

INTRODUCTION

The Financial Status Update provides a budget to actual comparison of revenues and expenditures for the General Fund and all other funds from January through December 2025.

Beginning Fund Balance represents net excess resources from a prior year that have been appropriated to fund budgeted expenditures in fiscal year 2025.

Accounting Procedure Change in 2024

Effective January 1, 2024, the City transitioned from GAAP accrual accounting to the cash basis method, as defined by the Washington State Auditor's Office (SAO).

The primary difference lies in timing: while accrual accounting records transactions when they are earned or incurred, cash basis accounting recognizes them only when payment is received or issued.

This shift creates one-time reporting variances in 2024 and 2025 when comparing performance to prior years. Specifically, revenues received in January 2024 were accrued back to December 2023 and will not be reported again under the new cash system. This "bridge year" impact is most apparent in year-over-year comparisons for state-shared revenues (such as sales and fuel taxes), Real Estate Excise Taxes (REET), and certain external utility taxes.

MAY 5, 2025

FINANCIAL STATUS UPDATE

AS OF DECEMBER 31, 2025

2025 General Fund

REVENUES

\$ in millions

Adopted Budget	\$37.8
Amended Budget	43.1
Actuals as of 12/31*	40.0

**93% of Amended Budget*

EXPENDITURES

\$ in millions

Adopted Budget	\$37.2
Amended Budget	42.5
Actuals as of 12/31*	42.0

**98.6% of Amended Budget*

Contingency Fund Balance

\$4.9 million

CONTENTS

General Fund	Page 3
Revenues by Category	Page 3
Expenditures by Department	Page 6
Utility Fund	Page 7
Revenues by Utility	Page 7
Expenditures by Utility	Page 8
All Other Funds	Page 9
Revenues by Fund	Page 9
Expenditures by Fund	Page 11
2025 Capital Improvement Program	Page 12
Project Summaries by Asset Category	Page 12
2017 Sound Transit Settlement Agreement Summary	Page 12
Other Capital Project Updates	Page 14
2025 Reserves, Long-term Liabilities, and Available Fund Balance	Page 15
Reserves and Long-term Liabilities by Fund	Page 15
Available Fund Balance by Fund	Page 17
2025-2026 Budget Summaries	Page 18
Fiscal Year 2025	Page 18
Fiscal Year 2026	Page 19

GENERAL FUND

Revenues

Overall, General Fund revenues exceeded budget expectations through the end of the fiscal year. The 2025 amended revenue budget is included in the table below along with year-to-date (YTD) actuals, and YTD actuals as a percentage of the amended budget. Prior YTD actuals are presented for comparative purposes.

The budget and actual amounts are for the entire fiscal year, January 1 through the end of December. Additional detail regarding primary General Fund revenues and material variances from the original budget is discussed in the narrative below.

GENERAL FUND: Revenues

As of December 31, 2025

Revenue Category	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/2024	YTD 12/31/2025	YTD Revenue as % of Amended Budget
Property Tax	\$ 13,960,148	\$ 13,960,148	\$ 13,734,426	\$ 13,871,768	99.4%
Sales Tax - General	6,659,111	6,659,111	5,887,597	6,930,380	104.1%
Sales Tax - Criminal Justice	979,734	979,734	848,874	930,077	94.9%
Utility Taxes	4,983,774	4,983,774	4,270,073	4,935,566	99.0%
B&O Taxes	748,495	748,495	998,679	1,388,644	185.5%
Shared Revenues	1,581,950	1,649,775	1,596,077	1,710,627	103.7%
Cost Allocation-Overhead	2,411,870	2,411,870	1,041,309	2,224,512	92.2%
EMS Revenues	2,113,511	2,113,511	1,727,957	1,862,756	88.1%
Parks & Recreation	1,412,500	1,412,500	1,410,541	1,693,613	119.9%
License, Permit & Zoning	638,541	638,541	4,383,067	686,856	107.6%
Municipal Court	175,000	175,000	139,729	199,174	113.8%
Miscellaneous Revenue	311,456	311,456	358,887	470,123	150.9%
Interest Earnings	1,402,500	1,402,500	2,294,206	1,676,126	119.5%
Interfund Transfers	0	0	0	1,502,730	N/A
Total Revenues	\$ 37,378,590	\$ 37,446,415	\$ 38,691,423	\$ 40,082,953	107.0%
Appropriated Fund Balance	391,273	5,661,994	0	0	0.0%
Total Resources	\$ 37,769,863	\$ 43,108,409	\$ 38,691,423	\$ 40,082,953	93.0%

Property Tax is 99.4 percent of the budget at the end of the year. This revenue is on track with historical expectations.

General Sales Tax is 104.1 percent of the adopted budget through the end of December. Fiscal year 2024 totals were impacted by the change to cash basis reporting. This revenue category exceeded budget expectations in 2025.

Construction has historically been the largest component of sales tax revenue and has outperformed the Retail & Wholesale Trade sector in both 2024 and 2025. Retail & Wholesale Trade is up in 2025 compared to the previous year, while Construction has increased and maintains its place as the top performing

business sector. Sales tax revenues have been strong through the fourth quarter of 2025 despite economic uncertainties. The following table compares sales tax revenue by business sector from February through December for 2024 and 2025.

2024-2025 General Sales Tax Revenue by Business Sector (\$ in thousands)						
Business Sector	FEB thru DEC 2024	FEB thru DEC 2025	Increase / (Decrease)	% of Total		
				2024	2025	% Chg
Construction	\$2,337	\$2,646	\$309	39.7%	41.6%	1.9%
Retail & Wholesale Trade	\$1,748	\$1,783	\$35	29.7%	28.0%	-1.7%
All Other Sectors	\$505	\$438	(\$67)	8.6%	6.9%	-1.7%
Admin & Support Services	\$490	\$520	\$29	8.3%	8.2%	-0.2%
Food Services	\$271	\$333	\$62	4.6%	5.2%	0.6%
Professional, Scientific & Tech	\$210	\$217	\$8	3.6%	3.4%	-0.1%
Finance/Insurance/Real Estate	\$174	\$182	\$8	3.0%	2.9%	-0.1%
Telecommunications	\$153	\$242	\$89	2.6%	3.8%	1.2%
Total	\$5,888	\$6,360	\$473	100.0%	100.0%	

**The table excludes January for 2024 and 2025 due to the change in accounting procedures.*

Criminal Justice Sales Tax is 94.9 percent of the adopted budget at the end of the year. This revenue consists of a 0.1 percent sales tax imposed by King County that is shared amongst cities in the county on a per capita (population) basis. It is closely tied to county wide taxable sales numbers. According to the most recent data from King County’s Office of Economic and Financial Analysis, taxable sales are up through the fourth quarter of 2025 by 3.9 percent compared to the prior fiscal year.

Utility Taxes are 99.0 percent of budget at the end of December. Fiscal year 2024 totals were impacted by the change to cash basis reporting and the delay in both monthly and quarterly (e.g., cable and garbage) utility tax remittances. In 2025 this revenue category is performing with budget expectations and historical trends.

Business & Occupation (B&O) Tax is 185.5 percent of budget at the end of the year. Most of the City’s registered businesses file an annual B&O tax return where the deadline for remitting annual taxes is April 15th of the following year. This revenue exceeded budget expectations for the fiscal year due to greater than anticipated market activity.

Shared Revenues are 103.7 percent of the budget through the end of December. This revenue category is impacted by the change to cash basis reporting. In 2025, this revenue category is performing with historical trends.

Major revenue sources include State shared taxes; hazardous waste grants; the I-90 corridor landscape maintenance revenue from the Washington State Department of Transportation; vessel registration fees received from the state through King County; the marine patrol services contract revenue from partner cities; and financial support for the School Resource Officer received from the Mercer Island School District.

EMS Revenues are 88.1 percent of budget at the end of the year. Revenues in this line are below budget expectations due to an update to the City’s agreement with Eastside Fire & Rescue (EF&R). Ambulance Transport fees that used to be received as a direct revenue are now being collected by EF&R. The City is reimbursed in Q1 of the current year for prior year ambulance transport revenues, less an administrative

fee, to reduce the costs associated with the City's contract with EF&R. As a result, revenues were expected to remain below budget expectations throughout the biennium.

Parks and Recreation revenues are 119.9 percent of budget at the end of December. Revenue sources include field rentals, boat launch fees, program fees, and rent payments from the annex building outside the Mercer Island Community and Event Center (MICEC). Recreation program revenues are above prior year totals primarily due to Community Center and the Field Use rentals, which are up \$70 thousand and \$68 thousand respectively compared to the prior year.

License, Permit, and Zoning Fees are 107.6 percent of budget at the end of the year. This revenue category consists of fees related to business licenses and a cable franchise. This revenue is performing within budget expectations.

This revenue category historically included fees related to development services. During the 2025-2026 biennial budget process, the City Council directed staff to establish a fund for all Community Planning & Development (CPD) revenue and expenditures, referred to as the Development Services Fund (180). Analysis regarding the new Development Services Fund is included in the "All Other Funds" section of the quarterly status update.

Municipal Court revenues are performing within budget expectations, ending the year at 113.8 percent of budget. Revenues for 2024 in this category were impacted by the transition to cash basis. Total revenues in 2025 increased compared to the prior year partially due the transition to cash basis, but primarily to the volume of case filings increasing towards numbers not seen since 2018.

Interest Earnings are budgeted in the General Fund as an estimate of earnings tied to the balance of the City's idle General Fund cash resources and LEOFF 1 long-term care reserve as invested in the State Treasury Local Government Investment Pool (LGIP). Per current budget policy, interest earnings are distributed to the various funds based on their relative cash balances at the end of each quarter.

Revenues are performing above budget expectations, ending the year at 119.5 percent of budget. However, revenues are lower than the prior year due to lower idle cash reserves and interest rates tracking lower than the same period in the prior year, falling from 4.62 percent in December 2024 to 3.87 percent in December 2025.

All other revenues are within budget expectations through the end of December.

Expenditures

Overall, General Fund expenditures are within budget estimates at the end of the fiscal year. The table below lists the 2025 amended expenditure budget, year-to-date actuals, and year-to-date actuals as a percentage of the amended budget. Prior year actuals are presented for comparative purposes.

The budget and actual amounts are for the entire fiscal year, January through the end of December. Additional details of material variances from the amended budget are discussed in the narrative below.

GENERAL FUND: Expenditures

As of December 31, 2025

General Fund Department	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/2024	YTD 12/31/2025	YTD Expense as % of Amended Budget
Administrative Services*	\$ 1,203,941	\$ 1,354,941	\$ 479,187	\$ 1,113,200	82.2%
City Attorney's Office	1,078,131	1,078,131	946,599	1,265,507	117.4%
City Council	60,626	60,626	53,556	52,072	85.9%
City Manager's Office*	756,734	756,734	1,276,149	773,735	102.2%
Community Planning & Development		50,000		47,971	95.9%
Finance	1,502,600	1,502,600	1,311,344	1,252,290	83.3%
Fire	8,851,380	8,851,380	9,114,731	9,135,706	103.2%
Human Resources	874,188	852,188	792,997	732,248	85.9%
Information & Geographic Services	203,983	203,983	187,478	181,250	88.9%
Municipal Court	694,875	694,875	522,972	614,325	88.4%
Non-Departmental	2,530,711	2,560,711	3,808,107	2,143,029	83.7%
Parks & Recreation	2,313,817	2,313,817	2,200,529	2,141,881	92.6%
Police	9,491,752	9,528,752	9,029,214	9,915,287	104.1%
Public Works	5,799,178	5,867,003	5,078,263	6,322,183	107.8%
Total Expenditures	\$ 35,361,916	\$ 35,675,741	\$ 34,801,124	\$ 35,690,683	100.0%
Interfund Transfers	1,871,823	6,896,544	3,923,083	6,323,962	91.7%
Total Expenditures + Interfund Transfers	\$ 37,233,739	\$ 42,572,285	\$ 38,724,207	\$ 42,014,645	98.7%

*With the change of enterprise-wide financial software in 2025, a handful of divisions were reclassified among departments.

In reviewing expenditures by department, the following are noteworthy:

The **City Attorney's Office** expenditures ended the year at 117.4 percent of budget. This is primarily tied to higher than anticipated costs related to legal services for internal departments. Other budgeted operating expenditures are within expectations.

Fire department expenditures are 103.2 percent of budget at the end of December. This reflects the third of three payments for the one-time transition costs related to represented Fire staff that was made in the first quarter of the fiscal year. All other expenditures are within budget.

Police department expenditures are 104.1 percent of budget at the end of the year. This is due to higher than anticipated salary costs related to the Chief position, contract jail service costs that include invoices from the prior year, and higher than anticipated overtime costs within the Patrol division. Other operating expenditures are performing within historical expectations.

Public Works department ended the year at 107.8 percent of budgeted expectations. This is primarily tied to higher than anticipated supply costs across multiple Parks Maintenance divisions. Staff is closely monitoring rising supply costs at the midpoint of the 2025-2026 biennial budget and beyond.

All other expenditures are within expectations through the end of the fiscal year.

UTILITY FUNDS

At the end of December, all three Utility funds are within expectations for operating revenues and expenditures.

Revenues

The table below lists the 2025 adopted and amended revenue budget, January through December actuals, and the percentage of budget received. Prior year actuals are presented for comparative purposes. The budget and actual amounts include January 1 through December 31, 2025. Additional detail regarding major variances is discussed in the narrative following the table.

UTILITY FUNDS: Revenues

As of December 31, 2025

Revenue Category	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/2024	YTD 12/31/2025	YTD Revenue as % of Amended Budget
Operating Revenues					
Water Utility	\$ 12,596,569	\$ 12,596,569	\$ 11,405,409	\$ 13,726,542	109.0%
Sewer Utility	12,636,827	12,636,827	12,181,273	12,559,976	99.4%
Storm Water Utility	2,999,045		2,668,401	3,103,419	103.5%
Interest Earnings					
Water Utility	712,250	712,250	1,048,218	1,473,244	206.8%
Sewer Utility	181,615	181,615	509,163	427,062	235.1%
Storm Water Utility	115,883	115,883	248,899	232,946	201.0%
Proceeds of Debt Issuance					
Water Utility	-	-	29,886,813	-	N/A
Sewer Utility	-	-	-	-	N/A
Storm Water Utility	-	-	-	-	N/A
Total Revenues	\$ 29,242,189	\$ 26,243,144	\$ 57,948,176	\$ 31,523,189	120.1%

Sewer and Storm Water Utility operating revenues are within budget expectations and reflect the seasonality of utility revenues. Water Utility revenues were higher than anticipated due to insurance settlement monies received in November. Adopted rate increases that became effective January 1, 2025, result in dollar increases as compared to fiscal year 2024 revenues over the same period.

Interest earnings for the Water, Sewer, and Storm Water Utility funds have continued to exceed revenue expectations. The Local Government Investment Pool held a better than anticipated earnings yield throughout 2025, ranging from 4.62 percent at the beginning of January to 3.87 percent through the end of December.

Expenditures

The table below lists the 2025 adopted and amended expenditure budget by Utility fund and category, January through December actuals, and a percentage of budget spent. Prior year actuals are presented for comparative purposes. The budget and actual amounts are through the entire fiscal year. Additional details of major variances are discussed following the table.

UTILITY FUNDS: Expenditures

As of December 31, 2025

Category	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/24	YTD 12/31/25	YTD Expense as % of Amended Budget
Operating Expenditures					
Water Utility	\$ 7,206,789	\$ 7,206,789	\$ 6,431,498	\$ 6,802,050	94.4%
Sewer Utility	9,589,207	9,589,207	8,413,567	9,210,208	96.0%
Storm Water Utility	2,436,253	2,486,253	1,895,025	2,143,466	86.2%
Capital Projects					
Water Utility	13,326,729	24,672,618	15,030,232	12,058,912	48.9%
Sewer Utility	4,478,584	7,826,242	2,706,167	2,475,173	31.6%
Storm Water Utility	2,413,497	2,645,902	651,174	628,365	23.7%
Debt Service					
Water Utility	2,426,562	2,426,562	585,412	2,337,226	96.3%
Sewer Utility	1,028,615	1,028,615	1,031,829	1,028,615	100.0%
Storm Water Utility	-	-	-	-	N/A
Total Expenditures	\$ 42,906,236	\$ 57,882,188	\$ 36,744,903	\$ 36,684,017	63%

Year-end expenditures for the Storm Water and Sewer Utility funds remain aligned with budget expectations. However, operating expenditures in the Water Utility finished the year under budget, primarily due to lower than anticipated costs for water purchased for resale. This variance is largely attributable to seasonal weather patterns, which significantly influence water consumption and the volatility of utility expenditures.

Regarding capital investment, several major projects are currently in the design or construction phases. Staff is prioritizing Water Utility projects to ensure timely expenditure of time-gated revenues from the Fall 2024 Limited Tax General Obligations (LTGO) bond issuance. Per federal tax law, 85% of LTGO bond proceeds must be spent within three years of issuance. Work is on track to meet this requirement.

Comprehensive project details are available in the 2025-2026 Capital Improvement Program (CIP) Update ([AB 6790](#)) and the dedicated CIP section within this exhibit.

ALL OTHER FUNDS

Revenues

The table below lists the 2025 amended revenue budget, year-end actuals, and the percentage of budget received. Prior year actuals are presented for comparative purposes. The budget and actual amounts are through the end of December. Additional details of major variances are discussed in the narrative following the table.

ALL OTHER FUNDS: Revenues

As of December 31, 2025

Fund Name	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/2024	YTD 12/31/2025	YTD Revenue as % of Amended Budget
Self Insurance Claim	\$ 10,000	\$ 10,000	\$ -	\$ -	N/A
Street	5,495,896	6,951,202	5,711,155	7,138,191	102.7%
Contingency	-	-	65,712	-	N/A
1% for the Arts	15,000	32,000	68,106	52,474	164.0%
Youth & Family Services	3,876,503	3,906,503	3,776,857	3,160,154	80.9%
ARPA	-	-	4,768,466	-	N/A
Development Services	4,200,890	4,200,890	3,963,697	6,215,818	148.0%
Town Center Parking Facilities	-	744,082	35,489	-	N/A
Capital Improvement	10,883,279	15,919,390	10,236,747	5,157,572	32.4%
Technology & Equipment	650,000	852,208	280,000	908,419	106.6%
Municipal Facility Replacement	168,773	11,595,837	3,400,000	7,448,029	64.2%
Equipment Rental	3,355,378	3,610,915	1,611,904	1,685,924	46.7%
Computer Equipment	1,705,225	1,705,225	1,335,305	1,485,730	87.1%
Firefighter's Pension	137,000	137,000	118,129	116,717	85.2%

Street Fund revenues are 102.7 percent of budget at the end of December. The primary revenue sources in the Street Fund for fiscal year 2025 are Real Estate Excise Tax (REET) and expected reimbursements from the 2017 Sound Transit Settlement Agreement. Just over \$4.4 million of Sound Transit Mitigation reimbursements has been received through December, \$1.9 million over what was originally budgeted for receipt this year. The City submitted its final invoice for reimbursement in October thus reaching the full amount of the settlement, a total of \$10.05 million since 2017.

The Street Fund is impacted by the change to cash basis reporting for comparison purposes. REET revenues ended the year down 1.8 percent when compared to 2024. Year-over-year (February – December) comparisons indicate 2025 revenues remained lower than prior years due to a sluggish real estate market on the Island.

Property sales recorded in February through December of 2025 were down 11 sales when compared to the same period in 2024. The property sales recorded for both 2024 and 2025 fall well below the 10-year historical average. The average property sale price in FY 2025 also decreased when compared to 2024 by about \$3 thousand. Taken together, these are the primary drivers of the total REET revenue decline experienced in 2025.

Youth & Family Services revenues ended December at 80.9 percent of the amended budget. This is primarily due to a slowdown in Thrift Shop and counseling service revenue actuals compared to budget

expectations. An agreement with the Boys & Girl Club Organization to fund a counselor position was terminated based on a mutual agreement between both parties, resulting in no service costs being incurred or recouped this biennium. Even though Thrift Shop revenues were \$150.7 thousand below budget expectations, they are up \$89.2 thousand in fiscal year 2025 relative to the prior year despite the closure of the Thrift Shop this spring to address safety improvements to the building. Other revenues are within budget expectations.

Development Services Fund revenues are 148 percent of budget at the end of the year. This is primarily due to a one-time transfer of development restricted fund balance from the General Fund to the Development Services Fund that included deferred development fee revenue tied to ongoing permit projects at the turn of the fiscal year and prior year resources generated by CPD that are restricted to permit-related services. Even if the one-time transfer is ignored, revenues related to development activity still exceeded budget expectations in 2025 due mainly to an increase in permitting activity compared to historical expectations.

Capital Improvement Fund revenues are 32.4 percent of budget at the end of the year. Similar to the Street Fund, REET is a primary revenue source in the Capital Improvement Fund. Staff will continue to monitor factors relating to REET to better inform expectations for the remainder of FY 2025 and beyond.

In addition, the budget for revenues in 2025 includes \$3.6 million in State Grant funding, of which 22.6 percent has been collected to date. Staff intend to submit for reimbursement for these available funds as project milestones are met. As an example, reimbursement for grants related to the Luther Burbank Dock & Waterfront Improvements project occur once the waterfront design is complete (Q2 2026) and after construction is complete (Q4 2027).

Technology and Equipment Fund revenues ended December at 106.6 percent of budget. This is primarily due to a one-time distribution of funds from Eastside Public Safety Communications Agency (EPSCA). The Eastside Public Safety Communications Agency (EPSCA) was a multi-city interlocal agency responsible for managing the emergency radio network for several cities in East King County. It was recently dissolved to make way for a more modern, unified, countywide emergency communication system known as Puget Sound Emergency Radio Network (PSERN).

All other revenues are within budget expectations.

Municipal Facility Replacement Fund revenues ended the year at 64.2 percent of budget. The influx of revenue to this fund represents the Council's decision to acquire the building located at 9655 SE 36th Street ([AB6738](#)). The building's purchase was finalized in September ([AB6756](#)) and space planning work for the building is expected to begin in 2026.

Firefighter's Pension Fund revenues are 85.2 percent of budget at the end of year. Investment interest earnings are similar when compared to 2024. This decrease in interest earnings comes as local government investment pool yields have remained consistent, although slightly fell relative to the same period in the prior year.

All other revenues are within expected norms through the end of the fiscal year.

Expenditures

The table below lists the 2025 amended expenditures budget by fund, end of the year actuals, and a percentage of budget spent. Prior year actuals are presented for comparative purposes. The budget and actual amounts are through the end of December. Additional details of major variances are discussed in the narrative following the table.

ALL OTHER FUNDS: Expenditures

As of December 31, 2025

Fund Name	2025 Adopted Budget	2025 Amended Budget	Prior YTD 12/31/2024	YTD 12/31/2025	YTD Expense as % of Amended Budget
Self Insurance Claim	\$ 10,000	\$ 10,000	\$ -	\$ -	N/A
Street	5,495,896	6,951,202	9,119,869	5,602,881	80.6%
Contingency	-	-	-	-	N/A
1% for the Arts	15,000	32,000	27,995	31,953	99.9%
Youth & Family Services	3,876,503	3,906,503	3,412,533	3,379,802	86.5%
ARPA	-	-	4,768,465	-	N/A
Development Services	4,104,376	4,104,376	3,198,954	3,778,219	92.1%
Town Center Parking Facilities	-	744,082	-	744,082	100.0%
Capital Improvement	10,883,279	16,069,390	8,434,426	8,021,008	49.9%
Technology & Equipment	493,000	695,208	295,077	247,053	35.5%
Municipal Facility Replacement	-	11,427,064	-	11,267,781	98.6%
Equipment Rental	2,536,727	2,792,264	1,572,976	2,733,581	97.9%
Computer Equipment	1,463,979	1,463,979	1,324,575	1,345,221	91.9%
Firefighter's Pension	137,000	137,000	124,019	89,949	65.7%

Street Fund: Total expenditures are 80.6 percent of budget at the end of the year. Operating expenditures are within budget expectations. This level of expenditure for the capital projects in the Street Fund are commonplace given many capital projects are currently underway, resulting in notable expenditures in the second year of the two-year budget.

Capital Improvement Fund expenditures ended December at 49.9 percent of budget. This level of expenditure for capital projects is commonplace given how many capital projects are currently underway. Expenditures are \$831 thousand more compared to 2024, reflecting staff's focus on tackling significant capital reinvestments. Capital project details can be found in the 2025-2026 Capital Improvement Program Update ([AB 6790](#)) presented by Public Works staff presented in October 2025.

Technology & Equipment Fund: Total expenditures are 35.5 percent of budget at the end of the year. This level of expenditure falls within historical expectations through the first year of the biennium. Projects with notable expenditures this year include the financial software implementation (currently on track) and technology equipment replacement program, which has spending levels on track with budget expectations.

All other variances meet budget expectations through the end of the year.

CAPITAL IMPROVEMENT PROGRAM

Project Summaries

The table below lists 2025 Capital Improvement Program amended expenditures budget by asset category, number of projects active, end of year actuals with encumbrances, and a percentage of budget spent. Encumbered funds represent committed budget resources that have not yet been paid. They are held as a "placeholder" to prevent those funds from being spent elsewhere.

CIP Summary

As of December 31, 2025

CIP Asset Category	2025 Amended Budget	Active Projects	Expenditure Actuals	Encumbered Funds	YTD Actuals + Encumbered	% Spent (A+E)
General Government Public Buildings	\$ 13,714,628	18	\$ 12,474,161	\$ 172,829	\$ 12,646,990	92.22%
General Government Technology	662,608	7	236,661	-	236,661	35.00%
General Government Equipment	2,179,445	3	1,975,434	799	1,976,233	87.90%
Parks, Recreation, & Open Space	5,704,306	15	4,407,900	121,174	4,529,075	93.30%
Streets, Pedestrians, & Bicycle Facilities	10,208,596	25	3,668,505	510,835	4,179,341	44.00%
Sewer Utility	7,562,658	15	2,279,330	71,613	2,350,943	47.10%
Storm Water Utility	2,447,405	14	465,538	26,160	491,698	25.60%
Water Utility	23,995,169	24	12,147,162	528,684	12,675,846	63.80%
Total	\$66,474,815	121	\$37,654,691	\$1,432,095	\$39,086,786	58.80%

The final quarter of 2025 contained a handful of noteworthy capital project milestones, including the submission of the final invoice for reimbursement for Sound Transit Mitigation funds. The effort to spend down the \$10.05 million from the agreement with Sound Transit spanned multiple biennia, beginning in 2017.

2017 Sound Transit Settlement Agreement Summary

In May 2017, the City Council accepted a \$10.05 million package of mitigation measures from Sound Transit to address the impacts of the East Link light rail project and offset permanent changes to local traffic patterns. This settlement was structured to target the community's highest priorities, including traffic and safety enhancements, 'last mile' transit access, parking improvements near the light rail station, implementation of the Aubrey Davis Park Master Plan, and specialized emergency services training for the Mercer Island light rail environment.

To ensure fiscal compliance, the agreement stipulated that settlement funds could not be used for general day-to-day operating expenses or capital projects outside those specifically named in the Settlement Agreement. The agreement established a strict deadline that the \$10.05 million commitment had to be expended, with all invoices submitted for reimbursement, no later than December 31, 2025.

The City successfully met these requirements, with staff submitting the final invoice in October 2025. As a result, the City invested the full amount of the settlement, ensuring these critical community mitigation projects were entirely funded by Sound Transit.

Most of the Settlement Agreement funds were spent in the Traffic Safety Enhancements category. The City utilized this "bucket" of funds for critical improvements to several key Public Works initiatives focused on pedestrian safety, ADA accessibility, and trail connectivity.

2017 Sound Transit Settlement Agreement Eligible Uses						
As of December 31, 2025						
Year	ADP Planning	Traffic/Safety Enhancements	Emergency Training	Last Mile Solutions	Administrative Overhead	Reimbursement Total
2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2018	-	67,306	-	-	-	67,306
2019	-	121,929	-	32,996	-	154,925
2020	-	85,006	-	618	-	85,625
2021	-	277,221	-	-	-	277,221
2022	-	386,568	-	-	-	386,568
2023	50,000	2,663,366	23,100	-	-	2,736,466
2024	-	1,710,836	-	189,360	31,676	1,931,871
2025	-	4,319,810	-	-	90,190	4,410,000
TOTAL	\$ 50,000	\$ 9,632,042	\$ 23,100	\$ 222,974	\$ 121,866	\$ 10,049,982

In the Town Center, completed projects include the 80th Avenue SE Pedestrian Improvements, which replaced tree-root damaged sidewalks and upgraded street lighting to create a safer, uniform walking environment. These efforts were complemented by the Sunset Highway and 77th Avenue SE Intersection Improvements, designed to streamline pedestrian and bicycle access to the newly opened Sound Transit station, and the Mid-Block Crosswalk on 76th Avenue SE to enhance pedestrian safety. Additionally, reimbursement funds went toward improving access via the ADA Transition Plan Implementation that included upgraded curb ramps, adjusted utility lids, and improved sidewalks. Four new pedestrian crosswalks that meet ADA requirements were installed between 76th and 78th Avenue SE and SE 27th and 28th Street.



Beyond the Town Center, funds from Sound Transit contributed to regional connectivity through safety upgrades with the West Mercer Way Pedestrian Crossings and the Aubrey Davis Park Trail Safety Improvements. These investments enhanced the Mountains to Sound Trail with an improved pedestrian crossing at West Mercer Way and trail safety improvements in Aubrey Davis Park to reduce bicycle and pedestrian conflicts on the island’s most popular trail sections.

Other notable capital projects using Sound Transit agreement monies included:

- The North Mercer Way and SE 36th Street Pedestrian Crossing, which installed rapid rectangular flashing beacons at a highly used crossing.
- Construction of phases three and four of the West Mercer Way Roadside Shoulders Replacement program, which created additional five-foot wide paved shoulders suitable for pedestrian and bicycle uses.
- The Island Crest Way Crosswalk Improvements enhanced pedestrian crossings near Island Crest Park and Island Park Elementary, which included constructing one pedestrian activated signal and two rapid rectangular flashing beacon enhanced crosswalks.



Other Capital Project Updates

The First Hill Park Playground Replacement is now open. This is the second playground replacement completed under the 2022 Parks Levy and features new play equipment, engineered wood fiber (EWF) surfacing, and cedar timber borders as well as enhanced paths into and around the playground. New play equipment also includes two belt swings and a log tunnel, mushroom steppers, and acorn seats to provide a cohesive play experience for ages 2 through 12.



Over the next few months, finishing touches will be completed by the contractor and the Parks team, including installing handrails for new timber steps, adding new park and playground rule signage, and improving the existing right-of-way parking area along SE 32nd Street. Later in the year, vegetation around the play area will be restored. Updates on future work at the park will be shared on [Let's Talk](#) when available.

2025 RESERVES, LONG-TERM LIABILITIES, AND AVAILABLE FUND BALANCE

Reserves

Both state statutes and local ordinances grant municipalities the authority to establish and maintain strategic financial reserves. Reserves are essential for fiscal resilience, providing cities with the flexibility to navigate unforeseen challenges, respond to natural disasters, and manage cash flow requirements. While reserves create stability, they are managed with strict fiscal oversight to ensure they remain aligned with established policy targets and do not exceed necessary levels. At the end of December 31, 2025, the City's ending reserves total \$22.4 million across all City Funds. These are divided into the following:

General and Special Purpose Reserves are designated for specific or restricted functions, such as to cover unforeseen contingencies, long-term liabilities, or cash flow for operations during an emergency event. Their use is governed by a combination of Council policy, established management practices, and applicable state or local statutes. These funds require formal Council action for appropriation.

Capital Reserves are dedicated to infrastructure, technology, equipment, and overall capital projects. Their application is strictly regulated by Council policy and state laws governing capital asset management.

Utility Reserves provide a buffer for contingencies within the City's enterprise operations. To ensure fiscal accountability and compliance with state statutory requirements, these resources are restricted to the specific utility – such as Water, Sewer, or Storm Water – from which the original revenue was derived.

Internal Service Fund Reserves support the City's internal operations, fleet and equipment acquisitions, and information technology. Revenue is primarily generated through interdepartmental user charges, and the funds are dedicated to their respective service areas by Council action or legal mandate.

Debt and Long-term Liabilities

Debt refers to an obligation to pay a specific amount of money to a third party at a future date. Long-term liabilities are obligations not expected to be liquidated (paid off) within one year. In general, these include:

- **Limited Tax General Obligation (LTGO) Bonds:** Often called "councilmanic debt." These do not require a public vote and are paid out of existing, "limited" general revenues.
- **Compensated Absences:** The value of accrued time off ("leave") that the city is obligated to pay out when employees depart from the organization or retire.
- **Pension Liability:** The city's proportionate share of the unfunded liability of state-managed pension systems (e.g., PERS, LEOFF-1).
- **Other Post-Employment Benefits (OPEB):** Future healthcare costs promised to retirees.
- **Lease Liabilities:** Long-term obligations resulting from the right to use another entity's assets (e.g., office space or equipment), reported according to GASB 87 standards.

At the end of December 31, 2025, the City's ending debt and long-term liabilities amount to \$50 million across all City Funds.

Fund Name	Reserve	Reserve Description	Ending Balance as of 12/31/24	Additions/ (Uses)	Ending Balance as of 12/31/25
General & Special Purpose Reserves					
001	General	LEOFF-1 Long-term Care	\$ 2,751,343	\$ 202,831	\$ 2,954,174
001	General	Compensated Absences	675,299	-	675,299
001	General	Expenditure Control Budgeting	45,092	-	45,092
010	Self-Insurance	Self-Insurance	60,000	-	60,000
130	Contingency	Contingency	4,871,961	65,712	4,937,673
140	1% for the Arts	1% for the Arts	176,420	24,523	200,943
110	Street	Working Capital	87,000	-	87,000
110	Street	Transportation Impact Fees	260,633	(112,371)	148,262
110	Street	Town Center Street North	99,684	-	99,684
110	Street	Tree Replacement Fee-in-Lieu	-	201,261	201,261
160	Youth and Family Services	Operating Fund Balance	618,369	(218,007)	400,362
160	Youth and Family Services	Emergency & Rental Assistance	25,279	(13,254)	12,025
160	Youth and Family Services	Opioid Settlement Funds	261,462	(24,217)	237,245
180	Development Services	Operating Fund Balance	-	2,437,598	2,437,598
610	Firefighter's Pension	Fiduciary Trust	1,038,947	20,878	1,059,825
Total General & Special Purpose Reserves			\$ 10,971,489	\$ 2,584,954	\$ 13,556,443
Capital Reserves					
310	Town Center Parking	Long-term Parking	\$ 744,082	\$ (744,082)	\$ -
320	Capital Improvement	Working Capital	114,000	-	114,000
320	Capital Improvement	Field Replacement	555,162	200,000	755,162
320	Capital Improvement	Parks Impact Fees	288,277	(279,545)	8,732
320	Capital Improvement	Shoreline Access	358,291	-	358,291
330	Technology & Equipment	MICEC Equipment Replacement	24,623	24,587	49,210
330	Technology & Equipment	EPSCA (comms equipment)	-	321,490	321,490
330	Technology & Equipment	Police Car Camera Replacement	73,710	12,000	85,710
330	Technology & Equipment	State Seizure Funds	41,435	-	41,435
350	Municipal Facilities	Municipal Facility Replacement	3,194,808	(3,194,035)	773
Total Capital Reserves			\$ 5,394,388	\$ (3,659,585)	\$ 1,734,803
Utility Reserves					
410	Water Utility	Working Capital	\$ 1,034,000	\$ -	\$ 1,034,000
410	Water Utility	Capital Reserve	784,000	-	784,000
420	Sewer Utility	Working Capital	757,000	-	757,000
420	Sewer Utility	Capital Reserve	501,200	-	501,200
420	Sewer Utility	Lake Line Reserve	1,500,000	-	1,500,000
430	Storm Water Utility	Working Capital	224,000	-	224,000
430	Storm Water Utility	Capital Reserve	124,974	7,669	132,643
430	Storm Water Utility	Basin Improvement Reserve	24,694	97,813	122,507
Total Utility Reserves			\$ 4,949,868	\$ 105,482	\$ 5,055,350
Internal Service Fund Reserves					
510	Equipment Rental	Fire Apparatus Replacements	713,662	104,941	818,603
510	Equipment Rental	Radio Replacements	373,610	-	373,610
510	Equipment Rental	Vehicle Replacements	1,248,060	(1,177,645)	70,415
520	Computer Equipment	Computer Replacements	745,570	60,105	805,675
Total Internal Service Fund Reserves			\$ 3,080,902	\$ (1,012,599)	\$ 2,068,303
Total Reserves			\$ 24,396,647	\$ (1,981,748)	\$ 22,414,899

Fund	Final Maturity	Debt & Long-term Liability Description	Beginning Balance as of 12/31/24	Additions/ (Reductions)	Ending Balance as of 12/31/25	
General Obligation Debt						
410	Water Utility	10/04/44	2024 LTGO and Refunding Water CIP	26,615,000	(795,000)	25,820,000
410	Water Utility	06/01/43	2023 PWBL - Booster Chlorination System	3,271,814	(172,201)	3,099,613
420	Sewer Utility	12/01/29	2017 REFUNDING LTGO Sewer Lake Line	\$ 2,920,000	\$ (550,000)	\$ 2,370,000
420	Sewer Utility	07/01/26	2005 PWBL - Sewer Lake Line	\$ 805,517	\$ (402,757)	\$ 402,760
320	Capital Improvement	12/01/40	2025 LTGO 9655 Building	-	1,540,000	1,540,000
Total General Obligation Debt			\$ 33,612,331	\$ (379,958)	\$ 33,232,373	
Long-term Liabilities						
001	General	-	General government compensated absences.	\$ 2,092,249	\$ -	\$ 2,092,249
410	Water Utility	-	Water utility compensated absences.	168,452	\$ 9,185	177,636
420	Sewer Utility	-	Sewer utility compensated absences.	104,988	\$ 13,491	118,479
430	Storm Water Utility	-	Storm water utility compensated absences.	77,703	\$ (16,817)	60,886
001	General	12/31/26	Compensated absences due to Eastside Fire & Rescue.	739,743	(369,872)	369,871
510	Equipment Rental	04/09/27	2018 pierce pumper enforcer lease purchase.	270,293	(86,965)	183,328
510	Equipment Rental	06/01/34	2025 pierce enforcer pumper lease purchase	-	1,544,090	1,544,090
001	General	03/01/31	Equipment leases (copier/postage).	72,662	130,227	202,890
001	General	12/01/26	Facility lease (police trailers / Newcastle court).	349,339	(213,144)	136,194
001	General	12/01/30	Subscription based information technology agreements.	1,023,982	380,048	1,404,030
410	Water Utility	-	Asset obligation - water well (cost to decommission)	92,000	-	92,000
001	General	-	Pension liability - PERS1 UAAL.	1,380,017	(463,230)	916,787
610	Firefighter's Pension	-	Pension liability.	1,765,979	(147,406)	1,618,573
001	General	-	OPEB liability LEOFF1 retirees.	8,401,893	(597,850)	7,804,043
Total Long-term Liabilities			\$ 16,539,299	\$ 181,756	\$ 16,721,055	
Total Debt & Long-term Liabilities			\$ 50,151,630	\$ (198,202)	\$ 49,953,428	

Available Fund Balance

Available fund balance is the portion of the City's financial resources that is available to be spent or "appropriated" in the next budget cycle. It includes the financial resources not yet assigned in the current two-year budget.

For example, if "fund balance" is the total amount of money in a household's savings account, available fund balance is the amount left over after you set aside money for specific, untouchable purposes (e.g., mortgage payments, property taxes, utility bills, groceries, childcare, etc.). The same goes for the City – public monies are not available for "any use," as defined by state laws and local ordinances. The Available Fund Balance is what remains after the resources that are "restricted," "non-spendable," and "committed" in the current biennial budget are subtracted.

The table below organizes each fund by its respective reserves, available fund balance, and existing debt & long-term liabilities. Short descriptions are provided as to what end each fund's available resources can be used towards. State regulatory statutes that regulate the use of available funds is also included for reference.

Fund	Fund Name	Fund Type	Reserves + Available FB ¹	Reserves	Available Fund Balance ²	Debt & Long-term Liabilities	Description of Available Fund Balance	Regulatory Statute Reference
001	General	General Purpose	\$ 8,798,656	\$ 3,674,565	\$ 5,124,091	\$ (12,926,064)	Discretionary unassigned prior year savings.	RCW 35A.33.120, MICC 4.40.080
010	Self Insurance	General Purpose	60,000	60,000	-	-	Statutorily restricted to claims not covered under the City's insurance.	RCW 35A.33.120, MICC 4.40.130
110	Street	Special Revenue	2,894,368	536,207	2,358,161	-	Statutorily restricted to the transportation system.	RCW 47.24.040, RCW 43.09.210, MICC 4.40.050
130	Contingency	Special Revenue	4,937,673	4,937,673	-	-	Statutorily restricted emergency resource for unforeseen events.	RCW 35.33.147, MICC 4.40.070
140	1% for the Arts	Special Revenue	200,943	200,943	-	-	Statutorily restricted for 1%-for-the-arts projects.	RCW 35A.11.020, MICC 4.40.200
160	Youth and Family Services	Special Revenue	649,632	649,632	-	-	Statutorily restricted to human services.	RCW 43.09.200, MICC 4.40.180
180	Development Services	Special Revenue	2,437,598	2,437,598	-	-	Statutorily restricted to development services.	RCW 82.02.020
320	Capital Improvement	Capital Project	1,236,185	1,236,185	-	(1,540,000)	Statutorily restricted to facilities and parks capital commitments.	RCW 82.46.010-.035, MICC 4.40.040
330	Technology and Equipment	Capital Project	1,438,347	497,845	940,502	-	Discretionary resources for technology and equipment.	RCW 43.09.200, MICC 4.40.160
350	Municipal Facility Replacement	Capital Project	773	773	-	-	Discretionary resources for long-term facility investments.	RCW 43.09.200
410	Water Utility	Enterprise	10,130,890	1,818,000	8,312,890	(29,189,249)	Constitutionally restricted to water service provision.	RCW 43.09.210, Okeson Cases, MICC 4.40.170
420	Sewer Utility	Enterprise	2,758,200	2,758,200	-	(2,891,239)	Constitutionally restricted to sewer conveyance provision.	RCW 43.09.210, Okeson Cases, MICC 4.40.140
430	Storm Water Utility	Enterprise	2,470,078	479,150	1,990,928	(60,886)	Constitutionally restricted to storm water removal.	RCW 43.09.210, Okeson Cases, MICC 4.40.150
510	Equipment Rental	Internal Service	1,262,628	1,262,628	-	(1,727,418)	Statutorily restricted to equipment operation and replacement.	RCW 35.21.088, MICC 4.40.090
520	Computer Equipment	Internal Service	805,675	805,675	-	-	Statutorily restricted to computer equipment operation and replacement.	RCW 43.09.210
610	Firefighter's Pension	Fiduciary Trust	1,059,825	1,059,825	-	(1,618,573)	Statutorily restricted solely for the benefit of designated parties.	RCW 11.98, RCW 43.09.210, MICC 4.40.100
			\$ 41,141,471	\$ 22,414,899	\$ 18,726,572	\$ (49,953,428)		

Two summary listings of the originally adopted 2025-2026 Budget (expenditures only), broken down by year, and amendments adopted by Ordinance through November 18, 2025 are presented below.

Fund Type / Fund Name	Original 2025 Budget	2025 Budget Adjustments					Amended 2025 Budget	
		Administrative Biennial Corrections	ORD 25-10 24 to 25 Carry forward	ORD 25-10 Q1 FSU	ORD 25-25 Q2 FSU	ORD 25-33 Q3 FSU		
General Purpose Funds:								
General	37,233,739		151,000	1,760,299	3,317,358	109,889	42,572,285	
Self-Insurance	10,000						10,000	
Youth Services Endowment	-						-	
Special Revenue Funds:								
Street*	5,495,896		1,455,306				6,951,202	
Contingency	-						-	
1% for the Arts	15,000		17,000				32,000	
Youth & Family Services	3,876,503					30,000	3,906,503	
Development Services	4,104,376						4,104,376	
Debt Service Funds:								
Bond Redemption (Voted)	-						-	
Bond Redemption (Non-Voted)	-						-	
Capital Projects Funds:								
Town Center Parking Facilities*	-				744,082		744,082	
Capital Improvement*	10,883,279	150,000	2,226,939	1,138,420	1,670,752		16,069,390	
Technology & Equipment*	493,000		202,208				695,208	
Facility Repl Reserve*	-		785,000		9,080,000	1,562,064	11,427,064	
Enterprise Funds:								
Water*	22,960,080		10,411,104	689,505		245,280	34,305,969	
Sewer*	15,096,406		3,347,658				18,444,064	
Stormwater*	4,849,750		282,405				5,132,155	
Internal Service Funds:								
Equipment Rental*	2,536,727		195,537		60,000		2,792,264	
Computer Equipment*	1,463,979						1,463,979	
Trust Funds:								
Firefighter's Pension	137,000						137,000	
Total	109,155,735	150,000	19,074,157	3,588,224	14,872,192	1,947,233	-	148,787,541

* Capital Improvement Program (CIP) projects are accounted for in these funds.

Fund Type / Fund Name	Original 2026 Budget	2026 Budget Adjustments						Amended 2026 Budget
		Administrative Biennial Corrections	ORD 25-25 Q2 FSU	ORD 25-33 Q3 FSU				
General Purpose Funds:								
General	38,676,518			223,475			38,899,993	
Self-Insurance	10,000						10,000	
Youth Services Endowment	-						-	
Special Revenue Funds:								
Street*	4,902,902		2,904,231				7,807,133	
Contingency	-						-	
1% for the Arts	15,000						15,000	
Youth & Family Services	4,110,833						4,110,833	
Development Services	4,334,220						4,334,220	
Debt Service Funds:								
Bond Redemption (Voted)	-						-	
Bond Redemption (Non-Voted)	-			137,462			137,462	
Capital Projects Funds:								
Town Center Parking Facilities*	-						-	
Capital Improvement*	9,554,202		(150,000)	137,462			9,541,664	
Technology & Equipment*	355,931						355,931	
Capital Reserve*	-						-	
Enterprise Funds:								
Water*	25,162,916			20,000			25,182,916	
Sewer*	16,359,832			20,000			16,379,832	
Stormwater*	4,622,520						4,622,520	
Internal Service Funds:								
Equipment Rental*	3,003,139						3,003,139	
Computer Equipment*	1,544,174						1,544,174	
Trust Funds:								
Firefighter's Pension	145,000						145,000	
Total	112,797,187	-	2,754,231	538,399	-	-	116,089,817	

* Capital Improvement Program (CIP) projects are accounted for in these funds.