

CITY OF BELLEVUE  
CITY COUNCIL

Summary Minutes of Study Session

August 3, 2009  
6:00 p.m.

Council Conference Room  
Bellevue, Washington

PRESENT: Mayor Degginger, Deputy Mayor Balducci, and Councilmembers Bonincontri, Chelminiak, Creighton, Davidson, and Lee

ABSENT: None.

1. Executive Session

Deputy Mayor Balducci opened the meeting at 6:00 p.m. and declared recess to Executive Session for approximately 15 minutes to discuss one item of property acquisition.

The Study Session resumed at 6:17 p.m., with Mayor Degginger presiding.

2. Study Session

(a) Capital Program Financial Status

City Manager Steve Sarkozy opened staff's presentation regarding the Capital Investment Program (CIP) and the Mobility and Infrastructure Initiative. Staff proposes a four-hour Council study session on September 14 to continue discussion about the City's financial strategy.

Finance Director Jan Hawn explained that staff's overall principles in managing the operating and capital budgets are to preserve Council flexibility, ensure financial sustainability, maintain critical public services, and invest in the highest priorities. She recalled the previous week's presentation on the General Fund and efforts to reduce expenditures. The capital budget has been negatively affected by the recession as well, and the 2009-2015 CIP Plan is expected to have a significant revenue shortfall. Staff's proposed actions to address the decreased resources include delaying some projects, while also moving forward with certain projects to take advantage of the favorable bid environment.

Ms. Hawn reviewed a management roadmap divided into three segments: 1) Actions taken in early 2009, 2) Additional actions anticipated for fall 2009, and 3) Long term strategy (2010). The recession has been deeper than originally anticipated, and this region's economy is declining at the same rate as the rest of the nation. The recession is expected to end in early 2010. However, revenue recovery will lag, and unemployment is expected to remain high into 2011.

Responding to Deputy Mayor Balducci, Budget Manager Jonathan Swift confirmed that retail sales tax revenues are coming in even lower than anticipated since the recession began.

Continuing, Ms. Hawn said the recession is adversely affecting housing, consumer spending, and employment. Real estate excise tax (REET) collections are at a 10-year low. Sales tax and B&O (Business and Occupation) tax collections will underperform the budget. The recession has sharply decreased revenue projections for the 2009-2016 CIP Plan by \$96 million, from \$347 million to \$251 million.

Ms. Hawn noted that early actions have reduced the 2009-2010 CIP Plan from \$150 million to \$88 million. The 2009-2015 CIP Plan anticipated \$62 million in borrowing to support the near-term completion of a number of projects. Staff recommends revising the amount to be borrowed to \$30 million. Some projects identified in the Supplemental CIP have been completed. Staff recommends using the remaining funds to balance the General CIP Plan.

Ms. Hawn provided an update on the Mobility and Infrastructure Initiative plan, which is also expected to have a shortfall in revenues. Staff recommends moving only the highest priority projects forward, including those likely to receive grant funding, while delaying other projects. Ms. Hawn recalled that Council adopted property tax and surface water/storm drainage fees in December 2008 to fund the Mobility and Infrastructure Initiative. In January 2009 the Council endorsed a \$299 million investment package and financing strategy, which was followed by the adoption of impact fees in May. In June 2009, the Council adopted a Development Agreement that lowered the incentive fees to be generated by a catalyst project in the Bel-Red Subarea.

The Mobility and Infrastructure Initiative plan has a funding gap of approximately \$37 million due in part to changes in impact fees, zoning incentive fees, right-of-way dedication revenue, and grant funding. Ms. Hawn said project schedules and costs are being updated by staff in order to more accurately estimate financing costs. She noted the need for Council action in the short term to address critical mobility projects including pre-design work for the 15<sup>th</sup>/16<sup>th</sup> Street corridor, design and engineering for the NE 4<sup>th</sup> Street/120<sup>th</sup> Avenue NE project, ROW acquisition, pre-design for NE 6<sup>th</sup> Street, and acquisition of the Metro site adjacent to City Hall.

Ms. Hawn explained that the long-term strategy for 2010 is to review all financial policies and plans together. Staff would like to engage the Council in early policy discussions in order to structure the 2011-2012 budget process around the Council's priorities. Issues to be addressed during the September 14 Council discussion include priorities for the CIP Plan and Mobility and Infrastructure Initiative, potential changes to CIP financial policies, and CIP maintenance and operations funding.

Councilmember Davidson would like to review all capital budgets and plans together, including the park levy, General CIP Plan, Supplemental CIP Plan, and the Mobility and Infrastructure Initiative plan. He would like to see revenues separately identified (sales tax, B&O tax, REET, property tax) and itemized as to how they will be used. Dr. Davidson reiterated his ongoing

interest in reviewing the practice of providing maintenance and operations funding in the CIP Plan.

Mr. Sarkozy said staff agrees that the consolidation of some elements of the City's capital plans could be beneficial. Council will be asked to provide policy direction in this area, as well as on the M&O funding issue.

Responding to Councilmember Chelminiak, Ms. Hawn confirmed that more grant funding is generally available for transportation projects than in other areas. Mr. Chelminiak said it would be helpful to see a breakdown of CIP spending for the construction of specific projects versus CIP expenditures involving planning activities (e.g., updating Subarea Plans).

Councilmember Lee looks forward to a comprehensive overview of the Operating Budget, CIP Plan, and other capital plans.

Deputy Mayor Balducci said that she found the Transportation CIP quarterly updates provided in the past to be helpful. She suggested considering similar updates on a broader range of CIP projects. Ms. Balducci would like the Council to be involved in determining which projects are time critical and which should be delayed.

Councilmember Bonincontri said she is hesitant to make sweeping changes in long-term capital planning based on short-term economic conditions.

Ms. Hawn recalled that it took the City five years to return to pre-2001 recession levels of sales tax revenues. Mr. Swift explained that, based on staff's analysis, the primary revenue sources would need to grow 20 to 27 percent annually in order to fully fund the existing 2009-2015 CIP Plan. This level of growth has never been experienced by the City.

Councilmember Bonincontri stated that it would be helpful, as the Council prepares to discuss priorities, to have information from Sound Transit, the State, and other agencies/jurisdictions about modifications to their project budgets and schedules. This would enable the Council to evaluate its priorities within the context of the entire region.

Councilmember Creighton concurred with Dr. Davidson's suggestion to review all capital funding together, and with Ms. Balducci's interest in involving the Council in determining the highest near-term priorities.

Responding to Councilmember Chelminiak, Ms. Hawn said Appendices D-1 and D-2 provided at the end of the presentation are staff's suggested revisions to decrease the 2009-2010 CIP Plan budget from \$150 million to \$88 million. She clarified that the 2009-2015 CIP Plan has a revenue shortfall of \$96 million, and the Mobility and Infrastructure Initiative has a shortfall of \$37 million.

(b) East Link Funding Principles

City Manager Steve Sarkozy recalled that Sound Transit has communicated its expectation that the City of Bellevue identify funding sources to finance the increased cost of a downtown tunnel alternative for the East Link light rail system.

Diane Carlson, Director of Intergovernmental Relations, requested Council direction on the Draft Principles for Tunnel Option Funding Contribution [Page SS 2-7 of meeting packet]. The purpose of the funding principles is to set the framework for identifying and evaluating potential local funding resources.

Ms. Carlson reviewed the proposed principles which state that the funding strategy should include the identification of cost savings, value engineering, new funding and revenue opportunities from the federal government and other sources, and local funding from existing and new sources. The draft principles further state that Sound Transit and the region will benefit from the construction of a tunnel through downtown Bellevue, and therefore the region should contribute to the cost.

Ms. Carlson said staff anticipates returning to the Council in September to discuss potential new revenue sources. This would be followed by public outreach in the fall to engage regional leaders and community stakeholders in the process. In December, staff and the Council will discuss the policy trade-offs and revenue potential from new revenue sources. A final discussion will occur in the first quarter of 2010, assuming that Sound Transit reaches its 15-percent design goal for the alignment alternatives.

Councilmember Lee strongly encouraged efforts to identify cost savings. He is not ready to discuss local funding sources without first exploring options that include identifying cost savings in other segment alternatives.

Deputy Mayor Balducci noted that Sound Transit relies heavily on sales tax revenues, which have decreased significantly. She stated her understanding that the City of Seattle contributed to building its downtown tunnel.

With regard to the draft principles, Ms. Balducci suggested splitting paragraph (b) into two paragraphs. She suggested rewording paragraph (e), reasoning that any allocation of existing or future CIP revenue will have an impact on other potential investments by the City.

Responding to Councilmember Davidson, Transportation Director Goran Sparrman stated his understanding that Sound Transit has no plans to study additional alternatives that have not already been identified and reviewed in the draft Environmental Impact Statement (DEIS). However, Sound Transit is obligated to respond in the final EIS to all comments made in the draft EIS.

Councilmember Lee said he is frustrated that Sound Transit is expecting Bellevue to identify funding when the agency is not willing to consider additional cost-saving alternatives for the project.

Councilmember Creighton expressed support for the draft principles related to funding the light rail tunnel.

Mayor Degginger commented on the challenge ahead. He reviewed issues raised by the Council including how to identify tunnel project savings, how to identify alternatives that will reduce costs, how to look for other sources of revenue, and how to encourage regional funding participation based on the benefits of a Bellevue tunnel to the overall light rail system.

Mayor Degginger noted a consensus to proceed with the principles, with the minor revisions suggested by the Council.

3. Council Business [Regular Session Agenda Item 6]

Councilmember Lee attended events for the Sister City delegation from Yao, as well as the Neighbor Link picnic, Bellevue Arts Museum auction, and the Police promotion ceremony.

Councilmember Davidson attended a meeting of the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) Wastewater Agreement Subcommittee. He participated in activities with the Yao delegation and attended the Bellevue Arts Museum auction.

Councilmember Chelminiak attended a meeting of the State Building Codes Council and an event at Children's Hospital.

Councilmember Bonincontri attended the Planning Commission retreat, festivities with the Yao delegation, and the Neighbor Link event outside City Hall.

Councilmember Creighton attended the Bellevue Arts Museum auction and a Yao Sister City event, as well as Seafair activities as a member of the Board of Directors.

Deputy Mayor Balducci attended the Bellevue Arts Museum auction, Neighbor Link event, and Yao delegation welcome luncheon.

Mayor Degginger participated in the Children's Hospital event, Yao delegation dinner, and Neighbor Link event. He attended the Planning Commission retreat and a meeting of the I-405 tolling committee in Renton.

At 8:00 p.m., Mayor Degginger declared recess to the Regular Session.

Myrna L. Basich  
City Clerk

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