City of Bellevue

8/4/2026

## CITY COUNCIL AGENDA TOPIC

Utility Connection Charge Improvements

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## EXECUTIVE SUMMARY

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| **DIRECTION** | Consider directing staff to prepare an ordinance to amend Bellevue City Code (BCC) chapters 24.02, 24.04, and 24.06 to address affordability, increase transparency, and preserve equity in the city's utility connection charges as part of the upcoming biennium budget process. The ordinance would refine the methodology for Capital Recovery Charges (CRC) and Direct Facility Connection Charges (DFCC) in addition to the timing of collection for the water, sewer, and storm and surface water utilities. Utilities will summarize outreach and engagement efforts, including feedback received from the residential and development community. The briefing will also include the Environmental Services Commission recommendation to City Council. |

## RECOMMENDATION

Consider directing staff to prepare an ordinance to implement the Commission's recommendations to amend Bellevue City Code chapters 24.02, 24.04, and 24.06 to improve affordability, increase transparency, and preserve equity in the city's connection charges for water, sewer, and storm and surface water utilities as part of the upcoming biennial budget process.

## BACKGROUND/ANALYSIS

**Brief Overview:**

RCW 35.92.025 authorizes cities to require property owners that connect to the public water and sewer systems to pay a reasonable connection charge. This charge ensures each property owner bears their equitable share of system costs.

At present, and consistent with this statutory authority, Bellevue's connection charge is designed to equitably distribute the costs associated with providing water, sewer, and stormwater services. The charge covers (2) two types of cost components:

1. System-Wide Costs.

   This component includes the City's Capital Recovery Charges (CRCs), which reflect the City's investment in the utility system it builds and operates; as well as the required contribution the City makes to the regional water system built and maintained by the Cascade Water Alliance. Because customers rely on both the local and regional systems, property owners connecting to those systems must pay their equitable share of the associated costs – essentially a “buy-in” to the capacity already in place and/or the system to be built in the future.

In calculating the applicable CRC, the City uses a single-family equivalent (SFEs) methodology. These charges are typically collected over a ten (10) years on the customer’s utility bill, although property owners may choose to pay the full amount at the time of connection.

By contrast, Regional Capital Facilities Charges (RCFCs), which the City collects and passes through to the Cascade Water Alliance, are based on Cascade Equivalent Residential Units (CERUs) and must be paid in full when a property connects to the water system.

2. Local, Project-Specific Costs.

This component includes the City’s Direct Facility Connection Charges (DFCCs), which recover the cost of utility extensions or improvements built by the City to serve specific, limited areas. There are 82 DFCC areas citywide, and these charges apply only to the properties that benefit from the utilities constructed.

DFCCs are paid at the time a property connects to the public system, which may occur many years or even decades after the City originally constructed and funded the improvement. The charges are generally allocated to benefiting properties using single-family equivalents (SFEs); however, the director may instead use front footage or another reasonable methodology when doing so better ensures an equitable distribution of costs among all benefitting properties.

The City’s connection charge methodologies were developed in the mid-1990s, when the utility was still actively building out its infrastructure and many facilities were being constructed or donated by developers. Since then, development patterns and the configuration of the utility system have changed substantially, creating new challenges for both property owners and developers.

**Key Challenges with Current Methodology:**

DFCC Upfront Costs:

Localized projects often represent small customer bases, resulting in significant charges (e.g., over $100,000) to individual properties. This creates a deterrent for some properties, which choose not to connect even though ratepayers have already financed the infrastructure. Accordingly, DFCCs have only recovered $22.5M of $42.5M in project costs since 1976.

CRC Calculation Complexity (SFE Methodology):

The SFE methodology is difficult for customers to understand, as it varies widely by housing type, fixture count, and dwelling unit count. Even though it is recognized by the American Water Works Association (AWWA) as a rational basis for assessing connection charges, this methodology can misalign connection charges with actual system demand, causing large multi-family projects to face very high CRCs that escalate quickly due to unit-based calculations. Compared to other regional utilities, Bellevue is the only major utility still using the SFE basis[1].

CRC Timing:
Collecting CRCs over 10 years after connection is inconsistent with all other development-related fees in Bellevue as well as our regional peers. Customers are often surprised to see CRC charges on their utility bills long after construction, resulting in negative perceptions and adverse customer experiences. Delayed collection also prevents developers from incorporating utility costs into financing packages.

**Environmental Services Commission Recommendation:**

Following two public meetings and a review of community feedback, the Environmental Services Commission (ESC) evaluated potential revisions to the city's utility connection charges. The Commission considered opportunities to improve affordability, increase transparency, simplify how charges are calculated and collected, and preserve equity while ensuring the city continues to recover appropriate costs associated with new development. The Commission's recommendations are summarized below for Council's consideration.

1. Retire DFCCs and Fold Unrecovered Costs into CRCs
   DFCCs would no longer be used. The remaining unrecovered DFCC project costs would be consolidated into updated CRC calculations.

   Benefits:
   - Reduces large upfront fees for customers connecting in DFCC areas.
   - Improves the timing of the city's cost recovery compared to DFCCs.
   - Preserves "growth-pays-for-growth" equity by collecting costs through system-wide CRCs rather than localized DFCCs.

2. Replace Water and Sewer CRC SFE Methodology with Meter Capacity Equivalent (MCE)
   The MCE methodology would base charges on water meter size and maximum safe operating flow and is the most common approach to assess connection charges according to the AWWA. For example, a ¾-inch meter is equivalent to one MCE and a two-inch meter is equivalent to eight MCEs.

   Benefits:
   - Increased transparency. Developers would be informed of costs early and can influence charges by rightsizing meter capacity.
   - Aligns with regional practice and industry standards.
   - Preserves equity. Charges would directly reflect the system capacity purchased.
   - Encourages water-efficient design (i.e., conservation).
   - Clarifies treatment of fire sprinkler driven meter size increases, ensuring customers are not charged for capacity used solely for fire protection.

[1] Everett, Kent, Kirkland, Redmond, Renton, Spokane, Seattle, Vancouver, and Cascade Water Alliance assess connection charges on the basis of water meter capacity equivalent or similar measure (e.g., water meter size).

3. Collect CRCs Upfront at Permit Issuance
   CRCs would be paid once at permit issuance, rather than over 10 years on the utility bill.

   Benefits:
   - Eliminates customer confusion from long-term charges appearing on utility bills.
   - Aligns with all other city development-related fees.
   - Allows developers to incorporate utility costs into project financing or grants (important for affordable housing).
   - Aligns with regional industry practice while resolving an adverse customer experience.

Feedback from customers and the Bellevue Development Committee (BDC) supports simplification and improving connection charge transparency. Although there is support for changing when collection charges are collected, some BDC members requested exploring collection closer to certificate of occupancy rather than permit issuance. Utilities will further evaluate possible administrative solutions after implementation.

**Next Steps - Continued Community Engagement:**

Upon council direction to proceed with the above changes, staff will continue community communications during 2026 to support a January 1, 2027, effective date.

**Potential Future Policy Considerations:**

In addition to the Commission's recommendations above, Utilities anticipate commissioning an independent evaluation following completion of utility system plans, with policy options that consider including future capital expansion costs in the cost basis for CRCs. To evaluate policy options that would continue to comply with the city's "growth-pays-for-growth" financial policy and improve the timing of the payment of connection charges with the required investments to serve development. The independent evaluation is expected to be completed in 2029.

## POLICY & FISCAL IMPACTS

**Policy Impact**

RCW 35.92.025 authorizes cities to charge those seeking to connect to the water, sewer, and storm and surface water systems. The basis for the charge is the equitable share of the cost of each system to each new connection.

BCC 24.02.260, 24.02.275, 24.04.260, 24.04.275, 24.06.110, and 24.06.120 establish the allowable costs to include in the connection charges as well as the basis and timing for assessing the charges to each new connection.

The city's comprehensive financial policies (7.5 and 7.5.1) generally require that connection charges are structured to recover full costs unless a lower charge is consistent with legal requirements and meets other city interests (e.g., regional competitiveness).

The proposed connection fee changes would amend the BCC chapters 24.02, 24.04, and 24.06 to:

- Remove the direct facility connection charge section.

- Remove cost deduction of direct facility connection local facilities from the cost basis for capital recovery charges. Moving forward, the deduction would only include the recovered portions of the cost of direct facility connection local facilities.
- Remove requirement to assess the capital recovery charge over a term of 10 years after connection.
- Require capital recovery charges are paid before a property is allowed to connect (i.e., permit issuance).
- Remove “single-family equivalent” as the charge basis for water and sewer capital recovery charges.
- Add authority to assess a lower water capital recovery charge to new connections if meter size is increased solely to provide fire sprinkler protection.

**Fiscal Impact**

The proposed changes are not expected to have an adverse impact on utility rates.

As background, the city restricts the use of utility connection charges for utility capital project costs. Revenue collected from connection charges cannot be used to pay for ongoing operating and maintenance activities. Connection charge revenue represents a relatively small portion of funding for the utility capital program. In 2025, connection charge revenue represented 5% of revenue for capital funding. The main revenue sources for capital funding in 2025 included rate-funded capital (71%), interest earnings (20%), as well as grants (3%).

The proposed changes would require the city to collect connection charges in full before a property is allowed to connect instead of the current method of collecting the charge over 10 years after the property connects. Due to the change in timing, staff anticipate higher volatility in the receipt of connection charge revenue if the council approves these recommendations. However, because connection charges are not a significant revenue source for capital funding, and their use is restricted to capital projects, the expected volatility would be managed within available financial resources.

## OPTIONS

1. Direct staff to prepare an ordinance to implement the Commission's recommendations to amend Bellevue City Code chapters 24.02, 24.04, and 24.06 to improve affordability, increase transparency, and preserve equity in the city’s connection charges for water, sewer, and storm and surface water utilities as part of the upcoming biennial budget process.
2. Provide alternative direction to staff.

## ATTACHMENTS

A. Environmental Services Commission (ESC) Recommendation Memo

## AVAILABLE IN COUNCIL LIBRARY

N/A