

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 rate increases by utility	Attached
6	10/17/16	Provide clarification on the "Price of Government" graph and explore other graph options.	To be provided in an upcoming Council discussion
7	10/17/16	Explain how the Economic Development budget increase will be used and the technology goals of the program.	Attached
8	10/17/16	Provide an explanation of CIP carry forward budget and implications to cash flow borrowing.	Attached
9	10/17/16	Provide percent and further detail of CIP Transportation budget paid by impact fees.	Attached
10	10/17/16	Provide new CIP projects timing and out year CIP planning detail.	Attached
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.	Attached
12	10/17/16	Provide opportunity for discussion regarding Larsen Lake year round restrooms	Attached
13	10/17/16	Provide information regarding the light rail impact on the forecasted need for growth in services.	To be provided in an upcoming Council discussion
14	10/17/16	Provide information on various options to understand the future need for staffing or other measures to address	To be provided in an upcoming

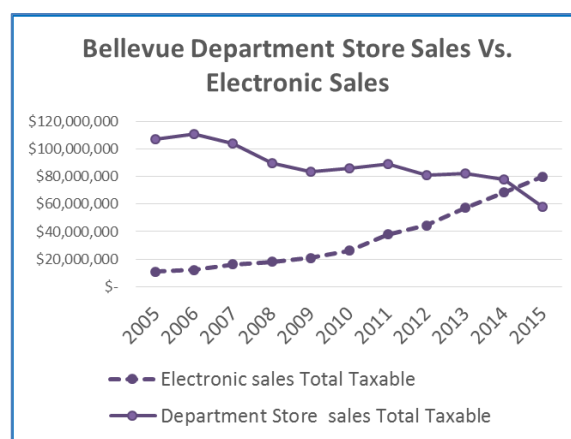
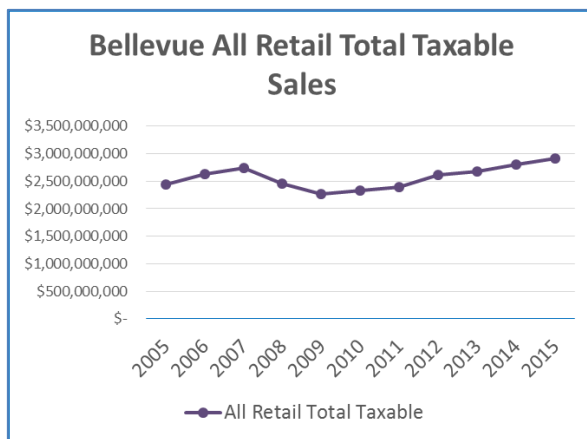
#	Req. Date	Request (paraphrased)	Anticipated Agenda Subject
		increased service demands, including population history and growth and historical FTE growth.	Council discussion
15	10/17/16	Provide opportunity for discussion of options for new fire station #10 maintenance and operations.	To be provided in an upcoming Council discussion
16	10/24/16	Provide the Advanced Metering Infrastructure outreach plans/history	Attached
17	10/24/16	Explain how we are protecting customer privacy with the Advanced Metering Infrastructure wireless system that transmits customer data over the air	Attached
18	10/24/16	Explain the coverage of the costs of growth from the Capital Recovery Charge for new connections.	Attached
19	10/24/16	Discuss water/sewer pipe funding in Bel-Red through an LID and whether ratepayers are subsidizing new infrastructure for the development.	Attached
20	10/24/16	I understand that we need to pass through increase from our wholesalers, but the rate increases exceed the wholesale increases and exceed inflation. With flat inflation and stagnating wages, please justify having an approximate 4% per year.	Attached

Memory Bank: Provided on 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%

Memory Bank: Provided on November 7, 2016**5) Provide rate increases by utility.**

Refer to the attached table below summarizing the rate drivers by each utility and in total.

2017-2018 Utilities Department Preliminary Budget Typical Residential Monthly Utility Bill Rate Drivers						
	WATER	SEWER	STORM	TOTAL		
2016 Monthly Bill	\$ 58.44	\$ 75.35	\$ 22.95	\$ 156.74		
2017 Rate Drivers						
Wholesale	0.8% \$ 0.47	3.1% \$ 2.35	0.0% \$ -	1.8% \$ 2.82		
Local						
CIP/R&R	1.5% \$ 0.80	0.7% \$ 0.53	3.2% \$ 0.74	1.4% \$ 2.13		
Taxes/Interfunds	0.2% \$ 0.12	0.0% \$ -	0.0% \$ -	0.1% \$ 0.12		
Operations	0.2% \$ 0.12	0.0% \$ -	1.1% \$ 0.25	0.2% \$ 0.37		
Issaquah Assumption	0.7% \$ 0.41	0.6% \$ 0.45	0.0% \$ -	0.5% \$ 0.80		
Local	2.6% \$ 1.51	1.3% \$ 0.98	4.3% \$ 0.99	2.2% \$ 3.48		
Total Increase	\$ 1.88	\$ 3.33	\$ 0.89	\$ 6.30		
2017 Monthly Bill	\$ 60.42	\$ 78.68	\$ 23.94	\$ 163.04		
2018 Rate Drivers						
Wholesale	1.9% \$ 1.17	0.0% \$ -	0.0% \$ -	0.7% \$ 1.17		
Local						
CIP/R&R	3.1% \$ 1.88	0.7% \$ 0.54	3.8% \$ 0.91	2.1% \$ 3.33		
Taxes/Interfunds	0.8% \$ 0.40	0.8% \$ 0.62	0.4% \$ 0.09	0.7% \$ 1.20		
Operations	0.3% \$ 0.17	0.7% \$ 0.54	0.4% \$ 0.10	0.5% \$ 0.81		
Local	4.2% \$ 2.54	2.2% \$ 1.70	4.6% \$ 1.10	3.3% \$ 5.34		
Total Increase	\$ 3.71	\$ 1.70	\$ 1.10	\$ 6.51		
2018 Monthly Bill	\$ 64.13	\$ 80.38	\$ 25.04	\$ 169.55		
2018 Bill (EO Forecast) Change	\$ 66.59 \$ (2.46)	\$ 82.10 \$ (1.72)	\$ 25.11 \$ (0.07)	\$ 173.80 \$ (4.25)		
Minor differences may exist due to rounding						
K:\Secured\Bum_Admin - Finance\2017-2018 Budget\City Budget Book\11 Rate Drivers - 2017-18 council book - PUBLISHED.xlsx\Rate Drivers (Per-Op Costs)						
Sept 26, 2016; Prepared by SJP/MHC						

6) Provide clarification on the "Price of Government" graph and explore other graph options.

To be provided in an upcoming Council discussion

7) Explain how the Economic Development budget increase will be used and the technology goals of the program.

The additional funds will be used to focus resources on the Startup425 initiative as part of the Next Generation Bellevue program to provide training and support to startups and to support the Office of Economic Development's business attraction and business retention and expansion programs. To support startups in the community, the resources will help design and implement training and mentoring programs, market the training programs to the Bellevue business and startup community, and support the Startup425 regional initiative with Redmond, Kirkland and Issaquah to provide support to startups in the Eastside.

Growing the technology industry in Bellevue whether it be small startups or large established international companies is a key focus of the Office of Economic Development. For 2017 and 2018, OED will focus on growing technology startups through the Startup425 program. The program will provide training and mentoring services so startups can successfully launch and sustain their businesses. In addition, OED will focus on existing companies through the business retention and expansion program. A number of new technology companies will be moving to Bellevue so OED will proactively reach out and work with those companies to facilitate their transition to Bellevue. We will also help existing technology companies stay and grow in Bellevue. Finally, through the Innovation Triangle partnership, we will attract technology companies to the Bellevue and the region that align with our technology industry strengths and support existing technology companies.

8) Provide an explanation of CIP carry forward budget and implications to cash flow borrowing.

The CIP carry forward budget consists of budgeted amounts of each project that have not been spent by the end of the year. Those amounts are then carried forward to the next year, creating the available budget for that year. The 2017-2023 CIP assumes 100% spend on expenditures. Historically, the CIP spends between 65% and 80%, cash flow borrowing is modeled to all for full 100% spend. If projects do not spend 100%, then cash flow borrowing will not be needed. At this time, staff is not recommending issuance of any cash flow borrowing, it is shown in accordance with Financial Policy XI.M which states:

“Balanced CIP Plan: The CIP Plan is a balanced seven-year plan. This means that for the entire seven-year period, revenues will be equal to project expenditures in the Plan. It is anticipated that the plan will have more expenditures than revenues in single years of the Plan, but this imbalance will be corrected through the use of interim financing as needed. However, over the life of the seven-year plan, all planned interim debt will be repaid and all Plan expenditures, including interest costs on interim debt will be provided for with identified revenues. Any project funding plan, in which debt is not retired within the current seven-year Plan, must have specific City Council approval.”

9) Provide percent of the transportation budget that is funded through impact fees.

The total amount of transportation impact fees over the 7-year CIP is \$54.4 million or 11 percent of the total CIP revenues. The transportation total CIP is for 2017-2023 is \$172 million.

10) Provide new CIP project timing and out year CIP planning detail.

There are ten new projects included in the 2017-2023 CIP. These ten new projects have a total project cost of \$14.6 million over the seven-year period.

The following table shows a breakdown of new projects by outcome and year, with totals.

Outcome	CP	Plan #	Project Title	2017	2018	2019	2020	2021	2022	2023	Total Prelim 2017-2023	Proposed Total Project Cost through 2023
EGC		CD-37	Downtown Community/Livability	650	800	650	500	500	500	554	4,153	4,153
EGC	13	CD-44	Grand Connection - Early Implementation	500	1,000	500					2,000	2,000
EGC		G-108	Supplemental Housing Trust Fund Investment	40	40	-	-	-	-	-	80	80
SC		NCS03	Citywide Security Improvements	150	100	100	-	-	-	-	350	350
IMC		CD-30	Station Area Planning Implementation	500	500	500	1,500	1,500	1,000	-	5,500	5,500
IMC	5	PW-R- 192	124th Avenue NE at SR 520	-	250	-	-	-	-	-	250	250
IMC	3	PW-R- 193	BelRed Corridor Local Street Network	432	-	-	-	-	-	-	432	432
IMC		PW-R- 194	West Lake Sammamish Parkway Phase 3	-	-	-	-	-	-	1,000	1,000	1,000
RG		NCS01	Long-Range Property & Facilities Plan	280	-	-	-	-	-	-	280	280
QN/IVCC	12	CD-41	Civic Center Plan	-	350	200	-	-	-	-	550	550
Total				2,552	3,040	1,950	2,000	2,000	1,500	1,554	14,595	14,595

11) Provide detail information on the new CIP project which transfers funding to the Housing Trust Fund and how it relates or not to ARCH.

The \$40,000 per year contributions to the Housing Trust Fund from the General CIP in 2017-2018 can be used at the discretion of council for any affordable housing project. It has been the City's practice that Trust Fund expenditures are administered through ARCH, but in recent times the Housing Trust Fund has also been used for urgent affordable housing needs such as Highland Village. All uses are subject to Council direction.

12) Provide opportunity for discussion regarding Larsen Lake year round restrooms.

Attachment C of the November 7 agenda packet includes information and will be included on the "List of known items for Council discussion and direction" for each subsequent Council budget study session.

13) Provide information regarding the light rail impact on the forecasted need for growth in services.

To be provided in an upcoming Council discussion

14) 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.

To be provided in an upcoming Council discussion

15) Provide opportunity for discussion of options for new fire station #10 maintenance and operations.

To be provided in an upcoming Council discussion

16) Provide the Advanced Metering Infrastructure outreach plans/history

Utilities has had a number of opportunities to perform outreach on AMI over the past several years. Most notably, Utilities solicited feedback on the entire Utilities CIP, including the AMI proposal through the Utilities CIP Open House that took place for three weeks, from March 15 through April 1. In addition, Utilities has received

significant input on the AMI proposal through multiple ESC meetings between 2014-2016. Utilities performed outreach to the business community on the entire Utilities budget and rate proposal, including the AMI proposal at the recent BOMA and Chamber of Commerce meetings in October 2016. Finally, on October 27, 2016, Utilities invited over 300 businesses to a Utilities Customer Forum, where we gave presentations detailing the benefits and costs of AMI. The response to the AMI proposal has been overwhelmingly positive from the business community. Residential customers have consistently supported AMI because it enables proactive leak detection.

Utilities has held back on performing more extensive outreach on AMI, as we await Council's final decision on the Utilities' 2017-18 budget and rate proposal. If Council approves the AMI proposal, then Utilities has plans to perform a substantial amount of outreach to residential and business customers in 2017-19. Outreach will be through a combination of website outreach, public meetings, customer surveys, door hangers, emails, bill inserts, social media, newspapers, paid media, and/or any other avenues that are determined to be effective.

17) Explain how we are protecting customer privacy with the Advanced Metering Infrastructure wireless system that transmits customer data over the air.

The goal with both security and privacy is to minimize the exposure of any sensitive information. The City has adopted privacy principles to guide how we will protect personal information, and we are continually revisiting those policies and procedures so they best align with evolving privacy best practices. The City already has a mature IT Security Program that protects sensitive data (identity, health, critical infrastructure, etc.), and established security practices, such as requirements for encrypting sensitive data transmission, will be part of the technical requirements in the RFP.

18) Explain the coverage of the costs of growth from the Capital Recovery Charge for new connections.

All capital projects, including growth-related projects, are initially paid using rate revenues. Over time, Direct Facility Connection Charges collected from developing properties, as described below, fully reimburses the general ratepayers for growth-related facility costs.

Bellevue city code (sections 24.02.260, 24.04.260, and 24.06.110) and Council-adopted Waterworks Utility Financial Policies require new development or redeveloping properties pay for growth-related capital expenses. City's Comprehensive Plan policy UT.7 directs that utility capacity to be available to accommodate underlying land use, with the goal that system capacity not limit development. Consistent with these directives, Utilities goal is to provide sufficient system capacity in time to accommodate anticipated development. The Utilities Department uses the following tools to accomplish these goals:

- **Direct Facility Connection Charges (DFCCs) – Direct Benefit – Specific Utility-Built Systems**

DFCCs are charges based on the equitable share of the cost of new utility facilities that directly benefit the property. DFCCs enable the utility to recapture the facility costs over time, as benefiting properties connect. Per Council-adopted financial policy, DFCCs are deposited into the Capital Facilities Renewal and Replacement (R&R) Account as part of the intended funding sources for future capital needs.

For example, a DFCC was established for the recent Wilburton sewer capacity upgrade to recover \$6.5 million of growth-related costs from benefiting properties.

- **Latecomer Agreements – Direct Benefit – Specific Developer-Built Systems**

Where utility facilities are built by a private developer which benefits other properties, the developer may request establishment of a latecomer agreement to enable the developer to recover their costs of

development. Latecomer fees are collected by the Utility at the time of connection on behalf of the developer.

- **Utility Local Improvement Districts (ULIDs)**

The city has rarely utilized ULIDs as a tool to recapture growth-related costs in recent years for the following reasons:

- Benefiting properties have to pay regardless if they connect or benefit from the facilities.
- ULIDs require either a petition or resolution to put in place. If the ULID is not passed, this could hinder development.

Capital Recovery Charges (CRCs) – Equity Share of Existing City-Wide System

CRCs is a tool that the utility uses to capture system-wide costs from new customers. CRCs are collected to cover new customers' share of historical costs incurred by the general rate base to provide the necessary facilities throughout the service area for the water, sewer and stormwater utilities. CRCs are paid by customers as part of their utility bill over a 10-year period. Per Council-adopted financial policy, CRCs are deposited into the Capital Facilities Renewal and Replacement (R&R) Account as part of the intended funding sources for future capital needs.

19) Discuss water/sewer pipe funding in Bel-Red through an LID and whether ratepayers are subsidizing new infrastructure for the development.

Utilities CIP includes resources to build water facilities in new roads in the Bel-Red Corridor as they are constructed to serve adjacent properties when they develop. Utilities plans to establish direct facility connection charges (DFCCs) to recover the cost associated with the new growth-related facilities. See response to question 18 for additional information on DFCCs and utility LIDs.

20) I understand that we need to pass through increase from our wholesalers, but the rate increases exceed the wholesale increases and exceed inflation. With flat inflation and stagnating wages, please justify having an approximate 4% per year.

There are multiple factors that affect Utility cost increases that may result in rates being above inflation.

- Construction Inflation vs. General Inflation. Construction costs are the highest cost for Utilities, outside of wholesale costs. Inflation for construction has been historically higher than the rate of general inflation.
- Personnel/Benefits vs. General Inflation. Personnel/benefits costs are the second highest cost for Utilities outside of wholesale costs. Inflation for personnel/benefits costs has also historically been higher than the rate of general inflation.
- Costs to Replace and Maintain Aged Infrastructure: As systems age, both the needs to maintain and to repair or replace the systems increase at a rate greater than inflation.
- Regulatory Compliance Costs: New and more stringent regulations, such as those implemented through the NPDES permit requirements, frequently increase the scope of Utilities' services and capital projects at a rate greater than inflation.
- Contractual Obligations: Utilities has a number of contractual obligations that increase based on factors other than inflation. These include:
 - a. Wholesale costs from King County/Cascade – heavily driven by these entities' capital programs and debt service
 - b. Taxes – driven by the utility tax rates & revenues

- c. Support costs from the City, also referred to as Interfunds – these cost increases are driven by the City's cost to provide these services.

Utilities separates its local costs into four general categories: (1) Wholesale costs, (2) Capital improvements, (3) Operations, and (4) Taxes and Interfunds. Despite the many challenges in keeping cost increases at inflation levels, our goal is to keep rate increases for Operations close to inflationary increases. For the 2017-2018 biennium, the total Utility rate increases necessary to support operations are: **0.2% in 2017 and 0.5% in 2018**, which are consistent with inflationary increases.

For the reasons described earlier, the remaining three categories of costs (wholesale, capital improvements, and taxes/interfunds) will continue to rise at levels higher than the rate of general inflation. The increases in those remaining categories is the primary reason why rate increases of 4% or greater per year can be expected.