

DATE: June 16, 2022

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
Uma Singh, Acting Assistant Director – Resource Management and Customer Service
Andy Baker, Fiscal Manager

SUBJECT: **Utilities 2023-2028 Rates Forecast Update**

ACTION REQUIRED

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

Staff has prepared an updated forecast of the water, sewer, and storm and surface water rate increases necessary to fund the proposed operating and capital budgets presented at the June 2 meeting.

Staff will ask for a recommendation from the Commission to the City Manager regarding these rates at the Commission's July 7 meeting.

BACKGROUND / ANALYSIS

This is a continuation of a series of briefings to facilitate the Commission's review of the proposed Utilities Department 2023-2024 operating budget and rates, and 2023-2029 capital investment program (CIP).

The Commission previously reviewed:

- January: Utilities CIP budget development process
- February: 2023-2024 budget planning process
- March: Overview of the Utilities finances, and the Utilities Proposed 2023-2029 CIP Plan
- April: Utilities Department 2021 financial performance results, results of the CIP open house, and the 2023-2028 rates forecast for the water, sewer, and storm and surface water utilities
- June 2: Utilities 2023-2024 operating budget proposals and 2023-2029 CIP budget proposals

On June 16, staff will:

- Present the updated Utilities rates forecast, for the period 2023 through 2028, necessary to support the proposed operating and capital budgets;
- Present the rate drivers based on the key components of the rate increases;
- Present alternative rate scenarios based on Commission feedback; and
- Provide responses to Commission questions regarding the budget proposals and rates.

Rate Development

Rates are Utilities' primary source of funding. The level of utility rates presented in this forecast are based on the following key Council-adopted 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 the 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 proposed Utilities budget, staff follows an established process defined by the utility ratemaking industry:

1. Budget Development is the first step, as it establishes the expenditures necessary to maintain existing service levels, sustainably manage aging infrastructure, 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 2023 through 2028, and a renewal and replacement forecast from 2023 through 2097. 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.

Key Changes from Early Outlook Forecast

The Utilities budgets and rates forecast have been updated relative to the Early Outlook Rates Forecast presented in April. This includes updates to expenditures informed by the City Budget Office, such as personnel costs and interfund costs for City support services; as well as minor refinements to the Utilities forecasted maintenance and operations costs and professional services expenses.

The most significant change is an increase to the forecasted Sewer wholesale cost for wastewater treatment, based on information provided by King County:

Sewer Wholesale	2023	2024	2025	2026	2027	2028
Early Outlook	4.00%	4.00%	4.00%	5.00%	6.00%	6.00%
Current Rate Forecast	5.75%	5.75%	5.75%	5.75%	5.75%	9.00%

The current rates forecasts are presented below, along with the Early Outlook Rates Forecast presented in April for context.

Figure 1: Projected Water Rate Forecast

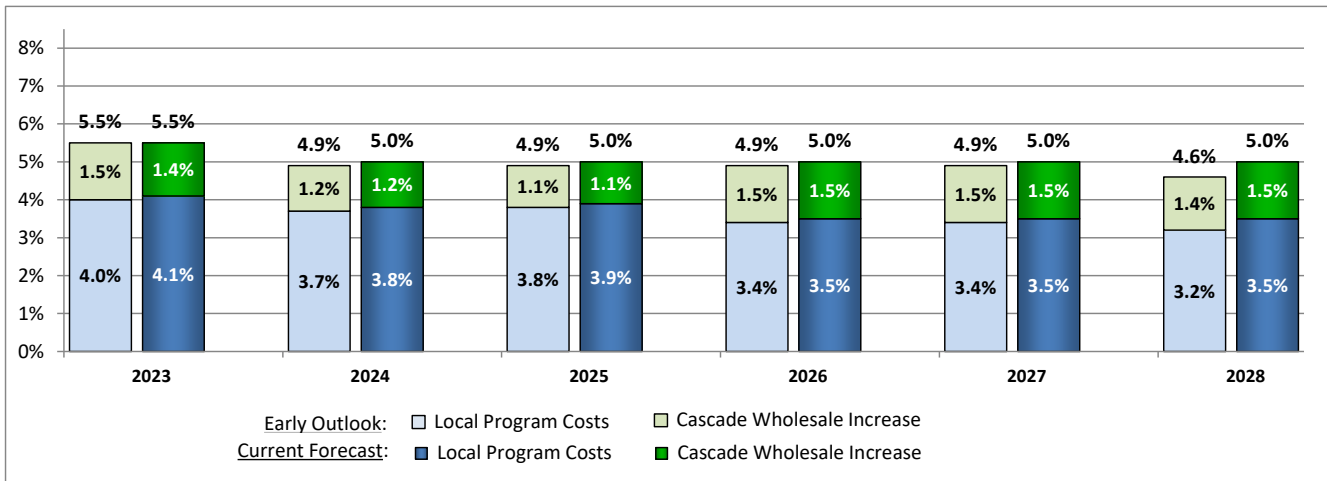


Figure 2: Projected Sewer Rate Forecast

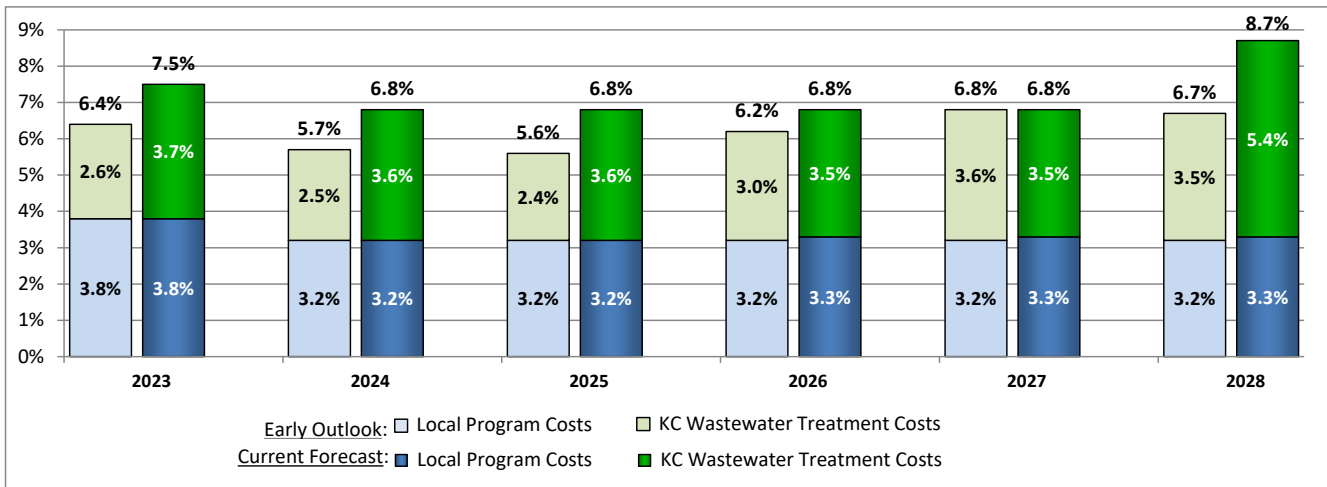
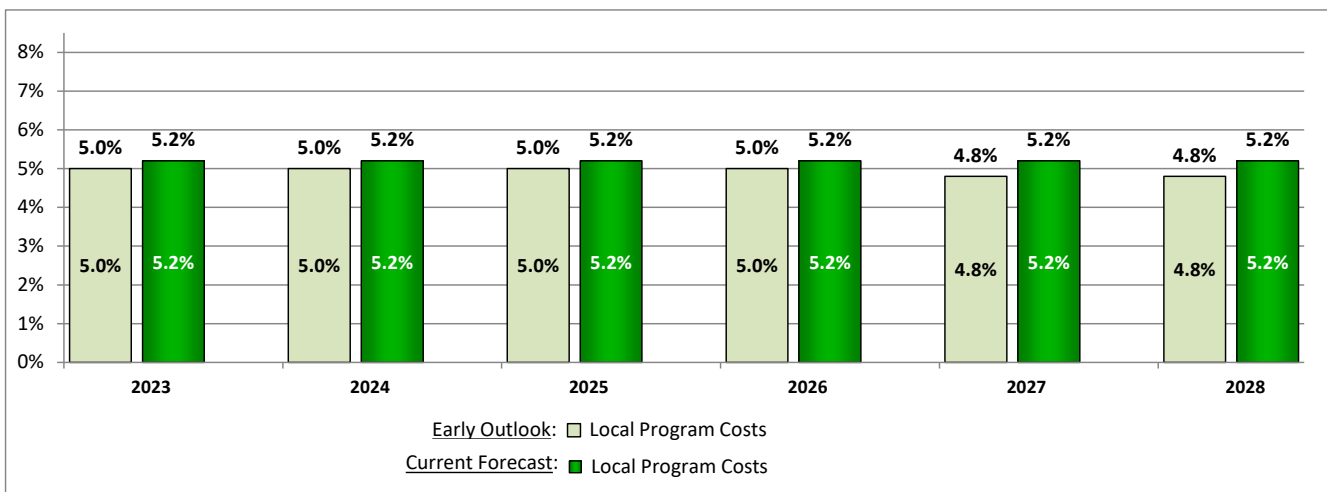


Figure 3: Projected Storm Rate Forecast



ATTACHMENTS & AVAILABLE DOCUMENTS

- A. 2023-2024 Proposed Operating Budget Pro-forma
- B. 2023-2029 Proposed Capital Budget Pro-forma

ATTACHMENT A

Table 1: Proposed 2023 Operating Budget (\$000's)

	Water	Sewer	Stormwater	Solid Waste	Total
Beginning Fund Balance					
Operating Reserves	\$10,190	\$5,087	\$3,071	\$2,957	\$21,306
Asset Repl. Reserves	\$5,325	\$4,706	\$5,281	\$0	\$15,312
Subtotal	\$15,516	\$9,792	\$8,352	\$2,957	\$36,617
Revenues					
Service Charges	\$68,219	\$75,266	\$29,599	\$0	\$173,084
Interfund Services	\$83	\$134	\$29	\$0	\$247
Developer Fees	\$893	\$475	\$680	\$0	\$2,048
RCFCs	\$2,305	\$0	\$0	\$0	\$2,305
Admin Revenues	\$0	\$0	\$0	\$872	\$872
Grants	\$0	\$0	\$0	\$329	\$329
Interest	\$233	\$147	\$125	\$8	\$513
Other	\$3,955	\$593	\$96	\$18	\$4,661
Subtotal	\$75,687	\$76,616	\$30,529	\$1,226	\$184,058
TOTAL SOURCES	\$91,203	\$86,408	\$38,881	\$4,184	\$220,675
Expenses					
Wholesale	\$25,304	\$39,951	\$0	\$0	\$65,255
Capital Program	\$22,345	\$19,490	\$15,793	\$0	\$57,628
Taxes/Interfunds	\$13,269	\$7,829	\$4,696	\$455	\$26,249
Personnel	\$9,241	\$6,949	\$6,935	\$217	\$23,341
Other M&O	\$5,875	\$3,947	\$3,837	\$572	\$14,231
Subtotal	\$76,034	\$78,166	\$31,261	\$1,244	\$186,704
Ending Fund Balance					
Operating Reserves	\$11,012	\$4,207	\$3,122	\$2,940	\$21,281
Asset Repl. Reserves	\$4,156	\$4,035	\$4,499	\$0	\$12,690
Subtotal	\$15,169	\$8,242	\$7,620	\$2,940	\$33,971
TOTAL USES	\$91,203	\$86,408	\$38,881	\$4,184	\$220,675
FTEs	68	53	53	1	175
LTEs	3	1	2	-	6
Total FTEs/LTEs	71	54	55	1	181

ATTACHMENT A

Table 2: Proposed 2024 Operating Budget (\$000's)

	Water	Sewer	Stormwater	Solid Waste	Total
Beginning Fund Balance					
Operating Reserves	\$11,026	\$4,932	\$2,372	\$2,940	\$21,270
Asset Repl. Reserves	\$4,156	\$4,035	\$4,499	\$0	\$12,690
Subtotal	\$15,183	\$8,967	\$6,870	\$2,940	\$33,960
Revenues					
Service Charges	\$71,665	\$80,424	\$31,154	\$0	\$183,244
Interfund Services	\$86	\$139	\$30	\$0	\$256
Developer Fees	\$893	\$475	\$680	\$0	\$2,049
RCFCs	\$2,379	\$0	\$0	\$0	\$2,379
Admin Revenues	\$0	\$0	\$0	\$904	\$904
Grants	\$0	\$0	\$0	\$418	\$418
Interest	\$228	\$135	\$103	\$8	\$473
Other	\$4,168	\$612	\$96	\$18	\$4,894
Subtotal	\$79,419	\$81,785	\$32,063	\$1,349	\$194,616
TOTAL SOURCES	\$94,602	\$90,752	\$38,934	\$4,289	\$228,576
Expenses					
Wholesale	\$25,930	\$42,269	\$0	\$0	\$68,199
Capital Program	\$24,828	\$20,388	\$16,535	\$0	\$61,750
Taxes/Interfunds	\$14,145	\$8,201	\$4,912	\$705	\$27,963
Personnel	\$9,502	\$7,217	\$7,219	\$225	\$24,163
Other M&O	\$3,862	\$3,125	\$2,926	\$471	\$10,384
Subtotal	\$78,266	\$81,200	\$31,593	\$1,400	\$192,459
Ending Fund Balance					
Operating Reserves	\$11,300	\$5,341	\$2,292	\$2,889	\$21,822
Asset Repl. Reserves	\$5,036	\$4,211	\$5,049		\$14,296
Subtotal	\$16,335	\$9,552	\$7,341	\$2,889	\$36,117
TOTAL USES	\$94,602	\$90,752	\$38,934	\$4,289	\$228,576
FTEs	68	53	53	1	175
LTEs	1	1	-	-	2
Total FTEs/LTEs	69	54	53	1	177

ATTACHMENT B
Proposed 2023-2029 Utilities CIP Financial Statements

Table 1: Water Utility CIP Proposed Budget (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Capital Fund Balance	-	-	-	-	-	-	-	-
Revenues								
Rate Revenue (Transfer from Ops)	\$21,001	\$22,850	\$26,442	\$26,932	\$24,414	\$24,042	\$27,951	\$173,632
Transfer from R&R Account	-	-	4,589	-	-	-	-	4,589
Total Revenues	\$21,001	\$22,850	\$31,031	\$26,932	\$24,414	\$24,042	\$27,951	\$178,221
Total Sources	\$21,001	\$22,850	\$31,031	\$26,932	\$24,414	\$24,042	\$27,951	\$178,221
Expenditures								
Replace Aging Infrastructure	\$20,867	\$22,817	\$28,165	\$24,432	\$22,659	\$23,080	\$27,951	\$169,971
Capacity for Growth	-	-	400	1,099	1,755	962	-	4,216
Service Enhancement/Other	134	33	-	-	-	-	-	167
Maint/Ops Land Acquisition	-	-	2,466	1,401	-	-	-	3,867
Subtotal – Water CIP	\$21,001	\$22,850	\$31,031	\$26,932	\$24,414	\$24,042	\$27,951	\$178,221
Ending Capital Fund Balance	-	-	-	-	-	-	-	-
Total Uses	\$21,001	\$22,850	\$31,031	\$26,932	\$24,414	\$24,042	\$27,951	\$178,221

Table 2: Water Utility Renewal & Replacement Account (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Reserves								
R&R Reserves	\$63,149	\$67,205	\$71,953	\$70,194	\$74,177	\$82,514	\$93,239	\$63,149
Total Reserves	\$63,149	\$67,205	\$71,953	\$70,194	\$74,177	\$82,514	\$93,239	\$63,149
Revenues								
Rate Revenue (Transfer from Ops)	\$1,344	\$1,978	-	\$1,228	\$5,577	\$7,898	\$6,065	\$24,090
Capital Recovery Charges & Direct Facilities Charges	1,765	1,762	1,752	1,702	1,648	1,589	1,527	11,744
Interest Earnings	947	1,008	1,079	1,053	1,113	1,238	1,399	7,836
Total Revenues	\$4,056	\$4,748	\$2,831	\$3,983	\$8,337	\$10,725	\$8,991	\$43,671
Total Sources	\$67,205	\$71,953	\$74,783	\$74,177	\$82,514	\$93,239	\$102,230	\$106,819
Expenditures								
Transfer to CIP for Aging Infrastructure Projects	-	-	\$4,589	-	-	-	-	\$4,589
Total Expenditures	-	-	\$4,589	-	-	-	-	\$4,589
Ending Reserves								
R&R Reserves	\$67,205	\$71,953	\$70,194	\$74,177	\$82,514	\$93,239	\$102,230	\$102,230
Total Reserves	\$67,205	\$71,953	\$70,194	\$74,177	\$82,514	\$93,239	\$102,230	\$102,230
Total Uses	\$67,205	\$71,953	\$74,783	\$74,177	\$82,514	\$93,239	\$102,230	\$106,819

ATTACHMENT B
Proposed 2023-2029 Utilities CIP Financial Statements

Table 3: Sewer Utility CIP Proposed Budget (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Capital Fund Balance	-	-	-	-	-	-	-	-
Revenues								
Rate Revenue (Transfer from Ops)	\$7,863	\$9,130	\$19,431	\$16,840	\$11,477	\$6,588	\$6,199	\$77,528
Transfer from R&R Account	-	-	-	-	-	-	-	-
Total Revenues	\$7,863	\$9,130	\$19,431	\$16,840	\$11,477	\$6,588	\$6,199	\$77,528
Total Sources	\$7,863	\$9,130	\$19,431	\$16,840	\$11,477	\$6,588	\$6,199	\$77,528
Expenditures								
Replace Aging Infrastructure	\$7,730	\$9,096	\$16,116	\$14,061	\$11,477	\$6,588	\$6,199	\$71,267
Capacity for Growth	-	-	-	-	-	-	-	-
Service Enhancement/Other	133	34	-	-	-	-	-	167
Maint/Ops Land Acquisition	-	-	3,315	2,779	-	-	-	6,094
Subtotal – Water CIP	\$7,863	\$9,130	\$19,431	\$16,840	\$11,477	\$6,588	\$6,199	\$77,528
Ending Capital Fund Balance	-	-	-	-	-	-	-	-
Total Uses	\$7,863	\$9,130	\$19,431	\$16,840	\$11,477	\$6,588	\$6,199	\$77,528

Table 4: Sewer Utility Renewal & Replacement Account (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Reserves								
R&R Reserves	\$114,565	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$114,565
Total Reserves	\$114,565	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$114,565
Revenues								
Rate Revenue (Transfer from Ops)	\$10,902	\$11,258	\$2,937	\$7,711	\$15,483	\$22,931	\$26,087	\$97,309
Capital Recovery Charges & Direct Facilities Charges	787	637	572	553	532	518	512	4,110
Interest Earnings	1,718	1,920	2,127	2,211	2,368	2,644	3,036	16,024
Total Revenues	\$13,407	\$13,814	\$5,635	\$10,475	\$18,384	\$26,094	\$29,635	\$117,443
Total Sources	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$232,007	\$232,007
Expenditures								
Transfer to CIP for Aging Infrastructure Projects	-	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	-	-
Ending Reserves								
R&R Reserves	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$232,007	\$232,007
Total Reserves	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$232,007	\$232,007
Total Uses	\$127,972	\$141,786	\$147,421	\$157,896	\$176,279	\$202,373	\$232,007	\$232,007

ATTACHMENT B
Proposed 2023-2029 Utilities CIP Financial Statements

Table 5: Stormwater Utility CIP Proposed Budget (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Capital Fund Balance	-	-	-	-	-	-	-	-
Revenues								
Rate Revenue (Transfer from Ops)	\$4,807	\$4,771	\$14,678	\$9,718	\$8,881	\$4,486	\$3,809	\$51,150
King Co. Flood Control Grants	720	5,770	1,433	520	500	500	36	9,479
Transfer from R&R Account	-	-	1,069	-	-	-	-	1,069
Total Revenues	\$5,527	\$10,541	\$17,180	\$10,238	\$9,381	\$4,986	\$3,845	\$61,698
Total Sources	\$5,527	\$10,541	\$17,180	\$10,238	\$9,381	\$4,986	\$3,845	\$61,698
Expenditures								
Replace Aging Infrastructure	\$3,922	\$1,840	\$2,772	\$3,608	\$2,909	\$2,660	\$2,946	\$20,657
Capacity for Growth	-	-	-	-	-	-	-	-
Environmental Preservation	1,472	8,410	14,408	6,630	6,472	2,326	899	40,617
Service Enhancement/Other	133	33	-	-	-	-	-	166
M&II (D-104) Expenditures	-	258	-	-	-	-	-	258
Subtotal – Water CIP	\$5,527	\$10,541	\$17,180	\$10,238	\$9,381	\$4,986	\$3,845	\$61,698
Ending Capital Fund Balance	-	-	-	-	-	-	-	-
Total Uses	\$5,527	\$10,541	\$17,180	\$10,238	\$9,381	\$4,986	\$3,845	\$61,698

Table 6: Stormwater Utility Renewal & Replacement Account (\$000's)

	2023	2024	2025	2026	2027	2028	2029	Total
Beginning Reserves								
R&R Reserves	\$81,928	\$91,608	\$102,461	\$103,015	\$110,369	\$119,517	\$134,047	\$81,928
M&II Reserves	22,681	25,656	28,417	31,477	34,583	37,736	40,937	22,681
Total Reserves	\$104,610	\$117,263	\$130,878	\$134,492	\$144,952	\$157,253	\$174,984	\$104,610
Revenues								
Rate Revenue (Transfer from Ops)	\$8,352	\$9,388	-	\$5,729	\$7,418	\$12,668	\$14,276	\$57,831
MII Rate Revenue (Transfer from Ops)	2,634	2,376	2,634	2,634	2,634	2,634	2,634	18,181
Capital Recovery Charges & Direct Facilities Charges	98	92	85	80	75	70	66	566
Interest Earnings	1,229	1,374	1,537	1,545	1,656	1,793	2,011	11,144
MII Interest Earnings	340	385	426	472	519	566	614	3,322
Total Revenues	\$12,653	\$13,615	\$4,683	\$10,460	\$12,301	\$17,731	\$19,601	\$91,044
Total Sources	\$117,263	\$130,878	\$135,561	\$144,952	\$157,253	\$174,984	\$194,585	\$195,654
Expenditures								
Transfer to CIP for Aging Infrastructure Projects	-	-	\$1,069	-	-	-	-	\$1,069
Total Expenditures	-	-	\$1,069	-	-	-	-	\$1,069
Ending Reserves								
R&R Reserves	\$91,608	\$102,461	\$103,015	\$110,369	\$119,517	\$134,047	\$150,400	\$150,400
M&II Reserves	25,656	28,417	31,477	34,583	37,736	40,937	44,185	44,185
Total Reserves	\$117,263	\$130,878	\$134,492	\$144,952	\$157,253	\$174,984	\$194,585	\$194,585
Total Uses	\$117,263	\$130,878	\$135,561	\$144,952	\$157,253	\$174,984	\$194,585	\$195,654