



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6797
November 4, 2025
Consent Agenda

AGENDA BILL INFORMATION

TITLE:	AB 6797: Connection Charges Update for the Water Distribution and Sewer Conveyance Systems	☐ Discussion Only ☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Appropriate \$20,000 from the Water Fund and \$20,000 from the Sewer Fund unassigned fund balance to update the connection charges for the water and sewer utility systems.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	n/a
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ 40,000
AMOUNT BUDGETED	\$ 0
APPROPRIATION REQUIRED	\$ 40,000

EXECUTIVE SUMMARY

The agenda bill seeks City Council's authorization of additional budget authority to study and update the water distribution and sewer conveyance system's connection charges in 2026.

- Chapter 15.12.040 of the City of Mercer Island's municipal code requires a connection charge paid at the time a customer applies to make a new connection to the City's water distribution and sewer conveyance systems (per State law, RCW 35.92.025).
- Connection charges (also known as system development charges) are one-time fees for new development, or redevelopment that recover a proportional share of the value of the infrastructure investment required to provide utility service. Connection charges equitably recover costs from new connections and provide a revenue source for capital financing.
- The Utility Board and City Council last evaluated water and sewer connection charges in 2006 and 2009. Since then, connection charges increased each year by CPI-W First Half for Seattle-Tacoma-Bellevue, as outlined in the City's 2025 fee schedule.
- Significant capital reinvestment is currently underway for the water and sewer utility systems. Staff is also updating the Water System Plan as well as key elements of the General Sewer Plan and the City's Comprehensive Plan. These updates will inform the long-range operation, maintenance, and future capacity needs for each utility system.
- Staff recommends funding a new work item to the 2025-2026 work plan (Finance Item 1.15 in Exhibit 1 of [AB 6769](#)) to study connection charges in tandem with long-range planning efforts to ensure fees for

service – for both current and future customers – equitably maintain the operational integrity and financial stability for each utility system.

BACKGROUND

Connection charges (also known as system development charges) are imposed as a condition of service on new customer connections to the water distribution and sewer conveyance systems. It is also assessed to existing customers requiring increased capacity.

Connection charges are based on a blend of historical and planned future capital infrastructure investments. The underlying premise is that growth (future connections) will pay for growth-related costs that the utility system has and will incur to provide adequate system capacity ([RCW 35.92.025](#)). In the absence of this charge, growth-related costs are borne in large part by existing customers.

Water Connection Charge

In 2006, Finance staff, the Utility Board, and an outside consultant completed an in-depth water cost of service rate and connection charge study. During this study staff updated fiscal policies, completed a cost-of-service analysis, and a corresponding revenue requirement analysis.

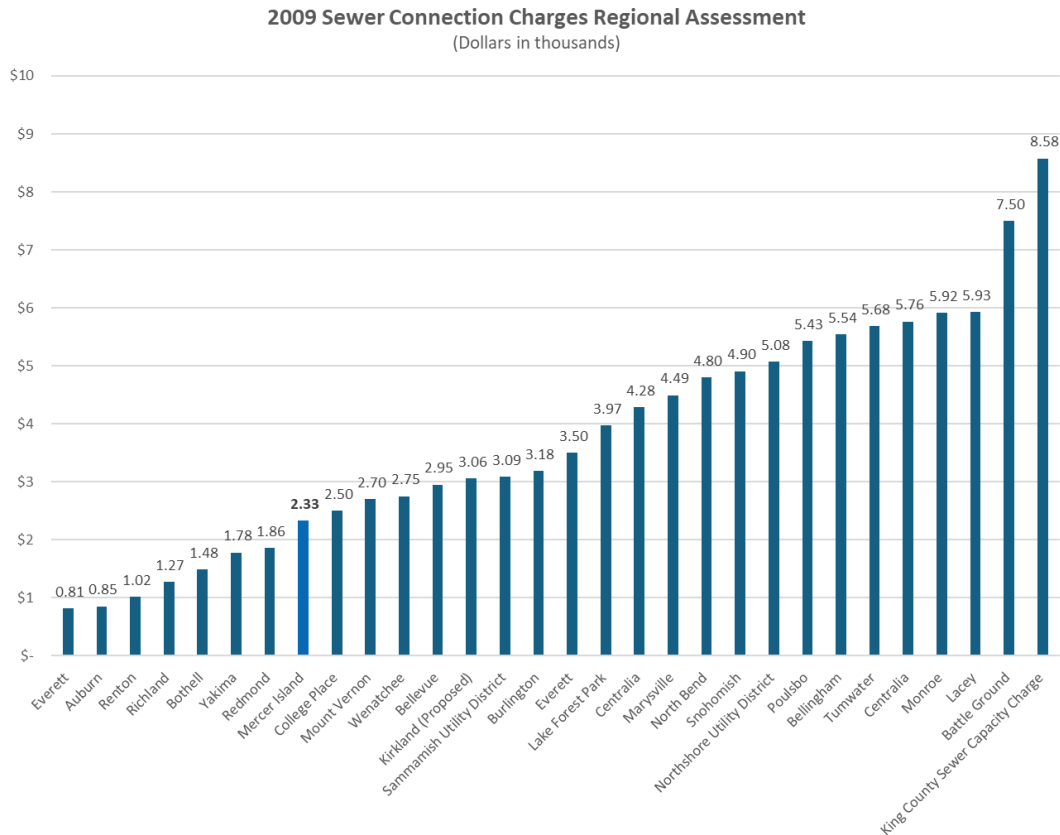
In December of 2006, the City Council adopted a long-range water rate plan with base connection charges to fund operations, maintenance, and reinvestment needs for the water distribution system ([Resolution No. 1379](#)). The base connection charge for a ¾-inch or smaller water meter was a \$1,881 one-time charge that scaled up based on the new connection's water meter size. Each year since, the water system connection charges increased by the CPI-W First Half for Seattle-Tacoma-Bellevue. In 2025, the water system connection charge is \$3,236 for a new ¾-inch or smaller water meter.

Sewer Connection Charge

Records indicate the initial sewer connection charge was established in December 1999 (Resolution No. [1258](#)). In the ten years that followed, capital reinvestment in the sewer conveyance system was limited and the fee remained unchanged.

Significant capital resources were committed to the Reach 3 Sewer Lake Line project, which began early 2009. With the increase in capital spending in the sewer utility system, Finance staff and an outside consultant completed a new study to update the connection charge. The study evaluated existing sewer system asset costs, projected changes to the size of the customer base, the costs of planned future capital facilities, and the equitable share of existing and future costs that will serve new customers. The study also included a comparison of connection charges from other jurisdictions (Figure 1).

Figure 1



The proposed sewer connection charge resulting from the study was \$4,223, an increase of \$3,302 over the previous \$921 charge per new connection. The Utility Board reviewed the study, staff analysis, and did not proceed with staff's recommendation. The Utility Board requested the sewer connection charge be primarily based on the historical costs of reinvestment in the Sewer System.

A connection charge of \$2,329 was ultimately approved in 2009, adjusted by inflation on an annual basis, coupled with the recommendation the connection charge be restudied when significant changes to the utility system occur. This ensured new users would pay a fee equivalent to what previous existing users had paid.

In 2025, the sewer system connection charge is \$2,837 per King County residential customer equivalent (RCE). The RCE measurement is based on a combination of housing type (e.g., single family/ multi-family) and square footage. The RCE is then multiplied by the connection charge to determine the charge to the developer/ customer. For example, a housing unit with net square footage less than 1,500 square feet is 0.81 RCE. When multiplied by the \$2,837 connection charge, the resulting one-time fee is \$2,297.97.

ISSUE/DISCUSSION

On October 21, the City Council received an extensive update on the work underway in the 2025-2026 CIP ([AB 6790](#)). A key takeaway was both the water distribution and sewer conveyance system are undergoing significant system reinvestments. Furthermore, long-range planning is underway to assess the integrity of current infrastructure and future reinvestment needs.

As part of the Water System Plan update in 2026 (capital project 90.40.0008 in the 2025-2026 adopted CIP), staff is evaluating the water distribution system's current inventory of physical infrastructure, historical water usage data, population, service connections, and water consumption trends. Staff is also projecting future water demand and future infrastructure needs over the next 20 years.

Similar work is underway for the sewer conveyance system. Staff is developing the first systemwide hydraulic model (capital project 90.30.0009) to help identify capacity issues and to prioritize future sewer system capital reinvestment needs. This modeling work will inform the General Sewer Plan update scheduled for early 2028. These long-range planning efforts are slated for completion alongside an update to the housing element of the City's Comprehensive Plan in 2026. Together, these efforts will clarify the likely future demands on the water and sewer utility systems.

Staff recommends conducting an in-depth study of water and sewer connection charges in tandem with long-range planning efforts. This objective has been identified as a new work item in the 2025-2026 work plan update shared with the City Council at the September 16, 2025 meeting (Finance Item 1.15 in Exhibit 1 of [AB 6769](#)). There are adequate resources to fund the \$20,000 budget appropriation requests from both the Water and Sewer Fund's unassigned balance.

Staff seeks to update connection charges based on current costs, future capital plans, and projected usage patterns. This work will ensure fees for service – for both current and future customers – equitably maintain the operational integrity and financial stability for each utility system.

NEXT STEPS

Staff will conduct a request for proposals to work with an outside consultant and update the water and sewer connection charges in 2026. This work will coincide with long-range Water System Plan and General Sewer Plan updates in 2025 and 2026.

Staff will comply with state law, legal precedence, and industry guidelines to establish a cost basis for each utility system based on current system assets, outstanding debts, and future capital improvements as outlined in the 2027-2032 CIP. Projects will be categorized as replacements, capacity enhancing, and/or improvements/upgrades.

Together, this will help establish what portion of these improvements are tied to added system capacity, which will inform new water and sewer connection charges. Staff will compare the amount and method in which these charges are applied with neighboring jurisdictions. Staff will work with the Utility Board to develop a recommendation for the City Council's consideration. The City Council's resulting decision will be incorporated into the City's fee schedule update, tentatively anticipated for November 2026.

RECOMMENDED ACTION

Appropriate \$20,000 from the Water Fund and \$20,000 from the Sewer Fund unassigned fund balance to update connection charges for the water and sewer utility systems.