Utilities 2015-2020 Financial Forecasts
Water, Wastewater, and Storm & Surface Water Funds

The early outlook forecast is based on a status quo budget and does not include any new programs. The cost containment measures from the 2013-2014 Budget, including staff reductions, are not restored in this forecast. Since all Utility functions are supported by rates, the forecasts include funding for operations, asset replacements (e.g., vehicles), capital investment programs (CIP), and the long-term system Replacement and Renewal (R&R) requirements.

KEY CHALLENGES

Wholesale Costs

Approximately 40% of water rate revenues and 60% of the wastewater rate revenues support costs related to the purchase of water from Cascade Water Alliance, and to payments to King County for wastewater treatment, respectively. Rate increases are needed to fund cost increases for these functions. To ensure sufficient funding to maintain the integrity of utility operations and capital programs, Council-adopted policy directs that rate increases necessary to fund wholesale costs be passed through to the customer so as to not degrade operations or the CIP.

Ongoing Impact of Aging Infrastructure on both Operating and Capital Programs

Aging 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 damage claims and unanticipated system repairs. Each utility system is in a different stage of replacement. The water system is in active replacement. The water CIP includes a program to ramp up the replacement of aging water mains to a sustainable level by 2018. Systematic replacement of the wastewater system recently began in 2014. Systematic replacement of the storm and surface water system, the newest of the three utilities which we know the least about, has not begun.

To minimize costs and optimize the integrity of the systems, Utilities has developed a strategic asset management plan that prioritizes asset replacements based on criticality to achieving service level goals and also identifies the most cost-effective capital improvement, operations, and maintenance strategies. These planning efforts coupled with effective maintenance programs are designed to extend infrastructure life and minimize life-cycle costs. These actions are integral to the funding strategies designed to smooth rate increases and provide intergenerational equity. As a function of smoothing rates, funding for the capital programs is levelized with reserves over the forecast period.

Impact of Declining Water Revenues on Water Capital Program

Due to declining water revenues in the past several years as a result of ongoing conservation, bad summer weather in 2010 and 2011, and the economic downturn, the water rates adopted in 2013 and 2014 were not adequate to meet capital needs. During these years, reserves were used to subsidize the water capital program in order to moderate rate impacts to customers. As a result, water utility rates have not kept pace with the needs of the water CIP. The forecast includes an increase in water rates in 2015 and 2016 to restore rate levels sufficient to meet capital program needs.*Regulatory Requirements including National Pollutant Discharge Elimination System (NPDES)*

Regulatory requirements on Utilities programs are increasing and may necessitate future rate increases. A new NPDES Municipal Stormwater Permit took effect August 1, 2013 with conditions phased-in over the 5-year term (2013-2018). The new Permit builds upon the previous Permit's requirements and increases the level of effort required for compliance. Staff is currently evaluating the resource impacts of complying with the new Permit to inform the 2015-2016 Budget development process.

Tax Obligations and Internal Service Providers Costs

Taxes and franchise fees Utilities pay, as a taxpayer, and costs that Utilities pay to the General Fund for support services represent approximately 15% of Utilitiesy evaluating the resource The cost increases to fund these financial obligations impact rates.

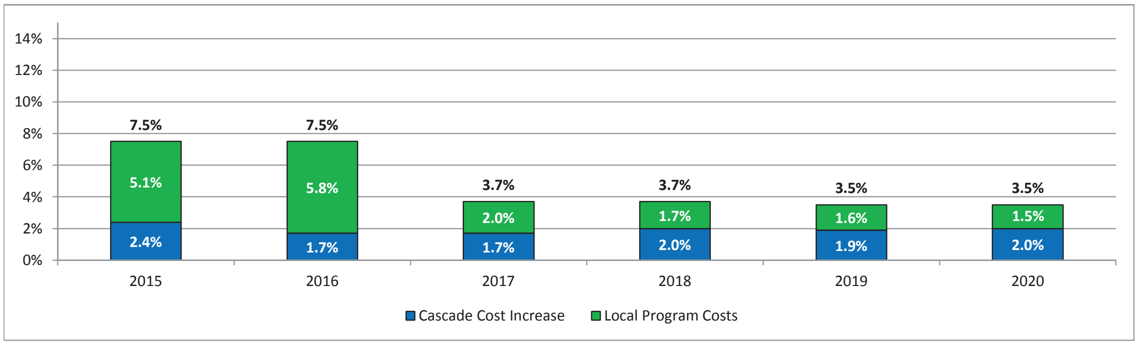
Personnel and Other Operating Costs

Consistent with the City's General Fund forecast, in all three Utility funds, personnel and associated benefit costs are a significant rate driver. The projected personnel cost increases are largely due to increases in medical costs and other benefits. Other operating costs are projected to increase from 2014 levels at less than the general rate of inflation due to on-going cost containment efforts implemented in prior budgets.

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

WATER UTILITY FUND
2015 - 2020 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2015	2016	2017	2018	2019	2020
Prior Year Bill	$54.13	$58.19	$62.55	$64.87	$67.27	$69.62
Increase:						
Wholesale	$1.30	$0.99	$1.06	$1.30	$1.28	$1.39
Local	2.76	3.38	1.25	1.10	1.08	1.04
Total	$4.06	$4.36	$2.31	$2.40	$2.35	$2.44
Projected Bill	$58.19	$62.55	$64.87	$67.27	$69.62	$72.06

**Minor differences may exist due to rounding.*

Key Rate Drivers

- **Wholesale Costs**
  Cascade cost increases to Bellevue are projected to average 3.2% per year for the forecast period, primarily due to purchased water costs. This will result in a retail rate increase of 2.4% in 2015 and average annual rate increases of 1.9% in 2016 through 2020 to Utilities customers. Also, the 2015 projected retail rate increase includes a true-up of 2014 Cascade wholesale costs above previously anticipated levels and not reflected in the adopted 2014 Bellevue water rates.

- **Capital Program**
  The capital program continues to ramp up asbestos cement (AC) watermain replacement from 1.5 miles in 2008 to 5 miles per year by 2018, consistent with Utilities asset management strategy. Also included in the capital program are a number of growth-related capital projects, including increased area-specific water reservoir storage and water supply despite region-wide reductions in water sales. The other capital rate driver will be construction inflationary costs. One-time rate increases of 3.2% and 4.3% in 2015 and 2016, respectively, are needed to align funding levels with actual capital needs. Average annual rate increases of about 0.6%% in 2017 through 2020 are required to provide sustainable funding for the capital program.

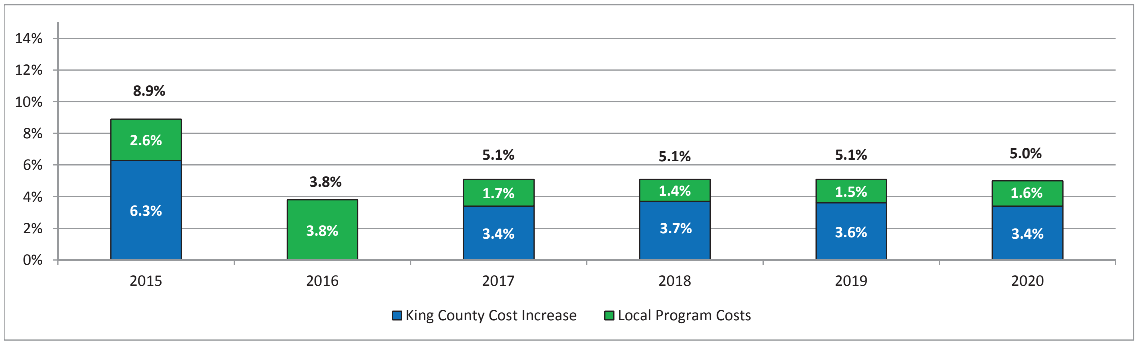
- **Taxes & Interfunds**
  Projected increases in taxes will require rate increases averaging about 0.2% per year. Projected increases in interfund payments to other City departments for support services will require rate increases averaging about 0.3% per year.

- **Other Operating Costs**
  Projected personnel costs will require rate increases of 0.8% and 0.5% in 2015 and 2016, respectively, and average rate increases of about 0.4% per year in 2017 through 2020, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. Projected increases in other operating costs will require rate increases of about 0.3% per year for the forecast period, primarily due to inflation.

WASTEWATER UTILITY FUND

2015 - 2020 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2015	2016	2017	2018	2019	2020
Prior Year Bill	$68.64	$74.75	$77.59	$81.55	$85.71	$90.08
Increase:						
Wholesale	$4.32	$0.00	$2.64	$3.02	$3.09	$3.06
Local	1.78	2.84	1.32	1.14	1.29	1.44
Total	$6.11	$2.84	$3.96	$4.16	$4.37	$4.50
Projected Bill	$74.75	$77.59	$81.55	$85.71	$90.08	$94.58

**Minor differences may exist due to rounding.*

Key Rate Drivers

- **Wholesale Costs**

  The projected King County cost increase to Bellevue is 10% in 2015, no increase in 2016. The forecast assumes 5.0% annual increases in 2017 through 2020, primarily due to ongoing debt service and operating costs from the Brightwater treatment plant and operating costs related to compliance requirements associated with the Combined Sewer Overflow (CSO) program. This will result in a retail rate increase of 6.3% in 2015 with no additional increase in 2016, and annual increases averaging 3.5% in 2017 through 2020.

- **Capital Program**

  The capital program includes an increase for repair of significant sewer pipe defects, beginning in 2014 and ongoing, consistent with Utilities asset management strategy of extending the useful life of pipes as long as it is cost effective to do so. The program also includes a number of growth-related capital projects including pump station improvements for capacity needs. Capital costs, including transfers to the Renewal and Replacement account, will require rate increases of 1.1% and 3.1% in 2015 and 2016, respectively, and average increases of about 0.9% per year in 2017 through 2020.

- **Taxes & Interfunds**

  Projected increases in taxes will require a rate increase of 0.4% in 2015 and average annual increases of about 0.1% per year in 2016 through 2020. Projected increases in interfund payments to other City departments for support services will require rate increases averaging about 0.2% per year for the forecast period.

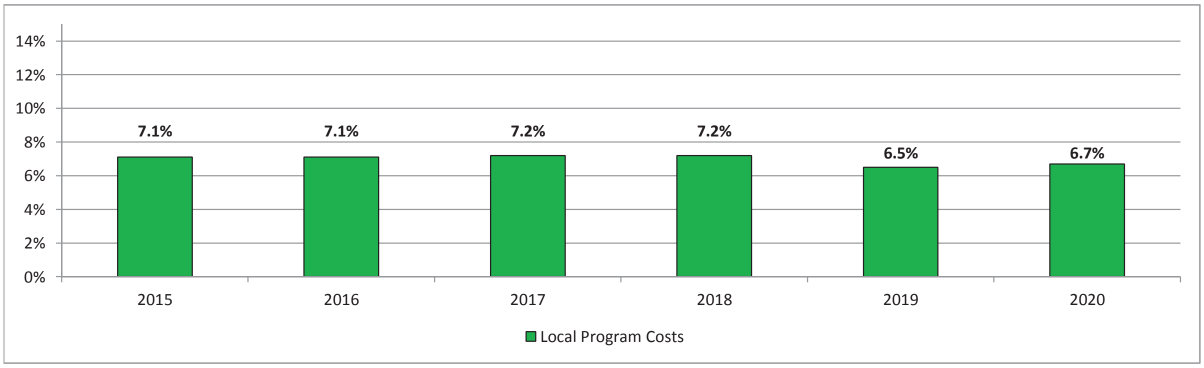
- **Other Operating Costs**

  Projected personnel cost increases will require a rate increase of 0.8% in 2015 and average increases of about 0.3% per year in 2016 through 2020, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. Projected increases in other operating costs will require rate increases of about 0.1% per year for the forecast period, primarily due to inflation.

STORM AND SURFACE WATER UTILITY FUND

2015 - 2020 Early Outlook Rate Forecast

PROJECTED RATE INCREASES



Impact to Monthly Bill for a Typical Residential Customer

	2015	2016	2017	2018	2019	2020
Prior Year Bill	$21.19	$22.69	$24.31	$26.06	$27.93	$29.75
Increase	$1.50	$1.61	$1.75	$1.88	$1.82	$1.99
Projected Bill	$22.69	$24.31	$26.06	$27.93	$29.75	$31.74

**Minor differences may exist due to rounding.*

Key Rate Drivers

- **Capital Program**
  The capital program includes significant work to open and restore streams in the Bel-Red Corridor as that area redevelops, as part of the Mobility and Infrastructure Initiative, which requires an annual 1.5% rate increase through 2018. Other ongoing storm capital projects are for infrastructure repair, flood control, and environmental preservation. Capital costs, including transfers to the Renewal and Replacement account, will require rate increases of 2.9% , 3.7%, and 3.9% in 2015, 2016, and 2017, respectively, and average increases of about 4.6% per year in 2018 through 2020.

- **Taxes & Interfunds**
  Projected increases in taxes will require a rate increase of 0.4% in 2015 and increases averaging about 0.1% per year in 2016 through 2020. Projected increases in interfund payments to other City departments for support services will require rate increases averaging about 0.6% per year.

- **Other Operating Costs**
  Projected personnel costs will require a rate increase of 1.4% in 2015 and average increases of about 0.7% per year in 2016 through 2020, largely due to increases in medical and other benefits. This is consistent with projections for other City departments. The forecast assumes no new FTEs for operations during this forecast period. Projected increases in other operating costs will require rate increases of about 0.3% per year for the forecast period, primarily due to inflation.