



# BUDGET MONITORING REPORT

For the period from January 1 through June 30, 2020

## 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 the report is to compare actual expenditures and revenues to the 2020 Amended Budget, to discuss reasons for variances and to convey an overview of the local and national economic outlook.

The city is actively managing and taking fiscally responsible correction actions to respond the COVID-19 impact in 2020. The future of COVID remains uncertain as is the full extent of the impact. In response to the fluid nature of COVID, the city will continue to monitor and take corrective actions to ensure the long term viability of the fiscal condition of the city. This monitoring report reflects the estimated impact as of June 2020.

## U.S. Economy

Economic activity declined in all states, given the sudden and deep economic shocks associated with the spread of COVID-19, containment efforts, and associated effects. Real GDP decreased at an annual rate of 32.9 percent in the second quarter (Source: Bureau of Economic Analysis, advance estimate on July 30). Due to decline in gasoline prices and reduced demand during COVID-19, national inflation (CPI-U) remained low at 0.6 percent as of June 2020 before seasonal adjustment (Source: U.S. Bureau of Labor Statistics).

All but five states had imposed some degree of business closure and stay-at-home guidance in March and April in response to the outbreak of COVID-19. By late May, all states had taken some steps to roll back restrictions. States that are home to some of the most high-density metro areas where concerns of disease spread are most acute, including New York, New Jersey, Michigan, Illinois, and California, have been among the slowest to relax restrictions

## 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	o
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%

(Source: HIS Markit). Total nonfarm payroll employment rose by 4.8 million jobs in June, and the unemployment rate declined to 11.1 percent, down from 14.7 percent in April. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed in March and April due to the COVID-19 pandemic and efforts to contain it (Source: Bureau of Labor Statistics, July 2 report).

While many businesses that had been deemed non-essential have been allowed to re-open, ongoing social-distancing guidance is reducing capacity in medical offices, restaurants, retail store and salons. Therefore, even in areas that are "open for business", business activity is still far from normal, reducing potential economic growth in the short-term (Source: HIS Markit). The economic outlook remains highly uncertain, as it remains unclear how long the COVID-19 pandemic will continue.

## City of Bellevue Budget Monitoring Report

January 1 to June 30, 2020

## Regional Economy

A gradual re-opening of the regional economy is under way, which will pave the way for an initial recovery as we move through the latter part of this year. Governor Jay Inslee, in collaboration with the Washington State Department of Health, has established a data-driven approach to re-open Washington while minimizing the health impacts of COVID-19. Washington will move through the phased reopening county-by-county allowing for flexibility and local control to address COVID-19 activity geographically.

There were positive signs in the Washington labor market in June. As COVID-19 regulations were clarified, businesses and workers began to implement strategies to navigate the complexities of COVID-19. Between May and June, nonfarm employment expanded by 71,000 jobs and the preliminary seasonally-adjusted unemployment rate dropped to 9.8 percent, a 5.3 percent drop from May. However, June 2019 unemployment rate was 4.3 percent. These expansions are not normal circumstances. The largest one-month gains were attributable to two of the industries most impacted by the initial COVID-related job losses: retail trade (19,400 jobs) and leisure and hospitality (18,100 jobs). The continued job losses came from information (2,200 jobs) and government (700 jobs). (Source: Employment Security Department/LMEA; U.S. Bureau of Labor Statistics). However, the governor rolled back on some rules on July 23 to combat the rising COVID-19 cases. The regional economy is still far away from a stable recovery path due to the uncertain path of the pandemic.

Pre-pandemic forecasts for a high-volume home shopping

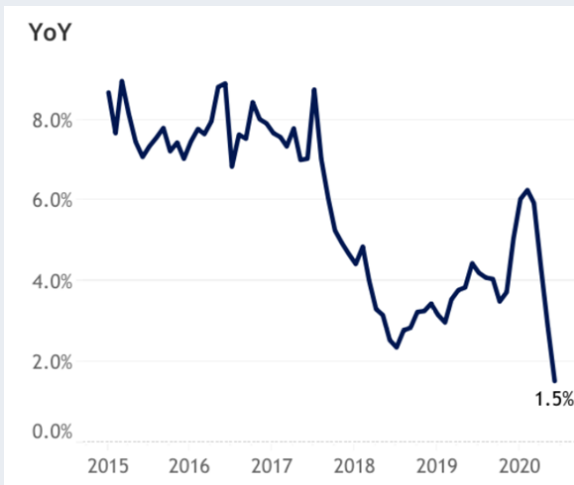
season were put on ice in early spring. While the home sale market continues to show resilience in the face of the pandemic, the rental market (left graph) has showed signs of a slowdown this June (1.5 percent growth year-over-year) compared to last June (4.4 percent growth year-over-year) - a time when rent growth usually accelerates. The steady decline in mortgage rates (right graph) suggests that investors are keeping a close eye on COVID-19 case counts and waiting for evidence regarding how the economy responds (Source: Zillow Research). It is uncertain how the market will perform after the unemployment benefits or the federal stimulus checks run out.

## Bellevue Economy

Bellevue's unemployment rate increased from 2.2 percent in February to 5.1 percent in March due to the proliferation of cases and implementation of social distancing measures. The unemployment rate peaked at 11.5 percent in April and slightly declined to 10.8 percent in May as King County entered Phase 1 reopening in May. The not seasonally adjusted unemployment rate for Bellevue was 6.6 percent (preliminary) in June 2020 as King County was approved for Phase 1.5 and Phase 2. This is a significant drop from May unemployment, though the unemployment rate in June 2019 was 2.6 percent.

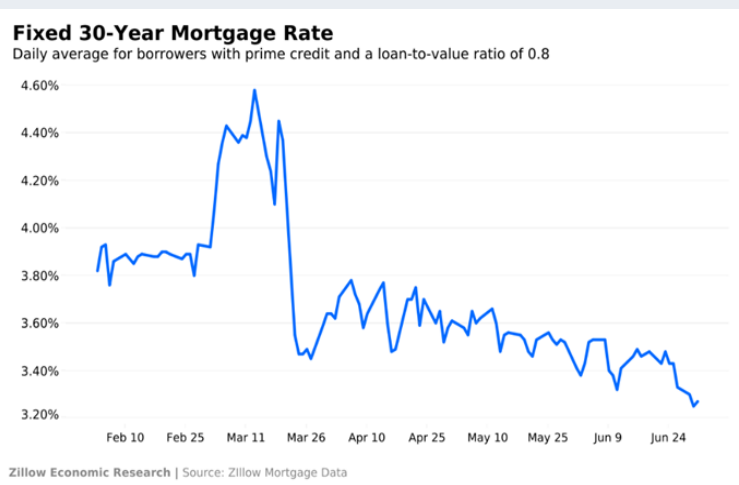
As local businesses begin to expand operations due to further reopening, Bellevue's economic development team has [adjusted its support](#) for businesses. Support includes improving permit turnaround times, helping restaurant owners who wish to expand their patio dining space, and helping retail businesses in need of some space for curbside pickup of online orders. The support will evolve as King County moves further into its reopening plan.

### Zillow Observed Rental Rate (June 2020)



Source: Zillow Research

### Fixed 30-Year Mortgage Rate

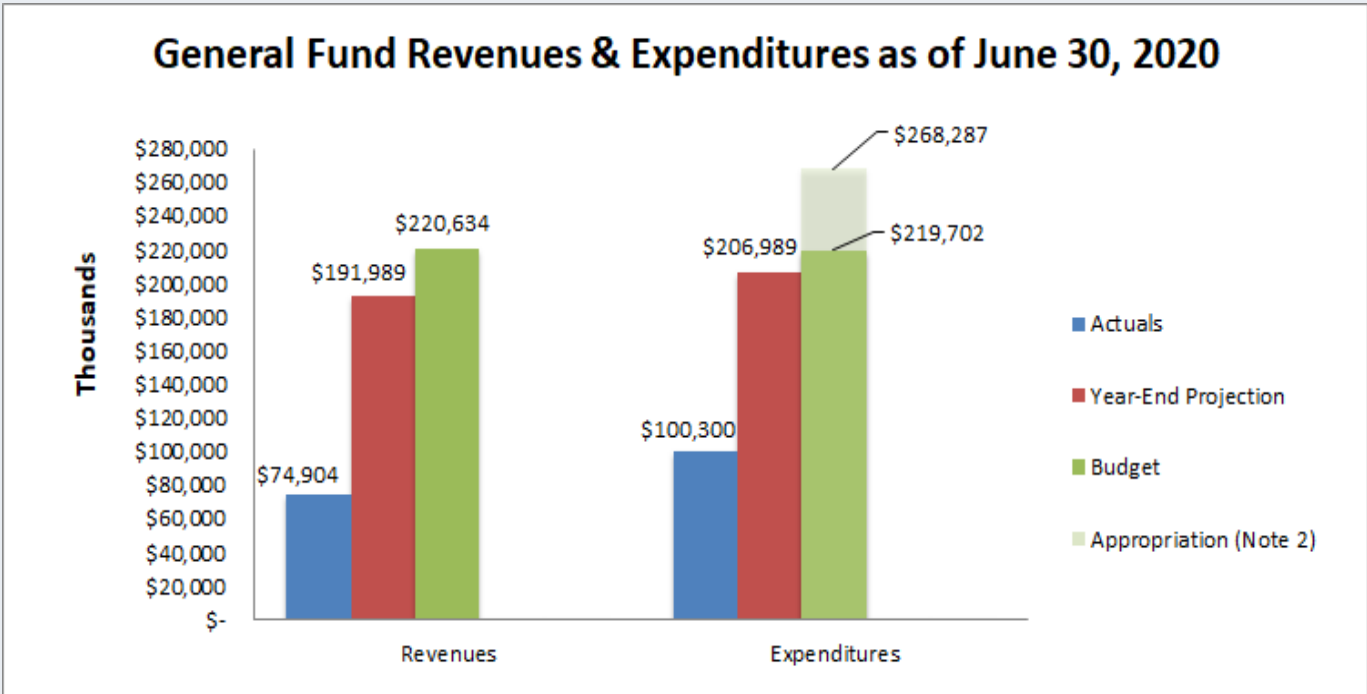


Source: Zillow Research

## City of Bellevue Budget Monitoring Report

January 1 to June 30, 2020

# GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, current year-end estimates, amended budget, and budget appropriation (includes fund balance). In addition to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual second quarter activities due to COVID-19 related tax due-date delays. Expenditures are based on actual activities performed during the second quarter.

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 below budget by \$27.7 million as of the current projection in June. Collections of sales tax and B&O tax (Business and Occupation Tax) are forecasted to be significantly below budget due to the Stay Home, Stay Healthy order and the Safe Start guidelines in response to COVID-19, which led to business closures and reduced consumer spending.

### Expenditures

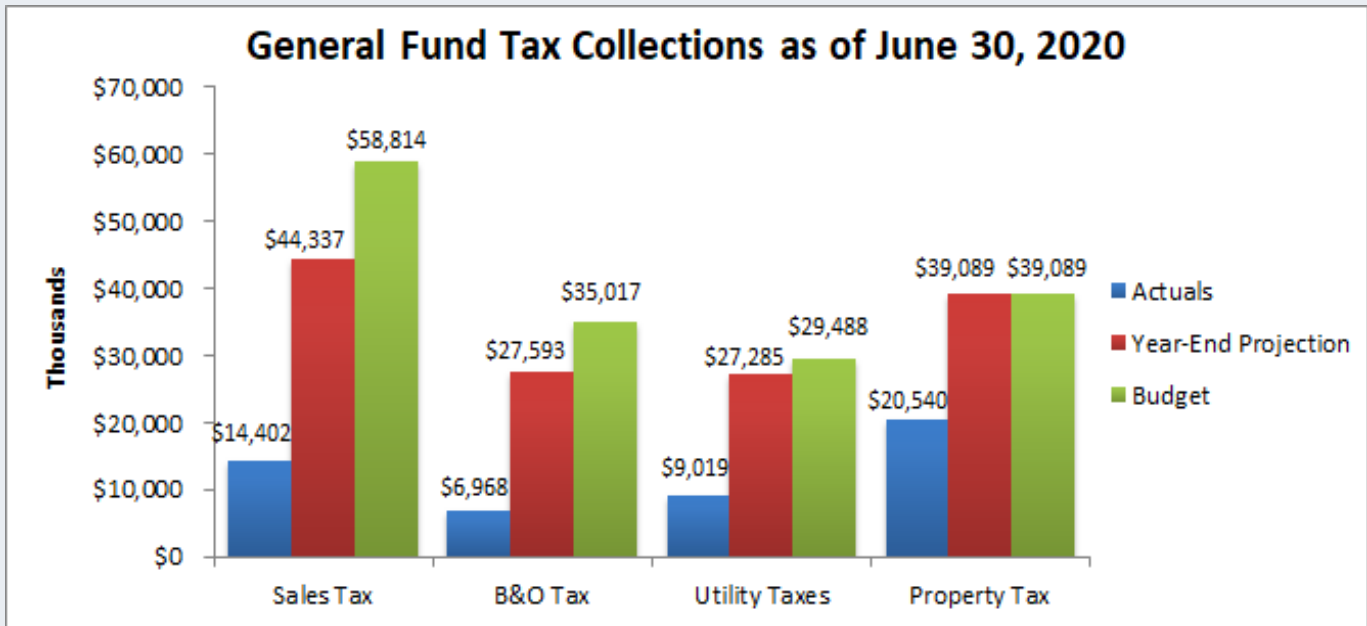
Expenditures are projected to be \$12.7 million under budget in 2020. The City will receive \$4.4 million in CARES Act funding from the Department of Commerce, of \$3.9 million of which will be used to reimburse for COVID-19 related expenses. The City has established a 4 percent savings target for all departments in response to the impacts of COVID-19, which accounts for these savings. The City is continually monitoring and taking appropriate

action as needed to ensure the fiscal sustainability of the City.

### Change in Fund Balance

The City's General Fund reserve is projected to decrease this year due to COVID-19 related revenue loss. The City purposefully built reserves in prior years in anticipation of balancing future budgets. However, given the financial impacts of COVID-19 the City is using reserve balance to help navigate the unprecedented and rapid decrease in tax revenues. Despite the use of reserves, the City is projected to maintain the Council policy target of 15 percent.

# GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and 2020 amended budget. Due to COVID-19 related tax due-date delays and the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second quarter activities. Additionally, year-end projections are based on the limited information available to date. Due to the uncertainty of COVID-19 pandemic, projections are based on possible economic scenarios as well as current information, and will be updated as more information becomes available.

## Tax Revenues

Economic activity increased with reopening, but year-end tax revenue is projected to fall below budget due to COVID-19 impact. The future of COVID remains uncertain as is the full extent of the impact. All revenue projections reflect point in time projection as of June, the budget office is actively monitoring economic recovery and assessing the full impact.

### Sales Tax

Sales tax collections are projected to be 25 percent below budget due to social distancing and shelter-in-place orders, along with mandatory closures of many non-essential businesses in response to COVID-19.

### Business and Occupation Tax (B&O Tax)

B&O tax is projected to be below budget by 21 percent due to decreased economic activities in response to COVID-19 and the containment efforts. However, economics started to recover as the stay-at-home order has been lifted and businesses have begun to reopen as King County entered Phase 2 in June.

### Utility Tax

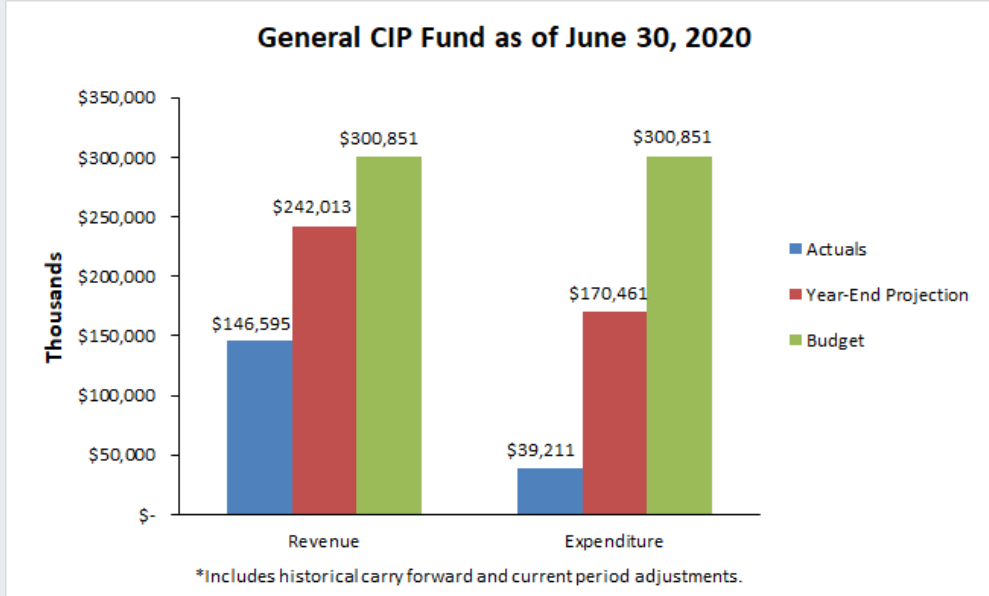
Utility tax revenue is projected to be below budget by 7 percent due to lower than anticipated cell phone, telephone and cable franchise fee revenue, which is a trend that began in 2019 and continues into 2020.

### Property Tax

Property tax revenue is projected to be at budget in 2020, COVID-19 will impact the timing of receipt of funds due to tax deferrals.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2020 total levy rate is \$0.90 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 a loss of major tax revenue (\$11M). The remainder of the revenue budget-projection variance is driven by lower levels of spending.

## Resources

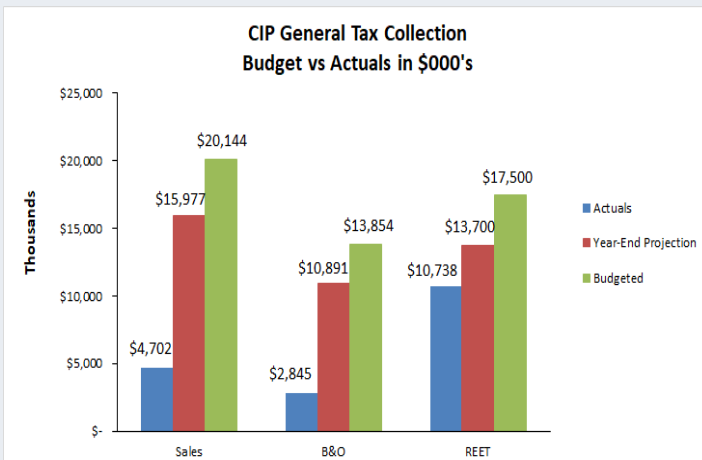
Major CIP resources are comprised of taxes, grants, debt, and contributions, including Sales tax, B&O tax, Real Estate Excise Tax (REET), the Fire Facilities and Neighborhood Safety, Connectivity Improvement levies approved by voters in 2016, and the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan that was executed in 2017.

The 2020 CIP includes \$97.3 million in beginning fund balance dedicated to existing projects in the CIP. Sales, B&O, and REET tax revenues are estimated to be below budget as a result of the Stay Home, Stay Healthy Order and the Safe Start guidelines issued in response to COVID-19, as well as expected drop in property transactions. Grants and Interlocal

contributions are projected to come in lower than budgeted due to project delays and timing. 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. The City received \$1 million in reimbursement in Q2 2020 to support projects and will continue to utilize this loan to advance qualifying projects. Through 2019, the City of Bellevue had drawn \$7 million. The City has drawn an additional \$2.1 million during 2020. Under COVID-19, transportation projects were defined as “essential” work and could continue under the safety terms provided. 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 Safe Start guidelines, construction projects continue to move forward without significant delays. General CIP expenditures are \$39.2 million in the second quarter. Due to the timing of ongoing projects, the City currently projects \$170.5 million to be spent in 2020, or 56.7 percent of the CIP expenditure budget.

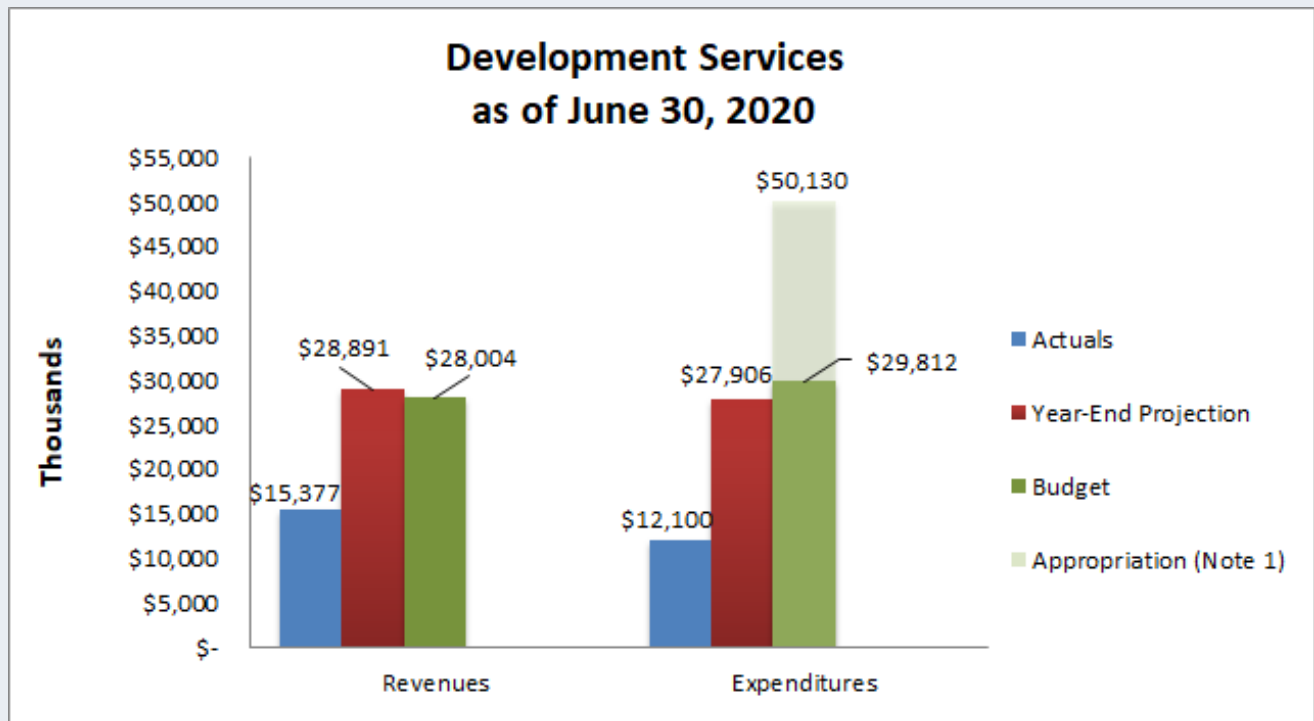
## City of Bellevue Budget Monitoring Report

January 1 to June 30, 2020

## DEVELOPMENT SERVICES PERFORMANCE



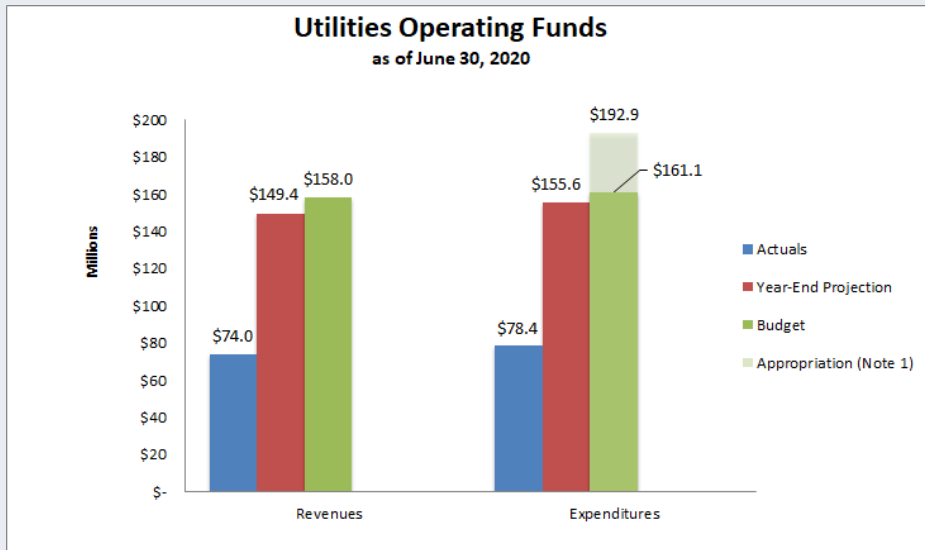
**Bellevue Plaza**



*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 activity continues to generate workload for all development services, despite construction restrictions for COVID-19 during the first half of the year. Revenue projections are nearly \$1 million over budget due to continued development activity. Expenditures are expected to show savings at year-end for vacancy and miscellaneous M&O savings.

## UTILITIES OPERATING FUNDS

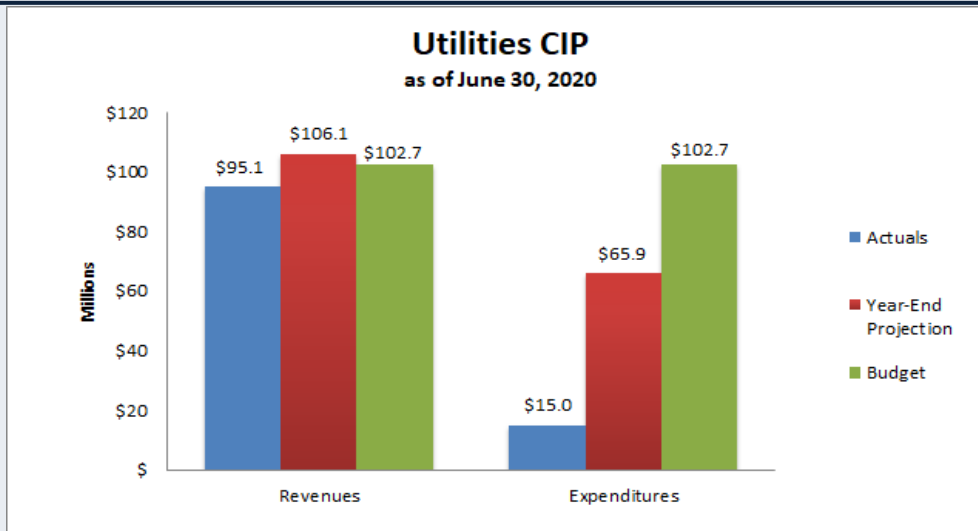


Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas Appropriation includes budgeted expenditures and fund balance (reserves).

Note 2: The budget display above reflects a technical adjustment with a net zero impact to Utilities operating fund resources.

Utilities operating revenues are projected to be impacted by COVID-19. Operating revenues are projected to be under-budget primarily due to anticipated reductions in water and sewer service revenues due to reduced water consumption in the commercial sector. Expenditures are projected to be under-budget primarily due to proactively identified operational cost reduction measures and lower wholesale wastewater treatment costs.

## UTILITIES CIP



Note: Total available Budget excludes bank capacity projects - \$8.8 million for East Link and \$10.6 million for future Bel-Red stream restoration (Mobility & Infrastructure Initiative) and \$1.5 million for water facilities for Spring Blvd.

Revenues are projected to be above budget due to the timing of grants received from King County. Projected CIP expenditures reflect delays for several major projects due to the "Stay Home/Stay Healthy Order". Projects that are delayed include Cherry Crest Pump Station, Watermain Main Replacement, Wastewater Pump Stations Rehabilitation, and Midlakes Pump station. Other projects are delayed due to development of agreements with Cascade Water Alliance, and other easement agreements. The unspent 2020 budgeted funds will be needed for construction in 2021 and 2022.

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January 1 to June 30, 2020