



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

**AB 5768
October 20, 2020
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 5768: Receive the 2021-2022 Preliminary Budget	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	No action required.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Interim Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	<ol style="list-style-type: none"> 2021-2022 Preliminary Budget Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.
CITY COUNCIL PRIORITY:	

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

SUMMARY

Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget to the City Council for review and approval. The City Council received the [2021-2022 Preliminary Budget](#) on September 30 and a copy was filed with the City Clerk. The Council’s review of the preliminary budget began on October 13, 2020 and will conclude with the adoption of a final budget early December.

Overview of Budget Meetings

At the October 13 City Council meeting, the City Manager provided an overview of the 2021-2022 Preliminary Budget. This included background information along with an explanation of the underlying assumptions used to develop the budget. Also featured in the presentation was:

- An overview of the General Fund five-year forecast.
- A high-level look at each Fund Category.
- Review and discussion of the following Department budgets, work plans, and budget proposals:
 - City Council
 - Non-Departmental
 - Municipal Court
 - Fire Department
 - Police Department
 - City Attorney’s Office
 - City Manager’s Office
 - Finance Department
 - Administrative Services
 - Community Planning and Development

At Tuesday’s meeting, the City Council will hold the first of two public hearings on the 2021-2022 Preliminary Budget. This is an opportunity for the public to provide comments about any part of the budget.

Following the hearing, staff will continue the presentation where it ended on October 13. This will include wrapping up the Department budget discussions for Public Works, the Recreation Transition Team, and Youth and Family Services and addressing questions from the City Council. The meeting will conclude with a presentation and discussion on the proposed Capital Improvement Program. Department Directors and other key staff will be attending to address questions and comments from the City Council and participate in the discussion.

On November 2, 2020, staff will return to City Council to discuss the 2021-2022 budget proposals and determine what, if any, are to receive funding in the upcoming biennium. The staff welcome any final feedback on the Preliminary Budget at this meeting as the following weeks will be dedicated to preparing the final budget.

On November 17, 2020, the City Council will adopt ordinances and resolutions related to 2021 utility rates, set the property tax levy rate for 2021, and approve the ARCH work plan and Housing Trust Fund Contributions for 2021.

The first meeting in December, staff will return to the City Council for adoption of the final version of the 2021-2022 Biennial Budget. The remaining budget schedule is summarized below.

Date	Topic
10/20/2020 5:00 PM <i>Public hearing*</i>	Department Overviews (continued) Capital Improvement Program <ul style="list-style-type: none"> ○ Programmatic Improvements ○ Major Highlights ○ Asset Category Overview
11/2/2020 5:00 PM	Budget Proposals
11/17/2020 5:00 PM <i>Public hearing*</i>	Adopt 2021 utility rates, NORCOM rates, ARCH funding, and property tax levy via resolution of substantial need.
12/1/2020 5:00 PM	Adopt final 2021-2022 Biennial Budget

Community Outreach and Public Hearings

The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program at two scheduled Public Hearings on [October 20](#) and [November 17](#). Public comment is also invited at all City Council meetings.

Follow-Up to City Council Questions from October 13, 2020:

At the October 13, 2020 meeting, the City Council posed questions regarding the preliminary budget. Below are responses for Council’s consideration.

1. *With Council considering whether to pursue the 1.0% Property Tax Levy increase via a resolution of “substantial need” versus increasing property tax by the 2021 Implicit Price Deflator of 0.6%, could a*

third option be to use the banked capacity provision allowed under RCW 84.55.092?

Yes. The banked capacity provision allows a local taxing jurisdiction to voluntarily levy less than its maximum levy amount in a prior year, thereby creating some “banked capacity” that can be used in the future.

In 2008, the City Council voted to use 0.65% of banked capacity (or \$57,900), in addition to the 1% optional increase, to establish the fire apparatus replacement sinking fund. In 2012, the City Council voted to use 0.5% of banked capacity (or \$52,820) to help reduce the unfunded liabilities related to long-term care benefits for LEOFF I retirees and pension benefits for firefighters hired on or before March 1, 1970. In 2015, the City Council voted to use the remaining banked capacity (1.2%, or \$144,960) to address various funding needs, including long-term care benefits for LEOFF I retirees.

Should the City Council choose the banked capacity option, the **City Council will still be required to pass a resolution of “substantial need” to affirm the maximum 1% property tax levy increase for 2021** and determine how much of the 1% to take in the coming fiscal year versus bank for future use.

2. *What is the legal requirement for establishing “substantial need”?*

State law does not provide an explicit definition, a qualification requirement, or legal threshold of substantial need. It is generally accepted that each jurisdiction, through its legislative body, can reasonably “define” what qualifies as “substantial need” depending on specific circumstances, agency needs, and other priorities.

3. *Can the policy guiding the Contingency Fund be a range rather than a fixed percentage?*

Yes. The policies that guide the minimum level of the contingency fund are established internally by the City Council. Under the authority of state law RCW [35.32A.060](#), the maximum amount permitted within the Contingency Fund balance “shall not exceed thirty-seven and one-half cents per thousand dollars of assessed value.”

Current budget policy set by the City Council has the Contingency Fund target balance set to 12.5% of General Fund expenditures for a given fiscal year. This is within the range of comparable neighboring Cities. For example, the City of Issaquah treats the Unassigned General Fund Balance as the City's primary emergency reserve. Their budget policy stipulates the balance should be between 15-20%. In the 2020 budget, Issaquah's unassigned General Fund balance was 27% of total GF expenditures.

The City of Bellevue targets 15% of General Fund Revenues as a General Fund unassigned ending fund balance, which serves as the emergency cash reserve. Renton's General Fund balance is the City's default emergency reserve, maintained just above the 12% of General Fund operating expenditures, as targeted by their fiscal policy.

4. *Could impact fee dollars be used to pay for the study/consulting services to update the corresponding impact fees?*

No. The City cannot use impact fee revenue to pay for updates to an impact fee study. In short, since impact fees are restricted to capital facilities, they cannot be used to fund transportation studies or operating and maintenance costs. More information is available at the Municipal Research and Services Center [website](#).

5. *If the City lowers the [property] insurance deductible, what would the savings be?*

Currently, the City has \$72,628,501 in property value listed on the City's Property Schedule with a

\$5,000 deductible for each property. If the City were to increase the deductible to \$25,000 (next possible increment) in 2021, the insurance cost for this total property value will be \$94,417.05 for the fiscal year. If the City stays with a \$5,000 deductible for 2021, the insurance cost will be \$127,826.16. If the deductible is changed, it must be changed for all City owned property.

If the City Council is interested in changing the deductible amount, staff will fully assess the potential impacts of this change and present the City Council with a recommendation.

6. *How much of the \$300,000 unemployment reserve will the City use?*

Determining future costs of unemployment charges is difficult. There are several factors that impact how much unemployment costs the City incurs. Former employees who qualify for unemployment may not apply, may find other employment opportunities, or may not utilize the full extent of their benefits. Furthermore, the City is required to cover a portion of unemployment costs for former employees working elsewhere in 2020, who were laid off, and applied for and received unemployment benefits.

The City has paid approximately \$89,180 in unemployment costs through the second quarter of 2020. This includes employees who were laid off from the City, current employees who are furloughed, and former employees who worked for the City in 2019 and 2020.

Usually unemployment benefits last for 26 weeks, but due to the COVID-19 Pandemic unemployment eligibility was extended to 39 weeks. This means the City will have increased unemployment costs through the end of January 2021. The City should be receiving the invoice for the third quarter at the end of October and will have a better idea of projected costs for the remainder of 2020 at that time.

Responses to follow-up questions not addressed in this agenda bill (namely questions related to the Fleet Fund) require additional staff time to prepare and will be provided to the City Council ahead of the next meeting.

RECOMMENDATION

Receive the 2021-2022 Preliminary Budget available at www.mercerisland.gov/budget. No additional action required.