



CITY OF MERCER ISLAND UTILITY BOARD HYBRID MEETING

Tuesday, October 8, 2024, at 5:00 PM

BOARD MEMBERS:

Tim O'Connell, Chair
Will Quantz, Vice Chair
George Marshall, Meredith Lehr,
Stephen Milton, Craig Olson, and Todd White

LOCATION & CONTACT

Mercer Island Community & Event Center – Zoom Meeting
8236 SE 24th Street | Mercer Island, WA 98040
Phone: 206.275.7793 | www.mercerisland.gov

We strive to create an inclusive and accessible experience. Those requiring accommodation for meetings should notify the City Clerk's Office 3 days prior to the meeting at 206.275.7793 or by emailing cityclerk@mercerisland.gov.

The virtual meeting will be broadcast live on Zoom and recorded and saved on the City Council's [YouTube Channel](#)

Registering to Speak: Individuals wishing to speak live during Appearances will need to register their request with the City Clerk at **206.275.7793** or email the [City Clerk](#) and leave a message before 4 PM on the day of the Utility Board meeting. Please reference "Appearances" on your correspondence and state if you would like to speak either in person at Mercer Island Community & Event Center or remotely using Zoom. Each speaker will be allowed three (3) minutes to speak.

Join by Telephone at 5:00 PM: To listen to the meeting via telephone, please call **253.215.8782** and enter Webinar ID **869 0002 8763** and Password **363425** if prompted.

Join by Internet at 5:00 PM: To watch the meeting over the internet via your computer, follow these steps:

- 1) Click this [link](#)
- 2) If the Zoom app is not installed on your computer, you will be prompted to download it.
- 3) If prompted for Webinar ID, enter **869 0002 8763**; Enter Password **363425**
- 4) The City Clerk will call on you by name or refer to your email address when it is your turn to speak. Please confirm that your audio works prior to participating.

Join in person at Mercer Island Community & Event Center at 5:00 PM: — 8236 SE 24th Street, Mercer Island, WA 98040

CALL TO ORDER & ROLL CALL, 5:00 PM

PUBLIC APPEARANCES

REGULAR BUSINESS

1. Utility Board Regular Hybrid Meeting Minutes of September 10, 2024

Recommended Action: Approve the Utility Board Regular Hybrid Meeting Minutes of September 10, 2024.

2. 2025 EMS Rate Update Discussion/ Recommendation

Recommended Action: Accept proposed EMS rate for FY 2025.

3. 2025 Water Rate Discussion/ Recommendation

Recommended Action: Accept proposed Water Utility rate for FY 2025.

4. 2025 Sewer Rate Discussion/ Recommendation

Recommended Action: Accept proposed Sewer Utility rate for FY 2025.

5. 2025 Stormwater Rate Discussion/ Recommendation

Recommended Action: Accept proposed Stormwater Utility rate for FY 2025.

6. Long-Term Water Infrastructure Response and Alternatives

Included for reference from the October 1, 2024 City Council Meeting AB 6530: Long-Term Water Infrastructure Response and Alternatives

Recommended Action: Receive report

OTHER BUSINESS

7. Planning Schedule

8. Next Meeting – November 12, 2024

ADJOURNMENT



UTILITY BOARD MINUTES REGULAR HYBRID MEETING September 10, 2024

CALL TO ORDER & ROLL CALL

Chair Tim O'Connell called the meeting to order at 5:05 pm from a remote location.

Chair Tim O'Connell, Board Members Meredith Lehr, Craig Olson, Todd White, George Marshall (arrived 5:09 pm) and Council Liaison Jake Jacobson participated remotely using a video teleconferencing platform by Zoom.

Vice Chair Will Quantz and Board Member Steve Milton were absent.

Chief of Operations Jason Kintner and other staff members participated remotely.

PUBLIC APPEARANCES

There were no public appearances.

REGULAR BUSINESS

Approval of Minutes for the following meetings:

June 11, 2024, Minutes
Motion was made by Lehr; seconded by Olson to:
Approve the minutes as presented.
Passed 4-0

Introduction of the Finance Team

Finance Analyst Ben Schumacher introduced Angie Sanchez Virnoche and Chase Bozett project consultants with FCS Group.

2025 EMS Rate Discussion/ Recommendation

Finance Analyst Ben Schumacher presented the EMS Rate Updates.
The Board received the presentation and asked questions of staff.

Motion was made by White; seconded by Lehr to:
Defer pending receipt of further historical data from the last 5 years for all rates being discussed.
Passed 5-0

2025 Water Rate Discussion/ Recommendation

FCS Consultants Angie Sanchez Virnoche presented the Water Rate Updates.
The Board received the presentation and asked questions of staff.

2025 Sewer Rate Discussion/Recommendation

FCS Consultants Angie Sanchez Virnoche presented the Sewer Rate Updates.
The Board received the presentation and asked questions of staff.

2025 Stormwater Rate Discussion/Recommendation

FCS Consultants Angie Sanchez Virnoche presented the Stormwater Rate Updates.
The Board received the presentation and asked questions of staff.

ADJOURNMENT

The meeting adjourned at 6:52 pm.

Tim O'Connell, Chair

Attest:

Jen Matsuda, CIP Administrative Assistant



UTILITY BOARD STAFF REPORT

Item 2
October 8, 2024
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2025 EMS Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Accept staff's recommendation to increase the EMS rate for FY 2025.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

STAFF:	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
COUNCIL LIAISON:	Jake Jacobson
EXHIBITS:	None

SUMMARY

BACKGROUND

Emergency Medical Service (EMS) revenues are directly tied to the average budgeted salary and benefit costs, excluding overtime, of four firefighters originally hired in 1996. The four firefighter positions increased the capacity to handle simultaneous EMS calls during high-call demand. This cost constitutes the annual revenue requirement to the General Fund.

The current EMS utility rate structure was impacted by the Council's decision – during its 2011-2012 budget deliberations – to institute a Basic Life Service (BLS) ambulance transport fee to help balance the budget. Per Washington State Law, this action unintentionally replaced the long-standing variable EMS rate structure (different rates for each customer class based on actual service calls) with the same flat rate (per equivalent service unit) for each customer class.

Customer account data (as measured by equivalent service units) has been updated for the proposed 2025 EMS rates. The City experienced slight growth in the Single Family and Public/Other customer classifications.

CALCULATION OF 2025 REVENUE REQUIREMENT

The 2025 revenue requirement is based on the 2024 average, budgeted salary, and benefit costs for four firefighters, which equals \$755,657 (excluding the Fire Chief, Deputy Fire Chief, and Fire Marshal). This amount decreased \$34,584 from the initial estimate provided to the Utility Board at the September 10 meeting. Compared to the prior fiscal year (2023) revenue requirement of \$746,235, this represents an increase of 1.3%.

Historically, this revenue requirement increase ties to the first half CPI-W for the Seattle-Tacoma-Bellevue area cost-of-living adjustment (COLA) applied to current firefighting personnel. With Eastside Fire & Rescue (EF&R) providing fire and emergency medical services as of January 2024, salary and benefit costs for four firefighter positions is now budgeted to increase by the June CPI-W measurement, which was 4.5% for 2024.

EMS RATE PROPOSAL

The proposed 2025 EMS rates, which are needed to generate the \$755,657 revenue requirement in 2025, are compared to the 2024 rates in Table 1 below.

Customer Class	Bi-Monthly Charge		\$ Change	% Change
	2024	2025		
Single Family Residential	\$11.54	\$11.68	\$0.14	1.21%
Multi-Family Residential	\$11.54	\$11.68	\$0.14	1.21%
Commercial	\$11.54	\$11.68	\$0.14	1.21%
Public Schools	\$11.54	\$11.68	\$0.14	1.21%
Public/Other	\$11.54	\$11.68	\$0.14	1.21%
Residential Board & Care:				
Covenant Shores	\$542.38	\$548.96	\$6.58	1.21%
Island House Retirement	\$207.72	\$210.24	\$2.52	1.21%
SVJ Mercer Island LLC	\$577.00	\$584.00	\$7.00	1.21%
Aljoia House	\$357.74	\$362.08	\$4.34	1.21%
Aegis	\$842.42	\$852.64	\$10.22	1.21%
In-Home Care	\$69.24	\$70.08	\$0.84	1.21%
24 Hour Nursing:				
Covenant Shores (Skilled Nursing)	\$484.68	\$490.56	\$5.88	1.21%
Aegis (Memory Care)	\$184.64	\$186.88	\$2.24	1.21%

Table 1

Staff recommends the 2025 bi-monthly EMS rates be increased 1.21% relative to the 2024 rates, notably less than the 5.81% rate of change presented to the Utility Board on September 10, 2024.

The 2025 EMS Utility rate adjustment resolution is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City’s annual Master Fee Schedule update.

RECOMMENDED ACTION

Accept staff’s recommendation to increase the EMS Utility rate 1.21% for FY 2025.

CPI-W Historical Rate Increases

EMS Rate Increase*	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CPI-W First Half	1.40%	2.00%	0.50%	2.30%	3.20%	3.60%	2.20%	1.90%	3.30%	8.60%
CPI-W June	1.20%	2.20%	1.10%	2.00%	3.00%	3.60%	1.70%	1.00%	6.30%	9.50%

*CPI-W percentages are shown as the year they are applied to but are measurements of the prior year (i.e., 2014 = 2013's measurement).



UTILITY BOARD STAFF REPORT

Item 3
October 8, 2024
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2025 Water Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Accept the proposed Water Utility rate for FY 2025.	

STAFF:	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
COUNCIL LIAISON:	Jake Jacobson
EXHIBITS:	1. None

SUMMARY

BACKGROUND

As part of the 2025-2026 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Water Utility rate adjustment for the upcoming fiscal year. Staff recommends an 8% increase to the Water Utility rates for 2025 as proposed in the smoothed rate model.

The operating and capital budgets presented in this memo were released to the Public and City Council on September 26, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended rate adjustment for water service will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

2025-2026 OPERATING BUDGET

The operating budget for the Water Utility is presented in Table 1.

Operating Expenditures <i>(\$ in thousands)</i>	2023	2024	2025	2026	Percent Change	
	Actual	Budget	Budget	Budget	24-25	25-26
Salary & Benefits	\$2,637	\$2,133	\$2,318	\$2,451	8.7%	5.7%
Water Purchased for Resale	2,134	2,147	2,255	2,335	5.1%	3.5%
Other Services and Charges	3,987	3,699	3,615	3,779	-2.3%	4.5%
Debt Service	107	134	2,427	2,430	1715.6%	0.1%
Total	\$8,865	\$8,112	\$10,615	\$10,995	30.9%	3.6%

Table 1

Highlights from the Water Utility operating budget include:

- The combined total for salary and benefit costs in 2025 are increasing 8.7% as compared to the 2024 budget. The 2025 operating budget contains a portion of one additional support position in 2025 currently proposed as a Support Services Technician. The cost-of-living adjustments (COLA) is 4.2% for

2025. The increase is also due, in part, to the City Council having adopted a new Compensation Plan (see [AB 6491](#)) in June of 2024 with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce (99 of 207 employees).

- Water Purchases from Seattle Public Utilities (SPU) are projected to increase 5.1% in 2025 when compared to the 2024 budget. Note that SPU sets a higher rate for the period of Peak usage (May 15-Sept 15) than for non-peak period usage (Sept 16-May 14).
- In 2024, debt service payments are for limited tax general obligation (LTGO) bonds issued in 2011 for the First Hill Booster Pump Station upgrade and water system improvements projects.
- New debt service payments come online in 2025. The first ties to the public works trust fund loan for the booster chlorination system project, with an initial principal and interest payment of \$201,320 in 2025.

On September 3, 2024, the City Council approved a bond ordinance for second reading to issue a not-to-exceed amount of \$28 million (M) in LTGO bonds to finance and refinance capital improvements for the water utility (see [AB 6528](#)). Staff estimates issuance of new debt would result in additional annual debt payment estimated at \$2.7 M, beginning in 2025.

- Other Services and Charges include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Water Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance, and Human Resources staff.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Water Utility.

SUMMARY CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestments in 2025 and 2026 are outlined below in Table 2. Systemwide water distribution components – such as main transmission lines, water reservoirs, and pressure reducing valve stations, among others – are simultaneously reaching the end of their useful life.

Capital investment costs are the primary driver of the proposed water rate increase as the water distribution system enters a period of significant reinvestment. The numbers presented below include projects that staff deemed necessary to accelerate and spend down bond proceeds within the three-year eligibility window to effectively spend these resources and meet federal obligations for tax-exempt Bonds.

Water Utility Capital Program Budget 2025-2026			
<i>(\$ in thousands)</i>			
Project ID	Description	2025	2026
90.40.0001	Emergency Water System Repairs	\$200	\$207
90.40.0002	Water System Components Replacement	50	52
90.40.0003	Modeling & Fire Flow Analysis	40	41
90.40.0004	Street Related Water System Improvements	150	156
90.40.0005	2024 PRV Station Construction	2,500	
90.40.0007	2025 WSI: Greenbrier Loop	400	
90.40.0008	WS Regulatory Compliance Plans	225	233
90.40.0009	Reservoir Security Improvements	50	156
90.40.0010	Water System Instrumentation	75	78
90.40.0011	First Hill VFD Replacement	50	270
90.40.0012	First Hill Generator Replacement	640	570
90.40.0013	2025 AC Main Replacement	1,067	4,633
90.40.0014	2026 Water System Improvements	117	516
90.40.0015	2026 PRV Station Replacements	395	2,100
90.40.0016	2026 AC Main Replacement		596
90.40.0017	2027 Water System Improvements		513
90.40.0018	2027 PRV Station Replacements		410
90.40.0031	2024 Water System Imp Construction	4,820	
90.40.0032	City Transmission Line Replacement	1,870	3,740
Water Utility CIP Total		\$12,649	\$14,271

Table 2

WATER RATE PROPOSAL

The 2025 Water rate proposal is based on the 2025-2026 operating budget, the 2025-2030 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends an 8.0% increase to the water utility rates for 2025 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding for investments that cost more than \$2.5 M each and have a useful life greater than 20 years. Debt financing spreads costs incurred in a relatively short period over the useful life of updated infrastructure, thereby avoiding spikes in annual rate adjustments year-over-year while generations of rate payers who benefit from these investments help pay down the associated costs.

The proposed rate adjustment for FY 2025 ensures that the Water Fund has adequate resources to complete the critical capital project work detailed below and into the future, as well as meet long-established fiscal policy guidelines.

These include an operating reserve target of 90 days of operating and maintenance costs, and a capital reserve target of 1.0% of capital assets. The 8.0% rate increase in FY 2025 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2024	2025	2026	2027	2028	2029	2030
Pre Rate Revenues							
Revenues							
Rate Revenues Under Existing Rates	\$ 11,663,490	\$ 11,663,490	\$ 11,663,490	\$ 11,663,490	\$ 11,663,490	\$ 11,663,490	\$ 11,663,490
Non-Rate Revenues	<u>702,178</u>	<u>78,504</u>	<u>66,903</u>	<u>50,295</u>	<u>78,912</u>	<u>79,713</u>	<u>80,633</u>
Total Revenues	\$ 12,365,668	\$ 11,741,994	\$ 11,730,393	\$ 11,713,785	\$ 11,742,402	\$ 11,743,203	\$ 11,744,123
Expenses							
Cash Operating Expenses	\$ 6,290,356	\$ 7,083,043	\$ 7,383,651	\$ 7,671,184	\$ 7,941,331	\$ 8,255,370	\$ 8,583,332
Existing Debt Service	98,045	2,422,066	2,428,037	2,428,255	2,420,972	2,421,439	2,419,157
New Debt Service	-	-	-	<u>2,778,279</u>	<u>2,778,279</u>	<u>2,778,279</u>	<u>3,115,040</u>
Total Expenses	\$ 6,388,401	\$ 9,505,108	\$ 9,811,688	\$ 12,877,717	\$ 13,140,582	\$ 13,455,088	\$ 14,117,529
Net Surplus (Deficiency)	\$ 5,977,268	\$ 2,236,886	\$ 1,918,705	\$ (1,163,932)	\$ (1,398,181)	\$ (1,711,885)	\$ (2,373,406)
Annual Rate Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Cumulative Rate Increase		8.00%	16.64%	25.97%	36.05%	46.93%	58.69%
Post Rate Revenues							
Revenues After Rate Increases	\$ 11,663,490	\$ 12,596,569	\$ 13,604,295	\$ 14,692,638	\$ 15,868,049	\$ 17,137,493	\$ 18,508,493
Additional Taxes from Rate Increase	-	<u>46,925</u>	<u>97,603</u>	<u>152,336</u>	<u>211,447</u>	<u>275,288</u>	<u>344,235</u>
Net Cash Flow After Rate Increase	\$ 5,977,268	\$ 3,123,041	\$ 3,761,907	\$ 1,712,880	\$ 2,594,932	\$ 3,486,831	\$ 4,127,361
Sample Residential Bill	\$ 71.26	\$ 76.96	\$ 83.11	\$ 89.76	\$ 96.94	\$ 104.70	\$ 113.07
Monthly Increase (\$)		\$ 5.70	\$ 6.16	\$ 6.65	\$ 7.18	\$ 7.76	\$ 8.38

Table 3

Fund Balance	2024	2025	2026	2027	2028	2029	2030
Operating Reserve							
Beginning Balance	\$ 16,755,134	\$ 1,551,047	\$ 1,746,504	\$ 1,832,197	\$ 1,915,591	\$ 1,995,699	\$ 2,087,708
plus: Net Cash Flow after Rate Increase	5,977,268	3,123,041	3,761,907	1,712,880	2,594,932	3,486,831	4,127,361
less: Transfer of Surplus to Capital Fund	<u>(21,181,355)</u>	<u>(2,927,584)</u>	<u>(3,676,214)</u>	<u>(1,629,485)</u>	<u>(2,514,824)</u>	<u>(3,394,821)</u>	<u>(4,030,752)</u>
Ending Balance	\$ 1,551,047	\$ 1,746,504	\$ 1,832,197	\$ 1,915,591	\$ 1,995,699	\$ 2,087,708	\$ 2,184,317
Actual Days of O&M	90 days	90 days					
Capital Reserve							
Beginning Balance	\$ 471,754	\$ 22,190,620	\$ 12,911,408	\$ 1,904,559	\$ 13,536,203	\$ 7,058,512	\$ 1,615,371
plus: System Reinvestment Funding	-	-	-	-	-	-	-
plus: Transfers from Operating Fund	21,181,355	2,927,584	3,676,214	1,629,485	2,514,824	3,394,821	4,030,752
plus: New LTGO Proceeds	28,576,427	-	-	-	-	-	-
plus: Revenue Bond Proceeds	-	-	-	33,000,000	-	-	4,000,000
plus: Interest Earnings	<u>18,870</u>	<u>665,719</u>	<u>258,228</u>	<u>19,046</u>	<u>135,362</u>	<u>70,585</u>	<u>16,154</u>
Total Funding Sources	\$ 50,248,406	\$ 25,783,923	\$ 16,845,851	\$ 36,553,090	\$ 16,186,389	\$ 10,523,919	\$ 9,662,277
less: Capital Expenditures	<u>(28,057,786)</u>	<u>(12,872,514)</u>	<u>(14,941,292)</u>	<u>(23,016,887)</u>	<u>(9,127,876)</u>	<u>(8,908,548)</u>	<u>(7,898,255)</u>
Ending Capital Fund Balance	\$ 22,190,620	\$ 12,911,408	\$ 1,904,559	\$ 13,536,203	\$ 7,058,512	\$ 1,615,371	\$ 1,764,023
Minimum Target Balance	\$ 651,221	\$ 779,946	\$ 929,359	\$ 1,159,528	\$ 1,250,807	\$ 1,339,892	\$ 1,418,875
Combined Beginning Balance	\$ 17,226,888	\$ 23,741,667	\$ 14,657,912	\$ 3,736,755	\$ 15,451,794	\$ 9,054,211	\$ 3,703,079
Combined Ending Balance	\$ 23,741,667	\$ 14,657,912	\$ 3,736,755	\$ 15,451,794	\$ 9,054,211	\$ 3,703,079	\$ 3,948,340

Table 4

Table 5 provides a summary comparing proposed rates from the most recent rate model updates (2020-2023) as compared to the current rate recommendation that is presented in the bottom row.

Description	2023	2024	2025	2026	2027	2028	2029	2030
2020 Rate Update	6.50%	6.50%						
2021-2022 Rate Update	5.25%	5.25%	5.25%	5.25%				
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%		
2025-2026 Rate Proposal			8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Table 5

SCHEDULED WATER UTILITY BOND ISSUANCE

The current Water Utility rate proposal assumes a portion of the scheduled capital projects will rely on outside funding to offset the more than \$74.7 M in escalated capital spending between 2025-2030. Table 4 includes the projected LTGO debt issuance that amounts to \$28.5 M in 2024, \$33 M in 2027, and \$4 M in 2030.

For modeling purposes, timing when to seek outside funding is based on when qualifying infrastructure improvements are scheduled in the six-year capital improvement program (CIP). In practice, staff closely manage cash-flow needs for capital projects as they unfold with the requirement to spend down bond proceeds within three years of receipt.

Staff forecast the Water Fund balance will require the additional funding from the planned \$28.5 M issuance this year to remain positive through year-end. This issuance will provide critical funding support for the water utility, including the following projects:

- **Pressure Reducing Valve (PRV) Station Replacements** (90.40.0005, 90.40.0015) is an ongoing program to systematically replace PRV stations throughout the island. Most stations are below the City's current operational standards. There is a total of 85 PRV stations in the City's water distribution system. In general, the life span of a new PRV station is around 50 to 60 years, with routine maintenance.

The initial design phase of the project is nearing completion in Q3 2024. Total project costs are estimated at \$4.9 M through 2025-2026.

- **Water System Improvements** (90.40.0017, 90.40.0031) aims to Install over 6,500 linear feet of new 8-Inch ductile iron water main at six different locations on the northern portion of Mercer Island. Water services and fire hydrants in these areas will also be replaced. Total project costs are estimated at \$5.3 M through 2025-2026.
- **Asbestos Cement (AC) Water Main Replacements** (90.40.0013,90.40.0016) is recently instated ongoing program to systematically replace antiquated AC water mains with ductile iron water mains. The replacement program reduces the potential for catastrophic system failure, unexpected service disruptions, and large damage claims to the City.

Staggered capital reinvestment for aging water mains is being accelerated as AC water main ruptures have notably increased relative to prior years. Over the 2025-2030 CIP planning period, total project costs are estimated at \$17.3 M.

- **City Transmission Line Replacement** (90.40.0032) involves the realignment of approximately 5,000 feet of the City's 24-inch transmission line. The existing transmission line alignment traverses' steep slopes, which has raised concerns necessitating the transmission line realignment to more stable terrain. This project is the most recent addition to the City's proposed Capital Improvement Plan and represents a substantial, unforeseen funding need. Total project costs are estimated at \$18.7 M from 2025-2027.

Staff will return to the City Council on October 1, 2024 to discuss potential alternatives for this transmission pipe and the potential transfer of ownership from Seattle Public Utilities to the City, including a projected range of potential costs. Given the anticipated range of costs, future Bond sales or outside funding may be required for this project.

MECHANICS OF A BOND ISSUANCE

When issuing bonds for significant infrastructure related projects, it is commonplace for utility systems to issue debt as revenue bonds. The City also has the option to issue debt as limited tax general obligation (LTGO). Staff recommends the latter option. By issuing an LTGO bond, the debt would still be secured and paid for by the revenues of the utility system, but it would also have the backing of the City’s full faith and LTGO credit, and other legally available sources, such as utility revenues.

The City’s general obligation rating by Moody’s is currently at Aaa, which is the highest rating category and was affirmed in February 2024. By issuing LTGO Bonds, the City can take advantage of its LTGO credit rating which results in more competitive borrowing rates and use the water utility system’s revenue to repay the debt. Table 6 outlines the City’s current debt service.

Limited Tax General Obligation Bonds	Date Incurred	Final Maturity	Initial Debt Amount	Amount Outstanding as of 12/31/23
2011 LTGO Bonds, First Hill Water Improvements	03/23/11	12/01/30	\$1,500,000	\$655,000
2017 LTGO Refunding Bonds, Sewer Lake Line	08/17/17	12/01/29	6,205,000	3,450,000
Other Non-Voted General Obligation Debt				
2005 Sewer Lake Line, PWTF Loan	01/31/05	07/01/26	\$6,650,000	\$1,208,273
2013 LTGO Refunding Bonds, CCMV Construction	02/06/13	12/01/23	\$1,140,000	\$0
2015 Capital Financed Fire Mini Pumper	06/01/15	06/01/24	\$341,295	\$41,721
2018 Capital Financed Enforcer Pumper	04/19/18	04/09/27	\$732,778	\$354,268
2023 Booster Chlorination System, PWTF Loan	03/01/23	06/01/43	\$3,284,770	\$3,284,770

Table 6

Issuing utility bonds as LTGO does impact the City’s LTGO debt capacity. This could be an issue for municipalities with a considerable amount of general obligation debt outstanding, but this is not the case for Mercer Island. As prescribed by State statutes and the City’s Financial Management Policies, based on 1.5% of the City’s 2024 assessed valuation of \$20.3 billion, the City’s remaining available debt capacity is \$295 million.

CONCLUSION

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2025 Water Utility rate increases.

The 2025 Water Utility rate adjustment is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City’s annual Master Fee Schedule update. Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2026 and beyond.

RECOMMENDED ACTION

Accept the proposed Water Utility rate for FY 2025.

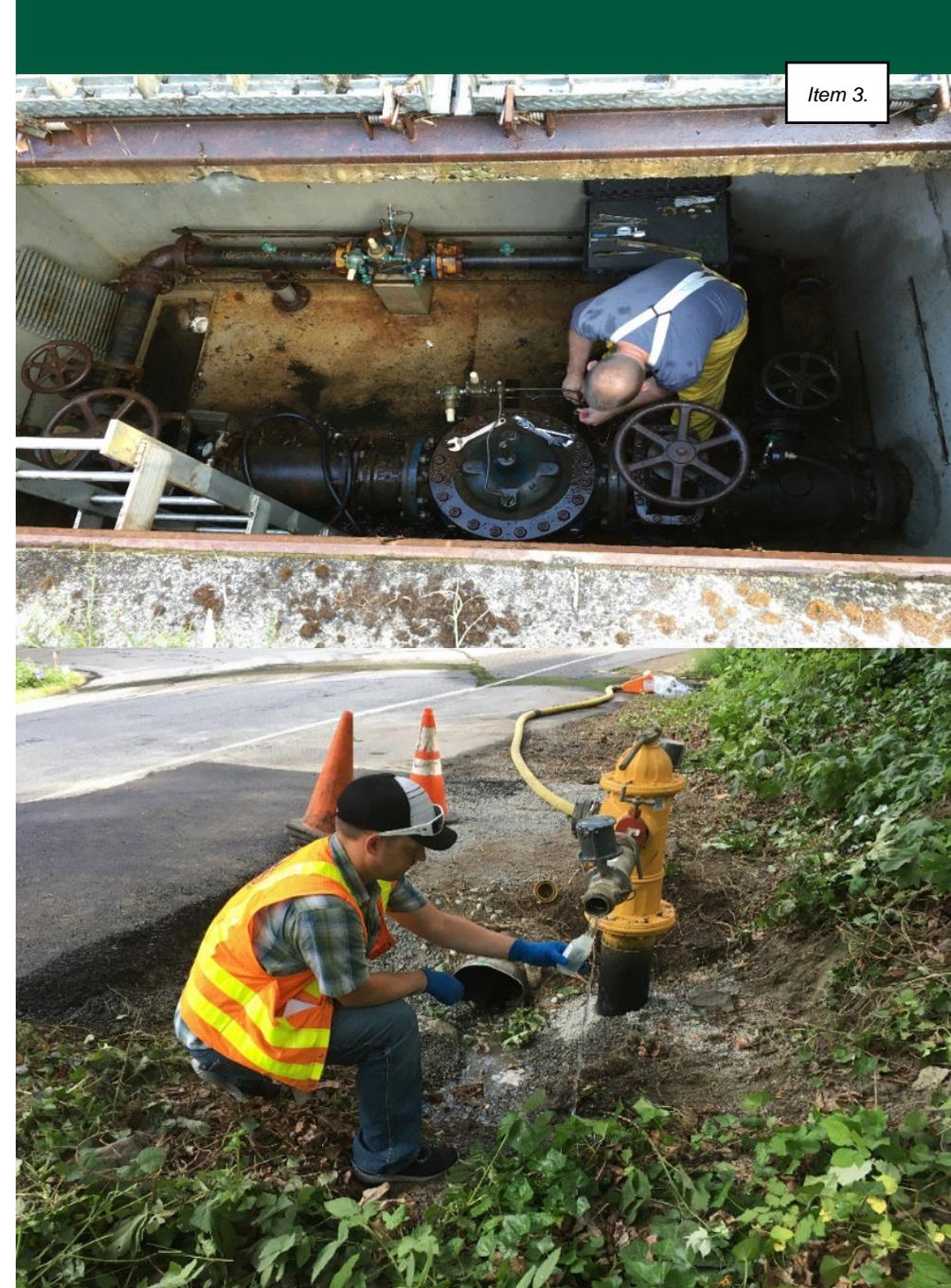
Bimonthly	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Sample Water Bill	\$61.83	\$64.49	\$69.65	\$78.57	\$87.13	\$92.36	\$97.25	\$103.57	\$110.30	\$116.09	\$122.18	\$131.95	\$142.51	\$153.91	\$166.22	\$179.52	\$193.88	\$209.39	\$226.14
Bimonthly Increase		\$2.66	\$5.16	\$8.92	\$8.56	\$5.23	\$4.89	\$6.32	\$6.73	\$5.79	\$6.09	\$9.77	\$10.56	\$11.40	\$12.31	\$13.30	\$14.36	\$15.51	\$16.75
Percentage Increase		4.30%	8.00%	12.80%	10.90%	6.00%	5.30%	6.50%	6.50%	5.25%	5.25%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Local Sewer Bill	\$33.11	\$34.43	\$37.36	\$40.46	\$43.29	\$46.32	\$49.93	\$53.77	\$57.91	\$60.23	\$62.64	\$65.46	\$68.41	\$71.49	\$74.71	\$78.07	\$81.58	\$85.25	\$89.09
Bimonthly Increase		\$1.32	\$2.93	\$3.10	\$2.83	\$3.03	\$3.61	\$3.84	\$4.14	\$2.32	\$2.41	\$2.82	\$2.95	\$3.08	\$3.22	\$3.36	\$3.51	\$3.67	\$3.84
Percentage Increase		4.00%	8.50%	8.30%	7.00%	7.00%	7.80%	7.70%	7.70%	4.00%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Metro Sewer Bill	\$72.20	\$79.58	\$79.58	\$84.06	\$84.06	\$88.44	\$88.44	\$90.66	\$90.66	\$94.74	\$98.54	\$104.22	\$110.22	\$116.56	\$124.72	\$133.45	\$142.79	\$154.57	\$167.33
Bimonthly Increase		\$7.38	\$0.00	\$4.48	\$0.00	\$4.38	\$0.00	\$2.22	\$0.00	\$4.08	\$3.80	\$5.68	\$6.00	\$6.34	\$8.16	\$8.73	\$9.34	\$11.78	\$12.76
Percentage Increase		10.22%	0.00%	5.63%	0.00%	5.21%	0.00%	2.51%	0.00%	4.50%	4.01%	5.76%	5.76%	5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Stormwater Bill	\$29.85	\$30.21	\$30.57	\$31.40	\$31.81	\$33.08	\$33.58	\$34.65	\$35.76	\$37.73	\$39.81	\$42.99	\$46.43	\$50.14	\$54.15	\$58.48	\$63.16	\$68.21	\$73.67
Bimonthly Increase		\$0.36	\$0.36	\$0.83	\$0.41	\$1.27	\$0.50	\$1.07	\$1.11	\$1.97	\$2.08	\$3.18	\$3.44	\$3.71	\$4.01	\$4.33	\$4.68	\$5.05	\$5.46
Percentage Increase		1.20%	1.20%	2.70%	1.30%	4.00%	1.50%	3.20%	3.20%	5.50%	5.50%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Total Bill	\$196.99	\$208.71	\$217.16	\$234.49	\$246.29	\$260.20	\$269.20	\$282.65	\$294.63	\$308.79	\$323.17	\$344.62	\$367.57	\$392.10	\$419.80	\$449.52	\$481.41	\$517.42	\$556.23
Bimonthly Increase		\$11.72	\$8.45	\$17.33	\$11.80	\$13.91	\$9.00	\$13.45	\$11.98	\$14.16	\$14.38	\$21.45	\$22.95	\$24.53	\$27.70	\$29.72	\$31.89	\$36.01	\$38.81
Percentage Increase		5.95%	4.05%	7.98%	5.03%	5.65%	3.46%	5.00%	4.24%	4.81%	4.66%	6.64%	6.66%	6.67%	7.06%	7.08%	7.09%	7.48%	7.50%



CITY OF MERCER ISLAND 2024 Rate Study Update

**Angie Sanchez Virnoche, Principal
Chase Bozett, Project Consultant**

September 10, 2024





Overview

- FCS retained to complete a water, sewer, and stormwater rate update
 - » Previously assisted the City in 2020 and 2022

- Focus for today:
 - » Overview the rate setting process
 - » Present key data inputs and assumptions
 - » Summary of initial findings

- Questions

- Next Steps



Critical Capital Work Ahead

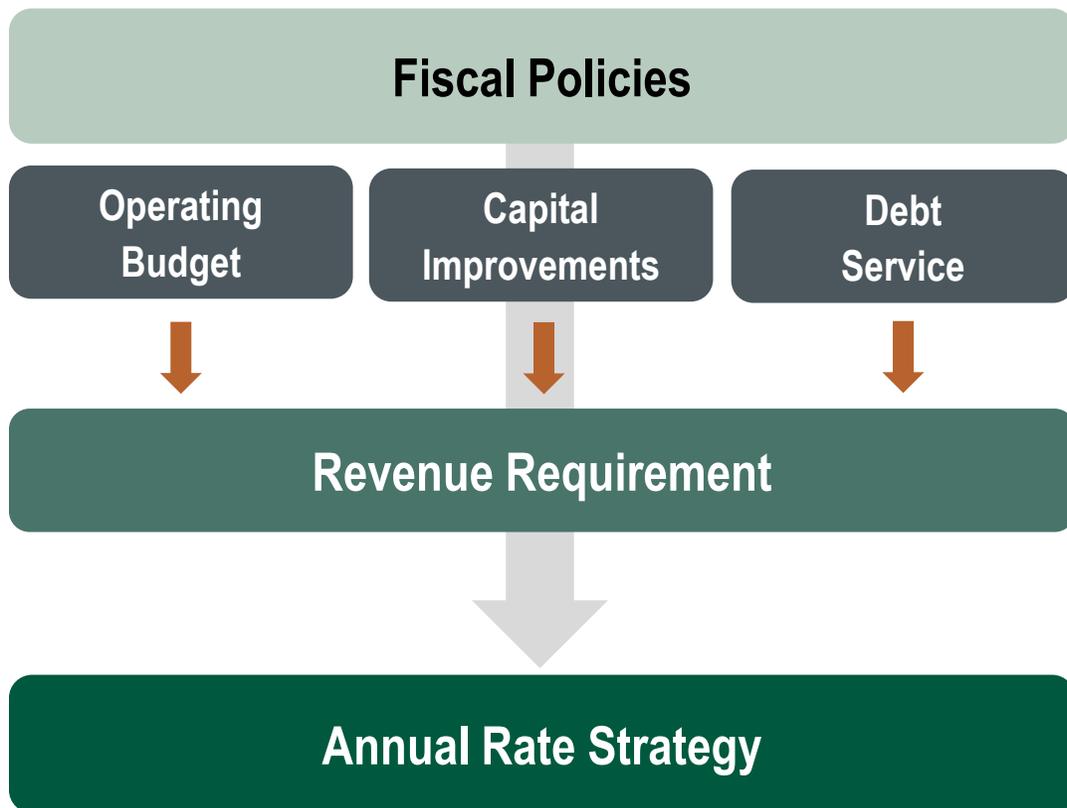
- Total 2025-2026 CIP Preliminary Budget expenditures are \$72.2M
 - » \$40.9M, or 56.6%, tied to the Utility Funds

- Reinvestment in the City's aging water distribution system
 - » Most of City's distribution system was constructed in the 1950's-1960's with an expected useful life of 50-75 years (dependent on material type).
 - » Replacements prioritized using a combination of factors.
 - » E.g., asbestos cement main replacements are prioritized due to material and age.

- Sewer conveyance system faces similar challenges with aging infrastructure
 - » Pump Station rehabilitation already in progress with Lakeline work on the horizon.



Rate Study Elements



- Evaluates sufficiency of current rates to meet all utility financial obligations on a stand-alone basis
- Develop rate plan to balance financial needs and minimize customer impacts
- Multi-year rate plan with rate focus on 2025-2026



Financial Forecast Key Assumptions



Forecast Basis
Study Period: 2025-2030
2024-2026 budgets
used as baseline



Operating Reserve Target
30-90 days of OpEx
Based on revenue collection
variability



Customer Growth
Conservatively no growth
assumed



Expense Inflation
3.5% to 6.0% for City costs
SPU water and KC Metro
based on provided forecast



Existing Debt Service
Water: \$300k annually
Sewer: \$1M annually



Capital Plan
2024: Budget
2025-2030: City CIP



Water Revenue Requirement



Water Utility Background

- O&M

- » Low interest loan for Booster Chlorination System secured since last forecast
 - 20 years at 0.89% interest
 - Previously forecast projected debt at 5.0%
- » In the process of securing Long Term General Obligation (LTGO) funding
- » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - Cost of Living Adjustment (COLA) of 6.0% in 2024, 4.2% in 2025

- Capital

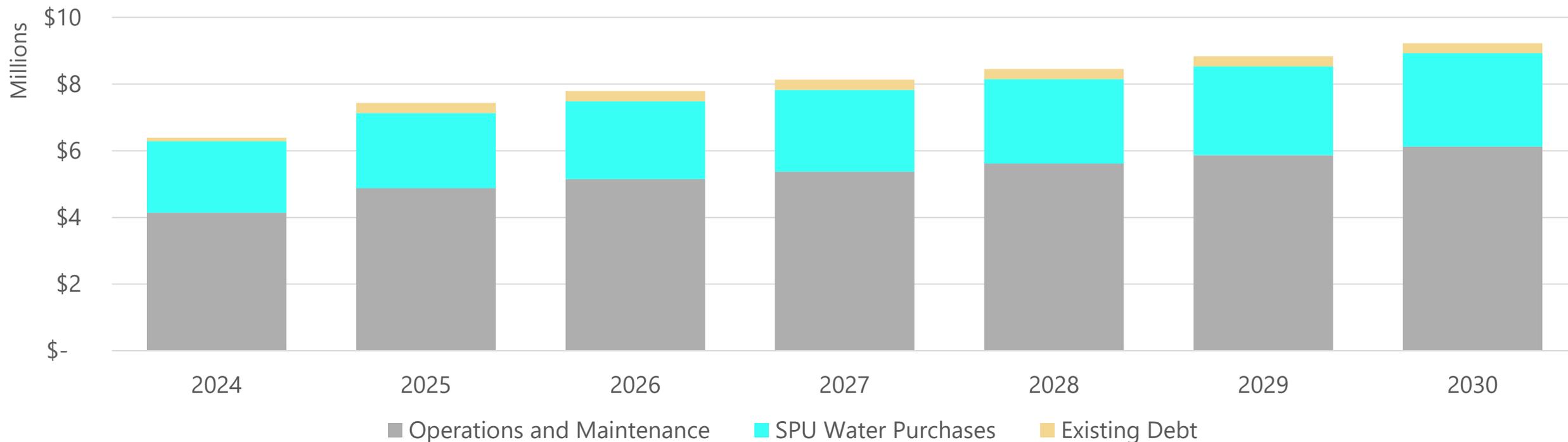
- » Previous study estimated \$75M (2022-2028)
 - \$33M assumed financed in the last forecast

- Rate Plan

- » 8% annual rate increases



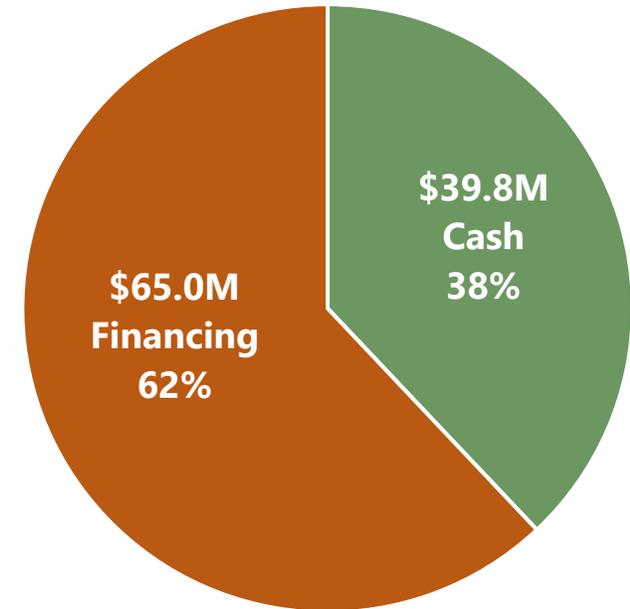
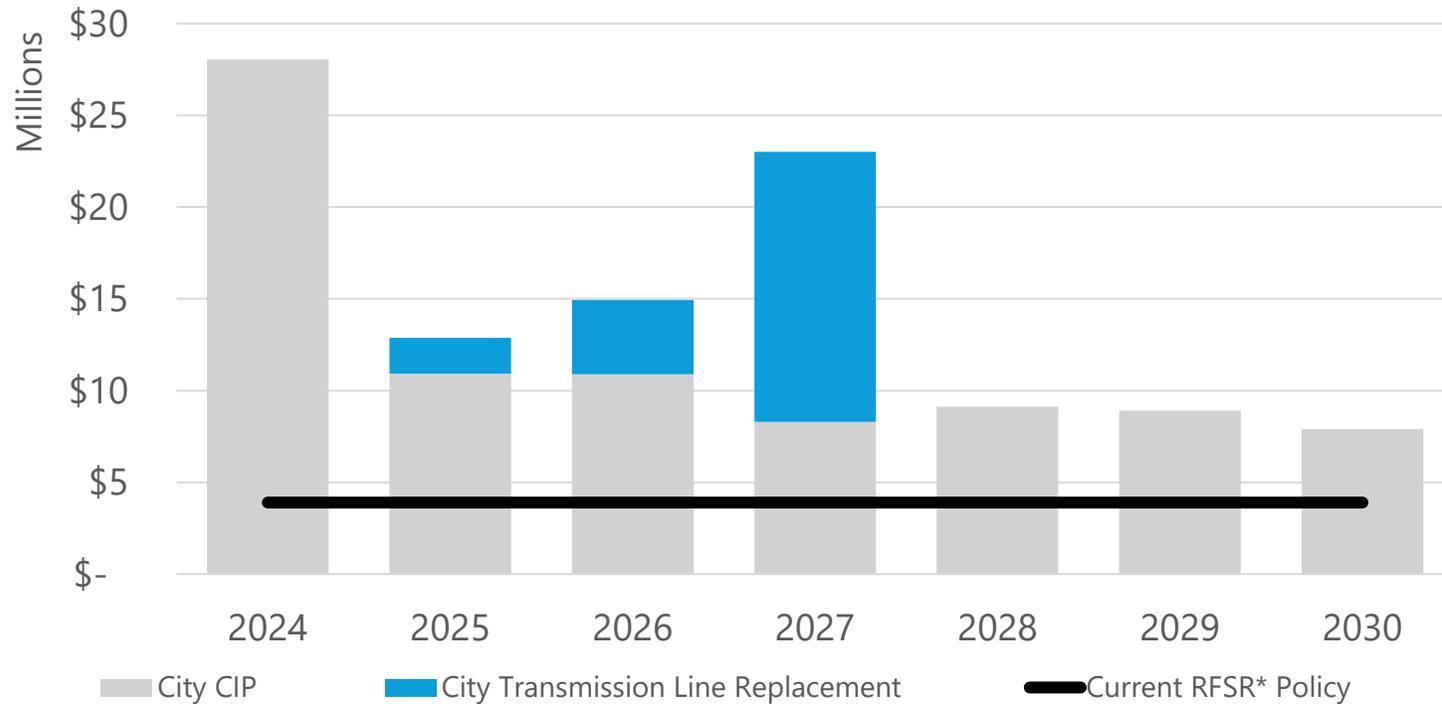
Water: 2024-2030 Operational Forecast



- Total Operational Costs: \$6.4M - \$9.2M
 - » Operations and Maintenance: \$4.1M - \$6.1M
 - » SPU Water Purchases: \$2.2M - \$2.8M
 - » Existing Annual Debt Service: \$0.1M - \$0.3M



Water: 2024-2030 Capital Plan

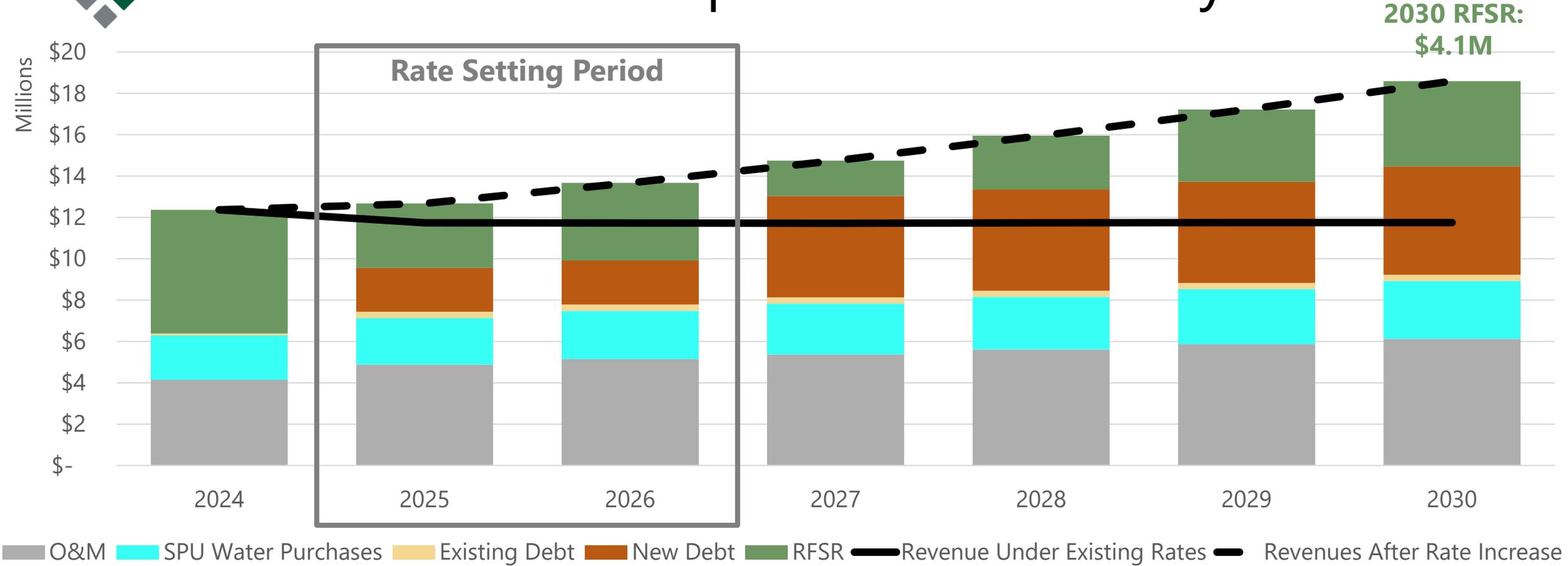


- \$104.8M in capital spending
 - » \$28.0M in 2024 budgeted
 - » \$20.7M City Transmission Line Replacement
 - » \$56.1M ongoing City capital needs 2025-2030

- Funding Sources
 - » 2024 debt issuance of \$28M
 - » 2027 debt issuance of \$33M
 - » 2030 debt issuance of \$4M



Water: Revenue Requirement Summary



- Maintaining 8.0% annual rate plan addresses capital needs and RFSR target
- Existing revenue is sufficient to cover all operational cost through 2026



Water: Sample Single Family Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Bill	\$142.51	\$153.90	\$166.24	\$179.54	\$193.88	\$209.42	\$226.20
Bimonthly Increase		\$11.39	\$12.34	\$13.30	\$14.34	\$15.54	\$16.78
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Bill	\$71.26	\$76.95	\$83.12	\$89.77	\$96.94	\$104.71	\$113.10
Monthly Increase		\$5.69	\$6.17	\$6.65	\$7.17	\$7.77	\$8.39
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

*Assumes 3/4" meter and 14 ccf bimonthly usage

- Key drivers:
 - » Near term capital reinvestment needs and associated debt repayment
 - » Additional capital needs since the last update



Sewer Revenue Requirement



Sewer Utility Background

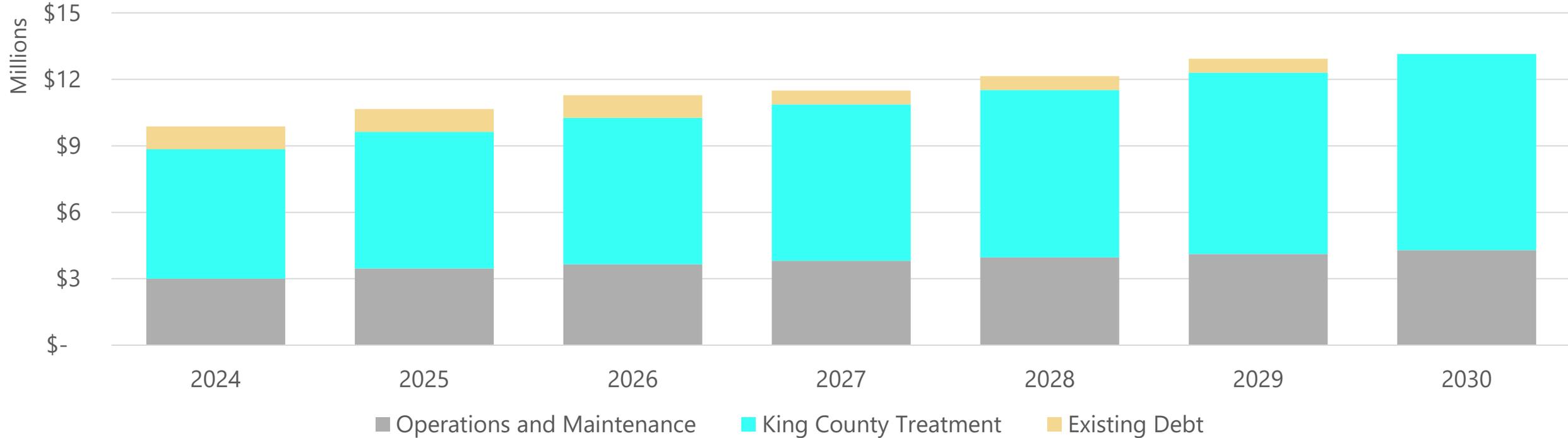
- O&M
 - » King County Metro Treatment cost forecast updated
 - Treated as a passthrough for this analysis
 - » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - COLA of 6.0% in 2024, 4.2% in 2025

- Capital
 - » Previous study estimated \$30M (2022-2028)
 - \$11M debt financed

- Rate Plan
 - » 4.5% annual rate increases for the City portion of the bill



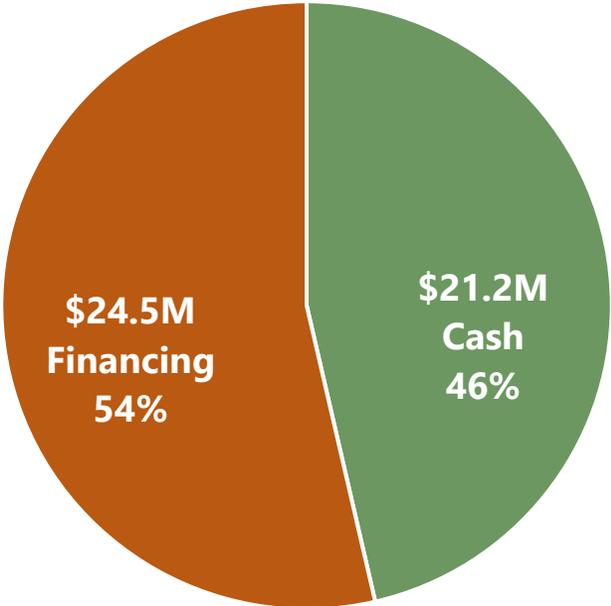
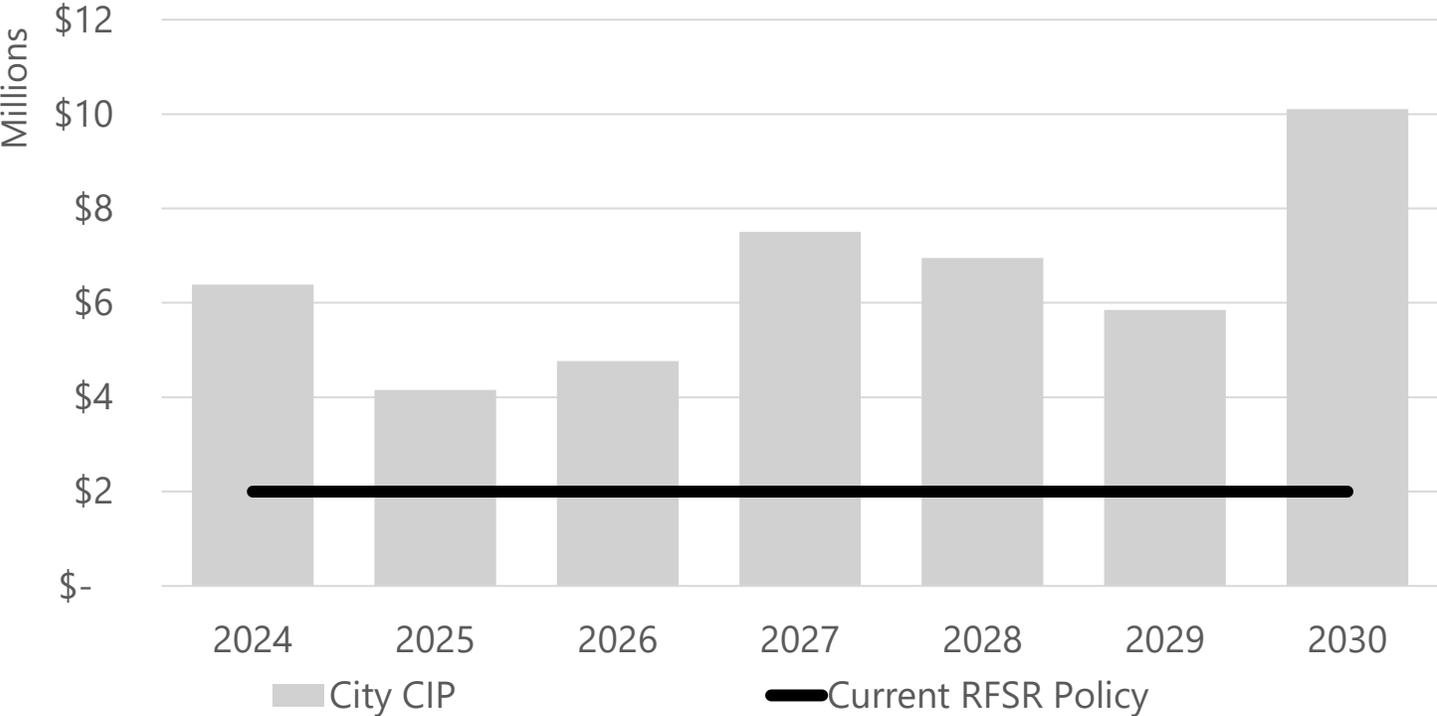
Sewer: 2024-2030 Operational Forecast



- Total Operational Costs: \$9.9M - \$13.1M
 - » Operations and Maintenance: \$3.0M - \$4.3M
 - » King County Treatment: \$5.8M - \$8.8M
 - » Existing Annual Debt Service: \$1.0M - \$0.0M
 - Lake Line debt obligations end in 2026 and 2029



Sewer: 2024-2030 Capital Plan



- \$45.7M in capital spending
 - » \$6.4M budgeted in 2024
 - » 2025-2026 CIP adjusted to fit debt issuances
 - » Lake Line projects forecasted in 2029-2030

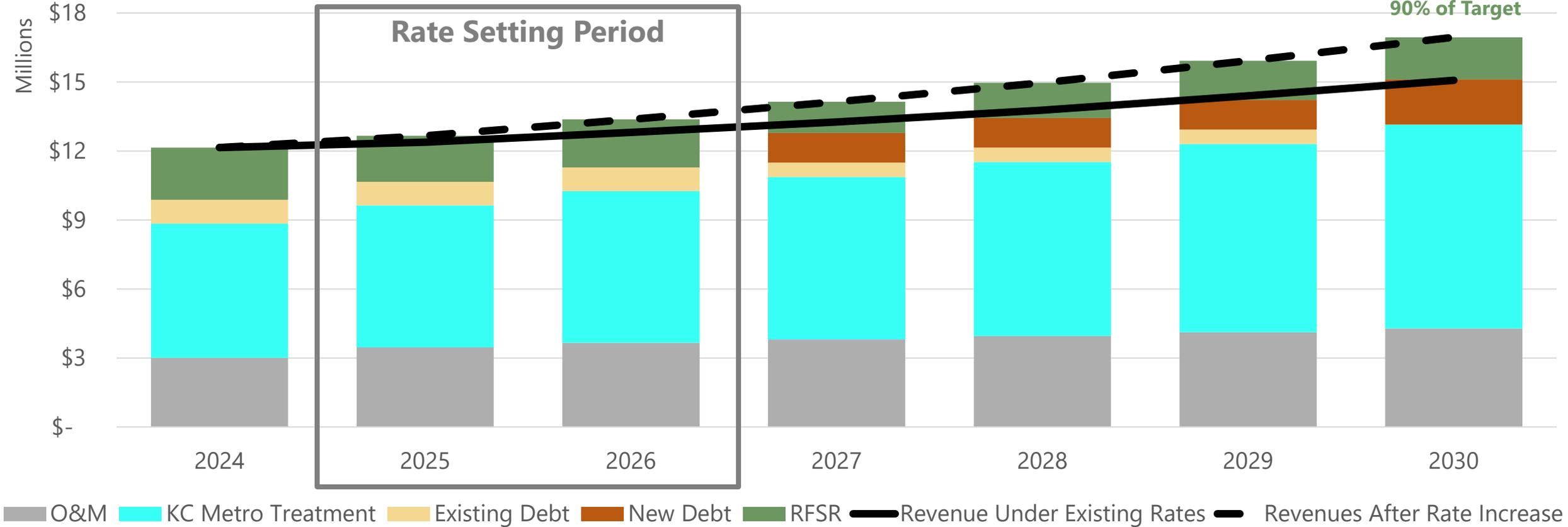
- Funding Sources
 - » 2027 debt issuance of \$16M
 - » 2030 debt issuance of \$8.5M



Sewer: Revenue Requirement Summary

Item 3.

2030 RFSR:
\$1.8M
90% of Target



- Maintaining 4.5% annual rate plan for capital needs
- Existing revenue is sufficient to cover all operational cost through 2029



Sewer: Sample Single Family Bill

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Local Bill	\$34.21	\$35.74	\$37.35	\$39.03	\$40.79	\$42.63	\$44.55
Monthly Increase		\$1.54	\$1.61	\$1.68	\$1.76	\$1.84	\$1.92
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Monthly Treatment Bill	\$55.11	\$58.28	\$62.36	\$66.73	\$71.40	\$77.29	\$83.67
Monthly Increase		\$3.17	\$4.08	\$4.37	\$4.67	\$5.89	\$6.38
Percent Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Monthly Total Bill	\$89.32	\$94.02	\$99.71	\$105.76	\$112.19	\$119.92	\$128.22
Monthly Increase		\$4.71	\$5.69	\$6.05	\$6.43	\$7.73	\$8.30
Percent Increase		5.27%	6.05%	6.07%	6.08%	6.89%	6.92%

Assumes 6ccf monthly winter water usage

- Key drivers:
 - » Additional capital needs since the last update
 - » Phasing towards RFSR target



Stormwater Revenue Requirement



Stormwater Utility Background

- O&M

- » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - COLA of 6.0% in 2024, 4.2% in 2025
- » Reallocation of staff time to more accurately capture anticipated needs of staff resources
- » Contractual costs increasing 24.7% from 2024 to 2025
 - Covers work including Closed Circuit Television (CCTV) storm water pipe video inspections and catch basin cleaning & repairs
 - Contracted work is critical to comply with NPDES requirements

- Capital

- » Previous study estimated \$12.1M (2022-2028)
 - \$2.5M debt financed

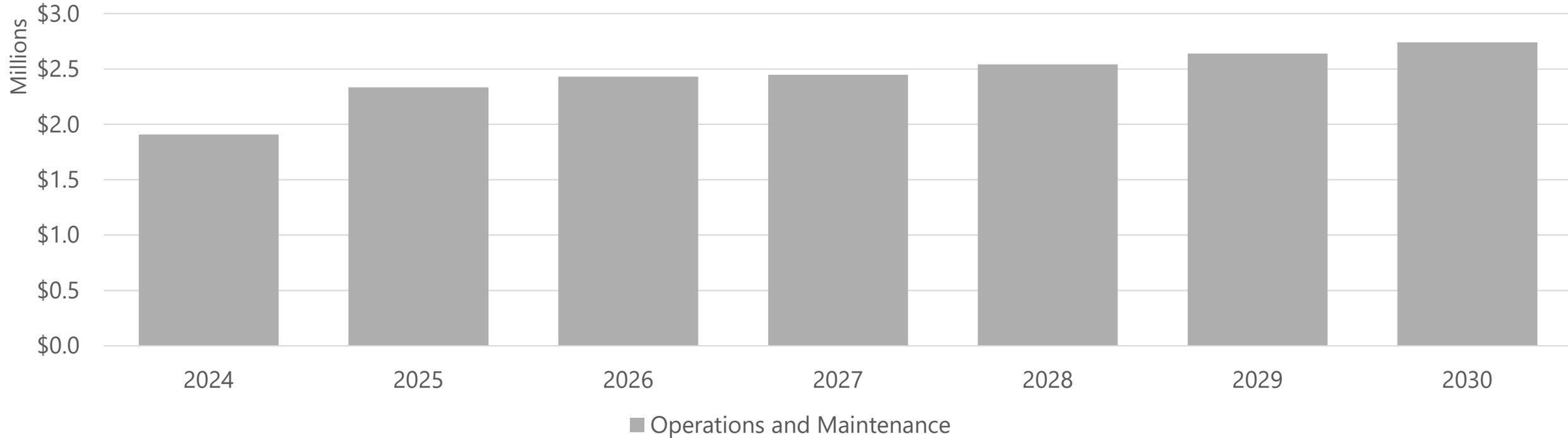
- Rate Plan

- » 8% annual rate increases



Stormwater: 2024-2030 Operational Forecast

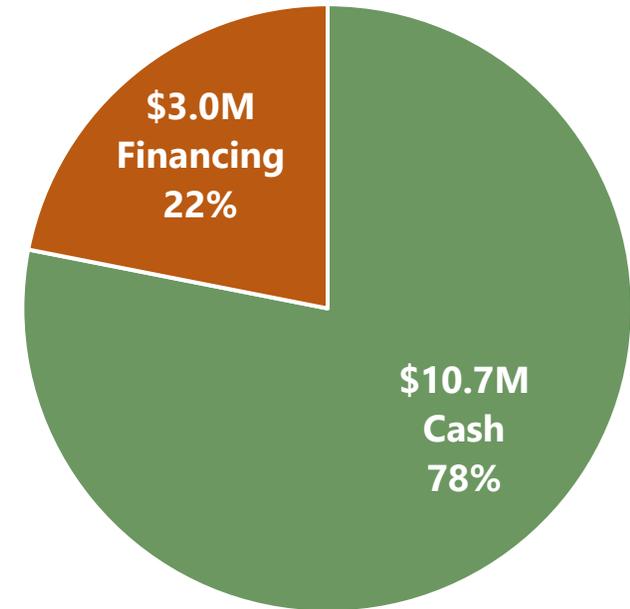
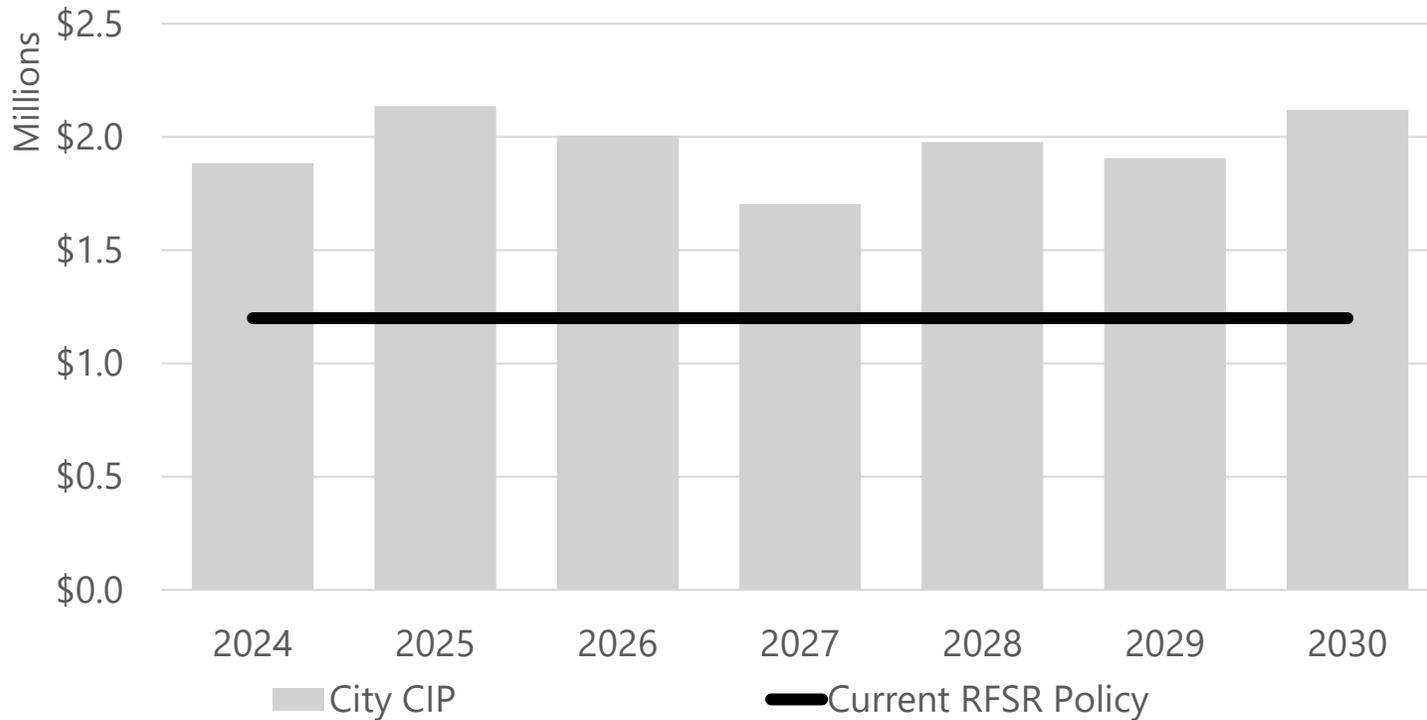
Item 3.



- Operations and Maintenance: \$1.9M - \$2.7M
- No Existing Debt Service



Stormwater: 2024-2030 Capital Plan

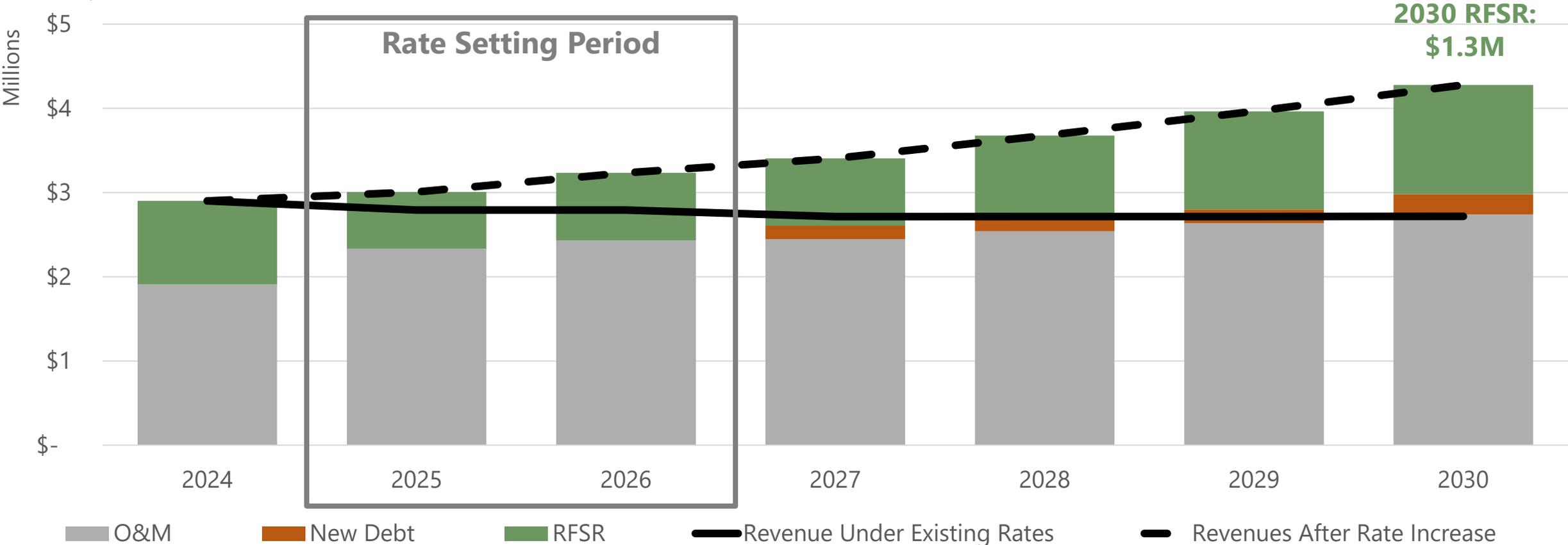


- \$13.7M in capital spending
 - » \$1.9M budgeted in 2024
 - » Annual ongoing improvements

- Funding Sources
 - » 2027 debt issuance of \$2M
 - » 2030 debt issuance of \$1M
 - » Debt issuances aligned with water/sewer



Stormwater: Revenue Requirement Summary



- Maintaining 8.0% annual rate plan addresses RFSR target
- Existing revenue is sufficient to cover all operational cost through 2028



Stormwater: Sample Single Family Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Bill	\$46.43	\$50.14	\$54.15	\$58.48	\$63.16	\$68.21	\$73.67
Bimonthly Increase		\$3.71	\$4.01	\$4.33	\$4.68	\$5.05	\$5.46
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Bill	\$23.22	\$25.07	\$27.08	\$29.24	\$31.58	\$34.11	\$36.84
Monthly Increase		\$1.85	\$2.01	\$2.16	\$2.34	\$2.53	\$2.73
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

- Key drivers:
 - » Additional capital needs since the last update
 - » Working towards RFSR target by 2030



Summary



Water/Sewer/Stormwater Combined Bill Impact

Item 3.

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Water Bill	\$71.26	\$76.95	\$83.12	\$89.77	\$96.94	\$104.71	\$113.10
Monthly Increase		\$5.69	\$6.17	\$6.65	\$7.17	\$7.77	\$8.39
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Local Sewer Bill	\$34.20	\$35.74	\$37.35	\$39.03	\$40.79	\$42.63	\$44.55
Monthly Increase		\$1.54	\$1.61	\$1.68	\$1.76	\$1.84	\$1.92
Percentage Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Metro Sewer Bill	\$55.11	\$58.28	\$62.36	\$66.73	\$71.40	\$77.29	\$83.67
Monthly Increase		\$3.17	\$4.08	\$4.37	\$4.67	\$5.89	\$6.38
Percentage Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Stormwater Bill	\$23.22	\$25.07	\$27.08	\$29.24	\$31.58	\$34.11	\$36.84
Monthly Increase		\$1.85	\$2.01	\$2.16	\$2.34	\$2.53	\$2.73
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Total Bill	\$183.79	\$196.04	\$209.91	\$224.77	\$240.71	\$258.74	\$278.16
Monthly Increase		\$12.25	\$13.87	\$14.86	\$15.94	\$18.03	\$19.42
Percentage Increase		6.67%	7.08%	7.08%	7.09%	7.49%	7.51%



Next Steps

- Discussion Points
 - » September 10th – Receive Water, Sewer, Storm Water, & EMS rate recommendations and discussion
 - » October 8th – Rate discussion and recommendation continued (if needed)
 - » November – Reserved for additional discussion

- Recommendation to Council
 - » Set for Council review and adoption as part of the City's Master Fee Schedule on December 3rd, 2024

Thank you! Questions?

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ChaseB@fcsgroup.com

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Historical Rate Increases

Utility	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Water	4.30%	8.0%	12.80%	10.90%	6.00%	5.30%	6.50%	6.50%	5.25%	5.25%	8.00%	8.00%
Sewer (local)	4.00%	8.50%	8.30%	7.00%	7.00%	7.80%	7.70%	7.70%	4.00%	4.00%	4.50%	4.50%
Storm	1.20%	1.20%	2.70%	1.30%	4.00%	1.50%	3.20%	3.20%	5.50%	5.50%	8.00%	8.00%



Bimonthly Sewer Rate

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Local Bill	\$68.41	\$71.49	\$74.71	\$78.07	\$81.58	\$85.25	\$89.09
Bimonthly Increase		\$3.08	\$3.22	\$3.36	\$3.51	\$3.67	\$3.84
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Bimonthly Treatment Bill	\$110.22	\$116.56	\$124.72	\$133.45	\$142.79	\$154.57	\$167.33
Bimonthly Increase		\$6.34	\$8.16	\$8.73	\$9.34	\$11.78	\$12.76
Percent Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Bimonthly Total Bill	\$178.63	\$188.05	\$199.43	\$211.52	\$224.37	\$239.82	\$256.42
Bimonthly Increase		\$9.42	\$11.38	\$12.09	\$12.85	\$15.45	\$16.60
Percent Increase		5.27%	6.05%	6.06%	6.08%	6.89%	6.92%



Combined Bimonthly Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Water Bill	\$142.51	\$153.91	\$166.22	\$179.52	\$193.88	\$209.39	\$226.14
Bimonthly Increase		\$11.40	\$12.31	\$13.30	\$14.36	\$15.51	\$16.75
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Local Sewer Bill	\$68.41	\$71.49	\$74.71	\$78.07	\$81.58	\$85.25	\$89.09
Bimonthly Increase		\$3.08	\$3.22	\$3.36	\$3.51	\$3.67	\$3.84
Percentage Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Metro Sewer Bill	\$110.22	\$116.56	\$124.72	\$133.45	\$142.79	\$154.57	\$167.33
Bimonthly Increase		\$6.34	\$8.16	\$8.73	\$9.34	\$11.78	\$12.76
Percentage Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Stormwater Bill	\$46.43	\$50.14	\$54.15	\$58.48	\$63.16	\$68.21	\$73.67
Bimonthly Increase		\$3.71	\$4.01	\$4.33	\$4.68	\$5.05	\$5.46
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Total Bill	\$367.57	\$392.10	\$419.80	\$449.52	\$481.41	\$517.42	\$556.23
Bimonthly Increase		\$24.53	\$27.70	\$29.72	\$31.89	\$36.01	\$38.81
Percentage Increase		6.67%	7.06%	7.08%	7.09%	7.48%	7.50%



UTILITY BOARD STAFF REPORT

Item 4
October 8, 2024
Regular Business

AGENDA ITEM INFORMATION

TITLE:	Sewer Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Accept the proposed Sewer Utility rate for FY 2025.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

STAFF:	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
COUNCIL LIAISON:	Jake Jacobson
EXHIBITS:	1. None

SUMMARY

BACKGROUND

As part of the 2025-2026 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer Utility rate adjustment for the upcoming fiscal year. Staff recommends a 4.5% increase to the Sewer Utility rates for 2025 as proposed in the smoothed rate model.

The operating and capital budgets presented in this memo were released to the Public and City Council on September 26, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Sewer rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

2025-2026 OPERATING BUDGET

The operating budget for the Sewer Utility is presented in the table below.

Operating Expenditures <i>(\$ in thousands)</i>	2023	2024	2025	2026	Percent Change	
	Actual	Budget	Budget	Budget	24-25	25-26
Salary & Benefits	\$1,653	\$1,746	\$1,915	\$2,021	9.7%	5.5%
King County Sewer Treatment	5,432	5,836	6,172	6,604	5.8%	7.0%
Debt Service	1,021	1,032	1,029	1,030	-0.3%	0.1%
Other Services and Charges	1,747	1,985	1,776	1,867	-10.5%	5.1%
TOTAL	\$9,853	\$10,599	\$10,892	\$11,522	1.0%	6.9%

Table 1

Highlights from the Sewer Utility operating budget include:

- The combined total employee compensation costs in 2025 are increasing 9.7% as compared to 2024. The increase is a result of two factors, one being the current pace of inflation which has led to atypically high

cost-of-living adjustments (COLA), per the City's collective bargaining agreements. The COLA applied in 2024 was 6.0%, per the current AFSCME bargaining contract cap, and is estimated at 4.2% for 2025. Second, in June 2024, the City Council adopted a new Compensation Plan (see [AB 6491](#)) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce (99 of 207 employees).

- The operating budget contains a portion of one additional support position in 2025 currently proposed as a Support Services Technician.
- King County Sewage Treatment services are increasing service rates 5.75% in 2025. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- Existing debt service is related to the Sewer Lake Line project (2009) and a Public Works Trust Fund (PWTF) Loan. Final repayment for the PWTF loan is anticipated in July 2026.
- The sewer rate model assumes no new debt will need to be issued for capital projects in the current biennium, with a tentative bond issuance scheduled in 2027 and 2030. The debt issuance needed to maintain the model's smoothed rate structure at 4.5% is anticipated to be \$16 M in 2027 and \$8.5 M in 2030, pending further analysis.
- Other Services and Charges include all other operating costs including supplies, contract services, insurance, and administrative costs. The latter includes the Sewer Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance, and Human Resources staff.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Sewer Utility.

CAPITAL REINVESTMENT PROJECT SUMMARY

Planned capital reinvestment work in 2025 and 2026 is shown in Table 2 below. Capital investment costs are the primary driver of the proposed sewer rate increases in the upcoming year.

Sewer Utility Capital Program 2025-2026			
(\$ in thousands)			
Project ID	Description	2025	2026
90.30.0001	Emergency Sewer System Repairs	\$50	\$52
90.30.0002	Backyard Sewer System Improvements Program	130	124
90.30.0003	Sewer System Components	50	52
90.30.0004	Pump Station Access Improvements	30	31
90.30.0005	Pump Station Rehabilitation	2,635	2,732
90.30.0006	Wet Well Cleaning & Restoration	380	384
90.30.0007	Lake Line Reach 1 Capacity Improvements	350	674
90.30.0008	Sewer Pipe Replacements & Upsizing		250
90.30.0009	Comp Hydraulic Model Development	250	
90.30.0010	Comprehensive Inflow and Infiltration (I/I) Evaluation	100	104
90.30.0012	Sewer Easements and Right-Of-Way	150	156
90.30.0013	General Sewer Plan Update		135
Sewer Utility CIP Total		\$4,125	\$4,693

Table 2

SEWER RATE PROPOSAL

The 2025 rate proposal is based on the 2025-2026 operating budget, the 2025-2030 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends a 4.5% increase to the Sewer Utility rates for 2025 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding beginning in 2027 for investments that cost more than \$2.5 M each and have a useful life greater than 20 years. Debt financing spreads costs incurred in a relatively short period over the useful life of updated infrastructure, thereby avoiding spikes in annual rate adjustments year-over-year while generations of rate payers who benefit from these investments help pay down the associated costs. No debt issuance is planned in the current biennium for the Sewer Utility.

The proposed rate adjustment for FY 2025 is part of a multiyear effort to ensure the Sewer Utility Fund has adequate resources to complete critical capital project work detailed below and into the future, as well as meet long-established fiscal policy guidelines.

These include funding an operating reserve target equal to 30 days of operating and maintenance costs, and a capital reserve target of 1.0% of capital assets. The 4.5% rate increase in FY 2025 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2024	2025	2026	2027	2028	2029	2030
Pre Rate Revenues							
Revenues							
Rate Revenues Under Existing Rates	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868
Non-Rate Revenues	5,962,583	6,193,355	6,619,422	7,074,787	7,583,722	8,209,035	8,885,289
Total Revenues	\$ 12,149,451	\$ 12,380,223	\$ 12,806,290	\$ 13,261,655	\$ 13,770,590	\$ 14,395,903	\$ 15,072,157
Expenses							
Cash Operating Expenses	\$ 8,843,318	\$ 9,624,740	\$ 10,243,329	\$ 10,843,636	\$ 11,482,642	\$ 12,258,629	\$ 13,092,107
Existing Debt Service	1,031,829	1,028,615	1,029,601	623,618	626,625	623,725	-
New Debt Service	-	-	-	1,284,684	1,284,684	1,284,684	1,967,173
Total Expenses	\$ 9,875,147	\$ 10,653,355	\$ 11,272,931	\$ 12,751,938	\$ 13,393,951	\$ 14,167,038	\$ 15,059,280
Net Surplus (Deficiency)	\$ 2,274,304	\$ 1,726,868	\$ 1,533,359	\$ 509,717	\$ 376,639	\$ 228,864	\$ (470,110)
Annual Rate Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Cumulative Rate Increase		4.50%	9.20%	14.12%	19.25%	24.62%	30.23%
Post Rate Revenues							
Revenues After Rate Increases	\$ 6,186,868	\$ 6,465,277	\$ 6,756,215	\$ 7,060,244	\$ 7,377,955	\$ 7,709,963	\$ 8,056,911
Additional Taxes from Rate Increase	-	8,589	17,565	26,945	36,747	46,991	57,695
Net Cash Flow After Rate Increase	\$ 2,274,304	\$ 1,996,688	\$ 2,085,140	\$ 1,356,148	\$ 1,530,979	\$ 1,704,969	\$ 1,825,226
Sample Monthly Residential Bill 6 ccf	\$ 89.32	\$94.03	\$99.72	\$105.77	\$112.20	\$119.94	\$128.24
Monthly Increase (\$)		\$4.71	\$5.69	\$6.05	\$6.44	\$7.74	\$8.30

Table 3

Fund Balance	2024	2025	2026	2027	2028	2029	2030
Operating Reserve							
Beginning Balance	\$ 3,167,997	\$ 726,848	\$ 791,075	\$ 842,623	\$ 892,701	\$ 945,993	\$ 1,010,579
plus: Net Cash Flow after Rate Increase	2,274,304	1,996,688	2,085,140	1,356,148	1,530,979	1,704,969	1,825,226
less: Transfer of Surplus to Capital Fund	(4,715,453)	(1,932,461)	(2,033,591)	(1,306,070)	(1,477,687)	(1,640,383)	(1,755,879)
Ending Balance	\$ 726,848	\$ 791,075	\$ 842,623	\$ 892,701	\$ 945,993	\$ 1,010,579	\$ 1,079,926
<i>Actual Days of O&M</i>	30 days	30 days	30 days	30 days	30 days	30 days	30 days
Capital Reserve							
Beginning Balance	\$ 6,731,204	\$ 5,326,998	\$ 3,262,587	\$ 598,097	\$ 10,410,224	\$ 5,040,665	\$ 880,620
plus: Transfers from Operating Fund	4,715,453	1,932,461	2,033,591	1,306,070	1,477,687	1,640,383	1,755,879
plus: Revenue Bond Proceeds	-	-	-	16,000,000	-	-	8,500,000
plus: Interest Earnings	269,248	159,810	65,252	5,981	104,102	50,407	8,806
Total Funding Sources	\$ 11,715,905	\$ 7,419,269	\$ 5,361,430	\$ 17,910,148	\$ 11,992,014	\$ 6,731,455	\$ 11,145,306
less: Capital Expenditures	(6,388,908)	(4,156,682)	(4,763,333)	(7,499,924)	(6,951,348)	(5,850,835)	(10,106,371)
Ending Capital Fund Balance	\$ 5,326,998	\$ 3,262,587	\$ 598,097	\$ 10,410,224	\$ 5,040,665	\$ 880,620	\$ 1,038,934
<i>Minimum Target Balance</i>	\$ 501,174	\$ 542,741	\$ 590,375	\$ 665,374	\$ 734,887	\$ 793,396	\$ 894,459
Combined Beginning Balance	\$ 9,899,201	\$ 6,053,846	\$ 4,053,662	\$ 1,440,721	\$ 11,302,926	\$ 5,986,659	\$ 1,891,199
Combined Ending Balance	\$ 6,053,846	\$ 4,053,662	\$ 1,440,721	\$ 11,302,926	\$ 5,986,659	\$ 1,891,199	\$ 2,118,860

Table 4

Table 5 provides a summary comparing proposed rates from the most recent rate model updates (2020-2023) as compared to the current rate recommendation that is presented in the bottom row.

Description	2023	2024	2025	2026	2027	2028	2029	2030
2020 Rate Update	7.70%	7.70%						
2021-2022 Rate Update	4.00%	4.00%	4.00%	4.00%				
2023-2024 Rate Update	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		
2025-2026 Rate Proposal			4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

Table 5

CONCLUSION

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2025 Sewer Utility rate increases.

The 2025 Sewer Utility rate adjustment is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City’s annual Master Fee Schedule update. Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2026 and beyond.

RECOMMENDED ACTION

Accept the proposed Sewer Utility rate for FY 2025.



UTILITY BOARD STAFF REPORT

Item 5
October 8, 2024
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2025 Storm Water Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Accept the proposed Stormwater Utility rate for FY 2025.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

STAFF:	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
COUNCIL LIAISON:	Jake Jacobson
EXHIBITS:	1. None

SUMMARY

BACKGROUND

As part of the 2025-2026 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming fiscal year. Staff recommends an 8.0% increase to the Storm Water Utility rates for fiscal year 2025 as proposed in the smoothed rate model.

The operating and capital budgets presented in this memo were released to the Public and City Council on September 26, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Storm Water rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

2025-2026 OPERATING BUDGET

The operating budget for the Storm Water Utility is presented in the table below.

Operating Expenditures (\$ in thousands)	2023	2024	2025	2026	Percent Change	
	Actual	Budget	Budget	Budget	24-25	25-26
Salary & Benefits	\$1,212	\$1,180	\$1,397	\$1,468	18.4%	5.0%
Contractual Services	\$687	\$429	\$535	\$552	24.7%	3.2%
Other Services and Charges	\$484	\$478	\$582	\$601	21.7%	3.2%
TOTAL	\$2,383	\$2,088	\$2,514	\$2,620	20.4%	4.2%

Table 1

Some highlights from the operating budget:

- The combined total for salary and benefit costs in 2024 are increasing 18.4% as compared to the 2024 budget. The increase is a result of three factors, the first is a reallocation of staff time to more accurately reflect historical practices and anticipated needs of staff resources that will be charged to the Storm Water Fund. Second, in June 2024, the City Council adopted a new Compensation Plan (see

[AB 6491](#)) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce (99 of 207 employees). The final factor is the current pace of inflation which has led to atypically high cost-of-living adjustments (COLA), per the City's collective bargaining agreements. The COLA in 2024 was 6.0% and is anticipated to be 4.2% for the 2025 budget.

- The salaries budget includes a portion of one new position, currently proposed as a Support Services Technician. There is also an increase in the total FTE (full-time equivalent) count being charged to the Storm Water Fund due to the reallocation mentioned above. Staffing of the Storm Water utility includes four FTEs in Public Works dedicated to the operation and maintenance of the storm water system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support.
- Contractual services for 2025 reflect anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs. This contracted work is critical to comply with National Pollutant Discharge Elimination System (NPDES) requirements.
- Other Services and Charges include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Storm Water Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance and Human Resources staff.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Storm Water Utility.

SUMMARY CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2025 and 2026 is shown in the table below. Capital investment costs are the primary driver of the proposed Storm Water rate increases for 2025-2030.

Storm Water Utility Capital Program 2025-2026			
(\$ in thousands)			
Project ID	Description	2025	2026
90.35.0001	Emergency SW Conveyance Replacement	\$50	\$52
90.35.0002	Street Related Storm Drainage Improvements	150	156
90.35.0003	Conveyance Condition Assessment	100	104
90.35.0004	Storm water System Improvements	400	415
90.35.0005	SW Monitoring Instrumentation	60	62
90.35.0006	WMW Culvert Replacements	100	467
90.35.0007	Watercourse Condition Update	250	
90.35.0008	SB 22.1& 25b.2 Watercourse Improvements	380	
90.35.0009	SB 46a.3 Watercourse Improvements		544
90.35.0014	SB 23.2 Watercourse Improvements	300	
90.35.0015	SB 25b Neighborhood Drainage Improvements	425	
Storm Water Utility CIP Total		\$2,215	\$1,799

Table 2

STORM WATER RATE PROPOSAL

The 2025 Storm Water rate proposal is based on the 2025-2026 preliminary operating budget, the 2025-2030 Capital Plan, and the corresponding debt financing needs. The rate model proposes a smoothed rate increase of 8.0% for each year in 2025-2030. Staff recommends an 8.0% increase to the Storm Water Utility rates for fiscal year 2025 as proposed in the smooth rate model.

This rate increase will ensure that the Storm Water fund has adequate resources to complete the critical capital project work detailed above and into the future, as well as meet established fiscal policy guidelines. The Storm Water fund has an operating reserve target of 45 days of operating and maintenance costs, and a capital reserve target of 1.0 percent of capital assets. The proposed rate increase enables the fund to achieve its target for both established guidelines, as detailed in the table below.

Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential rate adjustments for fiscal year 2026 and beyond.

Revenue Requirement	2024	2025	2026	2027	2028	2029	2030
Pre Rate Revenues							
Revenues							
Rate Revenues Under Existing Rates	\$ 2,661,152	\$ 2,661,152	\$ 2,661,152	\$ 2,661,152	\$ 2,661,152	\$ 2,661,152	\$ 2,661,152
Non-Rate Revenues	239,140	132,055	130,742	52,992	54,617	54,732	54,852
Total Revenues	\$ 2,900,293	\$ 2,793,207	\$ 2,791,894	\$ 2,714,145	\$ 2,715,769	\$ 2,715,884	\$ 2,716,004
Expenses							
Cash Operating Expenses	\$ 1,907,475	\$ 2,328,651	\$ 2,423,414	\$ 2,434,302	\$ 2,523,517	\$ 2,616,195	\$ 2,712,477
Existing Debt Service	-	-	-	-	-	-	-
New Debt Service	-	-	-	160,586	160,586	160,586	240,878
System Reinvestment Funding	-	-	-	-	-	-	-
Total Expenses	\$ 1,907,475	\$ 2,328,651	\$ 2,423,414	\$ 2,594,888	\$ 2,684,102	\$ 2,776,780	\$ 2,953,356
Net Surplus (Deficiency)	\$ 992,818	\$ 464,557	\$ 368,480	\$ 89,623	\$ 13,051	\$ (89,440)	\$ (293,375)
Annual Rate Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Cumulative Rate Increase		8.00%	16.64%	25.97%	36.05%	46.93%	58.69%
Post Rate Revenues							
Revenues After Rate Increases	\$ 2,661,152	\$ 2,874,045	\$ 3,103,968	\$ 3,352,286	\$ 3,620,468	\$ 3,910,106	\$ 4,222,914
Additional Taxes from Rate Increase	-	3,726	7,749	12,095	16,788	21,857	27,331
Net Cash Flow After Rate Increase	\$ 992,818	\$ 673,723	\$ 803,546	\$ 798,296	\$ 974,195	\$ 1,166,201	\$ 1,297,080
Sample Monthly Residential Bill	\$ 23.22	\$25.07	\$27.08	\$29.24	\$31.58	\$34.11	\$36.84
Monthly Increase (\$)		\$1.86	\$2.01	\$2.17	\$2.34	\$2.53	\$2.73

Table 3

Fund Balance	2024	2025	2026	2027	2028	2029	2030
Operating Reserve							
Beginning Balance	\$ 4,728,509	\$ 235,168	\$ 287,094	\$ 299,236	\$ 301,075	\$ 312,610	\$ 324,614
plus: Net Cash Flow after Rate Increase	992,818	673,723	803,546	798,296	974,195	1,166,201	1,297,080
less: Transfer of Surplus to Capital Fund	(5,486,158)	(621,798)	(791,404)	(796,457)	(962,660)	(1,154,196)	(1,284,584)
Ending Balance	\$ 235,168	\$ 287,094	\$ 299,236	\$ 301,075	\$ 312,610	\$ 324,614	\$ 337,110
Actual Days of O&M	45 days						
Capital Reserve							
Beginning Balance	\$ 24,694	\$ 3,627,602	\$ 2,221,760	\$ 1,051,205	\$ 2,153,124	\$ 1,160,216	\$ 419,582
plus: Transfers from Operating Fund	5,486,158	621,798	791,404	796,457	962,660	1,154,196	1,284,584
plus: Revenue Bond Proceeds	-	-	-	2,000,000	-	-	1,000,000
plus: Interest Earnings	988	108,828	44,435	10,512	21,531	11,602	4,196
Total Funding Sources	\$ 5,511,840	\$ 4,358,228	\$ 3,057,599	\$ 3,858,174	\$ 3,137,315	\$ 2,326,014	\$ 2,708,363
less: Capital Expenditures	(1,884,238)	(2,136,467)	(2,006,395)	(1,705,050)	(1,977,099)	(1,906,432)	(2,118,820)
Ending Capital Fund Balance	\$ 3,627,602	\$ 2,221,760	\$ 1,051,205	\$ 2,153,124	\$ 1,160,216	\$ 419,582	\$ 589,543
Minimum Target Balance	\$ 137,304	\$ 158,669	\$ 178,733	\$ 195,784	\$ 215,554	\$ 234,619	\$ 255,807
Combined Beginning Balance	\$ 4,753,203	\$ 3,862,770	\$ 2,508,854	\$ 1,350,441	\$ 2,454,198	\$ 1,472,826	\$ 744,197
Combined Ending Balance	\$ 3,862,770	\$ 2,508,854	\$ 1,350,441	\$ 2,454,198	\$ 1,472,826	\$ 744,197	\$ 926,653

Table 4

Table 5 provides a summary comparing proposed rates from the most recent rate model updates (2020-2023) as compared to the current rate recommendation that is presented in the bottom row.

Description	2023	2024	2025	2026	2027	2028	2029	2030
2020 Rate Update	3.20%	3.20%						
2021-2022 Rate Update	5.50%	5.50%	5.50%	5.50%				
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%		
2025-2026 Rate Proposal			8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Table 5

CONCLUSION

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2025 Storm Water Utility rate increases.

The 2025 Storm Water Utility rate adjustment is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City's Master Fee Schedule annual update. Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2026 and beyond.

RECOMMENDED ACTION

Accept the proposed Stormwater Utility rate for FY 2025.



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6530
October 1, 2024
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6530: Long-Term Water Infrastructure Response and Alternatives	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Include the design and construction of a new 24-inch transmission line in the 2025-2030 Capital Improvement Plan and commence next steps including coordination with SPU on contract amendments and to identify long-term solutions to serve the Shorewood Apartments. Develop a project funding plan and prepare a capital funding request for the Washington State Legislature.	

DEPARTMENT:	Public Works
STAFF:	Jason Kintner, Public Works Chief of Operations Patrick Yamashita, City Engineer/Deputy Public Works Director Kellye Hilde, Deputy Public Works Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Transmission Line Map
CITY COUNCIL PRIORITY:	3. Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to present recommended actions to improve resiliency of the permanent water transmission line from Seattle Public Utilities (SPU) through replacement of 3,500 feet of concrete cylinder pipe with 4,800 feet of earthquake resistant ductile iron pipe in a new alignment.

- On April 3, 2024, a leak from SPU’s 24-inch diameter water transmission line was discovered. The City Manager issued [Proclamation No. 327](#) Declaring a Local Emergency due to the reduction in the supply of incoming potable water to Mercer Island.
- The City Council ratified this Proclamation on May 7 ([AB 6466](#)). On May 1, the City Manager declared a second local emergency with [Proclamation No. 329](#) due to the reduction in potable water supply to Mercer Island caused by the aforementioned leak. The City Council ratified this Proclamation on May 21 ([AB 6471](#)).

- The 24-inch concrete cylinder water transmission line located in the SE 40th Street right-of-way was constructed in 1956 and has required several leak repairs over the years.
- The City and Shorewood Apartments are the two wholesale customers served by SPU's water transmission line. The City is responsible for 97.2% of the costs associated with this transmission line, with the balance of cost responsibilities belonging to the Shorewood Apartments.
- Given the overwhelming cost responsibility held by the City, and the importance of this water transmission line, the City began exploring options to replace this segment of pipe with a stronger, earthquake resistant transmission line in an alternative alignment.
- The estimated planning level cost for this replacement, together with other related improvements, is \$19 million.

BACKGROUND

SPU is the sole provider of potable water to Mercer Island. On April 3, 2024, the City learned that the SPU 24-inch water transmission line to Mercer Island was leaking in the steep sloped area in the SE 40th Street right-of-way, just north of where Mercerwood Drive meets SE 40th Street. Consequently, SPU crews significantly reduced and then shut off flow to the transmission line, eliminating its use as the primary transmission line. Mercer Island received water through a smaller backup pipeline beginning April 4, 2024 and implemented emergency conservation actions due to the constrained supply.

SPU and their specialty contractor, in coordination and collaboration with the City, completed repairs and testing, restoring flow through the SPU transmission line on August 1, 2024. The repaired section was slip-lined with approximately 1,300 feet of structural liner, reducing its diameter from 24-inches to 17.4-inches. This loss of carrying capacity was analyzed to understand the impact on the water supply and deemed acceptable.

With the repair complete, the City Manager issued [Proclamation No. 344](#) ending the state of local emergencies related to the SPU water pipeline leaks, respectively declared in [Proclamation No. 327](#) and [Proclamation No. 329](#).

ISSUE/DISCUSSION

Challenges with the Existing Water Supply Transmission Line Segment

The development of the leak in this critical water transmission line highlighted several important issues. Access to the pipeline near the leak is very difficult, as it is located under a steep slope, and in close proximity to high- and low-pressure natural gas pipelines. The area to the east has a history of slope instability, requiring multiple repairs to joints in the pipeline since shortly after its installation in 1956.

The existing 24-inch pipe is comprised of a steel cylinder wrapped with a concrete casing. While this material composition was common in the 1950s, this style of pipe is recognized as being non-resilient in seismically active areas, and as demonstrated, in areas with even small and slow slope movement. This region has recognized the need to make incremental improvements to vulnerable life-line infrastructure in response to improved understanding of local earthquake risks.

Although owned and operated by SPU, the City bears 97.2% of the cost responsibility for this segment of pipe, without commensurate control over decision-making related to operations, maintenance, and long-term capital investment. SPU has been an excellent partner in water supply, but decisions related to large, on-island infrastructure are better made by local utility managers and policymakers.

Considered Alternatives

“Do Nothing” SPU’s recent repair mitigated the immediate adverse impact on the City’s water supply and has an estimated “useful” life projection of approximately 50 years. Challenges remain, however, due to the transmission line’s location in an area with known slope movement, difficult access in some portions, and being constructed of materials that are not seismically resilient. Additionally, the City is responsible for the entire cost of the transmission line segment, despite having only secondary and negotiated control over infrastructure decisions.

“New City Owned Pipeline” Moving the critical 24-inch transmission line out of the SE 40th Street corridor, and converting to a City-owned asset would consolidate control with responsibility, provide a more resilient and reliable water supply line, and reduce risk in a vulnerable area. Multiple routes for construction of a replacement transmission line were reviewed, but topography and rights-of-way alignments constrain viable options.

The alignment from the Boat Ramp area, north on E. Mercer Way, west on SE 36th Street, and southwest up Gallagher Hill Road to SE 40th Street (see Exhibit 1) is the most feasible route. Hydraulic and planning level studies were conducted, evaluating different pipe sizes and materials. The alternative alignment is longer than the current alignment but is a more reliable route and will meet supply needs with a 24-inch transmission line. This alignment also has the advantage of simultaneously replacing an old asbestos-cement pipeline in Gallagher Hill Road that was scheduled for replacement in 2025. The following Table summarizes the planning level costs developed for this work, including the estimated cost to provide a new connection to Shorewood Apartments, which is discussed further below. These costs are planning level estimates and further refinement will occur with project design and contract negotiations pertaining to assuming ownership of the new infrastructure.

Description	Estimated Cost ¹
24" Restrained Joint Ductile Iron Pipe (RJDIP) Design, Construction Management, Admin, & Permitting ²	\$2,247,000
24" RJDIP Construction	\$8,981,000
Subtotal – New Supply Transmission Line Project	\$11,228,000
AC Pipe removal (currently in path of new transmission line) ³ Upsizing the 12-inch near the tanks	\$1,812,000
Replace 8-inch AC main along Gallagher Hill Rd ³	\$1,336,500
New vault with control valve and flow meter at boat ramp ³	\$2,314,500
Connect Shorewood Apartments at 88 th Ave SE and 90 th Ave SE ^{3,4}	\$2,082,000
Total project cost	\$18,773,000

Notes:

1. Costs are best estimate plus 50% values (Class 5 planning level opinion of probable cost).
2. Design and related services sum to be approximately 25% of the construction cost.
3. Estimates include design, Construction Management, Administration, Permitting and Construction.
4. Decision to proceed subject to discussion and approval from SPU, Shorewood Apartments, and City policymakers, and further evaluation of appropriate cost allocations.

This project will design and construct a new, City-owned 24-inch transmission line that connects to the current SPU infrastructure on 92nd Avenue SE, and west on SE 43rd Street where the SPU meter is located. These remaining segments of pipe (92nd Avenue SE and SE 43rd Street) are currently owned and operated by SPU and would necessitate negotiations with SPU to transfer this existing pipeline segment, for which the City

is currently 100% financially responsible, to the City. The City and SPU have had preliminary discussions about this option and this option is attainable.

Shorewood Apartments Supply

The SPU transmission line includes a combination of “reaches” or sections of pipe that are owned and operated by SPU. They include Reach 3 and Reach 4 and the Shorewood Apartment connection (see Exhibit 1). Currently, Shorewood Apartments is a direct customer of SPU, with water feeds coming from the 24-inch transmission line. In the most recent emergency, along with a previous water supply emergency in 2023, temporary connections to the Shorewood Apartments from the City’s distribution system were needed to maintain water supply. Fire flow protection during these periods was significantly impaired.

City engineering staff, with consultant support, evaluated several feasible options to provide service to the Shorewood Apartments in the future. The preferred option is to connect Shorewood Apartments via two new pipes and master meters fed from SE 36th Street on 88th and 90th Avenues SE. Should this proposed design move forward, Shorewood Apartments will need to become a direct customer of the City of Mercer Island.

The primary advantages to the City would be the elimination of the need to mobilize personnel to provide temporary connections whenever SPU supply is interrupted, and reduction of risk posed by Shorewood Apartment’s aging asbestos cement and cast-iron transmission pipelines on SE 40th Street, 90th Avenue SE, SE 37th Street, and 88th Avenue SE.

Alternatively, Shorewood Apartments can remain connected to SPU’s 24-inch transmission line and remain a SPU wholesale customer; however, the existing 24-inch transmission line would remain in service.

Any future solution will require additional discussion and negotiation between the City, SPU, and the owners of the Shorewood Apartments.

NEXT STEPS

The purpose of this agenda bill is to approve the inclusion of a project to design and construct a new 24-inch ductile iron transmission line in the 2025-2030 Capital Improvement Plan. This authorization allows staff to proceed to the next steps, which are further described below.

Upon approval of this project, staff will evaluate the optimal project delivery and funding approaches to ensure efficiency and effectiveness and return to the City Council with a recommendation and appropriation request to commence design. Staff will also begin negotiations with SPU to address ownership issues and further explore alternatives for service to the Shorewood Apartments. Finally, an amended Wholesale Service Contract and construction contract will be brought back to the City Council for review and approval.

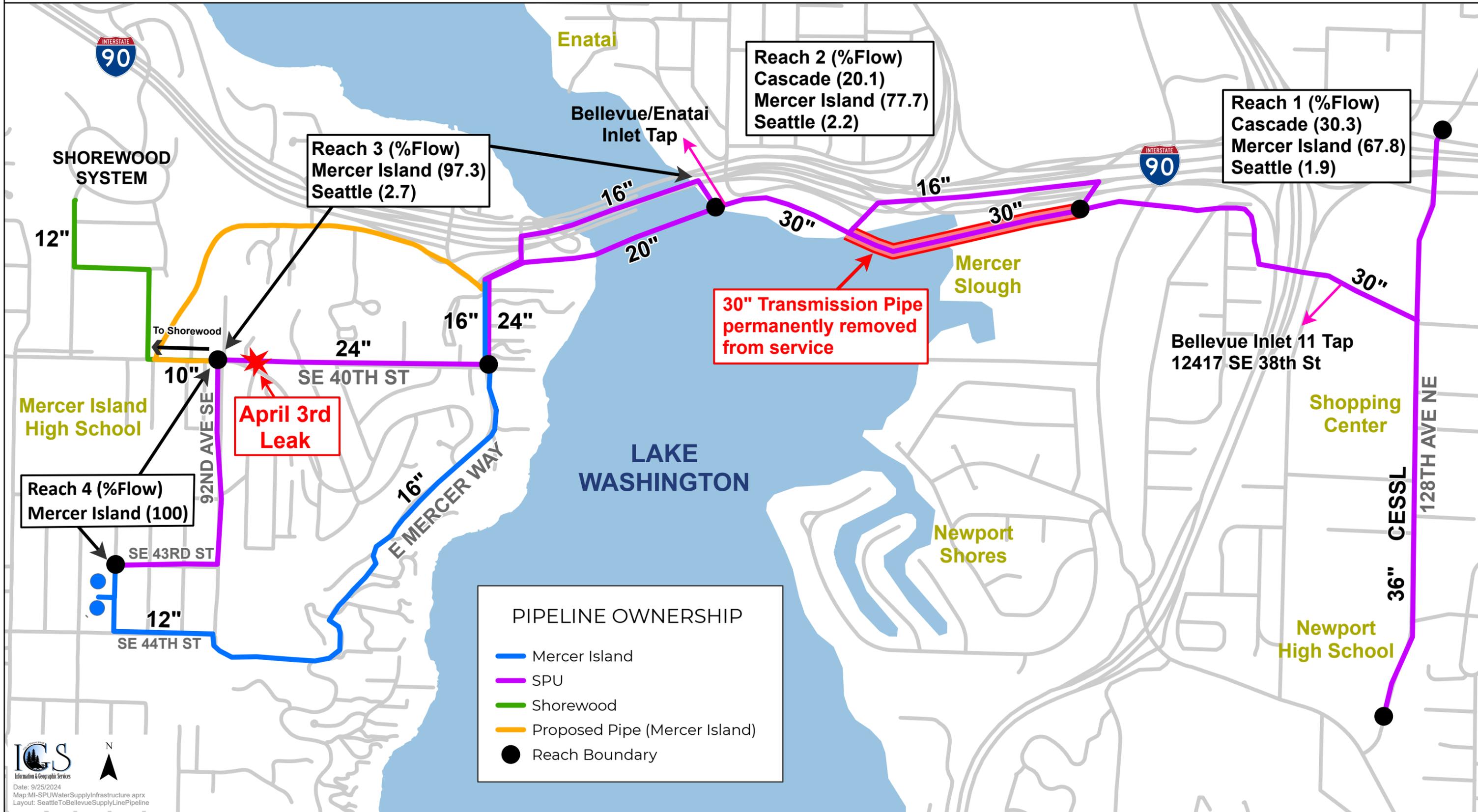
Given the size, scope, and importance of this project, the City Manager is also recommending this project be included in a capital funding request to the Washington State Legislature. The recommended motion includes authorization for staff to prepare the necessary materials to proceed with this capital funding request.

RECOMMENDED ACTION

Move to direct staff to include the design and construction of a new 24-inch transmission line in the 2025-2030 Capital Improvement Plan; negotiate a preferred pipeline alignment and ownership from Seattle Public Utilities; identify long-term solutions to serve the Shorewood Apartments; prepare an amended Wholesale

Service Contract; and, return to the City Council with a recommended project funding plan. In addition, direct the City Manager to prepare a capital funding request for submission to the Washington State Legislature and include this request as part of the City's 2025 Legislative Priorities. Further, authorize the Mayor and Deputy Mayor to commence conversations with State legislative representatives about this project and the corresponding capital funding request.

OVERVIEW OF SPU SUPPLY LINE



IGS
Information & Geographic Services
Date: 9/25/2024
Map: MI-SPUWaterSupplyInfrastructure.aprx
Layout: SeattleToBellevueSupplyLinePipeline

EXHIBIT 1



Utility Board
2024 Draft Work Plan
2nd Tuesday

Meeting Date	Agenda Item
January 9	2023 Recology Annual Report
February 13	Bylaws Update
	2024 Utility Board Work Plan Preview
March 12	Stormwater/NPDES Update
April 9	Recess- Spring break
May 14	
June 11	Board Elections
	Water Meter Replacement Project Update
July 9	Water Briefing
	Field Trip (date/time to be scheduled- wednesday)
August 13	Utility Site Tours (no meeting)
	Recess
September 10	
	Sewer/Water Rate Discussion
October 8	EMS/ Stormwater Rate Discussion
	Rate Discussion Continuation
November 12	Long term transmission line/SPU Wholesale Contract
	Rate Discussion Continuation - if needed
December 10	
	Recess
To Be Scheduled:	SPU Wholesale Contract Amendment
	Water System Reliability Action Plan Update
	2024 Recology Annual Report - Jan

Updated 8/27/24