

# AB 6389

## 2027-2028 Budget Planning Overview

January 20, 2026



# Agenda

- 1. Framework to Build a Biennial Budget**
- 2. Emerging Needs in 2026**
- 3. 2027-2028 Budget Schedule**
- 4. Questions**

# 2025-2026 Biennial Budget

- ❑ As adopted in Dec 2024, the \$222 million financial plan is the City's primary policy document. It outlines:
  - ❑ What will be accomplished via the work plan goals and objectives.
  - ❑ Staffing/ financial resources to realize these services and investments.
- ❑ Council revises budget regularly throughout the two years.
- ❑ Revisions are packaged in budget amending ordinances presented with quarterly financial status updates.

# Helpful Distinctions

As we prepare for the 2027-2028 budget process,  
we'll distinguish between **operating and capital budgets**,  
**restricted** and **unrestricted revenues**,  
And the basis for **fund accounting**.

# Operating v. Capital Budget

## Operating Budget

- ❑ Central financial plan for day-to-day operations and non-infrastructure related expenses.
- ❑ Lays out work plan program, project, and service deliverables for 12 departments over two-years.
- ❑ Consists of restricted and unrestricted revenues.

## Capital Budget

- ❑ Long-term financial plan to invest in parks, buildings, utilities, streets, and technology.
- ❑ Six-year horizon with funds allocated for spending every two years.
- ❑ Mostly restricted revenues earmarked for specific purposes.

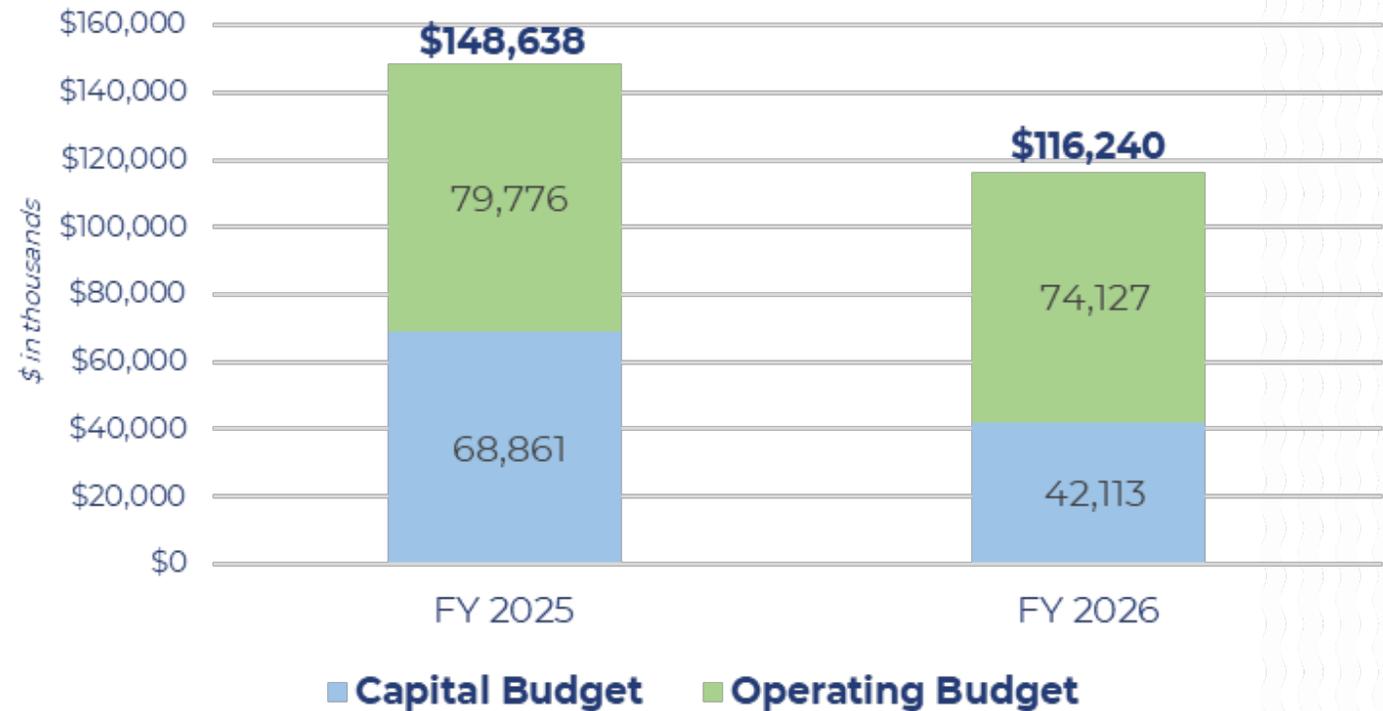
# Operating v. Capital Budget

## Expenditures – All Funds

- 2023 Actuals           \$82 M
- 2024 Actuals           \$92 M
- 2025 Budget\*          \$149 M
- 2026 Budget\*          \$116 M

\* Amended budget includes carry forwards and Council actions thru Ordinance No. 25-33 (Nov 2025).

## 2025-2026 Amended Budget



# Operating v. Capital Budgets

- ❑ The operating & capital budget are separate because they pay for different goods and services, yet they are **co-dependent**.
- ❑ Ex: A new playground built with capital funding is maintained year-over-year by park staff (operating budget).

# Fund Accounting

- ❑ State law requires cities use fund accounting to manage public funds (RCW 43.09).
  - ❑ **Unrestricted revenues** (e.g., sales tax) can pay for any government service.
  - ❑ **Restricted revenues** have spending constraints imposed by parties mostly outside Mercer Island.
- ❑ Ensures public funds are “spent exactly as intended by state law.”
- ❑ Instead of one big “checking account,” the City maintains 19 funds, each a separate accounting entity.

# City Funds – Exhibit 1

## General Purpose Funds

- 1. 001 – General Fund
- 2. 010 – Self-Insurance Claim Reserve

## Special Revenue Funds

- 3. 110 – Street Fund
- 4. 130 – Contingency Fund
- 5. 140 – 1% for the Arts Fund
- 6. 160 – Youth & Family Services Fund
- 7. 180 – Development Services Fund

## Debt Service Funds

- 8. 210 – Bond Redemption-Voted
- 9. 220 – Bond Redemption Non-Voted

## Capital Project Funds

- 10. 310 – Town Center Parking Fund
- 11. 320 – Capital Improvement Fund
- 12. 330 – Tech & Equipment Fund
- 13. 350 – Facility Replacement Reserve Fund

## Enterprise Funds

- 14. 410 – Water Fund
- 15. 420 – Sewer Fund
- 16. 430 – Storm Water Fund

## Internal Service Funds

- 17. 510 – Equipment Rental Fund
- 18. 520 – Computer Equipment Fund

## Trust Fund

- 19. 610 – Firefighter's Pension Fund

# Example: Street Fund

- ❑ Special revenue fund that tracks all transportation-related revenues and expenditures.
- ❑ Revenues largely restricted.

Revenue Examples - Fund 110	2024 Actuals
Motor vehicle fuel tax (RCW 46.68.090)	\$422,708
Transportation Benefit District (RCW 36.73/ Ordinance 15C-24)	335,783
Transportation Impact Fees (RCW 39.92/ Ordinance 16C-01)	308,370

- ❑ Spending Street Fund revenues on a non-transportation related expense (e.g., public safety) is illegal.



**Questions?**

# Halfway Point of the Biennium

- ❑ Halfway through the current biennium, staff is focused on:
  - ❑ Completing goals and objectives outlined in the work plan.
  - ❑ Seeing through capital projects currently underway.
  - ❑ Preparing for the 2027-2028 biennium.
- ❑ Staff is responding to and addressing emerging needs.
  - ❑ Growth Management Hearing Board Order.
  - ❑ City Facilities.

# Sustainable Funding Strategy

- ❑ Projections indicate the 2027-2028 budget will be developed when revenues received each year may not address annual expenses.
  - ❑ In 2027, staff estimate a \$1.6 million operating deficit in the General Fund, and \$800,000 in the Youth and Family Service (YFS) Fund.
  - ❑ Fund balance supports operations until early 2029.
- ❑ Staff will discuss the issues with the General and YFS Funds and begin discussing strategies this year.

# Major Capital Investments

- ❑ Generational investments in parks, utilities, transportation system, and buildings that will continue into 2027-2028.
  - ❑ Clarke & Groveland park joint infrastructure plan.
  - ❑ Luther Burbank park waterfront improvements.
  - ❑ HVAC replacement at the community and event center.
  - ❑ Water supply pipeline improvement.
  - ❑ Sewer conveyance system Reach 1 improvement.
  - ❑ City facilities.

# Future of City Facilities

- ❑ Space planning and a tenant improvement review for the **9655 Building** are gearing up.
  - ❑ House a large portion of staff working remotely and in temporary spaces due to the permanent closure of City Hall in 2023.
- ❑ A **resident survey** will help the City receive input on the recent PSM Bond Measure and inform priorities for future City facilities.
- ❑ Staff return to Council throughout 2026 for direction as work progresses on future decisions related to City facilities.
- ❑ Reference **AB 6840** from the January 16, 2026, planning session.

# Comp Plan Update

- ❑ In Nov 2025, Council appropriated \$200,000 to help complete mandatory amendments to the City's Comprehensive Plan.
- ❑ Additional unbudgeted resources will be required to complete the required scope of work by the July 31, 2026, deadline.
- ❑ Reference **AB 6838** from the January 16, 2026, planning session.

# Police Technology

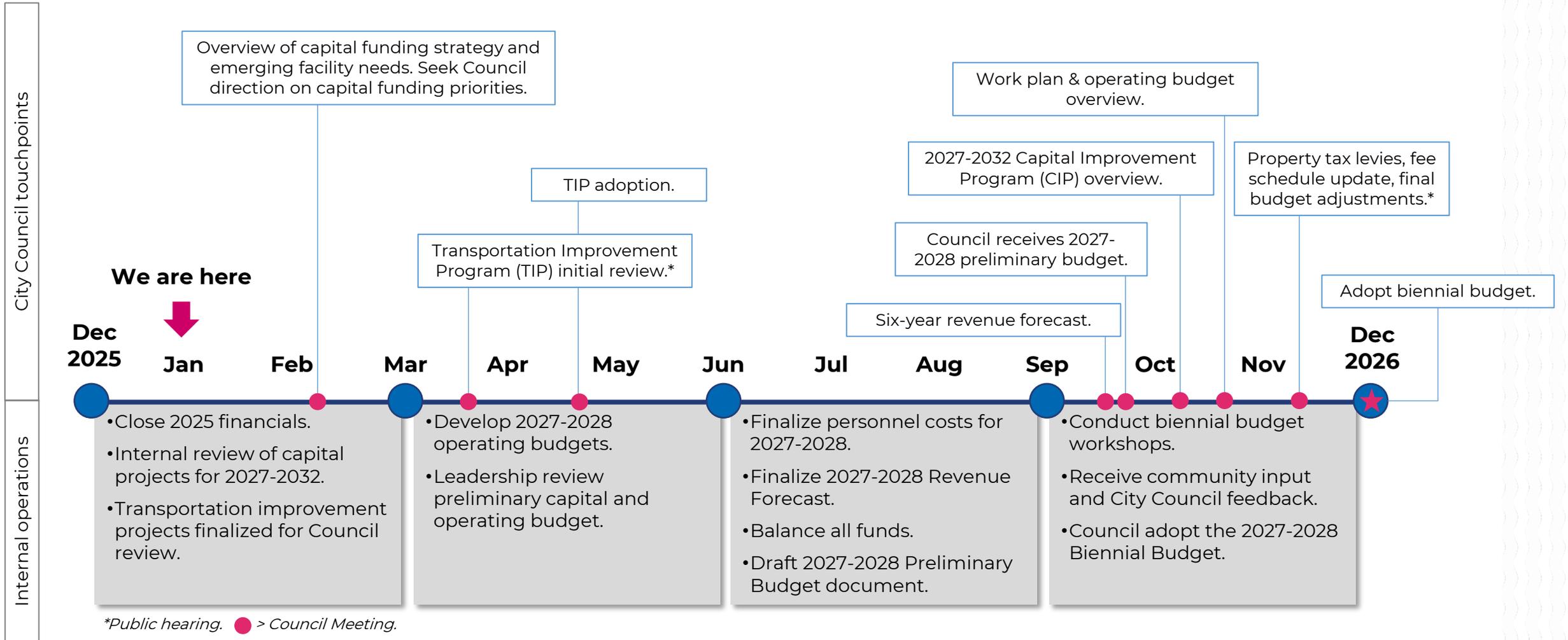
- ❑ Dec 2025 Council appropriated just over \$100,000 for new police in-car video recording and digital evidence management systems.
- ❑ Early 2026 staff will return to Council with analysis to procure new parking enforcement systems.
- ❑ Staff will prepare analysis to procure and maintain body-worn cameras for consideration during 2027-2028 budget process.
- ❑ All technology investments have significant budgetary impacts.

# Vehicles and Heavy Equipment

- ❑ Mid-size fire apparatus due for replacement in 2026 for ~\$775,000.
  - ❑ Staff seeking state funding to support 50% of the acquisition.
- ❑ Equipment Rental Fund tracks costs to maintain, operate, and replace City's fleet and heavy equipment via internal user charges.
- ❑ Assumptions guiding internal user charges have not kept pace with the increasing vehicles and equipment costs.
- ❑ Update the fleet financial model during the 2027-2028 budget.

# Budget Schedule – Exhibit 2

*subject to change*



# Next Steps

- ❑ Staff will return in February to discuss CIP funding strategies.
- ❑ Update on City's financial position at 2025 year-end in April/  
May 2026.
- ❑ Staff will return to Council for input and direction to address emerging needs and inform goals and objectives for the 2027-2028 biennium.

# Questions

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