



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 7015
October 20, 2026
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 7015: Public Hearing 2027–2028 Preliminary Biennial Budget and Review: Operating Budget and Work Plan	☐ Discussion Only ☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Receive the 2027-2028 Preliminary Biennial Budget available at www.mercerisland.gov/27-28budget , hold a public hearing, and provide feedback on the 2027-2028 Operating Budget and Work Plan. Authorize the Ad Hoc Finance Committee to review Eastside Fire & Rescue’s proposed 2027-2028 contract costs and present recommendations to the City Council on November 17, 2026.	

DEPARTMENT:	Finance
STAFF:	Jessi Bon, City Manager Ali Spietz, Chief of Administration Jason Kintner, Chief of Operations Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Preliminary Budget at www.mercerisland.gov/27-28budget
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

EXECUTIVE SUMMARY

The purpose of this agenda item is to hold a public hearing and continue the City Council’s review of the 2027-2028 Preliminary Biennial Budget (“Preliminary Budget”).

- Per Washington State law, the City Manager must deliver a balanced Preliminary Budget to the City Council for review and approval. The City Council received the Preliminary Budget (Exhibit 1) on September 22, 2026. A copy was filed with the City Clerk and is available [online](#).
- On October 6, the City Council reviewed the proposed 2027-2032 Capital Improvement Program ([AB 7009](#)).
- This phase of the budget review process focuses on the proposed Operating Budget (pages D-1 through D-29 of Exhibit 1) and the two-year Work Plan (pages A-19 through A-24 of Exhibit 1).
- The total proposed Operating Budget is \$86 million in 2027 and \$90 million in 2028. The proposed 2027-2028 Operating Budget maintains existing City operations and service levels consistent with the 2025-2026 biennium, with no new programs, additional staffing or service expansions.

- The General Fund, the City’s primary operating fund, includes proposed expenditures of \$41 million in 2027 and \$43 million in 2028. With expenditures projected to grow faster than revenues, the Preliminary Budget relies on one-time use of unassigned General Fund Balance to close the funding gap over the next biennium.
- Two major changes occurred since the Preliminary Budget was published in September:
 1. On October 6, the City Council accepted a \$2.14 million state grant administered by the Criminal Justice Training Commission under ESHB 2015 (2025) to fund local public safety programs ([AB 7017](#)). The grant supports existing Police Department and Youth and Family Services personnel costs, along with public safety equipment, training, and other program needs. Most of the funding will offset existing City expenditures, with only \$206,000 allocated to new expenses. Grant revenues were not included in the Preliminary Budget and will have a net positive impact on the Final 2027–2028 Biennial Budget.
 2. The City of Mercer Island contracts Eastside Fire & Rescue (EF&R) for fire and emergency medical services. EF&R has sent multiple 2027-2028 proposed contract costs to the City. As of publishing the agenda bill, EF&R’s latest proposed contract costs exceed the Preliminary Budget estimates for fire and emergency medical services by \$1.26 million over the next two years. Staff continue to sort through the basis for EF&R proposal.

Given the magnitude of the proposed cost increases from EF&R and the ongoing review of the proposed personnel costs, overtime costs, and administrative fees, the City Manager recommends that the City Council authorize the Ad-Hoc Finance Committee to work with staff to review the EF&R 2027-2028 cost proposal and report back to the full Council on November 17 with findings and a recommended budget approach for 2027-2028.

- Each biennium, a City Work Plan is developed as part of the biennial budget process. The Work Plan serves two purposes. It ensures compliance with applicable federal, state, and local laws. It also advances the City Council’s strategic priorities. City Council review and feedback is requested on the 2027-2028 Work Plan to inform development of the final budget.
- City Council direction and input on the proposed 2027-2028 Operating Budget and Work Plan is needed to finalize the 2027-2028 Biennial Budget. The City Council is scheduled to adopt the Biennial Budget on December 1.

The public is encouraged to provide feedback on the Preliminary Budget at three scheduled Public Hearings on October 20, November 17, and December 1. Public comment is also invited at all City Council meetings.

BACKGROUND

Every two years, the Mercer Island City Council adopts a financial plan that covers a two-year period, known as a biennium. The City Council received the 2027-2028 Preliminary Biennial Budget (“Preliminary Budget”) on September 22, 2026. A copy was filed with the City Clerk and is available [online](#) (Exhibit 1).

The Preliminary Budget is a two-year \$266 million spending plan that supports the broad range of services, programs, initiatives, and capital investments provided by the City. It serves as the primary financial and policy plan for the next two years, detailing City priorities as outlined in the Work Plan (pages A-19 through A-24 of Exhibit 1). It also explains how the City will pay for these policy initiatives, operational services, and capital improvements.

On October 6, 2026, the City Council reviewed the proposed 2027-2032 Capital Improvement Program ([AB 7009](#)). The City Council discussed the combined work of staff and the Finance Ad Hoc Committee to prioritize limited restricted resources to address immediate capital needs. The result is a proposed \$90 million capital spending plan for 2027 and 2028.

This phase of the budget review process will focus on the proposed Operating Budget (pages D-1 through D-29 of Exhibit 1) and the two-year Work Plan (pages A-19 through A-24 of Exhibit 1).

Operating Budget

The operating budget establishes what programs, and day-to-day operations will be funded in each department based on projected municipal revenues ([AB 6997](#)). The General Fund (001), Youth and Family Services (YFS) Fund (160), and Development Services Fund (180) provide the primary funding for day-to-day City operations. The City's enterprise funds for the water, sewer, and stormwater utilities and the Street Fund (110) include both operating and capital expenses.

The General Fund (001) is the City's primary operating fund. It finances essential, non-utility community services that rely on non-restricted revenues like property taxes, sales taxes, and utility user taxes. Examples of General Fund services include police, fire and emergency medical services, parks and maintenance operations, street preservation, municipal court services, and essential administrative support functions like finance, human resources, information technology, and legal services.

The General Fund, the City's primary operating fund, includes proposed expenditures of \$41 million in 2027 and \$43 million in 2028. Baseline General Fund expenditures are projected to exceed revenues in 2027 and 2028, primarily due to persistent inflation that is driving operating costs higher than revenue growth. As a result, the City faces a projected operating deficit of \$720,000 in 2027, increasing to \$1.7 million in 2028. The budget addresses these shortfalls through the use of one-time General Fund unassigned fund balance.

The YFS Fund (160) accounts for all revenues and expenditures associated with the Youth & Family Services Department. Programs and services include Thrift Shop operations, Individual & Family Counseling, Senior Services, Emergency Assistance, and the School-Based Services program. With the recent addition of the State Grant Funding, the YFS Fund will also include the public safety co-response initiative. These programs and services are funded by Thrift Shop net revenues, grants, MIYFS Foundation contributions, donations, and the General Fund.

The Preliminary Budget relies on two one-time funding sources to balance the YFS Fund for 2027–2028: the remaining YFS operating fund balance, which will be fully depleted by the end of 2028, and additional contributions from the General Fund (page 14 of [AB 6997](#)). While this approach maintains existing YFS programs and services through 2028, it is not financially sustainable over the long term. A key priority for the City Council and staff during the biennium will be developing a sustainable, long-term funding strategy for YFS.

Development of the 2027-2028 Work Plan

The City typically spends the first year of the two-year budget working with the City Council to set priorities that guide the goals outlined in the Work Plan. This budget cycle, staff resources were redirected to respond to the Growth Management Hearings Board Order, which carried an August 2026 compliance deadline. As a result, the development of the 2027-2028 City Council Priorities and the typical City Council check-ins on the

Work Plan did not occur. The City Council will need to revisit its priorities as part of the current budget deliberations or defer the discussion to the 2027 Planning Session.

2025-2026 City Council Priorities

For reference, on March 19, 2024, the Council adopted the following priorities for the 2025-2026 biennium:

The City of Mercer Island provides outstanding municipal services that enhance and protect the environment, the quality of life, and our community's health, safety, and welfare. We engage with the community on issues of importance to listen, instill trust, and promote sound decision-making. We strive to create and maintain an environmentally sustainable and inclusive community that is safe and supportive for current and future generations.

In the 2025-2026 biennium, we will continue to provide city services with fiscal sustainability while focusing on the government's effectiveness and efficiency, and the following priorities:

- Priority 1 Engage the qualified expertise necessary to provide the guidance to enable the development of a comprehensive long-range plan for Town Center which recognizes, addresses, and balances business, housing, and parking uses.*
- Priority 2 Sustain and enhance our natural environment, especially parks and open spaces, to benefit this generation and others that follow.*
- Priority 3 Make once-in-a-generation investments to update and modernize aging infrastructure, capital facilities, and parks.*
- Priority 4 Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.*

2027-2028 Work Plan Reformatted

The 2027-2028 City Council Work Plan has been reformatted to focus specifically on significant policy issues, major initiatives, and key decisions requiring City Council attention. Previous versions of the Work Plan included a broad range of departmental activities and ongoing operational responsibilities.

While this information remains important, its inclusion made the Work Plan increasingly difficult to manage and less effective as a tool for highlighting the City Council's policy agenda. The revised format provides a more focused and manageable roadmap for the City Council's work over the next two years, with an emphasis on the issues and decisions that will require Council direction and action.

ISSUE/DISCUSSION

Development of the 2027-2028 Operating Budget

The proposed 2027-2028 Operating Budget maintains existing City operations and services levels consistent with the 2025-2026 biennium, with no new programs, additional staffing or service expansions. Across all funds, expenditures in the Operating Budget total \$86 million in 2027 and \$90 million in 2028.

General Fund expenditures total \$41 million in 2027 and \$43 million in 2028, representing a projected 6.1% increase in expenditures over the two-year period compared to 2026. This growth is primarily driven by

ongoing inflationary pressures. General Fund revenues are projected to grow by 4.4% over the same period, excluding one-time resources.

With expenditures projected to exceed revenues, the Preliminary Budget, as published on September 22, 2026 projected operating deficits of \$720,000 in 2027 and \$1.7 million in 2028. These shortfalls are proposed to be addressed through the one-time use of unassigned General Fund balance.

City's Fleet Operations

Fleet Services, a division in the Public Works Department, provides preventative maintenance and repairs for the City's 150+ vehicles and heavy equipment through a combination of in-house staff and external service vendors.

The City's fleet operations present a clear example where costs for services are increasing. In the current biennium, the costs to operate, maintain, and replace vehicles past their useful life has consistently exceeded budget estimates. To address these structural pressures, staff updated the rate model assumptions for the 2027-2028 biennium so internal service charges accurately reflect current operational and replacement costs. This represented a significant body of work for the staff team in 2026 and is presented here to provide context for one of the larger cost centers in the budget.

Fleet operations are accounted for in the Equipment Rental Fund (510), an internal service fund supported by user fees charged to City departments. These fees are split into two distinct components:

1. **Maintenance & Operations (M&O):** Covers day-to-day running costs, including fuel, parts, insurance, in-house mechanic labor, administrative overhead, and contracted shop repairs.
2. **Equipment Replacement:** A reserve contribution calculated to accumulate the funds required to replace vehicles and equipment at the end of their useful life.

Equipment Fund Rates for the 2027-2028 biennium reflect significant increases in both operating and equipment replacement costs. The cost of routine maintenance and complex repairs performed by external vendor shops has increased and repair times have been slow, compounding the day-to-day expenses required to keep aging fleet assets in safe working condition. On the equipment replacement side, vehicle acquisition costs have surged post-Pandemic due to persistent inflationary pressures, extended supply chain delays, and higher purchase prices for specialized heavy equipment and emergency vehicles.

Fleet Rate Model Update

Finance and Public Works reviewed the fleet rate model to ensure internal service charges accurately reflect the costs of operating, maintaining, and replacing the fleet. This is consistent with Washington State law and guidance that internal service funds operate on a cost-reimbursement basis without generating a surplus of resources. The review resulted in the following changes to the Equipment Replacement Fund (510) budget for 2027 and 2028:

- **Replacement assumptions.** Replacement cost, useful life, salvage value, and annual cost increases by vehicle class were updated so charges cover future replacement costs of each asset.
- **Operating assumptions.** Inflationary pressures are driving up the annual ongoing costs to operate and provide routine maintenance for City vehicles. Assumptions for parts, fuel, and professional services have been increased based on recent expenditure actuals.

- **Useful life.** Actual usage (mileage, engine hours, service history) were evaluated alongside vehicle age to adjust estimated useful lives. This helps avoid replacing vehicles too early and avoid high maintenance spending on equipment and vehicles that have outlived their useful lives.
- **Mechanic Shop.** Staff compared cost and turnaround time of repairs completed in-house versus with private mechanics. Both costs and time for repair have increased for contracted services, making private mechanics an unfavorable substitute. Staff also reviewed shop equipment against a replacement schedule to identify needs not captured in the current fleet rate model.

As a result, internal service charges for fleet services have increased to accurately reflect the cost to replace, operate, and maintain City vehicles and heavy equipment. Compared to the 2025-2026 biennium, the annual fleet service charges across all participating departments will increase by \$875,000 in the 2027-2028 biennium, as detailed in Table 1.

Table 1

Fleet Budget Comparison	General	Utility	Total
<i>\$ in thousands</i>	<i>Fund</i>	<i>Funds</i>	
Annual Budget in 2025-2026			
Replacement	\$ 465	\$ 225	\$ 690
Operation & Maintenance	281	292	573
Annual Budget in 2025-2026	746	517	1,263
Annual Budget in 2027-2028			
Replacement	800	575	1,375
Operation & Maintenance	374	389	762
Annual Budget 2027-2028	1,174	964	2,137
Increase in 2027-2028	\$ 428	\$ 447	\$ 875

Of the \$875,000 increase, \$428,000 is allocated to the General Fund and \$447,000 to the City's Utility Funds.

Mechanic Shop

Efforts to update the fleet rate model also showed that the City's mechanic shop needs investment to service a modern fleet. Newer vehicles rely on electric control units and sensors that older vehicles do not have, and a fleet spanning many equipment types and manufacturers requires specialized tools. Examples include updated software and diagnostic equipment, which is compatible with all makes and models of vehicles, rather than brand (e.g., Ford, General Motors) specific, and replacing vehicle lifts to suit newer equipment models as the existing lift is 20+ years old.

Nine pieces of aging mechanic shop equipment have been identified and prioritized for replacement between 2027 and 2032, at an estimated total cost of \$206,700 in 2026 dollars, see Table 2. Some of this equipment would have been replaced as part of the proposed Public Safety & Maintenance Building project. With the failure of the bond measure in November 2025, staff began planning for the phased replacement of this equipment.

Sequencing these purchases requires a one-time contribution of \$60,000 in 2027 and an ongoing contribution of \$30,000 per year, to be revisited in future biennia. Of each contribution, 58% would come from the General Fund and 42% from the Utility Funds. Spreading the cost this way avoids a larger annual charge to modernize the mechanic shop.

Table 2

Mechanical Equipment	Estimated	Replacement	2026
<i>Replacement Schedule (not included in Prelim Budget)</i>	Useful Life	Year	Replacement Cost
Fleet Management Software	10	2027	\$ 25,000
Tire Machine	15	2027	14,000
Hot Water Pressure Washer	15	2028	14,000
Parts Washer	20	2028	22,600
Wheel Balancer	15	2028	10,000
Rotary Post Lift	20	2029	27,600
Standard Column Lifts	20	2030	32,000
Column Lifts with Attachments	20	2031	33,500
Welding Machine and Fume Extractor	20	2032	28,000
Total Cost			\$ 206,700

Because of current financial pressures in the City's operating funds, these contributions were not included in the Preliminary Budget. The replacement needs will be reconsidered during development of the next biennial budget. In the meantime, the City will continue maintaining and using the existing equipment to extend its useful life. Should equipment fail before its planned replacement, a funding request may be brought forward to the City Council for consideration.

Changes Since 2027-2028 Preliminary Budget Publication

Two major changes have occurred since the Preliminary Budget was published on September 22, 2026. Both affect the 2027-2028 Operating Budget. First, the City received a \$2.14 million one-time state grant for public safety. Second, EF&R proposed 2027-2028 contract costs exceed the City's Preliminary Budget by more than \$1 million. Both items are further discussed below.

Criminal Justice Training Commission Grant

On October 6, the City Council accepted \$2.14 million in one-time state funding from the Washington State Criminal Justice Training Commission (CJTC) under Engrossed Substitute House Bill (ESHB) 2015 ([AB 7017](#)). The funding supports local public safety programs.

The grant supports existing Police Department and Youth and Family Services personnel costs, along with public safety equipment, training, and other program needs. Most of the funding will offset existing City expenditures, with only \$206,000 allocated to new expenses. Grant revenues were not included in the Preliminary Budget and will have a net positive impact on the Final 2027–2028 Biennial Budget.

Eastside Fire & Rescue 2027-2028 Preliminary Budget

The City of Mercer Island contracts Eastside Fire & Rescue (EF&R) for fire and emergency medical services. On September 15, 2026, the EF&R Administration provided its proposed 2027-2028 contract costs, reflecting a 16% cumulative increase (\$1.4 million) in operating expenditures from 2026 to 2028. The Preliminary Budget assumed a 6% cumulative increase over the same period. The proposed contract costs were transmitted ahead of the EF&R Board approving their budget and the City did not have advance notice of the magnitude of the increase.

On October 8, 2026, the EF&R Board adopted a revised 2027-2028 budget, reducing the operating expenditures by approximately \$3.6 M over the biennium. The City of Mercer Island received revised contract

costs on October 13, 2026. Despite the reductions, the revised contract costs still exceed the City's Preliminary Budget by \$542,000 in 2027 and \$719,000 in 2028, a combined \$1.26 million over the biennium, summarized in Table 3 below.

The City has not had sufficient time to analyze the revised proposal. Additional information and an update on the cost proposal review process will be presented at Tuesday's City Council meeting.

Table 3

Eastside Fire & Rescue	2026	2027	2027¹	2028	2028¹	26 vs 28	26 vs 28
Mercer Island (MI) Expenditures (\$ in thousands)	Budget	MI Prelim	EF&R Proposed	MI Prelim	EF&R Proposed	% Chg	\$ Chg
Eastside Fire & Rescue Contract							
Operations	\$ 8,874	\$ 9,140	\$ 9,682	\$ 9,414	\$ 10,133	14%	\$ 1,259
Equipment & Capital	153	157	157	162	162	6%	9
Eastside Fire & Rescue Subtotal	9,026	9,297	9,839	9,577	10,295	14%	1,269
Additional Fire Expenditures							
King County - Mobile Integrated Health	\$ 227	\$ 234	\$ 234	\$ 241	\$ 241	6%	14
Mercer Island Fire Fleet Replacements	62	115	115	115	115	87%	53
Total Fire and Emergency Medical	\$ 9,315	\$ 9,646	\$ 10,188	\$ 9,932	\$ 10,651	14%	\$ 1,336
Additional Budget Required			\$ 542		\$ 719		\$ 1,260

¹ Updated EF&R budget proposal, approved by the EF&R Board on October 8, and submitted to the City on October 13, 2026.

The City is continuing its review of EF&R Administration's proposed 2027–2028 contract costs. EF&R recently provided additional financial information, which is being evaluated to better understand the proposed increases and associated cost assumptions. Three areas remain under review:

- **Review of Personnel Costs:** EF&R just provided additional information related to the proposed 2027–2028 personnel costs. The City is reviewing this information to evaluate the assumptions and calculations underlying the significant increases proposed for 2027–2028.
- **Review of Overtime Costs:** The City is reviewing the methodology used by EF&R to calculate overtime costs charged to Mercer Island to ensure alignment with the terms of the ILA.
- **Administrative Fee Review:** Under the terms of the ILA, EF&R assesses a 10% administrative fee on budgeted personnel, overtime, and operating costs. Unlike direct personnel expenses, this fee is not reconciled against actual year-end expenditures. Completing the review of proposed personnel and overtime costs is therefore essential to ensuring the administrative fee is calculated on an appropriate budget basis and the City does not pay more than required under the ILA.

Given the magnitude of the proposed cost increases from EF&R and the ongoing review of the proposed personnel costs, overtime costs, and the administration fee, the City Manager is recommending the City Council authorize the Ad-Hoc Finance Committee to work with the staff to review the EF&R 2027-2028 cost proposal and report back to the full City Council on November 17 with findings and a recommended budget approach for 2027-2028.

2027-2028 Work Plan

Each biennium, a City Work Plan is developed as part of the biennial budget process. The Work Plan serves two purposes. It ensures compliance with applicable federal, state, and local laws. It also advances the City Council's strategic priorities. City Council review and feedback is requested on the 2027-2028 Work Plan to inform development of the final budget.

The City Manager and City leadership grouped the major work items and initiatives into six categories:

1. **Fiscal Health** - Support long-term fiscal sustainability through responsible financial planning and stewardship of City resources.
2. **Public Safety** - Maintain a safe and resilient community through effective emergency response, preparedness, prevention, and community-focused public safety services.
3. **Infrastructure, Facilities & Technology** - Invest in and modernize the physical and digital infrastructure needed to support reliable City operations, public services, and long-term community needs.
4. **Parks, Community & Environment** - Advance priorities for parks, recreation, environmental sustainability, mobility, and community-focused public spaces and services.
5. **Land Use, Permitting & Development** - Guide the City's long-range land use and development framework while maintaining clear, predictable, and customer-focused permitting, regulatory, and development review processes.
6. **Advocacy** - Advance the City's policy priorities through coordinated legislative, regional, and intergovernmental advocacy and partnerships.

City Council direction and input on the proposed 2027-2028 Operating Budget and Work Plan is needed to finalize the 2027-2028 Biennial Budget. The City Council is scheduled to adopt the Biennial Budget on December 1.

NEXT STEPS

The remaining preliminary budget schedule is summarized in Table 5.

Table 5

Date	Topic
November 17, 2026	Public Hearing: 2027-2028 Biennial Budget Review, Receive Q3 2026 Financial Status Update and Budget Amending Ordinance, Adopt 2027 Property Tax Ordinances, and Adopt 2027 NORCOM Budget
December 1, 2026	Public Hearing: 2027-2028 Biennial Budget Adoption

The public is encouraged to provide feedback on the 2027-2028 Preliminary Biennial Budget and 2027-2032 CIP at three scheduled Public Hearings on October 20, November 17, and December 1. Public comment is also invited at all City Council meetings.

RECOMMENDED ACTION

1. Receive the 2027-2028 Preliminary Biennial Budget available at www.mercerisland.gov/27-28budget, conduct a Public Hearing on 2027-2028 Preliminary Budget, and provide feedback on the Operating Budget (pages D-1 through D-29 of Exhibit 1) and the 2027-2028 Work Plan (pages A-19 through A-24 of Exhibit 1).
2. Move to authorize the Ad-Hoc Finance Committee to work with City staff to review Eastside Fire & Rescue's proposed 2027–2028 contract costs, including personnel costs, overtime costs, and administrative fees, and report back to the City Council on November 17, 2026, with findings and a recommended budget approach for 2027–2028.