

**CITY COUNCIL STUDY SESSION ITEM**

**SUBJECT**

2017-2018 Mid-Biennium Budget Update

**STAFF CONTACTS**

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**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 fourth of several discussions for the mid-biennium budget review. In response to Council requests from the November 13 study session, tonight, staff will provide an overview of the capital investment program (CIP) plan changes. Mid-biennium updates were presented on November 6 and November 13 and will be included in the final budget documents on November 27 absent contrary direction from Council. Adjustments are summarized in the Background section below. Later tonight, during Regular Session, Council will hold the public hearing.

**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 2-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 1 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 fourth 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>Completed</i> |
| • Council Follow-up (Study Session)  | November 20- <i>Tonight</i>   |
| • Mid-Bi Public Hearing (Regular Session)  | November 20- <i>Tonight</i>   |
| • 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 a Development Fee Ordinance reflecting the fee structure presented.
- November 13 – Staff presented the general fund forecast and the overall mid-biennium operating and capital adjustments. In response to the outyear general fund forecast, the mid-biennium proposes a 1 percent property tax increase. This increase would cost a homeowner with a median assessed property value of \$791,000, \$6 annually.

Action on the budget and related ordinances is proposed at the November 27 Extended Study Session under Other Ordinances and Resolutions.

### ***Mid-Biennium Budget Summary***

#### ***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. To assist with long range financial planning, it proposes the statutorily available 1 percent increase in property tax allowed under RCW for 2018.

The mid-biennium provides appropriation updates for the General, Water, and General Capital Investment Program (CIP) funds, as well as the 2017-2023 General Capital Investment Program 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. Not all funds require an appropriation adjustment as the changes are offset by a corresponding ending fund balance adjustment, as is the historical practice. See Mid-Biennium Changes by Fund, Attachment A for details.

Since the mid-biennium is limited in nature, there may be other adjustments that Council wishes to consider, either operating or capital additions or changes. Staff will be requesting final direction on the contents of the budget adjustments at the conclusion of the public hearing scheduled for November 20.

### ***CIP Update***

The 2017-2018 Budget and the 2017-2023 Capital Investment Program (CIP) Plan were adopted on December 5, 2016, setting the project spending plan for the 7-year CIP. Since December, Council approved 11 amendments to the General CIP. As with past practice, the mid-biennium update adjusts general tax revenues, project specific revenues, and project expenditures. See Attachment B, General CIP Mid-Biennium Update, for additional detail.

### ***General Taxes and Real Estate Excise Tax***

General taxes are updated in alignment with the general fund forecast assumptions and increase total revenues by \$15 million over the 7-year CIP. Real Estate Excise Tax (REET) revenue is updated to reflect continuing higher cost of real estate in the Bellevue market; increasing by \$9 million over the 7-year CIP.

### ***Impact Fees***

The mid-biennium budget update reduces transportation impact fees by \$24 million over the 7-year CIP due to improved assumptions regarding credits and refunds. Credits against impact fees, under city code, are given for the fair market value of any dedication of land or the actual costs of construction of system improvements provided by the developer as a condition of approving the development activity. These credits are provided where the system improvement is identified in the City's Impact Fee Program project list. Refunds are provided when a building permit expires, or if an application is withdrawn or canceled and no construction has commenced.

### ***Project Change Detail***

The mid-biennium adjusts several specific projects for technical updates, with a net decrease of \$870,000 over the 7-year CIP as follows:

- Projects which no longer need budget authority in the 2017-2023 CIP and therefore the mid-biennium removes the authority:
  - No funding in the State budget in the near-term, therefore city funds to support are not required at this time: PW-R-162 – NE 6<sup>th</sup> Street Extension (\$140k)
  - To bring in alignment with TIFIA funding: PW-R-191 – 124<sup>th</sup> Ave NE/Ichigo Way (NE 18<sup>th</sup> St) to Northup Way (\$842k)

- Projects which budget is proposed to be shifted in years to match project expenditure timing. There is no impact to construction schedule, this purely updates to match anticipated invoice timing:
  - PW-R-166 – 124<sup>th</sup> Ave NE - NE Spring Blvd to Ichigo Way (NE 18<sup>th</sup> St) (\$9.458 million moves from 2018 to 2019)
  - PW-R 186 – 120<sup>th</sup> Ave NE Stage 4 Design – NE 16<sup>th</sup> St to Northup Way (\$200k moves from 2018 to 2019)
  - PW-R-190 – 124<sup>th</sup> Ave NE - NE 8<sup>th</sup> St to NE 12<sup>th</sup> St (\$565k moves from 2018 to 2019)
- To reflect current design schedule for the segments east of 150th Avenue NE, PW-W/B-78 – Mountains to Sound Greenway Trail will move \$243k from 2018 to 2019. In addition, budget is projected to incur an additional \$112k in expenditures.
- For the construction of Zone 1A of NE Spring Boulevard, PW-R-172 – NE Spring Boulevard (Zone 1) – 116<sup>th</sup> to 120<sup>th</sup> Avenues NE will move \$6.785 million from 2020 to 2018 and 2019, thereby completing Spring Boulevard from 116<sup>th</sup> through to 124<sup>th</sup> Ave NE by 2020, the year of the opening of REI's new headquarters.
- On May 15 staff briefed Council on the increased cost for PW-R-185 - Newport Way Improvements – Somerset Blvd to 150<sup>th</sup> Ave. The funds for the increase (\$1.6 million) will be transferred from PW-R-166 - 124<sup>th</sup> Ave NE - NE Spring Blvd to Ichigo Way, with funding made available due to a previously awarded state grant (Ordinance No. 6351).
- On May 15 staff briefed Council on the project acceleration for PW-R-183 – West Lake Sammamish Parkway, Phase 2 to coordinate the Transportation Department roadway work and the Utilities Department water main replacement work under W-16 into a single construction phase to minimize the potential for recurring multi-year construction related impacts to the community, and find synergies between the two projects. The mid-biennium shifts the West Lake Sammamish project forward to 2018 (\$2.5 million) and 2019 (\$3.5 million) from 2020 (\$2 million) and 2021 (\$4 million) to align project timing with the Utilities Department project.

#### Cash Flow Borrowing

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 7-year CIP.

#### Transportation, Neighborhood Safety, Connectivity and Congestion Levy

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.

**OPTIONS**

N/A

**RECOMMENDATION**

N/A

**ATTACHMENTS**

- A. Mid-Biennium Changes by Fund (Revised from November 13)
- B. General CIP Mid-Biennium Update

**AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

N/A