

DATE: February 5, 2026
TO: Environmental Services Commission
FROM: Matt Hobson, Utilities Fiscal Manager
SUBJECT: Bellevue Utilities Financial Policies Review

ACTION REQUIRED

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

BACKGROUND / ANALYSIS

On February 5, staff will provide a review of Utilities financial policies to prepare the Commission for upcoming discussions and review of the proposed 2027-2028 Utilities biennial budget. The review will include key Council-adopted Utilities financial policies that guide development of the operating and capital budgets, rate setting, and reserve management.

Utility Financial Policies Guide Budget Development

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

The Utility financial policies were first adopted by City Council in 1995, updated in subsequent budgets, and consolidated into the City's Comprehensive Financial Policies as part of the 2025-2026 biennial budget process. The key financial policies affecting budget and rates development are summarized below.

Rates and Rate Levels: The key financial policies guiding utility rate-setting include:

- 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 target levels will be transferred to the infrastructure Renewal and Replacement (R&R) Reserve 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 the R&R Reserve ensure current and future customers pay their proportional amount for the long-term integrity of utility systems. The R&R Reserve 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

The Council-adopted Comprehensive Financial Policies provide the financial planning framework and philosophy for developing the two-year operating budget, multi-year capital budget, long-term asset renewal and replacement strategy, and rate adjustment strategy for each utility.

These policies anchor the financial planning process to sound management principles that guide rate-setting, ensure financial solvency, and achieve cost equity for the City's utilities. The policies serve as a barometer for the Commission to evaluate Utilities 2027-2028 operating and capital budget proposals as well as the forecasted rate adjustments to support the proposals.

FISCAL IMPACT

None.

ATTACHMENTS AND AVAILABLE DOCUMENTS

- A. City of Bellevue Comprehensive Financial Policies, November 2024