

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

Thursday
May 15, 2014
6:30 p.m.

Conference Room 1E-108
Bellevue City Hall
Bellevue, Washington

COMMISSIONERS PRESENT: Chair Helland; Vice Chair Swenson; Commissioners Cowan, Howe, Mach, Morin, Wang

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Paul Bucich, Assistant Director, Engineering; Nav Ota, Utilities Director; Martin Chaw, Fiscal Manager – Resource Management & Customer Service; Lucy Liu, Assistant Director – Resource Manager & Customer Service; Pam Maloney, Utility Water Resources Planning Manager

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

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

2. ORAL COMMUNICATIONS

David Plummer, 14414 NE 14th Place, Bellevue, WA 98007 spoke concerning the Utilities CIP and Operating Budget proposals. He noted that many of the budget proposals seem to be O&M or R&R type projects, not capital projects. He asked why they are not included in the Utilities Department's operating budget proposals. Further, the East Link system construction will not start until January 2018 so he wondered why the three related projects can't be delayed for a couple years. Additionally, the executive summary description for items 140.02NA, 140.03NA, and 140.04NA state that the projects implement Utilities' long-term strategy to maintain service levels at the lowest life cycle cost. He said it would be helpful if the Utilities Department could provide copies of the life cycle cost analysis to affirm this assertion. If not, he thinks that the verbiage on those pages should be deleted. Finally, he asked why there is no explanation in the budget proposals for how the cost for each proposed project will be recovered.

3. APPROVAL OF AGENDA

Motion made by Vice Chair Swenson, seconded by Commissioner Morin, to approve the agenda. Motion passed unanimously (7-0).

4. APPROVAL OF MINUTES

April 3, 2014 Regular Meeting Minutes

Motion made by Commissioner Howe, seconded by Commissioner Mach, to approve the minutes. Motion passed unanimously (7-0).

April 17, 2014 Regular Meeting Minutes

Motion made by Commissioner Morin, seconded by Vice Chair Swenson, to approve the minutes. Motion passed unanimously (7-0).

5. REPORTS AND SUMMARIES

- Conservation & Outreach Events & Volunteer Opportunity

Asst. Director Bucich reviewed these items.

- ESC Calendar/Council Calendar

Asst. Director Bucich reviewed the ESC Calendar noting that in July the meeting will include both the CIP tour and meeting. There will be one more special meeting in May to address the CIP. There will be a fairly busy calendar for June and then a recess in August. He pointed out that the Council Calendar contains a lot of motions to approve construction projects as the City enters its busy construction season.

6. NEW BUSINESS

- Water Cost of Service Study Results
Lucy Liu, Assistant Director – Resource Management & Customer Service
Angie Sanchez Virnoche, Principal - FCS Group
Chris Gonzalez, Project Manager - FCS Group

Asst. Director Liu stated that staff would be reviewing the Water Cost-of-Service Study findings with the Commission in order to seek their recommendation on application of these results on potential changes to the water rate design. She introduced Angie Sanchez Virnoche, Principal, & Chris Gonzalez, Project Manager, from FCS Group and reviewed the PowerPoint presentation entitled *City of Bellevue Water Cost-of-Service Analysis* which was distributed to the ESC.

The City recently hired FCS Group to conduct the study for the Water utility. The findings will be used to inform and continue the water rate redesign work initiated in 2012. Ms. Virnoche gave an overview of the rate study process to determine what portion of revenue requirement to recover from each customer class. She discussed potential Cost-of-Service (COS)

allocations and reviewed the methodology used to allocate costs to functions of service to allocate costs among customer classes.

She summarized that 85% of the costs are associated with capacity and commodity. The rest are minor in comparison and are associated with meter equivalents, meters and services, customer costs, and fire protection. Ms. Virnoche reviewed the summary of allocation metrics. The choice of allocation metric impacts how costs are allocated among classes. Chris Gonzalez explained how Meter Flow Equivalents (MFE) and Meter Service Equivalents (MSE) are calculated. Ms. Virnoche then discussed two COS alternatives (Option 1 and Option 2). Questions and answers about the methodology used were reviewed. Option 2 would maintain existing allocation to irrigation and partially offset a shift to commercial. The commercial and irrigation customer base largely overlap. It also retains conservation-oriented price signals.

Commissioner Morin asked why you wouldn't just apply the annual water usage measurement across the board. Ms. Virnoche replied they are trying to get to the most equitable way of allocating those costs. They want to be able to capture who is actually causing the costs.

Chair Helland asked what the basis of the four customer classes is. Ms. Virnoche explained that the City has had these four classes historically. The consultants considered combining multifamily and commercial customer classes because there were a lot of similarities, but discovered that there are significant differences. It was determined that keeping them separate for the time being is the best approach. Chair Helland suggested reconsideration of the different class groups.

Commissioner Wang expressed concerns about revenue stability with Option 2. Staff discussed the difference between the two options.

The consultant's recommendation is Option 2 which would result in a 2.5% decrease in cost allocated to single family. There would be a minimal change (0.3% increase) in cost allocated to multi family; 6.0% increase in cost allocated to commercial; and no change in cost allocated to irrigation. There would be a need to redesign rates to account for shifts in cost between customer classes. Ms. Virnoche solicited comments from the ESC regarding the recommended allocation methodology.

Chair Helland expressed interest in taking a closer look at the study before giving a recommendation. Commissioner Wang commented that they need to see the projected growth in each of the four categories before making a recommendation. Vice Chair Swenson thought that lowering the irrigation cost is sending the wrong message, he thinks Option 2 makes a lot of sense. Commissioner Mach commented that people have not been using more water

over the past few years. He is not sure that the approach to the costs of irrigation is the right approach. He thinks Option 1 makes more sense. Commissioner Wang reiterated that he didn't feel comfortable deciding on an option without more population data. Assistant Director Bucich commented that those numbers are going to change continuously over time, but a decision has to be made as we proceed. The recommendation is based on the current customer base. Ms. Virnoche concurred that this is a snapshot of the City's situation today. Commissioner Morin asked why it is important to continue sending a message of water conservation. Ms. Virnoche said there is a Water Efficiency Rule in state law in addition to the historical approach of the City of Bellevue. Assistant Director Bucich commented that the more we can have people make efficient use of the water that's available, the less we have to do as far as increasing the capacity of the City's system.

Commissioner Howe spoke in support of Option 2 to keep the irrigation rate where it's been and not to send a message of encouraging overuse of water resources. She asked if other jurisdictions separate their commercial class into different sizes of commercial uses. Ms. Virnoche replied that the most common designation is the commercial industrial designation. It's not as common to see different commercial categories. She spoke to the importance of looking at the customer statistics to see if there are natural points where there is some separation between a lot of customer classes. Commissioner Howe asked about the distinction between commercial and industry. Staff reviewed examples of each. Asst. Director Bucich summarized that the industrial components of Bellevue are diminishing as time goes on so the segregation between commercial and industry is becoming smaller.

Director Nav Otal commented that she looks at cost of service and rate design as two separate issues. She commented that the data is showing there is a multi-family characteristic and a commercial characteristic. The meter size will come into play and address the different sizes in commercial users and thereby provide the distinction between customers within this customer class. Staff has found that these four are the most typical customer classes for our customer makeup. She spoke in support of Option 2.

Commissioner Mach spoke in support of accurately reflecting the cost of service in the rates.

Assistant Director Liu commented that by and large the irrigation customers and commercial customers are the same customers, which is one reason why staff wouldn't recommend combining this with multi-family. Commissioner Cowan commented from an environmental standpoint it is good to send the message that this is a natural resource we don't want to waste as well as covering other costs including capacity, infrastructure, and electricity. Commissioner Wang pointed out that the irrigation comprises only 3% of meters, so he didn't see how it would have much of an impact. Asst. Director

Bucich pointed out that this class uses 31% of the water in the summer and 34% of peak usage so it has an impact on the flow going through pipes at this time of year. Commissioner Cowan added that typically people who irrigate also fertilize. This has an additional impact on the City's creeks.

Motion made by Commissioner Swenson, seconded by Commissioner Howe, to endorse Option 2 as presented. Motion passed (5-1-1) with Commissioner Mach voting against the motion and Commissioner Morin abstaining.

- Utilities Financial Policies
Nav Otal, Director – Utilities
Lucy Liu, Assistant Director – Resource Management & Customer Service
Martin Chaw, Fiscal Manager – Resource Management & Customer Service

Director Otal introduced the City's new Fiscal Manager, Martin Chaw. She then began a PowerPoint presentation entitled *Bellevue Utilities 2015-2016 Budget Proposals*. She reviewed budget challenges including wholesale costs, capital intensive utility, aging systems, and the regulatory environment. Guiding policies for the budget include the long range system planning and financial policies that the Council has adopted. The 2015-2016 Budget is a status quo budget. It includes continued cost containment, no restoration of operational cuts, no new FTEs for operations, local cost increases below inflation, and some housekeeping shifts. It fully funds wholesale cost increases. There is a request for additional staffing to support capital program. There is one new initiative for operational efficiency.

Commissioner Swenson asked if Utilities is working on some way to restore the Outreach Education position. Nav Otal replied that the cuts were made because the City is meeting and exceeding its conservation goals. Commissioner Cowan disagreed with that reasoning. Director Otal explained that there are some education events continuing at a comparable level, but they are being provided by Cascade. She commented that staff could bring back more information about the education and school programs provided by Cascade. She noted that the previous education position was a duplication of services because the City was already paying for that service.

Financial Policies:

Asst. Director Liu reviewed the Financial Policies portion of the presentation. The Utilities planning horizon looks at the 20-year system plans and the 75-year renewal and replacement plan. She reviewed the City's financial policies relating to rates, reserves, and capital investments. Ms. Liu summarized that as a result of foresight and actions taken by Council by putting the financial policies in place, Bellevue is in an enviable position. Not only are there adequate reserves to take care of operating contingencies,

but we are well positioned for future system infrastructure replacement with the Renewal and Replacement account.

Commissioner Wang asked why water reserves would be less than the storm reserves. Ms. Liu explained that the three systems are in different stages of replacement. There are a lot of unknowns related to the storm system replacement. Staff is in the process of assessing the condition of the system so they can make a better estimate about replacement. There was some discussion about the policy related to uniformity and unique circumstances such as the lake lines. Asst. Director Liu explained that financial policy directs Utilities to provide equal level of service to all customers of the same class within the uniform rate. It is likely that it will come down to a question of equal level of service. Commissioner Wang pointed out that there have been exceptions for special circumstances such as the Lakemont situation. Staff concurred. Commissioner Wang thought that by the same logic, the lake lines could be considered as special circumstances. Assistant Director Bucich noted that the City would be looking at several options for the lake lines.

- Utilities Budget Proposals
Lucy Liu, Assistant Director – Resource Management & Customer Service
Martin Chaw, Fiscal Manager – Resource Management & Customer Service

Mr. Chaw reviewed the Budget Proposals section of the presentation. He discussed the role of the ESC in the budget process and gave an overview of the proposal process. He then reviewed the ten CIP proposals which are consistent with the CIP update discussions and as contained in the PowerPoint presentation distributed at the meeting. Questions and answers followed.

Commissioner Morin asked about the timing of the proposed projects as related to Mr. Plummer's comments at the beginning of the meeting. Asst. Director Liu explained he had asked about delaying the Eastlink construction for a couple more years. Ms. Liu explained that utility infrastructure has to happen before the actual construction of Eastlink. Assistant Director Bucich commented that the City has had difficulty getting certain dates from Sound Transit of when they will actually be building certain components, but the City has to provide the money to them in accordance with the Agreement the City has with them. Director Otal commented that it was actually budgeted in the 2013-14 budget, but it is highly unlikely that the payment will happen in 2014. This is why it is being re-budgeted.

7. COMMISSIONS REPORT

Commissioner Mach brought up PSE major improvements. He feels that the ESC should get regular briefing and updates in order to help facilitate the rest of the

residents. This is something major happening to several cities, but he expressed concern that the ESC is not discussing it. Commissioner Wang commented that the issue is mainly the alignment of the line, not necessarily the utilities that the ESC represents. Director Nav Ota explained that Energize Eastside is about electricity, and it really doesn't have anything to do with Utilities' goals. Utilities' mission is water, wastewater, storm, and solid waste. The City is a customer like every other customer. The City's role is through the franchise agreement because it allows PSE to operate in Bellevue. The Council will be looking at this issue, and they have not delegated this responsibility to any other boards or commissions. She commented that staff could keep the ESC apprised as soon as they are aware of developments. Also, because this is a franchise agreement being facilitated mainly through Development Services, someone from that department could come give an update. Commissioner Morin suggested that commissioners could go to a Council meeting as individual citizens to comment. Commissioner Wang spoke to the value of keeping the Commission informed of the topic. Assistant Director Bucich commented that the PSE issue was a very big topic at the last Council meeting.

Chair Helland commented that at the joint commissions meeting for diversity they talked about what kind of programs Utilities has for people on fixed incomes. Assistant Director Bucich commented that there is a rebate program. Director Ota replied that there are two different programs. One is the Utility Tax Rebate which is funded by the General Fund. The second program provides a utility rate relief for low income seniors and disabled is sanctioned by state law. Depending on income, those qualified can get a 40% of 75% discount on their utilities bill. This comes from Utilities funds and costs about \$500,000 per year. Chair Helland wondered if any other accommodations could be made. Director Ota indicated staff would come back with more information on this.

8. DIRECTOR'S OFFICE REPORT

Director Ota thanked Commissioner Cowan for his service to the Environmental Services Commission and to the Council. She presented him with a Certificate of Appreciation from the City of Bellevue thanking him for his service.

Assistant Director Bucich gave an update on the new commissioner position and the Deputy Director position.

9. CONTINUED ORAL COMMUNICATIONS

None

10. ADJOURNMENT

The meeting was adjourned at 9:18 p.m.