



**BUSINESS OF THE CITY COUNCIL  
CITY OF MERCER ISLAND**

**AB 6377  
November 21, 2023  
Regular Business**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6377: 2023-2024 Mid-Biennial Budget Public Hearing and Budget Adjustment Recommendations.	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Conduct the public hearing; review mid-biennial budget adjustment recommendations; receive the Q3 financial status update; adopt the 2024 property tax ordinances; adopt Resolution No. 1652 declaring the City’s intent to seek reimbursements for water utility improvements and the 2024 NORCOM budget Resolution No. 1653.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Finance Director Ali Spietz, Chief of Administration
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	<ol style="list-style-type: none"> <li>1. Third Quarter 2023 Financial Status Update</li> <li>2. Ordinance No. 23-18 (2024 Property Tax levy amount)</li> <li>3. Ordinance No. 23-19 (2024 Property Tax levy increase)</li> <li>4. Resolution No. 1652 Declaration of Intent</li> <li>5. Resolution No. 1653 2024 Norcom Budget</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 outlines final steps in the City Council’s 2023-2024 Mid-Biennial Budget review process, which includes review of proposed mid-biennial budget adjustments; review of the third quarter financial status update; adoption of the 2024 property tax levies, the declaration of intent to seek reimbursements for water utility improvements, and the City’s NORCOM budget contribution for Police dispatch services for fiscal year 2024.

- Several changes are proposed at the halfway point of the biennium. Staff recommends the City Council review the budget adjustments and establish a Municipal Facility Replacement Fund to reflect the permanent closure of City Hall; appropriate Mercer Island’s share of the Washington State opioid settlement; and review the water, sewer, and stormwater rate adjustments for 2024.
- As of September, all funds are performing as expected, as outlined in the financial status update (Exhibit 1). General Fund revenues are up \$3.8 million compared to the prior year, due primarily to interest earnings and sales tax revenues. General Fund expenditures are on track with budget expectations.
- Property tax ordinances (Exhibit 2 and 3) assume the 1% maximum increase for the City’s regular levy and the 2022 parks levy lid lift.
- During a study session at the November 7, 2023 City Council meeting, staff provided an overview of plans for the City to reimburse itself with bond proceeds for costs incurred on qualifying water capital

projects prior to the date of a 2024 bond issuance. This declaration of intent is ready for City Council review and approval (see Exhibit 4).

- Resolution No. 1653 (Exhibit 5) approves the Northeast King County Regional Public Safety Communication Agency’s (NORCOM) 2024 budget allocation related to emergency dispatch for the Mercer Island Police Department.

Staff will return on December 5, 2023 to memorialize mid-biennial adjustments to the 2023-2024 budget.

## ISSUE/DISCUSSION

### Mid-biennial Budget Adjustments

Figure 1 outlines proposed mid-biennial budget adjustments in response to changing circumstances since the 2023-2024 biennial budget was adopted in December 2022. In sum, increased insurance costs and additional long-range facilities planning results in a \$438,000 increase in General Fund expenses in 2024. Capital budget adjustments propose eliminating \$1.16 million in ARPA-funded capital improvements and reappropriating \$580,000 of these resources for police support facilities, public records management, and long-range facility planning.

Mid-Biennial Adjustments <i>(\$ in thousands)</i>		Adopted Budget 2023-2024	Proposed Changes	Revised Budget 2023-2024
<b>Capital Budget</b>				
GB0103	City Hall - Seismic Retrofits	\$ 250	\$ (250)	\$ -
GB0110	City Hall - Paint, Carpet, and Furniture	660	(660)	-
GB0115	Facilities Plan	200	300	500
GB0170	City Hall Safety Project	250	(250)	-
<b>Operating Budget</b>				
	Police Support Facilities	-	300	300
	Public Records Management	-	100	100
	WCIA Liability Insurance	1,692	318	2,010

Figure 1

In April 2023, City Hall closed to employees and visitors following the discovery of broken asbestos-containing flooring materials. Extensive testing identified asbestos in other locations in the building, including in the HVAC system, although no airborne asbestos was detected. On October 3, the City Council determined abatement costs outweighed the benefits of re-opening the building and permanently closed City Hall ([AB 6351](#)).

### Terminated Capital Projects

Permanent closure and new facility long-range planning needs resulted in immediate budgetary impacts. City Hall seismic retrofits (GB0103), paint, carpet, and furniture renovations (GB0110), and safety enhancements (GB0170) are no longer moving forward. All were funded with American Rescue Plan Act (ARPA) resources. With the cancelation of these projects, \$1.16 million will be returned to the ARPA Fund.

### Long-Range Planning Appropriation Request

In partnership with the City’s outside consulting firms, the City has been developing a long-range facilities plan (GB0115) that identifies repair and replacement strategies for City buildings. The project was originally broken into two phases, with facility assessment work planned for 2023 and funded at \$200,000. Staff planned to return for an additional appropriation for the long-range planning work once the scope of work was confirmed via the assessment phase. The closure of City Hall accelerated long-range planning work and staff is requesting an additional \$300,000 appropriation to support this work.

### Police Support Facilities Appropriation Request

With the closure of City Hall, the Police Department has been operating in temporary facilities, including the Luther Burbank Administrative Building and the Mercer Island Community and Event Center. Having Police Department staff spread across multiple City buildings is not a viable short-term solution.

Mobile trailers have been procured and are being placed in the City Hall parking lot to support police operations such as processing, deployment, and staff locker rooms. The proposed \$300,000 appropriation request will fund one-time installation and utility infrastructure costs associated with the mobile trailer deployment and annual ongoing mobile trailer lease costs through December 2024.

### Public Records Appropriation Request

All the City's public records have been stored at City Hall, many of them dating back to the early years of the City. Over the past five years and as time allows, staff have been working on transitioning most of these records to digital format, particularly those with a longer retention requirement. The closure of City Hall has highlighted the need to accelerate this digitization project. The \$100,000 appropriation request will fund a limited-term (LTE) position in 2024 to assist with scanning of paper records in City Hall and creating a digital repository of archival records.

### WCIA Insurance Appropriation Request

Washington Cities Insurance Authority (WCIA) is the City's primary insurer. For 2024, the WCIA liability rate, auto physical damage coverage rate, and property coverage rates all increased by 25%, resulting in a \$317,928 increase for the City's insurance coverage above budget estimates for the General Fund.

WCIA reported that uncertainty about future risks and significant unrealized investment losses resulted in a negative net position at 2022 year-end, which led to the 2024 rate increase. Liability coverage includes general liability, automobile liability, stop-gap coverage, errors or omissions liability, employee benefits liability, and employment practices liability coverage.

### Municipal Facility Replacement Fund

Staff recommends the City Council establish a Municipal Facility Replacement Fund with a long-term funding target of \$10 million. The purpose of the fund is to set aside critical resources to help fund short-term needs such as facility leases and to also fund long-term needs such as the replacement of City Hall.

In creating the new Municipal Facility Replacement Funds, staff recommends the City Council appropriate interest earnings tied to the General Fund and the Contingency Fund for the third and fourth quarters of FY 2023 to establish this fund. For the third quarter of 2023, a total of \$579,808 would be appropriated. Staff would return to Council in April 2024 with a total appropriation amount resulting from fourth quarter interest earnings during the 2023 year-end financial status update.

### Opioid Settlement Appropriation

The City will receive opioid settlement funds via the [One Washington Memorandum of Understanding](#) (MOU). Under the MOU, \$476 million will be shared by Washington State and its counties and cities with populations over 10,000 over the next 17 years to address the opioid epidemic.

King County will specifically receive up to \$1.5 million (after administrative fees) each year through the 17-year period, starting December 1, 2022. Cities within King County receive funding based on population size. Mercer Island is estimated to receive over \$700,000 in the 17-year period, amounting to just over \$41,000 a

year. Local governments will determine how to spend their share, but spending decisions must be consistent with the [WA State Opioid Response Plan](#).

Opioid settlement proceeds may only be used for approved purposes that support treatment of Opioid Use Disorder and any co-occurring Substance Use Disorder or Mental Health conditions through evidence-based or evidence-informed programs or strategies.

Staff recommends allocating opioid settlement funds to the [Healthy Youth Initiative](#) prevention program in the Youth and Family Services Department to fund:

1. Community anti-drug coalitions aligned with the [Communities That Care](#) framework that reduce levels of substance use through the selection and use of effective preventative interventions tailored to Mercer Island’s specific risk and protection profile ([Certified Promising Program](#) and [SAMHSA evidence-based practices](#)).
2. Corrective social marketing, social norms messaging, and affirmative public education campaigns based on local data ([CDC Essentials for Childhood Supplement](#), specifically information around [resources and Good Samaritan Laws](#)).

The Healthy Youth Initiative envisions that every Mercer Island teen thrives with a foundation of physical and mental health, free of substance abuse and high-risk behaviors. Substance use prevention efforts through a community prevention coalition framework develops the community’s capacity to continually assess and modify opioid prevention strategies over the 17-year settlement distribution.

Social marketing, community norms messaging, and public education sessions – like the community forum on Fentanyl – will be highly visible in the community and are ideal uses for opioid settlement funds on Mercer Island where prevention is a critical intervention.

**Water, Sewer, Storm, and EMS 2024 Rate Adjustments**

Every fall, Public Works and Finance staff meet with the Utility Board to review annual rate adjustments for the water, sewer, storm water, and emergency medical service (EMS) utilities. Figure 2 outlines rate adjustments for an average single-family residence that the Utility Board unanimously approved for City Council consideration.

<b>Bi-Monthly Utility Rates</b>		<b>2023</b>	<b>2024</b>	<b>2024</b>	
<i>Single-Family Residence</i>		<b>Adopted</b>	<b>Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
City	Water	\$131.93	\$142.48	\$10.55	8.0%
City	Sewer Maintenance	65.49	68.44	2.95	4.5%
County	Sewer Treatment	104.22	110.22	6.00	5.8%
City	Storm Water	42.99	46.43	3.44	8.0%
City	EMS	10.49	11.54	1.05	10.0%
<b>Total Increase</b>		<b>\$355</b>	<b>\$379</b>	<b>\$24</b>	

Figure 2

Final adoption of the utility rate adjustments is scheduled for December 5, 2023 as part of the Master Fee Schedule update for fiscal year 2024.

Financial Status Update

The financial status update (Exhibit 1) includes a detailed analysis of the City’s revenue and expenditure actuals from January 1 through September 30, 2023. The update includes budget amendments adopted by ordinance through September 5, 2023 (see [Ordinance No. 23-12](#)).

General Fund revenues ended the quarter at \$27 M, which meets budget expectations and is \$3.8 million higher than the same period in 2022. This is primarily due to higher-than-expected revenues from sales tax, license, permit, and zoning fees, and interest earnings.

General sales tax revenues are up \$629,000 compared to the prior year, primarily due to higher-than-expected returns from the retail and wholesale trade and construction sectors. Utility taxes are slightly lower than the end of September 2022, though are on track to meet budget expectations by year-end.

Revenues from license, permit, and zoning fees continue to perform well. Similar to the second quarter financial status update, data indicates the Riot Games building in Town Center and the King County pump station and North Mercer sewer upgrades are the key drivers for this healthy trend.

Interest earnings in the General Fund through September were \$1.7 M, a roughly \$600,000 increase during Q3. The City’s idle cash resources are invested in the State Treasury Local Government Investment Pool (LGIP), which rose 23 basis points over the past three months. Because the Contingency Fund achieved its funding target early in 2023, the portion of interest earnings tied to the Contingency Fund remains in the General Fund.

General Fund expenditures are on track with budget expectations at the end of September. Total expenditures of \$26.7 million are 74% of the budget as amended, which are \$2.0 million more than the same period in 2022. The difference can be attributed to first, higher staffing levels in Police, Fire, and Parks and Recreation as compared to the same period last year, and the corresponding increased employee compensation costs tied to inflation. Second, one-time costs associated with legal settlements and impact bargaining related to the transition to Eastside Fire & Rescue for fire and emergency medical services.

Based on figure 3 below, salary and benefit costs are 75% of the amended budget at the end of the third quarter. Supplies and contract services are below prior year spending levels. Other services and charges – which include insurance, utilities, jails, and legal settlements, among others – are at 84% of the amended budget. Increased spending in 2023 is largely due to increased insurance costs and legal settlements. Staff anticipates all categories will remain within budget expectations through year-end.

<b>GENERAL FUND EXPENDITURES</b> <i>(\$ in millions)</i>	<b>FY 2023</b> <b>AMENDED</b> <b>BUDGET</b>	<b>% of</b> <b>AMENDED</b> <b>BUDGET</b>	<b>FY 2022</b> <b>Q3 ACTUALS</b>	<b>FY 2023</b> <b>Q3 ACTUALS</b>	<b>YTD as % of</b> <b>AMENDED</b> <b>BUDGET</b>
Salaries & Benefits	24.83	69%	16.68	18.53	75%
Supplies	0.89	2%	0.61	0.59	66%
Contract Services	3.73	10%	2.14	2.07	55%
Other Services & Charges	5.91	16%	3.98	4.97	84%
Interfund Transfers Out	0.71	2%	1.27	0.52	72%
<b>TOTAL EXPENDITURES</b>	<b>\$36.07</b>	<b>100%</b>	<b>\$24.68</b>	<b>\$26.67</b>	<b>74%</b>

Figure 3

The City’s Water, Sewer, and Stormwater Utility funds are operating within budget expectations. Capital projects across the utility funds are on track despite low expenditures through the third quarter. For many

large projects design work is completed, and construction is underway. Staff anticipate spending will increase significantly through the end of 2023 and into 2024.

2024 Property Tax Ordinances

RCW Chapters 84.52 and 84.55 grant cities the authority to impose a local Property Tax. Revenues from Property Taxes are considered general government revenues and are allocated to the General Fund to be used for basic governmental services such as public safety, public works, parks, and/or administration.

Property Tax is a budget-based tax, which means that the percent increase from year-to-year is applied to the amount of taxes levied in the prior year. Municipalities levying property tax in Washington State can increase the Property Tax levy by up to 1% each year or by the amount of the implicit price deflator (IPD) – whichever is lower – plus the value of new construction. The IPD is used to measure inflation based on personal consumption. The value of the IPD for the 2024 levy is 3.67%, therefore the levy increase is limited to 1%.

Staff assumed the 1% increase in fiscal year 2024 for both the Regular levy and the 2022 Parks Operations and Maintenance levy lid lift. The 1% increase and the overall breakdown of the 2024 levy is shown in greater detail in figure 4.

PROPERTY TAX LEVY ELEMENTS <i>\$ in thousands</i>	2023 FINAL LEVY	2024 PRELIM LEVY
<b>Regular Levy</b>		
Prior Year Levy	\$12,488	\$12,728
Plus 1% Optional Increase	125	127
Plus New Construction	115	150
Plus Re-levy of Prior Year Refunds	24	29
<b>Total Regular Levy</b>	<b>\$12,752</b>	<b>\$13,034</b>
<b>Levy Lid Lift</b>		
2022 Parks Operations & Maintenance + 1%	1,629	1,646
<b>Total Levy Lid Lift</b>	<b>\$1,629</b>	<b>\$1,646</b>
<b>Total Levy</b>	<b>\$14,381</b>	<b>\$14,679</b>

Figure 4

The 2024 preliminary Property Tax levy includes two ordinances as required by State law:

- Ordinance No. 23-18, which identifies the dollar and percent increase in the 2024 Property Tax levy relative to the 2023 levy (Exhibit 2); and
- Ordinance No. 23-19, which identifies the 2024 total Property Tax levy amount (Exhibit 3).

For the 2022 tax year, the City’s total Property Tax levy consists of the following elements:

- **Regular levy:** Funds general government operations, fire apparatus replacement, pre-LEOFF I firefighters’ pension benefits, and LEOFF I retiree long-term care costs.
- **1.0 % optional increase:** Applies to the regular levy and the levy lid lifts, as noted above, and represents the maximum increase the City Council can adopt for the coming year, excluding new construction and the re-levy of the prior year refunds.
- **New construction:** Represents the new and improved properties included in the property tax rolls. A preliminary estimate of \$150,000 is assumed for new construction pending final numbers from the King County Assessor’s Office.
- **Re-levy of prior year refunds:** Represents the amount refunded to property owners who successfully appealed their property valuations by the Assessor’s Office. This amount is re-levied in the following

year to make the City financially whole. A preliminary estimate of \$29,000 is assumed pending final numbers from the King County Assessor’s Office.

- **2022 levy lid lift:** Approved by voters in November 2022 for maintenance and operations of parks and open spaces, playground replacements, along with forest restoration. The 1.0 % optional increase was included in the 2024 levy amount.

All King County cities are legally required to submit an estimate of their 2024 property tax levies to the Metropolitan King County Council by November 30th. The King County Assessor’s Office does not, however, provide each City with the final assessed valuation and new construction amounts for the new tax year until the second week of December.

As a result, cities adopt property tax levies for the coming year based on a preliminary assessed valuation and new construction amounts. When the finalized amounts are distributed by the Assessor’s Office in December, staff simply notify the Metropolitan King County Council of the corrected levy amount.

**Declaration of Intent to Seek Reimbursement Resolution**

During the November 7, 2023 City Council Study Session ([AB 6370](#)), staff provided an overview of the upcoming capital projects for the water distribution system and plans to issue tax-exempt limited tax general obligation bonds in 2024 to fund these long-term investments. The declaration of intent provides additional flexibility to use bond proceeds to support these major infrastructure improvements.

Resolution No. 1652 (Exhibit 4) designates the City Manager as the official responsible for issuing statements of official intent in compliance with Treasury Regulation Section 1.150-2. This declaration “starts the clock,” equipping the City to use funds from, for example, a June 2024 bond issuance to pay for costs incurred on qualifying water capital projects dating back to January 2023.

**2024 NORCOM Budget Resolution**

Resolution No. 1653 (Exhibit 5) approves Northeast King County Regional Public Safety Communication Agency’s (NORCOM) 2024 budget allocation to the City of Mercer Island. Every participating City must adopt such a resolution before NORCOM approves its 2024 budget in December 2023. The 2024 budget is the same as 2023, as shown in figure 5.

With the transition of fire and emergency medical service to Eastside Fire & Rescue (EF&R) beginning January 1, 2024, the 2024 budget contribution from Mercer Island only includes costs for service related to emergency dispatch services for the Police Department. NORCOM dispatch services are paid for directly by EF&R.

NORCOM Budget Allocations		
Department	2023	2024
Police	560,337	560,337
Fire	186,100	-
<b>Total</b>	<b>\$746,437</b>	<b>\$560,337</b>

Figure 5

**NEXT STEPS**

Staff will return at the December 5, 2023 City Council meeting with a budget amending ordinance that encompasses feedback received from the City Council regarding the recommended mid-biennial budget

adjustments. In anticipation of adopting the mid-biennial budget amending ordinance, staff requests the City Council identify and reach consensus on any additional budget requests so that the ordinance may be prepared in advance of the meeting.

## **RECOMMENDED ACTION**

1. Adopt Ordinance No. 23-18, establishing the dollar amount and percentage increases of the regular Property Tax levy and the levy lid lifts for fiscal year 2024.
2. Adopt Ordinance No. 23-19, appropriating funds and establishing the amount of Property Taxes to be levied for fiscal year 2024.
3. Adopt Resolution No. 1652, appointing the City Manager for the purpose of designating certain expenditures for reimbursement from bonds that may be authorized and approved by the City for issuance in the future.
4. Adopt Resolution No. 1653, approving NORCOM's 2024 budget allocation from the City of Mercer Island.