



BUDGET MONITORING REPORT

For the period from January 1 through December 31, 2019

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 for fiscal year 2019.

The purpose of the report is to compare actual expenditures and revenues to the 2019 Amended Budget, to discuss reasons for variances and to convey an overview of the local and national economic outlook.

U.S. Economy

As of December, the U.S. economy continued to expand at a moderate pace. Real GDP increased 2.3 percent in 2019, compared with an increase of 2.9 percent in 2018. The increase in real GDP in 2019 reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, federal government spending, state and local government spending, and private inventory investment, which were partly offset by a negative contribution from residential fixed investment and increased imports. The deceleration in real GDP in 2019, compared to 2018, primarily reflected decelerations in nonresidential fixed investment, exports, and personal consumption expenditures which were partly offset in both state and federal government spending and smaller import increases in 2019 than in 2018 (Source: Bureau of Economic Analysis).

National personal income increased 4.5 percent in 2019, the same increase as in 2018, according to estimates released on March 24, 2020 by the Bureau of Economic Analysis. In 2019, increases in earnings, property income (dividends, interest, and rent), and transfer receipts contributed to personal income growth in all states and the District of Columbia. The percent change in personal income across all states ranged from 6.1 percent in

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%

Colorado to 2.8 percent in West Virginia. For the nation, earnings growth in three industries—professional, scientific, and technical services; health care and social assistance; and state and local government—were the leading contributors to overall growth (Source: Bureau of Economic Analysis).

The Consumer Price Index (CPI) - which measures inflation across all goods and services - increased 2.3 percent for the year ending December 31, 2019 (Source: Bureau of Labor Statistics).

Regional Economy

Washington State's personal income grew by 5.7 percent in 2019, 1.3 percentage points higher than the national personal income growth in 2019 (Source: Bureau of Economic Analysis; 2019 State Annual Personal Income preliminary estimation). The information industry was the leading contributor to the earnings increase in Washington. The strong personal income growth was the main driver of consumer spending, which led to an expansion of the sales tax base.

The Greater Seattle metropolitan area's job market saw robust expansion in 2019, adding a total of non-farm jobs. The majority of the job gains were in service sectors, especially in education & healthcare (4.2 percent increase year-over-year), and professional & business services (3.9 percent increase). The third-largest job creator in the area was the information services sector, which was also the fastest-growing employment sector with an 8.2 percent increase in jobs year-over-year as of December 2019. The growth in manufacturing jobs decreased to 2.9 percent year-over-year, with additional risks to this sector posed by potential Boeing production cuts due to issues related to the grounding of Boeing's 737 MAX. Construction jobs were up by 4.5 percent year-over-year in December 2019. (Source: Bureau of Labor Statistics; IHS Markit).

In the Pacific Northwest, commercial permitting remained stable.

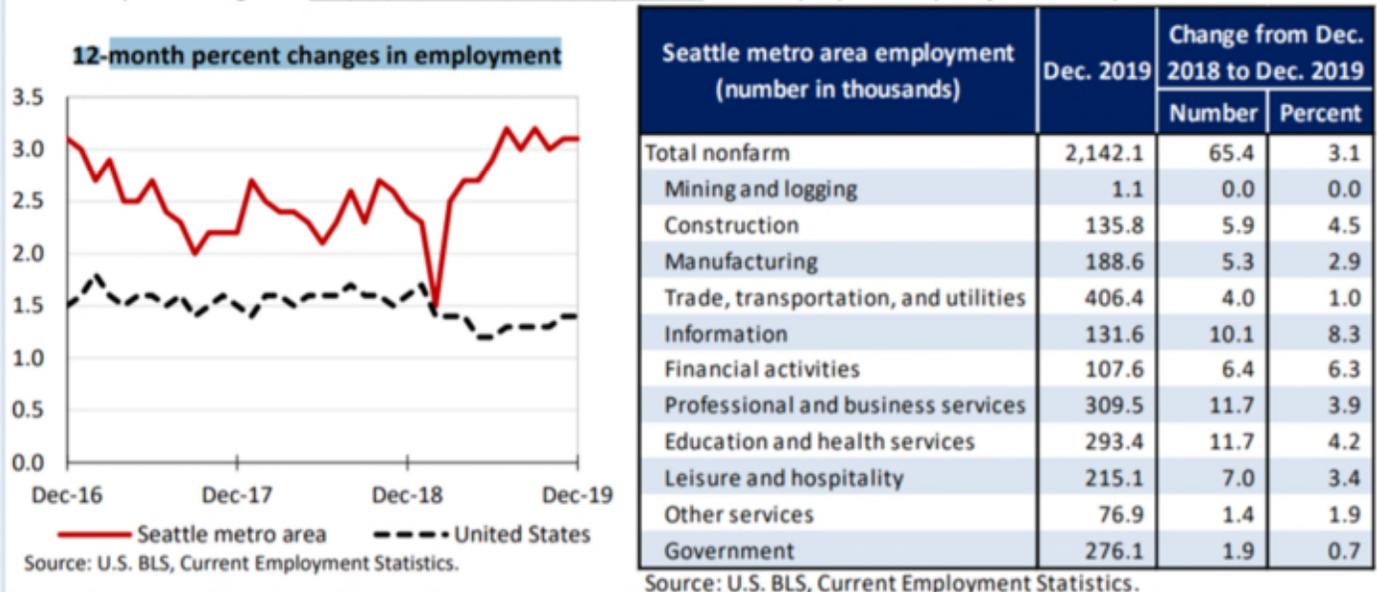
In contrast, demand for industrial spaces (i.e. warehouses and distribution centers) increased. Public infrastructure construction also increased (Source: Federal Reserve Beige Book, January 2020). The median home sales price in King County slightly increased in 2019 as inventory declined (Source: Zillow Research).

Bellevue Economy

Bellevue's economy continued to expand in 2019. Bellevue's unemployment rate was 1.9 percent as of December 2019, down from 3.0 percent in December 2018 (Source: Washington State Employment Security Department). 2019 was a continuation of the current record-setting development cycle that has now extended over six consecutive years. Bellevue had 25 projects in review, 21 projects under construction, 14 projects in the pipeline and 2 issued projects. Several notable projects currently under construction include East Link, 1001 Office Tower, Spring District Block 24, and Overlake Hospital (Source: City of Bellevue Development Services Department).

Construction sales, online retail sales, and information service sales contributed to the majority of sales tax growth in 2019.

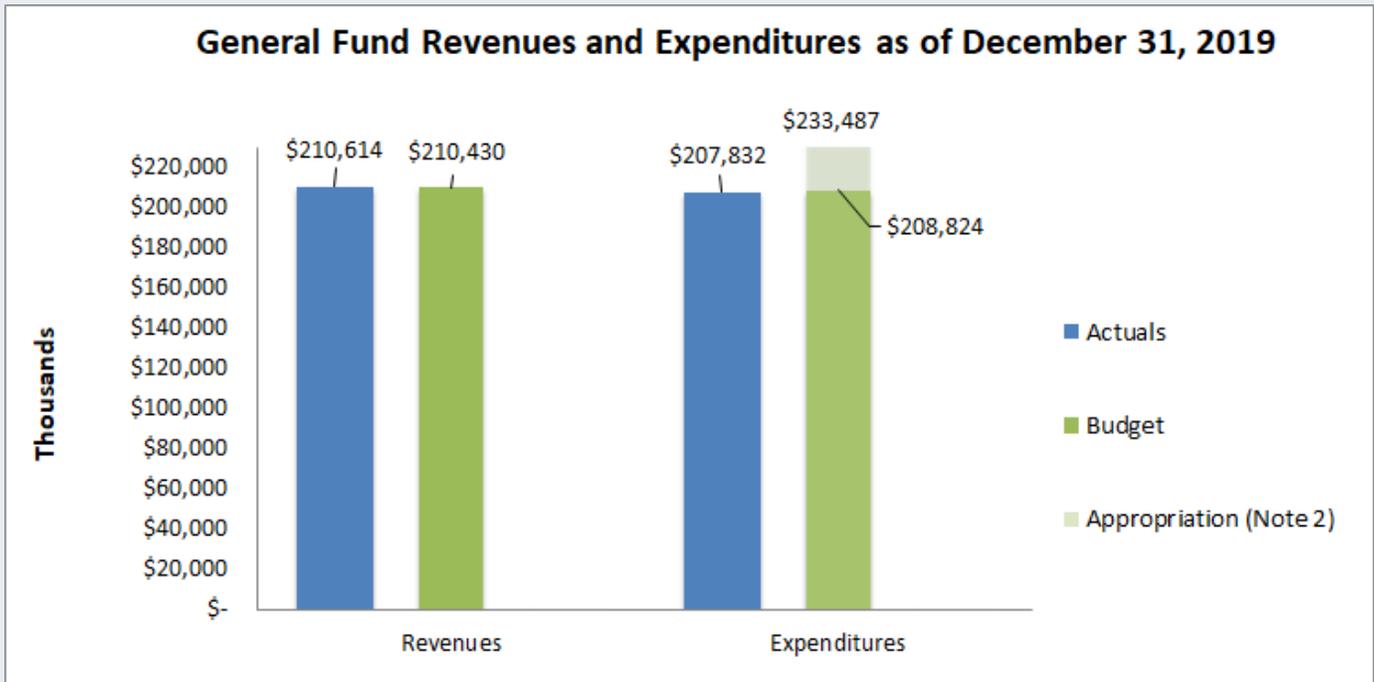
Over-the-year changes in employment on nonfarm payrolls and employment by major industry sector



City of Bellevue Budget Monitoring Report

January 1 to December 31, 2019

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through December.

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 slightly above budget by \$0.2 million as Bellevue's tax base continues to grow due to the moderate growth in business activities and construction projects. 72 percent of General Fund revenue is collected through Sales, B&O, Utility, and property taxes. The various revenue sources are broken down on the following page and discussed in greater detail.

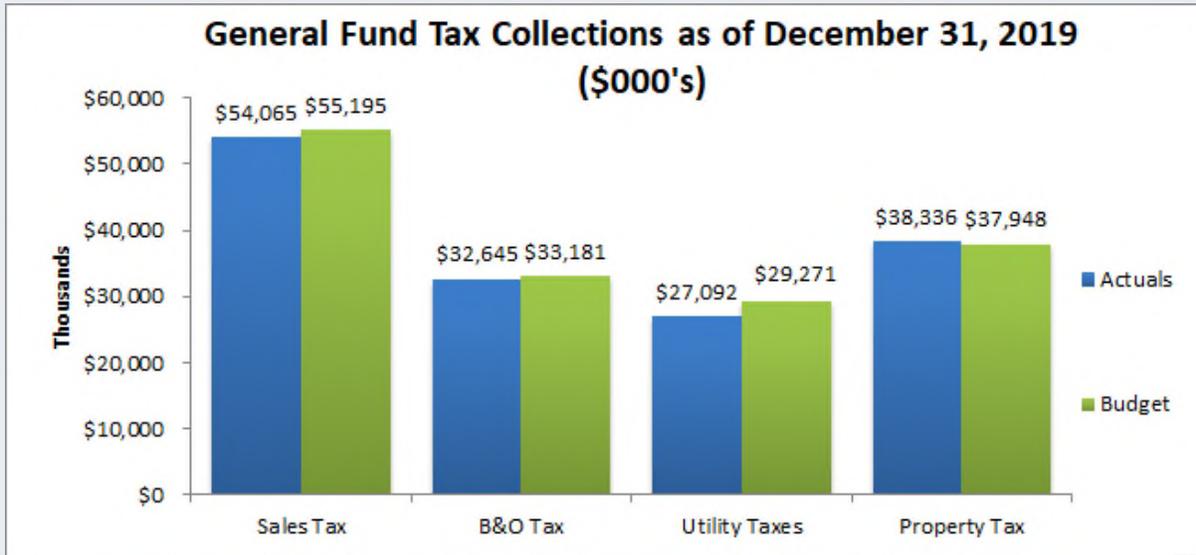
Expenditures

Expenditures are under budget by approximately \$0.9 million. The winter storm put pressure on the General Fund, but was largely offset by savings across all departments.

Change in Fund Balance

The city's General Fund balance increased this year by \$2.7 million as revenues outpaced expenditures. This increase was \$1.1 million higher than the budgeted primarily due to new revenue from the Ground Emergency Medical Transportation program that the state government provided for payment to cover ground emergency transportation for Washington Apple Health Medicaid clients. As of December 31, 2019, the reserve balance sat at 22.9 percent of revenues. The current General Fund balance exceeds the city's financial policy of maintaining a 15 percent or higher reserve. The city is purposely building reserves in the near term to prepare for any known and unknown risks in the future.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through December and the 2019 amended budget.

Tax Revenues:

Sales Tax

The State of Washington informed the city of a sales tax payment due to an audit by \$2.4 million which negatively impacted the city's sales tax. The General Fund impact of this payment (\$1.8 million) is partially offset by strong year-over-year growth in construction, online retail sales, and information service sector sales (\$2.5 million).

Business and Occupation Tax (B&O Tax)

B&O tax was under budget by \$0.5 million. This is primarily due to a slight decline in wholesale and financial services.

Utility Tax

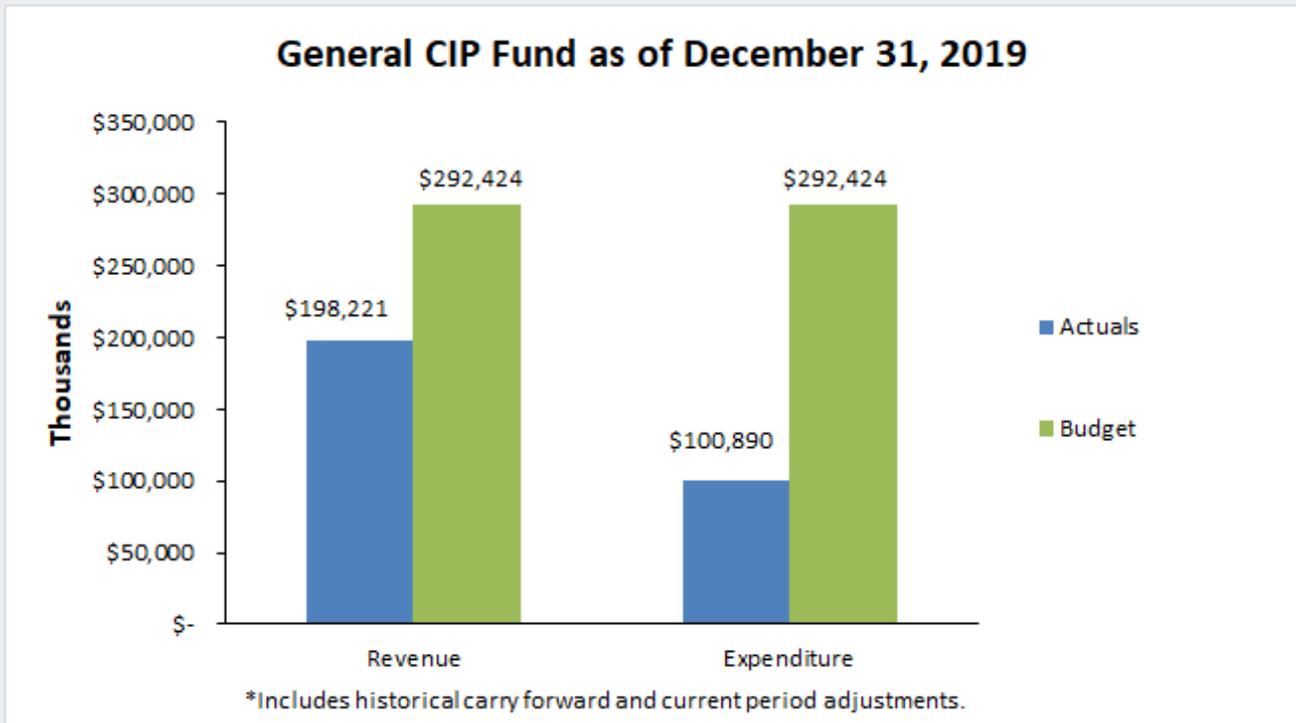
Utility tax was under budget by approximately \$2.2 million. This was primarily due to a combination of reduced electricity tax collection and the continued decline of cell phone and telephone tax

Property Tax

Property tax revenue exceeded budget by 1.02 percent in 2019.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2019 total levy rate is \$0.92 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



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 2019 CIP includes \$88.0 million in beginning fund balance dedicated to existing projects in the CIP. Sales tax collections were slightly below budget. REET was above budget by 37.8 percent, or \$10.7 million, due to large transactions rushed to

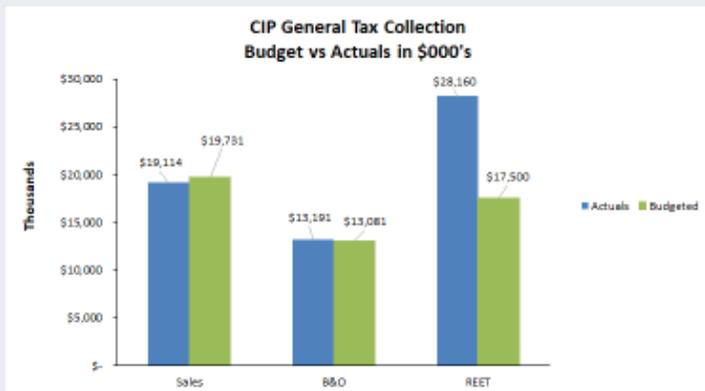
close by the end of December to avoid the higher REET tax rate for property transactions over \$1.5 million effective January 2020 authorized by new state legislation. A total of 14 large transactions over \$50 million closed in 2019.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

The city has designated five large transportation projects that will be funded by proceeds from the TIFIA loan. The projects started in 2018 and have made significant advances in design and right of way acquisition. The city has drawn \$6.1 million in 2019 to support projects and will continue to utilize this loan to advance qualifying projects. The NE Spring Boulevard (Zone 2) project (PW-R-173) finished right of way acquisition and began construction in the third quarter of this year.

Expenditures

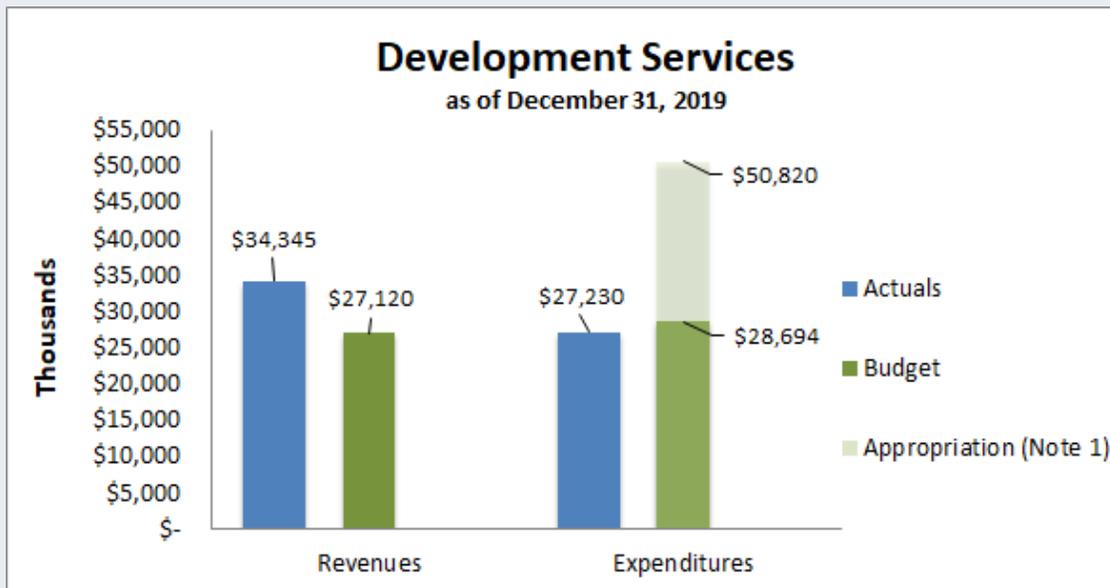
General CIP expenditures were \$100.9 million, approximately 34.5 percent of budget. The spend rate is primarily impacted by the timing of projects.



DEVELOPMENT SERVICES PERFORMANCE



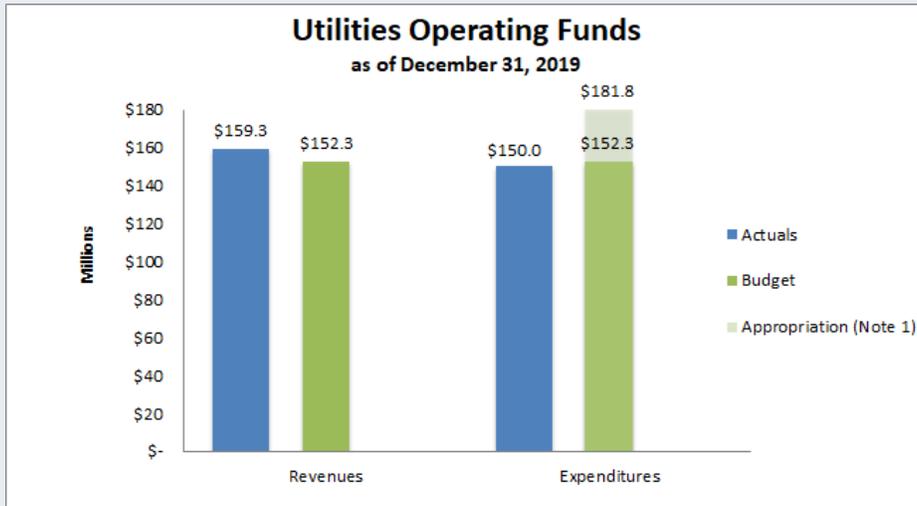
Summit III—320 108th Avenue NE



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).

Revenue collections are 26 percent higher than anticipated, largely due to growth in commercial construction and investment interest growth. New projects and tenant improvement projects in construction continue to generate revenue for all development services. Expenditures are under budget by 5 percent. Expenditure savings are a result of vacant positions and other miscellaneous savings.

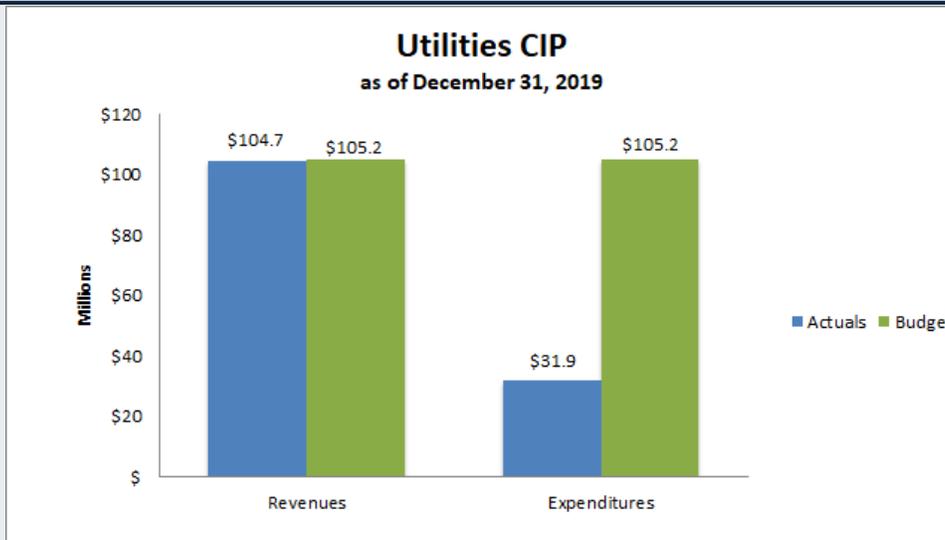
UTILITIES OPERATING FUNDS



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Utility operating revenues were sufficient to meeting operating expenses. Operating revenues were above budget largely due to greater than anticipated water and sewer service revenues from unusually warm and dry weather in the spring. Operating expenses were below budget primarily due to personnel vacancy savings and operating asset replacements that were delayed into 2020. As a result, utility operating reserves are above budgeted levels. Per City financial policies, reserves above target levels at the end of each biennium are to be transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs or to be used for one-time expenditures.

UTILITIES CIP



Note: Total available budget excludes bank capacity projects—\$8.8 million for EastLink, \$10.6 million for future Bel-Red stream restoration, and \$1.5 million for water facilities for Spring Blvd.

CIP revenues were slightly below budget at year-end due to the timing of King County grant reimbursements. Year-end CIP expenditures reflect delays for several major projects. These include the West Lake Sammamish Parkway Transportation Project and I-405 HOV Lanes Project, where most of the watermain replacement will occur in 2020, the New Water Inlet Station and NE 8th St. Transmission project, and several additional water and sewer projects. The majority of the unspent 2019 budgeted funds will be used for construction projects in 2020 and 2021.

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