



Forecast Introduction

The following sections present the General Fund and Enterprise Funds financial forecasts for the 2019-2024 forecast period. Each Fund's forecasted revenues and expenditures have been developed using current economic information and known data. This represents a point in time and as the forecast period extends the margin of error increases.

- Economic Outlook
- General Fund Financial Forecast 2019-2024
- Development Services Fund Financial Forecast 2019-2024
- Parks Enterprise Fund Forecast 2019-2024
- Utility Funds Financial Forecast 2019-2024



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Executive Summary:

- *The Puget Sound Region continues to outperform the nation.*
- *Bellevue home values have re-gained and surpassed pre-Great Recession values.*
- *Bellevue's unemployment rate stays much lower than the nation and close to full employment which is considered at 3 percent.*
- *Although Bellevue's revenue has grown at a higher rate in the past few years from a large revenue stream supported by highly volatile construction, the growth in sales tax is not sustainable for the long run.*
- *There continues to be national and international risks in the economy.*

Economic Outlook:

Global and National Economy:

The global economic upswing that began around mid-2016 has become broader and stronger. The new World Economic Outlook report published by International Monetary Fund (IMF) projects that advanced economies as a group will continue to expand above their potential growth rates this year and next before decelerating, while growth in emerging market and developing economies will rise before leveling off. The expansion continues at a less even pace among economies. As a key driver of economic growth, improvements in income and standard of living, the growth of technology and innovation will likely be concentrated in a few large industrialized economies. For most countries, current favorable growth rates will not last.

The U.S. economy is experiencing one of the longest expansions on record. U.S. Gross Domestic Product (GDP) increased at an annual rate of 4.2 percent in the second quarter of 2018, according to the US Bureau of Economic Analysis (BEA)'s estimate. The acceleration in real GDP growth in the second quarter reflected accelerations in personal consumption expenditures, exports, federal government spending, and state and local government spending, offsetting a smaller decrease in residential fixed investment¹.

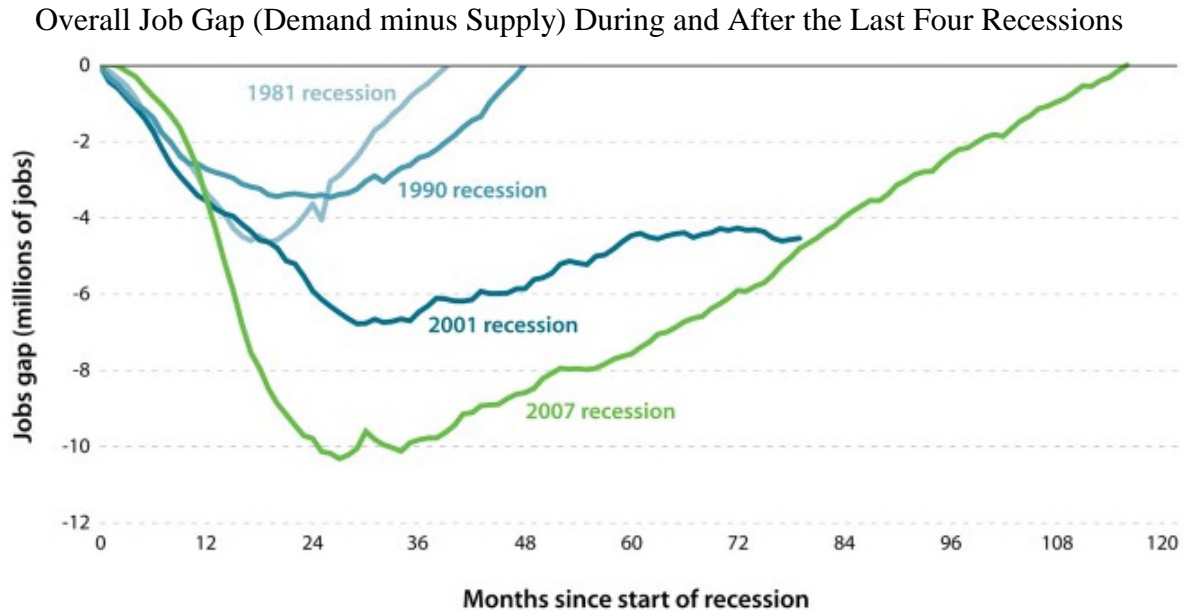
A decade has passed since the collapse of the housing market and start of the Great Recession. Home values have more than recovered in most of the nation's largest markets. The markets with the highest gains above the mid-2000s bubble are primarily in the West and Southwest. The median home value nationwide is 8.7 percent higher than it was at the height of the housing bubble. In the markets that have seen the strongest recoveries, a combination of strong job growth, tight supply and low interest rates have pushed home values upward.²

¹ Source: Bureau of Economic Analysis

² Source: Zillow Research

Economic Outlook

The unemployment rate in the U.S. fell to a 10-year low in 2018, and the job market has added more jobs than it lost in the Great Recession. As both job growth and the unemployment rate are important indicators of the labor market which support the income and consumer spending, the job gap reflects changes in both level and demographic composition of U.S. From the chart below, the recovery of the job market since the Great Recession has been the longest and the slowest of the four recessions we had since the 1980s. However, the recovery has been uneven for all regions of the country.



Source: Current Population Survey and Current Employment Statistics, Bureau of Labor Statistics 1980-2017.

Although moderate economic growth is forecasted in the near term, concerns about overheating may intensify, given already robust growth and an unemployment rate that is well below most estimates of “full employment.” Employment growth is expected to slow going forward because the unemployment rate is low and the working age population is growing slowly. The enactment of a large tax cut and spending increase will further boost growth and put more upward pressure on inflation for the remainder of 2018 and 2019.³

Risks on the Horizon

Behind the global and national economy's overall solid growth, risks and uncertainties remain in the economy.

³ Source: IHS Markit

Economic Outlook

- Uncertainty surrounding tariffs and trade policy is expected to persist, as the Trump Administration considers further tariffs with China and stokes tensions with trading partners. Many employers are putting more focus on pay hikes and nonwage benefits to fill openings, but more widespread growth in the labor force will be needed to further alleviate shortages.⁴
- Housing starts have rebounded, but unexpected weakness in single-family permits implies a softer near-term trend. The just released August 2018 Housing Status Report shows a sharp and unexpected decline (53,000) in single-family permits in August. This was the largest one-month decline in over eight years. IHS Markit Economists thinks it could be a signal of slower construction and housing market growth.⁵
- The declining trend of auto sales. The auto industry has enjoyed a boom over the last few years. Vehicle sales hit records in 2014 and 2015, as more jobs, rising wages, low interest rates and historically low gasoline prices fueled consumers to replace older vehicles and upgrade from cars to SUVs. However, the auto sales in the nation has started a declining trend in 2017 and the trend is continuing as of September 2018 (Source: U.S. Bureau of Economic Analysis (BEA)).
- Loss in confidence and growing risk aversion cause a reduction in investment and consumer spending across many categories. This would trigger a decline in an already slowing housing market, while reduced capital investment would weaken productivity growth. In this case, the pessimistic scenario could push the economy into a brief recession.⁶
- Extreme weather events including hurricanes, extreme temperatures and other weather events are considered the top risk in 2018, considering U.S. struggled to recover from the most expensive hurricane season ever in 2017, and Hurricane Florence just created massive damage to the east coast in 2018. Climate change is creating more frequent heatwaves, which will strain agricultural systems and raise the risk of breakdowns in the food supply.⁷
- Cyberattacks and data fraud or theft are other risks. The increase in cyberattacks is placing the personal information of millions of consumers at risk. For example, in 2016, companies revealed breaches of more than 4 billion data records, more than the combined total for the previous two years.⁸

⁴ Source: World Economic Outlook 2018 by International Monetary Fund

⁵ Source: IHS Markit August 2018 Housing Update

⁶ Source: IHS Markit US Markets Executive Summary September 2018

⁷ Source: 2018 Annual Global Risks Report by World Economic Forum

⁸ Source: 2018 Annual Global Risks Report by World Economic Forum

Local Economy:

In 2017, of the large metropolitan areas, those with population greater than two million, Seattle-Tacoma-Bellevue, WA had the second largest increase (5.2 percent) in real GDP in 2017. This was led by growth in professional and business services; wholesale and retail trade; and finance, insurance, real estate, rental, and leasing.⁹

The Greater Seattle metropolitan area's labor market continues to expand in the first half of 2018, adding a total of 60,800 jobs (3 percent). Most of gains were in the trade, transportation, and utilities sector, accounting for more than one-quarter of the total jobs added over the year. Professional and business services also expanded at a rapid pace, accounting for another quarter of the total jobs added over the year. The rest of the service sectors—especially information, financial, and leisure/hospitality—also did very well. Labor-market improvements have steadily decreased the unemployment rate, which stands at 4.0 percent in mid-2018. The Puget Sound region's labor markets are extremely tight, which is expected to increase competition between employers to gain and retain talent. Consequently, the personal income growth is expected to outpace the country in 2018 and 2019.

The residential construction sector in the Greater Seattle metropolitan area grew rapidly in 2017 but has since started to slow. Construction and natural resource employment was up 3.1 percent year over year in June 2018 (up 3,800 jobs), compared with 8.9 percent growth in December 2017. Despite the recent slowdown in construction employment, the construction sector looks strong. The Seattle area still has the highest number of cranes of metropolitan area in the United States, according to Rider Levett Bucknall (RLB)'s latest Crane Index.

Bellevue's economy is largely driven by construction and consumer spending due to a large retail presence as well as many car dealerships. With a very low unemployment rate, per capita income growing at a higher pace, and home price growth outpacing the rest of the Puget Sound communities, Bellevue has seen strong revenue growth in the past a few years.

Bellevue home prices have rebounded much faster than the nation or even the rest of King County. Bellevue has now surpassed the home value that was lost in the recession (not adjusted for inflation). The median home value in Bellevue has increased 14.6 percent compared to a year ago and Zillow predicts it will rise 4.7 percent within the next year.¹⁰

⁹ Source: US Bureau of Economic Analysis September 2018 News Release: Gross Domestic Product by Metropolitan Area, 2017

¹⁰ Source: Zillow Research (<http://www.zillow.com/research/>)

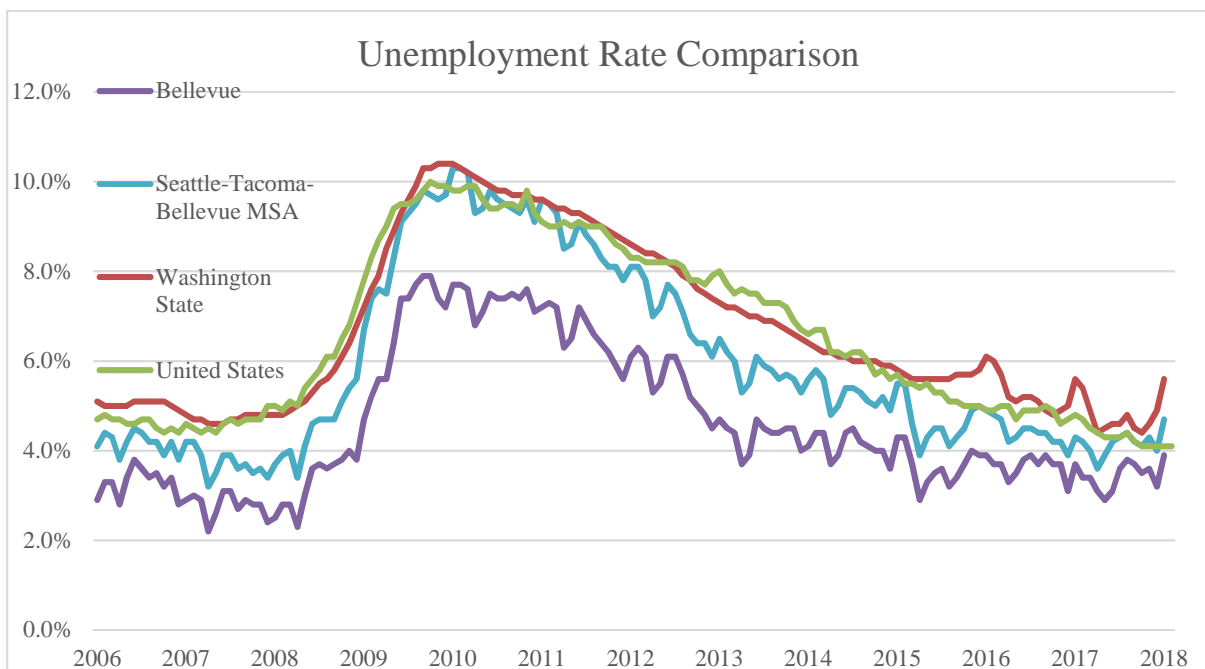
Economic Outlook

Bellevue Economic Indicators Comparing to Other Jurisdictions

	Household Income	Median Home Value	Unemployment Rate (As of July 2018)
United States	\$60,336	\$217,600	4.10%
Washington State	\$70,979	\$339,000	4.60%
Seattle-Tacoma-Bellevue MSA	\$82,133	\$439,800	3.90%
Bellevue	\$121,168	\$791,000	3.20%

Source: US Census Bureau, 2017 American Community Survey 1-Year Estimates

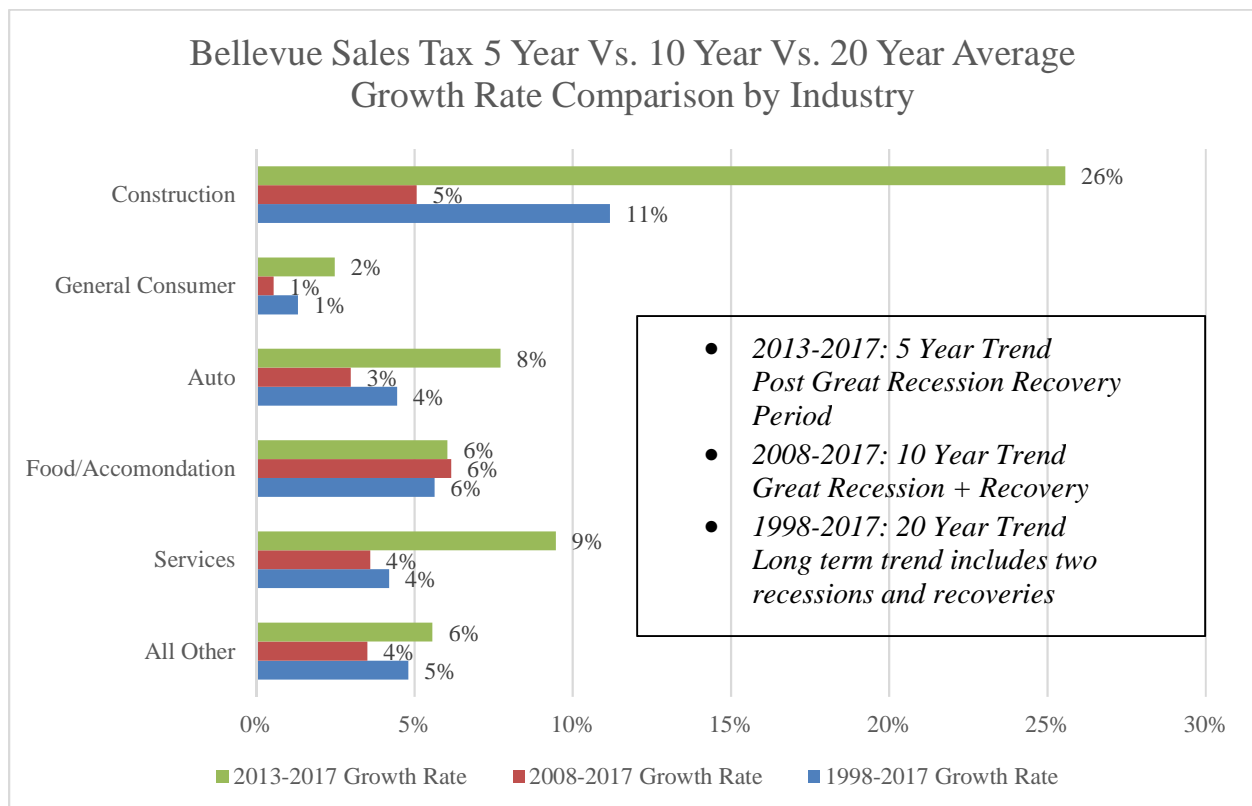
Local employment has grown due to Bellevue being an economic center of the east-central Puget Sound. People from all over the Puget Sound travel to work in Bellevue, and the city has continued to attract new businesses to the point that office space is now very limited. The US unemployment rate is currently 4.1 percent as of July 2018. The unemployment rate in Washington State is 4.6 percent which is higher than the national level. However, Bellevue's unemployment rate is significantly lower than the national rate at 3.2 percent in July 2018. Economists generally believe full employment is considered when unemployment is at 3 percent. Bellevue's average monthly unemployment rate in 2017 was at 3.5 percent which is closer to full employment than the nation as a whole.



Source: U.S. Bureau of Labor Statistics

Economic Outlook

Construction activity is highly volatile and is dependent on several factors, such as the real estate market and the overall health of the economy. However, construction is a one-time activity and eventually it will slow as demand diminishes. The chart below shows the volatility of the construction sales tax by comparing the sales tax by category and by different periods. Total construction growth decreased significantly during the recession (up to 31 percent in a year) and then came back up to a higher than pre-recession growth rate as the economy recovered from the recessions. In the past five years of the post-recession recovery period, it has an annual growth rate of 26 percent which the other sales tax categories grows at a much lower rate. However, if we include the great recession in the analysis, the average annual growth rate reduces to 5 percent. The chart below compares the different categories of sales tax and their average annual growth rate in different economic stages, the growth patterns for different sales tax categories can vary a lot.



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Executive Summary:

- ▼ **Revenues:** *The 2019-2024 General Fund forecast projects strong revenue growth in 2019 and 2020, and modest revenue growth starting in 2020. It includes the following:*
 - Ø *The 2019-2024 forecast includes the proposed use of the councilmanic statutorily allowable one percent annual property tax increase in 2019 and 2020.*
 - Ø *Sales tax growth forecasts continued modest growth through the forecast period, primary influences are:*
 - § *Implementation of the Washington State Marketplace Fairness Act which expands the sales tax base by instituting taxation on out-of-state internet sales. As the compliance rate increases, this portion of sales tax will increase faster than the other sectors of sales tax.*
 - Ø *The early forecast years (2019-2020) reflect construction sales tax revenue for several new major construction projects, with reductions in construction sales tax starting in 2021 as Bellevue predicts a slowdown in the development cycle.*
 - Ø *Business & Occupation (B&O) tax continues to perform well primarily due to increased business activities and audit activity. Without audit revenue, B&O is forecasted to grow by an average of 5.1 percent per year from 2019 to 2024 due to increased business growth in downtown Bellevue and Spring District.*
 - Ø *Sales Tax Annexation Credit will expire in 2022 eliminating \$1 million in revenue.*
 - Ø *Fire inspection fee revenue is assumed in 2020 and beyond to account for the cost to support the bi-annual fire inspections conducted by the Fire Department.*
- ▼ **Expenditures:** *The 2019-2024 general fund forecast continues funding for existing expenditure levels and it includes:*
 - Ø *The costs for opening and staffing of Fire Station (FS)10 in 2021, including new apparatus, ongoing maintenance & operations, and 13 staff, at a cost of ranging \$2.3-3 million annually.*
 - Ø *The 2019-2020 budget includes the “pay as you go” transfer from the General Fund to Law Enforcement Officers and Fire Fighters Plan I (LEOFF I) Medical reserve of approximately \$2.3 million annually.*
 - Ø *Includes a modest assumption for a 0.3 percent growth in total expenditures for an increase in demand for services starting in 2021 based on the continued urbanization of the city. The estimate is based on a 5-year history of cost increases from 2013 to 2017.*
 - Ø *The out year additional cost of maintaining new infrastructure M&O is also included in the forecast for known infrastructure in the pipeline.*
- ▼ **Reserves:** *The 2019-2024 general fund forecast continues to build reserves in the early years to better position the city to address the known events noted above. In later years, the forecast shows a depletion of reserves as expenditures are forecasted to exceed revenues starting in 2021.*
- ▼ **Conclusion:**
 - Ø *Assuming no change in revenues or expenditures, the current forecast shows the general fund continuing to build reserves through 2020 and then will be drawn on to balance the budget in the out years, which is not a long term financially sustainable strategy.*
 - Ø *The forecast shows that by 2023, the projected ending fund balance is forecasted to be less than the 15 percent City Council policy.*
- ▼ **Risks:**

The risks to the general fund revenue includes: The shift to greater online purchases from traditional brick and mortar store, the downturn of construction, the slowdown of auto sales and the risk of recession.

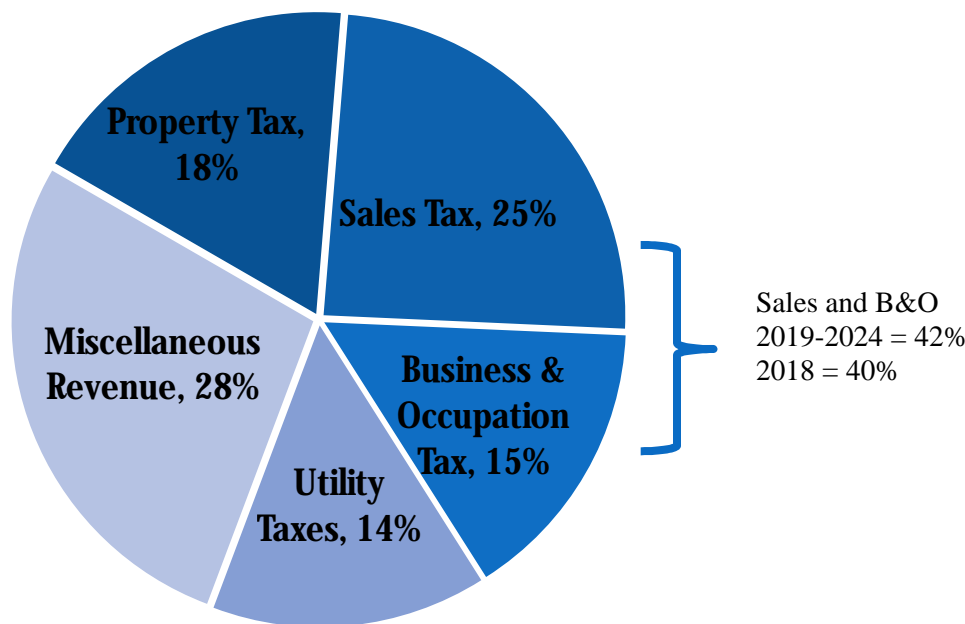
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General Fund Revenue Overview and Revenue Details

Overall, the city's General Fund forecast assumes strong revenue growth in 2019 and 2020, and modest revenue growth starting in 2021, recognizing that the Puget Sound area economy will continue to grow, but at a slower pace than recent years. The city's mix of revenue consists of property tax, sales tax, business and occupation (B&O) tax, utility tax, user fees, state-shared revenue, as well as other smaller revenue sources. These revenue sources fall into essentially five categories: sales tax, B&O tax, property tax, utility tax, and all other revenue.

Chart 1

2018 Proportionate Share of General Fund Revenues



Sales and B&O taxes (most economically volatile revenue streams), combined, comprise an average 42 percent of total General Fund revenue in 2019-2024 (40 percent in 2018 growing to 43 percent in 2024). The increase in proportionate share is due to the faster growth of new marketplace fairness revenue and the combined growth of traditional sales tax and B&O tax base compared to other revenue streams. The proportionate share increase is both positive and negative – positive in that the continued growth is supporting the existing expenditure levels in the city and assisting in building reserves in the near-term, and negative in a greater reliance on these streams has a higher risk to the city during economic downturns.

** The 2019 sales tax forecast includes online sales tax expansion revenue estimated by Washington State Department of Revenue that resulted from the passage of Engrossed House Bill (EHB) 2163 in June 2017 as part of the state budget package.*

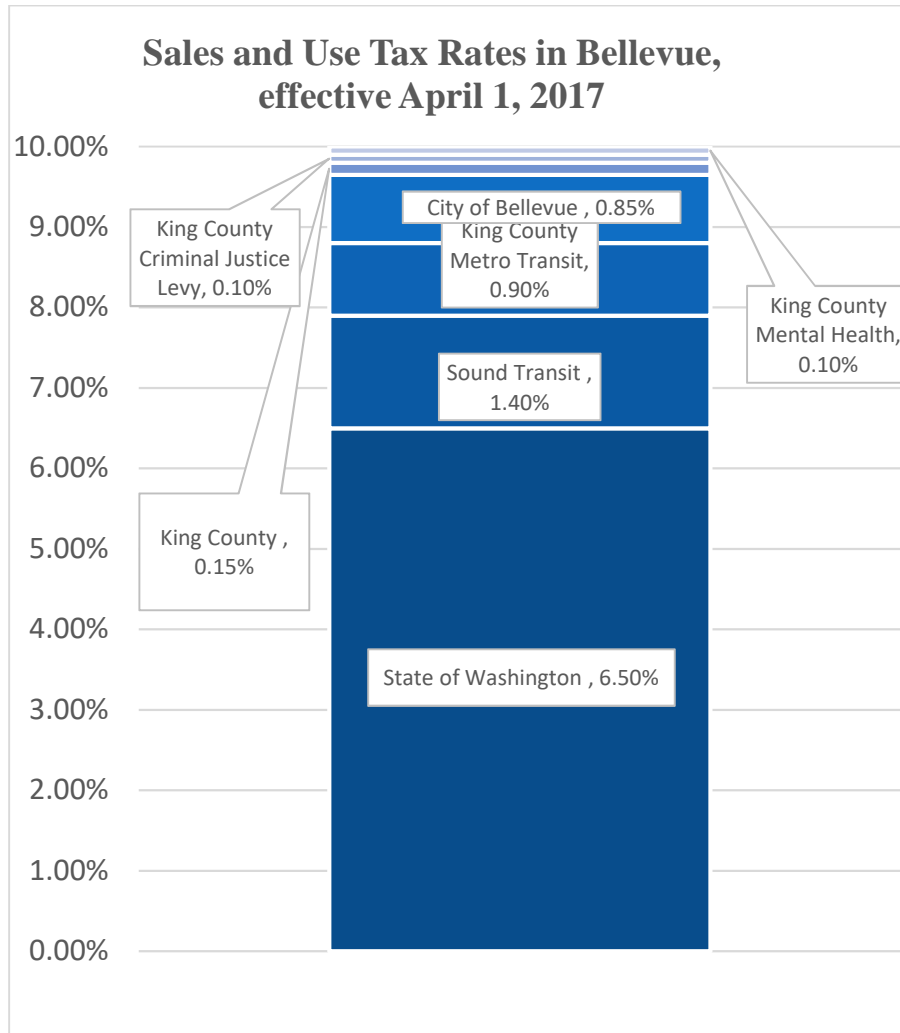
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Sales and Use Tax

Background

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Bellevue. The tax is collected from consumers by businesses that in turn remit the tax revenue to the state. The state sends the city its share of this revenue monthly. The city collects 0.85 percent tax on retail goods and services. Chart 2 shows Bellevue's sales and use tax rate components. Sales tax revenue is the most volatile revenue the city's General Fund collects. During the Great Recession, sales tax collections fell 21 percent from the peak in 2007 to the trough of the recession in 2010. Chart 3 shows the sales tax growth since 2000 and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility.

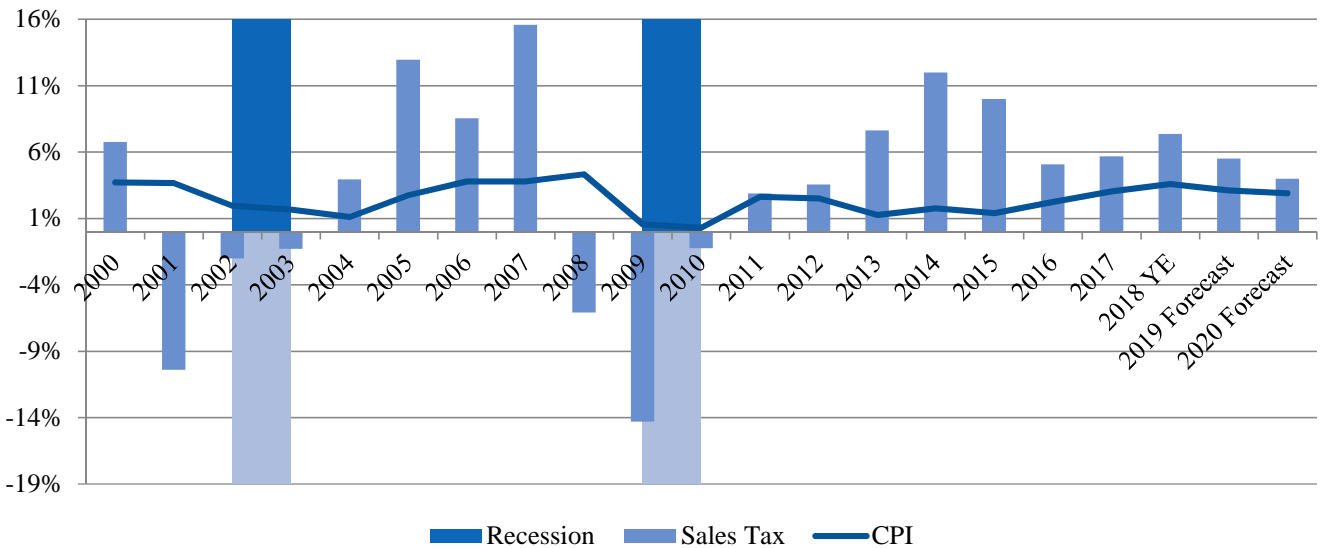
Chart 2



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Chart 3

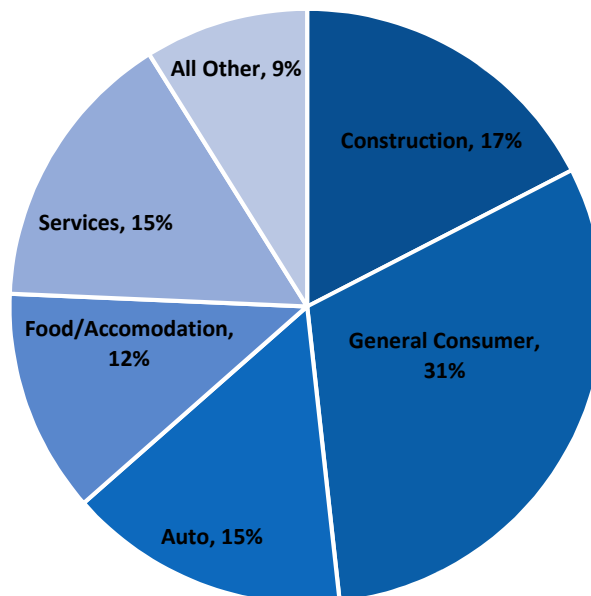
Sales Tax Annual % Increases compared to CPI



Sales tax is reported to the city by sector. The major sectors for Bellevue are construction, retail sales, and auto sales, which together comprised over 64 percent of sales tax revenue in 2017. All other sales tax sectors make up the remaining balance.

Chart 4

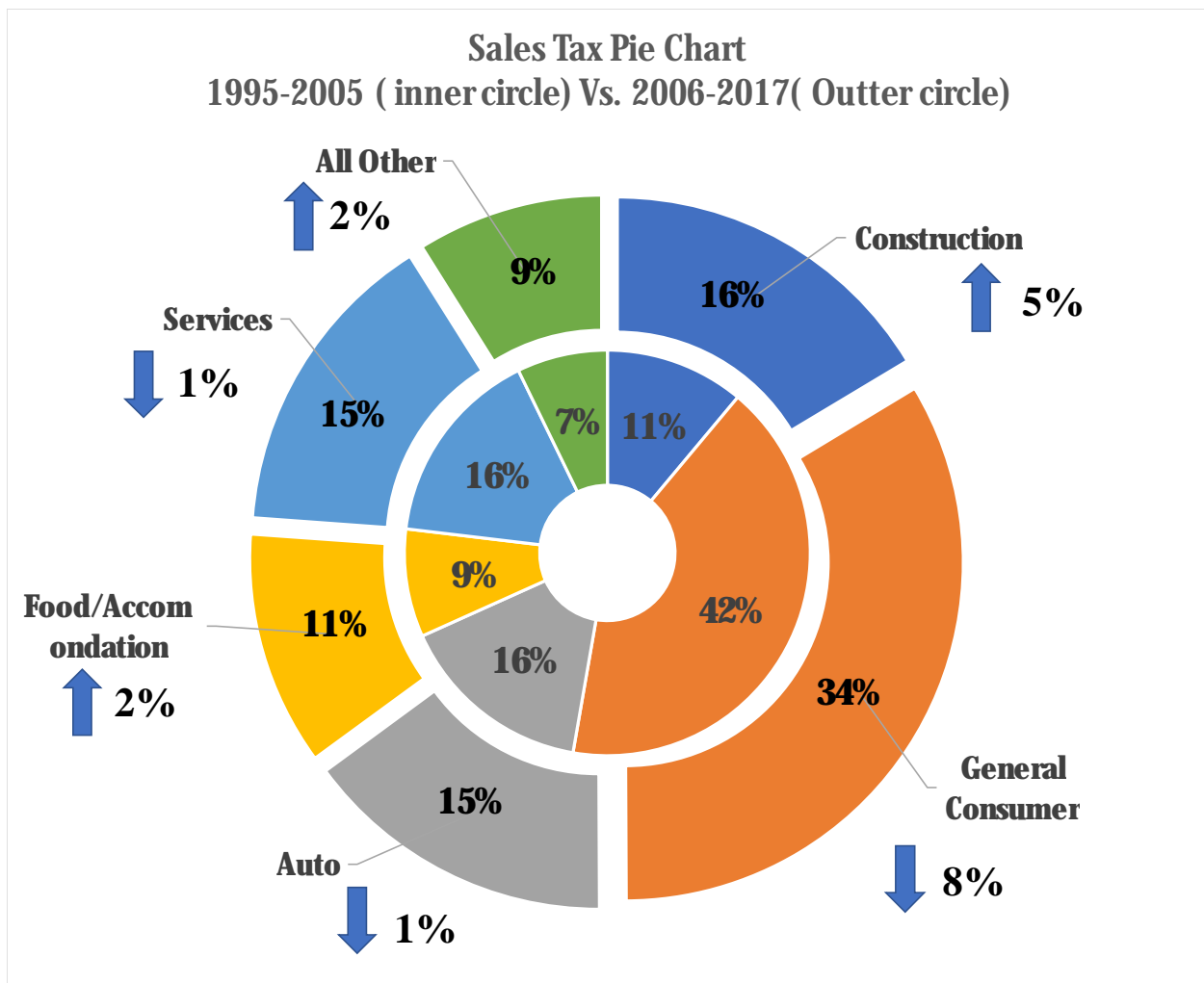
2013-2017 Sales Tax Average Share by Industry



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Total sales tax growth recovered at moderate speed due to the significant construction growth and the consistent recovery of auto and parts sales. However, retail trade growth is recovering at a much slower speed and has not yet recovered to the pre-recession level. This could be due to the growing trend of online shopping as people's shopping habits change. On the other hand, sales tax growth is relying more and more on construction activities in Bellevue. The share of construction sales tax to total sales tax increased from 10 percent in 2012 to 20 percent in 2017. Out of the \$3.6 million sales tax growth from 2016 to 2017, \$1.5 million or 42 percent of the total growth was from construction sales tax.

As shown in the sales tax comparison pie chart below, construction has gain the most sales tax shares and retail sales (General Consumer) has lost the most of its share in recent years.

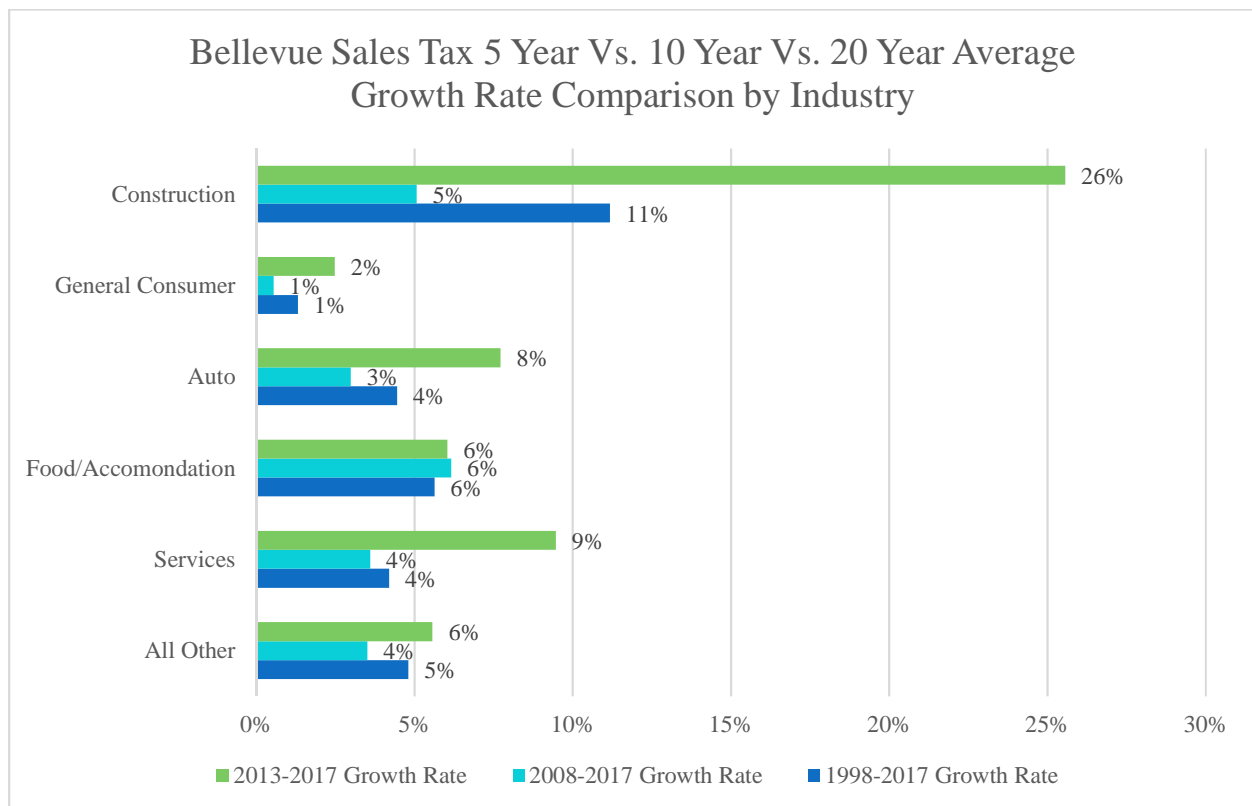


Construction

Construction activity is highly volatile and is dependent on several factors, such as the real estate market and the overall health of the economy. However, construction is a one-time activity and eventually it will slow as demand diminishes. The chart below shows the volatility of the construction sales tax by comparing the sales tax by category and by different periods. Total

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construction growth decreased significantly during the recession (up to 31 percent in a year) and then came back up to a higher than pre-recession growth rate as the economy recovered from the recessions. In the past five years of the post-recession recovery period, it has an annual growth rate of 26 percent which the other sales tax categories grows at a much lower rate. However, if we include the great recession in the analysis, the average annual growth rate reduces to 5 percent. The chart below compares the different categories of sales tax and their average annual growth rate in different economic stages, the growth patterns for different sales tax categories can vary a lot. As shown in the sales tax growth rate comparison chart below, the construction sales tax's share has gone up and down due to the construction/economic cycles, and the largest components of sales tax - general consumer (mostly retail sales) category is continuing to decrease its shares due to a slower growth.

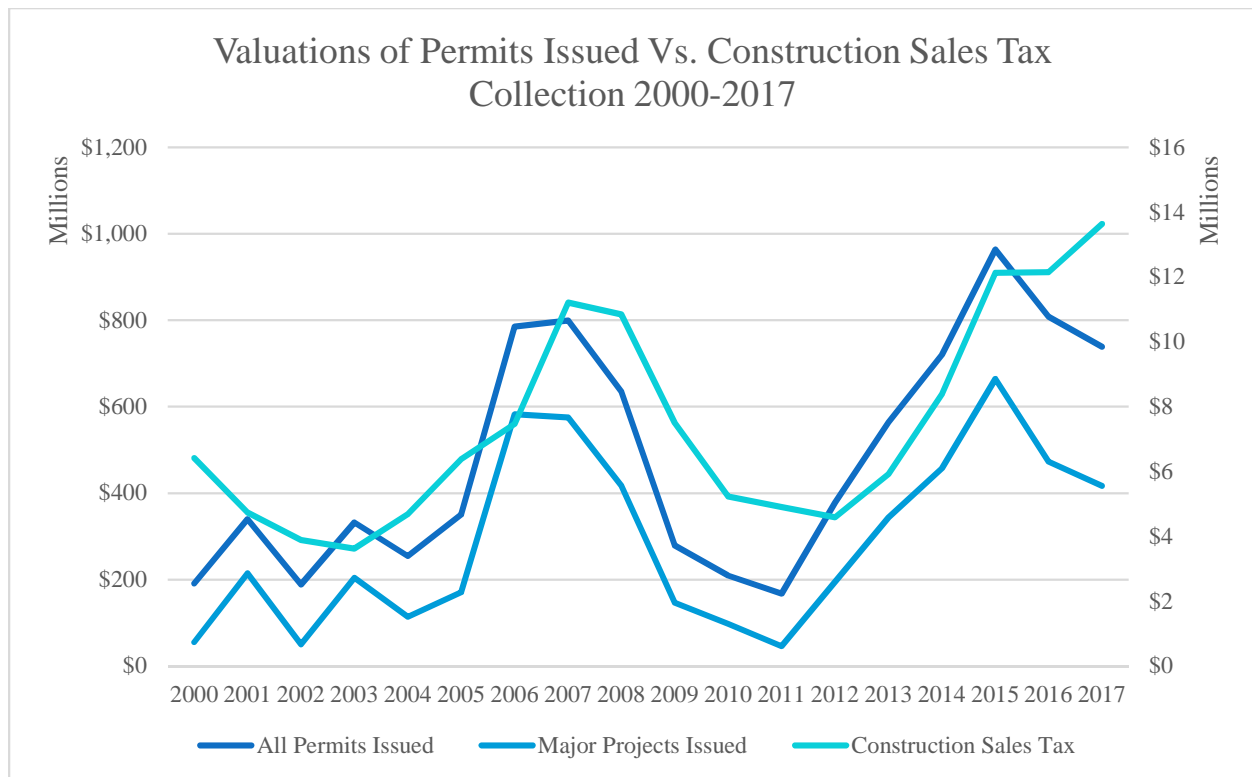


Bellevue's construction activities tend to move with the region's trend, but also have some uniqueness due to the fast growth in the Bel-Red area and downtown. As the construction activities near the peak, other jurisdictions around Bellevue are also watching construction activities very closely.

The 2019-2024 General Fund incorporated the King County's new constructions forecast and Development Services Department's forecast. Several major mixed-use development projects (Summit III, REI Main Campus) are assumed to be under construction in the early years of the forecast. The number of land use design review application activity remains consistent with prior years indicating interest in future development in Bellevue continues, however, the pace of development is anticipated to decline as Bellevue moves through a downturn in the development

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cycle through the forecast years.¹ Bellevue's construction sales tax is projected to flatten and maintain its level in 2019-2020 as the major projects finish their constructions, then decline slowly starting in 2021. These assumptions are in line with the King County and Seattle forecasts. As a rule of thumb, sales tax is received on major construction projects between 9 months and 18 months post permit issuance. The chart below shows the highly correlated relationship of construction sales tax and permit issuance and the time lag.



Retail Sales

Retail sales is a broad category that is comprised of sales tax generated by the sale of both store retailers operate fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers and non-store retailers including electronic shopping and mail-order houses. Personal income, employment rate, consumer spending, and inflation are all highly correlated with retail sales tax revenue. Personal income recovered more quickly than retail sales tax growth from 2009-2015 as consumers saved more than spent during the immediate post-recession. Since 2016, retail sales tax has been growing closer to personal income growth at 4.6 percent for Seattle-Tacoma-Bellevue Metro which indicates a higher level of comfort with spending disposable income. (Source: U. S. Bureau of Economic Analysis)

As the public's spending habits shift from purchases in retail store locations to online stores, the sales tax share for department stores decreased while the electronic shopping category of sales tax increased. However, online sales tax is only 1 to 2 percent of the total tax base. The higher growth rate of online stores per year in the past five years does not make up the decrease in brick and mortar

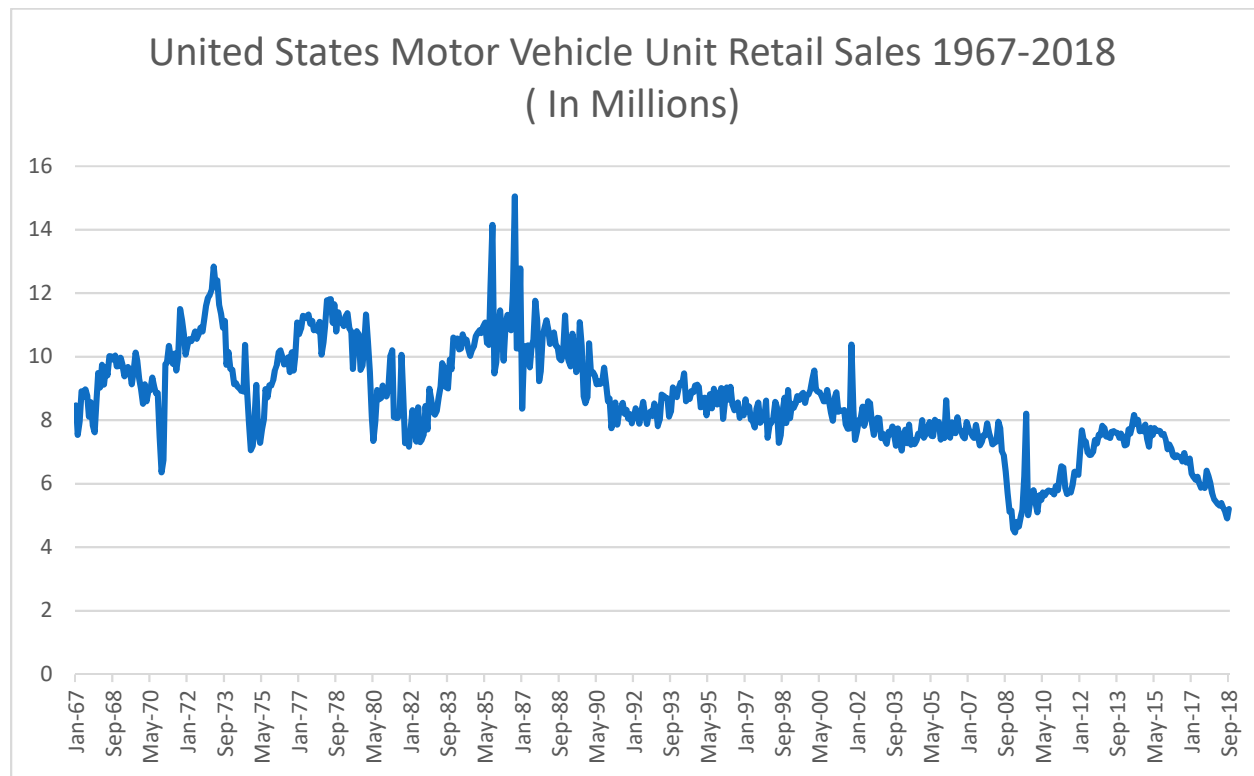
¹ 2019-2024 Financial Forecast Development Services Fund

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stores. This forecast assumed the average annual growth rate of total sales tax excluding marketplace sales tax to be 3.8 percent from 2019 to 2024. Marketplace sales tax grows at a faster pace largely due to more online retailers are expected to comply with the new law and start to collect marketplace sales tax. With marketplace sales tax, the overall sales tax growth rate is forecasted to be 4.4 percent from 2019 to 2024.

Auto Sales

Auto sales is the third largest component of sales tax, accounting for 15 percent of the total sales tax, and is another revenue that is highly volatile considering the 18 percent and 10 percent decreases in 2008 and 2009 respectively. Nationally, the auto sales have been trending down since 2016 after U.S. vehicle sales hit records in 2014 and 2015, and this trend is continuing as of September 2018. (Source: U.S. Bureau of Economic Analysis (BEA))



Bellevue's auto sales had strong growth due to the growth of sales in existing car dealerships from 2014 to 2015, but the growth since 2016 was primarily driven by new car dealerships came into Bellevue. As both King County and Seattle had slow growth or decline (3.5 percent and -2.6 percent) in auto sales in 2017, auto sales in Bellevue is expected to grow at a moderate 5.1 to 3.8 percent from 2019-2023.

Overall Forecast 2019-2024

The forecast incorporates marketplace fairness revenue gains that result from the passage of EHB 2163 in June 2017 as part of the state budget package. EHB 2163 expands the sales tax base by expanding the taxation of out-of-state internet and catalog sales started in January 2018. Expanding the taxation of remote sales will increase the city's total sales tax revenue by \$1.3 million in 2018 (\$0.9 million to the general fund), growing to \$4.6 million in 2024 (\$3.3 million to the general fund),

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estimated by combining DOR's estimation and Bellevue's 2018 year to date sales tax collection. The city budget staff will continue to watch the collections of the new revenue stream and will adjust the forecast if needed, based on actual collections.

Chart 6 below provides a comparison of the city's sales tax forecast to Seattle, King County, and Washington State. Bellevue is showing slightly stronger growth in the near term, and in the long run, Bellevue's forecast is comparable with King County and Washington State. This forecast is based on the best information available at this point in time and, as the forecast extends to the out years, the margin of error increases.

Chart 6

Bellevue Sales Tax Forecast Comparing to Other Jurisdictions

	2018	2019	2020	2021	2022	2023	2024
Washington State	7.50%	6.00%	4.10%	3.60%	3.40%	3.30%	N/A
King County	7.56%	3.43%	1.86%	3.59%	4.14%	3.26%	4.10%
Seattle	8.70%	3.50%	2.00%	2.10%	3.10%	N/A	N/A
Bellevue	7.35%	5.49%	3.98%	4.06%	3.38%	4.32%	4.94%

Note: All growth rates include marketplace sales tax.

*Bellevue sales tax displayed above are general fund sales tax growth rates, which will be different with total citywide sales tax growth rate due to the split to other funds.

*Seattle sales tax growth rate is from Seattle's 2019-2020 Prelim Budget Book.

*King County sales tax growth rates from King County August 2018 Forecast by King County Office of Economic and Financial Analysis.

* Washington State June 2018 Revenue forecast by Economic and Revenue Forecast Council

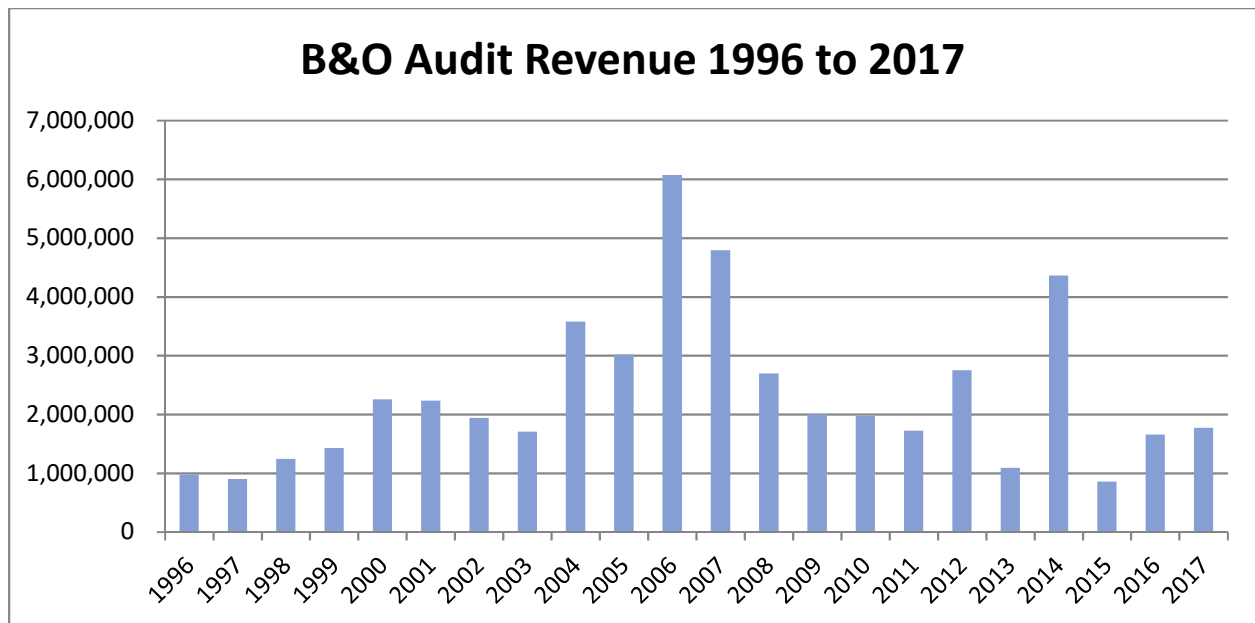
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Business & Occupation Tax

Business and occupation (B&O) tax is made up of two parts, gross receipts and square footage taxes. This revenue, like sales tax, is subject to volatility brought on by economic risk. During the recession, B&O tax collections fell 20 percent from the peak. Over the last 10 years, B&O tax accounted for 14 percent of the city's General Fund revenue. B&O tax returned to pre-recessionary levels in 2014. The forecast assumes average annual B&O tax growth of 5.1 percent from 2019-2024.

The city continually monitors the B&O tax base as well as audit findings that may require either a refund to the taxpayer or an additional payment to the city. Audit revenue (Chart 7) is highly volatile and has ranged from several hundred thousand dollars to nearly \$4.4 million. The 2019-2024 forecast assumes \$1.5 million in audit recoveries annually.

Chart 7



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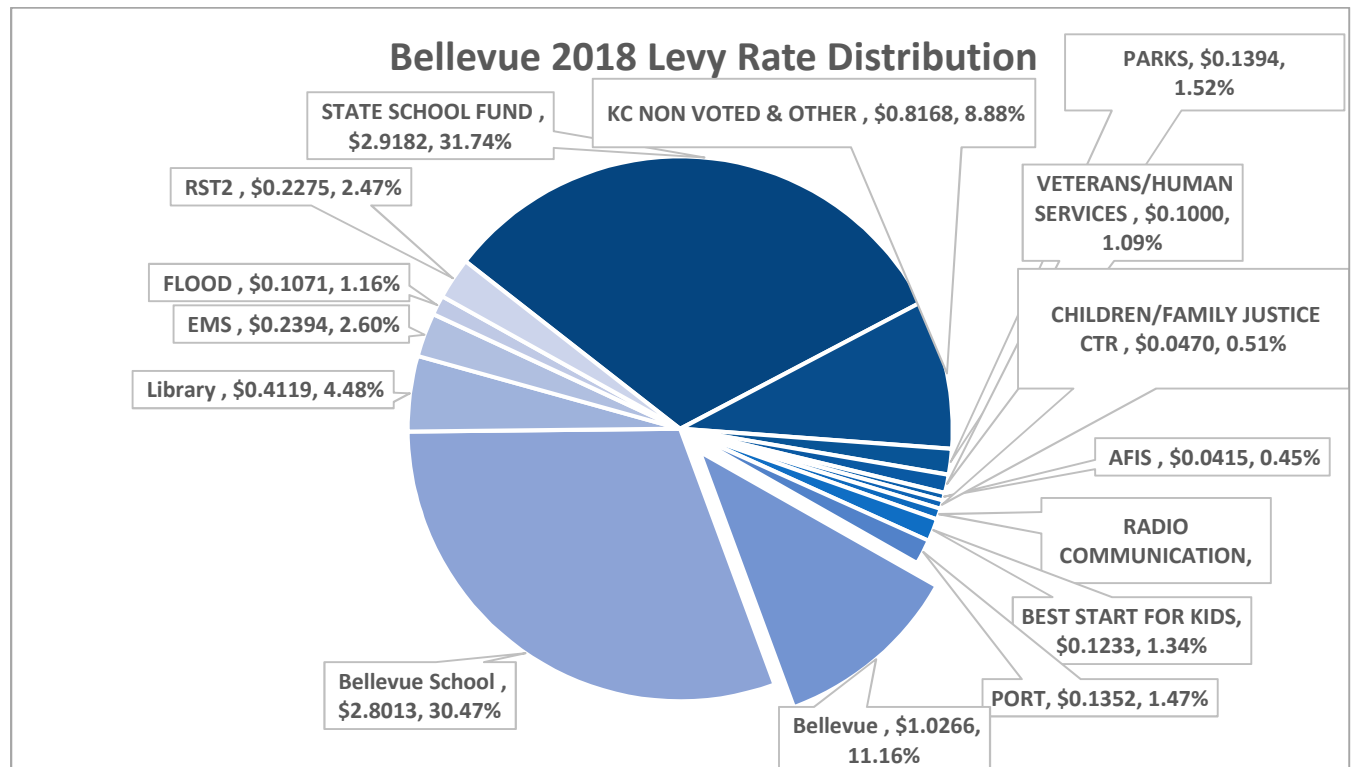
General Property Tax

Property tax is applied to the assessed value (AV) of all taxable real and personal property located within the city, with several exceptions such as public structures (government buildings, roads, etc.), property owned by several types of non-profit organizations, personal property (up to a specified dollar value), and others.

Under Initiative 747, the regular levy can grow at a maximum of 1 percent annually or the rate of inflation, whichever is less plus additions for new construction, changes in the value of state-assessed utility property and newly annexed property (referred to as “add-ons”). Inflation is defined as the increase in the implicit price deflator (IPD).

Bellevue’s property tax rate is one of the lowest in King County. The city’s 2018 property tax rate at \$1.03 per \$1,000 AV was roughly 11 percent of the most common total \$9.19 rate paid by Bellevue property owners for all taxing jurisdictions such as King County, Washington State, and school districts. The 2018 property tax total and City of Bellevue tax obligations for a home of median assessed value (\$791,000) in Bellevue is \$7,073 and \$812 respectively. Chart 7 shows the destinations of a typical Bellevue property owner’s property tax in 2018.

Chart 8



This forecast assumes a one percent statutorily available property tax increase in both 2019 and 2020. Bellevue currently has \$9.06 million in banked capacity available.

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Utility Tax

Utility tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. The utility tax's share to total general fund revenue decreased from 17 percent to 14 percent from 2013 to 2017 and is projected to decrease to around 13 percent from 2019 to 2024.

- In the last few years, electric and natural gas utility tax collections have flattened out due to mild weather patterns.
- Telephone and cellular phone taxes have been on the decline and are expected to decline further due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service. Water and sewer utility tax have increased in the past three years due to longer and hotter summers, the forecast assumes mild increases for water and sewer utility taxes.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including excise taxes, sales tax annexation credit, penalty/interest delinquent tax, licenses and permits, intergovernmental – state and other cities, charges for goods and services, fines/forfeits, and other miscellaneous taxes and revenues. Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire, Emergency Management Services, etc.).

State funding, sometimes referred to as State-Shared Funds, consists of distribution from state taxes such as the liquor excise tax, liquor board profits, motor vehicle fuel tax, and marijuana excise tax. These revenues have been affected by state budget changes in the past and could be affected in future state budgets.

Liquor Excise Tax

A portion of the basic spirits sales tax on sales to consumers and restaurants are shared with eligible counties, cities and/or towns. "Spirits" are any beverage which contain alcohol obtained by distillation, except flavored malt beverages, but including wines exceeding 24 percent of alcohol by volume. Based on the budget suggestions published by the Municipal Research and Services Center (MRSC), the per capita rate for city distributions in 2019 is estimated to be \$5.14, multiplied by the city's 2018 population of 144,560 estimated by the Office of Financial Management (OFM), or \$743,000 in 2019.

Liquor Board Profits

Liquor board profits consist of the difference between revenue generated by the Washington State Liquor Control Board and the board's expenditures, and a portion of these liquor profits goes to cities, counties, and border jurisdictions. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2019 is estimated to be \$8.02, multiplied by the city's 2018 population, or \$1.18 million in 2019.

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Motor Vehicle Fuel Tax (MVFT)

Washington State shares fuel tax with local jurisdictions on a per capita basis. Fuel taxes in Washington are assessed as cents per gallon. Fuel tax revenue depends on the number of gallons sold, not the dollar value of the sales. Counties, cities, and towns receive a share of the multi-modal funds and the increase in fuel tax because of Second Engrossed Substitute Senate Bill 5987. The legislation provided for direct distributions to be phased in over the 2015-17 and 2017-19 biennium. The result is a combined annual distribution to counties, cities, and towns, starting with the state fiscal year 2019. These direct transfers are split equally between cities and counties, with the distribution to cities based on population. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2019 is estimated to be \$21.93, multiplied by the city's 2018 population, or \$3.2 million in 2019. The MVFT revenue is split equally between general fund and CIP (\$1.6 million).

Marijuana Excise Tax

The state distributes a portion of the marijuana excise taxes to the Liquor and Cannabis Board (LCB) and various state agencies and programs on a quarterly basis. Marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. Only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. The state distributes 30 percent of the total marijuana excise tax to cities and counties with a cap at \$15 million in 2019 and then \$20 million each year thereafter; 70 percent of the distribution will be on a per capita basis with 60 percent going to counties, and the remaining 30 percent will be based on the proportional share of the total marijuana revenues generated. Based on the budget suggestions published by MRSC, the per capita rate for city distributions in 2019 is estimated to be \$1.16, plus another 30 percent based on the marijuana sales in Bellevue. The city is projecting to receive around \$242,000 in 2019.

2019-2024 Forecast Executive Summary

General Fund Expenditure Overview

Urbanization

The 2019-2024 General Fund forecast continues funding for existing expenditure levels. Starting with the 2018 Mid-Biennium, the city's forecast includes a modest assumption of 0.3 percent growth in total expenditures for an increase in demand for services based on the continued urbanization of the city. Based on a 5-year history of cost increases from 2013 to 2017, the forecast now includes a modest 0.3 percent growth in total expenditures (\$678,000 in 2021) continuing and growing annually to 2024.

Fire Station 10

The forecast assumes new costs for the opening and staffing of fire station 10 including new apparatus and 13 staff starting in 2021. The chart below breaks down the best estimate today for total cost of fire station 10 by year for the forecasting period. Since fire station 10 will not open until 2022, staff has assumed a contingency of 25 percent of non-personnel costs. As final design is developed, these costs will be reviewed and updated.

Fire Station 10 Expenditure Impact Estimation as of September 2018:				
(In \$000s)	2021	2022	2023	2024
Personnel (1 captain, 2 lieutenants, 3 engineers, and 7 firefighters)	\$525	\$2,163	\$2,233	\$2,313
Apparatus	894			
All other costs (including 25% contingency on non-personnel costs)	952	660	677	694
Fire Station 10 Expenditure impact	\$2,372	\$2,823	\$2,911	\$3,007

Inflation

Inflation is estimated by King County Office of Economic and Financial Analysis in June 2018 as follows:

2020	2021	2022	2023	2024
3.1%	2.9%	2.5%	2.4%	2.4%

Capital Investment Program Maintenance and Operations (CIP M&O)

While major maintenance and renovation projects are contained within the CIP, minor maintenance is funded with operating funds. The city has a policy that addresses funding for minor maintenance on existing infrastructure. As the city builds new infrastructure, there are limited mechanisms to ensure additional maintenance and operations funding for new facilities. Over time, this places increasing pressure on the operating budget. In the 2019 to 2024 General Fund forecast, an additional CIP M&O of \$482,000 in 2019 (grows to \$495,000 in 2020) is included in the M&O expenditure line for projects that are expected to complete in 2018 and 2020. The actual cost could vary depending on the actual completion date and maintenance cost. The estimated incremental CIP M&O from 2021 to 2024 is also included in the forecast.

In 000s	2021	2022	2023	2024
New Infrastructure M&O	\$379	\$319	\$344	\$351

2019-2024 Forecast Executive Summary

LEOFF1

The Law Enforcement Officers and Firefighters Plan 1 (LEOFF 1) medical reserve, which set aside funding to pay for the city's liability, will be fully depleted in 2019. The city will begin to pay for its liability as a "pay as you go" option, increasing the city's General Fund exposure by an estimated \$2.3 million annually. This increase is included in the 2019-2020 budget and continues for the forecasted period.

Other

The 2019-2020 budget also includes employer impact to the General Fund of \$200,000 per year starting in 2019 for Senate Bill 5975 - Paid Family and Medical Leave.

General Fund Forecast

The General Fund forecast is projecting revenues to exceed expenditures in the near term (2019-2020); the out-year forecast reflects the reverse. The 2019-2024 forecast includes the proposed use of the councilmanic statutorily allowable 1 percent annual property tax increase in 2019 and 2020. Major tax components such as sales tax, business and occupation tax, or utility taxes are as forecasted in the sections above. Expenditures are forecasted as noted in the expenditure section above.

As displayed in Chart 9 on the following page, the city's ending fund balance is forecasted be below 15 percent by 2023. The council financial policies adopt a 15 percent minimum fund balance requirement.

As with all forecasts, this is a best estimate of the future, representing the collection of all fiscal information known as of March 2018. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/ October (as related to the Preliminary Budget or Mid-Biennium Update before the council).

Conclusion

Assuming no change in revenues or expenditures, the current forecast shows the general fund continuing to build reserves through 2020 and then will be drawn on to balance the budget in the out years, which is not a long term financially sustainable strategy. The forecast shows that by 2023, the projected ending fund balance is forecasted to be less than the 15 percent City Council policy.

Risks

The risks to the economically sensitive revenues such as Sales Tax, B&O Tax, Utility Tax, Property Tax, state shared revenue, and some of the miscellaneous revenues include:

- Shift to greater online purchases from traditional brick and mortar stores,
- Construction Downturn
- Slowdown of auto sales
- Recession Risk
- New construction slow down

2019-2024 Forecast Executive Summary

- Declining cell phone tax
- Water taxes decrease due to weather patterns
- Electric taxes decrease due to weather patterns
- Legislative changes to shared revenue from the state

2019-2024 General Fund Financial Forecast

Chart 9
October 2018 for 19/20 Budget General Fund Forecast
(in \$000)

	Submitted 2019	Submitted 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024
Beginning Fund Balance	\$47,050	\$48,755	\$49,880	\$46,903	\$40,747	\$32,810
Revenue						
Property Tax	\$37,948	\$39,163	\$39,852	\$40,532	\$41,210	\$41,904
Sales Tax	55,195	57,956	60,342	62,908	65,650	68,922
Business & Occupation Tax	33,181	35,143	36,932	38,654	40,428	42,397
Utility Taxes	29,271	29,678	30,213	30,863	31,535	32,236
Miscellaneous Revenue	54,091	56,872	58,639	59,272	60,953	62,727
Total Revenue	\$209,686	\$218,812	\$225,979	\$232,229	\$239,777	\$248,185
%Δ Total Revenue		4.4%	3.3%	2.8%	3.3%	3.5%
Expenditures						
Personnel	\$125,292	\$131,760	\$137,731	\$145,132	\$151,207	\$157,543
Maintenance & Operations	82,689	85,926	91,225	93,253	96,507	99,854
Total Expenditures	\$207,981	\$217,687	\$228,956	\$238,384	\$247,714	\$257,398
%Δ Total Expenditures		4.7%	5.2%	4.1%	3.9%	3.9%
Revenue Less Expenses	\$1,705	\$1,125	(\$2,977)	(\$6,156)	(\$7,937)	(\$9,212)
Ending Fund Balance	\$48,755	\$49,880	\$46,903	\$40,747	\$32,810	\$23,597
EFB as a % of Revenue	23.3%	22.8%	20.8%	17.5%	13.7%	9.5%

- Beginning Fund Balance in 2019 is as estimated in the 2nd Quarter General Fund Monitoring Report.
- This forecast includes the Sales Tax Marketplace Fairness, Fire Station 10, and New Infrastructure M&O impacts.

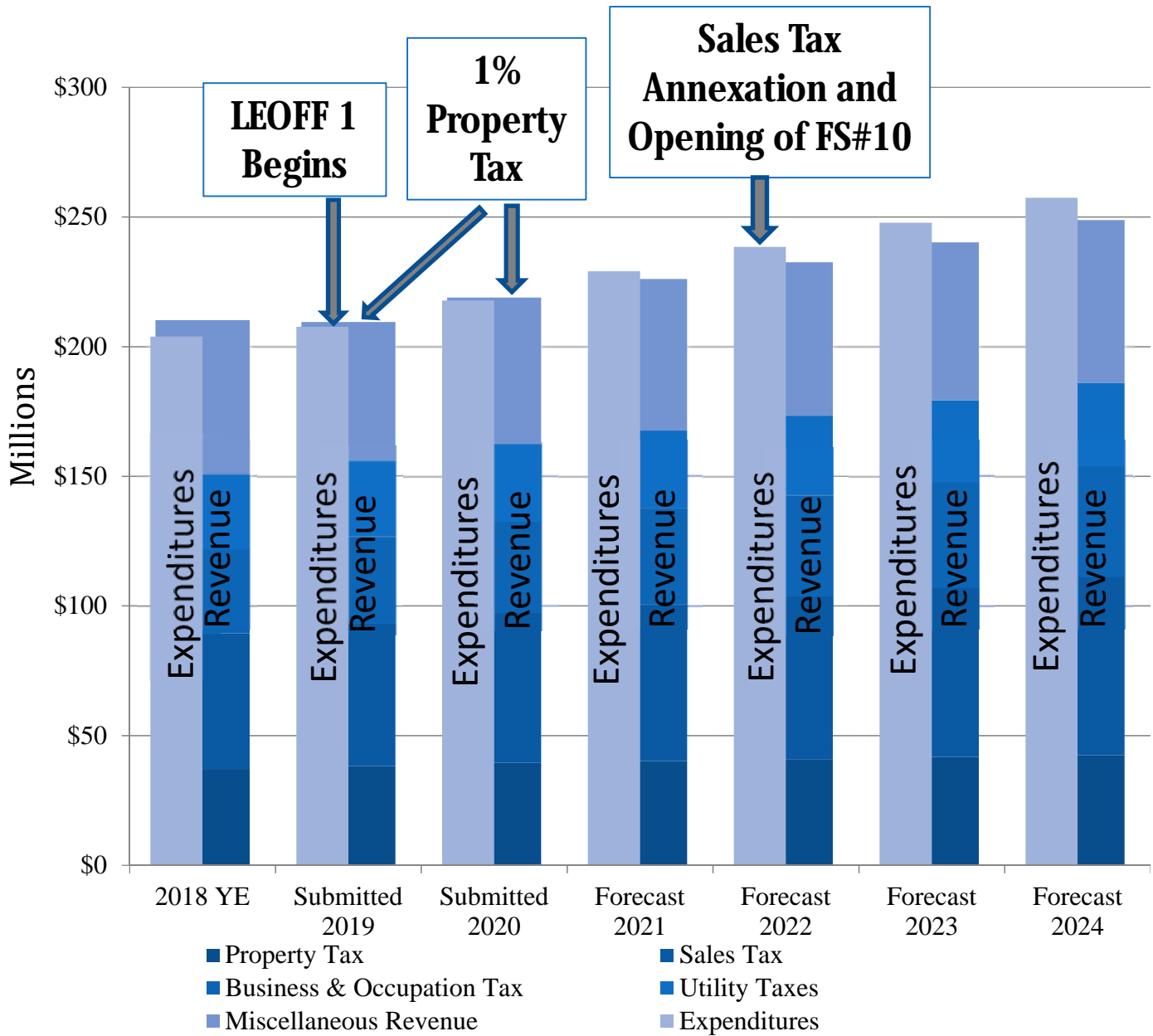
Sales Tax Marketplace Revenue	\$1,968	\$2,340	\$2,585	\$2,818	\$3,071	\$3,348
Fire Station 10 Expenditures			\$2,372	\$2,823	\$2,911	\$3,007
New Infrastructure M&O			\$379	\$319	\$344	\$351

- This forecast assumes a net zero impact for ACA, we are watching national events for further information.
- LEOFF 1 Medical "Pay as You Go" \$2.3million/year, contained within M&O Expense Line.
- Annexation Sales Tax mitigation of approximately \$1m/year within Miscellaneous Revenue expires in 2022.
- Assumes several new major projects finish and maintain the current level of construction sales tax through 2020, decrease in 2021 based on King County's August 2018 new construction forecast, Development Services Revenue forecast and 2018 Q3 snapshot report.
- 2019 CPI-W is 3.6 percent as released by the Bureau of Labor Statistics on July 12, 2018.
- Assumes 2020-2024 CPI growth by King county's June 2018 Index forecast (2.4 percent -3.1 percent)
- Assumed Fire inspection fee revenue starting in 2020.
- Due to accounting process change, general fund revenue now excludes labor distribution revenue; it is reflected as a negative expenditure.
- Includes an urbanization factor of 0.3 percent of the total expenditure (~\$700,000) starting in 2021.

2019-2024 General Fund Financial Forecast

Chart 10

General Fund Revenue versus Expenditures



2019-2024 Financial Forecast Development Services Fund

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2019-2024 forecast reflects a high level of development activity in the early years as several major projects are in review and construction phases of the development cycle. To meet the workload demand for the major projects along with the East Link project and city projects, Development Services costs maintain existing staffing levels through the early years of the forecast.
- In subsequent years, development activity is anticipated to return to a more moderate level.

Background

Development activity responding to the demand for office, retail and housing continues in the early forecast years, however, is expected to decline through the forecast period when several large and mixed-use developments move from plan review to construction. Examples are Summit III, Spring District Residential and the REI Campus. Residential development is the most active segment with apartment, townhomes and condominium projects under construction in all growth areas of the city. Additional projects of note are construction of Bellevue College Student Success Center and new schools.

Sound Transit's East Link light rail project is under construction along the entire alignment generating demand for both review and inspection services. The light rail project is anticipated to spur long-term commercial and residential Transit Oriented Development near light rails stations.

Single family applications are anticipated to remain steady in the early forecast period spurred on by continued low interest rates and low inventory. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the value of projects represented by the applications.

The timing of construction for these projects will play a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of the East Link construction. The existing staffing level and related costs are anticipated to continue through the early forecast years as necessary to meet forecast workload.



2019-2024 Financial Forecast Development Services Fund

2019-2024 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q2 2018 was 4.8%, as several new office buildings were leased prior to completion keeping the vacancy rate low. Construction of additional office buildings during this development cycle is anticipated in response to low vacancy.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to be up slightly from the prior year as interest continues for new major projects, single family residences, single family alterations, and tenant improvements. Construction investment for major projects is a significant driver in the forecast and is anticipated to stay high in the early years, with an expected decline in the latter years of the forecast.

The number of land use design review application activity remains consistent with prior years indicating interest in future development in Bellevue continues, however, the pace of development is anticipated to decline as Bellevue moves through a downturn in the development cycle through the forecast years.

Because of the variables, the early forecast years reflect revenue collections for several new major projects, with reductions in revenue collections through the latter years.

Development Services Fund 2019-2024 Financial Forecast (in \$000)						
	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	\$23,700	\$22,689	\$20,905	\$17,418	\$14,663	\$13,897
Resources:						
Building Fees	\$12,123	\$11,692	\$11,031	\$10,160	\$9,941	\$10,209
Land Use Fees	\$2,303	\$2,236	\$2,191	\$2,182	\$2,496	\$2,564
Fire, Transp. & Utilities Fees	\$7,488	\$7,796	\$7,571	\$7,459	\$7,548	\$7,752
sub: Development Services	\$21,914	\$21,725	\$20,793	\$19,801	\$19,985	\$20,525
Gen Fund Subsidy	\$4,857	\$4,989	\$4,797	\$4,703	\$4,593	\$4,703
Other Revenue/Interest	\$350	\$385	\$327	\$331	\$324	\$333
Total Resources	\$27,120	\$27,099	\$25,917	\$24,835	\$24,902	\$25,561
Expenditures:						
Building	\$10,589	\$11,000	\$11,319	\$10,337	\$10,368	\$10,419
Land Use	\$3,315	\$3,459	\$3,559	\$3,390	\$3,368	\$3,401
Fire, Transp. & Utilities Dev Svcs	\$6,127	\$6,127	\$6,304	\$6,004	\$5,543	\$5,599
Code Compliance	\$2,160	\$2,246	\$2,311	\$2,201	\$1,361	\$1,375
Administrative/Shared Costs	\$5,223	\$5,446	\$5,604	\$5,337	\$4,700	\$4,747
Technology Initiatives	\$718	\$606	\$306	\$321	\$329	\$332
Total Expenditures	\$28,131	\$28,884	\$29,403	\$27,590	\$25,669	\$25,873
Ending Fund Balance	\$22,689	\$20,905	\$17,418	\$14,663	\$13,897	\$13,584

2019-2024 Financial Forecast Development Services Fund

Forecast Drivers and Assumptions

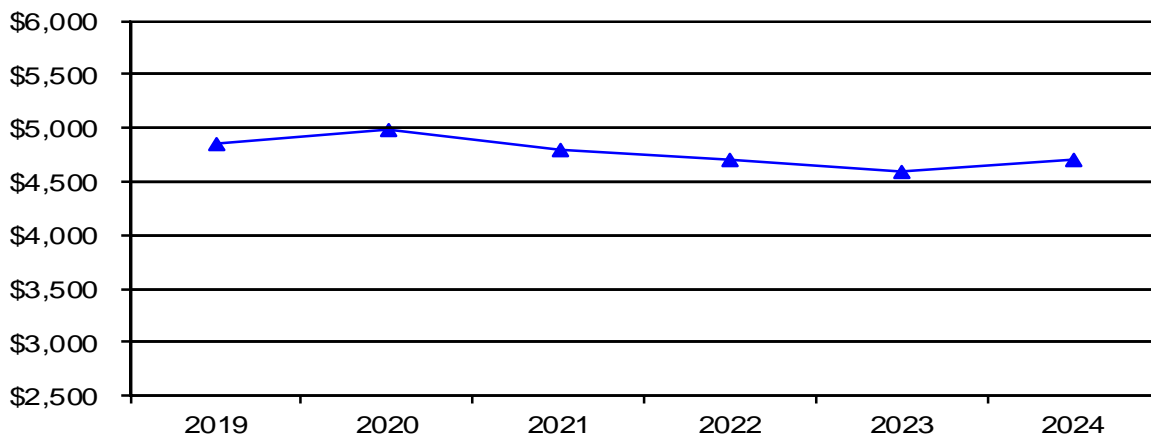
1. Several major mixed-use development projects (Summit III, REI Main Campus) are assumed to be under construction in the early years of the forecast. School projects expected to be under construction include Bellevue College Student Success Center and Highland Middle School. Residential development continues with construction of several apartment and townhome projects. Of note is the Bosa One88 condominium tower, the first downtown condominium project since 2009.
2. New project activity continues as several in the review process (such as Holiday Inn Express, Lario Townhomes, NE 10th Residential and Bellevue Parkside) are expected to complete construction in early forecast years. Permit activity for tenant improvements of new office buildings will also continue in the early forecast years. In later forecast years, interest in major projects, new single-family homes and existing remodels is anticipated to decline.
3. The forecast reflects staffing levels anticipated to meet the demands of the construction activity as well as the East Link project. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload, maintain service levels, and maintain budget alignment.
4. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by the council. This forecast assumes that rates will grow at levels near the average rate of inflation.
5. Council amended the Eastgate Land Use Code increasing development density along the I-90 corridor. Interest in Eastgate development is anticipated in the forecast years.
6. The updated Downtown Land Use Code (Downtown Livability Initiative) aligns with the updated Subarea Plan and changes that have occurred in the evolution of Downtown including the addition of light rail. The completion of the Eastgate/I-90 Corridor and Downtown code updates set the path for future growth in Bellevue.

General Fund Subsidy

2019-2024 Financial Forecast Development Services Fund

The General Fund contribution to the Development Services Fund accounts for approximately 2% of the General Fund budget. This contribution (subsidy) supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, code and policy development, and approximately 50% of Land Use discretionary review.

**General Fund Subsidy Forecast 2019-2024
(\$ in Thousands)**



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period as policy and code update work continues. In later years, the contribution is expected to decrease, consistent with projections for cost savings due to anticipated decline in development activity.

2019-2024 Financial Forecast Development Services Fund

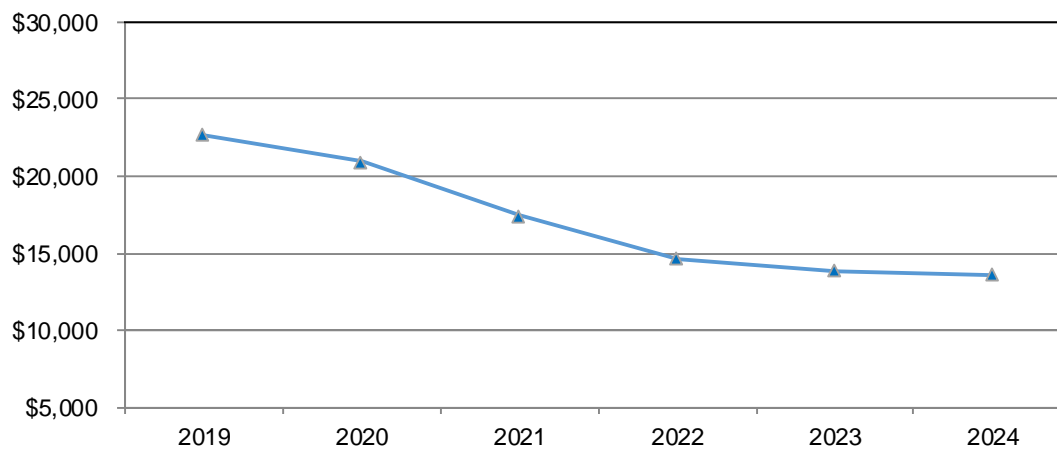
Development Services Fund Reserves

The Development Services Fund includes prepaid fees and reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund reserves are approximately \$23.4 million through 2017, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level declines through the forecast years as reserves are drawn upon to maintain sufficient staff to complete the review and inspection of projects in construction and continue process improvement work.

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.

Development Services Fund Balance Forecast 2019-2024
(\$ in Thousands)





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2019-2024 Financial Forecast Parks Enterprise Fund

Executive Summary:

- The Parks Enterprise Fund forecast assumes that user fee revenue can continue to recover program expenditures over the forecast period.
- The Parks Enterprise Fund continues to meet reserve requirements and fund capital improvements at the golf course.

Background

The Parks Enterprise Fund accounts for the services provided by the Enterprise Program within the Parks & Community Services Department. These services include golf, tennis, aquatics, adult sports, and facility rentals. Enterprise Programs are fully supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves will be managed within the targeted level of 2-months operating expenses, ranging between \$1.1M and \$1.2M over the forecast period. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP Plan No. P-R-02), including capital projects at the Bellevue Golf Course to enhance player services and the financial performance of the course.



2019-2024 Financial Forecast Parks Enterprise Fund

Parks Enterprise Fund 2019-2024 Financial Forecast (In \$000)

	2018 Estimate	2019 Budget	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Resources:							
Beginning Fund Balance	\$924	\$1,113	\$1,167	\$1,189	\$1,204	\$1,231	\$1,243
Program Revenue	6,448	6,422	6,601	6,799	7,003	7,178	7,358
General Fund Subsidy	0	0	0	0	0	0	0
Total Resources	\$7,372	\$7,535	\$7,768	\$7,988	\$8,207	\$8,410	\$8,601

	2018 Estimate	2019 Budget	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Expenditures:							
Personnel	\$1,981	\$2,057	\$2,153	\$2,241	\$2,327	\$2,413	\$2,502
M&O	2,920	3,005	3,087	3,170	3,246	3,321	3,400
Interfund Transfer	1,259	1,206	1,239	1,273	1,303	1,333	1,365
Capital Transfer	100	100	100	100	100	100	100
Total Expenditures	\$6,259	\$6,368	\$6,579	\$6,784	\$6,976	\$7,167	\$7,368

Reserves:							
Ending Fund Balance	\$1,113	\$1,167	\$1,189	\$1,204	\$1,231	\$1,243	\$1,233

Note: Columns may not foot due to rounding.

2019-2024 Preliminary Financial Forecast Utilities Funds

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

The Utilities Department operates as an enterprise within the city structure and functions much like a private business entity.

- This forecast supports a prudent, balanced, and responsible budget to maintain high-quality utility service delivery to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.*
- The Department does not receive any General Fund funding and relies primarily on rates to fund its operating and capital programs.*
- The proposed rates presented herein are designed to generate sufficient revenues to fund the proposed Utilities 2019-2020 budget, includes funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and the long-term infrastructure Renewal and Replacement (R&R) requirements.*
- The proposed rates are lower than those presented in the Early Outlook forecast and reflect updated utility cost projections.*

The Utilities Department faces the following key challenges and constraints in the 2019-2020 biennium:

1. Challenges

- Aging capital infrastructure. Utilities operates a highly capital-intensive business, and the Department's ability to deliver quality services to its customers is dependent on the ability of each system to function on demand, every day of the year.
- Supporting economic growth. Additional infrastructure is needed to support development and economic growth.
- Operational efficiency. We are mindful of the need to operate efficiently and continually evaluate business processes to seek opportunities to effectively deliver services in a more cost-effective manner.

2. Constraints

- External financial obligations. Over half of Utilities' operating costs represent legal and contractual financial obligations, including wholesale cost payments for water supply and wastewater treatment, tax payments to the state and cities, and support service charges from the General Fund.
- Legal mandates. Utilities must comply with state and federal mandates, such as the National Pollution Discharge Elimination System (NPDES) Municipal Storm Water Permit, to protect drinking water and surface water quality.

2019-2024 Preliminary Financial Forecast Utilities Funds

Within this context, the proposed 2019-2020 Utilities budget is prepared with the following guiding principles:

1. Compliance with Council-approved financial policies. The Waterworks Utility Financial Policies serve as the foundation for the development of the Utilities Department budget and rates. Consistent with these policies, the proposed budget and rates are based on:
 - The full cost to provide utility services now and in the future.
 - Fully funding wholesale cost increases so local programs are not degraded.
 - Sufficient reserves to protect solvency of the utility funds.
 - Investment in capital infrastructure and/or deposit of funds in an infrastructure renewal and replacement (R&R) account are to be made to ensure that current and future customers that use the utility system pay their equitable share of system costs.
2. Lean operations. The Department continues to focus on controlling on-going operational expenses, finding efficiencies, and otherwise minimizing costs that impact local rate increases.
3. Preserving aging infrastructure. The city's utility infrastructure is aging, and increased maintenance and capital investments are inevitable. System failures are on the rise. The capital program is largely focused on renewal and replacing aging infrastructure.
4. Implementation of previously approved AMI CIP project. The Department is implementing the previously approved Advanced Metering Infrastructure (AMI) project. AMI technology will enable customers to have easier access to near real-time water usage information, facilitates more proactive leak detection, and reduces labor costs for performing manual meter reads.
5. Maintain current service levels to the community. The proposed budget includes the following requests to maintain current levels of service:
 - a. Coal Creek Utility District (CCUD) reservoir maintenance.
 - b. An additional 0.25 FTE to provide staffing necessary to maintain customer service delivery.
6. Service Enhancement – Storm and Surface Water video inspection. The Department is proposing to increase the Storm and Surface Water Condition Assessment Program using closed circuit TV equipment to inspect drainage pipe to identify defects that need repair from 7 miles per year to 20 miles per year.

2019-2024 Preliminary Financial Forecast Utilities Funds

PROPOSED 2019-2020 UTILITY RATES

The following table summarizes the rate adjustments necessary to support the proposed 2019-2020 budget for the Water, Sewer, and Storm and Surface Water utilities by rate drivers.

	<u>WATER</u>		<u>SEWER</u>		<u>STORM</u>		<u>TOTAL</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
Wholesale	1.4%	2.0%	1.8%	0.0%	0.0%	0.0%	1.4%	0.8%
Local								
CIP/R&R	0.8%	1.8%	0.7%	1.4%	2.2%	3.2%	1.0%	1.8%
Taxes/Interfunds	0.9%	0.6%	0.4%	0.3%	0.5%	0.7%	0.6%	0.5%
Operations	0.6%	0.6%	1.0%	0.6%	2.7%	1.5%	1.0%	0.7%
Local subtotal	2.3%	3.0%	2.1%	2.3%	5.4%	5.4%	2.6%	3.0%
Total Rate Increase	<u>3.7%</u>	<u>5.0%</u>	<u>3.9%</u>	<u>2.3%</u>	<u>5.4%</u>	<u>5.4%</u>	<u>4.0%</u>	<u>3.8%</u>
<i>Early Outlook Rate Increase</i>	<i>5.0%</i>	<i>5.0%</i>	<i>4.7%</i>	<i>2.3%</i>	<i>5.5%</i>	<i>5.5%</i>	<i>4.9%</i>	<i>3.8%</i>

Minor differences may exist due to rounding

The total monthly utility bill for the typical single-family residential customer for water, sewer, and storm and surface water services is \$169.55 in 2018. With the above proposed rate increases, the total monthly utility bill for the typical single-family resident would increase by 4.0% or \$6.85 in 2019 and 3.8% or \$6.68 in 2020.

The following section provides further detail on the key rate drivers for the proposed 2019-2020 Utilities budget.

Payments to External Service Providers

Wholesale Costs

The single largest cost center for the Utilities Department is wholesale costs, which include payments to the Cascade Water Alliance (Cascade) for the purchase of water supply and regional capital facility charges and payments to King County for wastewater treatment. Combined, these expenses total \$116 million for the 2019-2020 biennium, or approximately 37% of the total budget for the Utilities Department.

The cost from Cascade to purchase water supply is projected to increase from \$19.8 million in 2018 to \$20.6 million in 2019 and \$21.4 million in 2020. The impact of this cost increase to the Bellevue retail water rate is 1.4% and 2.0% in 2019 and 2020, respectively.

The cost from King County for wastewater treatment is projected to increase from \$33.7 million in 2018 to \$34.5 million in 2019 and 2020. The impact of the cost increase to the Bellevue retail sewer rate is 1.8% in 2019, with no increase in 2020.

2019-2024 Preliminary Financial Forecast

Utilities Funds

To ensure local operations and the CIP are not degraded, the Department's proposed 2019-2020 budget is consistent with the council-adopted financial policy which directs rate increases necessary to fund wholesale costs be passed directly through to the customer.

Local Costs

CIP / R&R

Outside of wholesale costs discussed above, the next largest cost driver for the Utilities Department is the CIP and the cost to renew and replace infrastructure in the future, representing approximately 30% of the total budget for the Utilities department, or approximately \$95 million for the 2019-2020 biennium. Utilities infrastructure has a replacement value of over \$3.5 billion, and most of the systems are well past their mid-life. As a result, the systems used to deliver water, convey wastewater, and manage storm water runoff are experiencing more failures, and the cost to maintain, operate, rehabilitate, and replace this infrastructure is increasing. To minimize costs and optimize the integrity of the utility systems, the Utilities Department has developed a strategic 75-year asset management plan to systematically fund the future renewal and replacement of these assets. Consistent with council-adopted financial policy, this long-term funding strategy is also designed to smooth future rate increases and provide for intergenerational equity.

The proposed Utilities 2019-2025 CIP includes the following investments:

- **Aging infrastructure:** \$173.5 million, or 77% of the proposed CIP, is for investments to renew and replace aged infrastructure such as pipes, reservoirs, and pump stations. Examples of projects include small diameter water main replacements (\$79.2 million), water pump station repairs (\$18.5 million), sewer system pipeline major repairs (\$11.5 million), sewer pipeline replacements (\$14.5 million), sewer pump station improvements (\$7.8 million), and storm system conveyance repairs and replacements (\$10.5 million).
- **Environmental preservation:** \$18.5 million, or 8% of the proposed CIP, is for environmental preservation and flood protection projects. Example projects include the storm system flood control program (\$5.8 million), and Lower Coal Creek flood hazard reduction (\$6.1 million).
- **Capacity for growth:** \$10.3 million, or 5% of the proposed CIP, is to increase the capacity of the utility systems to accommodate growth. Example projects include the Midlakes sewer pump station improvements (\$3.4 million), water storage availability for downtown (\$1.6 million), and a new water inlet station to supply water for West Bellevue (\$2.3 million).
- **Service enhancement:** \$14.7 million, or 7% of the proposed CIP, will support implementation of a new Advanced Metering Infrastructure (AMI) system, which will enable customers to access drinking water consumption information near real-time and allow for early leak detection. This investment is proposed to be funded with existing resources within the water and sewer utilities and will not have an impact on rates.
- **Maintain service delivery:** \$8 million, or 3% of the proposed CIP, is funding for land acquisition to build an additional operational facility to maintain service delivery to the community, discussed further below.

Total funding for current and future capital infrastructure needs will require rate increases between 0.7% to 1.8% per year in 2019 and 2020 in the water and sewer utilities, and 2.2% in 2019 and 3.2% in 2020 in the storm utility.



2019-2024 Preliminary Financial Forecast

Utilities Funds

Taxes/Internal Service Provider Payments

Taxes and interfund payments represent approximately 15% of the total budget for the Utilities Department, or approximately \$48.4 million for the 2019-2020 biennium. The amount of taxes paid is based upon the amount of revenue collected and the tax rates assessed by the state and cities. No changes to the state and city tax rates are assumed in the proposed budget except for a new utility tax on water and sewer services in the City of Medina. Interfund payments represent costs that Utilities pays to the General Fund for support services. Rate increases of less than 1% per year in 2019 and 2020 are required in each utility for cost increases in taxes and interfund payments.

Operations

Operating costs include personnel, supplies, and professional service expenses that are necessary to carry out the daily functions of the Utilities Department. This cost category totals \$56.8 million, or about 18% of the Utilities budget for the 2019-2020 biennium. The costs to operate and maintain the utilities are increasing and will require rate increases of 1% or less per year in 2019 and 2020 in the water and sewer utilities, and 2.7% in 2019 and 1.5% in 2020 in the storm utility.

New Initiative – Operations and Maintenance (O&M) Facility Land Acquisition

Utilities needs an additional maintenance facility in the North End of Bellevue to better serve our customers by maximizing efficiencies and improving emergency response. The current operations and maintenance facilities are operating at or near capacity and will not meet all of Utilities operational needs to service the community in the future. The proposed Utilities 2019-2020 CIP includes \$8 million for this investment. This investment is proposed to be funded with existing resources within the water and sewer utilities and will not have an impact on rates.

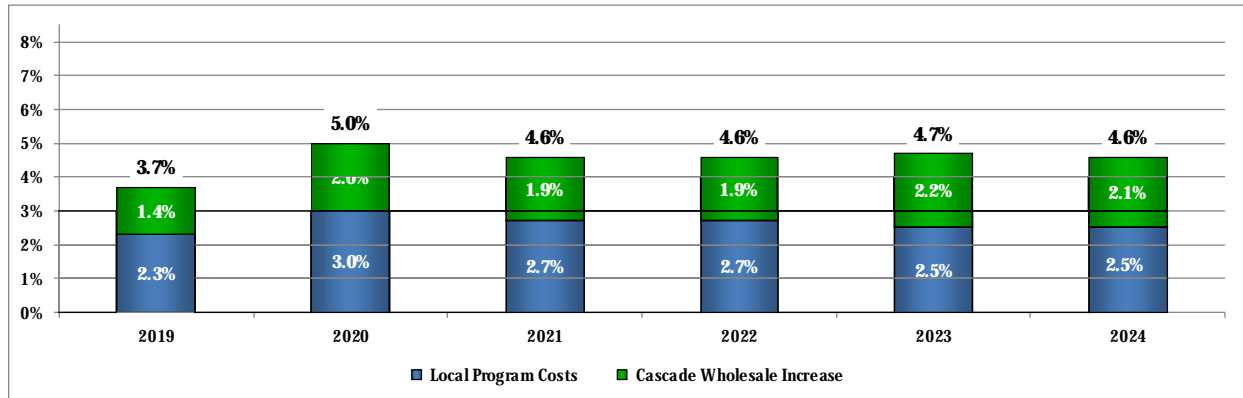
2019-2024 Financial Forecast

The following pages provide a more in-depth discussion of the individual rate drivers and forecasted rate adjustments through the year 2024 for the water, sewer, and storm water utilities.

2019-2024 Preliminary Financial Forecast Utilities Funds

WATER UTILITY FUND 2019 - 2024 Preliminary Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2019	2020	2021	2022	2023	2024
Prior Year Bill	\$64.08	\$66.45	\$69.78	\$73.00	\$76.37	\$79.96
Increase:						
Cascade Wholesale						
Purchased Water	0.90	1.33	1.33	1.39	1.68	1.68
Local	1.47	2.00	1.89	1.98	1.91	2.00
Total	\$2.37	\$3.33	\$3.22	\$3.37	\$3.59	\$3.68
Projected Bill	\$66.45	\$69.78	\$73.00	\$76.37	\$79.96	\$83.64

Minor differences may exist due to rounding

Key Rate Drivers

• Wholesale Costs

Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). Cascade costs are increasing primarily due to water purchase costs from Seattle. Per City financial policy, increases in the cost of purchased water are passed directly through to the ratepayer. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 1.4% for 2019 and 2.0% for 2020. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 2.0% per year for 2021 through 2024.

• Capital Program

The projected 2019-2025 water capital investment program (CIP) includes \$147.6M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$125.2M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include small diameter water main replacement and water pump station repair and replacements. Total funding for current and future infrastructure needs will require rate increases of 0.8% in 2019 and 1.8% in 2020, and an average of about 1.5% per year thereafter. During 2019 and 2020 water rates are not sufficient to fully fund the Water CIP and R&R reserves are used to subsidize the Water CIP in these years. The water CIP also includes \$10.3M for the water utility's share of funding for Advanced Metering Infrastructure (AMI) and \$5.3M for land acquisition for developing a new maintenance facility. The funding for these projects is from available water reserves and is not a rate driver.

• Taxes/Intergovernmental

Taxes and interfund payments to other City departments for support services will require rate increases of 0.9% in 2019 and 0.6% in 2020. Increases for the remainder of the forecast period will average 0.6%.

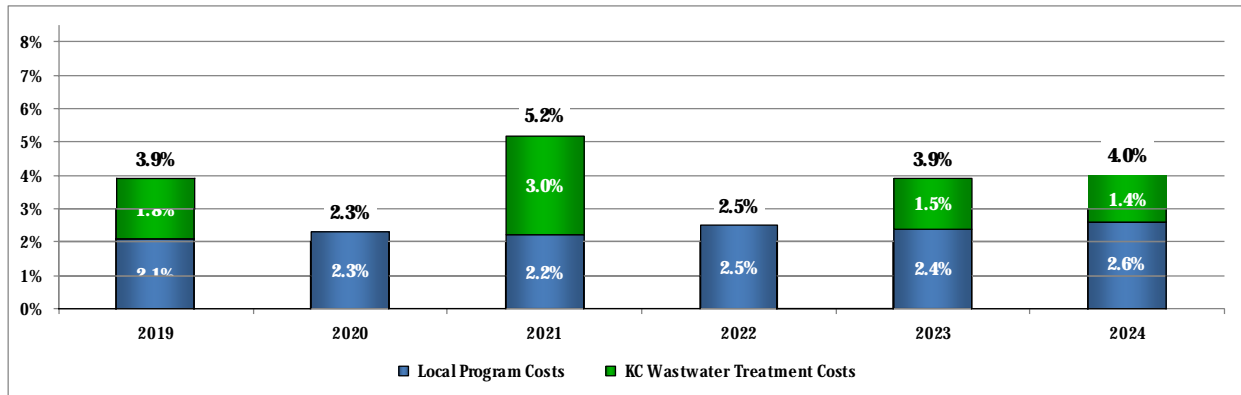
• Operations

Projected inflationary cost increases to operate and maintain the water utility will require rate increases of about 0.6% in 2019 and 2020, and an average of about 0.5% per year thereafter.

2019-2024 Preliminary Financial Forecast Utilities Funds

SEWER UTILITY FUND 2019 - 2024 Preliminary Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2019	2020	2021	2022	2023	2024
Prior Year Bill	\$80.43	\$83.56	\$85.48	\$89.92	\$92.17	\$95.77
Increase:						
KC Wastewater Treatment	1.45	0.00	2.56	0.00	1.38	1.34
Local	1.68	1.92	1.88	2.25	2.22	2.49
Total	\$3.13	\$1.92	\$4.44	\$2.25	\$3.60	\$3.83
Projected Bill	\$83.56	\$85.48	\$89.92	\$92.17	\$95.77	\$99.60

Minor differences may exist due to rounding

Key Rate Drivers

• **Wholesale Costs**

Per King County, the Wastewater Treatment Division's costs are increasing primarily due to ongoing debt service and capital program costs. The wholesale wastewater treatment rate is established by the County for a two-year period starting in 2019, and per City financial policy, is passed directly through to the ratepayer. The retail rate impacts of the projected increases in wastewater treatment costs to Bellevue are 1.8% in 2019, 0.0% in 2020, and average 1.5% for 2021-2024.

• **Capital Program**

The proposed 2019-2025 Sewer Capital program includes \$45.9M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the proposed capital program (\$35.3M) will be invested to replace existing aging infrastructure. Significant aging infrastructure projects include sewer system pipeline major repairs, sewer pump station improvements, and sewer system pipeline replacements. Capital funding, including transfers to the R&R account, will require rate increases of about 0.7% in 2019, 1.4% in 2020, and an average of 1.5% per year thereafter. The sewer CIP also includes \$4.4M for the sewer utility's share of funding for Advanced Metering Infrastructure (AMI) and \$2.7M for land acquisition for developing a new maintenance facility. The funding for these projects is from available sewer reserves and is not a rate driver.

• **Taxes/Intergovernmental**

Taxes and interfund payments to other City departments for support services will require a rate increase of about 0.4% in 2019 and 0.3% 2020, and an average of 0.3% per year thereafter.

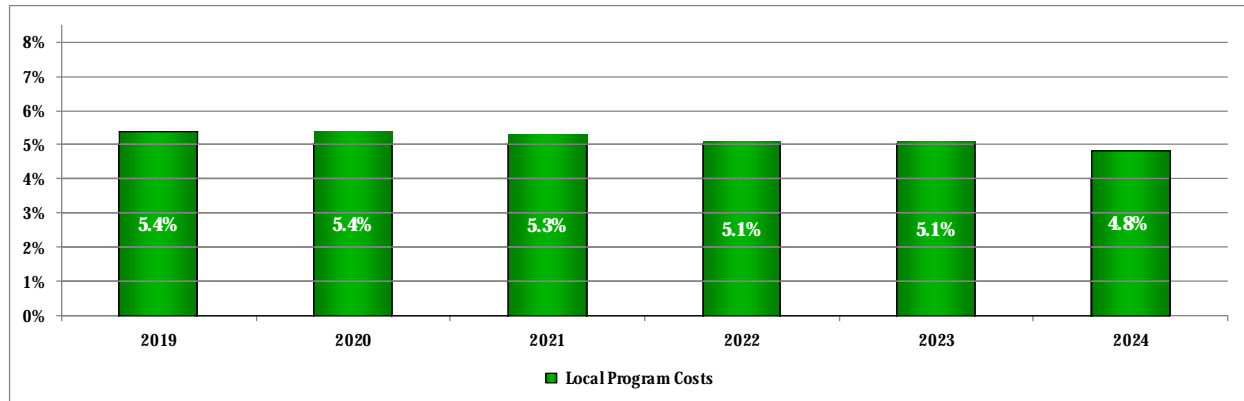
• **Operations**

Projected inflationary cost increases to operate and maintain the sewer utility will require a rate increase of about 1.0% in 2019 and 0.6% 2020, and an average of 0.6% per year for the remainder of the forecast period.

2019-2024 Preliminary Financial Forecast Utilities Funds

STORM AND SURFACE WATER UTILITY FUND 2019 - 2024 Preliminary Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2019	2020	2021	2022	2023	2024
Prior Year Bill	\$25.04	\$26.39	\$27.82	\$29.29	\$30.79	\$32.36
Increase	\$1.35	\$1.43	\$1.47	\$1.50	\$1.57	\$1.55
Projected Bill	\$26.39	\$27.82	\$29.29	\$30.79	\$32.36	\$33.91

Minor differences may exist due to rounding

Key Rate Drivers

• Capital Program

The projected 2019-2025 Stormwater Capital program includes \$31.5M in investments. Of this amount, \$18.5M is for environmental preservation investments, and include mitigating flood hazards and constructing fish passage and stream improvement projects. The remaining \$12.9M of the stormwater utility capital investments are for aging infrastructure rehabilitation and replacements. Significant projects include stormwater system conveyance infrastructure rehabilitation and minor stormwater capital improvement projects. Capital funding, including transfers to the R&R account, will require rate increases of 2.2% in 2019 and 3.2% in 2020 and an average of about 2.8% per year thereafter.

• Taxes/Intergovernmental

Taxes and interfund payments to other City departments for support services will require a rate increase of about 0.5% in 2019, 0.7% in 2020 and increases averaging about 0.7% per year thereafter.

• Operations

Projected cost increases to operate and maintain the storm and surface water utility, largely due to inflation, will require rate increases of about 2.7% in 2019, 1.5% in 2020, and about 1.6% per year thereafter. The rate increase in 2019 includes funding to enhance the storm and surface water video inspection program.