



# CITY OF MERCER ISLAND UTILITY BOARD HYBRID MEETING

Tuesday, September 10, 2024, at 5:00 PM

## BOARD MEMBERS:

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

## LOCATION & CONTACT

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

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

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

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

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

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

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

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

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

## PUBLIC APPEARANCES

### REGULAR BUSINESS

1. Approval of Minutes for the June 11, 2024, Regular Video Meeting  
**Recommended Action:** Approve minutes.
2. 2025 EMS Rate Discussion/ Recommendation  
**Recommended Action:** Accept proposed EMS rate for FY 2025.
3. 2025 Water Rate Discussion/ Recommendation  
**Recommended Action:** Accept proposed Water Utility rate for FY 2025.
4. 2025 Sewer Rate Discussion/ Recommendation  
**Recommended Action:** Accept proposed Sewer Utility rate for FY 2025.
5. 2025 Stormwater Rate Discussion/ Recommendation  
**Recommended Action:** Accept proposed Stormwater Utility rate for FY 2025.

## OTHER BUSINESS

Next Meeting – October 8, 2024

## ADJOURNMENT



# UTILITY BOARD MINUTES REGULAR HYBRID MEETING June 11, 2024

## CALL TO ORDER & ROLL CALL

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

Chair Tim O'Connell, Vice Chair Will Quantz, Board Members Meredith Lehr, George Marshall, Steve Milton, Craig Olson, Todd White (arrived 5:07 pm) and Council Liaison Jake Jacobson attended via Zoom.

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

## SPECIAL BUSINESS

### Introductions

Board members introduced themselves to the new board members.

### Board Elections: Chair and Vice Chair elections

Chair Tim O'Connell opened the nominations for Chair Lehr nominated O'Connell, seconded by Milton. There were no further nominations.

#### Vote

O'Connell – 5-0-1

O'Connell elected Chair.

Chair O'Connell opened the nominations for Vice Chair. Milton nominated Quantz, seconded by Lehr. There were no further nominations.

#### Vote

Quantz – 5-0-1

Quantz elected Vice Chair.

## PUBLIC APPEARANCES

There were no public appearances.

## REGULAR BUSINESS

### Approval of Minutes for the following meetings:

March 12, 2024, Minutes

Motion was made by Lehr; seconded by Marshall to:

Approve the minutes as presented.

Passed 6-0

### Water Briefing

The Board received the presentation and asked questions of staff.

### Water Meter Replacement Project Update

The Board received the presentation and asked questions of staff.

## OTHER BUSINESS

Next meeting scheduled for July 9, 2024

## ADJOURNMENT

The meeting adjourned at 6:21 pm.

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

Attest:

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



# UTILITY BOARD STAFF REPORT

Item 2  
September 10, 2024  
Regular Business

## AGENDA ITEM INFORMATION

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

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

## SUMMARY

### BACKGROUND

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

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

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

### CALCULATION OF 2025 REVENUE REQUIREMENT

The 2025 revenue requirement is based on the 2024 average, budgeted salary, and benefit costs for four firefighters, which equals \$790,241 (excluding the Fire Chief, Deputy Fire Chief, and Fire Marshal). Compared to the prior fiscal year (2023) revenue requirement of \$746,235, this represents an increase of 5.9%.

This increase is due to the 6.0% cost of living adjustment (COLA) applied in 2024 to staff represented by the International Association of Firefighters, AFL-CIO Local 2878 with Eastside Fire & Rescue.

### EMS RATE PROPOSAL

The proposed 2025 EMS rates, which are needed to generate the \$790,241 revenue requirement in 2025, are compared to the 2024 rates in Table 1 below.

Customer Class	Bi-Monthly Charge		\$ Change	% Change
	2024	2025		
Single Family Residential	\$11.54	\$12.21	\$0.67	5.81%
Multi-Family Residential	\$11.54	\$12.21	\$0.67	5.81%
Commercial	\$11.54	\$12.21	\$0.67	5.81%
Public Schools	\$11.54	\$12.21	\$0.67	5.81%
Public/Other	\$11.54	\$12.21	\$0.67	5.81%
Residential Board & Care:				
Covenant Shores	\$542.38	\$573.87	\$31.49	5.81%
Island House Retirement	\$207.72	\$219.78	\$12.06	5.81%
SVJ Mercer Island LLC	\$577.00	\$610.50	\$33.50	5.81%
Aljoya House	\$357.74	\$378.51	\$20.77	5.81%
Aegis	\$842.42	\$891.33	\$48.91	5.81%
In-Home Care	\$69.24	\$73.26	\$4.02	5.81%
24 Hour Nursing:				
Covenant Shores (Skilled Nursing)	\$484.68	\$512.82	\$28.14	5.81%
Aegis (Memory Care)	\$184.64	\$195.36	\$10.72	5.81%

Table 1

Staff recommends the 2025 bi-monthly EMS rates be increased 5.81% relative to the 2024 rates.

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

**RECOMMENDED ACTION**

Accept the proposed EMS rate for FY 2025.



# Utility Board Meeting

## EMS Rate Updates

Sept 10, 2024

Item 2.



# Agenda

1. 2025 EMS Rate Update
  - Background
  - Primary Drivers
2. Staff Recommendation
3. Questions



# EMS Rate History

## ❑ **Originated in 1996**

- ❑ Tied to the average budgeted salary and benefit costs of four Firefighters.
- ❑ Additional hires increased the capacity to handle simultaneous Emergency Medical Service calls during high-call demand.

## ❑ **The current rate structure was implemented during the 2011-2012 biennium**

- ❑ A flat rate structure with the same rate for each customer class.



# EMS Rate Update

## □ Primary Driver

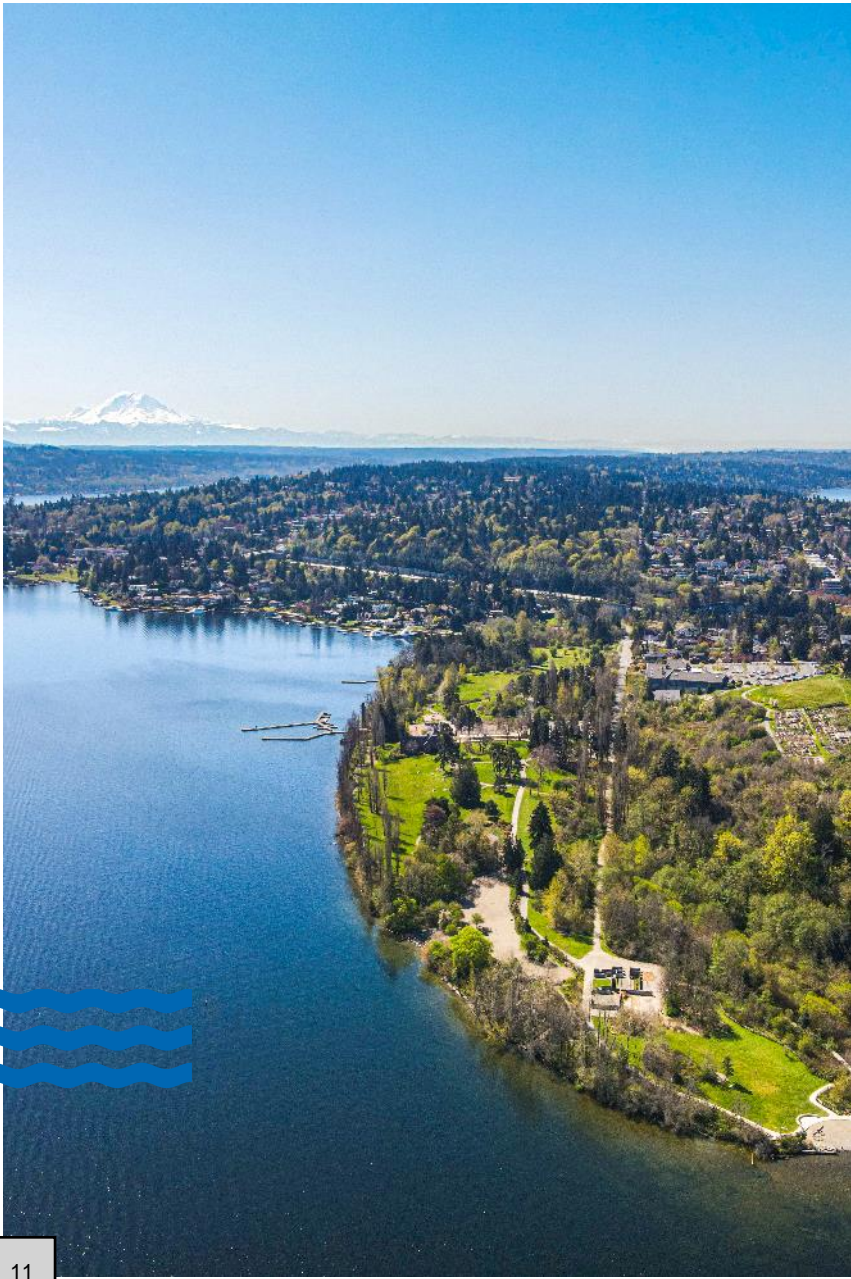
### □ Cost of Living Adjustments (COLA)

- CPI-W Seattle-Tacoma-Bellevue first half measurement.

# EMS Rate Recommendation

- Staff recommends an increase of 5.81 percent from 2024 rates.
  - Single-family bill impact: \$0.67 every other month in 2025

Customer Class	Bi-Monthly Charge		\$ Change	% Change
	2024	2025		
Single Family Residential	\$11.54	\$12.21	\$0.67	5.81%
Multi-Family Residential	\$11.54	\$12.21	\$0.67	5.81%



# Questions

*Prepared By*  
*Ben Schumacher, Financial Analyst*



# UTILITY BOARD STAFF REPORT

Item 3  
September 10, 2024  
Regular Business

## AGENDA ITEM INFORMATION

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

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

## SUMMARY

### BACKGROUND

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

The operating and capital budgets presented in this memo will be released to the Public and City Council on September 24, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended rate adjustment for water service will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

### 2025-2026 OPERATING BUDGET

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

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

Table 1

Highlights from the Water Utility operating budget include:

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

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

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

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

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

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

### **SUMMARY CAPITAL REINVESTMENT PROJECTS**

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

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



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

Table 2

**WATER RATE PROPOSAL**

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

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

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

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

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

Table 3

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

Table 4

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

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

Table 5

## SCHEDULED WATER UTILITY BOND ISSUANCE

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

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

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

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

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

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

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

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

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

**MECHANICS OF A BOND ISSUANCE**

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

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

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

Table 6

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

**CONCLUSION**

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

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

**RECOMMENDED ACTION**

Accept the proposed Water Utility rate for FY 2025.





# CITY OF MERCER ISLAND 2024 Rate Study Update

Angie Sanchez Virnoche, Principal  
Chase Bozett, Project Consultant

September 10, 2024







# Overview

- FCS retained to complete a water, sewer, and stormwater rate update
  - » Previously assisted the City in 2020 and 2022
  
- Focus for today:
  - » Overview the rate setting process
  - » Present key data inputs and assumptions
  - » Summary of initial findings
  
- Questions
  
- Next Steps

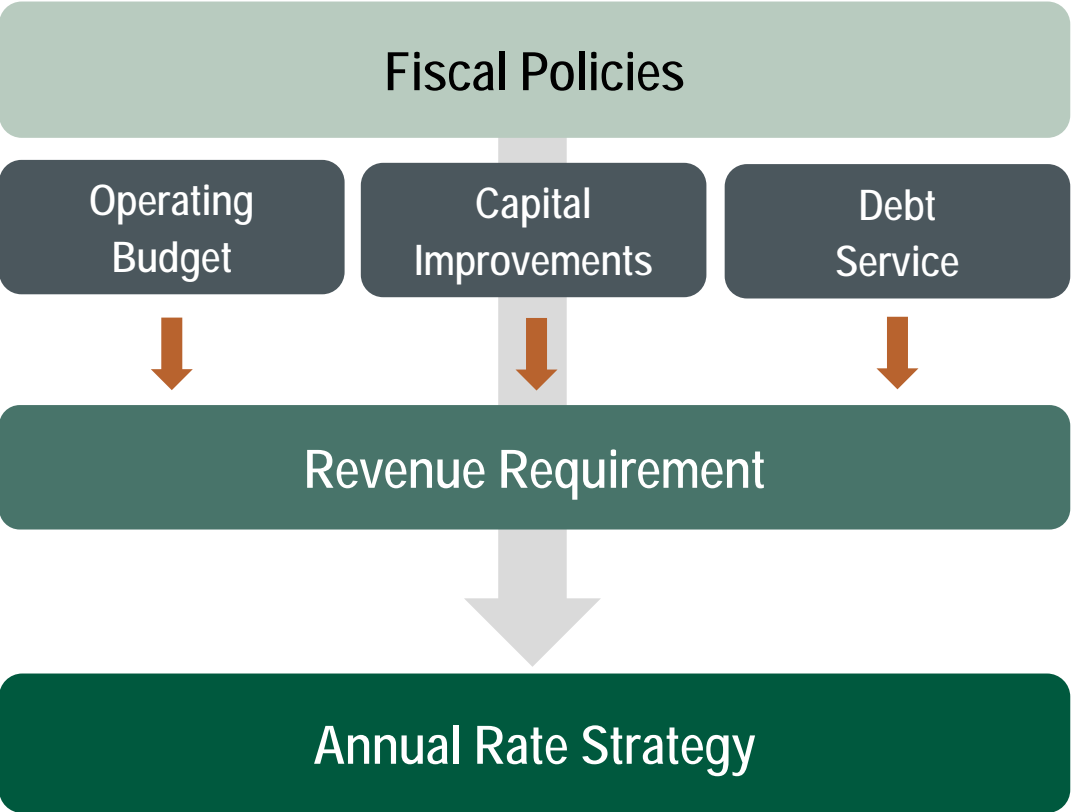


# Critical Capital Work Ahead

- Total 2025-2026 CIP Preliminary Budget expenditures are \$72.2M
  - » \$40.9M, or 56.6%, tied to the Utility Funds
- Reinvestment in the City's aging water distribution system
  - » Most of City's distribution system was constructed in the 1950's-1960's with an expected useful life of 50-75 years (dependent on material type).
  - » Replacements prioritized using a combination of factors.
  - » E.g., asbestos cement main replacements are prioritized due to material and age.
- Sewer conveyance system faces similar challenges with aging infrastructure
  - » Pump Station rehabilitation already in progress with Lakeline work on the horizon.



# Rate Study Elements



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



# Financial Forecast Key Assumptions




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



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



**Customer Growth**  
Conservatively no growth  
assumed



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



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



**Capital Plan**  
2024: Budget  
2025-2030: City CIP



# Water Revenue Requirement





# Water Utility Background

- O&M

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

- Capital

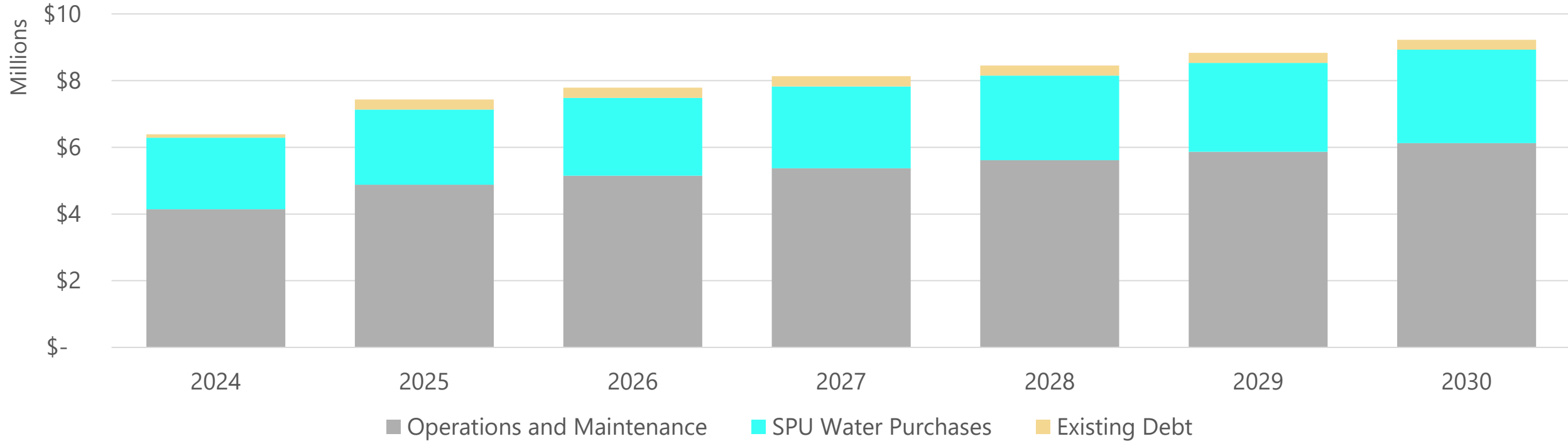
- » Previous study estimated \$75M (2022-2028)
  - \$33M assumed financed in the last forecast

- Rate Plan

- » 8% annual rate increases



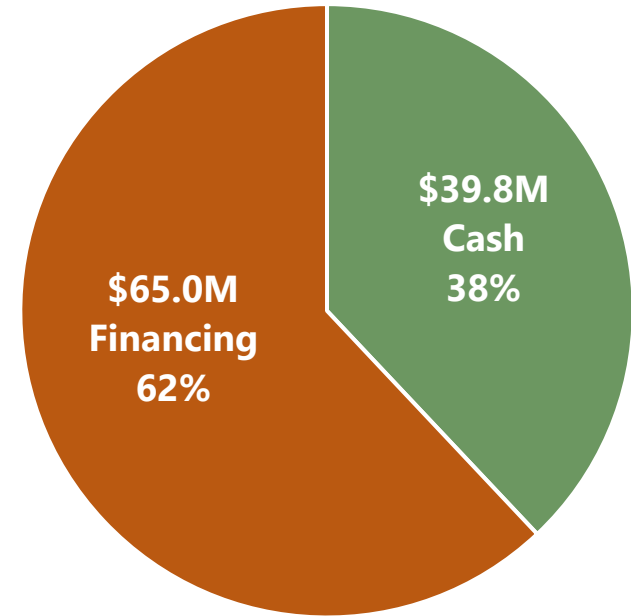
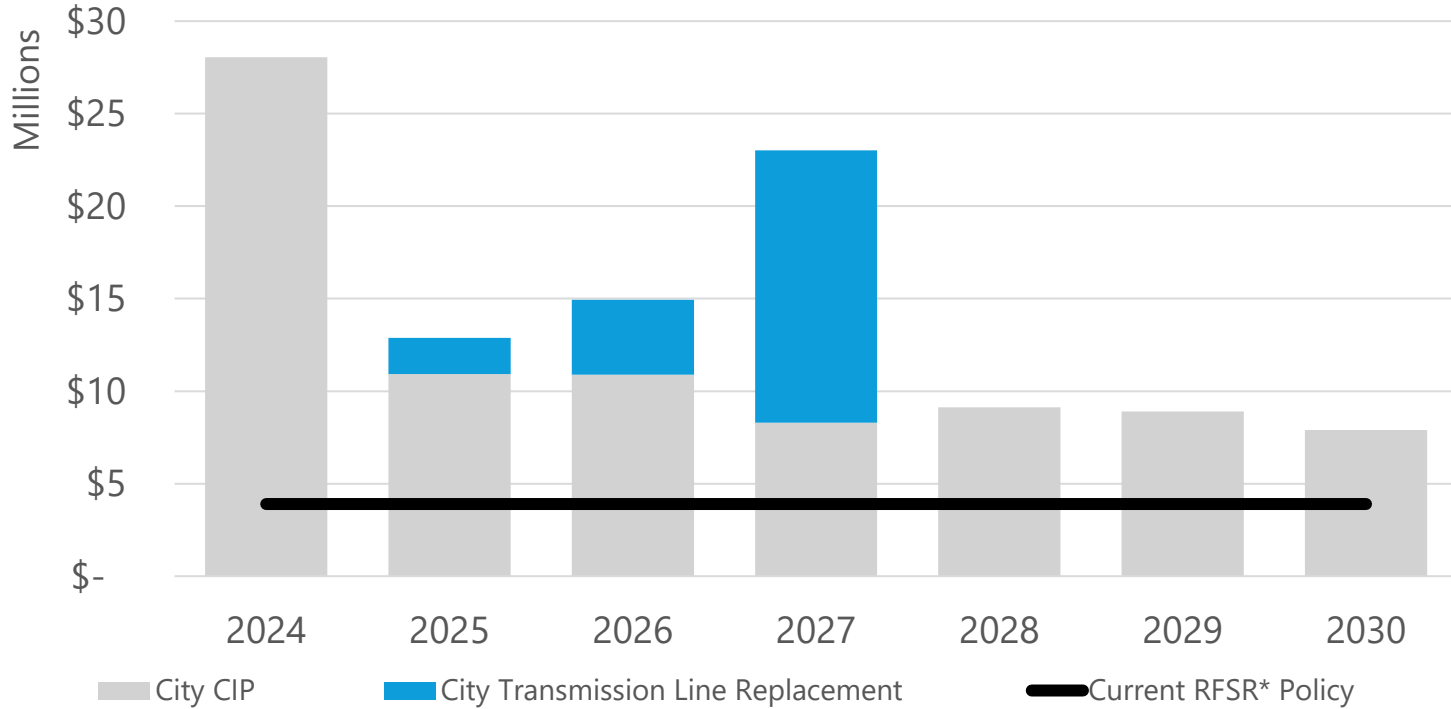
# Water: 2024-2030 Operational Forecast



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



# Water: 2024-2030 Capital Plan

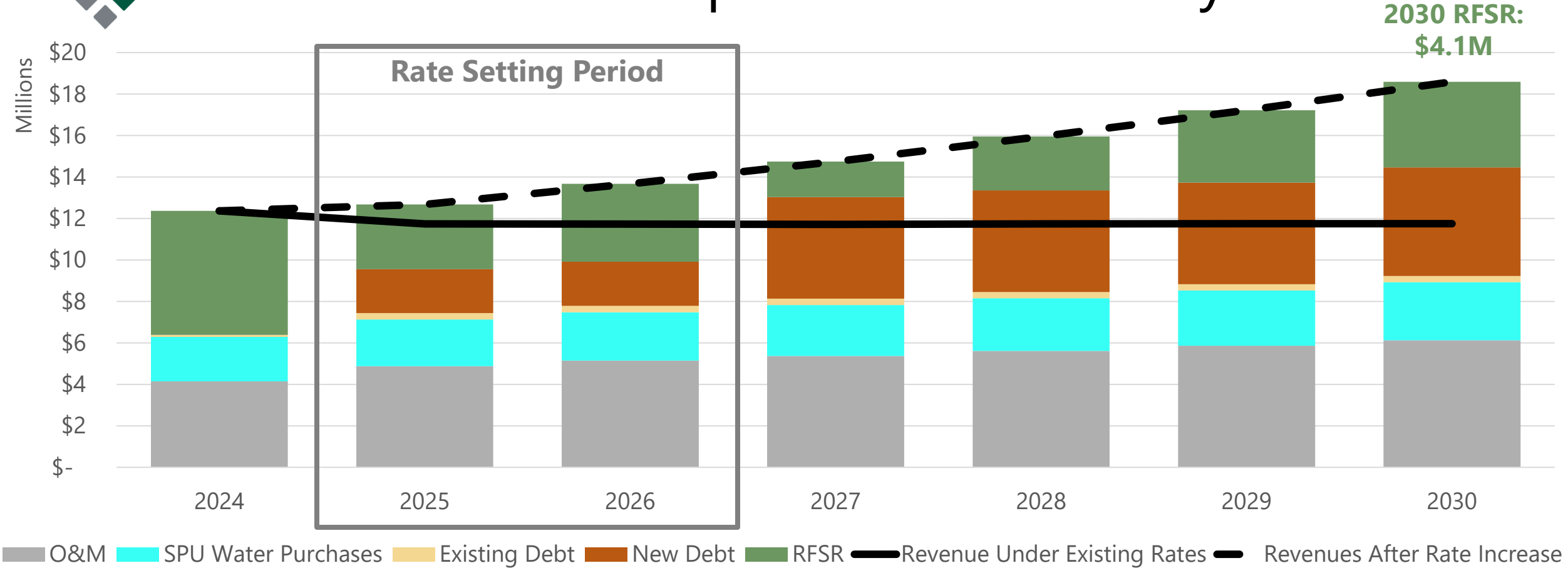


- **\$104.8M in capital spending**
  - » \$28.0M in 2024 budgeted
  - » \$20.7M City Transmission Line Replacement
  - » \$56.1M ongoing City capital needs 2025-2030

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



# Water: Revenue Requirement Summary



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



# Water: Sample Single Family Bill

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

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

\*Assumes ¾" meter and 14 ccf bimonthly usage

- Key drivers:

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





# Sewer Revenue Requirement

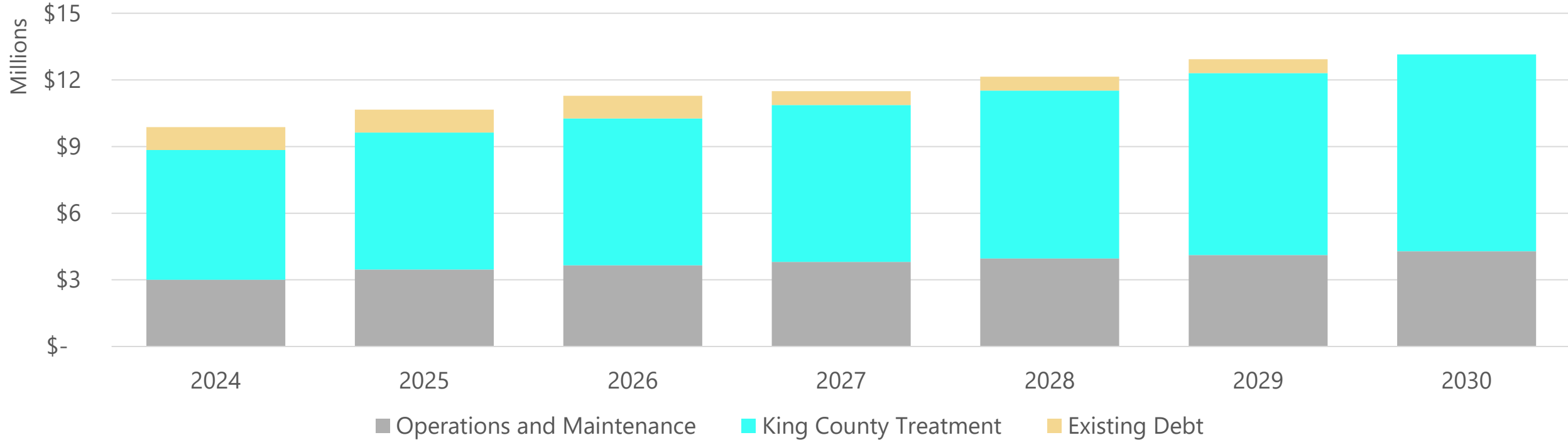


# Sewer Utility Background

- O&M
  - » King County Metro Treatment cost forecast updated
    - Treated as a passthrough for this analysis
  - » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
    - COLA of 6.0% in 2024, 4.2% in 2025
  
- Capital
  - » Previous study estimated \$30M (2022-2028)
    - \$11M debt financed
  
- Rate Plan
  - » 4.5% annual rate increases for the City portion of the bill



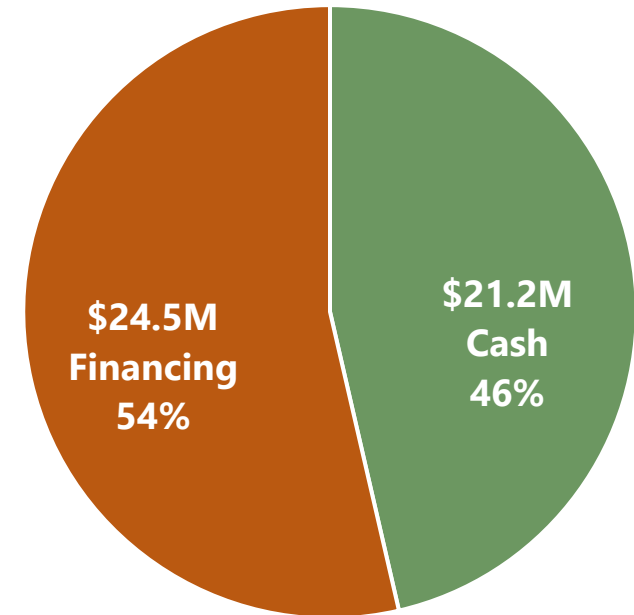
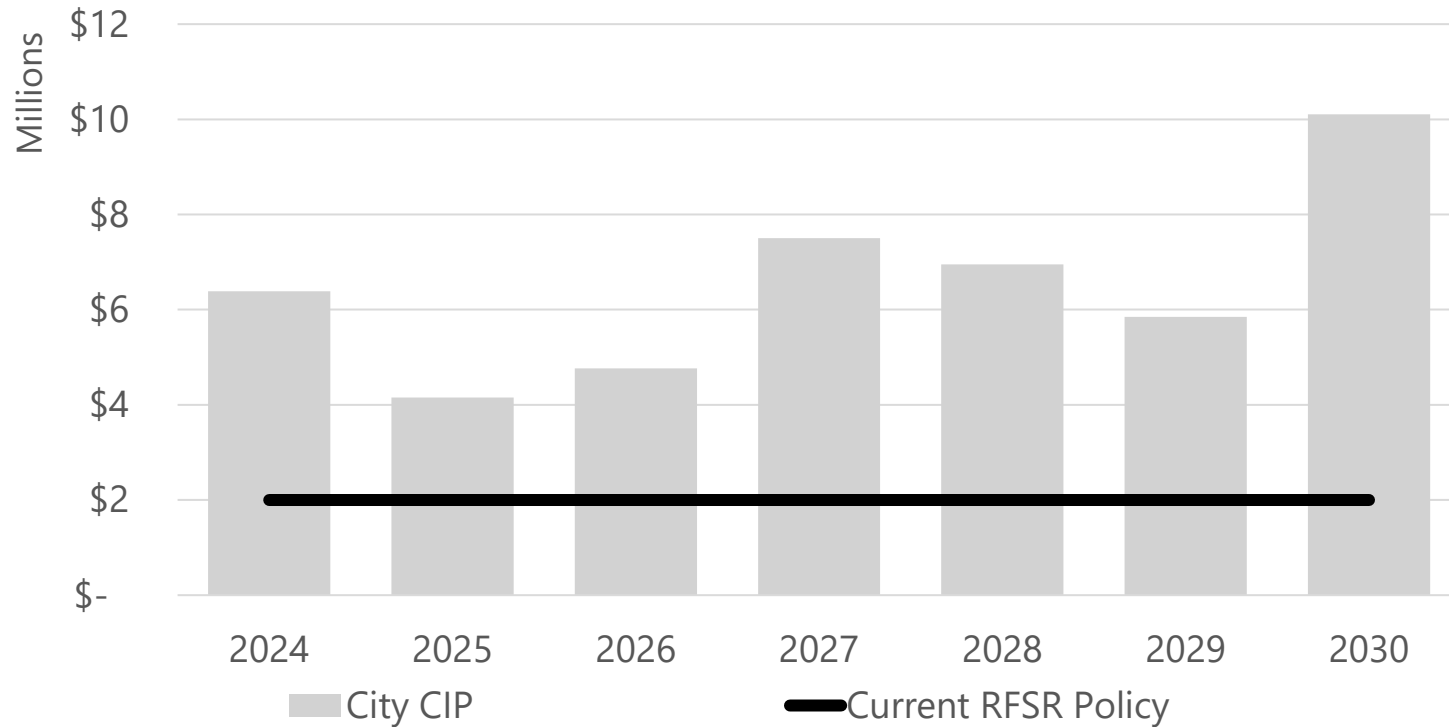
# Sewer: 2024-2030 Operational Forecast



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



# Sewer: 2024-2030 Capital Plan



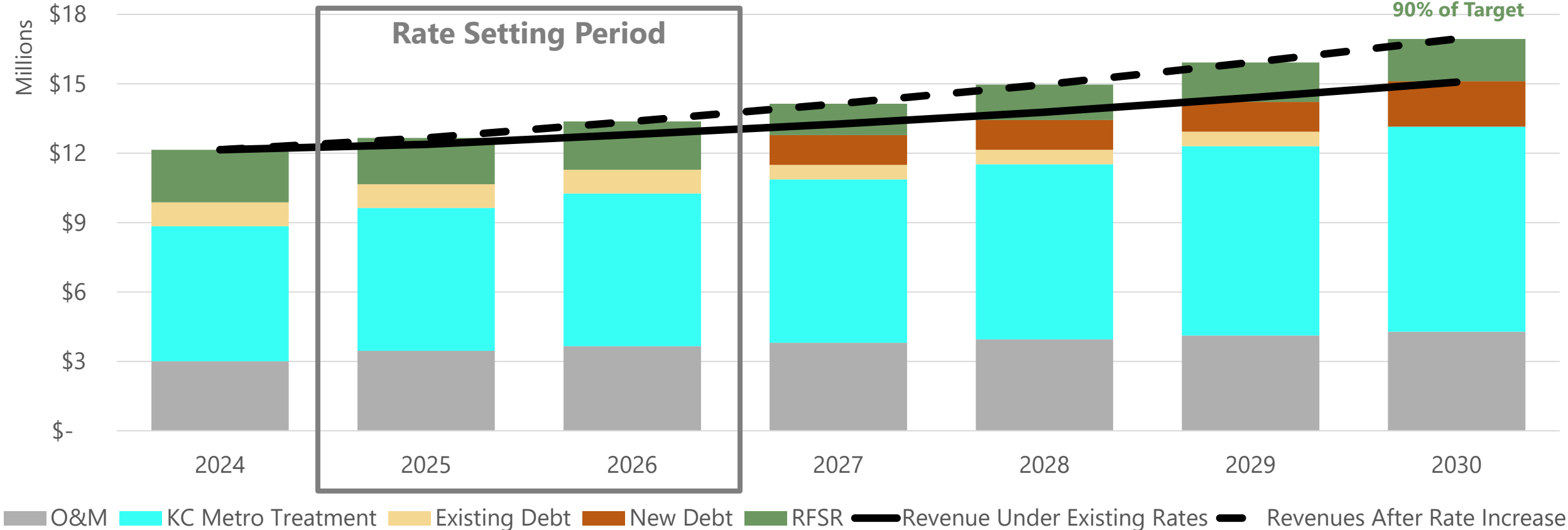
- \$45.7M in capital spending
  - » \$6.4M budgeted in 2024
  - » 2025-2026 CIP adjusted to fit debt issuances
  - » Lake Line projects forecasted in 2029-2030

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



# Sewer: Revenue Requirement Summary

Item 3.



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



# Sewer: Sample Single Family Bill

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

*Assumes 6ccf monthly winter water usage*

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



# Stormwater Revenue Requirement





# Stormwater Utility Background

- O&M

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

- Capital

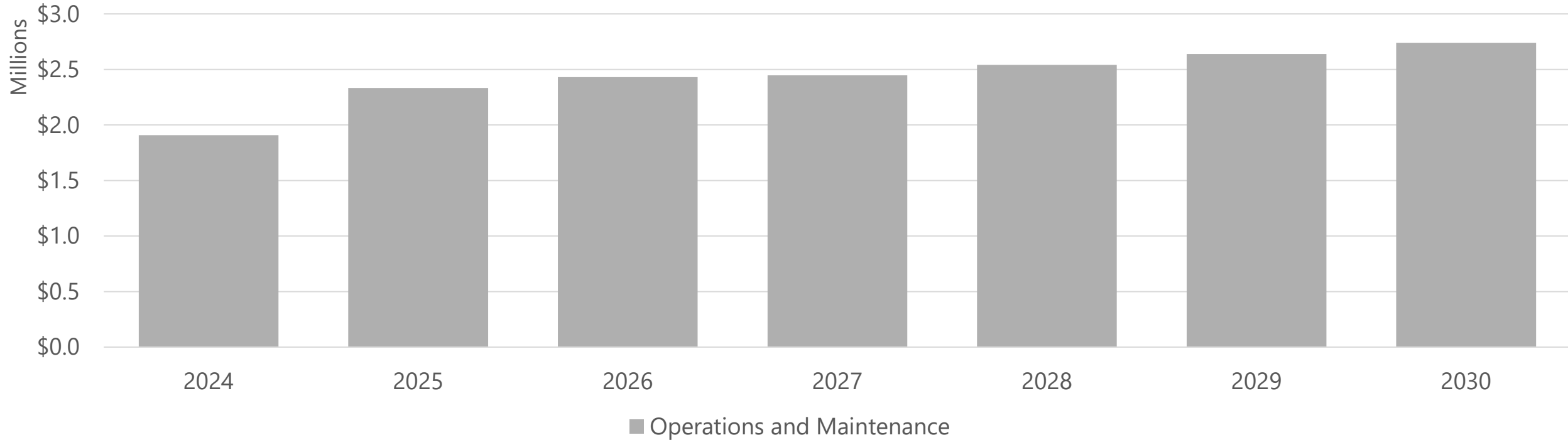
- » Previous study estimated \$12.1M (2022-2028)
  - \$2.5M debt financed

- Rate Plan

- » 8% annual rate increases



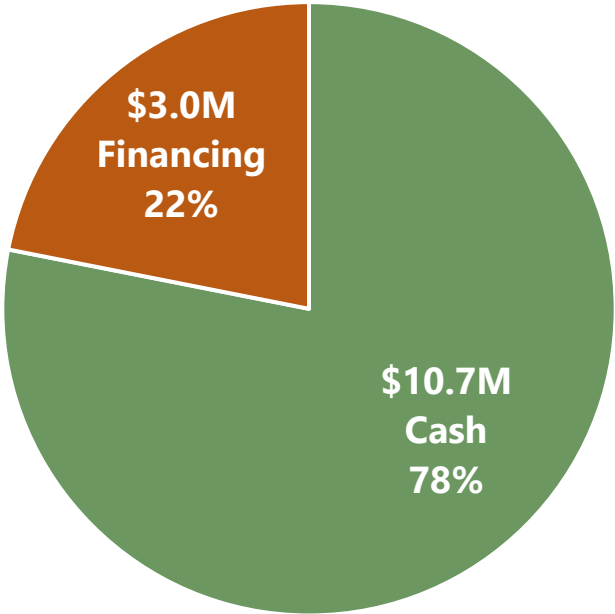
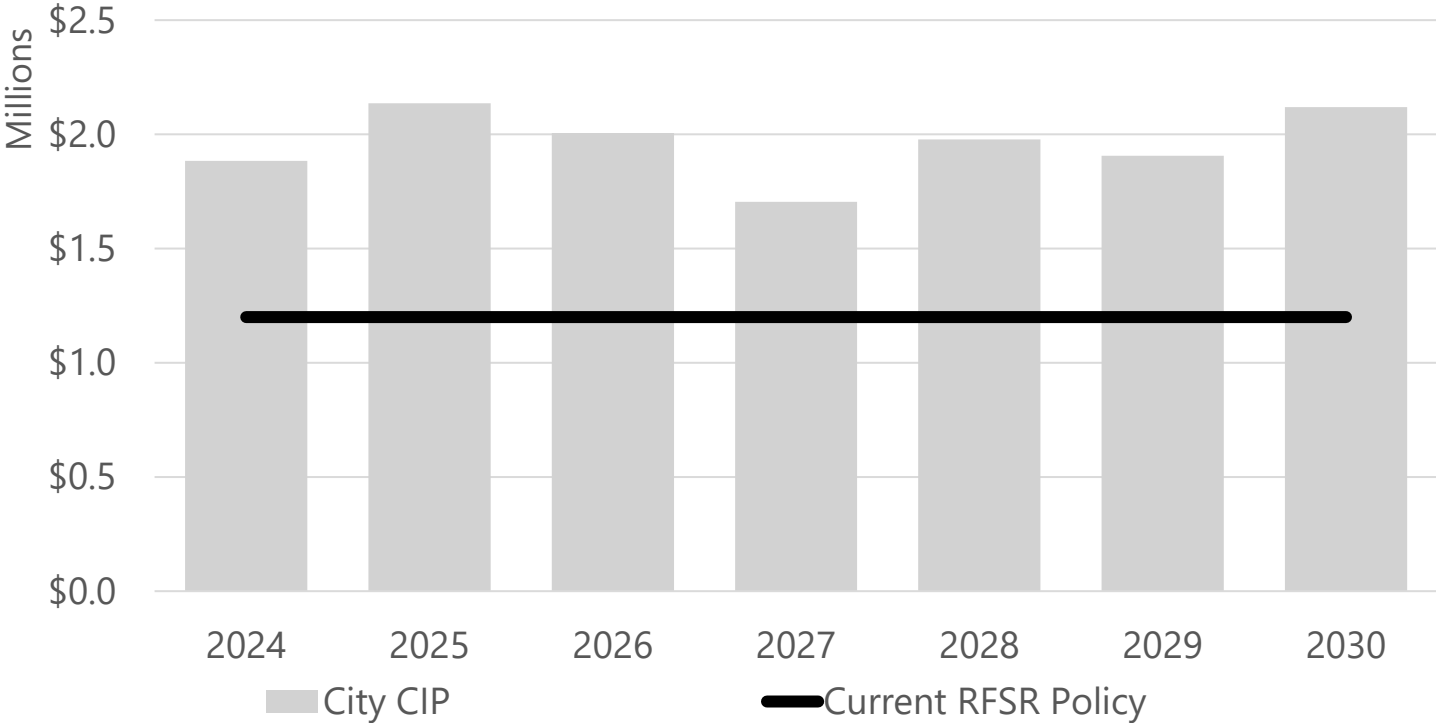
# Stormwater: 2024-2030 Operational Forecast



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



# Stormwater: 2024-2030 Capital Plan

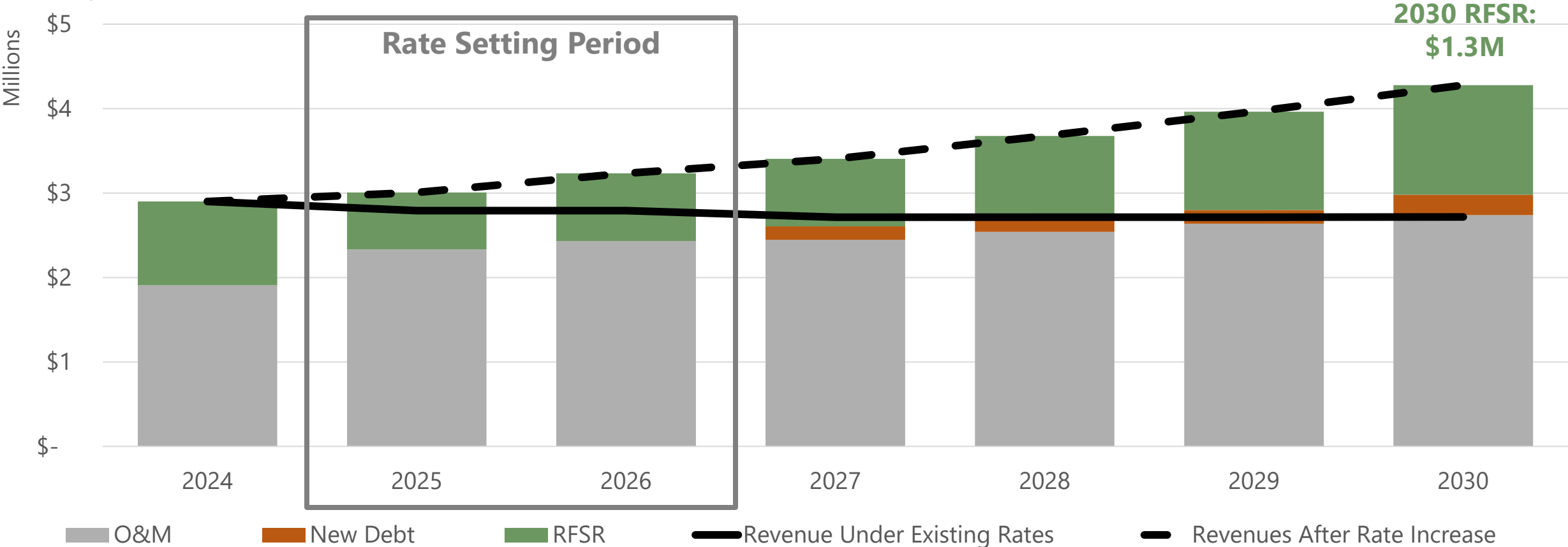


- \$13.7M in capital spending
  - » \$1.9M budgeted in 2024
  - » Annual ongoing improvements

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



# Stormwater: Revenue Requirement Summary



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



# Stormwater: Sample Single Family Bill

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

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

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



# Summary



# Water/Sewer/Stormwater Combined Bill Impact

Item 3.

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



# Next Steps

- Discussion Points
  - » September 10<sup>th</sup> – Receive Water, Sewer, Storm Water, & EMS rate recommendations and discussion
  - » October 8<sup>th</sup> – Rate discussion and recommendation continued (if needed)
  - » November – Reserved for additional discussion
  
- Recommendation to Council
  - » Set for Council review and adoption as part of the City's Master Fee Schedule on December 3<sup>rd</sup>, 2024



# Thank you! Questions?

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# Historical Rate Increases

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



# Bimonthly Sewer Rate

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



# Combined Bimonthly Bill

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



# UTILITY BOARD STAFF REPORT

Item 4  
September 10, 2024  
Regular Business

## AGENDA ITEM INFORMATION

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

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

## SUMMARY

### BACKGROUND

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

The operating and capital budgets presented in this memo will be released to the Public and City Council on September 24, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Sewer rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

### 2025-2026 OPERATING BUDGET

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

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

Table 1

Highlights from the Sewer Utility operating budget include:

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

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

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

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

#### **CAPITAL REINVESTMENT PROJECT SUMMARY**

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

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

Table 2

**SEWER RATE PROPOSAL**

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

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

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

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

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

Table 3

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

Table 4

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

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

Table 5



**CONCLUSION**

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

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

**RECOMMENDED ACTION**

Accept the proposed Sewer Utility rate for FY 2025.



# UTILITY BOARD STAFF REPORT

Item 5  
September 10, 2024  
Regular Business

## AGENDA ITEM INFORMATION

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

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

## SUMMARY

### BACKGROUND

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

The operating and capital budgets presented in this memo will be released to the Public and City Council on September 24, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Storm Water rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

### 2025-2026 OPERATING BUDGET

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

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

Table 1

Some highlights from the operating budget:

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

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

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

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

### **SUMMARY CAPITAL REINVESTMENT PROJECTS**

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

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

Table 2

**STORM WATER RATE PROPOSAL**

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

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

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

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

Table 3

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

Table 4

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

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

Table 5

**CONCLUSION**

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

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

**RECOMMENDED ACTION**

Accept the proposed Stormwater Utility rate for FY 2025.



**Utility Board  
2024 Draft Work Plan  
2nd Tuesday**

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

Updated 8/27/24