

CITY OF BELLEVUE  
CITY COUNCIL

Summary Minutes of Extended Study Session

September 12, 2011  
6:00 p.m.

Council Conference Room 1E-113  
Bellevue, Washington

PRESENT: Mayor Davidson, Deputy Mayor Lee, and Councilmembers Balducci, Chelminiak, Degginger, Robertson, and Wallace

ABSENT: None.

1. Executive Session

Deputy Mayor Lee called the meeting to order at 6:08 p.m., and declared recess to Executive Session for approximately 30 minutes to discuss one item of potential litigation.

The meeting resumed at 6:28 p.m., with Mayor Davidson presiding and all Councilmembers present.

2. Communications: Written and Oral

- (a) Bill Hirt commented on the East Link light rail project. He expressed concern about the ability of the system to handle the anticipated ridership, and he opined that the ability of the I-90 bridge to carry light rail cars has not been verified. Mr. Hirt expressed additional concerns about neighborhood impacts and whether sufficient park and ride facilities are available to support the light rail system. He said Sound Transit wants to spend \$68 billion on a project that will increase traffic congestion, and he is concerned about Sound Transit's efforts to encourage the City of Bellevue to contribute up to \$200 million for a downtown tunnel.
- (b) Terry Foulon expressed concern about pollution at Newcastle Beach Park. She said the Washington State Department of Ecology performed a soils arsenic test at the location in July, and found a level exceeding the MTCA standard (32 parts per million versus the standard of 20 ppm). She reported that City staff has indicated that they will not be addressing the issue. She suggested adding a foot of sand or soil over the area with higher arsenic levels. Ms. Foulon asked the Council to take action to correct the problem.

Deputy Mayor Lee welcomed Boy Scout Troop 638 in the audience.

### 3. Study Session

#### (a) Council Business and New Initiatives

Councilmember Balducci described recent conversations with Bill Pace, the operator of the Blueberry Farm at the Mercer Slough, who is also working on a lease in the Newport Hills Shopping Center. She asked that the City Manager be authorized to explore the potential for a temporary exemption to the Sign Code that would allow new businesses to use directional signage to increase their visibility. Ms. Balducci recalled that revitalizing neighborhood shopping centers has been a Council priority for a number of years.

Mayor Davidson noted his interest in exploring options to address this issue.

Councilmember Wallace concurred with Councilmember Balducci's suggestion, and noted related issues affecting the vitality of shopping centers including parking regulations at Lakemont Shopping Center. He referred to challenges related to leasing second-story retail space in the Downtown and said he would like to schedule time on the Council's calendar to discuss these issues.

Deputy Mayor Lee expressed support as well, noting the potential benefits to the local economy.

Councilmember Balducci said that Mr. Pace is working toward signing an October lease in the Newport Hills Shopping Center.

Moving on, Deputy Mayor Lee asked staff to review Mr. Hirt's comments on light rail earlier in the meeting and to prepare a response.

City Manager Steve Sarkozy observed that Mr. Hirt is making more of a general statement regarding whether light rail should and/or can be extended to the Eastside. Mr. Sarkozy explained that the City is addressing the light rail project as approved by voters and planned by Sound Transit. He suggested it would be most appropriate to raise the issues with Sound Transit, and that he is not comfortable commenting on issues that are not within the City's purview.

Mayor Davidson said he would like to review Mr. Hirt's comments and questions himself, and to ask Sound Transit to respond. Dr. Davidson said he has some of the same technical questions about light rail's crossing of the I-90 bridge.

Councilmember Wallace noted that there is already an aggressive schedule to address key priorities and considerations for Bellevue. He suggested that broader topics beyond the current Bellevue-specific discussion can be addressed later.

Councilmember Chelminiak mentioned the passing of Maria Cain, a strong advocate of neighborhoods who was elected to the Bellevue City Council in 1980 and served one term. Mr. Chelminiak worked with Ms. Cain at the King County Council, where she worked hard on behalf of the causes that she believed were important.

Mayor Davidson said he attended the City's ceremony observing the 10<sup>th</sup> anniversary of the terrorist attacks on September 11, 2001. Councilmember Balducci attended as well.

- (b) Proposed amendment to the Bellevue tax code relating to fireflow capacity and the placement of a temporary surcharge on customers outside City limits to recover costs.

City Manager Steve Sarkozy explained that the City's fireflow capacity serves Bellevue, Medina, Clyde Hill, Hunts Point, Yarrow Point, and portions of Issaquah, Kirkland, and unincorporated King County. In October 2008, the Washington State Supreme Court ruled that the provision of water for fire suppression is a general government (General Fund) responsibility that should not be directly charged to ratepayers. In 2009, the Council directed the removal of the cost of fireflow capacity from the water utility rate. Bellevue's portion of the fireflow capacity cost was moved to the General Fund effective January 2010.

City Attorney Lori Riordan noted that there have been discussions with other jurisdictions within Bellevue's service area to determine whether to recover the cost of providing fireflow capacity to water customers outside of Bellevue's city limits. Staff recommends pursuing the recovery of these costs since January 1, 2010, from cities outside of Bellevue that receive its services. Ms. Riordan said the law allows the City to recover these costs from outside jurisdictions.

Nav Otal, Interim Director of Utilities, reviewed the costs that have not been recovered from each jurisdiction benefiting from Bellevue's fireflow capacity. Outside costs for 2010-2011 total \$522,923, and the estimated cost for 2012 is \$267,352. Staff proposes executing agreements for cost recovery with jurisdictions this fall, and preparing amendment to Bellevue's Tax Code to extend the utility occupation tax to customers outside of the city limits. As part of the 2011 Mid-Biennium Budget process, Council is asked to approve the Tax Code amendment and temporary surcharge. Affected customers will be notified of the change to their utility bills, which would become effective January 2012.

Ms. Otal described options for adding a utility tax and fireflow surcharge for 18 months and for 24 months. Staff recommends Option A. Under this plan, the typical customer would see an increase of approximately \$7.48 per month. Of this amount, the \$4.13 monthly surcharge would be terminated after 18 months. With the 24-month Option B, the monthly cost increase would be approximately \$5.50, and the surcharge of \$2.36 per month would be terminated after 24 months. The utility tax would be ongoing in both cases.

Responding to Deputy Mayor Lee, Ms. Otal confirmed that the proposal does not affect Bellevue residents, but applies to customers outside of Bellevue.

Councilmember Robertson clarified for the public that the recommendation achieves fairness by having both Bellevue and non-Bellevue residents contribute to the fireflow capacity surcharge.

- Deputy Mayor Lee moved that staff be directed to take the following steps toward full cost recovery for the City of Bellevue General Fund's financing of fireflow capacity service:

1. Conclude negotiations with receiving cities and bring forward final agreements with those cities for Council approval;
2. Take all steps necessary, including all appropriate public noticing, to bring forward for Council approval an amendment of the utility occupation tax to apply to all gross receipts of the water utility;
3. Take all steps necessary to change the billing of water utility customers to address the increased costs to the utility associated with this tax code amendment, including the surcharge for past cost recovery identified as Option A.

Mayor Davidson seconded the motion.

Mayor Davidson said that certain details are still being worked through with some of the jurisdictions. However, he expressed support for moving forward.

→ The motion carried by a vote of 6-0, with non-voiced votes counted in the affirmative, per Council rules. [Councilmember Wallace had stepped away from table.]

(c) Economic Update and Second Quarter 2011 Budget Monitoring Report

Finance Director Jan Hawn opened staff's presentation of the economic update and second quarter budget monitoring report.

Toni Rezab, Budget Manager, reported that economic recovery is slower than anticipated. The region lost 140,600 jobs between the first quarter of 2008 and the first quarter of 2010. The housing market remains flat, and consumer confidence is at its lowest level since April 2009. Personal income has shown growth during the first half of this year due in part to the federal payroll tax reduction program.

Mayor Davidson commented that the reduction in the Social Security tax could mean that workers who keep more money now will not have it in the future when they retire.

Ms. Rezab reported that retail sales tax is growing slowly, with an increase of approximately three percent in 2011 as compared to 2010. Sales tax for construction activity has appeared to level off since December 2010; however, it is down 25 percent compared to one year ago. Construction sales tax revenues are not expected to begin recovery until 2015. The B&O tax performance is similar to sales tax activity, with collections at 2010 levels. Ms. Rezab summarized that 2011 sales tax revenues are \$2.6 million under budget, and 2011 B&O tax revenues are \$2.4 million under budget.

Ms. Rezab reviewed a graph showing that projected year-end revenue collections are below budget. However, expenditures are below revenues through June 30, 2011.

Deputy Mayor Lee said that a graph showing six-month actuals and projections would be helpful.

Councilmember Robertson said she read recently that sales from the Bellevue Collection retailers have grown 17 percent per quarter throughout the recession. She questioned how this compares to others in the region. Ms. Rezab said the state economist recently gave a presentation indicating that consumer spending has stalled significantly around the state. However, Bellevue has not yet experienced that same impact. Cities in this region are seeing some growth in their retail sales tax.

Councilmember Degginger questioned how precisely the data identifies the sources of sales tax revenues. Ms. Rezab said there are 12 sales tax sectors, and the data is itemized to the level of type of sale (e.g., auto sales, apparel, restaurants).

Continuing with the presentation, Ms. Rezab said the City's 2011 budget is in balance. Aggressive cost containment measures are in place, vacant positions are not being filled, and the City is deferring expenditures. Management actions to lower costs include contract revisions where appropriate and measures to enhance operational efficiencies.

Mayor Davidson noted that the current report covers the first six months of the year, and the Mid-Biennium Budget Update will be adopted this fall.

Ms. Robertson recalled that last year's budget process prioritized budget proposals. She questioned whether the same priority rankings will be used for the Mid-Biennium Update.

Mr. Sarkozy responded that the rankings will be used to a large extent. However, staff is going beyond that work to identify efficiencies and to address management span of control issues. Staff is analyzing whether the City is properly sized and staffed to manage the workload.

Councilmember Robertson said that she would like to go on record saying that she hopes the City is not considering any reductions to the public safety budget.

Continuing with the presentation, Ms. Rezab reported that the Development Services Fund continues to be adversely affected by the sluggish economy.

Ms. Rezab explained that the Capital Investment Program (CIP) is also experiencing reduced funding due to sales tax and B&O tax revenues, and to the rejection of the proposed Wilburton local improvement district (LID). The 2011-2017 CIP Plan anticipates cash flow borrowing this year, and there is an existing line of credit of \$30 million. Tax revenue for 2011 is projected to be \$2.8 million below budget, and tax revenue for the seven-year CIP Plan is expected to be \$25 million lower than originally projected. The rejection of the Wilburton LID reduced revenues by \$10.2 million.

Responding to Councilmember Robertson, staff confirmed that, despite the loss of LID revenues for the NE 4<sup>th</sup> Street/120<sup>th</sup> Avenue NE project, the project budget is expected to balance due to the receipt of grant funding and a reduction in project costs.

Councilmember Chelminiak noted that if the Wilburton LID had been successful, however, the money saved on the NE 4<sup>th</sup> Street project could have been reallocated to other priorities.

Ms. Hawn summarized that the economy continues to be uncertain, which makes it difficult to definitively quantify budget impacts, including health care costs. The Mid-Biennium Budget Update will be completed this fall, and additional information will be provided once third quarter data is available.

Deputy Mayor Lee thanked staff for the report and said he believes that the City is doing the right things to control spending. However, he spoke to the need for the City to put more time and effort into economic development.

Councilmember Wallace concurred with Mr. Lee's comments on economic development. He observed that construction activity will increase again once vacant housing units are sold or rented, and the way to do this is to attract employers to Bellevue. He suggested looking at what other cities are doing to recruit and retain businesses, which generate sales tax revenue.

Mayor Davidson noted the tradeoffs involved in addressing economic development, including that development incentives typically represent a loss of revenue for the City. He suggested identifying how Bellevue can be competitive with other cities in recruiting employers.

Councilmember Robertson recalled that, for the past 18 months, she has been interested in creating an economic development committee comprised of business leaders that could work on enhancing Bellevue's competitiveness within the region and the country.

Mr. Sarkozy commented that studies of economic competitiveness note that Bellevue has one of the lowest property tax rates in the state, as well as appropriate infrastructure and services to attract business. Cities in Washington state are prohibited by the state constitution from providing direct assistance to companies. He noted that Bellevue is a leader in working to recruit and retain businesses, although more can be done. Mr. Sarkozy said that the East Link light rail project and other issues are currently dominating the Council calendar. However, economic development is not a forgotten item for discussion.

Mayor Davidson noted an interest in international business, given that domestic businesses are not expanding nationwide.

Councilmember Degginger observed that Bellevue has many attributes including its low property tax rate, strong public schools, high educational achievement rates, low crime, diverse community, and a relatively high standard of living. He said that prospective employers are also interested in local infrastructure including transportation and transit services. Mr. Degginger said that infrastructure needs and assets are closely tied to economic development.

Deputy Mayor Lee would like to see a proportional level of resources devoted to economic development as is placed on infrastructure.

Councilmember Wallace suggested that, in the short term, Tom Boydell, Economic Development Manager, can work on creating a plan while the Council is predominately focused on light rail. Mr. Wallace thanked the City Manager for his involvement in economic development

discussions. He encouraged continued work by staff to expand these efforts and to demonstrate why companies should come to Bellevue.

- (d) Management Brief regarding implications of existing CIP revenue shortfall on the East Link MOU

City Manager Sarkozy explained that tonight's budget presentations are relevant to the City's negotiations with Sound Transit to establish a Memorandum of Understanding (MOU) related to the East Link light rail project.

Dan Stroh, Planning Director, provided a brief overview of the adopted 2011-2017 Capital Investment Program (CIP) budget, which has a shortfall of approximately \$25 million.

Mr. Stroh recalled that the existing Term Sheet with Sound Transit was established to bridge the cost difference between funding a Downtown tunnel instead of at-grade alignment. The Term Sheet was intended as a step toward establishing a binding MOU outlining a total contribution by the City of approximately \$150 million. It reflects a commitment to take certain actions to reduce Sound Transit's costs by \$100 million related to permanent and temporary easements, utility relocations, credits/return of certain taxes, and other measures. Potential contributions have been categorized as no new cost, low cost, property purchases, and other; and staff will present specific projects for each category.

Mr. Stroh presented three possible scenarios for the 2018-2030 CIP based on differing revenue packages with elements of the Mobility and Infrastructure Initiative financing plan. The three packages reflect revenues of \$235 million, \$319 million, or \$446 million.

Mayor Davidson said that the three scenarios provide the framework for discussing and making decisions related to the East Link MOU in upcoming meetings. However, the purpose of tonight's discussion is to look at overall CIP needs and resources.

Mr. Sarkozy noted that page 3-21 of the meeting packet summarizes the three scenarios/packages.

Responding to Councilmember Robertson, Mr. Stroh said it is important to consider overall capital needs along with the discussion about the East Link MOU and related investments. Staff plans to come back with a list of specific projects and investments for further discussion.

Responding to Ms. Robertson, Ms. Hawn referred Council to the desk packet memo addressing questions from Councilmember Wallace. Attachment B to this memo itemizes the \$82 million debt service.

Responding to Mr. Wallace, Assistant Budget Manager Jason Bentosino said the CIP revenue scenarios are based on the Washington state construction cost index. Mr. Wallace questioned whether Sound Transit uses this same index, and staff said they will provide a response.

Responding to Councilmember Robertson, Mr. Bentosino said the park levy expires in 2028.

Noting an interest in ensuring transparency in the discussions, Ms. Robertson asked everyone to consider using the term tax increases when referring to Mobility and Infrastructure Initiative revenue enhancements. With regard to impact fees, she questioned the feasibility of collecting them at the levels projected in the M&I plan.

Mr. Stroh said that the issue of impact fees was analyzed within the context of Bellevue's competitiveness with other jurisdictions and the overall tax burden on business locations. Before the economic downturn, the impact fee projections were considered to be valid and competitive.

Ms. Robertson questioned why the Bel-Red taxes of \$10 million and the Bel-Red incentive zoning are not included in all three revenue scenarios. Mr. Stroh said that the revenues could be combined in a number of ways, depending on Council direction. The three packages presented are intended to demonstrate the potential resources available. Ultimately, the selected scenario will reflect anticipated development activity and the Council's policy decisions about appropriate revenue sources.

Responding to Councilmember Balducci, staff confirmed that the purpose of the three scenarios was to demonstrate the range of revenues potentially available.

Referring to the potential creation of a LID, Ms. Robertson expressed concern about how realistic this revenue source might be, given the rejection of the Wilburton LID. Mr. Stroh said staff will provide the earlier analysis related to anticipated LID revenues. Ms. Robertson confirmed that it would be helpful to understand the basis for the projections.

Mr. Sarkozy explained that when the Wilburton LID was created, the analysis determined the large area that would benefit from the NE 4<sup>th</sup> Street/120<sup>th</sup> Avenue NE infrastructure project. It was anticipated that 75 percent of the total benefit would be charged back to the property owners. This proposal was rejected by property owners. In the past, the City utilized LIDs for projects with transportation benefits to specific subareas within the central business district. Mr. Sarkozy explained that there is a great deal of flexibility in identifying the extent of the impact area and the percentage of total benefit assessment. He believes that LIDs and special assessments deserve some special policy consideration by the Council as it moves forward to fund projects.

Councilmember Degginger requested updated information regarding impact fees in other jurisdictions.

Mayor Davidson noted that some of the discussion is pursuant to Councilmember Wallace's questions to staff, which are addressed in a memo in the Council's desk packet.

Councilmember Wallace said it would be helpful to have a spreadsheet itemizing years within the CIP Plan and labeling columns for which revenue sources might apply for each year. He would like to understand the assumed growth rates for taxes. He noted that Bellevue has competitive impact fee rates. However, Bellevue also has larger development sites and therefore

the impact fees can become larger compared to other suburban cities, although not when compared to Seattle.

Mr. Wallace clarified that impact fees are not taxes, but proportional contributions toward regional capacity projects. He suggested that if Bellevue is going to assume impact fees, the City needs to assume projects that are regional capacity projects. If transportation capacity projects are eliminated to pay for a light rail tunnel, the City might not have impact fees as a potential funding source. He noted that impact fee rates must have a legal foundation, and he would like to review the City's previous analysis.

Mr. Wallace said there are many desirable CIP priorities that should be addressed, including parks and transportation projects, before discussing funding for the light rail tunnel. He believes the Council will not be able to meet the competing priorities without getting into a discussion about a tax increase.

Councilmember Chelminiak questioned whether the City has ever had more money than needed for CIP demands. Mr. Sarkozy said no and explained that a number of the City's planning documents reflect needs in excess of \$1 billion. At this point, the City is deferring major planning efforts which identify a number of projects that have no hope of achieving funding for the foreseeable future.

Councilmember Chelminiak thanked staff for providing the scenarios for Council consideration. He observed that they provide policy options and best estimates as a framework for discussion. He suggested it is important to engage the community in a rational discussion about the needs, priorities, and tradeoffs. Mr. Chelminiak recalled that the new City Hall was funded without a tax increase, and he encouraged maintaining an attitude that the City can meet the current challenges as well.

- (e) Update and follow-up on East Link umbrella Memorandum of Understanding (MOU) Process and B2M Design Alternatives

Mr. Sarkozy referred the Council to page 3-25 of the meeting packet for the schedule leading to the signing of an East Link umbrella Memorandum of Understanding with Sound Transit.

Mayor Davidson reiterated his ongoing concern that the schedule is too short, and questioned the ability of the Sound Transit CEO to extend the deadline.

Councilmember Balducci said the Sound Transit Board has the authority to make that decision. The request could be made to the Board at its September meeting.

Councilmember Robertson reported that she and Councilmembers Degginger and Wallace attended the first negotiating team meeting today with the team selected by the Sound Transit Board. She is unsure about whether information on the route refinements will be available by the September 26 public hearing. She is concerned that there is not sufficient time for the public to contribute to the discussions in a meaningful way. Ms. Robertson said she shares the Mayor's concern about the short timeline. The negotiating team will meet again in two weeks, and City

and Sound Transit staff are meeting weekly. Bellevue Councilmembers on the negotiating team are meeting weekly with City staff as well. She would like to refine the schedule in order to send postcards to residents to encourage their participation.

Responding to Councilmember Wallace, Diane Carlson, Director of Intergovernmental Relations, said staff is working to have the options for 112<sup>th</sup> Avenue available by September 19. In further response, Deputy City Attorney Kate Berens commented on the development of the MOU outline and early negotiations.

Mayor Davidson questioned whether more concrete information will be available about Sound Transit's funding, mitigation measures, and other budget items.

Councilmember Degginger noted discussions by the negotiating team about 60-percent design, the request for proposal, re-costing of the project, and the review of contingencies. He asked that this information be provided to the entire Council next week. He believes this is pertinent to discussions about revenue and timing.

Moving to one last item, Councilmember Degginger noted the draft letter to Senator Murray in the desk packet regarding potential reductions in federal surface transportation investments in Washington state. Ms. Carlson recalled that the letter was requested by Councilmember Balducci the previous week.

→ Councilmember Degginger moved to authorize the Mayor to send the letter regarding federal transportation funding, and Councilmember Wallace seconded the motion.

Responding to Mr. Wallace, Ms. Carlson explained that the estimated loss of 4,021 jobs is based on a message from the Washington State Secretary of Transportation.

→ The motion carried by a vote of 7-0.

At 8:41 p.m., Mayor Davidson declared the meeting adjourned.

Myrna L. Basich, MMC  
City Clerk

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