



2023-2028 Utilities Funds Forecast Early Look

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.*
- *Significant rate drivers in the 2023-2024 biennium include higher inflationary pressures, anticipated wholesale cost increases for drinking water supply and wastewater treatment services, and infrastructure maintenance and renewal/replacement needs.*
- *Since all Utility functions are primarily supported by rates, this forecast includes funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and long-term infrastructure renewal and replacement requirements.*

Key Challenges

Below is a summation of the key budget challenges for the Utilities Department.

Operating and Construction Cost Inflation

Utilities costs are driven by the general inflation climate. Similar to the general fund, and other utilities, Bellevue Utilities are impacted by higher than previously forecasted inflation rates. Current inflation expectations result in increased personnel, operating and maintenance costs, as well as associated interfund costs. In addition to operating cost increases, construction costs have increased substantially due to disruptions in the global supply chain impacting materials costs, and the local construction market driving labor costs. The Utilities budget is primarily funded from rates, and as a result, these combined inflationary pressures translate directly to the need for rate increases.

Wholesale Costs

Approximately 33% of the water operating budget and 51% of the 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, Council-adopted financial policy directs that wholesale cost increases be passed through to the customer. This is to ensure the City can continue to maintain current levels of service delivery to customers. At this time, Cascade and King County have not amended their rate forecasts. For example, as far as we are aware, the King County wastewater treatment wholesale cost forecast does not reflect increases that may be necessary to fully fund



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regulatory compliance capital projects including combined sewer overflows and the Puget Sound general nutrient permit.

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. Each utility system is in a different stage of replacement. The water system is in active replacement. The water CIP includes a program to maintain the replacement of aging water mains at a sustainable level. The sewer system is moving into active replacement. Based on our long-term capital investment policies, both current capital investments and renewal and replacement funding will continue to ramp up over this decade. Replacement needs of the storm and surface water system are currently being identified and a long-term replacement program will be developed once condition assessment efforts are complete.

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 is in the process of updating its renewal and replacement needs forecast using asset management and condition assessment methodologies. The results of this update will be incorporated into a future forecast.

Projected Rate Increases

With the projected rate increases for the next biennium, the typical residential monthly customer bill for water, sewer, and stormwater management services will increase by 5.9% or \$11.55, from \$197.44 to \$208.99, in 2023 and by 5.3% or \$11.06 to \$220.05 in 2024. See Attachment A (*2023-2024 Utilities Early Outlook Rates Forecast - Typical Residential Monthly Utility Bill Rate Drivers*) for additional information.

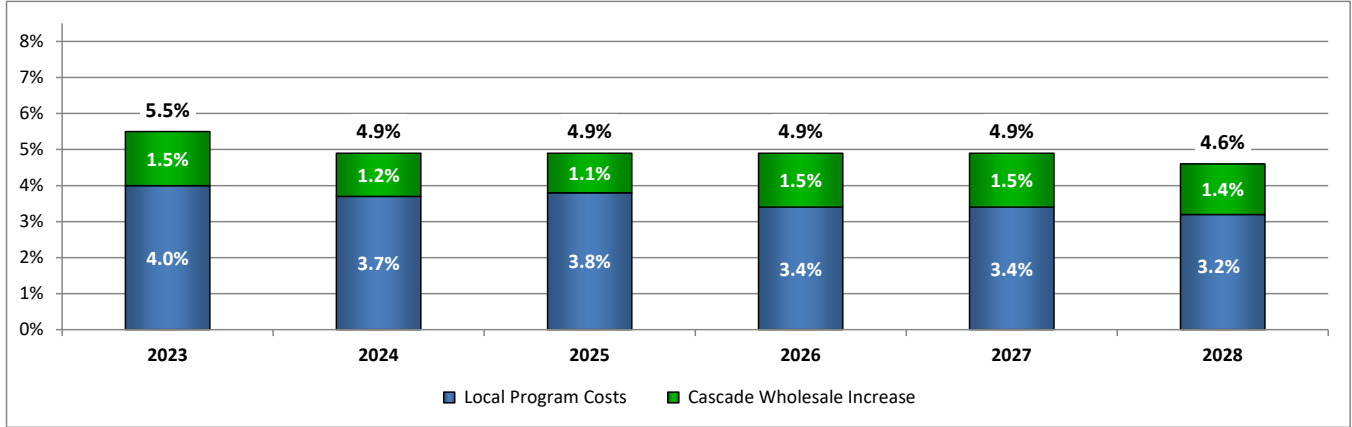
The following section provides a brief review of each Utility fund forecast and key rate drivers.



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WATER UTILITY FUND 2023 - 2028 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2023	2024	2025	2026	2027	2028
Prior Year Bill	\$74.74	\$78.85	\$82.71	\$86.76	\$91.01	\$95.47
Increase:						
Cascade Wholesale Purchased Water	1.12	0.95	0.91	1.30	1.37	1.34
Local	2.99	2.91	3.14	2.95	3.09	3.06
Total	\$4.11	\$3.86	\$4.05	\$4.25	\$4.46	\$4.40
Projected Bill	\$78.85	\$82.71	\$86.76	\$91.01	\$95.47	\$99.87

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

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 costs to the City of Bellevue are projected to increase by 2.4% in 2023 and 2.4% in 2024. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 1.5% for 2023 and 1.2% for 2024. Beyond that, the anticipated retail rate impacts due to Cascade's projected cost increases to the City of Bellevue average 1.4% per year for 2025 through 2028.

- **Capital Program**

The projected 2023-2029 water capital investment program (CIP) includes \$182.3M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$154.7M) will be invested to replace existing aging infrastructure. Significant aging infrastructure water CIP projects include water main replacement and reservoir rehabilitations. Total costs for current and future infrastructure needs will require rate increases of 2.2% in 2023 and 2.4% in 2024, and an average of about 1.7% per year thereafter.

- **Taxes/Intergovernmental**

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 1.0% in 2023 and 0.8% in 2024. Rate increases for the remainder of the forecast period will average 0.9%.

- **Operations**

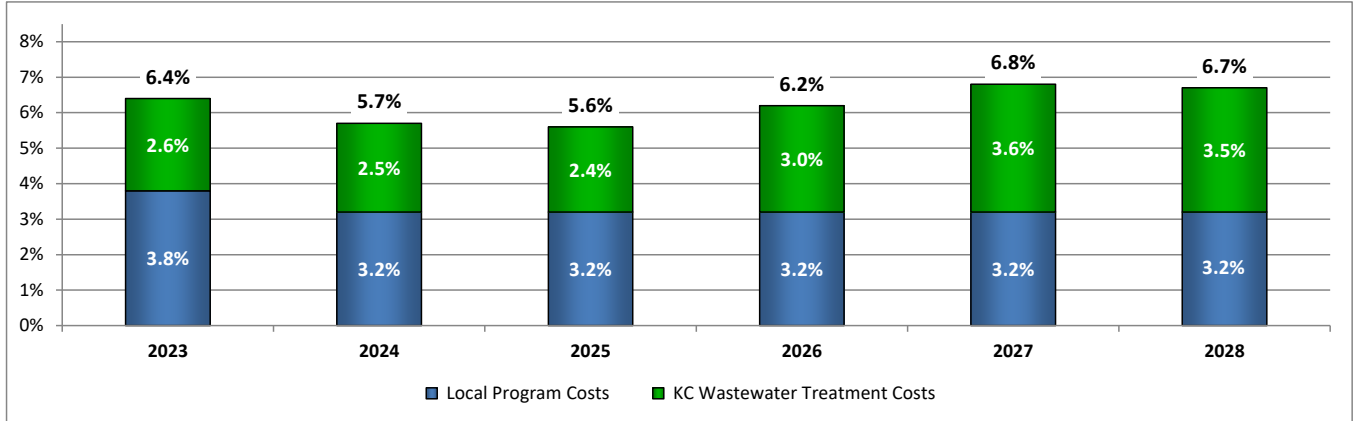
The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 0.8% in 2023, 0.5% in 2024, and an average of about 0.8% per year thereafter.



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SEWER UTILITY FUND 2023 - 2028 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2023	2024	2025	2026	2027	2028
Prior Year Bill	\$92.97	\$98.92	\$104.56	\$110.42	\$117.26	\$125.23
Increase:						
KC Wastewater Treatment	2.42	2.47	2.51	3.31	4.22	4.38
Local	<u>3.53</u>	<u>3.17</u>	<u>3.35</u>	<u>3.53</u>	<u>3.75</u>	<u>4.01</u>
Total	<u>\$5.95</u>	<u>\$5.64</u>	<u>\$5.86</u>	<u>\$6.84</u>	<u>\$7.97</u>	<u>\$8.39</u>
Projected Bill	\$98.92	\$104.56	\$110.42	\$117.26	\$125.23	\$133.62

Minor differences may exist due to rounding

Key Rate Drivers

- **Wholesale Costs**

The City of Bellevue purchases wastewater treatment services from King County. The wholesale wastewater treatment rate is established by the County, and per City financial policy is passed directly through to the ratepayer. Per King County's adopted sewer rate plan, wholesale costs to Bellevue Utilities are projected to increase by 4.0% in 2023 and 4.0% in 2024. The retail rate impacts of the projected increases in wastewater treatment costs to Bellevue are 2.6% in 2023, 2.5% in 2024, and average 3.1% for 2025-2028. The projected increases provided by King County do not fully reflect increases due to regulatory compliance projects such as combined sewer overflows or the Puget Sound nutrient general permit.

- **Capital Program**

The projected 2023-2029 sewer capital investment program (CIP) includes \$79.3M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program (\$63.1M) 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. Total costs for current and future infrastructure needs will require rate increases of about 2.2% in 2023, 2.3% in 2024, and an average of 2.2% per year thereafter.

- **Taxes/Intergovernmental**

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 0.9% in 2023, 0.6% in 2024, and an average of 0.6% per year thereafter.

- **Operations**

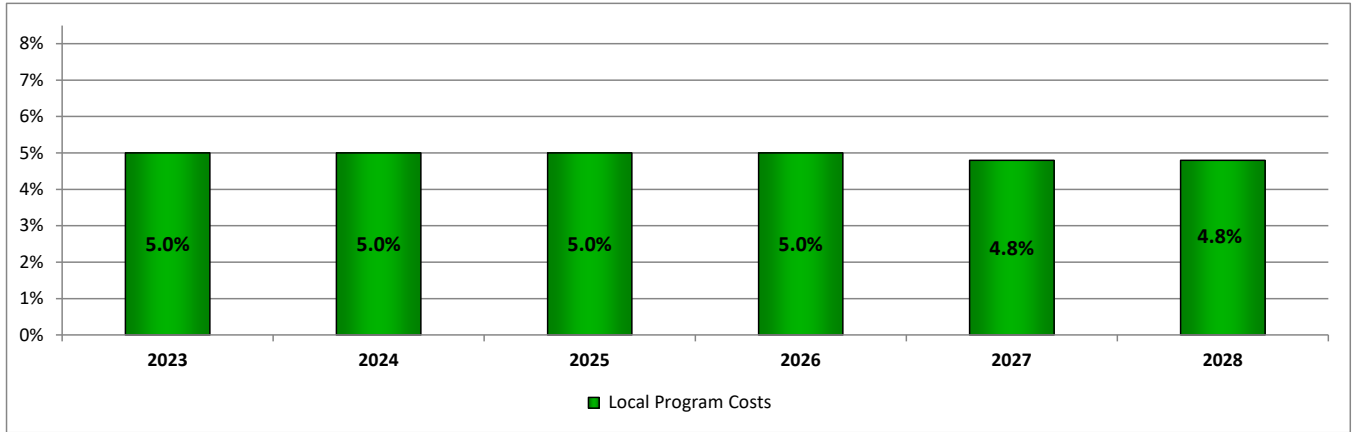
The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 0.7% in 2023 and 0.3% 2024, and an average of 0.4% per year for the remainder of the forecast period.



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STORM AND SURFACE WATER UTILITY FUND 2023 - 2028 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2023	2024	2025	2026	2027	2028
Prior Year Bill	\$29.73	\$31.22	\$32.78	\$34.42	\$36.14	\$37.87
Increase	<u>\$1.49</u>	<u>\$1.56</u>	<u>\$1.64</u>	<u>\$1.72</u>	<u>\$1.73</u>	<u>\$1.82</u>
Projected Bill	\$31.22	\$32.78	\$34.42	\$36.14	\$37.87	\$39.69

Minor differences may exist due to rounding

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 is performed locally by the City of Bellevue.

- **Capital Program**

The projected 2023-2029 stormwater capital investment program (CIP) includes \$61.5M in investments. Of this amount, \$39.4M is for environmental preservation investments, and include mitigating flood hazards and constructing fish passage and stream improvement projects. The remaining \$22.1M of the stormwater utility capital investments are for aging infrastructure rehabilitation and replacements and for meeting regulatory mandates. Significant projects include stormwater system conveyance infrastructure rehabilitation and minor stormwater capital improvement projects. Total costs for current and future infrastructure needs will require rate increases of 2.0% in 2023 and 2.6% in 2024 and an average of about 2.3% per year thereafter.

- **Taxes/Intergovernmental**

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 0.8% in 2023, 0.9% in 2024, and increases averaging about 0.7% per year thereafter.

- **Operations**

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 2.2% in 2023, 1.5% in 2024, and about 1.8% per year thereafter.