



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

**AB 5633
November 19, 2019
Public Hearing**

AGENDA BILL INFORMATION

TITLE:	AB 5633: Public Hearing: 2019-2020 Mid-Biennial Budget Review: Third Quarter 2019 Financial Status Report, NORCOM 2020 Budget Resolution, 2020 Utility Rate Resolutions, 2020 Property Tax Ordinances, and 2019-2020 Budget Adjustments.	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Receive Third Quarter report; conduct public hearing; pass 2020 NORCOM Budget, 2020 Water, Sewer, and Stormwater rate resolutions, adopt 2020 property tax ordinances, and adopt 2019-2020 budget amending ordinance.	<input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	LaJuan Tuttle, Interim Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	<ol style="list-style-type: none"> 1. Third Quarter 2019 Financial Status Report 2. Resolution No. 1562 (NORCOM 2020 Budget) 3. Resolution No. 1563 (2020 Water Utility Rates & Service Charges) 4. Resolution No. 1564 (2020 Sewer Utility Rates & Connection Charges) 5. Resolution No. 1565 (Storm Water Utility Rates) 6. Resolution No. 1566 (2020 EMS Utility Rates) 7. Ordinance No. 19-14 (2020 Property tax levy amount) 8. Ordinance No. 19-15 (2020 property tax levy increase) 9. Ordinance No. 19-17 (Amends 2019-2020 Budget)
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ 671,860
AMOUNT BUDGETED	\$ 0
APPROPRIATION REQUIRED	\$ 671,860

SUMMARY

The City Council is required by state law (RCW 35.34.130) to conduct a mid-biennial review of the City's adopted budget before the end of the first year of the fiscal biennium, which encompasses the following:

- Third Quarter 2019 Financial Status Report
- 2019-2020 Budget Amending Ordinance
- 2020 NORCOM budget resolution
- 2020 utility rate resolutions (water, sewer, storm water, and EMS)
- 2020 property tax ordinances (levy amount and percentage change)

2019-2020 BUDGET AMENDING ORDINANCE

The requested budget adjustments to the 2019-2020 adopted budget are summarized on pages 9-10 of Exhibit 1 and are included in the attached budget amending ordinance (see Exhibit 9).

2020 NORCOM BUDGET RESOLUTION

Resolution No. 1562, attached as Exhibit 2, approves NORCOM's 2020 budget allocation to the City of Mercer Island. Every participating city needs to adopt such a resolution before NORCOM approves its 2020 Budget in December. Comparing 2020 to 2019, NORCOM's budget allocation to Mercer Island decreased \$51,593, or 6.6 percent, as shown in the table below.

Department	2019 Allocation	2020 Allocation	\$ Decrease	% Change
Mercer Island Police	\$616,775	\$569,569	(\$47,206)	-7.7%
Mercer Island Fire	\$169,409	\$165,022	(\$4,387)	-2.6%
Total	\$786,184	\$734,591	(\$51,593)	-6.6%

2020 UTILITY RATE RESOLUTIONS

The 2018 adopted, 2019 adopted, and 2020 proposed bi-monthly utility rates for water, sewer, storm water, and EMS services are broken down in the table below **for a typical single-family residential customer**. The 2020 proposed rates were reviewed and recommended by the Utility Board in September and October 2019.

Utility Rate Component	Bi-Monthly Charge			\$ Change		% Change	
	2018 Adopted	2019 Adopted	2020 Proposed	2019 Adopted	2020 Proposed	2019 Adopted	2020 Proposed
Water (City)	\$110.31	\$117.48	\$125.12	\$7.17	\$7.64	6.5%	6.5%
Sewer Maintenance (City)	\$84.71	\$91.23	\$98.26	\$6.52	\$7.03	7.7%	7.7%
Sewer Treatment (King County)	\$88.44	\$90.66	\$90.66	\$2.22	0	2.5%	0.0%
Storm Water (City)	\$33.59	\$34.66	\$35.77	\$1.07	\$1.11	3.2%	3.2%
EMS (City)	\$9.14	\$9.29	\$9.56	\$0.15	\$0.27	1.6%	2.91%
Total Utility Rate Increase	\$326.19	\$343.32	\$359.37	\$17.13	\$16.05	5.3%	4.7%

The total utility rate increase in 2020 is 4.7% percent, or \$16.11, as budgeted in the 2019-2020 adopted Budget.

Resolution Nos. 1563-1566, attached as Exhibits 3-6, set the water, sewer, storm water, and EMS rates, respectively, beginning January 1, 2020.

2020 PROPERTY TAX ORDINANCES

All King County cities are legally required to submit an estimate of their 2020 property tax levies to the Metropolitan King County Council by December 1, 2019. However, the King County Department of Assessments does not provide each city with the final assessed valuation and new construction amounts for the new tax year until later in December. As a result, cities adopt property tax levies for the coming year based on preliminary assessed valuation and new construction amounts.

When the finalized amounts are distributed by the Department of Assessments in December, cities simply notify the Metropolitan King County Council of the corrected levy amount. To be explicit about this levy correcting practice, language is included in the 2020 property tax levy ordinances authorizing the Finance Director to report the corrected property tax levy amount to the Metropolitan King County Council.

For the 2020 tax year, the City's total property tax levy consists of the following components:

- **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 percent optional increase:** Applies to the regular levy and the levy lid lifts, which are noted below, and represents the maximum increase that a Council can adopt for the coming year, excluding new construction, the re-levy of the prior year refunds. The 2019-2020 Budget was balanced assuming the Council approves the 1.0 percent optional increase for the 2019 and 2020 fiscal years.
- **New construction:** Represents the new and improved properties that have been added to the property tax rolls. An estimate of \$200,000 was used for new constructions as the King County Department of Assessments has not finalized the new construction total yet.
- **Re-levy of prior year refunds:** Represents the amount that was refunded to property owners who successfully appealed their property valuations by the Assessor's Office and that is re-levied in the following year to make the City financially whole. For the 2020 levy, the preliminary amount is \$19,376.
- **2008 levy lid lift:** Approved by voters in November 2008 for parks maintenance and operations (this is a 15-year levy, which ends in 2023). The 1.0 percent optional increase is included in the 2020 levy amount.
- **2012 levy lid lift:** Approved by voters in November 2012 for the replacement of the South Fire Station and a fire rescue truck (this is a 9-year levy, which ends in 2021). The 1.0 optional increase is included in the 2020 levy amount.

Per state law, the annual levy increase (what is called the "limit factor") is limited to the lesser of the implicit price deflator (IPD) or 1.0 percent, plus an allowance for new construction. For the 2020 levy, the IPD is 1.0140 percent.

The **2020 preliminary levy** is compared to the 2019 final levy in the table below.

Levy Elements	2019 Final Levy	2020 Prelim Levy
Regular Levy:		
Prior Year Levy	\$11,701,614	\$12,012,111
Plus 1% Optional Increase	117,016	120,121
Plus New Construction	193,481	200,000
Plus Re-levy of Prior Year Refunds	28,440	19,376
Total Regular Levy	\$12,040,551	\$12,351,608
Levy Lid Lifts:		
2008 Parks Maintenance & Operations + 1%	955,079	964,630
2012 Fire Station & Fire Rescue Truck + 1%	682,059	688,880
Total Levy Lid Lifts	1,637,138	1,653,510
Total Levy	\$13,677,689	\$14,005,118
% Change Relative to Prior Year*	1.00%	1.00%

Excluding new construction and the re-levy of prior year refunds, the 2020 total preliminary levy is 1.0 percent greater than the 2019 final levy.

The 2020 preliminary levy encompasses two ordinances as required by state law: 1) Ordinance No. 19-14, which establishes the 2020 property tax levy amount (see Exhibit 7); and 2) Ordinance No. 19-15, which identifies the dollar and percent increase in the 2020 levy (see Exhibit 8).

At the November 19, 2019 Council meeting, the Mayor will conduct a public hearing regarding the City’s financial status through the third quarter of 2019 and the proposed resolutions and ordinances.

RECOMMENDATION

1. Pass Resolution No. 1562, which approves NORCOM’s 2020 budget allocation to the City of Mercer Island.
2. Pass Resolution No. 1563, which establishes classifications of water users and a schedule of charges for water usage, a schedule of rates for fire service, a schedule of special service charges, meter and service installation charges, and connection charges effective January 1, 2020 and thereafter.
3. Pass Resolution No. 1564, which establishes rates and connection charges for sewerage disposal services provided by the City of Mercer Island effective January 1, 2020 and thereafter.
4. Pass Resolution No. 1565, which establishes the bi-monthly service charge for storm and surface water services provided by the City of Mercer Island effective January 1, 2020 and thereafter.
5. Pass Resolution No. 1566, which establishes the bi-monthly utility fee for the emergency medical and ambulance services supplied by the City of Mercer Island effective January 1, 2020 and thereafter.
6. Suspend the City Council Rules of Procedure 6.3, requiring a second reading for an ordinance.
7. Adopt Ordinance No. 19-14, which establishes the amount of property taxes to be levied for the year 2020.

8. Adopt Ordinance No. 19-15, which identifies the dollar amount and percentage increases of the regular property tax levy and the levy lid lifts for the year 2020.
9. Adopt Ordinance No. 19-17, amending the 2019-2020 Budget.