



# 2027-2028 Preliminary Biennial Budget & 2027-2032 CIP

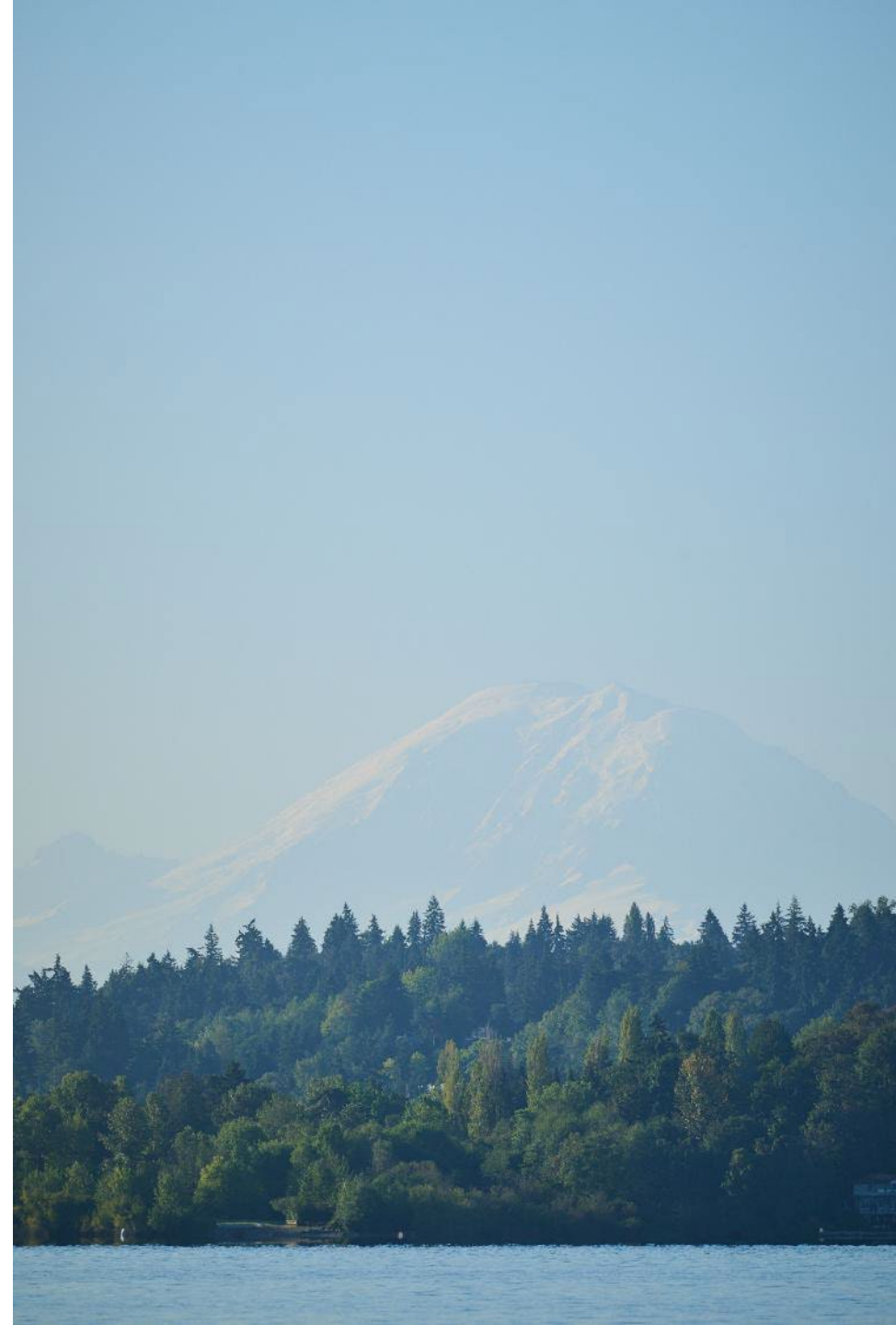
Introduction of proposed capital improvements,  
spending plan, & budget workshops schedule.

Oct 6, 2026 Regular Meeting | AB 7009



# Agenda

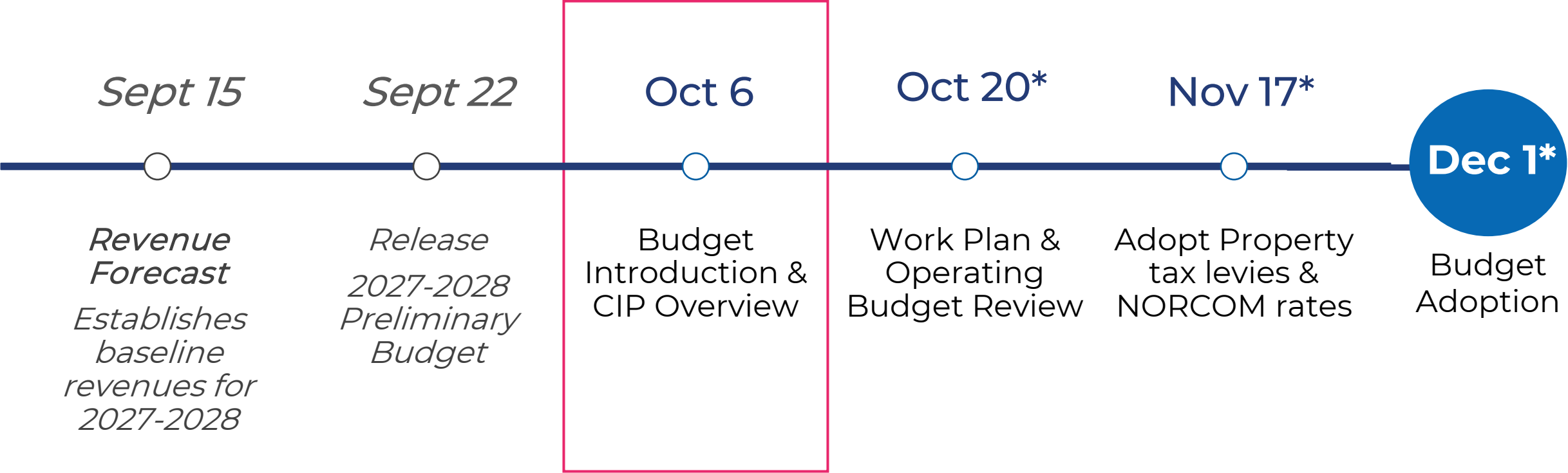
- ❑ Budget Background & Schedule
- ❑ Capital Budget Overview
- ❑ Finance Ad Hoc Committee
- ❑ Capital Priorities in 2027-2028
- ❑ Questions



# Tonight's Purpose

- ❑ First of two budget workshops in October.
- ❑ City Council review and discuss capital priorities and the spending plan as proposed in the 2027-2028 Capital Budget.
- ❑ **Next Steps.** Incorporate tonight's feedback into the Preliminary Biennial Budget for City Council final adoption on December 1, 2026.

# 2027-2028 Biennial Budget Schedule



\* Public hearings

# Biennial Budget Background

- ❑ Every two years, the Mercer Island City Council adopts a financial plan that covers a two-year period, known as a biennium.
- ❑ City Council received the 2027-2028 Preliminary Budget on Sept 22.
  - ❑ Available at [www.mercerisland.gov/27-28budget](http://www.mercerisland.gov/27-28budget)
- ❑ Serves as the primary financial and policy plan.
  - ❑ Outlines work plan goals and details funding for policy initiatives, operations, and capital improvements.

# Biennial Budget – Built on Progress

- ❑ After six years of prudent fiscal management, Mercer Island overcame pandemic disruptions, modernized operations, and delivered landmark capital improvements.
- ❑ Major water system improvements complete, with a new seismically resilient local water supply line underway and critical sewer improvements on the horizon.
- ❑ Delivered on voter-approved investments with ongoing park and open space management, as well as playground replacements thanks to the 2022 Parks Levy.
- ❑ Upgraded enterprise financial/HR software and police digital evidence systems, while acquiring a 22,000-square-foot building (9655 SE 36th Street) to help resolve the 2023 City Hall closure and centralize operations.
- ❑ Leveraged one-time funding (Sound Transit Mitigation & ARPA) for major street, parks, and utilities investments. Began construction on a decade-long waterfront improvements including new docks, habitat, & ADA access along Lake Washington.

# Biennial Budget – Capital Themes in 2027-2028

- ❑ **Resized Capital Program:** Capital funding is notably lower than prior years due to declining REET revenues & completion of outside funding agreements.
- ❑ **Police Facility Priority:** Prioritizing a permanent, modern facility to transition public safety staff out of temporary trailers used since the 2023 City Hall closure, informed by February 2026 community survey results. Plan to discuss this further at the February 5, 2027 City Council Planning Session.
- ❑ **Facility Maintenance:** Continuing long-term preservation and maintenance for the Community & Event Center, Luther Burbank Administrative Building, & Public Works Administrative Building.
- ❑ **9655 Building Phasing:** Phasing renovations for the building to allow near-term occupancy while planning for long-term municipal use.

# Biennial Budget Overview

**A 249-page document divided into six sections.**

- A. City Manager Message & Budget Overview
- B. Recap By Fund
- C. Revenue Sources
- D. Operating Budget by Department
- E. Capital Improvement Program
- F. Appendix

# Operating vs. Capital Budget

The **\$265M spending plan in 2027-2028** distinguishes between day-to-day operating funds and long-term capital improvements.

## Operating Budget

**\$175M**

- Delivers programs, day-to-day services, and policy initiatives outlined in the work plan for the next two-years.
- Consists of restricted and unrestricted revenues.

Primary Operating Funds  
General, YFS, & Development Services.

## Capital Budget

**\$90M**

- First two years of authorized spending in the six-year CIP.
- Long-term financial plan to invest in parks, buildings, utilities, streets, and technology.
- Mostly restricted revenues earmarked for specific purposes.

Primary Capital Funds  
Street, Capital Improvement, & Utility Funds.

# Capital Improvement Program Expenditures

As proposed in Section E of the Preliminary Biennial Budget.

## Capital Project ID Numbers

### Example: 90.05.0001

90 | Capital Program

05 | Asset Category in CIP

0001 | Unique project number

| Capital Asset Categories<br><i>\$ in millions</i> | Funded Projects |           | Proposed Budget |              | Total        |
|---------------------------------------------------|-----------------|-----------|-----------------|--------------|--------------|
|                                                   | 2027            | 2028      | 2027            | 2028         |              |
| 05 - Public Facilities                            | 5               | 4         | \$ 4            | \$ 4         | \$ 8         |
| 10 - Technology                                   | 6               | 6         | 1               | 0            | 1            |
| 15 - Equipment                                    | 3               | 3         | 2               | 1            | 3            |
| 20 - Streets, Pedestrians, & Bicycle Facilities   | 12              | 7         | 6               | 2            | 7            |
| 25 - Parks, Recreation, and Open Space            | 7               | 7         | 1               | 2            | 4            |
| 30 - Sewer Utility                                | 10              | 8         | 5               | 23           | 27           |
| 35 - Stormwater Utility                           | 11              | 10        | 2               | 2            | 5            |
| 40 - Water Utility                                | 16              | 14        | 21              | 14           | 35           |
| <b>Total</b>                                      | <b>70</b>       | <b>59</b> | <b>\$ 42</b>    | <b>\$ 48</b> | <b>\$ 90</b> |

# Capital Improvement Program Expenditures

## Helpful Perspective

1. Increase in annual expenditures.
  - ❑ Generational improvements & inflation pressures.
2. 99% of proposed budget is legally restricted by state law:
  - ❑ Utility rates
  - ❑ REET
  - ❑ State shared revenues
  - ❑ Impact fees
  - ❑ Grants
  - ❑ Debt service



# 2027 – 2028 Capital Budget

- ❑ Funding available for capital investments is significantly less than prior years.
  1. Completion of outside funding agreements.
    - ❑ 2017 Sound Transit Settlement Agreement (\$10.05M).
    - ❑ American Rescue Plan Act (ARPA, \$7.23M).
  2. Year-over-year decline of Real Estate Excise Tax (REET) revenues since 2022.

# Outside Funding Agreements

## Sound Transit Settlement Agreement

- ❑ May 2017, City secured \$10.05M to offset impacts of East Link light rail.
- ❑ Funds restricted primarily to transportation improvements, per the agreement.
- ❑ Deadline to invest all funds by Dec 2025. **All \$10.05M invested.**
- ❑ Examples include City Council approved projects supporting pedestrian safety, ADA accessibility, & trail connectivity.

| Project<br><i>\$ in thousands</i> | Description                                                 | Reimbursed<br>Amount |
|-----------------------------------|-------------------------------------------------------------|----------------------|
| Sunset Highway/ 77th Ave SE       | Installed raised safety intersection & flashing crosswalks. | \$ 1,543             |
| Island Crest Way Corridor         | Upgraded pedestrian crossings, trails, and lighting.        | 1,441                |
| West Mercer Way Shoulders         | Paved new shoulders for safer walking and biking.           | 1,060                |
| 80th Avenue Sidewalk              | Replaced aging sidewalks, trees, and street lighting.       | 1,181                |
| ADA Transition Plan               | Installed 11 compliant curb ramps and improved lighting.    | 386                  |

# Outside Funding Agreements

## American Rescue Plan Act

- City received \$7.23M in federal ARPA funds in 2021 and 2022.
- One-time resources stabilized City operations during the COVID-19 Pandemic.
  - Re-opened recreation facilities.
  - Household utility & emergency assistance.
  - Youth & family mental health services.
- Under Council leadership, 70% went to parks, facilities, & underground utilities.
- All funds invested per federal guidelines by Dec 2024.

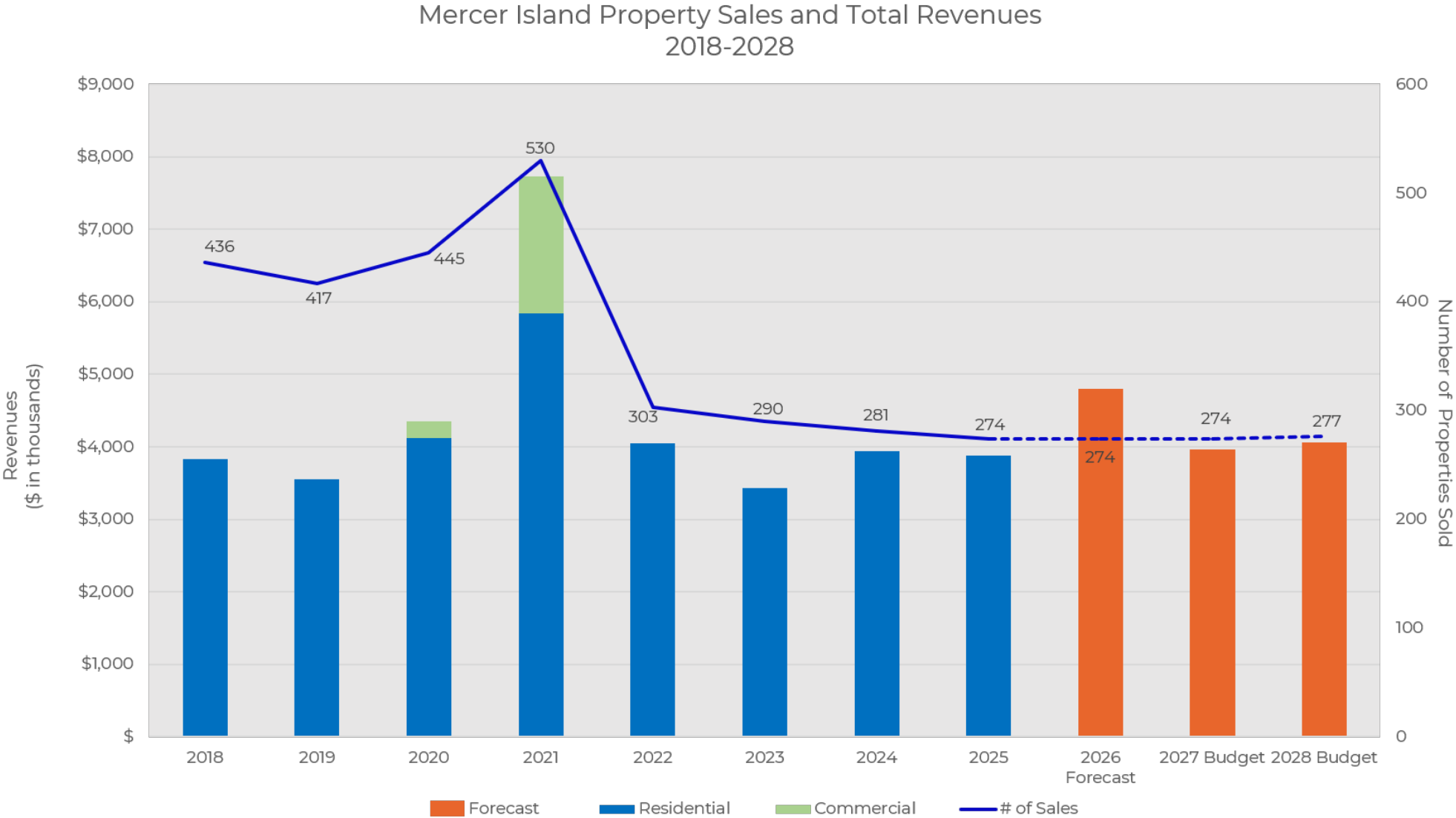
| Investment of ARPA Funds<br><i>\$ in thousands</i> | Four-Year<br>Total |
|----------------------------------------------------|--------------------|
| Aubrey Davis Park Asphalt Repairs                  | \$ 35              |
| Open Space Improvements                            | 131                |
| Sustainability Initiatives                         | 139                |
| Parks Maintenance                                  | 190                |
| Bike Skills Park                                   | 303                |
| Luther Burbank Sport Courts                        | 643                |
| Water & Sewer Improvements                         | 672                |
| Facility Planning & Improvements                   | 1,267              |
| City Hall Closure Impacts                          | 1,715              |
| <b>Capital Subtotal</b>                            | <b>5,095</b>       |
| Pandemic legal Impacts                             | 11                 |
| Pandemic Response Supplies                         | 16                 |
| Utility Relief Grant Program                       | 37                 |
| Staffing Support                                   | 178                |
| ARPA Administration                                | 211                |
| Recreation Restart Initiative                      | 347                |
| Youth & Family Services                            | 1,341              |
| <b>Operating Subtotal</b>                          | <b>2,140</b>       |
| <b>Total Investment</b>                            | <b>\$ 7,235</b>    |

# 2027 – 2028 Capital Budget

## **Real Estate Excise Tax**

- ❑ 0.5% tax paid by the seller during property transactions.
- ❑ Per state law, restricted to street, park, utility, affordable housing, and facility capital investments (no equipment or technology).
- ❑ Inherently volatile. Fluctuates significantly from year to year.
- ❑ Following 15-year \$7.7M peak in 2021, sustained reduction in REET revenue that has persisted through the first half of 2026.

# Real Estate Excise Tax Revenues



# City Council Finance Ad Hoc Committee



# Finance Ad Hoc Committee

## Formation and Purpose

- ❑ With the decline in REET alongside the complete use of Sound Transit settlement & ARPA funds, notably less resources for the capital program.
- ❑ February 2026, Council reconvened Finance Ad Hoc Committee to help evaluate capital finances and prioritize funding for facility improvements.
- ❑ Mayor Rosembaum, Councilmember Weiker, and Councilmember Reynolds met with staff to help balance the six-year CIP.

# Finance Ad Hoc Committee

## Strategy to Balance the CIP

- ❑ Every budget cycle, City Administration reviews and prioritizes 2027-2032 projects using a rating system.
- ❑ Finance Ad Hoc Committee reviewed capital projects funded via Capital Improvement Fund (320):
  - ❑ Parks and open space
  - ❑ Recreation facilities
  - ❑ Public buildings

| Rating Criteria                  |                                                                         | Weights and Scoring |        |           |
|----------------------------------|-------------------------------------------------------------------------|---------------------|--------|-----------|
| Criteria                         | Sub-Criteria                                                            | CIP Priority        | Weight | Max Score |
| Mandated Activities              | Court decision, regulatory requirement, state or fed mandate, legal     | 5                   | 5      | 25        |
|                                  | Necessary for health and safety reasons, cannot be deferred             | 4                   |        |           |
|                                  | Necessary to maintain existing facilities, infrastructure, or equipment | 3                   |        |           |
|                                  | Underway with unavoidable shortfalls and cannot be modified             | 2                   |        |           |
|                                  | Normal project liability                                                | 1                   |        |           |
| Public Health & Safety           | Existing hazard (severe)                                                | 5                   | 4      | 20        |
|                                  | Existing hazard (minor)                                                 | 4                   |        |           |
|                                  | Potential hazard (severe)                                               | 3                   |        |           |
|                                  | Potential hazard (minor)                                                | 2                   |        |           |
|                                  | No health or safety issue                                               | 1                   |        |           |
| Fiscal Responsibility            | Decreases operating/maintenance costs                                   | 5                   | 3      | 15        |
|                                  | Increases on-going revenue source                                       | 4                   |        |           |
|                                  | Significant outside funding has been obtained to leverage City funding  | 3                   |        |           |
|                                  | Potential funds to be applied for from outside sources                  | 2                   |        |           |
|                                  | Requires significant municipal subsidy                                  | 1                   |        |           |
| Environmental Impact             | Enhances environment/reduces pollution                                  | 5                   | 2      | 10        |
|                                  | Benefits environment/slightly reduces pollution                         | 4                   |        |           |
|                                  | No environmental changes                                                | 3                   |        |           |
|                                  | Minor negative environmental impact                                     | -1                  |        |           |
|                                  | Diminishes environment/creates pollution                                | -2                  |        |           |
| Conformity to City Plans & Goals | In a master plan or related to a City Council priority                  | 5                   | 1      | 5         |
|                                  | Responds to a City Council action or directive                          | 4                   |        |           |
|                                  | Identified in a Department work plan, or in a draft City plan           | 3                   |        |           |
|                                  | Recommended by board/commission                                         | 2                   |        |           |
|                                  | Recommended by citizen action                                           | 1                   |        |           |
|                                  |                                                                         |                     |        | 75        |

# Finance Ad Hoc Committee

## Strategy to Balance Fund 320

- ❑ From the onset, clear that needs outpaced resources.
- ❑ Committee prioritized limited funds to:
  1. Complete active projects.
  2. Keep critical facilities operational.
  3. Support projects that are strong candidates for outside grant funding.
- ❑ To balance 2027-2028, staff evaluated cash flow needs in 2026 to help free up resources in the next two years.
- ❑ Scaled down project scopes where possible to match available resources.

# Finance Ad Hoc Committee

Reduced project scopes  
based on available funding.

| Capital Improvement Fund (320)           | 2026           | 2027           | 2028           |
|------------------------------------------|----------------|----------------|----------------|
| <i>\$ in Millions</i>                    | Budget         | Budget         | Budget         |
| <b>Before - Ad Hoc Committee</b>         |                |                |                |
| Public Facilities Subtotal               | 2.0            | 11.9           | 20.5           |
| Parks, Recreation, & Open Space Subtotal | 12.1           | 8.2            | 10.3           |
| <b>Total</b>                             | <b>\$ 14.1</b> | <b>\$ 20.1</b> | <b>\$ 30.8</b> |
| <b>After - Ad Hoc Committee</b>          |                |                |                |
| Public Facilities Subtotal               | 0.9            | 4.1            | 3.6            |
| Parks, Recreation, & Open Space Subtotal | 11.2           | 1.4            | 2.2            |
| <b>Total</b>                             | <b>\$ 12.1</b> | <b>\$ 5.4</b>  | <b>\$ 5.8</b>  |

# Finance Ad Hoc Committee

Examples of cost saving measures.

| Ad Hoc Committee/Staff Adjustments         | 2026              | 2027              | 2028              |
|--------------------------------------------|-------------------|-------------------|-------------------|
| <i>\$ in Thousands</i>                     |                   |                   |                   |
| <b>Parks, Recreation, &amp; Open Space</b> |                   |                   |                   |
| System Property Acquisition Reserve        | (1,000)           | (500)             | (500)             |
| Athletic Field & Backstop Replacements     | (549)             | (896)             | -                 |
| Clark Waterfront Improvements              | -                 | (539)             | (730)             |
| Groveland Waterfront Improvements          | -                 | (363)             | (916)             |
| <b>Total Adjustments</b>                   | <b>\$ (1,549)</b> | <b>\$ (2,298)</b> | <b>\$ (2,146)</b> |

These projects represent important community investments, they do not 1) complete active projects, 2) keep critical facilities operational, or 3) are good candidates for grants.

# Example: Vegetation Management

- City budgeted \$1.19M for forest & open space investments in 2026.

| Project ID      | Project Title                      | 2026 Revised Budget |        |          | 2027 Proposed Budget |      |        |
|-----------------|------------------------------------|---------------------|--------|----------|----------------------|------|--------|
| \$ in thousands |                                    | MI Parks Levy       | REET   | Total    | MI Parks Levy        | REET | Total  |
| 90.25.0001      | Open Space Management              | \$ 68               | \$ 371 | \$ 438   | \$ 208               | \$ - | \$ 208 |
| 90.25.0006      | Aubrey Davis Park Vegetation Mgmt. | -                   | 202    | 202      | -                    | -    | -      |
| 90.25.0034      | Pioneer Park/Engstrom Forest Mgmt. | 312                 | 243    | 555      | 175                  | -    | 175    |
| Total           |                                    | \$ 380              | \$ 816 | \$ 1,195 | \$ 383               | \$ - | \$ 383 |

- Result:** In 2027-2028, proposed projects maintain restoration work in existing open spaces rather than expand into new areas.

# Example: Deane’s Play Area Improvements (90.25.0015)

## Implement the Site Plan adopted April 7, 2026 ([AB 6902](#))

- ❑ **Phase I.** Council authorized \$0.5M state grant application July 7, 2026 ([AB 6958](#)).
- ❑ **Phase II (2029-2030).** Council authorized \$1.05M federal grant application Sept 15, 2026 ([AB 6996](#)).

| Fiscal Year<br><i>\$ in thousands</i> | MI Parks<br>Levy | WWRP <sup>1</sup> | KC FCD <sup>2</sup> | Impact Fees <sup>3</sup> | REET       | Donations  | Total    |
|---------------------------------------|------------------|-------------------|---------------------|--------------------------|------------|------------|----------|
|                                       | Restricted       | Grant             | Grant               | Restricted               | Restricted | Restricted |          |
| 2027                                  | \$ 400           | \$ 250            | \$ -                | \$ -                     | \$ -       | \$ -       | \$ 650   |
| 2028                                  | 561              | 250               | 100                 | 69                       | -          | 50         | \$ 1,030 |
| Total                                 | \$ 961           | \$ 500            | \$ 100              | \$ 69                    | \$ -       | \$ 50      | \$ 1,680 |

<sup>1</sup> Washington Wildlife and Recreation Program.  
<sup>2</sup> King County Flood Control District.  
<sup>3</sup> Project adds new facilities to the parks system. Qualifies as an eligible use of impact fees.

- ❑ Both require a 50% match (planned from levy funds/eligible sources, excluding REET). Retain matching funds to support these grants, pending final City Council budget approval.

# Example: MICEC Generator Replacement (90.05.0011)

- ❑ Serves the community center, EOC, emergency shelter, City Hall, and core server infrastructure.
- ❑ Upgrades unlock full-facility power during disasters to support expanded shelter, heating/cooling, and EOC operations.
- ❑ Critical improvement.
- ❑ Limited funding to fully design project while prioritizing other facility-related projects.
- ❑ Finishing project design makes it shovel ready and competitive for outside funding.

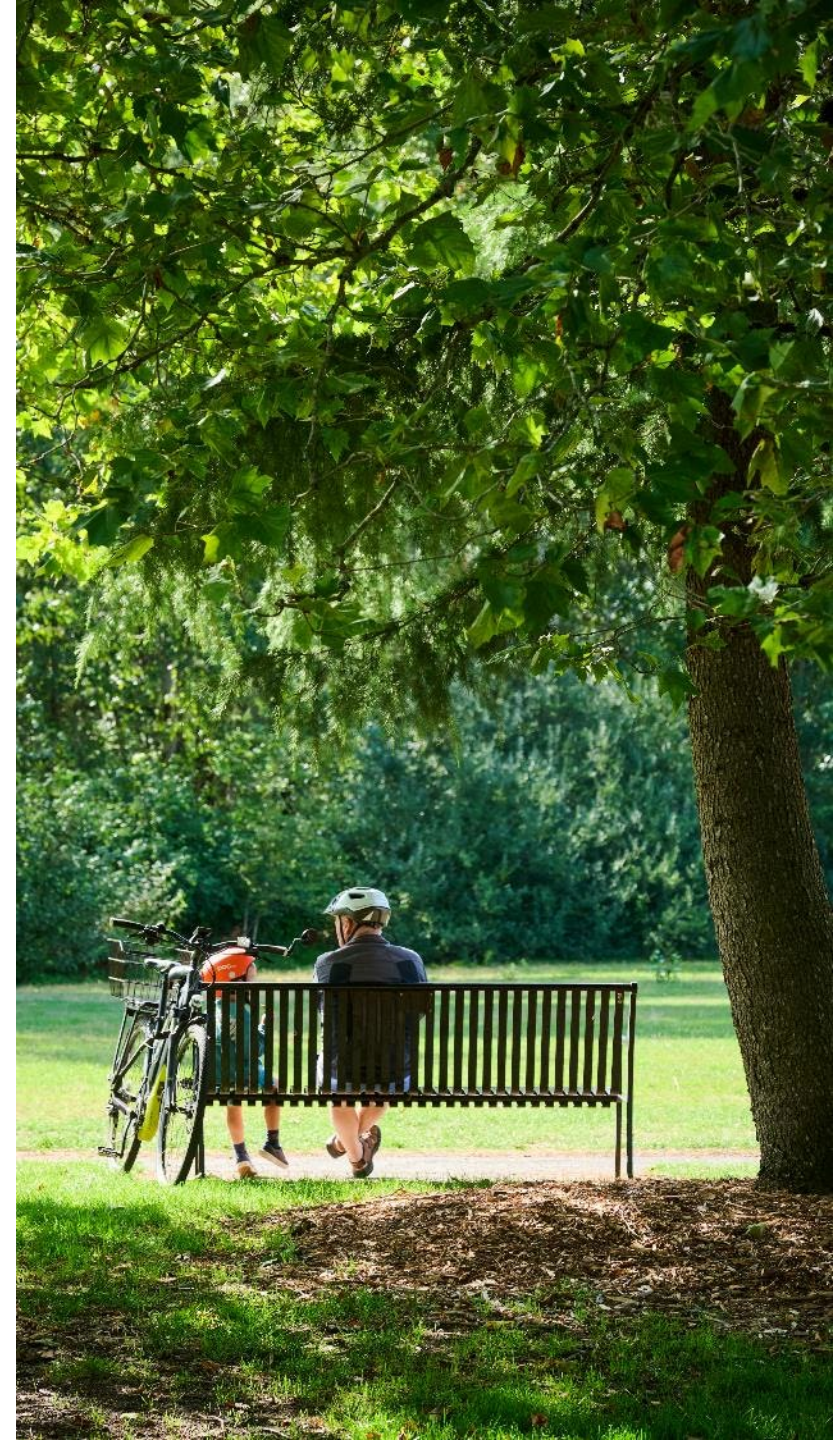
| Year                   | Fund   | Grant    | Total    |
|------------------------|--------|----------|----------|
| <i>\$ in thousands</i> | 320    | (TBD)    |          |
| 2027                   | \$ 103 | \$ -     | \$ 103   |
| 2028                   | -      | 1,768    | \$ 1,768 |
| Total                  | \$ 103 | \$ 1,768 | \$ 1,871 |

# Finance Ad Hoc Committee

## **Outcomes from the Committee's Efforts**

- ❑ Helped prioritize limited resources to address immediate capital needs over the next two years and balanced capital funds thru 2032.
- ❑ Unable to identify and reassign resources to major facility projects.
- ❑ Important capital improvements are proposed in the next two years while staff and the City Council continue to evaluate funding opportunities for City facilities.

# Questions?



# Proposed Capital Priorities in 2027-2028



# Focus for 2027-2028

- ❑ **Luther Burbank Waterfront.** Replace aging docks, improve shoreline habitat, and improve public ADA access along Lake Washington (90.25.0020 in 2026).
- ❑ **MICEC HVAC System.** Replace and modernize HVAC system (20+ years old) at Community and Event Center (90.05.0002).
- ❑ **9655 SE 36<sup>th</sup> Street Building.** Phase improvements for the 9655 Building (90.05.0021).
- ❑ **Pedestrian Improvements.** Island Crest Way shared use path P1 (90.20.0040) and ADA improvements above the new water supply line (90.20.0006, 90.20.0009).
- ❑ **Sewer Conveyance System.** Multiyear initiative to upgrade sewer system.
- ❑ **Long Range Planning.** Update the PRO's Plan (90.25.0034), Water System Plan (90.40.0035), General Sewer Plan (90.30.0013), and develop Stormwater System Plan (90.35.0022) to guide future capital investments.

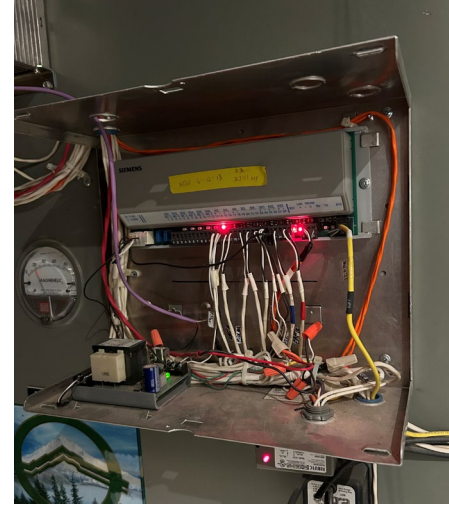
# Luther Burbank Waterfront

- ❑ Renovate docks for motorized boats and non-motorized watercraft.
- ❑ Add an accessible kayak launch and overwater platform.
- ❑ Improve North Beach water access and accessible trail connections.
- ❑ Restore shoreline habitat with native plantings and lakebed cleanup.
- ❑ Upgrade utilities, fire protection, and lake-water irrigation.
- ❑ Enhance the plaza with new surfacing, seating, signage, and public art.



# Community Center HVAC

- ❑ Replace aging HVAC equipment with high-efficiency electric heat pumps variable refrigerant system.
- ❑ Improve temperature control and system reliability.
- ❑ Reduce energy use, maintenance costs, and greenhouse gas emissions.
- ❑ \$1 million in state funding secured.
- ❑ Design in 2026; construction anticipated in 2027.



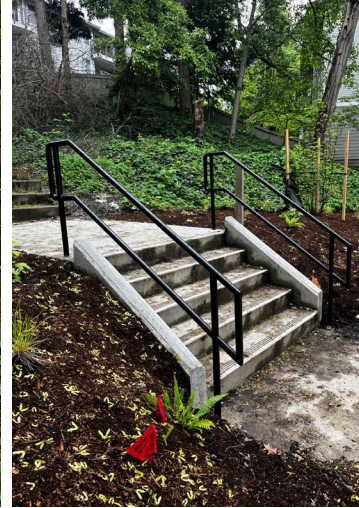
# Phase Improvements to 9655 Building

- ❑ Address roof, HVAC, fire-water line, and parking lot repairs and improvements.
- ❑ Complete minor interior repairs, including walls, finishes, carpet, and lighting.
- ❑ Confirm occupancy needs and finalize the space plan for staff and hoteling areas.
- ❑ Prepare workspaces, including furniture, equipment, storage, and cleaning.
- ❑ Coordinate security, door access, and Wi-Fi for initial occupancy.



# Pedestrian Improvements

- ❑ **ADA Transition Plan Implementation:** Upgrade pedestrian facilities in the Town Center, then citywide.
- ❑ **Water Supply Pipeline Project Improvements:**
  - ❑ **SE 40th Street:** Replace sidewalks; add bike lanes from Gallagher Hill Road to 93rd Avenue SE.
  - ❑ **Gallagher Hill Road:** Add downhill sidewalk and uphill bike lane from SE 36th to SE 40th Street.
- ❑ **East Mercer Way Roadside Shoulders:** Close the final gap from SE 79th Street to the 8400 block.
- ❑ **ICW Shared Use Path – Phase 1:** Build the path from Island Park Elementary to SE 60th Street with state grant support.



# Sewer Conveyance System

- ❑ A once-in-a-generation, multi-year initiative to upgrade the sewer system.
- ❑ Identify and address system deficiencies to improve flow capacity and prevent sanitary sewer overflows.
- ❑ Complete data collection, surveying, condition assessments, and modeling to guide improvements.
- ❑ Provide permitting, engineering design, and construction support.
- ❑ Deliver improvements in phases to address priority needs and adapt to evolving conditions.



# Long Range Plans

- ❑ Update the Parks, Recreation, and Open Space (PROS) and Pedestrian and Bicycle Facilities Plans to identify future needs.
- ❑ Update the Water System and General Sewer Plans to address infrastructure needs and future demand.
- ❑ Develop a Stormwater System Plan to address drainage needs and future demand.
- ❑ Use these Plans to guide capital investments and project priorities.
- ❑ Strengthen grant applications and support access to government infrastructure loans.



# Questions for the City Council

- 1. Do the projects scheduled for 2027 and 2028 effectively advance the Council's top capital priorities?**
- 2. What modifications, if any, does the City Council wish to make to the proposed capital projects in 2027 and 2028?**

# Questions

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