

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

Thursday
April 7, 2022

Zoom
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), Negin Khanloo (Vice Chair) ¹, Andy Dupertuis, Neal Hines, Anne Howe, Diann Strom, Ken Wan

COUNCIL LIAISON: Conrad Lee

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Lucy Liu, Deputy Director; Elizabeth de Regt, Senior Planner; Linda De Boldt, Utility Engineering Assistant Director; Brian Landau, Planning Manager, Utilities; Andy Baker, Utilities Fiscal Manager; 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 Commissioner Wan, seconded by Commissioner Strom, to approve the agenda. The agenda was approved unanimously (7-0).

4. WRITTEN COMMUNICATION

None.

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

Vice Chair Khanloo joined the meeting at approximately 6:33 due to technical difficulties.

Councilmember Lee expressed appreciation to the commissioners for their service. He explained that the City is going through pandemic recovery efforts. Staff and the Council are working hard to prepare the new budget and set the rates. He offered to provide any information that the commissioners might need from Council in their budget and rates review.

6. STAFF REPORTS

Deputy Director Liu explained that Council will begin to meet in person on April 18, but it has not been determined yet when the Commission will be able to meet in person. This will be communicated to the ESC as soon as the information is available.

7. APPROVAL OF MINUTES

A) 3/3/22 MINUTES

Motion made by Commissioner Strom, seconded by Vice Chair Khanloo to approve the 3/3/22 minutes as presented. Upon a roll call vote, the motion passed unanimously (7-0).

8. UNFINISHED BUSINESS

None

9. NEW BUSINESS

a) Comprehensive Plan Periodic Update: Project Launch

Elizabeth de Regt, Senior Planner, gave some background on the City's Comprehensive Plan, summarized the purpose of the update, highlighted the main update areas, discussed the update schedule and process, reviewed the community engagement portion, and discussed how the ESC will be involved.

The Comprehensive Plan is a Growth Management Act (GMA) requirement and is a 20-year vision for how the community grows. It sets the policy that guides city actions/decisions and capital investments. The Utilities element of the Comprehensive Plan includes City-managed utilities (wastewater, water, storm and surface water, and solid waste) and non-City-managed utilities (electrical service, natural gas service, and telecommunication services).

The update is needed to remain current and relevant, to address regional requirements, and to reflect the Council's updated vision. A large part of the Comprehensive Plan is planning for growth using the growth targets. Growth targets are a policy statement about the amount of housing and jobs we plan for

for at least a 20-year period. The growth targets are created collaboratively by all cities and King County and are adopted as part of the King County Countywide Planning Policies (CPPs).

Ms. de Regt reviewed the adopted growth targets of having 35,000 additional housing units and 70,000 new jobs by 2044. She pointed out that there is enough capacity for the jobs already, but not enough capacity for the housing units. As part of this update, the City will need to figure out where they can increase capacity for housing. Making sure there is the right balance between jobs and housing units is a priority.

The focus of the Comprehensive Plan Update is to:

- Plan for growth: Land Use Map amendments and broader categories, and Countywide and Regional Centers
- Expand housing options, access to affordable housing, and approaches to combat homelessness
- Create vibrant places at a variety of scales and locations
- Ensure equitable approaches with a focus on underserved and underrepresented community members (diverse and inclusive engagement, displacement considerations, legacy of discrimination education and response)
- Emphasize environmental sustainability and resilience
- Set the stage for future planning

Streams of engagement for the process will include public engagement events, surveys, and discussions; strategy team (stakeholder group) engagement; public comment at board/commission/council meetings; and board and commission comments. All this input will come together in the draft Comprehensive Plan which will go back through the engagement process. After that, a more finalized draft plan will go to the Planning Commission for a recommendation to City Council prior to adoption. She reviewed the community engagement strategy, timeline, types of outreach activities, and the planning timeline.

b) Utilities Proposed 2023-2029 CIP Online Open House Summary

Assistant Director Linda de Boldt

Utilities Systems Planning Manager Brian Landau

Mr. Landau briefed the Commission on public comments and responses to the 2023-2029 CIP Online Open House. He explained the goals for the online open house were to: provide transparency in the CIP planning process; to encourage greater public engagement; and to reinforce the value of capital investments in the community. Staff utilized a multi-tiered approach to meet the multiple goals of the open house which was hosted on the Engaging Bellevue site. They worked with the City's graphics department to create an easy-to-understand version of the

proposed budget, and they encouraged site visitors to provide input using a short survey.

Respondents ranked the value of investing in specific areas represented in the CIP plan and had the opportunity to provide additional comments. The three areas ranked were: support for replacing aging water, sewer, and storm pipes before they fail; whether they agree with projects that support the health of our environment such as removing fish passage barriers and reducing polluted runoff; and whether they support projects to increase water and sewer system capacity where needed for planned population and employment growth. Staff strongly publicized the open house and made the CIP overview information and survey available in the seven major non-English speaking languages in the city. The levels of engagement significantly increased from the prior online open house.

81 survey responses were received. Respondents overwhelmingly support the Utilities CIP. There was the strongest support for projects that replace aging infrastructure, slightly less support for projects that support the environment, and slightly less support for projects that increase system capacity to address population and economic growth. 45 comments were received associated with the survey along with three additional emails. All the responses have been forwarded to the ESC. Mr. Landau summarized that there was support for the S-117 Sewer Extensions to Septic Sewer Areas project. Rate affordability was a common comment with many commenting that utility rates are too high. There were several comments that were opposed to utilities investments in growth projects. There was support for environmental preservation projects.

Mr. Landau concluded that there was a significant increase in engagement in the online open house from two years ago. Staff learned there is overall support for utility projects and the CIP. They also learned that the promotion of the CIP, promoting clearer information, and providing translations increased engagement.

Discussion:

Commissioner Hines asked how many septic systems there are within the city. Mr. Landau replied that there are between 900 and 1000 septic systems within the city. They are concentrated in areas in Eastgate, Factoria, and northern Bellevue.

Commissioner Strom thanked Mr. Landau for the presentation. She was pleased about the increased engagement. She asked for a response to a comment she saw that Bellevue has the highest rates in the nation. Deputy Director Liu replied that Bellevue does not have the highest rates in the nation. She noted an article was published several years ago that stated that by mistake, but it was not true. Bellevue's rates are competitive relative to our neighbors.

Commissioner Wan also thanked staff for the presentation. He was happy about the significant improvement in engagement. He asked about any actions resulting from the comments received. Mr. Landau explained that the only comments received that were related to specific proposals were the ones related to the sewer system, and those were supportive of the proposal. Other than those, there weren't any comments that would guide staff to change any proposals.

Commissioner Wan noted there is a sentiment from some customers that they are paying too much for water. He asked if and how this would be addressed. Assistant Director de Boldt replied that staff could consider providing feedback back to the community in the form of further engagement. She commented that in future community outreach staff could provide information at a slightly higher level of detail about how the CIP is developed. They could also explain that utility projects addressing growth are included in the CIP, but there is a cost recovery process from the development community. Commissioner Wan spoke to the importance of responding to feedback to encourage more engagement.

Chair Knezevic commented that it is a constant complaint on Next Door that Bellevue is the most expensive nationwide. She has heard it from many out-of-state people moving here. She noted that the staff presentations always compare Bellevue to other local jurisdictions, but she thinks the issue is bigger than that.

Commissioner Hines commented that he has done an analysis on utility rates for the cities of Bellevue and Minneapolis and has found them to be comparable. He noted that rumors can fly easily, especially on social media. He appreciates increased engagement on social media but asked if staff is looking into addressing rumor management. Mr. Landau commented that the comments were received from the survey and comments through Engaging Bellevue and not through social media sites. Assistant Director de Boldt noted that next time staff could explore having an active role on media like Next Door to correct incorrect information. Deputy Director Liu thanked the Commission for all the great suggestions.

c) 2021 Year-End Financial Report – Water, Sewer, Storm & Surface Water, and Solid Waste Utility Funds

Andy Baker, Utilities Fiscal Manager

Mr. Baker made an informational briefing on each of the four utilities – water, sewer, storm and surface water, and solid waste. He reviewed the responsibility of the City to exercise fiscal prudence and maintaining financial sustainability while providing service delivery. One utility goal is to avoid surprises by providing predictable rates and avoiding needing one-time rate spikes or mid-year increases. Another goal is to provide consistent service delivery levels to customers regardless of what kind of year financially the utility may be having. This requires

prudent, measured fiscal planning following the direction of Council-adopted financial policies and utility rate making best practices.

Overall, all four utilities ended 2021 in a positive financial condition because of long-term prudent financial planning approach, conservative revenue forecasting, and proactive cost containment measures. All utilities ended with fund balances above expectations. As a result of that, per Council-adopted financial policy, fund balances above expectations were transferred to the Renewal & Replacement (R&R) account for future capital needs.

Water: This utility began 2021 with \$3.1M of fund balance above budget. Reasons for this included higher than forecasted water usage. Development activity was also well above anticipated levels. Utilities took proactive cost containment measures at the beginning of the pandemic and throughout 2021 to control expenditures. The net effect was that controllable expenditures were \$0.5M below budget. Those savings were offset by higher than budgeted taxes and pass-through expenses. Because of the higher revenues, Utilities was able to make a \$7.6 million year-end R&R transfer. This will help mitigate future rate increases. The ending fund balance was above budget by \$3.1M which will allow the City to manage delays and one-time expenditures in 2022. As part of the budget process the reserve levels will be evaluated going into 2023.

Sewer: Sewer began 2021 with a beginning fund balance of \$12M which is \$3.4M above budget. Revenues were \$4.6M above budget. Expenditures were \$1.0M under budget. \$4.9M was transferred to R&R, and the ending fund balance was \$4.0M above budget.

Storm & Surface Water: The beginning fund balance was \$1.3M above budget. Revenues were \$0.1M below budget. Expenditures were \$1.1M under budget with a \$1M year-end transfer. The ending fund balance was \$1.3M above budget.

Solid Waste: This fund had a beginning fund balance of \$0.5M above budget. Revenues were \$0.2M above budget. Expenditures were \$0.2M under budget. The ending fund balance was \$0.9M above budget.

Mr. Baker summarized that all utilities ended in a positive financial condition, each utility remained self-supporting and fiscally sound, and Utilities' financial management and reserve policies have been met.

Commissioner Strom asked what happens with the ending fund balance for solid waste. Mr. Baker replied that there are reserves. For the pipe utilities, there is an operating reserve and R&R reserve. With the solid waste utility, there is just an operating reserve. The fund balance above budget was still transferred to a separate R&R reserve. Deputy Director Liu further explained that these funds are

used for cash flow and operating needs and towards programs to improve recycling and diversion.

Commissioner Strom asked if there has been a time recently when they haven't transferred funds to R&R. Ms. Liu replied that there have been years when they have had to use R&R funds. Transfers have been made to sewer and storm consistently. Water has needed to use the funds for replacements.

Commissioner Wan asked about levels at which the excess funds would not be transferred to R&R but used for something else. Mr. Baker commented that with the current forecasting they are not at state where they would not need increases in the rates in the future associated with future capital needs. Until that level is achieved, they would choose to transfer any excess fund balances to R&R to mitigate any future rate increases. Deputy Director Liu added that they are just in the beginning stages of replacing the sewer system infrastructure and have not started to do this systematically in the storm utility. Staff anticipates that they are going to need to continue to place funds slowly over time into these utilities to have a smooth rate path in the long-term.

Commissioner Wan commented that from a rate payer standpoint it would be helpful to know how far away they are from the goals for storm, sewer, and water needed amounts. This would be useful in educating the rate payers to address the concerns about high rates. He also asked about an earlier comment that the purpose of putting money in the R&R was to avoid spikes in rates and mid-cycle rate adjustments. Mr. Baker replied that the funds are to avoid spikes in rates for capital needs. The comment about mid-cycle rate adjustments made earlier referred more to the approach of prudent rate setting overall in the budgetary practice. Having the reserves on hand allows the City to weather any revenue shortfalls that may occur to maintain service delivery.

Commissioner Wan asked when the last time was that they made a mid-cycle rate increase. Deputy Director Liu said she didn't recall doing one in the last ten years that she has been with the City. She recalled around 2010 they did have to recalibrate the water rates because they were too low to pay for the water CIP needs. Utilities' strategy is to plan in such a way that they don't have to do that. Commissioner Wan asked if they might be a little too conservative with the fiscal planning policy. Mr. Baker noted that they look at this in their forecasting. He explained circumstances surrounding their forecasting related to COVID. Looking back, they observed it was a little too conservative, but they adjusted this moving forward. Deputy Director Liu added that staff reviews this with every budget cycle.

d) 2023-2028 Utilities Early Outlook Rates Forecast

Andy Baker, Utilities Fiscal Manager

Mr. Baker made the presentation. He explained that the ESC Role and Responsibilities are to review policy; review the proposed CIP, budget, and rates; ask questions and provide feedback; hold a public hearing; and make budget and rates recommendations to Council.

There are two sets of key financial policies – rate management and capital investments

- Rate Management: Council-adopted policies state that rates shall be set at a level sufficient to cover current and future expenses; changes in rate levels should be gradual and uniform; and cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers. He reviewed a slide showing the importance of pass-through wholesale costs. Local programs would have to be cut by 19% if wholesale costs were absorbed and not passed through to the customer.
- Capital Investment Policies state that funding for capital investments shall be sustained at a level sufficient to meet long-term capital program costs; funding from rates shall fund current construction and engineering costs and contributions to the R&R account; inter-generational equity will be ensured by making contributions to and withdrawals from the R&R account in a manner which produces smooth rates.

Mr. Baker reviewed a chart showing the funding for water capital investments including transfer to CIP, transfer to R&R, use of R&R and total rates for capital by year. He explained that the additional funds transferred to R&R in 2021 have reduced the level of total rates that are needed for capital without compromising the long-term sustainable level of reserves.

The Sewer Utility is in the beginning stages of system replacement. Most of the CIP is focused on repairs so it is important to put enough money aside for when the replacements begin. The Sewer Fund is making more contributions to the R&R fund than Water is. This reflects the strategy to build capacity and set aside funds for when they reach full active replacement levels.

The Storm Utility has not begun system replacement. The focus is to determine the condition of assets which will then inform the replacement needs. This utility is in a mode of defining needs and building up R&R reserves until they transition to active replacement.

2023-2028 Early Outlook Rates Forecast:

A key principle of developing the budget includes supporting Council's strategic direction by supporting the City's economic development, by protecting the utility

infrastructure, which is part of the built and natural development, and by being a high performing organization. He explained that rates pay for wholesale costs (39%); taxes and support services (15%); capital infrastructure investments (30%); and daily operations (16%).

Key challenges for rates are very high inflation, wholesale costs, and aging infrastructure. He reviewed rate increases forecasted for each utility. The overall increase for Water is expected to be 5.5% in 2023; 4.9% in 2024, 2025, 2026, and 2027; and 4.6% in 2028. The Sewer rates increase are expected to be 6.4% in 2023, 5.7% in 2024, 5.6% in 2025, 6.2% in 2026, 6.8% in 2027, and 6.7% in 2028. Storm and Surface Water rate increase forecasts are 5% in 2023-2026 and 4.8% in 2027 and 2028. For each utility Mr. Baker broke down wholesale (where applicable), capital, taxes/interfund and local operations percentages of the increase.

For the typical residential customer, the total combined utility bill is expected to increase by 5.9% in 2023 and 5.3% in 2024. In 2023 that equates to \$11.55. In 2024 that equates to \$11.06. Mr. Baker gave a regional comparison of 2022 rates and noted that Bellevue is somewhere in the middle of Issaquah, Kirkland, Seattle, Mercer Island, Redmond, and Renton. Similar trends are expected in the near term. In the long term, Bellevue expects to have lower rates because of proactive financial planning.

Commissioner Wan asked how well the Utilities Department has done in forecasting versus actual rate increases in past years. Mr. Baker indicated he would bring that information back.

Commissioner Hines noted that it would be very useful to do some national comparisons in addition to the local rates comparisons. Mr. Baker stated they could put some thought into communities that might be comparable, but there are many factors to consider when making comparisons such as the size of the community, the topography, the wholesale relationship, the water supply ownership relationship, the age of the system, and the historical funding source for that system.

Chair Knezevic agreed that it would be very challenging to compare Bellevue with other jurisdictions nationwide because Bellevue is unique in several ways. It would be important to understand other utilities' departments and their budgeting to compare it to Bellevue. Mr. Baker agreed but noted other utilities might have a different amount of liability in their infrastructure than Bellevue does. Chair Knezevic also thought it would be important to keep in mind that Bellevue is very strong at updating infrastructure. Mr. Baker concurred and observed that the overall average age and state of the Bellevue's infrastructure is in better shape than many comparably sized utilities that they might happen to choose. Chair Knezevic commented that it is important to convey this to the public.

10. REVIEW OF COMMISSION & COUNCIL CALENDARS

Deputy Director Liu reviewed the budget review calendar. Based on revisions to the citywide budget calendar the May 5 regular meeting will be cancelled, and there will be a special meeting on June 16. A special meeting on September 15 may also be needed for budget follow-up. The Commission was polled, and it appeared that there will be a quorum on June 16 and September 15. Instead of a recess, the August 4 regular meeting will be needed for a budget follow-up meeting and/or an O&M tour. It appeared that there will also be a quorum on August 4. Additionally, the Chair will have an opportunity to present the Commission's budget and rates recommendation to Council. This is tentatively scheduled for October 24.

Councilmember Lee thanked staff for the excellent presentations, thanked commissioners for the great questions, and suggested that the commissioners have more in-depth conversations with staff about rate policies and approaches going forward. He stressed that R&R provides smooth, gradual, and uniform rate increases to avoid rate shock. The challenge is that they are using future predictions such as inflation and pass-through costs over which they have no control. The City is doing very well with the things they do have control over, but there are many uncertainties. Deputy Director Liu added that commissioners are always welcome to contact staff and to provide comments throughout the process.

11. ADJOURNMENT

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

The meeting was adjourned at 9:00 p.m.