General Fund Financial Forecast Update

Staff briefed Council on May 18th regarding the fiscal and economic impact of the COVID 19 related events. As mentioned in the previous study session, the shutdown of the economy has reduced revenue collections, with the largest impact on sales tax and Business & Occupation tax (B&O). With the temporary closure of many businesses, the most impacted sectors include retail, restaurants, accommodations, construction, and auto sales.

In the May 18 Study session, staff compared COVID related economic impact with the Great Recession, and informed Council the general prediction from economists were that the upcoming COVID-based recession will have a drastic downward drive due to the shutdown of the economy. This downward drive will be similar in size to the Great Recession, except over a few months, and recovery is anticipated to be quicker than the Great Recession. Due to the degree of uncertainty is increased due to a lack of comparable events in recent history, the city has been working on a range of impacts and varying scenarios of recessions. The planning scenario presented to Council on May 18th assumed a recession that would recover back to pre-COVID or 2019 levels within the 2021-2022 budget cycle. On May 18, Council requested a series of scenarios to assist in understanding a potential range of impacts.

These scenarios are not predictions about what will happen; they are hypotheses about what could happen, and how we should plan for each scenario if the recovery path aligns closer to one of the scenarios. Each of the economic cases lay a potential future state including trends in society, technology, policy, and the environment, leading to corresponding economic implications.

The three scenarios developed are detailed below, yet all the scenarios include the following assumptions:

- Key Revenue Assumptions:
  - As with previous forecasts, the near-term biennium includes the use of councilmanic statutorily allowable one percent annual property tax adjustment in 2021-2022. It is included here purely as part of a forecasting scenario. It does not presume or direct the implementation. Any implementation of tax adjustment is a Council policy choice.
  - Sales tax assumptions beyond 2023:
    - Due to the major construction projects currently in the pipeline, construction activities and construction sales tax is assumed to recover faster than other jurisdictions in the region, and recover back to its peak level through 2023, then grow at the regional construction sales tax growth rate forecasted by King County.
    - The online sales tax portion of sales tax revenue will increase faster than the other sectors of sales tax.
    - The retail and food & drinks sales tax base is projected to expand further in 2023 when majority of the increased employment is expected in downtown Bellevue.
  - Business & Occupation (B&O) tax assumptions beyond 2023:
    - B&O tax forecast includes the estimated impact of major business movements.
    - Without audit revenue, B&O is forecasted to grow by an average of 5.4 percent per year from 2023 to 2026 due to increased business growth in downtown Bellevue and the Spring District.

- Sales Tax Annexation Credit expiration in 2022, eliminating approx. $1 million in revenue.

- Key Expenditure Assumptions:
  - Includes existing budget adopted at Mid Bi plus inflation, and the following items:
    - Costs for opening (2022) and staffing (2021) of Fire Station (FS)10, including new apparatus, ongoing maintenance & operations, and 13 staff, at a cost of ranging $2.5-3 million annually.
    - Modest assumption for a 0.3 percent growth in total expenditures for an increase in demand for services starting in 2021 based on the continued urbanization of the city.
    - Additional operating cost associated with increased business growth in downtown Bellevue and the Spring District from 2023 to 2026.
    - Out year additional cost of maintaining new infrastructure M&O is also included in the forecast for known new infrastructure in the pipeline.

The following section provides an overview of the 3 forecasted scenarios. Staff acknowledges that the number of scenarios is infinite, the three provided have a reasonable likelihood of occurrence.

Rapid Recovery Scenario

- Sales tax and B&O tax: Economic activity rebounds in the latter half of 2020 as the virus dissipates and governor reopens the economy. Recovery initially is slow but speeds up in 2021, sales tax and B&O tax collection return back to 2019's pre COVID level by the end of 2021 as consumers become more confident. However, the revenue impact due to the loss of growth in 2020 and 2021 will be ongoing and needs ongoing course correction measures to offset.
- Property tax and Utility tax: In the rapid recovery scenario assumes majority of the job loss due to COVID- 19 related events will be temporary job loss, and these jobs will be restored once the reopen starts. Thus, the impact on property tax and utility tax is projected to be minimal outside of the normal course of business due to the relatively stable demand on utility services and the way property tax is charged and collected.
- Other Revenues: Although other revenues such as parks program revenues will be significantly impacted due to closure of recreation sites in 2020 (up to 9 percent, or $5 million), under the rapid recovery scenarios, these revenues can be fully restored in 2021.

Moderate Recovery Scenario

- Sales tax and B&O tax: Economic activity and consumer confidence rebounds slowly throughout 2021, speed up in 2022 when the worry of second wave and job loss reduce. Sales tax and B&O tax collection return back to 2019's pre COVID level by the end of 2022 as consumers become more confident. Due to a longer recovery path, the loss of revenue growth extends through 2022 for a total of 3 years.
- Property tax and Utility tax: same assumptions as rapid recovery scenario.
- Other Revenues: same assumptions as rapid recovery scenario.

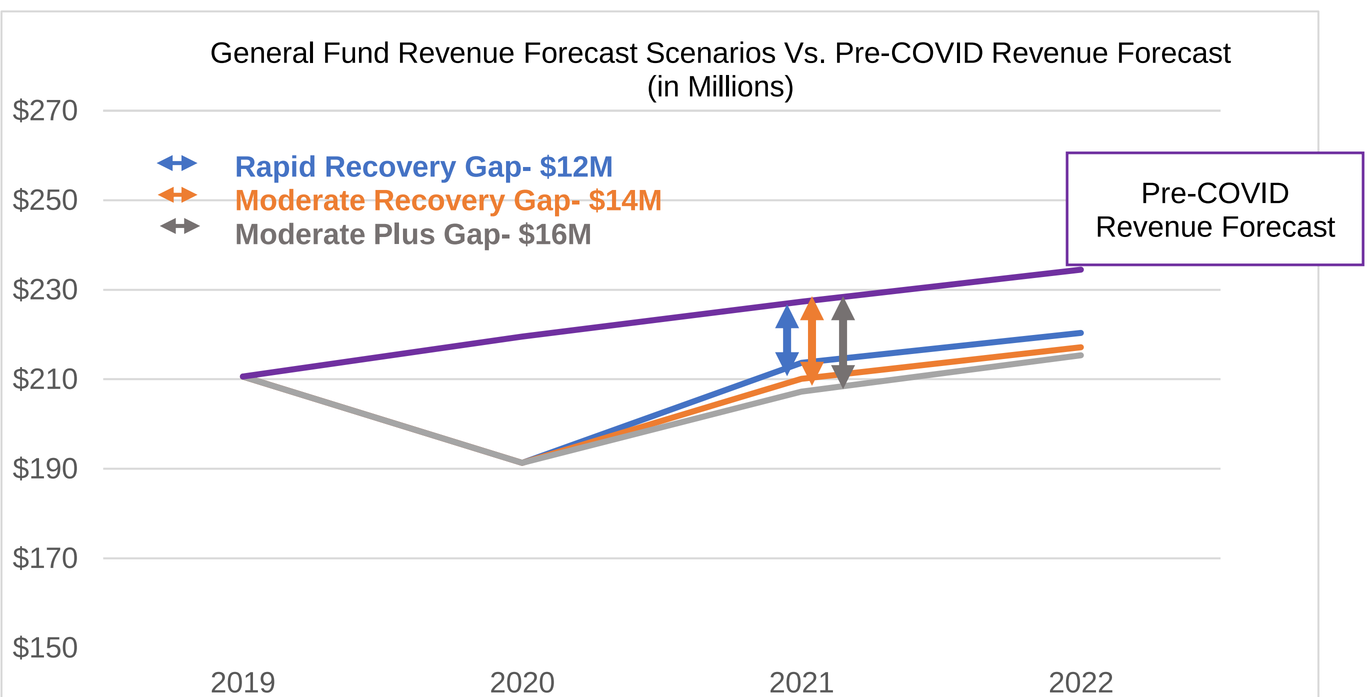
Moderate Plus Recovery Scenario

- Sales tax and B&O tax: same assumptions as moderate recovery scenario.
- Property tax and Utility tax: Due to the slow recovery of economy, some job loss become permanent as some small business may not have enough cashflow to get through the recovery, impacting residents' ability to pay for property tax and utility taxes. 1 percent of delinquency rate in property tax and utility taxes are assumed in 2021 and 2022.
- Other Revenues: The permanent job loss will reduce the utilization of park programs, also reduce parks and other miscellaneous revenues collection by roughly $1.5 million in 2021 and $0.5 million in 2022, fully recover by 2023.

The following chart gives a visualization of the three scenarios discussed above, and their respective impact to the gap between projected revenues and projected expenditures if no actions are taken.

2021-2022 Budget Impact

Based on the current assumptions and scenarios discussed above, the rapid recovery scenario requires an ongoing course correction of current spending of $12 million in 2021-2022 budget to address the reduced revenues in order to balance the budget. Expenditures will need to be reduced or revenues increased. Under the moderate recovery scenario, the course correction will need to be $14 million to balance the general fund budget; under the slow recovery scenario, the course correction will need to be $16 million. Staff acknowledges that this is the best estimate today and that as the economy begins to open and rebuild, and additional data and information is gathered, the planning scenario will change. The graphic below provides a visual representation of the impact of the three scenarios in comparison with the pre- COVID revenue forecast.



These scenarios help us understand the magnitude and develop strategies to make course corrections to deliver a balanced budget for 2021-2022 required by state law. However, even with the corresponding course corrections to develop a balanced budget in 2021-2022, the 6-year forecast currently based on the revenue scenarios above, continue to show deficits in a much smaller order of magnitude in the out years. The chart below shows the 6-year forecast still projecting a future deficit beyond 2022 assuming the course corrections are taken for a balanced 2021-2022 budget in the near term. This is in line with the pre-COVID Mid-Biennium forecast.