



# BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6255  
May 16, 2023  
Regular Business

## AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 6255: Disposition of FY 2022 Year-end Surplus and Direction on Deferred 2022 Budget Proposals	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Provide direction to staff on (1) surplus replenishments and strategic uses of 2022 year-end savings and (2) deferred 2022 Budget Proposals.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matt Mornick, Finance Director
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	<ol style="list-style-type: none"> <li>Budget Proposals</li> <li>Climate Action Plan Early Action Items</li> <li>Financial Management Policies – Resolution No. 1602</li> </ol>
<b>CITY COUNCIL PRIORITY:</b>	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

## EXECUTIVE SUMMARY

This agenda bill provides a summary of prior City Council actions and policies to guide the disposition of year-end surplus. During the May 23 City Council Mid-Year Planning Session, staff will facilitate a discussion with the City Council related to the 2022 year-end surplus and receive direction on the Budget Proposals (Exhibit 1) and Climate Action Plan (CAP) Early Action Items (Exhibit 2).

- On April 25, 2023, the City Council received the 2022 year-end Financial Status Update (see [AB 6251](#)).
  - The available unassigned balance in the City’s General Fund is \$1,523,370.
  - The City’s Contingency Fund target funding level is 12.5% of General Fund budgeted expenditures. With a \$4.6 M balance, the fund is \$217,725 over the target funding level.
  - Of the City’s American Rescue Plan Act (ARPA) federal stimulus allocation, \$1,938,254 remains unassigned. ARPA funds must be committed before December 2024 and spent by December 2026.
- On October 18, 2022, the City Council deferred consideration of General Fund and YFS Fund budget proposals (see [AB 6169](#)) to the second quarter of 2023.
- Exhibit 1 includes the 2022 budget proposals and relevant updates. Staff also propose the Climate Action Plan (CAP) early action items (see Exhibit 2) for City Council consideration.
- Section 6 of the City’s financial management policies (see [Exhibit 3](#)) detail the purpose of fund balances and reserves, indicate how they support City operations, and ways they should be used to advance and protect the City’s operations and overall financial position.

## BACKGROUND

### Financial Management Policies

On March 16, 2021, the City Council established a three-member Finance Committee to draft new financial management policies (see [AB 5829](#)). The City Council adopted [Resolution No. 1602](#) updating the City’s financial management policies (see [AB 5943](#)) on September 21, 2021.

The policies strategically direct financial resources towards meeting the City's long-term goals. Specifically, section 6 presents guidance on replenishing the City's fund balances and reserves and ways to strategically use one-time year-end savings (see Exhibit 3).

### American Rescue Plan Act (ARPA)

On March 11, 2021, ARPA was signed into law in response to the economic and public safety impacts of the COVID-19 Pandemic (pandemic). The \$1.9 trillion federal legislation included \$19.53 billion to cities and towns with less than 50,000 residents to aid in their response and recovery from the pandemic. Of this amount, the City of Mercer Island received \$7,235,318 in fiscal recovery funds.

With the City Council's direction, these one-time resources helped respond to immediate community needs and stabilize government operations. Staff equipped first responders with personal protective equipment while public facilities were reconfigured and reopened to ensure shared safety. Maintenance services in parks, public spaces, and right of way were reinstated. Staff reopened recreation facilities, the Thrift Shop, and began incrementally rebuilding both recreation programming and Thrift Shop operations.

What is more, the City provided direct relief to hundreds of households impacted by the Pandemic. This included restoring mental health and counseling services to community schools and residents in need to meet pre-pandemic service levels. Households who incurred past due utility bills during the pandemic received support through the City's utility relief grant program, all funded by the American Rescue Plan Act.

Most of the ARPA funds that have been spent or committed to date have gone to critical investments in the City's public facilities, water distribution system, and sewer conveyance infrastructure. For example, ARPA funds will support the replacement of many of the antiquated pressure reducing valves (PRVs) that maintain pressure within the Island's water distribution system. These are critical long-term investments. With routine maintenance, the life span of new PRVs is between 50 to 60 years.

Of the \$5,297,065 that has been spent or committed in the 2023-2024 biennial budget, a total of \$1,938,254 in ARPA funds remain unassigned. These resources may be used for general government services. Per the direction from the U.S. Treasury, the City's remaining unassigned balance must be encumbered in third-party agreements before December 2024 and spent no later than December 2026.

### Deferred Budget Proposals

At the March 26, 2022 Planning Session (see [AB 6044](#)), the City Council approved a list of potential work plan items and projects to include as budget proposals for funding consideration during the 2023-2024 biennium. Staff and the City Manager also evaluated additional budget proposals and advanced several for City Council consideration during the 2023-2024 biennial budget workshops this past fall.

Last fall, the City Council approved six budget proposals tied to the Capital, Street, and Utility Funds (see [AB 6177](#)). The City Council deferred consideration of General Fund and YFS Fund budget proposals (see [AB 6169](#)) until the second quarter of 2023, due to the pace of inflation and a projected operating deficit in two of the City's operating funds.

### 2022 Year-end Financials

On April 25, 2023, the City Council received a 2022 year-end financial status update (see [AB 6251](#)). Despite a period of economic uncertainty with rising interest rates and persistently high inflation, the City's financial position is healthy.

The largest fund that accounts for most of the City’s general government operations is the General Fund. At the end of 2022, the General Fund unassigned fund balance was \$1,523,370. This was due to a combination of expenditure savings and revenues coming in higher than expected.

The City’s Contingency Fund includes resources to address a significant revenue shortfall, an unforeseen expenditure, or a significant increase in the costs to deliver services. Per adopted policies, the target balance for the Contingency Fund is set at 12.5% of General Fund budgeted expenditures. With a \$4,567,264 fund balance at the end of 2022, the Contingency Fund is \$217,725 above the target funding level.

**ISSUE/DISCUSSION**

Adequate fund balance is a key element of the City's financial management policies. In times when prudent management results in year-end savings, section 6.2 “replenishment guidance” of the City’s financial management policies (see [Exhibit 3](#)) provides suggestions on how to use year-end savings. During the May 23 Mid-Year Planning Session, staff seeks City Council direction to strategically use the following resources:

<b>Surplus Resources</b>	<b>Total</b>
Unassigned General Fund Balance	\$1,523,370
Contingency Fund balance above target funding level	\$217,725
Unassigned ARPA funds	\$1,938,254

Examples for one-time uses include replenishing operating reserves to target levels, increasing fund balance targets to buffer against economic pressures such as the current pace of inflation, addressing long-term risks such as a correction to the real estate market activity, or investing in one-time work items.

Exhibit 1 includes the deferred 2022 budget proposals along with updates provided by staff. Staff also prepared a list of Climate Action Plan (CAP) early action items (see Exhibit 2) for City Council consideration. Exhibits 1 and 2 include estimated costs for each fiscal year, identifies whether the associated costs are anticipated to be one-time or ongoing, the potential funding source, the Department responsible for overseeing the work, the City Manager’s recommendation, and additional staff notes or comments on each proposal.

**NEXT STEPS**

During the May 23, 2023 Mid-Year Planning Session, the City Council will provide staff direction regarding the disposition of year-end surplus and strategic uses of these resources. The City Council will also provide direction on the deferred 2022 budget proposals. Staff will return at a future City Council meeting with budget amending ordinances to reflect the direction received at the Mid-Year Planning Session.

**RECOMMENDED ACTION**

Receive report and provide direction to staff on (1) surplus replenishments and strategic uses of 2022 year-end savings and (2) deferred 2022 Budget Proposals as outlined in Exhibits 1 and 2 of AB 6255.

*Sample motion for budget proposals: “Move to approve budget proposal [insert budget proposal #] and direct staff to include in a subsequent budget amending ordinance.”*