

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Cascade Water Alliance (Cascade) update regarding current work plan activities and 2007 budget.

STAFF CONTACT

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FISCAL IMPACT

The Cascade Water Alliance has developed its proposed 2007 operating and capital budgets. Cascade's proposed 2007 operating budget is \$20 million or 6.4% higher than 2006. Cascade's 7-year Capital Investment Program (CIP) totals \$215 million for 2007-2013. Cascade's 2007 wholesale charges to Bellevue are currently projected to increase by \$1.1 million or 10.8%. However, this increase will be adjusted by a one-time credit and a one-time projected meter replacement expense, resulting in a total increase to the City of \$0.8 million or 7.3%. Consistent with Council adopted policies of gradual and uniform rate increases, the impact of these one-time adjustments will be levelized over the 2007-2008 biennium. This will result in rate increases of 5.2% per year in 2007 and 2008 for wholesale water purchases.

This draft projection is consistent with the rate forecast presented to Council as part of Cascade's 2006 budget. This draft projection is also lower than what was presented as part of the 2007-2008 Early Outlook and will be incorporated into the 2007-2008 Budget after the Cascade Board takes final action on its budget, scheduled for October 25th.

In 2007, the Regional Capital Facilities Charges (RCFC) will increase by 14% from \$4,648 to \$5,297. The RCFC is a one-time pass-through charge paid by new customers connecting to the Cascade regional system. The pass-through is consistent with the Bellevue City Council's 2002 policy decision that growth should pay for growth.

The financial implications of the work items discussed below under "Background" have been incorporated into Cascade's operating and capital budgets.

POLICY CONSIDERATION

This briefing will provide Council with an update regarding recent Cascade activities and the 2007 budget. Council input is requested on Cascade's 2007 operating and capital budget. The Cascade Board will take final action on the budget at the regular Board meeting on October 25th.

DIRECTION NEEDED FROM COUNCIL

- Action
- Discussion
- Information

BACKGROUND/ANALYSIS

The Cascade Water Alliance organization is moving out of its formation and initial planning phases and into its first phase of implementation. Updates on Cascade's recent work items are briefly summarized below. An updated "Cascade Water Alliance Major Action Items City of Bellevue Review – 2006" is presented as Attachment A.

Pipelines

There has been a lot of activity on the Tacoma – Cascade Pipeline (TCP). As you will recall, this pipeline (made up of a central segment and a north segment) will convey Tacoma water north to Cascade customers. Completion of all segments is scheduled for 2010.

To date, Cascade has not been successful in negotiating a wheeling agreement with Seattle Public Utilities, so Cascade has been moving forward with design of both the central and north segments of the TCP. Building both segments of the TCP will allow water delivery without use of the Seattle system.

On-going activities include work on a draft Environmental Impact Statement (EIS), pre-design work on the north segment and final design of the central segment.

Conservation and New Water Use Efficiency Rules

The State of Washington's Department of Health is in the process of revising water conservation planning requirements as a result of the 2003 Municipal Water Law. The new Water Efficiency Rule (Rule) has a proposed effective date of October, 2006.

Under the Rule, each Cascade member will be required to adopt a local water conservation goal by mid-2007. Bellevue and other members are currently coordinating with Cascade to establish regional water conservation goals. The approach taken by Cascade in setting its own regional conservation policies and goals will assist and guide each individual member in setting its own local conservation goal.

Bellevue is in full or substantial compliance with the Rule requirements. The significant new impacts to Bellevue are the requirements to establish water conservation goals in a public setting, report distribution system leakage and create an annual water use efficiency report. Bellevue's draft water comprehensive update, to be presented to Council in early 2007, will recognize the draft Rule requirements.

Lake Tapps Acquisition and Water Right

Cascade has been engaged in a significant amount of due diligence work since it reached an agreement in 2005 with Puget Sound Energy for the purchase of Lake Tapps, its related facilities and properties and the water right. Due to the huge amount of property involved in the sale as well as facilities and activities on the properties that date back 100 years, the due diligence has taken longer than anticipated. Staff will return to Council for an update once due diligence has been completed.

As Council will recall, the original municipal water right issued by the Department of Ecology (Ecology) had been appealed and was remanded back to the Department of Ecology. Ecology issued an informal review draft Report of Examination on September 25, 2006. The intent of this review draft is to solicit public input during a 45 day public comment period. Cascade is continuing to work with interested

parties, such as Pierce County and the Puyallup and Muckleshoot Tribes, to resolve issues before the final water right is issued.

Regional Planning

Pursuant to a Memorandum of Understanding for Water Resource and Supply Planning, Cascade has been working with King County as part of a multi-stakeholder water supply planning process. Members also include water utilities, counties, state agencies, tribes, business and environmental organizations. Subcommittees have been formed to address the following key elements of a regional plan:

- Regional demand forecast
- Supply alternatives analysis
- Climate change analysis
- Reclaimed water
- Prioritization of tributaries for source exchange
- Source exchange strategies
- Small water systems strategy

The overall effort is not expected to reach conclusion until the end of 2007. Staff will keep Council updated as significant progress is made during the year.

2007 Budget

On average, operating expenses have increased about 6.4%. The primary drivers are:

- Purchased water costs
- Debt service (for 2006 debt and projected 2007 debt)

The population of Cascade's service area is expected to increase 25% by 2020, an increase of 75,000 people. Cascade members are projected to experience continued growth throughout the 50 year capital plan. Cascade's total capital plan will provide the infrastructure to supply water for the current population and forecasted growth. And, as discussed below, all of that growth will contribute to the funding of the capital program.

- Cascade 7-year capital budget for 2007-2013 is approximately \$215 million.
- Cascade's 2007 capital budget is \$70 million. Major components include:
 - Tacoma - Cascade pipelines
 - Lake Tapps acquisition and improvements

Budget Impacts to Bellevue

Rates

The current proposed Cascade wholesale charges to Bellevue for 2007 are projected to increase by 7.3% to approximately \$11.4 million. This draft projection is consistent with the rate forecast presented to Council as part of Cascade's 2006 budget. Consistent with Council adopted policies of gradual and uniform rate increases, the impact of these one-time adjustments will be levelized over the 2007-2008 biennium. This will result in rate increases of 5.2% per year in 2007 and 2008 for wholesale water purchases.

Based on the latest projections from Cascade, Bellevue's retail rate increases are estimated to be 4-6% per year in the short term (2008-2011) and 1-3% per year in the long term (2012-2050) to cover wholesale costs. These projections are preliminary and will be refined as costs are updated and assumptions are refined.

Regional Capital Facilities Charge

In large part, Cascade's capital program will be paid from revenues collected through Regional Capital Facilities Charges (RCFCs). RCFCs are pass-through charges that are paid by new connections on the basis of Cascade Equivalent Residential Units (CERUs). The charge per CERU is updated annually and will increase from \$4,648 in 2006 to \$5,297 in 2007. Based on the new 2007 charge of \$5,297 per CERU and projected growth in Bellevue, the total RCFC charge for Bellevue is estimated to be \$1.3 million for 2007.

The RCFC calculation is based on the total capital program costs, the costs allocated for new growth and the number of CERUs or new connections. The cost for a typical single family unit will increase from \$4,648 to \$5,297.

Council may wish to provide feedback on any of these items to staff, Mayor Degginger, Bellevue Council representative to the Cascade Board and Board Chair, and Councilmember Davidson as the alternate representative.

OPTIONS

1. Support Cascade's proposed 2007 budget.
2. Provide alternative direction.

RECOMMENDATION

Option 1 – Support Cascade's proposed 2007 budget.

ATTACHMENTS

A. Cascade Water Alliance Major Action Items – City of Bellevue Review 2006

Attachment A
Cascade Water Alliance Major Action Items
City of Bellevue Review – 2006

Action Item	Description	City Council Review	Cascade Board Action
Cascade Bond Issuance	Initial bond issuance for costs associated with central pipeline, Lake Tapps purchase, Tacoma purchase	Complete (January 9, 2006; April 10, 2006)	Complete (April 26, 2006)
Bellevue Pipeline Transfer	Cascade acquisition of Bellevue portion of Bellevue-Issaquah pipeline to complete regional pipe acquisition (Cascade already acquired Issaquah portion).	Complete (February 27, 2006; March 27, 2006; May 15, 2006)	Complete (May 24, 2006)
North Pipeline Route Decision	Initial recommendation on route for north pipeline. Final decision will be made following SEPA process.	Complete (April 24, 2006)	Complete (April 26, 2006)
Cascade 2007 Budget Adoption	Adoption of the 2007 budget, setting wholesale rates	October 16, 2006	October 25, 2006
Water Right Issuance – Lake Tapps	Water right allows withdrawals from Lake Tapps for municipal water supply purposes.	4 th Quarter, 2006	4 th Quarter, 2006
Seattle Wheeling Agreement	Agreement to use Seattle water transmission facilities to bring water purchased from Tacoma to Cascade members.	4 th Quarter, 2006	4 th Quarter, 2006
Lake Tapps Acquisition	Purchase of Lake Tapps and facilities for long-term water supply.	1 st Quarter, 2007	Final Agreement with Puget Sound Energy in 1 st Quarter, 2007
Results from Regional Water Supply Planning Effort	Cascade, King County and water suppliers are working together in a countywide water planning process	4 th Quarter, 2007	4 th Quarter, 2007