



Utility Advisory Committee

Water Resources Capital Facilities Plan (CFP) for 2016-2021

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Title

Water Resources Capital Facilities Plan (CFP) for 2016-2021

Recommended Action

UAC Deliverable:

Recommendation to City Council and Planning Commission

Previous UAC Consideration: None in 2015. The UAC last evaluated the Water Resources CFPs in June of 2014 with subsequent discussions in September and October. City Council adopted the last Water Resources CFP for the years 2015-2020 as recommended by the UAC. In turn, utility rates in 2015 encompass the financial needs for the first year of the 2015-2020 CFP.

Report

Issue:

Consistent with the annual work plan, the UAC will review the Water Resource-related elements of the City's draft 2016-2021 Capital Facilities Plan. The CFP is updated every year in conformance with the Growth Management Act and City policy. Each year, the UAC reviews the proposed CFP and its financial implications for the Utilities and rate payers. Formal UAC comments are provided to the Planning Commission and City Council for their consideration during the CFP adoption process later in the year.

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Background and Analysis:

The CFP is a key long-term planning and financial tool for the three Water Resources utilities. Project appropriations in the proposed 2016-2021 CFP total approximately \$47 million. Projects in the CFP address infrastructure needs as well as major environmental improvements and planning efforts. The CFP funds major works efforts beyond the day-to-day operations of the Utilities.

Staff develops a six year and a 20 year CFP. The six year CFP is adopted by City Council; the 20 year CFP helps keep track of long-term needs and financial dynamics. The six year CFP is input into utility rate calculations.

With City Council approval of the 2016-2021 CFP later this year, staff can proceed with the projects listed for Year 1 (2016) of the CFP. Projects scheduled for Year 2 through Year 6 are subject to change in future CFPs.

We are providing the UAC with lists of the proposed projects organized by year, by utility, and by area of the City. Typically, the UAC reviews the CFP for consistency with the policies and goals of the Utility rather than seeking a detailed understanding of each proposed project. Rate implications are better defined in the fall.

Drinking Water Utility

The 2016-2021 CFP for the Drinking Water Utility is based on the goals, policies and recommendations of the draft 2015-2019 Water System Plan. The UAC received a briefing on the Water System Plan in March 2015 and again at the June 4th meeting. The Plan provides an up-to-date understanding of drinking water capital needs. It is scheduled for adoption by Council later this year.

Drinking water projects focus on maintaining or replacing existing components of the water system, and constructing new facilities to ensure the City fulfills its mission of providing reliable and high quality water to our community. Many projects are mandated by State and Federal water quality requirements.

Of the three water-related Utilities, the Drinking Water Utility faces the most financial challenges meeting infrastructure needs. The Utility builds costly projects. A new reservoir tank is estimated to cost \$11 million, a new pump station \$3.5 million, and a new water treatment system another \$3.5 million. At the same time, the Utility is necessarily upgrading and replacing its aging pipe distribution system and ensuring the protection of its water source. Fortunately, the Utility has more or less kept pace with these ongoing needs over the years.

The 2016-2021 Drinking Water CFP includes approximately \$25 million in capital projects over the next six years, down from \$37 million for the past six year CFP. Proposed CFP funding in 2016 is \$8.4 million.

A large portion of the past CFP was funded by a State low interest loan. State loans remain an important source of funding for the Utility. We anticipate submitting a \$3 million loan application this year. A more in-depth discussion of project priorities and financial trade-offs will be provided during the June 4th UAC discussion.

Major projects planned for funding in 2016 include:

- McAllister Wellfield Corrosion Control Treatment (\$3.3 million). The State mandated project will adjust the acidity of our water in order to minimize the risk of water quality degradation.
- Pipe replacements (\$1.8 million). We need to support continued investments in small diameter water mains, asbestos and aging pipe replacements.
- Fones Road Booster Pump Rehabilitation (\$1.3 million, supplemental funding). The pump station has been taken off-line until a complete retrofit is completed.

Details on the utility rate implications of the proposed Drinking Water CFP will be available in the fall. As this time, we anticipate a 2016 rate increase of roughly 5 to 7 percent, largely driven by the CFP. As summarized in the CFP, project costs potentially decrease in years beyond 2016. These cost

decreases will help reduce future rate increases.

Wastewater Utility

The proposed CFP for the Wastewater Utility implements the 2014-2019 Wastewater Management Plan. In general, the wastewater CFP remains straightforward and manageable. However, proposed CFP funding is up in 2016.

The CFP includes approximately \$9.6 million in capital projects over the next six years, up from \$8.7 million in the past CFP. Proposed funding in 2016 is approximately \$1.9 million compared to a six-year average of \$1.6 million.

The Wastewater CFP continues to proactively meet pipe and lift station retrofit needs. Major proposed expenditures in 2016 include a pump station upgrade (\$630,000) and a sewer extension (\$788,000). Note that the Draft Wastewater CFP narrative contains some minor project and financial inconsistencies. Staff will edit the CFP narrative to reflect this staff report and its associated attachments.

The CFP also proposes funding for small-scale sewer extensions to support onsite septic system conversions to public sewer. Increased funding for conversions is proposed for 2017 (\$680,000). Converting onsite septic systems to the municipal sewer is a regional water quality priority.

The Wastewater Management Plan provides a 20-year CFP and associated financial analysis. Based on our analysis, the long-term CFP can be supported by the existing rate structure. Municipal bonding for future projects is not anticipated. State sponsored grants and loans are typically not an appreciable funding source for our wastewater projects.

Storm and Surface Water Utility

The proposed CFP for the Storm and Surface Water Utility incorporates the goals and priorities recommended by the UAC over the past several years. These recommendations build upon the direction set in the 2003 Storm and Surface Water Plan with 2011 revisions to goals, objectives, and near-term priorities.

A comprehensive update to the Storm and Surface Water Plan is needed and will hopefully be initiated later in 2015. The update could set the stage for long-term changes in Utility responsibilities, priorities, and capital needs. A detailed financial analysis of the Utility will be part of the Plan update.

Typical capital improvements in storm and surface water include stormwater infrastructure upgrades, water quality retrofits, and aquatic habitat enhancements. Funding for aquatic habitat was increased in 2014 and maintained in subsequent years.

The proposed six-year CFP includes approximately \$13.1 million in projects, up from \$12.6 million the past CFP. Funding for stormwater projects in 2016 is proposed to be \$1.7 million. Approximately \$570,000 of this total is anticipated grant funding for a water quality retrofit along East Bay Drive. Over the six-year period \$2.9 million in water quality retrofits are contingent upon grant funding. Twenty-five percent of the project cost is provided by Utility rates (\$730,000). While we have been very successful in receiving grant funds over the past few years, stormwater grant funding remains uncertain from year to year.

Many of the capital projects in the Storm and Surface Water Utility are discretionary compared to the various public and environmental health mandates associated with the Drinking Water and Wastewater Utilities. However, funding for storm and surface water projects continues to be challenging. Potential environmental projects are numerous and retrofit project costs are high. This dynamic highlights the difficulty of stormwater and environmental retrofits as well as the breadth of storm and surface water responsibilities.

Options: Review and provide comments to Water Resources staff. Provide formal recommendations to the Planning Commission and City Council during the June or September meeting. Recommendations are needed in early October.

Financial Impact: Capital funding is a key driver of utility rates.

Attachments:

- Draft CFP Chapter - Drinking Water
- Draft CFP Chapter - Wastewater
- Draft CFP Chapter - Storm and Surface Water
- Draft CFP Projects by Year
- Draft CFP Projects by Location
- Draft CFP Projects by Funding