



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

**AB 6912  
April 21, 2026  
Consent Agenda**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6912: Budget Appropriation for Utility Rate Modeling	<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>	Appropriate \$29,500 from the Water, Sewer, and Storm Water Funds to complete utility rate model updates with FCS Group, Inc.	

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

<b>AMOUNT OF EXPENDITURE</b>	\$ 29,500
<b>AMOUNT BUDGETED</b>	\$ n/a
<b>APPROPRIATION REQUIRED</b>	\$ 29,500

**EXECUTIVE SUMMARY**

The purpose of this agenda bill is to provide the City Council with background information about utility rate modeling and request a budget appropriation of \$29,500 to support updating the Water, Sewer, and Storm Water utility rate models with the City’s selected consultant FCS Group, Inc.

**BACKGROUND**

Every two years, staff and the Utility Board review and update rates for water, sewer, and stormwater services. This complex, seasonal undertaking requires external expertise to develop comprehensive rate models for the City’s three utility funds: Water Fund (410), Sewer Fund (420), and Storm Water Fund (430).

These models ensure that rates cover year-to-year operations, maintain minimum funding levels per the City’s financial management policies, and fund essential infrastructure through the Capital Improvement Program (CIP).

Local rates charged to utility customers are shaped by diverse factors, including budgetary needs, financial policies, inflation, regional provider pricing, and infrastructure lifespan. To manage these variables, staff use advanced modeling that requires outside support and collaborate with the Utility Board to vet the rate

models for the three utility systems, so they remain fully operational over time without overburdening current and future utility customers. Once these rates are reviewed by staff and the Utility Board, they are sent to the City Council for final approval each fall.

Most recently, the City contracted with FCS Group, Inc. to lead this process in May 2024. Their expertise helped staff balance the need for infrastructure reinvestment with the goal of maintaining stable, predictable rate changes for customers and spreading the cost of major infrastructure projects over their useful life.

## **ISSUE/DISCUSSION**

Several new factors need to be incorporated into rate modeling work for water, sewer, and storm water services. Specifically, the impacts of middle housing legislation, the water supply line replacement project (90.40.0032) currently underway, and decommissioning of the existing SPU water supply pipeline which requires new water service for Shorewood Apartments.

The 2023 legislative session reshaped residential zoning in Washington by mandating that cities allow higher-density "middle housing" (such as duplexes, fourplexes, and townhomes) in areas historically reserved for single-family homes. These state regulations are now being incorporated into local zoning laws.

For local utilities, these regulations create a shift from low-density planning to a model of "infill" density, which strains existing utility infrastructure. The City's rate models must now plan for greater demand for services in a previous single-family parcel, which may require significant upsizing or other upgrades to handle the increased load.

The water supply pipeline replacement project is currently at the 90% design milestone, with final design and permitting expected to conclude this spring (see AB 6904 also on the April 21 agenda). Initiated in response to a 2024 water supply emergency, the project will install over 5,000 feet of earthquake-resistant 24-inch pipe, roadway improvements, and pedestrian enhancements while decommissioning the previous water supply line owned by Seattle Public Utilities.

The preliminary project cost estimate amounts to \$12.5 to \$13.5 million. Construction is scheduled to begin this spring with a targeted completion date by the end of 2027. These more precise cost and timeline estimates will inform the water rate model for the next biennium. Furthermore, the project team is coordinating the transition of the Shorewood Apartments from a direct Seattle Public Utilities water customer to a utility customer of the City.

The addition of Shorewood Apartments as a water customer is a key variable for the water utility rate model. It represents a new customer and a shift in system demand. The rate model must now capture the cost of service for this high-volume account while ensuring it contributes proportionally to the long-term maintenance of the City's water distribution system.

Staff recommend contracting with FCS Group, Inc. to perform the utility rate model updates for the 2027–2028 biennial budget. Their knowledge of the City's utility infrastructure and rapport with the Utility Board will ensure an efficient and effective process. The total project cost is \$29,500, which covers updates for all three utilities.

## **NEXT STEPS**

Upon approval of the appropriation for the utility rate model update project, staff will negotiate a professional service agreement and 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 2027-2028 biennial budget workshops.

## **RECOMMENDED ACTION**

Appropriate \$19,175 from the Water Fund, \$7,375 from the Sewer Fund, and \$2,950 from the Storm Water Fund (total of \$29,500) and direct the City Manager to perform the utility rate model update for the 2027-2028 biennium.