

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

November 21, 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 6:03 p.m., and declared recess to Executive Session for approximately 20 minutes to discuss one item of labor negotiations.

The meeting resumed at 6:42 p.m., with Mayor Davidson presiding.

2. Study Session

(a) 2011-2012 Mid-Biennium Budget and Forecast Update

City Manager Steve Sarkozy opened staff's presentation on the 2011-2012 Mid Biennium Budget. He recalled significant budget reductions last year for the 2011-2012 budget, and explained the reduced revenue projections necessitate further budget reductions. A public hearing regarding a possible property tax increase is scheduled for December 5, and Council action will be requested on December 5 or 12. Staff will work with the Council into the new year to address the Capital Investment Program (CIP) Plan.

Finance Director Jan Hawn explained that the purpose of tonight's agenda item is to provide an update on the revenue forecast and the Mid-Biennium Budget. There are minimal budget changes, including some increases in allocations for the Operating Grants and Donations Fund and the Franchise Fund. The General Fund and all other funds are capable of operating within their existing appropriations.

Ms. Hawn said the City Manager and staff conducted an extensive review of the budget. Policy questions to be placed before the Council relate to Basic Life Support (BLS) fees and Development Services fees.

Ms. Hawn said a public hearing on the Mid-Biennium Budget is scheduled for December 5, and Council action is requested at that time. This is necessary in order to meet the deadline for setting the property tax levy and adopting the banked capacity resolution. Staff will also bring back a proposed BLS fee ordinance, Development Services fee ordinance, and the Mid-Biennium Budget ordinance. Ms. Hawn said there are no proposed changes to property tax or utility rates. Staff and the Council will discuss the CIP Plan and Water Utility Fund in more detail as part of the 2013-2014 Budget Update next year.

Toni Rezab, Budget Manager, reviewed the state legislative impacts, noting that the State is facing a \$2 billion budget shortfall this year. State-shared revenues are reduced, but not to the level originally introduced in October. Ms. Rezab stated that due to insufficient information at this point, none of the possible impacts of the State's budget have been incorporated into the City's budget.

Ms. Rezab commented on the slow economic recovery. Economic experts have revised their forecasts to indicate a slower recovery than anticipated, with little improvement in the near future. She said the State Economist's recent comments emphasized that uncertainty remains high. Ms. Rezab noted that key economic factors such as unemployment and stock market performance continue to reflect a slow economy. She reviewed a graph showing retail sales growth through 2007, a decrease in 2008, and a flattening out of retail sales through 2009, 2010, and 2011.

Ms. Rezab described the five categories of General Fund revenues including the sales tax, B&O tax, utility taxes, property tax, and all others. Approximately 38 percent of the City's General Fund is comprised of sales and B&O taxes. The City's sales tax collections will end 2011 at approximately 2.6 percent above 2010 levels, which includes one-time revenue from the State amnesty program. Without the State amnesty money, the City's sale tax collections would remain flat. The 2012 sales tax is expected to grow by approximately 1.6 percent over 2011.

Ms. Rezab described the City's other major taxes. The B&O tax shows no growth in 2011 over 2010, and four percent growth is anticipated in 2012 over 2011. The Mid-Biennium Budget assumes no property tax increase for 2012, and utility taxes remain stable in 2012. General Fund revenues are down by about \$3 million in 2011 and \$4.9 million in 2012. Expenditure projections anticipate an increase in 2012. Ms. Rezab noted that the June CPI-W came in at 3.7 percent, or 2.1 percent higher than budgeted.

Councilmember Wallace recalled that the earlier forecast originally showed a six percent increase in sales tax revenue annually. Ms. Rezab said the City has lowered its six percent projections to a new baseline. Growth in the out years ranges from 3.5 percent to 4.5 percent.

Continuing the presentation, Ms. Rezab said that strong management actions earlier in the year have brought the 2011 budget into balance. These actions include refunding surplus reserves to the internal service funds, increasing efficiencies, and reducing contract costs. Departments have been aggressively monitoring their spending, limiting discretionary spending, and a hiring freeze was put into place.

Responding to Councilmember Robertson, Ms. Rezab said the City anticipates the potential use of reserves. In further response, Ms. Hawn said the 2011-2012 Budget did not plan to use reserves. However, it might be needed to close the gap in revenues and expenses. Ms. Rezab said the use of reserves could be as high as two percent. Ms. Hawn noted that the City's reserves are currently slightly below policy target levels.

Councilmember Degginger questioned the relationship between using reserves and maintaining the City's bond rating. Ms. Hawn said that the use of reserves is one factor among several that are considered by rating agencies. The City had a phone call with Moody's approximately two weeks ago, and the agency is expected to issue its rating later in the month. Ms. Hawn said that staff described to Moody's the difference between the revenues that support Bellevue's budget and the federal revenue stream. In this instance, Moody's did not focus on reserves. However, it is an important component for rating agencies. Responding to Mr. Degginger, Ms. Hawn confirmed that the Council should be mindful that the use of reserves could affect the credit rating at some point.

Continuing the presentation, Ms. Rezab reviewed the General Fund 2012 recommended approach, which reflects the need to reset the organizational capacity to align with the economy. Management actions have reduced the 2012 General Fund by \$0.6 million. Ongoing/permanent reductions total \$5.4 million and include some proposed revenue increases.

Responding to Councilmember Robertson, Ms. Rezab said staff will provide additional written information on the \$5.4 million in budget adjustments.

Responding to Councilmember Balducci, Ms. Rezab said staff will provide a full list of the management actions. Examples include a four-percent fleet savings, renegotiation of contracts to lower costs, and the elimination of ongoing subscriptions to some professional journals and publications. Ms. Rezab noted that the savings have been achieved through a number of relatively small adjustments.

Responding to Councilmember Robertson, Ms. Rezab said information on the impacts of I-1183, which implements the privatization of the State liquor business, will be provided to the Council. Information on the South Bellevue annexations and State sales tax credit will be presented with the next budget update as well.

Fire Chief Mike Eisner introduced staff's presentation on the proposed Basic Life Support (BLS) transport user fee. He recalled that the Fire Department packaged a similar proposal for the 2011-2012 Budget, which was discussed with the Council last November. Since that time, staff has continued to research and monitor the proposal and to gather data from other cities.

Marty LaFave, Battalion Chief and Manager of the EMS Division, explained that EMS fees for service are increasingly being used to recover costs for EMS transport. Most communities in King County either charge for transport or have private ambulance transport. The Bellevue Fire Department currently provides EMS transport without charge. Examples of cities that have recently converted to a fee for service model include Mercer Island, Eastside Fire (Issaquah and Sammamish), Kirkland, and Shoreline. The Bellevue Fire Department transports approximately 3,400 patients annually by aid unit. Staff proposes a fee of \$600 plus \$14/mile, which totals \$656 for an average transport of four miles. The City would collect approximately 53 percent of the total billed amounts, after payments from Medicare, Medicaid, indigent care, resident waivers, and other write-offs. The projected revenue for 2012 is approximately \$1 million.

Mr. LaFave explained that the BLS user fee will not affect the current level of service, and there will be no user fee for Advanced Life Support (ALS) transport. No charge will be assessed if the patient is not transported. The transport user fee will be the same for patients in Bellevue and those in the fire contract communities (e.g., Clyde Hill, Medina, and Newcastle).

The Fire Department endorses this proposal because the majority of Bellevue Fire Department transport patients, estimated at 90 percent, have some type of insurance. The insurance co-pays and deductibles may be waived for Bellevue residents, which is not possible with private ambulance services. Patients with a documented financial need will not have to pay. Mr. LaFave said the Fire Department believes that a BLS transport user fee provides a sustainable revenue source into the future.

Responding to Councilmember Degginger, Mr. LaFave explained that 911 dispatchers ask a number of questions in order to categorize the type of response needed. If someone is unconscious, not breathing, or in need of CPR, this would be considered an Advanced Life Support (ALS) call. Minor falls, minor car accidents, a seizure by someone known to have a history of seizures, and similar cases would receive a BLS response.

Councilmember Degginger questioned the estimated user fee rate of \$600. Mr. LaFave said the fee is based upon charges by peer agencies and by private agencies in King County, as well as the national average. Government-based fees in King County range from \$400 to \$775, and private services charge a base rate of \$450 to \$832. A Kirkland study utilized this same data, but a cost for service analysis has not been conducted for the Bellevue Fire Department. Mr. LaFave noted that it is difficult to determine an exact cost for service because the Fire Department's services are all interconnected.

Deputy Mayor Lee questioned the administrative procedure and costs associated with insurance billings and determining who will and will not be charged a transport user fee. Mr. LaFave said the Fire Department would use a billing agency to handle this function. Mr. Lee expressed concern about the costs and that the process could be cumbersome. Mr. LaFave said staff has identified a professional service that specializes in billing for local fire departments. The estimated cost for billing services is approximately \$22 per transport.

Responding to Councilmember Robertson, Mr. LaFave said the Fire Department has 1,700 to 2,000 ALS transports per year. Ms. Robertson noted that 70 percent of BLS transports are currently made by the Fire Department, and 30 percent are by private ambulance. She questioned whether this is expected to change. Mr. LaFave said that no change is anticipated, in part because the extra capacity provided by private ambulances is needed.

Councilmember Robertson expressed concern that implementing a fee will cause some individuals to not call for medical assistance when they need help. Mr. LaFave said a study has shown that many patients think they are already paying for the ambulance through their hospital bill, even when that is not the case. Another issue is that the BLS transport fee is relatively low compared to the cost of an emergency room and/or admission to the hospital.

Councilmember Robertson questioned what the billing fee of \$22 per transport includes. Mr. LaFave said there is a requirement for the Fire Department to gather and format the necessary data, perform an audit, and then transmit the information to the billing service. However, the billing service provides billing, follow-up, and updating the Fire Department on the status of that process. In further response to Councilmember Robertson, Mr. LaFave said the estimated \$1 million is net revenue.

Councilmember Balducci questioned the legal limitations of charging for emergency services, and whether this could extend to charging citizens for a police response as well. She observed that the rationale for the proposal is largely that other jurisdictions are charging the transport fee. She questioned how the revenues are calculated, and stated that she does not want the fee to be used as a profit center. She questioned who will be most affected by a BLS transport user fee.

Chief Eisner said the Fire Department has data to address all of these questions, and will provide it to the Council. With regard to the legal authority to charge a fee, Chief Eisner said the City of Kirkland has conducted extensive research regarding the legality of offering waivers of co-pays and similar items. The legal foundation for charging requires that a standard fee apply for all transports.

Responding to Councilmember Chelminiak, Ms. Hawn said the fee revenue would go into the General Fund. He expressed concern that this is a fee for a specific purpose, but the proceeds go into the General Fund. Ms. Hawn reiterated that this is a user fee and not a broad tax that applies to all citizens. She said staff could provide an accounting of the revenues and related operations costs.

Mayor Davidson clarified that no action is requested this evening, and that a Public Hearing on the Mid-Biennium Budget is scheduled for November 28.

Councilmember Degginger observed that the City has been providing transport services for a long time, which is paid through citizens' General Fund taxes. He expressed concern about where this might lead in terms of fees for local government services. He is also concerned about the cost differences between Fire Department and private ambulance services. Mr. Degginger

noted the recurring EMS levy and expressed concern that a user fee could cause a backlash in terms of lowering voter support for the next EMS levy.

City Manager Steve Sarkozy commented that the City often differentiates between essential services and discretionary services, and he noted that Mr. LaFave commented on the difference between BLS and ALS services. Mr. Sarkozy said the proposal does not cause any degradation in service, and there is no thought to charge for ALS transport, which relates to life-threatening incidents. He reasoned that falling off a ladder and having a swollen foot falls into the category of a discretionary BLS service.

Using the Parks Department as an example, Mr. Sarkozy said the City provides certain basic services at no charge, but charges for discretionary programs chosen by individuals. With regarding to EMS, the City is providing, as a General Fund expense, the ability and capacity to respond for both BLS and ALS calls. The individual can then choose whether he or she wants to be transported to the hospital. Mr. Sarkozy said the City is not sliding toward charging a fee for police or any other core services.

Councilmember Degginger observed that he sees a difference between charging for parks programs versus a service involving health and safety, which is why he is struggling with the issue as a policymaker.

Deputy Mayor Lee concurred with Mr. Degginger's concerns, noting that public safety is an important function that is not comparable to parks programs. He views Fire, EMS, and Police functions as basic services that the City is expected to provide, and that are funded through general taxes. He has reservations and concerns about the proposed user fee.

Mayor Davidson shared that, as a medical provider who deals with private insurance companies, he is aware that they do not like medical providers to write off deductibles and co-pays. He questioned whether Medicare, Medicaid, and others have the same viewpoint.

Dr. Davidson expressed concern that a user fee might discourage citizens from calling for aid. He is also concerned about individuals and small businesses who pay for their own health insurance, and who might not qualify for a documented financial need but would be unduly burdened by a transport fee.

Mayor Davidson suggested moving on to the Development Services fee proposal.

Mike Brennan, Development Services Director, described proposed fee adjustments to update hourly rates, adjust flat fees, and adjust building review and inspections fees by the June CPI-W index (3.7%). He reviewed the financial principles that fees should be regionally competitive, permit applicants should pay for the services they receive, fees should be predictable and understandable to the customer, and the funding structure should support the Development Services function through economic cycles. Mr. Brennan explained that fees are set to cover costs related to engineering review, inspection, and business support.

Mr. Brennan described how Development Services has been managing through the economic downturn with staffing reductions, contract modifications, and the careful monitoring of expenditures. He reviewed the fund balance history, noting the peak in 2007 and the sharp decrease in revenue since that time. Permitting rates have held constant for two years. However, personnel costs and fixed costs related to technology, facilities, vehicles, fuel and overhead expenses continue to increase.

Mr. Brennan reviewed the proposed hourly rates for land use review, Transportation review and inspection, Fire review and inspection, and Utilities review and inspection. The rates have not been increased since 2009. Mr. Brennan expressed concern about falling out of alignment with the financial policy of maintaining permit rates at levels that fully or substantially cover costs.

Mr. Brennan described the alternatives for Council of implementing the proposed partial fee adjustment, implementing a full cost recovery fee adjustment, holding fees constant, or providing alternate direction to staff. A public hearing on the 2011-2012 Mid-Biennium Budget is scheduled for November 28. Council action on the Budget, including this proposal, is anticipated on December 5.

Responding to Councilmember Chelminiak, Mr. Brennan said the CPI-W adjustment to current rates results in \$475,000 in additional revenue in 2012. Teri Jones, Development Services Fiscal Manager, said the partial cost recovery scenario is estimated to generate the \$475,000 plus \$203,000. The full cost recovery scenario generates the \$475,000 plus \$315,000.

Responding to Councilmember Wallace, Ms. Jones said the Fund base level for fees is \$11 million in 2012.

[Discussion continued to Regular Session, Agenda Item 12(a).]

(b) Status of South Bellevue Annexation and State Sales Tax Credit

[Moved to Regular Session, Agenda Item 12(b).]

At 8:02 p.m., Mayor Davidson declared recess to the Regular Session.

Myrna L. Basich, MMC
City Clerk

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