

# 2025-2026 Preliminary Budget

*Revenue Forecast*

*Operating Budget*

*Budget Proposals*

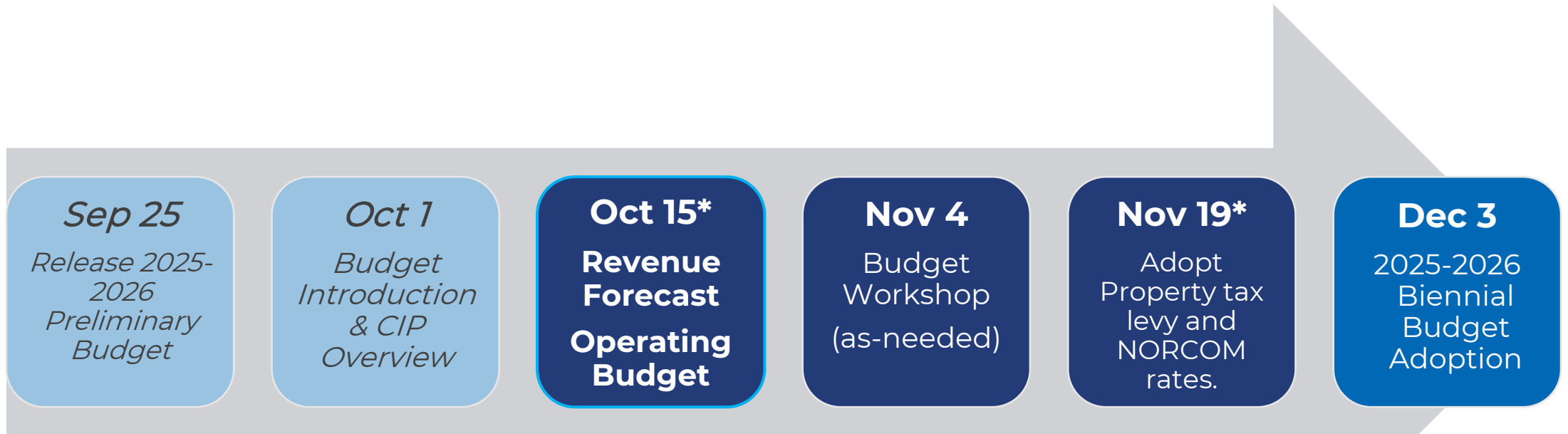


AB 6555, Oct 15, 2024

# Agenda

1. Revenue Forecast
2. Operating Budget
  - a. Work Plans
  - b. Staffing Levels
3. Budget Proposals
4. Next Steps
5. Questions

# Mercer Island's Budget Schedule

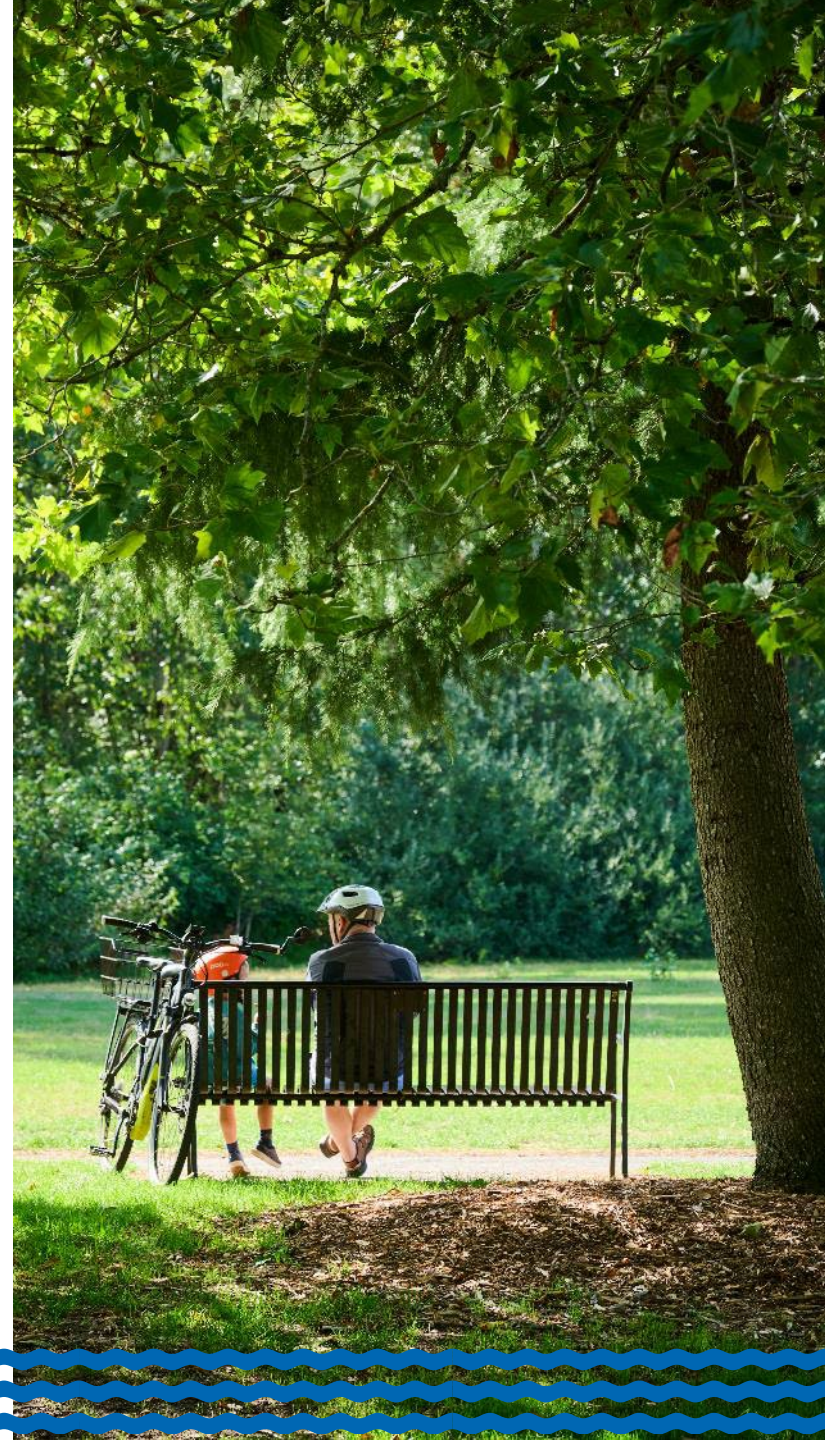


*\* Public hearings.*

Budget available at [www.mercerisland.gov/budget](http://www.mercerisland.gov/budget)



# 2025-2026 Revenue Forecast



# Background

- ❑ Revenue Forecast establishes baseline budget figures for the Preliminary Budget.
- ❑ Evaluates the City's current and future fiscal conditions to inform the City's policies and strategic decisions.
- ❑ Based on 2021 through 2023 economic activity and first six months of 2024.
- ❑ Informed by regional economic forecasts.

# Economic Outlook

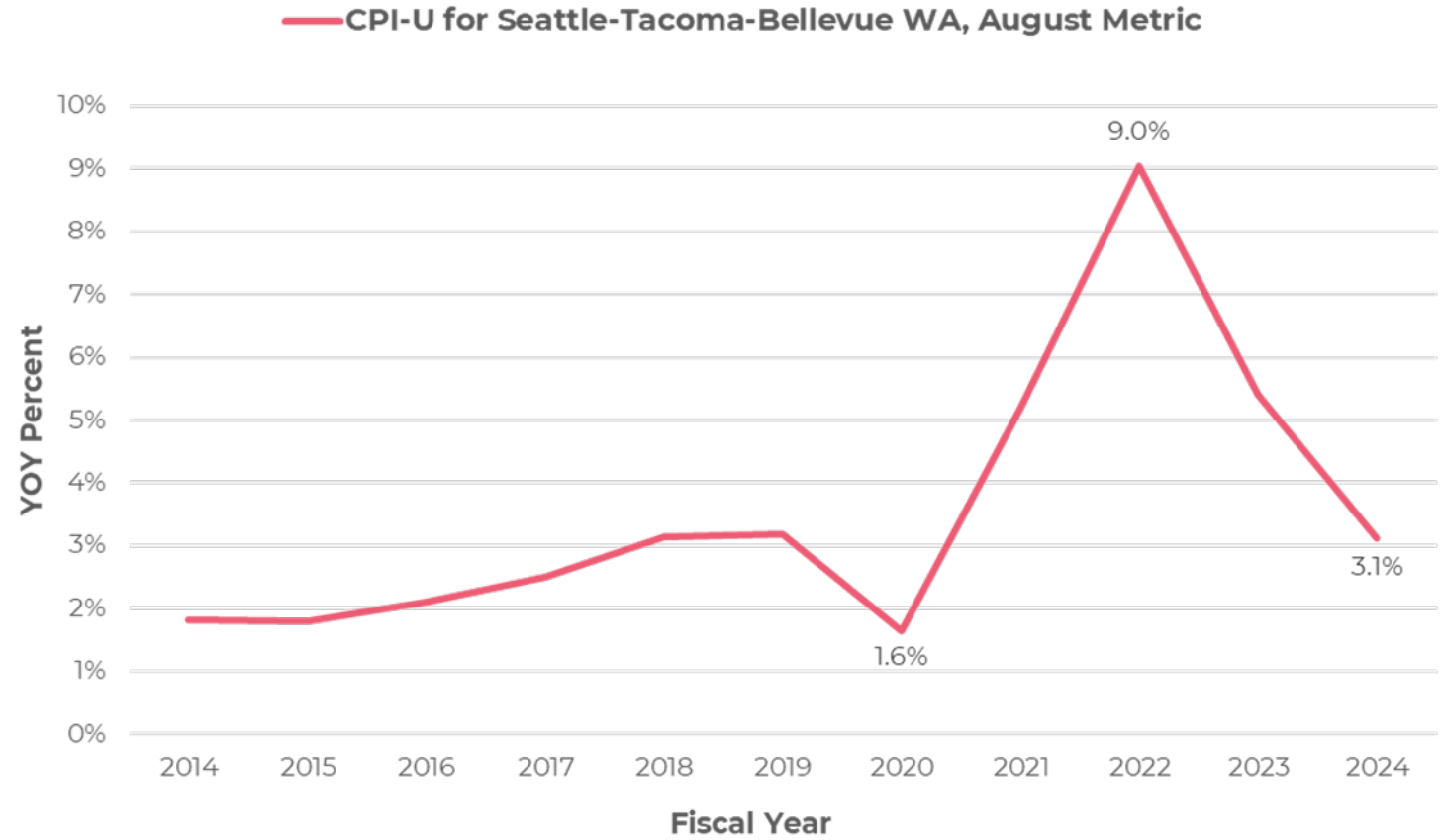
- ❑ Revenues grew slower in the first half of 2024 than last year, yet consumer spending remained healthy.
  - ❑ E.g., 2023 sales tax revenues were highest on record. Revenues held steady but did not notably increase through first half of 2024.
- ❑ Consumer sentiment builds momentum as inflation continues to slow.
- ❑ Ending a period of historically high inflationary pressure.

# Inflation

**Federal Reserve reduced the funds rate 0.50% on Sept 18, signaling more rate cuts ahead.**

- Proactive change in monetary policy, signals inflation is cooling, the economy is healthy, and risk is being managed.

**Inflation Rate**  
2014-2024



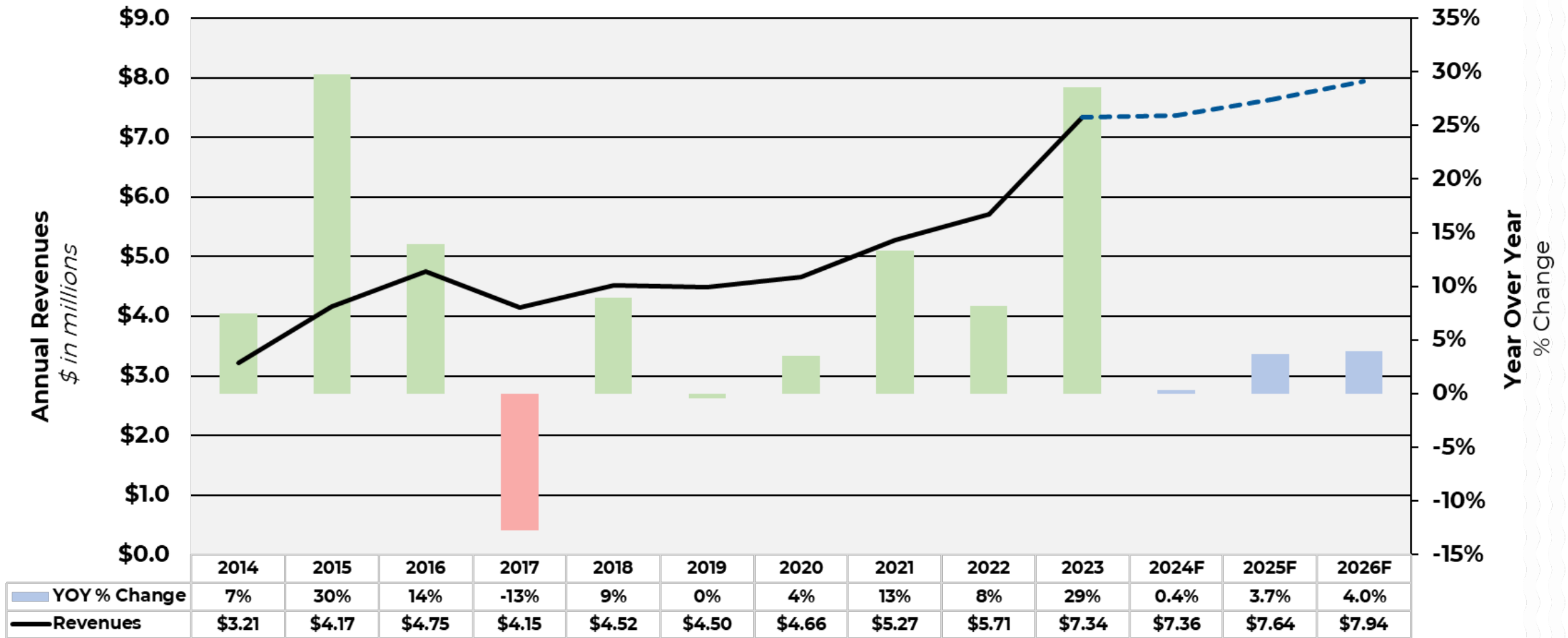
# General Fund Revenues

<i>(\$ in thousands)</i>	2024 Adopted Budget	2024 Forecast	Diff. from Adopted	2025 Forecast	2026 Forecast
<b>BEGINNING FUND BALANCE</b>				\$0	\$536
PROPERTY TAX	13,726	13,725	(1)	13,960	14,200
GENERAL SALES TAX	5,600	7,365	1,765	7,639	7,944
UTILITY TAXES	4,739	5,202	463	5,378	5,523
LICENSE, PERMIT, AND ZONING FEES	2,527	3,948	1,421	244	245
B&O TAXES	706	741	35	748	756
PARK AND RECREATION	1,414	1,285	(128)	1,357	1,377
EMS REVENUES	1,973	1,973	-	2,114	2,162
COST ALLOCATION	1,105	1,105	-	2,412	2,527
INTERFUND TRANSFERS	-	-	-	-	-
SHARED REVENUES	1,481	1,808	327	1,658	1,666
MUNICIPAL COURT	193	149	(43)	175	185
MISCELLANEOUS REVENUES	250	338	88	291	291
INTEREST EARNINGS	11	1,944	1,933	1,403	1,155
<b>TOTAL REVENUES</b>	<b>\$33,725</b>	<b>\$39,584</b>	<b>\$5,858</b>	<b>\$37,379</b>	<b>\$38,567</b>



# General Sales Tax Revenues

Fiscal Years 2014 - 2026



# General Fund Revenues

<b>Total Sales Tax</b> <i>(\$ in thousands)</i>	<b>Adopted Budget</b> <b>2024</b>	<b>Forecast</b> <b>2024</b>	<b>Difference</b>	<b>Forecast</b> <b>2025</b>	<b>Forecast</b> <b>2026</b>
<b>Revenues</b>	\$5,600	\$7,365	\$1,765	\$7,639	\$7,944
<b>Projected % Change (YOY)</b>				3.7%	4.0%

- ❑ Sales taxes are healthy and holding steady through 2024.
- ❑ Compared to prior year:
  - ❑ Similar level of activity in retail and wholesale trade sector.
  - ❑ Slowdown in construction sector (-3.7%).
- ❑ Informed by regional forecast models.

# General Fund Revenues

License, Permit, & Zoning Fees <i>(\$ in thousands)</i>	Adopted Budget 2024	Forecast 2024	Difference	Forecast 2025	Forecast 2026
<b>Revenues</b>	\$2,527	\$3,965	\$1,438	\$244	\$245
<b>Projected % Change (YOY)</b>				-94%	0%

- ❑ Revenue activity from 2023 continued into 2024.
- ❑ Revenues are \$655,000 higher Jan-Jun 2024 compared to 2023.
  - ❑ Tied to one-time permit activity of a large Town Center development.
- ❑ 2025 and 2026 projections tie to business licenses & fire inspections.

# Development Services Fund

<b>REVENUE FORECAST</b> <i>(\$ in thousands)</i>	<b>2024 Adopted Budget</b>	<b>2024 Forecast</b>	<b>Diff. from Amended</b>	<b>2025 Forecast</b>	<b>2026 Forecast</b>
PERMIT FEES	-	-	-	2,786	2,853
LAND USE FEES	-	-	-	501	521
INTERFUND TRANSFERS IN	-	1,286	1,286	913	966
<b>TOTAL REVENUES</b>	<b>\$0</b>	<b>\$1,286</b>	<b>\$1,286</b>	<b>\$4,201</b>	<b>\$4,340</b>

- ❑ No new developments are anticipated in the Town Center in 2025.
- ❑ Interfund Transfer in 2024 is operating reserve and General Fund contribution in 2025 and 2026, 22% of CPD overall budget.



# General Fund Revenues

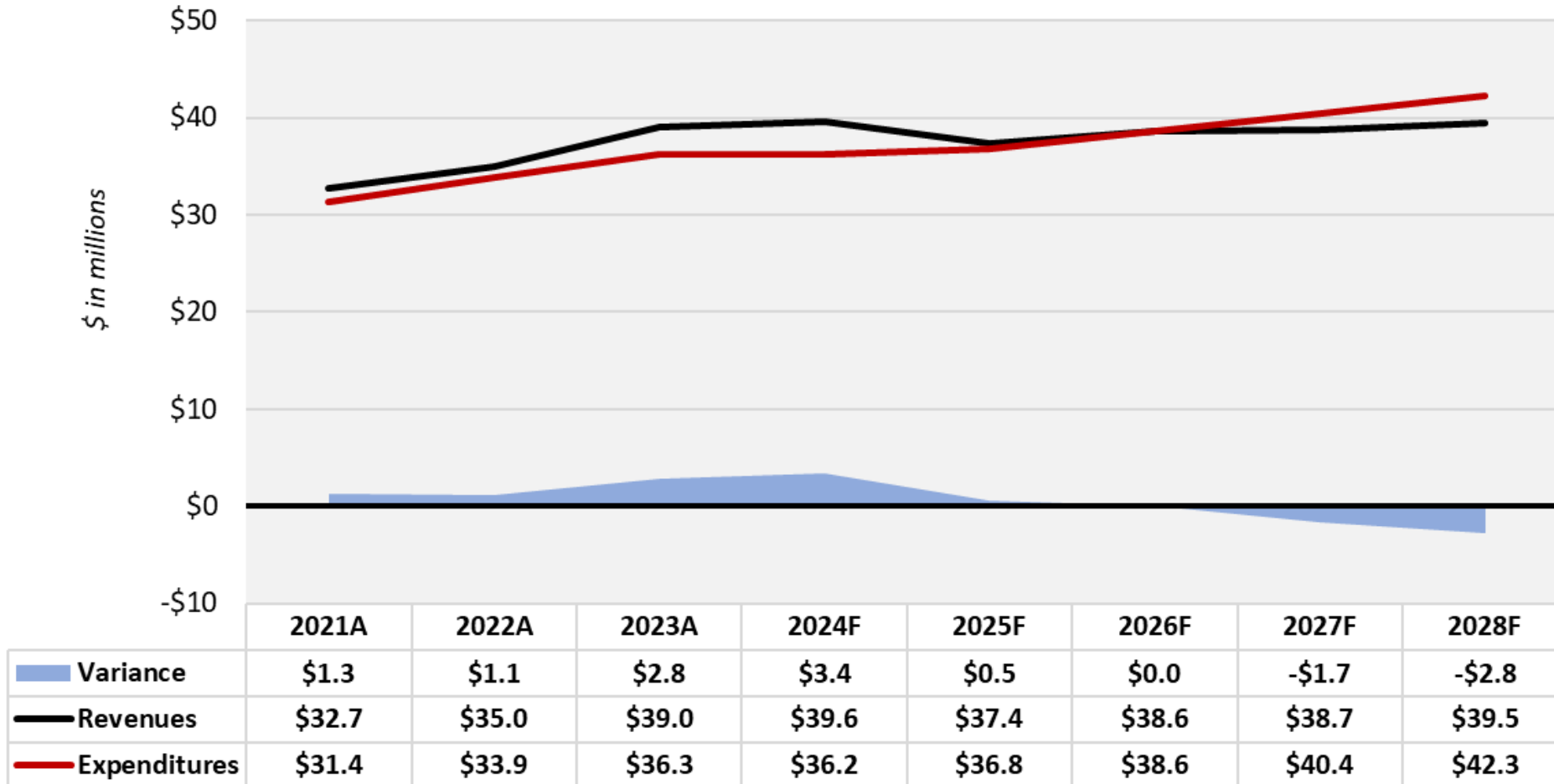
<b>Interest Earnings</b> <i>(\$ in thousands)</i>	<b>Amended Budget</b> <b>2024</b>	<b>Forecast</b> <b>2024</b>	<b>Difference</b>	<b>Forecast</b> <b>2025</b>	<b>Forecast</b> <b>2026</b>
<b>Revenues</b>	\$11	\$1,944	\$1,933	\$1,403	\$1,155
<b>Projected % Change (YOY)</b>				-28%	-18%

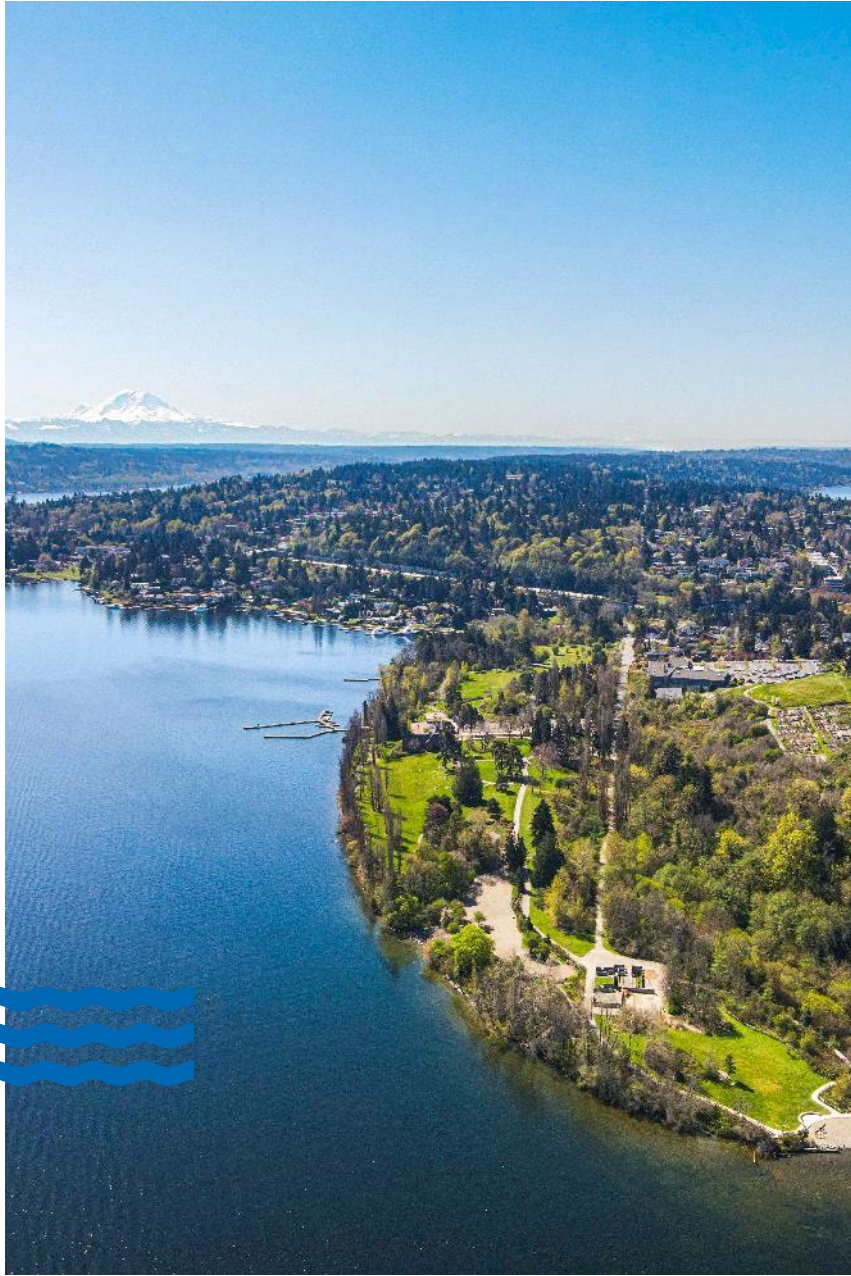
- ❑ Invested with the State Local Govt Investment Pool.
- ❑ June 2024 earnings rate 5.43%, up from 5.21% in June 2023.
- ❑ First six-months, earnings are \$1.2 M in 2024.
  - ❑ \$1.1 M in 2023.
  - ❑ \$6,303 in 2022.
- ❑ Interest earnings will decline as federal funds rate decreases.

# General Fund Forecast

## Revenues and Expenditures

Five-Year Forecast





**Questions?**

# Operating Budget

*Work Plan*

*Staffing Levels*





# Background

- ❑ The City's work plan outlines goals and objectives for the next 24 months.
- ❑ Includes day-to-day service benchmarks and the City's highest priorities.
- ❑ Based on City Council priorities. Further shaped by City Leadership.
- ❑ Builds on recent achievements and sustained progress.

# Work Plan

## *Major achievements in 2023-2024*

- ❑ Secured partnership with Eastside Fire and Rescue.
- ❑ Maintained strong mental health and family counseling services.
- ❑ Completed major investments in the water system, sewer system, streets, and parks.
- ❑ Established new Development Services Fund.
- ❑ First phase of new Financial Management software set to launch January 2025.
- ❑ And more...

# Work Plan

## *Major achievements in 2023-2024*

- Completed major planning initiatives the past four years.
  1. ADA Transition Plan (2022)
  2. Parks, Recreation, and Open Space Plan (2022)
  3. Town Center Parking Plan
  4. Climate Action Plan
  5. Compensation Plan
  6. Cost Allocation Plan
  7. Comprehensive Plan Period Update...later this year.

# Work Plan

**Significant resources invested in planning work over the past four years.**

**Resources in the 2025-2026 biennium are focused on seeing these plans through.**



# 2025-2026 Staffing Levels

## Key Highlights of the 2025-2026 Staffing Plan

- ❑ Practice an Adaptive Staffing Model
- ❑ Maintaining Staffing Levels
- ❑ Realignment of Resources in Key Areas
- ❑ Some Limited Reorganization of Departments
- ❑ Planning for Retirements

# Maintaining Staffing Levels

- ❑ Proposed budget maintains overall staffing levels.
- ❑ Planned to preserve the stability of the workforce.

<b>POSITION TYPES</b>	<b>BUDGETED</b>	<b>PROPOSED</b>	<b>CHANGE</b>
<i>Fiscal Year</i>	<b>FY 2024</b>	<b>FY 2025</b>	<b>YOY</b>
Full-time Equivalent (FTE)	175.08	176.28	1.20
Limited-term Equivalent (LTE)	17.53	16.08	(1.45)
<b>TOTAL</b>	<b>192.61</b>	<b>192.36</b>	<b>(0.25)</b>

# Work Plan

## *Highest Priorities in 2025-2026*

- ❑ Identify future facility needs and fiscally prudent ways in the near- and long-term to meet them.
- ❑ Continue reinvesting in City infrastructure with critical water, sewer, stormwater, streets, and parks capital projects.
- ❑ Work with community partners to develop and commit to a financial plan that sustainably funds YFS beyond 2026.
- ❑ Align all interlocal agreements with the updated cost allocation policy.
- ❑ Explore areas of City operations where Artificial Intelligence can drive efficiency, enhance service delivery.

# Work Plan – New Items

*Limited but focused policy work in 2025-2026*

- ❑ Develop safe and responsible e-bikes and e-scooters regulations.
- ❑ Update the Comprehensive Arts & Culture Plan to invest in and promote arts and culture` initiatives.
- ❑ Draft a new Parks Zone via a community engagement process.
- ❑ Begin Parks Code (MICC 9.30) review with recommended updates by early 2027.
- ❑ Implement state legislation related to changes in the Growth Management Act and affordable housing initiatives by the mandated deadlines.
- ❑ Implement the 2024 Comprehensive Plan Periodic Update including economic development and housing strategies.

# Work Plan – New Items

## *A few other work plan highlights in 2025-2026*

- ❑ Develop and implement an EV Charging Infrastructure Plan, in collaboration with Puget Sound Energy (PSE), that guides expansion of EV charging capacity throughout the city.
- ❑ Prepare for the new light rail station (opening date set for 2025), including response protocols for two Town Center Officers, as well as plan for pedestrian and vehicle safety.
- ❑ Collaborate with Eastside and Factor on operational matters. One area of focus is evaluating fire and emergency services turnout and travel times to possibly modify the Station 91 and Station 92 boundaries.
- ❑ Implement new financial management software modules to simplify the process of accepting payments for municipal services and streamline business and occupation tax processing



# 2025-2026 Budget Proposals



# Budget Proposals

## Exhibit 3 - Budget Proposals

- ❑ Remaining fund balance in the General Fund from 2023:
  - ❑ **\$501,273**
- ❑ One-time monies for City Council review and appropriation as part of the 2025-2026 biennial budget.
- ❑ Seven proposals outlined in Exhibit 3.

# Budget Proposals

Budget Proposals <i>AB 6555x3</i>		Fund(s)	One-Time/ Ongoing	2025	2026
1	Municipal Facility Replacement Fund Contribution	General	One-time	\$150,000	\$ -
2	Communications & Public Relations Support	General	One-time	60,000	60,000
3	Gun buyback program	General	One-time	25,000	-
4	EV Charging Plan	General	One-time	100,000	50,000
5	Set Compensation Plan for Non-Represented Staff to 100% of Market Median	Many	Ongoing	586,916	652,215
6	Water Utility Capital Team Member (1.0 LTE)	Water	One-time	127,346	137,475
7	Water Utility Capital Team Member (1.0 LTE)	Water	One-time	127,346	137,475

# Recommended Actions

Council direction on disposition of remaining General Fund balance from year-end 2023. Potential motions:

- ❑ *Approve budget proposal(s) [Insert # here] and direct staff to include the associated funding in the final 2025-2026 Biennial Budget.*

Additional motion if budget proposals 6 & 7 are approved:

- ❑ *Authorize the City Manager to open recruitment for two Water Utility Capital Team Members (budget proposals 6 & 7) ahead of the final budget adoption.*

# Next Steps

Date	Topic
<b>11/04</b>	Additional Budget Workshop, as-needed
<b>11/19</b> <i>Public Hearing</i>	Review changes incorporated into Preliminary Budget Adopt 2025 Property Tax Levies Adopt 2025 rates for Regional Police Dispatch Services (NORCOM)
<b>12/03</b>	Adopt 2025 Master Fee Schedule & Final 2025-2026 Biennial Budget



# Questions

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