



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6963
September 1, 2026
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6963: Water Supply Pipeline Project – Mini-MACC 2 and Near-Term Funding Authorization	☐ Discussion Only ☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Authorize the City Manager to execute Mini-MACC 2 with Scarsella Brothers, Inc., a Washington-based Corporation, in an amount not to exceed \$10,535,100, for construction of the new 24-inch water supply pipeline and associated water-system improvements; appropriate \$6,142,200 from the Water Fund available fund balance to the Water Supply Pipeline Project (90.40.0032); and authorize the City Manager to execute any related documents necessary to complete this work.	

DEPARTMENT:	Public Works
STAFF:	Jason Kintner, Chief of Operations Clint Morris, Interim Public Works Director Kellye Hilde, Public Works Deputy Director Allen Hunter, Senior Utilities Program Manager Ian Powell, Street Engineer
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Overview of SPU Supply Map 2. Project Location Map 3. SPU Letter of Intent to Transfer Mercer Island Pipeline Segment 4. Postcard to Residents 5. Declaration of Intent to Seek Reimbursement
CITY COUNCIL PRIORITY:	3. Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.

AMOUNT OF EXPENDITURE	\$ 10,535,100
REMAINING AUTHORIZED BUDGET	\$4,393,100
APPROPRIATION REQUIRED	\$6,142,000

EXECUTIVE SUMMARY

The purpose of this agenda item is to update the City Council on the Water Supply Pipeline Project (90.40.0032), authorize Mini-Maximum Allowable Construction Cost (Mini-MACC) 2 for construction of the new 24-inch water supply pipeline and related water system improvements, and authorize near-term funding required to proceed with this phase of work.

- In April 2024, a leak was discovered on the Seattle Public Utilities (SPU) 24-inch diameter water supply pipeline on Mercer Island. The leak severely limited the Island's water supply until repairs to SPU's pipeline were completed in August 2024.
- In response to the water supply emergency, the City initiated an evaluation of alternatives to replace the aging SPU pipeline, built in 1956, with a more resilient, earthquake-resistant water supply pipeline in a new alignment.
- In October 2024, the City Council authorized staff to include design and construction of a new water supply pipeline in the 2025-2030 Capital Improvement Plan ([AB 6530](#)).
- In May 2025, the City Council approved Scarsella Brothers, Inc. ("Scarsella"), as the Heavy Civil General Contractor/Construction Manager (GC/CM) for the project ([AB 6690](#)). The GC/CM method of project delivery is described in detail in the background section of this agenda bill.
- The overall project includes installing more than 5,000 linear feet of new, City-owned 24-inch earthquake-resistant ductile iron water supply pipeline in a new alignment, replacing an aging asbestos cement water main on Gallagher Hill Road, and completing associated roadway and pedestrian improvements along SE 36th Street, Gallagher Hill Road, and a portion of SE 40th Street.
- On October 21, 2025, staff provided a project update summarizing preliminary design work and next steps ([AB 6795](#)).
- On January 20, 2026, the City Council approved a second professional services contract with RH2 Engineering, Inc. to develop Phase 2 design and permitting documents for the project ([AB 6837](#)).
- The GC/CM process allows the City to authorize defined construction packages before the overall construction cost is finalized through limited Maximum Allowable Construction Cost amendments, referred to as Mini-MACCs. Each Mini-MACC establishes a maximum not-to-exceed cost and authorizes Scarsella to proceed with the specified work.
- On April 21, 2026, the City Council authorized construction of the 10-inch water main by Kar-Vel Construction as a subcontractor to Scarsella ([AB 6904](#)). Following Council authorization, the work was incorporated into the GC/CM contract as Mini-MACC 1.
- The current total project budget is estimated at \$22,440,200, including construction, design and engineering, permitting, construction management and inspection, materials testing, public outreach, utility coordination, and other project-support costs.
- This Agenda Bill requests a \$10,535,100 budget authorization for Mini-MACC 2, the second limited construction package. The Mini-MACC 2 consists of the new 24-inch water supply pipeline and associated water-system improvements, but does not authorize the remaining roadway resurfacing, pedestrian improvements, or other restoration work. This remaining scope of work will be addressed in a final authorization presented to the City Council in Q1 2027.
- At 2025 year-end, the Water Fund had \$8,312,800 available fund balance. This resource remains available to water utility related capital improvements. Staff recommends the City Council appropriate \$6,142,000 of this available fund balance to the Water Supply Pipeline Project (90.40.0032) Mini-MACC 2. Additional information on the remaining debt issuance is described in the Next Steps Section.
- Construction of the 10-inch water main is anticipated to begin in September 2026. Construction of the 24-inch water supply pipeline is anticipated to begin in late October 2026. Substantial completion of the entire project is anticipated by the end of 2027.

BACKGROUND

EXISTING WATER SUPPLY PIPELINE

Seattle Public Utilities (SPU) is the sole provider of potable water to Mercer Island (Exhibit 1). The SPU 24-inch water supply pipeline was constructed in 1956. A portion of the pipeline is located in the SE 40th Street public right-of-way and has required several leak repairs over the decades. In April 2023 ([AB 6281](#)) and April 2024, the City was notified of major system failures on the SPU water supply pipeline. Although circumstances for each event were different, both events resulted in major water emergencies impacting the Mercer Island community.

The City and Shorewood Apartments are the two wholesale customers served by SPU's water supply pipeline. The City is responsible for 97.2% of the total costs associated with operating and replacing this water supply pipeline; the balance is the responsibility of Shorewood Apartments, as a direct customer of SPU. Given the City's responsibility for most of the pipeline's replacement costs and the importance of maintaining a reliable water supply, the City began evaluating alternatives to replace the aging SPU pipeline with a more resilient, earthquake-resistant pipeline in a new alignment.

APRIL 2024 EVENT

On April 3, 2024, the City learned that the SPU 24-inch water supply pipeline to Mercer Island was leaking in the steep sloped area in the SE 40th Street public right-of-way, just north of where Mercerwood Drive meets SE 40th Street. Consequently, SPU crews significantly reduced and then shut off flow to the pipeline, eliminating its use as the primary water supply pipeline. Mercer Island received water through a smaller backup pipeline beginning on April 4, 2024, and implemented emergency conservation actions due to the constrained water supply.

SPU and its contractors, in coordination and collaboration with the City, completed repairs and testing and restored flow through the SPU water supply pipeline on August 1, 2024. The repaired section was slip-lined with approximately 1,300 feet of structural liner, reducing its internal diameter from 24-inches to 17.4-inches.

In October 2024, the City Council authorized staff to include design and construction of a new water supply pipeline in the 2025-2030 Capital Improvement Plan ([AB 6530](#)). Although the primary driver for construction includes the installation of a new water supply pipeline, the project scope also includes replacement of an existing asbestos-cement water main (previously scheduled for 2025) and roadway and pedestrian improvements which were already included within the City's Six-Year Transportation Improvement Program (TIP).

ALTERNATIVE PROJECT DELIVERY METHOD

The City is delivering the Water Supply Pipeline Project using the Heavy Civil General Contractor/Construction Manager (GC/CM) alternative public works contracting method. Unlike traditional project delivery, in which the contractor is selected after design is complete, GC/CM allows the contractor to join the project team during design. The Washington State Project Review Committee approved the City's use of this delivery method in December 2024, and the City Council approved Scarsella Brothers, Inc. ("Scarsella") as the project's GC/CM in May 2025 ([AB 6690](#)).

During preconstruction, Scarsella worked collaboratively with the City and its design consultant to evaluate constructability, develop cost estimates and construction sequencing, identify value-engineering

opportunities, prepare the project schedule, and develop subcontractor work packages. This early involvement helped the City identify potential construction issues, refine project costs, and plan the work before construction begins.

The GC/CM process allows the City to authorize defined construction packages through limited Maximum Allowable Construction Cost amendments, referred to as Mini-MACCs, before the overall construction cost is finalized. Each Mini-MACC establishes a maximum not-to-exceed cost and authorizes a specific scope of work to be performed. This allows critical phases of construction to proceed while design, procurement, cost negotiations, and funding for the remaining work continues.

The final contractual step under this form of project delivery is the Guaranteed Maximum Price Amendment. The amendment incorporates the work previously authorized through the Mini-MACCs into the overall Maximum Allowable Construction Cost, establishes the Total Contract Cost, and authorizes the remaining construction work. As illustrated in Figure 1, the Total Contract Cost consists of the overall Maximum Allowable Construction Cost, specified general conditions, and the GC/CM percent fee. The Maximum Allowable Construction Cost includes the construction work, project-specific support costs, risk contingency, allowances, and other approved construction costs.

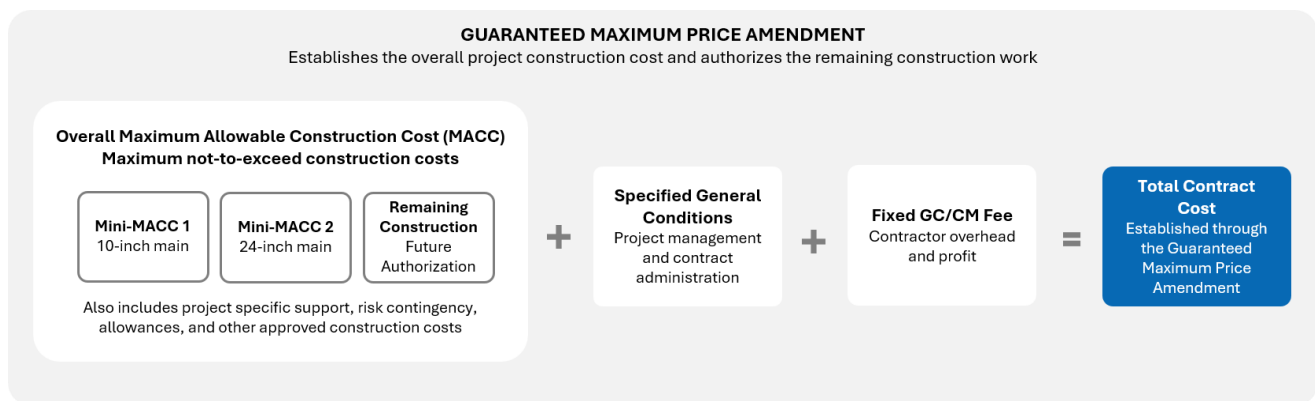


Figure 1. Water Supply Pipeline Project GC/CM Contract Cost Structure

For the Water Supply Pipeline Project, construction is being authorized in the following stages:

- **Mini-MACC 1:** Construction of the 10-inch water main by Kar-Vel Construction as a subcontractor to Scarsella. Kar-Vel submitted the lowest responsive bid and was approved by the City Council on April 21, 2026 ([AB 6904](#)). Following Council authorization, the approved work was incorporated into the GC/CM contract as Mini-MACC 1.
- **Mini-MACC 2:** Construction of the new 24-inch water supply pipeline, connections to the SPU system, new water connections and master meters serving Shorewood Apartments, and other improvements necessary to test and place the new pipeline into service. Scarsella will perform this work as negotiated self-performed work. Authorization of Mini-MACC 2 is the subject of this Agenda Bill.
- **Guaranteed Maximum Price Amendment:** Authorization of the remaining construction packages, including concrete work, asphalt paving, pavement markings, and illumination. Staff will return to the City Council in Q1 2027 for authorization of the Guaranteed Maximum Price Amendment.

Under the Heavy Civil GC/CM requirements, Scarsella may perform up to 50 percent of the project's construction value at prices negotiated with the City and may compete for up to an additional 20 percent. At least 30 percent of the construction value must be performed by subcontractors.

PROJECT DESIGN AND CONSTRUCTION PHASING

The City retained RH2 Engineering as the design consultant for the project in January 2025. Staff provided a project update to the City Council on October 21, 2025, when design was approaching the 60 percent stage ([AB 6795](#)). On January 20, 2026, the City Council approved a second professional services contract with RH2 Engineering to complete Phase 2 design and permitting for the project ([AB 6837](#)).

Since the October 2025 update, the project team has advanced the design, evaluated constructability, refined construction sequencing, performed value engineering, and completed the design and cost negotiations necessary to establish Mini-MACC 2. Design, subcontractor procurement, and cost development for the remaining construction work will continue in preparation for the Guaranteed Maximum Price Amendment. The overall Maximum Allowable Construction Cost and Total Contract Cost have not yet been finalized and will be presented to the City Council as part of the future Guaranteed Maximum Price Amendment.

Construction is sequenced so that the underground water system improvements are completed before the roadway resurfacing, pedestrian improvements, drainage, illumination, and other final restoration work. The underground water system improvements are scheduled to begin in September 2026 and are anticipated to take approximately eight to ten months to complete. Roadway and associated surface improvements will follow, beginning in spring 2027, and are anticipated to take approximately eight months. Substantial completion of the entire project is expected by the end of 2027.

ASBESTOS CEMENT (AC) WATER MAIN REPLACEMENT

Replacement of an existing AC water main within Gallagher Hill Road is included in this project (Exhibit 2). In recent years, the City has prioritized removal of AC pipe from the water system, with a goal of having all AC water mains replaced by 2030. AC pipe was widely used from the 1940's through early 1980's; however, as this material reaches its later stages of useful life, it becomes increasingly prone to failure. There are approximately four miles of AC pipe remaining in the City's water distribution system. This project will replace 1,500 feet of existing AC pipe with a new 10-inch ductile iron water main, along with a Pressure Reducing Valve at the bottom of SE Gallagher Hill Road.

Because the existing AC water main conflicts with a substantial portion of the new 24-inch supply pipeline alignment, the 10-inch water main must be installed first. Once the new 10-inch main is completed and the AC main is removed from service, construction of the 24-inch supply pipeline will begin.

The 10-inch water main construction package was separated from the larger supply pipeline and roadway improvements so it could be competitively bid. This work package was authorized by Council on April, 21 2026, ([AB 6904](#)) and has been incorporated into the GC/CM contract as Mini-MACC 1.

NEW WATER SUPPLY PIPELINE

The project includes constructing an earthquake-resistant 24-inch diameter water supply pipeline along a new alignment (Exhibit 2). The new pipeline will replace a significant segment of the existing SPU 24-inch diameter concrete cylinder water pipeline, which is not seismically resilient.

The planned alignment begins at the SPU water supply pipeline near the Mercer Island Boat Launch area, then continues north on East Mercer Way, west on SE 36th Street, southwest along SE Gallagher Hill Road to SE 40th Street, and east on SE 40th to 92nd Avenue SE (see Exhibit 1).

The SPU owned master water meter, which measures the total volume of water delivered to the City, will be relocated near the Boat Launch roadway vicinity. In addition, a short section of 12-inch pipe near an existing SPU meter behind the reservoir at 89th Avenue and SE 43rd Street will be upsized to 24 inches to improve overall flow, and the existing meter will be removed.

This work package has been negotiated as Scarsella's self-performed work under Mini-MACC 2.

ROADWAY IMPROVEMENTS

Roadway improvements will be constructed following the installation, testing, and startup of the water system improvements. The scope of these improvements includes:

- **SE 36th Street - Gallagher Hill Road to East Mercer Way (90.40.0032):** Restore roadway and sidewalks removed for pipeline construction; upgrade sidewalk ramps to meet current ADA standards; grind and repave the roadway with a full-width hot-mix asphalt (HMA) overlay; raise utilities to grade; and install new pavement markings.
- **Gallagher Hill Road Sidewalk Improvements- SE 36th Street to SE 40th Street (90.20.0009):** Construct new curb and sidewalk along the east side of the roadway (downhill lane); provide a paved shoulder suitable for bicycle use on the west side (uphill lane); install a full-width HMA overlay; raise utilities to grade; install new pavement markings; and install street lighting to accompany the new sidewalk.
- **SE 40th Street Sidewalk Improvements- Gallagher Hill Road to 93rd Avenue SE (90.20.0006):** Construct new curbs, sidewalks, and bike lanes on both sides of the road; install a full-width HMA overlay; raise utilities to grade; install new pavement markings; and upgrade the existing street lighting.

Together, these improvements include approximately one mile of repaved arterial roadway. The HMA paving is funded through the Water Supply Pipeline Project to restore roadways heavily impacted by water-main trenching. The pedestrian improvements, including sidewalks, ADA-compliant curb ramps, and street lighting, are identified in the City's Six-Year TIP for construction in 2027 and are funded by the Street Fund. This work package will be brought back to Council in early 2027 as part of the Guaranteed Maximum Price Amendment.

SHOREWOOD APARTMENTS

Shorewood Apartments is currently a direct wholesale customer of SPU and is served through a connection along SE 40th Street. When the new water supply pipeline is placed into service, the existing SPU pipeline along SE 40th Street will be decommissioned, requiring a new water connection for Shorewood Apartments. The project includes two new connections and master meters extending from SE 36th Street at 88th and 90th Avenues SE. The two connections will create a looped system, improving water quality and providing additional operational flexibility. Following completion of the connections, Shorewood Apartments will become a City of Mercer Island water customer.

SPU and City staff have notified Shorewood Apartments of the upcoming service changes. City staff are meeting monthly with Shorewood property management to discuss the new connections. The work will

require temporary construction easements and permanent easements allowing the City to access and maintain its metering infrastructure on Shorewood property. The proposed easement boundaries have been shared with Shorewood management, and the City is drafting the necessary easement documents. Monthly coordination meetings are anticipated to continue throughout construction.

COORDINATION WITH OTHER AGENCIES

Staff continue to coordinate with multiple agencies, including the Washington State Department of Transportation, Seattle Public Utilities, the Washington State Department of Health, the Washington State Department of Commerce, and the City's Community Planning and Development Department to complete permitting, utility coordination, regulatory approvals, grant requirements, and implementation of the new water supply system.

- **Washington State Department of Transportation**

A portion of the water supply pipeline alignment will be located within WSDOT right-of-way near the intersection of East Mercer Way and SE 36th Street. City staff and RH2 Engineering have submitted the required application and plans for a Utility Accommodation Variance, which remain under WSDOT review. Coordination with WSDOT will continue throughout design and construction.

- **Seattle Public Utilities (SPU)**

In April 2026, SPU formally notified the City Manager of its intent to transfer a segment of the SPU-owned Mercer Island Pipeline to the City (Exhibit 3). Following the transfer, the City will own the water distribution system on Mercer Island downstream of the SPU master meter near the Mercer Island Boat Launch. The transfer will allow the City to formally decommission and abandon the existing SPU pipeline and transition water service to the new City-owned supply pipeline.

SPU and the City plan to enter into an agreement documenting the transfer of the water infrastructure and associated financial responsibilities, the transfer of Shorewood Apartments from a SPU customer to a City customer, and the City's potential purchase of a small SPU-owned land parcel. The agreement will require approval from both the Seattle and Mercer Island City Councils, which is anticipated during the first half of 2027. The City also provided SPU with design documents in May 2026 and is working to address SPU's comments.

- **Washington State Department of Health**

The Water Supply Pipeline Project will require approval from the Washington State Department of Health (Department of Health) as part of the [City's Water System Plan update](#).

The Water System Plan update was delayed while the City completed Growth Management Act compliance work that increased the City's planned housing capacity and required corresponding updates to the water-demand model and planning assumptions.

Staff anticipate completing the draft Water System Plan by the end of 2026. The draft plan will be presented to the Utility Board and the City Council in Q1 2027, with adoption anticipated in Q2 2027. The City provided the project's design documents to the Department of Health for informal review in June 2026. The Department of Health will formally review the project and the addition of Shorewood Apartments as a City water customer through its review of the Water System Plan. The new water supply pipeline will not be placed into service until the Department of Health approves the Water System Plan update.

- **Washington State Department of Commerce**

The City has secured a \$1.2 million grant for the Water Supply Pipeline Project through the Washington State Department of Commerce as part of the 2025-2027 State Capital Budget. In accordance with the grant requirements, the Department of Commerce will retain 3 percent, or \$36,000, for administrative costs, resulting in approximately \$1.164 million available for eligible project expenditures. Staff submitted the required application materials in early July 2026 and are awaiting further direction regarding the grant process.

COMMUNITY ENGAGEMENT

City staff launched a comprehensive communication plan in March 2026. Engagement activities include updates through the [Let's Talk platform](#), direct-mail notifications to affected neighborhoods (Exhibit 4), coordination with the Mercer Island School District regarding potential bus-route impacts, and targeted outreach to the French American School, the Jewish Community Center, and other stakeholders along the project corridor. Additional outreach will communicate the project schedule, anticipated construction impacts, and the long-term benefits of the water system and roadway improvements. The City's Customer Service Team is also being briefed and will support the Public Works Department in responding to public inquiries during construction.

ISSUE/DISCUSSION

PROJECT STATUS AND CURRENT COUNCIL ACTION

The project team has advanced the design and completed the cost negotiations necessary to establish Mini-MACC 2, which includes:

- Construction of the new 24-inch water supply pipeline.
- Connections to the Seattle Public Utilities system.
- New water connections and master meters serving Shorewood Apartments.
- Other improvements necessary to test and place the new pipeline into service.

Under the Heavy Civil GC/CM contract, the City and Scarsella negotiated the scope and cost of this work, which Scarsella will complete using its own crews.

Staff recommends that City Council authorize Mini-MACC 2 and appropriate the near-term funding required to proceed with this construction package. Approval of Mini-MACC 2 does not establish the overall Maximum Allowable Construction Cost or Total Contract Cost and does not authorize the remaining roadway resurfacing, pedestrian improvements, drainage, illumination, or other restoration work – that final scope of work will come to the City Council for approval in 2027.

Design, subcontractor procurement, and cost development for the remaining construction packages will continue. Staff anticipate returning to the City Council in Q1 2027 to request authorization for the City Manager to execute the Guaranteed Maximum Price Amendment. The amendment will incorporate Mini-MACC 1 and Mini-MACC 2, and the remaining construction work into the overall Maximum Allowable Construction Cost; establish the Total Contract Cost, consisting of the overall Maximum Allowable Construction Cost, specified general conditions, and the GC/CM percent fee; and authorize the remaining construction work.

MINI-MACC 2

Mini-MACC 2 establishes a maximum not-to-exceed amount for construction of the new 24-inch water supply pipeline, connections to the Seattle Public Utilities system, new water connections and master meters serving Shorewood Apartments, and other improvements necessary to test and place the pipeline into service. Table 1 summarizes the proposed authorization.

Table 1: Mini-MACC 2 Cost Breakdown	
Water Supply Pipeline and Related Improvements (90.40.0032)	
Construction	\$ 7,656,300
Contractor Fees	423,500
General Conditions	658,500
Negotiated Site Services	490,000
Mini-MACC 2 - Contingency @ 3.5%	323,000
WA Sales Tax @ 10.3%	983,800
Total Mini-MACC 2 Expenditures	\$ 10,535,100

OVERALL PROJECT BUDGET

Water-related project costs are funded through a combination of water utility rate revenues, available Water Fund resources, state grant funding, and bond proceeds. Pedestrian improvements are funded separately through the Street Fund and are included in the City's 2027–2032 Transportation Improvement Program, adopted May 5, 2026 ([AB 6919](#)). These improvements include the SE 40th Street Sidewalk Improvements (90.20.0006) and Gallagher Hill Road Sidewalk Improvements (90.20.0009), with a combined total of \$1,762,000 identified in the City's Six-Year TIP for construction in 2027 and are funded by the Street Fund.

The current total project budget is estimated at \$22,440,200 (see Table 2). This amount includes the construction contract as well as engineering design, environmental review and permitting, construction management and inspection, materials testing, public outreach, utility coordination, and other project-support costs.

The current estimate is approximately \$3.7 million higher than the \$18,773,000 planning-level estimate presented to the City Council in October 2024 ([AB 6530](#)). The increase is primarily due to the addition of roadway and pedestrian improvements that were previously planned as separate projects. The 2024 estimate addressed the core water system improvements, including design and construction of the new supply pipeline, connection to the regional water system, and replacement of the aging water main on Gallagher Hill Road.

Adding the roadway and pedestrian improvements to the Water Supply Pipeline project allows the City to restore roadways affected by water main construction while also completing planned paving, sidewalk, accessibility, and street lighting improvements along the project corridor. Combining this work reduces the need for separate future construction projects and avoids reopening recently restored streets.

The total project budget will continue to be refined as design and procurement for the remaining construction packages are completed. The overall Maximum Allowable Construction Cost and Total Contract Cost will be established through the future Guaranteed Maximum Price (GMP) Amendment and presented to the City Council in Q1 2027.

Table 2: Total Project Budget Water Supply Pipeline and Related Improvements (90.40.0032)			
Design and Delivery Costs	Water Fund	Street Fund	Total
Design and Engineering—Phase 1	\$ 594,000	\$ -	\$ 594,000
Design and Engineering—Phase 2	869,000	-	869,000
Engineering Services During Construction	550,000	100,000	650,000
Advisory Services for GC/CM	531,800	-	531,800
Audit Services	49,100	-	49,100
Special Inspection Services	30,300	15,000	45,300
Project Management, Inspections, Administration	425,000	75,000	500,000
WSDOT Coordination	20,000	-	20,000
DOH/SPU Coordination	20,000	-	20,000
Design and Delivery Subtotal	\$ 3,089,200	\$ 190,000	\$ 3,279,200
Construction Costs			
GC/CM Preconstruction Services	\$ 469,300	\$ -	\$ 469,300
Mini-MACC 1: 10-Inch Water Main Construction	1,748,900	-	1,748,900
Mini-MACC 2: 24-Inch Water Supply Pipeline Construction	10,535,100	-	10,535,100
Estimated Future GMP Amendment	4,645,700	1,762,000	6,407,700
Construction Subtotal	\$17,399,000	\$1,762,000	\$19,161,000
Estimated Total Project Budget (as of 09/01/2026)	\$20,488,200	\$1,952,000	\$22,440,200

NEAR-TERM FUNDING

The adopted 2025–2026 Capital Improvement Program includes \$5,748,380 for the Water Supply Pipeline Project (90.40.0032). Of this amount, \$3,229,100 remains available. An additional appropriation of approximately \$6,142,000 is required for the estimated \$10,535,100 in Mini-MACC 2 expenditures (see Table 3).

At 2025 year-end, the Water Fund had \$8,312,800 available fund balance. This resource remains available to water utility related capital improvements. Staff recommends the City Council appropriate \$6,142,000 of this available fund balance to the Water Supply Pipeline Project (90.40.0032) Mini-MACC 2.

This appropriation is limited to providing adequate resources to complete the Mini-MACC 2. It does not authorize the future Guaranteed Maximum Price Amendment or establish final project expenditure authority. Additional appropriation requirements to complete the remaining Water Supply Pipeline Project construction will be presented to the City Council with the Guaranteed Maximum Price Amendment in Q1 2027.

Table 3: Mini-MACC 2 Funding and Budget Appropriation	
Mini-MACC 2 - Total Funding Required	\$ 10,535,100
Authorized Funding in 2025-2026 Biennial Budget	
Remaining Budget - Water Supply Pipeline (90.40.0032)	3,229,100
Department of Commerce Grant	1,164,000
Subtotal - Authorized Available Funding	4,393,100
Water Fund (410) Available Fund Balance	8,312,800
Total Additional Appropriation from Water Fund	\$ 6,142,000

LONG-TERM FUNDING

In October 2024, the City issued \$26.6 million in limited tax general obligation (LTGO) bonds to support major investments in the City’s water distribution system ([AB 6538](#)). As of August 2026, the City has invested all the proceeds from that bond issuance in qualifying water capital projects. Additional financing is required to complete the Water Supply Pipeline Project and other planned water-system improvements in the 2027-2028 biennium.

In September 2026, the City Manager will execute a Declaration of Intent (Exhibit 5) documenting the City’s intent to reimburse the Water Fund for qualifying expenditures from future bond proceeds. The declaration effectively “starts the clock” for the City to use funds from, for example, a January 2027 bond issuance to pay for hard costs incurred on qualifying water capital projects dating back to July 2026.

Per [Resolution No. 1652](#) adopted by the City Council in November 2023 ([AB 6377](#)), a declaration to seek reimbursement is an administrative action and does not authorize the future bond issuance, which requires City Council approval.

Staff anticipate returning to the City Council later in 2026 to request authorization to issue approximately \$15 million to \$20 million in limited tax general obligation bonds in Q1 2027. The final amount will be based on updated capital project estimates in the proposed 2027–2032 Capital Improvement Program and the Water Utility’s broader operational needs in the 2027-2028 biennium. Until the LTGO bonds are issued in Q1 2027, the City will use available Water Fund resources to pay eligible project costs.

Long-term financing for major water-system improvements helps spread the cost of significant capital improvements over the useful life of the new infrastructure. This approach reduces near-term pressure on increasing water rates and allows future customers who will benefit from the improvements to share in their cost.

As part of the City’s long-range rate modeling efforts, staff estimate the bond issuance in Q1 2027 will be the final significant issuance for outside financing to support generational reinvestments in the water distribution system. Once major system upgrades are completed, capital reinvestment in the water utility will transition to ongoing routine maintenance beginning in the 2029-2030 biennium.

NEXT STEPS

Following City Council approval, the City Manager will execute Mini-MACC 2 with Scarsella Brothers, Inc., authorizing construction of the new 24-inch water supply pipeline, associated connections, and related water-system improvements.

Construction is anticipated to begin in September 2026 with installation of the 10-inch water main by Kar-Vel Construction under Mini-MACC 1 and mobilization of Scarsella's crews, equipment, and materials. Construction of the new 24-inch water supply pipeline and associated water system improvements authorized under Mini-MACC 2 is anticipated to begin in late October 2026.

After the new pipeline is installed, tested, approved, and placed into service, construction will transition to the remaining roadway resurfacing, pedestrian improvements, drainage, illumination, and other restoration work. Staff will continue design, subcontractor procurement, and cost development for these remaining construction packages and return to the City Council in Q1 2027 for authorization of the Guaranteed Maximum Price Amendment. Substantial completion of the entire project is anticipated by the end of 2027.

Staff will also advance the project's financing strategy through the 2027–2028 biennial budget process and return to the City Council for authorization of the anticipated 2027 bond issuance.

Staff recognizes that the neighborhoods surrounding the project area have experienced significant construction impacts from other major projects in recent years. Although construction impacts cannot be eliminated, the City is committed to minimizing them through active monitoring, coordination, and communication throughout the project. Staff will coordinate construction sequencing, traffic control, staging, detour routes, work hours, and public communications with the contractor and affected agencies and stakeholders, including the Mercer Island School District.

The project management and Customer Service teams will remain in regular contact with residents, businesses, schools, and the traveling public; monitor concerns and changing conditions; and work with the contractor to refine construction activities and reduce impacts where feasible. This may include evaluating limited night work when appropriate. The City will also provide advance construction notifications, regular project updates, stakeholder outreach, and ongoing communication through the City's Let's Talk project webpage and other public-information channels.

Staff will continue coordinating with the Washington State Department of Transportation, Seattle Public Utilities, Washington State Department of Health, Washington State Department of Commerce, the City's Community Planning and Development Department, and Shorewood Apartments regarding permitting, regulatory approvals, utility coordination, and the transition of Shorewood Apartments to the City's water system. The new water supply pipeline is anticipated to be placed into service in spring 2027, when seasonal water demand is lower.

RECOMMENDED ACTION

Authorize the City Manager to execute Mini-MACC 2 with Scarsella Brothers, Inc., a Washington-based Corporation, in an amount not to exceed \$10,535,100, for construction of the new 24-inch water supply pipeline and associated water-system improvements; appropriate \$6,142,000 from the Water Fund available fund balance to the Water Supply Pipeline Project (90.40.0032); and authorize the City Manager to execute any related documents necessary to complete this work.