

**CITY COUNCIL AGENDA TOPIC**

Public hearing and budget workshop on the development of the 2025-2026 operating budget and the 2025-2034 Capital Investment Program (CIP) Plan.

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**EXECUTIVE SUMMARY****INFORMATION  
ONLY**

Staff will ask the City Council to conduct a public hearing on the 2025-2026 operating budget and the 2025-2034 Capital Investment Program (CIP) Plan.

Additionally, staff will review and seek feedback from the City Council regarding the 2025-2026 Revenue Forecast, budget process and the information that informs the development of the 2025-2026 operating budget and the 2025-2034 Capital Investment Program (CIP) Plan.

**RECOMMENDATION**

N/A

**BACKGROUND/ANALYSIS****Public Hearing**

The public hearing is an opportunity for residents and other stakeholders to provide input on the budget, including all proposed levies, taxes, fees, and rates to aid the City Manager and staff in development of the Preliminary 2025-2026 Budget and 2025-2034 Capital Investment Program (CIP) Plan in advance of being transmitted to City Council for consideration, modification, and adoption this fall. There will be two additional public hearings. One hearing will also be in following the release of the preliminary budget and, the third and final public hearing will be during final City Council deliberations.

**Budget Workshop**

As the City Manager begins to develop the Preliminary 2025-2026 Budget recommendation to Council, staff is seeking any early feedback, questions, or other comments the Council may wish to provide on the upcoming budget process, operating and capital budgets, or for the longer-range financial forecasts.

The City Manager's Preliminary Budget is expected to be delivered to Council in late September.

The purpose of this workshop is to:

- Review the forecast of tax revenues as the foundation and key resources for the 2025-2026 budget process
- Review the updated Comprehensive Financial Policies
- Discuss the overall staff approach to the 2025-2026 investment period relative to the Strategic Target Areas (STAs) and Council Priorities

The materials presented at this workshop comprise building blocks for the preliminary budget and other work and include whitepapers and/or reference materials as well as other materials to help inform the development of the work. These materials reflect the processes to date and should be considered a work-in-progress that will be revised over the next months.

## **Revenue Forecast**

The national environment continues to drive home impacts within the Puget Sound and Bellevue. A strong labor market and more durable inflation continues to place pressure on prices and wages. The U.S. Federal Reserve has held steady on interest rates as inflation remains about its 2 percent target. A more hopeful expectation that the Federal Reserve would lower interest rates multiple times in 2024 has been dashed with many economists assuming perhaps only 1 or 2 minor interest rate cuts in the latter half of the year ([Reuters](#)).

The Federal Reserve's fiscal policy on interest rates and changes in economic behaviors such as hybrid employment has impacted the region's economy. New projects for multifamily housing and office space have been largely limited to those projects that were already within the development review pipeline and had secured financing before this period of fiscal tightening ([Puget Sound Business Journal](#)). The City's revenues did not reflect these conditions until the latter half of 2023 as proceeds from construction-related revenues began to fall as major projects were completed and fewer new projects took their place. Fortunately, Bellevue's central business district is still seen as an attractive and amenity-rich environment for businesses to be located. A "flight to quality" has been termed as many employers are relocating to smaller, better rated office spaces with more surrounding amenities to attract new and existing employees to their workspaces. Other sections of Bellevue such as the Eastgate neighborhood are experiencing the impact of this "flight to quality" as many of the existing commercial office space is lower rated compared to downtown ([Puget Sound Business Journal](#)).

The impact of reduced construction activity on the City has been notable but mitigated with other revenues sources closing the gap as other sectors of the Bellevue economy continue slower, but steady growth. The forecast provided tonight assumes the construction sector will bounce back to a more sustainable level matching pre-COVID levels with strong but not the record-breaking numbers seen during 2020-2022. This expectation assumes that the Federal Reserve begins reducing interest rates freeing up the fiscal space for new and pending projects within the development pipeline ([The Seattle Times](#)).

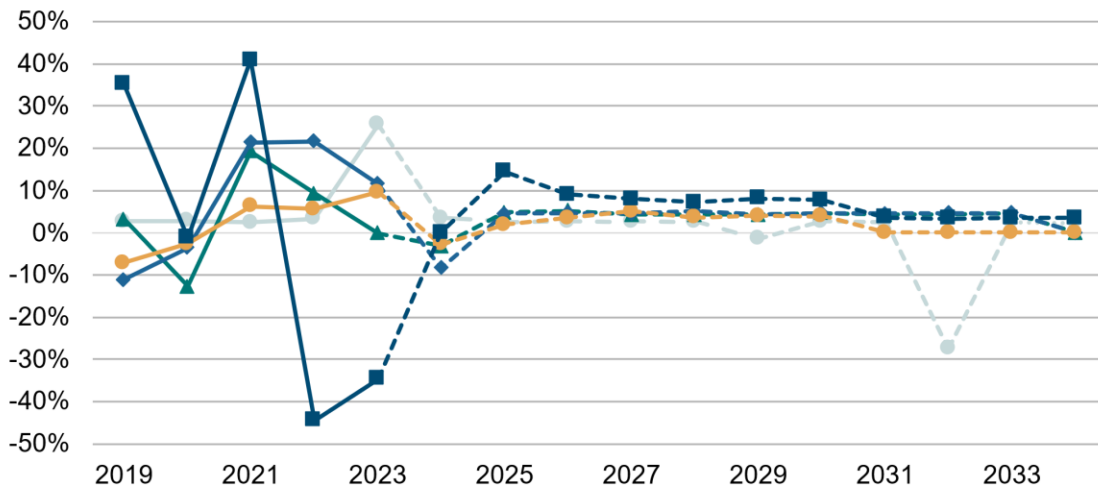
In the near-term 2025-2026 period, the City expects the local economy to begin a slow and cautious recovery. Geopolitical instability at home and abroad remains a concern for economic planning with potential impacts to commodity prices and supply chains resulting from middle east conflicts, the Ukraine-Russia war and, the intensifying economic struggle between the U.S. and China ([S&P Global](#)).

As discussed in prior budget cycles, the structural deficit resulting from constricted property tax revenues and the increased costs of providing services as outlined during the 2023-2024 mid-biennium budget update ([October 16, 2023 Agenda Materials](#)) is a persistent but manageable issue for City staff. Revenue growth across various more volatile revenues, such as business & occupation (B&O) and sales taxes, have mitigated these issues and prudent financial planning allows the City to better absorb when these volatile revenues are declining or holding flat.

The chart and table below illustrate the tax revenues the City anticipates for the next planning period going out to 2034. Notably, the volatility across during COVID-19 and the subsequent economic fallout can be clearly seen as there is serious downturns in 2020 and bounce back in 2021 on net even as certain industries took until 2023 to fully recover. In 2024 and as anticipated, the City is experiencing negative growth (a reduction) in realized tax revenue for these key sources. In the medium to long term, City staff is anticipating a return to normalcy in terms of tax revenue growth rates.



# 2019-2034 Actual & Forecasted Tax Revenues



Avg. Growth Per Year	Property Taxes	Sales Taxes	B&O Taxes	Utilities Taxes	REET
2025-26	2.7%	5%	5%	3%	12%
2027-34	2.1%*	4%	4%	2%	6%

\*Excludes 2032 Expiration of 2022 Parks Levy

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Utilities Taxes</b>	\$28.1M	\$29.8M	\$32.9M	\$32.M	\$32.7M	\$33.8M	\$35.7M	\$37.M	\$38.6M	\$40.2M
<b>Property Taxes</b>	\$32.4M	\$64.6M	\$86.8M	\$89.9M	\$92.4M	\$95.M	\$97.6M	\$100.2M	\$98.9M	\$101.6M
<b>B&amp;O Taxes</b>	\$52.8M	\$67.3M	\$76.2M	\$70.3M	\$73.7M	\$77.3M	\$81.1M	\$85.4M	\$89.1M	\$93.5M
<b>Sales Taxes</b>	\$83.2M	\$91.7M	\$91.6M	\$88.7M	\$93.2M	\$98.3M	\$102.7M	\$107.3M	\$112.M	\$117.6M
<b>Real Estate Excise Taxes</b>	\$39.2M	\$21.8M	\$14.3M	\$16.7M	\$16.7M	\$18.4M	\$20.M	\$21.5M	\$23.4M	\$25.4M
<b>Total Tax Revenues</b>	\$235.7M	\$275.2M	\$301.8M	\$297.6M	\$308.7M	\$322.8M	\$337.1M	\$351.4M	\$362.M	\$378.3M

## **Forecast Impact on Budget Process**

As a result, City staff are charting a course for the 2025-2026 preliminary budget that assumes growth opportunities are limited to the most critical investments and focusing on existing services/commitments. Tepid economic growth in the near and medium terms requires utilizing one-time resources to bridge any potential gaps during 2025-2026 and caution about committing additional resources to ongoing obligations that go beyond maintaining the city's infrastructure and services.

## **Budget Process**

**Discussion Objective:** *Staff process including Budget Equity toolkit (inventory), Evaluation and Packaging based on STAs and Priorities.*

The budget process is consistent with core past practices for developing the City's operating budget and CIP. However, there have been enhancements central to bringing valuable perspectives and analysis to how the preliminary budget delivers on prior commitments, the City's Strategic Target Areas and the Council's Policy Priorities.

As has been the case in prior budget processes, an evaluation team of staff from every department participated in an evaluation exercise to examine the changes requested by departments which included existing services, current service adjustments including changes to scope or level of services as well as potential new services and pilots. Currently, a separate staff working group of cross-functional subject matter experts is packaging this evaluation team's feedback into thematic packages for the City's Leadership Team to consider and provide a recommendation to the Acting City Manager. These staff efforts are designed to test the assumptions and trade-offs made in the department requests to ensure the requests are feasible within the City's resources, capacities and priorities.

Consistent with this alignment, staff will be providing Council with a modified approach to deliberations this fall. Rather than focusing on any one department's resources, staff will be centering on the City's Strategic Target Areas. This emphasis seeks to provide more clarity for Council and the public on how the City is resourcing these STAs and what are the expected outcomes as part of the next budget.

Additionally, this budget process continues the City's journey of integrating Diversity, Equity and Inclusion (DEI) into our budget development process. City departments engaged with a Budget Equity Toolkit (DEI) designed to examine how each department's investments addressed known opportunities to address, improve, and/or resource the tools and feedback necessary to understand where opportunities exist. This toolkit helps inform the departments and the development of the Diversity Advantage Plan update.

Similar to past practices, the City is also utilizing results from the latest Performance Measures Survey (Conducted in August-September 2023) and the 2024 Budget Survey (Conducted December 2023-January 2024). Across both surveys, a total of 2,901 respondents engaging with how the City is performing and what, among other questions are their priorities for the budget? Utilizing this data to inform decision-making and staff work on the preliminary budget continues to be a key input to the Strategic Target Areas and the budget process. For more information about these surveys, please see Attachment B.

## **Comprehensive Financial Policies (Draft)**

**Discussion Objectives:** *Review highlights of changes and impacts of update based on Council Guidance.*

Staff has drafted an update for the City's Comprehensive Financial Policies (CFP) aligned with the financial strategy guiding principles that Council reviewed April 8, 2024, while keeping the existing practices that have served Bellevue well. The throughline to the past is clearest in the CFP when looking at the investment prioritization waterfall which is the series of steps the City takes in prioritizing the operating budget and CIP Plan. The updated CFP continues past practices in paying the City's debt first with continuity of existing services and maintenance of existing services next in the sequence. Bellevue has long held a policy of funding its maintaining what it currently has before investing in new ongoing services. This update continues practice.

A notable modification to the CFP is a greater transparency concerning the location, purpose and authority of contingencies and reserves. Historically, the City has maintained specific reserves within discrete funds for a variety of purposes including legal requirements, historical practices, departmental business needs. The practice was prudent; however, the number and diverse purposes of individual funds created a situation difficult to manage and communicate. The updated CFP outlines specific citywide contingencies and reserves that state their intended purposes, amounts to be set aside, and clear lines of authority for when they may be accessed. This transparency also allows for greater flexibility and strategic planning of the City's resources as it is developing a longer time horizon for planning municipal finances, services, and projects.

The extended time horizon for planning will be incorporated into the CIP which will go from 6 years as it has been in the past, to 10 years. This extended look is being integrated into the operations and maintenance planning as well, which will provide departments with the opportunity to consistently look forward and plan for community growth.

Finally, as part of updating the CFP, staff from Finance & Asset Management and Utilities departments have been working on reconciling the CFP and the Waterworks Financial Policies. The Waterworks Financial Policies detail guidelines for rate setting, capital development, reserve policies, and many others. Creating a single unified CFP that incorporates the Waterworks Financial Policies ensures that Utilities' Department policy is aligned with the City's financial methods and standards while retaining the well-founded detail and thought that go into utility policy. The Waterworks Financial Policies have been incorporated into the updated CFP (Attachment A) and will be sunset at the end of 2024.

## **Approach to 2025-2026 operating and 2025-2034 Capital Investment Program Plan Strategies**

**Discussion Objectives:** *Seeking Council input on City Manager's approach to preliminary budget drafting.*

As previously mentioned, the City's financial strategies center the guiding principles approved by Council. In doing so, the Acting City Manager has charted a course of action that is future focused, and prioritizes stability and delivering on the investments, services and projects committed to in prior years. Consistent with that approach is stabilizing and building capacity to meet the needs of a growing and evolving city.

In practical terms, this approach assumes no new revenue sources, in sensitivity to the delicate

economic environment and in recognition that the City can manage within its current means. Importantly, this approach does assume that the Council would act on the 1 percent allowable property tax increase as has been past practice for 8 of the last 9 years. This assumption is for staff purposes to reflect prior practice and staff recommendation but, the final consideration and action is Council's prerogative.

Staff are being thoughtful in developing budget requests to maintain the City's services, infrastructure and systems, while understanding that the economic circumstances require a limited or no growth environment for expenditures. Those limited opportunities for growth are where the City seeks to put forward a budget that is nimble and strategic even during challenging times so that the city is always investing in the future and not losing valuable time. Staff expect that some of these near-time opportunities will come in the form of one-time investments to not overcommit the City's resources.

A central tenant of these strategies is to provide a greater understanding of the City's operating and capital budgets by providing more accountability and transparency through updated financial policies, updated budget documentation and a focus on outcomes during Council deliberations this fall.

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

Revised Code of Washington

RCW 35A.34.090 provides that prior to a final hearing on the budget, the legislative body shall schedule hearings on the budget or parts of it.

RCW 35A.34.110 requires that the City Council hold a public hearing pertaining to the budget for the City. This legally required public hearing must be held not later than 25 days prior to commencement of the fiscal biennium.

### **Fiscal Impact**

There is no fiscal impact for this item but, the item will inform fiscal impacts going forward in 2025 and beyond.

## **OPTIONS**

1. Conduct a Public Hearing and the study session on the 2025-2026 operating budget and the 2025-2034 Capital Investment Program (CIP) Plan.
2. Do not conduct a Public Hearing and the study session on the 2025-2026 operating budget and the 2025-2034 Capital Investment Program (CIP) Plan.

## **ATTACHMENTS**

- A. Draft Citywide Financial Policies
- B. Management Brief: Performance Measures Survey and Budget Survey Results

## **AVAILABLE IN COUNCIL LIBRARY**

N/A

