

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

Thursday
April 5, 2018
6:30 p.m.

Conference Room 1E-113

Bellevue, Washington

COMMISSIONERS PRESENT: Diann Strom (Chair), Sanjay Kumar (Vice Chair), Vanja Knezevic, Aaron Morin, Anne Howe

COMMISSIONERS ABSENT: Lisa Schreiner

OTHERS PRESENT: Andrew Lee, Deputy Director; Paul Bucich, Water Resources Planning Manager; Lucy Liu, Assistant Director - Resource Management & Customer Service; Director Nav Otal; Martin Chaw, Fiscal Manager;

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER:

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

2. APPROVAL OF AGENDA

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

3. ORAL AND WRITTEN COMMUNICATIONS

None

4. COMMUNICATIONS FROM CITY COUNCIL, COMMUNITY COUNCIL, BOARDS AND COMMISSIONS

None

5. STAFF REPORTS

Deputy Director Lee gave an update on the AMI system RFP. He explained that a preferred vender was selected in September of 2017. The City was in contract negotiations until the middle of March. Ultimately the two parties were unable to come to an agreement on the legal terms of the agreement, and the City decided to move to Vendor 2. This has delayed the process by about nine months, but it is hoped that an agreement will be reached in the fall.

Deputy Director Lee then gave an update on recycling in the City. Assistant Director Liu explained that China has new import policies regarding recyclable materials and the current China market for mixed paper is essentially closed. As a result, Republic Services, the City's solid waste collection vendor, is moving a portion of the mixed paper to other markets and stockpiling the materials it cannot market at its processing facility. Stockpiling the nonmarketable materials is not sustainable for Republic Services. Given the situation, the City has granted the vendor temporary permission to landfill nonmarketable mixed paper received from Bellevue through April 20 to prevent possible harm to public health and safety and to the environment. In the meantime, Republic Services has improved sorting of materials at its facility with the goal of meeting the more stringent contamination threshold by China. The City is also partnering with Republic Services on a campaign to educate the public about proper recycling to minimize contamination.

Commissioner Kumar asked if there is a risk that this issue will continue. Assistant Director Liu explained Republic Services' goal is to meet China's new contamination requirements. Republic is also exploring markets in other parts of the world. This issue has begun to impact the region and Bellevue is not immune.

Commissioner Morin asked if the City stands to lose any revenue because of these changes. Assistant Director Liu indicated that per the City's contract with Republic Services, there would be no financial impacts to the City.

6. APPROVAL OF MINUTES

March 1, 2018 Regular Meeting Minutes

Motion made by Morin, seconded by Commissioner Strom, approve the minutes as presented. Motion passed unanimously (5-0).

7. UNFINISHED BUSINESS

None

8. NEW BUSINESS

Andrew Lee announced that Paul Bucich would be leaving the City as he has accepted a position as the Public Works Engineering Director for the City of Lakewood. He will be missed greatly.

- Summarize CIP Public Comments & Request ESC CIP Concurrence
Presenters: Paul Bucich, P.E.-Water Resource Planning Mgr.; Martin Chaw, Fiscal Manager

Mr. Bucich gave an update on the online CIP open house and reported that there were very few comments received. He discussed the revised stormwater programs including D-81 (Fish Passage Improvements) and D-106 (Lower Coal Creek Flood Hazard).

- 2017 Year-end Financial Report & Early Outlook 2019-2024 Rates Forecast
Presenter(s): Nav Otal, Director; Lucy Liu, Assistant Director - Resource Management & Customer Service; Martin Chaw, Fiscal Manager

Director Otal introduced the Financial Performance Report for 2017 for the Water, Sewer, Stormwater, and Solid Waste utilities. Fiscal Manager Chaw reviewed the City's long-standing foundational Utilities financial policies including being self-supporting, long-term financial planning and having reserves (for operations, infrastructure renewal and replacement (R&R), and equipment replacement). He highlighted that all of the utilities ended 2017 in positive financial condition (which is defined as operating revenues being sufficient to meet operating expenses). Revenues for water and sewer reflected higher revenues due to the record setting warm and dry summer weather. Revenues received include one-time Water and Sewer utility revenues from a state department of revenue tax audit and a King County Metro audit, respectively. Utility expenses reflect the department's continued focus on efficient operations and prudent management of resources. There will not be any transfers in 2017, but staff will evaluate year-end 2018 financial performance to determine transfers at the end of the biennium (consistent with fiscal policies). There was discussion about the use of the R&R funds and how reserves can be used for one-time expenses, but R&R funds are never used for ongoing expenses. Budgeted versus actual revenues and expenses were reviewed for each utility.

Water: This utility ended 2017 in positive financial condition. The strong revenues reflected the outstanding weather in the summer. The expenses reflect a planned \$6 million transfer to CIP for AMI (advanced metering infrastructure). Water ended with a fund balance of \$22,274,000.

Sewer performed stronger than budgeted for the same reasons as water. For expenses the City was on target with budgeted expenses. Sewer ended the year with a \$11,217,000 fund balance.

Stormwater: Revenues were consistent with budgeted amounts, and expenses were slightly below budget. This reflected staff vacancies. Storm ended with a fund balance of \$5,785,000.

Solid Waste: This utility collected just over the budgeted amount. This is partly a reflection of unearned revenues for Republic Services. Operating expenses were less than budgeted. Solid Waste had an ending fund balance of \$1,815,000.

Commissioner Kumar referred to Solid Waste and asked why the expenses were so much higher than the revenues. Assistant Director Liu explained that this related to a study that was budgeted for about \$150,000 to study long-term solid waste management strategies. The funding was going to come from reserves, but ended up not being needed.

Director Otal then introduced the 2019-2024 Utilities Early Outlook Rates Forecast. She reviewed background factors considered when setting rates. These included the following:

- Rates are the primary source of revenue for utilities
- Rates are governed by financial policies
- Reserves are in place for financial sustainability and services continuity
- Utilities plans for “normal consumption” year
- Any ending fund balance in excess of plan at the end of the biennium is transferred to R&R

Director Otal reviewed the ESC’s role in creating the CIP Plan and in setting the budget and rates. Assistant Director Liu briefly reviewed Council-adopted policies that guide how rates are set. These included Capital Investment Policies, Rate Management Policies, and Rate Structure Policies for Water, Sewer and Stormwater. Director Otal explained that a Councilmember had expressed concern that the water rate structure is punitive for large families so this was reviewed by staff. It was determined that the water rate structure does not have a negative impact on large families relative to smaller families. Staff will be sending a follow up report to Council to that effect. Assistant Director Liu explained that the current water rate structure was designed with the following objectives in mind: ensure equity for each customer class based on cost of service, enhance revenue stability, provide affordable “core” water service, promote wise use of water, and facilitate administrative efficiency.

The forecast assumes that Utilities will maintain current service levels with minimal adds. It assumes a lean budget where staff will continue to leverage efficiencies and contain costs where possible. There are cost increases beyond general inflation levels in four areas. These include: wholesale costs, increased maintenance costs due to aging infrastructure, construction cost inflation, and benefits. The forecast is built on two key budget priorities. One is to continue sustainable, high quality utility services that customers expect. The other is to maintain certainty and predictability of rates.

Assistant Director Liu reviewed the current adopted 2017-2018 budget and summarized that Utility rates pay for wholesale costs (39%), local operations (19%), CIP Support (28%), and Taxes/Interfunds (14%). The 2019-2024 Utility Rates Forecast was briefly reviewed. The projected total rate increase for the three piped utilities is 4.9% in 2019 and 3.8% in 2020. Assistant

Director Liu reviewed a typical residential combined water, sewer, and storm utility monthly bill including details about rate drivers. Director Otal commented that there are large portions of the budget that are outside of the utilities control such as wholesale costs. Additionally, capital infrastructure is always going to be a significant factor because of aging infrastructure. Staff always considers neighboring rates and strives to be competitive. Bellevue is ahead of the curve on investing for the long-term replacement of infrastructure assets yet rates are competitive. It is expected that the rates will be even more competitive in the future.

Commissioner Morin asked how the multifamily rate works out. Assistant Director Liu explained that the bill is sent to the property owner, and the property owner recovers it from the tenants. The City is not involved in that process. Commissioner asked if some multifamily units are separately metered. Director Otal commented that some complexes may be individually metered, but older ones are not. The property owners decide how to bill their units. The City's rates are designed as the costs are being incurred by each customer class.

Commissioner Knezevic referred to the 2019-2024 Utility Rates Forecast for water and asked what the odds are that the wholesale costs will really drop as shown in 2021. Assistant Director Liu explained that this reflects a larger increase from Cascade in 2019 and 2020 because Cascade is anticipating a cost increase from Seattle for water supply. Director Otal added that it isn't that the rates will be lower in the outer years. The lower number just means that the rate increases won't be as high. She stressed that these numbers will likely change when the City receives updated numbers from Cascade.

Commissioner Morin expressed concern that the 1.9% and 1.8% forecasted rate increases for Cascade don't seem realistic. Assistant Director Liu explained that Cascade rate increases in the outer years (2021-2024) is about 3% which translates to roughly a 1.8% or 1.9% retail rate increase for Bellevue customers. Director Otal explained how the rate increases by Cascade are factored into the City's rate increases. The bill the City pays to Cascade is about 40-45% of the budget. She agreed that the outer years are estimates at this point and are expected to change. She discussed the City's funding strategy for capital programs.

Director Otal reviewed the next steps of the budget review process for the ESC as well as general community engagement opportunities. Commissioner Morin referred to the budget review timeline and asked if there is really an expectation that the public will have comments at the public hearing that would actually change anything in the budget. Director Otal explained that the assumption is that the public will be receiving the same information in the process that the Commission receives as these are all public meetings. She

stated that the City really wants to hear from customers. One of the ways this is done is with budget surveys early in the year.

Deputy Director Lee added that public comments are welcome, but infrequent. Staff relies on the members of the Environmental Services Commission to take in the knowledge and be the eyes and ears of the public to make informed comments. Director Otal added that the Council hearings also include the opportunity to comment on the Utilities budget as part of the entire City Budget, but there are very rarely comments related to Utilities.

- ESC By-Laws Revision

Deputy Director Lee discussed a change that was needed to the bylaws to specify that the total amount of time allotted for public comments is not to exceed 30 minutes with each speaker allowed 3 minutes in which to make their comments. Some discussion followed.

Motion made by Commissioner Kumar, seconded by Commissioner Knezevic, to amend the bylaws to allow 30 minutes total for oral and written communications. Motion passed unanimously (5-0).

9. ORAL AND WRITTEN COMMUNICATIONS

None

10. REVIEW OF ESC CALENDAR/COUNCIL CALENDAR

Deputy Director Lee reviewed the upcoming ESC and City Council meetings as indicated on the calendar in the ESC packet. Commissioner Knezevic asked if the May 17 meeting is expected to be necessary. Director Otal commented that staff would let the Commission know about the meeting schedule as soon as possible.

Deputy Director Lee reported that Greg Takamura had resigned so there is an opening on the Environmental Services Commission. Commissioner Morin asked if there is an ability to participate in meetings remotely by phone if necessary. Deputy Director Lee indicated that is allowed per the bylaws, but it needs to be arranged in advance.

11. ADJOURNMENT

Motion made by Commissioner Morin, seconded by Commissioner Strom, to adjourn the meeting at 8:14 p.m. Motion passed unanimously (5-0).

The meeting was adjourned at 8:14 p.m.