

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Extended Study Session

November 13, 2017
6:00 p.m.

Conference Room 1E-113
Bellevue, Washington

PRESENT: Mayor Stokes, Deputy Mayor Chelminiak, and Councilmembers Lee, Robertson, Robinson¹, Simas, and Wallace

ABSENT: None.

1. Executive Session

The meeting was called to order at 6:07 p.m., with Mayor Stokes presiding. There was no Executive Session.

2. Approval of Agenda

- Deputy Mayor Chelminiak moved to approve the agenda, and Councilmember Simas seconded the motion.
- The motion to approve the agenda carried by a vote of 4-0².

3. Oral Communications

- (a) Alex Zimmerman, President of StandUP-America, expressed concern regarding the lack of affordable housing. He said many residents spend one-third to one-half of their income on housing. He said city and county government officials should go to jail. He urged citizens to become involved in influencing public policy.
- (b) Randy Bannecker, representing the Seattle-King County Realtors, thanked the City for its work on the multifamily tax exemption (MFTE) program, which is an important tool for affordable housing because it works with the private sector. He said the MFTE does not necessarily make the existing housing stock more expensive, and the property tax

¹ Councilmember Robinson participated via telephone.

² Councilmembers Lee, Robertson and Wallace joined the meeting at approximately 6:10 p.m., during Oral Communications.

deferrals are spread across a broader payer base. Mr. Bannecker suggested that the MFTE will have an increasingly important role in improving housing affordability as more cities implement the program.

4. Study Session

(a) Council Business and New Initiatives

There was no discussion.

(b) Updating the MFTE to Increase Participation by Developers of New Housing

City Manager Brad Miyake said the multifamily tax exemption is one of the tools identified in the City's Affordable Housing Strategy approved in August 2017. Staff has been working since that time to evaluate the MFTE program to date and to determine with the Council whether it should be updated.

Mac Cummins, Director of Planning and Community Development (PCD), said staff has met with a number of developers who have built projects during the time period that the MFTE was in place, while also assessing the City's internal processes. He said tonight's presentation will provide an update regarding the status and outcome of the MFTE program over the past two years and describe a change proposed by staff.

Deborah Munkberg, Senior Planner, said Action C-3 in the affordable housing strategy states: Update existing exemption programs for affordable housing to increase participation by developers of new housing. The MFTE is a voluntary incentive which provides a 12-year property tax exemption on residential projects if the project includes 20 percent of units that are affordable to low- and moderate-income households. It requires that the City designate specific residential target areas. For the City's current program, the targeted areas are: BelRed, Crossroads, Downtown, Eastgate, and Wilburton. Ms. Munkberg said 11 multifamily permits were issued since June 2015 in Crossroads, BelRed, and the Downtown. Of those, one project participated in the MFTE program, which is the 888 Bellevue Tower in the Downtown. The development provides 32 affordable units. Three of the 11 projects were ownership housing and were not eligible for the MFTE incentive. The remaining projects were either already into the permit process when the MFTE was adopted or were unaware of the program.

Ms. Munkberg said staff researched the experience of MFTE program in other cities and found that the programs in place for the longest time are the most effective, often because it takes a while for developers to become aware of the programs. The City of Vancouver's program has generated nearly 500 affordable housing units, and the City of Everett has generated more than 500 affordable units. She said local developers contacted by staff indicated a lack of understanding about the ordinance and were interested in whether the tax benefit would provide a greater benefit than the lost rental income.

Arthur Sullivan, A Regional Coalition for Housing (ARCH), said the economic feasibility review assumptions include the mix and size of units, rents per square foot, and the value of the property

tax exemption to the builder. The acceptable level of return indicated by Downtown developers ranged from 110 percent to 130 percent.

Mr. Sullivan recalled the question raised during the Council's consideration of the Eastgate Land Use Code Amendment (LUCA) about whether a builder could use both the MFTE and other incentives offered by the City. He said Bellevue's program allows a builder to use both programs. He compared the returns for the BelRed area and the Downtown using the MFTE program only versus using the MFTE with another land use incentive. The returns in both areas were higher using the MFTE incentive with another incentive. The return for using the MFTE program only was less than 100 percent in the Downtown, and 100 percent to 110 percent in the BelRed corridor.

Under the City's MFTE program, development in the Downtown requires 10 percent of units to be affordable at 60 percent area median income (AMI) and 10 percent of units to be affordable at 70 percent AMI. Mr. Sullivan said the analysis indicated that the rate of return became more favorable in the Downtown if instead 20 percent of the units are affordable at 70 percent AMI.

Continuing, Ms. Munkberg said staff's review highlighted the importance of providing clear and timely information to developers. Staff will study the potential for incorporating the MFTE program into current planning initiatives for the BelRed corridor, East Main area, and Wilburton commercial area.

Ms. Munkberg requested Council direction to amend the MFTE program requirements for the Downtown to require that 20 percent of units are affordable to household incomes at 70 percent AMI.

Responding to Councilmember Simas, Mr. Sullivan said the builders receive the benefit of the property tax exemption annually over a 12-year period.

Councilmember Wallace said the type of affordable housing units created by the incentive is important. The City of Seattle graduates the affordable rent limits by the type of unit: 1) studio, 65 percent AMI; 2) one-bedroom unit, 75 percent AMI; and 3) two-bedroom unit, 85 percent AMI. The two-bedroom unit reflects a significant difference between what a developer needs for the market rent to be economically feasible versus the rent limit of 85 percent AMI. In Seattle, 85 percent AMI equals a rental cost of \$1,681 per month. In Bellevue, 70 percent AMI is \$1,357, and the market rent needed to make a two-bedroom unit feasible for a developer is \$2,400-\$2,500.

Mr. Wallace expressed concern that this creates a disincentive to produce affordable two-bedroom units, which are needed by families. He noted the City's MFTE program requires that a development provide 15 percent two-bedroom units. He suggested either adjusting the AMI percentage requirement for two-bedroom units or eliminating the 15-percent requirement in order to encourage developers to use the MFTE.

Councilmember Robinson thanked Mr. Wallace for his comments and for working with her to address the issue of providing affordable housing for families. Ms. Robinson acknowledged that

the incentive might not work in Downtown Bellevue. However, Councilmember Robinson said she would like to try to achieve as many affordable two-bedroom units in Bellevue as possible.

Mr. Cummins said staff and the developers discussed this issue extensively. Ms. Munkberg said local developers indicated that the 15-percent requirement was not consistent with the current downtown market, which is primarily focused on studio and one-bedroom units. She noted the developers' perception that the City's amenity package for downtown housing is more suited for single residents and less suited for families.

Ms. Robinson thanked staff for the information and acknowledged that, while it might be difficult to produce affordable two-bedroom units downtown, she would like to try to produce them in other areas of Bellevue.

Deputy Mayor Chelminiak questioned the likelihood that developers would create two-bedroom units in the BelRed corridor, Crossroads, Eastgate, and Wilburton under staff's proposal.

Mr. Cummins said staff's proposed change to the MFTE program applies only to the Downtown. However, he observed that the Council's questions relate to whether there is potentially a market dynamic in other areas of Bellevue that would encourage or discourage two-bedroom units. He said staff is preparing to initiate the BelRed Plan Look Back and will have the opportunity to evaluate market demand as part of that process. At the same time, the work of the Wilburton Commercial Area Citizen Advisory Committee (CAC) is wrapping up in preparation for moving forward with planning for that area. Mr. Cummins said all of this work will cover a relatively large geographic area to analyze the potential impacts of the MFTE program.

Mr. Sullivan said staff studied development activity in the BelRed, Overlake, Downtown Redmond, and other East King County areas. Staff found that apartment developments typically include at least 15 percent in two-bedroom units. He said it is worth reviewing development activity again, however.

With regard to the affordability mix, Mr. Sullivan said staff's analysis assumed a higher percentage of two-bedroom units than what the market is producing, in order to skew the economics when setting the affordability level. However, builders are reporting that the mix of units they are developing is based on their perception of market demand.

Deputy Mayor Chelminiak questioned what the City needs to do to encourage developers to produce affordable two-bedroom units outside of the Downtown.

Mayor Stokes noted there are families in the Downtown who are likely to be interested in larger apartments. Ms. Munkberg said staff is not recommending an adjustment for two-bedroom apartments at this time because there is not a sufficient track record on the use of the MFTE in the Downtown. She said one project in the Downtown has been able to comply with the current two-bedroom requirement. She suggested continuing to monitor the program. Mr. Sullivan said the developers indicated the need to be able to be flexible due to market changes. Mr. Stokes noted there is a variety of housing in Downtown Bellevue.

Councilmember Wallace said the forecast for new apartment construction in the Puget Sound region next year is 10,000 units. Approximately 8,000 of those units will be built in Seattle, with a majority to be built in the South Lake Union area. He said most MFTE projects have been built in Seattle for the past 10 years, and developers are familiar with Seattle's program. He suggested that more developers will be able to understand and use Bellevue's program if it is similar to Seattle's program.

Mr. Wallace said the City of Seattle did not have a requirement regarding the percentage of two-bedroom units until last year. Seattle's current program requires only approximately five affordable two-bedroom units per 100 apartments. The majority of apartment development in Seattle has been studios and one-bedroom units. Mr. Wallace said the cost of producing housing became so high that it was not feasible to build a workforce housing project without using the MFTE, and the program requirements provided the greatest benefit for producing smaller units. He recommended adopting Seattle's 85-percent AMI requirement for two-bedroom units, as well as their requirement for the number of two-bedroom units, to determine whether that will have the desired outcome in Bellevue.

Councilmember Simas expressed support for Councilmember Wallace's suggestion and encouraged trying elements of Seattle's MFTE program.

Councilmember Lee said he appreciated Mr. Wallace's comments and suggestions. Mr. Lee said he did not understand the rationale for staff's recommendation. Ms. Munkberg said the recommendation is based on staff's analysis and on what staff heard from developers regarding economic feasibility.

Mr. Sullivan said staff compared Bellevue's current program to the recommendation, looking at the impact of the affordability level on overall returns for developers. The analysis also accounted for the Council's recently adopted revisions to the Downtown Livability standards for affordable housing using the bonus FAR (floor-area ratio). Not accounting for the component addressed by Councilmember Wallace, Mr. Sullivan said the analysis indicated that Bellevue's current MFTE program results in no return or even a loss of revenue relative to the property tax exemption for the developer. The recommended adjustment moving the second 10 percent of affordable units from 60 percent AMI to 70 percent AMI increases the amount of rent the builder can collect.

In further response to Mr. Lee, Mr. Sullivan said Bellevue's current program has the same affordability targets for all unit types based on the Council's previous direction. However, the program could be modified to follow Seattle's example of graduated rent levels for the different types of units. Mr. Sullivan said it is not possible to predict what will actually happen with the modification to the MFTE program because it is a voluntary incentive. However, the developers who provided input to staff indicated that staff's proposed modification is feasible.

Councilmember Robertson said it is important to think about what the City is trying to accomplish. The development of housing must make financial sense for developers. She wondered whether Seattle developers are using the MFTE program more because Seattle's property taxes are higher. Ms. Robertson noted the need to determine the number and types of

units the City would like to create. She expressed support for the need for more two-bedroom apartments for families and larger households. Councilmember Robertson said she wants to be sure that the next step the City takes is meaningful. She suggested that staff study the City of Seattle's program and come back with a more holistic recommendation that meets the goal of ensuring economic feasibility for developers and producing a mix of unit types. She said she prefers taking more time for further analysis and consideration before making changes to the MFTE program.

Deputy Mayor Chelminiak acknowledged Councilmember Wallace's comments about the graduated affordability rates and the outcomes of the MFTE program in Seattle. Mr. Chelminiak said he would prefer moving forward with staff's recommendation requiring that 20 percent of Downtown units are affordable to households with incomes at 70 percent AMI. He said the MFTE program for other areas can be reevaluated when the City conducts the BelRed Plan Look Back. He expressed concern that leaving the program as it is now will not produce needed affordable housing units.

Mr. Chelminiak said the Council will be losing the expertise of two members and gaining two new members as of January 1. He would like to move forward at this point and to monitor the program for potential future modifications.

Councilmember Simas spoke in favor of keeping the affordability level as low as possible in order to provide housing that is truly affordable to the highest number of people.

Councilmember Robertson suggested that if this topic could not come back to the Council for several months, she believes the Council should do something now. Responding to Ms. Robertson, Mr. Cummins estimated that staff could return with additional information within four weeks to eight weeks. He stated his understanding that the Council is interested in an analysis of the City of Seattle's program and its property tax structure and in a MFTE program that will encourage family-sized units throughout the community.

Councilmember Wallace recommended that staff come back with a comparison of staff's current recommendation versus Seattle's model. He said the difference in the amount of property taxes of Bellevue and Seattle is relatively close because Bellevue residents pay more toward the Bellevue School District and Seattle residents pay more toward the City. He opined that the MFTE program probably will not generate affordable housing units in the concrete towers. However, the wood frame projects in the BelRed corridor and other areas will be likely to use the MFTE if the affordability level is feasible for developers.

Mayor Stokes concurred that a number of areas in Bellevue need different types of housing units. He said it would be nice to resolve this item by the end of the year. Mr. Cummins said staff will do its best to bring the topic back in four weeks.

Councilmember Lee said he normally does not like to rush decisions, especially if they involve mandatory regulations. However, this is a voluntary program and timing is important. He expressed support for taking a look at what Councilmember Wallace suggested.

Deputy Mayor Chelminiak suggested further outreach to the development community to discuss the issues. He would prefer to have the same MFTE program citywide, if possible, and to establish targets that are the most likely to achieve the desired mix of unit types, including two-bedroom units.

Councilmember Robinson said it sounds like the discussion is comparing Downtown Bellevue to South Lake Union in Seattle. She noted that Bellevue has a greater variety of residents and housing types in the Downtown than in Seattle's South Lake Union area. She suggested keeping it as simple as possible and expressed support for staff's recommendation regarding the affordability level and an enhanced education effort with developers.

Mr. Cummins said staff will conduct additional research and explore models that help encourage two-bedroom construction and utilize a graduated affordability level for different sizes of units. Staff will then work with developers to analyze the financial feasibility of potential options.

Responding to Councilmember Wallace, Mr. Cummins confirmed that staff will research the City of Seattle's program.

(c) Land Use Code Amendment (LUCA) Regarding Parking Requirements for NE Spring Boulevard

City Manager Brad Miyake recalled previous discussion on October 23 regarding the proposed Land Use Code Amendment (LUCA) to regulate parking requirements for NE Spring Boulevard. He said staff is seeking Council direction in anticipation of the public hearing scheduled for December 4.

Carol Helland, Code and Policy Director, recapped that the BelRed Plan was adopted in 2009 and contained the Comprehensive Plan Amendment, Land Use Code Amendment, and legislative rezone for integrating the transportation grid into the BelRed area. She said the BelRed Plan includes street development standards that were established in collaboration with the Transportation Department because the area lacked a street grid. The standards are contained in LUC 20.25D.140, and the requirement for on-street parking raises the conflict with the adjacent Capital Investment Program (CIP) project.

Ms. Helland said the interaction between the Land Use Code and the transportation system plan reflects new and expanded arterials proposed for the BelRed corridor. The new street grid will support a holistic transportation system throughout the area.

Ms. Helland said there are two areas with conflicts between the Land Use Code and transportation CIP project related to on-street parking. For the segment of Spring Boulevard between 120th and 124th Avenues NE, the Land Use Code requires parking on both sides of the street. However, the CIP project deletes the requirement for parking on the south side of the street and parking is provided only on the north side of the street. The second conflict is between 130th and 132nd Avenues NE near the transit center. The LUCA proposes eliminating the requirement for on-street parking on that section of the street.

Transportation Director Dave Berg recalled past conversations with the Council between 2010 and 2011 about the footprint of Spring Boulevard between 120th and 124th Avenues NE. Incorporating all of the possible motorized and non-motorized transportation elements resulted in a wide right-of-way. He described the configuration agreed to by the Council in June 2011 to narrow the roadway while incorporating key elements. The plan was reflected in the 2013-2019 CIP Plan and in subsequent CIP Plans.

The second segment of Spring Boulevard between 130th and 132nd Avenues NE is adjacent to the light rail station on the center roadway. Mr. Berg said staff did not want to create a situation in which a person might park on the street and then dart across the street to the light rail station. The CIP project designates station access on Spring Boulevard at the intersections of 130th Avenue NE and 132nd Avenue NE. Mr. Berg said eliminating street parking in this segment was considered primarily for safety reasons.

The goal of the LUCA proposed by staff on October 23 was to reconcile the on-street parking requirements in the Land Use Code with the subsequent CIP project designs adopted by the Council. The timing has been expedited for completion by the end of the year to support the issuance of REI's design review.

Ms. Helland recalled that, on October 23, the Council expressed support for initiating the proposed LUCA, retained the authority to hold the public hearing, and provided parameters for how to draft a permanent solution to the conflicts identified by staff. The parameters included the desire for any code amendment to be transparent and clear, the amendment to be retroactive to reconcile conflicts that were already created, and the LUCA to not create a loophole for an unintended code amendment. Ms. Helland said the Council previously provided direction to complete the LUCA by the end of the year in order to facilitate REI's design review. The LUCA is intended to be predictable and consistent between the Land Use Code adoption and subsequent CIP project adoption.

Ms. Helland requested Council direction regarding whether staff has accurately reflected the Council's parameters in the LUCA described in the meeting packet materials. The proposal is narrowly tailored and amends the map in the Land Use Code for the two segments of Spring Boulevard. The change will acknowledge the design refinements adopted in the CIP Plan. However, it keeps the CIP process and the Land Use Code process as separate as possible to avoid confusion. She recalled concern that the budget might be used as a vehicle to change provisions in the Land Use Code that were developed through careful deliberation. Ms. Helland said the LUCA map amendment is a simple amendment to accomplish the objectives and to allow REI's design review to move forward.

Staff requested Council direction to schedule the public hearing on the LUCA for December 4 and to bring the code amendment back for final action on December 11.

Councilmember Robertson expressed support for staff's proposal. Responding to Ms. Robertson, Ms. Helland said the City provided an early version of the LUCA to the State Department of Commerce. The agency was satisfied with staff's submittal and expedited review at this point is not needed.

Deputy Mayor Chelminiak observed that the proposal implements the Council's previous decisions.

- Deputy Mayor Chelminiak moved to direct staff to prepare the recommended LUCA and to advance it for a public hearing in December. Councilmember Robertson seconded the motion.

Mayor Stokes thanked staff for addressing the Council's questions and concerns and for providing greater clarity.

Councilmember Robinson expressed support for the proposal. She said it has come to her attention that there is a code provision prohibiting a walkway in the landscaped strip between the street and the sidewalk. She said individuals parking in the Spring District are having to walk through mud and plants or to walk a longer distance around the planting strips. Responding to Ms. Robinson, Ms. Helland said the ability to change that requirement is likely dependent on whether the purpose of the planting strip is to achieve low-impact development related to the treatment of stormwater. Ms. Helland said staff will docket that issue for consideration during the BelRed Look Back process next year.

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

- (d) Initiating Implementation of the East Main Station Area Land Use Vision approved by the City Council on August 1, 2016

City Manager Miyake introduced discussion of staff's proposal to initiate the implementation of the East Main Station Area Plan. He recalled that the recommendation of the East Main Station Area Citizen Advisory Committee (CAC) was presented to the Council in July 2016. The Council subsequently adopted the recommendations of the plan in August 2016. Staff is seeking Council action to concurrently initiate the necessary Comprehensive Plan Amendments, Land Use Code Amendments, and legislative rezones for the area south of Main Street and 112th Avenue.

Mr. Miyake said that processing the amendments and rezones concurrently is different than the City's typical approach. This is a pilot effort to test whether a concurrent approach is more efficient and transparent. Staff recommends that the Council provide direction to the Planning Commission on these items consistent with previous Council statements and the CAC's guiding principles.

Mr. Cummins commented on the approach of engaging in the policy work and code amendments at the same time. He said the Council, both collectively and individually, have expressed an interest in processing things more efficiently. Staff believes that combining the CPA, LUCA, and rezone process will meet that goal and will better serve the public interest. Mr. Cummins said a number of cities use a similar approach instead of the sequential process.

Mike Kattermann, Senior Planner, referred to Attachment A in the meeting packet and recalled that the Council appointed the CAC to develop a vision for the area surrounding the light rail East Main Station and to study the impacts of the station on the area. The East Main Station Area Plan identified four sets of strategies and actions dealing with traffic, pedestrian and bicycle access, the character of the area, and land use and redevelopment. Mr. Kattermann said the City is moving forward with the implementation of a number of those actions. However, the topic for tonight's discussion is land use and redevelopment. The area under discussion is located east of 112th Avenue SE to 114th Avenue SE, and between Main Street and SE 8th Street.

Mr. Kattermann described a map depicting the primary transit oriented development (TOD) area between Main Street and SE 6th Street and the secondary TOD area between SE 6th and SE 8th Streets. The primary TOD area is within one-quarter mile walking distance of the light rail station, and the secondary TOD area reflects a walking distance of one-half mile.

The CAC's recommendation was presented to the Council in July 2016, and CAC Chair Scott Lampe was present at that meeting. The CAC vision for the area around the East Main Station is to create a new neighborhood that is walkable and livable with high-quality development. The area should complement adjacent development, provide neighborhood services, address noise and traffic, and optimize the use of the light rail station.

Mr. Kattermann said the planning effort originally focused on the Red Lion Hotel site, which was subsequently purchased by Wig Properties. However, the CAC vision applies to the entire area between Main Street and SE 8th Street. The CAC addressed noise and traffic, and potential mitigation measures identified included situating the buildings to help create a sound barrier between the freeway and the neighborhood. He said staff conducted extensive transportation modeling and traffic studies to analyze traffic impacts and mitigation measures. One item identified as part of the CAC vision was to create a new east-west street between 112th and 114th Avenues. This creates smaller blocks for an enhanced pedestrian experience and provides better circulation for vehicles.

The CAC recommendation issued last year and adopted by the Council in August 2016 provides a strong framework for the Planning Commission's discussions going forward. The CAC's recommendation includes detailed strategies to achieve the desired character including a mix of uses, variable building heights and floor-area ratio (FAR) limits, multi-modal transportation elements, appealing street frontage, and design guidelines. Ms. Helland said the CAC and staff are interested in creating a neighborhood that is both complementary to the Downtown yet demonstrates its own character. Ms. Helland noted that Attachment B in the meeting packet includes the CAC guiding principles reflected in the group's recommendation.

Ms. Helland described the typical process of addressing the Comprehensive Plan and land use designations before addressing Land Use Code amendments and related legislative rezones. She said the Council initiated the CAC process to develop the vision and recommendations for the area and to incorporate public input. Staff is requesting Council direction to forward the CPA, LUCA, and rezone work to the Planning Commission for policy recommendations. The Council will engage in final review and approval of the recommendations. Ms. Helland said the CPA will be addressed as part of the annual Comprehensive Plan Amendment work program next year, and the LUCA work will follow closely behind that work.

The concurrent model will help staff run a more efficient process, increase the public's understanding of the planning and amendments, and consolidate the separate public hearings contained within the City's traditional approach. Ms. Helland said Wig Properties has made a substantial investment in the area. The concurrent process approach responds to that economic investment and will allow the City to advance this work before the development of the East Main Station.

Mr. Kattermann highlighted the requested Council actions: 1) initiate map and policy amendments for 2018 Comprehensive Plan Amendment (CPA) cycle, 2) direct staff to concurrently draft related Land Use Code Amendments, and to process related legislative rezones for TOD properties, and 3) provide direction to the Planning Commission to facilitate the process and schedule. The Commission's work and the public engagement process will extend from January through October 2018, with a preliminary recommendation anticipated in June 2018. Environmental review will occur throughout the year. The public hearing and final Commission recommendations are anticipated in October 2018, with Council action to occur by the end of next year.

Mayor Stokes said he is pleased to see the work moving forward and he looks forward to testing the new concurrent process.

Councilmember Robertson recalled that, after the Council received the CAC's recommendation in mid-2016, the report was placed on the Consent Calendar for approval. Her understanding was that the topic would be forwarded to the Planning Commission at that time.

Responding to Ms. Robertson, Mr. Kattermann said other aspects of the CAC's report have been implemented. The Land Use Code work was anticipated to begin in 2018. He noted that the Planning Commission and staff have had a busy workload over the past year as well. Mr. Kattermann said the concurrent approach will expedite the process.

In further response to Ms. Robertson, Mr. Kattermann said items that have been implemented include traffic-related issues. He said a school zone was implemented on 108th Avenue SE near Bellevue High School, a review of traffic calming measures has been completed, and crosswalks and other small projects have been provided.

Councilmember Robertson expressed support for the streamlined process. Referring to the guiding principle regarding the consideration of a walking path, she wants to be sure that the path is an incentive.

Councilmember Wallace noted that the potential path is identified between SE 6th and SE 8th Streets, which includes wetlands. Mr. Kattermann said that item arose during previous discussions with the Council. Ms. Helland said the economic analysis will address financial feasibility and the use of incentives.

Ms. Robertson said the Council, Planning Commission, and CAC spent four years working on the Downtown Livability Initiative. She would like the Planning Commission to consider that work, especially for the primary TOD area.

Responding to Councilmember Robertson, Mr. Kattermann said the guiding principles in the meeting packet were approved by the CAC for consideration during the Planning Commission's review.

Referring to the Council's guiding principles, Ms. Robertson said she wants to include statements about offering the walking path as an incentive, building on the Downtown Livability Initiative work, and ensuring that the primary TOD area is consistent with the Downtown area. Ms. Robertson said she also would like language about the economic feasibility of redeveloping the TOD area, including to provide iconic building design and to meet market demand.

Councilmember Lee expressed support for the intention of the CAC's work. He concurred with Ms. Robertson's suggestion to build on the work of the Downtown Livability Land Use Code Amendments. Mr. Lee said he likes the idea of the concurrent process for CPAs, LUCAs, and rezones. He concurred with the importance of code provisions that allow development to be economically feasible and that encourage iconic building design. Mr. Lee thanked staff for their work.

Councilmember Simas expressed support for Councilmember Robertson's comments regarding suggested guiding principles and compatibility with the Downtown Livability work. He suggested that the East Main Station area should be complementary to Downtown development, and he likes the concept of creating a new neighborhood. However, he suggested advising the Planning Commission that the intent is not to create another Downtown.

Councilmember Wallace concurred with suggestions to build on the Downtown Livability Land Use Code Amendment. Rather than highlight the walking path as a single bullet point, he suggested language referring to incentives, with the path as one potential incentive. Mr. Wallace suggested that the Parks Department meet with the owner of the property to determine whether the owner might grant an easement for the City to build the path. He said he does not anticipate redevelopment on the property given the environmental impacts.

Responding to Deputy Mayor Chelminiak, Councilmember Robertson recalled that the potential for the walking path incentive was previously raised by Councilmember Wallace. Mr. Chelminiak said he supports the goal of providing pedestrian access from SE 6th Street to the Mercer Slough trails. Mr. Wallace reiterated his suggestion that the path be considered as a parks project.

Mr. Chelminiak suggested more general language about ensuring pedestrian access from the south end of the East Main Station area to the Mercer Slough trails. With regard to the concurrent streamlined approach, Mr. Chelminiak said it is important to be sure the public understands the purpose of the process, which is not to railroad the CAC vision onto the adjacent neighborhood. Mr. Chelminiak said he feels the vision is fairly connected to the Downtown Livability work.

Councilmember Robinson expressed an interest in hearing how the East Main Station Area Plan relates to the City's parks plan.

Mayor Stokes expressed support for the process and noted that the meeting materials are clear and helpful to the Council and the public. He said the Downtown includes a variety of development types and neighborhoods with their own character. He said the East Main Station area will provide a new neighborhood with desirable amenities. He believes the Planning Commission will do a good job of reviewing and blending the work of the East Main Station Area CAC's work and the Downtown Livability Initiative work.

Mr. Cummins said the concept of being similar to the Downtown Livability Initiative is an important distinction in the phraseology that is used. He said terms like "expanding the Downtown" can mean different things to different people. The concepts of transitions, compatible uses, and urban form more accurately capture the work related to the East Main Station area. Mr. Cummins said the Downtown is clearly defined in a number of policy and regulatory documents, and the East Main area is outside of the Downtown. He said he liked Councilmember Simas' language recognizing that the area is not the Downtown, but its land uses should be compatible with the Downtown. Mr. Cummins said the development of the East Main area responds to key elements including light rail and other urban forms, while being next to a single-family neighborhood. He said staff does not characterize the East Main Station Area Plan as an expansion of the Downtown.

Councilmember Robertson clarified that she wants the framework to be consistent with the Downtown zoning. She suggested that staff revise the guiding principles document and place it on the next Consent Calendar for Council action.

Mr. Chelminiak reiterated that he would like to retain the concept of an incentive for providing a pedestrian connection through private property and/or a public easement.

Mayor Stokes suggested providing broad direction to staff to utilize the concurrent process and to proceed with initiating the map and policy amendments for the 2018 CPA work program. He said further direction on specific items can be provided later to the Planning Commission.

Mr. Kattermann said the key issue now is to initiate the CPA. He said staff can return with revised language for the guiding principles in future discussions with the Council.

Councilmember Robertson said she would prefer an opportunity to review staff's revisions to the Council's guiding principles before they are transmitted to the Planning Commission. Councilmember Wallace concurred.

→ Deputy Mayor Chelminiak moved to initiate map and policy amendments in the 2018 Comprehensive Plan Amendment (CPA) cycle for implementation of the approved East Main Station Area Plan and to direct staff to prepare the related Land Use Code Amendments and legislative rezones concurrent with the Comprehensive Plan Amendments. Councilmember Lee seconded the motion.

Mr. Chelminiak noted that, while not explicit in the motion, he does think it is important to transmit clear guiding principles supported by the Council for the Planning Commission.

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

At 8:03 p.m., Mayor Stokes declared a break. The meeting resumed at 8:18 p.m.

(e) 2017-2018 Mid-Biennium Budget Update

Mr. Miyake noted this is the third study session regarding the 2017-2018 Mid-Biennium Budget update. He said the budget includes a one percent statutory property tax to build the City's reserves to address the longer term forecast of revenues and expenditures.

Finance Director Toni Call introduced discussion regarding the General Fund forecast and changes to the Mid-Biennium Budget. She recalled that, during the 2016 budget discussions, the Council requested information regarding the potential for a parental leave program. Ms. Call said the State adopted, in June, the State Paid and Family Medical Leave Insurance Program approved by Senate Bill 5975. She said the City will implement that program in 2019 and monitor the program going forward to see how well it is meeting employees' needs.

School impact fees proposed by the Issaquah and Renton School Districts and staff's proposed development services fees were presented to the Council on November 6. At that time, the Council provided direction for staff to bring back the development services fees as part of the overall budget adoption on November 27. She said school impact fees will be presented as an item on the November 20 Consent Calendar, and the Mid-Biennium Budget public hearing will be held that evening as well.

Ms. Call presented the General Fund financial forecast, noting that revenues are stronger in the early years. She said expenditures are largely driven by existing personnel costs (i.e., medical and dental rate increases, State pension plan), the addition of Fire Station 10, and the Law Enforcement Officer and Fire Fighter (LEOFF 1) medical reserve obligation. Ms. Call said additional revenue will be needed in 2021-2023 to fund the City's reserves. Staff recommends that the City implement the one percent statutory property tax in 2018. The tax will generate approximately \$428,000 in 2018 and represents an annual increase of \$7.60 for a home with an assessed valuation of \$1 million.

Ms. Call said the updated forecast implements the State's expansion of the sales tax to the marketplace fairness sales tax, which allows the City to collect sales tax on out-of-state sellers. The State's estimates of marketplace sales tax revenues is \$1.3 million in 2018 and \$3 million in 2023. The Fire Station 10 project assumes an opening date of 2022 with 13 staff plus equipment. The forecast assumes a modest 0.37 percent expenditure growth.

Moving to General Fund tax sources, Ms. Call said the sales tax and business and occupation (B&O) tax together totaled 36 percent of the General Fund when she joined the City in 2011. The two revenue sources represented 39 percent of the General Fund in 2016 and are estimated to comprise 41 percent of the General Fund in 2018. She said the City is using the favorable revenues to fund reserves and to pay for existing service levels. However, Ms. Call noted the risk

of having a relatively high percentage of the General Fund funded by tax sources that are vulnerable to economic cycles.

Ms. Call said the marketplace fairness sales tax adds 1.9 percent in sales tax growth. She presented a comparison of Bellevue's sales tax, prior to the marketplace fairness tax, with Seattle, King County, and Washington State. She said the risks reflected in the General Fund forecast include: 1) marketplace fairness revenue, 2) urbanization and growth, 3) county, state and federal actions that can impact the City, and 4) the potential for an economic downturn.

Ms. Call described a bar chart depicting revenues and expenditures through 2023. Revenues are slightly higher than expenditures through 2020. However, expenditures slightly exceed revenues beyond that point. The forecast assumes the one percent statutory property tax, expenditures related to Fire Station 10, and the loss of the sales tax annexation credit in 2022. Ms. Call said the ending fund balance in 2023 falls below the Council financial policy of 15 percent.

Responding to Deputy Mayor Chelminiak, Ms. Call confirmed that the one percent property tax increase applies only in 2018. It does not continue in subsequent years.

Responding to Councilmember Simas, Ms. Call said the marketplace fairness sales tax is modeled after a law passed in Colorado. If an out-of-state seller has more than \$10,000 in sales in Washington state, the seller is required to report and pay that sales tax to the State, which disburses it to cities. The seller has the option of providing a list of customers who made purchases in the state, and the State Department of Revenue will bill those individuals.

Responding to Mr. Chelminiak, Ms. Call said there was a legal test in Colorado. The State adopted the tax in 2010, and the issue went through a series of court decisions. The tax was proved legal in a federal circuit court in 2016, and the State of Colorado began collecting the tax in 2017.

Responding to Councilmember Lee, Ms. Call said the City does not have any information on the number of customers in Bellevue who are not paying the sales tax. The State estimates marketplace fairness sales tax revenues of \$1.3 million for Bellevue in 2018. Of that, \$900,000 will go into the General Fund.

Councilmember Wallace said the operating budget is project-based and personnel costs are built into projects and programs. He expressed concern regarding increasing health care costs for the City, which have doubled over the past eight years. He said health care costs increase by eight percent annually, and state pension costs increase by six percent to seven percent annually. He suggested that the Council will need to do some hard work next year to develop the long-term budget in order to avoid an annual property tax increase.

Mr. Wallace noted the decline in utility tax revenue, due largely to the loss of phone tax revenues associated with landlines.

Mr. Chelminiak said the need to replenish the LEOFF I reserves has a fairly significant budget impact. He recalled that Bellevue funded its LEOFF I obligation with approximately \$18 million

in the 1990s. He said it will be good to receive marketplace fairness sales tax revenues. However, the increasing expenditures in several areas exceed those revenues.

Deputy Mayor Chelminiak spoke in favor of implementing the one percent statutory property tax in 2018.

Councilmember Lee said he appreciated the comments by the Deputy Mayor and Councilmember Wallace. He concurred that the City needs to work on a long-term solution for managing expenditure growth. He noted increasing property taxes related to a number of state and county initiatives. Mr. Lee suggested that the City will need to work with the community next year to determine priorities and the demand on basic services. Councilmember Lee said he will not support the one percent property tax in 2018 because he believes the City can cover that need with other resources.

Mayor Stokes said the Council will address those broader issues during next year's major budget process.

Deputy Mayor Chelminiak reiterated his support for the one percent property tax in 2018. He observed that a large part of the budget is linked to potentially volatile revenue sources. He noted that the ending fund balance in 2023 falls below the 15-percent Council policy objective. He said it is important to maintain the 15-percent ending fund balance policy, which is an important criteria for bond rating agencies.

Councilmember Simas noted his support for the one percent property tax.

Councilmember Wallace said that avoiding a property tax increase now will create a greater burden for future Councils. He said expenditures in the operating budget will continue to increase, and the City will need more revenue to maintain current service levels. He said the Council will need to look hard at health care costs and pension costs next year.

Mayor Stokes said one of the reasons Bellevue has relatively low taxes and a healthy economy is due to the high level of services provided by the City. He noted Nashville's model of being a low tax, low services city. Bellevue residents want a high level of services, and the City will need to determine how to continue to meet those expectations. Mayor Stokes expressed support for the one percent property tax in 2018. He noted that Bellevue's property tax is one of the lowest in the state.

Councilmember Robertson noted Bellevue's values of fair taxation, high services, and a high quality of life. She expressed support for the one percent property tax.

Councilmember Lee observed that Bellevue did not increase its property tax for many years and was still able to complete projects, provide services, and promote a healthy economy that has made it a great city. He said he would support the one percent property tax in 2018 if there is a condition on how the Council can prioritize and reduce expenditures. Mr. Lee said the City should avoid being in the position of needing a property tax increase.

Deputy Mayor Chelminiak said Bellevue has had a strong budget process for many years and does a good job of prioritizing services and expenditures. There are costs the City cannot control such as state pension costs and health care costs.

Councilmember Robinson concurred that Bellevue is well managed and relatively conservative in its spending. As the population and development grows, the City has obligations to its residents and businesses. She expressed support for the one percent property tax.

Councilmember Simas said the City has the expected level of services. He said the ongoing community surveys indicate that Bellevue residents support a high level of service and consistently feel they are getting their money's worth as taxpayers. The City's budget has been streamlined over many years. He noted that the City identified and eliminated certain expenditures in developing the current budget. He agreed with Mr. Chelminiak that there are certain costs the City cannot control. He said the one percent property tax will keep the City financially healthy and provide future Councils with the option of not taking the annual statutory property tax increase.

Moving on, Ms. Call highlighted the key changes to the operating budget and the Capital Investment Program (CIP) budget. Changes within the CIP adjust the costs for three projects, update several projects to align the budget with the timing of expenditures, and incorporate projects to be completed using the Neighborhood Safety, Connectivity, and Congestion Levy funding. The 2017-2018 Mid-Biennium Budget will update CIP revenues as well.

Responding to Councilmember Wallace, Ms. Call said she will provide more details on the CIP projects with changes in the budget update. In further response, Ms. Call confirmed that impact fee collections decrease in the CIP budget, due primarily to the deferral of certain frontage projects. Mr. Wallace said he would like to see more details regarding how the budget was balanced.

5. Council Discussion of Upcoming Items: None.

6. Continued Oral Communications: None.

At 9:09 p.m., Mayor Stokes declared the meeting adjourned.

Kyle Stannert, CMC
City Clerk

/kaw