



October 19, 2006

Honorable Mayor Grant Degginger
City of Bellevue Councilmembers
City Manager Steve Sarkozy
P.O. Box 90012
Bellevue, WA, 98009-9012

Re: Bellevue CIP/Funding the Downtown Implementation Plan

Ladies and Gentlemen,

We write knowing that you are about to deliberate on the City's new operating budget and the 2007-2013 CIP. We realize you face serious budget pressures, and that the size, scope and dynamic nature of our Downtown's new development and residential urbanization presents the City with challenges. However, the evidence is compelling that these trends also offer extraordinary benefits and opportunities for the City. An economically vibrant Downtown is essential to the City, and we believe that timely funding of the Downtown Implementation Plan (DIP) is vital to the long-term economic health of Downtown.

We appreciate and applaud you for having made excellent progress on certain important aspects of the DIP, including a new interchange at NE 10th Street and the widening of NE 8th Street next to the new Washington Square project. We also recognize that there is approximately \$15 million allocated to DIP projects included in the staff's proposed 2007-2013 CIP; however, that falls far short of what is needed in this cycle. Over the last number of months we have had numerous discussions with you and staff concerning the City's fiscal issues and funding of DIP projects, and we have very much appreciated the dialogue and your willingness to listen to us. Given the feedback we have received from you on the City's budget constraints and after further discussion by our Board, we have come to recognize that it is appropriate to provide you with a re-prioritized list of DIP projects to significantly reduce the funding sought for the 2007-2013 CIP (see attached revised priorities summary). We are now urging you to fund approximately \$60 million in this cycle, instead of the \$149 million per our initial priorities list.

As part of our effort to understand the economic benefit of Downtown, the BDA recently commissioned Berk & Associates to prepare a fiscal analysis showing the revenues which the Downtown contributes to the City, as well as the net revenues that will be generated by the 28 new development projects in Downtown (i.e., net revenues above and beyond the existing on-going revenue contributions of Downtown). The BDA and Berk & Associates worked closely with City staff in putting together this report and validating the numbers and assumptions, and we are most grateful for this staff assistance with the report. We have also shared drafts of the Berk report with the Mayor, the City Manager, and several Councilmembers and sought and received their feedback. Given this feedback and vetting, we believe the numbers in the Berk report are legitimate and generally in line with the City's analysis.

The Berk report tells us that, even assuming that property tax rates in Bellevue continue their downward decline in line with the City's current policy, the new development projects in Downtown (those under construction or permitted for construction) will generate \$160 million of net revenue to the City over the next 20 years (having a \$90 million net present value). The Berk report demonstrates that the Downtown is a tremendous and unique economic engine for the entire City – the goose that lays the golden eggs. Yet, we have been told by the City that by and large this

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new additional net revenue to the City has already effectively been spent, because the City will need those additional funds just to maintain its current level of projected expenditures. In short, notwithstanding this vast influx of additional revenues from the new development Downtown, we are told there are precious few dollars to fund the infrastructure improvements included in the DIP. We are further told that while the City has councilmanic bonding capacity of \$270 million and a triple-A bond rating, it has a policy against incurring debt, preferring instead a pay-as-you-go approach to capital investments. That policy, while fiscally prudent, leaves the City hamstrung in meeting the desires of its various neighborhoods and constituencies. This is not sustainable. It would seem there needs to be a paradigm shift in the City's fiscal approach to spending and investing.

If the Downtown is the City's economic engine, and the City is relying on continued growth and new development in Downtown in order to cover its expenses, and timely funding of DIP infrastructure projects is essential to maintaining the Downtown's dynamic upward curve, then it would seem to be crystal clear that the City needs to figure out a way to make this funding happen. In this regard, we strongly suggest that the City undertake the following: (1) sharpen its pencil to reduce other expenses from the budget – have you really done everything you reasonably can to control costs?; (2) ear-mark for funding of prioritized DIP projects the unallocated pot of funds that is accruing from sales tax on new construction and real estate excise tax revenues on projects over \$100 million (and lower the project minimum for such pot of funds to \$50 million); and (3) make an exception to the policy against incurring debt so that additional funds needed for DIP infrastructure improvements may be generated through bonding.

Except for police and fire services, there is nothing more fundamental or important for the City to be doing for its citizens than providing needed infrastructure. No one else is going to provide it. Infrastructure is a long-term investment, and as Seattle's recent experience has shown, if a city's infrastructure is ignored, there is an enormous price to pay. Good infrastructure is one important competitive advantage that Bellevue should have over neighboring cities. We do not see that there should be a philosophical problem with the City exercising its bonding capacity to make important infrastructure investments. If a home's roof needs repair, common sense dictates that the owner should have the repairs done, even if he has to borrow the money, before the roof starts leaking. Like a home, Downtown Bellevue is an essential asset to the City and one that needs to be cared for and sustained.

We urge you to adopt an operating budget and 2007-2013 CIP that include funding for the re-prioritized DIP projects.

Respectfully,



Lisa Rowe, BDA Chair



Leslie Lloyd, BDA President

cc: BDA Board of Directors

Attachment