

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Special Meeting
Budget Workshop

July 30, 2012
4:00 p.m.

South Bellevue Community Center
Bellevue, Washington

PRESENT: Mayor Lee, Deputy Mayor Robertson, and Councilmembers Balducci¹, Chelminiak², Davidson, Stokes, and Wallace³

ABSENT:

1. Oral Communications

Mayor Lee called the meeting to order at 4:05 p.m., with Deputy Mayor Robertson, Councilmember Davidson, and Councilmember Stokes present.

Reacting to a comment from the audience, Mayor Lee said that citizens should demonstrate civility and respect in their public testimony.

- (a) Sam Bellomio, Stand Up America, said he finds it disrespectful to be told how to address his elected officials. He said he does not care if Councilmembers feel ashamed by what he says. If that is the case, he observed that perhaps that will motivate the Council to do something better. Mr. Bellomio said that if he tells the Council they are doing a bad job and they feel bad, then perhaps the Council is doing a bad job. He reiterated his ongoing objection to red light cameras. He suggested that, if the City wants to use the cameras, all the revenue should go to the City instead of to the vendor supplying the cameras.
- (b) Alex Zimmerman, Stand Up America, reiterated his ongoing inquiry about the cost of a specific four-year Police investigation. He served small claims court documents against Councilmember Wallace for alleged bad service, abuse of the system, corruption, and mismanagement. Mr. Zimmerman said the prosecutor sent approximately 100 pages to Stand Up America. Mr. Zimmerman indicated he will make a public request to determine the cost. He said that, if he does not get his requested information, he guarantees that it will cost the City \$100,000 over another couple of years.

¹ Councilmember Balducci arrived at 4:37 p.m.

² Councilmember Chelminiak arrived at 4:25 p.m.

³ Councilmember Wallace arrived at 4:15 p.m.

- (c) Bruce Nurse, Vice President of Kemper Development, said he is disappointed that the budget workshops are not televised. He believes the Council workshops should be in City Hall to discuss the budget in a transparent manner. He indicated that the Council has been briefed by staff on the intelligent transportation system that is being implemented within the community. Mr. Nurse said the system is working so well that he would like to see full implementation within two to three years. He asked the Council to consider accelerating the five-year program.

Mayor Lee explained that the Council wanted to hold the long workshop in a more relaxed and comfortable atmosphere. He said the Council is not trying to avoid the public. Mayor Lee thanked Mr. Nurse for his comments.

2. Welcome, Workshop Objectives, and Review of Agenda

Mayor Lee thanked staff for all of their work in preparation for this meeting.

City Manager Steve Sarkozy said the meeting is intended to be an informal working session to review the details of budget development with the Council.

3. Background/Overview

Mr. Sarkozy said the good news is that, despite funding cuts, performance metrics have remained high. The public appreciates the City's quality of services. The City's AAA bonding status has been reaffirmed by Moody's and by Standard and Poor's. Sales tax revenues are coming up slightly and, while not enough to grow the budget significantly, this is a positive indication.

Mr. Sarkozy said the workshop will address both the Operating Budget and the Capital Investment Program (CIP). Given limited revenues, the City has worked to revamp operations and the CIP Plan to be the most responsive to the community.

Mr. Sarkozy commented on the decrease in federal funding to states. Key risks for states relate to Medicaid funding, underfunded pensions across the country (although Washington State pensions are in reasonable shape), shrinking and volatile tax bases, federal deficit reduction programs, fiscal distress among local governments, and state budget laws that mask problems and hinder sustainability.

Mr. Sarkozy said the City's cost-cutting measures have been an appropriate response to the slowed economy. Staff has been responsive and adaptable in reallocating resources, where needed, to get the work done and to deliver services.

4. Review of Related Survey Information

Rich Siegel, Performance and Outreach Coordinator, highlighted key results of the most recent budget survey. Residents consistently rate Bellevue as a good or excellent place to live (98 percent). The key problems identified by residents are traffic, other transportation issues, and

growth. Mr. Siegel described the most important services identified by residents, as well as those identified as the top performing services.

Mr. Siegel presented key results of the performance measures survey, which is conducted separately from the budget survey. In 2010, 2011, and 2012, 95 percent to 97 percent of residents consistently rated Bellevue as a good to excellent place to live. Residents attribute this to low crime, convenient location, clean city, good park system, numerous amenities, good schools, and peaceful neighborhoods. Regarding overall quality of life, 99 percent of residents say Bellevue meets or exceeds their expectations (30 percent of those responded that Bellevue greatly exceeds their expectations).

Mr. Siegel commented on the Employee Survey, which is used to help measure progress toward becoming a higher performing organization. He noted positive responses regarding customer service, the quality of services provided, and affirmation that supervisors practice the City's Core Values. Mr. Siegel said he believes there is a correlation between the responses of residents and employees. He attributed the positive results of the Employee Survey, at least in part, to the One City effort.

Responding to Councilmember Balducci, Mr. Sarkozy said the Employee Survey provides information on how employees view their jobs and the organization. Combined with the budget survey data, he believes this informs the budget process.

Deputy Mayor Robertson requested the Employee Survey data.

Responding to Mayor Lee, Mr. Siegel said the budget survey reflects citizens' opinions during February and March when the survey was taken. In further response, Mr. Siegel confirmed that there is some concern among residents about whether the City is headed in the right direction. However, the reasons for the concern are unclear.

Mr. Sarkozy noted the Quadrant Analysis figure (handout). Mr. Siegel explained that the quadrants display issues and services based on their importance to residents and the level of satisfaction with how the issues are being handled by the City.

Mayor Lee said that the Quadrant Analysis provides helpful information.

Councilmember Stokes observed that it is puzzling for respondents to identify an issue as below average importance, yet dissatisfaction with how it is being addressed. He believes there are limits to this type of data, which primarily offers a snapshot in time. He said the figure indicates that sidewalks are of low importance, when in fact they are an item frequently requested by the public.

Mr. Siegel acknowledged that the information's usefulness is limited. He noted that the importance of specific issues is relative to each other as well. However, it provides information that can be helpful when used in conjunction with other data.

Mr. Sarkozy commented that, in the private sector, the goal is to make money, and that can be done whether an organization is good or not, in many ways. In the public sector, there are more indicators of performance and effectiveness. Mr. Sarkozy said the organization is proud of what the City provides in terms of the number and quality of services.

5. General Fund Early Outlook/Financial Update

Finance Director Jan Hawn reviewed the budget calendar and major milestones. She recalled the addition of the June 12 and June 14 public forums on the budget at the Council's request. She said the purpose of tonight's session is to share the updated financial forecast and to provide the Results Teams' recommendations.

Ms. Hawn briefly reviewed the guiding principles for the 2013-2014 budget. These include a focus on outcomes important to the community, examining the entire budget, taking a long-range strategic approach, and continuing to deliver excellent services. Staff's perspective is that it might be appropriate in certain instances to terminate a program rather than to continue it at a mediocre level of service.

Toni Rezab, Budget Manager, said the forecast is similar to what was reported in April. Revenues are roughly equal to expenditures assuming current service levels. The General Fund forecast assumes no changes in tax rates (i.e., Sales, B&O, and Utility taxes). Changes in the forecast since April are an increase in liquor profits of \$290,000 annually and the elimination of liquor excise tax revenues of \$660,000 annually. Looking at 2013 and beyond, the economy continues to recover slowly. Local sales tax revenues in 2012 have experienced modest growth of 4.5 percent over 2011 revenues.

6. Operating Budget – Results Teams Presentations

(a) Overview and Round 2 Rankings

Ms. Rezab summarized the Results Teams process to date. Budget development is intended to be responsive to policy direction received from the Council for the 2010-2011 Budget. Ms. Rezab noted that there are budget proposals above and below the funding line for each outcome area. She said there will need to be tradeoffs between programs and services as the budget process continues to move forward.

Responding to Councilmember Davidson, Ms. Rezab explained that property tax projections are linked to anticipated development and construction activity.

Responding to Councilmember Chelminiak, Ms. Rezab said she will provide information on the relative percentage of reliance on specific taxes (e.g., property tax, B&O tax, utility taxes).

Responding to Councilmember Wallace, Ms. Rezab said that real estate excise tax (REET) revenue is reflected in the Capital Investment Program (CIP) Plan. Mr. Wallace said it would be helpful to have a list of taxes included in the miscellaneous taxes category.

(b) Responsive Government

Ken Carlson, Fire Department, introduced the Responsive Government Results Team. This outcome area experienced significant reductions during the 2011-2012 budget process. The majority of the proposals are funded by the General Fund. However, some involve funding from other sources including the Capital Investment Program (CIP).

Mr. Carlson said the proposals received from departments exceeded available funding by \$1.2 million over the biennium. To close that gap, the team evaluated opportunities to reduce costs, increase efficiencies, and reduce service levels. The team recommends that 59 of the 63 proposals be funded. Mr. Carlson briefly described the proposals that fell below the funding line. Mr. Carlson said the results team suggests deferring the web site redesign until the communications officer position is filled.

Councilmember Wallace said it would be helpful to get a breakdown of the revenues and expenses for each proposal. Responding to Mr. Wallace, Ms. Rezab said the Health Care Benefits Fund is a standalone fund, which receives contributions from all departments. Mr. Wallace asked for a breakdown of the health care items. As a separate item, Mr. Wallace said it would be interesting to understand staffing and spending trends for longer term projects.

Responding to Councilmember Chelminiak, Ms. Rezab said there has been a loss of 85 full-time positions in the General Fund and 15 positions in Development Services over the past 18 months to two years.

Councilmember Wallace expressed concern about health care costs and the impact of changes in health care law. He observed that costs could increase more than 10 percent annually. He questioned whether these factors have been incorporated into the City's analysis and projections.

Ms. Hawn said the City has focused on cost-containment efforts in health care costs over the past 10 years. In addition, outside consultants are involved in developing and evaluating cost projections.

Councilmember Wallace said he is asking about the recognition of the problem rather than expecting a solution at this time. However, he remains concerned about escalating health care costs.

Mayor Lee commented that the Council's ongoing discussions help to identify key and critical issues for future discussion and study. Mr. Wallace reiterated that he is not expecting a solution this year. However, he would like to explore this line item further next year. Mayor Lee suggested that a trend analysis might be helpful.

Councilmember Stokes suggested focusing right now on the items that have a significant potential impact and/or seem to be a little more volatile than others.

Deputy Mayor Robertson followed up on Councilmember Wallace's request for tracking budget line items. She likes the proposal approach to the budget. However, what is missing is a

comparison to what was funded in the previous budget (i.e., comparison of existing and enhanced funding levels). Ms. Robertson said she believes she requested that two years ago.

Responding to Ms. Robertson, Ms. Rezab said that increases by inflation are not considered enhancements. Enhancement generally refers to a new truck, new equipment, or modified service level. Ms. Robertson reiterated that she is asking for information to justify or explain dollar increases for specific line items. Ms. Rezab said staff will work on compiling more useful information in this regard.

Mayor Lee expressed concern about the survey findings reported earlier which indicate an increase in the percentage of residents who believe the City is moving in the wrong direction. He said if the community is not happy with the direction of the City Council, it is important to figure out why this is and to work toward changes wanted by the community.

Councilmember Stokes said his understanding is that the survey was about the City, not specifically the City Council.

Mr. Siegel said the specific survey question is about the City, and the responses are not saying that the City is headed in the wrong direction. There was a slight decrease in the percentage of residents who felt that the City is headed in right direction. Mr. Siegel commented that it is difficult to know the reason for the survey responses, but it might also have to do with the general slowdown in the economy.

Mayor Lee said we need to figure out why the satisfaction level has decreased.

Mr. Sarkozy said staff can provide some additional information that might address this issue.

Councilmember Balducci thanked the Responsive Government Results Team for the presentation. Her observation is that the budget is essentially status quo and is able to continue services despite reductions over the past few years. City Manager Sarkozy concurred that this is a positive result.

(c) Safe Community

Kyle Stannert, City Clerk's Office, said the Safe Community outcome includes public safety proposals as well as proposals from other departments. This outcome is able to fund all existing services under the Results Team's recommendation. Referring to page 63 of the Council's Budget binder, only one proposal is identified as an enhancement. This outcome area was able to turn back \$135,000 in 2013 and \$203,000 in 2014, which can be used in other outcome areas.

Mr. Stannert said the proposals fall into three tiers – emergency services, direct support of emergency responders, and planning/administration. One proposal that initially fell below the funding line was a new program in the Fire Department. The department responded by looking for other ways to provide those services.

Mr. Stannert reminded the Council that there have been reductions in the Safe Community outcome in recent years. The Results Team could not find a way to reduce further without significant impacts and recommends holding the line on existing service levels.

Councilmember Chelminiak asked about probation services. Mr. Stannert confirmed that probation services was one of the areas identified during the last budget process for further study. The Results Team did receive a proposal from probation services. However, the study is wrapping up and the Results Team is waiting to make a recommendation on this proposal. Mr. Stannert clarified that the probation program, together with funding to cover it, have been separated from the overall outcome recommendations for right now.

Mr. Chelminiak said that some results of the study are available. He expressed concern about the potential for losing the probation program, which would result in placing more individuals into jail and increasing overall costs. The probation program has served Bellevue extremely well and cannot be replaced with the County program.

Councilmember Chelminiak said he wants to flag this issue for further discussion. He reiterated that he does not want that program or funding to go away, and he is worried that a decision has already been made to cut that program.

Councilmember Stokes said he does not get the feeling that it has been cut. Ms. Hawn reassured Councilmember Chelminiak that Probation Services will not get lost. It will be addressed going forward.

Councilmember Balducci said it is important that probation services be reflected in the current list of budget proposals. Responding to Ms. Balducci's question regarding potential increases in services, Mr. Stannert said the Results Team can provide information on what it would recommend if additional funding were available.

Ms. Balducci said there have been some legal developments around public defense recently, including the County's struggle with the Supreme Court decision that public defenders are PERS-eligible. She questioned whether the budget proposals address the potential impact of this issue.

Mr. Stannert said that Jerome Roaché, City Attorney's Office, was a member of this Results Team. He noted that the City is taking a more arm's length approach to how it manages the public defense contracts, and the caseload standards do not affect the City.

Councilmember Balducci thanked the Results Team for their work.

Councilmember Stokes said it would be interesting to see what else is out there in terms of additional candidate proposals.

Deputy Mayor Robertson questioned whether there are programs that were funded in the last budget that are not included in the current proposals. Ms. Rezab did not recall any, but said she would check.

Councilmember Chelminiak said it would be good to have an understanding of any significant redeployments of staff from one functional area or program to another.

Responding to Councilmember Wallace, Ms. Hawn said the compensation figures include salaries and benefits costs. In further response, Mr. Stannert said the Police Department bike patrol is a specialized unit.

Councilmember Wallace said he would like a better understanding of the ability to continue to provide public safety without certain programs and/or staffing levels.

Responding to Councilmember Stokes, Mr. Stannert said the digital forensics item reflects an increasing need for that technology.

At 6:09 p.m., Mayor Lee declared a break to allow Councilmembers to get their dinners. The meeting resumed at 6:24 p.m.

(d) Improved Mobility

Laurie Gromala, Transportation Department, described the Improved Mobility outcome area. The Results Team ranked 18 proposals, all from the Transportation Department. Proposals were ranked with a primary focus on safety, maintenance, and support services before looking at new investments, with the exception of the East Link light rail project. The East Link project is ranked higher due to its long-term impact and its importance to the community. Other regional projects were generally considered of lower importance than the City's local projects. Ms. Gromala described two proposals that fell below the funding line as well as additional items the team would recommend for funding if the resources were available.

Councilmember Balducci noted that the existing Regional Projects and Policy Program falls below the funding line. She asked whether the 1.5 FTE staff positions are currently filled. Ms. Gromala said they are, and this recommendation will be further reviewed by the Leadership Team. The Leadership Team will review all proposals in all outcomes to formulate its recommendation.

Ms. Balducci said that most, if not all, Councilmembers spend time working on regional transportation projects in trying to maintain an effective regional advocacy presence because so much of transportation that affects Bellevue is beyond the City's direct control. She asked the Leadership Team to think twice before removing whatever small support is left. She noted that this work brings money to the City for transportation projects.

Responding to Deputy Mayor Robertson, Ms. Gromala said that perhaps the traffic signal project could be accelerated somewhat. However, the consultant's backlog of work restricts the City's ability to do so. In further response, Ms. Gromala said she will look into this issue.

Responding to Councilmember Stokes, Ms. Gromala said the budget survey and performance measures indicate many local issues (e.g., sidewalks, local transit) and fewer regional projects.

Mr. Stokes suggested a stronger emphasis on educating the public about the importance of regional transportation projects.

Responding to Councilmember Wallace, Ms. Rezab said that certain CIP projects contribute funding to the operating budget for staffing and other operational expenses. In further response, Ms. Rezab explained that health care refers to the direct payments on medical claims to the third party insurer. Employee costs include the City's portion of health care benefit premiums.

Mayor Lee commented that the East Link project is affecting the resources available for other projects.

(e) Healthy and Sustainable Environment

Jerome Roaché, City Attorney's Office, said the Healthy and Sustainable Environment Results Team received 45 proposals, mostly from the Utilities Department. One of the proposals was transferred to the Improved Mobility team, leaving 44 proposals to rank. He explained that many of the proposals had been scaled back following the Round 1 rankings, and the Results Team found that it could fund the majority of proposals.

Deputy Mayor Robertson referred to solid waste recycling. She noted that citizens tend to do very well in conserving water and increasing recycling efforts. She wondered whether it makes sense to continue to use resources in these areas that are already successful. Mr. Roaché said the Results Team discussed that issue and acknowledged how well these programs are working. However, the team determined that it would be appropriate to continue the emphasis.

Continuing, Ms. Robertson referenced the solid waste contract and asked whether the City is required to re-bid the contract. She wondered whether there would be a cost savings to not going through the bid process. Mr. Roaché said he will forward that question to the Budget Office.

Councilmember Balducci requested more information on the Utilities customer field services support proposal.

Councilmember Wallace said it would be helpful to be able to match budget proposals and items with specific funding resources. He questioned the "operating transfer to the CIP" and requested details on the funding sources.

Councilmember Stokes requested more detail on why cuts are recommended for nature parks and forest management. Responding to Councilmember Stokes, Mr. Roaché said the Parks Department's proposal did not include project management in the CIP Plan, while most departments do. However, project management costs will be moved to the CIP Plan.

(f) Quality Neighborhoods

Frank Pinney, Civic Services, said the Quality Neighborhoods Results Team received six proposals. The proposal at the bottom of the list is neighborhood mediation. The team talked to staff about scaling back this function but determined that it could not be reduced any further and

remain effective. The team believes strongly that the program should be funded. It has been in place for 15 years and has 70 trained volunteers. If the program is terminated, it would be expensive and time consuming to reestablish those ties with community and with the volunteer base in the future.

Mr. Pinney noted that if additional funding is available, the Results Team recommends allocating more resources to the Wrap Around Services Program.

Councilmember Stokes commented on the importance of the Wrap Around Services Program and said he is glad to see a recommendation to fund it.

Responding to Mayor Lee, Mr. Pinney explained that this outcome does not have sufficient funding for neighborhood mediation. The Results Team feels strongly that it should be funded and that money should be found elsewhere. Mr. Pinney confirmed that cutting the entire program would remove \$180,000 from budget.

Ms. Hawn said this is high on the Leadership Team's list for identifying a funding source from another outcome area.

Responding to Councilmember Chelminiak, Mr. Pinney clarified that some funding is available for the Wrap Around Services Program. However, the funding is not considered to be sufficient to maintain a viable program. Therefore the Results Team recommends finding additional funding from another outcome.

Councilmember Wallace suggested creating an "Adds" list to track candidate proposals for receiving any new or reallocated funding.

(g) Innovative, Vibrant and Caring Community

Mr. Pinney said that the Innovative, Vibrant and Caring Community outcome includes a number of enhancements, in part related to the South Bellevue annexations. One significant enhancement is updating the Comprehensive Plan. Mr. Pinney said the Results Team determined it would be shortsighted to stop an ongoing program to fund a one-time item. The team asked the Budget Office and Leadership Team to develop a list of one-time items so that they might be funded in a different way.

Mr. Pinney said staff was asked to include in their proposals their suggestions for shifting resources around to fund higher priorities. He noted that the Parks Department survey results have decreased somewhat, likely due to program and service reductions in recent years. The Results Team recommends finding the money to make this outcome whole.

Deputy Mayor Robertson questioned the difference in funding levels for the community centers. Mr. Pinney explained that this is dependent on the programs provided at the different centers.

Shelly Brittingham, Parks Department, said that the community centers generate revenue with their programs. Mr. Pinney noted the items listed that reflect revenue enhancements (i.e., programs that generate revenue).

Ms. Robertson said that a number of organizations use the community centers (i.e. child care, Boys and Girls Club of Bellevue). She questioned how much of the program costs are covered by the revenue received and whether the General Fund is subsidizing certain activities. Ms. Rezab said staff will look into that issue.

Councilmember Wallace reiterated that it would be helpful to be able to compare revenues against specific budget line items and/or proposals. Ms. Rezab said she will look into that information.

Councilmember Balducci commented that these are some of the most popular programs among citizens. They serve a great number of people and are a large part of what makes Bellevue a great place to live.

Mayor Lee concurred that many of these items are widely used by the public. As a separate item, he noted that the City has not updated the Cultural Diversity program in a long time.

Responding to Councilmember Chelminiak, Mr. Pinney said the IVCC team's recommendation is to find one-time funding for the Comprehensive Plan update. He reiterated the Results Team's logic that it would not make sense to cut an ongoing program to fund this one-time activity.

(h) Economic Growth and Competitiveness

Max Jacobs, Civic Services, explained that the Economic Growth and Competitiveness outcome cuts across all departments and budget proposals. The Results Team received 11 proposals and ranked the essential activity of the Development Services Division's permitting work as the top priority. The next items are an economic development program as a core function and the new proposal for creating an economic recovery strategy.

Mr. Jacobs said the Results Team recommends more funding for this entire outcome. All of the proposals represent strong potential projects. He reiterated that the Results Team believes it is imperative to embark on the economic recovery strategy initiative.

Responding to Mayor Lee, Mr. Jacobs said the cost of all proposals submitted is \$4 million from the General Fund, while funding of \$2.5 million is available.

Deputy Mayor Robertson noted a reduction in the Downtown Livability Program, which the Council has recently been discussing as a priority. Chris Salomone, Director of Planning and Community Development, confirmed that the Council approved that work last week and provided funding.

Responding to Councilmember Balducci, Mr. Salomone clarified that the Downtown Livability Study is funded in the current CIP Plan. Councilmember Chelminiak recalled that funding was reallocated from the Station Area planning and Pedestrian Corridor projects in the CIP Plan.

Moving on, Ms. Robertson said she did not see a proposal to fund the Economic Development Director position, which she would like to see filled.

Councilmember Wallace asked how staff determined how much money to assign to each outcome area. Ms. Rezab said staff looked at previous budget and policy direction and allocated funding in similar proportions for this budget process. She noted that this was intended as a starting point for the budget discussions.

Mr. Wallace observed that the recommendation results in no longer funding Downtown parking enforcement. Ms. Rezab said this issue is a matter of concern for the Leadership Team, and it will be looked at further. Mr. Jacobs said there are less expensive measures that might be appropriate. Responding to Councilmember Stokes, Mr. Jacobs said the majority of parking enforcement revenues go toward covering court costs.

Responding to Councilmember Chelminiak, Ms. Rezab said staff can provide financial details on the agreement with the vendor who enforces parking rules.

Councilmember Stokes spoke to the importance of supporting economic development. However, he does not necessarily support hiring an Economic Development Director. Mr. Stokes said it might be more effective to develop a strategic approach across the organization. He strongly believes that this is something the Council needs to discuss further.

Councilmember Chelminiak noted the item labeled citywide environmental review. He observed that such an effort could make it easier for developers to meet requirements for projects. He would be interested in Councilmember Wallace's thoughts on that item.

Mayor Lee concurred with Mr. Jacobs' assessment that this is an imperfect solution for this outcome. Mr. Lee concurred with Deputy Mayor Robertson's suggestion to hire an Economic Development Director in order to provide a focus for pursuing specific goals. He said there is a need to develop an action plan with specific objectives and to be able to show results. He agrees that more money and focus is needed for this outcome.

Councilmember Wallace talked about the need to develop specific goals, as Councilmember Balducci has suggested in the past. He believes the Council should provide policy direction on specific economic development objectives. He noted that he, Councilmember Chelminiak, and Mayor Lee began discussing the development of a strategy a couple of years ago while an Economic Development Director was in place.

Councilmember Davidson asked whether the Council will receive the Leadership Team's recommendations before the City Manager's budget is presented.

Mr. Sarkozy said that some of the Leadership Team's recommendations will be reflected in his preliminary budget. However, this is a highly constrained budget which will require a great deal of fine tuning this fall.

At 7:57 p.m., Mayor Lee declared a short break. The meeting resumed at 8:12 p.m.

7. Capital Investment Program (CIP) Presentation

Mr. Sarkozy explained that staff is seeking Council direction to aid in putting together the preliminary CIP Plan.

Dan Stroh, Planning Director, recalled that the CIP Plan has been discussed to some extent during Council budget workshops in April and June. He reviewed the key challenges for the 2013-2019 CIP Plan including a significant revenue shortfall, ongoing CIP cash flow needs, ongoing program maintenance, East Link-related investments, and Mobility and Infrastructure Initiative (MII) policies and funding.

Mr. Stroh described the panel approach to developing the CIP Plan. Mr. Stroh said staff modeled the transportation impact fee revenue forecast based on the current adopted ordinance, as requested by the Council. The revenue estimates include Local Improvement District (LID) assessments and the issuance of both long-term and short-term debt. There are no new taxes in the model.

Mr. Stroh recalled that, under the East Link project memorandum of understanding (MOU), an up-front contribution of \$100 million and a \$60 million contingent contribution are identified. The portion of the up-front contribution in the 2013-2019 General CIP Plan is \$27.8 million. East Link MOU-related funding also includes \$4.6 million in Parks levy funding and \$1 million from the ongoing street overlay program.

Mr. Stroh noted the MII/Bel-Red map of projects reflected in the 2013-2019 CIP Budget proposals. He recapped the Council's past direction to combine the Base CIP, MII, and East Link MOU projects into an overall capital plan, which involves long-term and short-term debt.

With the Mayor's concurrence, Mr. Stroh skipped ahead to the "Panel's CIP Prioritization Criteria" slide. The criteria include effectiveness at achieving City mission and community outcomes, legal mandates, financial factors (i.e., cost/benefit analysis, avoid costs, leveraging), timing/urgency (i.e., readiness, critical linkages), and scaling the level of service or project completion.

Mr. Stroh said that all ongoing programs were cut by 30 percent in the last CIP Plan. The Panel explored whether reduced funding levels adequately maintain existing infrastructure. This resulted in restoring higher funding for Transportation Major Maintenance (which is separate from the ongoing Overlay Program). Mr. Stroh briefly reviewed the list of ongoing CIP programs. Category 1, Maintenance Programs, and Category 2, Safety Programs, are funded first after debt obligations. Category 3 represents new infrastructure which competes with discrete projects in the Base CIP.

Responding to Councilmember Davidson, Mr. Stroh briefly described the difference in the handling of minor and major maintenance.

Councilmember Wallace observed that the operating budget covers two years, while the CIP Plan has a seven-year horizon. He noted the long-term issue of how capital projects will contribute to a continued increase in operating costs. He likened this to the ongoing increase in health care costs as well.

Mr. Stroh explained that the sales tax transfer into the operating budget is set by Council policy at the 75 percent share.

Councilmember Wallace stated his recollection that the 75 percent share would increase only by inflation, and any amount above that would go to the capital budget. Staff confirmed that the B&O tax split was set at 75/25. The past maintenance and operations (M&O) discussion was around the sales tax portion of the transfer.

Mr. Wallace said his concern is that it will ultimately become necessary to raise the property tax. He observed that the two-year horizon of the operating budget masks the problems that are being created with new capital investments.

Councilmember Chelminiak concurred with Mr. Wallace's concerns.

Continuing, Mr. Stroh described the selected projects from the CIP Panel's Ranking. Projects above the funding line include NE 4th Street extension (full funding), 120th Avenue NE (full funding for Stages 1 and 2, and Stage 3 to NE 16th Street), South Bellevue Way HOV lane, Parks levy projects, Meydenbauer Bay Park Development Phase 1, East Link MOU commitments and East Link Analysis, West Lake Sammamish Parkway Phase 1, neighborhood sidewalks, and the relocation of the Surrey Downs Municipal Court. The Downtown Fire Station and Neighborhood Enhancement Program (NEP) fall below the funding line.

Responding to Councilmember Stokes regarding the Downtown Fire Station, Mr. Stroh said a number of questions were raised by the Panel, including whether another service delivery model would be appropriate. Could an EMS (Emergency Medical Services) facility be added downtown until a full fire station is warranted? The Panel determined that the fire station was not ripe for funding. In further response, Mr. Stroh said there is the potential for addressing these needs within the Downtown Livability Plan. The sense is that, as the Fire Department refines its feasibility analysis, more will be known in terms of how demand might be addressed.

Responding to Councilmember Wallace, Fire Chief Mike Eisner recalled the Council's discussion in early June about the potential for a Downtown Fire Station on the Ashwood site. The Fire Department continues to look for other possible sites.

Deputy Mayor Robertson noted the item of \$4.5 million to relocate the Surrey Downs Municipal Court. She said the City of Kirkland is building a new municipal court facility, and she questioned whether Bellevue has considered working with them. Mr. Stroh acknowledged that

there are a number of options and strategies for addressing the court needs. Ms. Robertson said she would like to partner with others for a municipal court.

Deputy Mayor Robertson expressed concern about not funding the Neighborhood Enhancement Program yet funding items such as the Meydenbauer Bay Park Development, which is not in the Parks levy package. She suggested first addressing projects in the Parks levy package which require matching funds. She is hesitant to not fund NEP. She recalled that the Council discussed that two years ago and decided to retain the program. She suggested looking at NEP and sidewalks together.

Moving on, Mr. Stroh recalled that the 2008 Parks levy was approved by 67 percent of the voters. It provides \$3.4 million in capital funding and \$660,000 for operations, and requires a City match for specific projects. Mr. Stroh noted the key projects included in the levy package.

Mr. Stroh commented on how certain CIP budget items respond to the budget survey. There are a number of economic development items in the CIP Plan as well as projects related to emergency preparedness, reducing traffic in the Downtown, and building or widening streets.

Councilmember Stokes said he would prefer to not delay funding Meydenbauer Park for six years. He questioned whether partial funding would be effective. Mr. Stroh said the project is complex and expensive (\$40 million) and will take many years to complete. He said the CIP Panel talked about how it has the potential to be a catalyst for other community development. Mr. Stokes observed that the project supports the broader goals related to quality of life and economic development.

Responding to Councilmember Chelminiak, Parks and Community Services Director Patrick Foran briefly described Phase 1 (\$9 million). In further response, Mr. Foran said Meydenbauer Bay Park, Downtown Park, and the connection to the Pedestrian Corridor involve a series of projects that relate to quality of life.

Responding to Councilmember Wallace, Mr. Stroh said that annexations typically involve infrastructure needs. While no projects are currently planned, it is likely that projects will arise in the newly annexed South Bellevue neighborhoods over the coming years.

Mr. Stroh said there are five key policy issues related to the CIP Plan. The first is revenue assumptions (i.e., Transportation Impact Fees, Local Improvement Districts/Special Benefit Assessments). Mr. Stroh said that transportation impact fees are now modeled consistent with the adopted ordinance.

Councilmember Wallace said he would like additional discussion on impact fees. He acknowledged that it will likely be necessary to increase fees to \$3,000 per trip, but he is concerned that anything higher will stifle future development. Councilmember Wallace commented briefly on how Seattle and other communities differ and what development they are attracting.

Councilmember Balducci recalled that the current impact fee schedule was adopted in 2009, just as the economy started to slow down. Ms. Balducci said she would prefer to maintain the fees at this time. She observed that certain large projects are moving forward.

Councilmember Stokes said he is somewhere in between the perspectives of Councilmembers Balducci and Wallace. He is willing to review the issue and to consider alternative approaches (such as adjusting the timing for the payment of fees). He does not advocate moving away from the current ordinance but would support looking at options.

Councilmember Chelminiak said he would like to see an analysis of a delayed payment structure alternative. He is open to reviewing the transportation impact fee.

Deputy Mayor Robertson recalled that the Council discussed this in recent months, and there was a general consensus to consider options. She said there was also a consensus at that same meeting about looking toward a policy that would dedicate impact fees to projects closest to the development required to pay the fees. She shares Councilmember Wallace's concern that later impact fee increases will stifle development. She can support LID assessments in areas with widespread support by property owners. If there is not widespread support, Ms. Robertson said the City should conduct a special benefit analysis.

Councilmember Davidson said he would like staff to revise the analysis by reducing the \$5,000 impact fee to \$3,000 to see how that looks in terms of realistic projections of revenue generation.

Mayor Lee commented that the economy is still slow. He encourages using the impact fee in a way that does not prohibit development, but he said that does not necessarily mean removing or lowering the impact fee. He is interested in the anticipated effect of a policy that allows later payment of impact fees.

Councilmember Stokes observed that there is time to explore options.

Responding to Mr. Wallace, Mr. Stroh said the projections of impact fee collections have been adjusted to reflect lower development levels.

Mr. Wallace acknowledged that many variables affect developers, and impact fees will not be the deciding factor. He believes a more effective incentive would be the ability to direct construction sales tax revenues to local infrastructure projects. Mr. Wallace observed that impact fees vary based on the location, and he believes it will be more challenging to get development going in the Bel-Red than in the Downtown.

Mr. Stroh summarized the direction he is hearing, which is to model two different scenarios, one that follows the current ordinance and a second scenario that caps the impact fee at \$3,000.

Councilmember Chelminiak said he would like staff to develop some funding scenarios for consideration. He suggested that the scenarios go through the construction of light rail. Mayor Lee concurred.

Councilmember Balducci suggested that the budget proposal must be based on current law and the adopted impact fee schedule. However, adjustments and options can also be considered.

Mr. Chelminiak reiterated his interest in being able to consider alternative revenue scenarios.

Mr. Stroh suggested that staff bring scenarios back to the Council for discussion as early as possible in September.

Mr. Stroh moved to the second policy issue, which is the use of debt. The draft CIP Plan uses long-term (20-year) debt funded through Base CIP revenues with no new taxes. The Plan also uses short-term borrowing to meet cash flow needs.

Staff responded to questions of clarification about the mechanics of double-budgeting and the issuance and repayment of debt.

Councilmember Balducci said she is open to considering debt options related to funding the CIP Plan.

Councilmember Chelminiak said he will want to discuss how funds are dedicated to specific projects.

Councilmember Wallace noted that the City has a low level of debt, interest rates are low, and the City repays debt within the duration of a project. He believes that debt is a good option. He observed that the effective interest rate is nearly zero when adjusted for inflation.

→ At 9:53 p.m., Deputy Mayor Robertson moved to extend the meeting to 10:30 p.m. Councilmember Stokes seconded the motion.

→ The motion carried by a vote of 7-0.

Mr. Stroh highlighted Policy Issue 3, which is the themes reflected in the CIP Panel's prioritization of proposals including maintaining current infrastructure, providing for mobility, meeting the East Link MOU commitments, advancing the Parks levy projects, and preparing for future development.

Policy Issue 4 is Neighborhood Strategy. Mr. Stroh said staff has been looking at new models for neighborhood outreach and investments. The first model involves the coordinated/synchronized implementation of certain types of projects within a neighborhood or area (e.g., General CIP and Utilities CIP investments). Model 2 is a more comprehensive intervention strategy in challenged neighborhoods.

Mr. Stroh recalled the survey of neighborhoods several years ago to determine where to target efforts, which resulted in a number of projects in the West Lake Hills area. He noted that staff has been mapping certain items such as foreclosures.

Councilmember Chelminiak said the new school superintendent is interested and experienced in community partnerships.

Councilmember Balducci recalled that the Neighborhood Investment Strategy in West Lake Hills had a very positive impact and provided improvements along 140th and 145th that have been completed. The program was a good example of the City and residents working together to make the improvements and changes identified by residents, and it created citizen leadership within those neighborhoods.

Councilmember Stokes expressed support for a strong neighborhood emphasis, and thanked staff for looking at new models. He observed that vibrant neighborhoods are key to sustaining economic development.

Deputy Mayor Robertson recalled that two years ago, the Council retained the Neighborhood Enhancement Program (NEP) and terminated the Neighborhood Investment Strategy (NIS) approach. She observed that the two models presented tonight are similar to those programs.

Moving on, Mr. Stroh said Policy Issue 5 is unmet capital needs. Bellevue continues to have a large backlog of unmet needs including park development, an aquatic center, arts and culture, the needs of employment and housing growth centers (e.g., Downtown, Bel-Red, Eastgate), and overall transportation and mobility.

Councilmember Wallace said it is possible that projected revenues will be exceeded. He suggested creating a list of what the Council would choose to do next if surplus funds are available.

Mayor Lee stated that the City Manager will present his budget in early October. There will be ongoing opportunities for public input and involvement until the Council adopts the budget in December.

8. Executive Session

At 10:16 p.m., Mayor Lee declared recess to Executive Session for approximately 15 minutes to discuss one item related to property acquisition.

9. Adjournment

The Executive Session concluded at approximately 10:35 p.m., and the meeting was adjourned.

Myrna L. Basich, MMC
City Clerk

kaw