

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

Thursday
July 17, 2014
7:00 p.m.

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

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

COMMISSIONERS ABSENT: Commissioners Morin and Mach

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

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

The meeting was called to order by Chair Helland at 7:00 p.m.

2. APPROVAL OF AGENDA

Motion made by Commissioner Swenson, seconded by Commissioner Pauley, to approve the agenda as presented. Motion passed unanimously (5-0).

3. ORAL COMMUNICATIONS

None

4. APPROVAL OF MINUTES

June 19, 2014 Regular Meeting Minutes

Chair Helland said he wasn't at the last meeting, but had a question about the minutes where the lakelines were referred to as a separate asset class. He asked for clarification on this at some point in the future. Assistant Director Bucich said he also wasn't at that meeting, but indicated he could look into the question.

Chair Helland then referred to the question about shared responsibility in the minutes on page 5 where it said that since Bellevue is built out, putting in cleanouts would mainly impact redevelopment and the pros and cons of that were discussed. He asked if there was any follow-up to that discussion. Asst. Director

Bucich commented that most of the development in the City is redevelopment so requiring a cleanout on new development would affect a very small percentage of total parcels in the City. When the City needs to go in and do repair work right up to the right-of-way line, a cleanout is installed. Commissioner Wang commented that new development doesn't require a cleanout at this time. He had recommended that in the future this be a requirement. Asst. Director Bucich agreed that this could be considered, but stated the real issue is finding opportunities to put in cleanouts for the benefit of both the City and the property owner.

Motion made by Vice Chair Swenson, seconded by Commissioner Wang, to approve the minutes as presented. Motion passed unanimously (5-0).

5. REPORTS AND SUMMARIES

- Conservation & Outreach Events & Volunteer Opportunity

Asst. Director Bucich reviewed these items.

- ESC Calendar/Council Calendar

There will be no ESC Meeting in August. There is a potential that staff may need to add a new item on the September agenda regarding the Open Public Meetings Act. Starting in October staff intends to begin discussions regarding the Strategic Initiative Plan for Stormwater.

Chair Helland referred to the Council calendar where all bids were rejected for the Yarrow Creek project. Asst. Director Bucich reviewed this item. He explained that the time of the year wasn't optimal for bidding and there wasn't any big rush. Additionally, some other factors relating to the design were raised. Staff expects to bring this back out to bid in January or February.

6. NEW BUSINESS

- Preliminary Financial Forecast
Nav Otal, Lucy Liu and Martin Chaw

Director Otal introduced a PowerPoint presentation distributed to the Commission regarding Bellevue Utilities 2015-2016 Proposed Budget Preliminary Forecast. She reviewed the context of the 2015-2016 Budget explaining that Utilities operates similar to a business so that the daily cost of running this business is rate-supported. Staff continues to seek efficiencies and process improvements to ensure value to the rate payer. Highlights of the Budget include: a lean proposed budget with minimal new programs; fully funded wholesale cost increases so local programs are not degraded; 6 new

FTEs to support CIP; and mobile workforce initiative to improve operational efficiency of field staff.

Commissioner Wang referred to the trend toward mobile meter reading. He thinks the planning aspect of this for Bellevue should begin as soon as possible. He thinks this would result in cost and time savings for the City as well as positively impact data collection. Director Otal explained that Automated Meter Reading is a significant investment at the \$15-17 M range. Staff will consider how this could be incorporated into the process in the future. Commissioner Pauley clarified that he thought Commissioner Wang was suggesting gradually beginning to accumulate those funds. Director Otal commented that the budget as proposed has gone to the Results Team for their process, but staff could insert this recommendation into the budget as a recommendation from the ESC for the future. She indicated that a high-level analysis of this subject could be done by the September meeting.

There are a number of challenges for the upcoming biennium which are faced by all utilities. The biggest challenge is that Utilities is a capital-intensive business and most of the infrastructure is aging. Each utility is in a different stage of system replacement. Water mains are being actively replaced starting with the small diameter AC (asbestos cement) mains. By 2018 the City will be replacing 5 miles of pipe every year. Wastewater is just beginning the replacement process. Storm and Surface Water is the most challenging utility because very little is known about the system. Storm and Surface Water is mainly in environmental preservation and regulatory compliance mode. The City has not begun replacement of this system.

Commissioner Pauley wondered if a lot of the unknown factors are related to private systems. Director Otal said she was referring to the public system where staff just doesn't know the condition of the system. In the CIP staff accelerated the condition assessment program of the Storm Water system. Chair Helland asked how the 6-year assessment timeframe was decided upon. Director Otal thought that it was a project management issue, but offered to have staff come back with an answer on this.

Director Otal continued to explain that operational efficiencies and regulatory environments are always important to staff. There are also financial constraints. The expenditures, which are largely fixed (wholesale and taxes/interfunds) represent 50% of the biennial budget with no flexibility in controlling those costs.

Asst. Director Lucy Liu explained that the proposed budget contains 5 key cost components. These include Wholesale costs; Taxes/Interfunds; Local Operations; Mobile Workforce Initiative to improve field operations; and Capital Related costs. Nearly 75% of the Utilities Department budget is used to pay for wholesale costs, taxes/interfunds and capital investments. The total

Utilities Department 2015-2016 Proposed Budget is \$292.6 M and contains 171.6 FTEs/LTEs. The recommended rates for the 2015-2016 biennium were reviewed. In all three funds, the rates are below the rates that were previously projected.

Commissioner Pauley noted that there is a jump in Sewer rates in 2015 and then it drops back down while the other utilities are more level. Assistant Director Liu explained that is because the County raises Sewer rates every other year. The County provides a forecast for four additional years past the increase. However, the actual increases can vary from the forecasts.

Asst. Director Liu discussed reasons for key differences between the Early Outlook and the Preliminary Forecast. In Water, the key reason for the difference between the forecasts is the change in the infrastructure replacement and renewal (R&R) strategy. While the adopted rates for 2013-2014 restored operating reserves, they were not adequate to meet the capital needs in those years. As a result, R&R reserves were used to subsidize the capital program needs for those years in order to moderate impacts to customers. However, that is not sustainable. Asst. Director Liu reviewed different approaches to restore the rates sufficient to a level to meet CIP needs. One option is a one-time increase, which is the approach taken in the Early Outlook. Another option is a more levelized approach which restores rates more gradually over a longer timeframe. This is the approach staff is recommending in order to moderate customer impacts.

Chair Helland asked if taking a longer time to increase rates would end up costing more. Asst. Director Liu replied that staff feels there is an adequate level of R&R reserves in this fund now so it doesn't need to be built a great deal, just maintained. The levelized approach would allow the City to do that.

In Sewer, the reason for the change in rates between the forecasts is primarily because the projected wholesale rates have been updated by the County. In Storm, the key reason for the difference is also a change in the R&R strategy. This is the utility that staff knows the least about, and systematic replacement of the infrastructure of this utility has not started yet. Consistent with the financial policy, Utilities has been accumulating R&R funds in order to have funding for future replacement and renewal needs. Staff is proposing to pull back a bit on rate increases for R&R funding for the time being and focus on condition assessment which will provide additional information to better inform the long-term R&R funding in Storm.

Director Otal clarified that there would still be money going into the R&R fund, just not as much. Chair Helland commented that the risk would be that the investigations would reveal that the systems are in bad shape and we need to accelerate our maintenance or replacement and then the reserves aren't sufficient. Director Otal replied that staff would know that within the CIP

window so there would be time to go back to the 7% rate increases if necessary. She stated that this recommendation was made in consultation with Engineering, Asset Management, and Finance staff. She explained that if Utilities kept going at the current rate there is a risk of over-collecting.

Commissioner Wang asked about the purpose of listing Early Outlook and the Preliminary Forecast. Director Otal explained that staff always tries to remind the Commission of what was discussed the last time. That is the only purpose of the Early Outlook. Commissioner Wang commented that it makes sense for the current biennium, but not for future years. Director Otal commented that the City actually does rate forecasts for 75 years out. Commissioner Wang expressed concerns about the process used for forecasting rates. Asst. Director Liu reiterated the change in approach that staff is recommending to funding the R&R. Chair Helland pointed out again leveling the rates as staff is proposing would actually end up costing ratepayers more over the long run. He doesn't think this is the best way to go, but he isn't opposed to it. Director Otal said she wouldn't advise leveling rates over a period longer than the current 7-year CIP window. She then explained to Commissioner Wang that the discrepancy between the two forecasts is really just for the sake of transparency.

Asst. Director Liu summarized the projected impact to a typical residential customer based on the total combined monthly bills for all three utility bills. The recommended total rate increase for all three utilities is 5.7% for a monthly increase \$8.14 in 2015 and a 4% increase for a monthly increase for \$6.06 in 2016.

Fiscal Manager Martin Chaw reviewed the major rate drivers for Water which include: wholesale cost increases from Cascade Water Alliance for water supply; capital costs (\$103.8M 2015-2016 CIP Program) for water main replacement, water pump station and reservoir repair/rehab and new water inlet station; and inflation. Mr. Chaw then discussed costs paid by the monthly utility bill for the Water utility as broken down into Operations, Personnel, Taxes/Interfunds; CIP/R&R; and Wholesale. 74% of the bill is comprised of Taxes/Interfunds, CIP/R&R, and Wholesale.

Mr. Chaw reviewed the major rate drivers for Sewer which include: King County wastewater treatment cost increases, capital costs for Sewer system pipeline major repairs, Bellefield pump station capacity improvements, Sewer pump station improvements, and Sewer system pipeline replacement; and inflation. Wholesale, CIP/R&R, and taxes/interfunds represent 83% of the total monthly bill.

The Major rate drivers for the Storm utility were reviewed and included: capital costs for Storm system conveyance repairs, replacement of NE 8th Street Culvert at Kelsey Creek, Stormwater pipeline video inspection, stream

restoration for MII (Mobility and Infrastructure Initiative), flood control program, and lower Coal Creek flood hazard reduction; and inflation costs related to Operations. Director Otal pointed out that although there is a 4.1% increase the monthly impact to the customer is only \$0.87. CIP/R&R and taxes/Interfunds represent 56% of the total monthly bill.

Mr. Chaw reviewed a slide comparing 2014 combined monthly bills with neighboring jurisdictions. Commissioner Wang referred to the residential bills and asked how Redmond and Issaquah had such a low rate. Mr. Chaw explained that Issaquah last raised rates about two years ago, so the comparison really represents rates from 2012; however, they plan on raising rates again next year. He wasn't sure about the details for Redmond and Renton. Director Otal commented that Issaquah and Renton both have their own water wells so those cities don't purchase as much water from Cascade Water Alliance. Asst. Director Liu added that Bellevue is unique in that it has an R&R fund which is a significant factor. Bellevue is actively replacing system infrastructure or funding future replacement, but very few other cities are.

Mr. Chaw summarized that approval of the recommended rate adjustments will enable the Utility to fully fund proposed capital and operating needs, comply with the City's financial policies, protect and preserve existing utility assets, and enable the Utility to remain in a strong financial position going forward.

The tentative budget schedule was then reviewed. In October the Commission will review the proposed Utility Budget. In November the ESC will again review the proposed Utility budget and there will be a Public Hearing on the proposed budget. November 6 is being proposed as an additional meeting in November. On November 20 staff will seek the Commission's budget and rate recommendations to the City Council and Council is scheduled to approve the budget in December. Asst. Director Liu asked for input on scheduling the additional November 6 meeting. Chair Helland suggested getting public input on October 16. Director Otal indicated staff would look at dates and other agenda items to see if that would work. There was consensus to add the November 6 meeting.

- Wholesale Policy Review
Lucy Liu and Martin Chaw

Asst. Director Liu introduced the King County Wastewater Treatment Charges and Wholesale Costs Financial Policy. Mr. Chaw reviewed the considerations related to anticipating rate increases from King County for wastewater treatment and charging customers in advance of County action. He discussed the 15-year history of adopted and forecasted Wastewater treatment rates as contained in the packet of the PowerPoint presentation distributed to

the ESC. To collect in advance, a portion of the following year's projected rates would need to be collected in the current year in anticipation that the projected rate would be equal to what is eventually adopted.

Chair Helland commented that on any particular given year it looks like the projected and adopted rates are anywhere from a few percent to almost 20% off. In total dollar terms it's about \$6-7 per month. He noted that there are other methods that could be used to smooth the rates such as collecting some minimal portion of what you think the rate increase will be. This could reduce the risk of overcollecting too much. He pointed out that in addition to smoothing the rates, the City would actually be saving money by collecting it earlier.

Mr. Chaw explained that on the pro side of levelizing the King County rate increase, the City has the ability to mitigate customer bill impacts to the rate payer. Cons are that rate levelizations would be based on preliminary or unknown data from King County; there would be a need to explain to customers why Utility is collecting in advance; the City would have to determine what to do if the County actual rate is different from anticipated; customers that move in or out of the service area may not pay their equitable share of wholesale costs; it would be contrary to Council-adopted financial policies; levelizing King County wastewater treatment charge is not done by any other city; and it would also require additional administrative tracking.

Chair Helland did not think this was actually contrary to Council policies because the policy doesn't specify how or when you increase rates. Passing through costs as we expect them to be is something that is done all the time throughout the City. Director Otal agreed that is done with the City's own costs, but external costs are only passed through once the amount is certain. Commissioner Pauley did not think you could ever have control over the equity issue because people are constantly moving in and out of an area. Director Otal stressed that the whole premise behind the system is the equitable costs aspect. Chair Helland stated that the uncertainties in the forecasts are not unusual and noted that there are regular changes in the projections such as how long something is expected to last or in policies.

Director Otal explained that the biggest challenge the administration sees is that you break the link between when something happens and when you pay for it. The benefit, on the other hand, is very small especially on the part of the customer. Staff's recommendation is to leave this policy as it is because it is consistent with the financial policy, it's easy for customers to understand the reason for the rate increase, customers are charged for their fair share of costs, and it ensures wholesale cost increases are fully recovered in rates each budget cycle.

Vice Chair Swenson concurred with staff's recommendation. Commissioner Pauley asked if the Utilities Department has the ability to do a special surcharge at any given point if regional costs are increased. Director Otal said the current policy allows the City to pass through any wholesale cost increases to the customer. Commissioner Wang summarized that the consensus appeared to be not to change policy. Chair Helland said he would be interested in knowing how much money the City could actually save by changing the policy. He thinks consumers would understand if they were made aware of the cost savings.

7. COMMISSIONS REPORT

None

9. DIRECTOR'S OFFICE REPORT

None

10. CONTINUED ORAL COMMUNICATIONS

None

11. ADJOURNMENT

Motion made by Commissioner Swenson, seconded by Commissioner Howe, to adjourn the meeting at 8:38 p.m. Motion passed unanimously (5-0).

The meeting was adjourned at 8:38 p.m.