

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

November 15, 2004
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Marshall, Deputy Mayor Noble, and Councilmembers Balducci, Chelminiak¹, Davidson, Degginger, and Lee²

ABSENT: None.

1. Executive Session

Deputy Mayor Noble opened the meeting at 6:00 p.m. and announced recess to Executive Session for approximately one hour and 15 minutes to discuss four items of potential litigation.

The meeting resumed at 7:15 p.m. with Mayor Marshall presiding.

2. Study Session

(a) Issaquah School District Impact Fees

City Manager Steve Sarkozy opened discussion regarding Issaquah School District's impact fees, which are based on the level of expenditures in the District's Capital Facilities Plan.

Kate Berens, Legal Planner, said the proposed fees for a single-family unit will increase from \$4,601 to \$4,996. The proposed fee for each multifamily unit will increase from \$699 to \$796.

Dr. Davidson is not in favor of this method of raising funds for school districts and feels bond measures are a more appropriate mechanism. He will not support the final ISD impact fee ordinance.

Mr. Lee noted his understanding that the impact fees were to be short term and not renewed and increased annually. He encouraged a look at longer-term financing options.

¹ Councilmember Chelminiak arrived at 6:08 p.m.

² Councilmember Lee arrived at 6:04 p.m.

Deputy Mayor Noble explained that Bellevue is simply being asked to collect the impact fees on behalf of Issaquah School District. He feels concerns and comments regarding the District's policies should be directed to the Issaquah School Board.

Mr. Degginger noted that Issaquah School District's boundaries extend into surrounding jurisdictions including Renton and Sammamish, and 10 percent of their students live in Bellevue. He encouraged support of the impact fees. Mayor Marshall concurred.

Responding to Mr. Chelminiak, Ms. Berens said Bellevue does not charge Issaquah School District an administrative fee for collecting the impact fees.

Responding to Dr. Davidson, Craig Christensen (Issaquah School District) said two of the District's elementary schools are in Bellevue's city limits. Sunset Elementary School was expanded last year and added capacity for 120 more students, including Bellevue residents. A ninth grade campus is being built on the plateau and Issaquah high schools serve Bellevue students as well.

(b) 2005-2006 Operating Budget and 2005-2011 Capital Investment Program (CIP)
Plan – Review and Discussion

Mr. Sarkozy noted budget reductions totaling \$4.6 million in the 2003-2004 operating budget and additional reductions totaling \$2.8 million in the 2005-2006 budget. Maintenance and operations expenditures were not increased for inflation for 2004 and 2005, resulting in a savings of \$3.2 million. Despite the reductions and expenditure controls, 97 percent of respondents to a community survey say Bellevue is a good place to live. Mr. Sarkozy said the budget is balanced for the long term. Expenditures are projected to exceed revenues throughout the 2005-2010 General Fund full forecast.

Mr. Sarkozy reviewed the following key budget policies and principles:

- The forecast should be used to manage for the long term (Policy I.A.1).
- One-time revenues should not be used to fund ongoing programs (Policies I and IX.A).
- Maintain quality services (Policy II.G.).
- Rainy Day Reserves should be used for temporary shortfalls (Policy X.B.3).
- The budget should be conservative to ensure retention of the Aaa bond rating.
- No new full-time equivalent positions (FTEs) should be added without accompanying offsetting revenue.
- Maintain the City's commitment to employees and minimize layoffs.

The preliminary budget limits expenditure growth, reflects a net reduction in FTEs, and does not include a property tax increase. General Fund drivers include health benefits costs, state pension contributions, workers compensation costs, new capital projects, and new investments.

(1) Responses to Council's questions from November 8 Budget Review

Mr. Sarkozy noted packet materials in response to Council's questions during the November 8 budget discussion.

Referring to page I-5 of the Preliminary Budget Details book, Dr. Davidson noted the existing cable television franchise fee and the proposed cable utility tax included in the preliminary budget. He is not in favor of the proposed cable utility tax.

Dr. Davidson questioned the inclusion of the Eastgate and Bel-Red corridor land use studies in the CIP Plan instead of the Planning and Community Development Department's operating budget. Planning and Community Development Director Matt Terry said additional expenditures are necessary to supplement staff's work through the use of consultants.

Responding to Deputy Mayor Noble, Dr. Davidson suggested using one-time sales tax revenue from the Lincoln Square and Overlake Hospital Medical Center projects to help fund the anticipated budget deficit.

Responding to Mr. Chelminiak regarding the Eastgate and Bel-Red studies, Mr. Terry said it is not uncommon for the CIP Plan to include funds for planning and infrastructure-related feasibility work that is likely to lead to capital projects. Mr. Terry noted the ongoing challenge of balancing staffing levels with the workload without having to add and remove staff.

Responding to Mr. Chelminiak, Mr. Terry said the Eastgate land use study responds to the expansion of the Eastgate Park and Ride facility and recent changes in I-90 access through City-funded transportation improvements on 140th Avenue. Land use patterns established 25 years ago might no longer be meeting the City's needs, and additional development potential may exist as well.

Responding to Mr. Degginger, Mr. Terry said a review of the Crossroads Subarea Plan is being launched now and the public involvement process will be initiated in Spring 2005. Mr. Terry said the Bel-Red Road corridor study is largely driven by Sound Transit's Phase 2 planning activities. In further response, Mr. Terry said the Bel-Red Road study is both a land use and transportation study. Its impacts will extend beyond the corridor and extensive public outreach is anticipated.

At 8:00 p.m., Mayor Marshall declared recess to the Regular Session, noting that Council will return to complete the Study Session. The meeting resumed at 9:58 p.m.

- Deputy Mayor Noble moved to extend the meeting to 10:30 p.m., and Mayor Marshall seconded the motion.
- The motion to extend the meeting to 10:30 p.m. carried by a vote of 7-0.

Referring to the overall budget, Councilmember Lee questioned which projects and priorities best position the City for the future and increase the revenue base.

Ms. Balducci commented that the City's conservative fiscal policies have served the community well. Mayor Marshall concurred and said she is not in favor of using one-time revenue, for instance, to fund ongoing projects. She would rather try to eliminate budget items now than to postpone difficult decisions.

Mr. Degginger noted concerns expressed during the Regular Session regarding the proposed fire inspection fee. He does not understand the policy to exempt public schools from the fee but to charge private schools for inspection services.

Mr. Degginger wants a full Council discussion regarding the City's role in economic development activities. He is not convinced of the need to conduct the proposed Eastgate study at this time, particularly in light of competing priorities. Mayor Marshall concurred and stated that the Eastgate study is her lowest priority as well. She recommends combining the study with an annexation effort when the budget allows.

Mayor Marshall noted the increase in B&O tax collections due to increased business-related square footage. She would be interested in allocating some of this revenue toward fire inspection services.

Mr. Chelminiak is interested in exploring the idea suggested during the Regular Session for a fire re-inspection fee. However, he noted this could potentially provide an incentive to find a violation in order to collect the fee. He suggests exempting all schools from inspection fees.

Mr. Noble noted testimony from the business community that the Class 2 insurance rating does not have a major impact on insurance premiums. Regarding the proposed cable utility tax, Mr. Noble is open to considering it, a different utility tax, and/or budget cuts. He is not convinced of the need to fund the critical areas notebook, which will serve only a small percentage of residents.

Mr. Lee agreed that the critical areas notebook will have a limited benefit to the overall community. In terms of fire inspections, he is interested in exploring the impact of less frequent inspections.

- Deputy Mayor Noble moved to extend the meeting to 11:00 p.m., and Mayor Marshall seconded the motion.
- The motion to extend the meeting to 11:00 p.m. carried by a vote of 7-0.

Dr. Davidson noted the total operating budget exceeds \$600 million and Council is debating how to bridge a shortfall of \$1-2 million.

Responding to Councilmember Balducci, Mr. Sarkozy suggested staff prepare a management brief on health benefits costs and strategies to reduce costs. Mayor Marshall noted the change in vendor beginning in 2005, which saves the City approximately \$1 million.

Mayor Marshall suggested funding the critical areas notebook through a grant or a partnership with other jurisdictions.

(2) Utilities Department – Utility Rates

Brad Miyake, Utilities Director, introduced Steve Szablya, Chair, and Diane Pottinger from the Environmental Services Commission. The Commission's recommendation that Council approve the staff-proposed Utilities Department budget is provided beginning on page SS 2-47 of the Council packet.

Mr. Miyake highlighted the key issues in the Utilities Department budget:

- King County/METRO wastewater treatment costs contribute to a 9.4 percent increase in METRO's wholesale costs, which is passed on to Bellevue customers.
- Cascade Water Alliance membership saves the City approximately \$1 million, which has been budgeted to offset personnel, benefits, and operating costs.
- Pavement restoration.
- Stormwater National Pollutant Discharge Elimination System (NPDES) Permit.
- Renewal and replacement funding.
- System/infrastructure condition assessment.
- New CIP project to address high-priority capital needs.

The financial impact of the Coal Creek/Newport Shores settlement agreement is not included in the 2005-2006 budget because the agreement was not yet finalized.

Under the proposed Utilities Department budget, the typical residential bill will increase 7.7 percent in 2005 and 1.40 percent in 2006.

Mr. Miyake described the Coal Creek/Newport Shores settlement, which was initiated by a lawsuit filed by the Newport Yacht Club and Newport Shores residents regarding alleged violations of the Clean Water Act and Endangered Species Act as well as a trespass and nuisance claim associated with sanitation in Coal Creek. The parties engaged in mediation following Council direction to negotiate a settlement to resolve sedimentation issues within the Coal Creek basin. The settlement agreement calls for a series of capital projects over the next seven years. The total cost of the agreement is \$5.4 million. King County's share of these costs is \$2.7 million. Bellevue's share is \$2.6 million plus \$400,000 in legal and consulting fees.

Bellevue's capital costs related to the settlement agreement are \$1.9 million. The existing CIP budget includes \$1.2 million for two of the projects. Bellevue is responsible for paying \$755,000 to Newport Yacht Club for the City's share of dredging costs and attorney fees. Adding the \$400,000 in legal and consulting fees mentioned above, the total unfunded one-time cost of the settlement agreement is \$1.83 million. In addition, unfunded maintenance and operations (M&O) costs associated with the agreement total \$80,000.

Mr. Miyake posed the following financial policy questions: 1) How should these costs be funded? and 2) When should a rate increase be implemented?

Mr. Miyake said two funding alternatives were developed by staff. Staff and the Environmental Services Commission recommend a citywide rate increase for all storm and surface water customers. This is consistent with how large legal settlements have been funded in the past. The financial impact of the proposed cost increase is 62 cents per month per parcel. The second alternative is a basin surcharge to customers within the Coal Creek basin (\$1.03 per month/parcel) as well as a citywide rate increase (48 cents per month/parcel). The surcharge mechanism has been used in the past as a condition of development, once in the Lakemont area and once downtown.

Mr. Miyake said staff and the Environmental Services Commission recommend a citywide rate increase of 7.1 percent beginning in 2006 instead of the currently budgeted increase of 4.8 percent. This follows a rate increase of 8.8 percent in 2005. Responding to Mr. Degginger, Mr. Miyake said the costs will be recaptured over a 20-year period.

Responding to Mr. Chelminiak, Mr. Szablya said the Commission recommends a citywide rate increase because the projects will benefit the community as a whole. Imposing a basin surcharge causes complications in terms of billing and unequal rates depending on where a resident lives.

Following additional brief Council comments, Mayor Marshall noted Council consensus for a citywide rate increase to fund the settlement agreement.

At 10:58 p.m., Mayor Marshall declared the meeting adjourned.

Myrna L. Basich
City Clerk

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