

City of
Bellevue

MEMORANDUM

Date: September 29, 2020

To: Brad Miyake, City Manager

From: Vanja Knezevic, Chair, Environmental Services Commission *Vanja Knezevic*

Subject: **Utilities Department 2021-2027 Capital and 2021-2022 Operating Budget Recommendation**

As part of the Environmental Services Commission's charge, over the past 8 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 preliminary projected rate increases to implement the proposed budgets. The Commission recognizes the impacts of COVID-19 on utility ratepayers and appreciates the Department proposing a responsible budget that mitigates customer rate impacts while sustaining current levels of service to the community . **The Commission fully supports the Utilities Department capital and operating budget proposals submitted by staff for the 2021-2022 biennium.**

Background

Established by ordinance in 1991, the Environmental Services Commission (Commission) advises City Council on water, wastewater, storm and surface water, 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. In this role, the Commission embodies the interests of Utility ratepayers throughout the service area, including Bellevue, Beaux Arts, Clyde Hill, Hunts Point, Medina, Yarrow Point, and the sections of the City of Kirkland. The Commission's responsibilities include evaluation of policy, budget, and planning issues that culminate in the utility budget and rate recommendations to City Council.

Utilities Budget Challenges

The impacts of COVID-19 to utility revenues is a new challenge for the Utilities Department and these impacts are expected to linger into the next biennium. To mitigate customer impacts and recognizing that COVID-19 is a dynamic situation, the Utilities Department's goal is to address the COVID-19 financial impacts by containing costs in areas within its control, and using available reserves where appropriate.

In addition to the financial impacts of COVID-19, the Utilities Department continues to face the following challenges for the upcoming biennium. These challenges serve as the backdrop in the Department's budget formulation:

- Increase in wholesale water and wastewater costs;
- Aging infrastructure and the need to maintain and adequately fund renewals and replacements in a timely and cost-effective manner that minimizes overall costs and risk of expensive emergency repairs;
- Utility infrastructure capacity needed to accommodate population growth and support economic development; and
- Regulatory requirements, and mandated projects and programs.

Commission Recommendations

The Commission supports the key budget priorities used to guide development of the Utilities Department proposed budget. The proposed budget supports the City Council's strategic direction by:

- Supporting the City's economic development;
- Protecting the built and natural environment; and
- Being a high performance government by:
 - Maintaining a long-term view;
 - Leveraging innovation and technology;
 - Minimizing impacts to customers;
 - Preserving Utilities' financial sustainability; and
 - Addressing COVID-19 financial impacts in a manner that minimizes impacts to Utilities' customers and service delivery.

On August 20, the Commission voted 7-0 (7 yays, 0 nays) in favor of the Utilities Department proposed 2021-2027 CIP and 2021-2022 operating budgets which support these budget priorities. The commissioners expressed full support of the capital and operating budget proposals submitted by staff, and the projected rate increases needed to implement the proposed budgets.

The Commission takes the responsibility assigned by the City Council very seriously. The Commission has closely scrutinized the proposed budgets and preliminary rates in detail. Commissioners, as Bellevue ratepayers, are sensitive to the impact of rate increases on customers, especially with the recent COVID-19 pandemic. We know this is difficult financial time for many residents and businesses, and it is not easy for the Commission to consider rate increases at this time. Unfortunately, external costs, including regional wholesale costs, tax obligations, and support service costs from the General Fund are increasing. These costs are not within the Utilities Department's control and will require rate increases.

The Commission has expressed concerns about rate increases and staff has responded by containing costs that are within Utilities' control, specifically, local operational costs. As a result, no rate increases are proposed for local operational costs in the next two years. To further mitigate customer impacts, the Department is proposing lower than previously planned contributions to the infrastructure renewal and replacement (R&R) account in the next biennium. The Commission supports the proposed capital investments and R&R contributions in order to sustain current levels of service delivery to the community now and into the future.

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

Next Steps

The Commission will conduct its final review of the Utilities proposed budget and rates, hold a public hearing, and make its recommendation to Council.

The Commission appreciates the opportunity to analyze the Utilities budget and provide this recommendation to the City Manager for consideration in developing the city-wide 2021-2022 budget.