



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6987
September 1, 2026
Consent Agenda

AGENDA BILL INFORMATION

TITLE:	AB 6987: Interlocal Agreement and Lease Agreement Amendments with the City of Newcastle for Municipal Court Operations	☐ Discussion Only ☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Authorize the City Manager to execute amendments to the Interlocal Agreement and Lease Agreement with the City of Newcastle for Mercer Island Municipal Court operations.	

DEPARTMENT:	Administrative Services Finance Department
STAFF:	Ali Spietz, Chief of Administration Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. First Amendment to Interlocal Agreement with Newcastle for Use of Council Chambers for Municipal Court Proceedings 2. First Amendment to Lease Agreement with Newcastle for Municipal Court Administrative Offices 3. Original Lease Agreement with Newcastle for Municipal Court Administrative Offices
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to authorize the City Manager to execute the First Amendment to the Interlocal Agreement (Exhibit 1) and the First Amendment to the Lease Agreement (Exhibit 2) with the City of Newcastle for Mercer Island Municipal Court ("Municipal Court") operations.

- Following the permanent closure of Mercer Island City Hall, the Municipal Court moved court proceedings and administrative offices to the Kirkland Justice Center for seven months and then to Newcastle City Hall. The current Interlocal Agreement with the City of Newcastle for Council Chambers usage and the Lease Agreement for administrative office space both expire on December 31, 2026.
- The proposed amendments transition both agreements to a month-to-month term, effective January 1, 2027. Staff negotiated these updated terms.

- Financial terms under the First Amendment to the Lease Agreement remain structured as originally established: base rent will increase by 1% annually, and Mercer Island's proportionate share of operating costs under Section 6 of the original lease (Exhibit 3) will continue during the month-to-month term.

BACKGROUND

In April 2023, Mercer Island City Hall closed temporarily following the discovery of asbestos, forcing Municipal Court operations to suspend court proceedings until an alternate venue was secured.

In May 2023, court administrative staff temporarily relocated to the meeting room at Mercer Island Fire Station 91. Simultaneously, the City secured an agreement with the City of Kirkland for temporary, emergency use of its court facility through September 30, 2023.

At the July 18, 2023 meeting, the City Council determined that asbestos abatement costs outweighed the benefits of reopening City Hall, prompting staff to pursue longer-term facility arrangements for the Municipal Court. To bridge this transition, the City Council approved an extension with Kirkland through December 31, 2023 ([AB 6344](#)). During this period, operations remained split between court proceedings in Kirkland and administrative staff at Fire Station 91.

In November 2023, the City entered into an Interlocal Agreement and a Lease Agreement with the City of Newcastle to consolidate Mercer Island Municipal Court proceedings and administrative operations at Newcastle City Hall ([AB 6362](#)). Both initial agreements are scheduled to expire on December 31, 2026.

ISSUE/DISCUSSION

The City of Newcastle owns the Newcastle Professional Center (12835 Newcastle Way), where Newcastle City Hall is located. Newcastle utilizes the second floor for municipal operations, with Suite 301 on the third floor leased for Mercer Island Municipal Court administrative offices and Newcastle's second-floor Council Chambers serving as the courtroom location.

INTERLOCAL AGREEMENT FOR USE OF COUNCIL CHAMBERS

The proposed amendment to the Interlocal Agreement (Exhibit 1) transitions the term to a month-to-month agreement beginning January 1, 2027. Either party may terminate the agreement by providing 180 days' prior written notice.

Mercer Island Municipal Court will continue using Newcastle's Council Chambers on the following schedule:

- Second Monday of each month (8:30 AM – 3:00 PM): Hearing Newcastle cases.
- Every Tuesday (8:30 AM – 3:00 PM): Hearing Mercer Island cases.
- Third Wednesday and/or Thursday of each month (8:00 AM – 4:30 PM): Jury trials, as needed.

Under this agreement, Mercer Island remains responsible for:

1. Setting up and resetting the room for court and Council Chamber functions, as well as maintaining cleanliness after each use.
2. Providing necessary court security during MIMC proceedings.
3. Repairing any damage to the Council Chambers, restrooms, or surrounding City Hall areas caused during court operations.

FIRST AMENDMENT TO LEASE AGREEMENT FOR SUITE 301

The original lease agreement for Suite 301 (1,298 of rentable square feet of office space) expires December 31, 2026. The proposed First Amendment transitions the lease to a month-to-month arrangement beginning January 1, 2027. The base rent for office space is as follows:

Year	Sq Ft	Per Sq Ft Base Rent	Annual Base Rent	Monthly Base Rent
1 (2024)	1,298	\$27.01	\$35,058.98	\$2,921.58
2 (2025)	1,298	\$27.28	35,409.44	2,950.79
3 (2026)	1,298	\$27.55	35,759.90	2,979.99
4 (2027)	1,298	\$27.83	36,123.34	3,010.28

Under the current triple net (NNN) lease, Mercer Island will continue paying its pro-rata share of operating expenses (property insurance, maintenance, and taxes) pursuant to Section 6 of the original lease (Exhibit 3). The monthly NNN rate for 2026 is \$1,412, and staff estimate the 2027 monthly rate will be \$1,575.

As a tax-exempt municipal corporation under RCW 84.36.010, Mercer Island is exempt from leasehold excise taxes. Newcastle will not assess leasehold excise or property taxes as additional rent unless mandated by state law.

NEXT STEPS

Upon City Council approval, the City Manager will execute the First Amendment to the Interlocal Agreement and the First Amendment to the Lease Agreement with the City of Newcastle.

RECOMMENDED ACTION

1. Authorize the City Manager to execute the First Amendment to the Interlocal Agreement with the City of Newcastle for use of the Council Chambers for Mercer Island Municipal Court proceedings, substantially in the form attached as Exhibit 1.
2. Authorize the City Manager to execute the First Amendment to the Lease Agreement with the City of Newcastle for Suite 301 in the Newcastle Professional Center located at 12835 Newcastle Way, Newcastle, Washington, for Mercer Island Municipal Court administrative offices, substantially in the form attached as Exhibit 2.