

CITY COUNCIL AGENDA TOPIC

Financial outlook of the broader economy and Bellevue

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

Tonight, staff will present an update on the financial outlook of the City with an emphasis on the key economic policies and forces that the City will continue to monitor in today's uncertain economic environment. The forecast reflects a continuation of the 2025 forecast and sets the stage for the 2027-2028 preliminary budget that will be before City Council for consideration this fall. Also discussed will be the methodologies used in rate setting by Development Services and Utilities.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS**Budget Survey Results***Survey Background*

The biennial Budget Survey is a statistically valid survey that captures opinion on city services, with a primary focus on community budget priorities. The 2025 Budget Survey was conducted from November 21, 2025, to January 5, 2026, with 1,278 people completing the survey. An external vendor, ReconMR, conducts the survey, with staff from the Finance & Asset Management Department coordinating the project. Surveys and outreach are conducted in multiple languages. Results are analyzed across a range of demographic categories, including age, race, income, and more. The full survey report will be published on the city website by June 27th. The report's executive summary is excerpted and attached as attachment A.

Quality of Life in Bellevue and Quality of City Services

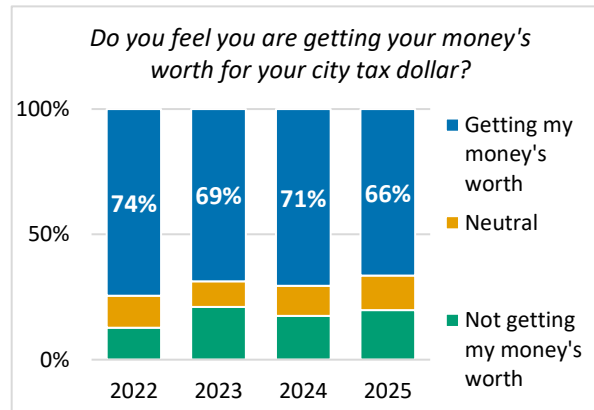
Survey results confirm that residents give relatively high ratings to life in Bellevue and the quality of city services. This is consistent with previous survey cycles. Nearly nine in 10 (88%) of survey respondents say that the quality of life in Bellevue exceeds their expectations. Most residents (82%) say that the overall quality of city services exceeds their expectations, with renters giving higher ratings to this question than homeowners.

Residents who noted “exceeds or greatly exceeds expectations”

Quality of Life	Quality of City Services
88%	82%

Value for Tax Dollar

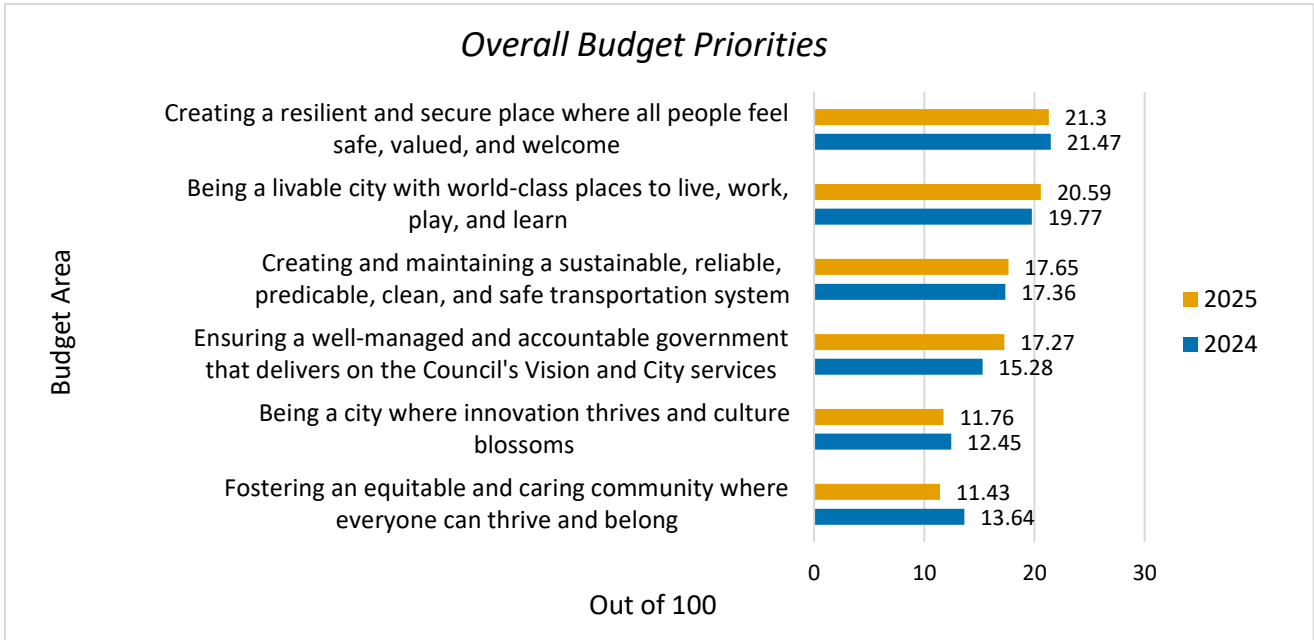
Two-thirds of survey respondents (66%) feel they are getting their money’s worth for their tax dollars paid. This result has remained stable since 2023. In the most recent survey, renters give this question higher ratings than homeowners.



Budget Priorities

The survey asks respondents to rank budget priorities, which align to council Strategic Target Areas. These rankings are consistent with the last survey cycle in 2024. The top three priorities are:

- “Creating a resilient and secure place where all people feel safe, valued, and welcome”
 - This is the most important priority for households that speak a language other than English and for households that have limited English proficiency.
- “Being a livable city with world-class places to live, work, play, and learn”
 - This priority is more important for households with annual incomes of \$150,000 or more than it is for households that make less than \$150,000.
- “Creating and maintaining a sustainable, reliable, predicable, clean, and safe transportation system”
 - This priority is significantly more important for single-person households than it is for households with multiple people.

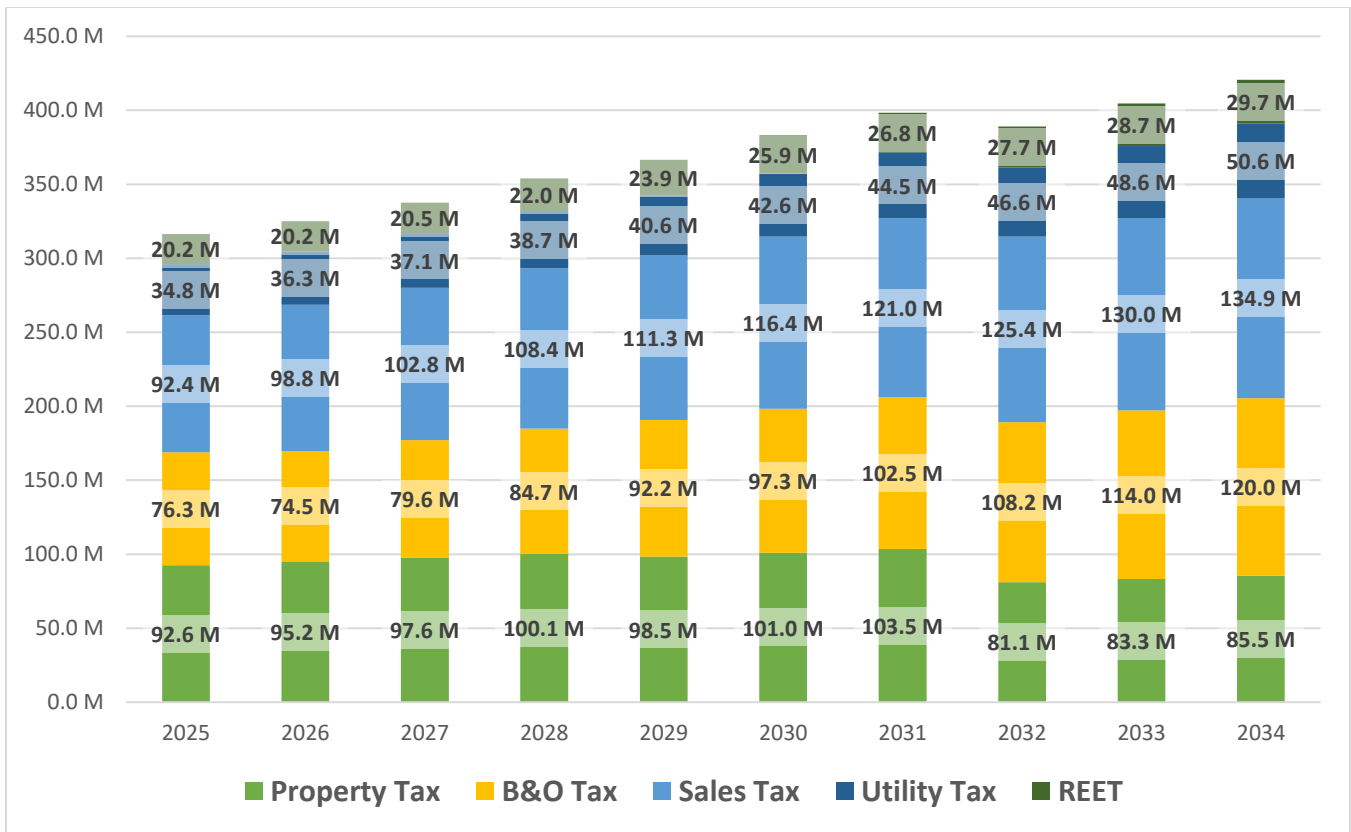


Financial Outlook

Staff have been working to develop an updated financial outlook for the city over the past several months and, tonight, will outline the key takeaways, monitoring items, and economic policy issues. This new forecast reflects the latest data available to staff.

Bellevue Impacts & Conclusions

Diminished consumer confidence, instability, and rising costs may impact City revenues, and persistent inflation will continue to impact the costs of providing services. The current forecast shows that revenues throughout 2026-2028 will remain relatively flat but start to recover in the outyears.



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Property Tax	92.6 M	95.2 M	97.6 M	100.1 M	98.5 M	101.0 M	103.5 M	81.1 M	83.3 M	85.5 M
B&O Tax	76.3 M	74.5 M	79.6 M	84.7 M	92.2 M	97.3 M	102.5 M	108.2 M	114.0 M	120.0 M
Sales Tax	92.4 M	98.8 M	102.8 M	108.4 M	111.3 M	116.4 M	121.0 M	125.4 M	130.0 M	134.9 M
Utility Tax	34.8 M	36.3 M	37.1 M	38.7 M	40.6 M	42.6 M	44.5 M	46.6 M	48.6 M	50.6 M
REET	20.2 M	20.2 M	20.5 M	22.0 M	23.9 M	25.9 M	26.8 M	27.7 M	28.7 M	29.7 M

City staff have confidence in this relative stability based on the data currently available and our conservative future year forecasting methodology. However, this update highlights the notable economic policy uncertainty and associated watch items that cloud the city's and, more broadly, the national economic pictures. It may take nine to eighteen months to have full data available to analyze the true financial impact of any one of these items and establish a new economic baseline. Therefore, in alignment with the City's Financial Strategy Guiding Principles (below), staff recommends a cautious and transparent approach to financial decision making in the near term with carefully calibrated risks as the needs of the City evolve. Staff will continue to monitor the situation over the coming months and will provide updates as it develops

The economic policy uncertainty is driven by varied and sometimes competing or compounding forces.

At a high level, staff analysis indicates that the following are the primary drivers.

Geopolitical Instability

- Middle East conflicts present ongoing risks to commodity prices leading to potential inflationary effects.

Labor Market

- Washington has a low unemployment rate of 5.2 percent as of April.
- Recent layoff notices in Washington state suggest potential challenges ahead despite the low unemployment rate.

Inflation & Interest Rates

- Interest rates set by the Federal Reserve remain at 3.75% and prospects for near-term rate cuts remain uncertain.
- Uncertainty in the economy may keep inflation above the Federal Reserve's 2% target.

Washington State Legislation

- 2026 State law changes to sales and business & occupation (B&O) taxes will lead to uncertainty in these sensitive revenues well into 2028.

Development Services Outlook and Rate Methodologies

The ongoing success of the Development Services line of business requires quick responses to shifts in workload, performance, or revenues generated from permit fees as Bellevue travels through development cycles. When development activity is increasing, it is critical to respond quickly by adding staff and consultants to maintain timelines that ensure developers are not hindered in their ability to secure financing and move projects forward. When development activity decreases, it is also important to make measured reductions in costs to protect the financial health of the development services function. At all times it is vital to retain a basic level of skills, qualifications, and capacity needed to respond to all aspects of development services.

Development interest in Bellevue has remained strong with several major commercial and multi-family residential projects in the development review pipeline. However, economic factors such as low demand for office space, high interest rates, and high construction costs have contributed to fewer major projects starting construction over the past year. The major project development activity forecast is expected to continue at this moderate pace through early forecast period. This moderate pace of major project activity continues to be buffered by a high pace of development permit applications in other sectors, including mixed-use, single-family, and middle housing development. Attachment B provides a detailed forecast including revenue projections.

Each year a cost-of-service study is initiated using tools that assess service levels, financial performance, and forecast changes in development activity. The analysis and resulting fee adjustments are essential to sustaining service levels, maintaining revenues to support operations, and ensuring competitive fees in our region.

The financial management guiding principles previously endorsed by council for Development Services include:

- Fees should be regionally competitive and provide timely, high-quality services.
- Applicants should pay for the services they receive.
- Fiscal management should be performed on an overall development services basis.
- Funding structure should support the management of development services as a line of business through economic cycles and fluctuations in workload.

Council has also set cost recovery objectives for development services. Setting cost recovery objectives based on the type of service being delivered provides a more understandable and consistent approach for setting fees, with common objectives across departments and functions. The cost recovery targets established by the Council are as follows:

Type of Service	Cost Recovery Target	Funding Source
Policy Development & Public Information	0%	100% General Fund/Utilities Fund supported
Code Compliance	0%	100% General Fund supported
Affordable Housing Fee Reduction Program	0%	100% General Fund supported
Small Business & Public Space Program	0%	100% General Fund supported
Land Use Discretionary Review	100%	100% fee supported
Engineering Review & Inspection	100%	100% fee supported
Technical/ Administrative Support	100%	100% fee supported

Development Services rates are adjusted annually to ensure that fees keep pace with the cost of providing services, maintain alignment with established cost recovery policies, and to sustain adequate resources to meet demand through the development cycles. Permit fees collected to support development services follow two primary approaches: hourly rates based on the staff time needed to complete permit review and inspections, and fees based on the calculated value of the permitted work.

The hourly rate adjustments for land use, fire, transportation, and utilities plan review and inspection are expected to reflect cost increases above inflation and include the total cost such as staffing, city-wide overhead, facilities, technology services, administrative services, and reflect staff reallocation for continuous improvement efforts.

Permit fees supporting building review and inspection services are based on the estimated construction value and follow established industry standards including:

- Adopting the updated building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2025 to August 2026.
- Adjust the BVD table using the Washington State modifier from July 2025 to July 2026 as published by Marshall and Swift to align with Washington state construction costs.
- Adjust building review and inspection fees, including permits for electrical, mechanical, and

plumbing systems, by CPI-W.

The annual cost-of-service study is underway and expected to be completed prior to introduction of the preliminary budget in September of this year. During the annual cost-of-service study staff assure the most current costs are incorporated, including the July CPI, Washington state modifier, and the August building valuation data table. This ensures that rates and fees are based on full cost recovery. While updates to 2027 rates and fees are underway now, staff anticipate the updates to slightly exceed inflation factors due to personnel and internal overhead costs. Historically, fees and rates have increased by up to 9.6% and staff expect 2027 rates to stay below this level. Development Services will return to council in the early stage of preliminary budget discussions to provide recommended rates and fees, including any considerations for the use of rate offset reserves to maintain rate stability.

Utilities Outlook and Methodologies

The City's utilities are financially independent and self-supporting and are not subsidized by the City's general tax resources. As such, rates for the City's utilities are set for full cost recovery, including wholesale service pass-through costs, development services, and the cost of capital facilities to provide utility services. Utility rates comprise the majority of revenue to support the City's utility funds – approximately 86 percent of utility fund revenues in 2025. Other sources of revenue include interest earnings on investments, utility connection charges, development review and inspection fees, and solid waste administrative and performance incentive fees.

Water, Sewer, and Storm and Surface Water Utility Rate Forecast

The 2027-2032 outlook for utility rates includes:

- Wholesale Costs
 - Anticipated increases to wholesale water supply costs and sewer transmission and treatment costs assessed by the Cascade Water Alliance and King County respectively.
 - Cascade forecasts annual wholesale water supply cost increases for Bellevue ranging from 9.5 to 9.0 percent between 2027 and 2032.
 - King County anticipates annual 12.75 percent wholesale wastewater treatment cost increases from 2027 to 2030 followed by 11.50 percent annual increases in 2031 and 2032.
 - Cost increases for wholesale services are passed directly through to Bellevue customers, consistent with the city's comprehensive financial policies.
- Local Costs
 - The outlook includes planned rate increases to fund current capital infrastructure investments and future infrastructure renewal and replacement needs to ensure system integrity and that each generation of customers pay their proportional share of system costs, consistent with the city's comprehensive financial policies.
 - Expansion of the Utility Bill Assistance (UBA) program consistent with council direction earlier this month. Beginning in 2027, single-family residential and multi-residential

- households with annual incomes up to 80% of the area median income would be eligible for long-term bill assistance ranging from 35% to 70% of basic utility costs.
- Increases to state and local taxes and franchise fees as well as payments to the general fund for support services. Taxes and franchise fees are assessed on utility revenues including revenues generated on council-approved rate increases.
- Cost inflation related to personnel and non-personnel costs to sustain existing service for the local components of each utility.
- Sufficient operating contingency and reserve funding that is consistent with the City's comprehensive financial policies.
- Sewer Equity Adjustments
 - The sewer rate forecast also includes annual rate adjustments that are specific to the single-family residential, multi-family residential, and non-residential customer classes to improve rate equity between the three customer types. These adjustments are part of a five-year phase-in plan to achieve full cost equity for all customer types by 2031.
 - Ensuring utility rates provide for equity between customers based on use of the system and services provided is consistent with the city's comprehensive financial policies.

The following table outlines the forecasted increases to utility rate revenue for the water, sewer, and storm and surface water utilities over the next six years. Attachment C provides a detailed outlook of key drivers and anticipated utility rate increases for the utility funds.

	2027	2028	2029	2030	2031	2032
Water	7.7%	7.7%	7.7%	7.7%	7.0%	7.0%
Sewer	10.1%	10.1%	11.2%	11.2%	9.4%	9.4%
Storm and Surface Water	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Due to the sewer equity adjustments that are specific to each customer type, the bill impacts from these projected utility rate increases will vary by customer type. The following section summarizes these estimated typical monthly bill impacts.

Single-Family Residential Typical Bill Impact

The typical single-family residential monthly customer bill for Water, Sewer, and Storm and Surface Water management services is projected to increase by 9.8% or \$22.38, from \$229.52 to \$251.90 in 2027. The forecasted annual rate adjustments from 2027 to 2032 are projected to increase the typical single-family residential bill by approximately 8.1% to 10.5% percent each year.

	2027	2028	2029	2030	2031	2032
Combined Utility Bill						
Bill Increase as a Percent	9.8%	9.7%	10.5%	10.5%	8.6%	8.1%
Prior Year Bill	\$229.52	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41
Increase						
Wholesale	\$10.53	\$11.83	\$13.09	\$14.53	\$14.95	\$16.51
Local - Bill Assistance Expansion	\$2.06	\$0.12	\$0.00	-\$0.31	\$0.00	\$0.00
Local - Other	\$6.95	\$9.35	\$11.68	\$12.85	\$11.04	\$13.22
Sewer Equity Adjustment (2027-2031)	<u>\$2.84</u>	<u>\$3.19</u>	<u>\$4.18</u>	<u>\$4.87</u>	<u>\$3.14</u>	<u>\$0.00</u>
Total Projected Increase	\$22.38	\$24.49	\$28.95	\$31.94	\$29.13	\$29.73
Total Projected Bill	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41	\$396.14
Total Projected Bill with 70% Discount*	\$100.71	\$110.30	\$121.63	\$134.10	\$145.41	\$156.93
Total Projected Bill with 35% Discount*	\$176.30	\$193.35	\$213.48	\$235.69	\$255.91	\$276.53

Notes

- [a] Sewer bill based on 11 CCF bi-monthly volume
- [b] Water bill based on 14 CCF bi-monthly volume
- [c] Surface water bill based on 5 chargeable units at moderate development intensity
- [d] Utility discount based on 35% or 70% of basic utility costs

Multi-Family Residential Typical Bill Impact

The typical multi-family residential monthly cost for Water, Sewer, and Storm and Surface Water management services is projected to increase by 8.2% or \$10.51, from \$128.40 to \$138.91 in 2027. The forecasted annual rate adjustments from 2027 to 2032 are projected to increase the typical single-family residential bill by approximately 6.3 to 8.3 percent each year.

	2027	2028	2029	2030	2031	2032
Combined Utility Bill						
Bill Increase as a Percent	8.2%	6.5%	6.9%	6.8%	6.3%	8.3%
Prior Year Bill	\$128.40	\$138.91	\$148.00	\$158.18	\$169.01	\$179.65
Increase						
Wholesale	\$6.33	\$7.09	\$7.60	\$8.17	\$8.09	\$8.82
Local - Bill Assistance Expansion	\$1.11	\$0.09	\$0.00	-\$0.20	\$0.00	\$0.00
Local - Other	\$4.02	\$5.32	\$7.11	\$8.21	\$7.21	\$6.16
Sewer Equity Adjustment (2027-2031)	<u>-\$0.95</u>	<u>-\$3.41</u>	<u>-\$4.53</u>	<u>-\$5.35</u>	<u>-\$4.66</u>	<u>\$0.00</u>
Total Projected Increase	\$10.51	\$9.09	\$10.18	\$10.83	\$10.64	\$14.98
Total Projected Bill	\$138.91	\$148.00	\$158.18	\$169.01	\$179.65	\$194.63
Total Projected Bill with 70% Rebate*	\$52.57	\$59.91	\$68.13	\$76.80	\$85.31	\$91.53
Total Projected Bill with 35% Rebate*	\$95.74	\$103.95	\$113.16	\$122.90	\$132.48	\$143.08

Notes

- [a] Sewer bill based on 50 dwelling units at 8 CCF bi-monthly volume per dwelling unit (400 CCF total)
- [b] Water bill based on 400 CCF bi-monthly volume for 50 dwelling units
- [c] Surface water bill based on 44 chargeable units at very heavy development intensity divided by 50 dwelling units
- [d] Utility discount based on 35% or 70% of basic utility costs

The attached 2027-2032 Utilities Early Outlook Rates Forecast presents the rates and key rate drivers for the Water, Sewer, and Storm and Surface Water utilities.

POLICY & FISCAL IMPACTS

Policy Impact

There is no policy impact for this item.

Fiscal Impact

There is no financial impact with this information.

OPTIONS

N/A

ATTACHMENTS

- A. Budget Survey Executive Summary
- B. DS 2026-2032 Forecast
- C. Utilities 2026-2032 Forecast

AVAILABLE IN COUNCIL LIBRARY

N/A