

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

September 16, 2013
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Lee and Councilmembers Balducci, Chelminiak, Davidson, Stokes and Wallace

ABSENT: Deputy Mayor Robertson [Absence excused by Council action on 09/09/13]

1. Executive Session

Mayor Lee called the meeting to order at 6:00 p.m., and declared recess to Executive Session for approximately 30 minutes to discuss one item of potential litigation.

The meeting resumed at 6:50 p.m., with Mayor Lee presiding.

2. Study Session

(a) Continued Discussion of the 2013-2019 Capital Investment Program (CIP)

Acting City Manager Brad Miyake opened staff's presentation regarding the 2013-2019 Capital Investment Program (CIP) Plan. He noted two key policy issues to be discussed: 1) Use of ending fund balance to respond to revenue shortfalls and expenditure increases in certain projects, and 2) Acceleration of certain projects' spending and their impact on short-term borrowing needs.

Mr. Miyake recalled that staff initiated this discussion the previous week. However, there was not sufficient time to get through the entire presentation. Since that time, staff has conducted briefings with all Councilmembers which raised a number of questions and suggestions. Some of these are responded to in the meeting packet and staff continues to work on others.

Finance Director Jan Hawn explained that, when staff conducted the analysis of the revenue shortfall and cost increases, they used as a guiding principle the delivery of the 2013-2019 CIP Plan adopted by the Council last December. In order to balance the plan and deliver all of the projects, it was necessary to use the ending fund balance of \$28 million which became available in March with the issuance of bonds. This spread the costs of major projects over a longer period of time.

Ms. Hawn said there is also a cash flow issue in 2014 resulting from the acceleration of projects. Last year, the Council directed staff to look for cost savings and opportunities for efficiencies related to coordinating with Sound Transit and other private development projects.

Ms. Hawn said cash flow borrowing is not unusual in the CIP Plan. Council policy allows the City to borrow money to fund the CIP based on the frontloading of costs within the seven-year CIP Plan. The City has borrowed money on several occasions to expedite and deliver on infrastructure projects that benefit the community and that can be completed before inflation drives up costs.

Toni Rezab, Assistant Finance Director, addressed the issue of how to adjust the overall CIP Plan to manage the loss of revenue and projected cost increases. She recalled that, when the original CIP Plan was adopted, total revenues equaled total expenditures and there was no ending fund balance. In March, the City issued \$80 million in debt at an interest rate of 2.7 percent, which extended the payments over 20 years. That freed up an ending fund balance of \$28 million.

Ms. Rezab recalled that, when staff met with the Council in August and on September 9, there was discussion about the loss of revenues in the CIP Plan through 2019 (\$15 million) as well as small cost increases totaling approximately \$5 million. The loss of revenues is related to the loss of the Public Works Trust Fund loan, delay in adopting the special benefit offset, and reduced grant funding. On the positive side, revenue projections reflect \$1.8 million from local revitalization funds.

Ms. Rezab said cost increases are detailed in the meeting packet. The total funding gap for the 2013-2019 CIP Plan is \$20 million.

Staff's recommendation to address the funding gap is to reduce the ending fund balance, which allows for the completion of the adopted CIP Plan. Additional options are: 1) Delay or eliminate the impacted projects or programs (NE 4th Street, 120th Avenue NE Stages 2 and 3, and 124th Avenue NE), 2) Reduce other expenditures in the CIP (e.g., legal debt obligations, certain projects or programs), and/or 3) Increase revenues.

Responding to Councilmember Wallace, Ms. Rezab clarified that, when the original budget was adopted, there were two debt components: 1) \$41 million long-term payment amortized over 20 years, and 2) \$51 million short-term line of credit, to be repaid within the seven-year CIP Plan period. When the City converted those two pieces to one 20-year long-term debt payment, it freed up money that would have been used to repay the short-term line of credit.

In further response to Mr. Wallace, Ms. Rezab confirmed that there would be a 2019 ending fund balance because the City spread the debt over 20 years instead of seven years.

Moving to the cash flow issue, Ms. Rezab asked the Council to consider whether projects should be accelerated to ensure that infrastructure needs are coordinated with Sound Transit and private development projects. She said there are near-term needs in 2014, while cash flow does not improve until later in the CIP Plan (2017 and beyond).

Ms. Rezab said there are four components to cash flow borrowing needs: 1) Sound Transit East Link alignment decision, 2) Recommended accelerated projects, 3) Near-term loss of revenues, and 4) Net cost increases and 2013 debt payment.

Deputy City Attorney Kate Berens described the cash flow needs related to the NE 6th Street alignment of the Sound Transit East Link project and the Metro property/City Hall parking garage impacts. The project requires costs to be incurred by the City in 2014, and reimbursement will occur in 2015. This creates a timing issue with regard to cash flow. One option for addressing this situation is to work with Sound Transit to coordinate payment and reimbursement.

Transportation Director Dave Berg described the projects recommended for accelerated funding, which are detailed in Attachment A in the meeting packet. He explained that the 120th Avenue NE (Stage 3) and 124th Avenue NE (15th/16th to Northup Way) projects involve the East Link light rail alignment passing under the roadways. Sound Transit will move forward with its work regardless of the City's projects. City staff recommends accelerating the two roadway projects into the 2015-2016 timeframe to complete design and construction in conjunction with the East Link project. The right-of-way acquisition phase of the projects would be accelerated to 2014, which triggers the cash flow need of \$5.5 million.

Mr. Berg recalled the Council's interest in taking advantage of cost-sharing opportunities related to the East Link project. Accelerating the two roadway projects results in significant savings, avoids multiple construction periods, and reduces inflationary costs. Both Sound Transit and the City have reached the 60-percent design level for their projects. Mr. Berg said that accelerating the City's projects also ensures compatibility with private development (e.g., Spring District and Pine Forest Properties).

Responding to Councilmember Wallace, Mr. Berg said the City will receive a cost-sharing contribution from Sound Transit. That amount will be determined upon completion of negotiations for the cost-sharing agreement. Mr. Wallace said it would be helpful to understand the timing of that agreement and how cost-sharing might shift in order for the Council to determine whether to approve a new revenue option (e.g., debt, new revenue source).

Councilmember Balducci said the CIP Plan often counts on future revenues over the seven-year plan, including from other agencies. She said the CIP Plan is updated every two years and funding adjustments are made for specific projects. She said it is important to keep the broader picture and objectives in mind.

Councilmember Wallace said he would rather have more certainty about future revenues before making a final decision on programming funds as recommended by staff. He observed that the CIP Plan spends more than \$5 million on each of the two projects (120th Avenue NE and 124th Avenue NE) by 2014.

Responding to Mayor Lee, Mr. Wallace opined that whether to accelerate the two projects does not need to be decided by October 7. He believes that can wait until the City has better clarity on the costs and timing of the projects and the agreement with Sound Transit.

Responding to the Council, Mr. Berg said the City's two roadway projects are currently budgeted for design in 2014-2015 and right-of-way work in 2015-2016. Under the current CIP Plan, construction does not begin until 2019. Staff's current proposal is to accelerate the design and ROW work in 2014, which creates the cash flow need. Construction is moved forward from 2019 to 2015-2016 to coordinate with Sound Transit's project. Mr. Berg said there will ultimately be a cost savings through this approach.

Councilmember Chelminiak said that accelerating the City's projects will result in savings and reduce the construction impacts by consolidating the work schedules.

Councilmember Stokes concurred. He supports moving forward with staff's recommendation and not waiting for resolution of the cost-sharing agreement. Mr. Berg said it might be 2014 before the agreement is finalized.

Responding to Councilmember Wallace, Mr. Berg said the 124th Avenue NE project was fully funded for design, ROW, and construction in the CIP Plan. However, it was recently identified for a cost increase due to increasing ROW needs.

Responding to Mr. Wallace, Ms. Berens said the City is negotiating with Sound Transit for a \$35 million contribution in the cost-sharing agreement. She said staff can bring back more detail about how this would work. The purpose of tonight's discussion is to present the full 2014 cash flow need if the City's two roadway projects are accelerated. No City money would be spent on the Sound Transit portion of the project until the agreement is in place. Ms. Berens said it might be helpful to the Council if staff provides additional details on October 7 regarding the anticipated timing of the cost-sharing agreement and the potential funding and cash flow impacts.

Councilmember Wallace observed that the current staff-to-staff negotiations will require adoption of the cost-sharing agreement by the City Council and the Sound Transit Board, and the outcome is currently unknown. He expressed concern about borrowing money and moving forward with projects based on an assumption about future contributions from Sound Transit. Mr. Wallace suggested waiting until next year on the 120th Avenue NE and 124th Avenue NE projects. However, he agreed with the need to address NE 4th Street by October 7.

Councilmember Davidson concurred with Councilmember Wallace's concerns.

Councilmember Balducci questioned the urgency of staff's request. Mr. Berg explained that Sound Transit's project begins construction in 2015. If the City is to accelerate its projects, there needs to be adequate time to complete design, purchase ROW, and prepare for construction in 2015.

Councilmember Balducci questioned the risks involved.

Mr. Berg said Sound Transit has an interest in the City moving forward. He opined that the City has a greater risk if it does not proceed with Sound Transit. If the City does not proceed now, the risk is that delay will increase the project costs. In further response, Mr. Berg said the City's projects are designed for compatibility with the East Link alignment, regardless of the timing, so that is not considered a risk in delaying.

Councilmember Balducci questioned whether there is a way to provide some degree of assurance at this point about future funding from Sound Transit.

Mayor Lee said he was prepared to support staff's recommendation based on the cost savings. However, he understands and supports the need for more information and certainty as described by Councilmember Wallace.

Councilmember Stokes said he appreciates the concerns of his fellow Councilmembers. At the same time, he does not want to spend money in the future that could have been avoided if the City's projects had been better coordinated with Sound Transit.

Responding to the Mayor, Mr. Miyake said staff can bring back more information in response to the Council's questions and concerns. He said this will involve discussions with Sound Transit.

Councilmember Davidson expressed concern that the City will be pressured to borrow more money if Sound Transit is not willing to contribute as the City anticipates.

Councilmember Wallace said this discussion should not be viewed as negative. He observed that the Council supports the projects. However, there are concerns about timing and certainty. He suggested allowing time to finalize the cost-sharing agreement and for City and Sound Transit staff to work together to reduce costs. At that point, staff could request a more realistic funding allocation.

Councilmember Chelminiak said he is in favor of finding a way to move forward with accelerating the 120th Avenue NE and 124th Avenue NE projects.

Mayor Lee said the Council will defer a decision pending more information from and discussion with staff.

Moving on, Mr. Berg noted three design projects recommended for acceleration: 1) 124th Avenue NE (NE 12th Street to NE 14th Street), 2) 130th Avenue NE (Bel-Red Road to NE 20th Street), and 3) NE 15th Street (Zones 1 and 2). The rationale is to ensure compatibility with the East Link project and to reduce inflationary costs. Other projects identified for acceleration are: 1) SCATS adaptive traffic signal system implementation, 2) Lakemont Boulevard/Cougar Mountain Way, and 3) Minor Capital for streets and lighting. Acceleration of these projects reduces inflationary costs and responds to community, safety, and operational interests.

Parks and Community Services Director Patrick Foran said staff requests accelerating \$1.2 million for the joint Hidden Valley Park project with the Boys and Girls Club of Bellevue. The

agreement requires a \$3 million payment from the Boys and Girls Club. Staff proposes moving City expenditures from 2015 to 2014 to coordinate the City's work with the Boys and Girls Club's preferred development schedule.

Mr. Foran said the Hidden Valley Park project is in a better position to move forward in 2014. As a result, the Downtown Park and Airfield Park projects would be reprogrammed to 2015 and later.

Responding to Councilmember Chelminiak, Mr. Foran said staff's proposal completes the Downtown Park project as scheduled in 2015. The Airfield Park project is funded for planning, design, and permitting in the current CIP Plan, with construction to occur beyond 2019. Staff's current recommendation delays that project by approximately one year.

Responding to Councilmember Wallace, Mr. Foran said the extra \$500,000 for open space acquisition is related to King County Conservation Futures in later years to reimburse the City.

Mr. Wallace observed that \$3 million is being moved from Surrey Downs Park to Hidden Valley Park. Mr. Foran recalled that this was discussed within the context of the Hidden Valley Park discussion. The original idea in the Parks Levy was that there would be \$7 million in funds appropriated to Surrey Downs Park. However, as a result of the East Link alignment along Surrey Downs Park, the athletic component of that plan was moved to the Hidden Valley Park project. This leaves \$4 million in levy funding for Surrey Downs Park.

Mr. Wallace requested details on the King County Conservation funding and the grant sponsored by State Senator Rodney Tom for the Meydenbauer Bay Park project.

Mr. Miyake reiterated that staff will compile more information as requested by the Council. He said staff is available for individual briefings to Councilmembers as well.

- (b) New NPDES (National Pollutant Discharge Elimination System) Western Washington Phase II Municipal Stormwater Permit

[Moved to Regular Session, Item 5, City Manager's Report.]

At 7:55 p.m., Mayor Lee declared recess to the Regular Session.

Myrna L. Basich, MMC
City Clerk

/kaw