



# CITY OF MERCER ISLAND

## UTILITY BOARD SPECIAL HYBRID MEETING

Tuesday, October 10, 2023, at 5:00 PM

### BOARD MEMBERS:

Tim O'Connell, Chair  
Will Quantz, Vice Chair  
Stephen Majewski, George Marshall,  
Meredith Lehr, Stephen Milton, and William Pokorny

### LOCATION & CONTACT

Mercer Island Community & Event Center – Zoom Meeting  
8236 SE 24th Street | Mercer Island, WA 98040  
Phone: 206.275.7793 | [www.mercerisland.gov](http://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](mailto: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 24<sup>th</sup> Street, Mercer Island, WA 98040

### CALL TO ORDER & ROLL CALL, 5:00 PM

### PUBLIC APPEARANCES

### REGULAR BUSINESS

1. Approval of Minutes for the September 12, 2023, Regular Video Meeting  
**Recommended Action:** Approve minutes.
2. AMI Data Collector Installation Outreach  
**Recommended Action:** Review the draft outreach materials and provide feedback to staff.
3. 2024 Water Rate and Bond Issuance Discussion/Recommendation  
**Recommended Action:** Accept staff's recommendation to increase the Water Utility rate for FY 2024.
4. 2024 Sewer Rate Discussion/Recommendation  
**Recommended Action:** Accept staff's recommendation to increase the Sewer Utility rate for FY 2024.

### OTHER BUSINESS

5. 2023 Workplan
6. Next Meeting – December 12, 2023

### ADJOURNMENT



## UTILITY BOARD MINUTES REGULAR HYBRID MEETING September 12, 2023

### CALL TO ORDER & ROLL CALL

Chair Tim O'Connell called the meeting to order at 5:06 pm from a remote location.

Chair Tim O'Connell, Vice Chair Will Quantz and Board Members William Pokorny, Meredith Lehr, George Marshall and Steve Milton, and Council Liaison Jake Jacobson participated remotely using a video teleconferencing platform by Zoom.

Board Member Stephen Majewski was absent.

Jason Kintner, Chief of Operations, Alaine Sommargren, Deputy Public Works Director, and other staff members participated remotely.

### PUBLIC APPEARANCES

There were no public appearances.

### REGULAR BUSINESS

#### Approval of Minutes for the following meetings:

July 11, 2023, Minutes

It was moved by Lehr; seconded by Marshall to:  
Approve the minutes as presented.  
Passed 6-0

#### Update on Water System Reliability Action Plan progress

Deputy Public Works Director Alaine Sommargren introduced the following staff from Confluence Engineering: Melinda Friedman and Chris McMeen.

Confluence staff presented an update on the Water System Reliability Action Plan. The Board received the presentation and asked questions of staff.

Chief of Operations Jason Kintner asked the board for 2 volunteers to serve on the working group:

Will Quantz tentatively volunteered, pending potential firm involvement conflicts.  
Meredith Lehr tentatively volunteered, potential travel conflicts.  
Steve Milton volunteered as an alternate, pending potential travel conflicts.

#### King County Solid Waste Rate Amendment

Chief of Operations Jason Kintner introduced Jeanette Jurgensen from Bin There Consulting.

Jeanette Jurgensen presented the King County Solid Waste Rate Amendment. The board received the presentation and asked questions of the consultant and staff.

#### EMS Rate Discussion/Recommendation

Finance Analyst Ben Schumacher presented the EMS Rate Updates.

The board received the presentation and asked questions of staff.

It was moved by Milton; seconded by Marshall to:  
Recommend the City Council ratify the staff recommendations for a 10.01% increase in the EMS rate.  
Passed 6-0

**Storm Water Rate Discussion/Recommendation**

Finance Analyst Ben Schumacher presented the Storm Water Rate Updates.

The board received the presentation and asked questions of staff.

Motion was made to:  
Recommend to the City Council to ratify the staff recommendations for an 8.0% increase in the Storm  
Water rate.  
Passed 6-0

**OTHER BUSINESS**

Next meeting October 10<sup>th</sup>, 2023.

**ADJOURNMENT**

The meeting adjourned at 6:45 pm.

\_\_\_\_\_  
Attest: Tim O'Connell, Chair

\_\_\_\_\_  
Jen Matsuda, CIP Administrative Assistant



# UTILITY BOARD STAFF REPORT

Item 2  
October 10, 2023  
Regular Business

## AGENDA ITEM INFORMATION

<b>TITLE:</b>	AMI Data Collector Installation Outreach	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Review draft outreach materials and provide feedback	

<b>STAFF:</b>	Alaine Sommargren, Deputy Public Works Director	
<b>COUNCIL LIAISON:</b>	Jake Jacobson	
<b>EXHIBITS:</b>	<ol style="list-style-type: none"> <li>1. Proposed Data Collection Equipment Locations</li> <li>2. Draft Letter</li> <li>3. Draft FAQ Flier</li> <li>4. Draft Doorhanger</li> </ol>	

## SUMMARY

### Background

The City is currently implementing an Advanced Metering Infrastructure (AMI) system on Mercer Island, which will replace all residential and commercial water meters with meters that transmit water use data to the City’s network on an hourly basis. The AMI system will allow customers to monitor their water use and receive leak alerts and other notifications through an online portal. This new system requires that the City install data collection equipment in seven locations across the island, in order to draw water data from each meter and effectively transmit it to the City.

The data collection equipment, which consists of a base station and antenna mounted on a pole or structure at approximately 70’-90’ high, will be placed at seven key locations on Mercer Island (Exhibit 1). These locations were determined by a propagation study, which analyzes radio signal coverage and helps identify where the antennas must be sited to most efficiently capture data from the ~7,900 water meters on the island.

### Project Permitting & Public Outreach

Because these antennas must be located higher on utility poles than other communication equipment, each must be approved through a Conditional Use Permit. The Conditional Use Permit process is a comprehensive application and review process that considers both the potential impacts and the public benefit of the project. Ultimately, the Hearing Examiner will determine whether each application will be approved.

A key component of the Conditional Use Permit process is a robust public outreach and engagement effort to give project neighbors an opportunity to ask questions and provide feedback to the City. This outreach effort must commence prior to submitting any applications for these permits. Staff have been working with HDR, the City’s project management consultant, to develop outreach materials which will be distributed to all

properties located within at least 300' of the proposed equipment location sites. For the seven identified locations, there are a total of approximately 490 properties who will receive this targeted outreach.

In May 2023, the City sent postcards to all of its water customers providing information about the upcoming meter replacements and the AMI project. However, the outreach materials currently under development are focused on the installation of data collection equipment. These materials include a letter (Exhibit 2), a Frequently Asked Questions (FAQ) flier (Exhibit 3), and a doorhanger (Exhibit 4), all of which will be distributed to each of the 490 addresses. All materials will include links and/or QR codes that point to the project's [Let Talk page](#), which will include specific information about the proposed locations and photo renderings of each installation.

**Outreach Material Review**

Staff are requesting feedback from the Utility Board on the draft outreach materials, to ensure that they are clear, informative, and address the most pressing questions and concerns.

**RECOMMENDED ACTION**

Review the draft outreach materials and provide feedback to staff.



## Date

Recipient  
Company  
Street Address  
City, ST ZIP Code

## Dear Recipient:

The City of Mercer Island is investing in new tools to serve its water customers better. Over the course of 2024, the City will install an advanced metering infrastructure (AMI) system that will replace all water meters, improving utility operations and supporting water conservation planning efforts. During this project, the City must install data collection equipment that will communicate with the AMI system and the new meters to transmit water usage data to the City securely. **You are receiving this notification because your property is located within 300 feet of a proposed data collection equipment site.**

**The enclosed insert in this notice includes additional information about the data collection equipment and the seven proposed locations for this equipment.**

Each installation will require the approval of a Conditional Use Permit, which will authorize the use of this equipment as an essential public facility. The City is required to send a Notice of Application to residents within 300 feet of each data collection site. The notification will detail the proposed permit application and opportunities for public comment. Ultimately, a Hearing Examiner will decide on the issuance of each Conditional Use Permit application, in which a Notice of Decision will be issued.

For details about the Conditional Use Permit application process and the Water Meter Infrastructure Project, please visit: [letstalk.mercerisland.gov/meterproject](http://letstalk.mercerisland.gov/meterproject).

For additional questions, please contact the City's Customer Service Team at (206) 275-7600 or [customerservice@mercerisland.gov](mailto:customerservice@mercerisland.gov). We appreciate your patience and understanding while we work to improve Mercer Island's utility services.

Sincerely,

NAME  
TITLE  
City of Mercer Island

# EXHIBIT 1:

## PROPOSED AMI DATA COLLECTION EQUIPMENT SITES



# Frequently Asked Questions

## Water Meter Infrastructure Project

### City of Mercer Island

Item 2.



### What is the Water Meter Infrastructure Project?

The City of Mercer Island is investing in new tools to serve water customers better. In 2024, the City will replace all residential and commercial water meters with an advanced metering infrastructure (AMI) system and create an online portal where customers can track water use, leak alerts, and other notifications. In order to collect the meter readings, the City must install data collection equipment at key locations on Mercer Island. The equipment will communicate with the AMI system and the new meters to transmit water usage data to the City.

### Where is the City proposing to install the data collection stations? How was this decided?

Seven data collection equipment stations will be installed at various locations across the city. These proposed locations were identified based on their ability to effectively transmit data from the water meters across Mercer Island.

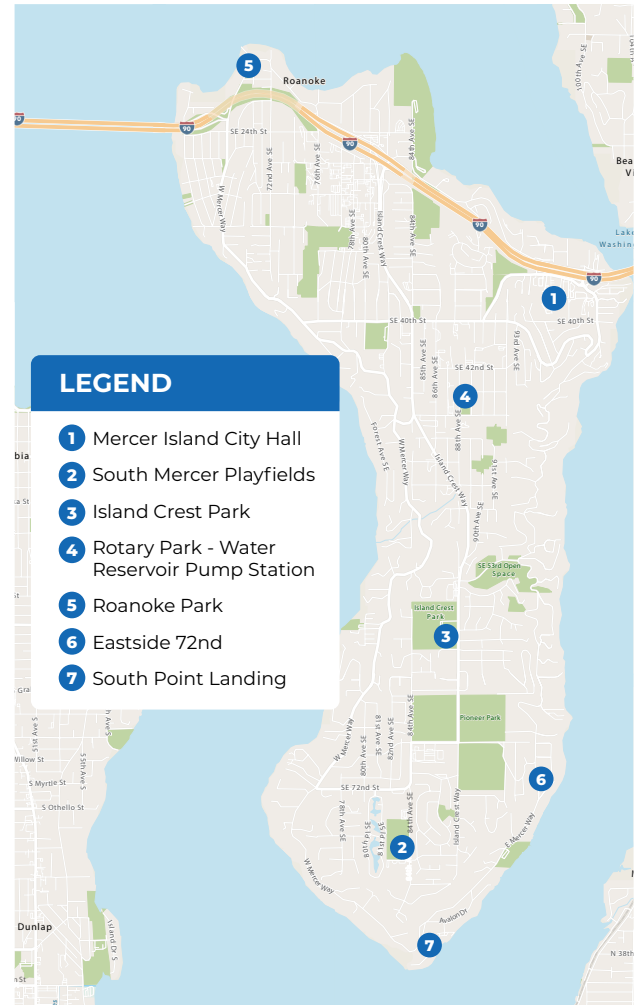
### Once constructed, what will the equipment look like?

The equipment includes a 22" by 22" by 10.5" aluminum box, known as a base station, and antennas ranging from 7' to 9' in height. Most installations will be located on existing utility poles and infrastructure. Taller poles may be installed in some locations to meet safety guidelines for clearances between power lines and other equipment. A rendering is shown on the backside of this handout.

### Is a City permit required for data collection installations on poles?

Yes, each installation will require the approval of a Conditional Use Permit, which will authorize the use of this equipment as an essential public facility.

The City is required to send a Notice of Application to residents within 300 feet of each data collection site. The notification will detail the proposed permit application and opportunities for public comment. Ultimately, a Hearing Examiner will decide on the issuance of each Conditional Use Permit application, and a Notice of Decision will be issued.



Example base station and antenna equipment



## Can I comment on a particular data collection site?

The City will share additional details about opportunities to comment or provide feedback on a particular data collection site via the Conditional Use Permit Notice of Application. The City will notify residents within 300 feet of each data collection site with information about the permit application,

public comment period, and the public hearing date and time. Anyone may comment on the application, receive notice, and request a copy of the decision once it has been made.



*Rendering of proposed data collection equipment on a new 80-foot pole near South Mercer Playfields.*

## What are the community benefits of this project?

The new data collection equipment will connect with the AMI system to securely communicate water usage data to the City and reduce the need for manual meter reads.

Customers will also be able to manage their water use in real-time through the new online customer portal.

## Is the data collection equipment safe?

The data collection technology complies with Federal Communications Commission (FCC) standards and guidelines for environmental exposure to radio frequency (RF), which have been in place since 1985. RF energy produced by smart meter technology is not harmful and is comparable to cellular phone devices, wireless baby monitors, television broadcasts, garage door openers, microwave ovens, cordless home phones, and Wi-Fi networks.

## Who can I contact for more information about this project?

For questions, please contact the City's Customer Service Team at **(206) 275-7600** or **customerservice@mercerisland.gov**.

For details about the Water Meter Infrastructure Project, please visit: **<https://letstalk.mercergov.org/meterproject>**.



## Water Meter Infrastructure Project

City of Mercer Island



Dear Resident,

The City of Mercer Island is investing in new tools to serve its water customers better. In 2024, the City will replace all residential and commercial water meters with an advanced metering infrastructure (AMI) system.


As part of the the meter replacement project, the City must install data collection equipment at seven locations across Mercer Island. The equipment will communicate with the new meters to transmit water usage data to the City. **You are receiving this notification because your property is located within 300 feet of a proposed data location equipment site.**

These installations will each require a Conditional Use Permit from the Mercer Island Community Planning and Development (CPD) department. The City will notify residents within a 300-foot radius of each location with details about the application and opportunities to provide public comment in the coming months.

For additional details, please visit our project website at [letstalk.mercergov.org/meterproject](https://letstalk.mercergov.org/meterproject).

### Contact Us

Customer Service Team

 (206) 275-7600

 [customerservice@mercerisland.gov](mailto:customerservice@mercerisland.gov)

 [letstalk.mercergov.org/meterproject](https://letstalk.mercergov.org/meterproject)

This information can be made available on request to accommodate people with disabilities and those who need translation assistance.

Esta información puede estar disponible a pedido conforme a las necesidades de personas con discapacidad o aquellas que requieran de servicio de traducción.

Эта информация может быть предоставлена по запросу для размещения людей с ограниченными возможностями, а также тех, кому требуется помощь переводчика.

可根據要求提供這些資訊，  
以幫助殘障人士和需要翻譯協助的人士。



# UTILITY BOARD STAFF REPORT

**Item 3**  
**October 10, 2023**  
**Regular Business**

## AGENDA ITEM INFORMATION

<b>TITLE:</b>	2024 Water Rate and Bond Issuance Discussion/Recommendation	<input type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Accept staff's recommendation to increase the Water Utility rate for FY 2024.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

<b>STAFF:</b>	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
<b>COUNCIL LIAISON:</b>	Jake Jacobson
<b>EXHIBITS:</b>	1. Sample Schedule for LTGO Bond Issuance Draft Letter 2. Summary of Historical Interest Rates

## SUMMARY

### Background

As part of the 2023-2024 mid-biennial budget process, staff seeks the Utility Board's recommendation regarding the Water Utility rate adjustment for the upcoming fiscal year. The 2023-2024 operating and capital budgets presented in this memo were adopted by the City Council on December 6, 2022 and include budget amendments through May 16, 2023. Staff have also included forecasted budget figures for the operating budgets in 2023 and 2024 due to the expected issuance of debt occurring a year later than originally budgeted.

### 2023-2024 Operating Budget

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

Operating Expenditures <i>(\$ in thousands)</i>	2021	2022	2023	2024	Percent Change	
	Actual	Actual	Forecast	Forecast	22-23	23-24
Salary & Benefits	\$1,357	\$1,868	\$2,015	\$2,133	7.9%	5.8%
Water Purchased for Resale	2,223	2,133	2,351	2,468	10.2%	5.0%
Other Services and Charges	1,446	1,755	1,674	1,773	-4.6%	5.9%
Debt Service	109	107	107	1,553	-0.6%	1356.7%
<b>Total</b>	<b>\$5,134</b>	<b>\$5,863</b>	<b>\$6,146</b>	<b>\$7,927</b>	<b>4.8%</b>	<b>29.0%</b>

Table 1

Highlights from the Water Utility operating budget include:

- The combined total for salary and benefit costs in 2024 are increasing 5.8% as compared to the 2023 budget. The increase is a result of 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 2023 was capped at 6.0%, per the current AFSCME bargaining contract, and is anticipated to be 6.0% again for 2024.
- The operating budget for 2024 contains no new positions when compared to 2023.

- Water Purchases from Seattle Public Utilities (SPU) are projected to increase 5.0% in 2024 when compared to the 2023 budget. Note that SPU sets a higher rate for the period of Peak usage (May 15-Sept 15) than for the period of non-peak usage (Sept 16-May 14). Staff estimates water purchase costs will make up about 31% of all Water Utility operating expenses in 2024.
- Existing debt service payments are for debt issued in 2011 on the First Hill Booster Pump Station upgrade and water system improvements projects. The Water rate model includes \$19.28 M in new outside funding in 2024 to support significant upcoming water capital improvements (e.g., island-wide meter replacements, water reservoir improvements, asbestos cement main replacements, and pressure reducing valve station replacements). Issuance of new debt would result in additional annual debt payment estimated at \$1.4 M, beginning in 2024.
- 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. An overhead cost allocation model is used to determine the Water Utility’s proportionate share of these internal services.

**Summary Capital Reinvestment Projects**

Planned capital reinvestments in 2023 and 2024 are outlined in the table below. Systemwide water distribution components - such as island-wide meters, 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 for 2024 include projects that staff deemed necessary to accelerate and spend down bond proceeds within the three-year eligibility window for reimbursement.

Water Utility Capital Program Budget 2023-2024				
(\$ in thousands)				
Project ID	Description	2023	2024	
WU0100	Emergency Water System Repairs	\$260	\$150	
WU0101	Booster Chlorination Station	1,336		
WU0102	SCADA System Replacement (Water)	667		
WU0103	Water Reservoir Improvements	4,370	2,750	
WU0106	Water System Improvements (Madrona Crest East Addition)	1,007		
WU0109	Water System Improvements (60 Ave SE, btw SE 27 and SE 32, and 62 Ave)	291		
WU0112	Water System Components Replacement	50	50	
WU0115	Water Modeling and Fire Flow Analysis	40	50	
WU0117	Meter Replacement Implementation	7,229		
WU0119	Reservoir Generator Replacement	1,512		
WU0120	First Hill Generator Replacement	400	400	
WU0128	Reservoir Pump Replacement	540	540	
WU0130	2023 Water System Improvements (First Hill, NMW, SE 37th Pl, SE 41st-42nd Pl)	4,684		
WU0131	2024 Water System Improvements (8600 Block SE 47th & SE 59th)	373	2,082	
WU0135	2024 AC Main Replacement (Gallagher Hill Rd, Greenbrier and SE 40th)	479	2,680	
WU0136	2025 AC Main Replacement (Upper Mercerwood)		1,040	
WU0140	Pressure Reducing Valve Station Replacements	395	2,025	
WU0141	Street Related Water System Improvements	150	150	
WU0142	Emergency Well #2 Site Evaluation		50	
<b>Water Utility CIP Total</b>		<b>\$23,782</b>	<b>\$11,967</b>	

Table 2

## Water Rate Proposal

The 2024 water rate proposal is based on the 2023-2024 operating budget, the 2023-2028 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends an 8.0% increase to the water utility rates for 2024 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 2024 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 2024 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2022	2023	2024	2025	2026	2027	2028
<b>Pre Rate Revenues</b>							
<b>Revenues</b>							
Rate Revenues Under Existing Rates	\$10,215,124	\$10,215,124	\$10,215,124	\$10,215,124	\$10,215,124	\$10,215,124	\$10,215,124
Non-Rate Revenues	43,405	39,388	46,736	48,476	37,355	37,699	38,059
<b>Total Revenues</b>	<b>\$10,258,529</b>	<b>\$10,254,511</b>	<b>\$10,261,860</b>	<b>\$10,263,600</b>	<b>\$10,252,479</b>	<b>\$10,252,822</b>	<b>\$10,253,182</b>
<b>Expenses</b>							
Cash Operating Expenses	\$ 5,835,939	\$ 6,201,367	\$ 6,474,979	\$ 6,691,520	\$ 6,922,277	\$ 7,162,443	\$ 7,412,427
Existing Debt Service	107,250	109,531	111,631	108,550	110,150	111,550	107,750
New Debt Service	-	-	1,441,620	2,062,872	2,060,576	2,527,866	2,525,570
System Reinvestment Funding	3,000,000	3,250,000	3,500,000	3,700,000	3,900,000	3,900,000	3,900,000
<b>Total Expenses</b>	<b>\$ 8,943,189</b>	<b>\$ 9,560,898</b>	<b>\$11,528,230</b>	<b>\$12,562,942</b>	<b>\$12,993,004</b>	<b>\$13,701,859</b>	<b>\$13,945,747</b>
<b>Net Surplus (Deficiency)</b>	<b>\$ 1,315,340</b>	<b>\$ 693,613</b>	<b>\$ (1,266,370)</b>	<b>\$ (2,299,343)</b>	<b>\$ (2,740,525)</b>	<b>\$ (3,449,037)</b>	<b>\$ (3,692,565)</b>
<b>Annual Rate Increase</b>		<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>
<b>Cumulative Rate Increase</b>		<b>8.00%</b>	<b>16.64%</b>	<b>25.97%</b>	<b>36.05%</b>	<b>46.93%</b>	<b>58.69%</b>
<b>Post Rate Revenues</b>							
Revenues After Rate Increases	\$10,215,124	\$11,032,334	\$11,914,920	\$12,868,114	\$13,897,563	\$15,009,368	\$16,210,117
Additional Taxes from Rate Increase	-	41,097	85,483	133,419	185,190	241,103	301,488
<b>Net Cash Flow After Rate Increase</b>	<b>\$ 1,315,340</b>	<b>\$ 1,469,726</b>	<b>\$ 347,944</b>	<b>\$ 220,229</b>	<b>\$ 756,725</b>	<b>\$ 1,104,105</b>	<b>\$ 2,000,941</b>
Sample Residential Bill (3/4" Meter, x 14 ccf)	\$122.15	\$131.92	\$142.48	\$153.87	\$166.18	\$179.48	\$193.84
Bi-Monthly Increase (\$)		\$9.77	\$10.55	\$11.40	\$12.31	\$13.29	\$14.36

Table 3

Fund Balance	2022	2023	2024	2025	2026	2027	2028
<b>Operating Reserve</b>							
Beginning Balance	\$ 5,762,177	\$ 2,077,517	\$ 3,547,243	\$ 3,895,186	\$ 1,671,042	\$ 1,739,761	\$ 1,811,745
plus: Net Cash Flow after Rate Increase	1,315,340	1,469,726	347,944	220,229	756,725	1,104,105	2,000,941
less: Transfer of Surplus to Capital Fund	(5,000,000)	-	-	(2,444,373)	(688,006)	(1,032,121)	(1,925,514)
Ending Balance	\$ 2,077,517	\$ 3,547,243	\$ 3,895,186	\$ 1,671,042	\$ 1,739,761	\$ 1,811,745	\$ 1,887,172
Actual Days of O&M	130 days	209 days	218 days	90 days	90 days	90 days	90 days
<b>Capital Reserve</b>							
Beginning Balance	\$10,024,654	\$ 6,240,578	\$ 846,241	\$ 801,686	\$ 4,932,077	\$ 3,706,812	\$ 4,635,259
plus: System Reinvestment Funding	3,000,000	3,250,000	3,500,000	3,700,000	3,900,000	3,900,000	3,900,000
plus: Transfers from Operating Fund	5,000,000	-	-	2,444,373	688,006	1,032,121	1,925,514
plus: LTGO Proceeds	-	-	16,000,000	8,100,000	-	6,100,000	-
plus: PWTF Proceeds	-	-	3,280,000	-	-	-	-
plus: Interest Earnings	25,062	31,203	4,231	4,008	24,660	18,534	23,176
Total Funding Sources	\$18,049,716	\$ 9,521,780	\$23,630,472	\$15,050,068	\$ 9,544,743	\$14,757,466	\$10,483,949
less: Capital Expenditures	(11,809,138)	(8,675,540)	(22,828,786)	(10,117,991)	(5,837,931)	(10,122,208)	(5,749,235)
Ending Capital Fund Balance	\$ 6,240,578	\$ 846,241	\$ 801,686	\$ 4,932,077	\$ 3,706,812	\$ 4,635,259	\$ 4,734,714
Minimum Target Balance	\$ 475,035	\$ 561,790	\$ 790,078	\$ 891,258	\$ 949,637	\$ 1,050,859	\$ 1,108,352
Combined Beginning Balance	\$15,786,831	\$ 8,318,095	\$ 4,393,483	\$ 4,696,872	\$ 6,603,118	\$ 5,446,572	\$ 6,447,004
Combined Ending Balance	\$ 8,318,095	\$ 4,393,483	\$ 4,696,872	\$ 6,603,118	\$ 5,446,572	\$ 6,447,004	\$ 6,621,886

Table 4

A summary table comparing the proposed rates from the most recent rate model updates (2022-2024) as compared to the current rate recommendation is presented below.

Description	2021	2022	2023	2024	2025	2026	2027	2028
2020 Rate Update	6.50 %	6.50 %	6.50 %	6.50 %				
2021-2022 Rate Update	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%		
2023-2024 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 \$51.6 M in escalated capital spending between 2023-2028. Table 4 includes the projected limited-tax general obligation (LTGO) debt issuance that amounts to \$16 M in 2024, \$8.1 M in 2025, and \$6.1 M in 2027.

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 remain net positive through the first year of the current biennium, which allows staff to push out the \$16 M bond issuance originally scheduled this year to the first half of 2024. This issuance will provide critical funding support for the water utility, including the following projects:

- **Water Reservoir Improvements (WU0103)** to the south and north tanks will protect the structural integrity and create a safer working environment. Improvements include seal welding roof plates and rafters, replacing exterior ladders with spiral staircases, and adding a guardrail around the tank roof perimeter as well as replacing interior linings and overcoating exteriors.

Work began in Q3 2023 following material procurement and permitting. Because only one reservoir can be taken out of service at a time and restricted during high water demand season, this project will take until Q2 2025 to be completed. Total project costs are estimated at \$5.56 M in the current biennium.

- **Pressure Reducing Valve (PRV) Station Replacements** (WU0140) 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 well underway. Design will continue through the first half of 2024. Total project costs are estimated at \$2.4 M in the current biennium.

- **Water System Improvements** (WU0130) 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. Construction began this September and is scheduled for completion Q1 2024. Total project costs are estimated at \$4.7 M in the current biennium.
- **Asbestos Cement (AC) Water Main Replacements** (WU0135-WU0137) is a new 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 2023-2028 CIP planning period, total project costs are estimated at \$18.7 M.

Staff included a preliminary schedule of events (Exhibit 1) to demonstrate the timeline from initiating the bond issuance process to when the City can expect to receive revenues from said issuance.

### **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 in case of any revenue shortfalls.

Alternatively, if the debt were issued as utility system revenue bonds, it would not have the backing of the City's LTGO credit. Depending on market conditions and credit quality, and assuming both credits have the same rating, the benefit of issuing bonds as LTGO vs. utility revenue could be from zero to 10-basis points. A 10-basis point benefit on a 20-year, \$16 M bond issue would be approximately \$170,000 in debt service. Exhibit 2 contains a graph detailing municipal market data for current and prior interest rates applicable for 20-year bonds.

The City's general obligation rating by Moody's is currently at Aaa which is the highest rating category and was affirmed in May 2023. The City does not currently have a rating on its utility system and would have to apply for one if it were to issue the debt as such. Given the City's strong and structurally balanced financial position, staff anticipate the utility system would also receive an Aaa rating. Though unlikely, if the utility

system were to receive a rating of Aa1 (one notch lower than the Aaa general obligation credit rating), that could equate to five basis points higher in interest rates.

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, based on 1.5% of the City's 2023 assessed valuation of \$22.5 B, the City's remaining available debt capacity is \$332 M, taking into account the City's current outstanding general obligation debt of \$4.8 M.

**Conclusion**

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2024 Water Utility rate increases.

The 2024 Water Utility rate resolution is on the City Council planning schedule for review and adoption on November 21, 2023. Staff will return during the 2025-2026 biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2025 and beyond.

**RECOMMENDED ACTION**

Accept staff's recommendation to increase the Water Utility rate for FY 2024.



## City of Mercer Island, Washington

### Limited Tax General Obligation Bonds, 2024

#### Preliminary Schedule of Events

March 2024	April 2024	May 2024	June 2024
S M T W T F S	S M T W T F S	S M T W T F S	S M T W T F S
	1 2 3 4 5 6	1 2 3 4	1
3 4 5 6 7 8 9	7 8 9 10 11 12 13	5 6 7 8 9 10 11	2 3 4 5 6 7 8
10 11 12 13 14 15 16	14 15 16 17 18 19 20	12 13 14 15 16 17 18	9 10 11 12 13 14 15
17 18 19 20 21 22 23	21 22 23 24 25 26 27	19 20 21 22 23 24 25	16 17 18 19 20 21 22
24 25 26 27 28 29 30	28 29 30	26 27 28 29 30 31	23 24 25 26 27 28 29
31			30

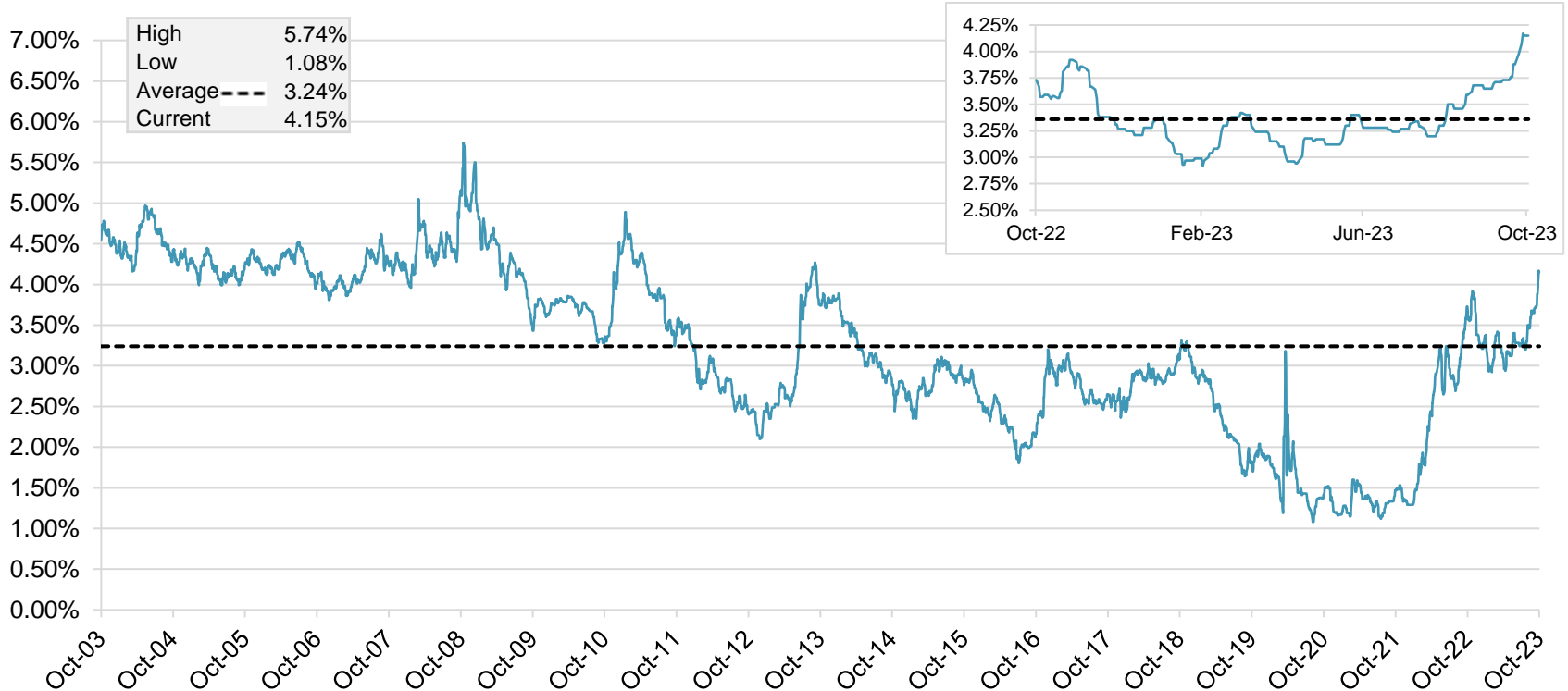
**Staff:** City Staff  
**Council:** City Council [meets 1<sup>st</sup> and 3<sup>rd</sup> Tuesdays of each month]  
**PSC:** Piper Sandler (Municipal Advisor)  
**BC:** Pacifica Law Group (Bond Counsel)  
**UW:** To be determined (Underwriter)

Date	Event	Participants
March 13	Kickoff call	Staff, BC, PSC
March 18	Send data requirements sheet to City for preparation of Preliminary Official Statement (“POS”)	BC
March 25	Distribute 1 <sup>st</sup> draft Bond Ordinance for review	BC
April 5	Comments due on 1 <sup>st</sup> draft Bond Ordinance	Staff, PSC, BC
April 8	Complete data requirements for POS	Staff
April 12	Distribute 2 <sup>nd</sup> draft Bond Ordinance for review	BC
April 15	Distribute 1 <sup>st</sup> draft POS for review	BC
Week of April 22	Distribute 1 <sup>st</sup> draft rating presentation for review	PSC
April 24	Comments due on 2 <sup>nd</sup> draft Bond Ordinance	Staff, PSC, BC
April 30	Bond Ordinance available for Council packets	BC
April 25	Comments due on 1 <sup>st</sup> draft POS	Staff, PSC, BC
May 1	Distribute 2 <sup>nd</sup> draft POS for review	BC
May 3	Send information to Moody’s	PSC
Week of May 6	Distribute 2 <sup>nd</sup> draft rating presentation for review	PSC
May 7	1 <sup>st</sup> & 2 <sup>nd</sup> reading Bond Ordinance (regular meeting)	Council, Staff, PSC, BC
May 13	Comments due on 2 <sup>nd</sup> draft POS	Staff, PSC, BC
Week of May 13	Final review of rating presentation/conference call with Moody’s	Staff, PSC
May 16	Distribute 3 <sup>rd</sup> draft POS for review	BC
Week of May 20	Due diligence call	Staff, PSC, BC
May 23	Comments due on 3 <sup>rd</sup> draft POS	Staff, PSC, BC
May 24	Rating due	
May 28	Post POS on PARITY	PSC
June 4	Review market conditions	Staff, PSC
June 5	Receive competitive bond bids/award bid	Staff, PSC, UW
June 7	Distribute final OS for review	BC
June 12	Comments due on final OS	Staff, PSC, BC, UW
June 13	Distribute final OS	BC, UW
June 19	Bond Closing and delivery of bond proceeds	Staff, PSC, BC, UW

## Short and Long-Term Interest Rates

AAA Municipal Market Data (MMD) rates are above their one and 20-year averages.

20-Year AAA MMD



- On September 20<sup>th</sup>, the Federal Open Market Committee (FOMC) decided to maintain the fed funds target rate at a range of 5.25% to 5.50%, the highest level since 2001; any future actions will be data dependent. The Fed is forecasting only a 50 basis point rate cut in 2024 confirming the theme that rates may be higher for longer. Next meeting is November 1st.



# UTILITY BOARD STAFF REPORT

Item 4  
October 10, 2023  
Regular Business

## AGENDA ITEM INFORMATION

<b>TITLE:</b>	2024 Sewer Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Accept staff's recommendation to increase the Sewer Utility rate for FY 2024.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

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

## SUMMARY

### Background

As part of the 2023-2024 mid-biennial budget process, staff seeks the Utility Board's recommendation regarding the Sewer Utility rate adjustment for the upcoming fiscal year. The 2023-2024 operating and capital budgets presented in this memo were adopted by the City Council on December 6, 2022, and include budget amendments through May 16, 2023.

### 2023-2024 Operating Budget

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

Operating Expenditures (\$ in thousands)	2021	2022	2023	2024	Percent Change	
	Actual	Actual	Budget	Budget	22-23	23-24
Salary & Benefits	\$1,132	\$1,366	\$1,630	\$1,746	19.3%	7.1%
King County Sewer Treatment	4,928	5,217	5,518	5,836	5.8%	5.8%
Debt Service	1,037	1,036	1,034	1,032	-0.2%	-0.2%
Other Services and Charges	1,090	1,249	1,350	1,373	8.1%	1.6%
<b>TOTAL</b>	<b>\$8,187</b>	<b>\$8,868</b>	<b>\$9,533</b>	<b>\$9,986</b>	<b>1.0%</b>	<b>6.9%</b>

Table 1

Highlights from the Sewer Utility operating budget include:

- The combined total employee compensation costs in 2024 are increasing 7.1% as compared to 2023. The increase is a result of 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 2023 is 6.0%, per the current AFSCME bargaining contract cap, and is estimated at 6.0% again for 2024.
- The operating budget contains no new positions in 2024 compared to 2023.
- King County Sewage Treatment services are authorized to increase 5.75% in 2024. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.

- Existing debt service costs are related to debt repayments for the Sewer Lake Line project (2009) and include a Public Works Trust Fund Loan and LTGO bonds. The sewer rate model assumes no new debt will need to be issued for capital projects in the current biennium.
- 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. An overhead cost allocation model is used to determine the Sewer Utility’s proportionate share of these internal service functions.

**Capital Reinvestment Project Summary**

Planned capital reinvestment work in 2023 and 2024 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 2023-2024			
(\$ in thousands)			
Project ID	Description	2023	2024
SU0100	Emergency Sewer System Repairs	\$300	\$300
SU0103	Easement, Access, Codes, and Standards Review	150	150
SU0108	Comprehensive Pipeline R&R Program	1,765	1,000
SU0109	Sewer System Generator Replacement	245	200
SU0113	SCADA System Replacement (Sewer)	3,034	500
SU0114	Sewer System Components	50	50
SU0115	Sewer Pipe Replacements & Upsizing	600	
SU0117	Pump Station Rehabilitation & Replacement Assessment	300	300
SU0127	Backyard Sewer System Improvement Program	130	120
SU0128	Pump Station Rehabilitation & Replacement Improvements	150	950
<b>Sewer Utility CIP Total</b>		<b>\$6,723</b>	<b>\$3,570</b>

Table 2

**Sewer Rate Proposal**

The 2023 rate proposal is based on the 2023-2024 operating budget, the 2023-2028 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends a 4.5% increase to the sewer utility rates for 2024 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding beginning in 2025 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.

The proposed rate adjustment for FY 2024 is part of a multiyear effort to ensure the Sewer Utility 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 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 2024 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2022	2023	2024	2025	2026	2027	2028
<b>Pre Rate Revenues</b>							
<b>Revenues</b>							
Rate Revenues Under Existing Rates	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500
Non-Rate Revenues	5,224,128	5,521,413	5,839,272	6,175,142	6,531,123	6,907,233	7,529,028
Total Revenues	\$ 10,889,628	\$ 11,186,913	\$ 11,504,772	\$ 11,840,642	\$ 12,196,623	\$ 12,572,733	\$ 13,194,528
<b>Expenses</b>							
Cash Operating Expenses	\$ 7,870,013	\$ 8,295,280	\$ 8,732,369	\$ 9,145,227	\$ 9,580,484	\$ 10,038,208	\$ 10,744,483
Existing Debt Service	1,035,856	1,034,242	1,031,829	1,028,615	1,029,601	623,618	626,625
New Debt Service	-	-	-	284,831	284,831	846,794	846,794
System Reinvestment Funding	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000	2,000,000	2,000,000
Total Expenses	\$ 10,505,870	\$ 11,029,522	\$ 11,564,198	\$ 12,358,672	\$ 12,894,916	\$ 13,508,619	\$ 14,217,902
<b>Net Surplus (Deficiency)</b>	\$ 383,759	\$ 157,391	\$ (59,425)	\$ (518,030)	\$ (698,293)	\$ (935,887)	\$ (1,023,374)
<b>Annual Rate Increase</b>		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
<b>Cumulative Rate Increase</b>		4.50%	9.20%	14.12%	19.25%	24.62%	30.23%
<b>Post Rate Revenues</b>							
Revenues After Rate Increases	\$ 5,665,500	\$ 5,920,448	\$ 6,186,868	\$ 6,465,277	\$ 6,756,214	\$ 7,060,244	\$ 7,377,955
Additional Taxes from Rate Increase	-	9,821	20,083	30,807	42,014	53,726	65,964
Net Cash Flow After Rate Increase	\$ 383,759	\$ 402,518	\$ 441,859	\$ 250,939	\$ 350,407	\$ 405,132	\$ 623,117
Sample Residential Bill (3/4" Meter, x 12 ccf)	\$ 161.21	\$169.71	\$178.66	\$188.08	\$198.02	\$208.48	\$223.73
Bi-Monthly Increase (\$)		\$8.50	\$8.95	\$9.42	\$9.94	\$10.46	\$15.25

Table 3

Fund Balance	2022	2023	2024	2025	2026	2027	2028
<b>Operating Reserve</b>							
Beginning Balance	\$ 2,676,392	\$ 646,850	\$ 681,804	\$ 718,536	\$ 753,313	\$ 789,969	\$ 828,511
plus: Net Cash Flow after Rate Increase	383,759	402,518	441,859	250,939	350,407	405,132	623,117
less: Transfer of Surplus to Capital Fund	(2,413,301)	(367,564)	(405,127)	(216,162)	(313,751)	(366,589)	(564,104)
Ending Balance	\$ 646,850	\$ 681,804	\$ 718,536	\$ 753,313	\$ 789,969	\$ 828,511	\$ 887,524
<i>Actual Days of O&amp;M</i>	30 days	30 days	30 days	30 days	30 days	30 days	30 days
<b>Capital Reserve</b>							
Beginning Balance	\$ 2,596,515	\$ 4,186,086	\$ 1,888,522	\$ 642,008	\$ 2,399,513	\$ 771,771	\$ 4,619,409
plus: System Reinvestment Funding	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000	2,000,000	2,000,000
plus: Transfers from Operating Fund	2,413,301	367,564	405,127	216,162	313,751	366,589	564,104
plus: LTGO Proceeds	-	-	-	3,700,000	-	7,300,000	-
plus: Interest Earnings	6,491	20,930	9,443	3,210	11,998	3,859	23,097
Total Funding Sources	\$ 6,616,307	\$ 6,274,580	\$ 4,103,091	\$ 6,461,380	\$ 4,725,261	\$ 10,442,220	\$ 7,206,610
less: Capital Expenditures	(2,430,221)	(4,386,059)	(3,461,083)	(4,061,868)	(3,953,490)	(5,822,811)	(6,108,555)
Ending Capital Fund Balance	\$ 4,186,086	\$ 1,888,522	\$ 642,008	\$ 2,399,513	\$ 771,771	\$ 4,619,409	\$ 1,098,055
<i>Minimum Target Balance</i>	\$ 534,889	\$ 578,749	\$ 613,360	\$ 653,979	\$ 693,514	\$ 751,742	\$ 812,827
<b>Combined Beginning Balance</b>	\$ 5,272,907	\$ 4,832,936	\$ 2,570,326	\$ 1,360,544	\$ 3,152,826	\$ 1,561,741	\$ 5,447,920
<b>Combined Ending Balance</b>	\$ 4,832,936	\$ 2,570,326	\$ 1,360,544	\$ 3,152,826	\$ 1,561,741	\$ 5,447,920	\$ 1,985,579

Table 4

A summary table comparing the proposed rates from the most recent sewer rate model update (2022-2024) as compared to the current rate recommendation is presented below.

Description	2021	2022	2023	2024	2025	2026	2027	2028
2020 Rate Update	7.70%	7.70%	7.70%	7.70%				
2021-2022 Rate Update	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%		
2023-2024 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 2024 Sewer Utility rate increases.

The 2024 Sewer Utility rate resolution is on the City Council planning schedule for review and adoption on November 21, 2023. Staff will return during the 2025-2026 biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2025 and beyond.

**RECOMMENDED ACTION**

Accept staff’s recommendation to increase the Sewer Utility rate for FY 2024.