

**CITY COUNCIL AGENDA MEMORANDUM**

**SUBJECT**

Proposed Utility rates for the 2013-2014 Budget

**STAFF CONTACT**

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**POLICY ISSUES:**

Should Utility rates be increased, in accordance with adopted financial policies, to fund cost increases associated with the wholesale purchase of water supply, wholesale sewage treatment, Utilities Capital Investment Program, and on-going operations of the Water, Wastewater, and Storm & Surface Water Utilities?

**DIRECTION NEEDED FROM COUNCIL**

Action  
 Discussion  
 Information

**BACKGROUND/ANALYSIS**

Utilities operate as a business within the City. Rates paid by customers for services provided are Utilities' primary source of funding. The 2013-2014 Utilities Department Preliminary Budget is a consequence of long-term financial forecasts that, according to Council-approved financial policies, are based on the full costs of providing utility services now and in the future. The key financial policies affecting budget and rate development are summarized below:

- *Rate Levels:* Rates should be set a level sufficient to cover current and future expenses, maintain reserves consistent with Utility financial policies and the long-term financial plans, and to pass through wholesale cost increases directly to Utility customers. Changes in rate levels should be gradual and uniform to the extent that costs can be forecasted.
- *Reserves.* Each Utility shall maintain a reserve to protect the solvency of the funds. Additionally, to provide rate stabilization, reserves will be managed to target levels.
- *Capital Investment/Reinvestment.* Investment in capital infrastructure and/or deposit of funds into a Renewal and Replacement (R&R) account are to be made to ensure that current and future customers pay their fair share for the long-term integrity of utility systems.

A key objective of the Utilities 2013-2014 Preliminary Budget is to minimize rate increases and continue to provide reliable, quality water, wastewater, and storm and surface water services while adhering to Council-adopted financial and rate policies. Bellevue's utility rates are competitive now and will be even more so in the future with the Council-adopted financial policy to plan and prepare for future infrastructure R&R needs (Attachment 1).

On July 9, 2012, the Utilities Department presented the following issues and related strategies for Council consideration in developing the 2013-2014 Operating Budget and 2013-2019 Capital Investment Plan (CIP):

- Cascade Water Alliance water purchase costs;
- King County/METRO wastewater treatment costs;
- Aging infrastructure and the need to adequately fund R&R in a timely and cost-efficient manner;
- Capital investment to accommodate population growth and support economic development;
- Regulatory requirements and mandated projects and programs;
- Declining water demand and water revenue attrition; and
- Keeping rates low while meeting long-term objectives of Utilities financial policies.

A copy of the July 9, 2012 Agenda Memo regarding 2012 Department Presentations, Utilities Department section, is attached for reference as Attachment 2.

Each of the Utilities-specific issues impacts the 2013-2014 budget and rates. It is critical that the City provide essential utility services, remain compliant with regulations, support economic prosperity by accommodating growth, maximize value for current and future ratepayers, and build and replace infrastructure that is fundamental to the provision of reliable, quality utility services.

Despite the challenges Utilities faces in the next biennium, the goal of the 2013-2014 Utilities Preliminary Budget is to limit rate increases to be at or below those projected in the 2011-2012 Budget and Early Outlook Forecast. Utilities has achieved this goal by undertaking significant cost containment measures.

#### **Cost Containment**

A substantial portion of Utilities' operating budget reflects expenditures to service providers and mandatory obligations that are beyond the department's direct control. Wholesale costs for water purchase and wastewater treatment, taxes and franchise fees, and payments to the General Fund for support services represent 57% of Utilities' total budget. These are nondiscretionary obligations.

The remaining portion of Utilities' budget is comprised of capital investment and operational costs. As in the last budget, Utilities focused on this portion of the budget to control expenditures. In the 2011-2012 biennium, Utilities achieved \$9 million in cost containment measures to minimize utility rate increases. In the 2013-2014 biennium, Utilities' Preliminary Budget incorporates continued cost containment efforts focused on controlling on-going operational and capital expenses, finding efficiencies, and otherwise reducing costs that impact local rate increases. Utilities achieved a significant reduction of \$3.8 million in controllable costs in 2013-2014 by:

- Decreasing the capital budget to reflect on-going savings from water system asset management programs and elimination of a one-time contribution to the Water R&R fund (\$1.6 million);
- Decreasing the operating budget to reflect personnel reductions in customer service, conservation programs, and internal support functions (\$1.1 million); and
- Reducing other operational costs, including professional and consulting services, operating supplies, overtime, etc. (\$1.1 million)

Additional cuts, while not recommended, were reviewed with the Environmental Services Commission for their consideration.

#### **Decrease in Water Demand and Corresponding Impact on Water Service Revenues**

Like other water agencies in the region, Bellevue has experienced a decline in water demand over the past several years due to long-term conservation, impacts of the economic downturn, and two consecutive years (2010-2011) with cool, wet summer weather. This created a budget shortfall and revenue volatility for the Water utility, reducing Water fund reserves to unacceptably low levels despite significant cost containment efforts. To address

the budget shortfall, the proposed 2013-2014 budget includes projected rate increases coupled with cost containment measures to restore Water fund reserves to target levels by 2017.

**CIP and R&R**

The capital plan remains focused on addressing aging infrastructure, capacity projects to support anticipated growth and development, mandated projects, and projects for environmental preservation. Significant savings of \$1.3 million in 2013-2014 were achieved by reducing capital programs in the Water fund (service extensions, PRV rehabilitation, reservoir rehabilitation, and pump station rehabilitation) while still achieving program objectives. The capital plan includes new projects to replace sewer pipes (on-going) and a major culvert on Kelsey Creek that have reached their useful life, and to reduce flood hazards on Coal Creek through Newport Shores (funded by the King County Flood Control Zone District).

Utility relocations related to the East Link project, totaling \$7.7 million in 2014, are proposed to be funded from the R&R account. There are no direct utility rate impacts associated with this project.

**Proposed 2013-2014 Utility Rate Increases**

Rates have been minimized to the extent possible by cost containment measures, and rate increases have been kept as smooth as possible through the management of reserves. The six-year financial forecasts for the Water, Wastewater, and Storm & Surface Water funds were provided Council on October 8, 2012 (Attachment 3). The proposed rate revenue increases for the 2013-2014 biennium are as follows:

**Water Fund**

	<u>2013</u>	<u>2014</u>
Cascade costs for water purchases	8.2%	3.1%
Bellevue programs	<u>4.0</u>	<u>4.5</u>
Total rate increase	12.2%	7.6%

Charges for water supply from Cascade Water Alliance are currently projected to increase by \$0.9 million, or 5.5%. Cascade’s wholesale charges to Bellevue are estimated to increase by an additional 7.1% in 2014. This will result in retail rate increases to Bellevue customers of 2.5% in 2013 and 2.8% in 2014 for wholesale water purchases. The wholesale water cost increases are primarily driven by the increase in Cascade’s water contract costs less savings due to a change in the Lake Tapps operations contract and reductions to the regional conservation budget. Per Council-adopted financial policies, wholesale cost increases are passed through to the customers.

One-time rate adjustments of 5.7% in 2013 and 0.3% in 2014 are also included in Water utility rates. These adjustments reflect the cumulative effects to date of the current wholesale water supply contract with Cascade. Cascade costs are fixed in the short term and, therefore do not fluctuate with retail water sales.

Additional increases of 4.0% in 2013 and 4.5% in 2014 are needed to fund local operations, including maintaining investment in infrastructure and maintenance and operations to provide essential levels of service.

**Wastewater Fund**

	<u>2013</u>	<u>2014</u>
King County/METRO costs for wastewater treatment	6.3%	0.0%
Bellevue programs	<u>3.0</u>	<u>4.0</u>
Total rate increase	9.3%	4.0%

Wastewater treatment charges from King County/METRO will increase by 10.4% (from \$36.10 to \$39.85) per residential equivalent unit in 2013. This increase is primarily driven by higher debt service resulting from increased capital costs (including the Brightwater treatment plant). Since this rate increase is expected to cover cost increases for both 2013 and 2014, there is no projected rate increase in 2014. The increase in wastewater

treatment costs will result in an increase to Bellevue ratepayers of 6.3% in 2013. Per Council-adopted financial policies, wholesale cost increases are passed through to the customers.

Additional increases of 3.0% in 2013 and 4.0% in 2014 are needed to fund local programs, including maintaining investment in infrastructure and maintenance and operations to provide essential levels of service.

**Storm & Surface Water Fund**

	<u>2013</u>	<u>2014</u>
Total rate increase – Bellevue programs	7.3%	8.1%

Unlike the Water and Wastewater Funds, the Storm & Surface Water Fund does not have a wholesale cost element since all operations are locally managed by Bellevue Utilities. Annual rate increases of 7.3% in 2013 and 8.1% in 2014 are necessary to maintain essential service levels as well as provide funding for capital needs. Included in these amounts are the Council-approved rate increases of 1.5% per year for the Mobility and Infrastructure Initiative to fund stream restoration projects in the Bel-Red Corridor, and funding for half of street sweeping operations and new costs related to NPDES requirements.

**Impact to Typical Residential Customer**

The consolidated impacts of the proposed rate increases on a typical single-family residential customer are projected to be:

	<u>2013</u>	<u>2014</u>
<b>Prior Year Typical Monthly Bill</b>	<b>\$ 123.52</b>	<b>\$ 135.97</b>
<b>(water, sewer, and storm)</b>		
Increases:		
▪ KC/METRO Costs for Wastewater Treatment	\$ 3.79	\$ 0.00
▪ Cascade Costs for Water Purchases	3.68	1.56
▪ Local Services	4.98	6.50
Total	\$ 12.45	\$ 8.06
 <b>Projected Typical Monthly Bill</b>	 <b>\$ 135.97</b>	 <b>\$ 144.03</b>
 Percent Increase	 10.1%	 5.9%

A detailed table showing the impact to the average monthly bill for a single-family, multi-family, and commercial customer, broken down by utility, is shown in Attachment 4. **Bellevue’s rates are competitive, in the mid to lower range, when compared to neighboring jurisdictions.**

The Environmental Services Commission (ESC) held ten meetings to review the Utilities operating and capital budgets in detail. The ESC also held a public hearing on November 1. One person spoke at the hearing. The ESC recommends that Council adopt full funding of the proposed 2013-2014 budget and rates, with the exception of staffing reductions, total 1.8 FTEs, to the Water Conservation and Storm & Surface Water Pollution Prevention programs. The Chair of the ESC will present the Commission’s budget and rates recommendation to Council on November 13.

Staff will provide a briefing and respond to Council questions.

**Attachments**

- 1 - 2012 monthly utility bill comparison with neighboring jurisdictions
- 2 - July 9, 2012 Agenda Memo Regarding 2012 Department Presentations – Utilities Department Section
- 3 - Six-year financial forecasts for Water, Wastewater, and Storm and Surface Water Utilities
- 4 - Impact to typical residential, multi-family, and commercial customer by utility

**Provided Under Separate Cover**

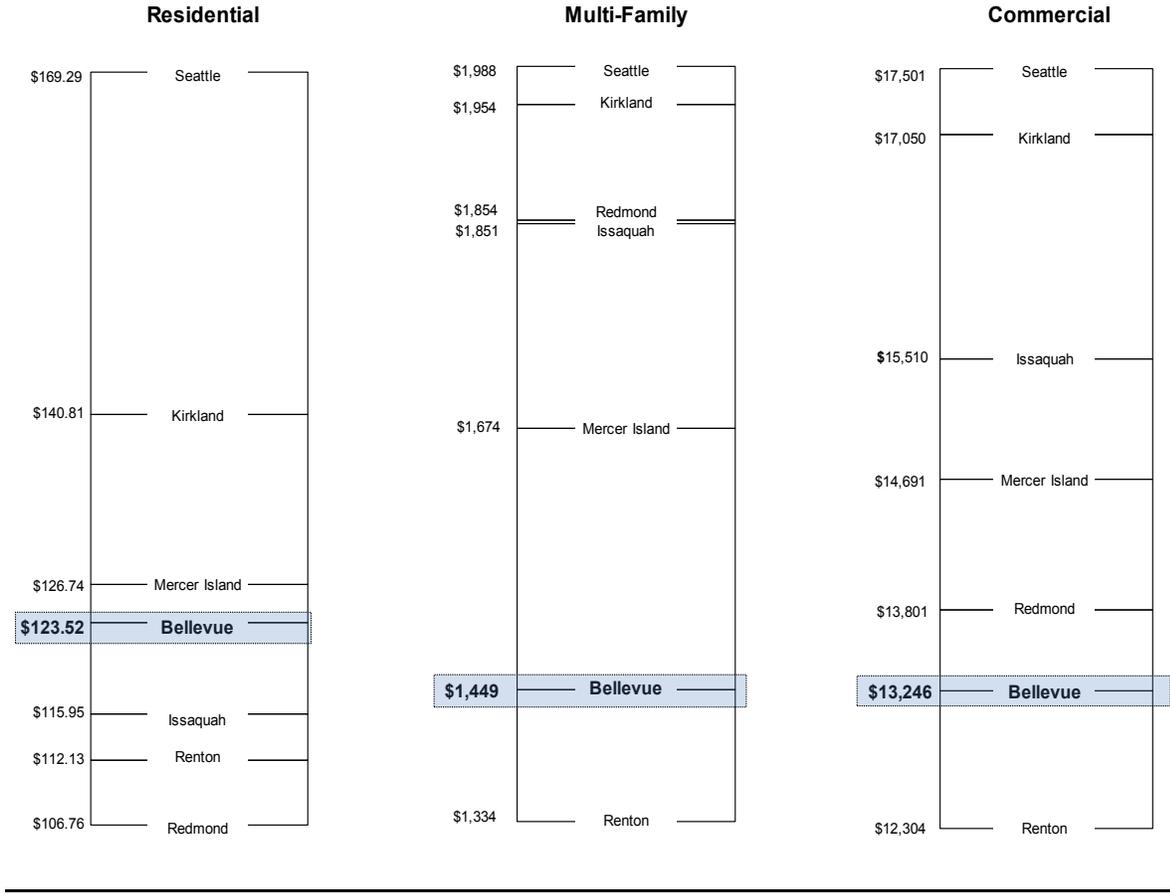
Bellevue Utilities 2013-2014 Preliminary Budget notebook – provided Council on October 8

**Attachment 1**

**2012 Monthly Utility Bill Comparison With Neighboring Jurisdictions**

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**WATER, SEWER AND STORM & SURFACE WATER UTILITIES  
2012 COMBINED MONTHLY BILL COMPARISON**



## Attachment 2

### July 9, 2012 Agenda Memo Regarding 2012 Department Presentations – Utilities Department Section

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#### Utilities Department

Utilities' mission is to actively support public health and safety, quality neighborhoods, and a healthy and sustainable environment and economy by effectively managing drinking water, wastewater, storm and surface water, solid waste and street maintenance. The City's Drinking Water, Wastewater, and Storm and Surface Water Utilities were established with the goals of financial stewardship, self-sufficient funding, and comprehensive planning. Rates paid by customers for services provided are Utilities' primary source of funding. Council adopted the following financial and rate policies, which are validated each budget cycle, to guide Utilities' business:

- Plan and invest for long-term system renewal and replacement
- Accumulate funds in advance of major expenses
- Maintain existing levels of service for customers by renewing and replacing systems
- Keep rate increases gradual and uniform
- Maintain equity – each generation should pay its fair share
- Use debt sparingly and maintain financial flexibility
- Pass wholesale costs through to customers

One key objective of the Utilities 2013-2014 Budget development process is to minimize rate increases and continue to provide quality water, wastewater and storm and surface water services while adhering to Council-adopted financial and rate policies.

Listed below are the major issues identified in Utilities' budget proposals, along with the proposed strategies to address each issue:

#### ***Issue 1: Wholesale Costs***

Wholesale costs represent a substantial portion of Utilities' Operating Budget, representing 42% of the 2013 budget based on current projections. Wholesale costs for water purchases and wastewater treatment are largely fixed and increasing. Based on early estimates, the cost to purchase water supply from Cascade Water Alliance (Cascade) is projected to increase by 5.8% in 2013 and 6.0 % in 2014. Additionally, the cost to be paid to King County for wastewater treatment and disposal is projected to increase by 9.8% in 2013.

#### ***Strategies for Issue 1: Wholesale Costs***

Based on Utilities' adopted financial and rate policies, wholesale cost increases are passed through to customers so that local services are not compromised. Consistent with this policy, the 2013-2014 cost increases from Cascade for water supply purchase and King County for wastewater treatment and disposal services are incorporated in the 2013-2014 projected utility rate increases.

#### ***Issue 2: Aging Infrastructure***

Utilities owns, operates, and maintains over \$3.5 billion of infrastructure assets, with over 1,600 miles of pipelines to provide drinking water, wastewater, and storm and surface water services. This infrastructure was primarily constructed from the 1940s through the 1980s, and most of the systems are well past their mid-life. As the infrastructure ages, it becomes less reliable. We are experiencing more failures, and the cost to operate, maintain, rehabilitate and replace the pipelines is increasing. \$2.4 billion will be required for renewing or replacing infrastructure over the next 75 years.

### Water System

The backbone of Bellevue's water system is over six hundred miles of pipe, most built 30-50 years ago, and operating under pressure. Almost half of the pipes are asbestos cement (AC), with an average expected life of 85 years. Recent clusters of AC main breaks have provided further evidence that these pipes are wearing out sooner than anticipated, with the small diameter AC pipes having the shortest life. The rest of the water pipe is predominantly ductile or cast iron, with an average expected life of 125 years.

A ramp-up of the water main replacement rate is necessary to maintain system functionality for the future. Utilities is halfway into a 10-year ramp up to a sustainable rate of replacement of 5 miles/year.

### Wastewater System

Bellevue's wastewater system is comprised of pipes and pump stations. Most of the system is more than halfway through its useful life. Ongoing inspection of wastewater system condition and increasing claims indicate that much of the system requires significant repair or will soon need to be replaced. Replacement of the wastewater pipelines submerged along the shores of Lake Washington in 2020 – 2030, and Lake Sammamish in 2060 – 2070, will require significant funding. Unlike the water system, infrastructure replacement is only beginning in the wastewater system. In order to continue to deliver safe, reliable wastewater service, a significant ramp up of capital investment will be necessary.

### Storm and Surface Water System

Bellevue's storm and surface water system is comprised of pipes and culverts, open streams, and regional detention facilities. Much of the infrastructure was built before creation of the Storm and Surface Water Utility, so limited information is available regarding the constructed system's asset conditions. Better information is necessary to validate key assumptions about asset replacement data. System replacement has not yet started in this utility beyond replacing some major culverts. Increases in annual capital investment will likely be needed in order to replace infrastructure prior to failure to prevent storm property damage and for environmental preservation.

### ***Strategies for Issue 2: Aging Infrastructure***

Recognizing the significant cost to replace Utilities' aging infrastructure, Council established the Renewal and Replacement (R&R) Fund in 1995 to be used for system renewal and replacement as identified in the Capital Investment Program (CIP). Through proactive planning, and consistent with Utilities' adopted financial policies, funds are accumulated in advance of major expenses, enabling infrastructure replacement when needed while minimizing utility rate impacts and maintaining intergenerational equity.

Each utility is in a different stage of system replacement, thus the rate increases necessary to fund the current CIP and future R&R contributions differ for each utility.

For the Water Utility, in the 2009-2010 Budget Council approved ramp-up of the water main replacement rate from 1.5 miles per year to 5 miles per year by 2018 to address increased water main failure rates and system performance. (This consists of an average additional investment of \$760,000 per year.) Consistent with this strategy, ramp-up of water main replacement is currently underway, and we are in active system replacement. Continuation of rate increases necessary for the current CIP to support this strategy will provide sufficient funding for replacement of the water system without additional rate contributions to the Water R&R Fund during the current CIP period.

In the Wastewater Utility, submitted budget proposals anticipate beginning a pipeline replacement program at \$1 million per year for replacement of wastewater infrastructure. Additionally, continued investment into the Wastewater R&R Fund to support a gradual rate ramp-up is needed to facilitate timely infrastructure replacement, including the lake lines.

In the Storm and Surface Water Utility, the Utilities Department will refine the renewal and replacement needs

assessment and review the financing strategy over the next biennium. Continuation of the current investment in the CIP and Storm and Surface Water R&R Fund is recommended in anticipation of the system replacement needs.

### ***Issue 3: Additional Capacity to Accommodate Growth***

Utility infrastructure capacity needs to be in place in advance of development. Additional capacity is needed in the Downtown, Bel-Red and Wilburton areas to accommodate growth. Specifically, projects in the adopted Utilities CIP to accommodate population growth, and the related 2013 – 2019 CIP budget, include:

- Water storage and supply for Downtown and Bel-Red (\$10.7M),
- Water and wastewater distribution and collection pipes under the new transportation corridor in Bel-Red (\$3.0M), and
- Wastewater major trunk and pump station capacity for Downtown, Wilburton, and Bel-Red (\$21.6M).

### ***Strategies for Issue 3: Additional Capacity to Accommodate Growth***

Utilities seeks opportunities to partner with other City departments and outside agencies for joint project opportunities to leverage efficiencies and attain cost savings. An example of this is Utilities' partnership with King County on the West Central Business District Wastewater Trunk Line project, which saved Bellevue approximately \$1 million. Additionally, the costs of growth-related projects are recovered through connection charges to properties that benefit from the development or redevelopment to maintain equity among rate payers.

### ***Issue 4: Regulatory Requirements and Mandates***

State and federal mandates to protect drinking water and surface water quality are increasing, such as the National Pollutant Discharge Elimination System (NPDES) Permit requirements. Additionally, mandated utility relocations associated with Washington State Department of Transportation (WSDOT) projects are currently in progress.

### ***Strategies for Issue 4: Regulatory Requirements, Mandates, and City Goals***

Utilities seeks opportunities for regional surface water quality monitoring to comply with the next NPDES permit and for extension of the current permit. Utilities partners with WSDOT to minimize project costs and disruptions to customers on the utility relocation projects.

### ***Issue 5: Declining and Volatile Water Revenues***

Like many utilities in the Puget Sound Region, the Water Utility has experienced an ongoing decline in water demand. This is the result of a combination of conservation factors (e.g., water saving appliances and fixtures, water efficient plumbing codes, water conservation programs and education, etc.). Additionally, the economic conditions and poor summer weather (cool and wet) have further affected water usage.

The impact of poor summer weather on water consumption was particularly significant during the past two years, where outdoor use by single-family residents decreased by 25% in 2010 and 2011 from 2009 levels. Such severe back-to-back poor summer weather has seriously impacted water revenues.

The decline in water consumption has created a significant revenue shortfall for Bellevue, particularly in the past two years when actual water sales were significantly below projected levels. The financial situation is further exacerbated by the fixed nature of Bellevue's wholesale water supply contract with Cascade. Per contract terms, the water supply purchase costs are fixed, and Utilities is required to pay for a fixed minimum amount of water supply regardless of Utilities' lack of ability to sell a portion of it.

### ***Strategies for Issue 5: Declining and Volatile Water Revenues***

To address declining revenues and revenue volatility, Utilities commissioned a study to assess the water rate structure for ways to enhance revenue stability. The rate structure review included the following objectives:

- Enhance revenue stability
- Mitigate impacts to customers
- Fund system reinvestment
- Provide affordable “core” water service
- Promote water conservation
- Facilitate administrative efficiency.

The findings recommend redesigning the water rate structure to reflect revised water demand projections (which have been reset to lower levels), current usage patterns, and the fixed nature of water supply costs. The new water rate structure would be designed to be less dependent on summer water use. The goal of the new rate structure is to be revenue neutral. The Environmental Services Commission is currently reviewing the revised rate structure.

***Issue 6: Keeping Rates Low While Meeting Long Term Objectives of Utilities Financial Policies***

In light of the increasing costs Utilities faces in the 2013-2014 biennium, one of the Department’s key challenges is to keep utility rates low and predictable while meeting the long term objectives of the Utilities’ adopted financial policies. This was achieved using the following guiding principles:

- Seek cost containment through process improvement, efficiencies, and select service cuts
- Meet regulatory and contractual obligations
- Minimize direct service impact to customers
- Maintain current infrastructure to minimize life cycle costs and customer impacts
- Fund current CIP needs before putting money aside for future infrastructure needs
- Maintain rate payer and intergenerational equity.

***Strategies for Issue 6: Keeping Rates Low While Meeting Long Term Objectives of Utilities Financial Policies***

Consistent with the guiding principles discussed above and City policies, the Utilities Department undertook significant cost containment measures, amounting to over \$9 million in 2011-2012, and more sustainable measures, amounting to \$4.5 million, are anticipated for 2013-2014 to minimize the need for utility rate increases. The cost containment measures incorporated into the 2013-2014 budget proposals include a reduction of 4.0 FTEs in the areas of conservation programs, utility billing and customer service, and internal support functions. The key criteria used in identifying the cost containment measures were that they have minimal direct service impact to customers and that system integrity is maintained.

Utilities’ goal is to keep 2013-2014 rate increases at or below those projected two years ago in the 2011-2012 Budget despite the on-going and new challenges discussed earlier.

## Utilities 2013-2018 Financial Forecasts Water, Wastewater, and Storm & Surface Water Funds

### **Executive Summary:**

- *Bellevue's utility rates are competitive, and even more so in the future with the Council-adopted financial policy to plan and prepare for infrastructure replacement and renewal.*
- *Utility rate increases are necessary to fund on-going operational and capital needs to maintain current service levels and system integrity.*
- *Major cost drivers continue to be wholesale costs and capital investment.*
- *Utilities' forecast minimizes projected rate increases through significant containment measures and efficiency gains.*
- *Lower water revenues due to declining water demand has reduced operating reserves in the water fund despite cost containment efforts. Projected rate increases coupled with on-going cost containment will restore reserves to target levels within the 6-year forecast period.*

The preliminary forecast is based on the Utilities 2013-2014 budget proposals. Since all Utility functions are supported by rates, the forecasts include funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term renewal and replacement (R&R) requirements.

The overarching goal for this preliminary forecast was to limit projected rate increases for all three funds to levels previously shared with Council despite increasing costs and a decrease in rate based revenues, especially in the Water Utility. This goal has been largely accomplished for all three Utility Funds through cost containment measures and efficiencies gained through process improvements in the operations and capital programs.

### **KEY CHALLENGES**

The Utilities operating budget is comprised of the following cost components:

1. Payments to internal and external service providers and tax obligations
2. Capital Improvement Program (CIP) and Renewals & Replacements (R&R)
3. Operations
4. Operating reserves



## Utilities 2013-2018 Financial Forecasts Water, Wastewater, and Storm & Surface Water Funds

The Preliminary Budget includes the following proposed total utility rate increases for 2013-2014:

	WATER		SEWER		STORM	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Wholesale	8.2%	3.1%	6.3%	0.0%		
Local	<u>4.0%</u>	<u>4.5%</u>	<u>3.0%</u>	<u>4.0%</u>	<u>7.3%</u>	<u>8.1%</u>
<b>Total</b>	<b>12.2%</b>	<b>7.6%</b>	<b>9.3%</b>	<b>4.0%</b>	<b>7.3%</b>	<b>8.1%</b>

The following section provides a breakdown of rate increases by cost category.

### 1. *Payments to Internal and External Service Providers and Tax Obligations*

The following utility rate increases for the 2013-2014 biennium will be required to fund payments to service providers and tax obligations:

	<b>2013</b>	<b>2014</b>
Water Rate	9.5%	4.0%
Wastewater Rate	7.0%	0.3%
Storm and Surface Water Rate	2.1%	0.7%

Key drivers associated with these rate increases are discussed below.

#### Wholesale Costs

Wholesale costs related to the purchase of water supply from the Cascade Water Alliance (Cascade) and payments to King County for wastewater treatment represent just over 40% of Utilities' 2013 operating budget. Rate increases are needed to fund cost increases for these functions. To ensure sufficient funding to maintain the integrity of utility operations and capital programs, Council-adopted policy directs that rate increases necessary to fund wholesale costs be passed through to the customer so as to not degrade operations or the CIP.

The projected cost increases from Cascade to purchase water supply have been updated since the early outlook forecast. The updated cost increase will be slightly lower for 2013 and higher for 2014. The results of these cost increases to the Bellevue retail water rate are 2.5% and 2.8% in 2013 and 2014, respectively.

Similarly, the projected cost increase from King County for wastewater treatment has been updated since the early outlook forecast. The cost increase will be slightly higher for 2013. The impact of the cost increase to the Bellevue retail wastewater rate is 6.3% in 2013.



## Utilities 2013-2018 Financial Forecasts Water, Wastewater, and Storm & Surface Water Funds

### Decrease in Water Demand and Corresponding Impact on Water Service Revenues

Water demands have been decreasing over the past several years; this trend also has affected other water utilities in the region and across the country. There are three primary factors contributing to decreasing water demand: (1) long-term conservation efforts; (2) two consecutive years (2010 and 2011) with cool, wet summer weather and low sales; and (3) impacts of the economic recession. The combination of these factors has reduced water reserves to unacceptably low levels despite cost containment efforts. Projected rate increases coupled with cost containment efforts will restore reserves to target levels by 2017.

One-time rate adjustments of 5.7% in 2013 and 0.3% in 2014 are also included in water utility rates. These adjustments reflect the cumulative effects to date of the current wholesale water supply contract with Cascade. Cascade costs are fixed in the short term and, therefore, do not fluctuate with retail water sales.

Water rate revenue projections have been revised downward from previous estimates to better reflect current usage trends. Wastewater revenue projections have also been adjusted downward to recognize the linkage between water and sewer volumes.

A cost containment plan developed and implemented in 2011 identified \$5.7 million in cost reductions for the Water Utility for the 2011-2012 biennium. This is the primary reason water rate projections have been largely limited to those shown in the previous forecast from 2010.

### Tax Obligations and Internal Service Providers Costs

Taxes and franchise fees Utilities pay, as a taxpayer, and costs that Utilities pay to the General Fund for support services represent approximately 15% of Utilities' 2013 operating budget. The cost increases to fund these financial obligations will require increases of 1.3% in 2013 and 0.9% in 2014 to water utility rates, 0.7% in 2013 and 0.3% in 2014 to wastewater utility rates, and 2.1% in 2013 and 0.7% in 2014 to storm and surface water utility rates.

## **2. CIP and Renewals and Replacements**

The capital investment program and long-term infrastructure R&R needs will require the following utility rate increases for the 2013-2014 biennium:

	<b>2013</b>	<b>2014</b>
Water Rate	2.9%	3.4%
Wastewater Rate	2.3%	1.6%
Storm and Surface Water Rate	3.1%	10.0%

Key drivers associated with these rate increases are discussed below.

### Impact of Aging Infrastructure on both Operating and Capital Programs

Utilities' infrastructure is aging and most of the systems are well past their mid-life. As a result, the drinking water, wastewater, and storm and surface water systems are experiencing more failures and, the cost to operate, maintain, rehabilitate and replace infrastructure is increasing. To minimize costs and optimize the integrity of the systems, Utilities has developed a strategic



## Utilities 2013-2018 Financial Forecasts Water, Wastewater, and Storm & Surface Water Funds

asset management plan that prioritizes asset replacements based on criticality to achieving service level goals and also identifies the most cost-effective capital improvement, operations, and maintenance strategies. These planning efforts coupled with effective maintenance programs are designed to extend infrastructure life and minimize life-cycle costs. These actions are integral to the funding strategies designed to smooth rate increases and provide intergenerational equity.

### Additional Capacity to Accommodate Growth

Utility infrastructure capacity needs to be in place in advance of development. Additional capacity is needed in the Downtown, Bel-Red, and Wilburton areas to accommodate growth. The adopted Utilities CIP anticipates \$38 million in the 2013-2019 CIP Budget for funding of projects to accommodate population growth.

### East Link

Utility relocations related to the East Link project, totaling \$7.7 million in 2014, will be funded from the R&R accounts in each fund. There are no utility rate impacts associated with this project.

### Mobility and Infrastructure Initiative

As part of the 2009-2010 budget process, Council adopted a 10-year plan to fund work related to opening and restoring streams in the Bel-Red corridor as that area redevelops from annual rate increases in the Storm and Surface Water Utility of 1.5% per year. These increases are included in the forecast through 2018.

### **3. Operations**

The following utility rate increases for the 2013-2014 biennium will be required to fund operations:

	<b>2013</b>	<b>2014</b>
Water Rate	0.5%	0.9%
Wastewater Rate	0.3%	0.7%
Storm and Surface Water Rate	1.9%	1.4 %

Key drivers associated with these rate increases are discussed below.

### Personnel and Other Operating Costs

In 2011-2012, Utilities undertook significant cost containment measures, amounting to \$9 million. More sustainable measures, amounting to \$4.5 million, are included in the 2013-2014 budget proposals to minimize the need for utility rate increases. As part of the cost containment measures, four FTE reductions are included in the 2013-2014 Preliminary Budget. The key criteria used in identifying the cost containment measures were that they have minimal direct service impact to customers and that system integrity is maintained.

Consistent with the City's General Fund forecast, in all three Utility funds, personnel and associated benefit costs are a significant rate driver. The projected personnel cost increases



## Utilities 2013-2018 Financial Forecasts Water, Wastewater, and Storm & Surface Water Funds

are largely due to increases in medical costs and other benefits. These costs are lower than projected in the early outlook forecast.

Other operating costs are projected to increase from 2012 levels at less than the general rate of inflation due to cost containment efforts mentioned above.

### Regulatory Requirements

State and federal mandates to protect drinking water and surface water quality are increasing, such as the National Pollutant Discharge Elimination System (NPDES) Permit requirements. Ecology has issued a new NPDES Municipal Stormwater Permit that builds on the current permit and adds new costs. Based on permit language, new conditions will be phased in over the 5-year permit term beginning in August 2013. The current Storm and Surface Water budget includes approximately \$150,000 in costs related to early phases of implementation of the new permit.

### **4. Operating Reserves**

#### Keeping Rates Low While Meeting Long Term Objectives of Utilities Financial Policies

In light of the increasing costs Utilities faces in the 2013-2014 biennium, one of Utilities' key challenges is keeping utility rates low and predictable while meeting the long term objectives of Utilities adopted financial policies. Consistent with Council-adopted policy, operating reserves are used to smooth rate increases over the forecast period.

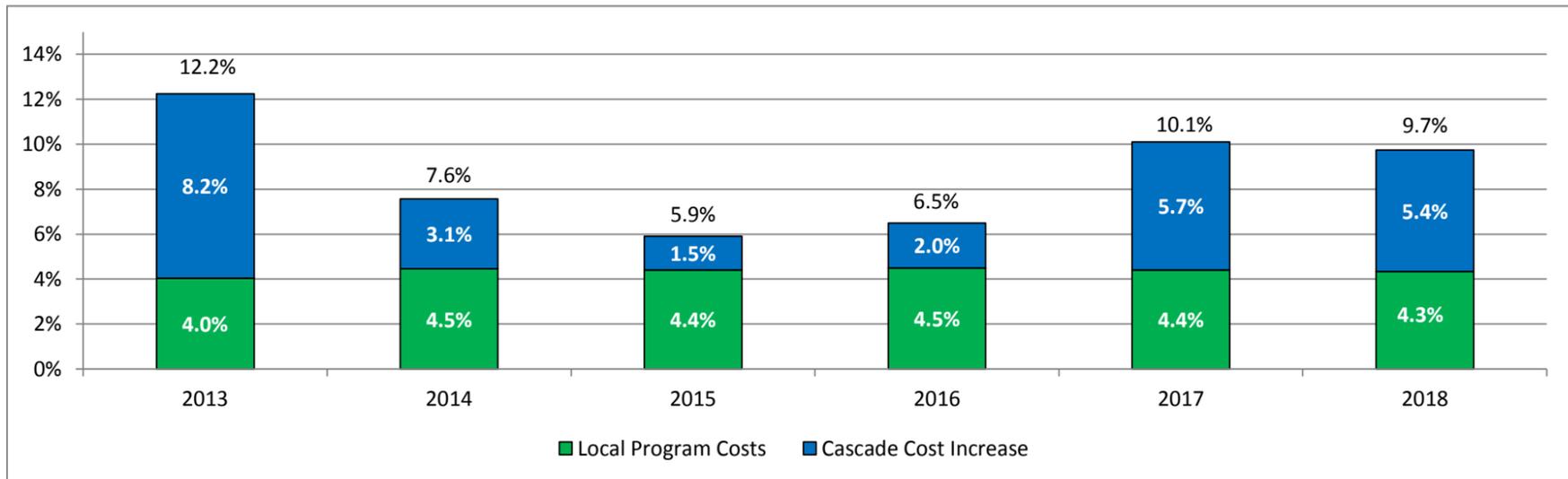
The following utility rate decreases/increases for the 2013-2014 biennium will result from the use of operating reserves to stabilize rate increases:

	<b>2013</b>	<b>2014</b>
Water Rate	-0.7%	-0.7%
Wastewater Rate	-0.3%	1.4%
Storm and Surface Water Rate	0.2%	-4.0 %

The following section provides a brief review of each Utility fund forecast and key rate drivers.

**WATER UTILITY FUND**  
2013 - 2018 Preliminary Rate Forecast

**PROJECTED RATE INCREASES**



**Impact to Monthly Bill for a Typical Residential Customer**

	2013	2014	2015	2016	2017	2018
<b>Prior Year Bill</b>	\$44.87	\$50.34	\$54.13	\$57.32	\$61.05	\$67.22
<b>Increase:</b>						
<b>Wholesale</b>	3.68	1.56	0.81	1.15	3.48	3.63
<b>Local</b>	1.79	2.23	2.38	2.58	2.69	2.92
<b>Total</b>	\$5.47	\$3.79	\$3.19	\$3.73	\$6.17	\$6.55
<b>Projected Bill</b>	\$50.34	\$54.13	\$57.32	\$61.05	\$67.22	\$73.77

**Key Rate Drivers**

● **Wholesale Costs**

Cascade costs are increasing primarily due to water purchase costs from Seattle and Tacoma and costs related to Lake Tapps operations. Cascade projects cost increases to Bellevue of 5.5% and 7.1% in 2013 and 2014, respectively. Projected increases in 2015 and 2016 average 2.4% per year primarily due to purchased water costs. The forecast also assumes 8% annual cost increases for 2017 and 2018, primarily due to the uncertainty of future water demands and the potential need to build future water facilities. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 2.5% for 2013 and 2.8% for 2014. In addition, proposed retail rate increases of 5.7% in 2013 and 0.3% in 2014 are needed to bring declining revenues in line with fixed wholesale costs. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 1.8% per year for 2015 and 2016 and 5.6% per year for 2017 and 2018.

● **Taxes/Intergovernmental**

Interfund payments to other City departments will require rate increases of 0.7% and 0.5% for 2013 and 2014, respectively, and 0.4% thereafter. State taxes will require rate increases 0.6% and 0.4% for 2013 and 2014, respectively, and approximately 0.5% per year thereafter due to increased rate revenues.

● **Capital Program**

Consistent with Council direction and the Utilities asset management strategy, the capital program continues to ramp up AC water main replacement from 1.5 miles in 2008 to 5 miles per year by 2018. Also included in the 2013-2019 CIP Program are a number of growth-related capital projects, including increased area-specific water reservoir storage and water supply. The other capital rate drivers are inflationary construction cost increases. Rate increases of 2.9% and 3.4% in 2013 and 2014, respectively, and an average of about 4.0% per year thereafter are needed to fund the capital program.

● **Operations**

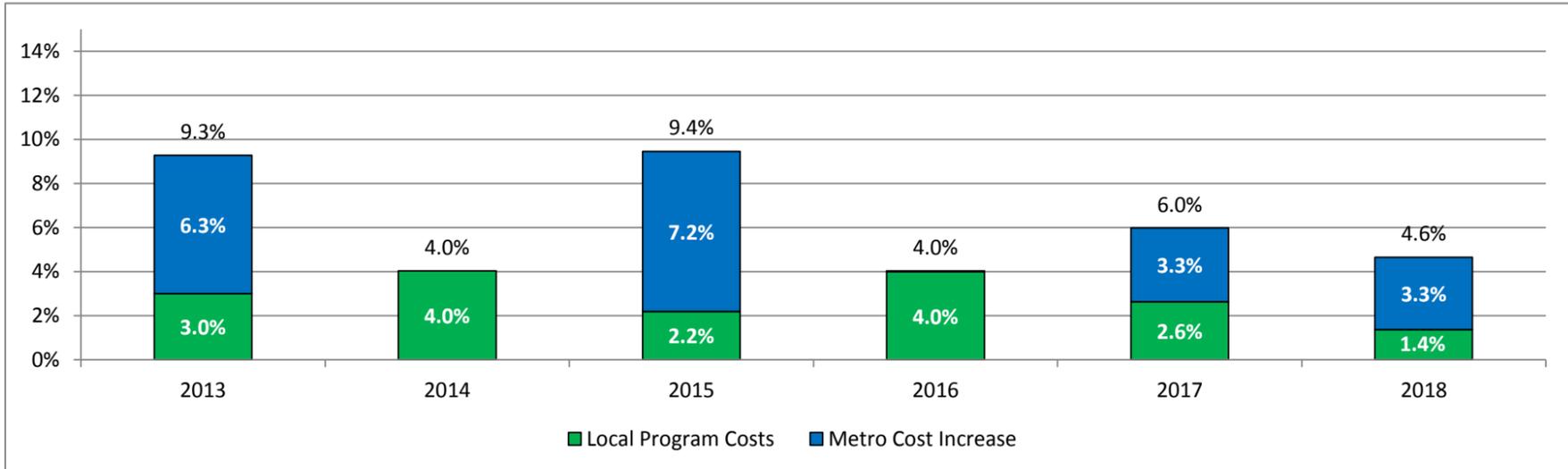
Projected personnel costs will require rate increases of about 0.0% and 0.7% in 2013 and 2014, respectively, and about 0.9% per year thereafter, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The impact of other operating expenses will require a rate increase of 0.5% in 2013 and 0.2% in 2014, and an average increase of 0.1% per year thereafter. These rate increases include the effects of cost containment efforts.

● **Operating Reserves**

Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate decrease of -0.7% per year in 2013 and 2014, and an average of -1.5% per year for the remainder of the forecast period.

**WASTEWATER UTILITY FUND**  
2013 - 2018 Preliminary Rate Forecast

**PROJECTED RATE INCREASES**



**Impact to Monthly Bill for a Typical Residential Customer**

	2013	2014	2015	2016	2017	2018
<b>Prior Year Bill</b>	\$60.39	\$66.02	\$68.71	\$75.20	\$78.23	\$82.90
<b>Increase:</b>						
<b>Wholesale</b>	3.79	0.00	4.98	0.03	2.61	2.72
<b>Local</b>	1.84	2.69	1.51	3.00	2.06	1.13
<b>Total</b>	\$5.63	\$2.69	\$6.49	\$3.03	\$4.67	\$3.85
<b>Projected Bill</b>	\$66.02	\$68.71	\$75.20	\$78.23	\$82.90	\$86.75

**Key Rate Drivers**

● **Wholesale Costs**

Wholesale costs are increasing primarily due to ongoing debt service and operating costs from the Brightwater treatment plant and operating costs related to compliance requirements associated with the Combined Sewer Overflow program. The King County/Metro rate will increase by 10.4% in 2013 with no increase in 2014. Beyond that, wholesale cost increases are projected to increase at an average of 5.2% per year. Retail rate impacts of the projected increases in King County/Metro's wholesale costs to Bellevue are 6.3% in 2013, 7.2% in 2015, and 3.3% per year for 2017 and 2018.

● **Taxes/Intergovernmental**

Interfund payments to other City departments will require rate increases of 0.5% in 2013 and 0.2% per year thereafter. State taxes will require rate increases of approximately 0.2% in 2013 and 0.1% per year thereafter due to increased rate revenues.

● **Capital Program**

The capital program includes an increase for repair and replacement of significant sewer pipe defects, beginning in 2013 and ongoing, consistent with the asset management strategy. The program also includes a number of growth-related capital projects including sewer lines under street improvements in the BelRed Corridor, and mandated WSDOT utility relocations. Capital costs, including transfers to the R&R account, will require rate increases of 2.3% and 1.6% in 2013 and 2014, respectively, and an average of 2.5% per year thereafter.

● **Operations**

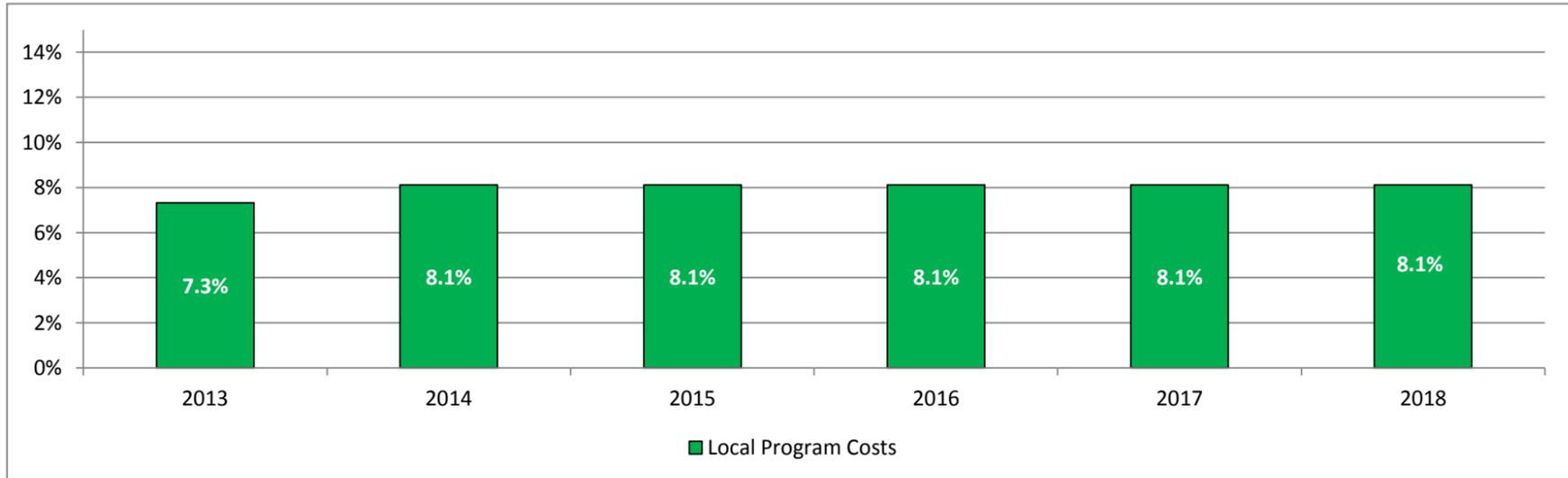
Projected personnel costs will require rate increases of about 0.4% and 0.6% in 2013 and 2014 and an average of 0.5% per year for the remainder of the forecast period, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The impact of other operating expenses will require a rate decrease of -0.1% in 2013 and increases of 0.1% per year thereafter. These rate impacts include the effects of cost containment efforts.

● **Operating Reserves**

Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate decrease of -0.3% in 2013, an increase of 1.4% in 2014, and an average decrease of -0.8% per year for the remainder of the forecast period.

**STORM AND SURFACE WATER UTILITY FUND**  
2013 - 2018 Preliminary Rate Forecast

**PROJECTED RATE INCREASES**



**Impact to Monthly Bill for a Typical Residential Customer**

	2013	2014	2015	2016	2017	2018
<b>Prior Year Bill</b>	\$18.26	\$19.61	\$21.19	\$22.91	\$24.77	\$26.78
<b>Increase</b>	\$1.35	\$1.58	\$1.72	\$1.86	\$2.01	\$2.18
<b>Projected Bill</b>	\$19.61	\$21.19	\$22.91	\$24.77	\$26.78	\$28.96

**Key Rate Drivers**

● **Taxes/Intergovernmental**

Interfund payments to other City departments will require rate increases of about 2.0% and 0.5% in 2013 and 2014, respectively, and increases averaging about 0.6% per year thereafter. State taxes will require rate increases of 0.1% in 2013 and 0.2% in 2014, and 0.2% per year thereafter due to increased rate revenues.

● **Capital Program**

Capital costs, including transfers to the R&R account, will require rate increases of 1.6% and 8.5% in 2013 and 2014, respectively, and an average of about 6.3% per year thereafter. This funds the Coal Creek Parkway and Kelsey Creek at NE 8th St. culvert replacements, repairs to stormwater pipe defects, and flood control and environmental preservation projects. In addition, as part of the Mobility and Infrastructure Initiative, Council approved rate increases of 1.5% per year through 2018 to fund stream restoration in the Bel-Red corridor.

● **Operations**

Projected personnel costs will require rate increases of about 1.5% and 0.6% in 2013 and 2014, respectively, and about 1.3% per year thereafter, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. The Storm utility will fund half of street sweeping operations starting in 2012; this has a one-time rate impact of 1.1% in 2013. A one-time rate increase in 2014 of about 0.9% is needed to fund new costs relating to NPDES requirements. The impact of other operating expenses will require rate decreases of -0.7% in 2013 and -0.1% in 2014, and an average increase of 0.2% per year thereafter. These rate impacts include the effects of cost containment efforts.

● **Operating Reserves**

Consistent with Council-adopted policy, operating reserves are used to smooth rate increases. This will result in a rate increase of 0.2% in 2013 and a decrease of -4.0% in 2014 and an average decrease of -1.9% per year for the remainder of the forecast period.

## Attachment 4

### Impact to Typical Residential, Multi-Family, and Commercial Customer by Utility

For the 2013-2014 Preliminary Budget, rate revenue increases are applied uniformly across all customer classes. Any differences in percentage increases from proposed rate increases are due to rounding of individual rates to the nearest penny.

#### TYPICAL MONTHLY UTILITY BILLS (SAMPLE)

	2012	2013	% Change	2014	% Change
<b>SINGLE FAMILY</b>					
Water	\$ 44.87	\$ 50.34	12.2%	\$ 54.13	7.5%
Sewer	60.39	66.02	9.3%	68.71	4.1%
Storm & Surface Water	18.26	19.61	7.4%	21.19	8.1%
<b>Total</b>	<b>\$ 123.52</b>	<b>\$ 135.97</b>	<b>10.1%</b>	<b>\$ 144.03</b>	<b>5.9%</b>
<b>MULTI-FAMILY (25 UNIT) - WINTER</b>					
Water	\$ 682.70	\$ 765.67	12.2%	\$ 823.45	7.5%
Sewer	981.50	1,072.50	9.3%	1,115.75	4.0%
Storm & Surface Water	107.97	115.90	7.3%	125.37	8.2%
<b>Total</b>	<b>\$ 1,772.17</b>	<b>\$ 1,954.07</b>	<b>10.3%</b>	<b>\$ 2,064.57</b>	<b>5.7%</b>
<b>MULTI-FAMILY (25 UNIT) - SUMMER</b>					
Water	\$ 1,250.84	\$ 1,403.39	12.2%	\$ 1,509.52	7.6%
Sewer	1,153.18	1,260.10	9.3%	1,310.89	4.0%
Storm & Surface Water	107.97	115.90	7.3%	125.37	8.2%
<b>Total</b>	<b>\$ 2,511.99</b>	<b>\$ 2,779.39</b>	<b>10.6%</b>	<b>\$ 2,945.78</b>	<b>6.0%</b>
<b>COMMERCIAL (MEDIUM) - WINTER</b>					
Water	\$ 878.62	\$ 986.54	12.3%	\$ 1,062.20	7.7%
Sewer	1,626.51	1,776.78	9.2%	1,847.50	4.0%
Storm & Surface Water	85.76	92.08	7.4%	99.52	8.1%
<b>Total</b>	<b>\$ 2,590.89</b>	<b>\$ 2,855.40</b>	<b>10.2%</b>	<b>\$ 3,009.22</b>	<b>5.4%</b>
<b>COMMERCIAL (MEDIUM) - SUMMER</b>					
Water	\$ 1,508.42	\$ 1,694.16	12.3%	\$ 1,822.78	7.6%
Sewer	2,100.09	2,294.12	9.2%	2,385.43	4.0%
Storm & Surface Water	85.76	92.08	7.4%	99.52	8.1%
<b>Total</b>	<b>\$ 3,694.27</b>	<b>\$ 4,080.36</b>	<b>10.5%</b>	<b>\$ 4,307.73</b>	<b>5.6%</b>