

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

Thursday
June 7, 2012
6:30 p.m.

Conference Room 1E-113
Bellevue City Hall
Bellevue, Washington

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

COMMISSIONERS ABSENT: Commissioner Morin

OTHERS PRESENT: Wes Jorgenson, Nav Otal, Lucy Liu, Pam Maloney, Bob Brooks, Councilmember Stokes

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 Weller, seconded by Commissioner Mach, to approve the agenda as presented. Motion passed unanimously.

4. ELECT CHAIR AND VICE CHAIR

Motion made by Vice Chair Swenson, seconded by Commissioner Wang, to nominate Brad Helland as Chair. Motion passed unanimously (6-0) to elect Brad Helland as Chair.

Motion made by Commissioner Wang, seconded by Commissioner Cowan, to nominate Keith Swenson as Vice Chair. Motion passed unanimously (6-0) to nominate Keith Swenson as Vice Chair.

5. APPROVAL OF MINUTES

May 24, 2012 Additional Meeting Minutes

Commissioner Wang and Chair Helland noted that they would not be voting on the minutes since neither one was in attendance at the May 24 meeting.

Motion made by Commissioner Mach, seconded by Commissioner Cowan, to approve the minutes as presented. Motion passed unanimously (4-0) with Commissioner Wang and Chair Helland abstaining.

6. REPORTS & SUMMARIES

a. ESC Calendar/Council Calendar

ESC Calendar: Mr. Jorgenson commented that at the last meeting staff had recommended swapping the CIP tour and the solid waste contract items on the ESC Calendar. Commissioner Cowan asked about the status of the solid waste contract. Director Otal explained that the City Manager has made a decision that the City will go out for a full RFP. Staff is currently preparing some discussion items for the ESC, but the bid will not go out until late fall. Chair Helland thought that two consecutive meetings to discuss the solid waste contract seemed like a lot. Mr. Jorgenson commented that it actually could be more than two. Director Otal concurred that, aside from budget, this will be one of the Commissioner's major work topics for this year. There was consensus to confirm the revised schedule.

Council Calendar: Chair Helland asked what the "Cascade Budget & Reg Conservation Brief" item was. Mr. Jorgenson explained that it refers to Regional Conservation and it will not be coming to the ESC since it is a regional issue; however, staff could arrange a presentation. Commissioner Wang recommended an orientation presentation regarding Cascade for the benefit of new ESC members. Mr. Jorgenson stated that staff will see when this can be scheduled on the calendar. Chair Helland said he would be more interested in seeing paper copies of the presentation.

b. Desk Packet Material(s)

Conservation & Outreach Events and Volunteer Opportunities

Mr. Jorgenson reviewed the Follow-Up Q&A topics that had been distributed to commissioners. Vice Chair Swenson stated that for the last few weeks there have been signs on his street indicating that something will be happening. Today the signs disappeared entirely. He wondered what might have happened. Mr. Jorgenson offered to look into this for him. Commissioner Mach thought that the 48-hour notice was fairly short. Mr. Jorgenson commented that staff exercises discretion regarding this. 48

hours is a minimum, but depending on the specific activity, additional notification might be provided.

c. Rate/Revenue Stability Design

Utilities Director Nav Otal reminded the Commission of the continuing trend in declining water demand and water revenue. One of the steps taken by the City is hiring the FCS Group to do an in-depth analysis of the water rate structure. She introduced Angie Sanchez Virnoche, Principal of FCS Group, and Chris Gonzalez, Project Consultant at FCS Group. Director Otal reminded the Commission that the Water utility has recently experienced financial volatility. The sales revenue is below budgeted projections due to conservation efforts and changing demographics. Additionally, water demands are down due to near-term climatic and economic conditions. Most Water utility costs do not vary with the amount of water used. Over time, these shortfalls have drawn down utility reserves. Many other utilities in the region are experiencing similar difficulties. Ten years ago everyone was afraid of running out of water. It is a very different situation today.

Chair Helland asked what the total revenue delta would look like on a sustainable level. Director Otal thought that it was about \$2-3 million. Commissioner Mach asked if the reasons stated for the decline in sales revenue were staff's opinion or a finding of the study. Director Otal explained that the study confirmed the reasons. Mr. Jorgenson added that the amount that each contributed is not known, but clearly both are contributing factors to the problem.

Director Otal stated that the City's first response was to take some cost containment measures. Staff looked at one-time cost savings as well as ongoing savings which would have a sustainable impact on the rates. In 2011 and 2012, significant levels of savings were achieved. Utilities also made some adjustments in assumptions for growth rates and reduced revenue estimates in budget for future planning. Next, staff initiated this rate study review to develop alternative rate structures that would enhance revenue stability. Staff had the following objectives in looking at the rate structure: enhance revenue stability, mitigate impacts to customers, fund system reinvestment, provide affordable "core" water service, promote water conservation, and facilitate administrative efficiency. These were the guiding principles for FCSG as the various alternatives were reviewed. Ms. Virnoche then reviewed a summary of the recommendations (as contained in detail in the PowerPoint handout distributed at the meeting) by FCS Group.

Single Family Residential (SFR) Rates are made up of four blocks. The existing rate structure is solid, but because it was established in the mid-90's it is not consistent with usage characteristics from today. FCSG is

proposing a recalibration of the four-block rate structure by changing the definitions of the blocks. This recommendation would essentially add a surcharge rate to the SFR Block Four volume rate, which would improve equity between low users and high users. It would also preserve conservation signals amidst stability-enhancing adjustments.

Commissioner Weller asked why there are only four blocks. Ms. Virnoche explained that the number could be unlimited, but as Director Otal had mentioned, the objective was implementation feasibility.

The proposal for the Multi-Family (MFR) and Non-Residential Rates is to consolidate MFR, Commercial, and Industrial customers into one class. This reflects their similar consumption behavior in aggregate. It is also consistent with recent increases in mixed-use development. FCSG is proposing to retain the seasonal rate differential because it reflects higher costs of summer water to the Water utility. There are no recommendations for changing the Irrigation rate structure.

Ms. Virnoche then reviewed the study process. The goal was to be revenue neutral with the new rate structure. The summary of the 2012 revenue projections show that the recalibrated revenue would actually be \$31.7 million. Based on this, \$16.6 M (52%) would come from SFR, \$6.2 M (20%) from MFR, \$6.1 M (19%) from Non-Residential, and \$2.8 M (9%) from Irrigation. Ms. Virnoche explained that FCSG really looked at the objectives as stated previously by Director Otal when creating a rate structure. She emphasized that some of the goals are conflicting and the trick was in balancing those conflicting goals. Three SFR rate alternatives were then reviewed along with an evaluation of how each meets the stated objectives. Alternative A-3 (Revised 4-Block Structure w/Surcharge) is FCSG's recommended rate structure. It would redefine the blocks that currently exist and add a surcharge on the last block of usage. The reason this alternative was selected was mainly because of the potential for funding system reinvestment and the positive message of promoting water conservation. Several other alternatives were considered, but ruled out due to increased complexity and/or impacts to low users.

Commissioner Weller asked how much the typical consumer knows about the current rate block structure. Director Otal stated that when a customer calls in about their bill, the rate structure is explained to them. It is also spelled out on the customers' bills. Commissioner Wang commented that restructuring the blocks essentially amounts to an increase for some customers. Ms. Virnoche replied that it depends on how Utilities sets the rates.

Ms. Virnoche discussed details of the existing and proposed revised SFR usage blocks. Chair Helland asked what period of time the stated averages

covered. Ms. Virnoche replied that the stated averages are from 2011, but 2010 and 2011 are very similar. Mr. Gonzales commented that FCSG also looked at data from 2004 to 2011 and there is a definite trend toward decreased water usage. Commissioner Mach asked why 2004 was the earliest year that had been looked at. Director Otal explained that Utilities only has consumption data going back in detail until 2004 because that is when Utilities put in the new billing system. Mr. Gonzales added that 2004 is as far as is preferable to go back because of the available data. He noted that it is important to be careful how far back is studied; generally five to ten years is the timeframe that is considered. Commissioner Mach wondered if perhaps the study needed to go back further in time, prior to the downward trend, in order to capture the true 4-block usage amounts. Ms. Virnoche pointed out that the period studied had some hot years as well where the usage spiked, but the trend shows a downward trend of 2.5% on an annual basis. This is consistent with recent regional and national trends and is expected to continue.

Chair Helland asked if the trend line was used in developing the proposed usage blocks. Ms. Virnoche replied that it was one of the things that was considered. Mr. Gonzales stated that the trend line was used in predicting how much water usage is expected to happen. As far as setting the blocks, various years were considered. 2007 appeared to be the most normal sales year from 2004 onward. The average statistics for 2007 were compared with the overall average statistics and found to be consistent.

Commissioner Cowan asked if FCSG predicted a “floor” for the downward trend. Mr. Gonzales commented that that was not the focus of this study. Director Otal added that the future forecast has been adjusted and will continue to be adjusted as real data comes in.

Commissioner Wang asserted that essentially what the proposal does is force people to pay a higher rate by moving approximately 30% of users into the higher rate blocks. Ms. Virnoche reiterated that revenue stability is the goal. The fourth block is the one that is relied upon most today. The fourth block is also the group that has the most control over discretionary usage. Director Otal explained that FCSG is not trying to generate any additional revenue with the new rate structure. *Where* the revenue is being generated from is what is being modified. There will be a different unit rate for the four different blocks.

Councilmember Stokes restated that the total revenue would not change with this proposal. He requested that FCSG explain what the point of the exercise was. Mr. Gonzales explained that part of the goal was to make sure the block structure is targeting the usage that it is supposed to target. FCSG is refitting the blocks to reflect current usage trends.

Ms. Virnoche reviewed the SFR rate alternatives including unit rates and emphasized that the goal is revenue neutrality. Commissioner Wang continued to express concern that this would essentially increase rates for some people because the boundaries of the size of the blocks are being shifted. Ms. Virnoche concurred that there would be some shifting, but if customers in those higher blocks reduce their water usage, it is possible to move to a lower block. Ms. Virnoche noted that there were some bill comparisons coming up in the presentation that might help to clarify this.

Director Otal emphasized that when the existing rate structure was put into place people consumed more. The intention of that design was not to have 83% of the usage be in Block One. This proposal is correcting for the change in usage. Commissioner Morin stated that he would be interested in seeing a graph or tables of usage blocks from the time when the original structure was developed. Vice Chair Swenson commented that the monthly bill for some lower users could actually decrease. Ms. Virnoche concurred.

Chair Helland asked how the fixed costs relate to Cascade. Ms. Virnoche explained that in 2004, 36% of the total revenue needs were related to Cascade. Now because of the revenue decrease, about 47% of the total revenue needs are related to Cascade. She summarized that the fixed costs related to Cascade are also increasing and Utilities needs to increase its fixed costs as well. There are many other factors that go into the determination of the fixed charge as well. Mr. Jorgenson added that since this is revenue neutral, it doesn't do anything to address the shortage associated with the current block rate. Director Otal concurred that this is only solving the problem going forward. There are two things that must be done. One is a rate increase calibration. The second thing, so that this problem doesn't continue in the future, is to address how much is recovered from fixed charges versus from the variable charges.

Commissioner Mach recommended that the City just purchase less water. Director Otal stated that the City is buying less, but is not paying less because there is a fixed charge for the water. Commissioner Mach asked why Cascade can't buy less. Chair Helland explained that Cascade has a take-or-pay contract with Seattle. Director Otal explained that the contract with CWA is a very long-term contract because at the time it was signed the City was worried about running out of water. Councilmember Stokes noted that as growth continues it may look good again at some point. Mr. Jorgenson explained that it is a fixed block for 25 years and then for 5-year blocks beyond that the block drops. The reason the contract was so long was so that Cascade would have time to develop its own supply. Ten years ago when these things were negotiated this looked like a good contract and the City was in a very different situation. There is a chance with increased growth that the City may need more water again in the

future. Director Otal added that the demand forecast was based on growth, but the region hasn't seen that growth.

Chair Helland asked about design criteria for how the blocks were set up. Ms. Virnoche explained that the basis for the revised threshold was based on 11 ccf: winter average demand; 17 ccf: summer average demand, and 45 ccf; peak day demand. This is very characteristic of how the industry looks at this type of structure.

Councilmember Stokes asked how the proposed change in the block structure would impact rate stability. Ms. Virnoche explained that the proposal would be increasing the fixed charge from \$29.61 to \$32. This would reduce Utilities' reliance on Block Four, based on the new definitions of the rate blocks, because this is the block that is most likely to shrink when there is a bad sales year. Chair Helland asked how the decision was made to increase the bill to \$32 for fixed charge. Ms. Virnoche explained that users at various levels were reviewed. FCSG also tried to balance the stated objectives. One of the goals was affordable core service levels. For that low user, the goal was to try to keep the fixed charge near the inflationary rate increase.

Commissioner Wang noted that Alternative B, which has only three blocks, would be even simpler. Ms. Virnoche explained that the proposed alternative has an additional incentive for conservation. Director Otal added that if the structure didn't have a fourth block, then someone who is using a lot of water would be getting more of a break.

Vice Chair Swenson noted that this proposal is attempting to encourage conservation for the largest water users. Ms. Virnoche concurred. Commissioner Cowan commented that if Utilities wanted to really encourage conservation the rate could be kept at \$7.79 for Block Four users. Director Otal explained that in order to truly compare rate structures, this needs to be revenue neutral. Chair Helland commented that it doesn't necessarily mean that this is where the rates will end up.

Ms. Virnoche then reviewed SFR customer impacts by comparing existing rates with proposed rates at different sample usage levels. Director Otal commented that about half of the customers in the first block would actually see a net decrease in their bill. The Non-SFR Rate Alternatives reflect the same increased fixed charges as recommended for SFR. FCSG is recommending combining the MRF and Non-Residential classes into one class to recognize similar water usage patterns. Avoidance of sewer charges provides an incentive to separately meter irrigation water in general. The recommendation is to retain the seasonal rate structure, but combine the two classes.

Chair Helland expressed concern that the middle 45% of the proposed Blocks Two and Three for SFR would be paying more than the MFR rates on a per unit basis. Mr. Gonzales added that it is difficult to directly compare MFR and SFR because most MFRs tend to have larger meters than just $\frac{3}{4}$ inch. FCSG is assuming proportionate increases to the fixed charge. If there is a 2-inch MFR meter, the user will pay a significantly higher fixed charge. Sample bill impacts were reviewed for an apartment, a mixed use facility, industrial, a park, and a school. Chair Helland asked why the usage for industrial users was so much higher in the summer. It was noted that some of the production for industries can be seasonal.

Commissioner Mach commented that if the users make adjustments to how water is used, the model would fail to maintain stability. Director Otal commented that there will still be a smooth stable income for the meter charges. Mr. Jorgenson commented that industrial users are not generally as sensitive to increased costs as residential users.

Commissioner Cowan asked if the downward trend for industrial is similar to the annual downward trend in residential. Mr. Brooks commented that it is about the same as SFR.

In closing, Ms. Virnoche summarized that the proposal for SFR is to go with the recalibrated four blocks to more accurately reflect current consumption behavior. Individual rates would also change as discussed. This would improve equity between low users and high users so it would continue to encourage conservation and stabilizes revenue with the increase in fixed charges. For the MFR and Non-Residential Class, FCSG is proposing to consolidate those classes based on similar usage characteristics with very minimal peaking. FCSG recommends keeping the summer and winter differential for these particular classes. The proposal is to retain the seasonal rate differential which reflects the higher cost of summer water to the Water utility. For Irrigation, the recommendation is to keep the rate structure the same.

Director Otal stated that Utilities will present their budget issues to Council in July. She would like to introduce the concept of rate structures to them at that point because it will be her only opportunity to address this topic with the Council. She requested that Commissioners send staff any questions so a recommendation to the Council can be developed by the fall.

Chair Helland requested an electronic version of the presentation. He is interested in seeing the data behind the graphs so he can have a deeper understanding of the dynamics involved. He agreed that the rate structure clearly needs to be reevaluated.

Vice Chair Swenson thinks this is a very positive action. He congratulated staff and FCSG for their proposal and presentation. Commissioner Weller concurred. He spoke in support of the proposal.

Commissioner Mach stated that he does not have any problem with the rate structure, but he brought up a different perspective. He noted that residents with more people living in a home will obviously use more water and be penalized for it. It is much easier for households with lower numbers of people to be in the lower usage blocks. Director Otal concurred that this is a flaw with the model. Chair Helland commented that it could be taken into consideration by not over-emphasizing the conservation piece.

Commissioner Wang applauded the efforts by FCSG, but questioned whether this really produces stability of a permanent nature. He sees this as a short-term (one to two years) solution. Chair Helland commented that this will have to be revisited in the future just like ratemaking in general. Commissioner Cowan commented that this is using the best data available right now to try to forecast what will occur. He agreed that it will need to be reviewed in the future. Director Otal commented that staff realizes this should have been looked at sooner, but it is not possible to review it every year due to the cost. Commissioner Wang suggested setting up a framework so future adjustments can follow the same pattern. Mr. Jorgenson agreed that this needs to be done on a more regular basis. Chair Helland clarified that this proposal does not address the shortfall. Director Otal confirmed that this only reduces the shortfall going forward and assures that there will not be as much uncertainty in revenues when there are swings in demand. Rate increases will cover the shortfall and will be addressed soon.

There was general consensus that this is an issue that needs to be looked at, given the trends of declining revenue, with the acknowledgement that there are still some details that need to be worked through.

d. Renewal & Replacement (R&R) Funds

Pam Maloney explained that aging infrastructure is an urgent problem across the country. Bellevue's City Council was very proactive by establishing Utility Capital Replacement Accounts in 1995. The intent was to accumulate funds for long-term replacement of Utility facilities and to use these accounts in combination with current revenues or debt financing to replace capital facilities that are nearing the end of their life. The R&R funds help Utilities avoid sharp rate increases and help avoid unacceptable falling service levels.

The R&R funds were looked at because R&R accounts are a significant local rate driver. Periodic review of needs forecasts and funding strategy

assures that fund balance targets are appropriate. This provides an opportunity to “true up” the R&R fund with the Asset Management Program as it evolves. An independent review of key assumptions was done by HDR Engineering, Inc to review the life expectancy of various asset classes, replacement strategies, and cost estimates for replacement. For all three utilities, the pipelines are by far the largest asset class. Across the three utilities, there are 1650 miles of pipe. Commissioner Cowan pointed out that when the pipeline is replaced the roadway must also be replaced. He asked if this was part of the calculation of the asset. Mr. Jorgenson said that the road is not considered a utility asset, but the cost of roadway restoration is included in the project cost.

Water R&R: The study found that key assumptions about asset replacement are valid regarding life expectancies, cost of replacement, and the rate of system replacement. The City is in the middle of a ramp-up of the rate of pipe replacement, which is resulting in a significant reduction in how much we have to have in the bank. The current CIP is getting to a pay-as-you-go approach which is an appropriate way to replace the system since it can be spread over the long term. This pay-as-you-go approach results in a significantly lower required R&R fund balance provided we maintain the short term strategy of ramping to 5 miles/year replacement and we continue to look at the asset life expectancy to make sure the assumptions are reasonable. Staff is recommending that no additional rate revenue be set aside for the Water R&R fund. Ramping up the pipe replacement is actually the contribution to the R&R program. When we get up to the five miles we will approximately achieve the annual requirement for sustainable system replacement.

Sewer R&R: HDR found that the key assumptions about asset replacement are valid. Replacing the sewer lake lines will be a significant cost. There are revised projections as to when those will need to be replaced. Significant increase in capital investment will be needed, but there’s a longer time to get there. Continuing the R&R fund strategy will help smooth the necessary rate increases. There are no significant changes recommended for developing the forecast needs or the funding strategies. Significant ramp up of CIP investment will be required over a longer period of time to be sustainable. The R&R fund will support a more gradual rate ramp up and will facilitate timely replacement of lakelines. Continued rate contributions to the Sewer R&R fund are recommended.

Vice Chair Swenson pointed out that the lakeline replacement will need to all be done at once. Mr. Jorgenson concurred that it can’t be spread, due to the nature of the asset. This is why the cost is higher and over a much shorter period of time.

Storm R&R: The good news is that the Storm system replacement costs will be less than water and wastewater systems because: there is less total pipe length (400 miles of pipe instead of 600); we are likely to do a higher percentage of trenchless replacement; and failure consequences are usually less severe with Storm. The bad news is that some Storm components such as CMP (Corrugated Metal Pipe) culverts have already reached the end of their useful life; these are very big and expensive projects. More information is needed to make a recommendation about forecasting resource needs. Better information is needed to validate key assumptions about asset replacement. Only 25% of the system has known installation dates. Limited condition information is available, particularly important for critical facilities. The recommendation is to get better information. Asset analysis should be refined to break out these asset classes in more detail. No changes are recommended to the funding strategy of the current CIP investment and R&R fund. A significant increase in annual capital investment will eventually need to be made, but without better data the amount and timing cannot be determined specifically. Priority should be given to improving available data, particularly for critical assets.

Wrap Up: These study outcomes have been incorporated in the budget proposals, including no contribution from rates to the Water R&R fund. There is still a lot of uncertainty about asset life, cost of replacement, and evolving technologies. It is appropriate to review the needs assessment and financing strategy at least every five years to assure that needs are accurate and funding targets are appropriate for R&R. Mr. Jorgenson said he likes the idea of bringing in an independent body/consultant to evaluate this, especially considering the large amount of money involved with asset replacement.

Vice Chair Swenson asked if staff is looking at the changes in weather patterns over an extended period of time. Mr. Jorgenson commented that UW and King County are very interested in climate change. Bellevue is not doing it because we don't have the resources.

e. Budget Proposal Wrap Up

Lucy Liu, Asst. Director for Resource Management Customer Service Division (RMCS), stated that staff would be providing the rate implications of the budget proposals and answering any questions the Commission might have about those. She then reviewed the background of the budget process and budget objectives. In developing the proposals, staff continued to look for efficiencies and process improvements and also attempted to minimize the impact of service delivery to customers. Staff tried to keep rate increases at or below the levels forecasted in the 2011-2012 Budget, where feasible. This was done despite new rate pressures. Another objective was to reduce programs and service levels where

appropriate as indicated by performance measures and performance data. Finally, staff continued the cost containment that was begun in 2011-2012.

Ms. Liu summarized the cost containment measures taken in 2011-2014. In order to keep rates as low as possible and in the face of declining revenues, Utilities management responded with significant cost containment measures. The most significant one-time cost containments were in capital in 2011-2012 and in Operations in 2011 where discretionary spending was curtailed and a hiring freeze was instituted. In 2013-14, with these budget proposals, more sustainable ongoing cost containment is proposed. The proposed staffing changes would result in a net reduction of 4 FTEs. This reduction will help drive rates down. There are two new FTEs related to the CIP that are added, but those positions are not rate drivers as they are paid by the CIP.

Chair Helland asked for more information about the positions being cut. Mr. Jorgenson reviewed these. Chair Helland asked about the rationale for cutting the customer service position. Ms. Liu explained that this is an area where customer service satisfaction levels are exceeding the targets based on performance data. Director Otal commented that none of these were easy decisions, other than the Development Review Professional which was already a vacant position. It was a tradeoff because what was needed was a Systems Analyst who could do Utilities-specific analysis on the computer systems. She acknowledged that there might be some impact to the customer service level.

Bob Brooks, Utilities Fiscal Manager, discussed the rate implications of the budget proposals. He displayed a chart showing the culmination of all the proposals. The total operating expenses for 2013 amount to \$113.1M. He stressed that policy-related proposals, which are largely fixed and unavoidable, represent about 80% of the total annual expense budget. O&M accounts for another 11%, and everything else is less than 10%.

Mr. Brooks reviewed the updated forecast which reflects all of the changes from 2011-12 when the budget was done two years ago. With the proposed budget the rate increase for water in 2013 was kept at what was previously projected (12.5%) and reduced in 2014 below what was previously forecast. Similarly, staff was able to achieve the same objectives for Sewer and Storm in the same years. Sewer is a little higher in 2013 than previously forecast. This is due to a change in the way that the wholesale cost forecast was looked at.

For Water, in 2013 there was a realignment of the wholesale component. Some of the increase is attributed to the fact that Utilities is triuing up the amount to account for the fact that we have a take-or-pay contract with Cascade. Staff is attributing some of the increase to getting back on track

in that respect. That is one of the reasons for maintaining the 12.5% overall increase. Director Otal added that the rate increase that Cascade might show could be something like 2.7%, but because of the nature of the wholesale bill, Utilities needs to do an 8.4% increase to cover the wholesale expenses. Mr. Brooks explained that in 2015, the increase is higher than the previous forecast. The bulk of that increase is due to the wholesale component.

He reviewed the major drivers behind the increases staff is proposing. The total increase for Water in 2013 is 12.5% and 7% in 2014. He pointed out that the overall increase is largely wholesale, particularly in 2013. There is a modest increase for capital and intergovernmental. There is a slightly smaller increase for personnel and a very small increase in operations. For Sewer, in 2013 the biggest item is wholesale. The next smaller item is capital, then personnel, intergovernmental and operations. Storm has no wholesale component. The CIP/R&R piece includes the base costs and contributions to the Mobility and Infrastructure Initiative (for the Great Streams and the Bel-Red Corridor) that was established by Council in 2008. This is a 1.5% rate increase per year for ten years until 2018. Street Sweeping also represents a 1% increase. The new NPDES requirements in 2014 represent roughly another 1% increase. Mr. Brooks then reviewed how the costs would be paid by the monthly utility bills. He reiterated that the wholesale costs are the single-largest piece of the overall utility bill. Capital is also very significant piece, followed by intergovernmental and personnel. The very smallest piece is operations. Ms. Liu solicited comments or recommendations to the Results Teams.

Chair Helland asked what the FTE reductions would actually save Utilities. Director Otal explained that her decision criterion was to impact the customer as little as possible so some of the support roles were considered. She acknowledged that there will be an impact to staff because the support is gone. Overall, generally four FTEs represents approximately \$400,000 in savings spread over different funds. The two new FTEs will be funded by CIP. Chair Helland expressed some concern that cutting the customer service position could have an impact on the customer service satisfaction levels. Director Otal acknowledged that there may be some impact and reiterated that these were very difficult choices to make. Mr. Jorgenson commented that this is similar to what the General Fund had to do in the last budget when cuts were made that resulted in some service level implications across the board. He summarized that reductions are a reality of less revenue, but management tried to choose things that would have the least impact on customers.

Director Otal asked for any feedback or recommendations for the Results Team about what the general thoughts of the Commission are as it relates to the budget. Chair Helland said he was still thinking about this and not

prepared to make a recommendation. One area he had concerns about was the reduction in FTEs. Commissioner Cowan expressed some concern about the reduction in the conservation positions as well. Director Otal commented that Utilities is exceeding customer service performance goals and conservation and has been wildly successful. Staff also believes that Cascade can handle more of this responsibility on a regional level. Commissioner Cowan asked for a level of service comparison concerning what the programs are that Cascade will be offering compared to what Bellevue is currently offering. Ms. Liu explained that, for example, Cascade also offers the elementary school program; the difference would be the local focus. Commissioner Cowan and Chair Helland both requested more information about the level of service changes related to the conservation piece.

Chair Helland said he is also interested in seeing the financial impact on the rates of the proposed FTE cuts. There was discussion about looking into the cost-effectiveness of bringing some of the contracted CIP positions in-house. Mr. Jorgenson noted that Commissioner Mach had suggested at the last meeting that the four vacancies be used in the CIP which would result in a cost decrease. Staff agrees that this is something that would be good to look at in the future.

Motion made by Commissioner Wang, seconded by Vice Chair Swenson, to inform the Results Team that the general consensus of the ESC is support of the proposals based on the given data. Vice Chair Swenson also expressed some concern about the conservation aspect. He questioned Cascade's level of commitment to the conservation efforts. Commissioner Wang noted that his motion does not preclude further discussion and recommendations to the Council on this in the future. Vice Chair Swenson emphasized that he would like the Results Team to understand that the ESC has some questions. Director Otal recommended that a memo be sent to the Results Team which could say something like, "We have reviewed the Operating and the Capital Program and by large we approve of them. We have some reservations about the decrease in certain programs and we will be evaluating that over the next couple of months." Commissioner Wang modified his motion to reflect Director Otal's statement. Vice Chair Swenson recommended that conservation be specifically spelled out in the memo as an area the ESC is concerned about. Chair Helland summarized that staff would draft a memo with staff and then it will be circulated for the ESC to review. Any responses should be sent back to staff. Chair Helland said he also wanted the memo to address the impact on the budget of the FTEs, especially the amount in the rate that those positions will affect.

Councilmember Stokes commented on the apparent contradiction of the reduction in the customer service and conservation positions because of

the high satisfaction levels in those areas. He noted that it looks like Utilities is implicitly saying that it is okay to accept a little slippage there. Director Otal concurred. She reiterated that it was a difficult decision to make, but she had to decide between something that might not have such a direct impact on all the customers versus something more critical like doing condition assessment. Councilmember Stokes noted that there is some question about whether Cascade can really fill in the gap with conservation.

Director Otal summarized that the memo will say that the ESC has not had the opportunity to review in detail the impact of some of the position cuts on the conservation programs or customer service and so they reserve judgment on that until later. There was general consensus that this represented the feelings of the ESC.

Commissioner Wang withdrew his motion as it was not necessary.

7. NEW BUSINESS - None.

8. DIRECTOR'S OFFICE REPORT

Director Otal recounted that Chair Helland went to the Planning Commission in March to discuss Phantom Lake issues. Brian Parks, President of the Homeowners Association for Phantom Lake, has requested amendments to certain conditions for the Shoreline Master Program. The Parks Board has submitted a memo to the Planning Commission regarding this matter. Director Otal recommended that the ESC do a similar communication to the Planning Commission. She distributed a rough draft for the ESC to consider sending to the Planning Commission. She noted that she would be working in conjunction with Chair Helland on the memo. There was general discussion about the protocol and purview of the boards and commissions.

9. CONTINUED ORAL COMMUNICATIONS - None

10. EXECUTIVE SESSION - None

11. ADJOURNMENT

The meeting adjourned at 9:54 p.m.