

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

The Utilities Department operates as an enterprise within the City structure and functions much like a private business entity.

- This forecast supports a prudent, balanced, and responsible budget to maintain high-quality utility service delivery to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.*
- Significant rate drivers for the 2025-2026 biennium include anticipated wholesale cost increases for wastewater treatment services and drinking water supply, operating and capital impacts due to aging infrastructure, and inflationary increases attributable to operations and maintenance, and internal support costs.*
- Since all Utility functions are primarily supported by rates, this forecast includes funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term infrastructure renewal and replacement requirements.*

Key Drivers and Challenges

Below is a summation of the key rate drivers and budget challenges for the Utilities Department.

Wholesale Costs

Approximately 31% of the water operating budget and 51% of the sewer operating budget is related to water supply costs from the Cascade Water Alliance (Cascade), and payments to King County for wastewater treatment, respectively. Rate increases are needed to fund anticipated wholesale cost increases. To ensure sufficient funding to maintain the integrity of utility operations and capital programs, City financial policies direct wholesale cost increases be passed through to the customer. This is to ensure the City continues to maintain current levels of service delivery.

Cascade's preliminary rate forecast anticipates 3.5% annual increases for the 2025-2026 biennium, which is primarily due to inflationary pressure, rate smoothing, and the initiation of activities for the anticipated Tacoma supply pipeline. Bellevue's projected rate impact is lower than the average overall member rate increase each year of the biennium. This is due to a true-up to correct prior year overcharges as well as overall water consumption changing at a slower rate compared to other Cascade members. Accordingly, the net impact to Bellevue's water supply costs will be a 0.4% reduction in 2025 and a 2.4% increase in 2026. Cascade's longer-term outlook anticipates escalating wholesale water supply rates, with the level of increase progressing as project activities and costs increase.

King County's proposed wastewater treatment wholesale cost forecast reflects a 5.75% increase in

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

2025 and 7% increase in 2026, which is primarily due to regulatory requirements, growth-related demand, and capital investments. While King County's longer-term outlook anticipates rates will continue to rise, doubling over the next ten years, their projections do not fully reflect increases attributable to regulatory compliance projects, such as combined sewer overflows, or the Puget Sound nutrient general permit. It is also important to note that King County's projected rate increases would be in addition to necessary local cost increases to operate, maintain, and replace Bellevue's sewer system, such as Bellevue's lake line replacement projects in development.

Ongoing Impact of Aging Infrastructure on Operating and Capital Programs

Maintaining and replacing the City's aging utility infrastructure continues to be a key rate driver for all three utilities. Most of Utilities' system infrastructure is well past mid-life. As a result, the drinking water, wastewater, and storm and surface water systems are experiencing more failures and increasing costs for system repairs and replacement needs.

- Water CIP – The water system is in active replacement. Water CIP programs include aging water main replacement and reservoir rehabilitations.
- Sewer CIP – The sewer system is moving into active replacement. Sewer CIP programs include aging pipeline repair and replacement as well as pump station improvements. Renewal and replacement funding will continue to ramp up over this decade.
- Storm and Surface Water CIP – Storm and Surface Water CIP programs include system conveyance and infrastructure rehabilitation as well as environmental preservation to mitigate flood hazards, construct fish passage and stream improvements, and meet regulatory mandates.

Consistent with Utilities financial policies, rate increases for the water, sewer, and storm and surface water utilities are needed to fund current capital infrastructure investments and future infrastructure renewal and replacement needs to ensure system integrity and that each generation of customers pay their proportional share of system costs. As part of this long-term capital funding strategy, Utilities has updated its renewal and replacement needs forecast using asset management and condition assessment methodologies. The results of this update will inform the next CIP.

Operating Cost Inflation

Utilities has evaluated its base funding requirements, right sizing expenses following recent years of higher inflationary pressures. However, the department is unable to fully absorb rising costs for the 2025-2026 biennium. Inflationary impacts are anticipated from increased operations and maintenance, and city support service (e.g., insurance, facilities) costs. As Utilities is primarily funded from rates, inflationary pressures translate into rate increases.

Projected Rate Increases

With the projected rate increases for the next biennium, the typical residential monthly customer bill for water, sewer, and stormwater management services will increase by 7.4% or \$16.38, from \$220.05 to \$236.43 in 2025, and by 6.8%, or \$16.08, to \$252.51 in 2026. See Attachment A (*2025-2026 Utilities Early Outlook Rates Forecast - Typical Residential Monthly Utility Bill Rate Drivers*) for additional information.

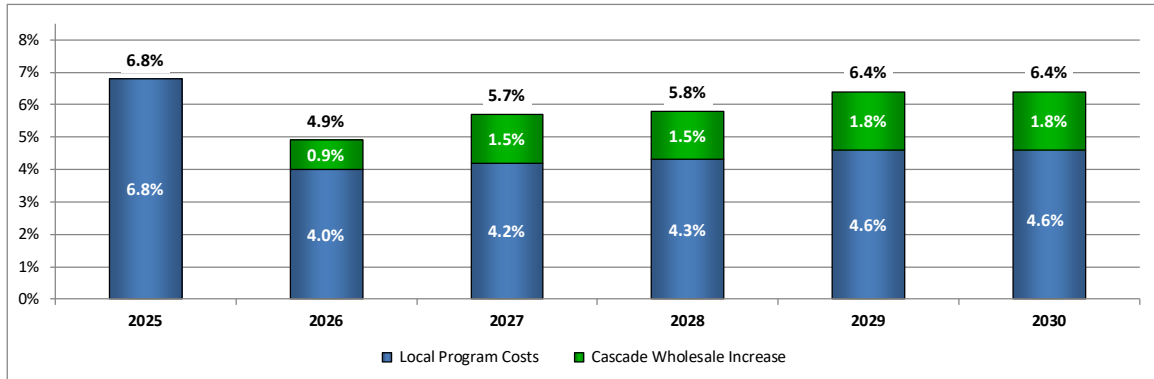
The following section provides a brief review of each Utility fund forecast and key rate drivers.

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

WATER UTILITY FUND 2025 - 2030 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2025	2026	2027	2028	2029	2030
Prior Year Bill	\$82.71	\$88.33	\$92.65	\$97.93	\$103.61	\$110.24
Increase:						
Cascade Wholesale						
Purchased Water	0.00	0.79	1.39	1.47	1.86	1.98
Local	5.62	3.53	3.89	4.21	4.77	5.07
Total	\$5.62	\$4.32	\$5.28	\$5.68	\$6.63	\$7.05
Projected Bill	\$88.33	\$92.65	\$97.93	\$103.61	\$110.24	\$117.29

Minor differences may exist due to rounding

Key Rate Drivers

- Wholesale Costs**

Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). The wholesale rate is adopted by Cascade, and per City financial policy is passed directly through to the ratepayer. Cascade's wholesale costs to the City of Bellevue are projected to decrease by -0.4% in 2025 and increase by 2.4% 2026. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are -0.2% for 2025 and 0.9% for 2026. Beyond that, the anticipated retail rate impact due to Cascade's projected cost increases to the City of Bellevue average 1.7% per year for 2027 through 2030.

- Capital Program**

The projected 2025-2034 water capital investment program (CIP) includes \$327.8M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$270.7M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include water main replacement and reservoir rehabilitations. Total costs for current and future infrastructure needs will require rate increases of 1.9% in 2025, 3.3% in 2026, and an average of about 2.7% per year thereafter.

- Taxes/Intergovernmental**

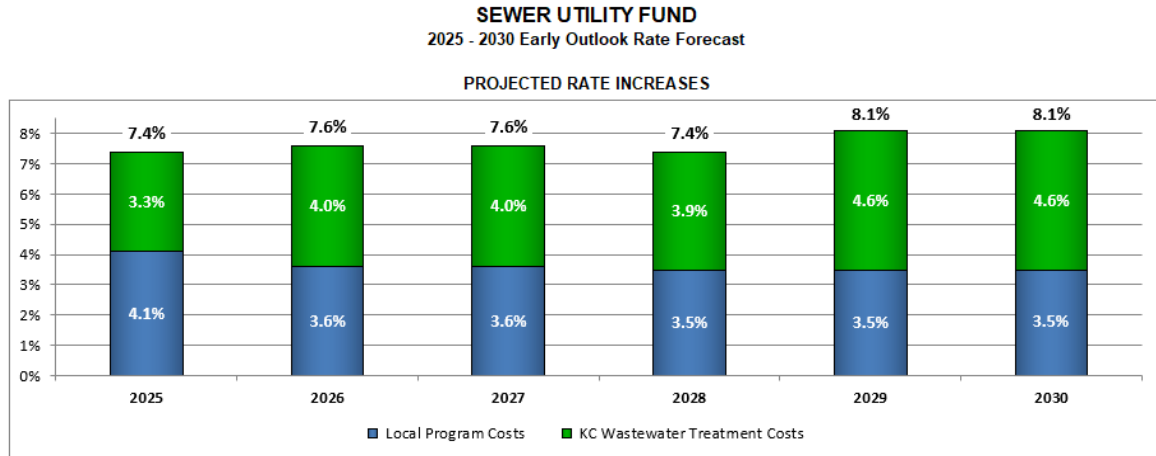
As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 4.0% in 2025 and no increase in 2026. Rate increases for the remainder of the forecast period will average 1.0% annually.

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

- Operations**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase and will require a rate increase of 1.1% in 2025, 0.7% in 2026, and an average of about 0.8% per year thereafter.



Impact to Monthly Bill for a Typical Residential Customer						
	2025	2026	2027	2028	2029	2030
Prior Year Bill	\$104.56	\$112.30	\$120.83	\$130.01	\$139.63	\$150.94
Increase:						
KC Wastewater Treatment	3.45	4.49	4.83	5.07	6.42	6.94
Local	4.29	4.04	4.35	4.55	4.89	5.28
Total	\$7.74	\$8.53	\$9.18	\$9.62	\$11.31	\$12.22
Projected Bill	\$112.30	\$120.83	\$130.01	\$139.63	\$150.94	\$163.16

Minor differences may exist due to rounding

Key Rate Drivers

- Wholesale Costs**

The City of Bellevue purchases wastewater treatment services from King County. The wholesale wastewater treatment rate is established by the County, and per City financial policy is passed directly through to the ratepayer. Per King County's adopted sewer rate plan, wholesale costs to Bellevue Utilities are projected to increase by 5.75% in 2025 and 7.0% in 2026. The retail rate impacts of the projected increases in wastewater treatment costs to Bellevue are 3.3% in 2025, 4.0% in 2026, and average 4.3% for 2027-2030. The projected increases provided by King County do not fully reflect increases attributable to regulatory compliance projects such as combined sewer overflows or the Puget Sound nutrient general permit.

- Capital Program**

The projected 2025-2034 sewer capital investment program (CIP) includes \$124.0M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program (\$112.5M) will be invested to replace existing aging infrastructure. Significant aging infrastructure projects include sewer system pipeline major repairs, sewer pump station improvements, and sewer system pipeline replacements. Total costs for current and future infrastructure needs will require rate increases of about 1.7% in 2025, 2.5% in 2026, and an average of 2.4% per year thereafter.

- Taxes/Intergovernmental**

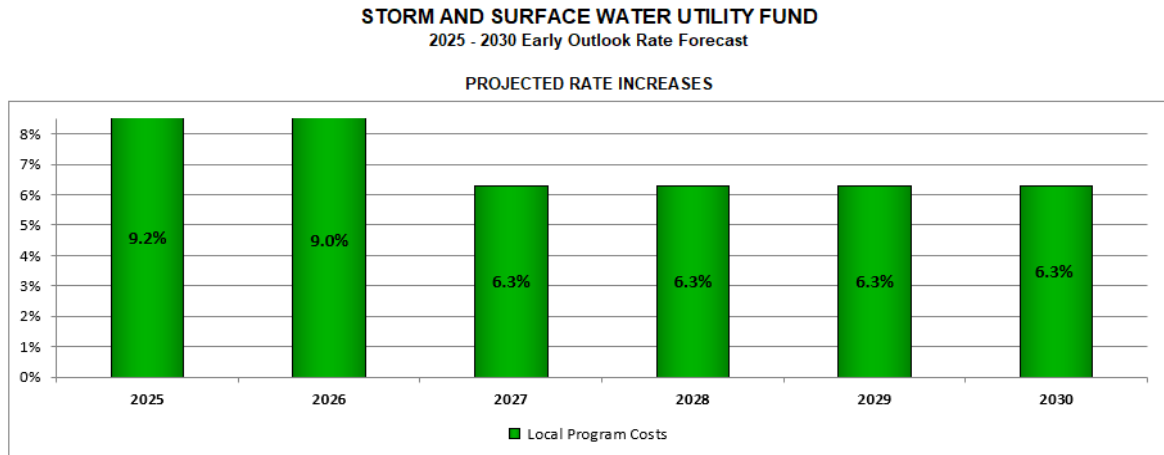
As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 1.4% in 2025, 0.5% in 2026, and an average of 0.6% per year thereafter.

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

- Operations**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase and will require a rate increase of 1.0% in 2025, 0.6% 2026, and an average of 0.6% per year for the remainder of the forecast period.



Impact to Monthly Bill for a Typical Residential Customer						
	2025	2026	2027	2028	2029	2030
Prior Year Bill	\$32.78	\$35.80	\$39.02	\$41.48	\$44.09	\$46.87
Increase	\$3.02	\$3.22	\$2.46	\$2.61	\$2.78	\$2.95
Projected Bill	\$35.80	\$39.02	\$41.48	\$44.09	\$46.87	\$49.82

Minor differences may exist due to rounding

Key Rate Drivers

- Wholesale Costs**

The storm and surface water fund does not have a wholesale component. All elements of storm and surface water management are performed locally by the City of Bellevue.

- Capital Program**

The projected 2025-2034 stormwater capital improvement program (CIP) includes \$85.5M in investments. Of this amount, \$54.8M is for aging infrastructure rehabilitation and replacement. Significant projects include stormwater system conveyance, infrastructure rehabilitation, and minor stormwater capital improvement projects. The remaining stormwater utility capital investments are for environmental preservation, including mitigating flood hazards and constructing fish passage and stream improvement projects, and for meeting regulatory mandates. Total costs for current and future infrastructure needs will require rate increases of 2.7% in 2025, 5.8% in 2026, and an average of about 4.2% per year thereafter.

- Taxes/Intergovernmental**

As an enterprise fund, Bellevue Utilities pays city and state taxes, and pays the general fund for support services. These costs are expected to increase and will require a rate increase of 2.9% in 2025, 1.2% in 2026, and increases averaging about 0.7% per year thereafter.

- Operations**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase and will require a rate increase of 3.6% in 2025, 2.0% in 2026, and about 1.4% per year thereafter.

Attachment A

Utilities 2025-2030 Early Outlook Financial Forecast

Typical Residential Monthly Utility Bill Rate Drivers

	WATER		SEWER		STORM		TOTAL	
2024 Monthly Bill		\$82.71		\$104.56		\$32.78		\$220.05
2025 Rate Drivers								
Wholesale	-0.2%	-\$0.17	3.3%	\$3.45	0.0%	\$0.00	1.5%	\$3.28
Local								
<i>CIP/R&R</i>	1.9%	\$1.57	1.7%	\$1.78	2.7%	\$0.89	1.9%	\$4.24
<i>Taxes/Interfunds</i>	4.0%	\$3.31	1.4%	\$1.46	2.9%	\$0.95	2.6%	\$5.72
<i>Operations</i>	1.1%	\$0.91	1.0%	\$1.05	3.6%	\$1.18	1.4%	\$3.14
Local	7.0%	\$5.79	4.1%	\$4.29	9.2%	\$3.02	5.9%	\$13.10
Total Increase		\$5.62		\$7.74		\$3.02		\$16.38
2025 Monthly Bill	6.8%	\$88.33	7.4%	\$112.30	9.2%	\$35.80	7.4%	\$236.43
2026 Rate Drivers								
Wholesale	0.9%	\$0.79	4.0%	\$4.49	0.0%	\$0.00	2.2%	\$5.28
Local								
<i>CIP/R&R</i>	3.3%	\$2.92	2.5%	\$2.81	5.8%	\$2.07	3.3%	\$7.80
<i>Taxes/Interfunds</i>	0.0%	\$0.00	0.5%	\$0.56	1.2%	\$0.43	0.4%	\$0.99
<i>Operations</i>	0.7%	\$0.62	0.6%	\$0.67	2.0%	\$0.72	0.9%	\$2.01
Local	4.0%	\$3.54	3.6%	\$4.04	9.0%	\$3.22	4.6%	\$10.80
Total Increase		\$4.33		\$8.53		\$3.22		\$16.08
2026 Monthly Bill	4.9%	\$92.66	7.6%	\$120.83	9.0%	\$39.02	6.8%	\$252.51

Minor differences may exist due to rounding