

CITY COUNCIL AGENDA TOPIC

2023-2024 Mid-Biennium Budget Update

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EXECUTIVE SUMMARY

INFORMATION ONLY

Tonight is the second of several discussions related to the 2023-2024 Mid-Biennium Budget. Staff will provide an overview of all mid-biennium changes including operating and capital revenues and expenditures for Council consideration and discussion and an update to the General Fund forecast.

RECOMMENDATION

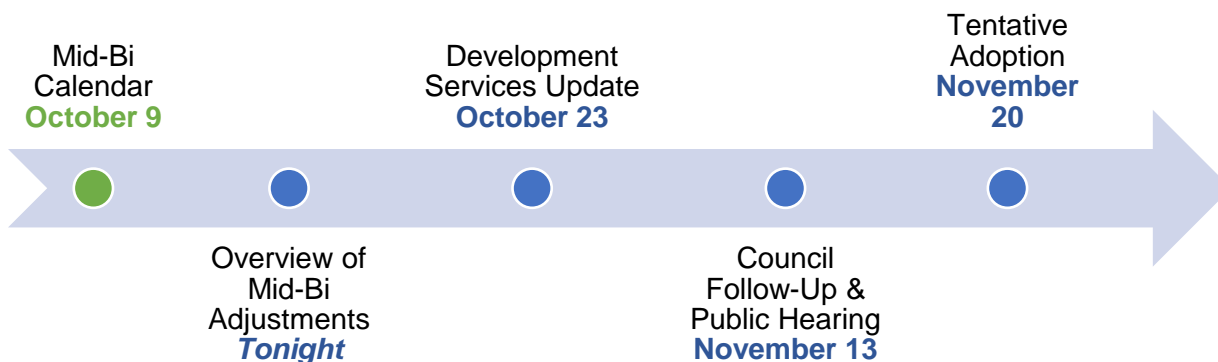
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BACKGROUND/ANALYSIS

Ordinance No. 6698 adopted the 2023-2024 Budget and the 2023-2029 Capital Investment Program (CIP) Plan on November 21, 2022. The mid-biennium budget update provides an opportunity for modifications to the 2023-2024 operating budget and 2023-2029 CIP plan in accordance with RCW 35A.34.130. As is prior practice, mid-biennium changes include adjustments due to the current inflation factor on personnel and other expenditures, adjustments to fund budgets for updated fiscal information, corrections of errors, adjustments for impacts due to recently passed state legislation, and other adjustments as needed. The budget is a fiscal plan and changes to it are typical.

Timeline

The following reflects the upcoming discussions related to the mid-biennium process. On November 13, staff will return with the public hearing to allow the public to provide comment and feedback on the mid-biennium budget. Staff will seek feedback from Council following the public hearing to return on November 20 with an adoption package.



Prior Council Discussions

The mid-biennium has had one previous discussion:

October 9: Staff provided an overview of the calendar including public hearing date and actions needed for adoption.

2023-2024 Adopted Budget Recap: Pandemic Challenges, Solutions, and Investing in Bellevue

In 2022, Council adopted the 2023-2024 Operating Budget for the City and responded to feedback from residents and businesses by investing in urbanization and growth as well as several Council Priorities. These investments outlined in the graphic below, detail the issues addressed and the initiatives therein.



Building off the 2021-2022 Amended Budget, the 2023-2024 Adopted Budget maintains the cost containment measures adopted to weather the economic impacts of the COVID-19 pandemic, these include reducing discretionary spending on professional services, travel and training, surge capacity and, non-safety-related maintenance to transportation and park facilities. While these ongoing measures help the City’s long-term revenue and expenditure imbalance, it does not fully offset the needs to address the growth and urbanization of the city.

To fund the priorities above, a 0.1 percent increase in the Business and Occupation (B&O) gross receipts tax was implemented on January 1, 2023, as well as a 2 percent property tax adjustment that utilized 1 percent of the City's banked capacity as well as the 1 percent councilmanic increase allowable by State law.

Mid-Biennium Budget Overview

Executive Summary

The mid-biennium continues the implementation of the investments included in the 2023-2024 Budget and 2023-2029 Capital Investment Program (CIP) Plan while making technical adjustments across numerous areas including, but not limited to City revenues, personnel salaries and benefits, contractual obligations, among others. The proposed mid-biennium budget continues the Council direction from the 2023-2024 Adopted Budget for a 1 percent property tax adjustment for 2024.

The following is an overview; see Attachment A for Mid-Biennium Changes by Fund.

Personnel Adjustments that impact all funds with personnel:

As is the City's usual practice, the mid-biennium budget updates expenditures for the second year of the biennium including any known impacts from prior actions or Council amendments. At a minimum, inflation impacts all funds with personnel. Funds generally will not require an appropriation adjustment as they are balanced with changes to ending fund balance. The actual rates for 2024 are as noted below:

- June to June Seattle-Tacoma-Bellevue CPI-W, as published in July 2023 by Bureau of Labor Statistics (BLS), which provides the basis for most inflation and cost-of-living adjustments (COLA), is 4.51 percent.
- All non-represented employees within the G, M, and E pay plans will receive a General Wage Increase (GWI) of 4.0 percent in 2024.
- All effective labor contracts which have been brought before Council which have set rate increases for 2024 have been adjusted in accordance with the contract.
- The employer portion of the Public Employees' Retirement System 2 (PERS 2) pension rate as published by the State of Washington has been adjusted to 9.28 percent.
- The employer portion of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 pension rate as published by the State of Washington is 5.3 percent.
- The self-insurance City contribution for medical and dental insurance was updated to the actuarial amount of \$26,298,869.

General Fund

As is the usual practice the mid-biennium budget updates revenues projections, adjusts expenditures for personnel, certain contracts, and other miscellaneous items. The General Fund, which supports much of City operations, has seen revenues increase since the adopted budget primarily due to the high level of construction in the City. However, the near-term revenue growth is likely to be tempered by the cooling of development due to high interest rates and the economic changes resulting from hybrid working environments. More information on General Fund revenues can be found in Attachment C.

The expenditure adjustments include:

- Technical adjustments miscellaneous operating adjustments including items such as updating reorganized positions within the General Fund, true-up the City's ARCH contributions, updates for NORCOM cost, and others of similar nature.
- Funding for a homelessness program pilot and evaluation resources
- A Public Defense Administrator position for Park's probation program,
- Right sizing of the Keep Bellevue Beautiful program.

CIP & Other Funds*General CIP*

Ordinance No. 6698 adopted the 2023-2024 Budget and the 2023-2029 Capital Investment Program Plan on November 21, 2022, setting the project spending plan for the seven-year CIP plan. Since adoption, there have been several amendments to the General CIP. Additionally, on March 6, 2023, Council Adopted Ordinance No. 6730 adjusting the CIP for the Parks Levy in the amount of \$29,639,357 to Parks specific projects as passed by the voters.

Facilities Services Fund

The 2023-2024 Proposed Mid-Biennium Budget increases budget authority within the Facilities Services Fund to provide operating support for Facilities.

Hotel/Motel Fund

The 2023-2024 Proposed Mid-Biennium Budget increases appropriation within Hotel/Motel Fund. On May 22, 2023, Council adopted Ordinance No. 6738 establishing Tourism Promotion Area (TPA). The TPA will use revenue collected from Lodging Businesses to support tourism within Bellevue and Redmond.

Park M&O Reserve Fund

The 2023-2024 Proposed Mid-Biennium Budget increases budget authority within the Park M&O Reserve fund to reflect the latest adjustments to the Parks Levy Ordinance 6730.

Utilities Funds

The 2023-2024 Proposed Mid-Biennium Budget increases budget authority within the Utilities funds to reflect the set aside of the new Utilities Donation program, pending Council action.

Operating Grants, Donations, and Special Reserves Fund

The 2023-2024 Proposed Mid-Biennium Budget increases budget authority within the Operating Grants, Donations, and Special Reserves to reflect anticipated Transportation grants that will support hazard mitigation, congestion mitigation and air quality improvement, and regional mobility grant programs. Additionally, the increase in budget authority reflects the set aside of the new Utilities Donation program, pending Council action.

Forecasts

The goal of the forecast is to provide out year fiscal information as known today to assist in informing current decisions. As part of the mid-biennium budget, the City updates its six-year forecasts for the General (Attachment C), Parks Enterprise (Attachment B), Development Services (Attachment B) and Utilities funds (Attachment B). Staff will return in Spring 2023 with the latest financial outlook to better recognize the City's options going forward into the 2025-2026 budget process.

Property Tax

As mandated by RCW 35A.34.230, the mid-biennium update includes Council action on the City's 2024 property tax levy. The following provides background on the City of Bellevue's levies and the relevant changes for Council's consideration.

The Adopted 2023-2024 Budget includes a one percent property tax adjustment for both 2023 and 2024. By State statute, the City Council is required to set the property tax each year. The mid-biennium budget continues the Adopted Budget financial plan including the one percent property tax adjustment in 2024. One percent in 2023 is estimated to be approximately \$15 for a property with a median assessed valuation of \$1,577,000 (Source: 2023 King County Assessor).

Regular Property Tax Levy

The proposed 2024 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 2024.

King County has preliminarily established that Bellevue's total assessed value (AV) has decreased to \$91.2 billion in 2024 from \$98.7 billion in 2022, a decrease of 7.2 percent. As with past practice, staff will update the final assessed value information in January once the King County Assessor finalizes the property tax rolls. Under Initiative 747, the regular levy can grow at the lesser of a maximum of 1

percent annually or the rate of inflation. Inflation is defined as the increase in the implicit price deflator (IPD), plus additions for new construction. The IPD for 2024 is 3.67 percent, which means the City's councilmanic statutory ability to adjust property taxes 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 provided \$3,389,000 annually to fund the parks capital program over 20 years and \$660,000 annually for ongoing maintenance and operations funding, for an annual total of \$4,049,000.

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

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

In November 2022 voters approved an increase the City's regular levy for nine years by approximately \$0.15/\$1,000 to pay and finance the acquisition, improvement and development of parks, community/recreation facilities and open space, and \$0.05/\$1,000 for maintenance and operations, to a maximum rate of up to \$1.1944/\$1,000 for collection in 2023. The 2023 amount would be used to compute limitations for subsequent levies (through 2031) as allowed by RCW 84.55.

Total Property Tax Levy:

	2023	2024 Estimate
Assessed Valuation (\$ in Billions)	98.7	91.6
Regular Levy Amount (\$ in Millions)	46.6	48.9
Regular Property Tax Rate (Per \$1,000 AV)	0.47	0.53
Voted Levy Amount – Parks (\$ in Millions)	4.0	4.0
Voted Property Tax Rate – Parks (Per \$1,000 AV)	0.04	0.04
Voted Levy Amount – Fire Facilities (\$ in Millions)	7.3	7.6
Voted Property Tax Rate – Fire Facilities (Per \$1,000 AV)	0.07	0.08
Voted Levy Amount – Neighborhood Connectivity (\$ in Millions)	8.7	9.2
Voted Property Tax Rate – Neighborhood Connectivity (Per \$1,000 AV)	0.09	0.10
Voted Levy Amount – 2022 Parks (\$ in Millions)	19.8	20.5
Voted Property Tax Rate – 2022 Parks (Per \$1,000 AV)	0.20	0.22
Total Property Tax Levy Rates (Per \$1,000) AV	<u>\$0.87</u>	<u>\$0.98</u>

*May not foot due to rounding

POLICY & FISCAL IMPACTS**Policy Impact**

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

RCW 35A.34.230: Council action on the City's 2024 property tax levy is required by State law in conjunction with the Budget update.

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

Fiscal Impact

Mid-Biennium fiscal impacts, if appropriated in their current form, are as noted by fund in Attachment A: 2023-2024 Mid-Biennium Changes by Fund.

OPTIONS

N/A

ATTACHMENTS

- A. 2023-2024 Mid-Biennium Changes by Fund
- B. Development Services, Parks Enterprise, and Utilities Funds Forecasts
- C. General Fund Forecast

AVAILABLE IN COUNCIL LIBRARY

N/A