

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

May 17, 2010
6:00 p.m.

Council Conference Room
Bellevue, Washington

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

ABSENT: None.

1. Executive Session

Deputy Mayor Lee opened the meeting at 6:00 p.m., and declared recess to Executive Session for approximately 25 minutes to discuss one item of pending litigation.

The meeting reconvened at 6:25 p.m., with Mayor Davidson presiding.

2. Study Session

- (a) Financial Forecasts for Utilities, Development Services, and Parks Enterprise Funds

City Manager Steve Sarkozy opened the meeting, noting that both of tonight's agenda items are presented for initial discussion and action will be scheduled for a future date.

Finance Director Jan Hawn opened staff's presentation of the financial forecasts for the Utilities, Development Services, and Parks Enterprise Funds. The forecasts provide an update on available revenues, long-term financial viability, and potential problem areas. They assume the continuation of current resources, service levels, and projects, including anticipated inflationary effects. The forecasts do not take into account any potential cost savings or service changes that might result from budget proposals. All forecasts assume a very slow recovery.

Mike Brennan, Director of Development Services, reviewed the financial management principles which include regional competitiveness, applicants paying for direct services, support through economic cycles, predictable and understandable services and fees for customers, and efficiency in management. With regard to the Development Services Fund, a modest increase in

development activity is anticipated for 2011, and moderate growth is expected over the remaining years of the 2011-2016 forecast. Reductions in staffing and consulting services were implemented in 2009 and are reflected in the forecast. Mr. Brennan reviewed the Development Services reserve levels since 1995, and projected levels through 2016. Reserves peaked in 2000 and again in 2008.

Councilmember Robertson questioned fees based on actual costs and how Bellevue compares regionally with development fees.

Mr. Brennan responded that Bellevue is competitive with fees, which are roughly in the middle when compared to other jurisdictions for most project types. He noted that other jurisdictions support these services from their General Fund, while Bellevue follows an enterprise, cost recovery model.

Councilmember Robertson questioned the impact on costs and services of splitting the City's land use and building services functions in the past year or two. Mr. Brennan responded that some efficiencies were gained by centralizing management oversight within Development Services. The reorganization was also based on the Planning and Community Development Department being primarily funded through the General Fund and not supported by development fees.

In further response to Ms. Robertson, Mr. Brennan said staff is conducting an analysis to determine the effect of the implementation of East Link light rail on future development fee revenue if fees are waived for the Sound Transit project. A number of variables are involved in this analysis, and Bellevue staff will look at Seattle's experience in this regard to help determine the impact. In continued response, Mr. Brennan said that part of the current budget work by staff is to analyze the anticipated effect on staffing needs related to the East Link project. This analysis is expected to be completed by the end of the month.

Responding to Deputy Mayor Lee, Mr. Brennan said revenue and reserve levels increase as development activity increases, and when revenues are not generated the City cannot meet its costs for ongoing work. Staff has taken cost-reduction measures in order to help determine the optimal sized organization for providing needed services.

In further response to Mr. Lee, Mr. Brennan said significant cost reductions were made in 2009, and staff continues to look for opportunities to reduce costs. An increase in fees has not been anticipated in the current financial forecast. However, a three-percent inflation factor is reflected in the forecast. Deputy Mayor Lee said he is interested in knowing more about the specific goals that staff has in mind.

Councilmember Chelminiak commented on the interplay of reserve levels, development activity, staffing levels, and core service levels. He questioned the impact to the City if the economy does not improve as anticipated.

Mr. Brennan confirmed that part of the reserve fund is a prepaid liability for work that is yet to be completed. As projects are completed, that liability and the required staffing level to support the prepaid liability is reduced. Mr. Brennan said staff is watching the economy closely and feels relatively confident that the conservative forecast model indicates that the City can make it through the current recession. It is important to maintain sufficient staff who are prepared to provide services as development activity increases. Getting behind the curve makes it difficult, if not impossible, to hire the staff to catch up on the workload.

Responding to Councilmember Chelminiak, Mr. Brennan said approximately \$3.5 million is contributed to Development Services from the General Fund to support policy and code development work, as well as public information activities. This policy was established by the Council at the time that the enterprise model was implemented, and an additional policy was that land use discretionary reviews would be at a 50-percent cost recovery rate. Staff is currently following these policies, but the Council could of course change the cost recovery level.

In further response to Mr. Chelminiak, Mr. Brennan said the percentage of the General Fund contribution in the overall Development Services budget will change as development activity increases, in that a higher percentage of funding will be received through the payment of fees.

Responding to Councilmember Wallace, Mr. Brennan said the General Fund contribution is based on annual calculations of workload projections, which anticipate the amount of time that will be spent on services based on past experience and on future work that is typically supported by the General Fund including design reviews, conditional use permits, policy and code development work, and any major public information activity.

Councilmember Wallace asked why more growth is expected in 2011-2012 than in 2015-2016. Mr. Brennan responded that assumptions within the forecast are based on past experience with development cycles. An increase of five percent in 2011 followed by approximately 15 percent in 2012 represents a fairly modest increase. In 2008, there was a 75 percent increase in revenues, as swings in revenue levels tend to be fairly dramatic.

Councilmember Wallace expressed concern that development activity might not increase to these levels, and that activity might be lower due to code revisions in recent years that affect impact fees as well as property, sales, and B&O tax increases. He observed that the State and King County will likely introduce additional tax burdens as well over the next year or so. In addition, it has become difficult for developers to borrow money. Mr. Brennan responded that the City looks at a number of different factors and sources, including those that Mr. Wallace mentions, in formulating the revenue projections.

Councilmember Balducci questioned how staff arrived at the actual forecast numbers. She acknowledged that the department can adjust service and staffing levels based on permit activity. However, she would like more details about what is contained within the forecast, including projections about staffing levels. Mr. Brennan responded that staff is working to establish a realistic structure containing the optimal capacity and expertise to deal with the various types of projects. The department is considered close to that number now based on the downsizing that

has occurred to date. However, the current volume of building stock requires slightly higher staffing levels than the levels in place before the last development boom.

Councilmember Balducci suggested using the less demanding workload to continue training and professional development in order to maintain qualified personnel. Mr. Brennan confirmed that the department is doing as Ms. Balducci suggests.

Patrick Foran, Parks and Community Services Director, presented the Parks Enterprise fund financial forecast, noting that most enterprise programs are based on full cost recovery. The forecast assumes that revenues can grow at the same pace as expenditures over the forecast period. The forecast continues to meet reserve requirements and to fund minor capital improvements at the golf course.

The General Fund subsidy is approximately \$106,000 in 2011 and increases thereafter with inflation. This level of subsidy was known when the City assumed the operation of the King County pool. The subsidy has been reduced incrementally since 2001, but is needed to keep the fee structure accessible to Bellevue residents.

Councilmember Balducci referred to a note on page SS 2-16 of the meeting packet, which refers to a \$140,000 payment from King County to offset a portion of operating costs associated with the Aquatic Center starting in 2001. She questioned the meaning of the next sentence: "The subsidy includes an adjustment for the impact of the benefited employee rule changes."

Mr. Foran explained that when the City took over the pool, there was an agreement that King County would provide an operating subsidy for the pool through 1999. The King County subsidy was replaced with an operating subsidy from the General Fund. The second, separate issue is that in 2000/2001, the City settled a personnel issue related to part-time employee benefits for jobs that were ruled to be more similar to full-time positions. This resulted in a major restructuring throughout the City organization of part-time and temporary help.

Councilmember Wallace asked why reserves increase at a higher percentage than expenses or revenues. Doug Sanner, Parks Fiscal Manager, said the slight increase in reserve levels between 2011 and 2012 is due to Parks Enterprise Fund reserve levels being slightly down at this time. Current levels are approximately \$50,000 below the two-month target, and the forecast assumes that reserves can be restored.

Utilities Director Denny Vidmar reviewed the Utilities Fund financial forecast. He explained that the Utilities Fund is a financially self-supporting enterprise operating within the City structure, and its primary source of funding is utilities rates. Mr. Vidmar reviewed the key Utilities financial policies, which were adopted in 1995. He explained that the City's infrastructure has a lifespan of 75 to 100 years, and a replacement value of \$3.5 billion. Half of the systems are beyond mid-life, and the accumulation of reserves enables the City to respond to repair and replacement needs.

The early outlook financial forecast is based on maintaining current service levels. On average, projected rates in 2011-2012 are lower than anticipated in the previous budget. The primary reasons for the lower projected rates are the removal of some inflation costs from the capital program and ongoing cost containment efforts. Since 1997, the average rate increase for local programs, excluding reserve contributions, has been below the average rate of inflation.

Mr. Vidmar reviewed the financial forecast for the water, wastewater, and storm/surface water utilities, including projected rate increases through 2016. On average, storm and surface water rates are 2.6 percent lower in 2011-2012 than projected in the 2009-10 budget, and approximately one percent lower over the entire six-year forecast period. Storm and surface water rates include a 1.5 percent annual rate increase that Council designated to partially fund stream improvements in the Bel-Red corridor.

Mr. Vidmar reviewed the projected impact to customers, which is a 7.9 percent rate increase in 2011 and a 8.5 percent increase in 2012. He compared Bellevue's utilities rates to nearby jurisdictions, noting that Bellevue's rates are competitive with neighboring communities while the City is also reserving monies for future capital replacement.

Responding to Councilmember Wallace, Mr. Vidmar confirmed that wastewater rates do not include the capacity charge for new construction. Any home built within the past 15 years has a capacity charge. Mr. Wallace suggested it would be helpful to compare the capacity charge with other jurisdictions.

Responding to Councilmember Degginger, Mr. Vidmar confirmed that the capacity charge is a regional charge from King County, so it is the same for all areas.

Responding to Councilmember Robertson, Mr. Vidmar said utilities relocations associated with the Sound Transit East Link light rail project could have an impact on utilities customers' rates.

Councilmember Balducci referred back to the cost containment slide, and said it would be interesting to compare Bellevue's average operating rate increase since 1997 with other jurisdictions and the Cascade Water Alliance. Responding to Ms. Balducci, Mr. Vidmar said the local programs component of utilities rates, versus wholesale rates, includes monies contributed to reserves.

With regard to the same cost containment slide, Councilmember Chelminiak said in addition to the average CPI and the average Bellevue rate increase associated with local programs (i.e., excluding the wholesale component of the rates) since 1997, he would like to see the rate increases for the wholesale component of the rates. He would like to get a complete picture of rates from the perspective of the customer.

Councilmember Wallace referred to page SS 2-37 of the meeting packet, and noted the statement that customers providing on-site detention to mitigate the quantity of water runoff from their property receive a credit equal to a reduction of one rate level from their actual development intensity. He suggested that this policy should be re-examined, given new low-impact

development techniques and higher stormwater vault detention requirements. If there is a way to then calculate the benefit, this could be the basis for a financial incentive to developers to provide low-impact development techniques and stormwater vaults.

Councilmember Degginger referred to page SS 2-36 and questioned the basis for debt coverage requirements. Bob Brooks, Utilities Fiscal Manager, said that Utilities debt is very low (i.e., less than \$200,000), and the revenue bonds will be paid off in 2010.

(b) Updating Building and Fire Codes

City Manager Sarkozy opened discussion regarding proposed updates to the Construction and Fire Codes.

Mike Brennan, Director of Development Services, explained that building codes in Washington are adopted from national model codes, including the International Building and Fire Codes. The national codes are updated every three years, and are then reviewed by the State of Washington's Building Code Council. Councilmember Chelminiak serves on this Council. Once new codes are adopted by the State, the cities are obligated to implement the state-adopted codes. The current deadline for updating Bellevue's codes is July 1, 2010. Cities also have the option of introducing their own amendments to the codes, as long as they are not less restrictive.

Gregg Schrader, Building Official, reviewed Bellevue's code update adoption process including Council discussions and community outreach. He highlighted key code changes at the national level, and their subsequent changes to the State codes. The State Energy Code is more conservative, and the issue of automatic fire sprinkler systems in new one- and two-family homes has been left for local consideration and determination.

Ken Carlson, Fire Marshal, reviewed local code changes pertaining to sprinkler requirements for one- and two-family dwellings, phased evacuation for buildings higher than 10 stories, fire service elevators, occupant evacuation elevators, fire apparatus access roads, private fire hydrants, emergency responder radio coverage, and fireworks. He provided a quick overview of customer outreach activities including training offered through MyBuildingPermit.com.

Responding to Mayor Davidson, Fire Marshal Carlson said the code changes will come back to the Council for action in June.

Councilmember Wallace said it would be helpful to focus the discussion on the areas that are relevant for Bellevue and within which the City has the ability to make changes. He further suggested that this is a good opportunity to review and clarify areas of the code that are unclear or could be interpreted in multiple ways.

Deputy Mayor Lee questioned staff's recommendation regarding a potential requirement for automatic fire sprinklers in one- and two-family units. He asked how many cities have this code in place, and inquired about the positive and negative attributes of the requirement.

Mr. Carlson said staff would be happy to bring this issue back for deeper discussion. As the City's Fire Marshal, he is a proponent of anything that increases safety for residents. He noted that Dupont and Redmond have this requirement. On a national basis, approximately six states have adopted a requirement for sprinklers, and another half dozen or so states have passed regulations that prohibit the mandatory installation of fire sprinklers.

In further response to Deputy Mayor Lee, Mr. Carlson said the implementation policies are published in the International Residential Code. If the Council chooses to adopt the code as published, the effective date would be January 1, 2011. However, Washington has taken that effective date out of the body of the Code and cities can therefore choose their own effective dates.

Councilmember Chelminiak commented on the discussions at the Building Code Council meetings, noting that this issue was previously discussed by the City Council four to five years ago. Mr. Chelminiak explained that he served on a technical advisory group appointed by the state legislature to identify and study barriers to the installation of residential sprinklers. While sprinklers can save lives, including the lives of fire fighters, they will not reduce the need for fire fighters. Mr. Chelminiak said there are a number of complicating factors with regard to sprinkler systems in terms of the sprinkler equipment, potential insect hazards, and required modifications to water-related public infrastructure. If the City is going to consider requiring residential sprinklers, the issue must be addressed by a cross-departmental team involving Utilities, the Fire Department, and Development Services. A comprehensive proposal could then be developed for presentation to the Council.

Councilmember Degginger observed that the Council does not have the information needed to make a decision today. He wants to understand the incidence of fatalities in single and two family homes, the cost of providing a sprinkler system in a new single-family home, maintenance costs, and whether there is a corresponding insurance rate reduction.

Responding to Mr. Degginger, Mr. Carlson said the City has not pursued input from the Master Builders Association on this topic. The Master Builders Association has a position paper that outlines its concerns, which staff will provide to the Council.

Councilmember Robertson said she believes that Mercer Island has a sprinkler requirement for a certain house size. Mr. Carlson said a number of cities have a 5,000 square foot threshold for a sprinkler requirement, which was vetted through the State Building Code Council several years ago. In further response, Mr. Carlson said the issue of whether sprinklers might be required as part of a home remodel is based on whether or not there is adequate fire flow available and adequate access. A small percentage of remodels trigger this requirement.

Councilmember Balducci said she appreciates the detailed work regarding the actual proposed ordinance language. She noted that it will be helpful to have another study session for more in-depth discussion before the Council reaches a decision point. She is particularly interested in more information on phased evacuation. She encouraged staff to notify current owners of private

fire hydrants about possible code changes establishing maintenance standards for private hydrants.

Councilmember Chelminiak recalled that following the last earthquake, insurance companies offered testimony to the State Building Code Council about the importance of sprinklers, and noted that they offer a 10 percent discount to customers with sprinklers. Mr. Chelminiak cautioned that the cost of a sprinkler system also involves all of the costs associated with installing a system including modifications to infrastructure. This total cost has been a barrier to people voluntarily choosing to install individual residential sprinkler systems.

Mayor Davidson noted Bellevue's success in containing fires to the room of origin, and questioned the impact on this statistic of requiring sprinklers.

Councilmember Degginger said it would be helpful to know whether any of the proposed code changes will make vertical high-rise rescue easier, or more complicated.

At 7:59 p.m., Mayor Davidson declared recess to the Regular Session.

Myrna L. Basich, MMC
City Clerk

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