

November 13, 2017

**CITY COUNCIL STUDY SESSION ITEM**

**SUBJECT**

2017-2018 Mid-Biennium Budget Update

**STAFF CONTACTS**

Toni Call, Finance Director, 452-7863  
David Baldwin, Budget Division Manager, 452-2017  
*Finance Department*

**POLICY ISSUES**

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. Budget modification shall be by ordinance.

RCW 35A.34.230:  
Current information on estimates of revenues from all sources as adopted in the budget for the current biennium shall be provided to Council.

RCW 84.55.092:  
Council action on the City’s 2018 property tax levy is required by State law.

Additionally, in accordance with labor agreements, Cost of Living Adjustment (COLA) is updated to reflect the final COLA amounts.

**DIRECTION NEEDED FROM COUNCIL**

| <b>ACTION</b>            | <b>DIRECTION</b>         | <b>INFORMATION ONLY</b>             |
|--------------------------|--------------------------|-------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

Tonight, is the third of several discussions for the mid-biennium budget review. Staff will provide an overall mid-biennium operating and capital adjustment review by fund, including, the General Fund forecast.

**BACKGROUND/ANALYSIS**

*Background*  
Ordinance 6333 adopted the 2017-2018 Budget on December 5, 2016. As per RCW 35A.34, Council reviews and modifies the adopted two-year budget part way through the first year. As is prior practice, mid-biennium adjustments include updates to personnel rates to adjust final rates for the second year of the biennium and other adjustments, as needed, for known events. The mid-biennium proposes the statutorily available one percent increase in property tax allowed under RCW for 2018. The budget is a fiscal plan and changes to it are typical. This is the third of several Study Sessions with Council action

proposed for November 27. The mid-biennium budget update provides an opportunity for modifications to the amended 2017-2018 operating budget and 2017-2023 Capital Investment Program (CIP) Plan.

### ***Mid-Biennium Calendar and Council Actions***

The proposed timetable for the mid-biennium budget update is as follows:

- |  |                              |
|--|------------------------------|
| • Mid-Bi Calendar and Process  | October 23- <i>Completed</i> |
| • Development Services Rates   | November 6- <i>Completed</i> |
| • General Fund Forecast, Operating and Capital Funds   | November 13- <i>Tonight</i>  |
| • Council Follow-up (if needed)  | November 20                  |
| • Mid-Bi Public Hearing (Regular Session)  | November 20                  |
| • Proposed Mid-Bi Budget Adoption  | November 27                  |
| ○ Council Actions  |                              |
| ▪ 2018 Property Tax Levy Ordinance   |                              |
| ▪ 2018 Property Tax Banked Capacity Resolution   |                              |
| ▪ 2018 Development Services Fee Ordinance  |                              |
| ▪ 2017-2018 Mid-Biennium Budget Ordinance (includes appropriation approval by fund, 2018 pay plans, grants accepted of less than \$90,000, and donations accepted) |                              |

As a note, Council will not be required to adopt 2018 Utilities rates as they were adopted with the 2017-2018 Adopted Budget via Ordinance Nos. 6329, 6330, and 6331 on December 5, 2016.

### ***Prior Council Discussions***

- October 23 - Staff presented the mid-biennium budget calendar and process to Council.
- November 6 - Staff presented Development Services rate adjustments. Council directed staff to return on November 27 with Development Fee Ordinance reflecting the fee structure presented.

### ***Mid-Biennium Budget Overview***

#### ***Executive Summary:***

The proposed mid-biennium budget adjustment contains limited, primarily technical, changes at the fund level to the 2017-2018 budget adopted on December 5, 2016 via Ordinance No. 6333. It maintains current operations with no shift from the 2017-2018 Council adopted budget including continuing to build reserves to help prepare for known future events. In order to assist with long range financial planning, it proposes the statutorily available one-percent increase in property tax allowed under RCW for 2018.

#### ***Parental Leave:***

Council directed staff return with a recommendation of adding a parental leave policy to the City's Total Rewards package. Since adoption of the 2017-2018 budget, the State of Washington legislature passed SB 5975 – State Paid Family and Medical Leave Insurance Program. This new law's provisions are broader than parental leave and provide paid time for the care of a family member with a serious health condition or one's own serious health condition, or for a military exigency. The new state law compliments the City's existing leave programs and staff proposes that the City work on compliance with the new law and monitor value to employees.

*General adjustments to the Mid-Biennium Budget – all funds:*

The mid-biennium provides appropriation updates for the General, Water, and CIP funds, as well as the 2017-2023 General CIP Plan. The mid-biennium includes technical updates to personnel rates for 2018 such as cost of living, corrects a double budgeting error between funds (net zero impact), adjusts capital project timing to align budget with project expenditures to reduce cash flow in 2018, adjusts capital project costs to current information, updates general tax revenues, and continues to build reserves to help position the City for future known and unknown events and economic downturn.

Since the mid-biennium proposal before Council is limited in nature, there may be other operating or capital adjustments that Council wishes to consider as part of the mid-biennium update. Further detail of the mid-biennium budget update is identified below.

***Forecasts***

*General Fund forecast:*

The 2018-2023 general fund forecast projects moderate revenue growth for the forecast period. Sales tax growth is strong primarily due to new revenue effective January 2018 from the state legislature passage of the Marketplace Fairness Act, Engrossed House Bill (EHB) 2163. EHB 2163 will increase the City's total sales tax by an estimated \$1.3 million in 2018 (\$0.9 million to the general fund), growing to \$3.0 million in 2023 (\$2.2 million to the general fund), according to estimates by the Washington State Department of Revenue. EHB 2163 expands the sales tax base by instituting taxation of sales over the internet and through catalogs for out of state sellers beginning in January 2018. The Budget Office will carefully watch this new revenue stream and will bring information back to Council if the estimates provided do not reflect actual collection. In addition, Business & Occupation tax continues to perform well due to audit activity.

On the expenditure side, the forecast continues to build in the cost of converting Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 1 payments (\$2.3 million) to the general fund in 2019 as the existing reserve is fully depleted. In addition, the forecast assumes costs for the opening of Fire Station (FS) #10 which includes an addition of 13 firefighters in late 2021 for the estimated opening in 2022, as well as needed up front equipment such as a fire apparatus and other fire fighter equipment. The FS #10 cost estimations include equipment such as apparatus, personnel, maintenance and operation costs, and a contingency. As design for the fire station is completed, these costs will continue to be updated. Personnel inflation (CPI-W) is projected to be slightly higher than previous forecasts ranging from 2.2 percent to 2.5 percent.

Historically, the City's forecast did not include an assumption for any increase in demand for services based on the continued urbanization of the City. Based on a five-year history of cost increases from 2013 to 2017, the forecast now includes a modest 0.37 percent growth in total expenditures (\$780,000 in 2019) continuing and growing annually to 2023. As with all forecasts, the future is a best estimate based on information available today and assists in providing information that influences how the City approaches future fiscal planning.

As with prior forecasts, the mid-biennium budget continues to build reserves in the early years to better position the City to mitigate risks of known events such as the conversion of LEOFF1 to "pay as you go," and the expiration of sales tax annexation revenue in 2021, as well as from unknown events such as

an economic downturn or if the new sales tax marketplace fairness revenue stream does not perform as estimated by the state.

Additional details are available in Attachment A.

*Utility, Parks Enterprise, and Development Services forecasts:*

State law requires staff to provide current information on estimates of revenues for enterprise funds. Utility Funds (Attachment B), Parks Enterprise Fund (Attachment C), and Development Services (Attachment D reprint from November 6 Study Session) Financial Forecasts are attached.

***Mid-Biennium Detail by Fund*** – See Changes by Fund (Attachment E) for details by Fund.

*Personnel updates that impact all funds with personnel:*

As is the City's usual practice, the mid-biennium updates personnel rates to actual 2018 rates and adjusts personnel costs for any known impacts from prior actions or Council amendments. Personnel adjustments impact all funds including the general fund, development services fund, facilities fund, general self-insurance fund, health benefits fund, housing fund, information technology fund, operating grants and donations fund, parks enterprise fund, sewer utility fund, solid waste fund, storm and surface water fund, water utility fund, electronic equipment replacement fund, and the mechanical equipment replacement fund. Not all funds require an appropriation adjustment as the changes are offset by a corresponding ending fund balance adjustment, as is the historical practice. The actual rates for 2018 are as noted below:

- June to June Seattle-Tacoma-Bremerton CPI-W as published by the Bureau of Labor Statistics on July 14, which provides the basis for cost of living adjustments (COLA), is 3.0 percent.
- The employer portion of the Public Employees' Retirement System 2 (PERS2) pension rate as published by the State of Washington is 12.70 percent.
- The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 pension rate for law enforcement officers as published by the State of Washington is 5.43 percent.
- Municipal Employees Benefit Trust (MEBT) salary limit that creates a ceiling for employer contributions to employee retirement increased to \$131,652, which means that the City will contribute to MEBT up until an employee's salary reaches the salary limit.
- The self-insurance City contribution for medical and dental insurance was updated to the actuarial amount of \$20,720,592.

*General Fund:*

As is the usual practice, the mid-biennium updates revenue projections, adjusts personnel for existing costs (noted above), and continues to build reserves to address known events as well as helps position the City for risks and mitigations. In addition, the adopted budget erroneously reflected the elimination of double-budgeting of fire flow activity of \$2.7 million in 2017 and \$2.8 million in 2018 (both revenue and expenditure in each fund). Per proper recording by Generally Accepted Accounting Principles (GAAP), this net zero adjustment corrects the error between the Water Utility Fund and General Fund.

*Development Services update:*

On November 6, Development Services staff presented for Council consideration and discussion routine adjustments to the 2018 Development Services fee ordinance for all Development Services functions, including building, land use, fire, transportation, and utilities plan review and inspection. Rates are

adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycle. Council directed staff to return on November 27 with a Development Fee Ordinance reflecting the fee structure presented.

*Water Fund:*

As noted in the General Fund section, the mid-biennium corrects an error in double-budgeting. The adopted budget erroneously reflected the elimination of double-budgeting of fire flow activity of \$2.7 million in 2017 and \$2.8 million in 2018, both revenue and expenditure. Per proper recording by GAAP, this net zero adjustment corrects the error between the Water Utility Fund and General Fund.

*CIP Fund:*

Ordinance 6333 adopted the 2017-2018 Budget on December 5, 2016 and approved the 2017-2023 CIP Plan, setting the project spending plan for the seven-year CIP. Since December, there have been 11 amendments to the General CIP.

As with past practice, the general tax revenues are updated, as well as CIP specific revenues such as impact fees and Real Estate Excise Tax. The mid-biennium seven-year CIP reduces transportation impact fees (\$24 million) over the seven years due to improved assumptions regarding refunds and credits. The reduction of impact fees is offset by an increase in Real Estate Excise Tax (\$9 million) and increases in general tax revenue (\$15 million) over the seven-year CIP.

As has been the City's practice, the CIP is front-loaded and appropriated at 100 percent of expenditures. Historical spending has been between 65 percent and 85 percent annually. Since the City appropriates at 100 percent of expenditures, the mid-biennium continues to model cash flow borrowing in order to balance across the 7-year CIP. Staff does not anticipate the cash flow borrowing to be issued, and if such need arises, staff must return to Council to obtain authority for issuance. In accordance with adopted financial policies, the cash flow is modeled to be paid back fully within the seven-year CIP.

In addition, the mid-biennium adjusts several specific projects for technical updates, with a net decrease of \$870,000 over the 7-year CIP. In summary, the mid-biennium:

- updates several projects to align budget with timing of expenditures, PW-R-166: 124<sup>th</sup> Avenue NE, NE Spring Boulevard to Ichigo Way, PW-R-186: 120<sup>th</sup> Avenue NE Stage 4, NE 16<sup>th</sup> Street to Northup Way, and PW-R-190: 124<sup>th</sup> Avenue NE, NE 8<sup>th</sup> Street to NE 12<sup>th</sup> Street,
- returns budget authority no longer needed for two projects, PW-R-162: NE 6<sup>th</sup> Street Extension and PW-R-191: 124<sup>th</sup> Avenue NE, Ichigo Way to Northup Way,
- updates project budgets for changes in cost with no change in scope, PW-W/B-78: Mountains to Sound Greenway Trail, PW-R-172: NE Spring Boulevard (Zone 1), 116<sup>th</sup> to 120<sup>th</sup> Avenues NE, PW-R-166: 124<sup>th</sup> Avenue NE, NE Spring Boulevard to Ichigo Way, and PW-R-185: Newport Way Improvements, Somerset Boulevard to 150<sup>th</sup> Avenue SE, and
- accelerates PW-R-183: West Lake Sammamish Parkway Phase 2 to coordinate the Transportation Department roadway work and Utilities Department water main replacement into a single construction phase to minimize the potential for recurring multi-year construction related impacts to the community as discussed with Council on May 15, 2017.

Overall, including revenue, cash flow, and project updates, the total 2018 only mid-biennium appropriation authority is a net decrease of \$6.2 million. Attachment E provides details for 2018.

On November 8, 2016, voters passed the Transportation Neighborhood Safety, Connectivity and Congestion levy to fund a backlog of neighborhood projects within the City. Annually, the Council will identify specific projects and timing for use of the levy proceeds within categories described in the ballot measure with recommendation from the Transportation Commission. The mid-biennium CIP has two levy projects (1) PW-R-198: Neighborhood Congestion Management and (2) PW-R-199: Neighborhood Safety and Connectivity. The Neighborhood Safety and Connectivity projects for 2018 were adopted during the budget adoption and there are no changes to those projects in the mid-biennium. The Transportation Commission is currently reviewing the Neighborhood Congestion Management projects for 2018. That recommendation is expected at Council in early 2018. The mid-biennium contains a \$2 million placeholder in 2018 until Council action on the congestion project list.

### ***Regular Property Tax Levy***

The proposed 2018 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 increase in 2018. For a Bellevue property that has a \$1,000,000 assessed value (AV), the impact of the 1% statutorily available increase is \$7.60; for a Bellevue property that has a 2018 median AV of \$791,000, the impact is \$6.01.

King County has preliminarily established that Bellevue's total AV has increased to \$56.3 billion in 2018 from \$49.5 billion in 2017, an increase of 14 percent. 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 2018 is 1.55 percent, which means that the City's councilmanic statutory ability to increase property tax will be limited to 1 percent other than when using banked capacity.

### ***Voted Property Tax Levies***

In November 2008, voters approved a levy lid lift for the parks and natural area programs. The levy lid lift provides \$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 improvements 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 chapter 84.55 RCW.

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 for 19 years thereafter as allowed by chapter 84.55 RCW.

|  | <b><u>2017</u></b> | <b><u>2018</u></b><br><b><u>(Estimate)</u></b> |
|--|--------------------|--|
| Assessed Valuation (\$ in Billions)                            | \$49.5             | \$56.3   |
| Regular Levy Amount (\$ in Millions)                           | 38.8               | 40.1   |
| Regular Property Tax Rate (Per \$1,000 AV)                     | 0.78               | 0.71   |
| Voted Levy Amount – Parks (\$ in Millions)                     | 4.0                | 4.0  |
| Voted Property Tax Levy Rate (Per \$1,000 AV)                  | 0.08               | 0.07   |
| Voted Levy Amount – Fire Facilities (\$ in Millions)           | 6.2                | 6.3  |
| Voted Property Tax Levy Rate (Per \$1,000 AV)                  | 0.125              | 0.11   |
| Voted Levy Amount – Neighborhood Connectivity (\$ in Millions) | 7.4                | 7.5  |
| Voted Property Tax Levy Rate (Per \$1,000 AV)                  | 0.15               | 0.13   |
| Total Property Tax Levy Rates (Per \$1,000 AV)                 | <hr/>              |  |
| *May not foot due to rounding                                  | \$1.14             | \$1.02   |

### **OPTIONS**

N/A

### **RECOMMENDATION**

N/A

### **ATTACHMENTS**

- A. General Fund Financial Forecast
- B. Utility Funds Financial Forecast
- C. Parks Enterprise Fund Financial Forecast
- D. Development Services Financial Forecast (Reprint from November 6)
- E. Mid-Biennium changes by Fund

### **AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

N/A