

DATE: February 1, 2024
TO: Environmental Services Commission
FROM: Andy Baker, Utilities Fiscal Manager
SUBJECT: Utilities Financial Policies Review

ACTION REQUIRED

No action is required by the Commission at this time. Staff will provide a review of Utilities Financial Policies.

BACKGROUND / ANALYSIS

On February 1, staff will provide a review of Utilities financial policies to help prepare the Commission for upcoming discussions and review of the proposed 2025-2026 Utilities budget. At this meeting, staff will review with the Commission the key Council-adopted Utilities Financial Policies that guide the development of the budget, rate setting, and reserve management.

Waterworks Utility Financial Policies Guide Budget Development

The City's Waterworks Utility Financial Policies (Attachment A) relate to rate-making, funding and management of operating reserves and capital planning, and serve as the foundation for building each biennial budget and for the ongoing management of the existing budget. These policies were established with the goals of financial stewardship, self-sufficient funding, and comprehensive planning.

The Waterworks Utility Financial Policies were first adopted by City Council in 1995 and updated in subsequent budgets. The key financial policies affecting the budget and rates development process are summarized below.

- ***Rates and Rate Levels:*** Below are the key financial policies that guide utility rate-setting:
 - Plan for long term investment in infrastructure.
 - Accumulate funds in advance of major expenses.
 - Maintain existing levels of service by renewing and replacing systems.
 - Keep rate increases gradual and uniform to the extent costs can be forecasted.
 - Maintain equity – each generation of ratepayers that use the utility systems should pay their fair share of costs.
 - Use debt sparingly and maintain financial flexibility.
 - Pass wholesale cost increases through to customers so that local programs are not degraded by regional cost increases.
- ***Reserves:*** Each Utility shall maintain an operating reserve to protect the solvency of the funds. Additionally, to provide rate stabilization, reserves will be managed to target levels. The reserve policy also stipulates all unanticipated reserves (ending fund balances) greater than planned levels will be transferred to the infrastructure Renewal and Replacement (R&R) Account in a manner consistent with the long-range Utility financial planning strategy.

Capital Investment/Reinvestment: Investment in capital infrastructure and/or deposit of funds in an R&R Account are to be made to ensure that current and future customers pay their proportional amount for the

long-term integrity of utility systems. The R&R Account will accumulate high levels of funds in advance of major expenses. These funds will provide rate stabilization over the long-term when used for this purpose and should not be used for rate relief.

POLICY ISSUES

Council-adopted policies guide Bellevue Utilities' budget and rate development.

- Comprehensive Plan Policy UT-10: *Emphasize cost effective management of utility systems over their lifetime, including planning for their renewal and replacement, balancing risk, and maintaining desired service levels. Forecast future capital and maintenance costs and manage rates so that customer rate revenue funds the cost of ownership equitably across generations.*
- Waterworks Financial Policies: *to be reviewed in full*
- Solid Waste Reserve Policies: *to be reviewed in full*

FISCAL IMPACT

None.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Waterworks Utility Financial Policies
- B. Solid Waste Fund Reserve Policies