



Council Budget Workshop

DATE: April 26, 2010

TO: Mayor Davidson & Councilmembers

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SUBJECT: Budget Workshop

The purpose of this workshop is threefold:

1. Finish review of Request for Results discussion for the three remaining Outcomes;
2. Provide Council with the most current outlook of the City's General Fund and General Capital Investment Program (CIP) for the upcoming budget and forecast period;
3. Respond to Council questions and continue discussion of key financial policies, especially as they relate to:
 - their impact on the General Fund and General CIP budgets and forecasts, and
 - opportunities for Council to make changes in these policies to affect the 2011-2012 Operating Budget and the 2011-2017 CIP.

Thanks to the policies adopted by Council, compared to municipal governments in the state and across the country, the City of Bellevue has been in an enviable position. Over the last decade, it has seen unprecedented growth in key resources including sales tax, had the ability to have a "pay-as-you-go" capital investment program, with very little debt, and built reserves in anticipation of future obligations and to manage risk.

As a result of the economic environment, the future outlook is very different. The city is facing a significant shortfall in revenues that support both the operating budgets and the capital investment program. The key tools available to Council to respond to this crisis include:

A. Examination of the entire budget

Clearly, the status quo budget cannot be sustained by the anticipated revenues in the upcoming biennium - needs far outstrip the ability to pay. The City is responding to the shortfall by completely overhauling its budget process. The new budget process, Budget One, is designed to critically review:

- what services will result in outcomes valued by the Council and citizens,
- the most efficient and effective way of providing those services, and
- the most appropriate level of service.

Today Council will be briefed on the last of the RFRs that will be used by the departments to build their budgets and by the Results Teams to prioritize the budget proposals. Council will get a preview of the budget proposals in July as well as those policies that influence expenditures.

B. Critical review of Financial Policies

There are a number of key policies that guide the City's operating and capital budgets. It's important to revisit those policies to:

- make sure that they are as viable going forward, especially during this downturn in the economy, as they have been in the past;
- determine whether refinement of these policies may be part of the solution for weathering the current financial shortfall.

The key policies that we will be reviewing with you tonight are:

- Revenue Mix
- Reserve
- CIP
- Debt

Today, our goal is to raise your awareness of the existing policies, share with you the impact of those policies, and seek your input on the action plan going forward. We would also value any feedback you might offer on any other areas for staff follow up. At this time, we're not seeking final direction on how these policies should be changed or options on how you may choose to use them in formulating a balanced operating budget and a fully funded CIP – these discussions will be ongoing throughout the process.



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Agenda

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| a. 2009 Budget Performance | |
| b. General Fund Performance | |
| c. General CIP Performance | |
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| 2. Policy Discussion | Tab 2 |
| a. Revenue | |
| b. Reserves | |
| c. CIP | |
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| 3. Other Fund Forecasts | Tab 3 |
| a. Utilities | |
| b. Development Services | |
| c. Parks Enterprise | |
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| 4. Appendices | Tab 4 |
| a. Comprehensive Financial Policies | |
| b. Debt Policy | |
| c. Investment Policy | |
| d. Utility Financial Policies | |



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Discussion Overview

1. Early Forecast Presentation

Discussion Objectives:

- Raise awareness of current financial situation
- Raise policy issues/questions for future discussion

A. 2009 Budget Performance

B. General Fund

C. General CIP

2. Today's Policy Discussion

Discussion Objectives:

- Discuss policy issues and options to respond to current and forecasted financial picture
- Prepare Council for upcoming policy decisions
- Answer Council questions from January retreat

A. Revenue

Policy Issues:

1. Recognizing that some revenue sources are more stable than others, what is the optimal mix and level of revenues to maintain services and fund capital needs through economic cycles?
2. What is the appropriate mix and level of revenues to remain economically competitive?

Current Policy:

- *The City must be sensitive to the balance between the need for services and the City's ability to raise fees, charges, and taxes to support those services.*
- *The City will strive to keep a total revenue mix that encourages growth and keeps Bellevue economically competitive and a City of choice for people to live and do business.*

Discussion Overview

B. Reserves

Policy Issues:

1. What are the appropriate targets for various types of reserves?
2. Should some or all of the reserves be considered in aggregate for setting targets?
3. When should reserves be used and, if used, should there be a timeframe for restoring target levels?

Current Policy:

- *Maintain adequate reserves to be used in the event of a natural catastrophe, counter-cyclical revenue growth, to support cash flow during normal business cycles, future obligations, mandated requirements, and to fund replacement of major assets.*

C. CIP

Policy Issues:

1. What is the optimal split of tax revenues between the operating and capital budgets?
2. What are appropriate types of expenditures to be charged to the CIP?
3. Should ongoing maintenance costs related to capital projects continue to be funded from a portion of the sales tax dedicated to the CIP or should it come from another source?

Current Policy:

- *With few minor exceptions, CIP projects are based upon formal long-range plans adopted by the Council to ensure alignment with Council's direction.*
- *CIP projects should reflect all costs that can be clearly shown to be necessary and applicable to complete the project.*
- *Preserve existing capital infrastructure before building new facilities.*



Discussion Overview

D. Debt

Policy Issues:

1. Does Council want to consider the use of long-term debt, or continue on a pay-as-you-go basis, or use a hybrid approach?
2. If so, what revenue will be used to support the debt (existing or new)?

Current Policy:

- *Limit debt to short-term obligations, primarily for cash flow purposes. Debt incurred will be paid back before the end of the current CIP (i.e., 7 years).*
- *Use of long-term debt is minimized.*
- *Exceptions for extraordinary circumstances.*

3. Other Fund Forecasts

- a. Utilities
- b. Development Services
- c. Parks Enterprise