



## Council Budget Workshop

April 26, 2010

### 2011–2016 Utility Funds Forecast

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#### **Basis of Forecast:**

- Resources are based on projected rate increases necessary to continue current level of service, and to pay for projected increases in wholesale costs for water and wastewater.
- Expenditures reflect continued cost containment efforts in the Operating budget and removal of 4% per year inflation from the entire Capital program, resulting in an overall savings of about 8% of the Capital budget.
- Does not include new capital projects, or service/program reductions and cost savings that may be included in budget proposals.

#### **Executive Summary:**

- *On average, utilities rates are significantly lower in 2011-2012 than projected in the 2009-2010 budget, and slightly lower over the entire 6-year forecast period.*
- *Bellevue Utilities' rates continue to be competitive with rates for other cities in the area.*
- *Wholesale cost increases continue to be a major rate driver.*
- *In response to current economic conditions and bid climate, inflation of 4% per year was removed from the entire Capital program, resulting in an overall savings of about 8% of the Capital budget.*

#### **Water Utility**

- Projected Water rate increases are 9.2% in both 2011 and 2012, and average 8.9% per year over the 2011-2016 forecast period.
- Water rates are 1.0% lower in 2011-12 than were projected in the 2009-10 budget and 0.7% lower over the entire 2011-2016 forecast period due to Utilities ongoing focus on cost containment and continuous improvement.
- In 2011 and 2012, the costs of wholesale water purchases from Cascade are expected to increase by 10% per year, resulting in annual local rate increases of 5.2% in each year.
- Conservation and a decline in per-customer usage over a 5-year period have resulted in revenues consistently falling below budget. Utilities made a downward adjustment in projected revenues, which was mitigated by spreading the rate impacts over several years.



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#### **Wastewater Utility**

- Projected Wastewater rate increases are 8.1% in 2011 and 8.8% in 2012, and average 8.1% per year over the 2011-2016 forecast period.
- Wastewater rates are 1.1% lower in 2011-12 than were projected in the 2009-10 budget and 0.2% lower over the entire 2011-2016 forecast period due to Utilities ongoing focus on cost containment and continuous improvement.
- In 2011, King County wastewater treatment costs are expected to increase by 11%, resulting in a rate increase of 6.6%. We have forecasted a similar increase for 2012, but that is dependent on a decision by the King County Council.

#### **Storm & Surface Water Utility**

- Projected Storm & Surface Water rate increases are 5.9% in both 2011 and 2012, and average 7.1% per year over the 2011-2016 forecast period.
- Storm rates are 2.6% lower in 2011-12 than were projected in the 2009-10 budget and 1.2% lower over the entire 2011-2016 forecast period due to Utilities ongoing focus on cost containment and continuous improvement.

#### ***Background:***

The Utility Funds Forecast represents a preliminary financial forecast. This forecast consists of projected rate increases necessary to continue current base programs and highlights key issues likely to impact budgets and rates during the forecast period. Utilities continues to make cost containment efforts and efficiency improvements. These efforts, plus the removal of inflation from the CIP to reflect current economic and bid conditions, are reflected in the Early Outlook forecast. On average, utility rates are significantly lower in 2011-2012 than projected in the 2009-2010 budget, and slightly lower over the entire 6-year forecast period.

Personnel and interfunds are projected in 2011 and 2012 based upon current data, and future forecast years are based upon historical averages. Unlike the General Fund, Utility Funds have very little revenue growth other than through rate increases; therefore annual increases to rates are necessary to accommodate any expenditure growth.

Per Council adopted policies and best rate making practices, rates are levelized where possible over the forecast period so that customers do not experience rate spikes due to cost increases.



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**Financial Forecast:**

The following tables illustrate preliminary rate increases incorporated in the 2011-2012 base forecast. This base forecast does not include any new investments or the impacts of future Council policy decisions. The key rate drivers are detailed below.

**Water Utility**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016
Wholesale	5.2%	5.2%	5.6%	5.4%	6.3%	5.1%
Local Programs	4.0%	4.0%	3.7%	3.9%	3.0%	1.8%
<b>Total</b>	<b>9.2%</b>	<b>9.2%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>6.9%</b>

On average, Water rates are 1.0% lower in 2011-2012 than projected in the 2009–2010 budget, and 0.7% lower over the entire 6-year forecast period due to Utilities ongoing focus on cost containment and continuous improvement.

Key Rate Drivers:

Wholesale:

- Wholesale costs are projected to remain fairly stable, based upon the latest information, at 10.0% per year for 2011 through 2013 and at 8.0% per year for 2014 through 2016. This translates into retail rate increases ranging from 5.1% to 6.3% per year, as shown in the table above.

Local Programs:

- The effects of conservation efforts and a general decline in per-customer usage became evident in the past few years, resulting in revenues consistently falling below budgeted amounts. To avoid overstating revenues that can be expected in the future, which would eventually cause operating reserves to drop to unacceptable levels, Utilities made a downward adjustment to projected water revenue. The rate impact of this adjustment was mitigated by allowing operating reserves to temporarily drop below target levels, thereby spreading the impact over several years. The forecast shows operating reserves returning to target levels by 2016.
- In response to current economic conditions and a favorable bid climate, inflation of 4% per year from 2009-2010 was removed from the Capital program, resulting in an overall savings of about 8% of the Capital budget.



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**Wastewater Utility**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016
Wholesale	6.6%	7.4%	6.1%	5.5%	5.5%	4.4%
Local Programs	1.5%	1.4%	1.5%	2.0%	2.7%	3.8%
<b>Total</b>	<b>8.1%</b>	<b>8.8%</b>	<b>7.6%</b>	<b>7.5%</b>	<b>8.2%</b>	<b>8.2%</b>

On average, Wastewater rates are 1.1% lower in 2011-2012 than projected in the 2009–2010 budget, and 0.2% lower over the entire 6-year forecast period due to Utilities ongoing focus on cost containment and continuous improvement.

Key Drivers:

Wholesale:

- Wholesale costs from King County/Metro, based upon the latest information, are forecast at 11% in 2011 and 2012. This translates into retail rate increases of 6.6% in 2011 and 7.4% in 2012. Retail rate increases range from 4.4% to 6.1% between 2013 and 2016, as shown in the table above.

Local Programs:

- In response to current economic conditions and a favorable bid climate, inflation of 4% per year from 2009-2010 was removed from the Capital program, resulting in an overall savings of about 8% of the Capital budget.
- Per Council policy, \$3.5 million in operating reserves in excess of the target level will be transferred to R&R in 2010. During the forecast period, surplus reserves will be used to mitigate local rate increases. The Utilities long-term forecast shows excess reserves being utilized through 2014.

**Storm & Surface Water Utility**

	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016
<b>Local Programs</b>	<b>5.9%</b>	<b>5.9%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>8.3%</b>	<b>8.3%</b>

On average, Storm & Surface Water rates are 2.6% lower in 2011-2012 than projected in the 2009–2010 budget, and 1.2% lower over the entire 6-year forecast period due to Utilities ongoing focus on cost containment and continuous improvement.



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### 2011–2016 Utility Funds Forecast

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#### Key Drivers:

#### Local Programs:

- 1.5% annual rate increase for the Mobility & Infrastructure Initiative Great Streams project. As part of the 2009-2010 budget, Council approved a 1.5% annual rate increase over a 10-year period to partially fund stream improvements in the Bel-Red corridor.
- In response to current economic conditions and a favorable bid climate, inflation of 4% per year from 2009-2010 was removed from the Capital program, resulting in an overall savings of about 8% of the Capital budget.
- Per Council policy, \$1.7 million in operating reserves in excess of the target level will be transferred to R&R in 2010. During the forecast period, surplus reserves will be used to mitigate rate increases. The Utilities long-term forecast shows excess reserves being utilized through 2016.

#### 2011-2012 BUDGET ISSUES/IMPACTS

The following are issues that will have an impact on the 2011-2012 budget and subsequent years.

#### Issues Included in the Base Forecast

**King County/METRO Wastewater Treatment Costs:** On April 15, 2010 the King County Executive made a sewer rate and capacity charge rate recommendation to the King County Council. The County Council must take action on the rate increase by June 30, 2010 in order to begin collecting the new rate in January 2011. Based on information available at this time, we have reflected an increase in the 2011 wastewater treatment rate of 11% (from \$31.90 to 35.41) per month/equivalent residential unit and a projection in 2012 of 11% (from \$35.41 to 39.31). The rate increases are largely driven by higher debt service resulting from increased capital costs including the Brightwater treatment plant. This increase in wholesale treatment costs will result in rate increases to Bellevue sewer customers of approximately 6.6% in 2011. We have forecasted a similar increase in 2012 but that rate increase is unknown at this time. Final wholesale rates will be available in late June and incorporated into the preliminary 2011-2012 budget. Per Council-adopted financial policies, wholesale cost increases are passed through to the customer.



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**Cascade Water Alliance Water Rates:** For the 2011–2012 budget, total water charges from Cascade are expected to increase by 10.0% per year in 2011 and 2012 based upon information available from Cascade. This increase in wholesale water costs will result in retail rate increases of approximately 5.2% in 2011 and 5.3% in 2012. Cascade is currently undertaking an update of their Transmission and Supply Plan. Depending on the future supply portfolio selected, Cascade rates may be lower than forecasted. Final member charges from Cascade to Bellevue will be available in the fall and incorporated into the preliminary 2011-2012 budget. Per Council-adopted financial policies, wholesale cost increases are passed through to the customer.

#### **Issues Not Included in the Base Forecast**

**New Capital Projects:** There are several capital projects highlighted as being high priority during this forecast period. Significant water and wastewater system improvements are needed to increase capacity in the Bel-Red corridor and the Wilburton study area. The projects for Bel-Red are associated with transportation improvements for the Mobility & Infrastructure Initiative. If these transportation projects are delayed, the utility projects can be delayed. The costs for these projects could be as high as \$8.7million for water and \$10.3 million for wastewater. One project, the Midlakes Pump Station, is driven by anticipated growth in the Bel-Red area but is independent of any transportation project. The cost for the pump station is approximately \$4 million.

**Potential Utilities Relocations:** The rate impacts of utilities relocations for the Sound Transit East Link project are not included in the base forecast.



April 26, 2010

## Development Services Fund Financial Forecast

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### Basis of Forecast:

- Forecast builds upon 2010 revenue and expenditure projections.
- Calculates future resources based on recent and anticipated economic trends.
- Does not incorporate service/programs reductions and cost savings that may be included in budget proposals.

### **Executive Summary:**

- *The Development Services Fund forecast reflects the economic downturn and slowdown in development activity that began in late 2008 following the largest period of development activity in Bellevue's history.*
- *Just as staffing levels and the use of consulting services were increased during the development boom, reductions in staffing and consulting services were implemented in 2009 and are reflected in the 2011-2016 forecast.*
- *Beginning in 2011, the forecast reflects a modest increase in development activity. In subsequent years development activity is anticipated to continue to grow but at a more moderate level than was experienced during the last upturn in development activity.*

### **Background:**

The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.

Bellevue experienced unprecedented growth from 2006 to 2009. During that time several major projects were completed (e.g., The Bravern, City Center II, Bellevue Towers, Washington Square, Lincoln Square Office Tower, Belletini, Tower 333). In response to the increase in development activity, staffing for review, inspection, and support services, as well as the use of consulting services, were increased. Reductions in staffing levels and consulting services were implemented in 2009 resulting in the current core staffing levels in Development Services.

The construction valuation for issued permits, considered a key barometer of development activity, exceeded estimates in 2006 and 2007, reflecting consecutive record-setting years in Bellevue. From the high point of over \$800 million in 2007, this trend has slowed and now appears to be in alignment with forecasted estimates.



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### Development Services Fund Financial Forecast

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#### **2011-2016 Outlook:**

Office vacancy rates in the central business district are a key indicator of the interest in development activity. Vacancy rates have risen to 15.5% in the last year, in part due to additional space availability coupled with the economic downturn. As such, significant growth in major project activity is not anticipated in the early years of the forecast. Design review applications (an early indicator of development activity) received through 2009 indicates a low level of demand for major projects and a notable drop from recent record setting levels. However, projected job growth in the region and the development of Bel-Red Corridor, will help drive future commercial and residential development in the City.

The impacts of the decline in the mortgage and lending sector had a significant impact on Bellevue beginning in 2008 and continued 2010. New single-family development is not assumed to reach levels experienced from 2005 to 2007 but is expected to grow through the latter years of the forecast. As interest rates remain low and employment in the region begins to rebound, the demand for single-family additions and remodel projects is expected to remain steady throughout the forecast period.

As a result of the aforementioned variables, this forecast reflects a decrease in revenue collections through 2012 and a demand on reserves during the completion of major projects and throughout the latter years of the forecast period.



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**Development Services Fund Financial Forecast**

**Development Services Fund  
2011-2016 Financial Forecast  
(in \$000)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Beginning Reserve</b>	<b>\$6,924</b>	<b>\$4,626</b>	<b>\$3,252</b>	<b>\$3,208</b>	<b>\$3,701</b>	<b>\$4,429</b>
<b>Resources:</b>						
Building Fees	\$6,107	\$6,384	\$7,342	\$7,892	\$8,287	\$8,411
Land Use Fees	\$909	\$1,136	\$1,307	\$1,405	\$1,475	\$1,497
Fire, Transp. & Utilities Fees	\$3,296	\$4,121	\$4,739	\$5,094	\$5,349	\$5,429
Subtotal: Development Services Fees	10,313	11,641	13,387	14,391	15,110	15,337
Gen Fund Subsidy	\$3,612	\$3,738	\$3,869	\$4,004	\$4,145	\$4,290
Other Revenue/Interest	\$484	\$533	\$586	\$603	\$621	\$640
<b>Total Resources</b>	<b>14,408</b>	<b>15,911</b>	<b>17,842</b>	<b>18,999</b>	<b>19,876</b>	<b>20,267</b>
<b>Expenditures:</b>						
Building	\$6,870	\$7,111	\$7,359	\$7,617	\$7,884	\$8,160
Land Use	\$2,506	\$2,594	\$2,685	\$2,778	\$2,876	\$2,976
Fire, Transp. & Utilities Development Services	\$2,770	\$2,867	\$2,968	\$3,072	\$3,179	\$3,290
Code Compliance	\$824	\$853	\$883	\$914	\$946	\$979
Administrative/Shared Costs	\$3,735	\$3,861	\$3,991	\$4,125	\$4,264	\$4,408
<b>Total Expenditures</b>	<b>\$16,706</b>	<b>\$17,285</b>	<b>\$17,885</b>	<b>\$18,506</b>	<b>\$19,148</b>	<b>\$19,813</b>
<b>Ending Reserves</b>	<b>\$4,626</b>	<b>\$3,252</b>	<b>\$3,208</b>	<b>\$3,701</b>	<b>\$4,429</b>	<b>\$4,883</b>



### Development Services Fund Financial Forecast

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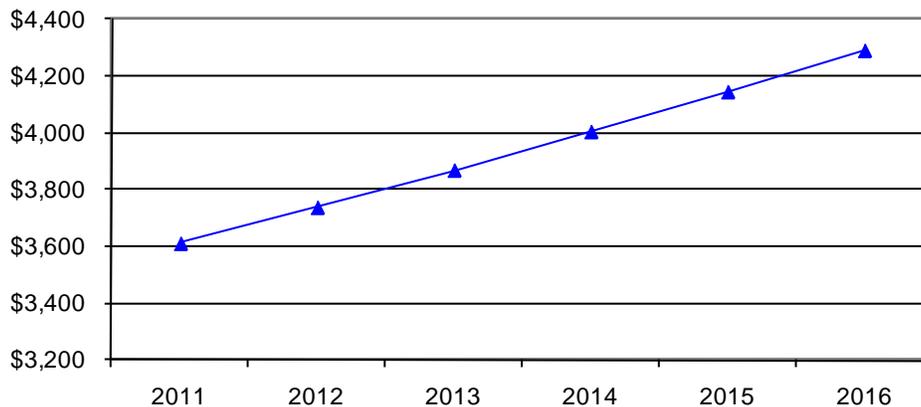
#### Forecast Drivers and Assumptions:

1. Renovations of Bellevue schools (e.g. Bellevue High School and Tyee Middle School) and the Baker Main project are assumed to be substantially completed in the early years of the forecast.
2. The demand for major project activity is assumed to increase in 2012 as new projects are anticipated to begin the review process.
3. The forecast reflects a reduction of 23 positions (including 15 FTEs eliminated/vacated and 5 FTEs redeployed) and consulting services in 2009 in response to the economic downturn. This baseline forecast assumes no additional staffing investments or positions. However, consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload.
4. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by Council. This forecast assumes that fees will grow at the historical rate of approximately 3.5%.

#### General Fund Subsidy:

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

**General Fund Subsidy Forecast 2011-2016**  
(\$ in Thousands)





**Development Services Fund Financial Forecast**

The General Fund contribution to the Development Services Fund is anticipated to grow at an average rate of approximately 3.5% over the forecast period, consistent with inflation projections and growth in personnel costs (e.g., salaries, health benefits, pensions).

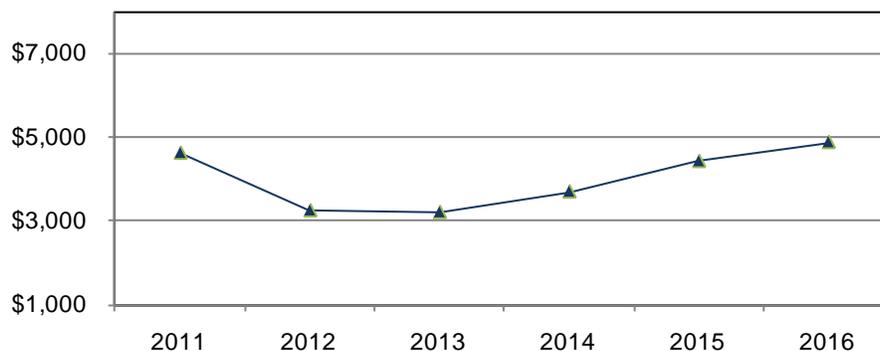
**Development Services Fund Reserves:**

The Development Services Fund maintains 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 Development Services Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund reserves are anticipated to decrease to approximately \$3.2 million through 2013. This reflects the impact of the slow recovery from the recent economic downturn. Reserve levels are then assumed to increase to approximately \$4.9 million from 2013 through 2016 reflecting moderate growth in development activity within the forecast period. Reserves help maintain core service levels during economic downturns.

Development activity and reserve 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 Reserves Forecast 2011-2016**  
**(\$ in Thousands)**





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## Parks Enterprise Fund 2011-2016 Financial Forecast

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### **Basis of Forecast:**

- Forecast builds upon 2010 revenue and expenditure projections.
- The Parks Enterprise Fund forecast assumes that revenues can grow at the same pace as expenditures over the forecast period.
- Does not incorporate service/programs modifications that may be included in budget proposals.

### **Executive Summary:**

- The Parks Enterprise Fund forecast assumes that revenues can grow at the same pace as expenditures over the forecast period.
- The forecast continues to show a need for an Enterprise Subsidy of \$106,000 per year, adjusted annually for inflation.
- The forecast continues to meet reserve requirements (2 months operating expenses) and fund minor capital improvements at the golf course.

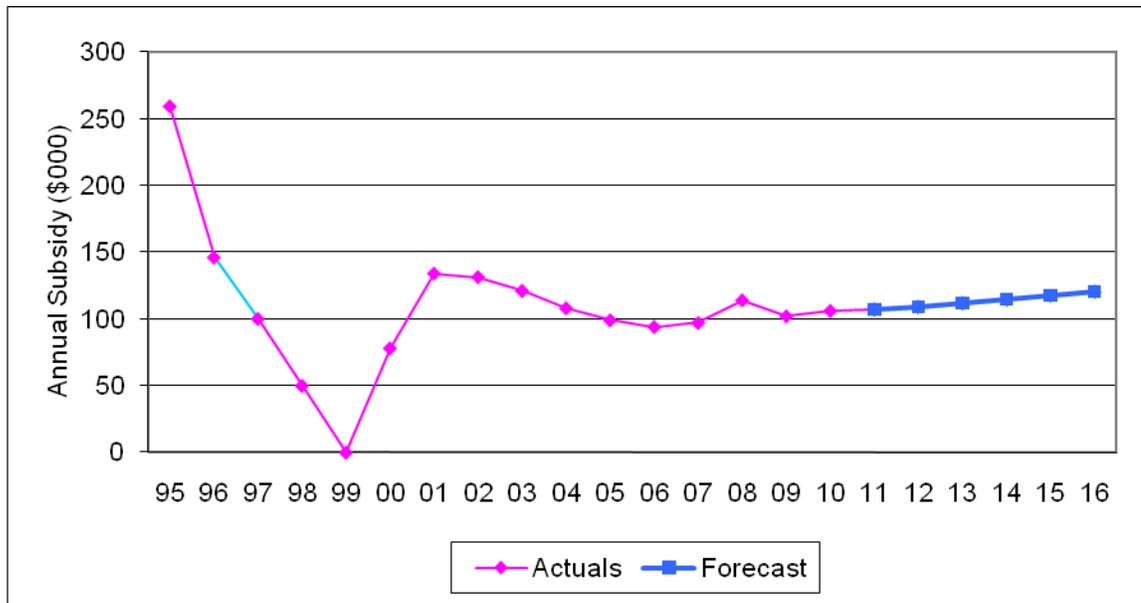
### **Background:**

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 primarily supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships, sponsorships, and fee waivers. Under the “enterprise” approach, extra revenue from golf, tennis, and adult sports subsidize the operations of the Aquatic Center. The Parks Enterprise Fund receives a subsidy payment from the General Fund to ensure that programs are accessible to all Bellevue residents.

### **General Fund Subsidy:**

- The forecast shows that the Parks Enterprise Fund can continue to operate at the current General Fund Subsidy level of \$106,000 per year, adjusted for inflation.
- The following graph shows the actual and forecasted subsidy payment from the General Fund:

**Parks Enterprise Fund 2011-2016 Financial Forecast**



Note: Between 1997 and 1999, the Parks Enterprise Fund received an annual payment of \$140,000 from King County to offset a portion of the operating costs associated with the Bellevue Aquatic Center. Starting in 2001, the subsidy includes an adjustment for the impact of the benefited employee rule changes.

- The Aquatic Center continues to be the driver behind the need for a General Fund subsidy throughout the forecast period. Due to the nature of Aquatic Center programs, the majority of services provided at this facility are not “Full Cost Recovery” services. Most of these services recover only the direct program costs in an effort to provide affordable and accessible programs to youth and physically challenged participants. The Aquatics Center also receives interest earnings from park levy lid lift proceeds from the voter-approved 1988 Park Bond which funded capital improvements at the pool. In addition to these two revenue sources, approximately \$330,000 of other Parks Enterprise Fund revenues are needed to support the Aquatic Center operation each year. Overall, this level of subsidy is consistent with the financial performance that was anticipated in 1995 when the City took over the pool.

**Parks Enterprise Fund Reserves:**

Parks Enterprise Fund reserves will be managed within the targeted reserve level of 2-months operating expenses, or approximately \$816,000 to \$1.0M over the forecast period. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.



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### **Parks Enterprise Fund 2011-2016 Financial Forecast**

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#### **Enterprise Capital Improvements:**

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-02), including capital projects at the Bellevue Golf Course and future synthetic ballfield resurfacing projects. In addition to regular maintenance projects, the City has begun to evaluate the feasibility of making additional capital improvements to the golf course driving range. This forecast does not include the capital or operating implications of completing significant driving range improvements over the forecast period.

#### **Budget Assumptions and Issues:**

Below are some of the major assumptions used in developing the 2011-2016 forecast:

- Parks Enterprise Fund revenues are assumed to increase at the same rate as expenditures from 2011-2016, or roughly 2.5% per year.
- Golf course revenues and expenses have been adjusted to reflect the management contract with Premier Golf Centers approved by Council in October 2006. Staff will continue to prepare an annual management report to Council reviewing the financial, operational, and customer service performance of the course under this management agreement.
- No new programs were included in this forecast update.



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**Parks Enterprise Fund 2011-2016 Financial Forecast**

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**Parks Enterprise Fund  
2011-2016 Financial Forecast  
(In \$000)**

	<b>2011 Forecast</b>	<b>2012 Forecast</b>	<b>2013 Forecast</b>	<b>2014 Forecast</b>	<b>2015 Forecast</b>	<b>2016 Forecast</b>
<b>Resources:</b>						
Program Revenues	\$5,504	\$5,605	\$5,743	\$5,881	\$6,022	\$6,167
General Fund						
Subsidy	107	109	112	114	117	120
<b>Total Resources</b>	<b>\$5,611</b>	<b>\$5,714</b>	<b>\$5,855</b>	<b>\$5,995</b>	<b>\$6,139</b>	<b>\$6,287</b>

	<b>2011 Forecast</b>	<b>2012 Forecast</b>	<b>2013 Forecast</b>	<b>2014 Forecast</b>	<b>2015 Forecast</b>	<b>2016 Forecast</b>
<b>Expenditures:</b>						
Personnel	\$2,301	\$2,342	\$2,401	\$2,461	\$2,522	\$2,585
M&O	1,927	1,962	2,011	2,061	2,113	2,166
Interfund Transfers	1,340	1,359	1,387	1,415	1,495	1,524
<b>Total Expenditures</b>	<b>\$5,568</b>	<b>\$5,663</b>	<b>\$5,799</b>	<b>\$5,937</b>	<b>\$6,130</b>	<b>\$6,275</b>

<b>Reserves</b>	<b>\$816</b>	<b>\$867</b>	<b>\$923</b>	<b>\$981</b>	<b>\$991</b>	<b>\$1,003</b>
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