

November 27, 2017

## CITY COUNCIL AGENDA MEMORANDUM

### **SUBJECT**

Ordinance adopting the modification of the 2017-2018 biennial budget and 2017-2023 Capital Investment Program Plan, as both have been previously amended; setting forth the estimated revenues and appropriations; establishing job classifications and pay ranges; and establishing an effective date.

### **FISCAL IMPACT**

This Ordinance, known as the “Umbrella” Ordinance, provides appropriation authority by fund and adopts pay plans for 2018. The total mid-biennium budget amendment is \$8,464,885, resulting in a total mid-biennium 2017-2018 budget of \$1,611,804,978 across all funds, summarized as follows:

	2017-2018 Amended Budget*	Mid-Biennium Changes	2017-2018 Mid-Biennium Budget
Operating Funds	\$1,038,091,039	\$14,424,885	\$1,052,515,924
Special Purpose Funds	65,982,283	0	65,982,283
Capital Project Funds	499,266,771	(5,960,000)	493,306,771
Totals	\$1,603,340,093	\$8,464,885	\$1,611,804,978

\*Amended Budget is the Adopted Budget plus any Council Budget Ordinances since adoption. Attachment A provides changes by fund and a list of Council budget amendments since adoption. Attachment B provides the 2017-2023 updated Capital Investment Program Plan (CIP) by project. These attachments also reflect mid-biennium changes as presented on November 13 with changes and direction provided by Council on November 13 and 20.

Companion Ordinances previously addressed tonight supporting the mid-biennium:

- 2018 Development Services Fee Ordinance: Changes are proposed to the consolidated fee ordinance for all development services functions including Building, Land Use, Fire, Transportation, and Utilities plan review and inspection with an effective date of January 1, 2018. The fee changes reflect the results of the annual Cost of Service Study and maintain an appropriate alignment between workload, permit revenues, staffing costs and service levels as discussed by Council on November 6.
- 2018 Property Tax Levy Ordinance: Levies the regular and voted property tax including new construction, other increases allowed under RCW 84.55.010, refund amounts, and the statutorily available 1 percent allowable increase for 2018.
- 2018 Property Tax Banked Capacity Resolution: Resolution preserving the full levy amount available to the City to ensure sufficient capacity to fund operating costs of new facilities and maintain current levels of service.

This mid-biennium budget update is consistent with the City’s Comprehensive Financial Management Policies and Council’s direction to continue to deliver high quality, efficient municipal services within available resources.

## **STAFF CONTACTS**

Toni Call, Finance Director, 452-7863

David Baldwin, Budget Division Manager, 452-2017

*Finance Department*

## **POLICY CONSIDERATION**

### **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.

## **BACKGROUND**

Ordinance No. 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. The budget is a fiscal plan and changes to it are typical.

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

Over the course of the mid-biennium review, Council had several discussions as follows:

On October 23, staff presented the mid-biennium budget calendar and process to Council.

On November 6, staff presented Development Services rate adjustments. Council directed staff to return with a Development Fee Ordinance reflecting the fee structure presented. The rate ordinance presented earlier this evening reflect this direction.

On November 13, staff presented the general fund forecast and the overall mid-biennium operating and capital adjustments. In response to the out-year general fund forecast, the mid-biennium includes a 1 percent property tax increase. This increase would cost a homeowner with a median assessed property value of \$791,000, \$6 annually. The property tax ordinance presented earlier includes the 1 percent increase.

On November 20, in response to November 13 requests, staff provided additional detail on the capital investment program (CIP) plan changes.

On November 20, Council held a public hearing regarding the mid-biennium. Twelve members of the public spoke on a variety of issues including the Bellevue Art Museum, KidsQuest, Pacific Northwest Ballet, sidewalk on SE 34<sup>th</sup> Place, Splash 2.0 (aquatic facility) and other items.

### ***Overall Mid-Biennium Fund Change Summary***

The 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 and unknown future events.

The General Fund forecast is projecting revenues to exceed expenditures in the near term; the out-year forecast reflects the reverse. Assuming no change in revenues or expenditures, the current forecast shows the general fund continues to build reserves through 2020 and then will be drawn down to balance the forecast in the out years which is not a long term financially sustainable strategy.

Expenditures are forecasted to grow at a faster rate than revenues due to several factors including the anticipated opening of Fire Station #10 in 2022, the forecasted depletion of the Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1) medical reserve which necessitates a cost to shift to the general fund in 2019, expiration of the sales tax annexation tax credit in 2022, and general growth in existing personnel costs. To assist with long range financial planning, the mid-biennium includes 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 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 and other personnel rate adjustments, 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. Mid-biennium updates were presented on November 6, 13, and 20 and are included in the final budget documents absent new direction from Council. Attachment A provides Changes by Fund. Attachment B provides the 2017-2023 Cash Flow.

### ***Council Directed Changes to the Mid-Biennium***

On November 20, Council gave final direction on specific changes to the mid-biennium as detailed below. These changes have been incorporated into the total appropriation authority as detailed in Attachment A, Changes by Fund, and Attachment B, 2017-2023 Cash Flow.

#### ***Changes to the 2017-2023 General Capital Investment Program (CIP) Plan:***

- Creation of an Arts and Culture Fund by setting up a new Project G-112 in the CIP fund to be funded with the existing Council Contingency. The project would be governed by the guiding principles adopted by Council in 2006 for the City's investments in cultural arts. The funding principles were adopted as follows to guide investments:
  - Must have a sustainable long-term financial model, including strong private sector financial commitment.
  - Must clearly define public benefit to be received in exchange for investment (for example, ownership interest in an asset, scholarships, public access to the facility at low or no cost to low income and disabled persons).
  - Should provide for City involvement in financial oversight.
  - Must be an investment in a facility, or for support of the operation of the facility; cannot fund fund-raising activities.

Council directed staff to work with the requesters of KidsQuest, Pacific Northwest Ballet, and the Bellevue Arts Museum to evaluate the requests and to ensure the requests will be in alignment with the adopted principles. Staff is to return to Council in 2018 with additional information for further direction.

Changes to the Adopted Council Contingency to fund the Arts and Culture project (\$000's)

	2017	2018	2019	2020	2021	2022	2023	Total
G-107 Council Contingency - Adopted Budget	250	250	-	-	-	500	500	1,500

Council Identified Changes to the Adopted Budget Council Contingency:								
G-112 Arts and Culture Fund		200	200	200	200	200	-	1,000
G-107 Council Contingency		500	-	-	-	-	-	500
Total Council Identified Mid-Biennium CIP Changes		700	200	200	200	200	-	1,500

*Additional Direction:*

Council also deferred the following items for further discussion and/or direction pending additional information from staff including Splash2.0 (aquatic facility), SE 34<sup>th</sup> Place sidewalk, and other items raised.

***City of Bellevue Pay Plans***

Pay plans for represented employees were established in accordance with their respective labor agreements. As part of the mid-biennium budget ordinance, the Council approves the 2018 City of Bellevue Pay Plans (Attachment C), which include the effect of a 2018 salary range adjustment of 2.70 percent (90 percent of June 2017 CPI-W) for non-represented employees. This increase is consistent with prior practice and increases associated with most labor agreements.

RCW 41.50.152 requires disclosure of “excess compensation” costs (e.g., overtime payments that exceed twice the regular rate of pay, termination or severance payments, and cash out of unused annual leave in excess of 240 hours for a limited number of eligible employees). This legislation was designed to avoid the situation where significant future liability was unknowingly accepted as part of a compensation agreement. The provisions of the pay plans for non-represented employees are estimated to increase these future retirement billings by \$3,790 or 4.5 percent (from \$83,360 to \$87,150). Any increases in excess compensation for union contract settlements are communicated in agenda memos when the contracts are proposed for Council approval.

***Other Information Attached***

- Attachment D provides a listing of grants of less than \$90,000 that were accepted for the period November 1, 2016 through October 31, 2017. In accordance with Ordinance No. 6187, staff is required to notify Council of any such grant contracts.
- Attachment E provides a listing of donations received by project for the period November 1, 2016 through October 31, 2017. Ordinance No. 4177 requires that any time an appropriation adjustment for the Operating Grants, Donations and Special Reserve Fund is made; it will be accompanied by a notification of donations received since the previous appropriation was made.

**EFFECTIVE DATE**

If approved, this Ordinance becomes effective on December 7, 2017.

**OPTIONS**

1. Approve the Ordinance adopting the modification of the 2017-2018 Biennial Budget and 2017-2023 Capital Investment Program Plan, as both have been previously amended; setting forth the estimated revenues and appropriations; establishing job classifications and pay ranges; and establishing an effective date.
2. Do not approve the Ordinance and provide alternative direction to staff.

**RECOMMENDATION**

Option 1

**MOTION**

Move to approve Ordinance No. 6389 adopting the modification of the 2017-2018 Biennial Budget and 2017-2023 Capital Investment Program Plan, as both have been previously amended; setting forth the estimated revenues and appropriations; establishing job classifications and pay ranges; and establishing an effective date.

**ATTACHMENTS**

- A. Mid-Biennium Changes by Fund – Provides a listing of the mid-biennium changes made from the amended budget.
- B. 2017-2023 Cash Flow – Provides a detailed listing of General Capital Investment Program Plan projects and identifies mid-biennium changes from the amended budget.
- C. 2018 City of Bellevue Pay Plans – Provides a listing of the City's Pay Plans.
- D. Summary of 2017 Grants Accepted – Provides a listing of grants of less than \$90,000 that were accepted for the period November 1, 2016 through October 31, 2017. In accordance with Ordinance No. 6187, staff is required to notify Council of any such contracts.
- E. Summary of 2017 Donations Accepted – Provides a listing of donations received by project for the period November 1, 2016 through October 31, 2017. Ordinance No. 4177 requires that any time an appropriation adjustment for the Operating Grants and Donations Fund is required it will be accompanied by a notification of donations received since the previous appropriation adjustment was made.

Proposed Ordinance No. 6389

**AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

N/A