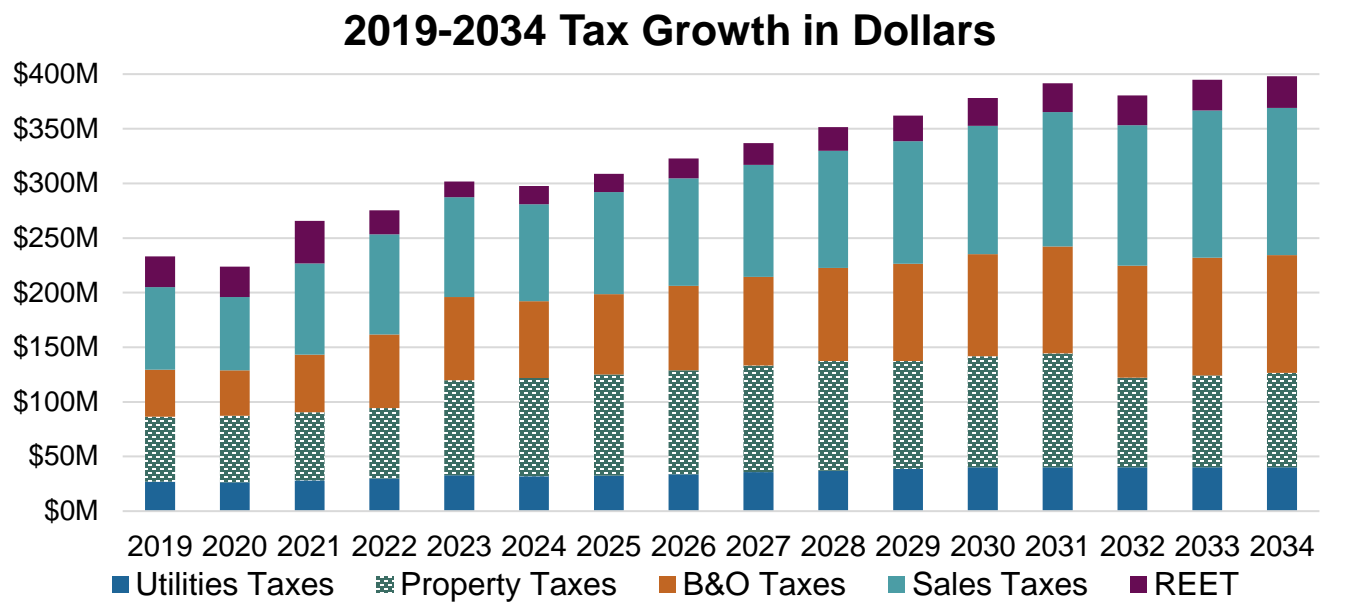
Bellevue Impacts & Conclusions

The 2025 forecast is on par with the 2024 forecast and therefore does not warrant proposing changes to the City's financial course, consistent with our Financial Strategy Guiding Principles. Diminished consumer confidence, instability and rising costs may impact City revenues and persistent inflation will continue to impact the costs of providing services. The previous and now the current forecast, shows that revenues throughout 2023-2026 will remain relatively flat. The chart on the following page illustrates this along with the City's tax growth from 2019 into 2034.

City of Bellevue Financial Strategy Guiding Principles**Transparency****Stewardship****Professionalism****Balanced Risk
Profile****Nimble**

City staff have confidence in this relative stability based on the data currently available, and our conservative future year forecasting methodology. However, this update highlights the notable economic policy uncertainty and associated watch items that cloud the city's and, more broadly, the national economic pictures. The true financial impact of any one of these items may take nine to eighteen months to fully have the data available to analyze their impact and establish a new economic

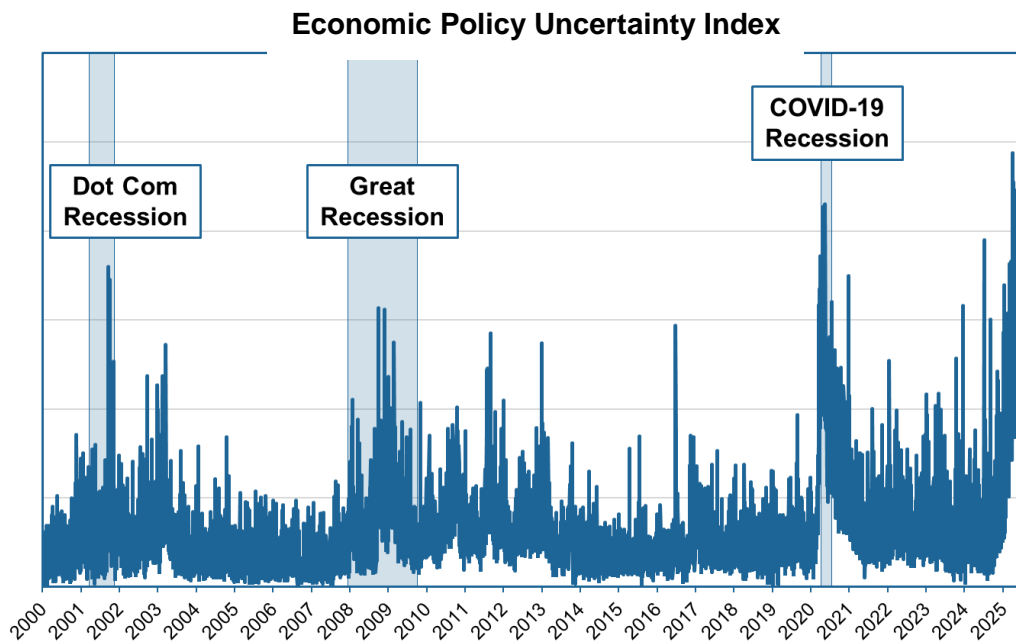
baseline. Therefore, in alignment with the City’s Financial Strategy Guiding Principles (below), staff recommends a cautious and transparent approach to financial decision making in the near-term with carefully calibrated risks as the needs of the City evolve. Staff will continue to monitor the situation over the next months and will provide updates as it develops.



Economic Uncertainty & Watch Items

The economic environment is challenging to determine the impact on Bellevue residents, businesses and the City. This is always a difficult task; however, this economic policy environment is the most volatile period since the Federal Reserve Bank of St. Louis started indexing this data in 1985. The index evaluates several economic policy areas including but not limited to interest rates, changes to entitlement programs, labor markets, inflation, among others.

The chart below illustrates the index going back to 2000 and overlays the three recession periods during that time span. The rightmost section of the chart shows the uncertainty for 2025 and illustrates that 2025 remains the most uncertain period in the last 25 years.



Sources: Baker, Scott R.; Bloom, Nick; Davis, Stephen J. via FRED®

The economic policy uncertainty is driven by varied and sometimes competing or compounding forces. At a high level, staff analysis indicates that the following are the primary drivers.

Geopolitical Instability

- Middle East and Ukraine conflicts present ongoing risks to commodity prices leading to potential inflationary effects.

Tariff Impact Uncertainty

- Economists find it difficult to determine the effects of tariffs due to fluctuating rates and implementation delays.

Impact of Funding Rollbacks & Withholding Grants

- Withheld funds are impacting various sectors of the economy, including research and development and infrastructure projects.

Budget Reconciliation Law Provisions

- Reduced funding for energy tax credits, including clean energy, and phases out electric vehicle tax credits.
- Diminished social spending on nutrition assistance and healthcare.

Labor Market

- Washington state has a low unemployment rate of 4.9 percent.
- Increased funding for deportations in the Federal Budget Reconciliation Bill can impact labor costs in industries like agriculture and hospitality.
- Recent layoff notices in Washington state suggest potential challenges ahead despite the low unemployment rate.

Inflation & Interest Rates

- Interest rates set by the Federal Reserve remain at 4.3% and prospects about near-term rate cuts remain uncertain.
- Uncertainty in the economy may keep inflation above the Federal Reserve's 2 percent target.

Washington State Legislation

- 2025 State law changes to sales and business & occupation (B&O) taxes will lead to uncertainty in these sensitive revenues well into 2027.

POLICY & FISCAL IMPACTS

Policy Impact

There is no policy impact for this item.

Fiscal Impact

There is no financial impact with this information.

OPTIONS

N/A

ATTACHMENTS

N/A

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N/A