



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

**AB 6169  
October 18, 2022  
Regular Business**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6169: <b>Public Hearing:</b> Receive the 2023-2024 Preliminary Budget.	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Discussion only, no action required.	

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Finance Director
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. 2023-2024 Preliminary Budget available at: <a href="http://www.mercerisland.gov/budget">www.mercerisland.gov/budget</a> . 2. 2023-2024 Budget Proposals
<b>CITY COUNCIL PRIORITY:</b>	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.

**EXECUTIVE SUMMARY**

In continuation from the October 3 City Council budget workshop (see [AB 6163](#)), this agenda bill outlines next steps in the City Council’s 2023-2024 Biennial Budget review process, which is anticipated to conclude with the adoption of the 2023-2024 Biennial Budget on December 6.

- Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget to the City Council for review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, (Exhibit 1) and a copy was filed with the City Clerk.
- The 2023-2024 Preliminary Budget is focused on maintaining current service levels and providing critical investments to preserve City infrastructure.
- At the October 3 City Council meeting staff introduced and reviewed key budget assumptions, policy considerations, and the budget development schedule. The presentation included a six-year forecast for specific City operating Funds.
- At Tuesday’s meeting, the City Council will hold the first of two public hearings on the 2023-2024 Preliminary Budget. This is an opportunity for the public to provide comments about any part of the budget.
- The staff presentation will provide a high-level overview of Departmental staffing plans, operating budgets, and work plans for the next two years. Staff will also showcase the proposed Capital Improvement Program financing strategy. The presentation will conclude with a review of Budget Proposals (see Exhibit 2). Staff will be prepared to answer questions from the City Council and community.
- The public will have the opportunity to provide additional feedback on the Preliminary Budget and Capital Improvement Program at a second Public Hearing scheduled on [November 15](#). Public comment is also invited at all City Council meetings.

Staff will return to City Council on November 1 to review/discuss any final questions and adjustments from the City Council on the 2023-2024 preliminary budget. Staff will also look to the City Council for final direction on budget proposals by November 1. This provides adequate time to finalize the budget document prior to adoption.

## BACKGROUND

Per Washington State law, the City Manager is required to deliver a balanced preliminary biennial budget to the City Council for review and approval. The City Council received the 2023-2024 Preliminary Budget on September 28, 2022, and a copy was filed with the City Clerk.

At the October 3 City Council meeting staff introduced and reviewed key budget assumptions, policy considerations, and the budget development schedule. The presentation included a six-year forecast for the General Fund and Youth and Family Services Fund.

## ISSUES / DISCUSSION

Budget workshops over the next two months are intended to be interactive. Staff will address City Council questions while seeking consensus on key policy decisions and priorities for the upcoming biennium. Department Directors and other budget staff will attend and participate in the discussions.

### Departmental Budgets

Section D “Operating Budget by Department” in the 2023-2024 Preliminary Budget introduces each City department’s mission and work plan for the next two years. The financial and staffing resources to achieve the Department’s goals and objectives are also included.

During the October 18 City Council meeting, staff will provide an overview of the high-level themes across departmental work plans, present the staffing profile by Department, and be prepared to answer questions about departmental budgets and work plan items.

### Capital Improvement Program

At the September 20 City Council meeting, staff provided a “look ahead” to the proposed 2023-2028 Capital Improvement Program (CIP) (see [AB 6138](#)). The CIP outlines the City’s strategic financial plan to acquire, expand, or rehabilitate public infrastructure. For the 2023-2024 biennium, 83 capital projects are recommended for funding in 2023 with 71 in 2024, amounting to \$67.1 M over the two-year period.

CAPITAL ASSET CATEGORY (\$ in thousands)	2023 BUDGET	2024 BUDGET
Public Buildings	\$3,572	\$1,973
Equipment	817	473
Technology	439	299
Parks, Recreation, & Open Space	6,344	8,148
Streets, Pedestrian, & Bicycle Facilities	3,779	5,501
Sewer Utility	4,380	3,570
Storm Water Utility	1,200	1,257
Water Utility	13,369	11,967
<b>TOTAL</b>	<b>\$33,900</b>	<b>\$33,188</b>
<b>TOTAL PROJECTS FUNDED</b>	<b>83</b>	<b>71</b>

Section E “Capital Improvement Project” in the 2023-2024 Preliminary Budget introduces the basis upon which projects were submitted by project managers, reviewed by a selection committee, and fine-tuned before being approved by the City Manager for inclusion in the preliminary budget. Section E also outlines staff’s recommendation on how to finance this body of work over the next two years.

Parks and public facility capital investment needs outpace the current and anticipated resources in the upcoming biennium. As part of the 2023-2028 CIP, staff recommends utilizing \$3.7 M in REET-2 reserves from the Street Fund to help fund the Luther Burbank Dock and Waterfront Improvement project (PA0124), scheduled for completion in December 2024. Just over half of this \$7.5 M project is paid for via grants. Use of REET-2 reserves secures these grant funds without proving detrimental to street, pedestrian, and bicycle facility investments supported by the Street Fund over the next two years.

Staff also allocated about \$1.6 M in ARPA funds to begin making critical investments in City facilities. These include seismic retrofits (GB0103) and basic facility improvements (GB0110) for City Hall, partial funding for access control and security improvements at City facilities (GB0116), and partial funding to assess, design, and complete renovation work at the City property located at 7810 SE 27<sup>th</sup> Street (GB0121).

Questions for the City Council regarding the proposed 2023-2028 Capital Improvement Program:

1. Is the Council in agreement with use of \$3.7 M REET-2 reserves from the Street Fund to help fund the Luther Burbank Dock and Waterfront improvements?
2. Is the Council in agreement on the recommended use of \$1.6 M in ARPA funds for critical public facility improvements?

### Budget Proposals

During the October 18 City Council meeting, staff will be prepared to answer questions about the budget proposals (Exhibit 2) in preparation for the November 1 City Council meeting. The projects, programs, and positions included on the budget proposal list are not funded in the 2023-2024 Preliminary Budget.

At the March 26 Planning Session (See [AB 6044](#)), the City Council suggested a list of potential work plan items and projects to include as budget proposals for funding consideration during the 2023-2024 biennium (see Exhibit 2). Since March 2022, the City Manager has also evaluated additional budget proposals and advanced several for City Council consideration. Finally, the City Council approved the addition of a budget proposal at the October 3 City Council meeting and that has been added to the list. The budget proposal items added since March are differentiated on the list under the column in Exhibit 2 labeled as “source.”

The budget proposal list includes estimated costs for each fiscal year, identifies whether the associated costs are anticipated to be one-time or ongoing, the potential funding source, the Department responsible for overseeing the work, and additional staff notes or comments on each proposal.

The 2023-2024 budget development schedule calls for the City Council to provide direction on all the budget proposals at the City Council meeting on November 1. Final disposition on the budget proposals is needed by this date to allow staff time to incorporate the changes into the final budget document.

### Alternative Recommendation by the City Manager:

Given the fiscal climate and the projected 2024 General Fund ending fund balance, the City Manager recommends that the City Council defer decisions on all General Fund and YFS Fund budget proposals until the second quarter of 2023. This timing would allow staff and the City Council to consider the outcome of the

parks levy, available resources after the close out of fiscal year 2022, and current economic trends before approving the budget proposals.

## NEXT STEPS

The 2023-2024 Budget development schedule is summarized below.

Date	Topic
10/18/2022 <i>Public hearing*</i>	Department Overviews Capital Improvement Program Overview <ul style="list-style-type: none"> <li>○ Major Highlights</li> <li>○ Key Policy Decisions</li> </ul> Budget Proposals
11/01/2022	Final Budget Workshop Receive Direction on Budget Proposals
11/15/2022 <i>Public hearing*</i>	Discuss Impact of Parks Levy Outcome Adopt 2023 utility rates, NORCOM rates, ARCH Funding, and Property Tax Levies
12/6/2022	Adopt Final 2023-2024 Biennial Budget

### Community Outreach and Public Hearings

The public is encouraged to provide feedback on the Preliminary Budget and Capital Improvement Program on October 18 and at the next scheduled Public Hearing on [November 15](#). Public comment is also invited at all City Council meetings.

## RECOMMENDED ACTION

Receive the 2023-2024 Preliminary Budget available at [www.mercerisland.gov/budget](http://www.mercerisland.gov/budget). Conduct Public Hearing. No additional action required.

### *Alternative Motion:*

Move to postpone consideration of the General Fund and YFS Fund budget proposals until Q2 2023. Advance the Capital Fund, Street Fund, and Utility Fund budget proposals for discussion and final disposition at the November 1 City Council meeting.