



City of Bellevue
2023-2024
PRELIMINARY BUDGET
EXECUTIVE SUMMARY

September 26, 2022





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City of Bellevue 2023-2024

Preliminary Budget Executive Summary



Downtown Park Lights

Introduction

The 2023-2024 Preliminary Budget is being delivered in an uncharted economic environment. Inflation remains concerning, interest rates are increasing, and the community continues to grapple with the impacts of COVID-19.

Surveys and public testimony conducted over the last year show that residents and businesses have high approval ratings for the city and yet respondents highlight the biggest concerns facing Bellevue as affordability, public safety, and homelessness, among others.

This Preliminary Budget addresses these concerns, other growth pressures, out-year fiscal sustainability, and Council Priorities.

Budget Snapshot

- 2021 Population: 152,600
- 2021 Population of Color: 76,300
- 2021 Foreign-born Population: 62,566
- 2023-2024 Total Budget: \$2.238 billion
- 2023-2024 General Fund Budget: \$592 million
- 2023-2024 Enterprise Funds Budget: \$568 million
- 2023-2024 Internal Service & Other Operating Funds Budget: \$261 million
- 2023-2024 Special Purpose Funds Budget: \$139 million
- 2023-2024 Total General Capital Investment Plan: \$253 million
- 2023-2024 Total Utilities Capital Investment Plan: \$426 million
- Local Sales Tax Rate (2022): 0.95 percent
- Current Local B&O Tax Rate (2022): 0.1496 percent
- Current & Previously Voted Local Projected Property Tax Rate (2022): \$0.84/\$1,000 AV (0.59/\$1,000 AV for regular levy, \$0.26/\$1,000 AV for all voted levies)

2023-2024 Budget Highlights

The 2023-2024 Preliminary Budget provides for the ongoing operations and capital needs of the city, invests in the services to meet the challenges of a rapidly urbanizing community, and centers new spending on areas most important to Bellevue residents.

Highlights:

- Invests in critical staffing for public safety including the Community Crisis Assistance Team (CCAT), Fire Station 10, and responding to growth.
- Increases spending to further the goals set out in the Environmental Stewardship Initiative.
- Invests in human services and small business recovery through the American Rescue Plan Act.
- Advances programming in clean streets and affordable housing.
- Invests in equity and inclusion through advancing existing programming and new cross-cultural programming, apprenticeship utilization as well as fostering pathways for women and minority-owned businesses in City procurements.
- Increases investment in individuals experiencing homelessness with programming in safe parking and other investments.
- Continues to build the highest priority infrastructure needed for further growth.
- Includes planned increases to utility rates to address aging infrastructure and wholesale costs.
- Includes a 2 percent property tax adjustment for 2023 (\$18 for a \$1M property owner); 1 percent adjustment in 2024, and a 0.01 percent adjustment to business & occupation taxes.
- Adjusts Development Services fees, including land use review to meet growth demand and maintain cost recovery objectives.

High Performance City

The City has surveyed its residents for many years, and businesses since 2017. The surveys are important tools to ensure that businesses and residents can assess the effectiveness of City services through the results of statistically valid surveys, conducted to ensure that the City hears from a cross-section of the population it serves. In total, the latest Performance, Business, and Budget surveys received 439, 747 and 951 responses respectively for a total of 2,137.

Survey results show that people and businesses who call Bellevue home are very satisfied with their city, their neighborhoods, and delivery of municipal services. The following highlights are provided from the surveys:

- Roughly, 8 out of 10 businesses in 2021 state that Bellevue is somewhat or significantly better than other cities to operate a business.

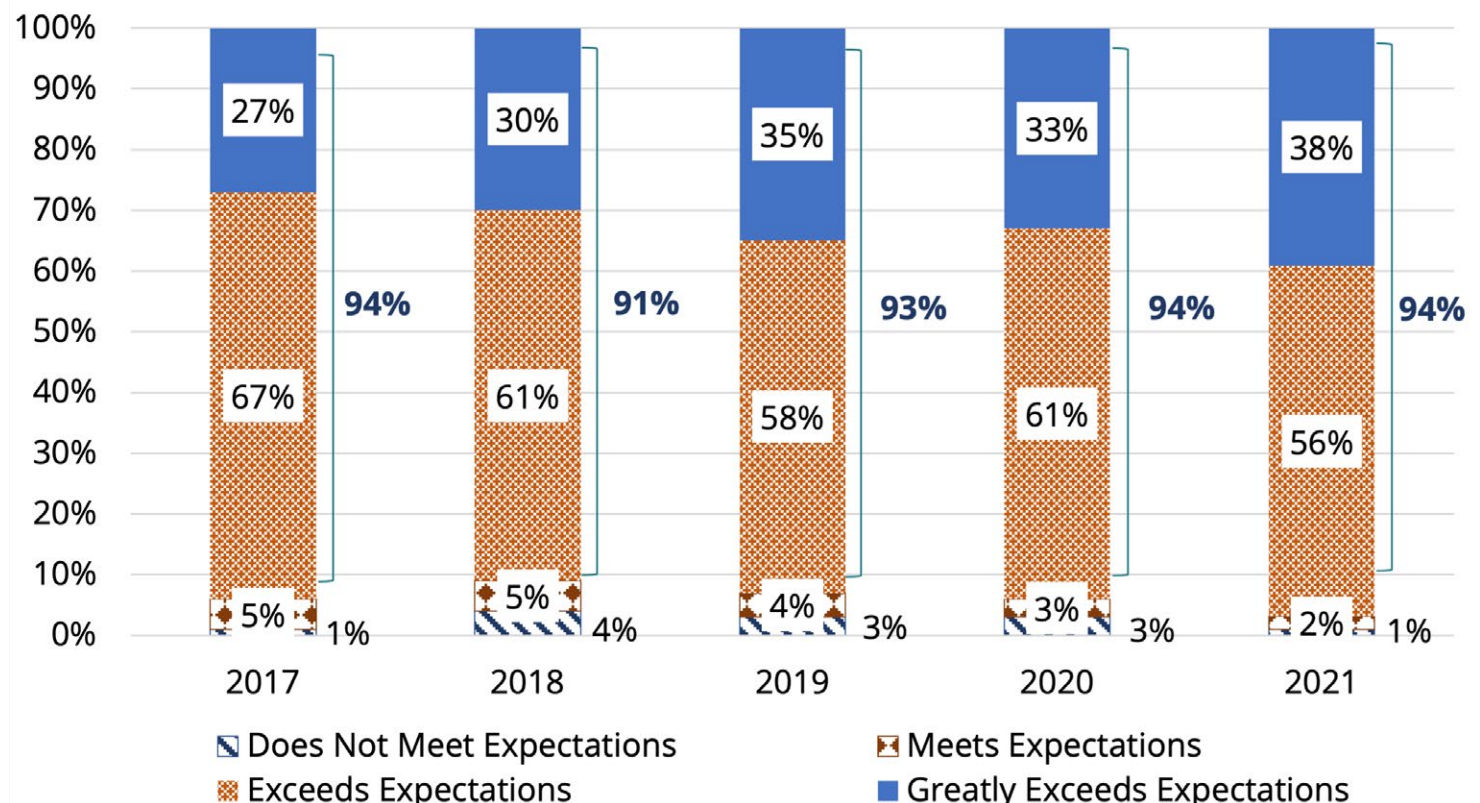
90 percent of Bellevue residents found that City services provided exceeded or greatly exceeded their expectations.

- Biggest Problem Facing Bellevue: 26% of respondents in the Budget Survey found Affordability/Cost of Living to be the biggest problem facing the city, with 18% noting that public safety, homeless, and growth and congestion were the second biggest issues.
- Regarding Bellevue as a place to live, in 2021 nearly all (97%) residents say that Bellevue is a “good” (53%) to “excellent” (44%) place to live.

For more information on the surveys performed as well as historical and methodological information can be found at BellevueWA.gov/Budget.

Performance Survey Results

Overall Quality of Life in Bellevue (Graph details in Alternate Format Appendix)



Overall Operating Strategy

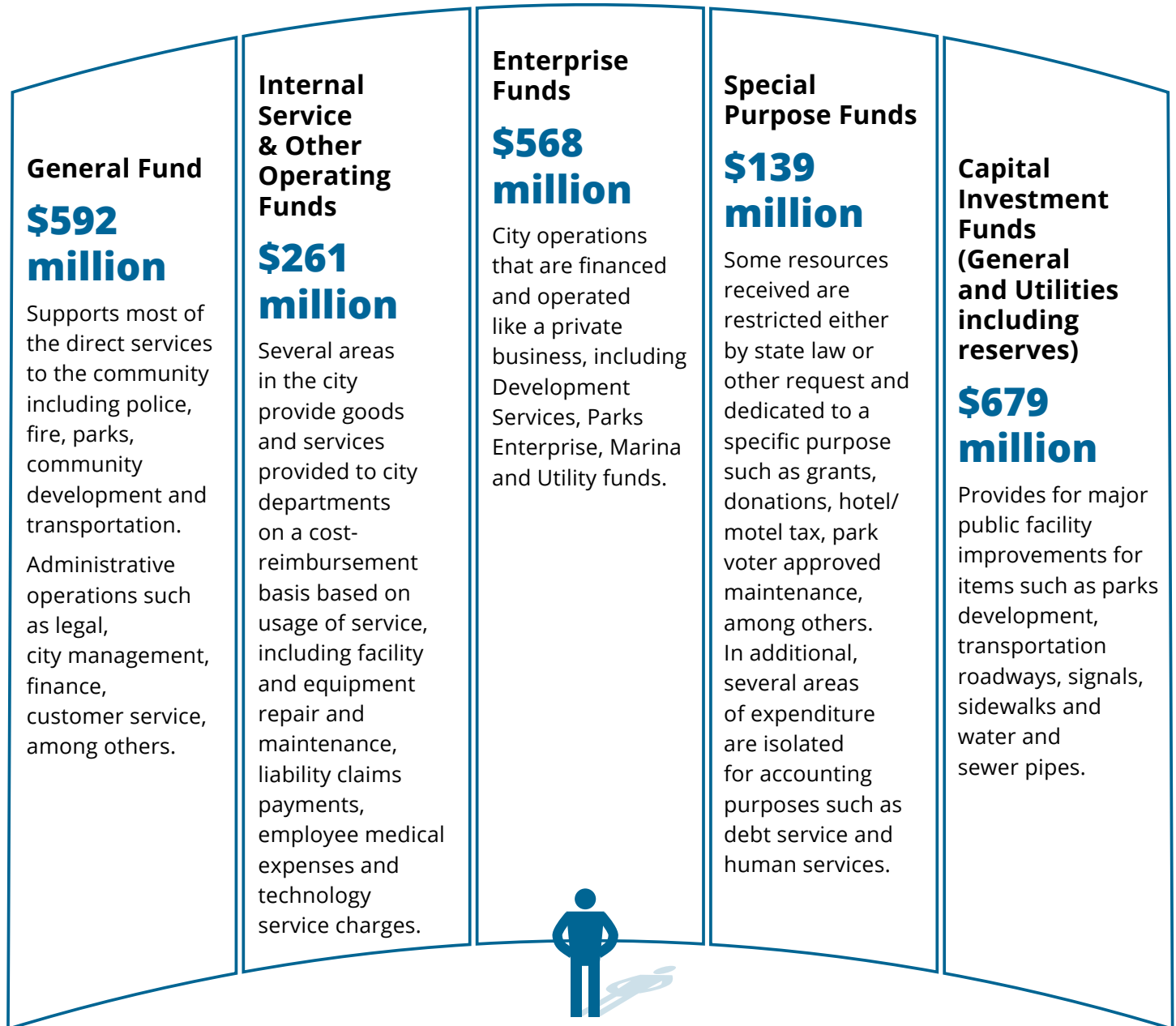
Having heard from residents and businesses, the Preliminary Budget responds and invests in urbanization, growth and addresses Council Priorities.



Building off the 2021-2022 budget, the 2023-2024 Preliminary Budget maintains the cost containment measures adopted to weather the economic impacts of COVID-19. While these ongoing measures help with the City's long-term revenue and expenditure imbalance, it does not do enough to fully offset needs and services needed for a growing and urbanizing city. To fund these critical needs, this budget proposed modest adjustment to tax revenues:

- A 0.1 percent increase in the Business and Occupation gross receipts tax rate from 0.1496 percent to a revised 0.1596 to be effective on January 1, 2023. For a business in Bellevue of \$1 million in taxable gross receipts, it would result in a \$100 annual increase from \$1,500 to \$1,600. The last increase to the B&O gross receipts tax rates was in 1989.
- A total of 2 percent property tax adjustment in 2023 (1% Councilmanic and 1% Banked Capacity for substantial needs of the city) and 1% Councilmanic in 2024. For 2023, a 2 percent increase in property tax is \$18 annually for a \$1M property owner. The last time the City elected to use the banked property tax capacity was in 2015.
- An adjustment to Land Use review fees paid for 100% by the permittees. Additional information found on page 13.

Budget Overview



All figures are 2-year (biennial) numbers.



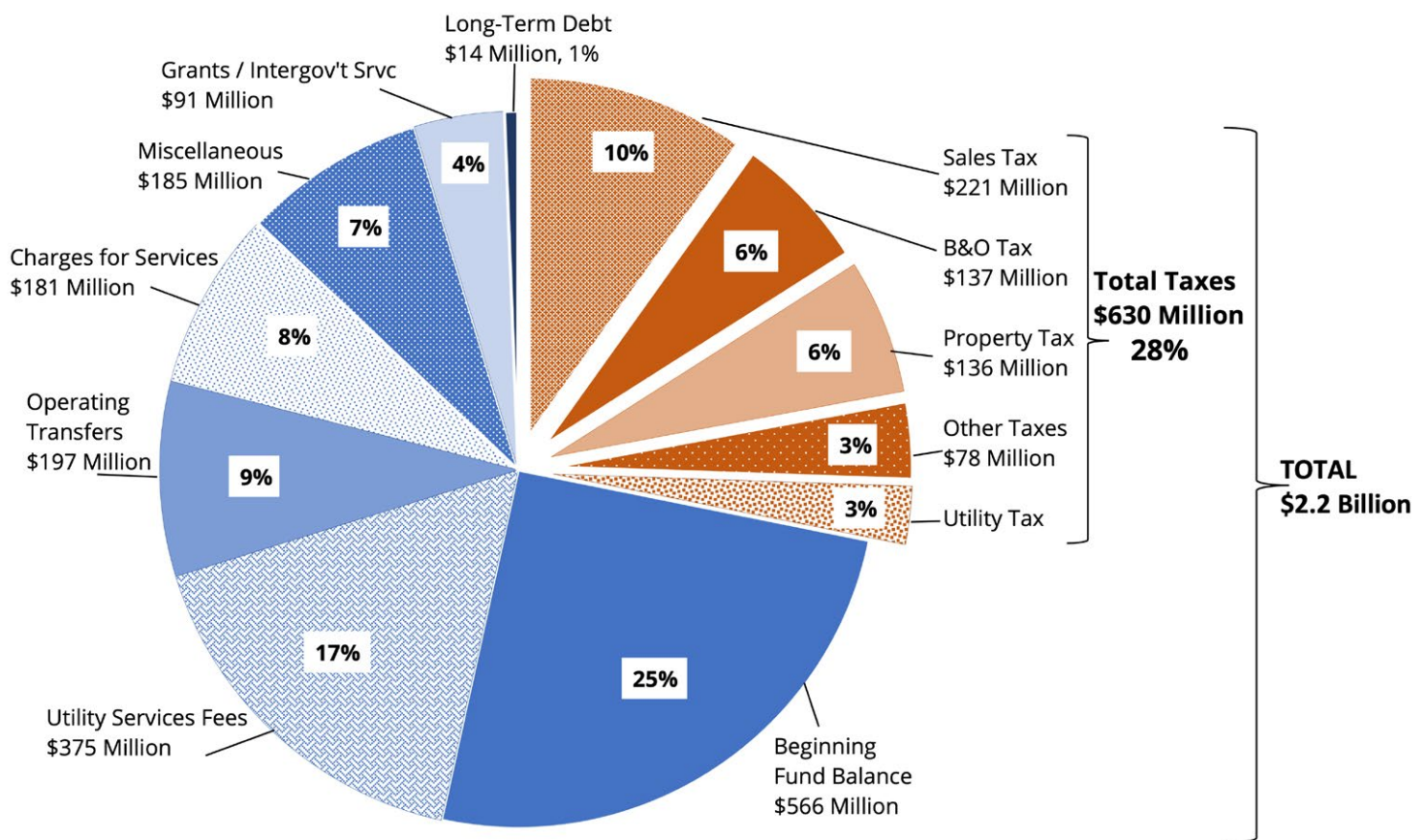
Total Resources

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 services 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 operations, human resources, city planning, and utilities. The 2023-2024 Preliminary Budget includes a 2% property tax adjustment for 2023 and the 1% adjustment in 2024 (\$18 for a \$1M property owner in 2023) and a 0.01% adjustment to business & occupation taxes (Business with \$1M in gross receipts will increase by \$100). Additionally, this budget includes a proposed policy changed to adjust the Land Use review cost recovery from 50% to 100% fee. Additional information on page 13.

2023-2024 Total Resources

General Fund, Internal Service Funds, Other Operating Funds, and Enterprise Funds
(All figures are 2-year numbers). (Graph details in Alternate Format Appendix)

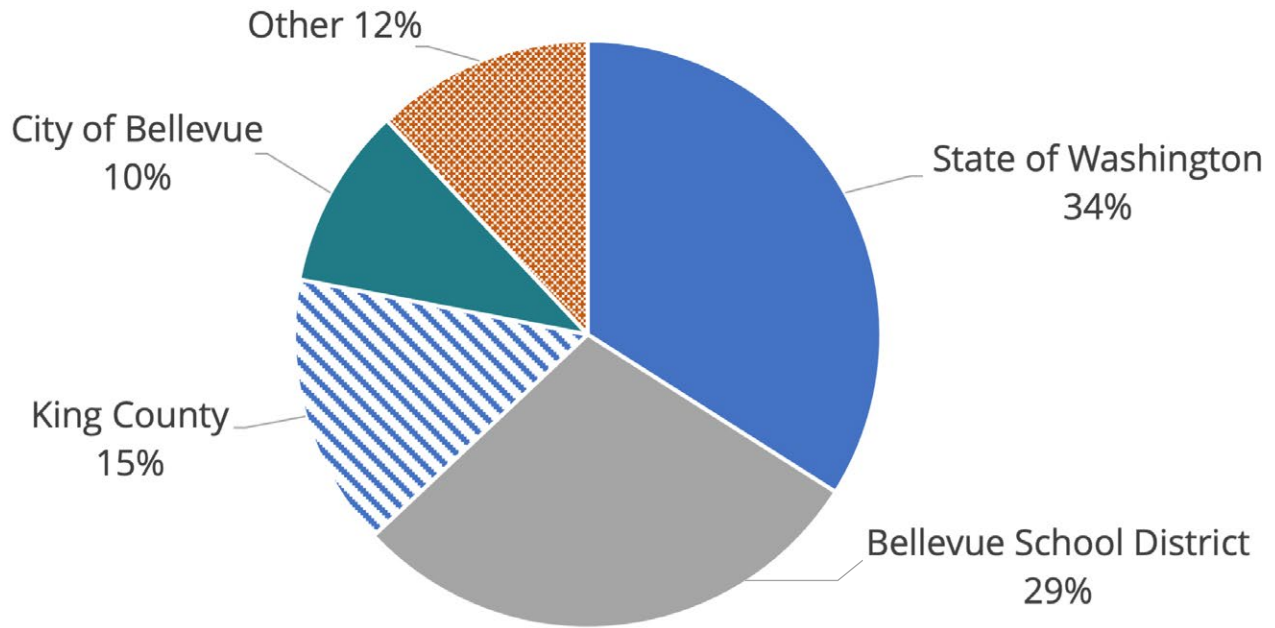


Tax Distributions

Property tax is collected and administered by King County. Below is the distribution of property taxes. The City of Bellevue makes up approximately 10% of total property tax paid, the remainder goes to other jurisdictions such as schools and King County. A \$1 million property in Bellevue pays approximately \$8,200 annually, with \$820 of that amount coming to the City of Bellevue. A 1% increase in the City of Bellevue's property tax is approximately \$9 annually.

2022 Property Tax Distribution

Total Tax Rate = \$8.2005/1,000 AV (Graph details in Alternate Format Appendix)



Economic Outlook

National Economy

Emerging from the COVID-19 pandemic, the U.S. economy decreased at an annual rate of 1.6 percent and 0.6 in the first and second quarters of 2022 as measured by Gross Domestic Product (GDP). The national economy continued to face uncertainty from historically high inflation due to fiscal stimulus, supply chain limitations and geopolitical factors such as the ongoing war in Ukraine. In response, the Federal Reserve has increased interest rates by 3 percent in 2022 to tamp down economic demand to reduce inflation to more moderate levels. Some traditional benchmarks of a recession have been hit during the previous quarter. However, economists are not fully aligned that the U.S. economy is in a recession.

Local Economy

Inflation is a driver impacting Bellevue residents and businesses as costs for everything from housing, gasoline (48.4 percent increase since 2021), groceries (up 13.5 percent), and other essentials have increased substantially in the last two years. High levels of employment and fiscal stimulus have had local consumers shifting spending to durable goods during the pandemic and increased savings broadly. However, according to the Organization of Economic Cooperation and Development (OECD) as inflation has persisted, spending has shifted to everyday essentials and consumer confidence has waned decreasing 4 percent in July compared to the year prior.

Low unemployment within the broader Seattle metro area has put upward pressure on wages as firms compete for a limited supply of qualified workers. The tight labor market may persist until broader economic demand is reduced through some combination of fiscal policy or diminished economic investment and activity.

Household Income & Home Value Comparison

Location	Household Income†	Median Home Value*	Unemployment Rate (BLS) as of May 2022
United States	\$64,994	\$412,547	3.4%
Washington State	\$77,006	\$608,700	3.6%
Bellevue	\$129,497	\$1,450,000	1.9%

Sources: †U.S. Census Bureau: 2020 American Community Survey & *Redfin

Risks

Overall, there is uncertainty surrounding many aspects of the economy. As the city moves forward, the following risks are highlighted for awareness.

- Risk of recession remains high with inflationary pressures and interest rates increasing the cost of money.

- Worldwide events such as the Ukraine war and extreme weather cycles could further disrupt the supply chain and make inflation more persistent.
- Although everyone has navigated through three waves of COVID-19, virus variants and other public health concerns would complicate the outlook.
- Impacts of remote and hybrid work environments may shift how consumers and employers operate.

General Fund Forecast

The revenue actions taken in this Preliminary Budget make notable gains improving the City's long-term financial sustainability. The General Fund continues to face a long-term structural deficit due to the revenue imbalance coupled with the need for continued investment to address urbanization, growth demands, and new infrastructure maintenance.

Revenue Imbalance

The current structure of property taxes allows the City's revenue to grow by 1.0 percent plus new construction annually. This increase does not keep pace with inflationary costs, let alone the added infrastructure to maintain services. Conversely, the City's most economically volatile revenue streams, sales tax and business & occupation (B&O) tax, historically have grown around 5.0 percent annually and that growth does not counterbalance the lack of growth in property tax. The Preliminary Budget proposes a .01 percent rate adjustment in B&O tax and a 2 percent adjustment in property tax in 2023, and the 1 percent adjustment in 2024.

Urbanization, Growth & Maintenance

The city continues to experience substantial growth (See page 13 for more growth information) that over time will require more complex and urbanized services.

Near-Term and Long-Term Forecast

This Budget is balanced for 2023-2024. However, the prospect of a potential recession brings long-term uncertainty into the forecast. As a result, the City is projecting optimistic and pessimistic scenarios for the out-year forecast.

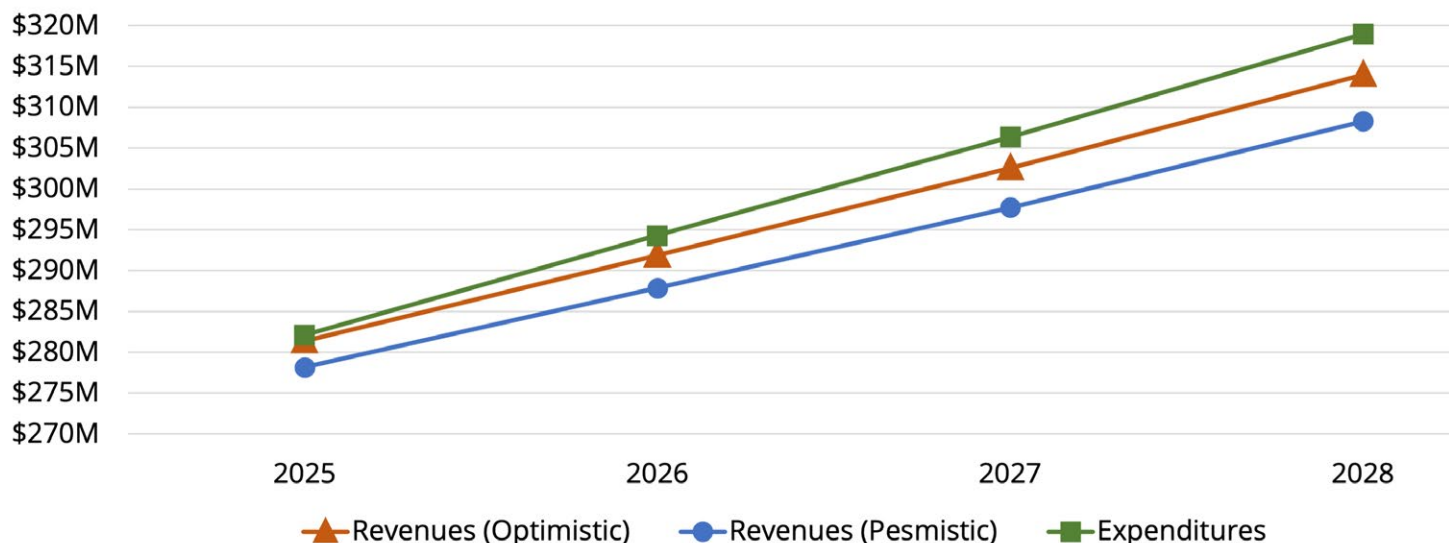
In 2023 and 2024 this Preliminary Budget reflects the ongoing \$8 million dollars in cost containment included in the 2021-2022 Adopted Budget that were needed to sustain City services during COVID-19 pandemic downturn as well as the revenue adjustments mentioned earlier for 2023 and 2024. Each step the City makes on revenue today will compound and make the challenges of tomorrow easier to manage and more financial sustainable for the City.

In the out-years, the optimistic scenario assumes a relatively small deficit in the 2025-2026 biennium. However, there remains uncertainty about the nature of hybrid working environments, the resulting impact on development among other risks which are reflected in the City's pessimistic scenario.

The chart below shows the impact of the optimistic and pessimistic scenarios detailed above.

General Fund Forecast

Revenue vs. Expenditures (2025-2028)



Utility Rates

Bellevue Utilities are entirely supported by rates and fees paid by Utilities customers.

The utility rate increases shown in the chart below are necessary to enable Bellevue to continue delivery of high-quality drinking water, sewer, and stormwater services critical to our 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 long term infrastructure renewal and replacement.

Key Rate Drivers

Operational efficiency and the prudent management of the Utilities' financial resources continues to be a priority. The following are the key drivers for the 2023-2024 budget and rate increases.

■ Wholesale costs Drive Rate Increase

The costs for wastewater treatment services and water supply are determined by King County and Cascade Water Alliance, respectively, and are largely out of Bellevue's control. These represent the single largest cost centers for

Bellevue's sewer and water utilities. Increases in these regional costs will increase Bellevue customers' total bill by 2.4% in 2023 and 2.1% in 2024 (shown in table below).

■ Aging Infrastructure

Utilities is a capital-intensive business.

Bellevue owns, operates and maintains over \$3.5 billion of infrastructure, including over 1,600 miles of pipeline to provide clean and safe drinking water; safely convey wastewater away from homes and businesses; and safely manage stormwater 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. Utilities plans for system renewal through comprehensive asset management. The cost to maintain, repair, and replace infrastructure continues to be the most significant driver of Utilities' Capital Investment Program. Rate increases are necessary to fund capital investments to sustain current service levels to the community.

Proposed Utility Rate Increase (2023)

Type	Water	Sewer	Storm & Surface Water	Total Utilities
Wholesale	1.7%	3.7%	N/A	2.4%
Local	4.2%	4.0%	5.3%	4.3%
Total	5.9%	7.7%	5.3%	6.7%

Proposed Utility Rate Increase (2024)

Type	Water	Sewer	Storm & Surface Water	Total Utilities
Wholesale	1.1%	3.6%	N/A	2.1%
Local	3.6%	3.2%	5.3%	3.7%
Total	4.7%	6.8%	5.3%	5.8%

Development Services

As the City emerges from the COVID-19 pandemic and most of the city's sectors regain their footing, development activity remains a strong sector within the Bellevue economy. There continues to be significant interest in development projects within the city's growth areas including several mixed-use, multi-family and office projects in the downtown and BelRed neighborhoods.

The forecast reflects a high level of development activity continuing in the early years for office, retail, and multi-family housing construction projects before returning to more moderate growth from 2025 through the end of the forecast in 2028. The forecast is buoyed by Amazon's plans to bring 25,000 employees to Bellevue. The opening of several light rail stations in the city is also anticipated to spur additional Transit Oriented Development growth along the light rail corridor. Single family home applications reached peak levels during the pandemic and are anticipated to be at more moderate levels in the forecast period.

Within the 2023-2024 Preliminary Budget, an additional 15.0 FTE are proposed in anticipation of continued demand for review/inspection work. The timing of construction projects will play a role in the level of staffing needed to support development activity. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload, maintain service levels, and budget alignment.

The Preliminary Budget includes a proposed policy change to adjust the Land Use discretionary review cost recovery objective and moves that objective from 50% to 100% fee supported. The proposed change would allow costs to be recovered through the Development Services rates and eliminates the need for a general fund subsidy for Land Use discretionary review. Development Services 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.



Downtown Park

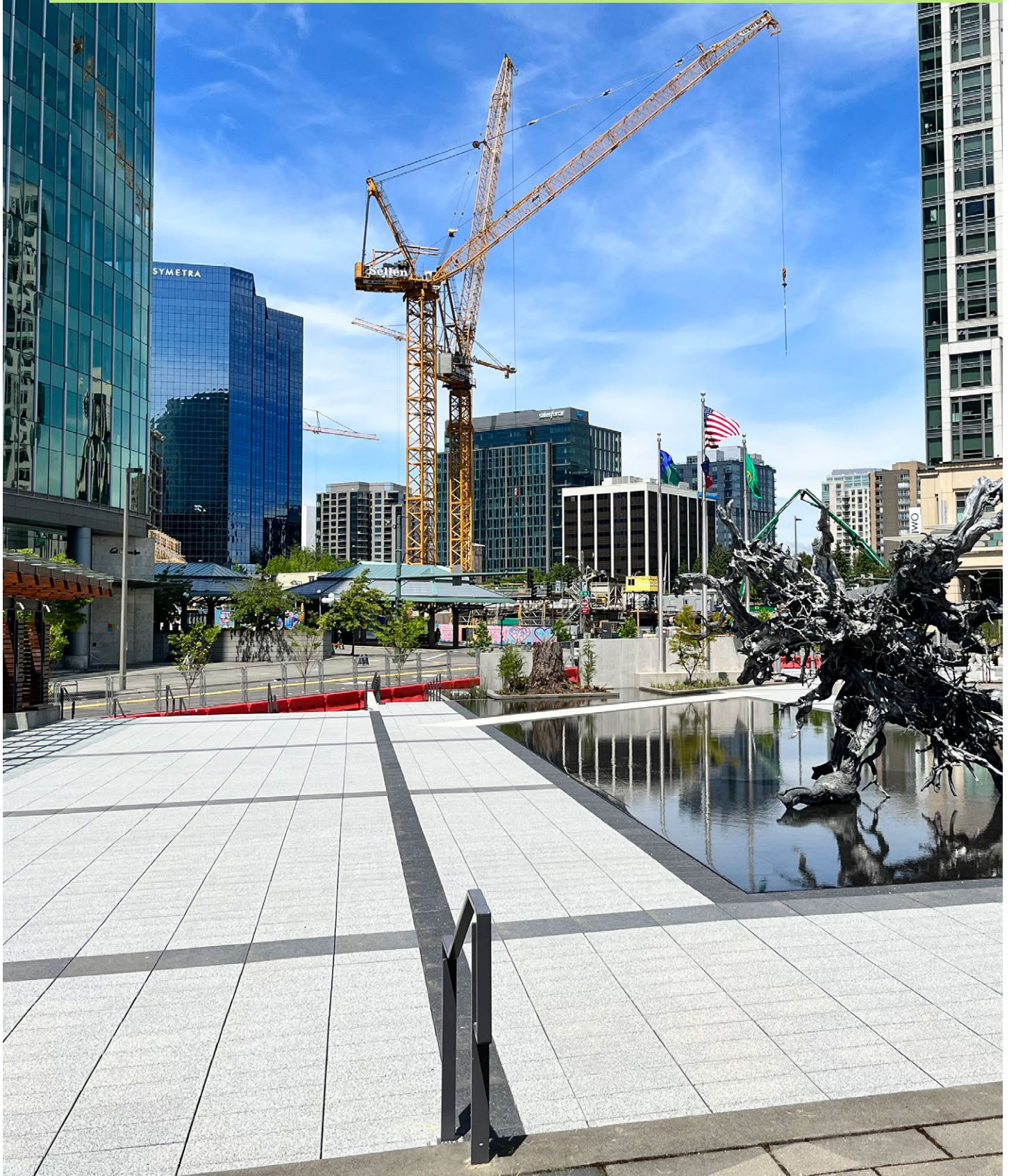
General Capital Investment Program

The 2023-2029 Preliminary General Capital Investment Program (CIP) plan prepares and serves as a catalyst for future development within a constrained budget.

Building on the 2021-2027 amended CIP, the Preliminary 2023-2029 CIP totals \$801 million, is balanced, and accomplishes the following:

- Continues and builds upon the City's Environmental Stewardship Initiative (ESI) by adding staff and resources to sustain the implementation of the ESI workplan and includes new investments in electric vehicle (EV) charging infrastructure and energy efficiency projects at City facilities.
- Supports continued improvements in the neighborhood's initiatives like the Neighborhood Enhancement Program, Fire Station 5 rebuild, and increased funding for the Neighborhood Congestion Management Project.
- Invests in architecture and engineering for an aquatics center.
- Invests in property acquisition for new or enhanced parks assets within the Lake Sammamish, Ashwood, Eastgate and Factoria neighborhoods as well as off-leash facilities and park trails within the city.
- Advances the strategies within the City's Economic Development Plan.
- Increases City's commitment to arts and culture, including investment in public art linked to park improvements, Arts District development, public buildings, transportation projects, and neighborhood sites.
- Continues to fund projects that support the city's growth including the Comprehensive Plan Update, Wilburton and the Grand Connection.
- Ensures the continuation of the city's three voted levies, Neighborhood Transportation Congestion, Safety, and Connectivity (sidewalks, walkways, bike paths), Fire Facilities, and Parks (Airfield Park and open space).
- Addresses the continued planned growth of the city including work on 124th Ave NE and the construction of Fire Station 10.
- Adds roadway improvements, and pedestrian and bicycle improvements as part of the Vision Zero project, 114th and 8th Street, the Growth Corridor Bicycle Network implementation, and new projects for the Mountains to Sound Greenway trail, a I-405 non-motorized crossing. South Wilburton pedestrian and bicycle connections, and BelRed TIFIA-supported projects.
- Funds the city's IT infrastructure including its next generation financial system and fosters Smart City initiatives throughout the city.
- Fulfills capital responsibilities for general government capital obligations including Parks Resource Management facility, fuel tank replacements and in ground lifts at our Fleet operations.
- Ensures debt obligations are met, including new debt service payment beginning in 2024 for the Transportation Infrastructure Financing and Innovation Act (TIFIA) loan.
- Continues the Council's long-standing policy to maintain what is currently built before building new infrastructure with programs such as the overlay and parks and refurbishment among others.

Alternate Format Appendix



Downtown Construction

Alternate Format Appendix

This Alternate Format Appendix has been included to provide a more accessible version of the data provided in this Executive Summary for those with differing abilities.

Budget Overview Numbers

General Fund

\$592 million

Supports most of the direct services to the community including police, fire, parks, community development and transportation.

Administrative operations such as legal, city management, finance, customer service, among others.

For more information regarding the various funds listed above, please see the Expenditure Summary section included in Chapter 4 of this budget.

Internal Service & Other Operating Funds

\$261 million

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, liability claims payments, employee medical expenses and technology service charges.

Enterprise Funds

\$568 million

City operations that are financed and operated like a private business, including Development Services, Parks Enterprise, Marina and Utility funds.

Special Purpose Funds

\$139 million

Some resources received are restricted either by state law or other request and dedicated to a specific purpose such as grants, donations, hotel/motel tax, park voter approved maintenance, among others. In addition, several areas of expenditure are isolated for accounting purposes such as debt service and human services.

Capital Investment Funds (General & Utilities including reserves)

\$679 million

Provides for major public facility improvements for items such as parks development, transportation roadways, signals, sidewalks and water and sewer pipes.

Performance Survey Results

Level of Expectations	2017	2018	2019	2020	2021
Greatly Exceeds Expectations	27%	30%	35%	33%	38%
Exceeds Expectations	67%	61%	58%	61%	56%
Meets Expectations	5%	5%	4%	3%	2%
Does Not Meet Expectations	1%	4%	3%	3%	1%

2023-2024 Total Resources

Category	\$ Million	Percentage
Sales Tax	\$221 Million	10%
B&O Tax	\$137 Million	6%
Property Tax	\$136 Million	6%
Other Taxes	\$78 Million	3%
Utility Tax	\$59 Million	3%
Beginning Fund Balance	\$566 Million	25%
Utility Services Fees	\$375 Million	17%
Operating Transfers	\$197 Million	9%
Charges for Services	\$181 Million	8%
Miscellaneous	\$185 Million	8%
Grants/Intergov't Srvs	\$91 Million	4%
Long-Term Debt	\$14 Million	1%
Short-Term Debt	\$0 Million	0%

2022 Property Tax Distribution

Location	Percentage
State of Washington	34%
Bellevue School District	29%
King County	15%
City of Bellevue	10%
Sound Transit	12%





For complete Budget Summary information:

BellevueWA.gov

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.

