



**Council Budget Study Session
General Fund 2011-2016 Financial Forecast
September 27, 2010**

Executive Summary:

- *The 2011-2012 General Fund Budget is balanced over the biennium*
- *The tax base has been “reset” based on the impact of the recession and current projections*
- *Expenditures have been adjusted to a sustainable level through the Budget One Process*
- *A budget surplus of \$3.8 million is projected for 2016*
- *Fund Balance remains below the 15% target throughout the forecast period*

Overview & Forecast Results

The General Fund forecast reflects a slow recovery from the recession. The economy has begun showing signs of recovery, although bumpy over the first half of 2010. Regional economists are projecting that full recovery will take some time - mid 2013 for retail spending and employment and 2014 for housing.

The Forecast provides a look into the financial impact of the City’s proposed programs, priorities and policies in relationship to projected economic activity through 2016. It builds upon a “resetting” of the base, including 2010 revenue projections and calculates the future outlook based on anticipated current economic projections. Expenditures have been adjusted to an affordable and sustainable level through the City’s Budget One approach.

The following graph and table represent the current estimates of how General Fund resources and expenditures are expected to perform over the six-year forecast period. As illustrated below, revenues are projected to be equal to or above expenditures through the forecast period. However, the ending fund balance remains below the 15% target throughout the forecast period.

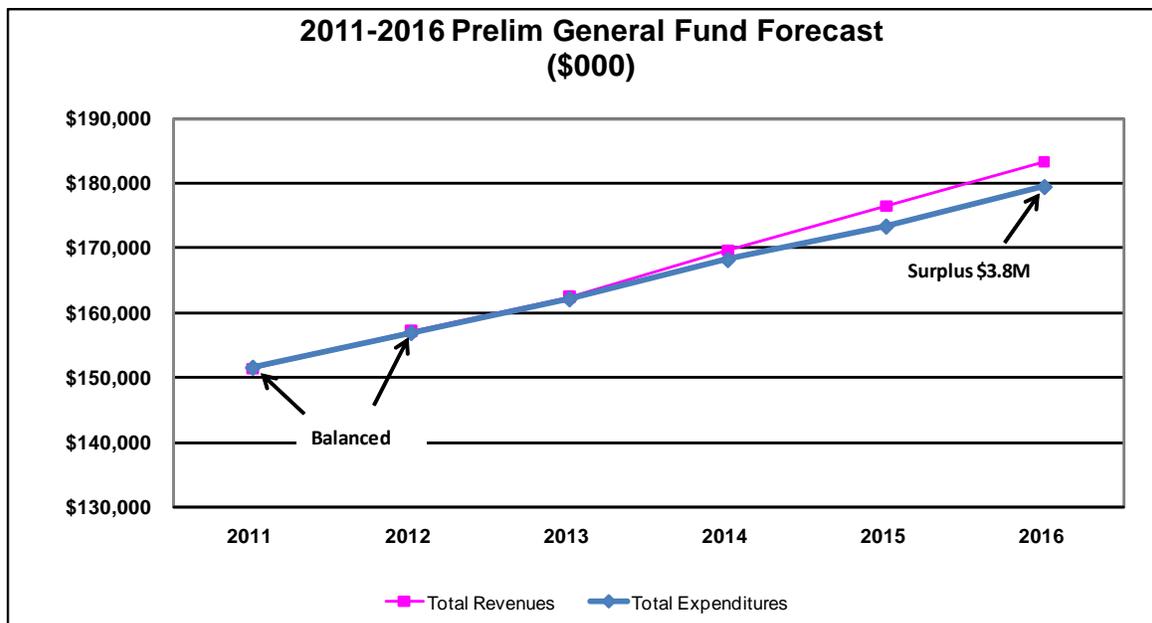


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2011-2016 Financial Forecast - Preliminary Budget

General Fund \$000

	2011 Base Forecast	2012 Base Forecast	2013 Base Forecast	2014 Base Forecast	2015 Base Forecast	2016 Base Forecast
RESOURCES						
Beginning Fund Balance	\$14,538	\$14,334	\$14,560	\$14,834	\$16,229	\$19,333
Taxes	111,223	116,395	122,097	127,941	133,400	138,725
Intergovernmental Revenues	16,593	16,810	17,223	17,641	18,083	18,535
Charges for Services	16,936	17,559	16,521	17,197	17,906	18,644
Licenses and Permits	425	455	469	485	503	521
Miscellaneous	1,916	1,999	2,093	2,194	2,301	2,413
Fines and Forfeits	1,294	934	935	936	937	938
Other Finance Sources	1,513	1,488	1,516	1,573	1,636	1,735
Anticipated Overcollections	1,499	1,556	1,609	1,680	1,748	1,815
Total Revenues	151,398	157,196	162,463	169,648	176,513	183,326
Total Resources	\$165,936	\$171,530	\$177,023	\$184,482	\$192,742	\$202,659
EXPENDITURES						
Personnel	\$93,824	\$97,737	\$101,633	\$105,764	\$109,361	\$113,919
Maintenance & Operations	59,073	60,566	61,931	63,376	64,959	66,535
Anticipated Undexpenditure	(1,294)	(1,333)	(1,375)	(887)	(910)	(933)
Total Expenditures	\$151,602	\$156,970	\$162,189	\$168,253	\$173,410	\$179,521
(Gap)/Surplus	(204)	226	274	1,395	3,104	3,806
2011-2012 Biennial Projected (Gap)/Surplus	\$22	0.01%	of General Fund's Biennial Budget			
Ending Fund Balance	\$14,334	\$14,560	\$14,834	\$16,229	\$19,333	\$23,138
Percentage of Target Revenues %	10%	9%	9%	10%	11%	13%





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Economic Outlook

The local economic outlook is improving despite slow job growth and high unemployment. The Puget Sound Index of Leading Economic Indicators reports an upward trend, more so than comparable

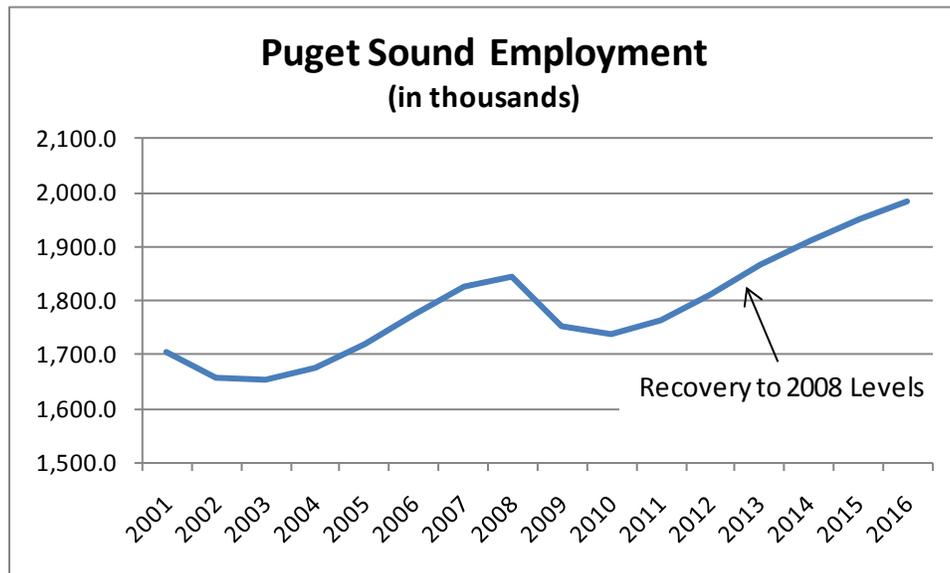
Highlights:

- *Slow recovery over several years*
- *The Leading Index points to continued expansion*
- *Blue Chip economists say no double-dip recession*

increases in each of the major regional recession recoveries in the past 35 years. This index is formulated to forecast the direction of the economy – and its main message is that the economy will continue to expand. While the potential of a double-dip recession and deflation looms in the news, not one Blue Chip economist is predicting either will occur.

Regional economists at the Puget Sound Economic Forecaster (PSEF) are predicting a “significant turnaround” in jobs during 2011. Job growth is projected to occur in the

third and fourth quarter of 2010, although the year will end with a 1% decline overall. Growth in 2011 is expected to be 1.5%, escalating to 2.8% in 2012. Regional job losses during the recession essentially wiped out the employment gains of the past decade. However, the region is projected to add 368,000 jobs over the next decade. The annual rate of employment growth is expected to remain modest through the forecast period. The following graph illustrates how employment in the Puget Sound region is expected to return to pre-recessionary levels by the end of 2013.



The housing market continues to remain weak. While home prices, mortgage rates and housing inventories are all more favorable than the past several years, credit availability, foreclosures and anxiety about another drop in home values and the economic conditions makes recovery hard to predict. Regional economists expect that the housing market will resume growth by year end but will not return to normal activity until several years of good employment growth occurs – or around 2014.

Retail spending is showing some signs of recovery with retail sales growth turning positive in the second quarter of 2010. Personal income and retail sales are projected to climb to 4.4% in 2011 with even stronger growth predicted for subsequent years. Retail spending is expected to fully recover in 2013.



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There are several potential factors that could hamper the projected growth, including deflation and a double-dip recession. The Government is contemplating several options for bolstering the economy, including tax cuts and credits, as well as providing funding for infrastructure projects. Additionally, the Federal Reserve remains poised to provide further “monetary easing” if the economy shows signs of continued deterioration.

Resource Drivers

The recent recession substantially reduced Bellevue’s tax base. Tax collections across all major economically sensitive revenues, including sales, business & occupation (B&O), and some utility taxes have declined since 2008. This reduction in the revenue base impacts Bellevue’s tax collections through the forecast period by “resetting” or lowering the starting point for growth. Despite this, the projection for average resource growth is expected to be higher than average expenditure growth.

Taxes, which average nearly 75% of resources, are projected to grow through the forecast period. This growth is mainly due to anticipated improvements in consumer spending and a strengthening housing market. Revenue growth is projected to grow at about 0.9% in 2011 and 3.8% in 2012 as consumer spending picks up. An average growth of 3.4% annually is projected for the remainder of the forecast period. Key resource drivers are discussed below.

Highlights:

- *Tax base will take several years to recover*
- *Modest revenue growth is expected*
- *Growth is based on positive employment and housing outlook*

Employment Growth. The creation of jobs, which leads to growth in personal income, increases spending for goods and services creating both sales, business & occupation (B&O) tax and other miscellaneous revenues. Regionally, employment growth is projected to accelerate, adding around 41,000 jobs (2.3%) a year over the next biennium and recovering 368,000 jobs over the decade. The Forecast assumes employment growth will average 2.3% per year for the forecast period.

Recovering Housing Market & Increased Demand for Goods. The Forecast assumes a slowly recovering housing market. Housing prices and volume of transactions are expected to increase through the forecast period, 4.4% and 7.8% respectively. A strengthening housing market will stimulate consumption and taxable retail sales. Taxable retail sales are expected to increase an average of 5.7% per year for the 2011-2012 biennium and average 6.0% for the remainder of the forecast period.

Development Activity. Development activity is expected to remain slow during the early years of the forecast, but return to a modest pace of growth by 2013 which is consistent with the Development Services Financial Forecast. Tax receipts associated with construction projects typically lag development activity by one year or more; the Forecast anticipates a modest growth in tax receipts in 2014. 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. Development activity is important for Bellevue because it drives growth in property, sales, B&O, and real estate excise taxes.



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Expenditure Drivers

The Forecast includes a downsized budget which was reset to a sustainable and affordable level through the Budget One process. Expenditures are projected to decrease by 1.1% in 2011 and then increase by 3.4% in 2012. The increase is largely driven by cost of living increases and rising State pension and health benefit costs. On average, expenditure growth is projected to be 2.7% for the 2013-2016 period, which is lower than the projected average resource growth for the same forecast period. Key expenditure drivers are discussed below.

Salaries. Salaries are projected to decrease by 2.8% in 2011 and increase by 2.2% in 2012. The decrease in 2011 is due to 0% cost of living increase based on the June 2010 CPI-W (-0.1%) and the reduction of 38.96 LTEs/FTEs. Salaries in 2012 are projected to increase by the rate of inflation or current labor agreements as well as estimated increases in merit pay. Increases for 2013-2016 average 2.5%. Approximately 70% of increased salary expenses are driven by cost of living adjustments and labor settlements which are typically based on the rate of inflation. The remaining 30% (\$0.6 million) are estimated increases in merit pay. The forecast assumes the 2011-2012 proposed level of staffing continues through 2016.

Health Benefits Contributions. General Fund health benefit contributions are expected to grow by an average of 8.6% per year through the forecast period. These estimates are based on experience and actuarial estimates. Health benefit costs have stabilized in recent years.

Highlights:

- *Modest expenditure growth driven by personnel & health benefit costs*
- *Regional communication center partnership expected to reduce long-term costs*

Other Personnel. Other personnel costs, which include pensions, specialty pay, and other benefits, are expected to rise by the rate of inflation through the forecast period. The following graph illustrates recent and projected inflation through the forecast period and illustrates that inflation varies substantially over time, but anticipated inflation rates (average 2.2%) are in line with average historical inflation rates (average 2.4%).

Maintenance and Operating (M&O). M&O costs, which include supplies, fleet, information technology, and utility costs, are anticipated to grow at the rate of inflation.

NORCOM. As directed by Council, Bellevue is a partner in the North East King County Regional Public Safety Communications (NORCOM) Agency. NORCOM created a partnership where agencies are owners who make decisions jointly to improve the delivery, cost, service, and interoperability effectiveness of public safety communications services on the Eastside. This partnership is expected to reduce Bellevue's costs by \$1.7 million per year by the end of the forecast.

Watch Items

Initiatives 1100 & 1105: The Privatization of Liquor

The City collects both liquor profits and excise tax. An explanation of the revenue sources and distribution specifics as provided by the Association for Washington Cities (AWC) are detailed below:



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- Liquor board profits are revenues from permits, licenses, and liquor store sales. The state first pays for the activities of the Liquor Control Board, and the remaining profits are divided 50% to the state, 40% to cities, and 10% to counties.
- Liquor excise taxes come from a state tax to consumers and restaurant licensees. The tax rates include a basic rate plus surcharges. Revenues from the excise tax are shared 65% to the state, 28% to cities, and 7% to counties.

While both initiatives close state liquor stores and privatize the sale and distribution of liquor, the measures have different effective dates and different impacts to state and local government revenue.

- Both initiatives eliminate liquor profits (projected to be \$910,000 in 2012)
- I-1105 eliminates the liquor excise tax effective April 1, 2012 (projected to be \$664,000 in 2012)
- I-1100 maintains the liquor excise tax

Currently, Washington has 315 state and contract liquor stores, and it is unknown how many private retailers will choose to sell liquor if one or both initiatives pass. Because it is not known how many or where liquor distributors and retailers will locate, the amount of additional revenues generated from local sales and B&O tax for Bellevue has not yet been determined.