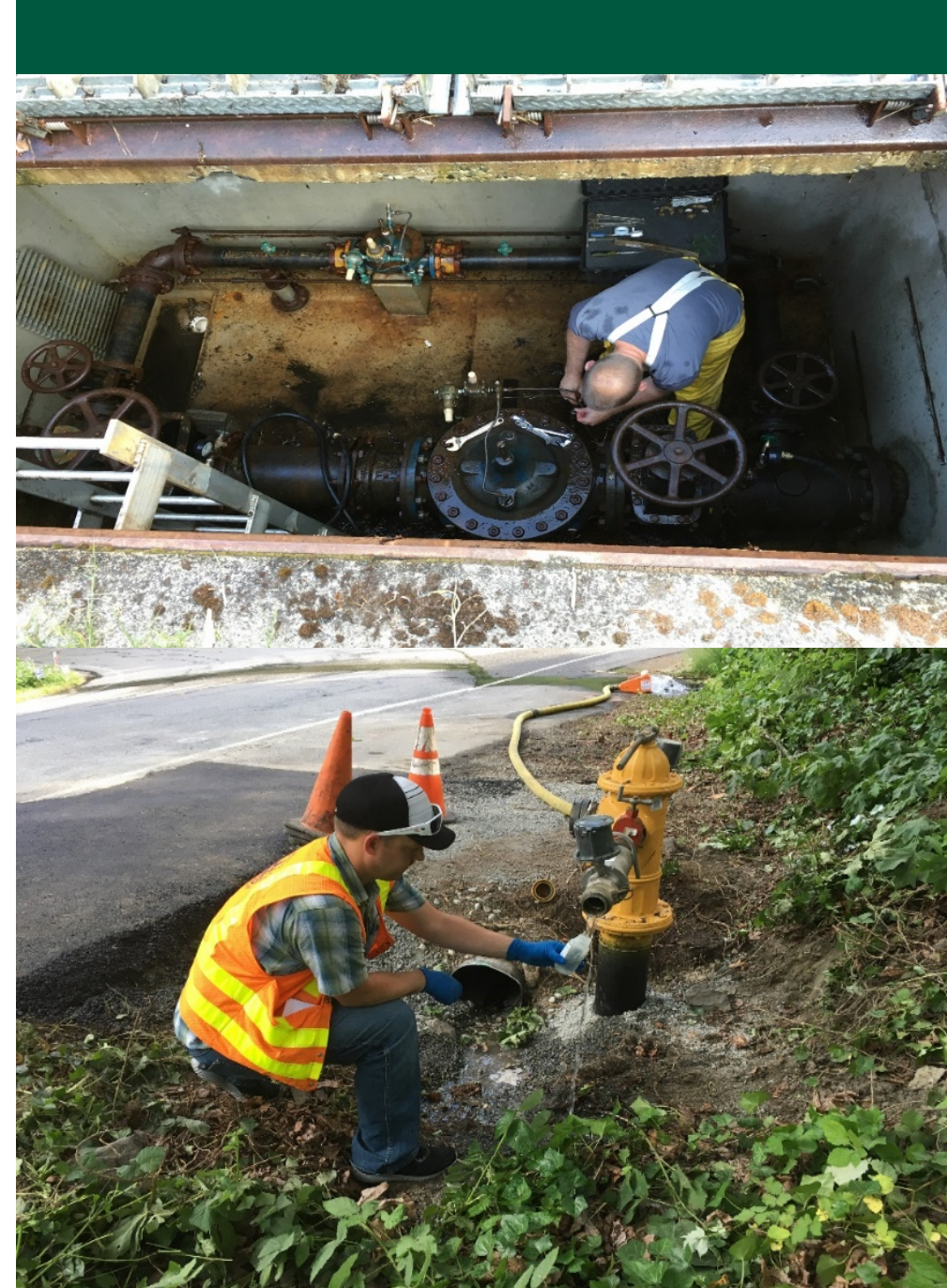




CITY OF MERCER ISLAND 2024 Rate Study Update

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September 10, 2024





Overview

- FCS retained to complete a water, sewer, and stormwater rate update
 - » Previously assisted the City in 2020 and 2022
- Focus for today:
 - » Overview the rate setting process
 - » Present key data inputs and assumptions
 - » Summary of initial findings
- Questions
- Next Steps

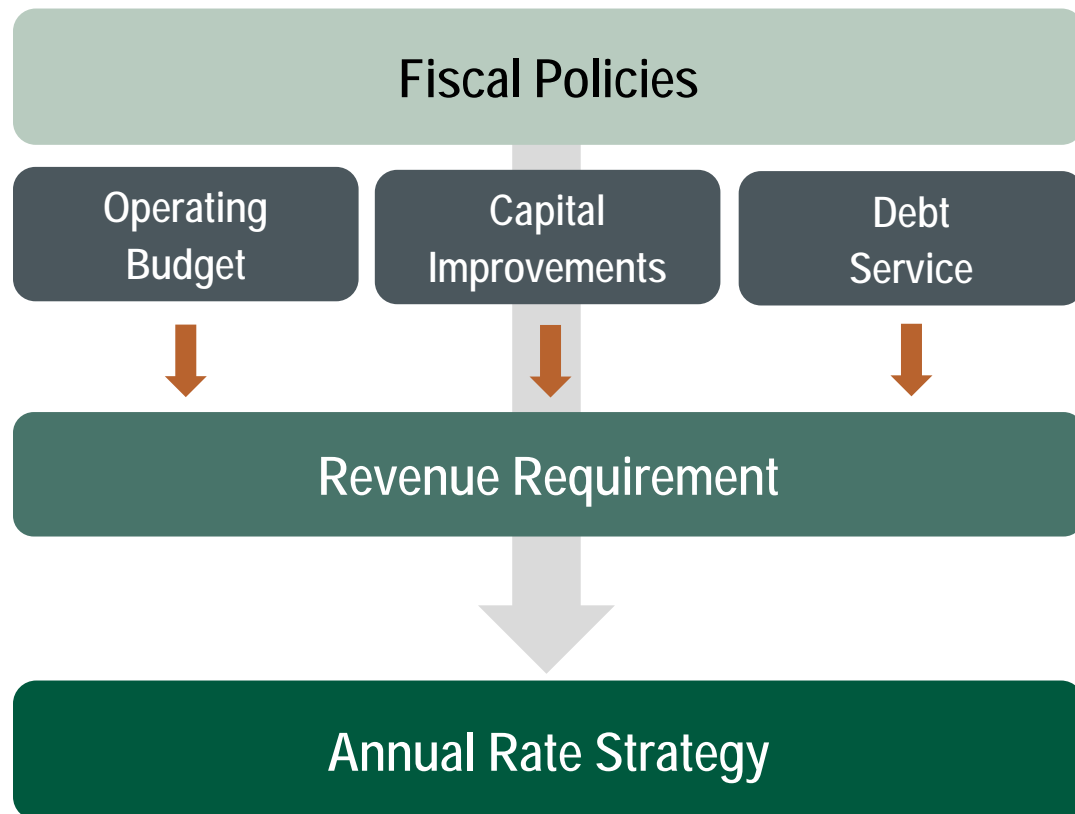


Critical Capital Work Ahead

- Total 2025-2026 CIP Preliminary Budget expenditures are \$72.2M
 - » \$40.9M, or 56.6%, tied to the Utility Funds
- Reinvestment in the City's aging water distribution system
 - » Most of City's distribution system was constructed in the 1950's-1960's with an expected useful life of 50-75 years (dependent on material type).
 - » Replacements prioritized using a combination of factors.
 - » E.g., asbestos cement main replacements are prioritized due to material and age.
- Sewer conveyance system faces similar challenges with aging infrastructure
 - » Pump Station rehabilitation already in progress with Lakeline work on the horizon.



Rate Study Elements



- Evaluates sufficiency of current rates to meet all utility financial obligations on a stand-alone basis
- Develop rate plan to balance financial needs and minimize customer impacts
- Multi-year rate plan with rate focus on 2025-2026



Financial Forecast Key Assumptions



Forecast Basis

Study Period: 2025-2030
2024-2026 budgets
used as baseline



Operating Reserve Target

30-90 days of OpEx
Based on revenue collection
variability



Customer Growth

Conservatively no growth
assumed



Expense Inflation

3.5% to 6.0% for City costs
SPU water and KC Metro
based on provided forecast



Existing Debt Service

Water: \$300k annually
Sewer: \$1M annually



Capital Plan

2024: Budget
2025-2030: City CIP



Water Revenue Requirement



Water Utility Background

- O&M

- » Low interest loan for Booster Chlorination System secured since last forecast
 - 20 years at 0.89% interest
 - Previously forecast projected debt at 5.0%
- » In the process of securing Long Term General Obligation (LTGO) funding
- » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - Cost of Living Adjustment (COLA) of 6.0% in 2024, 4.2% in 2025

- Capital

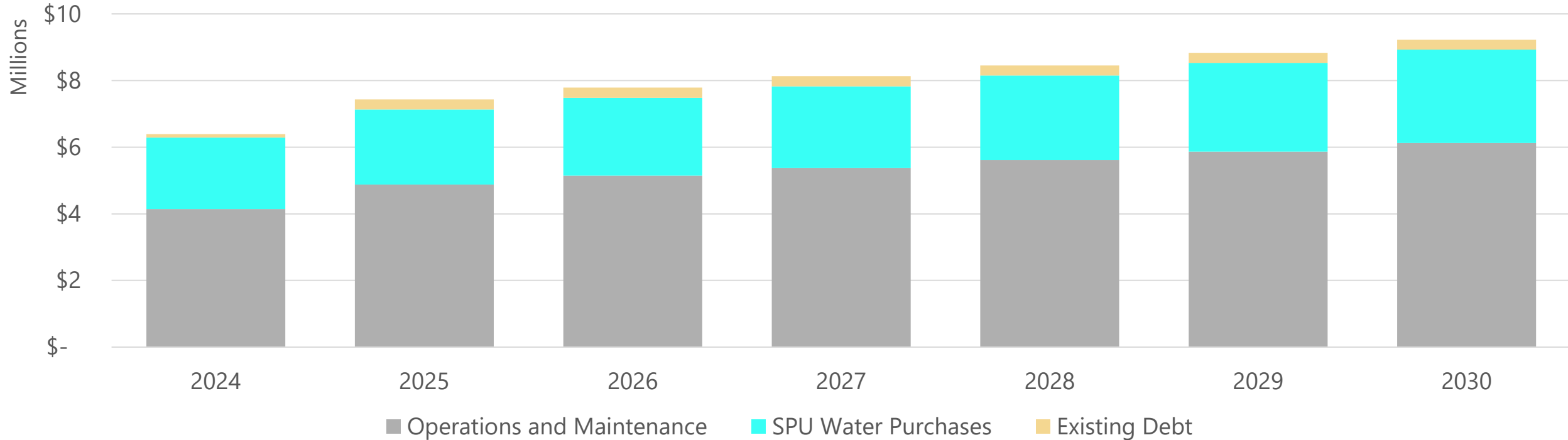
- » Previous study estimated \$75M (2022-2028)
 - \$33M assumed financed in the last forecast

- Rate Plan

- » 8% annual rate increases



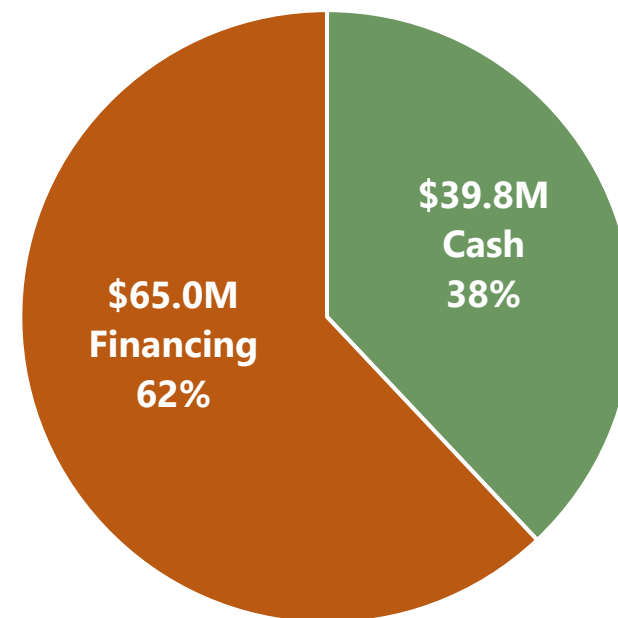
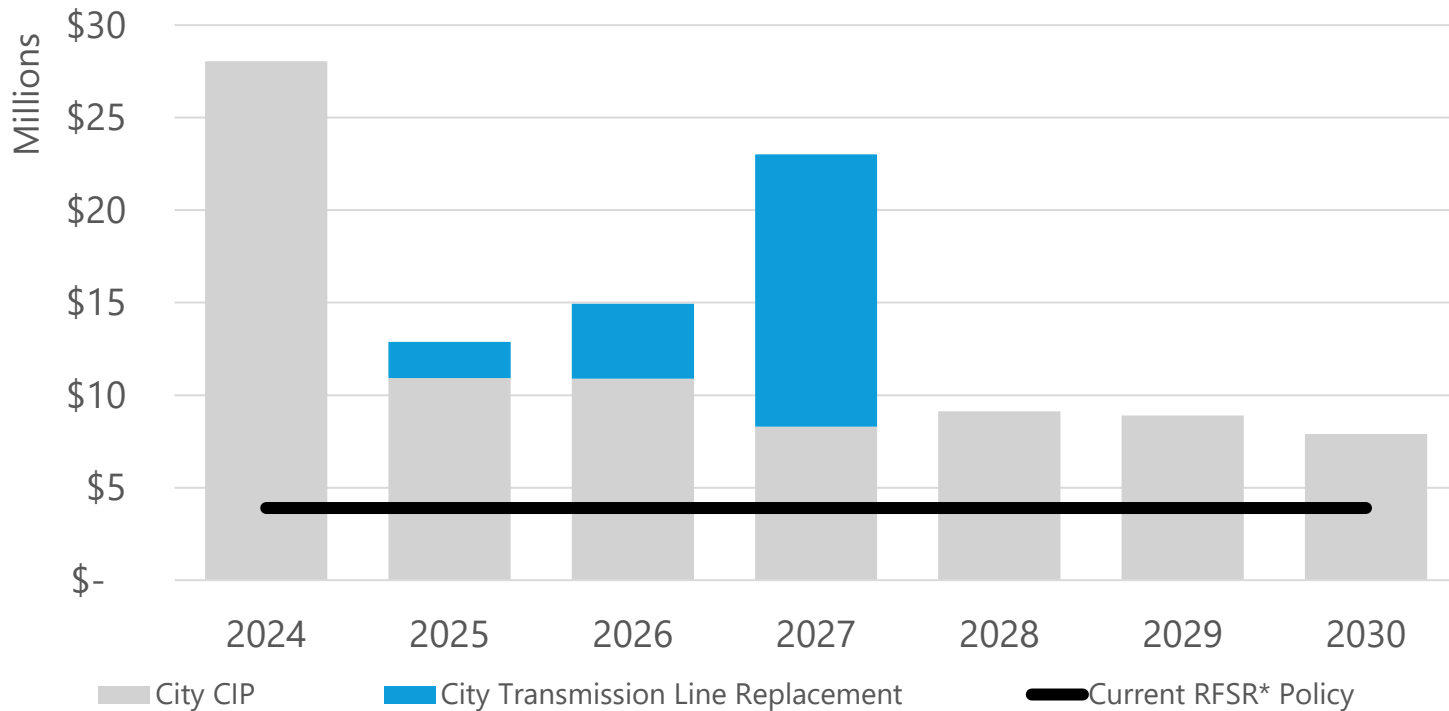
Water: 2024-2030 Operational Forecast



- Total Operational Costs: \$6.4M - \$9.2M
 - » Operations and Maintenance: \$4.1M - \$6.1M
 - » SPU Water Purchases: \$2.2M - \$2.8M
 - » Existing Annual Debt Service: \$0.1M - \$0.3M



Water: 2024-2030 Capital Plan



- **\$104.8M in capital spending**

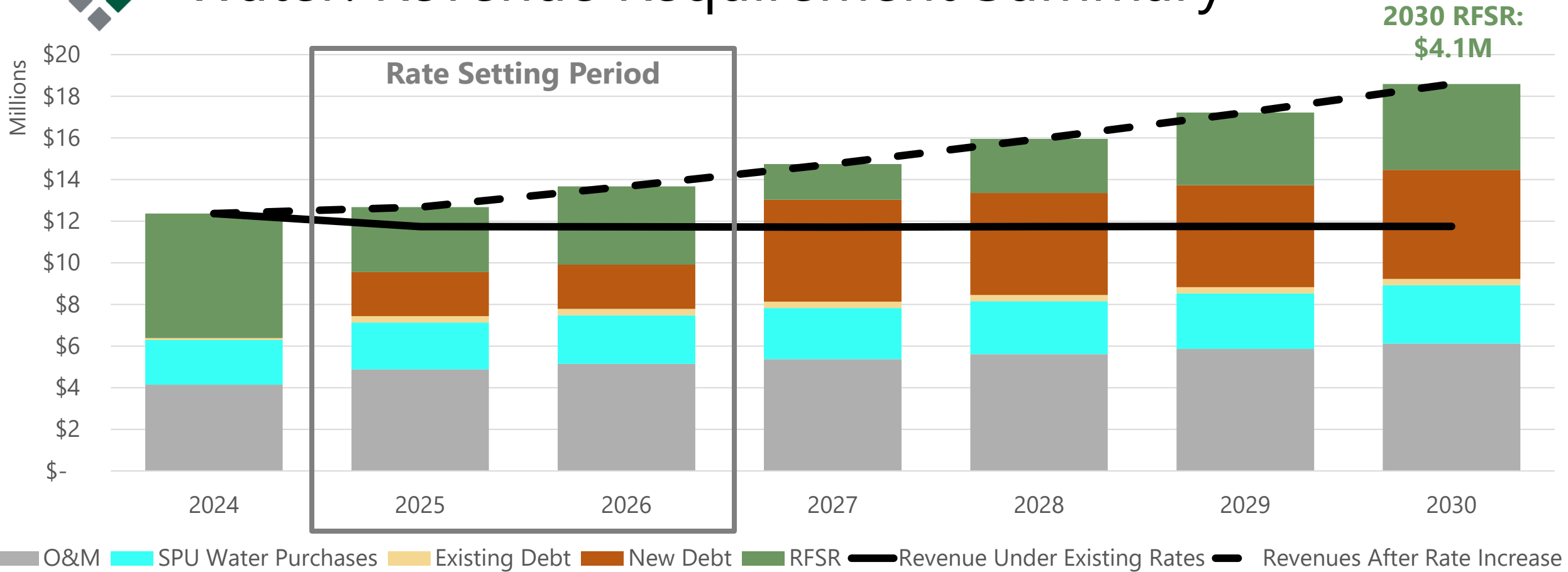
- » \$28.0M in 2024 budgeted
- » \$20.7M City Transmission Line Replacement
- » \$56.1M ongoing City capital needs 2025-2030

- **Funding Sources**

- » 2024 debt issuance of \$28M
- » 2027 debt issuance of \$33M
- » 2030 debt issuance of \$4M



Water: Revenue Requirement Summary



- Maintaining 8.0% annual rate plan addresses capital needs and RFSR target
- Existing revenue is sufficient to cover all operational cost through 2026



Water: Sample Single Family Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Bill	\$142.51	\$153.90	\$166.24	\$179.54	\$193.88	\$209.42	\$226.20
Bimonthly Increase		\$11.39	\$12.34	\$13.30	\$14.34	\$15.54	\$16.78
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Bill	\$71.26	\$76.95	\$83.12	\$89.77	\$96.94	\$104.71	\$113.10
Monthly Increase		\$5.69	\$6.17	\$6.65	\$7.17	\$7.77	\$8.39
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

*Assumes ¾" meter and 14 ccf bimonthly usage

- Key drivers:

- » Near term capital reinvestment needs and associated debt repayment
- » Additional capital needs since the last update



Sewer Revenue Requirement



Sewer Utility Background

- O&M

- » King County Metro Treatment cost forecast updated
 - Treated as a passthrough for this analysis
- » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - COLA of 6.0% in 2024, 4.2% in 2025

- Capital

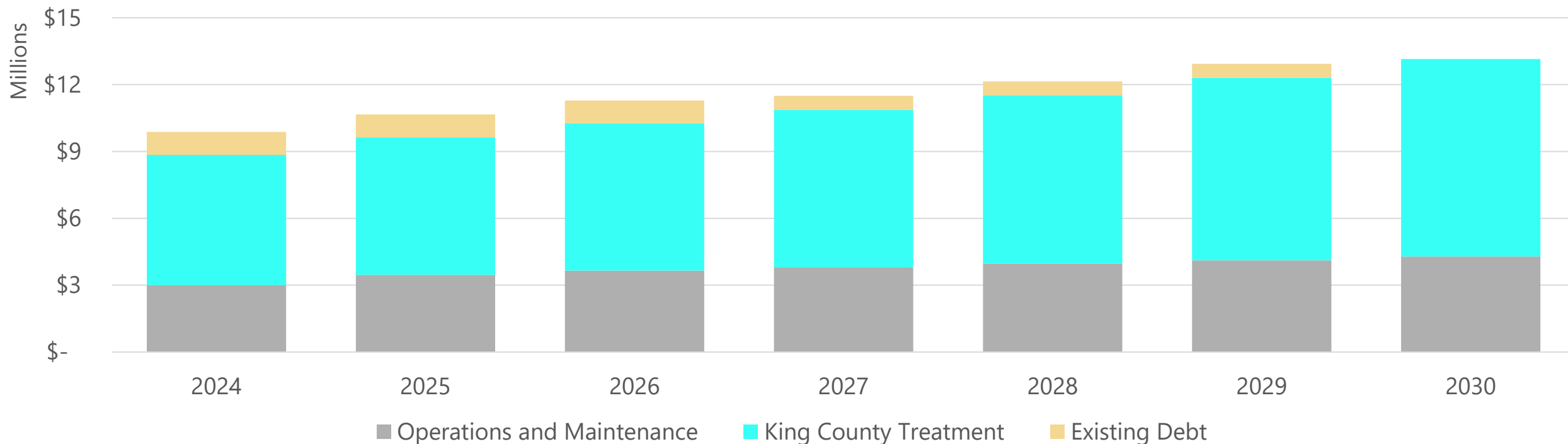
- » Previous study estimated \$30M (2022-2028)
 - \$11M debt financed

- Rate Plan

- » 4.5% annual rate increases for the City portion of the bill



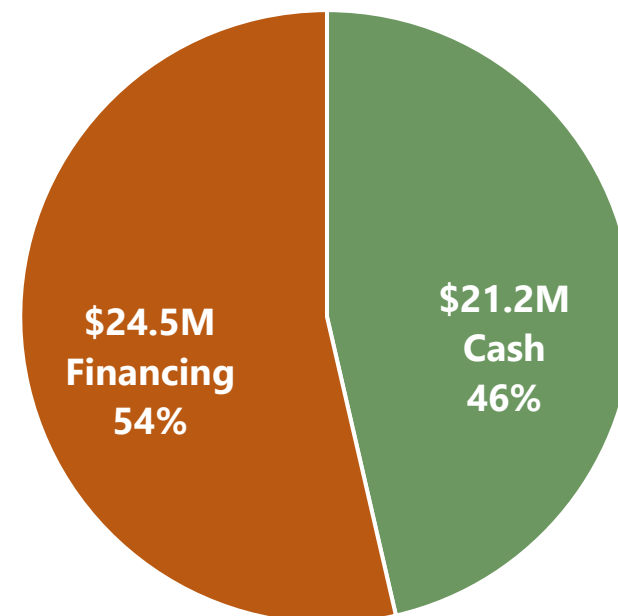
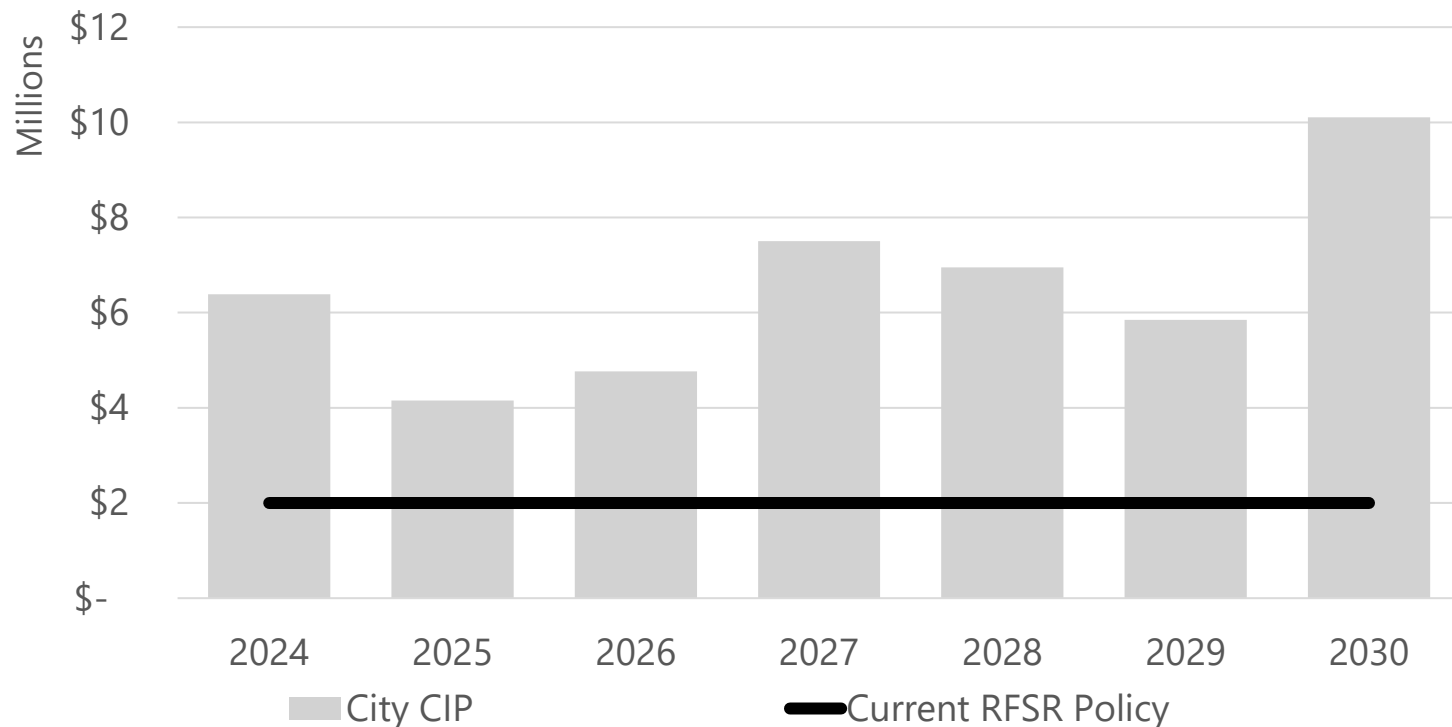
Sewer: 2024-2030 Operational Forecast



- Total Operational Costs: \$9.9M - \$13.1M
 - » Operations and Maintenance: \$3.0M - \$4.3M
 - » King County Treatment: \$5.8M - \$8.8M
 - » Existing Annual Debt Service: \$1.0M - \$0.0M
 - Lake Line debt obligations end in 2026 and 2029



Sewer: 2024-2030 Capital Plan

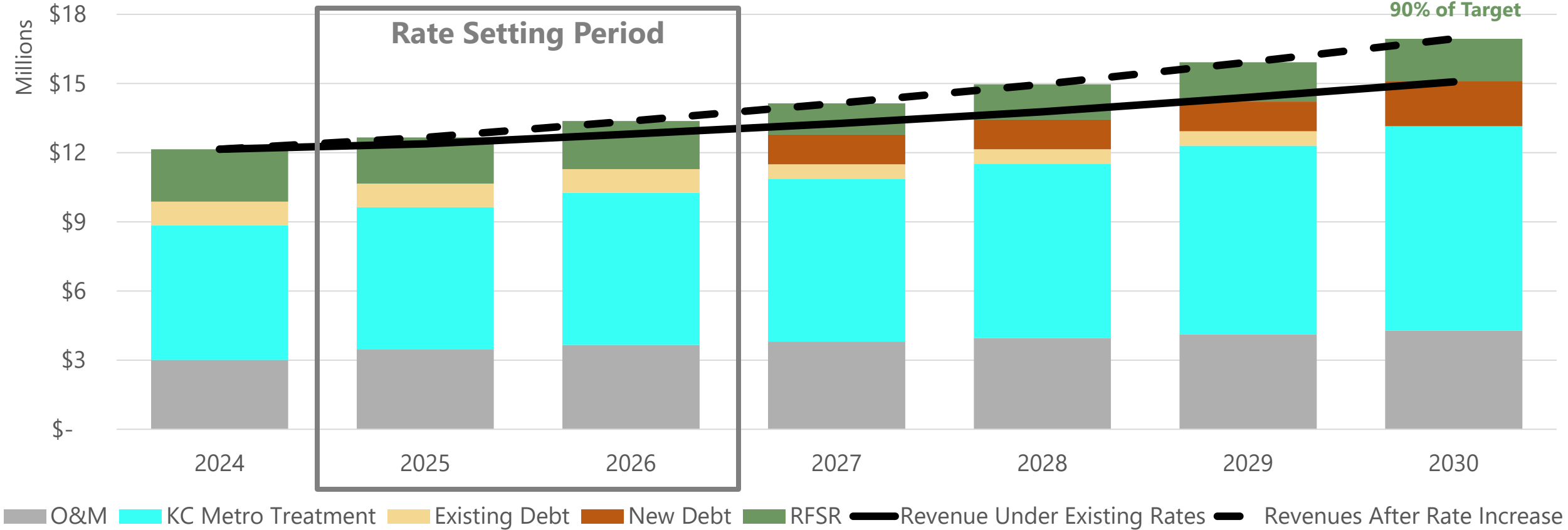


- \$45.7M in capital spending
 - » \$6.4M budgeted in 2024
 - » 2025-2026 CIP adjusted to fit debt issuances
 - » Lake Line projects forecasted in 2029-2030

- Funding Sources
 - » 2027 debt issuance of \$16M
 - » 2030 debt issuance of \$8.5M



Sewer: Revenue Requirement Summary



- Maintaining 4.5% annual rate plan for capital needs
- Existing revenue is sufficient to cover all operational cost through 2029



Sewer: Sample Single Family Bill

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Local Bill	\$34.21	\$35.74	\$37.35	\$39.03	\$40.79	\$42.63	\$44.55
Monthly Increase		\$1.54	\$1.61	\$1.68	\$1.76	\$1.84	\$1.92
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Monthly Treatment Bill	\$55.11	\$58.28	\$62.36	\$66.73	\$71.40	\$77.29	\$83.67
Monthly Increase		\$3.17	\$4.08	\$4.37	\$4.67	\$5.89	\$6.38
Percent Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Monthly Total Bill	\$89.32	\$94.02	\$99.71	\$105.76	\$112.19	\$119.92	\$128.22
Monthly Increase		\$4.71	\$5.69	\$6.05	\$6.43	\$7.73	\$8.30
Percent Increase		5.27%	6.05%	6.07%	6.08%	6.89%	6.92%

Assumes 6ccf monthly winter water usage

- Key drivers:
 - » Additional capital needs since the last update
 - » Phasing towards RFSR target



Stormwater Revenue Requirement



Stormwater Utility Background

- O&M

- » New Compensation Plan ([AB 6491](#)) implemented in 2024 with new salary schedule and classification system for non-represented employees
 - COLA of 6.0% in 2024, 4.2% in 2025
- » Reallocation of staff time to more accurately capture anticipated needs of staff resources
- » Contractual costs increasing 24.7% from 2024 to 2025
 - Covers work including Closed Circuit Television (CCTV) storm water pipe video inspections and catch basin cleaning & repairs
 - Contracted work is critical to comply with NPDES requirements

- Capital

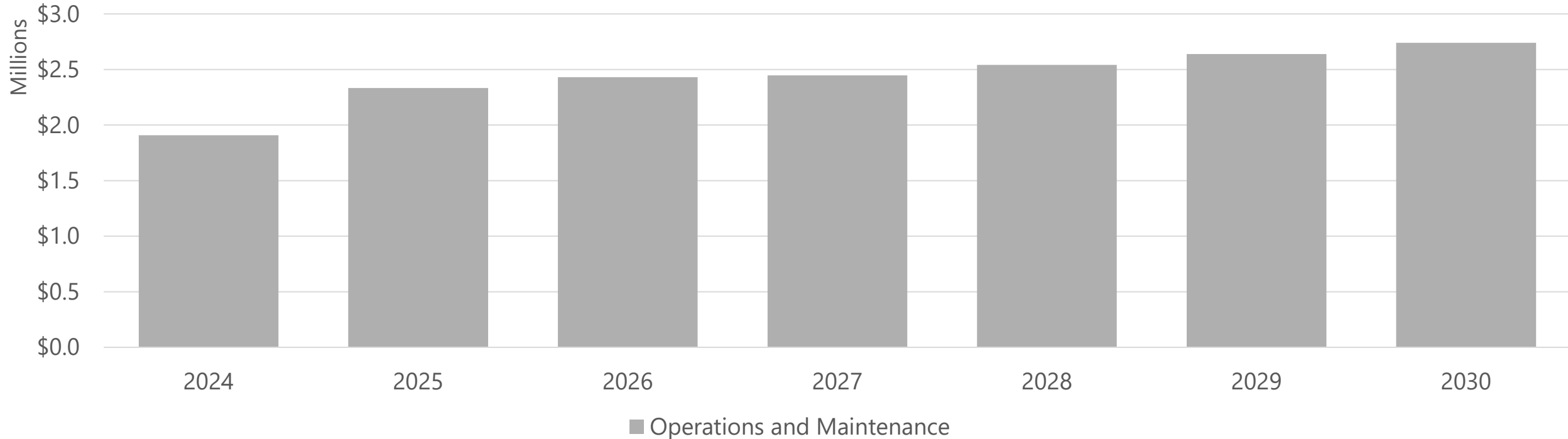
- » Previous study estimated \$12.1M (2022-2028)
 - \$2.5M debt financed

- Rate Plan

- » 8% annual rate increases



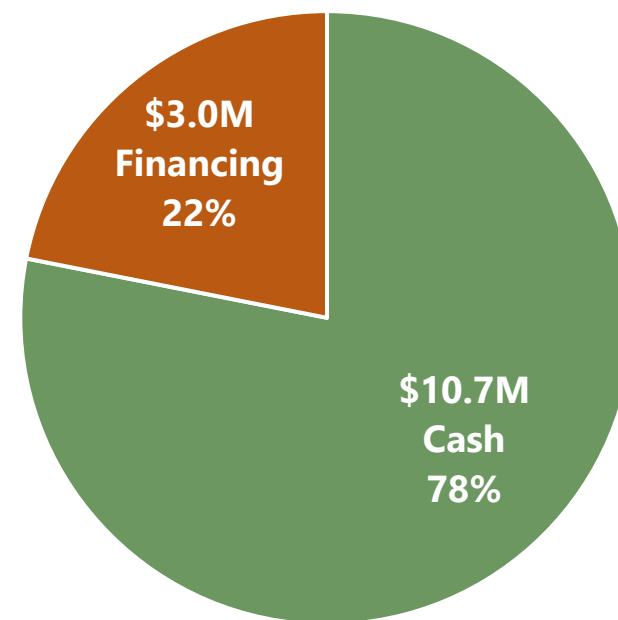
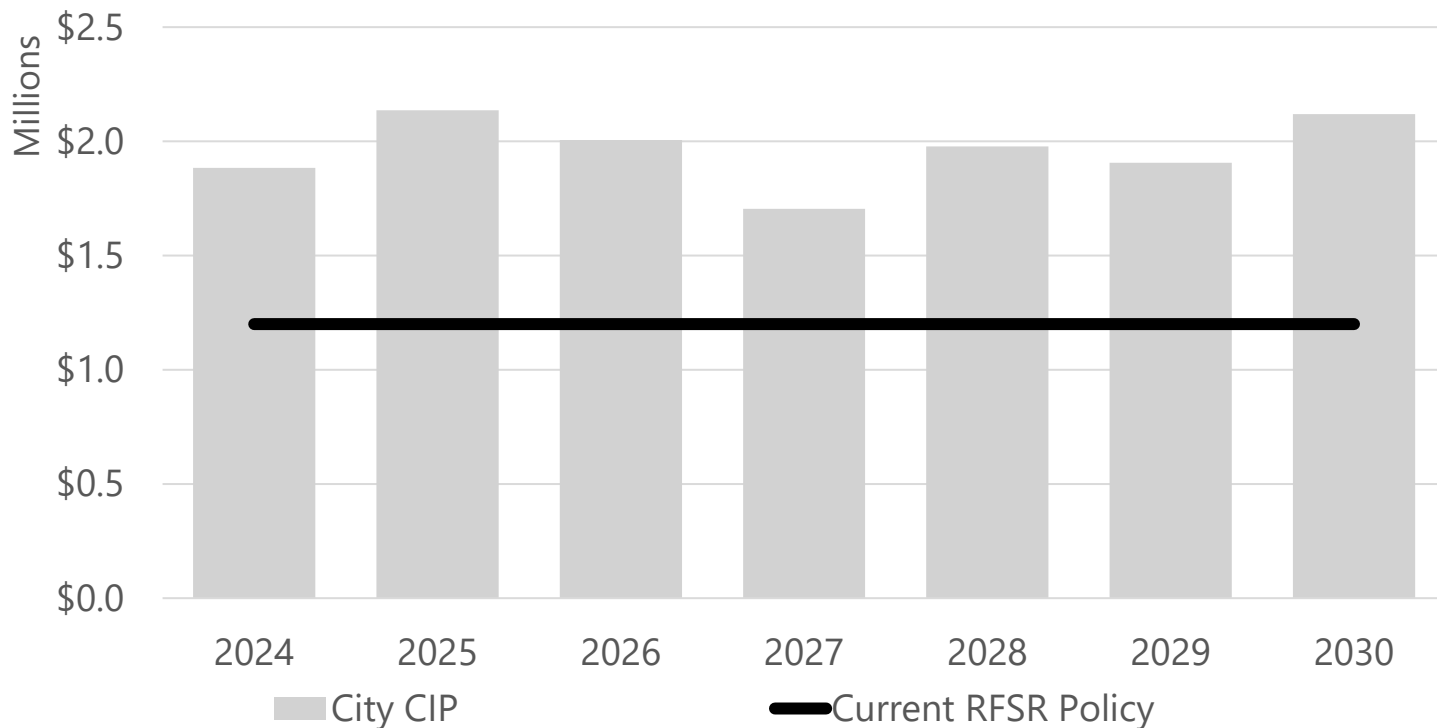
Stormwater: 2024-2030 Operational Forecast



- Operations and Maintenance: \$1.9M - \$2.7M
- No Existing Debt Service



Stormwater: 2024-2030 Capital Plan

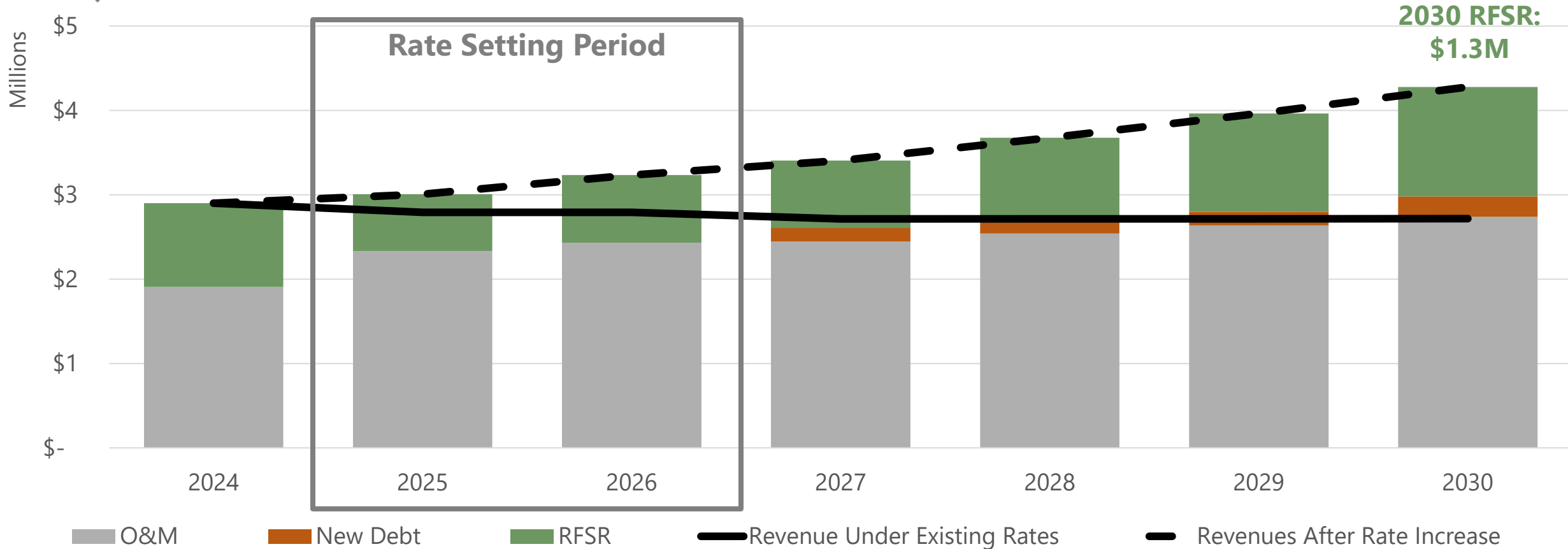


- \$13.7M in capital spending
 - » \$1.9M budgeted in 2024
 - » Annual ongoing improvements

- Funding Sources
 - » 2027 debt issuance of \$2M
 - » 2030 debt issuance of \$1M
 - » Debt issuances aligned with water/sewer



Stormwater: Revenue Requirement Summary



- Maintaining 8.0% annual rate plan addresses RFSR target
- Existing revenue is sufficient to cover all operational cost through 2028



Stormwater: Sample Single Family Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Bill	\$46.43	\$50.14	\$54.15	\$58.48	\$63.16	\$68.21	\$73.67
Bimonthly Increase		\$3.71	\$4.01	\$4.33	\$4.68	\$5.05	\$5.46
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Monthly Bill	\$23.22	\$25.07	\$27.08	\$29.24	\$31.58	\$34.11	\$36.84
Monthly Increase		\$1.85	\$2.01	\$2.16	\$2.34	\$2.53	\$2.73
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

- Key drivers:
 - » Additional capital needs since the last update
 - » Working towards RFSR target by 2030



Summary



Water/Sewer/Stormwater Combined Bill Impact

Monthly	2024	2025	2026	2027	2028	2029	2030
Sample Water Bill	\$71.26	\$76.95	\$83.12	\$89.77	\$96.94	\$104.71	\$113.10
Monthly Increase		\$5.69	\$6.17	\$6.65	\$7.17	\$7.77	\$8.39
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Local Sewer Bill	\$34.20	\$35.74	\$37.35	\$39.03	\$40.79	\$42.63	\$44.55
Monthly Increase		\$1.54	\$1.61	\$1.68	\$1.76	\$1.84	\$1.92
Percentage Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Metro Sewer Bill	\$55.11	\$58.28	\$62.36	\$66.73	\$71.40	\$77.29	\$83.67
Monthly Increase		\$3.17	\$4.08	\$4.37	\$4.67	\$5.89	\$6.38
Percentage Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Stormwater Bill	\$23.22	\$25.07	\$27.08	\$29.24	\$31.58	\$34.11	\$36.84
Monthly Increase		\$1.85	\$2.01	\$2.16	\$2.34	\$2.53	\$2.73
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Total Bill	\$183.79	\$196.04	\$209.91	\$224.77	\$240.71	\$258.74	\$278.16
Monthly Increase		\$12.25	\$13.87	\$14.86	\$15.94	\$18.03	\$19.42
Percentage Increase		6.67%	7.08%	7.08%	7.09%	7.49%	7.51%



Next Steps

- Discussion Points

- » September 10th – Receive Water, Sewer, Storm Water, & EMS rate recommendations and discussion
- » October 8th – Rate discussion and recommendation continued (if needed)
- » November – Reserved for additional discussion

- Recommendation to Council

- » Set for Council review and adoption as part of the City's Master Fee Schedule on December 3rd, 2024

Thank you! Questions?

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Historical Rate Increases

Utility	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Water	4.30%	8.0%	12.80%	10.90%	6.00%	5.30%	6.50%	6.50%	5.25%	5.25%	8.00%	8.00%
Sewer (local)	4.00%	8.50%	8.30%	7.00%	7.00%	7.80%	7.70%	7.70%	4.00%	4.00%	4.50%	4.50%
Storm	1.20%	1.20%	2.70%	1.30%	4.00%	1.50%	3.20%	3.20%	5.50%	5.50%	8.00%	8.00%



Bimonthly Sewer Rate

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Bimonthly Local Bill	\$68.41	\$71.49	\$74.71	\$78.07	\$81.58	\$85.25	\$89.09
Bimonthly Increase		\$3.08	\$3.22	\$3.36	\$3.51	\$3.67	\$3.84
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Bimonthly Treatment Bill	\$110.22	\$116.56	\$124.72	\$133.45	\$142.79	\$154.57	\$167.33
Bimonthly Increase		\$6.34	\$8.16	\$8.73	\$9.34	\$11.78	\$12.76
Percent Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Bimonthly Total Bill	\$178.63	\$188.05	\$199.43	\$211.52	\$224.37	\$239.82	\$256.42
Bimonthly Increase		\$9.42	\$11.38	\$12.09	\$12.85	\$15.45	\$16.60
Percent Increase		5.27%	6.05%	6.06%	6.08%	6.89%	6.92%



Combined Bimonthly Bill

Bimonthly	2024	2025	2026	2027	2028	2029	2030
Sample Water Bill	\$142.51	\$153.91	\$166.22	\$179.52	\$193.88	\$209.39	\$226.14
Bimonthly Increase		\$11.40	\$12.31	\$13.30	\$14.36	\$15.51	\$16.75
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Local Sewer Bill	\$68.41	\$71.49	\$74.71	\$78.07	\$81.58	\$85.25	\$89.09
Bimonthly Increase		\$3.08	\$3.22	\$3.36	\$3.51	\$3.67	\$3.84
Percentage Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Metro Sewer Bill	\$110.22	\$116.56	\$124.72	\$133.45	\$142.79	\$154.57	\$167.33
Bimonthly Increase		\$6.34	\$8.16	\$8.73	\$9.34	\$11.78	\$12.76
Percentage Increase		5.75%	7.00%	7.00%	7.00%	8.25%	8.25%
Sample Stormwater Bill	\$46.43	\$50.14	\$54.15	\$58.48	\$63.16	\$68.21	\$73.67
Bimonthly Increase		\$3.71	\$4.01	\$4.33	\$4.68	\$5.05	\$5.46
Percentage Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Sample Total Bill	\$367.57	\$392.10	\$419.80	\$449.52	\$481.41	\$517.42	\$556.23
Bimonthly Increase		\$24.53	\$27.70	\$29.72	\$31.89	\$36.01	\$38.81
Percentage Increase		6.67%	7.06%	7.08%	7.09%	7.48%	7.50%