

Utilities 2027-2032 Early Outlook Financial Forecast

Water, Sewer, and Storm & Surface Water Funds

Executive Summary:

- *The Utilities Department operates as an enterprise within the city structure and functions much like a private business entity. This forecast supports a prudent, balanced, and responsible budget to maintain high-quality utility service delivery to the community through continued responsible management of infrastructure assets, leveraging efficiencies, and cost containment.*
- *The 2027-2028 biennium includes anticipated wholesale cost increases for wastewater treatment services and drinking water supply, operating and capital impacts due to aging infrastructure, and inflationary increases attributable to operations and maintenance, and internal support costs.*
- *Since all utility functions are primarily supported by rates, this forecast includes funding for operations, asset replacements (e.g., vehicles), capital investment programs, and long-term infrastructure renewal and replacement requirements.*

Key Drivers and Challenges

Below is a summation of the key rate drivers and budget challenges for the Utilities Department.

Wholesale Costs

Approximately 27 percent of the 2026 water operating budget and 51 percent of the 2026 sewer operating budget is related to water supply costs from the Cascade Water Alliance (Cascade), and payments to King County for wastewater treatment, respectively. Rate increases are needed to fund anticipated wholesale cost increases. To ensure sufficient funding to maintain the integrity of utility operations and capital programs, city financial policies direct that wholesale cost increases are passed through to city utility customers. This is to ensure the city continues to maintain current levels of service delivery.

Wholesale water supply costs from Cascade are expected to increase 9.5 percent in 2027 and 2028. The forecasted annual cost increases for water supply are significantly higher than the city's 2025-2026 mid-biennium forecast. Cascade's updated cost forecast includes an early estimate of the capital funding required for Phase 1 of the Cascade Supply Program (\$1.35 billion). Cascade's longer-term outlook anticipates escalating wholesale water supply costs, with the level of increase progressing as project activities and costs increase. Cascade forecasts annual wholesale water supply cost increases for Bellevue at about 9 percent between 2027 and 2032. The city's cost impact is lower than the average overall Cascade member cost increase. This is due to Bellevue's anticipated water supply requirements growing at a slower rate compared to other Cascade members.

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King County anticipates annual 12.75 percent wholesale wastewater treatment cost increases for 2027 and 2028, which are primarily due to regulatory requirements, growth-related demand, and capital investments. These projected cost increases are consistent with the city's 2025-2026 mid-biennium forecast. King County anticipates annual cost increases ranging from 11.50 percent to 12.75 percent from 2027 to 2032. It is important to note that the wholesale cost increases are in addition to necessary local cost increases to operate, maintain, and replace Bellevue's sewer system, such as Bellevue's lake line replacement projects in development.

Ongoing Impact of Aging Infrastructure on Operating and Capital Programs

Maintaining and replacing the city's aging utility infrastructure continues to be a key rate driver for all three utilities. Most of Utilities' system infrastructure is well past mid-life. As a result, the drinking water, wastewater, and storm and surface water systems are experiencing more failures and increasing costs for system repairs and replacement needs.

- *Water CIP* – The water system is in active replacement. Water CIP programs include aging water main replacement and reservoir rehabilitations.
- *Sewer CIP* – The sewer system is moving into active replacement. Sewer CIP programs include aging pipeline repair and replacement as well as pump station improvements. Renewal and replacement funding will continue to ramp up over this decade. These estimates also include preliminary cost estimates from the Lake Line Management Plan.
- *Storm and Surface Water CIP* – Storm and Surface Water CIP 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.

Consistent with Utilities financial policies, rate increases for the Water, Sewer, and Storm and Surface Water utilities are needed to fund current capital infrastructure investments and future infrastructure renewal and replacement needs to ensure system integrity and that each generation of customers pay their proportional share of system costs.

Operating Cost Inflation

In addition to wholesale cost increases, this financial forecast also accounts for changes to the following local cost components of the Water, Sewer, and Storm and Surface Water utilities:

- Taxes and Interfunds: Includes state and local taxes and franchise fees as well as payments to the general fund for support services. The annualized cost increase for the Water, Sewer, and Storm and Surface Water utilities over the 2027-2032 forecast period is 5.7 percent.
- Operations: Includes direct personnel and non-personnel costs for the operation and management of the utilities. The annualized cost increase for the Water, Sewer, and Storm and Surface Water utilities over the 2027-2032 forecast period is 3.5 percent. The forecast for operations expenses excludes the anticipated budgeted appropriation of one-time asset replacement and operating contingencies.

As Utilities is primarily funded from rates, these inflationary pressures translate into rate increases. See the summaries of each utility fund forecast and key rate drivers for additional information.

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Projected Rate Increases

The following table summarizes the forecasted rate adjustments for the Water, Sewer, and Storm and Surface Water utilities and projected impacts to a typical single-family residential monthly bill.

	2027	2028	2029	2030	2031	2032
Combined Utility Bill						
Bill Increase as a Percent	9.8%	9.7%	10.5%	10.5%	8.6%	8.1%
Prior Year Bill	\$229.52	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41
Increase						
Wholesale	\$10.53	\$11.83	\$13.09	\$14.53	\$14.95	\$16.51
Local - Bill Assistance Expansion	\$2.06	\$0.12	\$0.00	-\$0.31	\$0.00	\$0.00
Local - Other	\$6.95	\$9.35	\$11.68	\$12.85	\$11.04	\$13.22
Sewer Equity Adjustment (2027-2031)	<u>\$2.84</u>	<u>\$3.19</u>	<u>\$4.18</u>	<u>\$4.87</u>	<u>\$3.14</u>	<u>\$0.00</u>
Total Projected Increase	\$22.38	\$24.49	\$28.95	\$31.94	\$29.13	\$29.73
Total Projected Bill	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41	\$396.14
Total Projected Bill at 70% Discount*	\$100.71	\$110.30	\$121.63	\$134.10	\$145.41	\$156.93
Total Projected Bill at 35% Discount*	\$176.30	\$193.35	\$213.48	\$235.69	\$255.91	\$276.53

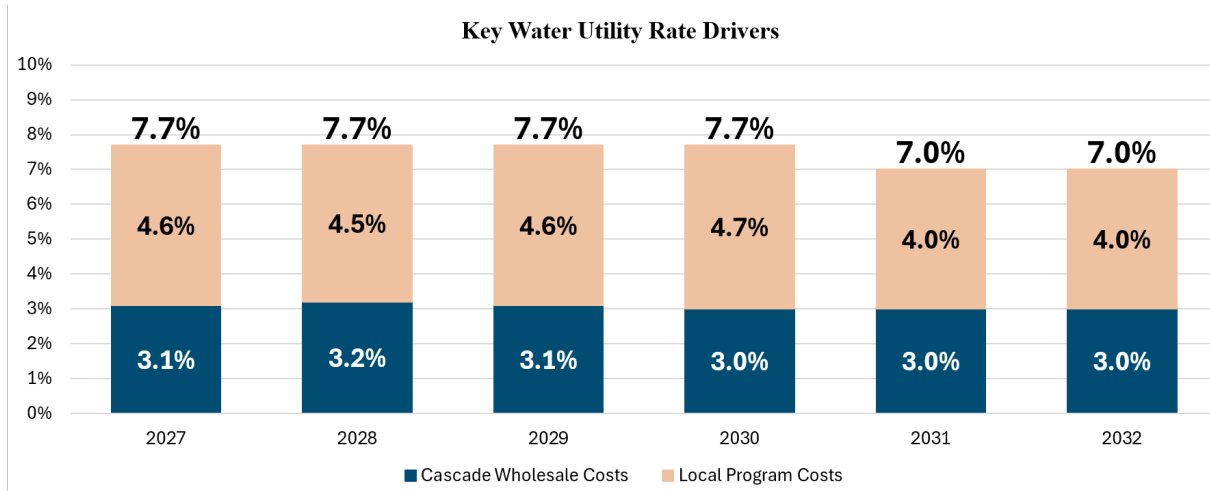
Notes

- [a] Sewer bill based on 11 CCF bi-monthly volume
- [b] Water bill based on 14 CCF bi-monthly volume
- [c] Surface water bill based on 5 chargeable units at moderate development intensity
- [d] Utility discount based on 35% or 70% of basic utility costs

The typical single-family residential monthly customer bill for Water, Sewer, and Storm and Surface Water management services is projected to increase by 9.8% or \$22.38, from \$229.52 to \$251.90 in 2027. The forecasted annual rate adjustments from 2027 to 2032 are projected to increase the typical single-family residential bill by approximately 8.1 to 10.5 percent each year. See Attachment C.1 (*2027-2032 Forecast of Typical Single-Family Residential Monthly Bill and Impacts*) for additional information.

The following pages provide a brief review of each Utility fund forecast and key rate drivers.

Utilities 2027-2032 Early Outlook Financial Forecast



Water Revenue Requirement	2027	2028	2029	2030	2031	2032
Allocation of Rate Revenue Increase by Rate Driver						
Wholesale	3.1%	3.2%	3.1%	3.0%	3.0%	3.0%
Local						
CIP/R&R	1.4%	3.9%	2.8%	2.8%	2.6%	2.6%
Taxes/Interfunds	1.4%	0.6%	1.3%	1.3%	1.3%	1.0%
Operations	1.2%	0.0%	0.5%	0.6%	0.1%	0.4%
Utility Bill Assistance	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Local Subtotal	4.6%	4.5%	4.6%	4.7%	4.0%	4.0%
Total Rate Revenue Increase	7.7%	7.7%	7.7%	7.7%	7.0%	7.0%

Key Rate Drivers

- Wholesale Costs (blue column)**
 Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). The wholesale rate is adopted by Cascade, and per city financial policy is passed directly through to the ratepayer. Wholesale water supply costs to the city of Bellevue are projected to increase by 9.5 percent in 2027 based on Cascade's latest projections. The retail impact of projected cost increases in Cascade's wholesale costs to Bellevue will require a 3.1 percent rate increase in 2027, a 3.2 percent increase in 2028, and a 3.0 percent average rate increase from 2029 to 2032.
- Capital Program (embedded in the orange column)**
 The projected 2027-2032 water capital investment program (CIP) includes \$270.5M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$199.4M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include water main replacement and reservoir rehabilitation. As part of this forecast, estimates include higher inflation to reflect cost increases seen in recent years. The utility's CIP and long-term renewal and replacement strategy will require a 1.4 percent rate increase in 2027, a 3.9 percent rate increase in 2028, and a 2.7 percent average rate increase per year from 2029 to 2032.
- Taxes/Interfunds (embedded in the orange column)**
 As an enterprise fund, Bellevue Utilities pays city and state taxes and pays the general fund for support services. These costs are expected to increase in 2027. This will result in a 1.4 percent rate

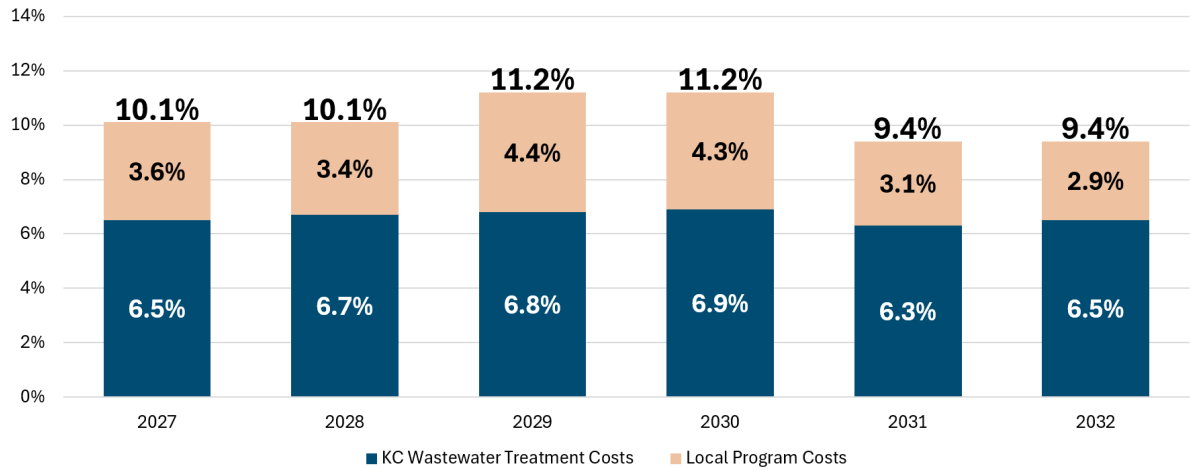
Utilities 2027-2032 Early Outlook Financial Forecast

increase in 2027, a 0.6 percent rate increase in 2028, and a 1.2 percent average rate increase per year from 2029 to 2032.

- **Operations (embedded in the orange column)**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase in 2027. Included in these increases are the anticipated operating costs to expand the Bill Assistance program. This will result in a combined 1.8 percent rate increase in 2027, no rate change in 2028, and a 0.4 percent average rate increase per year from 2029 to 2032.

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Sewer Revenue Requirement	2027	2028	2029	2030	2031	2032
Allocation of Rate Revenue Increase by Rate Driver						
Wholesale	6.5%	6.7%	6.8%	6.9%	6.3%	6.5%
Local						
CIP/R&R	1.7%	2.5%	2.9%	2.9%	2.3%	2.1%
Taxes/Interfunds	0.6%	0.5%	1.1%	1.0%	0.8%	0.6%
Operations	0.4%	0.3%	0.4%	0.6%	0.0%	0.2%
Utility Bill Assistance	0.9%	0.1%	0.0%	-0.2%	0.0%	0.0%
Local Subtotal	3.6%	3.4%	4.4%	4.3%	3.1%	2.9%
Total Rate Revenue Increase	10.1%	10.1%	11.2%	11.2%	9.4%	9.4%

Key Rate Drivers

- **Wholesale Costs (blue-teal column)**

The City of Bellevue purchases wastewater treatment services from King County. The wholesale wastewater treatment rate is established by King County, and per city financial policy, wastewater treatment wholesale cost increases are passed directly through to the ratepayer. The County anticipates 12.75 percent annual cost increases in 2027 and 2028, which are primarily due to regulatory requirements, growth-related demand, and capital investments. The retail rate impacts of increases in wastewater treatment costs to Bellevue require a 6.5 percent rate increase in 2027, a 6.7 percent rate increase in 2028, and a 6.6 percent average rate increase per year from 2029 to 2032.

- **Capital Program (embedded in the orange column)**

The projected 2027-2032 sewer capital investment program (CIP) includes \$103.9M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program (\$94.3M) will be invested to replace existing aging infrastructure. Significant aging infrastructure projects include sewer system pipeline major repairs, sewer pump station improvements, and sewer system pipeline replacements. These estimates reflect the preliminary cost estimates from the Lake Line Management Plan. Funding to support the utility's CIP and long-term renewal and replacement strategy will require a 1.7 percent rate increase in 2027, a 2.5 percent rate increase in 2028, and a 2.6 percent average rate increase per year from 2029 to 2032.

- **Taxes/Interfunds (embedded in the orange column)**

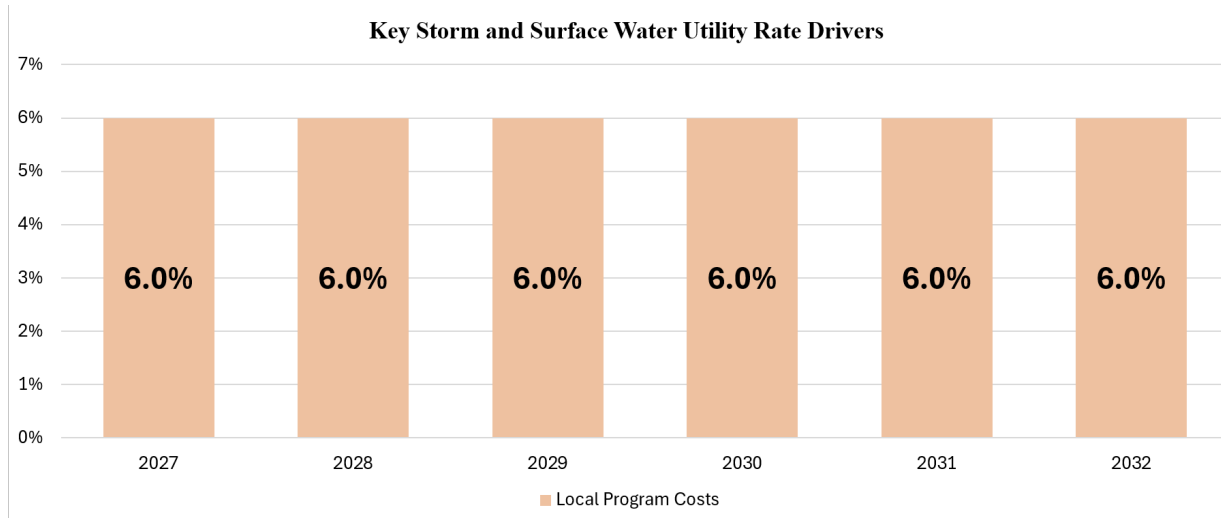
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As an enterprise fund, Bellevue Utilities pays city and state taxes and pays the general fund for support services. These costs are expected to increase in 2027. This will result in a 0.6 percent rate increase in 2027, a 0.5 percent rate increase in 2028, and a 0.9 percent average rate increase per year from 2029 to 2032.

- **Operations (embedded in the orange column)**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase in 2027. Included in these increases are the anticipated operating costs to expand the Bill Assistance program. This will result in a combined 1.3 percent rate increase in 2027, 0.4 percent rate increase in 2028, and a 0.3 percent average rate increase per year from 2029 to 2032

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Storm and Surface Water Revenue Requirement	2027	2028	2029	2030	2031	2032
Allocation of Rate Revenue Increase by Rate Driver						
Wholesale	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Local						
CIP/R&R	5.6%	4.3%	4.1%	5.1%	3.8%	5.1%
Taxes/Interfunds	-2.9%	0.5%	0.6%	0.7%	0.2%	0.7%
Operations	1.8%	1.2%	1.3%	0.2%	2.0%	0.2%
Utility Bill Assistance	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Local Subtotal	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Rate Revenue Increase	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Key Rate Drivers

- Wholesale Costs**

The Storm and Surface Water fund does not have a wholesale component. All elements of Storm and Surface Water management are performed locally by the city.
- Capital Program (embedded in the orange column)**

The projected 2027-2032 Storm and Surface Water capital improvement program (CIP) includes \$84.0M in investments. Of this amount, \$43.6M is for aging infrastructure rehabilitation and replacement. Significant projects include stormwater system conveyance, infrastructure rehabilitation, and minor stormwater capital improvement projects. The remaining Storm and Surface Water utility capital investments are for environmental preservation, including mitigating flood hazards and constructing fish passage and stream improvement projects, and for meeting regulatory mandates. Funding to support the utility’s CIP and long-term renewal and replacement strategy will require a 5.6 percent rate increase in 2027, a 4.3 percent rate increase in 2028, and a 4.5 percent average rate increase per year from 2029 to 2032.
- Taxes/Interfunds (embedded in the orange column)**

As an enterprise fund, Bellevue Utilities pays city and state taxes and pays the general fund for support services. These costs are expected to decrease in 2027 and increase thereafter. This will result in a -2.9 rate decrease in 2027, a 0.5 percent rate increase in 2028, and a 0.6 percent average rate increase per year from 2029 to 2032.

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- **Operations (embedded in the orange column)**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance and operating costs are projected to increase in 2027. Included in these increases are the anticipated operating costs to expand the Bill Assistance program. This will result in a combined 3.3 percent rate increase in 2027, 1.2 percent rate increase in 2028, and a 0.4 percent average rate increase per year from 2029 to 2032.

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Attachment C.1

2027-2032 Typical Single-Family Residential Monthly Bill and Impacts

	2027	2028	2029	2030	2031	2032
Water Utility						
Planned Rate Revenue Increase	7.7%	7.7%	7.7%	7.7%	7.0%	7.0%
Prior Year Bill	\$ 81.58	\$ 87.90	\$ 94.69	\$ 101.97	\$ 109.85	\$ 117.55
Increase						
Wholesale	\$ 2.54	\$ 2.82	\$ 2.93	\$ 3.07	\$ 3.30	\$ 3.52
Local - Bill Assistance Expansion	0.49	-	-	-	-	-
Local - Other	<u>3.29</u>	<u>3.97</u>	<u>4.35</u>	<u>4.81</u>	<u>4.40</u>	<u>4.70</u>
Total Projected Increase	\$ 6.32	\$ 6.79	\$ 7.28	\$ 7.88	\$ 7.70	\$ 8.22
Total Projected Bill	\$ 87.90	\$ 94.69	\$ 101.97	\$ 109.85	\$ 117.55	\$ 125.77
Sewer Utility						
Planned Rate Revenue Increase	12.6%	12.4%	13.8%	13.6%	10.4%	9.4%
Prior Year Bill	\$ 108.63	\$ 122.33	\$ 137.52	\$ 156.54	\$ 177.79	\$ 196.23
Increase						
Wholesale	\$ 7.99	\$ 9.01	\$ 10.16	\$ 11.46	\$ 11.65	\$ 12.99
Local - Bill Assistance Expansion	0.98	0.12	-	(0.31)	-	-
Local - Other	1.89	2.87	4.68	5.23	3.65	5.36
Equity Adjustment (2027-2031)	<u>2.84</u>	<u>3.19</u>	<u>4.18</u>	<u>4.87</u>	<u>3.14</u>	<u>-</u>
Total Projected Increase	\$ 13.70	\$ 15.19	\$ 19.02	\$ 21.25	\$ 18.44	\$ 18.35
Total Projected Bill	\$ 122.33	\$ 137.52	\$ 156.54	\$ 177.79	\$ 196.23	\$ 214.58
Storm and Surface Water Utility						
Planned Rate Revenue Increase	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Prior Year Bill	\$ 39.31	\$ 41.67	\$ 44.18	\$ 46.83	\$ 49.64	\$ 52.63
Increase						
Wholesale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local - Bill Assistance Expansion	0.59	-	-	-	-	-
Local - Other	<u>1.77</u>	<u>2.51</u>	<u>2.65</u>	<u>2.81</u>	<u>2.99</u>	<u>3.16</u>
Total Projected Increase	\$ 2.36	\$ 2.51	\$ 2.65	\$ 2.81	\$ 2.99	\$ 3.16
Total Projected Bill	\$ 41.67	\$ 44.18	\$ 46.83	\$ 49.64	\$ 52.63	\$ 55.79
Combined Utility Bill						
Bill Increase as a Percent	9.8%	9.7%	10.5%	10.5%	8.6%	8.1%
Prior Year Bill	\$229.52	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41
Increase						
Wholesale	\$10.53	\$11.83	\$13.09	\$14.53	\$14.95	\$16.51
Local - Bill Assistance Expansion	\$2.06	\$0.12	\$0.00	-\$0.31	\$0.00	\$0.00
Local - Other	\$6.95	\$9.35	\$11.68	\$12.85	\$11.04	\$13.22
Sewer Equity Adjustment (2027-2031)	<u>\$2.84</u>	<u>\$3.19</u>	<u>\$4.18</u>	<u>\$4.87</u>	<u>\$3.14</u>	<u>\$0.00</u>
Total Projected Increase	\$22.38	\$24.49	\$28.95	\$31.94	\$29.13	\$29.73
Total Projected Bill	\$251.90	\$276.39	\$305.34	\$337.28	\$366.41	\$396.14
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