



# Memorandum

## CITY OF MERCER ISLAND, FINANCE DEPARTMENT

9611 S.E. 36th St. • Mercer Island, WA 98040-3732  
 www.mercerisland.gov

**Date:** November 17, 2021  
**To:** Utility Board  
**From:** LaJuan Tuttle, Deputy Finance Director  
**Re:** Utility Board Meeting – Sewer Rate Update

As part of the mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer 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 Sewer Utility is presented in the table below.

Description (\$ in thousands)	2019	2020	2021	2022	Percent Change	
	Actual	Forecast	Budget	Budget	20-21	21-22
<b>Budgeted Operating Expenditures</b>						
Salary & Benefits	\$1,060	\$1,256	\$1,295	\$1,385	3.1%	7.0%
King County Sewer Treatment	\$4,798	\$4,828	\$5,084	\$5,312	5.3%	4.5%
Debt Service	\$1,037	\$1,338	\$1,047	\$1,256	-21.7%	20.0%
Other Services and Charges	\$907	\$1,070	\$1,153	\$1,218	7.7%	5.6%
<b>Total Operating Expenditures</b>	<b>\$7,802</b>	<b>\$8,493</b>	<b>\$8,579</b>	<b>\$9,172</b>	<b>1.0%</b>	<b>6.9%</b>

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 7.0% as compared to the 2021 budget. The increase results in part from changes to the percentage splits in how staff are budgeted across operating funds. The salaries budget includes three new positions, a Public Works Deputy Director, a Sustainability Program Analyst and an Asset Management Coordinator position, in addition to existing staffing. Existing staffing of the Sewer Utility includes six Public Works team members dedicated to the operation and maintenance of the sewer 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 Sewer 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. Cost of living adjustments (COLA) were estimated at 1.98% for the 2022 budget, actual COLA increases for 2022 will be 2.97%.
- **King County Sewer Treatment** services were projected to increase 4.5% in 2022, the actual increase authorized by King County is 4.01%. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- Existing **debt service** costs are related to repayment of the debt on the Sewer Lake Line project and include a Public Works Trust Fund Loan and LTGO bonds. The sewer rate model includes and assumption that \$2.5 million in additional debt will be issued in 2022 to fund the capital projects planned for 2021-2022. Staff continues to monitor the progress of project design in an effort to time debt issuance with project construction readiness and favorable market conditions.

The new debt is estimated to result in additional annual debt payment estimated at \$220,505 beginning in 2022.

- **Other Services and Charges** include all other costs of operations including supplies, contract services, insurance, and City administration costs. Administration costs include the Sewer 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 Sewer Utility’s proportionate share of these internal service functions.

**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 sewer rate increases for 2021-2026.

Sewer Utility Capital Program 2021-2022		
Description	2021	2022
Emergency Sewer Repair	300,000	300,000
Pump Station R&R Improvements	200,000	
Easement, Access Codes and Standards Review	150,000	150,000
Comprehensive Pipeline R&R Program	500,000	500,000
Sewer System Generator Replacement	150,000	150,000
Pump Station Accessibility Improvements	100,000	100,000
SCADA System Replacement (Sewer)	675,000	975,000
Project Management, Street & Other Sewer Projects	296,440	197,310
<b>Sewer Utility CIP Total</b>	<b>\$2,371,440</b>	<b>\$2,372,310</b>

## Sewer Rate Proposal

The 2022 rate proposal is based on the operating budget, six-year Capital Plan, and debt financing needs. The rate model proposed for the 2021-2022 biennium include a smoothed rate increase of 4.0% for 2021-2026. No significant changes have been made to the capital or operating budget that would necessitate an update to the sewer rate model. **As such staff recommends a 4.0% increase to the sewer utility rates for 2022 as proposed in the 2021-2016 smoothed rate model.**

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
<b>Revenues</b>							
Rate Revenues Under Existing Rates	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081	\$ 5,238,081
King County Metro Revenue	4,813,463	5,030,539	5,257,191	5,797,752	5,797,752	6,392,582	6,392,582
Non-Rate Revenues	30,608	26,809	25,049	35,970	21,506	17,445	11,458
<b>Total Revenues</b>	<b>\$10,082,152</b>	<b>\$10,295,429</b>	<b>\$10,520,321</b>	<b>\$11,071,803</b>	<b>\$11,057,339</b>	<b>\$11,648,108</b>	<b>\$11,642,121</b>
<b>Expenses</b>							
Cash Operating Expenses	\$ 2,496,133	\$ 2,408,651	\$ 2,502,106	\$ 2,579,631	\$ 2,665,750	\$ 2,755,819	\$ 2,849,812
King County Treatment Costs	4,864,583	5,083,506	5,312,086	5,857,246	5,857,246	6,457,136	6,457,136
Existing Debt Service	1,042,284	1,047,070	1,035,856	1,034,242	1,031,829	1,028,615	1,029,601
New Debt Service	-	-	220,505	220,505	220,505	485,112	485,112
Rate Funded Capital	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000
<b>Total Expenses</b>	<b>\$ 9,803,000</b>	<b>\$10,039,226</b>	<b>\$10,670,554</b>	<b>\$11,391,625</b>	<b>\$11,575,330</b>	<b>\$12,626,682</b>	<b>\$12,821,661</b>
<b>Net Surplus (Deficiency)</b>	<b>\$ 279,152</b>	<b>\$ 256,202</b>	<b>\$ (150,233)</b>	<b>\$ (319,821)</b>	<b>\$ (517,990)</b>	<b>\$ (978,574)</b>	<b>\$ (1,179,541)</b>
Additions to Meet Coverage	-	-	-	-	-	-	-
<b>Total Surplus (Deficiency)</b>	<b>\$ 279,152</b>	<b>\$ 256,202</b>	<b>\$ (150,233)</b>	<b>\$ (319,821)</b>	<b>\$ (517,990)</b>	<b>\$ (978,574)</b>	<b>\$ (1,179,541)</b>
<b>% of Rate Revenue</b>	<b>0.00%</b>	<b>0.00%</b>	<b>2.87%</b>	<b>6.11%</b>	<b>9.89%</b>	<b>18.68%</b>	<b>22.52%</b>
<b>Annual Rate Adjustment</b>	<b>0.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>
<b>Cumulative Annual Rate Adjustment</b>	<b>0.00%</b>	<b>4.00%</b>	<b>8.16%</b>	<b>12.49%</b>	<b>16.99%</b>	<b>21.67%</b>	<b>26.53%</b>
Rate Revenues After Rate Increase	\$ 5,238,081	\$ 5,447,604	\$ 5,665,508	\$ 5,892,129	\$ 6,127,814	\$ 6,372,926	\$ 6,627,844
Additional Taxes from Rate Increase	\$ -	\$ 25,478	\$ 51,976	\$ 61,194	\$ 83,245	\$ 106,178	\$ 130,028
<b>Net Cash Flow After Rate Increase</b>	<b>\$ 279,152</b>	<b>\$ 440,247</b>	<b>\$ 225,219</b>	<b>\$ 273,033</b>	<b>\$ 288,498</b>	<b>\$ 50,093</b>	<b>\$ 80,194</b>
Coverage After Rate Increases	n/a	n/a	13.98	14.64	15.15	7.14	7.41
Local Average Residential Bi-Monthly Bill (10 ccf winter usage)	\$ 90.26	\$ 93.87	\$ 97.63	\$ 101.53	\$ 105.59	\$ 109.82	\$ 114.21
\$ Bi-Monthly Difference (Local)		3.61	3.75	3.91	4.06	4.22	4.39
King County Metro Residential Bi-Monthly Bill	\$ 90.66	\$ 94.74	\$ 99.00	\$ 109.16	\$ 109.16	\$ 120.34	\$ 120.34
\$ Bi-Monthly Difference (Metro)		4.08	4.26	10.16	-	11.18	-
Total Residential Bi-Monthly Bill (10 ccf winter usage)	\$ 180.92	\$ 188.61	\$ 196.63	\$ 210.69	\$ 214.75	\$ 230.16	\$ 234.55
\$ Bi-Monthly Difference (Total)		7.69	8.01	14.07	4.06	15.40	4.39

Fund Balance	2020	2021	2022	2023	2024	2025	2026
<b>OPERATING FUND</b>							
<b>Beginning Balance</b>	\$ 651,231	\$ 205,162	\$ 197,971	\$ 205,653	\$ 212,024	\$ 219,103	\$ 226,506
plus: Net Cash Flow after Rate Increase	279,152	440,247	225,219	273,033	288,498	50,093	80,194
less: Transfer of Surplus to Capital Fund	(725,222)	(447,437)	(217,538)	(266,661)	(281,419)	(42,690)	(72,468)
<b>Ending Balance</b>	<b>\$ 205,162</b>	<b>\$ 197,971</b>	<b>\$ 205,653</b>	<b>\$ 212,024</b>	<b>\$ 219,103</b>	<b>\$ 226,506</b>	<b>\$ 234,231</b>
<b>CAPITAL</b>							
<b>Beginning Balance</b>	\$ 5,366,058	\$ 5,052,243	\$ 4,707,440	\$ 6,663,463	\$ 3,764,277	\$ 2,944,939	\$ 1,475,502
plus: Rate Funded Capital	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000
plus: Transfers from Operating Fund	725,222	447,437	217,538	266,661	281,419	42,690	72,468
plus: General Facilities Charge Revenue	17,925	-	-	-	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	2,500,000	-	-	3,000,000	-
plus: Interest Earnings	-	-	-	-	-	-	-
Total Funding Sources	\$ 7,509,205	\$ 6,999,680	\$ 9,024,978	\$ 8,630,124	\$ 5,845,696	\$ 7,887,629	\$ 3,547,970
less: Capital Expenditures	(2,456,962)	(2,292,240)	(2,361,514)	(4,865,848)	(2,900,757)	(6,412,127)	(1,790,305)
<b>Ending Working Capital Balance</b>	<b>\$ 5,052,243</b>	<b>\$ 4,707,440</b>	<b>\$ 6,663,463</b>	<b>\$ 3,764,277</b>	<b>\$ 2,944,939</b>	<b>\$ 1,475,502</b>	<b>\$ 1,757,665</b>
<i>Minimum Target Balance</i>	\$ 1,050,670	\$ 1,096,515	\$ 1,143,745	\$ 1,241,062	\$ 1,299,077	\$ 1,427,320	\$ 1,463,126
<b>COMBINED BEGINNING FUND BALANCE</b>	<b>\$ 6,017,289</b>	<b>\$ 5,257,404</b>	<b>\$ 4,905,412</b>	<b>\$ 6,869,116</b>	<b>\$ 3,976,301</b>	<b>\$ 3,164,041</b>	<b>\$ 1,702,008</b>
<b>COMBINED ENDING FUND BALANCE</b>	<b>\$ 5,257,404</b>	<b>\$ 4,905,412</b>	<b>\$ 6,869,116</b>	<b>\$ 3,976,301</b>	<b>\$ 3,164,041</b>	<b>\$ 1,702,008</b>	<b>\$ 1,991,896</b>

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	7.80%	7.80%	7.80%	7.80%				
2019-2020 Rate Update	7.70%	7.70%	7.70%	7.70%	7.70%	7.70%		
2021-2022 Rate Proposal			4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

The 2022 Sewer Utility rate resolution is on the Council planning schedule for review and adoption on December 7, 2021.