



City of Bellevue

MEMORANDUM

Phone: 425-452-7863
Date: November 15, 2021
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2021 Third Quarter Budget Monitoring Report

Attached is the 2021 Third Quarter Budget Monitoring Report for the period ending September 30, 2021. The impacts of COVID-19 are constantly evolving, 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 item – update on the General Fund:

- As reported in the mid-biennium discussion, general fund revenues are projected to be back to 2019 levels by year end 2021. This is primarily driven by sales and Business & Occupation tax performing better than budget due to one-time construction proceeds resulting from major developments in the Downtown and BelRed neighborhoods. Despite this economic activity, as discussed during the mid-biennium overview, expenditures still are expected to out strip revenues in the City's general fund forecast.
- General Fund expenditures are projected to be \$2.5 million lower than budget in 2021 due to department savings that are partially offset by the negative impacts of the January windstorm and the February winter storm and one-time costs related to the payment of settlements.
- As of the end of the third quarter the General Fund reserve is projected to increase to 25% by year end 2021. This is primarily due to construction sales and business & occupation tax and underspending by departments. The city is projecting to maintain reserves above the Council reserve policy in 2021. The 2021-2022 Adopted Budget included the use of \$4.9 million of reserves to bring revenues in alignment with expenditures, with the revenues projected to return to 2019 levels, the need to use reserves is no longer needed.
- In July, the Bureau of Labor Statistics published the June to June Seattle-Tacoma-Bellevue CPI-W which provides the basis for most inflationary and cost-of-living adjustments (COLA) at 6.3 percent. In the mid-biennium discussion staff highlighted its 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

2021 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2021

Economic Performance

This report presents 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 2021 Amended Budget, to discuss reasons for variances, and to convey an overview of the local, regional, and national economic outlook.

The city will continue to actively manage and take fiscally responsible actions to respond the COVID-19 impact in 2021. The future economic impacts of COVID-19 remain uncertain. In response to the fluid nature of COVID-19, the City of Bellevue will continue to monitor and take necessary actions to ensure the long term fiscal sustainability of the city. This monitoring report reflects the impact to the city as of September 2021.

U.S. Economy

During the third quarter the nationwide vaccination rate slowed significantly, and many regions of the country were hampered by the COVID-19 delta variant. Real gross domestic product (GDP) slowed to an annualized rate of 2.0 percent in the third quarter, down from 6.5 percent in Q2 (Source: Bureau of Economic Analysis).

Production constraints, supply chain bottlenecks, and pent-up consumer demand continued to drive consumer and commodity price increases throughout the third quarter (Source: Federal Reserve). The Consumer Price Index for All Urban Consumers (CPI-U) increased 5.4 percent year-over-year in September without seasonal adjustment, with the main drivers being the increased cost of energy and transportation (Source: Bureau of Labor Statistics).

Employment continued to recover, albeit at a slower rate than the first half of the year. Many sectors of the economy saw labor shortages as the demand for workers was high, but labor supply was relatively low. To spur labor supply, employers began to offer higher compensation, with the seasonally adjusted compensation costs for civilian workers increasing by 3.7 percent annually as of September (Source: Bureau of Labor Statistics). The job openings and labor turnover survey

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%
- o Negative variance of 1-4%
- Negative variance of > 4%

(JOLTS) saw a record high quits rate of 2.9 percent in August 2021 (Source: Bureau of Labor Statistics). Overall, economy added 194,000 jobs in September, with the national unemployment rate dropping to a pandemic low of 4.8 percent (Source: Bureau of Labor Statistics). Despite the reduction in unemployment, as of September 2021 the economy was down 5 million jobs from its pre-pandemic level in February 2020 (Source: Bureau of Labor Statistics).

Looking forward, the outlook for the U.S. economy remains strong. The International Monetary Fund (IMF) projects that the U.S. economy will achieve 6.0 percent growth through the end of 2021, with projected GDP growth of 5.2 percent in 2022. Despite the positive outlook, numerous uncertainties remain, including the ongoing public health risk of the Delta and other COVID-19 variants, continued disruptions in supply chains and the labor market, and the ambiguity regarding additional federal fiscal stimulus or infrastructure spending.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2021

Regional Economy

COVID-19 cases accelerated across the state of Washington during the third quarter due to the spread of the delta variant, with daily case numbers in King County increasing by over 500 percent during that period (Source: King County Public Health; Washington State Department of Health). In response to the spread of the delta variant, Governor Inslee issued emergency proclamations requiring vaccination for most state employees, public and private health care workers, and long-term care workers, along with reissuing a statewide mask mandate.

Vaccination rates in King County continued to out-pace state and national vaccination rates. As of September 30, 70 percent of King County residents, regardless of age or eligibility had completed their vaccine series, with 83 percent of eligible residents over age 12 receiving a dose (Source: King County Public Health). Vaccination rates helped drive increased economic activity throughout the region. As of August 2021, King County forecast a 12.4 percent increase in the sales and use tax base for 2021 (Source: King County Economic and Revenue Forecast).

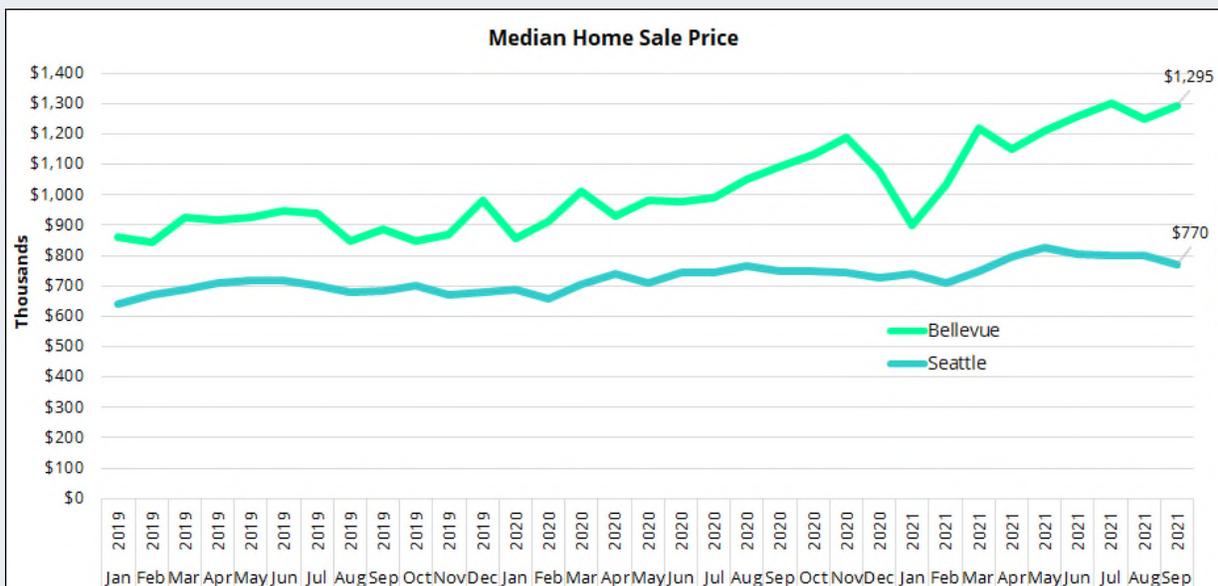
The labor market in the region continued to recover during the third quarter. The Seattle-Tacoma-Bellevue economy added 27,100 jobs from the end of Q2, with gains coming in leisure and hospitality (14,700 jobs added) manufacturing (4,900), information technology (5,100), and professional and business services (6,300), which were slightly offset by minor losses in the education and health services and government sectors (Source: Bureau of Labor Statistics). The unemployment rate dropped by 0.3 percent from June, down to 5.0 percent (Source: Bureau of Labor Statistics).

Bellevue Economy

Bellevue's labor market continued to improve from peak unemployment levels in April 2020. The preliminary unemployment rate was 3.9 percent in August 2021, which tied May 2021 for the lowest rate since the start of the pandemic and represented a 0.3 percent improvement from the end of Q2. The City's labor force increased by 1.7 percent from Q2, which still remains 0.6 percent below the pre-pandemic level of labor force in February 2020 (Source: Bureau of Labor Statistics).

The cost of housing continued to increase in Bellevue. Home prices in the city of Bellevue were up 18.2 percent year-over-year in September 2021, with a median selling price of \$1.3 million. The average rent for a one-bedroom apartment increased 10 percent to \$2,058 per month compared to September 2020. These increases are broadly in-line with the overall housing and rental market trends in the Seattle-Tacoma-Bellevue metropolitan (Source: Redfin).

A recent report from the Office of the Washington State Auditor provided context for the drop in sales tax revenues experienced by municipalities across the state during 2020. Overall, cities in Washington saw a 4.5 percent decrease in sales tax revenues, or a \$76.7 million reduction overall. However, over 60 percent of cities actually saw an increase in sales tax collection over pre-pandemic levels in 2019. Much of the loss in sales tax revenue was concentrated in King County as increased use of e-commerce combined with destination-based sales tax shifted sales and associated sales tax revenues away from brick-and-mortar businesses located in King County, with Seattle and Bellevue recording the largest drops in revenue in Washington. However, high levels of construction activity in Bellevue has helped the City's sales tax revenues recover to pre-pandemic levels in 2021.

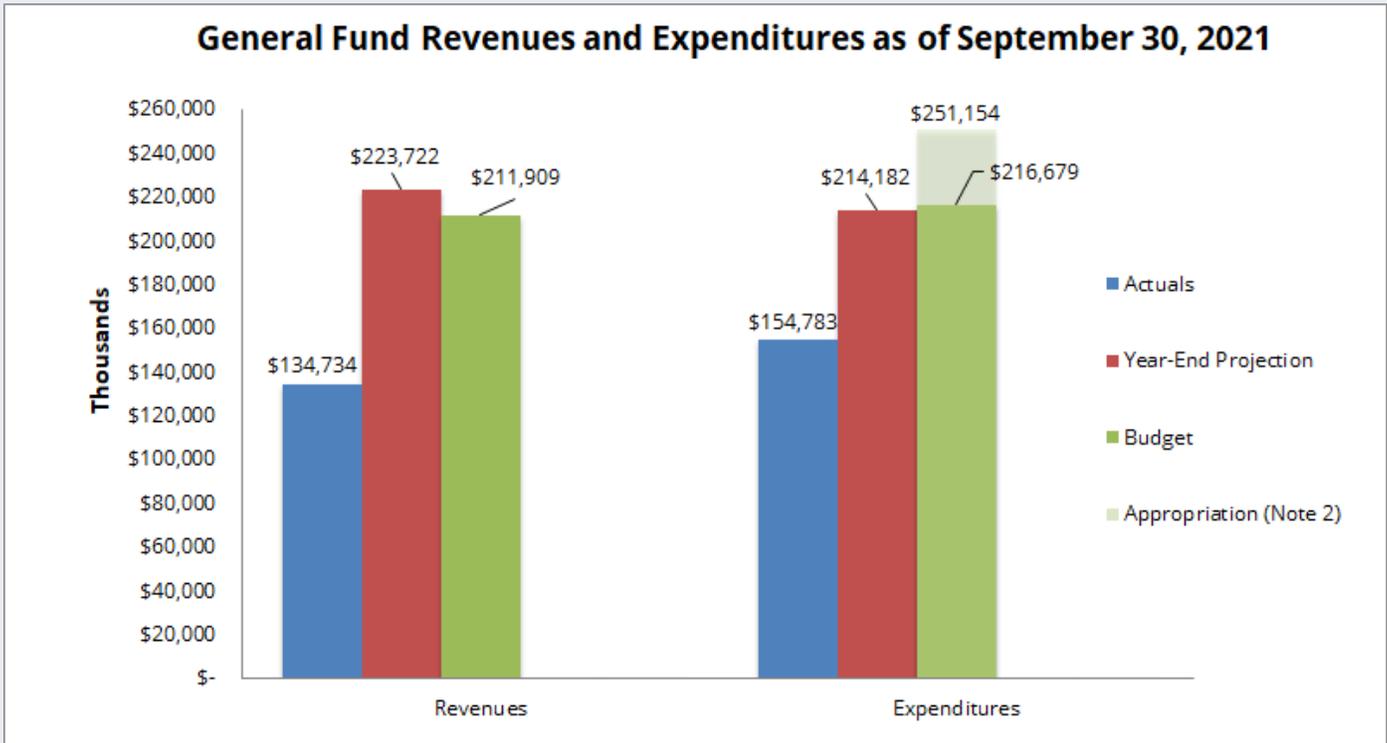


Source: Redfin Housing Market Data

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2021

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, 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 above budget by \$11.8 million (5.6 percent) in 2021. Collections of sales tax and B&O tax (Business and Occupation Tax) are forecasted to recover to the pre-pandemic level in 2021 due to high levels of construction and development activities in Bellevue. Generally, construction sales tax is one-time revenue as long as the development cycle continues. The impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on factors in the broader economy, continued expansion of vaccine access, low positive case rates, and limited public health impacts from COVID-19 variants.

Expenditures

Expenditures are projected to be \$2.5 million (1.2 percent) below budget in 2021. This is driven 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. These savings are partially offset by the January windstorm and February winter storm events that took place during the early part of the first quarter. Beyond these significant weather events, the General Fund has seen additional one-time costs related to payments for settlements. As the impacts and response to COVID-19 persist, the city is continually monitoring and taking appropriate action as needed to ensure the fiscal sustainability of the city.

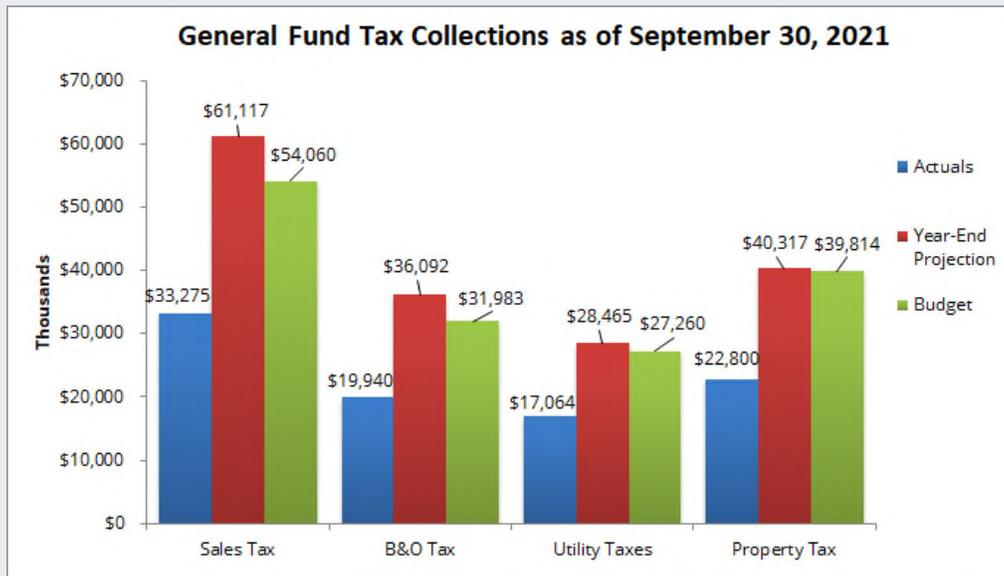
Change in Fund Balance

As of the end of the third quarter the General Fund reserve as a percentage of General Fund revenues is projected to increase to 25.1 percent in 2021, an improvement over the second quarter projection by 3.3 percentage points. This is primarily due to strong construction and development activities and underspending by departments. This will maintain reserves above the Council reserve policy in 2021.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2021

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through September and the 2021 amended budget.

Tax Revenues

Economic activity has continued to increase as the state and regional economy have reopened. Tax revenue is projected to be higher than budgeted due to 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

Similar to the sales tax trends seen in King County more broadly (12.4 percent growth from 2020), sales tax collections for the City of Bellevue are projected to be 13.1 percent above budget, primarily due to high levels of construction and development activity in the city, as well as the reopening of King County as a part of the Governor’s Healthy Washington - Roadmap to Recovery Plan. As of September 30, King County has fully reopened, allowing for a return to full capacity indoor establishments.

Business and Occupation Tax

B&O tax collections, which are highly correlated with sales tax collections, are projected to be \$4.1 million (12.8 percent) above budget, primarily due to increased economic activity as King County businesses continued to reopen. As of September 30, most industry sectors previously covered by the Healthy Washington or Safe Start reopening plans returned to their usual capacity and

operations. However, the impact of King County’s October 25 vaccine mandate for people ages 12 and over to enter certain indoor and outdoor events and establishments adds further uncertainty to B&O tax collections.

Utility Tax

Utility tax revenue collections are projected to be above budget by \$1.2 million during 2021. The increased collections are primarily driven by increased electricity utility taxes and water utility taxes due to the hot weather and the ongoing drought during the summer months, and are partially offset by lower telephone and cell phone utility tax collections.

Property Tax

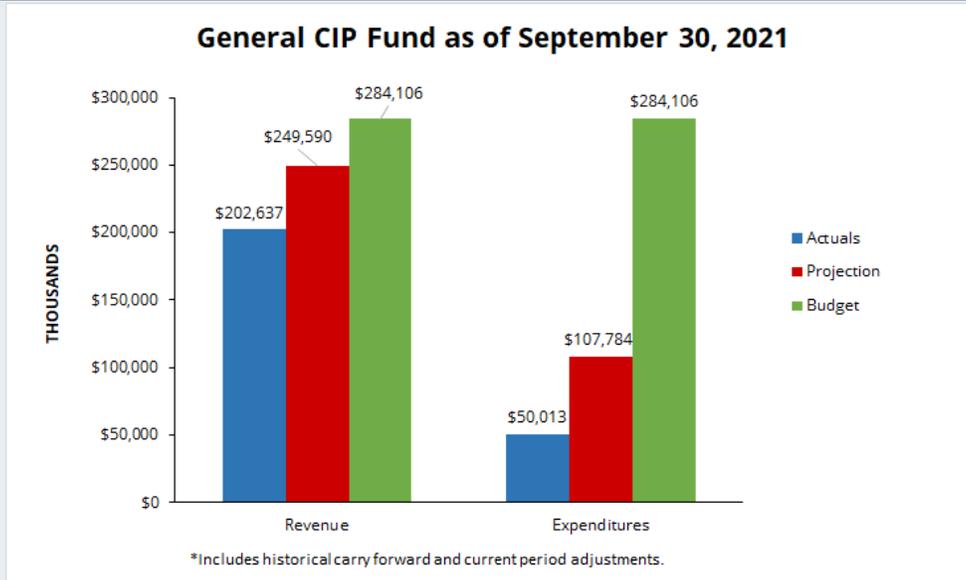
Property tax revenue collection is projected to be slightly above budget in 2021. COVID-19 did not have any significant impact on the timing of payments or the collection of revenue in 2020, and is not projected to have a significant impact in 2021.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue’s 2021 total levy rate is \$0.89 per \$1,000 AV, which includes \$0.06 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.10 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.12 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2021

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 2021 CIP includes \$117.1 million in beginning fund balance dedicated to existing projects in the CIP. Retail sales tax and B&O tax revenues are projected to be above budget primarily due to high levels of construction and development activity in the city, as well as the reopening of King County as a part of the Governor’s Healthy Washington - Roadmap to Recovery Plan which has resulted in a quicker than expected economic recovery. Additionally, REET - a historically volatile revenue source - has come in higher than anticipated, with approximately \$36 million in revenue anticipated to be collected by year-end. This increase in REET revenue collection is primarily driven by increased real estate prices and 24 transactions over \$50 million that have occurred year-to-date. On average, the city sees 10 such transactions in a typical year. The increase in REET revenue is anticipated to be substantially 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. Overall, major tax collections are projected to be 33.9 percent higher than budget in 2021. This is somewhat offset by lower than expected project specific revenues, including grants and interlocal contributions, which are projected to come in lower than budget due to project savings. Though the 2021 budget originally included \$8 million in short-term cashflow borrowing to balance, based on projected revenue collection, the Budget Office does not anticipate using short-term cashflow borrowing to finance the CIP in 2021.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

Under COVID-19 guidelines, transportation projects have been defined as essential work and could continue under the safety terms provided. One draw was made on the TIFIA loan during 2021, with a second draw anticipated in Q4. The City of Bellevue has drawn \$19 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.

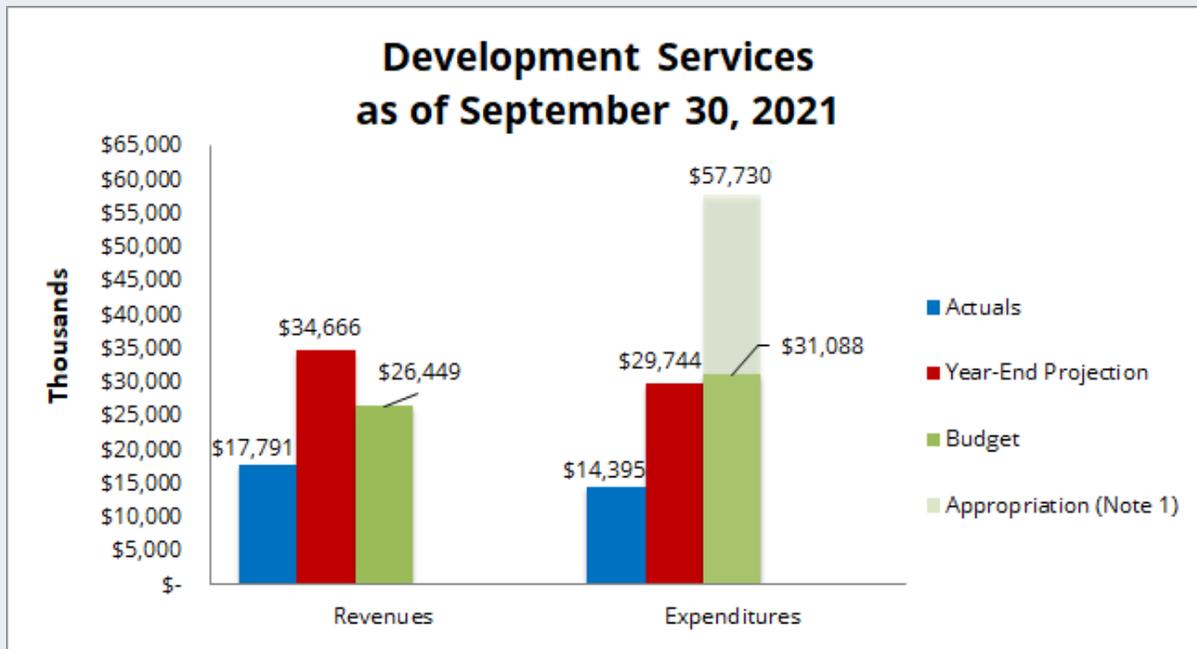
Expenditures

As of Q3, some CIP projects have begun to experience delays due to staffing and supply chain issues. General CIP expenditures are projected to be \$107.7 million as of year end, or 37.9 percent of the available CIP expenditure budget.

DEVELOPMENT SERVICES PERFORMANCE



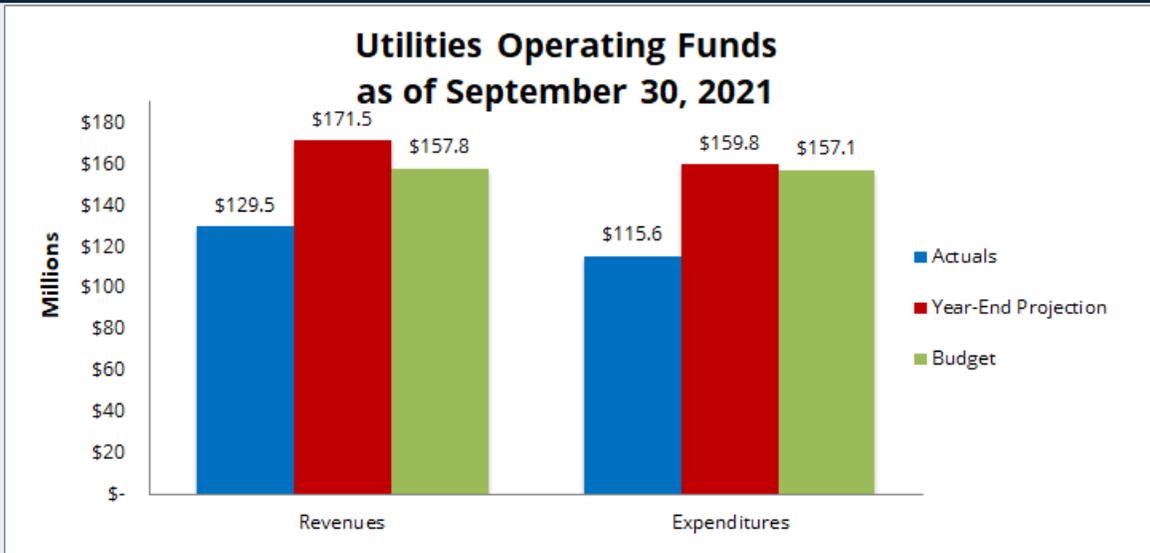
Avenue Bellevue



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 returned to pre-pandemic levels and is anticipated to remain high through 2021 and into 2022. Revenue projections are 31 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 savings.

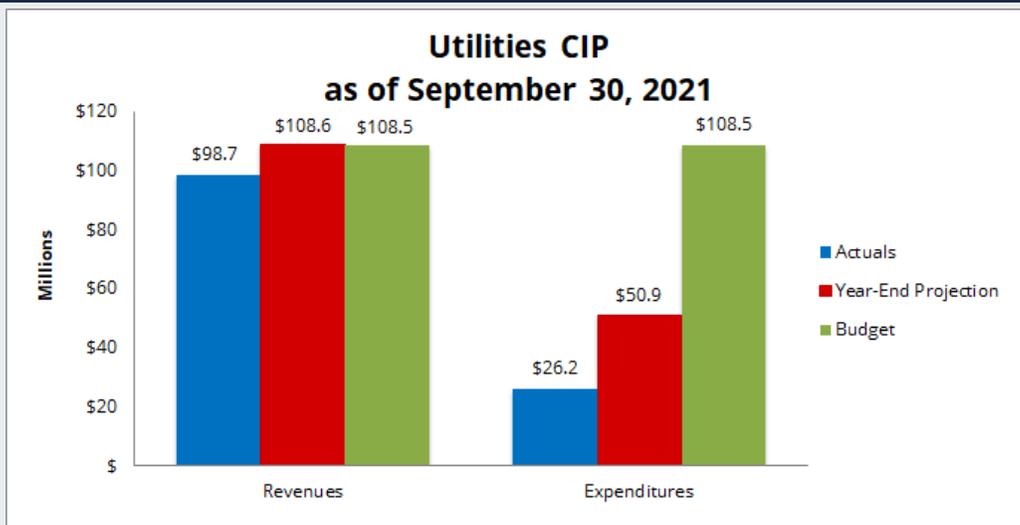
UTILITIES OPERATING FUNDS



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

Utility year-to-date revenues are exceeding expectations largely due to greater than anticipated water and sewer service revenues resulting from warmer and drier Spring and Summer weather, as well as a faster recovery from COVID-19 impacts than anticipated. In addition, regional connection charges are forecasted to be above budget due to higher development activity. These will be offset by a corresponding overage in expenditures to the Cascade Water Alliance. Utility year-to-date expenditures are above expectations. Year-end expenditures are forecasted to be over budget due to increased regional connection charges as noted above, increased taxes due to strong water and sewer revenues, offset by under-expenditures due to personnel vacancy savings.

UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$16.0 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 higher than budgeted levels at year end. Actual revenues reflect funding for projects budgeted in previous years, but will be completed in 2021. CIP expenditures reflect delays for several major projects due to COVID-19 adjustments including moratorium on water shut offs, contractor staffing impacts, availability of materials, and staff capacity. Key projects impacted include Pike's Peak Reservoir and Advanced Metering Infrastructure (AMI). The unspent 2021 budgeted funds will carryforward for projects into 2022.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2021