

CHAPTER 11 FINANCIAL INFORMATION

This chapter summarizes the current (2015) and forecasted financial strength of Bellevue's Storm and Surface Water Utility and its funding strategy for recommended investments through the 20-year planning period.

Current Financial Status

Table 11-1 summarizes actual cash-basis revenues, expenses, and fund balances for the Storm and Surface Water Utility for the most recent 4-year period (2011-2014). Over this period, the Storm and Surface Water Utility's fund balance, which represents total unexpended resources carried forward to future years, decreased from \$6.9 million at the beginning of 2011 to a current balance of \$5.0 million at the end of 2014. From 2011 through 2014, a total of \$37.4 million was transferred to the Utility Capital Improvement Fund to finance budgeted capital project expenses. These transfers represent approximately 49 percent of total Storm and Surface Water Utility expenses for the 4-year period.

Table 11-1. Current financial status of the Storm and Surface Water Utility, 2011 through 2014

	Storm and Surface Water Utility Revenues, Expenses, and Reserve Balances by Year			
	2011	2012	2013	2014
BEGINNING FUND BALANCE	\$ 6,282,177	\$ 6,882,932	\$ 3,990,397	\$ 4,304,843
ANNUAL REVENUES				
Storm Rate Revenues	\$ 15,804,408	\$ 16,595,042	\$ 18,159,606	\$ 19,634,590
Interest Earnings	89,231	40,194	25,920	22,534
Other Revenues	<u>1,090,401</u>	<u>1,242,471</u>	<u>1,875,424</u>	<u>1,512,881</u>
Sub-Total	\$ 16,984,040	\$ 17,877,707	\$ 20,060,949	\$ 21,170,005
ANNUAL EXPENDITURES				
Personnel Expense	\$ 4,640,931	\$ 4,677,048	\$ 4,991,862	\$ 5,346,927
Other O&M Expense	4,714,855	4,907,412	4,319,267	4,326,473
Capital Outlay	220,610	32,689	407,767	486,509
Transfers to Capital Project Fund	6,779,100	11,150,638	9,193,124	10,294,486
Debt Service Expense	<u>27,788</u>	<u>7,291</u>	<u>7,151</u>	-
Sub-Total	\$ 16,383,285	\$ 20,775,079	\$ 18,919,171	\$ 20,454,395
ENDING FUND BALANCE	\$ 6,882,932	\$ 3,985,561	\$ 5,132,176	\$ 5,020,453

Note: The difference between the Ending Fund Balance and the Beginning Fund Balance from 2012 to 2013 and 2013 to 2014 is due to an accounting adjustment of investment value to current market value and the transfer of funds above target to the Renewal & Replacement account per the Utilities Financial Policies.

As of April 2015, there were 32,973 storm and surface water accounts. Accounts are billed at different rates depending on the intensity of development on the lot (Table 11-2). Some lots have more than one intensity type. Therefore, the total number of accounts when listed by intensity type, as in Table 11-2, is higher than the actual number of storm accounts.

Table 11-2. Number of customer accounts receiving storm and service water services

Intensity Type	Developed Surface Area	Number of Accounts by Intensity Type¹
Undeveloped	0%	568
Lightly Developed	0-20%	1,798
Moderately Developed	>20-40%	18,798
Heavily Developed	>40-70%	11,074
Very Heavily Developed	Over 70%	2,076
Wetlands	Not developable	442

¹ The total number of accounts is 34,756, but some accounts have more than one intensity type on the same account.

Current Debt Status

The Utilities Department currently has no outstanding loans or bonds.

Credit Worthiness

While they operate independently, the City's water, sewer, and storm and surface water utilities officially merged in 1980 into one combined "Waterworks Utility" for financial reporting purposes. This action has allowed the individual utilities to issue bonds at more favorable interest rates by presenting their combined financial resources and revenue generating capability as related debt security. Bonds issued by the Waterworks Utility, although primarily related to storm and surface water capital financing needs in recent years, have earned very positive evaluation of credit worthiness by bond rating agencies. This credit rating was based on factors that include the financial position, reserve levels, and ratio of net annual operating revenues to annual debt service payments (that is, debt service coverage) for the three utilities as a whole. The Waterworks Utility currently has a bond rating of "Aa1" from Moody's Investors Service. Ratings at this level indicate a strong degree of confidence by the rating agencies in the ability of the City's utilities to repay related debt obligations. The Waterworks Utility has no immediate plans to issue additional debt. However, if this action becomes necessary, the Utility can expect a proposed bond issue to receive a similarly favorable credit rating and, therefore, to sell at lower interest rates than would otherwise be possible.

A comparative balance sheet and operating statement for the Waterworks Utility for the 8-year period from 2007 through 2011 is provided in Table 11-3.

Table 11-3. Combined financial information for 2007 through 2014 for the Waterworks Utility, which includes Water, Wastewater, and Storm and Surface Water

	Waterworks Utility Combined Operating Statement (Years Ending December 31)							
	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES								
Service Revenues	\$ 74,897,168	\$ 76,918,555	\$ 85,548,522	\$ 88,361,709	\$ 94,368,007	\$ 100,671,311	\$ 110,593,359	\$ 119,225,403
Interest/Other Revenues	<u>10,012,648</u>	<u>8,200,658</u>	<u>6,107,368</u>	<u>9,533,979</u>	<u>7,517,526</u>	<u>9,253,993</u>	<u>10,685,561</u>	<u>10,792,912</u>
Total Revenue and Income	\$ 84,909,816	\$ 85,119,213	\$ 91,655,890	\$ 97,895,689	\$ 101,885,533	\$ 109,925,304	\$ 121,278,920	\$ 130,018,315
OPERATING EXPENSES								
Personnel Expense	\$ 13,044,269	\$ 13,911,686	\$ 14,980,544	\$ 15,322,746	\$ 15,181,829	\$ 15,859,951	\$ 17,000,181	\$ 18,063,713
Other O&M Expenses	52,047,104	51,688,071	55,897,270	59,476,161	64,198,520	66,279,671	73,899,918	75,654,091
Capital Outlay	47,673	1,114,231	546,939	642,214	459,731	294,014	1,526,134	1,368,087
Transfers to Capital Project Fund	12,683,328	18,055,863	22,523,603	26,123,164	17,746,427	32,921,647	26,737,964	37,372,340
Debt Service Expense	<u>169,419</u>	<u>144,670</u>	<u>141,520</u>	<u>123,802</u>	<u>58,468</u>	<u>37,676</u>	<u>37,241</u>	<u>29,795</u>
Total Operating Expenses	\$ 77,991,793	\$ 84,914,521	\$ 94,089,877	\$ 101,688,088	\$ 97,644,976	\$ 115,392,959	\$ 119,201,437	\$ 132,488,026
AVAILABLE FOR DEBT SERVICE	\$ 23,295,222	\$ 23,133,001	\$ 24,789,284	\$ 28,856,019	\$ 28,626,233	\$ 34,930,260	\$ 38,374,100	\$ 43,781,982
ACTUAL DEBT SERVICE	\$ 169,419	\$ 144,670	\$ 141,520	\$ 123,802	\$ 58,468	\$ 37,676	\$ 37,241	\$ 29,795
DEBT SERVICE COVERAGE	137.50	159.90	175.16	233.08	489.60	927.12	1,030.43	1,469.44

Financial Outlook

Table 11-4 presents a projection of annual Utilities Department revenues, expenses, and fund balances for the next 8 years, based on the 2014 amended budget amounts and changes expected to occur in various categories over the subsequent 7-year period as a result of new customers, general inflation, and other related factors. This type of forecast is routinely used by utility staff to develop rate adjustment proposals and to assess the impact of changing budget assumptions on future rate requirements.

Some key assumptions used to forecast future annual revenues and expenses that appear in Table 11-4 are outlined below:

1. Growth in total Storm and Surface Water Utility accounts will be relatively flat from 2015 through 2022, based on historical averages and development projections.
2. Interest and other revenue sources will grow by an average of 2.4 percent per year, based on historical trends and projected fund balances.
3. Personnel costs will increase by an average of 6.7 percent per year, based on historical trends and projected increases in benefit costs.
4. Other operations and maintenance and capital outlay expenses will increase an average of 6.0 percent, based on historical trends, projected increases in the Seattle Consumer Price Index for All Urban Consumers (CPI-U), and anticipated program needs.
5. No debt service expense is anticipated in the forecast period.
6. Storm and Surface Water Utility rate increases are projected each year from 2017 through 2022 to cover the cost of local program operations.

Funding Plan For The Capital Investment Program

Table 11-1 and Table 11-3 showed the estimated funding needs of capital improvement activity recommended in this Storm and Surface Water System Plan. Transfers to the capital improvement fund included in Table 11-4 and Table 11-5 represent anticipated funding needs and projected expenses for projects in the current (2015 through 2021) Capital Investment Program (CIP) Plan, and they will be updated to reflect the recommendations cited in this plan for future budget and rate projections. Potential means of funding these recommendations include reallocating funds from other lower priority projects identified in the CIP Plan, obtaining low-interest public works trust fund loans for projects satisfying necessary eligibility requirements, obtaining grants, adopting additional Storm and Surface Water Utility rate increases to provide additional resources for capital project support, or using funds from the Renewal and Replacement Account for eligible projects (see next section).

Table 11-4. Financial forecast information for the Storm and Surface Water Utility

	Storm and Surface Water Utility Forecasted Revenues, Expenses, and Fund Balances by Year							
	2014 Amended Budget	2015 Forecast ¹	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
BEGINNING FUND BALANCE	\$ 3,100,835	\$ 4,037,344	\$ 4,288,497	\$ 5,094,273	\$ 5,213,134	\$ 4,773,785	\$ 5,408,183	\$ 4,753,552
ANNUAL REVENUES								
Storm Rate Revenues	\$ 19,714,816	\$ 20,547,013	\$ 21,376,434	\$ 22,059,674	\$ 22,743,498	\$ 23,449,226	\$ 24,177,559	\$ 25,049,739
Interest/Other Revenues	<u>4,390,459</u>	<u>1,533,515</u>	<u>1,723,432</u>	<u>1,862,470</u>	<u>1,905,481</u>	<u>1,936,986</u>	<u>1,998,760</u>	<u>2,027,841</u>
Subtotal	\$ 27,206,110	\$ 26,117,872	\$ 27,388,363	\$ 29,016,416	\$ 29,862,113	\$ 30,159,996	\$ 31,584,502	\$ 31,831,132
ANNUAL EXPENDITURES								
Personnel Expense	\$ 5,585,891	\$ 5,863,719	\$ 6,140,616	\$ 6,301,920	\$ 6,467,367	\$ 6,637,710	\$ 6,816,396	\$ 7,000,064
Other O&M Expenses	5,427,087	6,066,738	6,068,535	6,284,358	6,507,144	6,738,878	6,981,226	7,241,517
Capital Outlay	-	164,598	39,120	849,720	1,414,778	333,818	1,638,596	311,805
Transfers to Capital Project Fund	9,432,481	9,734,320	10,045,819	10,367,285	10,699,038	11,041,407	11,394,732	11,759,364
Debt Service Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	\$ 20,445,459	\$ 21,829,375	\$ 22,294,090	\$ 23,803,282	\$ 25,088,328	\$ 24,751,813	\$ 26,830,950	\$ 26,312,750
ENDING FUND BALANCE	\$ 6,760,651	\$ 4,288,497	\$ 5,094,273	\$ 5,213,134	\$ 4,773,785	\$ 5,408,183	\$ 4,753,552	\$ 5,518,382

¹ The beginning fund balance in 2015 does not equal the budgeted ending fund balance in 2014 because of higher than budgeted revenues and/or savings during the last biennium and 2014 capital expenditures delayed until 2015.

Table 11-5. Capital Investment Program (CIP) funding status for storm and surface water projects, 2015 through 2021

	Storm and Surface Water Utility CIP Funding Status						
	2015	2016	2017	2018	2019	2020	2021
RESOURCES							
Transfers from Operating Budget	\$7,661,963	\$4,416,219	\$5,737,941	\$7,742,594	\$5,521,445	\$2,608,445	\$1,707,930
Grants	850,000	1,150,000	750,000	2,727,000	2,726,000	2,726,000	550,000
Interest Earned	<u>15,140</u>	<u>20,483</u>	<u>13,359</u>	<u>48,573</u>	<u>48,555</u>	<u>48,555</u>	<u>2,070</u>
TOTAL RESOURCES	\$8,527,103	\$5,586,702	\$6,501,300	\$10,518,167	\$8,296,000	\$5,383,000	\$2,260,000
APPROVED PROJECTS BY FUNCTIONAL CATEGORY							
Flood Hazard	\$1,413,000	\$1,325,000	\$1,448,000	\$3,696,000	\$4,090,000	\$3,115,000	\$651,000
Drainage System Rehabilitation	1,519,000	1,975,000	2,063,000	3,100,000	3,478,000	1,464,000	1,553,000
Water Quality	-	-	-	-	-	-	-
Resource Habitat Management	2,450,103	2,286,702	2,990,300	3,722,167	728,000	804,000	56,000
Other	<u>3,145,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMMITTED EXPENSES	\$8,527,103	\$5,586,702	\$6,501,300	\$10,518,167	\$8,296,000	\$5,383,000	\$2,260,000
APPROVED PROJECTS BY BUDGET CATEGORY							
Aging Infrastructure	\$1,519,000	\$1,975,000	\$2,063,000	\$3,100,000	\$3,478,000	\$1,464,000	\$1,553,000
Capacity for Growth	-	-	-	-	-	-	-
Environmental Preservation	3,863,103	3,611,702	4,438,300	7,418,167	4,818,000	3,919,000	707,000
Mandated	<u>3,145,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMMITTED EXPENSES	\$8,527,103	\$5,586,702	\$6,501,300	\$10,518,167	\$8,296,000	\$5,383,000	\$2,260,000

Funding for the Infrastructure Renewal and Replacement Program

The Renewal and Replacement (R&R) reserves were established by the City Council in 1995 to better position the City for the future by planning for the inevitable replacement of the constructed utility systems basic to the City's health and economy.

- The Utilities Department has assets with a replacement value of over \$3.5 billion in 2010 dollars, and about half of this aging infrastructure is past mid-life.
- Aging infrastructure is one of the biggest drivers of utility costs; reactive response to aging infrastructure is expensive and very disruptive to customers.
- Accumulating R&R reserves in a measured way to pay for the proactive replacement of aging systems before they fail ensures that customers would continue to enjoy reliable, unobtrusive delivery of the most basic and critical services, protects customers from rate spikes, preserves financial flexibility and credit worthiness, and ensures each generation of customers pays for the utility systems they will use.
- Reliable infrastructure is one of the foundations of economic competitiveness and growth. Managing reserves that fund the replacement of that infrastructure in a deliberate, fiscally prudent manner supports continued economic viability and creates financial sustainability.
- R&R reserves ensure that the Utilities Department is financially prepared to respond to emergency events.
- Use of R&R reserves is governed by state law and the Utilities financial policies (established by City Council resolution in 1995; see Chapter 4 Policies).

R&R needs are projected using asset management data to determine the timing and estimated cost of replacing systems over time. Annual revenues set aside for infrastructure replacement are based on projected replacement cash flow needs over a 75-year forecast period less projected interest earnings. In early years, annual contributions from rates are somewhat higher than projected annual capital replacements, thereby building up capital reserves. Contributions from rates continue at a fairly smooth pace, essentially increasing to cover inflation such that all ratepayers are paying roughly the same amount in today's dollars. When annual capital replacement costs exceed the annual rate of contributions, sufficient reserve balances will have accumulated to cover the gap between revenues and expenses (Table 11-6).

Table 11-6. Current and projected renewal and replacement (R&R) fund balances for replacement of aging infrastructure

R&R Fund	Current Balance in 2015	Projected Balance in 2044
Storm & Surface Water	\$43.8 Million	\$70 Million
Water	\$44.8 Million	\$114 Million
Sewer	\$59.3 Million	\$263 Million

Money is contributed to the R&R fund each year through rates, interest earnings, connection charges, and unplanned revenues. Like a retirement account, the interest earnings that will accumulate over time are significant, and are a key part of the planned funding for renewal and replacement of infrastructure. For example, as shown in Figure 11-1, in the Storm and Surface Water R&R fund over 30 years, 88.8 percent will be funded by rates, 10.2 percent by interest, and 1.0 percent by connection charges.

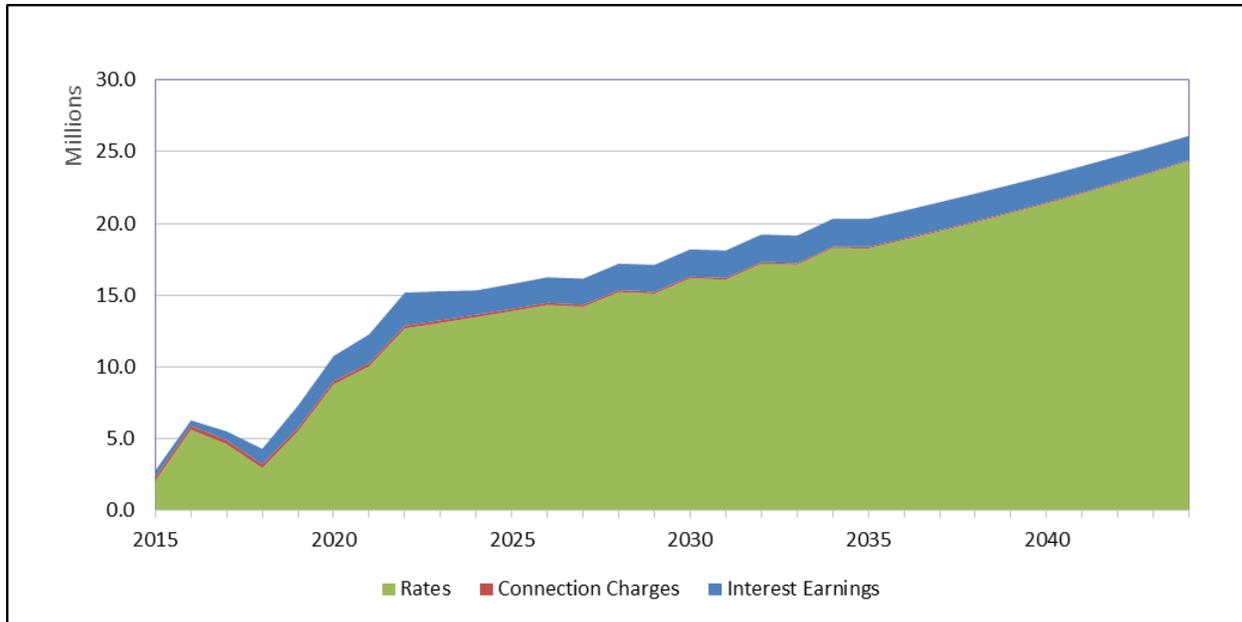


Figure 11-1. Storm and Surface Water Utility R&R Funding

The use of R&R funds are restricted by law. By state law, utility funds must be used for utility purposes. In accordance with the City Council-adopted financial policies (see Chapter 4 Policies), the funds accumulated in the R&R Account must be used for system renewal and replacement as identified in the CIP Plan. Because these funds are invested, they may be loaned for other purposes provided repayment is made consistent with the needs for those funds and at appropriate interest rates.

Bellevue's R&R approach ensures rate stability, inter-generational equity, and the ability to minimize debt. Bellevue's utility rates, which include annual contributions to the R&R fund, are competitive with those of neighboring jurisdictions that do not have comparable R&R funding plans in place. In the future, Bellevue's rates will be even more competitive as its neighbors' capital needs grow and their rates increase or they rely more heavily on debt. Bellevue's R&R reserves ensure that the City is prepared to meet the high cost of infrastructure replacement as the system continues to age.