

**2021-2022 Biennial Budget**

# **Section C**

**Revenue Sources**

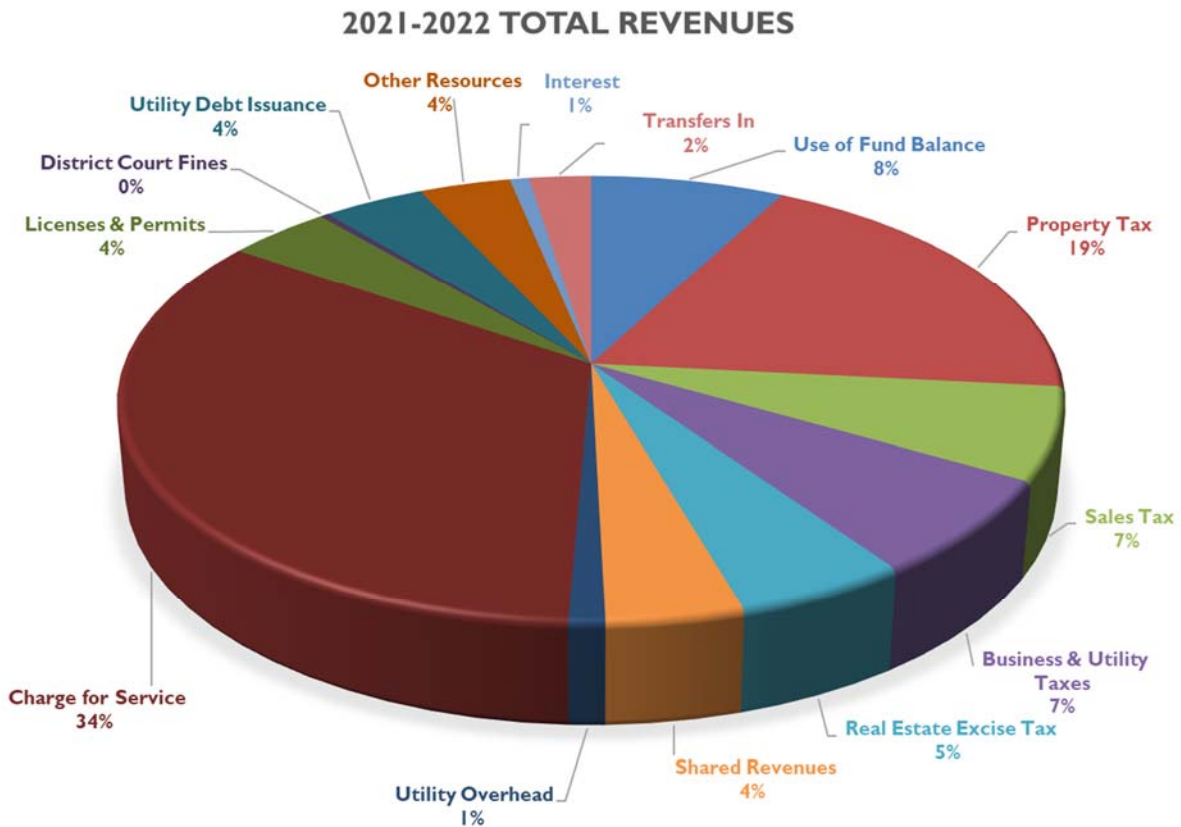


**Adopted Budget**



# REVENUE SOURCES

For the 2021-2022 biennium, the City’s total budgeted resources amount to \$148.7 million, which consists of \$69.9 million in 2021 and \$78.8 million in 2022. This section of the budget focuses on the City’s major revenue sources, the internal and external factors that affect revenue estimates, and the 2021-2022 budgetary impacts.



## Property Tax

Property tax is the City’s single largest revenue source, accounting for 19% of total budgeted resources in 2021-2022. In the General Fund, which encompasses most of the City’s general government services, property tax comprises 43% of total budgeted resources in 2021-2022.

### Types of Property Tax

There are two types of property tax collected by the City: *regular levy* and *voter approved levy*. The *regular levy* portion may be used for any purpose the City deems necessary. On Mercer Island, as in most cities, the *regular levy* primarily supports the General Fund.

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*.

# Revenue Sources

An excess levy is dedicated to paying the principal and interest on debt issued for capital projects or major equipment purchases. The City does not have any excess levies. A levy lid lift is usually dedicated to funding specific general government operations and/or capital improvements.

The City has two levy lid lifts currently in effect: 1) Parks Maintenance and Operations levy (aka Luther Burbank Park Levy) approved by voters in November 2008 for 15 years (\$964,630 levy in 2020); and 2) Fire Station and Fire Rescue Truck levy approved by voters in November 2012 for 9 years (\$688,880 levy in 2020), which expires after 2021.

**Establishing the Property Tax Rate**

Each November, as required by Washington State law, the City Council sets the property tax levy for the coming year. The City’s regular levy and levy lid lifts are annually limited to a 1% increase or the rate of inflation as measured by the Implicit Price Deflator (IPD), whichever is less. The IPD is not the same as the Consumer Price Index for Urban Wage and Clerical Workers (CPI-W). The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed and improved residential and commercial properties.

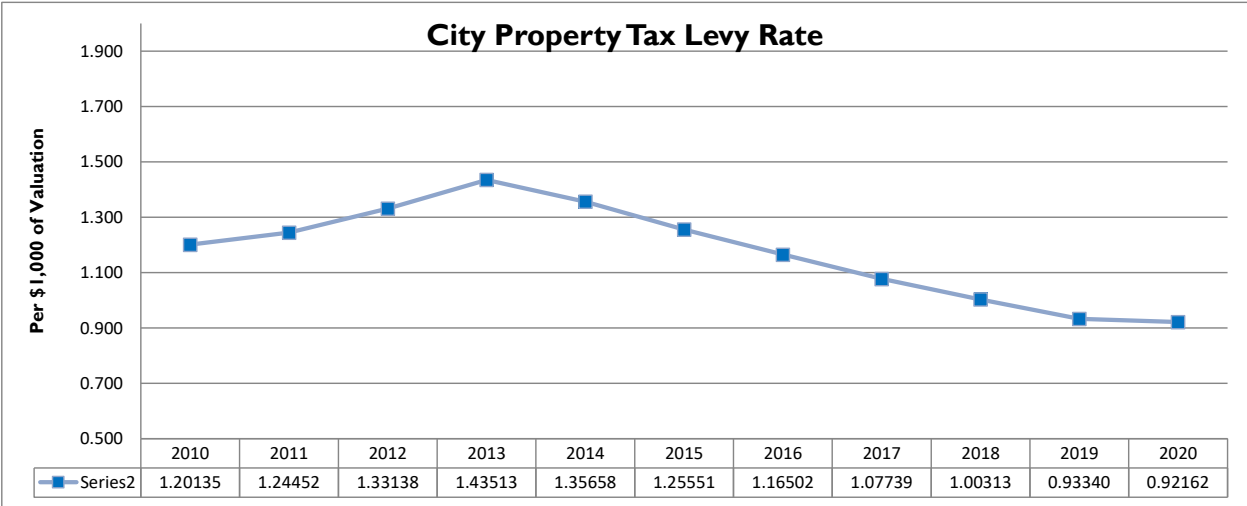
**Banked Capacity**

If a taxing district voluntarily levies less than its maximum levy amount in a prior year (allowed under RCW 84.55.092), it will have “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 2012, the Council voted 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 voted to use its remaining banked capacity (1.2%, or \$144,960) to address various funding needs, including long-term care benefits for LEOFF I retirees.

**Determining the Property Tax Rate**

The property tax rate is determined by dividing the total annual levy amount by the assessed valuation per \$1,000. Mercer Island’s levy rate fluctuates based on changes in assessed valuation, taking the 1% optional increase, and voter approved levies. The City’s levy rate in 2010-2020 is provided in the following graph.



## Revenue Sources

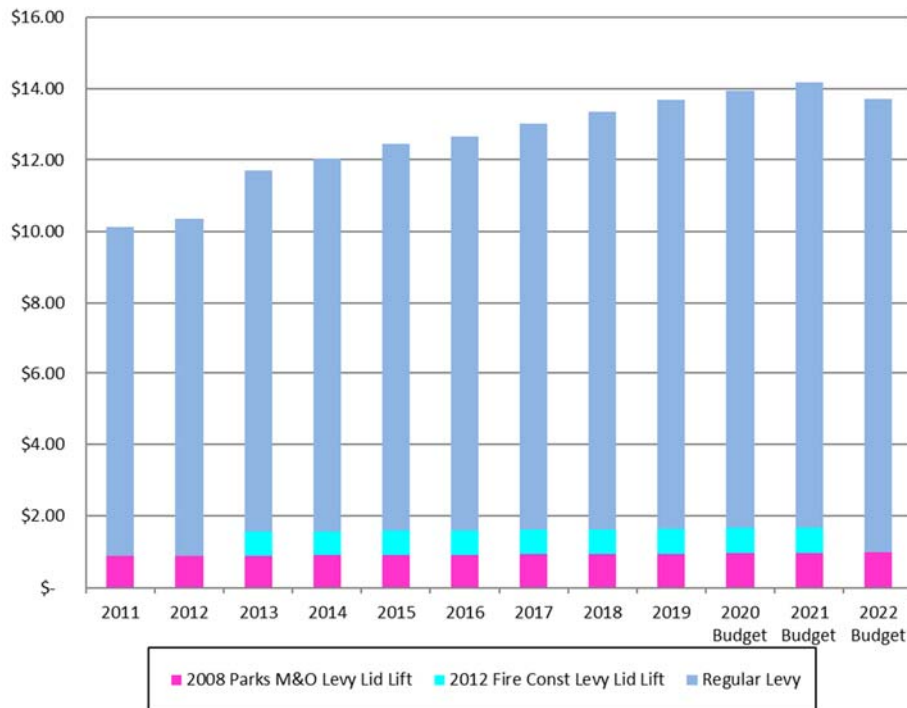
For the owner of a home with a \$1,353,000 assessed value, which is the median assessed value on Mercer Island for the 2019 tax year, the 2019 levy rate (per \$1,000 assessed valuation), the 2019 levy amount, and the percentage breakdown by taxing jurisdiction are presented in the following table.

Taxing Jurisdiction	2019 Levy Rate	2019 Levy Amount	% of Total 2019 Levy
State School Fund	\$2.62922	\$3,557	35.0%
MI School District	1.71004	2,314	22.8%
King County	1.21906	1,649	16.2%
<b>City of Mercer Island</b>	<b>0.93285</b>	<b>1,262</b>	<b>12.4%</b>
Library	0.37441	507	5.0%
EMS	0.21762	294	2.9%
Sound Transit	0.20700	280	2.8%
Port	0.12266	166	1.6%
Flood Zone	0.09660	131	1.3%
<b>Total</b>	<b>\$7.50946</b>	<b>\$10,160</b>	<b>100.0%</b>

As the table depicts, there are nine jurisdictions with taxing authority on Mercer Island including the City of Mercer Island. In 2019, the total property tax levy on a \$1,353,000 home was \$10,160. 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. King County and the City are the next largest taxing jurisdictions. The 13.6% remaining total levy relates to the King County Library District, the King County Emergency Medical Services (EMS) Levy, the Port of Seattle, and the King County Flood Zone District.

The actual (2011-2019) and projected (2020-2022) property tax revenues are provided in the following graph.

**Property Tax 2011-2022 (in Millions)**



# Revenue Sources

## Levy Considerations for 2021-2022

- The regular levy for 2021 and 2022 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 2021 and 2022 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 2021 and 2022);
  - Community Center technology, equipment, and furnishings sinking fund in the Technology & Equipment Fund (\$18,000 is transferred from the General Fund in 2021 and 2022);
  - Fire apparatus sinking fund in the Equipment Rental Fund (\$163,976 in 2021 and \$165,615 in 2022); and,
  - Pension benefits reserve in the Firefighters’ Pension Fund (\$26,410 in 2021 and 2022).
- The 2008 Parks Maintenance and Operations levy lid lift for 2021 and 2022 is \$974,276, and \$984,019, 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.
- 2021 is the final year for the 2012 Fire Station 92 and Fire Rescue Truck levy lid lift, the total for 2021 \$695,769 which includes the 1% optional increase. Of the total annual levy amount, \$617,100 is budgeted 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.
- The City anticipates receiving \$114,550 in 2021 and \$117,400 in 2022 from the 2020 King County Parks, Trails, and Open Space levy.

## 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund</b>				
Regular Levy (General Purpose)	\$11,752,396	\$11,991,461	\$12,212,455	\$12,435,661
Regular Levy (LEOFF I Long-Term Care)	83,000	83,000	83,000	83,000
Regular Levy (Community Center Sinking Fund)	18,000	18,000	18,000	18,000
2008 Parks M&O Levy Lid Lift	703,079	712,630	722,276	732,019
<b>Debt Service Fund - 2012 Fire Station &amp; Rescue Truck Levy Lid Lift</b>	615,500	613,900	617,100	-
<b>Capital Improvement Fund - 2008 Parks M&amp;O Levy Lid Lift</b>	252,000	252,000	252,000	252,000
<b>Equipment Rental Fund</b>				
Regular Levy (Fire Apparatus Sinking Fund)	160,745	162,352	163,976	165,615
2012 Fire Station & Fire Rescue Truck Levy Lid Lift	66,559	74,980	78,669	-
<b>Firefighters Pension Fund - Regular Levy</b>	26,410	26,410	26,410	26,410
<b>Total Levied by City</b>	<b>\$13,677,689</b>	<b>\$13,934,733</b>	<b>\$14,173,886</b>	<b>\$13,712,705</b>
King Couty Parks Levy	107,912	-	114,550	117,400
<b>Total Property Taxes</b>	<b>\$13,785,601</b>	<b>\$13,934,733</b>	<b>\$14,288,436</b>	<b>\$13,830,105</b>

## Utility Taxes

Under Washington State law, cities are granted the authority by a vote of the City Council to levy a business and occupation tax on public and private utilities known as the utility tax. Utility taxes are levied on the gross operating revenues that utilities earn from operations within the boundaries of the City. The tax applies to electric, natural gas, water, sewer, storm and surface water, solid waste, telephone, and cable television utilities.

Legislation limits the tax rate on electric, natural gas, and telephone utilities to 6% without voter approval. There are no legislative limitations on the tax rates for other public or private utilities. Mercer Island currently levies a 6% utility tax on electric, natural gas, and telephone utilities; a 7% utility tax on solid waste and cable television utilities; and a 5.3% utility tax on the City's water, sewer, and storm water utilities. For comparison, according to the Association of Washington Cities' 2018 Tax and User Fee survey, the average utility tax rate is 9.0% for water, 8.9% for sewer, and 8.0% for storm water utilities.

In September 2020, the City Council approved a temporary increase to the utility tax to cover the potential costs of litigation to enforce the terms of the City's 2017 Settlement Agreement with Sound Transit. The temporary increase raises the tax on water, sewer, and storm water utilities within Mercer Island from 5.3% to 8.0% for a 36-month period from November 1, 2020 through October 31, 2023. The temporary rate increase is estimated to generate \$1.5 million in new tax revenue. The utility tax rate on water, sewer, and storm water will return to 5.3% by November 2023, if not sooner.

The City Council approved a similar temporary increase in the utility tax rate in 2017, raising it from 5.3% to 8.0% on water, sewer, and storm water utilities. The temporary tax was in place for 18 months (July 1, 2017 through December 31, 2018) to reimburse the Contingency Fund \$700,000, the amount used to fund I-90/light rail litigation costs with Sound Transit in 2017. The utility tax rate reverted back to 5.3% in January 2019.

The actual (2010-2019) and projected (2020-2022) utility tax revenues are displayed in the following graph:

### **2019-2022 Budget Impact**

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund:</b>				
Electric and Natural Gas	\$1,606,443	\$1,643,570	\$1,637,700	\$1,632,800
Solid Waste	305,942	326,385	333,300	343,300
Cable Television	631,829	608,456	597,790	579,860
Telephone	409,935	450,357	376,650	363,800
City Utilities (Water, Sewer & Storm Water)	1,068,729	1,208,798	1,789,100	1,810,990
<b>Total Utility Taxes</b>	<b>\$4,022,878</b>	<b>\$4,237,566</b>	<b>\$4,734,540</b>	<b>\$4,730,750</b>

# Revenue Sources

## Sales Tax

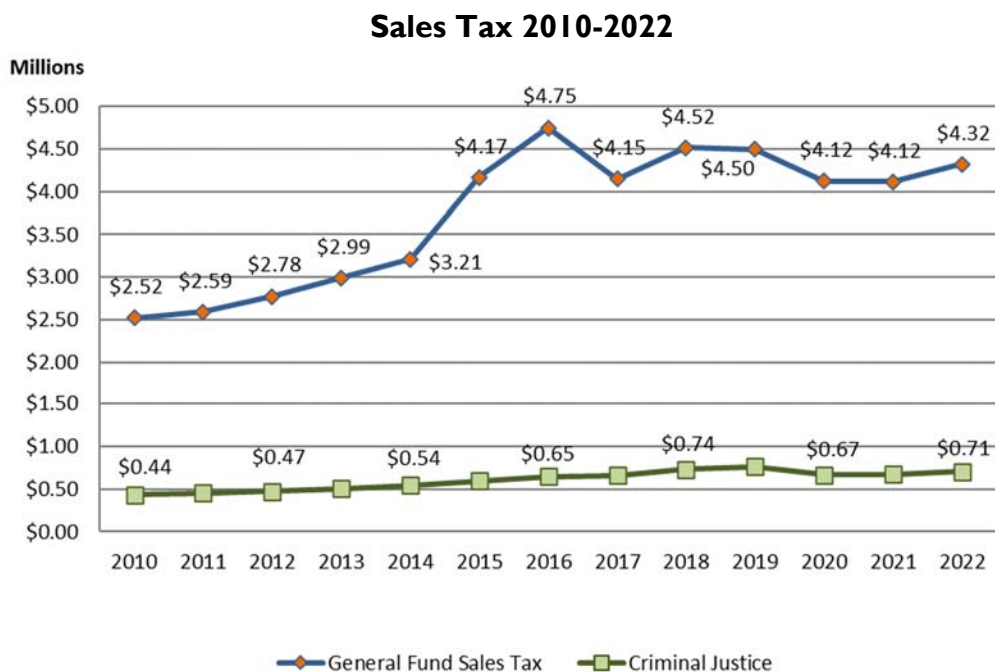
Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. On Mercer Island, the construction sector is the largest generator of sales tax dollars (38% of total in 2019), followed by the retail and wholesale trade sector (29% of total), the administrative and support services sector (8% of total), and the food services sector (5% of total). The amount of sales tax revenue fluctuates from year to year due to changes in the economy, consumer buying habits, and the level of construction activity on Mercer Island.

The total general sales tax rate on Mercer Island is 10%. Similar to property tax, the City receives only a small portion of the total sales tax revenue generated on Mercer Island. Of the 10% tax rate, only 0.85% is remitted to the City, with the remainder distributed to the State (6.5%), King County (1.15%), and other public agencies (1.5%). An additional 0.3% sales tax is collected by Washington State on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax rate is displayed in the table on the right. The 0.85% general sales tax remitted to the City of Mercer Island is accounted for in the General Fund.

Jurisdiction	Rate %
State of Washington	6.50%
King County	1.15%
Regional Transit	1.40%
City of Mercer Island	0.85%
Criminal Justice	0.10%
<b>Total General Sales Tax</b>	<b>10.00%</b>
Auto Sales/Leases	0.30%
<b>Total Auto Sales/Lease Rate</b>	<b>10.30%</b>

The City also receives a portion of the criminal justice sales tax (0.1%), which is a King County voter approved optional sales tax dedicated to funding criminal justice programs. The State collects this optional tax and retains 1.5% for administration. Of the amount remaining, 10% is distributed to the county and 90% is distributed to cities based on population.

The actual (2010-2019) and projected (2020-2022) sales tax revenues are broken down into general and criminal justice restricted components in the following graph.



Taken together, sales tax revenues are projected to remain flat in 2021 due to the economic uncertainties related to the COVID-19 Pandemic, with a 5.0% rebound projected in 2022.

## 2019-2020 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund</b> (General Sales Tax)	\$4,495,695	\$4,116,770	\$4,116,770	\$4,322,610
<b>General Fund</b> (Criminal Justice Sales Tax)	761,428	674,900	674,900	708,600
<b>Total Sales Taxes</b>	<b>\$5,257,123</b>	<b>\$4,791,670</b>	<b>\$4,791,670</b>	<b>\$5,031,210</b>

## Real Estate Excise Tax

The Real Estate Excise Tax (REET) is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at a rate of 1.28%. Local governments are also authorized to impose a local REET of up to 0.5%. All cities and counties may levy a quarter percent tax, described as the “first quarter percent of the real estate excise tax or REET 1.” In addition, cities and counties planning under the Growth management Act have the authority to levy a second quarter percent tax known as REET 2.

REET 1 (RCW 82.46.010) revenues are restricted to spending for capital projects that are listed in the capital facilities plan element of the City’s comprehensive plan where capital projects are defined as: *public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative and judicial facilities.*

REET 2 (RCW 82.46.035) revenues provide funding for cities to finance capital improvements required under the Growth Management Act. As amended, REET 2 capital projects are defined as: *public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvements of parks.*

REET revenue can vary significantly from year to year because property sales are dependent on economic conditions and interest rates. In 2008, as the “Great Recession” took hold, the nation and the Puget Sound region experienced a major contraction in the housing market. REET revenues declined significantly in 2008, hitting bottom in 2009 as the number of home sales dropped from 608 in 2004, which represented the peak sales year, to 265 in 2008.

Over the past five years (2015-2019), the number of home sales has averaged 465 per year, and the average home sales price from homes sold for less than \$5 million increased from \$1.18 million in 2015 to \$1.62 million in 2019. The actual (2010-2019) and forecasted (2020-2022) REET revenues are shown in the chart below.



# Revenue Sources

## Real Estate Excise Tax 2010-2022 (in Millions)



Home sales have slowed, dropping from 504 in 2017 to 436 in 2018 and 417 in 2019. Looking forward, the number of home sales is forecast to be 410 in 2021 and 2022, with an average home sales price of \$1.72 million in 2021 and \$1.76 million in 2022. As a result, REET revenue is projected to increase 2.5% in 2021 and 2022.

The City’s CIP financing strategy for REET-1 and REET-2 was modified in 2019:

- 100% of REET-1 revenues will continue to be used to fund parks, open space, and public building maintenance projects and to pay the debt service on the construction of the Community Center in the Capital Improvement Fund.
- 90% of REET-2 revenues was committed to fund construction and maintenance of streets and pedestrian and bicycle facilities in the Street Fund, and 10% of REET-2 revenues was directed to the Capital Improvement Fund.

### 2019-2020 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
Capital Improvement Fund (REET 1)	\$1,779,414	\$1,842,837	\$1,888,908	\$1,936,131
Capital Improvement Fund (REET 2)	177,911	184,284	188,891	193,613
Street Fund (REET 2)	1,601,198	1,658,554	1,700,017	1,742,518
<b>Total Real Estate Excise Taxes</b>	<b>\$3,558,523</b>	<b>\$3,685,675</b>	<b>\$3,777,816</b>	<b>\$3,872,262</b>

## Business and Occupation Tax

The City of Mercer Island collects a Business and Occupation tax from all active Business License holders with gross revenue in excess of \$150,000 per calendar year. The first \$150,000 of revenue per year is exempt from tax. Revenue of \$150,001 and above are taxed at a rate of .0010 with a \$20.00 minimum payment.

Taxpayers are required to file an annual B&O tax return by April 15 for the prior year. Taxpayers earning in excess of \$1.0 million a year are required to remit a quarterly B&O tax return. B&O tax revenues go into the General Fund to support General Government Services.

### 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
General Fund	\$842,007	\$609,046	\$508,600	\$483,200
<b>Total B&amp;O Taxes</b>	<b>\$842,007</b>	<b>\$609,046</b>	<b>\$508,600</b>	<b>\$483,200</b>

## Utility Rates

The City operates three separate utilities (Water, Sewer, and Storm Water), which are managed like a business, with customer charges funding all operating and maintenance costs as well as capital investments.

The 2021-2022 Adopted Budget is based on the following proposed utility rate increases:

- **Water Rates** – Customer charges pay for the cost of purchasing water from the City of Seattle and for operating, maintaining, and replacing the City’s water storage and distribution system. A 5.25% increase is proposed for 2021 and 2022, which equates to a \$5.79 and \$6.09 increase respectively on a typical single-family residential customer’s bi-monthly water bill. These rate increases are primarily driven by the need to:
  1. Upsize water mains that do not meet the City’s flow capacity standards.
  2. Make specific capital improvements following the discovery of E. coli in the City’s water system in September 2014 (e.g. Booster Chlorination Station).
  3. Cover the water utility’s ongoing costs in the face of declining water usage each year.
- **Sanitary Sewer Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s sanitary sewer system. A 4.0% increase is proposed for 2021 and 2022, which equates to a \$3.61 and \$3.75 increase respectively on a typical single-family residential customer’s bi-monthly sewer bill. These rate increases are primarily driven by the capital reinvestment needs of an aging sanitary sewer system, which were held to a minimum during the sewer lake line replacement project.
- **Sewage Treatment Rate** – This is a “pass through” charge assessed by King County, which provides wastewater treatment services to Mercer Island. A 4.5% increase is anticipated in 2021 and 2022. For 2021, this represents a \$4.08 increase on a typical single-family residential customer’s bi-monthly sewer bill.

# Revenue Sources

- Storm Water Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s surface and storm water system. A 5.5% increase is proposed for 2021 and 2022, which equates to a \$1.97 and \$2.08 increase respectively on every single-family residential customer’s bi-monthly storm water bill. These rate increases are primarily driven by planned watercourse stabilization, drainage system extension, and culvert replacement projects.

## 2021-2022 Budget Impact

	2019	2020	2021	2022
Revenues	Actual	Forecast	Budget	Budget
<b>Water Fund</b>	\$8,630,778	\$7,861,790	\$8,706,800	\$9,163,900
<b>Sewer Fund</b>	9,845,534	10,069,991	10,478,100	10,922,700
<b>Storm Water Fund</b>	2,056,051	2,155,485	2,216,300	2,333,300
<b>Total Utility Rate Revenues</b>	<b>\$20,532,363</b>	<b>\$20,087,266</b>	<b>\$21,401,200</b>	<b>\$22,419,900</b>

## Development Fees

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].”

In 2018, the City contracted with the FCS Group to perform a cost recover analysis for the Community Planning and Development (CPD) Department. The analysis included an in-depth look at the cost of service for planning services. At the time, both Building and Engineering were recovering costs above the targeted level.

Planning Services was recovering costs well below the target, and in November 2018 the City Council approved a fee adjustment to increase Planning Fees to achieve the targeted recovery level of 80%. Fees for Appeals, Accessory Dwelling Units, and Code Interpretation Requests were not increased as these services all have significant public benefits.

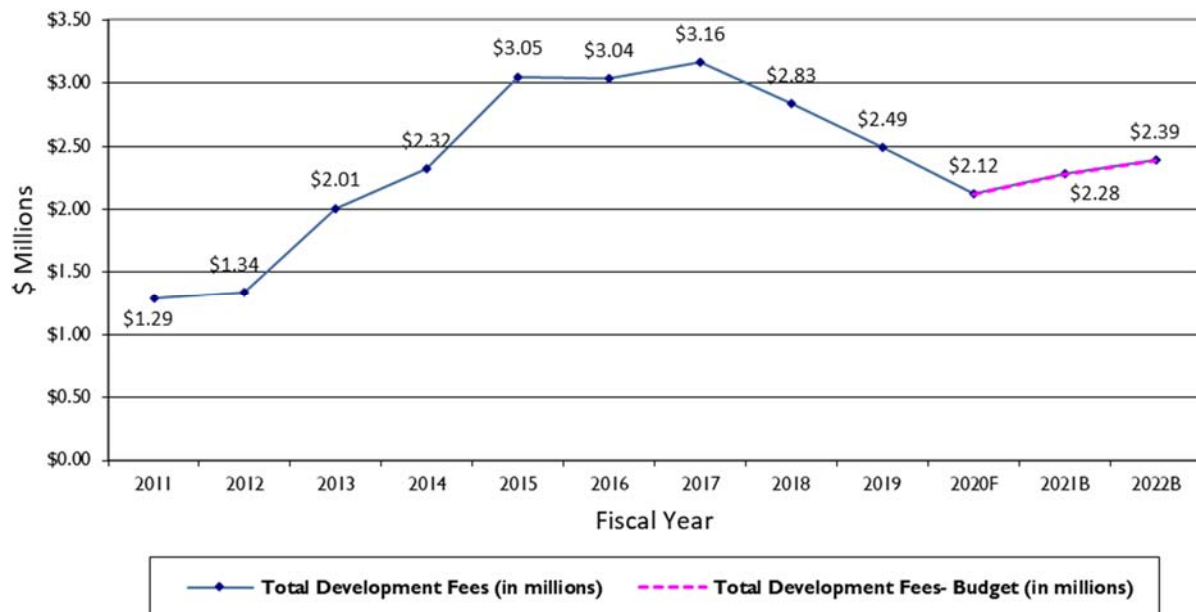
In November 2019, the City Council adopted the following target cost recovery levels for eligible CPD costs beginning on January 1, 2020:

- 95% for Building Services
- 90% for Planning Services
- 90% for Engineering Services

Actual and forecasted total development fees for the period 2011-2022 are shown in the chart on the next page.



## Total Development Fees 2011-2022 (in Millions)



Overall, development fees are projected to increase 8% in 2021 above 2020 forecasted levels, and to increase 5% in 2022. The spike in 2015-2017 is directly related to several major school district projects and a mixed used development project in the Town Center.

## State Shared Revenues

State shared revenues are taxes and fees collected by the State and disbursed to municipalities based on population or other criteria. The primary shared revenues received by the City are the fuel tax (tax on gasoline consumption), marijuana excise tax, liquor excise tax and profits, vessel registration fees, criminal justice distributions, and the fire insurance premium tax.

- Motor Vehicle Fuel Tax (Gas Tax)**  
 This is a fixed tax, currently making up 44.5 cents of the per gallon price of gasoline, diesel, and other fuels. It applies to the volume, not the dollar amount, of the fuel sale. The Gas Tax is distributed to incorporated cities and towns based on population. The City's portion of the motor vehicle fuel tax is budgeted in the Street Fund and is used for street construction projects. The share of the motor vehicle fuel tax distributed to the City of Mercer Island is projected to decline 7.4% in 2021 and 2.6% in 2022.
- Marijuana Excise Tax**  
 On November 6, 2012, Washington State voters passed Initiative 502. The initiative makes it legal for businesses holding the appropriate marijuana license(s) to produce, process, or make retail sales of marijuana for recreational use. The Liquor and Cannabis Board (LCB) administers and collects the 37 percent marijuana excise tax. The State distributes a portion of the tax collected to counties, cities, and towns on a per capita basis. The distribution formula depends not only on population, but also on marijuana retail sales as a proportion of total retail sales, as well as the number/total population of cities and counties that prohibit marijuana, which continues to be in

# Revenue Sources

flux as local governments take action on regulating or prohibiting marijuana. Funds may only be distributed to jurisdictions that do not prohibit the siting of any state licensed marijuana producer, processor, or retailer (RCW 69.50.540). The share of the marijuana excise tax distributed to the City of Mercer Island is projected to increase 2.5% in 2021 and 2022.

- Liquor Excise Tax and Liquor Profits**  
 Initiative 1183 was approved by Washington's voters in November 2011 "privatizing" the distribution and retail sale of liquor and ending the state's monopoly on liquor sales. Instead of a calculation based upon the profits generated from state run liquor sales, the revenue distribution is now based on the collection of license fees paid by retailers and distributors. In 2012 the state legislature passed a law permanently diverting \$2.5 million per quarter from the state liquor excise tax fund (for distribution to cities and counties) to the state general fund. The 2013-2015 state budget reduced the share of liquor excise taxes collected and remitted to cities and counties from 35% to 22.5%. The share of the liquor excise taxes and profits distributed to the City of Mercer Island are projected to increase 2.5% in 2021 and remain flat in 2022.
- Vessel Registration Fees**  
 Funds are allocated to counties with eligible boating safety programs approved by the State Parks and Recreation Commission. Distribution is based on the number of vessels registered in each county. Counties can also further allocate this money to local jurisdictions with approved boating safety programs. The Mercer Island Marine Patrol division is a qualified boating safety program and receives a portion of the King County vessel registration fees. The share of vessel registration fees distributed to the City of Mercer Island are projected to remain flat in 2021 and 2022.
- Criminal Justice Distributions**  
 The State distributes dollars based on population for criminal justice purposes. These revenues are restricted for: 1) innovative law enforcement strategies; 2) implementation of DUI or other criminal justice statutes; 3) programs to help at risk children or child abuse victim resource programs; and 4) programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims. Criminal justice distributions are budgeted in the General Fund and are projected to decrease 7.2% in 2021 and remain flat in 2022.
- Fire Insurance Premium Tax**  
 The state distributes taxes on fire insurance premiums, which must be deposited in a firefighter's pension fund to help pay the pension benefits due to pre-LEOFF I firefighter retirees. The fire insurance premium tax is projected to increase 11.1% in 2021 and 2.5% in 2020.

## 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund</b>				
Liquor Excise and Profits	\$ 332,994	\$ 322,548	\$ 330,540	\$ 330,540
Marijuana Excise Tax	28,213	28,153	22,500	23,100
Vessel Registration Fees	15,633	78,000	75,990	74,090
Criminal Justice Population based distributions	37,109	37,945	35,200	36,100
<b>Street Fund</b> (Motor Vehicle Fuel Tax)	538,541	476,000	440,800	429,400
<b>Firefighters Pension Fund</b> (Fire Insurance Premium Tax)	33,226	32,756	36,400	37,300
<b>Total State Shared Revenues</b>	<b>\$ 985,716</b>	<b>\$ 975,402</b>	<b>\$ 941,430</b>	<b>\$ 930,530</b>

## Emergency Medical Service Revenues

The City of Mercer Island receives revenues in support of emergency medical services, which are provided by the Mercer Island Fire Department: 1) King County Emergency Medical Services Levy, 2) BLS Ambulance Transport Fee, and, 3) Emergency Medical Service (EMS) utility charge.

- King County EMS Levy** – Beginning in 1990, the City began receiving a portion of the 25 cent King County property tax levy that was approved by voters for 911 emergency services. The King County levy was renewed for a six-year period beginning in 2014, with the 2019 levy rate set at \$0.21762 per \$1,000 of assessed valuation. Distribution to municipalities is based on a formula that considers the number of calls for service, total assessed valuation, and the consumer price index (CPI-U).
- Ambulance Transport Fee** – Beginning March 2011, the Fire Department began charging a fee for transporting patients requiring non-emergency, basic life support to hospitals. The program was established to create a sustainable revenue source to support the cost of providing emergency medical services.
- Emergency Medical Service (EMS) Utility Charge** – This utility charge is adjusted each year based on the average cost of four firefighter positions, which were hired in 1996 to provide capacity to handle simultaneous EMS calls. In addition, the utility charges are adjusted every two years based on the EMS call history over the previous 2-year period. Starting in 2011, the demand portion of the rate was adjusted based on revenue expected to be collected from ambulance transport fees, resulting in a flat rate per equivalent service unit (ESU). A 1.78% increase is estimated for 2021.

### 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund</b>				
King County EMS Levy	\$ 510,283	\$ 497,021	\$ 537,420	\$ 540,000
Ambulance Transport Fee	306,398	307,500	302,600	309,400
EMS Utility Charge	596,794	615,123	627,517	640,000
<b>Total EMS Revenues</b>	<b>\$ 1,413,475</b>	<b>\$ 1,419,644</b>	<b>\$ 1,467,537</b>	<b>\$ 1,489,400</b>

## Parks and Recreation Fees

The Parks and Recreation Department’s operations have historically been funded from a variety of sources, including user, program and special event fees, grants, sponsorships, donations, and rental and lease fees. The Department’s operations are classified into three functional areas: Recreation, Mercer Island Community and Events Center (MICEC), and Parks Maintenance. Each of the functional areas relies on a mix of revenue sources, which are briefly reviewed below.



# Revenue Sources

- Recreation** – Includes athletics, health and fitness, outdoor aquatics, cultural and arts programming, and senior services, and relies primarily on program fees and community sponsorships.
- Mercer Island Community and Event Center** – The MICEC’s primary source of funding is facility rental fees (short-term room rentals and long-term daycare space in the Annex). Additional revenues are generated through drop-in sports programs and membership passes for the fitness room. Facility rental rates are regularly evaluated and adjusted as needed.
- Park Maintenance** – Includes park facility rental fees and special use permit fees. These fees are intended to help offset the cost of maintaining sports fields. The City also receives funding from the Washington State Department of Transportation that helps offset the cost of maintaining portions of the I-90 corridor.

The Parks & Recreation Department was considerably impacted by the COVID-19 Pandemic. The Mercer Island Community & Event Center (MICEC) closed in March 2020 and all recreation programs, special events, and facility rentals were canceled. Athletic field reservations and picnic shelter/area reservations were also canceled. As a result, workforce reductions were implemented in the Spring of 2020. A Recreation Transition Team was created in 2020 to focus on reestablishing MICEC and rebuilding the Recreation division.

Parks and Recreation Department revenue projections will be revised during the 2021-2022 biennium upon approval of the City Council and as transition and recovery work progresses.

## 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
<b>General Fund</b>				
Recreation	\$ 760,594	\$ 129,650	\$ 8,400	\$ 8,450
MI Community & Events Center	799,882	182,650	80,000	80,000
Park Maintenance & Facilities	760,900	631,800	641,154	771,563
<b>Total Parks and Recreation Revenue</b>	<b>\$ 2,321,376</b>	<b>\$ 944,100</b>	<b>\$ 729,554</b>	<b>\$ 860,013</b>

## Thrift Shop Sales

The Youth and Family Services Department (YFS) provides a broad range of human and community services to the residents of Mercer Island. The primary mission of the Thrift Shop is to raise money to help support the services of the YFS Department. Services include family and school-based counseling, senior adult outreach, substance abuse prevention and intervention, and emergency family assistance.

Thrift Shop revenues were significantly impacted in 2020 by the COVID-19 Pandemic. Revenues are challenging to forecast given the ongoing Pandemic impacts to retail businesses and the overall uncertainty around the timing of re-opening the store.

Staff is working on a recovery plan and anticipates presenting a phased Thrift Shop re-opening recommendation to the City Council in early 2021. At that point in time the City Council may amend the adopted 2021-2022 budget to reflect adjusted revenue assumptions.

### 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
YFS Fund (Thrift Shop)	\$ 1,978,074	\$ 450,000	\$ 310,000	\$ 310,000
<b>Total Thrift Shop Revenue</b>	<b>\$ 1,978,074</b>	<b>\$ 450,000</b>	<b>\$ 310,000</b>	<b>\$ 310,000</b>

## Municipal Court Fines and Forfeits

The revenue that is collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of ordinances and statutes is allocated to both the City of Mercer Island and the State of Washington. The type of statute violated determines the percentage of each payment that is retained by the City versus remitted to the State.

Court revenues are highly dependent on caseload. 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.

### 2021-2022 Budget Impact

Revenues	2019 Actual	2020 Forecast	2021 Budget	2022 Budget
General Fund - Municipal Court Fines	\$ 265,213	\$ 214,604	\$ 262,600	\$ 257,400
<b>Total Fines &amp; Forfeits</b>	<b>\$ 265,213</b>	<b>\$ 214,604</b>	<b>\$ 262,600</b>	<b>\$ 257,400</b>

## Revenue Sources

### Utility Overhead Charges

The three City-owned utilities (Water, Sewer, and Stormwater) are classified as Enterprise Funds. Various General Fund departments provide administrative support to each of the City's three utilities. Building maintenance costs related to City Hall and the Maintenance Center are also accounted for in the General Fund.

The Water Fund, Sewer Fund, and Stormwater Fund are assessed an interfund charge by the General Fund for their share of administration and building maintenance costs. This interfund charge is determined through an indirect cost allocation model using various bases of allocation for distributing the overhead costs. Changes in interfund charges from year to year are directly related to annual changes in the bases of allocation used to distribute these costs.

#### **2021-2022 Budget Impact**

	2019	2020	2021	2022
Revenues	Actual	Forecast	Budget	Budget
<b>General Fund</b>				
Admin & Building Maintenance Charge (Water Fund)	\$ 176,732	\$ 196,059	\$ 245,616	\$ 250,261
Admin & Building Maintenance Charge (Sewer Fund)	140,957	116,466	241,192	245,858
Admin & Building Maintenance Charge (Storm Water)	101,261	154,254	88,091	89,567
<b>Total Utility Overhead Charges</b>	<b>\$ 418,950</b>	<b>\$ 466,779</b>	<b>\$ 574,899</b>	<b>\$ 585,686</b>