



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

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Date: October 13, 2022

To: Utility Board

From: Ben Schumacher, Financial Analyst

Re: Utility Board Meeting – Storm Water Rate

The preliminary 2023-2024 operating and capital budgets were released to the Public and City Council on September 28, 2022. As part of the biennial budget development process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming two years, based on rate modeling work completed over the past three months. The Utility Board's recommended storm water rate adjustment will directly inform the final 2023-2024 biennial budget, scheduled for City Council adoption December 6, 2022.

2023-2024 Operating Budget

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

Description (\$ in thousands)	2021	2022	2023	2024	Percent Change	
	Actual	Forecast	Budget	Budget	20-21	21-22
Budgeted Operating Expenditures						
Salary & Benefits	\$760	\$776	\$977	\$1,042	25.8%	6.7%
Contractual Services	\$325	\$353	\$375	\$425	6.3%	13.3%
Other Services and Charges	\$318	\$384	\$340	\$347	-11.6%	2.0%
Total Operating Expenditures	\$1,403	\$1,513	\$1,691	\$1,814	11.8%	7.3%

Some highlights from the preliminary budget:

- The combined total for **salary and benefit** costs in 2023 are increasing 25.8% as compared to the 2022 budget. The increase is a result of the current pace of inflation which has led to atypically high cost-of-living adjustments (COLA), per the City's collective bargaining agreements as well as an increase in staffing. The COLA in 2023 is 6.0% and is estimated at 6.0% for the 2024 budget.
- The salaries budget includes two new positions: a **Capital Project Inspector** which will work across all three utilities and some general government projects and a 0.5 Full Time Equivalent (FTE) increase to the **Stormwater Quality Technician**. Existing staffing of the Stormwater utility includes three FTEs in Public Works dedicated to the operation and maintenance of the stormwater system, as well as administrative oversight, utility billing and customer service, utility inspections of private development, and GIS (geographic information system) support. The total dollar impact to the

Stormwater Utility for the two new positions is \$99,428 in 2023 and \$101,536 in 2024, which represents 25% of the full cost of the CIP Inspector and 100% of the cost of the Stormwater Quality Technician.

- **Contractual services** for 2023 reflects anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs.
- **Other Services and Charges** include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Stormwater Fund’s share of administrative support provided by the City Attorney’s Office, City Manager’s Office, Finance and Human Resources staff. An overhead cost allocation model is used to determine the Stormwater Utility’s proportionate share of these internal services.

Summary Capital Reinvestment Projects

Planned capital reinvestment work in 2023 and 2024 is shown in the table below. Capital investment costs are the primary driver of the proposed Stormwater rate increases for 2023-2028.

Storm Water Utility Capital Program 2023-2024 (\$ in thousands)				
Project ID	Description	2023	2024	
SW0109	Sub basin 24a.1 Watercourse Stabilization	\$18	\$62	
SW0110	Sub basin 39a.2 Watercourse Stabilization	17	44	
SW0111	Sub basin 46a.3 Watercourse Stabilization	52	406	
SW0112	Sub basin 34.1 Watercourse Stabilization		27	
SW0113	Sub basin 45b.4 Watercourse Stabilization		31	
SW0114	Sub basin 29.3 Watercourse Stabilization		49	
SW0127	Stormwater Trunkline Condition and Capacity Assessments	250	250	
SW0128	Basin 18C Drainage Improvement	185		
SW0129	Basin 25B Neighborhood Drainage Improvements	173		
SW0130	Basin 32B - SE 72nd St Drainage Capacity Improvement		189	
SW0132	Sub-Basin 22.1 Watercourse Stabilization - Final Design and Construction	149		
SW0133	Sub-Basin 25b.2 Watercourse Stabilization - Final Design and Construction	155		
SW0134	Emergency Stormwater Conveyance Repairs	50	50	
SW0135	Conveyance System Assessments (Basin Specific)	50	50	
SW0137	Street Related Storm Drainage Improvements	100	100	
Stormwater Utility CIP Total		\$1,200	\$1,257	

Storm Water Rate Proposal

The 2023 Storm Water rate proposal is based on the 2023-2024 operating budget, the 2023-2028 Capital Plan, and the corresponding debt financing needs. The rate model proposes a smoothed rate increase of 8.0% for 2023-2028. **Staff recommends an 8.0% increase to the storm water utility rates for 2023 as proposed in the 2023-2028 smoothed rate model.** Staff will return during the 2023-2024 mid-biennial budget process with new information as it becomes available to inform potential rate adjustments for fiscal year 2024.

Revenue Requirement	2022	2023	2024	2025	2026	2027	2028
Pre-Rate Revenues							
Revenues							
Rate Revenues Under Existing Rates	\$ 2,243,300	\$ 2,243,300	\$ 2,243,300	\$ 2,243,300	\$ 2,243,300	\$ 2,243,300	\$ 2,243,300
Non-Rate Revenues	51,439	51,453	51,477	51,183	51,186	51,252	51,258
Total Revenues	\$ 2,294,739	\$ 2,294,753	\$ 2,294,777	\$ 2,294,483	\$ 2,294,486	\$ 2,294,552	\$ 2,294,558
Expenses							
Cash Operating Expenses	\$ 1,479,724	\$ 1,791,401	\$ 1,915,282	\$ 1,917,617	\$ 2,021,476	\$ 2,026,905	\$ 2,133,951
Existing Debt Service	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	192,453	192,453
System Reinvestment Funding	600,000	675,000	750,000	825,000	900,000	900,000	1,200,000
Total Expenses	\$ 2,079,724	\$ 2,466,401	\$ 2,665,282	\$ 2,742,617	\$ 2,921,476	\$ 3,119,358	\$ 3,526,404
Net Surplus (Deficiency)	\$ 215,015	\$ (171,647)	\$ (370,505)	\$ (448,134)	\$ (626,990)	\$ (824,806)	\$ (1,231,846)
Annual Rate Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Cumulative Rate Increase		8.00%	16.64%	25.97%	36.05%	46.93%	58.69%
Post Rate Revenues							
Revenues After Rate Increases	\$ 2,243,300	\$ 2,422,764	\$ 2,616,585	\$ 2,825,912	\$ 3,051,985	\$ 3,296,144	\$ 3,559,835
Additional Taxes from Rate Increase	-	3,141	6,532	10,196	14,152	18,425	23,039
Net Cash Flow After Rate Increase	\$ 215,015	\$ 4,676	\$ (3,752)	\$ 124,282	\$ 167,543	\$ 209,613	\$ 61,650
Sample Residential Bill	\$ 39.81	\$42.99	\$46.43	\$50.15	\$54.16	\$58.49	\$63.17
Bi-Monthly Increase (\$)		\$3.18	\$3.44	\$3.71	\$4.01	\$4.33	\$4.68

Fund Balance	2022	2023	2024	2025	2026	2027	2028
Operating Reserve							
Beginning Balance	\$ 575,659	\$ 290,674	\$ 295,350	\$ 236,518	\$ 237,224	\$ 250,480	\$ 251,637
plus: Net Cash Flow after Rate Increase	215,015	4,676	(3,752)	124,282	167,543	209,613	61,650
less: Transfer of Surplus to Capital Fund	(500,000)	-	(55,080)	(123,576)	(154,287)	(208,456)	(47,926)
Ending Balance	\$ 290,674	\$ 295,350	\$ 236,518	\$ 237,224	\$ 250,480	\$ 251,637	\$ 265,361
<i>Actual Days of O&M</i>	<i>72 days</i>	<i>60 days</i>	<i>45 days</i>	<i>45 days</i>	<i>45 days</i>	<i>45 days</i>	<i>45 days</i>
Capital Reserve							
Beginning Balance	\$ 3,630,311	\$ 3,279,445	\$ 2,682,790	\$ 1,768,639	\$ 1,108,276	\$ 214,702	\$ 1,969,447
plus: System Reinvestment Funding	600,000	675,000	750,000	825,000	900,000	900,000	1,200,000
plus: Transfers from Operating Fund	500,000	-	55,080	123,576	154,287	208,456	47,926
plus: Capital Grants / Other Resources	-	50,000	-	50,000	-	50,000	-
plus: LTGO Proceeds	-	-	-	-	-	2,500,000	-
plus: Interest Earnings	9,076	16,397	13,414	8,843	5,541	1,074	9,847
Total Funding Sources	\$ 4,739,386	\$ 4,020,843	\$ 3,501,284	\$ 2,776,058	\$ 2,168,104	\$ 3,874,231	\$ 3,227,220
less: Capital Expenditures	(1,459,941)	(1,338,052)	(1,732,645)	(1,667,783)	(1,953,402)	(1,904,784)	(2,086,720)
Ending Capital Fund Balance	\$ 3,279,445	\$ 2,682,790	\$ 1,768,639	\$ 1,108,276	\$ 214,702	\$ 1,969,447	\$ 1,140,500
<i>Minimum Target Balance</i>	<i>\$ 128,611</i>	<i>\$ 141,992</i>	<i>\$ 159,318</i>	<i>\$ 175,996</i>	<i>\$ 195,530</i>	<i>\$ 214,578</i>	<i>\$ 235,445</i>
Combined Beginning Balance	\$ 4,205,970	\$ 3,570,119	\$ 2,978,140	\$ 2,005,157	\$ 1,345,499	\$ 465,182	\$ 2,221,084
Combined Ending Balance	\$ 3,570,119	\$ 2,978,140	\$ 2,005,157	\$ 1,345,499	\$ 465,182	\$ 2,221,084	\$ 1,405,862

A summary table comparing the proposed rates from the most recent rate model updates (2020-2022) as compared to the current rate recommendation is presented below.

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

Staff will be available at the Utility Board meeting to answer questions regarding the proposed operating and capital budgets, as well as the proposed 2023 sewer utility rate increases.

The 2023 Storm Water Utility rate resolution is on the City Council planning schedule for review and adoption on November 15, 2022.