

**CITY COUNCIL STUDY SESSION**

2021-2022 Mid-Biennium Budget Update

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**DIRECTION NEEDED FROM COUNCIL**

**INFORMATION ONLY**

Tonight is the third of several discussions related to the 2021-2022 Mid-Biennium Budget. Staff will provide an overview of all mid-biennium changes including operating and capital revenues and expenditures for Council consideration and discussion and an update to the General Fund forecast.

**RECOMMENDATION**

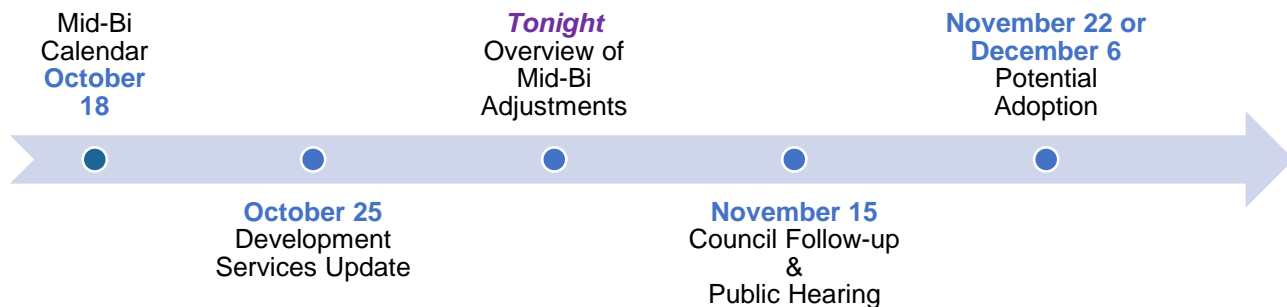
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**BACKGROUND & ANALYSIS**

Ordinance No. 6557 adopted the 2021-2022 Budget and the 2021-2027 Capital Investment Program (CIP) on December 14, 2020. The mid-biennium budget update provides an opportunity for modifications to the 2021-2022 operating budget and 2021-2027 CIP plan in accordance with RCW 35A.34.130. As is prior practice, mid-biennium changes include adjustments due to the current inflation factor on personnel and other expenditures, adjustments to fund budgets for updated fiscal information, corrections of errors, adjustments for impacts to recently passed state legislation, and other adjustments as needed. The budget is a fiscal plan and changes to it are typical.

**Mid-Biennium Budget Timeline**

Below is the tentative Mid-Biennium budget timeline. On November 15, staff will return with the public hearing to allow the public to provide comment and feedback on the mid-biennium budget. Staff will seek feedback from Council following the public hearing to either return on November 22 with an adoption package or to prepare other matters to bring on November 22 with adoption on December 6.



## **Prior Council Discussions**

The mid-biennium has had two previous discussions:

October 18: Staff provided an overview of the calendar including public hearing date and actions needed for adoption.

October 25: Development Services fee update was presented to Council for consideration, discussion, and direction. Council directed staff to return with legislation as described for 2022 Development Service fee rates and the Issaquah and Renton School Impact Fees.

## ***2021-2022 Adopted Budget Recap***

As the City prepared and adopted the 2021-2022 Budget, the City of Bellevue was in uncharted territory due to the impact of the pandemic. Stay-at home measures, ordered to slow the spread of the COVID-19, impacted the economy in 2020. By adoption time, the economy had begun to reopen. The 2021-2022 Adopted Budget set forth an operational and capital plan and included resources needed to provide quality services to the residents and stakeholders of Bellevue, responded to the revenue reduction due to COVID-19, addressed growing urbanization with critical investments, and advanced Council's Priorities and Council's vision to be "the city where you want to be".

In response to the pandemic and the uncertainty presented by it, the 2021-2022 Council Adopted Budget reduced the general fund by approximately \$16 million annually by:

- Cost containment including reducing spending for consultants, discretionary travel/training, temporary help, seasonal help, among others. These cost containment measures limit the flexibility for internal operations to address surge workload. In addition, the City moved toward a more reactive response to certain non-safety related maintenance areas. Streetscapes and some parks also saw aesthetic impacts with less frequent mowing and weeding, some lawns did brown out due to limited summer watering. The City continues to prioritize and fund all safety related maintenance functions.
- Delay major expenses (where possible) including moving the full opening of Fire Station 10 to early 2023 (with partial opening planned for 2022). Implementing a temporary (two-year) adjustment for the sales tax allocation from the General Capital Investment Program (CIP) fund to the General Fund to preserve core services
- Modest increase in revenues included the 1 percent property tax annual adjustment for 2021 and 2022 (\$9 annually for a \$1 million property), increase Basic Life Support (BLS) transport fee, and ensuring compliance with existing business & occupation (B&O) tax code.

## ***Mid-Biennium Budget Overview***

***Executive Summary:*** The City remains in uncertain times as the pandemic continues through 2021 and the foreseeable future. The mid-biennium update, provides a time to ensure that any known fiscal adjustments are addressed. The proposed mid-biennium budget update contains limited changes at the fund level to the 2021-2022 Adopted Budget and the 2021-2027 Capital Investment Program (CIP) Plan as adopted in Ordinance No. 6557. The proposed mid-biennium budget continues the Council direction on the 2021-2022 Adopted budget including the temporary (two-year) adjustment for the sales tax allocation from the General Capital Investment Program (CIP) and 1 percent property tax annual

adjustment for 2022 (\$9 annually for a \$1 million property) to ensure continued services to the residents and stakeholders and advances Council's Priorities and Council's vision. The following is an overview; see Attachment A for Mid-Biennium Changes by Fund.

***Personnel Adjustments that impact all funds with personnel***

As is the City's usual practice, the mid-biennium budget updates expenditures for the second year of the biennium including any known impacts from prior actions or Council amendments. At a minimum, inflation impacts all funds with personnel. Funds generally will not require an appropriation adjustment as they are balanced with changes to ending fund balance. The actual rates for 2022 are as noted below:

- June to June Seattle-Tacoma-Bellevue CPI-W, as published in July 2021 by Bureau of Labor Statistics (BLS), which provides the basis for most inflation and cost-of-living adjustments (COLA), is 6.3 percent. This inflation rate is substantially higher than forecasted a year ago, and higher than the recent 10-year average of just under three percent.
- All effective labor contracts which have been brought before Council which have set rate increases for 2022 have been adjusted in accordance with the contract.
- The employer portion of the Public Employees' Retirement System 2 (PERS 2) pension rate as published by the State of Washington has been adjusted to 10.07 percent.
- The employer portion of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 pension rate as published by the State of Washington is 5.12 percent.
- The self-insurance City contribution for medical and dental insurance was updated to the actuarial amount of \$24,537,202.

***General Fund***

As is the usual practice the mid-biennium budget updates revenues projections, adjusts expenditures for personnel, certain contracts, other miscellaneous items, and includes correction of errors. The general fund, which supports much of City operations, has seen sales and business & occupation tax increase since the adopted budget primarily due to the high level of construction in the City. On the other hand, the pandemic has also impacted the supply chain and one of the results has been increased inflation at 6.3 percent which offsets the increase in revenues. The expenditure adjustments include:

- Technical adjustments for inflation-related adjustments including personnel as noted above, and other rates, reorganized positions to ensure correct fund accounting, trues-up certain line items such as the City's ARCH contribution (as directed by Council on September 20), NORCOM contracts, and others. Additionally, includes the conversion of one Homelessness Outreach Coordinator from a limited term employee to a full time employee.
- Correction of errors found in the adopted budget including correcting duplicate entries and correcting a position error in an incorrect fund. Additionally, a transfer from the CIP for 2021-2022 was inadvertently omitted, the mid-biennium budget corrects this error, and there were a few immaterial errors also corrected.
- The 2021-2022 mid-biennium budget adds personnel costs for a daytime Battalion Chief in support of the opening of Fire Station 10.

## ***CIP & Other Funds***

### *General CIP*

Ordinance No. 6557 adopted the 2021-2022 Budget on December 17, 2020, and the 2021-2027 Capital Investment Program Plan, setting the project spending plan for the seven-year CIP plan. Since adoption, there have been several amendments to the General CIP. Additionally, there are two minor revenue-backed technical adjustments increasing the General CIP appropriation by \$197,210 and one adjustment to a debt service project reducing the General CIP appropriation by \$14,000 for a net appropriation increase of \$183,210.

### *Housing Fund*

The 2021-2022 Proposed Mid-Biennium Budget increases budget authority within the Housing Fund to transfer funds to the Human Services Fund projects per May 3 City Council direction. Council directed that 20 percent of the revenue raised from House Bill 1590 should be spent on two-year early funding opportunities for Human Service providers offering a variety of services (behavioral health, housing related services, etc.) as selected through a request for proposals (RFP) process for 2021 and 2022. The 2021 budget appropriation was addressed by Council on August 3, the mid-biennium adjustment is for 2022 only. Additionally, it increases expenditures for ARCH including two full time equivalent positions added as part of the 2022 ARCH budget presented to Council on September 20.

### *Human Services Fund*

The Proposed Mid-Biennium Budget increased appropriation within the Human Services to spend anticipated revenues from House Bill 1590 on affordable housing initiatives per City Council's May 3 guidance. Also, the mid-biennium budget includes appropriation authority to spend revenues from a portion of the Amazon donation received by the City in May 2021 for expenditures in 2022.

## ***Forecasts***

The goal of the forecast is to provide out year fiscal information as known today to assist in informing current decisions. As part of the mid-biennium budget, the City updates its six-year forecasts for the General (Attachment C), Parks Enterprise (Attachment B), Development Services (Attachment B) and Utilities funds (Attachment B). Staff will return in early 2022 with the latest financial outlook to better recognize the City's options going forward into the 2023-2024 budget process.

### *General Fund Forecast:*

Overall, revenues are showing increases over the adopted budget, primarily due to the high construction activity in the City. Construction sales tax proceeds are mainly one-time and follow the development cycle. Sales and Business & Occupation taxes are anticipated to return to 2019 levels by the end of 2021. However, long-term uncertainty remains about employer behavior and office occupancy rates as work evolves post-pandemic. Similarly, the long-term spending behaviors of Bellevue residents and visitors presents further uncertainty. The recovering economy has also resulted in increased costs due to 6.3 percent inflation which continues to place pressure on the general fund, and current estimates note that inflation will remain above 3 percent in 2023. As with prior forecasts, the City continues to forecast that expenditures in the General Fund will outpace revenues. The primary drivers are the structure of property tax not keeping pace with inflation and as the City continues to

experience substantial growth, the City will over time require more complex and urbanized services, thereby increasing costs. For the mid-biennium budget, this information is provided for context only and to assist in informing current fiscal decisions. Staff will return in early 2022 with options and information to influence the outyear forecast. For more information on the General Fund forecast, please see Attachment C.

### ***Property Tax***

The Adopted 2021-2022 Budget includes a 1 percent property tax adjustment for both 2021 and 2022. By State statute, the City Council is required to set the property tax each year. The mid-biennium budget continues the Adopted Budget of a 1 percent property tax adjustment in 2022. One percent in 2022 is estimated to be approximately \$9 for a property with a median assessed valuation of \$961,000 (*Source: 2021 King County Assessor*).

#### *Regular Property Tax Levy*

The proposed 2022 levy includes increases for new construction and a levy for prior year refunds based on preliminary information provided by the King County Assessor's Office. Minor revisions may be made when the final numbers are available from King County. The property tax information below includes the councilmanic statutorily allowable 1 percent adjustment in 2022.

King County has preliminarily established that Bellevue's total assessed value (AV) has increased to \$76.9 billion in 2022 from \$71.3 billion in 2021, an increase of 7.8 percent. As with past practice, staff will update the final assessed value information in January once the King County Assessor finalizes the property tax rolls. Under Initiative 747, the regular levy can grow at the lesser of a maximum of 1 percent annually or the rate of inflation. Inflation is defined as the increase in the implicit price deflator (IPD), plus additions for new construction. The IPD for 2022 is 3.86 percent, which means the City's councilmanic statutory ability to adjust property taxes will be limited to 1 percent other than when using banked capacity.

#### *Voted Property Tax Levies for Background:*

In November 2008 voters approved a levy lid lift for the parks and natural area programs. The levy lid lift provided \$3,389,000 annually to fund the parks capital program over 20 years and \$660,000 annually for ongoing maintenance and operations funding, for an annual total of \$4,049,000.

In November 2016, voters approved the Fire Facilities Levy to fund improvement to fire facilities at a 2017 property tax rate of \$0.125 per \$1,000 of assessed value for collection in 2017 and for 19 years thereafter as allowed by RCW 84.55.

Also in November 2016, voters approved the Neighborhood Safety, Connectivity and Congestion Levy to fund neighborhood projects at a 2017 property tax rate of \$0.15 per \$1,000 of assessed value for collection in 2017 and 19 years thereafter as allowed by RCW 84.55.

*Total Property Tax Levy:*

	2021	2022 Estimate
Assessed Valuation (\$ in Billions)	71.3	76.9
Regular Levy Amount (\$ in Millions)	43.8	45.1
Regular Property Tax Rate (Per \$1,000 AV)	0.62	0.59
Voted Levy Amount – Parks (\$ in Millions)	4.0	4.0
Voted Property Tax Rate – Parks (Per \$1,000 AV)	0.06	0.05
Voted Levy Amount – Fire Facilities (\$ in Millions)	6.9	7.1
Voted Property Tax Rate – Fire Facilities (Per \$1,000 AV)	0.10	0.09
Voted Levy Amount – Neighborhood Connectivity (\$ in Millions)	8.3	8.5
Voted Property Tax Rate – Neighborhood Connectivity (Per \$1,000 AV)	0.12	0.11
Total Property Tax Levy Rates (Per \$1,000) AV	<u>\$0.89</u>	<u>\$0.84</u>
*May not foot due to rounding		

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

RCW 35A.34.130: State law requires that a mid-biennium budget review be completed between August 31 and the end of the first year of the biennium and that a public hearing be held on the mid-biennium review.

RCW 35A.34.230: Council action on the City's 2022 property tax levy is required by State law in conjunction with the Budget update.

RCW 84.55.092 protects the future levy capacity for tax levies below the level that otherwise could be imposed.

### **Fiscal Impact**

Mid-Biennium fiscal impacts, if appropriated in their current form, are as noted by fund in Attachment A: 2021-2022 Mid-Biennium Changes by Fund.

## **OPTIONS**

N/A

## **ATTACHMENTS & AVAILABLE DOCUMENTS**

- A. 2021-2022 Mid-Biennium Changes by Fund
- B. Development Services, Parks Enterprise, and Utilities Funds Forecasts
- C. General Fund Forecast

## **AVAILABLE IN COUNCIL LIBRARY**

N/A