

CITY COUNCIL STUDY SESSION

Briefing on Cascade Water Alliance draft 2023-2024 budget and proposed water rate increases.

Nav Otal, Director, 452-2041

Utilities

DIRECTION NEEDED FROM COUNCIL**INFORMATION
ONLY**

Ray Hoffman, Cascade Water Alliance (Cascade) Chief Executive Officer and Ed Cebron, Cascade Chief Economist/Treasurer will brief Council on Cascade's draft 2023-2024 budget and proposed rate increases.

This is an opportunity for Council to ask questions of Cascade and to provide input to Bellevue's representative on the Cascade Board, Councilmember Barksdale.

RECOMMENDATION

N/A

BACKGROUND & ANALYSIS**Background**

Cascade was formed in 1999 and provides water supply to the City of Bellevue and six other Member jurisdictions, including the cities of Redmond, Issaquah, Kirkland and Tukwila; Sammamish Plateau Water District; and Skyway Water and Sewer District. A Board of Directors (Board), consisting of an elected official from each Member agency provides policy direction and oversees the business of Cascade. Councilmember Barksdale is the City of Bellevue's representative on the Board. Councilmember Stokes is the City's alternate.

Cascade's bylaws provide for a dual majority voting system of its Members. Each Member is given one vote and a weighted vote. The value of each Member's weighted vote is equal to the percent of the total amount of Cascade water supply purchased by that Member. Bellevue purchases about 53 percent of Cascade's water supply and through the weighted voting process, the City is in a position to influence Cascade business decisions.

The Board adopts a biennial budget in the odd years and is scheduled to act on the 2023-2024 budget and proposed rate increases in September.

Cascade has six main cost centers that must be recovered from its Members.

1. **Purchase of Water from Seattle:** Cascade has a long-term contract with Seattle for purchase of water. Cost increases are determined by this contract.
2. **Debt Service:** Cascade has \$98 million in outstanding debt associated with its purchase of Lake Tapps and other capital investments.
3. **Operations of Lake Tapps:** Costs associated with maintaining and operating the White River/Lake Tapps system.

4. **Administration and Management of Cascade Water Alliance:** This includes all costs associated with administration of Cascade, including staff costs, conservation, professional services, taxes, insurance, etc.
5. **Capital Improvement Program (CIP):** The CIP reflects the investments necessary to replace and improve Cascade’s assets. The CIP also includes payments to Tacoma for water purchase that Cascade is not currently fully utilizing and a capacity reservation fee paid to Seattle.
6. **Water Supply Development Fund (WSDF):** WSDF is a reserve for funding the development of White River/Lake Tapps as the future source of drinking water.

Cascade Sources of Funding

1. **Member Charges:** These are Cascade’s primary source of funding and are based on Member’s share of demand and number of customers served. These are paid by utility customers through rates.
2. **Development Charges (Regional Capacity Facility Charge):** These charges recover the cost of capacity to serve new development and are paid by developers.

Table 1: Summary of Cost Centers and Funding Sources

Cost Center	Member Charges	RCFCs
Water Purchase	✗	
Debt Service	✗	
Operations of Lake Tapps	✗	
Administration and Conservation	✗	
Current CIP	✗	✗
WSDF	✗	✗

Table 2: Summary of Cascade Expenditures and Revenues

	2022	2023	% Change	2024	% Change
Operating & Capital Expenditures	\$52,027,226	\$54,538,446	4.8%	\$59,652,660	9.4%
Operating & Capital Revenues	\$51,925,187	\$55,737,594	7.3%	\$57,169,235	2.6%

Cascade’s proposed budgeted costs and corresponding revenue requirements are detailed in Attachment A.

Rates

The preliminary budget results in 2.2 percent annual general rate increases for Cascade Members in 2023-2024. Cascade projects annual general rate increases of 3 percent for 2025-2028.

The costs paid to Cascade are for water supply and do not include the cost to manage Bellevue Water Utility programs, and maintain, rehabilitate, and replace the City’s infrastructure.

Bellevue’s adopted Comprehensive Plan states that utility services should be provided in a way that

balances public concerns about infrastructure safety and health impacts, consumer interest in paying a fair and reasonable price for service, potential impacts on the natural environment, and aesthetic compatibility with surrounding land uses. Water rates are one component of the region's cost of living. Bellevue encourages Cascade to continue to implement measures to control regional costs to help keep water utility rates low. Bellevue appreciates and supports continued transparency around financial planning and decision-making.

Follow-up Issue for Bellevue

Although Cascade's general rate increase is 2.2 percent, each Member's rates vary. Cascade's 2023 cost increases to Bellevue, at 3.4 percent, are higher due to higher consumption attributed to Bellevue. Bellevue will work with Cascade, Seattle, and other Cascade members to understand the cause of this higher consumption.

Next Steps

The Cascade Board will take action on the proposed 2023-2024 budget and rate increases in September.

POLICY & FISCAL IMPACTS

Policy Impact

Per Bellevue's Water System Plan and financial policies, payments to Cascade for water supply services are passed through to Bellevue's water customers via Bellevue Water Utility rates.

Fiscal Impact

Of Cascade's revenues, over 50 percent is from Bellevue. Bellevue's Member charges will increase by 3.4 percent in 2023 and 2.3 percent in 2024.

The impact to Bellevue water ratepayers is an increase of 1.7 percent in 2023 and 1.1 percent in 2024. This will result in monthly increases of \$1.27 for 2023 and another \$0.87 for 2024 for the average single-family residential customer. These increases are in addition to Bellevue Water Utility rate increases needed to operate, maintain and improve Bellevue's water infrastructure. Council will consider increases to the water utility rates as part of the City's 2023-2024 budget process.

In addition to water supply costs, developers also pay Cascade's Regional Capital Facility Charge (RCFC) which pays for their share of growth. Cascade projects to collect \$2.2 million annually in 2023 and 2024 in RCFC revenues from Bellevue developers. Due to higher than expected development activity in 2021, developers in Bellevue Utilities' service area paid \$4.7 million in RCFCs.

OPTIONS

N/A

ATTACHMENTS

- A. Proposed Budgeted Costs and Revenue Requirements
- B. Cascade Debt Service Schedule
- C. Cascade 2023-2028 WSDF Pro-Forma

AVAILABLE IN COUNCIL LIBRARY

N/A