

CITY COUNCIL AGENDA TOPIC

Briefing on Cascade Water Alliance 2025-2026 Budget and Rates Proposal

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

Ed Cebron, Chief Economist at Cascade Water Alliance, will brief Council on their 2025-2026 rates and budget proposal, including proposed rate increases. Cascade is proposing a 3.5 percent rate increase per year in 2025 and 2026. Due to a reconciliation for actual Cascade Equivalent Residential Units (CERUs) and water demand shares, this does not apply equally for all members. For Bellevue, this would translate to a 0.58 percent cost *decrease* in 2025 and a 2.36 percent *increase* in 2026. This is an opportunity for Council to ask questions and provide input to Bellevue's representative on the Cascade Board of Directors, Councilmember Hamilton.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS

Created on April 1, 1999, the Cascade Water Alliance (Cascade) currently consists of seven member agencies, including Bellevue, Kirkland, Issaquah, Redmond, Tukwila, Sammamish Plateau Water, and Skyway Water and Sewer District. Cascade was created to provide members with a voice and a vote and control of its future water supply. Cascade represents a partnership, as these agencies joined together to provide the Puget Sound region with a safe, clean, and reliable water supply for its 415,000 residents and more than 20,000 businesses. Cascade's current strategy is to use contract wholesale water supplies until the development of its own permanent water supply system. Bellevue buys 100 percent of our water from Cascade.

A Board of Directors (Board), consisting of an elected official from each member agency, oversees the business of Cascade. Councilmember Dave Hamilton represents Bellevue on the Board. Councilmember John Stokes is the City's alternate to the Board.

Cascade makes decisions using a "dual majority" model, meaning Board decisions are based on a majority of the number of members and a majority of water demand shares. Bellevue currently

accounts for approximately 53 percent of Cascade's total water demand shares.

The Board adopts a biennial budget and is tentatively scheduled to act on the 2025-2026 budget and proposed rate increases in September.

Cascade's Operating Budget

Cascade's operating budget is divided into six cost centers in the 2025-2026 budget as follows:

1. **Administration:** Day-to-day operations of Cascade, including salaries, benefits, rental costs, legal costs, and public processes.
2. **Conservation:** Costs of Cascade's conservation program, including the Cascade Gardener program.
3. **Debt Service:** Cascade pays debt service on the purchase of Lake Tapps.
4. **Operations:** Costs to operate and maintain Lake Tapps and the White River/Lake Tapps system.
5. **Water:** Cascade has a long-term contract with Seattle Public Utilities for the purchase of water.
6. **Tacoma-Cascade Pipeline (TCP):** This category was added in the 2025-2026 budget and includes operating costs associated with planning for the Tacoma-Cascade Pipeline to connect to the Tacoma Public Utilities (TPU) water supply system by 2040.

The current operating budget for 2024 is \$46,246,923. Cascade proposes a total operating budget of \$49,647,290 in 2025 and \$49,194,444 in 2026. Additional staff positions and planning costs associated with the TCP account for the largest difference between the 2024 adopted budget and the proposed 2025-2026 budget.

Cascade's Capital Budget

Cascade's capital budget is driven by the Six-Year Capital Improvement Program (CIP). Cascade has separated the proposed CIP budget into non-TCP associated projects, the TCP project, and other capital expenses. The TCP will be the largest capital infrastructure project that Cascade has undertaken and is necessary to connect to the TPU system to receive water.

Non-TCP associated projects are proposed to have a budget of \$3,100,000 in 2025 and \$3,110,000 in 2026. These projects are associated with Lake Tapps, the Bellevue-Issaquah Pipeline (BIP), and IT infrastructure.

The TCP is proposed to have no associated capital budget in 2025 and \$1,770,000 in 2026. Design and construction budgets are projected to significantly increase starting in 2027, as construction on the pipeline is planned to begin in 2030.

The remaining capital budget consists of payments for the current contract with Tacoma and capital risk contingency that provides a reserve for unforeseen or emergency needs for both existing and new infrastructure. The Tacoma contract costs are \$6,341,209 in 2025 and \$6,468,033 in 2026. The capital risk contingency is \$750,000 in both 2025 and 2026.

The total proposed CIP budget for 2025 is \$10,191,209 and for 2026 is \$12,098,033. Cascade anticipates that the budget will increase through the CIP period, up to \$68,419,000 in 2030 when construction of the TCP is underway.

Cascade's Revenue Sources

Cascade collects revenue from members through 1) Member Charges and 2) a Regional Capital Facilities Charge (RCFC). Member Charges have a direct impact on Bellevue's budget and these costs are passed to ratepayers through their Bellevue Utilities water bill.

Member Charges consist of Administrative Dues, Conservation Charges, and Demand Share Charges. Administrative Dues and Conservation Charges are based on Cascade Equivalent Residential Unit (CERU) counts by member agency. Demand Share Charges are based on a rolling three-year water demand history, therefore the Demand Share Charges for 2025 are based on 2021-2023 and the projected Demand Share Charges for 2026 are based on 2022-2024, with 2024 being estimates.

Cascade is proposing a 3.5 percent increase in annual general rate revenue for 2025 and 2026. In 2024, Cascade will collect a total of \$45,531,853 from Member Charges. In 2025, Cascade anticipates \$47,125,469 in revenue from Member Charges. In 2026, that increases to \$48,774,681.

RCFCs are a pass-through charge on new development to ensure that growth pays for its share of the cost of growth. The RCFC is charged based on reported growth in the member agency's customer base and serve as a type of "connection charge" to the drinking water system. The cost of RCFCs is determined by existing and future capital system costs per CERU. The revenue from RCFCs supports construction and does not contribute toward Cascade's operating expenses.

The 2024 RCFC is \$7,454 per CERU. Cascade is proposing this increase to \$8,579 in 2025 and \$8,852 in 2026.

Changes to Water Supply Development Fund Plan

The Water Supply Development Fund (WSDF) is a funding reserve for Cascade's Water Supply Project, including the connection to TPU and ultimately the development of Lake Tapps as a future source of drinking water for Cascade members. The WSDF is primarily funded through planned (budgeted) transfers, Demand Share Charges, RCFCs, and investment earnings. The WSDF is also funded through unplanned transfers from new cost savings or new revenues, which are subject to "shared benefit" and split evenly between the WSDF and current operating expenses to offset rate impacts.

In May, the Cascade Board voted to continue negotiations with TPU to pursue a new water supply contract. In order to connect the Cascade system to the TPU system, Cascade is developing the TCP. The TCP could also be used in a future conveyance system between Cascade members and Lake Tapps, if Lake Tapps is developed as a source of municipal water supply. The TCP and anticipated contract with TPU will shift Cascade's long-term capital costs and the WSDF funding approach. Cascade anticipates drawing funds from the WSDF sooner and accumulating less savings over the next decade.

If Cascade had not chosen to negotiate a new contract, WSDF rate contributions were planned to increase to two percent of total Member Charges in 2025 and three percent in 2026 to meet revenue requirements associated with developing Lake Tapps by 2042 and higher Cascade rate increases would have resulted. With a new TPU contract, Cascade is proposing to maintain the existing one percent rate contributions per year in 2025 and 2026.

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

Cascade costs are one of the biggest cost centers for Bellevue Utilities. Bellevue will pay Cascade \$23,639,790 or about 30 percent of the total 2024 budget for Bellevue's water utility.

Although Cascade is proposing a 3.5 percent general rate increase each year of the 2025-2026 budget, Bellevue's projected rate impact is lower due to a true-up to correct prior year overcharges and overall water consumption changing at a slower rate compared to other Cascade members. Cascade incorporates a reconciliation or "true-up" methodology to the second year of the biennium and applies actual CERU counts and water demand statistics.

For Bellevue, the corresponding change to total charges paid to Cascade are summarized below:

- For 2025, Bellevue will pay \$23,501,991 in total charges to Cascade, which represents a 0.58 percent decrease compared to 2024.
- For 2026, Bellevue will pay \$24,056,355 in total charges to Cascade, which represents a 2.36 percent increase compared to 2025.

The 2024 typical Bellevue residential utility bill for water, sewer, and stormwater services is \$222.83 per month, with water service representing \$82.87, or 37 percent of the total bill. The 2024 monthly amount dedicated to Cascade is approximately \$25.01, which is about 30 percent of Bellevue's typical residential water bill or about 11 percent of the typical total residential utility bill.

The impact of Cascade's proposed rate increase to a typical Bellevue residential customer would be a \$0.17 decrease in 2025 and a \$0.80 increase in 2026. This does not reflect other changes to the total utility bill for a typical residential customer.

The Cascade proposed cost increases to Bellevue have been incorporated into the Early Outlook Forecast developed by the Bellevue Utilities Department and final numbers will be incorporated into the department's 2025-2026 budget proposal prior to Council adoption.

There is no net fiscal impact to the City from the proposed RCFC increases as revenue collected through these connection charges is passed directly through to Cascade.

OPTIONS

N/A

ATTACHMENTS

N/A

AVAILABLE IN COUNCIL LIBRARY

N/A