

AB 6163



Budget Workshop | 10-03-2022

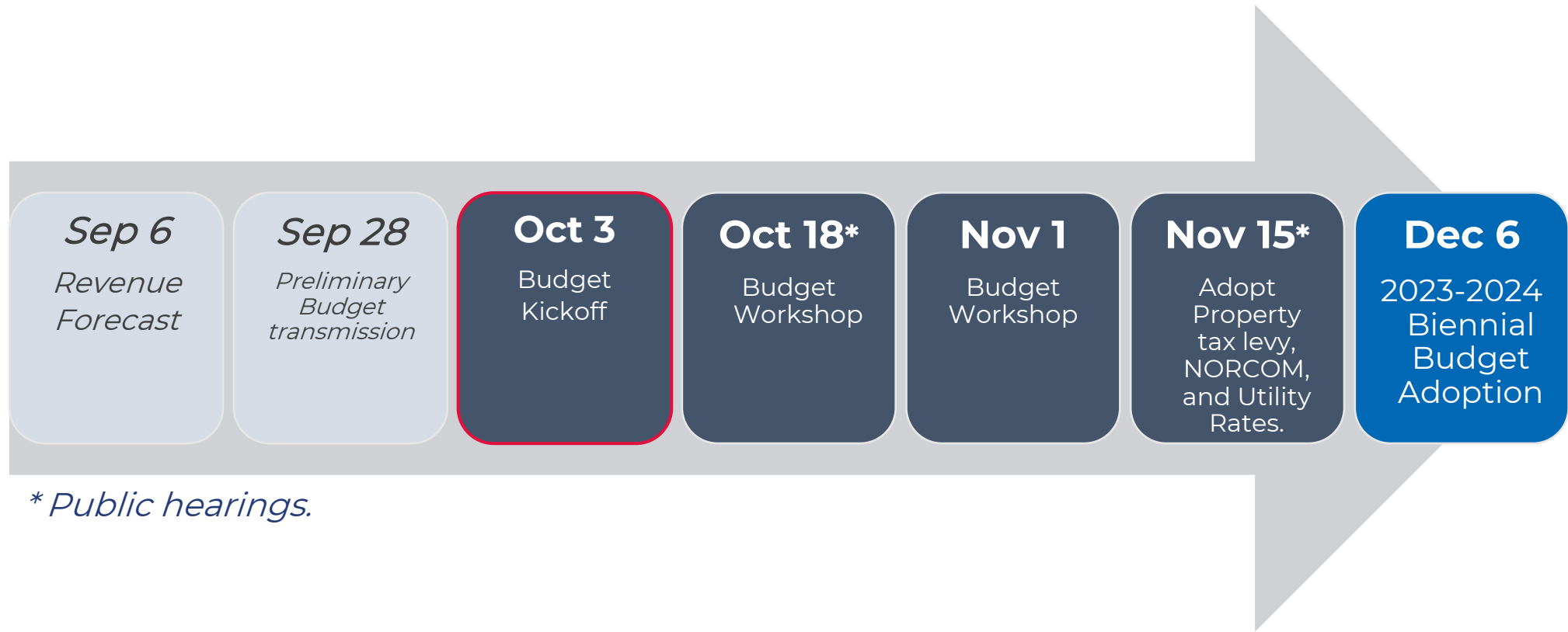
2023-2024 Preliminary Budget



Agenda

1. Biennial Budget Calendar
2. Prelim Budget Overview
 - *Budget Basics*
 - *Opportunities & Challenges*
3. General Fund
4. Six-year Forecast
5. Next Steps

Mercer Island's Budget Schedule



** Public hearings.*

Budget Overview



Budget Overview

Where we are headed...

- Preliminary budget is balanced.
 - Sets financial and staff resources for the next two years.
 - Revenues remain relatively flat – sales tax estimates adjusted since September 6.
 - Limited yet strategic project and service initiatives.
 - Use of planned one-time funding to bridge operations over the next biennium.

- **Focus is on maintaining a financially sustainable course.**

Budget Overview

Where we have been...

- ❑ City was responsive and adaptive in the wake of the Pandemic.
 - ❑ Cost saving measures stabilized operations.
 - ❑ Centralized customer service response operations.
 - ❑ Suspended services were methodically restored.
 - ❑ Adopted new financial management policies.

- ❑ Prudent fiscal management and Federal aid grew City's Fund balances.

Budget Basics

- **Fund Accounting** - resources accounted for in separate Funds.
 - Most government revenues are restricted - organized based on distinct uses.
 - Each Fund is a separate and distinct accounting entity.
- Mercer Island has 20 distinct Funds in 7 categories.
 1. General Purpose Funds
 2. Special Revenue Funds
 3. Enterprise Funds
 4. Internal Service Funds
 5. Trust and Agency Funds
 6. Debt Service Funds
 7. Capital Project Funds

Budget Basics

General Purpose Funds

1. General Fund (001)
2. Self-Insurance Claim Reserve (037)
3. *Youth Services Endowment (061)*

Special Revenue Funds

4. Street Fund (104)
5. Contingency Fund (130)
6. 1% for the Arts Fund (140)
7. Youth & Family Services Fund (160)
8. ARPA Fund (170)

Debt Service Funds

9. Bond Redemption-Voted (208)
10. Bond Redemption Non-Voted (239)

Capital Project Funds

11. Town Center Parking Fund (342)
12. Capital Improvement Fund (343)
13. Tech & Equipment Fund (345)
14. Capital Reserve Fund (350)

Enterprise Funds

15. Water Fund (402)
16. Sewer Fund (426)
17. Storm Water Fund (432)

Internal Service Funds

18. Equipment Rental Fund (503)
19. Computer Equipment Fund (520)

Fiduciary Trust Fund

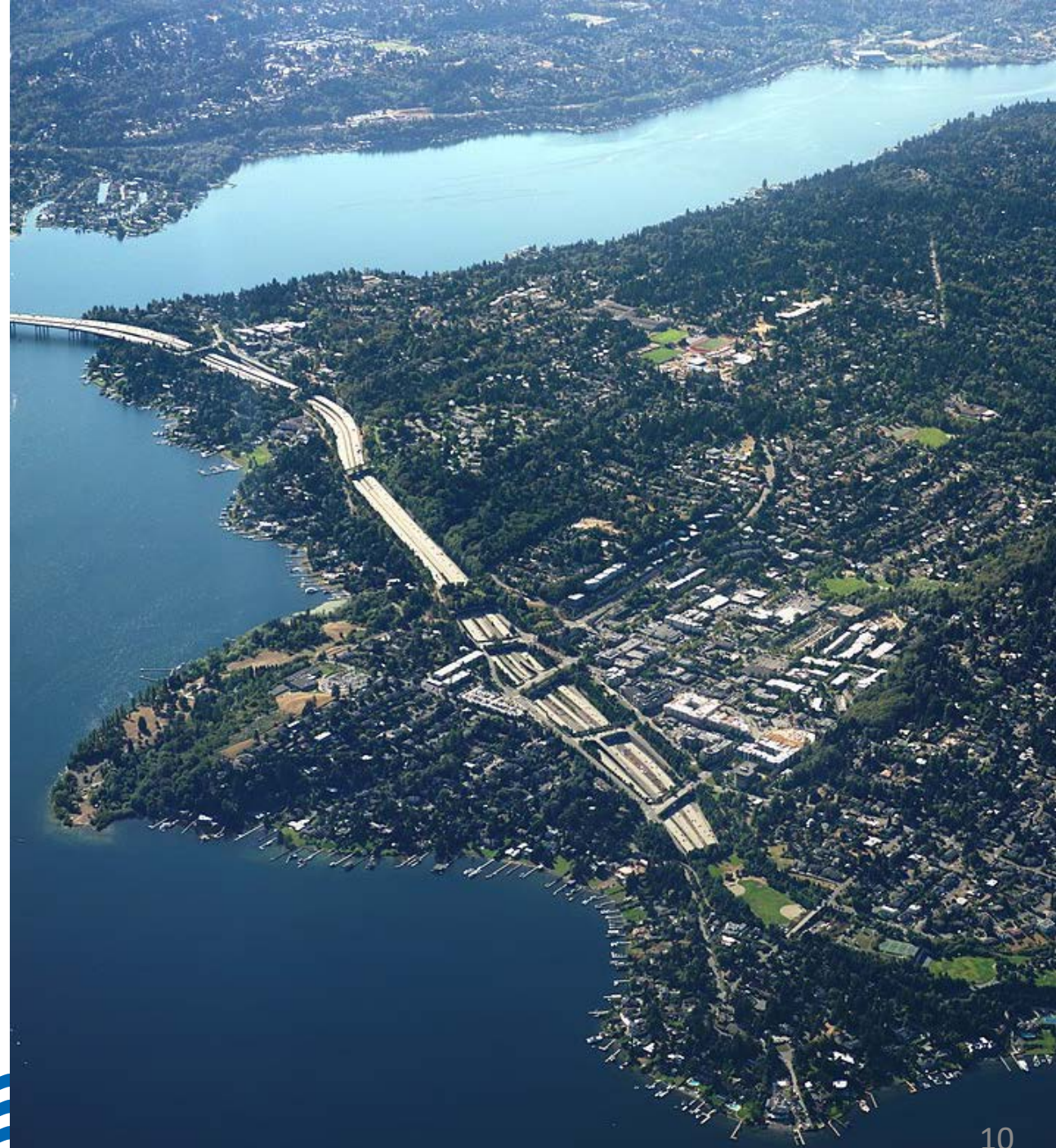
20. Firefighter's Pension Fund (606)

Budget Basics

Fund Accounting protects public dollars.

Ensures resources meant for specific purposes are tracked and held to account.

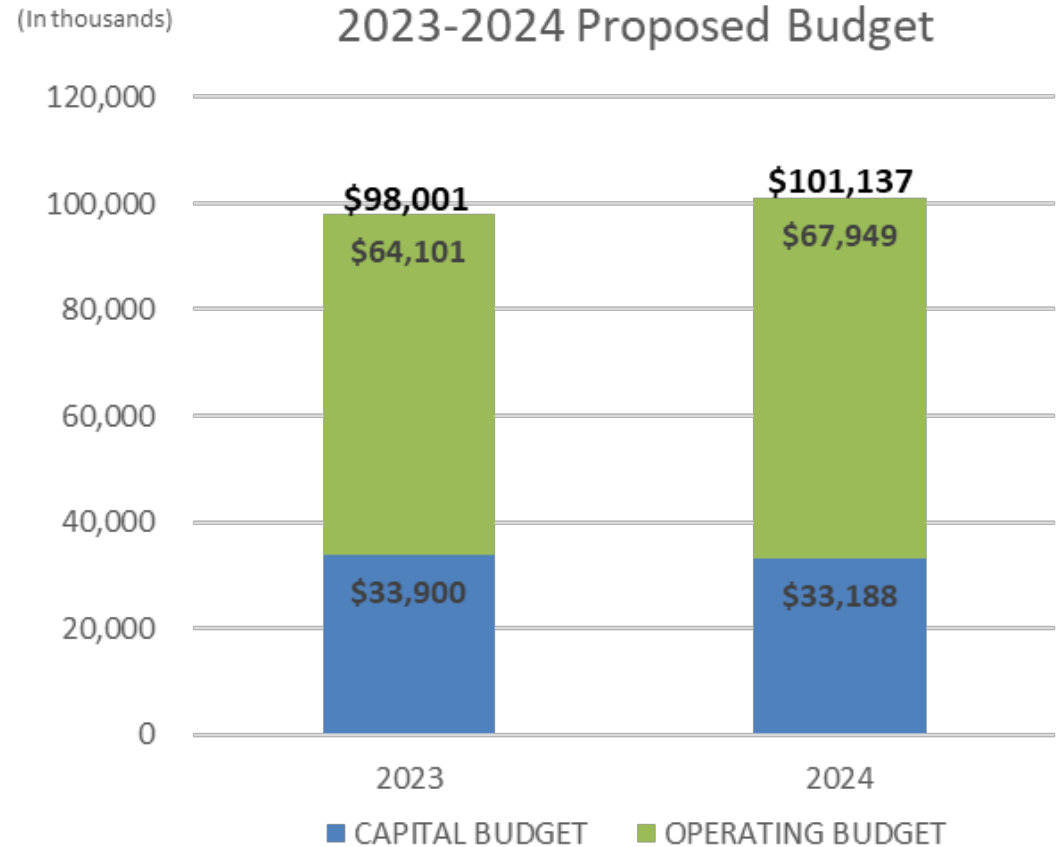
Questions?



Expenditures Citywide

Expenditures – All Funds

- ❑ 2021 *Actuals*: \$62 M
- ❑ 2022 *Estimate*: \$98 M
- ❑ 2023 Budget: \$98 M
- ❑ 2024 Budget: \$101 M



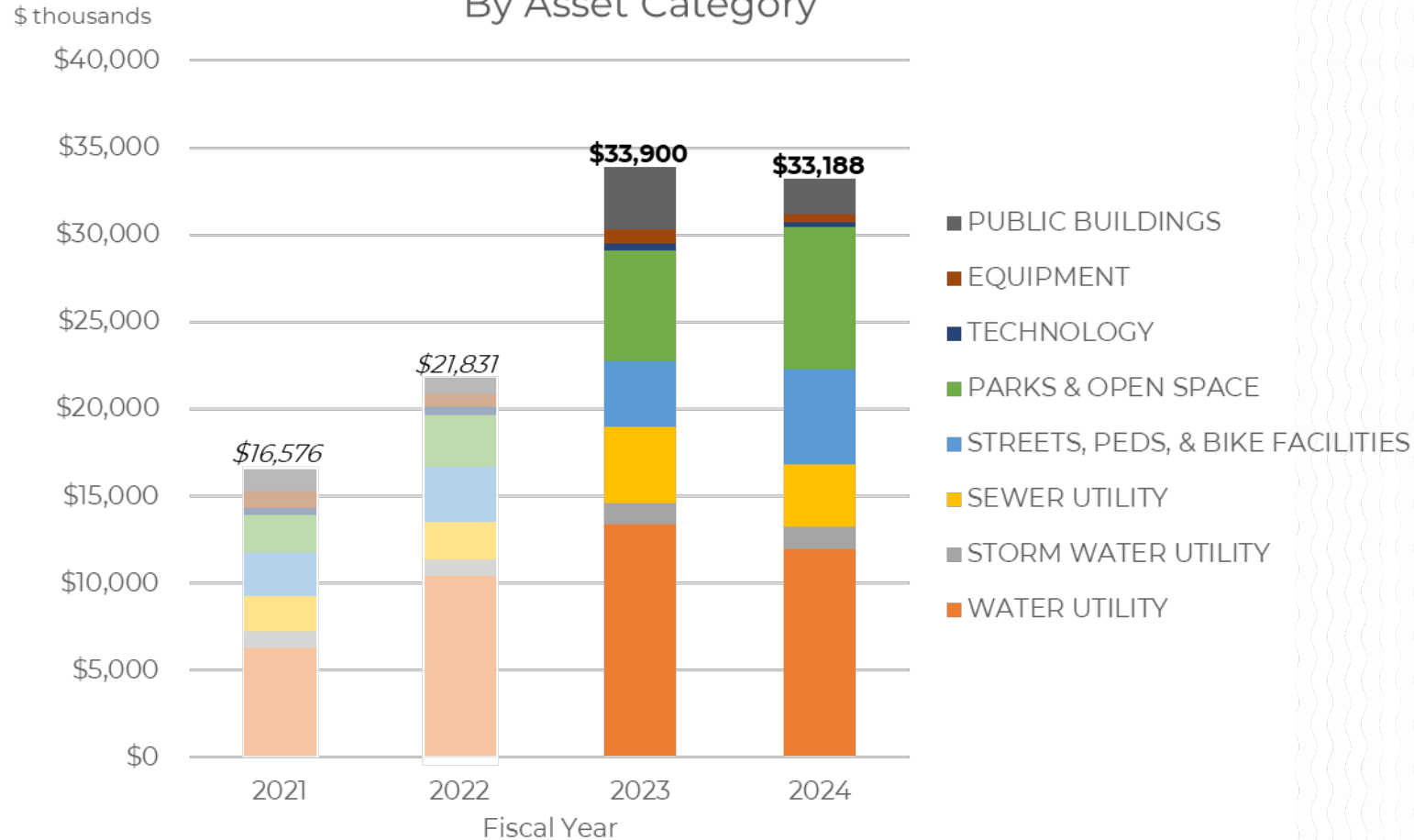
* Citywide expenditures are net of reimbursements and transfers between Funds.

Capital Expenditures

□ Entering a period of robust capital reinvestment.

- *Public facilities*
- *City parks*
- *Underground utilities*

Annual Expenditure Budget
By Asset Category



Key Assumptions

❑ Current Parks Levy

- ❑ Revenues reflected through 2023. No levy revenues in 2024.
- ❑ Capital projects tied to levy revenues noted pending outcome of the NOV election.
- ❑ Per Council's direction, staff will update budget once outcome is clear.

❑ 2023-2028 Capital Improvement Program

- ❑ \$3.7 M in REET-2 Reserves used to offset Luther Burbank waterfront improvements.
- ❑ \$1.6 M in ARPA funds allocated to vital building maintenance.
- ❑ \$84 M in escalated reinvestment needs for water, sewer, and storm water systems.

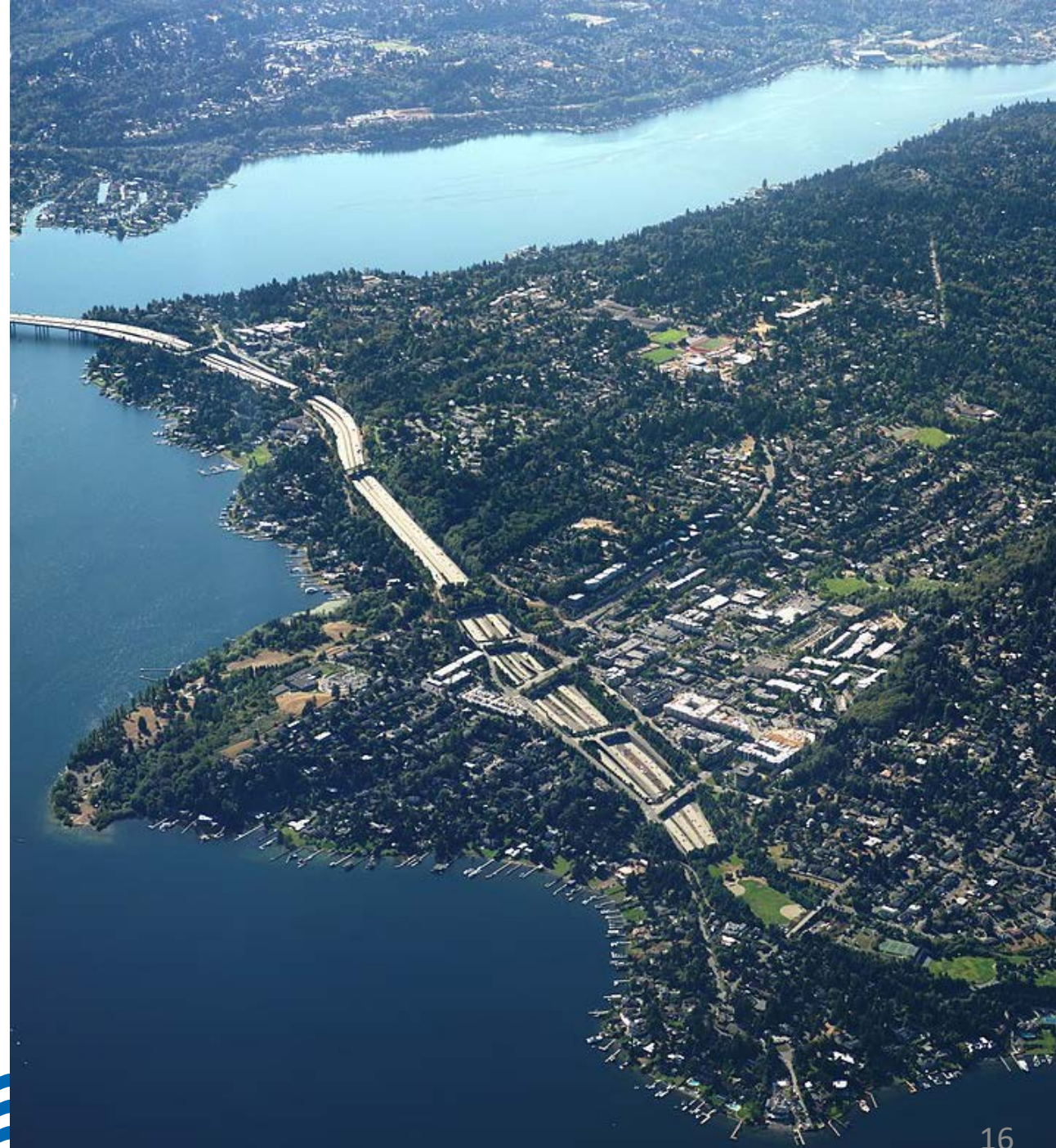
Operational Opportunities

- Beyond maintaining & improving current service levels, this budget:
 1. Preserves access to mental health services for entire Mercer Island community.
 2. Focuses community partners on developing a long-term funding strategy for YFS.
 3. Delivers an economic development strategy based on Comprehensive Plan periodic update.
 4. Implements new financial software, improving operations & reporting capabilities.
 5. Creates new operational & administrative framework for Development Services.
 6. Supports a new master facility use agreement with MISD and a renegotiated maintenance agreement with WSDOT for Aubrey Davis Park.

Challenges Ahead

- ❑ General Fund operating deficit.
 - ❑ Expenditures exceed revenues \$1.6 M in 2023 and \$3.4 M in 2024.
 - ❑ Funding gap bridged using General Fund unassigned fund balance.
- ❑ Youth & Family Services Fund operating deficit.
 - ❑ Expenditures exceed revenues \$675K in 2023 and \$771K in 2024.
 - ❑ Fund gap bridged using ARPA funds.
- ❑ Inflation increasing at a pace unseen in 40 years.
 - ❑ COLA adjustments between 6-9% from 2022 to 2023.
 - ❑ Historical range is 1-3% per year.

Questions?



General Fund



GF Revenues

GENERAL FUND (\$ million)	2021 Actuals (unaudited)	2022 Forecast	2023 Budget	2024 Budget
Beginning Fund Balance	\$2.6	\$3.7	\$1.6	\$3.4
Property Tax	\$12.9	\$13.2	\$13.5	\$13.0
Sales Tax	\$6.1	\$5.8	\$5.6	\$5.6
Business & Utility Tax	\$5.6	\$5.7	\$5.1	\$5.0
Licenses & Permits	\$3.3	\$3.0	\$3.0	\$2.9
Other Revenues	\$4.7	\$5.4	\$6.2	\$6.5
TOTAL	\$35.2	\$36.8	\$35	\$36.4

** Note differences may occur due to rounding.*

GF Expenditures

GENERAL FUND (\$ million)	2021 Actuals (unaudited)	2022 Forecast	2023 Budget	2024 Budget
Salaries & Wages	\$15.4	\$17.4	\$18.1	\$19.2
Benefits	\$5.7	\$6.5	\$6.8	\$7.2
Contractual Services	\$3.7	\$3.9	\$3.3	\$3.4
Other Services & Charges	\$5.9	\$6.5	\$6.4	\$6.2
Interfund Transfers	\$0.7	\$1.0	\$0.3	\$0.4
TOTAL	\$31.4	\$35.3	\$34.9	\$36.4

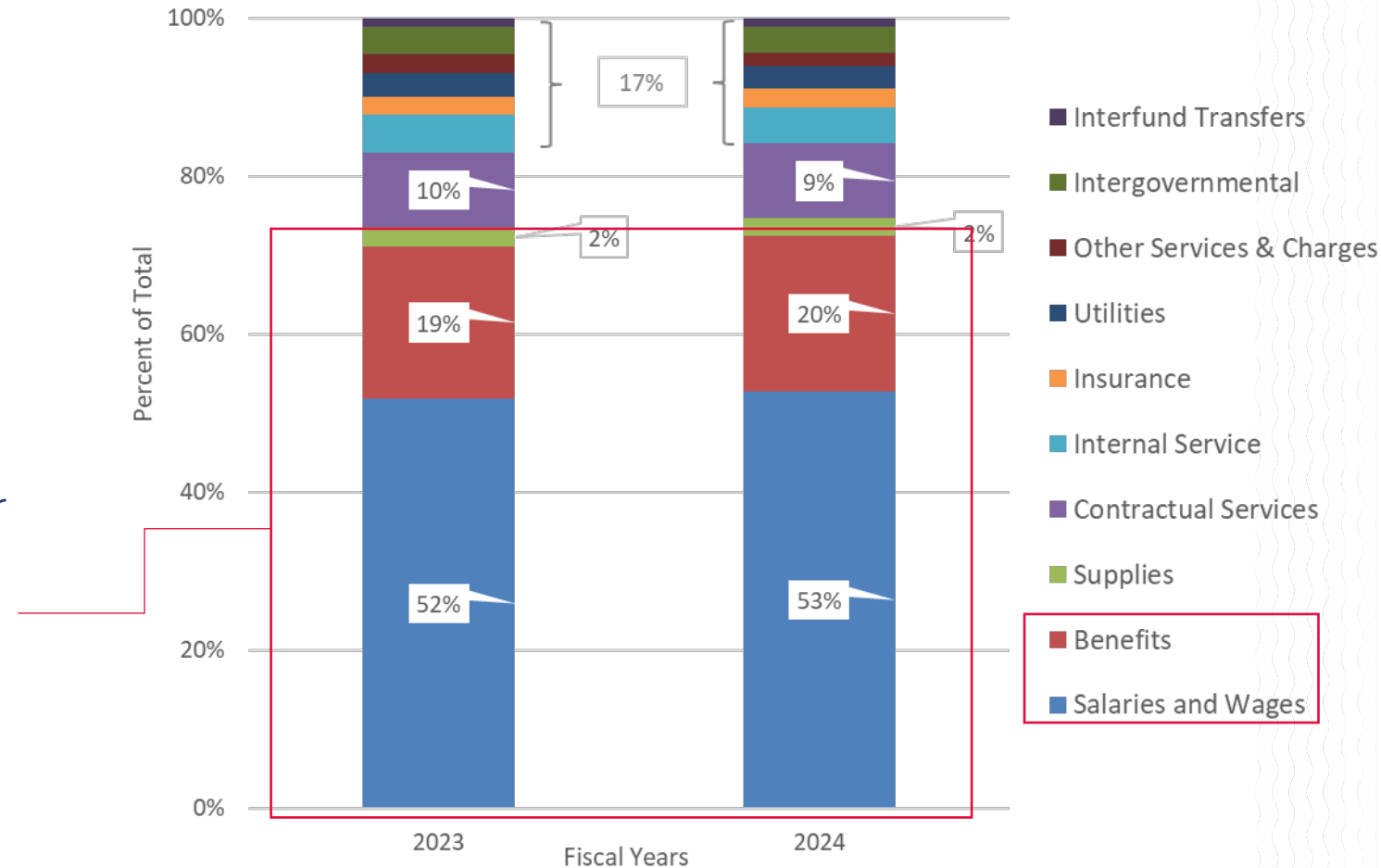
** Differences may occur due to rounding.*

Expenditures Snapshot

General Fund

- Compared to current biennium:
 - 10% reduction in contractual services
 - 14% increase in employee compensation

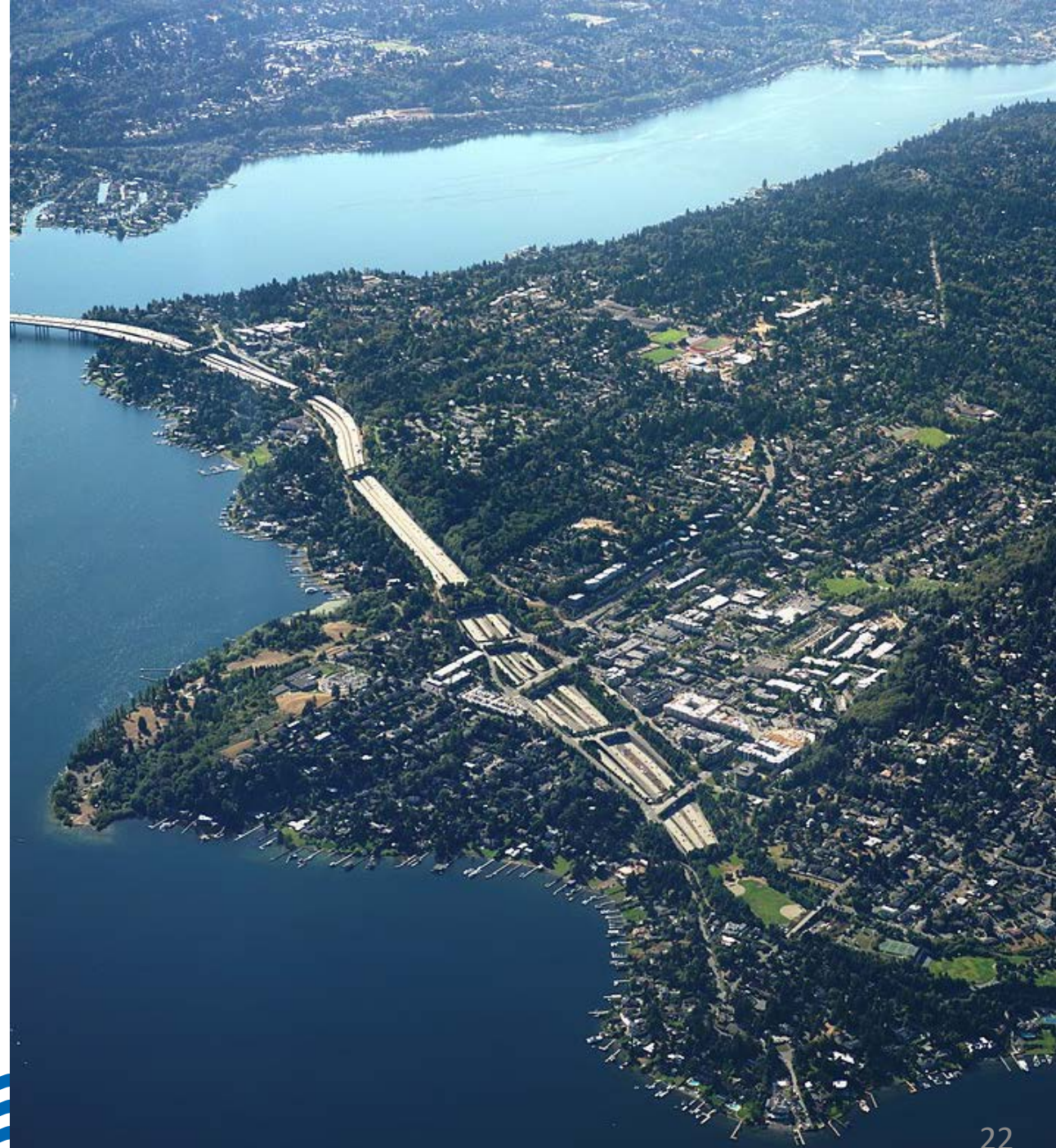
- Employee compensation accounts for ~72% of General Fund budget.



General Fund Balance

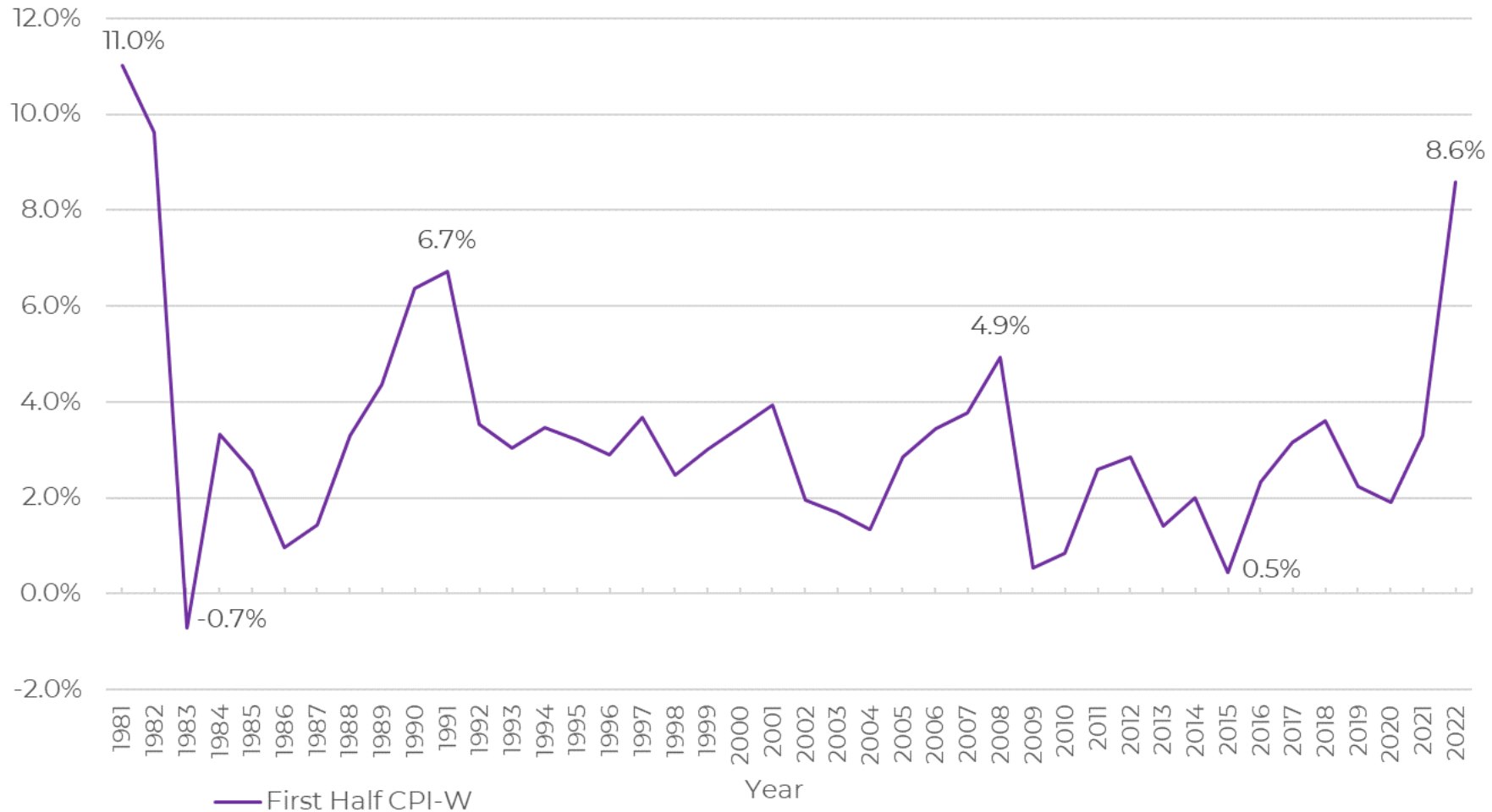
GENERAL FUND (\$ thousands)	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
Beginning Fund Balance	10,369	11,672	9,515	7,905
Plus Revenues	32,683	33,169	33,382	32,967
Less Expenditures	(31,380)	(35,326)	(34,993)	(36,403)
Ending Fund Balance	\$11,672	\$9,515	\$7,905	\$4,469
Consisting of:				
Compensated Absence Reserve	751	751	751	751
LEOFF1 Long Term Care Reserve	2,215	2,309	2,403	2,497
Inventory of Supplies	121	121	121	121
Law Enforcement & CJ	82	82	82	82
Petty Cash	2	2	2	2
Customer Deposits/Deferred Revenue	790	790	790	790
DSG Technology reserve	120	120	120	120
Appropriated for Expenditures Next Year	3,683	1,611	3,436	0
Unassigned	3,909	3,731	201	107
Ending Fund Balance	\$11,672	\$9,515	\$7,905	\$4,469

Questions?



Historical Inflation

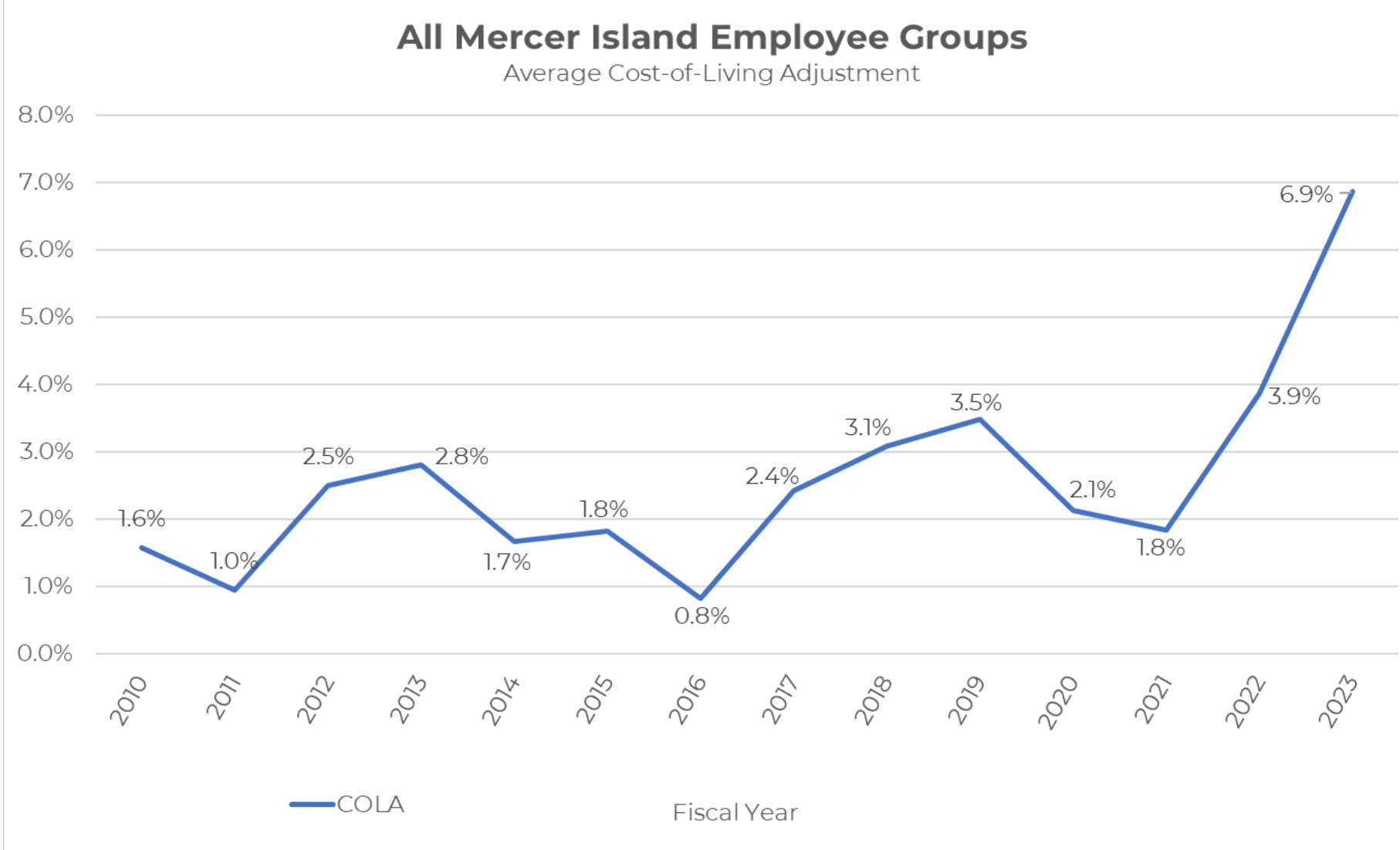
CPI-W First Half of Year
Seattle-Tacoma-Bellevue-WA



* Data Source: Bureau of Labor Statistics

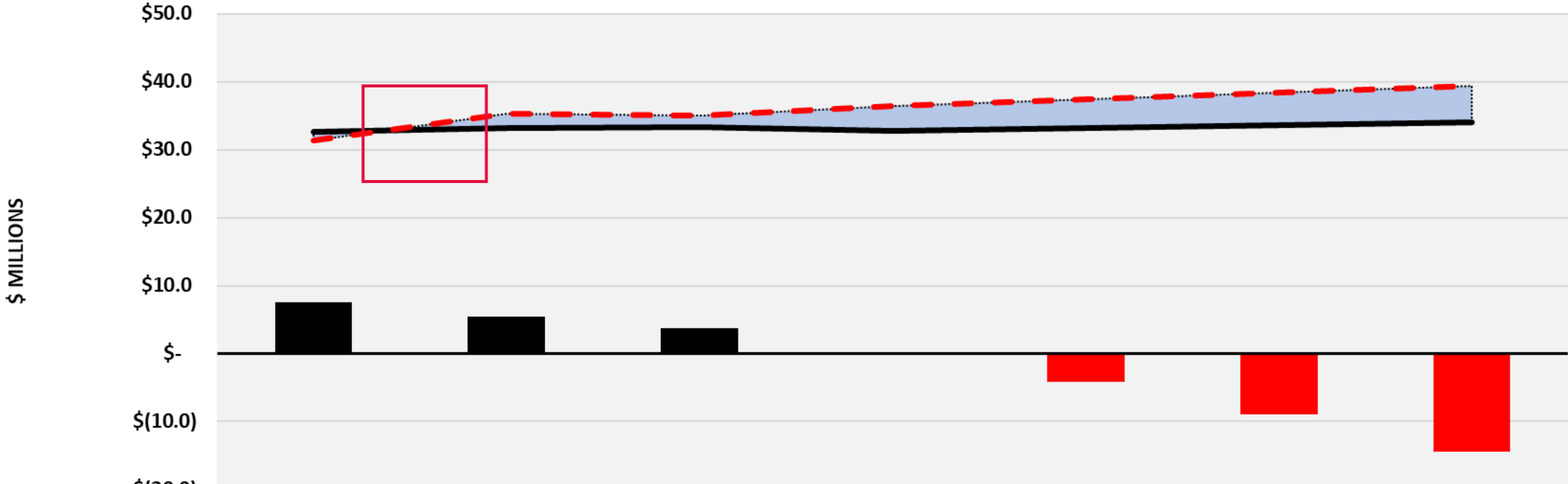
Cost of Living Adjustment

All Mercer Island Employee Groups
Average Cost-of-Living Adjustment



General Fund Forecast

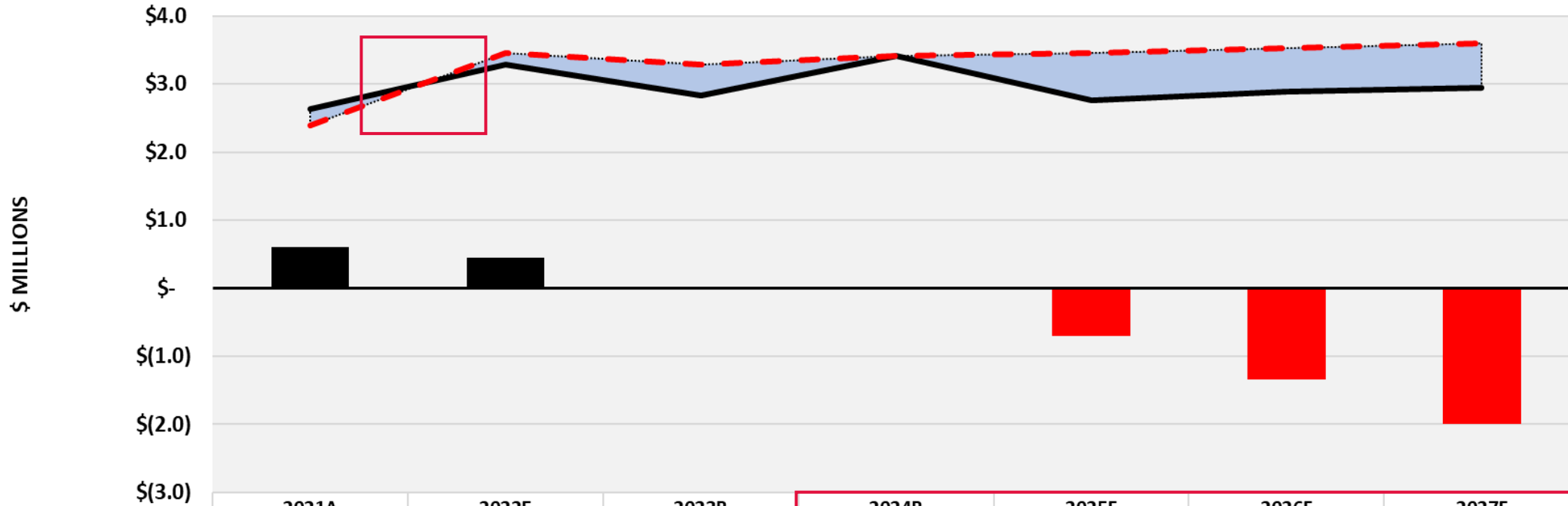
REVENUES, EXPENDITURES & UNASSIGNED FUND BALANCE



	2021A	2022E	2023B	2024B	2025F	2026F	2027F
VARIANCE	\$1.3	\$(2.2)	\$(1.7)	\$(3.6)	\$(4.2)	\$(4.8)	\$(5.5)
EXPS-BASE	\$31.4	\$35.3	\$35.0	\$36.4	\$37.4	\$38.4	\$39.4
DEFICIENCY	\$-	\$-	\$-	\$-	\$(4.1)	\$(8.9)	\$(14.4)
BALANCE	\$7.6	\$5.4	\$3.7	\$0.1	\$-	\$-	\$-
REVENUES	\$32.7	\$33.2	\$33.3	\$32.8	\$33.2	\$33.6	\$34.0
EXPENDITURES	\$31.4	\$35.3	\$35.0	\$36.4	\$37.4	\$38.4	\$39.4

YFS Fund Forecast

REVENUES, EXPENDITURES & UNASSIGNED FUND BALANCE



	2021A	2022E	2023B	2024B	2025F	2026F	2027F
VARIANCE	\$0.3	\$(0.2)	\$(0.4)	\$-	\$(0.7)	\$(0.6)	\$(0.7)
EXPS-BASE	\$2.4	\$3.5	\$3.3	\$3.4	\$3.5	\$3.5	\$3.6
DEFICIENCY	\$-	\$-	\$(0.0)	\$(0.0)	\$(0.7)	\$(1.3)	\$(2.0)
BALANCE	\$0.6	\$0.4	\$-	\$-	\$-	\$-	\$-
REVENUES	\$2.6	\$3.3	\$2.8	\$3.4	\$2.8	\$2.9	\$2.9
EXPENDITURES	\$2.4	\$3.5	\$3.3	\$3.4	\$3.5	\$3.5	\$3.6

Thrift Shop

Pandemic shut down operations

- ❑ Shut down March 2020 with constrained operations thru Q3 2021.
- ❑ The City restored operations during 2021-2022 mid-biennial budget process.
- ❑ (steady progress is being made). Gains are happening.

Rebuilding Phase Underway

- ❑ Operational emphasis is on:
 - ❑ Streamlined staff team
 - ❑ New training protocols
 - ❑ Increase volunteer engagement (*service hours per volunteer*)
- ❑ Target 10% Y-O-Y revenue growth for 2023-2024, akin to 2015-2019 growth rates.

Challenges Ahead

- ❑ Achievements over the past 3 years have positioned the City for the challenges ahead.
- ❑ Budget is as a starting point, built during an unprecedented period.
- ❑ The City remains flexible, ready to adapt as current conditions evolve.

Next Steps

□ October 18

- Budget proposals
- Department overviews
- Capital Improvement Program

□ November 1

- Receive final direction on preliminary budget and budget proposals

□ November 15

- Discuss outcome from November election and Parks Levy
- Adopt 2023 utility rates, NORCOM rates, ARCH funding, & Property Tax levies

□ December 6

- Adopt final 2023-2024 Biennial Budget

Questions

Jessi Bon, City Manager

Matt Mornick, Finance Director

