

Utilities 2023-2028 Rates Forecast Update

Presentation to Environmental Services Commission

Nav Otal, Utilities Director
Andy Baker, Fiscal Manager

June 16, 2022



City of Bellevue

Agenda

- Rate Development Process
- Key Financial Policies
- Rate Scenarios
- Next Steps

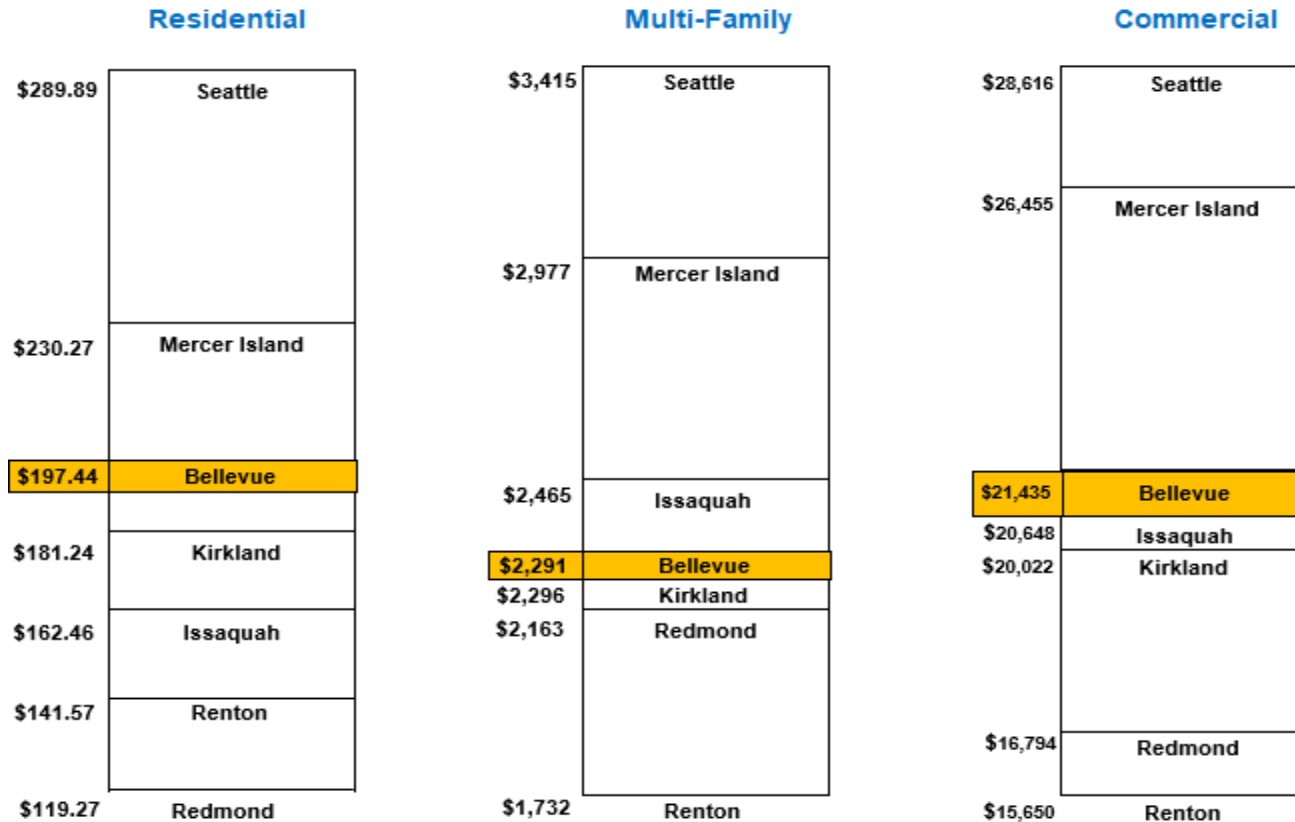


Direction Needed from Commission

- No action required at this time.
- Staff will be seeking the Commission's budget proposal recommendation to the City Manager on July 7.



Rates Competitive with Neighbors



Source: All rate information was obtained from municipality websites

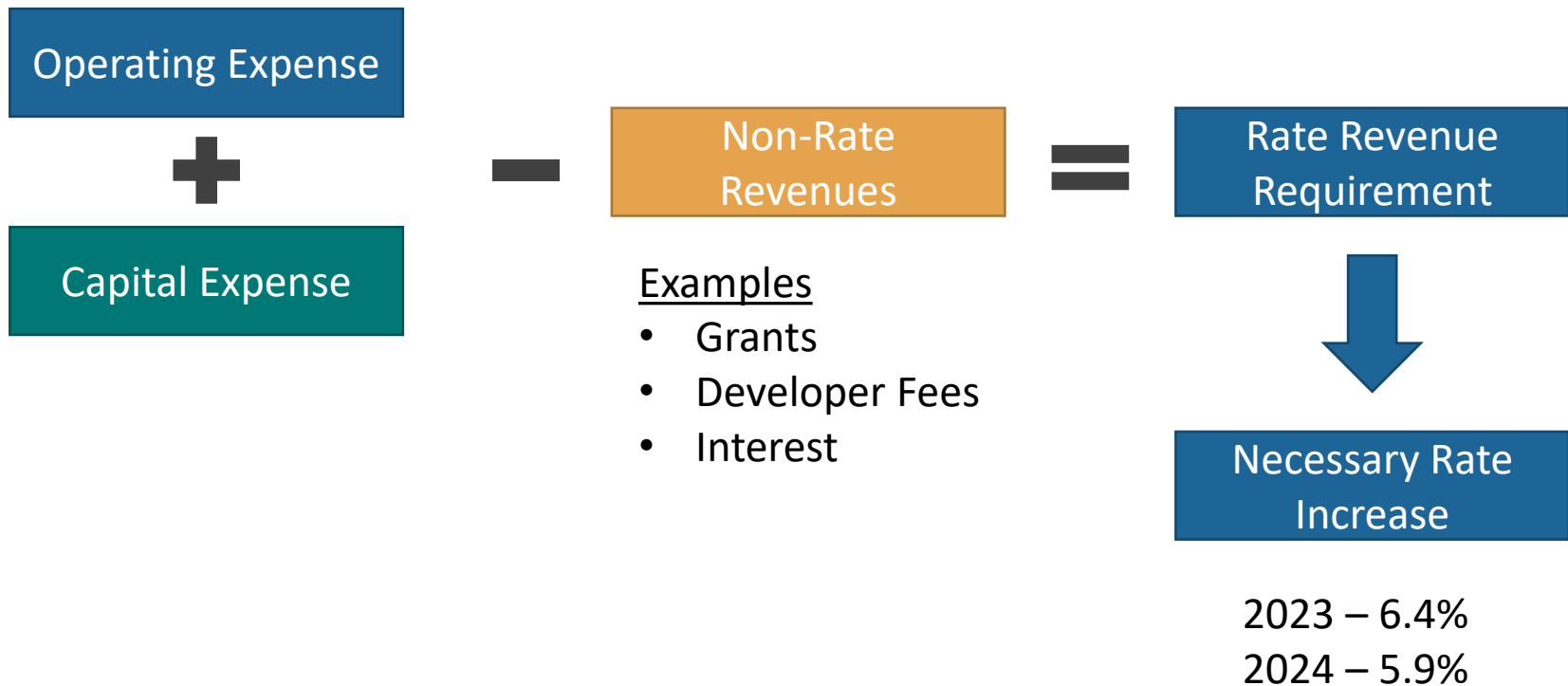


Typical Residential Combined Bill Impact – Proposed

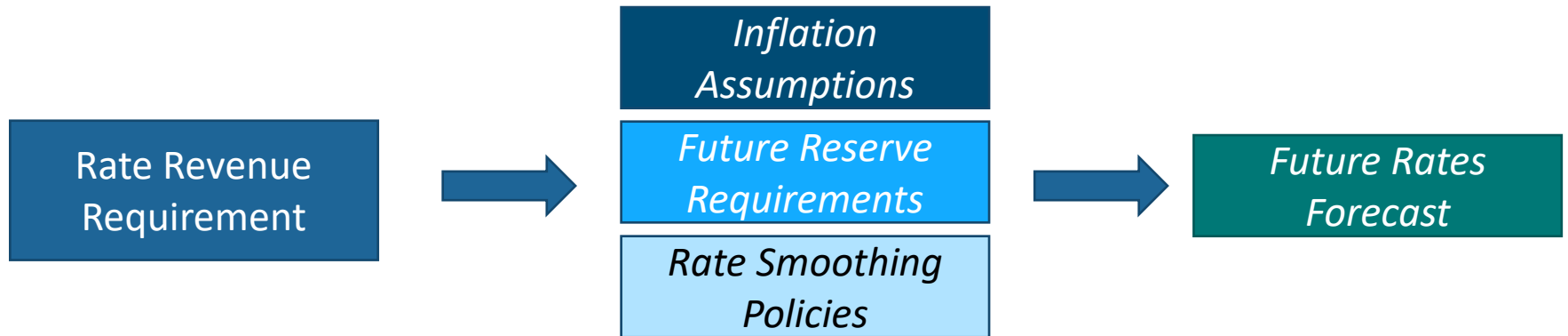
	2023 Bill		2024 Bill	
2022 Monthly Bill		\$197.44		\$210.07
Rate Drivers				
Wholesale	2.3%	\$4.49	2.2%	\$4.55
Local				
<i>CIP</i>	1.2%	\$2.27	1.3%	\$2.78
<i>R&R</i>	1.4%	2.82	0.8%	1.68
<i>Taxes/Interfunds</i>	0.7%	1.46	0.8%	1.70
<i>Operations</i>	0.8%	1.59	0.8%	1.66
Local	4.1%	\$8.14	3.7%	\$7.82
Total Increase		\$12.63		\$12.37
Typical Monthly Bill	6.4%	\$210.07	5.9%	\$222.44



Rate Development Methodology



Future Rate Forecasting



Rates Guided by Financial Policies

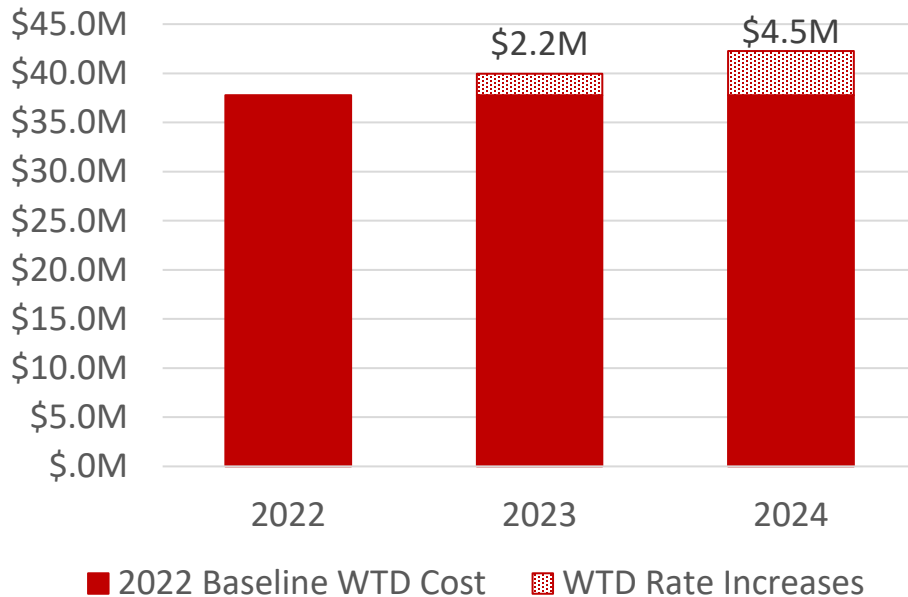
Governing Policies for Rates & Rate Levels

- *Rates shall be set at a level sufficient to cover current and future expenses*
- *Changes in rate levels should be gradual and uniform*
- *Cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers*

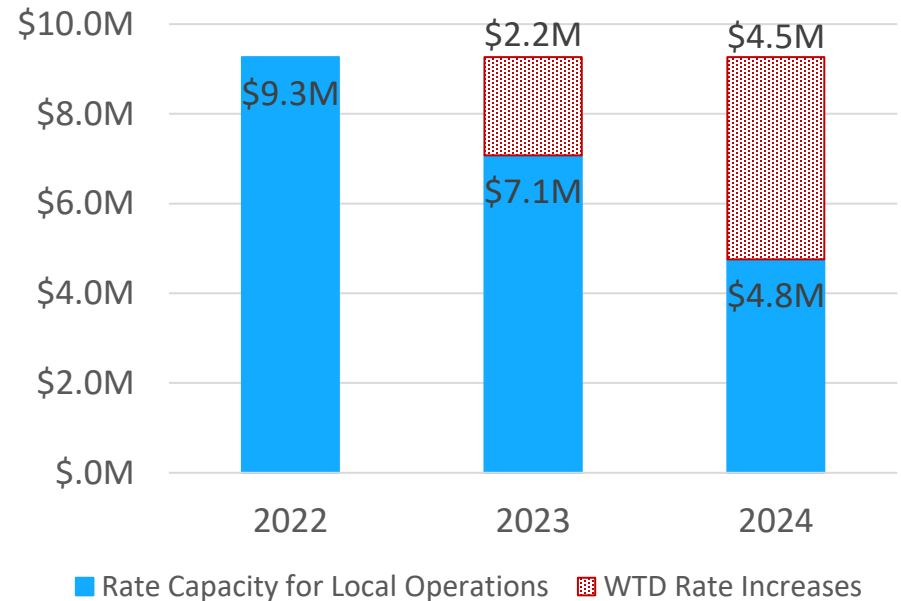


What if: Cut Local Operations instead of passing through Wholesale Costs

Forecasted WTD Wholesale Cost



Eroded Rate Capacity



Local operations cut by 43% if wholesale costs are absorbed



Rates Guided by Financial Policies

Governing Policies for Capital Investments

- *Funding for capital investments shall be sustained at a level sufficient to meet long-term capital program costs*
- *Funding from rates shall fund current construction and engineering costs and contributions to the R&R Account*
- *Inter-generational equity will be ensured by making contributions to and withdrawals from the R&R Account in a manner which produces smooth rates*



Rates Forecast - Proposed and Alternative Rate Paths



Changes from Early Outlook

April 7: Early Outlook
Forecast

June 16: Proposed Rate
Forecast

Sept 1: Prelim Rate Forecast

What has changed:

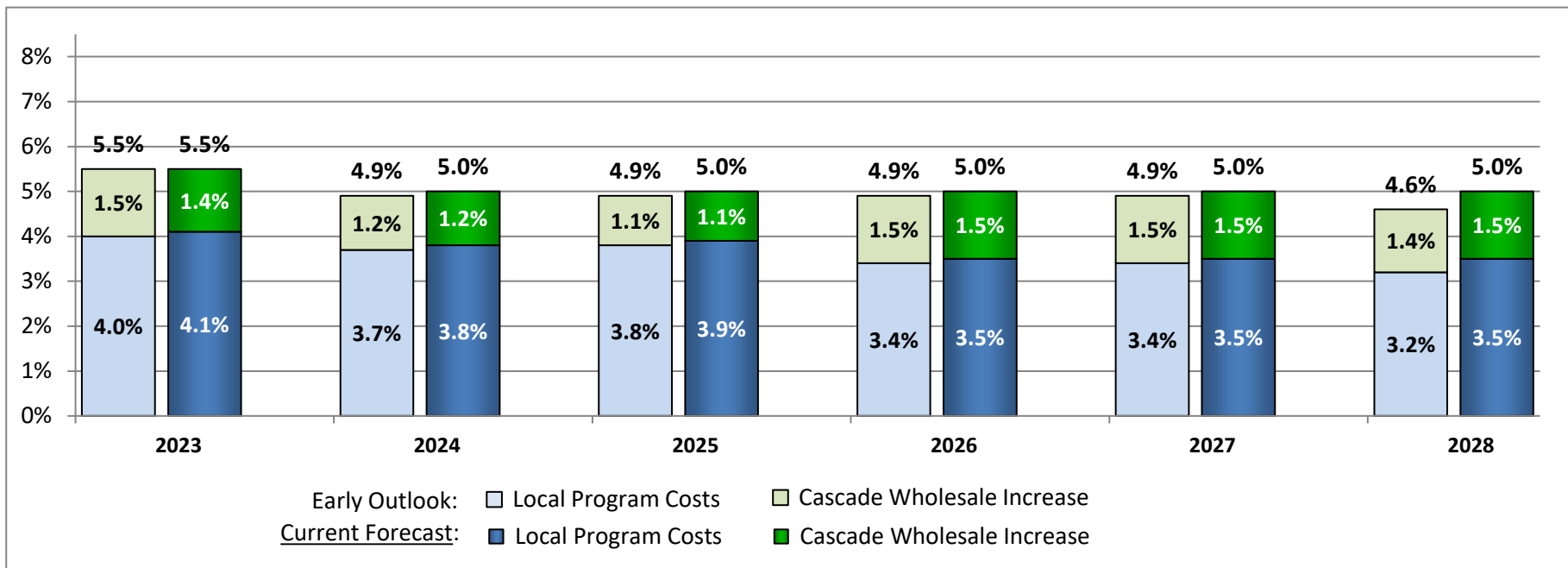
- Higher King County Wholesale Cost
- Charges from General Fund
- Taxes
- Salary & Benefits

What may still change:

- Cascade Wholesale Costs
- Inflation Forecasts



Water Rate Forecast – Early Outlook & Proposed (Jun)



➤ The proposed rate path achieves all rate policies and objectives.











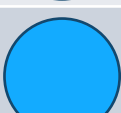
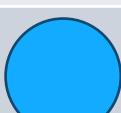

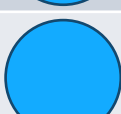
Water Rate Forecast – Deferred R&R

	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.6%
Deferred R&R	4.6%	4.5%	5.1%	5.4%	5.4%	5.4%	5.7%
<i>Difference</i>	-0.9%	-0.5%	0.1%	0.4%	0.4%	0.4%	0.1%

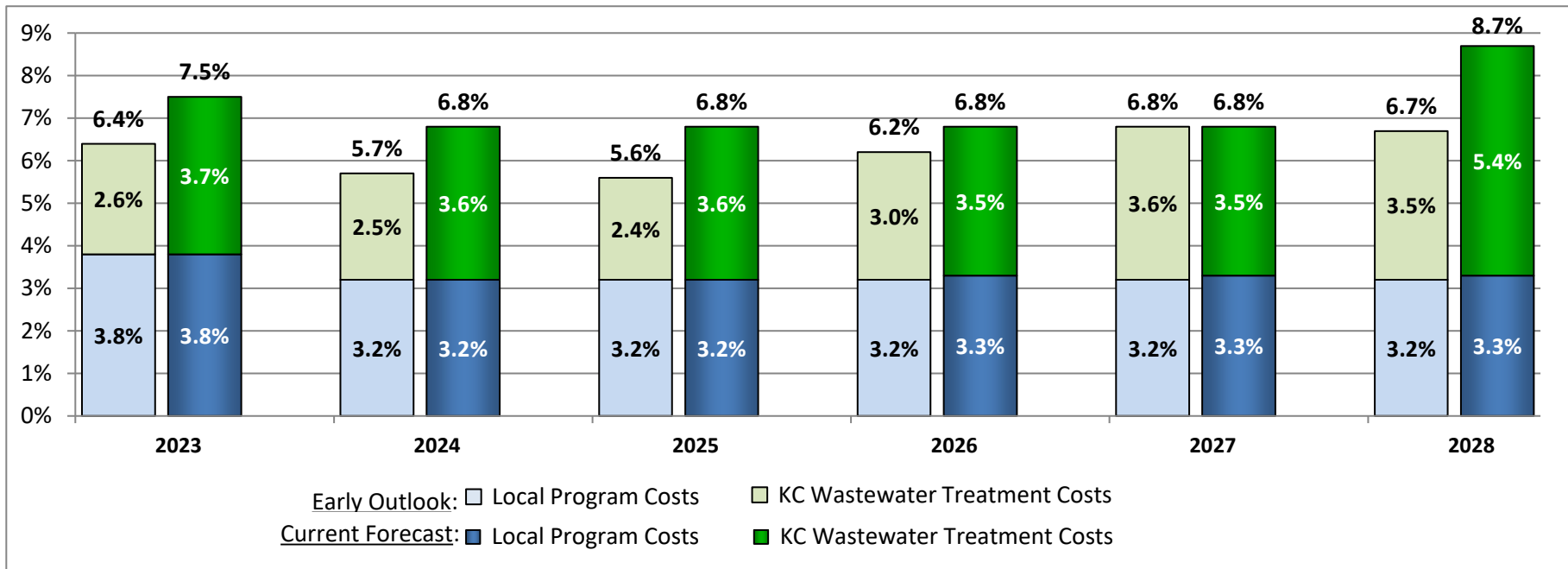
Typical Monthly Bill	2022	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	\$74.74	\$78.85	\$82.79	\$86.93	\$91.28	\$95.84	\$100.63	\$106.27
Deferred R&R	\$74.74	\$78.18	\$81.70	\$85.87	\$90.51	\$95.40	\$100.55	\$106.28
<i>Difference</i>		(\$0.67)	(\$1.09)	(\$1.06)	(\$0.77)	(\$0.44)	(\$0.08)	\$0.01

- Lower rate increases in 2023-2024.
- Higher rate increases in 2025-2029.
- \$3.3M less in R&R reserves, plus future interest.

Summary of Water Rate Scenarios

Policies & Objectives	Proposed	Defer R&R
Rates set to cover current and future expenses		
Changes should be gradual and uniform		
Wholesale costs shall be passed through directly		
Inflation shall be a basis for evaluating increases		
Budget & rates shall meet operating reserve requirements		
Mitigate near-term rate increases		

Sewer Rate Forecast – Early Outlook & Proposed (Jun)



- The proposed rate path achieves all rate policies and objectives.
- Key change from Early Outlook driven by higher King County wholesale costs.









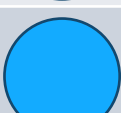
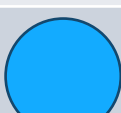

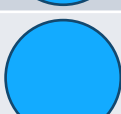
Sewer Rate Forecast – Deferred R&R

	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	7.5%	6.8%	6.8%	6.8%	6.8%	8.7%	8.7%
Deferred R&R	6.0%	6.3%	7.2%	7.2%	7.2%	9.2%	9.2%
<i>Difference</i>	-1.5%	-0.5%	0.4%	0.4%	0.4%	0.5%	0.5%

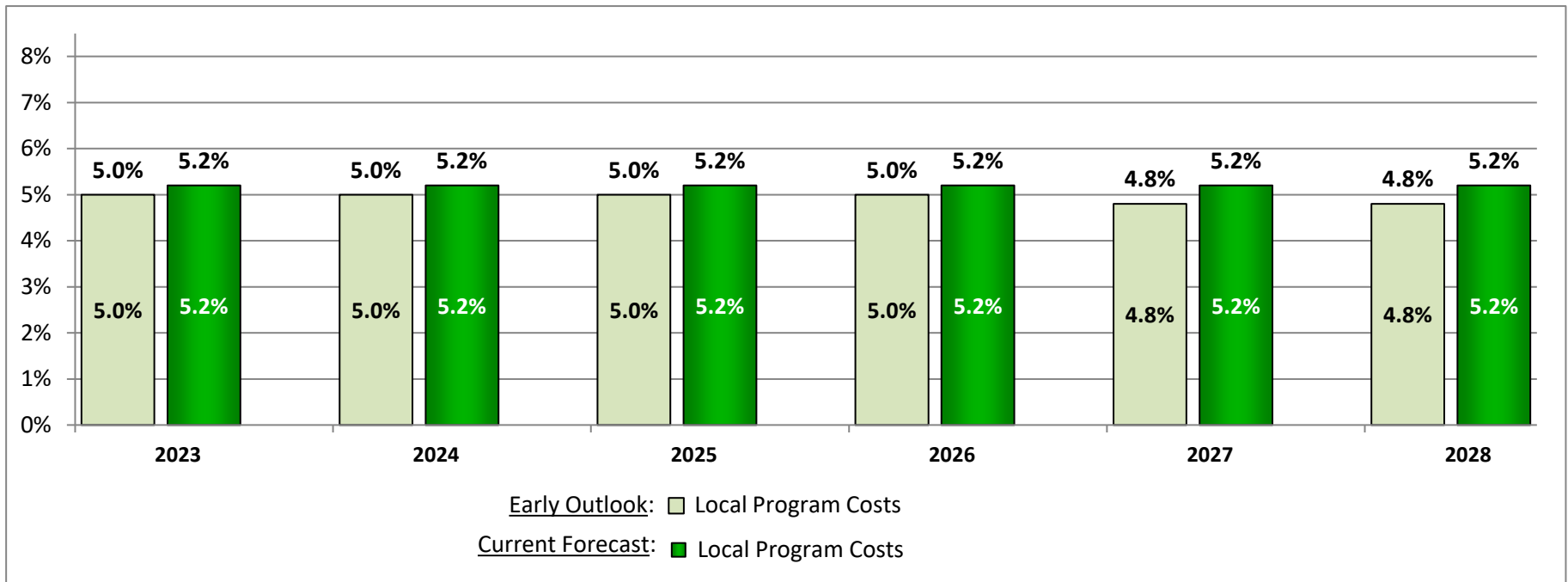
Typical Monthly Bill	2022	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	\$92.97	\$99.94	\$106.74	\$114.00	\$121.75	\$130.03	\$141.34	\$153.64
Deferred R&R	\$92.97	\$98.55	\$104.76	\$112.30	\$120.39	\$129.06	\$140.93	\$153.90
<i>Difference</i>		(\$1.39)	(\$1.98)	(\$1.70)	(\$1.36)	(\$0.97)	(\$0.41)	\$0.26

- Lower rate increases in 2023-2024.
- Higher rate increases in 2025-2029.
- \$5.6M less in R&R reserves, plus future interest.

Summary of Sewer Rate Scenarios

Policies & Objectives	Proposed	Defer R&R
Rates set to cover current and future expenses		
Changes should be gradual and uniform		
Wholesale costs shall be passed through directly		
Inflation shall be a basis for evaluating increases		
Budget & rates shall meet operating reserve requirements		
Mitigate near-term rate increases		

Storm Rate Forecast – Early Outlook & Proposed (Jun)



➤ This rate path achieves all rate policies and objectives.



Storm Rate Forecast – Deferred R&R











	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.0%
Deferred R&R	4.0%	4.0%	5.6%	5.6%	5.6%	5.7%	5.7%
<i>Difference</i>	-1.2%	-1.2%	0.4%	0.4%	0.4%	0.5%	0.7%

Typical Monthly Bill	2022	2023	2024	2025	2026	2027	2028	2029
Proposed Rate Path	\$29.73	\$31.28	\$32.91	\$34.62	\$36.42	\$38.31	\$40.30	\$42.32
Deferred R&R	\$29.73	\$30.92	\$32.16	\$33.96	\$35.86	\$37.87	\$40.03	\$42.31
<i>Difference</i>		(\$0.36)	(\$0.75)	(\$0.66)	(\$0.56)	(\$0.44)	(\$0.27)	(\$0.01)

- Lower rate increases in 2023-2024.
- Higher rate increases in 2025-2029.
- \$2.9M less in R&R reserves, plus future interest.



Summary of Storm Rate Scenarios

Policies & Objectives	Proposed	Defer R&R
Rates set to cover current and future expenses		
Changes should be gradual and uniform		
Wholesale costs shall be passed through directly	N/A	N/A
Inflation shall be a basis for evaluating increases		
Budget & rates shall meet operating reserve requirements		
Mitigate near-term rate increases		

Customer Impact of Scenarios

	2023 Proposed		2023 Deferred		Delta
2022 Monthly Bill		\$197.44		\$197.44	\$0.00
Rate Drivers					
Wholesale	2.3%	\$4.49	2.3%	\$4.49	\$0.00
Local					
<i>CIP</i>	1.2%	\$2.27	1.2%	\$2.27	\$0.00
<i>R&R</i>	1.4%	2.82	0.2%	0.40	(2.42)
<i>Taxes/Interfunds</i>	0.7%	1.46	0.7%	1.46	0.00
<i>Operations</i>	0.8%	1.59	0.8%	1.59	0.00
Local	4.1%	\$8.14	2.9%	\$5.72	(\$2.42)
Total Increase		\$12.63		\$10.21	(\$2.42)
Typical Monthly Bill	6.4%	\$210.07	5.2%	\$207.65	(\$2.42)



Customer Impact of Scenarios

	2024 Proposed		2024 Deferred		Delta
2023 Monthly Bill		\$210.07		\$207.65	(\$2.42)
Rate Drivers					
Wholesale	2.2%	\$4.55	2.2%	\$4.55	0.00
Local					
<i>CIP</i>	1.3%	\$2.78	1.3%	\$2.78	\$0.00
<i>R&R</i>	0.8%	1.68	0.2%	0.28	(1.40)
<i>Taxes/Interfunds</i>	0.8%	1.70	0.8%	1.70	0.00
<i>Operations</i>	0.8%	1.66	0.8%	1.66	0.00
Local	3.7%	\$7.82	3.1%	\$6.48	(\$1.40)
Total Increase		\$12.37		\$10.97	(\$1.40)
Typical Monthly Bill	5.9%	\$222.44	5.3%	\$218.62	(\$3.82)



Summary Impact of Deferring R&R

	Proposed	Deferred	Impact
2023			
Prior Year Monthly Bill	\$197.44	\$197.44	
Increase	12.63	10.21	(\$2.42)
2023 Monthly Bill	\$210.07	\$207.65	
2024			
Prior Year Monthly Bill	\$210.07	\$207.65	
Increase	12.37	10.97	(\$1.40)
2024 Monthly Bill	\$222.44	\$218.62	(\$3.82)

Impacts:

- \$11.8M less in R&R reserves + future interest
- Deferring current liability to future generations
- Deviates from long-range financial plan

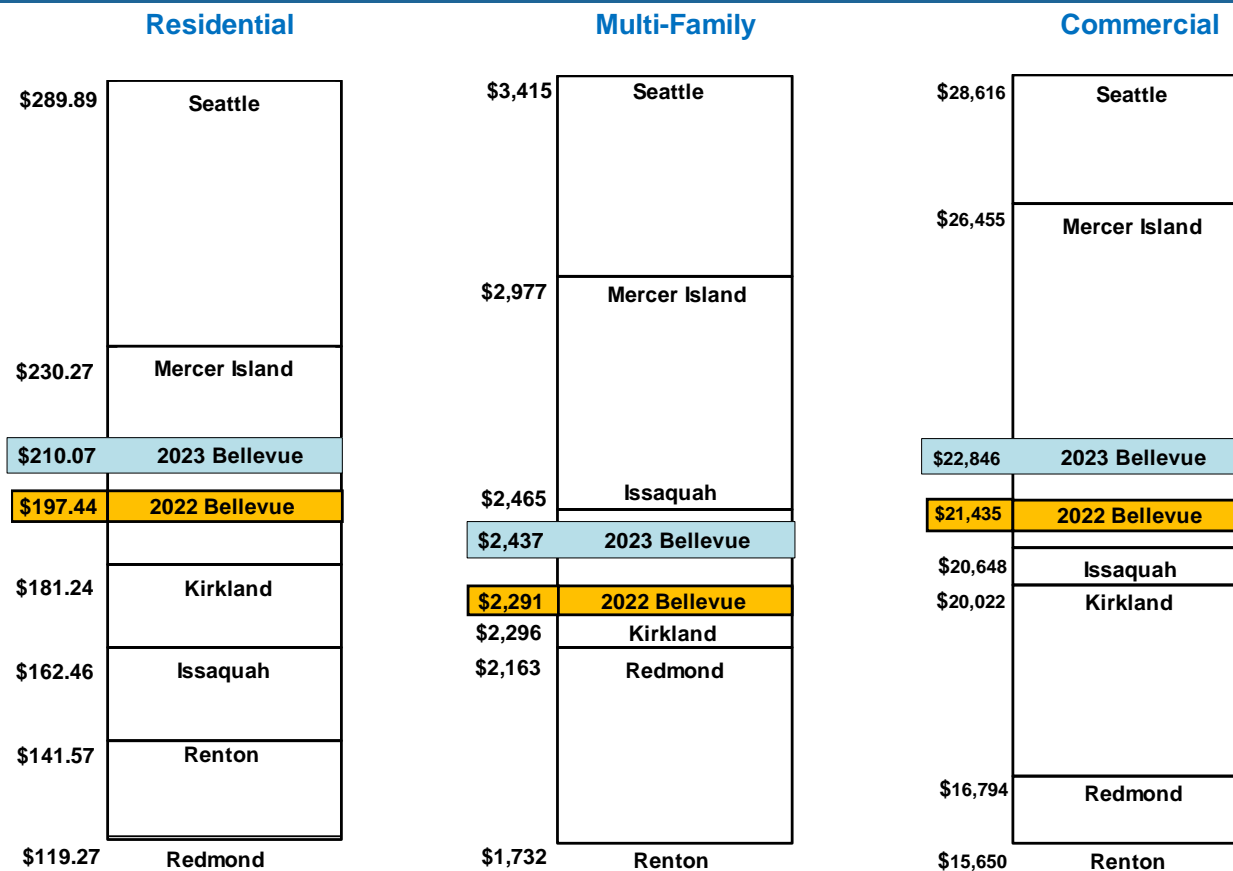


Typical Residential Combined Bill Impact – Proposed

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Rates Competitive with Neighbors – All Funds



Source: All rate information was obtained from municipality websites





Next Steps



ESC 2023-24 Budget Review Calendar

Date	Topic
April 7	<ul style="list-style-type: none"> • 2021 Financial Performance • Early Outlook Rates Forecast • CIP Open House results
May 5 - Cancelled	
June 2	<ul style="list-style-type: none"> • CIP Budget Proposals • Operating Budget Proposals
June 16	<ul style="list-style-type: none"> • Rates Review • Monthly Billing Policy Discussion
July 7	<ul style="list-style-type: none"> • Budget Proposals Recommendation to Leadership Team & City Manager • Monthly Billing Recommendation to Council
August 4	<ul style="list-style-type: none"> • CIP / O&M Tour
September 1	<ul style="list-style-type: none"> • Preliminary Budget & Rates Forecast • Budget & Rates Public Hearing
September 15	<ul style="list-style-type: none"> • Budget Follow-up
October 6	<ul style="list-style-type: none"> • Budget & Rates Recommendation to Council
October 24 (tentative)	<ul style="list-style-type: none"> • ESC Chair delivers Budget & Rates Recommendation to Council
November 21	<ul style="list-style-type: none"> • Council Adopts Budget and Rates

