



MEMORANDUM

DATE: January 8, 2026
TO: Environmental Services Commission
FROM: Matt Hobson, Utilities Fiscal Manager
SUBJECT: Sewer Utility Cost-of-Service Analysis (COSA) and Proposed Rate Design

ACTION REQUIRED

Staff is seeking the Commission's recommendation on proposed rate design changes to the City's schedule of sewerage charges. These changes were presented to the ESC at the November 6, 2025, meeting. While the Commission was in general support of these rate design changes at the November meeting, staff are seeking an ESC vote to recommend these changes to City Council.

BACKGROUND / ANALYSIS

On November 6, 2025, the ESC voted to recommend a five-year phase-in period to align existing sewerage charges with the results of the sewer cost-of-service study. The estimated annual rate adjustments by customer class for the five-year phase-in period are detailed in **Exhibit 1**.

Exhibit 1: Annual Rate Adjustments by Customer Class for Five-Year Phase-In Period

Customer Class	2027	2028	2029	2030	2031
Single-Family Residential	14.15%	14.12%	13.04%	13.29%	13.09%
Non-Residential	13.20%	13.20%	13.20%	13.20%	13.20%
Multi-Family Residential	6.60%	6.60%	6.60%	6.60%	6.60%
Total	11.30%	11.40%	11.00%	11.20%	11.20%

Staff also presented rate design changes to the sewerage charges at the November 6, 2025, meeting. The proposed changes are:

1. Establish a uniform volumetric rate for Single-Family Residential customers
- 2a. Align the Multi-Family Residential rate structure to the Single-Family Residential rate structure
- 2b. Phase-in the new Multi-Family Residential rate structure over the five-year phase-in period
3. Align the Non-Residential minimum charge with the King County treatment rate

Exhibit 2 summarizes the benefits of each rate design change for utility customers and Bellevue Utilities. The detailed background and rationale for these changes are outlined in the related agenda memo for the November 6, 2025, ESC meeting.

Exhibit 2: Benefits of Rate Design Changes

	Simplify Existing Rate Structure to Make it More Understandable to Customers	Improve Alignment to City Financial Policies	Provide Customers with Greater Control Over Their Bills	Mitigate Unfavorable Bill Impacts to the Extent Possible
1. Establish a uniform volumetric rate for Single-Family Residential customers	+	n/a	n/a	+
2a. Align the Multi-Family Residential rate structure to the Single-Family Residential rate structure	+	+	+	-
2b. Phase-in the new Multi-Family Residential rate structure over the five-year phase-in period	n/a	n/a	n/a	+
3. Align the Non-Residential minimum charge with the King County treatment rate	+	+	+	+

POLICY ISSUES

The proposed rate design changes are consistent with the City's Comprehensive Financial Policies and state law regarding utility rate-setting. Each rate design change is revenue neutral to the existing rate structure and achieves full cost recovery for each customer class over the five-year phase-in period.

The rate design changes also simplify the existing sewer rate structure, provide Multi- and Non-Residential customers greater control over their bills, and minimize the unfavorable bill impacts from these rate changes to the extent possible.

FISCAL IMPACT

Each rate design change generates the same overall revenue as projected in the City's most recent financial forecast for the sewer utility. A cost-of-service analysis and the proposed rate design structure are **revenue neutral** with respect to the utility's overall financial requirements. In other words, a cost-of-service analysis focuses on the equitable allocation of the revenue needs of the utility to each customer class. And, rate design focuses on how that revenue is recovered through a schedule of fixed and variable charges.

NEXT STEPS

City staff are requesting an ESC vote to recommend the following rate design changes to City Council:

- **Residential Single-Family:** Replace tiered volumetric flow rates with uniform volumetric flow rate.
- **Multi-Family Residential:** Align the Multi-Family Residential rate structure with the Single-Family Residential rate structure. The City would transition the fixed and flow charges toward the new rate structure targets over the sewer cost-of-service five-year phase-in period.

- Non-Residential: Align the minimum bi-monthly charge for Non-Residential (Commercial) customers to the King County treatment charge for one residential customer equivalent.

Following the discussion with the Commission, the proposed rate design changes as well as recommendations to align planned rates with the sewer cost-of-service results would be presented to City Council in spring 2026 as part of the 2027-2028 budget development process.

If approved, the sewer cost-of-service and rate design changes would take effect on January 1, 2027.

Attachment:

A. 2027-2031 Sewer Rate Schedule

Attachment A: 2027-2031 Sewer Rate Schedule

	<i>Existing</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Bi-Monthly Fixed Charge	2026	2027	2028	2029	2030	2031
Single-Family Residential	\$125.32	\$141.30	\$159.32	\$180.83	\$205.24	\$232.95
Non-Residential (minimum charge)	\$234.68	\$141.30	\$159.32	\$180.83	\$205.24	\$232.95
Multi-Residential, per dwelling unit	\$152.65	\$151.45	\$150.26	\$149.08	\$147.91	\$146.76

	<i>Existing</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Volumetric Charge	2026	2027	2028	2029	2030	2031
Single-Family Residential						
Tier 1 (upto 50CCF)	\$7.33					
Tier 2 (>50CCF)	\$9.46					
Per CCF		\$8.54	\$9.92	\$11.15	\$12.59	\$14.17
Non-Residential	\$15.08	\$17.77	\$20.11	\$22.77	\$25.77	\$29.17
Multi-Residential*	\$12.59	\$1.99	\$3.61	\$5.33	\$7.14	\$9.07

*Note:

Volumetric charge in 2026 based on billed flow in excess of 11 CCFs per dwelling unit over two month period.

Volumetric charge from 2027-2031 based on all billed flow