

CITY OF BELLEVUE  
CITY COUNCIL

Summary Minutes of Study Session

November 7, 2011  
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 called the meeting to order at 6:02 p.m., and declared recess to Executive Session for approximately one hour to discuss one item of potential litigation.

The meeting resumed at 7:18 p.m., with Mayor Davidson presiding.

2. Study Session

(a) East Link Memorandum of Understanding

City Manager Steve Sarkozy opened discussion regarding the draft East Link light rail project Memorandum of Understanding, which is included in the Council's meeting packet and has been posted online.

Kate Berens, Deputy City Attorney, recalled that the Council transmitted a letter to the Sound Transit Board the previous week requesting an extension of the October 25 deadline for completing negotiations related to the MOU. The Sound Transit Board agreed to the extension and requested Council action by November 14.

Dan Stroh, Planning Director, provided a presentation on funding the City's MOU contributions and on the Council's process for making decisions on specific funding mechanisms. He reviewed that there will be a \$100 million upfront commitment and a \$60 million contingent contribution. Staff has worked to reduce costs to the General Capital Investment Program (CIP) Plan by relying on contributions that require little or no City dollars but provide significant East Link project credit, seeking alternative funding other than the CIP, and leveraging the City's dollars by contributing items that provide corollary benefit to the City. As a result, the anticipated CIP

costs for the first \$100 million credit range from \$40 million to \$66 million, plus finance costs. Much of this investment provides benefits to City projects as well.

Mr. Stroh described funding options for the initial contributions including: 1) Existing CIP Plan and Council Contingency Fund of \$25 million, 2) New revenues from the next CIP Plan update (through 2019), 3) New CIP revenues for years 2020-2030, and 4) New taxes and revenues (e.g., revenues and taxes identified in the Mobility and Infrastructure Initiative Finance Plan, City banked property tax increases).

Councilmember Robertson noted her understanding that the current CIP Plan has a shortfall of approximately \$25 million. Mr. Stroh confirmed this understanding and the need to address the current budget shortfall.

Mr. Stroh continued to describe the funding options. He noted that elements of the options can be blended, and all options require the consideration of competing needs.

Mayor Davidson questioned the ability to increase the tax rate for one Sound Transit subarea. While the Downtown Tunnel will benefit Bellevue and the Eastside, he has trouble with the concept that East Link should be entirely funded by the East Subarea.

Councilmember Balducci said it is not possible for one subarea to increase its tax rate or take separate actions, and that any vote must involve the entire Sound Transit district.

Responding to Councilmember Robertson about property tax increases, Finance Director Jan Hawn said the City's banked capacity equates to a potential increase of 27 percent.

Ms. Robertson questioned whether taking on new debt would affect the City's Aaa bond rating. Ms. Hawn said the rating is based on a number of factors including the local economy and demographics. She does not believe that additional debt alone would threaten the bond rating.

Deputy Mayor Lee questioned which CIP items would be removed or delayed if the Council Contingency fund of \$25 million is used.

Mr. Stroh referenced page SS 2-27 of the meeting packet for a full list of projects in the 2011-2017 General CIP Plan. A list of Unmet Capital Needs previously identified by the Council begins on page SS 2-21 of the meeting packet. The Council will need to consider tradeoffs in balancing priorities and allocating capital funds.

In further response to Mr. Lee, Mr. Stroh recalled that the Council Contingency fund was originally set aside largely for the potential of funding a Sound Transit investment. However, there is also a CIP revenue shortfall of approximately \$25 million. One option is to use the Council Contingency fund to fill that gap, while another option is to reduce the CIP Plan by \$25 million and to use the Council Contingency to fund East Link MOU and Downtown Tunnel items.

Responding to Councilmember Degginger, Mr. Stroh confirmed that MOU contributions could begin as early as 2014. At this point, staff has not developed a specific funding package recommendation. However, the presentation includes one possible funding scenario for providing the upfront \$100 million contribution/credit toward the MOU.

Councilmember Wallace questioned the operating budget shortfall and how it relates to the capital budget.

Finance Director Jan Hawn said the operating budget shortfall is approximately \$6 million per year for the 2011-2012 budget, and this is completely separate from the CIP Plan budget. She explained that sales tax revenues are split between the General Fund and the CIP, and each are self-balancing funds.

City Manager Sarkozy explained that the General Fund shortfall is due to a decrease in revenues based on the economic downturn and a slower than anticipated recovery. Once the City adjusts long-term ongoing spending, the operating budget will be back in balance.

Councilmember Wallace said it is frustrating to not have a staff recommendation for funding the MOU. Even if the City uses its property tax banked capacity that has built up for more than 10 years, there would still be only \$110 million in revenue.

Mayor Davidson noted the Governor's plan to not return some or all of the liquor tax revenues to the cities. He noted costs associated with annexations as well.

Responding to Dr. Davidson, Ms. Hawn confirmed the potential for the loss of revenue to the City. She noted that this topic is on the agenda for later in the meeting.

Mr. Stroh said staff believes it is premature to develop a specific recommendation at this point because a number of Council policy decisions will guide the development of a funding package. He reviewed the example funding scenario provided in the presentation slides, which assumes the need for \$58 million to fulfill the \$100 million upfront credit to the East Link MOU. The scenario reflects using \$10 million from the existing CIP Plan, \$37 million plus \$15 million in financing costs from 2018-2030 CIP revenues, and \$11 million from a single three percent property tax increase.

Responding to Councilmember Balducci, Ms. Hawn said a three percent property tax increase equates to approximately \$14 per household per year.

Councilmember Wallace observed that every \$10 million in debt costs approximately \$15 per household annually.

Councilmember Chelminiak said that some of the costs are property acquisitions, which can be financed in a number of different ways. Mr. Stroh confirmed this understanding, and noted that this factor is part of what reduces the upfront contribution.

Continuing the presentation, Mr. Stroh described the final \$60 million MOU contingent contribution. Staff has been working on a strategy to decrease this contribution, including reductions in scope at project definition in 2014 and ensuring that the City's funds are the last dollars into the project. The final cost will be known at the cost reconciliation stage.

Mr. Stroh reviewed potential alternatives for funding the \$60 million contingent contribution, including setting aside CIP funds annually, new CIP revenues through 2042, and other tax and revenue options.

Mr. Stroh reviewed the proposed process for making Council decisions on the MOU upfront credit/contribution, as part of the 2013-2019 CIP budget update. The contingent contribution would occur in roughly 2022-2023, well beyond the next CIP Plan.

Moving on, Ms. Berens explained that the MOU includes a termination provision at the 60-percent design/cost estimate stage. Assuming the project goes forward, at that point there would be a recalculation of the City's contingent contribution. This contribution will not exceed \$60 million and will be the last dollars into the project. An agreement establishing the contingent contribution amount, cost reconciliation provisions, and audit rights would be developed at that time.

Ms. Berens reviewed the FTA (Federal Transit Administration) Section 4(f) issue. The City and Sound Transit have continued to discuss the appropriate mitigation for the Mercer Slough and Surrey Downs Park. She recalled that, in August, the City sent a letter to Sound Transit expressing concerns about the lack of specificity in the agency's mitigation plan, as described in the Final Environmental Impact Statement (FEIS).

Ms. Berens said the City and Sound Transit have now come to an agreement about appropriate mitigation. If the MOU moves forward, the recommendation is to send a follow-up letter to the FTA that would address the agreed concept for Mercer Slough mitigation, which is different than what is described in the FEIS. It would also provide updates to the August 2011 Section 4(f) comment letter.

Councilmember Wallace suggested that the property tax is one potential revenue source.

Councilmember Degginger said the issue is essentially whether the tunnel project is important enough to devote resources to it. He observed that new revenues are available in the out years of the CIP Plan, and the final contingent contribution would not occur until 2023.

At 8:00 p.m., Mayor Davidson declared recess to the Regular Session.

Myrna L. Basich, MMC  
City Clerk

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