

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

October 17, 2016
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Stokes, Deputy Mayor Chelminiak, and Councilmembers Lee, Robertson, Robinson, Slatter, and Wallace

ABSENT: None.

1. Executive Session

The meeting was called to order at 6:10 p.m., with Mayor Stokes presiding. There was no Executive Session.

2. Study Session

- (a) Introduction to Preliminary 2017-2018 Operating Budget and 2017-2023 Capital Investment Program (CIP) Plan

City Manager Brad Miyake introduced staff's presentation on the Preliminary 2017-2018 Operating Budget and the 2017-2023 Capital Investment Program (CIP) Plan. The budget responds to the Council's two-year priorities and maintains City service levels without an increase in the property tax.

Mr. Miyake said the budget reflects input from the Council and the community, as well as a significant amount of work by the Leadership Team, Finance Department, Results Teams, and other department staff. Much of the budget implements the policy direction received from the Council earlier this year and from the two-year priorities adopted by the Council in April 2016.

Mr. Miyake said the budget adds funding for economic development, increases funding for the Eastside Rail Corridor development, provides funding for the early implementation of the Grand Connection, incorporates funding for the implementation of certain Downtown Livability Initiative recommendations, includes funding for Phase 1 of Meydenbauer Park and the Downtown Park circle, and includes funding for Smart City initiatives (i.e., automated water meter system). The budget provides funding to improve hearing accessibility in public meeting areas and a modest increase in funding toward affordable housing.

Mr. Miyake said the Council spent time earlier this year reviewing the demands and fiscal condition of the Capital Investment Program (CIP), which resulted in decisions to place two ballot measures before the voters in November. He recalled that the Council recently directed staff to apply for a \$100 million loan through the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program to accelerate transportation projects in the BelRed corridor.

Mr. Miyake said the budget reflects survey feedback from the community. The 2016 budget survey results indicate that the majority of Bellevue residents and businesses feel the City is headed in the right direction. Almost all Bellevue residents believe their quality of life exceeds their expectations. A majority of businesses responded that Bellevue is a significantly better or somewhat better place to operate a business, compared to other cities.

Mr. Miyake expressed his gratitude to staff who participated in the budget process including the Budget Outcomes results teams, Finance Department, and the Leadership Team.

Interim Finance Director Toni Call highlighted the budget process calendar. A study session item will be scheduled for October 24, if needed for immediate responses to Council questions and concerns. The November 7 Study Session will address the operating budget and Capital Investment Program (CIP) in greater detail. The November 14 Extended Study Session will focus on Utilities and Development Services fees. The third and final budget public hearing will be held on November 21, and discussions are scheduled for the November 21 and November 28 Study Sessions. Adoption of the budget is tentatively set for December 5.

Ms. Call described six Council actions that will be required to adopt the budget: 1) 2017 property tax levy, 2) 2017 property tax banked capacity resolution, 3) 2017 Substantial Need ordinance, 4) Utility rate ordinance, 5) Development Services fee ordinance, and 6) 2017-2018 overall budget ordinance.

Responding to Mayor Stokes, Ms. Call confirmed that the budget does not include an increase in the property tax. However, it is necessary to take formal action to continue the current property tax rate.

Ms. Call provided an update on the economic outlook and financial forecasts. Personal income growth for the second quarter of 2016 was 2.1 percent in Washington, compared to 1.1 percent nationally. The July 2016 unemployment rate was 4.1 percent in Bellevue and 4.9 percent for the nation. Home values increased 48 percent in Bellevue and 22 percent nationally over the past four years. The City issued 4,156 new business licenses in 2015, which is 7.3 percent higher than in 2014.

Ms. Call highlighted risks in the economic forecast including the potential for another recession in the next few years due to typical economic cycles, the global economy, construction of major projects, housing affordability, and consumer spending. Total taxable retail sales were higher in 2015 than in 2007 before the recession. Department stores sales are decreasing while online sales

are increasing. Auto sales in Bellevue were strong in 2013, 2014 and 2015. However, the growth rate for auto sales has decreased since that time.

Ms. Call described the sales tax forecast from 2017 through 2022. Construction projects contribute to a strong sales tax forecast for 2017, which tapers off beginning in 2018 due to slower anticipated construction activity. Responding to Councilmember Wallace, Ms. Call said staff can follow up with additional details.

Business and Occupation (B&O) tax revenues are forecast to grow by 5.3 percent in 2017 and 6.2 percent in 2018. Cellular and phone tax revenues continue to decline, while other utility tax collections are increasing. Ms. Call noted that cell phone data plans are not taxable. She said the annexation sales tax credit will end in 2022.

Ms. Call said primary expenditure items in the financial forecast relate to land use, population, and employment growth; expiration of the LEOFF I Medical Reserve; implications of the Affordable Care Act; other legislative and regulatory requirements; the potential for another recession; and the cost of maintaining new infrastructure. Ms. Call said the forecast assumes flat staffing levels. The expiration of LEOFF I reserves means the City will need to begin funding that program through the General Fund. The forecast assumes that the Affordable Care Act will have a neutral effect on 2020 expenditures.

Ms. Call presented the General Fund forecast of revenues and expenditures through 2022. Expenditures begin to exceed revenues in 2019. The City is planning for that trend by building reserves in 2017 and 2018 to assist in the near-term.

Councilmember Slatter questioned whether there are best practices relative to the General Fund ending fund balance.

Mayor Stokes suggested allowing staff to get through tonight's introductory presentation and holding more detailed questions and comments for future discussions.

Responding to Ms. Slatter, Ms. Call said the best practice is a 15 percent ending fund balance. Staff will provide more details during a future budget discussion.

Ms. Call said the other two major operating funds are Development Services and Utilities, which will be discussed in greater detail on November 14.

David Baldwin, Budget Manager, presented the 2017-2018 Preliminary Budget totaling \$1.513 billion with three components: 1) Operational Funds (General Fund, Utilities Funds, Development Services, Parks Enterprise, and Internal Services Funds); 2) Special Purpose Funds, which is restricted money dedicated for special purposes including grants, donations, debt service, Firemen's Pension Fund, and the Housing Trust Fund; and 3) Capital Investment Funds (i.e., General and Utilities Capital Investment Program). He noted that the two-year budget includes two years of the seven-year CIP Plan.

Mr. Baldwin described a 2001-2018 graph depicting the price of government, which is the total of all taxes, fees and charges collected by government divided by the personal income of that government's residents. In 2018, total taxes represent approximately 2.4 percent of personal income, or \$1,200 per year for a resident with a \$50,000 salary. Charges for services (i.e., utility service fees, fines and other fees) total 4.5 percent of personal income, or \$2,200 annually based on a \$50,000 salary.

Councilmember Robertson requested a graph to present the information more clearly, including figures on local incomes compared to the actual cost of government. She observed that more details would make the graph more useful. Ms. Call said staff will work on clarifying and refining the information.

Continuing, Mr. Baldwin said the 2017-2018 Operating Budget totals \$1.035 billion and includes the General Fund, Utility Funds, Development Services, Parks Enterprise, Internal Services, and other operating funds. He said the Operating Budget meets a number of Council objectives including professional services toward implementing the economic development plan, advancing the Smart City strategy, and providing additional funding for the winter homeless shelter. He noted that Section 3 of the Budget binders provides the Council's priorities. The budget reflects 1.5 percent growth in positions from 2016 to 2018.

Councilmember Wallace noted staff's earlier comment that staffing remains flat through the two-year budget. He suggested using a benchmark, perhaps population versus the number of employees, and questioned the appropriate staffing level anticipated beyond 2018. Ms. Call said staff can provide information on past staffing growth and how it correlates to population.

Deputy Mayor Chelminiak requested information regarding the timing of adding staff for Fire Station 10 to the budget. He would like a discussion at some point about how the City is preparing for that staffing.

Councilmember Slatter said she would like information on how the light rail project might impact public safety needs and staffing levels. She questioned how the City structures the budget to take the next recession into consideration and to address near-term risks. She is also interested in whether there are Council contingencies in the General Fund.

Continuing, Ms. Call described the 2017-2023 Capital Investment Program (CIP) Plan, which totals \$485 million over seven years [Tab 9 of Budget binders]. The CIP Plan does not include any potential impact from the ballot measures or the TIFIA loan. If additional funding is secured through those sources, staff will bring legislation forward to address those items.

The CIP Plan advances the Council's priorities, repays debt obligations, provides ongoing major maintenance, builds transportation and mobility projects, continues to implement Parks Levy commitments, funds neighborhood investments, and meets general government responsibilities. Ms. Call said the seven-year plan is modeled for short-term cash flow borrowing for balancing purposes. However, the City does not anticipate issuing cash flow borrowing. Typically, the CIP Plan expends 65 percent to 85 percent of the CIP budget.

Councilmember Wallace noted that sometimes there are surplus funds upon the completion of a capital project, and the department retains the extra funds. Ms. Call said the short-term borrowing model reflects that the City will not likely spend 100 percent of its capital budget. For a specific project, such as the overlay program, if 2016 funds are not fully expended, the remaining amount carries over to 2017 to fulfill the contract and complete the work. Ms. Call said she would provide additional information on the cash flow borrowing modeling for the next discussion.

Continuing, Ms. Call noted a list of key Council priorities including Meydenbauer Bay Phase 1 park development, gateway to Downtown Park, expanded community connectivity (public Wi-Fi), Downtown Livability Initiative items, Grand Connection early implementation, Eastside Rail Corridor, hearing accessibility for public spaces, 124th Avenue NE at SR 520, and a supplemental investment in the Housing Trust Fund.

The 2017-2023 CIP Plan contains three components: 1) debt service (35 percent), 2) ongoing maintenance (24 percent), and 3) discrete ongoing projects and building new projects (41 percent). Debt service includes \$31 million in cash flow payback that is not anticipated to be issued, leaving the actual debt service at approximately 30 percent.

Ms. Call described the CIP Plan by Budget Outcomes: 1) Improved Mobility and Connectivity (35 percent), 2) Quality Neighborhoods/Innovative and Vibrant Community (18 percent), 3) Safe Community (7 percent), 4) Economic Growth and Competitiveness (3 percent), 5) Responsive Government (2 percent), and 6) debt service (30 percent as described above).

Ms. Call said the CIP Plan is funded primarily through taxes (74 percent), as well as through impact fees and other resources. She noted a list of the 10 new CIP projects totaling \$14.6 million including light rail station area planning, Grand Connection, Housing Trust Fund supplemental investment, BelRed corridor street network, West Lake Sammamish Parkway Phase 3, and others.

Deputy Mayor Chelminiak requested, for a future discussion, the percentage of the Transportation capital budget that is funded through impact fees.

City Manager Miyake said staff is available to provide individual briefings for Councilmembers. He invited Councilmembers to email questions to staff as well, which can be addressed during future budget discussions.

Responding to Mr. Chelminiak, Ms. Call said the new projects are all contained within the seven-year CIP Plan. Mr. Chelminiak said it would be helpful to see the specific timing of the individual projects within the plan. He observed that there will be approximately \$25 million in new revenue per year for 2022 and 2023.

Mr. Chelminiak questioned the anticipated plan should one or both of the ballot measures fail. Mr. Miyake said staff would come back early next year with a proposed supplemental budget to address those items if needed.

Councilmember Robinson requested information on advanced water meter infrastructure and the impact on future utility rates. She questioned the City's technology sector goals within the economic development program.

Councilmember Robertson suggested that the Council will need more than one discussion regarding utilities and the proposed implementation of advanced meter infrastructure (AMI). She expressed concern regarding increasing utility rates.

Councilmember Wallace requested more details on the proposed Housing Trust Fund supplemental investment and on whether a regional request has been submitted by ARCH (A Regional Coalition for Housing).

Councilmember Slatter questioned how the affordable housing strategy work, including input from the Technical Advisory Group (TAG), will be incorporated into the budget.

Councilmember Lee requested further discussion regarding sales tax from online sales.

Responding to the Mayor, Mr. Miyake said staff will prepare responses to the Council's questions.

(b) July-September 2016 Quarterly Update on Economic Development Activities

Mr. Miyake introduced discussion regarding the third quarter update on economic development activities.

James Henderson, Economic Development Director, introduced Vikram Jandhyala representing the Global Innovation Exchange (GIX) and the University of Washington. He said Mr. Jandhyala would provide his perspectives on the International Leadership Mission to Hong Kong and Shenzhen sponsored by the Greater Seattle Chamber of Commerce in May. Mr. Henderson said Councilmember Slatter participated in the trip as well.

Mr. Henderson recalled that the Council adopted the Economic Development Plan on July 7, 2014. The three main program areas are business attraction, business retention, and Next Generation Bellevue.

Mr. Henderson said there were no job creation, retention or expansion projects during the third quarter, which is somewhat typical for the summer months. However, there were a number of company leads and prospects during the third quarter. In the area of business retention/expansion, there were two company visits and five cases of technical assistance. Mr. Henderson said staff will receive information at the end of October from Impact Hub regarding the number of new entities, members and jobs for Next Generation Bellevue.

Mr. Henderson said the destination marketing plan is on track and on schedule. The consultant has completed the draft situational analysis and conceptual framework, which includes draft strategies based on an extensive survey and the consultant's analysis.

Mr. Henderson said REI signed its agreement with the Spring District to relocate its headquarters to Bellevue. He thanked the REI coordination team for their work: Transportation Director Dave Berg, Director of Development Services Mike Brennan, Assistant Director of Transportation Ron Kessack, Senior Planner Franz Loewenherz, City Manager Brad Miyake, Planning Director Dan Stroh, and Senior Planner Camron Parker. Mr. Henderson said that construction of the GIX facility is on track, with the first students anticipated in September 2017.

Mr. Henderson provided an update on the Innovation Triangle, a partnership with the cities of Kirkland and Redmond to promote the technology industry. Additional partners include the Port of Seattle, Trade Development Alliance, Choose Washington, and the Economic Development Council of Seattle and King County. Bellevue, Kirkland and Redmond have received economic development partnership grants from the Port of Seattle to help fund projects in 2017. Mr. Henderson said the three cities are one of the most highly educated technology centers in the country, with approximately 60 percent of residents having completed a bachelor's degree or higher. The 2013 economic output of the three communities was \$48 billion, with the majority of the business in information technology and business/financial services.

One of the two primary Innovation Triangle activities was the SelectUSA Investment Summit in Washington, D.C., in June. Staff met with 27 companies for 30 minutes each from a number of countries including India, China, Finland, Romania, United Kingdom, France, and others. The meetings resulted in 21 prospects of companies that are actively involved in the site selection process, as well as seven leads from companies that might relocate in the future.

Mr. Henderson said the second key activity was the Innovation Triangle Immersion event on October 10, which involved a number of companies from SelectUSA as well as other companies that Bellevue, Kirkland and Redmond staff has met through business development efforts. The 21 participants, representing 16 international technology companies, trade associations, and country development agencies, attended briefings with a number of local businesses. Three companies are actively looking at this region for expansion.

Mr. Henderson said the purpose of the International Leadership Mission coordinated by the Greater Seattle Chamber of Commerce was to foster stronger relationships with key leaders and businesses in China and to promote the overall Seattle region economy. The group traveled to Hong Kong and Shenzhen and visited a number of technology companies.

Mr. Jandhyala presented a slide show and provided more details on the trade mission. He described the concept of re-industrialization, which acknowledges that manufacturing is changing from labor-intensive to computer-intensive and automation. He highlighted many of the parties visited on the trip including technology companies, real estate entities, and investment groups.

Mr. Jandhyala commented on the 100,000 square foot GIX facility slated to open in Bellevue in September 2017 with a class of 70 students. He thanked the City for its support of this partnership and for creating the bilingual signage for the street. He said the GIX will be looking for more company partners, both locally and in China.

Councilmember Slatter provided her perspective on the trade mission, which was her first trip to China. She said it is anticipated that there will be one billion residents living in Chinese cities by 2030. She said Shenzhen grew from a collection of fishing villages to a city of 10 million residents within a 30-year period. She said China has a strong manufacturing economy and an increasing number of research and development entities. Ms. Slatter said she appreciated the opportunity to travel with the group, and she learned a great deal from the other participants and from the individuals she met in China.

Jesse Canedo, Economic Development Manager, described the economic development branding and marketing effort. The City hired a consultant to work with the Bellevue Downtown Association, Bellevue Chamber of Commerce, Visit Bellevue, WeWork, HDR, and Smartsheet to develop a marketing and branding strategy for Bellevue. Key elements and messaging involve a bold color palette to reflect the community's diversity and energy, bold imagery, confident wording that mirrors the community's cosmopolitan nature, and an invitation to businesses, residents and visitors to make history with us. The branding effort focuses on Bellevue's technology workers, entrepreneurs, and quality of life (i.e., work-life balance, cultural and environmental resources, strong education system). Mr. Canedo presented a video developed to continue to promote Bellevue.

Mayor Stokes said he and the Mayors of Kirkland and Redmond, working through the Innovation Triangle partnership, met with a delegation from Austin, Texas in Bellevue City Hall. On another occasion, the Mayors visited INRIX and talked about the attributes of their cities and the Innovation Triangle.

Councilmember Robinson thanked staff for their hard work and accomplishments.

Councilmember Wallace commended the economic development staff for their outstanding execution of the economic development plan. He said this is a great example of a strong team effort focused on specific strategies and outcomes.

Deputy Mayor Chelminiak complimented staff on their good work and comprehensive development and communications strategy. He said he liked the marketing concept of inviting businesses and individuals to join Bellevue in making history.

Mr. Chelminiak referred to the earlier comment about the Innovation Triangle's economic output of \$48 billion in 2013. He questioned how that compares to other Washington cities and to cities in other states. Mr. Henderson said staff would follow up on that request.

Councilmember Lee said that, after the Innovation Triangle Immersion event, he met with a gentleman from Spain who is interested in moving his business to Bellevue. The man had traveled to San Francisco, Boston, and New York City but was not previously familiar with Bellevue or Seattle until he attended the Immersion event. Mr. Lee thanked staff for their work.

At 8:01 p.m., Mayor Stokes declared recess to the Regular Session.

Kyle Stannert, CMC
City Clerk

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