

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Extended Study Session

February 8, 2010
6:00 p.m.

Council Conference Room 1E-113
Bellevue, Washington

PRESENT: Mayor Davidson, Deputy Mayor Lee, and Councilmembers Chelminiak, Degginger, Robertson, and Wallace

ABSENT: Councilmember Balducci

1. Executive Session

The meeting was called to order at 6:02 p.m., with Mayor Davidson presiding. There was no Executive Session.

2. Oral Communications

- (a) Bill Hirt encouraged the Council to use the permitting process to block East Link light rail. He submitted his comments in writing, and reviewed his reasons for opposing light rail.
- (b) Fred Walkley, a Surrey Downs resident, noted that he has owned three sports bars in Bellevue since 1970. He noted significant increases in operations costs including rent, labor, and other expenses. He asked the Council to eliminate the gambling tax on pull tabs for one year and to reinstate the tax at 2.5 percent, instead of the current 5 percent, after twelve months.
- (c) Berta Seltzer, speaking on behalf of the Bellevue Network on Aging, reviewed a list of suggestions with regard to the structure and location of Sound Transit light rail stations. She described the difficulties of access for people of limited mobility, including older citizens. She noted that Bellevue has the highest percentage of residents age 65 and over in King County. She said the needs of older citizens within Bellevue should be a transit priority. Ms. Seltzer said Sound Transit's original plans acknowledged the special needs

of older adults and those with limited mobility, and she wants to ensure that Sound Transit maintains this focus. She submitted her comments in writing.

- (d) Howard Katz expressed support for an underground light rail system. He described his past experience living in New York City, and noted that public transit was initially built with elevated trains and stations. However, in the 1930s, New York City rebuilt the trains as a subway system. He encouraged the Council to consider the long-term impacts of light rail and to avoid at-grade and elevated configurations.
- (e) Eric Evans, Director of Housing Development for St. Andrews Housing Group, expressed appreciation for Bellevue's continued support of affordable housing projects and the ARCH Housing Trust Fund.

3. Study Session

(b) Council Business and New Initiatives

Deputy Mayor Lee reported on the gift of a pair of Fu Dogs to Bellevue from the City of Hualien, Taiwan. He suggested that the City hold a public event to celebrate the installation of the statues and to invite citizens to City Hall.

Mr. Lee recalled the Council's previous discussion about funding the Eastgate I-90 land use and transportation planning effort. He said he is confused about the outcome of that conversation, as he now has the impression that the issue will come back to the Council on the Consent Calendar. He would like to defer further discussion until the Council is able to look at the budget as a whole. He noted previously expressed concerns among the Council about the property tax and budget, while at the same time the Council is talking about moving forward with projects that do not have funding.

Mayor Davidson stated his understanding that the Council had indicated to staff to proceed with the planning effort.

Councilmember Degginger agreed with celebrating the arrival and installation of the pair of Fu Dogs.

Regarding the Eastgate planning effort, Mr. Degginger said the Council did provide direction to staff to proceed with this project by refining the scope of work and schedule, and organizing a citizen advisory committee. Mr. Degginger does not want the Council to take up a pattern of revisiting every decision that has a budget impact. He noted that certain work should move forward, despite the need to fully address budget issues later this year.

Councilmember Wallace asked for a staff report regarding funding for the Eastgate I-90 planning effort.

Mayor Davidson noted current limits on City staff traveling out of state for business-related training and conferences. He stated that he will be monitoring Council travel as well to ensure the efficient use of the dollars available. Mayor Davidson noted his expectation that Councilmembers provide a brief written summary documenting any business travel and describing the benefit of the travel expenditure to the City and citizens.

Deputy Mayor Lee recalled that early in his years on the Council, few Councilmembers traveled to the annual National League of Cities conference in Washington, D.C., and most of the meetings were handled by staff. He described his role over the years in increasing Councilmembers' participation in preparing for and attending the conference. Mr. Lee said he is currently preparing for his upcoming trip to the annual conference, and he has met with City staff to review priorities and the information necessary to best represent Bellevue's interests.

(b) Ten20 Theatre Agreement

City Manager Steve Sarkozy recalled the 2004 agreement with the Hanover Company regarding the development of property it was purchasing from the City at 108th Avenue NE and NE 10th Street.

Planning and Community Development Director Matt Terry explained that the original sale and agreement was with John Su Development. The agreement granted subsurface rights to a City-owned parcel in exchange for the City retaining control over the surface of that property. The proceeds from the City's sale of the property were used to develop a plaza. The original agreement included a proposal from John Su to build a theatre and to provide underground parking for the theatre's use. The City retained the right to intervene and lease the space if the developer was unable to find an operator of the theatre.

The Hanover Company subsequently bought the property and developed the high-rise residential project and plaza improvements. Hanover has been working with the City to try to find an operator for the theatre. Approximately 20 organizations have been contacted, but none are able to complete interior improvements and operate the theatre. Hanover has the right to convert the space to another use, subject to a 60-day advance notice to the City. Hanover provided a 60-day notice to the City on January 8, 2010, and the company has a prospective tenant for a portion of the theatre space.

Mr. Terry reviewed the City's option to relinquish its interest in the property or to propose and finance a lease of the space. Staff recommends that the City relinquish its interest in the property. No money is available to lease the space, and the City has not been able to find an operator for the theatre.

Councilmember Wallace interjected, stating that he did not initially understand the nature of this agenda item. He noted his association with Wallace Properties, which manages space in the Ten20 Tower, and recused himself from the discussion.

Mr. Terry said staff plans to send a letter to the Hanover Company relinquishing the City's interest in the theatre space, unless otherwise directed by the Council.

Responding to Councilmember Robertson, Mr. Terry said the idea of a theatre was proposed by Mr. Su. The City did not require a theatre. Mr. Su had some interest in partnering with the City and/or other groups to accomplish the theatre's operation. In further response, Arts Specialist Mary Pat Byrne said the theatre is not large enough for the Bellevue Youth Theatre program.

City Manager Steve Sarkozy clarified that the City received what it was entitled to under the agreement, which was that the developer provide funding for the plaza and the entrance to Ashwood Park.

Mayor Davidson commented that Mr. Su had an exciting vision for a black box theatre at this location. However, those plans were affected by the economic downturn and the change in ownership of the property.

- Deputy Mayor Lee moved to direct staff to relinquish the City's interest in the Ten20 Tower theatre space. Councilmember Robertson seconded the motion.
- The motion to relinquish the City's interest in the Ten20 Tower theatre space carried by a vote of 5-0, with Councilmember Wallace recused.

Mr. Terry commented that the Hanover Company has been extremely cooperative and has indicated that the future development of a theatre is not ruled out.

Deputy Mayor Lee suggested sending a note to the Hanover Company expressing appreciation for its willingness to consider a theatre in the future.

Councilmember Wallace returned to the table.

(c) 2011-2012 Budget

(1) Process and Timeline

Mr. Sarkozy said staff anticipates that significantly more time will be committed to reviewing the budget this year than in past years. He explained that past budgets have been focused on department priorities. However under the current economy, a shortfall of \$17 million is anticipated for the 2011-2012 operating budget. While expenditures have been significantly reduced, permanent budget restructuring is needed. The 2011-2017 General Capital Investment Program (CIP) Plan is facing a shortfall of \$96 million, and the 10-year Mobility and Infrastructure Initiative Financing Plan has a budget gap of \$47 million.

Mr. Sarkozy explained that staff recommends an outcome-based approach to the budget. The characteristics of this approach are a citizen perspective, long-range strategic planning, link

between performance measure and outcomes, combined capital and operating budget strategy, transparency, and innovation/efficiencies.

Finance Director Jan Hawn reviewed the proposed outcome-based budget process. Staff conducted extensive research on budget processes and found that this performance-based approach is considered a best practice by most government financial organizations. The City of Bellevue is well known for its performance measurement program, which provides a strong foundation for outcome-based budgeting. The process will incorporate desired outcomes, resources, financial policies, and strategies to identify proposed services. These services will then be prioritized and revised by staff, and ultimately reviewed by the Council.

Ms. Hawn briefly reviewed the proposed budget schedule, beginning with the establishment of desired outcomes this month. Financial policies and available resources will be reviewed in April, and proposed strategies will be developed by staff. The financial forecast will be updated in June, followed by the refinement of outcome-based services proposals. Budget deliberations will occur as usual in the fall, with budget adoption to occur in December. Ms. Hawn said the process will be iterative, and the Council will have multiple opportunities to provide feedback and make adjustments to outcomes, policies, and services.

Mayor Davidson stated that the proposed process fits the current economic situation. He noted that the budget represents the most important policy decisions made by the Council, and it provides a management tool for staff in delivering services.

Councilmember Degginger stated that he is not convinced of the value of adopting a new process. He noted that the City Manager commented on what Bellevue's citizen surveys reflect in terms of the community's priorities. Mr. Degginger has a hard time imagining that the Council will be surprised about priorities and performance measures by going through a new budget process. He presumes that staff will not be asking the Council to decide what the performance measure for arrival at a fire should be in terms of response time. He also does not expect that the Council will be asked to consider a proposal by the Parks and Community Services Department to perform as the medics operating aid cars. Mr. Degginger reiterated that he is having a hard time discerning what the Council and staff will be doing differently. Regarding the schedule, his expectation was that the Council would be getting into budget discussions in greater detail much earlier in the year. He does not see the proposed schedule as much different from the schedule used in previous years.

Mr. Sarkozy concurred that the City receives good feedback from the public that services are meeting the community's needs in general. However, revenues are down substantially and budgeting as usual will not solve the problem. The purpose of outcome-based budgeting is to think about the delivery of services in different ways, and to look for different ways of delivering services that are not constrained by department demarcations.

Ms. Hawn added that in past budgets, discussion has included the consideration of new investments. With the outcome-based budget process, the intent is to talk about the entire budget and how each of services delivered contribute to a desired outcome. Some services proposals

will cut across department lines. For example, neighborhood programs in multiple departments might be able to introduce efficiencies and/or improve the delivery of services through a non-department based strategy. Outcome-based budgeting will identify desired outcomes, which will then be linked to strategies, performance measures, and other aspects of the budget.

Councilmember Degginger expressed support for a holistic approach to the budget. However, he is concerned that the budget schedule looks like previous years, and that it does not involve the Council early enough in the iterative process. He noted that at some point the Council must make decisions about what the City is not going to do anymore, and he feels this should occur earlier in the process. He is concerned that the process does not adequately accommodate the task of cutting \$17 million out of the two-year operating budget, in addition to reductions in the capital budget.

Ms. Hawn explained that in April the Council will be presented with the revenue allocations as they exist now, and what they might look like in terms of reductions by outcome areas. In July, the Council will see staff's rankings of proposals and will have the opportunity to provide further direction regarding budget priorities.

Councilmember Degginger questioned how transparency of the budget process will be provided in terms of the Council's access to staff's work between now and April.

Budget Manager Jonathan Swift clarified that the Council will have a series of presentations and discussions, and will have numerous opportunities to provide feedback and input to staff. He noted that this is a huge and new undertaking for staff. Mr. Swift said the Council has traditionally had 20 to 23 one- to two-hour meetings about the budget. This year the Council will be discussing some aspect of the budget in 30 to 35 meetings.

Councilmember Degginger reiterated his question about transparency.

Mayor Davidson said he is willing to schedule more Council meetings if that will help to enhance the transparency of the process. He acknowledged that the new process will be a challenge, but he feels a new budget structure will serve the City well for the long term.

Responding to Councilmember Chelminiak, Mr. Swift said staff envisions discussions with Boards and Commissions at the point of narrowing high-level community outcomes down to strategy maps. In addition, there will be some interaction between staff and the Boards and Commissions in developing specific proposals, as well as the usual public hearings and opportunities for reports from Boards and Commissions to the Council.

Councilmember Chelminiak stated that Councilmember Degginger is right in terms of the process resembling past budget processes. He questioned how the process will work in terms of incorporating the traditional three public hearings.

Ms. Hawn said public hearings are anticipated for June, September and December. Mr. Chelminiak said he would like to see the opportunity for public input prior to key decision points.

Councilmember Chelminiak observed that the Council cannot balance a \$17 million biennial operating budget shortfall, and at the same time engage in discussions about financial policies relating to the CIP transfer to the operating budget, without some real pain and programs going away. He recalled the difficult discussions a few years ago about discontinuing the DARE program, and instead focusing on the School Resource Officer program.

Mr. Chelminiak stated that this process is going to be much more serious in terms of eliminating programs. He suggested that the process must be transparent in terms of educating the public about proposed budget cuts and impacts early in the budget process. Mr. Chelminiak noted the need to determine how much money is actually available in both the operating and capital budgets early in the process as well.

Deputy Mayor Lee stated that the Council needs to be involved in identifying the outcomes, and that past citizen engagement may not be adequate. He said there may be a need for continuous interaction as the Council reviews outcomes, financial policies, resources and strategies. It is important to carefully set priorities due to the challenging economic situation. He suggested having a community summit to establish long-term priorities for the City, and to use existing communications available through the Boards and Commissions. The process must be transparent and have a vision, with staff providing the financial forecast and analysis as necessary. His only insistence is for ongoing dialogue between Council and staff regarding outcomes, while also checking back with the community to see if the City is going in the wrong or right direction.

Councilmember Wallace stated that what he likes about the outcome concept is the synergy it creates. He feels it is a worthwhile approach. He noted the absence of outcomes addressing economic growth and competitiveness and the City in a Park principle. He said it is hard to understand how the process will move from the high level outcomes to specific projects.

Ms. Hawn explained that strategies for achieving outcomes will be developed, as well as key performance indicators. In April, staff will return with strategy maps to talk about how to achieve desired outcomes. Staff will engage in ranking the proposals for each outcome, and in July the Council will be presented with the proposals and their rankings. This process does not refer to budget cuts, but rather focuses on buying the proposals that deliver the desired results.

Councilmember Wallace questioned the reliance on existing precedent, financial policies, and prioritization criteria used by the different departments.

Mr. Swift said staff will still operate with the existing financial policies in mind. Staff will come back in April for a detailed discussion of overall financial policies to talk about the issues of debt and reserves. High level priorities such as public safety and quality of life components will guide

the work of the Results Team, who will be evaluating and ranking the proposals. The process is a shift from department-based accounting to delivering services based on outcomes and values.

Councilmember Robertson stated that this will be a challenging and lengthy process, and in the meantime City government must continue to function. She expressed concern that the Council continues to be presented with expenditure requests for approval. She would prefer to scale back these requests until the Council can effectively address the overall budget.

Councilmember Chelminiak noted the City's long-term tracking of performance measures and citizen surveys. He stated that the budget has been based on meeting outcomes and community priorities for some time. He observed that there has been some effective marketing of outcome-based budgeting within the government arena. He reiterated his concerns about the implications of not funding certain services and programs, and that the public needs to understand the consequences.

Mr. Sarkozy concurred with Councilmember Chelminiak that people do not yet fully understand how significant the impacts will be. He said it is important to start educating the community as soon as possible in order to involve them in the process.

Councilmember Degginger asked for more details on how the internal staff process is going to work. He is interested in who the teams are, what they have been asked to do, and how they will report out. Mr. Degginger said that when the Council discusses what will and will not be funded, he wants to see the justifications for the rankings recommended by staff. He agrees with involving the public as soon as possible.

Ms. Hawn explained that Results Team members who have been identified are considered to be some of the best and brightest employees throughout the City. Their work will be transparent. Staff will present the strategy maps to the Council in April, and the ranking of proposals will be done this summer.

Deputy Mayor Lee said it is important for the Council to reach a consensus on the selected outcomes.

Mayor Davidson observed that perhaps Councilmembers are trying to determine how the process will best meet their own needs.

Councilmember Degginger disagreed and stated that the process as presented is still fairly vague to him.

Councilmember Chelminiak stated that he would like to see Council access to all of the information generated throughout the process. He would like to see who is on the Result Teams, the proposals presented to them, and the recommendations.

(2) Council Priorities and Community Outcomes

Deputy City Manager Brad Miyake opened discussion regarding the proposed outcomes for the budget process. Staff recommends identifying no more than seven outcomes, in order to keep the process focused and manageable. He explained that strategies will need to be identified to achieve the outcomes within given financial constraints.

Mr. Swift displayed a strategy map used by Polk County, Florida, to demonstrate how outcomes will guide the development of specific proposals.

Mr. Miyake reviewed major themes identified by Council during the Council retreat in January: 1) Public safety and safe community, 2) Transportation, 3) Environmental Stewardship and livable environment, 4) High-performing, sustainable government, 5) Economic development and growth, 6) Parks and open space, 7) Neighborhood quality of life and vitality, and 8) Human Services.

Staff's proposed outcomes for the budget process are based on these themes as follows: 1) Safe Community, 2) Improved Transportation, 3) Healthy and Sustainable Environment, 4) Effective and Efficient Government, and 5) Vibrant and Caring Community.

Councilmember Degginger agreed with Councilmember Wallace that economic development is a high priority and should be a designated outcome. He suggested rewording the transportation outcome to Improve Mobility. He noted that parks are consistently ranked as a high priority by residents, and he suggested capturing this in the outcomes.

Councilmember Chelminiak concurred regarding the importance of economic competitiveness and the concept identified in the Council retreat regarding mobility. He suggested that neighborhoods and parks be more explicitly referenced.

Councilmember Robertson agreed with the suggestion to designate economic competitiveness as an outcome. She suggested the following five outcomes: 1) Healthy Neighborhoods, 2) Healthy Business Community, 3) Functional Transportation System or Increased Mobility, 4) Strong Public Safety, and 5) Vibrant Parks System. She noted that human services are also important.

Deputy Mayor Lee echoed what has been said about the importance of economic growth and competitiveness. He noted that sustainability and mobility are important as well. He suggested an outcome called Responsive Government, and noted the importance of elected representatives. Mr. Lee suggested using the most recent resident survey to identify the highest priority outcomes that are not being met as well as they could be. He feels this is where resources should be focused.

Mayor Davidson noted a Council consensus on the following outcomes:

- Safe Community,
- Improved Mobility,
- Healthy and Sustainable Environment,
- Responsive Government,

- Economic Growth and Competitiveness,
- Quality Neighborhoods, and
- Innovative, Vibrant and Caring Community.

At 8:12 p.m., Mayor Davidson declared a brief recess. The meeting resumed at 8:21 p.m.

(d) A Regional Coalition for Housing (ARCH)

(1) ARCH 2010 Work Program and Administrative Budget

Mr. Sarkozy opened discussion regarding A Regional Coalition for Housing (ARCH), a group of 15 Eastside cities that work collaboratively on local housing projects.

Planning Director Dan Stroh explained that the purpose of tonight's discussion is to review the 2010 Work Program and Budget for ARCH.

Arthur Sullivan, ARCH Program Manager, noted packet materials outlining the work program and budget. The work program encompasses direct assistance, which is primarily the Housing Trust Fund; housing policy planning and regulations; a regional needs analysis; and educational and administrative functions. Mr. Sullivan briefly reviewed the 2010 administrative budget, which is essentially the same as the 2009 budget.

Responding to Councilmember Degginger, Mr. Sullivan said ARCH is audited as an agency account within the City of Bellevue organization. Mr. Sullivan explained that ARCH will be working with Finance staff to set up a more rigorous accounting system.

Responding to Deputy Mayor Lee, Mr. Sullivan said the ARCH Citizen Advisory Board has several people who work and/or live in Bellevue, including the Board Chair. Mayor Davidson asked Mr. Sullivan to email this information to the Council.

In further response to Lee, Mr. Sullivan described a project in Totem Lake, an area similar to Bellevue's Bel-Red corridor in terms of redevelopment planning. Mr. Sullivan noted that ARCH proactively works to identify needs and projects, including efforts to preserve Section 8 housing and to work with cities in planning projects (e.g., Redmond's Overlake area). He confirmed that ARCH is working to address specific demographic trends, and he noted ARCH's efforts with the Bellevue Network on Aging. The regional needs assessment to be conducted later in the year will help identify the full range of needs.

Responding to Councilmember Wallace, Mr. Sullivan said housing projects serve families, seniors, persons with special needs, and the homeless. The projects typically involve rental housing, but ARCH has been involved in some ownership projects, for example in conjunction with Habitat for Humanity. Projects have included new construction, standard apartments, and the rental of single-family homes to be adapted for persons with special needs. Preservation projects have involved purchasing an existing market rate building, and completing needed

repairs and improvements, in order to create units serving different income levels within the same property.

Responding to Mr. Wallace, Mr. Sullivan commented on ARCH's interest in lobbying for cities to have the right to consider the waiver of impact fees for affordable housing projects.

Councilmember Wallace observed that housing affordability is on the verge of a crisis. He encouraged reducing or eliminating the sales tax on the construction of affordable housing. As an example, he noted that a housing unit cost of \$188,000 represents sales tax of \$17,000. Mr. Wallace expressed concern about NPDES (National Pollutant Discharge Elimination System) storm water regulations and their cost implications for all housing construction. He then spoke to the King County sewer capacity charge, and noted that the County's definition of affordable housing under its sewer capacity ordinance does not match with Seattle's affordable housing definition under the multifamily housing exemption. As Bellevue enters this arena, Mr. Wallace wants to ensure that full fees are not required to connect affordable housing projects to the sewer system.

Responding to Mayor Davidson, Mr. Stroh said the Comprehensive Plan contains a set of policies regarding affordable housing. He recalled the work program previously discussed with the Council regarding ways to encourage affordable housing in the Bel-Red area, as well as citywide. Many of these concepts are captured in ARCH's work program.

Mayor Davidson suggested that Council and staff revisit the City's affordable housing policies and strategies.

Mr. Sullivan recalled that a few years ago some Councilmembers participated in ARCH workshops, which identified three longer-term state legislative priorities. The first was lowering the property tax exemption level, which was accomplished. The second was the impact fee waiver issue, and the third was construction sales tax.

Responding to Councilmember Wallace, Mr. Sullivan said ARCH's experience with documents and methods for monitoring developments throughout East King County has had approximately 20 years of truth-testing through input from the private sector and other entities. He recalled a situation in which ARCH obtained a lease agreement from Seattle with an interest in using it as an example. However, Seattle's document was approximately 100 pages, and ARCH was able to prepare a similar agreement in 20 to 30 pages.

Mr. Sullivan noted that ARCH is 15 years ahead of Seattle in its use of land use incentives. On the ownership side, Seattle has been using land trusts. As land trusts have moved into the condo community, Seattle has used ARCH's documents as models for ownership projects.

Mr. Sullivan noted that the next ARCH Housing 101 workshop will be presented at Bellevue City Hall on March 31. He noted that the Housing 101 workbook was recently updated as well.

Mr. Sullivan referred the Council to page 3-41 of the packet for materials regarding an ARCH funding request of \$477,500. He noted the memorandum beginning on page 3-47 from the ARCH Executive Board outlining projects for which funding is requested. Mr. Sullivan explained that the funding was provided in the Fall 2009 budget. The three projects are the St. Andrews Housing Group (SAHG) Totem Lake Apartments, Foundation for the Challenged group homes for developmentally disabled individuals, and the House Key Plus ARCH/Eastside Homebuyer Assistance Program. Mr. Sullivan briefly reviewed additional packet materials providing details on the projects.

Responding to Councilmember Degginger, Mr. Sullivan said approximately five loans were funded in Bellevue through the Homebuyer Assistance Program. He will provide additional information in the near future.

Continuing, Mr. Sullivan explained that ARCH is working with St. Andrews and the City of Kirkland on the Totem Lake project. It was initially a private development, but stalled due to the recession. To facilitate the project, Kirkland extended the term of the permit and is holding fee levels at the vested amount. The project is mixed use and the ground level is services, which does not technically meet the City's retail requirement for that area. However, Kirkland rewrote the rules to allow the community spaces on the ground level to substitute for the usual retail requirements. The project will be monitored and at some point in the future, perhaps nine to 10 years, it might be able to start making payments back to ARCH cities.

The Foundation for the Challenged proposal purchases two homes to be rehabilitated to accommodate individuals with special needs. This proposal is responsive to the goal of providing more group homes throughout East King County. In addition to existing group homes in Issaquah, Bellevue, Redmond, and Kirkland, the proposal will provide homes in North King County.

Councilmember Wallace questioned the Homebuyer Assistance Program and the need for assisting families at the designated income levels during this time in which the federal government is providing mortgage assistance and home prices have declined.

Mr. Sullivan said the monies for the program are from the Housing Fund account of the City's General Fund. He provided a brief history of the program, which originated due to higher housing costs in East King County than the majority of the state. He noted the double challenge of identifying houses within an affordable price range, and then being able to have a down payment to purchase a home. Mr. Sullivan said the program does not forgive any loans and it charges a 4-percent interest rate. It receives funding from the County, State, and ARCH.

Mr. Wallace said it would be helpful to see what other home buying assistance is available. He feels there are a number of opportunities through other government entities. He is not convinced that it is appropriate for Bellevue to collect tax dollars from some constituents and to use the monies to provide second loans for families earning \$60,000 per year.

Mr. Sullivan explained that when the program was created in 2005, ARCH looked for other programs and did not find many applicable to East King County. This program is linked with the Washington State Housing Finance Commission's first mortgage program.

Responding to Councilmember Wallace, Mayor Davidson suggested that he submit additional questions and comments later.

Responding to Mayor Davidson, Mr. Sarkozy confirmed that ARCH and Bellevue are well on the way with these projects. However, future discussions about housing policies can be scheduled if desired by the Council.

Mr. Sullivan clarified that ARCH is an extension of the City, and its purpose is to implement the Council's policies. The Homebuyer Assistance Program has been funded twice by Bellevue in the past. ARCH is aware of the goal to get the program to a point at which it is self-sustaining in the future. The program was reevaluated approximately one and a half years ago. He noted that ARCH's role is to help cities implement their policies and to direct their resources in the most effective ways.

Responding to Councilmember Chelminiak, Mr. Sullivan explained that the total loan program is approximately \$800,000, and \$45,000 is requested from Bellevue.

Responding to Councilmember Robertson, Mr. Sullivan said the program has limited exposure to foreclosure risk. Since the program began in 2005, it has experienced 10 to 12 repayments out of roughly 50 to 60 loans.

Councilmember Robertson said she shares Councilmember Wallace's hesitancy about funding this program.

Turning to the Totem Lake project, Councilmember Wallace commented that there is currently an excess supply of apartments, and larger apartment buildings can be purchased for as low as \$150,000 per unit. He questioned the unit cost of \$286,000 for the Totem Lake project. He noted that with the current economy, it makes more sense to buy than to build.

Mr. Sullivan said ARCH has used both approaches over time. He noted that this is a fairly uniquely designed building with plentiful common areas based on the population it will serve. The land price on this project is lower than some, and ARCH has included provisions to ensure competitive bidding and encourage cost savings. He agreed that acquisition can be the best route for some projects. However, this was determined to be a reasonable investment given the population to be served and the location within the community.

Continuing in response to Councilmember Wallace, Mr. Sullivan said the project budget includes land acquisition, design, and developer fees. The unit cost is calculated as a tax credit project. ARCH consolidates and leverages funds with other public funding sources.

Councilmember Wallace reiterated that this is a time to buy and not to build. He requested a more detailed review of the project budget and line items.

Mr. Sullivan explained that ARCH's contributions represent less than 10 percent of the project costs, and ARCH is leveraging State and other resources. He noted that a relatively high contingency is required in the construction budget by the State. This is a specialized program to link housing units with the services needed by the recently homeless residents.

Mayor Davidson questioned the consequences of Bellevue not contributing its portion to the project. Mr. Sullivan said if the project does not achieve full funding, it would lose its tax credits. The project has secured allocations from the County and State. However, those funds and the tax credit are contingent upon the funding committed to in ARCH's budget.

Mayor Davidson suggested postponing action on the funding requests.

Councilmember Robertson expressed support for the St. Andrews Totem Lake apartments project. She noted that 75 percent of the units will be occupied by people coming from being homeless. Bellevue's portion of \$372,500 provides less than two units. However, working with other cities and agencies enables this type of project to be built. Similarly, she noted that the contribution of \$60,000 for the group home project is a small investment for a much-needed project.

Deputy Mayor Lee said he is sympathetic to the need for affordable housing. He concurred with Ms. Robertson's comments regarding the ability to provide projects by working together with other jurisdictions and agencies. Mr. Lee observed that the projects have certain requirements and circumstances that ultimately justify the costs and accomplish housing objectives.

Councilmember Chelminiak thanked ARCH for bringing the Foundation for the Challenged project forward.

Mr. Sarkozy said staff can provide more information prior to the next discussion about the ARCH work program and budget.

Mr. Sullivan said he appreciates Council's comments and input. He noted that projects are often planned over a two-year horizon, and in the past it has been necessary to use contingency funds because of increased costs by the time the project can be completed. This is an unusual situation in which housing costs have decreased over the planning period.

(3) ARCH Interlocal Agreement

Mr. Sullivan provided an update on ARCH's efforts to streamline the Housing Trust Fund process and to expand ARCH's sphere of influence to allow cities in the Snoqualmie Valley to join ARCH.

Mr. Sarkozy said the proposal maintains the coalition, with the City of Bellevue as the lead agency and administrative support. All costs are covered by ARCH, and this is the simplest way to obtain efficiencies in the administration of the Housing Trust Fund.

Responding to Deputy Mayor Lee, Mr. Sullivan said ARCH has legal reserves available to be used if a situation arises in which an unusual demand is placed on Bellevue's legal department services. He noted that ARCH staff will be taking over the vast majority of the daily financial tasks from the City.

Mr. Sullivan said he will return to Council in the near future to request direction to proceed with updates to the ARCH Interlocal Agreement in order to provide centralized administration of the Housing Trust Fund and to expand the sphere of influence as described. The agreement is currently under review by legal staff.

Referring to the broader budget discussion, Councilmember Chelminiak questioned how ARCH competes with the other priorities of government. If the Council were to not support the allocation to the St. Andrews project, for example, would it allocate the money to a different housing project or to a different purpose altogether?

Mr. Sarkozy said the Council may decide how to allocate the funds. The City contributes approximately \$415,000 per year from the General Fund to the Housing Fund account. In the last economic downturn, Bellevue cut that approximately in half for one year.

Councilmember Chelminiak clarified that he is wanting to know how ARCH competes in the priorities of government because although it is a consortium of cities, Bellevue is the administrator of the program.

Mr. Sarkozy said Bellevue was the leader in creating the coalition approximately 20 years ago. However, he envisions that affordable housing will compete with other proposals under the outcome-based budgeting approach. He referred to page 3-41 of the meeting packet and noted the 2009 unallocated Housing Fund balance of \$4.6 million, which could be used to fund neighborhood projects.

Councilmember Degginger suggested that, given the changing economy and potentially more favorable opportunities to purchase housing properties, perhaps the ARCH Board should review some of its projects and reconsider buying versus building.

Mr. Sarkozy suggested that the March 31 ARCH workshop could be one forum in which to continue discussion of these broader issues.

Mr. Sullivan noted that the work program proposes that ARCH consider buying something now at a good price that will prove to be a smart investment. There are still State and County funds potentially available, and it would be to ARCH's benefit to determine the best way to avail itself of these additional funding resources. ARCH can pursue these strategies if directed by the Council.

Mayor Davidson noted that the Council generally supports the proposed updates to the Interlocal Agreement and looks forward to reviewing the final document.

Mayor Davidson suggested scheduling a Study Session to address affordable housing and how best to provide input to ARCH.

Councilmember Robertson suggested that the Council ask the Planning Commission for input. There is an affordable housing expert on the Commission, and the affordable housing element of the Comprehensive Plan was updated within the past couple of years.

At 9:55 p.m., Mayor Davidson declared the meeting adjourned.

Myrna L. Basich
City Clerk

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