

City of
Bellevue



MEMORANDUM

Date: September 29, 2022

To: Mayor Robinson and Councilmembers

From: Vanja Knezevic, Chair, Environmental Services Commission

Subject: **Utilities Department's:**
2023-2024 Operating Budget
2023-2029 Capital Budget
2023-2024 Rates Recommendation

As part of the Environmental Services Commission's charge, over the past nine months, the Commission has conducted a detailed review of the Utilities Department's proposed Capital Investment Program (CIP), capital and operating budget proposals, relevant policies, and the projected rate increases to implement the proposed budgets.

The Commission fully supports and recommends the following Utilities Department proposed budget and rates:

- 2023-2024 operating budget
- 2023-2029 CIP budget
- Water, sewer, and stormwater rate increases to fund the proposed Utilities operating and capital budgets as follows:

Utility Rate Increases to Fund Proposed 2023-2024 Budget

	Water	Sewer	Storm	Total
2023	5.9%	7.7%	5.3%	6.7%
2024	4.7%	6.8%	5.3%	5.8%

Bellevue's utility rates remain competitive with neighboring communities. Bellevue's rates should be even more competitive in the future because Bellevue is one of very few cities that proactively invest in future infrastructure requirements. In addition, the Commission supports the proposals to:

- 1) transition to monthly billing, and
- 2) establish a fee to recover the cost of processing credit card payments from all customers using credit cards to pay their utility bill.

The Commission recognizes the importance of equitable rates and appreciates the Department's responsiveness in developing policy options to support that outcome.

Background

Established by ordinance in 1991, the Environmental Services Commission advises City Council on water, wastewater, stormwater, and solid waste utility programs in the areas of planning, budgeting, ratemaking, CIP financing, and policies. The Commission is comprised of seven members, appointed by the Mayor with the concurrence of Council, who reside within the Bellevue Utilities Department's service area. The Commission's responsibilities include the evaluation of policy, budget, and planning issues that culminate in the utility budget and rate recommendations to City Council.

Process

The Commission scrutinized the proposed Utilities Department 2023-2024 operating budget and rates, and 2023-2029 CIP in detail over nine meetings during the course of this year. In addition, the Commission was briefed on the public input received during the online CIP open house held in March. The Commission held a public hearing on the proposed budget and rates on September 1, 2022 to solicit public input. One member of the public provided input at the hearing.

Highlights

Operations:

The major cost drivers for Utilities' operating budget include:

- Increase in wholesale water supply and wastewater treatment costs
- Aging infrastructure and the need to maintain and adequately fund both current capital projects, as well as funding future infrastructure renewal and replacement needs
- Inflationary pressures
- Regulatory requirements, and mandated projects and programs
- Replacement of major technology systems, funded from reserves, rather than driving rate increases

Capital:

The key drivers for the Utilities CIP include investments to renew and replace aging infrastructure, protect waterways and reduce flooding, add system capacity to support anticipated growth, and maintain and enhance service delivery to customers.

Utility system renewal is and will continue to be the most significant driver of Utilities' CIP. Each utility is in a different stage of system replacement. The water utility is in active system replacement and most water utility CIP expenditures will be used to replace aging infrastructure. The sewer and stormwater utilities are in the early stages of systematic asset replacement. In the stormwater utility, less is known about the condition of the utility infrastructure. The focus for the stormwater utility is on enhanced condition assessment.

The proposed budget supports the City Council priorities by:

- Supporting the City's economic development

- Protecting the built and natural environment
- Being a high-performance government by:
 - Maintaining a long-term view
 - Leveraging innovation and technology
 - Minimizing impacts to customers
 - Preserving Utilities' financial sustainability
- Achieving human potential

Commission Recommendations

Budget and Rates

On September 15, the Commission voted unanimously in support of the Utilities Department proposed 2023-2029 CIP and 2023-2024 operating budgets, and the projected rate increases needed to implement the proposed budgets.

Policy Considerations

The Commission also considered and voted on the following two policies:

1. Monthly Billing

The Commission considered the policy issue of transitioning to monthly billing and on July 7 voted unanimously in support of the proposal. Monthly billing is consistent with customer household budgets and supports the goal of promoting water conservation.

2. Credit Card Processing Cost Recovery

Credit card processing costs are projected to reach \$1.1 million by 2024, including \$288,000 associated with transitioning to monthly billing.

The Commission requested staff develop options for reducing the rate impact of credit card processing costs. Based on the goals of maximizing ratepayer equity and containing costs to the general ratepayer, on September 1, the Commission voted (6-1) in support of applying a fee for credit card use to all customer classes. In addition, the Commission requested the reduction of \$288,000 in the budget in anticipation of implementing this credit card fee.

If this policy is implemented as recommended by the Commission, it will lower the total 2024 utility rate increase by 0.6%, from 5.8% to 5.2%.

Conclusion

The Commission takes the responsibility assigned by the City Council very seriously. The Commission has closely scrutinized the proposed budgets and rates in detail. Commissioners, as Bellevue ratepayers, are sensitive to the impact of rate increases on customers. The Commission also recognizes that the cost of providing utility service continue to rise, despite the

cost containment efforts the Utilities Department continues to implement. The commissioners appreciate the emphasis Bellevue Utilities places on long-term financial planning and rate predictability.

The proposed budgets and rates represent a prudent and lean budget that is designed to enable the City to continue to provide reliable, high-quality utility services. We appreciate staff's stewardship of ratepayer dollars, focus on customer impacts, and continued focus on operational efficiencies.

The Commission appreciates the opportunity to analyze the Utilities budget, receive public input, and provide this recommendation to the City Council.