

CITY COUNCIL STUDY SESSION

2019-2020 Mid-Biennium Update

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DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Tonight is the fourth of several discussions. Staff will provide for Council consideration, discussion and direction the mid-biennium adjustments, including an update on the Transportation Impact Fee rate schedule. Staff seeks direction to return with an Ordinance for adoption at a future 2019 Regular Session to update the Transportation Impact Fee Rate Schedule. In addition, staff seeks direction on the proposed mid-biennium budget changes or other adjustments that Council wishes to consider.

RECOMMENDATION

Direct staff to return with the proposed mid-biennium budget changes, including proposed Transportation Impact Fee Rate Schedule updates, or other adjustments that Council wishes to consider.

BACKGROUND & ANALYSIS

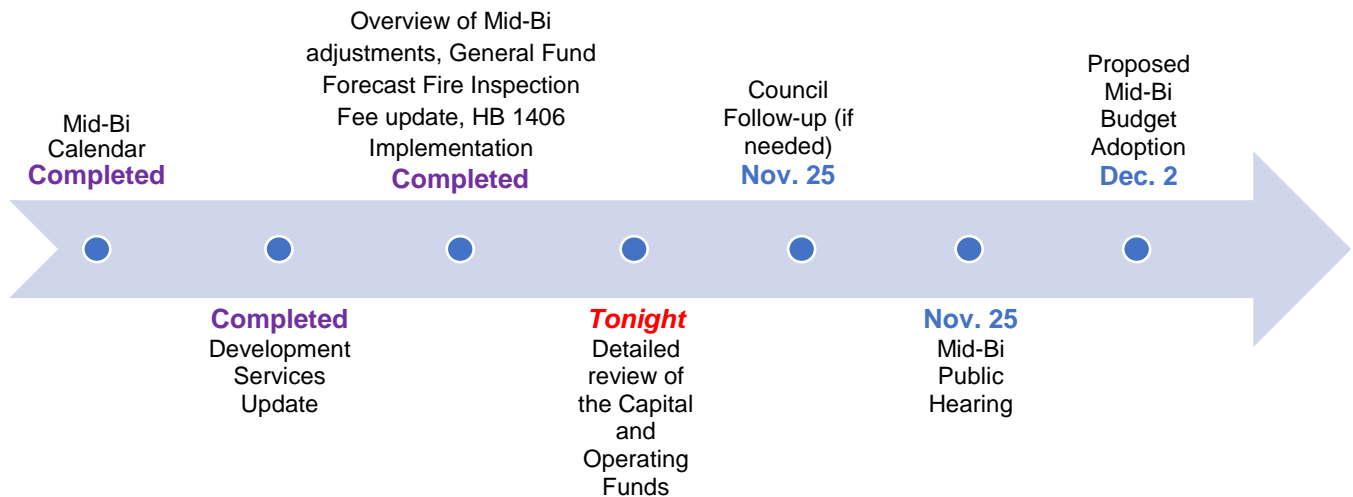
Ordinance No. 6445 adopted the 2019-2020 budget and the 2019-2025 Capital Investment Program (CIP) on December 3, 2018. The budget is a fiscal plan and changes to it are typical. The mid-biennium budget update provides an opportunity for modifications to the 2019-2020 operating budget and 2019-2025 CIP plan in accordance with RCW 35A.34.130. As is prior practice, mid-biennium changes include adjustments to personnel for updated cost of living and other impacts, adjustments to fund budgets for updated fiscal information, corrections of errors, adjustments for impacts related to recently passed state legislation, and other adjustments as needed. This is the fourth of several meetings with the Council to discuss, consider, and provide direction for the adoption of the 2019-2020 Mid-Biennium Operating Budget and the 2019-2025 CIP plan.

After tonight's presentation, staff will have presented Council with the summation of the proposed mid-biennium budget changes. Since the mid-biennium is generally limited by design, there may be other

adjustments that Council wishes to consider. Staff will request final direction on the contents of the budget adjustments at the conclusion of the public hearing scheduled for November 25. Attached to this packet is the November 12 Council agenda packet (Attachment D) which provides previously presented information from the November 4 and November 12 Council meetings.

Mid-Biennium Proposed Calendar

The proposed timeline for the mid-biennium budget update is as follows:



Mid-Biennium Council Actions

Depending on Council direction, tentative action on the mid-biennium is scheduled for December 2. There are several actions that will be required to adopt the 2019-2020 mid-biennium update, including:

- Development Services Fee Ordinance: Set the Development Services 2020 rates.
- Fire Inspection Fee Ordinance: Set the Fire Inspection 2020 rates.
- 2020 Property Tax Levy Ordinance: Adopt 2020 property tax levy (RCW 35A.34.230).
- 2020 Property Tax Banked Capacity Resolution: Preserve the full levy amount available to the City (RCWs 84.55.005, 84.55.0101 and 84.55.092).
- 2019-2020 Mid-Bi Budget Ordinance: “Umbrella” budget ordinance that includes appropriation approval by fund, 2020 pay plans and summarizations of grants and donations accepted that are less than \$90,000.
- Any other action as directed by Council.

Council will not be required to adopt the 2020 Utilities rates as they were included with the 2019-2020 Adopted Budget via Ordinances 6440, 6441 and 6442 on December 3, 2018.

As with prior Mid-Biennium discussions, staff will monitor Council questions and provide a “Memory Bank” in future packets as needed.

Prior Council Discussions

- October 28 – Staff presented the mid-biennium budget calendar and process to Council.
- November 4 – Staff presented Development Services rate adjustments. Council directed staff to return on December 2 with a Development Fee Ordinance reflecting the fee structure presented and the addition of six personnel. See Attachment D for November 4 packet materials.
- November 12 – Staff presented the General Fund forecast and an overview of the mid-biennium adjustments. In addition, staff presented an update to the Fire Inspection Fee for Council review and direction and reviewed the impacts of Substitute House Bill 1406 which provides for a sales tax credit against the state for affordable housing.
 - Substitute House Bill 1406 – Council directed staff to return on November 18 with appropriate legislation to secure the funding from the state.
 - Fire Inspection Fees – Council directed staff to determine impact to the city if affordable housing properties owned by the county or state are exempt from the fire inspection fee. As of this printing, staff is working to calculate the impact of excluding these locations from the Fire Inspection fee. Staff will return at the November 18 presentation with an update if information becomes available. Otherwise, staff will return during budget development next year with the impact. Council did direct the Fire Inspection Ordinance to be presented at mid-biennium budget adoption with changes as proposed on November 12, unless staff is able to address the state and county exemption on affordable housing units. The new fee ordinance will indicate staff will return in 2020 with a Fire Inspection update every two years to coincide with the full budget process.

See Attachment D for November 12 packet materials.

Mid-Biennium Adjustments

Executive Summary

The proposed mid-biennium budget update contains limited, primarily technical, changes at the fund level to the 2019-2020 Adopted Budget and 2019-2025 Capital Investment Program (CIP) Plan as adopted on December 3, 2018 via Ordinance 6445. The proposed mid-biennium budget maintains current services and provides for a modest increase in public safety, A Regional Coalition of Housing (ARCH) contribution, and development services to address growth of the city, for a total growth of eight full time equivalent city personnel, six of which are development services revenue-backed, and the remaining two general funded police positions. As adopted in the 2019-2020 Budget, the Mid-Biennium proposes the statutorily available one percent adjustment to property tax.

Since the adoption of the 2019-2020 Budget, several events have provided opportunities for re-consideration at this Mid-Biennium, including:

- At the adoption of the 2019-2020 budget on December 3, 2018, Council directed staff to return at the mid-biennium with a review of the Fire Inspection Service. That review has been completed, and in response to outreach on the fire inspection fee, this mid-biennium proposes adjustments to the structure. See the Prior Council Discussion above for Council direction.
- The State passed Substitute House Bill (SHB) 1406, which allows cities to claim a sales tax credit against the state for affordable housing. This mid-biennium proposes adjusting the City

Housing Fund by a \$625,000 appropriation increase in response to the legislative action. See the Prior Council Discussion above for Council direction.

- Regarding the CIP, the national standard for transportation trip rates have been updated. Tonight, staff will present a rate schedule update that is intended to be revenue-neutral for the City's adopted CIP.

Building on the previously presented material, tonight, staff will present the details of the adjustments regarding the General Fund, the Housing Fund, and the Capital Investment Program.

General Fund

Position Adds

Two new positions are requested in the general fund to address the immediate needs in Police in order to ensure the safety of the community and to support the ongoing development. See Attachment B for further information.

ARCH Contribution Increase

At the October 21 study session, ARCH staff briefed Council on the 2020 ARCH budget increase of \$385,697. This budget increase was mainly due to two position adds recommended by consultants. Bellevue's share of the ARCH budget increase is \$95,971 and appropriated within the General Fund and transferred to the City's Housing fund for expenditure.

One Percent Councilmanic Property Tax Adjustment

The adopted 2019-2020 budget includes a one percent property tax adjustment for both 2019 and 2020. A one percent property tax adjustment in 2020 is estimated to be approximately \$8 for a property with a median assessed valuation of \$936,000. See Attachment C for additional property tax information.

CIP Update

As with past practice, the general tax revenues are updated, as well as CIP project-specific revenues. As has been the City's practice, the CIP is front-loaded and appropriated at 100 percent of expenditures. Historical spending has been between 50 percent and 80 percent annually. Since the City appropriates at 100 percent of expenditures, the mid-biennium continues to model cash flow borrowing in order to balance across the 7-year CIP. Staff does not anticipate the cash flow borrowing to be issued, and if such need arises, staff must return to Council to obtain authority for issuance. In accordance with adopted financial policies, the cash flow is modeled to be paid back fully within the 7-year CIP. The mid-biennium proposes adjustments to three projects and as noted earlier, a revision to the Transportation Impact Fee Rate schedule. Changes in the CIP are wholly noted in this section. Included in the budget adoption package, currently scheduled for December 2.

CIP Project Adjustments

2019-2020 Fund Appropriation Adjustment:

- Increase P-AD-103: Bel-Red Parks and Streams project budget for increased developer contributions of \$252,428 received.

7-year CIP project adjustments which do not impact the 2019-2020 fund appropriation since the City only appropriates the first two years; these changes will impact the overall total 7-year CIP:

- Increase PW-M-1: Overlay Program budget by \$1,400,000 for pavement preservation work on 148th Avenue SE from SE 37th Street to SE 8th Street. This project is funded by a Federal Surface Transportation Program (STP) grant awarded by the Puget Sound Regional Council (PSRC), with local matching funds provided by the PW-M-1 base budget allocation; and
- Add a new project, PW-W/B-84: Mountains to Sound Greenway Trail - 132nd Avenue SE to 142nd Place SE, totaling \$3,725,000, to construct the second phase of the Mountains to Sound Greenway Trail. The trail design includes a separated, at grade, 12-foot wide paved trail running along Interstate 90 (I-90) and SE 36th Street with trailhead treatments, wayfinding, landscaping, lighting, natural storm drainage and access to the local street network and local and regional transit services. The project is funded by a Federal STP grant (\$2,725,000) awarded by the PSRC and System Access Funds (\$1,000,000) awarded by Sound Transit, with local matching funds provided by the Neighborhood Safety & Connectivity Levy (PW-R-199).

Impact Fees

At the June 10 Study Session, associated with the review of the 2019-2030 Transportation Facilities Plan (TFP) update, Council directed staff to return with information and options to update the Transportation Impact Fee (TIF) Rate Schedule.

Transportation staff will present for Council discussion and direction an updated TIF Rate Schedule, effective January 1, 2020, to reflect updated Institute of Transportation Engineers (ITE) land use trip generation rate factors. The proposed TIF Rate Schedule is intended to be revenue-neutral for the City's adopted CIP.

The current impact fee rate schedule was set by Ordinance No. 6266-D in 2015, with an automatic annual three percent increase indexing factor. A 2019 update to the Transportation Impact Fee Program Report has recently been drafted based on the 2019-2030 TFP/Impact Fee Project List and an updated 2030 land use growth forecast prepared by the Community Development Department. The updated maximum allowable impact fee rate will exceed \$17,000/trip. The following factors have contributed to the significant increase in maximum allowable rate:

- New (generally lower) trip generation rates (based on the latest Institute of Transportation Engineers (ITE) Trip Generation Manual (2017));
- Increased project costs;
- Inclusion of the cost of three previously constructed impact fee projects which will continue to provide capacity for new growth and development (allowed per BCC 22.16.090.E); and
- Inclusion of debt service costs (interest payments), associated with both Limited Tax General Obligation (LTGO) Bonds and the Transportation Infrastructure and Finance Innovation Act

(TIFIA) loan, used as funding sources on the active and/or recently constructed impact fee projects (Inclusion of debt costs is required by BCC 22.16.20.V).

Due to this update, staff is proposing two main updates to the TIF Rate Schedule:

- A. Staff proposes to incorporate the updated ITE trip generation rate factors; and
- B. To maintain a balanced CIP Plan (impact fee revenue neutral), staff proposes to incorporate an increase in the per trip impact fee charge, from \$5,293 to \$6,854.

Transportation Department staff has reached out with information, documentation and to offer briefings to numerous entities in the development community. Staff has presented information and implementation examples of the proposed fee schedule update to the Bellevue Chamber of Commerce Land Use Committee, staff leadership at the Bellevue Downtown Association, the Master Builders Association and at two hosted information sessions held for invited representatives of developers currently in the permit review process.

Stakeholders have been universally appreciative of the outreach efforts and information. After presentation and discussion of the information, the audiences have expressed an understanding of the intent and rationale for the proposed fee schedule updates. Some have expressed concern about the fee schedule update implications to their specific development's land use and location characteristics.

See Impact Fee Briefing Paper (Attachment A) for additional detail.

Housing Fund

On November 12, staff briefed Council on State House Bill (SHB) 1406 that re-directs a portion of state's share of retail sales and use tax for local use for affordable housing, passed in the 2019 state legislative session. The maximum amount available to Bellevue will be calculated based on Bellevue's state fiscal year 2019 taxable sales and is estimated at \$625,000. The mid-biennium proposes increasing the appropriation authority by \$625,000.

In the October 21 study session, ARCH staff briefed Council on the 2020 budget increase of \$385,876 mainly due to two position adds recommended by consultants. Bellevue's share of the ARCH budget increase is \$95,971. The City provides administration services for ARCH, as such with the increase in ARCH positions, this fund will increase accordingly.

Overall, the Housing Fund is requesting a total increase of \$720,971 due to the implementation of House Bill 1406 and the increase in Bellevue's contribution to ARCH.

Other Funds

There are three fund appropriation adjustments that are technical in nature, including \$5.3 million in the Water Utility Fund, \$1.1 million in the Human Services Fund and \$1.4 million in the Operating, Grants, Donations and Special Reserves Fund.

POLICY & FISCAL IMPACTS

Policy Impact

RCW 35A.34.130: State law requires that a mid-biennium budget review be completed between August 31 and the end of the first year of the biennium and that a public hearing be held on the mid-biennium review.

RCW 35A.34.230: Council action on the City's 2020 property tax levy is required by State law in conjunction with the Budget update. RCW 84.55.092 protects the future levy capacity for tax levies below the level that otherwise could be imposed.

Fiscal Impact

Mid-Biennium fiscal impacts, if appropriated in their current form, are as noted by fund in Attachment E: Mid-Biennium Changes by Fund. At budget adoption, Council budget amendments will be updated through November 25 in the Mid-Biennium Changes by Fund attachment.

OPTIONS

1. Direct staff to return with the proposed mid-biennium budget changes, including proposed Transportation Impact Fee Rate Schedule updates, or other adjustments that Council wishes to consider.
2. Do not direct staff to return with the proposed mid-biennium budget changes and provide alternative direction.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Impact Fee Briefing Paper
 - A1. 2019-2030 Transportation Impact Fee Project List
 - A2. 2019-2030 Transportation Impact Fee Project Map
 - A3. Ordinance No. 6266-D (Adopting current Impact Fee Rate Schedule)
 - A4. 2020 Impact Fee Rate Comparison Chart
 - A5. Summary of minutes from June 10, 2019 study session (Ref. SS Item c, Pages 4-12)
- B. Police Department Position Adds
- C. Property Tax
- D. 2019-2020 Mid-Biennium Budget Update (reprint from November 12)
- E. Mid-Biennium Changes by Fund

AVAILABLE IN COUNCIL LIBRARY

2019 Transportation Impact Fee Program Report Update