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

Thursday
June 6, 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,

COMMISSIONER ATTENDING REMOTELY: Michael Margolis (online)

COUNCIL LIAISON: None

COMMISSIONERS ABSENT:

OTHERS PRESENT: Lucy Liu, Director; Linda De Boldt, Utility Engineering Assistant Director; Joe Harbour, Deputy Director, Lorissa Warren, Senior Administrative Assistant; Scott Edwards, Deputy Director; Scott Pickard, Acting Fiscal Manager; Birol Shaha, CIP Portfolio Manager; and Laurie Hugdahl, Minutes Taker

2. APPROVAL OF THE AGENDA

Motion made by Commissioner Wan, seconded by Commissioner Lutterman, to approve the agenda. The agenda was approved unanimously.

3. ORAL AND WRITTEN COMMUNICATION

Alex Tsimerman, 14150 NE 20th Street, Bellevue, WA, commented on local government concerns.

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

None.

5. STAFF REPORTS

Deputy Director Joe Harbour reported that the Lakemont Bridge will be opening on Monday. Also, in September the online meetings will switch from Zoom to Microsoft Teams.

6. APPROVAL OF MINUTES

a) MAY 2, 2024 MINUTES

Motion made by Commissioner Wan, seconded by Commissioner Lutterman, to approve the 5/2/24 minutes. Upon a voice vote, the motion passed unanimously.

7. UNFINISHED BUSINESS

None

8. NEW BUSINESS

a) Election of ESC Chair and Vice Chair

Chair:

Commissioner Wan nominated Vanja Knezevic as Chair.
Commissioner Lutterman nominated himself.

Knezevic:

Yay: Wan, Dupertuis, Hajnosz, Lacson, Lutterman, Margolis

Nay: None

Vanja Knezevic was unanimously elected Chair (6-0).

Vice Chair:

Commissioner Lutterman nominated himself.
Commissioner Hajnosz nominated Ken Wan.

Lutterman:

Yay: Knezevic

Nay: Wan, Dupertuis, Hajnosz, Lacson, Margolis, Knezevic

Wan:

Yay: Dupertuis, Hajnosz, Lacson, Lutterman, Margolis, Knezevic

Nay: None

Ken Wan was unanimously elected Vice Chair (6-0).

b) 2025-2030 Rate Forecast

Scott Edwards, Deputy Director, Utilities

Scott Pickard, Acting Fiscal Manager

Deputy Director Edwards and Acting Fiscal Manager Pickard made the presentation regarding the 2025-2030 Rate Forecast. Deputy Director Edwards reviewed the roles of staff, the ESC, and Council for developing the budget and rates. He also reviewed key financial policies regarding rate management and capital investments.

Commissioner Dupertuis highlighted the fact that in addition to making sure the rates are not too high, the City also has a responsibility to make sure the rates are not too low. Staff concurred.

Deputy Director Edwards reviewed what rates pay for including uses driven by wholesale & CIP costs and cost drivers. Key budget challenges include wholesale costs (33% of water budget and 51% of sewer budget), aging infrastructure, and inflationary pressures.

The 2025-2030 Early Outlook Rates Forecast for each utility were presented.

Water: Rates are expected to increase 6.8% in 2025; 4.9% in 2026; 5.7% in 2027; 5.8% in 2028; and 6.4% in 2029 and 2030. Cascade Wholesale Costs and Local Program Costs for each year were reviewed. Clarification questions about the rate increases followed.

Sewer: Rates are expected to increase 7.4% in 2025; 7.6% in 2026, 7.6% in 2027; 7.4% in 2028; 8.1% in 2029; and 8.1% in 2030. King County Wastewater Treatment Costs and Local Program Costs for each year were reviewed as rate increase drivers.

Storm and Surface Water: Rates are expected to increase 9.2% in 2025; 9% in 2026; and 6.3% in 2027, 2028, 2029, and 2030. Local program costs as rate drivers were reviewed.

The typical residential combined bill impact is projected to increase by 7.4% (\$16.38/month) in 2025 and 6.8% (\$16.08/month) in 2026. Deputy Director Edwards reviewed the rate drivers for the typical residential customer.

Commissioner Lutterman asked if the rate increases would be similar for other customers. Staff explained that the overall percentage would be similar. Commissioner Dupertuis asked how confident staff is in the wholesale costs projections. Deputy Director Edwards explained that they have requested a longer-term forecasting process for King County. Bellevue doesn't have the length of the forecast to have confidence in their forecasted rates over the ten-year period. Commissioner Dupertuis wondered if staff has enough information to quantify the high- and low-rate projections over time without certainty of the wholesale rate costs. He expressed concern about a potential spike in wholesale costs which would have to be passed on to customers. He would rather account for that uncertainty, incorporate risk into the rate forecast, and introduce it slowly over time.

Deputy Director Edwards presented comparative rates of surrounding jurisdictions and summarized that Bellevue's rates are still competitive. There was some discussion about how monthly versus bi-monthly billing was addressed with the comparisons. Key takeaways are that the rates forecast is developed following financial policies and industry best practice; current challenges exist; and Bellevue Utility rates will remain competitive in the region. Next steps were reviewed.

Discussion:

Commissioner Hajnosz made comments about affordability related to the capital programs. She expressed some concern about cash financing of capital programs and wondered how this impacts the rate levels. She wondered how the rate projections would be if there was some debt mixed in with cash financing, especially with the Sewer Lakeline projects. She commented that the attachments and handouts were superb. Deputy Director Edwards noted that debt is a consideration for some significant projects such as Sewer Lakeline projects. Commissioner Hajnosz referred to government programs to help fund infrastructure projects. She also asked how implementable the CIP is over the long term. Deputy Director Edwards indicated that would be covered in the next presentation.

Chair Knezevic referred to slide 17 and asked why 2026 shows 0% increase for taxes and supplemental services. Acting Fiscal Manager Pickard explained this is primarily driven by self-insurance costs. Chair Knezevic referred to slide 21, competitive rates, and asked if this trend has shifted over the years. She suggested that historical trends would be interesting for this slide. Staff indicated they could provide that.

Commissioner Dupertuis reiterated concerns about wholesale pricing risks and suggested including messaging about buffering for uncertainty around this in

order to be transparent with ratepayers. He also wondered about including a historical analysis around CIP project rate forecast and deliverability.

Commissioner Margolis referred to planning for capacity and asked how/if conservation could reduce the capacity needs. Asst. Director De Boldt explained that planning for supply for the growing community is done through extensive work developing the Water System Plan. This looks at the need for growth projects and includes a detailed analysis of the impact of projected population growth on water needs. It looks at the system to determine what water system upgrades are needed to accommodate that growth. All of this analysis gets fed into the water system plan and planning for capital projects. Regarding conservation, the City works closely with the Cascade Water Alliance and regional entities in the system. Asst. Director De Boldt indicated that staff can have more conversations with Cascade to provide more information on conservation efforts.

Vice Chair Wan referred to transfers to the Renewal and Replacement (R&R) Account under capital investments for water, sewer, and storm and asked how the graph might look if the risk tolerance or forecast of what is required to go in the R&R Account was adjusted in order to reduce rate increases. Asst. Director De Boldt explained that the R&R plan was informed by a very detailed study that looked at the risk of failure of storm, sewer, and water systems and integrated that into the R&R projects over time (75 years). The water system is in active replacement; both the sewer and storm systems are not in active replacement. There are big projects coming, but the projects need to be informed by the condition assessment work which is not yet completed. The ramp up in the amount of money being put into the R&R Account is to maintain the ability to pay for the projects coming up and support smooth rate increases in the future.

Vice Chair Wan still wondered about adjusting the risk tolerance in order to reduce the increases. He wondered if some of the rate increases were inconsistent since they went up and down instead of steadily increasing. Fiscal Manager Pickard explained that rise towards the tail end of the forecast period especially in water and sewer is primarily driven by an adjustment to current inflationary conditions and rising costs. This essentially resets the start point to get the rate capacity up to the level it needed to be in order to satisfy the financial policies related to reserve requirements and service levels in those two years.

Assistant Director De Boldt referred to the issue of risk brought up by Commissioner Wan and noted that in the storm and sewer funds, some assumptions were made about the conditions. As more information is available, staff will be adjusting expectations about when those projects need to happen. This could possibly reduce the need for funding and the need to increase rates. Additionally, the culvert program is a big part of the cost for storm projects. This is because sometimes culverts have to turn into bridges due to fish passage

requirements, and the cost is significant. Vice Chair Wan said it would also be useful to see historical trends in rate increases.

Commissioner Dupertuis spoke to the assumptions being made for the rate forecasts and the uncertainties there. The asset management plan will be an interesting vehicle to uncover the assumptions being made. As time gets closer and with more information, the range of uncertainty with the rate forecasts will go down. He also referred to the implications of all this on intergenerational equity and recommended highlighting this to the public also.

c) 2025-2034 CIP Budget Proposals

*Asst. Director Linda De Boldt, Engineering
CIP Portfolio Manager Birol Shaha*

Asst. Director De Boldt discussed the 2025-2034 CIP budget proposals and information on community engagement and feedback on the proposed CIP. She noted that the ESC reviewed the budget in detail on April 4.

Proposed CIP budget by fund:

- Water: \$327.8M
- Sewer: \$124.0M
- Storm: \$85.5M

Total CIP Budget \$537.3M

- Water CIP Highlights: Primary drivers include regulatory requirements and the need to provide water service reliability to customers. Key investments are watermain replacement projects; new reservoir and pump station projects; and emergency water supply investments such as developing a groundwater well program.
- Sewer CIP Budget: Key investments are new sewer pump station and force main projects; increased sewer pipe defect repair and replacement work, and Lake Washington Lake Lines early action projects.
- Storm and Surface Water CIP: Key investments; storm pipe defect repair & replacement, flood control projects, new fish passage and stream improvements, water quality and flow control projects.

Budget proposals/investment areas include Water Aging Infrastructure which is the largest program at about 50% of the budget. The next largest proposal is Sewer Aging Infrastructure followed by Storm Aging Infrastructure. Other proposals include Environmental Preservation, Emergency Water Supply, Maintenance and Operations Facility Land Acquisition and Development, and Capacity for Growth. Asst. Director De Boldt reviewed the CIP funding strategy for the proposals. She summarized that the CIP delivery ensures sustainable utility

services to customers in line with the Council's strategic vision. Continued investments focus on R&R for aging infrastructure, support for community growth, environmental stewardship, regulatory compliance, and operational efficiencies. Recent cost increases have contributed a significant increase to projects. Utilities will ramp up renewal and replacement programs in the sewer utility. The budget is aligned with the R&R study and balanced with available resources to deliver.

Discussion:

Commissioner Hajnosz referred to resource balancing and asked how staff manages resources for the various projects. Asst. Director De Boldt explained that the City has been developing specific tools for analyzing resource needs. Commissioner Hajnosz spoke to the importance of balancing projects and available staffing. Commissioner Dupertuis also commented on the structural tension between project management and the variability of CIP projects.

Commissioner Wan referred to the CIP funding strategy and asked how much Utilities really needs to put into the R&R for water if they are only pulling out \$10M over the ten-year cycle. Is the City being too risk adverse in setting rates to replenish and build up the R&R. Asst. Director De Boldt commented that the R&R money for the water fund is being used for the active replacement of the water system. For storm and sewer CIP areas there is enough money with rate revenues to fund the projects that are currently proposed and also put revenues into R&R to save for expensive projects that will be needed in the future. Commissioner Wan commented that it seems like they are putting a lot of money into the R&R fund, but it doesn't seem like they are going to be pulling money out over the next ten years for sewer and storm. He wondered if assumptions could be lowered about what will be spent.

Commissioner Hajnosz agreed it was worth thinking about in order to balance the affordability issue. Asst. Director De Boldt explained that staff could clarify why the funding is needed. A large reason is the cost of the sewer lake lines projects that will need to be implemented in the future. In addition to the R&R funds, Utilities is looking at other funding mechanisms. For stormwater, some of the pipes will need to be replaced; culvert replacements are very expensive, especially if it turns out that a bridge is needed in order to comply with fish passage requirements from state and federal regulators.

CIP Portfolio Manager Birol Shaha discussed community engagement efforts to raise awareness of Utilities services, engage the public in the CIP budget development process; get feedback from the community and provide information in an accessible and inclusive way. Engagement opportunities included the CIP prioritization survey in September of 2023, city website, online engagement, and in-person open houses. He reviewed data received from the CIP prioritization

survey and how this informed development of the CIP. He discussed city efforts to increase engagement, results of those efforts, and comments received. He summarized that early feedback during budget development ensured that project prioritization aligned with customer input. Community needs and modes of engagement vary. Staff will reflect on lessons learned and build from here. Chair Knezevic had clarification questions about staff's prioritization and service equity. Asst. Director De Boldt reviewed next steps.

Commissioner Dupertuis thought that for community outreach it would be interesting to put together information explaining how staff arrived at the numbers and rates to help people understand the hard work and analysis that is represented in the rate increases. He also brought up cybersecurity concerns related to water utilities as reported by the Associated Press and noted the City is facing risks that can't be controlled. He asked for information in the future about how this is this being addressed for all possible contingencies.

9. REVIEW OF COMMISSION AND COUNCIL CALENDARS

Deputy Director Harbour reviewed the calendars.

10. ADJOURNMENT

Motion made by Commissioner Wan, seconded by Commissioner Lutterman, to adjourn the meeting. Upon a voice vote, the motion passed unanimously (7-0).

The meeting was adjourned at 8:35 p.m.