

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Regular Meeting

November 8, 2021
6:00 p.m.

Virtual Meeting
Bellevue, Washington

PRESENT: Mayor Robinson, Deputy Mayor Nieuwenhuis, and Councilmembers Barksdale, Lee, Robertson, Stokes and Zahn

ABSENT: None.

1. Call to Order

The meeting was called to order at 6:00 p.m., with Mayor Robinson presiding.

2. Roll Call; Flag Salute

City Clerk Charmaine Arredondo called the roll. All Councilmembers were present and participating remotely. Councilmember Barksdale led the flag salute.

(a) Chinese American World War II Veterans Day Proclamation

Councilmember Lee read the proclamation recognizing November 13, 2021 as Chinese American World War II Veterans Day and encouraged everyone to honor the contributions of these important members of our community. He noted that on December 9, 2020, the Speaker of the House bestowed the Congressional Gold Medal collectively to Chinese American World War II veterans.

(b) Veterans Day Proclamation

Councilmember Robertson read the proclamation recognizing November 11, 2021 as Veterans Day in Bellevue and urged all residents to reflect on the contributions and sacrifices of those who have served in the U.S. Armed Forces.

(c) Transgender Awareness Week Proclamation

Mayor Robinson read the proclamation declaring the week of November 13-19, 2021 as Transgender Awareness Week in Bellevue and encouraged everyone to recognize the contributions of transgender individuals and to stand with them against discrimination and violence.

3. Approval of Agenda

- Deputy Mayor Nieuwenhuis moved to approve the agenda, and Councilmember Lee seconded the motion.
- The motion carried by a vote of 7-0.

4. Oral Communications

- (a) Court Olson, speaking on behalf of People for Climate Action, said he did not see any specific mention of additional funding for the implementation of the Environmental Stewardship Plan in the meeting materials. He said more City staffing is needed to reduce greenhouse gas emissions community-wide by 50 percent by 2030. He recalled his previous request to add \$400,000 to the 2022 budget to add three environmental stewardship employees. He encouraged the City to educate staff and the community about the causes and solutions related to greenhouse gas emissions. He said their study of other cities indicates that many of them have substantially more staff and funding.
- (b) Barbra Chevalier, co-founder of 300 Trees, said the organization has given 500 trees to residents and is working with students at Sammamish High School to plant 300 trees. She said 300 Trees also partnered with the City to distribute 700 trees in October. She said she was surprised to not see additional funding for code amendments related to tree protection. She asked the City to allocate at least \$200,000 to update the code. She said the tree canopy is currently 36 percent and the City's goal is 40 percent.

5. Reports of Community Councils, Boards, and Commissions: None.

6. Report of the City Manager

- (a) Winter Weather Preparedness and Response

City Manager Brad Miyake introduced staff's update regarding the City's winter weather preparedness.

Chris Long, Assistant Director for Mobility Operations, Transportation Department, said the region is anticipated to have a slightly colder winter than normal with above average participation. He said staff began working in the summer to make sure that snow plows and other equipment are ready for winter weather events. He noted that training this year was conducted both virtually and in person for approximately 150 staff members in four departments. During a winter storm event, two shifts totaling 60 employees are working daily to respond to the storm.

Mr. Long recalled the two major winter weather events last year in January and in February. In February, the City had all 15 snow plows on the road for approximately six days. He said the Parks and Community Services Department has three plows as well. He described the introduction of GPS equipment on vehicles to better monitor their locations and to facilitate a

faster response to emergencies, such as helping an ambulance reach a resident. He said the City is developing a snowfall map that in the future will allow residents to see the conditions of local arterials. Mr. Long described a partnership with the University of Washington to monitor the roadway conditions on Lakemont Boulevard through an innovation grant from the U.S. Department of Transportation. When incidents (e.g., tree on the road, car pointing in the wrong direction) are detected on cameras along the road, an app will notify the City's dispatch center for assistance.

(b) 2021 Biennial Bellevue Business Survey Results

Mr. Miyake said the City conducts a survey of local businesses every two years to understand key metrics and attitudes about operating and owning a business in Bellevue.

Philippa Marsh, Economic Development Manager, said this is the fourth set of data from the business community, including all industries, sizes and locations. Despite the pandemic, the survey's top line results reflect an overall strong economic position and continued recovery.

Corbin Hart, Economic Development Analyst, said the key metrics continue to receive high ratings, with the percentage of survey respondents likely to recommend doing business in Bellevue increasing by nine percent. Similarly, 80 percent of the survey respondents indicated that their business is somewhat or very strong. Businesses in the tourism and creative industries sectors make up the majority of businesses reporting their economic strength as weak.

Mr. Hart said that 46 percent of the businesses anticipate increasing their capital investments, which is a seven percent increase over 2019. The percentage of businesses increasing their employment count remains steady from 2019 at 36 percent. Mr. Hart said this is the first year the survey asked whether businesses anticipate increasing the amount of space they lease or own, and 16 percent of the respondents indicated that they do plan to expand. He noted that the 20 percent difference between the businesses increasing employment count and those increasing the amount of space reflects the growth in the number of people working from home or working hybrid office/home schedules. Larger employers in particular anticipate increased staffing within smaller square footage. Key challenges for employers are the lack of qualified employees, affordable housing and child care services.

Mr. Hart said that 80 percent of small businesses rated Bellevue as a better place to do business than other cities and towns. Small businesses rated their access to support organizations and service providers 11 percent higher than in 2019, and small businesses gave the City higher quality of service ratings than large businesses. Mr. Hart noted that 50 percent of small businesses identified the lack of affordable commercial space as the greatest barrier to having a business in Bellevue. Tourism and information technology employers identified the lack of workers as a key challenge, and the creative industry sector reported that the lack of affordable commercial space is a major barrier.

Mr. Hart said the survey findings will inform ongoing work to implement the Economic Development Plan. The survey results are available online at bellevuewa.gov/businesssurvey.

Mayor Robinson thanked staff for the update and for their hard work with the business community throughout the pandemic.

7. Council Business and New Initiatives: None.

8. Consent Calendar

→ Deputy Mayor Nieuwenhuis moved to approve the Consent Calendar, and Councilmember Stokes seconded the motion.

→ The motion to approve the Consent Calendar carried by a vote of 7-0, and the following items were approved:

(a) Council Minutes

Minutes of October 25, 2021 Regular Meeting

(b) Ordinance No. 6614: 1) authorizing the execution of a Grant Agreement (and supplements if necessary) with the Washington State Department of Commerce (DOC) to accept \$129,000 for energy efficiency projects at City facilities; 2) amending the 2021-2022 General Capital Investment Program (CIP) Fund to increase the appropriation by \$129,000; 3) amending the 2021-2027 CIP Plan to increase the budget for the Fire Facility Maintenance (CIP Plan No. PS-16) by \$121,179 and the Facility Services Major Maintenance (CIP Plan No. G-113) by \$7,821; 4) authorizing the execution of an Amendment to an Interagency Agreement with the Washington State Department of Enterprise Services (DES) (and related documents if needed) in an amount not to exceed \$488,037, plus all applicable taxes, to replace heating ventilation air conditioning (HVAC) and make lighting upgrades at Fire Stations; and 5) authorizing the execution of an Addenda to the Master Services Agreement with Allumia Inc. (and related documents if needed) in an amount not to exceed \$156,902, plus all applicable taxes, to upgrade lighting at City facilities.

(c) Resolution No. 10014 authorizing execution of an amendment to the professional services contract with The Berger Partnership in the amount of \$207,835, plus all applicable taxes, to provide the final phase of design, permitting, engineering and construction administration to complete the new park in the Bridle Trails Neighborhood.

(d) Ordinance No. 6615: 1) adopting recommendations for the use of 2022 Community Development Block Grant funds as transmitted by the Human Services Commission; 2) authorizing the submission of a proposal to the United States Department of Housing and Urban Development (HUD) for the 2022 CDBG Program; 3) authorizing the acceptance of a grant award contract with HUD; and 4) authorizing entering into agreements with grant subrecipients.

- (e) Resolution No. 10015 authorizing execution of all documents necessary for the acquisition of a 0.58-acre property, land and improvements, at 12020 SE 11th Street, including a purchase and sale agreement, in an amount not to exceed \$1,385,000, plus related costs.
- (f) Resolution No. 10016 authorizing the execution of an Interlocal Datashare Agreement with Washington State Department of Social and Health Services (DSHS) for the City's Probation Department to participate in the Washington Connections Program.

9. Public Hearings: None.

10. Study Session

- (a) Cultural and Economic Development Quarterly Update

City Manager Miyake introduced the cultural and economic development quarterly update. He said staff is requesting Council direction to return at a future date with a draft interlocal agreement to create a Tourism Promotion Area (TPA).

Mac Cummins, Director of Community Development, recalled that the Economic Development Plan reflects the goal of increasing tourism and leisure travel. He noted that business travel has generally been strong in Bellevue.

Philippa Marsh, Economic Development Manager, said that Bellevue's third quarter economic recovery is tracking positively with an unemployment rate of 3.9 percent, compared to 4.3 percent the previous quarter. Commercial real estate vacancies are stable and the hotel occupancy rate increased from 53.1 percent in the previous quarter to 59.1 percent for the third quarter. New tenants in Bellevue include Snowflake Computing and Bytedance (TikTok). Ms. Marsh said the increased availability of sublease space has allowed new tenants to move to Bellevue. Investors continue to show a strong interest in the commercial real estate market with seven major transactions during the third quarter.

Ms. Marsh said Bellevue is experiencing an increase in small businesses leases and in retail activity. She thanked the Council for allocating \$500,000 in American Rescue Plan Act (ARPA) funding for small business rent relief grants. The City was able to provide 43 grant awards from a total of 155 applicants, and the grant application was translated into four languages. Of the grant recipients, 50 percent of the businesses are female owned, 67 percent are minority owned and 27 percent are immigrant owned.

Ms. Marsh said businesses identified the most needed resources for the next three years to be low-interest business loans, business marketing, and employee growth and training assistance. The Startup 425 marketing event had 70 registrants with 81 percent of those representing micro businesses, 71 percent representing minority owned businesses and 70 percent representing women owned businesses.

Ms. Marsh said upcoming activities include a report on the arts program (including the BelRed arts district), Crossroads area business outreach, development of the workforce navigation program, and the proposed Tourism Promotion Area (TPA) interlocal agreement.

Ms. Marsh said a state program enables hotels to add a special assessment on room nights to support tourism activity. The concept is included in the Destination Development Plan (DDP) to support event incubation and promotion, and Visit Bellevue Washington is leading the work with the consultant. City Council action is required to establish a TPA in Bellevue. Ms. Marsh noted the proposed timeline to execute the interlocal agreement in January 2022, conduct a hearing in February, adopt the ordinance in March, and to execute the contract with the State Department of Revenue in April 2022.

Brad Jones, Executive Director, Visit Bellevue Washington, recalled the creation of the DDP in 2017 to improve Bellevue's ability to attract visitors and to develop the tourism business sector for future growth. The plan established 18 priority areas and approximately 40 percent of the plan has been implemented. Many of the remaining priorities require higher funding levels and are longer term. Mr. Jones said the DDP will be updated over the coming months. He described the development of an industry key performance indicators dashboard to monitor and measure activity on an ongoing basis. The key indicators include the number of visitors, visitor spending, hotel occupancy levels, tax collections, sales and marketing, and visitor experience.

Mr. Jones said the DDP calls for a comparative and competitive analysis of Bellevue's current destination funding and what is needed to fully optimize the tourism industry and priorities. Based on the comparative analysis and the scope of the DDP, Bellevue requires an annual investment of \$5 million. The DDP includes an item for Bellevue to implement a TPA designed for the development of community tourism. Mr. Jones said there are currently 17 TPAs in Washington state. The plan calls for the TPA to generate approximately \$2.5 million per year dedicated to tourism promotion and the development of Bellevue's priorities.

Mr. Jones said the formation of a TPA has been discussed with the hotel industry since 2018. Visit Bellevue Washington began actively meeting with lodging stakeholders approximately 18 months ago. A series of in-person industry open houses focused on the formation of a TPA and more than 90 percent of Bellevue's lodging properties participated in those events. Mr. Jones noted the group's work with a consultant and the development of a TPA formation steering committee. He said the hotels support the formation of the TPA and believe it can fuel a more speedy and sustainable recovery from the pandemic's impacts on the economy. A typical TPA will accelerate demand by 2-5 percent annually, which translates to nearly \$42 million in additional visitor spending immediately for Bellevue.

Mr. Jones described the TPA formed in Spokane in 2004. The TPA assessment started at \$2 per room and is now \$4 per room. The number of visitors to Spokane increased by nearly 160 percent since 2004. The industry supports 11,750 jobs and generates \$109 million annually in non-resident tax revenue. Mr. Jones said Spokane County contracts with Visit Spokane to manage the TPA.

Mr. Jones said the proposed plan for the Bellevue TPA reflects the funding needs and priorities established in the DDP. A TPA fee of \$2.50 per occupied room night will generate approximately \$2.5 million. Mr. Jones said state law allows the funds to be used for tourism promotion, including marketing and advertising. He said a 40 percent increase in Bellevue's hotel supply is anticipated over the next 5-6 years.

Ms. Marsh thanked Mr. Jones for the presentation and reiterated staff's request for Council direction to return with a draft interlocal agreement for the formation of a TPA.

Councilmember Lee thanked Mr. Jones for the presentation. Responding to Mr. Lee, Mr. Jones said the consultant recommended the TPA fee based on a comparison with taxes in surrounding jurisdictions. He said Bellevue's fee is below the median for King County. Mr. Lee expressed an interest in the TPA fee in other jurisdictions.

Responding to Councilmember Barksdale regarding the lack of affordable commercial space, Ms. Marsh said staff will work with local companies to help increase their business and to enhance their ability to afford rental rates. She said a retail business study will be conducted next year. In further response to Mr. Barksdale, Mr. Jones said state law requires any city in King County to partner with another city in order to form a TPA. The Redmond-Bellevue TPA consists of two zones (Bellevue and Redmond), and the Bellevue zone covers the entire city because there are hotels throughout the community.

Responding to Deputy Mayor Nieuwenhuis, Mr. Jones said that both hotel occupancy and spending are tracked by Visit Bellevue Washington. Mr. Jones said that leisure travel returned this summer to approximately 80 percent of normal levels. However, business travel remains low at 15-20 percent of normal. Responding to Mr. Nieuwenhuis, Ms. Marsh said the small businesses struggling the most early in the pandemic were also the businesses with less of an online presence. She noted staff's ongoing efforts to assist businesses with increasing their digital marketing.

In further response to Mr. Nieuwenhuis, Mr. Jones said Visit Bellevue Washington has worked on benchmarking its data to better understand the types of customers in Bellevue, where they come from, and the best way to communicate with them. With international travel opening up again, they will be able to track that activity as well. Mr. Jones said most of the future marketing will be digital and outcomes will be able to be tracked. Mr. Nieuwenhuis asked about efforts to market Bellevue as a home base for visitors who might be traveling to other places in the region during the day. Mr. Jones confirmed that they want to make Bellevue the urban base camp for leisure travel and tourism.

Councilmember Zahn noted her involvement with the BCCA over the past two years and expressed support for the creation of a TPA. She said the TPA is fully supported by local hotels, and both Bellevue and Redmond will control the use of the revenues raised in their cities. She asked whether the funds could be used for things like a shuttle/circulator service or for marketing events. Ms. Zahn asked whether there is more the City could do to help support the small businesses that applied for but did not receive grants, such as helping them obtain small business

loans. Ms. Marsh said staff is proactively understanding the opportunities to leverage funding, as well as partners, to provide more funding and better access to those opportunities.

Mr. Jones said the steering committee has been working on the utilization of TPA fees and capacity building. He said approximately half of the revenue will be spent on advertising, marketing and public relations, and the other half will be spent on program development (e.g., sports events, festivals, cultural programming).

Councilmember Robertson noted that state law requires that 60 percent of the payors sign the TPA petition. She asked about the status of that outreach. Mr. Jones said they started talking about the TPA with hoteliers approximately 18 months ago, and an open house was held in July to provide information about the TPA formation process and DDP priorities. He said they have spoken with approximately 90 percent of the hoteliers and all of them support the formation of a TPA.

Following up on Councilmember Lee's question about the appropriate level for the TPA fee, Councilmember Robertson noted that Bellevue is one of the few cities with a higher lodging tax. Responding to Ms. Robertson, Mr. Jones said he has not completed an economic analysis regarding the lodging tax but he could request that from the consultant and work with the City's economic development team in that effort.

Councilmember Robertson said the \$2.50 TPA fee will sunset in 2027 under state law unless the state legislature amends the law. She asked whether the future reduced fee of \$2 is reflected in the Visit Bellevue Washington financial plan. Mr. Jones said it is anticipated that the legislature will renew the law. He said the legislature recently increased the allowable TPA fee to \$5 per room night. If the TPA fee is reduced to \$2 in the future, he said the increase in the number of hotel rooms in Bellevue will offset the lower fee. Ms. Robertson asked whether the fee would vary for different hotel classifications. Mr. Jones said there is unanimous support among hoteliers for one flat fee.

Councilmember Stokes thanked City staff and Mr. Jones for their work. Mr. Stokes asked why Kirkland is not included in the Redmond-Bellevue TPA. Mr. Jones said Bellevue and Redmond are a good match in terms of the types of companies and business travel. He said Redmond has more hotel rooms than Kirkland while Bellevue and Redmond are similar in terms of hotel supply. He said Redmond was eager to form the TPA, and Kirkland could join later if more hotel rooms are added. Mr. Stokes expressed support for marketing Bellevue as a home base for visitors who want to explore the region.

Mayor Robinson asked what percentage of the economy was tourism before the pandemic. Mr. Jones said he was not sure. However, he said the total economic impact of hospitality and tourism was approximately \$1.8 billion. Ms. Robinson expressed support for the formation of a TPA.

→ Deputy Mayor Nieuwenhuis moved to direct staff to draft an interlocal agreement for the formation of a Tourism Promotion Area (TPA) and to bring the agreement back for

Council consideration and action at a future meeting. Councilmember Stokes seconded the motion.

→ The motion carried by a vote of 7-0.

At 7:18 p.m., Mayor Robinson declared a short break. The meeting resumed at 7:27 p.m.

(b) 2021-2022 Mid-Biennium Budget Update

City Manager Miyake introduced staff's update regarding the 2021-2022 Mid-Biennium Budget adjustments and the General Fund forecast.

Toni Call, Director of Finance and Asset Management (FAM), said the public hearing on the Mid-Biennium Budget adjustments will be held on November 15, and adoption of the budget update is anticipated on November 22 or December 6. Key actions required for the adoption of the budget are the 2022 Development Services Fee Ordinance, 2022 Property Tax Banked Capacity Resolution, 2022 Property Tax Levy Ordinance, and the 2021-2022 Mid-Biennium Budget Ordinance.

Evan Phillips, Budget Manager, recalled the four strategies implemented to address the anticipated budget shortfall triggered by the pandemic. The first was a cost containment strategy that reduced \$16 million over the two-year budget. The second strategy was to use one-time bridge structures where possible until the City's financial picture became clear. This included the phased opening of Fire Station 10 and implementing a temporary two-year transfer of sales taxes from the Capital Investment Program (CIP) into the General Fund. The budget adjusted for modest increases in revenues, including a one percent property tax adjustment and increasing compliance with the City's Business and Occupation (B&O) tax and other taxes. Additionally, the budget invested in human services and equity programs, including the Communities of Color coordinating team. Mr. Phillips said those four strategies are the starting point for the proposed 2021-2022 Mid-Biennium Budget.

Mr. Phillips said the proposed mid-biennium adjustments continue the one percent property tax and the sales tax swap from the CIP to the General Fund. As part of the mid-biennium process, staff reevaluated the economic forecast for the second year of the biennium. Bellevue has experienced an uneven economic recovery across sectors of the economy, with the information technology industry remaining stable through 2022. Mr. Phillips said that B&O tax collections are returning to pre-pandemic levels due primarily to construction activity throughout Bellevue. He noted, however, that the inflation rate is higher than anticipated and the country is experiencing supply chain issues, resulting in higher costs for the City's operations and personnel.

Mr. Phillips said the one percent property tax continues in the budget through 2022, and it will require Council action when the Mid-Biennium Budget is approved. A home valued at \$1 million pays \$8,846 in annual property taxes in 2021, and 10 percent of that goes to the City of Bellevue. The remainder goes to the State, Bellevue School District, King County and other jurisdictions.

Mr. Phillips highlighted the key changes in the Mid-Biennium Budget. Adjustments to the General Fund include updated revenues, technical adjustments to expenditures to address inflation of 6.3 percent, the conversion of one homeless outreach limited-term employee (LTE) position to a full-time employee (FTE) position, and the addition of a new daytime Battalion Chief beginning in July 2022 to support the phased opening of Fire Station 10.

Mr. Phillips noted minor adjustments to the CIP Plan, Housing Fund, and Human Services Fund. The proposed budget includes funding two revenue-backed staff positions for A Regional Coalition for Housing (ARCH), as discussed with the Council on September 20. The Human Services Fund anticipates spending a portion of the \$1.5 million donation from Amazon. For both the Housing Fund and the Human Services Fund, the Mid-Biennium Budget reflects spending to continue the second year of early funding opportunities for housing, behavior health and housing-related services resulting from HB 1590 revenues.

Ms. Call presented the General Fund forecast, noting that there remains to be uncertainty due to the pandemic. Sales tax revenues are anticipated to return to 2019 levels by the end of 2021. Ms. Call said it will take several years for the sales tax revenue generated by the high construction permit activity in 2021 and 2022 to be reflected in the sales tax forecast. However, sales tax growth will continue to be strong through 2026. Ms. Call said expenditures will continue to be driven by inflation and supply chain issues. She highlighted the major sales tax sectors: 1) retail, 2) construction, 3) auto sales, 4) food and accommodations, 5) services, and 6) all other sectors. Construction sales tax revenue represented approximately 20 percent of all sales tax collections in 2019, and that will grow to 25 percent for 2021. Ms. Call noted the slower recovery in sales tax collections related to food and accommodations businesses. Ms. Call highlighted a graph depicting that expenditures will continue to exceed revenues through 2026 unless adjustments are made.

Responding to Councilmember Barksdale, Ms. Call said the services industry primarily includes financial services and information technology businesses.

Councilmember Lee thanked staff for the presentation. He noted his willingness to consider the continuation of the one percent property tax due to the pandemic. However, he encouraged further review of expenditures.

Councilmember Zahn noted the reduction of \$16 million from the two-year budget to contain costs. She said she would like to better understand any lessons learned from that effort, including whether any of the budget reductions have affected the quality or availability of City services.

Ms. Zahn asked how long the transfer of sales tax revenues from the CIP Plan to the General Fund is expected to continue and whether infrastructure funds could be achieved through grants or other funding mechanisms. She asked whether bonding against HB 1590 tax collections is contemplated in the 2021-2022 budget.

Ms. Call said the Council authorized the sales tax swap from the CIP to the General Fund for two years. The CIP Plan will again be fully funded with sales tax revenues beginning in 2023 unless

the Council chooses another direction. In terms of lessons learned, Ms. Call said staff could research that issue. She is not aware of any impacts on the community from the cost containment measures. Ms. Call confirmed that staff will pursue federal funding to be made available with the recent passage of the infrastructure legislation. She said discussions about bonding related to HB 1590 revenues will come back to the Council.

Councilmember Robertson said she was surprised with the stability in auto sales tax revenue projections, given the shortage of cars and other vehicles. Ms. Call said auto sales appear strong for 2021, and higher car prices result in higher sales tax collections.

Ms. Robertson concurred with Councilmember Zahn's interest in the lessons learned from the pandemic-related cost containment measures. Ms. Robertson suggested that would be good to address during next year's full budget process. She suggested also looking at how the City rebalances its revenues, noting that property tax and utility tax collections are very stable while sales tax collections can experience greater fluctuations. She expressed concern about the potential impact of inflation on the budget. Ms. Call said the financial forecast was updated since the budget was adopted last year and it now reflects the 6.3 percent inflation rate.

Councilmember Robertson expressed support for the budget as proposed by staff. She does not want to add expenditures if there are not sufficient revenue sources or budget reductions to support or offset any additions. Ms. Robertson thanked staff for all that they do.

Councilmember Stokes thanked staff for their work and concurred with Councilmember Robertson's comment that this is not the time to add expenditures to the budget. Mr. Stokes commented that the inflation rate creates a challenge for the budget, even with the one percent property tax. He said he looks forward to addressing some of the larger issues during next year's budget process. He is interested in considering a new parks levy and/or other levies as needed.

Deputy Mayor Nieuwenhuis commented on the uncertainty still ahead as the pandemic continues. He concurred that now is the time to stay the course with the intention of addressing larger budget items and decisions next year through the full biennial budget process.

Mayor Robinson said she would like to address the bonding of HB 1590 tax revenues during the first quarter of next year. She expressed concern that the State could change the rules and preclude the City's ability to collect the tax. However, that could not occur if the revenues are already bonded. She expressed support for considering a parks and arts levy.

Ms. Robinson said the City has always been good about giving back to the community when it is impacted by growth. She noted support in the community for the City to reexamine the ability of developers to clear-cut lots. She has received a proposal from the community and would like the City to consider the recommendations. Mayor Robinson asked about the resources that would be needed to address the City's tree codes. With the pace of growth and redevelopment in Bellevue, she is concerned that the issue should not be delayed. Ms. Call said she will work with the City Manager's Office to respond to the Council.

At 8:00 p.m., Mayor Robinson declared a short break. The meeting resumed at 8:10 p.m.

(c) Follow-up on Cascade Water Alliance's Future Water Supply Options

City Manager Miyake introduced discussion regarding the Cascade Water Alliance's future water supply options.

Nav Otal, Director of the Utilities Department, recalled that the Cascade Water Alliance presented a proposal on September 27 regarding future water supply options and the creation of a Water Supply Development Fund (WSDF). At that time, the Council raised a number of questions and asked City staff to provide an analysis and recommendation for the best way to provide water in the future at the best rates. Responding to the question about why Bellevue's water rates are so high, Ms. Otal said the two main drivers are the City's aging infrastructure and Cascade's water supply costs. Payments to Cascade for the purchase of water represent 38 percent of the water utility budget, and capital investments represent 27 percent of the water utility budget. Ms. Otal said that payments to Cascade have increased by 35 percent since 2013, reflecting an average annual increase of \$6 million.

Ms. Otal said that Cascade's 2021 budget includes the cost of water purchased from the City of Seattle (\$21.4 million) and Cascade's operating, capital and debt service expenditures (\$28.7 million). She said these are Cascade's current costs and they do not include any proposed funding to develop Lake Tapps or to fund the proposed WSDF.

Ms. Otal highlighted the six water supply options considered by Cascade. Option 1 is to develop Lake Tapps Phase 1 by 2042, and Cascade is not pursuing that option at this time. Instead, the Cascade Water Alliance Board is considering three additional options. Option 2 reflects a 15-year extension of the contract with Seattle to 2055 and the development of Lake Tapps Phase 1 by 2055. Option 3 reflects a 20-year contract with the City of Tacoma until 2059 and the development of Lake Tapps Phase 1 by that time. Option 4 combines Option 3 with an agreement with Seattle to move water from Lake Tapps through Seattle's pipes for Cascade members. The cost of the Lake Tapps Phase 1 project ranges from \$2.4 billion to \$3 billion, and the WSDF would cover the development costs. The City of Bellevue would pay half of the costs.

Ms. Otal said two additional options were considered but rejected by the Cascade Board. Option 5 reflects a 20-year contract with the City of Everett until 2059 and the development of Lake Tapps Phase 1 by that date. Option 6 involves a Seattle purveyor contract and no development of Lake Tapps as a water supply. Ms. Otal said Option 6 was rejected due to the Board's concerns about negotiating a cost-effective contract with Seattle and because the option is contingent on selling Lake Tapps.

Ms. Otal said the development of a water supply at Lake Tapps is a very complicated project with many decisions that have not yet been defined. The Cascade Water Alliance was formed in 1999 with eight members: Bellevue, Covington, Issaquah, Kirkland, Redmond, Sammamish Plateau Water District, Skyway Water and Sewer District, and Tukwila. The City of Covington withdrew from the alliance in 2012. Ms. Otal presented a map depicting existing pipelines for both Seattle Public Utilities and Tacoma Public Utilities. The development of Lake Tapps would require the construction of a 87 million gallon per day treatment plant, 30 miles of 66-inch

pipeline, a pump station, a 20 million gallon reservoir in South Bellevue, and a transmission pipe between South Bellevue and Kirkland. Two options under consideration by Cascade for the reservoir in South Bellevue are to determine whether Seattle would sell an existing reservoir or whether a new reservoir would be created. Ms. Otal highlighted Cascade's three potential corridors for the transmission pipeline between Lake Tapps and Kirkland. She noted that none of these decisions have been made.

Ms. Otal said there are many uncertainties associated with the Lake Tapps project including the level of water treatment that would be required. The cost of developing the first phase of the project is \$2.4 billion to \$3 billion. She expressed concern regarding the constructability of the 30-mile transmission pipeline including issues related to environmental impacts and to property and easement acquisitions. She questioned the feasibility of siting a 20 million gallon reservoir in South Bellevue and a pipeline through the middle of Bellevue. She noted additional uncertainties including the use of Seattle's infrastructure by Cascade.

Ms. Otal recalled that the Council asked about the projected regional water supply relative to future demand. She presented a graph showing that there is ample water supply (425 million gallons daily) compared to the actual demand/current usage (200 million gallons daily). In 2007, projections indicated that the region would run out of water in 2055, which triggered the purchase of Lake Tapps for a future supply. A 2019 forecast by Cascade reflects a demand of 275 million gallons daily by 2060, which is still well below the supply of 425 million gallons daily.

Ms. Otal said Cascade has its own sufficient water supply beyond 2040. Cascade's current contracts provide for 41.3 million gallons daily until 2040, which includes 33.3 million gallons per day from Seattle and 8 million gallons per day from Tacoma. Ms. Otal said demand has remained significantly lower than anticipated in 2007 and in 2019 despite the unprecedented growth in the region. She said Cascade members are currently using approximately 65 percent (27 million gallons daily) of the total water purchased from Seattle and Tacoma. She noted that Cascade's demand for water has flattened over the past decade.

Mr. Otal said City staff recommend that the creation of the WSDF is premature. She reiterated that there is ample water supply in the region and significant uncertainty associated with developing Lake Tapps. She said there is no downside to delaying a decision for at least two years until contract negotiations with Seattle, Tacoma and/or Everett are completed. Cascade is planning to increase its rates by \$300,000 over a two-year period to contribute to the WSDF. Given the magnitude of the project costs and the time period before Lake Tapps might need to be developed, \$300,000 is a small amount of money that could easily be provided over the next two to three decades. Ms. Otal said there is no urgency to start setting aside funds that might never be needed.

Ms. Otal said Cascade plans to transfer \$5 million of reserves this year and \$6.7 million in reserves next year to the WSDF. She expressed concern that once the money is moved to the WSDF, the purpose will be for the development of Lake Tapps. The money will not be available to pay Cascade's operating or capital costs or to pay down Cascade's current debt. In addition to the transfer of reserves, Cascade will implement rate increases to generate another \$6.7 million

from Bellevue customers over the next eight years. Ms. Otal said the overall financial impacts will be felt most by Bellevue ratepayers because the City pays roughly half of Cascade's costs.

Ms. Otal said Cascade's current ratepayers are already paying \$10 million annually in debt service related to the purchase of Lake Tapps, which will be retired by 2038. Cascade members are also paying for water supply from Seattle. Ms. Otal expressed concern about what might happen to the WSDF reserves if Lake Tapps is never developed. By 2055, approximately \$1.2 billion will accumulate in the fund, of which \$600 million will be paid by Bellevue customers. She noted that, despite its significant contribution, the City will not control the use of those funds.

Ms. Otal said that, in order to ensure the best value for Bellevue ratepayers, staff recommends that Cascade explore all alternatives, including negotiating a longer term (minimum 30 years) contract with Seattle, Tacoma and/or Everett. Staff recommends waiting to consider the WSDF until contract negotiations are completed. She reiterated that there is no urgency or value to Bellevue ratepayers to establish the WSDF at this time.

Councilmember Stokes, Chair of the Cascade Water Alliance Board, said he appreciated the presentation. He opined that some of the comments were meant to put the development of Lake Tapps in a negative light. He said Cascade will conduct negotiations with Seattle and Tacoma. He noted that Lake Tapps is a long-term project.

Mr. Stokes said Bellevue has been a leader with the Cascade Water Alliance. He noted past involvement with Cascade by former Bellevue City Councilmembers and a former Bellevue utilities director. He said Lake Tapps has always been a part of Cascade's long-term plan, and there has always been the idea that a water supply might not be developed there. However, Lake Tapps is an asset. He suggested looking 50-60 years into the future. Mr. Stokes said Cascade will continue to contract with Seattle if a favorable contract can be achieved. He said this is a business decision and initiating the WSDF now is cost-effective in the long run. He suggested that waiting to complete negotiations with Seattle and/or others is irrelevant to the decision about creating the WSDF.

Responding to Mayor Robinson, Councilmember Stokes said his recommendation is that the City continue to work with Cascade and join the other members in creating the WSDF. He noted the plan to review the WSDF every two years. He recommended establishing the WSDF as proposed by Cascade. He suggested inviting Cascade staff and others come in to talk about the reality of the proposal to provide balance to staff's presentation.

Councilmember Lee, alternate for the Cascade Board, said this is a complex issue. He noted that this is a 40 year to 50 year project, or potentially a 100 year project based on discussions by the Cascade Board. He said the Cascade staff are good people working with good consultants to make good recommendations. He said they follow many of Bellevue's utilities principles. Mr. Lee said he is impressed with Cascade's financial consultant.

Councilmember Lee said the decision to purchase Lake Tapps occurred 20 years ago and this is a different time. At that time, the City determined that it was important to have a water supply

source independent of Seattle. However, based on actual water usage and updated forecasts, the City needs to consider whether an independent water supply system is needed. He suggested listening to Bellevue staff and expressed support for their recommendation.

Councilmember Zahn observed that there are a number of fundamental questions: Will the development of Lake Tapps be required? What is the probability of successful negotiations for cost-effective rates over the next 20-30 years? Do we need to establish the WSDF now or wait? Ms. Zahn recalled that Cascade's presentation recommended developing the fund now if Lake Tapps will be developed in the future. She expressed concern about the transfer of money from Cascade reserves. She asked whether Bellevue staff's recommendation has been shared with Cascade and/or other Cascade members. She asked whether other Cascade members support the creation of the WSDF. She asked about the urgency of the decision.

Ms. Otal stated her understanding that the September 27 presentation to the Council was initiated when one or two Cascade Board members realized that this is a very significant decision that warranted input from Cascade member agencies. Otherwise, this would have been a Board decision and it would not have come before the Council. Ms. Otal said Cascade presented their proposal to the other members before coming to Bellevue. She noted that she initially heard the presentation as a Sammamish Plateau Water District Commissioner.

Ms. Otal said the City of Bellevue is fiscally conservative and a long-range planner. She said Bellevue staff dug deeper into the WSDF proposal. All of the information presented tonight was shared with Cascade, and City staff shared its reservations about the proposal. Ms. Otal suggested that other Cascade members have not raised issues because they have not conducted the level of analysis completed by Bellevue staff. Staff's motivation for conducting the analysis is based on the fact that half of the requested funding will come from the City of Bellevue.

Ms. Zahn asked whether Bellevue staff has presented its information to other cities. She said Bellevue is the largest Cascade city with more staff and resources. She said part of being a good neighbor is to share that knowledge and analysis.

Mayor Robinson said the Issaquah City Council and the Redmond City Council have not yet voted on the WSDF proposal. She said the issue before the Council is to formulate a position for Councilmember Stokes to communicate to the Cascade Board.

Responding to Councilmember Zahn's question about sharing information with other cities, Ms. Otal clarified the structure of the Cascade Water Alliance, how it functions and the role of staff versus the role of elected officials. Ms. Otal said Bellevue staff is involved in a number of Cascade committees, and the meeting attendees include staff and elected officials from other jurisdictions. Bellevue's concerns have been shared with Cascade staff and with everyone who attends the committee meetings. Ms. Otal said staff is very concerned about setting aside a large reserve at this time when more certainty can be achieved over the next two years through negotiations with Seattle and/or others. Ms. Otal said Cascade already has a contract with Seattle that assures a water supply through 2040-2045 given the water demand forecast. She said Bellevue staff has not otherwise reached out to staff in other jurisdictions.

Councilmember Robertson recalled Cascade's executive director a number of years ago saying that water demand forecasts are always too high. While this is a growing region, people and businesses are using water much more efficiently. She noted that Cascade members are not using all of the water available through current contracts with Tacoma and Seattle, and now there is discussion about adding another water supply source that likely is not needed. Bellevue is paying for water that it is not using, which has been one of the cost drivers of Bellevue's high water rates for a number of years.

Councilmember Robertson expressed support for staff's recommendation to continue to study the issues and to continue negotiations to extend the existing contracts before establishing the WSDF and moving reserves into that fund. She thanked Director Otal and Utilities Department staff for their thorough analysis and wise business decision. Ms. Robertson suggested it would be appropriate to reach out to other jurisdictions if the Council votes tonight to support staff's recommendation. Others will be looking to Bellevue as a leader and a major funder of the Cascade Water Alliance. Councilmember Robertson thanked Councilmember Stokes and Councilmember Lee for their work with Cascade. She noted that she is often asked why Bellevue's water rates are so high.

Mayor Robinson said she too is often asked about Bellevue's high water rates. She said Bellevue customers are paying a lot of money for water the City does not use on the chance that at some point the City might need more water than it has ever used in the past. She asked where the money used to pay for the unused water has gone. She is reluctant to enter into another situation in which the City is paying for more water than it needs. However, she understands the impacts of climate change and the potential for a lower water supply in the future. Ms. Robinson said she would be interested in achieving a little more control over rate increases. She expressed support for staff's recommendation to continue contract negotiations over the next two years and to reassess conditions and needs at that time.

Responding to Mayor Robinson, Ms. Otal said that once a reserve is established, Cascade controls the use of the funds. Ms. Otal said that if Cascade moves reserves into the WSDF now, it would be very problematic to reverse that course of action in the future.

Responding to Ms. Robinson's question about the money paid for water that is not used, Ms. Otal said the contracts with Seattle and Tacoma are "take or pay" contracts that guarantee access to a certain amount of water. However, Cascade must pay for the guaranteed water supply whether it is used or not.

Deputy Mayor Nieuwenhuis thanked Ms. Otal and staff for their analysis and acknowledged that Councilmembers were given the opportunity for a briefing before tonight's meeting. He thanked staff for looking out for Bellevue's best interests. Mr. Nieuwenhuis referred to a press release indicating that Lake Tapps was purchased in 2005 with the original goal of opening the Lake Tapps water supply by 2025. The current regional water demand is less than half of the regional water supply and Cascade has owned Lake Tapps since 2005. However, there did not appear to be a sense of urgency until now. Deputy Mayor Nieuwenhuis said he too hears concerns from residents about water rates. He does not see any downside to waiting two years to complete negotiations with Seattle and Tacoma as recommended by staff.

Responding to Mr. Nieuwenhuis, Ms. Otal said the option to purchase water from Everett was not evaluated because it would have required a new pipeline from Clearview to Woodinville. She noted that the underlying assumption of the other five options is that Lake Tapps will be developed. Ms. Otal said Seattle has two separate connections for providing water to Bellevue. If a water supply is developed at Lake Tapps, that would be the only source of water for Bellevue. Ms. Otal suggested that the Cascade Board started with the assumption that Lake Tapps would be developed instead of evaluating other options that do not involve Lake Tapps.

Responding to Councilmember Barksdale, Ms. Otal said the graph comparing water demand and water supply reflects annual amounts and does not reflect seasonality. Responding to Mr. Barksdale, Ms. Otal said there is no need to start funding the WSDF at this point. If the decision in two years is to create the WSDF, the City will be able to provide the \$289,000 if needed. Ms. Otal said it is premature to establish any reserve, even internally, or to implement rate increases at this time. She expressed concern about the prospect of Cascade moving approximately \$12 million in reserves to the WSDF, half of which was collected from Bellevue, and the City later deciding it does not want to be part of that fund.

Councilmember Stokes said he is not comfortable with making a decision at this point because he believes the Council does not have all of the facts. He opined that the Council is being shifted to look at the proposal in a certain way when that is not the question that is being asked. He would like to have the time to review more information and to respond to staff's recommendation.

Mayor Robinson thanked Mr. Stokes for his comments. Ms. Robinson observed that other Councilmembers are also interested in more time to process the information and to determine what other cities have done to respond to the proposal.

Mayor Robinson asked Councilmembers to indicate whether they would like to vote tonight.

Councilmember Lee said he is ready to vote. He recalled that the decision regarding Lake Tapps was made years ago and it was a good decision at the time. However, things have changed and an additional water supply is not needed. Mr. Lee expressed concern about the uncertainty, complexity and ultimate cost of developing Lake Tapps. He said, however, we know one thing for sure and that is the ability to negotiate a contract with Seattle, Tacoma and/or Everett. Councilmember Lee expressed support for staff's recommendation.

Councilmember Zahn suggested taking staff's recommendation to Cascade and other members and asking them to consider it as an alternative.

Councilmember Robertson agreed that Bellevue should be sharing the information with other member jurisdictions. She reiterated her support for staff's recommendation and said she is ready to vote tonight. If the decision is made tonight, there will be time to share information with others before the Cascade Board considers the issue on November 17. Ms. Robertson said there is little to no risk in waiting two years to complete contract negotiations. If Cascade does move forward with the WSDF now, the risk is that nearly \$13 million in Cascade reserves will be

moved to the WSDF and will not be available for other needs. If the WSDF is created now, Cascade and its members lose options. Ms. Robertson said it is important to keep more options on the table for long-term planning to protect the interests of ratepayers.

Responding to Deputy Mayor Nieuwenhuis, Ms. Otal confirmed and reiterated that she shared the information with Cascade and its members. Bellevue staff members attend meetings and present their arguments, and annotated agendas are provided to Councilmember Stokes and Councilmember Lee. Staff offers briefings to all Councilmembers as well. Ms. Otal said Bellevue staff's recommendation is not news to anyone.

Mr. Nieuwenhuis said he is ready to vote tonight. However, if Councilmember Stokes would like more information first, he is willing to grant that flexibility. If the Council votes tonight, Mr. Nieuwenhuis said he will support staff's recommendation.

Councilmember Barksdale said he is agreeable to giving Councilmember Stokes more time if needed.

Mayor Robinson said she likes staff's recommendation to wait two years to reassess the issue. She also likes the idea of getting feedback from other cities. She suggested giving Councilmember Stokes more time to process this discussion and to come back next week for a vote.

Councilmember Lee said one way to inform other cities about Bellevue's concerns is through the Council's decision. He suggested that the Cascade Board can vote how they want, however, regardless of Bellevue's desires.

Ms. Otal said she would be happy to meet with Councilmember Stokes to share all of staff's information. She encouraged Mr. Stokes to let staff know how they can support him.

Responding to Councilmember Lee, Ms. Otal said Bellevue has the highest demand share (52.6 percent) of Cascade members and if Bellevue does not support the creation of the WSDF at this time, it will not move forward. Ms. Otal noted that she has consulted with the legal department.

Mayor Robinson said the Council would wait until next week to vote.

11. Land Use: None.
12. Other Ordinances, Resolution, and Motions: None.
13. Unfinished Business: None.
14. New Business: None.
15. Executive Session: None.
16. Adjournment

At 9:47 p.m., Mayor Robinson declared the meeting adjourned.

Charmaine Arredondo, CMC
City Clerk

/kaw