



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

**AB 6571
November 19, 2024
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6571: 2025-2026 Biennial Budget Workshop, Third Quarter 2024 Financial Status Update, and Adoption of Budget Resolutions and Ordinances	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
RECOMMENDED ACTION:	Conduct the public hearing; receive the Q3 2024 financial status update; adopt the 2025 property tax ordinances; adopt the 2025 NORCOM budget; adopt updates to the City’s ambulance transport fees; and update to the City’s financial management policies.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	<ol style="list-style-type: none"> 1. Preliminary 2025-2026 Biennial Budget at www.mercerisland.gov/budget 2. Third Quarter 2024 Financial Status Update 3. Ordinance No. 24-19 (2025 Property Tax levy amount) 4. Ordinance No. 24-20 (2025 Property Tax levy increase) 5. Resolution No. 1665 2025 Norcom Budget 6. Resolution No. 1666 Ambulance Transport Fees 7. Resolution No. 1667 Update City’s Financial Management Policies – Redline
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

EXECUTIVE SUMMARY

This agenda bill outlines final steps in the City Council’s 2025-2026 Biennial Budget review process, which is anticipated to conclude with the adoption of the 2025-2026 Biennial Budget on December 3. The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at the November 19 meeting, which marks the second and final public hearing on the City’s 2025-2026 biennial budget.

- 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 Preliminary 2025-2026 Biennial Budget (“Preliminary Budget”) on September 25, 2024. A copy was filed with the City Clerk (Exhibit 1).
- The 2025-2026 Preliminary Budget is balanced, maintains current service levels, and is built upon significant progress and a sustained practice to enhance City services and operations each biennium.
- On November 4, the City Council updated the 2025-2026 work plan to include creation of a fee-in-lieu program for affordable housing, and completion of a digital accessibility audit of Web and Mobile App Access per new federal regulations. The City Council also invested the remaining 2023 year-end

unassigned fund balance in the General Fund in six one-time initiatives including seed funding to develop an electric vehicle charging infrastructure plan, limited-term positions to accelerate water system improvements, and nearly \$170,000 set aside for future City facility needs.

- As of September 30, all funds are performing as expected, as outlined in the financial status update (Exhibit 2). General Fund revenues are down \$607,000 compared to the prior year, due to changes in accounting procedures affecting the timing of revenue recognition only. General Fund expenditures are on track with budget expectations.
- Property tax ordinances (Exhibit 3 and 4) assume the 1% maximum increase for the City's regular levy and the 2022 parks levy lid lift.
- Resolution No. 1665 (Exhibit 5) approves the Northeast King County Regional Public Safety Communication Agency's (NORCOM) 2025 budget allocation related to emergency dispatch for the Mercer Island Police Department.
- Resolution No. 1666 (Exhibit 6) updates the City's ambulance transport fees to align with Eastside Fire and Rescue, the City's fire and emergency medical services provider.
- Finally, updates to the City's Financial Management Policies are included (Exhibit 7) with a redline version (Exhibit 8) to incorporate policy and administrative decisions from the previous year.

ISSUE/DISCUSSION

Third Quarter Financial Status Update (Exhibit 2)

The financial status update (Exhibit 2) includes a detailed analysis of the City's revenue and expenditure actuals from January 1 through September 30, 2024. The update includes budget amendments adopted by ordinance through October 1, 2024 (see [Ordinance No. 24-13](#)).

General Fund revenues ended the quarter at \$26.4 M, which meets budget expectations and is \$607,000 lower than the same period in 2023. This is primarily due to the one-time change in accounting procedures that affected the timing of revenue recognition in a handful of categories.

General sales tax revenues are up \$5,000 compared to the prior year when looking at February through September actuals. This is primarily due to higher-than expected returns from the retail and wholesale trade. Utility taxes are slightly lower than at the end of September 2023, though they are on track to meet budget expectations by year-end.

Revenues from license, permit, and zoning fees continue to perform well. Permit revenues are the primary driver as data indicates that over \$1 million in revenues have been received in relation to the Xing Hua Mixed-Use Development project in the Town Center.

Interest earnings in the General Fund through September were \$1.8 M, \$100,000 more than the same period in 2023. The City's idle cash resources are invested in the State Treasury Local Government Investment Pool (LGIP), which average 30-day yield declined 18 basis points (from 5.43% end of June down to 5.25% the end of September) due to Federal Reserve rate cuts conducted in mid-September. Because the Contingency Fund achieved its funding target early in 2023, the portion of interest earnings tied to the Contingency Fund remains in the General Fund.

General Fund expenditures are on track with budget expectations at the end of September. Total expenditures of \$31.3 million are 72.4% of the budget as amended, which are \$4.7 million more than the same period in 2023.

This year-over-year increase in General Fund expenditures is due to a handful of factors. First, the City Council set aside \$3.4 million of 2023 year-end fund balance in the General Fund for long-term facility investments. These one-time contributions into the Municipal Facility Replacement Fund track as an expense out of the General Fund. In addition, the first of three payments were made related to one-time costs supporting the transition to Eastside Fire & Rescue (EF&R) for fire and emergency medical services. A total of \$1.24 million in one-time costs will be paid in full by 2024 year-end ([AB 6307](#)).

With a CPI-W increase in 2024 of 6.5%, employee compensation costs notably increased in 2024 compared to the prior year. Implementation of the new classification and compensation plan – which Council adopted in June 2024 ([AB 6491](#)) – went into effect July 1, further increasing employee compensation expenses over the prior fiscal year through the end of September.

Figure 1 provides General Fund expenditures detail from January through September 30, 2024. Staff anticipates all categories will remain within budget expectations through year-end.

Figure 1

GENERAL FUND EXPENDITURES <i>(\$ in millions)</i>	FY 2024 AMENDED BUDGET	% of AMENDED BUDGET	FY 2023 QUARTER 3 ACTUALS	FY 2024 QUARTER 3 ACTUALS	YTD as % of AMENDED BUDGET
Salaries & Benefits	26.40	61%	18.53	14.29	54%
Supplies	0.83	2%	0.59	0.46	56%
Contract Services	4.10	9%	2.07	1.78	43%
Other Services & Charges	8.13	19%	5.01	11.00	135%
Interfund Transfers Out	3.90	9%	0.48	3.85	99%
TOTAL EXPENDITURES	\$43.35	100%	\$26.67	\$31.38	72%

The City’s Water, Sewer, and Stormwater Utility funds are operating within budget expectations. Capital projects across the utility funds are on track despite low expenditures through the third quarter. For many large projects design work is completed, and construction is underway. Staff anticipate spending will increase significantly through the end of 2024.

2025 Property Tax Ordinances (Exhibits 3 & 4)

RCW Chapters 84.52 and 84.55 grant cities the authority to impose a local Property Tax. Revenues from Property Taxes are considered general government revenues and are allocated to the General Fund to be used for basic governmental services such as public safety, public works, parks, and/or administration.

Property Tax is a budget-based tax, which means that the percent increase from year-to-year is applied to the amount of taxes levied in the prior year. Municipalities levying property tax in Washington State can increase the Property Tax levy by up to 1% each year or by the amount of the implicit price deflator (IPD) – whichever is lower – plus the value of new construction. The IPD is used to measure inflation based on personal consumption. The value of the IPD for the 2025 levy is 2.57%, therefore the levy increase is limited to 1%.

Staff assumed the 1% increase in fiscal year 2025 for both the Regular levy and the 2022 Parks Operations and Maintenance levy lid lift. The 1% increase and the overall breakdown of the 2025 levy is shown in greater detail in Figure 2.

Figure 2

PROPERTY TAX LEVY ELEMENTS <i>\$ in thousands</i>	2024 LEVY	2025 PRELIM LEVY
Regular Levy		
Prior Year Levy	\$12,943	\$13,148
Plus 1% Optional Increase	129	131
Plus New Construction	76	102
Plus Re-levy of Prior Year Refunds	29	26
Total Regular Levy	\$13,177	\$13,408
Levy Lid Lift		
2022 Parks Operations & Maintenance + 1%	1,646	1,662
Total Levy Lid Lift	\$1,646	\$1,662
Total Levy	\$14,822	\$15,070

The 2025 preliminary Property Tax levy includes two ordinances as required by State law:

- Ordinance No. 24-19, which identifies the dollar and percent increase in the 2025 Property Tax levy relative to the 2024 levy (Exhibit 3); and
- Ordinance No. 24.20, which identifies the 2025 total Property Tax levy amount (Exhibit 4).

For the 2025 tax year, the City’s total Property Tax levy consists of the following elements:

- **Regular levy:** Funds general government operations, fire apparatus replacement, pre-LEOFF I firefighters’ pension benefits, and LEOFF I retiree long-term care costs.
- **1.0% optional increase:** Applies to the regular levy and the levy lid lift, as noted above, and represents the maximum increase the City Council can adopt for the coming year, excluding new construction and the re-levy of the prior year refunds.
- **New construction:** Represents the new and improved properties included in the property tax rolls. A preliminary estimate of \$102,000 is assumed for new construction pending final numbers from the King County Assessor’s Office.
- **Re-levy of prior year refunds:** Represents the amount refunded to property owners who successfully appealed their property valuations by the Assessor’s Office. This amount is re-levied in the following year to make the City financially whole. A preliminary estimate of \$26,000 is assumed pending final numbers from the King County Assessor’s Office.
- **2022 levy lid lift:** Approved by voters in November 2022 for maintenance and operations of parks and open spaces, playground replacements, along with forest restoration. The 1.0 % optional increase was included in the 2025 levy amount.

All King County cities are legally required to submit an estimate of their 2024 property tax levies to the Metropolitan King County Council by November 30th. The King County Assessor’s Office does not, however, provide each City with the final assessed valuation and new construction amounts for the new tax year until the second week of December.

As a result, cities adopt property tax levies for the coming year based on a preliminary assessed valuation and new construction amounts. When the finalized amounts are distributed by the Assessor’s Office in December or January, staff notify the Metropolitan King County Council of the corrected levy amount.

2025 NORCOM Budget Resolution (Exhibit 5)

Resolution No. 1665 (Exhibit 5) approves Northeast King County Regional Public Safety Communication Agency’s (NORCOM) 2025 budget allocation from the City of Mercer Island. NORCOM is a regional emergency dispatch service provider serving 15 public safety agencies in the northeast region of King County, including Mercer Island, Bellevue, Kirkland, and Redmond, among others.

The NORCOM Governing Body approved a budget that reflects changes in NORCOM’s services, revenue sources and expenditures in 2025. The 2025 NORCOM budget authorizes \$150,000 for long range strategic planning and an increase of two full-time employees - a Network and Security Specialist and a Training Assistant. The NORCOM budget anticipates vendor increases specific to cloud hosting contracts, facility lease renewals and PSERN Radio site leases.

As a reminder, there was no increase to the rates charged to contract cities from 2023 to 2024, so the 2025 rate increase is as compared to the 2023 rate.

Every member agency must adopt a resolution affirming their budget allocation for the upcoming year before NORCOM approves its upcoming budget in December of the current year. The 2024 budget is included with the 2025 budget for comparison, as shown in Figure 3.

Figure 3

NORCOM Budget Allocation				
Department	2024	2025	\$ Change	% Change
Police	560,337	697,758	137,421	24.5%
Total	\$ 560,337	\$ 697,758	\$ 137,421	

Ambulance Transport Fees (Exhibit 6)

Mercer Island City Code 4.60.010 imposes the Basic Life Support (BLS) transport user fee and states that “All persons transported for BLS by the city’s fire department shall be charged and billed BLS transport fees by the City at rates set and adjusted as necessary by resolution of the City Council.”

When the emergency medical transport fees – also known as ambulance transport fees – were established in 2012 ([Resolution No. 1449](#)), neither a cost recovery target or an annual inflation factor were included. The fee was set to be consistent with fees charged by fire departments and private ambulance providers in the region, settling at \$15.00 per mile in addition to a \$770 base transport fee. At the time of adoption, the City elected to waive patient’s insurance copayments and not pursue unpaid balances.

The fees remained unchanged year after year until 2021, when the City Council raised the ambulance transport fees based on a regional market assessment and updated administrative policies for emergency medical billing, which maintained the transport base fee plus a mileage reimbursement fee per mile traveled ([Resolution No. 1599](#)). Both fees were adjusted annually based on Medical Care CPI or 3.0%, whichever is greater. The City Council also implemented a collection process as a last resort with a financial forgiveness program ([AB 5886](#)).

EF&R began providing emergency medical transportation services for Mercer Island on January 1, 2024. Although the EF&R Board of Directors sets ambulance transports fees for their service area, the Mercer Island City Council has discretion over the fees applied to transports originating on Mercer Island (via Resolution No. 1599). Figure 4 outlines the difference between these fees.

Figure 4

EF&R Ambulance Transports	Base Fee	Mileage Fee
<i>Fiscal Year 2025</i>		
Transports originating outside of Mercer Island	\$ 1,323.00	\$ 24.46
Transports originating on Mercer Island	1,131.08	18.62
Difference	\$ 191.92	\$ 5.84
Percentage Difference	17%	31%

**Transports originating on Mercer Island in 2024 were charged a \$1,098.14 base and \$18.08 per mile fee.*

For ease of administrative oversight, to keep pace with market rates, and to recover transportation costs primarily from Medicaid, Medicare, and private insurance providers, Resolution No. 1666 (Exhibit 6) raises Mercer Island’s ambulance transport billing rates to align with EF&R’s ambulance transport billing rates for fiscal year 2025. Revenues resulting from transports originating on Mercer Island offset the City’s contract costs with EF&R.

Financial Management Policies Update (Exhibit 7)

As part of the budget development process, staff updated the City’s financial management policies to incorporate policy and/or administrative decisions from the previous year. Resolution No. 1667 incorporates updates to the City’s Financial Management Policies (Exhibit 7), with red-line notations included for tracking purposes.

Updates include creation of the Municipal Facility Replacement Fund and the Development Services Fund, as well as references for the City’s Funds resulting from the new Chart of Accounts that will go into effect January 1, 2025. The Chart of Accounts is a detailed list of all the financial accounts used to record and track the City’s financial transactions. It follows the Washington State Auditor’s Office statewide guidelines that ensures all cities follow the same accounting and reporting standards, also known as the BARS manual.

NEXT STEPS

The remaining Preliminary Budget development schedule is summarized in Figure 4.

Figure 5

Date	Topic
12/03/2024	Adopt 2025 Master Fee Schedule and Final 2025-2026 Biennial Budget

Community Outreach and Public Hearings

The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at the Public Hearing on [November 19](#). Public comment is also invited at all City Council meetings.

RECOMMENDED ACTION

Staff recommends the City Council:

1. Adopt Ordinance No. 24-19, appropriating funds and establishing the amount of property taxes to be levied for fiscal year 2025.
2. Adopt Ordinance No. 24-20, establishing the dollar amount and percentage increases of the regular property tax levy and the levy lid lifts for fiscal year 2025.
3. Adopt Resolution No. 1665, approving NORCOM's 2025 budget allocation to the City of Mercer Island.
4. Adopt Resolution No. 1666, updating the City's Ambulance Transport Fees to align with Eastside Fire and Rescue's Ambulance Transport Fees for fiscal year 2025.
5. Adopt Resolution No. 1667, updating the City's Financial Management Policies to incorporate policy and/or administrative decisions from the previous year.