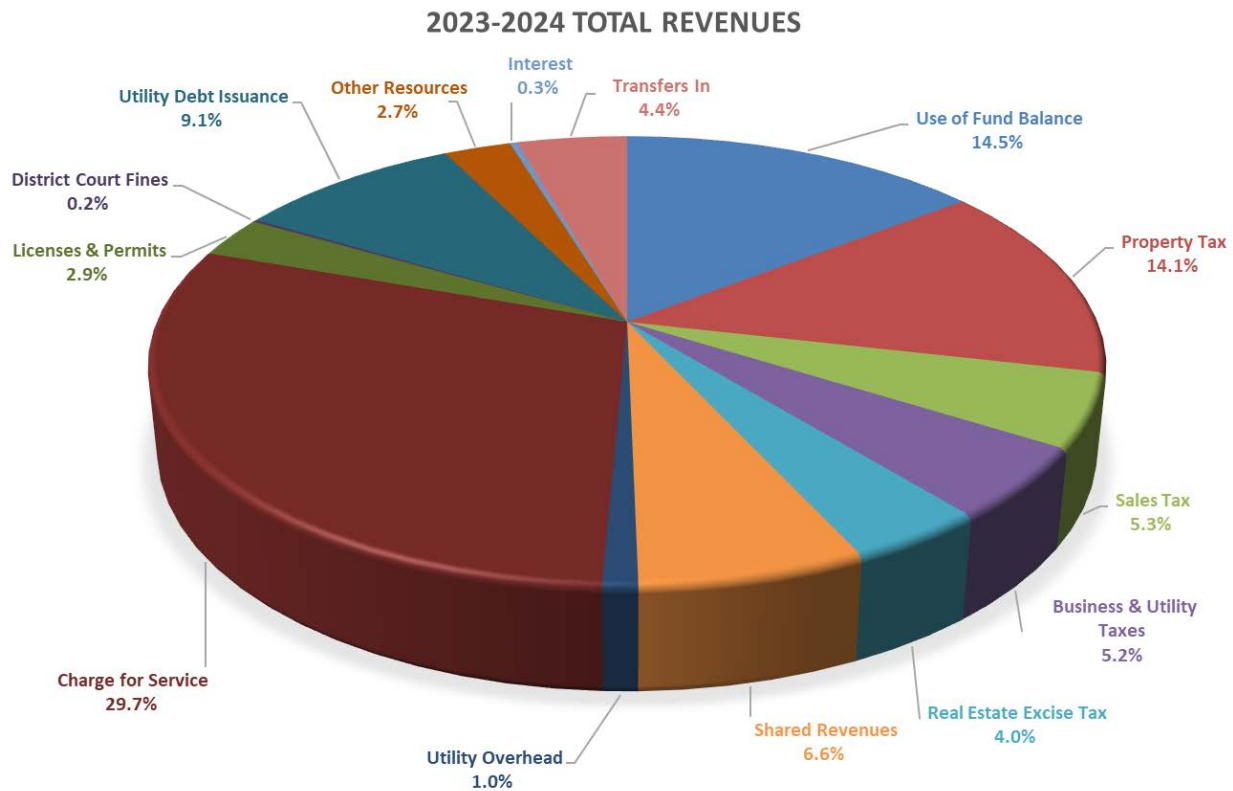


# REVENUE SOURCES

For the 2023-2024 biennium, the City’s total budgeted resources amount to \$211.7 million, which consists of \$107.9 million in 2023 and \$103.8 million in 2024. This section of the budget focuses on the City’s major revenue sources, the internal and external factors that affect revenue estimates, and the 2023-2024 budgetary impacts.



## Property Tax

Property tax is the City’s largest single revenue source, accounting for 14.1% of total budgeted resources in 2023-2024. In the General Fund, which encompasses most of the City’s general government services, property tax comprises 38.4% of total budgeted resources in 2023-2024.

### 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*. 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 one levy lid lift currently in effect: 1) Parks Maintenance and Operations levy (aka Luther Burbank Park Levy) approved by voters in November 2008 for 15 years (\$980,122 levy in 2022), which was set to expire in 2023. The current levy will be ended one year early in 2022 and will be replaced by the new Parks Maintenance and Operations levy that was approved by voters in November 2022 and will go into effect beginning in 2023. This new levy consists of the same components of the prior levy while also adding capital funding for playground replacement projects and forest management plan projects. The total amount for 2023 and 2024 is \$1,629,332 and \$1,645,626, respectively.

**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). Also included with the annual increase is an allowance for new construction, which includes the property tax revenue generated by newly constructed and improved residential and commercial properties.

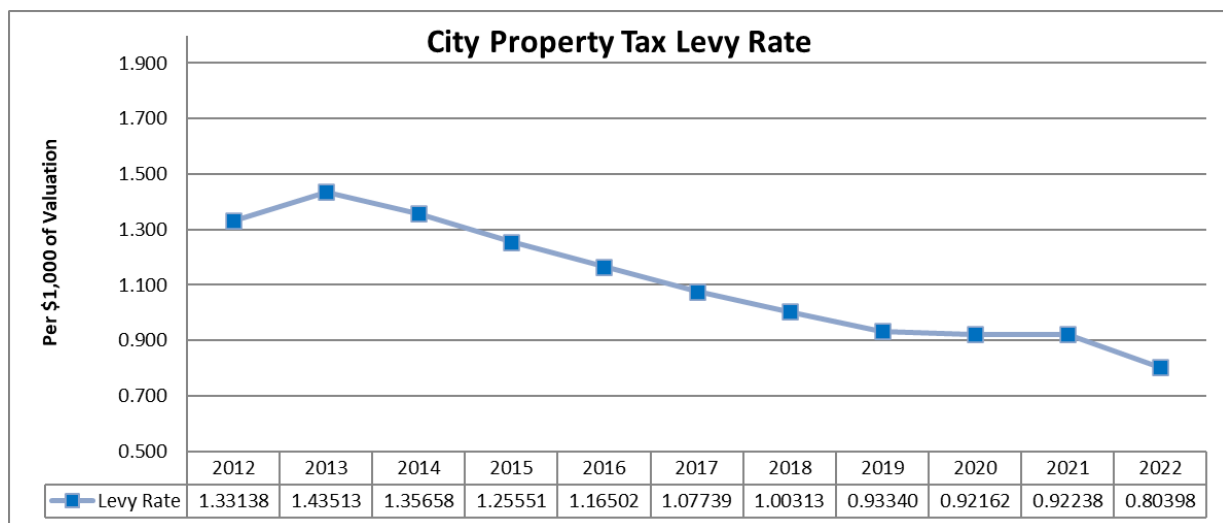
**Banked Capacity**

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 2012-2023 is provided in the following graph.



## Revenue Sources

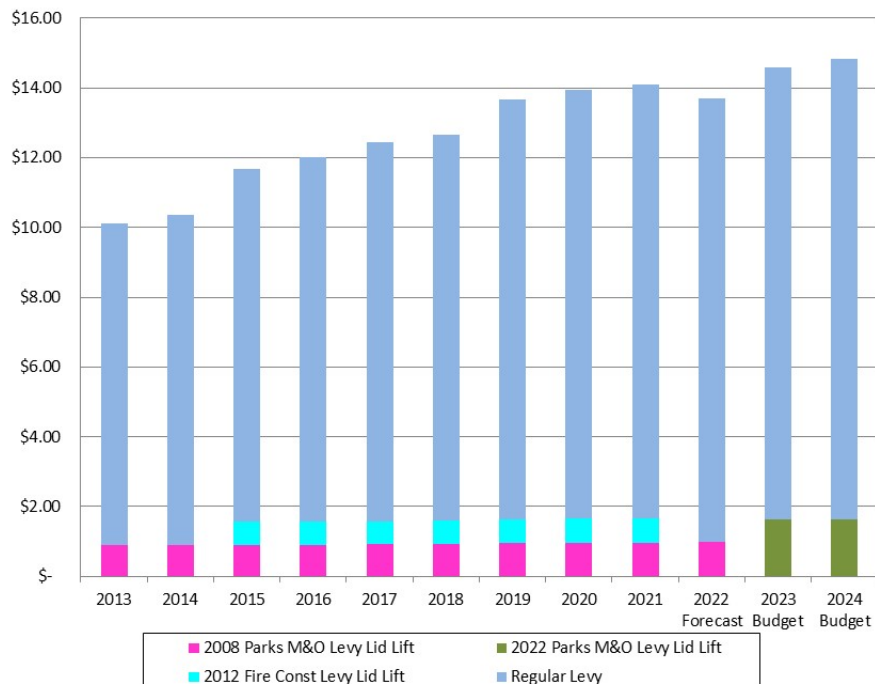
For the owner of a home with a \$1,395,000 assessed value, which is the median assessed value on Mercer Island for the 2021 tax year, the 2021 levy rate (per \$1,000 assessed valuation), the 2021 levy amount, and the percentage breakdown by taxing jurisdiction are presented in the following table.

Taxing Jurisdiction	2021 Levy Rate	2021 Levy Amount	% of Total 2021 Levy
State School Fund	\$3.08823	\$4,308	38.5%
MI School District	1.71278	2,389	21.4%
King County	1.24688	1,739	15.6%
<b>City of Mercer Island</b>	<b>0.92238</b>	<b>1,287</b>	<b>11.5%</b>
Library	0.36033	503	4.5%
EMS	0.26499	370	3.3%
Sound Transit	0.19709	275	2.5%
Port	0.11984	167	1.5%
Flood Zone	0.08909	124	1.1%
Ferry District	0.00984	14	0.1%
<b>Total</b>	<b>\$8.011448</b>	<b>\$11,176</b>	<b>100.0%</b>

As the table depicts, ten jurisdictions have taxing authority on Mercer Island, including the City. In 2021, the total property tax levy on a \$1,395,000 home was \$11,176. The largest portion of the levy relates to schools, with 38.5% going to the State School Fund and 21.4% going to the Mercer Island School District. King County and the City are the next largest taxing jurisdictions. The 13.0% remaining total levy relates to the King County Library District, the King County Emergency Medical Services (EMS) Levy, the Port of Seattle, the King County Flood Zone District, and the King County Ferry District.

The actual (2013-2021) and projected (2022-2024) property tax revenues are provided in the following graph.

**Property Tax 2013-2024** (\$ in millions)



## Levy Considerations for 2023-2024

- The regular levy for 2023 and 2024 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 2023 and 2024 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 2023 and 2024);
  - Community Center technology, equipment, and furnishings sinking fund in the Technology & Equipment Fund (\$18,000 is transferred from the General Fund in 2023 and 2024);
  - Fire apparatus sinking fund in the Equipment Rental Fund (\$166,609 in 2023 and \$168,275 in 2024); and,
  - Pension benefits reserve in the Firefighters’ Pension Fund (\$26,410 in 2023 and 2024).
- Fiscal year 2023 is the first year of the 2022 Parks Maintenance and Operations levy lid lift. This new levy lid lift consists of all the components of the prior levy lid lift, but also adds capital funding to playground replacement projects and forest management plan projects. The total levy amount for 2023 is \$1,629,332, which includes the 1% optional increase. Of the total annual levy amount, \$893,929 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.
- The City anticipates receiving \$202,089 in 2023 and 2024 from the 2020 King County Parks, Trails, and Open Space levy.

### 2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund</b>				
Regular Levy (General Purpose)	\$12,155,746	\$12,418,035	\$12,672,859	\$12,882,275
Regular Levy (LEOFF 1 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	712,629	728,122	-	-
2022 Parks M&O Levy Lid Lift			735,403	742,757
<b>Debt Service Fund - 2012 Fire Station &amp; Rescue Truck Levy Lid</b>	617,100	-	-	-
<b>Capital Improvement Fund - Parks M&amp;O Levy Lid Lift</b>				
Luther Burbank Small Capital	110,000	110,000	111,100	112,211
Pioneer Park Forest Management	77,000	77,000	77,770	78,548
Open Space & Vegetation Management	65,000	65,000	65,650	66,307
Playground Replacement Funding	-	-	414,355	418,499
Forest Management Plan Funding	-	-	225,054	227,305
<b>Equipment Rental Fund</b>				
Regular Levy (Fire Apparatus Sinking Fund)	163,326	164,959	166,609	168,275
2012 Fire Station & Fire Rescue Truck Levy Lid Lift	75,913	-	-	-
<b>Firefighters Pension Fund - Regular Levy</b>	26,410	26,410	26,410	26,410
<b>Total Levied by City</b>	<b>\$14,104,124</b>	<b>\$13,690,526</b>	<b>\$14,596,210</b>	<b>\$14,823,585</b>
King County Parks Levy	202,009	219,662	202,089	202,089
<b>Total Property Taxes</b>	<b>\$14,306,133</b>	<b>\$13,910,188</b>	<b>\$14,798,299</b>	<b>\$15,025,674</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.

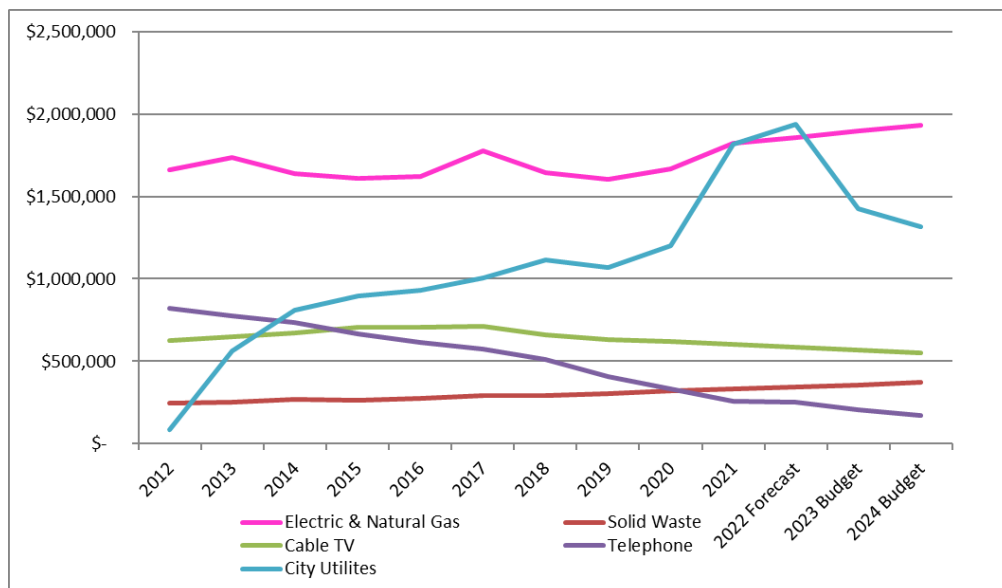
Legislation limits the tax rate on electric, natural gas, and telephone utilities to 6% without voter approval. There are no legislative limitations on the tax rates for other public or private utilities. Mercer Island currently levies a 6% utility tax on electric, natural gas, and telephone utilities; 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’ 2020 Tax and User Fee survey, the average utility tax rate is 9.7% for water, 9.2% for sewer, and 7.6% 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 to 5.3% in January 2019.

The actual (2012-2021) and projected (2022-2024) utility tax revenues are displayed in the following graph:

**Utility Tax 2012-2024**



## 2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund:</b>				
Electric and Natural Gas	\$1,821,147	\$1,857,571	\$1,894,722	\$1,932,617
Solid Waste	331,994	345,275	357,359	369,867
Cable Television	602,480	584,406	566,874	549,868
Telephone	258,068	249,402	205,806	173,133
City Utilities (Water, Sewer & Storm Water)	1,814,335	1,939,023	1,422,840	1,316,627
<b>Total Utility Taxes</b>	<b>\$4,828,026</b>	<b>\$4,975,677</b>	<b>\$4,447,601</b>	<b>\$4,342,112</b>

## 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 (34.0% of total in 2021), followed by the retail and wholesale trade sector (33.4% of total), the administrative and support services sector (9.2% of total), and the food services sector (4.3% 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.

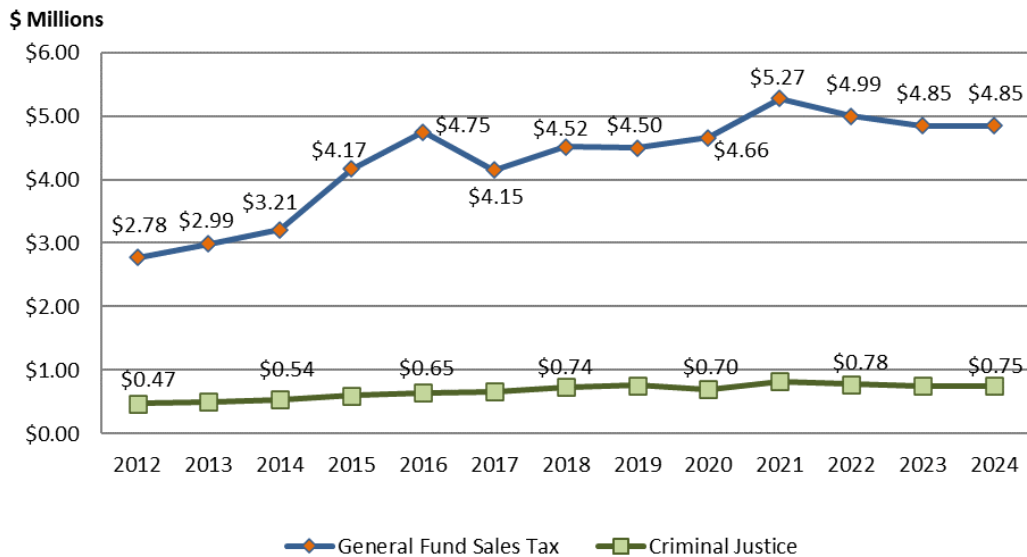
The total general sales tax rate on Mercer Island is 10.10%. Similar to property tax, the City receives only a small portion of the total sales tax revenue generated on Mercer Island. Of the 10.10% tax rate, only 0.85% is remitted to the City, with the remainder distributed to the State (6.5%), King County (1.25%), 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	1.25%
Regional Transit	1.40%
City of Mercer Island	0.85%
Criminal Justice	0.10%
<b>Total General Sales Tax</b>	<b>10.10%</b>
Auto Sales/Leases	0.30%
<b>Total Auto Sales/Lease Rate</b>	<b>10.40%</b>

The City also receives a portion 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 (2012-2021) and projected (2022-2024) sales tax revenues are broken down into general and criminal justice restricted components in the following graph.

Sales Tax 2012-2024



Taken together, sales tax revenues are projected to drop by 3% in 2023 due to an anticipated slowdown in consumer spending and remain flat in 2024.

2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
General Fund (General Sales Tax)	\$5,274,524	\$4,997,371	\$4,847,450	\$4,847,450
General Fund (Criminal Justice Sales Tax)	825,202	775,690	752,419	752,419
<b>Total Sales Taxes</b>	<b>\$6,140,312</b>	<b>\$5,806,361</b>	<b>\$5,636,369</b>	<b>\$5,636,369</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.

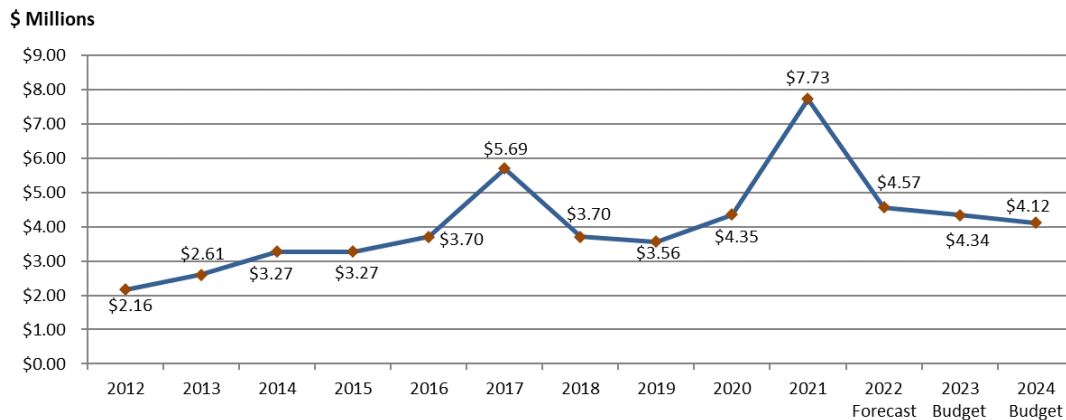
REET 1 (RCW 82.46.010) revenues are restricted to spending for capital projects that are listed in the capital facilities plan element of the City’s comprehensive plan where capital projects are defined as: *public works projects of a local government for planning, acquisition, construction, reconstruction, 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 (2017-2021), the number of home sales has averaged 466 per year, and the average home sales price from homes sold for less than \$5 million increased from \$1.48 million in 2017 to \$1.94 million in 2021. The actual (2012-2021) and forecasted (2022-2024) REET revenues are shown in the chart below.

**Real Estate Excise Tax 2012-2024**



Over the past few years, home sales have slowly been increasing from 417 in 2019 to 445 in 2020 before spiking to a fifteen year high of 530 sales in 2021. Looking forward, it is expected that the number of home sales will drop due to a slowdown of demand as interest rates rise. As a result, REET revenue is projected to decrease 5.0% in 2023 and 2024.

Modified in 2019, the City’s current CIP financing strategy for REET revenues utilizes:

- 100% of REET-1 revenues 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.



## Revenue Sources

- 90% of REET-2 revenues to fund construction and maintenance of streets and pedestrian and bicycle facilities in the Street Fund, and 10% of REET-2 revenues directed to the Capital Improvement Fund.

### 2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
Capital Improvement Fund (REET 1)	\$3,871,062	\$2,286,376	\$2,217,058	\$2,063,455
Capital Improvement Fund (REET 2)	386,757	228,638	217,206	206,345
Street Fund (REET 2)	3,480,819	2,057,739	1,954,852	1,857,109
<b>Total Real Estate Excise Taxes</b>	<b>\$7,738,640</b>	<b>\$4,572,753</b>	<b>\$4,344,115</b>	<b>\$4,126,909</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<sup>th</sup> 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.

### 2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2023 Budget
General Fund	\$766,666	\$728,333	\$706,483	\$706,483
<b>Total B&amp;O Taxes</b>	<b>\$766,666</b>	<b>\$728,333</b>	<b>\$706,483</b>	<b>\$706,483</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 following factors are considered in the 2023-2024 Adopted Budget:

- 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. An 8.0% increase has been adopted for 2023 and is anticipated for 2024, which equates to a \$9.77 and \$10.55 respectively on a typical single-family residential customer’s bi-monthly water bill. These rate increases are primarily driven by the need to:
  - Upsize water mains that do not meet the City’s flow capacity standards.
  - Make specific capital improvements following the discovery of E. coli in the City’s water system in September 2014 (e.g., Booster Chlorination System).
  - Fund multi-generational capital improvements that have are reaching the end of their useful life.
- Sanitary Sewer Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s sanitary sewer system. A 4.5% increase has been adopted for 2023 and is anticipated for 2024, which equates to a \$2.82 and \$2.95 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.
- Sewage Treatment Rate** – This is a “pass through” charge assessed by King County, which provides wastewater treatment services to Mercer Island. A 5.75% increase is anticipated for

## Revenue Sources

2023 and 2024, which equates to a \$5.68 and \$6.00 increase respectively on a typical single-family residential customer’s bi-monthly sewer bill.

- **Storm Water Rates** – Customer charges pay for the cost of operating, maintaining, and replacing the City’s surface and storm water system. An 8.0% increase has been adopted for 2023 and is anticipated for 2024, which equates to a \$3.18 and \$3.44 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.

### 2021-2024 Budgetary Impact

	2021	2022	2023	2024
Revenues	Actual	Forecast	Budget	Budget
<b>Water Fund</b>	\$9,974,136	\$9,999,563	\$10,799,528	\$11,663,490
<b>Sewer Fund</b>	10,603,409	10,922,700	11,438,627	12,022,731
<b>Storm Water Fund</b>	2,236,579	2,333,300	2,472,764	2,716,585
<b>Total Utility Rate Revenues</b>	<b>\$22,814,124</b>	<b>\$23,255,563</b>	<b>\$24,710,919</b>	<b>\$26,402,806</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.

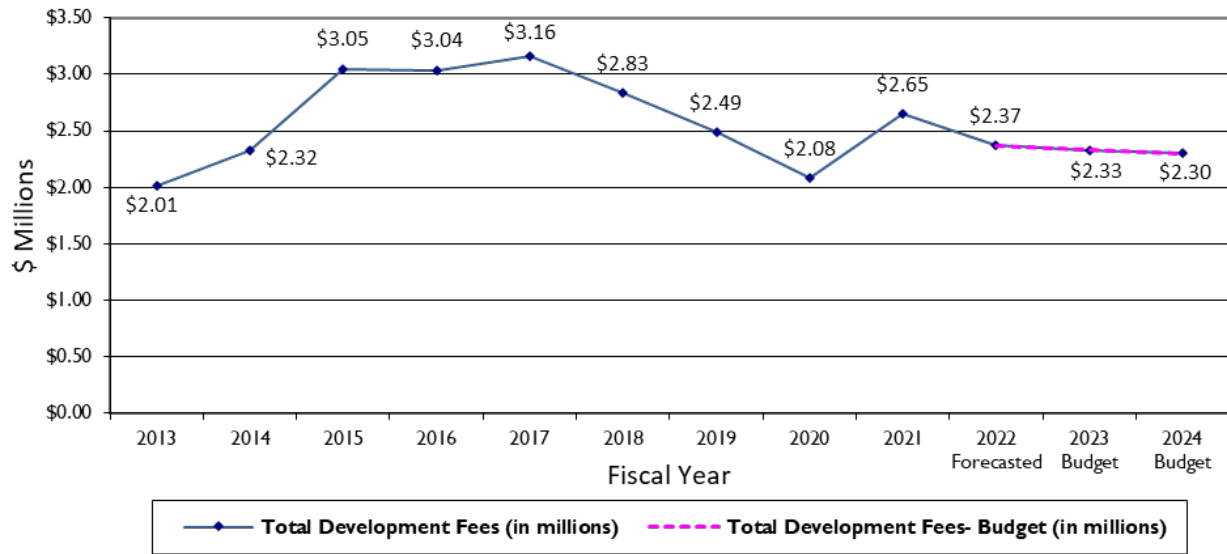
Planning Services was recovering costs well below the target, and in November 2018 the City Council approved a fee adjustment to increase Planning Fees to achieve the targeted recovery level of 80%. Fees for Appeals, Accessory Dwelling Units, and Code Interpretation Requests were not increased as these 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 2013-2024 are shown in the chart on the next page.

**Total Development Fees 2013-2024**



Overall, development fees are projected to decrease 1.7% in 2023 below 2022 forecasted levels, and to decrease 1.3% in 2024. The spike in 2021 is directly related to a mixed used development project in the Town Center.

**2021-2024 Budgetary Impact**

	2021	2022	2023	2024
Revenues	Actual	Forecast	Budget	Budget
<b>General Fund</b>	\$ 2,654,207	\$ 2,373,173	\$ 2,338,943	\$ 2,305,585
<b>Total Development Fees Revenues</b>	<b>\$ 2,654,207</b>	<b>\$ 2,373,173</b>	<b>\$ 2,338,943</b>	<b>\$ 2,305,585</b>

**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 49.4 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 increase 6.6% in 2023 and 1.2% in 2024.
- 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% 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 flux as local governments act 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 decrease 5.0% in 2023 and 3.0% in 2024.

- **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 decrease 5.0% in 2023 and remain flat in 2024.

- **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 increase by 69.2% in 2023 and remain flat in 2024. This jump in revenues collected is associated with the new Marine Patrol service contracts that the City has entered with Yarrow Point, Hunts Point, and Medina along with the existing contract with Renton.

- **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 5.0% in 2023 and 3.0% in 2024.

- **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 remain flat in 2023 and 2024.

2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund</b>				
Liquor Excise and Profits	\$ 373,275	\$ 374,045	\$ 355,365	\$ 355,365
Marijuana Excise Tax	32,453	80,000	76,000	73,720
Vessel Registration Fees	77,772	73,890	125,044	125,044
Criminal Justice Population based distributions	42,325	38,100	36,195	35,109
<b>Street Fund</b> (Motor Vehicle Fuel Tax)	514,453	463,400	493,812	499,502
<b>Firefighters Pension Fund</b> (Fire Insurance Premium Tax)	36,741	37,300	37,300	37,300
<b>Total State Shared Revenues</b>	<b>\$ 1,077,021</b>	<b>\$ 1,066,735</b>	<b>\$ 1,123,716</b>	<b>\$ 1,126,040</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 2020, with the 2020 levy rate set at \$0.265 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. In June 2021, the City Council updated the base transport fee and per mile reimbursement based on the average of the closest neighboring public agencies who provide medical transport services. The base fee and mileage reimbursement will increase annually, beginning January 1, 2023, by an inflator tied to Medical Care CPI or 3.0%, whichever is greater.

- Ground Emergency Medical Transport** – In July 2020, the City enrolled in a Federal Emergency Medical Services (EMS) transportation fee program called Ground Emergency Medical Transport (GEMT) to recover costs associated with transports, specifically from Medicaid. Revenues are calculated annually, based on the number of emergency medical transports of patients covered by Medicaid.
- 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 5.43% increase has been adopted for 2023.

## 2021-2024 Budgetary Impact

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund</b>				
King County EMS Levy	\$ 529,872	\$ 758,000	\$ 764,185	\$ 785,888
Ambulance Transport Fee	300,376	309,400	318,682	328,242
GEMT Program	-	118,154	94,917	122,493
EMS Utility Charge	627,927	640,000	695,040	736,742
<b>Total EMS Revenues</b>	<b>\$ 1,458,175</b>	<b>\$ 1,825,554</b>	<b>\$ 1,872,824</b>	<b>\$ 1,973,365</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.

- **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.
- **Sports fields Maintenance** – Includes facility rental fees and special use permit fees. These fees are intended to help offset the cost of maintaining sports fields.

The Parks & Recreation Department was considerably impacted by the COVID-19 Pandemic. The Mercer Island Community & Event Center (MICEC) temporarily 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 temporarily 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.

The Parks and Recreation Reset Strategy was endorsed by the City Council in July of 2021. This plan included bringing back services that were canceled during the onset of the COVID-19 Pandemic as well specific cost recovery targets for program and facility rental fees. The MICEC was also fully reopened in January 2022 with access to various services being made available to the public once again as staff evaluate programs offerings based on community demand while meeting cost recovery goals.

**2021-2024 Budgetary Impact**

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund</b>				
Recreation	\$ 108,414	\$ 235,993	\$ 329,402	\$ 345,202
MI Community & Events Center	110,669	454,911	680,327	720,049
Sport Field Facility Rentals	172,582	265,991	371,037	389,547
<b>Total Parks and Recreation Revenue</b>	<b>\$ 391,665</b>	<b>\$ 956,895</b>	<b>\$ 1,380,766</b>	<b>\$ 1,454,798</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 and 2021 by the COVID-19 Pandemic. City Council approved an expenditure budget amendment during the 2021 mid-biennial budget process to increase expenditures in 2022 and rebuild Thrift Shop operations. Staff anticipate revenues will increase 10% each year of the biennium above 2022 revenues as operations are expanded and restored.

**2021-2024 Budgetary Impact**

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>YFS Fund (Thrift Shop)</b>	<b>\$ 610,200</b>	<b>\$ 1,424,056</b>	<b>\$ 1,566,462</b>	<b>\$ 1,723,108</b>
<b>Total Thrift Shop Revenue</b>	<b>\$ 610,200</b>	<b>\$ 1,424,056</b>	<b>\$ 1,566,462</b>	<b>\$ 1,723,108</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.



**2021-2024 Budgetary Impact**

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
General Fund - Municipal Court Fines	\$ 192,701	\$ 159,418	\$ 175,359	\$ 192,895
<b>Total Fines &amp; Forfeits</b>	<b>\$ 192,701</b>	<b>\$ 159,418</b>	<b>\$ 175,359</b>	<b>\$ 192,895</b>

**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 (e.g., internal service departments such as legal, human resources, and financial services) 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.

**2021-2024 Budgetary Impact**

Revenues	2021 Actual	2022 Forecast	2023 Budget	2024 Budget
<b>General Fund</b>				
Admin & Buiding Maintanace Charge (Water Fund)	\$ 274,487	\$ 255,261	\$ 379,839	\$ 397,770
Admin & Buiding Maintanace Charge (Sewer Fund)	269,241	250,858	294,830	307,901
Admin & Buiding Maintanace Charge (Storm Water Fund)	100,525	90,567	122,722	127,506
<b>Total Utilty Overhead Charges</b>	<b>\$ 644,253</b>	<b>\$ 596,686</b>	<b>\$ 797,391</b>	<b>\$ 833,177</b>