Early Look Forecast – General CIP

Budget Workshop April 2, 2012

The Capital Funding Challenge

The last budget process (2011-2017 CIP) was a very different environment compared to typical past budget cycles. Recognizing the severe financial constraints faced by the City as a result of the Great Recession, departments prioritized internally to identify only the most critical and time-sensitive projects to submit for funding consideration. Project cost estimates were "reset" to reflect the favorable bid environment; in addition, a number of ongoing programs were significantly scaled back, resulting in about a 30% reduction (approximately $5 million annually) in total project costs compared to the 2009-2015 CIP through efficiencies, consolidations and scope reductions.

Although the Great Recession has now been officially over for almost three years, the recovery has really not rebounded as it has historically done in recent past recessions. Similar to the General Fund, the CIP relies heavily on major taxes (i.e., sales, business & occupation and real estate excise) which provide approximately 71% of total CIP funding. Each of these major taxes is very volatile and highly subject to economic conditions.

These local funds continue to be leveraged with intergovernmental revenues, primarily grants, and funds received over time from the voter-approved 2008 Parks and Open Space Levy. With the merging of the Mobility & Infrastructure Initiative (M&II), a number of other resources used sparingly by Bellevue in the past were also included, such as use of long-term debt and a proposed LID.

In part because of limited funding tools and the volatile nature of existing resources, the City has a growing list of capital needs that exceed what can be accomplished through basic CIP revenues, including:

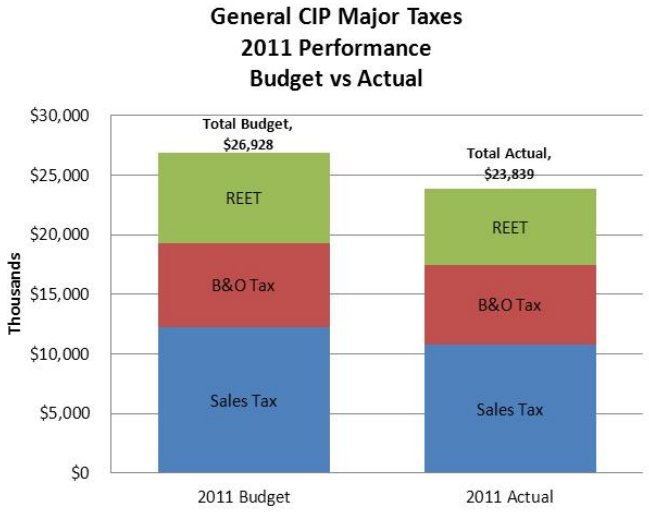
- The Mobility and Infrastructure Initiative (M&II),
- The East Link MOU contribution,
- The Park system levy match,
- Other emerging needs, which could include implementing the results of the Downtown Transportation Plan currently under development, the Eastgate/I-90 corridor recommendations, redevelopment of the Wilburton District, and/or
- Other previously-identified unmet needs.

While the list of "beyond-the-basic" capital needs has been growing, the revenue picture has been declining compared to earlier forecasts. Given the prolonged economic downturn, some capital funding revenues have been performing worse than projected (sales and B&O taxes and REET), and some revenue components have not been adopted as planned. Moreover, expectations of future federal and state grants are much reduced, so the City may need to become increasingly more self-supporting in funding future capital infrastructure. Thus,

questions have been raised about the right mix of tax/revenue tools that should be used in moving forward.

2011 Performance

Major CIP-related tax collections for 2011 were 11% (approximately $3 million) under budget. 2011 sales tax was boosted by one-time amnesty funds and, when those funds are subtracted from the base, sales tax grew less than 1% over 2010. B&O tax collections ended the year 2.9% higher than 2010. Real estate excise tax (REET) collections ended the year 32% under 2010, reflecting the recession's impact on the housing market, as both transaction volumes and average home prices were driven down substantially.

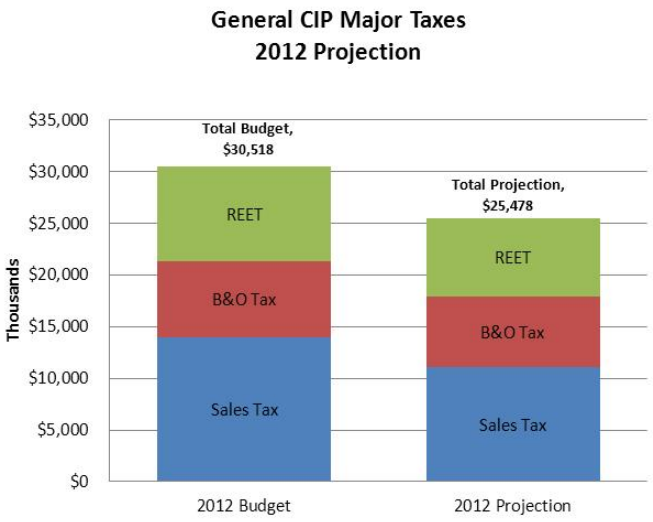


*2011 values provided are before year-end official closing and have been adjusted for known and measurable changes.

Transportation impact fees came in close to budget. In addition, the "Wilburton Connections" LID, budgeted at $10.2 million and established by Council at $6.8M, was successfully protested by affected property owners representing 70% of the value of preliminary assessments, and the LID was unable to proceed. This LID was intended to partially fund the extension of Northeast 4th Street, from 116th to 120th Avenues NE, and improvements to 120th Avenue NE, from NE 4th to just south of NE 8th Street.

2012 Projection

2012 has begun on the right foot, with several positive economic signs such as rising personal income and employment. Despite these positive signs we are still projecting growth in 2012 to be modest. A great deal of damage was done from this recession and it is going to take several years to fully recover.



2013-2019 Early Look

Base CIP (excluding M&II)

The next seven year CIP will cover the period of 2013-2019. The Early Look forecast focuses primarily on major tax revenues and the addition of the two new years of the CIP (i.e., 2018-2019) to determine a high-level approximation of base resources available to fund new projects. The forecast projects that approximately $20 million will be available for new projects in the 2013-2019 Base CIP (excluding M&II). Some of these resources have varying levels of restrictions on their use (e.g., Parks property tax levy is restricted to Parks Levy projects; REET is restricted to Transportation and Parks projects by Council policy).

The forecast reflects the following:

- Major tax revenue projections (i.e., sales, B&O, REET, Parks Levy)
- Accounts for the projected shortfall in major tax revenues compared to the adopted 2011-2017 CIP of over $30 million (formerly projected to be a shortfall of $25 million);
- Continues some intergovernmental and other miscellaneous sources (i.e., state-shared motor vehicle fuel tax, contributions from the Parks Enterprise Fund, and contributions from the Point Communities) that are not project specific;
- Assumes that the adopted Council Contingency will be unspent and available for new projects or used to partially offset the 2011-2017 revenue shortfall ;
- Continues funding of existing ongoing programs at their current levels; and
- Assures funding is allocated to existing debt obligations.

The General Capital Funding "Scorecard" in tonight's materials, provides Council with a conceptual tool in tracking policy and priority setting regarding the General Capital Improvement Program. The scorecard includes the base CIP, M&II and the East Link MOU.

The purpose of this Scorecard is to provide a conceptual framework that arrays capital projects and revenues on one page to help identify relationships between projects and their funding sources.