Utilities 2026-2031 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.*
- *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.*
- *The 2025-2026 mid-biennium proposed budget includes a sewer rate adjustment in 2026 to account for the wholesale cost increase for King County sewer treatment services and related local and state taxes. Due to the increase in King County sewer charges, the 2026 Bellevue sewer rate adjustment needs to be revised from 7.6 percent to 7.9 percent.*
- *The Bellevue sewer rate forecast from 2027-2031 is revised to account for the anticipated higher King County sewer treatment costs. The revised projected annual Bellevue sewer rate adjustment is approximately 11 percent from 2027 to 2031.*
- *The annual forecasted rates for the Water and Storm and Surface Water utilities are consistent with the rate forecasts provided to City Council as part of the 2025-2026 adopted budget.*
- *Future rate adjustments for the Water, Sewer, and Storm and Surface Water Utilities will be considered as part of the 2027-2028 budget process.*

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 wholesale cost increases are passed through to City utility customers. This is to ensure the City continues to maintain current levels of service delivery.

Cascade adopted a 3.5 percent wholesale water supply rate increase for 2026. Bellevue's rate impact is lower than the average overall Cascade member rate increase. This is due to Bellevue's water supply requirements growing at a slower rate compared to other Cascade members. Accordingly, the net impact to Bellevue's water supply costs will be a 2.4 percent increase in 2026. 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 range from 3.5 to 5.6 percent between 2027 and 2031.

King County adopted a 7.5 percent wholesale wastewater treatment cost increase for 2026, which is primarily due to regulatory requirements, growth-related demand, and capital investments. Earlier this year, King County updated its longer-term rate outlook with annual wholesale wastewater treatment cost increases ranging from 12.75 to 13.50 percent between 2027 and 2031. This revised wholesale wastewater treatment cost outlook requires a corresponding increase to the City's sewer rates from 2026 to 2031. It is also 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.

The following bullets summarize the adopted $296 million CIP by investment area.

- *Aging infrastructure*: $230.2 million, or 77.9% of the CIP, is for investments to address aging infrastructure needs. Examples of projects include water main replacements ($107.8 million), sewer system pump station improvements ($21.9 million), sewer system pipeline repairs and replacement ($22.8 million), and storm water infrastructure rehabilitation program ($30.9 million).
- *Capacity for growth*: $37.5 million, or 12.7% of the CIP, is to increase utility system capacity to accommodate growth. Example projects include water storage availability for downtown ($34.0 million), and septic system sewer extensions ($3.5 million).

- *Environmental preservation*: $12.4 million, or 4.2% of the CIP, is for environmental preservation and flood protection projects. Example projects include the fish passage improvement project ($4.9 million), and flood control project ($2.9 million).

- *Operational efficiencies*: $11.4 million, or 3.8% of the CIP, is funding to support operational efficiencies, including building an additional operational facility to maintain service delivery to the community ($11.4 million).

- *Emergency Water Supply:* $4.1 million, or 1.4% of the CIP, will fund projects to improve Bellevue's four groundwater wells for emergency water supply, maintain readiness, protect water quality, and optimize the use of groundwater. Examples include rehabilitation and improvements to the Crossroads well sites, and a well siting study for possible future wells ($4.1 million).

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.

As part of this long-term capital funding strategy, Utilities reviews and updates its renewal and replacement needs forecast using asset management and condition assessment methodologies. Through this process and as part of developing the 2027-2028 preliminary budget, Utilities plans to evaluate recent cost inflation pressures on capital project costs, such as higher projected costs for the water main replacement program, and recommend revisions to capital funding strategies and the utility rate forecast.

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 Interfund: Includes state and local taxes and franchise fees as well as payments to the general fund for support services. The annualized increase for the water, sewer, and storm and surface water utilities over the 2026-2031 forecast period is 5.0 percent.
- Operations: Includes direct personnel and non-personnel costs for the operation and management of the utilities. The annualized increase for the water, sewer, and storm and surface water utilities over the 2026-2031 forecast period is 3.1 percent. The forecast for operations expenses excludes the budget 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.

Utilities 2026-2031 Financial Forecast

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.

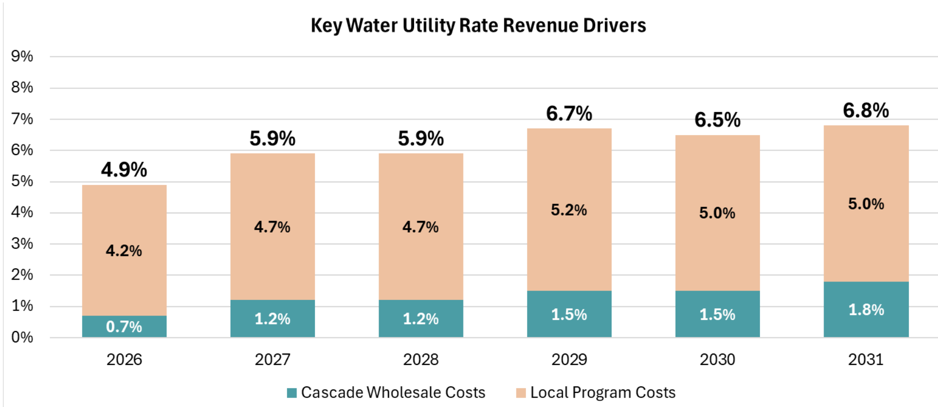
	2026	2027	2028	2029	2030	2031
Combined Utility Bill						
Bill Increase as a Percent	**7.0%**	**8.5%**	**8.6%**	**8.6%**	**8.6%**	**8.8%**
Prior Year Bill	$ 239.45	$ 256.27	$ 277.98	$ 301.78	$ 327.61	$ 355.93
Increase						
Wholesale	$ 5.00	$ 9.11	$ 10.19	$ 12.32	$ 13.88	$ 16.00
Local	$ 11.82	$ 12.60	$ 13.61	$ 13.51	$ 14.44	$ 15.27
Total Projected Increase	$ 16.82	$ 21.71	$ 23.80	$ 25.83	$ 28.32	$ 31.27
Total Projected Bill	**$ 256.27**	**$ 277.98**	**$ 301.78**	**$ 327.61**	**$ 355.93**	**$ 387.20**

Notes
[a] Sewer bill based on 15 CCF bi-monthly volume
[b] Water bill based on 17 CCF bi-monthly volume
[c] Surface water bill based on 5 chargeable units at moderate development intensity

The typical single-family residential monthly customer bill for Water, Sewer, and Storm and Surface Water management services is projected to increase by 7.0% or $16.82, from $239.45 to $256.27 in 2026. The forecasted annual rate adjustments from 2027 to 2031 are projected to increase the typical single-family residential bill by approximately 8.5 to 8.8 percent each year. See Attachment A (*2026-2031 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 2026-2031 Financial Forecast



Water Revenue Requirement	2026	2027	2028	2029	2030	2031
Allocation of Rate Revenue Increase by Rate Driver						
Wholesale	**0.7%**	**1.2%**	**1.2%**	**1.5%**	**1.5%**	**1.8%**
Local						
CIP/R&R	2.9%	3.0%	3.1%	3.2%	3.2%	3.3%
Taxes/Interfunds	2.3%	-0.6%	1.1%	1.2%	1.2%	1.1%
Operations	-1.0%	2.3%	0.5%	0.8%	0.6%	0.6%
Local Subtotal	**4.2%**	**4.7%**	**4.7%**	**5.2%**	**5.0%**	**5.0%**
Total Rate Revenue Increase	**4.9%**	**5.9%**	**5.9%**	**6.7%**	**6.5%**	**6.8%**

Note: Rate revenue increase allocated to Operations includes local operations, changes to non-rate revenue, and contributions to reserves

Key Rate Drivers

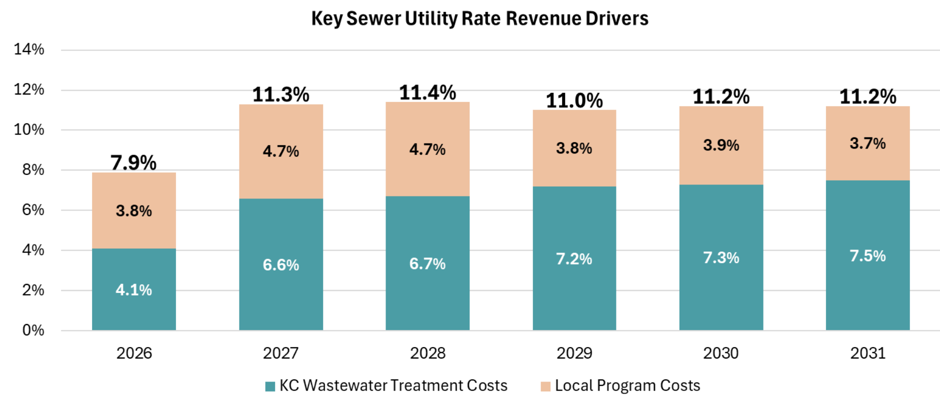
- **Wholesale Costs (teal column)**
  Drinking water for the City of Bellevue is purchased from the Cascade Water Alliance (Cascade). The wholesale rate is adopted by Cascade, and per City financial policy is passed directly through to the ratepayer. Cascade's wholesale water supply costs to the City of Bellevue are projected to increase by 2.4 percent in 2026. The retail impact of projected cost increases in Cascade's wholesale costs to Bellevue will require a 0.7 percent rate increase in 2026, and an average of 1.4 percent per year from 2027-2031.

- **Capital Program (embedded in the orange column)**
  The projected 2025-2030 water capital investment program (CIP) includes $187.7M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program ($148.8M) 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 months. This will also impact the 2027-2032 CIP. Funding to support the utility's CIP and long-term renewal and replacement strategy will require a 2.9 percent increase in 2026, and an average of 3.2 percent per year from 2027-2031.

- **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 and will require a rate increase of 2.3 percent in 2026. Rate increases for the remainder of the forecast period average 0.8 percent annually.

- **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 decrease in 2026 and increase thereafter. This will result in a 1.0 percent rate decrease in 2026, and an average rate increase of 1.0 percent per year from 2027-2031.

Utilities 2026-2031 Financial Forecast



Sewer Revenue Requirement	2026	2027	2028	2029	2030	2031
Allocation of Rate Revenue Increase by Rate Driver						
Wholesale	**4.1%**	**6.6%**	**6.7%**	**7.2%**	**7.3%**	**7.5%**
Local						
CIP/R&R	2.5%	2.6%	2.5%	2.5%	2.5%	2.4%
Taxes/Interfunds	1.7%	-0.5%	0.8%	0.8%	0.8%	0.7%
Operations	-0.4%	2.6%	1.4%	0.5%	0.6%	0.6%
Local Subtotal	**3.8%**	**4.7%**	**4.7%**	**3.8%**	**3.9%**	**3.7%**
Total Rate Revenue Increase	**7.9%**	**11.3%**	**11.4%**	**11.0%**	**11.2%**	**11.2%**

Note: Rate revenue increase allocated to Operations includes local operations, changes to non-rate revenue, and contributions to reserves

Key Rate Drivers

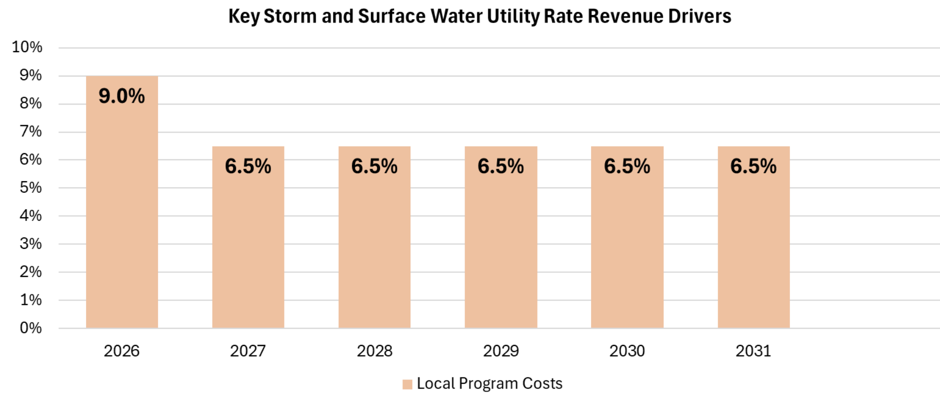
- **Wholesale Costs (teal column)**
  The City of Bellevue purchases wastewater treatment services from King County. The wholesale wastewater treatment rate is established by King County, and per City financial policy, wastewater treatment wholesale cost increases are passed directly through to the ratepayer. Earlier this year, King County updated its longer-term rate outlook. King County's adopted wastewater treatment wholesale cost forecast reflects a 7.5 percent increase in 2026, which is 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 4.1 percent rate increase in 2026. Looking to the future, the anticipated retail rate impact of King County's projected cost increases to Bellevue average 7.1 percent per year from 2027-2031.

- **Capital Program (embedded in the orange column)**
  The projected 2025-2030 sewer capital investment program (CIP) includes $64.1M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program ($54.3M) 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 2.5 percent rate increase in 2026, and an average of 2.5 percent per year from 2027-2031.

- **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 and will require a rate increase of 1.7 percent in 2026. Rate increases for the remainder of the forecast period average 0.5 percent annually.

- **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 decrease in 2026 and increase thereafter. This will result in a 0.4 percent rate decrease in 2026, and an average rate increase of 1.1 percent per year from 2027-2031.

Utilities 2026-2031 Financial Forecast



Storm and Surface Water Revenue Requirement	2026	2027	2028	2029	2030	2031
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	4.0%	4.5%	5.3%	3.9%	4.5%	4.5%
Taxes/Interfunds	3.0%	-2.3%	0.6%	0.7%	0.6%	0.3%
Operations	2.0%	4.3%	0.6%	1.9%	1.4%	1.7%
Local Subtotal	**9.0%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**
Total Rate Revenue Increase	**9.0%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**
Note: Rate revenue increase allocated to Operations includes local operations, changes to non-rate revenue, and contributions to reserves						

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 of Bellevue.

- **Capital Program (embedded in the orange column)**
  The projected 2025-2030 Storm and Surface Water capital improvement program (CIP) includes $43.7M in investments. Of this amount, $31.3M 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 4.0 percent rate increase in 2026 and an average of 4.5 percent per year between 2027-2031.

- **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 will require a rate increase of 3.0 percent in 2026 and a rate decrease of 2.3 percent in 2027. Rate increases for the remainder of the forecast period are approximately 0.4 percent per year between 2028-2031.

- **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 and will require a rate increase of 2.0 percent in 2026, and an average of about 2.0 percent per year thereafter.

Utilities 2026-2031 Financial Forecast

Attachment A
2026-2031 Typical Single-Family Residential Monthly Bill and Impacts

	2026	2027	2028	2029	2030	2031
Water Utility						
Planned Rate Revenue Increase	**4.90%**	**5.90%**	**5.90%**	**6.70%**	**6.50%**	**6.80%**
Prior Year Bill	$ 88.52	$ 92.87	$ 98.36	$ 104.17	$ 111.16	$ 118.38
Increase						
Wholesale	$ 0.62	$ 1.12	$ 1.18	$ 1.56	$ 1.67	$ 2.14
Local	$ 3.73	$ 4.37	$ 4.63	$ 5.43	$ 5.55	$ 5.93
Total Projected Increase	$ 4.35	$ 5.49	$ 5.81	$ 6.99	$ 7.22	$ 8.07
Total Projected Bill	**$ 92.87**	**$ 98.36**	**$ 104.17**	**$ 111.16**	**$ 118.38**	**$ 126.45**
Sewer Utility						
Planned Rate Revenue Increase	**7.90%**	**11.30%**	**11.40%**	**11.00%**	**11.20%**	**11.20%**
Prior Year Bill	$ 114.88	$ 124.09	$ 137.74	$ 153.02	$ 168.96	$ 186.98
Increase						
King County Treatment Charge	$ 4.38	$ 7.99	$ 9.01	$ 10.76	$ 12.21	$ 13.86
Local	$ 4.83	$ 5.66	$ 6.27	$ 5.18	$ 5.81	$ 6.06
Total Projected Increase	$ 9.21	$ 13.65	$ 15.28	$ 15.94	$ 18.02	$ 19.92
Total Projected Bill	**$ 124.09**	**$ 137.74**	**$ 153.02**	**$ 168.96**	**$ 186.98**	**$ 206.90**
Storm and Surface Water Utility						
Planned Rate Revenue Increase	**9.00%**	**6.50%**	**6.50%**	**6.50%**	**6.50%**	**6.50%**
Prior Year Bill	$ 36.05	$ 39.31	$ 41.88	$ 44.59	$ 47.49	$ 50.57
Increase	$ 3.26	$ 2.57	$ 2.71	$ 2.90	$ 3.08	$ 3.28
Total Projected Bill	**$ 39.31**	**$ 41.88**	**$ 44.59**	**$ 47.49**	**$ 50.57**	**$ 53.85**
Combined Utility Bill						
Bill Increase as a Percent	**7.0%**	**8.5%**	**8.6%**	**8.6%**	**8.6%**	**8.8%**
Prior Year Bill	$ 239.45	$ 256.27	$ 277.98	$ 301.78	$ 327.61	$ 355.93
Increase						
Wholesale	$ 5.00	$ 9.11	$ 10.19	$ 12.32	$ 13.88	$ 16.00
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[c] Surface water bill based on 5 chargeable units at moderate development intensity