



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

**AB 6163
September 6, 2022
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6163: Receive the 2023-2024 Preliminary Budget	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Discussion only, no action required.	

DEPARTMENT:	Finance
STAFF:	Jessi Bon, City Manager Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. 2023-2024 Preliminary Budget available at: www.mercerisland.gov/budget
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

EXECUTIVE SUMMARY

The purpose of this agenda item is to transmit to the City Council the 2023-2024 Preliminary Budget (see Exhibit 1) and to commence the budget review process, which is anticipated to conclude with the adoption of the 2023-2024 Budget on December 6.

- Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget to the City Council for review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, and a copy was filed with the City Clerk.
- The 2023-2024 Preliminary Budget is focused on maintaining current service levels and providing critical investments to preserve City infrastructure.
- The purpose of the October 3 City Council meeting is to introduce and review key budget assumptions, policy considerations, and the budget development schedule. The presentation will also include a high-level long-term look at specific City Funds.
- The General Fund has an operating deficit in which budgeted expenditures exceed forecasted revenues by \$5.0 M in the 2023-2024 biennium due to inflationary impacts. The deficit is bridged using unassigned fund balance from the General Fund.
- The Youth & Family Services Fund has an operating deficit of \$1.5 M in the biennium, which is also due to inflation and the ongoing recovery of Thrift Shop revenues. The funding gap is bridged using ARPA funds.
- The 2023-2028 CIP includes significant infrastructure investments. Staff will review the policy assumptions included in the capital budget during the presentation, one of which includes transferring \$3.7 M in REET-2 reserves from the Street Fund to the CIP Fund for parks projects. The primary driver in this fund transfer is the Luther Burbank Dock Replacement and Waterfront project.

- The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at two scheduled Public Hearings on [October 18 and November 15](#). Public comment is also invited at all City Council meetings.

Staff will return to City Council on October 18 to conduct the first public hearing, to review/discuss Department budgets and work plans, and to review the budget proposal list.

BACKGROUND

Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget to the City Council for review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, and a copy was filed with the City Clerk. The presentation on Monday kicks-off the budget review and adoption process, a process that will unfold through the remainder of the year.

ISSUES / DISCUSSION

The budget workshops over the next two months are intended to be interactive. Staff seeks to address City Council questions while looking for consensus on key policy decisions and priorities for the upcoming biennium. Department Directors and other budget staff will attend and participate in the discussions.

The following list summarizes the key elements and assumptions included in the 2023-2024 Preliminary Budget:

- The current Parks Levy will expire December 2023 and the parks levy renewal is on the November 8, 2022, General Election ballot. The budget includes the following assumption:
 - The current parks levy revenue is reflected through the end of 2023. No parks levy revenue is reflected in 2024.
 - The parks capital projects that are tied to the renewal of the levy in 2024 are reflected on a separate list, pending the outcome of the levy.
 - The staff will update the budget document, per the policy direction of the City Council, once the outcome of the levy is known.
- The Sales tax revenue assumptions were revised since the Revenue Forecast was presented (see [AB 6145](#)) to reflect a 3% reduction from 2022 (year-end projections) to 2023. The Sales Tax revenue projections are held flat from 2023 to 2024.
- The General Fund has an operating deficit in which budgeted expenditures exceed forecasted revenues by \$1.6 M in 2023 and \$3.4 M in 2024 due to inflation. This \$5.0 M funding gap in the 2023-2024 biennium is bridged using unassigned fund balance from the General Fund.
- The Youth & Family Services Fund has an operating deficit in which expenditures exceed forecasted revenues by \$675,000 in 2023 and \$771,000 in 2024. This \$1.5 M funding gap is bridged using ARPA funds.
- The 2023-2028 CIP program includes significant upfront investment in the City's facilities, parks, recreation, and open spaces. A total of \$3.7 M in REET-2 reserves was taken from the Street Fund balance to offset parks capital investment needs in 2023 and 2024. The primary driver in this fund transfer is the Luther Burbank Dock Replacement and Waterfront project (PA0122). The Street Fund remains balanced through the coming biennium.

- Many of the City’s facilities need critical repairs. A total of \$1.6 M in ARPA funds is included in the Capital Improvement Program (CIP) for immediate maintenance work while a Citywide facilities assessment is completed.
- Similarly, the 2023-2028 CIP forecasts \$84 M in escalated capital spending needs to reinvest in the City’s water, sewer, and storm water utility systems, of which half will likely require outside funding to spread the costs over the life of each utility reinvestment.

Opportunities in the 2023-2024 Biennium

Most of the work in the coming biennium focuses on maintaining current service levels and maintaining critical infrastructure through the efficient and effective delivery of programs, projects, and services. Beyond day-to-day service delivery, notable work plan items outlined in the operating budget include:

- Maintaining access to mental health services to all Mercer Island School District students and the Mercer Island community.
- Carrying out the City’s Comprehensive Plan periodic update followed by an economic development implementation strategy.
- Establishing a new master facility use agreement between the City and School District to the benefit of both agencies and the island community and renegotiating the agreement with the Washington Department of Transportation (WSDOT) for the maintenance of Aubrey Davis Park.
- Developing a long-term funding strategy for the Youth and Family Services Department, with support and collaboration from the Youth and Family Services Foundation and the Mercer Island School District.
- Implementing new financial management software, resulting in streamlined business operations, and improved financial reporting capabilities.

Many of the capital projects proposed over the next two years and beyond include major reinvestments in public facilities, parks, the city’s transportation network, and underground utilities, which includes:

- Critical investments in public facilities to keep buildings safe, accessible, and operational are a key priority, including the development of a long-term facilities assessment to guide future replacement and repair decisions.
- Accelerated capital improvements to the City’s parks and open spaces, including prominent improvements to the Luther Burbank waterfront with new docks and restored shoreline.
- Proactive reinvestments in the City’s streets via continued resurfacing work, sidewalk safety enhancements, and corridor improvements along Island Crest Way.

Long-term investments in the City’s water distribution and sewer conveyance systems, including water reservoir improvements, replaced pressure reducing valves, rehabilitated pump stations, and completion of the island-wide water meter replacement project.

NEXT STEPS

The 2023-2024 Budget development schedule is summarized below.

Date	Topic
10/03/2022	Budget Overview – Review of Funds Opportunities, Challenges, and Key Deliverables Budget Calendar Review
10/18/2022 <i>Public hearing*</i>	Department Overviews Budget Proposals Capital Improvement Program Overview <ul style="list-style-type: none">○ Major Highlights○ Key Policy Decisions
11/01/2022	Final Budget Workshop Receive Direction on Budget Proposals
11/15/2022 <i>Public hearing*</i>	Discuss Impact of Parks Levy Outcome Adopt 2023 utility rates, NORCOM rates, ARCH Funding, and Property Tax Levies
12/6/2022	Adopt Final 2023-2024 Biennial Budget

Community Outreach and Public Hearings

The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at two scheduled Public Hearings on [October 18 and November 15](#). Public comment is also invited at all City Council meetings.

RECOMMENDED ACTION

Receive the 2023-2024 Preliminary Budget available at www.mercerisland.gov/budget. No additional action required.