

CITY COUNCIL AGENDA TOPIC

Preserving Equitable Sewer Rates

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EXECUTIVE SUMMARY**DIRECTION**

Briefing on the results of the financial equity analysis completed in 2025 for the sewer utility, including recommended annual rate adjustments from 2027 to 2031 to improve equity between the Single-Family Residential, Multi-Family Residential, and Non-Residential (e.g., Commercial, Government, Nonprofit) customer classes. In addition, three rate design changes are recommended to simplify the existing rate structure, better align it with rate design goals outlined in the city's financial policies, and provide customers greater control over their bill.

RECOMMENDATION

Consider directing staff to incorporate the Commission's sewer rate recommendations into the submitted utility rates to be considered by City Council as part of the upcoming biennial budget.

BACKGROUND/ANALYSIS

State law (i.e., RCW 35.67.020 and RCW 35.92.020) and city financial policy (CFP 7.10.2.1) require sewer rates to be based on the cost-of-service.

Additionally, sewer rates are often informed by a financial equity analysis, commonly referred to as a cost-of-service study, which is an industry best practice to ensure rates recover the cost of providing service to customer "classes" or "types" in an equitable fashion. The process to determine equity for customer types is commonly based on recommended methodologies widely used in the public utility industry and documented in publications like the American Water Works Association's manual on rates, fees, and charges. These analyses are generally completed every three (3) to five (5) years to account for changes in utility demand, population, and financial requirements. The previous financial equity analysis for the sewer utility was completed in 2019.

Department staff completed a financial equity analysis for the sewer utility in 2025. The results of the analysis were presented to the Environmental Services Commission (ESC) over three work sessions in October 2025, November 2025, and January 2026.

Although the city's current rate classifications comply with RCW 35.67.020 and RCW 35.92.020, providing uniform rates for customers within the same class and for services/facilities furnished, the recent analysis suggests that rates could be refined to improve equitable cost recovery for the customer types. The results of the analysis indicate that rate revenues collected from the Multi-Family Residential customer types are proportionally higher relative to their share of the utility system costs (123% cost

recovery). In contrast, revenues collected from the Single-Family Residential and Non-Residential customer types are lower relative to their respective shares of system costs (91% cost recovery). As a result, the Multi-Family Residential customers presently subsidize the rates of the other two customer types.

An equity analysis is a snapshot in time – as costs fluctuate each year, the needed increase by customer class may also fluctuate. As such, rate adjustments to improve equity should be considered if the cost recovery level for a customer type is consistently outside a reasonable range. In this case, the 2019 and 2025 equity analyses demonstrate a consistent and on-going trend; therefore, it is recommended that the city implement a rate strategy to improve equity for the three customer types.

Rate adjustments to enhance customer equity

Implementing rate adjustments in a single year to eliminate the unintentional subsidies across the customer classes would require a one-time 20% increase to Single-Family Residential rates. To reduce the impact on customers’ bills while still improving equity, staff developed three multi-year phase-in options to improve alignment and ensure full cost recovery within three (3), five (5), and seven (7) years, respectively.

The ESC voted to recommend a five-year phase-in strategy to achieve 100% cost recovery for each customer type by 2031 (Attachment A).

The following table outlines the estimated annual rate adjustments for the customer type, based on the overall rate revenue requirements for the sewer utility as projected in the preliminary 2027-2032 Early Outlook Forecast. Adopted rate adjustments would be approved by the council as part of the upcoming biennial budget process.

Customer Type	2027	2028	2029	2030	2031	2032
<i>Single-Family Residential</i>	12.4%	12.2%	13.5%	13.3%	10.2%	9.2%
<i>Non-Residential</i>	12.0%	12.0%	13.0%	13.0%	12.0%	9.2%
<i>Multi-Family Residential</i>	5.5%	5.5%	6.0%	6.0%	5.5%	9.2%
<i>Utility-wide Revenue Increase</i>	9.9%	9.9%	11.0%	11.0%	9.2%	9.2%

Rate structure changes to support affordability

The ESC also voted to recommend three changes to the sewer utility rate structure. The proposed rate design recommendations simplify the existing rate structure, better align it with rate design goals outlined in the city’s financial policies, and provide customers greater control over their bill by recovering more revenue from variable charges and less revenue from fixed charges. The first and third recommendations would be implemented in 2027. The second recommendation would be phased in over the next five years to manage adverse bill impacts that would occur if this change were implemented in a single year.

- Recommendation #1: Establishes a uniform volumetric rate for the Single-Family Residential customer class. The existing rate structure includes two volumetric rates (flow up to 50 CCF is assessed a rate, flow above 50 CCF is assessed a slightly higher rate). Less than 1% of

Single-Family Residential sewer flow is assessed the higher tier, and there is not a strong cost basis for assessing this higher rate.

- Recommendation #2: Aligns the Multi-Family Residential rate structure to the Single-Family Residential rate structure. The existing fixed rate assessed to Multi-Family Residential customers is the key reason for the high-cost recovery rate for the Multi-Family Residential customer class as identified in the equity analysis. This recommendation lowers the fixed charge to align it closer to the basis for the Single-Family Residential fixed charge (e.g., recovers King County Metro treatment costs). The recommendation also structures the variable rate for this class to align with the Single-Family Residential class. To help reduce the range of bill impacts, staff recommend adjusting the fixed charge gradually over the five-year phase-in period.
- Recommendation #3: The existing rate structure for the Non-Residential (e.g., Commercial, Government, Non-Profits, etc.) customer class includes a minimum charge that exceeds the actual flow for many commercial customers with relatively low sewer flows, such as small businesses. To improve equity for these customers with lower flow, this recommendation lowers the minimum charge to align it with the King County Metro rate that is assessed to Single-Family Residential customers.

Staff will periodically monitor the impact of these rate design recommendations to validate that collected rate revenue is consistent with the cost recovery targets for each customer class. Following industry best practice, the city would complete the next equity analysis at the end of the five-year phase-in period to monitor progress towards equitable cost recovery and make adjustments as needed.

POLICY & FISCAL IMPACTS

Policy Impact

RCW 35.92 requires cities to set water, wastewater, and stormwater utility rates for customer classes that are commensurate with the cost of service.

The city's comprehensive financial policies provide additional guidance for utility rate-setting. Rates are based on a financial analysis that considers the cost-of-service for both current and future expenses as well as required reserves and contingencies. Cost increases to wholesale services (e.g., sewer transmission and treatment by King County) are passed directly to Bellevue customers. And rates will provide equity between customers based on their use of the system and services provided.

Fiscal Impact

The equity analysis and rate design recommendations are revenue-neutral with respect to the overall funding requirements of the sewer utility. In other words, the recommendations are designed to improve equity in the allocation of the sewer utility financial requirements to the three customer classes. As such, the recommendations are not anticipated to generate more or less revenue than would otherwise be collected if these recommendations were not approved by the council.

While the recommendations are revenue neutral to the utility, they are not revenue neutral to all three customer classes or to individual customers. The impacts on the typical monthly sewer bills from 2027 to 2031 from the proposed rate structure changes are shown in the following tables:

Table 1: Single-Family Residential Projected Monthly Sewer Bill, 2026-2031 (5.5 CCF per month)

Year	Bill	\$ Increase	% Increase
2026	\$108.63	N/A	N/A
2027	\$122.16	\$13.53	12.5%
2028	\$137.06	\$14.90	12.2%
2029	\$155.61	\$18.55	13.5%
2030	\$176.40	\$20.79	13.4%
2031	\$194.29	\$17.89	10.1%

Table 2: Multi-Family Residential Projected Monthly Sewer Bill, 2026-2031 (50 dwelling units; 3 CCF per dwelling unit per month)

Year	Bill per Dwelling Unit	\$ Increase	% Increase
2026	\$80.51	N/A	N/A
2027	\$85.33	\$4.82	6.0%
2028	\$88.94	\$3.61	4.2%
2029	\$93.10	\$4.16	4.7%
2030	\$97.53	\$4.43	4.8%
2031	\$101.85	\$4.32	4.4%

Table 3: Multi-Family Residential Projected Monthly Sewer Bill, 2026-2031 (25 dwelling units; 4 CCF per dwelling unit per month)

Year	Bill per Dwelling Unit	\$ Increase	% Increase
2026	\$80.51	N/A	N/A
2027	\$87.33	\$6.82	8.5%
2028	\$92.52	\$5.19	5.9%
2029	\$98.44	\$5.92	6.4%
2030	\$104.72	\$6.28	6.4%
2031	\$110.83	\$6.11	5.8%

Table 4: Multi-Family Residential Projected Monthly Sewer Bill, 2026-2031 (10 dwelling units; 5 CCF per dwelling unit per month)

Year	Bill per Dwelling Unit	\$ Increase	% Increase
2026	\$80.51	N/A	N/A
2027	\$89.32	\$8.81	10.9%
2028	\$96.09	\$6.77	7.6%
2029	\$103.78	\$7.69	8.0%
2030	\$111.90	\$8.12	7.8%
2031	\$119.82	\$7.92	7.1%

Table 5: Non-Residential Projected Monthly Sewer Bill, 2026-2031 (5 CCF per month)

Year	Bill	\$ Increase	% Increase
2026	\$123.78	N/A	N/A
2027	\$92.72	-\$31.06	-25.1%
2028	\$103.80	\$11.08	11.9%
2029	\$117.30	\$13.50	13.0%
2030	\$132.55	\$15.25	13.0%
2031	\$148.47	\$15.92	12.0%

Table 6: Non-Residential Projected Monthly Sewer Bill, 2026-2031 (50 CCF per month)

Year	Bill	\$ Increase	% Increase
2026	\$795.36	N/A	N/A
2027	\$927.22	\$131.86	16.6%
2028	\$1,037.98	\$110.76	11.9%
2029	\$1,173.00	\$135.02	13.0%
2030	\$1,325.43	\$152.43	13.0%
2031	\$1,484.71	\$159.28	12.0%

OPTIONS

1. Direct staff to incorporate the Commission's sewer rate recommendations into the submitted utility rates to be considered by City Council as part of the upcoming biennial budget.
2. Provide alternative direction to staff.

ATTACHMENTS

- A. ESC Recommendation to City Council on Preserving Equitable Sewer Rates

AVAILABLE IN COUNCIL LIBRARY

N/A