

DATE: June 6, 2024
TO: Environmental Services Commission
FROM: Lucy Liu, Utilities Director
Scott Edwards, Utilities Deputy Director
Scott Pickard, Acting Fiscal Manager
SUBJECT: **Utilities 2025-2030 Early Outlook Financial Forecast**

ACTION REQUIRED

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

BACKGROUND / ANALYSIS

This is a continuation of a series of briefings to facilitate the Commission's review of the proposed Utilities Department 2025-2026 operating budget and rates, and 2025-2034 capital investment program (CIP).

The Commission previously reviewed:

- January: Utilities Asset Renewal Forecast
- February: Utilities Financial Policies
- April: Utilities 2023 Financial Performance Results and Preliminary 2025-2034 CIP Plan
- May: Operations & Maintenance/CIP Field Tour

On June 6, staff will:

- Present the 2025-2030 Utilities Early Outlook Financial Forecast, necessary to support the department-proposed operating and capital budgets;
- Present the Utilities 2025-2034 CIP budget proposals and results of the Utilities CIP community engagement; and
- Respond to Commission questions regarding the capital budget proposals and rates.

Rate Development

The purpose of the rates forecast is to provide a preview of the rate adjustments needed to fund the forecasted financial obligations during the planning period. The rates forecast will be updated over the coming months and a finalized rate forecast will be presented to the Commission as part of the preliminary budget.

Rates are Utilities' primary source of funding. The level of utility rates presented in this forecast is based on the following key City financial policies.

- Rates shall be set at a level sufficient to cover current and future expenses, and maintain reserves for working capital, operating contingency, and plant emergency.
- Changes in rate levels should be gradual and uniform to the extent that costs can be forecasted.
- Cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers.
- Funding for capital investments shall be sustained at a level sufficient to meet projected long-term capital program costs.
- Rate revenues shall fund current construction and engineering costs, contributions to the Capital Facilities Renewal and Replacement (R&R) Account, and debt service, if any.

- Inter-generational equity will be ensured by making contributions to and withdrawals from the R&R Account in a manner which produces smooth rate transitions over a long-term planning period.

In determining the rates necessary to support the department-proposed Utilities budget, staff follows an established process informed by utility ratemaking best practices:

1. Budget Development is the first step, as it establishes the expenditures necessary to maintain existing service levels, manage aging infrastructure in a sustainable manner, 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 2025 through 2030, and a capital infrastructure renewal and replacement expenditure forecast from 2025 through 2099. 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.

Early Outlook Financial Forecast

Utilities Early Outlook Financial Forecast supports a prudent, balanced, and responsible budget to maintain high-quality 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, the forecast includes funding for operations, maintenance, and asset and capital infrastructure replacements (e.g., vehicles, CIP, and long-term infrastructure renewal and replacement requirements). For the 2025 – 2026 biennium, key rate drivers include 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.

Projected rate adjustments are summarized in the following tables, showing the utilities rate impacts from wholesale and local program cost increases. The attached 2025-2030 Early Outlook Financial Forecast presents the rates and key rate drivers in more detail for the water, sewer, and storm and surface water utilities.

Figure 1: Projected Water Rate Adjustments

	2025	2026	2027	2028	2029	2030
Cascade Water Supply Costs	-0.2%	0.9%	1.5%	1.5%	1.8%	1.8%
Local Program Costs	7.0%	4.0%	4.2%	4.3%	4.6%	4.6%
Total Increase	6.8%	4.9%	5.7%	5.8%	6.4%	6.4%

Figure 2: Projected Sewer Rate Adjustments

	2025	2026	2027	2028	2029	2030
KC Wastewater Treatment Costs	3.3%	4.0%	4.0%	3.9%	4.6%	4.6%
Local Program Costs	4.1%	3.6%	3.6%	3.5%	3.5%	3.5%
Total Increase	7.4%	7.6%	7.6%	7.4%	8.1%	8.1%

Figure 3: Projected Storm Rate Adjustments

	2025	2026	2027	2028	2029	2030
Local Program Costs	9.2%	9.0%	6.3%	6.3%	6.3%	6.3%
Total Increase	9.2%	9.0%	6.3%	6.3%	6.3%	6.3%

ATTACHMENTS & AVAILABLE DOCUMENTS

A. 2025 – 2030 Early Outlook Financial Forecast – Utilities Funds