



October 15, 2018

Dear Mayor Chelminiak, Deputy Mayor Robinson and Members of the Council:

I am pleased to submit for your consideration my Preliminary Budget, which includes the **2019-2020** Operating Budget and the **2019-2025** Capital Investment Program (CIP). My primary obligation is to deliver a balanced budget that reflects the Bellevue Council's long-standing commitment to fiscal stewardship and provides excellent services for residents and businesses.

Community engagement and consideration of feedback are always central components in developing a budget that responds to the needs of the community. Feedback came in a variety of ways, including public meetings, neighborhood walks, public outreach on city projects, meetings with business and community groups, surveys and other tools. Additional opportunities for feedback are scheduled prior to Council action on the final budget, including a public hearing on November 19.

This budget reflects the combination of community feedback, the Council's alignment behind a shared vision and set of three-year priorities, and staff consideration of how best to serve all those needs within available resources. The 2019-2020 biennial budget totals \$1.7 billion. This total includes \$1.1 billion in total operating budget expenditures, \$72 million in special purpose expenditures (such as grants, donations and debt among others), and \$534 million for the 2019-2020 portion of the General and Utilities CIP.

2019-2020 Preliminary Budget Highlights:

- Includes funding for the Council 2018-2020 Vision Priorities, adding significant resources for affordable housing, funds to renew and implement priorities within the Environmental Stewardship Initiative, and continues commitments to transformational community projects like the Grand Connection and Downtown Park Gateway.
- Targets investments in public safety with:
 - new police resources intended to effectively increase the time available for community policing; and
 - increased fire inspection staff to continue to keep Bellevue's commercial buildings safe.
- Delivers key infrastructure priorities, including projects supported through the voter-approved Parks Levy, Neighborhood Safety, Connectivity and Congestion Levy, and the Fire Facilities Levy.
- Adjusts Development Services rates to account for growth and maintain cost-recovery objectives.
- Increases Utility rates by four percent in 2019 and 3.8 percent in 2020 to address aging infrastructure and wholesale costs.

Response to Long-Range Forecast:

Bellevue councils have a reputation for fiscal prudence, and in recent years that prudence has dictated a focus on how each biennial budget responds to the need for sustainability in city services over the long term. The city forecasts revenues and expenditures over a six-year period. This forecast uses best practices to look at projected drivers of growth or contraction in revenues and expenditures, inflation, population growth and density, job growth and other factors at the state, federal, and global level.

The current forecast predicts a strong likelihood that expenditures in the General Fund will outpace revenues by 2021 if nothing changes. While reserves can be used for a period of time to fill that gap, the forecast indicates that by 2023, again, if nothing changes, reserves could fall below Council adopted policies. While there are several drivers behind this prediction, the key factor is the difference in how costs to perform services grow, versus how the city's revenues grow.

The projected growth in the city's expenditures over this biennium are largely driven by two factors:

- Increasing costs to deliver current services, including the need to address LEOFF 1 medical expenses out of the operating budget, the expiration of the annexation sales tax credit, and inflation in personnel costs; and
- The need for additional resources to maintain defined levels of service to a growing population and urbanizing environment.

Revenue growth, on the other hand, increases through different factors.

- Property tax, which currently makes up eighteen percent of General Fund revenue has historically grown on average by 1.5 to two percent, with an additional one percent allowed annually with Council approval. This tax source is the most stable, but is slow-growing due to state law limitations.
- Sales and business taxes historically increase on average at four to five percent based on the city's population and economic growth. While it can be faster-growing, sales and business taxes are more volatile and economy-dependent.

Because various factors affect the expenditure and the revenue sides of the equation, municipalities must constantly monitor not only current budget cycle revenues and expenditures, but also the impact on the out-years to ensure stability in delivering core services.

My Preliminary Budget recommends the first steps to fiscal sustainability. In an effort to stem expenditure growth and identify additional revenues, this budget will:

- change the city's current health plans and work with represented and non-represented employees to implement those changes. The changes in plan design and health plan offerings that are implemented in this biennium will result in up to \$500,000 savings over time.
- increase the city property tax by one percent for both 2019 and 2020. A one-percent increase in property taxes is \$9.50 annually for a median property owner of \$791,000 assessed value. While this increase in the city's most stable revenue source does not match the rate of inflation (on average three percent) anticipated over the biennium, it does help provide needed services to the community.

- propose a fire inspection fee to cover the cost of providing fire inspections. Maintaining a two-year inspection cycle allows the city to obtain favorable fire insurance ratings, which in turn can lead to lower insurance rates for business and commercial enterprises. Consistent with other cost-recovery objectives for similar code inspections, an inspection fee will ensure that the entities that benefit from the service are covering the cost of the service. The rates are reasonable and consistent with what other jurisdictions charge for similar services.

Challenges Ahead

While this budget represents a first step toward addressing the long-term challenges described above, more work will need to be done in the next budget. That work likely will include a discussion of service level trade-offs. To prepare for that discussion, the Leadership Team will be directing work to review several major areas of expenditures. The work will include service level analysis in major cost centers, like infrastructure maintenance.

Conclusion

The city's combined budget is an important document, where the community's vision and needs are translated into the resources, personnel and projects needed to support those efforts. This Preliminary Budget presents a strong operational plan to support the services of the city and a capital program that responds to the most urgent needs. The budget I present to you underscores the city's commitment to strategic fiscal stewardship.

This Preliminary Budget is reflective of the hard-working, dedicated employees who are committed to delivering on Bellevue's reputation as "the city where you want to be." I want to thank the staff of the Budget Office, the members of my office, the Leadership Team, department fiscal managers and all other employees who contributed to the success of the 2019-2020 budget process. This community is working together to ensure Bellevue is ready for the future by making fiscal decisions that position the city well as it grows.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad Miyake", followed by a horizontal line extending to the right.

Brad Miyake
City Manager



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