

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

Thursday
March 3, 2022
6:30 p.m.

Zoom

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), Negin Khanloo (Vice Chair), Andy Dupertuis, Anne Howe, Diann Strom, Ken Wan

COUNCIL LIAISON: None

COMMISSIONERS ABSENT: Neil Hines

OTHERS PRESENT: Lucy Liu, Deputy Director; Uma Singh, Acting Assistant Director, Resource Management and Customer Service; Andy Baker, Fiscal Manager; Linda De Boldt, Assistant Director, Engineering; Brian Landau, Planning Manager, Engineering; and Laurie Hugdahl, Minutes Taker

2. TEMPORARY SUSPENSION OF BYLAWS

Chair Knezevic and Deputy Director Liu read an introductory statement regarding online meetings and procedures.

3. APPROVAL OF THE AGENDA

Motion made by Vice Chair Khanloo, seconded by Commissioner Strom, to approve the agenda. The agenda was approved unanimously (6-0).

4. WRITTEN COMMUNICATION

None.

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

None.

6. STAFF REPORTS

None

7. APPROVAL OF MINUTES

A) 2/3/22 MINUTES

Motion made by Vice Chair Khanloo, seconded by Commissioner Strom to approve the 2/3/22 minutes as presented. Upon a roll call vote, the motion passed unanimously (6-0).

8. UNFINISHED BUSINESS

None

9. NEW BUSINESS

a) Utilities Finance Overview

*Uma Singh, Acting Assistant Director
Andy Baker, Fiscal Manager*

Acting Assistant Director Singh and Fiscal Manager Baker gave an overview of Utilities Finance for informational purposes only.

Sources of Revenues for Water, Sewer, and Stormwater: Utilities Department operates as an enterprise function. Each of the utilities – water, sewer, and stormwater - are required to be financially self-supporting. Services are not scalable. Costs are fixed, but revenues fluctuate with sales volumes. Revenues do not increase without rate increases. Utilities is very capital-intensive and requires long-term operating horizon. Utility rates need to be competitive for customers. Rates are the primary source of revenue (94%); the rest come from interfund services, developer fees, connection fees, and grants.

Uses of Revenues: A little more than half of revenues go to paying non-discretionary, external financial obligations. About 39% of the revenues are used to pay for wholesale costs of water supply and wastewater treatment. About 15% of revenues pay for taxes and support services from the General Fund. The other half of the revenues pay for local programs – about 30% pays for capital infrastructure investments and about 17% go toward supporting daily operations for Utilities. A key cost driver is inflation, but other key drivers include wholesale cost increases, system

failures, new regulations, growth, customer expectations and demographics, and catastrophic events.

Financial Policies: Water works financial policies are the basis for building each biennial budget and the ongoing management of the budget. Rate management policies direct the staff to plan for long-term investment in infrastructure, to set rates at sufficient levels to cover current and future expenses, and to keep rate increases gradual and uniform. Also, to the extent possible, staff is directed to forecast costs to prevent rate spikes, pass wholesale cost increases through to customers, maintain equity for each generation of rate payers, and transfer savings to the capital infrastructure R&R (renewal and replacement) account for future needs.

Financial Policies Related to Reserves: There are three types of reserves – Operating Reserves (working capital, operating contingency, plant emergencies), Asset Replacement Reserves (for equipment, vehicles, major software systems, etc.), and Capital Renewal & Replacement (R&R) Reserves (for future infrastructure needs). Fiscal Manager Baker reviewed the purpose of each type of reserve and the budgeted reserve amounts. The R&R Reserves allow the city to plan for aging infrastructure needs over a long time horizon ((75-year period) to avoid rate spikes, to ensure intergenerational equity, and to have a long-term financial planning outlook to help smooth out overall rates. The City's goal is to cash fund the CIP, using debt only for changed circumstances.

Rate Making: For each of the pipe utilities, staff looks at what is needed for operational and maintenance costs, to construct and repair infrastructure, and to put away for reserves. The total revenue requirement is spread between the customer base when determining rates. The goal is to set rates that are as low as possible while still allowing Utilities to accomplish its ongoing operations maintenance and repairs, long-term renewal and replacement, system improvements, and general business in a sustainable fashion.

How to Recover Costs: One of Bellevue's foundational principles for recovering rates is that the rates charged should be proportional to the cost of serving that group. Council-adopted governing policies direct that all costs should be recovered, that there should be equity between customer classes and between generations that use the system, that rates should be uniform for all customers within the same class, and that rate relief be provided for specific low-income customers. Other policy objectives such as supporting conservation and the wise use of water also inform the rate structure. Overall, Bellevue strives to ensure that rates are competitive to neighboring jurisdictions.

b) Utilities Proposed 2023-2029 Capital Investment Program Plan

Linda De Boldt, Assistant Director, Engineering
Brian Landau, Planning Manager, Engineering

Assistant Director De Boldt explained that the Utilities Capital Investment Plan (CIP) is a 7-year ongoing investment plan for Water, Wastewater, and Stormwater funds. It supports multiple programs and associated programs. The CIP is updated every two years as part of the biennial budget process to renew/replace aging utility infrastructure, support growth and development, provide environmental stewardship, ensure compliance with regulations, and ensure excellent utility services.

Planning Manager Landau reported that the Utility manages over \$3.5 billion of water, wastewater, and storm and surface water assets. Capital projects proposed in the CIP include projects to renew and replace aging infrastructure, projects that meet regulatory requirements, projects to protect and enhance the natural environment, projects to support economic growth and development, and projects to enhance service delivery. He reviewed the CIP development process, major CIP change drivers, and investment area comparison with the prior CIP.

Budget Breakdown:

- Water Fund: 15 programs, \$182.3 million
- Sewer Fund: 10 programs, \$79.3 million
- Storm/Surface Water Fund: 10 programs, \$61.5 million
- Total Proposed CIP: \$323 million

Major CIP drivers include increased project costs due to contractor labor shortages and material supply chain problems; new sewer pump station projects; new well development program; increased project costs and schedule delays due to scope changes and environmental permitting issues; and an increase in projected inflation rate.

Water:

Assistant Director De Boldt reviewed details of the 2023-2029 Proposed Water CIP. The proposed Water Fund budget is approximately \$47 million higher than the prior CIP. Reasons for this include increased water main replacement costs, a new program for groundwater well development, and a new project (Somerset Highlands Fire Flow Improvements). She reviewed the details of existing programs and new programs in the Water CIP (as contained in the Commission's CIP notebooks).

Sewer:

Planning Manager Landau presented on the 2023-2029 Proposed Sewer Fund CIP. The proposed CIP for the Sewer Fund is \$73.3 million which is \$15.3 million more than the prior CIP. Reasons for this include improvements to the sewer pump station and force main system; increased funding for sewer pipeline repair and replacement; Operations and Maintenance yard design and construction; lake line projects; and sewer extensions into areas with septic systems. He reviewed the details of existing programs in the Sewer CIP with no changes, minor changes, and significant changes as well as new programs (as contained in the Commission's CIP notebooks).

Questions:

Commissioner Strom asked who pays for the connection between the home and main on the sewer main extension projects to service some neighborhoods currently served by septic (S-117). Mr. Landau replied that the property owner pays for that connection.

Storm and Surface Water:

Planning Manager Landau presented on the 2023-2029 Proposed Storm and Surface Water CIP. The proposed CIP is approximately \$19 million greater than the adopted CIP. The increase is primarily driven by three large ongoing flood reduction and habitat projects that have changes to scope, schedule, and project costs; infrastructure rehab scope and budget increase; and increased emphasis on water quality retrofit projects. Mr. Landau reviewed the details of existing programs and new programs in the Storm and Surface Water CIP (as contained in the Commission's CIP notebooks).

Assistant Director De Boldt concluded the presentation and stated the staff would continue with public outreach over the next month and will bring the results of that outreach to the ESC.

She summarized that Bellevue Utilities ensures sustainable utility services to our customers by planning and delivering a robust CIP to:

- actively manage our aging infrastructure, renewal, and replacement
- support community growth and environmental stewardship
- enhance our service delivery to our customers
- ensure that we continue to meet regulatory requirements
- develop and implement technology solutions for maximum benefit

The proposed 7-year CIP includes cost increases that are largely due to recent economic conditions in our region and country. Staff will continue to manage these inflationary pressures as we continue to move forward into the next biennium. With this proposed CIP the City is doing more renewal and replacement projects in the sewer utility. Utilities has added several new programs to address planned and emerging needs. Assistant Director De Boldt reviewed next steps and invited comments and questions.

Questions:

Commissioner Wan asked how the general public would be aware of the opportunity to engage in the process. Mr. Landau stated that the Public Information Officer will make announcements on multiple media platforms to the community soliciting comments. They will be given links to the survey and information about the proposed CIP.

Commissioner Wan asked if staff is satisfied with the amount of input from public outreach from previous years. Mr. Landau reviewed how they have improved outreach efforts to get greater engagement with the community.

Commissioner Wan then asked how the department ranks the projects that were proposed. Assistant Director De Boldt explained that they do this using asset management principles. They look at the condition and level of deterioration of the infrastructure elements paired with knowledge of the criticality of each infrastructure element to predict when the different elements of the infrastructure need to be rehabilitated or replaced. There is a very strong financial policy to program out replacement costs for a 75-year period without causing significant cost increases and rate spikes.

Commissioner Wan asked how they prioritize higher risk versus lower risk projects. Assistant Director De Boldt explained staff has developed a robust way of prioritizing projects by working carefully across departments and across the City. Mr. Landau reviewed the prioritization criteria used in this process such as improving the reliability and resilience of the system; employee safety and regulatory concerns; environment; schedule constraints; and service equity.

10. REVIEW OF COMMISSION & COUNCIL CALENDARS

Deputy Director Liu reviewed the Commission and Council calendars.

11. ADJOURNMENT

Motion made by Chair Knezevic, seconded by Vice Chair Khanloo, to adjourn the meeting. The motion passed unanimously (6-0).

The meeting was adjourned at 8:10 p.m.

DRAFT