

**TUMWATER CITY COUNCIL
STRATEGIC PLANNING WORK SESSION
February 7, 2009 Page 1**

CONVENE: 10:10 a.m.

PRESENT: Mayor Ralph Osgood, Councilmembers Ed Stanley, Neil McClanahan, Judith Hoefling, Pete Kmet, Joan Cathey, and Karen Valenzuela.

Excused: Councilmember Bruce Zeller.

Staff: City Administrator Doug Baker, City Attorney Karen Kirkpatrick, Finance Director Jim Hendrickson, Planning and Facilities Director Mike Matlock, Planning Manager Tim Smith, and Recording Secretary Cheri Lindgren.

Others: Brian Murphy and Kapena Pflum, Berk & Associates.

**STRATEGIC PLANNING
WORK SESSION:**

Mr. Murphy reviewed the agenda. Outcomes from the strategic planning work session will be presented to the Council at a future meeting.

Councilmembers shared observation from the February 6, 2009 work session, including the importance of clearly defining and understanding terms.

Mr. Pflum reported the base fiscal analysis was completed in January 2008 and presented to the Council in March 2008. Personnel costs (salaries and benefits) are outpacing revenues. The analysis was completed prior to the economic downturn.

Councilmember Hoefling asked why Tumwater's 2007 retail sales were less than 2005. Mr. Pflum said one primary driver is new retail openings in Lacey taking market shares from Tumwater.

Councilmember Cathey asked whether there are steps the City can take in the mid-term to decrease costs and increase revenues. Mr. Murphy said *Discussion Guide II* contains a section on managing City resources. Suggestions include focusing on economic development and exploring a levy lid lift (LLL) in the future.

Conversation followed regarding the library's LLL, which failed. However, Tumwater precincts approved the ballot measure by 54%.

In response to questions from Councilmember Kmet on the assumptions for the baseline projections, Mr. Pflum said one supposition is the City maintaining current staffing levels without adding service improvements with salaries and benefit costs increasing annually. Property tax revenues will remain flat because of the 1% cap. If analysis occurred today, revenues from sales tax would shrink because the City is losing one-time construction sales tax revenue. Additionally, there is a change

in the retail landscape because of competition occurring in other jurisdictions. The analysis assumes Tumwater will hold its market share.

Councilmember Cathey suggested the City should be compassionate and communicative with staff so employees are not fearful of losing their jobs. It was noted that staffing and services will continue to emerge as an issue under the current economy.

Mayor Osgood said Tumwater is one of few cities that did not lay off employees at the beginning of the year.

Councilmember Hoefling said improvements to City facilities were put on hold to maintain staffing levels. A clearly articulated vision is helpful. The Council is faced with making hard decisions in providing services to citizens. Policies established by the Council provide the Mayor and staff with guidance.

Councilmembers indicated they want to focus on economic development, explore LLL options, maintain open communication with staff on the City's fiscal position, make policy choices prioritizing the City's vision and fiscal health, and find innovative and creative solutions to continue to provide great staff to serve Tumwater citizens.

Mr. Pflum reviewed newer comparative retail tax base composition analysis exhibits beginning with taxable retail sales (TRS) per capita, 2007 bar chart. Olympia, Tumwater, and Lacey all have relatively high TRS per capita compared to other cities. Total TRS for Tumwater by industry and TRS in retail and food/accommodation tables were presented. General merchandise, building, material/garden supply, and restaurants/catering and food and drink are the leading sectors. TRS comparables for Lacey and Olympia were provided. The strongest TRS in Olympia is autos and parts. The economic downturn that occurred in 2008 is not reflected in the data.

Discussion ensued on Tumwater's TRS for the restaurants/catering category. Mr. Murphy noted the City is serving more than its population through fast food and full service restaurants. Director Hendrickson reported the restaurant area is holding ground. New fast food restaurants, such as Taco Time, have opened which helps. However, construction and wholesale is decreasing dramatically.

Discussion followed on the difficulty for smaller, locally owned businesses, such as restaurants, to succeed. Larger anchors are vital to generate business for the smaller restaurant establishments. Business retention and attraction works best when concentrated in areas. The Council expressed interest in developing strategies to assist small and

local businesses. Tumwater's larger scale retail has been and will continue to be a core component of the City's retail tax base. All communities have an anchor category. Tumwater has taken action to welcome automobile businesses.

Councilmember Hoefling asked whether the Economic Development Advisory Committee (EDAC) could identify market prospects that are lucrative for other cities and offer recommendations on how to market those opportunities (appliance, clothing, automobile, furniture) in Tumwater.

Mr. Pflum reviewed employment data from the U.S. Census Bureau. Exhibit 15, jobs to housing ratio 2004, was presented. Tumwater has relatively high jobs to housing ratio. The imbalance leads to traffic impacts. Traffic impacts can be mitigated with transit improvements and attracting more housing near job centers.

Councilmember Valenzuela arrived.

Specific to distribution of primary jobs by category, Mr. Pflum reported that construction/resources, manufacturing, and WTU jobs are strong in Tumwater. Distribution of primary jobs in the services category reveals the City's strongest services subsector is education. There are more public administration jobs than represented in the exhibit.

Councilmember Hoefling asked whether it makes sense to market the airport as a unique tool for reassembly activities. Mr. Murphy replied that the light industrial/manufacturing sectors in Tumwater's economy are strong. It makes sense to evaluate opportunities around the airport and Mottman Industrial Park to improve those sectors. A task for the EDAC is to identify those prospects.

Discussion ensued on the relationship between the City and the Port of Olympia and how to partner and work collaboratively in the future. Mr. Murphy explained that developing an arrangement aligning the City's and Port's desires and plans is one option. The City could then engage with the Port and market those opportunities.

Administrator Baker said another resource available to the City is the Thurston County Economic Development Council (EDC). The EDC works with the Port to recruit new businesses.

Councilmember Valenzuela said the City does not have a productive relationship with the Port currently. The Port owns a significant number of parcels within the Tumwater Town Center and has attempted to influence the vision of that area, which is in conflict with the City's vision.

Councilmember Kmet said he understands the Port is rethinking its plans. He asked whether there's a type of manufacturing, such as green manufacturing that the City could focus on attracting. He asked how fire, insurance, and real estate (FIRE) category generates revenue. In response to the latter, Mr. Pflum said FIRE consists of office-based work forces. Revenues are generated through utility, property, and real estate excise taxes (REET).

Councilmember Hoefling said the City will need to market and offer incentives to encourage green businesses to Tumwater. Mr. Murphy offered marketing ideas, such as advertising on the City's website and recruiting ambassadors. Currently, Tumwater does market its community. A commitment to developers on predictability is important.

Discussion ensued on promoting Tumwater as a place to live and identifying what certain types of businesses are looking for.

Mr. Murphy presented commuting pattern exhibits. A large number of Tumwater residents commute to Olympia for work. Residents of Olympia comprise the largest portion of Tumwater's primary jobs.

Mr. Pflum reported the retail market analysis was updated with 2007 data. Chehalis has particularly high TRS per capita because of the outlet center, its relatively small population, and sales likely drawn from residents in Centralia. Additionally, when auto sales are excluded, Olympia and Tumwater have similar TRS per capita values.

Recent trends in absolute retail sales collections from 2005 to 2007 reveals Tumwater is the only community on the list of comparables experiencing a decline over the last two years of \$11 million. Lacey and Yelm experienced the greatest percentage increases of 48% and 53%, respectively.

Combined person-expenditures for all three cities far exceed the three-city population. Data concludes the three cities are serving a population of 200,000 rather than a combined population of 93,000.

Director Hendrickson reported in 2008, Olympia, Lacey, and Thurston County experienced a more dramatic decline in taxable retail sales compared to Tumwater based on its more diversified retail tax base.

Discussion ensued on streamline sales tax (SST). Director Hendrickson advised that the Department of Revenue (DOR) is looking at specific retailers and analyzing point of deliveries. In Tumwater's case, more items are delivered to other locations.

The Council discussed capturing sales tax revenues from internet sales.

Mr. Murphy referred to page 3 of the *Selected Findings from Economic Development Preference Survey*. A majority of respondents support neighborhood retail (69%), office (66%), and light industrial (62%) development. People favored large-scale retail and large warehouses and distribution centers more when geographically limited to areas close to I-5.

Specific to fiscal strategies, focusing on economic development efforts was preferred to address the tight budget. If the City was forced to raise taxes, the community supported implementing new development fees (80%) rather than increasing property taxes (33%). Mr. Murphy referred to page 27 of the *Economic Development Preference Survey Report*, which organizes responses into two clusters of not so pro-development (44% of the sample) and pro-development (56% of the sample). It's important to communicate the City's development strategy to the community.

Councilmember Kmet said he was surprised at how evenly split the community is between letting the market determine what new businesses come to Tumwater (51.6%) and the City investing staff time and dollars to recruit desirable new businesses (48.4%).

RECESS:

Mayor Osgood recessed the meeting from 11:39 a.m. to 11:53 a.m.

Councilmembers reviewed *Discussion Guide IV: Economic Development Tools and Strategies*. The range of options for a number of topic areas was reviewed. Specific to "development climate," Mr. Murphy indicated the issue has been resolved. It's important the City ensures development regulations and processes are clear and predictable and that the City creates a culture supporting the type of development articulated in the City's vision and target assistance/incentives.

Councilmember Stanley commented that the staff person at the front desk is critical to encourage developers to make investments in the City.

There was general consensus from the Council on the conclusions articulated by Mr. Murphy. He added that there are costs to communicating the City's vision and plans. Targeted assistance and/or incentives could include waiving impact fees and providing expedited permit reviews. Partnering with the local chamber is another tool.

Councilmember Kmet asked whether there is capacity in existing staff to implement development climate strategies. Administrator Baker advised that there could be additional staff capacity within the Development Services Department in approximately six months. It's

estimated building permit related fees will decrease by 40% from 2008 levels.

Councilmembers offered the following input:

- Based on a successful ballot measure, whether it's possible for a portion of the revenue to be used to implement development climate options, such as hiring a marketing person and training staff.
- Work collaboratively with the other jurisdictions to share staff. Mayor Osgood advised that the concept has been discussed. The City of Olympia and Thurston County were not necessarily interested in sharing free staffing resources.
- If new construction continues to decline, there might be an opportunity for existing Development Services Department staff to do some target marketing.

Mr. Murphy advocated for a more proactive option of establishing a staff position dedicated to economic development and fostering relationships with developers, employers, and retailers in the community. Another option is establishing a standing EDAC to provide ongoing input. It appears the Council could support an existing staff member filling that role and investing in training. As opportunities become available, the City could evaluate a full time position.

Mayor Osgood expressed concerns for City managers or senior staff also assuming marketing representative roles. The issue of establishing a dedicated position could be addressed during the 2010 budget cycle.

Councilmember Hoefling suggested hiring a person dedicated to economic development is the most important thing the City can do to create sustainability.

Councilmember Kmet suggested elected officials and the City Administrator could also assist in implementing economic development goals.

Mr. Murphy said the City could partner with the private sector and community members to develop a recruitment team. Designating someone as the lead is important and should be undertaken approximately six months after the Council adopts the Strategic and Economic Development Plans.

Councilmember Kmet suggested another aspect is the community supporting the City's plans for economic development. The lead person could also serve as the link to the community.

Mr. Murphy said an organizing theme for the EDP can be placemaking.

Strategies outlining roles the City might take were reviewed for the following place making topics:

- Encourage the dynamic utilization of the brewery property with connections to the larger river corridor
- Support the established vision for Tumwater Town Center
- Pursue development of the Littlerock Road Subarea
- Support the market-driven transformation along Capitol Boulevard from the Southgate Shopping Center to Tumwater Town Center

The Council offered the following comments on the brewery property:

- A conference center based on the City's of Olympia experience is not feasible. The Tyee Center was not successful.
- Casinos and the Great Wolf Lodge are attracting conference opportunities.
- Ownership of the brewery property is important. The City should remain flexible and consider what's not desirable for the parcels. The concept of a conference center should not be eliminated.
- "Reconsider zoning" was added to the list of strategies.
- The land along the bluff on Cleveland Avenue is ideal for neighborhood commercial or housing. The property is deteriorating rapidly. There are federal Brownfield grant program opportunities. Ownership, ongoing litigation, and particularly the price for the property have been roadblocks to development. The City could help the owner market the site, reconsider the zoning, and research grant programs.
- The area will start to flourish with the Bellatorre commercial/mixed use proposal. One idea is developing a package of incentives to offset the cost of purchasing the property, which could be a task for the EDAC.

Councilmember Hoefling referred to supporting the market driven transformation along Capitol Boulevard from the Southgate Shopping Center to Tumwater Town Center and suggested the EDAC also explore options for redevelopment of the Washington State Department of Transportation (WSDOT) site.

Councilmember Kmet commented that there are a series of transportation related improvements contained in a Capitol Boulevard Subarea Plan.

The Council discussed other strategies identified for the Southgate Shopping Center to Tumwater Town Center placemaking.

Councilmember Hoefling referred to a previous concept of using tree funds to landscape and improve the Southgate Shopping Center parking lot to attract new businesses. The EDAC needs to know whether the Council is willing to consider providing incentives and forgiving some fees to attract new business to Tumwater.

Councilmember Valenzuela said Tumwater has been discovered. When the market improves, the City will attract development desired through policies implementing the vision. The Council should not give away development rights. There are other details that should be reviewed. One example is the Capitol Boulevard/Trospen Road intersection that has attracted a number of drive-through businesses. Tumwater does not have a policy on how many drive through businesses should locate within a two-block area.

Mr. Murphy referred to another city that reduced impact fees to attract certain businesses within a targeted area and is investing in other infrastructure, such as gathering space. Incentives and/or infrastructure improvements could be considered to entice desired development to Tumwater.

Councilmember Kmet suggested it's necessary to offer incentives, such as waiving impact fees, to encourage mixed-use development and particularly residential in the Tumwater Town Center. The strategy to achieve specific goals in specific areas could be used on a case-by-case or place-by-place basis rather than a broad-based approach.

Mr. Murphy said the City might also consider investing in public amenities to help create a "place" in the Town Center.

The Council agreed to consider incentives and infrastructure investments in targeted areas.

Councilmembers reviewed modest and proactive options for business retention and attraction. Mr. Murphy said neighborhood retail development is also a subset of the topic. Business retention and attraction is often pursued with community partners, such as the EDC, local chamber, and other business groups. A more aggressive approach is organizing and supporting a business district organization.

The Council discussed redevelopment potential within the Southgate Shopping Center in light of the Bellatorre project and the City's investment in remodeling the restaurant at the golf course.

Councilmember Hoefling suggested having the Tumwater Chamber showcase businesses to the Council on a regular basis.

Councilmember Kmet suggested promoting different businesses within the community through newsletters, the City's website, or TCTV. Councilmember Valenzuela commented that the Tumwater Chamber also publishes a newsletter.

Mr. Murphy commented on shop local campaigns.

Councilmembers discussed business attraction options. A proactive approach is targeting business recruitment; sector/cluster development, or practical recruitment of target businesses, such as high-end grocery store, successful regional independent retailers, and others.

The Council offered feedback on the City's role:

- Publish articles in magazines encouraging people to visit Tumwater and advertise types of businesses the City wants to attract such as a Trader Joe's.
- The City has light industrial land available. The issue is the type of light industrial development the Council wants to occur.
- Create a poster placed at the SeaTac Airport showcasing the City's unique characteristics and encouraging visitors to come and discover Tumwater.
- Ensure marketing concept is broad-based.
- Identify what business developers are looking for and create a message to attract that sector.
- City should provide the EDC with additional direction to more effectively market Tumwater.

Mr. Murphy commented that the City must accept development proposals permitted under current zoning and development regulations and not turning business away on a case-by-case basis.

Discussion ensued regarding rail opportunities on the brewery property and pursuing grant opportunities to develop a marketing program and begin implementing strategies.

Councilmembers considered neighborhood retail development policy options. Mr. Murphy said there are different types of neighborhood retail development. The task is characterizing and identifying those types and identifying opportunity sites and implementing the strategies.

Mayor Osgood referred to two different models. The first is new development on the Doelman property with residential and neighborhood commercial. The neighborhood commercial element is part of that community's social network from the beginning. The second is redevelopment of the Southgate Shopping Center into a

neighborhood commercial area.

Councilmember Kmet said there could be nodes along the Capitol Boulevard corridor the EDAC could examine for neighborhood retail development. The area near Starbuck's is starting to transform.

Mr. Murphy said that sector could be better defined and strategies developed around the varying options. Engaging surrounding neighborhoods in the discussions was acknowledged as important.

Strategic partnership approaches were presented. Modest strategies include partnering with a chamber or other business entity, and participating in regional planning and economic development efforts. Other partnerships the Council could consider include engaging a school district or other non-business entities and establishing interlocal agreements with neighbors.

The Council identified additional partnership opportunities, such as engaging with congressional offices, South Puget Sound Community College (SPSCC), talking with larger local landowners and developers about investing in Tumwater, and placing the City's development packet on the regional chamber website.

Councilmember Kmet asked about interacting with state agencies to help attract complementary business development to Tumwater.

Councilmember Valenzuela commented that the partnership between the Tumwater Farmers Market and the City is not mentioned in any of the strategic planning materials. She noted employees of nearby state agencies are primary customers.

Discussion followed on next steps.

ADJOURNMENT:

With there being no further business, Mayor Osgood adjourned the meeting at 1:42 p.m.