



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6461
May 7, 2024
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6461: Utility Rate Modeling Appropriation	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Appropriate \$40,800 from the Water, Sewer, and Storm Water fund balances to complete utility rate model updates with FCS Group, Inc.	

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	n/a
CITY COUNCIL PRIORITY:	3. Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.

AMOUNT OF EXPENDITURE	\$ 40,800
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ 40,800

EXECUTIVE SUMMARY

The purpose of this agenda bill is to provide the City Council with background information about the utility rate models and request a budget appropriation of \$40,800 to support updating the Water, Sewer, and Storm Water utility rate models with the City’s selected consultant FCS Group, Inc. Funds will come from existing balances from the utility funds.

BACKGROUND

Every biennial budget cycle staff work with the Utility Board to review and as needed, update the utility rates for water, sewer, and storm water services. This body of work is seasonal yet complex and requires outside support to develop rate models for all three of the City’s utility funds.

These rate models serve multiple purposes. They establish the rates utility customers pay to meet year-to-year operational needs. The rate models also incorporate the fund balance targets to ensure each utility has adequate resources to endure unexpected operational and capital needs. They provide the financial resources to support near and long-term reinvestment needs to ensure each utility system is fully operational via the City’s Capital Improvement Program (CIP).

Rates are influenced by many inputs ranging from budgetary needs, fiscal policy objectives, inflationary pressures, resource pricing set by regional utility providers, typical service life of infrastructure components, weather variability, and capital reinvestment requirements, among others. To account for the diversity of these inputs, City staff utilize extensive rate models to appropriately capture these inputs, work with the utility board, and set year-over-year utility rates. Ultimately, the rates determined in these rate models are vetted with the City's Utility Board before being presented to the City Council each fall for final budgetary approval.

Historically City staff have worked with an outside consultant to complete the necessary updates for each utility's rate model. Most recently City staff contracted with the local consulting firm FCS Group, Inc. in 2022 to complete the rate model update process. With FCS Group, Inc.'s help, staff and the Utility Board developed annual rate adjustments that prioritized smooth year-over-year rate changes so not to overburden current utility customers while also utilizing debt financing to spread the costs incurred in a relatively short period over the useful life of updated infrastructure.

ISSUE/DISCUSSION

From fiscal year 2020 and onward, the Finance department has typically budgeted for a professional service cost specific to the process of updating customer rates for the water, sewer, and storm water utility systems. Consistent review and update of the rate models safeguard the efficient and effective long-term maintenance and operation of each utility system.

Professional service resources needed to update rate models in anticipation of the 2025-2026 budget process were incidentally not included in the 2023-2024 biennial budget. Staff seek to contract with FCS Group, Inc. to build upon this body of work for the upcoming 2025-2026 biennial budget process given their familiarity with the City's utilities alongside their professional working relationship between staff and the Utility Board.

The total project cost of \$40,800 includes updates to all three utilities as well as assistance working with the City's Utility Board and as needed, the City Council. Staff is requesting an appropriation of \$40,800 from the Water, Sewer, and Stormwater Funds for the utility rate model update. Staff will negotiate a professional services agreement with FCS Group, Inc for this work.

NEXT STEPS

Upon approval of the appropriation for the Utility Rate Model Update project, staff will begin work with FCS Group, Inc. to complete the rate model updates. Project work is anticipated to be complete at end of summer in anticipation of the 2025-2026 biennial budget workshops.

RECOMMENDED ACTION

Appropriate \$18,360 from the Water Fund, \$18,360 from the Sewer Fund, and \$4,080 from the Storm Water Fund (total of \$40,800) for the Utility Rate Model Update.