



Budget
One

one city
one public
one purpose



CITY OF BELLEVUE

PRELIMINARY BUDGET

EXECUTIVE SUMMARY

OCTOBER 2012



INTRODUCTION

The preliminary 2013-2014 operating budget and 2013-2019 capital investment plan (CIP) budget strike a balance between the need for fiscal restraint and the need to support a bold vision for the future.

Following a “reset” in the 2011-2012 operating budget, when spending was reduced and FTE positions eliminated, this spending plan may best be described as a “status quo” budget. It projects modest growth in revenues and spending that reflects a slowly rebounding local economy.

Utilizing a conservative fiscal approach and doing more with fewer resources, the City of Bellevue managed through the Great Recession without sacrificing the excellent customer service that residents have come to expect.

In the most recent citizen survey from early 2012, Bellevue residents continued to express a very high degree of satisfaction about the value of services they receive for their tax dollars, the overall quality of city services, and the overall quality of life in Bellevue.

Another gauge of our ability to deliver high quality services is the ongoing recognition the city receives from outside organizations, including Money Magazine’s ranking of Bellevue in its 2012 list of 100 best small cities (for the 4th time in a row), and America’s Promise Alliance naming Bellevue one of the nation’s top 100 best communities for young people in 2012 (the sixth time for that award).

2013-2014 Budget Highlights

The preliminary operating budget provides a blueprint to continue providing quality services; the city’s capital investment plan sets forth a strategy for ongoing progress in meeting the city’s long-term infrastructure needs. Highlights include:

Operating Budget:

- No general tax increases
- Projects modest general fund growth of 4.4% in 2013 and 3.2% in 2014 (excluding annexation growth)
- Maintains city reserve funds
- New programs to enhance economic competitiveness
- Adjusts Utility and Development Services rates adjustments needed to keep pace with rising costs (e.g. wholesale) and to maintain existing service levels

Capital Investment Plan (CIP) Budget:

- No general tax increases
- Ensures debt obligations are paid
- Employs strategic use of long-term and short-term cash borrowing to capitalize on favorable market conditions
- Funds East Link Memorandum of Understanding (MOU) commitments; consolidates MOU with base CIP and Mobility & Infrastructure Initiative into a single, “blended” CIP
- Continues the implementation of Parks Levy projects



BUDGET SNAPSHOT

- ◆ **Population:** 130,200
- ◆ **Daytime work force:** 133,800
- ◆ **Minority population:** 41 percent
- ◆ **Foreign-born population:** 33 percent
- ◆ **Area of city:** 32.1 square miles
- ◆ **2013-14 total budget:** \$1.287 billion
- ◆ **2013-14 total operating budget:** \$869 million
- ◆ **2013-19 total Capital Investment Plan:** \$414.9 million
- ◆ **Estimated total FTEs (2014):** 1,229
- ◆ **Sales tax rate (2012):** 0.85 percent
- ◆ **B&O tax rate (2012):** 0.1496 percent
- ◆ **Property tax rate (2012):** \$1.19/\$1,000 AV

HIGH PERFORMING CITY

Statistically valid citizen surveys are conducted to ensure that the city hears from a cross-section of its residents. Opinions are gathered from young and old, single-family and multi-family home owners and renters, people who have lived in Bellevue for a few years, and residents who have lived in Bellevue since before the downtown blossomed into a vibrant, urban center.

Survey results show that people who call Bellevue home are very satisfied with the city, their neighborhoods, levels of taxation, and delivery of municipal services. The following highlights are provided from the city's 2012 Performance Measures Survey conducted from February 13 to March 5, 2012. More than 400 households were surveyed, via home telephone or cell phone. The overall results can be projected across the whole city. The survey, as well as other reports relating to Bellevue's budget and overall performance, can be found on the city's website at http://www.bellevuewa.gov/citizen_outreach_performance.htm.

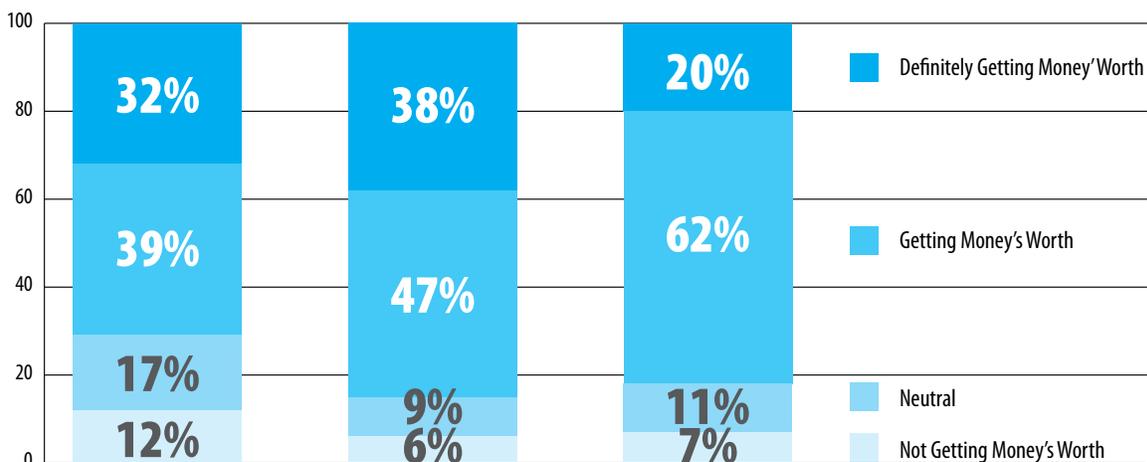
- **Heading in the right direction:** 79 percent of Bellevue residents continue to feel the city is headed in the right direction. The percentage of those feeling the city is headed in the right direction is 5 percent below the 2011 results, yet 11 percent above the 2010 baseline.
- **Close to ideal:** For 91 percent of Bellevue residents, their quality of life is close to or extremely close to ideal. Nearly three in ten (29 percent) say that the overall quality of life in Bellevue is extremely close to ideal, and another 62 percent say it's close to their ideal.

- **Quality of city services:** 97 percent of Bellevue residents say the quality of services either greatly exceeds expectation, exceeds expectations, is above average, or meets expectations.
- **Quality of life:** 99 percent of Bellevue residents feel that the overall quality of life in Bellevue meets or exceeds their expectations.

97 percent of residents surveyed say Bellevue is a good or excellent place to live

- **Excellent/good place to live:** 97 percent of residents say that Bellevue is a good to excellent place to live. No one surveyed said it was a poor place to live. The most often cited reasons why Bellevue is a good place to live are: Low crime/safety; convenient location; clean, good park system; nice people/friendly; and quiet/peaceful neighborhoods.
- **Value for tax dollar:** Most residents feel they are getting their money's worth for their tax dollar. Very few residents, 7 percent, say they are not. Those saying they are getting their money's worth also had a strong sense of community and said Bellevue was going in the right direction.

Value of Services for Tax Dollar



ECONOMIC OUTLOOK AND RISKS

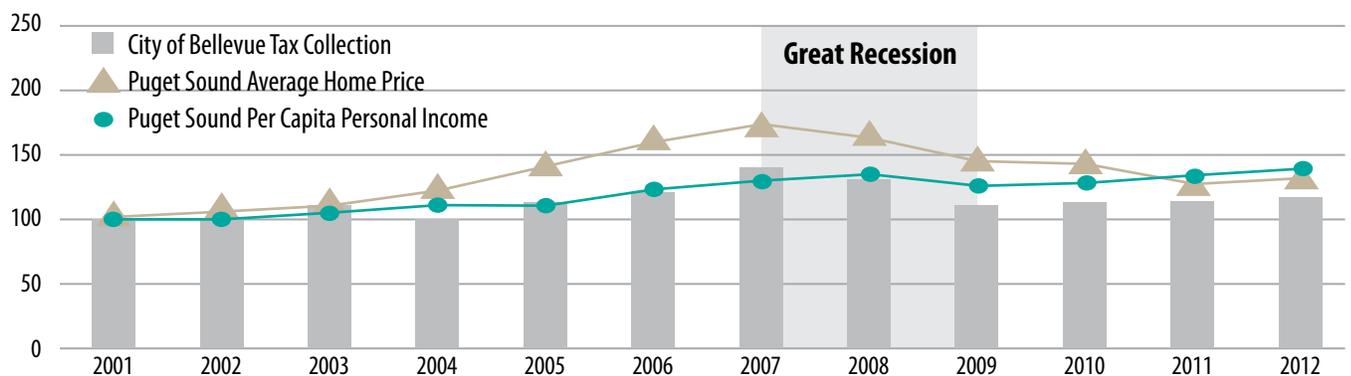
The State of the Recovery

Economists have consistently said this recession is unlike any of the recessions experienced in decades and was probably only comparable to the Great Depression. The Great Recession, as it is sometimes called, technically ended in June 2009, but the downturn struck at the core of the economy, both globally and locally. Since the recession officially ended, growth has been steady, but slow.

The chart below depicts the trends of Bellevue tax collections, the average home price in the region, and per capita personal income. With the recession years shaded, the chart shows home prices and personal income growing slowly. Consumer demand for durable goods continues to improve in Bellevue and is leading the slow recovery in tax collections, while development continues to lag, restraining the City's overall sales tax growth.

Puget Sound Home Prices, Per Capita Income and Bellevue Tax Collections

Continuous Growth (2001=100)



Local Economy

The local economy is acting like the “Little Engine That Could.” Despite all the economic headwinds, the local economy keeps chugging along at a slow but steady pace. The Puget Sound region has traditionally performed better than the national economy. One indicator of the relative strength of the Puget Sound is employment data comparing the national trend to the local experience. The national employment numbers over the last 24 months have grown by 2.1 percent, while the local employment base has grown by 2.9 percent. Another positive sign for the region's economic outlook is the office vacancy rate, which has continued to decline over the last nine quarters as of the second quarter 2012. The vacancy rate in downtown Bellevue is 13.2 percent, down from 13.5 percent in the first quarter, according commercial real estate brokerage firm CB Richard Ellis. Overall, the city's forecast assumes a modest recovery of tax revenue over the next few years.

Risk factors: Global & National

Many of the economic risks the city faces are global in nature — problems occurring on the other side of the world can have significant effects locally, since an estimated one in four jobs in the Puget Sound region are tied to international trade.

The following local and global risks have been looming over the economy and stifling growth:

- **European Union's sovereign debt crisis:** Several highly-leveraged EU countries are in danger of defaulting on their debt.
- **Middle East instability:** The region's stability is closely linked to United States' economy because of the dependence on oil.
- **United States' "fiscal cliff":** Refers to the looming expiration of several federal financial policies. Congressional Budget Office has said that if Congress does not act, the country is likely to face a retraction of the economy.

BUDGET OVERVIEW

The budget is a policy document that establishes an operational plan to provide continuing services and also set the strategy for continued progress in meeting the City’s capital investment needs. The preliminary 2013-2014 budget presented for Council’s consideration totals \$1.287 billion. This biennial budget includes a 2-year appropriation for operations (\$869.1M), special purposes (\$59.7M) and capital investments (\$357.8M). See the table below for definitions and examples of governmental fund types.

Building on the 2011-2012 biennial budget, the city once again used the process called “Budget One” to develop the 2013-2014 budget. Budget One is a process that identifies the community’s priorities (called outcomes), prioritizes services to meet those outcomes, and funds those services with the available monies. Budget One encompasses all funds of the city.

The City Council validated the seven outcomes as:

- **Economic Growth and Competitiveness (EGC)** - investments are intended to plan for growth that will add value to the quality of the City and create a competitive business environment that supports entrepreneurs and creates jobs.
- **Healthy and Sustainable Environment (HSE)** - focuses on preserving nature spaces and providing a healthy environment, which supports healthy living for current and future generations.
- **Improved Mobility (IM)** - focuses on existing and future infrastructure, traffic flow, built environment and travel options.
- **Innovative, Vibrant, and Caring Community (IVCC)** - promotes community engagement and fosters diversity and creativity in City-provided services.
- **Quality Neighborhoods (QN)** - creates a “sense of community” by maintaining neighborhoods that support families and provides convenient access to day-to-day activities.
- **Responsive Government (RG)** - fosters stewardship of financial and property interests, reflects sound business practices, and ensures deployment of programs that are necessary to deliver the highest priority services.
- **Safe Community (SC)** - focuses on maintaining a safe place to live, work and play.

Budget One guiding principles

Foremost among the Council’s long-term budget policies is that quality service programs be offered by the City of Bellevue. Other guiding principles include:

- ◆ A focus on services that deliver outcomes important to the community;
- ◆ Position Bellevue to realize opportunities and enhance the city’s image;
- ◆ An examination of the entire budget, not just incremental changes from the last budget;
- ◆ A commitment to innovation, efficiency, and sound business practice;
- ◆ A focus on Citywide, not Department, priorities;
- ◆ A long-range strategic approach to an affordable and sustainable budget; and
- ◆ If expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

Definitions and Examples of Governmental Funds

Fund Types	2013-2014 Appropriation	What does it buy?
Operational Funds	\$869,122,000	Operating functions such as Police, Fire, Parks, Community Development, Transportation, Development Services/Permitting, Water, Storm and Surface Water, and Wastewater. Administrative operations such as City Council, City Manager, Technology, City Clerk, City Attorney, Finance, Service First Information, Fleet and Facilities.
Special Purpose Funds	\$59,717,000	These needs are funded by restricted money dedicated for a special purpose, such as Grants, Donations, Debt Service, Firemen’s Pension, and Housing.
Capital Investment Funds (General and Utilities)	\$357,813,000	Provides for major public facility improvements for items such as park development, transportation roadways, signals, and sidewalks, and water and sewer pipes.

BUDGET OVERVIEW

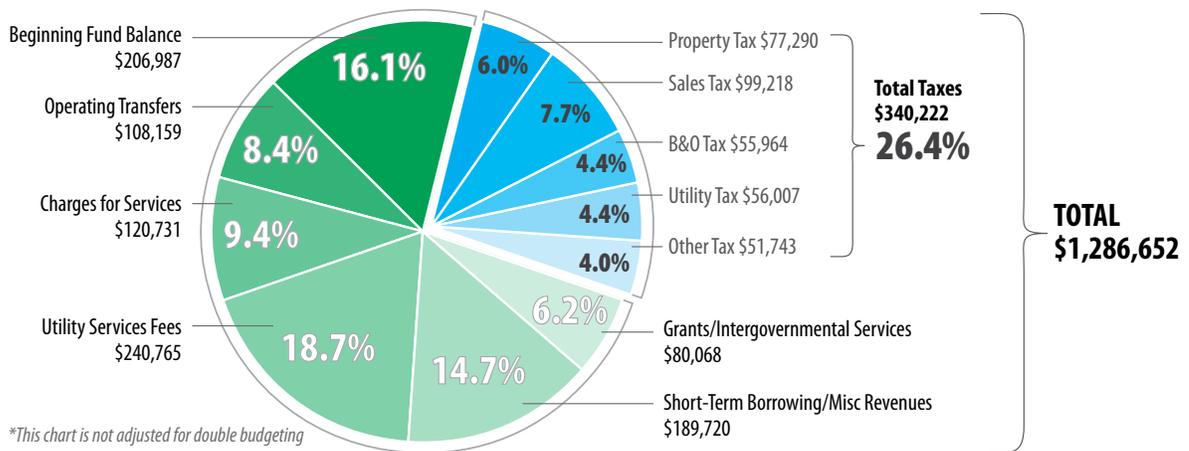
The city's budget is funded through a diverse collection of resources. Many of the resources received are dedicated to a specific purpose and cannot be spent on non-related services or programs. For example, rate revenues received from water service can only be used for that purpose and cannot be used to pay for general services or other types of utility services.

Similarly, funding received from Development Services permits can only be used for services related to delivering permits. Property tax revenue received from the voter-approved Parks Levy can only be used

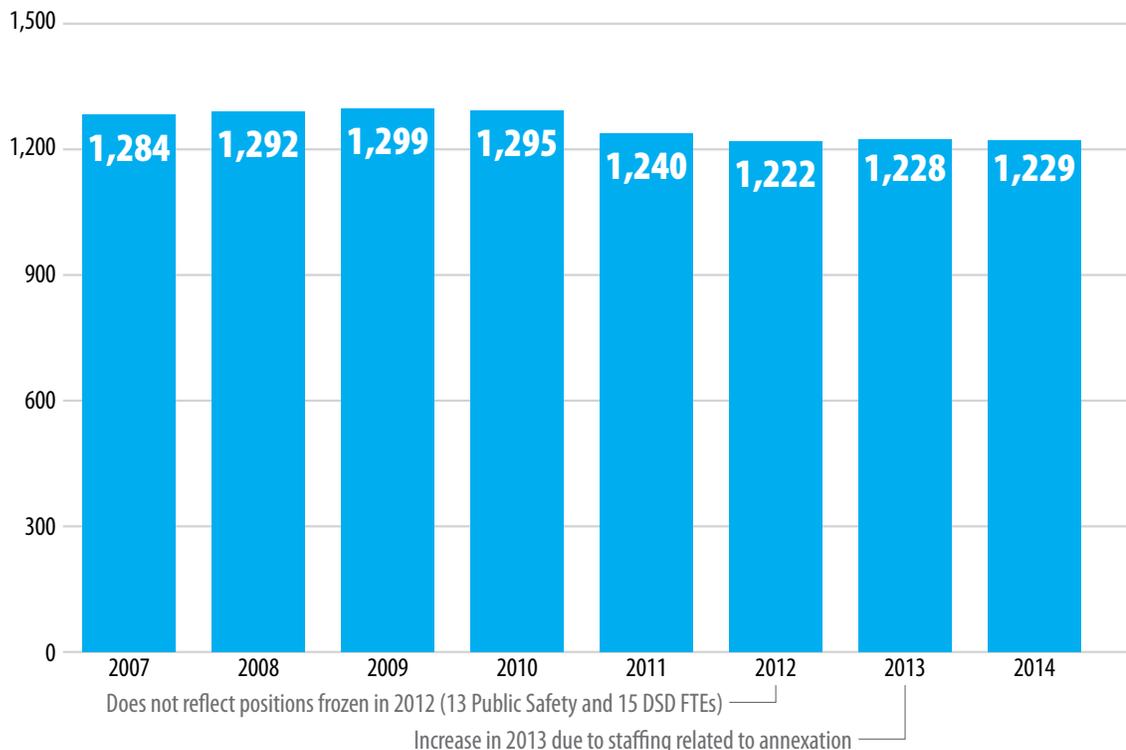
for projects described in the ballot measure. As noted in the chart below, taxes make up 26 percent of the total preliminary 2013-2014 biennial budget. The remaining 74 percent is a collection of beginning fund balance, utility rates, and other sources.

The City provides services and programs, so a large portion of the operating budget is allocated to staffing costs. The chart below shows the number of full-time equivalent employees over time for all operations and all operating funds.

2013-2014 Total City Budget Resources* (\$000s)



2007-2014 Total Existing and Proposed FTEs



GENERAL FUND

The General Fund Preliminary budget total appropriation for the 2013-2014 biennium is \$351 million. The General Fund supports the majority of city operations including Police, Fire, Transportation, Parks and Community Services, Planning and Community Development, and various administrative functions such as City Council, City Manager, City Clerk, City Attorney, and Finance. The General Fund also provides resource support to other funds including Development Services, Information Technology, and Civic Services (Fleet/Facilities).

The budget builds upon the “reset” of the 2011–2012 Biennial Budget in recognition of a post-Great Recession, slowly-growing economy. The 2013-2014 General Fund preliminary budget does not restore previous FTE reductions; it continues the “new normal.”

This budget maintains existing General Fund FTEs and assumes no layoffs barring an economic decline.

The General Fund is funded through a combination of general taxes, utility taxes, intergovernmental

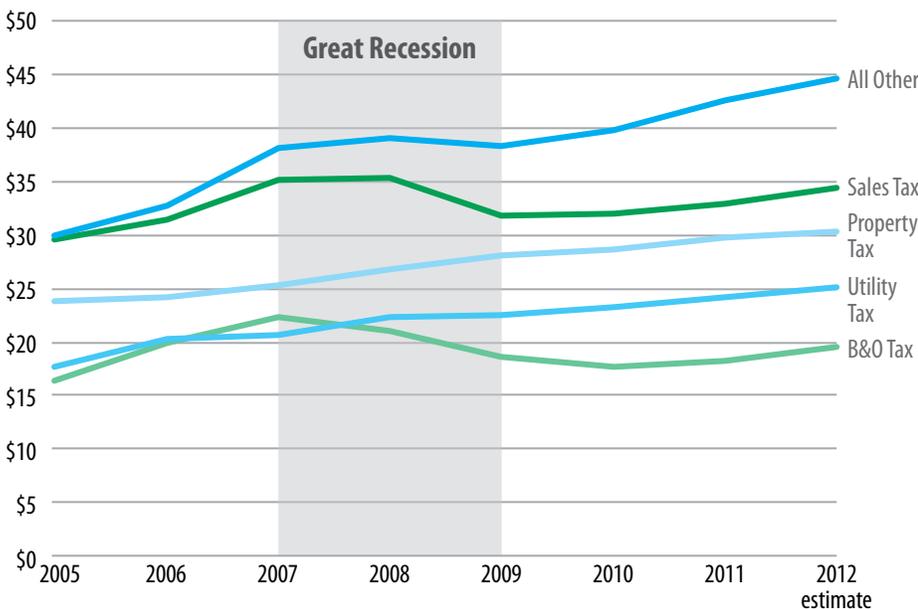
charges, charges for services, and other revenue. The pie chart below depicts the 5-year distribution of general fund revenues.

Balanced Budget with no new General Fund taxes

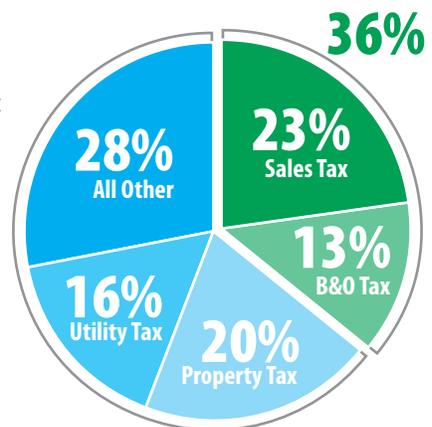
Over the past 5 years, the combination of sales tax and business and occupation tax has accounted for 36 percent of general fund revenue. Both of these two revenue sources are influenced heavily by changes in the economy, whereas utility tax (16 percent) and property tax (20 percent) are more stable and less easily influenced. The “All Other” category of resources includes charges for services, interfund charges, state shared revenues, fines and forfeitures, and other miscellaneous revenues. The increase in “All Other” from 2011 to 2012 was mainly due to a series of one-time refunds received.

Preliminary Budget General Fund Revenue

Revenue Stream Growth
(Continuous Year over Year Growth)



Revenue Stream Distribution
5 Year Average



GENERAL FUND

The city's sales tax and business and occupation tax collections are recovering at a modest rate since 2010. Sales tax is the city's most volatile revenue source. 2012 tax collections are coming in at forecast, with a year-to-date increase of 4.5% over the same period in 2011. As sales tax began to grow over the months, the missing piece of growth has been construction-related sales tax. Construction has been slow to recover, and the city's forecast assumes a continued slow recovery, with retail sales as the main driver. The preliminary budget assumes a 4.5 percent retail sales increase in 2013 and 4.3 percent in 2014, overall.

The preliminary budget assumes growth of business and occupation tax at 4 percent and 3.7 percent, respectively, for 2013 and 2014.

As noted in the bar chart below, the General Fund forecast shows that revenues and expenditures are

growing at nearly the same rate over the next few years. The revenue forecast assumes no changes in rates for major tax components such as sales tax,

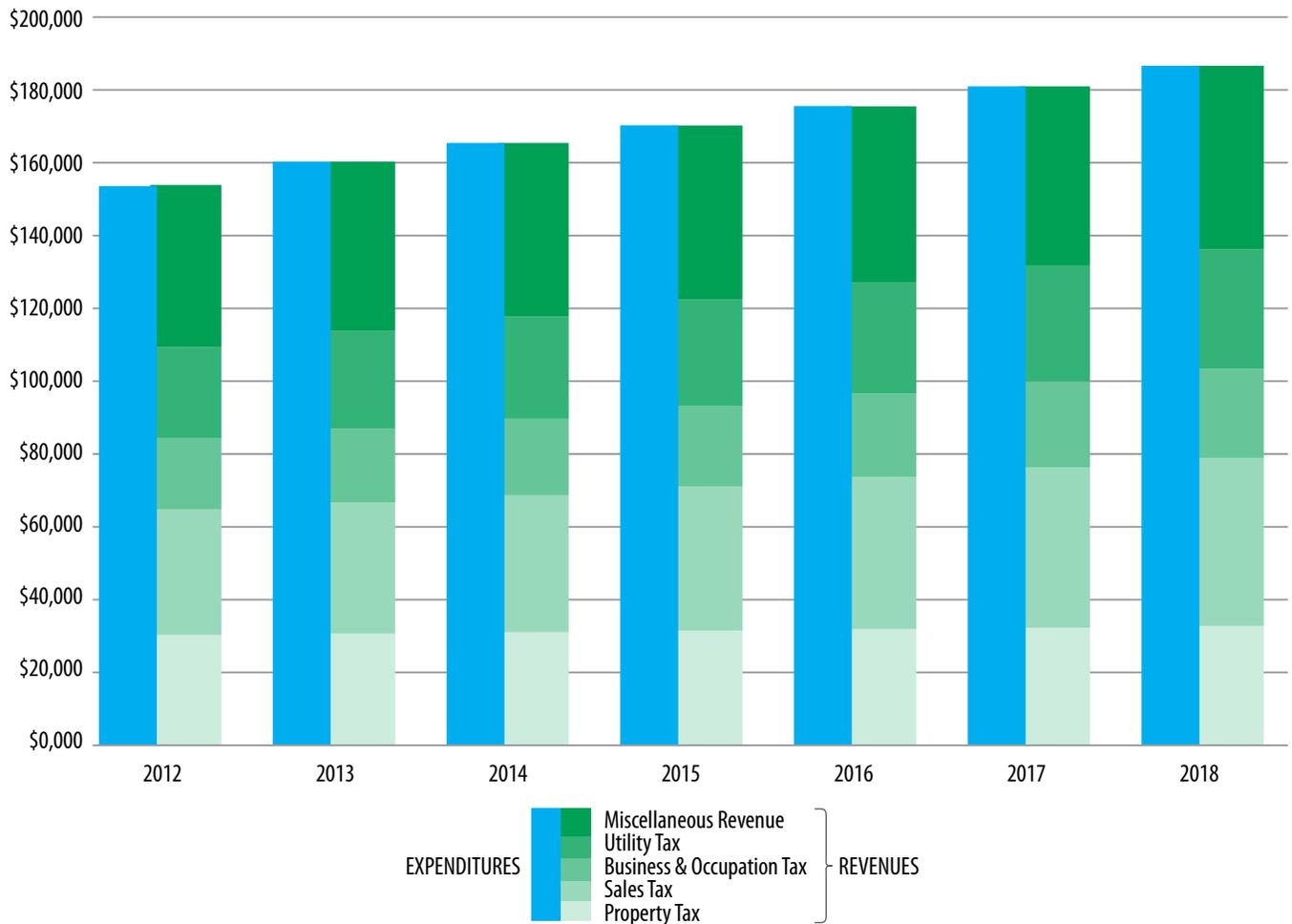
Revenues are Expected to keep Pace with the Growth of Existing Services

business and occupation tax, property tax, or utility taxes. The expenditure forecast assumes no additional reductions in workforce barring an economic decline, and does not restore previous reductions.

General Fund

Revenues vs. Expenditures

Estimated Year End 2012 as of June 2012; Preliminary Budget 2013–2014; Forecast 2015–2018



CAPITAL INVESTMENT PROGRAM (Full 7 year Program)

The 2013-2019 preliminary capital investment program (CIP) plan sets the strategy that allows for continued progress on meeting the city's capital investment needs within a constrained budget. The CIP reflects the City Manager's recommended 2013-2019 general CIP plan which totals \$414.9 million. The 2013-2019 CIP consolidates the base CIP with the Mobility & Infrastructure Initiative (M&II) and the East Link Sound Transit MOU into a single capital budget recommendation. The single, blended CIP is funded with no tax or revenue increases. The CIP plan accomplishes the following:

- Assures debt obligations are met, including repayment of the current line of credit (\$15 million).
- Provides increased funding to the Transportation Major Maintenance program by \$300,000 per year, and maintains other major maintenance programs at the 2011-2017 levels.
- Funds East Link Memorandum of Understanding (MOU) up-front contributions and, most critical, Bel-Red/Wilburton projects.
- Continues the implementation of the Parks Levy Projects with construction of the Bellevue Botanical Garden Visitors Center, Bellevue Youth Theatre, completing the "Downtown Circle", design of Airfield Park, and neighborhood park and trail improvements.

In line with the priorities established in the Budget One process, recommended projects in the 2013-2019 CIP focused on:

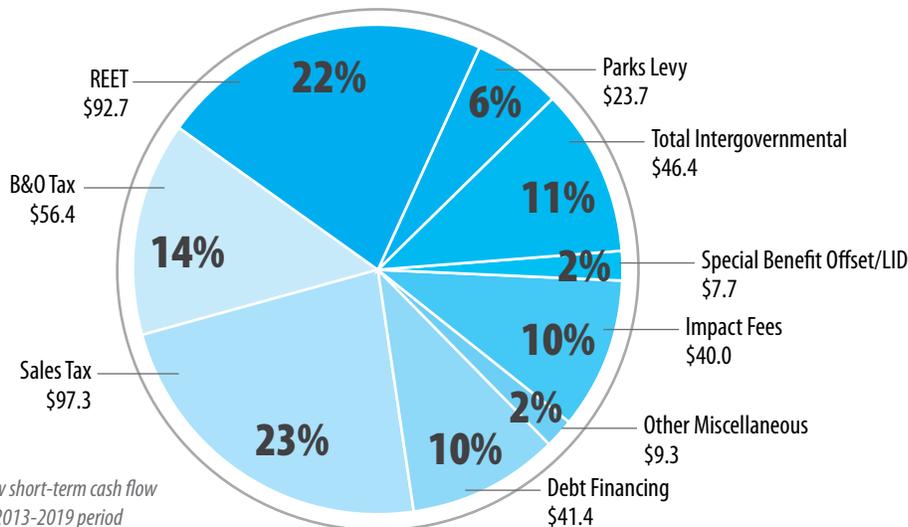
- Maintaining current infrastructure and fulfilling general government responsibilities
- Providing for transportation mobility, including key components of the M&II
- Meeting the city contribution per the East Link MOU
- Keeping the Parks Levy commitment and providing other quality of life amenities
- Providing for neighborhood needs
- Preparing for and serving as a catalyst for future development

Strategic use of debt

The CIP is balanced through a strategic use of long-term and short-term debt, all funded through the existing CIP revenue stream (\$41 million in long-term debt; \$51 million in short-term cash flow borrowing.) The current amount of councilmanic debt capacity as of July 31, 2012 is \$118 million. Short term debt allows for the ability to capitalize on the favorable construction climate to put needed infrastructure in place in advance of the next development cycle. The actual amount of debt issuances will be determined at issuance, based on cash flow needs and project progress.

The city continues to have a large backlog of unmet capital needs such as West Lake Sammamish Parkway, neighborhood sidewalks, and long term infrastructure needs. These needs go far beyond what can be addressed within current resources.

Total 2013–2019 General CIP All Resources = \$414.9M*



*Net of the principal portion of the new short-term cash flow borrowing to be contained within the 2013-2019 period

UTILITY RATES

Bellevue’s utility rates are competitive and will continue to be competitive in the future with the Council adopted financial policy to proactively plan and prepare for infrastructure replacement and renewal. The Preliminary Budget includes the proposed utility rate increases for 2013-2014 shown in the chart below:

Proposed Utility Rate Increase

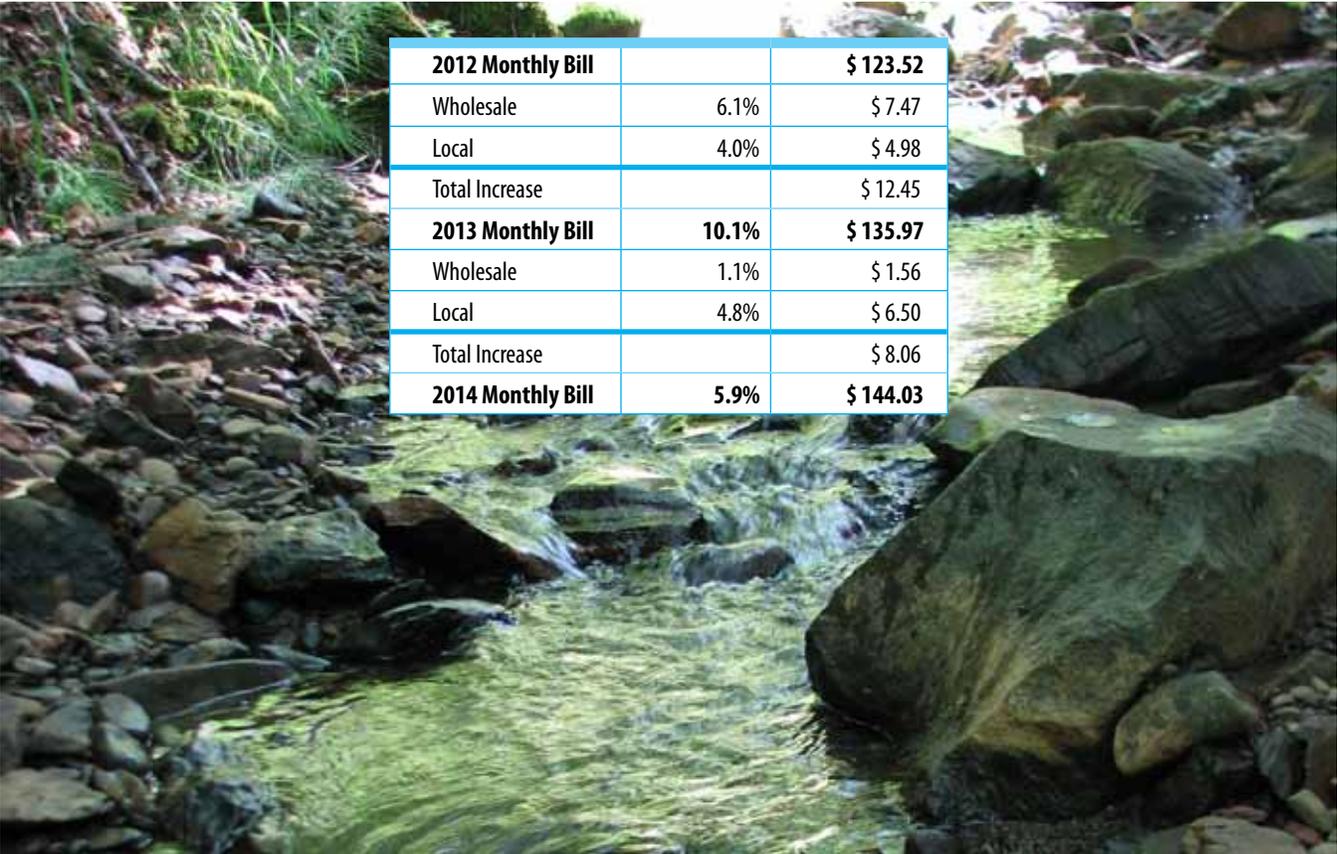
	Water		Wastewater		Storm and Surface Water	
	2013	2014	2013	2014	2013	2014
Wholesale	8.2%	3.1%	6.3%	0.0%		
Local	4.0%	4.5%	3.0%	4.0%	7.3%	8.1%
Total	12.2%	7.6%	9.3%	4.0%	7.3%	8.1%

Wholesale costs drive increases

Increases in wholesale costs related to the purchase of water supply from Cascade Water Alliance and for wastewater (sewer) treatment by King County are the primary drivers for the proposed water and wastewater rate increases. Additionally, a one-time wholesale water utility rate increase of 5.7 percent in 2013 and a small increase of 0.3 percent in 2014 are necessary to accommodate the fixed nature of water supply purchase costs.

Addressing aging infrastructure issues continues to be the primary driver for local programs. Half of Utilities’ infrastructure, with a replacement value of over \$3.5 billion, is past mid-life.

Like the 2011-2012 biennium, Utilities’ 2013-2014 preliminary budget proposes cost containment efforts focused on controlling operational expenses, finding efficiencies, and otherwise reducing costs that impact local rate increases.



2012 Monthly Bill		\$ 123.52
Wholesale	6.1%	\$ 7.47
Local	4.0%	\$ 4.98
Total Increase		\$ 12.45
2013 Monthly Bill	10.1%	\$ 135.97
Wholesale	1.1%	\$ 1.56
Local	4.8%	\$ 6.50
Total Increase		\$ 8.06
2014 Monthly Bill	5.9%	\$ 144.03

DEVELOPMENT SERVICES FUND

The Development Services forecast shows Bellevue is on pace for a steady and modest recovery from the economic downturn. Despite the slowdown in development, interest and investment in Bellevue remains strong and is anticipated to grow as business and financial markets continue their recovery.

Renewed strength in the single family housing market has sparked new investment in home construction, and major project activity is proceeding at a cautious pace, evidenced by current investments in multifamily housing and large projects, like Lincoln Square Expansion and the Spring District, positioning for the next market upswing.

The 2013-2014 Development Services budget reflects a modest increase in development activity, and in subsequent years anticipates growth at a more moderate pace than experienced during the prior, record-setting development boom.

Like the General Fund, the Development Services Fund faced significant reductions following the Great Recession, with staffing reduced to current core

levels. Operating costs, including the use of consultant services, were also restricted. Over the past two years Development Services directed available resources toward improving service delivery through process re-engineering and investing in a significant expansion of on-line permitting services. Those investments will provide benefit to the development community and better position the city for the next development cycle.

For 2013-2014, Development Services is requesting a rate and fee adjustment in order to meet its cost recovery objectives. Rates are adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycles.

The proposed rates are consistent with the cost recovery objectives approved by the City Council. Staff completes an annual Cost of Service Study to ensure these objectives are met, and will present the results to Council as part of the annual budget process.



RESPONDING TO THE DOWNTURN

The affects of the downturn on Bellevue have been just as severe as the impacts on other units of government reported around the region.

Our approach has been to make conservative budget projections and take immediate cuts and other cost containment measures to “reset” our budget and work program to the “new norm”. The total impact has been significant. During the last two years, Bellevue has reduced its General Fund budget by approximately \$24 million and eliminated and/or froze 72 full-time equivalent (FTE) positions or 100 FTEs across the entire City’s budget.

The list below identifies high profile major changes over the last two years and provide examples of changes made during the 2011-2012 adopted budget and mid-biennial update.

Staffing changes

Examples of adopted Budget Major Changes (A=adopted; M=mid-biennium):

- Support services departments eliminated 20.5 positions (A)
- The Fire Battalion Chiefs and Firefighters unions agreed to a temporary increase in work hours for 2011, resulting in a saving of \$200,000 (A)
- Fire eliminated 2 Fire Prevention Officers, 1 Administrative Battalion Chief position and a Senior Office Assistant position (A)
- Police eliminated 5 positions and closed the Transit Center police substation (A)
- Parks eliminated 5.56 positions, including 2 Probation/Electronic Home Detention positions (A)
- Achieved budget savings in Parks by reducing contract labor and hiring 5 positions (A)

- Two School Resource Officers were eliminated (A)
- Eliminated 3.35 FTEs in Transportation (A)
- Support services departments eliminated an additional 5.6 positions (M)
- Fire eliminated 2 additional Fire Prevention Officers and froze 8 vacant Firefighter positions (M)
- Police eliminated 1 Detective and 1 Captain’s position, and froze 5 vacant positions (M)
- Transportation eliminated an additional 3.4 positions (M)
- Parks eliminated 2 additional administrative support positions (M)
- PCD/DSD eliminated 3 positions (M)

Program changes

While most of the savings realized were due to staff reductions, additional actions taken to reduce spending included:

- Outsourced after-school programs (A)
- Reduced Parks Department temporary help (A)
- Reduced Fleet maintenance and replacement costs (A)
- Reduced consulting services, contracts and M&O (A & M)
- Changed the Health Benefits self-insured plan resulted in a savings of \$900,000 (A)
- Transferred Parks’ After School Program to Bellevue School District (M)
- Reduced city’s Fleet by 4 percent (M)
- Implemented Basic Life Support (BLS) transport fee resulting in annual revenue collections of \$1.1 million (M)
- Implemented three-day furlough for all non-represented employees and some represented employees (M)

VISION FOR THE FUTURE

Adopted in the 2004 Comprehensive Plan

Bellevue 2025 — This vision for our community preserves the best qualities of Bellevue today and directs us toward our city's future. To achieve balance in the city's development, the Comprehensive Plan is guided by the following vision, which must be viewed as a whole without pursuing one part to the exclusion of the others.

- A regional economic center with a strong and diverse economy
 - A city with a great Downtown—viable, livable, and memorable
 - A dedicated steward of environmental quality, where key natural features are preserved and restored
 - The Eastside's transportation hub, offering an array of mobility choices
 - A city served by outstanding facilities and services
 - A leader in meeting regional challenges
- A “City in a Park”
 - A city that meets the housing needs of all citizens
 - An active and engaged community
 - The center of arts and culture for the Eastside
 - A community that cares for people and families in need
 - A model of superior urban design and “people places”
 - A community of diverse and vibrant neighborhoods
 - A safe and secure community





For complete Budget Summary information: www.bellevuewa.gov