



Date: November 8, 2018

To: Mayor Chelminiak and Councilmembers

From: Diann Strom, Chair, Environmental Services Commission *DS*

Subject: Utilities Department 2019-2020 Budget & Rate Recommendations

As part of the Environmental Services Commission's charge, over the past ten months, the Commission has worked with Utilities staff on a detailed review of the Utilities Department's proposed Capital Investment Program (CIP), operating and capital budget proposals, relevant policies, and the necessary rate increases to implement the budget. **The Commission unanimously recommends the following Utilities Department proposed budget and rates:**

- 2019-2020 operating budget
- 2019-2025 CIP
- Water, sewer, and storm and surface water rate increases necessary to fund the proposed Utilities 2019-2020 operating and capital budgets as follows:

Utility Rate Increases to Fund Proposed 2019-2020 Budget

	Water	Sewer	Storm	Total
2019	3.7%	3.9%	5.4%	4.0%
2020	5.0%	2.3%	5.4%	3.8%

Even with these increases, Bellevue's utility rates remain competitive with neighboring communities. Bellevue's rates should be even more competitive in the future because Bellevue is one of very few cities that proactively invest in future infrastructure requirements.

BACKGROUND

Established by ordinance in 1991, the Commission advises City Council on water, wastewater, storm and surface water, and solid waste utility programs in the areas of planning, budgeting, ratemaking, CIP financing, contracts, and policies. The Commission is comprised of seven members, appointed by the Mayor with the concurrence of Council, who reside within the Bellevue Utilities Department's service area. In this role, the Commission embodies the interests of utility ratepayers throughout the service area, including Bellevue, Beaux Arts, Clyde Hill, Hunts Point, Medina, Yarrow Point, and sections of the City of Kirkland. The Commission's responsibilities include evaluation of policy, budget, and planning issues that culminate in budget and utility rate recommendations to City Council.

PROCESS

The Commission has reviewed the Utilities proposed budget and rates based on the following principles:

- Maintain a long-range view with a focus on financial sustainability and stability across a long planning horizon;
- Make steady investments in utility systems to provide reliable, high quality services for customers;

- Support economic prosperity by accommodating growth;
- Minimize total costs; and
- Maximize value for current and future ratepayers.

The Commission studied the Utilities Department 2019-2020 Preliminary Budget in detail over ten meetings during the course of this year. In addition, the Commission was briefed on the public input received from the on-line CIP open house in April and the Commission toured key CIP projects in July. The Commission provided the required public notice and held a public hearing on the proposed budget on October 4, 2018. One member of the public provided input at the hearing.

BUDGET DRIVERS

The Utilities Department continues to face the following challenges for the upcoming biennium, which serve as the backdrop in the Department's budget formulation:

- Increases in water supply and sewerage treatment costs;
- Aging infrastructure and the need to adequately fund renewal and replacement in a timely and cost-efficient manner that minimizes overall costs and risk of expensive emergency repairs;
- Capital investment to accommodate population growth and support economic development;
- Regulatory requirements and mandated projects and programs;
- Positioning Utilities for resiliency in the event of emergencies such as earthquakes; and
- Meeting future operational facility needs.

COMMISSION RECOMMENDATIONS

The Commission supports the key budget priorities used to guide the development of the Utilities Department proposed budget. These include:

- Providing sustainable, high quality services to the community through responsible management of utility system infrastructure assets and long-term financial sustainability; and
- Providing certainty and predictability of utility rates.

On November 1, 2018, the Commission voted unanimously in support of the Utilities Department proposed 2019-2020 operating budget and 2019-2025 CIP which support these budget priorities, and the rate increases necessary to implement the proposed budgets.

CONCLUSION

Commissioners, as Bellevue ratepayers, are sensitive to the impact of rate increases on customers. The Commission takes the responsibility assigned by the City Council very seriously. The Commission has closely scrutinized the proposed budget and rates in detail. The funding is critical to maintaining sustainable utility services. The budget proposals represent a prudent and lean budget that is designed to meet current service levels going forward. We appreciate staff's diligence and transparency in providing the Commission with detailed analysis to facilitate a thorough budget and rates review. Through this process, staff has demonstrated stewardship of ratepayer dollars.

The Commission appreciates the opportunity to analyze the Utilities budget, receive public input, and provide this recommendation to City Council.