



2021-2026 Utility Rates Financial Forecast Utilities Funds- July 2020

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 2021-2022 biennium include anticipated wholesale cost increases for drinking water supply and wastewater treatment services, and infrastructure maintenance and renewal/replacement needs.*
- *COVID-19 is anticipated to impact utility revenues. In anticipation of revenue loss, the Utilities Department is planning to mitigate customer impacts by maximizing cost containment in areas within its control in 2021 and 2022 to a level where local operating costs will require minimal or no rate increases.*
- *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 the long-term infrastructure Renewal and Replacement (R&R)*

Key Challenges

In addition to general inflationary increases, below is a summation of the key budget challenges for the Utilities Department.

Wholesale Costs

Approximately 39% of water rate revenues and 56% of the sewer rate revenues support costs related to the purchase of water supply from 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.

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. Systematic replacement of the wastewater system began in 2014 and will continue to ramp up over the next



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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 each generation of customers pay their equitable share of system costs.

COVID-19

COVID-19 is anticipated to impact utility revenues, especially for the water and sewer utilities. For planning purposes, the anticipated revenue impact for 2020 is projected to be \$8.6 million. The Utilities Department has identified \$7.2 million in cost reductions to address the anticipated revenue loss. The planned cost reductions include personnel vacancy savings, operational savings, and lower wastewater treatment wholesale costs and taxes resulting from the anticipated revenue loss. The remaining projected revenue gap will be addressed using available operating reserves.

COVID-19 is anticipated to continue to impact utility revenues into 2021 and 2022. While the magnitude of the impacts is uncertain at this time, to mitigate customer impacts, the Utilities Department is planning to maximize cost containment in areas within its control in 2021 and 2022 to a level where local operational costs would require minimal or no rate increases.

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 4.5% or \$8.28, from \$183.05 to \$191.33, in 2021 and by 4.5% or \$8.69 to \$200.02 in 2022. See Attachment A (*2021-2022 Rates Forecast - Typical Residential Monthly Utility Bill Rate Drivers*) for additional information.

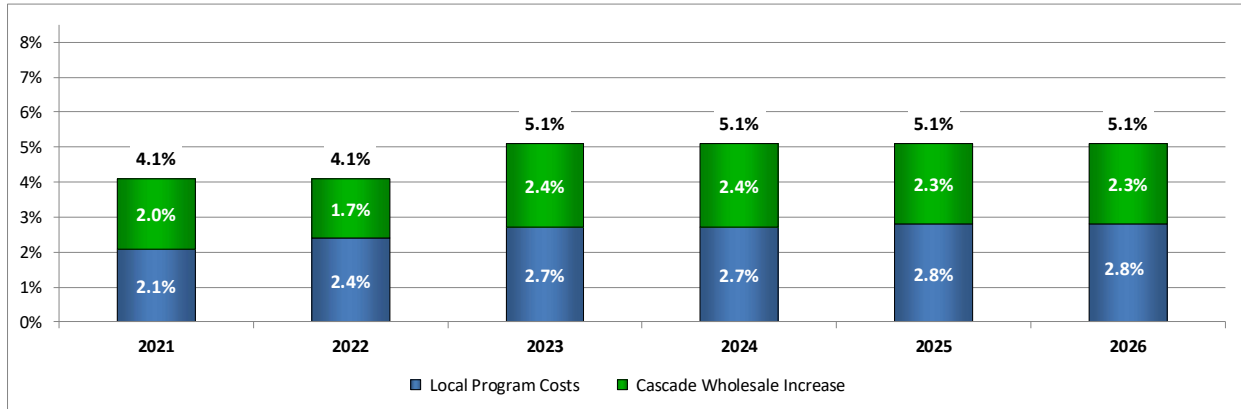
The following section provides a brief review of each Utility fund forecast and key rate drivers.



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WATER UTILITY FUND 2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2021	2022	2023	2024	2025	2026
Prior Year Bill	\$69.77	\$72.63	\$75.61	\$79.47	\$83.52	\$87.78
Increase:						
Cascade Wholesale						
Purchased Water	1.40	1.23	1.81	1.91	1.92	2.02
Local	1.46	1.75	2.05	2.14	2.34	2.46
Total	\$2.86	\$2.98	\$3.86	\$4.05	\$4.26	\$4.48
Projected Bill	\$72.63	\$75.61	\$79.47	\$83.52	\$87.78	\$92.26

Minor differences may exist due to rounding

Key Rate Drivers

• Wholesale Costs

Drinking water for Bellevue is purchased from the Cascade Water Alliance (Cascade). Cascade's wholesale costs to the City of Bellevue is projected to increase by 3.4% in 2021 and 3% in 2022. Retail rate impacts of the projected increases in Cascade's wholesale costs to Bellevue are 2.0% for 2021 and 1.7% for 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$1.40 in 2021 and \$1.23 in 2022. Per City financial policy, increases in the cost of purchased water are passed directly through to the ratepayer. Beyond 2022, the anticipated retail rate impacts due to projected increases in water supply costs average 2.4% per year for 2023 through 2026.

• Capital Program

The projected 2021-2027 water capital investment program (CIP) includes \$135.1M to proactively construct, maintain, and replace system assets. The water utility is in active system replacement and the majority of the projected capital program (\$125.5M) 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 0.5% in 2021 and 1.7% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.35 in 2021 and \$1.24 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to the capital program average 1.3% per year for 2023 through 2026.

• 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 1.5% in 2021 and 0.7% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$1.04 in 2021 and \$0.51 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases for taxes and intergovernmental average 0.9% per year for 2023 through 2026.

• Operations

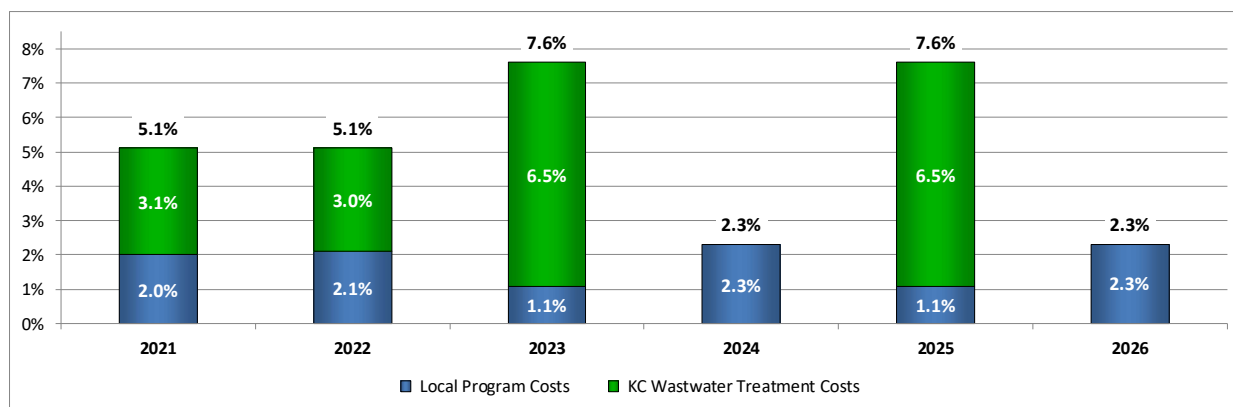
The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to increase and will require a rate increase of 0.1% in 2021 and no increase in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.07 in 2021 and \$0.00 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to operational costs average 0.6% per year for 2023 through 2026.



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SEWER UTILITY FUND 2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2021	2022	2023	2024	2025	2026
Prior Year Bill	\$85.47	\$89.83	\$94.41	\$101.59	\$103.92	\$111.82
Increase:						
KC Wastewater Treatment	2.65	2.69	6.14	0.00	6.75	0.00
Local	1.71	1.89	1.04	2.33	1.15	2.57
Total	\$4.36	\$4.58	\$7.18	\$2.33	\$7.90	\$2.57
Projected Bill	\$89.83	\$94.41	\$101.59	\$103.92	\$111.82	\$114.39

Minor differences may exist due to rounding

Key Rate Drivers

• Wholesale Costs

Wastewater treatment services for Bellevue are purchased from King County. The wholesale wastewater treatment rate is established by the County. King County wholesale costs to the City of Bellevue is projected to increase by 4.5% in 2021 and 4.5% in 2022. The retail rate impacts of the projected increases in wastewater treatment costs are 3.1% in 2021 and 3.0% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$2.65 in 2021 and \$2.69 in 2022. Per City financial policy, increases in the cost of wastewater treatment are passed directly through to the ratepayer. Beyond 2022, the anticipated retail rate impacts due to projected increases in wastewater treatment costs average 3.3% per year for 2023 through 2026.

• Capital Program

The projected 2021-2027 sewer capital investment program (CIP) includes \$58.0M in investments. Unlike the water utility, the sewer utility is just beginning systematic asset replacement. Most of the projected capital program (\$52.6M) 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 1.8% in 2021 and 1.4% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$1.54 in 2021 and \$1.26 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to the capital program average 1% per year for 2023 through 2026.

• 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 0.2% in 2021 and 0.3% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.17 in 2021 and \$0.27 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases for taxes and intergovernmental average 0.3% per year for 2023 through 2026.

• Operations

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to remain flat in 2021, with increased costs requiring a 0.4% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.36 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to operational costs average 0.4% per year for 2023 through 2026.



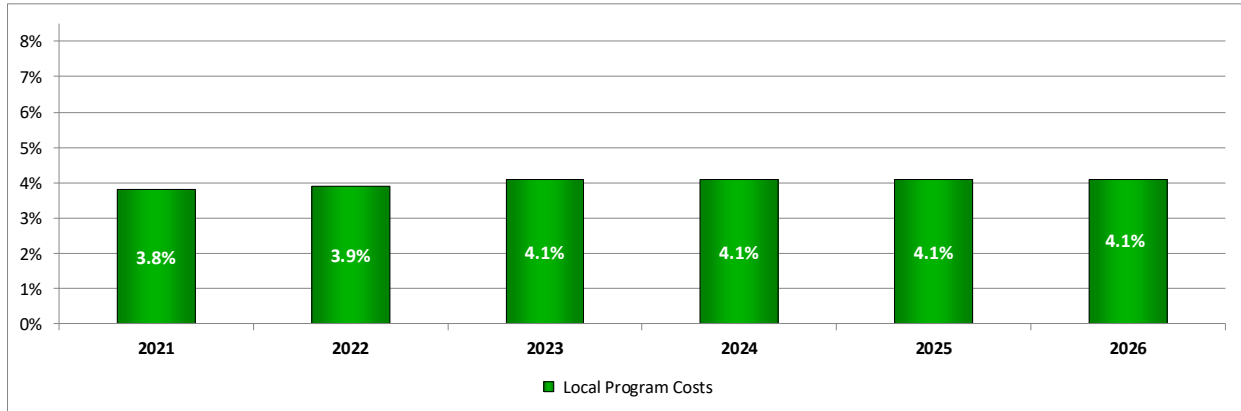
2021-2026 Utility Rates Financial Forecast

Utilities Funds- July 2020

STORM AND SURFACE WATER UTILITY FUND

2021 - 2026 Utilities Rates Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer						
	2021	2022	2023	2024	2025	2026
Prior Year Bill	\$27.81	\$28.87	\$30.00	\$31.23	\$32.51	\$33.84
Increase	\$1.06	\$1.13	\$1.23	\$1.28	\$1.33	\$1.39
Projected Bill	\$28.87	\$30.00	\$31.23	\$32.51	\$33.84	\$35.23

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 2021-2027 stormwater capital investment program (CIP) includes \$42.5M in investments. Of this amount, \$27.7M is for environmental preservation investments, and include mitigating flood hazards and constructing fish passage and stream improvement projects. The remaining \$14.8M of the stormwater utility capital investments are for aging infrastructure rehabilitation and replacements and planning for future needs. 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 2.3% in 2021 and 2.9% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.64 in 2021 and \$0.84 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to the capital program average 2.2% per year for 2023 through 2026.

• 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 1.8% in 2021 and 0.4% in 2022. The projected retail rate impacts will increase the monthly bill for a typical residential customer by \$0.50 in 2021 and \$0.12 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases for taxes and intergovernmental average 0.6% per year for 2023 through 2026.

• Operations

The cost to operate and maintain the utility, including personnel, professional services, and other maintenance & operating costs are projected to decrease in 2021 due to cost cutting measures. This will lower the rate increase needed by 0.3%. Increased costs in 2022 will require a rate increase of 0.6%. The projected retail rate impacts will decrease the monthly bill for a typical residential customer by (\$0.08) in 2021 and increase by \$0.17 in 2022. Beyond 2022, the anticipated retail rate impacts due to projected increases to operational costs average 1.4% per year for 2023 through 2026.