

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

Thursday
January 4, 2024

City Hall & Remote
6:30 p.m.

1. CALL TO ORDER:

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

ROLL CALL

COMMISSIONERS PRESENT: Vanja Knezevic (Chair), Ken Wan (Vice Chair), Andy Dupertuis, Ann Hajnosz, Gabby Lacson, Kurt Lutterman, Michael Margolis

COMMISSIONER ATTENDING REMOTELY: None

COMMISSIONERS ABSENT: None

COUNCIL LIAISON: Conrad Lee

OTHERS PRESENT: Lucy Liu, Director; Linda De Boldt, Utility Engineering Assistant Director; Joe Harbour, Deputy Director, Jaclyn Knoth, Utilities Asset Manager; Andy Baker, Utilities Fiscal Manager, Karen Phu, Assistant City Attorney; Cheri Brignon, Senior Administrative Assistant; and Laurie Hugdahl, Minutes Taker

2. APPROVAL OF THE AGENDA

Motion made by Vice Chair Wan, seconded by Commissioner Lutterman, to approve the agenda. The agenda was approved unanimously (7-0).

3. ORAL AND WRITTEN COMMUNICATION

None.

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

Councilmember Lee wished everyone a Happy New Year. He noted that the Commission retreat was very productive. He commended the Commission and staff for their great working relationship and encouraged the group to continue to work together cooperatively as a team.

5. STAFF REPORTS

None

6. APPROVAL OF MINUTES

A) December 7, 2023 MINUTES

Motion made by Vice Chair Wan, seconded by Commissioner Lutterman to approve the 12/7/23 minutes as presented. The motion passed unanimously.

7. UNFINISHED BUSINESS

None

8. NEW BUSINESS

a) Updates to Environmental Services Commission Bylaws

Karen Phu, Assistant City Attorney presented updated bylaws for the Commission which conform to the bylaws for the new rules adopted by Council relating to remote participation, public participation, and the option of removal of the second public oral comment period in the agenda to be consistent with other boards and commissions.

Vice Chair Wan asked if they have the flexibility as a commission to decide to have the public comment period later in the meeting. He thought people might want to make comments after they heard the content of the meeting. Ms. Phu replied that the ESC has the flexibility to adjust or reorder their agenda. Other boards and commissions generally have public comments just at the beginning of the meeting.

Chair Knezevic noted that they have never had people utilize the comment period at the end of the meeting. If they determine that they would like to add an additional comment period at a particular meeting they have the flexibility to do that. People that come to comment on a particular agenda item usually come with pre-prepared comments.

Commissioners generally thought that having public comments at the beginning of the meeting made the most sense.

Motion made by Commissioner Lutterman, seconded by Commissioner Margolis to direct the attorney's office to come back with final bylaws

incorporating the three changes as presented and to correct typographical errors. Motion passed unanimously.

b) Asset Renewal Forecast Update

Jaclyn Knoth, Utilities Asset Manager, and Andy Baker, Utilities Fiscal Manager, made the presentation. Ms. Knoth reviewed asset management in general, asset management principles, and the history of asset management at Bellevue Utilities. She presented the Asset Renewal Forecast Update. She stressed that this was a very complex and highly detailed effort.

Key Asset Renewal findings:

- Water – maintain the existing water main replacement strategy.
- Sewer – refine the renewal strategy for sewer mains by planning for both replacement and repair actions to extend service life.
- Storm – enhance the renewal plan by increasing condition assessment activities for storm assets.
- Vertical Assets – modify our approach to renewal, increase minor rehab actions.
- All – increase planned investment based on updated asset-class-specific replacement costs.

Project components:

- Asset Inventory – Plan for assets individually; define lifecycle and renewal options.
- Needs and prioritization – Age/condition; environment; level of service impacts; environmental risks.
- Financial Forecast – System needs; rate impacts; capital delivery; and maintenance & operations.

Ms. Knoth explained that the Asset Renewal Forecast Update covered a large number of asset classes, but due to time limitations she would highlight a few of the asset classes in the presentation, but not all.

Analysis by Utility

Ms. Knoth discussed how they evaluate the condition and risk for each utility category.

Ms. Knoth described using the performance of each utility asset to help guide investments.

Water Mains: Bellevue's water system is performing ~50% better than regional averages at 6.7 breaks/100 miles of pipe. This high performance is attributed to a

strong existing renewal program. Ms. Knoth reviewed various scenarios with adjusted investment levels and the associated impacts to the system.

Sewer and Stormwater Gravity Mains: Ms. Knoth explained how risk is used as a financial lever by looking at the amount of risk acceptable for the system, what the impact is to the system, and how that informs investment strategies.

Commissioner Wan and Commissioner Margolis asked how they decide what is good enough for rates of failure. Mr. Baker explained that this is an iterative process that considers engineering planning, operational data, and financial scenarios to arrive at a recommended level.

In responding to the question, specifically for water main investments, Ms. Knoth explained the ultimate recommended scenario allows performance to decline slightly but to still remain better than the regional average long-term. Ms. Knoth further explained that part of this has to do with the current levels of service, customer expectations regarding the level of service and what they are comfortable paying for the service delivery.

For all of the evaluated assets Utilities looks at all the scenarios and all the available information to make a comprehensive plan that will continue to deliver service to customers in the way they desire, at a rate they find acceptable, and in a delivery manner that the City can accomplish.

Asset Renewal Financial Forecast

Mr. Baker reviewed the forecasted expenditures needed to replace each utility for the next 75 years.

Water:

- Miles per year remains similar; approximately 5 miles /year with updated costs from \$430 per LF to \$534. (In 2021 dollars)
- Increased replacement cost and schedule for Pressure Relief Valves (PRVs).
- Facility-specific renewal and better lifecycle tracking, better cost analysis.

Sewer:

- Increased need in gravity main investment.
- Lake lines are the major driver for the increase.
- We originally planned lake line investment in the 2030's and 2070's.

Storm:

- Better condition information gives better certainty.
- Our stormwater gravity system needs increased investment level and consistency.

- Culvert costs are significantly different in the future with new regulatory requirements.

Overall costs are higher, but the impacts differ between each category.

Rate Implications of Updated Forecast: Mr. Baker explained that rates scenarios must meet all minimum fund balance requirements and smooth rate increases over a 20-year or longer period. They must evaluate the R&R fund balance over the 75-year period and confirm minimum balances are met. They must avoid over-collecting and not considerably exceed minimum balances at the end of 75-year horizon. They must consider intergenerational equity. Rate capacity should be as close to level in current dollars as possible.

Mr. Baker discussed rate capacity – how much revenue is available for capital needs for current year capital improvements or additions to the Renewal & Replacement fund for future-year needs. He also reviewed construction cost history and trends. Construction cost increases have been increasing approximately 5.7% per year from 2017-2023 where for many years prior the increase averaged less than 2%. It appears to be cooling off, but this is a big factor in overall costs.

Commissioner Margolis asked about trends for additional regulatory requirements. Mr. Baker replied that on the culvert side, regulatory requirements are a cost driver. In this update, in general they are looking at like-for-like asset replacement but where they know there are new or in-place regulatory requirements they are factored in. Ms. Knoth added that there are other studies going on that will help us understand what regulatory impacts will look like in the future. Deputy Director Harbour added that for water and wastewater much of the upcoming regulatory requirements will be related to drinking water on the treatment side and on the effluent side. This will not be related so much to our locally-owned infrastructure but will impact rates because of our wholesale partners.

Water Rate Implications: In the short term, capital needs increase beginning in 2029 with significant increases in 2031. The forecasted rate capacity required in 2031 is 25% higher than previously forecast. With the 75-year forecast, capital needs remain significantly higher through 2050. Capital rate capacity ramps above inflation until 2034, then smooth below inflation for remainder of forecast. An average increase of 0.7% over prior forecast to build necessary rate capacity.

Sewer Rate Implications: In the short term, capital needs increase beginning in 2025, with significant increases in 2030. Forecasted rate capacity required in 2031 is 17% higher than previously forecast. In the long term, capital needs remain significantly higher through 2050. Rate capacity ramps above inflation until 2036, then drops between 2050 and 2070 – driven by meeting lake line replacements.

The ongoing Lake Line Management Plan study will evaluate alternative to refine long term design, scheduling, cost, and funding structure. Negligible near-term rate impacts to continue building necessary rate capacity.

Storm Rate Implications: In the short term, capital needs increase beginning in 2027. Forecasted rate capacity required in 2031 is consistent with the mid-bi forecast. In the long term, capital needs are significantly higher than previously forecast. Rate capacity ramps above inflation until 2044, then smooths below inflation through the end of the forecast. The proposed forecast has significant uncertainty related to culvert costs and gravity main condition assessment. Studies are already being planned to address these. There is no change from the mid-bi forecast. A sustained increase in 2025 will build long-term rate capacity.

Summary: The updated findings across all utilities show greater total costs than was previously understood. There is now a plan for how to tackle that greater need. Asset management has already identified, and in some places commenced, the studies that will keep us refining what is known so we can deliver on the goal of minimizing life cycle costs for infrastructure.

For the water utility, in the near-term there is a need to increase rates in order to ramp the capital rate capacity based on the forecasted needs. For each asset class they have identified likelihood of failure, consequence of failure, and overall risk. There is an overall recommended set of outcomes based on what is currently known. In some cases that means recommending accepting a slightly higher risk. In other cases, it means prioritizing specific assets that are riskier. The Water Main Condition Assessment and Asset Management Plan in the works as part of the continuous assessment of this utility.

For the sewer utility, in the near-term they plan to maintain the existing rate path, but they will need to stay on that course through 2036 to build rate capacity. In terms of risk implications, they are prioritizing the asset classes with the most significant risk and ramping up more gradually on other classes. The Lake Line Management Plan is already in progress and will help to keep refining the approach.

The storm utility will also stay on the existing rate path and continue to build rate capacity through 2044. Storm is the utility with the greatest uncertainty. The Culvert Condition Assessment Study and the Gravity Main Condition Assessment will help to make sure they are on the right course.

Ms. Knoth explained how the asset renewal update connects to the CIP and next steps. The Commission commended staff for the presentation and their hard work.

9. ORAL AND WRITTEN COMMUNICATIONS

None

10. REVIEW OF COMMISSION & COUNCIL CALENDARS

Deputy Director Harbour reviewed the calendars.

11. ADJOURNMENT

Motion made by Chair Knezevic, seconded by Commissioner Margolis, to adjourn the meeting. Upon a roll call vote, the motion passed unanimously (7-0).

The meeting was adjourned at 8:46 p.m.

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