SECTION A

City Manager Message and Budget Overview

CITY OF MERCER ISLAND
2027-2028 BIENNIAL BUDGET

The 2027-2028 Budget document serves two distinct purposes:

1. To present the City Council and Mercer Island residents with a clear picture of City services, the funding and cost of those services; and
2. To provide City management with an operating and capital plan that can be implemented and monitored using the City's financial system.

The budget document is divided into six sections:

A. City Manager Message & Budget Overview
In this section, the City Manager transmits the budget document to the City Council and Mercer Island residents in a transmittal letter outlining the budget strategies for the upcoming biennium. The Budget Snapshot provides a high-level summary of the budget, followed by the General Fund summary, personnel, positions by Department, and the overarching budget strategy.

B. Recap by Fund
The City accounts for all its operating and capital activities within different "Funds," each of which is considered a separate accounting entity with varied rules and requirements. This section is organized by Fund and includes revenues, expenditures, and fund balances.

C. Revenue Sources
This section focuses on the City's major revenue sources, providing useful background information, historical data, and 2027-2028 projections.

D. Operating Budget by Department
This section distills the City's operations by department. Each department sub-section is organized to include a department description, organizational chart, work plan, and revenue and expenditure summaries for the upcoming biennium.

E. Capital Improvement Program
The Capital Improvement Program (CIP) encompasses all planned capital projects for a six-year period (2027-2032), with the first two years proposed as part of the 2027-2028 Budget. This section is organized into six subsections:

1. Introduction
2. Program Summary
3. Individual Project Sheets
4. Capital Program by Funding Source

F. Appendix
The section provides information about this history of Mercer Island, a glossary of budget related terms, and an explanation on accounting and budgeting.

CITY MANAGER'S MESSAGE

September 22, 2026

Honorable Mayor and Members of the City Council
Members of the Mercer Island Community

Dear City Councilmembers and Community:

I am pleased to present the 2027-2028 Biennial Budget for the City of Mercer Island.

Over the past six years, our organization has navigated one of the most uncharacteristic financial periods in the City's history. Through prudent fiscal management and strategic investment, Mercer Island successfully recovered from pandemic-era disruptions, modernized critical operations, and delivered once-in-a-generation improvements to our community's infrastructure.

Built on that progress, our focus remains on sustaining core municipal services and capital programs, while addressing emerging structural financial challenges and the future of City facilities.

The 2027–2028 Biennial Budget is developed against a challenging economic backdrop. Moderating local and regional growth, persistent inflation, and rising costs of providing municipal services are placing increasing pressure on City resources and shaping the financial outlook for the coming biennium. As a result, the City is entering a period in which operating expenditures are projected to outpace ongoing revenues. The 2027-2028 Biennial Budget responds to this imbalance by maintaining current service levels and using one-time resources to bridge the near-term funding gap, while providing the City with the time and foundation needed to develop sustainable, long-term financial solutions.

Budget Overview

Across all funds, the expenditure budget totals $128 million in 2027 and $138 million in 2028. These resources support the broad range of services, projects, and capital investments provided by the City.

In the General Fund, baseline expenditures are projected to grow by 6.1% between 2026 and 2028. Setting aside use of one-time funds, projected revenue growth is 4.4% over the same period. This imbalance results in an estimated operating deficit of $700,000 in 2027, increasing to $1.7 million in 2028. The budget bridges this gap through the use of one-time General Fund unassigned fund balance.

Real Estate Excise Tax (REET) revenues are a primary revenue source for capital improvements including parks, streets, facilities, and other public infrastructure. Following a prolonged period of high interest rates, slower local real estate activity has kept REET collections among historically low levels, reducing the resources available to support the Capital Improvement Program.

In response, capital projects have been carefully prioritized, sequenced, and scaled back to align with available resources while maintaining progress on key investments. The proposed 2027-2028 Capital Budget focuses on completing projects currently underway, addressing essential facility maintenance, and advancing projects that leverage grant funding.

Sustaining Momentum and Recent Progress

Prudent and disciplined fiscal management in recent years has positioned the City to achieve several major policy and infrastructure goals. A few of these achievements are summarized below:

- **Resilient Utilities**: Aging infrastructure in the water distribution system has been replaced while construction of a new locally controlled and seismically resilient water supply line for the Island will begin in 2026. Over the next two years the City will also begin work on major improvements to the City's sewer conveyance system.
- **Voter-Approved Investments:** Implementation of the 2022 Parks Levy continues to fund park maintenance, open space management, and playground replacements that are enjoyed every day by people who live and play across the Island's parks.
- **Improved Infrastructure:** The City Council directed use of one-time federal funding (e.g., American Rescue Plan Act) towards completing major capital investments across City streets and parks. Construction will begin on the Luther Burbank Park Waterfront improvements, a massive multiyear project that replaces aging docks, improves shoreline habitat, and improves public ADA access along Lake Washington.
- **Modernized Technology:** Staff transitioned to streamlined, modern financial and human resources software, implemented digital evidence management system for the Police Department, and initiated other improvements to technology systems. These investments improve efficiencies and help make Mercer Island a destination workplace.
- **Facility Solutions:** Following the unanticipated closure of City Hall in 2023, year-over-year savings in the Municipal Facility Replacement Fund enabled the strategic acquisition of a 22,000-square-foot office building at 9655 SE 36th Street, setting the stage for centralized public access and modern workspace for a large portion of City operations. Work continues to prepare that building to house staff and services.

AREAS OF FOCUS

Turning to the 2027-2028 biennium, the work program and budget focuses on the future of City facilities, investments in public safety, supporting Youth and Family Services and other core programs, while working to implement a long-term fiscal strategy.

The Future of City Facilities

Rehousing the Police Department and Emergency Operations in a permanent, modern facility is a key priority for the coming biennium. Since City Hall closed in 2023, police operations have been housed in temporary trailers, creating an urgent need for a long-term solution that supports public safety, emergency response, and the day-to-day needs of staff.

Community feedback supports moving this work forward. Results from the February 2026 City Facility Strategy Community Survey showed strong support for transitioning police and emergency response staff from temporary space into permanent, safe facilities, provided the scope and costs are clearly defined and fiscally responsible. This feedback will be used to advance design of a cost-effective public safety facility and engage the community in developing an appropriate funding strategy.

This work will proceed alongside continued efforts to put the recently acquired 9655 Building into active City use. Because the former school building requires significant renovation to fully optimize it for municipal operations, staff are developing a phased approach that supports near-term occupancy while planning for a more comprehensive renovation as funding becomes available.

At the same time, the City will continue investing in the ongoing maintenance of its remaining public facilities while working with the City Council on long-term stewardship strategies to preserve these assets and extend their useful life. This includes the Mercer Island Community & Event Center, the Luther Burbank Administrative Building, and the Public Works Administrative Building.

As the City navigates the realities of aging facilities and a constrained fiscal environment, maintaining safe, functional, and reliable public facilities remains a key organizational priority.

Investments in Public Safety

Ensuring the Police Department has the staffing, technology, and resources needed to deliver a high level of public safety will be a key work item for the City during the 2027–2028 biennium. Since the opening of light rail service on Mercer Island, the City has experienced an increase in police calls for service and will continue monitoring and evaluating this emerging trend to better understand its long-term implications.

At the same time, changing technology and operational demands require continued investment in the tools used by public safety personnel. Over the next two years, staff will work with the City Council to evaluate staffing needs, technology modernization, and other operational needs, with each investment considered in the context of community needs, service delivery, and available funding.

Supporting Youth and Family Services

Youth and Family Services (YFS) plays an important role in supporting Mercer Island youth, families, and seniors through community- and school-based mental health services, helping residents access care close to home and connect with support when they need it. Sustaining these services remains a core City priority.

At the same time, the YFS Fund is approaching a significant financial transition, with operating reserves anticipated to be fully exhausted during the next biennium. The 2027–2028 budget proposes to use General Fund unassigned fund balance to maintain YFS operations through 2028 and preserve current services while staff and the City Council develop a sustainable, long-term funding strategy for the Department.

Long-Term Financial Sustainability

Addressing the City's structural financial challenges is a critical priority of the 2027–2028 biennium. While prior-year savings provide the resources needed to balance operations in the near term, continued reliance on unassigned fund balance is not sustainable and does not resolve the underlying gap between ongoing revenues and expenditures.

The work ahead will require focused attention from staff and the City Council to develop and implement a long-term solution. This will include evaluating opportunities to streamline operations, manage costs, and improve efficiency, while also considering, where appropriate, new funding mechanisms needed to sustain essential community services into the future.

CONCLUSION

The 2027–2028 Biennial Budget provides a clear framework for navigating the City's financial challenges while maintaining essential services and advancing key community priorities. Just as important, it creates the time and structure needed for the City Council, staff, and community to make thoughtful decisions about Mercer Island's long-term financial future.

City Manager’s Message

I extend my sincere gratitude to the City Council for their thoughtful leadership and vision, to our community for their continued partnership, and to our dedicated City staff for their steadfast commitment to serving the Mercer Island community.

Thank you,

Jessi Bon, City Manager

City of Mercer Island

BUDGET OVERVIEW

This section provides an overview of the 2027-2028 Budget for the City of Mercer Island, including summary detail and changes that have occurred since the last budget. The budget overview section is divided into seven sub-sections:

1. City Organization – *how the City is organized.*
2. Budget Strategy – *approach to building the budget*.
3. Budget Snapshot – *overview of revenues and expenditures for all funds.*
4. Staffing – *who provides the services.*
5. Utility Rates – *overview of utility rates.*
6. City Debt – *purpose and status of City debt.*
7. General Fund at a Glance – *high level information about the General Fund.*
8. 2027-2028 Work Plan – *policy goals and objectives for the next two years.*

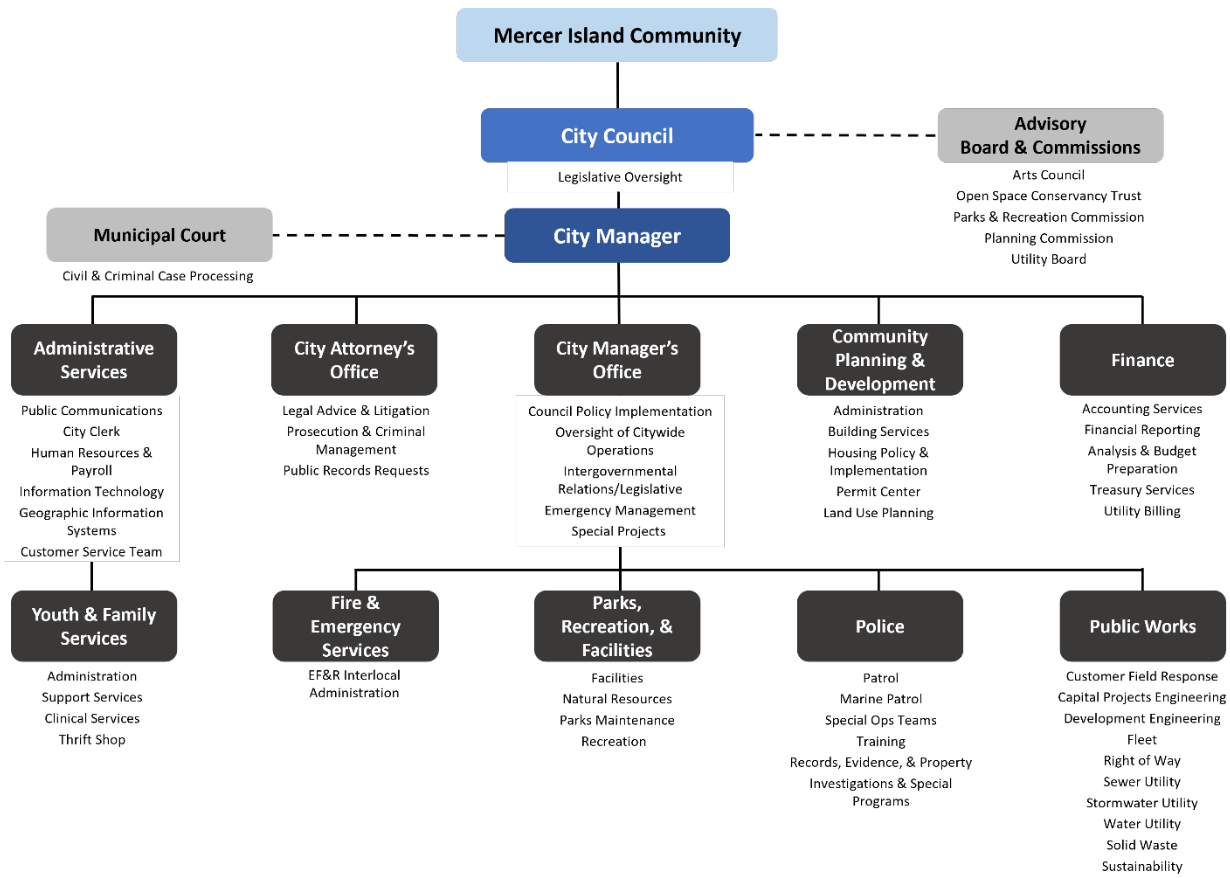
For a more in-depth understanding of the budget, continue to the more detailed information found in the *Recap by Fund, Revenues*, *Operating Budget by Department*, and *Capital Improvement Plan* sections.

City Organization

The City of Mercer Island has a Council-Manager form of government. In this form, the City Council, comprised of seven elected members, hires a City Manager to serve as the Chief Executive Officer of the City. The City Manager reports directly to the City Council and implements adopted policies. City Council members listen to their constituents, the Mercer Island residents, and receive recommendations on policy matters from the Council-appointed Boards and Commissions.

Managing the day-to-day activities of the City is the responsibility of the City Manager who oversees the nine departments shown on the chart on the following page. For a description of the functions supported by these departments, see Section D (*Operating Budget by Department*) of the budget document.

2027-2028 CITY ORGANIZATIONAL CHART



Budget Strategy

The 2027-2028 Budget reflects a measured approach to planning for the next biennium. The overall budget strategy uses one-time resources as a bridge to the next biennium while supporting actions to strengthen the City's financial position. Staffing levels remain on par with prior years to tackle a robust work plan that sustains current service levels and commits to significant reinvestment in the City's aging infrastructure. Overall, this two-year budget provides a clear framework for navigating the City's financial challenges while maintaining essential services and advancing key community priorities.

Long-Term Financial Forecast

The City's Biennial Budget is informed by a six-year forecast completed for each of the City's funds. The General Fund forecast serves as a risk assessment tool that contemplates the impact of economic conditions on the City's budget. The forecast accounts for several factors that influence the City's anticipated revenues and expenses, including changes in fiscal and monetary policy, regional socioeconomic pressures, and impacts to the state and national economy.

The six-year forecast incorporates baseline increases tied to collective bargaining agreements for salary and benefits, and healthcare costs. The long-term forecast is presented to the City Council for review and consideration annually, and more often when circumstances warrant.

Budget Overview

Fund Summary

Total revenues and total expenditures by fund for the period 2025-2028 are summarized in the tables below.

Summary of Revenues by Fund for 2025-2028

Fund No.	Description	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
001	General Fund	$ 45,744,946	$ 41,141,602	$ 40,573,391	$ 42,566,214
010	Self Insurance Fund	-	10,000	10,000	10,000
	Subtotal General Purpose Funds	**$ 45,744,946**	**$ 41,151,602**	**$ 40,583,391**	**$ 42,576,214**
110	Street Fund	$ 7,138,191	$ 4,741,332	$ 7,165,712	$ 3,825,017
130	Contingency Fund	-	-	-	-
140	1% For the Arts Fund	52,474	45,836	38,812	35,000
160	Youth and Family Services Fund	3,379,802	4,142,433	4,063,618	4,277,760
180	Development Services Fund	6,215,818	4,739,136	4,887,687	5,064,702
	Subtotal Special Revenue Funds	**$ 16,786,285**	**$ 13,668,737**	**$ 16,155,829**	**$ 13,202,479**
210	Bond Redemption (Voted)	$ -	$ -	$ -	$ -
220	Bond Redemption (Non-Voted)	-	137,462	139,919	136,647
	Subtotal Debt Service Funds	**$ -**	**$ 137,462**	**$ 139,919**	**$ 136,647**
320	Capital Improvement Fund	$ 8,021,008	$ 12,956,441	$ 10,040,019	$ 7,136,428
330	Technology and Equipment Fund	908,419	1,014,795	637,000	547,500
350	Municipal Facility Replacement Fund	11,267,781	587,549	-	-
	Subtotal Capital Funds	**$ 20,197,209**	**$ 14,558,785**	**$ 10,677,019**	**$ 7,683,928**
410	Water Fund	$ 21,198,189	$ 36,776,282	$ 33,592,915	$ 26,556,456
420	Sewer Fund	12,987,038	21,832,142	40,895,484	38,283,439
430	Storm Water Fund	3,336,365	4,069,802	6,045,474	5,927,659
	Subtotal Enterprise Funds	**$ 37,521,592**	**$ 62,678,226**	**$ 80,533,873**	**$ 70,767,554**
510	Equipment Rental Fund	$ 2,733,581	$ 4,442,172	$ 3,070,823	$ 2,663,893
520	Computer Equipment Fund	1,485,730	1,618,389	1,837,142	1,807,282
	Subtotal Internal Service Funds	**$ 4,219,311**	**$ 6,060,561**	**$ 4,907,965**	**$ 4,471,175**
610	Firefighters Pension Fund	$ 116,717	$ 145,000	$ 131,000	$ 136,000
	Subtotal Trust Funds	**$ 116,717**	**$ 145,000**	**$ 131,000**	**$ 136,000**
	TOTAL REVENUES	**$ 124,586,060**	**$ 138,400,373**	**$ 153,128,995**	**$ 138,973,996**

Summary of Expenditures by Fund for 2025-2028

Fund No.	Description	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
001	General Fund	$ 42,014,646	$ 40,126,837	$ 40,573,391	$ 42,566,214
010	Self Insurance Fund	-	10,000	10,000	10,000
	Subtotal General Purpose Funds	**$ 42,014,646**	**$ 40,136,837**	**$ 40,583,391**	**$ 42,576,214**
110	Street Fund	$ 5,602,881	$ 4,741,332	$ 7,165,712	$ 3,278,241
130	Contingency Fund	-	-	-	-
140	1% For the Arts Fund	31,953	45,836	35,000	35,000
160	Youth and Family Services Fund	3,379,802	4,142,433	4,063,618	4,277,760
180	Development Services Fund	3,778,219	4,334,220	4,887,687	5,064,702
	Subtotal Special Revenue Funds	**$ 12,792,855**	**$ 13,263,821**	**$ 16,152,017**	**$ 12,655,703**
210	Bond Redemption (Voted)	$ -	$ -	$ -	$ -
220	Bond Redemption (Non-Voted)	-	137,462	139,919	136,647
	Subtotal Debt Service Funds	**$ -**	**$ 137,462**	**$ 139,919**	**$ 136,647**
320	Capital Improvement Fund	$ 8,021,008	$ 12,956,441	$ 6,667,669	$ 7,136,428
330	Technology and Equipment Fund	247,053	1,014,795	637,000	378,500
350	Municipal Facility Replacement Fund	11,267,781	562,283	-	-
	Subtotal Capital Project Funds	**$ 19,535,842**	**$ 14,533,519**	**$ 7,304,669**	**$ 7,514,928**
410	Water Fund	$ 21,198,189	$ 36,776,282	$ 32,967,033	$ 26,556,456
420	Sewer Fund	12,713,996	21,832,142	19,460,193	38,283,439
430	Storm Water Fund	2,771,831	4,163,802	5,951,474	5,927,659
	Subtotal Enterprise Funds	**$ 36,684,017**	**$ 62,772,226**	**$ 58,378,700**	**$ 70,767,554**
510	Equipment Rental Fund	$ 2,733,581	$ 4,442,172	$ 3,070,823	$ 2,426,928
520	Computer Equipment Fund	1,345,220	1,618,389	1,837,142	1,569,842
	Subtotal Internal Service Funds	**$ 4,078,801**	**$ 6,060,561**	**$ 4,907,965**	**$ 3,996,770**
610	Firefighters Pension Fund	$ 89,949	$ 145,000	$ 131,000	$ 136,000
	Subtotal Trust Funds	**$ 89,949**	**$ 145,000**	**$ 131,000**	**$ 136,000**
	TOTAL EXPENDITURES	**$ 115,196,109**	**$137,049,426**	**$127,597,660**	**$137,783,815**

Staffing

The following chart shows the number of Full Time Equivalent (FTEs) and Limited Term Equivalent (LTEs) positions in 2021-2028. Limited Term Equivalent employees are hired when there is a short-term need for a position. LTEs are just like regular FTEs, except their positions are anticipated to be time limited. The City also utilizes casual labor and consultants/contractors to support operations and special projects.

Position History by Department

Full Time Equivalents (FTEs)	2021	2022	2023	2024	2025	2026	2027	2028
Administrative Services	3.00	4.70	4.70	4.70	4.70	4.70	6.00	6.00
Human Resources	3.50	4.00	4.00	4.00	3.50	3.50	3.50	3.50
Information & Geographic Services	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
City Attorney's Office	2.30	2.30	2.30	2.30	2.30	2.30	2.00	2.00
City Manager's Office	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Community Planning & Development	14.00	18.00	18.00	18.00	17.00	17.00	14.00	14.00
Finance	8.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Fire	32.00	31.50	31.50	31.50	0.00	0.00	-	-
Municipal Court	3.30	3.30	3.10	3.10	3.10	3.10	3.20	3.20
Police	35.50	37.50	37.50	37.50	37.50	37.50	36.50	36.50
Public Works								
Capital and Engineering	14.05	14.05	16.05	15.05	16.45	16.45	17.00	17.00
Support Services/Administration	14.80	14.80	14.80	14.80	13.65	13.65	6.00	6.00
Right of Way	4.35	4.35	4.35	4.35	4.35	4.35	5.00	5.00
Utilities	19.25	19.25	19.25	19.25	19.25	19.25	20.00	20.00
Parks, Recreation & Facilities								
Park Maintenance	10.35	10.35	10.35	10.35	10.30	10.30	12.00	12.00
Recreation	0.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Facilities							5.00	5.00
Youth & Family Services	13.23	13.43	13.43	13.43	14.93	14.93	14.91	14.91
Total FTEs	**187.38**	**205.78**	**207.58**	**206.58**	**175.28**	**175.28**	**173.36**	**173.36**

Limited Term Equivalents (LTEs)	2021	2022	2023	2024	2025	2026	2027	2028
Administrative Services / Human Resources	-	2.00	1.00	-	1.00	1.00	-	-
City Manager / Non-Departmental	-	1.00	0.50	-	1.00	1.00	1.00	1.00
Community Planning & Development	1.00	1.50	-	-	2.00	2.00	7.00	7.00
Public Works	-	3.00	3.00	3.00	4.75	4.75		
Capital and Engineering							1.00	1.00
Support Services/Administration							2.00	2.00
Utilities							2.00	2.00
Parks, Recreation & Facilities								
Park Maintenance							1.75	1.75
Recreation	2.00						2.50	2.50
Youth & Family Services	1.60	10.53	10.53	9.70	9.33	9.33	8.93	8.33
Total LTEs	**4.60**	**16.03**	**15.03**	**12.70**	**18.08**	**18.08**	**26.18**	**25.58**
Total FTEs & LTEs	**191.98**	**221.81**	**222.61**	**219.28**	**193.36**	**193.36**	**199.54**	**198.94**

Utility Rates

The Water, Sewer, and Stormwater Funds are completely self-supporting utilities that are operated like a not-for-profit enterprise. They are primarily funded by customer charges, not taxes. The City purchases its water from the City of Seattle as many neighboring communities do. The Wastewater Treatment Division of King County provides treatment for all the sewage in the King County area, including Mercer Island.

The 2025-2026 adopted, and 2027-2028 proposed bi-monthly utility charges for water, sewer, storm water, and Emergency Medical Services (EMS) are broken down in the table below for a typical single family residential customer. This table excludes utility taxes, which are a General Fund revenue source.

Utility Rate Component	2025 Adopted	2026 Adopted	2027 Proposed	2028 Proposed	$ Change 2027	$ Change 2028	% Change 2027	% Change 2028
Water	$ 154	$ 166	$180	$194	$13.30	$14.36	8.00%	8.00%
Sewer Maintenance (City)	66	68	73	78	4.79	$5.12	7.00%	7.00%
Sewer Treatment (King County)	117	125	141	159	15.98	$18.02	12.75%	12.75%
Storm Water	50	53	56	60	3.19	$3.38	6.00%	6.00%
EMS (estimate)	12	12	13	13	0.49	$0.48	4.00%	3.80%
Total	**$398**	**$ 425**	**$463**	**$504**	**$37.75**	**$41.37**	**8.9%**	**8.9%**

City Debt

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

The City can issue five types of debt which have legal limits set by the State. The five types of debt include: voted and non-voted general obligation bonds, revenue bonds, lease debt, and loans. For the purposes of the legal limit debt calculations, leases and loans are included with the non-voted general obligation debt limits. A schedule of all the City debt classified by type is included later in this section.

Voted Debt

Voted debt must be approved by registered voters via a ballot measure, with an additional (i.e., excess) property tax levy dedicated to paying the annual debt service costs. Voted debt has typically been used to fund large public buildings and to buy land or open space. The City currently has no outstanding voted debt.

Non-Voted Debt

Non-voted debt must be approved by the City Council, with the general tax revenues of the City used to pay the annual debt service costs. Non-voted debt includes bonds, loans, and lease obligations of the City. The active issues are described below:

- **2009 LTGO Sewer Lake Line**
  In 2009, the City issued $9,405,000 in LTGO bonds to fund a portion of the sewer lake line replacement project. To save on interest costs, this bond issue was refunded in 2017. Sewer utility rates are being used to repay the long-term debt. The total principal will be repaid by December 2029.

- **2018 Fire Apparatus Lease (Enforcer Pumper)**
  In 2018, the City Council authorized the purchase of an Enforcer Pumper Fire Truck from Pierce Manufacturing through a 9-year lease purchase financing agreement with Municipal Asset Management for $732,778. The total principal will be repaid by April 2027.

- **2024 Water System Improvements**
  In 2024, the City Council authorized the issuance of $26.615 million in limited tax general obligation bonds to fund improvements to the City's aging water distribution system. Projects funded using the proceeds include Water System Improvements, Pressure Reducing Valve Station Replacements, and the Asbestos Cement Main Replacements, among others. Water utility rates are being used to repay long-term debt. The total principal outstanding at year end 2028 will be $22.925 million.

- **2025 Building Purchase (9655 SE 36th)**
  In 2025, the City Council authorized the issuance of $1,540,000 in support of the purchase of a building at 9655 SE 36th Street. The principal will be repaid over fifteen years using REET. The total principal outstanding at year end 2028 will be $1,305,000.

- **2026 Fire Apparatus Lease (Enforcer Pumper)**
  In 2026, the City Council authorized the purchase of an Enforcer Pumper Fire Truck from Pierce Manufacturing through a 9-year lease purchase financing agreement with Municipal Asset Management for $1,544,090. The total principal outstanding at year end 2028 will be $1,029,393.

- **2026 Fire Apparatus Lease (Type 2 Midi Pumper)**
  In 2025, the City Council authorized the purchase of an Type 2 Midi Pumper Fire Truck from Pierce Manufacturing through a 9-year lease purchase financing agreement with Municipal Asset Management for $774,266. The total principal will be repaid by June 2035

<u>Public Work Trust Fund Loans</u>

In addition to the above debt, the City has one outstanding long-term low-interest loans from the Public Works Trust Fund. The $3.3 million loan from 2023 paid for the booster chlorination system in the water utility.

Public Works Trust Fund loans are low-interest loans (about 1% interest) administered through the State of Washington Department of Commerce. In 1985, the state legislature made provisions for this program using the Public Works Assistance Account, which is funded by the Motor Vehicle Excise Tax (MVET) collected by the State. To qualify, jurisdictions are required to:

1. Impose the ¼ of one percent real estate excise tax.
2. Have developed a long-term plan for financing Public Works' needs.
3. Use all local revenue sources which are reasonably available for funding public works.
4. Have an adopted comprehensive plan.

By December 2028, $2.6 million in outstanding principal will remain for the booster chlorination system loan.

General Fund at a Glance

The General Fund serves as the City of Mercer Island's primary operating fund, financing core municipal services and day-to-day operations. It accounts for a broad array of essential community services, including police and emergency medical services, parks and recreation, street maintenance, municipal court operations, and administrative support functions like human resources and finance.

Resources within the General Fund can be used flexibly for any lawful municipal purpose, making it the financial backbone of the City. Because it relies heavily on discretionary revenues such as property taxes, sales taxes, and utility user taxes, maintaining a healthy General Fund is critical to absorbing economic shifts, supporting long-term financial stability, and ensuring uninterrupted, high-quality service delivery for the community.

<u>**Fiscal Year 2027 General Fund**</u>

Revenues	**$40.57 million**
Expenditures	**$40.57 million**

Fiscal year 2027 General Fund resources are projected to be $40.57 million, which is $0.57 million, or 1.4%, less than the fiscal year 2026 forecasted actual.

The City receives its General Fund revenues from a variety of revenue sources. Property Taxes, which account for 36.0% of revenues in 2027, are the largest revenue source by a wide margin at $14.61 million. Sales Tax and Business & Utility Taxes are the second and third largest sources at $8.35 million and $7.10 million, or 20.6% and 17.5% of total revenues, respectively.

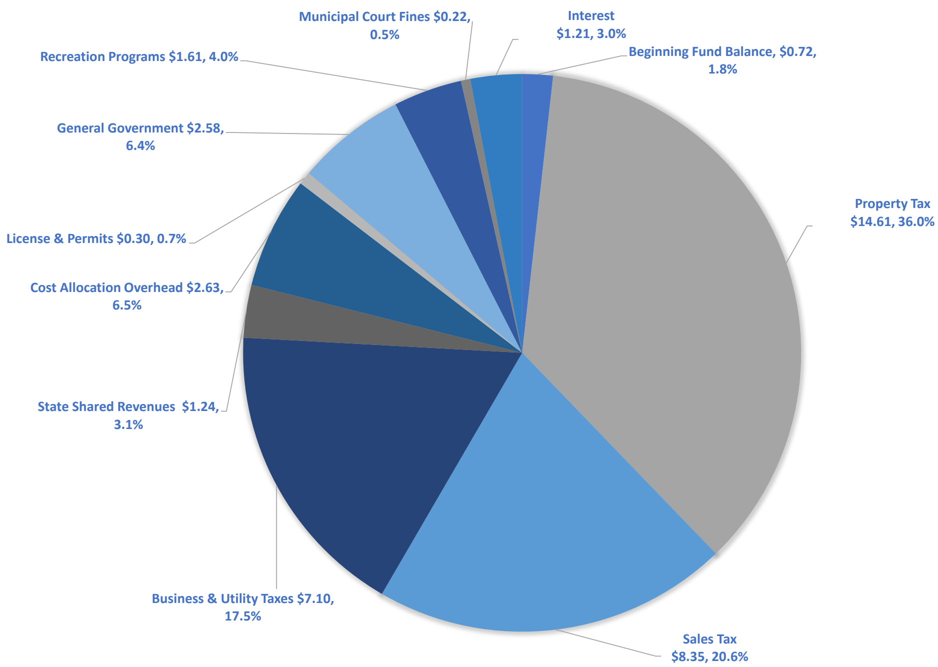
General fund expenditures for fiscal year 2025 are projected at $40.57 million. Salaries, wages and benefits collectively account for 45.9%, or $18.61 million of total expenditures.

EXPENDITURES Description	2027 Budget
Administrative Services	$ 2,531,003
City Attorney's Office	1,017,437
City Council	60,423
City Manager's Office	900,516
Finance	1,478,753
Fire and EMS	9,646,400
Municipal Court	761,018
Non-Departmental/Intergovernmental	4,246,286
Recreation	2,487,838
Police	10,527,078
Public Works	6,916,639
Total Budgeted Expenditures	**$ 40,573,391**

Expenditures are also broken down by respective departments in the table above.

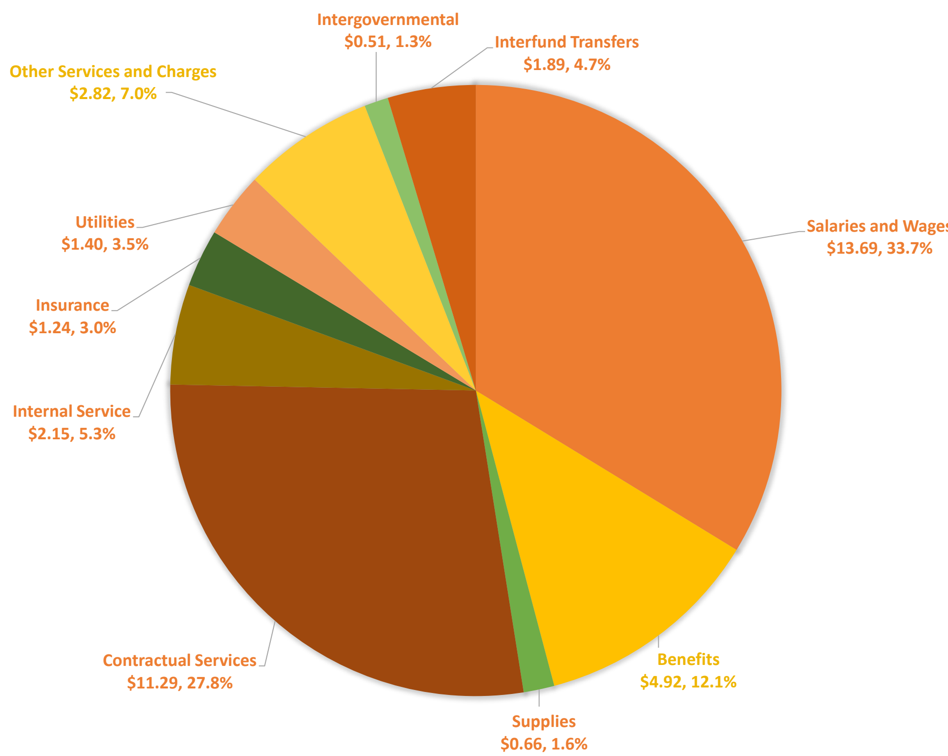
Where does the money come from?

2027 General Fund Revenues Total: $40.57 (in millions)



Where does the money go?

2027 General Fund Expenses Total: $40.57 (in millions)



Fiscal Year 2028 General Fund

Revenues	**$42.57 million**
Expenditures	**$42.57 million**

Fiscal year 2028 General Fund revenues are projected to be $42.57 million, or 4.9%, above fiscal year 2027 projected year-end revenues.

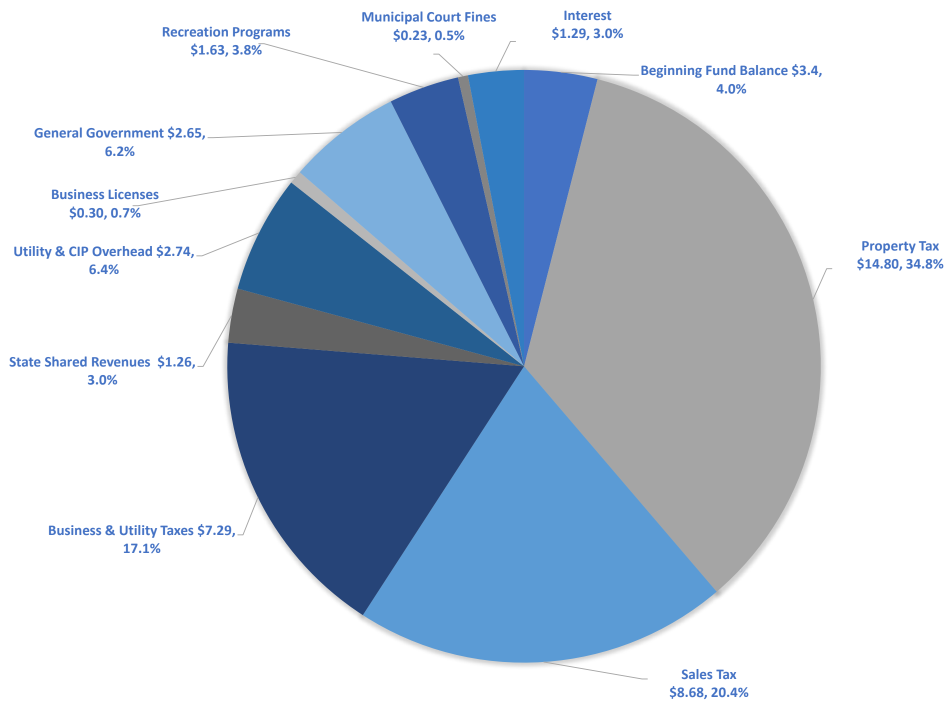
The General Fund expenditure budget for 2027 is $42.57 million. General Fund expenditures increase 4.9% compared to the 2027 expenditure budget primarily due to cost-of-living adjustments in salaries & wages and market adjustments in benefits.

Expenditures are broken down by their respective departments in the table shown to the right.

EXPENDITURES Description	2028 Budget
Administrative Services	$ 2,641,094
City Attorney's Office	1,061,598
City Council	60,856
City Manager's Office	928,075
Finance	1,518,366
Fire and EMS	9,932,338
Municipal Court	785,074
Non-Departmental/Intergovernmental	5,016,883
Recreation	2,588,097
Police	10,919,930
Public Works	7,113,903
Total Budgeted Expenditures	**$ 42,566,214**

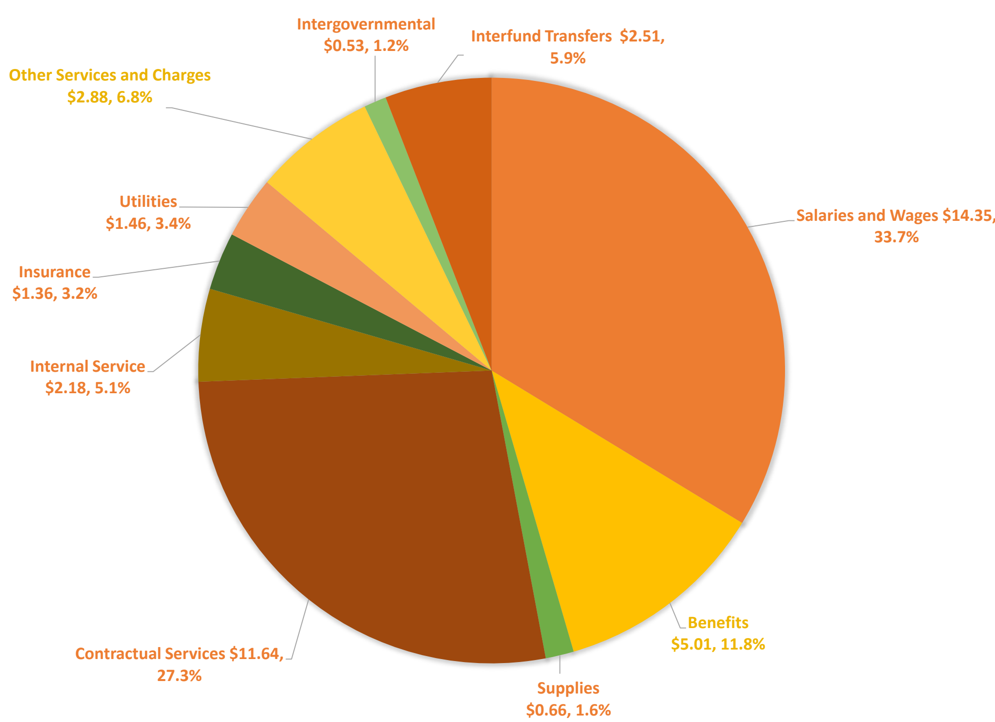
Where does the money come from?

2028 General Fund Revenues Total: $42.57 (in millions)



Where does the money go?

2028 General Fund Expenses Total: $42.57 (in millions)



2027–2028 City Work Plan

1. Fiscal Health

Support long-term fiscal sustainability through responsible financial planning and stewardship of City resources.

1.1 Fiscal Sustainability Policy Direction

Set the direction for the City's fiscal sustainability work at the 2027 City Council Planning Session by reviewing the long-term fiscal outlook and evaluating potential strategies to address projected operating deficits, including new revenue sources, fee adjustments, service reductions, expenditure controls, and other policy options. Establish initial Council direction and a fiscal sustainability work plan to guide staff analysis, policy development, and implementation throughout the 2027–2028 biennium and beyond.

1.2 Sustainable Funding for Youth and Family Services

Develop a long-term funding strategy for Youth and Family Services that supports reliable service delivery, identifies sustainable funding sources, and explores opportunities to strengthen the partnership with the Mercer Island Youth and Family Services Foundation. Incorporate the Thrift Shop's ongoing financial contribution as part of the broader funding strategy.

1.3 Thrift Shop Revenue and Operations

Increase Thrift Shop gross revenue by 10% in 2027 compared to 2026 and by an additional 5% in 2028 compared to 2027. Support these goals through optimization of operations and targeted upgrades and expansion of retail space to improve the customer shopping experience and long-term revenue performance.

1.4 Utility Rates and Cost Recovery

Work with the Utility Board annually to review utility rates and ensure they remain aligned with operating, capital, and long-term financial needs. As part of this work, update the City's water and sewer connection charges and evaluate establishing an illicit discharge fee or other cost-recovery mechanism to recover City expenses associated with responding to and cleaning up prohibited discharges to the storm drainage system.

1.5 Biennial Financial Policy Review

Conduct a biennial review of City Council-adopted financial management policies to ensure they remain current, effective, and aligned with the City's long-term fiscal objectives. Present any recommended updates to the City Council for consideration.

1.6 Business & Occupation Tax

Evaluate the City's business and occupation tax revenues. Assess the tax rate, tax filing compliance, and potential revenue impacts. Present the findings and analysis to the City Council, including any recommended follow-up actions.

2. Infrastructure, Facilities & Technology

Invest in and modernize the physical and digital infrastructure needed to support reliable City operations, public services, and long-term community needs.

2.1 Public Safety Facility

Establish a plan for a new public safety facility to permanently re-house the Police Department and the City's emergency management functions, which were displaced following the closure of City Hall in 2023. Define long-term facility, operational, security, and resiliency needs; evaluate location and design options; and develop a funding and implementation strategy for a permanent public safety facility.

2.2 Activation of 9655 Building

Develop and implement a phased plan to bring the 9655 Building online for City operations and public access. Identify and prioritize near-term improvements needed to support staff occupancy and public use, while establishing a funding strategy for additional building upgrades and full utilization over time.

2.3 Major Capital Project Delivery

Deliver major capital construction projects scheduled for the 2027–2028 biennium, including completion of the new 24-inch water supply pipeline and associated roadway, pedestrian, drainage, illumination, and restoration improvements; completion of the Luther Burbank Docks and Waterfront Renovation project; replacement of the Community Center HVAC System; and improvements to Reach 1 of the Sewer Lakeline.

2.5 Pedestrian and Bicycle Facilities Plan Update

Initiate and complete a comprehensive update of the City's Pedestrian and Bicycle Facilities Plan. Update pedestrian and bicycle facility standards, reassess projects and priorities, incorporate relevant ADA planning, and establish a long-term framework for future pedestrian and bicycle investments.

2.6 General Sewer Plan Update

Complete and adopt the City's General Sewer Plan update, including development of a systemwide hydraulic model to evaluate system capacity, guide long-term capital investment, and identify future sewer system improvement needs to maintain continued reliability.

2.7 Water System Plan Update

Complete and adopt the City's comprehensive Water System Plan update, including updated hydraulic modeling, system capacity analysis, capital improvement planning, and integration of the City's Risk and Resilience Assessment and Emergency Response Plan.

2.8 WSDOT Agreements and Infrastructure Planning

Begin a multi-year review of the City's existing agreements with the Washington State Department of Transportation to clarify long-term responsibilities, identify needed updates, and evaluate funding and capital investment needs. Prioritize analysis of the I-90 Trail and other infrastructure covered by the agreements where significant reinvestment is anticipated.

2.9 Synthetic Turf Replacement Funding

Revisit the long-term funding plan for replacement of the City's synthetic turf athletic fields. Update the replacement model and financial forecast; work with the Mercer Island School District to review shared funding needs and assumptions; and evaluate policy options for fee collection to help offset future capital replacement costs.

2.10 AI Strategy and Implementation

Develop a citywide AI strategy addressing priorities, policies, technology needs, training, funding, and governance. Evaluate opportunities to use AI to improve customer service, public records management, and operational efficiency; test priority applications through pilot projects; and develop staff guidance and support for responsible implementation.

3. Parks, Community & Environment

Advance priorities for parks, recreation, environmental sustainability, mobility, and community-focused public spaces and services.

3.1 Parks, Recreation and Open Space Plan 2028 Update

Update and adopt the City's Parks, Recreation and Open Space (PROS) Plan to guide future priorities for parks, recreation programs, open space, trails, facilities, and capital investments. Refresh community needs, goals, project priorities, and long-range capital planning while maintaining the City's eligibility for state recreation and conservation grant funding.

3.2 Park Rules Update

Following adoption of the 2028 Parks, Recreation and Open Space Plan, begin a comprehensive review and update of the City's Park Rules (MICC 9.30) to modernize regulations and ensure they align with current park operations and needs. This work will begin in the 2027–2028 biennium and carry forward into the next biennium.

3.3 Groveland and Clarke Beach Planning

Complete the Groveland and Clarke Beach Joint Infrastructure Plan and identify a preferred concept for future shoreline improvements based on community input and technical analysis.

3.4 Solid Waste Collection Services

Assess service delivery and implementation under the City's existing solid waste collection contract with Recology and evaluate options for future collection services in advance of the current contract's expiration in 2029. Hold a City Council Study Session to review findings, discuss service priorities and contract implementation, and provide direction on the City's approach to the next long-term solid waste agreement.

3.5 EV Charging Infrastructure Plan

Adopt a citywide Electric Vehicle Charging Infrastructure Plan to guide the strategic expansion of public and municipal EV charging. Identify priority locations, infrastructure and utility needs, funding opportunities, implementation priorities, and partnerships to support future charging investments and the City's broader sustainability goals.

3.6 Last-Mile Mobility Strategy

Engage the City Council and community in evaluating changing transportation and last-mile mobility needs following the opening of the Mercer Island light rail station in spring 2026. Explore potential mobility options, including a community shuttle, bike and scooter share, and other shared-mobility approaches, and use this input to inform a long-term mobility strategy, implementation priorities, and sustainable funding options.

3.7 Comprehensive Arts & Culture Plan

Update the City's Comprehensive Arts & Culture Plan to reflect current community priorities, opportunities, and best practices for supporting arts and culture on Mercer Island. The updated plan will provide a clear, actionable framework to guide City investments and partnerships in arts and culture over the coming years.

4. Land Use, Permitting & Development

Guide the City's long-range land use and development framework while maintaining clear, predictable, and customer-focused permitting, regulatory, and development review processes.

4.1 Shoreline Master Program and Critical Area Regulations Update

Begin the state-required periodic update of the City's Shoreline Master Program, which establishes policies and regulations governing development and activities within shoreline areas. Updating the Shoreline Master Program will include reviewing the critical area regulations at the same time to address updated state requirements. Initiate the work ahead of the 2029 state deadline to evaluate required updates, coordinate with the Washington State Department of Ecology, and manage anticipated planning workload in 2029.

4.2 Permanent Housing and Subdivision Regulations

Develop and adopt permanent regulations for middle housing, accessory dwelling units, and unit lot subdivisions to replace the interim regulations currently in effect and implement state requirements established by HB 1110 (2023), HB 1337 (2023), SB 5258 (2023), and SB 5559 (2025).

4.3 Transit-Oriented Development and Station Subarea Plan Phase 2 Implementation

Begin work to comply with the state transit-oriented development requirements established by HB 1491 (2025) and implement the Station Subarea Plan Phase 2. The City's Station Subarea Plan adopted in 2026 was divided into two phases: Phase 1 was enacted concurrently with the subarea plan adoption, and Phase 2 includes planning for the station area to comply with statewide transit-oriented development requirements in HB 1491. Compliance with the statewide requirements must be completed by December 31, 2029.

4.4 Develop a New Climate Change and Resiliency Element

Develop a new Climate Change and Resiliency Element for the City's Comprehensive Plan consistent with the requirements established by HB 1181 (2023). Advance this state-required planning work during the 2027–2028 biennium to address anticipated workload demands associated with required planning activities in 2029.

4.5 Construction Code Update

Update the City's construction codes to implement the latest codes adopted by the Washington State Building Code Council. Review and adopt required updates to building, residential, mechanical, fire, energy, and related construction standards, including appropriate local amendments, to maintain consistency with state requirements.

4.6 Annual Docket and Code Amendments

Administer the annual docket process for proposed Comprehensive Plan and development code amendments and adopt an annual docket. Complete previously docketed work items, including standards for government services uses in Town Center (23-7), downhill façade height on sloping lots (23-14), exterior alterations of non-single-family nonconforming structures outside Town Center (24-1), and hedge height regulations (24-8 and 24-15).

5. Public Safety

Maintain a safe and resilient community through effective emergency response, preparedness, prevention, and community-focused public safety services.

5.1 Public Safety Service Levels

Evaluate changes in calls for service and public safety demands following the opening of the Mercer Island light rail station. Analyze service data, operational impacts, emerging trends, and resource needs, and present options to the City Council for maintaining effective public safety service levels within the City's broader fiscal constraints.

5.2 Body-Worn Camera Program

Evaluate options for implementing a body-worn camera program and develop recommendations for City Council consideration that addresses program costs, funding strategies, policy and legal requirements, technology and data storage needs, staffing and workload impacts, and other operational considerations. Consider the timing and scope of implementation with the City's broader fiscal strategy and organizational capacity.

5.3 Municipal Court Service Delivery

Evaluate the long-term service delivery model for municipal court services, including the City's current direct-service model, potential partnership opportunities, and future facility and operational needs. Review the municipal court services agreement with the City of Newcastle, including overhead cost allocation, and update the agreement as appropriate based on the analysis. Consider fiscal, operational, service-delivery, and organizational factors and present options to the City Council to support effective and sustainable municipal court services.

5.4 E-Bike and E-Motorcycle Safety

Continue the City's multi-faceted efforts to improve safety and address regulatory challenges associated with e-bikes and e-motorcycles. Build on Mercer Island's leadership in this area by advocating for updates to state laws and regulations, supporting consistent local enforcement, and monitoring local incidents and emerging trends to inform future policy. Partner with the Mercer Island

School District and the community to increase awareness and education of applicable laws, safety requirements, and responsible use.

5.5 Alternative Response and Behavioral Health Systems

Evaluate and strengthen the City's approach to responding to individuals experiencing behavioral health, substance use, homelessness, and other complex needs. Continue coordination between the Police Department, Youth and Family Services, and regional service providers to connect individuals with appropriate services and reduce reliance on law enforcement responses when appropriate. Evaluate service demand, outcomes, staffing, and operational needs.

6. Advocacy

Advance the City's policy priorities through coordinated legislative, regional, and intergovernmental advocacy and partnerships.

6.1 Legislative Advocacy

Establish and adopt annual legislative priorities that reflect the City's policy interests and strategic objectives. Advance adopted priorities through policy analysis, legislative advocacy, and coordinated engagement with regional, state, and federal decision-makers, the Mercer Island School District, the Association of Washington Cities (AWC), A Regional Coalition for Housing (ARCH), Sound Cities Association (SCA), and other regional partners.