



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6715
July 1, 2025
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6715: Conduct First Reading of Ordinance No. 25-13 related to the Bond Levy for the Public Safety and Maintenance Facility	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Provide direction on the explanatory statement and Ordinance No. 25-13 and schedule second reading and adoption of Ordinance No. 25-13 at the July 15, 2025 City Council meeting.	

DEPARTMENT:	City Manager & Finance
STAFF:	Jessi Bon, City Manager Matthew Mornick, Finance Director Robbie Cunningham Adams, Senior Management Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 25-13 – Bond Levy 2. Explanatory Statement
CITY COUNCIL PRIORITY:	3. Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.

EXECUTIVE SUMMARY

The purpose of this agenda item is to conduct the first reading of Ordinance No. 25-13 (Exhibit 1) to place a bond measure and excess levy on the November 4, 2025 general election ballot. Exhibit 1 contains the ballot proposition, outlines the purpose of the bond and excess levy, and eligible uses of bond proceeds.

- On June 17, staff presented the City Council with follow up information regarding the Public Safety and Maintenance (PSM) Facility and sought Council's direction on the schematic design, budget, and other final components of the project ([AB 6712](#)). The City Council unanimously:
 - Approved the final schematic design for the PSM Facility.
 - Approved the PSM Facility project budget in the amount not to exceed \$103,900,000.
 - Direct the City Manager to prepare a bond ordinance for first reading at the City Council meeting on July 1, 2025.
 - Directed staff to solicit community members to serve on the Pro and Con Committees to prepare respective statements (and rebuttals) for inclusion in the election guidebook. City Council will review and appoint potential applicants at the July 15, 2025 City Council meeting.
- If approved by Mercer Island voters on the November 4, 2025 general election ballot, the Bond measure would authorize the issuance of \$103,900,000 in unlimited tax general obligation bonds (the "Bonds") to finance the complete design, construction, access to, and equipping of the PSM Facility. The resulting excess levy lid lift would pay the debt service over the life of the Bonds.

- The Bond measure and excess levy must receive a minimum 60% majority, and the voter turnout for must equal 40% of the voters who cast ballots in the previous general election.
- This \$103,900,000 principal amount was scaled down from \$119,000,000 after six work sessions between City staff, the consultant teams, and the City Council who value engineered the PSM facility schematic design since the fall 2024.
- Staff seeks City Council feedback on draft Ordinance No. 25-13, which includes the ballot title, ballot description, and the length of the repayments scheduled for the Bonds. Staff will incorporate City Council's feedback and prepare Ordinance No. 25-13 for second reading and adoption at the July 15, 2025 meeting.
- Staff also seeks feedback from the City Council on the Explanatory Statement (Exhibit 2) for the local voter pamphlet.

BACKGROUND

LONG-RANGE FACILITY PLANNING BEGINS IN 2023

In early 2023, the City began a planning process to develop a Facilities Condition Assessment for various municipal buildings and long-range Facilities Plan for select City facilities. Northwest Studio was selected as the consultant for this project and is supported by a variety of specialized consultants.

The long-range facility planning project was intended to be completed in two phases, the first phase focusing on a comprehensive Facilities Conditions Assessment (FCAs) for six buildings in 2023: Mercer Island City Hall, the Public Works Building, the Mercer Island Community and Event Center Annex Building, the Luther Burbank Administrative Building, the Mercer Island Thrift Shop, and the former Tully's Building. A second phase will include Facility Conditions Assessments for Fire Station 91, Fire Station 92, and the Mercer Island Community and Event Center.

The purpose of an FCA is to inventory and evaluate building and site infrastructure conditions, document observed deficiencies and develop a recommended strategy to ensure continuity of services, extend the life of each facility, or alternatively prepare to replace existing assets.

The second phase of facilities planning work included developing a Long-Range Facilities Plan for these six facilities based on assessment and data collected from the FCA process. The Long-Range Planning Work was intended to be completed in 2024 and anticipated an extensive public engagement process. Unfortunately, just as the facilities planning work was kicking off in early 2023, City Hall was closed due to asbestos contamination.

CITY HALL PERMANENTLY CLOSED IN 2023

In April 2023, City Hall was temporarily closed after asbestos was detected in several locations in the building, including in the HVAC system. Although airborne asbestos was not detected during air quality tests, abatement at City Hall would be required to re-open the facility. City staff and outside experts worked extensively to identify solutions to address the asbestos contamination and evaluate the best path forward for City Hall.

Two scenarios for re-occupying the City Hall building, either fully or partially, were evaluated for timeline, preliminary costs, and impact to City operations. The cost of both scenarios to re-occupy City Hall exceeded the benefits due to the age and condition of the building. On October 2, 2023, Resolution No. 1650 was approved to cease City operations at City Hall and permanently close the building.

FACILITY CONDITIONS ASSESSMENT COMPLETED ON PUBLIC WORKS BUILDING IN 2024

Due to the age and condition of the Public Works building, the City Manager directed staff and the consulting teams to proceed with the facilities conditions assessment (FCA) for this building. The preliminary Facility Conditions Assessment for the Public Works building was presented to the City Council on February 6, 2024 (AB 6402). It identified multiple systems that were failing or in need of significant repair or investment.

Based on these findings, the City Manager recommended the City Council prioritize the Public Works building for replacement. The Public Works building houses many essential services and limited short-term reinvestment was required to extend the life of the building until a replacement strategy was identified as discussed in AB 6477 at the May 21, 2024 City Council meeting.

At the July 16, 2024 City Council meeting, the City Council appropriated funds and authorized staff to proceed with seismic repairs to the Public Works building that were necessary to keep the Public Works building safely operating in the near-term ([AB 6517](#)).

PUBLIC SAFETY AND MAINTENANCE BUILDING PRE-DESIGN PHASE COMPLETED IN 2024

During the March 1, 2024 Planning Session, the City Council considered a replacement strategy for City Hall and the Public Works building. The City Council directed the City Manager to commence planning for a new Public Safety and Maintenance Facility (PSM) on the current City Hall Campus (AB 6420). This new facility will replace the existing Public Works building and provide a new combined home for the City's Public Works teams, Police Department, Emergency Operations Center, and the Information Technology (IT) and Geographic Information Systems (GIS) team.

City staff provided a design progress update on the PSM Facility during the May 21, 2024 City Council meeting ([AB 6476](#)). This presentation outlined how staff and the City's architectural consultant team, Northwest Studio, conducted workshops with the staff teams expected to be housed in the future PSM Facility to inform the design, staff needs in a new facility, how a combined facility could provide operational efficiencies, and why the new building is intended to be a Level IV Risk Category Building.

Pre-design work was completed during the summer of 2024, confirming the programming and conceptual framework for the PSM Facility. During this initial planning phase, the City Manager also directed the Design Team to include an expanded customer service area at the main PSM building to house the City's Customer Service team. This is to ensure that the City has a "store front" given that no other City facilities are suited for this type of function.

PUBLIC SAFETY AND MAINTENANCE FACILITY SCHEMATIC DESIGN PHASE BEGINS IN 2024

Work on the PSM Facility shifted to the schematic design phase in fall of 2024. Schematic design is the first step in developing a concept into a specific design plan, including architectural drawings and a site plan. Efforts included tours of other public safety and maintenance buildings in the region, site visits to City facilities, and ongoing design meetings with staff.

The Design Team and select Councilmembers conducted tours of the Shoreline, University of Washington, and Kirkland police departments in October 2024. The team heard about both successes and "lessons learned" from the construction or renovation of these police facilities to help inform the design work on the PSM Facility.

The Design Team and select Councilmembers also conducted a tour of the Kitsap County Public Works facility in December of 2024. This tour featured included the workspace and training space layout, ingress/egress for large vehicles and equipment, covered storage, lighting, security, and staff amenity spaces.

PSM SCHEMATIC DESIGN UPDATES AT CITY COUNCIL MEETINGS

During the February 4, 2025 City Council Planning Session, the Design Team presented the initial design concept and preliminary cost estimate for the PSM Facility ([AB 6604](#)). The Design Team received City Council feedback on design strategies and questions and previewed the likely need to rezone the property.

During the March 4, 2025 City Council meeting, the Design Team presented a progress update on the Public Safety and Maintenance Facility (PSM Facility) design in addition to addressing questions from the prior City Council meeting ([AB 6634](#)). The PSM Design Team presented information on the following thematic areas:

- Planning for potential future operational capacity needs at the PSM Facility
- Functions and uses of the operations building and yard
- Alternative construction delivery methods.

City staff and City Council discussed moving the siting of the main PSM Building forward (north) on the property to expand the capacity of the secure areas (parking and maintenance yard) behind the main PSM Building. Staff said this was an idea worth investigating further and committed to coming back with additional information at a future Council meeting.

UPDATED PUBLIC SAFETY AND MAINTENANCE FACILITY SIZING, PLACEMENT, AND ZONING

Following feedback from the City Council and Police, Public Works, Emergency Operations, and IT/GIS staff, during the April 15, 2025 City Council meeting, the PSM Design Team presented a recommended change to the site layout that would move the PSM Building (main administrative building) and the Operations Building north on the site ([AB 6656](#)). This proposed site layout revision reduced construction costs, increased operational effectiveness, and left space for future additional operational capacity as needed to ensure the City Hall campus is positioned to serve the City over the next 50-plus years.

The proposed PSM Facility layout includes the placement of the operations building on top of the property line between the existing City Hall and Public Works parcels. The PSM Design Team recommended a boundary line adjustment to move the parcel line north – closer to SE 36th St.

Additionally, both parcels comprising the current City Hall campus have the correct comprehensive plan land use designation, which is “Public Facility” (PF). The zoning, however, is different and this was identified for resolution as part of the PSM Facility development process.

The City Manager recommended the new south parcel created by the boundary line adjustment be re-zoned to “Public Institution” (PI), consistent with other public facilities on Mercer Island. The north parcel is recommended to remain as Commercial Office (CO) to preserve flexibility for its future use. The proposed rezone is site-specific and requires approval through a quasi-judicial process.

The City Council approved the revised PSM Facility site layout and directed the City Manager to pursue a boundary line adjustment between the City Hall and Public Works parcels based on the final site layout and prepare and submit a re-zone application of the south City Hall parcel to Public Institution (PI).

COUNCIL DIRECTION ON PSM DESIGN CHOICES

During the May 6, 2025 City Council meeting the PSM Design Team provided follow-up analysis on roof-mounted solar panels for on-site energy generation, rainwater harvesting for on-site use, potable water storage for emergency operations, and facility structural systems initially presented during the February 4, 2025 City Council meeting. Council directed staff to include a rainwater harvesting system and potable water storage in the schematic design ([AB 6677](#)).

COUNCIL REVIEW OF PSM SCHEMATIC DESIGN

During the June 3, 2025 City Council meeting, the PSM Design Team presented the schematic design and updated cost estimate for the PSM Facility, highlighting how the proposed design aligns with core objectives and supports public safety and maintenance operations (see [AB 6701](#) and corresponding presentation [deck](#))

The PSM Design Team reported outcomes from the independent peer-review group that conducted a value methodology-based review (aka value engineering) aimed at optimizing the PSM Facility design. Many of the value engineering team's recommendations were incorporated into the schematic design, resulting in reduced project costs and an improved design.

The resulting cost of the PSM Facility project is \$103,900,000. This cost estimate establishes the maximum amount of a Bond Measure outlined in Ordinance No. 25-13 (Exhibit 1).

At the June 17, 2025 City Council meeting, staff addressed City Council questions raised during the prior meeting including schematic design of the Operations Building and 1% for Art in Public Spaces ([AB 6712](#)). At the meeting the City Council unanimously:

- Approved the final schematic design for the PSM Facility.
- Approved the PSM Facility project budget in the amount not to exceed \$103,900,000.
- Direct the City Manager to prepare a bond ordinance for first reading at the City Council meeting on July 1, 2025.
- Directed staff to solicit community members to serve on the Pro and Con Committees to prepare respective statements (and rebuttals) for inclusion in the election guidebook. Council will review and appoint potential applicants at the July 15, 2025 City Council meeting.

During the June 17 City Council meeting staff also reviewed the 1% for the Arts program requirements for the PSM Facility, which would entail a \$739,633 contribution to the Fund. Under the current City code, there is not an option for an exemption for this project or other projects. Consequently, an exemption for this project would require a change to the city code.

The City Council directed the City Manager to prepare an ordinance modifying the 1% for the Arts code to allow the City Council to fully or partially exempt projects from the 1% for the Arts requirements. That ordinance is scheduled for first reading earlier in the agenda of the July 1 Council meeting (AB 6725).

ISSUE/DISCUSSION

BALLOT MEASURE ORDINANCE/ BALLOT TITLE

Upon receiving direction from the City Council at the June 17 meeting to prepare a bond ordinance, staff and legal counsel developed Ordinance No. 25-13 (Exhibit 1). The ordinance includes the PSM Facility Bonds ballot title, which consists of three elements: ballot caption (name of jurisdiction and a statement of the subject

matter), a concise description of the measure, and a question. The concise description must not exceed seventy-five words. Any feedback received from the City Council regarding the ballot caption and concise description at the July 1, 2025 meeting will be incorporated into the final language for City Council review and approval at the July 15, 2025 meeting. Ordinance No. 25-13 further establishes the not-to-exceed amount of the Bonds and the length of the repayment schedule based on the following parameters:

- Aggregate principal (face) amount not-to-exceed \$103,900,000.
- The final repayment schedule of the Bonds may not exceed 35 years in length.

Exhibit 1 limits use of Bond proceeds to finance the design, construction, access to, and equipping of the PSM Facility and levy excess property taxes to pay the Bonds.

MECHANICS OF A BOND ISSUANCE

When the City undertakes significant public projects that span multiple generations, staff typically seeks outside funding by issuing General Obligation (GO) bonds. By "general obligation," the City pledges its "full faith and credit" to repay the debt. This serves as a guarantee that the City will use all available resources, including its ability to collect taxes and other revenues, to make timely interest and principal payments to bondholders.

The City has two options for issuing GO bonds. An Unlimited Tax General Obligation (UTGO) is a type of municipal bond that must be approved by voters to raise taxes to the extent necessary to meet debt obligations resulting from the public project. It equips the City to issue debt and creates a clear funding mechanism to ensure repayment via excess property taxes specific to the project.

Like a UTGO bond, a Limited Tax General Obligation (LTGO) bond is a general obligation backed by the City's full faith and credit that can be used for any governmental purpose. However, it differs from UTGO in that its ability to levy taxes to repay bonds is subject to constitutional and statutory limitations. An LTGO bond equips the City with outside funding, but the resulting debt must be repaid using existing resources and therefore does not require voter approval.

Based on the level of investment and expected useful life of the PSM Facility, staff recommends issuing UTGO bonds. This positions the City to take advantage of its credit rating which results in more competitive borrowing rates and would implement an "excess levy" to repay the debt.

By design, an excess levy is an additional tax on top of regular property taxes and therefore requires voter approval. As outlined in Exhibit 1, the excess levy would be dedicated solely to paying the principal and interest on the UTGO bonds for the purpose of funding the design, construction, access to, and equipping of the PSM Facility.

REPAYMENT SCHEDULE

A key factor for the City Council to consider is the length of the repayment schedule associated with the UTGO bond. Several factors influence the length of the repayment schedule including current interest rates, the facility's useful life, intergenerational equity, the City's current financial position, impact on taxpayers, and the long-term financial strategy. Figure 1 compares the financial impacts resulting from different repayment schedules for PSM Facility bonds.

Figure 1: Length of Bond Issue (years)	20	25	30	35
Final Maturity	12/1/2045	12/1/2050	12/1/2055	12/1/2060
All-In True Interest Cost (TIC) ¹	4.20%	4.52%	4.73%	4.89%
Total Debt	\$ 155,400,606	\$ 175,436,841	\$ 196,304,404	\$ 218,938,553
Total Interest	58,245,606	77,241,841	97,204,404	119,668,553
Average Annual Debt Service	\$ 7,832,034	\$ 7,062,201	\$ 6,578,198	\$ 6,283,814
Household Financial Impact per Month²	\$ 62	\$ 56	\$ 52	\$ 50

¹ Market conditions as of June 23, 2025.

² Assumes a home with a \$2,000,000 assessed value in 2025.

In general, the longer the repayment schedule, the higher the interest rate and the greater amount of interest paid over the life of the bond. However, spreading the principal repayments over a longer period means the annual debt service is less. This translates to a lower monthly financial burden for Mercer Island taxpayers.

MULTI-SERIES ISSUANCE

When the City issues tax-exempt UTGO Bonds, it must comply with federal tax rules to ensure the interest paid to bondholders remains tax-free. A federal tax law known as the arbitrage rebate rule sets out specific "spend-down" requirements to which the City must comply. Specifically, the Internal Revenue Service (IRS) does not permit governments to issue tax-exempt bonds and earn significant taxable interest on those proceeds over an extended period. To avoid this, the City must spend 85% of the bond proceeds within three years of issuing the Bonds.

Given the project timeline will extend beyond three years, staff anticipates issuing staggered bond series, also known as a multi-series issuance or phased financing. This involves issuing smaller portions of the total \$103,900,000 in Bonds to align with the different project phases instead of issuing one large Bond upon voter approval of the bond measure and excess levy.

CURRENT DEBT

The City's debt capacity – or total indebtedness – is limited by Washington State law, which states the City's bonded debt may not exceed the sum of 7.5% percent of the total assessed valuation of taxable property within the City, of which general obligation may not exceed 2.5% (see section 10.2 in the City's [financial management policies](#)).

The City's current debt amounts to \$33.2 million, as detailed in Figure 2 on the following page.

Figure 2: Current Debt as of 6/30/2025	Date Incurred	Final Maturity	Initial Debt Amount	Amount Outstanding
Limited Tax General Obligation Bonds				
2017 LTGO Refunding Bonds, Sewer Lake Line	8/17/2017	12/1/2029	6,205,000	\$2,920,000
2024 LTGO and Refunding Bonds, Water System	10/4/2024	12/1/2044	\$26,615,000	\$26,615,000
Other Non-Voted General Obligation Debt				
2005 Sewer Lake Line, PWTF Loan	1/31/2005	7/1/2026	\$6,650,000	\$402,759
2018 Capital Financed Enforcer Pumper	4/19/2018	4/9/2027	\$732,778	\$183,328
2023 Booster Chlorination System, PWTF Loan	3/1/2023	6/1/2043	\$3,271,813	\$3,099,612
Total				\$33,220,699

Based on 2.5% of the City’s 2025 assessed valuation of \$21.2 billion, the City’s available debt capacity is \$530 million. Considering current debt and the potential UTGO bond issuance of \$103,900,000 for the PSM Facility, the City’s remaining debt capacity would amount to \$392 million, as outlined in Figure 3.

Figure 3: Voted & Non-Voted Debt Capacity		Fiscal Year 2025
Tax Collection Year Assessed Valuation (AV)		\$ 21,182,583,470
Available Debt Capacity (2.5% of AV)		529,564,587
UTGO Bond for PSM Facility (Voted)		(103,900,000)
Current General Obligation Debt		(33,220,699)
Remaining Voted and Non-Voted Debt Capacity		392,443,888
Percent of Voted and Non-Voted Debt Capacity Used		25.89%

The City’s credit rating by Moody’s is currently Aaa, which is the highest rating category and was affirmed in October 2024. Issuing UTGO Bonds does impact the City’s overall debt capacity; however, because the excess levy serves as a dedicated funding mechanism, the City’s credit rating should remain unchanged.

EXPLANATORY STATEMENT

The Explanatory Statement (Exhibit 2) will be included in the November 5, 2025 Elections Guidebook and states the anticipated effect of the measure should it be passed into law. The statement must not be an argument in favor of or in opposition to the measure. An explanatory statement is limited to 250 words and no more than five paragraphs.

The Explanatory Statement must be prepared by the jurisdiction, signed off by the jurisdiction’s attorney, and submitted by 4:30 p.m. on August 8, 2025 to King County Elections. Any feedback received from the City Council regarding the Explanatory Statement at the July 1, 2025 meeting will be incorporated into the final language for City Council review and approval at the July 15, 2025 meeting.

COUNCIL DIRECTION ON PSM FACILITY 1% FOR ARTS CONTRIBUTION

In anticipation of City Council approval Ordinance No. 25C-19 (AB 6725) at first reading of earlier in the July 1 meeting agenda, staff seeks City Council direction whether to fully or partially exempt the PSM Facility project from the 1% for Arts contribution requirement. This decision will inform final language in Ordinance No. 25-13 (Exhibit 1) for the July 15, 2025 City Council meeting.

NEXT STEPS

SECOND READING OF BALLOT MEASURE ORDINANCE

Staff seeks City Council feedback on draft Ordinance No. 25-13 (Exhibit 1), which includes the ballot title and the length of the repayment schedule for the issued Bonds. Staff will incorporate feedback from the City Council meeting and prepare Ordinance No. 25-13 for a second reading and final approval at the July 15, 2025 City Council meeting.

Staff also seeks City Council feedback on the Explanatory Statement (Exhibit 2) for the local voter’s pamphlet.

FORMATION OF PRO AND CON COMMITTEES

Per the City Council direction given at the June 17, 2025 meeting, staff began recruiting Mercer Island residents to serve on the Pro and Con Committees. Applications received from community members interested in serving on either the Pro or Con Committee will be presented to the City Council for consideration and appointment at the July 15, 2025 meeting.

The committees will be comprised of a maximum of three individuals. For the November 4, 2025 election, Pro and Con Statements are due to King County Elections by August 12, 2025 and Rebuttals are due by August 14, 2025.

RECOMMENDED ACTION

1. (Optional if Council passes Ordinance No. 25C-19 at first reading (AB 6725)) Provide direction via motion to bring back Ordinance No. 25-13 with either a full or partial exemption of the PSM Facility project from the 1% for Arts contribution requirement.
2. Provide direction on the explanatory statement and Ordinance No. 25-13 and schedule second reading and adoption of Ordinance No. 25-13 at the July 15, 2025 City Council meeting.