CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Extended Study Session
Budget Workshop

March 28, 2016 Public Safety Training Center
6:00 p.m. Bellevue, Washington

PRESENT: Mayor Stokes, Deputy Mayor Chelminiak, and Councilmembers Lee, Robertson, Robinson, Slatter, and Wallace[1]

ABSENT: None.

1. Introduction and Review of Agenda

Mayor Stokes called the meeting to order at 6:02 p.m. He recognized Kim McCool, Executive Assistant to the Council, who is retiring from the City after 31 years in the Council Office/City Clerk's Office and the Department of Planning and Community Development (PCD). Mr. Stokes commended her extensive knowledge of the City and her positive attitude, and said she will be missed.

Councilmember Robertson thanked Ms. McCool for her service to, and positive representation of, the City and the City Council. Councilmember Robinson said she appreciated Ms. McCool's assistance to the Council and her ability to help Councilmembers to be more effective. Councilmember Lee said Ms. McCool has been a special person for the Council and he will miss her greatly. Deputy Mayor Chelminiak thanked Ms. McCool for her hard work, patience, and ability to juggle the many details handled by the Council Office. Councilmember Slatter commended Ms. McCool's knowledge, helpfulness, and calm temperament.

Mayor Stokes said Ms. McCool and Sandy Nunnelee, Executive Assistant to the Council, have been a strong team for the Council.

Ms. McCool said it has been a blessing and a privilege to work for the Council and the City. She said every employee is essential in providing strong support for the Council and producing positive outcomes for the citizens. She appreciated the opportunity to work for the City and believes it is where she was meant to be.

Mayor Stokes asked the City Manager to introduce the Budget workshop.

[1] Councilmember Wallace arrived at 6:13 p.m.

City Manager Brad Miyake said the purpose of the meeting is to provide the foundation and common understanding needed to for move forward with the budget process.

2. Budget Process, Calendar, and Public Engagement

Finance Director Jan Hawn introduced the topics for the evening's workshop. She summarized that the Budget One approach focuses on outcomes rather than departmental budgets. The six outcome areas are: 1) Improved Mobility and Connectivity, 2) Quality Neighborhoods and an Innovative, Vibrant and Caring Community, 3) Healthy and Sustainable Environment, 4) Safe Community, 5) Responsive Government, and 6) Economic Growth and Competitiveness. Improved Mobility and Connectivity includes existing and future infrastructure, traffic flow, the built environment, travel options, and connecting people to transportation. She recalled that the former Quality Neighborhoods outcome was combined with the Innovative, Vibrant and Caring Community outcome this year. Responsive Government refers to the stewardship of financial and property interests, sound business practices, and the deployment of programs that are necessary to deliver the highest priority services.

Ms. Hawn highlighted key milestones during the Budget One process. The staff Results Teams have developed cause and effect maps and Requests for Results (RFRs) for each outcome. The City Council will be asked tonight to provide policy direction and to identify priorities for the development of the operating and CIP Budgets. Staff will prepare and submit proposals to the Results Team in April, and the first Budget public hearing is scheduled for May. The Results Team will then rank the proposals based on how well they will achieve the results for each outcome. During July and August, the Leadership Team will begin the process of reviewing and ranking proposals. The second public hearing is anticipated in July, and the City Manager will present his Budget to the Council in October. A third hearing will be held in the final quarter of the year as the Council deliberates the final 2017-2018 Budget and 2017-2023 Capital Investment Program (CIP) Plan.

Ms. Hawn described improvements for this year's Budget One process. In prior years, the Results Teams focused on prioritizing and balancing proposals to achieve each outcome. The 2017-2018 process enhances the focus on performance metrics and linking them to demonstrate whether the desired outcomes are achieved.

Ms. Hawn described four items raised by the Council during the 2015-2016 Budget process. Council directed staff to review all arts funding (i.e., Operating Budget and CIP) for appropriate inflation factors and/or spending to be considered for the 2017-2018 Budget One process. Staff is currently developing performance measures and will evaluate funding levels based on cost of living and other impacts. The remaining three issues the Council identified to be addressed during the current Budget process are NE 1st Street parking adjacent to Downtown Park, cost estimates for studying the feasibility of a multicultural center, and Community Partnerships Project requests. Additional issues to be studied include parental leave and other Council priorities.

Ms. Hawn said the guiding principles for preparation of the Budget remain the same as previous years. These include delivering high-quality programs, focusing on outcomes, positioning the

City to realize opportunities and enhance Bellevue's image, examining the entire budget beyond making incremental changes, a commitment to innovation and sound business practices, and a long-range strategic approach to creating a sustainable budget. Ms. Hawn said a longstanding policy, if expenditure reductions are necessary, is to eliminate a service instead of providing a lower-quality service.

Ms. Hawn said the City values citizen engagement. A web page has been established on the City's web site for information about the process and opportunities for providing input. While the State requires only one public hearing, the City holds three public hearings on the Operating Budget and CIP Plan. Ms. Hawn said the Boards and Commissions provide input, and the City conducts outreach to neighborhood and business organizations.

Ms. Hawn said the Parks and Community Services Board provides funding recommendations for the CIP Plan and held its initial budget discussion in early March. The Transportation Commission provides CIP recommendations as well and began its budget discussions in February. The Environmental Services Commission advises the Council on utility rates, CIP projects, financing, contracts, and policies. The Human Services Commission provides funding recommendations for human services agencies and will be reviewing applications between April and July. The Arts Commission's funding recommendations address arts organizations and the acquisition of public art.

Responding to Councilmember Robertson, Ms. Hawn said the Budget One process is essentially zero-based budgeting.

3. Results of Budget Survey and Performance Measures Survey

Ms. Hawn introduced staff's presentation of the budget survey and performance survey results.

Rich Siegel, Performance and Outreach Coordinator, said the budget survey report is nearly completed. He said the percentage of survey respondents identifying the Improved Mobility outcome as a top priority has increased in every survey conducted every two years. The Safe Community outcome remains a high priority but is essentially unchanged since 2014. Economic Growth and Competitiveness is the lowest priority identified by the survey.

Traffic was identified as the biggest problem facing Bellevue, followed by too much growth/congestion, affordable housing/property values, and lack of public transportation. Mr. Siegel said a higher percentage of residents over 35 years of age note traffic as a major problem, and those under 35 years old more frequently mentioned affordable housing as a problem. Asian residents identified the lack of public transportation as a problem more often than Caucasian survey respondents.

Responding to Councilmember Slatter, Mr. Siegel said more details on the demographic profiles of the responses will be available in the full report.

Continuing, Mr. Siegel said 39 percent of survey respondents said they would be willing to pay higher taxes to increase service levels, and 32 percent said they would pay higher taxes to

support the increased costs of maintaining current service levels. He highlighted elements of a quadrant analysis that grouped priorities based on current importance and satisfaction, and a separate quadrant analysis comparing the grouping of priorities from 2014 to 2016.

Mr. Siegel compared survey results regarding overall quality of life and overall quality of City services from 2011 to 2016. In 2016, 95 percent of survey respondents indicated that the quality of life exceeds or greatly exceeds their expectations. Residents 55 years and older are more likely than younger residents to say that the quality of life does not meet their expectations. Asian residents are significantly more likely than other residents to respond that the quality of life greatly exceeds their expectations. Mr. Siegel noted that satisfaction with the quality of life increases as income increases. In 2016, 91 percent of residents said the quality of City services exceeds or greatly exceeds their expectations. Residents above 55 years of age were more likely than younger residents to express lower satisfaction with the quality of services.

Mr. Siegel noted high performance ratings for Bellevue compared to other communities and that the City is headed in the right direction. Consistent with many of the responses, residents 55 years and older were more likely to respond that the City is not headed in the right direction. Households with children were more likely to respond that the City is headed in the right direction. The survey reflects that 83 percent of residents believe they are receiving good value for their tax dollars, and 83 percent gave the City a rating of 4 or above (including 32 percent giving the highest rating of 5).

For the business survey, a total of 917 interviews were conducted to create a baseline, and the survey will be repeated every two years. Results include that seven of 10 businesses responded that Bellevue is a somewhat or significantly better place to operate a business when compared to other cities. Similarly, two-thirds of the businesses indicated that the quality of City services provided to businesses exceeds or greatly exceeds their expectations. Issues of concern include traffic, parking, the lack of affordable housing, and the need for enhanced public transportation. However, 92 percent responded that Bellevue's economy is better than other cities in the Puget Sound region, and 57 percent are likely to recommend starting a business in Bellevue.

Deputy Mayor Chelminiak observed that many cities would like to have Bellevue's high ratings and satisfaction levels. However, he expressed concern about the reaction to growth and the increasing traffic congestion.

Mr. Siegel said staff will complete the performance survey report in time for the Council to use it during the budget deliberations and decisions. Staff is pleased that the Council is using the data for the benefit of the public.

Councilmember Wallace observed that four of the top five problems identified in the survey are transportation-related. Responding to Mr. Wallace, Mr. Siegel said the longer list of problems identified during the survey will be provided in the final report and include maintaining parks, sidewalks and pedestrian amenities, and a number of additional items.

Councilmember Lee thanked staff for the information. He said these are challenging times and the survey responses over time provide helpful information.

Responding to Councilmember Robertson, Mr. Siegel said the survey question about the top problems in Bellevue was open-ended and did not provide a list of choices. Ms. Robertson noted the significant concerns and interests regarding transportation needs. Responding to Ms. Robertson, City Manager Brad Miyake confirmed that he will use the data to prepare his Preliminary Budget.

Mayor Stokes said the survey's satisfaction ratings are very high. If 10 percent of the survey respondents are unhappy with a particular item, it is important to also focus on the fact that 90 percent are satisfied or very satisfied. He observed that many of the traffic problems are related to I-405. He cautioned against becoming overly focused on percentage changes of 1-2 percent.

Responding to Councilmember Slatter, Mr. Siegel said the survey report will include demographic data. Responding to Mr. Stokes, Mr. Siegel said the data includes information on how long residents have lived in Bellevue.

4. Economic Update and Forecasts

Toni Rezab, Assistant Finance Director, provided the economic update and forecast. Bellevue's housing prices have recovered to 2007 levels and the unemployment rate is down to 3.7 percent. She noted that the annual percentage growth in the construction sales tax and the auto sales tax has increased since 2012. However, the growth in retail trade sales tax has not recovered to pre-recession rates of growth. Ms. Rezab speculated this could be due to increased Internet sales.

Responding to Councilmember Slatter, Ms. Hawn said state legislative attempts to capture Internet sales tax have not been successful.

Councilmember Wallace said it would be helpful to have information on the dollar amounts for sales tax collections by category. He questioned how the City is protecting itself against a potential future recession and related adverse impact on sales tax revenues.

Mr. Wallace expressed concern that the Sound Transit Phase 3 (ST3) package will potentially have a significant impact on decisions about car purchases in Bellevue versus purchases outside of the Regional Transit Authority (RTA) boundaries that will not have the ST3 motor vehicle excise tax (MVET).

Councilmember Slatter observed that individuals are anticipated to drive cars less frequently as public transit improves. Mr. Wallace noted that the impact of the ST3 package will occur in the near future, well before the completion of light rail.

Deputy Mayor Chelminiak speculated that the slow growth in retail sales tax could be due to more cautious consumer behavior following the recession.

Continuing, Ms. Rezab said Bellevue continues to see growth in employment and housing, and the Pacific Northwest is outperforming the nation. Potential issues of concern include global instability, a future recession, the U.S. presidential election, and societal shifts in spending.

Ms. Rezab presented graphs of actual Sales Tax collections and Business and Occupation (B&O) tax collections since 2000.

Responding to Councilmember Lee, Ms. Rezab said sales tax collections have remained flat at times, but they have never decreased.

Councilmember Wallace expressed concern that actual sales tax collections could fall below projections if another recession occurs.

Ms. Rezab presented the six-year forecast of General Fund revenue versus expenditures. She noted that LEOFF I (Law Enforcement Officers and Fire Fighters pension program) expenses have been financed for several years through reserves. However, LEOFF I expenditures are forecast to exceed revenues beginning in 2019 due largely to healthcare costs. An additional impact during the six-year forecast will be the expiration of State funding beginning in 2022 related to annexations that occurred in 2012. Ms. Rezab said the forecast assumes no increase in FTE (full-time equivalent) staff or in the property tax rate.

Councilmember Lee recalled that the City provided a substantial amount of LEOFF I reserves several years ago. Responding to Mr. Lee, Ms. Hawn said the actuarial study at that time dictated the level of reserves. However, the LEOFF I medical liability has been higher than anticipated due to increased medical care costs and longer lifespans. The availability of LEOFF I reserves will end in 2019 and the City will fund the liability through the Biennium Budget going forward, which is typical of other cities. Responding to Mr. Lee, Ms. Hawn said the Council has the discretion to establish an additional LEOFF I reserve, but the money could not be used for any other purpose.

Responding to Mayor Stokes, Ms. Hawn said there is no financial savings in establishing a reserve versus paying on an ongoing basis.

Responding to Councilmember Wallace, Ms. Rezab said the Leadership Team discussed the financial implications of avoiding FTE growth. Staff is focused on preparing budget proposals that are expenditure-neutral, implement the Council's priorities, support workforce development, and/or result in future cost savings.

In further response to Mr. Wallace, Ms. Hawn said staff is working on health care plan design changes in anticipation of the future Affordable Care Act excise tax (i.e., "Cadillac" tax). Mr. Wallace said the current budget anticipated redesigning health care plans by 2018. He would like to continue with that previous policy decision. Human Resources Director Kerry Sievers said more information will be provided regarding current and planned changes to employee health care plans.

Mr. Wallace observed that it is not realistic to anticipate zero FTE growth. He expressed concern about sales tax projections as well, especially if there is another recession. He would like to have a realistic and achievable budget. Ms. Hawn noted that the presentation would address the longer-range forecast.

Continuing, Ms. Rezab described the Utilities, Development Services Department, and Parks Funds, all of which benefit to some extent from user fees. The Utilities Funds (i.e., water, sewer, and storm water) forecasts include operations funding, asset replacement, Capital Investment Program (CIP) items, wholesale water cost increases, aging infrastructure, assumption of the Issaquah water district, and the implementation of Advanced Metering Infrastructure (AMI). The DSD Fund forecast maintains current service levels, and the Parks Fund continues user fees to recover program costs, maintain reserves, and fund capital projects.

Councilmember Wallace questioned the ability to borrow from Utilities reserves to smooth out rate increases. Ms. Otal noted that the Utilities Department has significant capital programming, and the primary budget driver is in the Water Fund. The forecast reflects borrowing of $11.5 million for repairing and replacing infrastructure to reach a sustainable level. Ms. Otal observed that rates are appropriately used to fund capital projects. Mr. Wallace said he would like to consider alternatives for minimizing fluctuating utility rate increases into the future.

Deputy Mayor Chelminiak recalled previous Council discussion and said the difference between sales tax and property tax collections increases by 2022. As reliance on the sales tax increases over time, the potential negative impact of reduced collections becomes more significant. Responding to Mr. Chelminiak, Ms. Rezab said utility tax revenues have remained flat due primarily to the decline in the telephone tax.

Councilmember Robertson recalled Council discussion about utility rates during the last budget discussion. The Council opted to not make a decision about AMI at that time. She said the City's rates are structured based on a fixed proportional cost and by how much water is used by each customer. She would like to discuss options for how those two components should be split in determining rates to reflect fairness for varying usage levels.

Utilities Director Nav Otal said staff conducted an extensive rate study approximately two years ago in response to declining water revenues. She said there are multiple goals for water rates including the stability of water utility revenues. During the last budget process, the rate structure was redesigned to shift a greater portion of the rate to the fixed cost component. This adjustment was reviewed in great detail by the Environmental Services Commission.

Ms. Robertson recalled that the Council was interested in additional discussion about how the rate structure might be adjusted incrementally over time to provide greater stability. She would like to address this issue during this year's budget discussions.

Mayor Stokes suggested that considering a policy change in the rate structure would involve significant staff and Council time, and he was unsure whether that could be accomplished during this budget cycle.

City Manager Miyake said staff will prepare a presentation on the most recent rate restructuring to provide a foundation for future Council discussions.

Councilmember Slatter said the potential implementation of AMI will likely affect water usage and would be relevant in comparing different rate structure alternatives.

Ms. Otal said staff will provide a Utilities update and presentation on AMI during the April 4 Council meeting.

Mayor Stokes said he would like to discuss the process for considering a change as well. Ms. Otal noted that the previous study and Environmental Services Commission process extended over an 18-month period.

At 7:43 p.m., Mayor Stokes declared a brief recess. The meeting resumed at 7:56 p.m.

5. Long Range Planning and Potential Financial Policy Update

Ms. Rezab said the long-range financial plan has been updated over the past year based largely on robust land use, population, and job growth. With this growth, the City is becoming more urban and complex and is experiencing an increasing demand on public safety and human services resources. Long-range anticipated costs include Fire Station 10 and funding the LEOFF I program.

Ms. Rezab said two long-range forecasts have been developed: 1) no FTE growth, except for FTEs required if new facilities are opened, and 2) historical FTE growth of 1.9 percent based on the increase in population and employment. The former is an unsustainable operating model, and the latter is fiscally unsustainable. She described graphs depicting the two scenarios and their impact on revenues and expenditures. The current six-year forecast reflects revenues in excess of expenditures in 2017 and 2018. However, the trend reverses beginning in 2019.

Responding to Councilmember Wallace, Ms. Hawn said the City conducted a long-range FTE study in 2007/2008. Certain departments projected growth above the estimated 1.9 percent annually. She said it is challenging to develop long-range staffing projections.

Responding to Councilmember Robinson, Ms. Rezab said the Development Services Department has a business model in which staffing is funded through permit review and inspection fees. However, the workload fluctuates with the development cycle. When development slows down, staffing is reduced.

Responding to Councilmember Lee, Ms. Rezab said staff established the average annual FTE growth of 1.9 percent by analyzing data since 1970. Staffing remained flat from 1990 to 2004 and increased from 2004 to 2010. In 2010, the City eliminated 100 FTEs to aid in the recovery from the recession. Ms. Rezab said the City has been very conservative in FTE growth over the past 15 years.

Deputy Mayor Chelminiak suggested a future discussion regarding funding for staff through the Capital Investment Program (CIP) Plan versus the General Fund. He questioned whether there are standards for correlating the number of employees with a city's population and anticipated growth. Ms. Rezab said staff can research comparable cities data.

City Manager Miyake reminded the Council that these are long-range projections, and the City is in good shape for the near-term future.

Councilmember Robinson said she sees more opportunities for using enterprise funds, especially within the City's economic development activities. She is interested in exploring ways to create more programs that generate revenue.

Councilmember Slatter expressed support for staff's emphasis on exploring innovative practices. She expressed an interest in information on the full range of options available including partnerships and the regional sharing of resources.

Mayor Stokes said this is the beginning of the discussion, and a number of options will be considered going forward.

Deputy Mayor Chelminiak said there have been discussions about a Downtown fire station for several years, which typically requires 16 FTEs and will significantly affect the budget forecast. It is important to begin exploring ways to adjust staffing and/or services to accommodate future anticipated and unanticipated needs.

Ms. Hawn said staff wanted to provide foundational information tonight in preparation for future policy discussions and decisions.

Mr. Miyake recalled Council direction to staff in 2014 to examine the structure of the budget. Staff is approaching this budget process with that mindset and with the realization that adjustments in revenues, expenditures and/or service delivery will be needed for the longer term future.

6. Results Teams Overview

Ms. Hawn said the interdepartmental Results Teams have developed their cause and effect maps for the six Budget Outcomes and issued their Requests for Results/Proposals from each City department. The Results Teams will analyze the performance metrics related to each proposal and rank the proposals in order of budget priority. Ms. Hawn noted that each cause and effect map for the Budget Outcomes references the relevant strategic target areas identified in the Council Vision.

Ms. Rezab noted that the cause and effect map for the Improved Mobility and Connectivity Outcome references four of the seven strategic target areas from the Council Vision: Transportation and Mobility, Regional Leadership and Influence, Great Places Where You Want to Be, and Economic Development. The map lists the four factors (i.e., infrastructure, traffic flow, built environment, and travel options) that contribute to the Outcome as well as key community indicators and key performance indicators.

The Quality Neighborhoods/Innovative, Vibrant and Caring Community Outcome references the following Council Vision target areas: Transportation and Mobility, Great Places Where You

Want to Be, High-Quality Built and Natural Environment, and Achieving Human Potential. Ms. Rezab recalled that this Outcome was formerly two Outcome areas in the previous budgets. Ms. Rezab highlighted the factors, key community indicators, and key performance indicators.

Ms. Rezab said the Healthy and Sustainable Environment Budget Outcome references the following three Council Vision target areas: Regional Leadership and Influence, High-Quality Built and Natural Environment, and High-Performance Government. She highlighted the two factors (Built Environment and Natural Environment), key community indicators, and key performance indicators.

The Safe Community Outcome is consistent with the Council Vision target area of High-Performance Government. The four factors are response, prevention, planning/preparation, and community partnerships and accountability. The cause and effect map reflects a number of key community indicators and key performance indicators.

The Responsive Government Outcome references two Council Vision target areas: Regional Leadership and Influence and High-Performance Government. Ms. Rezab highlighted the factors, community indicators, and performance indicators for this Outcome.

The Economic Growth and Competitiveness Outcome references four Council Vision target areas: Regional Leadership and Influence, Great Places Where You Want to Be, Economic Development, and Achieving Human Potential. The four factors are economic development, infrastructure development, community development, and workforce development. Ms. Rezab highlighted the key community and performance indicators for this Outcome

Ms. Rezab said budget proposals are due to the budget office by April 29.

Councilmember Lee observed that Smart City and other technology initiatives are not reflected in the cause and effect maps. Ms. Hawn said the Leadership Team discussed how Smart City elements and objectives will be embedded in a number of budget proposals submitted by department staff.

7. General Capital Investment Program (CIP) Plan

Ms. Rezab recalled that the Council discussed the Capital Investment Program (CIP) long-range financial plan on March 14. She referred the Council to page 195 of their Budget binders for information on the 2017-2023 Capital Investment Program (CIP) Plan. The preliminary CIP assumes that the City will continue to make its debt service payments and to fund ongoing programs through 2023. The CIP Panel will begin meeting in May to review budget proposals and to make recommendations to the City Manager.

Responding to Councilmember Robertson, Ms. Rezab said certain bonds related to Meydenbauer Center will be paid off in 2024. Deputy Mayor Chelminiak cautioned that transient-occupancy tax (TOT) revenues (aka: hotel/motel tax) will continue to be used to fund the Center's operations and potential expansion. He recalled that a portion of TOT revenues has been committed to the Tateuchi Performing Arts Center.

Deputy Mayor Chelminiak said he recently drove on the first phase of the 120th Avenue NE project and he was struck by how much progress has been made in the Spring District.

Councilmember Lee said he is pleased to see the BelRed Plan moving forward as well. He wondered whether there are opportunities to accelerate projects in that area.

Responding to Councilmember Wallace, Ms. Rezab said the 2015 carryover amount is final at this point.

Mr. Wallace observed that no grant funding is reflected in 2018 and beyond. Transportation Director Dave Berg said staff will continue to explore grant opportunities as major projects are identified for the out-years (i.e., 2022-2023) of the next CIP Plan.

Councilmember Wallace requested historical information on grant funding and suggested budgeting for a certain amount of grant dollars. Mr. Berg said the majority of grants are related to transportation capacity projects.

Responding to Mayor Stokes, Ms. Rezab said staff will provide updates throughout the year. The City Manager will present his Preliminary Budget to the Council in September or October.

Mayor Stokes thanked staff for their hard work.

At 8:56 p.m., Mayor Stokes declared the meeting adjourned.

Kyle Stannert
City Clerk

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