

City of  
Bellevue

## MEMORANDUM

**Date:** August 5, 2024

**To:** Diane Carlson, Acting City Manager

**From:** Vanja Knezevic, Chair, Environmental Services Commission *Vanja Knezevic*

**Subject:** **Utilities Department 2025-2026 Operating Budget, 2025-2034 Capital Budget, and 2025-2026 Rates Recommendation**

As part of the Environmental Services Commission's charge, over the past 7 months, the Commission has conducted a detailed review of the Utilities Department's proposed capital investment program (CIP), capital and operating budget proposals, relevant policies, and the projected rate increases to implement the proposed budgets. **The Commission fully supports the Utilities Department capital and operating budget proposals submitted by staff for the 2025-2026 biennium.**

**Background**

Established by ordinance in 1991, the Environmental Services Commission (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, 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. The Commission's responsibilities include the evaluation of policy, budget, and planning issues that culminate in the utility budget and rate recommendations to City Council.

**Highlights**

Significant rate drivers for Utilities' operating and capital budgets include:

**Operating:**

- Wholesale cost increases in wastewater treatment services and drinking water supply;
- Aging infrastructure, with increased maintenance and system repairs; and,
- Inflationary pressures and internal support costs.

**Capital:**

Maintaining and replacing the City's aging utility infrastructure continues to be a key rate driver for all three piped utilities, with most of Utilities' system infrastructure well past its mid-life.

- **Water:** – The water system is in active replacement, including aging water main replacement and reservoir rehabilitations.
- **Sewer:** The sewer system is moving into active replacement, including aging pipeline repair and replacement as well as pump station improvements.

- **Storm and Surface Water:** Storm and Surface Water 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.

### **Commission Recommendations**

The Commission supports the key budget priorities used to guide development of the Utilities Department proposed budget. The proposed budget supports and aligns with the City Council's strategic direction by:

- Protecting and preserving Bellevue's utility infrastructure as part of the Council's priority for high-quality built and natural environment;
- Maintaining utility services and infrastructure that directly preserve and improve public health; and
- Being a high-performance organization, leveraging innovation and technology to enhance customer service, improve service delivery, and achieve cost efficiencies.

On July 11, the Commission voted unanimously in favor of the Utilities Department proposed 2025-2034 CIP and 2025-2026 operating budgets that support these budget priorities. The commissioners expressed full support of the capital and operating budget proposals submitted by staff, and the projected rate increases needed to implement the proposed budgets.

The Commission takes the responsibility assigned by the City Council very seriously. The Commission has closely scrutinized the proposed budgets and preliminary rates in detail. Commissioners, as Bellevue ratepayers, are sensitive to the impact of rate increases on customers. The Commission also recognizes the cost of providing utility service continues to rise, despite the cost containment efforts implemented by the Utilities Department. With the uncertainty about longer term impacts from Bellevue's wholesale service providers, there is confidence in the City's adherence to sound financial practices. This includes a steadfast commitment to the capital infrastructure Renewal and Replacement Account to promote sustainability and intergenerational equity. The Commissioners appreciate the emphasis Bellevue Utilities places on long-term financial planning and rate predictability.

The proposed budgets and rates represent a prudent and lean budget designed to enable the City to continue providing high-quality utility services. We appreciate staff's stewardship of ratepayer dollars, focus on affordability and customer impacts, and continued emphasis on operational efficiencies.

### **Next Steps**

The Commission will conduct its final review of the Utilities proposed budget and rates, hold a public hearing, and make its recommendation to Council in the fall.

The Commission appreciates the opportunity to analyze the Utilities budget and provide this recommendation to the City Manager for consideration in developing the City-wide 2025-2026 budget and 2025-2034 CIP.