



City of Bellevue

MEMORANDUM

Phone: 425-452-7863
Date: April 18, 2022
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2021 Year End Budget Monitoring Report

Attached is the 2021 Year End Budget Monitoring Report for the period ending December 31, 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 items – update on the General Fund:

- General Fund revenue collections were \$13.6 million above budget in 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 March 7th budget workshop, expenditures are expected to exceed revenues in the City's General Fund forecast beginning in 2023.
- General Fund expenditures were \$25,000 lower than budget in 2021 due to department savings that are partially offset by the negative impacts of the January windstorm, the February winter storm, the December winter storm, and one-time costs related to the payment of settlements.
- The General Fund reserve is 23.2 percent at year-end 2021. This is primarily due to construction sales and business & occupation tax and underspending by departments. The City maintained 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. However, with revenues returning to their pre-pandemic trend, reserves were not needed to balance in 2021.
- The Bureau of Labor Statistics' seasonally adjusted annual Consumer Price Index for All Urban Consumers (CPI-U) stood at 7.1 percent as of December 2021. In the March 7th budget workshop, staff highlighted the inflationary 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 Year End Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through December 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 actively managed and took fiscally responsible actions to respond the COVID-19 impact in 2021. The future economic impacts of COVID-19 continue to remain uncertain beyond this year. 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. Additionally, this report does not take into consideration the ongoing war in Ukraine and its potential impacts to supply chains and commodities markets. This monitoring report reflects the impact to the city as of December 2021.

U.S. Economy

Despite the many challenges posed by COVID-19 variants, supply chain issues, and labor shortages, the U.S. economy rebounded in 2021 from the economic downturn of 2020. Overall, real gross domestic product (GDP) increased in the fourth quarter at an annualized rate of 6.9 percent, putting the economy back on its pre-pandemic GDP trend (Source: Bureau of Economic Analysis; Federal Reserve). As of December 2021, the seasonally adjusted unemployment rate had dropped to 3.9 percent, the lowest rate since the beginning of the pandemic and near pre-pandemic levels (Source: Bureau of Labor Statistics).

However, offsetting the strong growth and unemployment data was the overarching trend of price increases. What began as price shocks concentrated in specific commodity sectors (construction, energy) and specific goods (used vehicles), eventually spilled into price increases across a large proportion of goods and services. As of December 2021, the seasonally adjusted annual Consumer Price Index for All Urban Consumers (CPI-U) stood at 7.1 percent, the highest rate since 1981 (Source: Bureau of Labor Statistics).

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%

Although nominal incomes broadly increased for most Americans, real incomes (adjusted for inflation) decreased in the fourth quarter. To combat inflation, the Federal Reserve projects several interest rate increases during 2022 and 2023 (Source: Federal Reserve).

Looking forward to 2022, despite persistent inflation, projected interest rate increases, and the omicron variant of COVID-19, the investments made in the American Rescue Plan and the Bipartisan Infrastructure Law, paired with the continued economic recovery from COVID-19, are projected to lead to 4.5 percent GDP growth in 2022, and long-run growth between 2.0-2.5 percent per year over the next several years (Source: Federal Reserve; International Monetary Fund). These forecasts, however, do not take into account the ongoing war in Ukraine, and its potential impacts to supply chains and commodities markets, nor do they consider disruptions from additional COVID-19 variants. The Budget Office will continue to monitor the conflict, as well as the virus, for any economic impacts to the City.

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2021

Regional Economy

During the fourth quarter, COVID-19 cases began to accelerate rapidly across King County and the State of Washington due to the omicron variant. The daily case numbers in King County increased by over 800 percent from the end of September to the end of December (Source: King County Public Health; Washington State Department of Health). During the fourth quarter, certain public health safety measures were put into place across the state. In September 2021, Governor Inslee announced vaccine requirements for state employees and certain categories of healthcare workers. In October 2021, Governor Inslee announced that all large public events required either proof of vaccination against COVID-19 or a negative COVID-19 test within the previous 72 hours.

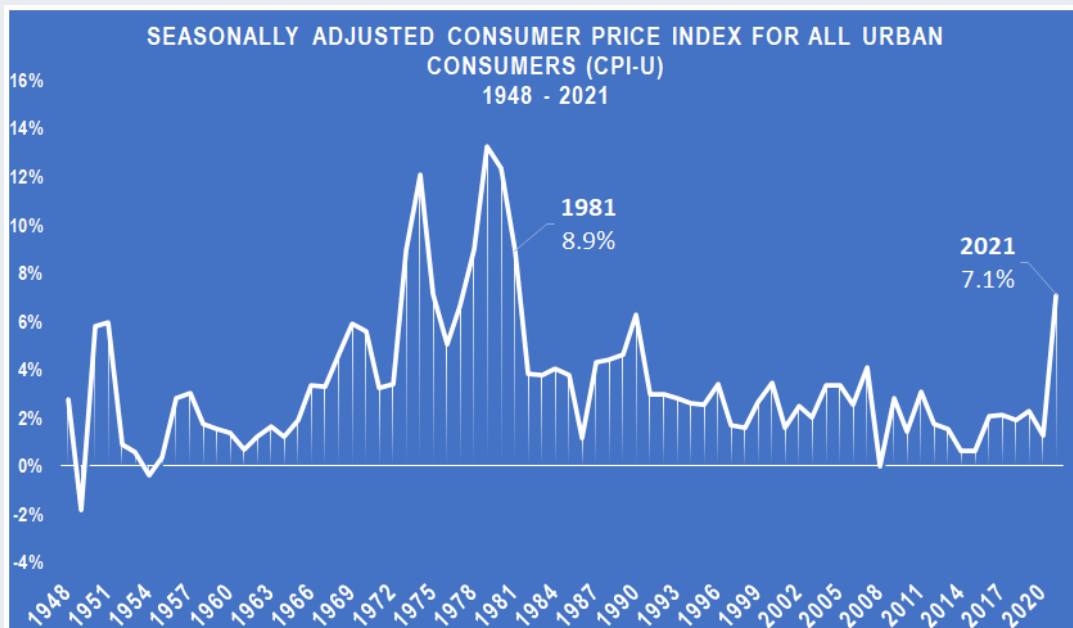
Despite the rapid increase in cases and the public health measures put into place, the state and regional economy continued to recover from the most challenging periods of the pandemic. As of December 2021, the State of Washington had added back nearly 350,000 jobs since the collapse of the labor market at the beginning of the pandemic in April 2020. In the fourth quarter of 2021, the State of Washington added 39,000 jobs, heavily concentrated in service sectors of the economy, including 8,000 in retail and 9,300 in leisure and hospitality (Source: Washington State Employment Security Department). Additionally, real gross domestic product (GDP) increased by 6.7 percent in Washington in 2021, with real personal income per capita of Washington residents increasing by 7.4 percent from 2020 (Source: Bureau of Economic Analysis). The growth was primarily driven by the information sector and the professional and business services sector of the economy.

Bellevue Economy

Bellevue's labor market continues to improve from peak unemployment levels in April 2020. The preliminary unemployment rate in Bellevue as of December 2021 was 2.7 percent, reaching its lowest levels since the start of the pandemic and a 1.0 percent improvement from the previous quarter (Source: Bureau of Labor Statistics). Labor force participation continued to expand in the fourth quarter. The labor force grew by 0.5 percent from September, and rebounded to the same level as February 2020. The 2021 Business Survey found that the improvement in economic conditions in the city was reflected in business sentiment. When asked about their perception of Bellevue's economy, 92 percent of survey respondents found Bellevue's economy to be better than other Puget Sound cities and towns.

Housing prices in Bellevue continued their historic rise in the fourth quarter. As of December 2021, the median sales price for a home in Bellevue was \$1.4 million, a 27 percent increase from the prior year. While housing prices have risen across the Seattle metropolitan area broadly, Bellevue's median home sales price grew at a faster rate than Seattle, Redmond, Kirkland, or Renton (Source: Redfin). Of cities nationwide with more than 100,000 in population, at the end of 2021 Bellevue had higher median sales prices than all but San Francisco and several towns in the Silicon Valley area (Source: Seattle Times).

Similarly, the rental market saw substantial increases. In the fourth quarter of 2021, the average rental price for a 1-bedroom apartment in Bellevue was \$2,367 (Source: Seattle Times). Rental prices were the highest in the region and 37 percent higher than the average rental price for a 1-bedroom apartment in Seattle.

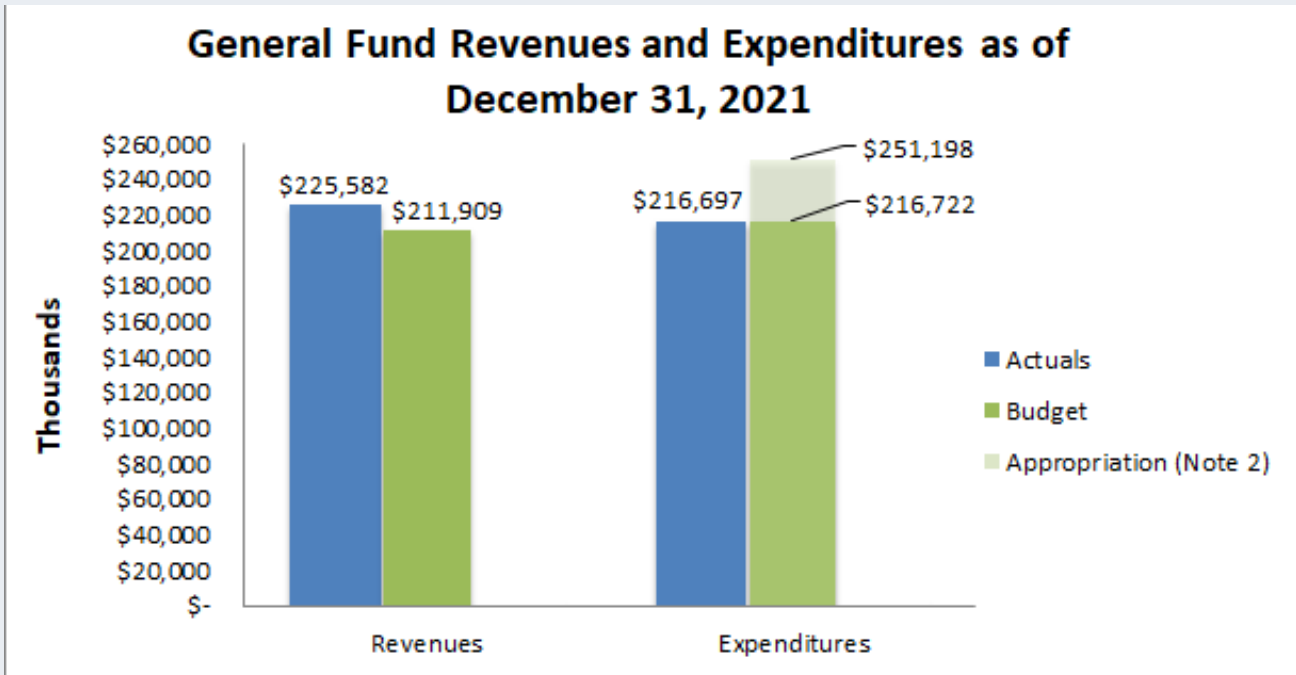


Source: Bureau of Labor Statistics

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2021

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through December, 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 were above budget by \$13.6 million (6.5 percent) in 2021. Collections of sales tax and B&O tax (Business and Occupation Tax) were higher than expected 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 from COVID-19 still remain uncertain and increased levels of economic activity are dependent on factors in the broader economy, continued expansion of vaccine doses and booster shots, low positive case rates, and limited public health impacts from COVID-19 variants.

Expenditures

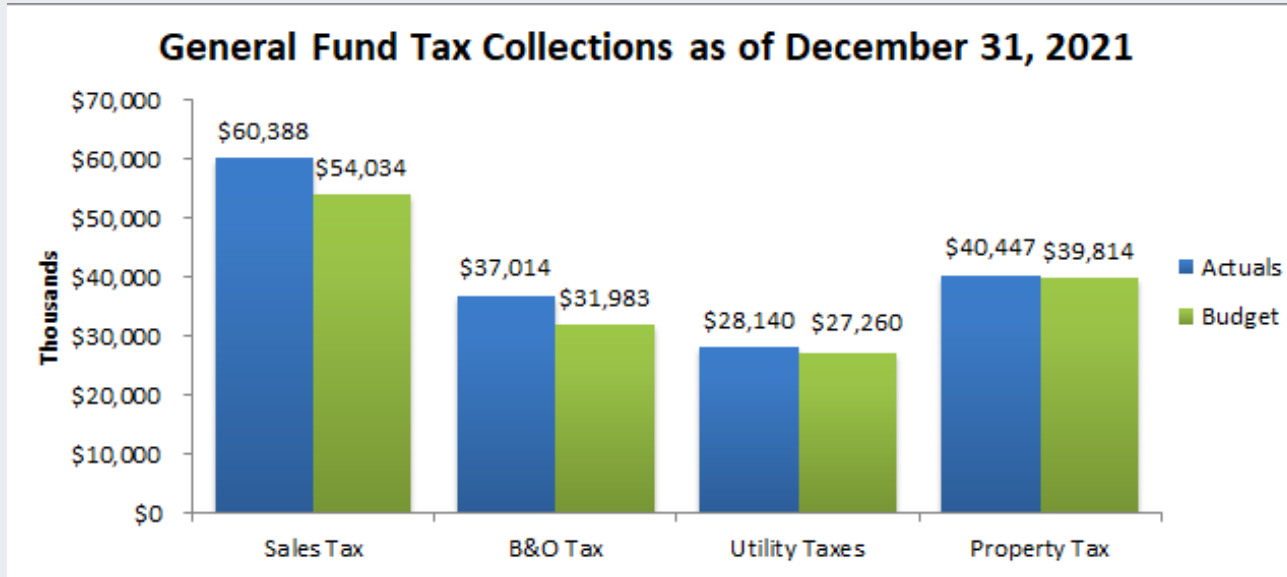
Expenditures were \$25,000 (0.02 percent) below budget in 2021. This is driven by department M&O savings stemming from reduced capacity in City facilities in response to COVID-19 public health orders, as well as personnel savings from vacancies throughout the

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 and the December winter storm at year-end. Beyond these significant weather events, the General Fund has seen additional one-time costs related to payments for settlements and has seen increased costs for goods and services due to rising inflation levels. 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 as a percentage of General Fund revenues increased to 23.2 percent in 2021. 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.

GENERAL FUND PERFORMANCE



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

Tax Revenues

Economic activity has continued to increase as the state and regional economy have reopened. Tax revenue was 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 were 11.8 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. Beginning September 30, King County 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, were \$5 million (15.7 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.

Utility Tax

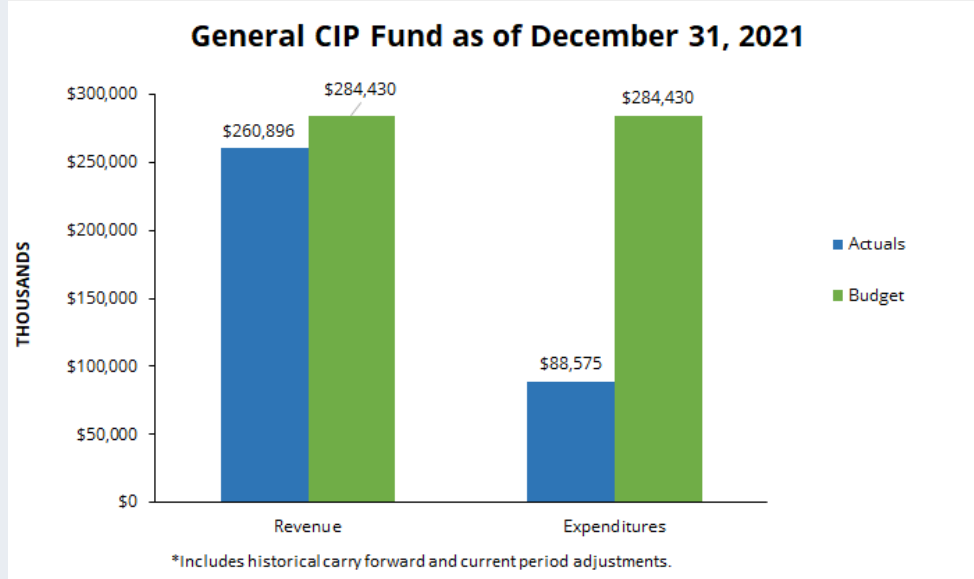
Utility tax revenue collections were above budget by \$0.8 million (3.2 percent) during 2021. The increased collections were primarily driven by increased electricity utility taxes and water utility taxes due to the hot weather and the ongoing drought during the summer months, and were partially offset by lower telephone and cell phone utility tax collections.

Property Tax

Property tax revenue collection was 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 did not 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 were 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 \$39.2 million in revenue 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 occurred during 2021. 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 were 45.4 percent higher than budget in 2021, representing an 11.5 percent increase from the Q3 projection. 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, the Budget Office did not use 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 continued under the safety terms provided. The City of Bellevue received three TIFIA loan distributions in 2021 and has drawn \$19.4 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.

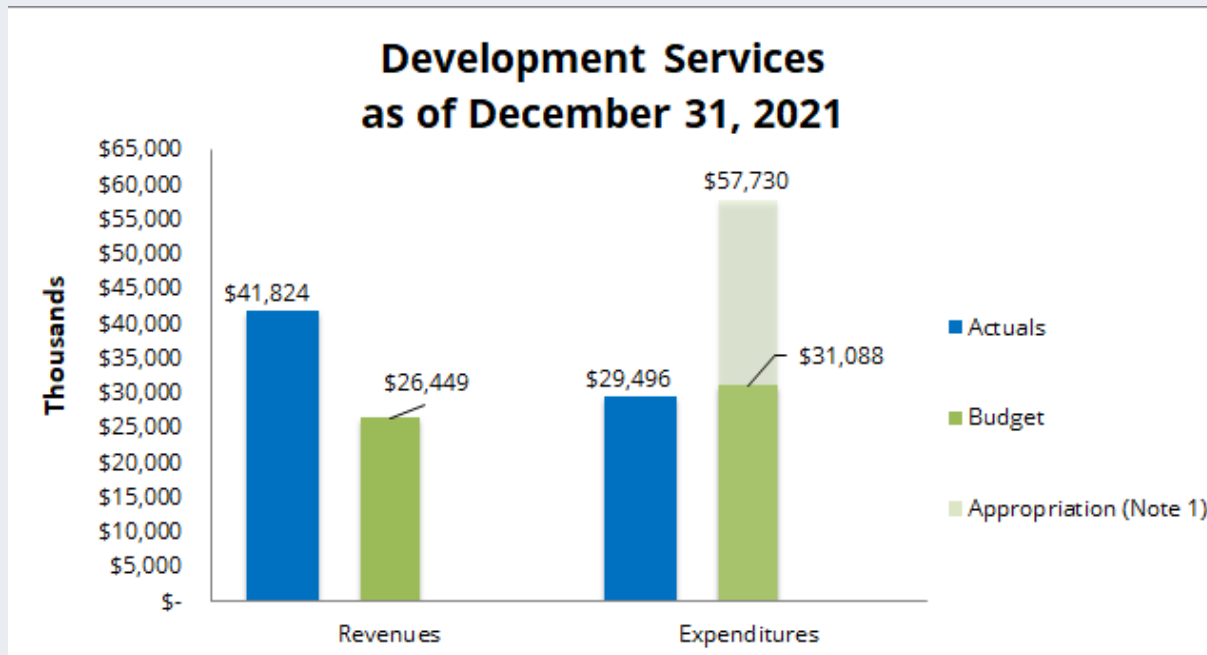
Expenditures

By the end of 2021 some CIP projects experienced delays due to staffing and supply chain issues. General CIP expenditures were \$88.6 million as of year-end, or 31.1 percent of the available CIP expenditure budget.

DEVELOPMENT SERVICES PERFORMANCE



NE 8th Mixed-Use Office

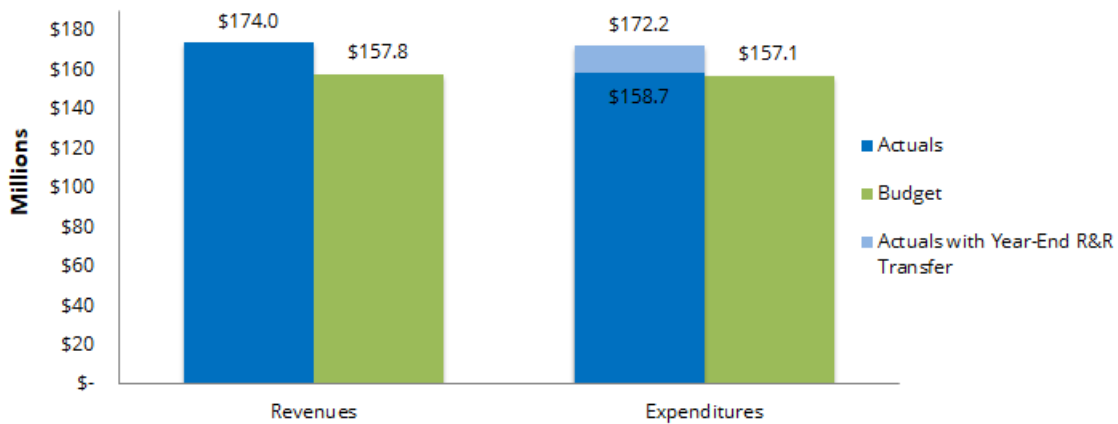


Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).

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 into 2022. Revenues are 58 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 (M&O) savings.

UTILITIES OPERATING FUNDS

Utilities Operating Funds as of December 31, 2021

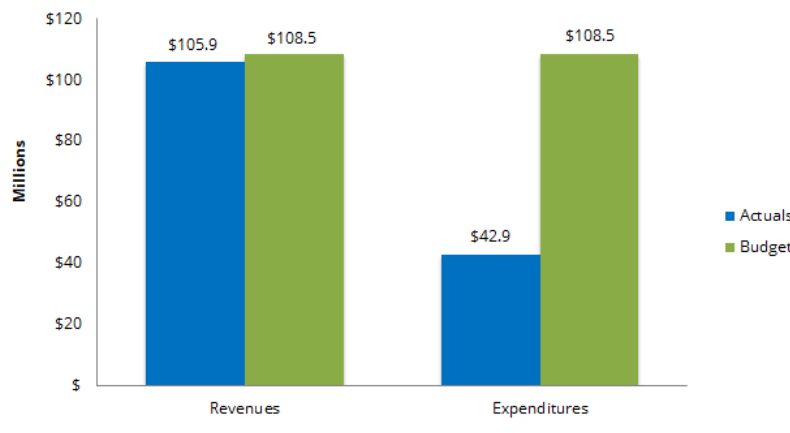


Note 1: The total expenditure appropriation is \$190.4 million, inclusive of reserves.

Utilities' revenues exceeded expectations for the year largely due to greater than anticipated water and sewer service revenues from warmer and drier spring and summer weather, as well as a faster recovery from COVID-19 impacts than anticipated. Additionally, regional connection charges were above budget due to higher development activity. These were offset by a corresponding overage in expenditures to the Cascade Water Alliance. Utilities' expenditures also exceeded expectations for the year and were over budget due to increased regional connection charges as noted above and increased taxes due to strong water and sewer revenues, offset by under-expenditures due to personnel vacancy savings. Per Utilities' financial policies, operating reserves above target levels are transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs or used for one-time expenditures. Utilities was able to transfer \$13.5 million to the R&R account this year.

UTILITIES CIP

Utilities CIP as of December 31, 2021



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 were lower than budgeted levels at year end due to timing of grant reimbursements from the King County Flood Control District. CIP expenditures reflect delays for several major projects due to ongoing supply chain and materials issues, environmental permitting delays, property acquisition issues, 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 December 31, 2021