

AB 6528

Water Utility Bond Issuance

Sept 3, 2024



Agenda

1. Water Utility Financing & LTGO Bond Issuance.
2. Major Water System Improvements.
3. Next Steps.
4. Staff's Recommendation.
5. Questions.

Water Distribution System

Background on Mercer Island's Water

- ❑ **Source:** Water originates from the Cedar River & Tolt River Watershed.
- ❑ **Transmission:** Seattle Public Utilities treats and delivers water through a network of pipelines that traverse Lake Washington.
- ❑ **Storage:** Two 4-million gallon reservoir tanks store water for domestic use and fire protection.
- ❑ **Distribution:** Water distributed through a network of smaller pipelines to approximately 7,900 individual water meters.

Water Distribution System

- ❑ Most of the Island's water system was constructed in the 1950's-1960's with an expected useful life of 50-75 years (depending on material type).
- ❑ Began period of significant reinvestment in the water system during the 2021-2022 biennium.

Financing the Water Utility

- ❑ Historical 'pay-as-you-go' funding approach using water rates.
- ❑ Staff and Utility Board strategized how to implement and pay for major water infrastructure initiatives.
 - ❑ Prioritize improvements based on a combination of considerations.
 - ❑ Stagger major system improvements over time.
- ❑ Minimize impacts to utility customers and the Water Fund.

Key Financing Considerations

1. Balance water infrastructure & operational needs with similar year-over-year rate adjustments.
 - ❑ Projects that cost at least \$2.5 million with a useful life of 20+ years are good candidates for debt funding.
2. Pursue generational equity for long-lived improvements.
3. Spend bond proceeds within 3 years of receipt.

Underlying Financing Strategy

- ❑ Selected capital projects well-suited for outside funding.
- ❑ Adapted to post-COVID supply chain realities.
- ❑ Tracked actual project schedules against cash flow needs.
- ❑ Postponed debt issuance until projects were shovel ready.
- ❑ City issued declaration of intent to reimburse itself.

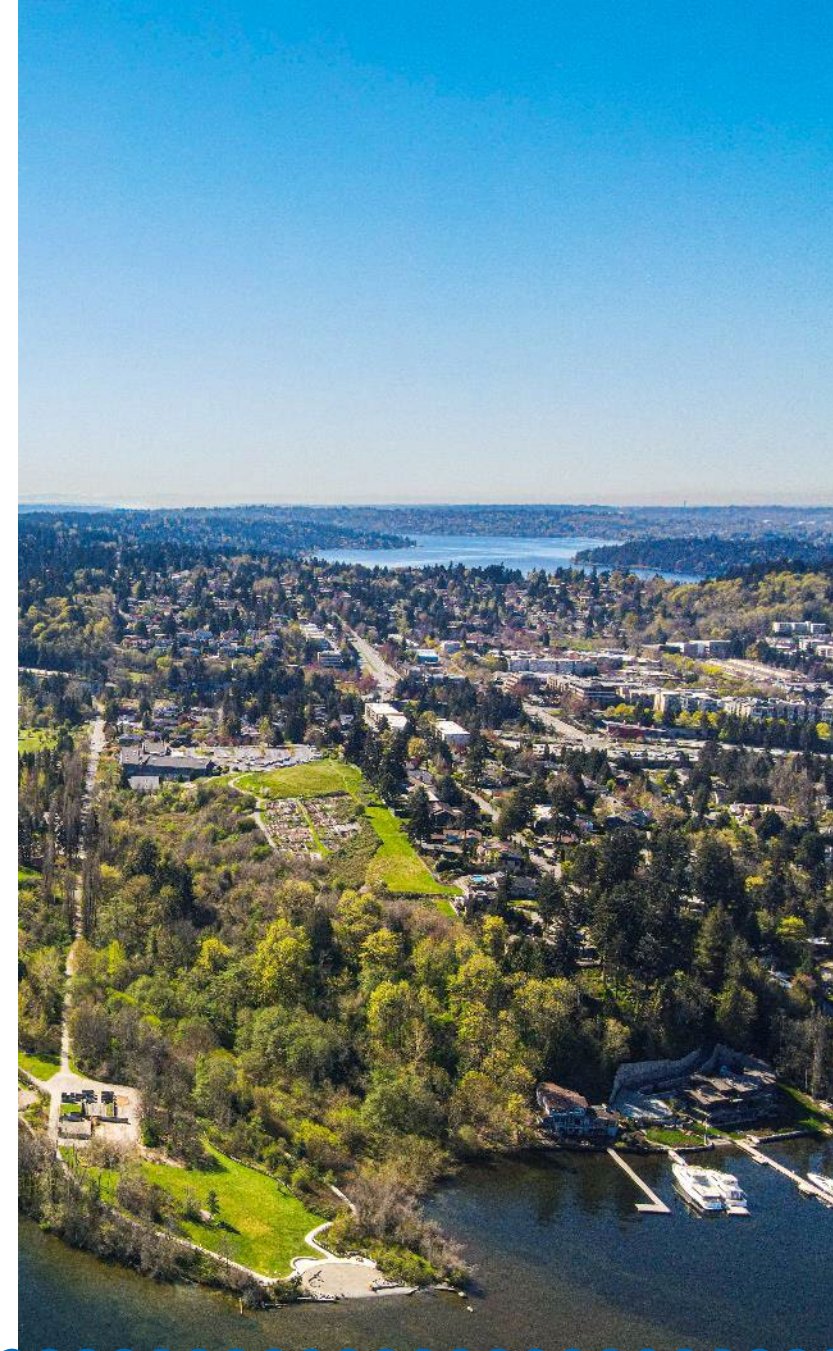
Debt Issuance

Assumptions

- ❑ Issuance Date: October 30, 2024.
- ❑ Aaa Moody's bond rating.
- ❑ Interest rates as of 8/21/24.
- ❑ 2011 LTGO refunding opportunity, First Hill Water Improvements.
 - ❑ \$655,000 remaining.
 - ❑ Only refunded if result in savings.

Limited Tax General Obligation Bonds, 2024	
Not-to-exceed Amount	\$29,000,000
Project Amount	\$28,000,000
Term (20 years)	Dec 1, 2025 – 2045
Avg. Annual Debt Service	\$2,005,734
Total Debt Service	\$40,287,389
True Interest Cost (TIC)	3.68%

Upcoming Water Utility Improvements



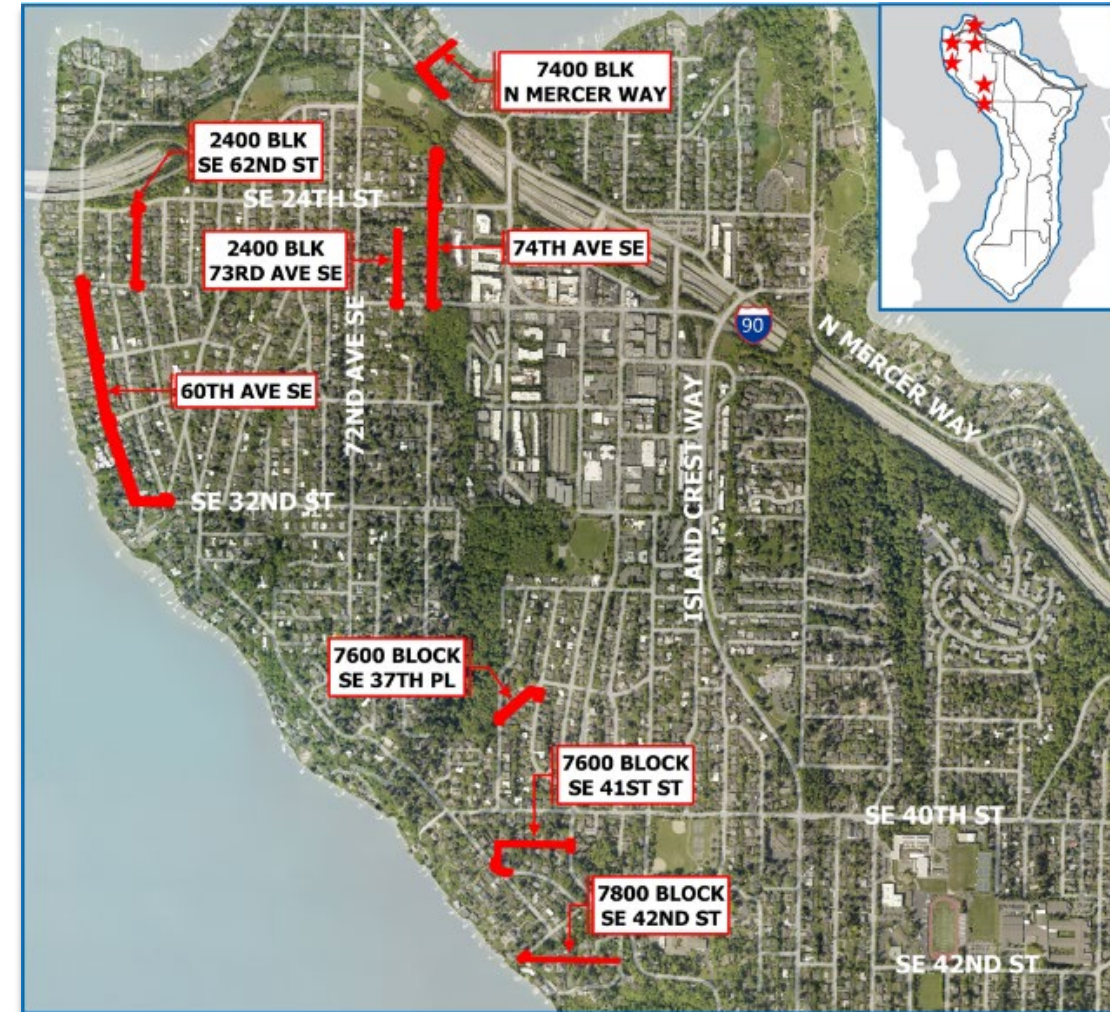
Water Reservoir Improvements

- ❑ Structural improvements & recoating (inside/outside) of both tanks.
- ❑ Staggered work – one tank at a time.
- ❑ Work began in Q3 2023.
 - ❑ Completion on track for Q2 2025.
- ❑ Total est. useful life: **20 years (recoating)**.
- ❑ Total est. project cost: **\$7.1 million**



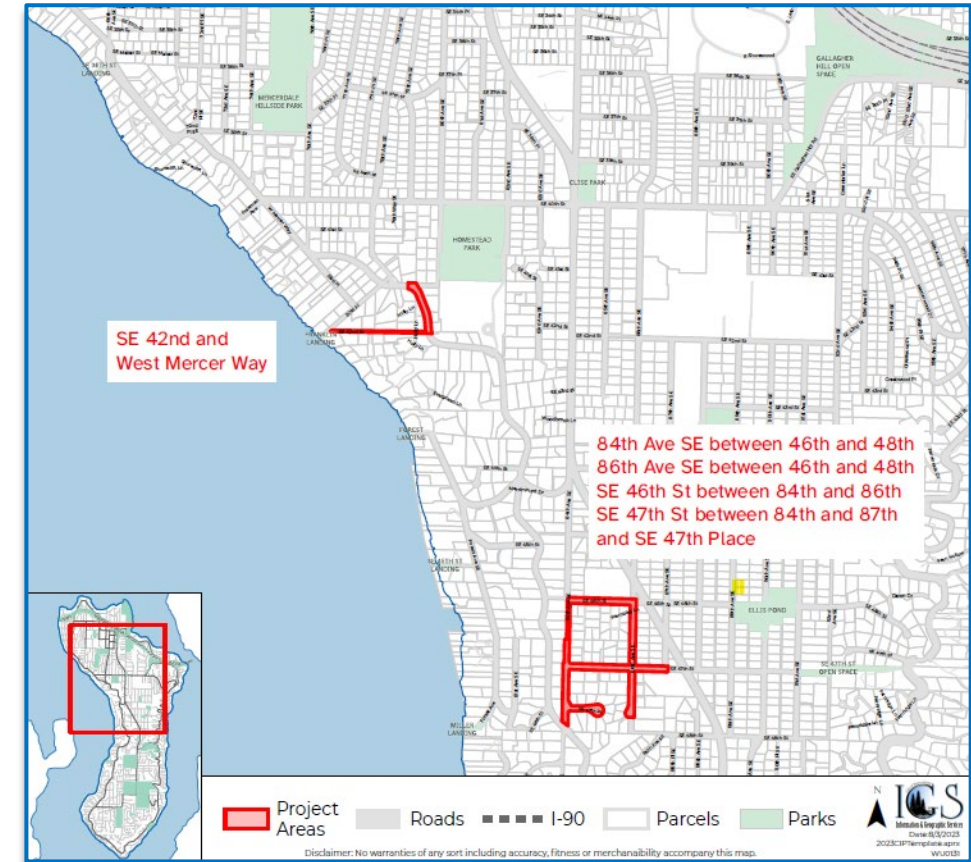
2023 Water System Improvements

- ❑ Install 6,600 linear feet of new ductile iron water main on the northwest portion of the Island.
- ❑ Construction began in September 2023.
- ❑ Total est. useful life: **75-100 years.**
- ❑ Total est. project costs: **\$4.7 million.**



2024 Water System Improvements

- ❑ Replace 3,500 linear feet of old cast iron water mains with 8-inch ductile iron mains in prioritized locations.
- ❑ Design completed in 2024.
 - ❑ Construction scheduled 2025 (Q2).
- ❑ Total est. useful life: **75-100 years.**
- ❑ Total est. project costs: **\$4.8 million.**



AC Water Main Replacements

- ❑ New ongoing program to systematically replace approximately antiquated asbestos cement (AC) water mains with ductile iron mains.
- ❑ Reduces potential of catastrophic failure.
- ❑ Total est. useful life: **75-100 years.**
- ❑ Est. costs between 2025-2027: **\$9.4 million.**



Advanced Water Meters

- ❑ Replace ~ 7,900 old water meters with new advanced metering infrastructure.
- ❑ Meter replacements began Mar 2024.
Completed Aug 2024.
 - ❑ User Portal on the way!
- ❑ Total est. useful life: **20 years.**
- ❑ Total project costs: **\$7.3 million.**



Pressure Reducing Valves

- ❑ Ongoing program to systematically replace PRV stations.
 - ❑ Prioritizing 20 critical PRV's.
 - ❑ Including replacements with other CIP when applicable.
- ❑ Total est. useful life: **75 years.**
- ❑ Total project costs: **\$9.1 million.**



Water Projects Summary

- ❑ In sum, these major investments are critical for the continued effective operation of the water system.
- ❑ Total costs in the near-term amount to over \$42 million.
- ❑ Would put an undue burden on current water utility customers without outside funding support.

Bond Ordinance

- ❑ Authorizes general parameters of the bonds and delegates authority to City Manager and Finance Director.
 - ❑ Maximum amount not-to-exceed \$29,000,000.
 - ❑ Final maturity date no later than December 1, 2045.
 - ❑ True interest cost does not exceed 5%.
- ❑ Anticipate competitive public sale of bonds with specific terms advertised, resulting in most advantageous price.

Next Steps

Date	Event
09/03	First reading of Bond Ordinance with City Council
09/17	Second reading/approval of Bond Ordinance with City Council
09/30	Rating presentation with Moody's
10/15	Review Market Conditions
10/16	Receive competitive bond bids/award bid
10/30	Bond closing and delivery of bond proceeds

Staff Recommendation

Schedule Ordinance No. 24-09 for second reading and adoption at the September 17, 2024 City Council Meeting.

Questions

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