



Phone: 425-452-7863
Date: May 17, 2021
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2021 First Quarter Budget Monitoring Report

Attached is the 2021 First Quarter Budget Monitoring Report for the period ending March 31, 2021. The impacts of COVID-19 are constantly evolving. Since this report is as of the end of the first quarter, it does not reflect the notable fluidity in the national, state, and local economy that has occurred since the end of March. This report presents the General, General CIP, Development Services, and Utilities Operating and CIP Funds.

Notable items:

- Due to a stronger than anticipated economic recovery, General Fund revenues are projected to be \$2.6 million (1.2 percent) higher than budgeted in 2021. This is primarily driven by sales and B&O tax performing better than budget. However, projected revenues are still substantially lower than pre-pandemic forecasts. The impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on returning to pre-pandemic activities.
- General Fund expenditures are projected to be \$840K (0.4 percent) higher than budget in 2021 due to the negative impacts of the January windstorm and the February winter storm. These storm events were unforeseen costs that resulted in substantial personnel and M&O overages. Beyond these significant weather events, the General Fund has seen additional one-time costs related to the payment for settlements.
- The General Fund reserve is projected to decrease this year as a result of the ongoing impacts of COVID-19. To balance the 2021 budget amid COVID-19, the adopted budget included using reserves of \$4.7 million. At this time, the city is projected to use \$3.0 million of reserves in 2021. The out-year forecast continues to show expenditures increasing at a higher rate than revenues which will require decreasing expenditures, raising revenue, or using reserves which is one-time funding.
- Due to stronger than anticipated sales and B&O tax collection, CIP major tax collections are projected to be 2.0 percent above budget in 2021. CIP expenditures are currently projected to be \$142.1 million in 2021, 50.2 percent of available budget.

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 First Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through March 31, 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 March 2021.

U.S. Economy

The national economy continued to recover from the impacts of COVID-19 in the first quarter. Real gross domestic product (GDP) increased by an annualized rate of 6.4 percent in the first quarter, up from 4.3 percent in Q4 of 2020 (Source: Bureau of Economic Analysis). The labor market rebounded from the late-Q4 slump, adding 1.6 million jobs during the first quarter (Source: Bureau of Labor Statistics). Average weekly earnings were up 3.3 percent year-over-year and the national unemployment rate fell to 6.2 percent as of March 2021 - the strongest employment numbers since the pandemic began (Source: Bureau of Labor Statistics). Despite the signs of labor market recovery, unemployment remains significantly higher than pre-pandemic levels.

Vaccine distribution increased dramatically during the first quarter. As of March 31, the United States had administered a total of 150 million doses of the vaccine, with 29.2 percent of the adult population receiving at least one dose and 16.3 percent of the adult population fully vaccinated by the end of the quarter (Source: Centers for Disease Control and Prevention; Our World in Data). However, despite widespread vaccine distribution, daily cases of COVID-19, as

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%

well as hospitalization rates, began to increase towards the end of the first quarter (Source: Centers for Disease Control and Prevention).

During the first quarter, the federal government passed legislation that will have a significant impact on the national economy. On March 11, 2021, Congress and the President passed the American Rescue Plan Act of 2021 (ARPA). The \$1.9 trillion plan provided direct payments of \$1,400 to individuals with less than \$75,000 in income, extended enhanced unemployment benefits through September 2021, and earmarked \$350 million in fiscal aid for state and local governments. Early analyses of the plan's impact indicate that the package could boost the country's real GDP by an additional 3 to 4 percentage points by the end of 2021, reaching the Congressional Budget Office's pre-pandemic GDP forecast for 2021 by the end of the third quarter (Source: Brookings Institution; International Monetary Fund; OECD).

City of Bellevue Budget Monitoring Report

January 1 to March 31, 2021

Regional Economy

On January 5, 2021, Governor Inslee announced “Healthy Washington - Roadmap to Recovery”, a new COVID-19 phased recovery plan that began on January 11. On January 28, the Governor’s office released significant revisions to the plan, allowing King County to move into Phase 2 of the 3 phase plan. This allowed for increased capacity at indoor business venues. On March 11, as COVID-19 case rates fell, King County moved into Phase 3 of the reopening plan, which increased indoor capacity to 50 percent. On March 31, Governor Inslee announced that effective April 15, all Washington residents over the age of 16 will be eligible to receive a COVID-19 vaccination. As of March 31, over 1 million vaccine doses have been administered in King County, with 37.4 percent of the adult population having received at least one dose (Source: King County Department of Health).

As the county reopened, the economy continued to improve. The King County unemployment rate fell to 5.4 percent as of March, down from 5.8 percent in December 2020 (Source: Bureau of Labor Statistics). The Seattle-Tacoma-Bellevue metropolitan area gained 19,800 jobs in the first quarter, with the gains primarily concentrated in construction, education and health services, and leisure and hospitality (Source: Bureau of Labor Statistics). However, economic conditions have yet to return to pre-pandemic levels. The Seattle-Tacoma-Bellevue metropolitan area has lost 111,400 non-farm jobs since the beginning of the pandemic, with the job losses concentrated in manufacturing (down 12.6 percent from March 2020), leisure and hospitality

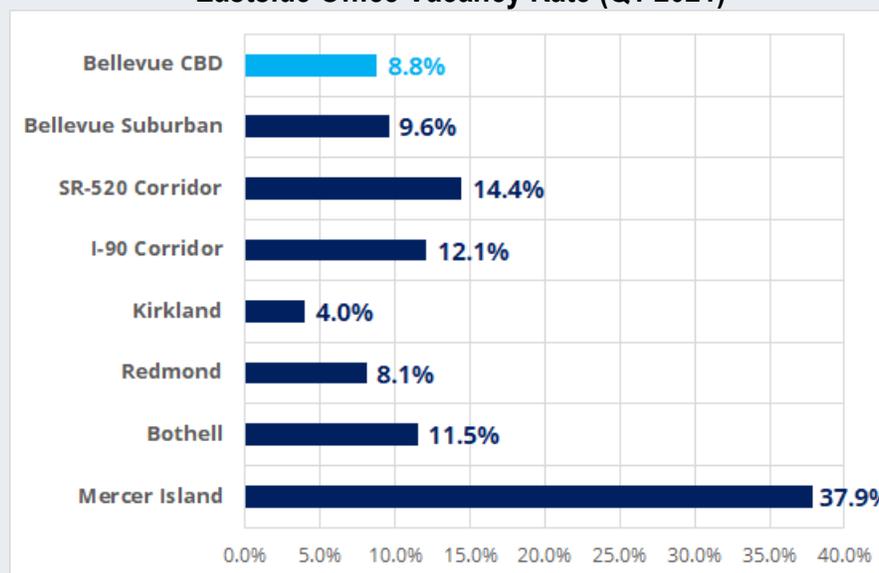
(down 27.6 percent), and government (7.7 percent). Additionally, many in Washington continue to face financial hardship. According to one estimate, roughly 175,000 Washington renters are in arrears (Source: The Seattle Times). To address the economic impacts of COVID-19 in Washington, Governor Inslee signed House Bill 1368 on February 19, earmarking \$2.2 billion in federal funding for multiple programs including rental assistance, child care, and food banks.

Bellevue Economy

Bellevue’s labor market continued to improve from peak unemployment levels in April 2020. The unemployment rate stood at 4.4 percent in March 2021, improving from 4.8 percent at the end of December 2020. Bellevue has experienced a relatively strong labor market recovery, with the unemployment rate continuing to trend favorably compared to the Greater Seattle metropolitan area, King County, and the State of Washington (Source: U.S. Bureau of Labor Statistics).

Bellevue’s office vacancy rate in Central Business District (CBD) was at 8.8 percent in Q1, the third-lowest vacancy rate on the Eastside (see chart below) after Kirkland and Redmond. Working-from-home driven by Governor Inslee’s Healthy Washington - Roadmap to Recovery guidelines has created a rising office vacancy rate in Eastside from 7.6 percent to 9.5 percent in the first quarter of 2021. However, there was a rebound of broker inquires and tenant requirements across the Eastside, especially in downtown Bellevue (Source: Q1 2021 Eastside Office Market Overview by Broderick Group).

Eastside Office Vacancy Rate (Q1 2021)

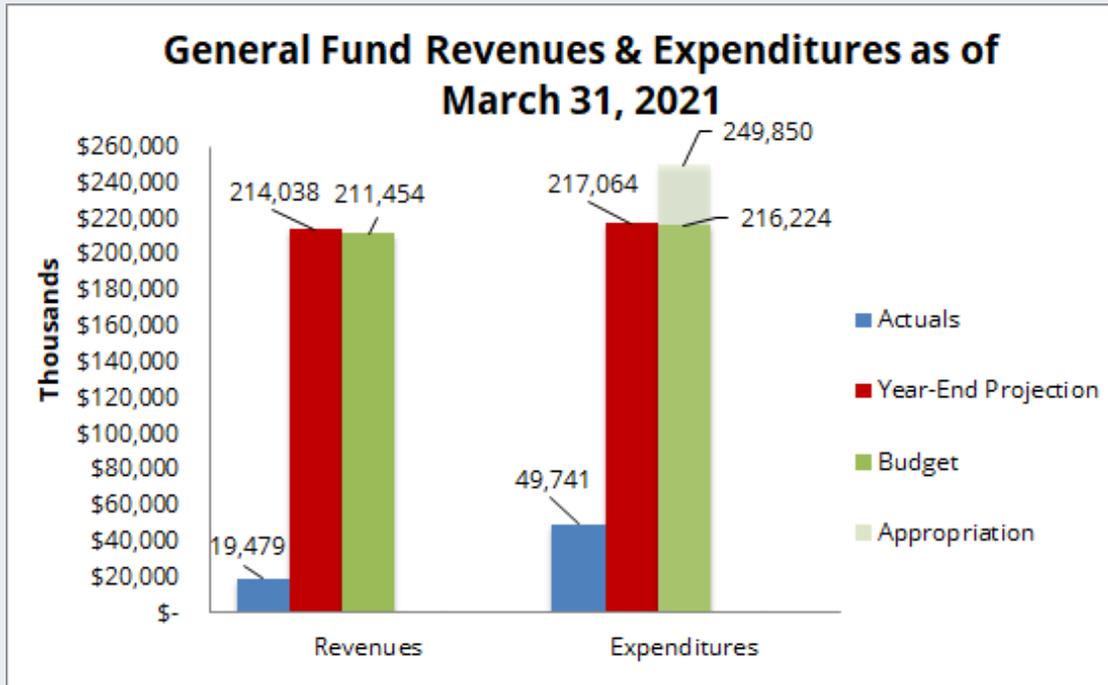


Sources: Q1 2021 Eastside Office Market Overview by Broderick Group

City of Bellevue Budget Monitoring Report

January 1 to March 31, 2021

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through March, 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 \$2.6 million (1.2 percent) in 2021. Collections of sales tax and B&O tax (Business and Occupation Tax) are projected to be higher than budgeted due to better than anticipated economic recovery, as King County increased vaccine distribution and moved into Phase 3 of the Governor's re-opening plan in the first quarter. General Fund revenue projections are also bolstered by high levels of construction and development activities. However, projected revenues are still substantially lower than pre-pandemic forecasts, as the city continues to recover from the economic impacts of COVID-19. The impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on continued vaccine distribution and low positive case rates.

Expenditures

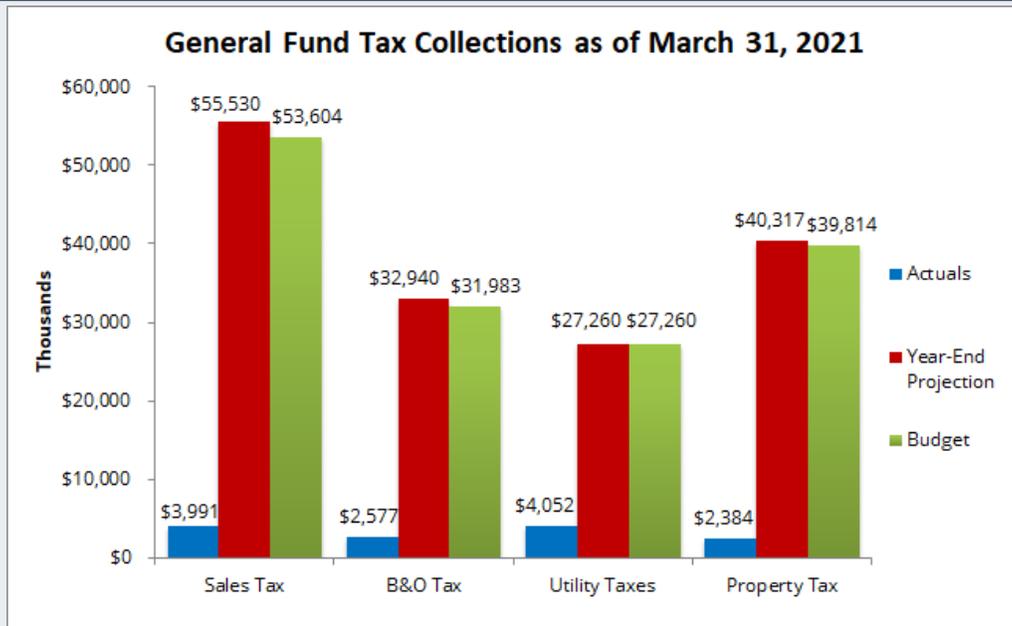
Expenditures are projected to be \$840K (0.4 percent) over budget in 2021. This is driven by the January windstorm and February

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

The General Fund reserve is projected to decrease this year as adopted in the budget as a result of COVID-19. The adopted 2021 budget included a one-time use of reserves of \$4.7 million. As of the first quarter, the city is projecting to use \$3.0 million (\$1.7 million less than budgeted) of reserves in 2021. The city is projecting to maintain reserves above the Council reserve policy in 2021.

GENERAL FUND PERFORMANCE



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

Tax Revenues

Economic activity has continued to increase with reopening and increased rates of vaccine distribution. Tax revenue is projected to be higher than budgeted due to the faster than expected economic recovery. 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

Sales tax collections are projected to be 3.6 percent above budget, primarily due to the reopening of King County as a part of the Governor’s Healthy Washington - Roadmap to Recovery Plan. As of March 31, King County is in Phase 3 of the reopening plan, allowing for 50 percent capacity at most indoor establishment and full re-opening of outdoor entertainment venues.

Business and Occupation Tax (B&O Tax)

B&O tax collections are projected to be 3.0 percent above budget, primarily due to increased economic activity as King County progressed through the Healthy Washington - Roadmap to Recovery Plan. During March, several major employers, including Microsoft, announced that employees would begin returning to the office for the first time since the pandemic began.

Utility Tax

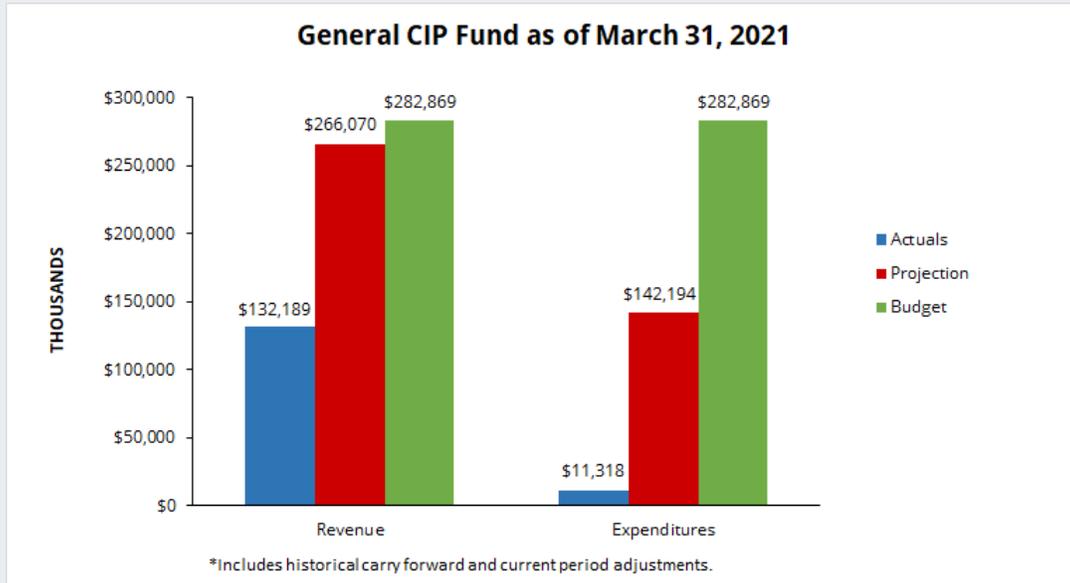
Utility tax revenue collection is projected to be at budget during 2021.

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.

GENERAL CIP PERFORMANCE

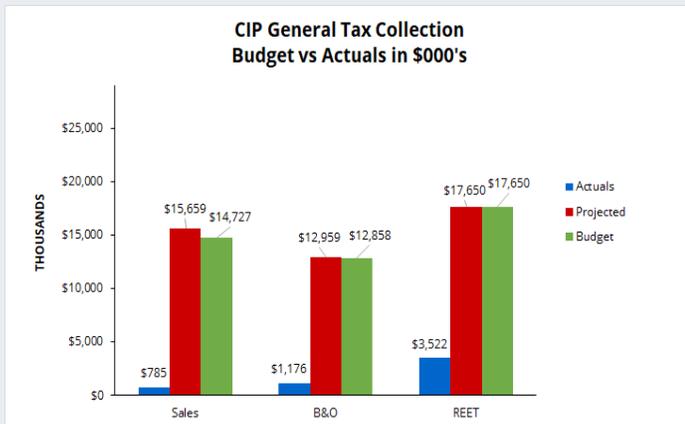


Note: Under-collection of revenue is driven by lower levels of spending and project savings in projects that receive grant funding.

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 as a result of a quicker than expected economic recovery. REET revenue collections are projected to come in at budget. Overall, major tax collections are projected to be 2.0 percent higher than budget in



2021. Grants and Interlocal contributions are projected to come in lower than budget due to project savings. The Budget Office continues to monitor overall cash flow needs within the General CIP.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

TIFIA projects started in 2018 and have made significant advances in design and right-of-way acquisition. Under COVID-19 guidelines, transportation projects have been defined as “essential work and could continue under the safety terms provided. No draws were made on the TIFIA loan during Q1. 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.

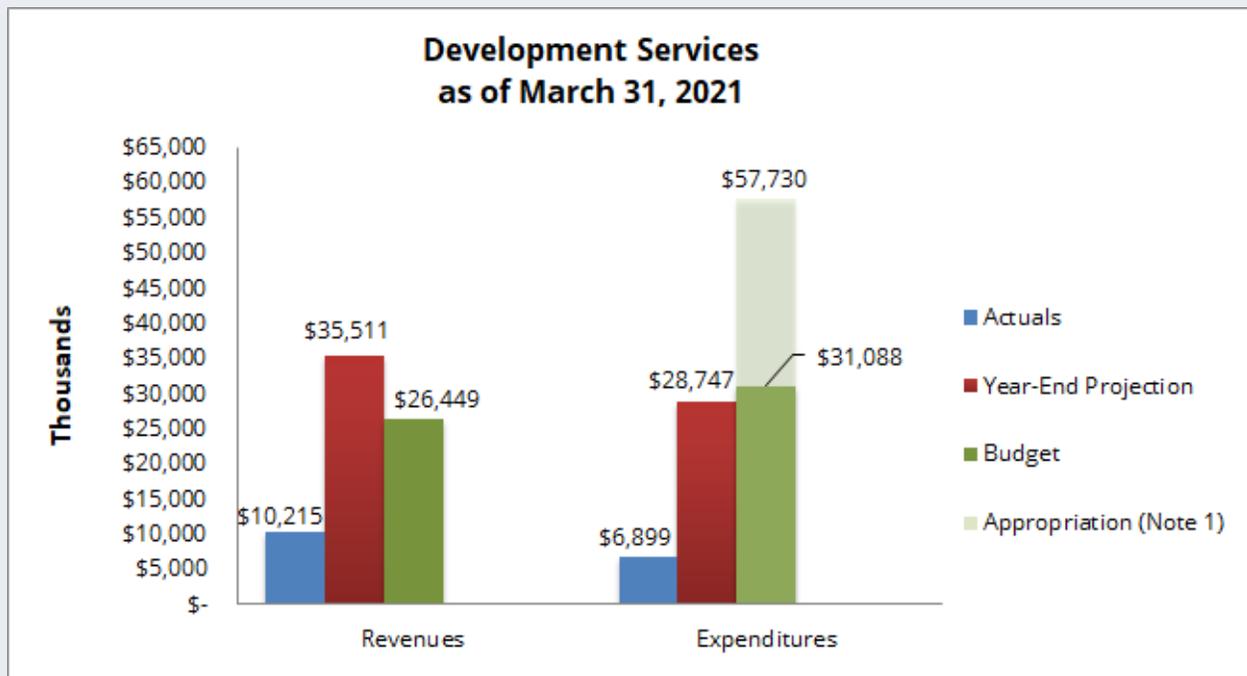
Expenditures

In accordance with the Healthy Washington - Roadmap to Recovery guidelines, construction projects are not expected to experience significant delays. General CIP expenditures are projected to be \$142.1 million as of year end, or 50.2 percent of the CIP expenditure budget.

DEVELOPMENT SERVICES PERFORMANCE



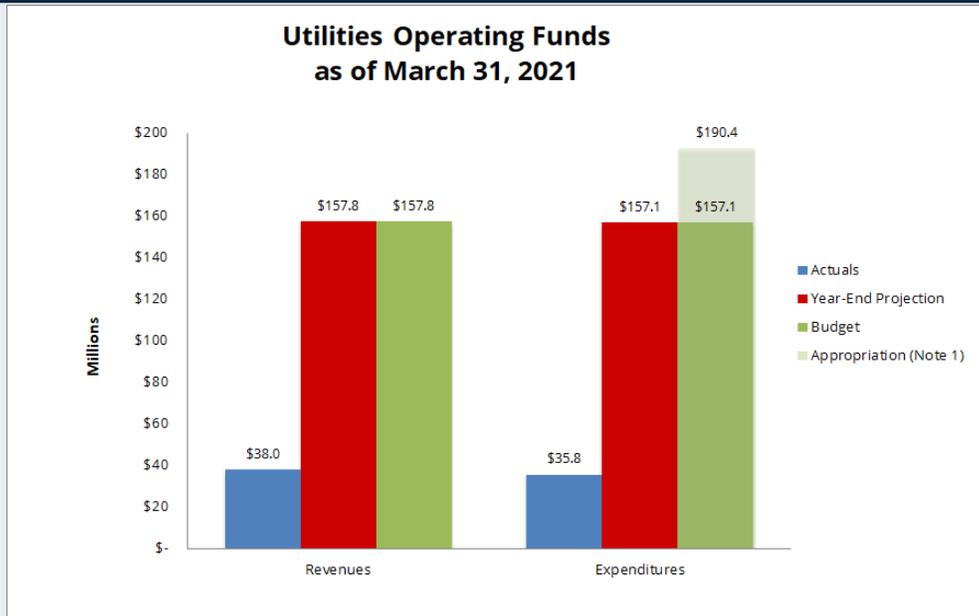
1001 Office Towers



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 returned to pre-pandemic levels by year-end 2020 and remains high through Q1 2021. Revenue projections are 17 percent over budget, a result of the building valuation-based fees for several large projects that are in review and in construction in Bellevue. Expenditure savings are for vacant position and M&O savings.

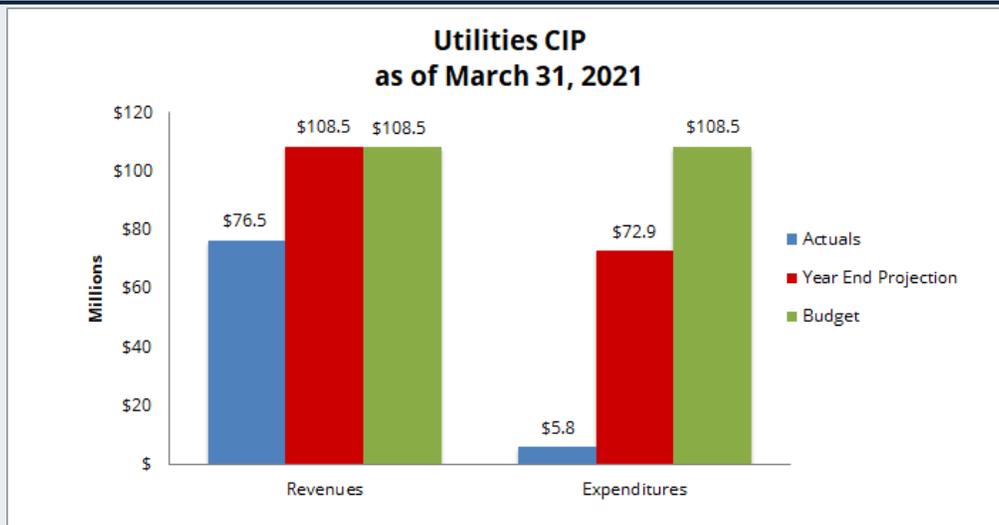
UTILITIES OPERATING FUNDS



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

Utilities year-to-date revenues are within expectations and sufficient to cover expenses. Revenues and expenditures are forecasted to be at budget by year-end.

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 at budgeted levels at year-end. Actual revenues reflect funding for projects budgeted in prior years, but will be completed in 2021. CIP expenditures reflect delays for several major projects due to COVID-19 adjustments including a moratorium in water shutoffs, contractor staffing impacts, and availability of materials. Other drivers for delays include staff capacity, easement acquisition issues, and permitting. Some of the key projects impacted include: Pike's Peak Reservoir, Advanced Metering Infrastructure (AMI), Factoria Blvd Conveyance Improvements, O&M Yard Project, and Lower Coal Creek Flood Hazard Reduction. Unspent 2021 budget will be required for construction in 2022.

City of Bellevue Budget Monitoring Report

January 1 to March 31, 2021