



**DATE:** June 4, 2026

**TO:** Environmental Services Commission

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**SUBJECT:** **Utilities 2027-2028 Operating Budget and 2027-2032 CIP Budget Proposals**

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## **ACTION REQUIRED**

No action by the Commission is required. This is an informational briefing.

## **BACKGROUND / ANALYSIS**

This is a continuation of a series of briefings to facilitate the Commission's review of the Utilities Department proposed 2027-2028 operating budget and rates, and 2027-2032 capital improvement program (CIP). The Commission previously reviewed:

- January: Utilities Asset Renewal Forecast;
- February: Utilities Financial Policies;
- April: Utilities 2025 Financial Performance Results and Preliminary 2027-2032 CIP Plan;
- May: 2027-2032 Early Outlook Rate Forecast

On June 4, staff will review the 2027-2028 operating budget and 2027-2032 CIP budget proposals with the Commission. Additional details on the operating budget and CIP budget proposals are included as attachments to this memorandum.

## **Guiding Principles for Budget and Rates Development**

The 2027-2028 Utilities operating budget proposals represent department requests for the financial resources necessary to implement our services, strategies, and policies over the next biennium. Utilities consists of enterprise funds, which must operate on a self-sufficient basis without relying on general taxation. Utility rates are the primary funding source for this budget, and as a result, each budget proposal is developed with prudent financial management and efficient service delivery in mind to ensure ratepayer value.

The 2027-2028 operating budget proposals were developed in alignment with the following principles:

- **Support Council strategic direction:** Utilities budget proposals align with Council strategic direction by:
  - Supporting the city's vibrant economy by providing reliable utilities and access to services;
  - Protecting and preserving our utility infrastructure as part of the High-Quality Built and Natural Environment, addressing the challenges of population growth and sustainable resource use;
  - Maintaining utility services and infrastructure that directly preserve and improve public Health; and
  - Being a High-Performing organization, leveraging innovation and technology to enhance customer service, improve service delivery, and achieve cost efficiencies.

- Adhere to City financial policies: The City’s Comprehensive Financial Policies serve as the foundation for developing the Utilities Department budget and rates. Adherence to these policies has enabled the Department to be recognized as a leader in the industry, provide competitive utility rates, and achieve financial sustainability.

Consistent with City financial policies, the budget proposals are based on:

- the full cost of providing utility services now and in the future;
  - the full cost of wholesale services;
  - sufficient reserves to protect the solvency of the utility funds;
  - investment in capital infrastructure and/or deposit of funds in an infrastructure renewal and replacement (R&R) reserve to ensure that current and future users of the utility system pay their proportional share of system costs; and
  - predictable, smooth, and uniform rates.
- Regulatory compliance: All of Utilities’ service lines are subject to significant regulatory requirements from the State Department of Health, Department of Ecology, the federal National Pollutant Discharge Elimination System, and more. Maintaining compliance with these various requirements is of paramount importance.
  - Preserve aging utility infrastructure: The City’s utility infrastructure, valued at about \$10 billion across the three piped utilities (based on replacement costs in 2025 dollars), is well past its mid-life, and increased maintenance and capital investments are essential to minimize risks of system failures. The proposed 2027-2032 capital program will focus largely on the renewal and replacement of aging infrastructure.
  - Lean operations: A lean budget is proposed to maintain current service levels, implement strategies from prior budget decisions, expand the Utility Bill Assistance Program, fund external financial obligations, and meet regulatory requirements.

### **2027-2028 Utilities Operating Budget Proposals**

The Utilities operating budget proposals total \$511.8 million for the 2027-2028 biennium and are provided in detail in Attachment A. The following are key highlights of the Utilities 2027-2028 Operating Budget requests:

- **Maintain current service levels to the community.** Utility services are essential to the health and economic well-being of the community. The proposed budget includes the following proposals to maintain current levels of service:
  - **Inflationary cost pressure.** As part of the budget development process, Utilities has evaluated its base funding requirements, right sized expenses, and contained inflationary increases, where possible. However, the department is unable to fully absorb rising costs for the 2027-2028 biennium, with budget proposals reflecting necessary adjustments to sustain current service levels.
  - **Wholesale costs.** The budget proposals include funding for wholesale costs for drinking water supply from Cascade Water Alliance (Cascade) and wastewater treatment from King County. Per Council-adopted policy, increases in the cost of drinking water supply and wastewater treatment are passed directly through to ratepayers. At this time, Cascade’s wholesale costs to Bellevue Utilities are projected to increase by 9.3% in 2027 and 9.0% in 2028. King

County's wholesale costs to Bellevue Utilities are projected to increase by 12.75% annually in 2027 and 2028.

- **Sustainably manage aging infrastructure.** The sustainable management of aging infrastructure is critical to the delivery of reliable utility services. The Capital budget, discussed later in the memorandum, identifies the capital projects and programs necessary in the next six years. The Operating budget includes the staffing, planning, and engineering costs necessary to deliver that capital program, in addition to the replacement of shorter-lived assets such as vehicles and major software systems. Key proposals include:
  - **Operating transfers to CIP and R&R.** These budget proposals together represent the funding strategy for the Utilities CIP in 2027 and 2028. Rate revenues are the primary funding source for capital investment and long-term renewal and replacement. Consistent with the City's comprehensive financial policies, the level of rate capacity needed across these two proposals is guided by the long-term renewal and replacement needs of the utilities. In order to keep pace with rising construction costs, and as the sewer and storm utilities transition into active replacement, these proposals include an increase of approximately \$6.6 million in 2027 and \$7.5 million in 2028.
  - **Replace obsolete assets.** The proposed operating budget includes the replacement of obsolete assets, including vehicles, equipment, and major software systems. Vehicle and equipment replacement is part of the Utilities operating budget and annual costs are \$1.6 million and \$2.9 million in 2027 and 2028, respectively.
- **Service enhancements.** The proposed budget includes several budget enhancements to maintain existing service levels and to fund the expansion of the Utility Bill Assistance Program.
  - **Utility Bill Assistance Program.** Expanded utility bill assistance reaching up to 15,000 households experiencing affordability challenges in receiving essential utility services. The proposed budget also expands the solid waste assistance program to align with the eligibility guidelines for the water, sewer, and stormwater bill assistance program.
  - **Leverage Artificial Intelligence (AI) for call center efficiencies.** Implements an AI tool available with the City's existing billing system to provide fast, consistent, AI powered customer service across multiple channels. It includes four automated workflows and Customer Information System integration to support scalable operations ahead of future utility monthly billing implementation.
  - **Replace end-of-life Geographic Information System (GIS) platform to sustain operations.** Replaces the City's end-of-life GIS Geometric Network with ESRI's Utility Network platform to sustain utility operations. This transition ensures continued system support, improves data integrity, and enables reliable asset management, modeling, and operational decision-making across water, wastewater, and stormwater systems.

### **Utilities Staffing**

The staffing necessary to deliver the current service levels and enhancements identified in this budget are as follows: 184 full time employees (FTEs) and 11 limited-term employees (LTEs).

Key changes to staffing included in these proposals are:

- Convert two LTE positions to two FTE positions and extends two LTE positions for an additional two years to close out the capital phase of the advanced metering infrastructure (AMI) program and transition meter reading staffing to a permanent operating model.
- Maintain the workforce development program by continued funding for two rotating trainee LTE positions, as part of an ongoing strategy for hiring and developing a qualified workforce in Utilities Operations and Maintenance division.
- One new FTE and the conversion of one LTE to one FTE to ensure long-term infrastructure reliability through risk-based asset management planning and up-to-date GIS asset records.
- Extend two LTEs by one year to sustain answered call rate and hold time performance metrics within industry benchmarks.
- Convert two part-time budget positions to one FTE to sustain environmental and stream habitat monitoring for the stormwater utility.
- Two new LTEs to support the expansion of the utility bill assistance program.

### **2027-2032 Utilities CIP Budget Proposals**

Bellevue Utilities (Utilities) delivers capital projects to support the delivery of drinking water, wastewater and stormwater utility services. Projects are developed and executed to replace or rehabilitate aging infrastructure, provide capacity for growth, protect the environment, and enhance customer service. Typical projects in our three piped utilities include replacement or rehabilitation of water, wastewater and stormwater pipes, drinking water and wastewater pump stations, drinking water reservoirs, culvert replacements, stormwater management facilities (such as detention ponds, vaults, and water quality facilities), and stream restoration projects.

The Utilities CIP represents capital infrastructure investments planned for the next six years. On April 2, Utilities presented the preliminary 2027-2032 CIP budget totaling \$477.6 million. Based on the most current project development and recent bid results, cost and schedule of a few projects were further refined. The updated proposed 2027-2032 CIP Budget totals \$458.5 million. The key drivers of the proposed 2027-2032 CIP Plan for each fund include:

#### **Water Utility CIP: \$270.5 million**

- Watermain replacement program (W-16) - continue to replace an average of 5-miles of pipe per year, with an accelerated project programming for the years 2026 through 2028 to meet system needs.
- Scope and cost increase (\$34M) for Meydenbauer South Reservoir project (W-103, also known as West Operating Area)
- Increased investment for reservoir rehabilitation/replacement program (W-85), including addition of Crossroads North and South Reservoir Recoating project
- Early start of Somerset 2 water pump station improvement project (W-91)

#### **Sewer Utility CIP: \$104.0 million**

- Increased funding for major rehabilitation and replacement of 9 wastewater pump stations and minor rehabilitation at 6 pump stations in sewer pump station improvements program (S-16)
- Increased funding for sewer pipeline repair and replacement (S-24)
- Added funding for design phase of the first-priority Lake Line replacement projects

#### **Storm and Surface Water Utility CIP: \$84.0 million**

- New projects in flood control program (D-94) and storm water quality retrofit program (D-109)
- Increased funding for the storm conveyance infrastructure rehabilitation program (D-64)

- Included cost incurred for stormwater emergency projects (Lakemont Boulevard Emergency Culvert Replacement and Lakehurst Creek Emergency Culvert Repair)
- Cost increase of Kelsey Creek Culvert project

The following table summarizes the 2027-2032 CIP Plan by fund.

**Table 1: Proposed 2027-2032 Utilities CIP by Fund (\$millions, rounded)**

	2027	2028	2029	2030	2031	2032	2027-2032
<b>Water</b>	\$51.8	\$41.0	\$51.3	\$50.1	\$39.0	\$37.2	<b>\$270.5</b>
<b>Sewer</b>	\$ 6.3	\$10.8	\$23.1	\$18.5	\$20.9	\$24.4	<b>\$104.0</b>
<b>Storm</b>	\$15.1	\$14.3	\$17.4	\$13.8	\$14.3	\$ 9.2	<b>\$ 84.0</b>
<b>Total CIP</b>	<b>\$73.2</b>	<b>\$66.1</b>	<b>\$91.8</b>	<b>\$82.4</b>	<b>\$74.2</b>	<b>\$70.7</b>	<b>\$458.5</b>

The following table summarizes the 2027-2032 CIP Plan by area of investment.

**Table 2: 2027-2032 Utilities CIP Budget Proposal (\$millions, rounded)**

Proposal Number	Area of Investment	2027-2028 CIP Budget	2027-2032 CIP Budget
140.02	Water - Replacement of Aging Infrastructure	\$81.22	\$199.44
140.03	Sewer - Replacement of Aging Infrastructure	\$14.82	\$94.34
140.04	Storm - Replacement of Aging Infrastructure	\$12.18	\$43.63
140.05	Water - Capacity for Growth	\$8.99	\$60.47
140.08	Storm - Environmental Preservation	\$16.71	\$37.48
140.70	Water - Operational Efficiency	\$2.54	\$5.08
140.82	Water - Emergency Water Supply	\$0.14	\$5.53
140.83	Sewer - Capacity for Growth	\$0.48	\$5.30
140.84	Sewer – Operational Efficiency	\$1.74	\$4.31
140.85	Storm – Operational Efficiency	\$0.53	\$2.94
	<b>Total 2027-2032 CIP</b>	<b>\$139.33</b>	<b>\$458.51</b>

\* Note: Minor differences may exist due to rounding.

### **Next Steps**

- June 18: Updated 2027-2032 Utilities Rate Forecast
- July 2: Staff will ask for a recommendation from the Commission regarding the 2027-2028 Operating Budget Proposals and the 2027-2032 CIP Budget Proposals.
- Over the next three months, Utilities staff will continue to refine these proposals and corresponding rate forecast in support of the City’s 2027-2028 budget process.

### **POLICY ISSUES**

The proposed operating and capital budgets support Council strategic direction, and adhere to the City’s financial policies, which guide how the Utilities Department conducts its business and sets its budget and rates.

### **FISCAL IMPACT**

Utilities 2027-2028 Operating Budget requests represent the financial resources necessary to implement the services, strategies, and policies of the Utilities Department. The Utilities CIP represents significant investments

in capital infrastructure in the next six years that are critical for ensuring the integrity of the water, sewer, and storm utility system infrastructure in order to maintain current levels of service delivery to Bellevue Utilities customers.

**ATTACHMENTS & AVAILABLE DOCUMENTS**

- A. 2027-2028 Operating Budget and 2027-2028 CIP Budget Proposals Details
- B. 2027-2028 Utilities Proposed Operating Financial Statements