



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6550
October 1, 2024
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6550: Introduction to the Preliminary 2025-2026 Biennial Budget and Overview of the 2025-2030 Capital Improvement Program (CIP)	<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:	Receive report and provide initial feedback and questions on the proposed 2025-2030 CIP to inform final development of the biennial budget document.	

DEPARTMENT:	Finance and Public Works
STAFF:	Matthew Mornick, Finance Director Jason Kintner, Chief of Operations
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Preliminary 2025-2026 Biennial Budget at www.mercerisland.gov/budget .
CITY COUNCIL PRIORITY:	1. Develop data-driven economic development and retail plans and strategies to activate Town Center and other business areas.

EXECUTIVE SUMMARY

The purpose of this agenda bill is to transmit to the City Council the 2025-2026 Preliminary Biennial Budget (“Preliminary Budget”) and begin the budget review process, which is anticipated to conclude with adoption of the 2025-2026 Biennial Budget on December 3.

- Per Washington State law, the City Manager is required to deliver a balanced Preliminary Budget to the City Council for review and approval. The City Council received the 2025-2026 Preliminary Budget (Exhibit 1) on September 25, 2024. A copy was filed with the City Clerk.
- The 2025-2026 Preliminary Budget is balanced, maintains current service levels, and presents a capital financing strategy to maintain, rehabilitate, and replace critical City infrastructure. Across all Funds, the total proposed expenditure budget is \$106.6 million in 2025 and \$112.7 million in 2026.
- Four budget workshops are scheduled this fall.
 - At the October 1 City Council meeting, staff will introduce key themes of the Preliminary Budget and review the schedule to work through different sections of the Budget, beginning with Section E – the 2025-2030 Capital Improvement Program (CIP).
 - Staff will return on October 15 to present the Revenue Forecast, the Operating Budget in detail, and recommendations for Council’s consideration to invest the remaining unassigned fund balance in the General Fund.
 - If needed, an additional budget workshop will be scheduled November 4.
 - At the November 19 meeting, Council will review changes incorporated into Preliminary Budget, adopt 2025 rates for Regional Police Dispatch Services, and adopt 2025 Property Tax levies.
- Expenditures in the proposed CIP amount to \$34 million in 2025 and \$36.6 million in 2026.

- Staff is seeking initial questions and comments on the proposed 2025-2030 CIP to inform final development of the biennial budget document.

The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at two scheduled Public Hearings on [October 15 and November 19](#). Public comment is also invited at all City Council meetings.

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 2025-2026 Preliminary Biennial Budget (Exhibit 1) on September 25, 2024, and a copy was filed with the City Clerk. The Preliminary Budget is both a spending plan for the City’s available financial resources and the legal authority for departments to spend these resources for public programs and services, along with capital investments to maintain and improve community infrastructure.

Biennial Budget Workshops

The October 1 City Council meeting kicks-off the budget review and adoption process. 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 staff will attend and participate in the discussions.

By design, the Preliminary Budget – which includes the six-year Capital Improvement Program (CIP) – aligns with the City’s [Financial Management Policies](#) and the City Council’s 2025-2026 priorities, which include:

1. Develop data-driven economic development and retail plans and strategies to activate Town Center and other business areas.
2. Sustain and enhance our natural environment, especially parks and open spaces, to benefit this generation and others that follow.
3. Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.
4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

Capital Improvement Program

The CIP outlines the City’s strategic financial plan to acquire, expand, or rehabilitate public infrastructure. Work to build the six-year CIP begins every other spring, culminating with the adoption of the biennial budget. Capital projects fall into eight categories based on the different kinds of public assets the City owns and operates:

1. Public Buildings
2. Government Technology
3. General Equipment
4. Parks, Recreation, and Open Space
5. Streets, Pedestrian, and Bicycle Facilities
6. Sewer Utility
7. Storm Water Utility
8. Water Utility

Capital projects are further classified as part of the Capital Reinvestment Plan (CRP) or the Capital Facilities Plan (CFP). The CRP includes all maintenance projects that preserve the City’s existing infrastructure. The CFP consists of newly proposed capital assets. To maintain and improve existing assets before acquiring new assets, CRP projects take priority over CFP projects in the 2025-2026 biennium.

Over the next two years, the CIP primarily includes CRP reinvestment projects – \$68.2 million (97%) to maintain the City’s existing infrastructure. CFP projects make up \$2.4 million (3%) over the same period.

The Water System Plan, the General Sewer Plan, and the Comprehensive Basin Plan are the guiding planning documents used to develop and propose utility capital projects. The adopted 2022 Parks, Recreation and Open Space (PROS) Plan and the adopted 2024 Transportation Improvement Plan (TIP) are the guiding planning documents used in developing park, street, bicycle, and pedestrian projects in the proposed CIP.

In addition, staff utilizes information from the City’s asset management system, water system hydraulic modeling, video inspections of sewer and drainage pipes, periodic assessment of changing conditions in storm basins/ravines, maintenance history (e.g., main and pipe breaks), and other information from field operations staff to aid in capital project identification and development.

CIP Resources

The information below provides a broad overview of the various funds and revenues that support the CIP. Because of the diverse nature of governmental operations and the legal and fiscal constraints under which public services are provided, the City’s finances are accounted through separate funds. Funds are categorized by type to indicate both the revenue sources and nature of activities financed. The City can then illustrate how money is spent and how these expenditures tie directly to funds.

Fund accounting distinguishes between funds that can be spent for any purposes by the organization, versus funds that have a restricted use. Reasons for restrictions include legal requirements, where funds can only be lawfully used for a specific purpose, a restriction imposed by the State, or by the City’s financial management policies. Table 1 illustrates the funds that support the 2025-2030 CIP:

Funds	Revenue Sources
General Fund	Property tax, general government revenues.
Capital Improvement Fund	REET, grants, park levy funds, property tax.
Street Fund	REET, fuel taxes, vehicle license fees, state funds.
Technology & Equipment Fund	General funds, utility funds, sinking funds.
Water Fund	Water rates, connection charges, earned interest.
Sewer Fund	Sewer rates, connection charges, earned interest.
Stormwater Fund	Stormwater rates, earned interest.

Table 1

Funding for the 2025-2030 CIP relies on existing fund balances and projected revenues from utility rates, Real Estate Excise Tax (REET), and Fuel Taxes (State shared revenues), among others. The General Fund is the sole source for capital investments for technology and equipment.

Most revenues for capital projects come with restrictions. For example, utility rates may only be used for projects of the respective utility; fuel taxes may only be used for street and trail projects; and REET is reserved for capital projects to help develop parks, open space, facilities, utilities, and transportation infrastructure.

Historically, the City's capital financing strategy has been to pay for maintenance and infrastructure needs on a "pay as you go" basis. This approach works well during periods with standard operations and typical levels of reinvestment. When large portions of the City's infrastructure need to be simultaneously replaced, additional funding from outside sources is required.

Over \$6 million in grants have either been applied for or secured to support Parks, Recreation, and Open Space capital projects over the next two years. These resources are critical and will lead to the completion of major park improvements along the Island's trails, open space, and waterfront. Staff will continue to pursue regional, state, and federal grant and low-interest loan opportunities to support the capital work ahead.

For capital projects that cost more than \$2.5 M and have a useful life greater than 20 years, staff pursue debt financing to spread costs incurred in a relatively short period over the useful life of the updated infrastructure and create generational equity, whereby generations of community members who benefit from these investments help pay down the associated costs.

In October 2024, staff will issue limited tax general obligation and refunding Bonds to finance and refinance up to \$29 million in capital improvements to the City's water distribution system.

A revenue source tied into the capital program is REET, the 0.5% tax paid by the seller in property transactions. State law restricts the use of REET for specific capital purposes. REET-1 – the 1st quarter of 1% of the sales price – may be used for streets, parks, utilities, or facilities. The 2nd quarter of 1% of the sales price known as REET-2 may be used for streets, parks, or utilities, but not for facilities. Neither REET-1 nor REET-2 may be used for vehicles, equipment, or technology.

REET is the largest revenue source for projects in the Street and Capital Improvement Funds. REET revenue can significantly vary year-to-year as its base (property sales) is highly dependent on economic conditions and interest rates.

ISSUE/DISCUSSION

The City is well into the early stages of a historical level of reinvestment in the Island's infrastructure. In the proposed CIP, nearly 30 staff members from seven different City departments would oversee a 106 actively funded capital projects in the upcoming biennium, amounting to \$34 million in 2025 and \$36.6 million in 2026. From 2027 and beyond, the City is proposing 56 additional capital projects that amounts to \$163.1 million. In sum, 162 capital projects proposed in the 2025-2030 CIP amount to \$233.7 million in escalated capital spending.

Emphasis over the next two years is to complete critical upgrades to the water distribution system, modernize the City's aging public buildings, and see through substantial improvements to the Island's parks, open spaces, and transportation network. Inherent in this work is the goal to clearly lay out future facility needs and identify fiscally prudent ways in the near- and long-term to meet them. This work will continue through the biennium.

Section E of the Preliminary Budget identifies the capital projects intended to be funded and completed in 2025 and 2026. Projects proposed between 2027 and 2030 are included for planning purposes.

Staff is providing this high-level overview to gather initial questions and comments from the City Council to inform final development of the biennial budget document.

Due to the high quantity of proposed projects, which span multiple disciplines, staff will provide an overview of key focus areas of the 2025-2026 CIP, with a look out to major capital projects anticipated through 2030. A few of the major projects are highlighted below, with the full list of proposed CIP projects included in the Individual Project Sheets, beginning on page E-9 of Exhibit 1.

2025-2026 CIP HIGHLIGHTS

Parks, Recreation, and Open Space

Luther Burbank Park

Luther Burbank Park's docks and waterfront are undergoing comprehensive improvements to better serve the Mercer Island community. Work is underway to replace and renovate the piers, add shoreline access, renovate the plaza and restroom, as well as install a new viewing platform and outdoor classroom on the roof of the restroom annex adjacent to the Boiler Building. Dock and waterfront improvements are on track to be completed June 2026

Playgrounds

The 2025-2026 Playground Replacement program is focused on replacing aging playground equipment and enhancing accessibility at four parks: First Hill, Roanoke, Deane's Children's Park, and Aubrey Davis Lid A. These improvements are funded via the 2022 Parks Levy.

- **First Hill Park:** The playground, installed in 2007, is slated for lifecycle replacement under the 2022 Parks Levy. In 2024, the City partnered with the Berger Partnership to start the project, engaging the community in the design process and selecting new play equipment. The project is currently at 30% design and expected to be constructed by Spring 2025.
- **Roanoke Park:** Community engagement, design, and permitting will be completed by the end of 2024, with construction set to begin in early 2025. The play equipment has already been delivered to the City and is scheduled for installation in Spring 2025, aligning with the timeline for First Hill Park
- **Deane's Children's Park:** The play area will see comprehensive improvements, including replacing most playground equipment, addressing accessibility, and renovating the restroom and picnic shelter. The project will also integrate the Bike Skills Area (BSA). The scope of this project will be confirmed through a community engagement process in early 2025, followed by a phasing and implementation plan to be confirmed by the City Council. Anticipated construction for the various phases will be part of this planning work. Many community partners have already committed to support this project through fundraising and in-kind contributions.
- **Aubrey Davis Lid A:** The playground, installed in 2011, is scheduled for replacement. Community engagement and conceptual design are planned for 2026, with construction expected in 2027.

Pioneer Park and Engstrom Open Space

Staff will expand forest restoration efforts in all public open spaces, with an emphasis on Pioneer Park and Engstrom Open Space. In Pioneer Park and Engstrom over the next biennium, more than a dozen acres of forest will be enrolled in a three-year comprehensive weed removal program. The first year of comprehensive weed removal requires an intensive first pass to remove 70% of all ivy, blackberry, holly and any other invasive weeds from the forest. Years two and three include fine-detailed removal of all remaining invasive weeds to limit reestablishment.

Removing invasive weeds from the park is vital for the forest's long-term viability, as it will allow the understory to flourish and create conditions for natural tree regeneration. Additionally, staff anticipates planting 1,000 native trees and shrubs in Pioneer Park and Engstrom over the next two years and repairing the parks' trail system to improve safety and accessibility.

These restoration benchmarks align with the 2022 Parks Levy and Climate Action Plan goals to move forested open spaces into a more sustainable “monitoring and maintenance” phase of restoration.

Water Utility

Making once-in-a-generation investments to update and modernize City’s water distribution system is a critical priority. Over the next two years, investments to rehabilitate and replace aging system components will significantly increase relative to prior years. Pressure reducing valve (PRV) station improvements is an ongoing program to systematically replace PRV stations throughout the Island. Most stations are below the City’s current operational standards.

With 85 PRV stations in the City's water distribution system, staff is prioritizing design and replacement of the most critical stations first in groups of two to five. With routine maintenance, the life span of a new PRV station is typically 50 to 60 years. The initial phase of the project is underway, and the project will continue through the CIP’s 2025-2030 planning period. Work is typically staggered over two years, with design in the first year followed by construction in year two.

Included as a new ongoing program during the last biennium, asbestos cement (AC) main replacements focus on the systematic replacement of approximately five miles of antiquated AC water mains with ductile iron water mains. The replacement program reduces the potential for catastrophic system failure, unexpected service disruptions, and large damage claims to the City. Staggered capital reinvestment for aging water mains is being accelerated as AC water main ruptures have increased relative to prior years.

This summer Mercer Island's water system received water from a backup transmission line for 120 days while emergency work was completed to repair a leak in the 24” Seattle Public Utilities main transmission pipe. While water service was restored following emergency repairs, staff recommend further consideration and discussion to improve the City's water system resilience.

Long-Term Water Infrastructure Response and Alternatives (AB 6530) - also being presented at the October 1 City Council meeting - lays out a project proposal in the 2025-2030 Capital Improvement program to design, construct, and take ownership of a new 24-inch water transmission line.

Sewer Utility

Pump Station Rehabilitation Project

Similar to the water distribution system, critical components of the sewer conveyance system are reaching the end of their useful life and require notable reinvestment over the next biennium. A major project proposed in 2025-2026 entails rehabilitating the sewer system’s pump stations. This work ties to the PS-5 goal outlined in the General Sewer Plan, with the aim to rehabilitate one pump station every biennium.

A 2015 condition assessment conducted by City staff identified pump stations 19 to 23 as the most vulnerable, exhibiting the highest risk of failure and the shortest life expectancy. Building on this assessment, RH2 Engineering completed a comprehensive report in January 2024, which ranked and prioritized necessary improvements for these stations.

Among the five stations identified, pump station 20 was determined to be the most in need of rehabilitation, the design of which is currently underway. The proposed enhancements are aimed at significantly extending the station's service life by an additional 50 years. Planned upgrades include a broad range of mechanical, structural, and electrical improvements, such as:

- Replacement of all pumps, piping, and valves
- Upgrades to interior grating, lighting, and ventilation systems
- Installation of station odor control measures
- Rehabilitation of concrete and interior coatings
- Modernization of electrical equipment panels
- Various site improvements to enhance safety and functionality

Other associated project costs include permitting for development within the shoreline, public outreach, and temporary bypass pumping to maintain existing sewer collection flows during construction.

This project represents a proactive approach to maintaining critical infrastructure, ensuring reliable operation and safety for the community.

NEXT STEPS

The Preliminary Budget development schedule is summarized below.

Date	Topic
October 1	Budget Overview Capital Improvement Program Overview <ul style="list-style-type: none"> ○ Major Highlights ○ Key Policy Decisions
October 15 <i>Public hearing*</i>	Revenue Forecast Operating Budget Review Receive Direction on Budget Proposals
November 4	Additional Budget Workshop, as needed
November 19 <i>Public hearing*</i>	Review changes incorporated into Preliminary Budget Adopt 2025 rates for Regional Police Dispatch Services Adopt 2025 Property Tax Levies
December 3	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 two scheduled Public Hearings on [October 15 and November 19](#). Public comment is also invited at all City Council meetings.

RECOMMENDED ACTION

Receive the 2025-2026 Preliminary Biennial Budget available at www.mercerisland.gov/budget.

No additional action required.