Forecast Introduction

The following sections present the General Fund and Enterprise Funds financial forecasts for the 2017-2022 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. Resource 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 2017-2022
- Utility Funds Financial Forecast 2017-2022
- Development Services Financial Forecast 2017-2022
- Parks Enterprise Fund Forecast 2017-2022

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2017-2018
Economic Outlook

Executive Summary:

- ***The Puget Sound Region continues to outperform the nation.***
- ***Bellevue employment, personal income, and home prices have rebounded faster than the nation.***
- ***Overall, the City's forecast assumes a modest growth of tax revenues over the next few years.***
- ***Risks:***
  - ***Global/National: China, Europe, and uncertainties during election year.***
  - ***National and regional auto sales is slowing down in 2016.***
  - ***The shifting in people's spending habit from retail stores to online purchase may impact the sales tax collection in the future.***

Economic Outlook:

Global Risks on the Horizon

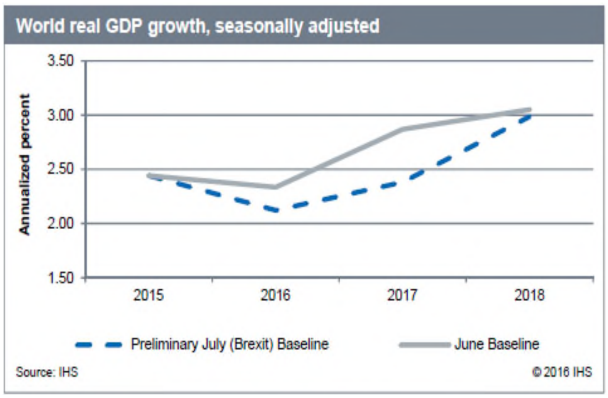
Although the global financial crisis is now seven years behind us, the world's economy is still struggling to regain momentum. Growth continues to falter in advanced economies and, while there is considerable divergence of performance across emerging market and developing economies, their overall growth remains below potential. (Source: Word Bank Group: Global Economic Prospects JUNE 2016 Divergences and Risks)

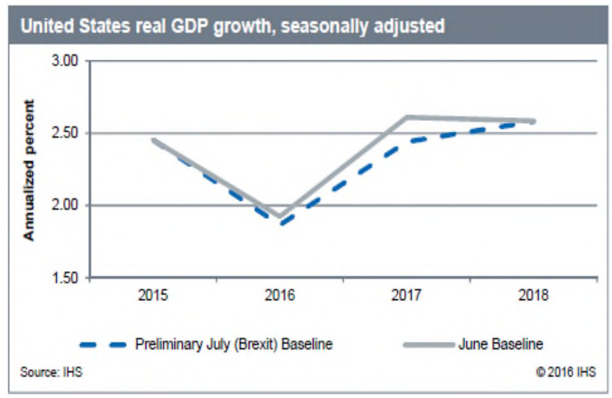
Real GDP Growth Annual estimates and forecasts						
	2013	2014	2015	2016	2017	2018
World	2.4	2.6	2.4	2.4	2.8	3
United States	1.5	2.4	2.4	1.9	2.2	2.1
Euro Area	-0.3	0.9	1.6	1.6	1.6	1.5
Japan	1.4	-0.1	0.6	0.5	0.5	0.7
United Kingdom	2.2	2.9	2.2	2	2.1	2.1
China	7.7	7.3	6.9	6.7	6.5	6.3
East Asia and the Pacific	7.1	6.8	6.5	6.3	6.2	6.1
Middle East and North Africa	2	2.9	2.6	2.9	3.5	3.6

Source: World Bank and Haver Analytics.
Note: Aggregate growth rates calculated using constant 2010 U.S. dollars GDP weights.

China continues its gradual slowdown and rebalancing, as reforms are implemented and their impact is calibrated by policy easing.

Brexit has a significant economic and political impact on both the UK and EU. Eurozone GDP growth will take an appreciable hit from the UK exit vote. IHS Global Insight forecasted Eurozone GDP growth to slow in 2017. The US economy may feel the impact with reduced trade growth coupled with a stronger currency, offset by commodities and interest rates staying "low for longer". In the end, Brexit is forecasted to temporarily reduce global growth by 0.3% to 0.5% in 2017. (Source: IHS Global Insight, Assessing the Impact of Brexit -June 29, 2016)





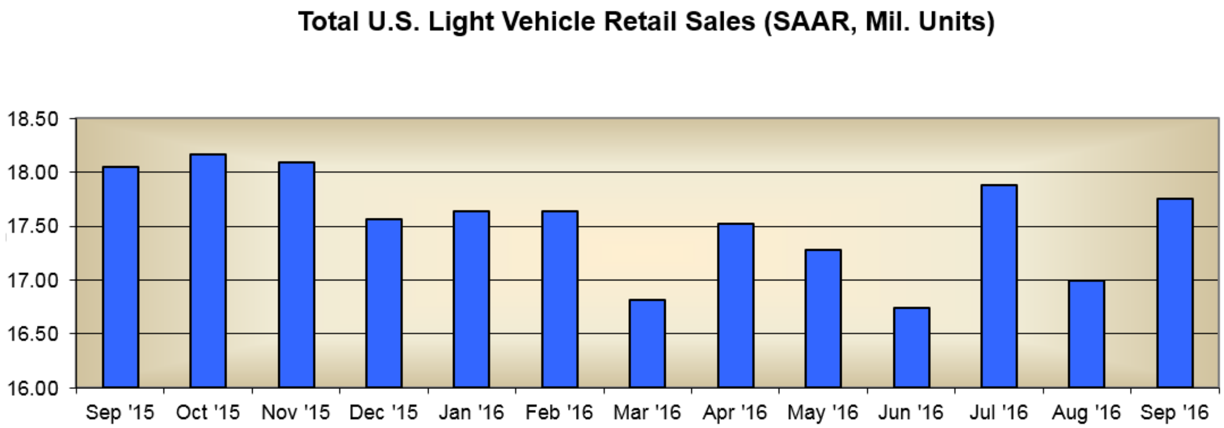
U.S. Economy

The U.S. economy added 287,000 net new jobs in June, the largest monthly increase since October 2015 and a major turnaround after May data showed the smallest increase in jobs since September 2010 (Source: U.S. Bureau of Labor Statistics). However, the initial estimate of second quarter GDP growth was a disappointing 1.2%, with first quarter GDP growth revised down to 0.8%.

The Current Population Reports released in September show that after a brutal economic recession and years of stagnation, real median household incomes rose from $53,718 in 2014 to $56,516 last year. That's a 5.2% rise — the first statistically significant increase since 2007, but the median household income in the nation still remains lower than it was in 2007 (Source: U.S. Census Bureau).

For the nation, earnings grew in 22 of the 24 industries; Health care, construction, and professional services were the leading contributors to overall growth in personal income (Source: U.S. Bureau of Economic Analysis). United States home values have gone up 5.4% to $187,000 over the past year and Zillow predicts they will rise 2.9% within the next year (Source: Zillow Research (http://www.zillow.com/research/)). However, the median home value in United States is still lower than its peak in 2007.

Although national auto sales grew 66 consecutive months beginning in September 2010, in 2016 there have been five months of decline. The softening of auto retail sales amid low interest rates, relatively cheap gas, and automakers pushing more aggressive incentives may be an indicator that further growth in this cycle will be challenging. The U.S. automotive market continues to show signs of little growth. As shown in the chart below, total sales of light vehicles (i.e. personal cars, trucks) are declining in 2016.

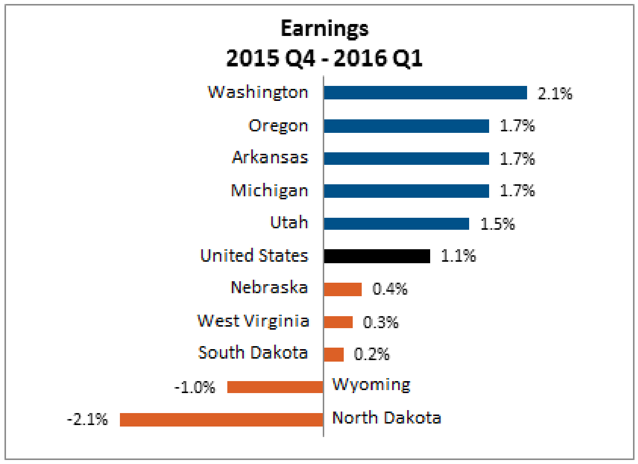


Source: *Power Information Network® (PIN)* from J.D. Power

Overall, although the national economy continued its weak pace of growth in the first two quarters, economists believe the economic recovery will continue at a moderate pace. Solid gains in employment, real disposable income, and household net worth will support consumer spending, and business fixed investment will recover, led by gains in information technology, industrial equipment, and commercial structures. However, foreign trade will be a drag on real GDP growth through 2018 because of a strong dollar and sluggish growth in major export markets (Source: IHS Global Insight). The Federal Reserve is normalizing monetary policy, but recent weakness in the economy has caused them to delay raising interest rates. Global Insight still expects that the Federal Reserve will raise the rates once by 0.25% this year (Source: IHS Global Insight).

<u>Local Economy:</u>

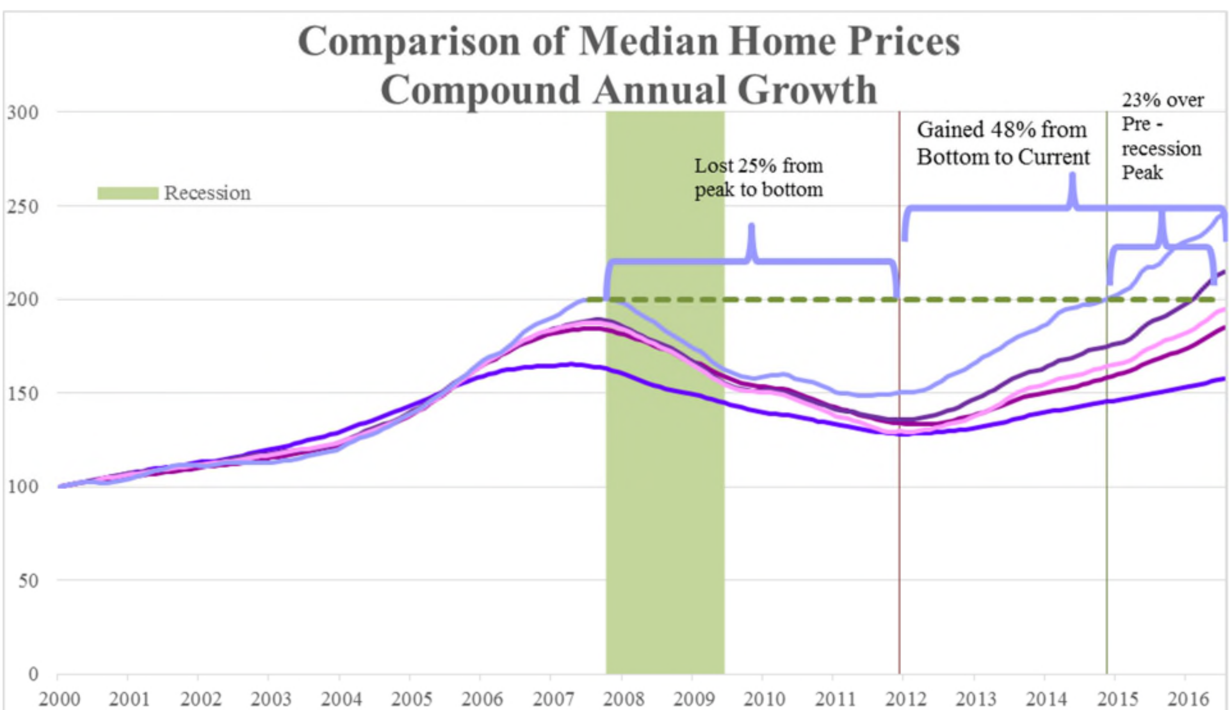
The Washington State and Puget Sound region had strong home price growth, job growth, personal income growth and population growth compared to the nation. Personal income in Washington State grew 2.1%, almost double the national earning growth, and faster than any other state, largely due to stock grants in the information sector (Source: U.S. Bureau of Economic Analysis). Global Insight economists expect the growth to moderate after a strong first half of 2016. Weak manufacturing performance and overall softer employment growth in the state and country is expected to limit growth. Construction growth and building - which helped Washington State and Puget Sound become so strong in the past few years - will begin to taper off as the tremendous amount of residential and commercial development projects that began a few years ago are slated to finish by the end of 2016 -2017. Growth will still be strong compared to the US, but may not be as pronounced (Source: IHS Global Insight).



Source: Bureau of Economic Analysis, June 2016 News Release.

<u>Bellevue Economy:</u>

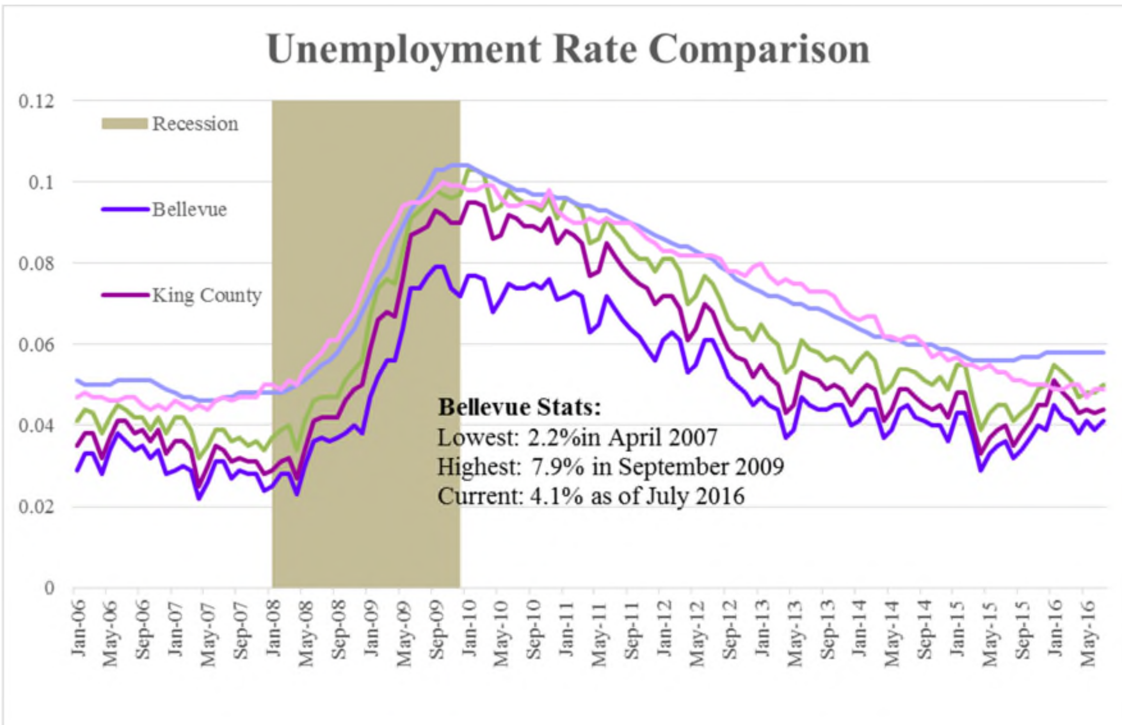
As one of the top destinations for domestic movers right now, Bellevue home prices have rebounded much faster than the nation. The median home value in Bellevue is $716,900 by the end of June 2016. Bellevue home values have gone up 12.3% over the past year and Zillow predicts they will rise 6.8% within 2017 (Source: Zillow Research (http://www.zillow.com/research/)). On the other hand, Global Insight economists expect the home price growth should stabilize over the next few quarters, but will still be high. Affordability is a major concern in the Seattle Metro Area and it is unlikely to ease given strong wages in the metro area's expanding technology and information sector.



Zillow Research (http://www.zillow.com/research/)

2017-2018
Economic Outlook

Bellevue added a total of 1710 jobs in the first two quarters of 2016 and our average monthly unemployment rate is currently 4.1%, lower than the nation rate of 4.9% and Washington State at 5.8% (Source: U.S. Bureau of Labor Statistics). Economists generally believe full employment is considered when unemployment is at 3%. Bellevue's current unemployment rate is significantly closer to full employment than the nation as a whole.



Source: U.S. Bureau of Labor Statistics

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2017-2022 Financial Forecast
General Fund

Executive Summary:

- ***The 2017-2022 forecast shows moderate revenue growth.***
- ***2015 revenues came in above budget due to solid Sales and B&O tax growth.***
- ***No councilmanic tax increase is assumed in the forecast.***
- ***Sales Tax growth is forecast for 2017 and 2018 at 6.2% and 4.4%, respectively. Seattle and King County are forecasting 2.7%, 5.1% for 2017 and 2%, 3.1% for 2018.***
- ***B&O tax growth is expected to grow at 5.3% for 2017 and 6.2% for 2018.***
- ***Assuming no changes in rates for major tax components, the General Fund forecast is forecasting revenues to exceed expenditures in the near term (years 2017 and 2018), the out year forecast reflects the reverse.***

General Fund Revenue Discussion

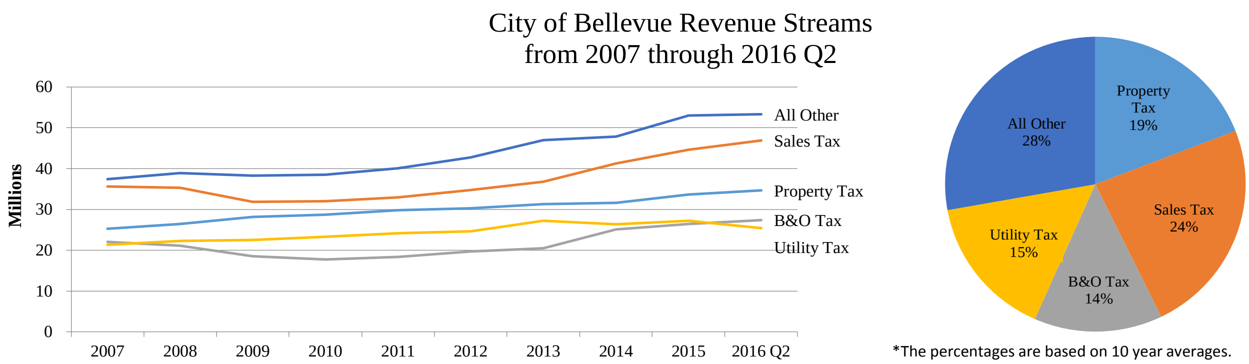
The City's mix of revenue consists of Property Tax, Sales Tax, Business and Occupation Tax (B&O Tax), Utility Tax, user fees, state-shared revenue, as well as other smaller revenue sources. These revenue sources fall into essentially five categories: Property Tax, Sales Tax, Business and Occupation Tax (B&O Tax), Utility Tax, and the catch all "all other" revenue.

Overall, the City's General Fund forecast assumes a modest growth of tax revenue for the next few years, recognizing that the Puget Sound area's economy will continue to grow at a moderate pace. Sales tax is a good indicator of economic activity, and has been growing faster as the economy continues to recover. Each of these revenue streams grow at different rates, some very slowly like Property Tax (based on new construction), and some at a greater rate such as Sales and B&O Taxes. Due to these differing growth rates, the relative impact of one revenue stream that may be growing at a rate greater than the others is offset by other revenue streams growing at a much slower rate. Sales and B&O Taxes, combined, comprise 41% of total General Fund revenue in 2017 and are very sensitive to economic conditions. These taxes are forecasted to grow between 3% and 5% but, when combined with all other revenue streams including those less sensitive to economic conditions, are likely to grow at a rate slightly less than CPI. This means that for Sales and B&O Taxes to affect total revenue growth by 1%, Sales and B&O Taxes would have to grow by approximately an additional 3%.

Chart 1 shows a 10 year history of the growth of the five major sectors in the general fund, and the pie chart shows a 10 year average of their proportionate share of the general fund.

2017-2022 Financial Forecast
General Fund

Chart 1

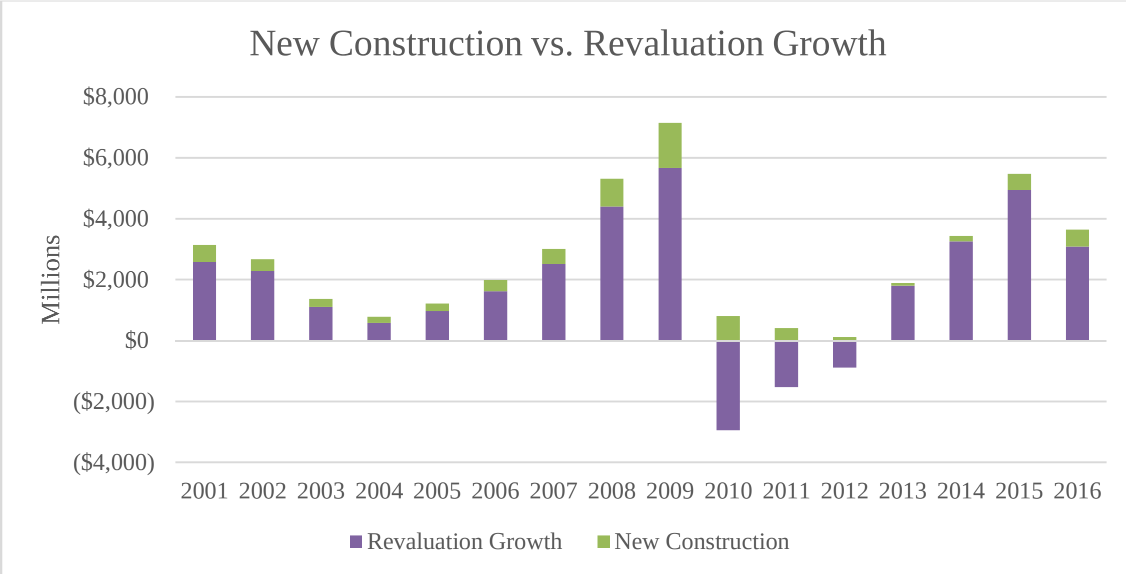


*The percentages are based on 10 year averages.

General Property Tax

Property tax was increased 3% in 2015 consisting of the statutorily allowable 1% to help pay for the transfer to the Capital Investment Plan Fund to address infrastructure needs, then 1% increase 4 additional firefighters and a 2% increase utilizing Banked Capacity with an equal offsetting reduction in the sales tax in 2016 to to fund the balance of the cost associated with the addition of firefighters approved in December 2014. Historically before 2015, the City has not taken its allowable annual Property Tax increase of either the lesser of 1 percent or the implicit price deflator (IPD) consistently. Rather than taking that increase the City has chosen to bank that allowable increase (known as "banked capacity") for future use. Currently, Bellevue has $8.6 million in banked capacity available.

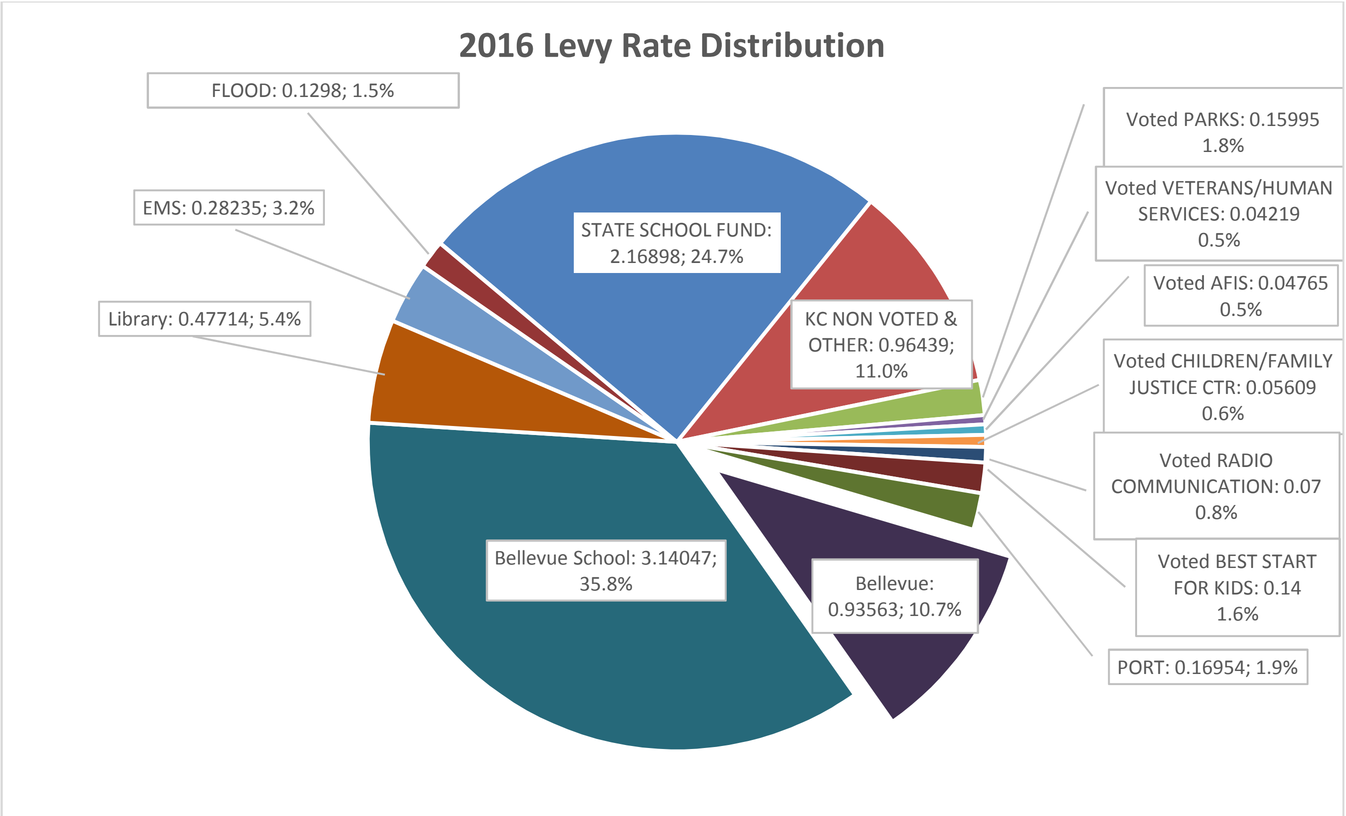
Aside from Property Tax increases and annexations, new construction is generally the only allowable increase in the Property Tax levy. New construction varies year to year depending on the level of development activity fueled by a growing economy. Historically since 2010 new construction contributes approximately 1 percent to the property tax revenue and within that time frame the annual increase to the General Property Tax revenue has ranged from 0.8 percent to 4.7 percent. Downtown development of high-rise buildings has been the catalyst of the disproportionately high amounts of new construction.



Revaluation growth and new construction are the two compenents contributing to the total accessed value growth. The lagged impact of an economic downturn was not shown in accessed value until the Great Recession was over in 2009, and the impact lasted for three years before the construction started to pick up.

General Property Tax is levied as a dollar amount on the value of real and personal property. The tax rate is calculated by dividing the levy amount by the assessed value. This method for determining property tax means the rate may fluctuate depending on assessed value.

Bellevue's Property Tax is one of the lowest in King County. In 2016, only 11 percent of a property owner's tax bill was collected by the City of Bellevue, and the remaining 89 percent was remitted to King County, the State, schools, and other taxing jurisdictions.



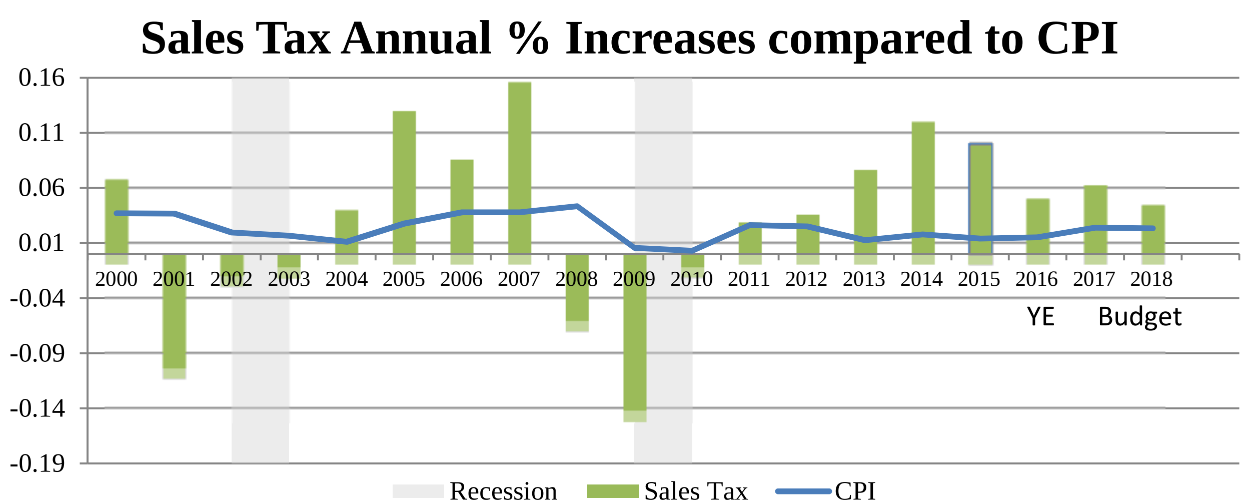
Construction activity impacts the City's revenue in several ways and needs to have special consideration due to its complicated nature.

- Construction in Washington is subject to sales tax and, unlike many other states, the firms doing the construction are subject to B&O tax. Property tax revenue will increase by the value of the new construction regardless of changes to the property tax rate.
- Construction activity is highly volatile and dependent on several factors such as the real estate market as well as the overall health of the economy.
  - Large construction projects contribute to the highly volatile nature of construction-derived revenue.
  - Additional factors are the availability of land and zoning capable of accommodating large construction projects.
  - Construction is a one-time activity. Eventually it will slow as demand diminishes or the City reaches build out.
- A residual effect of large construction projects is the sale of these multi- million dollar buildings well after construction has ceased. Companies that own large buildings often shift or change their portfolios dependent on going rate of return and interest rates. During the recession, real estate investment companies sold large office towers and other large developments that had unfavorable debt terms or rental income that was not covering their debt service; later these same companies began buying as the recovery was under way, with interest rates at historic lows and vacancy rates on a downward trend. These sales transactions are subject to Real Estate Excise Tax which funds the City's capital improvement program.

Retail Sales/Use Tax

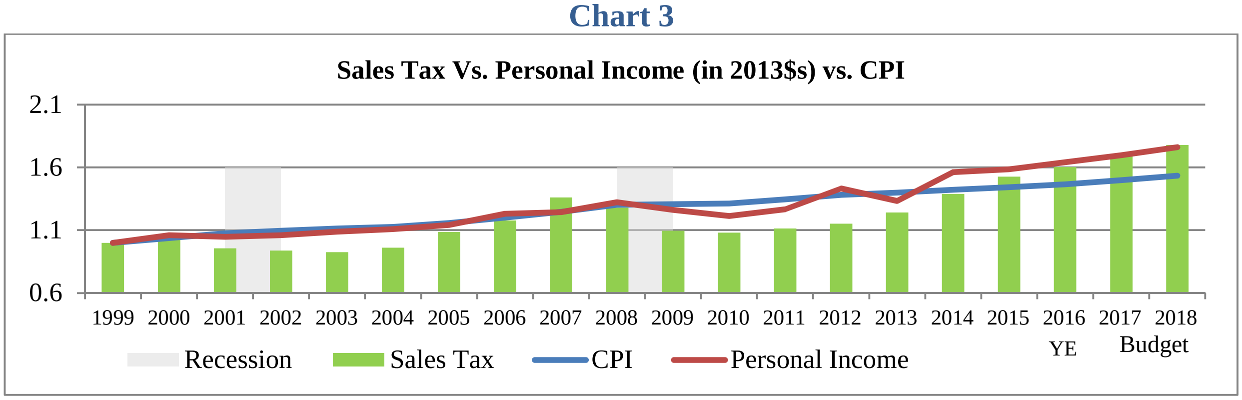
The City collects 0.85 percent tax on retail goods and services. Sales Tax revenue is the most volatile revenue the City's General Fund collects. During the recession, Sales Tax collections fell 21 percent from their peak in 2007 to the trough of the recession in 2010. Chart 2 shows the Sales Tax growth since 1999, and is shown compared to the Consumer Price Index (CPI) to demonstrate the magnitude of growth and volatility.

Chart 2



Personal expenditures dropped greatly through the recession and so did sales tax as a result of this change in behavior. In nominal dollars the City is recovered above its prerecession sales tax peak. However the annual sales tax growth rates are still lower than the prerecession peaks from 2005-2007. Chart 3 shows the difference in growth between personal income and sales tax growth. What is notable from this chart is that personal income has recovered more quickly than sales tax growth from 2009-2015 as a result of people's personal spending habits changing after the recession. Now seven years after the recession, most economic indicators have recovered to pre-recession levels, and the sales tax forecast for 2017-2018 shows a similar trend with personal income growth forecasted by Puget Sound Economic Forecastors.

Chart 3

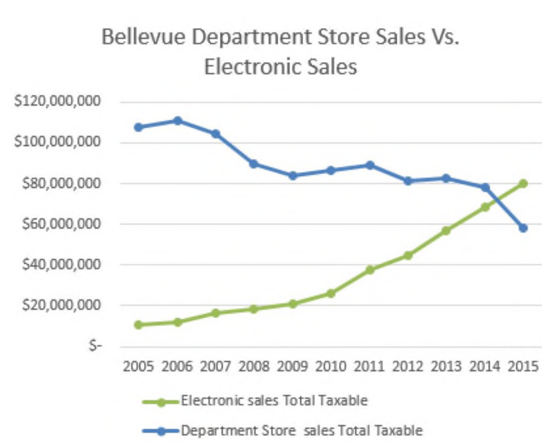


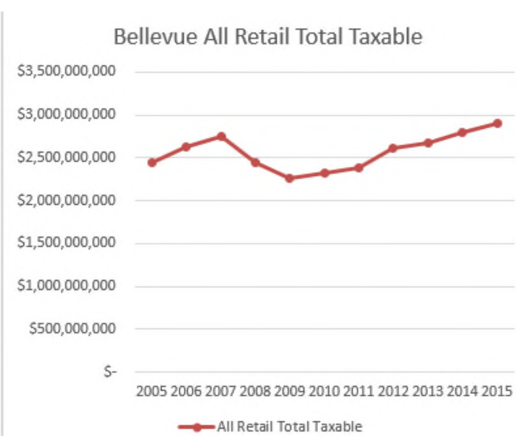
Sales Tax is reported to the City by sectors. The major sectors for Bellevue are retail sales, construction, and auto sales, which together comprise 60 percent of sales tax revenue; all other retail sales tax sectors make up the balance. Construction has been slowly increasing over the last few years after the recession and recently has started to show stronger growth. Construction of buildings grew at nearly 64 and 34 percent in 2014 and 2015, and is projected to be 19.2 percent in 2016 but starts to slow down starting in 2017 and 2018 as the nine major projects currently under construction in downtown Bellevue will finish in the next year (between 2016-2017) (Source: City of Bellevue Development Services 2016 Q2 Major Projects List).

Due to the increasing level of growth, construction is now contributing to the overall increase in sales tax revenues. Construction was a driving force in the City's revenue growth leading up to the recession of 2007. Before the recession, construction accounted for 22 percent of sales tax revenue, but only 14 percent in 2013. Although the construction share of sales tax has increased to 16%, having such a large portion of the City's revenue subject to this volatility presents challenges due to the economic sensitivity of the construction industry.

Retail sales is a broad category that is comprised of both durable and non-durable goods. The Great Recession has had a profound effect on the City's sales tax collections. On a nominal dollar basis the City has recovered, but on a real dollar basis this is not the case. In the seven years since the pre-recession peak, purchasing power has eroded, meaning a dollar today does not buy as much as it did in 2013. Chart 3 compares growth of personal income and sales tax in 2013 dollars. The chart indicates that sales tax growth has lagged compared to personal income growth due to the change in purchasing habits after the recession.

As the public's spending habits shift from purchases in retail store locations to online stores, the sales tax share for department stores has been decreasing as the electronic shopping category of sales tax increases. As shown in the chart below, the electronic sales has been increasing its share of sales tax, but the department stores shows the reverse. In 2015, the total taxable sales of electronic shopping increased 17.9% where department store taxable sales decreased 25.3%. (Source: King County sales tax database)

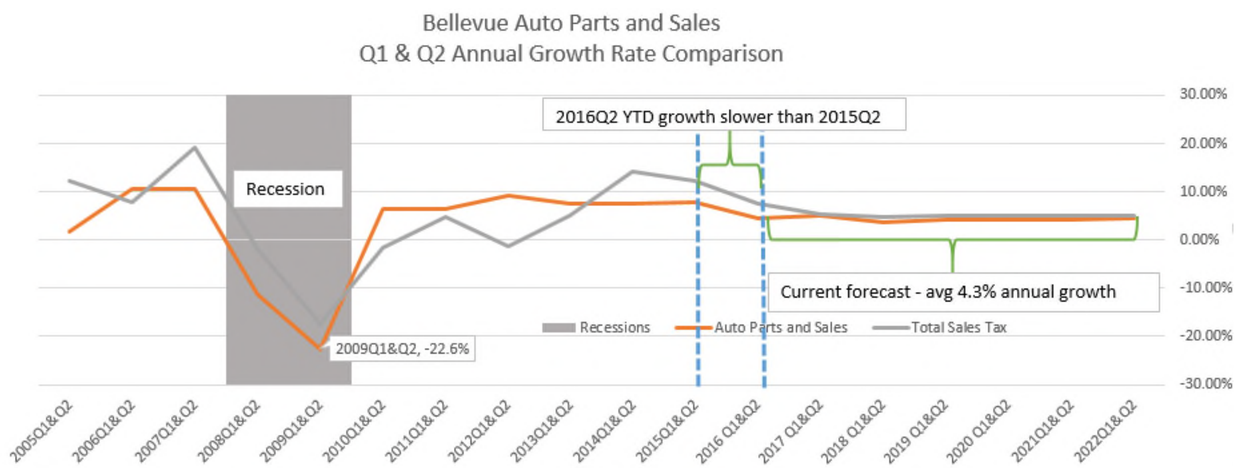




Source: King County sales tax database

2017-2022 Financial Forecast
General Fund

Currently with six months of sales tax data available for 2016, the trend analysis of the historical and forecasted growth rate of the first two quarters shows a slower growth of Auto Parts and Sales in the first two quarters of 2016 compared to the same period of 2015. The growth rate dropped from 7.8 percent to 4.6 percent in 2016 and the six year forecast shows an average of 4.3% annual growth from 2017 through 2022. One thing of note is the Auto Parts and Sales tax is highly volatile and very sensitive to the economic environment. During the last recession, auto parts and sales dropped 11.4% in 2008, then another 22.6% drop occurred in 2009. Although 2015 auto sales were strong, looking at the remainder of the year, the industry faces an uphill struggle to match last year's performance. With mixed economic signals, it certainly looks like U.S. auto sales may have peaked in 2015. (Source: LMC Automotive August 2016 Press Release). With the rate of growth slowing, leading indicators are pointing to challenges ahead.



The table below provides a comparison of the City's Sales Tax forecast to Seattle, King County, and Washington State. Bellevue is showing slightly stronger growth in near term, and in the long run, Bellvue's forecast is comparable with King County and Washington state. This forecast is based on the best information available at this point in time and, as the forecast extends to the out years, the margin of error increases.

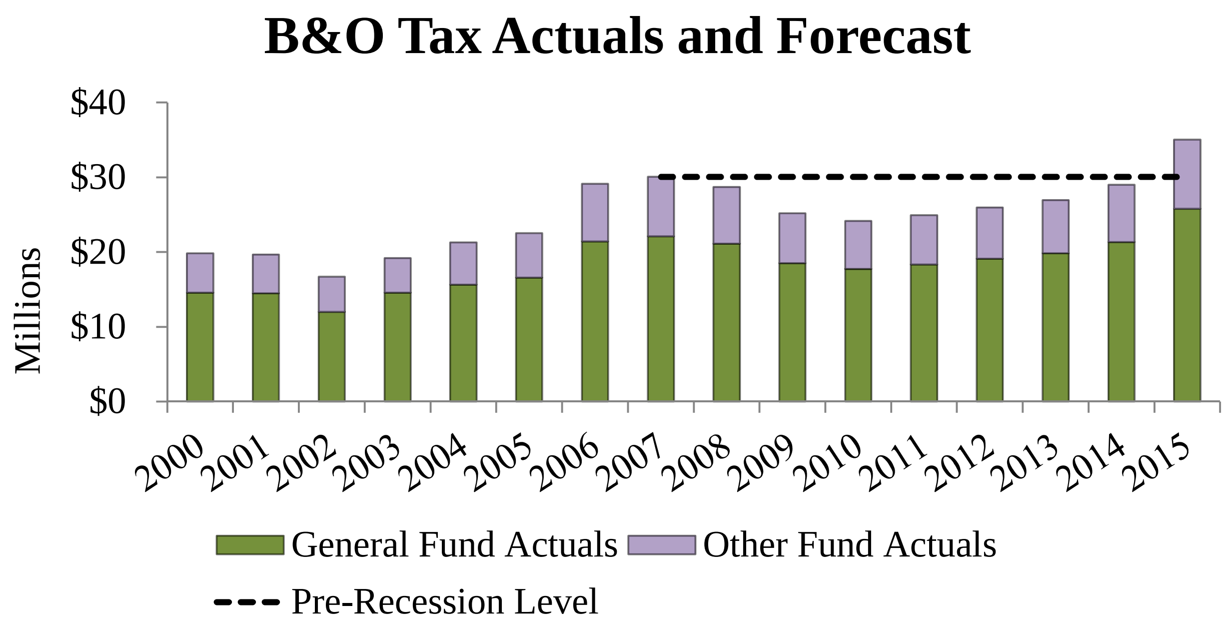
	2017	2018	2019	2020	2021	2022
Bellevue	6.17%	4.39%	4.63%	3.92%	4.12%	4.69%
Seattle*	2.68%	2.07%	N/A	N/A	N/A	N/A
King **	5.12%	3.12%	3.45%	2.77%	3.90%	4.55%
Washington State***	3.20%	4.40%	4.50%	4.10%	3.90%	N/A

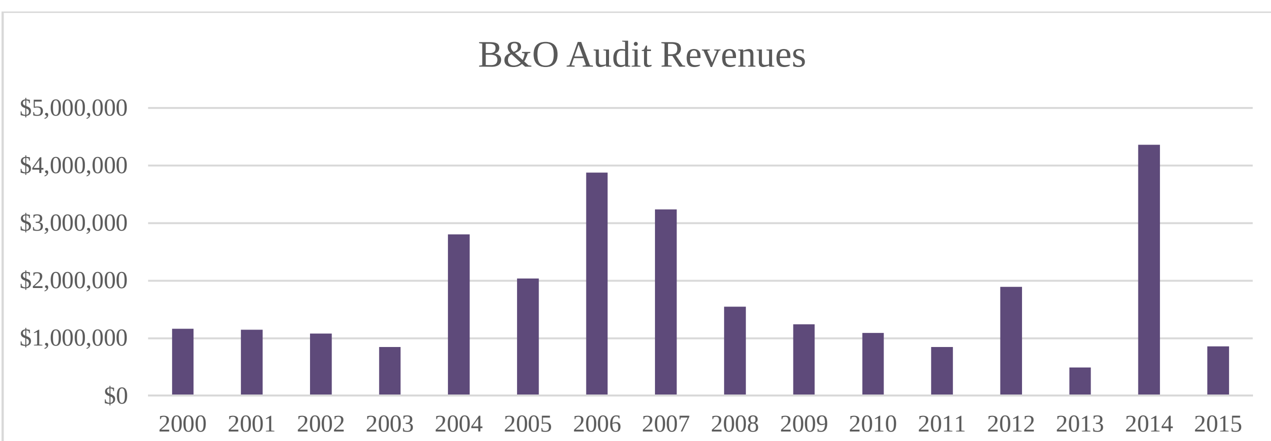
* Seattle sales tax growth rate is calculated from Seattle's 2017-2018 proposed budget
**King County sales tax growth rate from King County's August 2016 forecast
***Washington State Final September 2016 forecast published by Washington State Economic and Revenue Forecast Council

Business & Occupation Tax

Business and Occupation (B&O) Tax is made up of two parts, gross receipts and square footage taxes. This revenue, like Sales Tax, is subject to volatility brought on by economic risk. During the recession, B&O Tax collections fell 20 percent from the peak. Over the last 10 years, B&O Tax accounted for 14 percent of the City's General Fund revenue. B&O returned to pre-recessionary levels in 2014 as reflected below in Chart 5. The City continually monitors the B&O taxbase and as well as audit findings that may require either a refund to the tax payer or an additional payment to the City. Audit revenue is highly volatile and has ranged from several hundred thousand dollars to nearly $4.4 million.

Chart 5





Utility Tax

Utility Tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. Aside from telephone and cellular phone taxes, Utility Taxes are fairly stable, rarely declining from year to year. Utility taxes remained level in aggregate for the past several years, and the city is forecasting a continuation of the trend. On a disaggregated level, cellular and telephone taxes continue to decline, whereas other utility taxes are increasing. Overall, the utility tax's share in general fund has been decreasing over 2015-2016. The shift to place greater reliance on sales tax and B&O is an area that requires regular review to ensure that the City is fiscally prepared for an economic downturn. A couple areas of note:

- In the last few years electric and natural gas utility tax collections have flattened out due to conservation efforts and mild weather patterns.
- Telephone and cellular phone taxes have been on the decline and are expected to decline further due to households abandoning landlines and wireless phone companies shifting the proportions of the bill more towards the untaxed data and away from voice service.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including Excise Taxes, Sales Tax Annexation Credit, Penalty/Interest Delinquent Tax, Licenses and Permits, Intergovernmental – State and Other Cities, Charges for Goods and Services, Fines/Forfeits, and Other Miscellaneous Taxes and Revenues.

Intergovernmental revenues consist of revenues collected from other entities for services provided by Bellevue (e.g. Fire EMS services, etc.). State funding, sometimes referred to as State-Shared Funds, consists of distribution from State taxes such as the Marijuana Excise Tax, Liquor Excise Tax and Liquor Board profits. Marijuana Exercise Tax and Multi-modal distributions are the two new Intergovernmental revenues to the city. State distributes 30% of the total Marijuana Exercise Tax to cities and counties with a cap at $15 Million in 2018 and 2019 then $20 Million each year thereafter; 70% of the distribution will be on a per capita basis with 60% going to counties, and the remaining 30% will be based on the proportional share of the total marijuana revenues generated.

General Fund Forecast

The General Fund forecast is forecasting revenues to exceed expenditures in the near term (years 2017 and 2018), the out year forecast reflects the reverse. The revenue forecast assumes no changes in rates for major tax components such as sales tax, business and occupation tax, property tax, or utility taxes. The expenditure forecast assumes no additions or reductions in workforce. The forecast does include the impact from the conversion of LEOFF 1 Medical to “pay as you go” and expiration of the sales tax annexation credit.

As displayed in Table 2 below, the City’s estimated ending fund balance for 2016 is 18.3%. Since the fund balance percentage is based on revenue, which will continue to grow, a 5 percent growth in total revenue, the City must add approximately $1.4 Million per year to simply maintain its current fund balance level.

As with all forecasts, this is a best estimate of the future. It represents the collection of all fiscal information known as of October 2016. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/ October (as related to the Preliminary Budget or Mid-Biennium Update before Council).

The current forcast shows the City’s expenditures will exceed revenues in the out years primarily due to the growth of service needs, LEOFF 1 Medical converting to “pay as you go”, and the expiration of the annexation sales tax credit. The preliminary budget builds reserves to help to assist in addressing these out year issues for the near term. If there is no change in the forecast, the City will need to either 1) Reduce cost, 2) Increase new revenues; and/or 3) Amend the financial policies to adjust the revenue distribution between funds such as sales tax or B&O tax.

Budget One
one city
one public
one purpose

2017-2022 Financial Forecast
General Fund

Table 2

2016 General Fund Forecast as of 10/4/2016
(in $000)

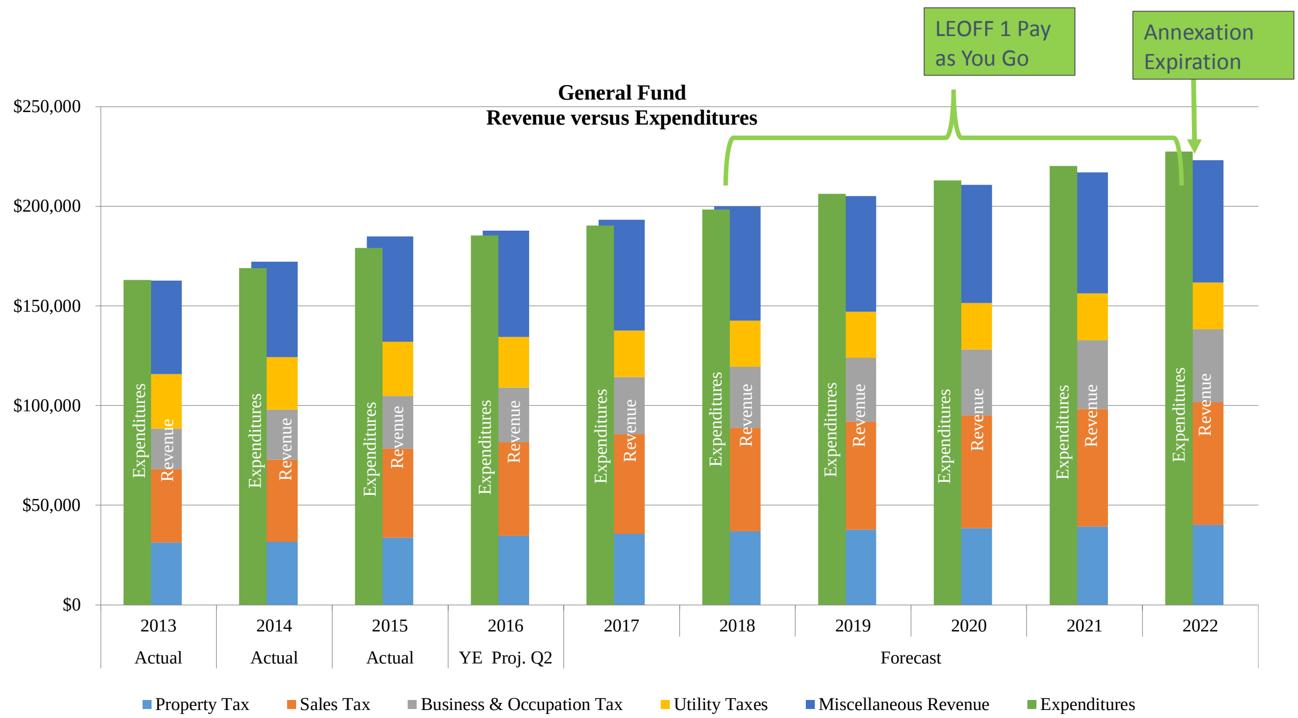
	YE Proj. Q2	Forecast					
	2016	2017	2018	2019	2020	2021	2022
Beginning Fund Balance	$32,092	$34,392	$37,332	$38,921	$37,832	$35,463	$32,303
Revenue							
Property Tax	$34,686	$35,710	$36,804	$37,636	$38,469	$39,304	$40,132
Sales Tax	46,910	49,802	51,988	54,394	56,526	58,857	61,616
Business & Occupation Tax	27,410	28,874	30,662	31,892	33,096	34,638	36,431
Utility Taxes	25,427	23,262	23,154	23,254	23,332	23,463	23,591
Miscellaneous Revenue	53,276	54,056	55,839	56,425	57,764	59,244	59,754
Over Collection	0	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenue	$187,709	$193,205	$199,948	$205,101	$210,686	$217,005	$223,025
%Δ Total Revenue	1.5%	3.1%	3.5%	2.6%	2.7%	3.0%	2.8%
Expenditures							
Personnel	$114,605	119,976	124,528	129,509	134,690	140,077	145,681
Maintenance & Operations	70,805	71,989	75,530	78,382	80,066	81,787	83,548
Under Expenditure		(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)
Total Expenditures	$185,410	$190,265	$198,359	$206,191	$213,055	$220,165	$227,529
%Δ Total Expenditures	0.0%	2.6%	4.3%	3.9%	3.3%	3.3%	3.3%
Revenue Less Expenses	$2,300	$2,940	$1,590	($1,090)	($2,369)	($3,159)	($4,504)
Ending Fund Balance	$34,392	$37,332	$38,921	$37,832	$35,463	$32,303	$27,799
EFB as a % of Revenue	18.3%	19.3%	19.5%	18.4%	16.8%	14.9%	12.5%

tes:

- The Affordable Care Act (ACA) is assumed to be cost neutral in 2020 when the Excise Tax is scheduled to go into effect.
- LEOFF 1 Medical “Pay as You Go Begins in 2018 $462k and 2019 at $2.3m/year, contained within O&M Expense Line
- Annexation Sales Tax Mitigation of aproximately $1m/year within Miscellaneous Revenue expires in 2022.
- Assumes that Labor Distribution reduces in tandem with LTEs expiring.
- Includes no additional taxes or increase in taxes from 2016.
- Personnel annual growth rate is 4.0% for 2019 to 2022
- Forecasted CPI-W is 2.25% for out years.
- Utility tax forecast reduced in out years due to reduction in taxable cell service.

2017-2022 Financial Forecast
General Fund

Chart 6



2017-2022 Financial Forecast
Development Services Fund

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2017-2022 forecast reflects a high level of development activity in the early years. In response to the workload for the high development activity and the East Link project, Development Services shows a modest increase in staffing levels in the early forecast years.
- In subsequent years of the forecast, development activity is anticipated to return to a more moderate level.

Background

There continues to be high interest in major project development in Bellevue. Several new major projects are in the review process and additional projects are under construction or have recently obtained permits that allow construction to proceed. Examples of major projects off note include Lincoln Square Expansion, Center 425, and GIX in the Spring District. The Sound Transit East Link light rail project began construction in 2016 and is anticipated to spur long-term commercial and residential development in the city.

The construction valuation for issued permits, considered a key barometer of development activity, was a record high level for Bellevue in 2015. This is due primarily to the increase in the number of new major projects, and a strong interest in single family residences, single family alterations, and tenant improvements. Valuation from major projects is a category that is a significant driver of the forecast in the early years and is anticipated to decrease in the latter forecast years.

The timing of the construction of these projects will play a role in the level staffing needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services have increased in prior budgets to meet the growing demand for permit review and inspection services, especially in anticipation of the East Link construction. The existing staffing level is anticipated to continue through the 2017-2018 budget, with budget authority for up to an additional 8.15 FTE if necessary to meet increases in demand.

2017-2022 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate at Q2 2016 was at 11.9%, a slight increase from the previous quarter due mainly to the completion of office construction. Additional office space is anticipated to become available over the forecast period as major projects complete construction. The number of land use design review applications (an early indicator of development activity) point to a continued strong interest in building major projects in Bellevue. As such, major project activity will continue to impact the early years of the forecast.

2017-2022 Financial Forecast
Development Services Fund

After experiencing growth not seen since before the economic downturn, single family development has slowed in 2016, however, single family applications are anticipated to remain steady in the early forecast period spurred on by continuing low interest rates. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the value of projects represented by the applications. The level of activity is expected to continue thru the early years of the forecast with the addition of new office buildings in the downtown and Bel-Red area.

As a result of the aforementioned variables, the early forecast years reflect revenue collections for the development of several new major projects. In the latter years, major project activity is anticipated to continue at a reduced level.

Development Services Fund

2017-2022 Financial Forecast

(in $000)

	2016 Est	2017	2018	2019	2020	2021	2022
Beginning Reserve	**$ 16,155**	**$16,736**	**$15,779**	**$14,429**	**$12,710**	**$11,940**	**$11,828**
Resources:							
Building Fees	$11,353	$11,155	$11,148	$10,418	$9,922	$9,633	$9,538
Land Use Fees	$2,667	$2,225	$2,305	$2,134	$2,033	$1,973	$1,954
Fire, Transp. & Utilities Fees	$5,932	$6,910	$7,083	$6,559	$6,246	$6,064	$6,004
sub: Development Services Fees	$19,951	$20,291	$20,536	$19,111	$18,201	$17,671	$17,496
Gen Fund Subsidy	$3,948	$4,144	$4,288	$4,204	$4,121	$4,101	$4,060
Other Revenue/Interest	$318	$304	$312	$309	$305	$299	$297
Total Resources	**$24,217**	**$24,739**	**$25,135**	**$23,623**	**$22,628**	**$22,071**	**$21,853**
Expenditures:							
Building	$8,910	$10,067	$10,674	$10,166	$9,326	$8,716	$8,462
Land Use	$3,974	$3,809	$3,947	$3,724	$3,416	$3,223	$3,191
Fire, Transp. & Utilities Dev Svcs	$4,879	$5,693	$5,831	$5,553	$5,095	$4,806	$4,759
Code Compliance	$979	$993	$1,028	$1,038	$1,049	$1,054	$1,064
Administrative/Shared Costs	$4,711	$4,711	$4,860	$4,719	$4,369	$4,242	$4,159
Technology Initiatives	$182	$423	$145	$143	$142	$142	$144
Total Expenditures	**$23,636**	**$25,696**	**$26,485**	**$25,343**	**$23,397**	**$22,183**	**$21,779**
Ending Reserves	**$16,736**	**$15,779**	**$14,429**	**$12,710**	**$11,940**	**$11,828**	**$11,902**

Forecast Drivers and Assumptions

1. Several major mixed use development projects (Centre 425, Lincoln Square Expansion, and Spring District Building 16 & Residential, Spring District Parcel 14 GIX Building) are assumed to be in construction in the early years of the forecast. Additional major projects are the ELEV8 (FKA International Plaza), Four 106 (FKA Fana), One 88 (FKA Bosa), Holiday Inn Express, Bellevue Hotel, Bellevue Square SE Expansion, 888 Bellevue Tower, Bennet Elementary and Wilburton Elementary Schools, and Tillicum Middle School.

2. The demand for major project activity remains high as several new projects are in the review process and are assumed to continue through the 2017-2018 budget years and as such, permit activity for tenant improvements of new office buildings will remain strong. Interest in major projects, new single family homes and existing remodels is anticipated to slow in later forecast years.

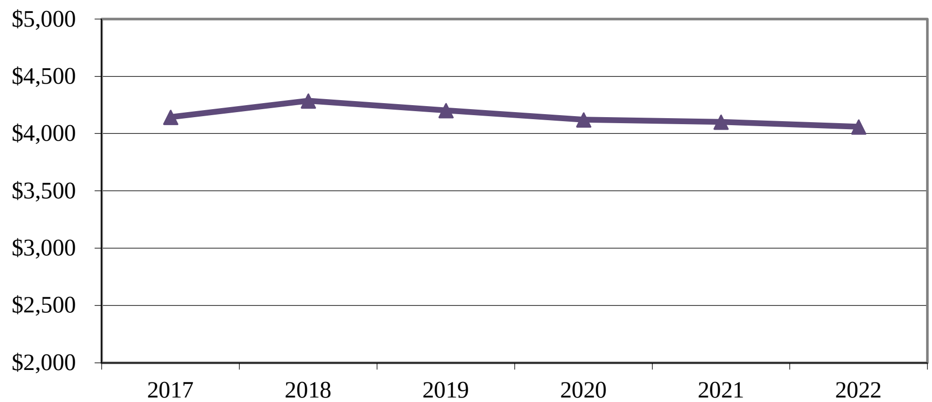
3. The forecast reflects staffing levels anticipated to meet the demands of the construction activity as well as the East Link project. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload and maintain service levels. All staffing levels will be adjusted to meet the review and inspection demands.

4. Development fees 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% of the General Fund budget. This contribution (subsidy) supports personnel and M&O 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, code and policy development, and approximately 50% of Land Use discretionary review.

General Fund Subsidy Forecast 2017-2022
($ in Thousands)



The General Fund contribution to the Development Services Fund is expected to grow slightly in the early forecast period as policy and code update work continues. In later years, the contribution is expected to decrease, consistent with projections for cost savings due to anticipated decline in development activity.

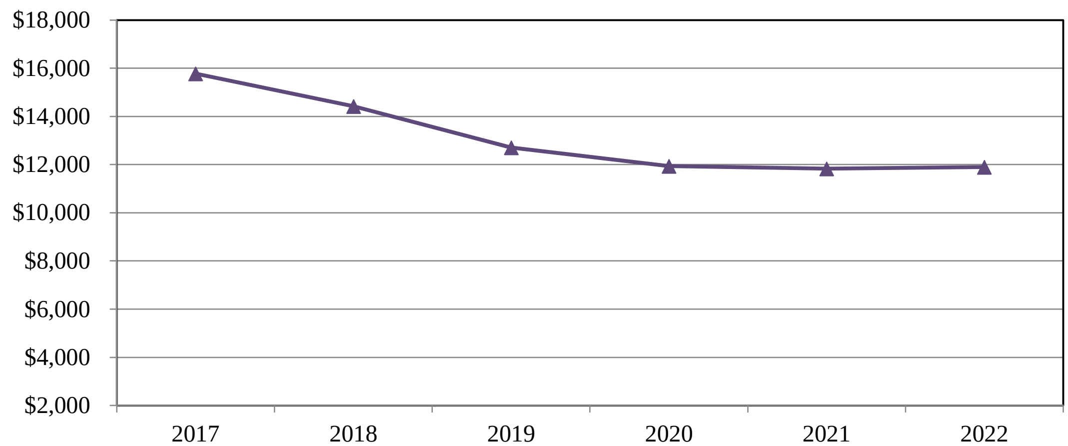
Development Services Fund Reserves

The Development Services Fund includes prepaid fees and 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 $16.7 million through 2016. This reflects the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level is assumed to decline through 2022. Reserves will be drawn upon as it will be necessary to maintain sufficient staff to complete the review and inspection of projects in construction.

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.

Development Services Fund Forecast 2017-2022
($ in Thousands)



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2017-2022 Financial Forecast
Parks Enterprise 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, such as driving range improvements completed in 2015.

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.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves will be managed within the targeted level of 2-months operating expenses, ranging between $1.0M and $1.3M 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 to enhance player services and the financial performance of the course. Capital transfers in the early years of the financial forecast will fund the golf range construction project completed in 2015.

Parks Enterprise Fund
2017-2022 Financial Forecast
(In $000)

	2017 Preliminary	2018 Preliminary	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Resources:						
Beginning Fund Balance	$898	$1,033	$1,179	$1,290	$1,366	$1,354
Program Revenue	6,626	6,837	6,973	7,113	7,255	7,400
General Fund Subsidy	0	0	0	0	0	0
Total Resources	**$7,525**	**$7,869**	**$8,152**	**$8,403**	**$8,621**	**$8,754**

	2017 Preliminary	2018 Preliminary	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Expenditures:						
Personnel	$2,140	$2,219	$2,285	$2,354	$2,425	$2,497
M&O	2,825	2,893	2,966	3,040	3,116	3,194
Interfund Transfer	1,227	1,278	1,310	1,343	1,377	1,411
Capital Transfer	300	300	300	300	350	350
Total Expenditures	**$6,492**	**$6,691**	**$6,862**	**$7,037**	**$7,267**	**$7,452**
Reserves:						
Ending Fund Balance	**$1,033**	**$1,179**	**$1,290**	**$1,366**	**$1,354**	**$1,302**

Note: Columns may not foot due to rounding.

2017-2022 Financial Forecast
Utilities Funds

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

The Utilities Department operates as an enterprise within the City structure and functions much like a private business entity.

- *The Department does not receive any General Fund funding and relies primarily on rates to fund its operating and capital programs.*
- *The proposed rates presented herein are designed to generate sufficient revenues to fund the Utilities 2017-2018 budget proposals, which include operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and the long-term infrastructure Renewal and Replacement (R&R) requirements.*
- *The proposed rates are lower than those presented in the Early Outlook forecast and reflect updated utility cost projections including further evaluation and smoothing of the rate impact from funding the Utilities capital needs.*

The Utilities Department faces the following key challenges and constraints in the 2017-2018 biennium:

1. **Challenges**
   a. Capital infrastructure is aging. Utilities operates a highly capital-intensive business, and the Department's ability to deliver quality services to its customers is dependent on the ability of each system to function on demand, every day of the year.
   b. Supporting economic growth. Additional infrastructure capacity is needed to support development and population growth.
   c. Issaquah assumption. Effective January 1, 2017, the City of Issaquah will assume delivery of water and sewer services to about 1,000 utility customer accounts in the South Cove/Greenwood Pointe area. The City of Issaquah annexed this area in 2006 and under the annexation agreement, the City agreed to eventually provide water and sewer services to this area. In 2015, the City Council approved Resolution #8981 authorizing Issaquah's assumption of these customer accounts.
   d. Operational efficiency. We are mindful of the need to operate efficiently and continually evaluate business processes to seek opportunities to effectively deliver services in a more cost-effective manner.
2. **Constraints**
   a. Fixed cost structure. Utility operating expenditures are largely fixed, with the majority of these costs used to pay financial obligations, including payments to external and internal service providers and taxes.
   b. Legal mandates. Utilities must comply with State and Federal mandates, such as the National Pollution Discharge Elimination System (NPDES), to protect drinking water and surface water quality.

Within this context, the proposed 2017-2018 Utilities budget is prepared with the following guiding principles:

1. Operational efficiency
   - The Department continues to focus on controlling on-going operational expenses, finding efficiencies, and otherwise minimizing costs that impact local rate increases.
2. Fully fund wholesale cost increases so local programs are not degraded
3. Smart cities
   - The Department is proposing implementation of Advanced Metering Infrastructure (AMI). Funding for this initiative will be from existing water and sewer reserves and will not require any increase in rates. This proposal is discussed in greater detail below.
4. Proposed FTEs to address regulatory/workload demands
   - The Department is proposing 1.75 FTEs to support preventative maintenance activities in the Stormwater program to meet regulatory requirements and to support increased workload demands in the Water program.
5. Support of the CIP
   - The Department is proposing an additional 1.25 FTEs to support the delivery of the current and proposed CIP. This proposal is also discussed in greater detail below.

PROPOSED 2017-2018 UTILITY RATES

The following table summarizes the rate adjustments necessary to support the proposed 2017-2018 budget for the Water, Sewer, and Storm and Surface Water utilities by rate drivers.

	WATER		SEWER		STORM		TOTAL	
	2017	2018	2017	2018	2017	2018	2017	2018
Wholesale	**0.8%**	**1.9%**	**3.1%**	**0.0%**	**0.0%**	**0.0%**	**1.8%**	**0.7%**
Local								
CIP/R&R	1.5%	3.1%	0.7%	0.7%	3.2%	3.8%	1.4%	2.1%
Taxes/Interfunds	0.2%	0.8%	0.0%	0.8%	0.0%	0.4%	0.1%	0.7%
Operations	0.2%	0.3%	0.0%	0.7%	1.1%	0.4%	0.2%	0.5%
Issaquah Assump	0.7%	0.0%	0.6%	0.0%	0.0%	0.0%	0.5%	0.0%
Local subtotal	**2.6%**	**4.2%**	**1.3%**	**2.2%**	**4.3%**	**4.6%**	**2.2%**	**3.3%**
Total Rate Increase	**3.4%**	**6.1%**	**4.4%**	**2.2%**	**4.3%**	**4.6%**	**4.0%**	**4.0%**
Early Outlook Rate Increase	*5.6%*	*7.9%*	*6.2%*	*2.6%*	*4.4%*	*4.8%*	*5.7%*	*4.9%*

Minor differences may exist due to rounding

The total monthly utility bill for the typical single-family residential customer for water, sewer, and storm and surface water services is $156.74 in 2016. With the above proposed rate increases, the total monthly utility bill for the typical single-family resident would increase by 4.0% or $6.30 in 2017 and 4.0% or $6.51 in 2018.

The following section provides further detail on the key rate drivers for the proposed 2017-2018 Utilities budget.

Payments to External Service Providers

Wholesale Costs
The single largest cost center for the Utilities Department is wholesale costs, which include payments to the Cascade Water Alliance (Cascade) for the purchase of water supply and regional capital facility charges and payments to King County for wastewater treatment. Combined, these expenses total $111.2 million for the 2017-2018 biennium, or approximately 39% of the total budget for the Utilities Department.

The cost from Cascade to purchase water supply is projected to increase from $19.1 million, in 2016 to $19.6 million[1] in 2017 and $20.4 million in 2018. The impact of this cost increase to the Bellevue retail water rate is 0.8% and 1.9% in 2017 and 2018, respectively.

The cost from King County for wastewater treatment is projected to increase from $32.0 million in 2016 to $33.6 million in 2017 and 2018.[2] The impact of the cost increase to the Bellevue retail sewer rate is 3.1% in 2017, with no increase in 2018.

To ensure local operations and the CIP are not degraded, the Department's proposed 2017-2018 budget is consistent with the Council-adopted financial policy which directs rate increases necessary to fund wholesale costs be passed directly through to the customer.

Issaquah Assumption

As discussed above, as approved by Council Resolution #8981, effective January 1, 2017, the City of Issaquah will assume delivery of water and sewer services to about 1,000 utility customer accounts in the South Cove/Greenwood Pointe area. The assumption is estimated to result in an annual net revenue loss to the water and sewer utilities of $260,000 and $280,000, respectively, or an equivalent impact to water and sewer utility rates of 0.7% and 0.6%, respectively.

[1] The 2016 amount excludes water supply cost of $0.3 million for the South Cove/Greenwood Pointe area to be assumed by the City of Issaquah effective January 1, 2017.
[2] The 2016 amount excludes King County wastewater treatment cost of $0.5 million for the South Cove/Greenwood Pointe area to be assumed by the City of Issaquah effective January 1, 2017.

Local Costs

CIP / R&R

Outside of wholesale costs discussed above, the next largest cost driver for the Utilities Department is the CIP and the cost to renew and replace infrastructure in the future, representing approximately 28% of the total budget for the Utilities department, or approximately $78M for the 2017-2018 biennium. Utilities infrastructure has a replacement value of over $3.5 billion, and most of the systems are well past their mid-life. As a result, the systems used to deliver water, convey wastewater, and manage stormwater runoff are experiencing more failures, and the cost to maintain, operate, rehabilitate, and replace this infrastructure is increasing. To minimize costs and optimize the integrity of the utility systems, the Utilities Department has developed a strategic 75-year asset management plan to systematically set aside funding for the future renewal and replacement of these assets. Consistent with Council-adopted financial policy, this long-term funding strategy is also designed to smooth future rate increases and provide for intergenerational equity.

Major projects supported by the proposed 2017-2023 CIP include small diameter water main replacements ($70.3M), water pump station repairs ($15.3M), sewer system pipeline major repairs ($14.2M), sewer pipeline replacements ($11.7M), sewer pump station improvements ($7.4M), storm system conveyance repairs and replacements ($10.4M), storm system flood control program ($8.4M), and Lower Coal Creek flood hazard reduction ($7.3M). Proposed CIP projects to support utility capacity to accommodate growth include West Operating Area water storage availability ($1.6M), and constructing a new water inlet station ($5.2M).

Taxes/Internal Service Provider Payments

Taxes and interfund payments represent approximately 14% of the total budget for the Utilities Department, or approximately $38M for the 2017-2018 biennium. The amount of taxes paid is based upon the amount of revenue collected and the tax rates assessed by the State and cities. No changes to the current State and city tax rates are assumed in the proposed budget. Interfund payments represent costs that Utilities pays to the General Fund for support services. The portion of the rate increase attributable to taxes and interfund payments is less than 1% within each utility.

Operations

Operating costs include personnel, supplies, and professional service expenses that are necessary to carry out the daily functions of the Utilities Department. This cost category totals $54.3M, or about 19% of the Utilities budget for the 2017-2018 biennium. The portion of the rate increase attributable to ongoing operating costs is less than 1% for the water and sewer utilities and about 1% in 2017 and less than 1% in 2018 for the storm utility.

New Initiative – Advanced Metering Infrastructure (AMI)

The Utilities proposed capital budget includes funding to support one major new capital investment - AMI. Utility water service to customers is currently measured using water meters. These meters are manually read once every two months. Information from these reads form the basis of the current bi-monthly water and sewer utility billings. Over the past several years, the Utilities Department has evaluated the feasibility of migrating to an advanced technology that uses radio or cellular signals to securely measure and transmit real-time water usage information. AMI technology enables customers to have easier access to real-time water usage information, facilitates more proactive leak detection in public and private water systems, and reduces labor costs for performing manual meter reads.

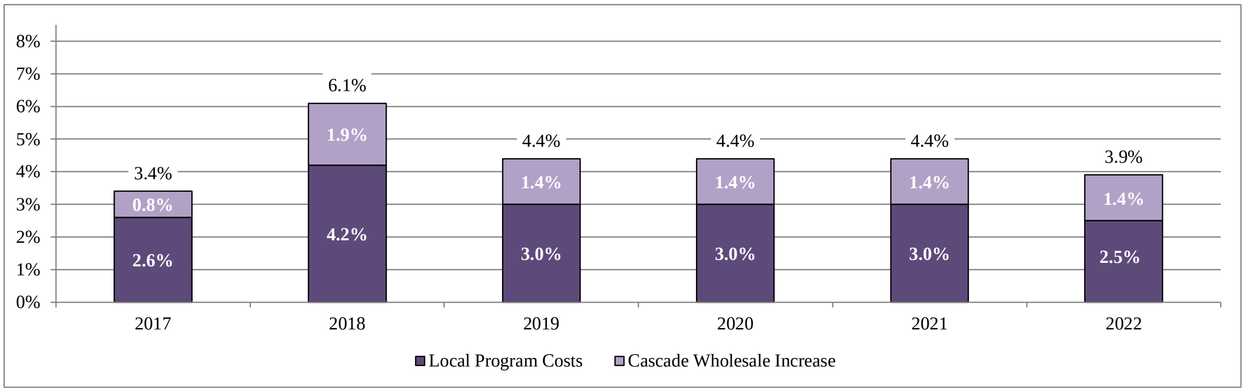
Implementing AMI now is financially feasible and without impact to rates. The estimated cost ($23.1 million) for AMI will be shared between the water (70%) and sewer (30%) utilities as both utilities use metered water usage data for utility billing and operational needs. The AMI investment will be funded using $6.0 million water operating reserves from recent extraordinary water sales and $17.1 million from water and sewer infrastructure renewal and replacement (R&R) reserves. The Utilities forecast includes no increase in rates as a result of the proposed AMI investment. The R&R reserves will be replenished over time by anticipated cost savings and revenue gains from the AMI investment.

2017-2022 Financial Forecast

The following pages provide a more in-depth discussion of the individual rate drivers and forecasted rate adjustments through the year 2022 for the water, sewer, and stormwater utilities.

WATER UTILITY FUND
2017 - 2022 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2017	2018	2019	2020	2021	2022
Prior Year Bill	$58.44	$60.42	$64.13	$66.96	$69.94	$73.00
Increase:						
Cascade Wholesale Purchased Water	0.47	1.17	0.92	0.96	0.96	0.99
Local	1.51	2.54	1.91	2.02	2.10	1.83
Total	$1.98	$3.71	$2.83	$2.98	$3.06	$2.82
Projected Bill	$60.42	$64.13	$66.96	$69.94	$73.00	$75.82

Minor differences may exist due to rounding. 2015 reflect water cost-of-service adjustments.

Key Rate Drivers

- **Wholesale Costs**
  Drinking water for the City of Bellevue is provided by the Cascade Water Alliance. Cascade costs are increasing primarily due to water purchase costs from Seattle. Per City financial policy, the wholesale cost of purchased water services are passed directly through to the ratepayer. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 0.8% for 2017 and 1.9% for 2018. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 1.4% per year for 2019 through 2022.

- **Capital Program**
  The proposed 2017-2023 Water Capital program includes $112.6M (excluding AMI which is discussed below) to preserve and protect system assets. The Water utility is in active system replacement and the majority of the proposed capital program ($103.4M) will be invested to replace existing aging infrastructure. Significant projects include small diameter water main replacement and water pump station repair and replacements. Capital costs will require rate increases of 1.5% in 2017 and 3.1% in 2018, and an average of about 2.5% per year thereafter. Higher rate increases are required in 2017-2020 to bring rate revenues to levels sustainable to fund the Water CIP. During this period, R&R reserves are used to subsidize the Water CIP.

- **Taxes/Intergovernmental**
  Taxes and interfund payments to other City departments will require rate increases of about 0.2% in 2017 and 0.8% in 2018. Increases for the remainder of the forecast period will average less than 0.1%.

- **Operations**
  Projected operating costs will require rate increases of about 0.2% in 2017 and 0.3% in 2018, and an average of about 0.2% per year thereafter. Personnel costs are relatively flat with small increases associated with merit and PERS cost increases consistent with projections for other City departments.

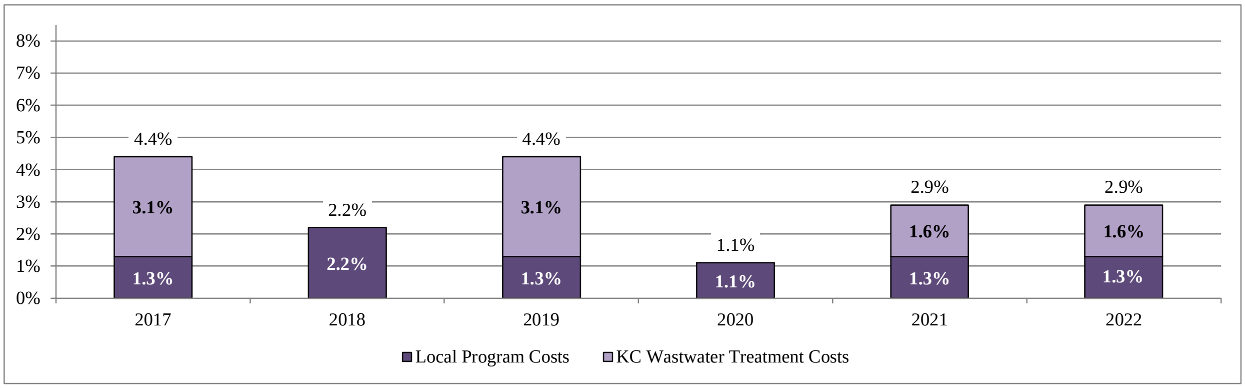
- **Issaquah Assumption**
  The Issaquah Assumption is estimated to result in a net annual loss of water revenue in the amount of $260K. To address the anticipated revenue shortfall an increase in water rates of about 0.7% is needed in 2017.

- **Advanced Metering Infrastructure**
  The Utilities Department is proposing the implementation of AMI. The total cost of the AMI project is $23.1 million and will be funded $16.2 million from the water utility and $6.9 million from the sewer utility. The water utility share will be fully funded through existing sources of revenue (no impact to rates), and include available reserves in the water utility ($6.0 million) and available reserves in the water renewal and replacement (R&R) program ($10.2 million).

2017-2022 Financial Forecast
Utilities Funds

SEWER UTILITY FUND
2017 - 2022 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Prior Year Bill	$75.35	$78.68	$80.38	$83.88	$84.82	$87.27
Increase:						
KC Wastewater Treatment	2.35	0.00	2.47	0.00	1.33	1.36
Local	0.98	1.70	1.03	0.94	1.12	1.18
Total	$3.33	$1.70	$3.50	$0.94	$2.45	$2.54
Projected Bill	$78.68	$80.38	$83.88	$84.82	$87.27	$89.81

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**
  Per King County, the Wastewater Treatment Division's costs are increasing primarily due to ongoing debt service and capital program costs. The wholesale wastewater treatment rate is established by the County for a two-year period starting 2017, and per City financial policy, are passed directly through to the ratepayer. The retail rate impacts of the projected increases in wastewater treatment costs to Bellevue are about 3.1% in 2017, 3.1% in 2019, and 1.6% for 2021-2022.

- **Capital Program**
  The proposed 2017-2023 Sewer Capital program includes $41.0M in investments (excluding AMI which is discussed below). The Sewer utility is beginning systematic asset replacement, most of the proposed capital program ($39.1M) will be invested to replace existing aging infrastructure. Significant projects include sewer system pipeline major repairs, sewer pump station improvements and sewer system pipeline replacements. The remaining sewer capital investment includes the addition of on-site power generation for three high priority pumping stations ($1.0M). Capital costs, including transfers to the R&R account, will require rate increases of about 0.7% each year in 2017 and 2018, and an average of 0.7% per year thereafter.

- **Taxes/Intergovernmental**
  Taxes and interfund payments to other City departments will require a rate increase of about 0.8% in 2018 and an average of 0.3% per year thereafter.

- **Operations**
  Operating costs will require a rate increase of about 0.7% in 2018 and an average of 0.3% per year for the remainder of the forecast period. Personnel costs are relatively flat with small increases associated with merit and PERS cost increases consistent with projections for other City departments.

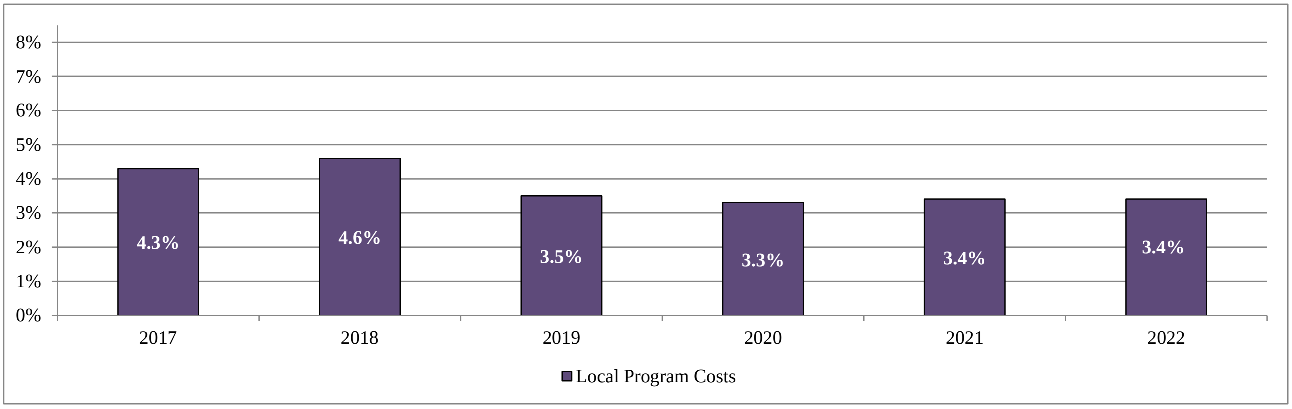
- **Issaquah Assumption**
  The Issaquah Assumption is estimated to result in a net annual loss of sewer revenue in the amount of $280K. To address the anticipated revenue shortfall an increase in sewer rates of 0.6% is needed in 2017.

- **Advanced Metering Infrastructure**
  The Utilities Department is proposing the implementation of AMI. The total cost of the AMI project is $23.1 million and will be funded $6.9 million from the sewer utility with the remaining $16.2 million from the water utility. The sewer utility share will be fully funded from available reserves in the sewer renewal and replacement (R&R) program (no increase to rates).

2017-2022 Financial Forecast
Utilities Funds

STORM AND SURFACE WATER UTILITY FUND
2017 - 2022 Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2017	2018	2019	2020	2021	2022
Prior Year Bill	$22.95	$23.94	$25.04	$25.91	$26.80	$27.71
Increase	$0.99	$1.10	$0.87	$0.89	$0.91	$0.94
Projected Bill	$23.94	$25.04	$25.91	$26.80	$27.71	$28.65

Minor differences may exist due to rounding

Key Rate Drivers

- **Capital Program**
  The proposed 2017-2023 Stormwater Capital program includes $43.9M in investments. $26.8Mof the Stormwater utility capital investments are for environmental preservation and include stream restoration for the Mobility and Infrastructure Initiative, mitigating flood hazards, and constructing fish passage and stream improvement projects. The remaining capital investments include enhancing current pipeline video inspection efforts to evaluate current infrastructure condition, storm system conveyance repairs and replacement, and replacing the NE 8th Street culvert at Kelsey Creek. Capital costs, including transfers to the R&R account, will require rate increases of about 1.7% in 2017 and 2.3% in 2018 and an average of about 2.4% per year thereafter. As previously approved by Council, a 1.5% rate increase is required each year in 2017 and 2018 for the Mobility and Infrastructure Initiative.

- **Taxes/Intergovernmental**
  Taxes and interfund payments to other City departments will require a rate increase of about 0.4% in 2018, and increases averaging about 0.4% per year thereafter.

- **Operations**
  Operating costs will require rate increases of about 1.1% in 2017, 0.4% in 2018, and about 0.7% per year thereafter. Personnel costs are relatively flat with small increases associated with merit and PERS cost increases consistent with projections for other City departments.