

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Extended Study Session

September 8, 2003
6:00 p.m.

Council Chambers/Conference Room
Bellevue, Washington

PRESENT: Mayor Marshall, Deputy Mayor Degginger, and Councilmembers Creighton, Davidson, Lee¹, Mosher, and Noble

ABSENT: None.

1. Executive Session

Councilmember Davidson opened the meeting at 6:00 p.m. and announced recess to Executive Session for approximately one hour to discuss two items of potential litigation.

The Study Session resumed at 7:04 p.m. with Mayor Marshall presiding.

2. Oral Communications

- (a) Wynn Cannon, representing the League of Washington Taxpayers, commented on Council's July 7 vote to formally accept the Mexican Government "Matricula Consular," or Mexican Consulate identification card, as identification at City of Bellevue facilities and in applying for City services. He likened this to an action of amnesty for illegal immigrants in this city and state and asked Council to reconsider the vote. He feels such matters should be addressed by the federal government only. The League of Washington Taxpayers has spoken with more than 150 Bellevue citizens and only two expressed support for Council's action.
- (b) John Camargo, Eastside Latino Leadership Forum, described the Forum's advocacy efforts to provide a network of services for its members. Cecelia Contreras, a Redmond resident and member of the Forum's steering committee, explained that the organization was created by Advance Bellevue. She invited Council and the public to participate in the first Latino-Hispanic Heritage Month celebration. She thanked the City for its support of this event and distributed information about activities scheduled for September 13 and 14.

¹ Mr. Lee arrived at 6:09 p.m.

Mayor Marshall read a proclamation to join President Bush in designating September 5-7 as National Days of Prayer and Remembrance.

Mayor Marshall read a proclamation recognizing September 11 as Patriot Day in Bellevue and directing that the City Hall flag be flown at half-mast on that day.

3. Study Session

(a) Council New Initiatives

No new initiatives were discussed.

(b) Public Hearing on Pre-annexation Zoning and Development Agreement for the Tax Lots

Kate Berens, Legal Planner, explained that this is the second of two required public hearings regarding: 1) a proposal to amend R-1 (single family residential, one unit per acre) zoning to R-1.8 for unincorporated land known as the Tax Lots, and 2) a Development Agreement establishing a limit on the number of lots that may be developed within the Tax Lots and modifying some City development standards. Council action on these issues and on a Notice of Intent to Annex is scheduled for September 15. The first public hearing was held on August 4, 2003.

Ms. Berens said the Development Agreement was revised after August 4 as follows: 1) Specifies that property owners are obligated to maintain roads and utilities between construction and the time of dedication of these facilities to the City, 2) States that modifications to steep slopes could be required in the development of roads that are consistent with City standards, 3) Addresses the resolution of issues related to riparian corridors, and 4) Clearly identifies which steep slopes can be designated as tracts/separate parcels versus those to be designated as easements on individual lots.

- ➡ Deputy Mayor Degginger moved to open the public hearing, and Mr. Mosher seconded the motion.
- ➡ The motion to open the public hearing carried by a vote of 7-0.
- (1) Kerry Wyman expressed support for the Development Agreement and annexation of the Tax Lots.
- (2) Randal Whitmer expressed support for the annexation and development of the Tax Lots.
- (3) Greg Boehme expressed support for development of the Tax Lots as specified in the Development Agreement.
- (4) Phil Robinson, Cougar Mountain Residents Association, commended the City Manager, the City Attorney's Office, and staff for the extensive community outreach on this matter.

He described the Development Agreement as a compromise and as the City's way of making the best of a difficult situation. Mr. Robinson noted the Association is reluctant to support or argue against development of the Tax Lots at this pre-annexation phase. If annexation is approved, the Association expects the City to hold the developer accountable to the Comprehensive Plan, particularly as it applies to lower zoning density, vegetation requirements, traffic mitigation, and building codes. The Association is concerned about traffic infrastructure limitations on SE Cougar Mountain Way and urges City staff to commit to a specific traffic count maximum for this road.

- (5) Jeffrey Busch expressed support for the annexation of the Tax Lots.
- (6) Elizabeth Brown explained her purchase of one of the homes under construction in the Tax Lots. She encouraged the City to allow the developer to connect to utilities so she and her family can move to their new home. Ms. Brown supports the Development Agreement and feels the neighborhood will enhance the Bellevue community.
- (7) Jerry Johnson expressed support for the annexation of the Tax Lots and the Development Agreement. He described the developers as people of integrity.
- (8) Mark Selleck expressed support for the annexation of the Tax Lots and the Development Agreement. He noted he is President of the Pinnacle Homeowners Association, which has not taken an official position on the matter.
- (9) Randy Halter expressed support for the annexation of the Tax Lots and the developer's integrity.
- (10) Bob Johns, attorney for two majority property owners, addressed concerns about park space in the Tax Lots area. The property owners are involved in negotiations with King County to transfer a corner of the property as an addition to Cougar Mountain Park. Mr. Johns said park and recreation space for the development will be submitted during the subdivision process. The property owners will comply with the City's traffic and road standards for the project. Mr. Johns noted concerns about the off-site retained vegetation area (RVA) and potential coal mine hazards. A consultant's study of the RVA indicates the presence of coal mines approximately 1,000 miles below the surface. The mines have not been accessed in 70 to 100 years and have collapsed by now. Mr. Johns acknowledged the presence of coal mines on other parcels within the area, however. He asked Council to approve the Development Agreement, the rezone request, and annexation.
- (11) Steve Elsoe, a Pinnacle resident, expressed support for the Development Agreement.
- (12) Dale Zook expressed support for the Development Agreement.
- ☞ Dr. Davidson moved to close the public hearing, and Mr. Mosher seconded the motion.
- ☞ The motion to close the public hearing carried by a vote of 7-0.

Responding to Mayor Marshall, Ms. Berens said the report about the potential RVA was received last week and is under review by clearing and grading staff. Ms. Berens opined that Mr. Johns' summary of the study is accurate. However, clearing and grading staff will be able to provide a technical summary by next Monday.

Mr. Mosher encouraged a review by Utilities Department staff to ensure there is no liability related to water runoff.

Responding to Mr. Degginger, Ms. Berens said there is no requirement for the developers to provide active recreation space associated with plat development. If they choose to provide such amenities, they will be reviewed through the subdivision process and the Parks Department could impose mitigation as part of their review of the plat.

Responding to Mayor Marshall, Assistant City Attorney Lori Riordan noted current litigation regarding runoff from Coal Creek. She clarified that the creek on the RVA parcel is not Coal Creek but could be a tributary of it. Ms. Riordan concurred with Mr. Mosher's suggestion to ask Utilities staff to review runoff from the creek. Since it is undeveloped property, there should not be artificial surface water running into the creek. Ms. Riordan deferred to Utilities staff to identify the origin of the creek on the RVA parcel. In further response to Mayor Marshall, Ms. Riordan said the RVA property could be annexed into the City if desired.

Deputy Mayor Degginger shares Mayor Marshall's concerns about potential runoff issues. He is also concerned about establishing an RVA at a different site than the proposed development. Mr. Degginger would like to amend the Development Agreement to include a requirement for on-site park development.

- Mr. Mosher moved to amend the Tax Lots Development Agreement to add on-site park provisions, and Mr. Degginger seconded the motion.

Mr. Creighton expressed support for the motion. As a separate issue, he would prefer to have the RVA on the development site as well.

- The motion to amend the Tax Lots Development Agreement to add on-site park provisions carried by a vote of 7-0.

Mayor Marshall requested further Council discussion on the Development Agreement.

- Mr. Mosher moved to modify the Tax Lots Development Agreement to allow the designation of the Retained Vegetation Area either on the development site or at another site. Mr. Creighton seconded the motion.

Mr. Noble expressed concern about setting a precedent by allowing an off-site RVA. However, he is willing to approve it in this unusual situation.

Mr. Creighton concurred with Mr. Noble and expressed support for the motion. He noted that a portion of the RVA is planned to be on site under the proposed Development Agreement.

Dr. Davidson suggested that approval of the motion will necessitate additional negotiation of the Development Agreement. Responding to Mayor Marshall, Planning and Community Development Director Matt Terry said staff will attempt to resolve Council's issues with the developers by next Monday night, if so directed by Council. If issues associated with the proposed RVA site cannot be resolved by Monday, staff will seek to negotiate language providing assurances regarding the acquisition of an alternate RVA site.

Mr. Degginger emphasized that the RVA should be an asset rather than a liability for the City. He looks forward to reviewing additional information about the proposed RVA site.

Mr. Noble noted that the intent of designating a RVA is to provide an environmental enhancement in association with a development. Therefore he feels the RVA should be on or closer to the development site.

- ➡ The motion to modify the Tax Lots Development Agreement to allow the designation of the Retained Vegetation Area either on the development site or at another site carried by a vote of 7-0.

Mayor Marshall thanked residents for their interest in this matter and for taking the time to learn about and comment on the issues.

At 8:05 p.m., Mrs. Marshall declared recess to relocate to the Council Conference Room. The meeting resumed at 8:12 p.m. Mrs. Marshall noted a change in the agenda to address item (d) next.

- (d) Report on Operations and Financial Performance of Meydenbauer Convention Center

City Manager Steve Sarkozy opened the discussion about Meydenbauer Convention Center's first 10 years of operation.

Clare Nordquist, Chair of the Bellevue Convention Center Authority (BCCA) Board of Directors, introduced the Board members in attendance: Vice Chair Roger Anderson, Bob Wallace, George Northcroft, Sue Baugh, and Leslie Lloyd. He noted Don Prather was unable to attend. Mr. Nordquist introduced the following staff: Stacy Graven, Executive Director; Mylor Treneer, Director of Operations; John Marchione, Director of Finance and Human Resources; Tim Carr, Director of Guest Services; and Sharon Linton, Communications Manager.

Mr. Nordquist reviewed that Meydenbauer Convention Center is funded in part by transient occupancy tax (TOT) revenues, also called the hotel/motel tax. He praised staff for their management and financial stewardship and noted a significant increase in the usage of the Theatre at Meydenbauer.

Ms. Graven noted that Meydenbauer Center will celebrate its 10th anniversary on September 13, 2003. She explained that the presentation will review the Center's performance in comparison to initial projections established prior to construction of the facility, regional peers, and national

peers of a similar size. She said convention centers are a strong economic development tool that generate great economic benefit for their communities.

Mr. Marchione reviewed the BCCA finance model established by the City in the late 1980s and approved when the City Council decided to build Meydenbauer Center. The model is designed to protect the City's General Fund and has proven successful even in slow economic times. The Center is financially self-sufficient through the use of operating revenues, TOT revenues, and financial reserves.

To demonstrate the strong performance of Meydenbauer Center, Mr. Marchione reviewed actual performance compared to original forecasts developed in 1991. He noted four feasibility studies conducted in the late 1980s and early 1990s, which were compiled as part of the Center's bond rating process. The studies assumed the Center would open in 1993 and achieve stability by 1998. Turning to statistics for 1998, Mr. Marchione said the Center's actual performance exceeded expectations with 10 more economic events and 197 more community events than originally projected. Actual attendance in 1998 reflected 40,000 more attendees to economic events and 106,000 more attendees to community events than estimated.

Mr. Marchione said another method of evaluating utilization of the Center is to compare the totals for the first nine years of operation. From 1994 to 2002, most categories of the Center's business (conventions, trade shows, meetings, events) exceeded the forecast except for consumer shows. He noted that consumer shows are the least desirable category of business because they do not generate TOT revenue. The Center's utilization over the nine years was nearly three times better than expected. There were 1,726 more local/community events and 949,836 more local/community attendees than forecasted during the Center's first nine years of operation.

Mr. Marchione noted that 2002 theatre operations exceeded the forecast in terms of the number of performances, the number of attendees, and revenues generated. Meydenbauer is one of the few convention centers in the country with a theatre. The theatre's annual financial impact to the BCCA is approximately \$1.2 million.

Turning to Meydenbauer Convention Center's financial performance, Mr. Marchione explained that the coverage ratio divides revenues by expenses as a measure of operational efficiency. Food and beverage efficiency is measured by traditional profit margin calculations. Operating revenues have exceeded the forecast every year, even in the recession years of 2000 through 2002. Similarly, operating expenses have exceeded the forecast every year and are supported by the additional revenue generated through the Center's activities. Actual coverage ratios have exceeded the forecast every year, and Meydenbauer consistently exceeded the national average. Food and beverage revenues, which represent the largest profit center for Meydenbauer, exceeded expectations by more than double forecasted levels between 1994 and 2002. Mr. Marchione attributed the Center's success to greater community use than anticipated and operational efficiencies.

Mr. Marchione reviewed TOT revenues from 1992 to 2002, noting that revenues fell below forecasted levels in every year except 1992. He attributed the shortfall in TOT revenues to the lack of hotel rooms in Downtown Bellevue. The original forecast assumed new 400-room hotels

in 1994, 1996, and 1999. However, the hotels have not been built. During the past five years, 730 hotel rooms were added in Bellevue but all are located outside of the downtown core.

Mr. Marchione explained that conventions generate the greatest level of economic impact compared to the other five categories (trade shows, consumer shows, meetings, events, and banquets). Economic impact began to decrease in 2000 as the number of conventions decreased, due in part to a shortage of hotel rooms and higher hotel rates. Meydenbauer Center has generated \$174 million in economic impact for the local community since 1994 and added more than \$500,000 per year to the sales tax base.

Mr. Treneer discussed the Center's performance in comparison to the following regional convention centers: Seattle, Portland, Spokane, Boise, and Yakima. Meydenbauer Center is a leader in terms of coverage ratio, net food and beverage revenue per square foot, and event services revenue per square foot. Mr. Treneer compared the Center's performance to the following successful national convention centers: Atlanta, San Francisco, Dallas, Cincinnati, and Los Angeles. Meydenbauer is again a leader in coverage ratio and the generation of revenue per square foot.

Ms. Graven described Meydenbauer's history through four distinct eras:

1992-1994	Meydenbauer opening
1995-1997	The Honeymoon
1998-2000	Dot-Com boom
2001-2002	Dot-Gone and September 11, 2001

During the first three years of operation, hotel rates were low and hotel occupancy was typically below 70 percent. Meydenbauer was the first convention center in the region for the small state association market in more than 15 years. The Center hosted 32 conventions in its first full year of operation. Hotel rates, hotel occupancy, and TOT revenues increased in 1994.

Ms. Graven explained that the local economy experienced rapid growth from 1995 to 1997. Hotel rates increased more than 25 percent, occupancy hovered around 80 percent, and TOT revenues increased 24 percent during this period. Meydenbauer Center averaged 25 conventions per year and established a strong base of repeat conventions.

The local economy continued to be strong from 1998 to 2000, and hotel occupancy stabilized as room rates continued to increase. Overall TOT collections had doubled since the opening of the center in 1993, despite no new supply of hotel rooms in downtown Bellevue. Ms. Graven noted a 25 percent increase in local meeting space with the addition of Bell Harbor Conference Center, Microsoft Conference Center, and the Stadium Exhibition Center. Convention bookings declined during the dot-com period due to high hotel rates and insufficient availability of rooms. However, Meydenbauer Center increased its revenues and achieved a coverage ratio of 85 percent.

Ms. Graven recalled that the economy began to slow in 2001, and the terrorist attacks of September 11, 2001, had a significant negative impact on the hospitality industry. Hotel

occupancy rates and TOT collections declined during this period. The expansion of the convention center in Seattle and the opening of the Grand Hyatt Hotel presented increased competition for Meydenbauer Center's market. Ms. Graven said the Center's attendance and per capita spending declined immediately following September 11 and continued through 2002. During this time Meydenbauer Center assumed responsibility for convention marketing, which had previously been conducted by the former convention and visitors bureau. Event volumes have remained fairly stable since 2001, although attendance and spending declined. Ms. Graven said the Center's performance is beginning to show an upward trend this year, however. She reviewed a graph demonstrating how increases in hotel room rates correlate to decreases in convention business.

Mr. Treneer described current and future developments in the regional convention market. Since 1999, at least eight regional jurisdictions have initiated the construction or expansion of convention/special event facilities. Five expansions will be completed by 2006, and three new facilities will open by 2005. The Washington State Convention and Trade Center in Seattle completed a major expansion in 2002, and the Oregon Convention Center completed an expansion this year. Boise will complete an expansion in 2005, and Spokane will add 100,000 square feet of exhibition space and a 30,000 square foot ballroom by 2006. The following three new facilities will open by 2005: Tacoma Convention Center, Everett Events Center, and Lynnwood Conference Center.

Mr. Treneer explained that Washington state jurisdictions no longer must rely only on single jurisdiction TOT revenues to build, expand, operate, maintain, and market convention and event facilities. He reviewed a table showing multiple revenue sources for the new and expanded regional centers. Meydenbauer Center is the only center relying on single jurisdiction TOT collections.

The expansion of the Washington State Convention and Trade Center was funded in part by a \$7.5 million contribution from the City of Seattle and a commitment from Seattle to contribute two percent of its TOT revenues to the center. The City of Seattle leased Freeway Park Garage to the center at a favorable rate as well.

Tacoma Convention Center is funded through multiple sources including TOT revenues from Tacoma, Lakewood, Puyallup, and Fife. The general sales tax (GST) credit will be applied in Tacoma, Lakewood, University Place, and Fife. Net revenues of the citywide Tacoma municipal parking system have been pledged to the convention center, and the City of Tacoma will manage and operate the facility.

Spokane's convention center is supported by city and county GST rebates and county TOT collections. The city transferred ownership of the Spokane center to the newly restructured Spokane Public Facilities District in order to allow arena revenues to support the new convention center. The City of Spokane retains responsibility for the outstanding capital improvement debt associated with the center. County voters approved an extension of an arena general sales tax that was originally initiated in 1991.

Lynnwood Conference Center is funded as follows: non-operating revenue from county GST (35 percent), non-operating revenue from local 2 percent TOT (33 percent), and non-operating revenue from levies on Alderwood Mall retailers (32 percent). Everett Events Center will receive 32 percent of non-operating revenue from the city GST, and 9 percent of non-operating revenue will come from the county 2 percent TOT. The City of Everett provided a favorable ground lease on a previously purchased \$13 million site.

Mr. Treneer reiterated that Meydenbauer Center is the only facility whose public funds are generated by single jurisdiction TOT collections. This funding source supports current debt service, operating deficit, theatre operating deficit, capital replacement, marketing funding, and future expansion.

Ms. Graven summarized that convention centers produce economic impact through direct spending in the community as well as fiscal benefits through increased tax receipts. She noted an economic benefit of \$2.4 million (economic impact and tax receipts to City) in Meydenbauer Center's nine-year history of operation. In addition, the Center has generated nearly \$2 million in tax benefits for King County. Overall, Meydenbauer Center has contributed an average of more than \$500,000 annually to the local tax base.

Mr. Wallace praised Meydenbauer and City staff for their management and oversight and commented on the importance of the Center in terms of the overall local economy. He said the Center is updating its feasibility studies, revising cost estimates for expansion, updating TOT projections, and evaluating options for financing the expansion.

Mayor Marshall thanked Meydenbauer representatives for the thorough presentation.

Responding to Mr. Mosher, Ms. Graven said Meydenbauer staff meet with local hoteliers on a monthly basis to evaluate business. Meydenbauer's three sales staff members are working aggressively to generate new business.

Dr. Davidson said he is pleased with the strong performance of Meydenbauer Center. Mr. Noble concurred and thanked the Meydenbauer Board and staff for their excellent management and oversight. Councilmembers expressed support for the Center/Theatre's ongoing role as a cultural asset and public meeting space.

(c) Consideration of a Ride-Free Transit Zone in Downtown Bellevue

Bernard van de Kamp, Transportation Regional Projects Manager, opened a presentation of King County Metro's analysis regarding the feasibility of a ride free transit zone in Bellevue. The Analysis of Potential Ride Free Areas report was completed in July 2003, and the Regional Transit Committee is reviewing the report. Councilmember Lee testified before the RTC in July regarding the City's interests related to a ride free area. The RTC will meet again on September 17 to hear from jurisdictions identified as potential candidates for expansion of the ride-free program. Mr. van de Kamp introduced Raj Cheriell, Chuck Sawyer, and Diane Harper from King County Metro to provide the presentation.

Mr. Cheriell noted that the Six-Year Transit Development Plan 2002-2007 directed King County Metro to identify the issues associated with the implementation of additional ride free areas. The analysis was focused on extending Seattle's existing ride free area; establishing a ride free area in another urban Seattle neighborhood such as Ballard, Capitol Hill, or the University District; and establishing one or more ride free areas in other cities.

Mr. Cheriell explained that Seattle's ride free area was initiated in 1973 and originally was in effect 24 hours a day. The ride free area is now in effect from 6:00 a.m. to 7:00 p.m. due to security concerns. The City of Seattle's 2002 payment to Metro for the service was \$325,500. The original objectives of the program were to: 1) increase the operational efficiency of buses through downtown Seattle, 2) enhance mobility and encourage transit use, 3) reduce auto traffic and air pollution, and 4) enhance retail activity.

In Seattle, customers boarding the bus outside of the ride free area and traveling to downtown pay as they board. Customers boarding downtown do not pay until they exit, and they only pay if their destination is outside of the ride free area. Mr. Cheriell noted the issue of how to collect fares from riders who board the bus in one ride free area and leave the bus in another ride free area. Metro has analyzed several options and a workable solution has not yet been identified.

Mr. Cheriell said the implementation of a ride free area in Bellevue would result in an annual revenue loss of \$53,000 to \$77,000. Additional factors include start-up and ongoing costs, increased complexity in the fare structure, the potential for Sound Transit to restructure its service, and neighborhood parking impacts. Mr. Cheriell said the study identified the following alternatives to a ride free area: bike/walk incentives, token/ticket programs, FlexPass variations, Flexcar, bike share, public parking garages, and a shuttle/circulator.

Councilmember Mosher expressed an interest in a comparative analysis of the ride free area and circulator options. Ms. Harper explained that nine Metro routes operate all day in Downtown Bellevue, as well as additional commuter, peak-period routes. Trips on routes serving the downtown have increased by 28 percent since 2000. Ms. Harper noted Bellevue's previous study of a circulator option, which estimated the cost at approximately \$500,000 annually. Metro has increased Bellevue bus service in an attempt to meet the community's needs without implementing a circulator service. Bellevue has tried a downtown circulator twice before and served 50 to 80 riders per day, most of which occurred during the lunch hour. A follow-up survey indicated a preference by people to walk in downtown Bellevue due to its compact size. Mr. Mosher suggested service could be improved by increasing the frequency of bus service in key areas.

Responding to Dr. Davidson, Ms. Harper said downtown Seattle's layout is more conducive to a ride free area as buses tend to run north and south. She noted that Main Street in Bellevue ends west of the downtown, which creates problems for bus routes. The most popular local destination is Bellevue Square.

Mr. Creighton feels a circulator could help move people from the Transit Center to key activity centers within the community. He worked in downtown Seattle when the ride free area was implemented in the 1970s and recalled that a developer helped fund expansion of the ride free

area to the north to encompass his development project. He suggested that future technology might help solve the problem of collecting fares for those traveling between two non-adjacent ride free areas.

Mr. Lee questioned the survey indicating that people prefer to walk in downtown Bellevue. He feels people would prefer to take the bus and that a workable ride free area could be designed for Bellevue.

Mayor Marshall said Seattle appears to be paying one-fourth to one-third of the cost of operating a ride free zone. She questioned the cost estimate for Bellevue, which reflects the full cost of operating a ride free zone. She feels consistent rules should be applied to every jurisdiction. Mrs. Marshall suggested that previous Metro survey data might no longer be relevant with Bellevue's significant increase in downtown residential units and employment. She would like City and Metro staff to continue exploring alternatives for implementing ride free areas in cities other than Seattle.

Deputy Mayor Degginger noted that the Eastside represents one-third of the county's population but receives approximately 17 percent of Metro's transit service, and is therefore subsidizing service for other areas. As the second largest employment center in the county with a strong retail core, Bellevue continues to need expanded transit service. Mr. Mosher concurred and reiterated his interest in improving bus service frequency.

Dr. Davidson observed that the cities and neighborhoods studied as potential ride free areas are very different from each other and from downtown Seattle. He encouraged a more innovative approach to address service needs based on the unique character of each area.

- At 9:59 p.m., Mr. Degginger moved to extend the meeting to 10:30 p.m., and Mr. Mosher seconded the motion.
- The motion to extend the meeting to 10:30 p.m. carried by a vote of 7-0.

Mayor Marshall thanked King County Metro staff for their analysis and presentation. She emphasized Council's strong interest in continuing to explore innovative options for establishing a ride free area in Bellevue and for utilizing consistent rules and cost estimates for such a service in other cities as those applied in Seattle.

(e) Development Services Improvement (DSI) Final Financial Policies

Mr. Sarkozy recalled Council's September 2 discussion regarding proposed financial policies under the Development Services Improvement (DSI) initiative.

Mike Brennan, Building Official, reviewed the goals of the proposed financial policies:

- Manage Development Services as a single line of business.
- Establish consistent cost recovery objectives based on functional areas.
- Redistribute central administrative costs equitably among the functional areas.

- Establish a Development Services-wide reserve fund to cover all functions.

The proposed changes to the fee structure affect the following divisions/departments using hourly rates: Land Use, Transportation, Utilities, and Fire. They do not affect building review and inspection rates.

Jocelyn Mathiasen, Assistant to the City Manager, reviewed the three main recommendations regarding Development Services' fiscal policies and fee structure:

1. Adopt a simplified rate model that sets cost recovery objectives based on function and enhances consistency across departments.
2. Reallocate centralized administrative support costs for a more equitable distribution across functions.
3. Establish a Development Services-wide reserve and work load strategy.

Ms. Mathiasen referenced page 3-93 of the Council packet and described three possible scenarios for funding the Development Services-wide reserve. The first scenario does not impose a fee surcharge on hourly fees (based on previous Council direction), and reserves are funded through General Fund savings to be achieved by implementing the first two recommendations. This scenario reaches the desired reserve level of \$550,000 within 19 months.

The second scenario for funding the reserve includes a fee surcharge for Fire, Transportation, and Utilities and the use of General Fund savings from 2004 only. The fee surcharge would be \$1 per hour for Fire and \$2 per hour for Transportation and Utilities. Under this scenario, the \$550,000 reserve would be achieved within 33 months.

The third scenario does not use General Fund savings and imposes a higher fee surcharge (\$2 per hour for Fire and \$4 per hour for Transportation and Utilities). This reaches the \$550,000 level within 47 months.

Ms. Mathiasen requested Council direction on the proposed Development Services financial policy changes and the preferred scenario for reserve funding.

Responding to Mr. Noble, Ms. Mathiasen said any future use of the reserve funds will trigger the development of a corrective action plan, which would address how the funds are to be restored. In further response, she said the desired time line for funding the reserve is essentially a function of Council's risk tolerance for having the funds available.

Responding to Mr. Lee, staff commented on the underlying objective of the proposed financial policies to manage Development Services as a line of business.

Mr. Creighton questioned the flow of money that comes into the City from a large commercial development project. Mr. Brennan said the money generally first goes into the Development Services fund to cover operating costs. The City charges developers at the beginning of a project and therefore has an obligation to be able to provide the needed services throughout the construction phase.

Mr. Creighton expressed a preference for funding the reserve without implementing a fee surcharge. Mr. Mosher concurred.

Dr. Davidson expressed concern with the increased fees reflected in the proposed fee structure. He noted some fees are increasing by as much as 50 percent.

Deputy Mayor Degginger, who served as Chair of the Construction Codes Advisory Committee for nearly three years, said developers and contractors are less concerned with fee levels and more interested in timeliness and predictability. Industry professionals repeatedly said they will gladly pay more in fees to achieve faster service from the City. Some were even willing to subsidize the salaries of City staff if that would speed up the delivery of services.

- Deputy Mayor Degginger moved to approve staff's three overall recommendations regarding Development Services' fiscal policies and to approve reserve funding alternative 2 with a fee surcharge of \$1 to \$2, the use of General Fund savings in 2004 only, and achieving the \$550,000 reserve target within 33 months. Mayor Marshall seconded the motion.

Responding to Dr. Davidson, Ms. Mathiasen said staff's estimated fee increases for individual permit types is based on the assumption that it will take the same amount of time as it does now to process permits. However, processing times and total project fees (based on hourly rates) are actually expected to decrease with the process improvements that have been implemented through the DSI initiative. Ms. Mathiasen confirmed staff's understanding of Dr. Davidson's concern for improving overall efficiency.

- At 10:34 p.m., Mr. Degginger moved to extend the meeting to 11:00 p.m., and Mr. Mosher seconded the motion.

- The motion to extend the meeting to 11:00 p.m. carried by a vote of 7-0.

Mr. Noble expressed support for the full cost recovery objective. He feels people should pay for the services they receive. He supports the proposed fees as long as they are in line with neighboring jurisdictions.

Mr. Lee supports the main three policy recommendations, but prefers reserve funding alternative 3 utilizing higher fee surcharges and not using the General Fund savings achieved by the policies.

- The motion to approve staff's three overall recommendations regarding Development Services' fiscal policies and to approve reserve funding alternative 2 with a fee surcharge of \$1 to \$2, the use of General Fund savings in 2004 only, and achieving the \$550,000 reserve target within 33 months, carried by a vote of 5-2, with Mr. Creighton and Dr. Davidson dissenting.

(f) Puget Sound Energy Gas Franchise Renewal

- Mr. Noble moved to direct staff to bring the resolution extending the existing Puget Sound Energy natural gas franchise until November 3, 2003 back to Council on September 15, 2003 for final action. Mr. Mosher seconded the motion.
- The motion to direct staff to bring the resolution extending the existing Puget Sound Energy natural gas franchise until November 3, 2003 back to Council on September 15, 2003 for final action carried by a vote of 7-0.

(g) Ordinance No. 5465 authorizing revision of the City's Debt Policy.

- Mr. Noble moved to adopt Ordinance No. 5465, and Mr. Mosher seconded the motion.

Responding to Mr. Degginger, Finance Director Jan Hawn said the ordinance will expand the parameters by which the City evaluates the refinancing of existing City debt to achieve savings. Potential savings to be achieved by refinancing two outstanding bond issues are estimated at \$400,000.

- The motion to adopt Ordinance No. 5465 carried by a vote of 7-0.

At 10:45 p.m., Mayor Marshall declared the meeting adjourned.

Myrna L. Basich
City Clerk

kaw