

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

Thursday
June 2, 2011
6:30 p.m.

Conference Room 1E-112
Bellevue City Hall
Bellevue, Washington

COMMISSIONERS PRESENT: Chair Helland; Commissioners Cowan, Mach, Morin, Swenson, Wang, and Weller

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Wes Jorgenson, Nav OtaI, Anne Weigle, Bob Brooks

MINUTES TAKER: Laurie Hugdahl

1. CALL TO ORDER

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

2. ORAL COMMUNICATIONS

None

3. APPROVAL OF AGENDA

Motion made by Commissioner Wang, seconded by Commissioner Swenson, to approve the agenda. Motion passed unanimously (7-0).

4. WELCOME NEW COMMISSIONERS – Aaron Morin and Paul Weller

Nav OtaI gave a warm welcome to the new commissioners, Aaron Morin and Paul Weller, on behalf of the Council and Mayor Davidson. She distributed a Utilities Business Profile for their information and invited them to contact staff for any additional information they might need. The new commissioners gave brief introductions of themselves. Mr. Jorgenson also welcomed the new members to the commission.

5. APPROVAL OF MINUTES

May 5, 2011 Regular Meeting Minutes

Commissioner Wang referred to the fifth paragraph on page 10 and said he would like more detail about how the City will address development in Bel-Red with

floodplains in mind. He then referred to the beginning of the fourth paragraph on page 14 and noted that *Helland* should be corrected to read *Chair Helland*.

Motion made by Commissioner Wang, seconded by Commissioner Cowan, to approve the minutes as corrected. Motion passed unanimously (7-0).

6. FOLLOW UP QUESTIONS/ANSWERS

None.

7. REPORTS AND SUMMARIES

a. ESC Calendar/Council Calendar

Mr. Jorgenson presented the changes to the calendar. Highlights were as follows:

- Stormwater 101 was moved to October.
- Sewer Comprehensive Plan removed from this calendar in November and December due to the serious illness of the presenter. Chair Helland asked about the schedule for the Sewer Comp Plan. Mr. Jorgenson explained that it is not time sensitive so there is no urgency on this.
- The annual CIP tour will be held on June 30 from 5:30 to 8:30. Mr. Jorgenson will be out of town, so Scott Taylor will be the tour guide.

b. Desk Packet Material

- Information on two new commissioners.
- Calendar for Outreach Program.

Commissioner Morin asked if there was anything he needed to be concerned with on the back side of the ESC calendar. Mr. Jorgenson commented that the bottom four items had been removed or rescheduled. The first two items are tours that are available to the ESC on an ongoing basis. Ms. Weigle indicated she would check on the schedule of those tours for the new members. Commissioner Wang strongly recommended the tour of the recycling facility.

c. Reserve Policy Presentation

Anne Weigle, Assistant Director for Resource Management and Customer Service introduced Bob Brooks, Utilities' Fiscal Manager. Mr. Brooks gave a PowerPoint presentation on Operating Reserves 101 as contained in the handout distributed to the Commission. He reviewed the types of

Utilities' reserves which include: Operating Reserves, Asset Replacement Account (ARA) Reserves, and Capital Reserves (R&R).

Operating Reserves are reserves intended to cover cash flow needs and other purposes. These are amounts set aside purposefully to ensure the long-term financial and rate stability under normal conditions. Operating reserves are only available for specific purposes. They are not spent for ongoing expenses. They are also for at least partial funding in the event of unforeseen circumstances (like an economic downturn or emergency event). Operating reserves are not designed to cover each and every potential situation. They only address reasonably anticipated circumstances although they are able to be adjusted every two years as part of the budget process. They are governed by Reserve Policies that were formalized in 1995.

Key Reserve Policy Objectives are to minimize reserve levels while limiting concurrent risk; to manage reserves to mitigate adverse impacts on rates due to increasing or decreasing reserve levels; to provide advantages of consolidated reserves while avoiding subsidies between utilities; and to maintain the creditworthiness of the utilities and related access to debt markets and low interest costs.

Chair Helland asked if they are able to borrow from other reserve funds. Mr. Brooks said they can borrow as long as they pay interest to the other fund.

Mr. Brooks stated that components of reserves are Working Capital, Operating Contingency, and Plant Emergency. The parameters for each reserve were done by a consultant in 1995 and updated in part in 2004. Staff plans to do an internal review of major components of operating reserves and bring recommendations for changes back to the Commission. They also plan to include money in the 2013-14 budget to hire a consultant to do a more comprehensive review of the reserves with the idea of simplifying the reserve structure and possibly consolidating some reserves even further.

Working Capital is used for the lag between when expenses are incurred and when revenues are received. This also helps to cover normal cyclical fluctuations which occur within the two month billing cycle and during the budget year. Utility billing (revenues) occurs on a bi-monthly basis, while some expenses occur bi-weekly, monthly, seasonally, or as needed.

Components of the Working Capital Reserve shows the Bimonthly Revenue Cycle with the variation in revenue between months due to billing patterns.

- Water – 7 days of City O&M expenses and 7 days of CWA costs.

- Sewer – 4 days of City O&M expenses and 4 days of Metro costs
- Storm & Surface Water – 18 days of O&M expenses

Mr. Brooks distributed information about the parameters and how they were developed.

Commissioner Wang asked if the 7 days of expenses for Water was enough to cover the two to three month lag time. Mr. Brooks explained that it referred to 7 days of total O&M expenses. Also, this is only one component of the reserves.

Mr. Brooks walked the Commission through an example of how this actually works with the fluctuation in revenues from month to month. The monthly revenue variation averages 23% in 2010. 23% of revenues is about 23% of O&M expenses which is 7 days of O&M expenses ($7 = .23 \times 365 / 12$)

There is also a payroll cycle of twice a month. The timing of fixed cash requirements for payroll is related to revenue cycles.

- Water: 4 days of City O&M expenses and 4 days of CWA costs.
- Sewer: 6 days of City O&M expenses
- Storm and Surface Water: 7 days of O&M expenses.

Wholesale Expense/Revenue Lag – Delay between wholesale costs and corresponding revenues.

- Water: 10 days of City O&M expenses and 10 days of CWA costs
- Sewer: 15 days of Metro costs
- Storm and Surface Water: None

Debt Service Accrual – Allowance towards next transfer into restricted bond repayments accounts

- Water: None
- Sewer: None
- Storm and Surface Water: 4 days of O&M expenses

Seasonal Revenue Variation – Provision for cumulative losses prior to peak revenue period

- Water: 49 days of City O&M expenses and 49 days of CWA costs
- Sewer: 3 days of City O&M expenses and 3 days of Metro costs
- Storm and Surface Water: None

Miscellaneous Reserve Components - Additional reserve levels appropriate for cash flow management:

- Water: None
- Sewer: 7 days of City O&M expense and 8 days of Metro costs

- Storm and Surface Water: None

Total Working Capital Reserve:

- Water: 70 days of City O&M expenses and 70 days of CWA costs
- Sewer: 20 days of City O&M expense and 30 days of Metro costs
- Storm and Surface Water: 29 days of O&M expenses.

The purpose of Operating Contingency Reserves is to protect against annual budget shortfalls due to poor financial performance and/or economic downturn. There is no immediate offset in wholesale expenses due to lower usage for both Water and Sewer. Water is most susceptible to year-to-year variations in demand. Operating Contingency reserve requirements are expressed as a percentage of budgeted O&M expenses and wholesale costs.

Components of Operating Contingency Reserves include:

- Reduced Sales – Difference in revenue between a “normal” and a “pessimistic” year, offset by reduced wholesale costs
- Potential Under-Recovery of Interfund Service Revenues – Based on the potential for reduction in use by other City departments
- Economic Downturn – based on the possibility of a loss of a top ten customer for a full biennial budget period

Plant Emergency Reserves provide protection against a system failure at some reasonable level. Storm & Surface Water requires the largest reserve due to risk of major flood damage to Utility facilities. They do not protect against the loss of facilities that are covered by the City’s Self-Insurance fund and they are not intended to cover all losses due to a major disaster, such as an earthquake or major flood.

Chair Helland asked if the amount shown for reserves is for an annual basis or for a certain period. Mr. Brooks responded that it is the amount that is kept in reserves so it is available as needed. Chair Helland asked how often they have a major event. Mr. Jorgenson replied that there are a lot of failures, but they are small in nature and don’t require the City to dip into this reserve. He explained that they have borrowed from the R&R fund in some cases to deal with failures.

Overlap and Consolidation of Reserves allows some reduction in overall requirements for Water and Sewer. There is also the potential for consolidating reserves among the three utilities. Reserve policies permit the use of inter-utility loans to address reserve shortfalls, allowing Utilities to maintain lower reserve levels while minimizing the risk of rate spikes to cover unexpected expenses.

Adjustments to Operating Reserves including changes from target reserve levels for Overlap and Consolidation were reviewed. Mr. Brooks pointed out that the Plant Emergency Reserves for Water and Sewer (after adjustments for overlap and consolidation) is actually zero and the Storm and Surface Water amount is \$210,000. This is because they have the ability to borrow from the other funds if necessary.

Reserve Management: Reserve levels are designed to fluctuate from planned levels. There are three important thresholds: maximum reserves, target reserves, minimum reserves. Where the reserve balance is in relation to each of the thresholds dictates needed actions. Mr. Brooks explained what action is taken when reserves are above maximum, between target and maximum, between minimum and target, below minimum and negative balance.

Commissioner Mach asked what level the reserve is at right now. Mr. Brooks thought that most of the utilities are somewhere near the target - above the minimum, but below the maximum. He noted that those numbers are forecasted to go up and down, but at the end of the forecast period they are all forecast to be right at the target.

Commissioner Cowan asked if when the forecast occurs is the point when they are evaluated. Mr. Brooks affirmed this and noted that the forecast is done every two years as part of the budget. The budget is monitored on a monthly basis, but typically they wouldn't take any action unless there is a serious situation. If it is an emergency they could take action at any time. Ms. Weigle added there is a point in Water utility where reserves fall slightly below the minimum (by design) but they are back up again within the forecast period.

Commissioner Mach wondered if they would get to the maximum at some point. Mr. Brooks responded that typically they are never at the maximum. This is a range they like to stay within to help smooth out the rate increases. Typically they are never above the maximum or below the minimum. Mr. Jorgenson commented that if there are some unusual circumstances like a really hot and dry period where people water a lot, revenues might exceed the forecast. The opposite can also occur if they have a prolonged wet period through the summer. Those kinds of events can impact how close they get to the maximum or minimum ranges. Commissioner Mach asked what would happen with the contributions if they ever do reach the maximum level. Mr. Brooks stated that the reserves are always tied to the amount of expenses for the year. As reserves go up then expenses go up. If they ever go to the place where they are always above target, they would use the surplus to prepay some R&R which would reduce the need for rate increases to fund R&R in the future to bring that line down to the target.

Commissioner Morin asked if the targets are set by the 1995 study as updated by the 2004 study. Mr. Brooks stated that the parameters were set by the 1995 study as updated, but they are applied to current year budget numbers so the dollars change accordingly. Commissioner Morin asked who manages the funds. Ms. Weigle stated that they are managed by the City.

Commissioner Weller asked about the process for rate increases and decreases. Mr. Brooks explained that Council must adopt all of the rates. They go to Council as part of the biennial budget and if needed, they can go at other times although this happens rarely. Mr. Jorgenson added that any rate recommendation would also come to the ESC. This is one of the primary responsibilities that the Commission has. Ms. Weigle recalled that in 2009 they made the adjustment for fire flow capacity and had to remove the cost of that from the rates mid-biennium; that action was not taken to the Commission although they were apprised of it.

Mr. Brooks explained that in the case of a negative balance they would borrow reserves from another utility or R&R to meet working capital needs. They could impose a rate increase sufficient to ensure that even with adverse financial performance, reserves would be replenished to at least the minimum at the end of the following year and the loan is repaid by the end of the following year.

Commissioner Swenson asked if they have had the situation of a negative balance in the last decade or so. Mr. Brooks replied that they have not. He explained that if they start to get below the minimum they have the opportunity – either through an emergency meeting with Council, the mid-biennium, or the normal two-year process – to get it back in line. Mr. Jorgenson added that they take pride in the fact that they have not experienced that. He attributes this to the level of planning and forethought the City had in managing and maintaining the systems. Ms. Weigle added that they also have specific adopted financial policies for Utilities, which many cities do not have. She commended the Council for the foresight to establish those.

Commissioner Morin asked about situations that might put the City in “red” with a negative balance. Mr. Jorgenson explained that this would be a serious natural disaster or some other catastrophe. He noted, however, that in the situation of a natural disaster there would also be federal and state funds that would help.

Minimum and Maximum Operating Reserves were reviewed further, including changes from the target reserve levels.

Chair Helland questioned the rationale for why these parameters were chosen. He asked how often they are above or below the target. Mr. Brooks stated that they are as often above the target as below, but have not ever been above the maximum and almost never below the minimum. He reiterated that by the end of forecast period they almost always project that they will be right on target.

Commissioner Wang commented on the inconsistency between expressing the amounts in days and percentages. Mr. Brooks stated that they could express this in a consistent way for better understanding.

Commissioner Wang asked if the Council had adopted what the ESC had recommended to them during the last budget process. Ms. Weigle explained that what he was referring to was for the R&R. She commented that the Council did not take the ESC's recommendation; they did take the R&R cut to reduce the rate increases..

Current Reserve Levels as of December 31, 2010:

- Water \$7.2 million
- Sewer \$6.4 million
- Storm \$4.2 million
- Solid Waste \$1.0 million

Chair Helland asked if Utilities maintains the Solid Waste reserve. Mr. Brooks replied that they do. Staff is currently reviewing an operating reserve policy for Solid Waste. Chair Helland asked what the Solid Waste reserve would be used for. Ms. Weigle explained that it would be used for some contingencies or emergencies, but would be much smaller than the other reserves.

Mr. Cowan asked where this \$19 million of reserve funds sits. Mr. Brooks explained that is with all of the other reserves and is managed by the City. Mr. Brooks commented that the interest that is earned off the reserves is treated as annual revenue and is used to offset rate increases. He commented that target reserve levels are tied to the level of expenses so as expenses go up the target level of reserves goes up too. Commissioner Mach thought that revenues also would go up as the expenses go up. Mr. Brooks commented that eventually they would if they have rate increases to match it, but it doesn't happen automatically.

Chair Helland asked what would happen if there is a lot of water conservation. Staff explained that they have seen that over the last ten years and this has been a big topic for Utilities across the region. The Water long-term revenue forecast has been adjusted because of that. Mr. Jorgenson explained that even if water is not used there are still fixed costs associated with maintaining the assets.

Commissioner Swenson asked who would be included in the top ten customers. Ms. Weigle replied that Overlake Hospital, Coca Cola, Safeway, and some large residential properties were in the top ten customer list.

Commissioner Weller asked if the City's conservation goal is accounted for in the rates. Ms. Weigle stated that this is based on Cascade Water Alliance's goal. Mr. Jorgenson stated that they have achieved the ten-year goal well in advance of the ten years.

Commissioner Weller asked when the last Water Comprehensive Plan was adopted. Mr. Jorgenson thought that it was in 2008. They are required by the state to update it every six years.

Commissioner Morin asked if it was true that as usage goes down, rates go up. Mr. Jorgenson said this is not necessarily true. If revenues go down they try to see what they can adjust on the expense side. Commissioner Morin asked if there is a longer term plan about how to address this in the future as conservation efforts increase. Ms. Weigle explained that they are currently grappling with this issue along with other entities. Mr. Jorgenson stated that their biggest challenge is the aging infrastructure and the fact that the replacement cost is \$3 billion which will have to be incurred in the next hundred years or sooner.

8. NEW BUSINESS

Election of Chair and Vice Chair

Motion made by Commissioner Wang to re-elect Brad Helland as Chair. The motion was seconded by Commissioner Swenson and passed unanimously (7-0).

Motion made by Commissioner Wang to elect Keith Swenson as Vice Chair. The motion was seconded by Chair Helland and passed unanimously (7-0).

9. DIRECTOR'S OFFICE REPORT

None.

Commissioner Swenson asked to revisit the presentation about the lake mains. He suggested that there are some alternatives that should be looked at. Mr. Jorgenson concurred and noted that they will be looking at any technology and alternatives that they have. He clarified that the lakelines do not only serve the lakefront properties; there are blocks of houses that drain to the lakes. For example, on

Hunts Point or Evergreen Point, everyone on the point drains to the lake. Chair Helland asked to know the total number of houses served on the lakeline. Mr. Jorgenson offered to find out that number and bring it back.

Commissioner Swenson asked if they are only looking at Lake Washington or if they are looking at Lake Sammamish too. Mr. Jorgenson said that they are only studying Lake Washington at this point because Lake Sammamish has newer mains.

Commissioner Swenson suggested that an interceptor type of line might capture most of what is up the hill with some back-pumping from the bottom. Mr. Jorgenson commented that it will be a significant challenge to figure out how to redirect flows from the lakelines. It may mean putting a pump at the end of every street that goes to the lake. For Evergreen Point, this could mean that they have 30 pump stations that service various cul-de-sacs and streets. This would also require some kind of force main in the main street that has the ability to take all these various pumps into a single system. They have also looked at putting in a vacuum system for the Meydenbauer lakefront property owners as one of the options.

Commissioner Wang commented that some of the people served on the lakeline are not actually in Bellevue's city limits. Mr. Jorgenson acknowledged this, but noted that they are in the service area.

Chair Helland asked if Phase 3, where they do an evaluation of all the alternatives, is planned. Mr. Jorgenson said that the initial study will tell them when they need to start looking at that. It may still be many years off. He added that when the time is right they will look at any options that they are aware of as far as alternatives for the various solutions.

Commissioner Wang thought that the solution would likely be fragmented for different segments. Mr. Jorgenson concurred. He commented that this will be a very interesting engineering challenge.

10. CONTINUED ORAL COMMUNICATIONS

Brian Parks, 16011 SE 16th Street, Phantom Lake Homeowners VP, discussed Phantom Lake policies and suggestions for the Stormwater Plan. He stated that for an effective Shoreline Master Plan and Stormwater Management Plan pertaining to Phantom Lake, water levels and water quality must be managed. Residents would like to keep the lake below 260.7 NABD to prevent saturation and flooding. For the last ten years the average lake level has been above this level. The timber settings and the past target documents for the outlet weir have been designed for lake levels above 260.7. He read a portion of a 1984 memo to the Public Works Department from the Storm Drainage Department regarding the Phantom Lake weir design for storm detention use.

He then summarized some of the proposed Phantom Lake policies and comments:

- Ordinary High Water Mark and the weir settings maximum should be 260.7. Damming up the lake above that just results in flooding properties.
- Cut out the weir so that when storm events happen the flow going through there can at least match the downstream bottleneck of the 24” pipe without going above 260.7.
- Correct the depth discrepancy. The weir appears to be 6 inches higher than reported.
- Utilities has proposed to do an outlet cleaning with some state grant money and parks money. He recommended that alteration of the weir be included with this project.
- The memo he read earlier shows that the City allocated Phantom Lake as a detention site for the landfill. He feels there is an obligation by the City to take care of this system.
- Pond A was originally intended for detention to buffer the lake from storm events. They stopped using it for that and now it is a water quality pond. He recommended that this be returned to its intended usage of a buffer.
- The lake is stagnating because it doesn’t have flow.
- Pond A’s polluted point source outfall should be diverted into the sanitary sewer system. He noted that this water is very high in heavy metals. Over 75% of Phantom Lake’s incoming water is from this landfill. They did a water test and found that the water coming out of Pond A is really high in heavy metals such as copper, zinc, and lead.
- Last fall there was a milky scum on Phantom Lake and then in the middle of winter they had a rare algae bloom. He argued that this shows there are water quality issues with Phantom Lake.

Mr. Parks welcomed the ESC to contact him with any additional questions.

Chair Helland requested that Mr. Parks provide a copy of the testing results showing the high heavy metal content of the water coming out of Pond A. Mr. Parks indicated he would do that.

11. Executive Session

None

12. Adjournment

Motion made by Commissioner Swenson, seconded by Commissioner Helland, to adjourn the meeting at 8:28 p.m. Motion carried unanimously (7-0).