



MEMORANDUM

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<input checked="" type="checkbox"/>	Information
<input checked="" type="checkbox"/>	Discussion

DATE: August 6, 2020

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
Linda De Boldt, Utilities Assistant Director - Engineering Division
Lucy Liu, Utilities Assistant Director – Resource Management and Customer Service
Jolie Liu, Utilities Fiscal Manager – Resource Management and Customer Service

SUBJECT: Utilities 2021-2022 Operating and 2021-2027 CIP Budget Proposals

Action Required at this Time

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

Fiscal Impact

- The 2021-2022 Utilities operating budget represents the financial resources necessary to implement the strategies and policies the Utilities Department uses to address key business challenges.
- The Utilities CIP represents investments in capital infrastructure in the next seven years that are critical to ensuring the integrity of the water, sewer, and storm utility system infrastructure in order to maintain current levels of service delivery.

Policy Issues

- The proposed operating and capital budgets support Council strategic direction, and adherence to the Council-adopted Waterworks Utility Financial Policies which guide how the Utilities Department conducts its business and sets its budget and rates.
- The CIP plan represents the major utility investments planned for implementation over the next seven years. Projects and programs in the plan are consistent with Utility CIP objectives and project criteria reviewed with the Commission on January 16 and June 23.

Background

This is a continuation of a series briefings to facilitate the Commission's review of the proposed Utilities Department 2021-2022 operating budget and rates, and 2021-2027 CIP.

In January, the Commission received an overview of the Utilities CIP budget development process. In February, the Commission received an overview of the 2021-2022 budget planning process and Utilities finances. In June,

the Commission reviewed in detail the proposed 2021-2027 CIP. In July, the Commission reviewed the 2021-2026 rates forecast for the water, sewer, and storm utilities, the Utilities Department 2019 financial performance results, and the results of the CIP open house.

On August 6, staff will review the following with the Commission:

- 2021-2022 operating budget proposals.
- 2021-2027 CIP budget proposals.

Additional details on the operating and CIP budget proposals are included as attachments to this memorandum.

Guiding Principles for Budget and Rates Development

The 2021-2022 Utilities Department budget proposals are a representation of the strategies and policies that the Department is recommending to addressing key business challenges over the next biennium. As a business enterprise, Utilities does not receive any City General Fund revenues for utility functions and relies primarily on rates to fund operations and capital programs. With this context, the budget proposals are prepared with a watchful eye towards maintaining rates that are competitive, and capitalizing on opportunities to improve business processes and leverage efficiencies where possible to ensure ratepayer value.

Development of the 2021-2022 budget proposals was guided by the following principles:

- Support Council Strategic Direction: Utilities budget proposals support Council strategic direction by:
 - Supporting the city's economic development.
 - Protecting, renewing, and enhancing utility infrastructure and natural resources, as part of the City's high quality built and natural environment.
 - Continuing to be a high performing organization by leveraging innovation and technology to enhance customer service, improve service delivery, and achieve cost efficiencies.
 - Achieving human potential by offering rate relief programs, as allowed by state law, to assist low-income residents in paying for utility services.
- Adherence to Council-approved financial policies: The Waterworks Utility Financial Policies serve as the foundation for development of the Utilities Department budget and rates. Adherence to these policies have enabled the Department to be recognized as a leader in the industry, provide competitive utility rates, and achieve financial sustainability. Consistent with Council-adopted policies, the budget proposals are based on:
 - The full cost of providing utility services now and in the future.
 - Sufficient reserves to protect the solvency of the utility funds.
 - Investment in capital infrastructure and/or deposit of funds in an infrastructure renewal and replacement (R&R) account to ensure that current and future customers that use the utility system pay their equitable share of system costs.
 - Predictable, smooth and uniform rates.
- Lean operations: A lean budget is proposed to maintain current service levels, implement strategies from prior budget decisions, fund external financial obligations, and meet regulatory requirements. The budget reflects cost containment measures in local operations to minimize rate impacts to customers.

- Preserve aging utility infrastructure: The City's utility infrastructure, valued at \$3.5 billion, is well past midlife and increased maintenance and capital investments are inevitable. System failures are on the rise. The future capital program will focus largely on renewal and replacement of aging infrastructure.
- Regulatory compliance: One new request is proposed to ensure compliance with new National Pollutant Discharge Elimination System (NPDES) requirements, described below.

2021-2022 Utilities Operating Proposals

Key 2021-2022 Operating Budget Highlights

❖ Addressing Financial Impacts of COVID-19 with Lean Operations

COVID-19 is anticipated to impact utility revenues in the next biennium, especially for the water and sewer utilities. To address these impacts, the budget proposals reflect cost containment measures in local operations, where the department has the most control, to minimize rate increases. In addition to cost containment, the department plans to use reserves to address the remaining anticipated revenue gaps, in lieu of increasing rates, to address COVID-19 impacts.

❖ Maintain current service levels to the community. Utility services are essential to the health and economic well-being of the community. The budget proposals include the following requests to maintain current levels of service:

- **Wholesale Costs.** The budget proposals include funding for wholesale costs for drinking water supply from Cascade Water Alliance (Cascade) and wastewater treatment from King County. Per Council-adopted policy, increases in the cost of drinking water supply and wastewater treatment are passed directly through to ratepayers.

At this time, Cascade's wholesale costs to the City of Bellevue is projected to increase by 3.4% in 2021 and 3% in 2022. King County wholesale costs to Bellevue Utilities is projected to increase by 4.5% in 2021 and 4.5% in 2022.

❖ Implementation of Previously Approved AMI CIP Project

- Staffing During Advanced Metering Infrastructure (AMI) Implementation.

Nine LTEs were previously added to support AMI implementation. Five of the LTEs will be eliminated in the next biennium and four will be eliminated in 2023 when the project is completed. In addition to LTEs, two meter reader FTE positions will be eliminated in this biennium.

❖ Regulatory Compliance - Private Utility Systems Maintenance Programs. The 2019-2024 NPDES permit was recently issued by the Department of Ecology and includes implementation of a new Source Control program that will add one FTE to the Water Quality section in 2022 for the implementation of this new 'Source Control' program. This program will look at how businesses manage materials that have the potential to impact water quality of streams and lakes should a spill/leak occur. The FTE will manage the Source Control program which includes inspection, compliance, education and enforcement.

- This new position is included in operating proposal #140.27, with ongoing funding of \$122K/yr. from stormwater rates beginning in 2022.

The following table summarizes the proposed changes to the current authorized staffing for the Utilities Department.

Table 1: Proposed Changes to Utilities Department FTEs and LTEs

	FTEs	LTEs	Total
Authorized – 2020	174.0	9.0	183.0
AMI Implementation	(2.0)	(5.0)	(7.0)
NPDES Source Control Program	1.0	---	1.0
Total Change	(1.0)	(5.0)	(6.0)
Requested – 2021-2022 Budget	173.0	4.0	177.0

Attachment 1 shows the 2021-2022 Operating Budget Proposals by functional area in detail.

2021-2027 Utilities CIP Budget Proposals

The Utilities CIP represents capital infrastructure investments planned for implementation in the next seven years. The proposed 2021-2027 Utilities CIP will be used to develop the overall Utilities Department 2021-2022 budget and rates.

Key 2021-2027 CIP Budget Highlights

On June 23, staff reviewed the proposed 2021-2027 CIP Plan with the Commission in detail. The following is a brief recap of the key highlights of that Plan:

Water Utility CIP: \$135.1M

- Water main replacement program
- Reservoir rehabilitation program
- Water pump station rehabilitation program
- New Supervisory Control and Data Acquisition (SCADA) program

Maintenance and operations yard Sewer Utility CIP: \$58.0M

- Sewer pump station and force mains improvements programs
- Sewer pipeline major repairs and replacement programs
- New SCADA program
- Maintenance and operations yard program

Storm Utility CIP: \$42.4M

- Storm conveyance system infrastructure rehabilitation program
- Flood reduction program (city wide)
- Factoria Boulevard/Richards Creek flood reduction program
- New storm and surface water planning program
- New SCADA program
- New post construction permit monitoring and maintenance program

The following table summarizes the 2021-2027 CIP Plan. Additional details can be found in the proposed 2021-2027 CIP Financial Statements (Attachment 2).

**Table 2: Proposed 2021-2027 Utilities CIP by Fund
(\$000)**

	2021	2022	2023	2024	2025	2026	2027	2021-2027
Water	\$16,730	\$18,000	\$17,724	\$20,834	\$17,260	\$20,090	\$24,440	\$135,077
Sewer	\$12,740	\$6,200	\$9,137	\$9,267	\$7,720	\$6,720	\$6,250	\$58,033
Storm	\$12,970	\$10,640	\$4,590	\$2,530	\$3,310	\$4,440	\$3,960	\$42,440
Total	\$42,440	\$34,840	\$31,450	\$32,630	\$28,290	\$31,250	\$34,650	\$235,550

All the programs and projects of the proposed 2021-2027 CIP Plan are divided into seven Areas of Investment, or proposals. The following table summarizes these investments:

**Table 3: Proposed 2021-2027 Utilities CIP by Fund
(\$000)**

Proposal Number	Area of Investment	Proposed 2021-2027 Budget
140.02NA	Replacement of Aging Water Infrastructure	\$125,480
140.03NA	Replacement of Aging Sewer Infrastructure	\$52,630
140.04NA	Replacement of Aging Storm Infrastructure	\$14,790
140.05NA	Utility Capacity for Growth	\$4,150
140.08NA	Environmental Preservation	\$27,650
140.54NA	Water Facilities for NE Spring Blvd Multi-Modal Corridor	\$2,850
140.70NA	Maintenance and Operations Facility Land Acquisition and Development	\$8,000
	Total 2021-2027 CIP	\$235,550

Attachment 3 shows the seven CIP Proposals and provides a detailed list of the CIP programs and projects that comprise the body of work for each proposal.

Next Steps

The Commission will continue its review of the proposed Utilities Department budgets and rates for the 2021-2022 biennium over the next several months. Staff will respond to questions, seek the Commission comments, and request your concurrence with the proposed 2021-2022 operating budget and rates, and 2021-2027 CIP Plan.

Attachments

1. Attachment 1 - 2021-2022 Operating Budget Proposals
2. Attachment 2 - 2021-2027 CIP Financial Statements
3. Attachment 3 - 2021-2027 CIP Summary by Proposal