

An aerial photograph of a coastal town, likely in the Pacific Northwest. The town is built on a peninsula or near a large body of water, with a dense residential area and some commercial buildings. A major highway, possibly I-5, runs along the coast. The water is a deep blue, and the surrounding hills are covered in green forest. The text is overlaid in a bold, green, sans-serif font.

2019-2020 Biennial Budget

Section H

Budget Policies

Final Budget

Section H. Budget Policies

Table of Contents

General Government

Beautification Fund	H-3
Communications	H-5
Debt Financing	H-7
Fiscal Sustainability	H-11
Investment Earnings	H-13
Pre-LEOFF and LEOFF I Retiree Costs	H-15
Long Term Compensation Strategy	H-19
Property Tax	H-21
Reserves – Capital Reserve Fund	H-27
Reserves – Contingency Fund	H-29
Risk Management	H-33
Sustainability	H-35

Utility Funds

Utility Overhead Charges	H-41
Utility Maintenance and Construction	H-43
Utility Fiscal Policies	H-45

Capital Improvement Program

Capital Improvement Program	H-51
Street Maintenance and Construction	H-55
Information Technology	H-59
Vehicle & Equipment Replacement	H-61
Capital Improvement Program Overhead Charges	H-63

Community Planning & Development

Development Review Fees	H-67
-------------------------------	------

Parks and Recreation

I-90 Landscape Maintenance	H-71
Luther Burbank Park	H-73
Parks and Recreation Financing	H-77

Public Safety

Criminal Justice Fund	H-83
Fire Apparatus Replacement	H-85
Community Risk Reduction	H-87
Municipal Court	H-89
Police and Fire Dispatching	H-91

Youth and Family Services

Youth and Family Services Financing	H-95
---	------

BUDGET POLICES

General Government

This section includes budget polices on the following:

- Beautification Fund
- Communications
- Debt Financing
- Investment Earnings
- LEOFF1 Retiree costs
- Long-Term Compensation Strategy
- Property Tax
- Capital Reserve Fund
- Contingency Fund
- Risk Management
- Sustainability



Budget Policies

Beautification Fund

Background

The Beautification Fund was created in 1980 by Council ordinance. According to the ordinance, Business and Occupation Tax (B&O) revenues are deposited into the Beautification Fund.

The stated purposes of the Beautification Fund are:

- Installation and maintenance of landscaping, including plants and other landscaped materials on public property or easements;
- Acquisition, operation, and maintenance of any building, facility, property, or easement for park, recreation, or open space purposes;
- Undergrounding of power lines and lighting facilities for the operation and maintenance thereof on public property or easements;
- Promotion and support of a Central Business District (CBD) revitalization program;
- Promotion, support, acquisition, and installation of public art on public property or easements;
- Acquisition or leasing of parking spaces for Mercer Island residents for the purpose of providing additional parking;
- Enforcement of parking restrictions, providing signage related to parking, providing permits, and any other expenses related to parking restrictions; and
- All expenses including, but not limited to, professional fees, printing, and publishing incurred in connection with the above-listed purposes.

Effective January 1, 2006, the Council simplified the B&O tax structure increasing the annual exemption amount from \$20,000 to \$150,000, establishing a uniform tax rate of 0.10%, and changing the annual gross receipts threshold for filing quarterly B&O tax returns from \$100,000 to \$1,000,000. In addition to simplifying the tax structure for businesses, this action served to simplify the administrative process for City staff.

Historically, expenditures of the Beautification Fund have included the following: median and planter maintenance in the Town Center, holiday lighting program, Chamber of Commerce support, I-90 corridor landscaping maintenance, restricted parking program administration, business licensing, business and occupation tax administration, and City financial support for Mary Wayte Pool operations and maintenance. Since the creation of the fund, a substantial sum has been spent on beautification projects, and the broad language of the Code has been construed to permit a variety of undertakings.

Budget Policies for 2019-2020

- **Council Goal 2: Maintain Quality of Life and Essential Services and Infrastructure by Addressing the City's Financial Challenges.**
 - o Combine Beautification Fund with the General Fund.

Budget Policies

2019-2020 Budget Impact

Description	2017	2018	2019	2020	Percent Change	
	Actual	Forecast	Budget	Budget	18-19	19-20
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 1,340,698	\$ -	\$ -	-100.0%	N/A
Business and Occupation Tax	617,979	624,159	-	-	-100.0%	N/A
Permit Parking Program	6,650	3,000	-	-	-100.0%	N/A
Landscaping Services (WSDOT)	503,566	518,820	-	-	-100.0%	N/A
Federal, State & Local Grants	23,480	23,660	-	-	-100.0%	N/A
Other Services and Charges	-	-	-	-	N/A	N/A
Total Budgeted Resources	\$1,151,675	\$2,510,337	\$ -	\$ -	-100.0%	N/A
Not Budgeted						
Beginning Fund Balance (Reserved)	1,108,708	-	-	-	N/A	N/A
TOTAL RESOURCES	\$2,260,383	\$2,510,337	\$ -	\$ -	-100.0%	N/A
USES						
Budgeted						
Chamber of Commerce	\$ 14,400	\$ 14,400	\$ -	\$ -	-100.0%	N/A
Financial Services \ Parking Program	9,179	16,800	-	-	-100.0%	N/A
Town Center Beautification	148,410	207,721	-	-	-100.0%	N/A
Mary Wayte Pool Operations	130,962	135,846	-	-	-100.0%	N/A
I-90 Landscape Maintenance	571,734	600,623	-	-	-100.0%	N/A
Commuter Parking	-	56,250	-	-	-100.0%	N/A
Light Rail Station Planning	-	50,000	-	-	-100.0%	N/A
Interfund Transfer - CIP	45,000	168,000	-	-	-100.0%	N/A
Interfund Transfer - Contingency	-	205,741	-	-	-100.0%	N/A
Interfund Transfer - General Fund	-	1,054,956	-	-	-100.0%	N/A
Total Budgeted Expenditures	\$ 919,685	\$2,510,337	\$ -	\$ -	-100.0%	N/A
Not Budgeted						
Ending Fund Balance	1,340,698	-	-	-	N/A	N/A
TOTAL USES	\$2,260,383	\$2,510,337	\$ -	\$ -	-100.0%	N/A

Communications

Background

Establishing Communications as a Government Priority

Recognizing the importance of an informed and engaged citizenry to promoting the democratic decision-making process and to achieving the City's service mission, the City of Mercer Island first established public communication and community involvement as a government priority in 2004. In 2006, a plan was developed to coordinate communication and civic engagement efforts, and the City Council authorized the City Manager to add a Communications Coordinator as a new full-time position on City staff. For the past 5 years, the Communications Manager role has been a 0.60 FTE, coupled with the 0.40 FTE Sustainability Manager position, and performed by one individual.

The Roles and Responsibilities of the Part-time Communications Manager

The Communications Manager provides communications and public involvement support to all City departments and the Council. The primary roles and responsibilities include:

- Serving as the primary media contact for the City of Mercer Island, performing print/TV/radio interviews and arranging press conferences and other opportunities
- Writing public statements and talking points for the City Manager and Mayor
- Supervising the consistent branding of all City operations, materials, and assets
- Overseeing the high-level communications products used by each department
- Managing targeted communications and outreach strategies for individual City department initiatives; promoting engagement opportunities
- Producing City-wide communications materials and distributing via print, mail, website, social media, Email, and other channels; overseeing design and production of all-Island mailers
- Jointly administering the City's website, adding news and calendar items, updating content, and designing new webpages for specific programs and initiatives
- Overseeing limited MI-TV broadcast production and programming
- Planning the strategy and implementation for the City's major public involvement and community engagement efforts
- Performing as a certified Public Information Officer (PIO) to support the Mercer Island Emergency Operations Center in the event of natural disasters and other crises; promoting opt-in emergency alert system

Budget Policies for 2019-2020

- The Communications Manager will continue to be funded as a 0.60 FTE position, coupled with the 0.40 FTE Sustainability Manager position, to create a full-time position. This 0.60 Communications Manager will provide a limited level of communication services needed to keep Mercer Islanders informed, compared to a full-time position.
- The following guidance outlines the proposed overarching goal for City communications in the 2019-2020 biennium under this model:

Grow new communications channels, especially those that rely less heavily on print and mail media, which are costly to produce and distribute. Enhance electronic communications via the City's website, electronic newsletter, and social media channels. Build collaborative relationships with individual departments to meet their communications needs. Serve as an accessible and visible public connection

Budget Policies

to the community of Mercer Island. Assist with implementation and promotion of new community-wide emergency alerting system.

2019-2020 Budget Impact

	2017	2018	2019	2020
Expenditures				
Salary and Benefits	\$ 79,879	\$ 81,942	\$ 83,746	\$ 86,103
Other operating costs	17,486	24,176	16,300	16,300
Total Expenditure	\$ 97,365	\$ 106,118	\$ 100,046	\$ 102,403

Debt Financing

Background

The City has prudently issued a modest amount of debt over the years, maintaining a sizable debt capacity and consistently following a conservative fiscal management policy, which is reflected in the highest possible bond rating from Moody's: Aaa ("triple A") rating on the City's unlimited tax general obligation (UTGO), or voted, bonds and limited tax general obligation (LTGO), or non-voted (i.e., Councilmanic), bonds. Only two other cities have a Aaa bond rating from Moody's: Seattle and Bellevue. A high bond rating enables a city to secure lower interest rates, thereby reducing debt service costs.

The total amount of debt obligations for cities is limited by state law. Mercer Island has significant legal capacity for funding foreseeable debt issues. As of 12/31/2018, the available debt capacity is \$189,890,449 for non-voted general purposes, \$321,652,961 for voted general purposes, \$332,492,352 for voted open space and parks purposes, and \$332,492,352 for voted debt utility purposes.

In 2003, the City issued \$2.29 million in Councilmanic bonds to acquire the property on which the Community Center at Mercerview is sited. This was in preparation for building a new community center. In 2004, after a year of study and design, the Council authorized the construction of a new \$12.4 million community center. Most of that project was paid for with City reserves; however, \$2.04 million in Councilmanic bonds was issued to complete the financing package. Both of these bond issues are being funded by real estate excise taxes in the Capital Improvement Fund.

In 2009, the City issued \$10.36 million in Councilmanic bonds to finance the remaining balance of the Sewer Lake Line project (\$9.25 million) and to finance improvements to the South Mercer Playfields (\$990,000). The debt service on the Sewer Lake Line portion of the bonds is being funded by sewer utility rates; whereas, the debt service on the South Mercer Playfields portion of the bonds is being funded by general purpose revenues in the General Fund. By issuing GO bonds instead of revenue bonds, the City was able to take advantage of its excellent bond rating, reducing the interest rate by approximately 0.5%. In addition, the City issued a two-year LTGO bond (\$1.015 million) in 2009 to initially fund the construction of an emergency water supply well. This was an interim financing strategy intended to buy time for the real estate market to recover. Given the slow recovery in the real estate market, the two-year GO bond, which had a maturity date of June 1, 2011, was refinanced in 2010, with the due date extended to June 1, 2013 (in addition, the principal balance was reduced by \$40,000 using project savings on the emergency water supply well). The \$975,000 balance was paid off on June 1, 2013 after selling the City's First Hill water utility property in May 2013 for \$1.90 million.

In 2011, the City issued \$1.50 million in Councilmanic bonds to finance the unfunded balances of two water utility capital projects: First Hill Booster Pump Station Upgrade and First Hill Water System Improvements. The debt service is being funded by water utility rates. The remaining principal owed as of December 31, 2018 is \$1,025,000.

In 2012, the City Council authorized a contract with Pierce Manufacturing to purchase a Velocity pumper fire truck through a lease purchase agreement with Municipal Asset Management (\$619,547). The outstanding principal owed as of December 31, 2018 is \$266,158.

In 2013, the City issued \$6.71 million in Councilmanic bonds to fund the replacement of Fire Station 92 and a Fire Rescue Truck and to refund the outstanding portion of the City's 2003 LTGO (related to the purchase of the Mercerview property) and 2004 LTGO bonds (related to the construction of the new

Budget Policies

community center). The debt service on the Fire Station 92 and Fire Rescue Truck portion of the bonds is being funded by a nine-year levy lid lift approved by Mercer Island voters on November 6, 2012. The remaining principal owed as of December 31, 2018 is \$1,775,000.

In 2015, the City Council authorized a contract with Pierce Manufacturing to purchase a midi pumper fire truck through a lease purchase agreement with Municipal Asset Management (\$341,295). The outstanding principal owed as of December 31, 2018 is \$235,493.

In 2018, the City Council authorized a contract with Pierce Manufacturing to purchase a Pierce enforcer pumper fire truck through a lease purchase agreement with Municipal Asset Management (\$732,778). The outstanding principal owed as of December 31, 2018 is \$732,778.

Budget Policies for 2019-2020

- The City will confine long-term borrowing to approved capital improvement projects that cannot be funded by current revenues.
- The City will use debt financing only when the following conditions exist:
 - Object of the expenditure is a major new capital asset.
 - Object of the expenditure can be used by residents/taxpayers in the future.
 - There are insufficient existing capital revenues available.
 - All the revenue is needed at the same time (i.e., the project cannot be phased over time).
- When the City finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- The City will not use long-term debt for current operations.

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Voted Debt:				
None	\$ -	\$ -	\$ -	\$ -
Total Amount to be Levied in Taxes	\$ -	\$ -	\$ -	\$ -
Non-Voted Debt:				
2003 Mercerview Property	\$ 158,100	\$ -	\$ -	\$ -
2004 CCMV Construction	137,900	135,500	138,100	135,600
2009 LTGO South Mercer Playfields	82,340	82,440	-	-
2009 LTGO Sewer Lake Line	432,514	448,268	-	-
2011 LTGO First Hill Water System	108,475	111,525	109,425	107,150
2013 LTGO Station 92 & Apparatus	618,100	616,900	615,500	613,900
2017 Refunding South Mercer Playfields	8,842	13,200	88,200	90,200
2017 Refunding Sewer Lake Line	99,580	188,030	628,030	625,430
Lease Obligations				
2007 Fire Velocity Pumpers	128,023	-	-	-
2012 Fire Velocity Pumpers	70,715	70,715	70,715	70,715
2015 Fire Apparatus	42,768	42,768	42,768	42,768
2018 Fire Apparatus	-	-	96,587	96,587
Total General Obligation Debt	\$ 1,887,357	\$ 1,709,346	\$ 1,789,325	\$ 1,782,350
Public Works Trust Fund Loans				
Sewer Lake Line	\$ 422,895	\$ 420,881	\$ 418,868	\$ 416,854
Total Public Works Trust Fund	\$ 422,895	\$ 420,881	\$ 418,868	\$ 416,854

Budget Policies

Fiscal Sustainability

Background

At the July 10, 2018 Council meeting, the City Manager was directed to prepare a fiscal sustainability plan (FSP) to address the City's ongoing structural deficits in the General Fund and Youth & Family Services (YFS) Fund. Accordingly, a service package (\$55,000) is included in the 2019-2020 adopted budget. In December 2018, the City contracted with Management Partners, who reviewed the City's General Fund financial forecast model in 2018, to prepare a FSP in the first half of 2019, identifying a mix of budget balancing strategies, including expenditure controls and cost shifts, service delivery model changes, service delivery reductions, and new/enhanced revenues, that can secure the City's long-term financial health.

Following the failure of the November 6, 2018 levy lid lift ballot measure (Proposition 1) to preserve public safety services; youth, family, and senior services; and parks and recreation services, the Council directed the City Manager on December 4, 2018 to reduce the amount of one-time resources used to balance the 2019-2020 General Fund and YFS Fund budgets by \$1.20 million. As part of this change, the Council provided the following guidance:

- The City is at the beginning of defining a “new normal” given the failure of Proposition 1.
- There can be nothing sacred in terms of cuts and measures considered by the Council, because the projected deficits in 2021-2022 are significantly greater.
- The Council is committed to providing a path forward for future Councils and beginning the process of transitioning to new lower levels of service. This path will not excuse the current Council from making difficult decisions now.
- The City will use the Fiscal Sustainability Plan, which will be kicked off on December 18, 2018, to guide the Council and staff in making difficult decisions regarding service levels in 2019-2020 and beyond.

A “first draft” of the \$1.20 million in deficit spending reductions was presented to the Council at its February 2019 Planning Session. These budget balancing strategies will be reviewed again and finalized by the Council in April/May 2019.

In addition, an Organizational Efficiency Assessments service package (\$110,000 in 2019 and \$55,000 in 2020) is included in the 2019-2020 adopted budget. This effort represents an extension of the FSP, which will identify departments/programs for which exploration of alternative service delivery models is recommended by Management Partners. Likely candidates include the Fire Department (contracting with another jurisdiction or forming a fire district or regional fire authority) and the Municipal Court (contracting with another jurisdiction).

Budget Policies for 2019-2020

- Contract with Management Partners to prepare a fiscal sustainability plan in 2019, which will be implemented in the 2019-2020 biennium and beyond. The \$1.20 million in deficit spending reductions, which will represent the first FSP action to be taken by the Council, will be formally approved in April/May 2019.
- Contract with a consultant to conduct organizational efficiency assessments in 2019-2020, which could be implemented in 2021-2022.

Budget Policies

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Fiscal sustainability plan (service package)	\$ -	\$ -	\$ 55,000	\$ -
Organizational efficiency assessments (service package)	-	-	110,000	55,000
Total General Fund Expenditures	\$ -	\$ -	\$ 165,000	\$ 55,000

Investment Earnings

Background

The City pools its cash and invests it in various instruments authorized by the Revised Code of Washington. Most of the City's cash is invested in the Washington State Investment Pool and in U.S. Treasury and Agency obligations. To maximize interest earnings, all revenues distributed by the state are wired directly into a City account with the State Investment Pool.

For many years, all of the City's cash was invested in the State Investment Pool, because it was liquid, generated a good return, and required minimal staff time. Due to historic low returns, staff began investing available cash outside of the State Investment Pool in August 2012.

Based on the current policy, which has been in effect since January 1, 2013, investment earnings are first distributed to the following funds or reserves within a fund each quarter based on cash balance:

- LEOFF I Long-Term Care Reserve (which resides in the General Fund)
- Youth Services Endowment Fund
- Contingency Fund
- Water Fund
- Sewer Fund
- Storm Water Fund
- Fire Apparatus Replacement Reserve (which resides in the Equipment Rental Fund)
- Firemen's Pension Fund

Next, the investment earnings on all remaining invested cash are allocated to the Contingency Fund up to the current target balance (per the originally adopted budget). Finally, if there is an unallocated balance still remaining, it will be allocated to the General Fund.

Budget Policies for 2019-2020

- No changes to the current policy are planned. Staff will continue to actively invest available cash as time permits.

2019-2020 Budget Impact

Investment Earnings	2017	2018	2019	2020
General Fund (LEOFF1 Long Term Care)	\$ 12,254	\$ 20,142	\$ 20,142	\$ 20,142
Youth Services Endowment Fund	2,861	3,500	3,500	3,500
Contingency Fund	194,812	320,574	320,574	320,574
Water Fund	97,684	189,200	211,100	174,000
Sewer Fund	48,202	85,916	80,162	71,181
Storm Water Fund	44,988	66,700	57,600	50,600
Equipment Rental Fund (Fire Apparatus Reserve)	1,664	4,790	4,790	4,790
Firemen's Pension Fund	8,183	12,656	12,656	12,656
Total Investment Earnings	\$ 410,646	\$ 703,478	\$ 710,524	\$ 657,443

Budget Policies

Pre-LEOFF & LEOFF I Retiree Costs

Background

Law Enforcement Officers and Firefighters (LEOFF) Retirement System membership is made up of all full-time law enforcement officers and fire fighters in the State of Washington. This retirement system was initiated in 1970, consolidating the several police pension systems of First Class cities and the municipal firemen's pension systems. As of October 1, 1977, LEOFF was divided into a two-tier system. All of those employed prior to October 1, 1977 became members of Plan I, and those first employed on or after October 1, 1977 became members of Plan II.

LEOFF Plan I provides the medical benefit of 100% reimbursement of all medically necessary expenses to each LEOFF Plan I member (members are persons who terminate service with five or more years of service but do not withdraw their contributions).

LEOFF Plan I membership consists of retired members who are relatively young in age. This young age means the greatest impact of medical costs remains in the future.

LEOFF Plan I Medical Benefit

One of the major distinctions between LEOFF Plan I and Plan II is the LEOFF Plan I medical benefit. This benefit is set forth as follows:

"Whenever any active member, or any member retired...on account of...sickness...not caused or brought on by dissipation or abuse, of which the disability board shall be judge, is confined in any hospital or in home, and whether or not so confined, requires medical services, the employer shall pay...the necessary medical services not payable from some other source...." [RCW 41.26.150(1)]

In other words, the employer is required to pay all of the necessary costs for medical services incurred by retired members that are not paid by insurance obtained by either the employer or Medicare. These costs range from simple visits to a physician to major surgical procedures and placement in a nursing home. The statutory definition clearly defines the minimum medical services covered. While the minimum medical services are defined, it is possible that the scope of these enumerated medical services may be increased by a separate entity known as the Disability Board.

Another important aspect of this medical benefit is the burden of payment. None of the cost is borne by retirement funds. Moreover, the state is not liable for any cost of this benefit. These costs are the complete responsibility of the individual LEOFF Plan I employer.

Disability Board

The local Disability Board is the key decision maker regarding the extent of LEOFF Plan I medical costs paid by the City. This board is responsible for the approval of medical care costs for LEOFF Plan I members within the jurisdiction.

The Disability Board is made up of two council members, one LEOFF Plan I retired police officer, one LEOFF Plan I active or retired firefighter, and one citizen at large. The Disability Board has the authority to decide the extent of what will actually be covered beyond the minimum LEOFF Plan I medical services and whether or not the expense is a reasonable medical necessity. A LEOFF Plan I member may appeal disability board decisions directly to the state.

Budget Policies

Insurance

The provisions of LEOFF Plan I make clear that the employer is expected to utilize insurance to reduce the financial liability of the risks connected with the medical benefit. The City of Mercer Island insures the LEOFF Plan I Police retirees through the Association of Washington Cities (AWC) Employees' Benefits Trust. The trust has entered into contracts with Regence Blue Shield to provide indemnity health care coverage and with Group Health Cooperative to provide managed health care coverage. The City insures the LEOFF Plan 1 Fire retirees through the LEOFF Health and Welfare Trust. However, neither of these medical insurance plans covers expenses related to long-term care services. Uncovered medical and long-term care costs must be reimbursed directly to the retiree or medical provider by the City.

The Association of Washington Cities through its Employee Benefit Trust offers long-term care insurance plans underwritten by UNUM Life Insurance Company of America. This Plan is structured to primarily meet the LEOFF Plan I liability for nursing home and in-home care expenses. In 1996, 2002, and 2011, the City of Mercer Island received quotes directly from UNUM Life Insurance Company of America to cover the LEOFF Plan I members. The City found that the annual cost was prohibitive and coverage was limited to 60 percent of the total long-term care expenses. Additionally, several LEOFF Plan I members were not insurable based on their health history.

Government entitlement programs don't offer complete protection either. Medicare was designed to help older people pay for the same kind of acute care as traditional health insurance, and it provides only limited post-hospital care. In fact, Medicare pays for less than 5 percent of long-term care costs. Medicaid, designed for low-income individuals, currently covers about half of the bills for nursing home residents. But the program has strict eligibility requirements that force middle-income participants to spend down their personal assets. The vast majority of Mercer Island's LEOFF Plan I members would be ineligible for Medicaid benefits.

Mercer Island Disability Board Long-Term Care and Nursing Facility Care Rule

The Disability Board approved long-term care and nursing facility care procedures in October 2002. These rules require the City to pay for long-term care expenses based upon the average cost of three (3) nursing facilities or services in the member's geographic locality for 24 hour-a-day care in a private room. The Disability Board Secretary will determine the three (3) nursing facilities or services that will be used to average the cost.

To date, the City has experienced four long-term care reimbursement claims. In February 2003, the City paid a total of \$58,146 to satisfy its first claim for long-term care expenses. The second claim amounted to \$99,011 in 2004 and 2005. The third claim amounted to \$255,422 between May 2013 and April 2016. The fourth claim began in April of 2018 and remains ongoing with a cost of \$7,775 per month (\$69,975 estimate for 2018).

There are thirty-five (31) remaining City of Mercer Island LEOFF I retirees. The potential for future claims for long-term care expenses is significant.

Firefighters' Pension Fund

This fund accounts for pension benefits available to all firefighters hired on or before March 1, 1970. On that date the LEOFF retirement plan was established. Each city maintaining a Firefighters' Pension Fund is responsible for paying all pension benefits to eligible members or their survivors. To help cover the

costs, each city with a Firefighters' Pension Fund receives a proportionate distribution of fire insurance premium taxes from the state.

Funding Sources

Every three years, the City contracts for an actuarial valuation of the following liabilities:

- Pension benefits for retired firefighters hired on or before March 1, 1970;
- LEOFF I retiree medical benefits; and
- LEOFF I retiree long-term care benefits.

The most recent actuarial valuation was conducted in 2018, calculating the total liabilities, unfunded liabilities, and dedicated assets for each retiree benefit as of January 1, 2018. Beginning in 2012, the Council voted to use \$52,820 (or 0.5%) of its property tax "banked capacity" to help fund firefighters' pension benefits and LEOFF I long-term care benefits on an ongoing basis. The \$52,820 is split 50/50 between the two liabilities. Beginning in 2015, the Council voted to use \$56,590 of its remaining "banked capacity" to provide additional funding for LEOFF I long-term care benefits. In addition, \$80,000 per year was budgeted in 2015 for the long-term care costs of one Fire LEOFF I retiree. This is intended to be a permanent funding source going forward. Finally, LEOFF I retiree medical benefits are fully funded each year in the General Fund budget. Summary information regarding these three retiree benefits is provided in the table below.

Description	Firefighters' Pension Benefits	LEOFF I Retiree Medical Benefits	LEOFF I Retiree LTC Benefits
# of retired employees, 12/31/17	6 Fire	21 Police 10 Fire	21 Police 10 Fire
Total estimated liability	\$1,895,115 (1/1/18)	\$3,242,000 (1/1/18)	\$7,416,000 (1/1/18)
Total dedicated assets (reserved), 1/1/18	\$885,396 (Firefighters' Pension Fund)	\$0	\$1,406,196 (LEOFF I Retiree LTC Reserve)
Dedicated future revenues (2019 and beyond)	Fire insurance premium tax: \$32,756 in 2019 \$32,756 in 2020 \$30,000/yr thereafter Property tax: \$26,410 in 2019 \$26,410 in 2020 \$26,410/yr thereafter Investment interest: Varies based on cash balance in Firefighters' Pension Fund	Budgeted annually in General Fund	General Fund revenues: \$96,600 in 2019 \$99,500 in 2020 Increasing 3%/yr thereafter Property tax: \$83,000 in 2019 \$83,000 in 2020 \$83,000/yr thereafter Investment interest: Varies based on cash balance in reserve
Funded through year	2036	Fully funded	2034

Budget Policies

Budget Policies for 2019-2020

- A pension and other post-employment benefits actuarial valuation is required by GASB every two years. Accordingly, the next actuarial valuation is scheduled for 2020.
- The budget for long-term care costs is \$96,600 in 2019 and \$99,500 for 2020 based on an active claim. Any unspent balance will go to the LEOFF I long-term care reserve at year-end.
- The annual property tax levy amount dedicated to LEOFF I long-term care benefits is \$83,000 per year.

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Retiree Medical Premiums	\$ 252,092	\$ 306,600	\$ 175,347	\$ 189,374
Retiree Direct Medical Reimbursements	17,732	115,000	149,100	153,600
Total General Fund Expenditures	\$ 269,823	\$ 421,600	\$ 324,447	\$ 342,974

Long-Term Compensation Strategy

Background

The City is a service organization, as reflected by the fact that salaries and benefits account for 71% of the 2019-2020 General Fund budget. The City's employees are the means by which basic municipal services are delivered and Council policy directives are implemented.

The primary objectives of this compensation strategy are to build both flexibility and predictability into the City's human resources systems. Forces such as the regional economy and labor market are outside of local control. Nevertheless, it is in the City's best interest to anticipate, when possible, factors that drive compensation decisions.

This budget policy outlines the philosophy and assumptions underlying the City's compensation strategy.

Compensation Strategy

- For all employee groups, total compensation includes base pay, steps (for represented employees), performance pay (for non-represented employees), and other compensation.
- Approved full and part-time positions represent valuable labor potential. Therefore, vacant positions must be carefully reviewed before they are filled.
- When a healthy economic climate exists, the City's goal is to remain competitive at the mid-point of the comparable market for each position.
- When identifying appropriate comparable cities for conducting a market analysis, the City chooses organizations based primarily on the following criteria: full service cities, population (20,000-100,000), Puget Sound location (King County and south Snohomish County, excluding Pierce, Thurston, and Kitsap Counties), number of employees (150-750), and number of job matches.
- When possible, increases in pay will be tied to exceeding defined performance standards.
- Employees must share in the cost of their health care benefits.
- Compensation decisions (including labor negotiations) will be made using the best data available.

The City's philosophy strives to create a balance between fair and equitable pay for employees and exercising fiscal prudence given the City's heavy reliance on property taxes, which are limited by state law to 1% annual growth plus an allowance for new construction.

As a general rule, the City's policy is to make sure that every job is classified and employees are fairly compensated when compared either internally or externally. It is also the City's policy to ensure that salaries are benchmarked to the midpoint of the defined market. An employee's salary may be fixed at 5% less than the midpoint of the market to allow for those who may require significant on-the-job training to be hired at an entry level. In extraordinary circumstances, such as to attract or retain valued employees, the City Manager has latitude to set salary outside the established range.

Competitive Compensation for the Non-Union Workforce

Compensation recognition awards and/or increases may occur for one or more of the following reasons:

1. Incentive to recognize work quality and/or quantity, either for exceptional performance, customer service, creating efficiencies, or team performance.

Budget Policies

2. The temporary addition of substantial responsibilities (such as temporary assignment or extra duty).
3. Special achievement.

Salary increases may occur as a condition of satisfactory completion of a probationary period. Starting salaries are set at an amount that does not exceed the midpoint of the defined market.

Salary adjustments resulting from performance and annual compensation guidelines must be approved by the Human Resources Director, Finance Director and City Manager.

Performance Awards/Merit Pay

Funds are set aside for performance awards as part of the appropriation made by the City Council for all non-represented employees. The Human Resources Director, Finance Director and City Manager will approve performance awards to reward behaviors and performance consistent with the mission of the department and the City's vision. Performance awards will follow the guidelines set forth below:

1. Non-represented employees can earn up to a 3.0% performance award in their first year, a 3.5% performance award in their second year, a 4.0% performance award in their third year, a 4.5% performance award in their fourth year, and a 5.0% performance award in their fifth and subsequent years based on an "exceptional" rating (directors are capped at 4.0%).
2. Performance awards are considered on an annual basis.

Budget Policies for 2019-2020

- The collective bargaining agreements with Fire, AFSCME, and Police (Commissioned and Support) end on December 31, 2018, December 31, 2019, and December 31, 2020 respectively. Given the City's projected operating deficits in 2019-2020, the City's ability to pay will be a major factor in negotiations, absent voter approval of a levy lid lift in November 2018.
- Review each position vacancy for the potential of attrition or work redesign.
- Analyze personnel forecasting, benchmarking and reporting (e.g. indirect pay costs, employee demographics, tenure, turnover rate, salary spreads, total compensation reports for all employees, and health benefit cost trends).
- Maintain the City's commitment to high standards of employee performance evaluation by continuing to track and report employee performance.

2019-2020 Budget Impact

Collective bargaining ratified by the City Council will determine the budget impact.

Property Tax

Background

There are two types of property taxes collected by the City: *regular levy* and *voter approved levy*. The *regular levy* portion may be used for any purpose that the City deems necessary. On Mercer Island, as in most cities, the *regular levy* supports the General Fund, which funds most of the general operations of the City, excluding the water, sewer, and storm water utilities. A *voter approved levy* represents a property tax increase over and above the *regular levy* and is typically authorized for a specific purpose. There are two types of *voter approved levies*: *excess levy* and *levy lid lift*. An *excess levy* is dedicated to paying the principal and interest on debt issued for capital projects or major equipment purchases. A *levy lid lift* is dedicated to funding specific general government operations and/or capital improvements.

In 2019, there are 9 jurisdictions that have taxing authority on Mercer Island. Note that the largest portion of the levy relates to schools, with 35.0% going to the State School Fund and 22.8% going to the Mercer Island School District, which together comprise 57.8% of the total levy. King County and the City are the next largest taxing jurisdictions, receiving 16.2% and 12.4% respectively of the total property tax bill. The remainder of the total levy, which equals 13.6%, encompasses the following: King County Library System, King County Emergency Medical Services, Sound Transit, Port of Seattle, and King County Flood Zone District. Summarized in the following two tables are the 9 taxing jurisdictions (plus the Ferry District, which collected a levy through 2014), their levy rates per \$1,000 of assessed value, and the percentage of the total property tax levy for the period 2010-2019.

Jurisdiction	Levy Rate Per \$1,000 Assessed Valuation									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
State School Fund	2.22253	2.27990	2.42266	2.56720	2.47044	2.28514	2.16898	2.03205	2.91820	2.62922
MI School District	2.01025	2.52206	2.67700	2.66197	2.51965	2.72289	2.47976	2.40629	2.30117	1.71004
King County	1.28499	1.33816	1.41588	1.54051	1.51605	1.34522	1.48027	1.38294	1.32735	1.21906
City of Mercer Island	1.20135	1.24452	1.33138	1.43513	1.35658	1.25551	1.16502	1.07739	1.00313	0.93285
King County Library	0.46088	0.55131	0.56992	0.56743	0.56175	0.50276	0.47714	0.45118	0.41190	0.37441
Emergency Medical Services (EMS)	0.30000	0.30000	0.30000	0.30000	0.33500	0.30217	0.28235	0.26305	0.23940	0.21762
Sound Transit	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.25000	0.22745	0.20700
Port of Seattle	0.21597	0.22366	0.22982	0.23324	0.21533	0.18885	0.16954	0.15334	0.13518	0.12266
Flood Zone District	0.10514	0.10976	0.11616	0.13210	0.15369	0.13860	0.12980	0.11740	0.10708	0.09660
Ferry District	0.00348	0.00360	0.00372	0.00378	0.00349	0.00000	0.00000	0.00000	0.00000	0.00000
Total	7.80459	8.57297	9.06654	9.44136	9.13198	8.74114	8.35286	8.13364	8.67086	7.50946

Budget Policies

Jurisdiction	% of Total Property Tax Levy									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
State School Fund	28.5%	26.6%	26.7%	27.2%	27.1%	26.1%	26.0%	25.0%	33.7%	35.0%
MI School District	25.8%	29.4%	29.5%	28.2%	27.6%	31.2%	29.7%	29.6%	26.5%	22.8%
King County	16.5%	15.6%	15.6%	16.3%	16.6%	15.4%	17.7%	17.0%	15.3%	16.2%
City of Mercer Island	15.4%	14.5%	14.7%	15.2%	14.9%	14.4%	13.9%	13.2%	11.6%	12.4%
King County Library	5.9%	6.4%	6.3%	6.0%	6.2%	5.8%	5.7%	5.5%	4.8%	5.0%
Emergency Medical Services (EMS)	3.8%	3.5%	3.3%	3.2%	3.7%	3.5%	3.4%	3.2%	2.8%	2.9%
Sound Transit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.1%	2.6%	2.8%
Port of Seattle	2.8%	2.6%	2.5%	2.5%	2.4%	2.2%	2.0%	1.9%	1.6%	1.6%
Flood Zone District	1.3%	1.3%	1.3%	1.4%	1.7%	1.6%	1.6%	1.4%	1.2%	1.3%
Ferry District	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Regular Levy and Referendums

Each November, as required by Washington State law, the City Council sets the property tax levy for the coming year. Up until November 1997, the levy was restricted to a maximum of 106% of the previous year's levy plus levy amount associated with any new construction. However, in 1997, the Washington State Legislature passed Referendum 47 on to the voters of the state who in turn approved it by a 60% majority. This referendum set a limit on property tax increases to be the *either 106% or the rate of inflation, whichever was less*. In 2001, Initiative 747 was approved by voters which further changed the property tax law. Initiative 747 limits the property tax levy to a maximum of 101% of the previous year's levy, or the rate of inflation, whichever is less. Since the rate of inflation is normally above 1%, the effective limit for property tax will normally be 1%. The initiative also allows higher property tax increases if approved by the voters, a provision that was already in state law. The initiative's sponsors intended for voters to have a say in the size of tax increases.

Inflation, for the purposes of the referendum, is defined as the increase in the Implicit Price Deflator (IPD) for the previous 12 months ending in July of each year by the Bureau of Economic Analysis. This is not the same thing as the Consumer Price Index for Urban Wage and Clerical Workers (CPI-W), which most cities, including Mercer Island, have used for many years as the basis for cost of living adjustments for employees. The City's labor contracts tie the coming year's annual cost of living adjustment to the current year's First Half CPI-W for the Seattle metro area. The two indexes, IPD and CPI-W, track different items.

During 2006, I-747 was declared unconstitutional by a King County Superior Court judge. Attorney General Rob McKenna appealed the ruling to the Washington State Supreme Court. Ultimately, the Supreme Court upheld the ruling of the lower court. Then, in 2007, the state legislature re-instated I-747, making it law.

Levy Policy

For many years, the Council policy was to raise the levy by the full amount allowed by law. However, beginning in the 1995-1996 Budget, the City Council chose to provide property tax relief to Mercer

Island residents by “ramping down” the annual increase allowed by law, with the intent of targeting the rate of inflation based on the CPI-W for the Seattle metro area. The Council reached its “inflation” goal in 1999. Since 2001, the Council has normally followed the State law and increased property taxes by 1% each year. However, in 2002, 2005, 2006, and 2007, the Council decreased property taxes by paying for some voted debt out of reserves. In 2010 and 2011, the Council opted to not increase the levy amount, excluding new construction. Since 2012, the Council has approved the 1% levy increase each year through 2019.

Important Considerations

There are 4 important considerations regarding the City's property tax levy:

1. Property tax is the largest revenue source in the General Fund, accounting for 39% of total revenues in 2019-2020. By comparison, property taxes comprise only 18-22% of total General Fund revenues in Bellevue, Kirkland, Redmond, and Issaquah due to their large commercial sectors. As a result, the 1% annual growth limitation on the City's largest revenue source puts an unrealistic burden for growth on the City's other major General Fund revenues: sales tax (16% of total); utility taxes (15% of total); and license, permit & zoning fees (11% of total); and recreation/rental fees (5% of total).
2. Employee salaries and benefits, which consistently grow faster than inflation, make up 71% of the 2019-2020 General Fund Budget.
3. The First Half 2018 CPI-W for the Seattle metro area is 3.6%. Employee cost of living adjustments (COLAs) in 2019 are directly tied to this inflationary index per their contracts. Police and Fire employees will get a 3.6% COLA in 2019; whereas, AFSCME and non-represented employees will get a 3.24% COLA in 2019, which is 90% of this index. Looking forward, the First Half 2019 CPI-W is projected to be 3.0%, with 2020 COLAs projected to be 3.0% for Police and Fire employees and 2.7% for AFSCME and non-represented employees.
4. In 2019, the 1% levy increase equates to \$133,225 in new revenue for the City, which amounts to an annual property tax increase of \$12.30 on a \$1.35 million assessed value (AV) home, which is the median AV on Mercer Island for the 2019 tax year.

Banked Capacity

The banked capacity provision allowed under RCW 84.55.092, Protection of Future Levy Capacity, allows local taxing districts to calculate levies based on the maximum lawful levy since 1985. If a taxing district voluntarily levies less than its maximum levy amount in a prior year, it will have some banked capacity that it could use in the future. The King County Assessor's Office keeps track of the banked capacity for each jurisdiction. In 2008, the Council opted to use 0.65% of banked capacity (or \$57,900), in addition to the 1% optional increase, to help fund the fire apparatus replacement reserve on an ongoing basis. In 2012, the Council opted to use 0.5% of banked capacity (or \$52,820) to help reduce the unfunded liabilities related to long-term care benefits for LEOFF I retirees and pension benefits for firefighters hired on or before March 1, 1970. In 2015, the Council opted to use all of its remaining banked capacity (1.2%, or \$144,960) to address various funding needs, including long-term care benefits for LEOFF I retirees.

Levy Lid Lifts

The Council will determine an appropriate level of service for the Island as part of the biennial budget process. The choice remains to balance the budget by raising taxes and/or increasing fees, by cutting

Budget Policies

services, or both. If the cost of services cannot be supported by the forecasted revenues with a 1% property tax increase, the Council may consider authorizing a ballot measure for a voter approved levy lid lift.

On November 4, 2008, Mercer Island voters approved a \$900,000 Parks Maintenance and Operations levy lid lift for 15 years (2009-2023), but rejected the companion \$12.0 million Parks Bond measure. On November 6, 2012, Mercer Island voters approved a \$662,000 Fire Station and Fire Apparatus levy lid lift for 9 years (2013-2021) that is used to pay the debt service (i.e. principal and interest) on the LTGO bonds that were issued in February 2013 to fund the replacement of Fire Station 92 and a Fire Rescue Truck.

Given the projected operating deficits in the General Fund and Youth & Family Services Fund in 2019-2024, the Council placed a levy lid lift measure on the November 6, 2018 ballot to preserve public safety services; youth, family, and senior services; and parks and recreation services. Island residents rejected the measure, with 57.5% voting “no.”

King County Parks, Trails, and Open Space Levy

A portion of this six year levy (2014-2019), which voters passed in August 2013, is remitted to each city in King County for purposes of protecting and preserving open space and acquiring and developing regional trails. Mercer Island has dedicated this funding source to trail development in its Capital Improvement Program. King County will put a replacement levy on the ballot in 2019.

Budget Policies for 2019-2020

- The regular levy for 2019 and 2020 includes a 1% optional increase plus “new construction,” which represents new property tax revenue from newly constructed and improved residential and commercial properties. Most of the regular levy in 2019 and 2020 is distributed to the General Fund. The dedicated portions of the regular levy are for the following: LEOFF I long-term care reserve in the General Fund (\$83,000 in 2019 and 2020); Community Center technology, equipment, and furnishings sinking fund in the Technology & Equipment Fund (\$18,000 is transferred from the General Fund in 2019 and 2020); fire apparatus sinking fund in the Equipment Rental Fund (\$160,745 in 2019 and \$162,351 in 2020); and the pension benefits reserve in the Firefighters’ Pension Fund (\$26,410 in 2019 and 2020).
- The 2008 Parks Maintenance and Operations levy lid lift for 2019 and 2020 is \$950,079 and \$959,630 respectively. Both years include the 1% optional increase. Of the total annual levy amount, \$252,000 is budgeted for parks capital projects in the Capital Improvement Fund. The remaining balance is budgeted for parks maintenance and operations in the General Fund (\$698,079 in 2019 and \$707,630 in 2020).
- The 2012 Fire Station 92 and Fire Rescue Truck levy lid lift for 2019 and 2020 is \$682,059 and \$688,880 respectively. Both years include the 1% optional increase. Of the total annual levy amount, \$615,500 is budgeted in 2019 and \$613,900 is budgeted in 2020 for bond principal and interest payments in the Bond Redemption (Non-Voted) Fund. The remaining balance is distributed to the fire apparatus sinking fund in the Equipment Rental Fund (\$66,559 in 2019 and \$74,980 in 2020).
- The City anticipates receiving \$105,000 in 2019 from the 2013 King County Parks, Trails, and Open Space levy. This six-year levy expires at the end of 2019. Its renewal is not assumed in 2020.

2019-2020 Budget Impact

Revenues	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
General Fund:				
Regular Levy (General Purpose)	\$11,046,134	\$11,386,704	\$11,655,476	\$11,908,555
Regular Levy (LEOFF 1 Long-Term Care)	83,000	83,000	83,000	83,000
Regular Levy (Community Center Sinking Fund)	40,000	40,000	18,000	18,000
2008 Parks M&O Levy Lid Lift	680,895	688,623	698,079	707,630
Bond Redemption Fund – 2012 Fire Station & Fire Rescue Truck Levy Lid Lift	618,100	616,900	615,500	613,900
Capital Improvement Fund – 2008 Parks M&O Levy Lid Lift	252,000	252,000	252,000	252,000
Equipment Rental Fund:				
Regular Levy (Fire Apparatus Sinking Fund)	157,577	159,153	160,745	162,351
2012 Fire Station & Fire Rescue Truck Levy Lid Lift (Fire Apparatus Sinking Fund)	50,250	58,406	66,559	74,980
Firefighter's Pension Fund – Regular Levy	26,410	26,410	26,410	26,410
Total Levied by City	\$12,954,636	\$13,311,196	\$13,575,769	\$13,846,826
Capital Improvement Fund – King Co. Levy	100,658	97,000	105,000	0
Total Property Taxes	\$13,055,294	\$13,408,196	\$13,680,769	\$13,846,826

Budget Policies

Reserves – Capital Reserve Fund

Background

As part of the overall capital budget, the City's Capital Facilities Plan (CFP) is a six-year plan to outline proposed new capital projects. The CFP is divided into four component parts:

- Streets, including pedestrian and bicycle facilities;
- Parks, recreation, and open space;
- General government, including public buildings; and
- Utilities, including water, sewer and storm water.

As required by State law and the City's own policies, the CFP serves the capital planning requirements for six-year plans as outlined in the Comprehensive Plan and State Growth Management Act.

According to the City's Capital Improvement Program budget policy, funding for the CFP portion of the capital budget will generally be decided simultaneously with the approval of the project. Unlike the Capital Reinvestment Plan (CRP), which is financed on a "pay-as-you-go" basis from existing revenue sources, CFP projects are typically financed through a voted property tax levy (which allows the City to issue bonds), a grant, or an increase to an existing revenue source (e.g., increasing City utility rates).

In past years, better than forecasted sales tax and real estate excise tax (REET) revenues have allowed the Council to accumulate funds in the Capital Reserve Fund for: 1) future CFP projects, and 2) a REET reserve (to stabilize REET receipts). In addition, the Council can establish a CIP contingency reserve for unanticipated, significant capital project cost increases in the Street Fund or the Capital Improvement Fund that can't be fully addressed by the contingency built into a project's budget or the savings in another project.

Budget Policies for 2019-2020

- Use the \$169,999 current balance in the Capital Reserve Fund as a REET contingency in 2019-2020.
- The Council will have an opportunity to increase the balance in the Capital Reserve Fund as part of the annual process for determining the disposition of the year-end surplus, if any, in the General Fund, the Street Fund, and the Capital Improvement Fund.

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Beginning Fund Balance	\$ 169,999	\$ 169,999	\$ 169,999	\$ 169,999
Plus Revenues	-	-	-	-
Less Expenditures	-	-	-	-
Ending Fund Balance	\$ 169,999	\$ 169,999	\$ 169,999	\$ 169,999
Consisting of:				
Unreserved	169,999	169,999	169,999	169,999
Ending Fund Balance	\$ 169,999	\$ 169,999	\$ 169,999	\$ 169,999

Budget Policies

Reserves – Contingency Fund

Background

The Contingency Fund, which serves as the City's "Rainy Day" reserve, was established to:

- Address an unanticipated, significant revenue shortfall in the General Fund or Youth & Family Services Fund on a temporary basis;
- Provide temporary funding for an unanticipated, non-recurring, significant expenditure that cannot be absorbed within the General Fund or Youth & Family Services Fund; and
- Provide temporary funding for an unanticipated, ongoing, significant increase in operating costs that cannot be absorbed within the General Fund or Youth & Family Services Fund.

According to Washington State law, the fund balance in the Contingency Fund is limited to 37.5 cents per \$1,000 assessed valuation. For 2019, the legal limit is \$5,495,128 (\$14,653,675,301 assessed valuation for 2019 tax year / \$1,000 x 0.375).

During the 2019-2020 budget process, the Council directed staff to increase the target level in the Contingency Fund from 10% to 12.5% (which equals 1.5 months) of General Fund budgeted expenditures beginning in 2019.

The Contingency Fund receive revenues from two sources:

1. Interest earnings based on: a) the cash balance in the Contingency Fund; and 2) the collective cash balances in all other funds, which don't receive an allocation of investment earnings; and
2. General Fund surplus from the prior year, if any, which can be used to increase the Contingency Fund balance to the target level, if investment earnings are insufficient.

Recognizing that a number of different financial scenarios requiring the use of the Contingency Fund are possible, the following guidance is provided regarding when to tap the Contingency Fund and when to replenish it.

Use Guidance: Revenue Shortfall

When total revenues in the General Fund or Youth & Family Services Fund are projected to be at least 3% below budget, the Finance Director and City Manager will prepare a 12-24 month "Rainy Day" strategy utilizing the following prioritized funding sources:

1. Prior year's revenue surplus and expenditure savings in the General Fund, which haven't been committed to a specific purpose or distributed yet;
2. Expenditure savings in the current and coming fiscal years, including contract employee layoffs but excluding regular employee layoffs (General Fund or Youth & Family Services Fund target: 3.0% of budgeted expenditures for a 12-24 month period); and
3. Contingency Fund and/or regular employee layoffs, noting that the latter will be recommended when the balance in the Contingency Fund is projected to last less than 24 months.

Use Guidance: Unanticipated Expenditure or Operating Cost Increase

To address an unanticipated, non-recurring expenditure or an unanticipated, ongoing increase in operating costs that cannot be absorbed within the General Fund or Youth & Family Services Fund,

Budget Policies

the Finance Director and City Manager will seek an appropriation from one or both of the following prioritized funding sources:

1. Prior year's revenue surplus and expenditure savings in the General Fund, which haven't been committed to a specific purpose or distributed yet;
2. Known expenditure savings, if any, in the current fiscal year; and
3. Contingency Fund.

Replenishment Guidance

The funding source for replenishing the Contingency Fund is the prior year's revenue surplus and/or expenditure savings. Restoring the Contingency Fund to its target level will constitute the Council's highest funding priority following the final draw needed to address a revenue shortfall or an unanticipated expenditure, absent a super majority vote (i.e. 5 vs. 2) to the contrary:

- For a revenue shortfall, the replenishment target period is 3 years.
- For an unanticipated, non-recurring expenditure or an unanticipated, ongoing increase in operating costs, the replenishment target period is 2 years.

Budget Policies for 2019-2020

- Increase the target level from 10% to 12.5% (which equals 1.5 months) of General Fund budgeted expenditures beginning in 2019. To accomplish this, the Council approved transferring the following amounts to the Contingency Fund at the end of 2018: 1) \$300,000 revenue stabilization reserve in the General Fund; 2) \$284,566 of the compensated absences reserve in the General Fund; and 3) up to \$205,741 of the Beautification Fund balance. It should be noted that the Government Finance Officers Association (GFOA) recommends maintaining a target balance of 17%, or 2 months, of General Fund budgeted expenditures as a "best practice." Interest revenue is projected to be sufficient in 2019 and 2020 to maintain the 12.5% target level.

2019-2020 Budget Impact

Description	2017	2018	2019	2020	Percent Change	
	Actual	Forecast	Budget	Budget	18-19	19-20
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ -	\$ 1,035,704	\$ -	N/A	-100.0%
Business and Occupation Tax	279,939	420,061	-	-	-100.0%	N/A
Interest	194,812	320,574	320,574	320,574	0.0%	0.0%
Interfund Transfers	1,035,704	790,307	-	-	-100.0%	N/A
Total Budgeted Resources	\$1,510,455	\$1,530,942	\$1,356,278	\$ 320,574	-11.4%	-76.4%
Not Budgeted						
Beginning Fund Balance (Reserved)	2,629,429	3,439,884	3,935,122	4,255,696	14.4%	8.1%
TOTAL RESOURCES	\$4,139,884	\$4,970,826	\$5,291,400	\$4,576,270	6.4%	-13.5%
USES						
Budgeted						
Interfund Transfers - General Fund	\$ 700,000	\$ -	\$ 1,035,704	\$ -	N/A	-100.0%
Total Budgeted Expenditures	\$ 700,000	\$ -	\$1,035,704	\$ -	N/A	-100.0%
Not Budgeted						
Ending Fund Balance	3,439,884	4,970,826	4,255,696	4,576,270	-14.4%	7.5%
TOTAL USES	\$4,139,884	\$4,970,826	\$5,291,400	\$4,576,270	6.4%	-13.5%

Budget Policies

Risk Management

Background

Mercer Island is one of the charter members of the municipal self-insured liability pool—Washington Cities Insurance Authority (WCIA). Through WCIA and an interlocal agreement with more than 170 other municipal corporations, the City of Mercer Island insures for general liability, automobile liability, errors and omissions, police enforcement, employee administration, and advertising liability.

Participation in WCIA's program has resulted in the City continuing to be covered on a per occurrence basis with tail coverage back through 1981. The pool presently is self-insured and uses an annual actuarial study to determine member "premiums" and reserve policies.

WCIA's long-term goals are to provide prudent planning and effective management to allow member cities liability protection comparable to or better than that available in the private market. Loss control procedures are reviewed with the cities to assist members to more effectively prevent, control, or subrogate liability risks.

Other Insurance

The City purchases property insurance through a pooled arrangement with the other member cities of WCIA. Industrial insurance is provided by the state with premiums paid based on the number of hours worked. The City's workforce is divided into four classes with different rates for each class. Volunteers are also covered by industrial insurance.

Budget Policies for 2019-2020

- Continue to participate in the Washington Cities Insurance Authority during the 2019-2020 biennium.
- Continue to review opportunities for efficiencies and reductions in risk-based insurance costs.

2019-2020 Budget Impact

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Liability Insurance (WCIA)	\$ 656,939	\$ 689,783	\$ 863,118	\$ 906,274
Property Insurance (WCIA)	104,112	116,983	104,592	104,955
Fleet & Marine Insurance (WCIA)	53,499	52,700	59,700	61,000
Specialty Insurance (WCIA)	8,904	9,270	10,000	10,000
Total Revenue	\$ 823,454	\$ 868,736	\$ 1,037,410	\$ 1,082,229

Budget Policies

Sustainability

Background

The 2019-2020 Budget reflects the Mercer Island City Council's ongoing commitment to building a sustainable community. In January 2018, the City Council adopted its 2018-2019 City Council Goals and Work Plan. A goal around sustainability was added as follows:

Goal 3. Deepen the City's Commitment to Sustainability and Livability

In 2006, the City Council voted to add goals and policies regarding sustainability to its Comprehensive Plan, identifying that the Triple Bottom Line principles (Economy, Environment, Equity,) were key filters for Council decisions and City actions. At that time, the Council also committed to Greenhouse Gas (GHG) reduction goals in alignment with King County and other regional cities. Progress towards meeting these goals has been sporadic and will only be successful if a continuous and unwavering focus is maintained across all City departments, and if staff capacity exists to measure stepping-stone achievements, plan new sustainability initiatives, and implement programs.

Action Items:

1. Prepare and implement a 6-Year Sustainability Plan (with community involvement and significant engagement with the Sustainable-Mercer Island citizens group):
 - a. Invite School District participation
 - b. Consider early action items such as: recognition as a Bike-Friendly Community, Green Power sign-up campaign, home energy retrofits (with PSE), Styrofoam container ban
 - c. Ensure sustainability principles are part of the City purchasing/procurement policy.
2. Explore adopting STAR Communities Framework
3. Launch full implementation of new software tools that allow tracking of City and community GHG emissions, and energy efficiency performance benchmarking of major City facilities.

The commitment to sustainable actions and programming is further evident in the budget of each individual department, the capital improvement program, and in the funding priorities of the City's three utilities.

Sustainability is a Mercer Island value. It is a process of ensuring the wise use and management of all resources within a framework in which environmental, social, cultural and economic well-being are integrated and balanced. It means meeting the needs of today without adversely impacting the needs of future generations.

Accountability

The City of Mercer Island will work to:

- Optimize the efficient use of resources and minimize waste;
- Increase the use of renewable resources and reduce greenhouse gas emissions;
- Operate in ways that minimize any adverse impacts on the environment or the local community;
- Incorporate informed sustainability perspectives within the workforce;
- Encourage contractors, vendors and other community partners working within our community to adopt sustainable best practices;
- Deliver an improved quality of life for the current and future residents of Mercer Island; and
- Report to the community on progress made.

Budget Policies

Service Delivery

City departments will:

- Implement sustainable procurement procedures taking account of entire life-cycle costs;
- Repair, reuse and recycle ahead of the responsible disposal of surplus materials, and minimize waste generation while taking into account the economics of the work;
- Take positive actions promoting continual improvement in sustainability performance;
- Set and achieve clearly defined sustainable development objectives and targets;
- Recognize, celebrate and reward achievement to promote the City as a sustainable organization;
- Develop the capacity of staff to promote the principles and practice of sustainability; and
- Model sustainable actions and practices in daily work tasks.

In 2006, the City Council adopted a budget policy that directed the City's staff to "undertake efforts to curtail its consumption of scarce resources including electric energy, water, fossil fuels and landfill space" and set new targets for the conservation of natural resources. The Council has been clear that the most cost-effective efforts should come first and that the effectiveness of sustainability efforts should be evaluated by their measurable impact on the carbon footprint of the Island.

Sustainability Work Plan and Climate Action Plan

The City's new rolling 6-year Sustainability Work Plan currently under development will identify multiple large-scale venues in which conservation priorities will be addressed. A Climate Action Plan component will include actions needed to meet the City's commitment to Greenhouse Gas (GHG) reduction targets of **80% below current levels (i.e. 2007) by 2050**. These goals are in alignment with King County targets, and are pursued jointly with King County climate staff, the King County Executive, and many other regional cities, as part of the [King County-Cities Climate Collaboration](#) (K4C).

Budget Policies for 2019-2020

Grants

- Continue to develop partnerships that will be a catalyst to the success of future grant applications.
- Continue to seek out grant opportunities that will develop sustainable projects and programs that will add value to our community and meet the City's sustainability goals.

General

Approximately 76% of Mercer Island's entire community emissions tonnage derives from transportation (primarily single occupant vehicle usage), and electricity consumption (due to remaining coal power in Puget Sound Energy's portfolio). Serious commitment to address global warming in the Puget Sound region must powerfully address both of these sectors whenever feasible and cost-effective opportunities arise.

- Explore public-private development opportunities that will provide affordable housing within easy access of public transportation to decrease the need for automobiles and encourage bicycling and walking.
- Ensure clear and continuous coordination with relevant agencies regarding planning of, and funding responsibility for, pedestrian plazas and modifications to City roadways and trails leading to future light rail station entrances.

Budget Policies

- Pursue opportunities for jointly-funded mobility infrastructure improvements in order to develop well integrated, multimodal transportation options for our community.
- Use Sound Transit settlement funds (November 2017) to pilot first/last-mile commuter mobility projects, such as rideshare programs (in partnership with Lyft and Uber), and bikeshare programs (with LimeBike).

Departmental

- Continue to collect and report annual sustainability metrics (such as fleet fuel use, electricity and natural gas consumption, etc.) and track using online Scope 5 software, in order to seek out cost efficiencies.
- Explore the financial case for extending the City's new Town Center construction standards (i.e. LEED Gold or Built Green 4-Star standard) as an opt-in program for single-family housing construction projects.
- Work with Island residents and City staff to meet the waste reduction and recycling goals established in the new Comprehensive Solid Waste Management Plan for King County and incorporate in update to waste/recycling franchise contract.
- Identify and implement capital improvements to City facilities that offer a positive resource conservation return on investment.
- Continue reinvesting natural gas and electricity savings from energy efficiency projects into a revolving fund to help pay for other City efficiency projects.
- When possible, allocate mandatory City expenses (such energy costs for City facilities) in a manner that advocates for a reduction in the amount of coal-fired electricity contained within the energy mix portfolio of Puget Sound Energy (PSE), the utility serving the Island.
- Collaborate with Island residents and organizations to raise the community's awareness about the importance of employing sustainable practices, including reducing greenhouse gas emissions and the relationship to global warming.

2019-2020 Budget Impact

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Budget (Operating):				
Sustainability Coordinator	\$ 53,259	\$ 54,628	\$ 55,830	\$ 57,402
Recycling Services	30,024	51,500	36,000	36,000
Water Conservation	-	3,500	3,500	3,500
Storm Water Operations & Maintenance	1,482,671	1,322,270	1,292,949	1,325,783
Urban Forest Management (Right of Way)	126,280	236,834	188,282	190,911
Capital Improvement Program:				
Sustainability Projects	-	25,000	25,000	-
Vegetation Management	416,299	440,300	545,500	567,300
Storm Water Capital Projects	495,143	1,050,541	1,145,000	1,029,000
Total	\$2,603,675	\$3,184,573	\$ 3,292,061	\$ 3,209,896

Budget Policies

BUDGET POLICES

Utility Funds

This section includes budget polices on the following:

- Utility Overhead Charges
- Utility Maintenance and Construction
- Utility Fiscal Policies



Budget Policies

Utility Overhead Charges

Background

The City-owned utilities are classified as Enterprise Funds. Various departments, which are accounted for in the General Fund, provide administrative support to each of the City's three utilities (water, sewer, and storm water). Administrative overhead charges include support provided to capital improvement activities, as well as support provided to the operations and maintenance of each utility. In addition, building maintenance costs related to City Hall and the Maintenance Center are paid by the General Fund. In order for the utility budgets to reflect the full costs of administration and building maintenance, an interfund charge is assessed to each of the City's three Utility Funds. In effect, the General Fund charges each Utility Fund for costs that support the provision of utility services.

Administrative Charges

There are five cost centers in the General Fund that benefit each of the City's three utilities: City Attorney's Office, City Council, City Manager's Office, Finance Department, and Human Resources Department. The basis for the interfund administrative charge associated with each cost center is noted below:

General Fund Cost Center	Interfund Charges	2019	2020
City Attorney's Office	13.6% of budget	\$ 61,047	\$ 62,718
City Council	13.6% of budget	2,824	2,824
City Manager's Office	13.6% of budget	14,599	15,637
CM Communications	2.9% of budget	2,429	2,497
Finance Department	Varies by position	244,204	251,134
Human Resources Department	13.5% of budget	65,680	67,491
Total		\$ 390,783	\$ 402,301

The portion of the City Attorney's Office, City Council, and City Manager's Office budgets which can be attributed to the Utilities is based on the proportion of agenda bills and contracts which are related to each Utility for 2016-2017 (the 2 full years preceding the development of the 2019-2020 Budget).

The portion of the Communications budget which can be attributed to the Utilities is based on the number of MI Weekly articles and press releases related to the Water, Sewer, or Storm Water utilities during the period August 2016 to July 2018.

The portion of the Finance Department budget which can be attributed to the Utilities varies according to position. Three positions (Utility Billing Supervisor, Customer Service Representative, and Meter Reader) are directly allocated to the Utilities and the General Fund. Two additional positions (Accounting Manager and Accounts Payable Clerk) are allocated based on the percent of GL Transactions related to the Utility Funds (26.8%) in 2017. The remaining two positions are allocated to the Utility Funds based on the percentage of time spent by each position on utility-related tasks as follows: Finance Director (11.7%) and Deputy Finance Director (55.5%)

The portion of the Human Resources Department budget which can be attributed to the Utilities is based on the number of Utility employees relative to the total number of City employees. This count is assessed as part of the Preliminary Budget process, based on approved FTE's for the biennium.

Budget Policies

These administrative costs are allocated to each Utility according to the basis for each functional area. For example, the Human Resources Budget was allocated to each of the Utilities based on the percent of employees for each Utility. The Human Resources budget is allocated as follows: Water (5.7%), Sewer (4.8%), and Storm Water (3.0%). Similarly, each functional area is allocated in accordance with its base charge methodology. In aggregate, the cost allocation is split as follows: Water (42%), Sewer (32.5%), and Storm Water (25.5%).

Building Maintenance Charges

Maintenance costs for City Buildings are consolidated in one cost center within the General Fund. Building maintenance charges includes 1.15 FTE who oversee routine maintenance and repair projects, utilities (power, gas, water and sewer) used by the buildings, as well as contracted repair and maintenance services. Actual costs of utilities are available for each building. Other costs are allocated to the Maintenance Center and City Hall based on the square footage of the buildings. These costs will be charged back to the Utilities based on FTE's within each building in 2019, as follows:

Facility	Building Cost	Water	Sewer	Storm Water	General Fund
Maintenance Center	\$ 107,217	19.8%	16.8%	10.5%	52.9%
City Hall	\$ 243,821	2.1%	2.1%	0.9%	94.9%

Budget Policies for 2019-2020

- Ensure that the General Fund does not subsidize any of the City's Utilities.
- Assess interfund charges for administration and building maintenance to each Utility in 2019 and 2020 per the allocation factors and the Preliminary Budget amounts noted above.

2019-2020 Budget Impact

Charges	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Water Utility Admin Charges	\$183,842	\$187,158	\$190,574	\$196,059
Sewer Utility Admin Charges	\$143,801	\$146,489	\$150,012	\$154,254
Storm Water Utility Admin Charges	\$128,289	\$130,459	\$113,290	\$116,466
Total	\$455,932	\$464,106	\$453,876	\$466,779

Utility Maintenance and Construction

Background

As part of each biennial budget cycle, City staff identifies and prioritizes water, sewer and storm water construction projects. The proposed projects are reviewed annually by the Utility Board and during the Capital Improvement Program (CIP) planning process. The projects are included in six-year plans for each of the utilities, which are much like the Transportation Improvement Plan (TIP). These six-year plans provide a roadmap for development of the biennial budget, assist with strategic rate planning, and allow for effective coordination among the utilities and street projects.

Sewer Utility

Reinvestment in the Sewer Utility is guided by the General Sewer System Plan (GSP) which was reviewed by the Council in March 2018 and is expected to be adopted in late 2018/early 2019. The GSP forecasts current and future needs over a 20-year CIP planning horizon. Staff has updated the 6-year Sewer CIP plan for 2019-2024 based on the proposed GSP.

With the completion of the GSP, significant investment has been programmed for the replacement of the Supervisory Control and Data Acquisition and Telemetry (SCADA System), evaluation and installation of new access points for cleaning the Lakeline, hydraulic flow modeling and analysis, investment in conveyance pipe replacement (R&R program), and investment in pump station rehabilitation.

The prevention of back-ups in the sewer collection system continues to be another top priority and will be given both the financial and staff resources necessary for success. The ongoing cleaning and video inspection of the system is critical to detecting and eliminating problems such as roots and grease that can cause back-ups.

Another area of concern for the Sewer Utility includes parts of the system that exist in the yards of Island residences. These “backyard sewers” continue to be investigated and prioritized for replacement in coming biennia. While usually small in scale, these replacements are challenging due to easement and access needs.

Water Utility

Reinvestment in the Water Utility is guided by the Water System Plan, which was adopted by Council in 2008 and updated in 2016.

The replacement of substandard water mains, particularly those that are undersized or are reaching the end of their useful lives and do not comply with the City's fire flow policy, will continue to be an element of the water system capital improvements this biennium. At the current rate of funding, it is expected that it will take more than 20 years to replace the substandard mains in the system.

In September 2014, the presence of E. coli and Total Coliform bacteria was detected in various locations of the City's water distribution system, and this detection prompted a precautionary boil water notice. A Long-Term Action Plan was created to address areas of contamination risk, including the use of water quality metrics as a component of CIP classification and project prioritization. Beginning with the 2019-2024 Water Utility CIP, water quality data will now be considered as an evaluation component of water main replacement and condition rankings. Significant investment also includes the construction of a

Budget Policies

Booster Chlorination Station, replacement of the SCADA system, and implementation of the Meter Replacement program.

Storm Water Utility

Reinvestment in the Storm Water Utility is guided by the Comprehensive Basin Plan adopted by Council in 2006. In addition, periodic Basin Reviews are conducted to review the deterioration in the City's Storm Water basins. Timing of construction is adjusted as conditions change.

With the completion of the last identified major basin project in 2012, planning for future basin improvements has turned to multiple smaller projects and the early stages of replacing the City's piped drainage systems in the public right-of-way.

In this biennium, the City's monitoring work and efforts to protect and improve water quality in Lake Washington is focusing more closely on dissolved copper and zinc, which are known to damage wild salmon populations. Projects being planned include field inventories, public outreach and education, and the installation of water quality treatment devices at key locations in the drainage system.

All Utilities

City utility improvements, particularly water system improvements that are to be completed in conjunction or ahead of street projects will be identified earlier to better accommodate the priorities of both the Transportation Improvement Plan for streets and the priorities of the utilities. When necessary, preliminary design will be conducted to refine the scope of the improvements and provide a more accurate estimate for design and construction costs.

Budget Policies for 2019-2020

- **Water:** Continue to increase rates in order to meet the \$3.9M average annual rate funding target of the 6-year capital plan for Water.
- **Sewer:** Increase rates in order to meet the \$2.0M rate funding target of the 6-year capital plan for Sewer.
- **Storm Water:** Increase rates slowly in order to meet the \$1.2M rate funding target of the 6-year capital plan for Storm Water.

Utility Fiscal Policies

Background

In 1993 the Utility Board and staff worked closely to establish financial policies to guide future rate and budget decisions. In 2006 the Utility Board reviewed and modified the financial policies related to the Water Utility. The financial policies analysis consisted of identifying, describing, and to the extent possible, evaluating impacts of various elements of the policies. Elements discussed included types and levels of utility reserves, methods of capital improvement funding, methods of capital replacement funding, rate structure and equity, and related objectives such as water conservation.

The fiscal policies, which have been approved by the Utility Board, consist of four major categories that are briefly described below. A complete copy of the policies is included on the following page.

A. Reserves

This section sets the policy for the amount of operating reserves necessary. Sewer and Storm Water operating reserves are set at 30 days of operating expenses while water is set at 90 days (due to the greater seasonality of revenue). The need for a capital replacement reserve is also discussed and the format for establishing such a reserve is fixed.

B. Financing

A policy is set that capital replacement projects will be financed from the replacement reserve established in the reserve section. It also discusses the concept of financing most improvements on a pay-as-you-go basis; however, consideration must always be given to the effect of the rate impacts on customers. It proposes that for projects estimated to cost \$2 million or more other financing alternatives should be considered.

C. Revenue Requirements

This section summarizes and formalizes our policies to set rates sufficient to meet all utility cash requirements including operating expenses, debt service, and additions to reserves and capital costs. It also reflects the policy to set rates to meet any bond or other debt covenants.

D. Rates and User Charges

There are two policies established in this section. The first policy concerns water conservation. It establishes that the City wishes to promote water conservation and will set water rates that reflect that policy. The second policy concerns the concept of a "lifeline rate" to provide basic water and sewer services at an affordable level. The lifeline rate works with the water conservation volume based structure to provide low levels of water usage at the lowest cost.

Budget Policies for 2019-2020

- Propose rates for the Utilities that reflect the financial policies adopted by the Utility Board.
- Perform annual rate updates for each of the utilities (Water, Sewer, and Storm Water). For preparation of the biennial budget, rates are also forecast for the second year of the biennium.

Budget Policies

Fiscal Policies for Water and Sewer Enterprises

This document is to be read in conjunction with the Level of Service Standards established for the Water and Sewer Systems. Together they form the basis for 1) the updating of the Comprehensive Plans for both Water and Sewer through the end of the decade; 2) the Capital Facilities Plan prepared as part of the City's Comprehensive Plan in response to the Growth Management Act; and 3) the biannual operating plans for each utility. It is intended that these policies be reviewed periodically; at the minimum each time either the Utility's Comprehensive Plan is updated or when the Capital Facilities Plan is updated.

A. Revenue Requirements

1. Cash Needs

Each utility will establish rates sufficient on an annual basis to meet all utility cash requirements including operating expenses, debt service, additions to reserves and rate-funded capital costs.

2. Coverage

Each utility will establish rates sufficient to meet all security conditions of outstanding debt, including any bond coverage requirements. Typically bond covenants require a minimum coverage factor of 1.25, although the City may elect to establish a higher factor in order to enhance its potential bond rating. Should the coverage requirement result in a revenue requirement in excess of cash needs, the budget shall identify the use, transfer or addition to reserves intended for the surplus. Such cash surplus cannot be used to meet operating expenses.

If debt is jointly issued, or issued under conditions pledging all utility revenue, the debt service will be allocated to the water or sewer utilities based on the use of bond proceeds, and the coverage requirement will be allocated to each utility based on their share of the debt service.

B. Rates and User Charges

1. Rate Equity

The City will establish rates and charges, which equitably recover the cost of service from each utility's customers. Changes in rate structure will be accompanied by a cost of service analysis justifying the equity of such changes. Rate structures considered will, to the extent practical and equitable; incorporate other rate objectives as defined in these policies.

2. Conservation

The City wishes to promote efficient and conservative use of water. Therefore, water and sewer rates will, to the extent practical, promote water conservation through an emphasis on volume-based charges and allocation of the cost of meeting peak demands to those users imposing the cost.

3. Lifeline Rates

The City wishes to provide water and sewer service to meet basic human needs at an affordable level. Therefore, rate structures should consider the opportunity to maintain reasonable water and sewer bills at lifeline usage levels. Features such as volume-based sewer charges, increasing block water rates, and low fixed service costs among others help to promote this objective.

C. Reserves

1. Operating (Working Capital) Reserve

It is appropriate to maintain sufficient cash reserves to accommodate routine fluctuations in revenues and expenses. The City therefore establishes operating reserves for the water and sewer utilities. Utility budgets will target ending cash balances sufficient to meet the reserve targets. The following operating reserves are established:

- Sewer - 30 days of operating expenses (8.2% of annual operating budget)
- Storm Water - 30 days of operating expenses (8.2% of annual operating budget)
- Water - 90 days of operating expenses (24.7% of annual operating budget)
(Utility Board increased the Water reserve during the 2006 Water Cost of Service Study)

The water reserve has been established at a higher level than sewer and storm water to reflect the greater seasonality of revenues and to protect against reduced water sales in wet years or during restrictions.

Should the operating reserves for either utility fall below the target level, or should the target level be increased, additions to the reserve will be budgeted to reach and maintain that level within no more than two budget years.

2. Capital Improvement Reserve

It is considered that both the water and sewer utilities are completed to their capacity and that it is not required or prudent to establish a reserve for capital improvements.

There are, however, water and sewer systems now existing on Mercer Island which are not part of the City Utilities. It is the Board's recommendation not to incorporate those other systems into the City Utilities unless those systems meet the performance standards established for the City's water and sewer utilities.

3. Capital Replacement Reserve

It is prudent to protect the City's multi-million dollar investment in utility assets. The City therefore establishes a capital replacement reserve and funding strategy. These reserves should enable the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of existing customers to fund both current and future replacement needs on a regular basis.

It is intended that all replacement projects that are to be funded on a pay-as-you-go basis be funded from the appropriate replacement reserve. This requires that the City carefully plan and schedule replacement projects so that the integrity of the replacement reserve is maintained.

The following capital replacement reserve is to be maintained:

Water: 1-2% of original asset value (this formula was originally recommended as 1% by the Utility Board as part of their 2006 Water Cost of Service Study). The reserve is to be funded by excess revenue in high water use years, and not by raising rates. As of 2019, the Capital Replacement Reserve is 2% of original asset value.

Budget Policies

Sewer: Same formula. As of 2019, the Capital Replacement Reserve is 2% of original asset value.

4. Contingency (Emergency) Reserve

It is not considered necessary to establish a separate reserve for the Sewer and Storm Water Funds to handle emergency situations in addition to the replacement reserve. It is considered prudent however that the capital replacement reserve not be scheduled to be less than \$100,000. Should situations arise where the replacement reserve does drop below that level due to an emergency, the reserve level should be restored to at least the minimum level within the following budget year.

5. Bond Reserves

It is an obligation of the City to meet reserve requirements of bonds and loans, which it uses for utility purposes. It is the policy of the City to fully fund such reserves as required by bond covenant or loan agreement.

D. Financing

1. Capital Facilities Planning

Due to the impact of capital costs on rates and charges and due to the variation in funding levels needed over time, each utility will establish and maintain a capital projects schedule of at least six years in duration. Said schedule will be consistent with the Utility's Comprehensive Plan. This schedule will include project description, scheduled year of construction and total estimated cost. Each project will be identified as an improvement project or a replacement project (including repair and rehabilitation). If projects provide both improvement and replacement benefits, then the schedule will include an appropriate allocation of project costs to the two categories and then use the criteria below for the allocated portions.

2. Improvement Projects

Improvements to the system shall be scheduled and budgeted with consideration of the rate impacts that may result. It is the City's intent to make such improvements without the issuance of new debt, except when opportunities for below market rate loans may arise. However, in the case of projects involving a capital outlay of \$2 million or more, the City will evaluate alternatives including phasing, deferral or debt financing as methods to mitigate rate impacts.

3. Replacement Projects

Replacement projects are normally to be funded from the replacement reserve. However, for projects where the funding need exceed \$2 million per year, the City will evaluate alternatives to total rate funding to mitigate rate impacts. Alternatives to be considered include phasing and/or deferral of projects or debt financing.

BUDGET POLICES

Capital Improvement Program

This section includes budget polices on the following:

- Capital Improvement Program
- Street Maintenance and Construction
- Information Technology
- Vehicle & Equipment Replacement
- Capital Improvement Program Overhead Charges



Budget Policies

Capital Improvement Program

Background

The City of Mercer Island organizes the Capital Improvement Program (CIP) by functional area. Hence, any individual who wishes to gain knowledge about a project need not know the funding source or any other technical information but only needs to know the general type of improvement in order to find the relevant information. The CIP is divided into four functional programmatic areas: **streets** (including pedestrian and bicycle facilities), **park and recreational facilities** (including open space), **general government** (including building repairs, technology and equipment), and **utilities** (water, sewer, and storm water).

Project Funding Status

In order to facilitate the review of proposed Capital Projects both during the Preliminary Budget review, projects have been categorized first by functional programmatic area and then by project funding status. Projects have been sorted within functional area by one of the following four funding status categories:

1. Funded – No changes (except for inflationary adjustments and revised cost estimates)
2. Funded – Modified (in terms of scope and/or timing)
3. Funded – New Project (project was not included in the 2017-20220 Capital Plan)
4. Unfunded or Partially Funded (Project still requires some or all funding before project can proceed).

Routinely, CIP projects have been sorted and presented by category, year of construction, and revenue source. The categorization by project funding status was added starting with the 2009-2010 budget.

Nomination Process

As a part of each biennial budget process, the CIP Committee receives proposals for needed capital projects submitted by the affected department managers, team leaders, advisory bodies, City Council, and others. The CIP Committee compiles and reviews the project proposals, their associated costs and funding sources. Based upon Council priorities and staff-developed project evaluation criteria, the Committee makes a recommendation on project funding priorities to the City Manager. Council-appointed boards and commissions, such as the Utility Board, also provide input to project funding requests.

Project Management

Project management costs are included in the budget of each capital project, with staff time being charged directly to the appropriate project. The CIP Team in the Public Works Department makes up the project management staffing for Street and Utility projects. In addition, a small percentage of time is spent by Parks staff (i.e. Parks Superintendent, Parks Maintenance Manager, and the Natural Resources Manager) and the Information and Geographic Services Team on capital project management.

CIP Administrative Overhead Charges

Indirect staffing support of capital projects is provided. An analysis of the percentage of time spent by each position supporting the City's capital improvement program is updated every two years by the Finance Department, resulting in a CIP administrative overhead charge to the Street Fund and Capital Improvement Fund. This overhead charge enables the City to recognize the full cost of the City's capital

Budget Policies

improvement program by reimbursing the General Fund for the staff time spent supporting capital projects. See the budget policy for the Capital Improvement Program Overhead Charge for detailed information on these charges.

Capital Reinvestment or New Facilities

Projects included in the Capital Improvement Program (CIP) are labeled as part of the: Capital Reinvestment Plan (CRP) or the Capital Facilities Plan (CFP). The CRP contains all major maintenance projects for existing public assets. The CFP consists of proposed new capital assets. Totals for the six-year CRP and CFP can be found on the last page of the Project Summary.

Capital Reinvestment Plan (CRP)

The CRP's purpose is to organize and schedule repair, replacement and refurbishment of public improvements for the City of Mercer Island. The CRP is established as a six-year program setting forth each of the proposed maintenance projects, including the cost and funding source. The individual six-year plans for capital reinvestment serve as the City's capital planning documents as required by the City's Comprehensive Plan (Capital Facilities Element) and the State Growth Management Act.

The program emphasis in a reinvestment plan is timely repair and maintenance of existing facilities. To this effect, while new equipment and improvements are made to some older fixed assets, the intent is to design a program, which will preserve and maintain the City's existing infrastructure. The maintenance and enhancement of the taxpayer's investment in fixed assets remains the City's best defense against the enormous cost of the replacement of older but still very valuable public improvements.

CRP projects are typically "pay as you go", which means funded from the current operations of the Street Fund, Capital Improvement Fund, Technology and Equipment Fund, and the Utility Funds (Water, Sewer, and Storm water).

Capital Facilities Plan (CRP)

The CFP is also a six-year plan to outline proposed new capital projects. Like the CRP, the CFP serves the capital planning requirements for six-year plans as outlined in the Comprehensive Plan and State Growth Management Act.

Funding for CFP will generally be decided simultaneously with the approval of the project. This may involve a bond issue, special grant or a source of revenue that is outside the available cash resources of the City.

Budget Policies for 2019-2020

- Increase public involvement, where appropriate, in the planning and design of capital projects.
- Improve public information about pending construction projects and their impacts (detours, delays, and effects on neighborhoods).
- Use signage, the City's website, and the MI Weekly to highlight certain projects.
- CRP projects take priority over CFP projects in recognition of the desire to maintain and improve existing assets before acquiring new assets. Acquisition of major new capital assets should generally be funded with new revenues.

Budget Policies

- For “macro-financial” issues, staff should use at least a 10-year time frame and extend the financing period out to as much as 20 years for some capital projects.
- Use debt financing only when the following conditions exist:
 1. Object of the expenditure is a major new capital asset.
 2. Object of expenditure can be used by residents/taxpayers in the future.
 3. There are insufficient existing capital revenues available.
 4. All the revenue is needed at the same time (i.e. the project cannot be phased over time.)
- Major impacts on the City’s operating funds will be identified and budgeted before projects are approved.
- The CIP is a dynamic plan subject to changes in City Council policy, financial environment, design information, emergencies, and unique opportunities that can arise over a multi-year planning period.
- The CIP will be developed in accordance with requirements of the State Growth Management Act and will be consistent with Capital Facilities Element of the City’s Comprehensive Plan.
- Within the context of a biennial budget, the City will develop a six-year plan for capital improvements. The six-year plans contained in the CIP fulfill the City’s six-year planning requirements outlined in the Growth Management Act and Comprehensive Plan.
- The City will enact a two-year capital budget based on the Capital Improvement Program.
- The City will attempt to maintain its assets at a level adequate to protect capital investment and minimize future maintenance and replacement costs.
- The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval.
- Capital projects are budgeted and funds allocated in the year that the project is acquired or constructed.
- Whenever possible, capital improvements will be scheduled and completed in the same year.
- Prior to City Council funding commitments on major capital projects, the City will conduct detailed and professional cost estimating analyses.
- In general, the City will plan and implement capital improvement projects so that the spring-summer-fall construction season is used to the community’s greatest advantage.
- Technology projects will be budgeted and accounted for in the Technology Fund.
- When the City receives unanticipated or extraordinary capital revenue, the City Council will consider transferring it to the Capital Reserve Fund, or:
 1. Complete a previously identified, unfunded project;
 2. Add funds to a capital program category (such as parks) for a specific desired project;
 3. Advance an already programmed and budgeted capital project (such as pedestrian and bicycle facilities); or
 4. Complete a project that will decrease maintenance and operating costs.
- Overhead charges associated with the City Manager’s Office, City Attorney’s Office, Finance, and Human Resources Department will be charged to the Capital Project Funds and credited to the General Fund.

Budget Policies

Street Maintenance and Construction

Background

As part of each biennial budget cycle, City staff develops and prioritizes street, pedestrian and bicycle facilities maintenance and construction projects. The proposed projects are reviewed annually during the Six-Year Transportation Improvement Program (TIP) and biennially during the Capital Improvements Program (CIP) planning processes. Both the TIP and the CIP plans are submitted to and ultimately approved by the City Council.

Streets are regularly evaluated and prioritized for improvement based on a formal Pavement Condition Rating and other criteria (review of safety, maintenance and implementation). The criteria are not weighted in order to maintain flexibility needed to accommodate unexpected needs or opportunities. However, the results provide predictability for when particular streets are expected to be improved. The next Pavement Condition Rating index will be completed in 2019.

In addition, the City periodically analyzes intersections to measure the traffic impacts associated with development proposals to maintain the City's adopted traffic level of service standard. Project impacts determined by this analysis will be mitigated through the SEPA process. Whenever possible, staff plans utility projects to precede street construction and plans construction of pedestrian and bicycle facilities with nearby arterial and residential street projects.

Assuming implementation of the following budget policies, this level of funding will support completion of the highest priority transportation projects in the upcoming biennium, including implementation of projects identified in the Pedestrian and Bicycle Facilities Plan, adopted by the City Council in June 2010.

As prescribed by state law, the City Council adopts a "Six-Year Transportation Improvement Program" annually. The Six-Year Plan covering the 2019-2024 was adopted by City Council in June of 2018 and is included in the proposed Capital Improvement Program (see Section G of the budget). Adoption of the program also serves to implement portions of the City Comprehensive Plan (Transportation and Capital Facilities Elements).

At the May 19, 2014 Council meeting, during the 2015-2020 TIP Preview and Public Hearing, the Council discussed the forecasted deficit in the Street Fund. Based on this funding need, the Council formed a Transportation Benefit District in October 2014. Fee collection began in June 2015. The 2019-2024 TIP was adopted with a positive ending fund balance.

Transportation Benefit Districts

Many cities and counties across the state have been struggling with similar transportation issues. In response, the Legislature amended state law in 2005 (RCW 36.73) to allow cities to create a "Transportation Benefit District" (TBD). This tool authorizes cities and counties to establish a district with authority to impose new fees and taxes to fund transportation improvements such as maintenance of and improvements to local transportation infrastructure. A TBD may raise revenue in two ways. Without voter approval, a TBD may establish an annual vehicle fee of up to \$50 per vehicle and impose transportation impact fees on commercial and industrial buildings. Fees may be increased from \$20 to \$40 per vehicle after 24 months, and again from \$40 to \$50 per vehicle after an additional 24 months. With voter approval, a TBD may impose a sales tax of up to 0.2% (RCW 36.73.040) for a period up to 10 years. The governing board of a TBD may be a City Council. Cities who have established a TBD include Auburn, Bellingham, Bremerton, Burien, Des Moines, Edmonds, Lake Forest Park, Lynnwood,

Budget Policies

North Bend, Olympia, Seattle, Sequim, Snohomish, Snoqualmie, and University Place. There are 17,687 registered vehicles in the City of Mercer Island (based on information from DOL in July 2014). The \$20 annual vehicle fee yields about \$375,000 in annual revenue for the maintenance and improvement of Mercer Island's transportation infrastructure.

The City anticipates annual Street Fund revenues (excluding the use of fund balance) of \$2.92 million (2019) and \$3.14 million (2020). This level of reinvestment in the City's streets and pedestrian and bicycle facilities systems will ensure that the City's arterial and residential streets will be maintained at safe and efficient levels within 20 or 35 year life cycles.

Budget Policies for 2019-2020

- 100% of annual Fuel Tax revenues will be used for residential street overlays, pavement marking, and other transportation activities and management (including urban forest management and street inspections).
- 100% of annual Transportation Benefit District revenue will be used for bus transit services and arterial street maintenance.
- Annual Multimodal Transportation Fees of \$34,000 and an annual average of \$281,000 of Real Estate Excise Tax revenue (2nd quarter-cent) (REET 2) is dedicated to pedestrian and bicycle facility maintenance and construction projects in 2019-2020.
- The remaining balance (approximately \$1.4M in 2019) of annual REET 2 revenue, along with any available fund balance, is dedicated to major street construction projects (arterial improvements and residential street preservation).
- Impact Fees are applied to Street projects constructed to meet increasing traffic impacts (ex: traffic signals) or which develop new Pedestrian or Bicycle Facilities (ex: sidewalks and paved shoulders). Projects eligible to be partially funded with Impact Fees are identified in the most recent Transportation Impact Fee study.
- The Storm Water Utility will absorb an appropriate share of the costs of adding drainage systems to some residential streets. The Water Utility will help fund the replacement of services and hydrants in neighborhoods where it is determined to be appropriate. This will allow certain residential streets in need of repair to move up on the priority list for the residential street repair program.
- In order to maintain reasonable levels of reinvestment in all REET funded assets (streets, parks, and buildings) 10% of REET 2 funds will be dedicated to projects in the CIP Fund starting in 2019. The remaining 90% of REET 2 revenue will fund projects in the Street Fund. Of the total REET received by the City, 45% will fund Street projects and 55% will fund CIP (park and building) projects. Prior to 2019, REET was split evenly between the Street and CIP Funds, with 100% of REET 2 dedicated to the projects in the Street Fund.

2019-2020 Budget Impact

Description	2017	2018	2019	2020	Percent Change	
	Actual	Forecast	Budget	Budget	18-19	19-20
RESOURCES						
Budgeted						
Beginning Fund Balance	\$ -	\$ 2,386,222	\$ 651,588	\$ 68,098	-72.7%	-89.5%
Real Estate Excise Tax	2,845,340	1,846,000	1,668,000	1,730,000	-9.6%	3.7%
Motor Vehicle Fuel Tax	538,258	534,000	522,000	510,000	-2.2%	-2.3%
General Govt / Grants / Fines	344,690	1,197,582	351,000	527,000	-70.7%	50.1%
Vehicle Excise Tax	-	-	375,000	375,000	N/A	0.0%
Interfund Transfers In	467,881	442,472	-	-	-100.0%	N/A
Total Budgeted Resources	\$4,196,169	\$6,406,276	\$3,567,588	\$3,210,098	-44.3%	-10.0%
Not Budgeted						
Beginning Fund Balance (Reserved)	3,891,184	2,916,041	2,264,453	2,196,356	-22.3%	-3.0%
TOTAL RESOURCES	\$8,087,353	\$9,322,317	\$5,832,041	\$5,406,453	-37.4%	-7.3%
USES						
Budgeted						
Residential Street Preservation	\$ 1,145,450	\$ 551,902	\$ 880,000	\$ 564,000	59.4%	-35.9%
Arterial Street Improvements	233,907	2,944,582	1,231,000	595,000	-58.2%	-51.7%
Pedestrian & Bicycle Facilities	671,460	470,057	220,000	410,000	-53.2%	86.4%
Other Transportation Projects	67,680	322,320	350,000	825,000	8.6%	135.7%
Other Transportation Activities	591,724	854,575	801,588	816,098	-6.2%	1.8%
Interfund Transfer	74,870	1,262,840	85,000	-	-93.3%	-100.0%
Total Budgeted Expenditures	\$2,785,090	\$6,406,276	\$3,567,588	\$3,210,098	-44.3%	-10.0%
Not Budgeted						
Ending Fund Balance	5,302,263	2,916,041	2,264,453	2,196,355	-22.3%	-3.0%
TOTAL USES	\$8,087,353	\$9,322,317	\$5,832,041	\$5,406,453	-37.4%	-7.3%

Budget Policies

Information Technology

Background

Local governments, like Mercer Island, use technology to provide and support services delivered to the public. Citizens expect these services to be streamlined, efficient, and easily accessible. To do so, City staff must utilize and maintain available technology as well as prepare for and implement new technology.

A primary and significant City business function is information management—creating, disseminating, and archiving diverse and rapidly changing information and data for staff and citizens. To do so efficiently and effectively within the City, Information and Geographic services support:

- Over 250 telephone handsets and 585 business lines
- Server, Network, and Phone System Equipment (Over 100 different pieces of equipment make up the City's network infrastructure)
- 200+ workstations servicing over 230 users
- Over 150 enterprise, line of business, and productivity apps
- 7 primary City facilities and over 30 other City facilities including sanitary sewer pump stations, water reservoir, and parks facilities
- Remote network access and wireless network applications
- Over 500 Layers of Spatial Information related to City Infrastructure and Assets
- Several Websites for Public Use
- Channel 21 also known as MITV, the City's public TV channel

This infrastructure services public safety, financial, payroll, utility billing, geographical mapping services, citizen and customer maintenance requests, internal and external websites, electronic newsletters, security systems, maintenance management tools, building permit systems, water and waste water monitoring, facility scheduling and recreational activity registration, irrigation and ballfield lighting controls and more.

Wise City investment in technology tools (hardware, software, networks, phone systems, etc.), regional technology partnerships, and strategic innovation enables the City to maximize its limited human and financial resources.

The City will continue to replace and upgrade its Information and Geographic Systems, support business specific applications, and pursue pilot projects where innovations may improve service delivery or provide services more efficiently.

The Information and Geographic Services (IGS) Team is dedicated to:

- Insuring 24/7 reliability of the City's core business systems through timely upgrades, patches and redundant infrastructure configuration as well as prompt vendor and IT support response;
- Pursuing reputable and reliable off-the-shelf software systems and standardizing custom development whenever possible;
- Focusing Information and Geographic Services investments on core business needs and pursuing inexpensive solutions; and

Budget Policies

Budget Policies for 2019-2020

- Maintain City's investment in computer, server, network, and voice infrastructure by replacing equipment on a planned schedule. For example, most computers have reached their useful life and are scheduled to be replaced on a 4 year cycle.
- Maintain City's investment in major systems and databases through periodic software and hardware updates.
- Utilize the CIP to enhance or improve citizen experiences with City services through technology.

2019-2020 Budget Impact

Charges	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Computer and Printer Replacements	\$191,792	\$225,000	\$160,000	\$279,000
Capital Reinvestment – Technology	592,513	385,176	713,000	244,000
Total	\$784,304	\$610,176	\$873,000	\$523,000

Vehicle and Equipment Replacement

Background

The individual units of the City's fleet are assigned to the various operating departments, but are accounted for in the City's Equipment Rental Fund. The cost of maintaining and replacing the City's fleet, which includes vehicles, heavy equipment and radios, is funded through internal user charges that are developed for each class of vehicle, equipment type, and radio. The internal user charges, or fleet rates, include a charge for operations and maintenance and a separate charge for replacement. Distinct replacement reserves have been established for the accumulation of funds to replace vehicles and equipment, fire apparatus, and emergency radios. The current fleet of vehicles and equipment stands at 137 units and has an estimated asset value of approximately \$8.8 million (based on purchase cost).

The operations and maintenance (O&M) rate is determined biennially and is intended to recover the actual costs of operating and maintaining the City's fleet from the departments to which the vehicles and equipment are assigned. Costs include fuel consumption, repair and maintenance supplies and services, auto insurance, and mechanic hours. Actual historical cost experience is used as the basis for projecting the future O&M burden for each vehicle class. That projected cost burden is then charged out to the departments through fleet O&M rates.

The fleet replacement rates are developed biennially for each vehicle and piece of equipment in the fund. There are two replacement rate models: 1) general government vehicles and equipment, and 2) utility vehicles and equipment. Each model projects the annual cash outflows to replace the current fleet over a 30 year period based on the current estimated replacement cost, annual inflationary factor, useful life assumptions, and estimated salvage or trade-in value for each vehicle and piece of equipment. Based on these projected annual cash outflows, the total annual cash inflow (plus an annual growth factor) needed to maintain a positive fund balance over a 30 year period is determined. The total annual cash inflow requirement is then allocated proportionately to each vehicle and piece of equipment in the fleet based on the present value of the projected cash outflows for that vehicle or piece of equipment over a 30 year period relative to the total projected cash outflows for the entire fleet.

The vehicle replacement reserve currently is maintained to allow for future inflation costs at a rate of 1.5% to 3.5%. For specialized equipment, the rate may exceed this range. Vehicle replacements for 2019 and 2020 are budgeted at \$548,000 and \$655,000 respectively.

There are a few vehicles within the fleet which are used in support of services that are funded partially by the General Fund and the three Utility Funds. The fleet rates associated with these vehicles are allocated to the utility funds based on either the Interfund Administrative Charge policy or the allocation of the FTE who is the primary user of the vehicle.

A separate replacement reserve for fire apparatus was established in the Equipment Rental Fund in 2007. Beginning in 2008, a 1.65% property tax levy was approved (1.0% optional plus 0.65% banked capacity) as a dedicated funding source for this purpose. See the Fire Apparatus Replacement Policy for more information.

Budget Policies

Budget Policies for 2019-2020

- Excluding fire apparatus, the useful life of each vehicle and piece of equipment was evaluated as part of a comprehensive fleet audit in 2015. Crew vehicle replacements were extended from an 8-year useful life to a 10-year useful life, and patrol vehicles were extended from a 3-year useful life to a 4-year useful life.

2019-2020 Budget Impact

Expenditures	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Vehicle Replacements	\$542,712	\$1,169,789	\$548,000	\$655,000
Fire Apparatus Replacements	0	745,000	0	0
Radio Replacements	0	0	0	0
Total	\$542,712	\$1,914,789	\$548,000	\$655,000

Capital Improvement Program Overhead Charges

Background

Various departments, which are accounted for in the General Fund, provide administrative support to the City's capital program. Administrative support includes such activities as bid process oversight, contract review, communications, and project accounting and reporting. Capital projects are accounted for in the Street Fund, Capital Improvement Fund, Technology and Equipment Fund, and the Utility Funds (Water, Sewer, and Storm Water). Capital projects are budgeted based on all costs associated with a project including design, construction, and project management.

While not built directly into the cost of a project, administrative support to capital projects is a proper cost of the projects, and is charged to the capital project funds through overhead charges. For the Utility Funds, this cost is included in the Administrative Overhead Charges (see the Utility Overhead Charges Budget Policy). In order for the capital project fund budgets to reflect the full costs of project administration, an interfund charge is assessed to both the City's Street Fund and Capital Improvement Fund. The Technology and Equipment Fund is excluded, because the funding source for this fund is the General Fund. In effect, the General Fund charges both the Street and Capital Improvement Funds for costs that support capital projects.

Administrative Charges

There are five cost centers in the General Fund that benefit the City's capital projects: City Attorney's Office, City Council, City Manager's Office, Finance Department, and Human Resources Department.

The portion of the City Attorney's Office, City Council, and City Manager's Office budgets which can be attributed to capital projects is based on the proportion of agenda bills and contracts which are related to each capital fund for 2016-2017 (the 2 full years preceding the development of the 2019-2020 Budget).

The portion of the Communications budget which can be attributed to capital projects is based on the number of MI Weekly articles and press releases related to capital projects during the period August 2016 to July 2018.

The portion of the Finance Department budget which can be attributed to capital projects varies according to position. Two positions (Accounting Manager and Accounts Payable Clerk) are allocated based on the percent of GL Transactions related to the Street (4.7%) and CIP Fund (5.4%) in 2017. An additional two positions are allocated to the Street and CIP Funds based on the percentage of time spent by each position on capital project related tasks as follows: Finance Director (4.4%) and Deputy Finance Director (15.6%). Three remaining employees are largely Utility focused and are excluded from the Capital Improvement Program Overhead Charges.

The portion of the Human Resources Department budget which can be attributed to the Street and CIP Fund is based on the number of project manager and CIP support employees relative to the total number of City employees. This count is assessed as part of the Preliminary Budget process, based on approved FTE's for the biennium.

In addition to these five cost centers, a portion of the Maintenance Director and Parks and Recreation Director positions is attributed to the Street and CIP Fund based on the number of project manager and

Budget Policies

CIP support employees relative to the total number of employees in each department. This count is assessed as part of the Preliminary Budget process, based on approved FTE's for the biennium.

Administrative Charges to Street Fund

Administrative Charges to the Street Fund are summarized in the table below:

General Fund Cost Center	Interfund Charges	2019	2020
City Attorney's Office	9.3% of budget	\$ 41,745	\$ 42,888
City Council	9.3% of budget	1,931	1,931
City Clerk	9.3% of budget	9,983	10,693
Communications	2.5% of budget	2,094	2,153
Finance Department	Varies by position	39,338	40,456
Human Resources Department	1.0% of budget	4,865	4,999
Maintenance Director	6.3% of budget	15,407	15,820
Total		\$ 115,363	\$ 118,940

Administrative Charges to Capital Improvement Fund

Administrative Charges to the CIP Fund are summarized in the table below:

General Fund Cost Center	Interfund Charges	2019	2020
City Attorney's Office	16.1% of budget	\$ 72,269	\$ 74,247
City Council	16.1% of budget	3,343	3,343
City Clerk	16.1% of budget	17,282	18,512
Communications	7.7% of budget	6,448	6,630
Finance Department	Varies by position	42,005	43,202
Human Resources Department	1.1% of budget	5,352	5,499
Parks and Recreation Director	5.7% of budget	13,703	14,070
Total		\$ 160,402	\$ 165,503

Budget Policies for 2019-2020

- Ensure that the General Fund does not subsidize the City's Street or Capital Improvement Fund.
- Assess interfund charges for administration to the Street and Capital Improvement Funds in 2019 and 2020 per the allocation factors and the Preliminary Budget amounts noted above.

2019-2020 Budget Impact

Charges	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Street Fund Admin Charges	\$96,894	\$98,525	\$115,363	\$118,940
CIP Fund Admin Charges	\$174,430	\$179,660	\$160,402	\$165,503
UTILITY Fund Admin Charges	<i>Included in UTILITY Admin Charge</i>			
Total	\$271,324	\$278,185	\$275,765	\$284,443

BUDGET POLICES

Community Planning & Development

This section includes budget polices on the following:

- Development Review Fees



Budget Policies

Development Review Fees

Background

The authority for cities in Washington to impose fees for development review and permitting is established and limited by RCW 82.02.020, which allows for “collecting reasonable fees from an applicant for a permit or other government approval to cover the cost to the city...of processing applications, inspecting and reviewing plans, or preparing (SEPA documents).”

Mercer Island seeks to recover all eligible costs on those permits that have an overwhelming private benefit (i.e. building permits) and seeks to recover less than all eligible costs on those permits that have a mix of private and public benefits (i.e. certain planning and engineering permits). A 2016 study of Community Planning & Development (CP&D) department expenditures and revenues concluded that 99% of the total costs of activities eligible for cost recovery in 2015 were supported by development fee revenues.

The CP&D Department provides a number of services which are either not related to permit review or are indirectly related. Those services include code enforcement (for activities not directly related to a permit), mediation and/or resolution of neighborhood disputes and impact mitigation, permit appeals, public information, and the development and implementation of special projects and programs such as affordable housing, shoreline planning, Town Center planning, transportation planning, sustainable development efforts, maintaining and updating development codes, emergency planning and disaster response, and activities required by the State's Growth Management Act (GMA). These tasks are generally considered to be costs associated with the general purpose of government. The use of permit fees to pay for general purpose government costs has been successfully challenged at other jurisdictions within the state.

Based on the 2016 cost of service and fee analysis, the City Council approved adjustments to the development fee schedule based on a desired recovery level of 95% for eligible Building Services, 80% for eligible Planning Services and 80% for eligible Engineering Services costs. Annual permit fee increases will be directly tied to the annual growth in personnel costs (salaries and benefits) of CP&D staff. The annual escalator is determined by comparing the budgeted salaries and benefits in the coming year to the actual salaries and benefits in the current year for all “regular” (i.e. not contract) CP&D staff.

Development is cyclical in nature. Development activities, fees and the sales and real estate taxes generated by those activities, change from year to year with the ups and downs of the economy. In addition, many development projects are not completed within a single year, with some taking several years to complete. Staffing and outside consultant resource levels must be carefully adjusted to respond to these swings in activity if expected levels of customer service and fiscal responsibility are to be maintained. When the workload exceeds resource capacity, customer service and staff efficiency may suffer. Applicants may experience delays in permit times which can add significantly to the cost of development. When the workload is lower than resource capacity, customer services may improve in the short term, but the revenues anticipated for funding the budgeted capacity may be less than expected, and resource reductions may be required.

Following the 2004-2007 boom years, aggressive real estate activity came quickly to an end during the latter part of 2008 and throughout 2009, with both workload and revenues in decline. The CP&D Department responded to this slowdown by reducing staff and nearly eliminating outside consultant plan review. Permit workload and revenues continued to fall and bottomed-out in 2010. Recovery began slowly in 2011 and continued into 2012. In 2013, permit activity began to grow rapidly hitting an all-time high in 2016, in terms of development revenue, and declining only 2% in 2017. In recognition of the

Budget Policies

increased permit workload, the City Council authorized additional permit review resources in 2013-2014, which were renewed in 2015-2016 and 2017-2018.

Development Activity

Type of Work	2009 Act	2010 Act	2011 Act	2012 Act	2013 Act	2014 Act	2015 Act	2016 Act	2017 Act	2018 Est
Total valuation (\$millions)	\$30.9	\$51.6	\$60.6	\$59.4	\$74.0	\$90.2	\$130.6	\$96.9	\$138.3	\$66.0
Single family residential permits (new & additions)	135	160	153	162	219	213	219	250	262	230
Commercial/multi-family/public permits	54	64	62	77	74	62	40	52	49	50
Simple permits	1,511	1,498	1,666	1,783	2,189	2,316	2,511	2,690	2,701	2,600
Intake, feasibility, and pre-application meetings	91	62	76	141	184	205	194	212	122	100

Budget Policies for 2019-2020

- Growth should pay for growth. The City will seek cost recovery of 95% for eligible Building Services, 80% for eligible Planning Services and 80% for eligible Engineering Services. The desired cost recovery levels recognize the private benefits associated with building permits and the mix of public and private benefits associated with certain planning and engineering permits.
- Annual permit fee increases will be directly tied to the annual growth in personnel costs (salaries and benefits) of CP&D staff.
- CP&D should carefully balance resources with workload and maintain sufficient staff (and if needed outside consultant) resources to maintain the high level of customer service for permit and plan review. It is especially important to maintain quick permit turnaround times to facilitate construction, which then generates sales tax and property tax revenue.

2019-2020 Budget Impact

Development Revenues	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Single Family – New/ Remodel	\$2,139,099	\$1,588,000	\$2,092,452	\$2,096,769
Multi-Family / Commercial	55,973	420,000	368,125	376,142
Land Use	348,069	331,000	221,000	221,000
Plat Improvement Permits	151,543	75,000	68,000	68,000
Street Use	176,509	150,000	150,000	150,000
Storm Drainage	135,095	110,000	100,000	100,000
Total Revenues	\$3,006,288	\$2,674,000	\$2,999,577	\$3,011,911

BUDGET POLICES

Parks and Recreation

This section includes budget polices on the following:

- I-90 Landscape Maintenance
- Luther Burbank Park
- Parks and Recreation Financing



Budget Policies

I-90 Landscape Maintenance (Aubrey Davis Park)

Background

In 1992, The Washington State Department of Transportation (WSDOT) completed construction of the I-90 roadway on Mercer Island. By 1994, the Park-on-the-Lid and other landscaped areas were completed by WSDOT and incrementally returned to the City for community use and maintenance. By 1998, all the agreed-upon property landscaped by WSDOT, totaling 79.5 acres, had been turned back to the City. In 2013, the Park-on-the-Lid name was officially changed to Aubrey Davis Park in honor of Mercer Island's former Mayor, Aubrey Davis. The following chart illustrates the transition:

Year	City Owned	WSDOT Owned	Total Owned
1992	0	8.6	8.6
1993	0	8.6	8.6
1994	11.3	15.7	27
1995	11.3	15.7	27
1996	25.6	52.4	78.0
1997	25.6	52.4	78.0
1998 - present	25.6	53.9	79.5

All 53.9 acres of State-owned properties are managed by the City under a lease agreement that will expire in 2034. Within this agreement WSDOT has agreed to compensate the City for the maintenance costs of these 53.9 acres. Revenue from WSDOT is scheduled to continue throughout the lease period and will be adjusted for inflation annually with a formula driven by the Consumer Price Index. For the 25.6 acres owned by the City and improved by WSDOT during the construction of I-90, the City receives no compensation from WSDOT for its maintenance efforts.

Since early on, the City's goal has been to establish a funding model where all 79.5 acres of the I-90 property will be maintained within the reimbursement funds received from WSDOT for I-90 landscaping.

During a detailed level of service presentation in 2000, the City Council agreed that the City's maintenance standard for I-90 is correct. The current maintenance program and budget attempt to meet or exceed the level of care standards agreed on with WSDOT. These standards are similar to the standards the City adheres to in its other major park facilities, and are consistent with the expectations of the Island's park users.

Maintenance costs have increased and the WSDOT lease payment is no longer enough to cover the costs for maintaining both the State's and City's portion of the I-90 corridor. As a result, Parks staff has been forced to look at alternative funding sources to supplement the reimbursement the City receives from the State to maintain the current level of service. In recent years, the City Council has directed staff to balance expenditures against revenues from WSDOT reimbursement for as long as possible and then to use the City's Beautification Fund revenues to cover any shortfall.

It's important to recognize that these facilities are now 25 years old. The levels of use have increased also. Services such as turf restoration, plant and tree replacement, pathway overlays, etc increase the

Budget Policies

cost of maintenance. These costs are difficult to assign to the City or WSDOT in part because the agreements are vague as to what constitutes “maintenance” and what constitutes capital reinvestment. Renegotiation of the maintenance agreements with WSDOT is the ultimate solution. Staff expects to be able to do that in conjunction with the development of the Aubrey Davis Park Master Plan in 2018 and 2019. In the meantime, the costs to maintain the facility at its current level will make it increasingly necessary to explore combinations of additional cost recovery options or expenditure reductions.

Staff continue to explore possible options including increasing I-90 facility user fees (such as boat launch, picnic shelter, and ball field use fees), finding efficiencies in water and power consumption, or lowering the level of maintenance to meet WSDOT revenue projections. Lowering the level of maintenance is a less desirable alternative since public feedback favors the high standard of appearance for the landscaped areas, and the continued heavy use of the athletic facilities requires high maintenance to keep them safe and playable. Experience with other Mercer Island parks suggests that deferring maintenance in the short term will result in expensive restoration costs in the future.

Any further development, such as additional restrooms and ballfields will require additional funding in order to provide adequate maintenance service and to provide the current presentation standard.

Budget Policies for 2019-2020

- Limit the growth in expenses to operate the facility relative to the reimbursement level from the State.
- Seek continued efficiencies in water and power consumption.
- Consider lowering the level of maintenance in some the I-90 facility areas where little or no public impact is anticipated.
- Renegotiate maintenance and capital reinvestment responsibilities with WSDOT in parallel with the development of the Aubrey Davis Park Master Plan.

2019-2020 Budget Impact

	2017	2018	2019	2020
	Actual	Forecast	Budget	Budget
Revenue				
Landscaping Services (WSDOT)	\$ 503,566	\$ 518,820	\$ 534,800	\$ 550,800
Business and Occupation Tax	68,168	81,803	-	-
Total Revenue	\$ 571,734	\$ 600,623	\$ 534,800	\$ 550,800
Expenditures				
Aubrey Davis Park Landscape Maintenance	571,734	600,623	571,730	596,913
Total Expenditure	\$ 571,734	\$ 600,623	\$ 571,730	\$ 596,913

Luther Burbank Park

Operation, Maintenance and Park Master Planning

Control of Luther Burbank Park passed from King County to the City on January 1, 2003. Initial City operation mirrored the final years of King County operation. The City's intention was to protect public safety and maintain general security.

In November 2003, voters approved a property tax levy increase of \$415,000 annually for ongoing maintenance and minor capital repairs within the park.

From November 2004 through January 2005 the City conducted a public engagement process about the future of Luther Burbank Park. This included three public workshops as well as numerous written and emailed responses. The result of the community visioning process was the development of a set of 15 community design guidelines that were then used to set the stage for the longer-term master plan process:

- 1) Preserve the existing serenity of the park.
- 2) Protect and enhance the shoreline experience.
- 3) Protect and enhance wetland areas.
- 4) Preserve existing historical and cultural resources.
- 5) Rehabilitate the swimming beach.
- 6) Expand court usage.
- 7) Maintain and improve the existing meadow.
- 8) Provide for an off-leash dog area.
- 9) Revitalize the dock area.
- 10) Expand and enhance activities for children.
- 11) Consider new picnic facilities.
- 12) Explore opportunities for new seasonal food vendors and special events.
- 13) Create a greater ease of connection with Upper Luther Burbank.
- 14) Create a greater ease of connection with the new community center.

The City Council approved the Guidelines on February 7, 2005.

Park Master Planning

The City Council initiated a Master Planning Process for Luther Burbank Park on September 6, 2005. Guided by the results of the Community Visioning Process, three discrete planning phases were developed: 1) Information Gathering/Concept Design Development; 2) Review of Concept Designs; and, 3) Review of Preferred Concept Design.

A public involvement program was developed to provide for multiple and varied opportunities for public involvement and input. The eight-month long master planning process included 15 opportunities for public involvement including one in-park public workshop, seven small group work sessions, two town hall style meetings and five City Council meetings (four of which had public hearings). Throughout the entire process, citizens were also encouraged to submit their comments by mail, email or fax. This finalized master plan report includes plan graphics, description of the design elements and cost allowances for its implementation.

Budget Policies

Master Plan Implementation: Projects and Programs

Shoreline

A more significant and high priority project identified in the master plan was the restoration of the shoreline. As part of its six year parks capital improvement program, the City completed a \$1.3 million shoreline and off-leash area renovation project in December 2009. The Shoreline project added woody debris and spawning gravel along the shoreline for bank stabilization, removed non-native plants, planted native trees and shrubs, and installed a split rail fence. New designated shoreline access points have been created. In 2013, designs were completed for Phase II (Calkins Point) and Phase III (South Shoreline) shoreline restoration projects. Construction of Phase II Calkins Point began mid-summer of 2015 and was completed in late spring of 2016 at a total cost of \$364,000. After Phase III, the South Shoreline, failed to achieve grant funding, staff rescope the project for piecemeal implementation. Trail rerouting will begin in 2019 and other restoration work will progress as funding becomes available.

Phase IV of the Shoreline is the swim beach renovation, a master plan goal. This beach is the most popular public beach on Mercer Island. However, the \$1.2 million price tag makes it difficult to fund at current capital reinvestment levels. Moreover, lifeguarding of this beach is not funded in the 2019-2020 budget due to the projected shortfall.

Waterfront and Docks

In addition to the shoreline and off-leash area improvements, the boiler building, plaza and dock facility was reinstated in 2010 as a boating, sailing and kayaking instructional area focused on orienting youth, adults and families to water-based recreation activities. Parks and Recreation contracted with established boating programs to provide summer camps at this site.

The boiler building, waterfront plaza and boating docks are a hub of the park. This infrastructure is expensive to maintain because of contact with water both from the lake and from hillside drainage. Current repairs that are in process include:

- The boating docks need repair of rotting structural members. The cost of repairs is estimated at \$350,000.
- Hillside drainage system has failed and has damaged plaza pavement
- Handsome Bollard art installation is in need of restoration. Rusting of the embedded bases must be arrested.
- The boiler building roof leaks and water is slowly damaging the building structure. Meanwhile the building does not meet current seismic standards and would likely fail in a major earthquake.
- The 1974 concession stand addition has a rotting wall that contains asbestos. Water is leaking into the structure at this point as well.

Smaller projects listed above are being undertaken using current levy funding. Major projects, such as the docks and the boiler building are planned as stand-alone projects. The master plan calls for the boiler building to be repurposed as a small craft recreation center, so in 2017 a feasibility study for that goal was completed. Phase I of the proposed project would correct existing building deficiencies to allow current use to continue. Phase II would construct an accessible trail, office, indoor classroom and outdoor classroom that would expand boating program capacity.

In 2018, the City initiated conceptual planning for the boating docks. With the high cost of repair to keep the existing docks, the City was not confident that reinvesting capital funds this way would meet the community's needs. Instead, the City is seeking to refine the direction of the master plan, which calls for the replacement of one fixed pier with floating dock space which will serve smaller boats and boating programs better.

A standing budget policy for Luther Burbank Park has been “Continue to support boating, sailing and kayaking programs and other aquatic recreation activities.” At the end of 2017, Sail Sandpoint declined to continue its popular sailing camps. Summer 2018 was the first time in ten years the City had no sailing camps.

Central Campus

Continued implementation of the park Master Plan included the playground replacement in 2013. With the assistance of the Mercer Island Pre-School Association and the generous support from the Mercer Island Community, the new playground was transformed to include a new zip-line, embankment slides, and new playground surfacing. This project was highlighted by maintaining some of the existing character of the park, while introducing new play elements.

The 1974 tennis courts need to be overlaid with a new lift of asphalt to fix underlying structural problems. This major project provides another opportunity to engage in the master plan objective to consider current sports court needs of the community. The update of the Parks, Recreation and Open Space (PROS) Plan in 2019 is an opportunity to dive into the conversation on a citywide basis and use those result to guide the design of the court renovation.

Connection to Town Center

In the Master Plan, a trail connecting Luther Burbank Park to Town Center and Upper Luther Burbank Park was envisioned on a hillside owned by Washington State Department of Transportation (WSDOT). After several years of planning and design with WSDOT using King County Prop 2 Parks and Trails Levy funding, the City is close to a property agreement for this new facility. Inclusion of this trail connection in the 2018 Comprehensive Plan has satisfied WSDOT's remaining criteria. Inclusion of this element in the Aubrey Davis Master Plan would add policy support for an interagency effort.

Funding Ongoing Operations and Maintenance

Mercer Island City Council approved ordinances which placed two parks measures on the November 4, 2008 ballot. Mercer Island voters approved a \$900,000 per year park operations and maintenance levy, but rejected a \$12.0 million capital levy to fund park capital improvements.

The failed Parks Bond included funding for shoreline restoration and other improvements at Luther Burbank Park, ballfield improvements, trail development, development of a small dog off-leash area, swim beach improvements, and Mary Wayte Pool improvements.

The Parks Operations & Maintenance Levy for \$900,000 per year includes funding for open space and forest restoration and school related park and recreation activities. The 15-year Parks Operations & Maintenance Levy replaces the previous 6-year Luther Burbank Park levy approved by voters in November 2003.

Budget Polices for 2019-2020

- Pursue approved Capital Improvement Plan projects for Luther Burbank Park.
- Continue routine, preventative, special response and capital maintenance activities to ensure grounds, buildings and infrastructure will remain serviceable, functional, and safe for park users and neighbors.
- Pursue vegetation management activities, including wetlands restoration, invasive plant species removal, and re-vegetation and planting activities.

Budget Policies

- Prevent and mitigate hazards to public safety and security through active and passive measures such as improved lighting, routine inspections, police vehicle, bike, boat and foot patrols and park checks.
- Park grounds will remain available to individual and group users at a scope and scale similar to that under County management in 2000-2002.
- Continue to support aquatic recreation activities at Luther Burbank Park.
- Pursue grant funding for shoreline restoration Phase III and Phase IV.
- Pursue the trail connection between Luther Burbank Park and the Lid Overlook Park with WSDOT and include this improvement in the Aubrey Davis Park Master Plan.

2019-2020 Budget Impact

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenue				
Property Tax (2008 LB Levy Lid Lift)	932,895	940,623	950,079	959,630
Total Revenue	\$ 932,895	\$ 940,623	\$ 950,079	\$ 959,630
Expenditures				
CIP Fund:				
Luther Burbank Minor Improvements	\$ 83,894	\$ 181,690	\$ 110,000	\$ 110,000
Open Space Vegetation Management	416,299	440,300	545,500	567,300
Pioneer Park Capital Improvements	130,052	170,242	-	-
General Fund:				
Luther Burbank & School Related M&O	582,701	679,121	654,385	674,063
Total Expenditure	\$ 1,212,947	\$ 1,471,353	\$ 1,309,885	\$ 1,351,363

Parks and Recreation Financing

Department Financing

The Park and Recreation Department's operations have historically been funded from a variety of sources, including user, program and special event fees, grants, sponsorships, donations, rental and lease fees, as well as a number of independent funds including General, Beautification, I-90 Landscape Maintenance, King County Park Levy, and the Luther Burbank Park Levy. Financing of administration and recreation services has relied on a balance between user fees and contributions from the General Fund, while park maintenance services have relied on contributions from all of these Funds. The MICEC's primary source of funding has been generated through rental fees (short-term room rentals and long-term daycare/pre-school space in Annex) and drop-in sports programs.

Overall Department attention has shifted to maintaining and preserving assets, such as the Mercer Island Community and Event Center (MICEC), Luther Burbank Park, ballfields, trail infrastructure, and other park facilities, in an economically feasible manner that can be financially and operationally sustained over time. This shift will also be applied to recreation programs where staff will continue to be mindful of balancing changing community trends in programs and services, with the budgetary limitations faced in Parks and at the MICEC. With cost recovery continuing to be one of the top priorities, rental fees were increased in 2015-16, and will again be increased in 2017-2018 as the market allows.

Parks Maintenance

With the adoption by the Council of a revised Parks and Recreation 6-year Master Plan in early 2014, the department will remain eligible to apply for various matching grants offered by the State of Washington's Recreation and Conservation Office, to assist in the acquisition and development of parks and facilities. When obtained, such grants will relieve the Capital Improvement Program and leverage Real Estate Excise Tax (REET) funds to a greater degree.

As part of the Capital Improvement Program (CIP), staff has identified and budgeted project management costs in each Parks project. Administrative and operations staff will be relied on to manage park planning, improvement and construction projects.

The Field Use and Reservation Policy is an important component of recreational sports on Mercer Island. The policy has been revised repeatedly over the years with input from user groups. In 2016, Parks and Recreation released a revision that affirmed the department's priority for resident recreational play and clarified various aspects of the field allocation process. This revision triggered an analysis of the fee structure for field rentals. It was determined that grass fields rates had remained the same since 2011 and that the fees set for synthetic turf fields were not adequately funding the sinking funds established for turf replacement. As a result, a new fee structure was created for implementation in 2017. A new field rental fee structure was implemented for all ballfield user groups to help maintain ballfields, including natural grass fields.

The renovation of the South Mercer All Weather Field to a synthetic field turf surface with upgraded lighting in 2007 has resulted in an increase in use and user fees at that facility. In 2010 and 2012, infields at South Mercer and Island Crest North were converted to synthetic turf as well. In 2018 the outfield of Island Crest North was also converted to synthetic turf completing the first full turf field on City property. These improvements have resulted in more play due to the reduction of cancellations due to rain-outs. Fees for the synthetic turf fields at South Mercer and Island Crest Park will be monitored and

Budget Policies

adjusted in order to recover the cost of field replacement at the end of its useful life (estimated at 10-11 years).

Community Center Operations

The Mercer Island Community and Event Center (MICEC) celebrated its ten-year anniversary in 2015. It continues to be an active facility with many recreation and event activities, as well as local and regional rentals.

The MICEC is a division of the Parks & Recreation Department will have a combined revenue goal, plus it will strive to attain a balance between recreational programs offered at the MICEC and all private rental groups.

As general operating costs continue to rise each year, as well as increasing internal and external facility usage demands, the primary challenges the community center faces is four-fold: 1) offering adequate space for city recreational programs, 2) maintaining and repairing the facility to acceptable standards, 3) offering the necessary levels of service to room rental customer, while 4) balancing the mission of the City and department to ensure access to and affordability of the MICEC to residents and community groups.

In addition to inflationary elements, the competitive wages offered to entry level positions by area community centers hampers the MICEC's ability to compete for casual labor resources and is addressed in this budget. It is a priority to attract highly qualified employees which is consistent with its understanding of the community's expectations for cleanliness and overall service while complying with City business and policy requirements.

The above factors will place more reliance on private rental revenue and other facility fees to offset increased operating costs, which will require rates to be increased across the board. Facility rental rates will continue to be evaluated by category and adjusted as needed. It is important to note that rates have been increased several times since the new facility has been opened with 2013-2014 revenue more than doubling since 2008. This increase in revenue is due to a combination of increased overall business and increased rental rates. Each time rental rates are increased, there is a risk of losing overall rental revenue, which would adversely affect the operations of the MICEC due to the MICEC's heavy reliance on this revenue source. This is something staff will need to monitor closely. It should also be noted that increases in community service rates may be especially difficult on this category.

Cost Recovery

The Parks and Recreation Department collects a variety of fees and charges for its services to reduce its reliance on the General Fund. The overall Parks and Recreation Department cost recovery target level from user fees is 50-55%. This has been in place for many years.

In order to keep up with comparable programs, activity and rental fees in the area we study select recreation fees and community center rates to learn the current fees charged for an equal level of service. The comparison helps to reflect the "market" for these fees and assists in evaluating the reasonableness of the current Mercer Island fees. The comparison also serves as a benchmark for how cost effectively the city provides its services. In the past Issaquah, Kirkland, Bellevue and Renton were analyzed and the findings include:

- 1) Average fees from the four cities tend to be lower than the charges set by Mercer Island.
- 2) Kirkland and Bellevue fees are most comparable to those charged by Mercer Island.

The Fee Study confirmed the Department has been recovering costs consistent with past management and budget policies, namely that cost recovery levels for:

- Adults shall be greater than youth and seniors.
- Youth programs shall be greater than senior programs.
- Adult sports leagues shall be greater than youth sports leagues.

Due to budgetary restrictions at the MICEC, the recreation programs and activities will be again including additional fees (\$55,000/year) within program registration to begin covering some of the direct costs associated with housing programs at the MICEC. These fee increases will begin low and be assessed throughout the year. In 2016, the rental rates for corporate rental groups were increased.

Budget Policies for 2019-2020

Addressing Council initiatives, enhancing revenues and meeting public service demands will be accomplished through the following:

- Continue to provide basic service levels for existing programs and develop appropriate charges and cost recovery goals for enhanced levels of service.
- Cost recovery levels for adults shall be greater than youth and seniors, and youth programs shall recover more than senior programs. Adult sports leagues shall recover a higher level of costs than youth sports leagues.
- The overall Parks & Recreation Department budget, will be subject to a total cost recovery policy of 50-55% through recreation fees, rental fees, and other dedicated revenues.
- An appropriate balance between recreation and rental usage will be sought for overall MICEC usage.
- Continue to refine the existing MICEC room rental pricing for residents and non-residents, Island based community groups, off-island community groups, and corporate clients.
- Establish cost recovery on facility usage at MICEC for recreation and city programs housed at the facility.
- Maintain consistent MICEC staff coverage (2 to 3 customer service staff per shift) for all established operating hours, as well as adequate back office staffing levels to safely and efficiently manage the MICEC's overall business and operational needs.
- Continue cost recovery fees on all synthetic turf sports fields in order to replace fields at the end of its useful life.

Budget Policies

2019-2020 Budget Impact

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenue				
Beautification Fund (Aubrey Davis & Holiday Lights)	\$ 94,864	\$ 113,803	\$ -	\$ -
Landscaping Services (WSDOT)	\$ 503,566	\$ 518,820	\$ 534,800	\$ 550,800
Levy Lid Lift (LB and School related)	680,895	688,623	698,079	707,630
User Fees and Sponsorships	1,541,883	1,688,815	1,612,300	1,627,800
Total Revenue	\$ 2,821,208	\$ 3,010,061	\$ 2,845,179	\$ 2,886,230
Expenditures				
Administration	759,613	805,398	1,019,639	864,042
MI Community & Event Center	1,315,632	1,386,441	1,377,178	1,388,658
Parks Maintenance	2,334,118	2,503,733	2,609,580	2,701,999
Recreation & Special Programs	1,109,385	1,146,098	989,518	999,588
Total Expenditure	\$ 5,518,749	\$ 5,841,670	\$ 5,995,915	\$ 5,954,287
Department Cost Recovery	51%	52%	47%	48%

BUDGET POLICES

Public Safety

This section includes budget polices on the following:

- Criminal Justice Fund
- Fire Apparatus Replacement
- Fire Prevention
- Municipal Court
- Police and Fire Dispatching



Budget Policies

Criminal Justice Funding

Background

The Washington State Legislature authorized specific revenue streams to improve the criminal justice system. These funds must be used for criminal justice purposes only and limited portions of criminal justice revenues cannot be used to supplant historically General Fund supported expenses. The City uses 1990 as the base line year for validating that criminal justice revenues subject to non-supplanting restrictions are used for eligible police department expenditures.

The primary revenue source for criminal justice is a percentage of the City's sales tax (1/10th of 1%). This sales tax revenue was approved by King County voters in 1992. Mercer Island has historically received approximately \$600,000 per year from this restricted sales tax. The 1/10th of 1% additional sales tax for criminal justice purposes is not subject to non-supplanting restrictions.

Additional sources of criminal justice funding include State distributed monies on a per-capita basis for criminal justice. These dollars can only be used for: 1) innovative law enforcement strategies; 2) programs to help at-risk children or child abuse victim resource programs; and 3) programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims. (RCW 82.14.330). These State distributed dollars are subject to non-supplanting language in authorizing RCWs.

The Criminal Justice sales tax continues to sustain some very important programs within the Police Department. The combined criminal justice funding supports two Patrol Officers, the Police Department's Bike Patrol Team, Special Operations Team, police training program, and limited capital equipment purchases. Criminal justice dollars will continue to support a portion of the School Resource Officer who works very closely with the School District, Youth and Family Services, and the Juvenile Court system. It will also fund the Police Support Officer program that addresses parking enforcement, leash law enforcement / education, and prisoner transportation.

Budget Policies for 2019-2020

- Continue to support the School Resource Officer program in partnership with the Mercer Island School District.
- Continue to support the Police Support Officer program.
- Continue to support funding for special teams, police training, and equipment.

Budget Policies

2019-2020 Budget Impact

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenue				
0.10% Sale Tax for Criminal Justice	660,564	700,198	728,206	750,052
State Shared Revenue - Criminal Justice	34,889	35,972	36,944	37,945
Total Restricted Revenue	\$ 695,453	\$ 736,170	\$ 765,150	\$ 787,997
Expenditures				
Special Operations/Bike Patrol	16,976	18,700	18,700	18,700
Police Support Officer & Patrol Division	490,851	513,442	535,193	552,443
School Resource Officer	139,711	150,028	157,257	162,854
Police Training	37,915	44,000	44,000	44,000
Domestic Violence	10,000	10,000	10,000	10,000
Total Expenditure	\$ 695,452	\$ 736,170	\$ 765,150	\$ 787,997

Fire Apparatus Replacement

Background

In 2007, the City Council authorized the implementation of a fire apparatus replacement sinking fund, which included some upfront capital replacement funding and an ongoing 1.65% dedicated property tax levy (1.0% optional plus 0.65% banked capacity), supplemented by interest earnings. Beginning in 2014, the annual excess proceeds (i.e., greater than the annual debt service on the 2013 LTGO bonds) from the Fire Station and Fire Rescue Truck levy lid lift, which will continue through 2021, were dedicated to the fire apparatus replacement sinking fund.

Lease purchase financing is used to acquire fire apparatus, which has an 18-year useful life. Since 2015 all fire apparatus purchases have been financed over a 9-year term.

Budget Policies for 2019-2020

- Continue fire apparatus fleet analysis to ensure fleet response capabilities; look for opportunities of sustainability; and standardize fire apparatus specifications and design to reduce purchase costs.
- Begin annual lease purchase payments in 2019 on a new Enforcer Pumper ordered in 2018.

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenues:				
Property Tax	\$208,097	\$217,559	\$227,304	\$237,331
Capital Lease Proceeds	0	745,000	0	0
Total Revenues	\$208,097	\$962,559	\$227,304	\$237,331
Expenditures:				
Capital Purchase	0	\$745,000	0	0
Capital Lease (Principal & Interest)	235,663	113,483	210,072	210,072
Total Expenditures	\$235,663	\$858,483	\$210,072	\$210,072

Budget Policies

Community Risk Reduction

Background

The Mercer Island Fire Department has the legal responsibility to provide fire, medical, prevention, and educational services to the Mercer Island community, as defined by the Mercer Island City Council through City Ordinance.

Mercer Island delivers Fire Prevention, Education & Code Enforcement services as part of a tiered strategy to reduce or prevent loss of life, injury, or property loss, through the services of the Fire Department generally, and the management of the Fire Marshal specifically.

In the 2011-2012 Budget, the Fire Marshal position was eliminated. The Development Services Group (DSG) and the Fire Department divided and re-assigned the responsibilities of the Fire Marshal position between the two Departments through a Business Re-Engineering Process. In 2015 the Fire Marshal (FM) position was re-instated, and an Assistant Fire Marshal (ASM) is utilized as necessary through overtime funding, dependent upon need.

Budget Policies for 2019-2020

- Develop more efficient processes for plans review to enhance customer service and decrease turnaround times.
- Identify opportunities for operational permit fees.
- Continued education of the ASM to help distribute the workload of the FM.
- Evaluate staffing needs in the future.
- Continued evaluation of permit fees in order to cover staffing costs.

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenues				
Permit Fees	\$ 149,660	\$ 160,000	\$ 140,000	\$ 140,000
Total Revenue	\$ 149,660	\$ 160,000	\$ 140,000	\$ 140,000
Expenditures				
Salary and Benefits	\$ 236,643	\$ 269,026	\$ 266,553	\$ 277,689
Fire investigation supplies	45	15,000	15,000	15,000
Other operating costs	8,331	14,975	18,475	18,475
Total Expenditure	\$ 245,019	\$ 299,001	\$ 300,028	\$ 311,164

Budget Policies

Municipal Court

Pursuant to state law, Mercer Island is required to provide court services by (1) forming its own municipal court; (2) forming a municipal department within the King County court system; or (3) contracting with King County for delivery of court services. After considering a proposed new King County court contract, the City Council directed staff to proceed with formation of a Mercer Island Municipal Court to be operational on January 1, 2005. The City Council also approved an interlocal agreement with Newcastle for the delivery of court services commencing January 1, 2005.

It is important to note that the court's responsibility does not end with the caseload filed in that calendar year. In most cases, the court has jurisdiction over criminal cases for two years. For DUI matters, jurisdiction continues for five years. The Court continues to manage court cases, hold court hearings, and monitor cases for compliance with conditions until the end of the jurisdictional period.

Below are the total actual case filings for Mercer Island and Newcastle for 2008-2017.

Year	Traffic Infraction	Non-Traffic Infraction	Parking	DUI	Traffic Criminal	Non-Traffic Criminal	Total Cases
2008	3,134	110	542	64	324	168	4,342
2009	2,691	161	363	49	360	171	3,795
2010	2,798	115	268	58	313	127	3,679
2011	2,693	69	454	68	254	180	3,718
2012	2,105	71	828	44	190	134	3,372
2013	1,871	94	624	45	174	107	2,915
2014	3,698	76	596	32	193	99	4,694
2015	3,725	43	567	27	235	110	4,707
2016	3,466	29	843	43	357	76	4,814
2017	2,449	22	996	48	212	116	3,843

Budget Policies for 2019-2020

- Continue to provide municipal court services to the City of Newcastle via the current interlocal agreement.
- Maintain timely processing of cases while continuing to provide equal, fair and timely resolution with a high emphasis on efficiency and effectiveness.
- Court fines do not cover the costs of operating the court. Accordingly, the City Manager is planning to hire a consultant in 2020 (funded by the Organizational Efficiency Assessments service package) to explore the feasibility and cost effectiveness of contracting with a surrounding jurisdiction for municipal court services.

Budget Policies

2019-2020 Budget Impact

Description	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Fines & Forfeiture Revenue	\$ 405,781	\$ 339,808	\$ 346,604	\$ 346,604
Total Court Operating Costs	(444,740)	(494,611)	(479,765)	(492,393)
Net General Fund Impact - Revenue (Cost)	\$ (38,959)	\$ (154,803)	\$ (133,161)	\$ (145,789)

Police and Fire Dispatching

Background

Dispatch Services: From 1960 to 2004 Mercer Island operated its own Police/Fire dispatch center. Beginning in 2004 through 2009 Mercer Island received Police and Fire dispatching services from the cities of Kirkland and Bellevue respectively. In 2009, the new North East King County Regional Public Safety Communication Agency (NORCOM) became our service provider for both Police and Fire dispatch services. Costs are shared by the stakeholders based on call volume, with Mercer Island's share being 5.9% of the total costs.

NORCOM provides dispatching services for five Police Departments and 14 Fire Departments. They answer approximately 171,000 calls for service each year (110,000 police calls and 61,000 fire / EMS calls). Mercer Island is responsible for approximately 13,000 of the police calls, and 2,200 of the Fire / EMS calls each year.

Radio Services: The Eastside Public Safety Communications Agency (EPSCA) was created in 1992 to develop, own, operate and manage an Eastside radio communications system for 800 MHz radio communications between governmental agencies (police, fire, public works, etc). The EPSCA Principal agencies are the cities of Bellevue, Redmond, Kirkland, Mercer Island, and Issaquah. Each Principal agency has a representative on the EPSCA Executive Board.

Funding for the current 800 MHz radio system was approved by King County voters in September 1992 with the passage of a three-year property tax levy. The system will reach the end of its life cycle in 2018. To address this a new levy for a replacement system was approved by King County voters in April 2015. The Puget Sound Emergency Radio Network (PSERN) is a county wide system that will merge the four owners of the current system—EPSCA, King County, the City of Seattle and Valley Communications Center. The Chair of the EPSCA Executive Board serves on the PSERN Governance Board, and there are also representatives from the other three system owners. The four system owners are currently working with the PSERN project team to develop and implement the new system. Motorola Solutions Inc. was selected as the system/network vendor. The new system is currently scheduled to be completed and in service by September 2020.

Budget Policies for 2019-2020

- Continue to work with NORCOM to ensure our citizens and public safety employees are receiving a high level of service.
- Work with Records personnel to ensure they provide the appropriate level of service to our citizens.
- Ensure that Mobile Computer systems in emergency vehicles and field reporting systems are dependable, well maintained and functional.
- Continue our active participation in NORCOM committees, with a particular focus on ensuring efficiencies are maximized.
- Continue involvement with EPSCA / King County in the planning of a new radio system.

Budget Policies

2019-2020 Budget Impact

Expenditures	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
NORCOM Police Dispatch Operating	\$624,639	\$669,507	\$616,775	\$647,614
NORCOM Fire Dispatch Operating	156,072	167,283	169,409	174,600
Total Expenditures	\$780,711	\$836,790	\$786,184	\$822,214

BUDGET POLICES

Youth and Family Services

This section includes budget polices on the following:

- Youth and Family Services Financing



Budget Policies

Youth and Family Services Financing

Background

Youth and Family Services (YFS) was created in 1973. Public and private sources of revenue have been integral to the funding base for the department since its inception. To compensate for the gradual reduction from the City's General Fund subsidy, and the 2009 funding cut from the Mercer Island School District, the Department has pursued other endeavors to finance the Department services. These include:

- Donations from community organizations and individuals
- Maximizing stewardship of donations received by the Thrift Shop
- Grants
- MIYFS Foundation fundraising contributions
- Client user fees
- Interest earnings from the Youth Services Endowment Fund
- Interlocal Agreement for Counseling Services with Mercer Island School District

This policy is intended to provide additional historical and current details regarding Department funding sources and provide background for the proposed 2019-2020 Budget changes.

Youth and Family Services Fund

Youth and Family Service revenues and expenditures are accounted for in a Special Revenue Fund called the "Youth & Family Services Fund" (YFS Fund). The fund was created from cash balances of past donations held in Trust Funds providing the beginning cash balance. All revenues, including program fees, grants, donations, thrift shop sales, general fund support, MIYFS Foundation support, and all YFS program expenditures are now accounted for within the same fund. Any year-end surplus generated is retained in the fund for future appropriation in support of ongoing YFS programs.

Youth Services Permanent Endowment Fund

In 1986, upon the recommendation of the Youth and Family Services staff and Advisory Board, the City Council adopted Ordinance A-45 defining the "Youth Services Program Enhancement Trust Fund" and the "Youth Services Endowment Fund". The ordinance formally established procedures and guidelines for the expenditure of funds donated to Youth and Family Services.

Direct donations to these funds are tax deductible under the provisions of Section 170 of the IRS Code, specifically due to meeting the definition of sub-section 115(a) that describes governmental subdivisions. The YFS Permanent Endowment Fund (061) is comprised of contributions donated primarily by individuals. Ordinance A-45 established that the principal remains invested, and only the income earned from the investment of funds is available for expenditure. Interest from the Permanent Endowment Funds is transferred annually to the YFS Fund to support ongoing programs. For the 2019-2020 biennium, \$3,500 is budgeted in each year.

Thrift Shop Revenue

The Mercer Island Thrift Shop (TS) began as a yard sale in 1975. In its first year of operation the community volunteers raised \$3,413 in revenues. Sales grew through the years: exceeding \$500,000 for the first time in 2004 and growing to the \$1.0 million mark for the first time in 2011. During 2014,

Budget Policies

Thrift Shop did not reach its projected level of revenues of \$1.4 million. Revenues plateaued during the 2013-14 biennium and began to rise again in the last quarter of 2015. In 2017 the revenues hit \$1.6 million. Many factors contribute to the fluctuations in TS revenues. Most of which are not controlled by the City or the Thrift Shop.

Factors that influence revenue stability:

- Unpredictable work study funding changes: fewer available students, decrease in the average work study funding allocations per student.
- Reduction in the number of volunteer hours per volunteer.
- Low unemployment in Seattle and the increased minimum wage.

Volunteer Hours: The Thrift Shop relies on an enormous commitment of hours from volunteers. The commitment of most volunteers stems from the Shop's mission focus of raising revenues for social service programs operated by YFS. The volunteer hours of community members decreased in 2017 after rising in 2015 and 2016. Since 2006 the Thrift Shop has slowly been losing the seasoned, founding volunteers who donated upwards of 20-30 hour per week. This pattern of volunteering has shifted to volunteers who donate fewer hours, less frequently. The shift requires the Thrift Shop Coordinators to spend more time recruiting, orienting, training and retaining volunteers. And though the Thrift Shop maintains a committed core of volunteers, to staff this group requires more staff time and effort.

Contract and Casual Labor: Over the past two biennia the Thrift Shop staffing pattern reflects a decreased reliance on fragmented hours of work study students and an increased use of contract and casual labor. In the 2015-2016 biennium the Thrift Shop consolidated casual labor funds and along with funds provided by the MIYFS Foundation to increase contract staff (an increase of two additional part-time positions of 29.5 hours/week). In May of 2018, the Thrift Shop made another adjustment to staffing by adding a full-time staff in donations and increasing a part-time merchandising staff to full-time (29.5 hours to 40 hours per week). This shift in staffing has enabled the TS to meet its the projected 8% increase in revenues.

The staffing changes over the past four years have resulted in an increase of revenues. Currently, Thrift Shop revenues are up 8% over 2017 and are projected to reach \$1.73 million in 2018, 8% above last year's revenues.

The proposed 2019-2020 budget for the Thrift Shop, with proposed revenue contributions to the YFS Department, \$1,857,849 for 2019 and \$1,969,320 for 2020, support the following priorities of the Youth and Family Services Department:

- Reimbursement of Thrift Shop expenses - defined as direct costs that the City would not be incurring if the Thrift Shop were not in existence.
- Thrift Shop building facility maintenance, operations, and capital improvements.
- Support of ongoing YFS programs. (This has been particularly important over the past nine years since the reduction in funds from the MI School District for school based mental health services.)

MIYFS Foundation

The MIYFS Foundation (Foundation) was created in 1989 to support and expand the human services offered by the Department. It is an independent, private, non-profit legal entity separate from the City of Mercer Island with its own Board of Directors. The Foundation is eligible for tax deductible donations, under the provisions of Section 170 of the IRS Code, specifically due to meeting the

definition of Section 501(c)(3), defining private non-profit organizations. It was originally created to be eligible for workplace giving programs and other corporate and foundation funds that require a 501(c)(3) tax-exempt status. The nature of the relationship between the Foundation and MIYFS is similar to that of a school's foundation and a school district.

The MIYFS Foundation 501(c)(3) raises revenues through a variety of fund raising activities conducted annually by the 15-member board. The Foundation remains committed to its current (listed below) fundraising activities conducted on behalf of the Department. The overall revenues of these endeavors have increased significantly over the past several years. The current primary fundraisers are:

- **Year-End Giving Appeal** (formerly 'All Island Appeal'), a letter campaign mailed to all Mercer Island households in early December.
- **School Counselor Appeal**, a letter campaign mailed to MISD families in support of the Department mental health counselors based in all six Mercer Island public schools, mailed late September.
- **MIYFS Foundation Annual Breakfast** (formerly the 'Giving From the Heart'), the Foundation's signature fundraising and community-building event, held every February.
- **MIYFS Foundation Business Partner Program**, in concert with the MIYFS Foundation Annual Breakfast, an organized shopping day of approximately 12 local Mercer Island businesses who donate a portion of their sales to MIYFS Foundation.
- **Christmas Tree Lot**, MIYFS Foundation has assumed responsibility of the Mercer Island "Lion's Club" Tree Lot occurring every November-December.
- **Major Donor Effort**, cultivation and stewardship of individuals with high net worth who support the vision and mission of the Department.

MIYFS Foundation has three endowment accounts that receive donations: Senior Outreach, General Services and Youth Development which supports the work of VOICE and SVP community service programs. Foundation board members manage all grant and fund drive solicitations for the MIYFS Foundation and serve as ambassadors for the MIYFS Foundation Annual Breakfast and Business Partner Program.

Ongoing funding: Each year the Foundation commits to granting a specified amount of funds for annual YFS Department budget (general operating expenses). Should the Foundation raise funds above the amount needed for its commitment to the Department budget, the Foundation makes funds available for one-time Department projects, as prioritized by the Department Director. For 2017 and 2018 the Foundation met its commitment to provide \$202,000 annually. Because the Foundation's ability to raise funds has steadily increased over the past three years the Foundation will be increasing its annual commitment to the Department; this commitment will be approximately 10% of the Department's operating budget, as well as funding for administrative infrastructure: \$291,627 for 2019 and \$293,515 for 2020.

This increase in funding is a direct result of Foundation board member commitment to current social services and prevention efforts to address the root causes of youth risk behaviors. The Foundation continues to vary the fundraising efforts, types of asks and target donor populations to expand community awareness of YFS Department programs and increase the amount and types of donations.

Budget Policies

Program Donations

The YFS Fund also receives donations in support of ongoing programs. Examples include donations for emergency assistance, scholarships, and Voice program donations. General donations to YFS programs are directed to the MIYFS Foundation. Careful accounting with sub-accounts assures that funds will be spent according to the donor's wishes. Funds are used for general operational costs of existing YFS priority programs; program enhancements, equipment purchases, and miscellaneous service related expenses.

Budget Policies for 2019-2020

- **Funding Basis**

Department positions are funded by a funding matrix that includes several sources: The Mercer Island School District, County, State and Federal grant contracts, private contributions, Thrift Shop revenues, the City's General Fund and MIYFS Foundation support. There are no base positions or privately funded positions except in the case of contracts, grants, or specifically designated donations or bequests. Department positions are prioritized based on mission critical work. The YFS Department service configuration is determined by professional protocols for Human Service planning: best practice research, targeted community needs assessment, and client and professional input. The Department director presents to the City Council, through the budget approval process, and council presentations as needed, the mix of services that would best serve the children, youth, families, adults and seniors of the community.

- **Responsibility to Donors and Volunteers**

Contributions from donors are used to the maximum extent possible to provide human services for the people of Mercer Island according to the expressed wishes of the donors. Since the 1970's a unique partnership with community volunteers has been integral to the continuation of the Thrift Shops' revenue stream that allows the City to fund many YFS programs.

- **Funding Streams 2019-2020**

General Fund Contribution: The General Fund's annual contribution to the YFS Fund has changed over the years. During the Great Recession the General Fund contribution to the YFS Fund decreased as the Thrift Shop revenues increased. Thrift Shop's sales were particularly strong through 2012. Beginning in 2013 revenues plateaued before beginning to rise again gradually in 2015.

Following is a brief history of the annual contribution beginning in 2004:

- 2004-2009: \$465,000 annual contribution
- 2010: \$440,000 annual contribution (\$25,000 reduction due to Great Recession)
- 2011-2013: \$320,000 annual contribution (\$120,000 reduction due to Great Recession; mostly replaced by Thrift Shop sales growth)
- 2014: \$200,000 (\$120,000 reduction; used available fund balance to make up difference)
- 2015: \$400,000 (\$200,000 increase funded by "new construction" property tax and "banked capacity" property tax) + \$120,184 one-time distribution of 2014 General Fund surplus to address the projected YFS Fund deficit in 2016
- 2017: \$459,121
- 2018: \$478,557

The City's General Fund contribution to the YFS Fund will be \$354,000 in 2019 and \$309,000 in 2020. Even with these contributions, the YFS Fund will experience a deficit in 2019-2020 if current service levels are maintained.

Mercer Island School District: The Mercer Island School District provides an annual, fixed amount of \$60,000 in support of school-based mental health counseling services. This amount reflects a reduction from the pre-2009 formula in which the District paid approximately 42.5% of the cost for the school based counselors. All cost increases are borne by the City, not the School District. As a result, the percentage the MISD contributes for school based mental health counseling services decreases annually. The cost for these services is projected to be \$648,047 (before service reductions) in 2019 and approximately 4% higher in 2020. The District's share of these costs equals 9.4% for the biennium.

King County Community Services Division: The KC Community Services Division has been the primary supporter of the Youth and Family Service Association agencies since its inception in 1973. From 2000 through the current year (2018) the Department has received approximately \$36,000 per year for general operating expenses. These funds have been designated to support a portion of the department's work in the schools. It is estimated that this level of funding will remain in place for the coming biennium.

- **YFS Fund Balance**

There is no longer a material YFS Fund balance. For the past six biennia, a YFS fund balance was used to bridge the difference between revenues and expenditures. The surplus had been built up over several years of Thrift Shop surpluses. The surplus draw down was slower than projected due to Thrift Shop revenue growth passing projected estimates. This, along with an effective reduction in expenditures, allowed the Thrift Shop to support the YFS budget for many years.

- **Meeting the social service needs of a growing community at a time of fiscal challenges**

The Department's goal remains meeting the current and emerging human service needs on a growingly diverse Mercer Island. The Department actively explores all feasible options to increase revenues through the Mercer Island Youth and Family Services Foundation and the Mercer Island Thrift Shop. The Thrift Shop is mindful to increase revenues while maintaining a community environment for volunteers and service learners. The Department maintains strong relationships with service groups, the faith community as well as other Island funding organizations and when appropriate, applies for public funding.

In the coming biennium, efforts will continue to focus on increasing revenues primarily through the Thrift Shop and the MIYFS Foundation. Over the past two years the Foundation has acquired a Christmas Tree Lot that will eventually add upwards of \$50,000 to the Foundation's annual budget and has launched a Major Donor campaign. The Thrift Shop continues to focus on transitioning its staffing pattern from a fragmented, part-time model where revenues decrease commensurate with absenteeism and resignations to a stable, contract staffing model that results in net revenue increases.

- **Next Steps**

Following the failure of a levy lid lift measure on the November 6, 2018 ballot to preserve public safety services; youth, family, and senior services; and parks and recreation services, the Council was compelled to reduce the Geriatric Specialist from full-time to half-time, an Administrative Assistant from full-time to half-time, and one Elementary School Counselor beginning in September 2019 and

Budget Policies

another Elementary School Counselor beginning in September 2020 to balance the YFS Fund budget in 2019-2020.

Following the November 20, 2018 meeting, the Council received a letter from Jody Kris, Board President of the Mercer Island Youth & Family Services Foundation, pledging to provide the funding needed to restore the Geriatric Specialist from half-time to full-time status in 2019-2020. In addition, the Foundation will work towards identifying funding to restore the Elementary School Counselor reductions in 2019-2020. It should be noted that the funding solution offered by the Foundation is temporary, maintaining these YFS services through 2020 only

The Department will continue its efforts to increase revenues through fundraising and effective staff and business practices at the Thrift Shop, though without a new dedicated revenue stream the Department will need to make additional service cuts in 2021 and beyond.

2019-2020 Budget Impacts

	2017 Actual	2018 Forecast	2019 Budget	2020 Budget
Revenue				
Thrift Shop proceeds	1,607,692	1,736,307	1,857,849	1,969,320
YFS fees, grants, donations	648,620	620,254	596,627	593,515
General Fund subsidy	459,121	478,557	354,000	309,000
Total Revenue	\$2,715,433	\$2,835,118	\$2,808,476	\$2,871,835
Expenditures				
YFS programs (base budget)	2,651,439	2,974,623	2,990,280	3,055,047
Service Reductions	-	-	(120,006)	(210,902)
Total Expenditure	\$2,651,439	\$2,974,623	\$2,870,274	\$2,844,145
Operating Surplus (Defecit)	\$ 63,994	\$ (139,505)	\$ (61,798)	\$ 27,690