2011-2016 Financial Forecasts

Introduction

Note: These forecasts were prepared in September 2010 to assist the City Council with the 2011-2012 budget deliberations.

The following section presents the General Fund and Enterprise Funds financial forecasts for the 2011-2016 forecast period. Each Fund's proposed expenditure budget has been developed through the Budget One Process, which moved the City from budgeting in the traditional department-focused approach to budgeting around the Outcomes that citizens value. Resource projections have been developed using current economic assumptions. Included in these forecasts are discussions of forecast assumptions, key drivers, and a long-term outlook. Additionally, any watch areas or key issues have been identified.

- General Fund Financial Forecast 2011-2016
- Development Services Financial Forecast 2011-2016
- Parks Enterprise Fund Financial Forecast 2011-2016
- Utility Funds Financial Forecast 2011-2016

2011-2016 Financial Forecasts

General Fund

Note: These forecasts were prepared in September 2010 to assist the City Council with the 2011-2012 budget deliberations.

Executive Summary

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

Overview & Forecast Results

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

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

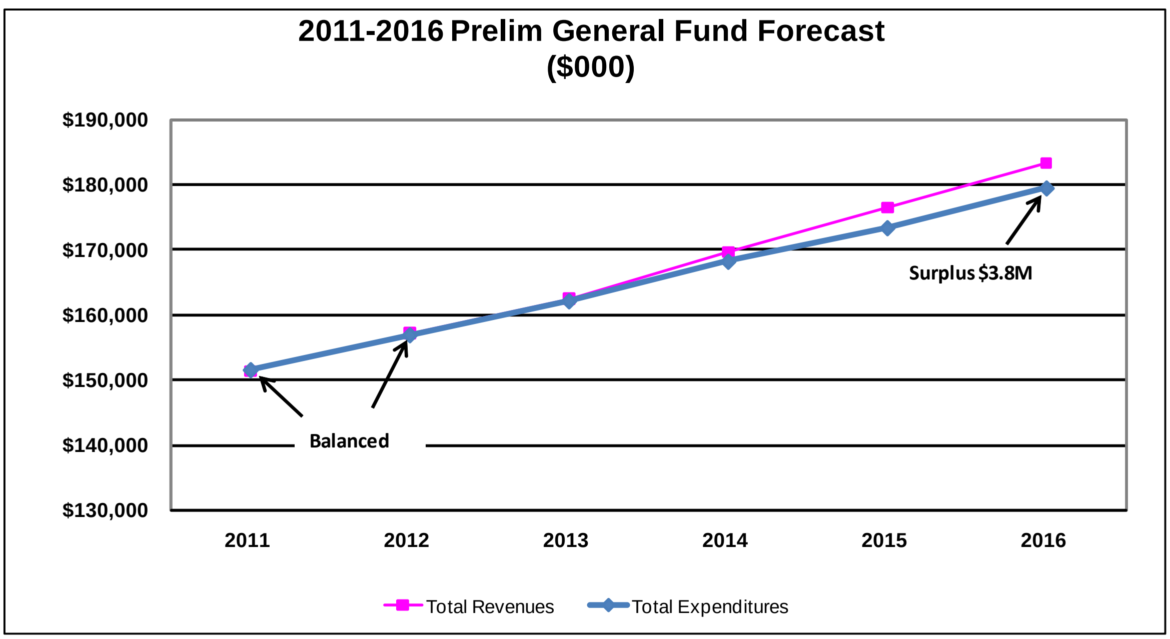
The following graph and table represent the current estimates of how General Fund resources and expenditures are expected to perform over the six-year forecast period. As illustrated below, revenues are projected to be equal to or above expenditures through the forecast period. However, the ending fund balance remains below the 15% target contained in the City's Comprehensive Financial Management Policies throughout the forecast period. In the table, the ending fund balance is lower than the target due to the impact of the recession and decisions to maintain a mix of services and programs.

2011-2016 Financial Forecasts

General Fund

2011-2016 Financial Forecast - Preliminary Budget
General Fund
$000

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



Note: Columns may not foot due to rounding.

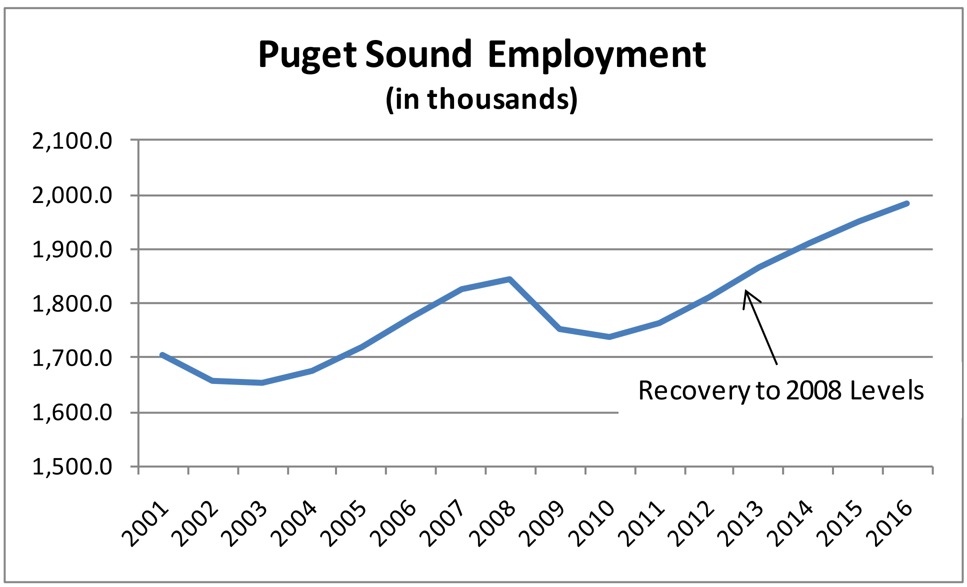
Economic Outlook

Highlights:

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

The local economic outlook is improving despite slow job growth and high unemployment. The Puget Sound Index of Leading Economic Indicators reports an upward trend, more so than comparable increases in each of the major regional recession recoveries in the past 35 years. This index is formulated to forecast the direction of the economy – and its main message is that the economy will continue to expand. While the potential of a double-dip recession and deflation looms in the news, not one Blue Chip economist is predicting either will occur.

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



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

2011-2016 Financial Forecasts

General Fund

Highlights:

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

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

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

Resource Drivers

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

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

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

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

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

Highlights:

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

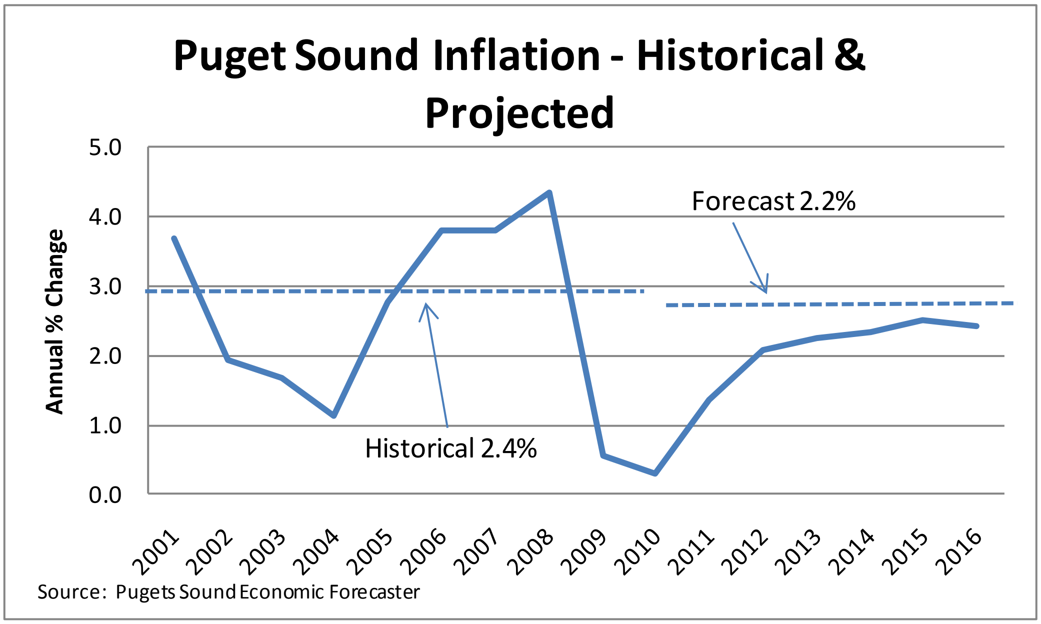
Expenditure Drivers

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

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

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

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



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

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

Watch Items

Initiatives 1100 & 1105: The Privatization of Liquor. The City collects both liquor profits and excise tax. An explanation of the revenue sources and distribution specifics as provided by the Association for Washington Cities (AWC) is detailed below:

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

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

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

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

2011-2016 Financial Forecasts

Development Services Fund

Note: These forecasts were prepared in September 2010 to assist the City Council with the 2011-2012 budget deliberations.

Executive Summary:

- *The Development Services Fund forecast reflects the economic downturn and slowdown in development activity that began in late 2008 following the largest period of development activity in Bellevue's history.*
- *Just as staffing levels and the use of consulting services were increased during the development boom, reductions in staffing and consulting services were implemented in 2009 and are reflected in the 2011-2016 forecast.*
- *Beginning in 2011, the forecast reflects a modest increase in development activity. In subsequent years development activity is anticipated to continue to grow but at a more moderate level than was experienced during prior development cycles.*

Background

The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.

Bellevue experienced unprecedented growth from 2006 to 2009. During that time several major projects were completed (e.g., The Bravern, City Center II, Bellevue Towers, Washington Square, Lincoln Square Office Tower, Belletini, Tower 333). In response to the increase in development activity, staffing for review, inspection, and support services, as well as the use of consulting services, were increased. Reductions in staffing levels and consulting services were implemented in 2009 resulting in the current core staffing levels in Development Services.

The construction valuation for issued permits, considered a key barometer of development activity, exceeded estimates in 2006 and 2007, reflecting consecutive record-setting years in Bellevue. From the high point of over $800 million in 2007, this trend has slowed and now appears to be in alignment with forecasted estimates.

2011-2016 Outlook

Office vacancy rates in the central business district are a key indicator of the interest in development activity. Vacancy rates have risen to nearly 18% in the last year, in part due to additional space availability coupled with the economic downturn. As such, significant growth in major project activity is not anticipated in the early years of the forecast. Design review applications (an early indicator of development activity) received through 2009 indicates a low level of demand for major projects and a notable drop from recent record setting levels. However, projected job growth in the region and the development of Bel-Red Corridor, will help drive future commercial and residential development in the City.

The impacts of the decline in the mortgage and lending sector had a significant impact on Bellevue beginning in 2008 and continued into 2010. New single-family development is not assumed to reach levels experienced from 2005 to 2007 but is expected to grow through the latter years of the forecast. As interest rates remain low and employment in the region begins to rebound, the demand for single-family additions and remodel projects is expected to remain steady throughout the forecast period.

As a result of the aforementioned variables, this forecast reflects modest growth in revenue collections through 2012, and a demand on reserves during the completion of major projects until the latter years of the forecast period.

Development Services Fund
2011-2016 Financial Forecast
($ in Thousands)

	2011	2012	2013	2014	2015	2016
Beginning Reserve	**$9,742**	**$6,780**	**$4,022**	**$2,797**	**$2,503**	**$3,273**
Resources:						
Building Fees	$5,612	$6,033	$6,938	$7,736	$8,626	$9,488
Land Use Fees	$1,113	$1,208	$1,389	$1,548	$1,727	$1,899
Fire, Transp. & Utilities Fees	$3,168	$3,326	$3,825	$4,265	$4,756	$5,231
sub: Development Services Fees	**$9,893**	**$10,567**	**$12,152**	**$13,549**	**$15,108**	**$16,618**
Gen Fund Subsidy	$3,128	$3,264	$3,375	$3,493	$3,619	$3,753
Other Revenue/Interest	$528	$555	$348	$362	$379	$397
Total Resources	**$13,549**	**$14,386**	**$15,876**	**$17,405**	**$19,105**	**$20,769**
Expenditures:						
Building	$6,404	$6,660	$6,886	$7,127	$7,384	$7,657
Land Use	$2,974	$3,105	$2,985	$3,089	$3,200	$3,319
Fire, Transp. & Utilities Development Services	$2,705	$2,754	$2,848	$2,947	$3,054	$3,167
Code Compliance	$781	$817	$845	$874	$906	$939
Administrative/Shared Costs	$3,274	$3,421	$3,537	$3,661	$3,793	$3,933
Technology Initiatives	$374	$388				
Total Expenditures	**$16,512**	**$17,144**	**$17,100**	**$17,699**	**$18,336**	**$19,014**
Ending Reserves	**$6,780**	**$4,022**	**$2,797**	**$2,503**	**$3,273**	**$5,028**

Note: Columns may not foot due to rounding.

2011-2016 Financial Forecasts

Development Services Fund

Forecast Drivers and Assumptions

1. Renovations of Bellevue schools (e.g. Bellevue High School, Tyee Middle School, and Spiritridge Elementary) and the Baker Main project are assumed to be substantially completed in the early years of the forecast.

2. The demand for major project activity is assumed to increase in 2013 as new projects are anticipated to begin the review process.

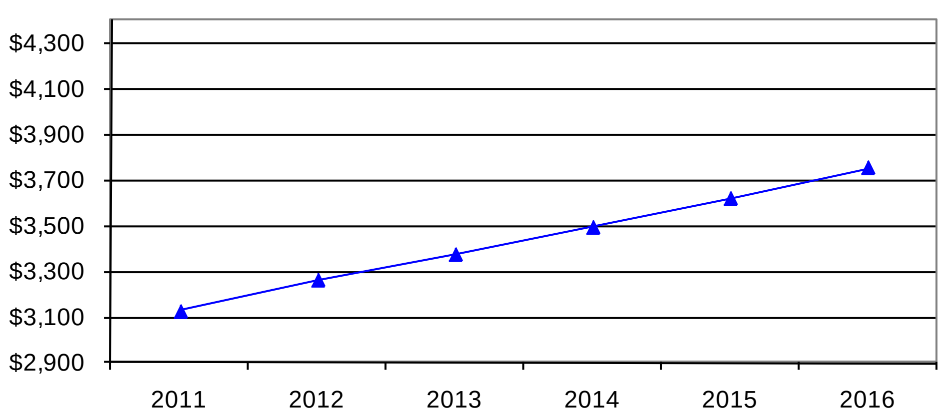
3. The forecast reflects a reduction of 23.5 positions (including 15.5 FTEs eliminated/vacated and 5 FTEs redeployed) and consulting services in 2009 in response to the economic downturn. This baseline forecast assumes no additional staffing investments or positions. However, consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload.

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 fees will grow at the historical rate of approximately 3.5% beginning in 2012.

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, M&O and capital costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Land Use activities supported by the General Fund include public information, policy development, and approximately 50% of discretionary review.

General Fund Subsidy Forecast 2011-2016
($ in Thousands)



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

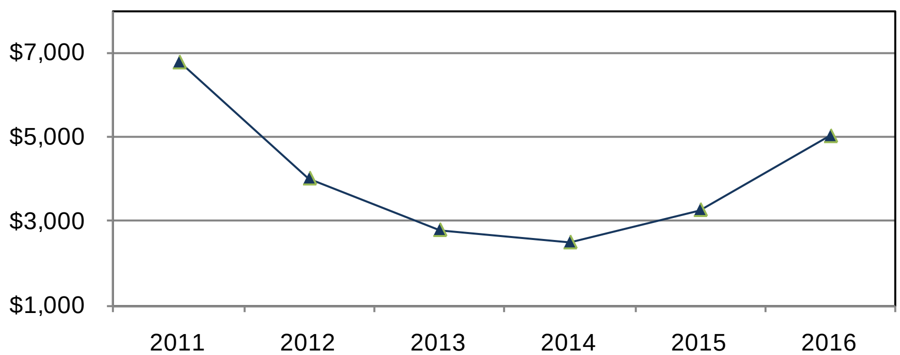
Development Services Fund Reserves

The Development Services Fund maintains reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Development Services Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund reserves are anticipated to decrease to approximately $2.5 million through 2014. This reflects the impact of the slow recovery from the recent economic downturn. Reserve levels are then assumed to increase to approximately $5.0 million from 2014 through 2016 reflecting moderate growth in development activity within the forecast period.

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

Development Services Reserves Forecast 2011-2016
($ in Thousands)



2011-2016 Financial Forecasts

Parks Enterprise Fund

Note: These forecasts were prepared in September 2010 to assist the City Council with the 2011-2012 budget deliberations.

Executive Summary

- *The Parks Enterprise Fund forecast assumes that revenues can grow at the same pace as expenditures over the forecast period, (approximately 2.5% per year).*
- *The forecast allows for the elimination of the ongoing General Fund subsidy to the Aquatics Center of approximately $106,000 per year.*
- *The Parks Enterprise Fund continues to meet reserve requirements and funds minor capital improvements at the golf course.*
- *No new programs or service enhancements have been proposed as part of the Budget One process.*

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 primarily supported through user fees but attempt to serve all residents regardless of ability to pay through the use of scholarships, sponsorships and fee waivers. The Parks Enterprise Fund has historically received a subsidy payment from the General Fund to ensure that programs are accessible to all Bellevue residents. As part of an overall Parks Department budget strategy to reduce costs to the General Fund, this ongoing subsidy has been eliminated.

Aquatics Subsidy

- The forecast eliminates the ongoing Parks Enterprise Fund subsidy from the General Fund. Parks Department budget proposals recommend the elimination of the Parks Enterprise Manager position and a Recreation Program Tech/Lifeguard position to achieve this outcome.
- The Bellevue Aquatic Center was the primary driver behind the need for a General Fund subsidy over the past several years. Due to the nature of Aquatic Center programs, the majority of services provided at this facility are not "full cost recovery" services. Most of these services will continue to recover only the direct program costs in an effort to provide affordable and accessible programs to youth and physically challenged participants.
- The Aquatics Center will continue to receive interest earnings from park levy lid lift proceeds from the voter-approved 1988 Park Bond which funded capital improvements at the pool. In addition, approximately $300,000 of other Parks Enterprise Fund revenues are needed to support the Aquatic Center operation each year. Overall, this level of subsidy is consistent with the financial performance that was anticipated in 1995 when the City took over the pool.

Parks Enterprise Fund Reserves

Parks Enterprise Fund reserves will be managed within the targeted reserve level of 2-months operating expenses, or approximately $0.9 to $1.1M over the forecast period. This reserve helps ensure the fund meets cash flow needs during the winter months when golf course revenues are low.

Enterprise Capital Improvements

The Parks Enterprise program funds the Enterprise Facility Improvements Project (CIP project P-R-2), including capital projects at the Bellevue Golf Course. In addition to regular maintenance projects, the City has begun to evaluate the feasibility of making additional capital improvements to the golf course driving range. This forecast does not include the capital or operating implications of completing significant driving range improvements over the forecast period.

Budget Assumptions and Issues

Below are some of the major assumptions used in developing the 2011-2016 forecast:

- Parks Enterprise Fund revenues are assumed to increase at the same rate as expenditures from 2011-2016, or approximately 2.5% per year.
- The General Fund subsidy to the Parks Enterprise Fund has been eliminated.
- The forecast eliminates the Parks Enterprise Manager and Lifeguard positions (1.4 FTEs) consistent with department budget proposals.
- Golf course M&O expenses continue to reflect the management contract with Premier Golf Centers approved by Council in October 2006. Since the initial 4-year contract expires at the end of 2010, staff will return to Council later this fall recommending a contract extension with Premier for the ongoing operation of the golf course pro shop.
- Interfund transfers include both the Parks Enterprise CIP transfer (approximately $340,000 per year) and internal service charges for information technology, capital equipment, and internal management and support.
- No new programs or service enhancements have been proposed as part of the Budget One process.

Parks Enterprise Fund
2011-2016 Financial Forecast
(In $000)

	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Resources:						
Beginning Fund Balance	$816	$904	$978	$1,008	$1,046	$1,092
Program Revenues	5,553	5,669	5,813	5,955	6,101	6,251
General Fund Subsidy	0	0	0	0	0	0
Total Resources	**$6,369**	**$6,573**	**$6,791**	**$6,963**	**$7,147**	**$7,343**

	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Expenditures:						
Personnel	$1,555	$1,637	$1,678	$1,720	$1,763	$1,807
M&O	2,568	2,577	2,641	2,707	2,775	2,844
Interfund Transfers	1,343	1,381	1,463	1,490	1,517	1,545
Total Expenditures	**$5,465**	**$5,595**	**$5,783**	**$5,917**	**$6,055**	**$6,196**
Reserves:						
Ending Fund Balance	**$904**	**$978**	**$1,008**	**$1,046**	**$1,092**	**$1,147**

Note: Columns may not foot due to rounding.

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Budget One
one city
one public
one purpose

Note: These forecasts were prepared in September 2010 to assist the City Council with the 2011-2012 budget deliberations.

Executive Summary

- *On average, utilities rates are significantly lower in 2011-2012 than projected in the 2009-2010 budget, and slightly lower over the entire 6-year forecast period.*
- *Bellevue Utilities' rates continue to be competitive with rates for other cities in the area.*
- *Wholesale cost increases continue to be a major rate driver.*
- *In response to current economic conditions, Utilities was able to achieve an 11.4% net reduction in controllable operating costs for the 2011-2012 proposed budget period.*

Introduction

The following key financial policies approved by Council in 1995, and updated in subsequent budgets, are incorporated in these financial forecast results:

- Consolidated reserve funding policies which define target and minimum reserve levels for each Utility fund;
- Operating reserve management policies which stipulate the transfer of greater-than-anticipated year-end reserves (ending fund balances) to the CIP Renewal & Replacement (R&R) Account;
- Capital reinvestment policies for future replacement of Utility infrastructure systems which base transfers to the CIP R&R Account on long-term capital investment;
- System expansion and connection policies which stipulate all capital related Capital Recovery Charges (CRC) and Direct Facility Charges will be deposited directly to the CIP Renewal & Replacement (R&R) Account; and
- Rate-planning policies which set rates at a level sufficient to cover current and future expenses and maintain reserves consistent with Utility financial policies and the long-term financial plans, and to pass through wholesale cost increases directly to customers. Inflationary indices are used as a basis for evaluating rate increases but no longer limit the growth in local programs.

Significant Issues

- **Budget One.** Utilities participated fully in the Budget One process, submitting the majority of its proposals to the Healthy & Sustainable Environment Outcome. The Healthy & Sustainable Environment Outcome identified that Bellevue customers want a healthy natural environment that supports healthy living for current and future generations. Utilities' mission is to provide a safe, high-quality, reliable, and plentiful supply of drinking water; a reliable and safe wastewater disposal system; an environmentally safe surface water system that minimizes damage and safety hazards from storms; a convenient and environmentally sensitive solid waste collection system; and a conservation and education program to engage customers in protecting the environment. Utilities strives to provide customers the best possible value for their money while maintaining high quality customer service.

- **Cost Containment.** A large part of the Utilities budget reflects expenses that are beyond the department's direct control – wholesale costs for water purchase and wastewater treatment, Cascade Regional Capital Facilities Charges (RCFCs), taxes and franchise fees, and interfund payments represent about 56% of the total budget. However, Utilities analyzes its operating and capital programs on a deliberate, planned basis, and has practiced "zero-based" budgeting and cost containment for many years. The Budget One process offered another opportunity to examine the budget and make changes.

  Utilities cost containment efforts for the 2011-2012 budget focused on controlling operating expenses, finding efficiencies, or otherwise reducing costs. Utilities achieved an 11.4% net reduction in controllable operating costs in 2011 (as compared to 2010 adopted budget). Significant savings were achieved by:
    - decreasing capital budget to reflect reduced inflation, and one time savings for several projects;
    - analyzing and reducing working capital reserves;
    - reducing administrative costs, including consolidating and reducing budget for unanticipated consulting /contracting needs, and reducing travel, training, postage, and printing;
    - reducing professional and consulting services; and
    - reducing overtime.

  In 2011-2012, analyses or efficiency efforts are planned for the capital program, asset management, operations and maintenance activities, customer service processes, and technology, in addition to normal cost containment review.

- **Deferral of funding for R&R.** The primary driver for local rate increases is aging infrastructure. Utilities have assets with a replacement value of over $3.5 billion and about half of this infrastructure is past mid-life. As a temporary measure, in response to the current economic downturn Utilities proposes to reduce 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.

  If the reduction is permanent, this approach would reduce rates for current ratepayers at the expense of future ratepayers. 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 of services.

- **King County/METRO Wastewater Treatment Costs.** Sewage treatment charges from King County/METRO will increase by 13.2% (from $31.90 to $36.10) per residential equivalent unit in 2011. This increase is primarily driven by higher debt service resulting from increased capital costs (including the Brightwater treatment plant). Since this rate increase is expected to cover cost increases for both 2011-2012, there is no projected rate increase for 2012. Per Council-adopted financial policies, wholesale cost increases are passed through to the customer. The increase in wastewater treatment costs will result in an increase to Bellevue ratepayers of 7.9% in 2011.

- **Cascade Water Alliance Wholesale Water Purchase.** Cascade has taken steps to reduce its overall wholesale rate increase in both 2011 and 2012. Cascade's proposed 2011 operating budget is $29.5 million, a 1.7% decrease from 2010, and $29.4 million in 2012, a 0.6% decrease from 2011.

  In addition, Cascade analysis found that the water demand volumes being used to calculate Bellevue's demand share were too high. Some water delivered through the Bellevue-Issaquah pipeline to Issaquah and the Sammamish Plateau Water & Sewer District beginning in mid-2006 had been inadvertently attributed to Bellevue and double-counted in the overall Cascade demand share. Recalculating the demand share reduced Bellevue's wholesale rate increase from a projected 11.9% in 2011 to 2.3%. The 2012 rate increase changed from 7.9% to 10.9%; however, the increase is on a lower base due to the 2011 adjustment and therefore the total amount owed to Cascade in 2012 is lower than was projected. These wholesale cost increases will result in retail rate increases to City of Bellevue customers of 1.9% in 2011 and 5.6% in 2012 for wholesale water purchases. In addition, as a result of recalculating Bellevue's demand share from mid-2006, Bellevue will receive a one-time credit of $253,000, which will be transferred to R&R per Utilities' financial policies guiding use of one-time revenue.

- **National Pollutant Discharge Elimination System (NPDES).** Bellevue is implementing the 2007-2012 NPDES Municipal Stormwater Permit Citywide to protect water quality. Compliance with the federal Permit is a moving target because conditions are phased-in throughout the 5-year permit term. Bellevue is in compliance with current permit conditions. The estimated annual cost to implement the NPDES permit conditions Citywide is $5.2 million. A new 5-year NPDES Municipal Stormwater Permit for Phase II municipalities is currently scheduled to be issued in January 2012. The new permit is expected to include new requirements that have significant costs such as monitoring, low impact development, and retrofit requirements. A preliminary draft of the new permit is expected to be available for review in the fall of 2010. The State Department of Ecology is also proposing an annual permit fee increase of 4.26% in 2012 (to $43,493) and 4.22% in 2013 (to $45,328).

- **Capital Projects.** The capital plan remains focused on addressing aging infrastructure, mandated projects, and capacity projects to support anticipated growth. Significant savings of $2.7M in 2011-2012 were achieved by reducing projected inflation from the capital budget. Additional savings resulted from the advantageous bid climate, and from reducing the scope of several projects while still achieving program objectives. New revenue to the Stormwater CIP program is from the King Co Flood Control Zone District, and from recent award of a competitive Ecology Grant for stormwater quality. New water and sewer projects were added to support specific Mobility and Infrastructure Initiative projects. The 2011-2012 Budget does not include funding for potential impacts to utilities caused by the East Link project. Funding for the fire hydrant improvement program was deferred at the request of the Safe Community Results Team to achieve a cost savings for the General Fund by lowering the cost of fire protection for 2011-2012.

- **Additional Staff.** The 2011-2012 budget proposes adding 2 full-time employees to provide engineering design and inspection in support of increased capital investments to repair or replace aging systems, and for mandated and growth-related projects.

Sensitivity and Risks

Each item discussed above could potentially affect annual Utility costs and rate requirements over the forecast period. Each projection made in this forecast is based on the best information currently available, but actual costs and revenues in future years may be higher or lower than forecasted amounts, as changes in prevailing economic conditions or other circumstances influence actual Utility financial outcomes.

Key Assumptions

Overall:

- An investment interest rate of 3.5% is assumed in 2011 through 2016.
- In general, an annual 2.7% growth in miscellaneous revenues is assumed in 2011 through 2016.
- All Direct Facility Charges and Capital Recovery Charges will be deposited directly to the CIP Renewal & Replacement Accounts.
- General salary adjustments are based on 90% of the Consumer Price Index (CPI) and include a salary and benefit under-expenditure rate based on historical spending trends.
- Operating expenses other than personnel and wholesale costs are expected to increase by the CPI starting in 2013.
- The 2011-2012 budget does not include funding for potential impacts to utilities caused by the East Link project.
- Funding for R&R will return to scheduled levels in 2013.

Water:

- Cascade Water Alliance (Cascade) 2011 wholesale charges to Bellevue are currently projected to increase by $0.3 million, or 2.3%. Cascade's wholesale charges to Bellevue are estimated to increase by an additional 10.9% in 2012, and 8% per year for 2013 through 2016. This will result in retail rate increases to City of Bellevue customers of 1.9% in 2011 and 5.6% in 2012 for wholesale water purchases. From 2013 through 2016, an average increase of 4.9% is assumed.
- The local rate increase is projected to be 1.4% in 2011 and 2.3% in 2012. The projected local rate increases for 2013 through 2016 are 8.2%, 4.7%, 4.3%, and 2.0% respectively.

Sewer:

- King County-METRO rates for wastewater treatment are projected to be $36.10 per equivalent residential unit, representing an increase of 13.2%, for 2011 and 2012. METRO rates are projected to increase by 9.0% in 2013 and 8.0% annually from 2014 through 2016. The resulting pass-through rate increases to Bellevue customers are estimated to be 7.9% in 2011, 0.0% in 2012, and an average of 6.3% annually from 2013 through 2016.
- The local rate increase is projected to be 1.0% in 2011 and 1.5% in 2012. The projected local rate increases for 2013 through 2016 are 2.2%, 3.0%, 2.8%, and 0.0% respectively.

Storm & Surface Water:

- Storm & Surface Water rates will increase by 3.2% in 2011 and 3.2% 2012. The projected rate increases for 2013 through 2016 are 11.6%, 9.4%, 7.7%, and 7.7% respectively.

Water Utility - Water System Costs and Revenue Requirements

Over the forecast period, rate revenues are projected to grow from $33.9 million in 2010 to $55.0 million in 2016, or by an average annual increase of 8.4%. Rate revenues show a steady increase throughout the forecast, mainly due to the projected increases from Cascade. Of the $21.1 million increase in annual rate revenues over the interval, $19.8 million is due to projected rate increases; the remaining $0.3 million is due to growth in the number of customer accounts and related water volumes.

Based on historical collection experience, annual growth in other Utility revenues is projected at 2.7% in 2011 through 2016, and includes developer fees, rental revenue, and other miscellaneous items. Interest earnings are expected to increase only slightly.

Wholesale water purchases represent 38.7% of total projected Water expenses for the forecast period. Water costs are projected to increase by $8.5 million or 56.5%. This will result in pass-through rate increases of 1.9% in 2011 and 5.6% in 2012, and an average of 4.9% per year for 2013 through 2016.

Growth in annual City utility and other tax payments over the forecast period are due to impacts of projected customer/volume growth. No changes in existing tax rates or policies are assumed.

Water CIP transfers are projected to equal $61.4 million over the 6-year period. Of this amount, $60.6 million is needed to support projects approved in the CIP plan. The remaining $0.8 million will be deposited to the Water Renewal & Replacement (R&R) Account. Annual amounts deposited to the R&R Account are normally based on replacement needs per the Utility's long-term capital investment plan. However, in response to the current economic downturn, the preliminary forecast funds Utilities' transfer from rates to capital reserves for the renewal and replacement of water infrastructure at a reduced level in 2011 and 2012 – a reduction of $0.6 million. This reduction will provide a short-term rate reduction of during the 2011-2012 biennium, but will create the need for offsetting rate increases in the next biennium or over a longer period of time if Council chooses to make up the shortfall in funding for infrastructure replacements.

Water personnel costs are projected to increase by 5.9% in 2011 and an average of 3.7% per year over the balance of the forecast period due to higher benefit costs and cost-of-living adjustments projected by the City Budget Office. Other operating expenses include supplies and outside services, which are projected to decrease by 1.3% in 2011 and 1.8% in 2012 due to cost containment efforts, and then increase by an average of 1.3% for the remainder of the forecast period. Interfund payments to other city funds are projected to increase by 10.1% in 2011 due to increases in self-insurance costs, rent, and fleet charges. Due mainly to lower insurance costs, interfund charges are projected to increase by only 0.9% in 2012. The forecast in 2013 and beyond the biennium assumes historical average levels.

Capital asset costs shown in the forecast are based on the Utility's long-term asset replacement plan and can fluctuate from year to year. The Asset Replacement Account (ARA) is used to levelize rate impacts of Utility capital asset spending and all asset purchases are financed from the ARA balance.

2011–2016 Financial Forecasts

Utility Funds

Water reserve status shown in this forecast is based on calculated target reserve amounts defined by the Utilities Consolidated Reserve Policy. The long-range objective under the Utilities Reserve Policy is to maintain reserves at or close to target levels with excess reserves above target transferred to the CIP R&R Account. Target operating reserves for working capital have been reduced from the current level of 70 days (19%) of budgeted O&M costs (excluding debt service and capital funding) to 48 days (13%).

2011–2016 Financial Forecasts

Utility Funds

WATER UTILITY FUND
PRELIMINARY FINANCIAL FORECAST
2010 THROUGH 2016

PROJECTED RATE INCREASES	2010 Amended Budget	2011 Preliminary Budget	2012 Preliminary Budget	2013 Budget Estimate	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Pass-Through Cascade Increase	4.8%	1.9%	5.6%	4.4%	4.9%	5.4%	5.0%
Local Program Increase	4.4%	1.4%	2.3%	8.2%	4.7%	4.3%	2.0%
TOTAL RATE INCREASE	9.2%	3.3%	7.9%	12.5%	9.6%	9.7%	7.0%
Projected Annual CPI Increases	2.5%	1.4%	2.1%	2.3%	2.3%	2.5%	2.4%

ANNUAL BUDGET BY CATEGORY	2010 Amended Budget	2011 Preliminary Budget (1)	2012 Preliminary Budget	2013 Budget Estimate (2)	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Beginning Fund Balances:							
Operating Reserves	$7,775,962	$9,061,233	$7,633,314	$6,227,139	$6,036,327	$6,617,516	$7,843,377
Asset Replacement Account	2,701,568	2,963,706	2,401,397	2,744,301	3,007,492	3,540,502	3,107,857
Subtotal	$10,477,530	$12,024,939	$10,034,711	$8,971,440	$9,043,819	$10,158,017	$10,951,234
REVENUES:							
Water Rate Revenues	$33,859,183	$35,018,191	$37,834,050	$42,624,482	$46,773,778	$51,343,075	$54,964,141
Interest/Other Revenues	4,533,824	4,926,481	5,017,636	5,131,961	5,296,453	5,502,903	5,703,801
Subtotal	$38,393,007	$39,944,672	$42,851,686	$47,756,443	$52,070,231	$56,845,978	$60,667,942
TOTAL BUDGET (Sources)	$48,870,537	$51,969,611	$52,886,397	$56,727,884	$61,114,049	$67,003,996	$71,619,176
EXPENSES:							
Cascade Water Purchases	$14,979,712	$15,538,832	$17,231,798	$18,610,342	$20,099,169	$21,707,103	$23,443,671
City/State Taxes and Franchise Fees	3,489,823	$5,162,490	$5,573,783	6,272,528	6,879,576	7,547,453	8,071,301
Transfer to CIP/R&R	7,752,006	$7,737,086	$8,594,411	9,568,111	10,514,419	11,867,554	13,124,761
Debt Service	30,975	$30,680	$30,385	30,090	29,795	0	0
Personnel	6,073,765	$6,434,261	$6,693,279	6,931,861	7,178,954	7,434,865	7,699,906
Interfund Payments to Other City Funds	2,261,182	$2,492,720	$2,510,398	2,648,470	2,794,136	2,947,813	3,109,943
Capital Asset Costs	389,639	$1,248,448	$344,721	463,918	222,645	1,230,102	566,808
Other Operating Expenses	3,334,047	$3,290,383	$3,230,914	3,158,745	3,237,337	3,317,873	3,400,401
Subtotal	$38,311,149	$41,934,900	$44,209,689	$47,684,065	$50,956,032	$56,052,762	$59,416,790
Ending Fund Balances:							
Operating Reserves	$7,595,682	$7,633,314	$5,932,407	$6,036,327	$6,617,516	$7,843,377	$8,870,605
Asset Replacement Account	2,963,706	$2,401,397	$2,744,301	3,007,492	3,540,502	3,107,857	3,331,782
Subtotal	$10,559,388	$10,034,711	$8,676,708	$9,043,819	$10,158,017	$10,951,234	$12,202,386
TOTAL BUDGET (Uses)	$48,870,537	$51,969,611	$52,886,397	$56,727,884	$61,114,049	$67,003,996	$71,619,176

TARGET RESERVE STATUS	2010 Amended Budget	2011 Amended Budget	2012 Amended Budget	2013 Amended Budget	2014 Amended Budget	2015 Amended Budget	2016 Amended Budget
Operating Reserves	$7,595,682	$7,633,314	$5,932,407	$6,036,327	$6,617,516	$7,843,377	$8,870,605
Target Reserve Level	8,181,537	6,746,491	7,148,186	7,536,617	7,952,248	8,396,556	8,870,605
Reserves Over (Under) Target Level	($585,855)	$886,823	($1,215,780)	($1,500,290)	($1,334,732)	($553,179)	$0

Personnel	2010	2011	2012	2013	2014	2015	2016
FTEs	65.6	65.6	65.6	65.6	65.6	65.6	65.6
LTEs	3.0	2.0	0.0	0.0	0.0	0.0	0.0
Total	68.6	67.6	65.6	65.6	65.6	65.6	65.6

Note: Columns may not foot due to rounding.

(1) The beginning fund balance in 2011 does not equal the budgeted ending fund balance in 2010 because:
- higher than budgeted revenues and/or savings during the last biennium.
- 2010 capital expenditures delayed until 2011.

(2) The beginning fund balance for 2013 does not equal the budgeted ending fund balance in 2012 primarily due to projected underexpenditures andreconciling items for ratemaking purposes.

Wastewater Utility - Sewer System Costs and Revenue Requirements

Revenue requirements from sewer rates are displayed in the Sewer Utility Fund Financial Forecast. Over the upcoming forecast period, rate revenues are projected to grow from $40.8 million in 2010 to $63.1 million in 2016, or by an average annual increase of 7.5%. Of the $22.3 million increase in annual rate revenues over the interval, approximately $21.7 million is due to projected rate increases, with the remaining $0.6 million due to growth in the number of customer accounts and related sewer volumes.

Based on historical collection experience, annual growth in other Utility revenues is projected to be 3.8% for 2011 through 2016. This includes interest earnings, developer fees, rental revenue, and other miscellaneous items.

King County-METRO payments for wholesale sewage treatment costs represent approximately 58% of the total projected Sewer expenses for the 6-year period. The 2011 METRO rate increase assumed in this forecast, as projected by King County, include 13.2% and 0.0% for 2011 and 2012 respectively. For the remainder of the forecast period, projected METRO rate increases are 9.0% for 2013 and 8.0% annually from 2014 to 2016. These rate increases translate into pass-through increases to Bellevue customers of 7.9% in 2011, 0.0% in 2012, and an average of 6.3% annually from 2013 through 2016.

Growth in City/State taxes over the forecast period are due to impacts of projected customer/volume growth and rate increases on annual taxable revenues. No changes in existing tax rates or policies are assumed.

Sewer CIP transfers are projected to equal $59.3 million over the 6-year period. Of this amount $38.0 million is needed to support projects approved in the CIP plan. The remaining $21.3 million will be deposited to the Renewal & Replacement (R&R) Account. Annual amounts deposited to the R&R Account are normally based on replacement needs per the Utility's long-term capital investment plan. However, in response to the current economic downturn, the preliminary forecast funds Utilities' transfer from rates to capital reserves for the renewal and replacement of sewer infrastructure at a reduced level in 2011 and 2012 – a reduction of $1.1 million. This reduction will provide a short-term rate reduction of during the 2011-2012 biennium, but will create the need for offsetting rate increases in the next biennium or over a longer period of time if Council chooses to make up the shortfall in funding for infrastructure replacements.

Sewer personnel costs are projected to increase by 5.6% in 2011. The projected increase in 2012 is 6.3%, reflecting the addition of 1 FTE position. Subsequently, the personnel cost increase is expected to average 3.6% in 2012 through 2016 due to higher benefit costs and cost-of-living adjustments projected by the City Budget Office. Other operating expenses include supplies and outside services, which are projected to increase by 4.4% in 2011 due to one-time expenses related to the asset management program. Expenses are projected to decrease by 0.9% in 2012 and then increase by an average of 1.3% per year for the remainder of the forecast period. Interfund payments to other city funds are projected to decrease by approximately 1.7% in 2011 due to a reduction in self-insurance payments. Interfund payments to other city funds are projected to increase by approximately 2.4% in 2012, and the forecast period beyond the current biennium assumes interfund payments at historical average levels.

Capital asset costs shown in the forecast are based on the Utility's long-term asset replacement plan and can fluctuate from year to year. The Asset Replacement Account (ARA) is used to levelize rate impacts of Utility capital asset spending and all asset purchases are financed from the ARA balance.

Sewer reserve status shown in this forecast is based on calculations of target reserve amounts defined by the Utilities Consolidated Reserve Policy. The long-range objective under this policy is to maintain reserves at or close to target levels with excess reserves above target transferred to the CIP R&R Account. Reserves in excess of target are drawn down to zero within the forecast period, largely for rate stabilization purposes.

Budget One
one city
one public
one purpose

2011–2016 Financial Forecasts

Utility Funds

SEWER UTILITY FUND
PRELIMINARY FINANCIAL FORECAST
2010 THROUGH 2016

PROJECTED RATE INCREASES	2010 Amended Budget	2011 Preliminary Budget	2012 Preliminary Budget	2013 Budget Estimate	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Pass-Through Metro Increase	0.0%	7.9%	0.0%	7.5%	5.3%	5.2%	8.1%
Local Program Increase	3.5%	1.0%	1.5%	2.2%	3.0%	2.8%	0.0%
TOTAL RATE INCREASE	3.5%	8.9%	1.5%	9.7%	8.3%	8.1%	8.1%
Projected Annual CPI Increases	2.5%	1.4%	2.1%	2.3%	2.3%	2.5%	2.4%

ANNUAL BUDGET BY CATEGORY	2010 Amended Budget	2011 Preliminary Budget (1)	2012 Preliminary Budget	2013 Budget Estimate (2)	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Beginning Fund Balances:							
Operating Reserves	$7,643,446	$5,021,333	$6,112,710	$5,610,526	$6,315,330	$5,930,547	$3,795,753
Asset Replacement Account	1,129,374	1,126,667	806,433	1,285,803	1,649,986	2,163,315	1,508,499
Subtotal	$8,772,820	$6,148,000	$6,919,143	$6,896,329	$7,965,316	$8,093,862	$5,304,252
REVENUES:							
Sewer Rate Revenues	$40,842,908	$44,592,895	$45,359,053	$49,831,997	$54,021,610	$58,418,871	$63,164,656
Interest/Other Revenues	1,535,571	1,714,155	1,746,126	1,824,883	1,914,951	1,973,871	1,932,484
Subtotal	$42,378,479	$46,307,050	$47,105,179	$51,656,880	$55,936,561	$60,392,742	$65,097,140
TOTAL BUDGET (Sources)	$51,151,299	$52,455,050	$54,024,322	$58,553,209	$63,901,877	$68,486,604	$70,401,392
EXPENSES:							
Metro	$24,339,218	$27,429,891	$27,504,835	$30,061,542	$32,545,131	$35,198,038	$38,057,704
City/State Taxes and Franchise Fees	2,456,550	2,818,912	2,877,766	3,155,234	3,410,373	3,678,088	3,965,898
Transfer to CIP/R&R	6,482,125	6,316,850	8,388,520	8,447,863	10,687,423	13,558,026	11,885,205
Personnel	4,450,488	4,699,072	4,992,865	5,170,758	5,354,996	5,545,803	5,743,416
Interfund Payments to Other City Funds	1,840,674	1,796,822	1,822,878	1,923,136	2,028,908	2,140,498	2,258,225
Capital Asset Costs	590,904	956,151	164,255	354,866	270,379	1,513,892	120,934
Other Operating Expenses	1,454,167	1,518,209	1,504,016	1,474,494	1,510,806	1,548,007	1,586,118
Subtotal	$41,614,126	$45,535,907	$47,255,135	$50,587,893	$55,808,016	$63,182,352	$63,617,500
Ending Fund Balances:							
Operating Reserves	$8,410,506	$6,112,710	$5,483,384	$6,315,330	$5,930,547	$3,795,753	$4,516,812
Asset Replacement Account	1,126,667	806,433	1,285,803	1,649,986	2,163,315	1,508,499	2,267,080
Subtotal	$9,537,173	$6,919,143	$6,769,187	$7,965,316	$8,093,862	$5,304,252	$6,783,892
TOTAL BUDGET (Uses)	$51,151,299	$52,455,050	$54,024,322	$58,553,209	$63,901,877	$68,486,604	$70,401,392

TARGET RESERVE STATUS	2010 Amended Budget	2011 Amended Budget	2012 Amended Budget	2013 Amended Budget	2014 Amended Budget	2015 Amended Budget	2016 Amended Budget
Operating Reserves	$8,410,506	$6,112,710	$5,483,384	$6,315,330	$5,930,547	$3,795,753	$4,516,812
Target Reserve Level	3,097,361	3,404,981	3,441,335	3,701,094	3,955,286	4,226,123	4,516,812
Reserves Over (Under) Target Level	$5,313,145	$2,707,729	$2,042,050	$2,614,236	$1,975,260	($430,370)	$0

Personnel	2010	2011	2012	2013	2014	2015	2016
FTEs	46.0	46.0	47.0	47.0	47.0	47.0	47.0
LTEs	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Total	46.0	47.0	47.0	47.0	47.0	47.0	47.0

Note: Columns may not foot due to rounding.

(1) The beginning fund balance in 2011 does not equal the budgeted ending fund balance in 2010 because:
- · higher than budgeted revenues and/or savings during the last biennium.
- · 2010 capital expenditures delayed until 2011.

(2) The beginning fund balance for 2013 does not equal the budgeted ending fund balance in 2012 primarily due to projected underexpenditures and reconciling items for ratemaking purposes.

Storm & Surface Water Utility - Surface Water System Costs and Revenue Requirements

Revenue requirements from surface water rates are displayed in the Surface Water Utility Fund Financial Forecast. Over the upcoming forecast period, rate revenues are projected to grow from $15.2 million in 2010 to $23.2 million in 2016, or by an average annual increase of 7.3%. Of the $8.0 million increase in annual rate revenues over the interval, approximately $7.7 million is due to projected rate increases, with the remaining $0.3 million due to growth in the customer base. The surcharge for the Lakemont regional detention facility, totaling about $250,000 annually, ends in 2011.

Based on historical collection experience, net of interest revenue, an annual growth in other Utility revenues is projected at 3.5% on average from 2011 through 2016, and includes developer fees and other miscellaneous items.

Growth in City/State taxes over the forecast period is due to impacts of projected customer-base growth and rate increases on annual taxable revenues. No changes in existing tax rates and policies are assumed. Debt service, which has been a major component of Surface Water Utility annual expenses, is projected to be eliminated by 2014.

Surface Water CIP transfers are projected to equal $56.6 million over the 6-year period. Of this amount $27.2 million is needed to support projects approved in the annual CIP budget. The remaining $29.4 million will be deposited to the Renewal & Replacement (R&R) Account. Annual amounts deposited to the R&R Account are normally based on replacement needs per the Utility's long-term capital investment plan. However, in response to the current economic downturn, the preliminary forecast funds Utilities' transfer from rates to capital reserves for the renewal and replacement of storm and surface water infrastructure at a reduced level in 2011 and 2012 – a reduction of $1.4 million. This reduction will provide a short-term rate reduction of during the 2011-2012 biennium, but will create the need for offsetting rate increases in the next biennium or over a longer period of time if Council chooses to make up the shortfall in funding for infrastructure replacements.

Surface Water personnel costs are projected to increase by 2.1% in 2011, reflecting the addition of 1 FTE position. For the remainder of the forecast period, 2012 through 2016, the average increase is 3.6% due to higher benefit costs and cost-of-living adjustments projected by the City Budget Office. Other operating expenses, which include supplies and outside services, are projected to decrease by 7.7% in 2011 due to cost containment and decrease by an additional 0.3% in 2012, and then increase at about 0.5% for the remainder of the forecast period. Interfund payments to other City funds are projected to increase by approximately 3.2% in 2011, and 2.9% in 2012. The forecast period beyond the current biennium assumes interfund payments at historical average levels.

Capital asset costs shown in the forecast are based on the Utility's long-term asset replacement plan and can fluctuate from year to year. The Asset Replacement Account (ARA) is used to levelize rate impacts of Utility capital asset spending and all asset purchases are financed from the ARA balance.

Surface Water reserve status shown in this forecast is based on calculations of target reserve amounts defined by the Utilities Consolidated Reserve Policy. The long-range objective under this policy is to maintain reserves at or close to target levels with excess reserves above target transferred to the CIP R&R Account for renewal and replacement projects. Reserve levels are projected to be above target levels for most of the forecast period.

2011–2016 Financial Forecasts

Utility Funds

STORM & SURFACE WATER UTILITY FUND
PRELIMINARY FINANCIAL FORECAST
2010 THROUGH 2016

PROJECTED RATE INCREASES	2010 Amended Budget	2011 Preliminary Budget	2012 Preliminary Budget	2013 Budget Estimate	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Local Program Increase	8.5%	3.2%	3.2%	11.6%	9.4%	7.7%	7.7%
TOTAL RATE INCREASE	8.5%	3.2%	3.2%	11.6%	9.4%	7.7%	7.7%
Projected Annual CPI Increases	2.5%	14.0%	2.1%	2.3%	2.3%	2.5%	2.4%

ANNUAL BUDGET BY CATEGORY	2010 Amended Budget	2011 Preliminary Budget (1)	2012 Preliminary Budget	2013 Budget Estimate (2)	2014 Budget Estimate	2015 Budget Estimate	2016 Budget Estimate
Beginning Fund Balances:							
Operating Reserves	$3,401,095	$2,941,647	$2,729,305	$2,373,326	$2,057,431	$1,849,991	$1,607,437
Asset Replacement Account	2,622,587	2,118,713	$1,961,053	1,549,643	1,780,799	2,076,710	1,823,582
Subtotal	$6,023,682	$5,060,360	$4,690,358	$3,922,969	$3,838,230	$3,926,702	$3,431,019
REVENUES:							
Storm Rate Revenues	$15,241,988	$15,769,280	$16,309,776	$18,226,450	$19,966,164	$21,537,084	$23,206,476
Interest/Other Revenues	1,744,624	$1,150,268	$1,164,322	1,167,400	1,200,487	1,240,899	1,262,171
Subtotal	$16,986,612	$16,919,548	$17,474,098	$19,393,849	$21,166,652	$22,777,983	$24,468,647
TOTAL BUDGET (Sources)	$23,010,294	$21,979,908	$22,164,456	$23,316,818	$25,004,882	$26,704,685	$27,899,666
EXPENSES:							
City/State Taxes and Franchise Fees	$949,077	$1,071,033	$1,106,613	$1,231,261	$1,344,631	$1,447,030	$1,555,831
Transfer to CIP/R&R	6,434,100	6,779,101	$7,550,636	8,793,123	9,977,234	11,129,534	12,370,029
Debt Service	92,827	27,787	$7,291	7,151	0	0	0
Personnel	5,019,689	5,126,075	$5,305,546	5,494,619	5,690,436	5,893,239	6,103,276
Interfund Payments to Other City Funds	1,668,847	1,754,504	$1,794,713	1,884,449	1,978,671	2,077,605	2,181,485
Capital Asset Costs	1,005,028	660,691	$895,149	303,088	277,786	871,192	256,340
Other Operating Expenses	1,978,135	1,870,359	$1,864,877	1,764,898	1,809,421	1,855,065	1,901,857
Subtotal	$17,147,703	$17,289,550	$18,524,825	$19,478,588	$21,078,180	$23,273,666	$24,368,818
Ending Fund Balances:							
Operating Reserves	$3,743,878	$2,729,305	$2,089,989	$2,057,431	$1,849,991	$1,607,437	$1,326,854
Asset Replacement Account	2,118,713	1,961,053	$1,549,643	1,780,799	2,076,710	1,823,582	2,203,994
Subtotal	$5,862,591	$4,690,358	$3,639,631	$3,838,230	$3,926,702	$3,431,019	$3,530,848
TOTAL BUDGET (Uses)	$23,010,294	$21,979,908	$22,164,456	$23,316,818	$25,004,882	$26,704,685	$27,899,666

TARGET RESERVE STATUS	2010 Amended Budget	2011 Amended Budget	2012 Amended Budget	2013 Amended Budget	2014 Amended Budget	2015 Amended Budget	2016 Amended Budget
Operating Reserves	$3,743,878	$2,729,305	$2,089,989	$2,057,431	$1,849,991	$1,607,437	$1,326,854
Target Reserve Level	1,152,588	1,159,622	1,184,521	1,218,062	1,252,936	1,289,180	1,326,854
Reserves Over (Under) Target Level	$2,591,290	$1,569,684	$905,467	$839,369	$597,055	$318,257	$0

Personnel	2010	2011	2012	2013	2014	2015	2016
FTEs	48.0	49.0	49.0	49.0	49.0	49.0	49.0
LTEs	2.0	2.0	0.0	0.0	0.0	0.0	0.0
Total	50.0	51.0	49.0	49.0	49.0	49.0	49.0

Note: Columns may not foot due to rounding.

(1) The beginning fund balance in 2011 does not equal the budgeted ending fund balance in 2010 because:
- higher than budgeted revenues and/or savings during the last biennium.
- 2010 capital expenditures delayed until 2011.

(2) The beginning fund balance for 2013 does not equal the budgeted ending fund balance in 2012 primarily due to projected underexpenditures and reconciling items for ratemaking purposes.