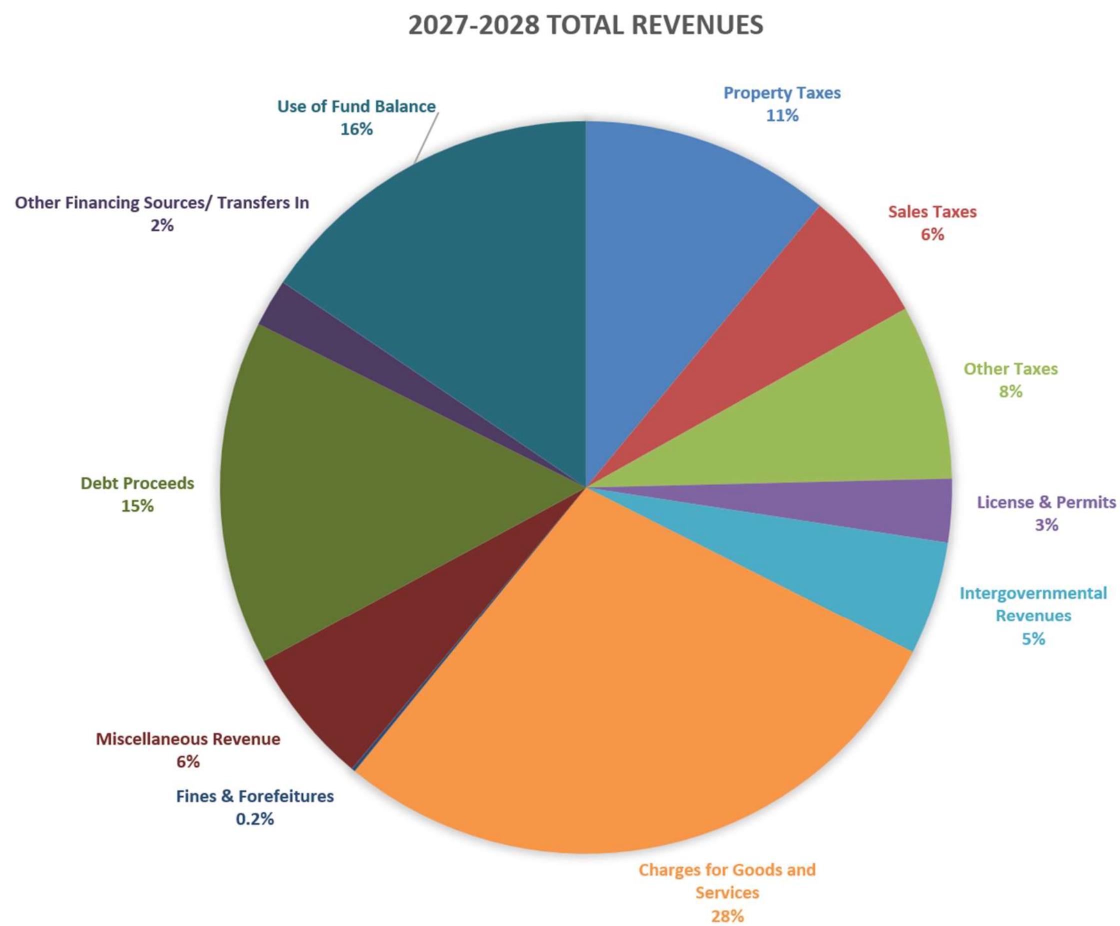
SECTION C

Revenue Sources

REVENUE SOURCES

For the 2027-2028 biennium, the City's total budgeted resources amount to $292 million, which consists of $153 million in 2027 and $138 million in 2028. This section of the budget focuses on the City's major revenue sources (see Figure 1), the internal and external factors that affect revenue estimates, and the 2027-2028 budgetary impacts.

Figure 1



Property Tax

Property tax is the City's largest single revenue source, accounting for 11% of total budgeted resources in 2027-2028. In the General Fund, which encompasses most of the City's general government services, property tax comprises 36% of budgeted resources in 2027.

<u>Types of Property Tax</u>

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, the 2022 Parks Maintenance and Operations levy, also known as the “2022 Parks Levy.” The new Parks Levy passed the November 8, 2022 General Election with a 64.12% majority. The 2022 Parks Levy pays for maintenance and operations of parks and open spaces, playground replacements, and forest restoration. The 16-year 2022 Parks Levy replaced a similar parks levy that was set to expire in 2023. The previous 2008 parks levy ended one year early in 2022 and was replaced by the 2022 Parks levy.

The 2022 Parks 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 2027 and 2028 is $1,818,200 and $1,836,300, respectively.

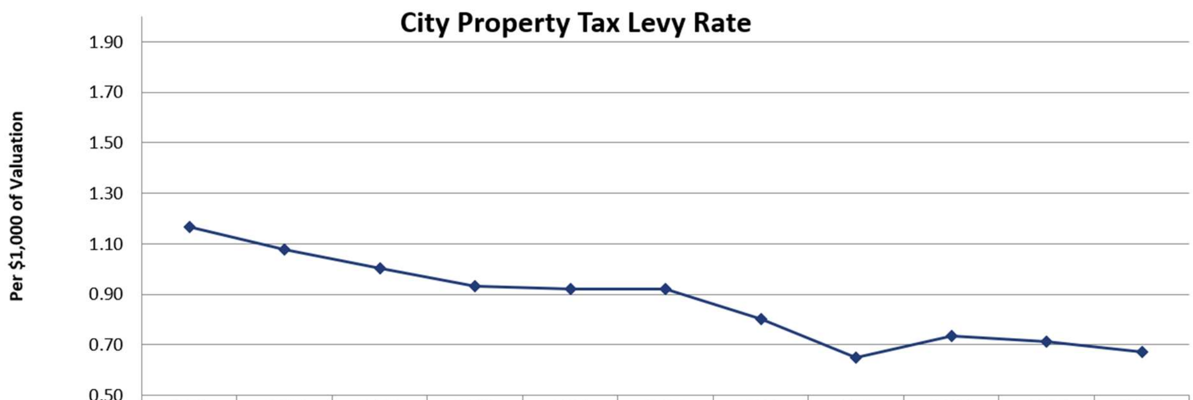
<u>Establishing the Property Tax Rate</u>

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.

<u>Determining the Property Tax Rate</u>

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 2014-2024 is provided in Figure 2.

Figure 2



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Levy Rate	1.1650	1.0774	1.0031	0.9334	0.9216	0.9224	0.8040	0.6497	0.7334	0.7122	0.6724

For the owner of a home with a $2,238,000 assessed value – which is the median assessed value on Mercer Island for the 2026 tax year – the 2026 levy rate (per $1,000 assessed valuation), the 2026 levy amount, and the percentage breakdown by taxing jurisdiction are presented in Figure 3. The homeowner’s total property taxes in 2026 amount to $14,571.

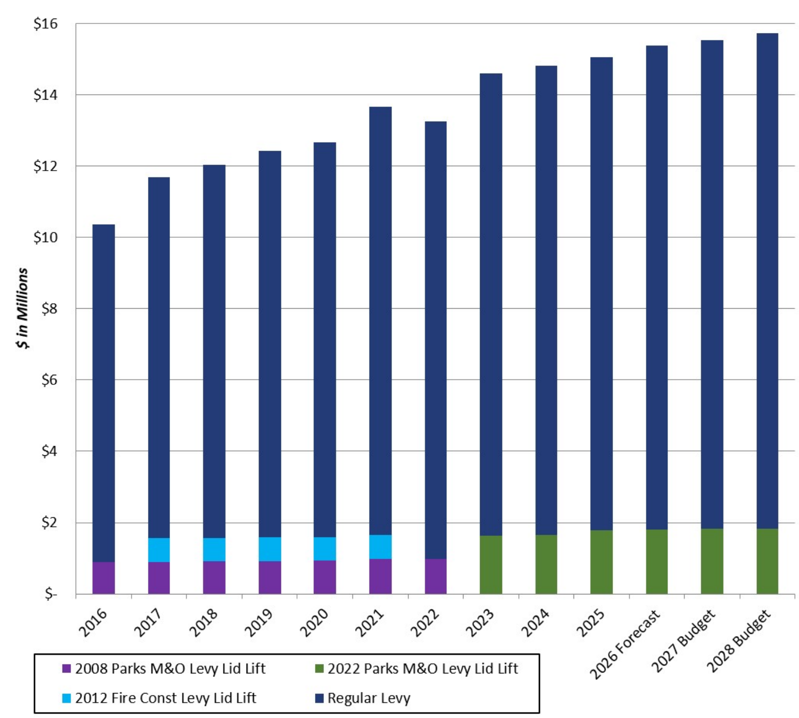
Figure 3

Property Taxes for a Median Assessed Value Household by Taxing Jurisdiction	2026 Levy Rate	2026 Levy Amount	% of Total 2026 Levy
State School Fund	2.2496	4,226	29%
School District	1.2946	2,432	17%
King County	1.4564	2,736	19%
City of Mercer Island	**0.6724**	**1,263**	9%
Library	0.2353	442	3%
EMS	0.2510	471	3%
Sound Transit	0.1587	298	2%
Port	0.0988	186	1%
Flood Zone	0.0942	177	1%
County Road District	1.2461	2,341	16%
Total	**7.7570**	**$ 14,571**	

A total of ten jurisdictions have taxing authority on Mercer Island, including the City. The largest portion of the levy relates to schools, with 29% going to the State School Fund and 17% to the Mercer Island School District. King County and the City are the next largest taxing jurisdictions. The 27% remaining total levy relates to the King County Library District, the King County Emergency Medical Services (EMS) Levy, Sound Transit, the Port of Seattle, the King County Flood Zone District, and the King County Road District.

Figure 4 depicts the total property tax revenues the City received from 2016 through 2025, the projected amount for 2026, along with the 2027 and 2028 budget amounts.

Figure 4: Property Tax 2016-2028



Levy Considerations for 2027-2028

- The regular levy for 2027 and 2028 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 2027 and 2028 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 2027 and 2028);
  - Community Center technology, equipment, and furnishings sinking fund in the Technology & Equipment Fund ($18,000 is transferred from the General Fund in 2027 and 2028);
  - Fire apparatus sinking fund in the Equipment Rental Fund with $173,374 in 2027 and $175,108 in 2028); and,
  - Pension benefits reserve in the Firefighters' Pension Fund ($26,410 in 2027 and 2028).
- The 2022 Parks Maintenance and Operations levy lid lift pays for maintaining and operating City open spaces, park, and recreation facilities, and funds playground replacements, operations and maintenance of Luther Burbank Park, and forest restoration at Pioneer Park. The total levy amount for 2027 is $1,818,228, which includes the 1% optional increase.

  Of the total annual levy amount, $930,226 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 $264,504 in 2027 from the 2025-2031 King County Parks, Trails, and Open Space levy.

Figure 5: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund				
Regular Levy (General Purpose)	$12,915,738	$13,283,178	$13,425,003	$13,600,397
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
2022 Parks M&O Levy Lid Lift	855,030	887,215	888,002	896,781
Capital Improvement Fund - Parks M&O Levy Lid Lift				
Luther Burbank Small Capital	113,333	114,466	115,611	116,767
Pioneer Park Forest Management	79,333	80,126	80,928	81,737
Open Space & Vegetation Management	66,970	67,640	68,316	68,999
Playground Replacement Funding	417,177	426,911	431,180	435,492
Forest Management Plan Funding	229,578	231,874	234,193	236,534
Equipment Rental Fund				
Regular Levy (Fire Apparatus Sinking Fund)	169,958	171,658	173,374	175,108
2012 Fire Station & Fire Rescue Truck Levy Lid Lift				
Firefighters Pension Fund - Regular Levy	26,410	26,410	26,410	26,410
Total Levied by City	**$14,974,527**	**$15,390,478**	**$15,544,016**	**$15,739,226**
King County Parks Levy	276,426	221,579	264,504	272,439
Total Property Taxes	**$15,250,953**	**$15,612,057**	**$15,808,520**	**$16,011,665**

Utility Taxes

Under Washington State law, cities are granted 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' 2026 Tax and User Fee survey, the average utility tax rate for cities with more than 20,000 residents is 9.7% for water, 9.2% for sewer, and 9.6% for storm water utilities.

The actual (2016-2025) and projected (2026-2028) utility tax revenues are displayed in Figure 6.

Figure 6: Utility Tax 2016-2028

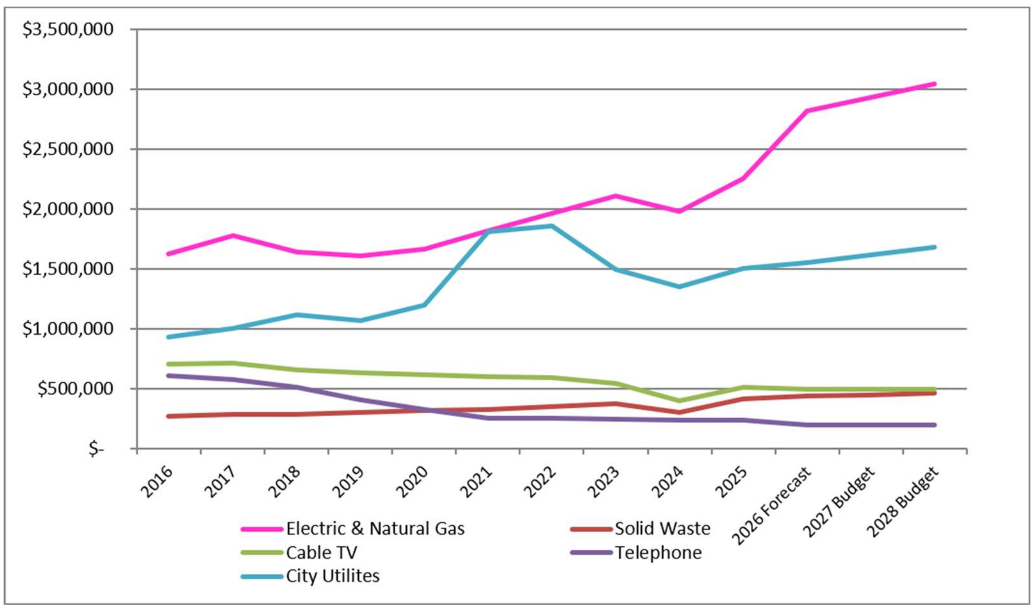


Figure 7: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund				
Electric and Natural Gas	$2,252,656	$2,815,820	$2,928,453	$3,045,591
Solid Waste	418,549	437,384	450,505	464,020
Cable Television	515,633	500,000	500,000	500,000
Telephone	240,502	202,600	202,800	200,910
City Utilities (Water, Sewer & Storm Water)	1,508,225	1,553,472	1,616,611	1,680,235
Total Utility Taxes	**$4,935,565**	**$5,509,276**	**$5,697,369**	**$5,890,756**

Revenue Sources

Sales Tax

Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. On Mercer Island, the construction sector is the largest generator of sales tax dollars (41.6% of total in 2025), followed by the retail and wholesale trade sector (28.0% of total), the administrative and support services sector (8.2% of total), and the food services sector (5.2% 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 10.30%. Similar to property tax, the City receives only a small portion of the total sales tax revenue generated on Mercer Island. Of the 10.30% tax rate, only 0.85% is remitted to the City, with the remainder distributed to the State (6.5%), King County (1.45%), 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 Figure 8. The 0.85% general sales tax remitted to the City of Mercer Island is accounted for in the General Fund.

Figure 8: Sales Tax Distribution

Jurisdiction	Rate %
State of Washington	6.50%
King County	1.45%
Regional Transit	1.40%
City of Mercer Island	0.85%
Criminal Justice	0.10%
Total General Sales Tax	**10.30%**
Auto Sales/Leases	0.30%
Total Auto Sales/Lease Rate	**10.60%**

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 (2016-2025) and projected (2026-2028) sales tax revenues are broken down into general and criminal justice restricted components in Figure 9. Taken together, sales tax revenues are projected to increase by 4.0% in 2027 and 4.0% in 2028.

Figure 9: Sales Tax Revenues 2016-2028

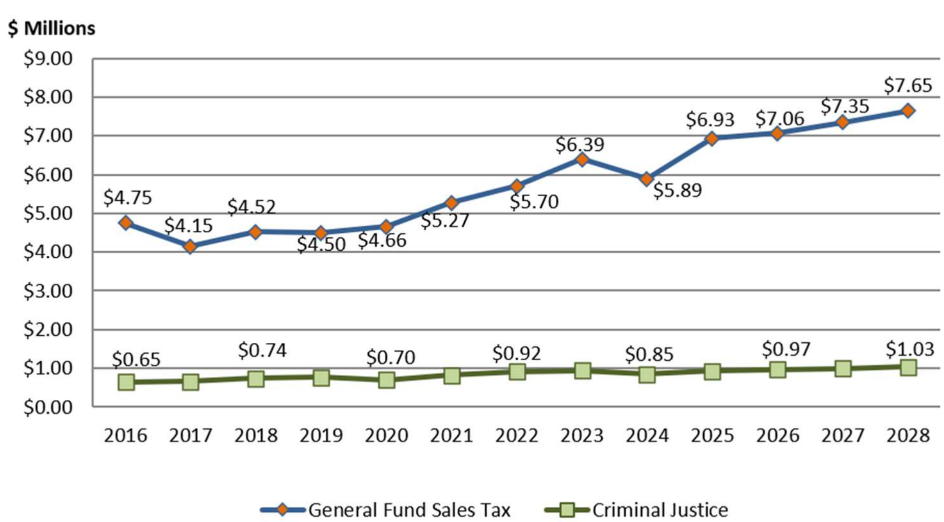


Figure 10: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund (General Sales Tax)	$6,930,380	$7,068,988	$7,351,748	$7,645,818
General Fund (Criminal Justice Sales Tax)	930,077	971,930	1,001,088	1,031,121
Total Sales Taxes	**$7,860,457**	**$8,040,918**	**$8,352,836**	**$8,676,939**

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. While the State levies a graduated REET structure (ranging from 1.10% to 3.00%), local governments are authorized to impose a local REET of up to 0.5% combined:

- **REET 1 (RCW 82.46.010, RCW 82.46.015):** All cities, towns, and counties may levy an initial quarter-percent (0.25%) tax.
- **REET 2 (RCW 82.46.035):** Cities and counties planning under the Growth Management Act (GMA) have the authority to levy an additional quarter-percent (0.25%) tax.

Interchangeability of REET 1 and REET 2
Historically, strict boundaries separated REET 1 and REET 2 revenues, creating administrative tracking hurdles. Passed in 2025, HB 1791 streamlined local budgeting by allowing REET 1 revenues to be used for any eligible REET 2 purpose, and conversely, any REET 2 revenues may be used for any eligible REET 1 purpose.

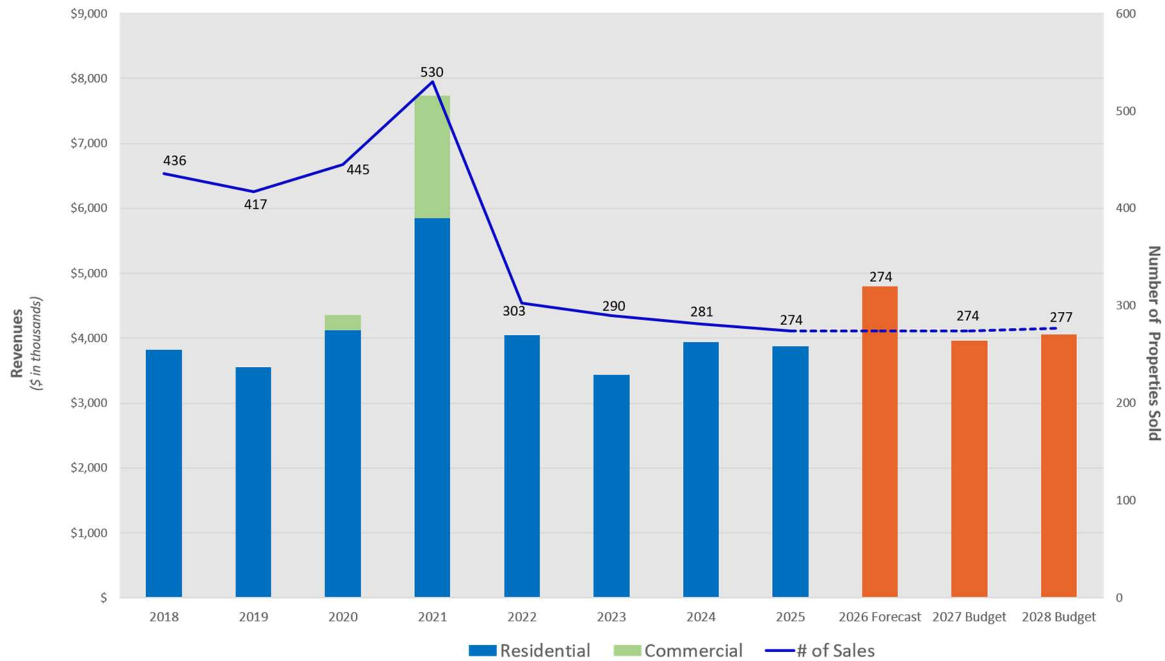
Eligible uses include public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative and judicial facilities; and the planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of facilities for those experiencing homelessness and affordable housing projects.

As the largest source of revenue in the Capital Improvement Fund, REET allocations are governed by local policy as follows:

- City Council budget policy commits 100% of **REET-1** revenues to Fund 320 to support parks, open space, public building maintenance projects, and debt service on the outside financing used for the 9655-building acquisition.
- **REET-2** revenues are split, with 10% allocated to Fund 320 and the remaining 90% dedicated to the Street Fund (110) for the construction and maintenance of streets, pedestrian pathways, and bicycle facilities.

Figure 11 illustrates the number of property sales each year and the resulting REET revenues from 2018 through 2025, with revenue projections in 2026 – 2028. Because REET revenue is tied to real estate transaction volumes, it is inherently volatile and fluctuates significantly from year to year. Following a 15-year revenue peak of $7.7M in 2021, REET revenues experienced a sharp downward swing, leading to a sustained, sluggish market that persisted from 2022 through the second quarter of 2026. This slowdown mirrored the Federal Reserve's aggressive increases to the federal funds rate, which simultaneously cooled inflation and raised borrowing rates.

Figure 11: Mercer Island Property Sales and Total REET Revenues
2018-2028



REET revenues are projected to remain low in 2026, with minimal growth through 2028, as presented in Figure 12. This projection is informed by year-to-date 2026 average home prices, local sales data over the past 18 months, and historical seasonal sales trends.

Figure 12: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
Capital Improvement Fund (REET 1)	$1,943,340	$2,401,431	$1,980,788	$2,027,575
Capital Improvement Fund (REET 2)	193,138	240,143	198,079	202,757
Street Fund (REET 2)	1,738,243	2,161,288	1,782,709	1,824,817
Total Real Estate Excise Taxes	**$3,874,721**	**$4,802,862**	**$3,961,576**	**$4,055,149**

Business and Occupation Tax

The City of Mercer Island collects a Business and Occupation tax from all active Business License holders with gross revenue more than $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 15th for the prior year. Taxpayers earning more than $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.

The revenue is based on top-line gross receipts, making it sensitive to economic shifts, local commercial activity, and changing work patterns. Mercer Island's business base is compact, meaning collections are concentrated among a small number of top service providers and construction projects, where a single change in corporate activity or a completed construction project can cause significant swings. This volatility is compounded by state multi-city apportionment rules and annual filing thresholds, which create reporting lags and make forecasting less predictable.

To remove volatility from the forecast, staff hold revenue projections for 2026 year-end through 2028.

Figure 13: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund	$1,388,644	$1,051,921	$1,051,921	$1,051,921
Total B&O Taxes	**$1,388,644**	**$1,051,921**	**$1,051,921**	**$1,051,921**

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 2027-2028 Biennial 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 proposed for 2027 and is anticipated for 2028, which equates to a $13.30 and $14.34 respectively on a typical single-family residential customer's bi-monthly water bill. These rate increases are primarily driven by the need to:
    1. Upsize water mains that do not meet the City's flow capacity standards.
    2. Repair and replace pressure reducing valves throughout the distribution system to maintain flow capacity standards.
    3. Fund multi-generational capital improvements that have reached 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 7.0% increase has been proposed for 2027 and is anticipated for 2028, which equates to a $4.79 and $5.12 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 12.75% increase is anticipated for 2027 and 2028, which equates to a $15.98 and $18.02 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. A 6.0% increase has been proposed for 2027 and is anticipated for 2028, which equates to a $3.19 and $3.38 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.

Figure 14: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
Water Fund	$13,726,542	$13,604,295	$14,053,030	$15,577,957
Sewer Fund	12,559,976	13,359,815	14,586,329	16,033,451
Storm Water Fund	3,103,419	3,103,968	3,287,203	3,478,090
Total Utility Rate Revenues	**$29,389,937**	**$30,068,078**	**$31,926,562**	**$35,089,498**

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."

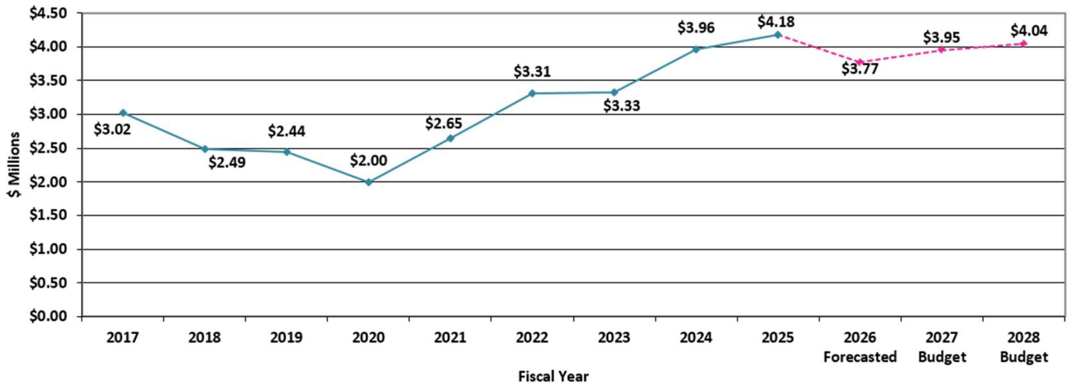
In 2024, Finance and the Community Planning and Development Department established a new special revenue fund. All revenues and expenditures tied to development services are tracked to the Development Services Fund, incorporated as Fund 180.

In November 2019, the City Council adopted the following target cost recovery levels for eligible CPD costs. These recovery targets have remained in place and are used for revenue projections for development related services through the 2027-2028 biennium.

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

Actual and forecasted total development fees for the period 2017-2028 are shown in Figure 15.

Figure 15: Development Service Revenues



Overall, development fees are projected to increase in 2027 and 2028 by 5% and 2% respectively. The spike in 2025 is directly related to one-time revenues resulting from a mixed used development project in the Town Center.

Figure 16: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
Development Services Fund	$4,175,084	$3,772,971	$3,948,168	$4,041,170
Total Development Fees Revenues	**$4,175,084**	**$3,772,971**	**$3,948,168**	**$4,041,170**

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 55.4 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 decrease 1.0% in 2027 and 0.5% in 2028.

- **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 increase 27.0% in 2027 and hold flat in 2028.

- **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 2.2% in 2027 and 0.5% in 2028.
- **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 hold flat in 2027 and 2028.
- **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 1.2% in 2027 and hold flat in 2028.
- **Fire Insurance Premium Tax**
  The state distributes taxes on fire insurance premiums, which must be deposited in a firefighter's pension fund to help pay the pension benefits due to pre-LEOFF I firefighter retirees. The fire insurance premium tax is projected to increase by 7.1% in 2027 and hold flat in 2028.

Figure 17: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund				
Liquor Excise and Profits	$ 360,494	$ 356,447	$ 348,739	$ 346,852
Marijuana Excise Tax	35,694	31,496	40,000	40,000
Vessel Registration Fees	64,644	70,000	70,000	70,000
Criminal Justice Population based distributions	49,369	44,197	43,675	43,675
Street Fund (Motor Vehicle Fuel Tax)	438,083	480,000	475,000	475,000
Firefighters Pension Fund (Fire Insurance Premium Tax)	45,822	42,745	45,800	45,800
Total State Shared Revenues	**$ 994,107**	**$ 1,024,885**	**$ 1,023,214**	**$ 1,021,327**

Emergency Medical Service Revenues

The City of Mercer Island receives revenues in support of emergency medical services, which are provided by Eastside Fire and Rescue. Major revenues include that offset the cost for fire and emergency medical services include 1) King County Emergency Medical Services Levy, 2) BLS Ambulance

Transport Fee, 3) Ground Emergency Medical Transport Revenues, and 4) 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. Ambulance transport revenues that originate on Mercer Island are tracked by Eastside Fire and Rescue and used to offset the fees for fire and emergency medical provided to the City.

- **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. Eastside Fire and Rescue also participates in the GEMT program. GEMT revenues resulting from transports that originate on Mercer Island offset the fees for fire and emergency medical services provided by Eastside Fire and Rescue.

- **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 4.0% increase has been proposed for 2027.

Figure 18: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund				
King County EMS Levy	$ 972,297	$ 809,000	$ 833,270	$ 858,268
EMS Utility Charge	756,042	793,845	817,660	842,190
Total EMS Revenues	**$ 1,728,339**	**$ 1,602,845**	**$ 1,650,930**	**$ 1,700,458**

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.

Figure 19: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund				
Recreation	$ 285,258	$ 278,000	$ 278,000	$ 278,000
MI Community & Events Center	1,091,086	996,500	1,055,500	1,075,500
Sport Field Facility Rentals	317,269	355,000	355,000	355,000
Total Parks and Recreation Revenue	**$ 1,693,613**	**$ 1,629,500**	**$ 1,688,500**	**$ 1,708,500**

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.

Staff anticipate gross revenues will increase 10% in 2027 above 2026 gross revenue, and 5% above 2027 gross revenues in 2028.

Figure 20: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
YFS Fund (Thrift Shop)	$ 1,744,296	$ 1,903,269	$ 2,093,596	$ 2,198,276
Total Thrift Shop Revenue	**$ 1,744,296**	**$ 1,903,269**	**$ 2,093,596**	**$ 2,198,276**

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. The Court currently operates out of the neighboring town of Newcastle via a lease. Staff anticipate revenues to increase by 5% in 2027 and 2028.

Figure 21: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
General Fund - Municipal Court Fines	$ 199,174	$ 209,132	$ 219,589	$ 230,568
Total Fines & Forfeits	**$ 199,174**	**$ 209,132**	**$ 219,589**	**$ 230,568**

Cost Allocation Charges

An established budgeting best practice in local government involves spreading the costs of internal services, such as attorney services, finance, and human resources, to the various City funds and programs that benefit from those services. This practice is referred to as "cost allocation." Cost allocation is a long-standing practice in the City of Mercer Island. Every year, the Finance Department uses a systematic approach to assign direct and indirect or "overhead" expenses to the departments, projects, funds, or other cost centers that benefit from them.

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.

In 2023, staff from the City Manager's Office and Finance Department set out to update the City's cost allocation methodology, a goal outlined in the 2023-2024 Biennial Budget. Staff evaluated best practices from the Government Finance Officers Association (GFOA), Washington State Auditor's Office, and the Municipal Research and Services Center (MRSC). Long-standing practices used in Mercer Island were compared to similar cities with recently updated Cost Allocation Plans.

In early 2024, the City Council Ad Hoc Finance Committee met with staff to review findings and discuss potential process improvements. On May 21, 2024, the City Council adopted an updated Cost Allocation Policy, Appendix B of the City's Financial Management Policies.

Figure 22 below outlines the cost allocation charges for the City's three Enterprise Funds (Water, Sewer, and Stormwater) and the Development Services Fund. Charges are associated with internal services paid for by the General Fund and facility-related expenses.

Figure 22: 2025-2028 Budgetary Impact

Revenues	2025 Actual	2026 Forecast	2027 Budget	2028 Budget
Cost Allocation Charges to the General Fund				
Water Fund	$ 655,658	$ 748,134	$ 795,846	$ 821,264
Sewer Fund	450,075	511,863	489,045	504,755
Storm Water Fund	168,761	189,227	200,884	207,524
Capital Improvement Fund	565,569	649,588	739,902	776,084
Development Services Fund	380,949	428,585	404,005	426,085
Total Cost Allocation Charges	**$ 2,221,012**	**$ 2,527,397**	**$ 2,629,682**	**$ 2,735,712**