Executive Summary:

- The economic impact due to COVID-19 is sudden and deep.
- The recovery of the economy remains highly uncertain, and largely dependent on limiting virus uptick. Currently, economists project the economy will not recover to pre-COVID-19 level until 2023.
- COVID-19 adds many risks to the global, national and local economy.
- Bellevue's has outperformed the nation in post Great Recession recovery, and Bellevue's unemployment rate is trending lower compared to the region and the state during the COVID-19 pandemic.
- The recovery of Bellevue's Economy will be largely driven by the overall national and regional economic recovery while close monitoring on specific areas is needed due to the large presence of major employers and destination malls.

Economic Outlook

Global and National Economy

In February 2020, the longest economic expansion in U.S. history was ended by coronavirus disease 2019 (COVID-19) related impact. The global and U.S. economy quickly fell into a deep recession due to a nationwide lockdown that shuttered most of the economy. Studies of the economic impact have indicated that there are three main channels through which COVID-19 affects economic activity: (1) increased mortality, (2) illness and absenteeism, and (3) avoidance behavior to reduce infection. These shocks reduce the size of the labor force, aggregate productivity, and aggregate demand. Consistent with those observations, the economy has experienced sudden, large, and simultaneous shocks to both supply and demand since the COVID-19 outbreak in the United States. On the supply side, many businesses were shuttered by social-distancing measures that were put in place or voluntarily adopted by businesses to stop the spread of the virus and "flatten the curve." Those businesses that remained open confronted supply disruptions that prevented them from operating normally. On the demand side, many consumers faced stay-at-home orders or voluntarily limited their economic activity to reduce the risk of contracting the disease. (Source: Center of Budget and Policy)

The economic impact due to COVID-19 is sudden and substantial. Real gross domestic product (GDP) in the first half of 2020, contracted by 10.6 percent. By comparison, during the Great Recession in 2008-2009 real GDP fell 4.0 percent over six quarters (source: Bureau of Economic Analysis). The U.S. unemployment rate jumped from 3.5 percent in

February to 14.7 percent in April, the highest rate since the Great Depression. Payroll job losses in those two months combined totaled a record 22.16 million (-14.5 percent) (Source: Bureau of Labor Statistics). About one in six US workers—more than 26 million Americans—filed for unemployment in the five weeks ending April 18. That number erases all the net job gains since the Great Recession. Initial unemployment claims surged across the country (Source: McKinsey & Company). The COVID-19 pandemic not only led to deep economic loss in 2020 but also adds significant uncertainties on the future economy and the economic recovery. Although there have been flu pandemics, there is no reference case for the COVID-19 crisis in living memory. The COVID-19 recession is different from all recessions the U.S. has experienced before, it is more global in scope, more profoundly impactful and far-reaching, and more complex.

The recovery of the economy remains highly uncertain, based on the economist's survey provided by the National Association for Business Economics (NABE), over two-thirds of economists believe it will likely take several years for economic growth to return to pre-coronavirus pandemic levels. In the September Federal Reserve board meeting, most members of the Fed's rate-setting committee expect interest rates to remain near zero through at least 2023 as the economy slowly recovers from the coronavirus recession. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term (Source: Federal Reserve September FOMC statement).

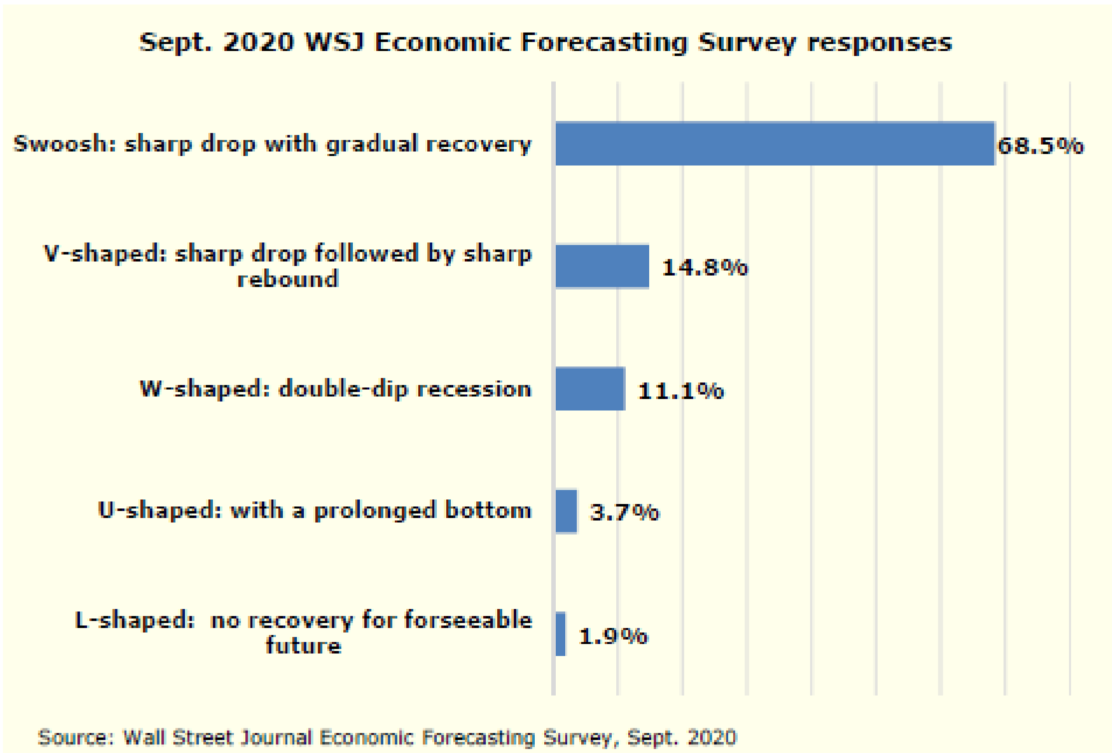
There are a few data sets that led economists to believe the recovery will take approximately 3 years and it is no longer likely to be a "V"-shaped recovery:

1) Although the economy has already recovered somewhat from the sharp contraction this spring, there are signs that the rebound is slowing. Job gains have declined in July and August. Both retail sales and industrial production had smaller gains in August than a month earlier.

2) Federal relief programs such as small-business loans and supplemental unemployment benefits that have helped support the recovery earlier this year have largely expired. And Congress has so far been unable to agree on additional relief.

3) U.S. consumer confidence dropped to a more than six-year low in August as households worried about the labor market and incomes, casting doubts on the sustainability of the economy's recovery from the COVID-19 recession. (Source: Beau of Economic Analysis). Learning from the Great Recession, once consumer sentiment drops, it takes years to heal and recover.

Chart 1



Source: Wall Street Journal Economic Forecasting Survey, Sept. 2020

As of September, all states have recovered a portion of the decline since April. Weak customer demand and increased uncertainty resulted in sluggishness in recovery. Many firms began making permanent layoffs to cut costs. Businesses in some States continue to recall furloughed workers slowly as demand recovers, but concerns around potential infection, childcare arrangements, and uncertainty around virtual schooling are leading to difficulties in hiring. Nonetheless, some firms continue to make permanent job cuts. Employment outlooks at hotels, tourism businesses, and transportation firms are grim as travel demand remains limited. Labor markets expanded slightly while employment levels remained far below pre-pandemic levels everywhere (Source: Federal Reserve Beige Book, IHS Markit).

While employment and unemployment rates are still improving, economists remain cautious as to the strength of the rebound and believe conditions will not return to "normal" until there is a reliable vaccine or treatment to control the virus. Regional outcomes will continue to vary depending on states' reopening plans, industry compositions, geography, and how they continue to handle the health crisis going forward. Given how deep and severe job losses were in states that were the early epicenter of the coronavirus outbreak, such as those in the Northeast, the rate of recovery is expected to be the strongest later in the year and into the first half of 2021. States that had to roll back their reopening plans because of rising caseloads will underperform the US during the same period. The forecasted recovery paths toward prior employment levels have distinct regional trends, and the employment of Washington state is projected to recover through 2023. (Source: IHS Markit).

Risks on the Horizon

Overall, there is uncertainty surrounding almost every aspect of the COVID-19 crisis: on the epidemiological side, uncertainties include the infectiousness and lethality of the virus, the time needed to develop and deploy vaccines, and the duration and effectiveness of social distancing. On the economic side, uncertainties include the near-term economic impact of the pandemic and policy responses, the speed of recovery as the pandemic recedes, and the extent to which pandemic-induced shifts in consumer spending patterns, business travel, and working from home will persist. Here are some other areas of risks that also needs to be watched:

- Risk of further escalating cases along with the reopening. Several European countries, including France, Spain, and the U.K., are grappling with rising coronavirus numbers. Economists in Europe are worried the new measures on social distancing could setback the overall economic rebound (Source: MarketWatch).

- The global economy's longer-term response to the substantial increases in public deficits and debt that are occurring as governments spend significant amounts to attempt to mitigate the impact of the pandemic and the economic downturn (Source: Congressional Budget Office July 2020).

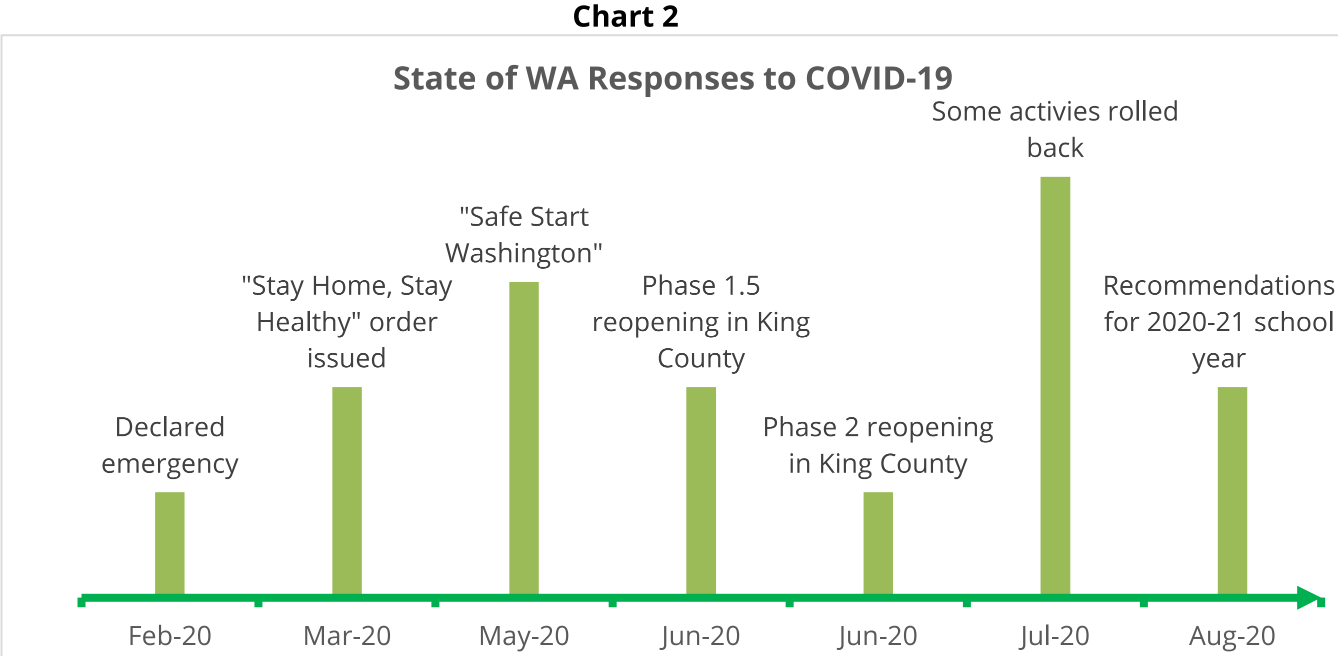
- Geopolitical instability - national politics in many countries have experienced intense divisiveness and 'pushbacks', coupled with increasingly fractious international relations. These volatilities will likely persist, challenging cooperation on key priorities (Source: 2020 Annual Global Risks Report by World Economic Forum).

- Loss in confidence and growing risk aversion cause a reduction in investment and consumer spending across many categories. Consumer sentiment and behavior reflect the uncertainty of COVID-19. Even in countries that have partially reopened, consumer optimism remains muted and pending intent is still below pre-crisis levels (Source: McKinsey & Company July Report).

Local Economy

King County was the epicenter of COVID-19 in the United States, The first known case occurred in King County, and the first large outbreak followed shortly thereafter. The metro area has made some headway in reducing its cases and is in stages of reopening. On February 29, 2020, Governor Inslee issued a proclamation declaring a state of emergency across Washington in response to the outbreak of COVID-19. In the weeks following the declaration, stay-at-home measures were ordered to slow the spread of the virus. These measures and associated social distancing requirements resulted in an abrupt closure of the economy. During this pandemic, many workers and businesses are affected, as well as the fiscal status of city governments that rely on a healthy economy for their revenues. It is impacting cities differently across the Puget Sound region mainly due to the different revenue structures and economic structures. In King County, unemployment reached 14.9 percent in April with 186,000 residents listed as unemployed. Employment contracted 220,000 jobs in King County. Leisure and hospitality went from 131,000 employees in March to 48,000 in April. Construction fell by 35,000 and manufacturing by 10,000 for the same months. The education and health services sector was also down nearly 30,000 jobs (Source: Washington State Employment Security Department). 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.

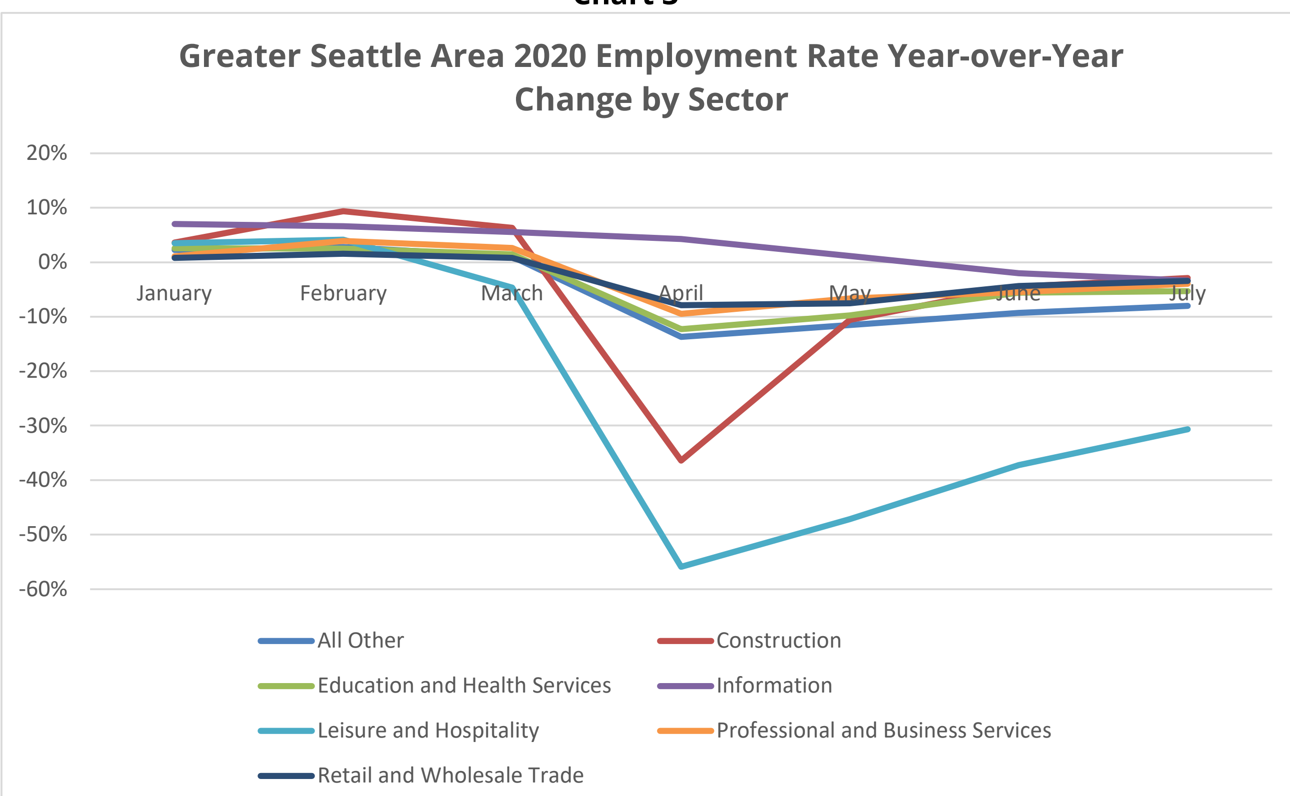
Chart 2



According to King County Second Quarter report, employment is projected to decline 6 percent by the end of 2020 comparing to 2019 - the most significant reduction in employment in any year since the data started being collected. In comparison, employment during the Great Recession fell 6.4 percent over a two-year period. Employment is projected to get back to 2019 levels by 2022-2023. Inflation is likely to be around 1.4 percent in 2020 before picking up the pace in 2021-2022 to levels more typically expected of around 2.5 percent (Source: King County Econpulse Second Quarter 2020).

The chart below shows the depth of COVID-19 impact on employment by sector in the Greater Seattle area. The labor market was hit hardest in April, the majority of year-over-year percentage declines coming from leisure and hospitality (56 year-over-year percentage), construction (36 year-over-year percentage), and education and health services (12 year-over-year percentage). In May through July 2020, these mostly negatively impacted sectors started hiring as the area began to slowly reopen, with the largest year-over-year percentage recovery coming from construction due to early lifting on business restrictions. Other negatively impacted sectors such as the retail sector and professional and business services were gradually recovering. The information sector shows a small and steady decline since COVID-19 due to its ability to provide services remotely.

Chart 3



Source: Bureau of Labor Statistics

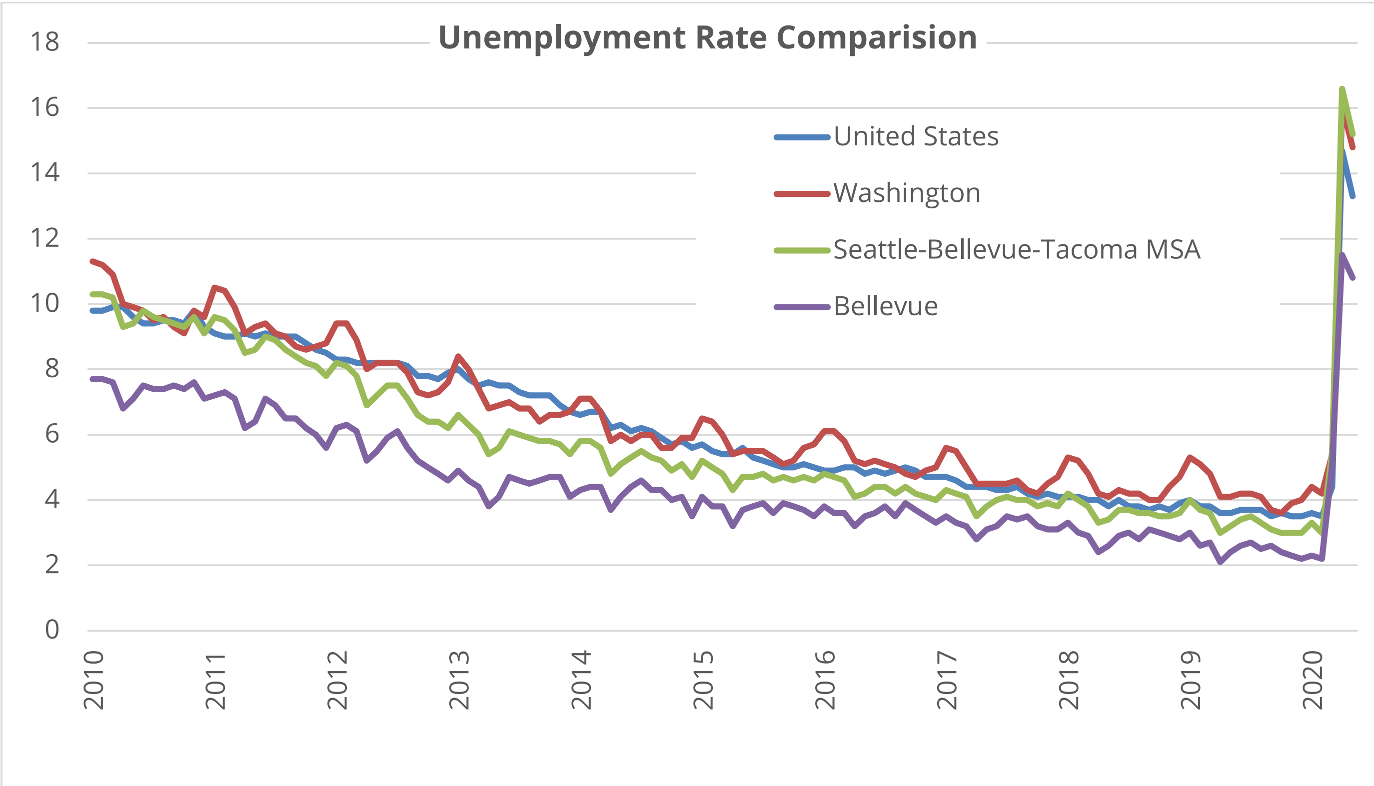
Major employers' workforce decisions are also placing a major impact on the Puget Sound region's economy and State and local jurisdictions' revenue collection. Boeing announced earlier this year layoffs of nearly 6,800 along with 5,520 voluntary departures. The total for Washington employees is 9,840 or just under 14 percent of all Boeing employees in Washington. They also indicated there will be more in the following months to get to their overall 10 percent global reduction target. Many large tech companies that have a presence in the region have extended work from home policies to 2021 including Amazon, Microsoft, Facebook, Zillow (Source: Seattle Times, CNBC). This is known to place a near-term impact on downtown retail and dining sales, and a potential long-term impact on office vacancy and new construction.

Prior to COVID-19, Bellevue was experiencing continued economic expansion. With a very low unemployment rate, per capita income growing at a higher pace, and home price growth outpacing the rest of the Puget Sound communities.

However, the emergence of the COVID-19 pandemic and lockdown policy sharply hit Bellevue's economy and labor market. Bellevue reached its lowest unemployment rate since 2000 at 2.2 percent in February, then the unemployment claims sharply increased due to the COVID-19 related economic shutdown. The unemployment rate increased to 5.1 percent in March and 10.7 percent in April, the highest monthly unemployment rate in the past 30 years. In March and April, Bellevue lost 16.6 percent or 13,707 jobs. (Source: City Level Employment estimate published by Washington State Employment Security Department on May 26th). The majority of losses come from the leisure and hospitality sector and food & drinks industry, as stay-at-home orders and social distancing kept consumers away from hotels, restaurants, and other recreational activities. The temporary shutdown of the economy also caused sudden and significant drops in construction activities and nonessential healthcare services.

On the bright side, Bellevue's unemployment rate is trending lower compared to the region and the state. Some of the city's major employers including Microsoft, T-Mobile, Amazon, stayed strong in COVID-19 due to increased demand for telecommunication and IT services, as well as online shopping. The chart below shows the historical unemployment rate compared with other jurisdictions.

Chart 4



Source: U.S. Bureau of Labor Statistics as of May 2020 preliminary

The shutdown of the economy has largely reduced City's revenue collections, with the largest impact on sales tax and Business & Occupation tax (B&O). With the temporary closure of many businesses in Bellevue, the most impacted sectors include retail, restaurants, accommodations, construction, and auto sales. Same as King county, Bellevue has also observed an uneven economic recovery since the economy reopened, the construction employment has recovered to the prior COVID-19 levels while leisure and hospitality are still down by 50 percent. The residential real estate market is currently still holding up due to low inventory, but uncertainty regarding the future trend still exists.

As the "new normal" is still being shaped by the COVID-19 impact, besides the national economic risks, the City staff are closely watching the following potential risk areas for Bellevue's Economy:

- The shift from brick mortar stores to online shopping. The slow shift has been observed for years, but COVID-19 accelerated the shift. More business and social activities have moved online and are staying there.

- If large employers shift to telecommuting regularly, downtown office space needs may reduce, impacting dining and retail as well.
- The long-term impact on the housing market if workers' commute is less frequent and remote working becomes the new normal.
- The long-term impact on the tourism/ hotel/accommodation industry is significant. The research on hotel industry recovery provided by McKinsey suggests that recovery to pre-COVID-19 levels could take until 2023 or later.

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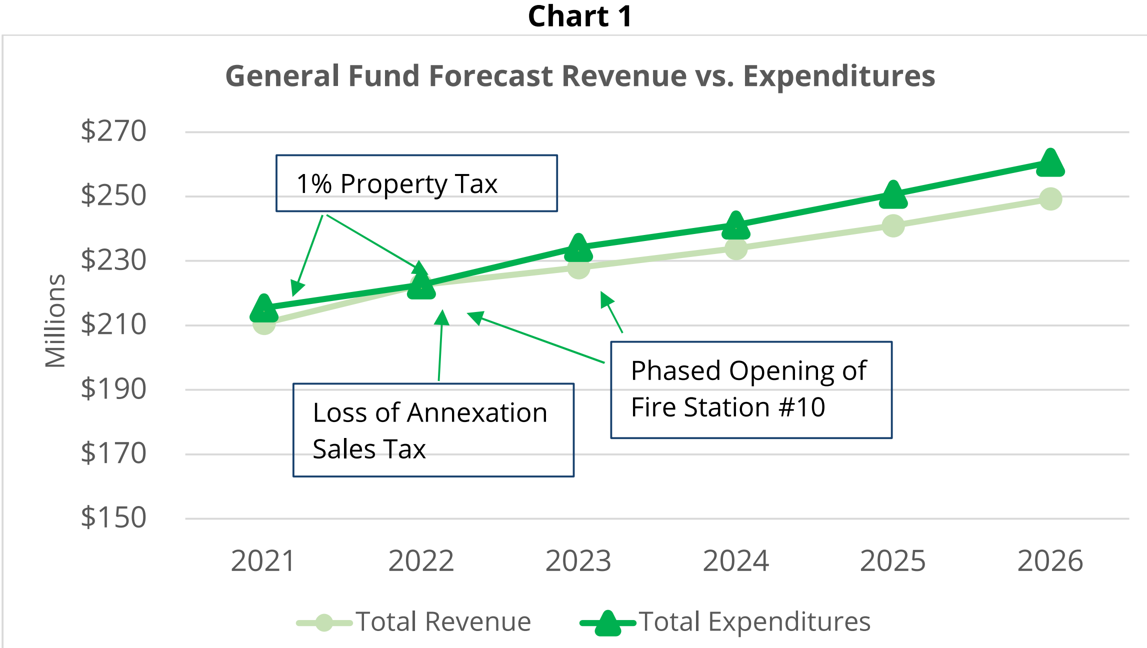
2021-2026 General Fund Forecast Executive Summary

Executive Summary

- COVID-19 had a swift and substantial impact on the city's general fund, with the primary impact on sales and business & occupation (B&O) taxes.
- The current forecast indicates that while 2021 and 2022 are balanced, the out years continue to reflect that expenditures will outstrip revenues in 2023 and beyond, mainly due to the long-existing structural imbalance between revenue and expenditure growth. This is primarily due to a series of influences:
  - Revenue growth not keeping pace with expenditure growth, primarily due to revenue streams being capped by state law,
  - Urbanization and growth of the city will require investing in services to keep pace,
  - The annexation sales tax credit will expire in 2022, eliminating $1 million in revenue, and
  - The ongoing struggle to ensure continued maintenance of existing infrastructure as new infrastructure comes online.
- Prior to COVID-19, the city had implemented several cost containment strategies to allow the city to use fund balance over time to address the out-year fiscal challenge. With COVID-19 impacts, the city must now shift strategies and use reserves in the current budget.
- Future years' budget discussions will inform difficult choices that will impact service delivery or increase revenues. As the city learns more about the final impact of COVID-19 on fiscal resources, coupled with the longer-term fiscal challenge, future conversations will be required.
- The chart below depicts the general fund out-year forecast.

Chart 1



Risks

The risks to General Fund revenue include:

- The timing of economic recovery from COVID-19 related impact is highly uncertain.
- Due to state budget reductions, state legislators may re-evaluate the state shared revenue distribution. Other legislative impacts such as I-976 may also impact state shared revenues.
- Impacts from worldwide events, such as COVID-19 and trade tension on the global economy, regional tourism tax base, and consumer confidence.
- Consumer spending has taken a hit and could take a long path to recover.
- The accelerated shift to greater online purchases and away from traditional brick and mortar storefronts may impact sales tax growth for the city.
- Working from home policy places a near-term impact on downtown retail and dining sales, and a potential long-term impact on office vacancy and new construction.

General Fund Revenue Overview and Revenue Details

The city's General Fund revenue collections totaled $210.6 million in 2019. The city's mix of revenue consists of property tax, sales tax, business and occupation (B&O) tax, utility tax, user fees, state-shared revenue, as well as other smaller revenue sources. These revenue sources fall into essentially five categories: sales tax, B&O tax, property tax, utility tax, and all other revenues. The economy and revenue collections were strong at the beginning of 2020 but were impacted significantly due to the COVID-19 pandemic. Similar to businesses, the closing of the economy has had a swift and substantial impact on the city's finances. Overall, the total impact on general fund revenue is estimated to be $28 million in 2020. The General Fund is projected to recover at 10 percent or $19 million in 2021 as the economy recovers from this sudden and deep COVID-19 recession. It will recover at a moderate pace of 3.9 percent on average in 2022-2023 and a slower pace of 3 percent on average beyond 2023.

The city has a diverse tax base, but many revenue sources are sensitive to changes in economic conditions. Pre COVID-19, Sales, and B&O taxes had strong growth and has increased their proportionate share due to the faster growth of new marketplace fairness revenue and the combined growth of traditional sales tax and B&O tax base compared to other revenue streams. The proportionate share increase of these two revenues has supported the existing expenditure levels in the city and assisted in building reserves in the past, but also created a greater reliance on these revenue streams.

Sales and Use Tax

Overview

Sales tax recovery through 2023 mainly due to the loss of consumer confidence impacting the retail sector and the long road of recovery of tourism-related sectors including food, drink, accommodations, etc. The Sales tax collection is forecasted to recover 10.7 percent year-over-year in 2021 from the deep loss projected in 2020, but at a slower pace of an average of 6.6 percent through 2023 when the tax collection returns to pre-COVID-19 levels. For years beyond 2023, sales tax is forecasted to grow by an average of 4 percent per year due to continued economic and business growth. Also, as noted, the adopted 2021-2022 budget includes a sales tax re-allocation of $3 million per year from the capital investment program to the general fund. The table below provides a comparison of the city's sales tax forecast to Seattle, King County, and Washington State. Bellevue's forecast is comparable with King County and Washington State. This forecast is based on the best information available at this point in time and, as the forecast extends to the out years, the margin of error increases. A high degree of uncertainty surrounds the effects of the pandemic and social distancing on economic activity and the pace of economic recovery.

Bellevue Sales Tax Forecast Comparing to Other Jurisdictions

	2021	2022	2023	2024	2025	2026
Bellevue	10.7%	5.7%	7.5%	3.6%	4.1%	4.3%
Seattle	2.60%	N/A	N/A	N/A	N/A	N/A
King County	5.9%	7.1%	5.8%	3.7%	3.6%	4.2%
State	9.6%	5.1%	N/A	N/A	N/A	N/A

Note: All growth rates include marketplace sales tax.
*Bellevue sales tax growth rate excluded the one-time sales tax impact on distribution in 2021-2022 from the capital investment program to the general fund to provide comparable data to the out years.
*Bellevue sales tax rates displayed above are general fund sales tax growth rates, which will be different from the total citywide sales tax growth rate due to the split to other funds.
*Bellevue's sales tax growth is calculated by excluding the one-time DOR audit refund that has a negative impact on the sales tax revenue to show a comparison to the out years.
*Seattle sales tax growth rate is from Seattle's August 2020 Proposed Budget Book.
*King County sales tax growth rates are from King County August 2020 Forecast by King County Office of Economic and Financial Analysis.
*Washington State growth rates are from the June 2020 Revenue forecast by the Economic and Revenue Forecast Council.

Background

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Bellevue. The tax is collected from consumers by businesses that in turn remit the tax revenue to the state. The state sends the city its share of this revenue monthly. The city collects a 0.85 percent tax on retail goods and services. Chart 2 shows Bellevue's sales and use tax rate components. Sales tax revenue is the most volatile revenue that the city's General Fund collects. During the Great Recession, sales tax collections fell 21 percent from the peak in 2007 to the trough of the recession in 2010. Chart 3 shows the sales tax growth since 2000 and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility. The outbreak of COVID-19 created a sharp and profound negative impact upon the economy and sales tax revenues.

Chart 2

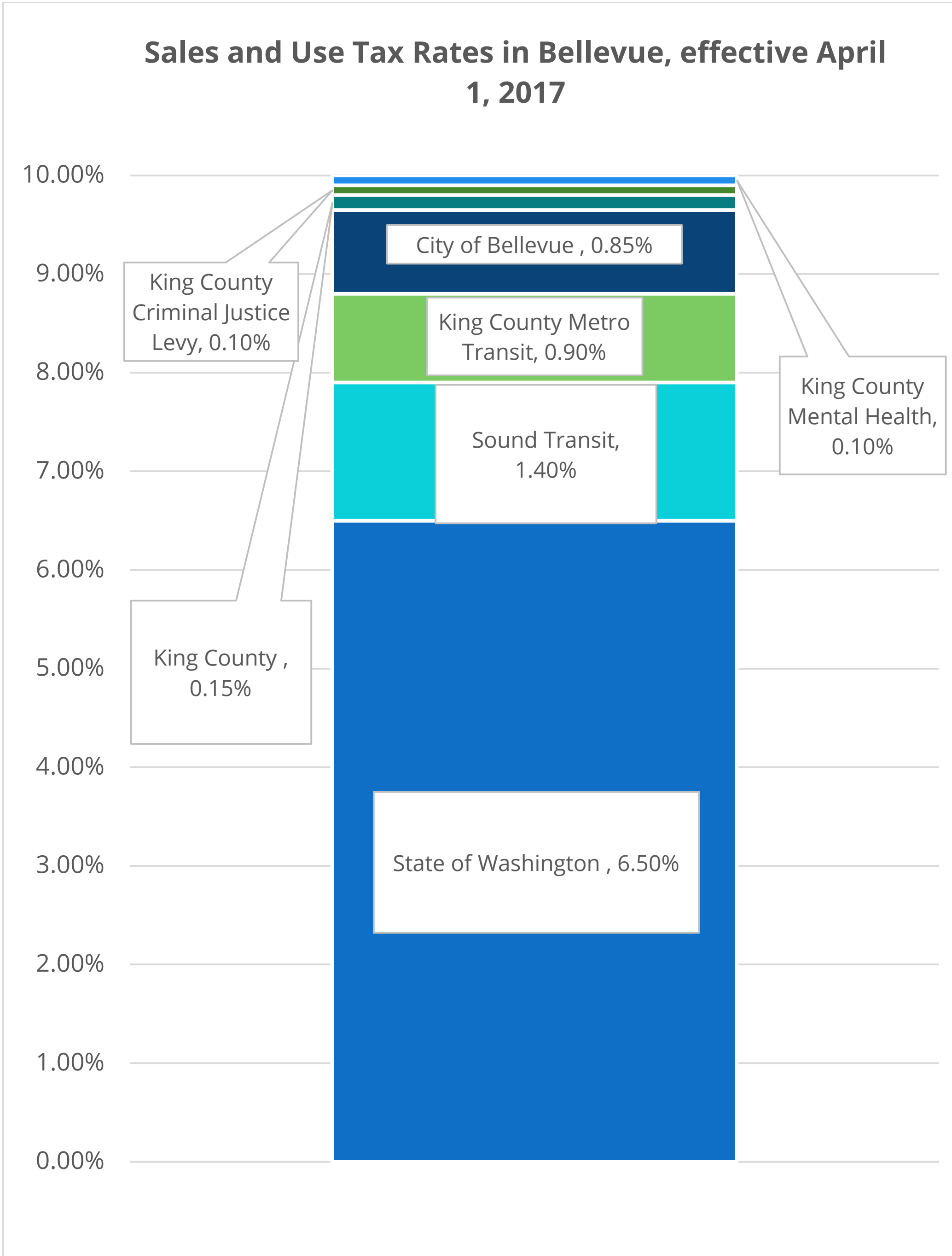
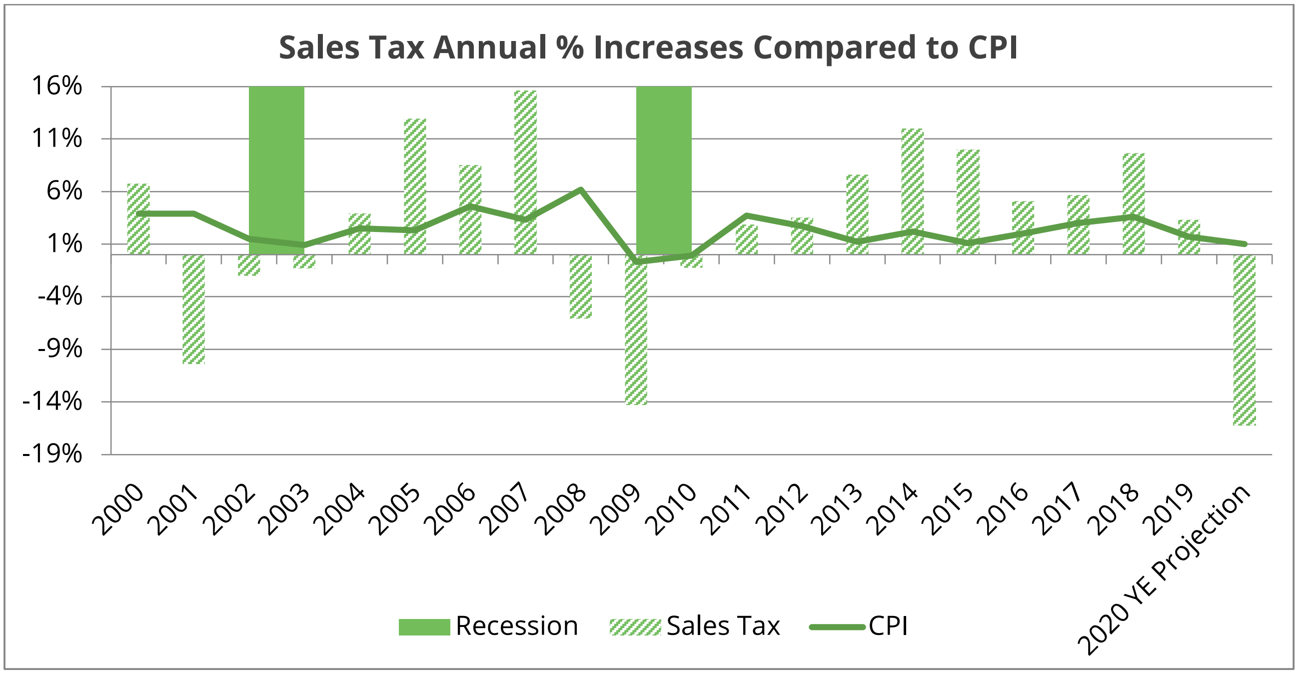

Sales and Use Tax Rates in Bellevue, effective April 1, 2017
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
City of Bellevue , 0.85%
King County Criminal Justice Levy, 0.10%
King County Metro Transit, 0.90%
King County Mental Health, 0.10%
Sound Transit, 1.40%
King County , 0.15%
State of Washington , 6.50%

Chart 3



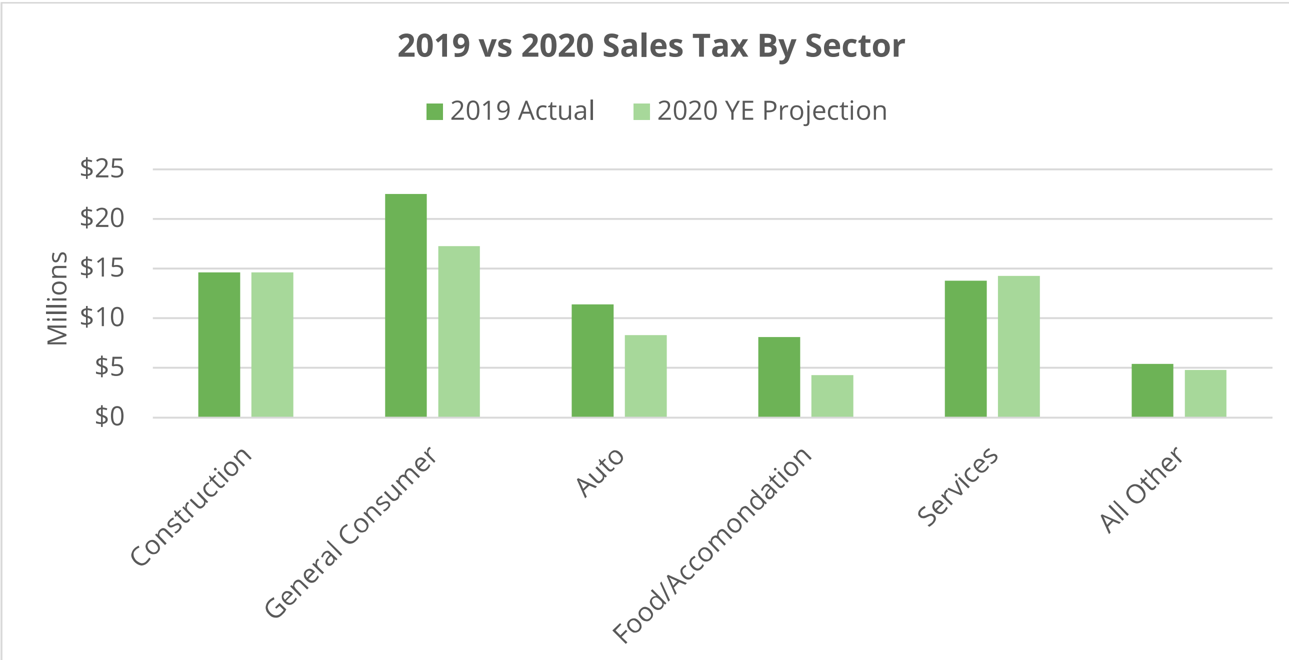
**One-time Department of Revenue audit refund issued in 2018 and 2019 was removed from growth rate calculation to show the trend. 2020 YE projection comes from Q2 monitoring.*

Since the Great Recession, total sales tax growth has recovered at moderate speed due to the significant construction growth and the consistent recovery of food/accommodation. However, retail trade growth was recovering at a much slower speed due to the long recovery process of consumer confidence. This imbalanced growth in different sectors led to sales tax growth relying more and more on construction activities. The share of construction sales tax to total sales tax increased from 10 percent in 2012 to 19 percent in 2019.

Due to the impact of COVID, Stay-at-home measures were ordered to slow the spread of the virus. These measures and associated social distancing requirements resulted in the abrupt closure of the economy, reducing sales tax revenue collections. The hardest-hit sectors for Bellevue are food/accommodation, auto sales, retail sales, which together comprised over 55 percent of sales tax revenue in 2019. The temporary shutdown of the economy has also negatively impacted construction, but construction sales tax was able to recover to 2019 levels by the end of the second quarter of 2020, due to strong construction activities in the pipeline. Significant office projects are currently planned or under construction in all growth areas of the city. Several large offices and mixed-use developments currently in the plan review phase will move to construction with office development as the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue by 2025. All other sales tax sectors make up the remaining balance.

The chart below shows how each economic sector has been impacted in 2020.

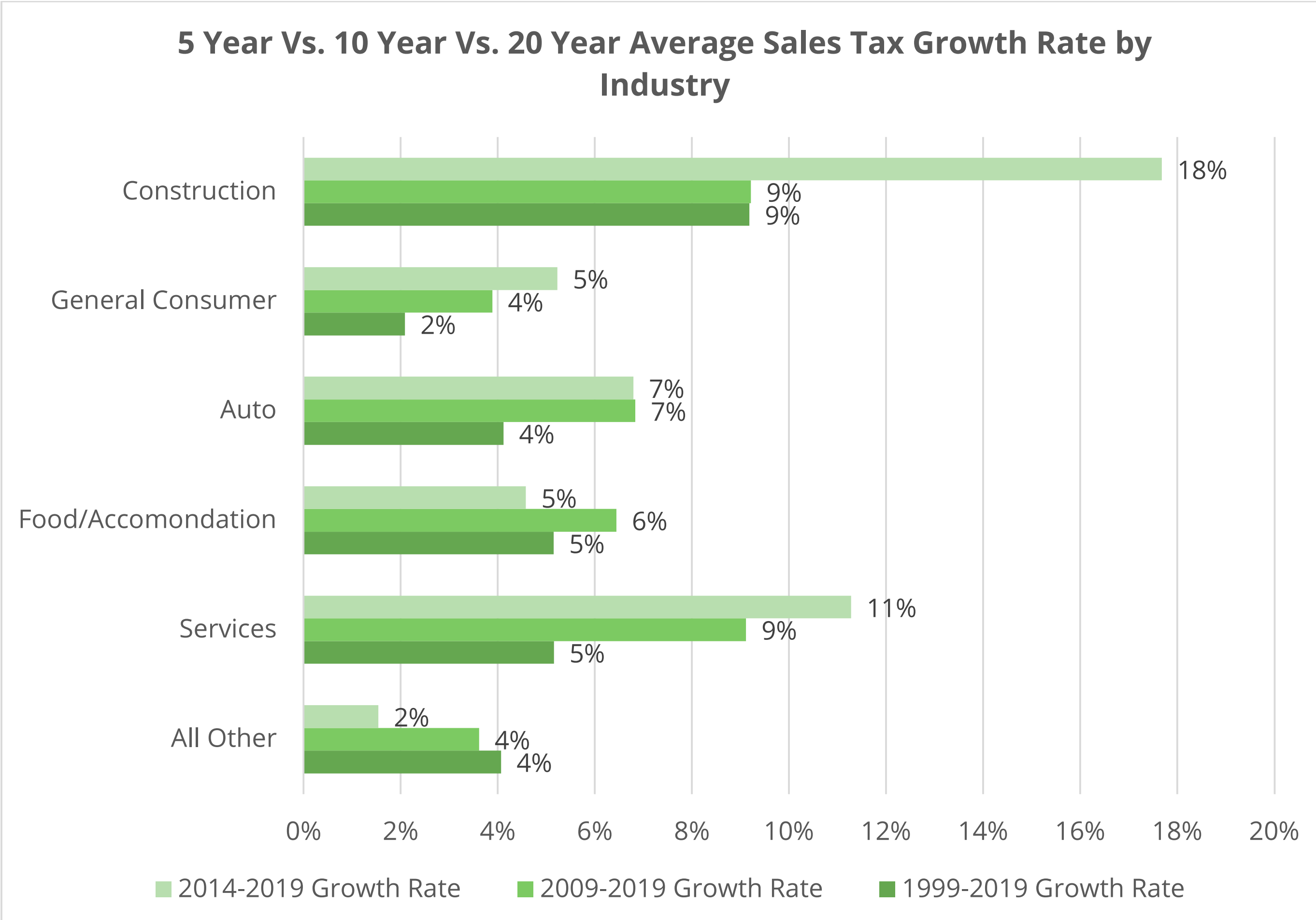
Chart 4



Construction

Construction activity is highly volatile and is dependent on several factors, such as the real estate market and the overall health of the economy. However, construction is a one-time activity and eventually it will slow as demand diminishes. The chart below shows the volatility of the construction sales tax by comparing the sales tax by category and by different periods. Total construction growth decreased significantly during the recession (up to 31 percent in a year) and then came back up to a higher than pre-recession growth rate as the economy recovered from the recession. In the past five years of the post-recession recovery period, it has an annual growth rate of 18 percent, a much higher rate than the other sales tax categories. However, by including the great recession in the analysis, the average annual growth rate reduces to 9 percent. The chart below compares the different categories of sales tax and their average annual growth rate in different economic stages, the growth patterns for different sales tax categories can vary a lot. As shown in the sales tax growth rate comparison chart below, the construction sales tax share has gone up and down due to the construction/economic cycles, and the largest components of sales tax - the general consumer (mostly retail sales) category is continuing to decrease its shares due to slower growth.

Chart 5



Bellevue's construction activities tend to move with the region's trend but are somewhat unique due to the fast growth in the BelRed and downtown areas. As construction activities near their anticipated peak, other jurisdictions around Bellevue are also watching construction activities very closely. The 2021-2026 General Fund forecast incorporated the Development Services Department's forecast and assumed the construction activities in the city will maintain its current level in the near term. Land use design review application activity remains consistent with prior years indicating that interest in future development in Bellevue continues. With 1.9 million square feet of office space currently under construction in the Bellevue Central Business District and 843,450 square feet under construction in the BelRed area, construction activity is maintaining its high growth (Source: CBRE Research).

Bellevue's construction sales tax is projected to flatten and maintain its high level until 2022 based on the known projects in the pipeline and then grow with the region's construction trend. As a general rule, sales tax is received on major construction projects between 9 months and 18 months post permit issuance.

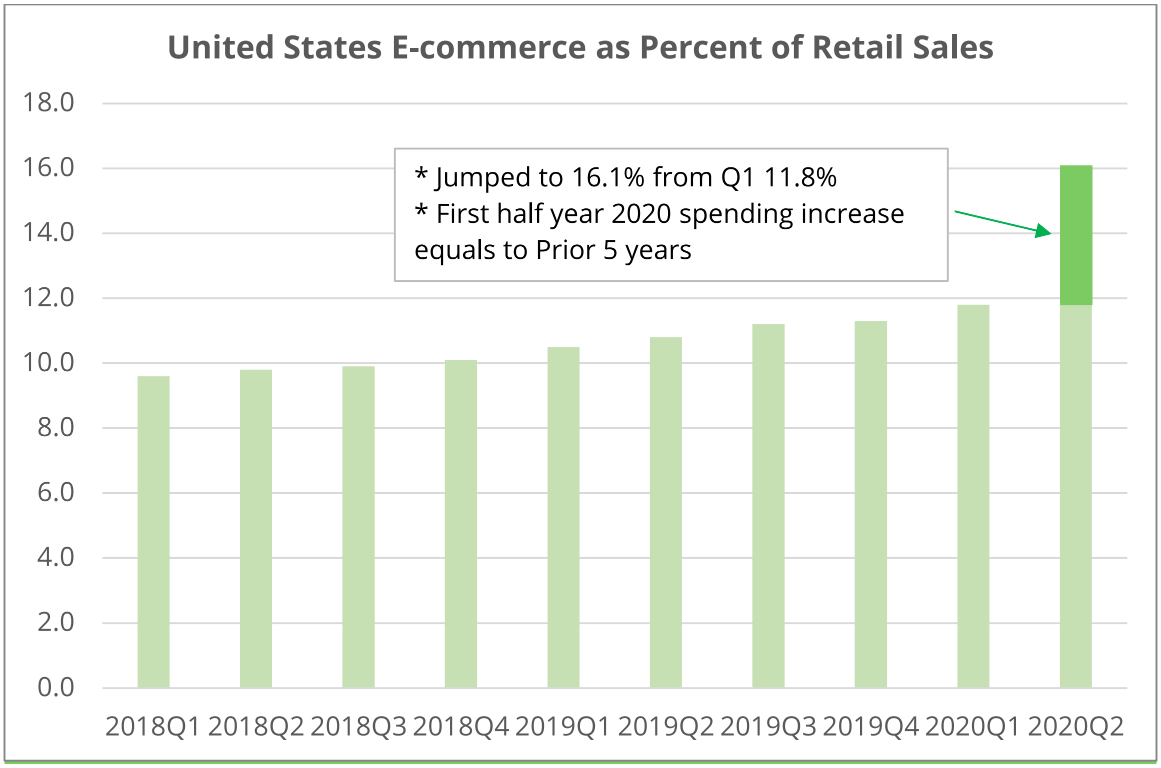
Retail Sales

Retail sales is a broad category that is comprised of sales tax generated by the sale of both store retailers operating fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers and non-store retailers including electronic shopping and mail-order houses. Personal income, employment rate, consumer spending, and inflation are all highly correlated with retail sales tax revenue.

Personal income recovered more quickly than retail sales tax growth from 2009-2015 as consumers saved more than they spent during the immediate post-recession. Since 2016, retail sales tax had been growing closer to personal income growth at 4.6 percent for the Seattle-Tacoma-Bellevue Metro area, which indicated a higher level of comfort with spending disposable income before COVID-19 (Source: U. S. Bureau of Economic Analysis). However, consumer spending has borne the brunt of COVID-19's impact on the economy. U.S. retail sales saw a 3.6 percent drop in Q2 2020 (Source: U.S. Census Bureau). According to eMarketer's forecast, the US retail sector could take years to recover from the impact of the coronavirus, and the hit could be worse than that of the Great Recession. Using the Great Recession as a comparison, the taxable retail sales in King County did not return to a pre-recession level on a nominal basis until 2014- 6 years after the recession started.

While the e-commerce tax base hasn't been nearly large enough to offset brick-and-mortar losses, it is mitigating the severity of the impact. The nation's e-commerce market continues to experience steady growth in its market share, making up 11.8 percent of total retail sales in Q1 2020. The stay-at-home orders exacerbated the already-rapid shift to online purchases, with large retailers like Neiman Marcus recently declaring bankruptcy. U.S. e-commerce sales jumped to 16.1 percent in Q2 2020 due to the impact of the COVID-19 pandemic that forced more shoppers online. (See Chart 7) Online shopping's share of total retail spending increase in the first half of 2020 as much as it did in the prior five years combined, with Amazon having an estimated 38 percent of the U.S. e-commerce market according to eMarketer (Source: Seattle Times). Although e-commerce has grown strongly since the pandemic and stay-at-home order, brick-and-mortar sales will weigh down overall retail long term. Retail sales tax collection will not return to 2019 levels until 2023 and then grow at 2.3 percent on average from 2024 to 2026.

Chart 7

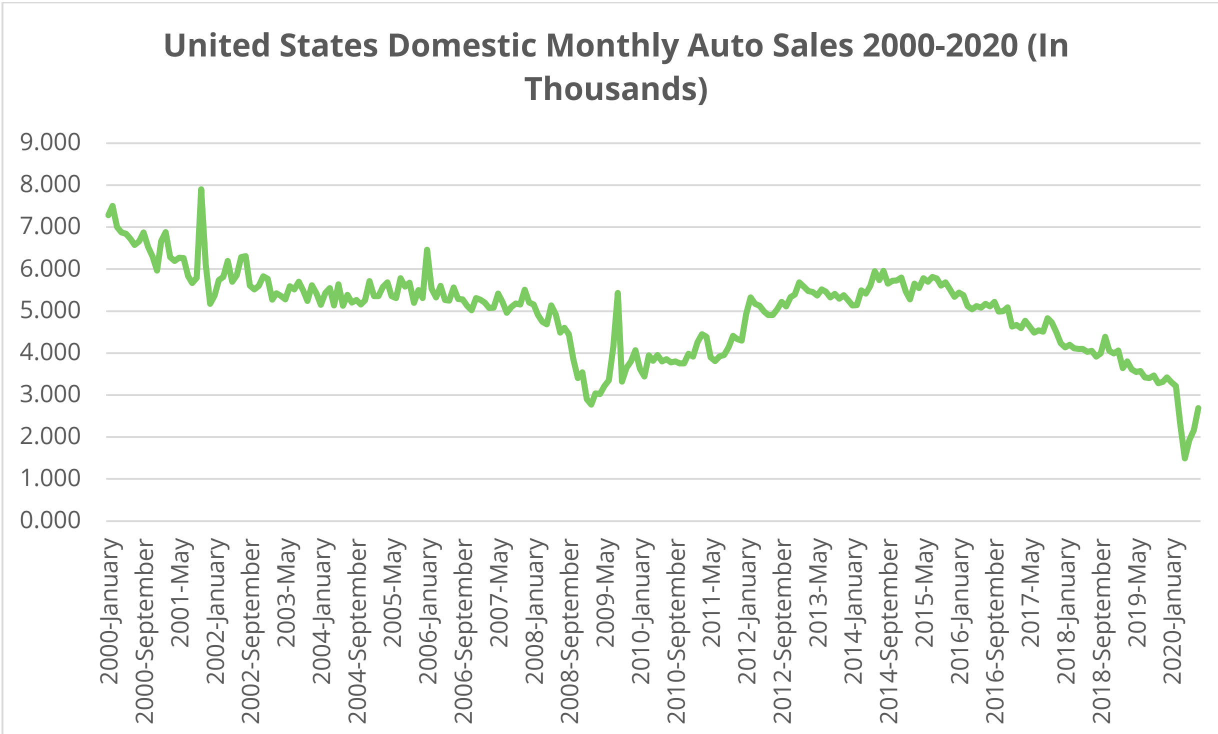


Auto Sales

Auto sales is the third largest component of sales tax, accounting for 15 percent of the total sales tax, and is another revenue that is highly volatile considering the 18 percent and 10 percent decreases in 2008 and 2009 respectively. Due to the COVID-19 pandemic and containment efforts, automotive domestic sales in the country fell over 58 percent year over year in April. Auto sales started to recover as the economy reopened, benefiting from pent-up demand. Mobility trends suggest that driving has made a full recovery as most Americans avoid air travel and public transportation. However, auto purchasing activity still faces uncertainty due to market disruptions and consumer demands caused by the pandemic, including but not limited to fewer miles driven due to remote work, shelter-in-place initiatives, high unemployment, and an overall feeling of uncertainty by consumers.

Nationally, auto sales have been trending down since 2016 after U.S. vehicle sales hit records in 2014 and 2015, and this trend is continuing as of December 2019 (*Source: U.S. Bureau of Economic Analysis (BEA)).* With the impact of COVID, Bank of America predicted new vehicle sales in 2020 are 25 percent less than the prior year, and it could take years before sales return near 2019's level.

Chart 8

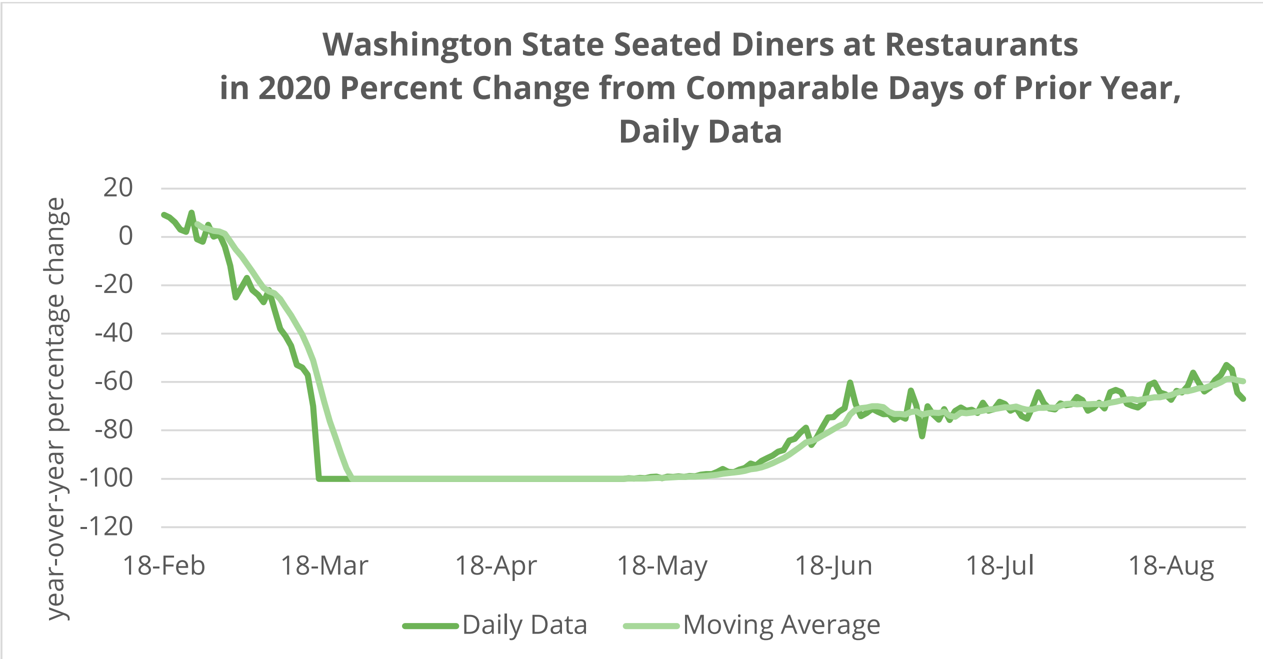


Bellevue's auto sales had strong growth due to the growth of sales in existing car dealerships from 2014 to 2015, but the growth since 2016 was primarily driven by new car dealerships that came into Bellevue. As both King County and Seattle had slow growth, auto sales in Bellevue grew by 16 percent in 2018 and dropped by 6 percent in 2019 mainly due to luxury car sales. The COVID-19 pandemic hit auto sales hard in 2020 and continued physical distancing and remote working may persist into 2021. As consumer sentiment may not rebound as quickly, the current forecast anticipates a 3 percent average annual growth from 2022 to 2026.

Food and Accommodation

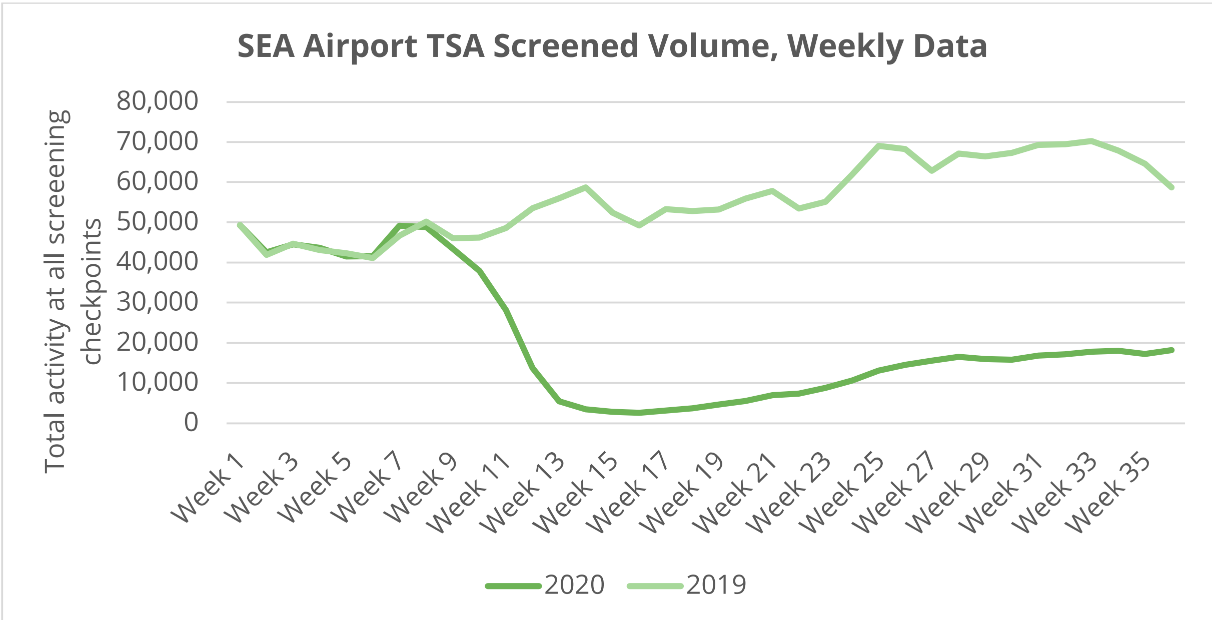
Business restrictions due to the COVID-19 were targeted toward restaurants and bars. The count of seated diners on the OpenTable platform drastically dropped to zero after the "Stay Home, Stay Healthy" order was issued. Restaurants and bars in Washington sustained themselves mostly on takeout during the economic shutdown until "Safe Start" was released. Seated dining was slowly recovering as business restrictions were gradually lifted. Activity at restaurants improved through August with the count averaged about 60 percent below the year-ago average. King County is in modified Phase II since July due to the continued rise of COVID-19 cases, the advancement to further phases of the state's "Safe Start" plan is still on pause. Bars need to close for indoor service with modified guidelines for bars serving food, indoor dine-in for tables at restaurants will be limited to members of the same household. Both bars and restaurants can serve people outside at 50 percent capacity with no additional restrictions.

Chart 9



Tourism, one of the industries hit hardest by COVID-19, was the state's fourth-largest economic driver before the pandemic (Source: The Seattle Times). Air travel remained stagnant and had negative impacts on Seattle tourism hubs. Many hotels were closed temporarily as they waited out the virus. The chart below shows a weekly dashboard of airport activity to track economic recovery following COVID-19 for SEA and the region. Passengers throughout at Seattle-Tacoma International Airport in the first week of September (week 36) averaged 69 percent lower than year-ago levels, according to data from Port of Seattle. As an indicator of the hotel industry, the trends in air travel were only gradually improving, which implied lower hotel room occupancy. Hotels and tourist attractions in the Greater Seattle area were struggling to boost business while contending with social distancing capacity restrictions and weak demand. According to the CBRE Forecast, hotel occupancy is not anticipated to recover until 2025 (source: CBRE Hotels Research). Food and Accommodation sales tax collection was hit hardest by COVID-19 in 2020 with an estimated 50 percent decline from 2019 levels and is forecasted to gradually recover back to 2019 level until 2025. The stronger rebound from the 2020 low level will continue through 2022 and then grow at a 5 percent annual rate on average for 2023 through 2026.

Chart 10



Service

The service sector comprises various service industries including professional/business services, information services and financial services. Before COVID-19, the Greater Seattle metro area's job market expanded heartily in 2019. On the heels of strong in-migration and population growth, the majority of gains were in service sectors, especially in professional/business services, which expanded at a rapid pace of 3.9 percent year-over-year. The information services sector, the third-largest job creator, grew at a pace of 8.2 percent year-over-year as of December 2019 and was the fastest-growing employment sector. The financial services also had steady growth at 3.3 percent (Source: IHS Markit). Remote work, online education, telehealth and social distancing have created a demand for products and services delivered by the information industry. However, there is a loss in partnership opportunities and customers, as conference networking opportunities get canceled and customers are delaying purchases due to the global COVID-19 outbreak. The services industry is considered one of the less impacted industries among all sectors due to its ability to provide services remotely.

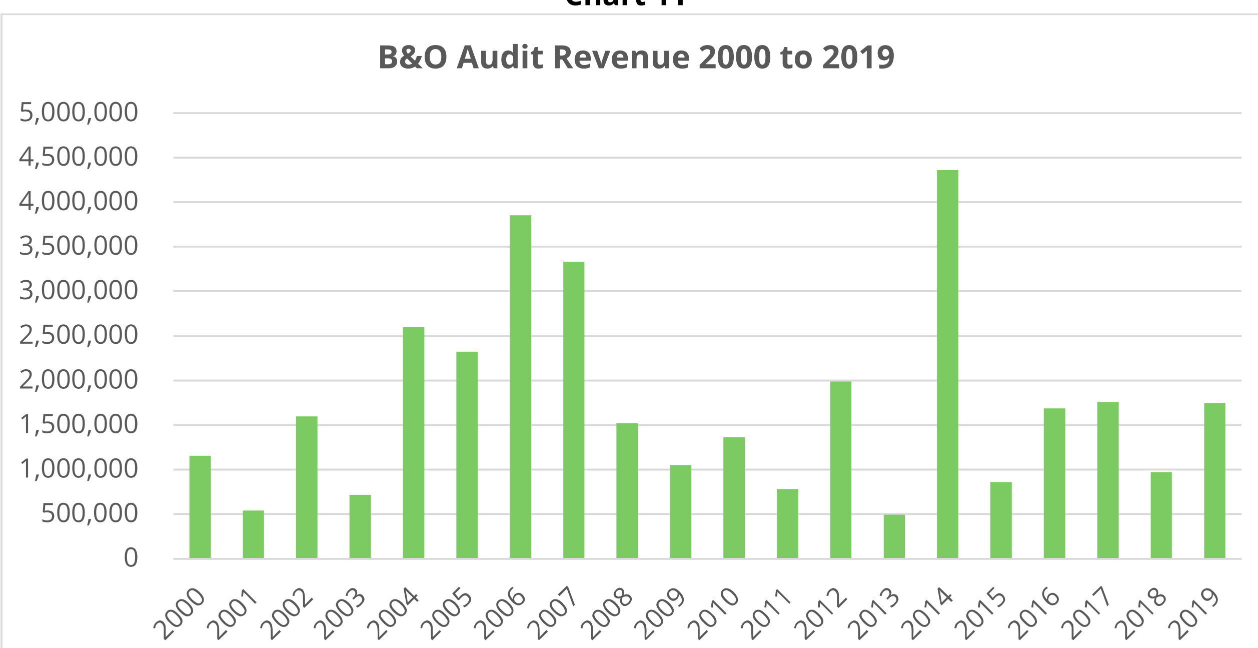
Business & Occupation Tax

Business and occupation (B&O) tax is made up of two parts: gross receipts and square footage taxes. The B&O tax is the third-largest source of General Fund, accounting for 15 percent of General Fund revenue in 2019. Like sales tax, it is also economically sensitive and volatile. During the Great Recession, B&O tax collections fell 20 percent from the peak and did not return to pre-recessionary levels until 2014. Under the impact of COVID-19, B&O tax collection in 2020 is projected to be 15 percent lower than in 2019. Without audit revenue, the B&O tax collection is forecasted to grow stronger in 2021 with 10.4 percent year-over-year coming up from a deep loss in 2020, and at an average of 8.2 percent through 2023 supported by the major business movements. Without audit revenue, B&O is forecasted to grow by an average of 5 percent per year from 2024 to 2026 due to increased business growth in downtown Bellevue and the Spring District. B&O tax forecast is subject to a high degree of uncertainty due to incomplete knowledge about how the pandemic will unfold.

In 2019, the largest contributor to total state B&O tax collection was the services sector, which represented an estimated 48 percent of B&O taxes due. Businesses in retail, accommodation, food and drink, and auto sales, representing 32 percent of B&O tax in 2019, are impacted heavily by COVID-19. Construction collections by the second quarter are less impacted, representing 10 percent of 2019 B&O tax collections. To help local businesses and nonprofits impacted by the COVID-19 outbreak and social distancing orders, the City of Bellevue has deferred first- and second-quarter local B&O tax payments for certain small businesses until October. Small businesses with gross receipts under $5M in 2019 are relieved from the obligation until October 31, 2020. Larger businesses may also have an option upon request to defer tax payments for up to 90 days.

The city continually monitors the B&O tax base as well as audit findings that may require either a refund to the taxpayer or an additional payment to the city. Audit revenue (Chart 11) is highly volatile and has ranged from several hundred thousand dollars to nearly $4.4 million.

Chart 11



General Property Tax

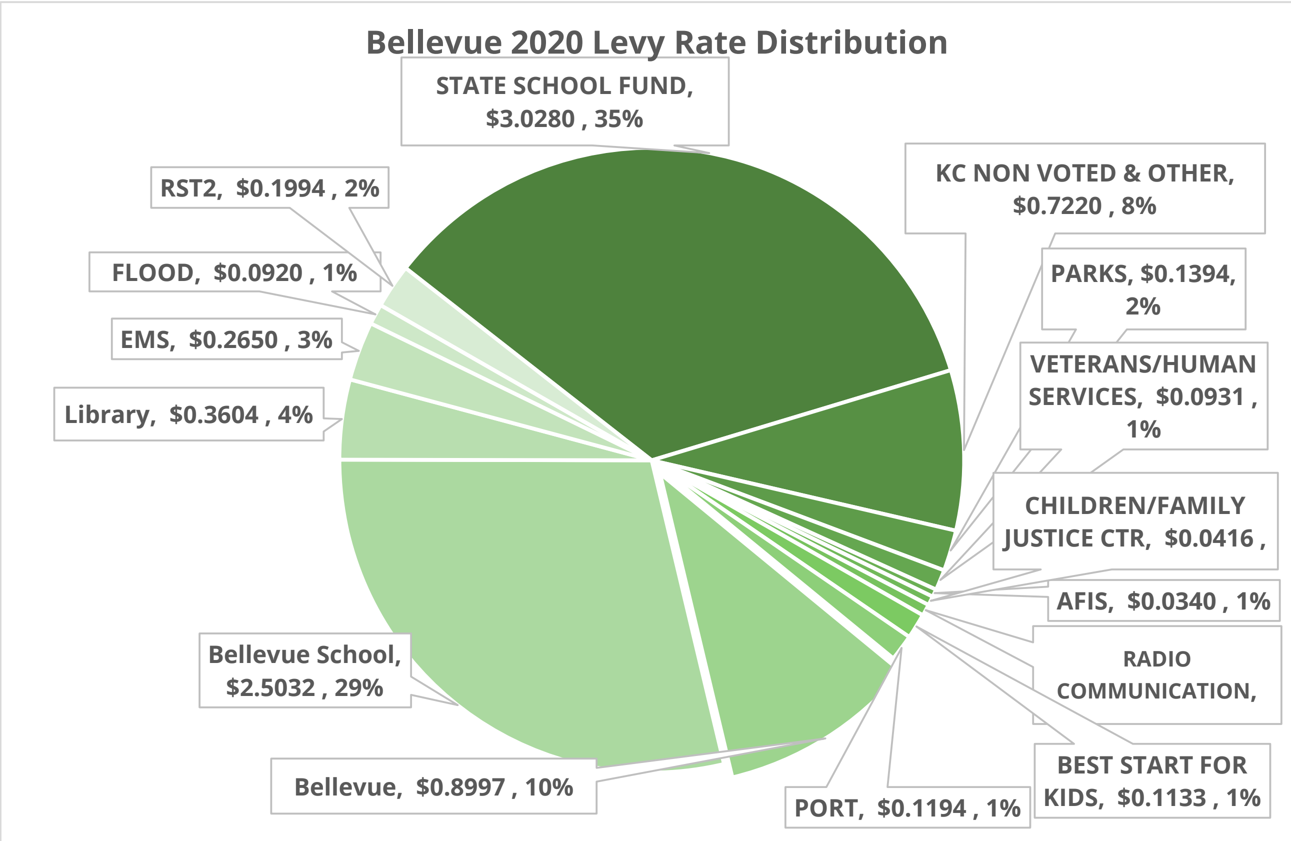
Property tax is applied to the assessed value (AV) of all taxable real and personal property located within the city, with several exceptions such as public structures (government buildings, roads, etc.), property owned by several types of non-profit organizations, personal property (up to a specified dollar value), and others.

Under Initiative 747, the regular levy can grow at a maximum of 1 percent annually or the rate of inflation, whichever is less plus additions for new construction, changes in the value of state-assessed utility property, and newly annexed property (referred to as “add-ons”). Inflation is defined as the increase in the implicit price deflator (IPD).

Bellevue’s property tax rate is one of the lowest in King County. The city’s 2020 property tax rate at $0.90 per $1,000 AV was roughly 10 percent of the most common total $8.71 rate paid by Bellevue property owners for all taxing jurisdictions such as King County, Washington State, and school districts. The 2020 property tax total and City of Bellevue tax obligations for a home of median assessed value ($936,000) in Bellevue is $8,149 and $842 respectively. Chart 12 shows the destinations of a typical Bellevue property owner’s property tax in 2020.

Due to the capped growth of property tax and its large share among all general fund revenues, the maximum of 1 percent plus new construction growth does not keep up with the growth rate of personnel and maintenance costs. This is the main fundamental problem in the tax structure that caused the imbalanced growth between general fund revenues and expenditures.

Chart 12



This forecast assumes a 1 percent statutorily available property tax adjustment in 2021 and another 1 percent in 2022. Bellevue currently has $9 million in banked capacity available. Currently, a 1 percent under-collection of property tax revenue is projected in 2021 as the economy and jobs recover from COVID. If the reopening of the economy takes longer, many of the temporary job losses could become permanent and the assumptions would need to be revised.

Utility Tax

Utility tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer, and stormwater. The utility tax share to total general fund revenue decreased from 17 percent to 14 percent from 2013 to 2019 and is projected to decrease further in out years.

- In the last few years, electric and natural gas utility tax collections have flattened out due to mild weather patterns. The tax collections are forecasted to continue to be flat for out years.
- Telephone and cellular phone taxes have been on the decline and are expected to decline further during the forecasted period due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.
- Water and sewer utility taxes have increased in the past three years due to longer and hotter summers; the forecast assumes mild increases for water and sewer utility taxes.
- One percent under-collection of utility tax revenue is projected in 2021 as the economy and jobs recover from COVID.

In response to COVID-19, the city halted water service disconnections and waived late fees for non-payment in early March 2020. Business customers may be eligible for payment plans. Overall COVID-19 impact on utility tax is projected to be relatively small outside of the normal course of business due to the relatively stable demand for utility services. If the reopening of the economy takes longer, many of the temporary job losses could become permanent and utility tax assumptions would need to be revised.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including excise taxes, sales tax annexation credit, penalty/interest delinquent tax, licenses and permits, intergovernmental – state and other cities, charges for goods and services, fines/forfeits, and other miscellaneous taxes and revenues. Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire, Emergency Management Services, etc.). See the Resource Summary section for more details on these revenues.

General Fund Expenditure Overview

The 2021-2026 general fund forecast includes cost containment made in the 2021-2022 budget, then continues funding for expenditure levels in 2023 and the following impacts described below.

Urbanization

Starting with the 2018 Mid-Biennium, the city's forecast includes a modest assumption of 0.3 percent growth in total expenditures for an increase in demand for services based on the continued urbanization of the city. The forecast includes a modest 0.3 percent growth in total expenditures ($668,000 in 2023) continuing and growing annually to 2026.

Fire Station 10
The forecast assumes new costs for the Fire Station 10 opening and staffing, including new apparatus and 13 staff. The chart below shows the costs for each year with a rethinking on the timing of opening Fire Station 10 for the forecasting period.

In '000s	2021	2022	2023	2024	2025	2026
FS 10 costs	$128	$1,650	$4,794	$2,886	$2,961	$3,042

Inflation
Inflation is estimated by the King County Office of Economic and Financial Analysis in August 2020 as follows:

2021	2022	2023	2024	2025	2026
1.0%	2.36%	2.62%	2.57%	2.62%	2.60%

Capital Investment Program Maintenance and Operations (CIP M&O)
While major maintenance and renovation projects are contained within the CIP, minor maintenance is funded with operating funds. The city has a policy that addresses funding for minor maintenance on existing infrastructure. As the city builds new infrastructure, there are limited mechanisms to ensure additional maintenance and operations funding for new facilities. Over time, this puts increasing pressure on the operating budget. In the 2021 to 2026 General Fund forecast, additional CIP M&O is assumed every year starting from 2023. The actual cost could vary depending on the actual completion date and maintenance cost.

In '000s	2023	2024	2025	2026
New Infrastructure M&O	$344	$351	$351	$351

General Fund Forecast

The 2021-2026 forecast includes the use of the councilmanic statutorily allowable 1 percent annual property tax increase in 2021 and 2022. Major tax components such as sales tax, business and occupation tax, or utility taxes are as forecasted in the sections above. Expenditures are forecasted as noted in the expenditure section above. The current forecast (see Chart 13) indicates that the general fund ending fund balance will maintain at 15 percent in 2021 and 2022. If nothing is done, the forecast shows that it is likely that expenditures will outstrip revenues starting in 2023 resulting in ending fund balance or reserves to drop below the Council policy of 15 percent (see Chart 14).

Chart 13
2021-2026 General Fund Forecast
(in $000)

	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026
Beginning Fund Balance	$38,397	$33,868	$33,928	$27,466	$19,968	$9,925
Revenue						
Property Tax	$39,814	$41,422	$41,945	$42,519	$43,100	$43,741
Sales Tax	53,579	58,705	58,449	60,591	63,110	65,864
Business & Occupation Tax	31,983	34,183	36,919	38,333	39,867	42,298
Utility Taxes	27,260	27,732	28,234	28,589	29,192	29,843
Miscellaneous Revenue	58,738	60,872	62,495	63,919	65,717	67,574
Total Revenue	$211,374	$222,913	$228,042	$233,951	$240,985	$249,319
%Δ Total Revenue	10.1%	5.5%	2.3%	2.6%	3.0%	3.5%
Expenditures						
Personnel	$133,162	$137,132	$143,340	$148,717	$154,385	$160,291
Maintenance & Operations	82,742	85,721	91,164	92,732	96,643	100,668
Total Expenditures	$215,904	$222,853	$234,504	$241,449	$251,027	$260,958
%Δ Total Expenditures	6.9%	3.2%	5.2%	3.0%	4.0%	4.0%
Revenue Less Expenses	**($4,529)**	**$61**	**($6,463)**	**($7,498)**	**($10,043)**	**($11,640)**
Ending Fund Balance	$33,868	$33,928	$27,466	$19,968	$9,925	($1,714)
EFB as a % of Revenue	**16.0%**	**15.2%**	**12.0%**	**8.5%**	**4.1%**	**-0.7%**

As displayed in Chart 14 on the following page, the city's ending fund balance is forecasted to be below 15 percent by 2023. Council financial policies require a 15 percent minimum ending fund balance.

As with all forecasts, this is the best estimate of the future, representing the collection of all fiscal information known as of October 2020. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/October (as related to the Preliminary Budget or Mid-Biennium Update before the council).

Notes:

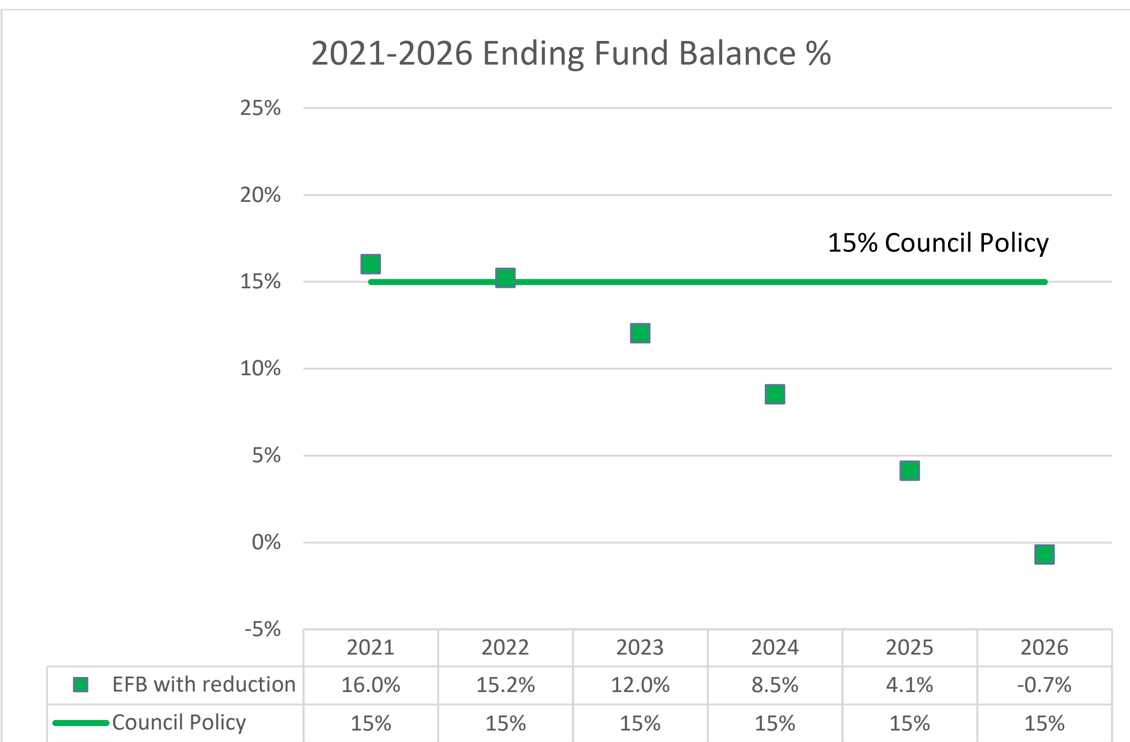
- This forecast includes Fire Station 10 impact and New Infrastructure M&O (in thousands).

	2021	2022	2023	2024	2025	2026
FS 10	$128	$1,650	$4,794	$2,886	$2,961	$3,042
New Infra. M&O			$344	$351	$351	$351

2021-2026 General Fund Financial Forecast

- Includes 1% property tax adjustment in both 2021 and 2022.
- Assumes Sales and B&O tax recover to the 2019 level through 2023.
- Assumes 1% delinquency in property and utility tax collections in 2021 due to certain level of permanent job loss.
- Annexation Sales Tax of approximately $1 million per year within miscellaneous revenue category expires in 2022.
- Assumes construction maintains the current level through 2022 and grows with King County new construction forecast.
- Includes low end sales tax growth from Bel-Red development.
- 2020 CPI-W is 1.0% as released by the Bureau of Labor Statistics on July 14, 2020.
- Assumes 2021-2024 CPI growth by King County's August 2020 forecast.
- Includes an urbanization factor of 0.3% of the total expenditure.
- Assumed New Business Growth revenue and modest staffing starting in 2023 through 2026.

Chart 14



Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2021-2026 forecast reflects a high level of development activity in the early years as several major projects are in review and construction phases of the development cycle. In response to the workload for development activity, Development Services added 6.0 FTE positions in the 2021-2022 budget to be hired as workload demands.
- In subsequent years, development activity is anticipated to return to a more moderate level, however, potential impacts to development from the COVID-19 pandemic create added uncertainty. This forecast assumes that while development may be impacted by economic uncertainty, projects currently in the review/inspection phase will be completed and development interest in Bellevue will continue.

Background

In the early forecast years, development activity continues at a high level with construction projects for office, retail and housing. However, activity is expected to slow to more moderate activity as economy struggles to open after the Covid-19 virus pandemic shutdown. Several large office and mixed-use developments currently in the plan review phase will move to construction with office development as the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue by 2025. Significant office projects are currently planned or under construction in all growth areas of the city.

Sound Transit's East Link light rail project is under construction along the entire alignment generating demand for inspection services. The light rail project is anticipated to spur long-term commercial and residential Transit-Oriented Development near light rails stations.

Single family applications are anticipated to remain steady in the early forecast period spurred on by continued low interest rates, low inventory, and high demand for housing. While tenant improvement projects have declined due to construction restrictions of the pandemic and uncertainty of office space demand, permit activity is anticipated to rebound, not only in the number of applications but in the value of projects represented by the applications.

The timing of construction for these projects will play a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of the East Link construction and an increasing number of major large development projects. In the 2021-2022 budget, an additional 6.0 FTE were added in anticipation of continued demand for review/inspection work.

For 2021 rates reflect an increase of 1% to 4% depending on type to reflect increases in costs to personnel, operations, and overhead.

2021-2026 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q2 2020 was 4.0%, up by 0.4% from Q4 2019. Several new office buildings were fully leased prior to completion keeping the vacancy rate low. Construction of additional office buildings during this development cycle is in response to low vacancy, however, there is uncertainty around future demands for office space as companies evaluate more expansive and long-term teleworking options for their employees.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to be higher than the previous year, mainly a result of the timing of projects. Construction investment for major projects is a significant driver in the forecast and is anticipated to stay high in the early years, with an expected decline in the latter years of the forecast. Strong demand also continues for single family and multi-family housing, and single family alterations.

The number of land use design review applications remains consistent with prior years indicating interest in future development in Bellevue continues. However, the pace of development is anticipated to decline in the latter years of the forecast as Bellevue moves through a downturn in the development cycle.

Due to the variables included, the early forecast years reflect revenue collections for several new major projects, with reductions in revenue collections through the latter years.

Development Services Fund
2021-2026 Financial Forecast
(in $000)

	2021	2022	2023	2024	2025	2026
Beginning Fund Balance	**$31,432**	**$26,735**	**$21,861**	**$19,690**	**$17,897**	**$16,574**
Resources:						
Building Fees	$11,683	$11,603	$12,764	$13,083	$13,436	$13,799
Land Use Fees	$1,913	$1,841	$1,933	$1,981	$2,035	$2,090
Fire, Transp. & Utilities Fees	$7,236	$7,428	$7,614	$7,804	$8,015	$8,232
sub: Dev Svcs Fees	$20,833	$20,873	$22,311	$22,868	$23,486	$24,120
Gen Fund Subsidy	$5,009	$5,139	$5,191	$5,243	$5,384	$5,530
Other Revenue/Interest	$510	$515	$567	$581	$596	$612
Total Resources	**$26,351**	**$26,527**	**$28,068**	**$28,692**	**$29,467**	**$30,262**
Expenditures:						
Building	$12,230	$12,510	$11,368	$11,424	$11,539	$11,654
Land Use	$3,570	$3,653	$3,568	$3,603	$3,639	$3,676
Fire, Transp. & Utilities	$6,476	$6,536	$7,043	$7,114	$7,185	$7,257
Policy & Code Compliance	$2,319	$2,373	$2,397	$2,421	$2,445	$2,470
Administrative/Shared Costs	$5,357	$5,480	$5,535	$5,590	$5,646	$5,702
Technology/Facility Initiatives	$1,096	$848	$329	$332	$336	$339
Total Expenditures	**$31,048**	**$31,401**	**$30,239**	**$30,485**	**$30,790**	**$31,098**
Ending Fund Balance	**$26,735**	**$21,861**	**$19,690**	**$17,897**	**$16,574**	**$15,739**

Forecast Drivers and Assumptions

1. The recent announcement by Amazon to move up to 25,000 employees into the downtown is a significant driver for new office development and additional amenities in the downtown.

2. Several major mixed-use development projects (1001 Office Towers, Block 24, GIS Plaza, and 555 108th Towers) are under construction in the early years of the forecast. Residential and senior housing development continues with construction of several apartment, townhome and senior living projects including Holden of Bellevue and Bellevue Memory Care.

3. New project activity continues as several currently in the review process (Bellevue Plaza Phase 1 and 2, Mira Phase II – Residential, and Northup Way Mixed Use) are expected to begin construction in early forecast years. Tenant improvements of new office buildings will also continue, however, in later forecast years, growth is anticipated at a more moderate rate.

4. The forecast reflects an additional 6.0 FTEs that will be filled as workload demand warrants. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload and maintain service levels, and to maintain budget alignment.

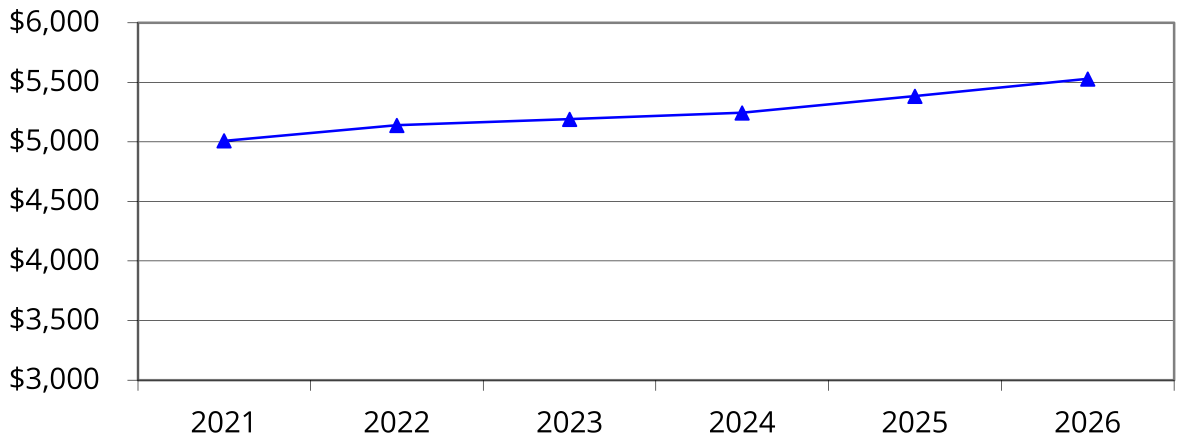
5. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by the Council. This forecast assumes that rates will grow at levels near the average rate of inflation.

6. Council continues to review land use codes that are pertinent to the future growth in Bellevue, including areas around or in the Downtown and other subareas. Affordable housing continues to be an area of focus and priority for the Council.

General Fund Subsidy

The General Fund contribution to the Development Services Fund supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, code and policy development, and approximately 50% of Land Use discretionary review.

General Fund Subsidy Forecast 2021-2026
($ in Thousands)



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period for code and policy development, and land use permit review. In later years, the contribution grows by inflation factors, consistent with projections for staff and operating costs.

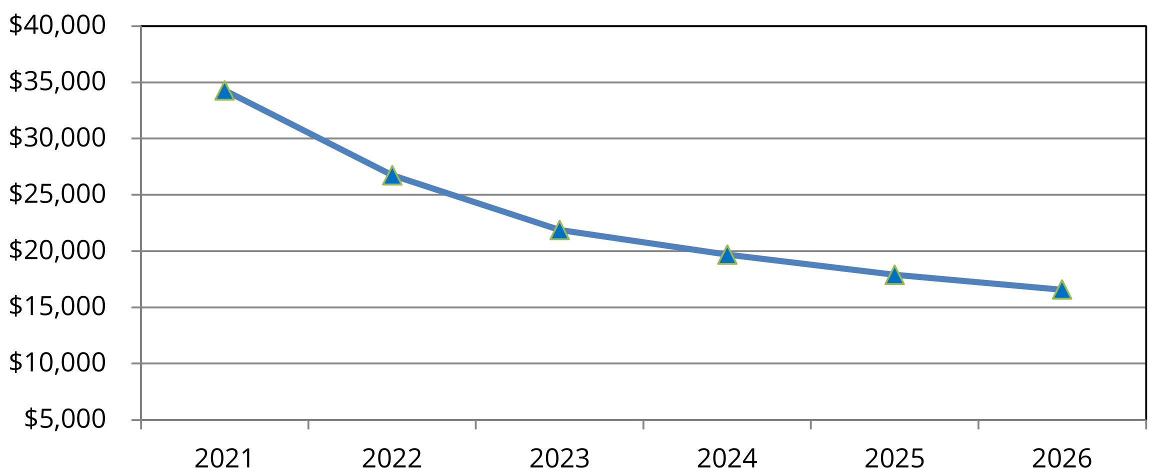
Development Services Fund Reserves

The Development Services Fund includes prepaid fees and reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund level is forecast at approximately $33 million through 2020, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level declines through the forecast years as reserves are drawn upon to maintain enough staff to complete the review and inspection of projects in construction and continue process improvement work.

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.

Development Services Fund Balance Forecast 2021-2026
($ in Thousands)



2021-2026 Financial Forecast
Parks Enterprise Fund

Executive Summary

- The Parks Enterprise Fund financial forecast reflects the anticipated loss of program revenue due to the COVID-19 pandemic from March 2020 through approximately June 2021. While Bellevue Golf Course revenues have remained near historic levels, facility closures due to the Washington Safe Start Plan and ongoing social distancing requirements are expected to negatively impact Aquatics, Tennis, and Facility Rental revenues into 2021.
- The Parks Enterprise Fund reserves are estimated to decline to approximately $0.4M at the end of 2021, and then gradually recover over the remainder of the forecast period. Transfers for golf course capital improvements are expected to be paused from 2020-2022 due to lower than targeted reserve levels in the Parks Enterprise Fund.

Background

The Parks Enterprise Fund accounts for the services provided by the Enterprise Program within the Parks & Community Services Department. These services include golf, tennis, aquatics, adult sports and facility rentals. Enterprise Programs are fully supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves are projected to decline from $1.5M at the beginning of 2020 to a low of $0.4M at the end of 2021 due to the anticipated revenue loss from the COVID-19 pandemic. Reserve levels gradually recover during the remainder of the forecast period and return to the targeted reserve policy of 2-month operating expenses or $1.3M by 2026. As the economy continues to recover, transfer of funds may be needed to ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-2), including capital projects at the Bellevue Golf Course to enhance player services and the financial performance of the course. The annual capital transfer of approximately $0.1M to the CIP is expected to be paused from 2020-2022 due to lower than targeted reserve levels in the Parks Enterprise Fund.

Parks Enterprise Fund
2021-2026 Financial Forecast
(In $000)

	2021 Adopted Budget	2022 Adopted Budget	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Resources:						
Beginning Fund Balance	$807	$423	$620	$751	$923	$1,096
Program Revenue	5,858	6,926	7,168	7,419	7,642	7,871
General Fund Subsidy	0	0	0	0	0	0
Total Resources	**$6,666**	**$7,349**	**$7,788**	**$8,170**	**$8,565**	**$8,967**

	2021 Adopted Budget	2022 Adopted Budget	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Expenditures:						
Personnel	$1,988	$2,035	$2,109	$2,182	$2,261	$2,342
M&O	2,841	3,244	3,323	3,400	3,482	3,566
Interfund Transfer	1,413	1,449	1,501	1,554	1,610	1,668
Capital Transfer	0	0	105	110	116	122
Total Expenditures	**$6,243**	**$6,729**	**$7,038**	**$7,247**	**$7,468**	**$7,698**
Reserves:						
Ending Fund Balance	**$423**	**$620**	**$751**	**$923**	**$1,096**	**$1,269**

Note: Columns may not total due to rounding.

2021-2026 Utility Rates Forecast
Utilities Funds

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

The Utilities Department operates as an enterprise within the City structure and functions much like a private business entity.

- *This forecast supports a prudent, balanced, and responsible budget to sustain high-quality utility services to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.*
- *Rates are the primary source of funding for utility functions. Rates are designed to generate sufficient revenues to fund Utilities 2021-2022 budget, including funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term infrastructure renewal and replacement (R&R) requirements.*
- *COVID-19 is anticipated to impact utility revenues in 2021-2022. The Department's goal is to address these impacts by containing costs that are within its control and using R&R reserves to fund a portion of CIP needs. To mitigate customer impacts, no rate increases are proposed for local operations in this biennium.*
- *Key drivers for rate increase in the 2021-2022 biennium are regional cost increases for water supply and wastewater treatment, and investments in the City's critical utility infrastructure.*

The Utilities Department faces the following key challenges and constraints in the 2021-2022 biennium:

1. **Key Challenges**
    a. COVID-19 Financial Impact. COVID-19 is anticipated to impact utility revenues in this biennium. Recognizing that COVID-19 is a dynamic situation, the Utilities Department's goal is to address these impacts by containing costs that are within its control and using available reserves. To mitigate customer impacts, the Department is not proposing rate increases for local operations and have lowered planned contributions to the capital infrastructure R&R account in the 2021-2022 biennium.
    b. Aging Capital Infrastructure. Utilities operates a highly capital-intensive business, and the Department's ability to deliver quality services to its customers is dependent on the ability of each system to function on demand, every day of the year.
    c. Supporting Economic Growth. Additional utility infrastructure is needed to

support development and economic growth.

   d. Operational Efficiency: We are mindful of the need to operate efficiently and continually evaluate business processes to seek opportunities to effectively deliver services in the most cost-effective manner.

2. **Constraints**
   a. External Financial Obligations. Half of Utilities' operating costs represent legal and contractual financial obligations, including wholesale costs for water supply and wastewater treatment, tax payments to the State and cities, and support service charges from the General Fund.
   b. Legal Mandates. Utilities must comply with State and Federal mandates, such as the National Pollution Discharge Elimination System (NPDES) Municipal Stormwater Permit, to protect drinking water and surface water quality.

Within this context, the proposed 2021-2022 Utilities budget was prepared with the following guiding principles to support City Council strategic direction by:

1. Supporting the City's economic development;
2. Protecting the built and natural environment; and
3. Being a high performance government by:
   a. Complying with Council-adopted financial policies;
   b. Maintaining a long-term view;
   c. Leveraging innovation and technology to achieve efficiencies;
   d. Minimizing impacts to customers;
   e. Preserving Utilities' financial sustainability; and
   f. Addressing COVID-19 financial impacts in a manner that minimizes impacts to Utilities' customers and service delivery.

2021-2022 UTILITY RATES

The following table summarizes the rate adjustments necessary to support the 2021-2022 budget for the water, sewer, and storm and surface water utilities by rate drivers.

2021-2026 Utility Rates Forecast
Utilities Funds

	WATER		SEWER		STORM		TOTAL	
	2021	2022	2021	2022	2021	2022	2021	2022
Wholesale	**1.7%**	**0.9%**	**3.2%**	**3.0%**	**0.0%**	**0.0%**	**2.2%**	**1.8%**
Local								
CIP/R&R	0.0%	2.1%	0.6%	1.3%	2.0%	2.9%	0.6%	1.7%
Taxes/Interfunds	1.8%	0.5%	0.3%	0.2%	1.5%	0.4%	1.0%	0.4%
Operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Local subtotal	**1.8%**	**2.6%**	**0.9%**	**1.5%**	**3.5%**	**3.3%**	**1.6%**	**2.1%**
Total Rate	**3.5%**	**3.5%**	**4.1%**	**4.5%**	**3.5%**	**3.3%**	**3.8%**	**3.9%**

The total monthly utility bill for the typical single-family residential customer for water, sewer, and storm and surface water services is $183.05 in 2020. With the above rate increases, the total monthly utility bill for the typical single-family resident would increase by 3.8% or $6.91 in 2021 and 3.9% or $7.48 in 2022. See Attachment A (*2021-2022 Utilities Rates Forecast - Typical Residential Monthly Utility Bill Rate Drivers*) for additional information.

The following section provides further detail on the key rate drivers for the 2021-2022 Utilities budget.

Payments to External Service Providers

Wholesale Costs

The single largest cost center for the Utilities Department is wholesale costs, which include payments to the Cascade Water Alliance (Cascade) for water supply and regional capital facility charges, and payments to King County for wastewater treatment. Combined, these expenses total $123.2 million for the 2021-2022 biennium, or approximately 38% of the total Utilities Department budget.

Payments to Cascade for water supply are projected to increase from $21.4 million in 2020 to $22.0 million in 2021 and $22.4 million in 2022. This translates into rate increases of 1.7% and 0.9% for Bellevue customers in 2021 and 2022, respectively.

Payments to King County for wastewater treatment are projected to increase from $34.5 million in 2020 to $36.1 million in 2021 and $37.8 million 2022. This translates into rate increases of 3.2% and 3.0% for Bellevue customers in 2021 and 2022, respectively.

To ensure local operations and the CIP are not degraded, consistent with Council-adopted financial policy, wholesale cost increases are passed through to the customer.

Local Costs

CIP / R&R

Outside of wholesale costs, the next largest cost driver for the Utilities Department is the CIP and the cost to renew and replace infrastructure in the future. These investments total approximately $95.2 million for the 2021-2022 biennium, or 30% of the total Utilities Department budget. Utilities infrastructure has a replacement value of over $3.5 billion, and most of the systems are well past mid-life. As a result, the systems used to deliver water, convey wastewater, and manage stormwater runoff are experiencing more failures, and the cost to maintain, operate, rehabilitate, and replace this infrastructure is increasing. To minimize costs and optimize system integrity, the Utilities Department has a strategic 75-year asset management plan to systematically fund the renewal and replacement of these assets. Consistent with Council-adopted financial policy, this long-term funding strategy is designed to smooth future rate increases and achieve intergenerational equity.

The Utilities 2021-2027 CIP includes the following investments:

- **Aging infrastructure**: $192.9 million, or 82% of the proposed CIP, is for investments to renew and replace aged infrastructure such as pipes, reservoirs, and pump stations. Examples of projects include small diameter water main replacements ($81.3 million), water reservoir rehabilitation ($23.4 million), sewer system pipeline major repairs ($25.7 million), sewer pump station improvements ($15.3 million), sewer pipeline replacements ($5.7 million), and storm system conveyance repairs and replacements ($13.1 million).
- **Environmental preservation:** $27.7 million, or 12% of the proposed CIP, is for environmental preservation and flood protection projects. Example projects include the storm system flood control program ($9.5 million), and Factoria Blvd. stormwater conveyance improvement project ($9.3 million).
- **Capacity for growth:** $7.0 million, or 3% of the proposed CIP, is to increase utility system capacity to accommodate growth. Example projects include water storage availability for downtown ($4.1 million), and new water facilities for the NE Spring Blvd. Corridor ($2.9 million).
- **Maintain service delivery:** $8.0 million, or 3% of the proposed CIP, is funding to build an additional operational facility to maintain service delivery to the community.

Total funding for current and future capital infrastructure needs will require rate increases of 0.6% and 2.0% in 2021 in the sewer and storm utilities, respectively, and no rate increase is proposed for the water utility. In 2022, rate increases of 2.1%, 1.3% and 2.9%

are required in the water, sewer, and storm utilities, respectively.

Taxes/Internal Service Provider Payments
As an enterprise fund, Bellevue Utilities pays state and city taxes, and pays the general fund for support services. Taxes and interfund payments for support services total approximately $49.4 million for the 2021-2022 biennium, or 15% of the total Utilities Department budget. Tax payments are based upon the amount of revenue collected and the tax rates assessed by the state and cities. No changes to the state and city tax rates are assumed in the proposed budget, except for an increase in the state B&O tax rate. Cost increases in taxes and interfund payments will require rate increases of 1.8%, 0.3% and 1.5% in 2021 in the water, sewer, and storm utilities, respectively. In 2022, rate increases of less than 1% are required in each utility.

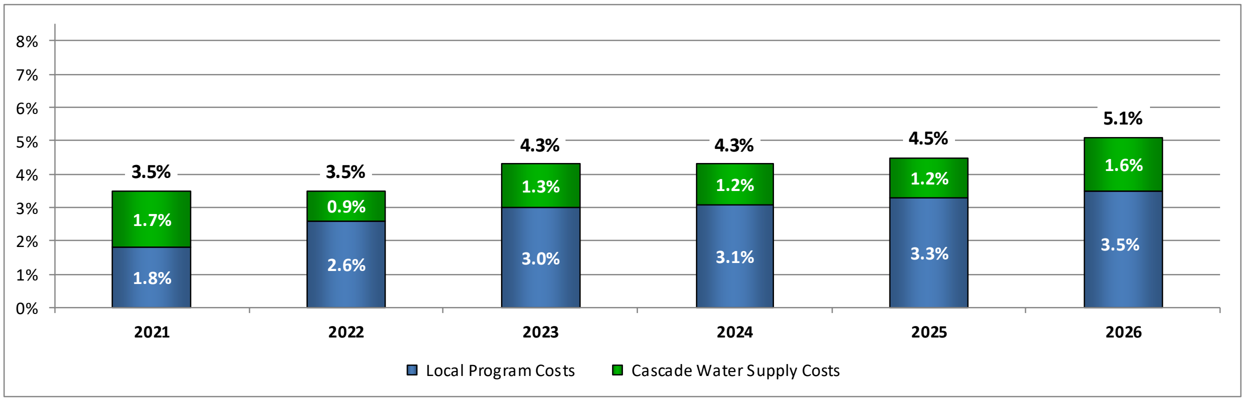
Operations
Operating costs include personnel, supplies, professional services, and other costs necessary to carry out the daily functions of maintaining and operating the water, sewer, and storm and surface water utilities. Operating costs total approximately $54.0 million for the 2021-2022 biennium, or 17% of the total Utilities Department budget. Fiscal stewardship through operational efficiency and prudent management of utility financial resources is a high priority for Utilities leadership. As a result, no rate increases are proposed in this biennium to support local operations in each utility.

2021-2026 Rates Forecast
The following pages provide a more in-depth discussion of the individual rate drivers and forecasted rate adjustments through the year 2026 for the water, sewer, and stormwater utilities.

2021-2026 Utility Rates Forecast
Utilities Funds

WATER UTILITY FUND
2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2021	2022	2023	2024	2025	2026
Prior Year Bill	$69.77	$72.21	$74.74	$77.95	$81.30	$84.96
Increase:						
Cascade Wholesale Purchased Water	1.19	0.65	0.97	0.94	0.98	1.36
Local	1.25	1.88	2.24	2.41	2.68	2.97
Total	$2.44	$2.53	$3.21	$3.35	$3.66	$4.33
Projected Bill	$72.21	$74.74	$77.95	$81.30	$84.96	$89.29

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

  Drinking water for Bellevue is purchased from the Cascade Water Alliance (Cascade). The cost for water supply is established by Cascade. Cascade's wholesale costs to the City of Bellevue is projected to increase by 3.0% in 2021 and 1.6% in 2022. This translates into rate increases of 1.7% and 0.9% for Bellevue customers in 2021 and 2022, respectively. The monthly bill for a typical residential customer will increase by $1.19 in 2021 and $0.65 in 2022 to pay for water supply costs from Cascade. Per council-adopted policy, increases in the cost of purchased water are passed directly through to the ratepayer. Beyond 2022, the rate impact to Bellevue customers will average 1.3% per year for 2023 through 2026.

- **Capital Program**

  The projected 2021-2027 water CIP includes $135.1M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program ($125.5M) will be invested to replace existing aging infrastructure. Key CIP projects include water main replacement and reservoir rehabilitations. In order to minimize impacts to customers, the water utility is planning to use R&R reserves to fund a portion of CIP needs in 2021. As a result, no rate increase is proposed in 2021. An increase of 2.1% is required in 2022 to maintain steady investments in critical water infrastructure. The monthly bill for a typical residential customer will increase by $1.52 in 2022 to pay for capital investment needs. Beyond 2022, the rate impact to Bellevue customers will average 1.7% per year for 2023 through 2026.

- **Taxes/Interfunds**

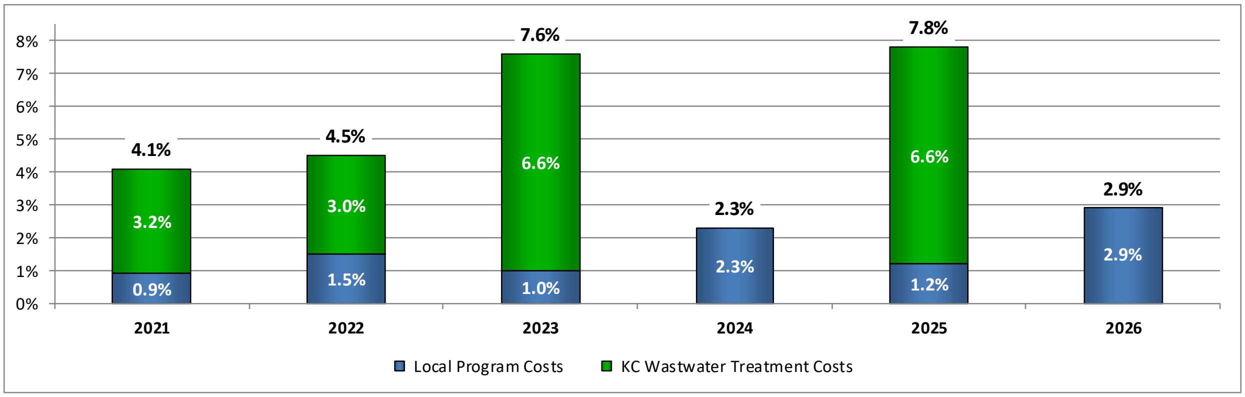
  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. Rate increases of 1.8% in 2021 and 0.5% in 2022 are needed to fund these costs. The monthly bill for a typical residential customer will increase by $1.25 in 2021 and $0.36 in 2022 to pay for taxes and support services. Beyond 2022, the rate impact to Bellevue customers will average 0.8% per year for 2023 through 2026.

- **Operations**

  Operating costs include personnel, supplies, professional services, and other costs necessary to operate and maintain the utility. Due to cost containment measures, no rate increases are proposed for local operations in 2021 and 2022. Beyond 2022, rate increases of approximately 0.7% per year are needed to fund local operations for 2023 through 2026.

SEWER UTILITY FUND
2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2021	2022	2023	2024	2025	2026
Prior Year Bill	$85.47	$88.97	$92.97	$100.04	$102.34	$110.32
Increase:						
KC Wastewater Treatment	2.74	2.67	6.14	0.00	6.75	0.00
Local	0.76	1.33	0.93	2.30	1.23	3.20
Total	$3.50	$4.00	$7.07	$2.30	$7.98	$3.20
Projected Bill	$88.97	$92.97	$100.04	$102.34	$110.32	$113.52

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

  Wastewater treatment services for Bellevue are purchased from King County. The wholesale wastewater treatment rate is established by the County. King County wholesale costs to the City of Bellevue is projected to increase by 4.5% in 2021 and 4.5% in 2022. This translates into rate increases of 3.2% and 3.0% for Bellevue customers in 2021 and 2022, respectively. The monthly bill for a typical residential customer will increase by $2.74 in 2021 and $2.67 in 2022 to pay for wastewater treatment costs from King County. Per council-adopted policy, increases in the cost of wastewater treatment are passed directly through to the ratepayer. Beyond 2022, the rate impact to Bellevue customers will average 3.3% per year for 2023 through 2026.

- **Capital Program**

  The projected 2021-2027 sewer CIP includes $58.0M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program ($52.6M) will be invested to replace existing aging infrastructure. Key CIP projects include sewer pipeline major repairs and replacements, and sewer pump station improvements. Rate increases of 0.6% and 1.3% are required in 2021 and 2022, respectively, to maintain steady investments in critical sewer infrastructure. The monthly bill for a typical residential customer will increase by $0.51 in 2021 and $1.15 in 2022 to pay for capital investment needs. Beyond 2022, the rate impact to Bellevue customers will average 1.2% per year for 2023 through 2026.

- **Taxes/Interfunds**

  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. Rate increases of 0.3% in 2021 and 0.2% in 2022 are needed to fund these costs. The monthly bill for a typical residential customer will increase by $0.25 in 2021 and $0.18 in 2022 to pay for taxes and support services. Beyond 2022, the rate impact to Bellevue customers will average 0.3% per year for 2023 through 2026.

- **Operations**

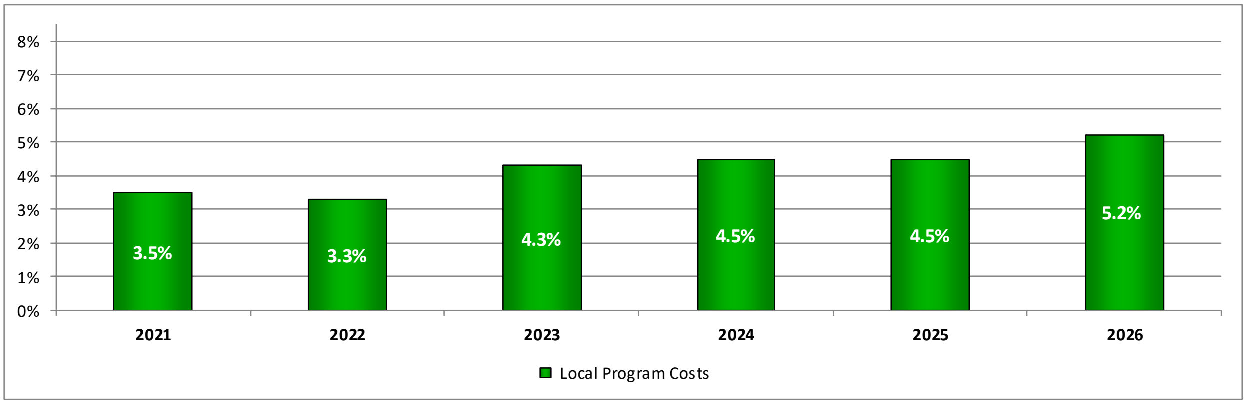
  Operating costs include personnel, supplies, professional services, and other costs necessary to operate and maintain the utility. Due to cost containment measures, no rate increases are proposed for local operations in 2021 and 2022. Beyond 2022, rate increases of approximately 0.4% per year are needed to fund local operations for 2023 through 2026.

2021-2026 Utility Rates Forecast
Utilities Funds

STORM AND SURFACE WATER UTILITY FUND

2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2021	2022	2023	2024	2025	2026
Prior Year Bill	$27.81	$28.78	$29.73	$31.01	$32.41	$33.87
Increase	$0.97	$0.95	$1.28	$1.40	$1.46	$1.76
Projected Bill	$28.78	$29.73	$31.01	$32.41	$33.87	$35.63

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

  The storm and surface water fund does not have a wholesale component. All functions of storm and surface water management are performed locally by the City of Bellevue.

- **Capital Program**

  The projected 2021-2027 stormwater CIP includes $42.4M in investments. Of this amount, $27.7M is for environmental preservation, including projects to mitigate flood hazards, provide fish passage, and improve streams. The remaining stormwater CIP is for aging infrastructure needs. Rate increases of 2.0% and 2.9% are required in 2021 and 2022, respectively, to maintain steady investments in critical stormwater infrastructure. The monthly bill for a typical residential customer will increase by $0.56 in 2021 and $0.83 in 2022 to pay for capital investment needs. Beyond 2022, the rate impact to Bellevue customers will average 2.4% per year for 2023 through 2026.

- **Taxes/Interfunds**

  As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. Rate increases of 1.5% in 2021 and 0.4% in 2022 are needed to fund these costs. The monthly bill for a typical residential customer will increase by $0.41 in 2021 and $0.12 in 2022 to pay for taxes and support services. Beyond 2022, the rate impact to Bellevue customers will average 0.6% per year for 2023 through 2026.

- **Operations**

  Operating costs include personnel, supplies, professional services, and other costs necessary to operate and maintain the utility. Due to cost containment measures, no rate increases are proposed for local operations in 2021 and 2022. Beyond 2022, rate increases of approximately 1.6% per year are needed to fund local operations for 2023 through 2026.