



DATE: July 11, 2024

TO: Environmental Services Commission

FROM: John Resha, Chief Financial Officer/ Director, Finance and Asset Management
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SUBJECT: City of Bellevue Comprehensive Financial Policies

ACTION REQUIRED

This is an informational report. There is no action required by the Commission.

BACKGROUND / ANALYSIS

This is a continuation of a series of briefings to facilitate the Commission's review of the proposed Utilities Department 2025-2026 operating budget and rates, and 2025-2034 capital investment program (CIP).

Commission previously reviewed:

- January: Utilities Asset Renewal Forecast;
- February: Utilities financial policies;
- April: Utilities 2023 financial performance results and department-proposed 2025-2034 CIP Plan;
- May: Operations & maintenance/CIP field tour;
- June:
 - 2025-2030 Utilities Early Outlook Financial Forecast, and
 - Utilities 2025-2034 CIP budget requests and Utilities CIP community engagement results;
 - Utilities 2025-2026 operating budget requests.

On July 11, staff will review the following with the Commission:

- City of Bellevue Comprehensive Financial Policies

Foundation for Budget and Rates Development

The Commission will recall the 2025-2026 Utilities Director operating budget recommendation, 2025 – 2034 CIP priorities, and projected rates were developed in alignment with Council strategic direction and adherence to the City's long-standing Waterworks Utility Financial Policies. These financial policies enable Bellevue Utilities to be recognized as a leader in the industry, provide competitive utility rates that achieve intergenerational equity, and achieve financial sustainability. Additionally, and as a component of the City of Bellevue, these developing proposals are subject to the City's Comprehensive Financial Policies (CFP).

Comprehensive Financial Policies

The Finance and Asset Management Department (FAM) is updating the CFP to collectively articulate and modernize the City's strategy for its financial structures and functions. Accordingly, Utilities has partnered with FAM to ensure key provisions from Waterworks Utility Financial Policies are incorporated into the CFP and

aligned to preserve the long-term sustainability of Bellevue Utilities. Attachment A depicts Utilities alignment with the CFP.

Use of Debt

Beyond aligning and preserving key policy provisions, the City Council has engaged in a discussion of the City's, including Utilities, use of debt. Utilities' long-standing policies indicate that debt should only be used for short-term (e.g., cashflow) or extraordinary circumstances (natural disasters or external mandates), while maintaining a debt service coverage ratio of 2.0 (meaning there must be at least \$2 of revenue available for every \$1 of annual debt payment). This policy has served the rate payers and residents of Bellevue very well. However, with significant changes in land valuation and project delivery costs, now appears to be the time to add 'strategic use' of debt into our tools for planning the delivery of our infrastructure replacement and enhancement.

These updated policies can be found in Attachment B in CFP 7.11.

The revised policies maintain the existing debt service coverage ratio of 2.0, permit consideration of debt, and place it in the context of Utilities' long-range plans. The policy goes on to consider different types of debt mechanisms and timeframes consistent with financial best practices. The policy also requires evaluation "on a net present value basis using standard industry practices," which provides for a required net positive financial value before proposing debt as part of a capital project or program's financial strategy.

The Utilities Department anticipates the strategic use of debt going forward will not diminish the primary practice of using cash and the Renewal & Replacement (R&R) Account (also known as the Capital Facilities R&R Reserve - CFP 8.2.6.2) to fund capital investments. Rather, debt will be considered when necessary to complete major projects (e.g., Sewer Lake Lines) and achieve intergenerational equity.

Administrative Policies and Procedures

Utilities will publish administrative policies and procedures to implement relevant sections of the City's CFP. This includes, but is not limited to, utility rates methodology, transfers to the R&R Account, managing reserve and contingency levels, rate assistance program administration, and future updates to the CFP.

POLICY ISSUES

Financial policies guide how Utilities and the City conduct their business, and sets its budget, taxes, and rates. Explicit incorporation of Utilities financial policies into the City's overarching CFP streamlines regulatory consistency and provides for a sunseting of the separately adopted Water Works Financial Policies, thereby reducing the potential for inadvertent language conflict or audit findings.

FISCAL IMPACT

There is no fiscal impact associated with this informational report.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Water Works Utility Financial Policies – City of Bellevue Comprehensive Financial Policies Policy Crosswalk
- B. City of Bellevue Comprehensive Financial Policies
- C. City of Bellevue Waterworks Utility Financial Policies