



Phone: 425-452-7863
Date: April 19, 2021
To: Mayor Lynne Robinson and City Council Members
From: Toni Call, Director of Finance & Asset Management
Subject: 2020 Year End Budget Monitoring Report

Attached is the 2020 Year End Budget Monitoring Report for the period ending December 31, 2020. The impacts of COVID-19 are constantly evolving. Since this report is as of the end of the year, it does not reflect the notable fluidity in the national and local economies taking place in early 2021. This report presents the 2020 fiscal status for the city's major funds including the General, General Capital Investment Program (CIP), Development Services, and Utilities Operating and CIP Funds.

Notable items:

- Due to COVID-19 related economic events, the General Fund experienced a revenue loss of 11 percent (\$24 million, rounded) in 2020. Early in the pandemic, the city planned and initiated mitigation strategies to manage the shortfall. The strategies outlined below had a cumulative impact of \$19 million (rounded). To balance 2020, \$4.5 million of general fund reserves were used. The General Fund reserve level remains in excess of the 15 percent policy.
- Mitigation strategies totaling \$19M:
 - Underspending: In April 2020, the city implemented a 3 percent savings target for all departments to intentionally reduce spending. Strategies included eliminating all non-necessary travel and training, and other discretionary costs, and implementing a hiring freeze for non-essential personnel. Overall, the city exceeded the 3% savings target by \$4.4 million, for a total savings of \$11.4 million.
 - Health Benefit Holiday: The city, with the agreement of labor, utilized excess reserves in the Health Benefits Fund to provide a 3-month premium holiday which saved \$3.6 million within the General Fund. The premium holiday allowed both the city and the employees to not contribute premiums for the final 3 months of 2020. The reserve level in the Health Benefits fund remains within policy as agreed to with labor.
 - CARES Act: The city received \$6.5 million in CARES Act funding from the Washington State Department of Commerce. Of this, approximately \$4.1 million was used to reimburse COVID-19 related expenditures that the city incurred.
- Due to strong REET collection in 2020, CIP major tax revenues were 6.3 percent above budget, despite lower sales tax and B&O collections. CIP expenditures were \$116.3 million, approximately 38.4 percent of available budget.

Please feel free to contact me at 425-452-7863 with any questions you may have.

Attachment

2020 Year End Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through December 31, 2020

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program (CIP) Fund, Development Services Fund and the Utilities Operating and CIP Funds.

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

The impacts of COVID-19 placed the city, as well as the global economy, in uncharted territory. The city actively managed and took fiscally responsible actions to respond to the COVID-19 impact in 2020. 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 December 2020.

U.S. Economy

The U.S. continues to recover from the economic impacts of the COVID-19 pandemic that began in early 2020. Real gross domestic product (GDP) increased at an annualized rate of 4.1 percent in the fourth quarter of 2020 (Source: Bureau of Economic Analysis). Inflation rates remained low despite increased growth in the recovering economy. As of December 2020, the 12-month CPI-U was 1.4 percent, lower than the 2.3 percent increase seen in 2019. (Source: U.S. Bureau of Labor Statistics).

The unemployment rate continued to trend downwards as states proceeded with reopening plans. As of December, the national unemployment rate stood at 6.5 percent (Source: U.S. Bureau of Labor Statistics). While this is down from the peak unemployment rate of 14.4 percent in April 2020, unemployment remains significantly higher than pre-pandemic levels. Nationwide jobs growth slowed in Q4, with December showing a net loss of 306,000 jobs (Source: U.S. Bureau of Labor Statistics). As of December 2020, the U.S. economy has lost approximately 10 million jobs since the start of the pandemic. (Source: Federal Reserve).

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%
- Negative variance of 1-4%
- Negative variance of > 4%

The pace of economic recovery depends on the public health response to COVID-19 paired with fiscal support from the federal government. Nationwide distribution of the Moderna and Pfizer COVID-19 vaccines began in December 2020. As of December 30, 2020, approximately 2.7 million doses of the vaccine were administered (Source: Centers for Disease Control and Prevention). On December 27, 2020, Congress and the President passed the Consolidated Appropriations Act of 2021, which provided direct payments of \$600 to individuals, extended enhanced unemployment benefits through March 2021, and earmarked \$284 billion in forgivable Paycheck Protection Program (PPP) loans for small businesses. While the future economic impacts of COVID-19 remain uncertain, widespread vaccine distribution paired with fiscal stimulus is expected to strengthen the U.S. economic recovery (Source: OECD).

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2020

Regional Economy

During the year-end holiday season, Governor Jay Inslee urged Washington residents to cancel plans for get-togethers to ease the surge of COVID-19 cases. In addition to the Safe Start Washington modified phase II restrictions, the new restrictions impacted the unemployment rate for the Greater Seattle area, causing unemployment to increase from 5 percent in November to 7.2 percent in December 2020 (Source: U.S. Bureau of Labor Statistics).

Based on a BLS survey of businesses and governments, the Greater Seattle area lost an estimated 136,000 non-farm jobs from December 2019 through December 2020. The majority of the losses came from the leisure and hospitality sector (70,000 job losses), as stay-at-home orders and social distancing kept consumers away from restaurants and other recreational activities. Other negatively impacted sectors include manufacturing, government, education and health services (Source: U.S. BLS, Current Employment Statistics). At the other end of the spectrum, industries such as information and professional services maintained or even expanded employment over the year, insulated by the ability to establish telecommuting arrangements for their workforces (Source: Washington State Employment Security Department).

Residential housing markets continued to experience steady demand, driven by low inventories and low interest rates. On the other hand, commercial construction and leases slowed down in the Puget Sound area due to reduced demand (Source: Colliers International Research & Forecast Report Puget Sound Region)

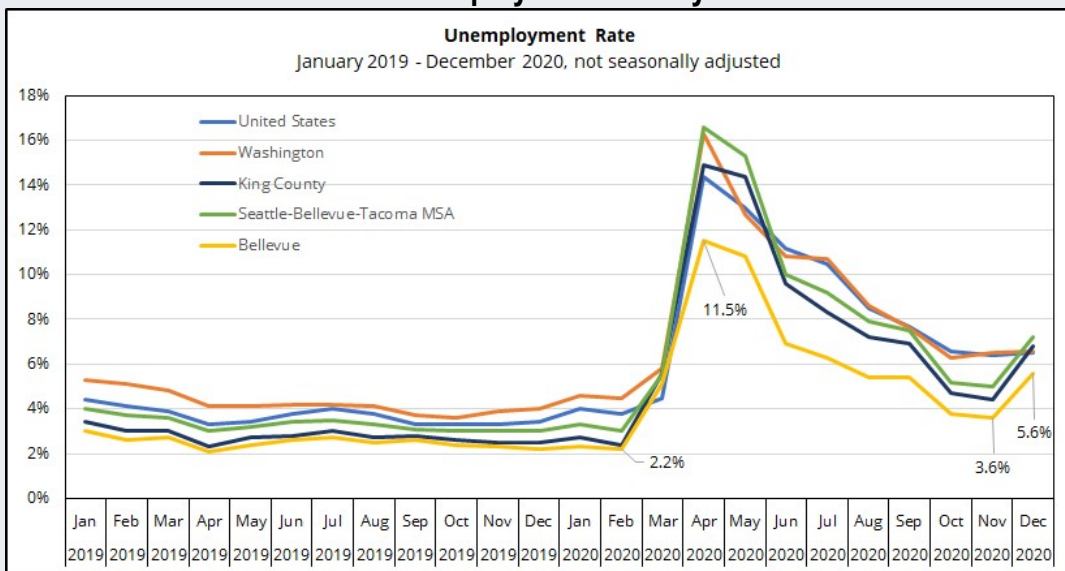
Bellevue Economy

Like the nation and the region, the City of Bellevue was impacted significantly by COVID-19. Sales and B&O taxes, which are two major revenue sources for the city, declined significantly due to COVID-19 impacts on the retail, food, and accommodation sectors. However, other business sectors in the city performed strongly - particularly the construction, information, and professional services sectors - despite the pandemic, as employees were able to continue work on-site or at home.

At the end of 2020, the construction sector ranked as the top contributor to tax revenues. Through December 2020, 31 major projects were issued, totaling just under one million square feet. Major projects issued in 2020 include 555 108th Ave NE Towers, Bellevue Plaza, and 1001 Office Towers. (Source: Development Services Q4 2020 Snapshot).

Bellevue's labor market continued to improve from peak unemployment levels in April. The unemployment rate stood at 5.6 percent in December 2020, up 2 percent from November due to the statewide restrictions enacted on November 15th. Though the unemployment rate remained above the pre-COVID-19 level of 2.2 percent in December 2019, it is still trending lower compared to King County, the Greater Seattle metropolitan area, and the State of Washington (Source: U.S. BLS, Employment Security Department of Washington State).

2019-20 Unemployment Rate by Month

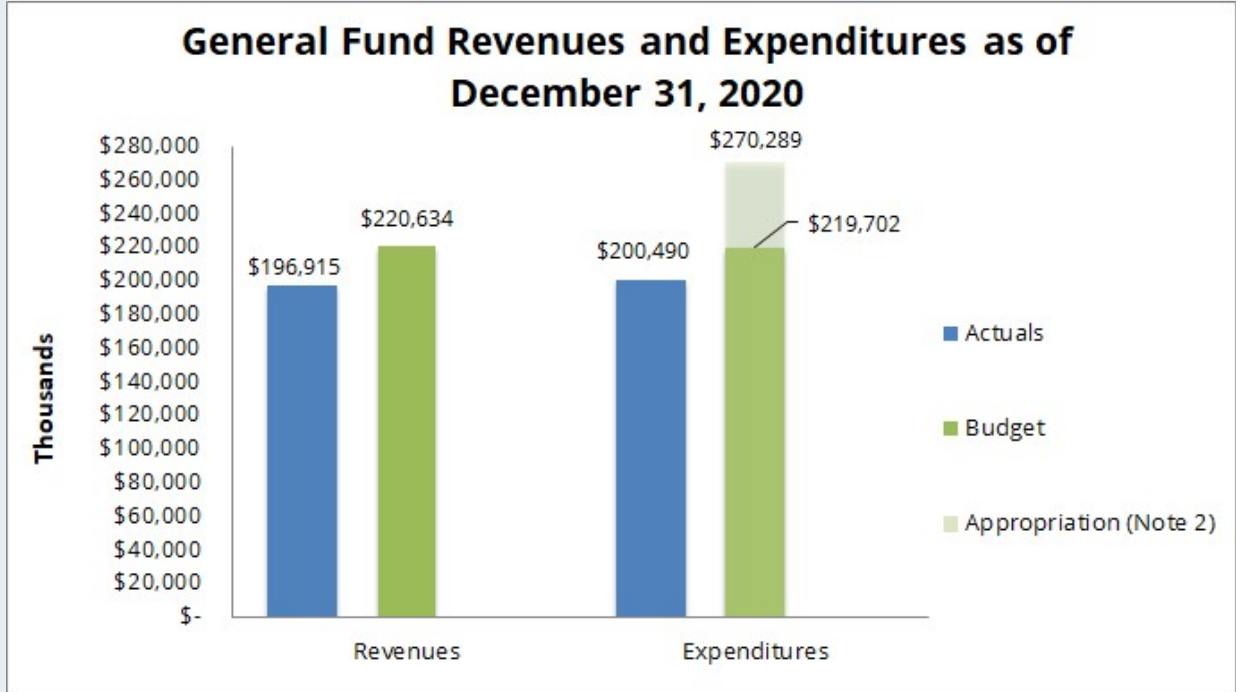


Sources: Washington State Employment Security Department; U.S. Bureau of Labor Statistics

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2020

GENERAL FUND PERFORMANCE



Note 1: The above graph illustrates the difference between year-to-date revenue collections and expenditures through December, 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 below budget by \$24 million as of year-end. Collections of sales tax and B&O tax (Business and Occupation Tax) were significantly below budget due to the Stay Home, Stay Healthy order and the Safe Start guidelines in response to COVID-19, which led to business closures and reduced consumer spending.

Expenditures

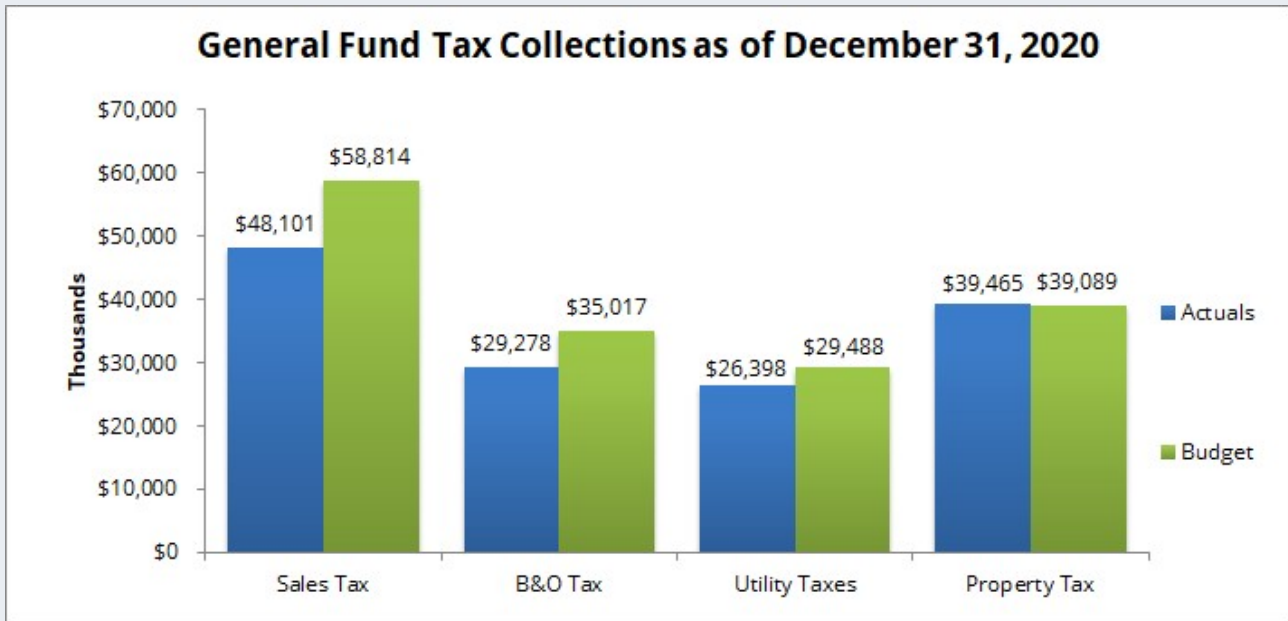
Expenditures are \$19.2 million under budget in 2020. \$4.1 million of the City of Bellevue's CARES Act allocation from the Washington State Department of Commerce was used to reimburse the city for COVID-19 related expenses. Additionally, the city undertook a health benefits premium holiday, which saved the General Fund approximately \$3.7 million in the fourth quarter. The city established a 3 percent savings target for all departments in response to the impacts of COVID-19, which account for the remainder of the expenditure savings. Departments exceeded this

target by eliminating discretionary spending and adhering to a hiring freeze instituted in June 2020. 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

The General Fund reserve decreased this year due to COVID-19 related revenue loss. The city purposefully built reserves in prior years in anticipation of balancing future budgets. However, given the financial impacts of COVID-19 the city used reserve balance to help navigate the unprecedented and rapid decrease in tax revenues. To offset the decrease in tax revenues, the city used \$4.5 million of reserves. Despite the use of reserves, the city maintained reserves above the Council 15 percent reserve policy.

GENERAL FUND PERFORMANCE



Note: The above graph illustrates the difference between year-to-date collections through December and 2020 amended budget.

Tax Revenues

Economic activity increased with reopening, but year-end tax revenue fell below budget due to the economic impacts of COVID-19. 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 18 percent or \$10.7 million below budget due to social distancing and shelter-in-place orders, along with mandatory closures of many non-essential businesses in response to COVID-19.

Business and Occupation Tax (B&O Tax)

B&O tax collections are below budget by 16 percent or \$5.7 million due to decreased economic activities in response to COVID-19 and the public health containment efforts. Prior to the new round of restrictions in November, the economy had started to recover as the stay-at-home order was lifted and businesses began to reopen.

Utility Tax

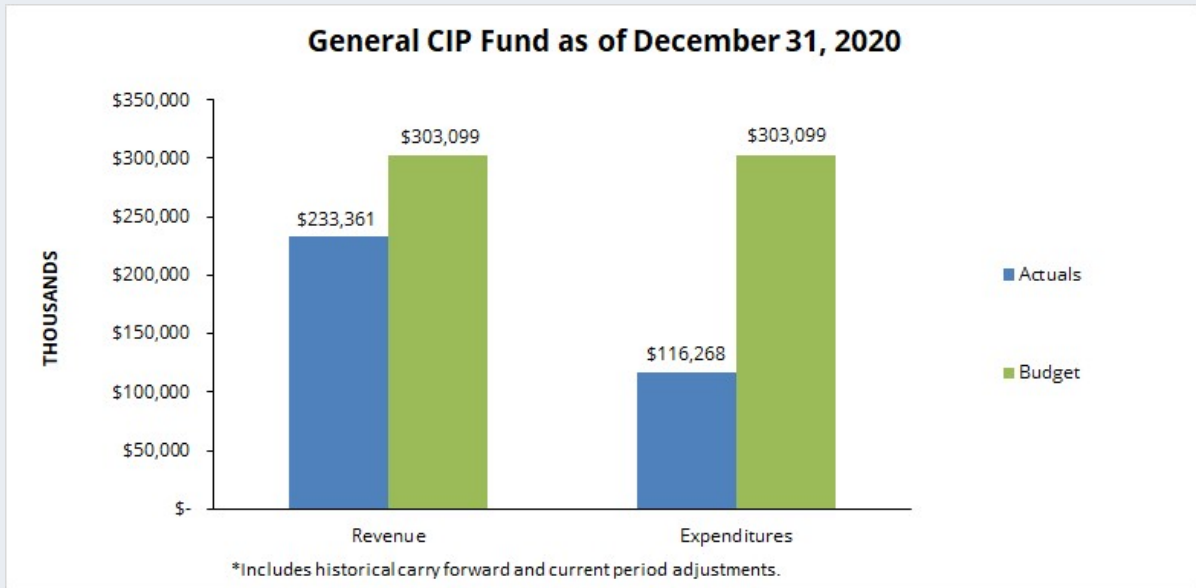
Utility tax revenue was below budget by 10 percent or \$3.1 million. The decline from budget is due to milder weather patterns in the Pacific Northwest, leading to reductions in utility usage, as well as continued lower rates in cell phone tax collections.

Property Tax

Property tax revenue collection was at budget in 2020. COVID-19 did not have any significant impact on the timing of payments or the collection of revenue.

Property tax is determined based on the assessed value (AV) of properties and the tax rate levied within Bellevue. Bellevue's 2020 total levy rate is \$0.90 per \$1,000 AV, which includes \$0.06 per \$1,000 of AV for the voter authorized Parks and Open Space Levy Lid Lift, \$0.10 per \$1,000 AV Levy for Fire Facilities upgrades, and \$0.12 per \$1,000 AV Levy for Neighborhood Safety, Connectivity Improvement projects.

GENERAL CIP PERFORMANCE



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

Resources

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

The 2020 CIP includes \$97.3 million in beginning fund balance dedicated to existing projects in the CIP. Retail sales tax and B&O tax revenues are below budget as a result of the Stay Home, Stay Healthy Order and the Safe Start guidelines issued in response to COVID-19. REET revenue is 59 percent above budget due to

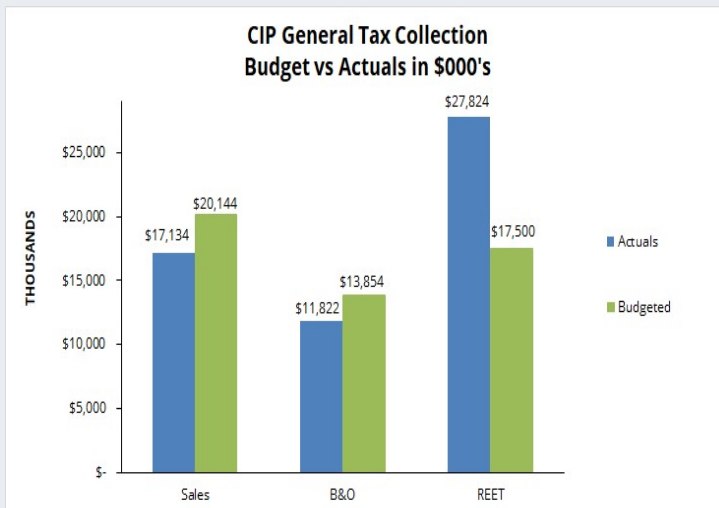
active property sales ranged from \$800K to \$10M, as well as several large business real estate transactions. Grants and Interlocal contributions came in lower than budgeted due to project delays and timing. The Budget Office continues to monitor overall cash flow needs within the General CIP.

Transportation Infrastructure Finance & Innovation Act (TIFIA)

TIFIA projects started in 2018 and have made significant advances in construction, design, and right-of-way acquisition. Under COVID-19 guidelines, transportation projects were defined as “essential” work and could continue under the safety terms provided. The City of Bellevue has drawn \$19 million over the life of the loan, including \$11.9 million drawn in 2020. The city continues to monitor sites regularly for appropriate safety measures, engage with contractors, local jurisdictions, and other agencies to identify workforce labor and potential supply chain issues throughout the region.

Expenditures

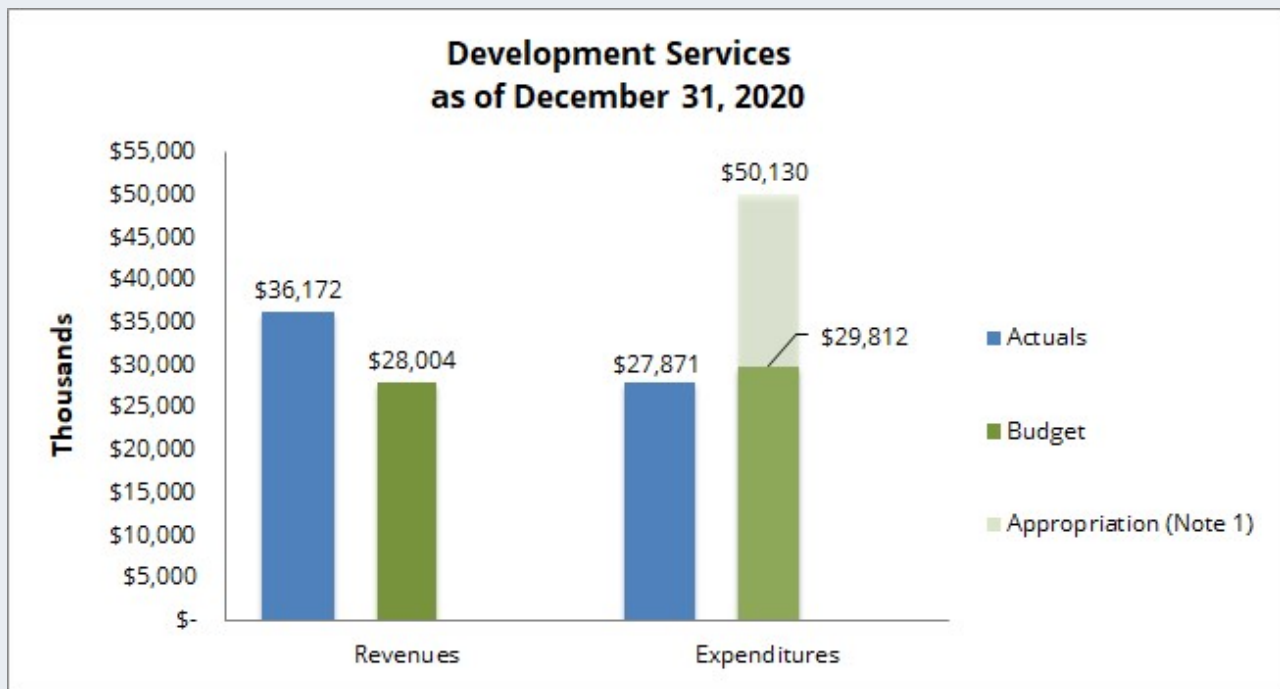
In accordance with the Safe Start guidelines, construction projects did not experience significant delays. General CIP expenditures were \$116.3 million as of year-end, or 38.4 percent of the CIP expenditure budget. Underspend reflects nuances in the timing of significant CIP projects as well as reserves for future capital investments.



DEVELOPMENT SERVICES PERFORMANCE



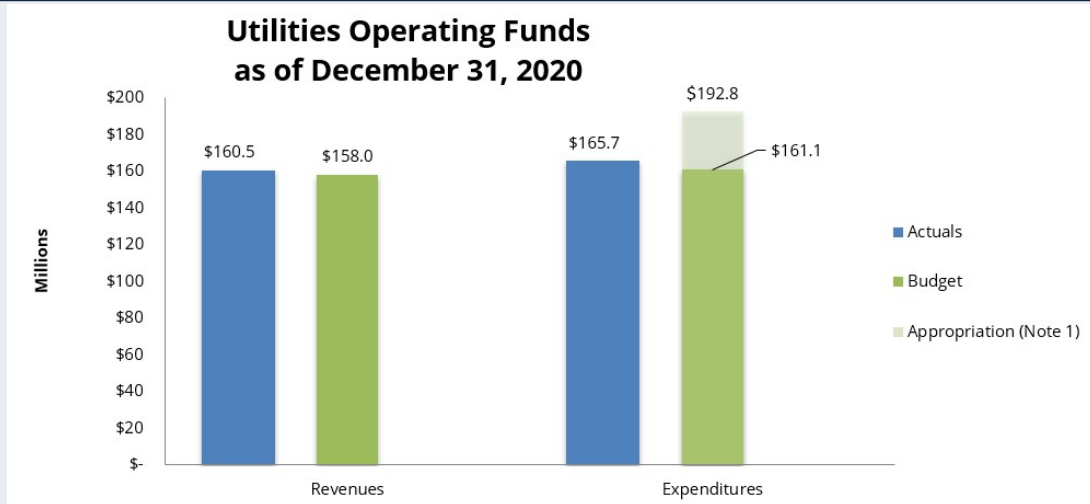
Bellevue Plaza



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

Development activity continues to generate workload for all development services, as permit activity returned to pre-pandemic levels and remained high after construction restrictions for COVID-19 were lifted in the third quarter. Revenue is 29 percent above budget, a result of the building valuation-based fees for several large projects that are in development in Bellevue. Expenditure savings are related to vacancies and M&O savings.

UTILITIES OPERATING FUNDS



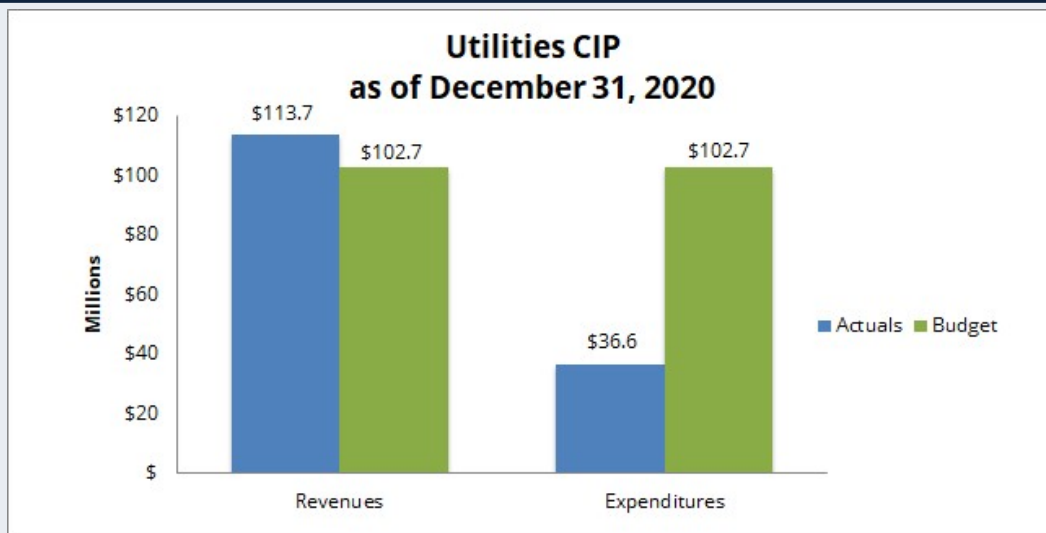
Note 1: The legal appropriation includes budgeted expenditures and fund balance (reserves).

Note 2: The budgets displayed above reflect a technical accounting adjustment with a net zero impact to the fund.

Note 3: Actual expenditures includes a \$7.6M transfer to the R&R account.

Utilities ended the year with operating revenues greater than budget despite COVID-19 due to several factors. The Utilities 2020 budget was developed with lower revenue expectations in 2020. In addition, 2020 was a dry year compared to average, which led to increased water consumption. The combination of these factors offset revenue loss related to COVID-19. Utilities also took cost containment measures at the onset of the pandemic to address potential revenue loss. As a result, Utilities' operating reserves were above budget at the end of 2020. Per Utilities' financial policies, operating reserves above target levels at the end of each biennium are transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs or to be used for one-time expenditures.

UTILITIES CIP



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

Revenues were above budget due to a delayed transfer to the Water CIP for the Land Acquisition project, a transfer for the Coal Creek Utility District Reservoir project previously budgeted in the operating budget, and the timing of grants received from King County. CIP expenditures reflect delays for several major projects due to COVID-19 adjustments including a moratorium on water shut-offs, contractor staffing impacts, and availability of materials. The majority of unspent 2020 budgeted funds will be needed for construction in 2021-2022.

City of Bellevue Budget Monitoring Report

January 1 to December 31, 2020