

2. Discussion of Utility Rate Study and future adoption of a Utility Rate Ordinance *First Reading* – Public Works and Utilities (60 minutes)



City Council Agenda Item 10.2

October 6, 2026 - Regular Meeting

TITLE: Discussion of Utility Rate Study and future adoption of a Utility Rate Ordinance (First Reading)

DEPARTMENT: Public Works and Utilities

PRESENTER: Andy Rheaume/Mike De Lilla

NEEDED FROM COUNCIL: Input

RECOMMENDATION: No action required. Staff to prepare a Utility Rate Ordinance for submittal and approval in a future council meeting.

BUDGET:

Total Dollar Amount: TBD

☒ Approved in Budget

Fund(s): 421, 422, 423

☐ Budget Reallocation Required

☐ No Budget Impact

PROBLEM/ISSUE STATEMENT:

The City of Edmonds operates utilities, that include drinking water, wastewater, and stormwater. The City received the draft combined utility rate study from its consultant, the Bowman/FCS Group. The findings show increases in all three utility rates. This funding will help address rising costs including, but not limited to, inflation and rising maintenance and operations costs, wholesale cost increases for drinking water due to the City of Everett, the replacement of aging and failing infrastructure as part of the annual replacement projects, and upcoming larger capital projects including the Edmonds and Lynnwood Wastewater Treatment Plants upgrades.

With the rate increases recommended and proposed by the consultant and staff, the City will only need to acquire bonds for the larger upcoming capital projects. The cost for annual maintenance and replacement projects will continue to be rate funded, thereby resulting in considerable future savings to the City. The proposed rates also keep intact industry standard 180-day reserves.

CONTEXT, ANALYSIS, & ALTERNATIVES:

The City owns and maintains drinking water, wastewater, and stormwater utilities. To ensure the continued function and maintenance of each of these utilities, the City of Edmonds charges utility rates to all residences and businesses that have access and make use of them. The rates generated for each utility pay for their respective enterprise funds as required by state law. These enterprise funds in turn are used to support the respective utility to ensure its continued maintenance, reliability, and function.

RECOMMENDATION:

No action required. Staff to prepare a Utility Rate Ordinance for submittal and approval in a future council meeting.

BUDGET IMPACTS:

TBD

ITEM HISTORY:

N/A

ADDITIONAL INFORMATION:

ATTACHMENTS:

Attachment 1 – Presentation

Chris Gonzalez, Principal
October 6, 2026



2026 Utility Rate Update



Agenda

- Background
- Utility Rate Update
 - » Methodology/Assumptions
 - » Findings
 - » Comparison
- Questions/Discussion



Why Are We Doing This?

- City utilities are enterprise funds that need to be self-sufficient
 - » Revenues need to cover costs in the long run
- City utilities have substantial infrastructure replacement needs
 - » Delaying needs increases operating costs and risk of failure
 - Main breaks
 - Inflow and infiltration (accelerates need for sewer treatment plant expansions)
- Goal is to recover an equitable share of costs from existing/future customers
 - » Delays can lead to “snowballing” needs that have adverse rate impacts
 - » Debt can be used to spread costs of large projects over time
 - Rates should support ongoing capital projects (e.g. main replacement program)



Overview of Financial Plan

- Defines “cost-based rates” as rates based on aggregate obligations
 - » Operating costs
 - » Capital project expenditures
 - » Debt service payments
 - » Other financial needs
- Establishes a multi-year financial plan beyond the current budget cycle
- Key elements of financial plan:
 - » Defining revenues and expenses
 - » Developing capital funding strategy
 - » Establishing fiscal policy “framework”



Key Assumptions

Annual Cost Inflation Assumptions:

	2027	2028	2029	Future
General Cost Inflation	3.0%	3.0%	3.0%	3.0%
Construction Cost Inflation	4.0%	4.0%	4.0%	4.0%
Wholesale Water Rate Increases	15.5%	15.5%	15.5%	12.5% - 5.0%

Customer Growth

- Water $\approx$ 0.28% (43 MEs) per year
- Sewer $\approx$ 0.18% (30 ERUs) per year
- Stormwater $\approx$ 0.05% (11 ESUs) per year

Operating Forecast

- Generally based on 2026 Budget
 - » Incorporates staffing requests
- Utility Tax Adjustments
 - » 20% City Utility Tax through 2028
 - » 10% City Utility Tax thereafter



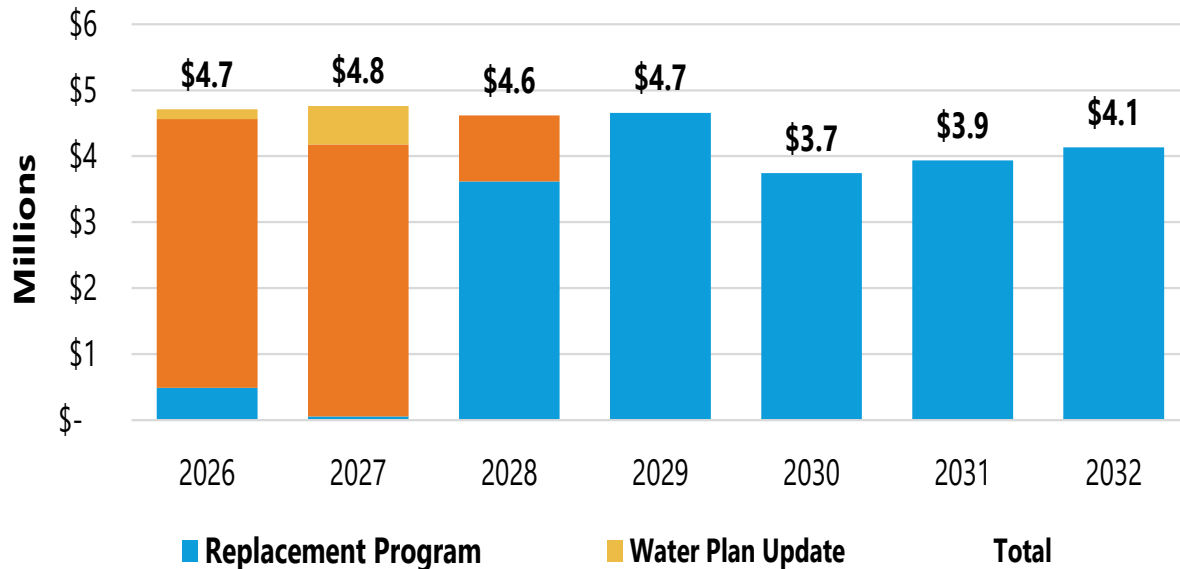
Utility Policy Assumptions

	Purpose	Policy / Target						
Unrestricted Reserves	Provide sufficient cash resources to: • Accommodate short-term revenue and expense cycles • Pay for unanticipated capital projects	180 days of operating expenses <table><tr><td><u>Water</u></td><td><u>Sewer</u></td><td><u>Stormwater</u></td></tr><tr><td>\$3.9 – \$5.9M</td><td>\$7.3 – \$8.2M</td><td>\$2.0 – \$2.5M</td></tr></table>	<u>Water</u>	<u>Sewer</u>	<u>Stormwater</u>	\$3.9 – \$5.9M	\$7.3 – \$8.2M	\$2.0 – \$2.5M
<u>Water</u>	<u>Sewer</u>	<u>Stormwater</u>						
\$3.9 – \$5.9M	\$7.3 – \$8.2M	\$2.0 – \$2.5M						
Debt Service Coverage	• Comply with existing bond covenants • Position City to optimize bond rating and secure access to favorable terms	• Minimum requirement is 1.25 times annual bond debt service • Target coverage ratio of ≥ 2.00 times annual bond debt service						



Capital Needs Forecast - Water

Escalated Capital Costs by Year



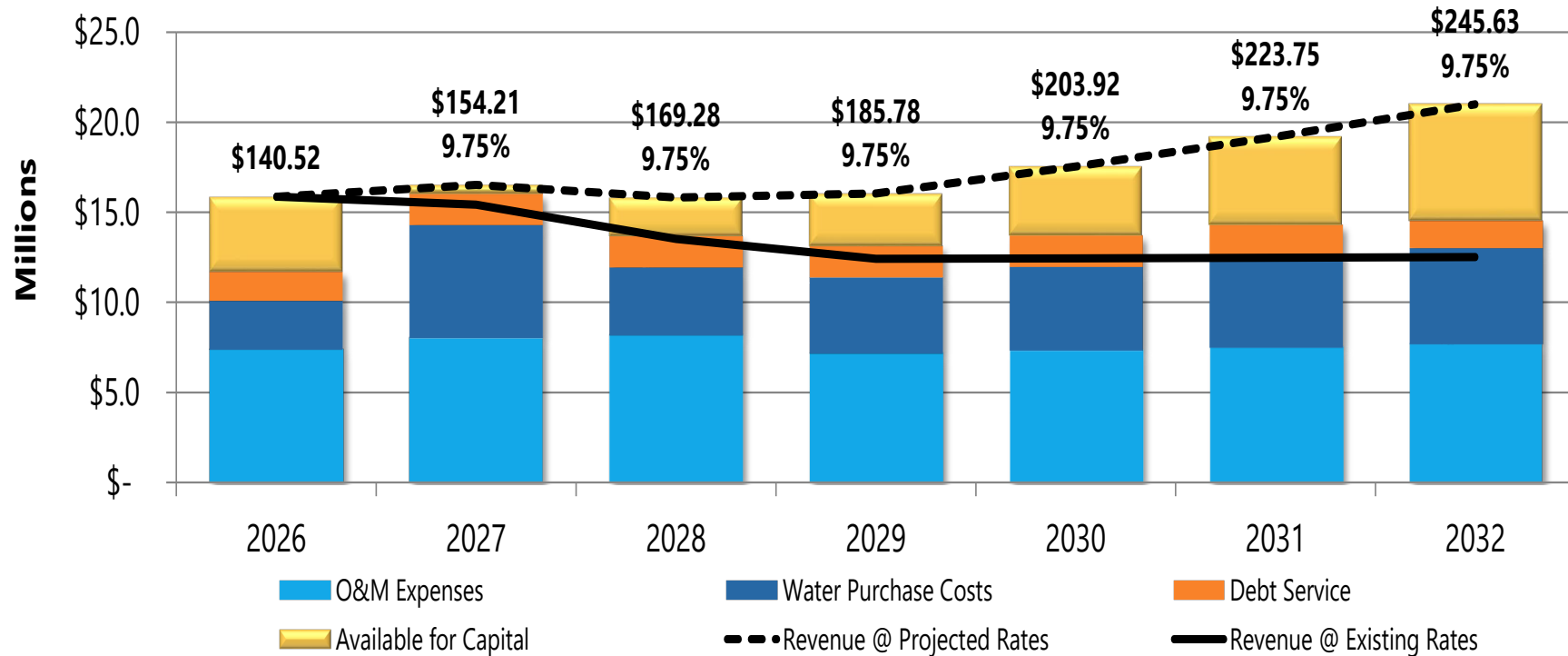
Capital Funding Strategy 2026-2032



- \$30.6 M in capital projects from 2026 – 2032
 - » Water Main Replacement Program: \$20.6 M
 - » Yost & Seaview Reservoir Rehabilitation: \$9.2 M
 - » 2027 Water Comprehensive Plan Update: \$0.8 M
- Cash resources are expected to cover $\approx$ 100% of projected capital costs



Water Revenue Requirement Forecast



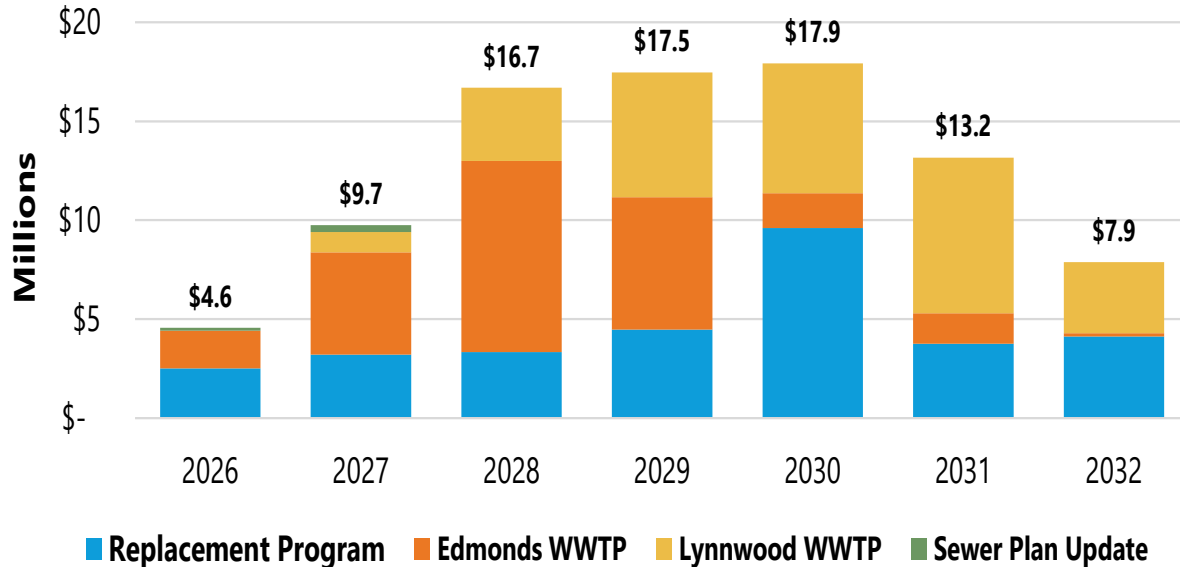
Rates shown reflect a residential bimonthly bill at 14 CCF of consumption.

- Water rate increases are driven by the following cost pressures:
 - » Water purchase cost increases (including one-time \$3.0M true-up payment in 2027)
 - » Generate funding for capital needs
- Additional revenue in 2026/2027 from interfund loan repayment

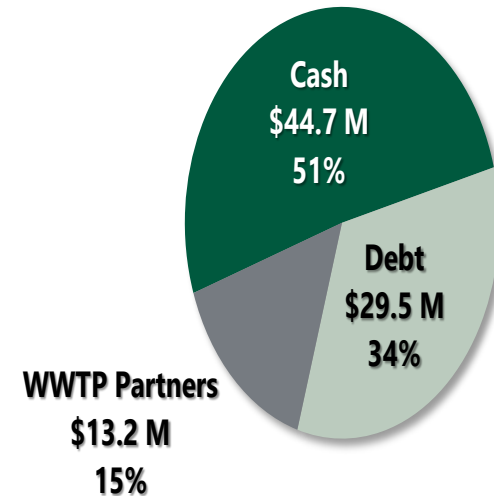


Capital Needs Forecast - Sewer

Escalated Capital Costs by Year



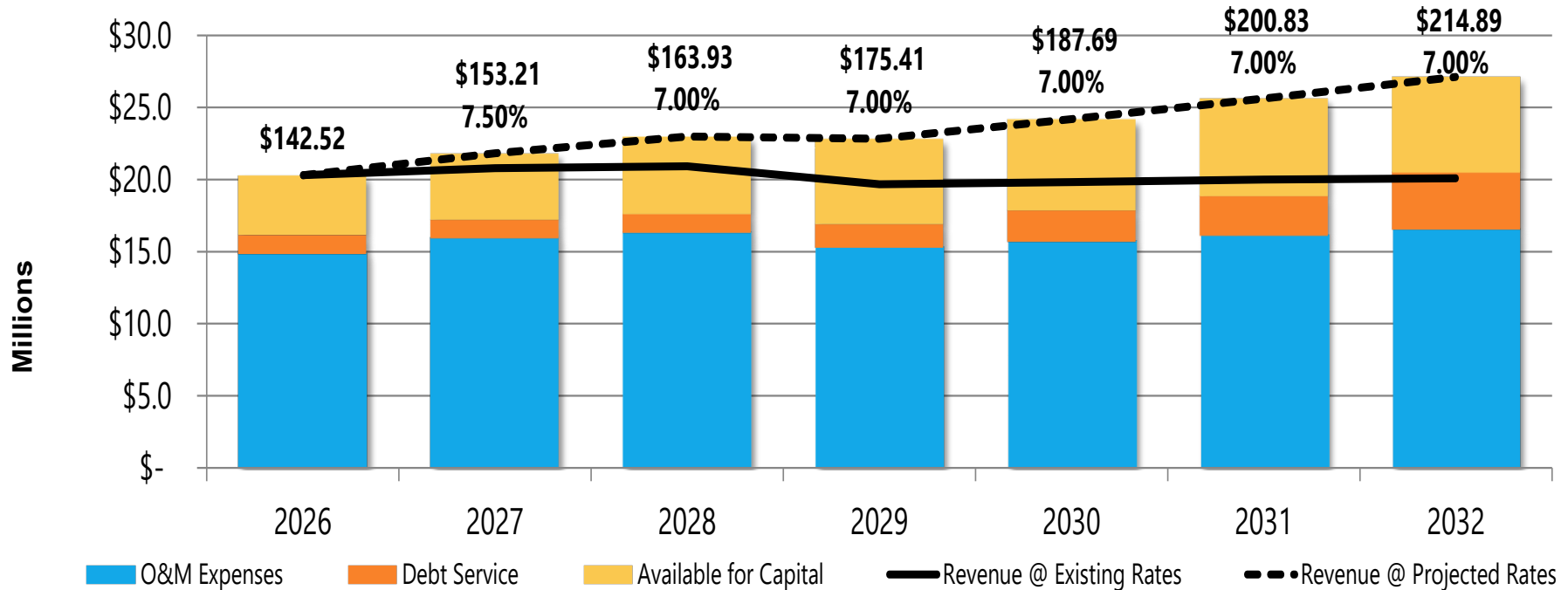
Capital Funding Strategy 2026-2032



- \$87.4M in capital projects from 2026 – 2032
 - » Edmonds WWTP Projects: \$26.9M
 - » Lynnwood WWTP Projects: \$29.0M
 - » Sewer Main Replacement Program: \$31.0M
 - » Sewer Plan Update: \$0.5M
- Cash resources and WWTP partner contributions expected to cover 66% of the total cost
- Total debt needed is \$29.5 million issued from 2028 – 2032
 - » Expected to increase the annual debt service by \$2.6M



Sewer Revenue Requirement Forecast



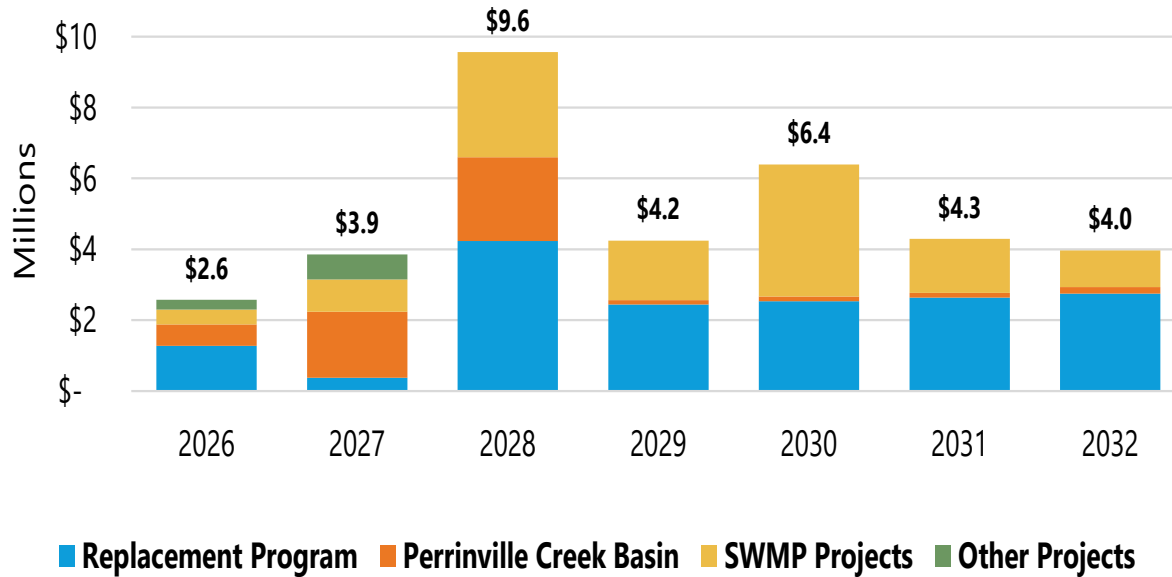
Rates shown reflect a residential bimonthly bill at 14 CCF of consumption.

- Sewer rate increases are driven by:
 - » Cash funding needs for capital projects
 - Rates expected to generate \$35.6M (~ 80%) of \$44.7M cash funding for 2026-32 CIP
 - » Increasing debt service payments

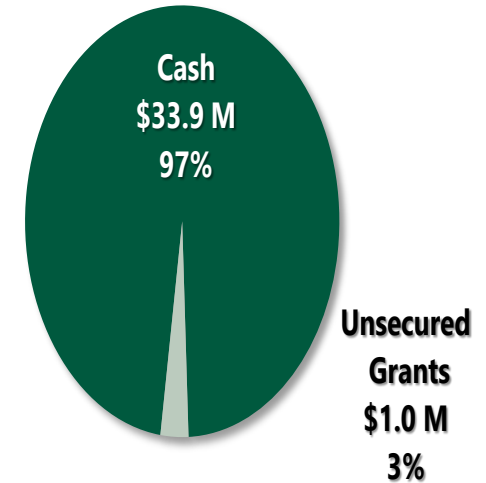


Capital Needs Forecast - Stormwater

Escalated Capital Costs by Year



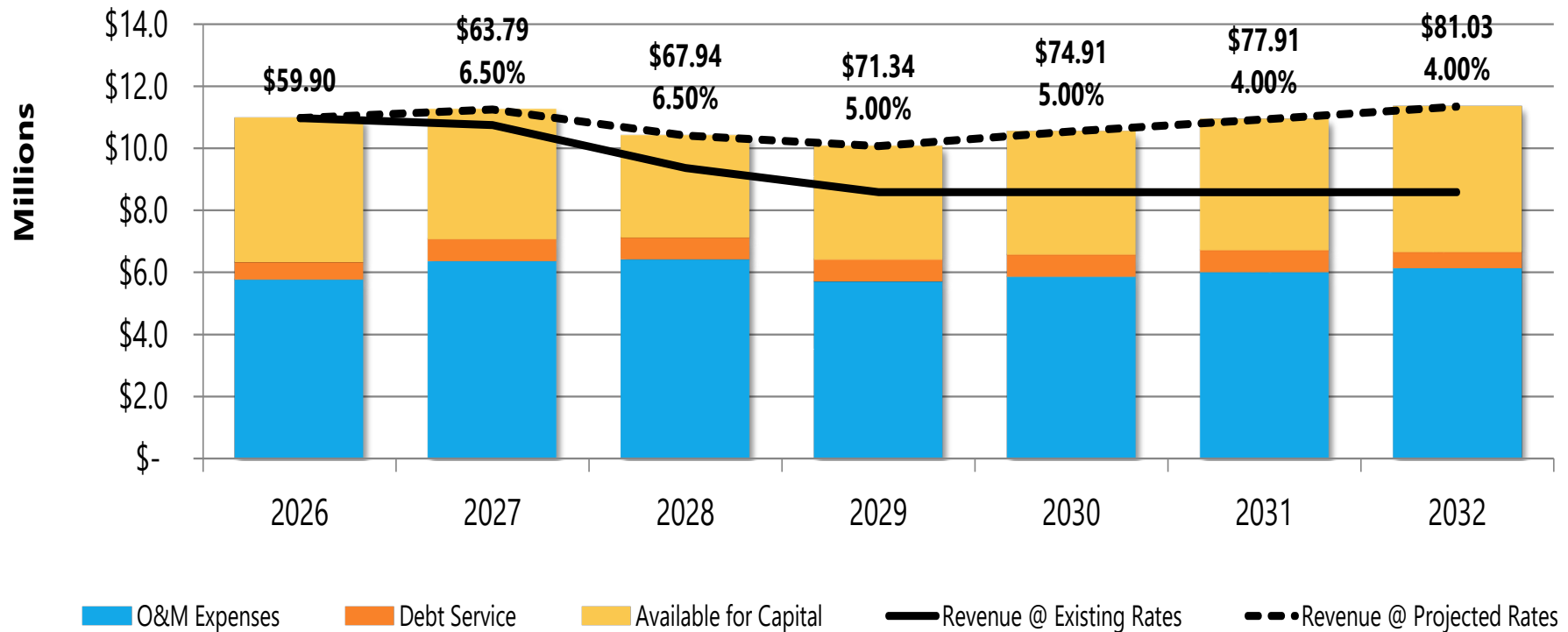
Capital Funding Strategy



- \$34.9 million in capital projects from 2026 – 2032
 - » Replacement Program Projects: \$16.2M
 - » Stormwater Management Plan Projects: \$12.3M
 - » Perrinville Creek Basin Projects: \$5.4M
 - » Other Projects: \$1.0M
- Cash and grants are expected to fully cover the costs of the capital plan.



Stormwater Revenue Requirement Forecast



- Stormwater rate increases are driven by capital funding needs
 - » Rates expected to generate \$20.2M ($\approx 59\%$) of \$33.9M cash funding for 2026 – 2032 CIP
- Additional revenue in 2026/2027 from interfund loan repayment



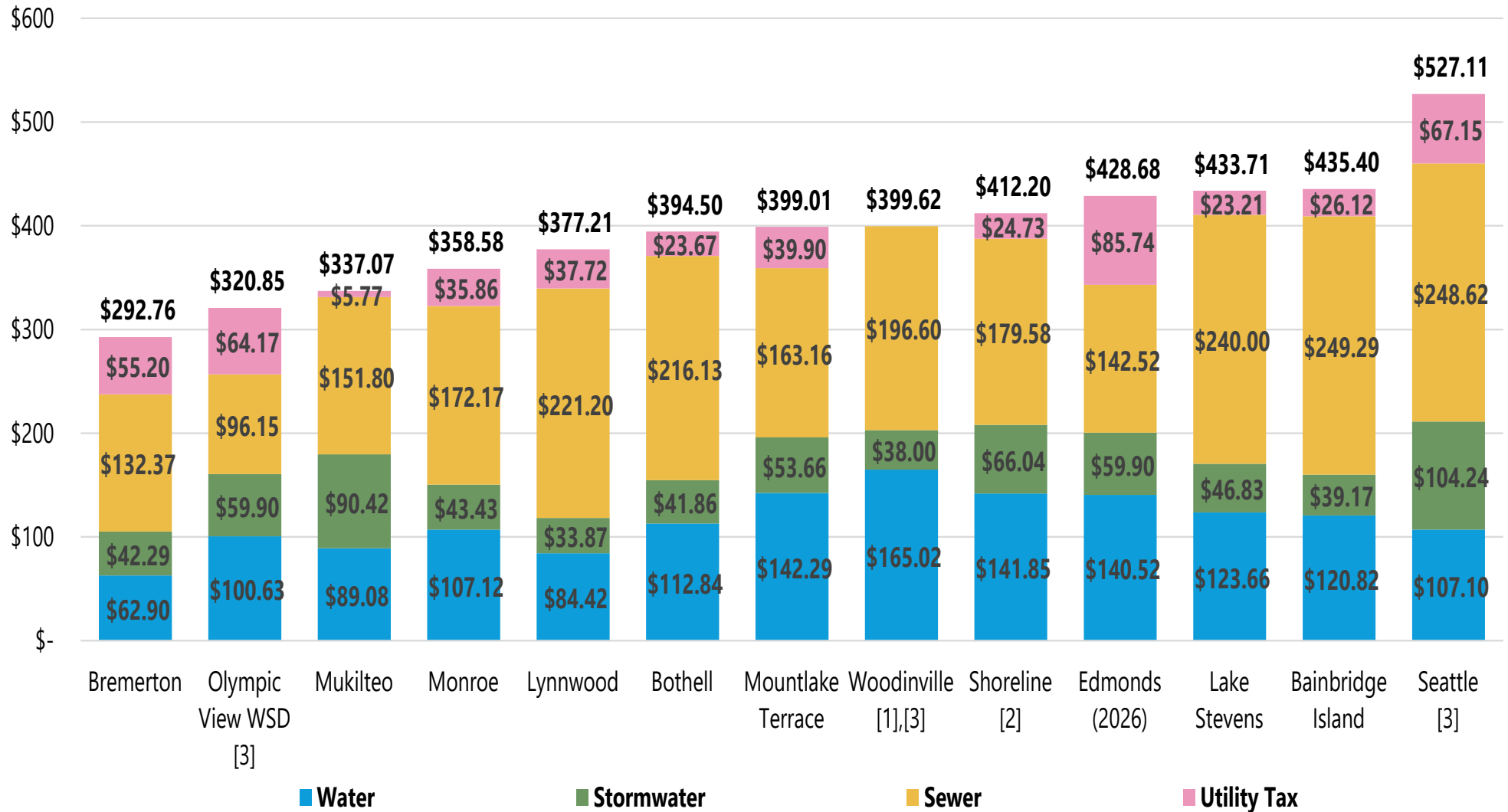
Combined Residential Bill Forecast

Bimonthly Residential Bill @ 14 ccf	Existing	Proposed			Projected		
	2026	2027	2028	2029	2030	2031	2032
Water Bill	\$140.52	\$154.21	\$169.28	\$185.78	\$203.92	\$223.75	\$245.63
Sewer Bill	142.52	153.21	163.93	175.41	187.69	200.83	214.89
Stormwater Bill	59.90	63.79	67.94	71.34	74.91	77.91	81.03
Utility Tax*	<u>68.59</u>	<u>74.24</u>	<u>80.23</u>	<u>43.25</u>	<u>46.65</u>	<u>50.25</u>	<u>54.16</u>
Total Monthly Bill	\$411.53	\$445.45	\$481.38	\$475.78	\$513.17	\$552.74	\$595.71
Δ From Prior Year		+\$33.92	+\$35.93	-\$5.60	+\$37.39	+\$39.57	+\$42.97
% Δ From Prior Year		+8.2%	+8.1%	-1.2%	+7.9%	+7.7%	+7.8%

* Reflects 20% Utility Tax rate from 2026-2028, thereafter Utility tax is reduced to 10%.



2026 Bimonthly Single-Family Bill Comparison @ 14 ccf



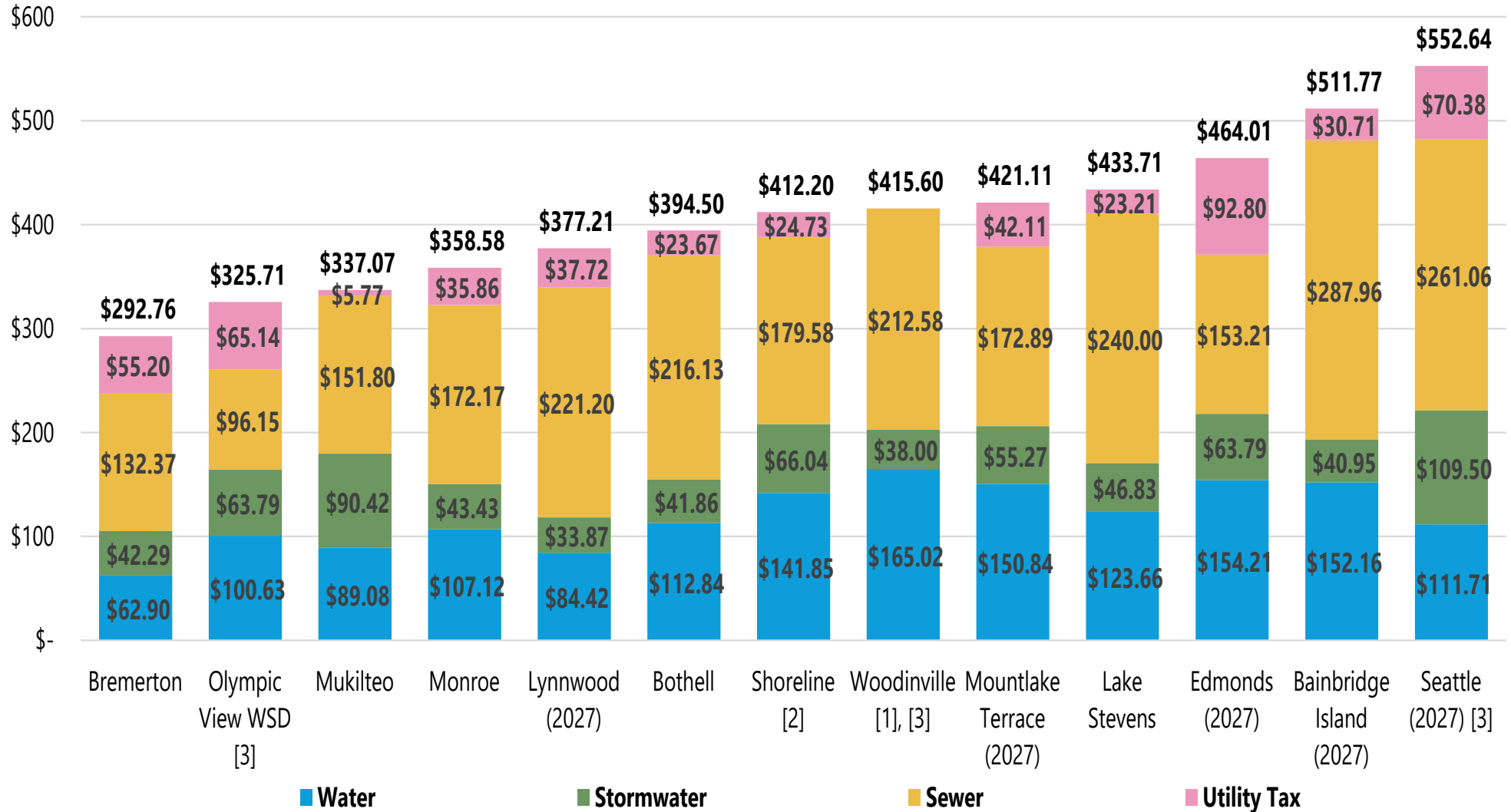
[1] Woodinville Water District's sewer rate includes King County's wastewater treatment rate (\$125.31 bimonthly)

[2] Shoreline sewer rate assuming King County wastewater treatment.

[3] The water bill shown reflects a weighted average of winter/summer volume rates.



2027 Bimonthly Single-Family Bill Comparison @ 14 ccf



[1] Woodinville Water District's sewer rate includes King County's wastewater treatment rate (\$125.31 bimonthly)

[2] Shoreline sewer rate assuming King County wastewater treatment.

[3] The water bill shown reflects a weighted average of winter/summer volume rates.



Recommendations

- Adopt proposed 2027 – 2029 utility rate increases

Utility	2024	2025	2026	2027	2028	2029
Water	9.00%	9.00%	9.00%	9.75%	9.75%	9.75%
Sewer	10.50%	10.50%	10.00%	7.50%	7.00%	7.00%
Stormwater	8.50%	8.50%	8.50%	6.50%	6.50%	5.00%

Bimonthly Residential Bill @ 14 ccf	Existing 2026	Proposed 2027	Proposed 2028	Proposed 2029	Projected 2030	Projected 2031	Projected 2032
Water Bill	\$140.52	\$154.21	\$169.28	\$185.78	\$203.92	\$223.75	\$245.63
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Utility Tax*	<u>68.59</u>	<u>74.24</u>	<u>80.23</u>	<u>43.25</u>	<u>46.65</u>	<u>50.25</u>	<u>54.16</u>
Total Monthly Bill	\$411.53	\$445.45	\$481.38	\$475.78	\$513.17	\$552.74	\$595.71
Δ From Prior Year		+\$33.92	+\$35.93	-\$5.60	+\$37.39	+\$39.57	+\$42.97
% Δ From Prior Year		+8.2%	+8.1%	-1.2%	+7.9%	+7.7%	+7.8%

* Reflects 20% Utility Tax rate from 2026-2028, thereafter Utility tax is reduced to 10%.

- Monitor financial status regularly and revisit rates as needed

Thank You!

Questions?

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