



Memorandum

CITY OF MERCER ISLAND, FINANCE DEPARTMENT

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Date: November 17, 2021
To: Utility Board
From: LaJuan Tuttle, Deputy Finance Director
Re: Utility Board Meeting – Storm Water Rate

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the annual Stormwater Utility rate update based on the 2021-2022 adopted budget. The operating and capital budgets presented in this memo were adopted by the City Council on December 1, 2020.

2021-2022 Operating Budget

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

Description (\$ in thousands)	2019	2020	2021	2022	Percent Change	
	Actual	Forecast	Budget	Budget	20-21	21-22
Budgeted Operating Expenditures						
Salary & Benefits	\$735	\$694	\$734	\$776	5.8%	5.8%
Contractual Services	\$224	\$437	\$344	\$349	-21.3%	1.6%
Other Services and Charges	\$318	\$384	\$340	\$347	-11.6%	2.0%
Total Operating Expenditures	\$1,276	\$1,515	\$1,417	\$1,472	-6.5%	3.9%

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 5.8% as compared to the 2021 budget. The increase results in part from changes to the percentage splits in how staff are budgeted across utility funds as well as between operating and capital budgets. The salaries budget includes three new positions: a Public Works Deputy Director, a Asset Management Coordinator, and a Sustainability Program Analyst, in addition to existing staffing. Existing staffing of the Stormwater utility includes three Full Time Equivalents (FTE) 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 three new positions is \$111,341 in 2021 and \$114,050 in 2022, which represents 25% of the full cost of each position. Other impacts include a cost-of-living adjustment (COLA) of 1.71% in 2021 and estimated at 2.97% in 2022.

- **Contractual services** for 2022 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. A variable basis allocation overhead model is used to determine the Stormwater Utility's proportionate share of these internal services.

Summary Capital Reinvestment Projects

Planned capital reinvestment work in 2021 and 2022 is shown in the table below. Capital investment costs are the primary driver of the proposed Stormwater rate increases for 2021-2026.

Storm Water Utility Capital Program 2021-2022		
Description	2021	2022
Sub Basin 42.1 and 42.1a Watercourse Stabilization	389,657	
Sub basin 23.2 Watercourse Stabilization	202,157	
Sub basin 45b.1 Watercourse Stabilization	36,157	188,500
Sub basin 27a.10 Watercourse Stabilization	22,157	79,000
Sub basin 22.1 Watercourse Stabilization		24,157
Sub basin 50b.4 (a & e) Watercourse Stabilization		17,657
Sub basin 25b.2 Watercourse Stabilization		46,657
Conveyance System Assessments	112,000	50,000
East Mercer Way Trenchless Culvert Replacements	112,657	503,500
Emergency Stormwater Repairs	50,000	50,000
Project Management, Street & Other Storm Water Improvements	414,487	556,311
Storm Water Utility CIP Total	\$1,339,272	\$1,515,782

Storm Water Rate Proposal

The 2022 Storm Water rate proposal is based on the operating budget, six-year Capital Plan, and debt financing needs. The rate model proposes a smoothed rate increase of 5.50% for 2021-2026. No significant changes have been made to the capital or operating budget that would necessitate an update to the storm water rate model.

As such staff recommends a 5.5% increase to the storm water utility rates for 2022 as proposed in the 2021-2016 smoothed rate model.

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
Revenues							
Rate Revenues Under Existing Rates	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485	\$ 2,015,485
Non-Rate Revenues	111,847	110,174	108,410	105,901	104,267	101,063	99,882
Total Revenues	\$ 2,127,332	\$ 2,125,659	\$ 2,123,895	\$ 2,121,386	\$ 2,119,752	\$ 2,116,548	\$ 2,115,367
Expenses							
Cash Operating Expenses	\$ 1,517,159	\$ 1,359,189	\$ 1,382,392	\$ 1,430,152	\$ 1,480,966	\$ 1,533,940	\$ 1,589,242
Existing Debt Service	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-
Rate Funded Capital	500,000	700,000	800,000	900,000	1,000,000	1,100,000	1,200,000
Total Expenses	\$ 2,017,159	\$ 2,059,189	\$ 2,182,392	\$ 2,330,152	\$ 2,480,966	\$ 2,633,940	\$ 2,789,242
Net Surplus (Deficiency)	\$ 110,173	\$ 66,471	\$ (58,497)	\$ (208,766)	\$ (361,214)	\$ (517,392)	\$ (673,875)
Additions to Meet Coverage	-	-	-	-	-	-	-
Total Surplus (Deficiency)	\$ 110,173	\$ 66,471	\$ (58,497)	\$ (208,766)	\$ (361,214)	\$ (517,392)	\$ (673,875)
% of Rate Revenue	0.00%	0.00%	2.90%	10.36%	17.92%	25.67%	33.43%
Annual Rate Adjustment	0.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Cumulative Annual Rate Adjustment	0.00%	5.50%	11.30%	17.42%	23.88%	30.70%	37.88%
Rate Revenues After Rate Increase	\$ 2,015,485	\$ 2,126,337	\$ 2,243,285	\$ 2,366,666	\$ 2,496,833	\$ 2,634,158	\$ 2,779,037
Additional Taxes from Rate Increase	\$ -	\$ 10,963	\$ 22,529	\$ 25,084	\$ 34,381	\$ 44,190	\$ 54,539
Net Cash Flow After Rate Increase	\$ 110,173	\$ 166,359	\$ 146,774	\$ 117,330	\$ 85,752	\$ 57,091	\$ 35,138
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average Residential Bi-Monthly Bill	\$ 35.77	\$ 37.74	\$ 39.81	\$ 42.00	\$ 44.31	\$ 46.75	\$ 49.32
\$ Bi-Monthly Difference		1.97	2.08	2.19	2.31	2.44	2.57

Fund Balance	2020	2021	2022	2023	2024	2025	2026
OPERATING FUND							
Beginning Balance	\$ 82,908	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077
plus: Net Cash Flow after Rate Increase	110,173	166,359	146,774	117,330	85,752	57,091	35,138
less: Transfer of Surplus to Capital Fund	(68,383)	(179,343)	(144,867)	(113,405)	(81,575)	(52,737)	(30,593)
Ending Balance	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077	\$ 130,623
<i>O&M Target Balance</i>	\$ 124,698	\$ 111,714	\$ 113,621	\$ 117,547	\$ 121,723	\$ 126,077	\$ 130,623
<i>Days</i>	30	30	30	30	30	30	30
CAPITAL							
Beginning Balance	\$ 4,286,435	\$ 3,910,157	\$ 3,570,320	\$ 3,066,578	\$ 2,735,896	\$ 2,090,850	\$ 1,850,338
plus: Rate Funded Capital	500,000	700,000	800,000	900,000	1,000,000	1,100,000	1,200,000
plus: Transfers from Operating Fund	68,383	179,343	144,867	113,405	81,575	52,737	30,593
plus: Grants/ Donations/ CIAC	50,000	-	-	-	-	-	-
plus: Interest Earnings	-	-	-	-	-	-	-
Total Funding Sources	\$ 4,904,818	\$ 4,789,499	\$ 4,515,187	\$ 4,079,983	\$ 3,817,472	\$ 3,243,587	\$ 3,080,931
less: Capital Expenditures	(994,661)	(1,219,180)	(1,448,609)	(1,344,087)	(1,726,622)	(1,393,249)	(1,390,898)
Ending Working Capital Balance	\$ 3,910,157	\$ 3,570,320	\$ 3,066,578	\$ 2,735,896	\$ 2,090,850	\$ 1,850,338	\$ 1,690,033
<i>Minimum Target Balance</i>	\$ 118,968	\$ 131,160	\$ 145,646	\$ 159,087	\$ 176,353	\$ 190,286	\$ 204,195
COMBINED BEGINNING FUND BALANCE	\$ 4,369,343	\$ 4,034,855	\$ 3,682,034	\$ 3,180,199	\$ 2,853,443	\$ 2,212,573	\$ 1,976,415
COMBINED ENDING FUND BALANCE	\$ 4,034,855	\$ 3,682,034	\$ 3,180,199	\$ 2,853,443	\$ 2,212,573	\$ 1,976,415	\$ 1,820,656

A summary table comparing the proposed rates from the most recent rate model updates (2018-2020) as compared to the current rate recommendation is presented below.

Rate Update	2019	2020	2021	2022	2023	2024	2025	2026
2018 Rate Update	1.50%	1.50%	1.50%	1.50%				
2019-2020 Rate Update	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%		
2021-2022 Rate Proposal			5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

The 2022 Storm Water Utility rate resolution is on the Council planning schedule for review and adoption on December 7, 2020.