

Memory Bank and status of Council information requests**Council Request Tracking**

During the 2017-2018 budget deliberation, staff will track and respond to Council requests for information. The following table tracks the requests, the date requested, and the anticipated Council meeting agenda subject for response. This page will be updated with future Council requests and responses will be provided in subsequent pages.

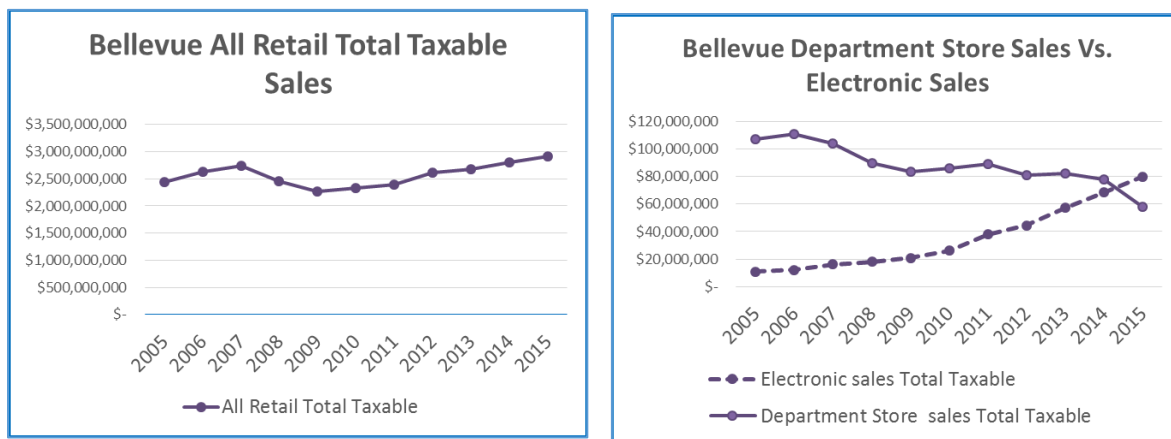
#	Req. Date	Request (paraphrased)	Anticipated Agenda Subject
1	10/17/16	Provide information on how construction sales tax is forecasted in the 2017-2022 general fund forecast.	Attached
2	10/17/16	Provide information on how the city is understanding and responding to the risk of on-line sales and the impact on taxes. Please provide how sales tax collections work.	Attached
3	10/17/16	Provide best practice of reserve policies.	Attached
4	10/17/16	Provide how the city's forecast takes into consideration the concepts of a potential next recession. Please provide how the preliminary budget is structured to address risk.	Attached
5	10/17/16	Provide detail on projected Utility rate increases and relationship to pass-through expenses, renewal and replacement, and Advanced Metering Infrastructure.	Utilities Discussion
6	10/17/16	Provide clarification on the "Price of Government" graph and explore other graph options.	Operating Discussion
7	10/17/16	Explain how the Economic Development budget increase will be used and the technology goals of the program.	Operating Discussion
8	10/17/16	Provide an explanation of CIP carry forward budget and implications to cash flow borrowing.	CIP Discussion
9	10/17/16	Provide percent and further detail of CIP Transportation budget paid by impact fees.	CIP Discussion
10	10/17/16	Provide new CIP projects timing and out year CIP planning detail.	CIP Discussion
11	10/17/16	Provide detail information on the new CIP project which transfers funding to the Housing Trust Fund and how it relates or not to ARCH.	CIP Discussion
12	10/17/16	Provide opportunity for discussion from the public comment regarding Larsen Lake year round restrooms	Operating Discussion
13	10/17/16	Provide information regarding the light rail impact on the forecasted need for growth in services.	Operating Discussion
14	10/17/16	Provide information on various options to understand the future need for staffing or other measures to address increased service demands, including population history and growth and historical FTE growth.	Operating Discussion
15	10/17/16	Provide opportunity for discussion of options for new fire station #10 maintenance and operations.	Operating Discussion

Memory Bank: October 24, 2016**1) Provide information on how construction sales tax is forecasted in the 2017-2022 general fund forecast.**

Construction sales tax made up approximately 16% of the total sales tax in 2015. The construction industry is the most volatile cyclical sector of Bellevue's sales tax collections. After seeing fast paced growth in the last four years in construction, the city is forecasting a slower growth of construction as some major projects currently under construction will be completed in 2017-2018 (e.g. Lincoln Square Expansion, 415 Office building, Evergreen Plaza, Hilton garden Inn, Marriott on 2nd St). This forecast is in line with the development services revenue forecast that shows the same trend of slower growth in the near term and a decrease in 2020. As a comparison to the city's forecast, King County's new construction forecast shows a larger decrease starting in 2019.

2) Provide information on how the city is understanding and responding to the risk of on-line sales and the impact on taxes. Please provide how sales tax collections work.

The State of Washington is a destination-based sales tax state, which means the location where the goods, merchandise or services are delivered to the customer is the jurisdiction that collects the sales tax. For example, all brick and mortar stores within Bellevue, as customers buy in those stores, they are delivered to that customer within the store, and therefore, Bellevue collects the sales tax. For online sales, since the delivery is more than likely at a customer's door, where the customer's delivered address becomes the jurisdiction that collects the sales tax. The impact to the city is when a customer who does not have a deliverable address within Bellevue who historically has shopped in Bellevue, now shifts to online shopping, the sales tax generated will be collected by the jurisdiction where the purchaser has the package delivered. On the reverse side, if there are residents of Bellevue who historically shopped in another jurisdiction and who now shop online, Bellevue will receive the sales tax. As depicted in the charts below, the city's total retail sales continue to show moderate overall growth. When doing a deeper dive into the sales tax collections, the trend of moving to more online (electronic) sales becomes apparent. The city is carefully monitoring this shift and the impact on sales tax collections. The concern will be if the city's total retail sales tax base begins to show a decline.

**3) Provide best practice of reserve policies.**

The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

<http://www.gfoa.org/sites/default/files/AppropriateLevelFundBalance.pdf>

The City of Bellevue's adopted reserve policy is:

"Cash Reserves: The City will maintain adequate cash reserves in order to reduce the potential need for borrowing or service reductions during periods of economic downturn, natural catastrophe, or for other, one-time extraordinary expenditures. Annually, the City will target 15 percent of General Fund revenues as a General Fund ending balance, commonly known as a reserve."

4) Please provide how the city's forecast takes into consideration the concepts of a potential next recession. Please provide how the preliminary budget is structured to address risk.

Forecasting a recession is challenging at best and is part art and part science. The city builds the forecast with the foundation of two professional and well-resourced forecast services (IHS Global Insight (national forecast service), and Puget Sound Economic forecast (regional forecast service)). Once the forecast is generated by using the data from those services, a reasonableness check is done with neighboring jurisdictions, reviewing the city's development and other known economic adjustments specific to Bellevue (e.g. Bellevue population, utility rates, home prices).

In regards to a potential next recession, the last recession was the "Great Recession" which had the largest impact on the economy since 1950 and caused a 5.1% decline in GDP. In general, the city does not plan for a great recession but does attempt to consider the impact of moderate recessions. In the Dot Com recession of 2001 and 2002 (GDP decline of 0.3%), the recession prior to the Great Recession, total revenue growth continued to increase- albeit at a shallow rate of 1 to 2%.

The preliminary budget considers the impact of a potential recession in two ways.

- The city's forecast estimates reduced overall revenue growth. The current forecast estimates overall revenue growth in the general fund to decline to 2.6% in 2019 and 2.7% in 2020, compared to 3.5% growth in 2018.
- The preliminary budget grows city reserves to better position the city for anticipated shortfalls in the Operating Budget in the mid-term and to protect the city in the case of an economic downturn. The city's general fund reserve policy is 15% of revenues and the forecast is currently showing an increase of fund balance in excess of the city's policy in 2017 and 2018, as noted in the chart below.

(in Millions)	Prelim 2017	Prelim 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Estimated Ending Fund Balance	\$37	\$39	\$38	\$35	\$32	\$28
E EFB as a % of Revenue	19.3%	19.5%	18.4%	16.8%	14.9%	12.5%