



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6679
May 20, 2025
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6679: Fiscal Year 2024 Year-End Financial Status Update and Budget Amending Ordinance	<input type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive the Fiscal Year 2024 Year-end Financial Status Update and Adopt Ordinance No. 25-10, Amending the 2025-2026 Biennial Budget.	

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. FY 2024 Year-End Financial Status Update 2. Ordinance No. 25-10 2025-2026 Budget Amendments
CITY COUNCIL PRIORITY:	3. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

EXECUTIVE SUMMARY

This agenda bill summarizes the City's financial position at the end of fiscal year 2024.

- The City's General Fund balance at 2024 year-end is \$12.3 million (M). Of this amount, \$7.0 M is committed to prior City Council actions, including restricted uses and appropriations based on established financial policies.
- The remaining \$5.3 M represents the available or unassigned fund balance in the General Fund. This one-time revenue surplus is due to better than anticipated revenues related to interest earnings and sales tax, among others.
- General Fund expenditures were 96.7% of the amended budget, resulting in additional year-end savings.
- For 2024, total REET revenues were \$3.9 M, \$183,000 below budget expectations yet up from \$3.4 M in 2023. Relative to 2023, total properties sold increased 2.8% while the average sale price increased 10.5%.
- Detailed analysis across all funds is provided in the FY 2024 Year-end Financial Status Update (Exhibit 1). This includes budget actuals along with amendments adopted by the City Council from January 1 through December 31, 2024.
- Ordinance No. 25-10 (Exhibit 2) outlines budget carryforward requests for work underway in 2024 that will be completed in 2025. It also formalizes budget adjustments previously approved by the City Council this year.

ISSUE/DISCUSSION

During the 2025-2026 mid-biennial budget workshops last fall, the City Council received a revenue forecast ([AB 6555](#)). At the time, General Fund expenditures were tracking within budget expectations. Revenues were forecasted to exceed budget estimates and continue along healthy trendlines. This proved to be the case through the end of the year.

General Fund Revenues

At the end of 2024 the General Fund posted \$38.7 M in revenues. Excluding authorized use of prior year one-time revenue surplus – most notably \$3.4 M the City Council committed to the Municipal Facility Replacement Fund – revenues ended the year roughly \$4.4 M more than the amended budget. Overall, major revenues that exceeded budget expectations include interest earnings, sales tax, and license, permit, and zoning fees (see Exhibit 1).

The City received \$5.8 M in sales tax revenues, about \$1.0 M more than budget expectations. Sales tax activity in 2024 remained healthy across most sectors, with construction as well as retail and wholesale trade proving the top performing business sectors. Overall, sales tax revenues were \$48,000 more than the prior year.¹

Increased earnings on the City's investments reached an all-time high in 2024, amounting to \$2.1 M in the General Fund, \$438,058 more than 2023, which at the time was a historic high.

Many factors influence interest earnings with the earnings rate being a primary factor. In 2024 the City earned an average 5.32% on resources invested with the Washington State Local Government Investment Pool (LGIP). In 2022, the average earnings rate was 1.33%.

Between 2020 and 2022, the City's General Fund received no interest earnings (see Figure 1). This served as the basis for developing the 2023-2024 biennial budget and informs in large part why the year-end revenue surplus in both 2023 and 2024 was so significant.

Figure 1

GENERAL FUND	
Year	Interest Earnings
2024	\$ 2,142,037
2023	\$ 1,703,978
2022	\$ -
2021	\$ -
2020	\$ -

The fourfold increase in the earnings rate from 2022 to 2024 corresponded with changes to the Federal Reserve's federal funds target rates. Changes in the federal funds target rates are the Federal Reserve's primary tool to implement monetary policy. In the wake of the COVID-19 Pandemic, the Federal Reserve increased the federal funds target rates to help slow the pace of inflation. It also increased the LGIP's earnings rate.

License, permit, and zoning fees outperformed budget expectations due to high permit activity and revenues collected from three high valuation projects. Overall, net operating revenue tied to development services amounted to just over \$420,000. This surplus is restricted fund balance in the General Fund at the end of 2024.

¹ This figure reflects a February thru December comparison given sales tax revenue was impacted by the City's transition to the cash-basis accounting method on January 1, 2024. With this change, the sales tax distribution received in January 2024 was accrued and reported as revenue in December 2023 and is excluded from FY 2024. These receipts impact year-to-year comparisons during the 2024-2025 transition years. See Exhibit 1 for more information about the City's change to cash basis financial reporting.

As outlined in Exhibit 2, staff recommends this surplus be transferred to the new Development Services Fund operating fund to address temporary revenue losses due to economic downturns or to provide resources for one-time strategic investments in development service operations.

General Fund Expenditures

At the end of 2024, General Fund expenditures were 96.7% of the amended budget, ending the year \$1.4 M under budget. Of this amount, staff recommends \$151,000 be carried forward from 2024 into 2025 (see Exhibit 2). This includes resources for election expenses that were initially anticipated in 2024 but are now likely to take place in 2025.

Fund Balance

The fund balance in the General Fund at the end of 2024 is \$12.3 M. Of this, \$7.0 M is reserved based on prior City Council actions. The remaining \$5.3 M unassigned fund balance in Figure 2 represents the year-end revenue surplus in the General Fund.

Per the City's financial management policies, the five categories of fund balance in the General Fund include:

1. **Non-spendable** fund balance which cannot be spent, such as the principle of an endowment or inventories.
2. **Restricted** fund balance, which has externally enforceable limitations on the use imposed by creditors, grantors, laws, or regulations from other governments.
3. **Committed** fund balance that encompasses long-term limitations imposed by the City Council. For example, the City Council has committed a portion of fund balance to offset the long-term liability from the Washington Law Enforcement Officers' and Firefighters' System (LEOFF I) retirement plan.
4. **Assigned** fund balance, which the City Council earmarks for an intended use that may be temporary or short-term in nature.
5. **Unassigned** fund balance comprises what is left after considering the other four categories. The use is least constrained and is also referred to as available fund balance.

Figure 2

GENERAL FUND BALANCE FOR 2024	TOTAL
RESERVED	
NON-SPENDABLE	
Petty cash	\$ 1,000
Inventory of supplies	120,857
RESTRICTED	
Law enforcement restricted	81,793
Development services customer deposits	64,462
Deferred development fee revenue	553,913
Permit fee revenue surplus	1,146,386
COMMITTED	
LEOFF I long-term care reserve	2,751,343
Compensated absences reserve	675,299
WSDOT lease deposit	11,667
Unearned recreation revenue	413,304
ASSIGNED	
Expenditure carryforward to 2025 budget	151,000
Budgeted fund balance 2025 budget	1,037,211
Expenditure control budgeting reserve	45,092
RESERVED SUBTOTAL	\$ 7,053,327
UNASSIGNED - AVAILABLE BALANCE	\$ 5,284,283
TOTAL FUND BALANCE	\$ 12,337,610

Use of ARPA Funds

The American Rescue Plan Act (ARPA) was a Federal economic stimulus package signed into law in March 2021 in response to the economic and public safety impacts of the COVID-19 Pandemic ("Pandemic"). Of the \$1.9 trillion legislation, \$19.53 billion was set aside for cities and towns with less than 50,000 residents to aid in their response and recovery. The City of Mercer Island received \$7,235,319 in ARPA funding in two equal tranches in 2021 and 2022. The City was required to commit ARPA funds by December 2024 and fully expend the funds no later than December 2026.

Under the City Council’s leadership and direction, the City effectively spent all \$7.23 M of ARPA funds by December 31, 2024. Figure 3 summarizes how ARPA funds were invested within the Mercer Island community.

Figure 3

Investment Using ARPA Funds	2021 Actuals	2022 Actuals	2023 Actuals	2024 Actuals	4-Year Total
1 Pandemic legal Impacts	\$ 4,481	\$ 6,750	\$ -	\$ -	\$ 11,231
2 Personnel	-	69,074	131,263	188,458	388,795
3 Pandemic Response Supplies	\$ -	\$ 11,323	\$ 2,356	\$ 1,853	\$ 15,532
4 Utility Relief Grant Program	-	33,131	4,000	-	37,131
5 City Hall Closure Impacts	\$ -	\$ -	\$ 368,421	\$ 1,346,683	\$ 1,715,104
6 Facility Planning & Improvements	-	-	-	1,267,447	1,267,447
7 Parks Maintenance	\$ 121,793	\$ 58,932	\$ 4,500	\$ 4,500	\$ 189,725
8 Recreation Restart Initiative	-	347,218	-	-	347,218
9 Aubrey Davis Park Asphalt Repairs	\$ -	\$ -	\$ -	\$ 35,437	\$ 35,437
10 Luther Burbank Sport Courts	-	-	-	642,655	642,655
11 Bike Skills Park	\$ -	\$ -	\$ -	\$ 302,500	\$ 302,500
12 Open Space Improvements	-	-	-	131,195	131,195
13 Sustainability Initiatives	\$ -	\$ -	\$ 19,603	\$ 119,330	\$ 138,933
14 Water and Sewer System Improvements	-	344,457	217,209	110,196	671,862
15 Youth & Family Services	\$ -	\$ 200,000	\$ 522,343	\$ 618,211	\$ 1,340,554
Total ARPA Investment	\$ 126,274	\$ 1,070,885	\$ 1,269,695	\$ 4,768,465	\$ 7,235,319

In 2021 and 2022, these one-time resources equipped the City to respond to the community’s immediate needs and stabilize government operations. Maintenance services in parks, public spaces, and right of way were reinstated. Recreation facilities reopened with recreational programming and rental services.

Direct relief was provided to households. This included support via gift cards to local grocery stores, emergency assistance support, and mental health services at Mercer Island schools and for families in need. Households who incurred past due utility bills during the pandemic received support through the City’s utility relief grant program. In 2023 and 2024, under the Council’s direction, the City invested ARPA funds in critical infrastructure improvements including City parks, public facilities, and the water distribution and sewer conveyance systems.

REET Revenues

Real Estate Excise Tax (REET) is the primary revenue source for both the Steet Fund and Capital Improvement Fund. It is currently split into two revenue streams – REET-1 and REET-2 – each with restricted uses per State law. Figure 4 outlines REET revenues for the past four years and the year-over-year (YOY) percent change.

Figure 4

Real Estate Excise Tax (REET)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Actuals
Revenues	\$ 7,738,640	\$ 4,043,922	\$ 3,431,558	\$ 3,943,842
YOY % CHG	78%	-48%	-15%	15%

* REET revenues in 2020 were \$4.35 million.

REET revenue is highly volatile. The slowing of real estate activity on the Island in the latter part of 2022 through 2024 mirrored the Federal Reserve's adjustments to the federal funds rate. Although the increased federal funds rate slowed the pace of inflation, it simultaneously increased borrowing costs and reduced the number of property transactions on the island.

Total REET revenues were \$3.9 M in 2024, about \$180,000 below budget expectations yet up \$512,000 from the nine-year historic low experienced in 2023. The lower-than-expected returns are due to 298 property sales in 2024, similar to the 290 property sales in 2023. In 2021, Total property sales of 530 resulted in an all-time high.

The volatility in REET revenues recently experienced comes during a time of significant capital investment within the Mercer Island community. Staff is closely tracking cash flow needs to support ongoing capital project work. Should a funding gap in the Capital Improvement Fund or the Street Fund result in a substantial impact on planned construction projects, staff will return to the City Council to discuss funding alternatives including using unassigned year-end surplus, project delays, or adjustments to project scopes.

Carry Forward Requests

A budget carry forward allows for funding allocated in the prior biennium to "carry forward" to the current biennium to support completion of projects authorized in the 2023-2024 budget but not complete by December 2024. Within a two-year budget, funding and the expenditure authority in the first year are automatically "carried over" to the second year of the budget. In between biennia, staff present a list of resources for the City Council's consideration to "carry forward" from the previous biennial budget into the current biennial budget.

Ordinance No. 25-10 (Exhibit 2) outlines the budget authority that staff recommends the City Council carry forward into the 2025-2026 biennial budget. Most of the carry forward requests are tied to the Capital Improvement Program. Staff identified \$18.9 M across ten different funds to be carried forward into the current biennium to complete capital project work that began during previous biennia.

NEXT STEPS

The \$5.3 M General Fund year-end unassigned fund balance largely represents a one-time revenue surplus in line with prior year-end financial outcomes. Adequate fund balance is a key element of the City's long-term fiscal management strategy. In times when economic health yields a year-end surplus, the City's financial policies ([Resolution No. 1667](#)) provide guidance on how to use unassigned fund balance. Examples include replenishing operating reserves to target levels and investing in one-time work items.

Staff will return to Council later this year with recommendations on the potential disposition of the 2024 unassigned fund balance in the General Fund.

RECOMMENDED ACTION

Adopt Ordinance No. 25-10, amending the 2025-2026 Biennial Budget.