



CITY OF MERCER ISLAND

UTILITY BOARD HYBRID MEETING

Tuesday, October 13, 2026, at 5:00 PM

BOARD MEMBERS:

Brian Thomas – Chair
Steve Milton – Vice Chair
Meredith Lehr, Joy Liechty,
Craig Olson, Debbie Bertlin and Geraldine Poor

LOCATION & CONTACT

Mercer Island Community & Event Center & Zoom
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 Deputy City Clerk's Office 3 days prior to the meeting at (206) 275-7796 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

Individuals wishing to speak live during Appearances will need to register their request with the Deputy City Clerk at **206.275.7796** and leave a message or email cityclerk@mercerisland.gov before 4 PM on the day of the Commission meeting. Each speaker will be allowed three (3) minutes to speak.

Join the meeting at 5:00 PM by:

- **Telephone:** Call 253.215.8782 and enter Webinar ID 821 0509 6031 and Password 670394
- **Zoom:** Click this [link](#) (Webinar ID 821 0509 6031; Password 670394)
- **In Person:** Mercer Island Community & Event Center (8236 SE 24th Street, Mercer Island, WA 98040)

MEETING AGENDA

CALL TO ORDER & ROLL CALL

PUBLIC APPEARANCES

REGULAR BUSINESS

1. Utility Board Hybrid Meeting Minutes September 8, 2026

Recommended Action: Approve the Utility Board Hybrid Meeting Minutes of September 9, 2026.

2. 2027 Water Rate Discussion/Recommendation

Recommended Action: [Review and accept Staff's recommendation to increase the water utility rates by 8.0% for fiscal year 2027.](#)

3. 2027 Sewer Rate Discussion/Recommendation

Recommended Action: Review and accept Staff's recommendation to increase the sewer utility rates by 7.0% for fiscal year 2027.

4. 2027 Storm Water Rate Discussion/Recommendation

Recommended Action: Review and accept Staff's recommendation of a 6.0% utility rate increase for storm water services for fiscal year 2027.

5. 2027 EMS Rate Discussion/Recommendation

Recommended Action: Accept Staff's recommendation to increase the EMS Utility rate by 4.0% for fiscal year 2027.

OTHER BUSINESS

7. Utility Board Q&A Matrix 10-13-2026

ADJOURNMENT



UTILITY BOARD MINUTES REGULAR HYBRID MEETING September 8, 2026

Item 1.

CALL TO ORDER & ROLL CALL

The Utility Board was called to order by Chair Thomas at 5:08 pm.

Chair Brian Thomas, Vice Chair Steve Milton and Board Members, Craig Olson, Meredith Lehr, Geraldine Poor, Joy Liechty, and Debbie Bertlin attended via Zoom. City Council Liaison Wendy Weiker attended via Zoom.

PUBLIC APPEARANCES

There were no public appearances.

REGULAR BUSINESS

Utility Board Special Hybrid Meeting Minutes of June 09, 2026

It was moved by Lehr seconded by Liechty to:

Approve the Utility Board Regular Hybrid Meeting Minutes of June 09, 2026

Motion Passed 6-0-1

2027 Water Rate Discussion/Recommendation

Chief of Operations Jason Kintner introduced Financial Analyst Ben Schumacher and consultant Angie Sanchez-Virnoche from FCS Bowman to present.

ADJOURNMENT

The meeting ended at 5:17pm due to technical difficulties.



UTILITY BOARD STAFF REPORT

Item 2
October 13, 2026
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2027 Water Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Review and accept the recommendation to increase the water utility rates by 8.0% for fiscal year 2027.	☒ Action Needed:
		☒ Motion
		☐ Ordinance
		☐ Resolution
STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst II	
COUNCIL LIAISON:	Wendy Weiker	
EXHIBITS:	1. 2027-2032 Projected Water Utility Cash Flow	

BACKGROUND

As part of the 2027-2028 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 8.0% increase to the Water Utility rates for 2027 as proposed in the rate model.

The operating and capital budgets presented in this memo include adopted and amended figures through May 5, 2026, as well as preliminary 2027 and 2028 budget figures, contingent on City Council budget approval in December 2026.

2027-2028 PRELIMINARY OPERATING BUDGET

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

Table 1

Operating Expenditures	2025	2026	2027	2028	Percent Change	
(\$ in thousands)	Actual	Forecasted	Budget	Budget	26-27	27-28
Salary & Benefits	\$1,949	\$1,942	\$2,212	\$2,289	13.9%	3.5%
Water Purchased for Resale	1,912	1,997	2,123	2,315	6.3%	9.0%
Other Services and Charges	2,941	3,704	3,349	3,386	-9.6%	1.1%
Debt Service	2,224	2,430	3,834	3,829	57.8%	-0.1%
Total	\$9,026	\$10,073	\$11,517	\$11,818	14.3%	2.6%

Highlights from the Water Utility operating budget include:

- Combined personnel costs for 2027 are projected to increase 13.9% over the 2026 budget. This increase is driven by a 4.10% cost-of-living adjustment (COLA) tied to the first half of 2026 CPI-W for Seattle-Tacoma-Bellevue WA, rising benefit costs, and a fully staffed department in 2027 versus forecasted savings in 2026 that were a result of vacancies in the first half of the fiscal year.

- Water purchases from Seattle Public Utilities (SPU) are projected to increase 6.3% in 2027 when compared to the 2026 rates. 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).
- 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.
- Debt service payments include two schedules. First, debt service on a \$3.3 million public works trust fund loan for the Booster Chlorination System project. Second, debt service tied to a \$26.6 million sale of limited tax general obligation (LTGO) bonds for a selection of qualifying projects.
- In Q1 2027, staff anticipate a third LTGO bond sale for the water utility, raising outside capital to help pay for the list of qualifying projects outlined in the discussion section of this memo. This bond sale is likely to result in an additional annual ongoing principal and interest payment of \$1.5 million. The rate model assumes a potential final bond sale in 2030 to support routine capital reinvestment. Staff will closely track capital program needs over the next biennium and evaluate the feasibility of this final sale.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Proposed capital reinvestments for 2027 and 2028 are detailed in Table 2. Modernizing the water distribution system – particularly the water supply line and pressure reducing valve stations that are reaching the end of their useful lives – is the primary driver behind the proposed rate increase.

Table 2

Water Utility Capital Program Budget 2027-2028			
<i>(\$ in thousands)</i>			
Project ID	Description	2027	2028
41904059	Capital Project Management	\$720	\$749
90.40.0001	Emergency Water System Repairs	220	227
90.40.0002	Water System Components Replacement	54	56
90.40.0003	Modeling & Fire Flow Analysis	40	41
90.40.0004	Street Related Water System Improvement	160	165
90.40.0006	WS Reliability Action Plan Improvement	300	309
90.40.0010	Water System Instrumentation	80	82
90.40.0011	First Hill BPS Upgrades	1,860	2,060
90.40.0014	Forest Avenue Water System Improvement	520	
90.40.0015	Phase 3 PRV Replacement	400	2,318
90.40.0016	Lucas Heights AC Main Replacement	700	3,090
90.40.0017	SE 59th & 61st Water Sys Improvement	550	2,318
90.40.0018	Phase 4 PRV Replacement		309
90.40.0019	SE 40th (East) AC Main Replacement	5,100	
90.40.0020	Avalon Park Water Sys Improvement	600	2,472
90.40.0023	Baxter AC Main Replacement		700
90.40.0032	City Water Supply Line Construction	8,320	
90.40.0043	Water System Plan Amendment	50	77
90.40.0044	EMW Water System Improvements Constructic	2,000	
Water Utility CIP Total		\$21,674	\$14,972

WATER RATE PROPOSAL

The proposed 8.0% water rate increase for 2027 is based on the City's updated rate model that reflects the 2027-2028 operating budget, the 2027-2032 Capital Improvement Program (CIP), debt financing requirements, and 2026 budget to actuals performance through July of this year. Prepared jointly by Finance, Public Works, and outside consultants, the rate model incorporates a third and potential final bond sale in 2027 and 2030, to finance the remaining City Water Transmission project costs as well as other major capital project work that exceeds \$2.5 million with useful lives over 20 years.

This strategy spreads major infrastructure 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 8.0% rate adjustment for 2027 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 – specifically a 90-day operating reserve and a 1% capital reserve target established by the Utility Board in 2006 as a prudent measure to protect the City's multi-million-dollar investments in its utility assets. This 1% capital reserve target enables the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of new development, existing customers, and future customers to fund both current and future reinvestment needs.

As detailed in Exhibit 1, the 8.0% rate increase in 2027 supports a planned LTGO bond sale in the estimated amount of \$18.5 million in 2027. Table 3 compares the 2027-2028 rate proposal against historical projections from 2021-2025.

Table 3

Rate Recommendations	2025	2026	2027	2028	2029	2030	2031	2032
2027-2028 Rate Proposal			8.00%	8.00%	6.00%	6.00%	6.00%	6.00%
2025-2026 Rate Update	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%		
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%				
2021-2022 Rate Update	5.25%	5.25%						

WATER UTILITY BOND ISSUANCE - Q1 2027

The current Water Utility rate proposal assumes a portion of the scheduled capital projects will rely on outside funding to offset the more than \$65.9 million in escalated capital spending between 2027-2032. Exhibit 1 includes two debt issuances, one in 2027 estimated at \$18.5 million and a second in 2030 for an estimated \$2.5 million.

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 additional funding from an estimated \$18.5 million debt issuance in 2027 to provide vital support for the water utility, including the following projects and programs:

- **City Water Supply Line Replacement (90.40.0032)** involves the realignment of approximately 5,000 feet of the City's 24-inch supply line. The existing SPU transmission line alignment traverses steep slopes, which has raised concerns necessitating the transmission line realignment to more stable terrain. Total project costs are estimated at \$18.8 million from 2025-2027. Staff anticipate additional outside financing is

required in Q1 2027 to finance the remaining construction costs through completion, estimated at \$8.3 million in 2027.

- **Pressure Reducing Valve (PRV) Station Replacements** (90.40.0015, 90.40.0018) 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. Total project costs are estimated at \$3.0 million in 2027-2028. PRV replacements are being grouped in smaller scopes to maximize soft costs and minimize additional mobilization and construction costs.
- **Water System Improvements** (90.40.0014, 90.40.0017, 90.40.0020, 90.40.0044) aims to install over 6,500 linear feet of new 8-Inch ductile iron water main at four different locations on the northern and eastern portions of Mercer Island. Water services and fire hydrants in these areas will also be replaced. Total project costs are estimated at \$8.5 million through 2027-2028.
- **Asbestos Cement (AC) Water Main Replacements** (90.40.0016, 90.40.0019, 90.40.0023, 90.40.0026) is an 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 breaks have increased relative to prior years. Over the 2027-2032 CIP planning period, total project costs are estimated at \$16.3 million.

NEXT STEPS

Staff seeks to answer the Utility Board's questions about the 2027 rate adjustment, address any questions related to the [09/22/2026 - 2027 Utility Rates Recorded Presentation](#) sent to the Utility Board, follow up with additional information as required, and assist the Utility Board with final review and adoption of the proposed utility rate adjustment for water service for fiscal year 2027.

The 2027 Water Utility rate adjustment will be included in the City's fee schedule update at the December 1, 2026 City Council meeting. Staff will return during the 2027-2028 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2028 and beyond.

RECOMMENDED ACTION

Review and accept Staff's recommendation of an 8.0% utility rate increase for water services for fiscal year 2027.

PROJECTED WATER UTILITY CASH FLOW 2027-2032

Revenue Requirement	2027	2028	2029	2030	2031	2032
Pre Rate Revenues						
Revenues						
Rate Revenues Under Existing Rates	\$ 12,790,409	\$ 13,164,007	\$ 13,164,007	\$ 13,164,007	\$ 13,164,007	\$ 13,164,007
Non-Rate Revenues	239,388	223,459	206,350	207,149	207,944	208,773
Total Revenues	\$ 13,029,797	\$ 13,387,466	\$ 13,370,356	\$ 13,371,156	\$ 13,371,951	\$ 13,372,780
Expenses						
Cash Operating Expenses	\$ 7,354,197	\$ 7,718,076	\$ 7,983,581	\$ 8,259,625	\$ 8,546,650	\$ 8,845,118
Existing Debt Service	2,334,605	2,329,822	2,327,789	2,328,257	2,220,974	2,221,192
New Debt Service	1,499,483	1,499,483	1,499,483	1,702,115	1,702,115	1,702,115
Total Expenses	\$ 11,188,284	\$ 11,547,381	\$ 11,810,853	\$ 12,289,997	\$ 12,469,740	\$ 12,768,425
Net Surplus (Deficiency)	\$ 1,841,513	\$ 1,840,085	\$ 1,559,504	\$ 1,081,159	\$ 902,211	\$ 604,354
Annual Rate Increase	8.00%	8.00%	6.00%	6.00%	6.00%	6.00%
Cumulative Rate Increase	8.00%	16.64%	23.64%	31.06%	38.92%	47.26%
Post Rate Revenues						
Revenues After Rate Increases	\$ 13,813,642	\$ 15,354,497	\$ 16,275,767	\$ 17,252,313	\$ 18,287,452	\$ 19,384,699
Additional Taxes from Rate Increase	51,458	110,160	156,490	205,601	257,658	312,839
Net Cash Flow After Rate Increase	\$ 2,813,287	\$ 3,920,416	\$ 4,514,774	\$ 4,963,864	\$ 5,767,998	\$ 6,512,208
Sample Residential Bill	\$76.96	\$83.11	\$88.10	\$93.38	\$98.99	\$104.93
Monthly Increase (\$)	\$5.70	\$6.16	\$4.99	\$5.29	\$5.60	\$5.94

Fund Balance	2027	2028	2029	2030	2031	2032
Operating Reserve						
Beginning Balance	\$ 1,739,869	\$ 1,813,364	\$ 1,915,776	\$ 1,995,717	\$ 2,075,206	\$ 2,158,089
plus: Net Cash Flow after Rate Increase	2,813,287	3,920,416	4,514,774	4,963,864	5,767,998	6,512,208
less: Transfer of Surplus to Capital Fund	(2,739,793)	(3,818,004)	(4,434,832)	(4,884,375)	(5,685,116)	(6,425,777)
Ending Balance	\$ 1,813,364	\$ 1,915,776	\$ 1,995,717	\$ 2,075,206	\$ 2,158,089	\$ 2,244,520
Actual Days of O&M	90 days	90 days	90 days	90 days	90 days	90 days
Capital Reserve						
Beginning Balance	\$ 12,117,346	\$ 14,061,114	\$ 2,154,957	\$ 1,346,533	\$ 2,950,084	\$ 1,769,507
plus: System Reinvestment Funding	-	-	-	-	-	-
plus: Transfers from Operating Fund	2,739,793	3,818,004	4,434,832	4,884,375	5,685,116	6,425,777
plus: Other Judgement/Settlements	-	-	-	-	-	-
plus: Revenue Bond Proceeds	18,500,000	-	-	2,500,000	-	-
plus: Interest Earnings	363,520	281,222	21,550	13,465	29,501	17,695
Total Funding Sources	\$ 33,720,659	\$ 18,160,340	\$ 6,611,339	\$ 8,744,373	\$ 8,664,701	\$ 8,212,980
less: Capital Expenditures	(19,659,545)	(16,005,383)	(5,264,806)	(5,794,289)	(6,895,193)	(6,247,162)
Ending Capital Fund Balance	\$ 14,061,114	\$ 2,154,957	\$ 1,346,533	\$ 2,950,084	\$ 1,769,507	\$ 1,965,818
Minimum Target Balance	\$ 1,101,417	\$ 1,261,471	\$ 1,314,119	\$ 1,372,062	\$ 1,441,014	\$ 1,503,486



UTILITY BOARD STAFF REPORT

Item 3
October 13, 2026
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2027 Sewer Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Review and accept the recommendation to increase the sewer utility rates by 7.0% for fiscal year 2027.	☒ Action Needed:
		☒ Motion
		☐ Ordinance
		☐ Resolution
STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst II	
COUNCIL LIAISON:	Wendy Weiker	
EXHIBITS:	1. 2027-2032 Projected Sewer Utility Cash Flow	

BACKGROUND

As part of the 2027-2028 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer Utility rate adjustment for the upcoming fiscal year. The operating and capital budgets presented in this memo include amended budget figures through May 5, 2026.

Staff from Public Works and Finance worked with an outside consultant team to update the smoothed rate model based on 2026 budget actuals through July, capital work already underway, and emerging reinvestment needs for the sewer conveyance system through the current biennium and beyond. As a result of this updated analysis and the current state of the sewer system, staff recommends a 7.0% increase to the Sewer Utility rates for 2027.

2027-2028 OPERATING BUDGET

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

Table 1

Operating Expenditures <i>(\$ in thousands)</i>	2025 Actual	2026 Forecasted	2027 Budget	2028 Budget	Percent Change	
					26-27	27-28
Salary & Benefits	\$1,495	\$1,681	\$1,737	\$1,794	3.3%	3.3%
King County Sewer Treatment	6,043	6,653	7,501	8,457	12.8%	12.8%
Other Services and Charges	1,672	1,924	2,722	2,401	41.5%	-11.8%
Debt Service	1,021	1,030	2,371	2,734	130.3%	15.3%
TOTAL	\$10,231	\$11,288	\$14,331	\$15,387	1.0%	6.9%

Highlights from the Sewer Utility operating budget include:

- Combined personnel costs in 2027 are increasing 3.3% as compared to 2026. This increase is driven by a 4.10% cost-of-living adjustment (COLA) tied to the first half of 2026 CPI-W for Seattle-Tacoma-Bellevue WA and rising benefit costs.

- King County Sewage Treatment services are increasing service rates 12.75% in 2026. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- 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. The 41.5% increase from 2026 to 2027 is primarily due to rising maintenance and replacement costs for the City's fleet of vehicles. Examples include the sewer jet truck and sewer pipe camera truck.

In 2026, staff recognized that new vehicle replacement costs were outpacing expectations from past fleet rate models. This increase in fleet rates more accurately represents the costs to operate and maintain as well as replace the Sewer Utility fleet as vehicles and equipment reach the end of their useful life.

- Existing debt service is related to a Public Works Trust Fund loan (2005) for the Sewer Lake Line and Lake Line LTGO bond issuance (2017). Final repayment for the PWTF loan is anticipated in 2026, while final repayment for the Lake Line LTGO is anticipated in 2029.
- The sewer rate model assumes debt will be issued for a list of qualifying projects highlighted below in 2027, with a potential additional bond issuance anticipated in 2030. The debt issuance required to maintain the model's smoothed rate structure at 7.0% is estimated to be \$26 million in 2027, and \$5.5 million in 2030.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2027 and 2028 is shown in Table 2 below. Capital investment costs are the primary driver of the proposed sewer rate increases in the upcoming year as the sewer conveyance system is undergoing a period of significant reinvestment.

Table 2

Sewer Utility Capital Program 2027-2028 (\$ in thousands)			
Project ID	Description	2027	2028
42903059	Capital Project Management	\$336	\$351
90.30.0001	Emergency Sewer System Repairs	55	56
90.30.0002	Backyard Sewer System Improvements	140	137
90.30.0003	Sewer System Components	55	56
90.30.0004	Pump Station Access Improvements	107	114
90.30.0006	Wet Well Cleaning	250	
90.30.0007	Lakeline Reach 1 Capacity Improvement	2,700	10,094
90.30.0013	General Sewer Plan Update	128	
90.30.0017	Pump Station Flow Monitoring	593	510
90.30.0026	Pump Station 19 & 21 Replacement	500	10,573
90.30.0028	PS 20 & 22 Generator Replacement	252	989
Sewer Utility CIP Total		\$5,114	\$22,880

SEWER RATE PROPOSAL

The proposed 7.0% sewer rate increase for 2027 is based on the City's updated rate model that reflects the 2027-2028 operating budget, the 2027-2032 Capital Improvement Program (CIP), debt financing requirements, and budget to actuals performance through July 2026. Prepared jointly by Finance, Public Works, and outside consultants, the rate model incorporates a third and fourth bond sale in 2027 and 2030, respectively, to finance qualifying capital project work that exceeds \$2.5 million with useful lives over 20 years.

This strategy spreads major infrastructure 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 7.0% rate adjustment for 2027 ensures that the Sewer 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 – specifically a 30-day operating reserve and a 1% capital reserve target established by the Utility Board in 2006 as a prudent measure to protect the City's multi-million-dollar investments in its utility assets. This 1% capital reserve target enables the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of new development, existing customers, and future customers to fund both current and future reinvestment needs.

As detailed in Exhibit 1, the 7.0% rate increase in 2027 supports a planned LTGO bond sale of \$26 million in 2027, which Table 3 compares the 2027-2028 rate proposal against historical projections from 2021-2025.

Table 3

Rate Recommendations	2025	2026	2027	2028	2029	2030	2031	2032
2027-2028 Rate Proposal			7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
2025-2026 Rate Update	4.50%	4.00%	4.00%	4.00%	4.00%	4.00%		
2023-2024 Rate Update	4.50%	4.50%	4.50%	4.50%				
2021-2022 Rate Update	4.00%	4.00%						

SEWER UTILITY BOND ISSUANCE – Q3 2027

The current Sewer Utility rate proposal assumes a portion of the scheduled capital projects will rely on outside funding to offset the more than \$42.2 million in escalated capital spending between 2027-2032. Exhibit 1 includes the projected LTGO debt issuance that amounts to \$26 million in 2027 and \$5.5 million 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 Sewer Fund balance will require additional funding from the planned \$26 million issuance next year to remain positive through year-end 2027. This issuance will provide critical funding support for the sewer utility, including the following projects:

- **Lakeline Improvements** (90.30.0007) is an ongoing program to address identified capacity and access deficiencies in the lakeline component of the City's sewer conveyance system. Reach 1 (90.30.0007) of the Sewer Lakeline extends approximately 2.5 miles and serves pump stations 22-25. Funding in 2027-2028 will continue work from 2026 to address identified capacity and access deficiencies. The estimated construction scope assumes rehabilitation and/or replacement of approximately 25% of the Reach 1 lakeline (roughly the segment between PS 25 and PS 24), along with installation of three new access points. The design phase of the project is expected to be completed in Q4 2027. Total project costs are estimated at \$12.7 million through 2027-2028.
- **Pump Station Replacements** (90.30.0026, 90.30.0028) aims to address the capacity concerns and component failures present across multiple pump stations in the City's sewer conveyance system. Pump stations are selected for rehabilitation work based on a comprehensive evaluation of high-risk stations completed in 2024. Work in 2027-2028 will include replacement of pumps, piping, mechanical systems, and associated electrical and control equipment; rehabilitation or replacement of existing concrete vault structures; and related utility reconfiguration, system modernization, and site improvements. The objective is to extend the service life of each station by approximately 50 years while minimizing impacts to nearby residents and the shoreline environment. Total project costs are estimated at \$12.3 million through 2027-2028.

NEXT STEPS

Staff seeks to answer the Utility Board's questions about the 2027 rate adjustment, address any questions related to the [09/22/2026 - 2027 Utility Rates Recorded Presentation](#) sent to the Utility Board, follow up with additional information as required, and assist the Utility Board with final review and adoption of the proposed utility rate adjustment for sewer service in fiscal year 2027.

The 2027 Sewer Utility rate adjustment will be included in the City's fee schedule update at the December 1, 2026 City Council meeting. Staff will return during the 2027-2028 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2028 and beyond.

RECOMMENDED ACTION

Review and accept Staff's recommendation of a 7.0% utility rate increase for sewer services for fiscal year 2027.

PROJECTED SEWER UTILITY CASH FLOW 2027-2032

Revenue Requirement	2027	2028	2029	2030	2031	2032
Pre Rate Revenues						
Revenues						
Rate Revenues Under Existing Rates	\$ 6,549,326	\$ 6,549,326	\$ 6,549,326	\$ 6,549,326	\$ 6,549,326	\$ 6,549,326
Non-Rate Revenues	<u>7,595,756</u>	<u>8,544,510</u>	<u>9,624,092</u>	<u>10,841,795</u>	<u>12,079,789</u>	<u>13,460,070</u>
Total Revenues	\$ 14,145,083	\$ 15,093,836	\$ 16,173,419	\$ 17,391,121	\$ 18,629,116	\$ 20,009,397
Expenses						
Cash Operating Expenses	\$ 11,416,515	\$ 12,512,507	\$ 13,730,718	\$ 15,093,608	\$ 16,480,979	\$ 18,017,614
Existing Debt Service	623,618	626,625	623,725	-	-	-
New Debt Service	2,107,381	2,107,381	2,107,381	2,553,173	2,553,173	2,553,173
Total Expenses	\$ 14,147,514	\$ 15,246,513	\$ 16,461,824	\$ 17,646,782	\$ 19,034,152	\$ 20,570,787
Net Surplus (Deficiency)	\$ (2,431)	\$ (152,677)	\$ (288,405)	\$ (880,957)	\$ (976,829)	\$ (1,154,169)
Annual Rate Increase	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Cumulative Rate Increase	7.00%	14.49%	22.50%	31.08%	40.26%	50.07%
Post Rate Revenues						
Revenues After Rate Increases	\$ 7,007,779	\$ 7,498,324	\$ 8,023,206	\$ 8,584,831	\$ 9,185,769	\$ 9,828,773
Additional Taxes from Rate Increase	<u>14,144</u>	<u>29,278</u>	<u>45,472</u>	<u>62,799</u>	<u>81,340</u>	<u>101,177</u>
Net Cash Flow After Rate Increase	\$ 441,877	\$ 767,042	\$ 1,140,003	\$ 1,717,045	\$ 2,150,067	\$ 2,616,879
Sample Monthly Residential Bill 6 ccf	\$110.43	\$122.22	\$135.36	\$150.01	\$165.07	\$181.71
Monthly Increase (\$)	\$10.59	\$11.80	\$13.14	\$14.65	\$15.06	\$16.64

Fund Balance	2027	2028	2029	2030	2031	2032
Operating Reserve						
Beginning Balance	\$ 860,320	\$ 938,344	\$ 1,029,588	\$ 1,130,959	\$ 1,244,308	\$ 1,359,763
plus: Net Cash Flow after Rate Increase	441,877	767,042	1,140,003	1,717,045	2,150,067	2,616,879
less: Transfer of Surplus to Capital Fund	<u>(363,853)</u>	<u>(675,798)</u>	<u>(1,038,632)</u>	<u>(1,603,696)</u>	<u>(2,034,612)</u>	<u>(2,489,056)</u>
Ending Balance	\$ 938,344	\$ 1,029,588	\$ 1,130,959	\$ 1,244,308	\$ 1,359,763	\$ 1,487,585
Actual Days of O&M	30 days	30 days	30 days	30 days	30 days	30 days
Capital Reserve						
Beginning Balance	\$ 1,745,586	\$ 23,303,625	\$ 1,644,212	\$ 1,299,610	\$ 6,650,097	\$ 4,551,451
plus: Transfers from Operating Fund	363,853	675,798	1,038,632	1,603,696	2,034,612	2,489,056
plus: Revenue Bond Proceeds	26,000,000	-	-	5,500,000	-	-
plus: Interest Earnings	<u>34,912</u>	<u>233,036</u>	<u>16,442</u>	<u>12,996</u>	<u>66,501</u>	<u>45,515</u>
Total Funding Sources	\$ 28,144,351	\$ 24,212,459	\$ 2,699,285	\$ 8,416,302	\$ 8,751,210	\$ 7,086,021
less: Capital Expenditures	<u>(4,840,726)</u>	<u>(22,568,247)</u>	<u>(1,399,675)</u>	<u>(1,766,205)</u>	<u>(4,199,759)</u>	<u>(5,699,869)</u>
Ending Capital Fund Balance	\$ 23,303,625	\$ 1,644,212	\$ 1,299,610	\$ 6,650,097	\$ 4,551,451	\$ 1,386,152
Minimum Target Balance	\$ 639,599	\$ 865,282	\$ 879,278	\$ 896,941	\$ 938,938	\$ 995,937
Combined Beginning Balance	\$ 2,605,905	\$ 24,241,968	\$ 2,673,799	\$ 2,430,569	\$ 7,894,405	\$ 5,911,213
Combined Ending Balance	\$ 24,241,968	\$ 2,673,799	\$ 2,430,569	\$ 7,894,405	\$ 5,911,213	\$ 2,873,737



UTILITY BOARD STAFF REPORT

Item 4
October 13, 2026
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2027 Storm Water Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Review and accept the recommendation to increase the utility rate 6.0% for storm water services for fiscal year 2027.	☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst II	
COUNCIL LIAISON:	Wendy Weiker	
EXHIBITS:	1. 2027-2032 Projected Storm Water Utility Cash Flow	

BACKGROUND

As part of the 2027-2028 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming fiscal year. The operating and capital budgets presented in this memo include adopted and amended figures through May 5, 2026.

Staff from Public Works and Finance worked with an outside consultant team to update the smoothed rate model based on 2026 budget actuals through July, capital work already underway, and emerging reinvestment needs in the storm water system through the current biennium and beyond. As a result of this updated analysis, staff recommends a 6.0% increase to the Storm Water Utility rates for 2027 as proposed in the smoothed rate model.

2027-2028 OPERATING BUDGET

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

Table 1

Operating Expenditures	2025	2026	2027	2028	Percent Change	
(\$ in thousands)	Actual	Forecasted	Budget	Budget	26-27	27-28
Salary & Benefits	\$1,037	\$1,202	\$1,367	\$1,415	13.8%	3.5%
Contractual Services	446	655	675	678	3.1%	0.4%
Other Services and Charges	660	881	1,065	862	20.9%	-19.1%
TOTAL	\$2,143	\$2,738	\$3,108	\$2,954	13.5%	-4.9%

Highlights from the Storm Water Utility operating budget include:

- The combined total for salary and benefit costs in 2027 are increasing 13.8% as compared to the 2026 budget. This increase is driven by the cost-of-living adjustment (COLA) of 4.1% for 2027, increasing benefit

costs, and a fully staffed department in 2027 versus forecasted savings in 2026 that were a result of vacancies in the first half of the fiscal year.

- Contractual services for 2027 reflect anticipated costs for Closed Circuit Television (CCTV) storm water 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.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2027-2028 is shown in Table 2. Capital investment costs are the primary driver of the proposed Storm Water rate increases for 2027-2032.

Table 2

Storm Water Utility Capital Program 2027-2028			
<i>(\$ in thousands)</i>			
Project ID	Description	2027	2028
43903559	Capital Project Management	\$479	\$503
90.35.0001	Emergency SW Conveyance Replacement	60	62
90.35.0002	Street Related Storm Drainage Improvements	170	175
90.35.0003	Conveyance Condition Assessment	110	113
90.35.0004	Stormwater System Improvements	490	505
90.35.0005	SW Monitoring Instrumentation	35	36
90.35.0007	WMW Culvert Replacements		258
90.35.0008	Watercourse Condition Update	550	
90.35.0011	SB 22.1 & 25b.2 Watercourse Improvements		155
90.35.0012	SB 46a.3 Watercourse Improvements	110	433
90.35.0016	SB 29.3 and 34.1 WC Imp	550	
90.35.0017	SB 47.4 Watercourse Imp	75	515
90.35.0021	E Seattle Neighborhood Drainage Imp	345	
90.35.0022	WC Minor Repairs & Maintenance	50	206
Storm Water Utility CIP Total		\$3,024	\$2,959

STORM WATER RATE PROPOSAL

The proposed 6.0% storm water rate increase for 2027 is based on the City's updated rate model that reflects the 2027-2028 operating budget, the 2027-2032 Capital Improvement Program (CIP), and 2026 budget to actuals performance through July. Prepared jointly by Public Works, Finance, and outside consultants, the rate model indicates that no issuance of debt is required for the Storm Water Utility.

The proposed 6.0% rate adjustment for 2027 ensures 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 long-established fiscal policy guidelines – specifically a 45-day operating reserve and a 1% capital reserve target established by the Utility Board in 2006 as a prudent measure to protect the City's multi-million-dollar investments in its

utility assets. This 1% capital reserve target enables the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of new development, existing customers, and future customers to fund both current and future reinvestment needs.

Table 3 compares the 2027-2028 rate proposal against historical projections from 2021-2025.

Table 3

Rate Recommendations	2025	2026	2027	2028	2029	2030	2031	2032
2027-2028 Rate Proposal			6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
2025-2026 Rate Update	8.00%	6.00%	6.00%	6.00%	6.00%	6.00%		
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%				
2021-2022 Rate Update	5.50%	5.50%						

NEXT STEPS

Staff seeks to answer the Utility Board's questions about the 2027 rate adjustment, address any questions related to the [09/22/2026 - 2027 Utility Rates Recorded Presentation](#) sent to the Utility Board, follow up with additional information as required, and assist the Utility Board with final review and adoption of the proposed utility rate adjustment for storm water service for fiscal year 2027.

The 2027 Storm Water Utility rate adjustment will be included in the City's fee schedule update at the December 1, 2026 City Council meeting. Staff will return during the 2027-2028 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2028 and beyond.

RECOMMENDED ACTION

Review and accept Staff's recommendation of a 6.0% utility rate increase for storm water services for fiscal year 2027.

PROJECTED STORM WATER UTILITY CASH FLOW 2027-2032

Revenue Requirement	2027	2028	2029	2030	2031	2032
Pre Rate Revenues						
Revenues						
Rate Revenues Under Existing Rates	\$ 3,048,142	\$ 3,048,142	\$ 3,048,142	\$ 3,048,142	\$ 3,048,142	\$ 3,048,142
Non-Rate Revenues	56,173	53,197	53,305	53,410	53,519	53,631
Total Revenues	\$ 3,104,315	\$ 3,101,339	\$ 3,101,447	\$ 3,101,552	\$ 3,101,661	\$ 3,101,773
Expenses						
Cash Operating Expenses	\$ 2,593,385	\$ 2,676,570	\$ 2,757,918	\$ 2,841,819	\$ 2,928,352	\$ 3,017,602
Existing Debt Service	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-
System Reinvestment Funding	-	-	-	-	-	-
Total Expenses	\$ 2,593,385	\$ 2,676,570	\$ 2,757,918	\$ 2,841,819	\$ 2,928,352	\$ 3,017,602
Net Surplus (Deficiency)	\$ 510,930	\$ 424,769	\$ 343,528	\$ 259,733	\$ 173,308	\$ 84,171
Annual Rate Increase	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Cumulative Rate Increase	6.00%	12.36%	19.10%	26.25%	33.82%	41.85%
Post Rate Revenues						
Revenues After Rate Increases	\$ 3,231,030	\$ 3,424,892	\$ 3,630,386	\$ 3,848,209	\$ 4,079,101	\$ 4,323,848
Additional Taxes from Rate Increase	3,841	7,912	12,227	16,801	21,650	26,790
Net Cash Flow After Rate Increase	\$ 689,978	\$ 793,608	\$ 913,545	\$ 1,042,999	\$ 1,182,618	\$ 1,333,086
Sample Monthly Residential Bill	\$28.17	\$29.86	\$31.65	\$33.55	\$35.57	\$37.70
Monthly Increase (\$)	\$1.60	\$1.69	\$1.79	\$1.90	\$2.02	\$2.14

Fund Balance	2027	2028	2029	2030	2031	2032
Operating Reserve						
Beginning Balance	\$ 308,633	\$ 319,732	\$ 330,462	\$ 340,993	\$ 351,869	\$ 363,101
plus: Net Cash Flow after Rate Increase	689,978	793,608	913,545	1,042,999	1,182,618	1,333,086
less: Transfer of Surplus to Capital Fund	(678,879)	(782,879)	(903,014)	(1,032,123)	(1,171,385)	(1,321,485)
Ending Balance	\$ 319,732	\$ 330,462	\$ 340,993	\$ 351,869	\$ 363,101	\$ 374,702
<i>Actual Days of O&M</i>	45 days	45 days	45 days	45 days	45 days	45 days
Capital Reserve						
Beginning Balance	\$ 4,692,958	\$ 2,716,565	\$ 828,599	\$ 216,700	\$ 123,283	\$ 306,566
plus: Transfers from Operating Fund	678,879	782,879	903,014	1,032,123	1,171,385	1,321,485
plus: Revenue Bond Proceeds	-	-	-	-	-	-
plus: Interest Earnings	93,859	27,166	8,286	2,167	1,233	3,066
Total Funding Sources	\$ 5,465,696	\$ 3,526,609	\$ 1,739,899	\$ 1,250,989	\$ 1,295,901	\$ 1,631,116
less: Capital Expenditures	(2,749,131)	(2,698,010)	(1,523,199)	(1,127,707)	(989,335)	(1,019,015)
Ending Capital Fund Balance	\$ 2,716,565	\$ 828,599	\$ 216,700	\$ 123,283	\$ 306,566	\$ 612,101
<i>Minimum Target Balance</i>	\$ 56,575	\$ 83,555	\$ 98,787	\$ 110,064	\$ 119,957	\$ 130,147
Combined Beginning Balance	\$ 5,001,592	\$ 3,036,297	\$ 1,159,061	\$ 557,692	\$ 475,151	\$ 669,667
Combined Ending Balance	\$ 3,036,297	\$ 1,159,061	\$ 557,692	\$ 475,151	\$ 669,667	\$ 986,803



UTILITY BOARD STAFF REPORT

Item 5
October 13, 2026
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2027 EMS Rate Discussion/Recommendation	☐ Discussion Only
RECOMMENDED ACTION:	Accept Staff's recommendation to increase the EMS rate by 4.0% for fiscal year 2027.	☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution

STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst II
COUNCIL LIAISON:	Wendy Weiker
EXHIBITS:	None

BACKGROUND

The annual revenue requirement for the Emergency Medical Services (EMS) utility is directly tied to the average budgeted salary and benefit costs (excluding overtime) of four firefighter positions originally added in 1996 to handle high demand call periods. Revenue collected through EMS utility rates funds these position costs and is transferred to the General Fund.

During the 2011–2012 budget deliberations, the City Council instituted a Basic Life Support (BLS) ambulance transport fee to help balance the budget. Under Washington State Law, introducing this fee inadvertently replaced the City's variable EMS rate structure – which charged customer classes based on historical call volume – with a uniform flat rate per Equivalent Service Unit (ESU) across all customer classes. Customer account data measured in ESUs has been updated for the 2027 rate cycle, reflecting growth in the Single Family and Multi-Family Residential customer classes.

DISCUSSION

2027 REVENUE REQUIREMENT CALCULATION

The proposed 2027 EMS revenue requirement is \$837,504, which reflects the 2026 average budgeted salary and benefit costs for four firefighter positions (excluding leadership positions: Fire Chief, Deputy Fire Chief, and Fire Marshal).

- **2026 Revenue Requirement:** \$793,563
- **2027 Revenue Requirement:** \$837,504
- **Net Increase:** \$43,941 (or 5.5%)

Historically, rate adjustments aligned with the Seattle-Tacoma-Bellevue first-half CPI-W cost-of-living adjustment (COLA) for firefighting staff. Following the transition to Eastside Fire & Rescue (EF&R) in January 2024, salary and benefit cost adjustments are now based on the June CPI-W measurement, which was 2.7% in 2026.

EMS RATE PROPOSAL

To generate the required \$837,504 in revenue for 2027, rates must be adjusted accordingly. Table 1 outlines the proposed rate changes per ESU compared to the current 2026 rates.

Table 1

Customer Class	Bi-Monthly Charge		\$ Change	% Change
	2026	2027		
Single Family Residential	\$12.26	\$12.75	\$0.49	4.00%
Multi-Family Residential	\$12.26	\$12.75	\$0.49	4.00%
Commercial	\$12.26	\$12.75	\$0.49	4.00%
Public Schools	\$12.26	\$12.75	\$0.49	4.00%
Public/Other	\$12.26	\$12.75	\$0.49	4.00%
Residential Board & Care:				
Covenant Shores	\$576.22	\$599.25	\$23.03	4.00%
Island House Retirement	\$220.68	\$229.50	\$8.82	4.00%
SJV Mercer Island LLC	\$613.00	\$637.50	\$24.50	4.00%
Aljoya House	\$380.06	\$395.25	\$15.19	4.00%
Aegis	\$894.98	\$930.75	\$35.77	4.00%
In-Home Care	\$73.56	\$76.50	\$2.94	4.00%
24 Hour Nursing:				
Covenant Shores (Skilled Nursing)	\$514.92	\$535.50	\$20.58	4.00%
Aegis (Memory Care)	\$196.16	\$204.00	\$7.84	4.00%

Although the net increase to the 2027 revenue requirement is the 5.5% noted above, staff's recommendation is a 4.0% increase. This is due to the customer growth observed in the Single Family and Multi-Family Residential classes which allows the net cost increase to be spread over more customers paying the utility rate.

NEXT STEPS

Staff recommends the 2027 bi-monthly EMS rate be increased 4.0% relative to 2026 rates and seeks to address any questions related to the [09/22/2026 - 2027 Utility Rates Recorded Presentation](#) sent to the Utility Board.

The 2027 EMS Utility rate adjustment will be included in the City's fee schedule update at the December 1, 2026 City Council meeting. Staff will return during the 2027-2028 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2028 and beyond.

RECOMMENDED ACTION

Accept Staff's recommendation to increase the EMS Utility rate by 4.0% for fiscal year 2027.

Question & Answer Matrix
October 13, 2026 – Utility Board Meeting

- Reminders:
- This form is for Utility Board questions in preparation for the October 13, 2026, meeting.
 - Please submit Utility Board questions by **Monday, October 5 at 9:00 am.**
 - Include the agenda item or rate topic and your name. Enter each question on a separate line.
 - As a reminder, to follow OPMA rules, we ask that you keep your submissions to questions only—no commentary, discussion, or policy opinions, please. Also, avoid including any confidential information.
 - Staff will prepare responses and provide the Utility Board with the matrix document and **agenda packet by Friday, October 9, 2026.**
 - The Q&A matrix, the *2027 Utility Rates Recorded Presentation* and the slide deck, will be included in the Utility Board Agenda packet for the October 13th meeting.

Log #	Agenda Item	Received From	Question	Staff Response
1.	2	Brian Thomas	Can you provide greater insight into the four categories of major capital investments for the water system in 27-28? \$35.1 million is a big number. I think it would help the Board if there was more detail available to understand the magnitude of these investments relative to the current water system’s plan (recognizing that it is currently being updated) anticipated needs over the next six years.	AC Main Replacements – The City is taking a programmatic approach to eliminate the remaining Asbestos Cement (AC) water mains within the City’s water distribution system. Five miles of AC main have been identified – approximately 4% of the City’s water system. This program seeks to remove and replace the remaining AC pipe by 2030. Water Supply Line Construction – This project includes the construction and new alignment of a new locally controlled and seismically resilient water supply line (90.40.0032). PRV Replacements – An ongoing program to replace pressure reducing valve (PRV) stations Citywide in two-year increments. The City operates 85 PRV stations, and multiple stations are planned for replacement during each biennium. Many of these stations do not meet current City standards and this program ensures that replacements are planned and constructed to minimize service impacts and potential damages that can be detrimental to the water system and surrounding neighborhoods. Water System Improvements – these water main replacement projects are a proactive approach to renew critical components that strengthen the system’s reliability in providing service. Water System Improvements are prioritized utilizing several components including age and type of

Log #	Agenda Item	Received From	Question	Staff Response
				pipe, fire flow considerations, maintenance and break history, water quality, and coordination with other capital projects. More information on these projects and other Utility CIP projects can be found online.
2.	3	Brian Thomas	For the pump station rehabilitation projects, can you provide more detail? How many stations are included in the 27-28 biennium? What is the nature/scope of the work (more detail)? Please describe the remaining work beyond 28 to address the remaining pump stations that require upgrading.	Two sewer pump stations, PS 19 and 21 are scheduled for rehabilitation in the 27-28 biennium. The project will replace and upgrade pumps, piping, mechanical systems, instrumentation, electrical and control equipment, and will convert both stations from wet-well/dry-well to submersible configurations. Equipment upgraded through the 2025 SCADA Replacement Project will be salvaged and reused. New manholes or vaults will be added to provide maintenance access to the existing Lakeline. Additional priorities include improving odor control, enhancing site access, and restoring ecological function within the shoreline areas where the stations are located. Staff is planning to rehabilitate two pump stations in the 27–28 biennium to take advantage of economies of scale in both the design and construction phases. The replacement of PS 19 and PS 21 follows directly after the PS 20 Replacement project, which is scheduled to enter construction in Q2 2027 and is funded through the 25–26 biennial budget. These three stations receive the highest flows on the Island and are in the poorest condition, making them the current priority. Once completed, Stations 19, 20, and 21 will join Stations 4, 14, and 11, rebuilt in 2010, 2014, and 2026, as upgraded facilities, leaving eleven stations still in their original 1960’s condition. Although assessments in

Log #	Agenda Item	Received From	Question	Staff Response
				2015 and 2024 identified Stations 22 and 23 as the next rehabilitation priorities, their replacement will be reconsidered through the Lakeline Reach 1 project to determine whether addressing Stations 24 and 25 should take precedence to help prevent overflows at the top of Reach 1.
3.	2	Meredith Lehr	Of the 85 PRV stations in the water system, how many have been replaced, and how many will be replaced in the next 2 years? Same question for the AC mains.	The PRV Replacement Program includes seven phases and targets replacement of at least the 20 PRVs in the worst condition by 2032. Phase 1 replaced four PRVs in 2024. Phase 2 will replace five PRVs, with construction scheduled for Q1 2027, funded from the 2025-2026 budget. Phase 3 and the design of Phase 4 are planned for the 2027-2028 biennium, replacing four and three PRVs, respectively. The AC Main Replacement Program aims to remove more than five miles of asbestos cement pipe from the water system by 2030. To date, 5,100 feet has been replaced, with another 5,700 feet approved to begin construction in Q1 2027, funded from the 2025-2026 budget. In the 2027-2028 biennium, construction of two projects and design of a third are scheduled, which will remove an additional 5,000, 4,000, and 4,000 feet, respectively.
4.	2	Meredith Lehr	I would like to see prior years’ rates along with proposed rate recommendations. Can Table 3 start with 2021? Same for Sewer & Storm water versions.	Please find the historical and proposed rates below for the respective utility, with current rates proposed for 2027.

Log #	Agenda Item	Received From	Question	Staff Response							
				Utility	2021	2022	2023	2024	2025	2026	2027
				Water	5.25%	5.25%	8.0%	8.0%	8.0%	8.0%	8.0%
				Sewer (local)	4.0%	4.0%	4.5%	4.5%	4.5%	4.0%	7.0%
				Sewer (KC)	4.5%	4.0%	5.75%	5.75%	5.75%	7.5%	12.75%
				Storm	5.5%	5.5%	8.0%	8.0%	8.0%	6.0%	6.0%
5.	2,3,4	Meredith Lehr	Can we have a fuller explanation of the RFSR concept. For how long has this been part of the rate-setting for the 3 areas?	The concept behind Rate Funded System Reinvestment (RFSR) is the intentional set aside of a portion of rate revenue for the repair and replacement of capital assets. This practice requires the utility to set rates to cover not just operations, maintenance, and debt service costs, but also the cost to fund a portion of each utility system’s capital replacement expenses. RFSR acknowledges that infrastructure ages overtime and there will be an eventual need to replace existing assets. The concept is a key practice in supporting decisions to help lessen the reliance on debt in the future as it is intended to help fund repair and replacement projects. There are many metrics used within the industry to set an RFSR policy. Examples include setting a dollar amount based on annual asset depreciation, or a percentage of annual capital needs. The City’s current rate funded system reinvestment targets for the Water, Sewer, and Stormwater Utility are \$3.9M, \$2.0M, and \$1.2M, as set in the 2019-2020 budget cycle. As costs and replacement needs have changed over time, staff aim to revisit the RFSR funding targets for each							

Log #	Agenda Item	Received From	Question	Staff Response
				utility upon the completion of the long-term plans (e.g., General Sewer, Water System, and the Comprehensive Basin Plan, scheduled for completion in Q4 2027).
6.	General	Meredith Lehr	Are there increasing costs in the current environment for the bond issuances in the future? Is that already captured in this data?	Future years account for assumed inflation for both maintenance and capital costs. The bond issuances anticipated in future years are based on these numbers and therefore consider these increases.
7.	General	Meredith Lehr	I would prefer to have the increases to the bills displayed and discussed in bi-monthly amounts and percentages, since that is how our community sees and pays them.	Staff will make this adjustment.
8.	2	Brian Thomas	For the operations and maintenance costs for the water and sewer utilities on slides 12 and 17, what is the breakdown of direct costs incurred by the water utility vs. common costs being allocated to it by the city for overhead and/or joint and common costs?	Overhead allocations in the Water utility amount to \$1.0 million in 2027 and \$1.1 million in 2028, or 14.6% and 14.3% of total maintenance and operations budgets respectively. Overhead allocations in the Sewer utility amount to \$0.89 million in 2027 and \$0.92 million in 2028, or 7.8% and 7.4% of total maintenance and operations budgets respectively.
9.	2, 3, 4	Brian Thomas	What annualized growth rate is predicted for operations and maintenance costs over the 27- 32-year period?	There are multiple cost escalation assumptions that feed into the overall maintenance and operations costs over the 6-year planning period of 2027-2032. Some examples would include salary increases, benefit increases, and supply cost increases. The average expenditure growth rate per year from 2027-2032 for each utility is listed below: • Water: 3.8% • Sewer: 3.4% (Excludes KC Metro costs) • Storm Water: 3.2%
10.	2,3,4	Brian Thomas	Now that rate-funded system reinvestment has begun in the city utility ratemaking process, is there a definitive policy or practice for determining which projects (size, service life, cost, etc.) will be debt-funded vs. those to be captured/included in RFSR?	Section 10 of the City’s Financial Management Policies (Resolution No. 1667) guides eligible uses of long-term debt.

Log #	Agenda Item	Received From	Question	Staff Response
				In practice, projects that are ideal for debt funding are those with a useful life that exceeds 20 years and cost more than \$2.5 million, at minimum. This internal policy was developed using best practices and feedback from the City’s consultant FCS.
11.	3	Brian Thomas	For the King County Treatment costs on slide 17, I would like an overview of the City’s and other affected regional partners’ engagement with King County regarding the scope of the dramatic increases in treatment costs. The pass-through estimates are substantial and greatly affect projected rates. Have the City and its regional partners explored ways to push back on the increases and/or smooth them out over a longer time period?	The City has been working with the Sound Cities Association and Metropolitan Pollution Abatement Advisory Committee (MWPAAC) and Regional Water Quality Committee to support policy solutions that maintain regional sewer infrastructure, protect the environment, and address affordability for rate payers. More information on the drafted response letter and action taken by the City Council can be found in AB 6922.
12.	3	Brian Thomas	I would like a detailed explanation on how King County allocates sewer system costs, including the recent Interbay and North Mercer projects. For the North Mercer Project, can you provide an initial and current timeline on the project from start to finish, as well as a history of the estimated cost of the project?	King County’s Wastewater Treatment Division (WTD) operates as a regional, self-supporting utility funded entirely through wholesale wastewater rates and capacity charges. The wholesale rate is charged per Residential Customer Equivalent (RCE) or equivalent volume metrics. For example, the established wholesale monthly sewer rate is \$62.66 per RCE in 2026. There are no “area specific” rates tied to needs in capital infrastructure projects or other differentiations. The North Mercer Island/Enatai Sewer Upgrade Project design began in 2016 and was completed in 2021. Construction began in 2022 and is expected to conclude in 2027. More information about the project can be found https://kingcounty.gov/en/dept/dnrp/waste-services/wastewater-treatment/capital-projects/north-merc-island-enatai-sewer-upgrade.

Log #	Agenda Item	Received From	Question	Staff Response
13.	2,3,4	Brian Thomas	In years past, we have seen data for rate and average bills compared to nearby communities (i.e., Bellevue, Kirkland, Issaquah, and others). Can you prepare and share a similar analysis for this rate cycle?	Staff is unable to provide this analysis by the October 13 th meeting due to the time required to solicit and confirm preliminary rate information with neighboring jurisdictions. Attached to the Q&A matrix is the regional assessment completed in 2025, which remains a relevant reference point.
14.	General	Debbie Bertlin	Can you please provide greater clarity in “user growth” for the 6 year period? A “Key Assumption” in the intro states no customer growth is assumed however in the EMS section growth in single and multi-family is assumed.	Due to the late-stage development state of the Island’s utility systems, staff typically anticipates no growth when projecting forward how many customers pay into the EMS rate’s revenue requirement. Growth in the single-family class as measured via overall Equivalent Living-Unit (ELU) count, represented an increase of 0.1%. New multi-family customers were recognized in this EMS rate study due to the opening of a mixed-use development in the town center area. Work is currently underway to update long range planning documents in the Water and Sewer utilities, the Water System Plan and General Sewer Plan, slated to finish in Q4 2027. A component of this work is a 20-year outlook on development on the Island, with a focus in the Town Center (Phase 1) area and the impact on capacity for both these utilities island-wide (Phase 2). Staff anticipates that growth assumptions in future years will be influenced by the results of these updates, scheduled for completion next year.
15.		Debbie Bertlin	Echo’ing Meredith’s request for more background on the RFSR-when was this budging principle adopted? Contextual background would be appreciated.	See Question #5.
16.	General	Debbie Bertlin	I would like to better understand the underlying factors driving rate increases from both SPU and KCT. Do we share the same assumed rate of inflation with them for the 6 year budgeting timeframe?	For SPU, staff assume a level of water purchased based on many years of historical actual water purchase data, forecast that forward with a 0% growth assumption, and apply a level on anticipated rate adjustments

Log #	Agenda Item	Received From	Question	Staff Response
				from SPU. In the absence of known rate increases, staff assume 5% annual adjustments. King County Metro is based on a 10-year rate plan that is presented and adopted annually by the end of June. The website highlights five key reasons to support the increases: 1. Operations: workers operate facilities and machinery to treat more than 180 million gallons per day. 2. Maintenance: much of the equipment is 60+ years old. 3. Modernization: Much of the aging equipment can be replaced with more energy-efficient systems. 4. Capacity: As more customers join, there is a greater need to upsize the infrastructure to accommodate growth. 5. Regulatory Requirements: Over half of the costs in the next decade (I believe this to mean half of the CIP) work towards addressing regulatory requirements.
17.		Debbie Bertlin	SPU costs increase from \$2.0M to \$2.8M in 2032. Please provide key factors behind the increase, in particular whether or not there is assumed growth in consumption per customer and/or growth in the overall customer base.	The answer to #16 addresses some of this but the increase year to year is largely based on the assumed increases in the SPU purchased water rates of 5% per year.



Rate Comparison Study Background

- Requested by Utility Board during 2024 rate discussions
- 8 comparable cities chosen with staff consideration
 - » Bellevue
 - » Kirkland
 - » Bothell
 - » Redmond
 - » Edmonds
 - » Renton
 - » Issaquah
 - » Shoreline



Rate Comparison Parameters and Goals

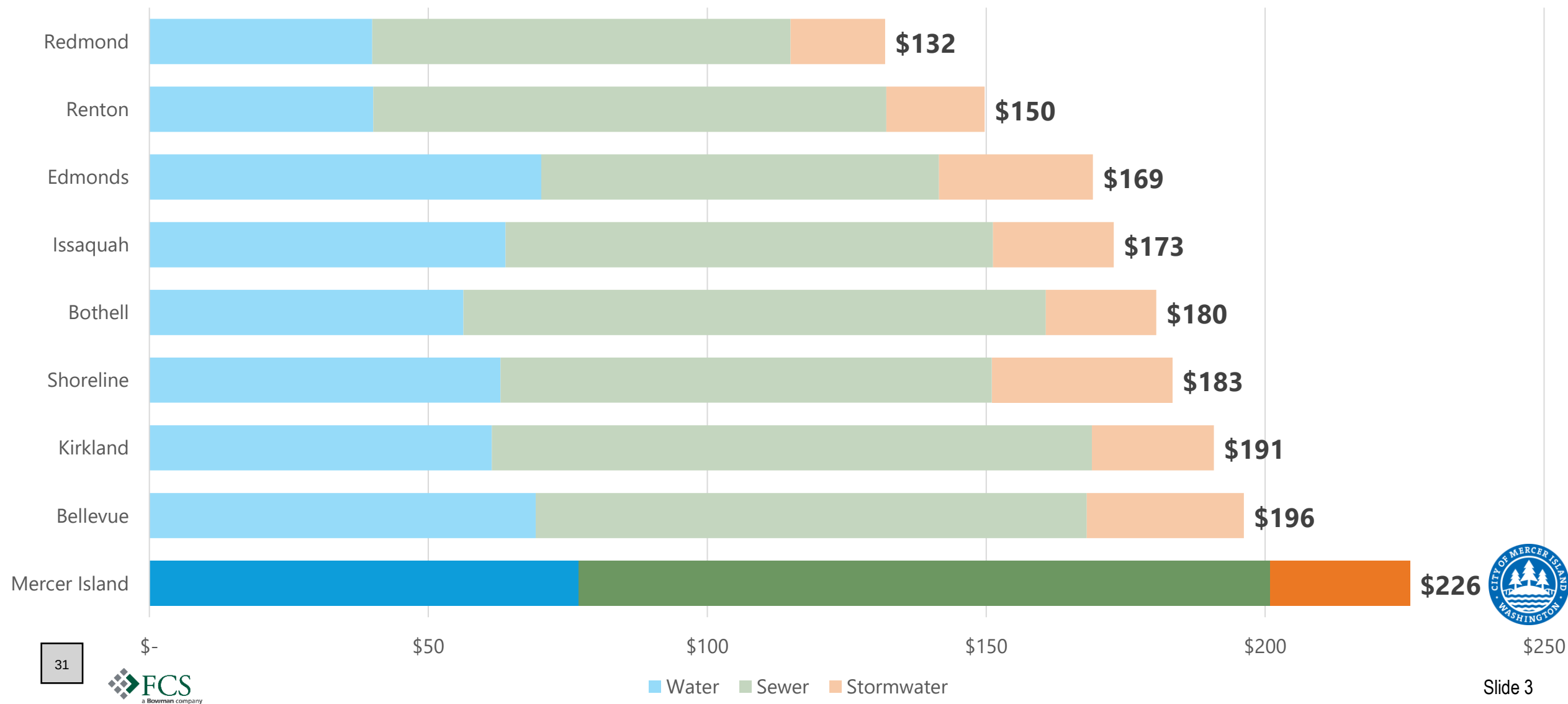
- Values based on average consumption rates
 - » Water: 14 ccf with Annual Average
 - » Sewer: 12 ccf with Winter Average
 - » Storm Water: Fixed Rates
- Primary goal to provide overall bill comparisons between cities





2025 Monthly Comparative Rate Survey

Item 6.





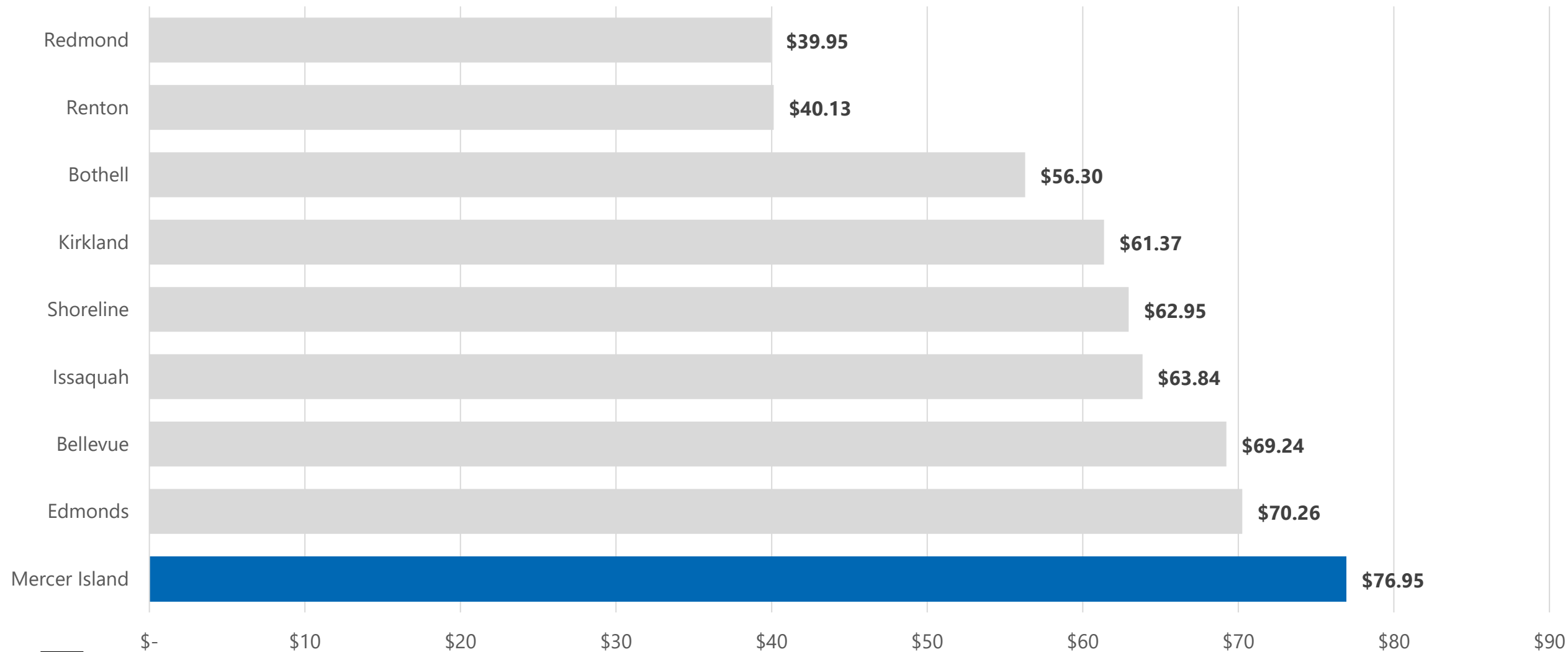
Rate Comparison Observations

- Utility systems in cities are rarely “apples to apples” for comparisons
- Mercer Island underground utilities face multiple complexities
 - » Large sections of water distribution pipes are past their useful life, requiring significant reinvestment
 - » Sewer system consists of 17 pump stations to operate an underwater lakeline



2025 Monthly Water Comparative Rate Survey

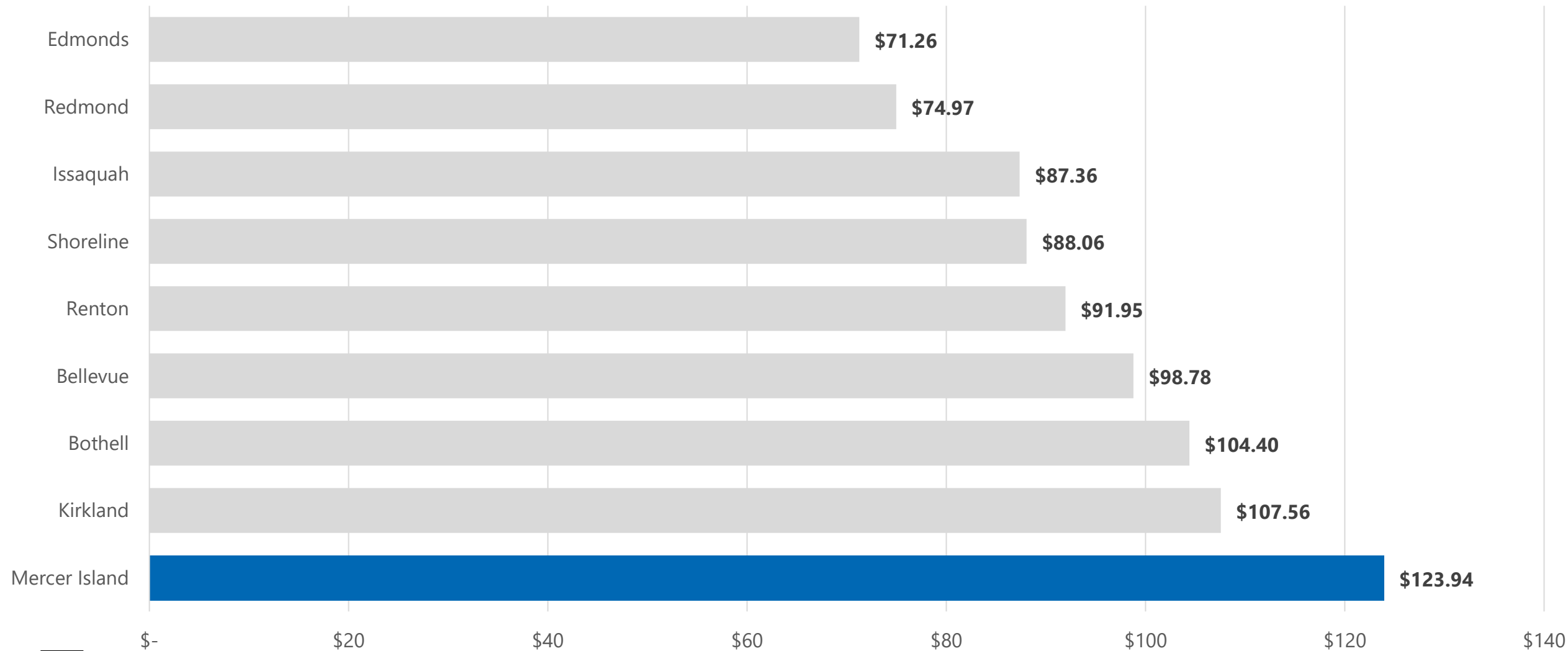
Item 6.





2025 Monthly Sewer Comparative Rate Survey

Item 6.





2025 Monthly Stormwater Comparative Rate Survey

