

# Utilities Infrastructure Renewal & Replacement (R&R) Strategy

## Environmental Services Commission Briefing

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# Agenda

## Part 1: Utilities' R&R Strategy

1. Utilities Capital Investment Policies
2. Funding Strategy
3. Funding Horizon
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6. Summary

## Part 2: R&R Investments

1. Authority & Objectives
2. Portfolio
3. Performance
4. Next Steps



# Part 1: Utilities' R&R Strategy

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Long-term Funding Strategy for Infrastructure Replacement



# Council-Adopted Capital Investment Policies

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- Long-term financial planning for capital investment
- Intergenerational equity
- Debt reserved for changed circumstances
- Funding a future liability – Renewal & Replacement account

# R&R Strategy

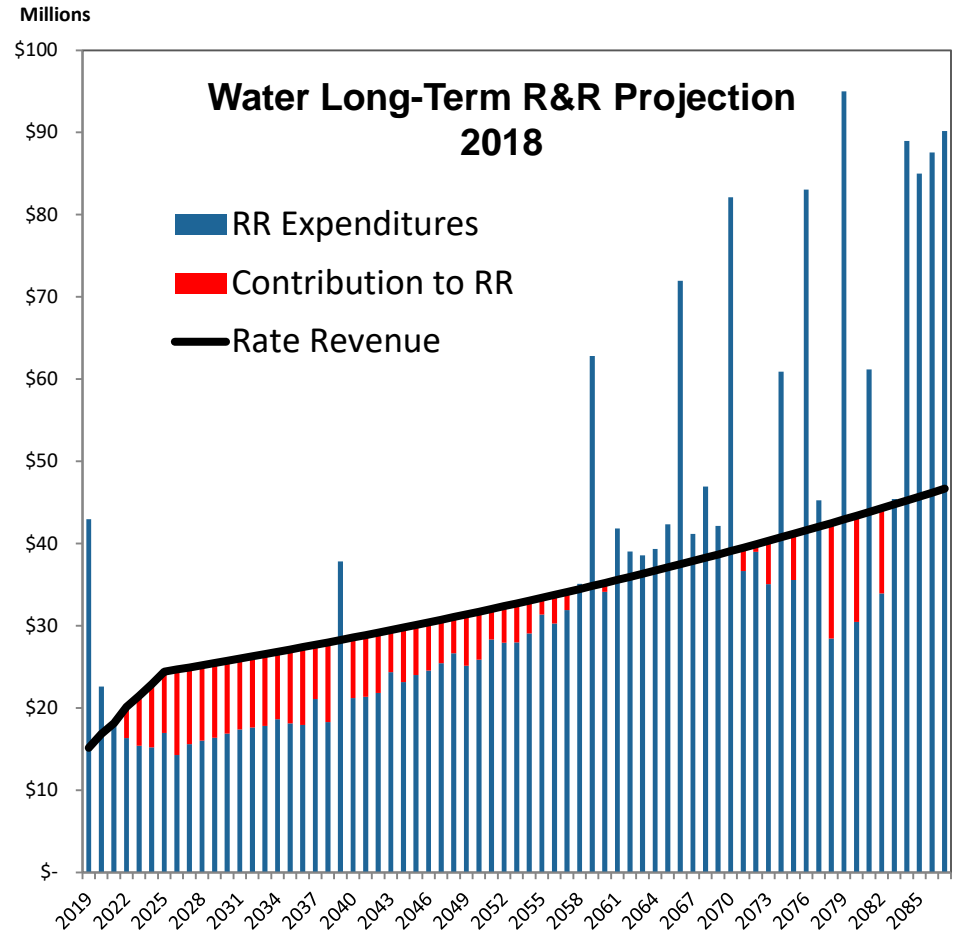
## Funding Strategy – Objectives

### 1 Build Rate Capacity to Meet Future Infrastructure Needs

- *Build Funding Over Time*
- *Ensures service continuity*
- *Preserve System Integrity*

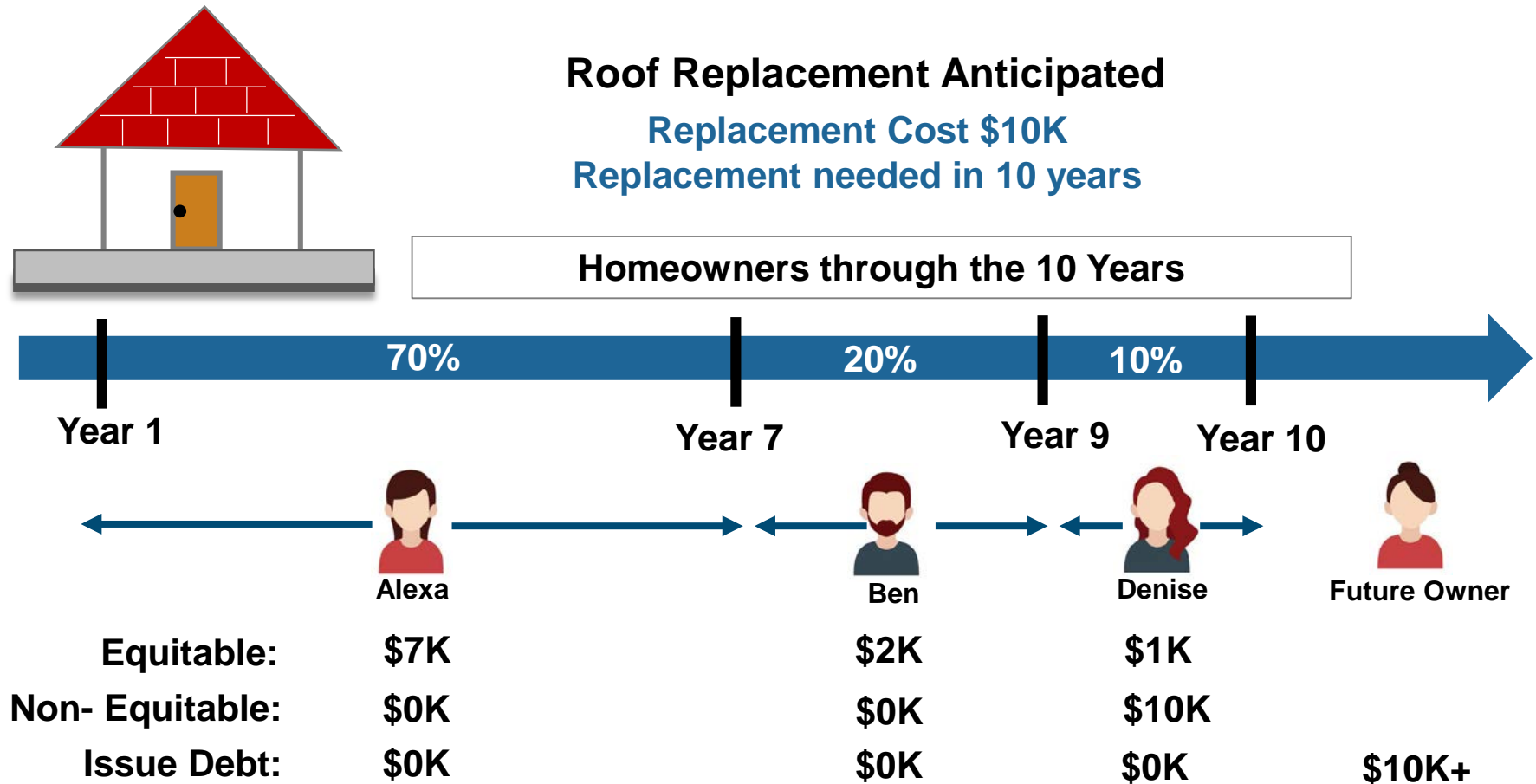
### 2 Use of R&R Reserves to Meet Expenditure Needs

- *Predictable Rates*
- *Avoid Rate Spikes*
- *Cost Effective*
- *Intergenerational Equity*



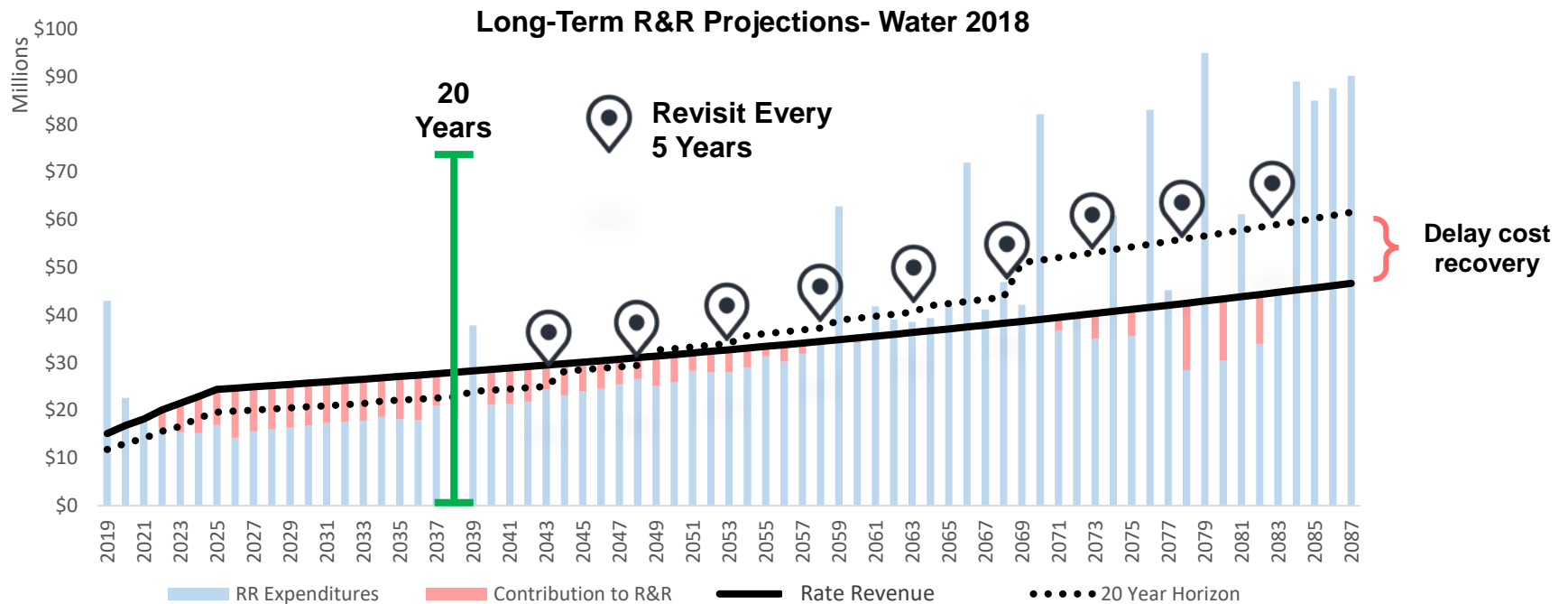
# R&R Strategy

## Funding Strategy – Intergenerational Equity



# R&R Strategy

## Funding Horizon



Long term planning horizon for adequate & stable funding



## R&R Strategy

# Other Considerations

### Debt and/or Grants as a funding mechanism for R&R spikes

#### Debt:

- Debt obligation through regional partners – local debt capacity maintenance
- Policy - reserved for changed circumstances
- May not be cost effective – average municipal rate to borrow from 1995-2018 is approximately 4%
- **Debt service will require future rate increases**

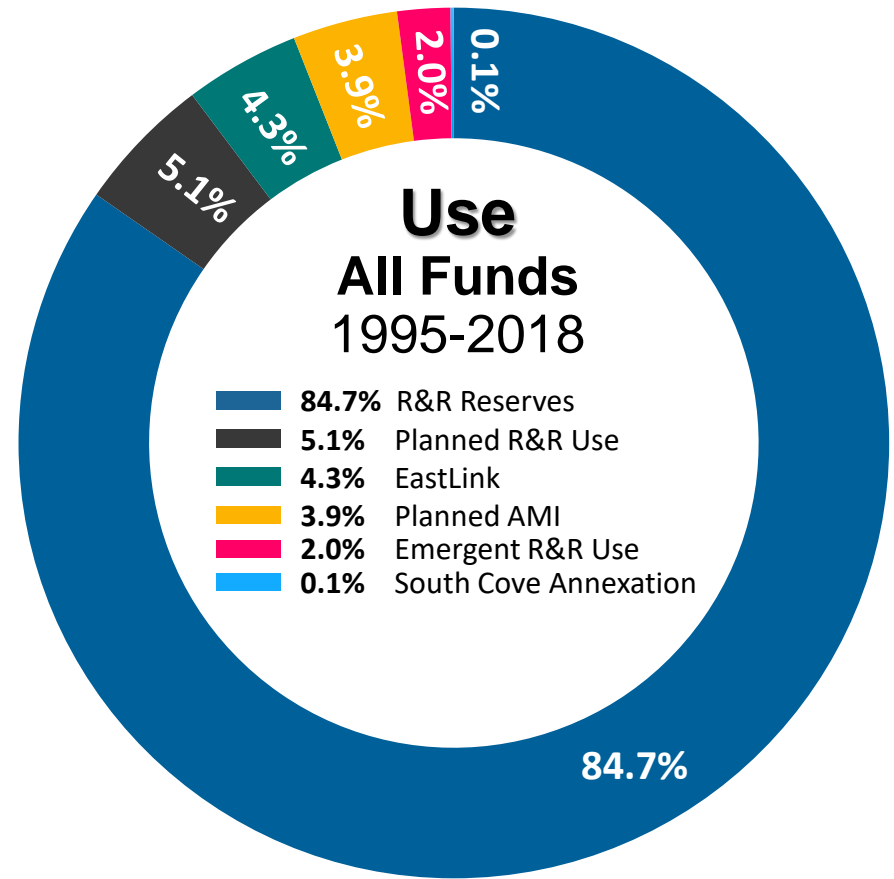
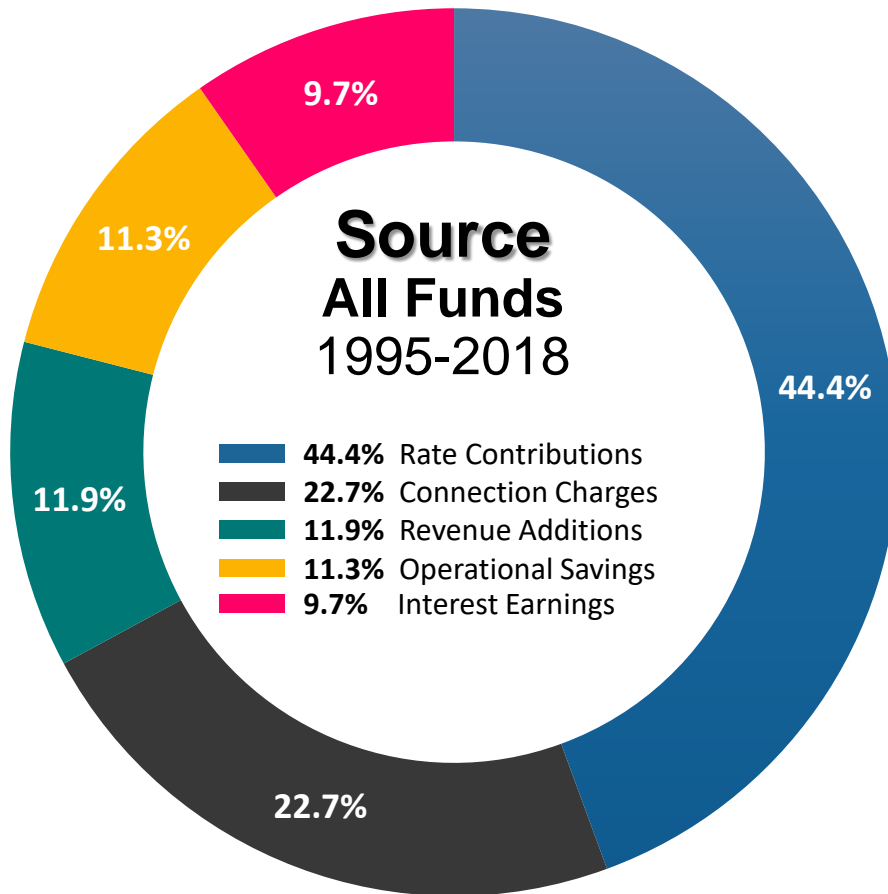
#### Grants:

- Not always reliable source
- Grant money can only be used for specific purposes
- **Grants are not a reliable source for funding R&R spikes**



# R&R Strategy

## R&R Source & Use



# R&R Strategy

# Summary

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## **Utilities' overall R&R strategy:**

- ✓ **Provides comprehensive short-term and long-term capital planning**
- ✓ **Provides intergenerational equity**
- ✓ **Provides rate stability for customers**
- ✓ **Allows Bellevue to continue to provide competitive rates now and into the future**

**Utilities has a plan to address future infrastructure liabilities that offers rate stability to customers**



# Part 2: R&R Investment

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## Policies & Performance



# R&R Investment

# Authority & Objectives

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## Authority to Manage Investment - City Code Section 3.37.060

- Authority resides with Finance and Asset Management Director
- Utilities R&R is combined with City Investments
- **Utilities is governed by city investment policies**

## City Investment Objectives

1. **Safety:** invest conservatively (protect principal sums)
2. **Liquidity:** meet short-term cash flow requirements
3. **Return:** attain market rate of return



# R&R Investment Investment Portfolio

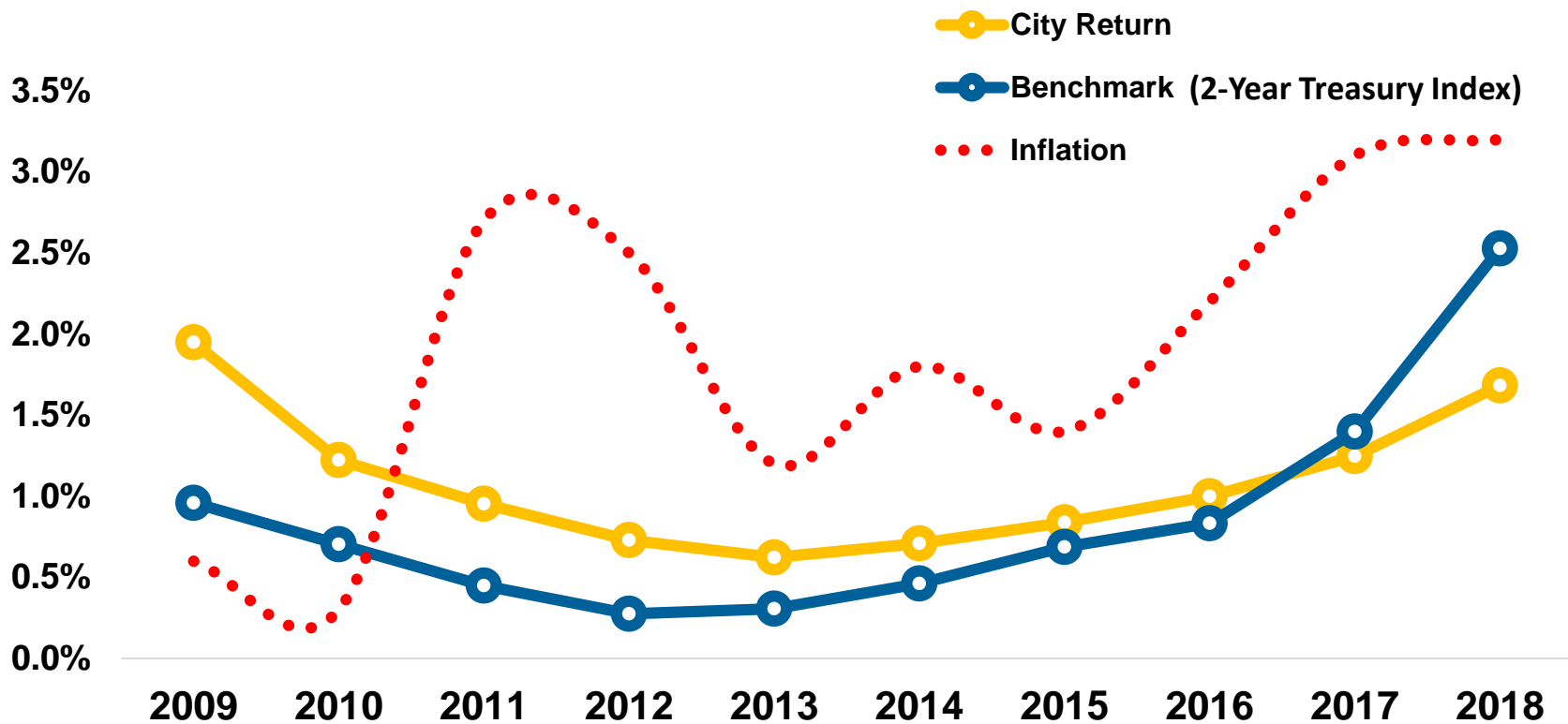
**As of December 2018:**

Investment Distribution	Duration	% of Total
US Agency Securities	Long-Term	81.1%
Local Government Investment Pool (LGIP)	Short-Term	5.9%
Municipal Bonds or Warrants	Long-Term	5.0%
US Treasury Debt Obligations	Short-Term	5.0%
Certificates of Deposit (CD)	Short-Term	3.0%
<b>Total</b>		<b>100%</b>



# R&R Investment Investment Performance

## 10-Year Trend



# R&R Investment

## Next Steps

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- Considering other investment portfolios that are consistent with the city's investment policies to optimize returns and cost efficiencies

