Forecast Introduction

NOTE: The Forecasts contained in this section were prepared in September 2012 to aid Council with budget deliberations.

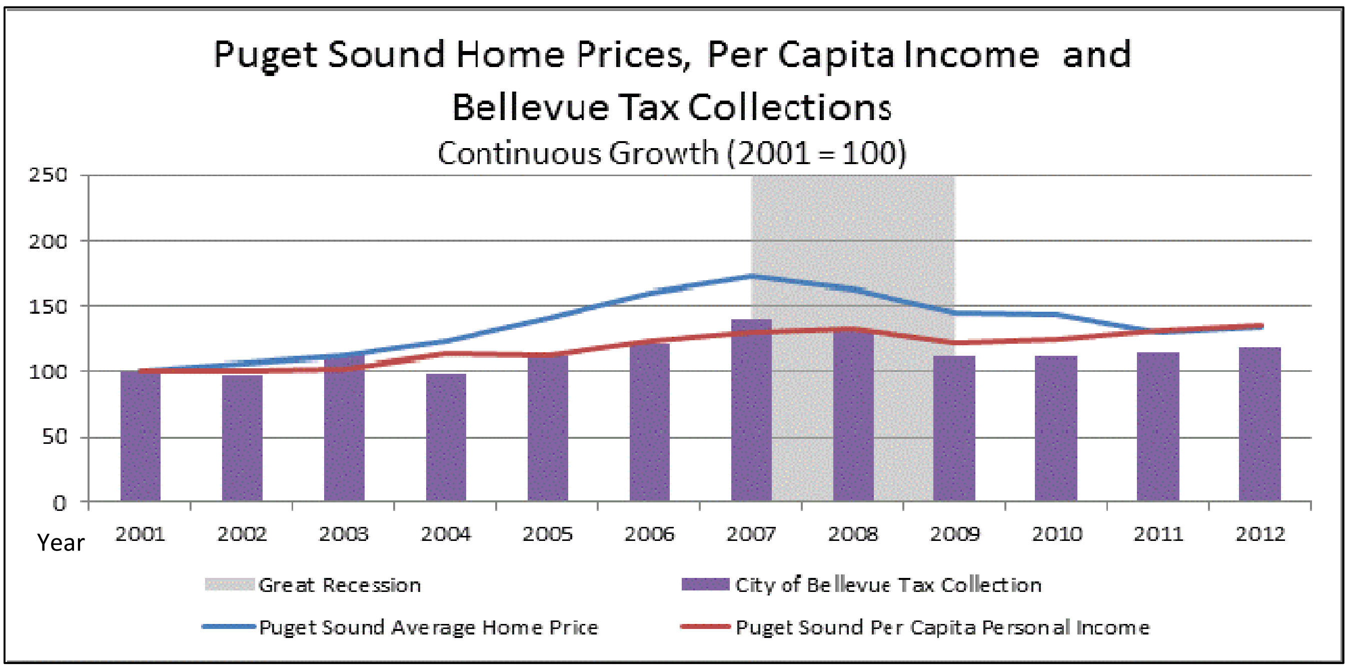
The following sections present the General Fund and Enterprise Funds financial forecasts for the 2013-2018 forecast period. Each Fund's proposed expenditure budget has been developed through the Budget One Process. The Budget One process is focused around the Outcomes that citizens value. Resources projections have been developed using current economic assumptions. Included in these forecasts are discussions of forecasts assumptions, key drivers, and a long-term outlook. Additionally, any risks or key issues have been identified.

- Economic Outlook
- General Fund Financial Forecast 2013-2018
- Utility Funds Financial Forecast 2013-2018
- Development Services Financial Forecast 2013-2018
- Parks Enterprise Fund Forecast 2013-2018

Economic Outlook:

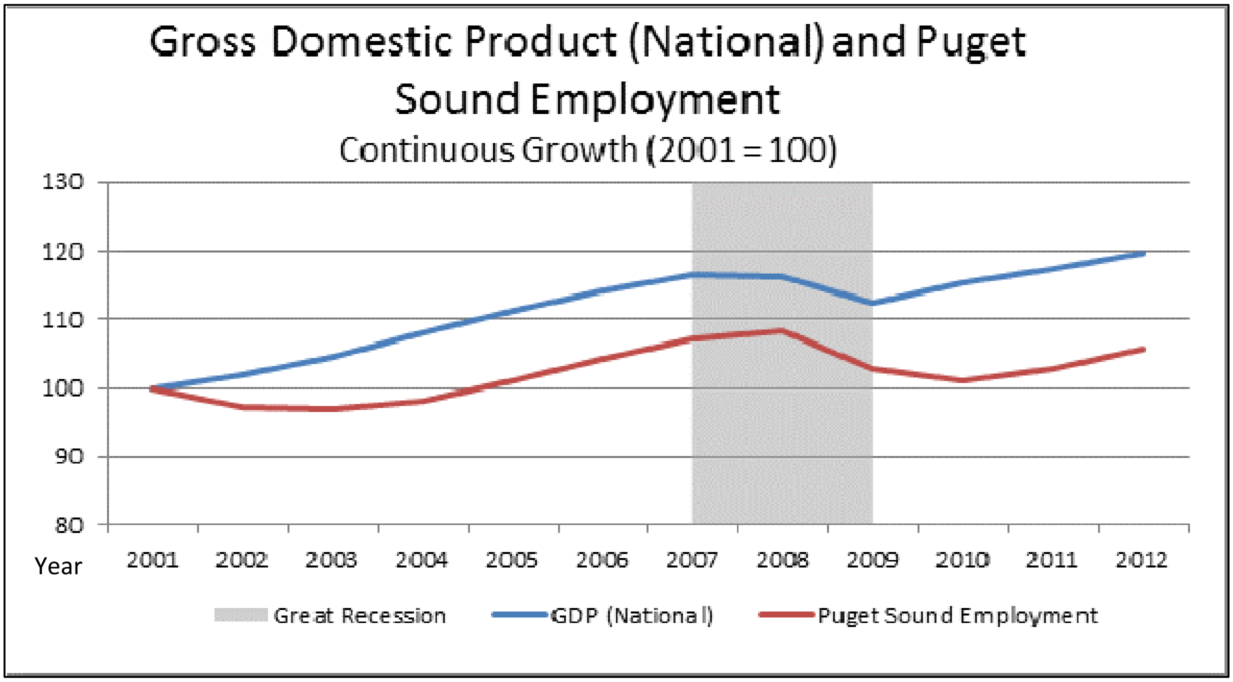
The economy is still in a fragile state, with the recovery at times looking to take a turn for the worse. Since the recession officially ended, the possibility of economic destabilizing events has been almost worse for economic health than any of the risks that actually materialized. The progression of globalization has caused national and local economies to be more and more intertwined.

<u>The State of the Recovery:</u>
Economists have been saying consistently, this recession was unlike any of the recessions we experienced in the past few decades and was probably only comparable to the Great Depression in many ways. The Great Recession, as it is sometimes called, struck at the core of the economy at many levels, from global to local. People saw their net worth evaporate as property values plummeted due to the financial crisis. A vicious cycle began where home values would drop and people default on their mortgages resulting in home values to fall even further due to the flood of housing supply. Even the people not directly affected by the mortgage defaults felt the effects. Real estate has been seen for many decades as a safe store of value and suddenly people’s most valuable assets lost value precipitously. Since the recession ended banks have been bailed out and consolidated with more healthy partners and in the end the financial system has stabilized. However, the housing market has continued to be a drag on the economy. The last two quarters have begun to look like the start of the recovery the housing market. The biggest road block to this recovery is the large inventory of homes on the market. Even as home sales have begun to increase there are still many mortgages in danger of default adding to the inventory of homes on the market and it may take several years to get the housing inventory back to a normal level. The chart below compares home prices, per capita income and tax collections. Per capita income was fairly flat compared to both home prices and tax collections.



Source: The Puget Sound Economic Forecaster, March 2013 Data

Aside from the financial system, businesses in general fared well through the recession recovering lost productivity by 2011. Despite business productivity's apparent quick recovery, prerecession staffing levels have not materialized. Through the recession companies shed workers to "right size" for falling demand. After the recession ended and demand began to rise businesses were reluctant to rehire due to the shaky ground the economy appeared to be on. The chart below shows Gross Domestic Product rising in a straight line after the end of the recession while Puget Sound Employment continued to dip and only in the last two years began to rise again.



Source: The Puget Sound Economic Forecaster, March 2013 Data

Risks

Global and National risks on the horizon:

- The European Union's (EU) sovereign debt crisis has continued to be a looming risk to the global economy. The global economic recession caused several highly-leveraged EU countries to become undercapitalized to the point of being in danger of defaulting on their national debt. Unfortunately the political structure of the Euro Zone has caused this problem to be harder to sort out than in non-Euro Zone countries.

- The Middle East is a constant risk to our economic stability. The recent "Arab Spring" uprisings and threats from Iran to close the Strait of Hormuz to international shipping have caused greater than usual instability in the region. This region's stability is closely linked to United States' economy because of the dependence on oil. The United States imports approximately half of the oil it consumes and a large portion of that comes from the Middle East. High oil prices translate into less free cash flow for consumers and higher shipping costs for goods causing exports to be relatively more expensive compared to domestic products.

- The “Fiscal Cliff” refers to expiration of several federal financial policies, the expiration of the Bush tax cuts, extension of unemployment benefits and automatic spending cuts across the federal budget. The Congressional Budget Office has said that if these policies are not extended the country is likely to face a retraction of the economy of 1.3 percent and another recession.

Local Economy:
On the local level the economy is acting like the “Little Engine That Could”. Despite all the risks, it keeps trudging along at a slow but steady pace.

- The Puget Sound region has traditionally performed better than the national economy. This is due to the success of the many businesses that call the region home, such as Boeing, Microsoft, Starbucks, and Amazon to name a few. Ultimately, the main driver to any local economy is employment and the Puget Sound area has outpaced the nation in the recovery.

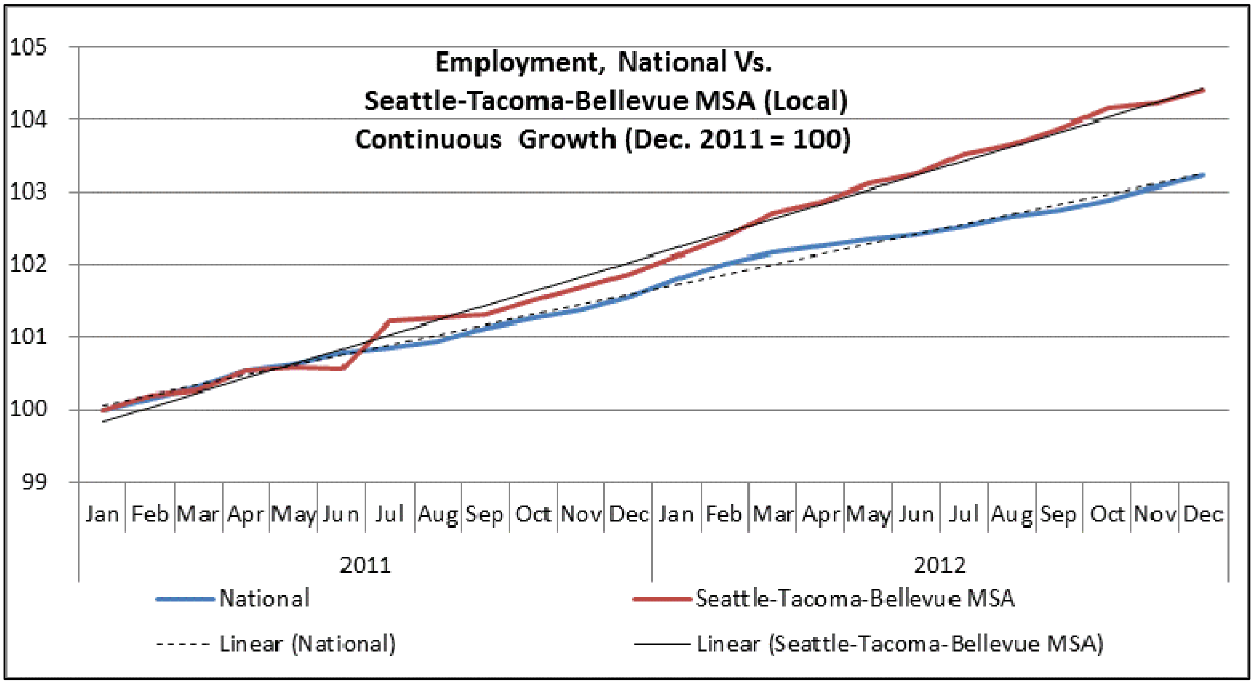
- Consumer demand is improving but has not reached pre-recession levels. Tepid consumer demand is likely most closely attributable to the lack of recovery in the construction and housing markets. Construction has been an integral component of the City’s economy over past years, as well as a big component in our tax collections. A recovery in construction is dependent, largely, on the housing market, and the housing market has been overloaded with inventory, driving down costs and making it less profitable to construct new homes. A bright spot in all of this is that due to the increased demand for apartments, rents have started to climb and that coupled with the bottomed out housing prices make it more cost effective for people to buy a home rather than rent one. Once the housing inventory is reduced through sales, home prices are expected to also rebound, thus creating a more profitable environment for home building to resume. Unfortunately this situation will take some time to work itself out and it may still take a few years to get back to prerecession levels. A promising sign of recovery in construction is the recent ground breaking for the first high rise since 2008 as well as other permits being issued for large projects.

- Another positive sign for the region’s economic outlook is the office vacancy rate which has continued to decline over the last eleven quarters. Currently the fourth quarter 2012 Bellevue Central Business District vacancy rate is at 10.6 percent down from 13.5 percent in the first quarter according to CB Richard Ellis “Market View Puget Sound Office”. Falling vacancy rates indicate that businesses may be ramping up operation locally and may likely start hiring.

- Local Seattle-Tacoma-Bellevue Metropolitan Statistical Area (Local) employment numbers have been similar to the national numbers with a peak in unemployment in 2008 and a slow recover since. The average annual national and local unemployment rate was 9.7 percent and 9.6 percent respectively in 2010. Since 2010 the national unemployment rate has improved to 7.8 percent and the local unemployment rate is 6.9 percent at the fourth quarter 2012.

- One indicator of the relative strength of the Puget Sound is a comparison on Employment data comparing the national trend to the local experience. As shown in the chart below, the National employment numbers in the last twenty four months the employment base has grown by 3.2 percent, while the local employment base has grown by 4.4 percent. Locally the recovery in employment is marginally better than the Nation due to the strong companies that call the Puget Sound Region home.

  In the last year a big driver in employment the employment recovery is Boeing. Boeing currently has seven years of back log on their books and has been ramping up production to full capacity to meet demand. It is projected that at the close of 2012 Boeing will be fully staffed and hiring will diminish. Amazon has also continued to expand their operations when other companies have struggled to maintain. It is important to note that The Puget Sound is an economic engine that knows no city limits and even though Amazon and Boeing are not located in Bellevue, their employees live and shop in Bellevue.



Source: U.S. Bureau of Labor Statistics

Overall, the City's forecast assumes a modest recovery of tax revenue for the next few years recognizing that the Puget Sound will continue to grow slowly as consumer demand returns. It should be noted that the above-mentioned global and federal risks are not factored into the forecast at this time.

2013-2018 General Fund

Financial Forecast

Executive Summary:

- *The 2013-14 General Fund Budget is balanced over the Biennium, with revenues covering existing service levels.*
- *The expenditure forecast assumes no additional layoffs baring further economic decline, yet does not restore previous reductions.*
- *General Fund reserves are preserved.*
- *Revenue collections are projected to see modest increases through the forecasted period.*

Historical Reductions:

The after effects of the Great Recession continue to present some degree of economic uncertainty. The City realigned organizational capacity to match the current economic climate. Since the adoption of the 2011-2012 Budget, City management's strong actions have brought expenditures closer in line with revenues. The organization continues to work diligently to address the slow recovery through continued management actions, implementing new revenues, and implementing organizational best practices, including identifying new process improvements and efficiencies to control expenditures. Great efforts have been made to reduce impacts to frontline services and to the public.

- During the 2011-2012 Budget (adopted in December 2010), the General Fund budget was reduced by just over $18 million from the previous biennial budget. This included the elimination of 42 FTEs (with 13 FTEs in DSD).
- In late 2011, during the Mid-Biennial Budget update, the 2012 General Fund budget was reduced by another $6.5 million, and included elimination or freeze of a further 31 FTEs; and
- In late 2011, during the Mid-Biennial Budget Update, Development Services froze their budget thus leaving 15 FTEs open to reflect the depressed construction market.

Overview & General Fund Forecast Results:

The General Fund forecast shows that revenues and expenditures are growing at nearly the same rate over the next few years. Past recessions have shown that the recoveries are generally marked by the higher than average rate of economic growth, followed by a more moderate growth. The Great Recession has proved to be an exception to that rule, where the recovery has been very weak and fraught with setbacks. Regional economists are generally in agreement that the recovery will remain weak for the next few years, but reserve caution about the outlook because of several possible risks to the economy's ongoing health.

2013-2014 Financial Forecast
General Fund
(in $000)

	2012 Actual	2013 Adopted Budget	2014 Adopted Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Beginning Fund Balance	$20,169	$20,511	$20,511	$20,511	$20,623	$20,741	$20,880
RESOURCES							
Property Tax	$30,285	$30,681	$31,043	$31,499	$31,912	$32,317	$32,728
Sales Tax	34,762	35,987	37,550	39,673	41,830	43,980	46,152
Business & Occupation Tax	19,736	20,319	21,067	21,961	22,811	23,660	24,456
Utility Tax	24,673	26,744	28,006	29,283	30,440	31,714	32,889
Miscellaneous Revenue	46,181	46,580	47,624	47,904	48,560	49,365	50,478
Estimated Annexation Revenue	0	2,632	2,364	2,429	2,490	2,555	2,620
Total Revenue	$155,636	$162,944	$167,654	$172,749	$178,043	$183,590	$189,322
Total Revenue % Growth		4.7%	2.9%	3.0%	3.1%	3.1%	3.1%
Revenue Growth less Annexation		3.0%	3.1%	3.0%	3.1%	3.1%	3.1%
EXPENDITURES							
Personnel	$95,602	$100,306	$103,450	$107,159	$110,910	$114,792	$118,809
Maintenance & Operations	56,743	60,005	61,839	63,048	64,526	66,103	67,729
Estimated Annexation Expenses	0	2,632	2,364	2,429	2,490	2,555	2,620
Expenditures at Existing Service Levels	$152,345	$162,944	$167,654	$172,636	$177,925	$183,450	$189,158
Total Expenditure Growth		7.0%	2.9%	3.0%	3.1%	3.1%	3.1%
Expenditure Growth less Annexation		5.2%	3.1%	3.0%	3.1%	3.1%	3.1%
(Gap)/Surplus	$3,291	$0	$0	$112	$117	$140	$164
Ending Fund Balance	$23,460	$20,511	$20,511	$20,623	$20,741	$20,880	$21,045
% Ending Fund Balance	15.1%	12.6%	12.2%	11.9%	11.6%	11.4%	11.1%

Note: Percentage changes are shown both as total gross changes and net of annexation to enable further comparisons of growth in existing services and revenues. The chart below shows the existing services' growth levels by line item net of the annexation.

2012 Ending Fund Balance does not match 2013 beginning fund balance due to 2012 ending fund balance not being known at the time of adoption.

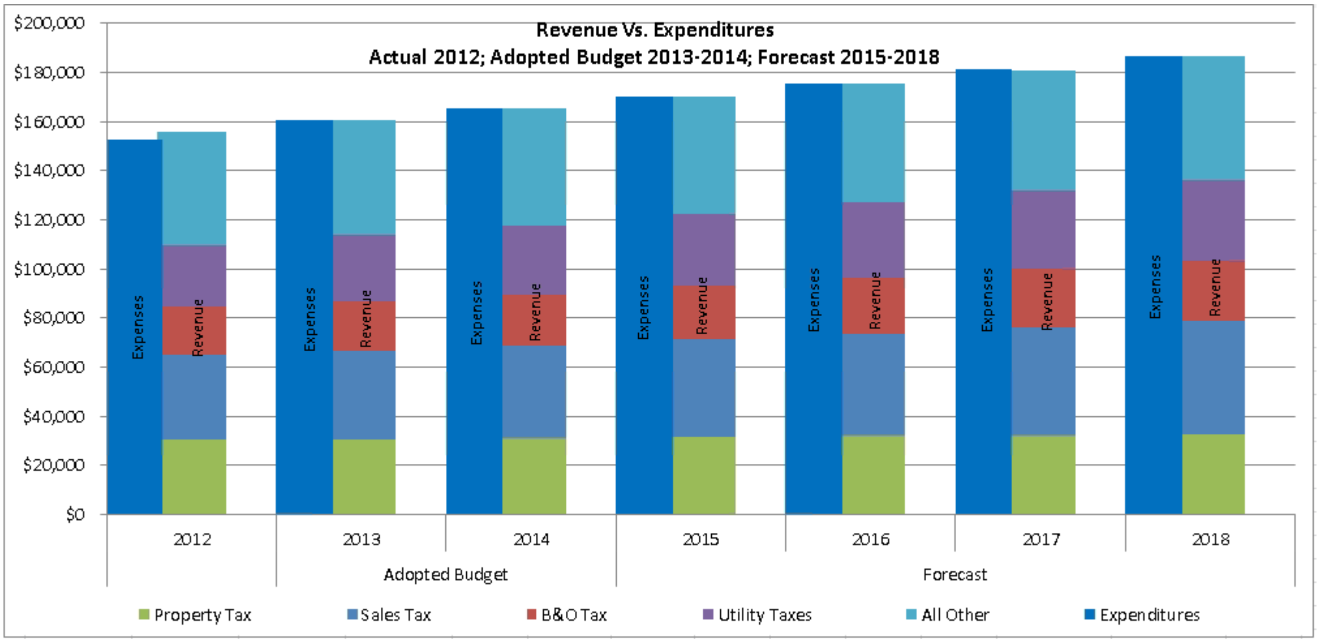
2013-2018 General Fund

Financial Forecast

2013-2014 Financial Forecast
General Fund
(%Δ)

	2013 Adopted Budget	2014 Adopted Budget	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
RESOURCES						
Property Tax	1.3%	1.2%	1.5%	1.3%	1.3%	1.3%
Sales Tax	3.5%	4.3%	5.7%	5.4%	5.1%	4.9%
Business & Occupation Tax	3.0%	3.7%	4.2%	3.9%	3.7%	3.4%
Utility Tax	8.4%	4.7%	4.6%	4.0%	4.2%	3.7%
Miscellaneous Revenue	0.9%	2.2%	0.6%	1.4%	1.7%	2.3%
Total Revenue Net of Annex.	3.0%	3.1%	3.0%	3.1%	3.1%	3.1%
EXPENDITURES						
Personnel	4.9%	3.1%	3.6%	3.5%	3.5%	3.5%
Maintenance & Operations	5.7%	3.1%	2.0%	2.3%	2.4%	2.5%
Total Expenditures Net of Annex.	5.2%	3.1%	3.0%	3.1%	3.1%	3.1%

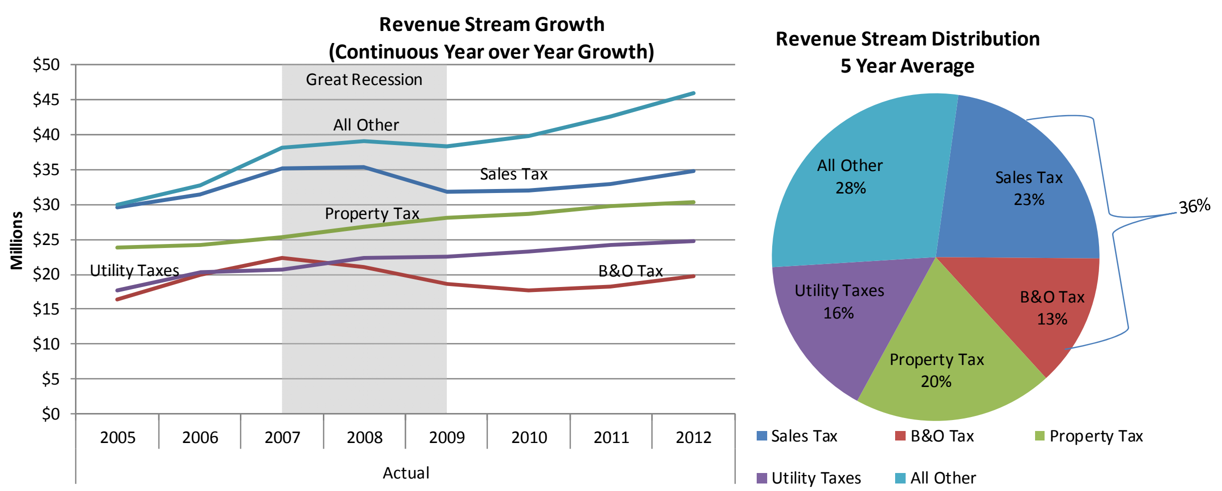
Notes: 2013 Utility Rates is 8.4 percent reflecting the increase in Utility rates that will impact the General Fund.
The growth of miscellaneous revenue in 2014 beyond is impacted by (1) I-1183 holding Liquor Profits at 2013 levels, (2) MVFT forecast assumes no growth due to the state-shared formula, and (3) the removal of 2014 one-time funding.



Revenue Drivers:

The General Fund's main sources of revenue are sales, property, Business and Occupation (B&O), and Utility Taxes. Overall, the most sensitive of these revenue sources due to economic conditions are sales and B&O Taxes. These taxes are directly linked to business transactions. Property Tax rates are directed by Council policies and annual legislative actions, and Utility Tax is dependent on utility rates, residential usage and, to a lesser degree, business activity. The below chart shows the historical growth rate and average composition of General Fund Revenue:

Adopted Budget General Fund Revenue



Note: Revenue Streams do not include fund balance
2011-2012 All Other (as shown above) increases includes one-time revenues and reimbursements

The City's Sales Tax collections hit bottom from the recession in 2010 and have since started to grow again at a modest rate, with a 2.9 percent increase in 2011. Sales Tax is the most volatile revenue source the City has. 2012 ended with an increasing trend with a 4.4 percent increase over 2011. As Sales Tax has begun to grow in the last two years, the missing piece has been construction Sales Tax. As stated previously, construction has been slow to recover, and the City's forecast assumes a continued slow recovery with retail sales as the main recovery driver. The forecast assumes an overall 3.5 percent increase in 2013 and 4.3 percent in 2014.

Business & Occupation Tax also bottomed out in 2010 and has seen a moderate recovery in the last two years, with a 3.2 percent increase in 2011 and 7.7 percent increase in 2012. The 2012 results were somewhat misleading due to large audit and Delinquency and Detection findings. Less audit and Delinquency and Detection B&O Tax was a 3.8 percent increase over 2011. B&O Tax is a little less volatile than Sales Tax. The adopted budget assumes a 3.0 percent increase in 2013 and 3.7 percent in 2014.

Expenditure Drivers:

Personnel, including health benefits, constitute two thirds of the General Fund budget, making it the biggest driver of costs for the City. Personnel costs are made up of two main components, salaries/wages and benefits. The City's salaries/wages costs are aligned to the regional jobs market and influenced by the Seattle-Tacoma-Bremerton Consumer Price Index for Wage Earners (CPI-W) measured June to June. Benefits increase based on claim activity projected by the City's actuary.

Utilities 2013-2018 Financial Forecasts
Water, Wastewater, and
Storm & Surface Water Funds

Executive Summary:

- *Bellevue's utility rates are competitive, and even more so in the future with the Council-adopted financial policy to plan and prepare for infrastructure replacement and renewal.*
- *Utility rate increases are necessary to fund on-going operational and capital needs to maintain current service levels and system integrity.*
- *Major cost drivers continue to be wholesale costs and capital investment.*
- *Utilities' forecast minimizes projected rate increases through significant containment measures and efficiency gains.*
- *Lower water revenues due to declining water demand has reduced operating reserves in the water fund despite cost containment efforts. Projected rate increases coupled with on-going cost containment will restore reserves to target levels within the 6-year forecast period.*

The forecast is based on the Utilities 2013-2014 budget proposals. Since all Utility functions are supported by rates, the forecasts include funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term renewal and replacement (R&R) requirements.

The overarching goal for this forecast was to limit projected rate increases for all three funds to levels previously shared with Council despite increasing costs and a decrease in rate based revenues, especially in the Water Utility. This goal has been largely accomplished for all three Utility Funds through cost containment measures and efficiencies gained through process improvements in the operations and capital programs.

Key Challenges

The Utilities operating budget is comprised of the following cost components:

1. Payments to internal and external service providers and tax obligations
2. Capital Improvement Program (CIP) and Renewals & Replacements (R&R)
3. Operations
4. Operating reserves

The 2013-2014 Budget includes the following proposed total utility rate increases for 2013-2014:

	WATER		SEWER		STORM	
	2013	2014	2013	2014	2013	2014
Wholesale	8.2%	3.1%	6.3%	0.0%		
Local	4.0%	4.5%	3.0%	4.0%	7.3%	8.1%
Total	**12.2%**	**7.6%**	**9.3%**	**4.0%**	**7.3%**	**8.1%**

The following section provides a breakdown of rate increases by cost category.

1. Payments to Internal and External Service Providers and Tax Obligations

The following utility rate increases for the 2013-2014 biennium will be required to fund payments to service providers and tax obligations:

	2013	2014
Water Rate	9.5%	4.0%
Wastewater Rate	7.0%	0.3%
Storm and Surface Water Rate	2.1%	0.7%

Key drivers associated with these rate increases are discussed below.

Wholesale Costs
Wholesale costs related to the purchase of water supply from the Cascade Water Alliance (Cascade) and payments to King County for wastewater treatment represent just over 40 percent of Utilities' 2013 operating budget. Rate increases are needed to fund cost increases for these functions. To ensure sufficient funding to maintain the integrity of utility operations and capital programs, Council-adopted policy directs that rate increases necessary to fund wholesale costs be passed through to the customer so as to not degrade operations or the CIP.

The projected cost increases from Cascade to purchase water supply have been updated since the early outlook forecast. The updated cost increase will be slightly lower for 2013 and higher for 2014. The results of these cost increases to the Bellevue retail water rate are 2.5 percent and 2.8 percent in 2013 and 2014, respectively.

Similarly, the projected cost increase from King County for wastewater treatment has been updated since the early outlook forecast. The cost increase will be slightly higher for 2013. The impact of the cost increase to the Bellevue retail wastewater rate is 6.3 percent in 2013.

Decrease in Water Demand and Corresponding Impact on Water Service Revenues
Water demands have been decreasing over the past several years; this trend also has affected other water utilities in the region and across the country. There are three primary factors contributing to decreasing water demand: (1) long-term conservation efforts; (2) two consecutive years (2010 and 2011) with cool, wet summer weather and low sales; and (3) impacts of the economic recession. The combination of these factors has reduced water reserves to unacceptably low levels despite cost containment efforts. Projected rate increases coupled with cost containment efforts will restore reserves to target levels by 2017.

One-time rate adjustments of 5.7 percent in 2013 and 0.3 percent in 2014 are also included in water utility rates. These adjustments reflect the cumulative effects to date of the current wholesale water supply contract with Cascade. Cascade costs are fixed in the short term and, therefore, do not fluctuate with retail water sales.

Water rate revenue projections have been revised downward from previous estimates to better reflect current usage trends. Wastewater revenue projections have also been adjusted downward to recognize the linkage between water and sewer volumes.

A cost containment plan developed and implemented in 2011 identified $5.7 million in cost reductions for the Water Utility for the 2011-2012 biennium. This is the primary reason water rate projections have been largely limited to those shown in the previous forecast from 2010.

Tax Obligations and Internal Service Providers Costs
Taxes and franchise fees Utilities pay, as a taxpayer, and costs that Utilities pay to the General Fund for support services represent approximately 15 percent of Utilities' 2013 operating budget. The cost increases to fund these financial obligations will require increases of 1.3 percent in 2013 and 0.9 percent in 2014 to water utility rates, 0.7 percent in 2013 and 0.3 percent in 2014 to wastewater utility rates, and 2.1 percent in 2013 and 0.7 percent in 2014 to storm and surface water utility rates.

2. CIP and Renewals and Replacements

The capital investment program and long-term infrastructure R&R needs will require the following utility rate increases for the 2013-2014 biennium:

	2013	**2014**
Water Rate	2.9%	3.4%
Wastewater Rate	2.3%	1.6%
Storm and Surface Water Rate	3.1%	10.0%

Key drivers associated with these rate increases are discussed below.

Impact of Aging Infrastructure on both Operating and Capital Programs
Utilities' infrastructure is aging and most of the systems are well past their mid-life. As a result, the drinking water, wastewater, and storm and surface water systems are experiencing more failures and, the cost to operate, maintain, rehabilitate and replace infrastructure is increasing.

To minimize costs and optimize the integrity of the systems, Utilities has developed a strategic asset management plan that prioritizes asset replacements based on criticality to achieving service level goals and also identifies the most cost-effective capital improvement, operations, and maintenance strategies. These planning efforts coupled with effective maintenance programs are designed to extend infrastructure life and minimize life-cycle costs. These actions are integral to the funding strategies designed to smooth rate increases and provide intergenerational equity.

Additional Capacity to Accommodate Growth
Utility infrastructure capacity needs to be in place in advance of development. Additional capacity is needed in the Downtown, Bel-Red, and Wilburton areas to accommodate growth. The adopted Utilities CIP anticipates $38 million in the 2013-2019 CIP Budget for funding of projects to accommodate population growth.

East Link
Utility relocations related to the East Link project, totaling $7.7 million in 2014, will be funded from the R&R accounts in each fund. There are no utility rate impacts associated with this project.

Mobility and Infrastructure Initiative
As part of the 2009-2010 budget process, Council adopted a 10-year plan to fund work related to opening and restoring streams in the Bel-Red corridor as that area redevelops from annual rate increases in the Storm and Surface Water Utility of 1.5 percent per year. These increases are included in the forecast through 2018.

3. Operations

The following utility rate increases for the 2013-2014 biennium will be required to fund operations:

	2013	2014
Water Rate	0.5%	0.9%
Wastewater Rate	0.3%	0.7%
Storm and Surface Water Rate	1.9%	1.4 %

Key drivers associated with these rate increases are discussed below.

Personnel and Other Operating Costs
In 2011-2012, Utilities undertook significant cost containment measures, amounting to $9 million. More sustainable measures, amounting to $4.5 million, are included in the 2013-2014 budget proposals to minimize the need for utility rate increases. As part of the cost containment measures, four FTE reductions are included in the 2013-2014 Budget. The key criteria used in identifying the cost containment measures were that they have minimal direct service impact to customers and that system integrity is maintained.

Consistent with the City's General Fund forecast, in all three Utility funds, personnel and associated benefit costs are a significant rate driver. The projected personnel cost increases are largely due to increases in medical costs and other benefits. These costs are lower than projected in the early outlook forecast.

Other operating costs are projected to increase from 2012 levels at less than the general rate of inflation due to cost containment efforts mentioned above.

Regulatory Requirements
State and federal mandates to protect drinking water and surface water quality are increasing, such as the National Pollutant Discharge Elimination System (NPDES) Permit requirements. Ecology has issued a new NPDES Municipal Stormwater Permit that builds on the current permit and adds new costs. Based on permit language, new conditions will be phased in over the 5-year permit term beginning in August 2013. The current Storm and Surface Water budget includes approximately $150,000 in costs related to early phases of implementation of the new permit.

4. Operating Reserves

Keeping Rates Low While Meeting Long Term Objectives of Utilities Financial Policies
In light of the increasing costs Utilities faces in the 2013-2014 biennium, one of Utilities' key challenges is keeping utility rates low and predictable while meeting the long term objectives of Utilities adopted financial policies. Consistent with Council-adopted policy, operating reserves are used to smooth rate increases over the forecast period.

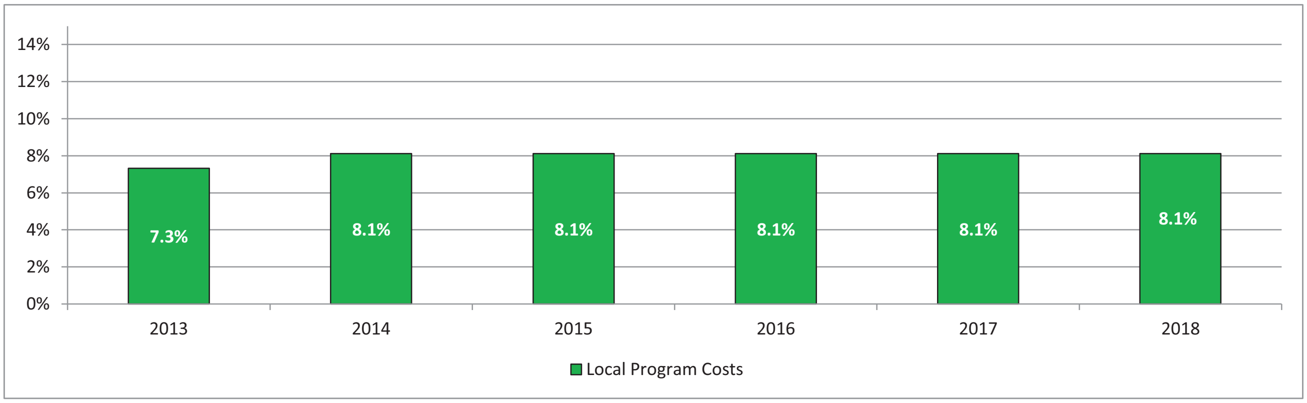
The following utility rate decreases/increases for the 2013-2014 biennium will result from the use of operating reserves to stabilize rate increases:

	2013	**2014**
Water Rate	-0.7%	-0.7%
Wastewater Rate	-0.3%	1.4%
Storm and Surface Water Rate	0.2%	-4.0 %

The following section provides a brief review of each Utility fund forecast and key rate drivers.

STORM AND SURFACE WATER UTILITY FUND
2013 - 2018 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2013	2014	2015	2016	2017	2018
Prior Year Bill	$18.26	$19.61	$21.19	$22.91	$24.77	$26.78
Increase	$1.35	$1.58	$1.72	$1.86	$2.01	$2.18
Projected Bill	$19.61	$21.19	$22.91	$24.77	$26.78	$28.96

Key Rate Drivers

- **Taxes/Intergovernmental**
  Interfund payments to other City departments will require rate increases of about 2.0% and 0.5% in 2013 and 2014, respectively, and increases averaging about 0.6% per year thereafter. State taxes will require rate increases of 0.1% in 2013 and 0.2% in 2014, and 0.2% per year thereafter due to increased rate revenues.

- **Capital Program**
  Capital costs, including transfers to the R&R account, will require rate increases of 1.6% and 8.5% in 2013 and 2014, respectively, and an average of about 6.3% per year thereafter. This funds the Coal Creek Parkway and Kelsey Creek at NE 8th St. culvert replacements, repairs to stormwater pipe defects, and flood control and environmental preservation projects. In addition, as part of the Mobility and Infrastructure Initiative, Council approved rate increases of 1.5% per year through 2018 to fund stream restoration in the Bel-Red corridor.

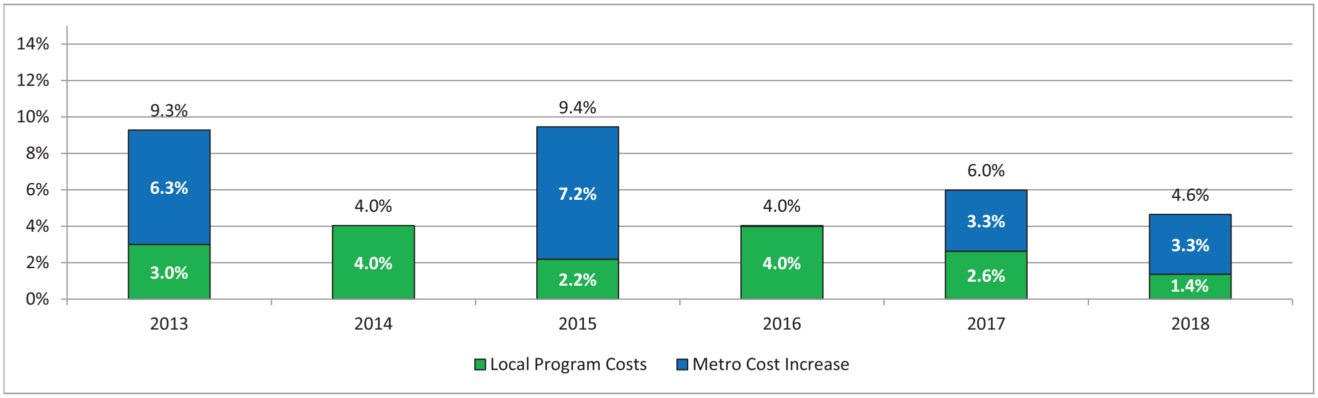
- **Operations**
  Projected personnel costs will require rate increases of about 1.5% and 0.6% in 2013 and 2014, respectively, and about 1.3% per year thereafter, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The Storm utility will fund half of street sweeping operations starting in 2012; this has a one-time rate impact of 1.1% in 2013. A one-time rate increase in 2014 of about 0.9% is needed to fund new costs relating to NPDES requirements. The impact of other operating expenses will require rate decreases of -0.7% in 2013 and -0.1% in 2014, and an average increase of 0.2% per year thereafter. These rate impacts include the effects of cost containment efforts.

- **Operating Reserves**
  Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate increase of 0.2% in 2013 and a decrease of -4.0% in 2014 and an average decrease of -1.9% per year for the remainder of the forecast period.

WASTEWATER UTILITY FUND

2013 - 2018 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2013	2014	2015	2016	2017	2018
Prior Year Bill	$60.39	$66.02	$68.71	$75.20	$78.23	$82.90
Increase:						
Wholesale	3.79	0.00	4.98	0.03	2.61	2.72
Local	1.84	2.69	1.51	3.00	2.06	1.13
Total	$5.63	$2.69	$6.49	$3.03	$4.67	$3.85
Projected Bill	$66.02	$68.71	$75.20	$78.23	$82.90	$86.75

Key Rate Drivers

- **Wholesale Costs**
  Wholesale costs are increasing primarily due to ongoing debt service and operating costs from the Brightwater treatment plant and operating costs related to compliance requirements associated with the Combined Sewer Overflow program. The King County/Metro rate will increase by 10.4% in 2013 with no increase in 2014. Beyond that, wholesale cost increases are projected to increase at an average of 5.2% per year. Retail rate impacts of the projected increases in King County/Metro's wholesale costs to Bellevue are 6.3% in 2013, 7.2% in 2015, and 3.3% per year for 2017 and 2018.

- **Taxes/Intergovernmental**
  Interfund payments to other City departments will require rate increases of 0.5% in 2013 and 0.2% per year thereafter. State taxes will require rate increases of approximately 0.2% in 2013 and 0.1% per year thereafter due to increased rate revenues.

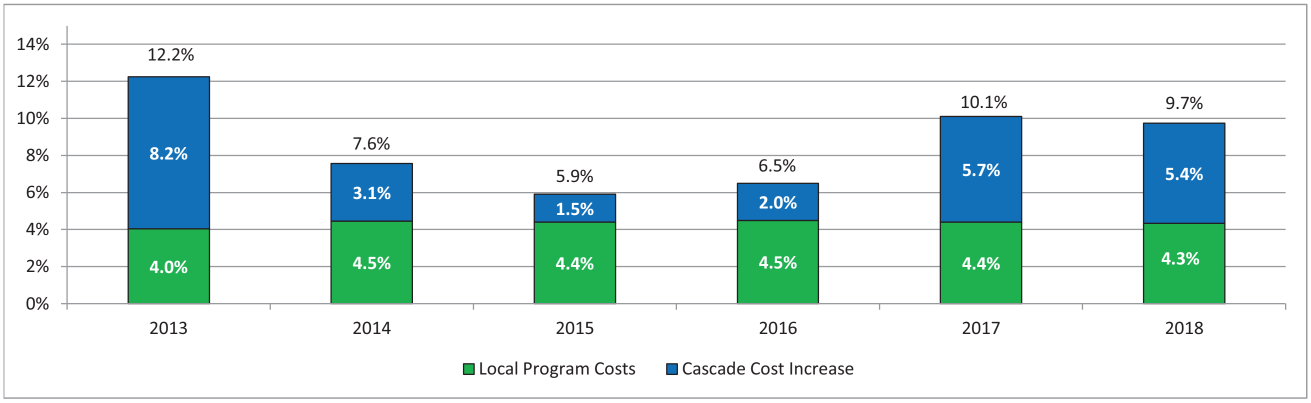
- **Capital Program**
  The capital program includes an increase for repair and replacement of significant sewer pipe defects, beginning in 2013 and ongoing, consistent with the asset management strategy. The program also includes a number of growth-related capital projects including sewer lines under street improvements in the BelRed Corridor, and mandated WSDOT utility relocations. Capital costs, including transfers to the R&R account, will require rate increases of 2.3% and 1.6% in 2013 and 2014, respectively, and an average of 2.5% per year thereafter.

- **Operations**
  Projected personnel costs will require rate increases of about 0.4% and 0.6% in 2013 and 2014 and an average of 0.5% per year for the remainder of the forecast period, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The impact of other operating expenses will require a rate decrease of -0.1% in 2013 and increases of 0.1% per year thereafter. These rate impacts include the effects of cost containment efforts.

- **Operating Reserves**
  Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate decrease of -0.3% in 2013, an increase of 1.4% in 2014, and an average decrease of -0.8% per year for the remainder of the forecast period.

WATER UTILITY FUND
2013 - 2018 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2013	2014	2015	2016	2017	2018
Prior Year Bill	$44.87	$50.34	$54.13	$57.32	$61.05	$67.22
Increase:						
Wholesale	3.68	1.56	0.81	1.15	3.48	3.63
Local	1.79	2.23	2.38	2.58	2.69	2.92
Total	$5.47	$3.79	$3.19	$3.73	$6.17	$6.55
Projected Bill	$50.34	$54.13	$57.32	$61.05	$67.22	$73.77

Key Rate Drivers

- **Wholesale Costs**
  Cascade costs are increasing primarily due to water purchase costs from Seattle and Tacoma and costs related to Lake Tapps operations. Cascade projects cost increases to Bellevue of 5.5% and 7.1% in 2013 and 2014, respectively. Projected increases in 2015 and 2016 average 2.4% per year primarily due to purchased water costs. The forecast also assumes 8% annual cost increases for 2017 and 2018, primarily due to the uncertainty of future water demands and the potential need to build future water facilities. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 2.5% for 2013 and 2.8% for 2014. In addition, proposed retail rate increases of 5.7% in 2013 and 0.3% in 2014 are needed to bring declining revenues in line with fixed wholesale costs. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 1.8% per year for 2015 and 2016 and 5.6% per year for 2017 and 2018.

- **Taxes/Intergovernmental**
  Interfund payments to other City departments will require rate increases of 0.7% and 0.5% for 2013 and 2014, respectively, and 0.4% thereafter. State taxes will require rate increases 0.6% and 0.4% for 2013 and 2014, respectively, and approximately 0.5% per year thereafter due to increased rate revenues.

- **Capital Program**
  Consistent with Council direction and the Utilities asset management strategy, the capital program continues to ramp up AC water main replacement from 1.5 miles in 2008 to 5 miles per year by 2018. Also included in the 2013-2019 CIP Program are a number of growth-related capital projects, including increased area-specific water reservoir storage and water supply. The other capital rate drivers are inflationary construction cost increases. Rate increases of 2.9% and 3.4% in 2013 and 2014, respectively, and an average of about 4.0% per year thereafter are needed to fund the capital program.

- **Operations**
  Projected personnel costs will require rate increases of about 0.0% and 0.7% in 2013 and 2014, respectively, and about 0.9% per year thereafter, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The impact of other operating expenses will require a rate increase of 0.5% in 2013 and 0.2% in 2014, and an average increase of 0.1% per year thereafter. These rate increases include the effects of cost containment efforts.

- **Operating Reserves**
  Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate decrease of -0.7% per year in 2013 and 2014, and an average of -1.5% per year for the remainder of the forecast period.

5d. DSD Fund

Development Services Fund Financial Forecast

Executive Summary:

- *The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.*
- *The Development Services Fund 2013-2018 forecast reflects the recovery of the economic downturn and slowdown in development activity. Cost reductions were implemented to reduce staffing levels and the use of consulting services that were increased during the development boom. The forecast adjusts cost levels that will occur as Bellevue experiences an economic upturn in the forecast period.*
- *Beginning in 2013, 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 prior development boom.*

Background

Bellevue is on pace for a steady recovery from the economic downturn despite the slowdown in major project activity. There were few new major project applications in 2011 and 2012 although some of exceptional note are the new Lincoln Square II Expansion project and the Spring District. The timing of the construction of these projects will play a role in the level of Development Services staff required to support major project activity. Staffing levels for review, inspection, and support services, as well as the use of consulting services, have been reduced to the current core level and the single family sector and tenant improvement permits have supported staff workload.

The construction valuation for issued permits, considered a key barometer of development activity, is projected to be on the rise after hitting low levels in 2011. This is due primarily to the increase in the number of new single family residences, single family alterations, and tenant improvements. Valuation from major projects is the one category that continues to lag although the valuation is anticipated to grow over the forecast period.

2013-2018 Outlook

Office vacancy rates in the central business district are a key indicator of the interest in development activity. After reaching a peak vacancy rate of 16.5 percent in 2010, vacancy rates have declined to 13.2 percent this year. As such, growth in major project activity is anticipated in the early years of the forecast. Although design review applications (an early indicator of development activity) received through 2011 indicate slow demand for major projects, the projected economic growth in the region and the development of Sound Transit light rail in Bellevue, will help drive future commercial and residential development in the city.

Single family development has increased significantly in recent years, and the current level of single family applications is at levels not seen since before the economic downturn. Single family applications are on track for continued growth. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the valuation of such applications. The level of activity has steadily increased since 2010 and is expected to continue.

As a result of the aforementioned variables, this forecast reflects growth in revenue collections beginning in 2013 and a steady increase in development of major projects throughout the forecast period.

Development Services Fund
2013-2018 Financial Forecast
(in $000)

	2013	2014	2015	2016	2017	2018
Beginning Reserve	**$5,298**	**$4,512**	**$4,433**	**$4,662**	**$5,139**	**$5,791**
Resources:						
Building Fees	$6,944	$7,543	$7,553	$7,893	$8,161	$8,406
Land Use Fees	$1,360	$1,464	$1,640	$1,713	$1,772	$1,825
Fire, Transp. & Utilities Fees	$3,252	$3,513	$3,934	$4,111	$4,251	$4,378
	11,556	12,520	13,126	13,717	14,183	14,609
Gen Fund Subsidy	$3,330	$3,422	$3,542	$3,663	$3,787	$3,908
Other Revenue/Interest	$658	$437	$459	$482	$498	$513
Total Resources	**15,544**	**16,379**	**17,127**	**17,861**	**18,469**	**19,030**
Expenditures:						
Building	$5,985	$6,172	$6,388	$6,580	$6,744	$6,913
Land Use	$2,901	$2,791	$2,888	$2,975	$3,049	$3,126
Fire, Transp. & Utilities Dev. Svcs	$2,670	$2,735	$2,830	$2,915	$2,988	$3,063
Code Compliance	$936	$968	$1,002	$1,032	$1,058	$1,084
Administrative/Shared Costs	$3,837	$3,792	$3,790	$3,882	$3,977	$4,074
Total Expenditures	**$16,329**	**$16,458**	**$16,899**	**$17,385**	**$17,817**	**$18,260**
Ending Reserves	**$4,512**	**$4,433**	**$4,662**	**$5,139**	**$5,791**	**$6,562**

Forecast Drivers and Assumptions

1. Two major mixed use development projects (Lincoln Square II Expansion and Spring District) are assumed to be in construction in the early years of the forecast. Additional major projects are Soma Towers Phase I and Park Metro Apartments.

2. The demand for major project activity is assumed to increase in 2013 as new projects are anticipated to begin the review process. Interest in new single family homes and existing remodels continues to grow.

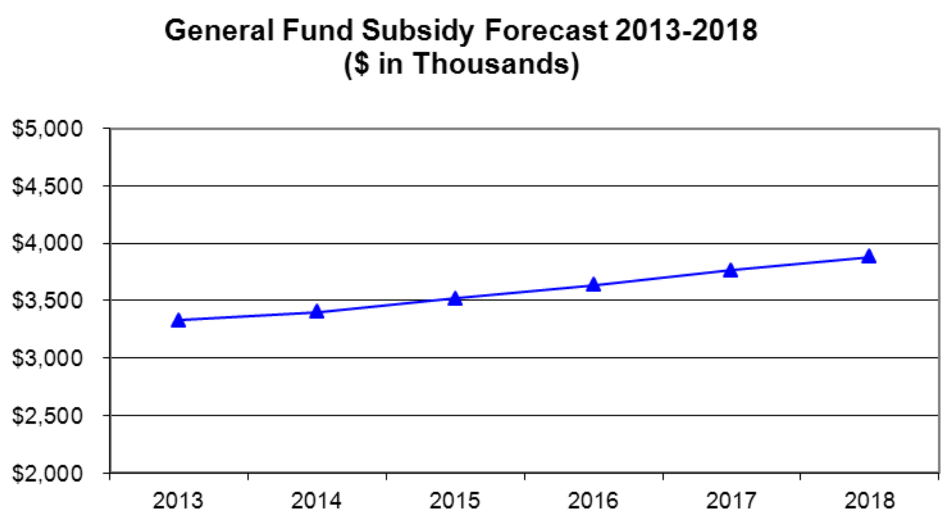
3. The forecast reflects a reduction of 32 positions (including 25 FTEs eliminated/vacated and 6 FTEs redeployed) and consulting services since the economic downturn. This baseline forecast assumes no additional staffing investments or positions. However, consistent with the long-range financial planning effort, changes in resource levels are

continually assessed and modified to accommodate the workload and maintain service levels.

4. Development rates 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 rates will grow at an average rate of inflation.

General Fund Subsidy

The General Fund contribution to the Development Services Fund accounts for approximately 2 percent 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. Development Services activities supported by the General Fund include public information, policy development, and approximately 50 percent of Land Use discretionary review.



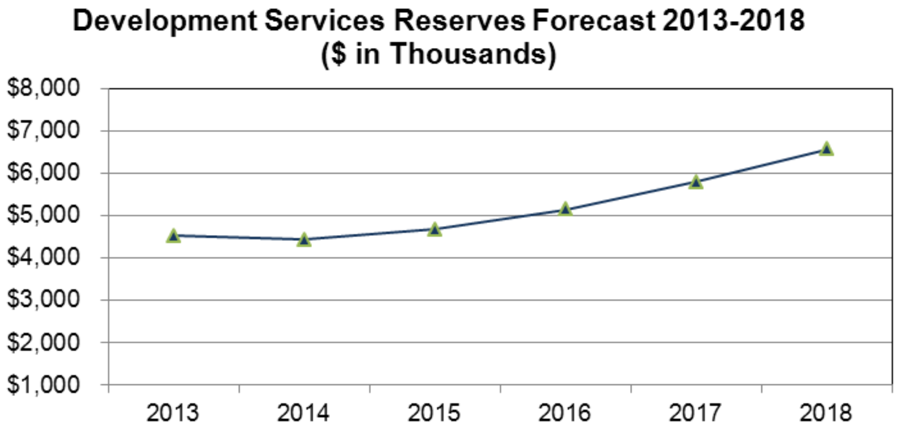
The General Fund contribution to the Development Services Fund is anticipated to grow at an average rate of approximately 3.3 percent over the forecast period, consistent with inflation projections and growth in personnel costs (e.g. salaries, health benefits, pensions).

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 be approximately $4 million through 2014. This reflects slow revenue growth in the near future as the economy begins to recover and permit activity increases. Reserve levels are then assumed to increase from 2015 through 2018 reflecting steady growth in development activity within the forecast period.

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.



5e. Parks Fund

Executive Summary:

- *The Parks Enterprise Fund forecast assumes that user fee revenue can continue to recover program expenditures over the forecast period.*
- *The Parks Enterprise Fund continues to meet reserve requirements and fund capital improvements at the golf course.*
- *No new programs or service enhancements have been proposed as part of the 2013-2014 Adopted Budget.*

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 fully supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships, sponsorships and fee waivers. The General Fund subsidy, which was historically used to subsidize the Bellevue Aquatic Center, was eliminated in the 2011-2012 Adopted Budget.

Parks Enterprise Fund Reserves
Parks Enterprise Fund reserves will be managed within the targeted level of 2-months operating expenses, or approximately $1.3 to $1.6M over the forecast period. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements
The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-2), including capital projects at the Bellevue Golf Course. In addition to regular maintenance projects, the City will continue to improve the golf course driving range to enhance player services and the financial performance of the course.

Parks Enterprise Fund
2013-2018 Financial Forecast
(In $000)

	2013 Preliminary	2014 Preliminary	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Resources:						
Beginning Fund Balance	$984	$1,248	$1,451	$1,576	$1,608	$1,604
Program Revenue	6,093	6,160	6,221	6,283	6,409	6,537
General Fund Subsidy	0	0	0	0	0	0
Total Resources	**$7,077**	**$7,408**	**$7,672**	**$7,859**	**$8,017**	**$8,141**

	2013 Preliminary	2014 Preliminary	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Expenditures:						
Personnel	$1,705	$1,766	$1,830	$1,894	$1,960	$2,029
M&O	2,600	2,625	2,678	2,739	2,805	2,875
Interfund Transfer	1,174	1,215	1,239	1,268	1,298	1,330
Capital Transfer	350	350	350	350	350	350
Total Expenditures	**$5,829**	**$5,956**	**$6,097**	**$6,251**	**$6,413**	**$6,585**
Reserves:						
Ending Fund Balance	**$1,248**	**$1,451**	**$1,576**	**$1,608**	**$1,604**	**$1,557**

Note: Columns may not foot due to rounding.