

CITY COUNCIL STUDY SESSION

Budget Workshop: 2023-2024 operating budget and 2023-2029 capital investment program

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Finance & Asset Management Department

DIRECTION NEEDED FROM COUNCIL**INFORMATION
ONLY**

Staff will review and seek feedback from Council regarding the budget process and the current financial information that informs the development of the 2023-2024 operating budget and the 2023-2029 capital investment program. In addition, staff will provide an overview of the Parks Long Range Capital plan and seek feedback on whether staff should explore specific parks funding options and return to Council with additional information.

RECOMMENDATION

N/A

BACKGROUND & ANALYSIS

As the City Manager begins to develop his Preliminary 2023-2024 Budget recommendation to Council, staff is seeking any early feedback, questions, or other comments the Council may wish to provide on the upcoming budget process, operating and capital budgets, or for the longer-range financial forecasts.

The City Manager's preliminary budget is expected to be delivered to Council in late September.

The purpose of this workshop is to:

- Provide Council with the process, timelines, and public engagement with a focus on developing and testing an equity lens.
- Provide information regarding the inflationary environment that the 2023-2024 budget will be developed within.
- Update the Council on the current fiscal condition of the General Fund and General 2019- 2025 Capital Investment Program (CIP) and continue the discussion on the longer-term strategies.
- Begin a discussion regarding the long-term Parks capital planning.

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

Budget Process, Milestones, and Public Engagement (including an Equity Lens)

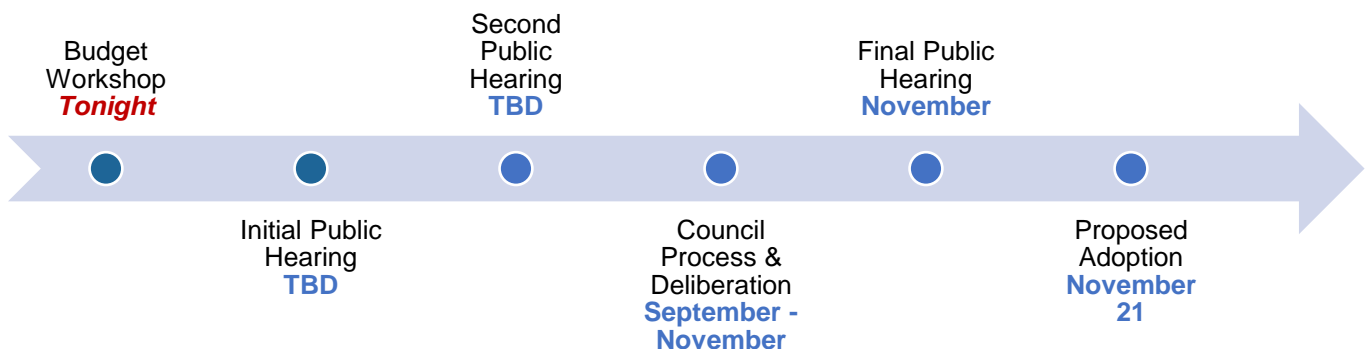
Discussion Objective: Staff will provide Council with the process and timelines for the 2023-2024 Budget and seeks questions, comments, and feedback. In addition, staff seeks feedback on the proposal to develop and test an equity lens.

Budget Process, Calendar and Public Engagement

See Attachment A: Budget Process and Calendars, Attachment B: Budget One Public Engagement.

Building on prior budgets, the City will use a similar process, historically titled "Budget One", to develop the 2023-2024 Biennial Budget. The process: 1) Identifies the community's priorities; 2) Prioritizes services to meet those priorities; and 3) Funds those services with available monies. The Budget One process puts the emphasis on community priorities, not departments. All current programs, services and activities must be submitted as "proposals" to be funded and all proposals must align with one of the priorities. As with the 2021-2022 budget the overall frame of the budget will be the [Council's Vision and Strategic Target Areas](#). The 2023-2024 budget process continues to engage the public through multiple communication channels, including the surveys, public hearings, open public comment at regular council meetings, boards and commissions, and direct emails to the City.

The anticipated milestones for the budget process are noted in the graphic below. In addition, as needed, staff will return to Council throughout the budget process to seek feedback as the City Manager prepares his preliminary budget. The City, by practice, holds three public hearings during the budget process. The dates of the first two public hearings are still being determined but, will occur in advance of the City Manager transmitting his Preliminary 2023-2024 Budget to Council in late September. The purpose of the first two hearings will be to gather public input that will help inform the preliminary budget, the third hearing will allow for both public input and feedback on the preliminary budget.



To guide the budget process, we expect to use guiding principles from prior budgets:

Budget One Guiding Principles

Foremost is the Council's long-term policy that quality service programs will be offered by the City of Bellevue. Other guiding principles include:

- a focus on services that deliver outcomes important to the community and that are responsive and accessible to all;
- position Bellevue to realize opportunities;

- an examination of the entire budget, not just incremental changes from the last budget;
- a commitment to innovation, efficiency, and sound business practice;
- a focus on Citywide, not Department, priorities;
- a long-range strategic approach to an affordable and sustainable budget; and
- if expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

Develop and Test a Budget Equity Lens

See Attachment C: Develop and Test an Equity Lens

Building on the equity work across the City and beyond, staff proposes to develop and test an equity lens within the City's budget development process. This will be a first step in what will be an iterative process over multiple budget cycles to incorporate equity-informed decision-making into the biennial budget. This lens will serve as one more of the tools to inform budget decision making in addition to performance measures, fiscal information, community, and Council feedback. For the equity lens, staff will utilize existing key operational metrics that have a clear connection to the Council's Strategic Target Area (STA), as well as financial and geographic data. The vision is that these metrics would be presented in a narrative format with the metric mapped by neighborhood and put into context with available slices of demographic data (e.g. racial/ethnic composition, median household income, among others). Staff acknowledges that this first attempt will be limited in design and focused on development and testing to ensure that what is developed allows for informed decision making.

Impact of inflation affecting all service areas

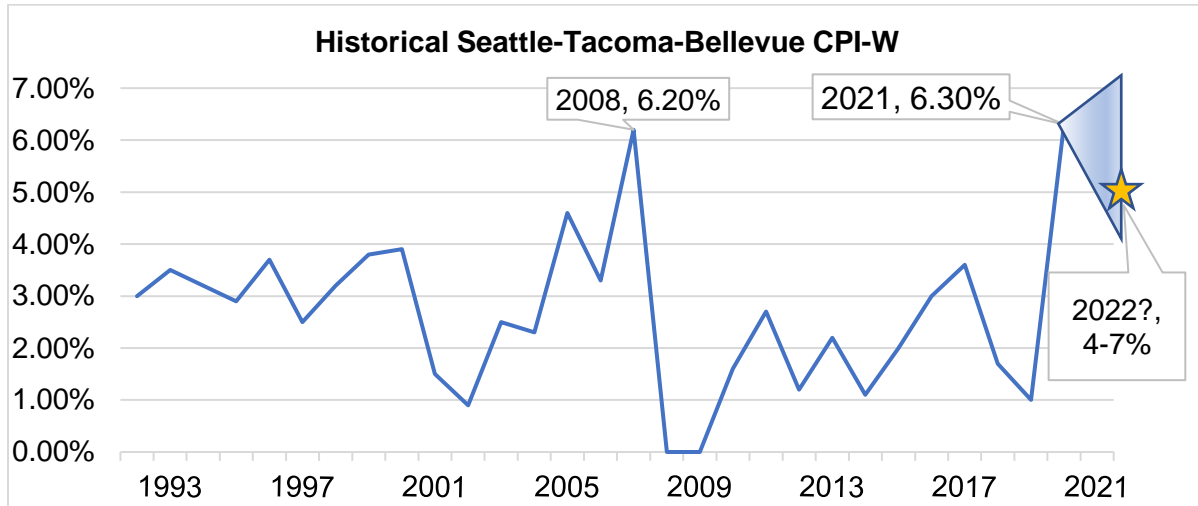
Discussion Objective: Staff will provide Council a preview of inflationary impact for Council questions, comments, and feedback.

The City is heavily impacted by the cost of inflation. The City's inflation is benchmarked against the BLS (Bureau of Labor Statistics) June to June CPI-W which is released in mid-July each year. At a minimum, inflation impacts all funds with personnel, and many of the contracted services, which in turn impacts the expenditure growth including the outward facing rate-based services such as Utilities and Development Services. (As a reference, early look forecast for Utilities is in Attachment H).

With the re-opening of the economy in 2020 and 2021 following the initial impacts of the pandemic, the demand for goods coupled with the constrained supply chain, rising wages, and influx of stimulus funding are among the key drivers of the current high inflation environment. Inflation for the City rose at 6.3 percent for the fiscal year 2022. As an order of magnitude, a 1 percent increase in inflation equates to approximately \$1.2 million in personnel costs in the general fund and another \$0.5 million for all remaining funds (\$1.7 million all funds combined).

As of mid-February 2022, early thinking is that June to June 2022 rate (which will be the rate used for 2023) will have another higher-than-normal inflation impact between 4 and 6 percent. In looking at the components of inflation, the three that are most impactful in the current environment are food, transportation (fuel and vehicles), and housing. Since that time, recent global events have caused even greater rising costs of transportation and food which may cause inflation to be greater than 6 percent, per some economists. Inflation will continue to be uncertain for near term. Staff will be watching and

reviewing economic information as it is published and waits for the final publication in mid-July. The forecast information presented tonight includes a 5 percent for the June to June 2022 rate which informs the City's 2023 inflation factor, denoted by the star in the historical inflation chart for reference below.



Long Range Financial General Fund Forecast

Discussion Objective: Provide background and potential future scenarios regarding the impact of growth on the general fund forecast six-year period 2023 to 2028. Seek feedback on principles and actions to assist the City Manager in developing his 2023-2024 Preliminary Budget.

Background

As with all local governments, the City has faced and continues to face an ongoing structural deficit where expenditure growth outstrips revenue growth in the general fund. The main drivers for the City are twofold:

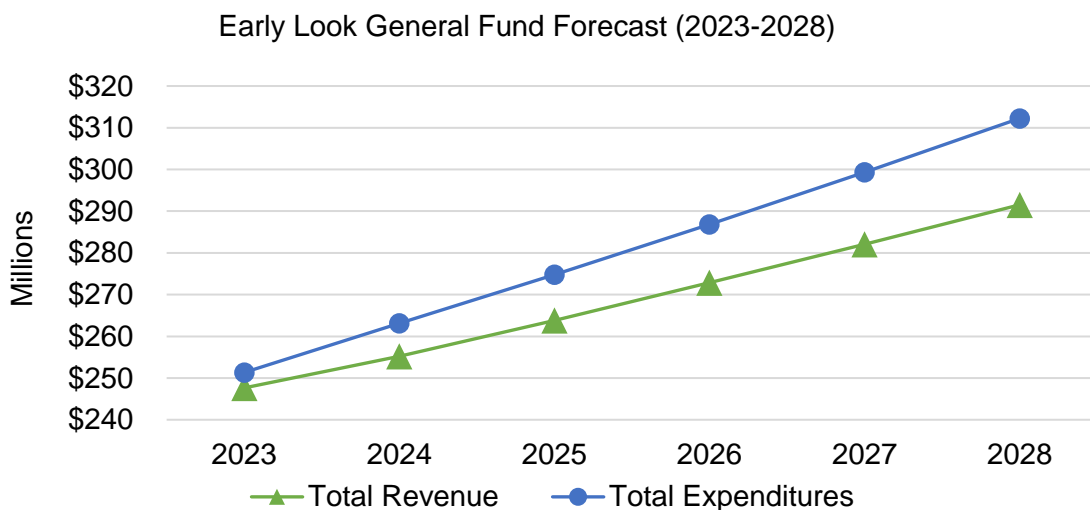
- **Revenue Imbalance:** The current structure of property tax allows the city revenue to grow by 1 percent plus new construction annually. This increase does not keep pace with expenditures which are driven by urbanization and inflation. Conversely, the city's most economically volatile revenue streams, sales tax and business & occupation (B&O) tax, historically have grown around 5 percent annually. The growth of the sales tax and B&O tax do not counterbalance the lack of growth in property tax.
- **Urbanization and Growth:** The City continues to experience substantial growth that over time will require more complex new and enhanced urbanized services. These new programs are not included in the forecast outside of the known costs for opening Fire Station 10, and a modest growth in total expenditures to reflect our growing community and the needs it generates.

Prior to the pandemic and subsequent closing and re-opening of the economy, Council had directed two actions to assist in bridging the gap. The first to continue to build reserves in the General Fund to better position the City to address the structural imbalance and to protect the City in the case of an economic downturn and the second, Council approved the 1 percent Councilmanic property tax

adjustment, annually, and fire inspection fees. During this time, expenditure growth reductions such as implementing strategies impacting out-year health care costs were initiated. These actions and others assisted in allowing the City to fair better than other jurisdictions as the pandemic began.

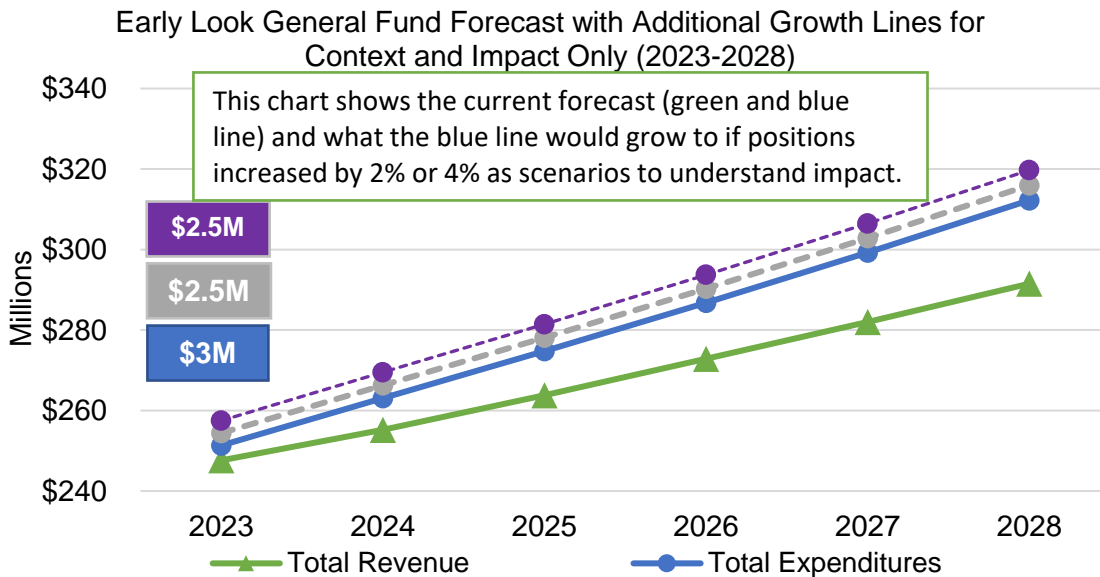
As the City has weathered the pandemic and the swift and substantial decrease in revenues, several fiscal actions were taken to balance the 2021-2022 budget and subsequent mid-biennium. In general, the city has reduced costs ongoing through general cost containment in areas such as spending for consultants, discretionary travel/training, temporary help, seasonal help, among others. These cost containment measures impact all departments and limit the flexibility for internal operations to address surge workload, and in some cases, reduce existing workload. In addition, the City moved toward a more reactive response to certain maintenance areas for non-safety-based repairs and parks maintenance such as watering and lawn mowing. In total the ongoing cost reductions were \$8 million (general cost containment and reduction in non-safety maintenance). Acknowledging that a portion of the pandemic related impacts were one-time in nature, the budget decisions also included one-time bridge structures such as delaying major expenses and a temporary shift in revenue allocation from the capital fund to the general fund to help buy time for economic recovery. Finally, modest increases in revenues were used including the 1 percent property tax adjustment, increase in Basic Life Support transport fee and ensuring compliance with business and occupation tax code.

Today, the general fund forecast continues to show expenditures exceeding revenues for the foreseeable future, with a delta in 2023 of approximately \$3 million. The current forecast projects strong revenue growth in the near term as the economy continues to return from the impacts of COVID-19 before growth moderates to pre-pandemic trends including the continuation of the high development activity in downtown and BelRed. On the expenditure side, assumptions include costs related to Fire Station 10, a modest growth for urbanization, inflation at 5 percent in the near term moderating in the later years and continues the cost containment strategies made in the 2021-2022 budget. Further details can be found in Attachment D.



Potential Growth Scenarios not included in the Forecast for impact context only

As noted earlier the forecast does not include new or enhanced programs beyond the costs for opening Fire Station 10, and a modest growth in total expenditures to reflect our growing community and the needs it generates. Quantifying the costs for all programs related to growth is a complex task. Staff has taken a generalized approach with establishing overall percent increase in staff across all functions of the general fund as a proxy. The chart below shows the existing general fund forecast then then layers on two scenarios to understand the impact (1) a 2 percent increase in staff (19 positions) in 2023 and (2) a 4 percent increase in staffing (38 positions) in 2023. These are scenarios are for context only to show the impact of what increases to respond to the extreme growth could look like. Staff chose these two options as proxies as neither are out of the realm of possibilities for potential staffing to respond to the growth when considering community noted needs such as public safety, planning initiatives, and the related internal infrastructure needs with new or enhanced programs.



Options to create a path toward fiscal sustainability

Staff currently estimates the existing forecast 2023 delta between expenditures (blue line) and revenues (green line) to be approximately \$3 million. As Council adopts balanced budgets with ongoing actions, the out-year gap will reduce. For instance, if the 2023 budget is balanced with ongoing revenues increases or expenditure reductions, the then 2024 gap would be \$3 million less. If on the other hand, the choice is to use one-time sources to balance the 2023 gap, the 2024 gap as shown would not be impacted.

The work to bring fiscal sustainability in the long term will be daunting. The City will need to consider all options including:

1. Reduce expenditures. Considering the reductions taken in in the 2020-2021 budget in ongoing maintenance and overall cost containment, coupled with the growing needs of the community, the remaining choices and/or tradeoffs will be difficult.
2. Increase revenues. In relation to revenue options, adjustments in tax rates or other rates or

authorizing a new revenue source, either councilmanic or by a vote of the people, requires Council approval and action. Attachment G provides a substantial list of known revenue options for Council consideration. In reviewing the list there are those that are Councilmanic Options of existing sources versus those that would be new sources.

Existing sources with Councilmanic authority for operations are options such as:

- The 1 percent Statutorily Adjustment, which generates \$482 thousand to the general fund, \$167 thousand to the capital investment program for existing levies.
- Accessing the existing property tax authority that is “banked” with King County Assessor. Current banked capacity is a total of \$9 million or 14 percent and could be assessed in any increment amount.
- The City’s current Business & Occupation Tax (B&O) is 0.1498 percent; state law allows for a maximum rate of 0.2 percent; increasing to the maximum would generate approximately 14 million.
- Similarly, some of the Utility taxes, such as water, sewer, storm, and garbage are not at their maximum, increasing by 0.5 percent would generate approximately \$2 million annually.
- Among others such as admissions tax.

New Options (Councilmanic and/or Voted):

- Many choices including Parking Tax, Regional Fire Authority, Fire Protection District, Transportation Benefit District , Affordable Housing Levy, Public Safety Sales Tax, Cultural Access Program, and Others

3. Use Reserves or other one-time funding. Reserves or other one-time would allow for bridge structures to plan for further work, yet it will not create fiscal sustainability in the long term.

As the City Manager begins to develop his preliminary budget recommendation to Council, staff is seeking any early feedback the Council may wish to provide to respond to the current general fund forecast.

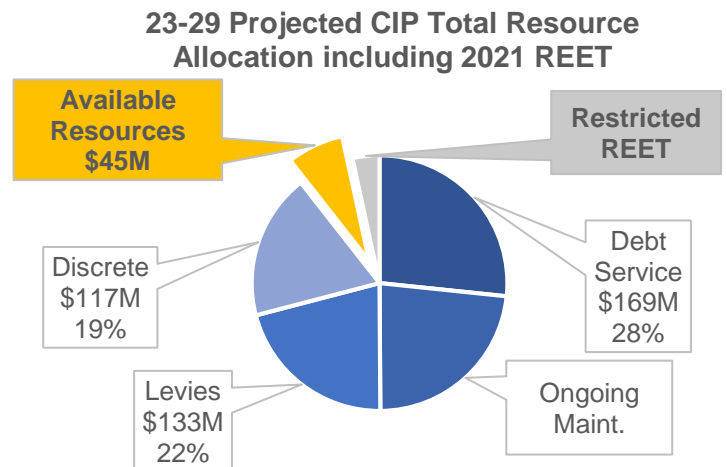
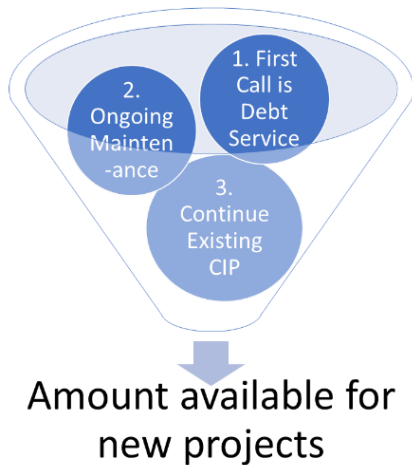
Capital Investment Program (CIP) 2023-2029

Discussion Objective: A team made up of Leadership Team (department directors) members will make a recommendation to the City Manager for the 2023-2029 CIP as has been the case for the past several budget cycles. In addition to the budget guiding principles, they will use the historical CIP criteria and planning policies, see Attachment F: Capital Prioritization Criteria and Planning Policies. Staff seeks feedback on these criteria or other criteria that Council may wish to provide as the City Manager begins to develop his Preliminary Budget.

Like previous CIP plans, the 2023-2029 CIP will be resource constrained; continuing projects that are currently underway and adding years 2028 and 2029. In accordance with Council policy and historical practice, the first draw on new resources is to fund debt service which is contractually committed, together with ongoing projects that maintain the City’s existing infrastructure before building new projects, and continuing projects underway. Based on best estimates today, the remaining new resources to pay for recosting of existing projects, scope changes for unforeseen developments, and

new projects is projected to be approximately \$45 million in total across years 2028 and 2029 being added to the CIP. Included in the \$45 million is the positive impact of the refunding (refinancing) of debt in 2021 which brought approximately \$2 million in funding for years 2024 to 2029.

Of other notable impact, Real Estate Excise Tax (REET) is projected to be extremely strong for 2021. The 2021 books have not yet closed, and staff are currently estimating the excess beyond budget at \$20 million. These funds are in addition to the \$45 million, and are restricted to parks and transportation projects, by ordinance and will be included in the budget discussions. This is about double what the City had budgeted, the reason for the very healthy 2021 is that historically the City sees five or so large (over \$50 million) real estate transactions, this year the City saw triple that at about 15 transactions. This is not a common occurrence, yet staff will be reviewing the out-year REET forecast as the year continues and will adjust accordingly, if needed. See Attachments E and F for further information.



With the resource constrained CIP, the challenge to meet the investment needs of the community will be difficult. There are many projects in the queue for the future that will exceed our funding availability such as:

- Infrastructure to support growth, like 120th Stage 4, Bellevue Way HOV, 150th Avenue SE corridor, future phases of West Lake Sammamish and others,
- Quality of Life investments, such as an aquatics center and additional phases of Meydenbauer Bay Park, neighborhood parks, open space, sport fields, etc. (see the following discussion regarding Parks Long Range planning for a detailed project list), and
- Critical City Facilities such as replacing aging enterprise technologies and aging or deficient facilities.

Staff seeks feedback on the periodization criteria in Attachment F or other criteria that Council may wish to provide as the City Manager begins to develop his Preliminary Budget.

Parks Long Range Planning

Discussion Objective: Staff will provide an overview of Parks Long Range Capital plan and seeks feedback on whether staff should explore specific parks funding options and return to Council with additional information.

City Council has an adopted 2021-2023 priority to “advance a parks funding strategy, including consideration of new funding sources for operations, maintenance and construction” (High Quality Built and Natural Environment Priority #9).

At the March 7 Council Budget Retreat, City staff will review and seek Council feedback on whether staff should explore specific parks funding options and return to Council with additional information.

Background

Bellevue’s well regarded park system has benefited from decades of strong leadership, a compelling vision and ongoing incremental financial investment. Whether it has been completing the Downtown Park after several decades and numerous construction phases, continuing to grow the acreage of the Mercer Slough Nature Park, or gradually acquiring land for a significant public waterfront park on Lake Washington, Bellevue has continued to demonstrate one of the City’s hallmarks – setting the long-term vision, developing big plans and successfully implementing those plans over many years.

Over the past two years of the COVID pandemic, the park system has again demonstrated its incredible value to the community. Parks use has increased dramatically as people sought a refuge from COVID and outdoor public spaces served as outdoor living and fitness rooms to safely connect with nature, friends and family.

At the same time, Bellevue has continued to grow in number of residents and workers and this growth has placed increasing demands on existing parks, open spaces, trails and recreation facilities.

Past Voter Initiatives

Voter initiatives have built the foundation of Bellevue’s Park & Open Space System, with 10 separate measures passing between 1953 and 2008. Most of those measures were park bonds, which were used repeatedly until 1989 and are now fully retired. Two separate Park bonds were placed on the ballot in 2002, although both failed to achieve the 60 percent voter approval needed for passage. The 2008 Parks and Natural Areas Levy was structured as a 20-year “pay as you go” capital levy for property acquisition and park development, with a permanent maintenance levy to support the ongoing maintenance and operations costs of those projects.

The 2008 measure passed with 67 percent voter approval, and the City will continue to collect annual capital levy funds from this measure until 2028. Examples of notable projects in part funded by the 2008 Parks Levy include the Downtown Park ‘Completing the Circle’ development, Surrey Downs Park development and the Botanical Garden Visitor Center building development. All but two capital projects from the 2008 Levy have been completed.

Parks & Open Space System Plan update – Community Outreach

The 2022 update of the Parks & Open Space System Plan (POSSP) is nearly complete. The Parks & Community Services Board recently reviewed and recommended approval of the draft plan. Parks staff recently concluded extensive public outreach on park system needs for the update of the POSSP,

providing insight on current community desires and preferences for parks and open space improvements and projects. This engagement work included presentations to City Boards and Commissions, outreach to more than 20 community-based organizations, use of the online platform, Engaging Bellevue, and two community surveys including an open park users survey and a statistically valid resident survey. For more information, please see Attachment I.

Common themes from the community outreach include:

- Parks are well maintained and important to the quality of life.
- Protect natural resources and open space we have left.
- Expanding local trail connections and wayfinding is important.
- Parks needed in specific neighborhoods, particularly high growth areas and those with minimal existing access.
- Design parks facilities for interaction and gathering.
- Consider a variety of facilities in our parks, including those for emerging sports such as pickleball and cricket, off-leash areas, skating, and dispersed fields/courts around the City.
- Provide relevant facilities for a diverse population, including those with disabilities, the active aging community, youth, and different ethnicities.
- Preserve history and cultural resources. Consider additional interpretation.

The surveys of Bellevue residents completed for the Parks & Open Space System Plan consistently show that the Bellevue community more generally supports expansion of the park system through projects that:

- Preserve natural areas and add trails,
- Add neighborhood parks,
- Complete existing parks, and
- Provide waterfront access.

The Bellevue Parks & Open Space System Plan identifies a menu of desired capital project needs over the next 20 years. The system plan is not constrained by a budget amount and the projects included far exceed budgeted funds available. The funding strategy in the plan is general and assumes that CIP funding is the foundation for property acquisition, capital construction, renovation, and planning. The capital focus areas as shown in the POSSP include, but are not limited to the following examples:

- Open Space, Greenways, Wildlife Corridors & Trails: e.g., Open space acquisition such as at Coal Creek, Mountains to Sound Greenway trail connections, Lake to Lake Greenway and Bel-Red trails, Eastrail development.
- Park Facilities: Add neighborhood parks in Eastgate, Factoria, Bel-Red; Develop existing sites in Bel-Red, NE 2nd – Downtown; Continue phased development at Botanical Garden, Crossroads, Wilburton Hill parks.
- Active Recreation Facilities: New aquatics facility, sports courts, sportsfield improvements, Off Leash Areas, added community center facilities.
- Urban Park Systems: Park acquisition and development - Downtown, Bel-Red, Eastgate, Wilburton.

- Waterfront Access: Lake Sammamish Park development, Meydenbauer Bay Park -future phases, waterfront restoration.
- Partnership Opportunities: with other public, private and non-profit agencies.
- Historic, Cultural and Art Resources: renovation of historic structures, public art in parks.

Currently Available Funding

Currently the Real Estate Excise Tax (REET) provides Parks capital funding of approximately \$10 million per year. Approximately \$7 million per year funds the Parks major maintenance and renovation plan, leaving only \$3 million per year available for all property acquisition and new park development needs. REET funding alone is inadequate to make significant and short-term improvements given the size and scale of park system needs identified in the Parks & Open Space System Plan and Council priorities. Rough order of magnitude costs for projects in the capital focus areas of the POSSP are shown below:

Parks Funding Needs vs. Revenues (20 years)

Capital Project Objectives (in Millions):	
Open Space, Greenways, Wildlife Corridors & Trails	
Park Facilities	
Active Recreation Facilities	
Urban Parks Systems	
Waterfront Access	
Partnership Opportunities	
Renovation & Refurbishments	
Projected 20-Yr Capital Need	\$880
Projected 20-Yr Revenues	\$300
Funding Gap	(\$580)

To increase the City’s ability to deliver parks capital projects, CIP funds have been augmented by voter initiatives and external funds (grants, partnerships, donations, etc.) to leverage City resources as much as possible.

In moving forward, one distinct option is to reduce the ongoing investment in parks capital projects by relying primarily on REET to fund Parks’ CIP and not seek additional parks funding from new voter-approved or council-approved funding sources. This would slow the pace of land acquisitions, park and park facility development and renovation.

In addition to REET, current funding sources include:

- 2008 Parks & Natural Areas Levy
- 2019 King County Parks Levy
- User Fees/Property Rents – e.g., Parks Enterprise, Land Purchase Revolving Fund, Marina
- King County Conservation Futures Tax/CFT – matching fund for open space acquisitions
- Partnerships - Botanical Garden Society, Boys & Girls Club

- Federal, State and Local Grants - competitive grants that require local match
- Donations
- Developer Incentives and Mitigation Fees

Additional potential funding options include:

- Future Voter-approved Initiatives (Levies or Bonds)
- Real Estate Transactions (sale or swap of City-owned land)
- Washington Park and Recreation Special Districts (Metropolitan Park District) -voter-approved establishment of a special taxing district for parks.
- Non-voter-approved bonds/Councilmanic bonds
- Impact Fees
- New Tax Sources

Next Steps

Developing a Council approved Parks Funding Strategy will remain a priority workplan item for the remainder of the 2022 calendar year. Realistically, a draft plan will be available no sooner than the 4th Quarter 2022. Given this timing, the 2023-2029 Parks CIP Update will continue to be based on currently approved revenue sources and focus primarily on completing the 2008 Parks Levy projects and other previously approved Parks CIP projects, ongoing property acquisition, and maintaining the quality of the existing park system.

City staff seek Council feedback on whether staff should explore specific parks funding options and return to Council with additional information.

POLICY & FISCAL IMPACTS

Policy Impact

RCW 35A.34 – Biennial Budgets: State law specifies requirements that must be followed in budgeting each of the City’s funds. Key areas covered included:

- Preparation and filing of a preliminary budget by the Chief Administrative Officer, i.e., City Manager;
- A “budget message” from the Chief Administrative Officer explaining the content, financial policies and major proposed changes;
- A final public hearing on the proposed budget conducted before adoption of a final budget, which shall be held on or before the first Monday in December;
- Balanced expenditure and revenue estimates for each of the City’s funds;
- Council adoption of the budget prior to the beginning of the ensuing fiscal biennium, i.e., January 1, 2023.

Fiscal Impact

There is no fiscal impact associated with a budget workshop.

OPTIONS

N/A

ATTACHMENTS

- A. Budget Process and Calendar
- B. Budget One Public Engagement
- C. Develop & Test an Equity Lens
- D. 2023-2028 General Fund Forecast Early Look
- E. 2023-2029 Capital Investment Program Early Look
- F. CIP Capital Prioritization
- G. Revenue Options
- H. 2023-2028 Utilities Funds Forecast Early Look
- I. Parks & Open Space System Plan Public Outreach information

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N/A