



MEMORANDUM

Date: 12 September 2023

To: Mercer Island Utility Board
From: Ben Schumacher, Financial Analyst
RE: Utility Board Meeting - EMS Utility Rates

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming year, based on the 2023-2024 adopted budget. The operating and capital budgets presented in this memo were adopted by the City Council on December 6, 2022 and include budget amendments through May 16, 2023.

2023-2024 Operating Budget

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

Operating Expenditures <i>(\$ in thousands)</i>	2021	2022	2023	2024	Percent Change	
	Actual	Actual	Budget	Budget	22-23	23-24
Salary & Benefits	\$760	\$998	\$1,107	\$1,180	11.0%	6.6%
Contractual Services	\$325	\$428	\$375	\$425	-12.4%	13.3%
Other Services and Charges	\$318	\$384	\$340	\$347	-11.6%	2.0%
TOTAL	\$1,403	\$1,810	\$1,822	\$1,952	0.7%	7.1%

Some highlights from the operating budget:

- The combined total for salary and benefit costs in 2024 are increasing 6.6% as compared to the 2023 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. The COLA in 2023 was 6.0% and is anticipated to be 6.0% for the 2024 budget.
- The salaries budget includes no new positions. Existing staffing of the Storm Water utility includes four FTEs in Public Works dedicated to the operation and maintenance of the storm water system, as well as administrative oversight, utility billing and customer service, utility



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inspections of private development, and GIS (geographic information system) support.

- Contractual services for 2024 reflect 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 Storm Water 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 Storm Water 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 Storm Water rate increases for 2023-2028.



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Storm Water Utility Capital Program 2023-2024			
(\$ in thousands)			
Project ID	Description	2023	2024
SW0101	Sub basin 23.2 Watercourse Stabilization	\$168	
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
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	25	25
SW0135	Conveyance System Assessments (Basin Specific)	50	50
SW0137	Street Related Storm Drainage Improvements	100	100
Storm Water Utility CIP Total		\$1,093	\$1,232



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Storm Water Rate Proposal

The 2024 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 2024 as proposed in the 2023-2028 smoothed rate model.

This rate increase will ensure that the Storm Water fund has adequate resources to complete the critical capital project work detailed above and into the future, as well as meet established fiscal policy guidelines. The Storm Water fund has an operating reserve target of 45 days of operating and maintenance costs, and a capital reserve target of 1.0 percent of capital assets. The proposed rate increase enables the fund to achieve its target for both established guidelines, as detailed in the table below.

Staff will return during the 2025-2026 biennial budget process with new information to inform potential rate adjustments for fiscal year 2025 and beyond.



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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



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A summary table comparing the proposed rates from the most recent rate model updates (2021-2022) 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 2024 Storm Water Utility rate increases.

The 2024 Storm Water Utility rate resolution is on the City Council planning schedule for review and adoption on November 21, 2023.

Ben Schumacher
Financial Analyst



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