



11/12/2019

CITY COUNCIL STUDY SESSION

2019-2020 Mid-Biennium Budget Update

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DIRECTION NEEDED FROM COUNCIL

DIRECTION

Tonight is the third of several discussions. Staff will provide for Council consideration, discussion and direction an update to the General Fund forecast, and an overview of all other mid-biennium changes, including operating and capital revenues and expenditures. In addition, in response to Council request at the adoption of the 2019-2020 budget on December 3, 2018, staff will present an update to the Fire Inspection Fee for Council review and direction. Finally, staff will review the impacts of Substitute House Bill 1406, which provides for a sales tax credit against the state for affordable housing and the needed Council actions to receive the funding. Staff requests direction to return on November 18 Consent Calendar with legislation to receive the funding for SHB 1406 and direction to return on December 2 with an updated Fire Inspection Fee Ordinance.

RECOMMENDATION

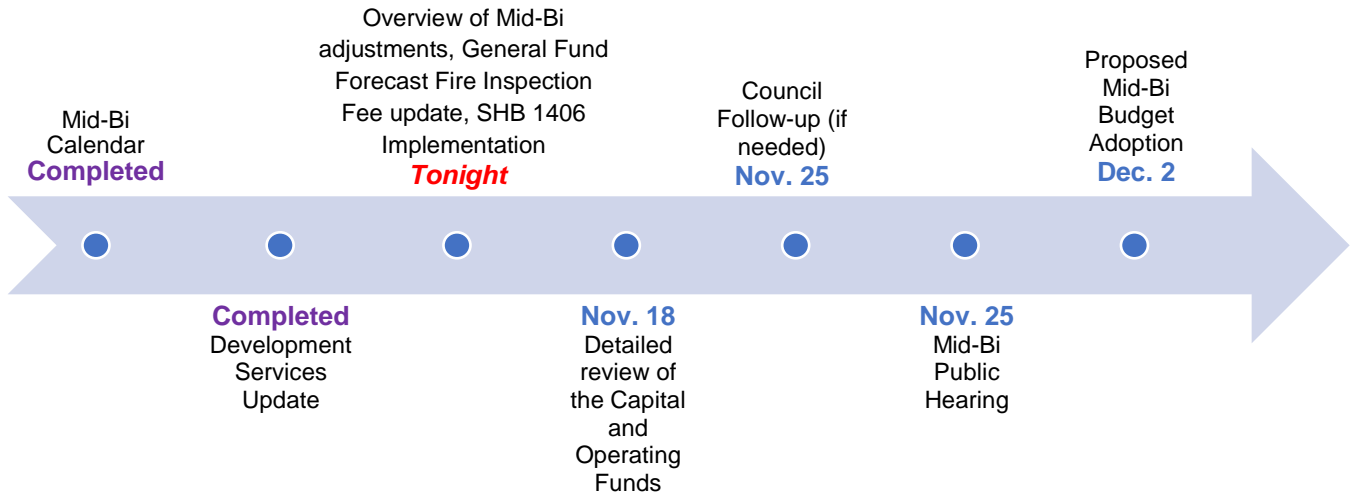
Direct staff to return with legislation for approval at a future meeting for both Affordable Housing Sales Tax Credit (SHB1406) and Fire Inspection Fee Ordinance.

BACKGROUND & ANALYSIS

Ordinance 6445 adopted the 2019-2020 budget and the 2019-2025 Capital Investment Program (CIP) Plan on December 3, 2018. The mid-biennium budget update provides an opportunity for modifications to the 2019-2020 operating budget and 2019-2025 CIP plan in accordance with RCW 35A.34.130. As in prior practice, mid-biennium changes include adjustments to personnel for updated cost of living and other impacts, adjustments to fund budgets for updated fiscal information, corrections of errors, adjustments for impacts related to recently passed state legislation, and other adjustments as needed. Since the mid-biennium is generally limited by design, there may be other adjustments that Council wishes to consider. The budget is a fiscal plan and changes to it are typical. This is the third of several meetings with the Council to discuss, consider, and provide direction for the adoption of the 2019-2020 Mid-Biennium Operating Budget and the 2019-2025 CIP plan.

Mid-Biennium Proposed Timeline

The proposed timeline for the mid-biennium budget update is as follows:



Mid-Biennium Council Actions

Depending on Council direction, tentative action on the mid-biennium is scheduled for December 2. There are several actions that will be required to adopt the 2019-2020 mid-biennium update, including:

- Development Services Fee Ordinance: Set the Development Services 2020 rates.
- Fire Inspection Fee Ordinance: Set the Fire Inspection 2020 rates.
- 2020 Property Tax Levy Ordinance: Adopt 2020 property tax levy (RCW 35A.34.230).
- 2020 Property Tax Banked Capacity Resolution: Preserve the full levy amount available to the City (RCWs 84.55.005, 84.55.0101 and 84.55.092).
- 2019-2020 Mid-Bi Budget Ordinance: “Umbrella” budget ordinance that includes appropriation approval by fund, 2020 pay plans and summarizations of grants and donations accepted that are less than \$90,000.
- Any other action as directed by Council.

Council will not be required to adopt the 2020 Utilities rates as they were included with the 2019-2020 Adopted Budget via Ordinances 6440, 6441 and 6442 on December 3, 2018.

As with prior Mid-Biennium discussions, staff will monitor Council questions and provide a “Memory Bank” in future packets, as needed.

Prior Council Discussions

- October 28 - Staff presented the mid-biennium budget calendar and process to Council.
- November 4 - Staff presented Development Services rate adjustments. Council directed staff to return on December 2 with a Development Services Fee Ordinance reflecting the fee structure presented and 6 full-time equivalent personnel.

Mid-Biennium Budget Overview

EXECUTIVE SUMMARY:

The proposed mid-biennium budget adjustment update contains limited, primarily technical, changes at the fund level to the 2019-2020 Adopted Budget and 2019-2025 Capital Investment Program (CIP) Plan as adopted on December 3, 2018 via Ordinance 6445. The proposed mid-biennium budget maintains current services and provides for a modest increase in public safety, A Regional Coalition of Housing (ARCH) contribution, and development services to address growth of the city, for a total growth of 8 full time equivalent personnel, 6 of which are development services revenue-backed. As adopted in the 2019-2020 Budget, the mid-biennium proposes the statutorily available one percent adjustment to property tax. The details of the adjustments are further described below, and several will be presented on November 18.

Since the adoption of the 2019-2020 Budget, several events have provided opportunities for re-consideration at this Mid-Biennium, including:

- At the adoption of the 2019-2020 budget on December 3, 2018, Council directed staff to return at the mid-biennium with a review of the Fire Inspection Service. That review has been completed, and in response to outreach on the fire inspection fee, this mid-biennium proposes adjustments to the structure. See Attachment A for details. Staff will present these findings tonight and requests direction to return on December 2 with an updated fire inspection fee ordinance.
- The State passed Substitute House Bill (SHB) 1406, which allows cities to claim a sales tax credit against the state for affordable housing. This mid-biennium proposes adjusting the City Housing Fund by a \$625,000 appropriation increase in response to the legislative action. See Attachment B for details. Staff will present these findings tonight and will include a request for Council direction to return with needed legislation on November 18 Consent Calendar to secure the funding.
- Regarding the CIP, the national standard for transportation trip rates have been updated. Staff is developing a rate schedule update that is intended to be revenue-neutral for the City's adopted CIP. Staff will present these findings on November 18.

Since the mid-biennium proposal before Council is limited in nature by design, there may be other adjustments the Council wishes to consider as part of the mid-biennium update.

MID-BIENNIUM ADJUSTMENTS– See Mid-Biennium Changes by Fund (Attachment G) for appropriation changes by fund.

Personnel adjustments that impact all funds with personnel

As is the City's usual practice, the mid-biennium updates personnel rates to actual 2020 rates and adjusts personnel costs for any known impacts from prior actions or Council amendments. Personnel adjustments impact multiple funds, including the general fund, development services fund, facilities fund, general self-insurance fund, health benefits fund, housing fund, information technology fund, operating grants, donations and special reserves fund, parks enterprise fund, sewer utility fund, solid waste fund, storm and surface water fund, water utility fund, and equipment rental fund. Funds generally will not require an appropriation adjustment as they are balanced with changes to ending fund balance. The actual rates for 2020 are as noted below:

- June to June Seattle-Tacoma-Bellevue CPI-W, as published on July 11 by the Bureau of Labor Statistics (BLS), which provides the basis for most cost of living adjustments (COLA), is 1.7 percent.
- All effective labor contracts which have been brought before Council which have set rate increases in 2020 have been adjusted in accordance with the contract.
- The employer portion of the Public Employees' Retirement System 2 (PERS2) pension rate as published by the State of Washington is 12.86 percent.
- The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 pension rate as published by the State of Washington is 5.33 percent.
- The Municipal Employees Benefit Trust (MEBT) salary limit that creates a ceiling for employer contributions to employee retirement increased to \$137,552, which means that the City will contribute to MEBT up until an employee's salary reaches the salary limit.
- The self-insurance city contribution for medical and dental insurance was updated to the actuarial amount of \$21,675,418.

General Fund

As is the usual practice, the mid-biennium updates revenue projections, adjusts personnel for existing costs (noted above), and continues to build reserves to address known events as well as helps position the city for risks and mitigations. In addition, the General Fund is requesting two full-time equivalent personnel for police including a detective in the Special Assault Unit (SAU) and a Property Evidence Technician to address immediate public safety needs due to growth. Bellevue's contribution to ARCH increased by \$95,971 as discussed on October 21, this mid-biennium includes the update. These changes will be discussed on November 18.

Based on previous Council direction on Fire Inspection Fees, the Fire Department has collected time associated with the maintenance inspections and analyzed the fee scheduled to be collected. An anticipated \$900,000 is estimated to be collected in General Fund revenue on an annual basis to cover the costs associated with delivering this service. Staff will provide a detailed briefing on of Fire Inspection Fees update tonight. See Attachment A for further details.

Development Services Fund

On November 4, Development Services staff presented for Council consideration and discussion, adjustments to the 2020 Development Services fee ordinance for all Development Services functions, including building, land use, fire, transportation, survey and utilities plan review and inspection. 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 cycle. High workload is anticipated through 2020 and Development Services is requesting budget authority for an additional 6 fee-supported full-time equivalent positions to be filled as the demand for development review and inspection services warrants. Council directed staff to return on December 2 with a Development Fee Ordinance reflecting the fee structure presented and 6 full-time equivalent personnel. See Attachment F – Development Services Fees Update (Reprint from November 4).

City Housing Fund

Substitute House Bill (SHB) 1406 that re-directs a portion of state retail sales tax for local use for affordable housing, passed in the 2019 state legislative session. To implement SHB 1406, as required by state statute, two pieces of legislation are needed: 1) a resolution expressing Bellevue's intent to impose the sales tax authority as a credit against the state sales tax, and 2) an ordinance implementing credit. If Council directs, staff will include these actions on the November 18 Consent Calendar for adoption. The City may begin collecting the revenue on January 1, 2020. Current estimates provide \$625,000 in annual housing fund revenue for the City. Actual collections will fluctuate depending on the economic health of the City. The mid-biennium budget proposes to increase appropriation in the Housing Fund by \$625,000. See Attachment B for further details.

In the October 21 study session, ARCH staff briefed the Council on the 2020 budget increase of \$385,876, Bellevue's share of the ARCH budget increase is \$95,971. This mid-biennium proposes to increase appropriation by \$95,971. Staff will return with more details on by fund changes on November 18.

CIP Fund

Ordinance 6445 adopted the 2019-2020 Budget on December 3, 2018 and approved the 2019-2025 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. See Mid-Biennium Changes by Fund (Attachment G) for appropriation changes by fund.

The total expenditure mid-biennium 2019-2020 adjustment is a net increase of \$252,428 due to additional private contribution received in Bel-Red Parks and Streams, P-AD-103. All adjustments proposed for the seven-year CIP are fully revenue backed by grants and private contributions. Staff will return on November 18 with additional information.

Adjustment to Transportation Impact Fees Schedule:

Associated with recent updates to the city's Transportation Facilities Plan (TFP) and Institute of Transportation Engineers (ITE) Trip Generation Manual, staff have been evaluating implications to the City's Transportation Impact Fee Program and Capital Investment Program (CIP) Plan. Staff is developing a Rate Schedule update that is intended to be revenue-neutral for the City's adopted CIP. Staff will return on November 18 with a proposed Rate Schedule and additional information.

Other Funds

Finally, there are three fund appropriation adjustments to address corrections in appropriations. All are technical in nature, including \$5.3 million in the Water Utility Fund, \$1.1 million in the Human Services Fund and \$1.4 million in the Operating, Grants, Donations and Special Reserves Fund.

Forecasts

General Fund Forecast:

Overall, the General Fund outlook has improved slightly since 2019-2020 budget adoption but continues to show expenditures will outstrip revenues. The improvement is mainly driven by the new Ground Emergency Medical Transportation (GEMT) revenue approved earlier this year by Council. The 2019-2020 Adopted Budget took the first steps to addressing the long-term fiscal challenges including working with employees to implement strategies impacting out year health care costs, adjusting annually the property tax by the statutorily available one percent, and implementing a Fire Inspection Fee. As committed during the 2019-2020 budget discussion, the Leadership Team continues to review a broad set of potential areas to help inform the City Manager on a set of actions to address the fiscal challenge facing the General Fund; including embracing best practices to find efficiencies and reviewing service levels for some of our major program and operational areas. This discussion will continue into the 2021-2022 Budget discussions next year with Council.

State law requires staff provide current information on estimates of revenues for enterprise funds. The General Fund (Attachment C), Utility Funds (Attachment D), Parks Enterprise Fund (Attachment E), and Development Services (Attachment F – Reprint from November 4) Financial Forecasts are attached.

Property Tax

The adopted 2019-2020 budget includes a one percent property tax adjustment for both 2019 and 2020. Council by state statute is required to set the property tax each year. The mid-biennium continues the adopted budget of a one percent property tax adjustment in 2020. One percent in 2020 is estimated to be approximately \$8 for a property with a median assessed valuation of \$936,000.

Regular Property Tax Levy:

The proposed 2020 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 one percent adjustment in 2020.

King County has preliminarily established that Bellevue's total AV has increased to \$68.2 billion in 2020 from \$64.9 billion in 2019, an increase of 5 percent. Under Initiative 747, the regular levy can grow at the lesser of a maximum of one 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 2019 is 2.17 percent, which means that the city's councilmanic statutory ability to adjust property tax will be limited to one 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 provides \$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 improvements 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 chapter 84.55 RCW.

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 for 19 years thereafter as allowed by chapter 84.55 RCW.

Total Property Tax Levy:

	<u>2019</u>	<u>2020</u> <u>(Estimate)</u>
Assessed Valuation (\$ in Billions)	\$64.9	\$68.2
Regular Levy Amount (\$ in Millions)	41.1	42.2
Regular Property Tax Rate (Per \$1,000 AV)	0.63	0.62
Voted Levy Amount – Parks (\$ in Millions)	4.0	4.0
Voted Property Tax Levy Rate (Per \$1,000 AV)	0.06	0.06
Voted Levy Amount – Fire Facilities (\$ in Millions)	6.5	6.7
Voted Property Tax Levy Rate (Per \$1,000 AV)	0.10	0.10
Voted Levy Amount – Neighborhood Connectivity (\$ in Millions)	7.8	8.1
Voted Property Tax Levy Rate (Per \$1,000 AV)	0.12	0.12
Total Property Tax Levy Rates (Per \$1,000 AV)	\$0.92	\$0.90

*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 2020 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 G: 2019-2020 Mid-Biennium Changes by Fund.

OPTIONS

1. Direct staff to return with legislation for approval at a future meeting for both Affordable Housing Sales Tax Credit (SHB1406) and Fire Inspection Fee Ordinance.
2. Do not direct staff to return with legislation for approval and provide alternative direction.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Fire Inspection Fee Update
- B. SHB 1406 Implementation Information
- C. General Fund Financial Forecast
- D. Utility Funds Financial Forecast
- E. Parks Enterprise Fund Financial Forecast
- F. Development Services Fees Update (Reprint from November 4)
- G. Mid-Biennium Changes by Fund

AVAILABLE IN COUNCIL LIBRARY

N/A

Fire Inspection Fee Update

On December 3, 2018 Council approved ordinance 6443 that requires collection of Fire Inspection Fees for fire maintenance inspections beginning January 1, 2020. Council provided direction to staff to conduct stakeholder outreach throughout 2019 and adjust the inspection fee as necessary to ensure it covered the cost of the Fire Prevention Officers performing maintenance inspections and to ensure there was a nexus between the level of effort required to complete the inspections and the fee collected.

Staff have conducted outreach to stakeholder groups, completed direct mailings to owners/managers, provided information materials at the time of inspection, posted information on the Fire Department's Internet page, responded to numerous questions throughout the year and collected feedback. The Fire Department has also collected time associated with the maintenance inspections and analyzed the fee scheduled to be collected.

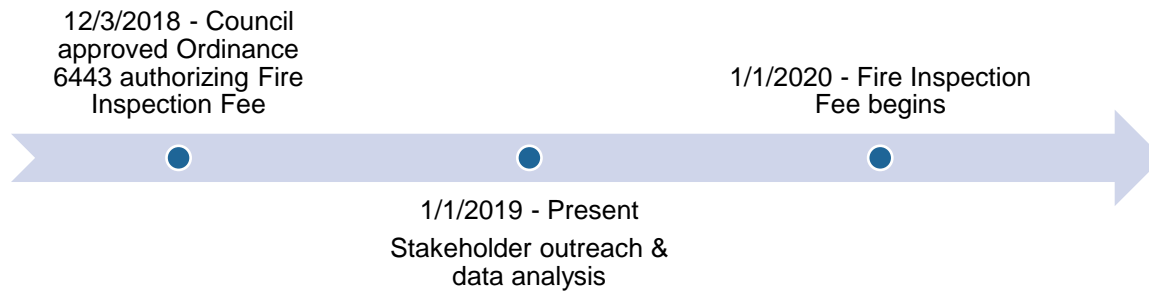
Based on previous Council direction, stakeholder feedback and our analysis throughout 2019, staff is bringing forward several revisions to the previous ordinance, including:

- Invoicing only the business owner and not the tenants, thus eliminating the potential of double-charging tenants
- Eliminating fee exemptions for State and County agencies
- Changing methodology for covered malls exceeding 500,000 s.f.
- Changing methodology used for high-rise buildings when multiple buildings exist atop podiums
- Decreasing fees for townhomes, mini-storage warehouses and multi-family buildings 3 story or less in height
- Establishing maximum fee for multi-family and school (K through 12) complexes

The fee provides a mechanism that will allow the Fire Inspection program to keep pace with growth, work to maintain a favorable fire insurance rating for business and commercial enterprises and to continue steps toward fiscal sustainability. The fee is predictable, understandable to customers, and supports citywide cost recovery objectives. Staff requests direction to return on December 2 with an updated Fire Inspection Fee Ordinance.

The purpose of recurring fire safety inspections is to provide an opportunity to identify and limit potential fire and/or life-safety hazards. Inspections in Bellevue align with industry best practices and offer assurance to building occupants, building owners and managers, and insurers.

Fire Inspection Fee Implementation Timeline



The 2019-2020 Budget includes 100 percent cost recovery associated with the fire inspection fee program starting in 2020. An anticipated \$900,000 is estimated to be collected in revenue on an annual basis. Based on a risk analysis, inspections will be scheduled every six months for buildings containing hazardous occupancies, every year for multi-family buildings lacking a fire sprinkler system and buildings containing restaurants lacking a fire sprinkler system, all other buildings are scheduled to be inspected every other year.

Substitute House Bill 1406 – Housing Fund appropriation increase request

At the May 28 Study Session, staff briefed Council about Substitute House Bill (SHB) 1406 that re-directs a portion of the state's share of sales and use tax for local use for affordable housing, which the state legislature passed in the 2019 legislative session. This is not a tax increase. The tax will be credited against the state's share of sales and use tax collected in the City so that the total tax paid by the consumer will not increase. The credit is authorized for 20 years beginning in 2020.

To implement SHB 1406, as required by the bill, two pieces of legislation are needed: 1) a resolution expressing Bellevue's intent to impose the sales tax authority as a credit against the state sales tax, and 2) an ordinance implementing the credit. Staff requests direction to return on November 18 Consent Calendar with legislation to receive the funding for SHB 1406. If Council desires, both actions will be included in the November 18 consent calendar for adoption. Once Council adopts the required ordinance and the City notifies Washington Department of Revenue (DOR) of its adoption, the City may begin to receive DOR's distribution on January 1, 2020.

SHB 1406 allows a jurisdiction to impose a .0073 percent credit against the state sales and use tax. A jurisdiction may impose a higher .0146 percent credit if the jurisdiction has passed a voter approved housing or mental health services levy or if the county declares it will not impose this credit. If a city chooses not to authorize the credit, the county may claim that city's .0073 percent credit in addition to its own credit.

The maximum amount available to Bellevue will be calculated based on Bellevue's state fiscal year 2019 taxable sales. A .0073 percent credit would provide an estimated \$625,000 of revenue annually for housing for the City. The mid-biennium budget proposes to increase the appropriation in the Housing Fund by \$625,000. Actual collections will fluctuate depending on the economic health of the City.

The sales tax credit funds can only be used for the purposes of:

- A. Acquiring, rehabilitating or constructing affordable housing, which may include new units within an existing structure or facilities providing supportive housing services funded by a behavioral health organization; or
- B. Funding the operations and maintenance costs of the new units.

Housing and services may only be provided to individuals whose income is at or below 60 percent of the median income. Sixty percent of the median income for a household of one person in King County is \$46,500 and for a household of four persons in King County is \$66,420 (U.S. Housing and Urban Development 2019 Income Limits).

The allowed categories identified by SHB 1406 aligns with City of Bellevue Affordable Housing Strategy. Future discussions on the specific use of the funding would occur next year.

Executive Summary:

Overall, the general fund outlook has improved slightly since 2019-2020 budget adoption but continues to show expenditures will outstrip revenues. The improvement is mainly driven by the new Ground Emergency Medical Transportation (GEMT) revenue approved earlier this year by Council.

The 2019-2020 Adopted Budget took the first steps to addressing the long-term fiscal challenges including working with employees to implement strategies impacting out year health care costs, adjusting the property tax annually by the statutorily available 1%, and implementing Fire Inspection Fees. As committed during the 2019-2020 budget discussion, the Leadership Team continues to review a broad set of potential areas to help inform the City Manager and the Council on a set of actions to address the fiscal challenge facing the General Fund; including embracing best practices to find efficiencies and reviewing service levels for some of our major program and operational areas. This discussion will continue into the 2021-2022 Budget discussions next year.

- ❖ **Revenues:** *The 2020-2025 General Fund forecast projects strong revenue growth in 2020 due to the new fire inspection fee revenue and GEMT revenue, and modest revenue growth starting in 2021. The forecast includes the following:*
 - *Use of councilmanic statutorily allowable one percent annual property tax increase in 2020 only.*
 - *Continued modest sales tax growth through the forecast period; primary influences are:*
 - *As the compliance rate increases, the online sales tax portion of sales tax revenue will increase faster than the other sectors of sales tax.*
 - *Due to the major construction projects currently in the pipeline, construction activities and construction sales tax is assumed to stay at its peak level.*
 - *Business & Occupation (B&O) tax continues to perform well primarily due to increased business activities and audit activity.*
 - *B&O tax forecast includes the estimated impact of major business movements.*
 - *Without audit revenue, B&O is forecasted to grow by an average of 4.3 percent per year from 2020 to 2025 due to increased business growth in downtown Bellevue and the Spring District.*
 - *Sales Tax Annexation Credit expiration in 2022, eliminating approx. \$1 million in revenue.*
 - *Fire inspection fee revenue assumed in 2020 and beyond to account for the cost to support the bi-annual fire inspections conducted by the Fire Department.*
 - *New Ground Emergency Medical Transportation (GEMT) revenue.*
- ❖ **Expenditures:** *The 2020-2025 general fund forecast continues funding for existing expenditure levels and includes:*
 - *Costs for opening (2022) and staffing (2021) of Fire Station (FS)10, including new apparatus, ongoing maintenance & operations, and 13 staff, at a cost of ranging \$2.3-3 million annually.*
 - *Modest assumption for a 0.3 percent growth in total expenditures for an increase in demand for services starting in 2021 based on the continued urbanization of the city.*
 - *Out year additional cost of maintaining new infrastructure M&O is also included in the forecast for known infrastructure in the pipeline.*
- ❖ **Reserves:** *The 2020-2025 general fund forecast continues to build reserves in 2020 to better position the city to address the known events noted above. In later years, the forecast shows a depletion of reserves as expenditures are forecasted to exceed revenues starting in 2021.*
- ❖ **Conclusion:**
 - *Assuming no change in revenues or expenditures, the current forecast shows the General Fund continuing to build reserves through 2020 and then will be drawn on to balance the budget in the out years, which is not a long term financially sustainable strategy.*
 - *The forecast shows that by 2024, the projected ending fund balance is forecasted to be less than the 15 percent City Council policy. This is a year later than what was forecasted last year due to the mid-bi revenue and expenditure updates.*
- ❖ **Risks:** *The risks to General Fund revenue includes:*
 - *Shift to greater online purchases from traditional brick and mortar stores,*
 - *Downturn of construction,*
 - *Slowdown of auto sales, and*
 - *Federal trade policy and the risk of recession.*

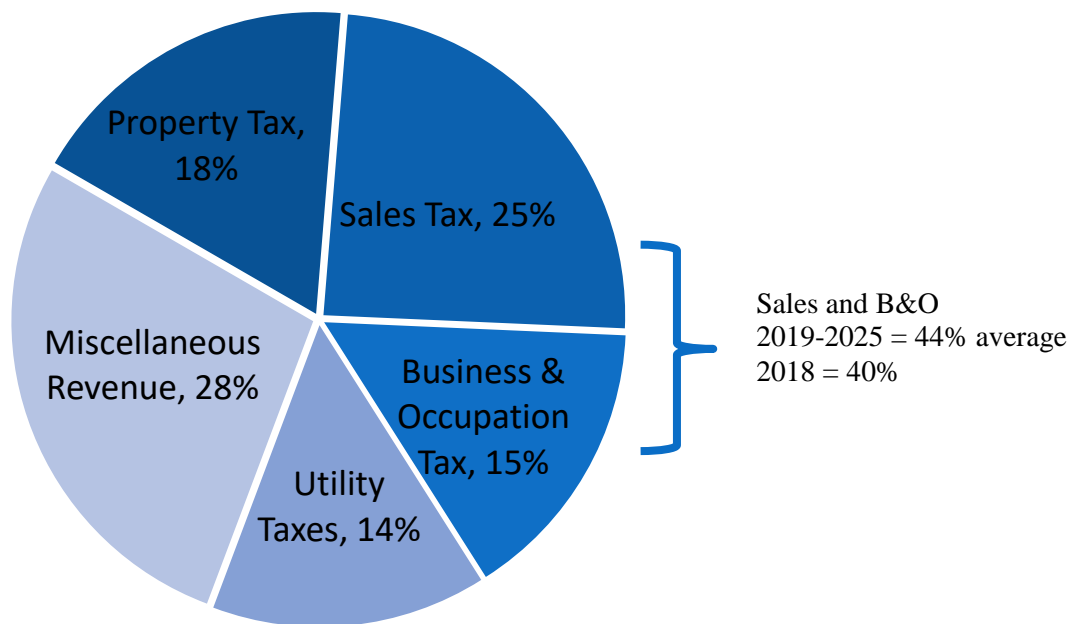
2020-2025 Forecast Executive Summary

General Fund Revenue Overview and Revenue Details

Overall, the city’s General Fund forecast assumes modest revenue growth starting in 2021. The Puget Sound area economy is predicted to continue to grow, but at a slower pace, tracking more closely to national trends. The city’s mix of revenue consists of property tax, sales tax, business and occupation (B&O) tax, utility tax, user fees, state-shared revenue, as well as other smaller revenue sources. These revenue sources fall into essentially five categories: sales tax, B&O tax, property tax, utility tax, and all other revenue.

Chart 1

2018 Proportionate Share of General Fund Revenues



Sales and B&O taxes (most economically volatile revenue streams), combined, comprise an average 42 percent of total General Fund revenue in 2020-2025 (40 percent in 2018, anticipated to grow to 45 percent in 2025). The increase in proportionate share is due to the faster growth of new marketplace fairness revenue and the combined growth of traditional sales tax and B&O tax base compared to other revenue streams. The proportionate share increase is both positive and negative – positive in that the continued growth is supporting the existing expenditure levels in the city and assisting in building reserves in the near-term, and negative in a greater reliance on these streams has a higher risk to the city during economic downturns.

Sales and Use Tax

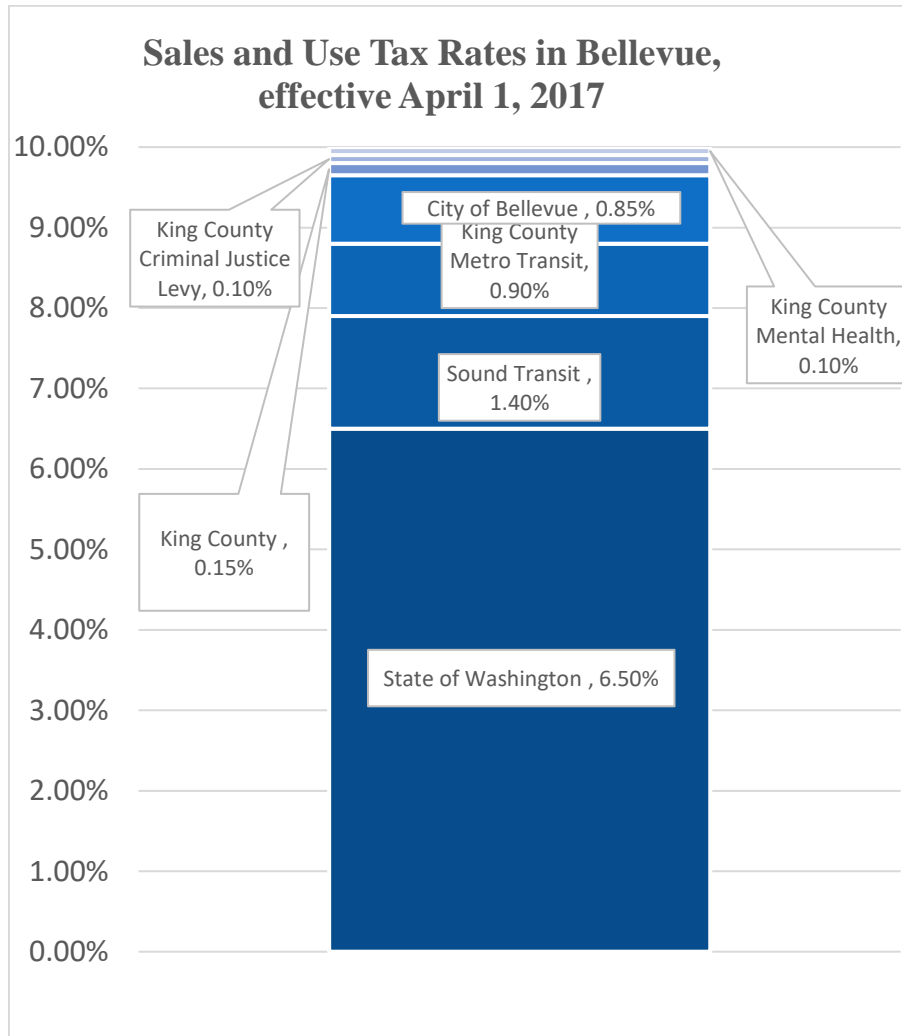
Background

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Bellevue. The tax is collected from consumers by businesses that in turn remit the tax revenue to the state. The state sends the city its share of this revenue monthly. The city collects 0.85 percent tax on

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retail goods and services. Chart 2 shows Bellevue’s sales and use tax rate components. Sales tax revenue is the most volatile revenue that the city’s General Fund collects. During the Great Recession, sales tax collections fell 21 percent from the peak in 2007 to the trough of the recession in 2010. Chart 3 shows the sales tax growth since 2000 and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility.

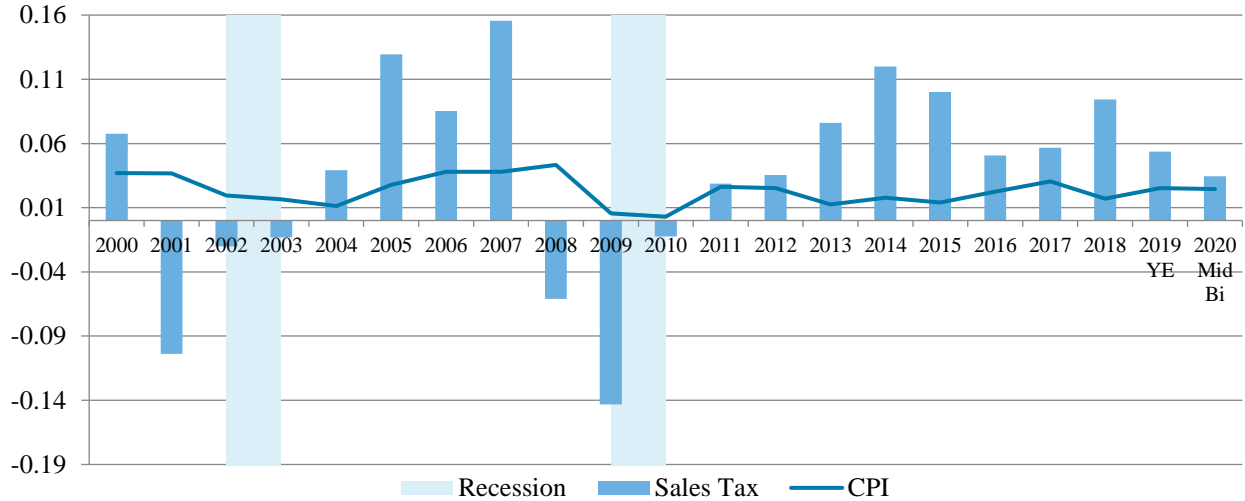
Chart 2



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Chart 3

Sales Tax Annual % Increases Compared to CPI

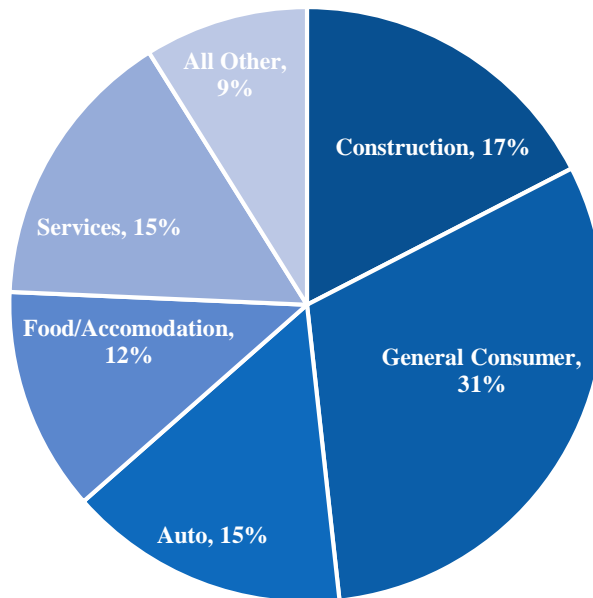


**One-time Department of Revenue audit refund issued in 2018 and 2019 was removed from growth rate calculation to show the trend.*

Sales tax is reported to the city by sector. The major sectors for Bellevue are construction, retail sales, and auto sales, which together comprised over 66 percent of sales tax revenue in 2018. All other sales tax sectors make up the remaining balance.

Chart 4

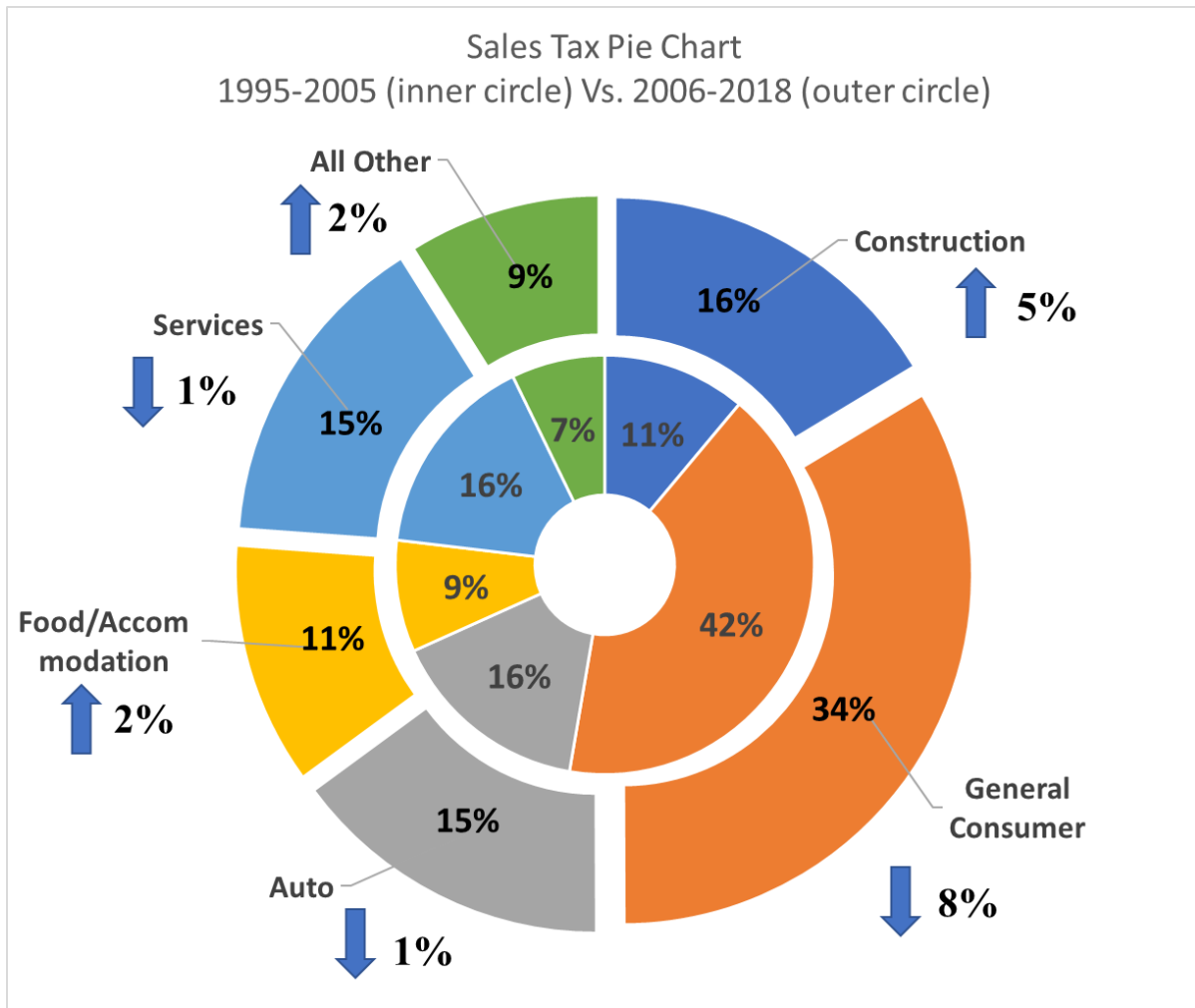
2013-2018 Sales Tax Average Share by Industry



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Total sales tax growth recovered at moderate speed due to the significant construction growth and the consistent recovery of auto and parts sales. However, retail trade growth is recovering at a much slower speed and has not yet recovered to the pre-recession level. This could be due to the growing trend of online shopping as people’s shopping habits change. On the other hand, sales tax growth is relying more and more on construction activities in Bellevue. The share of construction sales tax to total sales tax increased from 10 percent in 2012 to 20 percent in 2018. In 2018, sales tax increased by 7.2 percent from 2017, approximately 3 percent or \$2 million of the increase can be attributed to the newly implemented online sales tax.

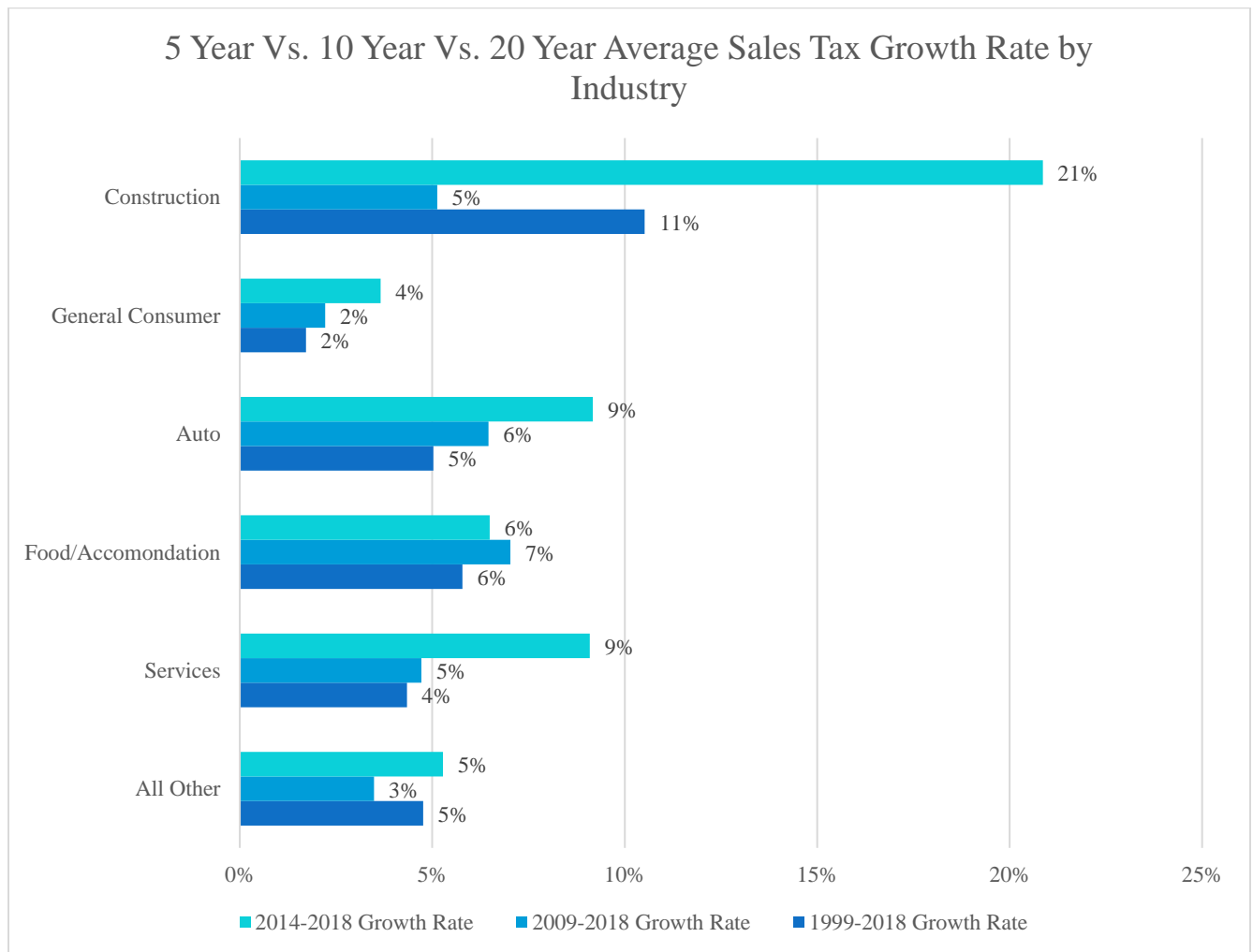
As shown in the sales tax comparison pie chart below, construction has gained the most sales tax shares and retail sales (General Consumer) has lost the most of its share in recent years.



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Construction

Construction activity is highly volatile and is dependent on several factors, such as the real estate market and the overall health of the economy. However, construction is a one-time activity and eventually it will slow as demand diminishes. The chart below shows the volatility of the construction sales tax by comparing the sales tax by category and by different periods. Total construction growth decreased significantly during the recession (up to 31 percent in a year) and then came back up to a higher than pre-recession growth rate as the economy recovered from the recession. In the past five years of the post-recession recovery period, it has an annual growth rate of 21 percent, a much higher rate than the other sales tax categories. However, by including the great recession in the analysis, the average annual growth rate reduces to 5 percent. The chart below compares the different categories of sales tax and their average annual growth rate in different economic stages, the growth patterns for different sales tax categories can vary a lot. As shown in the sales tax growth rate comparison chart below, the construction sales tax share has gone up and down due to the construction/economic cycles, and the largest components of sales tax - general consumer (mostly retail sales) category is continuing to decrease its shares due to a slower growth.

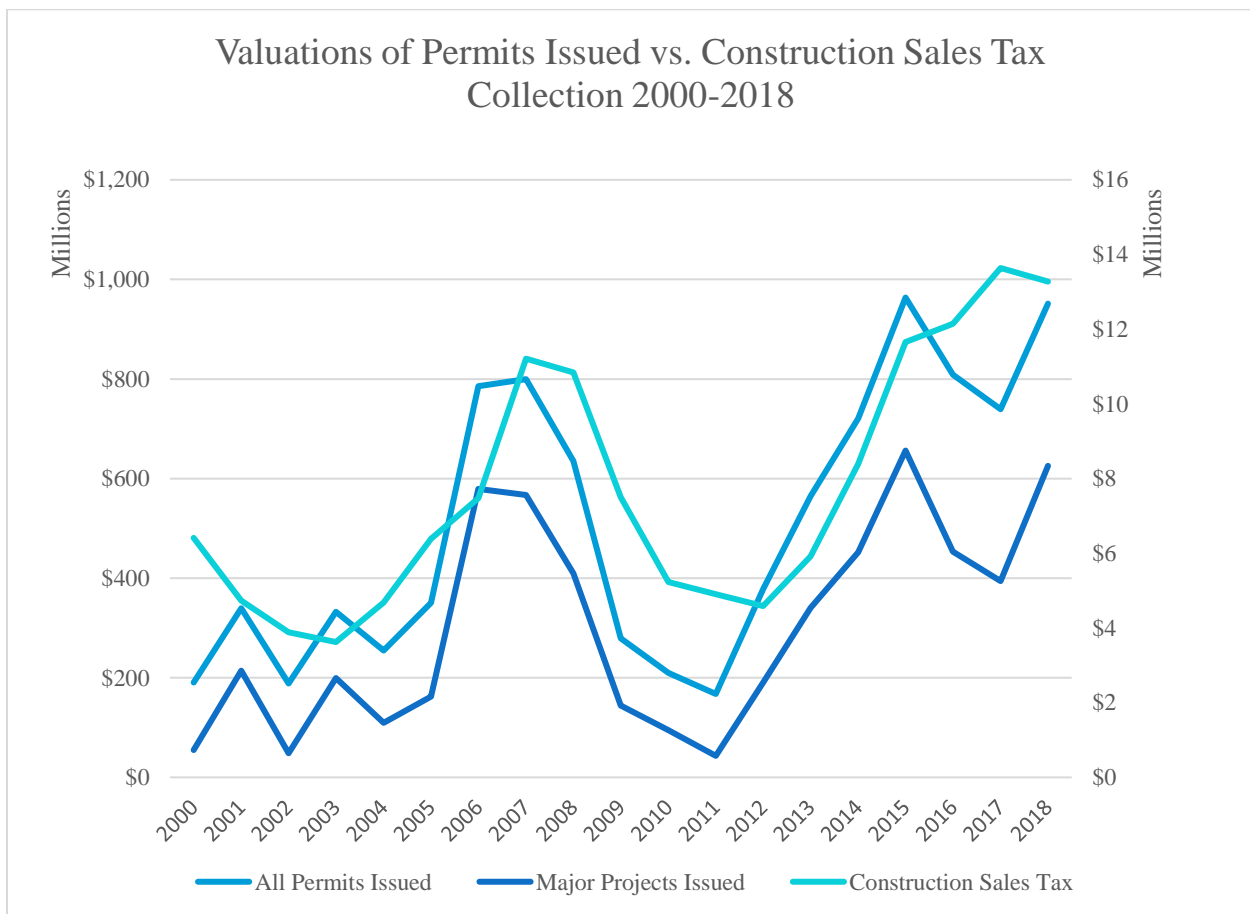


Bellevue's construction activities tend to move with the region's trend, but also have some uniqueness due to the fast growth in the Bel-Red area and downtown. As the construction activities

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near the peak, other jurisdictions around Bellevue are also watching construction activities very closely.

The 2020-2025 General Fund forecast incorporated the Development Services forecast and assumed the construction activities in the city will maintain its current level. Land use design review application activity remains consistent with prior years indicating that interest in future development in Bellevue continues. Bellevue’s construction sales tax is projected to flatten and maintain its level throughout the forecasted period. As a rule of thumb, sales tax is received on major construction projects between 9 months and 18 months post permit issuance. The chart below shows the highly correlated relationship of construction sales tax and permit issuance and the time lag.



Retail Sales

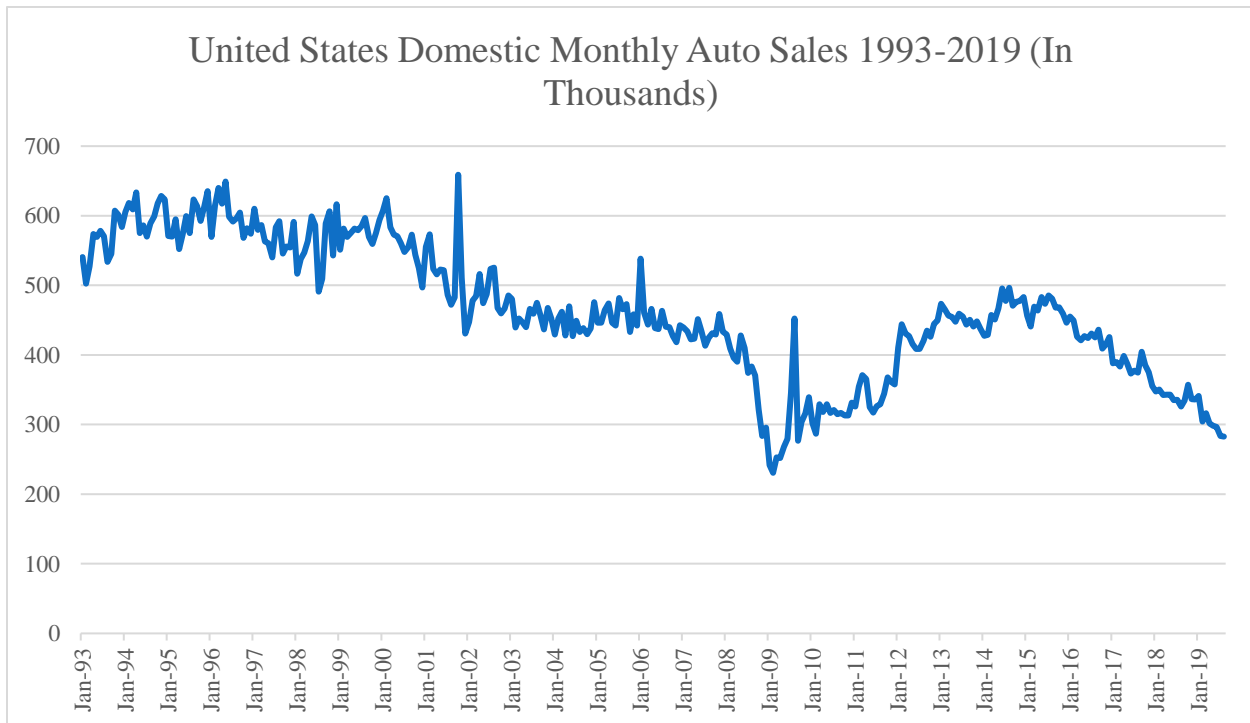
Retail sales is a broad category that is comprised of sales tax generated by the sale of both store retailers operating fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers and non-store retailers including electronic shopping and mail-order houses. Personal income, employment rate, consumer spending, and inflation are all highly correlated with retail sales tax revenue. Personal income recovered more quickly than retail sales tax growth from 2009-2015 as consumers saved more than they spent during the immediate post-recession. Since 2016, retail sales tax has been growing closer to personal income growth at 4.6 percent for the Seattle-Tacoma-Bellevue Metro area, which indicates a higher level of comfort with spending disposable income (Source: U. S. Bureau of Economic Analysis).

2020-2025 Forecast Executive Summary

As the public’s spending habits shift from purchases in retail store locations to online stores, the sales tax share for department stores decreased while the electronic shopping category of sales tax increased. However, online sales tax is only 1 to 2 percent of the total tax base. The higher growth rate of online stores per year in the past five years does not make up the decrease in brick and mortar stores.

Auto Sales

Auto sales is the third largest component of sales tax, accounting for 15 percent of the total sales tax, and is another revenue that is highly volatile considering the 18 percent and 10 percent decreases in 2008 and 2009 respectively. Nationally, auto sales have been trending down since 2016 after U.S. vehicle sales hit records in 2014 and 2015, and this trend is continuing as of September 2019 (Source: U.S. Bureau of Economic Analysis (BEA)).



Bellevue’s auto sales had strong growth due to the growth of sales in existing car dealerships from 2014 to 2015, but the growth since 2016 was primarily driven by new car dealerships that came into Bellevue. As both King County and Seattle had slow growth, auto sales in Bellevue grew by 16 percent in 2018 mainly due to luxury car sales.

Overall Forecast 2020-2025

The forecast incorporates marketplace fairness revenue gains that result from EHB 2163 that became effective in January 2018. Expanding the taxation of remote sales increased the city’s total sales tax revenue by approximately 2 million in 2018 (\$1.5 million to the general fund), contributed to approximately 3 percent of the 7.2 percent total sales tax increase in 2018. Marketplace sales tax grows at a faster pace largely due to more online retailers are expected to comply with the new law



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and start to collect marketplace sales tax. With marketplace sales tax, the overall sales tax growth rate is forecasted to be approximately 4 percent from 2020 to 2025.

Chart 6 below provides a comparison of the city’s sales tax forecast to Seattle, King County, and Washington State. Bellevue is showing slightly stronger growth in the near term, and in the long run, Bellevue’s forecast is comparable with King County and Washington State. This forecast is based on the best information available at this point in time and, as the forecast extends to the out years, the margin of error increases.

**Chart 6
Bellevue Sales Tax Forecast Comparing to Other Jurisdictions**

	2019	2020	2021	2022	2023	2024	2025
Washington State	5.7%	4.4%	2.6%	3.3%	3.4%	N/A	N/A
King County	4.28%	2.14%	3.30%	3.50%	4.25%	4.09%	3.41%
Seattle	4.6%	2.2%	2.3%	N/A	N/A	N/A	N/A
Bellevue	5.4%	4.5%	4.4%	4.5%	4.0%	4.2%	4.3%

Note: All growth rates include marketplace sales tax.

*Bellevue sales tax rates displayed above are general fund sales tax growth rates, which will be different from the total citywide sales tax growth rate due to the split to other funds.

*Bellevue’s sales tax growth is calculated by excluding the one-time DOR audit refund that has a negative impact to the sales tax revenue to show the real trend.

*Seattle sales tax growth rate is from Seattle's 2020 Proposed Budget Book.

*King County sales tax growth rates are from King County August 2019 Forecast by King County Office of Economic and Financial Analysis.

*Washington State growth rates are from the September 2019 Revenue forecast by Economic and Revenue Forecast Council.

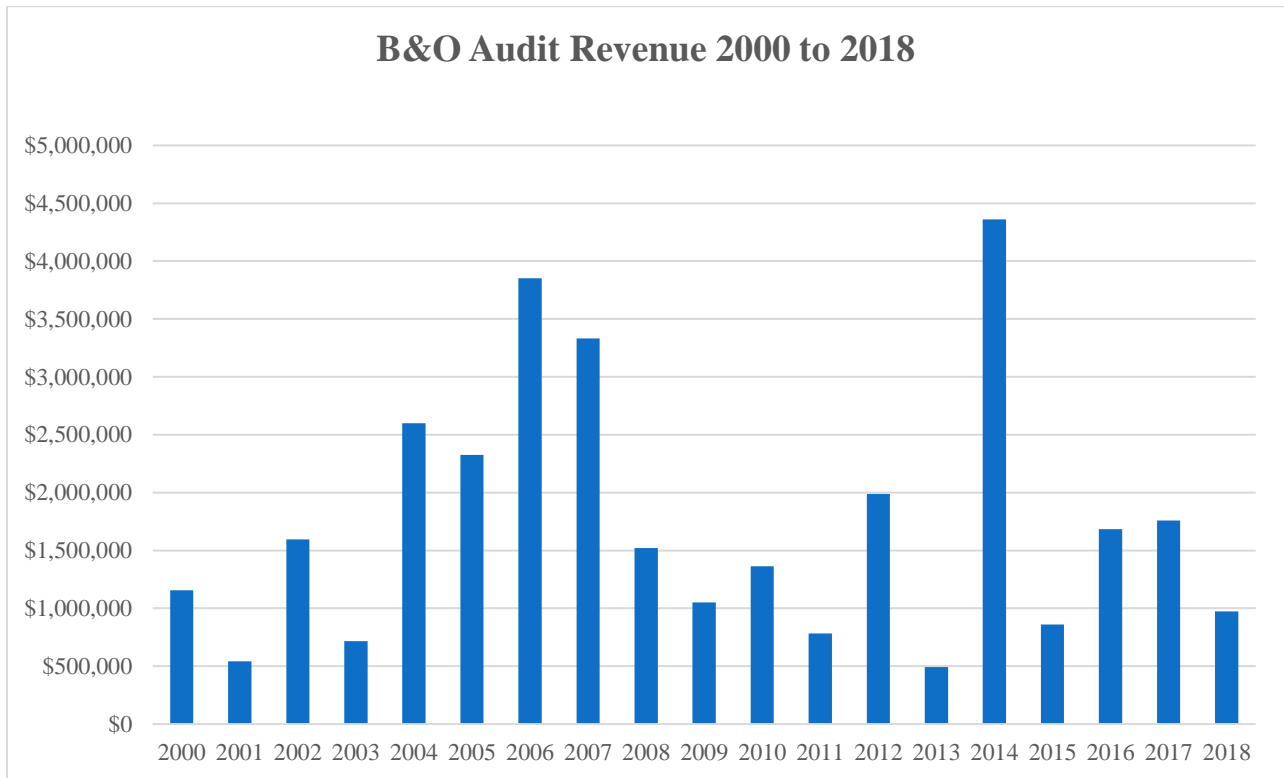
2020-2025 Forecast Executive Summary

Business & Occupation Tax

Business and occupation (B&O) tax is made up of two parts: gross receipts and square footage taxes. This revenue, like sales tax, is subject to volatility brought on by economic risk. During the recession, B&O tax collections fell 20 percent from the peak. Over the last 10 years, B&O tax accounted for 14 percent of the city’s General Fund revenue. B&O tax returned to pre-recessionary levels in 2014. The forecast assumes average annual B&O tax growth of 4.3 percent from 2020-2025.

The city continually monitors the B&O tax base as well as audit findings that may require either a refund to the taxpayer or an additional payment to the city. Audit revenue (Chart 7) is highly volatile and has ranged from several hundred thousand dollars to nearly \$4.4 million. The 2020-2025 forecast assumes \$1.5 million in audit recoveries annually.

Chart 7



2020-2025 Forecast Executive Summary

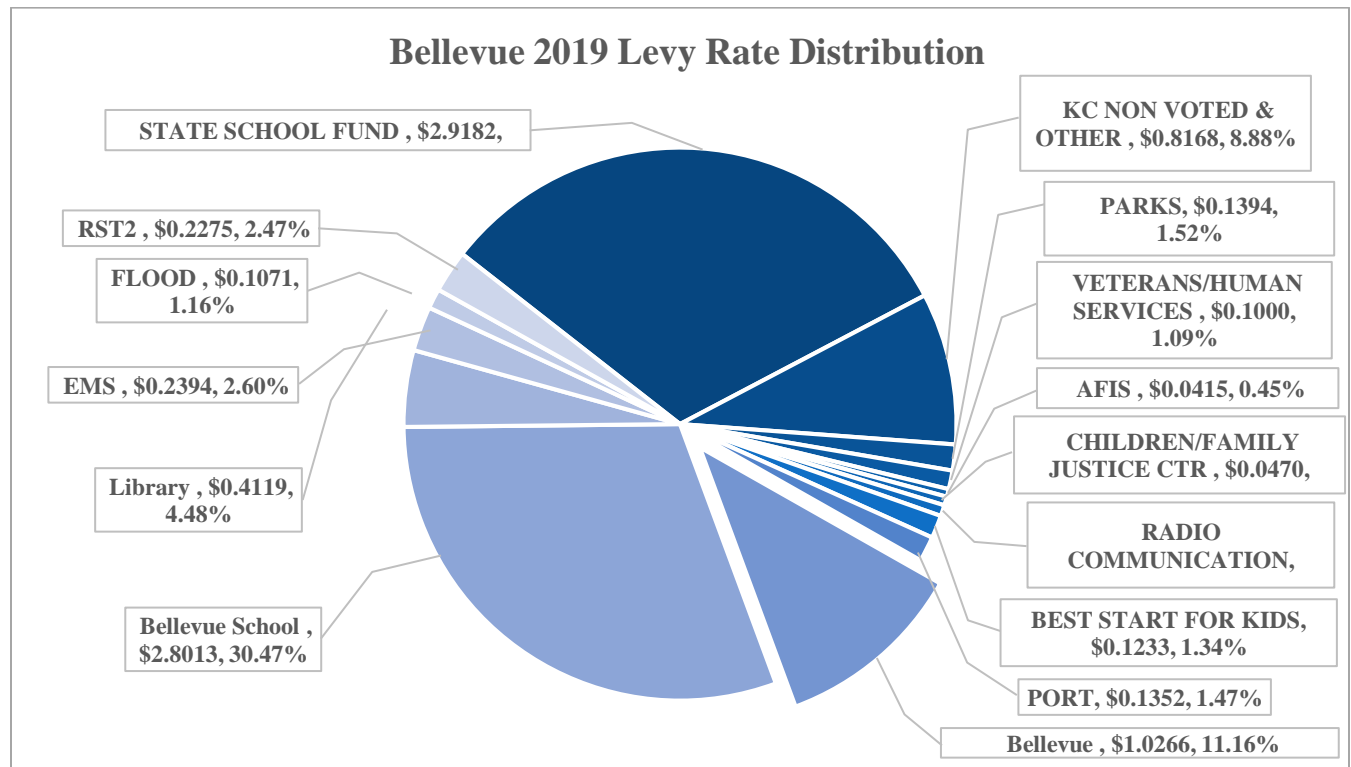
General Property Tax

Property tax is applied to the assessed value (AV) of all taxable real and personal property located within the city, with several exceptions such as public structures (government buildings, roads, etc.), property owned by several types of non-profit organizations, personal property (up to a specified dollar value), and others.

Under Initiative 747, the regular levy can grow at a maximum of 1 percent annually or the rate of inflation, whichever is less plus additions for new construction, changes in the value of state-assessed utility property and newly annexed property (referred to as “add-ons”). Inflation is defined as the increase in the implicit price deflator (IPD).

Bellevue’s property tax rate is one of the lowest in King County. The city’s 2019 property tax rate at \$0.92 per \$1,000 AV was roughly 11 percent of the most common total \$8.21 rate paid by Bellevue property owners for all taxing jurisdictions such as King County, Washington State, and school districts. The 2019 property tax total and City of Bellevue tax obligations for a home of median assessed value (\$941,000) in Bellevue is \$7,726 and \$866 respectively. Chart 8 shows the destinations of a typical Bellevue property owner’s property tax in 2019.

Chart 8



This forecast assumes a 1 percent statutorily available property tax adjustment in 2020. Bellevue currently has \$9 million in banked capacity available.



2020-2025 Forecast Executive Summary

Utility Tax

Utility tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. The utility tax share to total general fund revenue decreased from 17 percent to 14 percent from 2013 to 2018 and is projected to decrease to around 13 percent from 2020 to 2025.

- In the last few years, electric and natural gas utility tax collections have flattened out due to mild weather patterns.
- Telephone and cellular phone taxes have been on the decline and are expected to decline further due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.
- Water and sewer utility tax have increased in the past three years due to longer and hotter summers, the forecast assumes mild increases for water and sewer utility taxes.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including excise taxes, sales tax annexation credit, penalty/interest delinquent tax, licenses and permits, intergovernmental – state and other cities, charges for goods and services, fines/forfeits, and other miscellaneous taxes and revenues. Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire, Emergency Management Services, etc.).

State funding, sometimes referred to as State-Shared Funds, consists of distribution from state taxes such as the liquor excise tax, liquor board profits, motor vehicle fuel tax, and marijuana excise tax. These revenues have been affected by state budget changes in the past and could be affected in future state budgets.

Liquor Excise Tax

A portion of the basic spirits sales tax on sales to consumers and restaurants are shared with eligible counties, cities and/or towns. "Spirits" are any beverage which contain alcohol obtained by distillation, except flavored malt beverages, but including wines exceeding 24 percent of alcohol by volume. Based on the budget suggestions published by the Municipal Research and Services Center (MRSC), the per capita rate for city distributions in 2020 is estimated to be \$5.49, multiplied by the city's 2019 population of 145,300 estimated by the Office of Financial Management (OFM), or \$810,000 in 2020.

Liquor Board Profits

Liquor board profits consist of the difference between revenue generated by the Washington State Liquor Control Board and the board's expenditures, and a portion of these liquor profits goes to cities, counties, and border jurisdictions. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2020 is estimated to be \$8.02, multiplied by the city's 2019 population, or \$1.18 million in 2020.



2020-2025 Forecast Executive Summary

Motor Vehicle Fuel Tax (MVFT)

Washington State shares fuel tax with local jurisdictions on a per capita basis. Fuel taxes in Washington are assessed as cents per gallon. Fuel tax revenue depends on the number of gallons sold, not the dollar value of the sales. Counties, cities, and towns receive a share of the multi-modal funds and the increase in fuel tax because of Second Engrossed Substitute Senate Bill 5987. The legislation provided for direct distributions to be phased in over the 2015-17 and 2017-19 biennium. The result is a combined annual distribution to counties, cities, and towns, starting with the state fiscal year 2019. These direct transfers are split equally between cities and counties, with the distribution to cities based on population. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2020 is estimated to be \$21.25, multiplied by the city's 2019 population, or \$3 million in 2020. The MVFT revenue is split equally between general fund and CIP (\$1.5 million).

Marijuana Excise Tax

The state distributes a portion of the marijuana excise taxes to the Liquor and Cannabis Board (LCB) and various state agencies and programs on a quarterly basis. Marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. Only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. The state distributes 30 percent of the total marijuana excise tax to cities and counties with a cap at \$15 million in 2020 and then \$20 million each year thereafter; 70 percent of the distribution will be on a per capita basis with 60 percent going to counties, and the remaining 30 percent will be based on the proportional share of the total marijuana revenues generated. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2020 is estimated to be \$1.14, plus another 30 percent based on the marijuana sales in Bellevue. The city is projecting to receive around \$240,000 in 2020.



2020-2025 Forecast Executive Summary

General Fund Expenditure Overview

Urbanization

The 2020-2025 General Fund forecast continues funding for existing expenditure levels. Starting with the 2018 Mid-Biennium, the city’s forecast includes a modest assumption of 0.3 percent growth in total expenditures for an increase in demand for services based on the continued urbanization of the city. The forecast includes a modest 0.3 percent growth in total expenditures (\$678,000 in 2021) continuing and growing annually to 2025.

Fire Station 10

The forecast assumes new costs for the 2022 opening and staffing of fire station 10, including new apparatus and 13 staff starting in 2021. The chart below breaks down the best estimate today for total cost of fire station 10 by year for the forecasting period. Since fire station 10 will open in 2022, staff has assumed a contingency of 25 percent of non-personnel costs. As final design is developed, these costs will be reviewed and updated.

Fire Station 10 Expenditure Impact Estimation as of September 2018:

(In \$000s)	2021	2022	2023	2024
Personnel (1 captain, 2 lieutenants, 3 engineers, and 7 firefighters)	\$525	\$2,163	\$2,233	\$2,313
Apparatus	894			
All other costs (including 25% contingency on non-personnel costs)	952	660	677	694
Fire Station 10 Expenditure Impact	\$2,372	\$2,823	\$2,911	\$3,007

Inflation

Inflation is estimated by King County Office of Economic and Financial Analysis in August 2019 as follows:

2021	2022	2023	2024	2025
2.52%	2.45%	2.46%	2.53%	2.75%

Capital Investment Program Maintenance and Operations (CIP M&O)

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 new facilities. Over time, this places increasing pressure on the operating budget. In the 2020 to 2025 General Fund forecast, an additional CIP M&O of \$495,000 in 2020 is included in the M&O expenditure line for projects that are expected to complete in 2018 and 2020. The actual cost could vary depending on the actual completion date and maintenance cost. The estimated incremental CIP M&O from 2021 to 2025 is also included in the forecast.

In 000s	2021	2022	2023	2024	2025
New Infrastructure M&O	\$379	\$319	\$344	\$351	\$351



2020-2025 Forecast Executive Summary

LEOFF1

The Law Enforcement Officers and Firefighters Plan 1 (LEOFF 1) medical reserve, which set aside funding to pay for the city's liability, was fully depleted in 2019. The city began to pay for its liability as a "pay as you go" option, increasing the city's General Fund exposure by an estimated \$2.3 million annually. This increase is included in the Mid-Bi budget and continues for the forecasted period.

General Fund Forecast

The General Fund forecast is projecting revenues to exceed expenditures in the near term; the out-year forecast reflects the reverse. The 2020-2025 forecast includes the use of the councilmanic statutorily allowable 1 percent annual property tax increase in 2019 and 2020. Major tax components such as sales tax, business and occupation tax, or utility taxes are as forecasted in the sections above. Expenditures are forecasted as noted in the expenditure section above.

As displayed in Chart 9 on the following page, the city's ending fund balance is forecasted to be below 15 percent by 2024. The council financial policies adopt a 15 percent minimum fund balance requirement.

As with all forecasts, this is a best estimate of the future, representing the collection of all fiscal information known as of October 2019. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/October (as related to the Preliminary Budget or Mid-Biennium Update before the council).

Conclusion

Assuming no change in revenues or expenditures, the current forecast shows the general fund continuing to build reserves through 2020 and then will be drawn on to balance the budget in the out years, which is not a long term financially sustainable strategy. The forecast shows that by 2024, the projected ending fund balance is forecasted to be less than the 15 percent City Council policy.

Risks

The risks to the economically sensitive revenues such as Sales Tax, B&O Tax, Utility Tax, Property Tax, state shared revenue, and some of the miscellaneous revenues include:

- Shift to greater online purchases from traditional brick and mortar stores,
- Construction downturn
- Slowdown of auto sales
- Recession
- New construction slow down
- Declining cell phone tax
- Water tax decrease due to weather patterns
- Electric tax decrease due to weather patterns
- Legislative changes to shared revenue from the state

2019-2024 General Fund Financial Forecast

Chart 9
October 2019 for 2019-2020 Mid-Bi Budget General Fund Forecast
(in \$000)

	2019 Q2 YE	Mid-Bi 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025
Beginning Fund Balance	\$44,358	\$46,178	\$48,010	\$47,017	\$43,300	\$38,051	\$30,892
Revenue							
Property Tax	\$37,948	\$39,089	\$39,734	\$40,355	\$40,959	\$41,568	\$42,186
Sales Tax	53,155	58,814	61,395	64,130	66,723	69,515	72,478
Business & Occupation Tax	33,181	35,017	36,524	37,933	39,733	41,230	42,815
Utility Taxes	29,382	29,488	29,820	30,306	30,872	31,484	32,136
Miscellaneous Revenue	57,278	57,123	58,330	59,135	60,793	62,592	64,314
Total Revenue	\$210,944	\$219,532	\$225,803	\$231,859	\$239,081	\$246,390	\$253,928
%Δ Total Revenue	2.0%	4.7%	3.2%	2.7%	3.1%	3.1%	3.1%
Expenditures							
Personnel	\$124,461	\$129,799	\$135,421	\$142,221	\$147,672	\$153,427	\$159,724
Maintenance & Operations	84,664	87,901	91,374	93,355	96,658	100,121	103,894
0.3% Expenditure increase			653	1,324	2,019	2,737	3,480
Total Expenditures	\$209,124	\$217,700	\$226,795	\$235,575	\$244,331	\$253,548	\$263,618
%Δ Total Expenditures	1.2%	4.7%	4.2%	3.9%	3.7%	3.8%	4.0%
Revenue Less Expenses	\$1,820	\$1,832	(\$992)	(\$3,717)	(\$5,250)	(\$7,159)	(\$9,689)
Ending Fund Balance	\$46,178	\$48,010	\$47,017	\$43,300	\$38,051	\$30,892	\$21,203
EFB as a % of Revenue	21.9%	21.9%	20.8%	18.7%	15.9%	12.5%	8.3%

- Beginning Fund Balance in 2020 is as estimated in the 2nd Quarter General Fund Monitoring Report.
- This forecast includes Fire Station 10 and New Infrastructure M&O impacts.

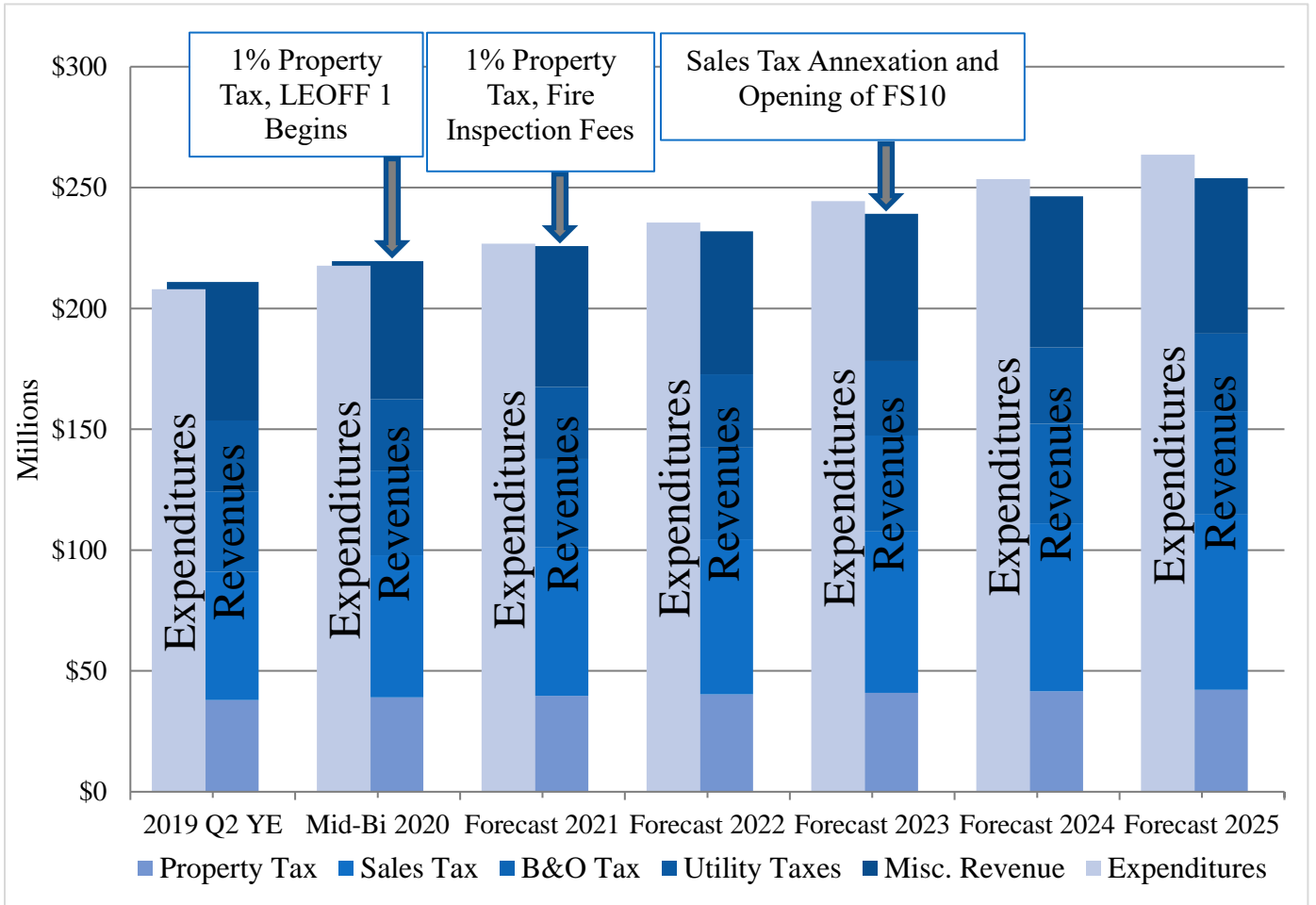
Fire Station 10 Expenditures	\$2,372	\$2,823	\$2,911	\$3,007	\$3,121
New Infrastructure M&O	\$379	\$319	\$344	\$351	\$351

- Annexation Sales Tax mitigation of approximately \$1m/year within Miscellaneous Revenue expires in 2022.
- Assumes several new major projects finish and maintain the current level of construction sales tax through 2021 and flatten in 2022 based on Development Services Revenue forecast and Major Project List.
- 2019 CPI-W is 1.7 percent as released by the Bureau of Labor Statistics on July 11, 2019.
- Assumes 2021-2024 CPI growth by King County's August 2019 forecast (2.5%-2.8%).
- Assumed Fire inspection fee revenue starting in 2020.
- Includes an urbanization factor of 0.3 percent of the total expenditure starting in 2021.

2019-2024 General Fund Financial Forecast

Chart 10

General Fund Revenue versus Expenditures





Utilities 2020-2025 Financial Forecast

Utilities Funds

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

The Utilities Department operates as an enterprise within the City structure and functions much like a private business entity.

- This forecast supports a prudent, balanced, and responsible budget to maintain high-quality utility service delivery to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.*
- The Department does not receive any General Fund funding and relies primarily on rates to fund its operating and capital programs.*
- The rates presented herein are designed to generate sufficient revenues to fund the Utilities through the 2020-2025 forecast period, including funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and the long-term infrastructure Renewal and Replacement (R&R) requirements.*
- The 2020 rates are the same as those adopted in the 2019-2020 Budget.*
- Projected rates for 2021 through 2025 reflect anticipated increases to water purchase costs and wastewater treatment costs and inflationary changes to operational costs.*

The Utilities Department faces the following key challenges and constraints in the 2020-2025 forecast period:

1. Challenges

- Aging capital infrastructure. Utilities operates a highly capital-intensive business, and the Department's ability to deliver quality services to its customers is dependent on the ability of each system to function on demand, every day of the year.
- Supporting economic growth. Additional infrastructure is needed to support development and economic growth.
- Operational efficiency. We are mindful of the need to operate efficiently and continually evaluate business processes to seek opportunities to effectively deliver services in a more cost-effective manner.

2. Constraints

- External financial obligations. Over half of Utilities' operating costs represent legal and contractual financial obligations, including wholesale cost payments for water supply and wastewater treatment, tax payments to the State and cities, and support service charges from the General Fund.
- Legal mandates. Utilities must comply with State and Federal mandates, such as the National Pollution Discharge Elimination System (NPDES) Municipal Stormwater Permit, to protect drinking water and surface water quality.



Utilities 2020-2025 Financial Forecast Utilities Funds

Within this context, the 2020 Utilities budget as adopted by Council was prepared with the following guiding principles:

1. Compliance with Council-approved financial policies. The Waterworks Utility Financial Policies serve as the foundation for the development of the Utilities Department budget and rates. Consistent with these policies, the budget and rates are based on:
 - The full cost to provide utility services now and in the future.
 - Fully funding wholesale cost increases so local programs are not degraded.
 - Sufficient reserves to protect solvency of the utility funds.
 - Investment in capital infrastructure and/or deposit of funds in an infrastructure renewal and replacement (R&R) account are to be made to ensure that current and future customers that use the utility system pay their equitable share of system costs.
2. Lean operations. The Department continues to focus on controlling on-going operational expenses, finding efficiencies, and otherwise minimizing costs that impact local rate increases.
3. Preserving aging infrastructure. The City’s utility infrastructure is aging and increased maintenance and capital investments are inevitable. System failures are on the rise. The capital program is largely focused on renewal and replacing aging infrastructure.
4. Implementation of previously approved AMI CIP project. The Department is implementing the previously approved Advanced Metering Infrastructure (AMI) project. AMI technology will enable customers to have easier access to near real-time water usage information, facilitates more proactive leak detection, and reduces labor costs for performing manual meter reads.

ADOPTED 2020 UTILITY RATES

The following table summarizes the adopted rate adjustments necessary to support the 2020 budget for the Water, Sewer, and Storm and Surface Water utilities by rate drivers.

	<u>WATER</u>	<u>SEWER</u>	<u>STORM</u>	<u>TOTAL</u>
Wholesale	2.0%	0.0%	0.0%	0.8%
Local				
CIP/R&R	1.8%	1.4%	3.2%	1.8%
Taxes/Interfunds	0.6%	0.3%	0.7%	0.5%
Operations	<u>0.6%</u>	<u>0.6%</u>	<u>1.5%</u>	<u>0.7%</u>
Local subtotal	3.0%	2.3%	5.4%	3.0%
Total Rate Increase	<u>5.0%</u>	<u>2.3%</u>	<u>5.4%</u>	<u>3.8%</u>

Minor differences may exist due to rounding

The total monthly utility bill for the typical single-family residential customer for water, sewer, and storm and surface water services is \$176.40 in 2019. With the above rate increases, the total monthly utility bill for the typical single-family resident will increase by 3.8% or \$6.68 in 2020.

The following section provides further detail on the key rate drivers for the 2020 Utilities budget.



Utilities 2020-2025 Financial Forecast

Utilities Funds

Payments to External Service Providers

Wholesale Costs

The single largest cost center for the Utilities Department is wholesale costs, which include payments to the Cascade Water Alliance (Cascade) for the purchase of water supply and regional capital facility charges and payments to King County for wastewater treatment. Combined, these expenses total \$58.4 million in 2020 budget, or approximately 36% of the total budget for the Utilities Department.

The cost from Cascade to purchase water supply will increase from \$20.6 million in 2019 to \$21.4 million in 2020 as adopted by the Cascade Board. The impact of this cost increase to the Bellevue retail water rate is 2.0% in 2020. The 2020 Bellevue water purchase charge was adopted using estimates of Cascade member demand because actual data was not available at the time. Now that demand is known, Cascade has recalculated the cost to its members in 2020 resulting in an additional increase to the City of Bellevue of \$93.0 thousand. The impact of this cost increase to the Bellevue retail water rate will be implemented in 2021, as part of the 2021-2022 budget process.

The wholesale wastewater treatment rate was established by King County for a two-year period starting in 2019. The cost from King County for wastewater treatment is budgeted to remain at \$34.5 million in 2020 resulting in no impact to the Bellevue retail sewer rate in 2020.

To ensure local operations and the CIP are not degraded, the Department's 2020 budget is consistent with the Council-adopted financial policy which directs rate increases necessary to fund wholesale costs be passed directly through to the customer.

Local Costs

CIP / R&R

Outside of wholesale costs discussed above, the next largest cost driver for the Utilities Department is the CIP and the cost to renew and replace infrastructure in the future, representing approximately 30% of the total 2020 budget for the Utilities department, or approximately \$49 million for the 2019-2020 biennium. Utilities infrastructure has a replacement value of over \$3.5 billion, and most of the systems are well past their mid-life. As a result, the systems used to deliver water, convey wastewater, and manage stormwater runoff are experiencing more failures, and the cost to maintain, operate, rehabilitate, and replace this infrastructure is increasing. To minimize costs and optimize the integrity of the utility systems, the Utilities Department has developed a strategic 75-year asset management plan to systematically fund the future renewal and replacement of these assets. Consistent with Council-adopted financial policy, this long-term funding strategy is also designed to smooth future rate increases and provide for intergenerational equity.

The adopted Utilities 2019-2025 CIP includes the following investments:

- **Ageing infrastructure:** \$173.5 million, or 77% of the CIP, is for investments to renew and replace aged infrastructure such as pipes, reservoirs, and pump stations. Examples of projects include small diameter water main replacements (\$79.2 million), water pump station repairs (\$18.5 million), sewer system pipeline major repairs (\$11.5 million), sewer pipeline replacements (\$14.5 million), sewer pump station improvements (\$7.8 million), and storm system conveyance repairs and replacements (\$10.5 million).
- **Environmental preservation:** \$18.5 million, or 8% of the CIP, is for environmental preservation and flood protection projects. Example projects include the storm system flood control program (\$5.8 million), and Lower Coal Creek flood hazard reduction (\$6.1 million).



Utilities 2020-2025 Financial Forecast

Utilities Funds

- **Capacity for growth:** \$10.3 million, or 5% of the CIP, is to increase the capacity of the utility systems to accommodate growth. Example projects include the Midlakes sewer pump station improvements (\$3.4 million), water storage availability for downtown (\$1.6 million), and a new water inlet station to supply water for West Bellevue (\$2.3 million).
- **Service enhancement:** \$14.7 million, or 7% of the CIP, will support implementation of a new Advanced Metering Infrastructure (AMI) system, which will enable customers to access drinking water consumption information near real-time and allow for early leak detection. This investment is to be funded with existing resources within the water and sewer utilities and will not have an impact on rates.
- **Maintain service delivery:** \$8 million, or 3% of the CIP, is funding for land acquisition to build an additional operational facility to maintain service delivery to the community. This investment is to be funded with existing resources within the water and sewer utilities and will not have an impact on rates.

Total funding for current and future capital infrastructure needs will require rate increases between 1.4% to 1.8% in 2020 in the water and sewer utilities, and 3.2% in 2020 in the storm utility.

Taxes/Internal Service Provider Payments

Taxes and interfund payments represent approximately 15% of the total 2020 budget for the Utilities Department, or approximately \$24.6 million. The amount of taxes paid is based upon the amount of revenue collected and the tax rates assessed by the State and cities. No changes to the State and city tax rates are assumed in the 2020. Interfund payments represent costs that Utilities pays to the General Fund for support services. Rate increases of less than 1% in 2020 is required in each utility for cost increases in taxes and interfund payments.

Operations

Operating costs include personnel, supplies, and professional service expenses that are necessary to carry out the daily functions of the Utilities Department. This cost category totals \$28.4 million, or about 18% of the Utilities budget for 2020. The costs to operate and maintain the utilities are increasing and contribute to approximately 0.6% of the budgeted 2020 rate increase in the water and sewer utilities, and 1.5% in the storm utility.

2020-2025 Financial Forecast

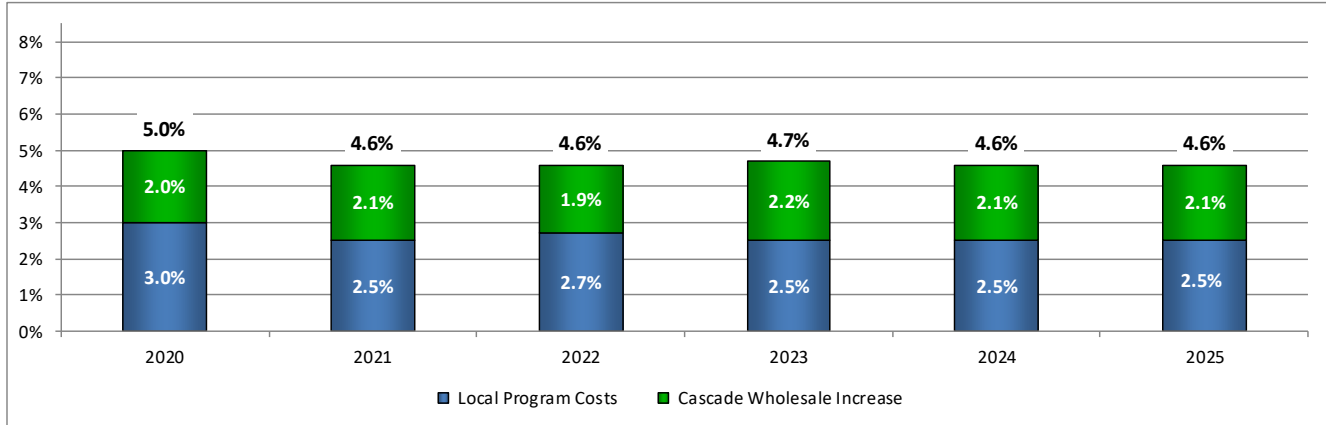
The following pages provide a more in-depth discussion of the individual rate drivers and forecasted rate adjustments through the year 2025 for the water, sewer, and stormwater utilities.



Utilities 2020-2025 Financial Forecast Utilities Funds

WATER UTILITY FUND 2020 - 2025 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2020	2021	2022	2023	2024	2025
Prior Year Bill	\$66.45	\$69.78	\$73.00	\$76.36	\$79.95	\$83.63
Increase:						
Cascade Wholesale Purchased Water	1.33	1.47	1.39	1.68	1.68	1.76
Local	<u>2.00</u>	<u>1.75</u>	<u>1.97</u>	<u>1.91</u>	<u>2.00</u>	<u>2.09</u>
Total	<u>\$3.33</u>	<u>\$3.22</u>	<u>\$3.36</u>	<u>\$3.59</u>	<u>\$3.68</u>	<u>\$3.85</u>
Projected Bill	\$69.78	\$73.00	\$76.36	\$79.95	\$83.63	\$87.48

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). Cascade costs are increasing primarily due to water purchase costs from Seattle. Per City financial policy, increases in the cost of purchased water are passed directly through to the ratepayer. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 2.0% for 2020. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue will be 2.1% in 2021 which includes a rate "true up" of the 2020 wholesale costs and will average 2.1% per year for 2022 through 2025.

- **Capital Program**

The 2019-2025 water capital investment program (CIP) includes \$147.6M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$125.2M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include small diameter water main replacement and water pump station repair and replacements. Total funding for current and future infrastructure needs require a rate increase of 1.8% in 2020, and an average of about 1.4% per year thereafter. During 2020 water rates are not sufficient to fully fund the Water CIP and R&R reserves are used to subsidize the Water CIP. The water CIP also includes \$10.3M for the water utility's share of funding for Advanced Metering Infrastructure (AMI) and \$5.3M for land acquisition for developing a new maintenance facility. The funding for these projects is from available water reserves and is not a rate driver.

- **Taxes/Intergovernmental**

Taxes and interfund payments to other City departments for support services require a rate increase of 0.6% in 2020. Increases for the remainder of the forecast period will average 0.6%.

- **Operations**

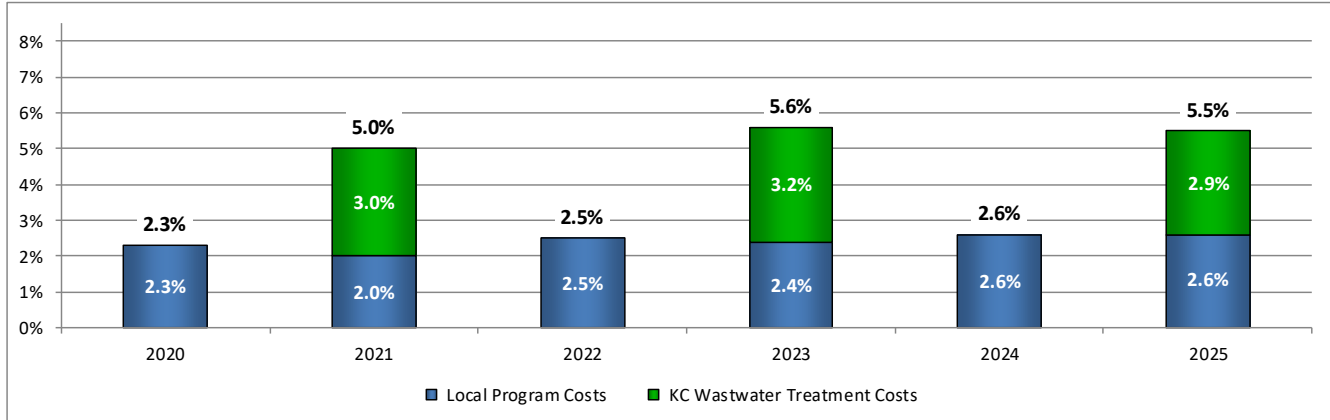
Projected inflationary cost increases to operate and maintain the water utility require a rate increase of about 0.6% in 2020, and an average of about 0.5% per year thereafter.



Utilities 2020-2025 Financial Forecast Utilities Funds

SEWER UTILITY FUND 2020 - 2025 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2020	2021	2022	2023	2024	2025
Prior Year Bill	\$83.56	\$85.48	\$89.75	\$91.99	\$97.15	\$99.68
Increase:						
KC Wastewater Treatment	0.00	2.56	0.00	2.94	0.00	2.89
Local	<u>1.92</u>	<u>1.71</u>	<u>2.24</u>	<u>2.22</u>	<u>2.53</u>	<u>2.59</u>
Total	<u>\$1.92</u>	<u>\$4.27</u>	<u>\$2.24</u>	<u>\$5.16</u>	<u>\$2.53</u>	<u>\$5.48</u>
Projected Bill	\$85.48	\$89.75	\$91.99	\$97.15	\$99.68	\$105.16

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

Per King County, the Wastewater Treatment Division's costs are increasing primarily due to ongoing debt service and capital program costs. The wholesale wastewater treatment rate is established by the County for a two-year period starting in 2019, and per City financial policy, is passed directly through to the ratepayer. There is no increase in wastewater treatment costs to Bellevue in 2020. The retail impacts of the projected increases in wastewater treatment costs to Bellevue average 1.8% annually for 2021-2025.

- **Capital Program**

The 2019-2025 sewer capital investment program includes \$45.9M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the proposed capital program (\$35.3M) will be invested to replace existing aging infrastructure. Significant aging infrastructure projects include sewer system pipeline major repairs, sewer pump station improvements, and sewer system pipeline replacements. Capital funding, including transfers to the R&R account, require a rate increase of about 1.4% in 2020, and an average of 1.5% per year thereafter. The sewer CIP also includes \$4.4M for the sewer utility's share of funding for Advanced Metering Infrastructure (AMI) and \$2.7M for land acquisition for developing a new maintenance facility. The funding for these projects is from available sewer reserves and is not a rate driver.

- **Taxes/Intergovernmental**

Taxes and interfund payments to other City departments for support services require a rate increase of about 0.3% 2020, and an average of 0.3% per year thereafter.

- **Operations**

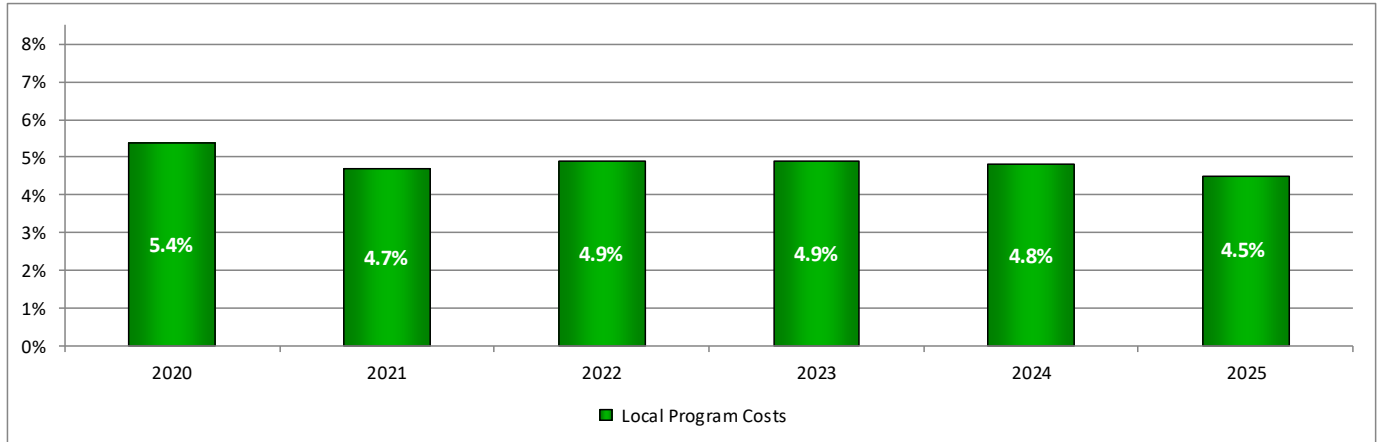
Projected inflationary cost increases to operate and maintain the sewer utility will require a rate increase of about 0.6% 2020, and an average of 0.6% per year for the remainder of the forecast period.



Utilities 2020-2025 Financial Forecast Utilities Funds

STORM AND SURFACE WATER UTILITY FUND 2020 - 2025 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2020	2021	2022	2023	2024	2025
Prior Year Bill	\$26.39	\$27.82	\$29.13	\$30.56	\$32.07	\$33.61
Increase	<u>\$1.43</u>	<u>\$1.31</u>	<u>\$1.43</u>	<u>\$1.51</u>	<u>\$1.54</u>	<u>\$1.51</u>
Projected Bill	\$27.82	\$29.13	\$30.56	\$32.07	\$33.61	\$35.12

Minor differences may exist due to rounding

Key Rate Drivers

- **Capital Program**

The 2019-2025 stormwater capital investment program includes \$31.5M in investments. Of this amount, \$18.5M is for environmental preservation investments, and include mitigating flood hazards and constructing fish passage and stream improvement projects. The remaining \$12.9M of the stormwater utility capital investments are for aging infrastructure rehabilitation and replacements. Significant projects include stormwater system conveyance infrastructure rehabilitation and minor stormwater capital improvement projects. Capital funding, including transfers to the R&R account, require a rate increases of 3.2% in 2020 and an average of about 2.6% per year thereafter.

- **Taxes/Intergovernmental**

Taxes and interfund payments to other City departments for support services require a rate increase of about 0.7% in 2020 and increases averaging about 0.6% per year thereafter.

- **Operations**

Projected cost increases to operate and maintain the storm and surface water utility, largely due to inflation, require a rate increase of about 1.5% in 2020, and about 1.6% per year thereafter.



2020-2025 Financial Forecast Parks Enterprise Fund

Executive Summary:

- The Parks Enterprise Fund forecast assumes that user fee revenue can continue to recover program expenditures over the forecast period.
- The Parks Enterprise Fund continues to meet reserve requirements and fund capital improvements at the golf course.

Background

The Parks Enterprise Fund accounts for the services provided by the Enterprise Program within the Parks & Community Services Department. These services include golf, tennis, aquatics, adult sports, and facility rentals. Enterprise Programs are fully supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves will be managed within the targeted level of 2-months operating expenses, ranging between \$1.2M and \$1.3M over the forecast period. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-2), including capital projects at the Bellevue Golf Course to enhance player services and the financial performance of the course.



**2020-2025 Financial Forecast
Parks Enterprise Fund**

**Parks Enterprise Fund
2020-2025 Financial Forecast
(In \$000)**

	2020	2021	2022	2023	2024	2025
	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Resources:						
Beginning Fund Balance	\$1,167	\$1,189	\$1,216	\$1,254	\$1,284	\$1,300
Program Revenue	6,601	6,799	7,003	7,196	7,394	7,597
General Fund Subsidy	0	0	0	0	0	0
Total Resources	\$7,768	\$7,988	\$8,219	\$8,450	\$8,678	\$8,897

	2020	2021	2022	2023	2024	2025
	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Expenditures:						
Personnel	\$2,153	\$2,237	\$2,322	\$2,410	\$2,504	\$2,607
M&O	3,087	3,164	3,242	3,322	3,406	3,499
Interfund Transfer	1,239	1,270	1,301	1,334	1,367	1,405
Capital Transfer	100	100	100	100	100	100
Total Expenditures	\$6,579	\$6,772	\$6,966	\$7,166	\$7,377	\$7,611

Reserves:						
Ending Fund Balance	\$1,189	\$1,216	\$1,254	\$1,284	\$1,300	\$1,286

Note: Columns may not foot due to rounding.



CITY COUNCIL STUDY SESSION

Development Services Fees Update

Mike Brennan, Director, 452-4113
 Carole Harper, Assistant Director, 452-6905
 Development Services Department

DIRECTION NEEDED FROM COUNCIL

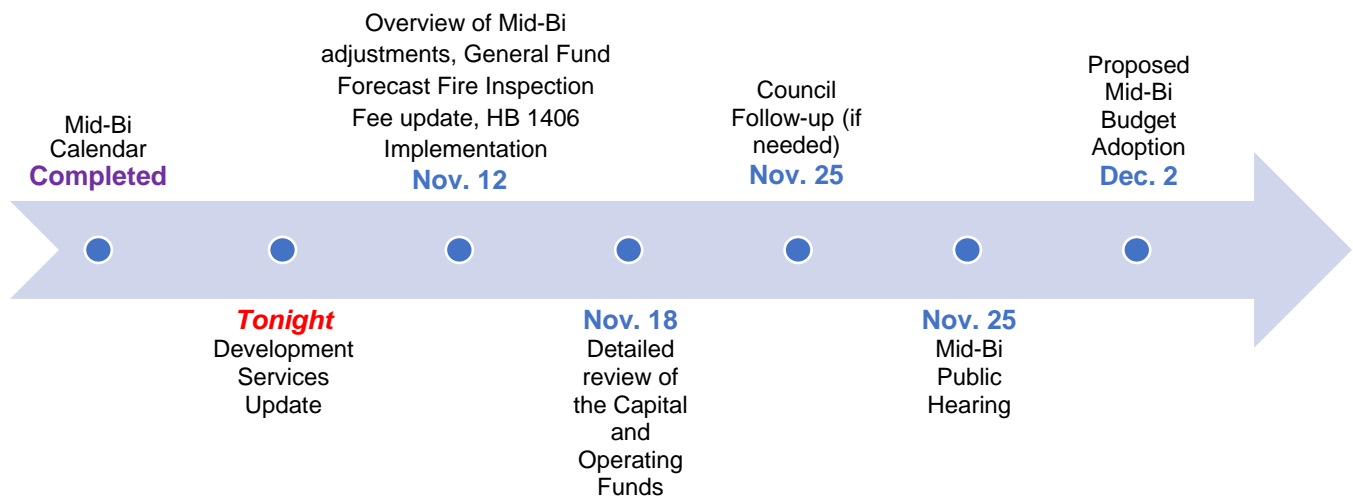
DIRECTION Staff is seeking direction on the adoption of proposed amendments to development permit fees and rates following completion of an annual cost of service study. Staff is also seeking direction to add 6.0 FTE in 2020 to address Development Services permit workload.

RECOMMENDATION

Direct staff to prepare an Ordinance for Council consideration that amends 2019 permit fees and rates and school impact fee schedule as proposed, and amends the 2020 budget for 6.0 new FTE.

BACKGROUND & ANALYSIS

This is the second of several meetings with the City Council to discuss, consider, and provide direction for the adoption of the 2019-2020 Mid-Biennium Operating Budget and the 2019-2025 Capital Investment Program (CIP) Plan.



Development Services Fee Update

The ongoing success of the Development Services line of business requires quick responses to shifts in workload, performance, or permit fee revenues as Bellevue travels through development cycles. When business 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 business activity decreases, it is also important to make measured reductions in costs and staffing to protect the financial health of the 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.

Each year an internal cost of service study is initiated using tools that assess service levels, financial performance, and forecast changes in development activity. The internal analysis and resulting fee adjustments are essential to sustaining service levels, maintaining revenues that are adequate to support the operation, and keeping fees competitive in our region. The proposed fee changes reflect the cost of services study.

The current development cycle is at a five-year high plateau and indicates that demand for review and inspection services will continue to grow through the next few years as projects move through the development cycle. Because Development Services is a line of city business that must adjust to development cycles and operate within a revenue stream primarily generated by permit fees, customer demand for development review and inspections services is managed by adjusting staffing levels and use of consultants. In the downturns, staffing levels have been reduced and in the upturns staffing levels have been increased.

Development Services is now experiencing a gap between available FTE positions and the staffing level needed to meet the current and forecast demand for services. In response to the ongoing high level of development activity, staff is proposing the addition of 6.0 FTE positions in 2020 to keep pace with demand for services. At this time, we are not anticipating the need for additional positions beyond those currently authorized and proposed; however, we will continue to monitor economic trends and changes in development activity and make recommendations to increase or decrease staffing to maintain alignment between service and demand.

Strong economic growth continues in Bellevue as permit applications are anticipated for several new major projects. As projects are submitted, revenue and expenditure projections are revised to show the increased revenue and reflect the cost increases for additional staff necessary to meet the workload demand. The additional costs are anticipated to be offset by the increase in permit fees. Attachment B – forecast update provides additional information on development activity.

Proposed Fee Adjustments

The annual fee update analyzes costs associated with delivering development review and inspection services and maintaining alignment with fees charged for those services and the established cost recovery policies. The proposed fee changes reflect the results of the cost of services study. Permit fees collected to support development services follow two primary approaches: (1) hourly rates based on the staff time needed to complete permit review and inspections, and (2) 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 reflect the total cost such as staffing, city-wide overhead, facilities, technology services, and administrative services. Hourly rates are charged for land use, transportation, utilities, and fire review and inspection services. Building permit fees supporting building review and inspection services are based on the estimated project value. The proposed adjustments to hourly and building permit fees are provided below.

Proposed Hourly Rate Adjustments				
Function	2019 Rate	2020 Rate	Proposed Revenue Increase	% Change in Rate
Land Use review	\$179	\$184	\$65,000	2.8%
Transportation review & inspection	188	193	114,000	2.7%
Fire review & inspection	169	173	35,000	2.4%
Utilities review & inspection	161	165	62,000	2.5%
Estimated Revenue Increase			\$276,000	

Permit fees supporting building review and inspection services are based on the estimated construction value. The following adjustments are proposed for **building permit fees**:

- Adopt the updated Building Valuation Data (BVD) Table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2018 to August 2019. *Values derived from the BVD tables are used to determine building permit fees for new buildings.*
- Adjust the BVD table using the Washington State modifier from 1.16 to 1.15, from July 2018 to July 2019, 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 (1.7%).

In addition to the adjustments in fees as part of the annual fee analysis process, staff review the consolidated fee Ordinance and make adjustments to ensure there is alignment with changes in business practices that can increase or decrease the fees charged for specific permit types. The proposed fee adjustments also reflect the results of the fee analysis for permits where a flat fee is charged based on the average number of review and inspection hours needed to complete the permit.

As part of the ongoing fee analysis, proposed changes to flat fees are for Fire and Utility review for Single Family permits, Fire mechanical permit review, and Fire inspection for tenant improvement permits. Water Meter Installation permit fees are adjusted by CPI-W. Please refer to Attachment A – Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6439 for a summary of proposed adjustments. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$471,000 in 2020.

The examples below illustrate the results of the proposed fee changes on two permits subject to hourly rates and reflect the change in overall cost associated with the proposed adjustments.

Commercial Mechanical Work - Land Use Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2019	\$179	1.6	\$282
2020 Proposed	\$184	1.6	\$290
Proposed Change in Fee			\$8

Right-of-Way Street Use - ROW Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2019	\$188	1.2	\$226
2020 Proposed	\$193	1.2	\$232
Proposed Change in Fee			\$6

Building Review and Inspection Fees

The use of construction value to set building permit fees has been the industry standard of practice for many years and has generated revenue adequate to support plan review and inspection services for these permits. The BVD Table published and updated by the ICC and modified by the Marshall & Swift construction value modifier for Washington, are used to establish the building value which is used to calculate building permit fees; the ICC BVD Table and the Washington State modifier are updated annually to ensure alignment with the general cost of construction. Valuation-based fees for building review and inspection services are based on two variables: (1) the estimated value of the proposed building, and (2) application of a fee applied to that value from the permit fee table.

The examples below illustrate the change in valuation-based construction fees as a result of the inflation adjustment on single family additions, new single-family homes and tenant improvement.

**Single Family Addition
 \$65,000 valuation, 500 Sq Ft addition**

	Total Fees
2019	\$3,007
2020 Proposed	\$2,997
Proposed Change in Fee	(\$10)

Minor Commercial Project
\$250,000 valuation

	<u>Total Fees</u>
2019	\$6,114
2020 Proposed	<u>\$6,227</u>
Proposed Change in Fee	\$113

School Impact Fees

Properties in Bellevue are within four school districts: Bellevue, Lake Washington, Issaquah, and Renton. The Issaquah School District (ISD) and the Renton School District (RSD) levy school impact fees. School impact fees are assessed on new residential development located within the districts' boundaries. For these Bellevue properties, the City collects and passes school impact fees through to the school districts.

Bellevue City Code 22.18.110 requires the school impact fee schedule to be updated by Council on an annual basis after Council's receipt of school districts' Capital Facilities Plans (CFPs). Both the ISD and RSD adopt CFPs and determine impact fees based on district-wide need. Although each individual new or expanded facility may or may not directly impact students residing in Bellevue, a district-wide analysis is necessary to ensure that the needs of each district as a whole are met. The impact fee for single-family and multi-family development is consistent district-wide irrespective of where the development is proposed. For instance, a development in Bellevue is assessed the same impact fee as a development in Issaquah for the ISD impact fee, or a development in Renton for the RSD impact fee.

The ISD CFP includes a change in both the single-family and multi-family impact fees. The fee for single-family units has changed from \$15,276 to \$14,501 per unit, a decrease of \$775; the fee for multi-family units has changed from \$4,399 to \$9,583, an increase of \$5,583. The significant fee change for multi-family units relates to an increase in the student generation rate (number of students per housing unit) and a higher percentage of the total cost (local share) of the improvements covered by impact fees.

The RSD CFP also includes a change in both single-family and multi-family impact fees. The fee for single-family units has changed from \$6,877 to \$6,862, a decrease of \$15; the fee for multi-family units has changed from \$2,455 to \$3,582, an increase of \$1,127. The increased multi-family impact fee results from an increase in the student generation rate (number of students per housing unit) for multi-family development and construction costs.

POLICY & FISCAL IMPACTS

Policy Impact

RCW 19.27.100

State law allows cities to charge fees for development services provided by the City.

Council Policy Direction

The City Council has set cost recovery principles 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
Land Use Discretionary Review	50%	50% General Fund supported/50% fee supported
Engineering Review & Inspection	100%	100% fee supported
Technical/Administrative Support	100%	100% fee supported

The financial management guiding principles previously endorsed by the City Council for Development Services include:

- Fees should be regionally competitive and provide for 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.

Section 2 of the consolidated fee Ordinance (Ordinance No. 6439) establishes that fees may be adjusted to reflect the current published annual change in the Seattle Consumer Price Index for Wage Earners and Clerical Workers as needed in order to maintain the cost recovery objectives established by the City Council.

Bellevue City Code

BCC Chapter 22.18 - The impact fee schedule for ISD and RSD in BCC 22.18.100 is required to be reviewed and updated by Council on an annual basis for consistency with each district's CFP and data.

Fiscal Impact

The proposed fees reflect the results of the annual fee analysis which sets the hourly rates and flat fees based on the average number of review /inspection hours to complete the permit. Proposed Water Meter Installation Permit will be adjusted by CPI-W. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$471,000 in 2020 which is included in the 2019-2020 budget. The proposed additional 6.0 FTE budget impact is \$704,892, offset by additional permit fee revenue.

OPTIONS

1. Direct staff to prepare an Ordinance for Council consideration that amends 2019 permit fees and rates and school impact fee schedule as proposed, and amends the 2020 budget for 6.0 new FTE.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. 2020 Summary of Proposed Changes to the Development Services Fee Ordinance No. 6439
- B. Development Services Fund Forecast

AVAILABLE IN COUNCIL LIBRARY

N/A

Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance

This attachment provides a summary of the changes to the existing Development Services consolidated fee ordinance (Ordinance No. 6439).

The proposed changes to the ordinance reflect the:

- Results of the Cost of Service Study (COSS) performed for Land Use, Fire, Transportation, and Utilities hourly rates.
- Updated building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from July 2018 to July 2019.
- Adjustment to the Washington State modifier from 1.16 to 1.15 from July 2018 to July 2019 as published by Marshall & Swift to align with Washington State construction costs.
- Adjustment to building review and inspection fees by CPI-W (1.7%).

Section 11. Fire Prevention Fees

Increase the Fire Review and Fire Inspection hourly rate from \$169 to \$173 reflecting the results of the Cost of Service Study. Adjustments to the following fees are proposed to reflect the results of the annual fee analysis which sets the fees based on the average number of review and inspection hours required to complete the permit.

Section 11.2 Table 15 – Fire Review Fees

- Mechanical – adjust fee from \$483 to \$606
- Single Family – addition – adjust fee from \$169 to \$104
- Single Family – new residence – adjust fee from \$203 to \$121

Section 11.2 Table 16 – Fire Inspection Fees

- Tenant Improvement – Initial Build out - adjust fee from \$489 to \$675
- Tenant Improvement – adjust fee from \$372 to \$260

Section 12. Land Use Fees

Increase the Land Use review hourly rate from \$179 to \$184 reflecting the results of the Cost of Service Study.

Section 13. Transportation Department Fees

Increase the Transportation Review, Right-of-Way Review and Transportation Inspection hourly rate from \$188 to \$193 reflecting the results of the Cost of Service Study.

Section 14. Utility Department Fees

Increased the Utilities review and inspection hourly rate from \$161 to \$165 reflecting the results of the Cost of Service Study.

Section 14.3 Table 25 -- Utility Review Fees

- Single Family new residence – adjust fee from \$483 to \$660
- Single Family addition – adjust fee from \$161 to \$182.

Section 14.3 Table 28 --- Water Service and Meter Installation Fees

- Adjustment to water service and meter installation fees by CPI-W (1.7%)

2019-2025 Financial Forecast Development Services Fund

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2019-2025 forecast reflects a high level of development activity in the early years as several major projects are in review and construction phases of the development cycle. In response to the immediate workload for development activity, Development Services is adding 6 FTE positions in 2020 to be hired as workload demands.
- In subsequent years, development activity is anticipated to return to a more moderate level.

Background

Development activity remains at a high level with demand for office, retail and housing in the early forecast years, however, that demand is expected to decline through the forecast period as several large mixed-use developments move from plan review to construction and final occupancy. Residential and office are very active segments with apartment, townhomes and condominium projects under construction in all growth centers of the City and a significant amount of new office space planned for Downtown.

Sound Transit's East Link light rail project is under construction along the entire alignment and is continuing to generate demand for permit review and inspection services. The light rail project is generating a significant amount of investment in commercial and residential Transit Oriented Development near light rails stations.

Single family applications are anticipated to remain steady in the early forecast period spurred on by continued low interest rates and low inventory. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the value of projects represented by the applications.

The timing of construction for these projects will play a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of the East Link construction. An additional 6 FTE are included in the 2020 budget to meet the ongoing demand.

2019-2025 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q3 2019 was 3.7%, down significantly from the 16.5% level experienced during the last recession. Several new office



2019-2025 Financial Forecast Development Services Fund

buildings were leased prior to completion keeping the vacancy rate low. The construction of additional office buildings is expected over the next few years in response to low vacancy and continued demand for new space driven in large part by Amazon's plans to expand their presence in Bellevue.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to be down slightly from the prior year, mainly a result of the timing of projects. 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. Strong interest also continues for single family residences, single family alterations, and tenant improvements.

The number of new land use design review applications remains consistent with prior years indicating interest in future development, however, the pace of development is anticipated to decline in the latter years of the forecast as Bellevue moves through an expected downturn in the development cycle.

The early forecast years reflect revenue collections for several new major projects, with reductions in revenue collections through the latter years.

2019-2025 Financial Forecast (in \$000)

	2019est	2020	2021	2022	2023	2024	2025
Beginning Fund Balance	\$28,447	\$31,337	\$29,752	\$26,266	\$23,511	\$22,744	\$22,432
Resources:							
Building Fees	\$14,740	\$11,667	\$11,031	\$10,160	\$9,941	\$10,209	\$10,474
Land Use Fees	\$2,094	\$2,236	\$2,191	\$2,182	\$2,496	\$2,564	\$2,630
Fire, Transp. & Utilities Fees	\$7,402	\$7,996	\$7,571	\$7,459	\$7,548	\$7,752	\$7,954
sub: Development Services	\$24,236	\$21,900	\$20,793	\$19,801	\$19,985	\$20,525	\$21,059
Gen Fund Subsidy	\$4,741	\$4,989	\$4,797	\$4,703	\$4,593	\$4,703	\$4,825
Other Revenue/Interest	\$962	\$410	\$327	\$331	\$324	\$333	\$341
Total Resources	\$29,939	\$27,299	\$25,917	\$24,835	\$24,902	\$25,561	\$26,225
Expenditures:							
Building	\$9,833	\$11,000	\$11,319	\$10,337	\$10,368	\$10,419	\$10,524
Land Use	\$3,303	\$3,459	\$3,559	\$3,390	\$3,368	\$3,401	\$3,435
Fire, Transp. & Utilities Dev Svcs	\$6,446	\$6,127	\$6,304	\$6,004	\$5,543	\$5,599	\$5,655
Code Compliance	\$1,937	\$2,246	\$2,311	\$2,201	\$1,361	\$1,375	\$1,389
Administrative/Shared Costs	\$5,042	\$5,446	\$5,604	\$5,337	\$4,700	\$4,747	\$4,794
Technology Initiatives	\$488	\$606	\$306	\$321	\$329	\$332	\$336
Total Expenditures	\$27,049	\$28,884	\$29,403	\$27,590	\$25,669	\$25,873	\$26,132
Ending Fund Balance	\$31,337	\$29,752	\$26,266	\$23,511	\$22,744	\$22,432	\$22,524



2019-2025 Financial Forecast Development Services Fund

Forecast Drivers and Assumptions

1. Several major mixed-use development projects (NET-3 Tower & Connector, Block 24, 1001 Office Towers, Avenue Bellevue, and Bellevue Plaza Phase I) are assumed to be under construction in the early years of the forecast. Residential and senior housing development continues with construction of several apartment, townhome and senior living projects. Of note for construction completion is the Bosa One88 condominium tower, the first downtown condominium project since 2009.
2. New project activity continues as several in the review process (such as NE 10th Residential, GIS Plaza Building, Bellevue Senior Housing, and 555 108th Towers) are expected to begin construction in early forecast years. The high level of permit activity for tenant improvements of new office buildings will also continue. In later forecast years, growth is anticipated at a more moderate rate.
3. The forecast reflects an additional 6 FTE as workload demand warrants. 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.
4. Development fees are reviewed annually and adjusted to assure they achieve the cost recovery objectives endorsed by Council. This forecast assumes that rates will grow at levels near the average rate of inflation.
5. Council amended the Eastgate and Downtown Land Use Codes refining future growth plans for these areas of the City. Development density was increased along the I-90 and I-405 corridors and the updated Downtown plan reflects the addition of light rail.

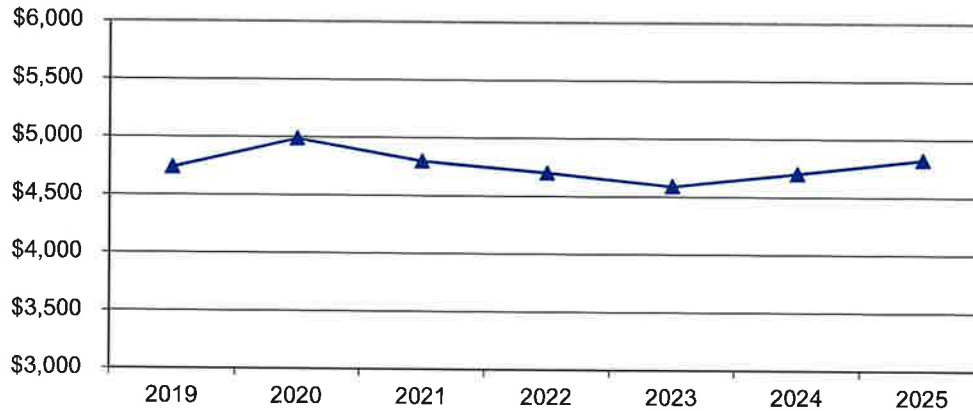
General Fund Subsidy

The General Fund contribution to the Development Services Fund supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, code and policy development, and approximately 50% of Land Use discretionary review.



2019-2025 Financial Forecast Development Services Fund

**General Fund Subsidy Forecast 2019-2025
(\$ in Thousands)**



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period as policy and code update work continues. In later years, the contribution is expected to decrease, consistent with projections for cost savings due to anticipated decline in development activity.

Development Services Fund Reserves

The Development Services Fund includes prepaid fees and reserves to assure that staffing levels are balanced with cyclical needs and core staffing levels are maintained, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

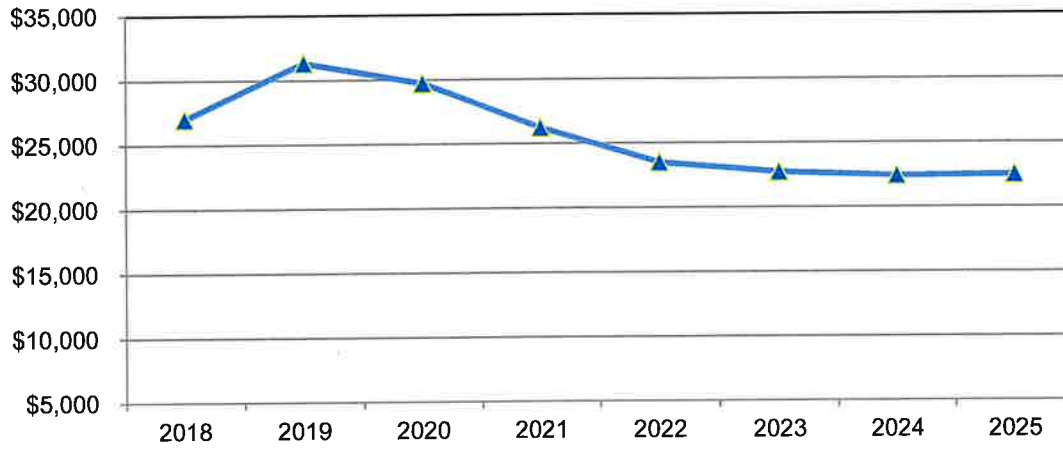
Development Services Fund is approximately \$29.8 million through 2020, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level declines through the forecast years as reserves are drawn upon to maintain sufficient staff to complete the review and inspection of projects in construction and to invest process improvement work.

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.



2019-2025 Financial Forecast Development Services Fund

Development Services Fund Balance Forecast 2019-2025
(\$ in Thousands)



All Fund Changes

	2019-2020 Adopted Budget	2019-2020 Council Budget Amendments	2019-2020 Amended Budget	2019-2020 Mid-Biennium Proposed Changes	2019-2020 Proposed Mid-Biennium Budget
<u>City Budget</u>					
<u>Operating Budget</u>					
General Fund	\$476,331,262	\$743,558 ¹	\$477,074,820 ⁶	\$710,253 ⁵	\$477,785,073
Development Services Fund	78,119,232	-	78,119,232 ⁶	704,892 ⁵	78,824,124
Equipment Rental Fund	29,391,569	-	29,391,569 ⁶	- ⁵	29,391,569
Facilities Services Fund	15,159,233	-	15,159,233 ⁶	- ⁵	15,159,233
General Self-Insurance Fund	10,756,913	-	10,756,913 ⁶	- ⁵	10,756,913
Health Benefits Fund	63,005,760	-	63,005,760 ⁶	- ⁵	63,005,760
Hotel/Motel Tax Fund	27,382,000	-	27,382,000	-	27,382,000
Human Services Fund	11,978,517	585,630 ²	12,564,147 ⁵	1,100,000 ⁶	13,664,147
Information Technology Fund	36,228,745	-	36,228,745 ⁶	- ⁵	36,228,745
Land Purchase Revolving Fund	6,724,094	-	6,724,094	-	6,724,094
LEOFF I Medical Reserve Fund	470,493	-	470,493	-	470,493
Marina Fund	1,605,580	-	1,605,580	-	1,605,580
Park M&O Reserve Fund	6,633,020	-	6,633,020	-	6,633,020
Parks Enterprise Fund	14,136,077	-	14,136,077 ⁶	- ⁵	14,136,077
Sewer Utility Fund	137,444,156	-	137,444,156 ⁶	- ⁵	137,444,156
Solid Waste Fund	3,926,233	-	3,926,233 ⁶	- ⁵	3,926,233
Storm & Surface Water Utility Fund	60,057,311	-	60,057,311 ⁶	- ⁵	60,057,311
Unemployment Compensation Fund	625,673	-	625,673	-	625,673
Water Utility Fund	146,271,044	-	146,271,044 ⁵	5,333,000 ⁶	151,604,044
Worker's Compensation Fund	6,995,448	-	6,995,448	-	6,995,448
Total Operating Budget	\$1,133,242,360	\$1,329,188	\$1,134,571,548	\$7,848,145	\$1,142,419,693
<u>Special Purpose Budget</u>					
Firemen's Pension	\$7,288,017	\$0	\$7,288,017	\$0	\$7,288,017
Housing Fund	9,399,480	-	9,399,480 ⁶	720,971 ⁵	10,120,451
Interest & Debt Redemption - Regular Fund	44,309,072	-	44,309,072	-	44,309,072
LID Control Fund	71,702	-	71,702	-	71,702
LID Guaranty Fund	751,700	-	751,700	-	751,700
Operating Grants, Donations, and Special Reserves Fund	10,097,367	923,523 ³	11,020,890 ⁵	1,450,470 ⁶	12,471,360
Total Special Purpose Budget	\$71,917,338	\$923,523	\$72,840,861	\$2,171,441	\$75,012,302
<u>Capital Investment Program Budget</u>					
General Capital Investment Program Fund	\$222,188,662	\$4,312,080 ⁴	\$226,500,742	\$252,428	\$226,753,170
Utility Capital Investment Program Fund	312,042,137	-	312,042,137	-	312,042,137
Total Capital Investment Program Budget	\$534,230,799	\$4,312,080	\$538,542,879	\$252,428	\$538,795,307
Total City Budget	\$1,739,390,497	\$6,564,791	\$1,745,955,288	\$10,272,014	\$1,756,227,302

Amendment Footnotes through November 4:

¹ General Fund \$743,558: Ord. 6464 5/20/19.² Human Services Fund \$585,630: Ord. 6471 8/5/19.³ Operating Grants, Donations, and Special Reserves Fund \$614,245: Ord. 6466 6/13/19, Ord. 6477,6478 10/7/19, Ord. 6482 11/4/19⁴ General Capital Investment Program Fund \$4,312,080: Ord. 6456 3/19/19, Ord. 6460 4/15/19, Ord. 6467 6/17/19, Ord. 6470 8/5/19, Ord.6472 9/3/19, Ord. 6474 9/16/19, Ord. 6479 10/21/19⁵ See the additional attached pages to this cover sheet for details for this fund.⁶ Appropriation adjustment - technical in nature.

Mid-Biennium Budget Funds with COLA/Pension changes and No Appropriation Adjustment

The following funds were affected by COLA and pension adjustments and may include MEBT limit or other miscellaneous adjustments, but generally will not require an appropriation adjustment as they are balanced with changes to ending fund balance. Funds with these changes include: General Fund, Development Services, Equipment Rental, Facilities Services, General Self-Insurance, Health Benefits, Information Technology, Parks Enterprise, Sewer Utility, Solid Waste, Storm & Surface Water Utility, Water Utility, Housing, and Operating Grants, Donations, and Special Reserves Funds.

*Other changes impacting budget appropriation are noted in the fund changes below.

Mid-Biennium General Fund Budget

	Revenues	Expenses
2019-2020 Amended Budget	\$477,074,820	\$477,074,820
Technical Updates/Errors & Omissions:		
¹ General Taxes and Miscellaneous Revenue Updates	710,253	
² Police Position Adds (2.0 FTE)		280,822
³ ARCH support funding		95,971
⁴ Ending Fund Balance Adjustment		333,460
Subtotal	\$710,253	\$710,253
2019-2020 Mid-Biennium Proposed Budget	\$477,785,073	\$477,785,073

- ¹ Revenue Updates includes increases in Sales tax (\$858K), Ground Emergency Medical Transport (GEMT) (\$500K), Fire Inspection Fee (-\$391K), Utility tax (-\$189K), B&O tax (-\$126K) and Property tax (-\$74K), other misc. revenue adjustments (\$6K).
- ² Police Position adds includes a detective in the Special Assault Unit (SAU) and a Property Evidence Technician to address immediate public safety needs due to growth and urbanization.
- ³ In the Oct 21 study session, ARCH staff briefed council on the 2020 budget increase of \$385,876. This is Bellevue's portion (~ 25%) of the increase, which is transferred to the Housing Fund.
- ⁴ This balancing adjustment is for the additional appropriation necessary to balance revenues and expenses.
Note- No appropriation adjustment is needed for pension, MEBT limit or other miscellaneous adjustments, as changes are balanced with changes to ending fund balance.

Mid-Biennium Development Services Fund Budget

	Revenues	Expenses
2019-2020 Amended Budget	\$78,119,232	\$78,119,232
Budget Updates:		
¹ Position Authority (6.0 FTE)	704,892	704,892
Subtotal	\$704,892	\$704,892
2019-2020 Mid-Biennium Proposed Budget	\$78,824,124	\$78,824,124

¹ Budget authority for up to 6.0 FTEs to be filled as demand for development review and inspection services warrant to accommodate workload, maintain service levels and maintain budget alignment. Positions will be held vacant if workload and revenue to support the positions does not materialize. Position authority is offset by additional permit fee revenue. This is normal business practice for Development Services to meet the growing demand for permit review and inspection services.

Note- No appropriation adjustment is needed for pension, MEBT limit or other miscellaneous adjustments, as changes are balanced with changes to ending fund balance.

Mid-Biennium Housing Fund Budget

	Revenues	Expenses
2019-2020 Amended Budget	\$9,399,480	\$9,399,480
Budget Updates:		
¹ ARCH support	95,971	95,971
² House Bill 1406 Sales Tax Credit	625,000	625,000
Subtotal	\$720,971	\$720,971
2019-2020 Mid-Biennium Proposed Budget	\$10,120,451	\$10,120,451

¹ In the October 21 study session, ARCH staff briefed council on the 2020 budget increase of \$385,876. This is Bellevue's portion (~25%) of the increase. The revenue is a transfer from the General Fund.

² If Council adopts the November 18 Ordinance to impose the sales tax credit authorized by Substitute House Bill 1406, this budget update will provide appropriation for a .0073 percent sales tax credit, providing an estimated \$625,000 in annual housing revenue for the City. Actual collections will fluctuate depending on the economic health of the City.

Note- No appropriation adjustment is needed for pension, MEBT limit or other miscellaneous adjustments, as changes are balanced with changes to ending fund balance.

Mid-Biennium General Capital Investment Program Fund Budget

	Revenues	Expenses
2019-2020 Amended Budget	\$226,500,742	\$226,500,742
Technical Updates/Errors & Omissions:		
¹ Bel-Red Parks & Streams (P-AD-103)	252,428	252,428
Subtotal	\$252,428	\$252,428
2019-2020 Mid-Biennium Proposed Budget	\$226,753,170	\$226,753,170

¹ Update project budget for changes in the developer contributions received.