

# AB 6856

## Capital Improvement Program Overview

February 3, 2026



# Agenda

- 1. Current Situation with City Facilities**
- 2. Efforts to Plan, Construct, & Finance Capital Projects**
- 3. Discussion Questions**

# Balancing Capital Priorities

## Purpose of the Capital Improvement Program Overview

1. Understand what projects could be delayed or canceled to free up funds for other projects – specifically facility projects.
2. If the City Council wishes to advance facility projects using current City resources, policy direction will be required to reprioritize capital investments.

# City Facilities

**(Refer to AB 6840 from 1/16/26 Council planning session for more info)**

- ❑ Council-directed **long-range planning** beginning in 2022 identified aging, seismically vulnerable, and operationally constrained facilities.
- ❑ **City Hall was permanently closed** in 2023 based on seismic deficiencies, failing systems, and the limited return on investment for rehabilitation and abatement.
- ❑ A necessary stopgap of **interim facilities and investments was implemented to** maintain essential services. These interim facilities were not designed as long-term or cost-effective solutions to meet essential service needs.
- ❑ The **bond measure** to fund a long-term solution for public safety and maintenance failed to meet the 60% approval threshold required for capital facilities.
- ❑ A **phased roadmap for facility reinvestment and replacement** is a clear priority.

**Community & Event Center & Annex Facility**



**Luther Burbank Admin Building & Caretaker House**



**Tully's Building  
(Decommissioned)**



**City Hall (Closed)**



**Fire Station 91**



**Police Modular Buildings**



**9655 Building**



**Thrift Shop**



**Public Works Building**



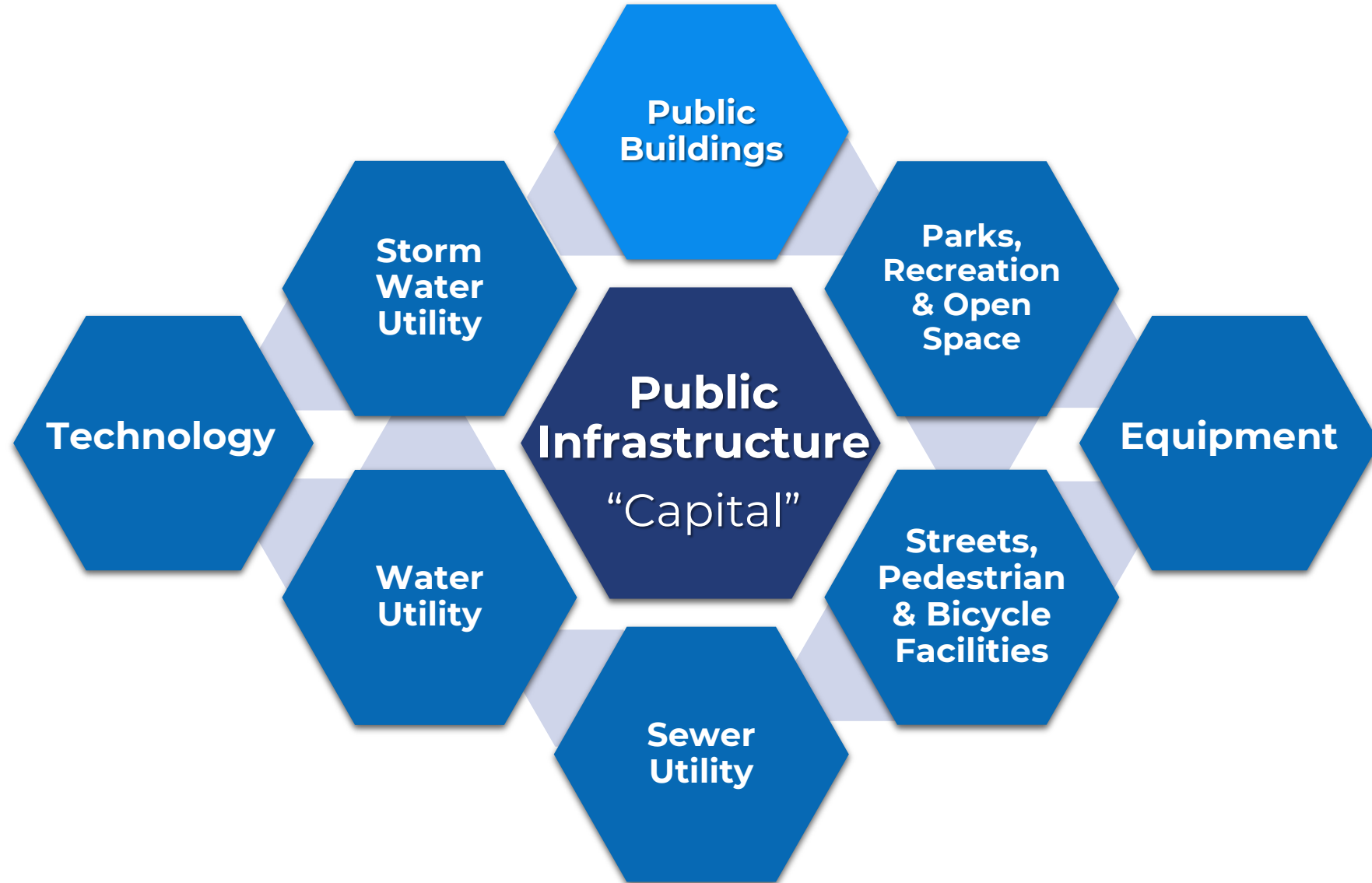
**Fire Station 92**



**City Facilities  
2023 – Present**

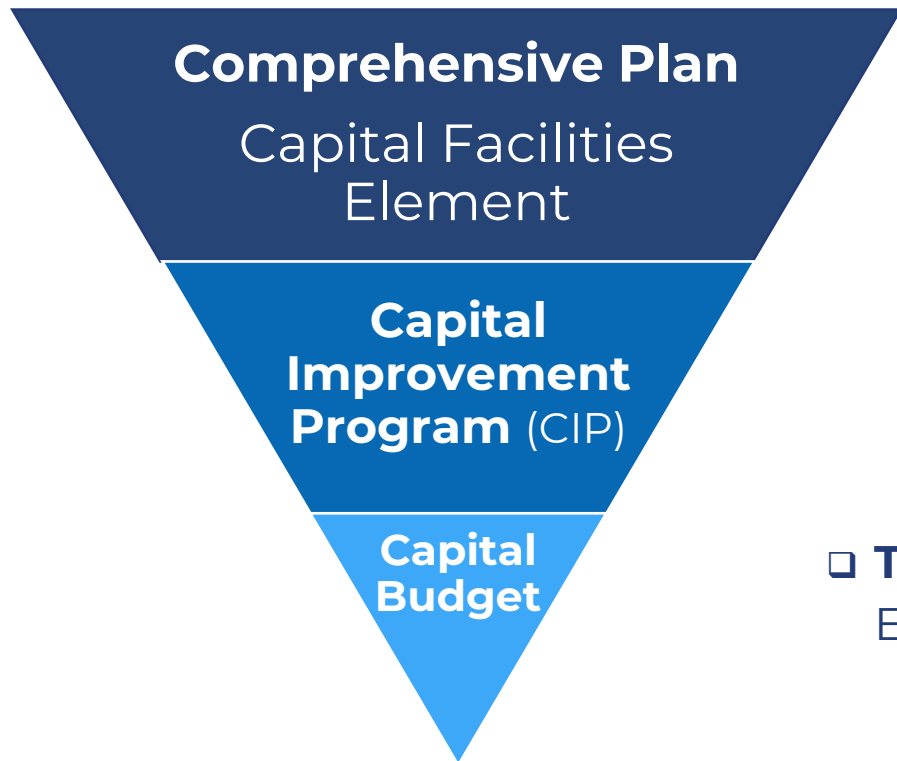
(More detail via AB 6840, 1/16/26)

# Capital Project Categories



# Infrastructure Planning

Several plans work in tandem to guide near-term infrastructure investments based on long-term community needs.

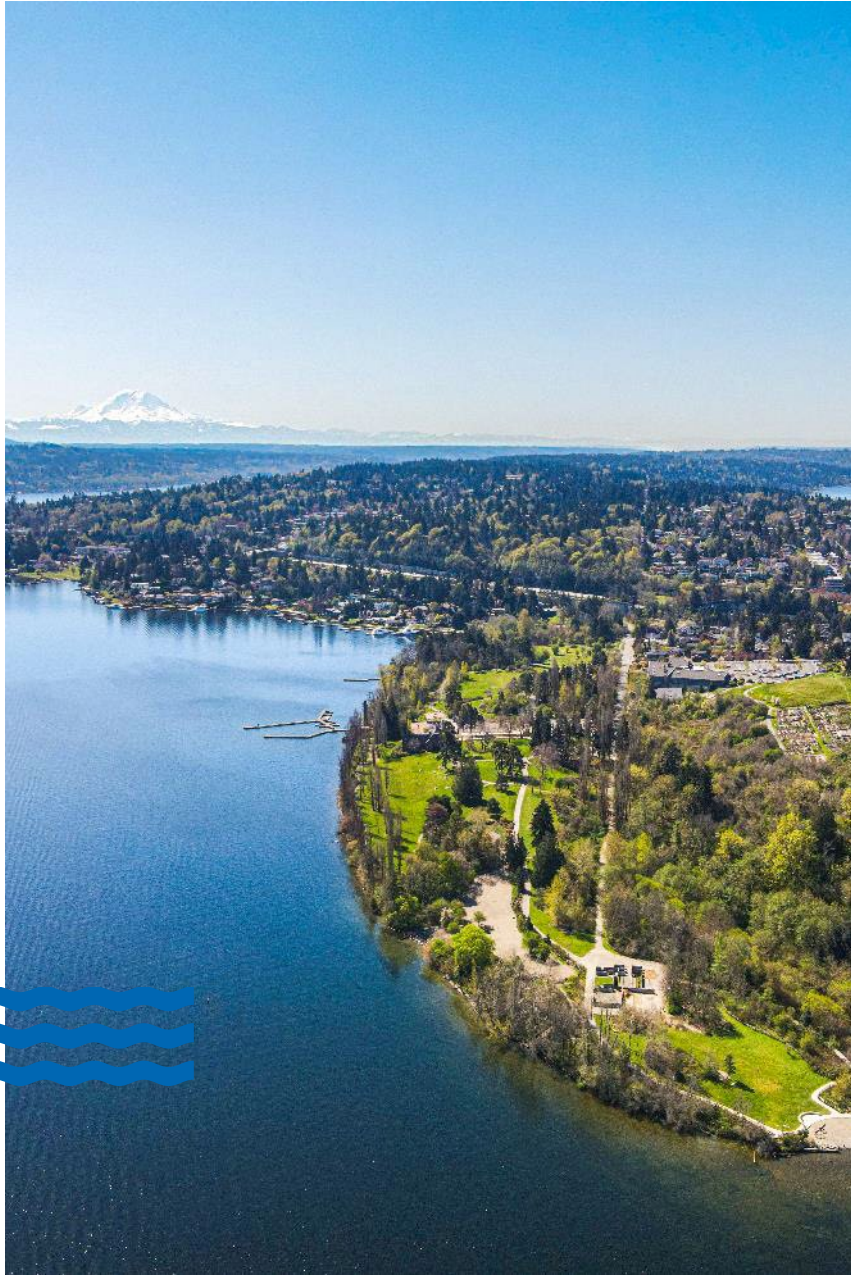


- **High-level twenty-year vision** guiding land use changes, resource protections, facility, utility, and service needs.
- **Six-year financial road map** identifies what, when, and how to construct and finance capital improvements.
- **Two-year authorized spending plan** within the six-year CIP. Exists in the biennial budget.

# Infrastructure Planning

Two plans share the common goal of maintaining and improving infrastructure via different timelines with distinct legal purposes under State law.

Feature	Comprehensive Plan (Capital Facilities Element)	Capital Improvement Program (CIP)
<b>Purpose</b>	Long-range policy and growth management.	Tactical project scheduling and funding.
<b>Horizon</b>	20 years (visionary).	6-year planning-period; 2-year action-oriented.
<b>Focus</b>	Levels of service, future needs, and land use consistent with state laws.	Project costs, funding sources, and construction timing.
<b>Legal Basis</b>	Required by the Growth Management Act. Periodic update every 10 years.	Legally authorizes spending every two years.
<b>Components</b>	Inventories assets. Forecasts demand for 20-years.	List of priorities, purpose, and financing plan.



# Questions?

# Capital Improvement Program

- ❑ \$111 million amended 2025-26 budget funds 142 active projects across eight different project (functional) categories.
  - ❑ Based on strategic goals, financial accounting, and legal requirements.
  - ❑ Organizes capital projects to prioritize limited resources.
  - ❑ Projects are aligned/balanced with other needs and resources.
- ❑ CIP matches specific improvements to restricted revenues.
  - ❑ Ensures fees for specific services – like water or sewer – pay for system improvements through utility rates.
  - ❑ New development pays for growth – related costs that adds capacity.
  - ❑ “General revenues” are unrestricted – can be spent on any government service.



# Current CIP – Exhibit 1

Project Category <i>(\$ in millions)</i>	Active Projects	Amended Budget 2025-2026 <sup>1</sup>	Type of Revenues	Fund(s)
Public Buildings	21	\$15.1	Real Estate Excise Tax (REET-1), grants, and general revenues (unrestricted).	320; 350; 001
Technology	8	\$1.1	General revenue, grants.	330; 001
Equipment	3	\$4.1	General revenue, grants.	330
Streets, Pedestrian, & Bicycle Facilities	24	\$12.3	REET-2, Transportation Benefit District vehicle fees, motor vehicle fuel taxes, grants, state shared revenues, and transportation impact fees.	110
Parks, Recreation, & Open Space	29	\$18.1	REET-1, REET-2, property taxes, 2022 parks levy, King County parks levy, grants, private contributions, parks impact fees, general revenues.	320
Water Utility	27	\$38.4	Water utility rates, connection charges, low-interest loans, general obligation debt financing.	410
Sewer Utility	16	\$12.4	Sewer utility rates, connection charges, grants, low-interest loan, general obligation debt financing.	420
Storm Water Utility	14	\$4.2	Storm water utility rates, connection charges, grants.	430

<sup>1</sup> Excludes administrative overhead for the capital improvement program.



# Public Buildings

## Major Projects:

- ❑ PW Building Seismic Retrofit Repairs
- ❑ Facility Repairs & Access System (Card Readers)
- ❑ MICEC HVAC Design ('25/'26) & Replacement (2027)
- ❑ 9655 Building Improvements

## Primary Revenues:

- ❑ Real Estate Excise Tax (REET-1)
- ❑ Grants
- ❑ General revenues (“unrestricted”)



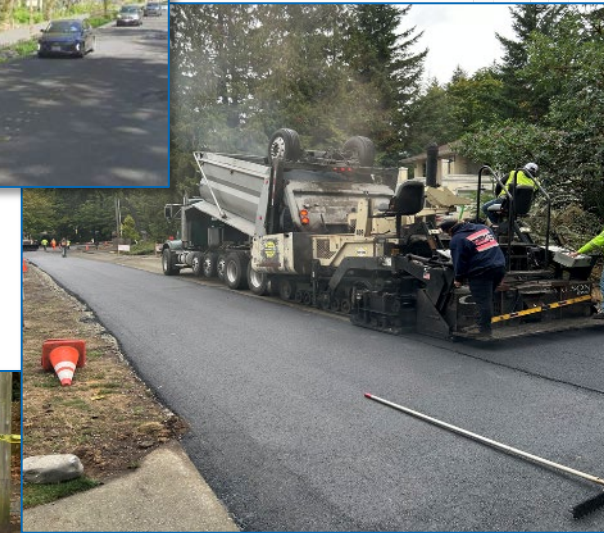
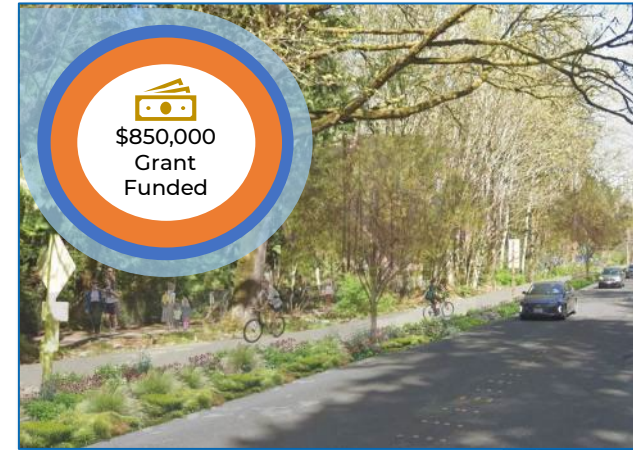
# Streets, Pedestrian, & Bicycle Facilities

## Major Projects:

- ❑ Island Crest Way Corridor Improvements.
- ❑ Residential Street Resurfacing
- ❑ 80<sup>th</sup> Ave Pedestrian Improvements
- ❑ Gallagher Hill/SE 36<sup>th</sup> Improvements

## Primary Revenues:

- ❑ REET-2
- ❑ Transportation Benefit District fees
- ❑ Motor vehicle fuel taxes
- ❑ Grants
- ❑ State shared revenues
- ❑ Transportation impact fees



# Storm Water System

## Major Projects:

- ❑ Subbasin 22.1 & 25b.2 Watercourse Improvements
- ❑ Street Related Stormwater Drainage Improvements

## Primary Revenues:

- ❑ Storm Water utility rates
- ❑ Connection charges
- ❑ Grants
- ❑ Outside long-term financing



# Parks, Recreation, & Open Space

## Major Projects:

- ❑ Luther Burbank Waterfront Improvements
- ❑ Clarke & Groveland Beach Joint Infrastructure Plan
- ❑ Deane's Children's Play Area Site Plan
- ❑ Open Space Vegetation Management



## Primary Revenues:

- ❑ REET-1 and REET-2
- ❑ Property taxes
- ❑ 2022 parks levy
- ❑ King County parks levy
- ❑ Grants
- ❑ Private contributions
- ❑ Parks impact fees
- ❑ General revenues



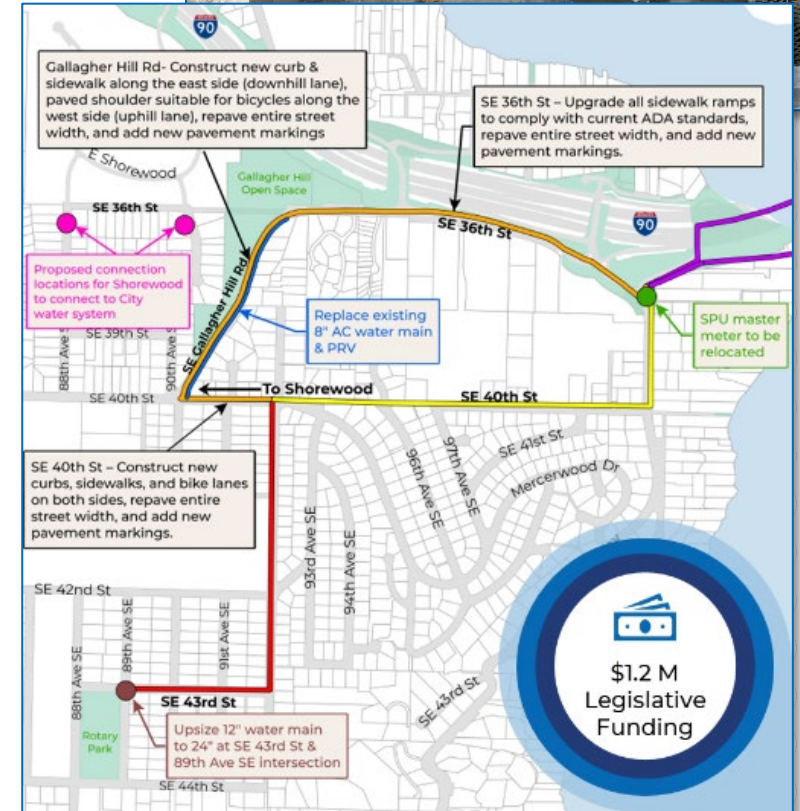
# Water Distribution System

## Major Projects

- ❑ Water Supply Pipeline Replacement
- ❑ AC Water Main Replacements
- ❑ PRV Station Replacements
- ❑ Water System Plan Update

## Primary Revenues

- ❑ Water utility rates
- ❑ Connection charges
- ❑ Outside long-term financing



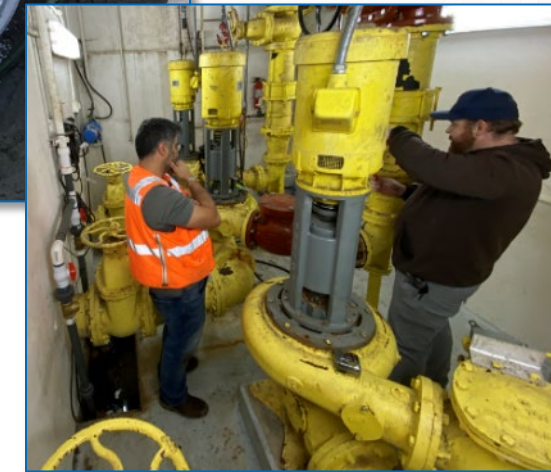
# Sewer Conveyance System

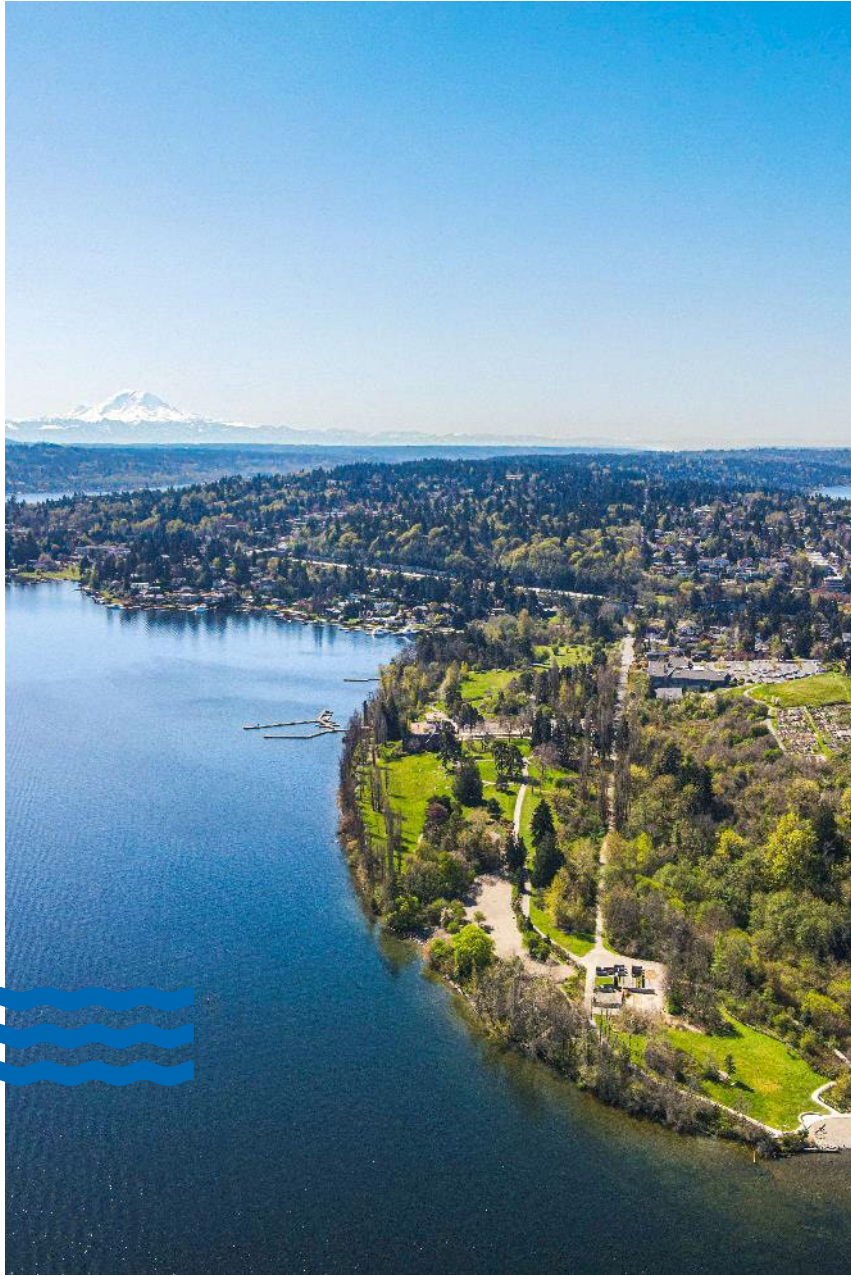
## Major Projects:

- ❑ Lakeline Reach 1 Capacity Improvements
- ❑ General Sewer Plan & Hydraulic Model
- ❑ SCADA Equipment Replacement
- ❑ Sewer Pump Station 20 Replacement

## Primary Revenues:

- ❑ Sewer utility rates
- ❑ Connection charges
- ❑ Grants
- ❑ Outside long-term financing





# Questions?



# Capital Financing Strategy

**(Refer to AB 6839 from 1/16/26 Council planning session)**

- ❑ Resources for capital are largely restricted.
  - ❑ Various chapters of the Revised Code of Washington (RCW).
  - ❑ [Resolution No. 1667](#), City's financial management policies.
  
- ❑ For facilities, examples of legal uses of restricted revenues include:
  - ❑ Utility rate revenues “proportionate share test.”
  - ❑ Within state restrictions, Council policy for Real Estate Excise Tax (REET) revenues.

# Utility Rates

- ❑ Mercer Island provides essential utility services to its residents and businesses.
  - ❑ Includes drinking water, sewer conveyance, and storm water management services billed on a bi-monthly basis.
- ❑ Council [Resolution No. 1675](#) outlines City's utility billing practices.
- ❑ Established rates are updated annually in City [fee schedule](#).
- ❑ Utility rate revenue may be used to fund operations and capital projects, with clear limitations set by state law.

# Proportionate Share

- ❑ Legal firewall between money utility customers pay and the money the City uses for general services like public safety ([RCW 35.92](#)).
- ❑ **Proportionate share test** required for utility revenues to pay for indirect/internal services (e.g., human resources, legal counsel, public facilities).
  - ❑ Financial Management Policies, Appendix B - Cost Allocation Plan.
- ❑ Not a policy preference; “proportionate share” is a legal requirement to ensure utility ratepayers are not unconstitutionally subsidizing general government operations.
- ❑ Same proportionate share test is required for utility funds to be used for capital projects.

# Proportionate Share Example

**Example: A new facility houses a total of 100 staff members.**

- ❑ Illustrates approach to allocating utility revenues to pay for a new facility.
  - ❑ 10 staff (equal to 10%) oversee the water utility operations and will be based at the new facility.
  - ❑ Under the **proportional share test**, 10% of the new facility can be paid for with water rate revenues.
- ❑ If water rate revenues pay for more than 10%, the City would **violate state law and its own local policies** because the utility is “benefitting” general government operations.

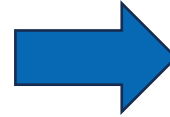
# Real Estate Excise Tax

0.5% tax on sale price paid by seller in property transactions.

## State Law (RCW 82.46)

Restricts use of REET.

- ❑ REET-1 (1st 0.25%) > streets, parks, utilities, or facilities.
- ❑ REET-2 (2nd 0.25%) > streets, parks, or utilities. Not facilities.
- ❑ Not used on equipment or technology.



## Council Budget Policy

Established in 2019.

- ❑ 100% REET-1 to parks & facilities.
- ❑ 10% REET-2 to parks & facilities.
- ❑ 90% REET-2 to streets.



**State Law: 100% can be used for streets and parks; 50% for facilities.**

# Real Estate Excise Tax

- Table below provides context over the last three years of total REET revenues received and their allocation based on Council policy.

REET Allocation per Council Policy			Fiscal Year (\$ in millions)		
Fund	Type	%	2023	2024	2025
320 - Capital Improvement	REET-1	100%	\$ 1.7	\$ 2.0	\$ 1.9
320 - Capital Improvement	REET-2	10%	0.2	0.2	0.2
110 - Street	REET-2	90%	1.5	1.8	1.7
320 Subtotal			\$ 1.9	\$ 2.2	\$ 2.1
110 Subtotal			1.5	1.8	1.7
<b>Total REET</b>			<b>\$ 3.4</b>	<b>\$ 3.9</b>	<b>\$ 3.9</b>

# Real Estate Excise Tax

- ❑ The City Council can modify the REET financing strategy based on near and long-term CIP project priorities.
- ❑ For example, the City Council could consider revising current policy to re-direct REET funding to facility projects and reduce funding for parks and street projects.
- ❑ This would require revisiting the capital project list and re-prioritizing projects.

# Key Take-Aways

- 1. Cascade effect:** Near-term decisions have long-term implications.
- 2. Legal guardrails:** State sets laws for using revenues restricted for both capital improvements and day-to-day operations.
- 3. Local priorities:** Within State limitations Council prioritizes restricted revenues to best serve the community.



# Next Steps

- ❑ In March, findings from the community survey will be shared with the City Council.
- ❑ Staff will receive feedback from the City Council discussion tonight and return with additional capital program information to inform future facility planning and 2027-2028 budget development.
- ❑ **Alternative:** The City Council may wish to reconvene the Ad-Hoc Finance Committee to review the capital program and return with recommendations. Note, this was not included in the agenda bill.

# Discussion Questions

1. Are there any questions regarding current capital projects, including project sequencing, funding, or related considerations? Refer to [Exhibit 1](#).
2. Should capital funding be reprioritized to advance facility projects? If so, to what extent, and what process would the City Council like to use to review and adjust the project list?
  - a. **Alternative:** Would the City Council like to reconvene the Ad-Hoc Finance Committee to review options and present a recommendation to the full City Council?
3. What guiding principles should inform decisions about reprioritizing capital investments (e.g., life-safety, continuity of operations, regulatory requirements, asset condition, community impact)?
4. How should we engage with the community on these discussions?

# Questions

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