AB 6997

2027-2028 Preliminary Biennial Budget

Financial Forecast & Budget Amending Ordinance

Sept 15, 2026

Agenda

1. Financial Forecast and the 2027-2028 Biennium
2. Budget Amending Ordinance
3. Biennial Budget Next Steps
4. Questions

Tonight’s Purpose

Present the Financial Forecast.

In October, Council turns to the policy decisions in the 2027-2028 Preliminary Budget.

Financial Forecast

- Each year, Council receives an updated forecast on the City's financial position. Helps inform Council policy decisions.

- Although forecast span 2026-2032, projections in next two years establishes spending limits in the Preliminary Budget, scheduled for release next week.

  - Analysis based on regional trends & City financials through Q2 2026.

2027-2028 Biennial Budget Schedule

Sept 15

Revenue Forecast

Establishes baseline revenues for 2027-2028

Sept 22

Release

2027-2028 Preliminary Budget

Oct 6

Budget Introduction & CIP Overview

Oct 20*

Work Plan & Operating Budget Review

Nov 17*

Adopt Property tax levies & Northeast King County Regional Public Safety Communication Agency rates

Dec 1*

Budget Adoption

** Public hearings*

Economic Landscape

🏛 State & Regional Revisions

Washington state and King County reduced revenue projections this summer driven by a complex mix of budgetary pressures, slowed job growth, and persistent inflation.

First Half CPI-W

2026	4.1%
2025	2.3%
2024	4.2%
2023	6.5%
2022	8.6%
2021	3.3%

⚖ Federal Policy Signals

Contradicting signals, policy changes, and threat of additional policy changes at the federal level create greater uncertainty.

Forecasting Methodology

While federal, state, and regional activity informs projections, the forecast is largely built based on local financial data. Economic trends in 2025 persisted through Q2 2026, with activity projected to remain consistent through 2028.

Forecast Take-Aways

Operating Deficit in 2027

Expenditures exceed revenues in YFS and General Funds in 2027.
The gap widens over time.

Operating Deficit *($ in millions)*	**2027**	**2028**	**Total**	**Percent of Expenditures**
YFS Fund	$ 0.9	$ 1.1	$ 2.0	25%
General Fund	0.7	1.7	2.4	3%
Total	**$ 1.6**	**$ 2.8**	**$ 4.5**	

Forecast Take-Aways

Near-term Strategy

City Manager proposes using one-time funds to sustain operations through 2028. Provides time to make deliberate, community-informed decisions about City’s long-term financial plan.

Available Fund Balance Origins

- Financial policies adopted in 2021 helped reshape municipal operations and align citywide efforts around long-term financial goals:
  - Delivered a positive available balance in General Fund every year since 2021.
  - Enabled the purchase of a 22,000-square-foot building adjacent to City Hall.
  - Built a shared culture of fiscal prudence and resourcefulness among staff and policymakers.
- **The near-term strategy is the result.** Projected to close 2026 with a $4.8M available fund balance in the General Fund.

Financial Forecast

YFS Fund

- Accounts for revenues and expenditures related to the Youth & Family Services.
- Apart from the Thrift Shop and MIYFS Foundation, the YFS Fund relies on the General Fund and its operating balance.
- Operating fund balance addresses temporary shortfalls & time-limited needs.
- With operating fund balance depleted in 2028, General Fund’s annual support increases from $350K in 2026 to $1.07M in 2028.

YFS Fund Forecast

RESOURCES *($ in thousands)*	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Beginning Fund Balance (Includes Reserves)	**$1,209**	**$571**	**$133**	**$70**	**($790)**	**($1,738)**	**($2,825)**

REVENUES							
Federal, State & Local Grants	96	58	46	46	46	46	46
Healthy Youth Initiative Grants	93	110	0	0	0	0	0
School Counselor Program Support	60	60	60	60	60	60	60
Thrift Shop	1,903	2,094	2,198	2,242	2,287	2,287	2,287
Emergency Assistance Program Support	15	15	15	15	15	15	15
MIYFS Foundation Support	610	580	580	580	580	580	580
Opioid Settlements	44	34	52	52	48	44	44
Affordable and Supplemental Housing	35	35	35	35	35	35	35
Program Fees & Donations	298	163	163	163	163	163	163
General Fund Support	350	477	1,067	350	350	350	350
Total Revenues	**3,504**	**3,626**	**4,216**	**3,543**	**3,584**	**3,580**	**3,580**
Total Fund Resources	**4,713**	**4,196**	**4,348**	**3,614**	**2,794**	**1,842**	**756**

EXPENDITURES							
YFS Administration	520	549	601	617	634	651	668
Thrift Shop	1,373	1,470	1,592	1,638	1,684	1,732	1,782
School Counselor Program	977	991	1,069	1,102	1,136	1,171	1,207
Family Counseling & Outreach	633	454	474	489	504	519	535
Emergency Assistance & Food Pantry	341	317	325	336	346	357	368
Senior Programs & Services	101	101	103	106	109	113	116
Healthy Youth Initiative Grants	199	181	113	117	120	124	127
Total Expenditures	**4,142**	**4,064**	**4,278**	**4,403**	**4,533**	**4,666**	**4,804**
Net Operating - Over/(Under)	*(638)*	*(438)*	*(62)*	*(860)*	*(949)*	*(1,086)*	*(1,224)*

Ending Fund Balance (Includes Reserves)	**$571**	**$133**	**$70**	**($790)**	**($1,738)**	**($2,825)**	**($4,048)**

Note: Slight differences occur due to rounding.

General Fund Forecast

Baseline Assumptions

- Expenditures as presented in the Forecast and Preliminary Budget increase 6.1% between 2026 and 2028.
- Revenues increase by 4.4% over the same timeframe.

General Fund *$ in millions*	**2026**	**2027**	**2028**	**% Chg.**
Projected Revenues	$ 39.2	$ 39.9	$ 40.9	4.4%

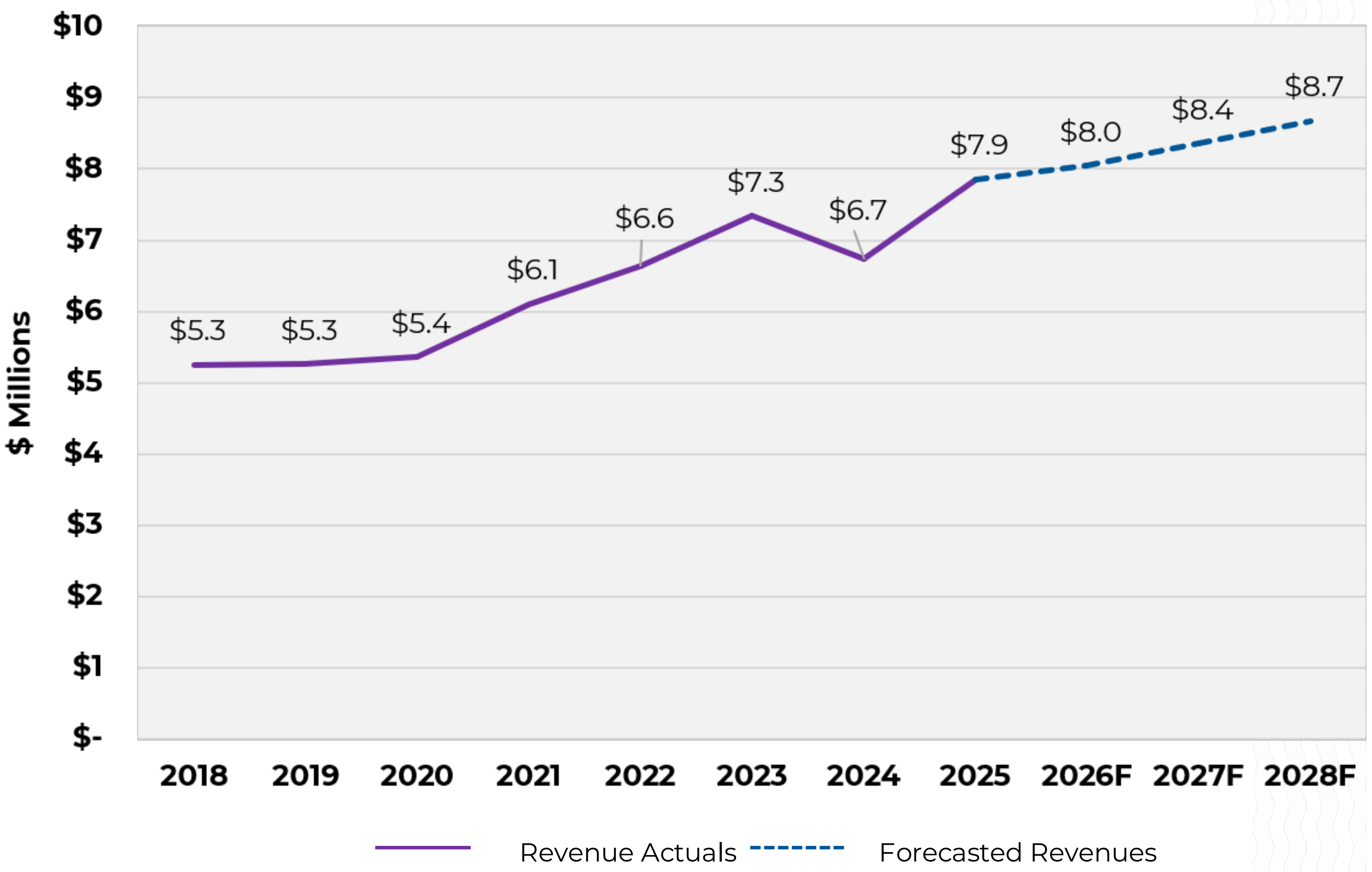
Property Tax

Property Tax *$ in millions*	2026	2027	2028
Projected Revenues	$ 14.5	$ 14.6	$ 14.8

- Accounts for 38% of General Fund revenues.
- Stable revenue source with annual payments in April & October.
- Revenues thru Q2 2026 are on track. Forecast assumes statutorily allowed 1% of levied amount from prior year plus new construction.

General Sales Tax

- Includes City portion (0.85%) of sales tax in Mercer Island and King County criminal justice sales tax (0.1%).
- Year-over-year growth since 2018. 2024 dip due to change to cash basis reporting.
- Forecast 2.3% increase in 2026 compared to 2025, with a 4% annual growth in 2027 and 2028.



Utility Tax

Utility Tax *$ in millions*	2026	2027	2028
Projected Revenues	$ 5.9	$ 6.0	$ 6.2

- Utility user tax on gross revenues earned by utilities, such as natural gas, electricity, and City utilities (e.g., water and sewer).
- Accounts for 15% of General Fund revenues.
- Forecast assumes 2026 revenues meet budget expectations, increase 3.3% annually in 2027 & 2028.

Utility	Rate
Cable	7.0%
Telephone	6.0%
Cellular Phone	6.0%
Natural Gas	6.0%
Electric	6.0%
Solid Waste	7.0%
Stormwater	5.3%
Water	5.3%
Sewer	5.3%

**Effective since Jan 1, 2020.*

Parks & Recreation

Parks & Recreation *$ in millions*	**2026**	**2027**	**2028**
Projected Revenues	$ 1.56	$ 1.61	$ 1.63

- Accounts for 3% of General Fund Revenues.
- Revenue from field and community center rentals, boat launch use, recreation programs, and rental payments.
- Revenues through Q2 2026 are 6% higher than same period last year. Tied to online booking platform for managing rentals.
- Forecast projects 2026 revenues finish $300K above expectations, increase 3.8% in 2027, and 1.25% in 2028.

Business & Occupation Tax

- Accounts for 2% of General Fund revenues.
- Applies 0.10% tax on annual gross revenues exceeding $150K.
- Paid annually by April 15; businesses earning +$1.0M file quarterly.
- Past five years indicate revenue volatility, makes it difficult to project.

B&O Tax	Revenue *$ in thousands*	YOY % Chg
2028F	$ 1,052	0%
2027F	1,052	0%
2026F	1,052	-24%
2025	1,389	39%
2024	1,002	7%
2023	936	100%
2022	469	-39%
2021	767	-3%

** 2020 revenue amounted to $793,117*

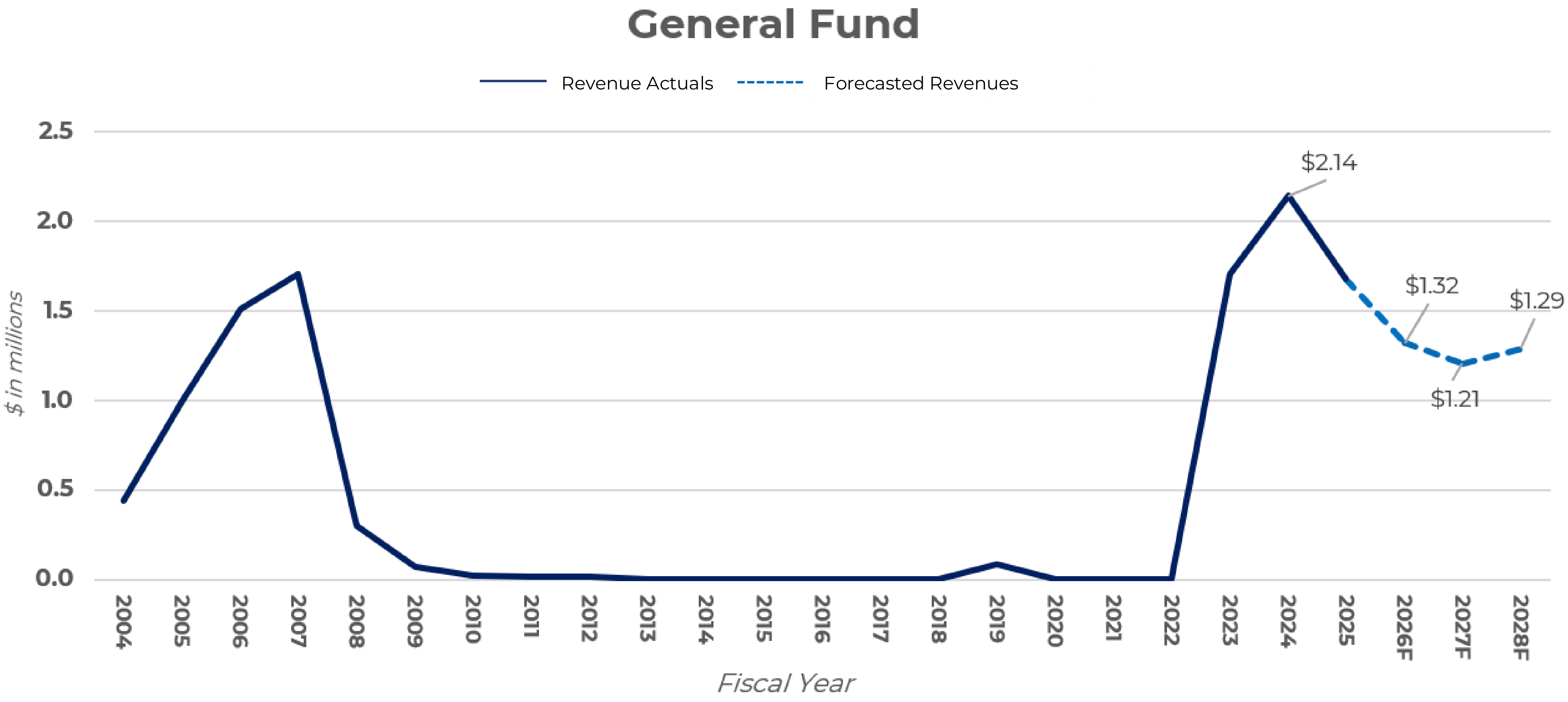
- **YTD Performance**: Generated $676,000 through Q2 2026, down 33% relative to the same period last year.
- Revenue projected to exceed budget by $296,000 in 2026, then stabilize at $1.05M annually for 2027 and 2028.

Interest Earnings

- Interest earned on City's holdings in the Local Government Investment Pool accounts for 3% of General Fund revenues.
- Forecast based on projected principal balance, earnings rate, and portion of principal balance tied to General Fund.
- Forecast revenues exceed 2026 budget by $160,000, decrease slightly in 2027, and are projected to rebound $80,000 in 2028.

Key Factors *$ in millions*	**2025** Actuals	**2026** Forecast	**2027** Forecast	**2028** Forecast
Principal Balance (AVG)	$ 89.9	$ 85.0	$ 80.8	$ 90.5
Earnings Rate (AVG)	4.3%	3.6%	3.5%	3.5%
General Fund Portion	43%	43%	43%	41%
Interest Earnings	**$ 1.68**	**$ 1.32**	**$ 1.21**	**$ 1.29**

Annual Interest Earnings



General Fund Forecast

RESOURCES *($ in thousands)*	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Beginning Fund Balance (Includes Reserves)	**$9,442**	**$9,447**	**$8,727**	**$7,030**	**$5,690**	**$3,844**	**$1,562**
REVENUES							
Appropriated Fund Balance	972	0	0	0	0	0	0
Property Tax	14,469	14,614	14,800	14,975	15,153	15,324	15,497
General Sales Tax	8,041	8,353	8,677	8,917	9,163	9,417	9,678
Utility Taxes	5,852	6,043	6,240	6,407	6,580	6,760	6,945
Business & Occupation Tax	1,052	1,052	1,052	1,083	1,116	1,149	1,184
Parks & Recreation Programs	1,556	1,615	1,635	1,635	1,656	1,656	1,656
Overhead Allocation Charges	2,527	2,630	2,736	2,861	2,992	3,129	3,272
Licenses & Permits	305	301	304	307	310	314	317
State Shared Revenues	1,285	1,238	1,256	1,211	1,232	1,254	1,277
Miscellaneous Revenues	2,543	2,580	2,650	2,716	2,783	2,850	2,918
Interest Earnings	1,321	1,209	1,290	1,090	927	881	854
Municipal Court	209	220	231	235	240	245	250
Total Revenues	**40,132**	**39,853**	**40,870**	**41,438**	**42,153**	**42,978**	**43,848**
Total Fund Resources	**$49,573**	**$49,300**	**$49,596**	**$48,468**	**$47,843**	**$46,821**	**$45,410**
EXPENDITURES							
Personnel	18,255	18,551	19,300	19,857	20,430	21,020	21,627
Supplies	724	756	760	773	787	801	815
Contractual Services	9,731	10,430	10,751	11,083	11,433	11,795	12,169
Other Services & Charges	7,653	7,602	7,904	7,885	8,123	8,369	8,624
Interfund Transfers	3,763	3,235	3,851	3,180	3,227	3,275	3,325
Total Expenditures	**$40,127**	**$40,573**	**$42,566**	**$42,779**	**$43,999**	**$45,259**	**$46,560**
Net Operating - Over/(Under)	*5*	*(720)*	*(1,697)*	*(1,340)*	*(1,846)*	*(2,282)*	*(2,713)*
Ending Fund Balance (Includes Reserves)	**$9,447**	**$8,727**	**$7,030**	**$5,690**	**$3,844**	**$1,562**	**($1,151)**

Note: Slight differences occur due to rounding.

Key Take-Away

Fund Balance - General Fund *($ in millions)*	2026F	2027F	2028F
Beginning Fund Balance	$ 9.4	$ 9.4	$ 8.7
Revenue	40.1	39.9	40.9
Expense	(40.1)	(40.6)	(42.6)
Reserves[1]	(4.6)	(4.7)	(4.8)
Ending Available Fund Balance	**$ 4.8**	**$ 4.0**	**$ 2.2**

[1] *Includes resources that are "restricted," "non-spendable," and "committed" per state law and local policy. Slight differences occur due to rounding.*

Use of one-time funds from prior year savings is proposed to bridge operations thru 2028.

By 2029, $2.2M available fund balance is projected in the General Fund.

Questions?

Capital Improvement Fund

- Accounts for revenues that can be spent on capital projects including parks, open spaces, and buildings.
- Includes funding from taxes, levy lid lifts, grants, utility and impact fees, each with unique restrictions on eligible uses.
- Largest revenue source is Real Estate Excise Tax (REET).

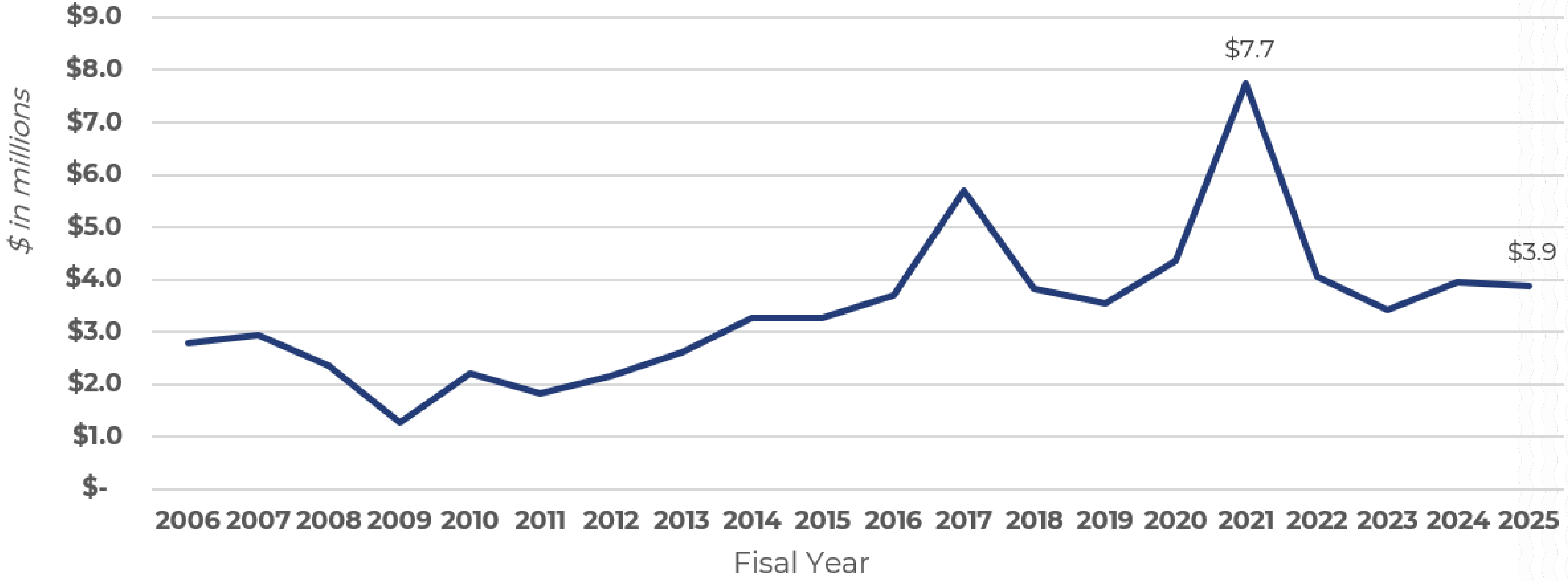
Real Estate Excise Tax

- A 0.5% seller-paid tax on property transactions.
- Restricted by state law to streets, parks, and facilities as well as utilities and housing, <u>not</u> equipment or technology.
  - **REET-1**: 100% to Capital Improvement Fund for parks, open space, facility maintenance, and debt service for 9655-building acquisition.
  - **REET-2 (Split)**: 10% to Capital Improvement Fund, 90% to Street Fund.
- Following a $7.7M peak in 2021, revenues are consistently low due to sluggish real estate market since 2022 through Q2 2026.

Mercer Island REET Revenues

20-Year Lookback

2006 - 2025



Real Estate Excise Tax

- REET revenues are projected to remain low in 2026, with minimal growth through 2028.
- Forecast is based on year-to-date average home prices, local sales data since 2025, and historical seasonal sales trends.

Fund *($ in millions)*	**Description**	**Allocation**	**2025** Actuals	**2026** Forecast	**2027** Forecast	**2028** Forecast
Capital Improvement	REET-1	100%	$ 1.94	$ 2.40	$ 1.98	$ 2.03
Capital Improvement	REET-2	10%	0.19	0.24	0.20	0.20
Street	REET-2	90%	1.74	2.16	1.78	1.82
Total			**$ 3.87**	**$ 4.80**	**$ 3.96**	**$ 4.06**

** 2026 forecast includes $900,000 in revenues that resulted from two extraordinary sales in July.*

Capital Improvement Fund

RESOURCES *($ in thousands)*	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**
Beginning Fund Balance (Includes Reserves)	**$6,782**	**$805**	**$4,177**	**$1,889**	**$2,267**	**$1,837**	**$2,787**
REVENUES							
Property Tax	1,178	1,195	1,212	1,232	1,253	1,274	1,284
Real Estate Excise Tax	2,642	2,179	2,230	2,345	2,466	2,595	2,731
Grants	251	5,645	841	0	0	0	0
Impact Fees	21	25	25	25	25	25	25
Shared Revenues	1,271	632	290	290	290	290	290
Miscellaneous Revenues	306	210	250	250	250	250	250
Interfund Transfers	1,311	155	0	0	1,700	0	0
Total Revenues	**6,979**	**10,040**	**4,848**	**4,142**	**5,984**	**4,434**	**4,580**
Total Fund Resources	**13,761**	**10,845**	**9,025**	**6,031**	**8,251**	**6,271**	**7,368**
EXPENDITURES							
Bonds and Reserves	137	140	137	139	142	145	148
Project Management Expenses	2,372	1,086	1,119	1,149	1,181	1,213	1,246
Public Buildings	1,061	4,083	3,618	1,523	3,133	1,308	3,084
Parks and Natural Resources	9,386	1,359	2,263	952	1,959	818	1,929
Total Expenditures	**12,956**	**6,668**	**7,136**	**3,763**	**6,415**	**3,484**	**6,407**
Ending Fund Balance (Includes Reserves)	**$805**	**$4,177**	**$1,889**	**$2,267**	**$1,837**	**$2,787**	**$961**

Note: Slight differences may occur due to rounding.

Questions?

Summary

- ❑ Revenue trends in 2026 are consistent with 2025 activity. These trends are projected to continue through 2028.
- ❑ As of 2027, expenditures exceed revenues in the City's operating funds.
- ❑ Use of one-time funds from prior year savings sustains operations through 2028. Relying on unassigned fund balances is a short-term strategy.
- ❑ Affords time for staff and policymakers to make community-informed decisions about the City's long-term financial path.

Budget Appropriations

- Ordinance No. 26-08 outlines budget adjustments previously approved by the City Council.
- Budget amending ordinances are presented quarterly to account for adjustments throughout the year.
- Most adjustments in Exhibit 2 tie to recent City Council decisions at the September 1, 2026 Council meeting.

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Revenue Forecast

Establishes baseline revenues for 2027-2028

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Dec 1*

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** Public hearings*

Staff Recommendation

1. Adopt Ordinance No. 26-08, amending the 2025-2026 Biennial Budget.

Questions

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