



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5975
November 16, 2021
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5975: Mid-Biennial Budget Public Hearing; Q3 2021 Financial Status Update; 2022 Property Tax Ordinances; Ordinance to Dissolve Fund 061; NORCOM Rate Resolutions; and Hazardous Materials Cost Recovery Resolution.	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Conduct public hearings; receive Financial Status Update; adopt the 2022 Property Tax ordinance and dissolution of Fund 061 ordinance; adopt the 2022 NORCOM Budget Resolution No. 1604 and the 2022 Emergency Services Cost Recovery Resolution No. 1605.	<input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director
COUNCIL LIAISON:	n/a n/a n/a
EXHIBITS:	1. Third Quarter 2021 Financial Status Update. 2. Ordinance No. 21-29 (2022 Property Tax levy amount) 3. Ordinance No. 21-30 (2022 Property Tax levy increase) 4. First Reading of Ordinance No. 21C-32 to dissolve the YFS Endowment Fund-061. 5. NORCOM 2022 Budget Resolution No. 1604. 6. 2022 Emergency Services Cost Recovery Resolution No. 1605.
CITY COUNCIL PRIORITY:	2. 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.

SUMMARY

This agenda bills includes the following items for City Council consideration:

- Third Quarter Financial Report (Exhibit 1)
- Ordinance No. 21-29, which identifies the 2022 total Property Tax levy amount (Exhibit 2)
- Ordinance No. 21-30, which identifies the dollar and percent increase in the 2022 Property Tax levy relative to the 2021 levy (Exhibit 3)
- Ordinance dissolving the YFS Endowment Fund (Exhibit 4)
- Resolution No. 1604 approving Northeast King County Regional Public Safety Communication Agency's (NORCOM) 2022 budget allocation to the City of Mercer Island (Exhibit 5)
- Resolution No. 1605 authorizing the City Manager to continue the contract for services with EF Recovery (Exhibit 6)

In addition, the City Council will conduct a public hearing related to the 2021-2022 mid-biennial budget update.

Staff will return to the City Council on December 7 to review and adopt utility rates for fiscal year 2022 and to finalize amendments to the 2021-2022 biennial budget.

FINANCIAL STATUS UPDATE

Exhibit 1 outlines financial results for revenue and expenditure categories through September 30, 2021. The City has collected \$22.2 million in General Fund revenues, or 65.9 percent of the revenue budget as amended. Property Tax revenues are low at this point in the year due to the timing of Property Tax collections, with the latter half of the year's payments from property owners due October 31, 2020. As of September, general sales tax is performing above amended budget expectations due to higher-than-expected returns, while utility tax revenues and business and occupation tax revenues are on track above prior year revenues.

Total General Fund revenues are \$2.4 million more than at the end of the third quarter of 2020. The increase, as compared to 2020, is driven by higher-than-expected sales tax revenues and licenses, permitting and land use revenues. It is important to note the COVID-19 Pandemic ("Pandemic") significantly impacted City operations at this point last year.

General Fund expenditures are on track with the amended budget at the end of September. Total expenditures of \$22.9 million are 68 percent of the budget as amended. Total expenditures are \$1.6 million more than the same period in 2020, reflecting the increased spending due to Sound Transit Litigation and a focus on spending time sensitive, one-time funds that were unavailable the prior year.

Salary and benefit costs are slightly under budget at 70 percent of the amended budget at the end of the third quarter, due to staff vacancies and difficulty with hiring. Supplies are below prior year spending while contract services are higher than last year. Other services and charges, which includes insurance, utilities, jails, and intergovernmental costs, are at 73 percent of the amended budget and are on track at the end of the third quarter. Staff anticipates all categories will remain within budget expectations through year-end.

GENERAL FUND EXPENDITURES (\$ in millions)	2021 Amended Budget	Actuals thru 9/30/2020	Actuals thru 9/30/2021	YTD as % of Budget
Salary & Benefits	\$22.2M	\$16.5M	\$15.6M	70%
Supplies	\$0.8M	\$0.4M	\$0.4M	55%
Contract Services	\$4.3M	\$1.0M	\$2.2M	53%
Other Services & Charges	\$5.3M	\$3.2M	\$3.9M	73%
Interfund Transfers Out	\$0.9M	\$0.2M	\$0.7M	76%
TOTAL EXPENDITURES	\$33.5M	\$21.3M	\$22.9M	68%

The City's Water, Sewer, and Stormwater Utility funds are operating within budget expectations. Capital projects across the utility funds are on track. With design work completed, projects are being advertised with construction scheduled for the latter half of 2021 and the second year of the biennium. Unspent budget allocation is also a result of delays due to supply chain issues (a Pandemic-related impact) for projects such as the water and sewer SCADA System Upgrades and Booster Chlorination Station.

All other operating and capital funds of the City are within budget expectations, and there are no significant variances to either revenue or expenditures.

2022 PROPERTY TAX ORDINANCES

Background

RCW Chapters 84.52 and 84.55 grant cities the authority to impose a local Property Tax. Revenues from Property Taxes are considered general government revenues and are allocated to the General Fund to be used for basic governmental services such as public safety, public works, parks, and/or administration.

Property Tax is a budget-based tax, which means that the percent increase from year-to-year is applied to the amount of taxes levied in the prior year. Municipalities levying Property Tax in Washington can increase the Property Tax levy by up to 1% each year or by the amount of the implicit price deflator (IPD) – whichever is lower – plus the value of new construction. The IPD is used to measure inflation based on personal consumption.

The value of the IPD for the 2022 levy is greater than 1%, therefore the levy is limited to 1%. Staff has assumed the 1% increase in the 2022 Proposed Budget and is not recommending assessing less than 1% in 2022. The 1% increase and the overall breakdown of the 2022 levy is shown in greater detail in the table below:

LEVY ELEMENTS	2021 FINAL	2022 PRELIM
(\$ in thousands)	Levy	Levy
Regular Levy		
Prior Year Levy	\$12,261	\$12,436
Plus 1% Optional Increase	\$73	\$124
Plus New Construction	\$115	\$139
Plus Re-levy of Prior Year Refunds	\$3	\$10
Total Regular Levy	\$12,454	\$12,710
Levy Lid Lifts		
2008 Parks Maintenance & Operations + 1%	\$970	\$980
2012 Fire Station & Fire Rescue Truck + 1%	\$693	-
Total Levy Lid Lifts	1,663	\$980
Total Levy	\$14,117	\$13,690
% Change Relative to Prior Year	0.60%	-4.06%

The 2022 preliminary Property Tax levy includes two ordinances as required by State law:

- Ordinance No. 21-29, which identifies the 2022 total Property Tax levy amount (Exhibit 2); and
- Ordinance No. 21-30, which identifies the dollar and percent increase in the 2022 Property Tax levy relative to the 2021 levy (Exhibit 3).

For the 2022 tax year, the City's total Property Tax levy consists of the following elements:

- **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 % optional increase:** Applies to the regular levy and the levy lid lifts, which are noted above, and represents the maximum increase the City Council can adopt for the coming year, excluding new construction and the re-levy of the prior year refunds.
- **New construction:** Represents the new and improved properties included in the Property Tax rolls. A preliminary estimate of \$139,000 is assumed for new construction pending final numbers from the King County Assessor's Office.
- **Re-levy of prior year refunds:** Represents the amount refunded to property owners who successfully appealed their property valuations by the Assessor's Office. This amount is re-levied in the following year to make the City financially whole.
- **2008 levy lid lift:** Approved by voters in November 2008 for parks maintenance and operations (a 15-year levy ending in 2023). The 1.0 % optional increase was included in the 2022 levy amount.

The 2012 levy lid lift was approved by voters November 2012 for the replacement of the South Fire Station and a fire rescue truck (a 9-year levy). The levy expired this year, sunsetting the payment for debt service on Station 92 and the annual contribution to the fire apparatus replacement reserves. This largely explains the 4% decrease in the 2022 overall levy amount compared to the prior year.

Preliminary Versus Final Levy Amount

All King County cities are legally required to submit an estimate of their 2022 Property Tax levies to the Metropolitan King County Council by November 30th. The King County Assessor's Office does not, however, provide each City with the final assessed valuation and new construction amounts for the new tax year until the second week of December.

As a result, cities adopt Property Tax levies for the coming year based on a preliminary assessed valuation and new construction amounts. When the finalized amounts are distributed by the Assessor's Office in December, staff simply notify the Metropolitan King County Council of the corrected levy amount.

Alternatives to the 1% Property Tax

The City Council could choose not to adopt the Property Tax levy ordinance. Without passage, the City is only allowed to levy the same amount as the year prior. This will result in \$13.4 million in Property Tax revenues (excluding the 2012 Fire Station & Rescue Truck Lid Lift), \$266,000 below the maximum allowable levy. This will require reducing expenditures in the 2022 proposed budget by the equivalent amount to maintain a balanced budget. If the City Council chooses to levy less than the 1.0% maximum amount allowed, it may "bank" capacity not levied to use in the future.

DISSOLUTION OF THE YFS ENDOWMENT FUND

On September 21, 2021, the City Council adopted new Financial Management Policies (see [AB 5943](#)) to guide how staff draft the biennial budget, achieve goals set forth in work plans, and maintain the City's long-term financial position.

These new policies established new best practices and outlined measures to better protect City services, including those provided by the Youth and Family Services Department. The Youth and Family Services Endowment Fund – 061 (Endowment Fund) was established in 1986 to hold donations invested as principal while interest earnings were used for ongoing operations. Over the past ten years, the Endowment Fund 061 averaged investment earnings of roughly \$2,300 a year with principal remaining at about \$290,000.

Ordinance 21C-32 (see Exhibit 4) dissolves the Endowment Fund. Monies held within the Fund will transition to the newly established operating fund balance for Youth & Family Services Fund – 160. The new fund balance was created to address temporary revenue losses due to economic-cycles, emergencies, or other time-limited impacts to YFS operations. It will be maintained at a target of six-months of average monthly YFS expenditures, evaluated each biennium. It will also provide adequate reserves given the asynchronous nature between the City’s biennial budget and the Mercer Island School District’s academic year.

2021 NORCOM BUDGET RESOLUTION

Resolution No. 1604 (Exhibit 5) approves Northeast King County Regional Public Safety Communication Agency’s (NORCOM) 2022 budget allocation to the City of Mercer Island. Every participating City must adopt such a resolution before NORCOM approves its 2022 budget in December 2021. Compared to 2021, NORCOM’s 2022 budget allocation to Mercer Island increased \$17,520, or by 2.5%, as shown in the table below.

DEPARTMENT (\$ in thousands)	NORCOM			
	2021	2022	\$ Change	% Change
Police	539	542	3	0.6%
Fire	166	180	14	8.6%
Total	\$705	\$723	\$18	2.5%

EF RECOVERY RESOLUTION

When motor vehicle accidents or hazardous material spills occur on Mercer Island, the City has a right to recovery reasonable and necessary costs from the at-fault parties under state law. In September of 2017 the City Manager signed an agreement with EF Recovery authorizing the Fire Department to provide EF Recovery with the information necessary to bill the at-fault party of a motor vehicle accident insurance company for safety and hazard mitigation services performed by the Fire Department while on scene of the incident. EF Recovery forecasted the City would collect about \$60,000 a year from this program. The City committed to dedicating revenue from this program to the Fire Department vehicle replacement fund.

Since then, the Fire Department has continued to provide access to the information needed for EF recovery to bill for these services. Over the course of the last three years, the City has collected an average of \$21,000 a year, between 2018 – 2020. There is minimal effort required of City staff to support this program.

While performing a routine audit of City agreements, staff determined a resolution should have been passed by the City Council in 2017 to authorize this agreement. Staff could find no such Resolution. Therefore, staff requests the City Council pass this Resolution No. 1605 (Exhibit 6) authorizing the City Manager to continue the contract for services with EF Recovery.

NEXT STEPS

Staff will return to the December 7 City Council meeting with a budget amending ordinance that encompasses feedback received from the City Council during the mid-biennial budget process. At the meeting, staff will also present the proposed FY 2022 water, sewer, and storm water utility rates, which are anticipated to increase. The proposed utility rates ensure utility systems and infrastructure are properly managed, maintained, and when appropriate, replaced.

Staff will also present the proposed Emergency Medical Service (EMS) utility tax for FY 2022, which is also anticipated to increase. This EMS rate increase is directly tied to the average budgeted salary and benefit costs, excluding overtime, of four firefighters hired in 1996.

The updated utility and EMS rates will be reviewed by the Utility Board at their meeting on November 17, 2021, and a recommendation will be forwarded to the City Council for consideration at the meeting on December 7.

And finally, in anticipation of adopting the mid-biennial budget amending ordinance on December 7, staff requests the City Council identify and reach consensus on any additional budget requests at this meeting so that the ordinance may be prepared in advance. The City Manager will be bringing forward an additional recommendation to fund a temporary staff position to support critical projects in 2022. These projects include the parks and maintenance operations levy renewal, the Tully's commuter parking project, and the potential to begin work on a long-range facilities plan.

RECOMMENDED ACTION

1. Adopt Ordinance No. 21-29, appropriating funds and establishing the amount of Property Taxes to be levied for fiscal year 2022.
2. Adopt Ordinance No. 21-30, establishing the dollar amount and percentage increases of the regular Property Tax levy and the levy lid lifts for fiscal year 2022.
3. Adopt Ordinance No. 21C-32, to update City Code and dissolve the YFS Endowment Fund.
4. Approve Resolution No. 1604, approving NORCOM's 2021 budget allocation to the City of Mercer Island.
5. Approve Resolution No. 1605, approving the Emergency Services Cost Recovery Program associated with Motor Vehicle Accidents and emergency incidents involving hazardous materials.