

**CITY OF BELLEVUE
ENVIRONMENTAL SERVICES COMMISSION
MEETING MINUTES**

Thursday
November 6, 2014
7:00 p.m.

Conference Room 1E-112
Bellevue City Hall
Bellevue, Washington

COMMISSIONERS PRESENT: Chair Helland, Vice Chair Swenson, Commissioners, Howe, Mach, Morin, Pauley and Wang

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Andrew Lee, Deputy Director; Martin Chaw, Fiscal Manager – Resource Management & Customer Service; Lucy Liu, Assistant Director – Resource Management; Nav Ota, Director - Utilities

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

The meeting was called to order by Chair Helland at 6:30 p.m.

2. ORAL COMMUNICATIONS

None

3. APPROVAL OF AGENDA

Motion made by Commissioner Morin, seconded by Commissioner Mach, to approve the agenda as presented. Motion passed unanimously (6-0).

4. APPROVAL OF MINUTES

October 9, 2014 Regular Meeting Minutes

Motion made by Commissioner Howe, seconded by Commissioner Swenson, to approve the minutes as presented. Motion passed unanimously (4-0) with Commissioners Wang and Morin abstaining.

5. FOLLOW-UP QUESTIONS & ANSWERS

Martin Chaw noted that the Commission had requested samples of other cities' block sizes and rate samples for comparison. He reviewed this information which was included in the packet. Commissioner Mach asked how long these cities have

had their block structures. Mr. Chaw was not sure. He noted that the block structures generally do not change with updates, although the break points do. He offered to look into that.

The Commission had also requested information about construction inflation for 2015/16. Lucy Liu stated that the construction inflation rates are 3% for 2015 and 2.7% for 2016.

Commissioner Pauley arrived at 6:34 p.m.

6. REPORTS AND SUMMARIES

- ESC Calendar/Council Calendar – Deputy Director Lee commented that there was an ESC meeting on the calendar for November 20. Commissioner Mach stated he would not be present on November 20. Deputy Director Lee also pointed out that there will be a recess in December. The items previously scheduled for December will be pushed to January and/or addressed in a memo. Commissioner Wang commented that the ESC has always met in December.

Utilities Director Nav Otal stated that the Utilities budget presentation to Council is now happening this coming Monday on November 10, which is earlier than planned. She requested that the Commission give staff a rate recommendation tonight and indicated that the meeting on November 20 may not be necessary. She noted that Council also takes a break in December. Since the Commission meetings changed to the third week of the month it falls much closer to the holidays.

Commissioner Wang suggested that they take their break in December instead of August. He also suggested the ESC consider an annual retreat. Councilmember Robertson stated that the Council has recess in both August and December. The Council likes to let the boards and commissions have breaks at the same time. She said she wasn't aware that the ESC doesn't have a retreat; all the other boards and commissions do. Councilmember Robertson offered to work with staff to start doing annual retreats with the ESC if that is the consensus of the Commission. She discussed some of the types of things that could be addressed at a retreat. She commented that the retreats are still subject to the Open Public Meetings Act. She asked staff to look at what might be a good time to do this. There was general consensus by the Commission to look into this.

Vice Chair Swenson asked how this commission is different than other boards and commissions. Councilmember Robertson explained that the ESC is different because it offers advice on the rate setting. It is also different because members don't have to necessarily be only a resident of Bellevue to be members; they just have to live in the water and sewer service area. The

Commission also has ideas and opinions about big picture policy items. The retreat would be a great time to discuss those as well as have a nice, casual time to talk about the mission of the Commission. Deputy Director Lee said he would look into what the other boards and commissions do for retreats and bring that back for discussion.

Commissioner Wang asked what Pre-Design is on the Council Calendar on December 1. Deputy Director Lee explained that this is an options analysis phase.

7. NEW BUSINESS

- **Water Cost of Service Rate Design Recommendations**
Lucy Liu, Assistant Director – Resource Mgmt. & Customer Svc.
Martin Chaw, Fiscal Manager – Resource Mgmt. & Customer Svc.

Assistant Director Liu explained that staff was following up on the proposed water rate recommendations for single family residents rates (SFR). The Commission had expressed concern that the SFR rates that had been proposed at the October meeting did not send sufficient pricing signals to encourage responsible water use.

Chair Helland requested that the presentation and materials be provided electronically. Staff indicated they would provide that.

Ms. Liu reviewed proposed alternative SFR rates. Consistent with Commission direction, staff revised the volumetric charges to accomplish the Commission's objectives. Specifics of these charges were discussed as contained in the handout of the presentation. Consistent with the intent of the rate relief program, the majority of rate relief recipients will see less than \$1 change in their bimonthly bill. Rate relief recipients using more than the winter average will see a smaller rate discount.

Councilmember Robertson asked if the reduced average consumptions level can be attributed to smaller household sizes as well as conservation. Ms. Liu thought this could possibly be a factor. Councilmember Robertson asked if rate relief is based on household size. Ms. Liu explained that that it is based on income, but the qualification for income is based on the income of the household.

Commissioner Morin asked what timeframe was used in the recalibration of average winter consumption levels. Ms. Liu stated that it is based on 8 months of the 12 month period using statistics from 2012. 2012 was selected as a "typical" year.

Chair Helland asked when the City would do the next cost-of-service study. Ms. Liu explained that ideally it would be every 5-6 years, but the last one was 10 years ago. Chair Helland asked how hard it would be just to get the utilization data on an annual basis. Mr. Chaw thought this could be done in-house relatively easily. Ms. Liu thought it might make sense to look at that data every couple years. Chair Helland thought it would be a good idea to do that.

Ms. Liu summarized that the recommended single-family water rate structure maintains conservation pricing signals and accomplishes revenue stability. The next step is to finalize the single-family rate structure and incorporate it into the proposed 2015-16 rates as part of the budget process.

Vice Chair Swenson thanked staff and noted he is more comfortable with this result.

- 2015/16 Utilities Biennial Proposed Budget & Rates Public Hearing
Lucy Liu, Assistant Director – Resource Mgmt. & Customer Svc.
Martin Chaw, Fiscal Manager – Resource Mgmt. & Customer Svc.

Chair Helland called the public hearing to order at 7:06 p.m. noting that all commissioners were in attendance as well as Councilmember Robertson. There was no one from the public in attendance, but written comments from David Plummer were distributed to the Commission. Councilmember Mach asked if staff typically sends back a response to the written comments. Staff replied that it is for input for the benefit of the Commission and there is typically no response from staff.

Assistant Director Liu gave a PowerPoint presentation regarding the proposed 2015-2016 Utilities Department budget. She highlighted the budget review process and discussed budget guiding principles. She noted that the proposed budget:

- Is lean with minimal new programs
- Fully funds wholesale cost increases so that funding for local programs is not degraded
- Includes new staffing to support the CIP
- Includes one new initiative to improve the operational efficiency of field staff

The Utilities Proposed Operating Budget for the next biennium totals \$291.5 million and includes four key costs elements. These components include Wholesale/Regional Capital Facility Charges; Taxes/Interfunds; Capital-Related Costs; and Local Operations.

Commissioner Wang asked where advanced metering infrastructure fits into the budget. Ms. Liu explained it is not included in the proposed budget. It will

be brought to Council as an additional item to consider. Staff has a recommendation on it for the ESC to consider.

Ms. Liu summarized that taking care of the infrastructure accounts for about one quarter of the budget. Over half of the current utilities system is past mid-life. Timely replacement is critical to maintain services. Two-thirds of the capital program is dedicated toward investments to address aging infrastructure. Another key area is capacity to accommodate growth. The other key investment area for capital programs is environmental preservation. This includes regulatory requirements.

Chair Helland asked if new development pays its own way as it comes online. Ms. Liu affirmed that the City pays for the infrastructure in advance and then new development pays this cost through connection charges. In this way growth pays for the growth.

The recommended rate increases for 2015-16 were reviewed. The total increase needed for the water, sewer, and storm and surface water utilities is 5.7% in 2015 and 4% in 2016. The combined monthly bill for the typical customer was compared from 2014 to 2015. The City of Bellevue's rates remains very competitive with those of neighboring cities. The rates will be even more competitive in the future because Bellevue has put funding aside to address aging infrastructure.

Ms. Liu stated that advanced metering infrastructure (AMI) is an emerging issue that is not included in the proposed budget and rates. She explained that the Commission supported staff's recommendation to position now for implementation of AMI in the 2017 – 2020 timeframe by starting to accumulate the funding needed for this. She recommended funding options available for consideration. Staff is also recommending that in 2016 the City evaluate the technology options for AMI. After further consideration staff is recommending Option 1 which is a one-time increase to fund the implementation. In order to levelize the rates between 2015 and 2016 staff is recommending that the rate increase be implemented in 2016. An increase of \$0.68 a month to the typical residential customer would generate \$11 million over a 20-year period. The City would borrow the money from the infrastructure renewal and replacement (R&R) account to implement AMI. The rate increase would generate the funds to be used to pay back the R&R account.

Commissioner Wang asked why the replacement reserve option (Option 2) was so much higher than the initial implementation. Ms. Liu explained that the expected life of the AMI system is 20 years. Option 2 would raise enough revenue to complete the initial implementation as well as save for replacement. Martin Chaw explained that the initial implementation is less than the replacement because of the savings from operational costs. Director

Otal clarified that staff is not recommending Option 2. She explained that the true net cost increase for the first implementation is only \$11 million due to savings from operations. She explained that staff is not recommending Option 2 because the same customers would be paying for the system twice which is not equitable. Additionally, after the first 20 years staff will learn a lot about the system and will be better able to determine the costs for replacement. Staff anticipates that the cost will go down as the technology improves. Staff will highlight to Council that the recommendation does not include the replacement costs. Vice Chair Swenson asked about the process for replacement in 20 years. Mr. Chaw stated that staff is envisioning a mass replacement.

Commissioner Morin noted he had missed the AMI presentation. He asked if the Commission had already decided to support AMI. Ms. Liu explained that in September the Commission supported Utilities migrating to AMI. What is being discussed tonight is how this will be funded. Staff is looking for a recommendation on the funding source.

The public hearing was closed at 7:37 p.m.

Motion made by Vice Chair Swenson, seconded by Commissioner Pauley, to recommend the budget as presented, to include in the presentation to Council the AMI proposal Option 1, and to authorize Chair Helland to work with staff to draft a letter summarizing the Commission's recommendation.

Councilmember Mach asked about the difference between the technological life and the mechanical life. He suggested that replacement could be needed earlier than 20 years. He asked if staff has sampled other cities that have successfully implemented AMI. Deputy Director Lee noted that San Francisco has been studied. Locally, Woodinville and Renton are moving ahead with AMI implementation. Regarding technology, the water metering technology has been pretty consistent over the last 20 to 30 years. What is more likely to change is the communications technology and the battery technology. He explained that the meters have two different units – metering and communication. There may be a possibility that the communication units could be replaced independent of the metering units.

Commissioner Morin asked about the wisdom of the wholesale replacement. Deputy Director Lee explained that one of the main benefits of AMI is the savings of staff time. Slowing down deployment of the system would slow down the benefits of implementing the system. Ms. Liu added that customer access to real-time consumption data is another one of the benefits of AMI. If the City did gradual implementation, part of the customers wouldn't be able to realize that benefit. Commissioner Morin asked if this is something that the customers really want. He hasn't heard many positive comments about AMI

from customers. Ms. Liu stated that staff hears from customers from time to time that it would be useful to have real time data to detect leaks. Commissioner Pauley discussed how this could have helped him detect a leak sooner than he was able to previously. Vice Chair Swenson concurred that this could be very useful to customers as a way to detect leaks, noting that he also had experienced a leak situation.

Commissioner Howe commented that in addition to savings in manpower, drive time, and energy consumption, this can potentially be a cost savings to the City by identifying and resolving leaks sooner thereby conserving water. Commissioner Pauley concurred.

Councilmember Robertson noted that the Council receives comments occasionally from customers whose pipes have leaked and who receive water bills for \$5,000. She asked if the Commission will be giving input on the actual AMI system that is being evaluated and used. Deputy Director Lee stated that staff will be launching a full technology evaluation in the 2016 timeframe and could come to the Commission with their recommendation. Councilmember Robertson recommended keeping the Commission included in this process.

Commissioner Morin stated he was opposed to including the AMI option in the recommendation.

Motion passed 6-1 with Commissioner Morin voting against the motion.

8. COMMISSION REPORT

None

9. DIRECTOR'S OFFICE REPORT

Deputy Director Lee followed up on the commissioners who received Open Public Meetings Act training. Everyone except Chair Helland indicated they had completed the training.

Deputy Director Lee explained that the November 20 meeting is now obsolete because of the change in the recommendation to Council on the budget. The next meeting for the ESC will be in January.

He updated the Commission on some water main breaks. One was a 16" asbestos main near West Lake Sammamish Parkway which was related to the saddle. The other one was an 8" cast iron main at NE 8th Street and NE 140th. There is a possibility that this was related to construction activities in the area.

10. CONTINUED ORAL COMMUNICATIONS

None

11. ADJOURNMENT

Motion made by Commissioner Wang, seconded by Commissioner Morin, to adjourn the meeting at 7:59 p.m. Motion passed unanimously (7-0).

The meeting was adjourned at 7:59 p.m.