




MEMORANDUM

Date: October 29, 2020

To: Mayor Robinson and Councilmembers

From: Vanja Knezevic, Chair, Environmental Services Commission 

Subject: **Utilities Department 2021-2022 Budget and Rates Recommendations**

As part of the Environmental Services Commission's charge, over the past 10 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 necessary rate increases to implement the proposed budgets. The Commission recognizes the impacts of COVID-19 on utility ratepayers and requested the Department to minimize rate increases. The Commission appreciates the Department's responsiveness in proposing a responsible budget that mitigates customer rate impacts while sustaining current levels of service to the community. **The Commission unanimously recommends the following Utilities Department proposed budgets and rates:**

- 2021-2022 operating budget
- 2021-2027 CIP
- Water, sewer, storm and surface water rate increases to fund the proposed Utilities 2021-2022 operating and capital budgets as follows:

Utility Rate Increases to Fund Proposed 2021-2022 Budget

	Water	Sewer	Storm	Total
2021	3.5%	4.1%	3.5%	3.8%
2022	3.5%	4.5%	3.3%	3.9%

Even with these rate increases, Bellevue's utility rates remain competitive with neighboring communities. Bellevue's rates will be even more competitive in the future because Bellevue is one of very few cities that proactively invests in future infrastructure requirements.

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 City 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 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.

Process

The Commission scrutinized the proposed Utilities Department 2021-2022 operating budget and rates, and 2021-2027 CIP in detail over eight meetings during the course of this year. In addition, the Commission was briefed on the public input received from the on-line CIP open house held late June/early July. The Commission held a public hearing on the proposed budget on October 7, 2020 to solicit public input. No members of the public provided input at the hearing. After the public hearing, one member of the public provided written comments directly to the Commission and Council.

Utilities Budget Challenges

COVID-19 will likely impact utility revenues in the next biennium. To mitigate customer impacts and recognizing that COVID-19 is a dynamic situation, the Utilities Department has addressed the COVID-19 financial impacts by containing costs in areas within its control, and plans to use available reserves where appropriate.

In addition to the financial impacts of COVID-19, the Utilities Department continues to face the following ongoing 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;
- 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, renewing, and enhancing utility infrastructure and natural resources, as part of the City's high-quality built and natural environment;
- Achieving human potential by offering rate relief programs, as allowed by state law, to assist low-income residents in paying for utility services; and
- Being a high performance government by:
 - Maintaining a long-term view;
 - Leveraging innovation and technology;
 - Minimizing impacts to customers;
 - Maximizing value for current and future ratepayers;
 - Preserving Utilities' financial sustainability; and
 - Addressing COVID-19 financial impacts in a manner that minimizes impacts to Utilities' customers and service delivery.

On October 22, 2020, the Commission voted unanimously in support of the Utilities Department proposed 2021-2022 operating budget and 2021-2027 CIP, and the rate increases necessary to implement the proposed budgets.

Conclusion

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 a 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 takes feedback from the community seriously and has expressed concerns about rate increases. Staff responded by containing costs that are within Utilities' control by further reducing \$700,000 in local operational costs by implementing measures such as delaying filling vacant positions, scaling back on preventive maintenance activities, and delaying asset replacements such as technology system investments. As a result, no rate increases are proposed for local operational costs in the next two years. To further mitigate customer impacts, the Department lowered the proposed contributions to the infrastructure renewal and replacement (R&R) account in the next biennium by approximately \$9 million. 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 in 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.

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