

# Utilities Rates Forecast

Presentation to Environmental Services Commission

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*Utilities Department*

July 23, 2020



# Direction Needed from Commission

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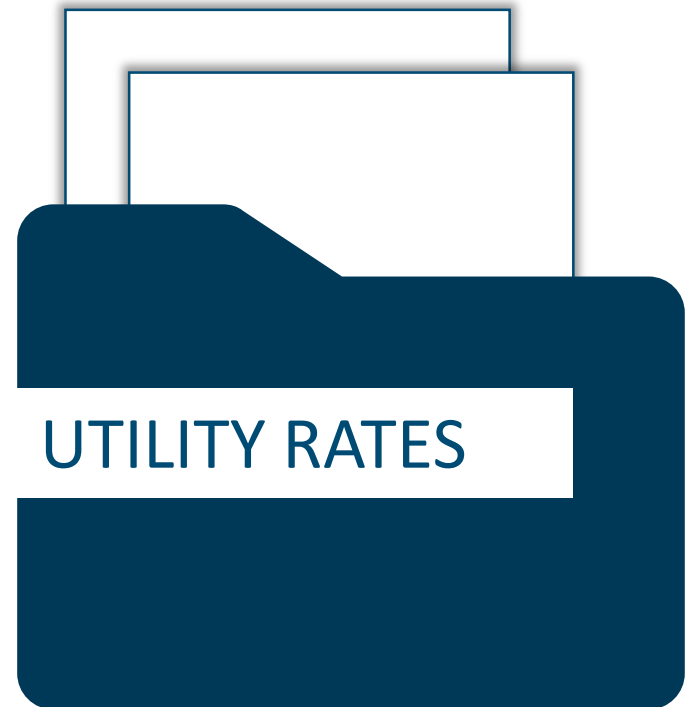
- No action required
- Informational briefing on Utilities 2021-2026 rates forecast



# Agenda

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- **ESC Role and Responsibilities**
- **Financial Policies Recap**
- **Budget Challenges**
- **Rates Forecast**



# Roles – Budget & Rates



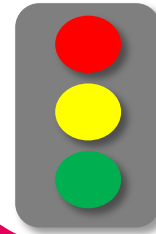
## Staff

- Develop and implement policy
- Develop proposed CIP, budget & rates
- Implement adopted CIP, budget & rates



## ESC

- Review policy
- Review proposed CIP, budget & rates
- Ask questions & provide feedback
- Hold public hearing
- Budget and rates recommendation to Council



## Council

- Adopt policy
- Provide strategic direction
- Review and adopt CIP, budget & rates

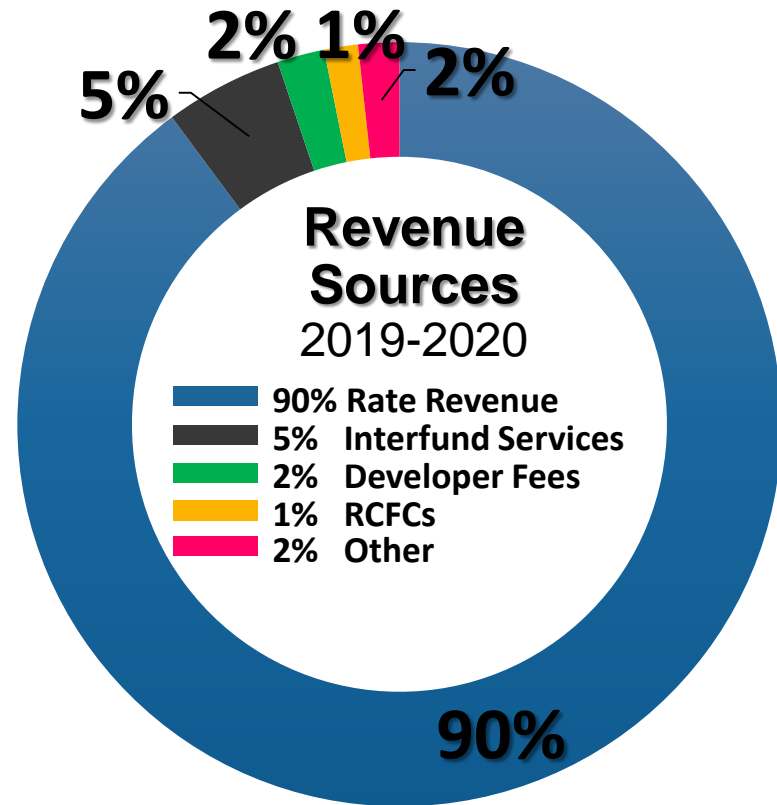


# Utilities - A Unique Business

## Utilities Department is...

- Enterprise function
- Financially self-supporting
- Out of sight, out of mind
- Services are not scalable
- Fixed costs
- Long-term operating horizon
- Competitive rates

## Rates are primary source of revenue



# Key Financial Policies

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1. Rate Management
2. Capital Investments



# Financial Policies – Rate Management

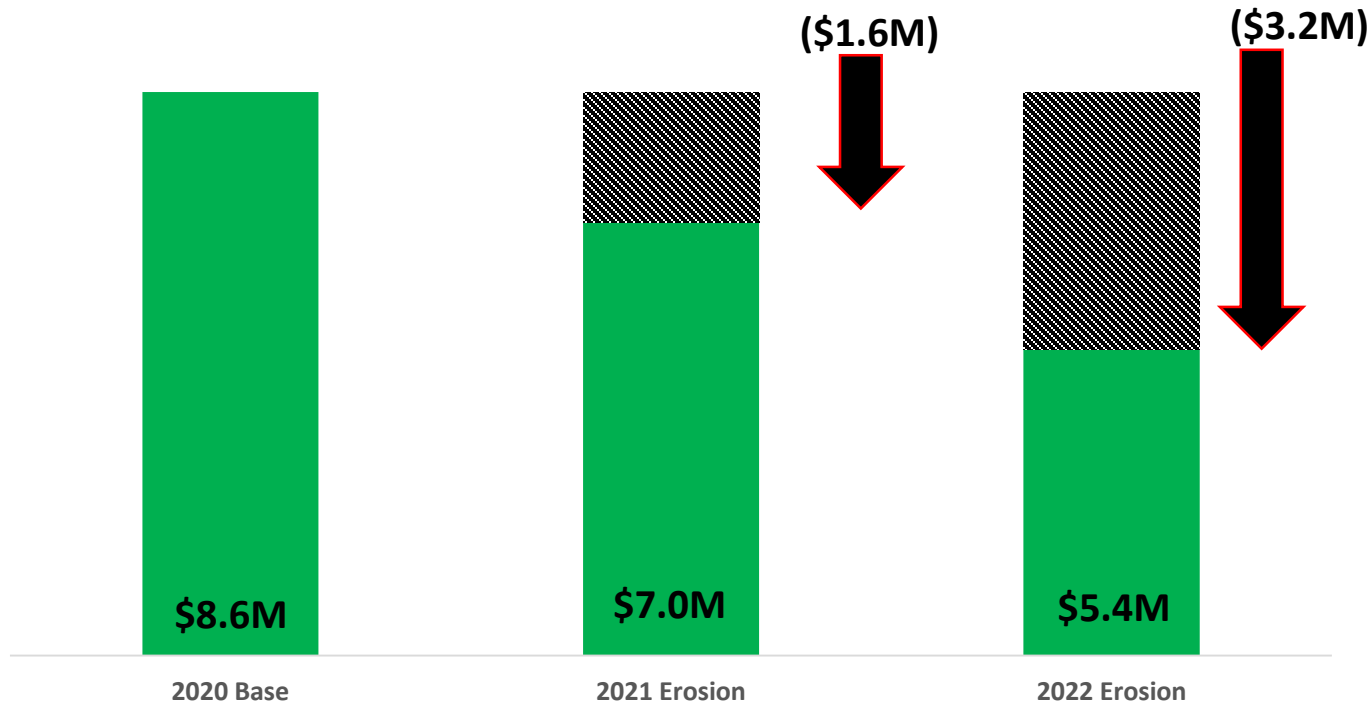
## Governing Policies for Rates & Rate Levels

- Sufficient to meet current and future expenses
- Predictable, gradual and uniform rates
- Wholesale costs passed through
- Equitably recover costs
- Use of savings/one-time revenues
- Long term financial planning



# Pass Through Wholesale Costs

Erosion of Sewer Local Operations from Not Passing Through Wholesale Costs



**Local Programs Erode by 37% If Wholesale Costs are Absorbed**





# Pass Through Wholesale Costs

## Bellevue Sewer System

- 636 miles of pipe
- 13,000+ maintenance access holes
- 47 pump stations
- 34 major connections to King County sewer system

## Local Operational Activities

- Pipelines & maintenance access hole repairs
- Condition assessment
- Pump station operations, maintenance, & repairs
- Mainline preventive maintenance
- Customer service & billing
- Technology systems
- Asset management
- System modeling, planning & analysis
- Financial management

**Local Programs Erode by 37% If Wholesale Costs are Absorbed**

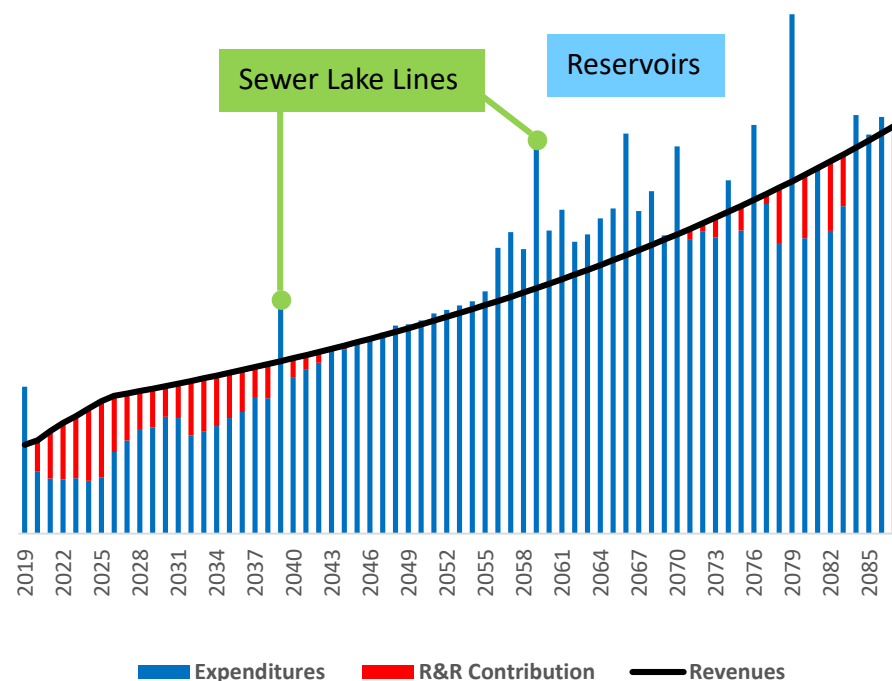


# Financial Policies – Capital Investments

## Governing Policies

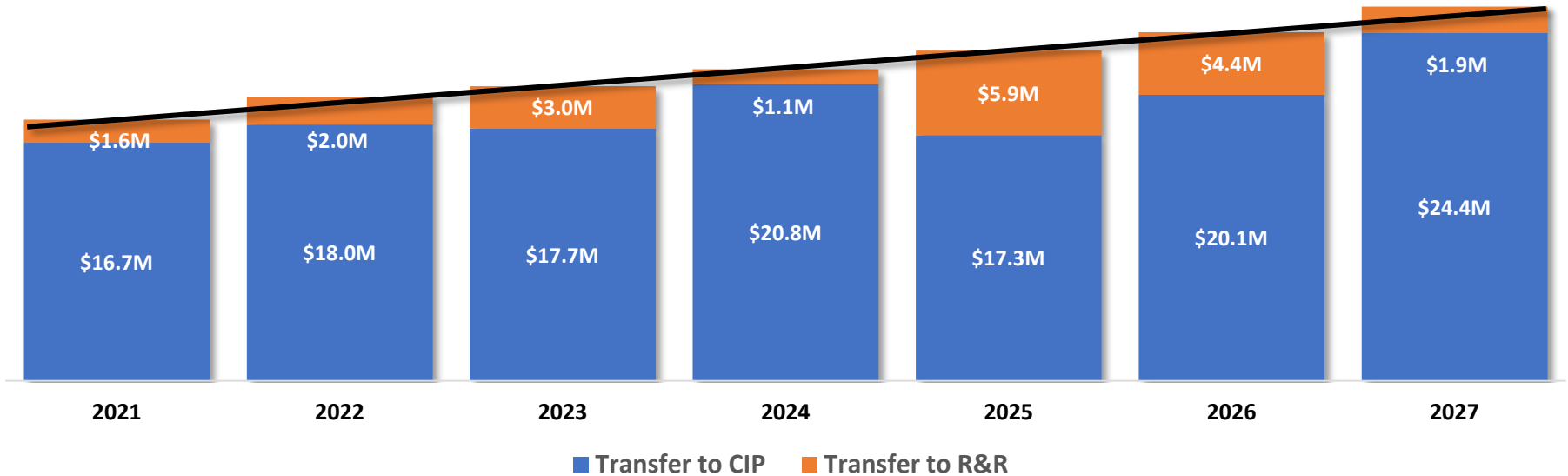
- Take care of aging infrastructure
- Long-term planning
- Renewal & Replacement (R&R) Account – est. 1995
- Intergenerational Equity
- Avoid rate spikes
- Debt for changed circumstances

## 75 Year Renewal & Replacement Funding All Funds



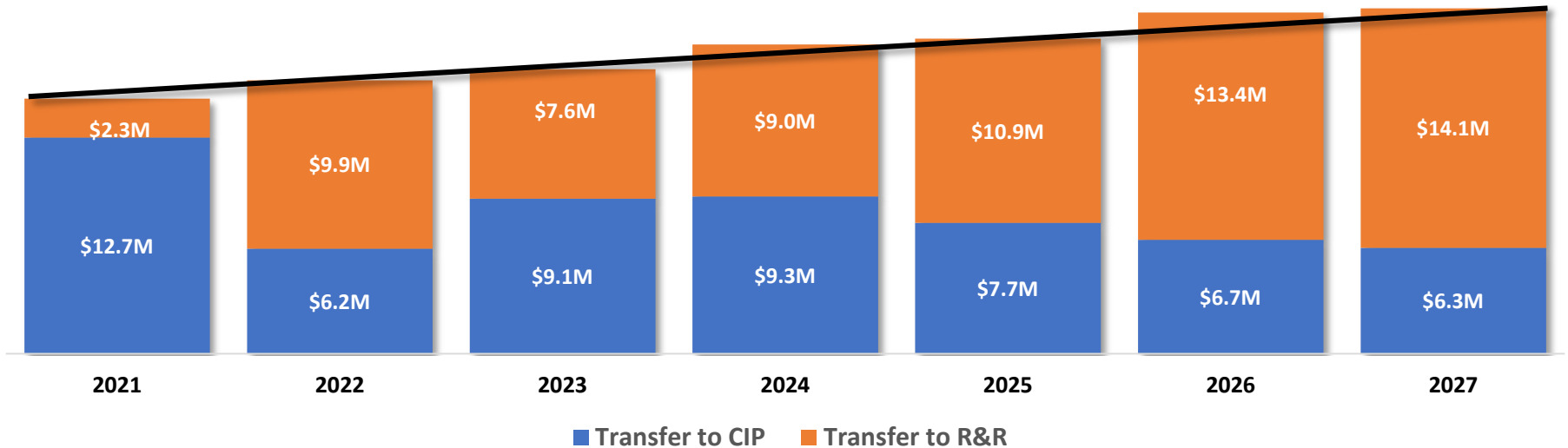
# Capital Investments - Water

Water Utility CIP/R&R Transfer  
Average Annual Investment: \$22M

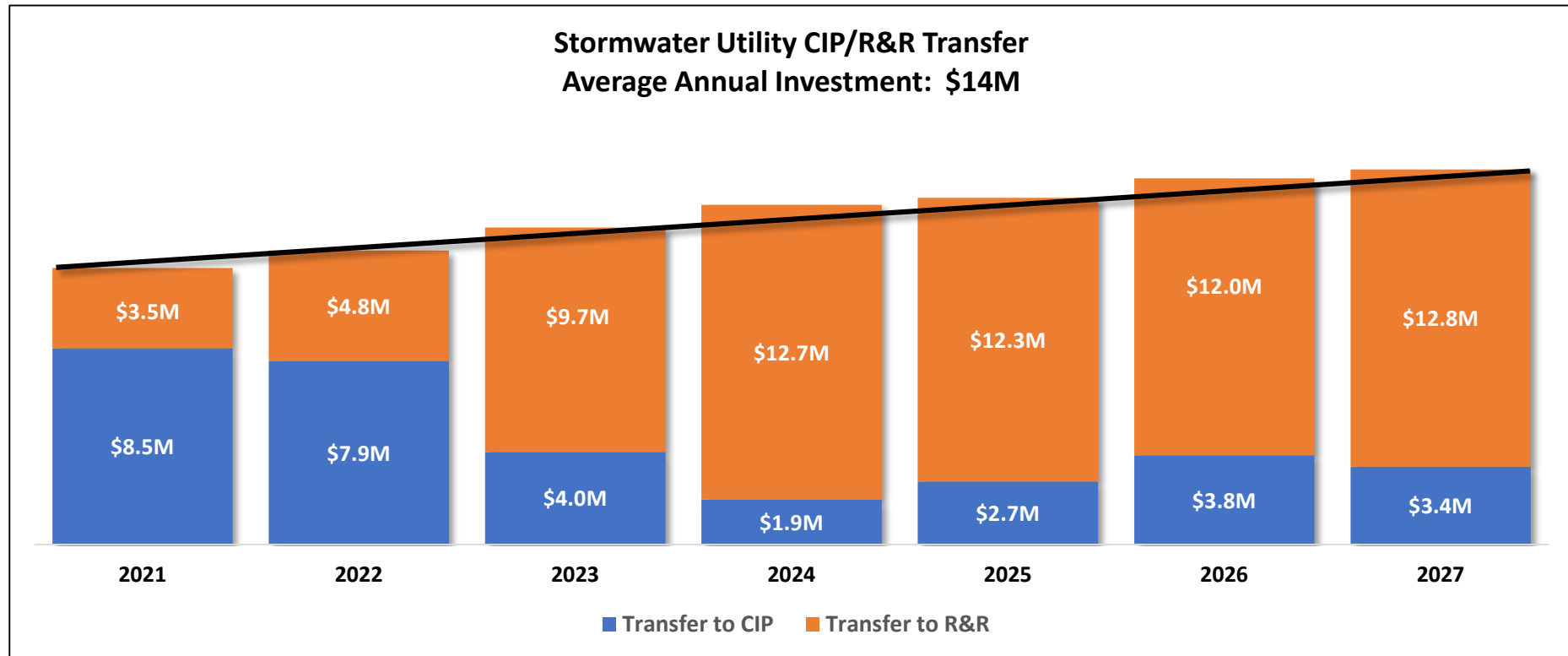


# Capital Investments - Sewer

**Sewer Utility CIP/R&R Transfer**  
**Average Annual Investment: \$18M**



# Capital Investments - Storm



# 2021-2026 Rates Forecast

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# Council Strategic Direction

- Support the City's economic development
- Protect built and natural environment
- High performance government
  - Maintain long term view
  - Leverage innovation and technology
  - Minimize impact to the customers
  - Preserve Utilities financial sustainability
  - Address COVID-19 impacts - Minimize lasting damage to Utilities services



# Mitigating 2020 COVID Utility Impacts

	2020
Revenue Gap	\$8.6M
Cost Reductions	\$7.2M
Use of Reserves	\$1.4M
<u>Cost Reductions</u>	
• Vacancies	\$1.9M
• M & O Savings	\$2.2M
• Wholesale	\$2.7M
• Taxes	\$0.4M





# What Rates Pay For

## Forecasted 2021-2022 Utilities Budget - \$333M

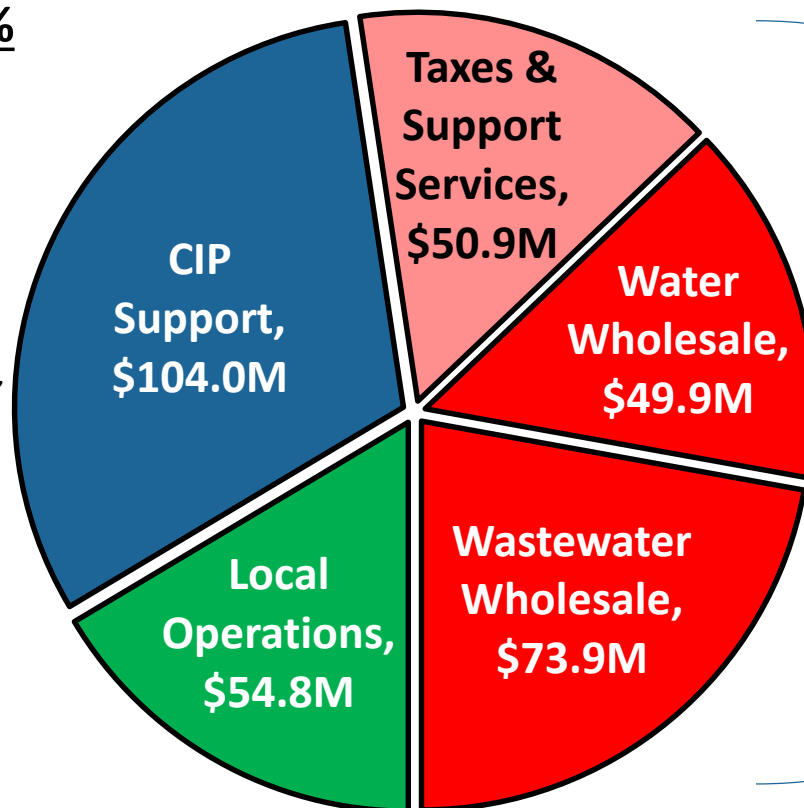
### Internal Drivers – 48%

#### **CIP Support – 31%**

- Transfers to CIP / R&R, CIP Design and Management

#### **Local Operations – 17%**

- Operations & Maintenance, Customer Service & Outreach, Engineering System Planning, Development Services, Support Systems/Assets, Management, Regulatory



### External Drivers – 52%

#### **Taxes & Support Svc – 15%**

- Interfunds and taxes

#### **Wholesale – 37%**

- Drinking water supply, RCFC Payments, Wastewater Treatment

Excludes operating reserves  
Dollars presented in millions



# Water Fund Forecast

Water	2021	2022	2023	2024	2025	2026	Use of Reserves (\$M)
Previous Budget (2019/2020) Forecast	4.6%	4.6%	4.7%	4.6%	-	-	\$0.0M
Current Forecast	4.1%	4.1%	5.1%	5.1%	5.1%	5.1%	\$5.3M
<b>Current Forecast Rate Drivers:</b>							
Wholesale	2.0%	1.7%	2.4%	2.4%	2.3%	2.3%	
Taxes/Interfunds	1.5%	0.7%	1.2%	0.8%	0.8%	0.8%	
CIP/R&R Transfer	0.5%	1.7%	0.9%	1.4%	1.4%	1.4%	
Local Operations	0.1%	0.0%	0.6%	0.5%	0.6%	0.6%	
<b>Total – Current Forecast</b>	<b>4.1%</b>	<b>4.1%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.1%</b>	

**Local Operations are Not a Rate Driver**



# Sewer Fund Forecast

<b>Sewer</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Use of Reserves (\$M)</b>
Previous Budget (2019/2020) Forecast	5.2%	2.5%	3.9%	4.0%	-	-	\$0.0M
Current Forecast	5.1%	5.1%	7.6%	2.3%	7.6%	2.3%	\$3.9M
<b>Current Forecast Rate Drivers:</b>							
Wholesale	3.1%	3.0%	6.5%	0.0%	6.5%	0.0%	
Taxes/Interfunds	0.2%	0.3%	0.2%	0.3%	0.4%	0.3%	
CIP/R&R Transfer	1.8%	1.4%	0.6%	1.5%	0.3%	1.5%	
Local Operations	0.0%	0.4%	0.3%	0.5%	0.4%	0.5%	
<b>Total – Current Forecast</b>	<b>5.1%</b>	<b>5.1%</b>	<b>7.6%</b>	<b>2.3%</b>	<b>7.6%</b>	<b>2.3%</b>	

**Local Operations are Not a Rate Driver**



# Storm Fund Forecast

Storm	2021	2022	2023	2024	2025	2026	Use of Reserves (\$M)
Previous Budget (2019/2020) Forecast	5.3%	5.1%	5.1%	4.8%	-	-	\$0.0M
Current Forecast	3.8%	3.9%	4.1%	4.1%	4.1%	4.1%	\$0.4M
<b>Current Forecast Rate Drivers:</b>							
Wholesale	--	--	--	--	--	--	
Taxes/Interfunds	1.8%	0.4%	0.5%	0.5%	0.7%	0.5%	
CIP/R&R Transfer	2.3%	2.9%	2.6%	2.5%	1.3%	2.3%	
Local Operations	-0.3%	0.6%	1.0%	1.1%	2.1%	1.3%	
<b>Total – Current Forecast</b>	<b>3.8%</b>	<b>3.9%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	

**Local Operations are Not a Rate Driver**



# Typical Residential Combined Water, Sewer, & Storm Utility Monthly Bill Rate Drivers

	2021 Bill		2022 Bill	
Prior Year Monthly Bill		\$183.05		\$191.33
Wholesale costs	2.2%	\$4.05	2.1%	\$3.92
Local				
CIP/R&R	1.4%	\$2.53	1.6%	\$3.34
Taxes and Interfunds	0.9%	\$1.71	0.5%	\$0.90
Operations	--	(\$0.01)	0.3%	\$0.53
Total Local	2.3%	\$4.23	2.4%	\$4.77
Total Increase	4.5%	\$8.28	4.5%	\$8.69
New Monthly Bill		\$191.33		\$200.02



# Budget Strategies



## Utilities Reality

- Rate funded
- Capital intensive
- Aging infrastructure
- Critical services
- Regional costs
- Highly regulated
- COVID-19 (new challenge)

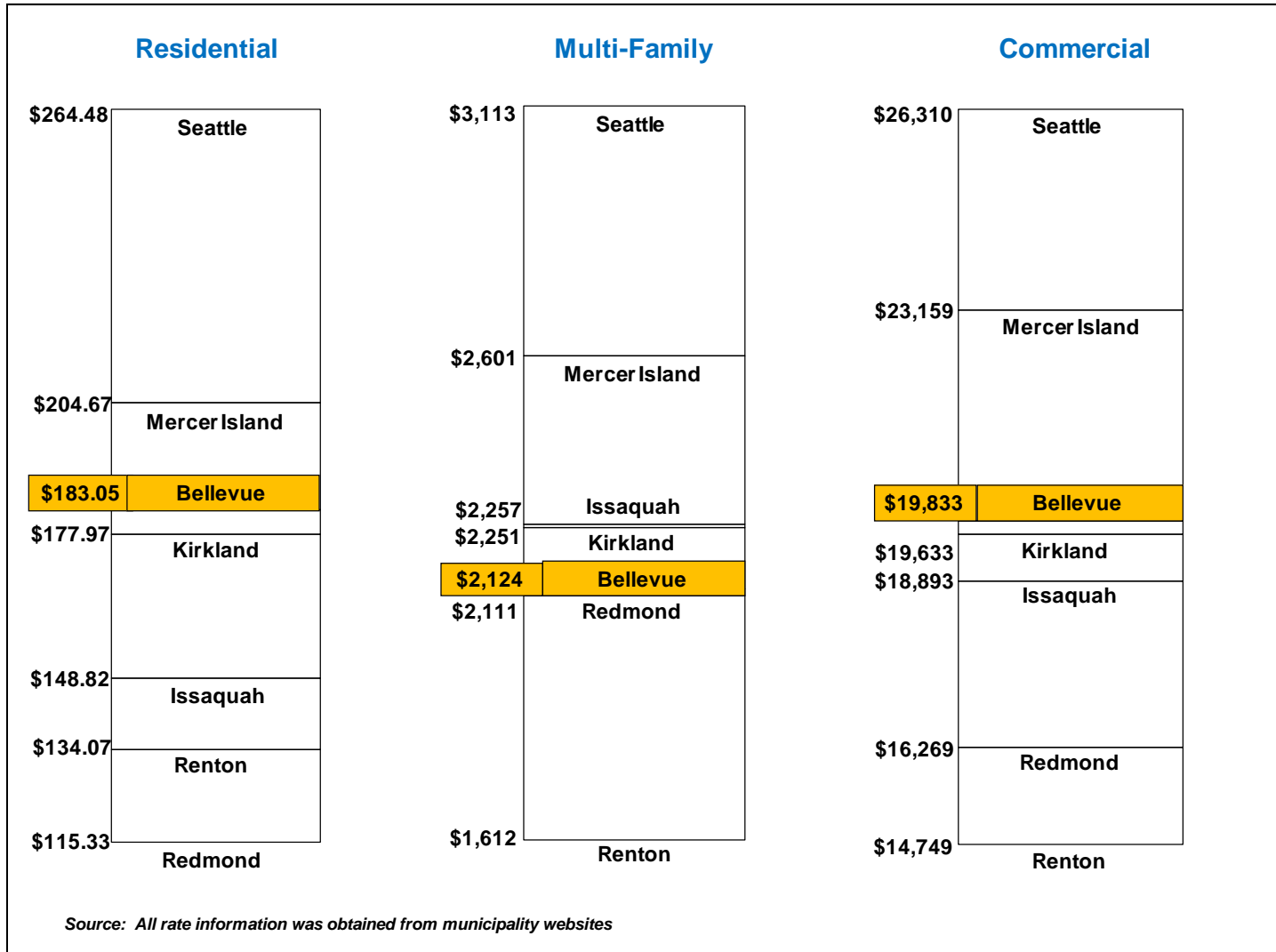


## Budget Strategies Deployed

- Keep the long term perspective
- Adhere to adopted financial policies
- Minimize rate increase to fund operations
- Use reserves, not rates, to address COVID

# Competitive Utility Rates

## Water, Sewer, and Storm & Surface Water Utilities 2020 Combined Monthly Bill Comparison



# Utilities Rate Relief Programs

## For Single-Family & Multi-Family Residents

**~\$1M Annual Budget**

### **Regular Program:**

- Low-income seniors and disabled citizens
- 70% ongoing discount
- ~1,100 Participants

### **Emergency Assistance Program:**

- Low income citizens experiencing financial shock
- Waive up to 4 months of utility bills





# ESC 2021-2022 Budget Review Calendar

Date	Topic
January 16	<ul style="list-style-type: none"> <li>• Utilities 2021-2027 CIP Budget Development Process Overview</li> </ul>
February 6	<ul style="list-style-type: none"> <li>• 2021-2022 Budget Planning Overview</li> <li>• Utilities Finances Overview</li> </ul>
June 23	<ul style="list-style-type: none"> <li>• Proposed 2021-2027 CIP</li> </ul>
July 23	<ul style="list-style-type: none"> <li>• Rates Forecast</li> <li>• 2019 Financial Performance</li> <li>• CIP Open House Results</li> </ul>
August 6	<ul style="list-style-type: none"> <li>• Operating Budget Proposals</li> <li>• CIP Budget Proposals</li> </ul>
August 20	<ul style="list-style-type: none"> <li>• Rates Overview</li> <li>• Budget Proposal Recommendation to Leadership Team &amp; City Manager</li> </ul>
September 3	<ul style="list-style-type: none"> <li>• Budget Follow-Up</li> <li>• Preliminary Rates Forecast</li> <li>• Budget &amp; Rates Public Hearing</li> </ul>
October 1	<ul style="list-style-type: none"> <li>• Finalize Budget &amp; Rates Recommendation to City Council</li> </ul>
November	<ul style="list-style-type: none"> <li>• Chair Delivers Budget &amp; Rates Recommendation to City Council</li> </ul>
December	<ul style="list-style-type: none"> <li>• Council Adopts Budget and Rates</li> </ul>



