



MEMORANDUM

☐ Action
☐ Discussion
☒ Information

DATE: September 5, 2019

TO: Environmental Services Commission

FROM: Lucy Liu, Assistant Director – Resource Management and Customer Service
Jolie Liu, Utilities Fiscal Manager

SUBJECT: Infrastructure Renewal and Replacement Funding Strategy

Action Required at this Time

No action by the Commission is required. This is an informational briefing.

Fiscal Impact

There are no fiscal impacts associated with this informational briefing.

Background

The purpose of this briefing is to provide the Commission an overview of Utilities' long-range infrastructure renewal and replacement (R&R) funding strategy and investment performance.

Council-Adopted Financial Policies

Bellevue's drinking water, sewer, and storm and surface water utilities were established with the goals of financial stewardship, self-sufficient funding, and comprehensive planning. The following Council-adopted financial policies guide the Utilities Department's capital investment planning.

- Plan for long term investment in infrastructure.
- Accumulate funds in advance of major expenses.
- Maintain existing levels of service by renewing and replacing systems.
- Keep rate increases gradual and uniform.
- Maintain customer equity by ensuring each generation pay their fair share of system costs.
- Use debt sparingly and maintain financial flexibility.

Long-Term Capital Funding Strategy

Utilities owns, operates, and maintains over \$3.5 billion of infrastructure assets, with over 1,500 miles of pipeline to provide drinking water, wastewater, and storm and surface water services. Because most of Utilities' systems are well past midlife, capital investments are inevitable. System renewal is and will continue to be the most significant driver of the Utilities capital investment program (CIP).

The long-range infrastructure funding plan is premised on building rate capacity to provide sustainable investment in capital infrastructure. This rate capacity is the main funding source for Utilities' capital needs.

Recognizing that the cost to replace Utilities infrastructure would be significant, City Council established the R&R Account for the water, sewer, and storm and surface water utilities in 1995 as a supplemental source of capital funding for system renewal and replacement as identified in the Utilities CIP. The R&R funds are intended to help smooth the peaks in future infrastructure expenditures. This strategy enables the city to:

- Replace infrastructure when needed.
- Amortize major pending liabilities over a long time span, while maintaining current service levels.
- Keep rate increases gradual and uniform.
- Ensure each generation of ratepayers that use the utility systems pay their equitable share of costs.

By establishing the R&R Account early and continuing to update and refine a 75-year financial plan, Bellevue Utilities is better prepared than many utilities to meet increasing infrastructure replacement requirements while maintaining customer service.

On September 5, 2019, staff will provide the Commission with an overview of Utilities' capital investment policies, R&R funding strategy, how the R&R funds are invested, and investment performance.