



## BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

**AB 6814**  
**November 18, 2025**  
**Regular Business**

### AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 6814: 2025-2026 Mid-Biennial Budget Public Hearing, Financial Status Update, and Budget Adjustments.	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Conduct the public hearing; receive the Q3 2025 financial status update; adopt the mid-biennial budget amending ordinance; adopt the 2026 property tax ordinances; and adopt the 2025 NORCOM budget resolution No. 1684.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Ordinance No. 25-33, Mid-biennial Budget Amendments 2. Third Quarter 2025 Financial Status Update 3. Ordinance No. 25-30, 2026 Property Tax levy amount 4. Ordinance No. 25-31, 2026 Property Tax levy increase 5. Resolution No. 1684, 2026 Norcom Budget
<b>CITY COUNCIL PRIORITY:</b>	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

### EXECUTIVE SUMMARY

This agenda bill provides an update on the City's financial position at the midpoint of the 2025-2026 biennium. Included is analysis through the third quarter of 2025, proposed budget amendments, adoption of the 2026 property tax levies, and the City's budget contribution for Police dispatch services in 2026. The public is encouraged to provide feedback during the mid-biennial budget review at the November 18 meeting, which marks the public hearing on the City's 2025-2026 mid-biennial budget update.

- Five budget adjustments are proposed at the midway point of the current biennium (Exhibit 1). Staff recommends the City Council review the budget adjustments, many of which are related to recent Council decisions since mid-September, the 9655 SE 36<sup>th</sup> Street building acquisition (9655 Building), and staff responding to emerging needs since the 2025-2026 biennial budget adoption in December 2024.
- As of September 30, all funds are performing as expected, as outlined in the financial status update (Exhibit 2). General Fund revenues are up \$300,000 compared to the prior year. General Fund expenditures are on track with budget expectations.
- Property tax ordinances (Exhibit 3 and 4) assume the 1% maximum increase for the City's regular levy and the 2022 parks levy lid lift.

- Resolution No. 1684 (Exhibit 5) approves the Northeast King County Regional Public Safety Communication Agency's (NORCOM) 2026 budget allocation related to emergency dispatch for the Mercer Island Police Department.

Staff seeks to answer the City Council's questions regarding mid-biennial budget adjustments and the third quarter 2025 financial status update. Upon adoption, staff will update the 2025-2026 biennial budget, notify NORCOM, and the King County Assessor's Office.

## ISSUE/DISCUSSION

### Mid-biennial Budget Adjustments (Exhibit 1)

Exhibit 1 outlines proposed mid-biennial budget adjustments and the resulting financial impacts. Many of the adjustments are due to recent City Council decisions following the second quarter budget amending ordinance adopted on September 16 ([AB 6776](#)).

Since then, the City Council accepted a grant from the Washington State Department of Transportation to support the City's commute trip reduction program from 2025 through 2027 ([AB 6774](#)). Budget resources were allocated to complete a boundary line adjustment between the City Hall and Public Works parcels and submit a rezone application of the south City Hall parcel ([AB 6779](#)). The Council allocated available resources to complete emergency repairs on East Mercer Way ([AB 6794](#)) as well as review and update connection charges for the water and sewer system in 2026 ([AB 6797](#)).

New budget adjustments outlined below respond to emerging needs since the 2025-2026 biennial budget adoption in December 2024. In sum, there are \$447,462 in new expenses, \$280,000 tied to the General Fund (001), \$137,462 tied to the Capital Improvement Fund (320), and \$30,000 in the Youth and Family Services Fund (160).

**Table 1**

2025-2026 Mid-biennial Appropriations	Fund	Amount
9655 Building Debt Service	320	\$ 137,462
9655 Building Operating Costs	001	50,000
Real Estate Services	001	30,000
Long-Range Planning Professional Services	001	200,000
Emergency Assistance for Food Security	160	30,000
<b>Total Appropriations</b>		<b>\$ 447,462</b>

### 9655 Building Debt Service Appropriation

On October 7, the City requested proposals from fourteen banks for a direct purchase of up to \$1.55 million in Limited Tax General Obligation (LTGO) Bonds ([AB 6756](#)). The Council's intent was to finance a portion of the \$9.06 million purchase price of the 9655 Building, in effect spreading some of the budgetary impacts of the acquisition over time.

On November 5, the City selected Webster Bank's proposal to provide \$1.54 million in bond proceeds over a 15-year term. This secured a 4.09% interest rate – the lowest among all offers received – with a December 2030 callback option for the City to either consider refinancing the LTGO bonds or settle remaining principal prior to the December 2040 maturity date. The resulting debt service in 2026 amounts to \$137,462 annually paid from the Capital Improvement Fund. The 2026 payment will be paid for with unassigned fund balance

from the Capital Improvement Fund. In future budget cycles the annual debt service payment will be incorporated into the capital budget.

The LTGO bond sale is scheduled to close in the first week of December. The \$37,270 cost to issue the LTGO bonds is paid for with bond sale proceeds from the Municipal Facility Replacement Fund.

#### 9655 Building Operating Cost Appropriation

The City took possession of the 9655 Building in September 2025 ([AB 6714](#)). The roughly 22,000 square foot commercial space will eventually house a portion of City staff who are largely working remotely and in temporary spaces due to City Hall's permanent closure in April 2023.

Work is underway to determine the best use of the limited office space in the near- and long-term. Staff is assessing the building, evaluating necessary repairs and upgrades, and outlining a plan to phase-in renovations while relocating staff.

With the building's acquisition, budget resources are required for the day-to-day costs to keep the property functional and safe. These include HVAC and utility expenses, janitorial and cleaning services (limited until the building is occupied), grounds and exterior maintenance, security, and other general building maintenance.

Staff recommends a \$50,000 appropriation to cover essential operational needs while the building incurs minimal use. The operating expenses will be revisited as soon as the building is occupied, which is likely to occur at some level in 2026. The building operating expenses are offset by revenue generated from an annual rooftop antenna lease, which amounted to \$87,000 between May 1 2025 through April 30, 2026. The City received a pro-rated amount of just over \$51,500 for this lease at the time of sale. This operating revenue is receipted in the City's General Fund and will cover the \$50,000 budget appropriation.

Experience operating and maintaining the 9655 Building next year will inform future operational costs. Staff will return with a future budget appropriation request once an actionable plan to phase-in renovations and rehouse staff is clear, or as part of the 2027-2028 biennial budget development process.

#### Real Estate Services Appropriation

Staff recommends a \$30,000 appropriation in 2025 for real estate services required to conclude the acquisition of the 9655 Building. Services included finalizing the terms and implementation of the condemnation agreement, transitioning existing lease agreements, closing costs, and final acquisition of the property. Staff recommends the additional expenditure be paid for with unassigned fund balance from the General Fund.

#### Long-Range Planning Professional Services Appropriation

Community Planning and Development (CPD) recommends a budget appropriation to comply with the Growth Management Hearings Board's Final Decision and Order (FDO). The FDO is the outcome of the appeal to the City's Comprehensive Plan periodic update, adopted in late 2024.

The FDO was issued in August 2025 and requires amendments to the Comprehensive Plan and development regulations by July 31, 2026. The short timeline, along with the required scope of work for compliance, necessitates an investment in professional services.

Staff recommends a \$200,000 appropriation for professional services to further mandatory FDO compliance work that is already underway. Outside consultants will develop a land capacity model, analyze potential

development scenarios, develop graphics and visualizations, draft policies and regulations, model impacts to transportation, sewer and water infrastructure, and conduct environmental review.

The long-range planning nature of this work necessitates funding it with unassigned fund balance from the General Fund.

#### Emergency Assistance for Food Security Appropriation

The MIYFS Foundation provided a \$30,000 one-time donation to help address the impact to food insecure community members facing cuts to the federal SNAP program. This appropriation provides staff with the additional budget authority to immediately put this resource towards providing food cards to income and residency qualified Mercer Island residents.

#### Third Quarter Financial Status Update (Exhibit 2)

The financial status update (Exhibit 2) includes a detailed analysis of the City's revenue and expenditure actuals from January 1 through September 30, 2025. The update includes budget amendments adopted by ordinance through September 16, 2026 ([AB 6776](#)).

General Fund revenues ended the quarter at \$26.7 M, which meets budget expectations and is \$300,000 higher than the same period in 2024. General sales tax revenues are up \$380,000 compared to the prior year when looking at February through September actuals. This is primarily due to higher-than expected returns from the construction sector.

As of September 30, Parks and Recreation Revenues have exceeded budget expectations for the year. Revenues are \$411,000 more in 2025, relative to the same period in 2024. This is largely due to greater than anticipated field and community center rental revenues. The City's business and occupation (B&O) tax revenues are also exceeding budget expectations. Through the end of September, B&O tax revenues are \$373,000 more in 2025 relative to the same period in 2024.

Interest earnings in the General Fund through September were \$1.3 M, nearly \$500,000 less than the same period in 2024. Compared to 2024, the City's idle cash resources invested in the State Treasury Local Government Investment Pool (LGIP) are lower, coupled with the decreasing earnings rate on the City's investments. However, interest earnings to date are markedly high relative to historical earnings.

General Fund expenditures are on track with budget expectations at the end of September. Total expenditures of \$33.3 million are 78.5% of the budget as amended, which are \$2.0 million more than the same period in 2024.

This year-over-year increase in General Fund expenditures is due to a handful of factors. First, the City Council set aside \$3.3 million of 2024 year-end fund balance in the General Fund to acquire the 9655 Building. This one-time purchase with prior year savings tracks as an expense out of the General Fund. In addition, the second of three payments was made related to one-time costs supporting the transition to Eastside Fire & Rescue for fire and emergency medical services. The final payment will be made Q1 2026 ([AB 6307](#)).

Table 2 provides General Fund expenditures detail from January through September 30, 2025. Staff anticipates all categories will remain within budget expectations through year-end. Note, expenses for Eastside Fire & Rescue services are classified as a contractual service in 2025, which marks the significantly higher spending in this expenditure category relative to 2024.

**Table 2**

<b>GENERAL FUND EXPENDITURES</b> (\$ in millions)	<b>FY 2025 AMENDED BUDGET</b>	<b>% of AMENDED BUDGET</b>	<b>FY 2024 QUARTER 3 ACTUALS</b>	<b>FY 2025 QUARTER 3 ACTUALS</b>	<b>YTD as % of AMENDED BUDGET</b>
Personnel	\$17.40	41%	\$14.29	\$12.93	74%
Supplies	0.65	2%	0.46	0.44	68%
Contractual Services	10.78	25%	1.78	8.20	76%
Other Services & Charges	5.09	12%	11.00	4.62	91%
Interfund Transfers Out	8.54	20%	3.85	7.14	84%
<b>TOTAL EXPENDITURES</b>	<b>\$42.46</b>	<b>100%</b>	<b>\$31.38</b>	<b>\$33.32</b>	<b>78%</b>

The City's Water, Sewer, and Stormwater Utility funds are operating within budget expectations. Capital projects across the utility funds are on track despite low expenditures through the third quarter. For many large projects design work is completed, and construction is underway. Staff anticipates spending will increase through the end of the year.

#### 2025 Property Tax Ordinances (Exhibits 3 & 4)

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 levied in the prior year. Municipalities levying property tax in Washington State 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. The value of the IPD for 2026 is 2.44%. Therefore, the levy increase in 2026 is limited to 1%.

Staff assumed the 1% increase in fiscal year 2026 for both the Regular levy and the 2022 Parks Operations and Maintenance levy lid lift. The 1% increase and the overall breakdown of the 2025 levy is shown in greater detail in Table 3.

**Table 3**

<b>PROPERTY TAX LEVY ELEMENTS</b> \$ in thousands	<b>2025 FINAL LEVY</b>	<b>2026 PRELIM LEVY</b>
<b>Regular Levy</b>		
Prior Year Levy	\$13,049	\$13,271
Plus 1% Optional Increase	130	133
Plus New Construction	92	134
Plus Re-levy of Prior Year Refunds	26	45
<b>Total Regular Levy</b>	<b>\$13,297</b>	<b>\$13,582</b>
<b>Levy Lid Lift</b>		
2022 Parks Operations & Maintenance + 1%	1,773	1,790
Plus New Construction		18
<b>Total Levy Lid Lift</b>	<b>\$1,773</b>	<b>\$1,808</b>
<b>Total Levy</b>	<b>\$15,070</b>	<b>\$15,390</b>

The 2026 preliminary Property Tax levy includes two ordinances as required by State law:

- Ordinance No. 25-30, which identifies the dollar and percent increase in the 2026 Property Tax levy relative to the 2025 levy (Exhibit 3); and
- Ordinance No. 25-31, which identifies the 2026 total Property Tax levy amount (Exhibit 4).

For the 2026 tax year, the City's total Property Tax levy consists of the following elements, pending final numbers from the King County Assessor's Office.

- **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 the levy lid lift, as noted above, 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. Between the regular levy and levy lid lift, staff assumes a preliminary estimate of \$152,000 for new construction.
- **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. Staff assumes a preliminary estimate of \$45,000.
- **2022 levy lid lift:** Approved by voters in November 2022 for maintenance and operations of parks and open spaces, playground replacements, and forest restoration. The 1.0 % optional increase is included in the 2026 levy amount.

All King County cities are legally required to submit an estimate of their next year property tax levies to the Metropolitan King County Council by November 30<sup>th</sup> of the current year. The King County Assessor's Office does not, however, provide each City with the final assessed valuation and new construction amounts for the next tax year until the end of the current year.

As a result, cities adopt property tax levies for next year based on preliminary estimates of total assessed valuation and the amount tied to new construction. When the final amounts are distributed by the Assessor's Office at the end of December, staff notify the Metropolitan King County Council of the corrected levy amount.

#### 2026 NORCOM Budget Resolution (Exhibit 5)

Resolution No. 1684 (Exhibit 5) approves Northeast King County Regional Public Safety Communication Agency's (NORCOM) 2026 budget allocation from the City of Mercer Island. NORCOM is a regional emergency dispatch service provider serving 15 public safety agencies in the northeast region of King County, including Mercer Island, Bellevue, Kirkland, and Redmond, among others.

The NORCOM governing body approved a budget that reflects changes in NORCOM's services, revenue sources, and expenditures in 2026. Every member agency must adopt a resolution affirming their budget allocation for the upcoming year before NORCOM approves its upcoming budget in December of the current year. The 2026 budget is included with the 2025 budget for comparison, as shown in Table 4. Relative to 2024, the City's NORCOM budget allocation in 2025 increased 24.5%.

**Table 4**

<b>NORCOM Budget Allocation</b>	<b>2025</b>	<b>2026</b>	<b>\$ Chg</b>	<b>% Chg</b>
Police Department	\$ 697,758	\$ 706,154	\$ 8,396	1.2%

## **NEXT STEPS**

Staff seeks to answer the City Council's questions regarding mid-biennial budget adjustments and the third quarter 2025 financial status update. Upon adoption, staff will update the 2025-2026 biennial budget, notify NORCOM, and the King County Assessor's Office.

## **RECOMMENDED ACTION**

Staff recommends the City Council:

1. Adopt Ordinance No. 25-33, amending the 2025-2026 Biennial Budget.
2. Adopt Ordinance No. 25-30, appropriating funds and establishing the amount of property taxes to be levied for fiscal year 2026.
3. Adopt Ordinance No. 25-31, establishing the dollar amount and percentage increases of the regular property tax levy and the levy lid lifts for fiscal year 2026.
4. Adopt Resolution No. 1684, approving NORCOM's 2026 budget allocation to the City of Mercer Island.