

Agenda

ENVIRONMENTAL SERVICES COMMISSION MEETING

450 - 110th Avenue NE (City Hall)
 Conference Room 1E-113
 Thursday, May 15, 2014
 6:30PM Regular Meeting

	<u>Ppt.</u>	<u>Time</u>	<u>Page No.</u>	<u>Action</u>
1. Call to Order – Brad Helland, Chair				
2. Oral Communications Note: Three-minute limit per person, maximum of three persons for each side of topic. Additional comments may be heard at Agenda Item 9.				
3. Approval of Agenda *			1	X
4. Approval of Minutes * <ul style="list-style-type: none"> • April 3, 2014 Regular Meeting Minutes <i>Not approved @ last meeting</i> • April 17, 2014 Regular Meeting Minutes 			2-9 10-15	X X
5. Reports & Summaries <ul style="list-style-type: none"> • Conservation & Outreach Events & Volunteer Opportunity * • ESC Calendar/Council Calendar * 			16 17-20	
6. New Business <ul style="list-style-type: none"> • Water Cost of Service Study Results <i>Lucy Liu, Assistant Director-Resource Management & Customer Svc. Martin Chaw, Fiscal Mgr.-Resource Management & Customer Svc.</i> • Utilities Financial Policies <i>Lucy Liu, Assistant Director-Resource Management & Customer Svc. Martin Chaw, Fiscal Mgr.-Resource Management & Customer Svc.</i> • Utilities Budget Proposals <i>Lucy Liu, Assistant Director-Resource Management & Customer Svc. Martin Chaw, Fiscal Mgr.-Resource Management & Customer Svc.</i> 	Yes	75 Min	21	Yes
	Yes	30 Min	22-49	No
	Yes	45 Min	50-63	No
7. Commissions Report				
8. Director's Office Report				
9. Continued Oral Communications				
10. Adjournment				

* Materials included in packet
 # Materials separate from packet

Wheelchair accessible. American Sign Language (ASL) interpretation available upon request by calling (425) 452-6466 (v) at least 48 hours in advance. Assistance for the hearing-impaired: Dial 711.

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

Thursday
April 3, 2014
6:30 p.m.

Conference Room 1E-113
Bellevue City Hall
Bellevue, Washington

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

COMMISSIONERS ABSENT: Howe and Morin

- **OTHERS PRESENT:** Paul Bucich, Asst. Director, Engineering; Pam Maloney, Utility Water Resources Planning Manager; Dave Perry, Sr. Engineering Technician; Regan Sidie, Design Services Manager; Doug Lane, Water & Wastewater Systems Engineer; Scott Taylor, Construction Services Manager; Lucy Liu, Asst. Director, Resource Management & Customer Service

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

The meeting was called to order by Chair Helland at 6:33 p.m.

2. ORAL COMMUNICATIONS

David Plummer, 14414 NE 14th Place, Bellevue, WA, stated that the meeting notice and available background information for the public meeting tonight was entirely inadequate to permit citizens to review the proposed projects and make informed inputs to the Commission and City Council. He asserted that each project sheet should include a list of references and the name of one or more staff members that can be contacted with questions. He urged the ESC to defer any decision regarding the following projects since there is no rationale for them: D-64, D-94, D-81, D-86, D-104, D-105, S-16, S-24, S-52, S-60, S-59, and S-63. Additionally, Mr. Plummer stated that the Commission should request that staff investigate and report on the possibility of reducing Bellevue's water allocation from CWA. He stated that the City pays CWA for about 35% more water than is used each year. He asserted that some of what the City doesn't use is sold to other municipalities, but he doesn't think the City should be buying so much water from CWA when it is not needed. Lastly, Mr. Plummer stated that the Commission should request the staff to develop and publish projected impacts on utility rates for all these proposed projects so that the public can truly be engaged.

3. **APPROVAL OF AGENDA**

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

4. **APPROVAL OF MINUTES**

March 20, 2014 Regular Meeting Minutes

Commissioner Wang referred to the list of attendees on the first page of the minutes and noted that Lucy Liu's name should be included.

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

5. **REPORTS AND SUMMARIES**

- **ESC Calendar/Council Calendar**

Asst. Director Bucich referred to the tentative ESC calendar and stated that he will not be here for the April 17 meeting. Joe Harbour, Operations Manager for Utilities, will be facilitating that meeting. There will also be another special meeting on the budget on May 29.

In July there will be a CIP tour, but there is a need for either a meeting following the tour or a second meeting in July just for discussion. Another option would be to have the tour on a Saturday morning. After some discussion, there was consensus to have just one meeting on July 17 with the tour first and then the meeting afterwards.

6. **NEW BUSINESS**

- **Review Proposed Changes to Water CIP Investments**
Pam Maloney, Water Resources Planning Manager
Regan Sidie, Design Services Manager
Dave Perry, Senior Engineering Technician
Scott Taylor, Construction Services Manager
Doug Lane, Water and Wastewater Systems Engineer

Ms. Maloney stated she would review changes from last time and then review Water projects focusing on those projects where the ESC's input is most desired. Staff will be bringing back a summary of the financial implications for the proposed changes for each utility at the next meeting on April 17.

Chair Helland asked if this was the information Mr. Plummer was concerned about. Ms. Maloney stated that it was. Chair Helland asked which projects Mr. Plummer was referring to. Ms. Maloney stated that Mr. Plummer had listed most of the projects staff has been discussing with the ESC. Chair Helland commented that it was unfortunate that Mr. Plummer had left the meeting and was not present to hear this discussion. Commissioner Wang referred to Mr. Plummer's comments about the City buying too much water and said he thought this was a contract commitment. Asst. Director Bucich concurred. Chair Helland asked if Mr. Plummer's assertion that the water gets sold to someone else is accurate. Asst. Director Bucich stated that it is not. Commissioner Wang requested that someone provide a response to Mr. Plummer. Asst. Director Bucich said staff would work on getting a response to him.

D-New Stormwater Pipeline Video Inspection Enhancement – This sheet will replace the one from last time. It states that the City will video inspect 100 miles of critical pipe over a five-year period rather than 50 miles over three years. The information is needed to determine how much money will be needed in the R&R account for replacement of the stormwater system. Staff will recommend reducing contributions to the R&R fund for the duration of this inspection program to offset it. Chair Helland expressed concern that slowing contributions to the R&R might put the City in a pinch in the future. Ms. Maloney replied that staff is planning to assess the situation after two years. Mr. Bucich said he feels this investment will give staff the right amount of information to determine how much should be put away for system replacement. He commented that the City could continue to put in what they are now and raise the rates or take a temporary break from contributions. The Commission generally agreed with the need for the program.

D-64 Storm Water System Conveyance Infrastructure Rehabilitation - Staff is proposing increasing the current budget by 5% per year to repair the anticipated increase in number of found defects in pipes (as opposed to 10% proposed last time). Ms. Maloney explained that this seems more dependable to the ratepayers until we have more data. Chair Helland asked how the budget for the out years affects current years' rates. Ms. Maloney explained that staff tries to keep the rates as smooth as possible. There was general agreement with the proposed change.

WATER

W-NEW Increase Water Pressure in Crossroads Area (Create 560 Water Pressure Zone) - Staff is recommending not including this in the proposed 2015-21 CIP. The water pressures in that area meet all regulatory requirements even though they are marginal (below 40 psi). In 2012 the City had a consultant analyze what could be done to improve the situation, which is a consequence of the elevation of storage tanks built long ago. It is not

possible to raise the pressure of the whole zone because some customers would become too high. In order to create a higher pressure zone the City would need to add new pumps and valves which would cost over \$15 million. Staff feels that the cost and the benefits need to be better fleshed out before any recommendation to move this forward.

Chair Helland asked about the level of dissatisfaction of the public. Ms. Maloney said that the Council and staff receive a few calls every year.

Commissioner Wang asked about the impacts on another project relating to the East Operating Area. Ms. Maloney commented on the difference between pressure and flow. The people in Crossroads have a lot of water and storage; it's just not at a very high pressure. This project would not materially impact W-103.

Mr. Bucich explained that if the ESC concurred with the recommendation not to pursue this project at this time, staff would have two years to continue the conversation about the results of the water system plan outcome and the new modeling. He pointed out that this project can't really be phased once the construction begins.

Ms. Maloney distributed information from a consultant study that illustrated existing pressures. Another map showed improvements that would be required to improve the pressure for the area of concern. Ms. Maloney added that a lot of the houses in that area have older galvanized plumbing. There is some risk associated with increasing the pressure with older pipes. She commented that homes that have updated their plumbing have found that they can flow more water and the situation is improved, even at 30-40 psi pressure.

There was consensus to not include this in the recommended capital projects.

W-82 Fire Hydrant Standardization - Staff is recommending accelerating the program schedule and completing the 22 remaining hydrants more quickly. The ESC concurred with the recommendation.

Ms. Maloney then summarized the ESC's recommendations for each utility.

SEWER

Ms. Maloney stated that at the last meeting the ESC agreed with staff to accelerate the pump station rehabilitation program to two stations a year beginning in 2017, discontinue the sewer extensions program, adjust the minor CIP sewer program budget to accommodate investigating the sewer extensions, add a new program to investigate inflow and infiltration and do flow monitoring in areas where there are capacity concerns, add a new program to assess the condition of pressurized sewer force mains throughout

the systems and work the replacement of those into the long-term replacement program, and focus on Lake Washington for the inline lake line sewer replacement program.

Commissioner Wang cautioned against stating that the City could eliminate any future I&I problems in such a general, conclusive way because the City can't guarantee that there will be no more I&I. Ms. Maloney concurred.

STORMWATER:

The Commission agreed to video-inspect the most critical quarter of the stormwater system over the next few years, to begin to ramp up the stormwater repair program beginning in 2017, and to reduce Bellevue's contributions to flood control program because of increased contributions from King County Flood Zone District.

WATER

The ESC agreed to continue to study the merits of the 560 water pressure zone, but not propose it at this time as a capital project. The Commission also agreed to compress the schedule to complete the replacement of non-standard hydrants into a shorter period of time to get it done.

- **Open Public Meeting on CIP**
Paul Bucich, P.E., Assistant Director, Engineering

Chair Helland called to order the public meeting at 7:33 p.m. He noted that all the Commissioners were in attendance except Commissioners Howe and Morin. He reviewed the purpose of the public meeting and solicited public comments. Seeing none, the public meeting was closed at 7:35 p.m.

- **2013 Year-End Fiscal Reports for Water, Sewer, and Storm and Surface Water Utilities**
Lucy Liu, Assistant Director Resource Management and Customer Service

Asst. Director Liu reported that all three utilities finished the year in good fiscal condition with higher than anticipated fund balances. The reasons for this are cost containment measures and unanticipated net revenues. Also, Council adopted financial policies direct utilities to maintain operating reserves to ensure uninterrupted services through revenue fluctuations. According to these financial policies, one-time revenues and fund balances above budget are to be transferred into the R&R accounts until such time that those accounts are sufficient to meet long-term infrastructure needs. Only then can fund balances above budget levels be used for rate relief. Asst. Director Liu then reviewed the financial performance for each fund highlighting the key areas where the actual results vary from the budget.

Water Utility: Both revenues and expenditures came in higher than budgeted. The revenues above budget (are largely due to higher than anticipated water sales) resulting from the warm, dry summer in 2013. Cost savings is also a key driver. Operating reserves for the Water Fund were projected to be below target levels. The ending fund balance above budget will be used to restore operating reserves back to target levels in the Water fund.

Sewer Utility: Revenues and expenditures both came in higher than budgeted, but to a much lesser degree than Water. The ending fund balance was slightly higher than budgeted. Key variances between budget and actual results were primarily from higher service revenues and operating costs savings. The expenditures for sewage treatment costs were also higher than anticipated.

Storm & Surface Water Utility: Both revenues and expenditures ended 2013 above budget. The bulk of the ending fund balance above budget was transferred to the Renewal and Replacement (R&R) fund for future infrastructure needs. Key variances from the budget included costs savings from, operations and legal settlement proceeds. A one-time recovery transfer of R&R was made in the amount of \$1.4 million.

Commissioner Wang requested that next time a beginning fund balance be added to the presentation next time.

- Utilities 2015-2020 Early Outlook Forecast
Lucy Liu, Assistant Director, Resource Management and Customer Service

Asst. Director Liu explained that Utilities functions are primarily funded by rates. The forecast for the three pipe utilities includes funding for operations, capital programs, and asset replacement. The Early Outlook Forecast is based on a status quo budget (assuming no new programs or changes to existing programs). In developing the budget, the goal is to find the optimal mix of programs and service levels to continue quality, reliable service delivery now and into the future. Utilities will continue to seek opportunities to explore efficiencies and process improvements, and to adjust programs and service levels where appropriate.

Ms. Liu presented projected rate increases for the six-year forecast period for each utility. She explained that the total monthly utility bill for all three utility services for a typical single-family residential customer is expected to increase by 8.1% or \$11.67 in 2015 (5.7% in 2016; 4.9% in 2017; 4.9% in 2018; 4.7% in 2019; and 4.7% in 2020).

Chair Helland asked if Metro is moving to an annual adjustment on the sewer wholesale rates. Ms. Liu explained that staff is anticipating that it will remain a biennial charge in 2015 for 2015-2016. For the forecast, an annual increase is assumed for 2017-2020. She explained that the financial policies direct

staff to pass charges directly to customers in the year that the expenses occur. Chair Helland thought there might be a better way to handle this in order to smooth the rate increases. Asst. Director Liu added that adding this to the rates in the year it occurs also helps customers understand why costs are going up.

Commissioner Wang asked about including the current budget in the graphic so one can see how much rates have already increased. Ms. Liu thought that was a good idea. She reviewed increases in 2014.

Commissioner Mach asked if the City adjusts the projected rate increase based on the previous year's performance. Ms. Liu said that the City does that. For example in Water the 2013 fund balance above budget was used to restore operating reserve levels. This is in the Early Outlook Forecast. Asst. Director Bucich commented that if the operating reserves were at the target level and the R&R fund was at the target level, any extra funds could be used to bring down rate increases. Asst. Director Liu then reviewed the forecast for 2015 by expense category.

Water: Major rate drivers were reviewed. Ms. Liu explained that in 2013-14 R&R reserves were used to help mitigate the rate impacts to customers. The rate increases projected for the capital program would restore rate revenues to levels that are sufficient to meet the capital needs. Chair Helland noted that the Commission had raised concerns that the City would have to pay more later to make up those reserves. He said he would like to see how much more we are paying now because of Council's decision to reduce utility rate increases at that time.

Commissioner Wang asked about going back a couple years and listing them side-by-side to compare. Ms. Liu indicated she would keep that in mind for next time.

Chair Helland clarified that he wants to know what the cost is (including lost interest and inflation) of reducing rates previously using the R&R funds and now restoring those R&R funds.

Sewer: Major rate drivers were reviewed. The City doesn't have rates from King County for sewage treatment yet. Once those are received, the forecast will be updated.

Chair Helland requested that the ESC have a discussion about policies related to increasing rates related to wholesales costs. He suggested that on off years rates should be gradually increased in advance based on anticipated wholesale costs to smooth the rate increases. Ms. Liu noted that this would require a policy change. There was consensus to bring this back for discussion.

Storm: Major rate drivers were reviewed. The capital program including R&R is a key rate driver.

Ms. Liu explained that the new forecast she will share on May 29 will be based on proposed operating and CIP budget proposals.

Chair Helland asked that Mr. Plummer's comments be sent to the ESC. Mr. Bucich indicated staff could do that. He commented that it was a shame that Mr. Plummer couldn't come to the previous meeting where there was so much detail given, and that he didn't stay to hear the discussion about this.

Chair Helland thanked staff for putting together all the materials for the public meeting and open house tonight.

7. COMMISSIONS REPORT OUT

Chair Helland said he wasn't able to go to the Downtown Livability Meeting last month due to family responsibilities.

8. DIRECTOR'S OFFICE REPORT

Asst. Director Bucich commented that there will be a vacancy on the Commission as Commission Cowan's term is ending. The application period ends April 14.

9. CONTINUED ORAL COMMUNICATIONS

10. ADJOURNMENT

The meeting was adjourned at 8:33 p.m.

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

Thursday
April 17, 2014
6:30 p.m.

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

COMMISSIONERS PRESENT: Chair Helland, Vice Chair Swenson,¹ Commissioners Cowan, Howe, Mach, Morin, Wang

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Asst. Director Operations and Maintenance, Joe Harbour; Utility Water Resources Planning Manager Pam Maloney; Sr. Engineering Technician Dave Perry; Councilmember Jennifer Robertson, Land Use Director Carol Helland.

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

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

2. ORAL COMMUNICATIONS

None

3. APPROVAL OF AGENDA

Commissioner Wang referred to item 7 on the agenda outline and recommended changing "Commissioners Report Out" to "Commissioners Report."

Operations Manager Joe Harbour commented that staff would be postponing the Wastewater Claims discussion, mostly likely until June.

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

4. APPROVAL OF MINUTES

April 3, 2014 Regular Meeting Minutes

There was consensus to postpone approval of the minutes to allow time for the Commissioners to review.

¹ Chair Helland arrived 6:35 p.m.

Motion made by Commissioner Wang, seconded by Commissioner Howe, to postpone approval of the minutes until the next meeting to allow time for review. Motion passed unanimously (6-0).

5. REPORTS AND SUMMARIES

- Conservation & Outreach Events & Volunteer Opportunity

Mr. Harbour reviewed the calendar as contained in the packet.

- ESC Calendar/Council Calendar

Mr. Harbour reviewed the ESC calendar as contained in the packet. He noted that the postponed Wastewater Claims Discussion item from tonight's agenda would be rescheduled, but the date is still to be determined.

The Tentative Council calendar was reviewed.

6. NEW BUSINESS

- Shoreline Master Program Update
Carol Helland, Land Use Director

Land Use Director C. Helland provided an update of the completion plan that the Council has endorsed for updating and review of the Shoreline Master Program. The ESC had expressed concerns which were attached to the Planning Commission's transmittal to the City Council. The Council is aware of those concerns and will focus on the areas of the Shoreline Master Program that received the most comment and which were of the most importance to the Planning Commission. Those items are listed on page 17 of the ESC's packet. Director Helland reviewed the process for completion of the Shoreline Master Program (SMP) Update as contained in the packet. She noted that issues expressed by the ESC related predominantly to Phantom Lake. There is not a lot of specificity about Phantom Lake lake levels included in the Shoreline Master Program. There was a recommendation by the Planning Commission to have the Council look into it further, but it is her understanding that the Utilities Department is working with the Phantom Lake homeowners, and this is independent of the SMP. Other issues of concern to the ESC related to shoreline setbacks and buffers, critical areas, and floodplains. She emphasized that the City Council is aware of those comments from the ESC.

Commissioner Wang informed Councilmember Robertson of the ESC's position related to the setback and their support of the 50-foot setback. This would permit Utilities to construct pipelines and pumping stations.

Land Use Director C. Helland noted that the first set of issues the Council will be addressing will relate to public access, lake levels, and non-conforming issues. The ESC's comments will be discussed at the end of May and in June. There will be an opportunity for the ESC to submit further comments.

Chair Brad Helland asked when the Cumulative Impact Analysis would be available. Land Use Director C. Helland said it was still being internally reviewed through the legal department right now, but she briefed Kit Paulsen today. Chair Brad Helland then asked about Ecology's informal review. Land Use Director C. Helland said that Council directed staff not to negotiate with Ecology, but in light of the informal review and staff's review of those comments it was clear that Ecology had some misunderstandings about some of the provisions of Bellevue's codes. This is mainly related to the fact that staff didn't draft the code for the benefit of Ecology; instead, it was drafted in a form that would be usable for city clients into the future. Staff had two meetings with Ecology to clarify, discuss, and narrow comments. Ecology also reserved judgment on some of the parts of the plan. Staff will continue to work with Ecology throughout the process. It is important to understand what the Council will do with regard to balancing its choices on policy issues. Following Council's decision there will be a period of negotiation with Ecology.

Commissioner Morin referred to the Process for Completion and asked if there is a chance that the Council will address more than three topics at the May 12 meeting. Land Use Director C. Helland replied that for the first meeting on May 12 the Council would only address the first three items.

Vice Chair Swenson referred to the setback issue and asked if there is a conflict on the boards or staff on that particular issue. The ESC's position is that the 50-foot setback should be maintained. Land Use Director C. Helland said there is no issue with the commissions, but the different groups come at the issue from different perspectives. The Planning Commission understood those perspectives, but was balancing them with property rights and zoning perspectives. The Planning Commission is ultimately the body that will make the recommendations to the City Council regarding Land Use codes; however, the ESC's concerns were included via the attached letter.

Commissioner Wang asked if someone had protested the 50-foot setback. Land Use Director C. Helland explained that in 1974 when the Shoreline Master Program was originally adopted, the setback was 25 feet. In 2006, through the Critical Areas Code, that was converted to a 25 foot buffer and a 25 foot structure setback. It was still capable of being reduced to 25 feet if the circumstances on the lot warranted that development needed to occur in that area to give people full use of their property. The Planning Commission revisited the change in the Critical Areas Code adopted by Council in 2006. Land Use Director C. Helland emphasized that the purpose of the Shoreline Master Program is not to protect the City's easements. The purpose of the Shoreline Master Program is to protect shoreline functions and values while

also allowing recreation and appropriate use of the shoreline. Commissioner Wang thought recreation would not be a problem, but a permanent structure over the 25 feet could be a problem for any future pipeline. Land Use Director C. Helland concurred. She reiterated that the Council has the information provided by the ESC and will balance the fiscal, environmental, and property rights implications and ultimately determine if the Planning Commission struck that balance in the right place. Asst. Director Harbour added that wherever the lakeline ends up, it will not be easy. Land Use Director C. Helland concurred.

Commissioner Morin asked about the potential for an increase in the tax revenue base if people were to build on that space. Director Helland was not sure, but noted that if property values go up because of property improvements the taxes would also go up. Councilmember Robertson commented that if the line of the buffer goes back and reduces the buildability of people's lots, property owners could seek redress from the assessor's office because of the reduced value of the property.

Vice Chair Swenson expressed concern about how what happens on the shoreline affects all the rest of the community, especially with respect to Utilities funding. He spoke to the importance of protecting the overall interests in the community irrespective of the so-called property rights and tax base.

Land Use Director C. Helland summarized that Utilities staff will be tracking this issue as it goes through the Council and will keep the ESC informed. She commented that staff will be identifying issues that the ESC had previously and formulating a message for the ESC to consider sending forward. Chair Brad Helland asked for details about the Cumulative Impacts Analysis (CIA). Land Use Director C. Helland said the goal is to have it publicly released by the end of next week. Chair Brad Helland requested an electronic copy of that when it is ready. Land Use Director C. Helland indicated it would be forwarded to the ESC when it goes out publicly.

Commissioner Mach asked how the Council would take action on the items listed on page 17. Land Use Director C. Helland commented Council will provide direction to staff if they wish any changes made, but at meeting #7 the Council will adopt the final package.

- CIP Update: Present Preliminary CIP & Request Endorsement
Pam Maloney, P.E. Water Resources Planning Manager
Dave Perry, Sr. Engineering Technician

Ms. Maloney commented that there were changes to three of the items that were talked about before. Project W-103 is to add drinking water storage for the west side of Bellevue for the population employment growth that is projected. New storage won't be needed within this CIP window so construction has been deferred beyond this CIP window. S-60, the

Wilburton Sewer Capacity Upgrade Project, will not need to bore under the freeway because it appears that the pipeline that is there now was constructed with a casing around it that is big enough to accommodate new pipe. This results in about a \$1 million savings to the project. D-94, Flood Control Program, had an incorrect number shown for the carry forward money left at the end of 2014. It was corrected from \$600,000 to \$1.3 million. Chair Helland asked if the reduction of the \$1 million on S-60 was all off the first year. Ms. Maloney explained that the amount shown previously in 2015 was \$1 million higher.

Ms. Maloney went on to discuss the CIP Inflation Indices. She reviewed what had been considered and what is proposed. The proposed numbers use 3% in 2015, 2.7% in 2016, and 2% in years after that. Chair Helland asked where the other numbers (from the budget manual and WSDOT) came from. Ms. Maloney explained that the WSDOT data are for Washington projects. They have escalation factors going forward over decades. The City's budget office also analyzes other cost indices, but the City looks at it more broadly because they are providing budget guidance for fire, transportation, parks, etc. Ms. Maloney's recommendation is more relevant to Utility construction.

Vice Chair Swenson asked what numbers were used several years ago. Ms. Maloney explained that there was a period of really intense escalation for a while and the City had trouble catching up so they escalated costs sharply several years ago. Almost immediately after that happened, the economy stagnated and Utilities ended up adjusting numbers downward by 8% going forward. She explained that this is revisited every two years with the budget update, so it can be adjusted if necessary.

Next, Ms. Maloney reviewed the Proposed 2015-21 Utility CIP Rate and Staff Implications. If the proposals in this CIP are fully adopted it appears that the numbers are aligned with the early outlook forecast as presented at an earlier meeting by Lucy Liu, Assistant Director for RMCS. Another aspect to consider is that staff believes in order to fully implement the CIP as proposed Utilities will need two additional FTE Sr. Engineers and one LTE Sr. Engineering Tech. An additional Senior Inspector will also be needed in each year of 2015, 2016, and 2017 for the growth of the CIP. The numbers proposed to the ESC include the dollars that would be required to pay for the staffing costs.

Motion made to support the direction proposed by staff for the Utilities 2015-21 CIP, subject to further review with the rest of the budget, by Commissioner Morin, seconded by Vice Chair Swenson, to support the proposal.

Commissioner Wang commented it would be better to wait to approve this until they are further along in the process. He felt it was too early to take action on this.

Motion carried 5-0 with Councilmember Wang abstaining.

- Wastewater Claims Discussion (postponed)

7. COMMISSIONERS REPORT

Chair Helland reported that the Downtown Livability Committee met last night and had interesting discussions about amenities. Vice Chair Swenson asked if the committee has been focusing on discussions about the entryway corridors into downtown. He stated that those corridors are less than attractive, unsafe, and not functional. Chair Helland replied that it has been discussed generally, but not specifically. He encouraged Vice Chair Swenson to attend the meetings and provide public comment on that topic.

Commissioner Wang asked what was happening with the Bellevue College Vehicle Leak Check item which was on the previous calendar but not on this one. Asst. Director Harbour stated staff would get that information to the ESC.

8. DIRECTOR'S OFFICE REPORT

Asst. Director Harbour commented that the budget development and proposal writing efforts are in full swing. Proposals are due to the Results Teams on April 28. Staff is working diligently to get those prepared.

9. CONTINUED ORAL COMMUNICATIONS

None

10. ADJOURNMENT

The meeting was adjourned at 7:36 p.m.

Utilities' Communications & Environmental Outreach Team Events and Volunteer Opportunities

June

1. Waterwise Garden Volunteer Work Party

Location: Bellevue Botanical Garden

Date: June 4th & 18th, 1 pm to 3 pm

Staff: Patricia Burgess, x4127, pburgess@bellevuewa.gov

Karren Gratt, x6166, kgratt@bellevuewa.gov

July

1. Waterwise Garden Volunteer Work Party

Location: Bellevue Botanical Garden

Date: July 2nd & 16th, 1 pm to 3 pm

Staff: Patricia Burgess, x4127, pburgess@bellevuewa.gov

Karren Gratt, x6166, kgratt@bellevuewa.gov

2. Bellevue Family 4th

Location: Bellevue Downtown Park

Date: July 4th 2:00 pm - fireworks

Staff: Karren Gratt, x6166, kgratt@bellevuewa.gov



04/2014

2014

Tentative Environmental Services Commission Calendar

May 14						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

May

- 15** Utilities Budget Proposals (Lucy Liu/Martin Chaw)
 Utilities Financial Policies (Lucy Liu/Martin Chaw)
 Water Cost of Service Study Results (Lucy Liu/Martin Chaw)

November

- 20** Public Hearing on proposed Utilities Budget (Lucy Liu)
 Water System Plan: Plan Findings & Recommendations (Doug Lane)

November 14						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

June 14						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

- 29** Utilities Budget Proposals (Lucy Liu/Martin Chaw)

June

- 19** Asset Mgmt. Annual Update (Bill Heubach)
 Utilities Budget Proposal Recommendation (Lucy Liu/Martin Chaw)
 Wastewater Claims (Joe Harbour/Tony Marcum)
 Water System Plan: Introduce Project & Review system analysis criteria & methods (Doug Lane)

December

- 18** Water System Plan: Deliver Draft Plan (Doug Lane)

December 14						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

July 14						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

July

- 17** CIP Tour focused on proposed investments (Scott Taylor/Regan Sidie/Pam Maloney)
 Preliminary Financial Forecast (Lucy Liu/Martin Chaw)
 Water System Plan: Policy Review Started (Doug Lane)

January 15						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

August 14						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

August

- 21** Recess

February 15						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

September

- 18** Comprehensive Plan Update Status Briefing (Pam Maloney)
 Water Reate Design (Lucy Liu/Martin Chaw)
 Water System Plan: Policy Review Continued (Doug Lane)

March 15						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

September 14						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

October

- 16** Review Proposed Utilities Budget (Lucy Liu/Martin Chaw)
 Water System Plan: Results of system analysis (Doug Lane)

April 15						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

October 14						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

2014 Pending – ESC:

Status Reports on the following issue will be made when there are significant development:

- Shoreline Mgmt. Plan (Paul)
- Stormwater 101 (Paul)

Katie/2014 Calendars/Pending ESC Calendar

Updated 5/6/14

2014

Tentative Council Calendar

May 14						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

June 14						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

July 14						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

August 14						
S	M	T	W	T	F	S
				1	2	
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

September 14						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

October 14						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

May

- 19** Consent: Motion to Award Transportation/Utilities asphalt contract (Joe)
- Consent: Motion to Award Construction of Commercial Water Meter Replacement 2014 Phase 1 (Paul/Regan)
- Consent: Motion to Award Construction of E. Creek/Richards Creek Stream Restoration (Paul)

June

- 2** Consent: Motion to Award Construction of 147th Lane Sewer (Paul/Regan)
- Consent: Res Auth Execution of PSA to Natural Systems for Newport Creek Fish Passage Final Design (Paul/Regan)

November 14						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

December 14						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

January 15						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

February 15						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

March 15						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

April 15						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

Key:

Agenda item description – **Consent:** Waste Reduction & Recycling Grant

Assistant Director's Name or designated staff that will

be available to attend Mayor's meeting

Staff Name – material content expert

2014 Pending Council

Bellevue/Redmond Consolidation of Sewer Agreements

Prof Svcs Agrmt Wagner Architects for Eastgate Yard Maintenance (Regan)

Katie/2014 Calendars/Pending Council Calendar

Updated 3/12/14



MEMORANDUM

Action
 Discussion
 Information

Date: May 7, 2014

To: Environmental Services Commission

From: Nav Ota, Utilities Director
Lucy Liu, Assistant Utilities Director – Resource Management and Customer Service
Martin Chaw, Fiscal Manager – Resource Management and Customer Service

Re: Water Cost of Services Analysis and Results

Action Required

Commission to provide direction as to potential water utility rate structure changes.

Background

The City has a policy of recovering rates equitably across customer classes based on how each customer class contributes to the overall cost of providing utility service. It is prudent to conduct a cost-of-service rate study periodically to determine if the utility rate structure reflects changing customer demographics. The last water cost-of-service rate study was conducted in 2005.

The City has hired FCS Group, a utility rate consultant, to conduct a water cost-of-service rate study. On May 15, staff will review with the Commission the water utility cost-of-service findings by FCS Group (handouts will be available at the meeting). The purpose of this study is to determine what portion of the water utility's revenue requirement should be recovered from each customer class. The City will be using this information to inform any needed changes to its water rate design. FCS Group will review the results of the study and next steps.



MEMORANDUM

- Action
 Discussion
 Information

Date: May 7, 2014

To: Environmental Services Commission

From: Nav Ota, Utilities Director
Lucy Liu, Assistant Utilities Director – Resource Management and Customer Service
Martin Chaw, Fiscal Manager – Resource Management and Customer Service

Re: 2015-2016 Utilities Biennial Budget Proposals

Action Required

No action by the Commission is required at this time. This is an informational briefing.

Background

On May 15, staff will review with the Commission the following items:

- Waterworks Utility Financial Policies, and
- Utilities 2015-2021 CIP budget proposals and three (3) associated 2015-2016 operating budget proposals.

Attached you will find materials for your review in preparation for these discussion items.

Next Steps

- On May 29, staff plans to review with the Commission the remaining 37 operating budget proposals for the 2015-2016 biennium.
- On June 19, staff will seek the Commission's final comments on and recommendation of the 2015-2016 Utilities capital and operating budget proposals to the City's Budget Results Teams.

Waterworks Utility Financial Policies

Full adoption in December 2012, with revisions in December 2013

TABLE OF CONTENTS

INTRODUCTION	G-3
I. GENERAL POLICIES	G-3
A. Fiscal Stewardship	G-3
B. Self-sufficient Funding	G-4
C. Utility System Planning Policies	G-4
II. CAPITAL INVESTMENT PROGRAM POLICIES	G-7
A. General Scope	G-7
B. Funding Levels	G-10
C. Use of Debt	G-11
D. Capital Facilities Renewal & Replacement (R&R) Account	G-14
III. SYSTEM EXPANSION AND CONNECTION POLICIES	G-15
A. Responsibilities	G-15
B. Cost Recovery	G-15
C. Use of Revenues	G-16
D. Affordable Housing Consideration	G-16
IV. RATE POLICIES	G-17
A. Rate Levels	G-17
B. Debt Coverage Requirements	G-18
C. Frequency of Rate Increases	G-18
D. Rate Structure - Sewer	G-18
E. Rate Structure - Storm & Surface Water	G-19
F. Rate Structures - Water	G-19
G. Rate Equity	G-20
H. Rate Uniformity	G-21
I. Rate Assistance	G-21
V. OPERATING RESERVE POLICIES	G-22
A. Operating Reserve Levels	G-22
B. Management of Operating Reserves	G-25
C. Asset Replacement Reserves	G-27

INTRODUCTION

The Waterworks Utility is the financial consolidation of the Sewer, Storm & Surface Water and Water Utilities of the City of Bellevue for debt rating and coverage purposes as established in Ordinance No.'s 2169, 2845, 3158 and 4568. It pledges the strengths and revenues of the three separate Utilities for the common financial good while keeping each Utility financially separate for budgeting, rate-setting, revenues, expenditures, debt and accounting.

These "Financial Policies" apply uniformly to the Sewer, Storm & Surface Water and Water Utilities with few, unique exceptions which are identified separately. This update reflects changes consistent with current long-range financial planning, particularly with regard to renewal and replacement funding, the use of debt and rate policies. They supersede the Financial Policies, which were adopted under Resolution No. 5967 in 1995.

These policies do not stand-alone. They must be taken in context with the other major City and Utilities documents and processes. For instance, each Utility has its own System Plan, which documents its unique objectives, planning, operations and capital needs. These System Plans have historically had a 20-year planning horizon. Future System Plans will need to evaluate long term renewal and replacement of aging facilities, much of which were constructed in the 1950's and 1960's during periods of high growth rates and are approaching the end of their useful life. Life cycle costs should be considered in planning the future capital facilities and infrastructure needs.

The City has a seven-year City-wide Capital Investment Program (CIP) Plan which is updated with each biennial budget cycle. All major City capital projects are included. Generally, they are described as over \$25,000; involving new physical construction, reconstruction or replacement; and involving City funding. The CIP identifies the level and source of funding for each project. The CIP includes specific sections for each Utility which identify near-term capital projects consistent with each current Utility System Plan and several projects of general scope including renewal and rehabilitation, capital upgrades, response to growth and other system needs.

I. GENERAL POLICIES

A. *Fiscal Stewardship*

The Waterworks Utility funds and resources shall be managed in a professional manner in accordance with applicable laws, standards, City financial practices and these Financial Policies.

Discussion:

It is incumbent on Utility management to provide professional fiscal management of utility funds and resources. This requires thorough knowledge of and conformance with the City financial management processes and systems as well as applicable laws and standards. It also requires on-going monitoring of revenues and expenses in order to make decisions and report to City officials, as needed, regarding the status of Utilities financing. Independent financial review, analysis and recommendations should be undertaken as needed.

B. Self-sufficient Funding

Each Utility shall remain a self-supporting enterprise fund.

Discussion:

The revenues to each Utility primarily come from customer charges dependent on established rates. State law requires that utility funds be used only for utility purposes. Since each Utility has somewhat differing service areas, it is essential for ratepayer equity that they be kept financially separate and accountable. The City's General Fund can legally contribute to the Utility funds but does not. The City budgeting process includes a balanced and controlled biennial Utility budget. This requires careful preparation of expense and revenue projections that will be reviewed by City management, the Environmental Services Commission, the general public and the City Council prior to approval of any change in Utility rates.

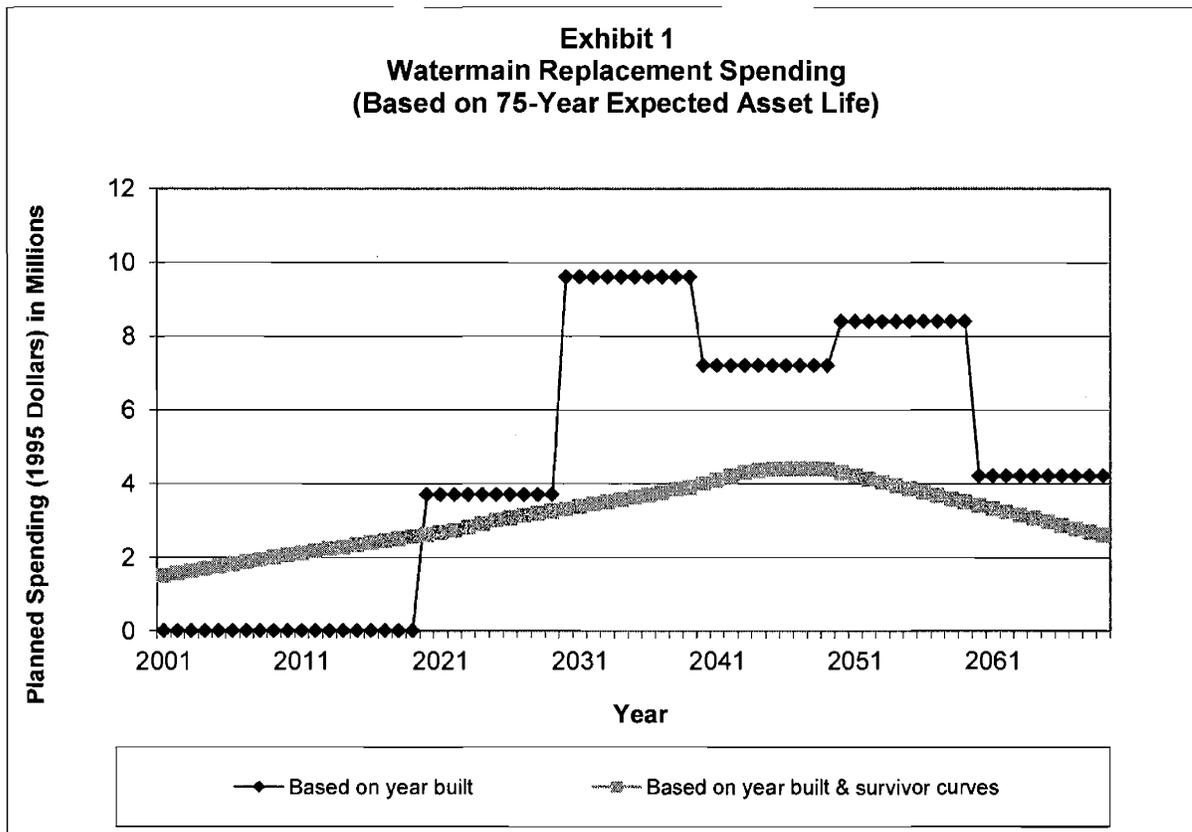
C. Comprehensive Planning Policies

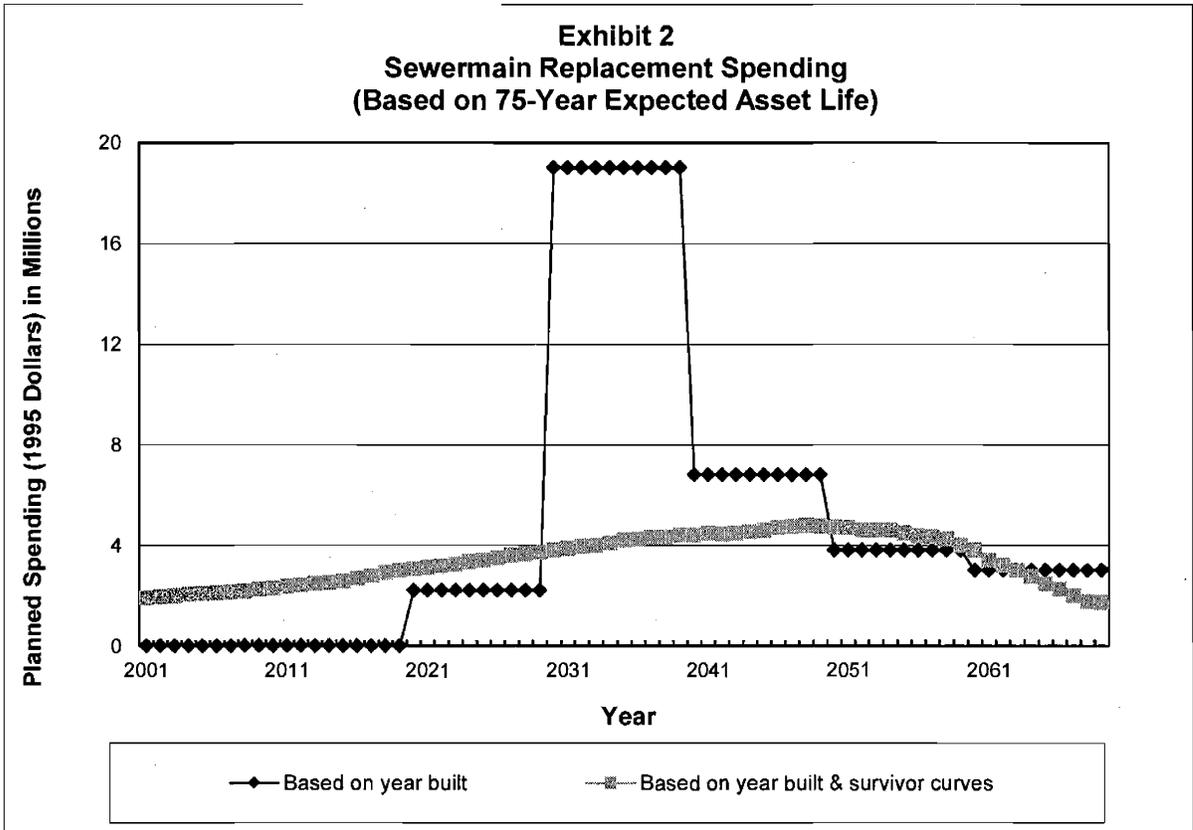
The Water Utility System Plan shall be updated every six years as required by state statute; the Wastewater and Storm & Surface Water System Plans shall be updated as required by changed conditions or state statute, between every six to ten years. All Utility system plans shall use a 20-year planning horizon or greater, and shall consider life cycle costs to identify funding needs. Studies to analyze specific geographic areas or issues, such as Storm & Surface Water sub-basin plans, Wastewater capacity and flow studies, or Water pressure zone studies will be completed as required using similar criteria for planning infrastructure needs.

Substantial portions of the City utility systems were constructed in the 1950's and 1960's. These systems are approaching the end of their useful life as illustrated on the following Exhibit 1 - Watermain Replacement Spending and Exhibit 2 - Sewermain Replacement Spending. The storm & surface water infrastructure is of similar age but has not been graphed. It most likely has a relatively shorter expected life span. The object is to determine and follow a survivor curve replacement schedule rather than the replacement schedule based on age alone. Assumptions for survivor curves and useful lives are revisited periodically. These were assessed in 2004 and updated for the most recent engineering and financial findings. Significant changes include the adjustment of replacement costs to current price levels, categorization of pipe assets based on expected useful lives, and replacement of major non-pipe Utility assets such as pump stations and reservoirs. The Exhibits illustrate an example survival replacement curve based on preliminary estimates only. As real needs are determined, they will replace the estimated curves. Renewal and/or replacement will require substantial reinvestment in the future and have major rate impacts if large portions of the systems have to be replaced in relatively short periods of time. The actual useful life of underground utilities is difficult to determine and the best available data is needed to be able to plan for the orderly and timely renewal and/or replacement. For this purpose, the comprehensive plans need to have at least 20 year planning horizons and must address the aging of the Utility systems.

Long term system planning for the Utility systems is required in order to assure that future financial needs are anticipated and equitable funding plans can be developed. In order to keep funding plans current, utility system plans need to be updated between six and ten years. State law requires six years for water system plans. Wastewater system plans are not mandated to be updated on a six year cycle, however updating them between six and ten years is the common

standard of practice. Stormwater system plans similarly have no state or federal mandate for updating, however with the implementation of the NPDES General Permit, it is reasonable to expect significant changes within two 5-year permit terms to warrant a system plan update. Depending on the significance of the changes, the Storm system plan may require updating sooner than after two 5-year permit cycles. These Financial Policies will be reviewed and updated as needed.





II. CAPITAL INVESTMENT PROGRAM POLICIES

A. *General Scope*

The Utilities Capital Investment Program (CIP) will provide sufficient funds from a variety of sources for implementation of both short- and long-term capital projects identified in each Utility System Plan and the City-wide Capital Investment Program as approved by the City Council.

Financial planning for long-term capital investment shall be based on principles that result in smooth rate transitions, maintain high credit ratings, provide for financial flexibility and achieve inter-generational equity.

Discussion:

These near-term capital projects are usually identified in each Utility system plan which also provides the criteria and prioritization for determining which projects will be constructed. Several projects of general scope are also included to allow for on-going projects that are less specifically identified due to their more inclusive nature.

In addition to these near-term projects, funding should be provided for long-term capital reinvestment in the system to help minimize large rate impacts as the systems near the end of their useful life and have to be renewed or replaced. Ordinance No. 4783 established a Capital Facilities Renewal & Replacement (R&R) Account for each Utility to provide a funding source for this purpose. Other policies describe how this Account is to be funded and expended.

A reinvestment policy by itself, without some form of planned and needed expenditure, could lead to excessive or unneeded expenditures, or conversely unnecessary accumulations of cash reserves. The reinvestment policy needs to tie the planned expenditures over time with a solid, long-term financial plan that is consistent with these policies.

The actual needs for the renewal/replacement expenditures should relate to the on-going need to minimize system maintenance and operating costs consistent with providing safe and reliable service, the age and condition of the system components, and any regulatory or technical obsolescence. In essence, plant should be replaced when it is needed and before it fails. As such, the goal setting measure of how much is an appropriate annual or periodic reinvestment in renewals and replacement of existing assets should be compatible with the age and condition of the infrastructure and its particular circumstances.

WP0459C-ORD
06/27/95

ORIGINAL

CITY OF BELLEVUE, WASHINGTON

ORDINANCE NO. 4783

AN ORDINANCE creating utility capital replacement accounts for the Water, Sewer and Storm and Surface Water Utilities within the Utility Capital Investment Fund for the purpose of accumulating funding for long term replacement of utility facilities.

WHEREAS, the Utilities 1995 Cost Containment Study prepared by Financial Consulting Solutions Group, Inc. (FCSG) recommends that current utility rates recover from the ratepayers amounts which at a minimum are equal to the depreciated value of the original cost of utility facilities and at a maximum are amounts equal to the replacement value of utility infrastructure; and

WHEREAS, FCSG recommends that utility funds not needed for current expenditure be placed in a replacement account to be used in the future in combination with current revenues and/or debt financing to replace capital facilities nearing the end of their useful life; and

WHEREAS, implementation of FCSG's recommendations would promote intergenerational rate equity and provide more stable rates to customers over the long term; and

WHEREAS, the Council desires to make an initial, 1995 deposit of \$600,000 in savings from the Water Fund into the new capital replacement account for the Water Utility; now, therefore,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES ORDAIN AS FOLLOWS:

Section 1. The purpose of this ordinance is to establish capital facilities replacement accounts within the Utility Capital Investment Fund in order to assure a future funding source for replacement of utility facilities nearing the end of their useful life. The City Council will determine each year, as part of the adoption of the utilities operating budgets, how much, if any, utility revenue during the upcoming year shall be designated for transfer to a replacement account. The City Council may also authorize the receipt of other funds directly into these capital facility replacement accounts. Once deposited the funds will accumulate with interest. The decision regarding when and how to utilize such accumulated funds for the replacement of utility facilities will be made as part of the Utility Comprehensive Plans and Utility Capital Investment Program approval process.

ORIGINAL

WP0459C-ORD
06/27/95

Section 2. The following new accounts are established in the Utility Capital Investment Fund:

- Capital Facilities Replacement Account - Sewer
- Capital Facilities Replacement Account - Water
- Capital Facilities Replacement Account - Storm and Surface Water

Section 3. There is hereby authorized the 1995 transfer from the Water Utility Operating Fund to the Capital Facilities Replacement Account - Water the amount of \$600,000.

Section 4. This ordinance shall take effect and be in force five days after its passage and legal publication.

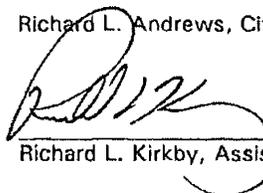
PASSED by the City Council this 24th day of July, 1995, and signed in authentication of its passage this 24th day of July, 1995.

(SEAL)

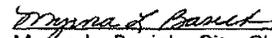

 Donald S. Davidson, DDS, Mayor

Approved as to form:

Richard L. Andrews, City Attorney


 Richard L. Kirkby, Assistant City Attorney

Attest:


 Myrna L. Basich, City Clerk

Published July 28, 1995

B. Funding Levels

Funding for capital investments shall be sustained at a level sufficient to meet the projected 20 year (or longer) capital program costs.

Funding from rate revenues shall fund current construction and engineering costs, contributions to the Capital Facilities Renewal and Replacement (R&R) Account, and debt service, if any.

Inter-generational equity will be assured by making contributions to and withdrawals from the R&R Account in a manner which produces smooth rate transitions over a 20 year (or longer) planning period.

On an annual basis, funding should not fall below the current depreciation of assets expressed in terms of historical costs less any debt principal payments.

Discussion:

These policies are based on the experience gained by developing a long-term Capital Replacement Funding Plan. In absence of such a plan, the range of capital investment funding should fall between the following minimum and maximum levels:

The minimum annual rate funding level would be based on the current depreciation of assets expressed in terms of historical costs, less any debt principal payments.

The maximum annual rate funding level would be based on the current depreciation of assets expressed in terms of today's replacement costs, less any debt principal payments.

The minimum level based on historical cost depreciation approximates the depletion of asset value. Some of the cost may already be in the rates in the form of debt service. Depreciation less debt principal repayment provides a minimum estimate of the cost of assets used. Any funding level below this amount defers costs to future rate payers and erodes the Utility's equity position, which puts the Utility's financial strength and viability at risk.

The maximum level based on replacement cost depreciation represents full compensation to the utility, in terms of today's value, for the depletion of assets. The replacement cost depreciation, again less debt principal repayment, provides a ceiling to an equitable definition of "cost of service".

The purpose of long-term capital reinvestment planning is to establish a target funding level which is based on need and to assure that funds will be available for projected capital costs in an equitable manner. The best projection of the needed capital reinvestment is based on a "survival curve" approach, approximating the timing and cost of replacing the entire system. This defines the projected financial needs and allows determination of equitable rate levels, funding levels for current capital construction and engineering, contributions to and withdrawals from the R&R Account, and the use of debt, if any. It also provides a means to project depreciation on both historical cost and replacement cost basis which are used to calculate minimum and maximum funding levels, debt to fixed asset ratios, and debt coverage levels, if debt is used. These later measures can be used to assure that the financial plan meets conventional standards.

C. Use of Debt

The Utilities should fund capital investment from rates and other revenue sources and should not plan to use debt except to provide rate stability in the event of significantly changed circumstances, such as disasters or external mandates.

Resolution No. 5759 states that the City Council will establish utility rates/charges and appropriations in a manner intended to achieve a debt service coverage ratio (adjusted by including City taxes as an expense item) of approximately 2.00". Please note that the Moody's Investor Services rating should be Aa2 (not Aa as stated in Resolution No. 5759).

Discussion:

The Utilities are in a strong financial position and have been funding the Utility Capital Investment Program from current revenues for a number of years. The current 20 year and 75 year capital funding plans conclude that the entire long-term renewal and replacement program can be funded without the use of debt if rates are planned and implemented uniformly over a sufficient period. Customers will pay less over the long-term if debt is avoided, unless it becomes truly necessary due to unforeseen circumstances such as a disaster or due to changes in external mandates. Having long-term rate stability also assures inter-generational equity without the use of debt because the rate pattern is similar to that achieved by debt service.

Use of low interest rate debt such as the Public Works Trust Fund loans, by offering repayment terms below market rates, investment earnings or even inflation, should be viewed as a form of grant funding. When available or approved, such sources should be preferred over other forms of rate or debt funding, including use of available resources. Since such reserves would generate more interest earnings than the cost of the loan, the City's customers would be assured to benefit from incurring such debt.

WP0254C-RES
03/03/94

CITY OF BELLEVUE, WASHINGTON

RESOLUTION NO. 5759

A RESOLUTION relating to financial policy for the Waterworks Utility and adopting a debt service coverage policy for the Waterworks Utility

WHEREAS, the City of Bellevue is consistently recognized for its prudent financial management; and

WHEREAS, the City of Bellevue's Water and Sewer Bonds are currently rated Aa by Moody's Investor Services and AA- by Standard & Poor's Corporation, which are considered to be excellent ratings; and

WHEREAS, these excellent ratings result in lower interest costs on the City's Water and Sewer bonds, which, in turn, may result in lower water, sewer and storm drainage costs; and

WHEREAS, it is important to the rating agencies and to the financial community that the City articulate its financial goals for its Waterworks Utility; and

WHEREAS, a desirable debt service coverage ratio, the ratio of revenues available for debt service to the annual debt service requirement, positively affects the Utility's bond ratings; and

WHEREAS, the City Council deems it in the City's best interest to establish a debt service coverage policy target for the purpose of protecting its current bond rating and to allow for the development of financial projections, NOW, THEREFORE,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES RESOLVE AS FOLLOWS:

Section 1. The City Council hereby adopts the following debt service coverage policy for the bonds issued by the City's Waterworks Utility.

The City Council will establish utility rates/charges and appropriations in a manner intended to achieve a debt service coverage ratio (adjusted by including City taxes as an expense item) of approximately 2.00. The City Council authorizes the Waterworks Utility to utilize this policy in development of pro

WP0254C-RES
03/03/94

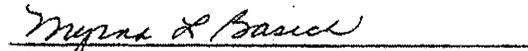
forma projections which will be disseminated to the bond rating agencies and to the financial community generally.

PASSED by the City Council this 7th day of March, 1994, and signed in authentication of its passage this 8th day of March, 1994.

(SEAL)


Donald S. Davidson, DDS, Mayor

Attest:


Myrna L. Basich, City Clerk

D. Capital Facilities Renewal & Replacement (R&R) Account

1. Sources of Funds

Revenues to the R&R Account may include planned and one-time transfers from the operating funds, transfers from the CIP Funds above current capital needs, unplanned revenues from other sources, Capital Recovery Charges, Direct Facility Connection Charges and interest earned on the R&R Account.

2. Use of Funds

Funds from the R&R Account shall be used for system renewal and replacement as identified in the CIP. Because these funds are invested, they may be loaned for other purposes provided repayment is made consistent with the need for these funds and at appropriate interest rates. Under favorable conditions, these funds may be loaned to call or decrease outstanding debt.

3. Accumulation of Funds

The R&R Account will accumulate high levels of funds in advance of major expenses. These funds will provide rate stability over the long-term when used for this purpose and should not be used for rate relief.

Discussion:

Revenues from Capital Recovery Charges, Direct Facility Connection Charges and interest earned on the R&R Account are deposited directly into the R&R Account. Other transfers are dependent on the long-term financial forecast, current revenues and expenses, and CIP cash flows. The long-term financial forecast projects a certain funding level for the transfers to the CIP and the R&R Accounts. Rates should be established consistent with this long-term financial plan and will generate the funds for such transfers. Setting rates at lower levels may result in current rate payers contributing less than their fair share for long-term equity.

R&R Account funds must only be used for the purpose intended; that is, the long-term renewal and replacement of the utility systems. They may be used for other purposes if it is treated as a loan, which is repaid with appropriate interest in time for actual R&R needs for those funds.

These accounts are each projected to accumulate tens of millions of dollars in order to meet the anticipated costs for the actual projects at the time of construction. It is the intent of these policies that these reserve funds will not be used for other purposes or to provide rate relief because that would defeat the long-term equity and could lead to the need for the use of debt to fund the actual needs when they occur.

III. SYSTEM EXPANSION AND CONNECTION POLICIES

A. *Responsibilities*

Those seeking or who are required to have Utility service are responsible for extending and/or upgrading the existing Utility systems prior to connecting.

Discussion:

It is the responsibility of the party seeking Utility service to make and pay for any extensions and/or upgrades to the Utility systems that are needed to provide service to their property. The extensions or upgrades must be constructed to City standards and requirements. This is typically accomplished through a Developer Extension Agreement with the City wherein requirements are documented, standards are established, plans are reviewed and construction is inspected and approved. Service will not be provided until these requirements are met.

The philosophical underpinning of this policy is that "growth pays for growth". Historically, developers constructed much of the City's utility infrastructure. If the infrastructure eventually would benefit more than the initial developer, the Utility signed a Latecomer Agreement to reimburse the original financier from charges to those connecting and receiving benefit at a later point in time. When the cost to extend and/or upgrade the system to accommodate development or redevelopment is beyond the means of a single developer, the Utility has employed a variety of methods to assist in the construction of the necessary infrastructure. Local Improvement Districts (LID's) historically have been used to provide financing for infrastructure for new development, with the debt paid over time by the property owners. Most of the older Utilities infrastructure was financed by this method.

The Utility has in some cases up-fronted the infrastructure construction for new development or redevelopment from rate revenues which are later reimbursed with interest, in whole or in part, by subsequent development through direct facility connection charges (see Cost Recovery Policy). Examples are the water and sewer infrastructure for Cougar Mountain housing development and Central Business District (CBD) redevelopment. Another example is the use of the Utility's debt capacity to provide for development infrastructure whereby the City sells bonds at lower interest rates than can private development, constructs the infrastructure, and collects a rate surcharge from the benefited area to pay off the bonds. Examples of this type of financing include the Lakemont development drainage infrastructure and the Meydenbauer Drainage Pipeline in the CBD.

B. *Cost Recovery*

The Utility shall establish fees and charges to recover Utility costs related to: (1) development services, and (2) capital facilities that provide services to the property.

The Utility may enter into Latecomer Agreements with developers for recovery of their costs for capital improvements, which benefit other properties in accordance with State law. The Utility will add an administrative charge for this service.

Discussion:

In general, Utility costs related to development services are recovered through a variety of fees and charges. There are fixed rates for some routine services based on historical costs and

inflation. There are fixed plus direct cost charges and applicable overhead for developer extension projects to cover the lengthy but variable level of development review and inspection typically required to implement these projects. These rates are reviewed periodically to ensure that the cost recovery is appropriate.

When the means of providing the infrastructure to serve a new development or redevelopment are beyond the means of a single developer, the Utility may elect to assist the developer by using: LID's, Latecomer Agreements, special debt (to be paid by special rate surcharges), up-fronting the costs from Utility rate revenues (to be reimbursed by future developers with interest through direct facility connection charges), or other lawful means. It is the intent of this policy to fully recover these costs, including interest, so as to reimburse the general rate payer.

Latecomer charges allow cost recovery for developers and private parties, for facilities constructed at their own expense and transferred to the Utility for general operation. Properties subsequently connecting to those systems will pay a connection charge that will be forwarded to the original individual or developer or the current owner depending on the terms of the Latecomer Agreement. The Utility collects an overhead fee on this charge for processing the agreements and repayments.

C. Use of Revenues

All capital-related revenues such as Capital Recovery Charges and Direct Facility Connection Charges should be deposited in the Capital Facilities Renewal & Replacement Accounts.

Discussion:

Capital Recovery Charges are collected from all newly developed properties in the form of monthly rate surcharges over a ten year period to reimburse the Utility for historical costs that have been incurred by the general rate base to provide the necessary facilities throughout the service area. These Capital Recovery Charges should be deposited in the Capital Facilities Renewal & Replacement Accounts.

Direct Facility Connection Charges are collected for capital improvements funded by the City as described above in Section 2 under Cost Recovery. The total cost of the improvement is allocated to the area of benefit and distributed on an equitable basis such as per residential equivalent unit. Interest is collected in accordance with State law.

D. Affordable Housing Consideration

The Utility shall base connection charges on the number of units allowed under the basic zoning. Only incremental cost increases will be charged to affordable housing units.

Discussion:

The City has adopted bonus density incentives for developers to build units specifically for affordable housing. Under historical practices these additional units would have been charged the same connection fee as all other units, resulting in a lower cost per unit for all units. While this is fair, it does not create any incentive to develop affordable housing. By charging only the incremental increased facility cost to the affordable housing units, all developers who include an affordable housing component will experience no increase in cost because of the affordable bonus density units. The cost per unit for affordable units is thereby reduced. The cost per unit

for all other units, based on underlying land use zoning, remains unchanged.

IV. RATE POLICIES

A. *Rate Levels*

Rates shall be set at a level sufficient to cover current and future expenses and maintain reserves consistent with these policies and long-term financial forecasts.

Changes in rate levels should be gradual and uniform to the extent that costs (including CIP and R&R transfers) can be forecast.

Cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers.

Local and/or national inflation indices such as the Consumer Price Index (CPI) shall be used as a basis for evaluating rate increases.

At the end of the budget cycle, fund balances that are greater than anticipated and other one-time revenues should be transferred to the R&R account until it is shown that projected R&R account funds will be adequate to meet long-term needs, and only then used for rate relief.

Discussion:

A variety of factors including rate stability, revenue stability, the encouragement of practices consistent with Utility objectives and these Waterworks Utility Financial Policies are considered in developing Utility rates. The general goal is to set rates as low as possible to accomplish the on-going operations, maintenance, repair, long-term renewal and replacement, capital improvements, debt obligations, reserves and the general business of the Utility.

Long-range financial forecast models have been developed for each of the Utilities, which include estimated operating, capital and renewal/replacement costs for a 75 year period in order to plan for funding long-term costs. Operating costs are assumed to remain at the same level of service and don't include impacts of potential changes due to internal, regional or federal requirements. Capital costs, including renewal/replacement, are projected based on existing CIP costs and approximated survival curves for the infrastructure. The models are used to project rate levels that will support the long-term costs and to spread rate increases uniformly over the period. This is consistent with the above policy that changes in rate levels should be gradual and uniform. Uniform rate increases help ensure that each generation of customers bears their fair share of costs for the long-term use and renewal/replacement of the systems.

The biennial budget process provides an opportunity to add to or cut current service levels and programs. The final budget, with the total authorized expenses including transfers to the CIP Fund and the R&R Account, establishes the amount of revenue required to balance the expenses. A balanced budget is required. The budgeted customer service revenue determines the level of new rates. For example, if the current rates do not provide sufficient revenues to meet the projected expenses, the costs have to be reduced or the rates are increased to make up the shortfall.

For purposes of these policies, wholesale costs are defined as costs to the Utilities from other regional agencies such as the Seattle Public Utilities and/or the Cascade Water Alliance (CWA),

and King County Department of Natural Resources for sewer treatment and any agreed upon Storm & Surface Water programs. Costs which are directly based on the Utilities' revenues or budgets such as taxes, franchise fees and reserve levels that increase proportionally to the wholesale increases are included within the definition of wholesale costs.

B. Debt Coverage Requirements

Utility rates shall be maintained at a level necessary to meet minimum debt coverage levels established in the bond covenants and to comply with Resolution No. 5759 which establishes a target coverage ratio of 2.00.

Discussion:

Existing revenue bond covenants legally require the City's combined Waterworks Utility, which includes the Water, Sewer and Storm & Surface Water Utilities, to maintain a minimum debt coverage ratio of 1.25 on a combined basis. In 1994, Council also adopted Resolution No. 5759 that established a policy, which mandates the Utilities to maintain a target combined debt coverage ratio of approximately 2.00, to further protect the City's historically favorable Utility revenue bond ratings. Water and Sewer Utility resources are counted in the official coverage calculation though Storm & Surface Water is responsible for the major portion of current outstanding Utility debt. Requiring Storm & Surface Water to separately maintain the minimum 1.25 legal debt coverage level and to move toward the 2.00 level will help ensure that necessary coverage requirements are met, and that customers of the other Utilities will not be unfairly burdened with the cost of meeting this obligation. It also ensures that sufficient coverage is available to the Water and Sewer Utilities if they need to incur debt.

C. Frequency of Rate Increases

Utility rates shall be evaluated annually and adjusted as necessary to meet budgeted expenses including wholesale cost increases and to achieve financial policy objectives.

Discussion:

In 1996, the City changed to a biennial budget process and adopted a two-year Utilities budget including separate rates for 1997 and 1998. This practice will continue on a biennial basis. However, Utility rates will be evaluated on an annual basis and adjusted as necessary to ensure that they are effectively managed to achieve current and future financial policy objectives. Annual rate reviews will include preparation of forecasts covering a twenty-year period for Utility revenues, expenditures, reserve balances and analysis of the impact of various budgetary elements (i.e. CIP transfers, R&R Account transfers, debt service costs, debt coverage levels, operating expenses, and reserves) on both current and future rate requirements.

D. Rate Structure - Sewer

The Sewer Utility rate structure will be based on a financial analysis considering cost-of-service and other policy objectives, and will provide for equity between customers based on use of the system and services provided.

Discussion:

In 1993, a Sewer Rate Study was performed that resulted in Council approval of a two-step,

volume-based rate structure for single-family customers based on winter average metered water volumes instead of the traditional flat rate structure. Flat rate structures were seen as inequitable to low-volume customers who paid the same amount as high volume customers. Rates are based on the level of service used, rather than the availability of service.

The revenue requirements are based on the "average" single-family winter average volume calculated annually from the billing database. The charge for an individual customer is based on their winter average and then charged at that level each bill for the entire year to avoid charging for irrigation use. The customer's winter average is based upon the prior year's three winter bills because the current year's bills include winter months, which would result in the average constantly changing. Customers without prior winter averages to use for a basis are charged at the "average" volume until they establish a "winter-average" or sufficient evidence that their use is significantly different than the "average".

E. Rate Structure - Storm & Surface Water

The Storm & Surface Water Utility rate structure will be based on a financial analysis considering cost-of-service and other policy objectives, and will provide adjustments for actions taken under approved City standards to reduce related service impacts.

Discussion:

In the existing Storm & Surface Water rate structure, customer classes are defined by categories of development intensity, i.e., *undeveloped*, *lightly developed*, *moderately developed*, *heavily developed* and *very heavily developed*. Based on theoretical run-off coefficients for each of these categories, higher rates are charged for increasing degrees of development to reflect higher run-off resulting from that development. Under this structure, billings for both residential and non-residential customers are determined by total property area and rates assigned to applicable categories of development intensity. Customers providing on-site detention to mitigate the quantity of run-off from their property receive a credit equal to a reduction of one rate level from their actual development intensity. Property classified as "wetlands" is exempt from Storm & Surface Water service charges.

Large properties, over 35,000 square feet, with significantly different levels of intensity of development may be subdivided for rate purposes in accordance with Ordinance No. 4947. In addition, properties with no more than 35,000 square feet of developed area in the light and moderate intensity categories may, at the option of the owner, defer charges for that portion of the property in excess of 66,000 square feet. The property owner may apply for a credit against the Storm & Surface Water charge when they can demonstrate that the hydrologic response of the property is further mitigated through natural conditions, on-site facilities, or actions of the property owner that reduce the City's costs in providing Storm & Surface Water quantity or quality services.

Future design of a water quality rate component will also use cost-of-service principles to assign defined water quality costs to customer classes, according to their proportionate contribution to Utility service demand. It is anticipated that these rate structure revisions will also provide financial incentives to customers taking approved actions to mitigate related water quality impacts.

F. Rate Structures - Water

The water rate structure will be based on a financial analysis considering cost-of service and other policy objectives, and shall support water conservation and wise use of water

resources.

Discussion:

The water rate structure consists of fixed monthly charges based on the size of the customer's water meter and volume charges, which vary according to customer class and the actual amount of water that the customer uses. There are three different meter rate classifications: domestic, irrigation and fire standby. The different charges are based on a cost-of-service study.

State law and the wholesale water supply contract require the Utility to encourage water conservation and wise use of water resources. Seattle first established a seasonal water volume rate structure for this purpose in 1989 with higher rates in the summer than in the winter. In 1990, based on a water rate study and the desire to provide a conservation-pricing signal to our customers, the City adopted an increasing block rate structure for local volume rates. The rate structure was revised in 1991 to pass through an increase in wholesale water costs, which also included a higher seasonal water rate for summer periods. The block water rate structure was revised again in 1997, to incorporate new cost-of-service results from a 1996 water rate study.

An increasing block rate structure, charges higher unit rates for successively higher water volumes used by the customer. The current rate structure has four rate steps for single-family and three rate steps for multi-family customers, based on metered water volumes. All irrigation-metered water is charged at a separate, higher rate. Because non-residential classes do not fit well in an increasing block rate approach due to wide variations in their size and typical water use requirements, seasonal rates, with and without irrigation, were established for these customers. This rate structure will be thoroughly reviewed, as more historical information is available on the effect of the increasing block and seasonal rate structure.

In 1997, an additional category of fire protection charges was added for structures and facilities that benefit from the City water system but are not otherwise being charged for water service. For example, a number of homes are on private wells but are near a City-provided fire hydrant and enjoy the additional benefit of fire protection yet didn't pay for the benefit on a water bill. The charge is based on an equivalent meter size that would normally serve the facility. It also applies to facilities that have terminated water service but still stand and require fire protection, such as homes or buildings that are not occupied.

G. Rate Equity

The rate structure shall fairly allocate costs between the different customer classes. Funding of the long-term Capital Investment Program also provides for rates that fairly spread costs over current and future customers.

Discussion:

As required under State law, Utility rates will provide equity in the rates charged to different customer classes. In general, rates by customer class are designed to reflect the contribution by a customer group to system-wide service demand, as determined by cost-of-service analysis. The RCW also authorizes utility rates to be designed to accomplish "any other matters, which present a reasonable difference as a ground for distinction". For example, increasing water rates for irrigation and higher levels of use is allowed to encourage the wise use and conservation of a valuable resource. Formal rate studies are periodically conducted to assure ongoing rate equity between customer classes and guide any future rate modifications necessary to support changing Utility program or policy objectives.

Contributions from current rates to the R&R Account also provide equity between generations of rate payers by assuring that each user pays their fair share of capital improvements, including renewal and replacement, over the long-term. (See sections B and D under the Capital Investment Program Policies).

H. Rate Uniformity

Rates shall be uniform for all utility customers of the same class and level of service throughout the service area. However, special rates or surcharges may be established for specific areas, which require extraordinary capital investments and/or maintenance costs. Revenues from such special rates or surcharges and expenses from capital investments and/or extraordinary maintenance shall be accounted for in a manner to assure that they are used for the intended purposes.

Discussion:

The City Water and Sewer Utilities originally formed by assuming ownership of three separate operating water districts and two sewer districts. In the assumption agreements, each included a provision that requires the Utility to uniformly charge all customers of the same class throughout the entire service area. The basic rates are set for all customers, inside and outside of the City, except for local utility taxes in Bellevue, and franchise fees in Clyde Hill, Hunts Point, Medina, and Yarrow Point. Unlike the Water and Sewer Utilities, the Storm & Surface Water Utility only serves areas within the City limits.

Under state law, Utilities are required to charge uniform rates to all customers in a given customer class, regardless of property location within the service area. The only exception permitted is for certain low-income customers (see below).

However, when conditions in particular service areas require extraordinary capital improvement or maintenance costs to be incurred, special rates or surcharges may be adopted to recover those costs directly from properties contributing to the specific service demand, instead of assigning that cost burden to the general Utility rate base. This will only apply for costs above and beyond normal operations, maintenance and capital improvements. For example, rate surcharges are being used to recover debt service costs for capital facilities in Lakemont and the CBD. An additional rate surcharge for Lakemont properties is being collected for extraordinary maintenance costs of the storm water treatment facility.

I. Rate Assistance

Rate assistance programs shall be provided for specific low-income customers as permitted by State law.

Discussion:

Continual increases in all utility rates have had a significant impact on low-income customers. The City has adopted a rate discount or rebate program for disabled customers and senior citizens over 62 years old and with income below certain levels as permitted under State law and defined in Ordinance No. 4458. It has two levels, one discounting Utility rates by 40 percent and the other level by 75 percent, based on the customer's income level. Customers that indirectly pay for Utility charges through their rent can obtain a rebate for the prior year's Utility charges on the same criteria. The City also rebates 100 percent of the Utility Tax for these customers. The

cost of this program is absorbed in the overall Utility expenses and is recovered through the rate base. The General Fund provides for the Utility tax relief.

There are other low-income customers who are less than 62 years old and currently receive no Utility rate relief. However, the City has instituted a separate rebate of Utility taxes for qualified low-income citizens.

V. OPERATING RESERVE POLICIES

A. *Operating Reserve Levels*

The Utilities' biennial budget and rate recommendations shall provide funding for working capital, operating contingency, and plant emergency reserve components on a consolidated basis in accordance with the attached Summary of Recommended Consolidated Reserve Levels table and as subsequently updated.

Discussion:

Utility resources not spent for operations remain in the fund and are referred to as reserves. At the end of each year, these funds are carried forward to the next year's budget and become a revenue source for funding future programs and operations. Under the terms of this policy, the Utility budget is targeted to include a balance of funds for the specific purposes stated above. While included in the total operating budget, these reserves will only be available for use pursuant to these reserve policies. Setting aside these budget resources in the reserve balance will help to ensure continued financial rate stability in future Utility operations and protect Utility customers from service disruptions that might otherwise result from unforeseen economic or emergency events.

The working capital reserve is maintained to accommodate normal cyclical fluctuations within the two month billing cycle and during the budget year. These are higher for Water than for Sewer and Storm & Surface Water due to more variable revenues and expenditures. They are described in terms of a number of days of working capital as a percentage of a full-year's budget.

The operating contingency reserve protects against adverse financial performance or budget performance due to variations in revenues or expenses. Again, the Water Utility is most susceptible to year-to-year variations in water demand. They are described in terms of percentages of budgeted wholesale costs and operations and maintenance (O&M) costs.

The plant emergency contingency reserve provides protection against a system failure at some reasonable level. The Storm & Surface Water Utility requires the largest reserve due to the risk of major flood damage to Utility facilities. Water and Sewer Utilities protect against the cost of a major main break or failure. These do not protect against the loss of facilities that are covered by the City's Self-Insurance to which the Utilities pay annual premiums nor are they sufficient to respond to a major disaster, such as a major earthquake.

The reserves of the three utilities have historically been treated separately. This protects against cross-subsidy, thereby retaining rate equity for each utility, each of which has different customers. However, it results in higher reserve targets, with more funds retained than otherwise may be needed. Sharing risks among utilities can reduce reserves. This does not require that reserves actually be consolidated into a single fund, but simply that individual reserve targets reflect the strength provided by the availability of cross-utility support. Under the "consolidated" scenario,

cash shortfalls in one reserve could be funded through inter-utility loans, to be repaid from future rates. The likelihood that a serious shortfall would occur in more than one fund at the same time is slight and the benefits of lower overall reserve levels will benefit rate payers. Also, the rate policies and the debt coverage policy will ensure that there will be a strong financial response to any significant shortfall. The risk is considered a prudent financial policy.

For this purpose, O&M costs are the entire annual operating budget of the Utility less the annual debt service, Capital Investment Program transfers and R&R Account transfers. Independent reserve levels are the levels that would be required by an individual Utility Fund (Water, Sewer and Storm & Surface Water) at any point in time to cover financial obligations if any one of the three reserve components were called for; i.e., working capital, operating contingency or plant emergency. At any single time, the full independent reserve levels should be available for the individual stated purpose, again because it is unlikely that all three components would be called for at once. For example, the Water Utility needs \$100,000 available for an emergency repair but it is not likely that the Sewer Utility will need \$100,000 and the Storm & Surface Water Utility will need \$500,000 all at the same point in time.

The consolidated basis is for budget and rate setting purposes only, to reduce the total revenue requirement by considering the reserve risk shared between the three utilities. The dual reserve levels should be considered as circumstances evolve.

In 2004, the Financial Consulting Solution Group (FCSG) performed an analysis of recommended changes to the Water Utility's working capital and operating contingency reserves to reflect the new wholesale water contract with CWA and to update reserve levels for current conditions. Under the new contract, billing practices for wholesale costs have changed as follows:

1. CWA payment occurs before the associated revenues are collected, resulting in a greater lag between wholesale expense and when revenues are collected.
2. CWA payments are distributed over the whole year based on predetermined percentages and not based on actual consumption during the year. Due to seasonal revenue variation, there is an accumulative deficit in revenues prior to the peak revenue period.

In addition, the total costs to Bellevue are now largely fixed for the year due to the "take or pay" nature of the contract between CWA and Seattle Public Utilities. This shifts the risk during a poor water sales year to the City since there will not be a corresponding reduction in water purchase costs when water sales are down.

Changes in both billing practices as well as the fixed nature of the wholesale costs will result in an increase in required reserves for working capital and operating contingency for the Water Fund.

As part of their 2004 analysis, FCSG recommended increasing working capital operating reserve requirements for the Water fund from 48 days of budgeted O&M costs (excluding debt service and capital funding) to 70 days. The change was primarily related to an expected increase in seasonal revenue variation resulting from Cascade's fixed monthly billing percentages. However, our experience has been that since implementing the change in 2005 there has been essentially no increase in seasonal revenue variation. As a result, beginning in 2011, working capital operating reserve requirements for the Water fund will be reduced from 70 days of budgeted O&M costs (excluding debt service and capital funding) to the original level of 48 days.

B. Management of Operating Reserves

Related to the recommended target reserve levels, a working range of reserves is established with minimum and target levels. Management of reserves will be based on the level of reserves with respect to these thresholds, as follows:

Above target - Reserve levels will be reduced back to the target level by transferring excess funds to the R&R Accounts in a manner consistent with the long-range financial

plan.

Between Minimum and Target - Rate increases would be imposed sufficient to ensure that: 1) reserves would not fall below the minimum in an adverse year; and 2) reserves would recover 50% of the shortfall from target levels in a normal year. Depending on the specific circumstances, either of these may be the constraint, which defines the rate increase needed.

Below Minimum - Rate increases would be imposed sufficient to ensure that even with adverse financial performance, reserves would return at least to the minimum at the end of the following year. To meet this "worst case" standard, a year of normal performance would be likely to recover reserve levels rapidly toward target levels.

Negative Balance - Reserves would be borrowed from another utility to meet working capital needs. Similar to the "below minimum" scenario, rate increases would be imposed sufficient to ensure that even with adverse financial performance, reserves would return from the negative balance to at least the minimum target at the end of the following year, which would allow for loan repayment within that time frame.

Discussion:

"Adverse financial performance" or "worst case" are defined by the 95% confidence interval based on historical patterns. The worst case year is currently defined as a year with sales volumes 15% below the sales volume for a normal year. This was determined by using statistical measurements of sales volumes for 18 years with a 95% confidence interval. That is, in any given year there is only a 5% chance that the worst case year would be more than 15% below the normal year. Another way to say the same thing is that in 19 out of 20 years the worst case year would not be more than 15% below the normal year.

Maintaining the 95% confidence interval, as more and more data becomes available, a worst case year could change upward or downward from the 15% variation from a normal year.

The recommended reserve policies are premised on the vital expectation that reserves are to be used and reserve-levels will fluctuate. Although budget and rate planning are expected to use the target reserve number, reserve levels planned to remain static are by definition unnecessary. It is therefore important to plan for managing the reserves within a working range between the minimum and target levels as stated in the above policies. There may be situations in short-range financial planning where reserves are maintained above target levels to overcome peaks in actual expenses.

In the event of an inter-utility loan, the balance for the borrowing utility would essentially be any cash balance less the amount owed. The lending utility would count the note as a part of its reserves, so that it does not unnecessarily increase rates to replenish reserves that are loaned.

In this management approach, there is still a risk that a major plant emergency could exceed the amount reserved. Such a major shortfall would require rate action to assure a certain level of replenishment in one year. To avoid rate spikes due to this type of action, they should be considered on a case-by-case basis. This will provide the flexibility to use debt or capital reserves in lieu of operating reserves to cover the cost and allow a moderated approach to replenishing reserves out of rates.

C. Asset Replacement Reserves

Utility funds will maintain separate Asset Replacement Accounts to provide a source of funding for future replacement of operating equipment and systems.

Anticipated replacement costs by year for the upcoming 20-year period, for all Utility asset and equipment items, will be developed as a part of each biennial budget preparation process. Budgeted contribution to the Asset Replacement Account will be based on the annual amount needed to maintain a positive cash flow balance in the Asset Replacement Account over the 20-year forecast period. At a minimum, the ending Asset Replacement Account balance in each Utility will equal, on average, the next year's projected replacement costs for that fund.

The Utilities Department will observe adopted Equipment Rental Fund (ERF) and Information Services budget policies and procedures in formulating recommendations regarding specific equipment items to be replaced.

Discussion:

Providing reserves for equipment and information technology systems replacement allows monies to be set aside over the service life of these items to pay for their eventual replacement and alleviate one-time rate impacts that these purchases might otherwise require. Annual revenues set aside for this purpose will be based on aggregate Utility asset replacement cash flow needs over the long-term forecast period, instead of individual asset replacement amounts. This strategy will allow Utilities to minimize the progressive build-up of excess Asset Replacement Account balances that would result from creating and funding separate reserve accounts for individual Utility asset and equipment items.

2015-2021 Utility CIP Budget Proposals

Proposal Number	Proposal Title	Proposed Budget (\$1,000s)							Total 2015-2021
		2015	2016	2017	2018	2019	2020	2021	
140.02NA	Replacement of Aging Water Infrastructure	\$11,161	\$12,948	\$13,438	\$14,092	\$11,725	\$12,673	\$15,042	\$91,079
140.03NA	Replacement of Aging Sewer Infrastructure	3,840	5,355	7,916	5,034	4,865	4,418	4,389	35,817
140.04NA	Replacement of Aging Storm Infrastructure	1,519	1,975	2,063	3,100	3,478	1,464	1,553	15,152
140.05NA	Utility Capacity for Growth	16,762	4,088	755	1,077	3,620	2,319	0	28,621
140.08NA	Environmental Preservation	3,937	3,688	4,750	7,835	5,107	3,908	707	29,932
140.54DA	Utility Improvements for New NE 15th Modal Corridor	220	226	231	236	240	245	250	1,648
140.55DA	Water Facilities for NE 4th St. Extension	206	89	0	0	0	0	0	295
140.56DA	Utility Facilities for 120th Ave NE Improvements Segment 2	751	151	0	0	0	0	0	902
140.65DA	East Link Utility Relocations	7,700	0	0	0	0	0	0	7,700
Total Project Expenditures		\$46,096	\$28,520	\$29,153	\$31,374	\$29,035	\$25,027	\$21,941	\$211,146

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx\Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title Replacement of Aging Water Infrastructure
Proposal Number 140.02NA
Proposal Budget (2015-2021) \$91,079,000
Outcome Healthy and Sustainable Environment

Executive Summary

This proposal funds replacement or rehabilitation of drinking water system infrastructure. Bellevue's water system is a complex network of pipes, reservoirs, pump stations, supply inlets, valves and meters that together deliver almost 6 billion gallons of drinking water to our customers annually. System replacement value is estimated at \$1.1 billion, and most of the system is more than halfway through its useful life. Failure trends and obsolete equipment provides evidence that system components are rapidly approaching the end of their service life and must be replaced. This proposal implements the Utilities' long term water system renewal and replacement strategy by funding CIP programs for each major type of water system component, right-sized for proactive, sustainable water system management to maintain acceptable service levels at the lowest life-cycle cost.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)						Total 2015-2021	
		2015	2016	2017	2018	2019	2020		
W-16	Small Diameter Water Main Replacement	\$6,119	\$7,708	\$8,503	\$9,326	\$9,513	\$9,703	\$9,897	\$60,769
W-91	Water Pump Station Rehabilitation or Replacement	2,477	2,188	2,186	2,010	634	1,274	2,902	13,671
W-85	Reservoir Rehabilitation or Replacement	1,045	1,639	1,057	1,093	140	229	746	5,949
W-98	Replacement of Large Commercial Water Meters	581	516	527	537	548	559	570	3,838
W-67	Pressure Reducing Valve (PRV) Rehab.	433	384	392	399	407	416	424	2,855
W-99	Water Service Line & Saddle Replacement Program	237	243	248	253	258	263	269	1,771
W-69	Minor (Small) Water Capital Improvement Projects	269	212	216	220	225	229	234	1,605
W-82	Fire Hydrant Standardization	0	58	309	254	0	0	0	621
Total Project Expenditures		\$11,161	\$12,948	\$13,438	\$14,092	\$11,725	\$12,673	\$15,042	\$91,079

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\B 2015-2021 CIP Summaries for ESC.xlsx Summary
 May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title Replacement of Aging Sewer Infrastructure
Proposal Number 140.03NA
Proposal Budget (2015-2021) \$35,817,000
Outcome Healthy and Sustainable Environment

Executive Summary

This proposal funds replacement or rehabilitation of sanitary sewer system infrastructure. Bellevue's wastewater system is comprised of pipes and pump stations that remove 11 million gallons of sewage from homes and businesses every day, and convey it safely to King Co. Metro's regional system for treatment and disposal. System replacement value is estimated at \$1.4 Billion, and most of the system is more than halfway through its useful life. Ongoing inspection of sewer asset condition and claims experience trends provide evidence that much of the system requires significant repair or will soon need to be replaced. This proposal implements the Utilities' long term sanitary sewer renewal and replacement strategy by funding CIP programs for each type of major sewer system component, each right-sized for proactive, sustainable wastewater system management to maintain acceptable service levels at the lowest life-cycle cost.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)						Total	
		2015	2016	2017	2018	2019	2020		2021
S-24	Sewer System Pipeline Major Repairs	\$1,232	\$1,836	\$1,873	\$1,911	\$1,949	\$1,988	\$2,027	\$12,816
S-16	Sewer Pump Station Improvements	512	1,340	2,310	1,075	1,097	1,090	995	8,419
S-66	Sewer System Pipeline Replacement	1,102	1,132	1,154	1,178	1,201	1,225	1,250	8,242
S-69	Meydenbauer Bay Park Lake Line	62	286	1,888	265	0	0	0	2,501
S-68	Sewer Force Main Condition Assessment	258	264	270	275	281	0	0	1,348
S-67	I&I Investigations and Flow Monitoring	211	259	313	220	225	0	0	1,228
S-32	Minor (Small) Sewer Capital Improvement Projects	103	106	108	110	112	115	117	771
S-58	Lake Wa. Sewer Lake Line Assessment Program	360	132	0	0	0	0	0	492
Total Project Expenditures		\$3,840	\$5,355	\$7,916	\$5,034	\$4,865	\$4,418	\$4,389	\$35,817

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx|Summary
 May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title	Replacement of Aging Storm Infrastructure		
Proposal Number	140.04NA		
Proposal Budget (2015-2021)	\$15,152,000		
Outcome	Healthy and Sustainable Environment		

Executive Summary

This proposal funds replacement or rehabilitation of aging stormwater system infrastructure. Bellevue's stormwater system is comprised of regional detention facilities, pipes and culverts, and open streams that convey stormwater runoff to eventual outfall into Lake Washington or Lake Sammamish. The constructed portions of the system, with an estimated replacement value \$1 Billion, are managed to prevent failures that cause flooding, erosion and traffic disruption, and to protect streams, lakes and wetlands as much as practicable from high velocity, erosive flows and pollution. Replacement of infrastructure prior to failure precludes property and environmental damage. This proposal implements the Utilities' long term stormwater management strategy by funding CIP programs for the replacement and rehabilitation of Storm infrastructure at the least life-cycle cost, while maintaining acceptable service levels, for sustainable storm system management.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total 2015-2021		
		2015	2016	2017	2018	2019		2020	2021
D-64	Storm System Conveyance Repairs and Replacement	\$937	\$963	\$1,031	\$1,104	\$1,184	\$1,266	\$1,356	\$7,841
D-105	Replace NE 8th St Culvert at Kelsey Creek	110	226	231	1,178	1,785	11	6	3,547
D-107	Stormwater Pipeline Video Inspection Enhancement	299	614	626	638	326	0	0	2,503
D-59	Minor (Small) Storm Capital Improvement Projects	163	167	170	174	177	181	185	1,217
D-103	Replace Coal Creek Pkwy Culvert @ Coal Creek	10	5	5	6	6	6	6	44
Total Project Expenditures		\$1,519	\$1,975	\$2,063	\$3,100	\$3,478	\$1,464	\$1,553	\$15,152

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx|Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title	Utility Capacity for Growth
Proposal Number	140.05NA
Proposal Budget (2015-2021)	\$28,621,000
Outcome	Healthy and Sustainable Environment

Executive Summary

This proposal funds construction of additional utility system capacity so that development and re-development projects are not delayed. Planned population growth of residents and workers in downtown, the Bel-Red Corridor, and the Wilburton area will require more drinking water storage and water from our regional system supplier, sewer pump station capacity, and added water and sewer pipe capacity to meet state minimum requirements. Existing facilities are at or near capacity to serve the current population. The initial cost of growth-driven projects will be recovered via connection charges to benefited properties.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total 2015-2021		
		2015	2016	2017	2018	2019			
W-103	Increase Drinking Water Storage Availability for WOA	\$134	\$317	\$755	\$440	\$1,347	\$0	\$0	\$2,993
W-104	New Water Inlet Station	0	0	0	637	2,273	2,319	0	5,229
S-53	Bellefield Pump Sta. Capacity Improvement	7,488	1,068	0	0	0	0	0	8,556
S-60	Wilburton Sewer Capacity Upgrade	5,253	952	0	0	0	0	0	6,205
S-61	Midlakes Pump Station Capacity Improvement	1,684	1,730	0	0	0	0	0	3,414
S-52	East CBD Sewer Trunkline Improvements	2,203	21	0	0	0	0	0	2,224
Total Project Expenditures		\$16,762	\$4,088	\$755	\$1,077	\$3,620	\$2,319	\$0	\$28,621

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESG\May 15 2014 - Round 1 Proposals\3 2015-2021 CIP Summaries for ESC.xlsx Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title	Environmental Preservation
Proposal Number	140.08NA
Proposal Budget (2015-2021)	\$29,932,272
Outcome	Healthy and Sustainable Environment

Executive Summary

This proposal funds Utility CIP projects focused on environmental preservation or restoration. It includes ongoing programs and one-time projects intended to restore stream health and environmental habitat, or to prevent pollution of stream and habitat resources. These projects guard against harmful environmental impacts from City operations or repair environmental damage on public lands or lands with public responsibilities.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)							Total
		2015	2016	2017	2018	2019	2020	2021	
S-59	Add on-site Power at Sewer Pump Stations	\$74	\$76	\$312	\$417	\$290	\$0	\$0	\$1,169
D-104	Stream Restoration for Mobility & Infrastructure Initiative	1,613	1,855	2,231	2,634	0	0	0	8,333
D-94	Flood Control Program	1,113	725	1,248	1,519	1,914	939	651	8,109
D-106	Lower Coal Creek Flood Hazard Reduction Phase 1	300	600	200	2,177	2,176	2,176	0	7,629
D-81	Fish Passage Improvement Project	752	201	421	413	196	366	23	2,372
D-86	Stream Channel Modification Program	85	231	338	675	531	427	33	2,320
Total Project Expenditures		\$3,937	\$3,688	\$4,750	\$7,835	\$5,107	\$3,908	\$707	\$29,932

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1, proposals\3 2015-2021 CIP Summaries for ESC.xlsx Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Utility Improvements for New NE 15th Multi Modal Corridor

Proposal Number 140.54DA

Proposal Budget (2015-2021) \$1,648,000

Outcome Healthy and Sustainable Environment

Executive Summary

This proposal is for design and construction of new water pipes under the new NE 15th Multi Modal Corridor, where they will be needed to provide water service for redeveloping properties in the Bel-Red Corridor. This proposal is required as a result of Transportation's proposal 130.52PA, R-163 NE 15th St Multi-Modal Corridor – 116th Ave NE at NE 12th St to 136th Pl NE at Northup Way, and is therefore developed to complement that proposal's scope. No new sewer pipes are needed in this section of the corridor.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total 2015-2021
		2015	2016	2017	2018	2019	
W-105	Water Facilities for NE 15th Multi Modal Corridor	\$220	\$226	\$231	\$236	\$240	\$250
Total Project Expenditures		\$220	\$226	\$231	\$236	\$240	\$250

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx|Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title Water Facilities for NE 4th St. Extension
Proposal Number 140.55DA
Proposal Budget (2015-2021) \$295,000
Outcome Healthy and Sustainable Environment

Executive Summary

This proposal is for design and construction of approximately 1,400 feet of new 16-inch watermain within the new NE 4th right-of-way, to improve Bellevue's water system's ability to deliver water to the downtown area, and to improve water system redundancy/reliability. This proposal is required as a result of Transportation's proposal 130.50PA, R-160 NE 4th Street Extension – 116th to 120th Avenues NE. The project is currently in construction.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total		
		2015	2016	2017	2018	2019		2020	2021
W-106	Water Facilities for NE 4th Street Extension	\$206	\$89	\$0	\$0	\$0	\$0	\$0	\$295
Total Project Expenditures		\$206	\$89	\$0	\$0	\$0	\$0	\$0	\$295

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx|Summary

May 15, 2014

2015-2021 Utility CIP Budget Proposals

Utility Facilities for 120th Ave NE Improvements Segment 2

Proposal Number 140.56DA

Proposal Budget (2015-2021) \$902,000

Outcome Healthy and Sustainable Environment

Executive Summary

This proposal is for design and construction of approximately 580 feet of 18-inch sewer pipe and 1,000 feet of 15" sewer pipe, in a portion of 120th Ave NE – Segment 2, between NE 8th St and NE 12th St, in conjunction with street improvements as needed to provide sewer service for redevelopment of adjacent properties consistent with Bel-Red Corridor development. This proposal is required as a result of Transportation's proposal 130.52PA, R-164 120th Avenue Segment 2 – NE 8th Street to NE 12th Street.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total		
		2015	2016	2017	2018	2019	2020	2021	2015-2021
S-63	Sewer Facilities for 120th Ave NE Improvements (Segment 2)	\$751	\$151	\$0	\$0	\$0	\$0	\$0	\$902
Total Project Expenditures		\$751	\$151	\$0	\$0	\$0	\$0	\$0	\$902

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx|Summary
May 15, 2014

2015-2021 Utility CIP Budget Proposals

Proposal Title	East Link Utility Relocations
Proposal Number	140.65DA
Proposal Budget (2015-2021)	\$7,700,000
Outcome	Healthy and Sustainable Environment

Executive Summary

East Link is a voter approved \$2.5 billion extension of light rail transit that will connect Bellevue with Overlake, Mercer Island, and Seattle. This proposal is for the Utility Fund cost associated with relocating water, wastewater, and stormwater pipelines that will conflict with the East Link rail system construction.

In 2011, the City and Sound Transit (ST) entered into a Memorandum of Understanding (MOU) that commits the City to contribute up to \$160 million to the project. ST will relocate utilities to accommodate the new light rail. Bellevue will benefit from the replacement of aging utility systems with new facilities. As part of the MOU, the City has agreed to pay the depreciated value of the relocated utilities (\$7.7 million) as part of the \$160 million overall contribution.

Proposal Financial Summary

Project Number	Project Title	Proposed Budget (\$1,000s)					Total 2015-2021
		2015	2016	2017	2018	2019	
W-107	Eastlink Water	\$2,630	\$0	\$0	\$0	\$0	\$2,630
S-70	Eastlink Sewer	1,925	0	0	0	0	1,925
D-108	Eastlink Storm	3,145	0	0	0	0	3,145
Total Project Expenditures		\$7,700	\$0	\$0	\$0	\$0	\$7,700

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\3 2015-2021 CIP Summaries for ESC.xlsx Summary
May 15, 2014

2015-2016 Utility Operating Budget Proposals

Proposal Number	Title	Service Level Change +: add; -:cut	Adopted 2013-14 Budget		Proposed 2015-16 Budget	
			2013	2014	2015	2016
Capital Related Operating Budget Proposals						
140.01NA	Capital Project Delivery	+	\$2,635,794	\$2,844,271	\$3,618,795	\$3,887,997
		Dollars				
		FTEs	20.11	21.11	25.21	26.21
		LTEs	0.00	0.00	1.00	1.00
140.39DA	Operating Transfer to CIP		\$20,595,600	\$27,887,518	\$25,557,720	\$24,442,888
		Dollars				
		FTEs	0.00	0.00	0.00	0.00
		LTEs	0.00	0.00	0.00	0.00
140.48DA	Operating Transfer to R&R		\$4,742,360	\$1,355,438	\$5,217,357	\$7,733,335
		Dollars				
		FTEs	0.00	0.00	0.00	0.00
		LTEs	0.00	0.00	0.00	0.00

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\4 2015-2016 Operating Summaries for ESC.xlsx\140.01
May 15, 2014

2015-2016 Utility Operating Budget Proposals

Proposal Title	Capital Project Delivery		
Proposal Number	140.01NA		
Proposal Budget (2015-2016)	\$7,506,792	26.21 FTEs/1.00 LTEs (2016)	
Outcome	Healthy and Sustainable Environment		

Executive Summary

Capital Project Delivery develops and implements cost-effective capital investment projects necessary to accomplish the City's \$211 million 2015-2021 Utility Capital Investment Program (CIP), averaging \$30 million per year. These projects are necessary to continue to provide utility services to Bellevue's citizens including providing drinking water, removing wastewater, managing surface water runoff, and eliminating impacts on the health of Bellevue's streams, lakes, wetlands, plants, and wildlife. This proposal includes staff and resources needed to develop, manage, design, and construct projects that accomplish the proposed 2015-2021 CIP.

Description of change over previous biennium

This proposal includes an increase of \$2.0 million and 5.1 FTEs and 1.0 LTE to support the delivery of the proposed level of CIP projects, including assessing the condition of existing stormwater/wastewater pipelines and project inspection/administration. New staffing include 2.0 FTE Sr. Engineers, 2.0 FTE Sr. Construction Inspectors, and 1.0 LTE Sr. Engineering Technician. The remaining changes in staffing (1.1 FTEs) related to this request do not represent a net increase in the total number of authorized departmental FTEs/LTEs, but rather a reallocation of existing department-wide staffing resources to better reflect actual staffing needs for each proposed service/program. These increases are needed to enable delivery of the proposed level of CIP projects. Without these increases, the proposed scope and type of projects will need to be scaled back accordingly.

Proposal Financial Summary	Adopted 2013-2014 Budget			Proposed 2015-2016 Budget			Biennium Change	
	2013	2014	Total 2013-2014	2015	2016	Total 2015-2016	Dollar Change	Percent Change
Expenditures	\$2,636	\$2,844	\$5,480	\$3,619	\$3,888	\$7,507	\$2,027	37.0%
FTEs	20.11	21.11	n/a	25.21	26.21	n/a	n/a	n/a
LTEs	0.00	0.00	n/a	1.00	1.00	n/a	n/a	n/a

K:\Secure\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\4 2015-2016 Operating Summaries for ESC.xlsx\140.01 May 15, 2014

2015-2016 Utility Operating Budget Proposals

Proposal Title Operating Transfer to CIP
Proposal Number 140.39DA
Proposal Budget (2015-2016) \$50,000,608 0 FTEs/LTEs
Outcome Healthy and Sustainable Environment

The objective of financial planning for long-term capital investment is grounded on the principles of smooth rate transitions, maintaining high credit ratings, providing for financial flexibility and achieving inter-generational equity (City Comprehensive Financial Management Policies 10.1.II.A). Consistent with this policy, the vast majority of funding for Utilities' capital projects are provided by monthly transfer of rate revenues to the Utility Capital Investment Project. The amount of funding is determined by projecting the capital program's long-term cash flow requirements in a manner that result in smooth annual rate transitions while addressing short- and long-term rate impacts. This proposal establishes the annual transfers to the CIP in accordance with this policy.

Description of change over previous biennium

Rate revenues are the primary source of funding for: 1) the proposed CIP, and 2) long-term capital funding needs through the Utility Capital Facilities Renewal and Replacement (R&R) account. Both transfers work in tandem to provide a comprehensive source of funding for the City's current and long-term CIP needs. This proposal is consistent with City financial management policies. No changes to this historical approach to funding the CIP is anticipated as part of this proposal.

Proposal Financial Summary	Adopted 2013-2014 Budget			Proposed 2015-2016 Budget			Biennium Change	
	2013	2014	Total 2013-2014	2015	2016	Total 2015-2016	Dollar Change	Percent Change
Expenditures	\$20,596	\$27,888	\$48,483	\$25,558	\$24,443	\$50,001	\$1,517	3.1%
FTEs	0.00	0.00	n/a	0.00	0.00	n/a	n/a	n/a
LTEs	0.00	0.00	n/a	0.00	0.00	n/a	n/a	n/a

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1\proposals\4 2015-2016 Operating Summaries for ESC.xlsx 140.01
 May 15, 2014

2015-2016 Utility Operating Budget Proposals

Proposal Title Operating Transfer to R&R
Proposal Number 140.48DA
Proposal Budget (2015-2016) \$12,950,692 0 FTEs/LTEs
Outcome Healthy and Sustainable Environment

Executive Summary

Established by the City Council in 1995, and memorialized in the City's Comprehensive Financial Management Policy 10.1.II.D, the Utility Capital Facilities Renewal and Replacement (R&R) account proactively sets aside funds each year to replace the City's utility infrastructure as it ages, thereby avoiding the need for large rate spikes and ensuring that each generation of ratepayers pays its fair share of the burden of replacing these systems. Bellevue Utilities has infrastructure with a replacement value of about \$3.5 billion. This proposal represents the annual transfer of rate revenue to fund future capital renewals and replacements consistent with this financial policy.

Description of change over previous biennium

Rate revenues are the primary source of funding for: 1) the proposed CIP, and 2) long-term capital funding needs through the Utility Capital Facilities Renewal and Replacement (R&R) account. Both transfers work in tandem to provide a comprehensive source of funding for the City's current and long-term CIP needs. This proposal is consistent with City financial management policies. No changes to this historical approach to funding the CIP is anticipated as part of this proposal.

Proposal Financial Summary	Adopted 2013-2014 Budget			Proposed 2015-2016 Budget			Biennium Change	
	2013	2014	Total 2013-2014	2015	2016	Total 2015-2016	Dollar Change	Percent Change
Expenditures	\$4,742	\$1,355	\$6,098	\$5,217	\$7,733	\$12,951	\$6,853	112.4%
FTEs	0.00	0.00	n/a	0.00	0.00	n/a	n/a	n/a
LTEs	0.00	0.00	n/a	0.00	0.00	n/a	n/a	n/a

K:\Secured\Bus_Admin - Finance\2015-2016 Budget\ESC\May 15 2014 - Round 1 proposals\14 2015-2016 Operating Summaries for ESC.xlsx\140.01
 May 15, 2014