



# Memorandum

## CITY OF MERCER ISLAND, FINANCE DEPARTMENT

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**Date:** October 5, 2020  
**To:** Utility Board  
**From:** LaJuan Tuttle, Deputy Finance Director  
**Re:** October 2020 Utility Board Meeting - Storm Water Rate

At the October 14<sup>th</sup> Utility Board meeting the Utility Board is being asked to make a Storm Water rate recommendation for the 2021-2022 biennial budget. The operating and capital budgets presented in this memo have been incorporated into the City Manager's Preliminary Budget Document, which was delivered to the City Council on October 1<sup>st</sup>. Changes to the proposed budget and rate proposals may result as further refinements are incorporated or as Council reviews the Preliminary Budget on October 13, 2020 (Operating Budget) and October 20, 2020 (Capital Budget).

### 2021-2022 Preliminary Operating Budget

The proposed operating budget for the Storm Water Utility presented in the table below. There are no significant changes to the level of operation and maintenance of the storm water system proposed.

Description	2019	2020	2021	2022	Percent Change	
	Actual	Forecast	Budget	Budget	20-21	21-22
<b>Operating Expenditures</b>						
<b>Budgeted</b>						
Salary & Benefits	\$ 734,561	\$ 693,866	\$ 694,479	\$ 727,113	0.1%	4.7%
Supplies	20,075	36,765	36,565	36,565	-0.5%	0.0%
Contractual Services	223,970	436,790	319,940	323,440	-26.8%	1.1%
Internal Service Charges	114,259	118,123	124,013	124,738	5.0%	0.6%
Insurance	13,635	14,248	10,800	11,740	-24.2%	8.7%
City Administration/Overhead	104,235	116,466	88,091	89,567	-24.4%	1.7%
Other Services and Charges	65,490	98,781	80,305	84,080	-18.7%	4.7%
<b>Total Operating Expenditures</b>	<b>\$ 1,276,225</b>	<b>\$ 1,515,039</b>	<b>\$ 1,354,193</b>	<b>\$ 1,397,243</b>	<b>-10.6%</b>	<b>3.2%</b>

Some highlights from the operating budget:

- The combined total for **salary and benefit** costs are increasing 0.1% as compared to the 2020 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 two new positions, a Public Works Deputy Director and a Cityworks Coordinator position, in addition to existing staffing. Existing staffing of the Storm Water utility includes three Full Time Equivalents (FTE) 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 inspections of private development, and GIS (geographic information system) support. The total dollar impact to the Storm Water Utility for the two new positions is \$86,519 in 2021 and \$88,575 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 1.98% in 2022.

- **Contractual services** are forecasted to be 26.8% lower in 2021 as compared to the 2020 budget. The 2020 budget includes one-time costs associated with emergency repairs that are not re-budgeted in 2021. The contract service budget for 2021-2022 reflects anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs.
- **City Administration** costs are 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. A variable basis overhead allocation model is used to determine the Storm Water 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. A summary of projects for the six-year plan covering 2021-2026 is included as appendix A. Capital investment costs are the primary driver of the proposed Storm Water rate increases for 2021-2026.

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 Conveyance Repairs	50,000	50,000
Street & Other Storm Water Improvements	261,000	404,000
<b>STORM WATER UTILITY TOTAL</b>	<b>\$ 1,185,785</b>	<b>\$ 1,363,471</b>

## Storm Water Rate Proposal

A Storm Water rate proposal was presented by the City's consultant, FCS Group, for the Utility Board's consideration on September 23rd. The rate proposal is based on the preliminary operating budget, six-year Capital Plan, and debt financing needs. The rate model proposes a smoothed rate increase of 5.50% for 2021-2026.

Revenue Requirement	2020	2021	2022	2023	2024	2025	2026
<b>Revenues</b>							
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
<b>Total Revenues</b>	<b>\$ 2,127,332</b>	<b>\$ 2,125,659</b>	<b>\$ 2,123,895</b>	<b>\$ 2,121,386</b>	<b>\$ 2,119,752</b>	<b>\$ 2,116,548</b>	<b>\$ 2,115,367</b>
<b>Expenses</b>							
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
<b>Total Expenses</b>	<b>\$ 2,017,159</b>	<b>\$ 2,059,189</b>	<b>\$ 2,182,392</b>	<b>\$ 2,330,152</b>	<b>\$ 2,480,966</b>	<b>\$ 2,633,940</b>	<b>\$ 2,789,242</b>
<b>Net Surplus (Deficiency)</b>	<b>\$ 110,173</b>	<b>\$ 66,471</b>	<b>\$ (58,497)</b>	<b>\$ (208,766)</b>	<b>\$ (361,214)</b>	<b>\$ (517,392)</b>	<b>\$ (673,875)</b>
Additions to Meet Coverage	-	-	-	-	-	-	-
<b>Total Surplus (Deficiency)</b>	<b>\$ 110,173</b>	<b>\$ 66,471</b>	<b>\$ (58,497)</b>	<b>\$ (208,766)</b>	<b>\$ (361,214)</b>	<b>\$ (517,392)</b>	<b>\$ (673,875)</b>
<b>% of Rate Revenue</b>	<b>0.00%</b>	<b>0.00%</b>	<b>2.90%</b>	<b>10.36%</b>	<b>17.92%</b>	<b>25.67%</b>	<b>33.43%</b>
<b>Annual Rate Adjustment</b>	<b>0.00%</b>	<b>5.50%</b>	<b>5.50%</b>	<b>5.50%</b>	<b>5.50%</b>	<b>5.50%</b>	<b>5.50%</b>
<b>Cumulative Annual Rate Adjustment</b>	<b>0.00%</b>	<b>5.50%</b>	<b>11.30%</b>	<b>17.42%</b>	<b>23.88%</b>	<b>30.70%</b>	<b>37.88%</b>
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
<b>Net Cash Flow After Rate Increase</b>	<b>\$ 110,173</b>	<b>\$ 166,359</b>	<b>\$ 146,774</b>	<b>\$ 117,330</b>	<b>\$ 85,752</b>	<b>\$ 57,091</b>	<b>\$ 35,138</b>
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
<b>OPERATING FUND</b>							
<b>Beginning Balance</b>	\$ 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)
<b>Ending Balance</b>	<b>\$ 124,698</b>	<b>\$ 111,714</b>	<b>\$ 113,621</b>	<b>\$ 117,547</b>	<b>\$ 121,723</b>	<b>\$ 126,077</b>	<b>\$ 130,623</b>
<i>O&amp;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
<b>CAPITAL</b>							
<b>Beginning Balance</b>	\$ 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	-	-	-	-	-	-	-
<b>Total Funding Sources</b>	<b>\$ 4,904,818</b>	<b>\$ 4,789,499</b>	<b>\$ 4,515,187</b>	<b>\$ 4,079,983</b>	<b>\$ 3,817,472</b>	<b>\$ 3,243,587</b>	<b>\$ 3,080,931</b>
less: Capital Expenditures	(994,661)	(1,219,180)	(1,448,609)	(1,344,087)	(1,726,622)	(1,393,249)	(1,390,898)
<b>Ending Working Capital Balance</b>	<b>\$ 3,910,157</b>	<b>\$ 3,570,320</b>	<b>\$ 3,066,578</b>	<b>\$ 2,735,896</b>	<b>\$ 2,090,850</b>	<b>\$ 1,850,338</b>	<b>\$ 1,690,033</b>
<i>Minimum Target Balance</i>	\$ 118,968	\$ 131,160	\$ 145,646	\$ 159,087	\$ 176,353	\$ 190,286	\$ 204,195
<b>COMBINED BEGINNING FUND BALANCE</b>	<b>\$ 4,369,343</b>	<b>\$ 4,034,855</b>	<b>\$ 3,682,034</b>	<b>\$ 3,180,199</b>	<b>\$ 2,853,443</b>	<b>\$ 2,212,573</b>	<b>\$ 1,976,415</b>
<b>COMBINED ENDING FUND BALANCE</b>	<b>\$ 4,034,855</b>	<b>\$ 3,682,034</b>	<b>\$ 3,180,199</b>	<b>\$ 2,853,443</b>	<b>\$ 2,212,573</b>	<b>\$ 1,976,415</b>	<b>\$ 1,820,656</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	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%

Staff and representatives from FCS group will be available at the Utility Board meeting to answer questions regarding the proposed operating and capital budgets, as well as the proposed 2021-2022 storm water utility rate increases.

The 2021 Storm Water Utility rate resolution is on the Council planning schedule for review and adoption on November 17, 2020.