



CITY OF BELLEVUE
2019-2020
PRELIMINARY BUDGET
EXECUTIVE SUMMARY

OCTOBER 2018



City of Bellevue



INTRODUCTION

The 2019-2020 Preliminary Budget sets forth an operational and capital plan and includes resources needed to provide quality services to the residents and stakeholders of Bellevue, begins to respond to growing urbanization with critical investments, and advances Council's three-year priorities and Council's vision, "the city where you want to be."

The City's General Fund, which pays for public safety, transportation, parks, administrative, and other

functions, continues to face fiscal challenges. Our current forecasts show General Fund expenditures exceeding revenues by 2021, and if nothing changes, the General Fund reserves are forecasted to fall below the Council adopted 15 percent reserve policy by 2023. This budget takes the first step in fiscal sustainability by working with employees to implement strategies impacting out year health care costs, proposing one percent Councilmanic property tax in 2019 and 2020, and a fire inspection fee.

2019-2020 Budget Highlights

The Preliminary Budget provides a blueprint for the continuation of quality city operations for 2019-2020; the city's capital investment plan sets forth a strategy for ongoing progress in meeting the city's infrastructure needs. This budget:

- Invests in public safety by increasing patrol officer time in the community and increasing fire inspectors to maintain current service levels.
- Advances Council Priorities with targeted investments for the Grand Connection, affordable housing, Bellevue College connector, smart cities, environmental stewardship and others.
- With the Law Enforcement Officers and Firefighter Plan 1 (LEOFF1) medical reserve fully depleted, this budget includes \$2,300,000 annually to address the ongoing cost.
- Proposes a fire inspection fee to cover the costs of providing fire inspections consistent with cost recovery objectives in similar code inspections.
- Proposes one percent property tax increase for years 2019 and 2020; a one percent increase in property taxes is \$9.50 annually for a median property owner of \$791,000 assessed value.
- Meets many of the city's infrastructure priorities, including all voted levy projects (Parks, Fire Facility, and Neighborhood Congestion, Safety and Connectivity), other amenities and community priorities.
- Adjusts Development Services rates to account for growth and Utility rates to address aging infrastructure and wholesale costs.



City of Bellevue

BUDGET SNAPSHOT

- ◆ **2018 Population:** 142,400
- ◆ **2018 Forecasted total jobs:** 149,852
- ◆ **2018 Minority population:** 50 percent
- ◆ **2018 Foreign-born population:** 39 percent
- ◆ **2019-2020 Total budget:** \$1.739 billion (includes the first two years of the capital plans)
- ◆ **2019-2020 General Fund budget:** \$476 million
- ◆ **2019-2020 Internal Service Fund budget:** \$215 million
- ◆ **2019-2020 Enterprise Fund budget:** \$442 million
- ◆ **2019-2020 Other Operating & Special Purpose Fund budget:** \$72 million
- ◆ **2019-2025 Total General Capital Investment Plan:** \$693 million
- ◆ **2019-2025 Total Utilities Capital Investment Plan:** \$225 million
- ◆ **Estimated Total FTEs (2020):** 1,383
- ◆ **Local Sales tax rate (2018):** 0.85 percent
- ◆ **Local B&O tax rate (2018):** 0.1496 percent
- ◆ **Local projected property tax rate (2019):** \$0.92/\$1,000 AV (including all voted levies)

HIGH PERFORMANCE CITY

City residents and businesses can assess the effectiveness of city budgets and policies through the results of statistically valid surveys, conducted to ensure that the city hears from a cross-section of its residents.

Survey results show that people and businesses who call Bellevue home are very satisfied with the city, their neighborhoods, and delivery of municipal services. The following highlights are provided from the city’s 2018 Performance Survey (which produces data for 2017) and 2017 Business Survey. More than 500 households were interviewed in a mixed-mode address-based methodology, via online, landline, or cell phone, and more than 900 businesses were interviewed via telephone and the web. The surveys, as well as other reports relating to Bellevue’s budget and overall performance, can be found on the city’s website at <http://www.bellevuewa.gov/performance>.

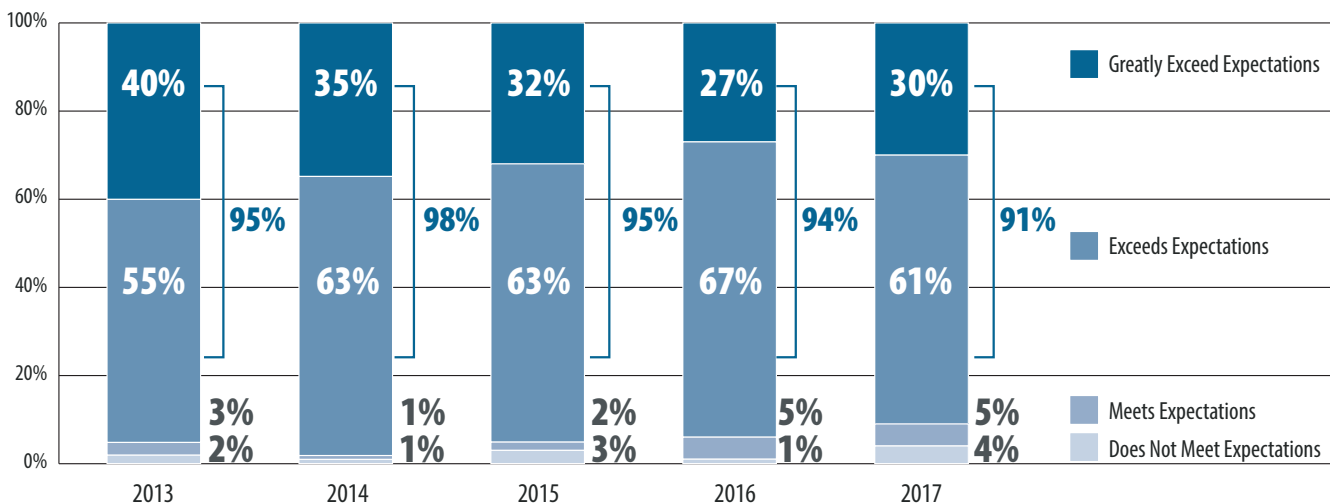
- Quality of life:** For ninety-one percent of Bellevue residents, their quality of life exceeds their expectations with thirty percent saying that the overall quality of life in Bellevue greatly exceeds their expectations, and sixty-one percent saying the quality of life exceeds their expectations.

- Great place to live and operate a business:** When asked whether Bellevue is the same as, better, or a worse place to live than other cities and towns, ninety-two percent of Bellevue residents believe Bellevue is a better or significantly better place to live than other cities and towns. Seventy-five percent of businesses believe Bellevue is a significantly better or somewhat better place to operate a business compared to other cities.

...most residents believe Bellevue is a better place to live

- Quality of city services:** Eighty-nine percent of residents and sixty-nine percent of businesses say the quality of city services exceeds or greatly exceeds their expectations.
- Bellevue Economy:** At ninety percent, nearly all businesses surveyed feel that the strength of Bellevue’s economy is better than that of other cities in the Puget Sound region.

**Performance Survey Results
Overall Quality of Life in Bellevue**



BELLEVUE SERVICES AND COUNCIL VISION

The City of Bellevue is a full-service city, incorporated in 1953. Municipal services include police, fire, transportation, parks, community development, utilities, development services such as permitting and code compliance, plus all administrative functions including information technology, legal, finance, city management, fleet, facilities, among others.

The budget is a policy document establishing an operational plan to provide continuing quality services and to set the strategy for continued progress in meeting the city’s capital infrastructure needs. The city’s budget is framed in six outcome areas and all services are included within the six outcomes – economic growth and competitiveness, healthy and sustainable environment, improved mobility and connectivity, quality neighborhoods and innovative vibrant and caring community, responsive government, and safe community.

In April 2014, Council established its vision for the city and Strategic Target Areas to focus on near term priorities. In May 2018, Council updated the vision and established 25 three-year priorities for 2018-2020.

Council Vision
Bellevue 2035 - The City Where You Want to Be
 Bellevue welcomes the world
 Our diversity is our strength
 We embrace the future while respecting our past

In addition to the many priorities that are already funded through existing work, the 2019-2020 Preliminary Budget increases investment in the following specific areas:

Strategic Target Areas Proposed Enhancements

Achieving Human Potential
 Bellevue College Connection
 Homelessness Coordinator



**Bellevue: Great Places
Where You Want to Be**
 Grand Connection – Early Implementation



Economic Development
 Community Relations Coordinator

**High Quality Built and
Natural Environment**
 Affordable Housing Strategy
 Gateway Northeast Entry/Downtown Park
 Smart City Strategy
 Environmental Stewardship



Transportation and Mobility
 Neighborhood Congestion Management Implementation
 BelRed Parks & Streams
 150th Avenue Southeast at Newport Way

ECONOMIC OUTLOOK

Local Economy

The Puget Sound region continues to outperform the nation. One such measure is unemployment. Bellevue is an economic center of the east-central Puget Sound and as such attracts new businesses and jobs. Compared to the US unemployment rate of 4.1 percent as of July 2018 and Washington State's rate of 4.6 percent, Bellevue's unemployment rate is significantly lower at 3.2 percent in July 2018. Bellevue's average monthly unemployment rate in 2017 was at 3.5 percent which is closer to full employment than the nation. As noted in the table below, Bellevue surpasses the state and the nation in household income and home value.

	Household Income	Median Home Value	Unemployment Rate
United States	\$60,336	\$217,600	4.10%
Washington State	\$70,979	\$339,000	4.60%
Seattle-Tacoma-Bellevue MSA	\$82,133	\$439,800	3.90%
Bellevue	\$121,168	\$791,000	3.20%

Household income, Median house values for US, Washington State and Seattle MSA are from 2017 American Community Survey 1-Year Estimate published by US Census Bureau; Bellevue's Median Assessed Value from King County Assessor; and Unemployment from Bureau of Labor Statistics and Employment Security Department of State of Washington.

Bellevue home values have re-gained and surpassed pre-Great Recession values. The median home value in Bellevue has increased 14.6 percent compared to a year ago and Zillow Research predicts it will rise 4.7 percent within the next year.

Puget Sound region has second largest Gross Domestic Product (GDP) increase in 2017. In 2017, of the large metropolitan areas with population greater than two million, Seattle-Tacoma-Bellevue, WA had the second largest increase (5.2 percent) in real GDP in 2017, behind Austin-Round Rock, TX at 6.9 percent. This was led by growth in professional and business services; wholesale and retail trade; and finance, insurance, real estate, rental, and leasing.

Risks

Bellevue is experiencing strong economic growth, yet as always, there are many risks to Bellevue's economy, which must be watched. A few risks are:

- The shift to greater online purchases from traditional brick and mortar store fronts may impact sales tax growth for the city. As interest rates rise, the price of consumer goods will be impacted, potentially pricing out those with less disposable income.
- Risk of another recession and construction downturn increases as the US economy enters the 10th year from the last recession. Bellevue has seen strong construction activity, providing solid sales tax growth for the past decade. As construction permit issuance is anticipated to stay strong in the early years to maintain its level, the pace of development is anticipated to decline as Bellevue moves through normal development cycles (Source: City of Bellevue Development Services Department).

Bellevue Economic Indicators

- Bellevue's Central Business District (CBD) has strong Class A leasing rates, with rents climbing to \$48.86 per square foot in 2018 (Source: CBRE Research).
- The BelRed area is experiencing high interest in major new construction development including the completion of the Global Innovation Exchange and the recent groundbreaking on REI's new corporate headquarters. By 2023, the total investment in new construction in the BelRed area is estimated to be \$372 million (Source: City of Bellevue Development Services Department).
- As of 3rd quarter 2018, there are 8 major development projects in review, 9 projects under construction, and 6 projects in the pipeline in downtown Bellevue. In the BelRed District, there are 3 projects in review, 10 projects under construction including the REI building, and 8 projects in the pipeline (Source: City of Bellevue 2018 3rd Quarter Major Projects List).

BUDGET OVERVIEW

The 2019-2020 Preliminary Budget presented for Council’s consideration totals \$1.7 billion. It is built on a complex set of differing funds based in generally accepted accounting principles. Funds are used to separate and account for differing types of resources and costs. The city fund structure and related services are:

<p>General Fund \$476 million</p> <p>Supports most of the direct services to the community including police, fire, parks, community development and transportation and administrative operations such as legal, city management, finance and customer service, among others.</p> <p>These services are primarily funded by taxes and charges for services.</p>	<p>Internal Service and Other Operating Funds \$215 million</p> <p>Several areas in the city provide goods and services provided to city departments on a cost-reimbursement basis based on usage of service, including facility and equipment repair and maintenance, technology service charges and others.</p> <p>These services are primarily funded with transfers between funds.</p>	<p>Enterprise Funds \$442 million</p> <p>City operations that are financed and operated similar to a private business, including Development Services, Parks Enterprise, Marina and Utilities.</p> <p>These services are primarily funded by charges for services.</p>	<p>Special Purpose Funds \$72 million</p> <p>Some resources received are restricted either by state law or other request and dedicated to a specific purpose such as grants and donations. In addition, several areas of expenditure are isolated for accounting purposes, such as debt service.</p> <p>These services are primarily funded by grants, donations and other revenues.</p>	<p>Capital Investment Funds (General and Utilities, including reserves) \$534 million</p> <p>Provides for major public facility improvements for items such as park development, transportation roadways, signals, sidewalks, and water, sewer and storm drainage infrastructure.</p> <p>These services are primarily funded by taxes, grants, utility rates and intergovernmental contributions.</p>
---	---	---	---	--

All figures are 2-year (biennial) numbers

Budget One guiding principles

Foremost among the Council’s long-term budget policies is that quality service programs be offered by the City of Bellevue. Other guiding principles include:

- ◆ Focus on services that deliver outcomes important to the community and that are responsive and accessible to all;
- ◆ Position Bellevue to realize opportunities and enhance the city’s image;
- ◆ Examine the entire budget, not just incremental changes from the last budget;
- ◆ Reflect a commitment to innovation, efficiency, and sound business practice;
- ◆ Focus on citywide, not department, priorities;
- ◆ Take a long-range strategic approach to an affordable and sustainable budget; and
- ◆ Where expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

TOTAL OPERATING RESOURCES

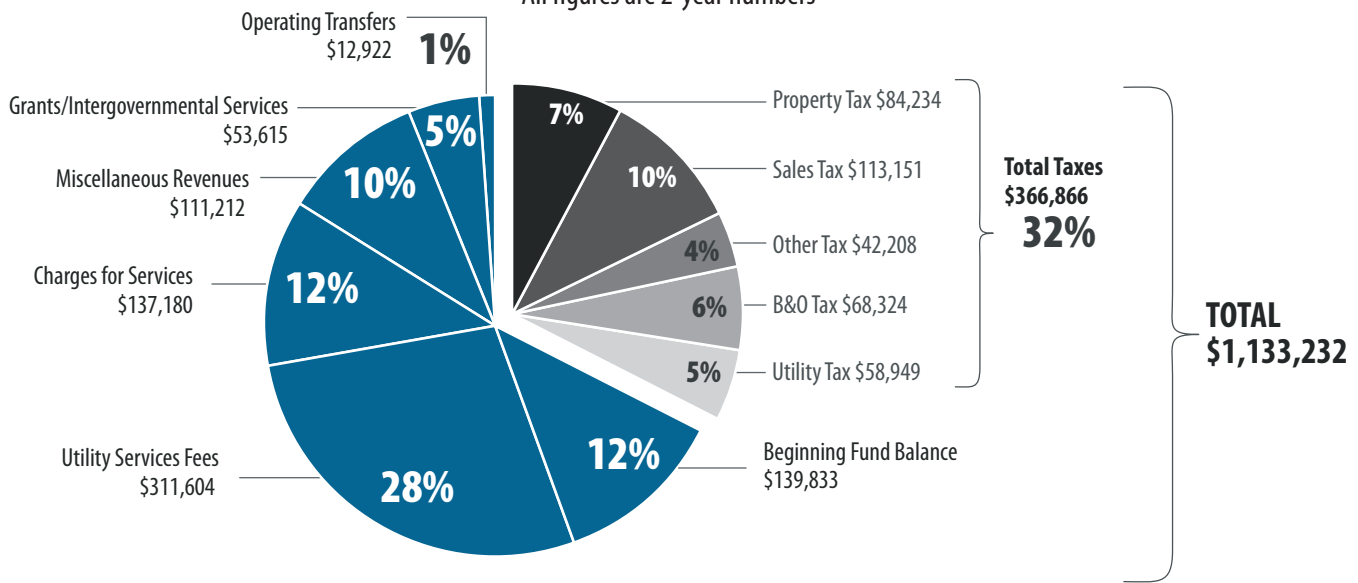
The city's Preliminary Budget is funded through a diverse collection of resources. Many of the resources received are dedicated to a specific purpose and cannot be spent on non-related services or programs. For example, rate revenues received from water service can only be used for that purpose and cannot be used to pay for general services or other types of utility services. Similarly, funding received from Development Services permits can only be used for services related to delivering permits.

The City of Bellevue is a full service city which provides most municipal services directly, including police, fire, transportation, parks, legal, information technology, permitting, finance, facility, human resources, city planning, and utilities. The 2019-2020 Preliminary Budget proposes a fire inspection fee starting in 2020 and the one percent property tax increases. All other existing tax and revenue structures remain the same.

2019–2020 Total Operating Resources (\$000)

General Fund, Enterprise Funds, and Internal Service, and Other Funds

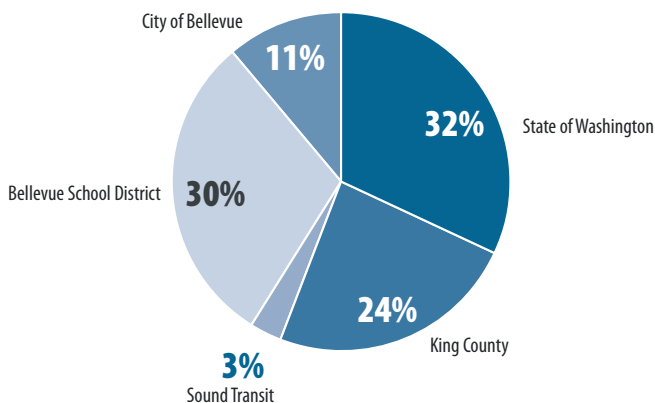
All figures are 2-year numbers



Property tax is collected and administered by King County. Sales tax is collected and administered by the State of Washington. Below is the distribution of these two major tax revenues.

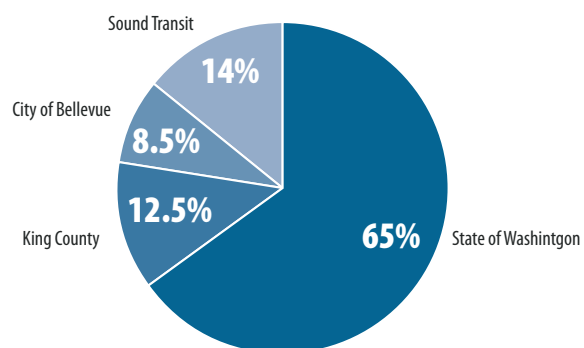
2018 Property Tax Distribution

Total Rate = \$9.1944/\$1000 AV



2018 Sales Tax Distribution

Total Rate = 10% of Purchase



GENERAL FUND FORECAST

The General Fund supports the majority of city operations including police, fire, transportation, parks and community services, community development, and various administrative functions such as City Council, City Management, City Attorney, and Finance, among others. Our current forecasts show General Fund expenditures exceeding revenues by 2021, and if nothing changes, the General Fund reserves are forecasted to fall below the Council adopted 15 percent reserve policy by 2023. The principle drivers influencing this forecast are:

Robust Land Use, Population, and Employment Growth

The city continues to experience substantial growth that over time will require more complex and urbanized services. In addition to known costs for opening Fire Station 10 in 2022, the out-year forecast includes a modest 0.3 percent growth in total expenditures to reflect our growing community and the needs it generates.

Annexation Sales Tax Credit

The annexation sales tax credit, partially offsetting costs to provide services in the 2012 Eastgate annexation area, will expire in 2022. The result is reduced revenue to the city's General Fund of approximately \$1,000,000 annually.

Fire Station 10

In 2018, Council authorized the purchase of land and building of a new fire station to address response times in the city. Fire station 10 is anticipated to open in 2022. The forecast assumes approximately \$3,000,000 annually for supporting operations including 13 staff, an apparatus, and equipment.

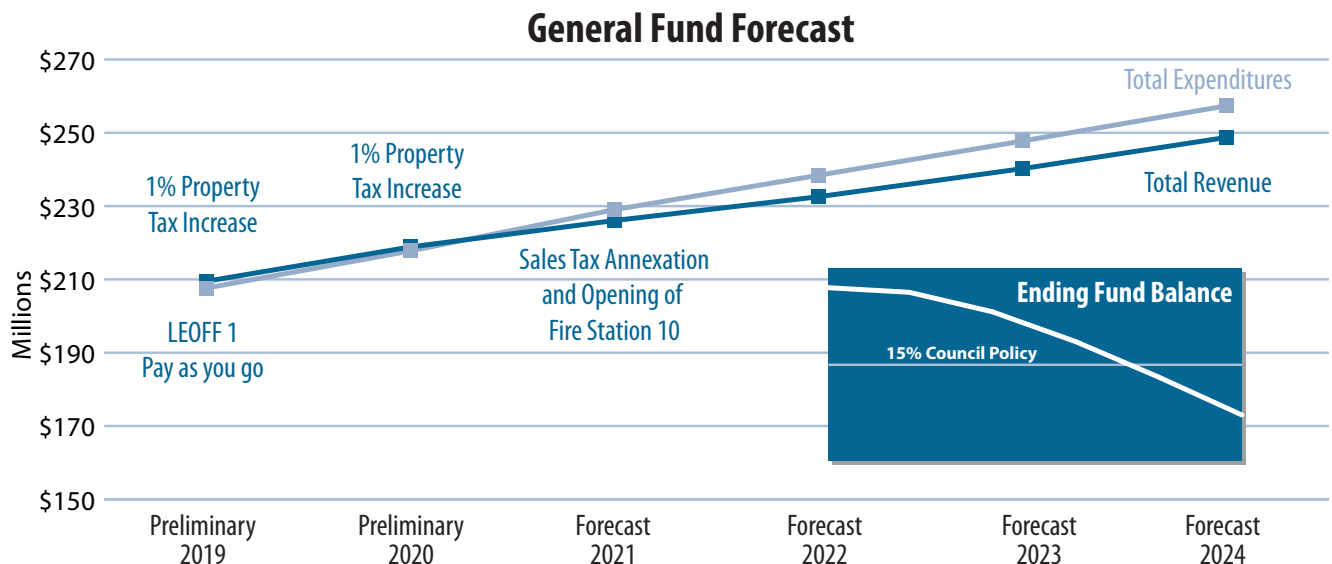
Capital Investment Program (CIP) Maintenance and Operations

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 those new facilities. As a result, the portion of available General Fund revenue dedicated to maintenance grows over time. This forecast assumes maintenance costs for known infrastructure through 2025.

Mitigation Strategies

With known financial pressures on the General Fund, this budget begins to take the first step to sustainability. Specifically:

- Bending the out-year growth rate of expenditures with strategies to reduce health care cost growth while continuing to provide a competitive plan to all employees.
- Proposes one percent property tax increase for years 2019 and 2020. A one percent increase in property tax is \$9.50 annually for a median property owner of \$791,000 assessed value.
- Proposes a fire inspection fee starting in 2020 to recover the cost of providing fire inspections consistent with cost-recovery objectives in similar code inspections.



GENERAL CAPITAL INVESTMENT PROGRAM (CIP)

The 2019-2025 Preliminary General Capital Investment Program (CIP) plan prepares and serves as a catalyst for future development within a constrained budget. It builds on the 2017-2023 amended CIP, which included completion of the Downtown Park and Meydenbauer Park Phase 1. It also provided for the implementation of the Transportation Infrastructure Financing and Innovation Act projects in BelRed, as well as neighborhood and other amenities. The 2019-2025 Preliminary CIP totals \$693 million, is balanced, and accomplishes the following:

- Advances the Council Priorities above the 2017-2023 amended budget – total of \$30 million
- Ensures debt obligations are met, including debt service payments beginning in 2024 for the Transportation Infrastructure Financing and Innovation Act (TIFIA) loan
- Maintains existing infrastructure in accordance with Council policy
- Ensures TIFIA projects are completed on schedule and in accordance with federal guidelines – 12 multimodal roadways in the new BelRed neighborhood

- Continues the voter approved levy commitments – Parks (2008), Fire Facilities (2016), and Neighborhood Congestion, Safety, and Connectivity (2016)
- Provides other quality of life amenities with new investments in affordable housing, Environmental Stewardship Initiative, and two new neighborhood parks
- Promotes diversity and accessibility to city services through a new Mini City Hall in the south end of the City
- Continues to show progress on big scale, long term projects including West Lake Sammamish Parkway, Meydenbauer Park, and Bellevue Way HOV.
- Fulfills general government capital responsibilities including construction of Fire Station 10 and major maintenance of city facilities.
- Supports neighborhood programs such as the Neighborhood Enhancement Program, Public Art Program, and the new Neighborhood Congestion Management Project Implementation.



UTILITY RATES

The Preliminary Budget includes the utility rate increases for 2019-2020, shown in the chart below, to enable Bellevue to continue delivery of high quality drinking water, sewer, and storm and surface water management services to its customers. Bellevue’s utility rates are competitive and will continue to be competitive in the future with the Council adopted financial policy to proactively plan and prepare for infrastructure replacement and renewal.

Wholesale costs drive increases

The cost of purchasing water and payment for wastewater treatment services by King County represents the largest cost centers for the water and sewer utilities. Increases in these costs are significant drivers for the proposed water and sewer rate increases and represent a 1.4 percent increase in 2019 and a 0.8 percent increase in 2020 to the combined utility bill (shown in table below).

Operational efficiency and the prudent management of the utilities financial resources has been and will continue to be a priority. The 2019-2020 proposed Utilities budget includes minimal new programs.

Aging Infrastructure

Utilities owns, operates, and maintains over \$3.5 billion of infrastructure assets, with over 1,600 miles of pipeline to provide clean and safe drinking water; safely convey wastewater away from homes and businesses; and safely manage storm and surface water runoff to protect property and the environment. This infrastructure was primarily constructed in the 1950s and 1960s, and most of the assets are well past midlife.

As the infrastructure ages, it becomes less reliable and more failures occur. As a result, the cost to operate, maintain, rehabilitate, and replace infrastructure assets increases.

Over the next 75 years, approximately \$2.4 billion will be needed to renew or replace infrastructure within the three utilities. System renewal is and will continue to be the most significant driver of the Utilities CIP.

Maintaining and enhancing customer service

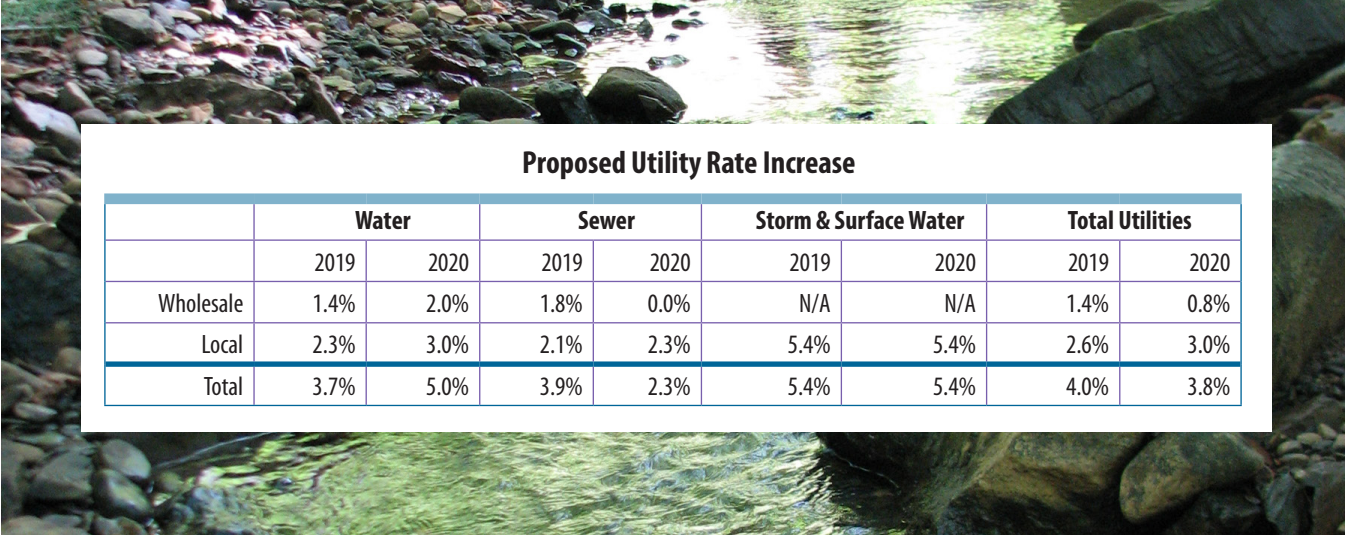
The Preliminary Budget includes the following investments to be funded with existing resources within the water and sewer utilities and will not have an impact upon rates:

Maintenance Facility Land Acquisition

Utilities needs an additional maintenance facility in the north end of Bellevue to better serve our customers by maximizing efficiencies and improving emergency response. The current operations and maintenance facilities are operating at or near capacity and will not meet all of Utilities’ operational needs in the future. The 2019-2020 proposed Utilities CIP includes funding for this investment.

Advanced Metering Infrastructure (AMI)

The 2019-2020 proposed Utilities CIP includes funding to implement a new Advanced Metering Infrastructure (AMI) system, which will provide customers near real-time access to water consumption information and allow for early leak detection.



DEVELOPMENT SERVICES FUND

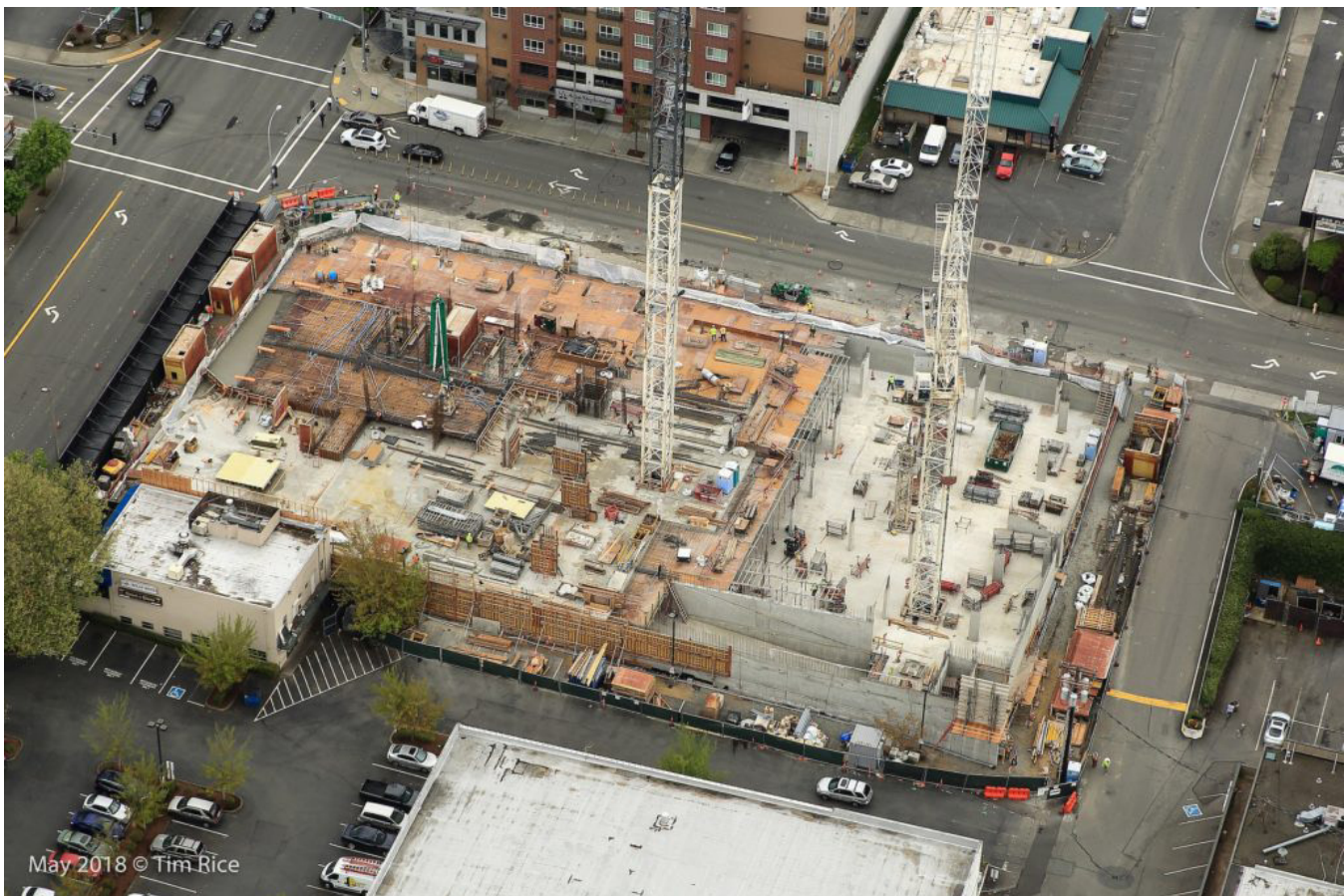
There continues to be high interest in major project development in Bellevue. Several new major projects are in the review process and additional projects are under construction or have recently obtained permits. Examples of major projects of note include Summit III, Spring District Residential and the REI Campus. The Sound Transit East Link light rail project is under construction along the entire alignment, generating demand for both review and inspection services. The light rail project is anticipated to spur long-term commercial and residential Transit-Oriented Development near light rail stations.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to be up slightly from the prior year as interest continues for new major projects, single family residences, single family alterations, and tenant improvements. 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.

The timing of the construction of these projects will play a role in the staffing level needed in Development Services to support major project activity. Current staffing levels for review, inspection, and support services are anticipated to continue through the 2019-2020 budget to meet the demand for permit review and inspection services. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload, maintain service levels, and maintain budget alignment.

For 2019-2020, Development Services' budget includes rate and fee adjustments in line with inflation to meet its cost recovery objectives established by Council policy. Rates are adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycles.



PRICE OF GOVERNMENT

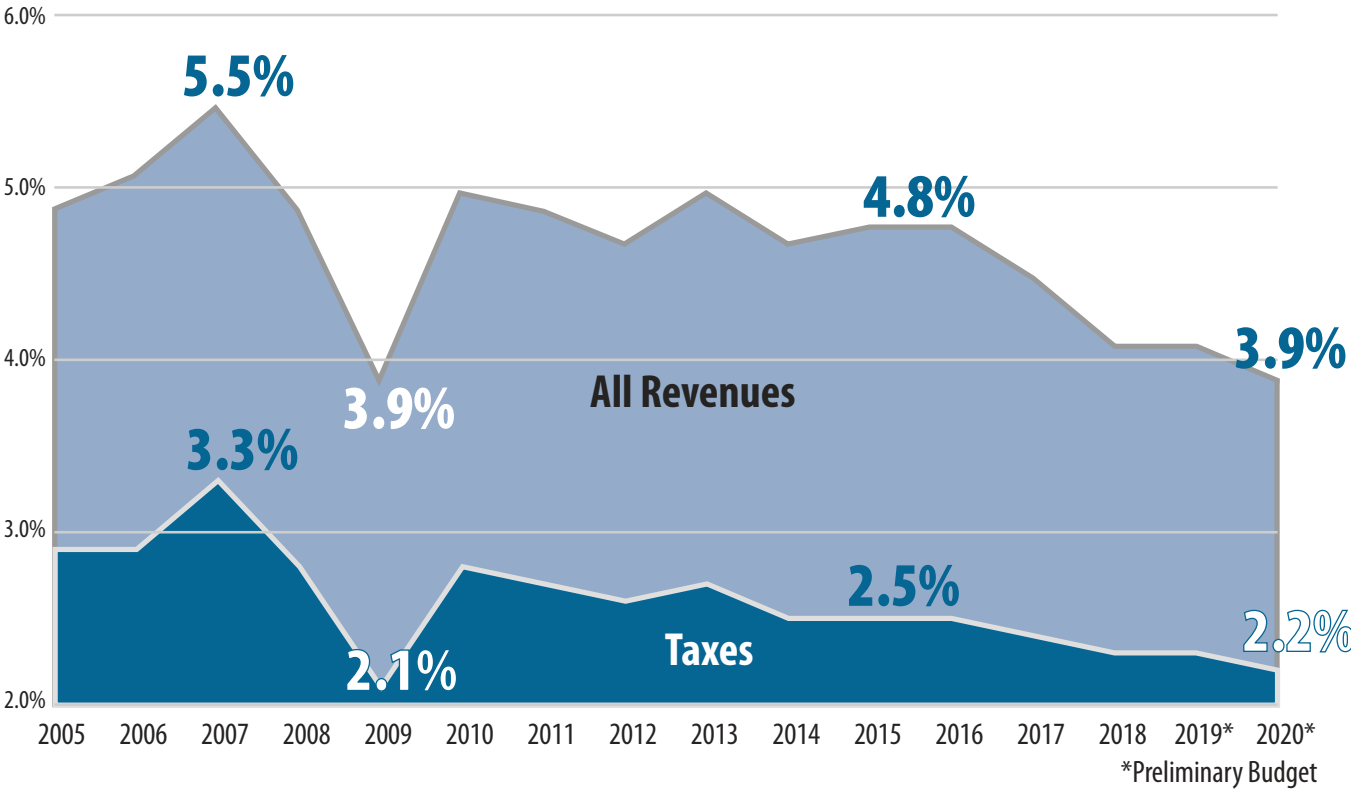
The price of government allows the city to compare what residents pay for services on an annual basis and see how that has changed over time. The “price” of government is defined as the sum of all taxes, fees and charges collected directly by the city, divided by the city’s total aggregate income¹. Aggregate income is determined by multiplying the mean household income² by the number of households².

The graph below states that for every household dollar earned in 2020, 3.9 percent or 3.9 cents goes to provide municipal services. Since the Great Recession, Bellevue’s price of government has continued to fall from 5 percent in 2010 to 3.9 percent in 2020. The main driver in the decrease is that household incomes have risen since the Great Recession. This is similar to the trend seen at other municipalities.

¹Source: Osborne, D., & Hutchinson, P. (2004) *The Price of Government*. Basic Books

²Source: United States Census Bureau, *American Community Survey 1-Year Estimates*

Price of Government
City of Bellevue 2005-2020



A special thank you to the Leadership Team, Budget Office, department fiscal contacts, proposal writers, Graphics Services and all city employees who deliver the needed services to our community.



For complete Budget Summary information:
BellevueWA.gov