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Utility Advisory Committee

Water Resources Capital Facilities Plan (CFP) for 2018-2023

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Title

Water Resources Capital Facilities Plan (CFP) for 2018-2023

Recommended Action

UAC Deliverable:

Recommendation to City Council and Planning Commission in September 2017.

Report

Issue:

The UAC will review the preliminary Water Resources 2018-2023 Capital Facilities Plan (CFP) and begin to understand implications to the 2018 budget and rate process. The CFP is updated every year in conformance with the Growth Management Act and City policy. UAC recommendations are provided to the Planning Commission and City Council for their consideration during the CFP adoption process later in the year.

Previous UAC Consideration: None in 2017. The UAC last evaluated the Water Resources CFPs in June and September 2016. City Council adopted the last Water Resources CFP as recommended by the UAC. In turn, Utility rates supported the CFP.

Staff Contact:

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Background and Analysis:

The CFP is a key long-term planning and financial tool of the three Water Resources utilities. Project appropriations in the preliminary 2018-2023 CFP total approximately \$55 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. Only projects in the first year of the six-year CFP are approved for appropriation by Council.

The CFP lists proposed projects organized by year, by utility, and by area of the City. Typically, the

UAC reviews the CFP for consistency with the policies, goals, and priorities of the Utility rather than seeking a detailed understanding of each proposed project. Then in the fall, the rate implications of the CFP are provided leading to UAC recommendations to Council. The project list is refined and aligned with budgets over the summer.

Drinking Water Utility

The 2018-2023 CFP for the Drinking Water Utility is based on the goals, policies and recommendations of the 2015 Water System Plan. The Plan provides a comprehensive understanding of drinking water capital needs and utility finances.

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. Some 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. Along with building costly projects, the Utility necessarily upgrades and replaces its aging pipe distribution system and ensures the protection of its water source. Fortunately, the Utility has more or less kept pace with these ongoing needs over the years. Projects totaling approximately \$18 million are underway in 2017.

The 2018-2023 Drinking Water CFP includes approximately \$28 million in capital projects over the next six years, up from \$24 million for last year's six year CFP. Proposed CFP funding in 2018 is approximately \$6.2 million.

Over the past few years, State loans have been an important source of funding for the Utility. Consistent with UAC guidance, we submitted applications and received loan approvals for seismic upgrades two of our reservoirs this year.

Details on the utility rate implications of the proposed Drinking Water CFP will be available in the fall. At this time, we know we need a two percent rate increase to complete the loan repayment funding for the new Log Cabin Reservoir.

Wastewater Utility

The preliminary CFP for the Wastewater Utility implements the 2013 Wastewater Management Plan. The wastewater CFP remains straightforward and manageable. The CFP includes approximately \$9.9 million in capital projects over the next six years, up from \$9.2 million in the previous CFP. Proposed funding in 2018 is \$2.2 million.

The Wastewater CFP continues to proactively meet pipe and lift station retrofit needs.

The CFP also proposes annual funding for small-scale sewer extensions to support onsite septic system conversions to public sewer (\$359,000). Converting onsite septic systems to the municipal sewer is a regional water quality priority. The extension program is relatively new and projects have not been completed. We expect construction projects to start in late 2017 and thereafter.

Based on our preliminary 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.

The draft Storm and Surface Water Plan will be presented to the UAC and Council later this year. The draft will provide a contemporary understanding of Utility responsibilities, priorities, outcomes and capital needs. A detailed financial analysis of the Utility is part of the Plan update.

Typical capital improvements in storm and surface water include stormwater infrastructure upgrades, water quality retrofits, and aquatic habitat enhancements. Capital costs for the Utility are increasing. At this point in the process, costs have not been reconciled with budget constraints.

The proposed six-year CFP includes approximately \$16.9 million in projects, up slightly from \$16.7 million in the past CFP. Funding for stormwater projects in 2018 is proposed at \$4.1 million.

Over the six-year period \$3.6 million in water quality retrofits are largely contingent upon grant funding. Twenty-five percent of the project cost is provided by Utility rates (\$910,000). While we have been very successful in receiving grant funds in past years, stormwater and environmental grant funding from federal and State source is no longer a reliable source of funding. The Utility needs to consider rate funding for this work.

In general, 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. Regardless, 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 capital improvements as well as the breadth of storm and surface water responsibilities. Funding for sea level rise response is not included in the CFP.

Options: Review and provide comments to Water Resources staff. Provide formal recommendations to the Planning Commission and City Council during the September meeting.

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

Attachments:

Preliminary Drinking Water, Wastewater, and Storm and Surface Water CFPs