



DATE: June 18, 2026

TO: Environmental Services Commission

FROM: Scott Edwards, Deputy Director
Matt Hobson, Utilities Fiscal Manager

SUBJECT: **Utilities 2027-2032 Rate Forecast Update**

ACTION REQUIRED

No action by the Commission is required. This is an informational briefing.

BACKGROUND / ANALYSIS

This is a continuation of a series of briefings to facilitate the Commission's review of the 2027-2028 proposed rates and 2027-2032 rate forecast.

Commission previously reviewed:

- January: Utilities Asset Renewal Forecast;
- February: Utilities Financial Policies;
- April: Utilities 2025 Financial Performance Results and Preliminary 2027-2032 CIP Plan;
- May: 2027-2032 Early Outlook Rate Forecast
- June: 2027-2028 Operating and Capital Budget Proposals

On June 18, staff will present the updated Utilities rate forecast for the period 2027 to 2032 necessary to support the proposed operating and capital budgets. Staff will also be available to provide responses to Commission questions regarding the proposed budgets and rates.

Rate Development

Rates are Utilities' primary source of funding. The level of Utility rates presented in this forecast are based on the city's Comprehensive Financial Policies, with relevant provisions as follows.

3.6.4.1 Utilities Financial Plans

City utilities, including water, sewer, storm & surface water, and solid waste, are financially sustainable, enterprise funds within the city, with independent rates and fees to meet the financial obligations and planning of each utility. As such, the Utilities department maintains financial plans for each utility. Funding for these operating, CIP, and long-range capital plans shall be sufficiently identified to meet the projected 75-year (or longer) program costs.

7.10.2 Utility Rates

Utility rates shall be based on financial analysis considering cost-of-service and set at a level sufficient to cover current and future expenses and maintain reserves and contingencies consistent with policies, policy objectives, and long-term financial forecasts. Changes in rate levels should be gradual and uniform to the extent that costs (including CIP and transfers) can be forecast. Cost increases or decreases for wholesale

services shall be passed directly through to Bellevue customers. Utility rates will provide for equity between customers based on use of the system and services provided.

8.2.7.2 Capital Facilities Renewal and Replacement (R&R) Reserve

Contributions are supplied by utility revenues (e.g., planned transfers, one-time revenues, Capital Recovery Charges, Direct Facility Connection Charges, and interest) for long-term capital reinvestment in utility systems as outlined in long-term financial forecasts. In addition, at the end of the budget cycle, fund balances greater than anticipated and other one-time revenues shall be transferred to the R&R Reserve until it is shown that projected funds will be adequate to meet long-term needs, and only then will be used for rate relief. This reserve minimizes large rate impacts as the systems near the end of their useful life and must be renewed or replaced. Inter-generational equity will be assured by making contributions to and withdrawals from the R&R Reserve in a manner which produces smooth rate transitions over a 75-year (or longer) planning period.

8.2.7.4 Utilities Operating Reserves

The...reserve levels will be met with appropriate utility revenues. Allowances will be applied to account for duplication, or offsetting, reserves across all utility funds. The City Manager may authorize use of this reserve during periods of prolonged economic downturn, natural catastrophe, or for other, one-time extraordinary expenditures and shall notify the Mayor and Council within 48 hours of authorization.

8.3.3 Utilities Operating Contingencies

The city will maintain an operating contingency for Utilities activities...The department director may authorize use of this contingency to mitigate unplanned operational expenses, plant emergencies, and risk for which rate funded revenues are appropriate.

In determining the rates necessary to support the proposed Utilities budget, staff follows an established process defined by the utility ratemaking industry:

1. Budget Development is the first step, as it establishes the expenditures necessary to maintain existing service levels, sustainably manage aging infrastructure, and provide key service enhancements.
2. Financial Forecasting is the second step, which involves forecasting budgeted operating expenditures over a rate planning period. For Bellevue Utilities, this involves a rate forecast period from 2027 through 2032, and a renewal and replacement forecast from 2027 through 2101. This step also includes evaluation and forecasting of the utilities revenues, both from rates and other sources.
3. Rate Revenue Requirements are the third step, which involves the consideration of the Utilities rate policies in determining the amount of revenue to be recovered from rates in each year of the planning period. This may include increases necessary to meet increased reserve requirements, or for rate smoothing purposes to align with financial policy guidelines. The outcome of this third step is the level of rate increase necessary in each year to meet the rate revenue requirement.
4. Cost-of-Service Analyses are used to evaluate financial equity between the different customer classes or groups served by a utility. These studies are generally completed every few years or when significant shifts occur in the demand levels or the costs required to provide service. The 2027-2032 sewer rate forecast is influenced by the recent cost-of-service analysis and related Commission recommendations to improve equity over the next five years (2027-2031).
5. Rate Design is the structure of fixed and variable rates assessed to utility customers to generate sufficient rate revenue, align with cost-of-service principles, and achieve other utility goals (e.g., conservation, affordability). The 2027-2032 rate forecast is also influenced by rate design changes resulting from the sewer cost-of-service analysis and from the expansion of the utility bill assistance program.

Key Changes from Early Outlook

Rate Revenue Requirements: The Utilities budgets and rate forecast have been updated relative to the Early Outlook Rates Forecast presented in May. This includes updates to expenditures informed by revised forecasts from King County Wastewater Treatment Division and the Cascade Water Alliance; internal revisions by the city Budget Office related to personnel costs and interfund costs for city support services; as well as minor refinements to the Utilities’ forecasted local operations costs, including the City Council direction to include the Utility Bill Assistance Program expansion into the proposed budget.

Sewer Equity Analysis: The typical bill impacts for 2027-2028 have been adjusted to reflect the five-year (2027-2031) equity adjustments and related rate design changes from the sewer equity (i.e., cost-of-service) analysis. These adjustments are revenue-neutral; they do not generate more or less revenue than would otherwise be collected. As a result, the impacts of the sewer equity analysis do not affect rate revenue requirements, but they do impact typical monthly bill estimates for single-family residential, multi-family residential, and non-residential customers.

The current rate forecasts are presented in the figures below compared to the Early Outlook Forecast provided to the Commission on May 7.

Exhibit 1: Projected Water Utility Rate Forecast

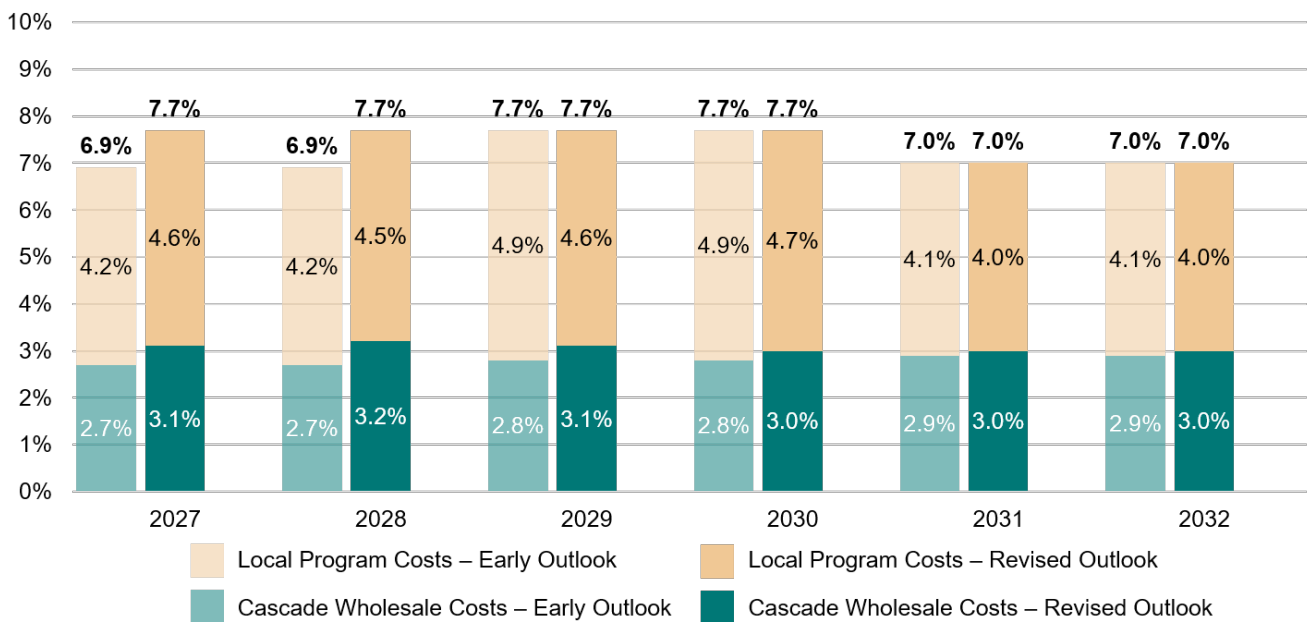


Exhibit 2: Projected Sewer Utility Rate Forecast

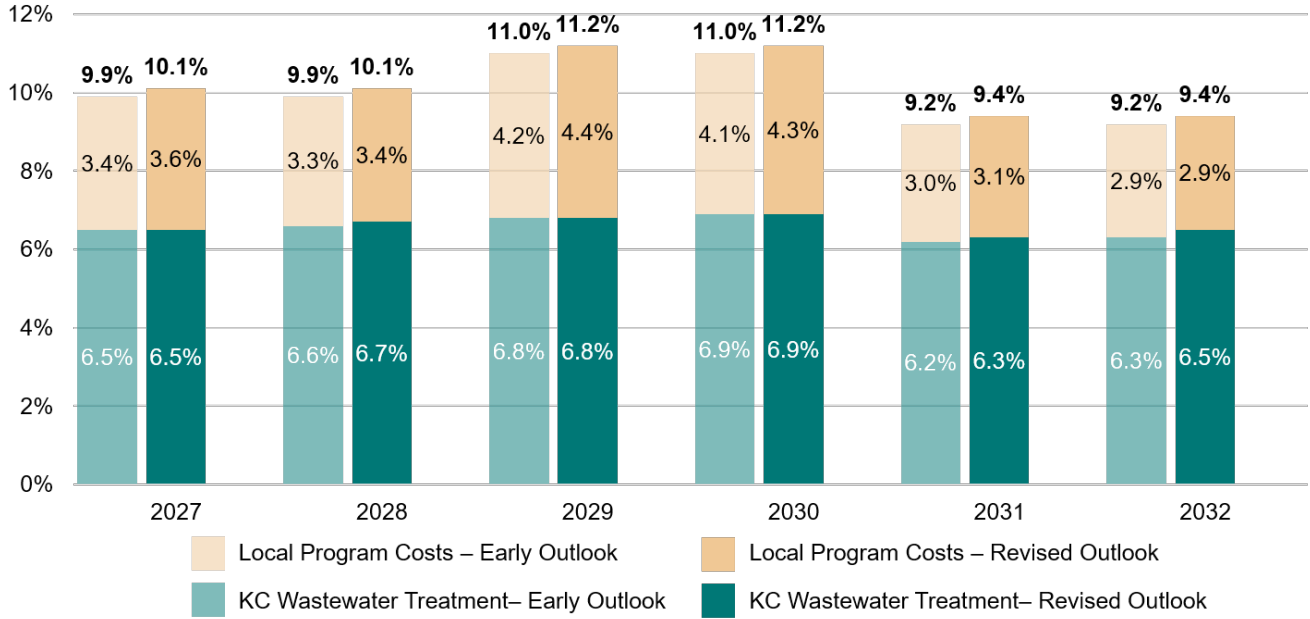


Exhibit 3: Projected Stormwater Utility Rate Forecast

