



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

**AB 6240
March 21, 2023
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6240: Second Reading of Ordinance No. 23C-03 to End the 2.7% Interim Utility Tax on City Utilities	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Adopt Ordinance No. 23C-03 ending the 2.7% interim utility tax on City utilities May 1, 2023.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Bio Park, City Attorney
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 23C-03
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

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

EXECUTIVE SUMMARY

This agenda bill introduces for second reading and adoption Ordinance No. 23C-03 (Exhibit 1), which sunsets the 2.7% interim utility tax six months earlier than anticipated.

- On March 7, 2023, the City Council set Ordinance No. 23C-03 (Exhibit 1) for second reading and adoption on March 21, 2023. The ordinance sunsets the 2.7% interim utility tax on May 1, 2023, thereby returning on May 2, 2023 the utility tax rate on the water, sewer, and storm water utilities to 5.3%.
- The interim utility tax originated with Council adoption of [Ordinance No. 20C-20](#) on September 15, 2020, setting the interim tax for a 36-month period from November 1, 2020 through October 31, 2023. Revenues from the tax paid down principal and interest expenses on the \$1.5 million interfund loans from the City’s Water and Sewer Utility Funds to the General Fund to finance the cost of litigation with Sound Transit to enforce the terms of the City’s [2017 Settlement Agreement \(Resolution No. 1586\)](#).
- On December 6, 2022, the City and Sound Transit ended litigation pertaining to the Mercer Island Transit Integration project. By April, the 2.7% interim tax increase will generate enough tax revenue to pay back the \$1.5 million principal and interest for the Water Utility and Sewer Utility Fund loans.

BACKGROUND

On September 15, 2020, the City Council adopted [Ordinance No. 20C-20](#), which temporarily increased the utility tax rate on water, sewer, and stormwater utilities from 5.3% to 8.0% from November 1, 2020 through October 31, 2023. The temporary tax increase was adopted to pay principal and interest payments on two interfund loans from the City's Water and Sewer Utility Funds to the General Fund (Resolution No. 1586). The authorized total loan amount of \$1.5 million helped finance the cost of litigation with Sound Transit pertaining to the Mercer Island Transit Integration project.

The loans were scheduled to be paid back within a 36-month period at a fixed interest rate of 0.5%. The interest rate reimbursed to the Utility Funds was based on the opportunity cost the Funds would have earned in the local government investment pool (LGIP). When Resolution No. 1586 was adopted by the City Council in September 2020, the LGIP interest earnings were at a rate of 0.26%.

ISSUE/DISCUSSION

The maximum term for an interfund short-term loan is three years. As of January 31, 2023, the interim utility tax has generated \$1.38 million, an average of \$51,000 per month. Staff estimates the interim tax will have generated enough tax revenue by April to pay back the \$1.5 million principal and interest in full. There is no penalty for early repayment of the loan.

After City Council deliberation on March 7, Ordinance No. 23C-03 was revised to sunset on May 1, 2023, rather than April 3, 2023. This revision ensures all utility customers are charged the same utility tax rate on the first two billing cycles of 2023, before the 2.7% interim utility tax expires and returns to the original 5.3% tax rate on the water, sewer, and storm water utilities on May 2, 2023. Additional funds generated over the month of April are committed to paying for litigation costs previously incurred with Sound Transit associated with the Mercer Island Transit Integration Project.

RECOMMENDED ACTION

Staff recommends the City Council adopt Ordinance No. 23C-03, sunsetting the 2.7% interim utility tax on May 1, 2023, thereby returning on May 2, 2023 the utility tax rate on the water, sewer, and storm water utilities to 5.3%.