



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

**AB 6921
May 5, 2026
Regular Business**

AGENDA BILL INFORMATION

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|----------------------------|--|---|
| TITLE: | AB 6921: Fiscal Year 2025 Year-End Financial Status Update and Budget Amending Ordinance | <input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution |
| RECOMMENDED ACTION: | Receive the Fiscal Year 2025 Year-end Financial Status Update and Adopt Ordinance No. 26-04, Amending the 2025-2026 Biennial Budget. | |

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| DEPARTMENT: | Finance |
| STAFF: | Matt Mornick, Finance Director LaJuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst II Merrill Thomas-Schadt, Senior Management Analyst |
| COUNCIL LIAISON: | n/a |
| EXHIBITS: | 1. Fiscal Year 2025 Year-End Financial Status Update 2. Ordinance No. 26-04 2025-2026 Budget Amendments |
| CITY COUNCIL PRIORITY: | 4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community. |

EXECUTIVE SUMMARY

This agenda item summarizes the City’s financial position as of December 31, 2025.

- Every two years, the Mercer Island City Council adopts a financial plan that covers a two-year period, known as a biennium. The current 2025-2026 budget is a balanced \$222 million plan that emphasizes prudent fiscal management while tackling a backlog of infrastructure needs.
- Efforts are underway to draft the 2027-2028 preliminary budget. The 2025 year-end analysis (Exhibit 1) kicks off the first of several budget focused items with the City Council that culminate with the review and formal adoption of the 2027-2028 biennial budget this fall.
- The General Fund ended fiscal year 2025 with a total balance of \$10.4 million. Of this, \$5.3 million is committed per Council-adopted financial policies and prior legislative actions.
- The remaining \$5.1 million represents the available unassigned fund balance, of which \$3.4 million is savings from prior years. The remainder is largely the result of stronger-than-anticipated revenues in general sales tax, business & occupation (B&O) tax, and investment earnings in 2025.
- Of the \$42.6 million amended General Fund expenditure budget, 98.7% was spent in 2025.
- In May 2017, the City Council accepted a \$10.05 million Sound Transit mitigation package to offset permanent traffic impacts from the East Link light rail project. The City successfully met the December 31, 2025 expenditure deadline, fully investing the entire settlement funds in Mercer Island.
- Exhibit 1 provides detailed analysis across all City funds, including final revenue and expenditure actuals, reserves and long-term liabilities, and budget amendments adopted during fiscal year 2025.

- Ordinance No. 26-04 (Exhibit 2) formalizes previously approved adjustments and requests a new appropriation of \$150,000 from the unassigned fund balance to address current operational needs.

BACKGROUND

Every two years, the Mercer Island City Council adopts a financial plan that covers a two-year period, known as a biennium. The current 2025-2026 budget is a balanced \$222 million plan that emphasizes prudent fiscal management while tackling a backlog of infrastructure needs. Efforts are currently underway to build the 2027-2028 preliminary budget.

Each spring, the City Council receives a comprehensive financial update for the preceding fiscal year (Exhibit 1). The primary objective is to provide the City Council with the necessary context on the City's fiscal standing as the City Council works through policy decisions that impact the City's limited financial resources during the second year of the current biennium.

What is more, the year-end financial overview provides the initial foundation to develop the 2027-2028 biennial budget, which will be presented for City Council review beginning in September 2026.

ISSUE/DISCUSSION

In May 2025, the City Council received a revenue forecast ([AB 6680](#)) indicating that General Fund expenditures were tracking within budget while revenues were projected to exceed estimates. This forecast proved accurate through fiscal year-end, driven by sustained growth in core revenue streams.

General Fund Revenues

As of December 2025, the General Fund recorded \$40.1 million in revenues, reaching 93% of the amended budget. Key drivers of this performance included sales tax, business and occupation (B&O) tax, and investment interest earnings (see Exhibit 1).

The City collected \$6.9 million in general sales tax revenues, outperforming budget expectations by \$270,000. Activity remained strong across most sectors throughout 2025, with construction and retail/wholesale trade emerging as the top-performing categories. Overall, year-end sales tax revenues represented a \$1.0 million increase over the prior year.¹

B&O tax revenues exceeded budget expectations by \$640,000, representing a \$390,000 increase over FY 2024. This tax is levied at a rate of 0.10% on gross revenues exceeding \$150,000, with quarterly filings required for businesses earning over \$1.0 million annually.

Interest earnings in the General Fund performed \$274,000 above budget expectations for 2025. However, total earnings declined compared to the historic peak of \$2.1 million set in 2024 (Figure 1). This decrease is attributed to lower levels of idle cash reserves and a decline in the Local Government Investment Pool (LGIP) rate, which fell from 4.62% in December 2024 to 3.87% in December 2025.

¹ Due to the City's 2024 transition to cash-basis accounting, the January 2024 sales tax distribution was accrued back to December 2023. Consequently, these funds are excluded from 2024 totals, creating a one-time variance in year-to-year comparisons throughout the 2024–2025 transition period. See Exhibit 1 for further details on the cash-basis reporting shift.

Figure 1

| 001 - General Fund | |
|--------------------|-------------------|
| Year | Interest Earnings |
| 2025 | \$ 1,676,126 |
| 2024 | 2,142,037 |
| 2023 | 1,703,978 |
| 2022 | - |
| 2021 | - |

The shift in interest revenue mirrors broader economic trends. Following the Federal Reserve's aggressive rate hikes to mitigate inflation – which moved the City from near-zero interest earnings between 2020 and 2022 to record highs in 2024 – the economic environment through December 2025 reflects a cooling phase. Rates remain significantly higher than at the start of the decade. However, 2025 results signal a stabilization of this revenue source as market rates and cash balances begin to normalize.

General Fund Expenditures

At the end of 2025, General Fund expenditures were 98.7% of the amended budget. Expenditure carryovers from 2025 to the 2026 budget (\$40,844 in Figure 2) relate to incomplete projects, programs, contracts, or purchases that were authorized but not spent by the end of 2025. Within a biennium, funding and the expenditure authority is automatically “carried over” to the second year of the budget. These include resources such as cash and grants that were obligated but unspent.

Fund Balance

The fund balance in the General Fund at the end of 2025 is \$10.4 million. Of this, \$5.3 million is reserved based on prior City Council actions. The remaining \$5.1 million unassigned fund balance in Figure 2 represents savings from prior years and the 2025 revenue surplus in the General Fund.

Adequate fund balance is a key element of the City's long-term fiscal management strategy. In times when economic health yields a year-end surplus, the City's financial policies ([Resolution No. 1667](#)) provide guidance on how to use unassigned fund balance. Examples include replenishing operating reserves to target levels and investing in one-time work items.

Figure 2

| GENERAL FUND BALANCE <i>as of 12/31/25</i> | TOTAL |
|---|----------------------|
| RESERVED | |
| NON-SPENDABLE | |
| Petty cash | \$ 1,000 |
| Inventory of supplies | 120,857 |
| RESTRICTED | |
| Law enforcement restricted | 81,793 |
| Customer deposits | 75,323 |
| COMMITTED | |
| LEOFF I long-term care reserve | 2,954,174 |
| Compensated absences reserve | 675,299 |
| WSDOT lease deposit | 1,667 |
| Unearned recreation revenue | 497,686 |
| ASSIGNED | |
| Expenditure carryover to 2026 budget | 40,844 |
| Budgeted fund balance 2026 budget | 795,938 |
| Expenditure control budgeting reserve | 45,092 |
| RESERVED SUBTOTAL | \$ 5,289,672 |
| UNASSIGNED FUND BALANCE | \$ 5,124,091 |
| TOTAL FUND BALANCE | \$ 10,413,763 |

Most of this unassigned fund balance ties to \$3.4 million in prior year savings. The remainder is a result of General Fund revenues exceeding budget expectations, as outlined above.

Per the City’s financial management policies, the five categories of fund balance in the General Fund include:

1. **Non-spendable** fund balance which cannot be spent, such as the principle of an endowment or inventories.
2. **Restricted** fund balance, which has externally enforceable limitations on the use imposed by creditors, grantors, and government laws and regulations.
3. **Committed** fund balance that encompasses long-term limitations imposed by the City Council. For example, Council committed a portion of fund balance to offset the long-term liability from the Washington Law Enforcement Officers' and Firefighters' System (LEOFF I) retirement plan.
4. **Assigned** fund balance, which the City Council earmarks for an intended use that may be temporary or short-term in nature.
5. **Unassigned** fund balance comprises what is left after considering the other four categories. The use is least constrained and is also referred to as available fund balance.

2017 Sound Transit Settlement Agreement

In May 2017, the City Council accepted a \$10.05 million settlement from Sound Transit to mitigate East Link light rail impacts. These funds were restricted to high-priority community projects, including traffic safety, "last mile" transit access, Aubrey Davis Park improvements, and emergency services training.

To remain compliant, the City was required to expend the funds and submit all reimbursement invoices by December 31, 2025. The City met this deadline, submitting the final invoice in October 2025 and ensuring all

designated mitigation projects were fully funded by Sound Transit. Detail about how these funds were invested in Mercer Island between 2017-2025 is included in Exhibit 1.

Budget Amending Ordinance

Ordinance No. 26-04 (Exhibit 2) outlines budget adjustments previously approved by the City Council. It also includes budget appropriation requests amounting to \$150,000 from unassigned fund balance in the General Fund. These include:

Real Estate Services

Staff request a \$50,000 appropriation of unassigned General Fund balance for real estate consulting services to evaluate acquisition, sale, and leasing opportunities.

Staff are exploring alternative facility solutions following the failure of Proposition 1 in November 2025, which fell short of the 60% approval required to fund a new Public Safety and Maintenance (PSM) facility. This funding supports a contract amendment with Heartland, the City's real estate broker, who previously facilitated the 2025 acquisition of the building located at 9655 SE 36th Street.

Long-Range Planning Professional Services Appropriation

Community Planning and Development (CPD) recommends a budget appropriation to comply with the Growth Management Hearings Board's Final Decision and Order (GMHB Order). The GMHB Order is the outcome of the appeal to the City's Comprehensive Plan periodic update, adopted in late 2024.

The GMHB Order was issued in August 2025 and requires amendments to the Comprehensive Plan and development regulations by July 31, 2026. The short timeline, along with the required scope of work for compliance, necessitates an investment in professional services.

In November 2025, the City Council appropriated \$200,000 for professional services to further mandatory GMHB compliance work that is well underway. Outside consultants developed a land capacity analysis, evaluated potential development scenarios and policy options, and drafted a Station Subarea Plan as well as amendments to the Comprehensive Plan.

As of April 2026, additional resources are required to comply with the GMHB Order. These resources will support further analysis of policy options, modeling impacts to transportation infrastructure and conducting environmental review of the proposed actions provided by the City's consultants. An additional \$100,000 appropriation of unassigned General Fund balance is requested to support these tasks.

Support for Senior Programming

Separate from the \$150,000 General Fund balance appropriation requests, the Mercer Island Youth & Family Services Foundation (MIYFS Foundation) awarded a \$30,000 grant to the City of Mercer Island's Youth & Family Services (YFS) Department in January 2026 to support and sustain critical services for older adults.

The Foundation approved the one-time grant to help fund two key senior initiatives in 2026: the Stay Active & Independent for Life (SAIL) falls prevention classes and the Seniors Rising newsletter. The grant will also offset administrative and supplies costs associated with three monthly senior support groups—Living Alone, Caregiver Support, and Death Café.

In addition to the MIYFS Foundation award, the YFS Department received a \$1,600 grant from the Mercer Island Community Fund to support the Senior social lunch program in 2026.

By adopting Ordinance No. 26-04 (Exhibit 2), the City Council authorizes the City Manager to accept the MIYFS grants and include the spending authority in the Youth and Family Services Department 2026 budget to cover the associated expenditures.

NEXT STEPS

If approved by the City Council, the budget appropriations outlined in Exhibit 2 will reduce the 2025 General Fund unassigned fund balance \$150,000, resulting in \$4,974,091 remaining.

Staff will return to the City Council in June to provide a revenue forecast for the City's primary operating funds. This forecast will lay the foundation to develop the 2027-2028 preliminary biennial budget, that will be presented to Council for review and adoption later this fall. During that time, staff will present Council with recommendations on the potential disposition of the remaining 2025 unassigned fund balance in the General Fund.

RECOMMENDED ACTION

Adopt Ordinance No. 26-04, amending the 2025-2026 Biennial Budget.