

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

2011-2012 Mid-Biennium Budget and Forecast Update

STAFF CONTACT

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POLICY ISSUES

Mid-Biennium Budget Update

The proposed Mid-Biennium Budget update includes minor changes to the 2011-2012 Budget adopted on December 6, 2010. The proposed budget includes an additional appropriation to the Operating Grants, Donations and Special Reserves Fund and the Franchise Fund. Staff is recommending that the other funds remain unchanged. Attachment A provides additional details.

Proposed Basic Life Support (BLS) Fees

Staff will present for Council consideration the concept of implementing a user fee for BLS transports. Staff is seeking direction from Council through the mid-biennium budget update process. Attachment B provides additional details.

Proposed Development Service Department (DSD) Fees

Staff will present for Council consideration updates to Development Services fees charged for permit review and inspection services. Staff is seeking direction from Council to implement fee adjustments for 2012. Attachment C provides additional details.

No Changes to Property Tax, Water, Sewer, and Storm and Surface Water Utility Rates

The Mid-Biennium update proposes no property tax increases or any changes to the Water, Sewer, and Storm and Surface Water Utility service rates.

DIRECTION NEEDED FROM COUNCIL

- Action
- Discussion
- Information

Staff seeks Council direction on general approach to the Mid-Biennium Budget adjustment and on proposed addition of a BLS transport fee to offset costs of transportation to area hospitals. Staff is also seeking direction from Council regarding DSD fees for 2012.

BACKGROUND/ANALYSIS

Mid-Biennium Budget Update

State law requires that a mid-biennium budget review be completed between August 31 and the end of the first year of the biennium and that a public hearing be held on the mid-biennium review. Council action on the City's 2012 property tax levy is also required by State law in conjunction with the Budget update. The timetable for the Mid-Biennium Budget update is as follows:

Description	Date
1) 2011-2012 Mid-Biennium Budget Overview	November 21
2) Mid-Biennium Public Hearing	November 28
3) Council Actions:	December 5
a. 2012 Property Tax Levy Ordinance	
b. 2012 Property Tax Banked Capacity Resolution	
c. Basic Life Support Fees Ordinance	
d. DSD Fees Ordinance.	
e. 2011-2012 Budget Mid-Biennium Budget Ordinance	

Should Council determine that additional Study Session time is required, additional meetings may be scheduled.

In September, staff provided Council with updates on the status of the operating budget and General CIP, including an overview of management actions taken to adapt to the recession and bring expenses in line with resources.

The Great Recession continues to affect Bellevue's tax base

The Mid-Biennium Update is presented in times of continued economic uncertainty, and continues to "reset" organizational capacity to better align with the current economic climate.

Economically sensitive revenue receipts, such as sales and business & occupation (B&O) taxes, are projected to end the year just above 2010 levels, which is well below the projected growth anticipated by regional economists when the 2011-2012 biennial budget was adopted. In addition, the June to June CPI-W Seattle-Tacoma-Bremerton, which provides the basis for cost of living increases, came in higher than forecasted at 3.7%. This concurrent decrease in revenues and increase in expenditures results in an unfavorable fiscal climate. Additional discussion and details are provided in Attachment D.

No Increases to Taxes or Utility Rates

The Mid-Biennium Update proposes no property tax increases or any changes to the Water, Sewer, and Storm and Surface Water Utility rates.

Impact to the City Funds

General Fund

The result of the continued slow economic recovery is that the City is faced with the need to implement additional ongoing or permanent reductions in expenditures or increases of revenue totaling approximately \$6.5 million in the General Fund to bring expenditures in line with revenues. One-time actions (such as refunds from internal service funds) or one-time reductions

in expenditures (such as contracts) provide the city with time to thoughtfully address a more permanent reset to achieve a long-term fiscally sustainable plan.

Development Services Fund

The sluggish economy and reduced development activity have required reductions in expenditures in Development Services. In 2010, cost reductions eliminated 26 positions and reduce costs by \$2.8 million. For 2012, an additional \$1.4 million in reductions are planned resulting in the elimination of 15 additional positions. Development Services fees have not been increased for the past two years, creating gap between the cost of providing services and fees charged for permits. Falling short of cost recovery objectives has placed an additional burden on the Development Services Fund. Fee adjustments are proposed to achieve alignment between cost of providing services and fees charged. More information is provided in Attachment C.

Capital Investment Program

As noted at the November 7 Council meeting, staff recommends that the next major CIP update process be conducted in 2012 with the regular update of the 2013-2019 CIP plan. This timing allows for a comprehensive look at the impact of the economic downturn on the City's CIP.

Water Utility Fund

In addition, the Water Utility Fund is impacted directly by the economic downturn. The Water Utility Fund is performing under expectations, but no action is needed in this Mid-Biennium update. Staff will address this issue as part of the 2013-2014 Biennial Budget.

Recommended approach for the General Fund

Management Actions

The Mid-Biennium update encompasses City management's implementation of strong actions to bring expenditures closer in line with revenues. The organization continues to work diligently to address the continued downturn through management actions and implementing organizational best practices, including identifying new areas of efficiencies to bring expenditures in line with revenues. Great efforts have been made to reduce impacts to frontline services and to the public.

Addition of New Revenue for General Fund

Management actions alone will not bring a long-term sustainable fiscal plan. This Mid-Biennium presents the concept of implementing a user fee for Basic Life Support (BLS) transports providing an estimated \$1.1 million annually in ongoing revenue for Council consideration and direction.

The tables below summarize the General Fund management actions and new revenue proposed for the 2011-2012 Mid-Biennium Budget.

General Fund Actions to Bring Expenditures in Line with Revenues		
Category	One-Time	Ongoing
Management Actions*	\$1,043,400	\$4,624,700
Internal Service Fund Rate Refunds	613,250	805,265
Increased Revenue Collections	-	49,240
BLS User Fee (Requires Council Action)	-	1,059,700
Total General Fund Actions	\$1,656,650	\$6,538,905

* Management continues pursue additional options to bring expenditures in line with revenues of approximately \$1.6 million.

Note: The General Fund does not require a budget appropriation adjustment, but would require an ordinance to implement BLS user fees.

Recommended Approach to Other City Funds

Proposed Fee Adjustments for Development Services Fund

Development Services hourly rates have not been adjusted since the 2009 fee ordinance update. As a result, the hourly rates charged for permit review and inspection services have fallen out of alignment with established cost recovery objectives. Accordingly, adjustments are proposed to the consolidated fee ordinance for all development services functions including building, land use, fire, transportation, and utilities. In 2012, the combined actions of fee adjustments and additional cost reductions are needed to reduce reliance on financial reserves and maintain a sustainable financial position.

The tables below summarize the DSD management actions and proposed fee adjustments for the 2011-2012 Mid-Biennium Budget.

Development Services Fund Actions		
Category	One-Time	Ongoing
Management Actions	\$0	\$1,454,210
Permit Fees (Requires Council Action)	-	678,000
Total General Fund Actions	\$0	\$2,132,210

Note: The Development Services Fund does not require a budget appropriation adjustment, but would require adoption of an ordinance to increase permit fees.

Other Funds

In addition to the management actions implemented for the General Fund (no budget amendment necessary), the Mid-Biennium Update also includes some general “housekeeping” budget amendments to the Operating Grants, Donations and Special Reserves (\$1.0 million) and Franchise (\$0.2 million) Funds.

The table below summarizes the proposed budget updates to the 2011-2012 Mid-Biennium Budget.

Total All City Funds Budget and Amendments			
Fund	Amended¹ 2011-2012 Budget	Mid-Biennium Update Amendments	2011-2012 Proposed Budget
Operating Grants, Donations, and Special Reserves Fund	\$9,847,573	\$1,000,000	\$10,847,573
Franchise Fund	3,505,000	200,000	3,705,000
Subtotal	\$13,352,573	\$1,200,000	\$14,552,573
Funds with no Proposed Changes	\$1,141,051,678	\$0	\$1,141,051,678
Total All Funds	\$1,154,404,251	\$1,200,000	\$1,155,604,251

¹ Includes appropriation adjustments approved through November 14, 2011.

State and Legislative Budget Impacts

Governor Gregoire has included reductions in liquor excise tax and liquor board profits, two state revenues that are shared with local government, on the list of potential state budget reductions that she presented on October 27. The total ongoing annual impact to Bellevue is approximately \$1.7 million. The Governor's formal budget proposal will be released on November 21 and presented to the Legislature on November 28. The impacts of the recent voter approved Initiative 1183, the liquor privatization initiative, and the Governor's potential state budget reductions are being evaluated.

ALTERNATIVES

1. Approve proposed approach for the Mid-Biennium Budget adjustment including implementation of new BLS transport fee and adjustments to DSD fees, and direct staff to proceed with preparation of budget legislation.
2. Approve proposed approach for the Mid-Biennium Budget adjustment without implementation of new BLS transport fee and/or adjustments to DSD fees, and direct staff to proceed with preparation of budget legislation.
3. Schedule additional time for budget discussions prior to budget adoption, which is planned for December 5, 2011 to meet King County deadlines for submittal of the property tax levy.
4. Provide alternative direction to staff.

ATTACHMENTS

- A. 2011-2012 Mid-Biennium Budget Update
- B. Basic Life Support Revenue White Paper
- B-1. Map of King County BLS Transport User Fees by Agency
- C. Development Services Fund
- D. General Fund Economic Forecast

ATTACHMENT A
2011-2012 Mid-Biennium Budget Update

Mid-Biennium Overview

GENERAL FUND

General Fund: Policy Considerations for Council Direction

No Increases to Property Tax

The Mid-Biennium Update proposes no property tax increases.

Basic Life Support (BLS) Ambulance Transport Fees

Presented in Attachment B for Council consideration and direction is the concept of implementing a user fee for Basic Life Support (BLS) transports, which would provide an estimated \$1.1 million annually in ongoing revenue.

EMS fees for service are increasingly being used by cities in Washington State and throughout the nation to recover EMS costs from insurance companies and users of the service. Emergency medical transport fees are legal, common, well established and help defray the cost of providing EMS.

The Fire Department is recommending the implementation of a user fee for BLS transports, which would create a sustainable revenue source to support essential public safety services. As proposed, this program would waive co-pays and deductibles for residents of Bellevue. Fees from the BLS user transport user fee will help cover the cost of providing emergency medical services and are necessary to maintain current service levels.

Additional information is provided in Attachment B related to the proposed BLS fees.

General Fund: Management Actions

City management implemented strong actions to bring expenditures closer in line with revenues. The organization continues to work diligently to address the continued downturn through management actions and implementing organizational best practices, including identifying new areas of efficiencies. The majority of the proposed reductions once again fall on Support Services under the Responsive Government Outcome. Reduction in frontline programs, such as Police, Fire, Transportation, and Parks and Recreation programs are targeted to not impact the public.

Revenue to the General Fund:

- Internal Service Funds will refund \$1.4 million to the General Fund, of which \$800,000 in ongoing.

General Fund Expenditures:

- Management actions taken in 2011 and proposed for 2012 result in a reduction of \$3 million in planned ongoing expenditures for the 2012 adopted budget and another \$1 million of one-time expenditure reductions for 2012.

- City Leadership Team will forgo COLA for 2012 which provides a \$60,000 reduction in expenditures to the General Fund.
- Management continues pursue additional options to bring expenditures in line with revenues of approximately \$1.6 million.

CAPITAL INVESTMENT PROGRAM (CIP)

As noted at the November 7 Council meeting, staff recommends that the next major CIP update process be conducted in 2012 with the update of the 2013-2019 CIP. This timing allows for a comprehensive look at the East Link investment and other City needs, including existing CIP projects, the existing CIP gap, the Council contingency, and other community needs for this timeframe.

OTHER OPERATING FUNDS

This section provides background on the revenue and expenditure drivers of other Operating Funds during the 2011-2012 Mid-Biennium update.

1. Development Services Fund

The Development Services (DSD) Fund faces an economically driven downturn in revenues. Development Services hourly rates have not been adjusted since the 2009 fee ordinance update. As a result, the hourly rates charged for permit review and inspection services have fallen out of alignment with established cost recovery objectives. Accordingly, adjustments are proposed to the consolidated fee ordinance for all development services functions including building, land use, fire, transportation, and utilities. In 2012, the combined actions of fee adjustments and additional cost reductions are needed to reduce reliance on financial reserves and maintain a sustainable financial position. Additional information regarding the proposed fees adjustments are presented in Attachment C.

2. Operating Grants, Donations and Special Reserves Fund

The Operating Grants, Donations and Special Reserves Fund budget appropriation is being increased by \$1.0 million for the Council approved Kelsey Creek Center concomitant zoning agreement (Ordinance No. 5946) and to maintain a sufficient appropriation level for grants accepted under \$50,000 and donations received from November 15, 2010 through October 31, 2011.

3. Franchise Fund

The Franchise Fund accounts for the revenue and expenses associated with cable television and franchise related activities performed by the City. In accordance with Council-adopted Cable Franchise Fund operating policies, any resources in excess of expenditures are transferred to the General Fund. This Franchise Fund budget appropriation is being increased by \$0.2 million to

recognize the increase in Franchise Fee revenue collections and resulting transfer to the General Fund in 2012.

4. Water, Sewer, and Storm & Surface Water Utility Funds

As part of the 2011-2012 Budget process Council adopted the following utility rate increases for 2012 (Ordinance Nos. 5973, 5974 and 5975 respectively):

Water	7.9%
Sewer	1.5%
Storm and Surface Water	3.2%.

No changes are proposed to these rates in the Mid-Biennium update. At the end of 2011, the Storm and Surface Water and Sewer funds are performing at or above expectations.

However, the Water Utility Fund is performing below expectations due to several factors. The beginning fund balance carried forward from 2010 operations was \$1.8 million or 15% below the \$12 million budget due primarily to lower than anticipated water sales in 2010. In 2010, water revenue was impacted by the continued economic downturn, ongoing effects of conservation, and cooler than normal weather during normal high water consumption months. The same dynamic is playing out in 2011, and water revenue is expected to be below budget by approximately \$2.3 million, or 6%.

Utilities staff are conducting a thorough examination of the entire Water Utility Fund budget and developing an updated forecast model to better understand water revenue going forward. Remedial actions and cost containment measures have been implemented by Utility staff to offset the revenue shortfalls to the greatest extent possible through offsetting expenditure reductions in 2011. **No Council action is needed at this time as a part of the Mid-Biennium update.** Utility staff will address this issue as part of the 2013-2014 Budget development process.

Bellevue is not unique in needing to address a downturn in water revenue. Utilities in our area, such as Seattle Public Utilities and Tacoma Public Utilities, and across the nation are grappling with declining revenues and the difficulty of accurately forecasting in a variable environment.

In the next several weeks, staff will be presenting the results of work done by the Cascade Water Alliance to modify the cost allocation methodology associated with Cascade's charges to its members. If approved by all of Cascade members, Bellevue will likely see cost decreases in the neighborhood of \$300,000 per year, beginning in 2012. However, it would be premature to factor in this potential cost decrease at this time until the change has been ratified by the Cascade membership and Utilities staff has completed its evaluation of the water service revenues. Cascade's changed cost allocation methodology will likely be one of the tools considered to address the degrading revenue trend.

2012 REGULAR AND VOTED PROPERTY TAX LEVIES

1. Regular Property Tax Levy

The proposed 2012 levy includes increases for new construction and a re-levy for prior year refunds and is based on preliminary information provided by the King County Assessor's Office. **Minor revisions may be made when the final numbers are available from King County.**

King County has estimated that Bellevue's total assessed value has declined from \$32.1 billion to \$30.9 billion (3.6%). The decrease in assessed value increases the regular levy tax rate by a proportionate amount because the rate is a percentage of the total levy. Under Washington State law, cities adopt a total levy amount rather than a levy rate. The Mid-Biennium update proposes no property tax increase.

2. Voted Property Tax Levy

In November 2008, voters approved a levy lid lift for parks and natural area programs. The levy lid lift provides \$3,389,000 annually to fund the parks capital program over 20 years and \$660,000 annually for ongoing maintenance and operations funding for a total of \$4,049,000.

The following table provides the estimated property tax levy amount and rate for 2012 and the adopted amounts for 2011.

	<u>2011</u>	<u>2012(estimate)</u>
Assessed Valuation (\$ in Billions)	\$32.1	\$30.9
Regular Levy Amount	\$32,586,208	\$32,949,971
Regular Property Tax Rate (Per \$1,000 AV)	\$1.02	\$1.07
Voted Levy Amount	\$4,049,000	\$4,049,000
Voted Property Tax Levy Rate (Per \$1,000 AV)	\$0.12	\$0.13
Total Property Tax Levy Rates (Per \$1,000 AV)	\$1.14	\$1.20

ATTACHMENT B
2011-2012 Mid-Biennium Budget Update

Basic Life Support Transport User Fee

Introduction

Emergency medical services (EMS) fees for service are increasingly being used by cities in Washington State and throughout the nation to recover EMS costs from insurance companies and users of the service. During these difficult economic times, these fees are being implemented because they are a sustainable revenue source used to support public safety services.

The City has provided EMS since the Fire Department was established in 1965. The Department's first Aid Units were placed in service in 1972 and for almost a decade did not routinely transport patients. In the mid-1980's as EMS evolved, continuity of care became an important element in the service that included transport to a local medical facility.

The Bellevue Fire Department currently provides basic life support (BLS) and advanced life support (ALS) transportation to medical facilities without charging a user fee. Due to difficult economic times, the Department is recommending the implementation of a user fee for BLS transports. Emergency medical transport fees are legal, common, well established and help defray the cost of providing EMS. The Department's Advanced Life Support (Paramedic) Program is 100% funded through the King County Emergency Medical Services (EMS) Levy. The proposed user fee would apply to BLS transports only.

Many communities facing financial challenges have implemented a BLS transport user fee. Locally, these include:

- City of Kirkland
- City of Mercer Island
- Eastside Fire & Rescue (Issaquah)
- Shoreline Fire Department
- City of Bothell
- Snoqualmie Pass Fire Department
- Maple Valley Fire & Rescue
- Valley Regional Fire Authority (Auburn); and
- Most Pierce and Snohomish county Fire Agencies.

Many fire departments contract with private ambulances to provide BLS transport service. Bellevue currently contracts with a private ambulance service to provide patient transport when department aid units are not available. Patients transported by private ambulance pay a fee to the ambulance service. In Bellevue, this occurs approximately thirty percent (30%) of the time. The remaining patients are transported by Bellevue aid units. Bellevue and Redmond are the two largest communities in King County that provide transport without routinely charging a user fee.

The implementation of a user fee will not impact current level of service. The Fire Department will continue to provide exceptional EMS to the community without regard for a patient's ability to pay. There will be no charge for emergency medical care if the patient is not transported.

Proposed Fee

As proposed, this program would waive co-pays and deductibles for residents of Bellevue. The BLS transport user fee will help cover the cost of providing emergency medical services and are necessary to maintain current service levels.

The Bellevue Fire Department currently provides basic life support (BLS) transportation to medical facilities without charging a user fee. Bellevue also contracts with a private ambulance service to provide patient transport when department aid units are not available. Patients transported by private ambulance pay a fee to the ambulance service. In Bellevue, this occurs approximately thirty percent (30%) of the time. The remaining patients are transported by Bellevue aid units. Bellevue and Redmond are the two largest communities in King County that provide transport without routinely charging a user fee.

The implementation of a user fee will not impact the current level of service. The Fire Department will continue to provide exceptional EMS to the community without regard for a patient's ability to pay. There will be no charge for emergency medical care if the patient is not transported.

Based on information gathered from billing services familiar with our region, it is anticipated that approximately ninety percent (90%) of patients transported will have some form of insurance, those that do not will be helped via a financial aid policy under development. The Fire Department is working with Legal to address billing issues related to private insurance, Medicare, Medicaid, financial aid and collection requirements.

Staff recommends a fee for BLS transport of \$600 plus \$14 per mile. This fee is consistent with fees charged by other local fire departments and private ambulance providers and maximizes reimbursements from the patient's insurance.

The overall collection rate received by the City is estimated to be approximately 53% of total transport billings. The amount collected is affected by: the maximum amount an insurance provider will pay for transport, whether the city waives the portion of transport fee not paid by the city resident's private insurance provider, and the number of indigent patients.

Federal and state agencies, including Medicare and Medicaid impose maximum amounts they will pay for transport. For these patients, the City would be required to accept the amount paid by Medicare and Medicaid and not bill the patients for the uncovered balances.

Many local fire departments, when implementing a BLS transport user fee, have also chosen to establish a policy that waives the portion of the transport fees not paid by private insurance providers for city residents. There are strict federal and state rules governing bill procedures. As a municipality there is some flexibility to waive deductibles and copayments for residents in consideration of taxes paid, by those

residents, to support the service. Nonresidents must be billed for deductibles and copayments not covered by insurance, and the entire fee may not be waived for those without insurance regardless of resident status, unless the patient can prove they are indigent and in need of financial assistance.

Along with the new transport user fee, staff proposes establishing a financial assistance policy for indigent patients. The policy would be consistent with State law on hospital charity care and implemented on a sliding scale based on federal poverty guidelines.

If approved, this user fee would apply to the fire service contract cities. This provision was negotiated in the most recent contract. It is estimated the BLS transport user fee will generate annual ongoing net revenues of approximately \$1,000,000. The revenue received may vary slightly from year to year based on the number of transports, collection experience and will vary in 2012 dependent on the fee start date.

ATTACHMENT

B-1. Map of King county BLS Transport User Fees by Agency

ATTACHMENT C
2011-2012 Mid-Biennium Budget Update

2012 Development Services Fees Adjustment

INTRODUCTION

Adjustments are proposed to the consolidated fees ordinance for all development services functions including building, land use, fire, transportation, and utilities. The proposed fee adjustments for permit review and inspection services reflect the results of the annual Cost of Service Study (COSS).

Development Services hourly rates have not been adjusted since the 2009 fees ordinance went into effect. In 2010 and 2011, hourly rates were held constant in response to the economic challenges faced by the development community. However, the hourly rates charged for permit review and inspection services have fallen out of alignment with established cost recovery objectives. In 2010 and 2011, twenty-six positions were eliminated in the development services function in response to declining workload and forecast information that indicated economic stagnation was anticipated to continue. In 2012, the combined actions of fee adjustments and additional cost reductions are needed to reduce reliance on financial reserves, and to maintain a sustainable financial position. Fifteen additional positions are scheduled for elimination in January 2012. A rate adjustment is necessary at this time to help avoid deeper cost reductions that could compromise permit review and inspection performance when development returns and the need for predictability is high in an uncertain lending environment.

PROPOSED FEE ADJUSTMENTS

Hourly Rates

The following chart that shows the hourly rate changes in Development Services fees that meet the full cost recovery objective established in Development Services financial policies. The hourly rate adjustments reflect the total impact of changes in costs since the 2009 fee update. The factors that increased variable and fixed costs over the past two years include personnel costs (salaries and benefits), maintenance and operations (M&O), technology improvements, and fixed costs for internal services (facilities, vehicles, fuel, overhead) which are also driven by inflation. Fixed costs are included as a share of the hourly rate and proportioned over fewer fee supported hours due to lower permit activity contributing to the rate adjustment.

Function	FULL COST RECOVERY			
	2009 Hourly Rate	2012 Hourly Rate	Estimated Revenue Increase	% Change in Rate
Land Use review	\$137	\$146	\$81,000	6.6%
Transportation review & inspection	142	151	94,000	6.3%
Fire review & inspection	124	136	55,000	9.7%
Utilities review and inspection	118	130	85,000	10.2%
Estimated Revenue Increase			\$315,000	

The development community continues to face the challenges of a difficult economic time. To mitigate the impact of a single rate adjustment capturing three years of cost increases, staff proposes a phased approach to achieve alignment between the cost of services and fees charged. For 2012 a 5% increase in hourly rates is proposed. The remainder of the rate increase to bring fees in alignment with costs would occur in 2013. With a partial rate adjustment, additional expenditures from financial reserves is necessary to support the cost of operations. The following chart shows the hourly rate changes in Development Services fees that achieve partial cost recovery objectives of Development Services financial policies.

PARTIAL COST RECOVERY

Function	2009 Hourly Rate	2012 Partial Rate	Estimate Revenue Increase	% Change in Rate
Land Use review	\$137	\$144	\$61,000	5.1%
Transportation review & inspection	\$142	149	\$72,000	4.9%
Fire review & inspection	\$124	130	\$29,000	4.8%
Utilities review and inspection	\$118	124	\$41,000	5.1%
Estimated Revenue Increase			\$203,000	

Fixed Rates

Permits charged a flat fee were analyzed for a two-year period to determine how much time is required to provide review and inspection services. Staff proposes adjustment of flat fees to reflect increases or decreases in time needed to complete work for that permit type, and further adjusted by any changes to the hourly rates for that time.

Valuation Based Rates

In addition to hourly rate adjustments, staff proposes the following adjustments affecting building permit fees that are based on project value:

- Update the building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2010 to August 2011. *Values derived from the BVD tables are a major factor used to determine building permit fees for new buildings.*
- Increase the Washington State modifier of construction costs from 1.13 to 1.14 consistent with the change from July 2010 to July 2011 as published by Marshall & Swift.
- Adjust building review and inspection fees by CPI-W (3.7%).

These proposed changes to building review and inspection fees are anticipated to increase revenue by approximately \$475,000.

BACKGROUND

Summary of Development Services Financial Policies

On September 8, 2003, Council endorsed a set of fiscal principles and a new rate management model for development services hourly fees for Land Use, Transportation, Utilities and Fire. Under this model, the cost recovery targets were set based on the type of service being provided, not based on the department providing the service. Overall these policy changes significantly simplified the City's development services rate model, made it easier to administer, and made it more predictable for the client. This has enabled the City to provide consistent, high quality services that the development community has requested and has been willing to pay for.

Financial Management Guiding Principles

The financial management guiding principles established in 2003 continue to serve as the cornerstone for Development Services financial structure management. The guiding principles are:

- Fees should be regionally competitive and provide for fast, predictable, high-quality services.
- Permit applicants should pay for the direct services that they receive, adjusted to account for broader community benefits.
- Fiscal management should be development-services wide, not department by department.
- The funding structure should support the management of development services as a line of business, through economic cycles and fluctuations in work-load.
- Fees should be predictable and understandable to the customer.
- The fee system should be efficient and cost-effective to manage.

Cost Recovery Objectives

Setting cost recovery objectives based on the type of service being delivered provides a more understandable and consistent approach for setting fees, with common objectives across departments and functions. This is consistent with the "One-City" philosophy of the Development Services Improvement effort. It also resulted in a model that it is simpler and easier to maintain and update. Significant consultant costs have been eliminated by developing financial tools that can be managed by fiscal staff. The cost recovery targets established by the Council are as follows:

Type of Service	Cost Recovery Target	
Policy Development & Public Information	0%	(100% General Fund/Utilities Fund supported)
Land Use Discretionary Review	50%	(50% General Fund supported/50% fee supported)
Engineering Review & Inspection	100%	(100% fee supported)
Technical/Administrative Support	100%	(100% fee supported)

Fees and Service Levels

The ongoing success of the Development Services line of business is based on the ability to respond quickly to shifts in performance, workload, or permit fee revenues that are created by development cycle variability. Tools have been developed allowing more comprehensive oversight of service levels and financial performance, and more accurate forecasting of changes in development cycles. These tools are also essential to sustaining service levels and maintaining revenues that are adequate to support the operation and keep fees competitive in our region. When significant changes in workload and permit fee revenues are forecast, changes in staffing and other resources are made to ensure the appropriate alignment between performance, revenue, and expenditures is maintained. Maintaining alignment

between service levels and fees ensures clients will continue to receive high quality services in a predictable and timely manner.

ANALYSIS

Financial Management through Development Cycles

In 2009, permit fees were adjusted to maintained alignment with the cost recovery objectives in the financial model, providing adequate resources to meet demand through the development cycles in 2009.

The primary cost drivers for Development Services were similar to those affecting most City services including increases in personnel, M&O, and fixed costs.

In 2010 and 2011, permit fees were held constant due to the slow economy and its significant impact on the development community; no fee increases were implemented to eliminate any real or perceived barrier they might create for development projects. During this period, Development Services implemented cost reductions of \$2.8 million by eliminating 26 positions, and significantly reduced professional services and overtime costs. This strategy aligned staffing levels with forecast workload and moderated the impact on development services fund reserves.

Delivering fast, predictable, One-City service to customers remains a top priority. However, as economic growth continues to languish, the increasing reliance on Development Services reserves to maintain core staffing could adversely impact capacity to respond quickly to the next development upswing. Lack of alignment between the cost of services and fees charged may necessitate deeper reductions in staffing and put at risk the ability to keep pace to maintain consistent service levels when development activity regains momentum.

For 2012, in an effort to move permit fees back into alignment with established financial policies, staff proposes action that is two-fold. The first is to achieve additional cost savings of approximately \$1.4 million which will be realized by eliminating an additional 15 FTE positions (9 currently filled) and reducing M&O costs for records management, consultant contracts, and discretionary spending. The second proposed action is to adjust rates to align fees with the annual COSS over the next two years.

The COSS primarily involved two steps that resulted in the proposed fees. First, analysis of the hourly rate was performed to ensure that fixed and variable costs are captured consistent with the financial management policies and cost recovery targets adopted by Council. Refer to the discussion above regarding proposed adjustments to hourly rates. Second, permits charged a flat fee were analyzed for a two-year period to determine how much time is required to provide review and inspection services. Flat fees are then adjusted reflecting increases or decreases in time needed to complete work for that permit type.

The hourly rate adjustments for land use, fire, transportation, and utilities plan review and inspection, reflect the total cost impacts of reductions to be realized in 2012 for variable costs and increases for fixed costs such as City-wide overhead, facilities, technology services and administrative services.

The examples below illustrate the results of the COSS with a partial rate adjustment and shows the fixed fee adjustment because of the hourly rate change or because an adjustment to the amount of time spent reviewing this type of permit.

Type	Current Fee	Proposed Fee	Change
Temporary Use Permit - ROW Review	43	45	\$ 2
Shoreline Exemption w/o SEPA Utility Review	59	62	\$ 3
Mechanical Plan Review - Fire Inspection	360	208	\$ (152)
Home Occupation - Land Use Review	808	749	\$ (59)

The following examples illustrate the total results of the COSS with a partial rate adjustment for a new single family addition permit and a tenant improvement permit:

Type	Current Fee	Proposed Fee	Change
New Single Family Addition (600 sq ft)	\$1,782	\$2,034	\$ 252
Tenant Improvement (\$75k valuation)	\$2,364	\$2,575	\$ 211

Building Review and Inspection Fees

Valuation-based fees for building review and inspection services are based on two variables: (1) the estimated value of the proposed building, and (2) the fee applied to that value from the permit fee table. Using construction value to set building permit fees has been the industry standard of practice for many years and has generated revenue adequate to support plan review and inspection services for these permits. For Bellevue the method to establish the building project value is established in Ordinance No. 5846 (section 6.2) -- building value will be made on the basis of building valuation data published by a nationally recognized code organization or other valuation criteria approved by the appropriate Director.

The Building Valuation Data Table published and updated by the International Code Council (ICC) and modified by the Marshall & Swift construction value modifier for Washington, are used to establish the building value used to calculate building permit fees. The ICC BVD table and the Washington State modifier are updated on an annual basis to ensure project values remain in alignment with the general cost of construction.

Staff proposes the following adjustments to building review and inspection fees:

- Adopt the updated building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in valuation from August, 2010 to August, 2011. *Values derived from the BVD tables are a major factor used to determine building permit fees for new buildings.*
- Increase the Washington State modifier from 1.13 to 1.14 consistent with the change from July 2010 to July 2011 as published by Marshall & Swift.
- Adjust building review and inspection fees, including permits for electrical, mechanical, and plumbing systems, by CPI-W (3.7%).

These proposed changes to building review and inspection fees are anticipated to increase revenue by approximately \$475,000 in 2012.

In addition to the adjustments in fees, as part of the annual fee analysis process, staff review the consolidated fee ordinance and make adjustments to ensure the current provisions are still applicable and that changes in business practices are reflected. Fees are proposed to be adjusted to reflect the results of the annual fee analysis which sets the flat fees based on the average number of review /inspection hours to complete the permit.

ALTERNATIVES

1. Direct staff to pursue the proposed partial adjustment to permit fees and rates in conjunction with the 2011 Mid-Bi Budget Update and prepare an ordinance implementing those changes.

The partial rate adjustment would start to bring fees back into alignment with cost recovery principles. A second rate increase would then be necessary to achieve full alignment in 2013.

2. Direct staff to pursue a full adjustment to permit fees and rates in conjunction with the 2011 Mid-Bi Budget Update and prepare an ordinance implementing those changes.

The full rate adjustment would bring fees into alignment with the cost recovery principles when the ordinance goes into effect.

3. Provide alternative direction to staff.

ATTACHMENT D
2011-2012 Mid-Biennium Budget Update

General Fund Economic Forecast

Economic Update and Revenue Forecast

Recession beginnings and endings are generally measured by Gross Domestic Product (GDP) and by that measure; the “Great Recession” began in December 2007 and ended June 2009 according to the National Bureau of Economic Research. Despite being out of recession for over two years, the economy has stagnated, with little improvement to many economic fundamentals that drive our economy such as employment and consumer confidence.

Since the recession ended, the world has seen a steady procession of events destabilizing the economy, such as sovereign debt problems in Europe, the Tsunami and ensuing nuclear crisis in Japan, revolution in Libya, National Debt ceiling debate and the subsequent credit rating down grade of the US Debt by Standard and Poor’s. These events individually have not been enough to derail the economic recovery but taken as a whole they have caused the economy to stall. In recent months economists locally and nationally have revised forecasts to reflect the stagnation being seen now and a further delay of when pre-recession consumer spending, GDP and employment, will return.

- The most recent Unemployment figure for the Seattle/Tacoma/Bellevue Metropolitan area is 9.1% for August 2011 (seasonally adjusted). Since the unemployment rate peaked at 9.6% in September 2009 unemployment has dipped below 9% only five times.
- Puget Sound region Taxable Retail Sales dropped from their peak in 2007 by 17% to their low in 2009. Taxable Retail Sales appear to have stabilized for the region, remaining flat for 2009 to 2010. At the beginning of 2011 the consensus from local economists was that the recovery would begin to pick up in the third and fourth quarters of 2011, but since then all have revised their projections down forecasting a slower recovery.
- The economy is in a Catch 22 situation. Companies are not hiring due to the weak demand for goods and services. Demand for goods and services are weak because unemployment is high and people are concerned they may be laid off. According to the Puget Sound Economic Forecaster, Puget Sound average home values are down 23% since 2007, and in the same time frame the S&P 500, a broad measure of the Stock Market as a whole, also lost 20% of its value. These factors combined result in a decrease to personal wealth which contributes to the low demand for goods and service.

Chart 1 provides a national picture of consumer spending and Gross Domestic Product (GDP). The chart shows spending has fallen along with GDP but has not recovered at the same rate.

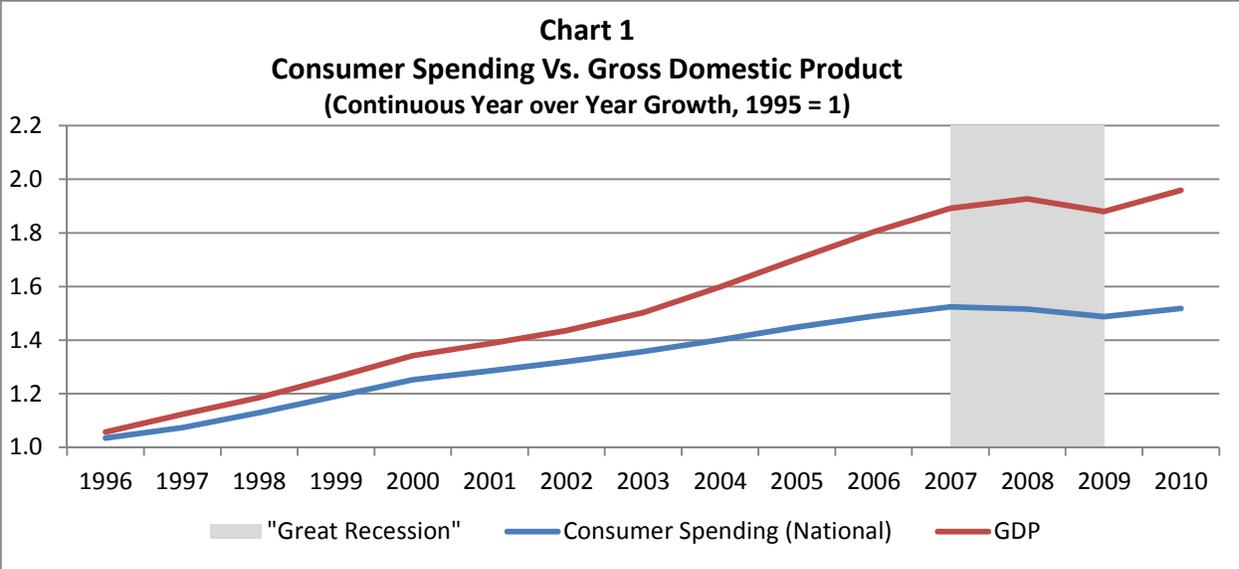
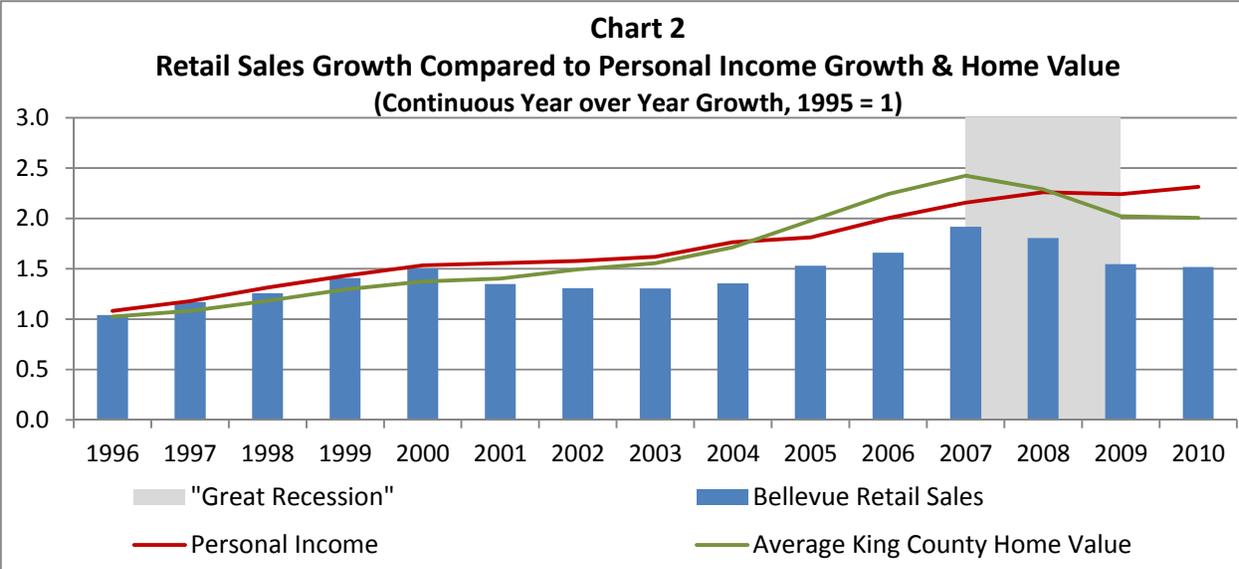


Chart 2 represents the City of Bellevue retail sales compared to King County Personal Income. The chart shows that spending has fallen since the recession started but personal income has merely remained flattened. The disparity shown between spending and personal income in chart 2 helps illustrate the problem the recession has caused, where personal income has not declined but consumers are feeling the loss of value of their investments in the equity and real estate markets so they cut back on spending.

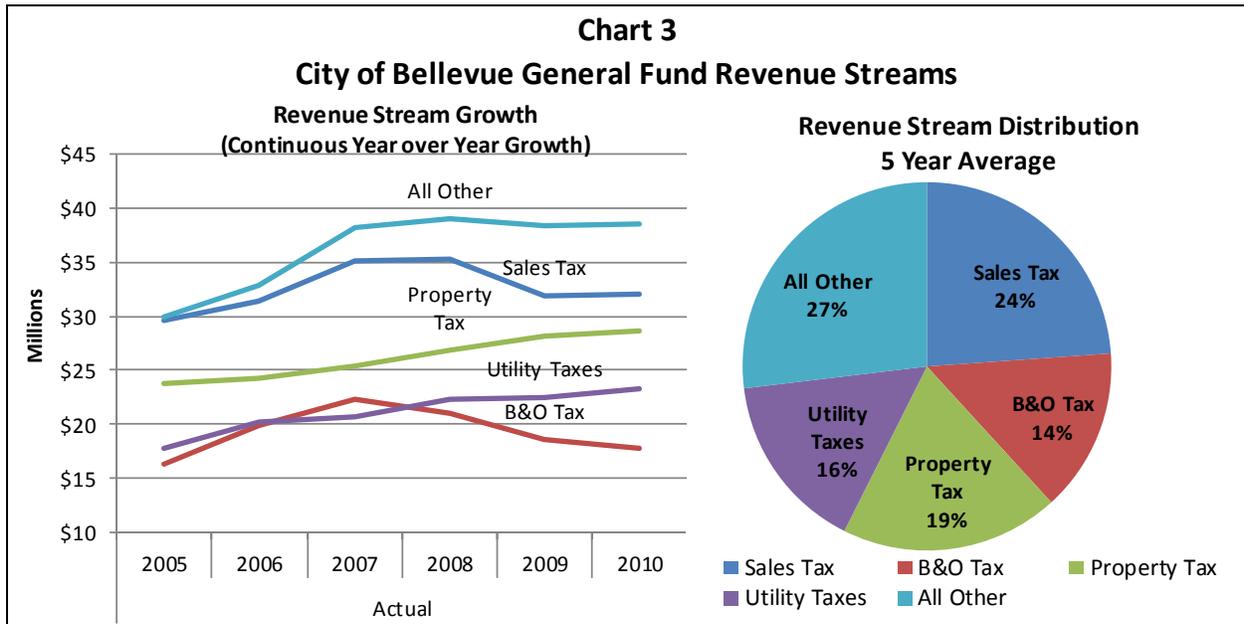


Past recessions have shown that the rates at which an economy falls into recession usually mirror the rates at which they recover. This recession seems to be an exception to this rule; recovery is expected to be a long, slow process. The current factors that are holding our economy back will take some time to work out. Home prices will remain in decline as long as the inventory is high. Mortgage delinquency rates are beginning to taper off, which will result in reduced housing inventory and stabilizing home prices. The August job creation numbers were a shock to the

economy, showing a net zero creation of jobs. The job numbers reveal that the private sector had positive job creation in healthcare and the industrial sector but the public sector shed an equal amount of jobs. The general consensus of local economists is that we will see low growth economic activity in the next year with moderate growth to follow.

General Fund Revenue:

The City’s revenue stream is fairly diverse but not without exposure to economic risk. Sales tax and B&O tax, in particular, are highly exposed to economic risk. As chart 3 shows, General Fund sales and B&O tax constitute 38% of the City’s General Fund revenue stream. It is also worth noting that both sales and B&O tax had the largest downturn of any revenue stream, illustrating how significantly they are affected by the recession.



General Property Tax

General property tax is levied on the value of real and personal property. The tax is calculated by dividing the levy amount by the assessed value. This method for determining the property tax means the rate may fluctuate dependent on the assessed value, but the actual amount paid will not be affected unless the levy is increased or decreased. Property tax consists of several components, of which the City component is only a fraction. The City is allowed to increase the levy annually by the lesser of 1% or the implicit price deflator (IPD), or may bank the allowable increase for later use. In the last ten years the City Council has approved three increases to the levy, 2% each year in 2007 and 2008 and 3% in 2009. Property tax is fairly consistent and does not fluctuate in significant amounts unless the levy is adjusted by the City Council.

Retail Sales/Use Tax

The City collects a 0.85% tax on retail goods and services. Sales tax revenue is the most volatile revenue the City collects. This volatility is due to its exposure to spending habits of individuals as well as construction activity within the City. Sales tax is reported to the City by sectors. The

major sectors for Bellevue are retail sales, construction, and auto sales, which together comprise nearly 75% of sales tax revenue; all other retail sales tax sectors make up the balance.

- Construction has been a driving force in the City's revenue growth leading up to the recession of 2007. Before the recession, construction accounted for 22% of sales tax revenue, but only 12% in 2010. Having such a large portion of the City's revenue subject to this volatility presents some challenges..
- Retail Sales is a broad category that is comprised of both durable and non-durable goods. Bellevue is a regional hub for retail shops, and many big box retailers as well as the downtown core containing the BellevueSquare.
- Auto sales are a sub-set of retail sales, but due to the relative size of auto purchases are separated to track and forecast separately.

Overall, sales tax revenue is forecasted to grow at 2.6% in 2011 and 1.6% in 2012. Collections in 2011 include \$996,000 of state one-time amnesty funding, which was a program allowing delinquent accounts to pay sales tax directly to the state without penalty. It is important to understand how the amnesty receipts obscure the bigger picture for Sales Tax revenue. When the one time amnesty funds are factored out, 2011 Sales Tax revenue remains flat from 2010 to 2011, while the 2012 forecast is a 4.0% increase over 2011 base sales tax.

Business & Occupation Tax

Business and Occupation (B&O) tax is made up of two parts, gross receipts and square footage. This revenue, like sales tax, is subject to volatility brought on by economic risk. If the economy falters so will Business and Occupation tax. B&O tax will follow sales tax but is somewhat less volatile. Over the last 5 years B&O tax accounts for 14% of the City's General Fund revenue. 2011 B&O tax collection are seeing no growth from 2010 levels, reflecting what is going on in sales tax revenue. Because B&O tax and sales tax are so similar it is assumed that they would have the same level of growth between 2011 and 2012 at 4%.

Utility Tax

Utility tax is collected from eight types of utility services: electric, gas, garbage, telephone, cellular phone, water, sewer and storm water. Aside from telephone and cellular phone taxes, utility taxes are fairly constant, rarely declining from year to year. Telephone and cellular are different in that they are viewed as less essential and thus more elastic than the other utilities. Telephone and cellular phones also are affected by the new practice of bundling services, where service providers combine several services thus lowering customers' overall bills. Bundling is an attempt to gain market share by lower customer combined bills while exploiting structural efficiencies. Due to the elasticity of demand and cost reductions through the use of bundling Telephone and Cellular tax collections are falling below budget by \$0.66 Million.

In total, utility tax comprise 16% of total General Fund revenue. Despite reductions in telephone and cellular tax, 2011 utility tax is expected to rise by 4.4% over 2010 levels. 2012 revenue for the Utilities is expected to grow by 3.8% from 2011 levels. The increase from 2010 to 2011 is largely due to rate increases from the various utilities.

Other Revenue

Other revenue consists of dozens of small revenues collected from various sources. Some of these revenues are:

- Excise Taxes
- Penalty/Interest Delinquent Tax
- Licenses and Permits
- Intergovernmental
 - State
 - Other Cities
- Charges for Goods and Services
 - Interfund/Department Services
- Fines/Forfeits
- Miscellaneous.

The two largest Other Revenue contributions to the General Fund are Intergovernmental and Interfund/Department Services. Intergovernmental consists of state revenue collected from Cities to which we provide services such as police and fire. State funding, sometime referred to as State Shared Funds, are distributions from State taxes such as liquor excise tax and liquor board profits. Governor Gregoire has included reductions in liquor excise tax and liquor board profits on the list of potential state budget reductions that she presented on October 27. The Governor's formal budget proposal will be presented to the Legislature on November 28. The impacts of the recent voter approved Initiative 1183, the liquor privatization initiative, and the Governor's potential state budget reductions are being evaluated.

Summary of General Fund Forecast

As discussed above, since the 2011-12 biennium budget was originally adopted, revenue has not recovered as was expected leaving a gap between revenue and expenditures. Major tax revenue projections for 2012 are \$4.9 million or 4.4% lower than adopted budget projections.

- The decrease is primarily due to a:
 - projected decline in sales taxes (\$2.7 million) because of the drop in consumer and business activity, and
 - projected decline in Business and Occupation taxes (\$1.9 million).

In addition the economy has affected the expenditure side by concurrently increasing expenditures. Higher inflation increased 2012 costs by \$1.6 million. The adopted budget assumed a June to June CPI-W: Seattle-Tacoma-Bremerton of 1.6% in 2012; actual CPI-W Seattle –Tacoma-Bremerton increased by 3.7%, increasing anticipated General Fund salary adjustments by \$1.6 million for 2012 over the adopted 2012 General Fund Budget.

With the stagnation of the economy, without change, the forecasted expenditures exceed revenues as shown in Chart 4.

