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SUBJECT: CASCADE WATER ALLIANCE UPDATE

STAFF CONTACT: Nav Otal, Utilities Director, 452-2041; Joyce Nichols, Intergovernmental Relations Director, 452-4225; Alison Bennett, Utilities Policy Advisor, 452-2808

POLICY ISSUE: Cascade's Chief Executive Officer Chuck Clarke will present a Council briefing regarding recent Cascade milestones and activities, Cascade's 2014 budget and rate, and a plan for implementing Water Use Efficiency Rule goal setting for Cascade members.

**DIRECTION
NEEDED**

FROM COUNCIL: No formal action is required. Council may wish to provide feedback regarding the items presented. The Cascade Board is scheduled to adopt the 2014 budget and rate in late September.

BACKGROUND

2014 Budget

As forecasted back in late 2012 when Cascade developed its 2013-2014 budget, Cascade's proposed 2014 budget is almost identical to its 2013 budget, except for an anticipated increase in water costs from Seattle. Other areas of the operating budget, including administration, conservation, planning, communications/outreach, and Lake Tapps operations, are slightly declining overall from 2013 to 2014. Cascade's proposed budget shows an increase of \$1.6 million over 2013 to a total of \$41.9 million for 2014. The increase from Seattle (\$1.7 million) is due to Seattle's adopted rate increase plus an additional charge from the true-up process for its services costs, which in this case included some additional costs for capital projects that Seattle completed earlier than originally planned. Pursuant to the contract with Seattle, true-up costs from the prior year (in this case 2012) are added or subtracted from the following year's contract costs. Some years, such as in 2013, Cascade receives a credit back; other years there are additional costs.

Cascade's Capital Improvement Program (CIP) is projected to be \$8.7 million in 2014. The largest CIP elements are \$2.5 for the first phase of flume replacement work at Lake Tapps and \$5.1 million owed to Tacoma under the terms of the restructured contract.

2014 Rates

Cascade's overall rate increase for 2014 is 3.0% due to the Seattle water increase and to accomplish long-term rate smoothing. This is lower than projected in the original 2013-2014 budget, but as you will recall, actual charges for each particular member vary by water use and differing rates of water demand growth among members, so Bellevue's actual charges often vary from the average, as they do for this budget. Although the 3.0% overall rate increase is lower than anticipated, the actual charges to Bellevue are slightly higher than projected and higher than what Bellevue included in its 2014 budget. This is due to two factors: 1) Bellevue used more water on a percentage basis as compared to other Cascade members, and 2) Redmond's average use went down significantly this year, causing other members' charges to increase. Each member's demand share is determined by a three year rolling average of water usage. Redmond had a very high water use year in 2009 (when they had some wells offline for maintenance work), and the 2009 year was dropped from Redmond's three year average this year.

The result is that Cascade's wholesale charge to Bellevue for 2014 is \$18,353,836 compared to \$18,209,329 originally projected, a \$144,507 difference. Given the small size of the difference, Bellevue staff is proposing to make no mid-biennium change to the water rates and instead true-up the difference in the 2015-2016 budget process. Therefore, the rate increase from the wholesale charges that a retail customer would see on their bill will remain 2.8%, as projected in the 2013-2014 budget.

The Regional Capital Facilities Charge (RCFC) is a one-time pass-through charge paid by new customers connecting to the Cascade regional system. For 2014, the RCFC charge is proposed to stay at the 2013 level of \$6,005 per connection. Based on the projected growth in Bellevue, the total RCFC charge for Bellevue is estimated to be about \$1.2 million in 2014. The RCFC payment by new customers is consistent with the Bellevue City Council's 2002 policy decision that these charges should be a pass-through paid for by new connections.

Water Use Efficiency Rule

The State of Washington's Department of Health (DOH) requires municipal water suppliers to establish a water efficiency goal. The Water Use Efficiency Rule requires that the goal be set at a minimum every six years using a public process. Bellevue's 2008-2013 goal was set in late 2007 in conjunction with Cascade. At that time, Cascade set a regional goal, but each member was required to implement its own public process to adopt its portion of the total regional goal established by Cascade.

Bellevue's water conservation goal is to save 355,000 gallons per day (gpd) from 2008-2013, which is an average of 59,000 gpd of new savings each year. Since establishing the goal in 2008, Bellevue has saved 652,353 gpd, far exceeding the original goal. In 2012, residents, local businesses, property owners and schools saved 85,900 gpd.

For the next goal, Cascade has been working with DOH to develop a process whereby Cascade can promulgate a proposed regional goal for all Cascade members, manage the public process associated with adopting the goal, and manage the administrative details of the overall requirement. DOH has approved the proposed process, and Cascade will implement a public process, adopt a water use efficiency goal, and produce a report for Cascade members that includes:

- Cascade's adopted savings goal,
- Water efficiency program purpose,
- Outline of an efficiency plan,
- Methods to communicate information to customers, and
- Actions taken in response to customer comments.

The increased role for Cascade in the water use efficiency rule process is consistent with recent actions taken by Bellevue and Cascade regarding water conservation programs. As you will recall, Bellevue reduced its local conservation program in its 2013-2014 budget, and Cascade is providing supplemental programs such as additional spring Savvy Gardener (natural yard care) classes and classroom workshops targeting elementary school students. At the local level, Bellevue continues to support a water systems curriculum for 6th grade science classes and the Waterwise Demonstration Garden, which is an integral part of the Bellevue Botanical Gardens and shows natural yard care in action.

Cascade staff will provide more details for Council at the September 23 briefing. The Cascade Board is scheduled to adopt the 2014 budget and rate in late September.

ALTERNATIVES: N/A

RECOMMENDATIONS: N/A

ATTACHMENTS: N/A