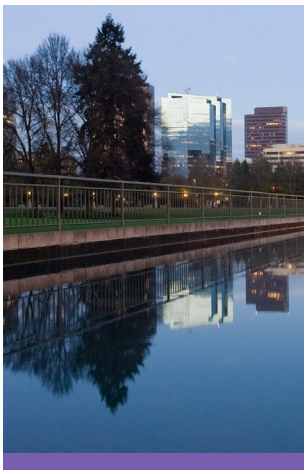


CITY OF BELLEVUE 2017–2018 PRELIMINARY BUDGET EXECUTIVE SUMMARY

OCTOBER 2016

Budget One

one city
one public
one purpose

INTRODUCTION

The preliminary 2017-2018 operating and the preliminary 2017-2023 capital investment program (CIP) includes the resources needed to maintain current operations, build new key infrastructure, add carefully targeted investments, and address Council's two-year priorities. The budget is based on Council's vision to be "the city where you want to be."

In the most recent business and resident surveys, Bellevue continues to earn high marks regarding the value of services for tax dollar, the overall quality of life, and the overall quality of services. Bellevue continues to be recognized by many outside organizations. Bellevue is ranked #1 in 2016 for quality of life in the US by Niche, ranked the #3 safest city in America by Smart Asset, and #4 of the top 10 downtowns by Livability.com, among others.

The city continues to face financial pressures in future years with (1) the continued robust population and employment growth requiring more complex and urban services; (2) the forecasted depletion of the Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1) Medical Reserve, necessitating "pay as you go" by 2019 at an estimated annual cost of approximately $2,300,000; and (3) expiration of the annexation sales tax credit in 2022, reducing revenues to the city's General Fund by $1,000,000 annually. The preliminary budget builds reserves to help address these future issues.

2017-2018 Budget Highlights

The preliminary operating budget provides a blueprint for the continuation of quality city operations for 2017-2018; the city's capital investment plan sets forth a strategy for ongoing progress in meeting the city's long-term infrastructure needs. Highlights include:

- Balancing and maintaining current operations
- Projects modest growth in total operating budget of 7.9 percent for the biennium (includes General Fund, utilities funds, and other operating funds)
- Funds Council priorities such as increasing funding for economic development, smart cities, eastside rail corridor and early implementation of the Grand Connection; and completes Phase I of Meydenbauer Park and Downtown Park Circle
- Grows city reserves to help prepare for known future events
- Ensures debt obligations are paid
- Adjusts Development Services rates to account for inflation and staffing costs, and Utility rates by 4 percent in 2017 and 2018 to address aging infrastructure and wholesale costs
- Makes continued progress in meeting infrastructure priorities, including maintaining existing infrastructure, parks levy projects, transportation and mobility improvements, and neighborhood programs

BUDGET SNAPSHOT

- **2016 Population:** 139,400
- **2016 Daytime work force:** 148,788
- **Minority population:** 50 percent
- **Foreign-born population:** 39 percent
- **2017-18 total budget:** $1.513 billion (includes the first two years of the capital plans)
- **2017-18 total operating budget:** $1.035 billion
- **2017-23 total General Capital Investment Plan:** $485 million
- **2017-23 total Utilities Capital Investment Plan:** $221 million
- **Estimated total FTEs (2018):** 1,342
- **Local Sales tax rate (2016):** 0.85 percent
- **Local B&O tax rate (2016):** 0.1496 percent
- **Local Projected property tax rate (2017):** $0.88/$1,000 AV (including Parks Levy, does not include potential impact from measures on the November 8 ballot)

HIGH PERFORMANCE CITY

City residents and businesses can assess the effectiveness of city budgets and policies through the results of statistically valid surveys, conducted to ensure that the city hears from a cross-section of its residents.

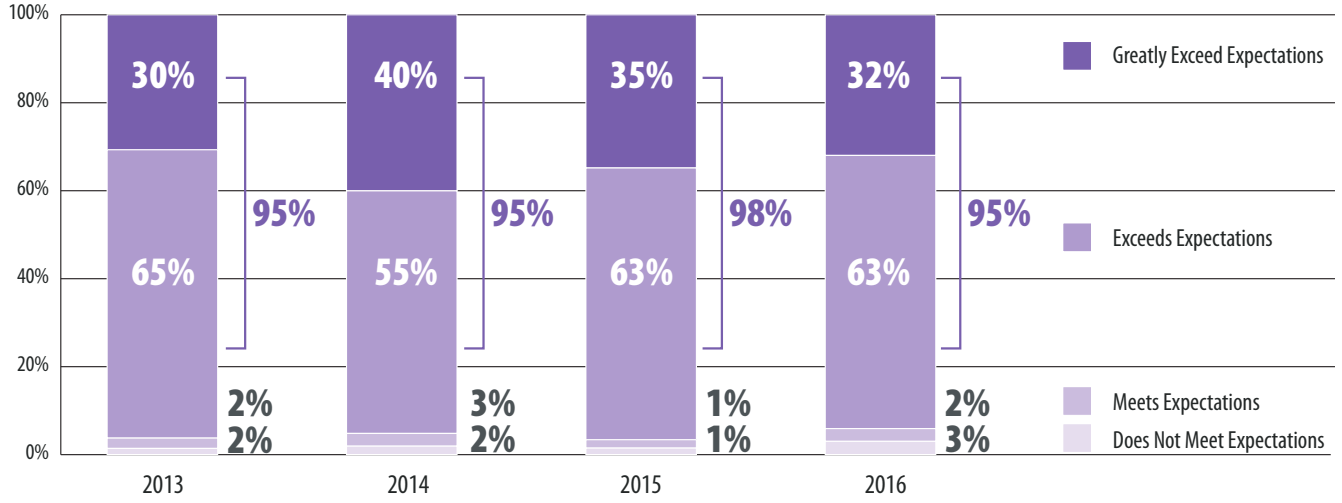
Survey results show that people who call Bellevue home are very satisfied with the city, their neighborhoods, and delivery of municipal services. The following highlights are provided from the city's 2016 Performance Survey and 2015 Business Survey. More than 500 households were interviewed in a mixed-mode address-based methodology, via online, landline, or cell phone and more than 900 businesses were interviewed via telephone and the web. The overall results can be projected across the whole city. The surveys, as well as other reports relating to Bellevue's budget and overall performance, can be found on the city's website at http://www.bellevuewa.gov/citizen_outreach_performance.htm.

- **Quality of life:** For ninety-five percent of Bellevue residents, their quality of life exceeds their expectations with thirty-two percent saying that the overall quality of life in Bellevue greatly exceeds their expectations, and sixty-three percent saying the quality of life exceeds their expectations.
- **Heading in the right direction:** Seventy-nine percent of Bellevue residents and sixty-nine percent of Bellevue businesses feel the city is headed in the right direction.
- **Great place to live and operate a business:** When asked whether Bellevue is the same as, better, or a worse place, to live than other cities and towns, ninety-two percent of Bellevue residents believe Bellevue is a better or significantly better place to live than other cities and towns. Seventy-four percent of businesses believe Bellevue is a significantly better or somewhat better place to operate a business compared to other cities.

…the strength of Bellevue's economy is better than that of other cities in the Puget Sound Region

- **Quality of city services:** Ninety-one percent of residents and sixty-six percent of businesses saying the quality of city services exceeds or greatly exceeds their expectations.
- **Bellevue Economy:** At ninety-two percent, nearly all of businesses feel that the strength of Bellevue's economy is better than that of other cities in the Puget Sound Region. Businesses across all sectors, size, and age are in relative agreement with this statement.

2016 Performance Survey
Overall Quality of Life in Bellevue



COUNCIL VISION AND STRATEGIC TARGET AREAS

In April 2014, the Bellevue City Council adopted a Vision, Strategic Target Areas, and two-year Council Priorities. In April 2016, Council adopted new priorities for 2016 and 2017 based on the Vision and Strategic Target Areas. The 2017-2018 Preliminary Budget makes strong headway into funding and implementing these priorities.

Council Vision

Bellevue 2035 - The City Where You Want to Be

Bellevue welcomes the world

Our diversity is our strength

We embrace the future while respecting our past

The 2017-2018 Preliminary Budget continues to fund and implement the two-year priorities. The table below highlights a few of the funded proposals showing relationship to the Strategic Target Areas.

Council Strategic Target Areas:	Examples of Budget Implementation:
Economic Development **Bellevue is known as a hub for global business.**	Economic Development Strategy Implementation
Transportation and Mobility **Getting into, around, and through Bellevue is a given.**	Multiple proposals in the general capital investment program, including capacity projects and congestion relief measures.
High Quality Built and Natural Environment **Bellevue has it all.**	Meydenbauer Phase I completion Downtown Park Circle completion Smart Cities Implementation including Advanced Meter Reading
Bellevue: Great Places Where You Want to Be **Bellevue is the place to be inspired by culture, entertainment, and nature.**	Grand Connection early implementation Civic Center Plan Eastside Rail Corridor
Regional Leadership and Influence **Bellevue will lead, catalyze, and partner with our neighbors throughout the region.**	Intergovernmental Relations/Regional Issues focused on leveraging partnerships
Achieving Human Potential **Bellevue is a caring community where all residents enjoy a high quality of life.**	Diversity Initiative implementation Winter Shelter
High Performance Government **Bellevue is characterized by high performance government.**	Hearing accessibility within public meeting areas of the city Electronic records for emergency medical services

FINANCIAL RISKS ON THE HORIZON

The city continues to plan for the future and embarked on a long range financial planning effort in 2016 that will continue into 2017. The operating forecast beyond the biennium presumes that there are no additional FTEs added and that LTEs expire at the end of their term. In addition, the forecast also includes several known events (LEOFF 1 funding conversion, and elimination of the sales tax annexation credit) that impact operating revenues and expenses.

Principle known drivers in the out year forecast are:

Robust Land Use, Population, and Employment Growth

The city continues to experience growth that over time will require more complex and urbanized services. With the assumption of flat staffing levels in the out-year forecast, it is unlikely that existing staffing will be able to keep pace with additional service needs over time. As the city grows, without an increase in staffing or other measures, the outcome will be a degradation of existing service levels.

LEOFF 1 Medical Reserve

The Law Enforcement Officers and Firefighters Plan 1 (LEOFF 1) medical reserve, which set aside funding to pay for the city's liability, is forecasted to 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 $2,300,000 annually. This increase is included in the out year General Fund forecast.

Annexation Sales Tax Credit

The annexation sales tax credit, partially offsetting costs to provide services in the 2013 Eastgate Annexation area, will expire in 2022. The result is reduced revenue to the city's General Fund by approximately $1,000,000 annually.

Affordable Care Act

The "Cadillac Tax" of the Affordable Care Act goes into effect in 2020. Early estimates, as calculated by the city's benefits provider, show a potenial cost of $410,000 annually if the city did not take steps to reduce premium rates to below the tax trigger. The current forecast assumes that the city will take proactive actions to eliminate the potential impact.

Additional risks to the out year forecast that require constant monitoring include:

Legislative and Regulatory

As the State of Washington implements the "McCleary" funding for schools, and as King County continues to grapple with a structural deficit in growth in expenditures outstripping revenues, the impact to the city must be watched. The city risks losing state shared revenues and being impacted by downstream effects of reduced services from the County.

Economic Recession

While the economy has maintained growth for several years since the Great Recession ended in 2009, history says that the time between recessions has never been longer than 10 years (Source: National Bureau of Economic Research). Revenue growth may not be sustained and a dip in the economy looms in the future.

Costs of Maintaining and Operating New Infrastructure

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.

ECONOMIC OUTLOOK

Regional Economy:

Washington State and the Puget Sound regions continue to outperform the nation, with strong home price growth, job growth, personal income growth and population growth. Personal income in Washington State grew 2.1 percent (1st quarter 2016) almost double the national earning growth, and faster than any other state (Source: U.S. Bureau of Economic Analysis). Global Insight economists expect the growth to moderate after a strong first half of 2016. Construction growth, which helped strengthen Washington State and Puget Sound in the past few years, is expected to taper off as the residential and commercial development projects that began a few years ago are slated to finish by the end of 2016–2017. (Source: IHS Global Insight).

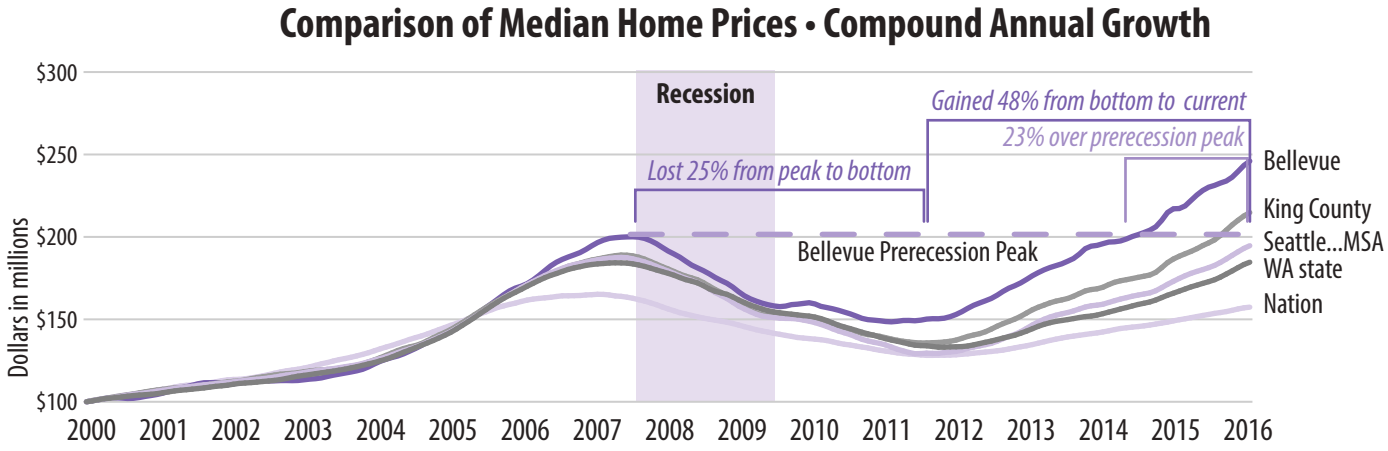
Risks

Bellevue is experiencing strong economic growth, yet as always, there are many risks to Bellevue's economy which must be watched, including:

- The financial conditions of other nations may impact Bellevue due to our connection to the global economy. China continues its gradual slowdown.
- Trends in consumer spending with auto sales starting to level out post-recession and the shift to greater online purchases from traditional brick and mortar store fronts may impact sales tax growth for the city.
- The affordability of housing is a challenge to many who desire to move here, which impacts the labor force in various industries.

Bellevue Economic Indicators

- As of 2nd quarter 2016, there are 11 major projects in review, 9 projects under construction, and five projects in the pipeline in downtown Bellevue. In the Bel Red District, there are 8 projects in review including the GIX building and two East Link stations, 2 projects under construction, and 1 project in the pipeline. (*Source: City of Bellevue 2016 2nd Quarter Major Projects List*)
- As of July 2016. Bellevue's unemployment rate is 4.1 percent, significantly lower than the nation's 4.9 percent and state's 5.8 percent. *(Source: Bureau of Labor Statistics)*
- Bellevue's home price rebounded faster than the rest of the nation and has exceeded its pre-recession level by 23 percent as of July 2016. In the past four years, Bellevue's home prices increased 48 percent, more than double the U.S. 22 percent increase. (*Source: Zillow Research*)
- National auto sales had five month of declines in 2016 after 66 consecutive months of growth starting in September 2010. Bellevue's auto sales growth in the first half of 2016 has dropped from 7.8 percent to 4.6 percent as compared to same period of 2015. (*Source: Bellevue sales tax data*)



BUDGET OUTCOMES

The budget serves as a policy document establishing an operational plan to provide continuing services and to set the strategy for continued progress in meeting the city's capital investment needs. The preliminary 2017-2018 budget presented for Council's consideration totals $1.513 billion. This biennial budget includes a 2-year appropriation for operations ($1.035 billion), special purposes ($65 million) and capital investments ($413 million). See the table below for definitions and examples of governmental fund types.

The city uses "Budget One" to develop the 2017-2018 budget. Budget One is a process that identifies the community's priorities (called outcomes), prioritizes services to meet those outcomes, and funds those services with the available monies. Budget One encompasses all funds of the city.

The City Council validated the six outcomes as:

Economic Growth and Competitiveness (EGC) – investments are intended to plan for growth that will add value to the quality of the city and create a competitive business environment.

Healthy and Sustainable Environment (HSE) – focuses on preserving natural spaces and providing a healthy environment and safe and healthy utilities.

Improved Mobility and Connectivity (IMC) – focuses on existing and future infrastructure, traffic flow, built environment and travel options to create a network that connects people to the places they want to go.

Quality Neighborhoods and Innovative, Vibrant, and Caring Community (QN/IVCC) – creates a "sense of community" by maintaining neighborhoods that support families and provides convenient access to day-to-day activities. Promotes community engagement and fosters diversity and creativity in city-provided services.

Responsive Government (RG) – fosters a culture of fiscal stewardship, reflects sound business practices, and ensures efficient deployment of programs that are necessary to deliver services.

Safe Community (SC) – focuses on maintaining a safe place to live, learn, work and play through operations that prepare the community and respond to safety and health needs.

Budget One guiding principles

Foremost among the Council's long-term budget policies is that quality service programs be offered by the City of Bellevue. Other guiding principles include:

- A focus on services that deliver outcomes important to the community and that are responsive and accessible to all;
- Position Bellevue to realize opportunities and enhance the city's image;
- An examination of the entire budget, not just incremental changes from the last budget;
- A commitment to innovation, efficiency, and sound business practice;
- A focus on citywide, not department, priorities;
- A long-range strategic approach to an affordable and sustainable budget; and
- If expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

Definitions and Examples of Governmental Funds

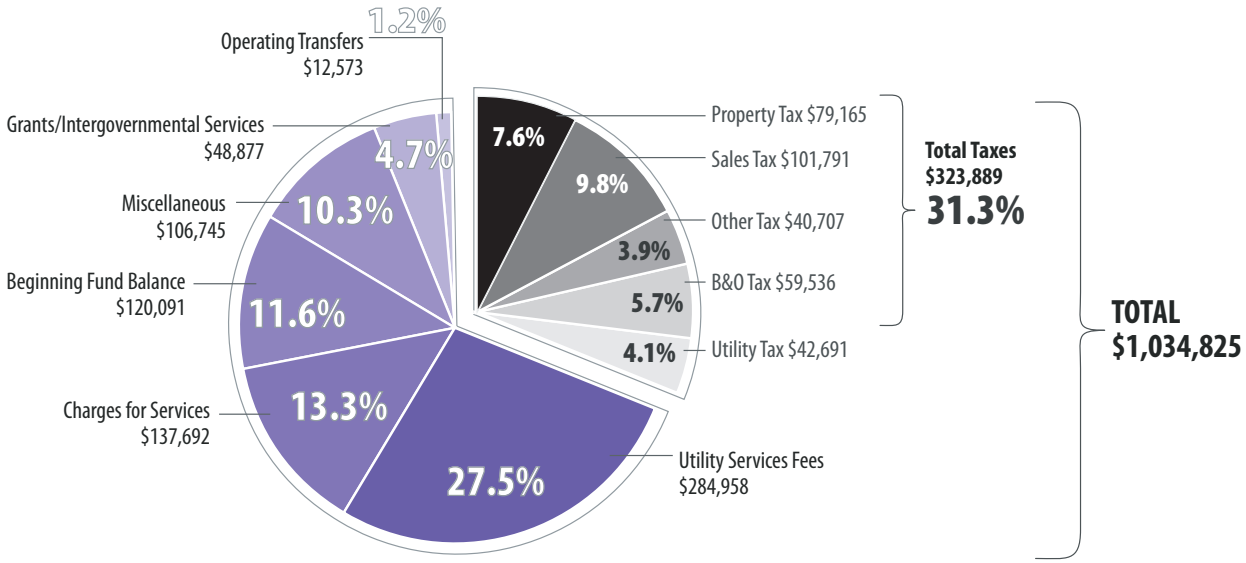
Fund Types	2017-2018 Prelim Appropriation	What does it buy?
Operational Funds (General Fund, utility funds, other enterprise funds, and internal service funds)	$1,034,825,000	Operating functions such as Police, Fire, Parks, Community Development, Transportation, Development Services/Permitting, Water, Storm and Surface Water, and Wastewater. Administrative operations such as City Council, City Manager, Technology, City Clerk, City Attorney, Finance, Service First Information, Fleet and Facilities.
Special Purpose Funds	$65,221,000	These needs are funded by restricted money dedicated for a special purpose, such as grants, donations, debt service, firemen's pension, and housing.
Capital Investment Funds (General and utilities including reserves)	$412,811,000	Provides for major public facility improvements for items such as park development, transportation roadways, signals, and sidewalks, and water and sewer pipes.

TOTAL OPERATING RESOURCES

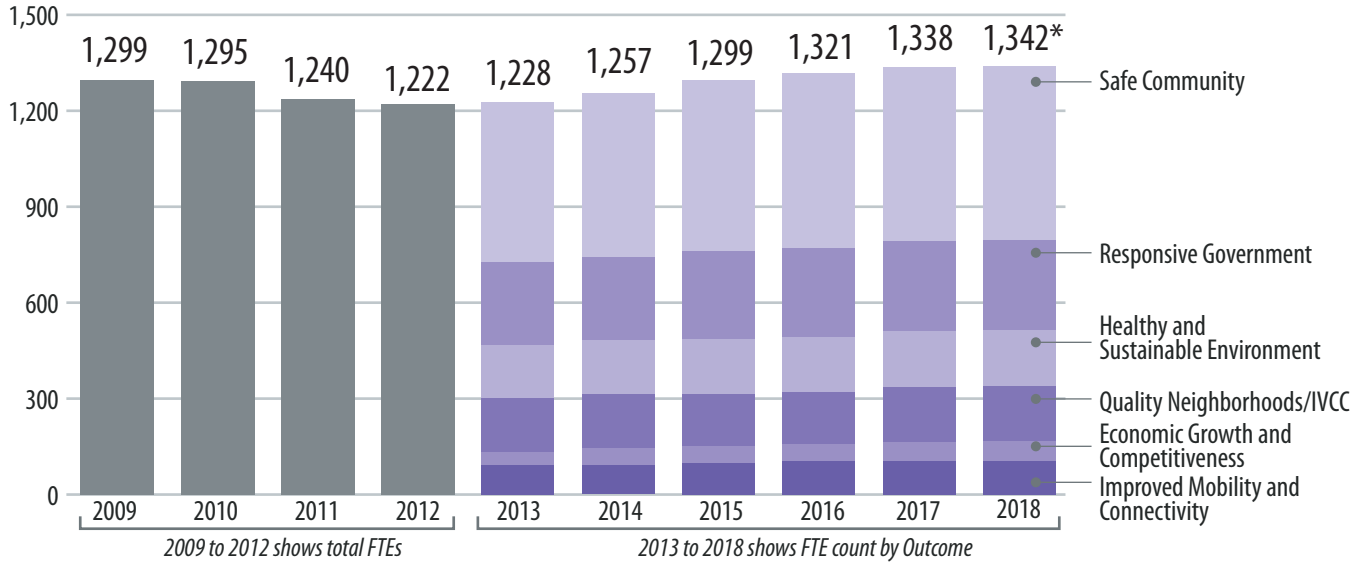
The city's preliminary budget is funded through a diverse collection of resources. Many of the resources received are dedicated to a specific purpose and cannot be spent on non-related services or programs. For example, rate revenues received from water service can only be used for that purpose and cannot be used to pay for general services or other types of utility services. Similarly, funding received from Development Services permits can only be used for services related to delivering permits. See the pie chart below for a break-out of operating and budget resources.

The City of Bellevue is a full service city which provides most municipal services directly, including police, fire, transportation, parks, legal, information technology, permitting, finance, facility, human resources, city planning, and utilities. The 2017-2018 preliminary budget maintains current operations, proposes new investments in carefully targeted areas and continues to implement the Council's two-year priorities adopted in April 2016. New investments include increased funding for economic development, smart cities, workforce development, and other core services.

2017–2018 Total Operating Resources ($000)



2009–2018 Total Existing and Proposed FTEs



*2016 to 2018 Change is 20.94 FTE. 8.1 in the General Fund and 12.84 in other funds

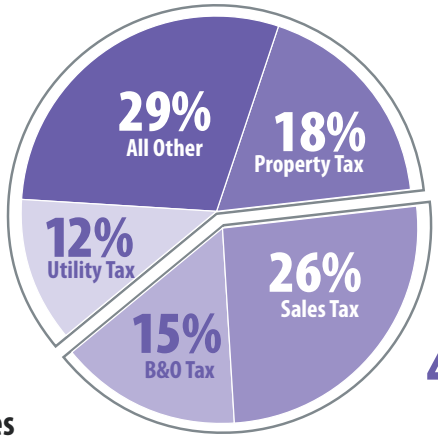
GENERAL FUND

The General Fund preliminary budget total appropriation for the 2017-2018 biennium is $429 million. The General Fund supports the majority of city operations including Police, Fire, Transportation, Parks and Community Services, Planning and Community Development, and various administrative functions such as City Council, City Manager, City Clerk, City Attorney, and Finance. The General Fund also provides resource support to other funds including Utilities, Development Services, Information Technology, and Civic Services (Fleet/Facilities).

The General Fund is funded through a combination of general taxes, utility taxes, intergovernmental charges, charges for services, and other revenue. This budget includes no councilmanic tax increase. The combination of sales and business and occupation tax (B&O) combined accounts for 41 percent of the General Fund, up by 2.0 percent from 2015-2016. Sales tax and B&O tax are the city's most volatile revenue streams and heavily react to changes in the economy. The increase in the percentage over 2015-2016 is primarily due to the decreased reliance on utility taxes. Utility taxes remained level in aggregate for the past several years, and the city is forecasting a continuation of this trend. Cellular and telephone taxes continue to decline, whereas other utility taxes are increasing. The shift to place greater reliance on sales tax and B&O is an area that requires regular review to ensure that the city is fiscally prepared for an economic downturn.

As noted in the bar chart below, the General Fund forecast anticipates revenues to exceed expenditures in the near term (years 2017 and 2018). The revenue forecast assumes no changes in rates for major tax components such as sales tax, business and occupation tax, property tax, or utility taxes. The expenditure forecast assumes no additions or reductions in workforce, and does not restore previous reductions. As noted in the *Financial Risks* section, it does include impact from the conversion of LEOFF 1 and the sales tax annexation credit. The preliminary budget builds reserves to help address these future issues.

Preliminary Budget General Fund Revenue



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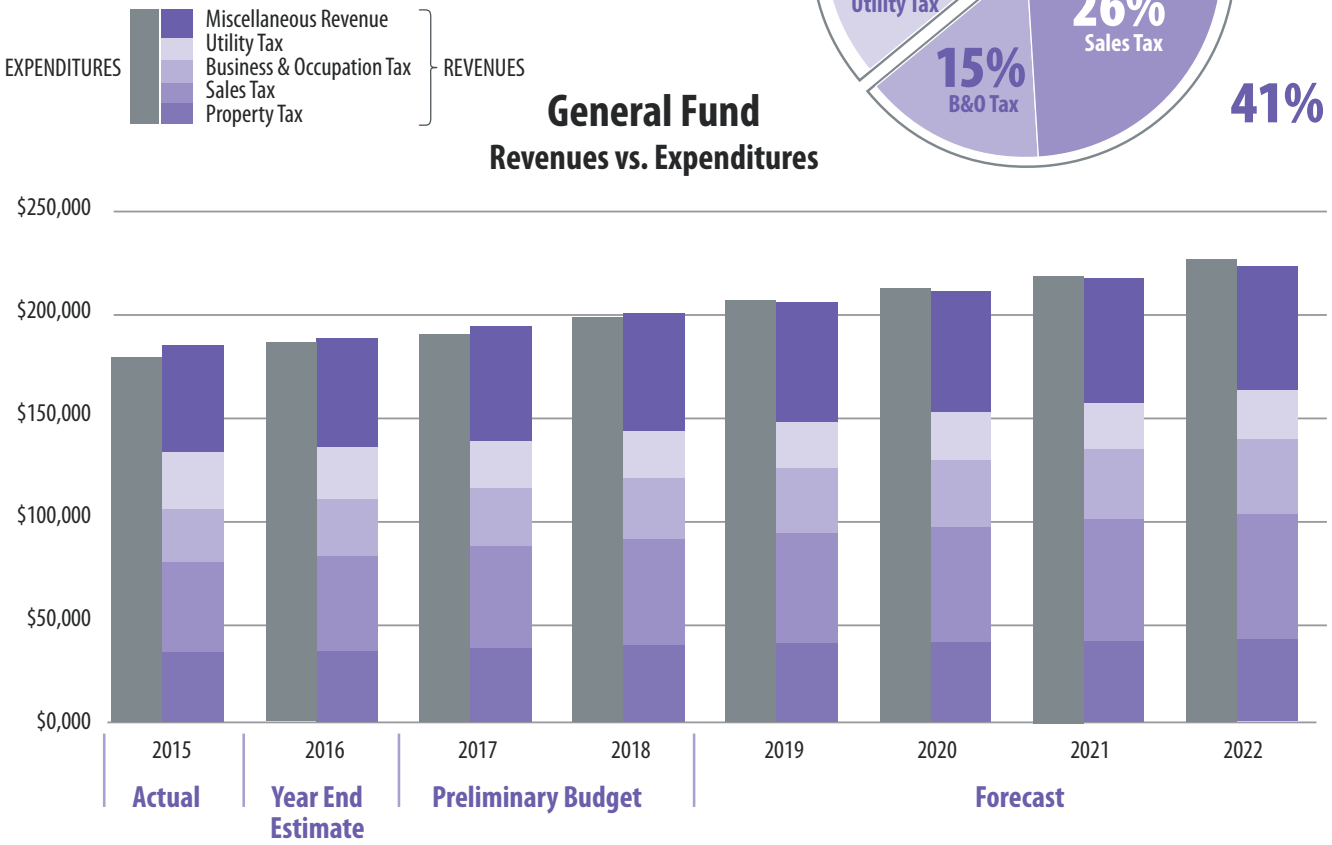


GENERAL CAPITAL INVESTMENT PROGRAM (CIP)

(Full 7 year Program)

The 2017-2023 Preliminary General Capital Investment Program (CIP) prepares and serves as a catalyst for future development within a constrained budget.

The Preliminary 2017-2023 totals $485 million. The Preliminary CIP plan accomplishes the following:

- Advances the Council Priorities and adds new discrete project funding. Examples include early implementation of the Grand Connection, completing the Downtown Park and Phase I of Meydenbauer Bay Park.
- Ensures debt obligations are met, and prepares the city for a Transportation Infrastructure Financing and Innovation Act (TIFIA) loan.
- Maintains existing infrastructure in alignment with Council policy, and increases the Overlay program starting in 2022 by $1 million annually to address needed residential work.
- Fulfills general government capital responsibilities including developing a long range property and facilities plan to leverage the city's investment in property to meet the community's need in a comprehensive and integrated way.
- Provides for transportation and mobility improvements.
- Keeps the Parks Levy commitment and provides other quality of life amenities.
- Provides for neighborhood programs such as the Neighborhood Enhancement Program.

Concerns and Recent actions to address

In 2014, Council had a significant amount of discussion regarding the city's capital investment strategy, including the gap between the large list of unfunded, capital projects and the existing revenue streams. The conclusion reached in 2014 noted that there remained a large potential projects list throughout the city totaling an estimated $1.2 billion (2014$), with the acknowledgement that the list is neither complete nor validated beyond the near term. Based on the existing revenue stream, approximately $400 million (2014$) is estimated to be available over the next 20 years for all discretionary projects (i.e. projects other than debt and ongoing maintenance), leaving a gap of $800 million over the 20 years. This analysis was updated in 2016 and the conclusions reached were the same.

In 2016, the City Council took considerable time and effort to review the fiscal condition of the general capital investment program. In response Council acted by placing two ballot measures on the November ballot. If passed, the measures will assist in addressing some of the infrastructure backlog that the city faces. In addition, Council has directed staff to continue to pursue a Transportation Infrastructure and Financing Innovation Act (TIFIA) loan from the federal government. If secured, the loan will assist with the creation of the Bed-Red Street Network – a total of 12 multimodal roadways planned to support the new Bel Red neighborhood.

UTILITY RATES

Bellevue's utility rates are competitive and will continue to be competitive in the future with the Council adopted financial policy to proactively plan and prepare for infrastructure replacement and renewal. The Proposed Budget includes the utility rate increases for 2017-2018 shown in the chart below.

Wholesale costs drive increases

The cost of purchasing water and payment for wastewater treatment services by King County represent the single largest cost centers for the water and sewer utilities. Increases in these costs are significant drivers for the proposed water and sewer rate increases and represent a 1.8 percent increase in 2017 and a 0.7 percent increase in 2018 to the combined utility bill (shown in table below).

Operational efficiency and the prudent management of the utilities financial resources has been and will continue to be a priority. The proposed 2017-2018 Utilities budget includes minimal new programs.

Aging Infrastructure

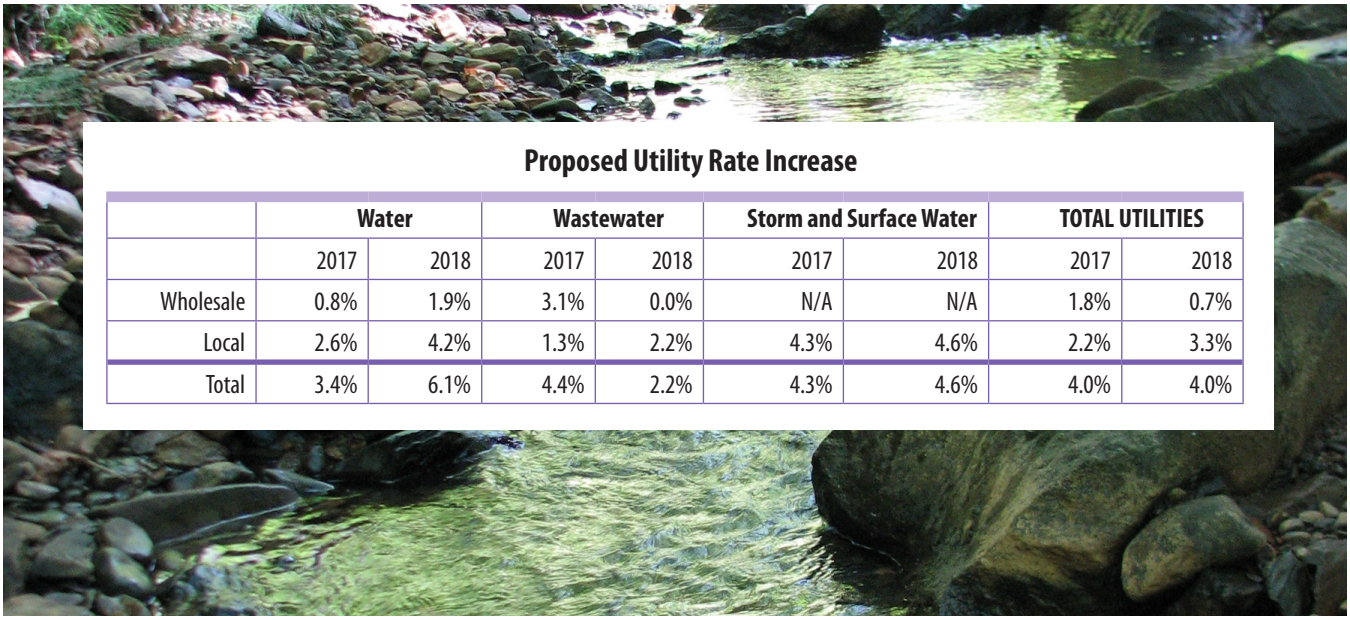
Utilities owns, operates, and maintains over $3.5 billion of infrastructure assets, with over 1,500 miles of pipeline to provide clean and safe drinking water; safely convey wastewater away from homes and businesses; and safely manage storm and surface water runoff to protect property and the environment. This infrastructure was primarily constructed in the 1950s and 1960s, and most of the assets are well past midlife. As the infrastructure ages, it becomes less reliable and more failures occur. As a result, the cost to operate, maintain, rehabilitate, and replace the various assets increases.

Over the next 75 years, approximately $2.4 billion will be needed to renew or replace infrastructure within the three utilities. System renewal is and will continue to be the most significant driver of the Utilities CIP.

New Initiative: Advanced Metering Infrastructure (AMI)

In 2017, following completion of a comprehensive study, the Utilities department will begin a 3-year effort to migrate the city's water meter infrastructure from manually read water meters to advanced technology that uses radio or cellular signals to securely measure and transmit water usage information. This initiative will be funded using existing resources within the Water and Sewer utilities and will not have an impact upon rates.

Migrating to AMI technology will enable customers to have access to real-time water usage information, facilitate proactive leak detection in both private and public water systems, and reduce labor costs for performing manual meter reads.



Proposed Utility Rate Increase

	Water		Wastewater		Storm and Surface Water		TOTAL UTILITIES	
	2017	2018	2017	2018	2017	2018	2017	2018
Wholesale	0.8%	1.9%	3.1%	0.0%	N/A	N/A	1.8%	0.7%
Local	2.6%	4.2%	1.3%	2.2%	4.3%	4.6%	2.2%	3.3%
Total	3.4%	6.1%	4.4%	2.2%	4.3%	4.6%	4.0%	4.0%

DEVELOPMENT SERVICES FUND

There continues to be high interest in major project development in Bellevue. Several new major projects are in the review process and additional projects are under construction or have recently obtained permits that allow construction to proceed. Examples of major projects include Lincoln Square Expansion, Center 425, and GIX in the Spring District. The Sound Transit East Link light rail project began construction in 2016 and is anticipated to spur long-term commercial and residential development in the city.

The construction valuation for issued permits, considered a key barometer of development activity, was a record high level for Bellevue in 2015. This is due primarily to the increase in the number of new major projects, and a strong interest in single family residences, single family alterations, and tenant improvements. Valuation from major projects is a category that is a significant driver of the forecast in the early years and is anticipated to decrease in the latter forecast years.

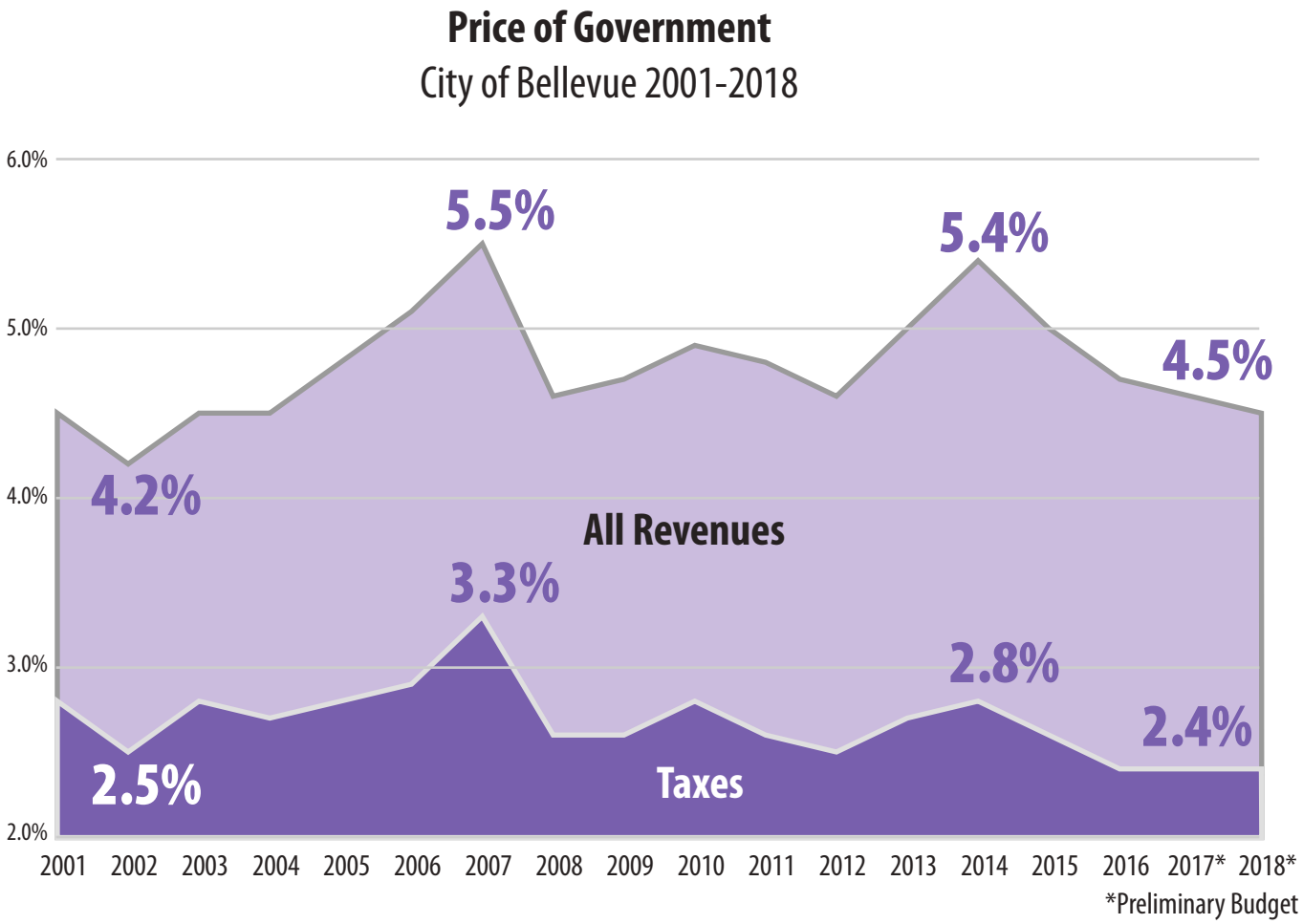
The timing of the construction of these projects will play a role in the level staffing needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services have increased in prior budgets to meet the growing demand for permit review and inspection services, especially in anticipation of the East Link construction. The existing staffing level is anticipated to continue through the 2017-2018 budget, with budget authority for up to an additional 8.15 FTE over the next biennium if necessary to meet increases in demand

For 2017-2018, Development Services will request rate and fee adjustment in order to meet its cost recovery objectives established by City Council policy. Rates are adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycles.

BUDGET OVERVIEW

Price of Government

The Price of Government is defined as the sum of all taxes, fees, and charges collected by all sectors of government divided by the aggregate personal income of that government's constituents (Source: www.fiscalexcellence.org). The Price of Government for Bellevue, illustrated below, shows all revenues as a percent of personal income ranges between 4.2–5.5 percent.



A special thank you to the City Manager's Office, Leadership Team, Results Teams, Budget Office, department fiscal contacts, proposal writers, Graphics Services, and all city employees who deliver the needed services to our community.

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Budget One

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For complete Budget Summary information: www.bellevuewa.gov