



## BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

**AB 6680**  
**May 20, 2025**  
**Regular Business**

### AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 6680: Forecast on the City's Financial Position through the First Quarter 2025	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Receive report. No action necessary.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Finance Director Ben Schumacher, Financial Analyst
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. May 2025 Financial Forecast
<b>CITY COUNCIL PRIORITY:</b>	n/a

### EXECUTIVE SUMMARY

This agenda item summarizes financial projections for the City's operating funds – the General Fund and Youth and Services (YFS) Fund – through the current biennium to 2030.

- With significant policy changes at the national level, the State of Washington grappling with a budget deficit, and the City anticipating a structural deficit in 2027, staff made the decision to present the long-term financial forecast earlier in the year than usual to help inform upcoming work on the mid-biennial budget update and other policy decisions.
- The past five years represent one of the most atypical periods in the City's financial history.
  - During the COVID-19 Pandemic, the City instituted immediate cost saving measures to stabilize operations.
  - New financial management policies were adopted and provide clear direction for careful stewardship of finite resources and a focus on the City's long-term financial goals.
  - The City Council approved historic investments in City infrastructure – water, sewer, transportation, stormwater, and parks. Notable projects include the design of the new Public Safety and Maintenance Facility to house essential public safety, emergency management, and maintenance operations following the unexpected permanent closure of City Hall in 2023 due to asbestos contamination.
  - The Council also directed the replacement of the City's main water supply pipeline following two significant Island-wide water emergencies.
  - The City Council allocated \$7.2 Million in ARPA Funds over the past four years to support Youth and Family Services and critical infrastructure investments.
  - The City Council established the Municipal Facility Replacement Fund in 2023, a reserve created in the wake of City Hall's closure to help fund short and long-term facility needs.
  - The City invested in a major upgrade to the enterprise-wide financial software system, providing modern tools to improve operations and efficiency.

- To help navigate future policy discussions and strategic decisions, the May 2025 financial forecast (“forecast”) provides the City Council with an up-to-date outlook of the City’s primary operating funds (Exhibit 1).
- At the end of 2024, the General Fund available fund balance was \$5.3 million (M), due to better than anticipated revenues tied to general sales taxes and interest earnings, and 2024 expenditure savings.
- For the General Fund, the Revenue Forecast includes three scenarios reflecting different economic conditions that vary between favorable, most probable, and unfavorable across a six-year timeframe.
- The YFS Fund’s operating balance is projected to be fully spent this biennium. By 2027, projections indicate an \$800,000 annual operating deficit that will grow over time. Use of the operating fund balance during the current biennium affords the City time to develop and commit to a financial plan that sustainably funds Youth and Family Services beyond 2026.

Staff is closely tracking the City’s financial activity as well as current and future economic conditions. Staff will present recommendations to bolster the operating funds for City Council consideration during the mid-biennial budget process this fall. These fiscal policy discussions are anticipated to continue into 2026 and inform development of the 2027-2028 Biennial Budget.

## BACKGROUND

The past five years represent one of the most atypical periods in the City’s financial history. During the COVID-19 Pandemic, the City instituted immediate cost saving measures to stabilize government operations. Amidst significant uncertainty in 2021, the City Council developed and unanimously adopted new financial management policies that established clear direction for careful stewardship of finite resources, and a shared focus on the City’s long-term financial goals.

These new policies guided the City out of the global pandemic, helped reshape City operations, and resulted in staff completing a body of work that included completion of major capital improvements to the City’s streets, parks and underground utilities; passage of a parks levy lid lift to fund long-term playground replacements and open space management; and replacing antiquated enterprise-wide financial software with modern streamlined software systems, to name a few.

With careful stewardship of the City’s operating budget, the City’s General Fund had available fund balance at year-end in fiscal years 2021, 2022, and 2023 that collectively amounted to \$9.7 M. The City Council made measured investments in government operations but set aside most of these one-time resources in the Municipal Facility Replacement Fund, a reserve created in the wake of the City Hall closure to help fund short and long-term facility needs.

As part of the 2025-2026 biennial budget process, the City Council received a revenue forecast in October 2024 that informed spending levels for the current biennium ([AB 6555](#)). The October 2024 forecast was based on recent financial data from 2021 through the first six months of 2024 budget actuals, along with the timely local, regional, and national information. Staff projected local economic conditions would return to what was normal prior to the pandemic. General Fund revenues were projected to slow compared to growth rates in prior years yet remain healthy through the end of the biennium. The October 2024 Revenue Forecast anticipated structural deficits in the General Fund and the YFS Fund in 2027.

At the end of 2024, the General Fund available fund balance was \$5.3 M, due to better than anticipated revenues tied to general sales taxes and interest earnings, and 2024 expenditure savings. Refer to AB 6679 in the May 20, 2025 City Council meeting packet for more information on the City’s financial performance at fiscal year-end 2024.

## ISSUE/DISCUSSION

To help navigate future policy discussions and strategic decisions, staff made the decision to present the long-term financial forecast earlier in the year than usual to help inform upcoming work on the mid-biennial budget update and other policy decisions. The May forecast (Exhibit 1) provides the City Council updated financial information on the City's primary operating funds – the General Fund and Youth and Services (YFS) Fund.

The May 2025 Forecast anticipates the General Fund will end 2025 at \$38.4 M, exceeding the 2025 adopted budget by \$0.6 M at year-end. The projected increase in 2025 revenues is the result of healthy economic trends from 2024 continuing through the first quarter of 2025 and anticipated to continue through 2026.

General Fund expenditures are projected to meet budget expectations this biennium. Beginning in 2027, however, General Fund expenditures are projected to outpace revenues by approximately \$1.6 M. The General Fund's available fund balance buoys operations until early 2029, when the available fund balance is projected to go negative. Refer to Exhibit 1 for detailed information.

The YFS Fund's operating balance is projected to be fully spent this biennium. By 2027, projections indicate an \$800,000 operating deficit that will grow over time. Use of the operating fund balance affords the City time to develop and commit to a financial plan that sustainably funds Youth and Family Services beyond 2026.

Staff is closely tracking the City's financial activity as well as current and future economic conditions. Staff will present recommendations to bolster the operating funds for City Council consideration during the mid-biennial budget update this fall. These fiscal policy discussions are anticipated to continue into 2026 and inform development of the 2027-2028 Biennial Budget.

## NEXT STEPS

Staff will address City Council questions on May 20 and will return to the Council during the mid-biennial budget workshops this fall with additional information and potential recommendations on how to address near and long-term financial impacts to the City's operating funds.

## RECOMMENDED ACTION

Receive report. No action necessary.