

November 7, 2016

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Discussion of the Preliminary 2017-2018 Operating Budget and the 2017-2023 Capital Investment Program (CIP) Plan.

STAFF CONTACTS

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Finance Department

POLICY ISSUES

RCW 35A.34 – Biennial Budgets:

State law specifies requirements that must be followed in budgeting each of the City's funds. Key areas covered include:

- 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 public hearing on the proposed preliminary 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; and
- Council adoption of the budget prior to the beginning of the ensuing fiscal biennium, i.e., January 1, 2017.

The City's proposed 2017-2018 operating budget and 2017-2023 capital investment program (CIP) plan are consistent with Council's direction to continue high quality, efficient municipal services.

DIRECTION NEEDED FROM COUNCIL

ACTION



DIRECTION



INFORMATION ONLY



Council feedback on specific budget elements and/or requests for additional information that might be needed for deliberation are welcomed this evening and at future scheduled sessions to enable Budget adoption on December 5, 2016.

Tonight is the third of several discussions. Staff will present an overview of both the preliminary 2017-2018 operating and special purpose fund budget and the 2017-2023 CIP. This memorandum and its attachments provide budget information, track Council requests in the memory bank in Attachment G, and begin to summarize the known items for further Council discussion and direction in Attachment C. Responding to a request made in the last budget process, Attachment C also includes a proposed set of criteria and a process for the Council to use in responding to specific community organization requests for funding that come in during the budget process.

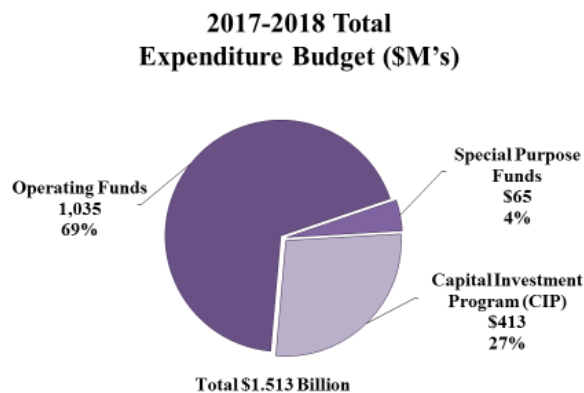
BACKGROUND/ANALYSIS

On October 17, City Manager Miyake presented the preliminary 2017-2018 operating budget and 2017-2023 capital investment program plan to the Council. This is a balanced budget that maintains current operations, advances Council priorities, and builds key new infrastructure. The 2017-2018 preliminary budget process solicited feedback from the community through surveys such as the biennial budget survey, annual performance and business surveys, public meetings, and direct communication.

Attachment A is the Preliminary Budget Executive Summary. The full budget detail can be found online at <http://www.bellevuewa.gov/budgets.htm>.

On October 24, staff provided the first in a series of briefings with Utilities providing an overview of both the preliminary utility 2017-2018 operating budget and the Utilities' 2017-2023 capital investment program, including proposed rate increases. Utilities will provide follow-up presentation on November 14.

Tonight, staff will present an overview of both the preliminary 2017-2018 operating and special purpose fund budget and the 2017-2023 capital investment program. As noted in the pie charts below, the overall 2017-2018 biennial budget totals \$1.5 billion, which includes \$1 billion in total operating budget expenditures, \$65 million in special purpose expenditures, and \$413 million for the 2017-2018 portion of the General and Utilities CIP. The total 2-year budget is funded through a diverse set of revenues, including taxes, fees, rates, grants, and other governmental revenues.



Figures may not foot due to rounding

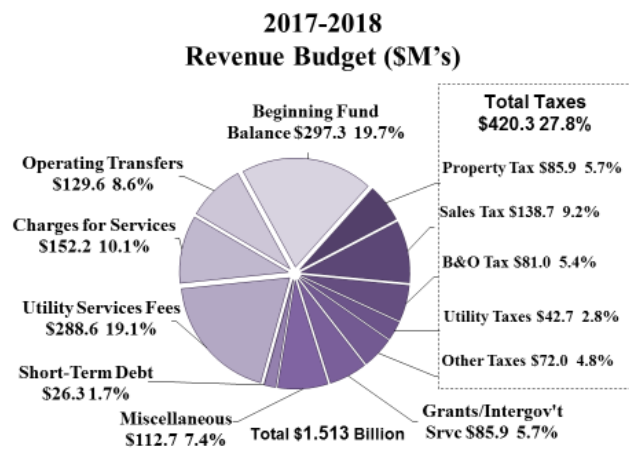


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Operating and Special Purpose Funds

The total operating and special purpose fund budget is \$1.1 billion with \$1.035 million for operating and \$65 million for special purpose funds. The operating budget includes functions of Police, Fire, Parks & Human Services, Planning & Community Development, Transportation, Development Services, Water, Storm, Wastewater and administrative functions such as City Council, City Manager, Information Technology, City Clerk, City Attorney, Finance, Service First, Fleet and Facilities. The special purpose funds are restricted monies for dedicated purposes, such as grants, donations, debt service, firemen's pension, and housing, among others.

Funds Council Priorities

In April 2016, the Council adopted new 2-year priorities for 2016 and 2017 based on the Vision and Strategic Target Areas adopted in May 2014. The 2017-2018 preliminary budget makes headway into

funding and implementing the priorities. Attachment B provides a table sorted by strategic target area, highlighting the 2-year priorities and budget proposals that most directly address those priorities. Staff recognizes that this list is not comprehensive but represents projects with the clearest links to Council Priorities. Other city projects and programs contribute to the Council's priorities and vision, with less direct links; this Attachment focuses specifically on those with the most direct tie. As noted on the table, many of the priorities are funded through the capital investment program and those are discussed in the capital section of this agenda memo.

In the operating and special purpose fund budget, the 2017-2018 preliminary budget provides for the existing priorities in the 2015-2016 amended budget and addresses the following:

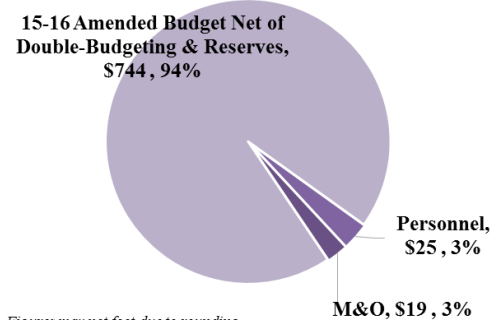
- Increases support to Economic Development by \$100,000 annually to support the Startup425 initiative as part of the Next Generation Bellevue program to provide training and support to startups and to support the Office of Economic Development's business attraction and business retention and expansion programs.
- Provides funding for Smart Cities initiatives, including \$123,000 over the biennium for Electronic Patient Care to electronically capture patient care records in the field, and \$144,000 annually fully off-set by revenue for Small Cell Franchise Agreements to advance Smart City connectivity strategies.
- Increases Human Services funding by \$150,000 annually in support of the Winter Shelter and other costs related to serving Bellevue residents experiencing homelessness.
- Council Priority #19 directs staff to "bring a budget proposal forward to support Eastside Pathways and a plan for further partnership opportunities to achieve their goals". The preliminary budget includes a proposal for Council. See Attachment C for the proposal.

Modest Growth

The 2017-2018 preliminary operating and special purpose fund budget¹ includes modest growth of 6% over the 2015-2016 amended budget (or on average 3% annually), excluding double-budgeting² and reserves. Utilities staff provided a brief overview on October 24 and will provide a follow-up presentation on November 14. Development Services staff will also provide a presentation on November 14. As noted in Figure 1, the 2015-2016 amended budget is 94% of the operating and special purpose funds budget. The remaining 6% includes increases in salaries and benefits for CPI-W (direct inflation on salaries), health benefits, merit, and other personnel-driven costs of 3%, with the remaining 3% due to increases in maintenance and operations (M&O) from inflation, other costs for core services (such as contracts that increase higher than inflation, aging infrastructure and wholesale costs), and new investments such as Council priorities, workforce development, among others.

Figure 1

2017-2018 Preliminary Operating and Special Purpose Funds Budget (\$M)* Net of Double-Budgeting and Reserves



Figures may not foot due to rounding.

**Includes general fund, utilities funds, development services funds, internal service funds, and all other operating and special purpose funds.*

1 The operating budgeting includes functions of Police, Fire, Parks, Community Development, Transportation, Development Services, Water, Storm, and Wastewater, and administrative functions such as City Council, City Manager, Technology, City Clerk, City Attorney, Finance, Service First, Fleet and Facilities. The special purpose funds are restricted monies for dedicated purposes, such as grants, donations, debt service, firemen's pension, and housing, among others.

2 Double-budgeting is internal transactions between City funds including transfers between funds and charges for services provided by one fund to another within the City. For Example, a department in the general fund purchases computers from the information technology fund (ITD). ITD buys the computers from a vendor, requires budget appropriation in the ITD fund. The general fund department then purchases the computers from ITD, requiring a second budgeting of the expense in the general fund. This is a technical budget/accounting structure for all governmental fund accounting under the Governmental Accounting Standards Board rules. In order to show true increase in costs, the double-budgeting is removed.

Attachment D shows the total operating and special purpose funds with the general fund broken out by department and compares them with the 2015-2016 Amended Budget.

Budget by Outcome and Department

The 2017-2018 Budget process examines all City services and projects in relation to the community values and priorities. The overarching goal of the budget is to produce a budget that effectively and efficiently provides government programs that produce the results that matter most to the community, organized by specific Budget Outcomes. Attachment E provides a summary of the operating budget by outcome and department, a summary of FTEs by outcome, along with cause and effect maps detailing the community outcomes and proposal ranking sheets summarizing submitted proposals in rank order by outcome.

Grows General Fund Reserves to Manage Risk

The City continues to plan for the future and embarked on a long range financial planning effort in 2016 that will continue into 2017. The general fund operating forecast is expected to be the focus in 2017. To date, our forecast includes several known events that will impact the City's finances, including LEOFF I funding conversion and the elimination of the sales tax annexation credit. In addition, consistent with past practice, the forecast is based on current staffing levels, with no additional FTEs included in the forecast. However, in order to maintain service levels and meet the demands of forecasted growth in the City, it is anticipated that some additional FTEs may be needed in the future. The preliminary budget grows general fund reserves to help position the City to meet these future demands and to help protect the City in the case of an economic downturn.

Capital Investment Plan (CIP) Overview

The total CIP 7-year plan totals \$706M, of which \$485M is the general CIP and the \$221M is the Utilities CIP. Information regarding the Utilities CIP was provided on October 24 and will continue on November 14. As a reminder, the Council adopts a 2-year appropriation for the total CIP of \$413 million which includes both the General CIP and the Utilities CIP.

The remainder of this agenda memo is focused on the general CIP. The City Manager's preliminary 2017-2023 General CIP Plan totals \$485 million.

Project Type	Total	
	# of Projects	2017-2023 Amount (\$000's)
Debt Service Projects ¹	8	\$168,294
Ongoing Programs – Maintenance ²	10	116,546
Discrete Projects and Ongoing Build New Projects ³	54	200,026
Total 2017-2023	72	\$484,866

¹ The preliminary CIP modeled cash flow borrowing totals \$31.9M.

² Council policy states that the City will maintain existing infrastructure before building new; Ongoing Programs – Maintenance accounts for this policy and includes programs such as Parks Renovation and Refurbishment and Transportation Overlay, among others.

³ Discrete projects and Ongoing – Build New include all other CIP programs and projects.

In 2016, the City Council took considerable time and effort to review the fiscal condition of the general capital investment program. In response Council acted by placing two ballot measures on the November ballot. If passed, the measures will assist in addressing some of the infrastructure backlog that the City faces. In addition, Council has directed staff to continue to pursue a Transportation Infrastructure and Financing Innovation Act (TIFIA) loan from the federal government. If secured, the loan will assist with the creation of the BedRed Street Network – a total of 12 multimodal roadways planned to support the new BelRed neighborhood. The preliminary budget does not include the impacts of either a TIFIA loan, or the ballot measure(s). Any modifications to the CIP necessitated by either the ballot measures or TIFIA would be brought forward through an amendment process early in 2017.

Summary of the General CIP

The preliminary budget strategy allows for continued progress on meeting the City's capital investment needs. The existing and new projects proposed for funding in the 2017-2023 CIP fall into several themes, with some projects falling into more than one category. Project themes include:

- Ensures debt obligations are met;
- Provides for transportation and mobility improvements; including projects on 120th and 124th corridors, NE Spring Zone 1, Downtown transportation plan, West Lake Sammamish Phase 2, early design for West Lake Sammamish Phase 3, and others;
- Fulfills general government capital responsibilities such as developing a long range property and facilities plan to leverage the City's investment in property to meet the community's need in a comprehensive and integrated way, Citywide Security Improvements and investing in Hearing Assistance for Public Spaces;
- Continues delivery of the Parks Levy commitment and provides other quality of life amenities through several programs including Park & Open Space Acquisition, NE Entry at Downtown Park, and Meydenbauer Phase I; and
- Provides for neighborhood programs such as the Neighborhood Enhancement Program.

Funds Council Priorities

The adopted 2-year Council Priorities provide foundational policy direction received during development of the 2017-2023 CIP. The 2017-2018 preliminary budget provides for the existing priorities in the 2015-2016 amended budget and includes new funding for projects directly implementing a Council priority. Attachment B provides a table sorted by strategic target area, highlighting the 2-year priorities and budget proposals that most directly address those priorities. Attachment F is the preliminary budget CIP 7-Year Plan "cash flow" and it identifies Council Priorities by priority number. Staff recognizes that this list is not comprehensive but represents projects with the clearest links to Council Priorities and other projects may have further links.

It is important to note that Council Priority #18 directs staff to "implement the Diversity Plan and bring forward a concept for a multicultural center for Council consideration for inclusion in the 2017/2018 budget." The preliminary budget includes a proposal for Council. See Attachment C for the proposal.

New projects within the 2017-2023 general CIP

The 2017-2023 preliminary CIP continues all projects in the 2015-2021 amended CIP and it adds the following over the 7-year timeframe:

- Station Area Planning Implementation \$5.5M – Improving access to South Bellevue and East Main station including pedestrian and bike access;

- Downtown Community/Livability \$4.2M - Downtown improvements including median upgrades, wayfinding, and parking study;
- Civic Center Plan \$550K - Master plan for Civic Center District;
- Grand Connection Implementation \$2.0M - Implementation of early options for Grand Connection that will allow for “claiming of the corridor” such as art installations to establish a sense of place;
- Supplemental Housing Trust Fund Investment \$80K - Operating transfer to Housing Trust Fund in 2017-2018;
- Long-Range Property & Facilities Plan \$280K - Comprehensive assessment of short and long term needs;
- Citywide Security Improvements \$350K - Strategically add/upgrade systems based on assessment;
- 124th Ave NE at SR 520 \$250K - Staff to connect with State Department of Transportation (DOT) as DOT constructs ramp and interchange improvements at Highway 520 and 124th Avenue NE;
- BelRed Corridor Local Street Network \$432K – Funding for additional planning and preliminary engineering for new street grid; and
- West Lake Sammamish Parkway Phase \$3 1.0M - Early design funding for Phase 3.

Attachment F provides the Preliminary Capital Investment Program (CIP) plan cash flow.

Items for Further Council Discussion and Direction

There are several items that Council has raised in prior discussions that are summarized for further discussion and direction in Attachment C. The list provides the budget proposal requested in Council Priority #19 regarding Eastside Pathways, the budget proposal requested in Council Priority #18 regarding a multicultural center, as well as details about a potential parental leave program in response to a Council request.

Through the budget process the Council typically receives requests for funding the operations or capital needs of community organizations. After the last budget process, the Council asked staff to develop a suggested process for considering those requests. Attachment C includes a recommended set of criteria and process for the requests that have come in during this budget cycle, as well as the list of requests that have come in to date.

Council Calendar, Actions needed for Adoption, and Memory Bank

Over the course of the recent Council meetings regarding the preliminary budget, Council has raised several questions and requested information on a variety of topics. Attachment G provides a “Memory Bank” for those requests and contains the status of Council information requests. This attachment will be a living document updated to reflect Council deliberations and will be expanded to include future Council requests.

The remaining calendar prior to adoption is tentatively scheduled as follows:

Date	Tentative Agenda	Status
October 17	Study Session: Preliminary budget presentation	Completed
October 24	Study Session: Response to areas of interest from October 17 and Utilities Early Review	Completed

November 7	Study Session: Deeper dive into CIP and operating budget; respond to areas of Council interest	Tonight
November 14	Study Session: Utilities and Development Services fee discussions	
November 21	Study Session: Respond to areas of Council interest Regular Session: Public Hearing	
November 28	Study Session: Respond to areas of Council interest	
December 5	Regular Session: Tentative Adoption	

There are several actions that are required to adopt the 2017-2018 budget:

Ordinance Title	Brief Explanation
2017 Property Tax Levy Ordinance	By law (RCW 35A.34.230 and RCW 84.55.092), Council is required to adopt property tax levies annually.
2017 Property Tax Banked Capacity Resolution:	Staff recommends a property tax banked capacity resolution to continue to reserve banked capacity.
2017 Substantial Need Resolution	Under Initiative 747, the regular levy or banked capacity, if no increase in the regular levy is taken, can grow at a maximum of one percent annually or the rate of “inflation” (defined as the increase in the implicit price deflator (IPD) whichever is less, plus additions for new construction). IPD for 2017 is 0.953 percent, which means that under normal circumstances the City’s statutory ability to increase the regular levy or banked capacity if no increase in the regular levy is taken would be limited to the 0.953 percent rather than one percent. There is, however, a provision in the Revised Washington Code (RCW 84.55.0101) for cities with “Substantial Need” to levy or bank the full one percent with a majority plus one vote from their governing board or City Council for cities with a population greater than 10,000. To utilize this provision in the law the City must adopt a Resolution establishing substantial need in order to access the full one percent increase. Staff recommends adopting a substantial need resolution to fully bank the one percent capacity.
Utility Rate Fee Ordinances (Water, Storm, and Sewer)	Staff will present for Council consideration increases in Utility rates for 2017 and 2018 to address aging infrastructure and wholesale costs.
Development Services Fee Ordinance	Staff will present for Council consideration routine inflationary changes to the 2017 Development Services fee ordinance for all Development Services functions, including building, land use, fire, transportation, and utilities plan review and inspection.
2017-2018 Budget Ordinance	This is the “umbrella” ordinance which includes appropriation approval by Fund, 2017 pay plans, and summarizations of accepted grants and donations that are less than \$90,000.

Staff requests that Council bring the Preliminary Budget document to each of the future Study Sessions scheduled for budget review and deliberations.

ALTERNATIVES

N/A

RECOMMENDATION

N/A

ATTACHMENT(S)

A – Preliminary Budget Executive Summary

B – Council 2-year Priorities with New 2017-2018 Investments Noted

C – List of known items for further Council Discussion and Direction

D – 2017-2018 Preliminary Operating and Special Purpose Budget by Department Showing
Comparison to 2015-2016 Amended

E – Budget Matrix to Department, FTE Growth, Budget One Outcome Maps, and Rankings

F – 2017-2023 Preliminary Capital Investment Program (CIP) Cash Flow

G – Memory Bank

AVAILABLE IN COUNCIL DOCUMENT LIBRARY

N/A