



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

**AB 6234
March 7, 2023
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6234: First Reading of Ordinance No. 23C-03 to End the 2.7% Interim Utility Tax on City Utilities.	<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:	Set Ordinance No. 23C-03 for second reading and adoption on March 21, 2023.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Bio Park, City Attorney
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 23C-03
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to introduce for first reading Ordinance No. 23C-03 (Exhibit 1), which sunsets the 2.7% interim utility tax seven months earlier than anticipated.

- On September 15, 2020, the City Council adopted [Ordinance No. 20C-20](#), raising the utility tax on the water, sewer, and storm water utilities from 5.3% to 8% for a 36-month period from November 1, 2020 through October 31, 2023.
- Adopted that same evening, Resolution No. 1586 authorized the City’s water and sewer utility Funds to lend \$750,000 each – for a combined total of \$1.5 million – to the General Fund to finance the cost of litigation to enforce the terms of the City’s [2017 Settlement Agreement](#) with Sound Transit.
- On December 6, 2022, the City and Sound Transit agreed to end litigation pertaining to the Mercer Island Transit Integration project. It is anticipated that by April 3, 2023, the 2.7% interim tax increase will have generated enough tax revenue to pay back the \$1.5 million principal and interest for the Water Utility and Sewer Utility Fund loans.
- Staff recommends the City Council sunset the 2.7% interim utility tax on April 3, 2023, thereby returning on April 4, 2023 the utility tax rate on the water, sewer, and storm water utilities to 5.3%.

BACKGROUND

Ordinance No. 20C-20 temporarily increased the utility tax rate on water, sewer, and stormwater utilities from 5.3% to 8.0% from November 1, 2020 through October 31, 2023. The temporary tax increase was adopted to pay principal and interest payments on two interfund loans from the City's Water and Sewer Utility Funds to the General Fund (Resolution No. 1586). The authorized total loan amount of \$1.5 million helped finance the cost of litigation with Sound Transit pertaining to the Mercer Island Transit Integration project.

The loans were scheduled to be paid back within a 36-month period at a fixed interest rate of 0.5%. The interest rate reimbursed to the Utility Funds was based on the opportunity cost the Funds would have earned in the local government investment pool (LGIP). When Resolution No. 1586 was adopted by the City Council in September 2020, the LGIP interest earnings were at a rate of 0.26%.

ISSUE/DISCUSSION

The maximum term for an interfund short-term loan is three years. As of January 31, 2023, the interim utility tax has generated \$1.38 million, an average of \$51,000 per month. Staff estimates the interim tax will have generated enough tax revenue by April 3 of this year to pay back the \$1.5 million principal and interest in full. There is no penalty for early repayment of the loan.

Staff recommends conducting the first reading of Ordinance No 23C-03 to sunset the 2.7% interim utility tax on April 3, 2023, thereby returning on April 4, 2023 the utility tax rate on the water, sewer, and storm water utilities to 5.3%.

RECOMMENDED ACTION

Set Ordinance No. 23C-03 for second reading and adoption on March 21, 2023.