

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

Thursday
October 7, 2010
6:30 p.m.

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

COMMISSIONERS PRESENT: Chair Helland, Commissioners Mach, Mahon, Roberts, Cowan, Wang, Swenson

COMMISSIONERS ABSENT: None

OTHERS PRESENT: Wes Jorgenson, 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 Mahon, seconded by Commissioner Roberts, to approve the agenda as presented. Motion passed unanimously (7-0).

4. APPROVAL OF MINUTES

- July 8, 2010 Regular Meeting Minutes

Motion made by Commissioner Mahon, seconded by Commissioner Mach, to approve the minutes as presented. Motion passed unanimously (7-0).

5. REPORTS & SUMMARIES

A. ESC Calendar/Council Calendar

Mr. Jorgenson pointed out that there was a change in tonight's calendar items. Asset Management/Failures and Claims was scheduled for tonight but was moved to the December meeting. This will allow more time for the commission to discuss the budget. This is being done because of the timing of budget items and

the fact that staff needs a recommendation from the ESC for Council regarding the Utilities Budget.

B. Desk Packet Material (s)

- **Conservation & Outreach Events & Volunteer Opportunities – in packet**

C. Winter Weather Response Update for 2010 – in packet

D. Maximo 7 Upgrade and Implementation – in packet

E. 2011-2012 Budget Review/Rate Recommendation Process

Anne Weigle and Bob Brooks introduced the budget topic. Mr. Brooks distributed updated pages for the Commission's notebooks. Ms. Weigle reviewed the goals for tonight as being a brief review of BudgetOne process, discussion regarding the significant issues for Utilities in 2011-2012 and the approach that staff took to put together the Proposed Forecast. She also planned to review the Proposed Forecast for each fund and talk about the rate drivers and customer impacts. This would be followed by questions and then a discussion about next steps and the need to accelerate a rate recommendation.

Ms. Weigle then reviewed highlights of the BudgetOne Process to date.

- Utilities created over 80 proposals which were reviewed by the Results team who made recommendations. Their recommendations to the City Manager were as follows:
 - Accept the alternate proposal for a 10% reduction of operating reserves (\$2.1M) and capital reserves (\$9.4M)
 - Remove funding for fire hydrant replacement to lower the cost to the General Fund for fire protection capacity (\$113,000)
 - Accept elimination of APWA re-accreditation (\$15,000)
- The ESC reviewed proposals and made a recommendation to Council for full funding of all primary proposals
- The City Manager gave input to Preliminary Budget
- Council and ESC received Utilities Budget notebooks
- Council will review Preliminary Budget by Outcomes, and the Healthy and Sustainable Environment will be reviewed on November 8th
- Budget approval is scheduled for December 6th

There was discussion about the Results Team's recommendations and the process in general.

The following significant issues were then reviewed:

- BudgetOne was identified as a significant issue due to its complexity and the amount of time required.

- Each department went through a cost containment exercise. Utilities has practiced a “zero-based” budgeting and cost containment for years, but was able to reduce the 2011-12 budget by 11.4% in controllable operating expenses. Anne reviewed ways that they were able to reduce costs.

Primary Rate Drivers for Utilities are wholesale costs for water purchase and wastewater treatment, and the investments Bellevue is making in its CIP to address aging infrastructure, growth, and mandates. This investment in the capital program includes adding a Sr. Engineer in 2011 and an Inspector in 2012. As part of the cost containment exercise there was a change to the financial policy regarding working capital reserves in Water. This was previously 70 days of working capital. Staff now feels comfortable reducing these reserves to 48 days.

In response to economic conditions and the City Manager’s request to provide some rate relief to customers, Utilities held the combined rate increase for local programs at CPI in 2011 and 2012. To achieve the cap at CPI utilities needed to reduce the budget by an additional \$3.1 million across the funds. Staff chose to put the cuts where the rate drivers are, primarily investment in the capital program. First, funding for the East Link utilities impacts was deferred to 2013. Staff also reduced the transfer to R&R for all funds in 2011-012. As a result of this there is a rate rebound expected in 2013 in order to return to planned contribution levels. Capping the increase at CPI results in a reduction to the average monthly bill of \$3.90 in 2011 and \$5.94 in 2012.

Commissioner Mahon asked if this was Bellevue’s version of a stimulus. He commented on the inconsistency of this action with existing city philosophy of not making transfers from period to period to cover the costs of these programs. Ms. Weigle concurred that it is very unusual, but the City Manager asked us to take this approach in response to the fact that we are in very unusual times.

Commissioner Cowan asked what drives the City Manager’s decision. Mr. Jorgenson explained that the City Manager was attempting to provide the Council an option that would recognize reductions across the City to respond to the economic situation. He added that this is more symbolic than a stimulus. Commissioner Mahon felt that this was misleading to the public and that it provides a false expectation of what’s actually reasonable in the face of a rising underlying cost base. Ms. Weigle stated that staff would cover what the risks and implications are when they talk to the Council about this.

Commissioner Roberts clarified that the monthly bill will not actually be lower. The rate will still be increasing but it will be less of an increase due to the reductions noted above.

Commissioner Wang asked if the rates in the notebook are reflective of this approach. Ms. Weigle stated that they are because the notebook *is* the City Manager’s proposed budget.

Chair Helland requested that the information presented to Council describe the proposed reduction in the average monthly bill followed by a bullet that says, "The increase in the average monthly bill in 2013 would be . . ." This should also be reflected on a graphic. A graphic showing the Impact of Reduction to R&R was reviewed. Chair Helland suggested using a different graph showing that the \$3.1 million would never be recouped. Bob Brooks suggested that they could have a second line showing the balance of the fund before and after (with and without the reduction). There were discussions about ways to show this visually to show the real impact of the reduction. It was noted that even though they would be returning to the trajectory in 2013, they would not be making up the \$3.1 million. There was consensus to change the graphic to show the true consequences. Commissioner Swenson commented that if the desire was to make the R&R whole you would have to go above the line for a time.

Ms. Weigle reviewed the proposed forecast for the Water Utility. She explained that Cascade Water Alliance (CWA) performed an analysis during their budget process and found that the demand volumes being used to calculate Bellevue's share were too high. As a result of their re-calculation there was a reduction in Bellevue's wholesale rate increase in 2011 as well as a one-time credit of \$253,000. A table showing the projected rate increases was reviewed. These rates reflect the Council's desire to keep local rate increases at or below CPI. There is a rate rebound shown in 2113 to return to planned R&R contributions.

Commissioner Mach asked if there would be adjustments to the actual CPI at the end of 2011. Utilities Director, Denny Vidmar explained that they are trying to base their rates on what the projected CPI is. If the actual CPI is different they wouldn't change their expenses or their rates. Mr. Jorgenson added that they would also be monitoring revenues and expenses continually. If they see things out of balance they would take steps to try to adjust it.

The proposed forecast for the Wastewater Utility was reviewed. Rate drivers are wholesale (King County/Metro) costs and Bellevue's capital program. King County passed a two-year rate earlier this year which is why there is a 7.9% increase in 2011 and 0% in 2012. Wholesale costs and capital projects are the major rate drivers. Again there is a rate rebound in 2013 returning to planned R&R contributions.

The proposed Forecast for Storm and Surface Water Utility was reviewed. The rate drivers are 1.5% annual rate increase for Mobility and Infrastructure Initiative (Bel-Red) and Utilities' capital program. Anne pointed out that the rate increase here is higher than CPI. The goal is to keep the local rate increase near CPI for all three funds combined. Water is at CPI; Sewer was a little lower than CPI; but the impact of reducing Storm to CPI would be really drastic so they cut the predicted rate increase to about half and preserved the 1.5% increase for Bel-Red. Again, there will be a rate rebound in 2013 due to returning to planned R&R contributions. Of 11.6%, 4.6% is due to the rebound.

The graphic showing the proposed forecast for Solid Waste Utility was reviewed. Rates are increased at 70% of CPI and that is per the contract with Allied Waste. It includes a fuel cost adjustment which is also included in the contract. The 2012 rate increase included an increase in the King County disposal fee. The contract with Allied Waste expires in 2014 so later rates are to be determined by that. There was some discussion about negotiating the solid waste contract and the fact that there are three vendors who may be contenders.

Commissioner Swenson asked about the Wilburton project. Mr. Jorgenson reviewed the status of this situation.

The average monthly bill for water, sewer and storm was reviewed. Ms. Weigle explained that the average monthly bill for a single family residential would increase 6 % in 2011 and 4.1% in 2012.

Commissioner Roberts recommended that the graphic showing combined rate increases should be extended to 2013 for greater clarity for Council. He added that the typical monthly bill is not accurate when it is a bi-monthly bill. Ms. Weigle explained that it was broken down to monthly costs because that is how most people budget.

Charts comparing Bellevue's rates with its neighbors were reviewed. Bellevue's water rates are in the mid-range for residential and multi-family and slightly lower for commercial. Bellevue's wastewater rates are in the low to mid-range for residential, multifamily and commercial. Storm and Surface Water is in the mid-range in residential and low range for multi-family.

Chair Helland asked why the wholesale rate increase from Cascade was so small in 2011. Ms. Weigle responded that it was due to Cascade's demand share recalculation.

Chair Helland stated that he would like to see some revised graphics with a calculation of what the average costs in 2013 would be need to be if they wanted to "replace the divot" in R&R and recoup the amount.

Commissioner Wang asked if this would be reviewed before 2013 because in 2013 there will be a sudden jump to a higher rate. He wondered about having more of an increase in 2012 so that there won't be such a jump in 2013. Commissioner Roberts clarified that this proposal is what the City Manager is proposing, not what the ESC is recommending. Mr. Jorgenson replied to Commissioner Wang that there is a whole range of things that can be done to recoup the investment. They are showing all of it in 2013, but it could be stretched out for more than one year. Staff noted that a mid-year adjustment would be reserved only for extraordinary circumstances.

Commissioner Mahon observed that the City Manager's recommendation assumes that we are structurally over-funded in R&R because there is no proposal to recover the \$3.1 million. He takes issue with this and feels this issue needs to be addressed. If they agree with the City Manager that they are structurally over-funded, there is no need for any kind of recoup beyond just stepping up to the rate of funding. That also raises the question about why the rate of funding is so high if we are able to do these one and two-year changes. He thinks this is worthy of a lot of discussion and certainly a recommendation from this group.

Commissioner Wang asked what the target levels mean. Mr. Brooks explained how they have three different components to operating reserve targets: working capital reserves, operating contingency reserves and plant emergency reserves. These are set in the financial policy section. There was discussion about how reserves are used to help smooth out the rates in the long run so that they don't go up and down. Mr. Wang expressed confusion about the reserves. Ms. Weigle offered to do a presentation to the Commission on reserves at some point.

Chair Helland asked about smoothing increases out a bit from year to year. Mr. Brooks noted that they do have the ability to do that. There was discussion about limitations regarding this. Ms. Weigle explained that if they significantly change forecasted rate increases within this forecast period there may be a bad payback later on.

Commissioner Cowan asked about the projected costs for contractors in the proposed budget. Mr. Jorgenson commented that they are expecting to see inflation beginning in 2011.

Motion made by Commissioner Roberts, seconded by Commissioner Swenson, to entertain discussion on a Commission recommendation against the City Manager's rate reduction for two years and in support of fully funding the original proposals.

Ms. Weigle reviewed options available to the commission.

There was consensus to move the November 4 meeting to October 28 in order to hold a public hearing and give input to Council before November 1. Helland suggested presenting the proposed City Manager's budget as well as the draft recommendation from the Commission at the October 28 public hearing. There was consensus to do this.

Motion passed unanimously (7-0).

Commissioner Wang commented that on some of the graphs (for example, C3-2) the legend is so small as to not be visible.

Commissioner Helland asked if the notebook was available electronically. Some of the commissioners stated that they would prefer an electronic version of the notebook. Mr. Brooks said it was many different .pdf files, but they could attempt to get the Commission an electronic copy.

6. NEW BUSINESS - None

7. DIRECTOR'S OFFICE REPORT

Mr. Jorgenson asked if the Commission would be interested in a presentation on the stormwater system and the history or just Bellevue's drainage basin information.

- Commissioner Wang welcomed any information about the basins.
- Chair Helland wanted to hear just about the problem areas.
- Commissioner Roberts was also interested in a briefing on the problem areas.
- Commissioner Swenson wanted to know what we as a city are doing to change the way we think about storm water. Mr. Jorgenson explained that they would be starting the Storm Comprehensive Planning process with the ESC at one of the upcoming meetings. The issues Commissioner Swenson raised would be thoroughly addressed at that time. Mr. Jorgenson explained how there has been a shift in storm water from purely flood control to a much broader concept of habitats, conservation, etc.
- Randy Cowan commented that he was interested in discussion about the historical background and a brief overview of the basins. He was also very interested in the direction for the future regarding storm water with things such as rain gardens and other methods that he has seen used in Seattle. Mr. Jorgenson explained that the Comprehensive Plan process would be the time when the future topic would be addressed.

8. CONTINUED ORAL COMMUNICATIONS - None

9. EXECUTIVE SESSION - None

10. ADJOURNMENT

Motion made by Commissioner Roberts seconded by Commissioner Mahon to adjourn the meeting at 8:15 p.m. Motion carried unanimously (7-0).