



September 24, 2018

Bellevue City Council
Bellevue City Hall
450 110th Ave NE
Bellevue, WA 98004

Re: 2019-2020 Operating Budget and 2019 – 2025 Capital Investment Program

Dear Mayor Chelminiak and Councilmembers:

The Bellevue Chamber of Commerce and Bellevue Downtown Association convened a committee to review the city's preliminary materials relating to the 2019-2020 Operating and 2019-2025 Capital Investment Program (CIP) budgets.¹ Our objective is to provide a clear and concise message from Bellevue's business community regarding the City Manager's budget. Our goal is to ensure Bellevue remains attractive for businesses to locate, grow, and retain top talent. To accomplish that goal, the City needs to maintain its level of services, maintain competitive tax rates and invest in the infrastructure the business community needs to continue to thrive. Thank you for your leadership and considering our comments on this important subject.

Operating Budget

The city's budget forecast shows expenditures exceeding revenues by 2021, causing the Ending Fund Balance (EFB) to dip below 15% of revenues by 2023.² The forecast document indicates the following factors contribute to the shortfall:

- LEOFF1 pension liability is forecast to add \$2.3million/year in new expenses starting in 2019.
- Loss of annexation sales tax revenue of \$1.0million/year starting in 2022.
- Fire Station 10 staffing of \$2.2-3.2million starting in 2021.
- Paid family medical leave of \$0.2million per year starting in 2019.
- "Urbanization" – an annual inflation factor of 0.3%, added to account for the "increase in demand for services based on the continued urbanization of the city."

We also recognize the impact that continued increases in medical and pension costs are having on the operating budget. Over the last decade, medical expenses have increased nearly 70% and pension liability by 40%. It is important for the City to analyze these increases and seek to devise a plan that lessens this budget impact while maintaining competitive benefits for city employees.

¹ Chamber / BDA Review Process. The Chamber and BDA formed a joint task force earlier this summer to discuss the pressing issues surrounding the budget and draft recommendations for Council. In preparation of making informed recommendations, the task force reviewed the 2019-2024 General Fund Financial Forecast, the 2019-2025 Early Look Capital Investment Program, and the 2018-2020 Council Vision Priorities. After much deliberation, the task force developed the recommendations in this letter, and the recommendations were approved by both Chamber and BDA Boards.

² See, for example, Chart 9 on page 14 of the 2019-2024 Forecast Executive Summary.

With the above in mind, we offer the following recommendations for the operating budget:

- **Control costs this biennium to increase reserves for the future.** It appears from the preliminary budget information that there are sufficient revenues to maintain a budget surplus through 2020. We encourage you to maintain that surplus, so you have reserves for the inevitable economic downturn and to pay for the future needs staff has identified (e.g., Fire Station 10 personnel needs or LEOFF1 unfunded pension liability).
- **Maintain existing levels of service.** Continue to maintain city services at their existing levels, and in a manner that is consistent with the 2018-2020 City Council Vision Priorities.
- **Strive to maintain existing tax sources/rates.** Ongoing obligations should be funded through existing revenue sources and at existing tax rates.
- **Preserve the 15% EFB as a “rainy-day fund.”** This is an important factor because the revenue growth assumptions in the budget do not forecast a recession, which inevitably will occur at some point. Preserving the 15% EFB will allow the city to appropriately maintain services during the economic downturn and then restore the EFB to 15% as the economy recovers.
- **Urbanization.** Request an update of the long-term forecast without the urbanization factor. Even if this assumption were correct, the Council would only be asking staff to reduce spending increases by 0.3% per year. We are interested to see if the EFB can be maintained at or close to 15% if the property tax is increased 1% per year and the urbanization factor is removed.
- **Develop a Plan to Address Rising Medical Expenses and Pension Liability.** As discussed above, we strongly encourage you to request a thorough analysis of medical and pension costs in 2019, with a goal of coming up with a plan to bring future increases in line with increases in tax revenue, while at the same time maintaining competitive benefits for employees.
- **Criteria for Consideration of New or Increased Revenue.** If the cost control measures mentioned above have been taken and additional revenue is still needed to address ongoing, currently unfunded obligations, additional revenue sources can be considered. Prime examples of unfunded obligations which meet this definition are Fire Station 10 personnel needs and any unfunded LEOFF1 pension liability.
- **New revenues for the operating budget should be from broad-based, stable sources.** If additional revenue is needed, ensure sources are broad-based and stable over the long term. The current option on the city's Potential Revenue Options document that best meets this definition is the property tax. We acknowledge that property tax rates do not automatically increase as property values rise. If property tax increases are considered, make every effort to do so in a gradual and predictable fashion.

Capital Investment Program

The 2019-2025 Early Look Capital Investment Program document reveals that available capital dollars have been, for the most part, allocated to quality projects through 2023. Additional revenues become available in 2024 and 2025, with an ending fund balance of \$57 million that could be programmed in those years. It is important to recognize the excellent work the city has done in past years to prioritize spending on core infrastructure projects through 2023. We encourage you to continue with those projects.

We also note that a number of line items include annual allocations, and we encourage the council to utilize these already budgeted resources to enhance the city. For example, a number of the line items in the Economic Growth & Competitiveness category have ongoing allocations that could be utilized by the Council to fund specific projects without increasing the existing budgeted expenses.

We wish to emphasize support for the following projects, all of which we view as consistent with the 2018-2020 Council Vision priorities:

- **CD-44. Grand Connection – Early Implementation.** As we continue toward the opening of the downtown light rail station in 2023, it is becoming more important to advance the planning and design of the Grand Connection and civic center projects. Please consider whether the amounts allocated in CD-44 for 2019 and 2020 are sufficient to accomplish this goal. It would also be helpful to have information regarding additional city sources to support investments in the area, including other line items in the CIP.
- **PW-M-1 Overlay Program.** We appreciate and agree with the transportation department’s continued efforts to maintain the excellent condition of the city’s roads. However, we do not understand the rationale for the 22% increase in this line item between 2021 and 2022, as opposed to the 3% increases in the years before and after. Please consider whether this large jump is truly necessary.
- **PW-R-184. Bellevue Way SE HOV Lane – 112th Ave. SE ‘Y’ to I-90.** Please include resources to complete the design work for this project so that right of way acquisition can be completed, and construction can commence, upon completion of heavy engineering work for EastLink along Bellevue Way. Please also consider the need to fund right of way and construction costs for this project as you allocate the capital dollars available in 2024 and 2025.
- **Fund the Smart City Strategy** to advance new transportation technologies that will improve access and mobility. We would like to remind the council that the Neighborhood Safety & Connectivity Levy (PW-R-199) included \$500,000 per year for transportation technology. The city is making great strides in this area but we would like to see the resources allocated to projects and planning as soon as possible.
- **Transportation Levies.** Please request more detail on the projects that are to be funded by the Neighborhood Congestion Management Levy (PW-R-198) and Neighborhood Safety & Connectivity Levy (PW-R-199).
- **Continue to Maintain the Downtown.** We thank the Council for continuing to support existing levels of service for Downtown including maintenance, parks, and public safety. The growing workforce and residential community is bolstering the economy and creating new demand for Downtown amenities, and we want to ensure the urban environment is adequately preserved as an attractive destination for employees, residents, and visitors.

Thank you for considering our observations and recommendations. The City of Bellevue has a well-deserved reputation for both fiscal prudence and excellent service delivery. We hope you will consider the business community as a partner with city government, as we seek to maintain a positive business climate and quality of life for all.

Sincerely,



Kevin Wallace
Co-Chair, Chamber/BDA Budget Committee



Dave Namura
Co-Chair, Chamber/BDA Budget Committee



Kim Fredericks
Interim President & CEO, Bellevue Chamber of Commerce



Patrick Bannon
President, Bellevue Chamber of Commerce