



Post Office Box 90012 • Bellevue, Washington • 98009 9012

April 12, 2011

The Honorable Mayor Don Davidson
 Members of the City Council
 Residents and Stakeholders of the City of Bellevue

Dear Mayor Davidson, City Councilmembers, Residents and Stakeholders of Bellevue:

We are pleased to present the City's 2011-2012 Operating Budget and the 2011-2017 Capital Investment Program (CIP) Plan. These combined budgets (the Budget) total \$1.2 billion for the 2011- 2012 biennium and were unanimously adopted by Council on December 6, 2010.

The Operating Budget and CIP Plan shows the planned spending levels for seven strategic outcome areas and proposals approved by the Council including (1) *Safe Community* (2) *Improved Mobility* (3) *Innovative, Vibrant & Caring Community* (4) *Quality Neighborhoods* (5) *Healthy and Sustainable Environment* (6) *Responsive Government* and (7) *Economic Growth and Competitiveness*.

The Budget culminates nearly a year's discussion and engagement of several cross-departmental employee teams convened around the Council strategic outcome areas. It identifies the government programs and services that we believe will achieve improved results for the public. The Budget provides a balance between the operating and capital needs of the city and encourages innovation and efficiency across the organization.

Traditional incremental budgeting was set aside in favor of an approach that would result in funding operational programs and capital projects within the seven outcome areas that matter to the community. The budget reflects what our community can afford and does not increase taxes. It reflects the hard realities of the current and near future state of the economy and reduces the budget by approximately \$20 million in each year of the biennium.

The Budget provides adequate funding for Police, Fire, Parks, and Transportation while seeking more efficiencies and cost savings in support departments such as Finance, Human Services, Information Technology and Civic Services. The budget continues to provide a lifeline for those of our residents who are most in need and actually increases funding to the non-governmental organizations who partner with us in social and health services, education, food assistance, and other support for those in our community newly impacted by the recession.

State of the Economy

These continue to be difficult times not only for residents and our business and corporate communities, but also for the City of Bellevue government and its employees. The recession's impacts continue across the United States. It affects the current state of our local economy and is the most severe and longest lasting recession faced by the City since its incorporation in 1953. Even as our economy begins to recover, we do not expect to return to pre-recession revenue levels for several years. We have endured nearly three years of belt tightening and cost containment but believe we have emerged with a budget that meets the needs of our

community and sets our spending and staffing to affordable and sustainable levels while maintaining a level of service quality that is acceptable to our residents and stakeholders.

Despite the slow recovery from the recession, Bellevue is better positioned than many other cities in the region and the nation to face the impact of the recession. Strong fiscal stewardship and economic development through the years, an engaged workforce stressing efficiency, quality and customer service along with targeting resources to core municipal services will continue to help the City get through these difficult times.

Revenues Supporting the Budget

The 2011-2012 Budget and 2011-2017 Capital Investment Program (CIP) Plan is balanced as required by Washington State law. It calls for no new taxes. Nevertheless, the Budget reflects a \$11.6 million reduction in 2011 General Fund operating revenues (excluding beginning fund balance) compared to 2010 amended budgeted revenues. Although the Budget is balanced, both the operating and capital budget estimates continue to be influenced by a slower than expected regional economic recovery.

Estimating revenue in these volatile and unique economic times is extremely difficult. We are committed to living within our means, and as the new biennium begins, we will closely monitor our revenue estimates and take appropriate management action to reduce spending as necessary.

Guiding Principles

In developing this Budget, the organization followed a number of guiding principles. Foremost is the Council's long-term policy that "quality service programs will be offered by the City of Bellevue. If expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs."

Other guiding principles included:

- a focus on services that deliver Outcomes important to the community;
- an examination of the entire budget, not just incremental changes from the last budget;
- a commitment to innovation and efficiency;
- the use of an evidence-based approach to determine how to achieve Outcomes;
- the use of Citywide, not Department, priorities; and
- a long-range strategic approach to reset the budget to levels that are affordable and sustainable by our community.

This Budget was adopted after numerous discussions with Council. A new Budgeting for Outcomes process called "Budget One" was first introduced in January 2010. Since then, the Council has held three public hearings on the budget and more than 72 residents and/or organizations ranging from neighborhood associations to non-profit organizations testified on the budget. The Council engaged with staff during two budget workshops and devoted segments of 10 study sessions including a Special Meeting to discuss the budget process and community priorities for approximately 500 individual service-level proposals before adopting the Budget on December 6, 2010.

The process has also involved an unprecedented number of staff at all levels of the organization. It has been a transparent process with opportunities for all employees to view proposals and their rankings over the City's intranet. Copies of the final proposals are available on the City's Website.

Outcomes for the Community

The Budget focuses on services that deliver outcomes that are important to our community and aligns departmental priorities to these outcomes. The Budget reflects the values of our community and important community-wide priorities recognized by the Council. It is the summation of months of work by numerous employees in cross-departmental teams. These teams looked at what we do from the eyes of citizens while reviewing and ranking operating and capital proposals. They looked at best practices, survey data, industry standards and performance metrics to arrive at recommendations. Rankings were vetted by our Leadership Team (LT) to form not only the basis of a new budget for Council consideration, but also to reset what we do and assure that the budget targets the highest priorities of our citizens and is in line with the current economic reality.

During budget execution, we will take a close look at our progress in the key Outcomes as adopted by the Council. We have developed a system of performance metrics including community, outcome, and departmental indicators. We will visit these measures frequently during the biennial budget to determine if we are meeting community needs and positively influencing our community condition. We will use the indicators to adjust programs as necessary and to celebrate our successes or to overcome our challenges.

The Budget is an organizational capacity “reset” reflecting the times we face and will continue to face for the future. It is a downsized budget and sets a strategic direction that is sustainable and affordable in the long run. It calls for no new taxes and preserves front line programs and core services that matter most to the community such as Police, Fire, and Parks and Recreation programs. It includes targeted reductions to support departments such as Finance, Information Technology, and Civic Services. Where possible, departments made significant efforts to incorporate efficiencies and innovation savings that would continue service levels in response to the economic challenges.. Approximately 74 net positions will be eliminated in the 2011-2012 Budget compared to the 2009-2010 Amended Budget.

The Budget maintains programs that will keep our community safe, supports economic development and competitiveness within the region and internationally, improves traffic flow, encourages other modes of transportation, and continues to keep our arterial and neighborhood streets clean. The Budget includes programs that protect and improve our environment, and programs that make continued investments in the arts that enhance our community. The budget continues to focus on youth programs to provide meaningful experiences for this important sector of our community. Amidst these challenging times the budget increases funding to critical human services. We believe the Budget is the appropriate and affordable mix of services and programs for the current economic environment.

The 2011-2012 Operating Budget totals \$668.6 million (excluding interfund transactions and reserves). The funding and key operational changes by Outcome are described more fully in the Outcome sections of the Budget - Chapter 7 titled “Budget by Outcome” and Chapter 8 titled “Department Information”.

Despite efforts to maintain critical services, residents will feel the hard decisions required to balance the Budget. Many of these cuts will be evaluated over this next biennium to determine the impact of the reductions and viability of maintaining the lower levels of service in the long run. Some examples of reductions in service levels include:

- Community Center operating hours will be reduced.
- The Transit Center Police Substation will be closed as sufficient resources are available to protect the public through the downtown police patrol, the bicycle patrol, and the City Hall station officer.
- Roadside mowing will be reduced from twice a year to once a year in many places.
- 50% reduction in non-critical road sign maintenance.
- Reductions in interpretive exhibits and displays for environmental education outreach.
- Reduced frequency of janitorial services at City facilities and parks.

The following table summarizes the operating Budget by Outcome and Department.

Total Operating Budget by Outcome and Department

	Safe Community	Improved Mobility	Healthy & Sustainable Environment	Innovative, Vibrant & Caring Community	Quality Neighborhoods	Economic Growth & Competitiveness	Responsive Government	Total	%
City Attorney	\$2,052,579						\$13,111,479	\$15,164,058	2.27%
City Clerk	162,984						3,558,956	3,721,940	0.56%
City Council							681,643	681,643	0.10%
City Manager			\$257,358				3,644,811	3,902,169	0.58%
Civic Services		\$845,505	253,103				38,903,703	40,002,311	5.98%
Community Council							8,000	8,000	0.00%
Development Services	7,448,706	426,543			\$1,426,649	\$6,945,473	6,173,386	22,420,757	3.35%
Finance	7,103,946		119,473			10,100,000	40,699,279	58,022,698	8.68%
Fire	69,147,983			\$11,495		511,812	1,189,844	70,861,134	10.60%
Human Resources				175,000			43,688,448	43,863,448	6.56%
Information Technology	456,000						25,289,220	25,745,220	3.85%
Office of Economic Development						649,684		649,684	0.10%
Parks & Community Services	3,052,654		5,584,407	50,213,880	6,176,251		760,152	65,787,344	9.84%
Planning & Community Development		701,433		3,736,979	1,719,712		3,428,149	9,586,273	1.43%
Police	60,424,204			90,330				60,514,534	9.05%
Transportation	4,593,383	24,850,498	6,766,041	132,656	839,923	1,927,042	2,854,065	41,963,608	6.28%
Utilities	906,721	146,367	201,717,571	1,123,396		775,151	1,085,633	205,754,839	30.77%
Total	\$155,349,160	\$26,970,346	\$214,697,953	\$55,483,736	\$10,162,535	\$20,909,162	\$185,076,768	\$668,649,660	100.00%
	23.23%	4.03%	32.11%	8.30%	1.52%	3.13%	27.68%	100.00%	

Capital Investment Program (CIP)

The CIP is also severely affected by the recession. Our long-term capital program cannot be sustained as previously planned with the decline in future revenues currently anticipated by our long-term financial forecast and by increasing infrastructure demands related to planned growth within the Bel-Red Corridor, our neighborhoods and downtown Bellevue. Recognizing the severe financial constraints faced by the City, departments first prioritized internally to identify only the most critical and time-sensitive proposals to submit for funding consideration. A number of ongoing programmatic projects were significantly scaled back compared to the prior plan and the approved funding represents a phased approach to project implementation, with a mix of partial (e.g., fund design and/or right-of-way phases only) and full funding of projects. The result is a CIP that totals \$519.7 million for the 2011-2017 period, of which \$356.8 million is allocated to the General CIP and \$162.9 million is allocated to the Utility CIP. The CIP includes expenditures planned at \$206.7 million or nearly 40% of total seven-year expenditures during the first two years of the plan.

Outcome Area	Adopted 2011-2017 CIP Plan (\$M)		
	General CIP	Utility CIP	Total
Safe Community	\$12.0	-	\$12.0
Improved Mobility	150.6	-	150.6
Healthy and Sustainable Environment	6.8	162.9	169.7
Innovative, Vibrant and Caring Community	69.1	-	69.1
Quality Neighborhoods*	14.8	-	14.8
Economic Growth and Competitiveness*	0.3	-	0.3
Responsive Government	6.1	-	6.1
Debt Service	72.1	-	72.1
Council Contingency	25.0	-	25.0
Total	\$356.8	\$162.9	\$519.7

* Other Outcomes contribute to the Economic Growth & Competitiveness and Quality Neighborhoods Outcomes.

Note: Totals may not foot due to rounding.

Residents Give the City High Marks

Despite the challenging economic climate, Bellevue residents continue to support their local government. Over the last several years, respondents to our citizen surveys have given us consistently high ratings for quality service delivery and value for their tax dollar. Despite the recent recession and slower than expected economic recovery, residents continue to see Bellevue as an excellent city and their neighborhoods as wonderful places to live. The scores that we receive suggest that residents are satisfied with city services, confident about Bellevue's future, and proud to live here.

Our last resident survey, conducted at the beginning of this year, continues this long history of quality and sustainability with high marks from our citizens once more:

1. 97% rated Bellevue as good to excellent place to live. Nearly nine in ten consider their neighborhood an excellent or good place to live.
2. 86% of respondents feel they are getting their money's worth for their tax dollars.
3. Bellevue residents feel safe in the City. After dark, 84% feel safe in their neighborhoods and 88% feel safe in downtown.

Concern for Employees

Right sizing an organization will produce profound effects on the climate and culture of that organization. We intend to manage the stress and anxiety that typically arise when work relationships are disrupted or colleagues leave an organization. In keeping with our Core Value of Commitment to Employees, we have done all we can to make the transition for those leaving the work force as smooth as possible.

The Human Resources Department has developed a Transition Resources Center site containing information and connections to resources to help with the transition for these affected staff members. Human Resources staff will continue to be available over the next several months to assist those separating from City service.

The table below displays the FTE/LTE counts included in the proposed 2011 Budget by Department and by Outcome. Additional department FTE/LTE change information is included in the Department Information section (Chapter 8).

2011 Staffing By Department and By Outcome

<u>By Department</u>	2011 FTEs/LTEs
City Attorney	23.60
City Clerk	14.75
City Council	7.00
City Manager	11.00
Civic Services	65.83
Development Services	91.76
Finance	50.00
Fire	246.60
Human Resources	14.80
Information Technology	54.81
Office of Economic Development	3.00
Parks & Community Services	165.09
Planning & Community Development	25.31
Police	216.60
Transportation	115.49
Utilities	167.57
Totals By Department	1,273.21

<u>By Outcome</u>	2011 FTEs/LTEs
Safe Community	524.25
Improved Mobility	95.97
Healthy & Sustainable Environment	176.62
Innovative, Vibrant & Caring Community	134.04
Quality Neighborhoods	29.93
Economic Growth & Competitiveness	45.11
Responsive Government	267.29
Totals by Outcome	1,273.21

Investing in Utilities

This Budget includes the following proposed utility rate increases for 2011 and 2012:

	<u>2011</u>	<u>2012</u>
<u>Water</u>		
<i>Cascade Water Alliance</i>	1.9	5.6
<i>Local Programs</i>	<u>1.4</u>	<u>2.3</u>
<i>Total</i>	3.3%	7.9%
<u>Wastewater</u>		
<i>Metro/King County</i>	7.9	0.0
<i>Local Programs</i>	<u>1.0</u>	<u>1.5</u>
<i>Total</i>	8.9%	1.5%
<u>Storm & Surface Water</u>		
<i>Local Programs</i>	3.2%	3.2%

Increases in wholesale Metro/King County Sewer and Cascade Water Alliance Water costs are the primary drivers of the proposed wastewater and water rate increases. Addressing aging infrastructure issues continues to be the primary driver for local programs. Utilities' cost containment efforts for the 2011-2012 Budget focused on controlling operating expenses, finding efficiencies, and otherwise reducing costs that impact local rate increases, resulting in an 11.4% reduction to local controllable costs.

As a temporary measure, in response to the current economic downturn, Utilities reduced the transfer from rates to capital reserves for the renewal and replacement of infrastructure in 2011 and 2012 – a reduction of \$3.1 million.

- This reduction will provide a short-term rate reduction during the 2011-2012 biennium, but will create the need for larger rate increases in the future to return to planned contribution levels for funding infrastructure replacements.
- Accumulating reserves to pay for the proactive replacement of aging systems before they fail allows customers to continue to enjoy reliable, unobtrusive delivery of the most basic and critical services.

Risks and Watch Areas

As with any budget, there are risks and brewing issues to be watched. These issues are summarized in the Forecast section (Chapter 6) of this document.

Conclusion

In closing, I want to say that this process has been both challenging and rewarding for the City organization. Scores of staff have participated at many different levels in developing this Budget while at the same time carried out their departmental assignments. Despite this complex process, the end product is a plan that will produce better results for our community and adequately support those programs that are most important to our residents and other stakeholders. Simply put, Budgeting for Outcomes is a huge advance for the city's budget process and one that we will use to construct future budgets.

I want to thank each member of the Results Teams, the staff of the Budget Office, all the employees in this city who wrote proposals or contributed to the success of this process, and to the employees who carried on their work to maintain Bellevue's reputation as a quality city in which to live, work, learn, and play.

Sincerely,



Steve Sarkozy
City Manager