

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Extended Study Session

September 27, 2010
6:00 p.m.

Council Conference Room 1E-113
Bellevue, Washington

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

ABSENT: Councilmember Chelminiak (Excused)

1. Executive Session

The meeting was called to order at 6:00 p.m., with Mayor Davidson presiding. There was no Executive Session.

Councilmember Balducci reported on a fund raising event at Bellevue Botanical Garden.

Robin Root James thanked City staff and citizens who supported and attended the event.

City Manager Steve Sarkozy praised the Bellevue Botanical Garden Society for their hard work and volunteerism.

2. Communications: Written and Oral

- (a) Marco de Sa e Silva spoke on behalf of SPLASH, a nonprofit organization formed in 2006 to advocate for the development of a new public aquatic center on the Eastside. He noted the lack of public swimming facilities and requested City support for a new aquatic center. While acknowledging the current budget challenges, he suggested that the City develop more information and plans for the future development of a major public aquatic facility. He asked the City to renovate the existing Bellevue Aquatic Center or to build a temporary above-ground facility.
- (b) Caroline Thienes, Youth Link Board, urged the Council to continue its support of the Youth Link program. She described the value of the program as a resource for Bellevue's youth.
- (c) David Sellers, Youth Link Board, requested maintaining program funding and staff time to support the Youth Link Board and Youth Council. He suggested that Youth Link's programs could be restructured with an emphasis toward self sufficiency. He said that the

Youth Link Board and Youth Council are interested in working to identify community partnership opportunities and grant funding for their programs. He acknowledged that staff-intensive programs might need to be suspended until outside funding can be obtained.

- (d) Michelle Mattson-Hamilton distributed letters from the overall Youth Link Board and from the youth on the Board.
- (e) Soemin Tjong, an Enatai resident, spoke regarding the East Link light rail project and his concern about impacts to Bellevue Way and 112th Avenue. Top concerns include noise and visual impacts. He submitted his comments in writing.
- (f) Renay Bennett expressed concern that a conflict of interest exists for Councilmember Degginger, whose law firm provides services to Sound Transit. She noted that Mr. Degginger recently recused himself from participating in discussions about the proposed Wilburton Local Improvement District (LID) because his law firm represents one of the affected parties, Home Depot. She said that Councilmember Degginger personally represented Sound Transit in a 2003 case against Qwest in the U.S. District Court. She asked Councilmember Degginger to recuse himself from any further participation in Council considerations related to the Sound Transit East Link project.

[Minutes were approved, as amended here on Page 2 and Page 3, during the December 6, 2010, Regular Session.]

Councilmember Degginger stated, as a point of personal privilege, he has not represented or performed any work for Sound Transit since 2004. His law firm has not done any work with Sound Transit with regard to the East Link project. Based on the advice of the City Attorney, he determined that there is no need for recusal. He confirmed the importance of transparency. He noted Ms. Bennett's involvement with Building a Better Bellevue, and expressed an interest in the group's membership and funding sources.

Ms. Bennett rose from the audience and, unrecognized by the Chair, stated her objection to a personal attack by a seated member of Council. The Mayor called for order in the meeting.

Councilmember Wallace stated that Ms. Bennett makes a good point. He asserted that Councilmember Balducci recently attacked Aaron Laing, and now Councilmember Degginger is attacking Renay Bennett.

Councilmember Balducci explained that she had asked a question about a public comment made at a previous meeting by Mr. Laing. She asked the Mayor whether he was going to allow this breach of order to continue.

Councilmember Wallace expressed his opinion that Councilmember Balducci, as a member of the Sound Transit Board, is placing Sound Transit's interests above those of Bellevue's constituents.

Councilmember Balducci questioned Councilmember Wallace's putting his personal financial interests in front of the best interests of the citizens of Bellevue.

[See related agenda item regarding conflict of interest in the minutes of the October 11 Extended Study Session.]

Deputy Mayor Lee called for a recess. Councilmember Balducci voiced support.

At 6:24 p.m., Mayor Davidson declared a five-minute recess. The meeting reconvened at 6:31 p.m.

Councilmember Wallace apologized to the City for his breach of order.

Councilmember Balducci requested a personal apology as well from Councilmember Wallace.

- (g) Joe Rosmann spoke to the East Link light rail issue and said that direction was given to the Best Practices Committee by a member of the Council that their report could not include any requirement that prohibited placing light rail at grade in the downtown. He feels this was a mis-directive that laid the ground work for what has become a fundamental challenge in the City's political and legal positioning. He requested that Councilmember Balducci recuse herself from further deliberations on the light rail project. Mr. Rosmann submitted his comments in writing.
- (h) Sharon Taubel spoke to the budget and urged the City to continue funding the Bellevue Youth Theatre, which provides an important function for youth in this community.
- (i) Colleen Pana, a member of the SPLASH Board of Directors, provided statistics in support of a new aquatic center

3. Study Session

- (a) Council Business and New Initiatives

Deputy Mayor Lee reported that he has been approached by individuals regarding a potential cooperative relationship between the City of Macao and the City of Bellevue. He said that Macao is similar to Hong Kong, and this is an opportunity to make connections and to develop mutual economic benefits. He asked the Council's permission to proceed with exploring a relationship.

Mayor Davidson acknowledged that Deputy Mayor Lee has been working on this relationship for a while, and therefore he suggested that he bring this to the Council for discussion. Dr. Davidson noted that Mr. Lee has drafted a letter related to this issue.

Councilmember Degginger thanked Deputy Mayor Lee for his interest in economic development, particularly involving areas in Asia. Mr. Degginger would like to hear more about the nature of the proposed involvement, including expectations for both the short and long term.

Mayor Davidson suggested adding the item to next week's agenda. Deputy Mayor Lee said he could contact Councilmembers individually to move this along. The proposed letter is a similar approach to what has been done with Dalian and Qingdao. There is currently no specific proposal. Mr. Lee will send an email to the Council for possible discussion next week.

Mayor Davidson said he wanted to make sure that the full Council is involved in this initiative.

Councilmember Balducci expressed concern that the Council is facing serious challenges and must find a way to work together. She asked the Council to consider a separate retreat with a facilitator or mediator to work through how the Council can function effectively as one body. She observed that tonight's display of discord does not serve Bellevue citizens well.

Councilmember Wallace stated that he has considered the very same idea.

Deputy Mayor Lee concurred.

City Manager Sarkozy suggested polling the Council tomorrow related to Ms. Balducci's suggestion. He noted that there are a number of daunting questions before the Council, including difficult issues that could affect the City for the next 50 to 100 years. He thinks this is an excellent suggestion.

Councilmember Robertson concurred as well, noting that the Council has not been working well together. She feels Councilmembers should be able to disagree without being disagreeable. She encouraged temper control and kindness, and agreed that a leadership facilitator would be helpful.

Councilmember Degginger said the Council has not been this way before and it needs to stop, both at this table and out in the community. He suggested that individuals passionate about issues must respect that there are boundaries with regard to relationships.

- (b) Management Brief providing information on Draft Resolution authorizing the issuance and sale of Limited Tax General Obligation (LTGO) Bonds at the Special Meeting on September 30

City Manager Steve Sarkozy noted the Special Meeting scheduled for 2:00 p.m., September 30, regarding the sale of Limited Tax General Obligation (LTGO) Bonds.

Finance Director Jan Hawn recalled that the Council approved Ordinance No. 5955 on July 19 authorizing the sale of LTGO bonds related to the Mobility & Infrastructure Initiative. The bonds are fully funded by the three-percent property tax increase approved in 2009. The City combined the timing of this bond sale with the refunding of bonds approved on September 14 in order to be more cost effective.

Responding to Deputy Mayor Lee, Ms. Hawn explained that the two bond sales involve different types of bonds. The BCCA bonds were an advanced refunding (refinancing) and a more

complicated bond issue requiring the establishment of an escrow, which cannot be set until the day of sale. The bonds under discussion represent a competitive sale.

Zemed Yitref, Investment and Debt Manager, noted a legal requirement for a 15-day gap between the first bond issue and the second bond sale.

Mayor Davidson said four Councilmembers have confirmed that they will be able to attend the September 30 meeting.

Responding to Councilmember Wallace, Ms. Hawn explained that the favorable interest rate will allow the City to achieve a higher amount of bonds to be supported by the property tax increase. She anticipates proceeds of approximately \$12 million versus the original estimate of \$10 million.

Referring to the packet materials, Mr. Yitref explained that the premium of \$1.2 million does not count toward the principal amount, which will remain below the \$12 million level approved by the Council.

(c) Regional Issues

Diane Carlson, Director of Intergovernmental Relations, referred the Council to page 3-15 of the meeting packet and briefly reviewed the proposed 2011 State Legislative Agenda. One key issue identified for the agenda is the authorization of express toll lanes on I-405.

Councilmember Robertson expressed concern that the proposed language refers to studying the impacts of express toll lanes on local streets, as well as monitoring and evaluating. However, it does not refer to the mitigation of impacts. Ms. Robertson said she prefers the language previously adopted by the Council on this topic.

Ms. Carlson said the Council's position outlined last year dealt with the entire corridor. An issue for discussion now is whether the Council would like to support tolls for the entire corridor, or whether it would prefer to limit tolls to the northern portion of I-405. The Washington State Department of Transportation (WSDOT) will likely include a required study as part of their legislation, which relates to monitoring and reporting. Ms. Carlson said the language is intended to ensure that the Council has adequate input into what is studied.

Councilmember Robertson suggested using the previously adopted language and adding comments regarding the study. She recalled discussion that HOT lanes should not be restricted to the segment north of NE 6th Street in Bellevue, but should continue south to at least I-90.

Councilmember Degginger observed that the project will have to be done in phases. If the region is going to do it, he feels the express toll lanes should extend between Renton and Bothell. He noted that the financing issue became a significant topic during discussions last fall. This included the concept of recourse financing, which is using toll revenue only for projects on the facility generating the tolls. Mr. Degginger suggested the consideration of bond financing instead

for the express toll project, given current favorable interest rates. He also would like to coordinate the timing of the project with other projects in the I-405 corridor.

Responding to Deputy Mayor Lee, Mr. Degginger said he knows of only one project in the country that has used recourse financing. He is concerned about its ability to sufficiently cover project costs, as well as its higher risk and interest rates. In further response, Mr. Degginger said tolls would still be collected under a bond structure, and collections would be used to repay the debt.

Mike Doubleday stated that a draft bill has been released on this issue. He suggested that the City have a discussion with Representative Clibborn on this topic as soon as possible.

Councilmember Balducci noted that WSDOT has convened an expert advisory group to critique the project plans and revenue estimates. She asked whether the Council is being asked to approve a draft at this time, while maintaining flexibility depending on the findings of the advisory group.

Ms. Carlson said she is hearing that the Council liked the language adopted last year regarding the I-405 express toll lanes project. She suggested using components of that position as guide to weighing in now about the bill, which is currently being drafted. Council will have an opportunity to make further refinements after working with legislators and reviewing the findings of the advisory group.

Mayor Davidson questioned whether there is anything in last year's position that staff suggests deleting.

Ms. Carlson said one issue is how to interpret statements that express toll lanes should only be implemented where new capacity has or will be added. There is an existing HOV lane at the north end, which is proposed to be converted to an express lane. In the rest of the corridor, new capacity will be added. She said a clarification on this issue would be helpful.

Resuming her comments, Councilmember Balducci said she supports efforts to improve performance for the entire corridor, versus improving performance only in the HOV and express toll lanes.

Councilmember Robertson suggested that perhaps the Council limit its support of the project to segments running only through Bellevue. She stated strong support for no net loss of pavement; that is, not taking general purpose lanes or HOV lanes for the purpose of express toll lanes.

Ms. Carlson stated that in almost all of the rest of corridor, there is a new lane added. With regard to Downtown Bellevue, there is not yet funding for the phase extending south of NE 6th Street.

Responding to Councilmember Wallace, Ms. Carlson said the project proposal relies on turning existing HOV lanes, and an additional new lane, into express toll lanes. The project does not take any general purpose lanes.

Councilmember Wallace said the original I-405 Master Plan added two general purpose lanes in each direction, and to date one has been added. He questioned whether express toll lanes will be created in lieu of the second general purpose lane.

Councilmember Degginger noted that express toll lanes were also included in the Master Plan.

Councilmember Wallace feels that the issue of the general purpose lanes is an important one that needs to be clarified. He served on a committee related to the I-405 Master Plan. He expressed concern about the impacts of the project on Bellevue, including those to local streets and the ability for continued growth and development. He feels there is not enough information to understand the impacts.

Councilmember Degginger asked staff to provide the Executive Summary of the final I-405 Master Plan.

Kim Becklund, Transportation Policy Advisor, confirmed that it would be helpful to review the maps related to the Master Plan. Following up on Councilmember Wallace's comments, Ms. Becklund said WSDOT is looking at phasing the project, and it is important to take a good look at how the first phases perform in terms of impacts to local streets and other impacts.

Moving on, Ms. Carlson said the State is pursuing new transportation revenue authority, but it is unlikely that new revenue will be approved in 2011. The draft legislative agenda supports a new revenue package for projects on SR 520 and I-405, including the 124th full interchange at 520. The City of Redmond is seeking funding for a project at 148th Avenue. Staff is working with Redmond staff to identify an early implementation project to seek 2011 funding for the 124th and 148th Avenue projects.

Ms. Carlson reviewed the efforts of King County and other transit agencies to obtain new transit revenue authority from the legislature in 2011, such as the \$20 auto licensing fee proposed last year.

Responding to Mayor Davidson, Mike Doubleday, Lobbyist, said a number of possible fees have been identified. His understanding is that the transportation revenue authority and the \$20 auto licensing fee for transit would be separate. There are a number of entities (e.g., ferries, freight mobility, and transit) that all want money this legislative session.

Responding to Councilmember Robertson, Mr. Degginger said the East Subarea provides approximately 34 percent of the sales tax that supports King County Metro. This does not include fare box revenue, which is higher in Seattle. Bellevue receives approximately 17 percent of the bus transit service. Mr. Degginger noted that Bellevue's share of services has increased from 16 percent eight years ago to 17 percent now. The Transit Task Force is looking at a combination of system efficiencies and equity fairness in formulating its recommendations.

Responding to Mayor Davidson, Mr. Degginger said the Transit Task Force would like to see a full implementation of reform recommendations before asking for additional resources.

Councilmember Robertson said she would like a greater emphasis on the equity issue before she can advocate for Metro to add more taxes and fees for citizens. She noted that the City contributes to Sound Transit as well and does not receive a corresponding level of service.

Deputy Mayor Lee said he has some ambivalence on this issue. He recognized the need for more transit service and funding. However, he shares Ms. Robertson's concerns related to equity and fairness. He suggested that the legislative agenda indicate conditional support for King County's pursuit of new transit revenue authority, depending on the implementation of the reform measures recommended by the Transit Task Force.

Councilmember Degginger observed that while the East Subarea receives 17 percent of transit services, Bellevue's service is likely proportionately higher than the remainder of the East Subarea. He feels there is good peak-hour service, but lower levels of service on local routes and between Eastside destinations. He agrees that support for a new King County transit revenue authority should be conditioned upon the implementation of previous audit findings as well as the performance measures recommended by the Transit Task Force.

Councilmember Balducci concurred. She noted that while the 40-40-20 subarea allocation formula was intended to provide equity, 40 percent of 0 is still 0, and there are too many exceptions regarding the use of funding. She feels that the use of performance measures will benefit Bellevue and provide a more holistic approach to the evaluation of bus service.

Mr. Degginger noted additional issues including the impact of future light rail on the allocation of bus service.

Councilmember Wallace feels it is not wise to support any new tax increases. He stated that administrative and operational reforms should occur with or without a tax increase. He is concerned about advocating for any new tax and about the many new taxes being proposed by different entities at this time.

Moving on, Ms. Carlson noted additional items on the proposed legislative agenda including the potential replacement of liquor and excise taxes, cost avoidance measures for local government, delaying the implementation of NPDES Phase II permit requirements, a potential capital budget request for Bellevue Youth Theatre, King County Flood District levy suppression, Cascade Water Alliance, and changes to binding interest arbitration.

With regard to automated camera authority for traffic enforcement, Deputy Mayor Lee said he is not in favor of opposing legislation that would change the local authority to utilize traffic safety cameras. He has doubts about the use of the cameras, and advocates remaining neutral on this topic.

Mr. Doubleday explained that a bill introduced last year would have reduced the fine and adjusted the timing of red lights. He noted that this is a big issue, and there will be a number of bills introduced on this topic.

Councilmember Balducci said she is opposed to expanding the scope of binding interest arbitration.

At 7:42 p.m., Mayor Davidson declared a brief recess. The meeting reconvened at 7:50 p.m.

- (d) Presentation of the City Manager's Preliminary 2011-2012 Operating Budget by Outcome and the 2011-2017 Capital Investment Program (CIP) Plan

City Manager Sarkozy opened the presentation of the Preliminary 2011-2012 Operating Budget and 2011-2017 Capital Investment Program (CIP) Plan, noting that this has been the worst recession in the City's history. Staff anticipates it will be years before revenues return to pre-recession levels. General Fund revenues are \$10.9 million lower in 2011, compared to the amended 2010 budget.

Mr. Sarkozy noted that the City took early steps to address declining revenues including mandated expenditure reductions, hiring freeze for non-critical positions, and the significant curtailment of discretionary expenditures. General CIP revenues are nearly \$100 million lower than the previous CIP Plan.

Budget One is the most extensive budget process in the City's history. It involved hundreds of employees and examined the entire base budget, including all programmatic detail. The new process is consistent with the Council's request to examine all aspects of the budget from a perspective of outcomes and performance. It is also consistent with the One City Initiative and responsive to the need for a more sustainable approach to the budget. Mr. Sarkozy commended the many staff involved in the Budget One process, particularly Finance staff.

The Budget One process focuses on seven outcome areas previously identified by the Council. The proposed 2011-2012 Operating Budget maintains critical public safety and other City services, maintains funding for human and social services at a crucial time, maintains critical community partnerships, seeks no new taxes, and maintains the City's legacy of fiscal stewardship. The proposed 2011-2012 budget reflects a 6.6 percent overall decrease in the General Fund, compared to 2010, substantial support services reductions, and a net reduction of approximately 59 positions through attrition and 25 through layoffs. The budget identifies strategic cutbacks, including some service level reductions, and seeks some rate increases (e.g., parks user fees, one-time business license fees).

The proposed 2011-2017 CIP Plan reflects a \$100 million shortfall in revenues. It focuses on mobility, parks and other major projects; leveraging local dollars with state and federal government dollars; continuing the Parks levy commitment; and funding some of the high-priority need. However, unmet capital needs are significant.

With regard to the Operating Budget, Mr. Sarkozy highlighted a number of cost containment items including no cost-of-living increases in 2010 or 2011, increases in health insurance co-pays, issuing a request for proposals (RFP) for third party health benefits administrator; and limiting proposals for new investments. Additional health care cost containment efforts include limits on chiropractic and physical therapy, consolidation of the Core Plan with the Alternative

Plan, eliminating payments to Affordable Plan participants, and requiring dependents of LEOFF members to enroll in the same plan. The Budget involves the review of all external contracts, fuel and fleet functions, and organizational structure/consolidations. There are no inflationary adjustments to non-personnel costs.

Mayor Davidson suggested, to expedite the presentation, that Councilmembers make a note of their questions and save them until the end of each presentation section.

Councilmember Degginger noted the reference to ongoing reviews of external contracts, and questioned how that directive has been articulated to the overall organization. Mr. Sarkozy said staff is pulling together information on a number of the City's 600 contracts that involve external suppliers and are renewed on an annual basis. Staff is looking at ways to control costs, and in some cases will discontinue contracts with certain suppliers and allow them to be re-bid.

Councilmember Degginger recalled that he raised this issue several months ago related to engineering contracts. He observed that many contracts' terms extend over the maximum time period, and some have inflationary adjustments. Mr. Sarkozy said staff is working to address this issue before the end of the year, and will present more information during the budget process.

Finance Director Jan Hawn reviewed the budget decision process. Mayor Davidson noted that each Councilmember will have an opportunity to suggest funding list additions and deletions.

Ms. Hawn said the City will continue to hear from the public throughout the process. The third and final public hearing is set for November 15. Ms. Hawn reviewed the materials provided in Council's budget binders.

Carla Beauclair, Assistant Budget Manager, provided an overview of 2nd quarter 2010 financial performance, including 2010 cost containment activities. She reviewed General Fund revenues and expenditures as of June 30, 2010. Actual revenues are expected to be under budget at year end.

Ms. Beauclair reviewed tax collections as of June 30. General Fund 2010 tax collections are expected to improve modestly compared to 2009, but will be less than the adopted budget by \$17.4 million. Lower State pension rates and withholding cost-of-living pay increases have helped offset the shortfall somewhat. Cost containment measures have remained in place for 2010, and almost all non-critical vacant positions have remained open.

The tax base is expected to decrease by 10.4 percent in 2011, and increase by 4.7 percent in 2012. Ms. Beauclair reviewed projected sales tax, B&O tax, and property tax collections through 2016.

Ms. Beauclair explained that Initiative 1100 on the fall ballot privatizes liquor distribution and retail sales, but maintains the liquor excise tax. Initiative 1105 privatizes liquor sales and repeals the excise tax. The loss of revenues to Bellevue is estimated at \$910,000 per year under I-1100, and \$1.57 million per year with I-1105. If both measures are approved by voters, the state legislature would take action to resolve conflicts between the two bills.

Responding to Councilmember Degginger, Ms. Beauclair said it is not clear whether the sales tax and the B&O tax would apply. The City Attorney's Office is investigating the options for potentially offsetting the lost revenue.

Responding to Councilmember Robertson, Ms. Beauclair said staff will provide more information to the Council on these initiatives as soon as it is available.

Responding to Councilmember Balducci, Mayor Davidson said staff will maintain an ongoing list of the Council's suggested additions and deletions to the preliminary budget. He anticipates that ultimately the Council would vote on each item on the list.

Councilmember Balducci requested information about ongoing 2010 cost containment measures and the projected budget implications.

Responding to Councilmember Wallace, Ms. Hawn clarified that operating and capital funds are always kept separate. Cost savings on projects in the current CIP Plan will roll forward into the next CIP Plan.

Responding to Councilmember Degginger, Assistant Budget Manager Jason Bentosino explained that sales tax was transferred to cover CIP Plan maintenance and operations (M&O) costs, using inflation as a cap. The forecast in August assumed an inflationary increase of \$2.5 million for the next two years, as a starting point. This covered the base CIP M&O expenditure, and included a provision for any new CIP M&O obligations. This has since been changed to reflect only the inflationary growth.

Continuing, Mr. Bentosino said that the \$8 million representing the base CIP M&O cost is in the operating budget, and is funded by sales tax. The \$8 million is growing by an inflationary factor of approximately 1.2 percent. Everything is within the Operating Budget, and the sales tax split has changed, consistent with Council direction.

Responding to Councilmember Robertson, Ms. Hawn said the M&O transfer issue will be discussed further during the CIP Plan presentation.

City Manager Sarkozy said staff will get into in-depth details about the CIP Plan on October 11. He confirmed that staff did follow through with Council's August 4 direction to transfer the historical revenues that have provided for capital project M&O expenditures directly into the General Fund. These will now be part of the General Fund on an ongoing basis, leaving the CIP budget exclusively for capital projects. He confirmed that the Council will be able to adjust the sales tax split between the General Fund and CIP budget as needed.

Ms. Hawn provided an overview of the Operating Budget by the seven Outcome areas, and reviewed the proposed net reduction in staff of 58.84 FTEs.

Ms. Hawn reviewed changes within the Safe Community Outcome based on Council's August 4 discussion. These include restoring narcotics enforcement, severe weather shelters, criminal investigations, word processing services related to Police investigations, and beach lifeguards.

Councilmember Robertson thanked staff for the restoration of beach lifeguards.

Ms. Hawn continued to review the budget Outcomes, and highlighted changes in the proposals recommended for funding based on Council's discussion during the August 4 budget workshop.

City Manager Sarkozy referred the Council to information in the budget binders which compares department budgets to 2010 levels. [Slide 53 of the presentation provides a table depicting the proposed Operating Budget by department and outcome.]

Mayor Davidson requested a written summary about special funds and an explanation of double budgeting.

Dan Stroh, Planning Director, noted that the proposed 2011-2017 Capital Investment Program (CIP) Plan contains few changes from the August 4 Council workshop discussion. The Plan totals \$353 million over seven years, and is the result of a merger of the base CIP, Parks Levy package, and the Mobility & Infrastructure Initiative. CIP and M&II revenues are heavily constrained and reduced from prior years' assumptions.

Mr. Bentosino provided an overview of the 2010 General CIP revenues and expenditures as of June 30, 2010. General CIP expenditures are projected at \$46.6 million, and revenues are estimated at \$44 million. The CIP Plan includes approximately \$12 million in bond proceeds for M&II projects and \$2.8 million in the Parks Levy package, both of which are restricted resources than can be used only for those purposes. The 2010 CIP ending fund balance is projected to be a \$17.3 million shortfall.

The proposed 2011-2017 CIP Plan is balanced over the seven-year period totaling \$353.3 million. It reflects no new taxes, and includes other resources such as Local Revitalization Funding (LRF), Local Improvement District (LID), and 20-year bonds to support M&II projects. Taxes provide \$252.8 million (72 percent) of total CIP Plan funding. Sales and B&O tax proceeds are unrestricted, but real estate excise tax (REET) collections are restricted to transportation and parks projects. The average annual growth over the seven years is nine percent, which is tied to improved consumer spending and a stronger housing market.

Mr. Bentosino reported that \$26.5 million, or eight percent, of CIP funding is provided by the approved 2008 Parks and Natural Areas Levy. These funds are restricted to projects identified in the levy package. Approximately 10 percent of the CIP budget consists of intergovernmental resources (e.g., Federal and State grants, Local Revitalization Funding, Motor Vehicle Excise Tax, and contributions from other jurisdictions), and additional miscellaneous revenues include impact fees, Local Improvement District (LID) assessments, and bond funding.

Mr. Bentosino briefly reviewed the Mobility and Infrastructure Initiative resources. He highlighted changes to the CIP Plan since the August 4 workshop, including changes affecting

both revenues and expenditures. Mr. Bentosino noted that the proposed 2011-2017 CIP Plan represents a decrease in revenues of approximately \$96 million, compared to the previous CIP Plan.

Mr. Bentosino responded to brief questions of clarification. Responding to Councilmember Balducci, he said the City anticipates cash flow borrowing up to \$35 million, and the forecast assumes \$5.3 million in interest costs.

Mr. Bentosino reviewed the benefits of frontloading the CIP Plan, which takes advantage of lower construction and interest costs, and provides local economic stimulus.

Mayor Davidson noted that accelerating capital projects also means that related operating costs will start earlier. Mr. Bentosino confirmed that M&O costs are included in the corresponding operating budget.

Mr. Stroh reviewed the CIP expenditure guidelines to clarify what belongs in the CIP Plan versus the Operating Budget. He reviewed CIP ranking criteria, cost reductions by department, recommended CIP funding levels by both outcome and department, and funded and unfunded items for each Outcome. He noted a long list of transportation projects under the Improved Mobility Outcome, and said that general taxes totaling \$16.3 million support M&I projects.

Councilmember Balducci questioned what revenues are included in the Mobility & Infrastructure Initiative. Mr. Stroh confirmed that resources include impact fees (\$30 million), Wilburton LID assessments at the 75 percent special benefit level (\$10 million), Limited Term General Obligation (LTGO) bonds (based on the single 3 percent property tax increase already taken), and grant funding resources (\$8 million). Mr. Bentosino noted Local Revitalization Funding of \$7 million.

Mayor Davidson observed that impact fees are dependent on development. Mr. Stroh said that projections have been adjusted downward based on the actual performance of the local and regional economy.

Mr. Stroh continued his review of funded and unfunded items for each Outcome. He noted that information technology enhancements and upgrading the power switch in City Hall are considered capital projects.

Councilmember Degginger disagreed that information technology upgrades are comparable to other capital projects. He considers them to be part of M&O expenses. Mr. Stroh acknowledged that the Leadership CIP Panel debated whether these types of projects should be included in the CIP Plan. Mr. Degginger would like the Council to have that discussion as well.

Mr. Stroh said the Council Contingency Fund of \$25 million could be used for additional capital projects including the East Link contribution toward the Downtown tunnel. This fund could support approximately \$45 million in 20-year debt.

Mr. Stroh noted that 14 proposals (\$31.3 million) fall below the funding line for the CIP Plan. However, unmet needs are much higher. The August 4 budget workshop binder indicates \$388 million in needs that would compete had this been a typical 2011-2017 CIP Plan update. Key policy issues discussed on August 4 included the CIP M&O transfer, neighborhood capital programs, East Link, and the use of debt. A more detailed discussion of the CIP Plan is scheduled for October 11.

Councilmember Wallace stated that when the Council talked about moving M&O expenditures out of the CIP Plan, he understood that there was an adjustment to the split of sales tax revenues.

Mr. Stroh confirmed that the M&O transfer is centered on the sales tax, and the issue is how much is transferred from the CIP to the Operating Budget. Staff will bring back a summary with the proposed policy, based on the Council's past discussions. His understanding is that the Council would like to maintain the current 25/75 split. However, the Council would like to cap the 75 percent that is going to the Operating Budget at the inflation rate. An additional provision suggested by the Council is that if sales taxes escalate faster than the inflation rate, less will go to the Operating Budget and more will go to the capital budget. He summarized staff's understanding that the Council is committed to maintaining what we build and to providing more transparency with regard to M&O costs.

Responding to Councilmember Wallace, Mr. Stroh said staff will develop additional analysis on the impact of sales tax growth on the capital budget over the next several years.

Mayor Davidson questioned whether the revised M&O policy would ever restrict the type of capital projects selected due to relatively high maintenance costs. Mr. Sarkozy confirmed that that is a consideration for the Council in going forward with evaluating the CIP Plan.

Councilmember Balducci questioned the City's potential contribution to the East Link light rail Downtown tunnel, and when this issue will come back to the Council for further discussion. Mr. Sarkozy said there is no draft memorandum of understanding (MOU) yet, but partial funding could come from the Council Contingency Fund and other resources identified by the Council during its consideration of the CIP Plan.

Councilmember Balducci observed that negotiations with Sound Transit should be moving forward, in order for the Council to consider the anticipated tunnel contribution within the context of the overall capital budget. She acknowledged the sensitivities associated with the ongoing negotiations, but said there is also a need for the Council to have a public discussion. She suggested scheduling a discussion about the tunnel for next week.

Moving on, Councilmember Balducci noted that the CIP ranking criteria does not explicitly include the concept of city-wide equity with regard to projects. She feels the Council needs to be sensitive to this issue as discussions move forward.

Councilmember Robertson said she would like a comprehensive understanding of the impacts and resource demands of the East Link project including tax revenues, fees, acquisition costs,

staffing for project review, capital needs, mitigation costs, related projects in the Bel-Red corridor, etc. She would like to see monies for mitigating light rail impacts to residences in South Bellevue. She would like to talk further about the City's business licensing approach and potential uses for this revenue. She suggested considering creating an economic development board. Ms. Robertson is also interested in talking more about budget cuts affecting the Fire Department, including the aid car options discussed at the August 4 workshop.

Councilmember Degginger expressed an interest in knowing the City's cost of processing business license fees. He reiterated his concern about the definition of a capital project. He does not feel that buying software should be considered a capital expenditure.

Mayor Davidson acknowledged Councilmember Degginger's concern and noted that this issue can be discussed as the budget process moves forward.

Mayor Davidson reminded the Council and the community that the primary objective of the budget process is to identify efficiencies and streamline services and processes, where possible, rather than eliminating entire projects and services.

At 9:59 p.m., Mayor Davidson declared the meeting adjourned.

Myrna L. Basich, MMC
City Clerk

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