

CITY OF BELLEVUE  
CITY COUNCIL

Summary Minutes of Extended Study Session

October 13, 2008  
6:00 p.m.

Council Conference Room  
Bellevue, Washington

PRESENT: Mayor Degginger and Councilmembers Bonincontri, Chelminiak, Davidson, Lee, and Noble

ABSENT: Deputy Mayor Balducci

1. Executive Session

Councilmember Chelminiak called the meeting to order at 6:00 p.m. and announced recess to Executive Session for approximately 20 minutes to discuss one matter of potential litigation and one item of property acquisition.

The meeting resumed at 6:24 p.m., with Mayor Degginger presiding.

2. Oral Communications

- (a) Todd Woosley, Hal Woosley Properties, noted that the company owns four buildings in the Bel-Red corridor. He thanked the Council, City staff, and the Bel-Red Steering Committee for their work on this project. He shared concerns related to redevelopment including the impact on existing businesses and keeping development costs as low as possible. He understands the need for growth to help fund infrastructure investments, and encourages broad-based funding sources as well for infrastructure projects that will serve the overall community. Mr. Woosley expressed concern regarding the proposed \$50 million LID (Local Investment District), which he described as a new tax on existing small businesses within the corridor. He suggested the City aggressively pursue funding from the Washington State Department of Transportation for expanding capacity on SR 520 as well as from Sound Transit to acquire right-of-way for future light rail service.
- (b) Heather Trescases, Executive Director of the Eastside Heritage Center, reported that October is Archives Month in Washington state. She invited Council and the public to the Center's monthly heritage series program on Thursday, October 16, in City Hall, which will cover the history of the Bellevue Police Department.

- (c) Eric Nickols, Nickols Realty LLC, noted that his company manages several properties totaling 175,000 square feet within the Bel-Red corridor. He expressed concern regarding the impact of future redevelopment on existing businesses. He questioned whether development outside of the designated activity nodes will be subject to LID taxes, even though they will not be allowed the same level of development intensity as those within the nodes.
- (d) Will Knedlik, speaking on behalf of Eastside Rail Now, reported that the State-appointed expert review panel on Sound Transit held its last meeting. The panel's report recommends funding an Eastside light rail tunnel solely through taxes collected from Bellevue taxpayers. Mr. Knedlik provided his comments in writing as well. He expressed concern regarding lobbying by a Sound Transit citizen oversight panel to end subarea equity. Eastside Rail Now is concerned that Seattle has received a light rail tunnel that was in part funded by Eastside taxpayers.
- (e) Jerry Lutz, Perkins Coie, spoke on behalf of Best Buy about Agenda Item 3(c) dealing with capital projects funding. He expressed concern that the City's current plan for extending NE 4<sup>th</sup> Street from downtown to the east aligns the road through the Best Buy property. Mr. Lutz clarified that Best Buy does not support the City's current project plan.
- (f) Bob Landucci, representing BelGreen Developments, owners of the Angelo Nursery Site, recalled previous testimony before the City Council regarding their concerns about the potential unintended consequences of the underground parking incentive proposed by the City for development in the Bel-Red corridor. He distributed a handout comparing the differences in buildings capped at 70 feet based on the usage of underground versus above-ground parking.
- (g) Bob Sternoff, owner of two properties in the Bel-Red corridor, asked the Council to consider allowing increased building heights of at least three stories. Being allowed to develop a project of greater density would provide more incentive for the property owners to complete the project.

### 3. Study Session

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

City Manager Steve Sarkozy noted the untimely death of former Bellevue School District Superintendent Mike Riley, and suggested preparing a commendation for next week's City Council meeting.

Councilmember Lee praised Dr. Riley's contributions to the school system including the expansion of Advanced Placement courses.

(b) Bel-Red Subarea Plan

Dan Stroh, Planning Director, noted the Council's ongoing discussion regarding the draft zoning incentive system proposed for the Bel-Red Subarea redevelopment plan. He recalled the previous week's presentation of the technical recommendations and conclusions of the Urban Land Institute (ULI) technical assistance panel. Mr. Stroh briefly reviewed the response to the ULI recommendations from the City's consultant, Property Counselors.

Mr. Stroh reviewed staff's position regarding the non-technical recommendations of the ULI panel. Staff is in agreement with the ULI panel in a number of areas including a base FAR (floor-area ratio) of 1.0, waiving certain incentive fees for affordable housing, considering transportation impact fees when balancing total incentive fees, and the basic framework regarding building bulk and scale.

Mr. Stroh said staff was not in full agreement with the following non-technical recommendations by the ULI panel to: 1) Not apply FAR limit for residential, 2) Add underground parking to incentive list, 3) Eliminate phasing, 4) Apply lot coverage and setback modifications when a property owner conveys land for right-of-way or other public use, 5) Not impose floor plate restrictions up to 100 feet of building height, and 6) Expedite entitlement and construction activities for projects utilizing the bonus system.

Mr. Stroh reviewed potential FAR levels and building heights for commercial and residential development inside the nodes, incorporating the ULI recommendations. FAR levels outside of the nodes would be lower, and residential uses are favored. There are Commercial-Residential (CR) districts outside of the nodes for mixed-use development. Mr. Stroh noted Office-Residential-Transition (ORT) zoning for the south side of Bel-Red Road, to provide a transition toward residential development to the south.

Mr. Stroh responded to questions of clarification.

He noted that areas outside of the designated nodes will be slower to develop, raising the issue of what will happen with these areas in the interim. The development of some districts outside of the nodes (approximately half of the area) is proposed at a maximum FAR of 1.0 with no bonus system. Existing uses are expected to continue in these areas until redevelopment occurs, and some of these uses will be retained along with redevelopment.

Mr. Stroh reviewed a table of bonus rates for Tier 1 and Tier 2 incentives. The rates are calculated by taking the cost of providing an amenity per square foot and dividing that by the \$15 value per square foot of additional development. For example, a cost of \$85 per square foot of park development divided by \$15 per square foot of additional development results in a 5.67 bonus rate (5.67 square feet of additional development is earned). Mr. Stroh reviewed additional examples of developments and how the bonus rates would be applied.

Mr. Stroh summarized that developer contributions are a critical part of funding the amenities and infrastructure needed to support the Bel-Red redevelopment plan. A number of the ULI

panel's recommendations have been incorporated to refine the financial model. The \$15 per square foot rate for the FAR bonus was recommended by the ULI panel and is supported by Property Counselors' model.

Mr. Stroh discussed the importance of parking assumptions in determining transportation mode splits and the return on investment for developers. The cost of parking facilities is relatively low for surface parking but considerably higher for structured parking, and more so for underground parking than for above-ground structures. The developer's return on investment for office buildings is higher when fewer parking spaces are provided. Lower parking ratios are consistent with the mixed-use, transit-oriented vision for the Bel-Red corridor as well. Early development might utilize surface parking, which might later convert to building development.

Responding to Dr. Davidson, Mr. Stroh described how different land uses will have different parking demands.

Responding to Mayor Degginger, Mr. Stroh explained that the market will determine what land uses and parking facilities make sense. The regulatory framework will be within what is dictated by the market.

Responding to Councilmember Lee, Mr. Stroh said staff is concerned about the ULI recommendation to not impose any FAR limit on residential development because it could result in more density than envisioned. Density is currently regulated outside of the downtown by limiting the number of units per acre.

Responding to Councilmember Bonincontri, Mr. Stroh said the City's bonus system was adopted for downtown development in 1981. Many of the guidelines have produced the type of development intended, while others have not necessarily resulted in the desired outcome. The current bonus system has evolved over the years and reflects market demands.

Mr. Stroh responded to additional questions of clarification.

Mr. Sarkozy noted that Council's decisions regarding the finance plan and incentive approach for development in the Bel-Red corridor is closely related to the next topic of long-range capital planning.

At 7:50 p.m., Mayor Degginger declared a five-minute break. The meeting resumed at 7:58 p.m.

(c) Long-Range Capital Projects and Funding Strategy

Mr. Sarkozy recalled the Council's ongoing process of addressing long-range capital project needs and funding strategies. Surveys of residents indicate an increasing concern regarding traffic and the transportation system, including transit services.

Responding to Councilmember Davidson, Mr. Sarkozy said a finance plan for capital investments in the Bel-Red area will be considered as a discrete package of mechanisms that are

separate from the overall Budget and Capital Investment Program (CIP) plan for the City as a whole.

Mayor Degginger confirmed that the current effort will integrate and coordinate funding for the Budget, CIP Plan, and Bel-Red Plan.

Councilmember Lee noted his strong advocacy for initiating the long-range capital planning effort. Acknowledging that transportation needs are critical, Mr. Lee wants to ensure that other capital needs are addressed as well.

Finance Director Jan Hawn commented on current economic conditions and the uncertainty of how this might affect the municipal bond market and continued development within the community. However, staff feels it is important to establish a funding strategy and finance plan that will be ready for implementation when the economy and bond market improves.

Planning and Community Development Director Matt Terry recalled the Council's June budget retreat, at which time it was acknowledged that no new money is available for capital investment in the current 2009-2015 CIP Plan. Recent growth and planned growth in the Downtown and Bel-Red areas will place increasing demands on the transportation system. During the retreat, Council and staff identified a variety of preliminary near-term capital investments to address immediate needs, as well as a potential funding scenario.

Mr. Terry briefly reviewed the projects identified as top priorities during the June budget retreat. Discussion of a funding strategy was introduced at the retreat but did not reach any conclusions, and a funding gap of \$31 million was left unresolved at the end of the meeting. In addition, the funding strategy that was briefly discussed assumed potential reductions in the CIP Plan that were not fully endorsed by the Council.

During the June retreat, staff received two assignments from the Council to: 1) Review transportation projects, quantify their benefits, and consider the consequences of not doing particular projects, and 2) Conduct further work on how to fund a significantly enhanced capital package. Mr. Terry explained that staff has refined the project list and cost estimates. This results in an increase in capital project costs from \$304 million to \$381 million, not including financing or borrowing costs. Modeling has been conducted to demonstrate projects and develop a financial framework. Public outreach has been initiated as well. Mr. Terry briefly presented a list of the revised project costs.

Transportation Director Goran Sparrman spoke about the significant challenge of improving mobility in Bellevue within the context of land use and growth issues, near-term transportation issues, the long-term transportation outlook, and recommended actions for the updated CIP Plan. He reviewed the numerous planning efforts and capital investments by the City to develop its transportation system. This is based on commercial and residential growth targets to add 40,000 new jobs and 10,117 housing units between 2002 and 2022 .

Mr. Sparrman reviewed the impact of regional trips to Bellevue's three major employment areas: 1) Downtown, 2) Factoria/Eastgate, and 3) Overlake/Crossroads. Significant growth is expected to continue through 2040, placing greater demand on the transportation system, particularly during the morning and evening peak hours.

Mr. Sparrman explained that concurrency is a tool required by the state Growth Management Act (GMA) to balance land development with funded transportation capacity projects. It begins with an analysis of existing conditions and monitors volume-capacity ratios and the level of service (LOS) on an ongoing basis. Currently all mobility management areas (MMAs) within Bellevue meet LOS standards and reflect reserve capacities ranging from 4 percent to 35 percent, with a reserve capacity of 23 percent in the downtown. Reserve capacity will continue in the near term, but concurrency will become more of a challenge over the long term.

Mr. Sparrman reviewed the package of transit services, general purpose improvements, and regional improvements to address near-term mobility demands. Regional projects include the addition of lanes on I-405 and improvements to both SR 520 and I-90. Longer-term improvements encompass projects identified through Subarea Plan updates, continued regional improvements, and the expansion of transit services. He presented a map of Wilburton and Bel-Red transportation projects, which will improve traffic conditions in those areas as well as for the overall transportation system.

Mr. Sparrman reviewed the recommended new capacity priority projects: 1) NE 4<sup>th</sup> Street extension, 2) 120<sup>th</sup> Avenue NE, 3) NE 15<sup>th</sup>/16<sup>th</sup> Avenues in Bel-Red area, 4) 124<sup>th</sup> Avenue NE, and the NE 6<sup>th</sup> Street extension. The estimated cost of these projects is \$296 million. Mr. Sparrman reviewed the anticipated LOS effect of the projects through 2020.

Additional key CIP priorities are the extension of NE 2<sup>nd</sup> Street, the use of Intelligent Transportation Systems (ITS), implementation of a Downtown Circulator, and implementation of the updated Pedestrian and Bicycle Transportation Plan. The current cost estimate for the Downtown Circulator is \$3.8 million for a five-year program and a fare-free service.

Responding to Councilmember Davidson, Mr. Sparrman explained that mobility strategies will need to be tailored to different transportation corridors. Some areas are more conducive to transit improvements and some will involve general capacity improvements.

Responding to Councilmember Noble, Mr. Sparrman confirmed that the Downtown Implementation Plan (DIP) assumed an increase in transit mode split and reducing single-occupancy vehicle (SOV) trips. Transit service assumptions reflected in the last DIP update have not been implemented by King County Metro and Sound Transit, however.

Responding to Mr. Lee, Mr. Sparrman said staff is preparing for a more detailed discussion with the Council on ITS and technology-related strategies for enhancing mobility at a relatively low cost as compared to capital investments. Mr. Sparrman distributed copies of the ITS Master Plan Executive Summary to the Council.

Mr. Terry continued with a discussion of the funding strategy for capital investments. He noted that dollar amounts to be presented by staff are based on Council direction to complete CIP projects within a seven-year period. He reviewed the five baseline revenues: 1) New Bel-Red taxes, 2) Grants, 3) Right-of-way dedication, 4) Storm drainage fees, and 5) Incentive zoning fees. It is estimated that Bel-Red development will generate net new tax revenue of \$22 million by 2015. Under current City policy, approximately 40 percent would be directed to the capital budget.

Denny Vidmar, Utilities Director, explained that the City has historically funded storm drainage improvements through citywide fees. However, area-specific rate surcharges have been used to facilitate development and redevelopment in some areas, including to fund the west Central Business District (CBD) storm drainage trunk line. Mr. Vidmar said that the estimated cost for partial implementation of the Bel-Red streams restoration plan is \$10 million. The plan could be funded through a citywide rate increase (0.8 percent per year for seven years), Bel-Red rate increase only (8.5 percent per year for seven years), or a combination of the two. Mr. Vidmar noted that public water and wastewater investments for the Bel-Red area will be needed as well.

Mr. Terry described incentive zoning principles for the Bel-Red area, with Tier 1 incentives focused on open space acquisition, stream enhancement, and affordable housing. Assuming the \$15 per square foot value for purchasing additional FAR (floor-area ratio) as recommended by the ULI technical panel, it is estimated that \$22 million would be generated over the seven-year period. Remaining questions to be addressed are whether the revenue sources and financial modeling are appropriate and accurate, and whether the seven-year timeframe is feasible.

Councilmember Davidson suggested referring the utilities-related recommendations to the Environmental Services Commission for review. Mayor Degginger concurred, noting it would be helpful to receive policy recommendations regarding the options of a citywide surcharge vs. area-specific (Bel-Red) surcharge.

Dr. Davidson opined that some of the projects do not need to be completed within seven years, and he would be interested in looking at a longer period of time. Mr. Sarkozy suggested considering a ten-year period. Mr. Terry noted that adding time for project completion will result in increased costs.

Councilmember Bonincontri suggested maintaining some projects within the seven-year timeframe, while others might be more reasonable for a ten-year or longer timeframe. She feels the ITS and Downtown Circulator components should remain within the seven-year plan.

While Councilmember Chelminiak supports the suggestion to forward the utilities element to the Environmental Services Commission for review. However, he questioned whether there is sufficient time to do so.

Mayor Degginger noted that that consideration depends on when a utilities rate increase would be implemented.

Mr. Sarkozy said the rate should be implemented late this year or early next year if it is to be tied to the Bel-Red rezoning package. In this case, there would not be sufficient time for ESC review. Mr. Sarkozy recalled past discussions related to Coal Creek-area projects in which the Council chose to implement a citywide rate increase instead of an area-specific surcharge.

Mr. Degginger noted, however, that the Coal Creek situation involved different issues related to a series of projects identified to settle a lawsuit involving multiple jurisdictions.

Responding to Dr. Davidson, Mr. Terry said staff has been relatively conservative in its projection of the ability to generate \$22 million in revenue over a seven-year period through the finance plan described above. Over a 30-year period, approximately \$113 million would be generated in net new taxes.

Mr. Lee feels that maintaining the schedule for the Bel-Red planning process is important. Dr. Davidson agreed that there is insufficient time for ESC review, and he is comfortable keeping that policy issue at the Council level.

Moving on, Mr. Terry reviewed the use of local improvement districts (LIDs) to fund infrastructure investments. This tool is used by cities in general and was used by Bellevue in the late 1980s and early 1990s to fund key transportation projects. The concept links LID assessments to the growth in trips associated with development. The establishment of a LID is based on a legally required benefit analysis, which has not yet been conducted. Staff proposes LIDs for both the NE 4<sup>th</sup> Street extension project (116<sup>th</sup> Avenue NE to 120<sup>th</sup> Avenue NE) and the Bel-Red area. If LIDs are implemented, the Council will set the benefit areas and assessment levels. Staff's preliminary estimate, thought to be conservative, is that approximately \$63 million could be generated through the two LIDs.

Responding to Councilmember Chelminiak, Mr. Terry said there are a number of methodologies for determining LID assessment levels. He confirmed that one criteria could be the differential value associated with upzoning versus retaining the current zoning for a particular property.

Responding to Ms. Bonincontri, Mr. Terry said that staff's current analysis assumes impact fees of \$5,000 per trip along with LID assessments.

Mr. Terry described transportation impact fees, which are a traditional source for funding infrastructure. The current Bellevue rate is approximately \$500 per evening peak hour trip to be generated by development, which is not adequate to fund needed infrastructure. Staff is updating the Transportation Facilities Plan (TFP). This analysis calculates the legal maximum transportation impact fee within the \$7,000-9,000 range. If impact fees are updated, staff recommends one citywide rate of \$5,000 per trip generated. This increased fee is within the range of fees charged by other jurisdictions.

Mayor Degginger asked Councilmembers to comment on the appropriateness of using LID assessments and impact fees for funding infrastructure.

Ms. Bonincontri would like to continue to consider all options. She is concerned about the suggested \$5,000 per trip impact fee rate, to be applied along with incentive fees.

Mayor Degginger noted Council concurrence with this position.

Mr. Terry summarized that the three categories just discussed (incentive zoning, LID assessments, and impact fees) represent approximately \$220 million of the \$380 million needed to fully fund the identified package.

Ms. Hawn explained that an additional revenue source is Limited Tax General Obligation (LTGO) debt funded by property taxes, business and occupation taxes, and/or out-year CIP revenues. The City's current banked property tax capacity could generate \$56-120 million in debt, depending on the percentage of banked capacity to be used. B&O tax collections could generate revenue of \$45-135 million to pay for bonds. The use of out-year CIP funds increases the level of cash flow borrowing.

Ms. Hawn briefly reviewed resources available for new projects and alternative revenue models depicting the relative impact of using different combinations of revenue sources. She described how each alternative affects the City's banked property tax capacity and average homeowner tax rates.

Ms. Hawn and Budget Manager Jonathan Swift responded to questions of clarification regarding the banked property tax capacity and how it changes over time based on differential tax rates.

→ Councilmember Chelminiak moved to extend the meeting to 10:30 p.m., and Mr. Noble seconded the motion.

→ The motion to extend the meeting carried by a vote of 6-0.

Mr. Sarkozy reviewed the list of revenue options which are summarized in terms of who benefits and who pays.

Mr. Chelminiak said he supports the proposed project list. However, a number of projects are not reflected including a downtown fire station and completion of West Lake Sammamish Parkway improvements.

Mr. Noble concurred with Mr. Chelminiak, and noted that any of the revenue sources will involve some push back because they represent tax and fee increases. Mr. Noble disagrees that all of the projects described in the current package should be high priorities. He opined that the NE 6<sup>th</sup> Street extension is essentially a mass transit project, which does not benefit the overall community to the extent that some of the other projects do. He noted that the widening of 124<sup>th</sup> is tied to the State's proposed project to add access lanes to SR 520, the status of which is unknown. Mr. Noble is not convinced that the Downtown Circulator project will provide sufficient benefits to justify the cost.

Dr. Davidson questioned the feasibility of completing the recommended projects by 2015. Mr. Sparrman feels the projects can be delivered within seven years if sufficient funding and staffing is available, and if the Burlington Northern crossing can be resolved.

Ms. Bonincontri concurs with Dr. Davidson regarding the feasibility of the schedule for project delivery.

Mayor Degginger expressed concern regarding the number of projects identified for implementation within seven years. He sees the extension of NE 4<sup>th</sup> Street as the highest priority, along with the 120<sup>th</sup> Avenue NE realignment and widening. Mr. Degginger feels that the prioritization of some of the projects hinges somewhat on what partner funding sources are available for completion. If non-City funding is available for certain projects, then perhaps they should be higher priorities because the feasibility of completion is higher.

Mr. Noble is hesitant to reallocate funding from existing CIP projects to the current package, and resistant to increasing the B&O tax. He shares Ms. Bonincontri's concern that taxes and surcharges will discourage development. He is willing to consider LIDs and would like to study this more.

Mr. Degginger noted that staff will provide additional information and scenarios based on tonight's discussion. He would like staff to provide alternatives for the Downtown Circulator with cost estimates based on varying fare levels, including a fare free service.

Mr. Noble is interested in staff's recommendation regarding an overall finance plan.

At 10:30 p.m., Mayor Degginger declared the meeting adjourned.

Myrna L. Basich  
City Clerk

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