



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

**AB 6184
November 15, 2022
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6184: Adoption of NORCOM and Utility Rate Resolutions; First Reading of the 2023 Property Tax Ordinances; and Second Public Hearing for the 2023-2024 Biennial Budget.	<input type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
RECOMMENDED ACTION:	Conduct public hearings, receive the 2023 Property Tax ordinances for first reading; adopt the 2023 Water, Sewer, Stormwater, and EMS rate resolutions; and adopt the 2023 NORCOM Budget.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	<ol style="list-style-type: none"> 1. 2023-2024 Preliminary Budget available at: www.mercerisland.gov/budget. 2. 2023-2024 Budget Proposal Selection Results from 11/01/2022 3. Ordinance No. 22-20 (2023 Property Tax levy amount) 4. Ordinance No. 22-21 (2023 Property Tax levy increase) 5. Resolution No. 1637 (2023 Water Utility Rates & Service Charges) 6. Resolution No. 1638 (2023 Sewer Utility Rates & Connection Charges) 7. Resolution No. 1639 (2023 Storm Water Utility Rates) 8. Resolution No. 1640 (2023 EMS Utility Rates) 9. Resolution No. 1636 (2023 NORCOM 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

This agenda item outlines the final steps in the City Council’s 2023-2024 Biennial Budget review process, which include first reading of the property tax levies; adoption of the water, sewer, storm water, and EMS utility rate adjustments; and adoption of the NORCOM budget for fiscal year 2023.

- Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget for City Council review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, (Exhibit 1) 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.
- At the October 18 City Council meeting, the City Council postponed decisions regarding budget proposals tied to the General Fund and YFS Fund until Q2 2023. At the November 1 City Council meeting, the City Council approved the six budget proposals (Exhibit 2) tied to the Capital, Streets, and Utility Funds.

- The property tax ordinances (Exhibit 3 and 4) assume the 1% maximum increase and the passage of Proposition No. 1. Because collections under this parks levy lid lift will begin in 2023, the City will end the existing parks levy one year early as declared in [Resolution No. 1628](#).
- Staff will return to City Council on November 29 for a second reading of the property tax levies pending the final results of the November 8, 2022 General Election. Should Proposition No. 1 not pass, the property tax levies for FY 2023 will be reduced by \$639,399 for final adoption later this month.

The City Council is scheduled to formally adopt the final 2023-2024 biennial budget on December 6, 2022.

BACKGROUND

The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, and a copy was filed with the City Clerk. Per Washington State law, the City Manager must deliver a balanced preliminary biennial budget to the City Council for review and approval.

At the October 3 City Council meeting (see [AB 6163](#)), staff introduced and reviewed key budget assumptions, policy considerations, and the budget development schedule. The presentation included a six-year forecast for the General Fund and Youth and Family Services Fund, illustrating how anticipated expenditures exceed revenues in both Funds beginning in 2023.

The first of two public hearings for the 2023-2024 biennial budget was held at the October 18 City Council meeting (see [AB 6169](#)). Staff walked through the staffing plans and summarized key highlights from Departmental work plans for the next two years.

The City Council approved the 2023-2028 Capital Improvement Program financing strategy at the October 18 City Council meeting, including using \$3.7 million in REET-2 reserves from the Street Fund to fund the Luther Burbank Dock and Waterfront Improvements project (PA0122) and \$1.6 million in ARPA funds to begin making critical investments in City facilities. The City Council also postponed consideration of the General Fund and YFS Fund budget proposals until Q2 2023.

At the November 1 meeting (see [AB 6177](#)), the City Council discussed and approved six Capital-related budget proposals to include in the Final 2023-2024 Biennial Budget, as outlined in Exhibit 2. The table below illustrates the financial impact of these budget proposals by Fund.

ID BUDGET PROPOSALS	One-Time Cost		Ongoing Cost	
	2023	2024	2023	2024
WATER FUND				
1.4 Valve Turner Machine	94,610	-		9,461
1.5 CIP Program Inspector 0.2 FTE			26,625	27,673
SEWER FUND				
1.5 CIP Program Inspector 0.2 FTE			26,625	27,673
1.6 Utility Engineer 1.0 FTE	-	-	147,203	156,576
STORM WATER FUND				
1.5 CIP Program Inspector 0.2 FTE			26,625	27,673
UTILITY FUNDS SUBTOTAL	\$ 94,610	\$ -	\$ 227,077	\$ 249,055
STREET FUND				
1.1 SE 27th Street Realignment Study	75,000	-	-	-
1.2 Bike & Scooter Share Pilot Program (STM)	34,500	34,500	-	-
1.3 Bike Parking Pilot Program (STM)	10,000	10,000	-	-
1.5 CIP Program Inspector 0.2 FTE	-	-	26,625	27,673
CAPITAL IMPROVEMENT FUND				
1.5 CIP Program Inspector 0.2 FTE			26,625	27,673
CAPITAL PROJECT FUNDS SUBTOTAL	\$ 119,500	\$ 44,500	\$ 53,250	\$ 55,346
TOTAL FINANCIAL IMPACT	\$214,110	\$44,500	\$280,327	\$304,401

ISSUES/ DISCUSSION

2023 PROPERTY TAX RESOLUTION & ORDINANCES

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 collected in the prior year. Municipalities levying property tax in Washington 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. For fiscal year 2022, the Bureau of Labor Statistics set the Q2 2021 to Q2 2022 IPD at 6.457%, meaning the maximum levy increase the City of Mercer Island can take in 2023 is 1% (see the Department of Revenue's [IPD memo](#) to county assessors).

Proposition No. 1 Levy Lid Lift

In 2008, the Mercer Island community approved a parks levy, which fully funds operations and maintenance of Luther Burbank Park and supports operations and maintenance at all city parks, trails, open spaces, athletic fields, and recreation facilities. The current parks levy is set to expire at the end of 2023.

A 16-year renewal of the parks levy was on the November 8, 2022 General Election ballot for voter consideration. A renewed parks levy would continue current funding for parks operations and maintenance while adding funding for playground replacements and Pioneer Park forest management.

Early results from the November 8, 2022 General Election indicate Proposition No. 1 is passing by a simple majority. The preliminary levy calculations for first reading assume levy funding based on Proposition No. 1 passing, meaning parks levy funding will increase from \$980,122 in 2022 to \$1,629,332 in 2023 and the current parks levy will end one year early to avoid duplication (as declared in [Resolution No. 1628](#)).

Staff will return to City Council at the end of the month to finalize the property tax levy ordinances (Exhibit 3 and 4) based on final election results. Should Proposition No. 1 not pass, the property tax levy for FY 2023 will be reduced by \$639,399 for the second reading. This reduction reflects the difference between the new 2022 parks levy lid lift and continuation of the 2008 Parks Maintenance & Operations lid lift increasing 1% for its final year before expiring December 31, 2023.

2023 Preliminary Levy Calculation

The table below summarizes the proposed 1% levy increase from 2022 to 2023.

Levy Elements	2022 Final Levy	2023 Preliminary Levy
Regular Levy		
Prior Year Levy	\$12,436,982	\$12,700,540
Plus 1% Optional Increase	124,370	127,005
Plus New Construction	139,188	115,000
Plus Re-levy of Prior Year Refunds	9,864	24,343
Total Regular Levy	\$12,710,404	\$12,966,888
Levy Lid Lifts		
2008 Parks Maintenance & Operations + 1%	980,122	-
2022 NEW Parks Levy Lid Lift*		1,629,322
Total Levy Lid Lifts	980,122	1,629,322
Total Levy	\$13,690,526	\$14,596,210

* Pending final November 8, 2022 General Election results.

The 2023 preliminary property tax levy includes two ordinances as required by State law:

1. Ordinance No. 22-20, which identifies the 2023 total property tax levy amount (Exhibit 3); and
2. Ordinance No. 22-21, which identifies the dollar and percent increase in the 2023 property tax levy relative to the 2022 levy (Exhibit 4).

For the 2023 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 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 \$115,000 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.
- **2008 levy lid lift:** Approved by voters in November 2008 for parks maintenance and operations (a 15-year levy expiring December 31, 2023). This lid lift is not included in FY 2023, pending the final results of the November 2022 election regarding Proposition No. 1 and the 2022 levy lid lift.
- **2022 levy lid lift:** A 16-year renewal of the parks levy that was on the November 8, 2022, General Election ballot for voter consideration. The renewed parks levy continues current funding for parks operations and maintenance while adding funding for playground replacements and Pioneer Park forest management. This lid lift is included in FY 2023, pending the final results of the November 2022 election.

Banked Capacity

Municipalities can choose to not levy the full 1% resulting from the resolution of substantial need. If the City Council chooses to levy less than the maximum amount allowed, it may "bank" capacity not levied to use in the future. Staff is not recommending assessing less than 1% in 2023.

Preliminary Versus Final Levy Amount

All King County cities are legally required to submit an estimate of their 2023 property tax levies to the Metropolitan King County Council by November 30. 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, staff simply notify the Metropolitan King County Council of the corrected levy amount.

2023 UTILITY RATE RESOLUTIONS

The City operates three separate utilities (Water, Sewer, and Storm Water), with customer charges funding all operating and maintenance costs as well as capital investments. Based on this "pay as you go" financing strategy, the City Council adopts incremental rate increases each year to ensure utility systems and infrastructure are well managed, maintained, and when appropriate, replaced.

Emergency Medical Service (EMS) utility revenues are directly tied to the average budgeted salary and benefit costs, excluding overtime, of four firefighters hired in 1996. The four firefighter positions were added to the Department to provide capacity to handle simultaneous EMS calls during high call demand. This cost constitutes the annual revenue requirement to the General Fund.

The 2022 adopted, 2023 proposed, and 2024 forecasted bi-monthly utility rates for water, sewer, storm water, and EMS services are included in the table below for a typical single-family residential customer.

The 2023 proposed rates were unanimously approved by the Utility Board on October 13, 2022.

Utility Rate Component	Bi-Monthly Charge			\$ Change		% Change	
	2022	2023	2024	2023	2024	2023	2024
	Adopted	Proposed	Forecast	Proposed	Forecast	Proposed	Forecast
City Water	\$ 122.15	\$ 131.92	\$ 142.48	\$ 9.77	\$ 10.56	8.00%	8.00%
City Sewer Maintenance	62.67	65.49	68.44	2.82	2.95	4.50%	4.50%
County Sewer Treatment	98.54	104.22	110.22	5.68	6.00	5.75%	5.75%
City Storm Water	39.81	42.99	46.43	3.18	3.44	8.00%	8.00%
City EMS	9.95	10.49	11.03	0.54	0.54	5.43%	5.43%
Total Increase	\$ 333	\$ 355	\$ 379	\$ 22	\$ 23		

The utility rate increase in 2023 is 6.60% – or \$22 every two months – relative to rates in 2022. This is slightly more than the 4.7% increase (\$16) adopted in fiscal year 2022, relative to the prior year. Resolutions 1637-1640 (Exhibits 5-8) set the water, sewer, storm water, and EMS rates respectively, beginning January 1, 2023.

2023 NORCOM Budget Resolution

Resolution No. 1636 (Exhibit 9) approves Northeast King County Regional Public Safety Communication Agency's (NORCOM) 2023 budget allocation to the City of Mercer Island. Every participating City must adopt such a resolution before NORCOM approves its 2023 Budget in December 2022. Compared to 2022, NORCOM's 2023 budget allocation to Mercer Island increased \$23,883, or 3.3%, as shown in the table below.

NORCOM Budget Allocations				
Department	2022	2023	\$ Change	% Change
Police	542,419	560,337	17,918	3.3%
Fire	180,135	186,100	5,965	3.3%
Total	\$ 722,554	\$ 746,437	\$ 23,883	3.3%

NEXT STEPS

ADOPTION OF 2023-2024 BUDGET

All of the changes approved at this City Council meeting, along with any other Council-directed changes, will be incorporated into the 2023-2024 Final Budget ordinance, which will be brought to the City Council for final review and adoption on December 6, 2022.

RECOMMENDED ACTION

Recommended motions:

1. Conduct first reading of Ordinance No. 22-20, appropriating funds and establishing the amount of property taxes to be levied for fiscal year 2023, and schedule a second reading and adoption on November 29, 2022.
2. Conduct first reading of Ordinance No. 22-21, establishing the dollar amount and percentage increases of the regular property tax levy and the levy lid lifts for fiscal year 2023, and schedule a second reading and adoption on November 29, 2022.
3. Adopt the following utility rate resolutions:
 - a. Adopt Resolution No. 1637, establishing classifications of water users and a schedule of charges for water usage, a schedule of rates for fire service, a schedule of special service charges, meter and service installation charges, and connection charges effective January 1, 2023 and thereafter.
 - b. Adopt Resolution No. 1638, establishing rates and connection charges for sewage disposal services provided by the City of Mercer Island effective January 1, 2023 and thereafter.
 - c. Adopt Resolution No. 1639, establishing the bi-monthly service charge for storm and surface water services provided by the City of Mercer Island effective January 1, 2023 and thereafter.
 - d. Adopt Resolution No. 1640, establishing the bi-monthly utility fee for the emergency medical and ambulance services supplied by the City of Mercer Island effective January 1, 2023 and thereafter.
4. Adopt Resolution No. 1636, approving NORCOM's 2023 budget allocation to the City of Mercer Island.