



# BUDGET MONITORING REPORT

For the period from January 1 through September 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-19 remains uncertain as is the full extent of the impact. In response to the fluid nature of COVID-19, 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 September 2020.

## U.S. Economy

The U.S. continues to deal with the health, social, and economic effects of the COVID-19 pandemic that began in early 2020. Real gross domestic product (GDP) increased at an annualized rate of 33.1 percent in the third quarter of 2020 after its worst-ever quarter in Q2 (31.4 percent decrease) (Source: Bureau of Economic Analysis, advance estimate on October 29). Despite monthly increases from June to August, the twelve-month increase for CPI-U September 2020 was 1.4 percent before seasonal adjustment, remaining below pre-COVID-19 levels (Source: U.S. Bureau of Labor Statistics).

No part of the country has escaped the economic downturn caused by the pandemic's disruption, with states in the Northeast and East North Central facing the biggest losses, states in the South, Great Plains, and Rockies less affected, and the Pacific states in between. State and local government responses to the outbreak have varied from the outset, and continue to do so as regional caseloads rise and fall. Thanks to the easing of restrictions on businesses, plus a

## Performance at a Glance

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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%

massive infusion of federal fiscal stimulus for individuals and business, the economy began to improve since May. The magnitude of states' recoveries has depended on the depth of their decline, their ability or willingness to reopen, and the sectoral makeup of their economy (Source: IHS Markit). The U.S. unemployment rate declined to 8.5 percent in August, reflecting the continued resumption of economic activity (Source: U.S. Bureau of Labor Statistics).

Continued recovery depends on sustained growth in consumer spending which leads to more jobs and higher wages, which feeds back into consumer spending in an upward cycle. The initial round of the federal benefits has expired, along with targeted support for affected industries such as airlines (Source: IHS Markit). The economic outlook remains highly uncertain, as it remains uncertain how long the COVID-19 pandemic will continue.

## City of Bellevue Budget Monitoring Report

January 1 to September 30, 2020

## Regional Economy

As counties in the Washington state have moved forward with reopening over the past few months, confirmed COVID-19 cases have gone up. Governor Jay Inslee paused Washington's phased reopening in July, barring any county from advancing to the next phase of the state's four-phase plan. Despite a recent announcement from Governor Inslee lifting the pause, counties across the state will not move to Phase 4 for the foreseeable future. Across the state, the majority of counties are in either Phase 2 or Phase 3, meaning certain businesses such as restaurants, hair salons and retail stores can be open at limited capacities.

King County and the broader metro area have largely been in a modified Phase II during Q3 2020 after certain restrictions to Phase II were allowed on June 19. Reopening efforts had quite an impact on the unemployment rate of Greater Seattle metropolitan area when it was at its worst in April, hitting an all-time high of 16.6 percent. Since May 2020, the area began to slowly reopen, and so did hiring. The unemployment rate in August 2020 stood at 7.9 percent. Based on a BLS survey of businesses and governments, the Seattle area lost an estimated 160 thousand jobs from August 2019 through August 2020 as shown in the graph. The majority of losses came from the leisure and hospitality sector (70 thousand job losses), as stay-at-home orders and social distancing kept consumers away from restaurants and other recreational activities. Other negatively impacted sectors include manufacturing (22 thousand job losses), education and health services (17.8 thousand job losses), and trade, transportation and utilities sector (17.7

thousand job losses) (Source: U.S. BLS, Current Employment Statistics).

Residential housing markets continued to experience steady demand for new and existing homes, with activity constrained by low inventories. In the banking sector, increased demand for mortgages was the key driver of overall loan demand.

Conversely, Commercial construction went down widely, and commercial real estate remained in contraction (Source: Federal Reserve Beige Book).

## Bellevue Economy

The construction sector was able to return to work relatively quickly, and is getting an added boost from a pickup in demand for residential housing market supported by a low interest rate environment. Although commercial construction went down in the region, Amazon announced in September to expand its workforce to 25,000 employees in the next several years in Bellevue. In the commercial real estate market, Facebook purchased 400,000-square foot newly built Bellevue headquarters from outdoor retailer REI (Source: Seattle Times).

As Bellevue's labor market continued to improve from May to August, the unemployment rate stood at 5.4 percent in August 2020. Though the unemployment rate remained above pre-COVID-19 level of 2.5 percent in August 2019, it is still trending lower comparing to Greater Seattle metropolitan area (7.9 percent) and State of WA (8.3 percent) (Source: U.S. BLS, Employment Security Department of Washington State).

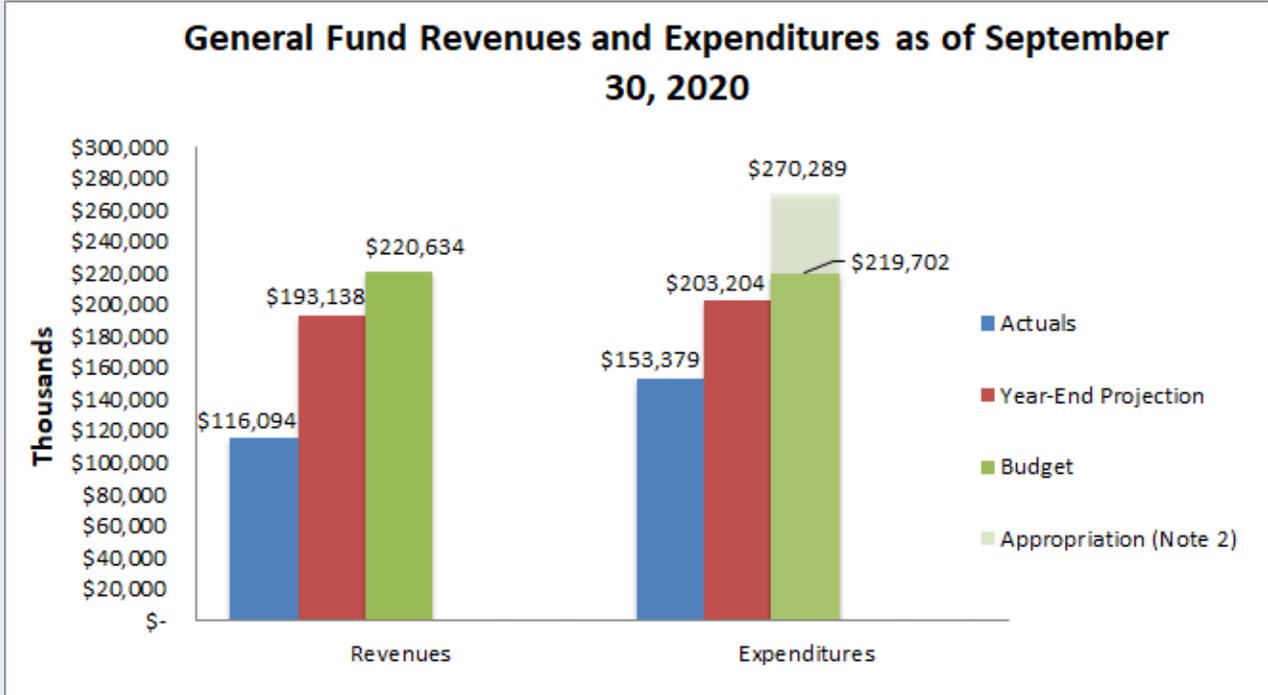
## Greater Seattle Area Employment by Sector (August 2020)

Seattle metro area employment (number in thousands)	Aug. 2020	Change from Aug. 2019 to Aug. 2020	
		Number	Percent
Total nonfarm	1,950.8	-159.8	-7.6
Mining and logging	1.0	-0.1	-9.1
Construction	130.1	-2.8	-2.1
Manufacturing	164.2	-22.0	-11.8
Trade, transportation, and utilities	385.2	-17.7	-4.4
Information	129.1	-4.0	-3.0
Financial activities	105.3	0.7	0.7
Professional and business services	299.0	-9.2	-3.0
Education and health services	263.4	-17.8	-6.3
Leisure and hospitality	146.2	-70.1	-32.4
Other services	67.9	-11.6	-14.6
Government	259.4	-5.2	-2.0

Source: U.S. Bureau of Labor Statistics  
**City of Bellevue Budget Monitoring Report**

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# GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, 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 third quarter activities due to COVID-19 related tax due-date delays. Expenditures are based on actual activities performed through the third 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 \$27.5 million as of the current projection in September.

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

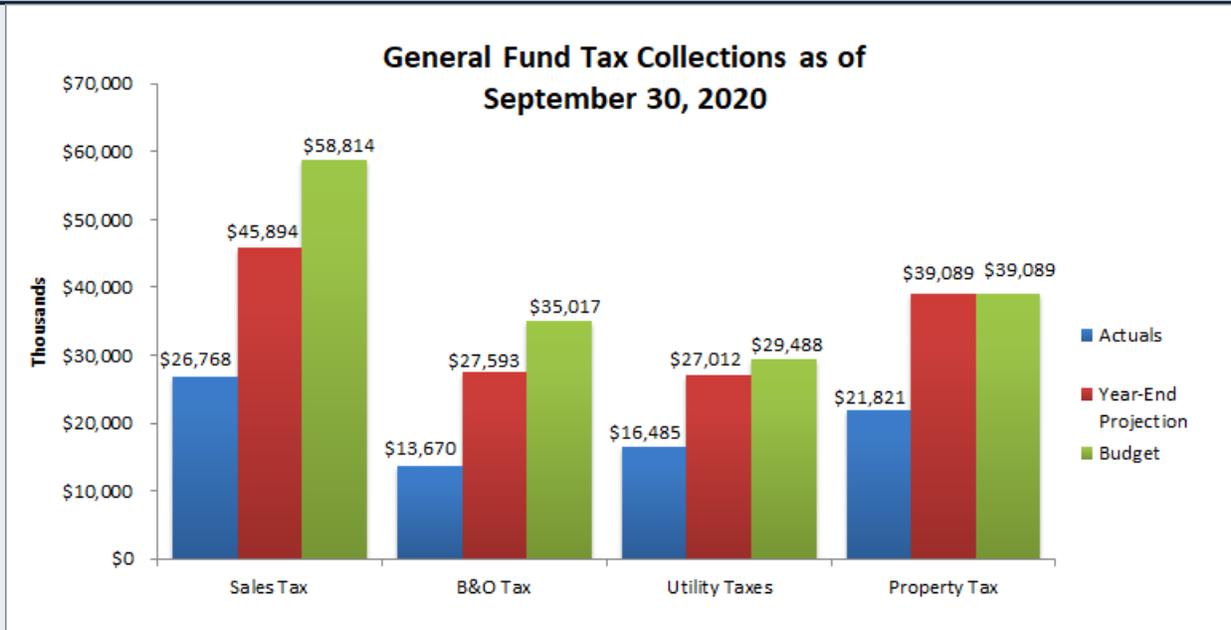
Expenditures are projected to be \$16.5 million under budget in 2020. The City will receive \$6.5 million in CARES Act funding from the Department of Commerce, \$4.0 million of which will be used to reimburse the City for COVID-19 related expenses. Additionally, the City undertook a health benefits holiday, which is expected to save the General Fund \$3.7 million in the fourth quarter. 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 September, 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 third 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 full extent of the future impacts COVID-19 remains uncertain. All revenue projections reflect point in time projection as of September, the budget office is actively monitoring economic recovery and assessing the full impact.

### Sales Tax

Sales tax collections are projected to be 22 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. King County is currently in modified Phase 2.

### Utility Tax

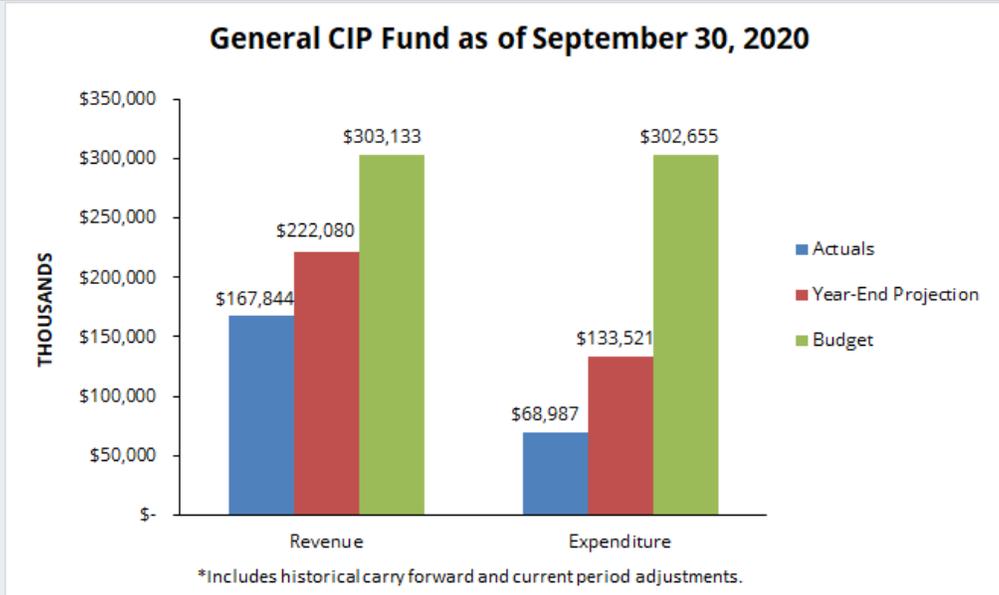
Utility tax revenue is projected to be below budget by 8 percent due. The decline from budget is due to milder weather patterns in the Pacific Northwest, leading to reductions in utilities usage.

### 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

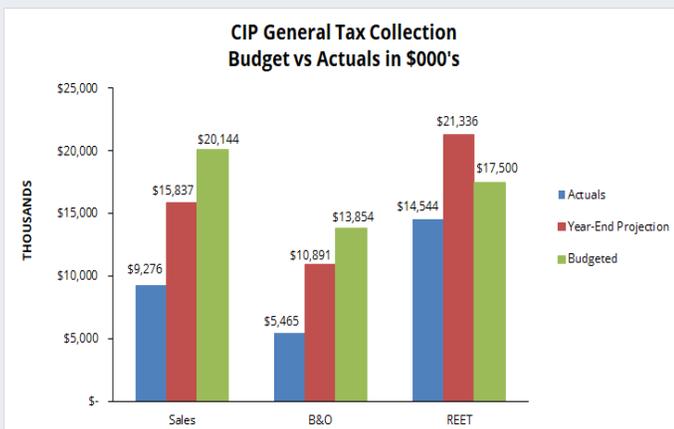


Note: Under-collection of revenue is driven by a loss of major tax revenue and TIB grant revenue. The remainder of the revenue budget-projection variance is driven by lower levels of spending.

## 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 and B&O 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. REET revenue is projected to be above budget due to the Facebook acquisition of the REI campus.



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. Under COVID-19 guidelines, transportation projects were defined as “essential” work and could continue under the safety terms provided. Through 2019, the City of Bellevue had drawn \$7 million. The City has drawn an additional \$3.6 million in 2020. 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.

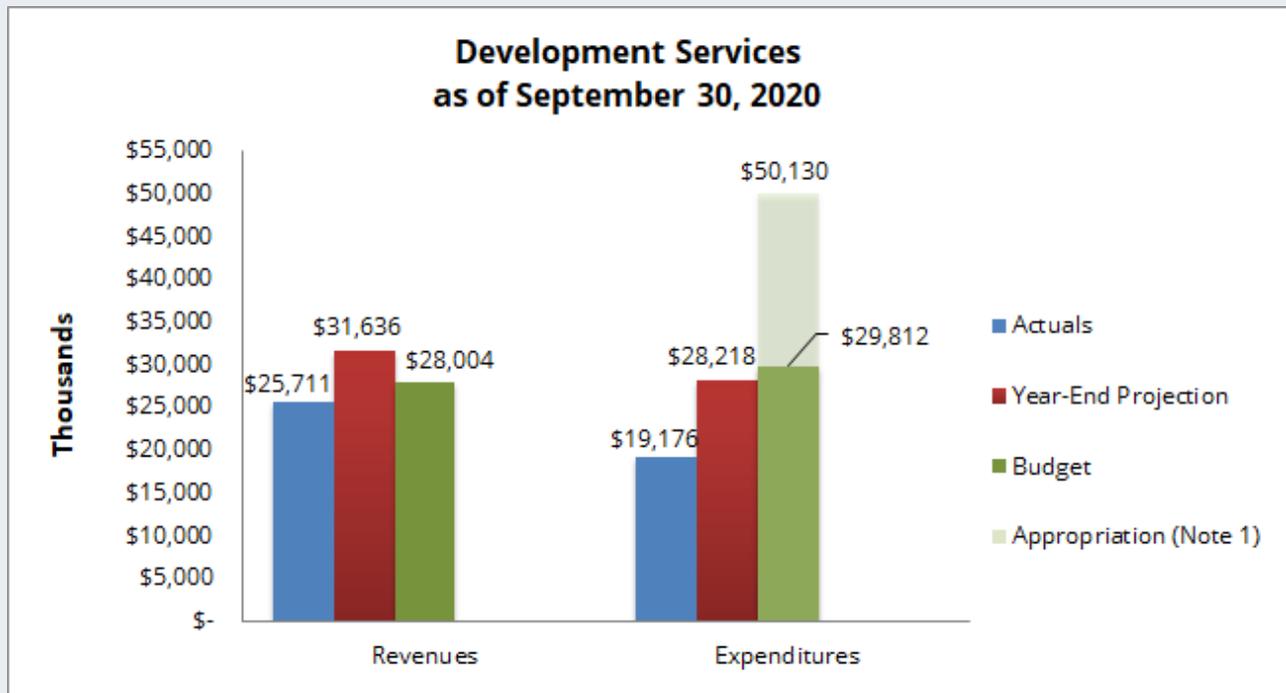
## Expenditures

In accordance with the Safe Start guidelines, construction projects continue to move forward without significant delays. General CIP expenditures are \$68.9 million in the third quarter. Due to the timing of ongoing projects, the City currently projects \$133.5 million to be spent in 2020, or 44.1 percent of the CIP expenditure budget.

## DEVELOPMENT SERVICES PERFORMANCE



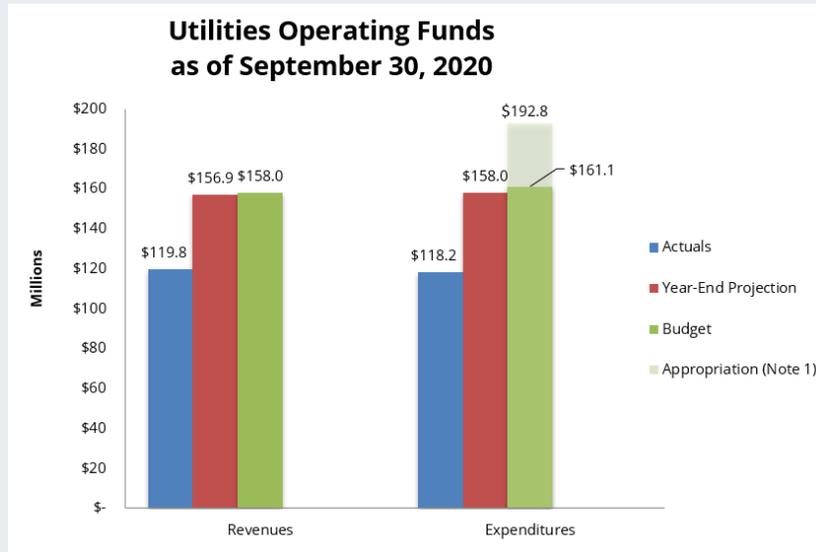
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*Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, where as Appropriation includes budgeted expenditures and fund balance (reserves).*

Development activity continues to generate workload for all development services, despite construction restrictions for COVID-19 in the second quarter of the year. Revenue projections are \$3.5M over budget due to increased development activity. Expenditures at year-end are expected to be lower than budget due to vacant positions and M&O savings.

## UTILITIES OPERATING FUNDS

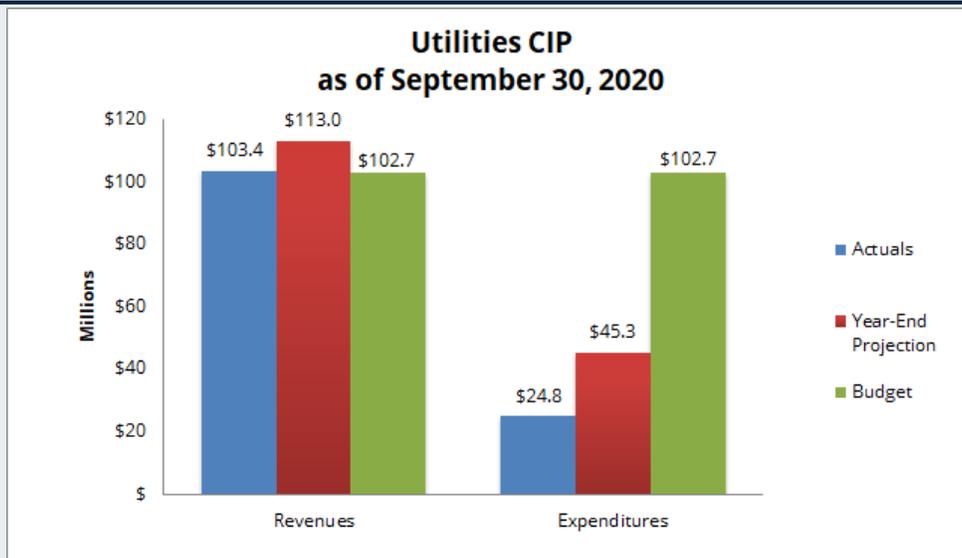


*Note 1: The City's legal appropriation is greater than expenditures. Expenditure budget includes budgeted expenditures, whereas Appropriation includes budgeted expenditures and fund balance (reserves).*

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

Operating revenues are projected to be underbudget primarily due to impacts by COVID-19. Expenditures are projected to be under-budget primarily due to proactively identified operational cost reduction measures. COVID-19 is a dynamic situation and Utilities projections will be updated as more information becomes available.

## 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 expenditures reflect delays for several major projects due to the "Stay Home, Stay Healthy" order, including Cherry Crest Pump Station/Pike's Peak Reservoir, Watermain Replacement, and Wastewater Pump Station Rehabilitation. AMI is delayed due to a combination of COVID-19 and contractual negotiations. Unspent 2020 budgeted funds will be used for construction costs in 2021 and 2022.

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