



Phone: 425-452-7863
Date: August 30, 2021
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2021 Second Quarter Budget Monitoring Report

Attached is the 2021 Second Quarter Budget Monitoring Report for the period ending June 30, 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:

- Due to a stronger than anticipated economic recovery, General Fund revenues are projected to be \$4.9 million (2.3 percent) higher than budgeted in 2021, an improvement over the first quarter by \$2.3 million. This is primarily driven by sales and B&O tax performing better than budget. Currently, revenues are projected to return to pre-pandemic levels by the end of 2021. However, the impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on a continued return to pre-pandemic activities.
- General Fund expenditures are projected to be \$1.7 million (0.8 percent) lower than budget in 2021 due to department savings that are partially offset by the negative impacts of the January windstorm and the February winter storm and one-time costs related to the payment of settlements. This is \$2.5 million in additional underspending from the first quarter.
- As of the end of the second quarter the General Fund reserve is projected to increase by \$1.8 million in 2021, an improvement over the first quarter by \$4.8 million. This is primarily due to improved economic recovery and underspending by departments. The city is projecting to maintain reserves above the Council reserve policy in 2021.
- Due to stronger than anticipated sales, B&O, and REET tax collection, CIP major tax collections are projected to be 22.8 percent above budget in 2021. CIP expenditures are currently projected to be \$133.3 million in 2021, 47.1 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 Second Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 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 June 2021.

U.S. Economy

With the reopening of business aided by rising vaccination rates, the national economy continued to recover from the impacts of COVID-19 in the second quarter. Real gross domestic product (GDP) increased by an annualized rate of 6.5 percent in the second quarter, up from 6.4 percent in Q1 (Source: Bureau of Economic Analysis July release).

The rapid acceleration in growth seen in early 2021 has led to rising prices. The Consumer Price Index for All Urban Consumers (CPI-U) increased 5.4 percent year-over-year in June without seasonal adjustment (Source: Bureau of Labor Statistics). Additionally, supply-side disruptions continue to be widespread, with shortages of materials, labor, and low on-hand inventories leading to price increases in homebuilding, automobiles, and some consumer goods (Source: Federal Reserve). In particular, the prices of construction materials increased sharply, with lumber (115 percent), steel and iron (73 percent), and copper pipe (99 percent) all up significantly year-over-year as of June 2021 (Source: Bureau of Labor Statistics). Additionally, ongoing semiconductor shortages continue to drive increases in the price of used vehicles, leading to a 45 percent price

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%

increase year-over-year as of June 2021 (Source: Bureau of Labor Statistics).

The national seasonally-adjusted unemployment rate improved to be 5.9 percent as of June 2021 (Source: Bureau of Labor Statistics). The economy added 1.7 million jobs during the second quarter, primarily driven by increases in the leisure and hospitality sector. However, employment continues to remain significantly below pre-pandemic levels, as the number of jobs remains down by 6.8 million (4.4 percent) from February 2020 levels (Source: Bureau of Labor Statistics).

Consumer confidence in June was at its highest level since the first surge of COVID-19 in March 2020 (Source: Conference Board). However, the appearance of new COVID-19 variants could put economic recovery at risk. The risk most directly impacts consumer decisions and would slow consumer spending, impeding the rise of output and employment more broadly (Source: IHS Markit).

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2021

Regional Economy

With COVID-19 infection rates declining as vaccination rates rise, Governor Inslee announced that all counties in Washington moved to Phase 3 effective May 18. Additional activities were allowed with fewer restrictions and increased capacity for groups of fully vaccinated people. The following month, Governor Inslee announced that the state's economy would reopen on June 30, with businesses returning to normal capacity and operations.

As the state reopened, the economy continued to improve. The Seattle-Tacoma-Bellevue metropolitan area preliminary unemployment was 5.5 percent in June, down from 6.0 percent in Q1. However, this did represent a slight increase from 4.9 percent in May. In June, the metro area had gained 108,200 jobs (5.2 percent) from a year ago, driven largely by leisure and hospitality industry (31,500 jobs), trade, transportation, and utilities (25,600 jobs), and education & health services (16,800 jobs) (Source: Bureau of Labor Statistics). In addition to the labor market improvement, consumer spending has been increasing. As of June 2021, Washington's total spending by all consumers increased 9.5 percent compared to January 2020, mainly driven by retail (18.1 percent), healthcare (14.8 percent), and groceries (14 percent) (Source: Opportunity Insights).

On the other hand, the inflation rate has been climbing as economic activity increases. In June 2021, the Seattle-area consumer price index for urban wage earners and clerical workers has been rising at a rate of 6.3 percent year-over-year (Source: Bureau of Labor Statistics).

Moreover, housing prices and sales are still on the rise. In June, the median single-family home in King County was sold for \$860,000, a 19 percent increase year-over-year, and the median home was sold

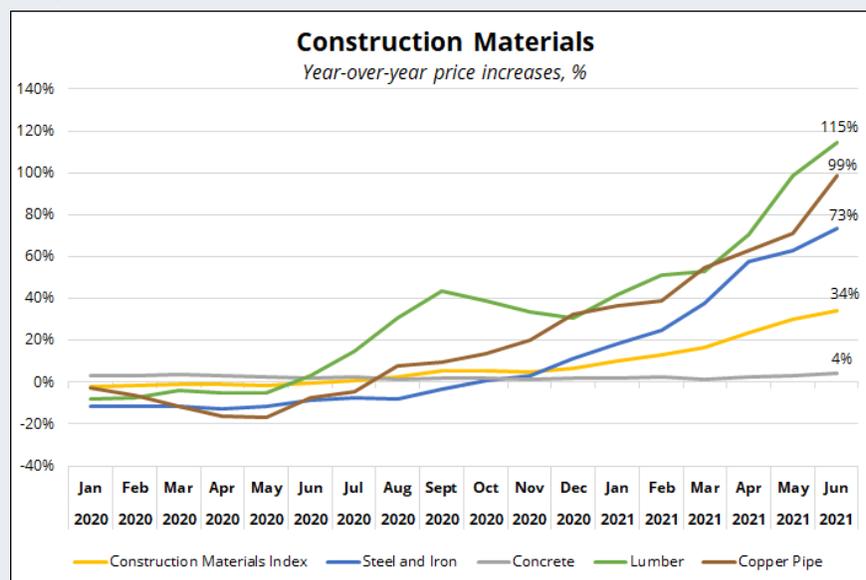
for \$1.4 million in Eastside, an almost 40 percent year-over-year increase (Source: Seattle Times).

Despite rising vaccination rates and declining new cases, COVID-19 remains a risk to economic activity. Among the population over the age of 12, 75.1 percent are fully vaccinated, and 80.9 percent have received at least one dose in King County as of August 1 (Public Health Seattle & King County). It is not clear what impact COVID-19 variants will have on the regional economy.

Bellevue Economy

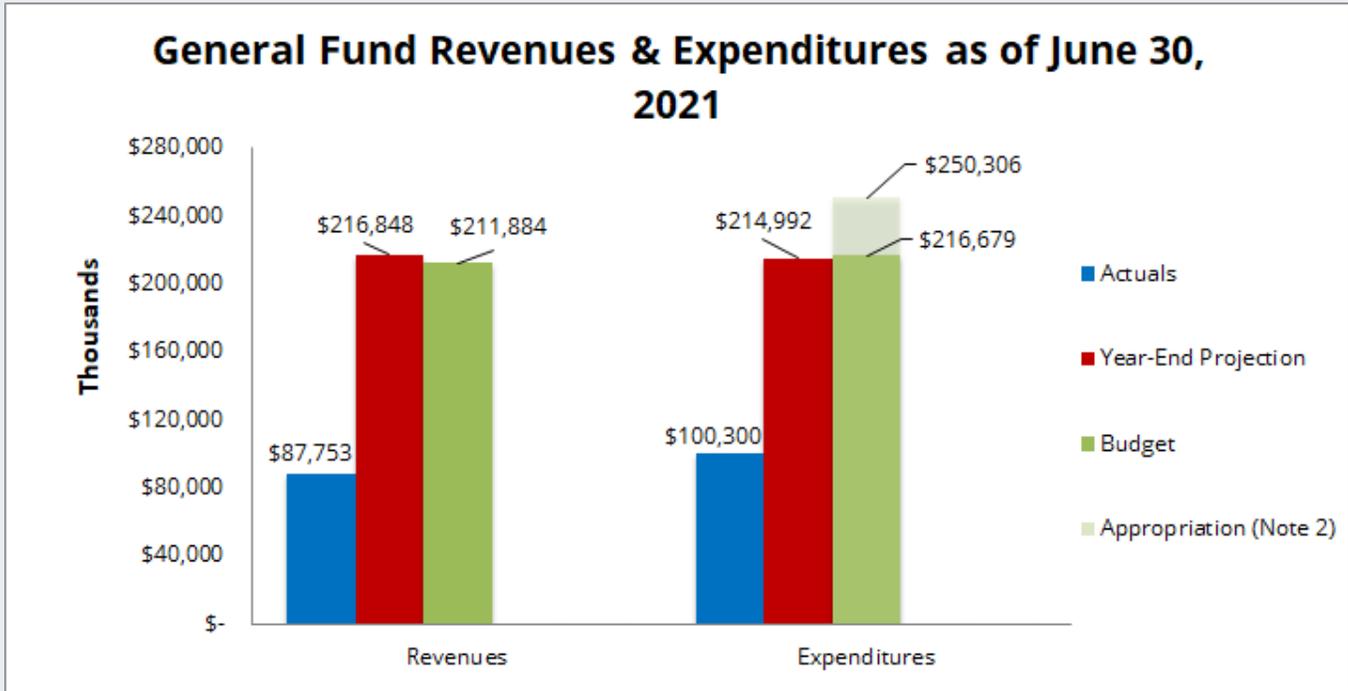
Bellevue's labor market continued to improve from peak unemployment levels in April 2020. The preliminary unemployment rate stood at 4.3 percent in June 2021, improving from 4.5 percent at the end of March 2021. However, this reflects a slight increase in unemployment month-over-month, as the unemployment rate reached a pandemic-low of 3.9 percent in May 2021. 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: Bureau of Labor Statistics).

With employees gradually going back to the office, Bellevue's office vacancy rate in Central Business District (CBD) was 8.0 percent in Q2, a decrease of 0.8 percent from last quarter, and was the third-lowest vacancy rate on the Eastside after Kirkland (5 percent) and Redmond (6.9 percent). Based on the recently signed leases, high tenant demand and a lack of new development have kept rent prices from falling. Annual base rent increase remained steady at 2.5 to 3 percent (Source: Q2 2021 Eastside Office Market Overview by Broderick Group).



Source: Federal Reserve Economic Data (FRED)
City of Bellevue Budget Monitoring Report
 January 1 to June 30, 2021

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, 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 \$4.9 million (2.3 percent) in 2021. Collections of sales tax and B&O tax (Business and Occupation Tax) are forecasted to recover to the pre-pandemic level in 2021 due to high levels of construction and development activities in Bellevue, as well as a better than anticipated economic recovery, as King County vaccination take-up rates continued to rise and the Governor's reopening plan progressed. The impacts of COVID-19 remain highly uncertain and increased levels of economic activity are dependent on continued vaccine distribution, low positive case rates, and limited public health impacts from COVID-19 variants.

Expenditures

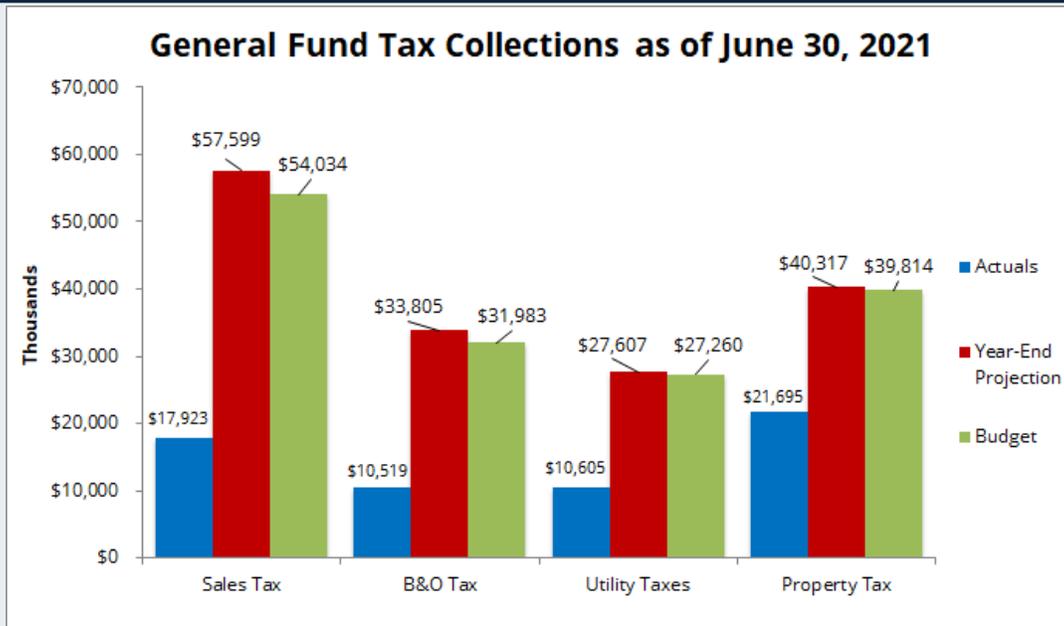
Expenditures are projected to be \$1.7 million (0.8 percent) below budget in 2021. This is driven by department savings, which are partially offset by the January windstorm and February winter storm events that took place during the early part of the first quarter.

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

As of the end of the second quarter the General Fund reserve is projected to increase by \$1.8 million in 2021, an improvement over the first quarter by \$4.8 million. This is primarily due to improved economic recovery and underspending by departments. 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 June and 2021 amended budget.

Tax Revenues

Economic activity has continued to increase with reopening, increased rates of vaccine distribution, and fewer COVID-19 cases. 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 million (6.6 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. As of June 30, King County has fully reopened, allowing for a return to full capacity indoor establishments.

Business and Occupation Tax

B&O tax collections are projected to be \$1.8 million (5.7 percent) above budget, primarily due to increased economic activity as King County businesses continued to reopen. Effective June 30, most industry sectors previously covered by the Healthy Washington or Safe Start reopening plans returned to their usual capacity and

operations.

Utility Tax

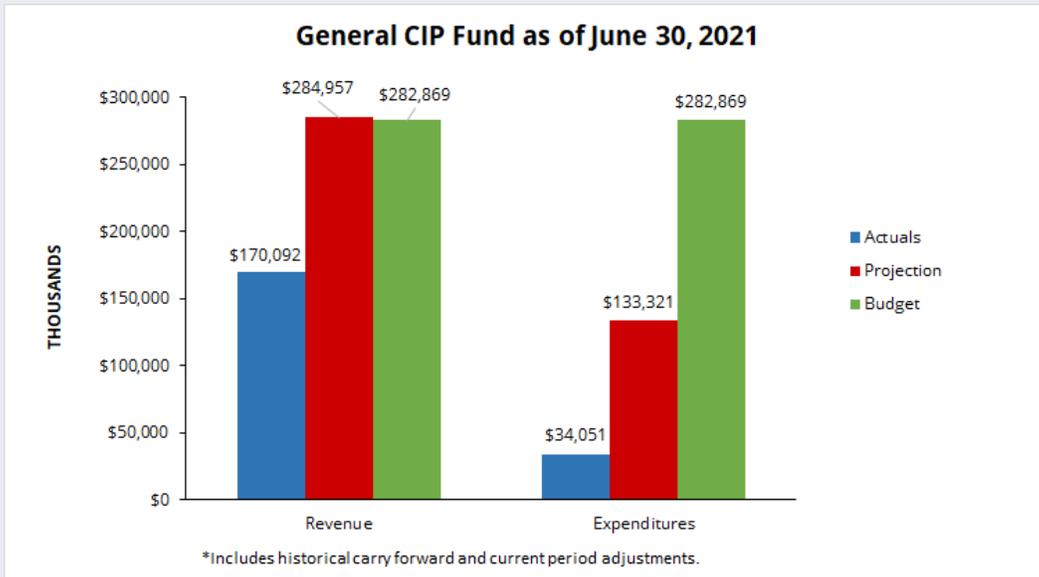
Utility tax revenue collections are projected to be above budget by \$350K (1.2 percent) during 2021. The increased collections are primarily driven by increased electricity utility taxes and water utility taxes due to the hot weather and the ongoing drought, and are partially offset by lower telephone and cell phone utility tax collections.

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 be \$12.4 million above budget primarily due to 14 transactions over \$50 million that have

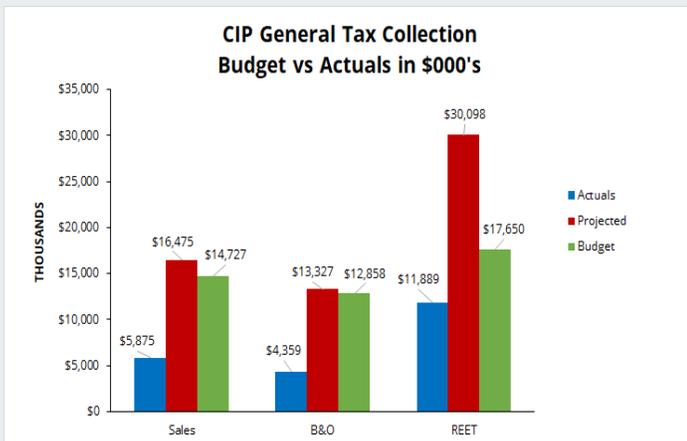
occurred year-to-date. On average, the city sees 10 such transactions in a typical year. Overall, major tax collections are projected to be 22.8 percent higher than budget in 2021. Grants and Interlocal contributions are projected to come in lower than budget due to project savings. The Budget Office 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. One draw was made on the TIFIA loan during Q2. 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 \$133.3 million as of year end, or 47.1 percent of the available CIP expenditure budget.



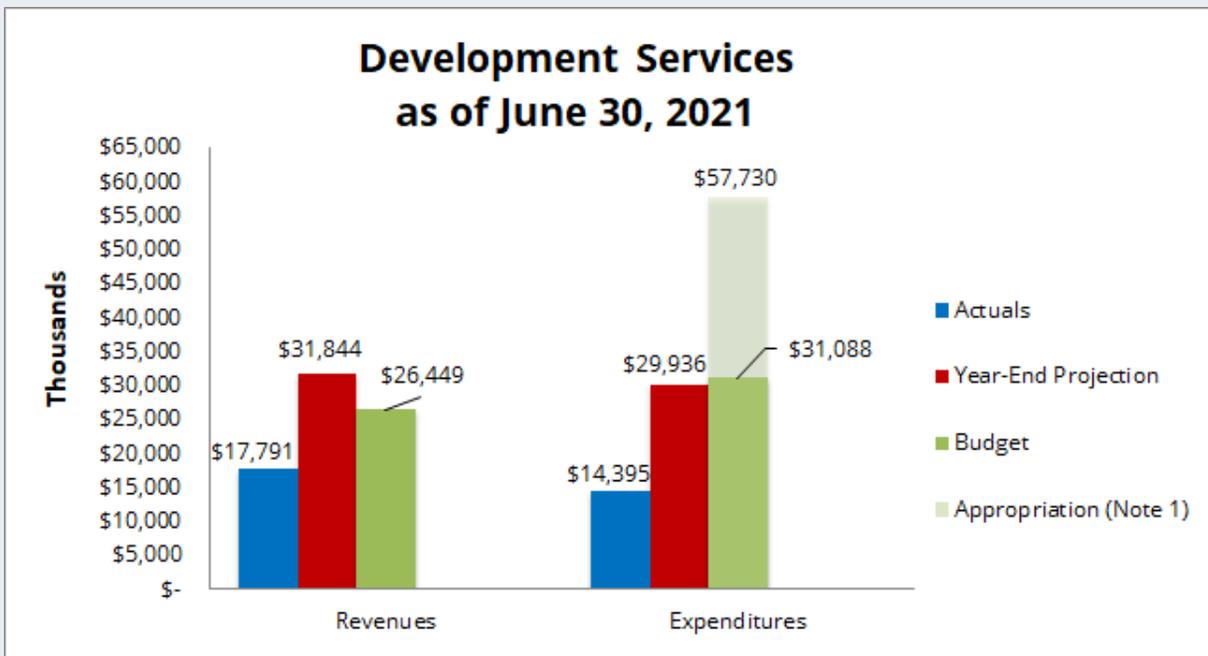
City of Bellevue Budget Monitoring Report

January 1 to June 30, 2021

DEVELOPMENT SERVICES PERFORMANCE



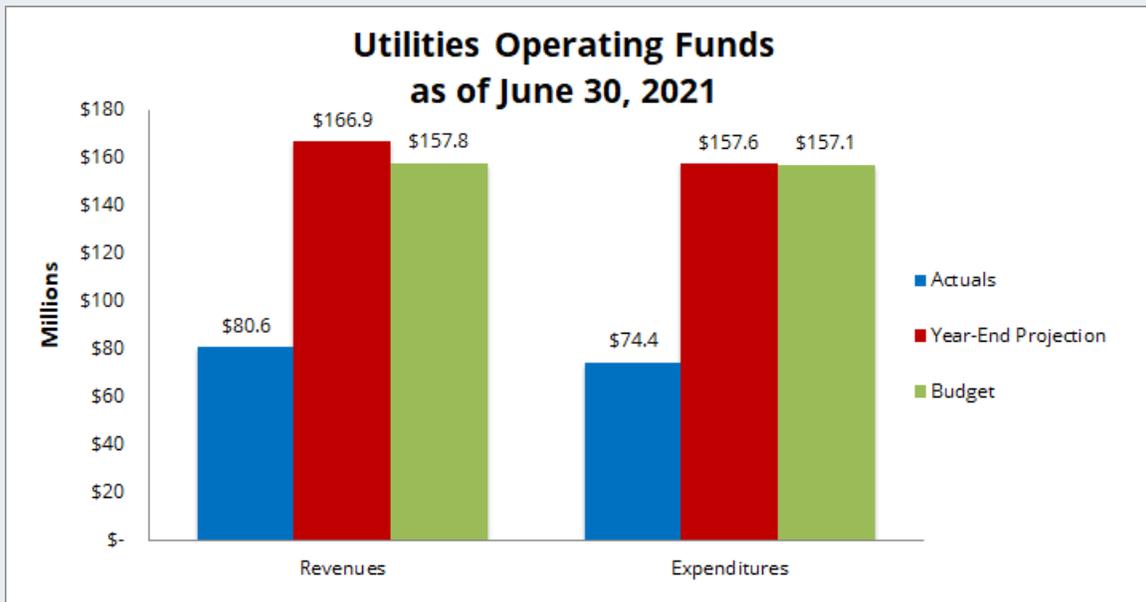
Bellevue 600 - Phase 1



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 through 2021. Revenue projections are 20 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 positions and M&O savings.

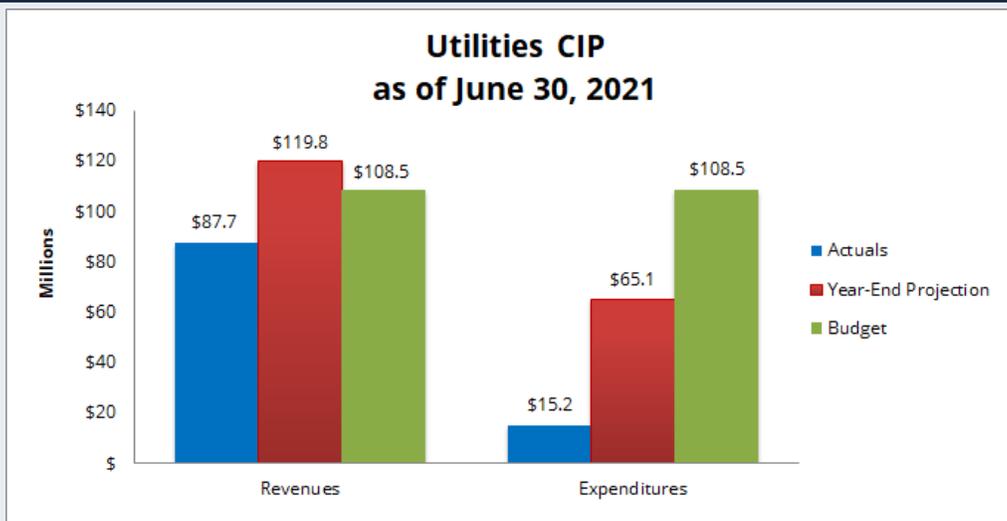
UTILITIES OPERATING FUNDS



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

Utilities year-to-date revenues are projected to be higher than budget in 2021, primarily greater than anticipated economic recovery from COVID-19 and warm weather. Expenditures are projected to be slightly higher than budget in 2021, but the projected increase in revenue is sufficient to cover additional expenditures.

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 higher than budgeted levels at year end. Actual revenues reflect funding for projects budgeted in previous years but will be completed in 2021. CIP expenditures reflect delays for several major projects due to COVID-19 adjustments including moratorium on water shut offs, contractor staffing impacts, and availability of materials. Other drivers for delays include staff capacity, easement acquisition issues, and permitting. The unspent 2021 budgeted funds will carryforward for projects into 2022.

City of Bellevue Budget Monitoring Report

January 1 to June 30, 2021