



CITY OF MERCER ISLAND

UTILITY BOARD VIDEO MEETING

Tuesday, November 9, 2021, at 4:00 PM

BOARD MEMBERS:

Tim O'Connell, Chair
Brian Thomas, Vice Chair
Stephen Majewski
George Marshall, Stephen Milton, and William Pokorny

LOCATION & CONTACT

Mercer Island City Hall – Zoom Meeting
9611 SE 36th Street | Mercer Island, WA 98040
Phone: 206.275.7706 | www.mercerisland.gov

In compliance with the Americans with Disabilities Act, those requiring accommodation for meetings should notify the Staff Liaison at least 24 hours prior to the meeting at 206.275.7706.

Virtual Meeting Notice

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 3 PM on the day of the Utility Board meeting. Each speaker will be allowed three (3) minutes to speak.

Join by Telephone at 4:00 PM: To listen to the meeting via telephone, please call **253.215.8782** and enter Webinar ID **825 9151 1028** and Password **600314** when prompted.

Join by Internet at 4:00 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 **825 9151 1028**; Enter Password **600314**

CALL TO ORDER & ROLL CALL, 4:00 PM

WELCOME & INTRODUCTIONS

PUBLIC APPEARANCES

REGULAR BUSINESS

1. Preliminary 2022 EMS, Stormwater, Sewer and Water Rate Discussion
Provide recommendation on 2022 proposed EMS, Stormwater, Water and Sewer Rates
2. Review Utility Board Work Plan

OTHER BUSINESS

ADJOURNMENT



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

9611 S.E. 36th St. • Mercer Island, WA 98040-3732
www.mercerisland.gov

Date: November 17, 2021
To: Utility Board
From: LaJuan Tuttle, Deputy Finance Director
Re: Utility Board Meeting – Water Rates

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the annual Water Utility rate update based on the 2021-2022 adopted budget. The operating and capital budgets presented in this memo were adopted by the City Council on December 1, 2020.

2021-2022 Operating Budget

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

Description (\$ in thousands)	2019 Actual	2020 Forecast	2021 Budget	2022 Budget	Percent Change	
					20-21	21-22
Budgeted Operating Expenditures						
Salary & Benefits	\$1,284	\$1,411	\$1,561	\$1,653	10.6%	5.9%
Water Purchased for Resale	1,922	2,110	2,300	2,415	9.0%	5.0%
Other Services and Charges	1,446	1,755	1,674	1,773	-4.6%	5.9%
Debt Service	108	107	110	416	2.5%	278.6%
Total Operating Expenditures	\$4,760	\$5,383	\$5,644	\$6,257	4.9%	10.8%

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 5.9% as compared to the 2021 budget. The increase results from changes to the percentage splits in how staff are budgeted across operating funds. The salaries budget includes three new positions, a Public Works Deputy Director, a Sustainability Program Analyst and an Asset Management Coordinator position, in addition to existing staffing. Existing staffing of the Water Utility includes seven Public Works team members dedicated to the operation and maintenance of the water system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support. The total dollar impact to the Water Utility for the three new positions is \$111,341 in 2021 and \$114,050 in 2022 which represents 25% of the full cost of each position. Cost of living adjustments (COLA) were estimated at 1.98% for the 2022 budget, actual COLA increases for 2022 are estimated at 2.97%.
- Water Purchases** from Seattle Public Utilities (SPU) are projected to increase 9.0% in 2021 as compared to the 2020 budget and 5.0% in 2022. 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 15). The cost of water purchases makes up about 38% of all Water Utility operating expenses.
- Existing **debt service** costs are related to repayment of the debt issued in 2011 on the First Hill Booster Pump Station upgrade and water system improvements projects. The Water rate model includes the proposed issuance of \$3.5 million in additional debt in 2022 to fund water capital

improvement projects (tentatively the water SCADA project, meter replacement project, or the booster chlorination station) planned for 2022. Issuance of new debt would result in additional annual debt payment estimated at \$308,708, beginning in 2022. Given State law requirements, projects would need to be completed within 3 years of the respective date of debt issuance. Staff has observed material delays with the ongoing Pandemic and are inclined to rely on available fund balance through the design phase of these projects. Staff would initiate the debt issuance process once projects are through the design phase and poised to begin construction, ensuring projects can be completed within the required timeframe.

- **Other Services and Charges** include all other costs of operations including supplies, contract services, 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. A variable basis allocation overhead model is used to determine the Water Utility's proportionate share of these internal services.

Summary Capital Reinvestment Projects

Planned capital reinvestment work in 2021 and 2022 is shown in the table below. Capital investment costs are the primary driver of the proposed water rate increases for 2021-2026.

Water Utility Capital Program 2021-2022		
Description	2021	2022
Emergency Water System Repairs	150,000	150,000
Booster Chlorination Station	995,000	2,510,000
SCADA System Replacement (Water)	675,000	975,000
Water Reservoir Improvements	375,000	1,735,000
Madrona Crest East Addition Water System Improvements	350,000	2,448,000
Water System Improvements - 60th Ave SE	0	229,000
Water System Improvements 82nd Ave SE	1,087,000	
Water System Components (valves, air vac, blow off)	35,000	35,000
Water Model Updates / Fire Flow Analysis	15,000	50,000
RRA, ERP Updates and Water System Plan Updates	200,000	100,000
Meter Replacement Implementation	2,050,000	2,050,000
Reservoir Generator Replacement	240,000	120,000
Solutions for Water System Deficiencies	120,000	
Project Management, Street & Other Water Improvements	580,921	452,237
Water Utility Total	\$ 6,872,921	\$ 10,854,237

Water Rate Proposal

The 2022 rate proposal is based on the operating budget, six-year Capital Plan, and debt financing needs. The rate model proposes a smoothed rate increase of 5.25% for 2021-2026. No significant changes have been made to the capital or operating budget that would necessitate an update to the water rate model. **As such, staff recommends a 5.25% increase to the water utility rates for 2022 as proposed in the 2021-2026 smoothed rate model.**

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
Revenues							
Rate Revenues Under Existing Rates	\$ 8,272,471	\$ 8,272,471	\$ 8,272,471	\$ 8,272,471	\$ 8,272,471	\$ 8,272,471	\$ 8,272,471
Non-Rate Revenues	94,913	84,781	66,590	44,532	29,029	29,947	37,893
Total Revenues	\$ 8,367,384	\$ 8,357,252	\$ 8,339,061	\$ 8,317,003	\$ 8,301,500	\$ 8,302,418	\$ 8,310,364
Expenses							
Cash Operating Expenses	\$ 3,197,783	\$ 3,081,773	\$ 3,178,762	\$ 3,257,831	\$ 3,361,547	\$ 3,470,062	\$ 3,583,431
Purchased Water	2,190,480	2,300,004	2,415,004	2,535,755	2,662,542	2,795,669	2,935,453
Existing Debt Service	107,150	109,875	107,250	109,531	111,631	108,550	110,150
New Debt Service	-	-	308,708	308,708	308,708	308,708	308,708
Rate Funded Capital	2,300,000	2,750,000	3,000,000	3,250,000	3,500,000	3,700,000	3,900,000
Total Expenses	\$ 7,795,414	\$ 8,241,652	\$ 9,009,724	\$ 9,461,824	\$ 9,944,428	\$ 10,382,989	\$ 10,837,742
Net Surplus (Deficiency)	\$ 571,971	\$ 115,600	\$ (670,662)	\$ (1,144,821)	\$ (1,642,928)	\$ (2,080,570)	\$ (2,527,378)
Additions to Meet Coverage	-	-	-	-	-	-	-
Total Surplus (Deficiency)	\$ 571,971	\$ 115,600	\$ (670,662)	\$ (1,144,821)	\$ (1,642,928)	\$ (2,080,570)	\$ (2,527,378)
% of Rate Revenue	0.00%	0.00%	8.11%	13.84%	19.86%	25.15%	30.55%
Annual Rate Adjustment	0.00%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Cumulative Annual Rate Adjustment	0.00%	5.25%	10.78%	16.59%	22.71%	29.15%	35.94%
Rate Revenues After Rate Increase	\$ 8,272,471	\$ 8,706,776	\$ 9,163,881	\$ 9,644,985	\$ 10,151,347	\$ 10,684,293	\$ 11,245,218
Additional Taxes from Rate Increase	\$ -	\$ 58,333	\$ 119,728	\$ 145,425	\$ 199,077	\$ 255,545	\$ 314,979
Net Cash Flow After Rate Increase	\$ 571,971	\$ 491,572	\$ 101,020	\$ 82,268	\$ 36,871	\$ 75,706	\$ 130,391
Coverage After Rate Increases	n/a	n/a	11.39	12.15	12.82	13.58	14.41
Average Residential Bi-Monthly Bill (14 ccf usage)	\$ 110.29	\$ 116.08	\$ 122.17	\$ 128.59	\$ 135.34	\$ 142.44	\$ 149.92
\$ Bi-Monthly Difference		5.79	6.09	6.41	6.75	7.11	7.48

Fund Balance	2020	2021	2022	2023	2024	2025	2026
OPERATING FUND							
Beginning Balance	\$ 1,412,783	\$ 788,495	\$ 759,889	\$ 783,804	\$ 803,301	\$ 828,875	\$ 855,632
plus: Net Cash Flow after Rate Increase	571,971	491,572	101,020	82,268	36,871	75,706	130,391
less: Transfer of Surplus to Capital Fund	(1,196,259)	(520,177)	(77,105)	(62,771)	(11,297)	(48,949)	(102,437)
Ending Balance	\$ 788,495	\$ 759,889	\$ 783,804	\$ 803,301	\$ 828,875	\$ 855,632	\$ 883,586
O&M Target Balance	\$ 788,495	\$ 759,889	\$ 783,804	\$ 803,301	\$ 828,875	\$ 855,632	\$ 883,586
Days	90	90	90	90	90	90	90
CAPITAL							
Beginning Balance	\$13,866,439	\$12,464,380	\$ 8,854,797	\$ 4,110,454	\$ 990,407	\$ 1,148,492	\$ 2,710,868
plus: Rate Funded Capital	2,300,000	2,750,000	3,000,000	3,250,000	3,500,000	3,700,000	3,900,000
plus: Transfers from Operating Fund	1,196,259	520,177	77,105	62,771	11,297	48,949	102,437
plus: General Facilities Charge Revenue	130,000	-	-	-	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	3,500,000	-	-	-	-
plus: Interest Earnings	-	-	-	-	-	-	-
Total Funding Sources	\$17,492,698	\$15,734,557	\$15,431,902	\$ 7,423,225	\$ 4,501,704	\$ 4,897,441	\$ 6,713,305
less: Capital Expenditures	(5,028,318)	(6,879,760)	(11,321,448)	(6,432,818)	(3,353,212)	(2,186,573)	(2,921,073)
Ending Working Capital Balance	\$12,464,380	\$ 8,854,797	\$ 4,110,454	\$ 990,407	\$ 1,148,492	\$ 2,710,868	\$ 3,792,232
Minimum Target Balance	\$ 402,957	\$ 471,754	\$ 584,969	\$ 649,297	\$ 682,829	\$ 704,695	\$ 733,906
COMBINED BEGINNING FUND BALANCE	\$15,279,222	\$13,252,875	\$ 9,614,687	\$ 4,894,258	\$ 1,793,708	\$ 1,977,367	\$ 3,566,500
COMBINED ENDING FUND BALANCE	\$13,252,875	\$ 9,614,687	\$ 4,894,258	\$ 1,793,708	\$ 1,977,367	\$ 3,566,500	\$ 4,675,817

A summary table comparing the proposed rates from the most recent rate model updates (2018-2020) as compared to the current rate recommendation is presented below.

Rate Update	2019	2020	2021	2022	2023	2024	2025	2026
2018 Rate Update	5.30%	5.30%	5.30%	5.30%				
2019-2020 Rate Update	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%		
2021-2022 Rate Proposal			5.25%	5.25%	5.25%	5.25%	5.25%	5.25%

Staff will be available at the Utility Board meeting to answer questions regarding the proposed operating and capital budgets, as well as the proposed 2022 water utility rate increases.

The 2022 Water Utility rate resolution is on the Council planning schedule for review and adoption on December 7, 2021.



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

9611 S.E. 36th St. • Mercer Island, WA 98040-3732
www.mercerisland.gov

Date: November 17, 2021

To: Utility Board

From: LaJuan Tuttle, Deputy Finance Director

Re: Utility Board Meeting – Sewer Rate Update

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer Utility rate update based on the 2021-2022 adopted budget. The operating and capital budgets presented in this memo were adopted by the City Council on December 1, 2020.

2021-2022 Operating Budget

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

Description (\$ in thousands)	2019 Actual	2020 Forecast	2021 Budget	2022 Budget	Percent Change	
					20-21	21-22
Budgeted Operating Expenditures						
Salary & Benefits	\$1,060	\$1,256	\$1,295	\$1,385	3.1%	7.0%
King County Sewer Treatment	\$4,798	\$4,828	\$5,084	\$5,312	5.3%	4.5%
Debt Service	\$1,037	\$1,338	\$1,047	\$1,256	-21.7%	20.0%
Other Services and Charges	\$907	\$1,070	\$1,153	\$1,218	7.7%	5.6%
Total Operating Expenditures	\$7,802	\$8,493	\$8,579	\$9,172	1.0%	6.9%

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 7.0% as compared to the 2021 budget. The increase results in part from changes to the percentage splits in how staff are budgeted across operating funds. The salaries budget includes three new positions, a Public Works Deputy Director, a Sustainability Program Analyst and an Asset Management Coordinator position, in addition to existing staffing. Existing staffing of the Sewer Utility includes six Public Works team members dedicated to the operation and maintenance of the sewer system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support. The total dollar impact to the Sewer Utility for the three new positions is \$111,341 in 2021 and \$114,050 in 2022 which represents 25% of the full cost of each position. Cost of living adjustments (COLA) were estimated at 1.98% for the 2022 budget, actual COLA increases for 2022 will be 2.97%.
- King County Sewer Treatment** services were projected to increase 4.5% in 2022, the actual increase authorized by King County is 4.01%. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- Existing **debt service** costs are related to repayment of the debt on the Sewer Lake Line project and include a Public Works Trust Fund Loan and LTGO bonds. The sewer rate model includes and assumption that \$2.5 million in additional debt will be issued in 2022 to fund the capital projects planned for 2021-2022. Staff continues to monitor the progress of project design in an effort to time debt issuance with project construction readiness and favorable market conditions.

The new debt is estimated to result in additional annual debt payment estimated at \$220,505 beginning in 2022.

- **Other Services and Charges** include all other costs of operations including supplies, contract services, insurance, and City administration costs. Administration costs include the Sewer Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance and Human Resources staff. A variable basis allocation overhead model is used to determine the Sewer Utility's proportionate share of these internal service functions.

Summary Capital Reinvestment Projects

Planned capital reinvestment work in 2021 and 2022 is shown in the table below. Capital investment costs are the primary driver of the proposed sewer rate increases for 2021-2026.

Sewer Utility Capital Program 2021-2022		
Description	2021	2022
Emergency Sewer Repair	300,000	300,000
Pump Station R&R Improvements	200,000	
Easement, Access Codes and Standards Review	150,000	150,000
Comprehensive Pipeline R&R Program	500,000	500,000
Sewer System Generator Replacement	150,000	150,000
Pump Station Accessibility Improvements	100,000	100,000
SCADA System Replacement (Sewer)	675,000	975,000
Project Management, Street & Other Sewer Projects	296,440	197,310
Sewer Utility CIP Total	\$2,371,440	\$2,372,310

Sewer Rate Proposal

The 2022 rate proposal is based on the operating budget, six-year Capital Plan, and debt financing needs. The rate model proposed for the 2021-2022 biennium include a smoothed rate increase of 4.0% for 2021-2026. No significant changes have been made to the capital or operating budget that would necessitate an update to the sewer rate model. **As such staff recommends a 4.0% increase to the sewer utility rates for 2022 as proposed in the 2021-2016 smoothed rate model.**

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
Revenues							
Rate Revenues Under Existing Rates	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081
King County Metro Revenue	4,813,463	5,030,539	5,257,191	5,797,752	5,797,752	6,392,582	6,392,582
Non-Rate Revenues	30,608	26,809	25,049	35,970	21,506	17,445	11,458
Total Revenues	\$10,082,152	\$10,295,429	\$10,520,321	\$11,071,803	\$11,057,339	\$11,648,108	\$11,642,121
Expenses							
Cash Operating Expenses	\$ 2,496,133	\$ 2,408,651	\$ 2,502,106	\$ 2,579,631	\$ 2,665,750	\$ 2,755,819	\$ 2,849,812
King County Treatment Costs	4,864,583	5,083,506	5,312,086	5,857,246	5,857,246	6,457,136	6,457,136
Existing Debt Service	1,042,284	1,047,070	1,035,856	1,034,242	1,031,829	1,028,615	1,029,601
New Debt Service	-	-	220,505	220,505	220,505	485,112	485,112
Rate Funded Capital	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000
Total Expenses	\$ 9,803,000	\$10,039,226	\$10,670,554	\$11,391,625	\$11,575,330	\$12,626,682	\$12,821,661
Net Surplus (Deficiency)	\$ 279,152	\$ 256,202	\$ (150,233)	\$ (319,821)	\$ (517,990)	\$ (978,574)	\$ (1,179,541)
Additions to Meet Coverage	-	-	-	-	-	-	-
Total Surplus (Deficiency)	\$ 279,152	\$ 256,202	\$ (150,233)	\$ (319,821)	\$ (517,990)	\$ (978,574)	\$ (1,179,541)
% of Rate Revenue	0.00%	0.00%	2.87%	6.11%	9.89%	18.68%	22.52%
Annual Rate Adjustment	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Cumulative Annual Rate Adjustment	0.00%	4.00%	8.16%	12.49%	16.99%	21.67%	26.53%
Rate Revenues After Rate Increase	\$ 5,238,081	\$ 5,447,604	\$ 5,665,508	\$ 5,892,129	\$ 6,127,814	\$ 6,372,926	\$ 6,627,844
Additional Taxes from Rate Increase	\$ -	\$ 25,478	\$ 51,976	\$ 61,194	\$ 83,245	\$ 106,178	\$ 130,028
Net Cash Flow After Rate Increase	\$ 279,152	\$ 440,247	\$ 225,219	\$ 273,033	\$ 288,498	\$ 50,093	\$ 80,194
Coverage After Rate Increases	n/a	n/a	13.98	14.64	15.15	7.14	7.41
Local Average Residential Bi-Monthly Bill (10 ccf winter usage)	\$ 90.26	\$ 93.87	\$ 97.63	\$ 101.53	\$ 105.59	\$ 109.82	\$ 114.21
\$ Bi-Monthly Difference (Local)		3.61	3.75	3.91	4.06	4.22	4.39
King County Metro Residential Bi-Monthly Bill	\$ 90.66	\$ 94.74	\$ 99.00	\$ 109.16	\$ 109.16	\$ 120.34	\$ 120.34
\$ Bi-Monthly Difference (Metro)		4.08	4.26	10.16	-	11.18	-
Total Residential Bi-Monthly Bill (10 ccf winter usage)	\$ 180.92	\$ 188.61	\$ 196.63	\$ 210.69	\$ 214.75	\$ 230.16	\$ 234.55
\$ Bi-Monthly Difference (Total)		7.69	8.01	14.07	4.06	15.40	4.39

Fund Balance	2020	2021	2022	2023	2024	2025	2026
OPERATING FUND							
Beginning Balance	\$ 651,231	\$ 205,162	\$ 197,971	\$ 205,653	\$ 212,024	\$ 219,103	\$ 226,506
plus: Net Cash Flow after Rate Increase	279,152	440,247	225,219	273,033	288,498	50,093	80,194
less: Transfer of Surplus to Capital Fund	(725,222)	(447,437)	(217,538)	(266,661)	(281,419)	(42,690)	(72,468)
Ending Balance	\$ 205,162	\$ 197,971	\$ 205,653	\$ 212,024	\$ 219,103	\$ 226,506	\$ 234,231
CAPITAL							
Beginning Balance	\$ 5,366,058	\$ 5,052,243	\$ 4,707,440	\$ 6,663,463	\$ 3,764,277	\$ 2,944,939	\$ 1,475,502
plus: Rate Funded Capital	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000
plus: Transfers from Operating Fund	725,222	447,437	217,538	266,661	281,419	42,690	72,468
plus: General Facilities Charge Revenue	17,925	-	-	-	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	2,500,000	-	-	3,000,000	-
plus: Interest Earnings	-	-	-	-	-	-	-
Total Funding Sources	\$ 7,509,205	\$ 6,999,680	\$ 9,024,978	\$ 8,630,124	\$ 5,845,696	\$ 7,887,629	\$ 3,547,970
less: Capital Expenditures	(2,456,962)	(2,292,240)	(2,361,514)	(4,865,848)	(2,900,757)	(6,412,127)	(1,790,305)
Ending Working Capital Balance	\$ 5,052,243	\$ 4,707,440	\$ 6,663,463	\$ 3,764,277	\$ 2,944,939	\$ 1,475,502	\$ 1,757,665
Minimum Target Balance	\$ 1,050,670	\$ 1,096,515	\$ 1,143,745	\$ 1,241,062	\$ 1,299,077	\$ 1,427,320	\$ 1,463,126
COMBINED BEGINNING FUND BALANCE	\$ 6,017,289	\$ 5,257,404	\$ 4,905,412	\$ 6,869,116	\$ 3,976,301	\$ 3,164,041	\$ 1,702,008
COMBINED ENDING FUND BALANCE	\$ 5,257,404	\$ 4,905,412	\$ 6,869,116	\$ 3,976,301	\$ 3,164,041	\$ 1,702,008	\$ 1,991,896

A summary table comparing the proposed rates from the most recent rate model updates (2018-2020) as compared to the current rate recommendation is presented below.

Rate Update	2019	2020	2021	2022	2023	2024	2025	2026
2018 Rate Update	7.80%	7.80%	7.80%	7.80%				
2019-2020 Rate Update	7.70%	7.70%	7.70%	7.70%	7.70%	7.70%		
2021-2022 Rate Proposal			4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

The 2022 Sewer Utility rate resolution is on the Council planning schedule for review and adoption on December 7, 2021.



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

9611 S.E. 36th St. • Mercer Island, WA 98040-3732
www.mercerisland.gov

Date: November 17, 2021
To: Utility Board
From: LaJuan Tuttle, Deputy Finance Director
Re: Utility Board Meeting – Storm Water Rate

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the annual Stormwater Utility rate update based on the 2021-2022 adopted budget. The operating and capital budgets presented in this memo were adopted by the City Council on December 1, 2020.

2021-2022 Operating Budget

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

Description (\$ in thousands)	2019	2020	2021	2022	Percent Change	
	Actual	Forecast	Budget	Budget	20-21	21-22
Budgeted Operating Expenditures						
Salary & Benefits	\$735	\$694	\$734	\$776	5.8%	5.8%
Contractual Services	\$224	\$437	\$344	\$349	-21.3%	1.6%
Other Services and Charges	\$318	\$384	\$340	\$347	-11.6%	2.0%
Total Operating Expenditures	\$1,276	\$1,515	\$1,417	\$1,472	-6.5%	3.9%

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 5.8% as compared to the 2021 budget. The increase results in part from changes to the percentage splits in how staff are budgeted across utility funds as well as between operating and capital budgets. The salaries budget includes three new positions: a Public Works Deputy Director, a Asset Management Coordinator, and a Sustainability Program Analyst, in addition to existing staffing. Existing staffing of the Stormwater utility includes three Full Time Equivalents (FTE) in Public Works dedicated to the operation and maintenance of the stormwater system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support. The total dollar impact to the Stormwater Utility for the three new positions is \$111,341 in 2021 and \$114,050 in 2022, which represents 25% of the full cost of each position. Other impacts include a cost-of-living adjustment (COLA) of 1.71% in 2021 and estimated at 2.97% in 2022.

- **Contractual services** for 2022 reflects anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs.
- **Other Services and Charges** include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Stormwater Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance and Human Resources staff. A variable basis allocation overhead model is used to determine the Stormwater Utility's proportionate share of these internal services.

Summary Capital Reinvestment Projects

Planned capital reinvestment work in 2021 and 2022 is shown in the table below. Capital investment costs are the primary driver of the proposed Stormwater rate increases for 2021-2026.

Storm Water Utility Capital Program 2021-2022			
Description	2021	2022	
Sub Basin 42.1 and 42.1a Watercourse Stabilization	389,657		
Sub basin 23.2 Watercourse Stabilization	202,157		
Sub basin 45b.1 Watercourse Stabilization	36,157	188,500	
Sub basin 27a.10 Watercourse Stabilization	22,157	79,000	
Sub basin 22.1 Watercourse Stabilization		24,157	
Sub basin 50b.4 (a & e) Watercourse Stabilization		17,657	
Sub basin 25b.2 Watercourse Stabilization		46,657	
Conveyance System Assessments	112,000	50,000	
East Mercer Way Trenchless Culvert Replacements	112,657	503,500	
Emergency Stormwater Repairs	50,000	50,000	
Project Management, Street & Other Storm Water Improvements	414,487	556,311	
Storm Water Utility CIP Total	\$1,339,272	\$1,515,782	

Storm Water Rate Proposal

The 2022 Storm Water rate proposal is based on the operating budget, six-year Capital Plan, and debt financing needs. The rate model proposes a smoothed rate increase of 5.50% for 2021-2026. No significant changes have been made to the capital or operating budget that would necessitate an update to the storm water rate model.

As such staff recommends a 5.5% increase to the storm water utility rates for 2022 as proposed in the 2021-2016 smoothed rate model.

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
Revenues							
Rate Revenues Under Existing Rates	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485
Non-Rate Revenues	111,847	110,174	108,410	105,901	104,267	101,063	99,882
Total Revenues	\$ 2,127,332	\$ 2,125,659	\$ 2,123,895	\$ 2,121,386	\$ 2,119,752	\$ 2,116,548	\$ 2,115,367
Expenses							
Cash Operating Expenses	\$ 1,517,159	\$ 1,359,189	\$ 1,382,392	\$ 1,430,152	\$ 1,480,966	\$ 1,533,940	\$ 1,589,242
Existing Debt Service	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-
Rate Funded Capital	500,000	700,000	800,000	900,000	1,000,000	1,100,000	1,200,000
Total Expenses	\$ 2,017,159	\$ 2,059,189	\$ 2,182,392	\$ 2,330,152	\$ 2,480,966	\$ 2,633,940	\$ 2,789,242
Net Surplus (Deficiency)	\$ 110,173	\$ 66,471	\$ (58,497)	\$ (208,766)	\$ (361,214)	\$ (517,392)	\$ (673,875)
Additions to Meet Coverage	-	-	-	-	-	-	-
Total Surplus (Deficiency)	\$ 110,173	\$ 66,471	\$ (58,497)	\$ (208,766)	\$ (361,214)	\$ (517,392)	\$ (673,875)
% of Rate Revenue	0.00%	0.00%	2.90%	10.36%	17.92%	25.67%	33.43%
Annual Rate Adjustment	0.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Cumulative Annual Rate Adjustment	0.00%	5.50%	11.30%	17.42%	23.88%	30.70%	37.88%
Rate Revenues After Rate Increase	\$ 2,015,485	\$ 2,126,337	\$ 2,243,285	\$ 2,366,666	\$ 2,496,833	\$ 2,634,158	\$ 2,779,037
Additional Taxes from Rate Increase	\$ -	\$ 10,963	\$ 22,529	\$ 25,084	\$ 34,381	\$ 44,190	\$ 54,539
Net Cash Flow After Rate Increase	\$ 110,173	\$ 166,359	\$ 146,774	\$ 117,330	\$ 85,752	\$ 57,091	\$ 35,138
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average Residential Bi-Monthly Bill	\$ 35.77	\$ 37.74	\$ 39.81	\$ 42.00	\$ 44.31	\$ 46.75	\$ 49.32
\$ Bi-Monthly Difference		1.97	2.08	2.19	2.31	2.44	2.57

Fund Balance	2020	2021	2022	2023	2024	2025	2026
OPERATING FUND							
Beginning Balance	\$ 82,908	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077
plus: Net Cash Flow after Rate Increase	110,173	166,359	146,774	117,330	85,752	57,091	35,138
less: Transfer of Surplus to Capital Fund	(68,383)	(179,343)	(144,867)	(113,405)	(81,575)	(52,737)	(30,593)
Ending Balance	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077	\$ 130,623
O&M Target Balance	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077	\$ 130,623
Days	30	30	30	30	30	30	30
CAPITAL							
Beginning Balance	\$ 4,286,435	\$ 3,910,157	\$ 3,570,320	\$ 3,066,578	\$ 2,735,896	\$ 2,090,850	\$ 1,850,338
plus: Rate Funded Capital	500,000	700,000	800,000	900,000	1,000,000	1,100,000	1,200,000
plus: Transfers from Operating Fund	68,383	179,343	144,867	113,405	81,575	52,737	30,593
plus: Grants/ Donations/ CIAC	50,000	-	-	-	-	-	-
plus: Interest Earnings	-	-	-	-	-	-	-
Total Funding Sources	\$ 4,904,818	\$ 4,789,499	\$ 4,515,187	\$ 4,079,983	\$ 3,817,472	\$ 3,243,587	\$ 3,080,931
less: Capital Expenditures	(994,661)	(1,219,180)	(1,448,609)	(1,344,087)	(1,726,622)	(1,393,249)	(1,390,898)
Ending Working Capital Balance	\$ 3,910,157	\$ 3,570,320	\$ 3,066,578	\$ 2,735,896	\$ 2,090,850	\$ 1,850,338	\$ 1,690,033
Minimum Target Balance	\$ 118,968	\$ 131,160	\$ 145,646	\$ 159,087	\$ 176,353	\$ 190,286	\$ 204,195
COMBINED BEGINNING FUND BALANCE	\$ 4,369,343	\$ 4,034,855	\$ 3,682,034	\$ 3,180,199	\$ 2,853,443	\$ 2,212,573	\$ 1,976,415
COMBINED ENDING FUND BALANCE	\$ 4,034,855	\$ 3,682,034	\$ 3,180,199	\$ 2,853,443	\$ 2,212,573	\$ 1,976,415	\$ 1,820,656

A summary table comparing the proposed rates from the most recent rate model updates (2018-2020) as compared to the current rate recommendation is presented below.

Rate Update	2019	2020	2021	2022	2023	2024	2025	2026
2018 Rate Update	1.50%	1.50%	1.50%	1.50%				
2019-2020 Rate Update	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%		
2021-2022 Rate Proposal			5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

The 2022 Storm Water Utility rate resolution is on the Council planning schedule for review and adoption on December 7, 2020.



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

9611 S.E. 36th St. • Mercer Island, WA 98040-3732
www.mercerisland.gov

Date: November 17, 2021

To: Utility Board

From: LaJuan Tuttle, Deputy Finance Director

Re: Utility Board Meeting – EMS Utility Rates

Emergency Medical Service (EMS) utility revenues are directly tied to the average budgeted salary and benefit costs, excluding overtime, of four firefighters hired in 1996. The four firefighter positions were added to the Department to provide 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 significantly 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 2022 EMS rates. The City experienced growth in the Single Family and Commercial customer classifications.

Calculation of 2022 Revenue Requirement

The 2022 revenue requirement is based on the 2021 average, budgeted salary and benefits costs for four firefighters, which equals \$642,334 (excluding the Fire Chief, Deputy Fire Chief, and Fire Marshal). Compared to the 2020 revenue requirement (\$627,517), this represents an increase of 2.36%.

EMS Rate Proposal

The proposed 2022 EMS rates, which are needed to generate the \$642,334 revenue requirement in 2022, are compared to the 2021 rates in the table below.

Customer Class	Bi-Monthly Charge		\$ Change	% Change
	2021	2022		
Single Family Residential	\$9.73	\$9.95	\$0.22	2.26%
Multi-Family Residential	\$9.73	\$9.95	\$0.22	2.26%
Commercial	\$9.73	\$9.95	\$0.22	2.26%
Public Schools	\$9.73	\$9.95	\$0.22	2.26%
Public/Other	\$9.73	\$9.95	\$0.22	2.26%
Residential Board & Care:				
Covenant Shores	\$457.31	\$467.65	\$10.34	2.26%
Island House Retirement	\$175.14	\$179.10	\$3.96	2.26%
SVJ Mercer Island LLC	\$486.50	\$497.50	\$11.00	2.26%
Aljoya House	\$301.63	\$308.45	\$6.82	2.26%
Aegis	\$710.29	\$726.35	\$16.06	2.26%
In-Home Care	\$58.38	\$59.70	\$1.32	2.26%
24 Hour Nursing:				
Covenant Shores (Skilled Nursing)	\$408.66	\$417.90	\$9.24	2.26%
Aegis (Memory Care)	\$155.68	\$159.20	\$3.52	2.26%

Staff recommends the 2022 bi-monthly EMS rates be increased 2.26% relative to the 2021 rates.

The 2022 EMS utility rate resolution is scheduled to go to the full Council on December 7, 2021.



Meeting Date
January 12
February 9
March 16
April 13
May 11
June 8
July 13
August 10
September 14
October 12
November 17
December 14
To Be Scheduled:

Utility Board

2021 Work Plan

2nd Tuesday

Agenda Item
Recess
Code of Ethics Discussion
Adopt 2021 UB Work Plan
Water Meter Replacement Contract & Project Update
Joint Utility Board & City Council Meeting
Risk & Resiliency, Meter Replacement and SCADA Project Updates
NPDES Annual Report
Sustainability Work Plan Update & PW Projects
Risk & Resiliency & ERP Report
Board Elections
SPU Infrastructure Update
Booster CL2 Project Update & Authorization
PW Facilities Tour
2021 CIP Updates
Recess
Board Elections
SPU Infrastructure Update
Mercer Island 2021 Capital Updates
Code of Ethics
Stormwater & EMS Rate Discussion/Recommendation
Sewer & Water Rate Discussion/Recommendation
Recology Solid Waste Annual Report
COVID/EOC Lessons Learned
KC Metro Rate Updates

Utility Board 2012 Work Plan

Meeting Date
10-Jan
14-Feb
13-Mar
10-Apr
8-May
12-Jun
10-Jul
14-Aug
11-Sep
9-Oct
13-Nov

To Be Scheduled:

Project Field Trips (Proje

Agenda Item

No meeting

Review Utility Billing Policies (Francie) Possibly could be ready for March.

EMS Cost of Service (Francie)

Utility CIP Preview (Staff)

Sewer Budget and Rates (Francie)

Storm Water Budget and Rates (Francie)
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Water Budget and Rates (Francie)

EMS Rates (Francie)

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