

**2021-2022 Biennial Budget**

# **Section F**

**Appendix**



**Adopted Budget**



## Island History

Just over five miles long and two miles wide, Mercer Island is an island community situated in Lake Washington, east of the City of Seattle and west of the City of Bellevue. Early settlement on Mercer Island began in the late 1870s. The Island was named after one of the three pioneering Mercer brothers from Illinois, all of whom had great influence in the Seattle area. Although none of the brothers lived on Mercer Island, they would often hunt and explore throughout the island's secluded forests. In these early days island settlers would travel by rowboat to the neighboring community of Seattle in order to pick up any necessities. An occasional tramp steamer would drop off items that were too large to transport by rowboat.

Because of the inconveniences of island living, settlement was slow until C.C. Calkins platted the town of East Seattle and built a luxurious resort on the western side of the island in 1891. A ferry dock was built, and small steamers began to make regular trips. With transportation available, the area began to attract more residents. Public water travel continued until July 2, 1940 when the floating bridge from Mercer Island to Seattle opened.

Today Interstate 90 connects Mercer Island with Seattle and Bellevue. It is an eight-lane freeway system, which includes two separate side-by-side floating bridges across Lake Washington.

## The Community

Mercer Island is primarily a single-family, high-quality residential community with a commercial business district and multi-family dwellings concentrated at the northern end of the Island. Its close proximity to both Seattle and Bellevue makes island living convenient. The City owns approximately 475 acres of parkland and open space, which helps maintain the Island's natural beauty. The result is quiet, forested neighborhoods, complemented by stunning views of Seattle, the Cascade Mountains, Mount Rainier, and Lake Washington. It is an active community where volunteer boards and commissions work closely with the City Council and City staff. The City of Mercer Island is known for providing quality customer service to more than 24,000 residents.

## City Operations

Mercer Island was incorporated on July 18, 1960 and operates with a council-manager form of government. Seven City Councilmembers are chosen during at-large, non-partisan elections to serve four-year terms. From among their seven-member body, the City Council members elect a Mayor to serve a two-year term. The Mayor and City Council appoint a City Manager who is responsible for the administration of City policies. There are a variety of boards and commissions including the Arts Council, Civil Service Commission, Disability Board, Design Commission, Planning Commission, Open Space Conservancy Trust, Parks & Recreation Commission and Utility Board. All the boards assist in the formulation of policy and direction for the City.

## Appendix

### Glossary of Budget-Related Terms

**ACCRUAL BASIS:** The method of accounting under which revenues are recorded when they are earned, regardless of the timing of related cash flows. Expenses are recorded at the time liabilities are incurred.

**APPROPRIATIONS:** A legal authorization granted by the City Council to make expenditures and to incur obligations for specific purposes. An appropriation is limited in the amount and time when it may be used unless it is for a capital project such as constructing a building or developing a park.

**ASSESSED VALUATION:** The fair market value of both real (land and building) and personal property as determined by the King County Assessor's Office for the purpose of fixing taxes.

**ASSET:** Any owned physical object (tangible) or right (intangible) having a monetary value or an item or source of wealth, expressed in terms of any cost benefiting a future period.

**BENEFITS:** City paid benefits provided for employees in the areas of social security, retirement, worker's compensation, life insurance, medical insurance, and management benefits.

**BOND:** A written promise to pay a specified sum of money (called the face value or principal amount) at a specified date in the future (called the maturity date) together with period interest at a specified rate.

**BOND ANTICIPATION NOTES:** Short-term interest-bearing notes issued in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

**BUDGET:** A government's plan of financial operations for a given period including proposed expenditures, and a proposed means of financing them. Legal authority and requirements are found in the Revised Code of Washington (RCW 35A.33).

**CAPITAL ASSETS:** Assets of significant value and having a useful life of several years. Capital assets may also be fixed assets.

**CAPITAL IMPROVEMENT PROGRAM (CIP):** The plan or schedule of project expenditures for public facilities and infrastructure (buildings, roads, etc.) with estimated project costs, sources of funding and timing of work over a five-year period. For financial planning and general management, the capital program is presented as a plan of work and proposed expenditures and is the basis for annual appropriation requests and bond issues.

**CAPITAL OUTLAY:** Fixed assets which have a value of \$1,000 or more and have a useful economic lifetime of more than three years or assets of any value, if the nature of the item under consideration is such that it must be controlled for custody purposes as a fixed asset.

**CAPITAL PROJECT:** The largely one-time cost for acquisition, construction, improvement, replacement, or renovation of land, structures, and improvements thereon. The cost must usually be \$25,000 or more in order to be considered a capital project; amounts under \$25,000 are considered in the operating budget. In addition, equipment is considered a capital project if it is \$25,000 or more in cost.

**CASH FLOW BUDGET:** A projection of the cash receipts and disbursements anticipated during a given time period.

**CHARGES FOR SERVICES:** A revenue category, which includes a charge for a specific service. These primarily include park recreation fees, plan check fees and other miscellaneous fees.

**COMPREHENSIVE BUDGET:** Combines both the annual financial plan for operations and the annual portion of the Capital Improvement Program Budget. Excluded from the operating budget are carry-over capital projects, which have been previously approved.

**COST ALLOCATION:** Assignment of cost charges from one department that reimburse another for services received. Some examples are attorney services, finance services and personnel services.

**COUNCILMANIC BONDS:** Councilmanic bonds refer to bonds issued with the approval of the Council, as opposed to voted bonds which must be approved by the public. Councilmanic bonds must not exceed .7 percent of the assessed valuation and voted bonds 1.75 percent per State RCW.

**DEBT SERVICE:** The annual payment of principal and interest on the City's bonded indebtedness. Bonds are issued to finance the construction of capital projects such as public buildings, parks, roads, storm sewers and water system improvements.

**DEFICIT:** 1) The excess liabilities over assets (see Fund Balance). 2) The excess expenditures or expenses over revenues during a single accounting period.

**ENCUMBRANCES:** Commitments for unperformed contracts for goods or services. A purchase order is the most common encumbrance.

**ENTERPRISE FUND:** A fund used to account for operations that are financed and operated in a manner similar to private business enterprise where the cost of providing services, such as water, on a continual basis. Costs are recovered through user charges.

**EXPENDITURES:** A net decrease in financial resources. Expenditures include operating expenses, which require the use of current assets. This term designates the cost of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired and capital outlays.

**FEES:** A general term used for any charge for services. Major types of fees include business and non-business licenses, fines and use charges.

**FINES AND FORFEITURES:** Revenue category, which primarily includes court, police, traffic and parking fines and forfeitures.

**FUND:** An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and changes in these assets and liabilities.

**FUND BALANCE:** The fund equity of governmental funds and trust funds.

**GAAP:** Generally Accepted Accounting Principles.

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**GASB:** Governmental Accounting Standards Board.

**GENERAL OBLIGATION BONDS:** Bonds for the payment of which the full faith and credit of the issuing government are pledged.

**INTERGOVERNMENTAL REVENUE:** Earnings from other governments, primarily shared State revenue from the auto excise tax, and liquor profits and tax. Shared revenue from fire districts, the Emergency Medical Service levy, library, and the Federal grants are also included in this category.

**LEOFF:** Law Enforcement Officers and Firefighters Retirement System provided in the State of Washington.

**LEVY:** The total amount to be raised by general property taxes for purposes specified in the Tax Levy Ordinance.

**LEVY RATE:** The amount of tax levied for each \$1,000 of assessed valuation.

**LIABILITY:** Indebtedness of a government entity. Common examples are amounts owed to vendors for services rendered or goods received, and principal and interest owed to holders of County bonds. These are debts or legal obligations arising out of transactions in the past which must be liquidated, renewed, or reduced at some future.

**LICENSES AND PERMITS:** Revenue category that includes building permits, business and amusement licenses and any other miscellaneous license or permit.

**MATURITIES:** The dates on which the principal or stated values of investments or debt obligations mature and may be reclaimed.

**MONEY:** Any of various objects, especially coins and bank notes, issued by a federal government and accepted as a medium of exchange and measure of value. Green stuff. That which makes us get up in the morning and go to work.

**NET BUDGET:** Eliminates double counting the budget by eliminating fund transfers and internal service charges such as interfund equipment rental and insurance charges. The net budget represents the true level of spending in the budget.

**OPERATING BUDGET:** Plans of current expenditures and the proposed means of financing them. The annual operating budget is the primary means by which most of the financing of acquisitions, spending, and service delivery activities of a government are controlled.

**OPERATING EXPENSE:** Those costs, including expenditures for salaries and wages, benefits, supplies, services, and charges, which are necessary to support primary services. For example, telephone charges, printing and office supplies are operating expenses.

**ORDINANCE:** A formal legislative enactment by the Council.

**PERS:** Public Employees Retirement System provided for other than Police and Fire by the State of Washington.

**RESERVE:** The unencumbered year-end balance of revenue less expenditures in governmental funds.

**REVENUE:** Income received through such sources as taxes, fines, fees, grants, or service charges which can be used to finance operations or capital assets. These amounts increase the net assets.

**REVENUE BONDS:** Pledge future revenues, usually water, sewer or drainage charges covering debt payments in addition to operating costs.

**RCW - REVISED CODE OF WASHINGTON:** The legal authority under which the governmental units of the State are ruled.

**SUPPLEMENTAL APPROPRIATION:** Approved by Council after the initial budget appropriation. Supplemental appropriations are approved during the year, and an annual budget amendment ordinance is approved each December.

**WARRANT:** An order directing the treasurer of the City to pay a specified amount to the bearer, either after the current or some future date.

**WORKING CAPITAL:** The year-end balance of current assets minus current liabilities in the Enterprise and Internal Service Funds. The unencumbered balance at year-end is available for appropriation in the next year's budget.

**YIELD:** The rate earned on an investment based on the price paid for the investment; the interest earned during the period held, and the selling price or redemption value of the investment.

## Explanation of Accounting Basis and Budgeting

### Basis of Presentation - Fund Accounting

All City activities are organized by Funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Each of the City's Funds are described in detail in the Recap by Fund Section.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. Each fund serves as an expenditure control mechanism. The various funds are grouped into the following seven categories:

- **General Purpose Funds**

Revenue in this fund category is considered unrestricted and can be used for any City purpose, including operations and capital. This category consists of three funds: the **General Fund**, the **Self-Insurance Fund**, and the **Youth Services Endowment Fund**. The General Fund is the City's general operating fund used to account for all activities not otherwise required to be accounted for in another fund.

Major services accounted for in the General Fund include **police; fire and emergency medical; street and right of way maintenance; community planning and development; legal, judicial, and financial services; parks and recreation; and, general administration**. The Self-Insurance Fund is a "reserve" fund that pays for insurance losses not covered by the City's \$5,000 deductible or other insurance. The Youth Services Endowment Fund is a permanent fund in which the donated monies remain invested as principal and from which the investment earnings can be allocated to support ongoing Youth & Family Services' programs, which are accounted for in the Youth & Family Services Fund.

- **Special Revenue Funds**

Special revenue funds group together activities that are financed by restricted or committed revenue sources and that do not qualify as an enterprise (see Enterprise Funds below). Funds included in this category are the **Street Fund, Youth & Family Services Fund, 1% for the Arts Fund, and Contingency Fund**.

The Contingency Fund is a reserve fund that is available to temporarily address revenue shortages or to address unanticipated needs. City Council policy has established the Contingency Fund at 12.5% of budgeted General Fund expenditures.

- **Enterprise Funds**

Enterprise funds are used to account for activities that are financed and operated in a similar manner to a private business. In enterprise funds, the intent of the governing body is to recover the costs (including depreciation) of providing goods or services to the general public on a continuing basis primarily through user charges. Funds included in this category are the **Water Fund, Sewer Fund, and Storm Water Fund**.

- **Internal Service Funds**

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis. This fund category includes the **Equipment Rental Fund** and the **Computer Equipment Fund**.

The Equipment Rental Fund accounts for the cost of maintaining and replacing all City vehicles, heavy equipment, and 800MHz radios. Each department is charged operating and maintenance rates as well as replacement rates for the use of these assets. The Computer Equipment Fund was created to protect the City's current and future investment in computer equipment. Each department is charged a rate that covers the cost of repair and maintenance, operation, and replacement of the City's computer systems.

- **Trust and Agency Funds**

These funds account for activities where the City acts as the fiscal agent. The **Firefighter's Pension Fund** is the only fund in this category.

- **Debt Service Funds**

Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest. The City of Mercer Island has two debt service funds: the **Bond Redemption Fund–Voted Debt** and the **Bond Redemption Fund–Non-Voted Debt**.

- **Capital Project Funds**

Capital project funds are used to account for financial resources earmarked for the acquisition, expansion, or rehabilitation of land, technology, buildings, and other major public infrastructure (other than those financed by proprietary funds, special assessment funds, or trust funds).

These funds are not part of the operating budget but are included in the City's Six-year Capital Improvement Program. Current capital project funds include the **Capital Improvement Fund**, the **Technology & Equipment Fund**, the **Town Center Parking Facilities Fund**, and the **Capital Reserve Fund**.

## **Basis of Accounting**

The City's basic accounting structure, including its chart of accounts and account coding format, is mandated by the Washington State Auditor's Budgeting, Accounting and Reporting System (BARS), and is enforced by the Office of the State Auditor through annual audits. The basis of accounting refers to when revenues and expenditures (or expenses) are recognized in the accounts and reported in the financial statements.

- **Accrual Basis of Accounting**

The accrual basis of accounting is followed in all of the City's enterprise, internal service, and trust funds. Under this basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. As a result, revenues can be recognized even though no cash has been received yet, assuming that a good or service has been provided. Also, expenses can be recognized once a good or service has been received even though no payment has been made yet. This is the same basis of accounting that is used in the private sector. All assets and liabilities are recorded in the fund that owns them.



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- **Modified Accrual Basis of Accounting**

All of the remaining fund categories are reported under the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. The major revenue sources that are accrued by the City are listed below.

**Property Taxes** – King County serves as the City's intermediary collection agency. The County remits to the City on a daily basis property taxes paid by Mercer Island property owners. Property taxes should be accrued only when due and expected to be collected within 60 days of the end of the fiscal period. The City accrues all property tax revenue received within 31 days of the end of the fiscal period.

**Utility Taxes** – Utility taxes are considered both measurable and available if collected within 31 days of the close of the fiscal period.

**Business & Occupation (B&O) Taxes** – Primarily collected on an annual basis, B&O Tax revenue is considered measurable and available if received within 45 days of the close of the fiscal period.

**State Shared Revenues** – Mainly Washington State collected sales and excise taxes, these revenues are considered measurable and available if received within 31 days of the close of the fiscal period.

**Grant Revenues** – When expenditures are the primary factor for determining eligibility, the grant revenue is considered measurable and available when the expenditure is made.

**Interfund and Intergovernmental Services** – When goods and services have been provided, these are considered both measurable and available.

**Interest and Rental Revenues** – When investment interest and rental income have been earned and are due they are considered measurable and available.

Revenue sources that are not considered to meet the measurable and available criteria include licenses and permits, fines and forfeitures, and other miscellaneous revenues since their values are not known until received.

Under the modified accrual basis, expenditures are recorded when the liability is incurred. An exception to this rule is the principal and interest on general long-term debt that is recognized as an expenditure when it is paid. Long-term liabilities are accounted for in the general long-term debt account group. Purchases of fixed assets are expensed during the year incurred and are accounted for in a separate fixed asset system over their useful life.

- **Budgetary Basis**

The budgets of general governmental type funds (for example, the General Fund and the Street Fund) are prepared on a modified accrual basis. The enterprise funds (i.e. Water, Sewer and Storm Water Utilities), on the other hand, are budgeted on a full accrual basis.

The budget, as adopted, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level, meaning that there is a total appropriation, or expenditure limit, for each fund.

Transfers or revisions within funds are allowed; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When the City Council determines that it is in the best interest of the City to amend the budget, it may do so by ordinance, which requires majority approval at any regularly scheduled City Council meeting.

The budget is closely monitored by the City Manager and the Finance Department. The Finance Department prepares quarterly financial status reports for presentation and review by the City Council. Because the City prepares a two-year budget, a mid-biennial budget review meeting is also held in November of the first year of the biennium.

Amendments to the adopted budget are typically approved when a quarterly financial status report is presented to the City Council.