

**CITY COUNCIL STUDY SESSION**

Cascade Water Alliance briefing on establishment of the Water Supply Development Fund.

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Ed Cebron, Chief Economist  
*Cascade Water Alliance*

Nav Otal, Director, 452-2041  
*Utilities*

**DIRECTION NEEDED FROM COUNCIL****INFORMATION  
ONLY**

Ray Hoffman, Cascade Water Alliance (Cascade) Chief Executive Officer, and Ed Cebron, Cascade Chief Economist, will brief Council on Cascade's future water supply scenarios, funding strategy, and impacts on Bellevue.

**RECOMMENDATION**

N/A

**BACKGROUND & ANALYSIS****Cascade's purpose and governance structure**

The Cascade Water Alliance (Cascade) was formed in 1999 and provides water supply to the City of Bellevue and six other member jurisdictions. Cascade's current strategy is to use contract wholesale water supplies until the development of its own permanent water supply system.

A Board of Directors (Board), consisting of an elected official from each member agency, oversees the business of Cascade. Councilmember Stokes has represented Bellevue on the Board since 2014 and currently serves as the Chair. Councilmember Lee is the City's alternate to the Board.

Cascade's bylaws provide for a dual majority vote. Each member is given one vote and a weighted vote. The weighted vote is based on how much water each member purchases. Since Bellevue purchases about half of Cascade's water supply, the City has significant influence over Cascade's business decisions.

**Cascade's water supply decisions**

Key decisions to date: Cascade has made many important decisions, including the following.

- Negotiated supply contracts with Seattle and Tacoma.
- Purchased the White River/Lake Tapps Reservoir (Lake Tapps), intended to become Cascade's primary source of permanent water supply.
- Obtained water rights permit for Lake Tapps from the Department of Ecology (Ecology).
- Invested approximately \$30 million in new and upgraded infrastructure.

Next decision: Cascade staff plans to seek Board approval in October to establish a Water Supply Development Fund and start setting aside additional funding this year for the potential future development of Lake Tapps.

### **Water supply and demand projections**

Cascade's demand forecast has flattened significantly in the past decade. Cascade's analysis indicates an abundance of regional water supply through 2060 and likely beyond. Cascade reports that current contracts with Seattle and Tacoma are projected to provide sufficient supply to meet its members' needs through 2040.

### **Cascade is evaluating factors that influence the Lake Tapps water supply project**

Cascade might potentially leverage this excess capacity as its source of long-term supply in consideration of the following two conditions:

- 1) Extend Lake Tapps development timeline required by Ecology. Cascade's water rights permit requires construction of the Lake Tapps project to start by December 31, 2040, be in service by 2055, and full water use by the end of 2060. Cascade is working to extend the development timeline with Ecology.
- 2) Negotiate long-term supply contract. Cascade's water supply from Seattle begins to decline in 2040 and expires in 2064. If Cascade does not negotiate an extension with Seattle or secure a new contract with a regional provider, Lake Tapps would need to be in service by 2042. Cascade is exploring options to negotiate contracts with Seattle and Tacoma for long-term water supply, discussed below.

### **Permanent water supply options**

Cascade staff developed the following six options for procuring a source of water supply for its members beyond 2040. The need and timing for Lake Tapps development vary depending on Cascade's ability to secure an extended or new contract. Cascade envisions the initial project will enable the withdrawal of part of the total water right from Lake Tapps. A future second project will expand the treatment plant capacity to treat the full amount of the water right, but no earlier than about 2059. The second project costs are not included in the project costs summarized below. All but Option 6 assume the eventual development of Lake Tapps. Most options are also predicated on Ecology's approval to extend Lake Tapps development beyond the timeline currently required by Cascade's water rights permit.

The Board is considering the following options for the initial project and has directed Cascade staff to focus planning efforts on Options 2-4.

- Option 1: No extended/new contract
  - 2033-2042: Build treatment plant at Lake Tapps, transmission pipelines, reservoir, pump station.
- Option 2: Seattle extension (15-year)
  - 2046-2055: Build same features as Option 1.
- Option 3: Tacoma contract (20-year)
  - 2034-2039: Build transmission pipeline from Tacoma directly to Cascade members.
  - 2050-2059: Build treatment plant at Lake Tapps, additional transmission pipelines, reservoir, pump station.
- Option 4: Tacoma contract with wheeling (20-year)
  - Use Seattle's pipes to convey water from Tacoma to Cascade members (i.e., wheeling).

- 2034-2039: Build transmission pipeline between Seattle and Tacoma water systems.
- 2050-2059: Build treatment plant at Lake Tapps, additional transmission pipelines, reservoir, pump station.

The Board considered and rejected the following options.

- Option 5: Everett contract with wheeling (20-year)
  - Use Seattle’s pipes to convey water from Everett.
  - By 2040: Construct transmission pipeline between Clearview and Woodinville.
  - 2050-2059: Build treatment plant at Lake Tapps, transmission pipelines, reservoir, pump station.

Rejected because the Clearview to Woodinville pipeline would be abandoned after Lake Tapps project is constructed.
- Option 6: Seattle purveyor contract – Lake Tapps development not needed
  - Permanent supply commitment from Seattle.
  - 2038: Bond to purchase Lake Tapps paid off. Sale or transfer of Lake Tapps.

Rejected due to concerns about the uncertainty of negotiating a good permanent contract with Seattle and finding a buyer for Lake Tapps.

Table 1 below shows the estimated Lake Tapps development project costs for the four options the Board is currently considering. Also shown are the estimated cash to be accumulated in the Water Supply Development Fund (WSDF) and how much would be financed. These costs do not include a future second project to expand the treatment plant capacity to treat the full amount of the water right. These costs also do not include annual operating costs for the newly developed Lake Tapps supply system.

***Bellevue purchases about half of Cascade’s water supply, and thus would bear about half of these costs.***

**Table 1: Cascade proposed permanent water supply options (\$ billions)**

Option*	Lake Tapps project costs (current \$)	Lake Tapps project costs (inflation \$)	WSDF accrual	Bond funding
1. No extended/new contract – develop Lake Tapps by 2042	\$0.9	\$1.5	\$0.4	\$1.1
2. Seattle extension – develop Lake Tapps by 2055	\$0.9	\$2.4	\$1.2	\$1.2
3. Tacoma contract – develop Lake Tapps by 2059	\$0.9	\$2.7	\$1.1	\$1.6
4. Tacoma contract with wheeling – develop Lake Tapps by 2059	\$0.9	\$3.0	\$1.2	\$1.8

\*Cascade is focused on exploring Options 2-4.

**What is the Water Supply Development Fund?**

The WSDF is a means to accumulate cash in reserve in advance of developing Lake Tapps for water supply. The goals are to 1) meet the 20 percent equity (cash) requirement for this project; and 2)

moderate potential future rate impacts. Cascade proposes to begin WSDF funding in the fourth quarter of 2021 with a combination of rates, connection fees, reserves and investment earnings.

Cascade anticipates it will accumulate about \$30 million by the end of 2029 in the WSDF fund. Of this amount, \$13 million is planned to be provided by additional member charges (including \$6.7 million from Bellevue). The remaining funds will come from Cascade connection fees, reserves, and investment earnings. Under the options Cascade is considering, \$0.4 to \$1.2 billion will be accumulated in the WSDF by the time Lake Tapps is developed.

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

Per City financial policies, payments to Cascade for water supply are passed through to Bellevue's water customers via its water rates.

### **Fiscal Impact**

Payments to Cascade account for approximately 35 percent of annual expenditures for Bellevue's Water Utility. In 2021, Bellevue's budgeted payments to Cascade are \$22 million. The City of Bellevue pays approximately half of Cascade's costs among participating jurisdictions.

Between 2021 and 2029 Cascade anticipates it will collect an additional \$6.7 million from Bellevue customers in water supply costs for the WSDF fund. This translates to approximately a 4 percent or \$3 rate increase to a typical water customer, increasing the typical monthly residential water bill from about \$72 per month in 2021 to \$75 per month in 2029. The funding for the WSDF is in addition to regular annual rate increases from Cascade to fund its ongoing operating and capital costs and rate increases necessary to operate, maintain, and replace Bellevue's water infrastructure. Cascade anticipates its member rates, including WSDF funding, to increase each year by 2.2 percent between 2022-2025, 3 percent between 2026-2028 and 4 percent in 2029.

## **OPTIONS**

N/A

## **ATTACHMENTS & AVAILABLE DOCUMENTS**

N/A

## **AVAILABLE IN COUNCIL LIBRARY**

N/A