

Log #	Received From	Comment/Question	Staff Response
1	Councilmember Weinberg	Should the B&O tax revenue received in April 2024 be accredited to tax year 2023?	<p>No. B&amp;O taxes assessed by the City per MICC 4.10 transitioned to cash basis in 2023. Given the requirement to extend the payment deadline for annual taxpayers to April 15 of the following year staff transitioned B&amp;O tax payments to cash basis revenue recognition in 2023.</p> <p>This change was highlighted in each quarterly financial status update in FY2023. B&amp;O tax revenue reported in FY 2023 included annual tax remittances received for calendar year 2022 and quarterly tax payments for calendar year 2023. Amounts received January through April 2024 will be recognized on a cash basis as revenue in 2024.</p>
2	Councilmember Weinberg	By the same logic, if all the annually-paid B&O tax revenue for calendar year 2024 is expected be received in April 2025, doesn't that mean that, now that we're on a cash accounting basis, there will be no paid-annually B&O tax revenue in 2024?	<p>This is partially correct in that annual taxpayer remittances for the 2024 calendar year will be received and reported as revenue in 2025. By the same logic, annual taxpayer remittances for the 2023 calendar year will be received and reported as revenue in 2024.</p> <p>It is also important to note that while the majority of B&amp;O taxpayers report and file on an annual basis, the largest taxpayers are required to file on a quarterly basis. Quarterly tax payments remitted and received in 2024 will be received and reported as revenue in 2024.</p>
3	Councilmember Weinberg	In the "General Fund: Revenues" table on page 6 of the agenda bill, why are we only predicting \$10,828 of interest income when the first quarter's income was 51 times that? Wouldn't it be more accurate to predict that interest rates will remain at least in the 3-4% range for the remainder of 2024 instead of 0.1%?	<p>The <i>General Fund: Revenues</i> table includes the amended budget reference, which is separate and distinct from the Revenue Forecast. Staff will prepare an updated Revenue Forecast this fall, which will inform development of the Biennial Budget.</p>
4	Councilmember Weinberg	In the "All Other Funds: Revenues" table on page 13 of the agenda bill, I'm noticing that there is \$65,712 of 2024 revenue showing for the Contingency Fund. If the Contingency Fund reached its target of 12.5% of General Fund expenditures in Q4 2023, should that \$65k go to the General Fund instead of back to the Contingency Fund?	<p>Although the Contingency Fund did reach its target funding level of 12.5% in Q4 2023, due to budget amendments in <a href="#">ORD No. 24-04</a> to the total amount of General Fund expenditures in 2024, an allocation of interest earnings was required to maintain that target funding level.</p>

<p>5 Councilmember Weinberg</p>	<p>On page 14 of the agenda bill (page 125 of the packet), the 3rd paragraph indicates that we had budgeted \$3.4 million in state grant funding. Are these all grants that were applied for and approved, or does that \$3.4 million include the requests for marine patrol, EV charging infrastructure, and the EV sidewalk sweeper, which were all denied? If not, how much additional grant money did we ask for?</p>	<p>The entire \$3.4 million for 2024 state grant funding budgeted in the Capital Improvement Fund relates to the Luther Burbank Dock and Waterfront Improvements, or project PA0122, in the Capital Improvement Program in 2024. The grants for PA0122 were all applied for and approved.</p>
<p>6 Councilmember Weinberg</p>	<p>The last paragraph on page 12 of the agenda bill indicates that we're relining 12,000 feet of sewer mains in Sewer Basin 40. Does relining mean we are ending up with pipes with less overall throughput capacity? While these are sewer pipes and not pressurized water pipes, does the narrowing of the sewer pipes nonetheless restrict the ability to increase development density in this neighborhood?</p>	<p>As growth occurs, additional customer flows can exceed sewer capacity. A capacity evaluation and hydraulic model is used to assess data in comparison with modeled flows. This work is completed as part of the General Sewer Plan and will be expanded to align with anticipated density levels during the next General Sewer Plan update.</p> <p>For this particular project, although relining of these pipes does reduce the overall pipe size slightly, it eliminates inflow and infiltration levels (I &amp; I) which were found to be very high in this basin. In other words, although the overall pipe size may be slightly reduced, capacity is actually improved due to the elimination of non-wastewater components.</p>

<p>7 Councilmember Weinberg</p>	<p>Sometime this year I'd like to see a single-page infographic conveying the big picture of our utility infrastructure modernization efforts, which I sometimes refer to as our "race against entropy." Ideally, such a chart would include:</p> <ul style="list-style-type: none"><li>a. A graphical element representing the <b>challenge</b> we're facing (e.g. average age of equipment in each of the last 10 years).</li><li>b. A graphical element representing the <b>impact</b> that challenge is having (e.g. emergency repairs/year for each of the last 10 years).</li><li>c. A graphical element representing the increased <b>investment</b> we've made (e.g. capital investments in pipe/equipment modernization &amp; replacement per year).</li></ul> <p>If the graphical elements display best as lines, ideally we would see:</p> <ul style="list-style-type: none"><li>- The <b>impact</b> line (or lines, if we have 1 each for water, sewer, and storm) would have a positive slope, reflecting the increasing number of water main breaks and other emergency repairs we've had to do in recent years.</li><li>- The <b>challenge</b> line(s) would start off relatively flat and then show a downward bend as we've accelerated the rate at which we're replacing the oldest parts of the system, causing its average age to decrease.</li><li>- The <b>investment</b> line would start off relatively flat and then show an upward bend, showing how we've dramatically increased the rate at which we're proactively replacing and modernizing the aging infrastructure.</li></ul> <p>I think such a chart could really help the public visualize the big picture. It can also help to build support in future</p>	<p>At this time staff does not have capacity to prepare this graphic but will take it under future consideration.</p>
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		<p>years for a further expansion of our infrastructure modernization efforts – once we have space built to house the additional public works staff we’d need.</p> <p>Thoughts?</p>	
8	Councilmember Reynolds	<p>Exhibit 1 page 9 shows total 1Q fire expenditures of \$2.8 MM. What is the breakdown of this between one time and ongoing costs?</p>	<p>The breakdown between one time and ongoing costs is as follows.</p> <p>One-time costs include:</p> <ul style="list-style-type: none"> <li>• \$114,000 - 2024 contribution to EF&amp;R equipment replacement fund per the contract. Will only occur in the 1<sup>st</sup> quarter.</li> <li>• \$369,872 - 1<sup>st</sup> installment to transfer compensated absence liability funding to EF&amp;R.</li> <li>• \$254,586 in payroll costs to cover 12/23/2023 - 12/31/2023 firefighter payroll up to transition (paid on first payroll 1.12.2024).</li> <li>• \$27,804 in payroll costs for the 1.0 FTE position related to Mobile Integrated Health program. This employee was transitioned to EF&amp;R at the end of March and is no longer a City of Mercer Island employee.</li> </ul> <p>Ongoing costs include:</p> <ul style="list-style-type: none"> <li>• January, February, and March contract payments to EF&amp;R, totaling \$1,968,686.</li> </ul>
9	Councilmember Reynolds	<p>The explanatory text below this table states that budget overages are due to one time costs.</p> <p>Does this mean that we did not budget for one time costs or that we did, but not enough?</p> <p>Is this a timing issue, where one time costs will come in lower than expected in later quarters?</p> <p>Or do we expect total one time costs when we are all done with them to be higher than expected?</p> <p>If so, how much and why?</p>	<p>This is a primarily a timing issue for the first quarter of 2024. The contributions to the equipment replacement fund per the EF&amp;R contract and final payroll payments to former Mercer Island Firefighters to close out 2023 are strictly a result of the start of the new fiscal year.</p> <p>Together they represent costs of nearly \$369,000 that will see no further increases in FY 2024.</p>

10 Councilmember Reynolds I am not understanding how the transition to cash basis is reflected in the financials. It sounds like you made a one time adjustment at 12.31.23 to adjust to cash.

But doesn't that mean 2023 is really cash basis?

Either way, whenever you did the transition, can you provide a recap by fund and my major expenditure and revenue category of the total amount of the change?

There has been no adjustment to cash balances in the quarterly Financial Status update.

The change in accounting procedure impacts the timing of when cash inflows are recognized as revenues. The change in timing of revenue recognition creates the appearance of revenues being lower than budget expectations in the first quarter of 2024.

A good example of the timing changes is monthly remittances for Real Estate Excise Taxes (REET). King County collects REET on recorded property sales throughout the month. The County then distributes the City's portion on the 10<sup>th</sup> of the following month. REET for property sales that were recorded in January 2024 were distributed to Mercer Island on February 10, 2024.

Under GAAP the City is required to record REET from home sales in January as a revenue and receivable based on the month the sale was recorded. Under Cash basis the REET from January property sales will be recorded as revenue in February based on the cash receipt date.

The underlying revenue is the same. The timing of when the City recognizes and "earns" the revenue is different under cash vs accrual:

Sale Recorded	Jan 2024	Feb 2024	Mar 2024	Apr 2024
GAAP Rev <i>\$ thousands</i>	\$149.7	\$165.8	\$263.5	
Cash Rev <i>thousands</i>		\$149.7	\$165.8	\$263.5

11	Councilmember Reynolds	<p>Exhibit 1 page 16 refers to pre-LEOFF 1 retirees.</p> <p>How many of these are there and what is the approximate annual payment to these retirees?</p> <p>How do their benefit increases get impacted by impact bargaining? COLA, in contrast, makes sense to me.</p>	<p>There are currently five fire retirees receiving benefit payments from the Pre-LEOFF 1 Firefighter Pension Fund.</p> <p>In 2024, the current monthly benefit totals \$10,849 for an annual cost of \$130,190 to the Pension Fund. The excess benefit is calculated based on the current salary of active firefighters in the same or equivalent position the retiree was in at retirement.</p> <p>In 2023, the percentage increases (COLA and bargaining impacts) that active firefighter personnel received increased the benefit due to each retiree.</p>
12	Councilmember Reynolds	<p>Do we have any sense as to whether a material number of other municipalities or counties were hit with a similar finding?</p>	<p>Staff is aware that the City of Bellevue, the City of Bothell, and the City of Edmonds all received essentially the same audit finding.</p>

13 Councilmember Reynolds	The ARPA funds were certainly an unusual thing in city history. When such unusual situations arise, do we have a process for discussing accounting policies with other peer cities as an informal peer review of processes?	<p>The State Auditor's Office (SAO) is the primary resource used in determining the best application of GAAP in accounting for new programs.</p> <p>The Budgeting, Accounting and Reporting System (BARS) Manual prescribes accounting and reporting for local governments in accordance with <a href="#">RCW 43.09.200</a>. Its purpose is to provide (1) uniform accounting and financial reporting to allow for meaningful use and comparison of financial data; (2) accounting and reporting instructions as a resource for local government managers; and (3) a consistent framework for financial reporting to intended users, including managers, governing bodies, granting and regulatory agencies, the state Legislature, and the general public.</p> <p>Typically, any time there is a significant new program affecting local governments statewide the SAO provides clear and definitive instructions on how to account for the new program. Most recently, the SAO provided <a href="#">detailed instructions</a> on how to account for distributions from the opiate settlement agreements.</p> <p>No information was provided about how to record ARPA revenues. There remains no direct information on the SAO website or within the BARS manual to suggest that ARPA funds were best accounted for as a Grant received in advance.</p>
14 Councilmember Reynolds	Are we required to use the state auditor? Could we, for example, engage a private firm instead? Or do they have a monopoly?	The City is required to use the Washington State Audit office per <a href="#">RCW 43.09.230</a>