



DATE: May 7, 2026
TO: Environmental Services Commission
FROM: Matt Hobson, Utilities Fiscal Manager
Dave Baisch, Utilities Engineering Assistant Director
SUBJECT: Proposed Changes to Utility Connection Charges

ACTION REQUIRED

Staff is seeking the Commission’s feedback on possible amendments to city municipal code for the water, sewer, storm and surface water utilities related to connection charges. With ESC feedback, staff anticipate returning to the Commission in June to obtain a recommendation to City Council.

BACKGROUND / ANALYSIS

The following provides a description of each connection charge type, including its purpose, collection process, and relevant statutory authority.

Capital Recovery Charge

A Capital Recovery Charge or “CRC” is a utility connection fee paid by development, ensuring each new connecting property is assessed its equitable share of the cost of sewer, water, and storm and surface water system demand. Assessing a CRC is authorized by the Revised Code of Washington (RCW) under RCW 35.92.025, which specifies:

RCW 35.92.025 - Authority to make charges for connecting to water or sewerage system—Interest charges.

“Cities and towns are authorized to charge property owners seeking to connect to the water or sewerage system of the city or town as a condition to granting the right to so connect... in order that such property owners shall bear their equitable share of the cost of such system...”

In addition to the requirements outlined in RCW 35.92.025, the city’s municipal code requires that CRCs are:

1. Collected on a monthly basis over a period of up to ten years.
2. Based on the original cost of the existing water utility plant-in-service less the cost of donated facilities, less the cost of city-built local facilities for which direct facilities charges are imposed, plus recoverable interest.
3. Assessed on the basis of a single-family equivalents or “SFE”.

The current methods used to assess CRCs in Bellevue were last revised in the mid-1990's when the city was still actively expanding its utility systems through acquisition and construction. At that time, more than half of the water and sewer utility systems were comprised of donated facilities (e.g., assets constructed and paid for by developers, then donated to the utility for maintenance and long-term replacement).¹ By comparison, donated facilities comprise less than 20 percent of the water and sewer utilities’ plants-in-service in 2025. The type of

¹ “1995 Bellevue Utilities Department General Facilities Charge Study Summary of Findings.” FCS GROUP. P 47.

new development has also changed in Bellevue from the mid 1990's to today as the growth in multi-family residential housing units outpaces single-family residential housing units.²

Direct Facility Connection Charge

A Direct Facility Connection Charge or "DFCC" is a type of connection charge that may be assessed to a customer *in addition to CRCs*. A DFCC is a type of local facility charge that is designed to equitably charge new customers for the cost of growth-related localized capital projects required to support them connecting to the utility systems. There are 82 DFCC areas throughout the city, and most of them (55) are sewer extension projects. Unlike CRCs, customers are required to pay the DFCC at the time of permit review.

DFCCs are designed to reimburse the city and its ratepayers for the cost incurred to construct these localized capital projects. However, customers are not required to pay the charge until they decide to develop or redevelop their property, which may be decades after the city incurs the cost to construct the project.

Challenges with Current Methodology

In response to feedback and questions received as well as the changing shape of development in Bellevue, Utilities is exploring changes to how connection charges are calculated and collected. The following summarizes three challenges for homeowners and property developers, which are based on the current fee methodology and assessment process.

- DFCC Big Upfront Costs

While DFCCs assessed by the city are designed to equitably recover the cost of growth-related projects on the utility systems, they historically have only recovered about half of the full cost of these projects. Since 1976, the city has recovered approximately \$22.5M of the \$42.5M in project costs.

DFCCs relatively low-cost recovery level is also influenced by the lack of economies of scale for localized capital projects identified as DFCC-eligible projects. For example, a neighborhood sewer extension project that costs \$1 million may only connect 10 homes. Each of these homes would then be required to pay a DFCC of \$100,000 (\$1 million divided by 10 homes), if they choose to connect to the sewer utility. Accordingly, a potential customer may elect to stay on septic because of the high upfront DFCC charge even though the city and its ratepayers have already incurred the cost to construct the extension.

- CRC Calculation Complexity

Assessing CRCs on the basis of a SFE can make the charges difficult to understand and offers minimal flexibility to developers to affect the charge.

When assessing water and sewer CRCs, a SFE generally represents a rolling five-year average of metered annual water use. While this method may be a proxy for measuring changes in water use as a function of new customers connecting to the system, empirical analysis indicates that changes in water use over time are also affected by both short- and long-term changes in water use of existing customers (e.g., uptake of high efficiency water fixtures, climate change). These other factors can and have resulted in significant shifts in the number of SFE used for assessing CRCs even though these factors are unrelated to changes in water or sewer use resulting from new customers connecting to the system.

To administer the SFE methodology, Utilities uses conversion factors for different types of development. One SFE is equal to:

- One (1) single-family residence
- 1.96 multi-family residential dwelling units (water)

² Based on data from the US Census Bureau, single-family residential housing counts (e.g., 1-unit attached or 1-unit detached housing) in Bellevue increased 23 percent from 2000 to 2024. By comparison, housing counts for all other housing structure types increased 77 percent over the same time period.

- 1.72 multi-family residential dwelling units (sewer)
- 20 commercial fixtures (water and sewer)
- Annual average of 250 gallons per day (irrigation)

Relying on the SFE basis for assessing CRCs creates challenges for determining connection charges for customers that do not have similar usage or demand characteristics to a typical single-family residential customer. For example, because the city assesses CRCs on the basis of the number of dwelling units for a multi-family residential development project, the connection charge for a large multi-family residential project can quickly grow to hundreds of thousands of dollars.

The limitation of the SFE methodology is also demonstrated for irrigation CRCs. Irrigation customers pay CRCs on the basis of annual average use, which does not adequately capture the amount of water capacity irrigation customers require during the peak irrigation season.

While the SFE methodology is recognized as a rational basis for assessing connection charges by the American Water Works Association (AWWA), it does have limitations when applied to a diverse utility customer base. Additionally, Bellevue is the only city among its regional peers to assess water and sewer connection charges on the SFE basis.³

- CRC Timing

Assessing CRCs over a ten-year term on the utility bill is an unexpected charge for utility customers as it is separate from and in addition to the standard bi-monthly charges the customer pays for utility services.⁴ Unless the customer elects to pay the CRC balance early, the ten-year term and interest rate is fixed. This process precludes utility customers from rolling the CRC into the terms of their mortgage or a financing agreement with a better interest rate.

Unlike other fees assessed on development in the city, across the region, and as outlined within industry best practice, the city assesses CRCs over a ten-year period after a customer connects to the system. While this approach may provide an affordable option for new customers to amortize a one-time charge over ten years, there are several disadvantages of the city’s current method for assessing CRCs.

Most development-related fees assessed by the city are charged to developers at the time land use design or construction plans are required for review. Examples of these one-time fees include permit plan review fees, transportation impact fees, and regional capital facility charges collected by the city on behalf of Cascade Water Alliance. The current method is inconsistent with how the city assesses other fees assessed on the condition of development.

With limited exceptions, most cities in the region assess utility connection charges like CRCs to customers at permit review. The industry standard for water rate- and fee-setting methodologies also classifies connection charges like CRCs as “one-time charges paid by a new water system customer for system capacity.”⁵

Proposed Revisions to the City’s Utility Connection Charges

Utilities’ staff are proposing three changes to how CRCs and DFCCs are calculated and collected in the future. The updates would align with industry best practices and regional common practice while improving affordability, increasing transparency and preserving equity to homeowners and property developers.

³ 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).

⁴ For a single-family residential customer connecting in 2026, the bi-monthly CRC charge is approximately \$167. By comparison, a typical bi-monthly utility services bill for a single-family residential customer in 2026 is approximately \$513.

⁵ American Water Works Association. Principles of Water Rates, Fees, and Charges, 6th Edition. P 261.

- Proposal #1 – No More DFCCs

The first proposal would discontinue the future use of DFCCs as a type of connection charge in Bellevue, and consolidate the unrecovered cost portion of existing DFCCs into the city’s water, sewer, and stormwater CRCs. This proposal significantly reduces the one-time fees required to connect to Bellevue Utilities for new customers who are located in areas of the city where local improvements have already been made and paid for by ratepayers to accommodate growth.

Following the completion of the updates to the water and sewer utility comprehensive system plans, Utilities anticipates contracting for an independent third-party study to recommend policy options to the CRC methodology that comply with the City of Bellevue’s “growth-pays-for-growth” financial policy and achieve higher cost recovery rates relative to the historical cost recovery results of DFCCs. These policy options will likely be presented to the ESC in 2029.

- Proposal #2 – Simpler Calculation

The second proposal would replace the SFE methodology used to assess water and sewer CRCs with a meter capacity equivalent ratio or “MCE.” The MCE methodology sizes the CRC on the basis of maximum safe operating water flow for different sized water meters. These ratios as published by the AWWA are outlined in **Exhibit 1**. For example, a new ¾ inch connection would be assessed a CRC equal to one meter capacity equivalent. A new two-inch water meter would be assessed a CRC based on eight MCEs because a two-inch water meter provides a maximum flow of 160 gallons per minute, which is eight times the maximum flow of a ¾ inch water meter (160 gpm divided by 20 gpm).

Exhibit 1: Example Meter Capacity Equivalencies

Meter Size	Maximum Flow (gpm)	Meter Capacity Equivalent
¾" or similar	20	1.00
1"	50	2.50
1½"	100	5.00
2"	160	8.00
3"	320	16.00
4"	500	25.00
6"	1,000	50.00

Similar to how the city assesses the Cascade Water Alliance Regional Water Capital Facilities Charge (RCFC) for single-family customers, domestic “combination” meters sized to serve both domestic use and fire protection through installed fire sprinkler systems will be charged based on the meter size required for domestic demand alone, excluding fire protection needs. For CRC calculation purposes, the meter will be assumed to be one size increment smaller than the installed meter, and any additional capacity required solely for fire flow will not be subject to CRCs.

Assessing CRCs on the basis of meter capacity equivalents instead of the current SFE methodology improves the **transparency** and **equity** of the city’s connection charges. It also aligns with the methodology used by neighboring regional utilities.

Transparency: Developers will know the cost of the CRCs well before plans are required for review by the city. They can also affect the amount of the connection charge by aligning the number and size of water meters with expected capacity requirements. Due to finite water meter size options, the meter capacity

equivalent methodology produces a relatively small and easy-to-understand fee schedule. Conversely, the existing SFE methodology requires multiple technical steps that vary by customer type, and the fee may not be finalized until after the property is constructed.

Equity: Utility connection charges exist for new customers to pay the equitable share for system capacity. Assessing CRCs as a function of water meter capacity strengthens the relationship between the size of the connection charge and amount of system capacity being purchased.

- Proposal #3 Pay Once Upfront

The third proposal would shift the timing of when CRCs are collected so that they are a one-time charge collected at permitting similar to all other city connection charges, development and impact fees. In addition, since full utilities-related project costs are known upfront for the property developer those can be included in any financing they procure or grant applications (for low-income housing). This shift would increase transparency and prevent new utility customers from being surprised by the CRC appearing on their bi-monthly utility bill. The shift in timing and removal of the default ten-year repayment term would resolve a key resident pain point while also aligning with the current practice of regional peer utilities and with industry best practice.

Community Engagement

The city hosted a community listening session with the Bellevue Development Committee (BDC) to share proposed changes to how utility connection charges are calculated and collected, and to hear feedback from the impacted community. This conversation helps ensure our approach is transparent, equitable and informed by community perspectives. A summarized [engagement report](#) was shared with the BDC members inviting any additional questions or feedback.

Additionally, Utilities launched a [public facing webpage](#), which allows community members to continue providing feedback and ask questions, and where the department will provide periodic status updates and answer Frequently Asked Questions about the project.

POLICY ISSUES

The proposed rate design options are consistent with the city’s comprehensive financial policies and state law regarding utility connection charges. These proposals will require revisions to city municipal code for the water utility (24.02.260 and 24.02.275), sewer utility (24.04.260 and 24.04.275), and storm and surface water utility (24.06.110 and 24.06.120). For each chapter, the revisions would:

- Remove the Direct Facility Connection Charges section
- Remove or re-define the Capital Recovery Charge section to broadly authorize the city to collect connection charges so that each developed property bears its equitable share of the cost of the utility system. This proposed revision removes the detailed methodology that is currently in the code which outlines the cost basis and customer base used to compute the connection charge. Providing broader policy guidance in the municipal code allows the city to respond to future changes in the region and in the industry as they relate to the administration of utility connection charges in Bellevue.

FISCAL IMPACT

Utility connection charges represent a relatively small revenue source for Bellevue Utilities. The city generated approximately \$5 million in 2025 from CRC and DFCC revenue. By comparison, water, sewer, and stormwater rate revenue totaled \$205 million in 2025. Staff anticipate the fiscal impact of these proposed changes will be managed within available resources and will not have an adverse impact to utility rates.

NEXT STEPS

City staff are requesting feedback from the ESC on the following proposals:

1. Discontinue the future use of DFCCs as a type of connection charge in Bellevue, and consolidate the unrecovered cost portion of existing DFCCs into the city's water, sewer, and stormwater CRCs.
2. Replace the SFE methodology used to assess water and sewer CRCs with a Meter Capacity Equivalent ratio or "MCE".
3. Shift the timing of when CRCs are collected so that they are a one-time charge collected at permitting.

With ESC feedback, staff anticipate returning to the Commission in June to obtain a recommendation to City Council. The recommended changes to connection charges would be presented to City Council in Q3/Q4 2026. If approved, the proposed changes would take effect in 2027.