

## INTRODUCTION

The May financial forecast (“forecast”) provides an overview of the City’s financial position through the 2025-2026 biennium and beyond.

The May forecast focuses on the City’s primary operating funds: the General Fund and the Youth and Family Services (YFS) Fund. Projections of real estate excise taxes – a key revenue that supports the Capital Improvement Program (CIP) – is also included. Analysis is based on information from fiscal years 2022 through the first quarter 2025 budget actuals, along with the latest local, regional, and national information available.

The May forecast presents three scenarios in which the City’s General Fund endures economic conditions that vary between favorable, most probable, and unfavorable across a six-year timeframe. This proactive approach is intended to assist the City’s leadership in their ongoing efforts to balance competing needs with limited resources, protect the City’s long-term financial position, and make strategic investments in the Mercer Island community.



### 2025-2026 BIENNIAL BUDGET FINANCIAL FORECAST MAY 20, 2025

#### **GENERAL FUND REVENUES**

##### **Fiscal Year 2025**

##### ***Adopted Budget***

\$37.8 million

##### ***May Forecast***

\$38.4 million

##### **Fiscal Year 2026**

##### ***Adopted Budget***

\$38.7 million

##### ***May Forecast***

\$39.3 million

Figure 1 includes General Fund revenue projections for fiscal 2025 through 2030. A summary of each revenue category in the left column is listed below.

**Figure 1: General Fund Six-Year Forecast**

| RESOURCES                                       | 2025F               | 2026F               | 2027F               | 2028F               | 2029F                 | 2030F                 |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>Beginning Fund Balance (Net of Reserves)</b> | <b>\$ 2,500,000</b> | <b>\$ 3,472,082</b> | <b>\$ 3,906,320</b> | <b>\$ 2,350,961</b> | <b>\$ 190,412</b>     | <b>\$ (2,413,925)</b> |
| <b>REVENUES</b>                                 |                     |                     |                     |                     |                       |                       |
| Appropriated Fund Balance                       | 391,273             | 645,938             | -                   | -                   | -                     | -                     |
| Property Tax                                    | 13,960,148          | 14,199,616          | 14,443,233          | 14,691,071          | 14,943,203            | 15,199,704            |
| General Sales Tax                               | 7,765,271           | 8,075,882           | 8,318,159           | 8,567,703           | 8,824,735             | 9,089,477             |
| Utility Taxes                                   | 5,375,656           | 5,514,905           | 5,626,495           | 5,754,425           | 5,887,853             | 6,026,965             |
| Business & Occupation Tax                       | 968,778             | 985,300             | 985,300             | 985,300             | 985,300               | 985,300               |
| Parks & Recreation Programs                     | 1,421,500           | 1,434,250           | 1,447,934           | 1,462,019           | 1,476,299             | 1,491,306             |
| Overhead Allocation Charges                     | 2,411,870           | 2,527,397           | 2,156,781           | 2,217,069           | 2,279,768             | 2,344,975             |
| Licenses & Permits                              | 243,961             | 244,556             | 246,349             | 248,170             | 250,017               | 251,892               |
| State Shared Revenues                           | 1,314,600           | 1,287,759           | 1,276,322           | 1,295,044           | 1,326,057             | 1,358,311             |
| Miscellaneous Revenues                          | 2,792,153           | 2,846,281           | 2,927,471           | 3,011,240           | 3,097,671             | 3,186,849             |
| Interest Earnings                               | 1,585,612           | 1,363,871           | 1,022,903           | 869,468             | 825,994               | 801,215               |
| Municipal Court                                 | 175,000             | 185,000             | 190,550             | 196,267             | 198,229               | 200,211               |
| Interfund Transfers                             | -                   | -                   | -                   | -                   | -                     | -                     |
| <b>Total Revenues</b>                           | <b>38,405,821</b>   | <b>39,310,756</b>   | <b>38,641,497</b>   | <b>39,297,775</b>   | <b>40,095,125</b>     | <b>40,936,205</b>     |
| <b>Total Fund Resources</b>                     | <b>40,905,821</b>   | <b>42,782,838</b>   | <b>42,547,817</b>   | <b>41,648,736</b>   | <b>40,285,538</b>     | <b>38,522,280</b>     |
| <b>EXPENDITURES</b>                             |                     |                     |                     |                     |                       |                       |
| Personnel                                       | 17,400,311          | 18,258,307          | 18,831,782          | 19,423,438          | 19,993,962            | 20,581,558            |
| Supplies  | 841,820             | 866,260             | 990,385             | 1,019,500           | 1,049,362             | 1,080,025             |
| Contractual Services                            | 9,311,130           | 9,631,760           | 9,918,813           | 10,214,425          | 10,500,428            | 10,794,440            |
| Other Services & Charges                        | 7,138,596           | 7,382,057           | 7,717,742           | 8,062,827           | 8,417,576             | 8,782,260             |
| Interfund Transfers                             | 2,741,882           | 2,738,134           | 2,738,134           | 2,738,134           | 2,738,134             | 2,738,134             |
| <b>Total Expenditures</b>                       | <b>37,433,739</b>   | <b>38,876,518</b>   | <b>40,196,856</b>   | <b>41,458,324</b>   | <b>42,699,463</b>     | <b>43,976,417</b>     |
| <b>Net Operating - Over/(Under)</b>             | <b>972,082</b>      | <b>434,238</b>      | <b>(1,555,359)</b>  | <b>(2,160,549)</b>  | <b>(2,604,338)</b>    | <b>(3,040,212)</b>    |
| <b>Ending Fund Balance (Net of Reserves)</b>    | <b>\$ 3,472,082</b> | <b>\$ 3,906,320</b> | <b>\$ 2,350,961</b> | <b>\$ 190,412</b>   | <b>\$ (2,413,925)</b> | <b>\$ (5,454,138)</b> |

*Pending further analysis.*

*Note: Slight differences may occur due to rounding.*

Figure 1 represents the Probable Scenario further explained in the [General Fund - Fund Balance Forecast](#) section. Based on Figure 1, the General Fund is structurally sound through 2025 and 2026, meaning overall revenues exceed overall expenditures. It is not until the end of fiscal year 2027 that expenditures are projected to outpace revenues by \$1.55 M, as indicated in the “Net Operating – Over/(Under)” row at the bottom of the expenditure table.

The General Fund remains solvent by relying on the available or unassigned fund balance, as indicated by the “Beginning Fund Balance (Net of Reserves)” row at the top of Figure 1. The ending fund balance in the General Fund at the end of 2024 was \$5,284,283.

For the purposes of this forecast, staff estimates the 2025 beginning fund balance to be \$2,500,000. Available fund balance at the end of 2027 is projected to be \$2.3 M. By the end of 2029, the May forecast projects available fund balance will go negative.

## PROPERTY TAX

The 2025 Adopted Budget assumed \$13.9 million (M) in property tax revenue, representing 37% of total General Fund revenues. This is a stable revenue source with payments received in April and October of each calendar year.

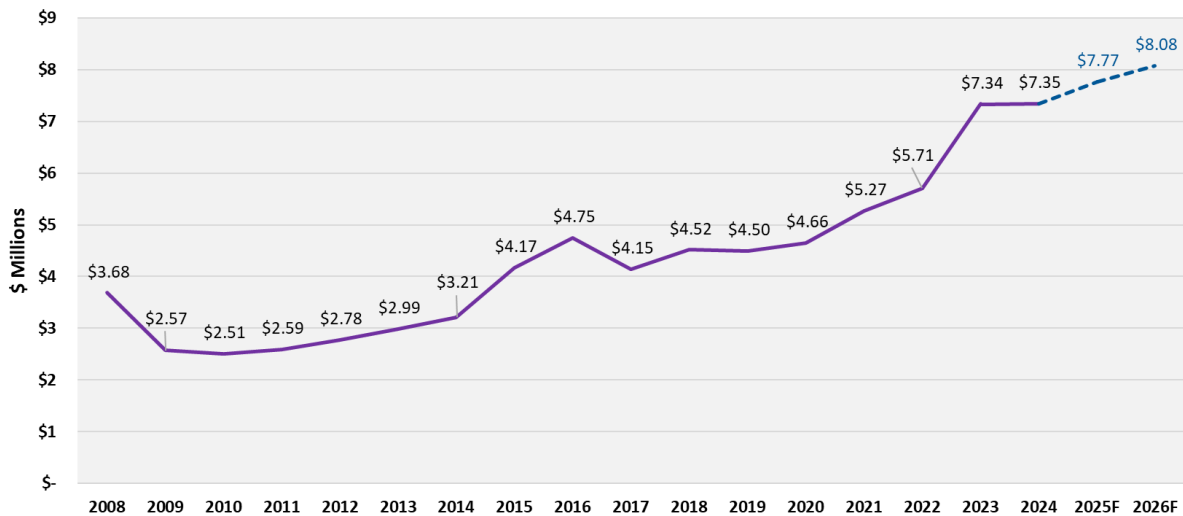
Revenues through March are on track to meet 2025 budget assumptions. For 2026 and beyond, the forecast assumes the City will assess a property tax increase of the statutorily allowed 1% of the previously levied amount (e.g., 2024 actual regular levy) plus new construction each year.

## SALES TAX

The 2025 Adopted Budget assumed \$7.6 M in total sales tax revenues (general and local criminal justice sales tax revenues), representing 20% of total General Fund revenues. Total sales tax earnings in 2024 were \$7.3 M, on par with 2023 revenues. Overall, sales tax revenues are up 7% during the first quarter of 2025 compared to the prior year, primarily driven by activity in the construction sector. While this trend is positive, underlying consumer spending shows mixed signals with a 1% decline in the first quarter of 2025 in Retail and Wholesale trade relative to the same period in the prior year.

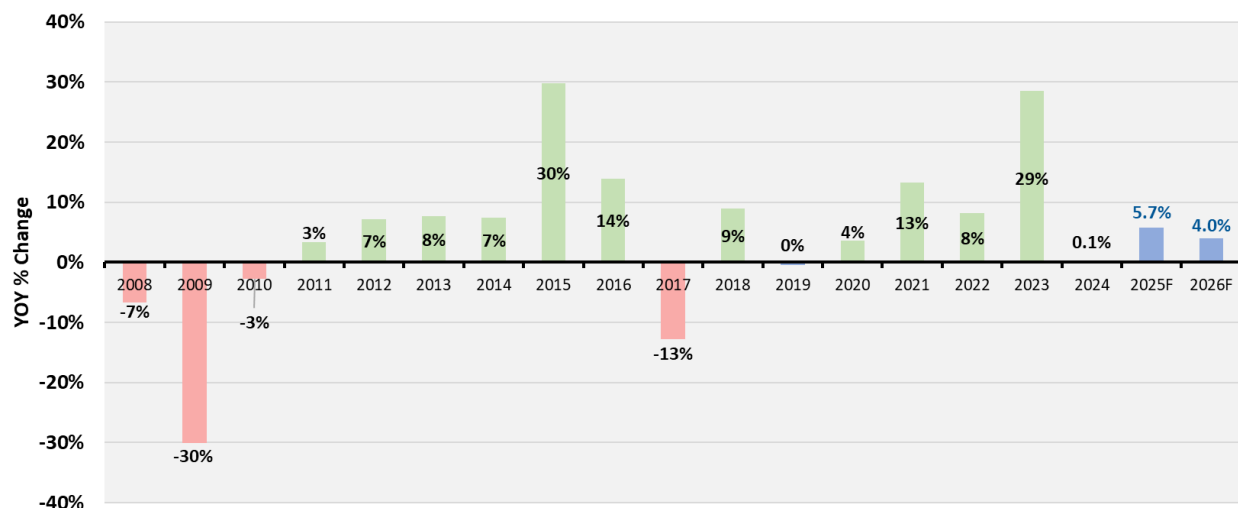
For a long-term view of general sales tax activity, Figures 2 and 3 illustrate historical revenues and year-over-year trends for the City from 2008 through 2024, with 2025 and 2026 projections included for reference.

**Figure 2: Total General Sales Tax Revenues**



**Figure 3: General Sales Tax**

Year-over-Year Percent Change



The historical data from the Department of Revenue highlights the sensitivity of the sales tax revenues to the economic environment but also shows the City has been without a year-over-year (YOY) decrease in sales tax revenues since 2017. The dip in 2017 was due to the construction sector generating \$490,768 less in 2017 than in 2016.

The significant increase in sales tax revenues in 2023 was largely driven by the construction sector including two high valuation construction projects: Riot Games building renovations and the King County Pump Station and North Mercer Island/Enatai Sewer Upgrade. This trend continued through 2024.

Based on trends through the end of 2024 and the first quarter of 2025, the May forecast projects a 5.7% increase in sales tax revenues in 2025 compared to 2024, with a 4.0% increase projected in 2026. These projections are also informed by the King County Office of Economic and Financial Analysis and the Washington State Economic and Revenue Forecast.

### **UTILITY TAXES**

The 2025 Adopted Budget assumed \$5.3 M in utility tax revenues, representing 14% of total General Fund revenues. A utility user tax is a tax imposed on utility services provided on Mercer Island, such as cellular phone service, natural gas, electricity, along with City utilities (water, sewer, and stormwater).

This revenue stream is, for the most part, not subject to economic volatility. The forecast assumes utility tax revenues will finish the year on track with budget estimates at \$5.3 M. Staff projects utility tax revenues will increase 3% in 2026, with minor declines anticipated in the telephone and cellular sectors.

### **BUSINESS AND OCCUPATION (B&O) TAXES**

The 2025 Adopted Budget assumed \$748,500 in B&O tax revenue, representing 2% of total General Fund revenues. B&O tax is paid annually before April 15 unless a business earns greater than \$1 M annually in gross receipts, in which case the tax is paid quarterly.

B&O tax revenues have trended upward since 2019, when the City transitioned to Washington State's Business Licensing Service. This has resulted in better tracking of businesses eligible to pay B&O tax revenues.

Revenues for the first quarter of 2025 exceed budget estimates. The May forecast projects a notable increase in B&O tax revenue, exceeding budget expectations by \$220,000 in 2025 and \$230,000 in 2026.

### **PARKS & RECREATION PROGRAM REVENUES**

The 2025 Adopted Budget assumed \$1.37 M in Parks and Recreation revenues, representing 4% of total General Fund revenues. Revenues include field and community center rental fees, boat launch fees, program fees, and rent payments from the annex building located behind the Community Center.

Recreation program revenues through the first quarter are 8% higher than the same period in 2024. Revenues are forecasted to finish the year at \$1.42 M, 4% above 2025 budget expectations, which is due to hourly rentals and community center bookings secured through the end of the year. Revenues are projected to incrementally improve in 2026, increasing to \$1.43 M.

### **COST ALLOCATION**

On May 21, 2024, the City Council adopted a new Cost Allocation Policy ([appendix B of the City's financial management policies](#)). The policy was based on established best practices from the Government Finance Officers Association (GFOA), Washington State Auditor's Office, and the Municipal Research and Services Center (MRSC).

The cost allocation revenue category recovers overhead costs from the Utility and Capital Funds through internal transfers. The 2025 Adopted Budget assumed roughly \$2.4 M in cost allocation transfers, representing 6% of total General Fund revenues. These revenues are forecasted to meet budget expectations through the end of 2025 and 2026.

### **LICENSE & PERMITS**

The 2025 Adopted Budget assumed \$244,000 in license and permit revenues, representing 0.6% of total General Fund revenues. Beginning in 2025, all revenues unique to development services transitioned out of the General Fund and into a newly established Development Services Fund.

The remaining revenues include business license fees and fees related to fire inspection services. Revenues in 2024 amounted to \$292,000, while revenues through the first quarter of 2025 are tracking with budget estimates. Collectively, the May forecast projects no changes in the 2025 or 2026 adopted budgets.

### **STATE SHARED REVENUES**

The 2025 Adopted Budget assumed \$1.25 M in shared/intergovernmental revenues, representing 3% of total General Fund revenues. This category combines a variety of revenues and includes State shared tax revenues, grants, and the Department of Transportation (WSDOT) funds collected for landscape services agreement for Aubrey Davis Park, among others.

Revenues in 2025 are projected to end the year 5% or \$62,100 above budget estimates. This is mainly due to increased grant funding from the King County 4Culture Arts program through 2027.

Revenues in 2026 and through the next biennium are projected to stabilize and remain relatively flat at \$1.3 M in 2026 and beyond.

### **MISCELLANEOUS REVENUES**

The 2025 Adopted Budget assumed \$2.8 M in miscellaneous revenues, representing 7% of General Fund revenues. This category includes the emergency medical service (EMS) utility, the King County EMS levy, judgment settlements, cell tower leases, and disability reimbursements received from the Washington State Department of Labor and Industries, among others.

The May forecast assumes miscellaneous revenues will end the year in line with budget estimates, both for 2025 and 2026 and that the King County EMS levy will be renewed in 2025. Overall, this revenue category is projected to incrementally increase through the six-year forecast.

### **INTEREST EARNINGS**

The 2025 Adopted Budget assumed \$1.4 M in General Fund revenue from interest earned on the City's holdings in the Local Government Investment Pool (LGIP). Interest earnings in the General Fund amounted to \$2.1 M in 2024 – a historic high. Trendlines at the end of 2024 continued through the first quarter of 2025.

The May forecast considers the projected principal balance, the annual LGIP 30-day yield, and the General Fund portion of the City's principal investments. For 2025, staff anticipate the LGIP's average 30-day yield will drop to 4.14% and 3.39% in 2026. Interest earnings in the out-years are currently projected to stabilize and return to historical averages.

Per current budget policy, interest earnings are distributed quarterly to various funds based on their relative cash balances at quarter end. The Contingency Fund achieved its funding target at 12.5% of

budgeted General Fund expenditures at the beginning of the year and will continue to receive a proportion of interest earnings as the budget is amended, per the City Council’s adopted financial management policies.

#### Background Information on Interest Earnings

Aside from the cash on-hand required for paying bills and managing daily operations, the City invests in the WA State Local Government Investment Pool (LGIP). The LGIP saw a continued increase in the true 30-day yield interest rates through December 2024, ending at 5.32% compared to 0.73% in June 2022.

Increased earnings in the City’s investments correspond with changes to the Federal Reserve’s federal funds target rates, as illustrated in Figure 4. Between June 2022 and June 2024, the Federal Reserve raised the funds target rate by more than five percentage points. Changes in the federal funds target rates are the Federal Reserve’s primary tool to implement monetary policy. While increases in the federal funds target rates helped slow the pace of inflation, it also increased the LGIP’s earnings rate.

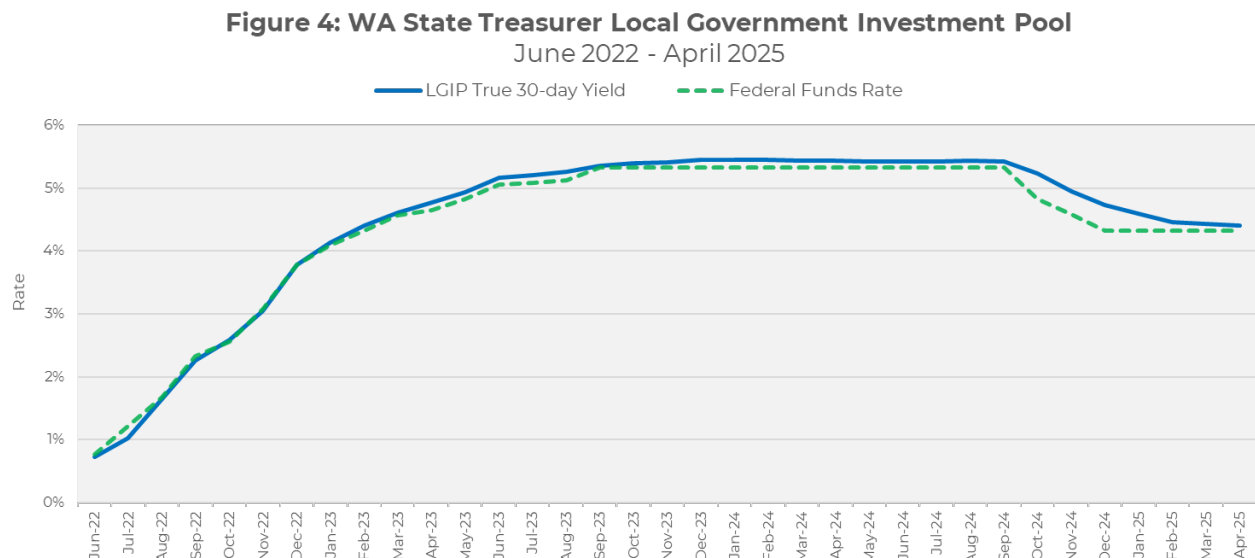
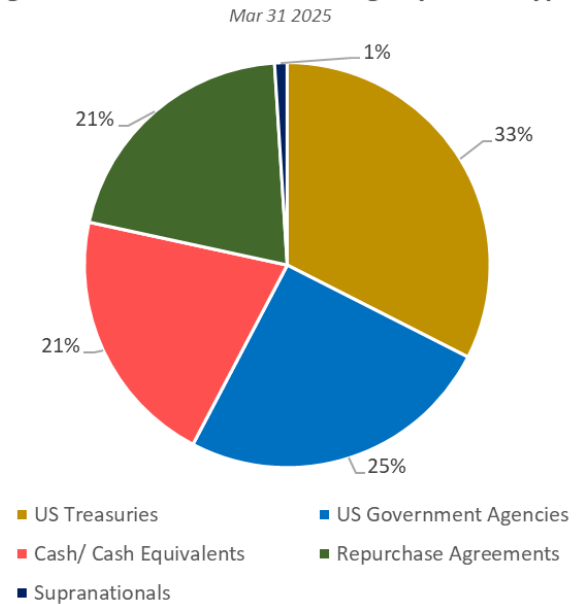


Figure 5 illustrates the average balance of holdings in the LGIP as of March 2025. These include:

1. **US Treasuries** are backed by the full faith and credit of the US government and considered to be low risk.
2. **US Government Agencies** are bonds of government-sponsored enterprises or U.S. government agencies. They are independent organizations sponsored by the federal government that are established with a public purpose. Examples include Fannie May, Freddie Mac, and the Federal Deposit Insurance Corporation (FDIC).
3. **Cash/ Cash Equivalents** refers to highly liquid investments that can be easily converted into cash within a short period of time, usually 7 days or less. These investments are generally considered to have minimal risk.
4. **Repurchase Agreements** (AKA repo) is the agreement by an authorized dealer to sell to a public fund investor (buyer) authorized investment securities (referred to as collateral) with the agreement to purchase the securities back on an agreed to date and rate of interest (simple interest on a 360-day basis), to be paid to the buyer.
5. **Supranationals** are US dollar-denominated bonds of quasi-governmental organizations that exist in multiple countries to promote economic development, such as the World Bank.

**Figure 5: WA State LGIP Holdings by Issuer Type**



Staff is closely tracking economic projections from the Federal Reserve. The Federal Open Market Committee (FOMC) is the policy-making body of the Federal Reserve System, the central bank of the United States. Based on indications from FOMC economic projections, the forecast assumes at least one additional cut in the federal funds rate before the end of 2025.

### MUNICIPAL COURT REVENUES

The 2025 Adopted Budget assumed \$175,000 in General Fund revenue collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of local and State law. In 2024, total revenues amounted to \$140,000.

Court revenues depend on the caseload. Relative to the first quarter of 2024, case filings were up 93% in Mercer Island and 7% in Newcastle in the first quarter of 2025. The May forecast projects revenues will meet budget expectations in both 2025 and 2026, and return to historical averages, increasing on average 2% per year in 2027 – 2030.

## GENERAL FUND – AVAILABLE FUND BALANCE FORECAST

Figure 6 illustrates the General Fund unassigned fund balance – also referred to as available fund balance – through 2030. Unassigned Fund Balance comprises all fund balances that are left after considering the fund balance resources that are restricted, committed, assigned, or are otherwise unavailable due to external limitations or policies imposed by the City Council.

The six-year pro forma includes three scenarios.

The **Probable Scenario** represents the financial figures as outlined in the May 2025 financial forecast. It is based on up-to-date financial data through the end of fiscal year 2024 and the first quarter of 2025. In simplest terms, it represents a status quo projection – that the rate of change recently experienced in both the General Funds revenues and expenditures will continue.

Despite the regional and national economy proving resilient through the end of 2024, there is a heightened level of uncertainty through the first quarter of 2025. The **Unfavorable Scenario** sets aside trend data and considers the scale of disruption occurring in real time from significant federal spending cuts to US trade policies, particularly tariffs.

According to the University of Michigan’s Survey of Consumers, results from March indicate consumer sentiment fell for the third straight month, down 30% since November 2024. The March decline of 12% from February reflects shared concern across all demographic and political affiliations in expressing worsening expectations for personal finances, business conditions, unemployment, and inflation. The unfavorable scenario presents what would happen to the General Fund available fund balance if an economic recession were to unfold in the second half of 2025.

In contrast, the **Favorable Scenario** extends the growth rates observed between July 2024 through March 2025 among the City’s larger revenue categories (e.g., General Sales Tax, Interest Earnings, B&O Tax) through the end of 2025. With strong economic activity continuing through the end of 2025, growth rates remain at healthy levels between 2026-2030.

### **BASELINE ASSUMPTIONS**

#### ***Employee Compensation***

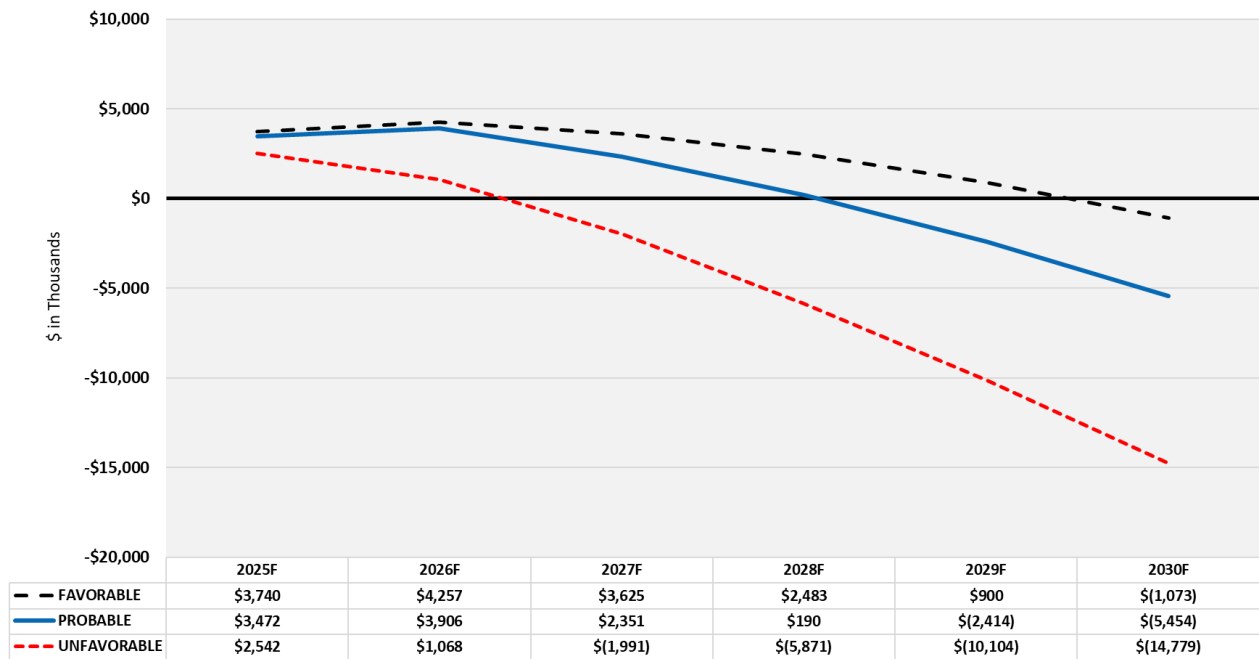
- The cost-of-living adjustment (COLA) in 2025 is 4.2%. For 2026, staff assumed 3.5%.
- COLA is based on the average percentage change over the first six months of the prior year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the region.

#### ***Expenditures***

- Staff assumed an annual rate of change of 3.1% for the General Fund and 3.0% for the YFS Fund in 2027 and 2028.
- For 2029-2030, staff assumed a 3.0% annual rate of change for both operating funds.



**Figure 6 - General Fund - Available Fund Balance Forecast**



*\*Differences may occur due to rounding.*

## NON-GENERAL FUND REVENUES

The following details additional revenue streams and underlying assumptions through year-end and into 2025 and beyond.

### REAL ESTATE EXCISE TAX (REET)

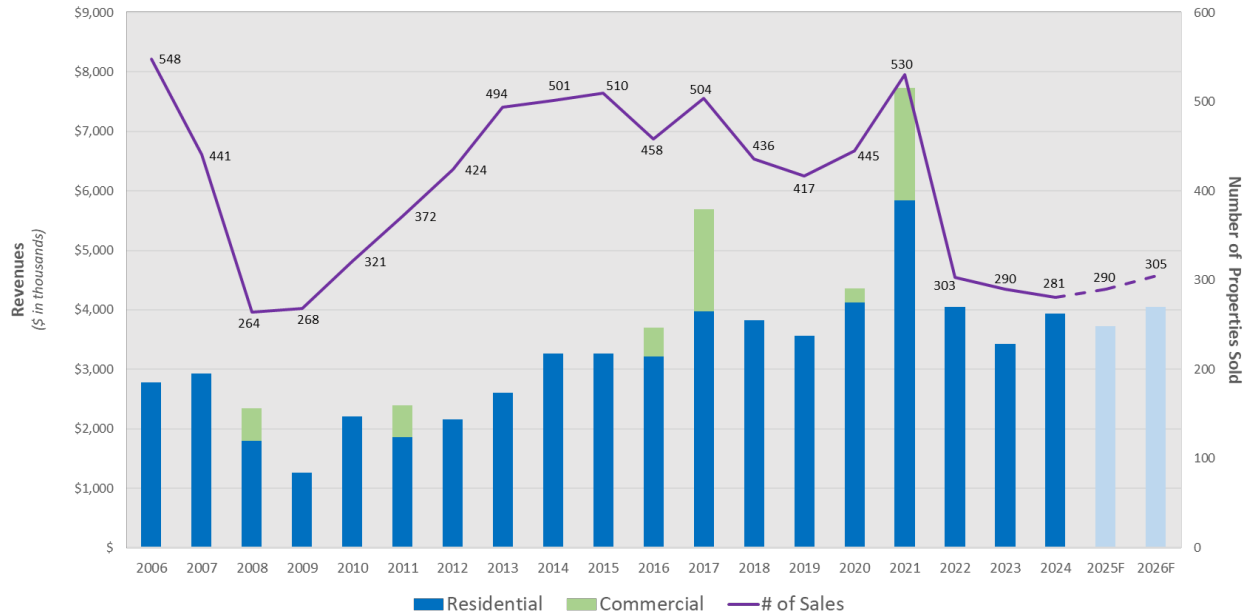
REET revenues support the City's Street and Capital Improvement Funds. This revenue stream results from a 0.5% tax levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase.

Figure 7 illustrates the number of property sales each year and the resulting REET revenues from 2006 through 2024, with revenue projections in 2025-2026. REET revenues in 2021 were the highest on record, due to a historically high volume of homes sold and two commercial property sales that generated a combined \$1.8 M in revenue. The total number of property sales in 2021 was 530. By comparison, total property sales were 290 in 2023 and 281 in 2024. Compared to 2024, total property sales in 2021 represent a 47% decrease.

REET revenues for the first three months of 2025 are up over \$137,000 relative to FY 2024, but down \$117,000 when compared to FY 2023. The increase over 2024 is a result of revenues not reported in January of 2024 due to the timing of the City's transition to the cash basis accounting methodology. The decrease when compared to 2023 is due to current market conditions and the low volume of property sales observed in Q1 2025.

**Figure 7: 2006 – 2026 REET Revenue**

### Mercer Island Property Sales and Total Revenues 2006-2026



The slowing of real estate activity on the Island mirrored the Federal Reserve’s increases to the federal funds rate, which simultaneously slowed the pace of inflation and increased borrowing costs.

The Federal Reserve reduced the federal funds rate on three separate occasions in 2024 that resulted in a full percentage point reduction between September and the end of the year. Average property sale prices on Mercer Island are dropping slightly in Q1 2025 and may continue to stay lower than the prior year. Indicators point to activity in the real estate market remaining stagnant.

Staff projects REET revenues will remain low in 2025 before improving in 2026 as outlined in Figure 8. This projection is informed by the average price of homes sold in 2025 to date, the number of homes in the past eighteen months, and the estimated number of homes that will sell based on historic seasonal trends.

**Figure 8: 2024 – 2026 REET Revenue Forecast**

| (\$ in thousands) | 2023A    | 2024A    | 2025F    | 2026F    |
|-------------------|----------|----------|----------|----------|
| REET              | \$ 3,428 | \$ 3,933 | \$ 3,728 | \$ 4,047 |

### CONTINGENCY FUND

At the end of 2024, the Contingency Fund balance was \$4.9M, meeting the target per the City’s financial policies. The balance remains \$4.9M, representing 13.1% of the adopted expenditure budget, and will be adjusted as the budget is amended, per the City Council’s adopted financial management policies.

## YOUTH & FAMILY SERVICES (YFS) FUND

Aside from Thrift Shop revenues and contributions from the Mercer Island Youth and Family Services Foundation, key factors stabilizing the Youth and Family Services Fund in the 2025-2026 biennium include use of the Operating Fund Balance and a \$350,000 interfund transfer from the General Fund. Combined, they amount to \$873,003 in 2025 and \$908,833 in 2026. The Operating Fund Balance is projected to be fully spent in fiscal year 2027, resulting in a \$802,000 operating deficit in 2027 that grows over time.

Use of the Operating Fund Balance and General Fund contributions affords the City time to develop and commit to a financial plan that sustainably funds Youth and Family Services beyond 2026.

Figure 9 outlines the six-year forecast for the YFS Fund. Figure 10 illustrates the YFS Fund operating fund balance through 2030. The operating fund balance was established by the City Council in 2021 to address temporary revenue losses due to economic cycles or other time-limited causes.

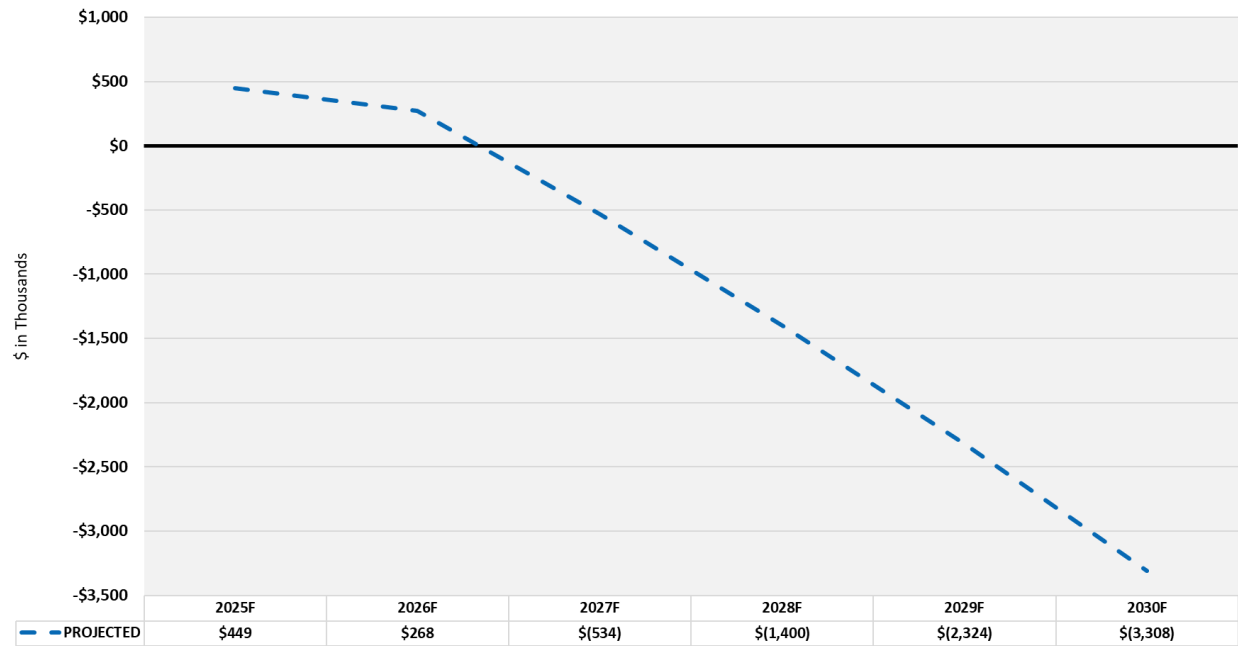
**Figure 9: Youth & Family Services Fund Six Year Forecast**

| RESOURCES                                       | 2025F            | 2026F            | 2027F            | 2028F              | 2029F              | 2030F              |
|---|------------------|------------------|------------------|--------------------|--------------------|--------------------|
| <b>Beginning Fund Balance (Net of Reserves)</b> | <b>618,369</b>   | <b>449,330</b>   | <b>268,344</b>   | <b>(533,643)</b>   | <b>(1,399,771)</b> | <b>(2,324,011)</b> |
| <b>REVENUES</b>                                 |                  |                  |                  |                    |                    |                    |
| Use of Operating Reserves                       | 523,003          | 558,833          | -                | -                  | -                  | -                  |
| Federal, State & Local Grants                   | 40,000           | 40,000           | 40,000           | 40,000             | 40,000             | 40,000             |
| Healthy Youth Initiative Grants                 | 90,000           | 92,500           | 92,500           | 92,500             | 92,500             | 92,500             |
| School Counselor Program Support                | 60,000           | 60,000           | 60,960           | 61,935             | 62,926             | 63,933             |
| Thrift Shop                                     | 1,730,520        | 1,903,572        | 1,960,679        | 2,019,500          | 2,080,085          | 2,142,487          |
| Emergency Assistance Program Support            | 15,000           | 15,000           | 15,000           | 15,000             | 15,000             | 15,000             |
| MIYFS Foundation Support                        | 515,000          | 515,000          | 515,000          | 515,000            | 515,000            | 515,000            |
| Opioid Settlements                              | 42,000           | 42,000           | 42,000           | 42,000             | 42,000             | 42,000             |
| Affordable and Supplemental Housing             | 35,441           | 35,441           | 35,441           | 35,441             | 35,441             | 35,441             |
| Program Fees & Donations                        | 306,500          | 317,500          | 322,260          | 327,096            | 332,010            | 337,002            |
| Interfund Transfer                              | 350,000          | 350,000          | 350,000          | 350,000            | 350,000            | 350,000            |
| <b>Total Revenues</b>                           | <b>3,707,464</b> | <b>3,929,846</b> | <b>3,433,840</b> | <b>3,498,472</b>   | <b>3,564,962</b>   | <b>3,633,363</b>   |
| <b>Total Fund Resources</b>                     | <b>4,325,833</b> | <b>4,379,176</b> | <b>3,702,184</b> | <b>2,964,829</b>   | <b>2,165,190</b>   | <b>1,309,352</b>   |
| <b>EXPENDITURES</b>                             |                  |                  |                  |                    |                    |                    |
| YFS Administration                              | 495,755          | 519,783          | 533,188          | 546,991            | 560,197            | 573,767            |
| Thrift Shop                                     | 1,272,773        | 1,372,915        | 1,416,742        | 1,461,864          | 1,505,985          | 1,551,343          |
| School Counselor Program                        | 997,985          | 1,046,010        | 1,077,384        | 1,109,699          | 1,140,218          | 1,171,576          |
| Family Counseling & Outreach                    | 583,973          | 632,617          | 653,053          | 674,158            | 694,768            | 716,022            |
| Emergency Assistance & Food Pantry              | 333,558          | 340,544          | 350,383          | 360,506            | 370,520            | 380,811            |
| Healthy Youth Initiative Grants                 | 192,459          | 198,963          | 205,077          | 211,381            | 217,515            | 223,829            |
| Interfund Transfers                             | -                | -                | -                | -                  | -                  | -                  |
| <b>Total Expenditures</b>                       | <b>3,876,503</b> | <b>4,110,832</b> | <b>4,235,827</b> | <b>4,364,600</b>   | <b>4,489,201</b>   | <b>4,617,348</b>   |
| <b>Net Operating - Over/(Under)</b>             | <b>(169,039)</b> | <b>(180,986)</b> | <b>(801,987)</b> | <b>(866,128)</b>   | <b>(924,240)</b>   | <b>(983,985)</b>   |
| <b>Ending Fund Balance (Net of Reserves)</b>    | <b>449,330</b>   | <b>268,344</b>   | <b>(533,643)</b> | <b>(1,399,771)</b> | <b>(2,324,011)</b> | <b>(3,307,996)</b> |

\*Pending further analysis.

Note: Slight differences may occur due to rounding.

Figure 10 - Youth & Family Services Operating Fund Balance



## FEDERAL, STATE, AND LOCAL GRANTS

The 2025 Adopted Budget included \$45,000 in grant funding to support preschool initiatives and an ongoing King County grant to support YFS school-based programs. The May forecast recognizes the preschool initiative grant from 2024 will not continue into 2025. Meanwhile, the King County grant supporting YFS school-based programs is assumed in the financial forecast to be receipted through the end of 2030.

## HEALTHY YOUTH INITIATIVE GRANTS

The 2025 Adopted Budget included \$90,000 in grant funding to support the YFS Department Healthy Youth Initiative. In Fall 2024, King County’s Best Start for Kids (BSK) Positive Family Connections Program awarded the YFS department a \$288,000 grant, spread across 2025 – 2027. The grant will fund a portion of various YFS positions and result in establishing stronger parent support groups, parent-focused Town Hall events, and connections between healthy parenting and healthy youth.

The May forecast projects these programmatic grants funds will continue through 2027 and renew thereafter.

## SCHOOL COUNSELOR PROGRAM SUPPORT

The 2025 Adopted Budget included \$60,000 in revenues from additional YFS services, representing the annual contribution from the Mercer Island School District (MISD) to support YFS school counseling services.

The May forecast anticipates MISD’s annual contribution will continue through the end of the current biennium and through the remainder of the forecast period.

## MERCER ISLAND THRIFT SHOP

The 2025 Adopted Budget included \$1.89 M in Thrift Shop revenues, representing 49% of YFS Fund revenues.

The Thrift Shop was closed for a significant portion of February and March while staff completed much-needed building improvements. As a result, the May forecast projects the Thrift Shop will not meet budget expectations in 2025, generating \$1.72 M in gross revenues, \$165,000 less than budget estimates. Gross revenues are projected to increase 10% in 2026 compared to 2025. A 3% annual rate of growth is projected from 2027 – 2030.

### **YFS EMERGENCY ASSISTANCE PROGRAM SUPPORT**

This revenue category includes revenues from pass-through fundraising generated at the Thrift Shop and direct donations that are restricted for emergency assistance. At the end of 2024, \$25,279 remained in the Emergency & Rental Assistance Reserve within the YFS restricted fund balance. This ongoing revenue is projected to meet budget expectations in 2025 and 2026 and continue through 2030.

### **YOUTH & FAMILY SERVICES FOUNDATION**

The Youth and Family Services Foundation (MIYFS) provides critical funding to support human services provided through the Youth & Family Services division. In 2023, the City and MIYFS entered a new four-year funding agreement that formalized the Foundation's annual contribution to the Youth and Family Services Department at \$515,000.

The new funding level goes towards funding the second Mental Health Counselor position at the Middle School, extending the position through June 2026. It will also support rental assistance and food security programs through the Emergency Assistance Program and provide general YFS budget support for Community-Based and School-Based programs. The forecast assumes the 2025 and 2026 funding levels will remain at \$515,000 and continue through 2030.

### **OPIOID SETTLEMENTS**

On December 21, 2022, Washington state joined in multistate resolutions with several companies resulting in potentially over \$430 million in settlements resulting from a nationwide legal action against pharmaceutical companies and distributors who were found to have contributed to the opioid epidemic.

The Opioid Abatement Council (OAC) is an oversight body responsible for ensuring appropriate documentation and reporting of opioid settlement funds used by cities within King County that receive funds from opioid lawsuits, Mercer Island among them. This revenue is restricted to harm reduction, prevention efforts, and treatment services tied to the opioid epidemic.

As of 2024, Mercer Island has received \$261,462 of a total projected payment of \$782,913 from opioid settlement funds. Funds are distributed annually through 2038 based on population and opioid impacts within each jurisdiction, among other factors. The May forecast projects the City will receive \$42,000 in 2025 and 2026 and through 2030.

### **AFFORDABLE AND SUPPLEMENTAL HOUSING**

In 2023, [HB 1406](#) was passed to address the housing crisis by providing local jurisdictions with additional funding for affordable and supportive housing. The bill allows cities to impose a local state-shared sales and use tax, which is not directly paid by consumers. Instead, the 0.0146% of sales tax is credited against the state sales tax based on population and other factors.

Mercer Island collects this credit to support rental assistance through the City's Youth and Family Services Department, specifically for emergency rental assistance. The forecast assumes the City will receive HB 1406 funding in both 2025 and 2026, and this revenue will continue through 2030.

## **YFS PROGRAM FEES & DONATIONS**

The 2025 Adopted Budget included \$350,000 in this revenue category, representing 9% of the YFS Fund revenues. These revenues include fees from family counseling, food pantry donations, and related services.

In 2024, family counseling service fees generated \$113,618 in revenues, exceeding budget expectations. In 2025, counseling fees increased, resulting in revenues through the first quarter of 2025 being up 29% compared to the same period the year prior. The May forecast projects \$150,000 will be received by 2025 year-end and 2026. Overall, this revenue category is projected to meet budget expectations.